Testimony to House Taxation Committee on HB2747
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Chairman Carlson and Other Honorable Representatives:

As I testified with regard to HB 2560, the earlier tax reform bill, our Chamber agrees that business income taxes should be reduced in Kansas if it can be done without harming essential services and without discriminating against certain businesses. We also agree that targeting some relief to those who run ***active trades or businesses*** through LLCs, partnerships, Subchapter S businesses is a good goal for Kansas. But there are serious problems with HB 2747 as written.

Let me first point out that HB 2747, just like the earlier bill, also exempts ***purely passive investment income*** that likely won't create any further Kansas jobs. An example is a shopping center in Lawrence in which I own a small percent. There will never be employees since the manager got his interest for operating the business. It appears the bill also exempts payments to Kansas investors from out of state partnerships. If the focus is on creating jobs the exemption should be to an active trade or business that employs someone.

Second, the first two years of the tax reductions are now largely fueled by taking more money from the State Highway Plan. Thus HB2747 takes away from the state's infrastructure needs and may impact interest rates. As I said, we support business tax reductions but not at the expense of essential functions of government.

Third, HB 2747 creates a permanent spending cap by dedicating all growth in state revenues exceeding 2% of the base year for further automatic rollbacks of state income tax. In fact this bill even removes the guarantee that had been in HB2560 that the budget office would build in a 7.5% ending balance before calculating the amount of the automatic rollback.

Our Chamber for many years has had a policy plank that opposes automatic limits on state budgets and taxes, in part because our members have seen the havoc wrought by such proposals in other states. The practical effect of tying the hands of future legislators by this bill would be the same as the so-called taxpayer bill of rights (TABOR) as enacted in our neighboring state of Colorado in the 1990s. Because the 2% growth is always based off the preceding year means that each successive economic downturn rachets down the permitted spending lid ever tighter. In Colorado, the state was stuck in an ever downward spiral of budget slashing that quickly pushed their education funding, and even economic development programs and highway funding toward the bottom of the states.

Further the situation confronting our state in 2012 will not permit such a tight lid. We know that the State's increase in KPERS funding alone likely will eat up most of the permitted growth in this bill. And that is not something the state can afford to take lightly – even a small drop in bond rating could cause interest on public indebtedness all across the state to rise significantly.

This is not to say that we do not support responsible reductions in state spending which result from careful study of the budget and phasing out of programs that have not produced the results that were intended. In our view we elect legislators to make just those kinds of decisions. Please remove this future automatic rachet down provision from the bill.

Thank you for this opportunity to address this important issue.