AMERICANS FOR PROSPERITY KANSAS

February 8, 2012

House Bill 2560
House Taxation Committee

AFP Support of House Bill 2560

Mister Chairman and members of the committee,

On behalf of the more than 41,000 Americans for Prosperity members in Kansas, I want to thank you for the opportunity to provide written testimony in support of HB 2560. I apologize for not being able to present the testimony in person but a family medical matter prevents me from doing so.

AFP applauds Governor Sam Brownback for leading the discussion on a topic that we believe must be addressed this legislative session, that being passage of effective tax reform. The Governor's plan contains many elements that are vital for increasing economic activity and subsequent growth. While at the same time AFP supports modifying elements of the plan, most notably allowing the state sales tax rate to decrease to 5.7%.

Economic growth in Kansas is stagnant at best, a fact that can be partly attributed to Kansas' high tax burden as compared to neighboring states.

	Top tax rate for individual with $50,000 taxable income	State Business Tax Climate Index (2011)	Top Corporate Income Tax Rate	Sales Tax Rate	Gas Tax	State Cigarette Tax
Colorado	4.63%	15	4.63%	2.90%	$0.22	$0.84
Kansas	**6.45%**	**35**	**7.00%**	**6.30%**	**$0.25**	**$0.79**
Missouri	6.00%	16	6.25%	4.23%	$0.18	$0.17
Nebraska	6.84%	29	7.81%	5.50%	$0.27	$0.64
Oklahoma	5.25%	30	6.00%	4.50%	$0.17	$1.03

Kansas' high tax burden along with periods of excessive government spending has resulted in

Americans for Prosperity-Kansas
2348 SW Topeka Blvd., Ste. 201, Topeka, KS 66611● 785-354-4237 ● 785-354-4239 (fax)
151 Whittier Street, Wichita, KS 67207 ● 316-681-4415
info@afpks.org
www.afpks.org ● Facebook: Americans for Prosperity-Kansas ● Twitter: AFPKansas

taxpayers leaving the state at an alarming rate. The net migration numbers from 2000 to 2009 show Kansas at a negative 17,574, ranking 43rd in the United States, by far the worst amongst neighboring states.

Effective tax reform combined with limited government spending can turn this tide around. If implemented, HB 2560 would lead to private sector job creation and an expansion of the tax base. For an example of this approach working, one can look to our neighbors to the south.

In the fall of 2010, the Oklahoma Council of Public Affairs issued a paper entitled, *A Tale of Two States: The Real Effect of Individual Income Tax Cuts.* The study compared tax policy in Oklahoma and Kansas over a ten year period with an emphasis on income and sales taxes.

When the decade began, Kansas had a 4.9 percent sales tax for the first two years followed by an increase to 5.3 percent. Meanwhile Oklahoma kept its rate constant at 4.5 percent. In FY-00 Kansas' sales tax collections exceeded Oklahoma's by $88 million, but by FY-09 Oklahoma's sales tax revenues exceeded Kansas' collections by $283 million. While Kansas' sales tax revenues grew by 17 percent over a ten period, Oklahoma's increased by 46 percent.

Sales Tax Revenues

	Kansas		**Oklahoma**	
	Rate	Revenue	Rate	Revenue
FY-00	4.90%	$ 1,440,295,000	4.50%	$ 1,351,803,097
FY-01	4.90%	$ 1,423,059,000	4.50%	$ 1,441,929,046
FY-02	5.30%	$ 1,470,599,000	4.50%	$ 1,443,427,590
FY-03	5.30%	$ 1,567,722,000	4.50%	$ 1,404,275,611
FY-04	5.30%	$ 1,612,067,000	4.50%	$ 1,496,238,185
FY-05	5.30%	$ 1,647,663,000	4.50%	$ 1,546,621,382
FY-06	5.30%	$ 1,736,048,000	4.50%	$ 1,677,854,488
FY-07	5.30%	$ 1,766,768,000	4.50%	$ 1,804,313,384
FY-08	5.30%	$ 1,711,398,000	4.50%	$ 1,930,951,193
FY-09	5.30%	$ 1,689,516,000	4.50%	$ 1,972,769,753

