

March 14, 2012

TO: State of Kansas House Taxation Committee

FROM: James. J. Grabber, Paola KS

RE: House Bill 2763, The Kansas Economic Freedom Act of 2014

Ladies and Gentlemen;

I appreciate the opportunity to express my support for HB2763. I'll be brief. Here are several key points that I think illustrate the need for this major tax reform solution.

THE QUESTION

The real question is: Do companies pay taxes, or do they pass the cost on to the consumer? Of course, the consumer pays the tax in the end.

EMBEDDED TAX COSTS

But tax rate is only one thing to consider. Dr Dale Jorgenson, former chairman of the Harvard Economics Department estimates the embedded cost of taxation is 22%.--- This is simply the income tax embedded in the cost of a raw product from one company to another before it reaches the retail level.

This refers to costs at the federal level, and while it may not be the same rate at the state level, there is still an embedded cost of taxation and compliance because of the Kansas state-level corporate income tax. You can see why companies are at a disadvantage to be in Kansas. And in today's world, they have options.

BOEING MOVES TO LOWER TAX STATES

Engineering and program management work will move from Wichita to Oklahoma City, while production work will move to facilities in San Antonio. The tanker work will go to Puget Sound, Wash. Boeing said it's 70 percent more expensive to do work in Wichita than in San Antonio, when considering wages, infrastructure costs and the cost of doing business here. By MOLLY MCMILLIN -The Wichita Eagle Wednesday January 4th 2012

You do not have to be a rocket scientist to understand what the "cost of doing Business" means. Texas and Washington have no corporate income tax and Oklahoma is not only lower than us, but they are in the process of following Texas and the six other states with no corporate income tax.

PICKING WINNERS AND LOSERS

Our current tax code contains a web of tax breaks and loop holes for certain industries and particular companies. But in order for the citizens to reap a reward, the legislature must not only pick the best companies, they must also choose the ones who will be loyal in the long run. Again Boeing is a fine example. Perhaps proving the limits of government-financed business incentives, Kansas had over time handed the aerospace giant more than \$4 billion in municipal bonds and tax breaks.

In recent days, cries of betrayal, lies, and corporate greed have dominated Kansas headlines, lawmaker reactions, blogs, editorials and the public response

CURRENT BUSINESS CLIMATE IN KANSAS

Kansas is not just losing the battle for jobs, we are losing badly. We have the distinction of being the only state to have negative jobs and population growth over the last decade.

The Tax Foundation ranked Kansas #47 among the states in terms of the tax environment for mature businesses and #48 for new businesses. You have to fix this, you have to fix this now, and you have to fix it all at once. Phasing in a tax cut in this situation would be like a gas station slowly reducing its prices in response to a price cut by the station across the street. By the time it became competitive (if it ever did), it would have lost a lot of business that it would never get back.

I could bore you with 50 more pages showing you what the states with no income tax have versus the rest of the union. You could read [Rich States Poor States](#) to find all the facts you would ever need to rationalize this decision. But I think your common sense is telling you this is the right decision. What this really comes down to is a decision. Are you going to listen to the small still voice in your heart, the one people call your conscience? Or are you going to listen to the outside voices pushing you to hold the status quo or at least some form of it that would still allow special favors? Those voices that promise re-election, after all you have made many great contributions to the citizens of Kansas already. And you have many more good things to do. These favors and the current tax code are the ways of the legislator, how sausage is made! No different than those before you or those who will follow. It has been said that many of us have two dogs fighting inside of us. I encourage you to find you quiet place and listen to your heart. You know the truth. I encourage you to be bold. The great leaders throughout history listened to their hearts and made decisions that were right for the greater good. There is no doubt in my mind that to hold the position you have now, those same selfless qualities are in you. And I'm counting on you to do what is right for the citizens of Kansas. End the oppression of our current tax system; release the power back to the people. I have complete and total faith that you will make the right decision – the decision to pass this bill out of your committee to a vote on the house floor. Jim Grabber