It should be noted that beginning in FY 2005 Oklahoma began lowering its' individual income tax rate from 7% in FY 2004 to 5.5% in FY 2009, while Kansas remained at 6.45%. The majority of the individual income tax rate reduction in Oklahoma occurred in the last three years of the decade while in the middle of a recession, but surprisingly (at least to the static-model crowd) Oklahoma's sales tax revenues grew by 18 percent while Kansas' fell by 3 percent for the same period.

Thus while keeping their sales tax low compared to Kansas and reducing the individual income tax, Oklahoma realized a tremendous growth in economic activity as measured by sales tax revenue. This is one reason why Kansas can allow the sales tax rate to set at 5.7% while still reducing income tax rates.

The Oklahoma comparison provides an example that implementing income tax cuts does not result in a drop in tax revenue for the state. From the OCPA study, *In FY 2000 Oklahoma collected $135 million more than Kansas in combined individual, corporate, and sales tax revenues. After a decade in which it reduced its individual income tax rate by 21 percent, Oklahoma collected $248 million more in FY 2009 than Kansas in those same three tax revenue categories.*

Oklahoma has realized such tremendous growth that just this week Governor Mary Fallin announced an aggressive reform package designed to speed up their income tax rate reductions. Considering similar efforts to eliminate the income tax are being debated in both Missouri and Nebraska, one can see the urgency to get something done in Kansas this year.

In considering tax reform legislation, please be cognizant of the overall impact reduction of tax rates combined with eliminating certain deductions or credits, would have on taxpayers. Attached to this testimony is a letter from AFP and Americans for Tax Reform regarding this approach.

We believe enactment of tax reform legislation would preserve funding for essential government services while providing a tax environment that would help stimulate economic growth.

Thank you for considering this important topic.

Derrick Sontag
State Director
Americans For Prosperity Kansas

Americans for Prosperity-Kansas
2348 SW Topeka Blvd., Ste. 201, Topeka, KS 66611● 785-354-4237 ● 785-354-4239 (fax)
151 Whittier Street, Wichita, KS 67207 ● 316-681-4415
info@afpks.org
www.afpks.org ● Facebook: Americans for Prosperity-Kansas ● Twitter: AFPKansas

January 30, 2012

Kansas Senate
Kansas House of Representatives

Dear Legislator,

During the 2012 legislative session, it is important to remember that ending a tax credit or deduction without an offsetting tax cut is a tax increase.

When you end a credit or deduction, you take income away from the taxpayer and give it to the government. This is undeniably a tax increase.

Proponents of higher taxes and increased spending will argue that credits and deductions are just spending in the tax code. This line of thinking is flat out wrong. Americans for Tax Reform has continually made this clear, along with our allies in the tax fight like the Cato Institute's Senior Fellow Dan Mitchell, who noted last year that, "The real threat is back-door hikes resulting from the elimination and/or reduction of so-called tax breaks. The big spenders on the left are being very clever about this effort, appealing to anti-spending and pro-tax reform sentiments by arguing that it is important to get rid of 'tax expenditures' and 'spending in the tax code.'"

Additionally, it is important to note that signing the Taxpayer Protection Pledge commits signers to oppose changes in tax deductions or credits that increase the net tax burden on Kansans. For example, a Pledge signer could endorse and sign legislation eliminating a particular tax credit or deduction as long as the same piece of legislation contained a reduction in taxes by the same amount or more. The offsetting reduction could be expanding another deduction or credit and/or reducing marginal tax rates.

As you begin to examine and reform Kansas's tax code, please keep in mind the need for effective tax reform that does not increase taxes.

Onward,

Grover G. Norquist
President
Americans for Tax Reform

Derrick Sontag
State Director
Americans for Prosperity - Kansas