House Taxation
Date: 2/15/12
Attachment: 21

See attached "Average Property Tax Rates by State". They (State Property Tax Rates) don't seem to be high compared with states (like Texas and South Dakota) that are doing well. They are also not marginal rates on economic activity. It would be better to use the money (on a Static Analysis basis) to eliminate the corporate income tax than to lower property taxes.

It was a pleasure speaking with all of you in Topeka on Thursday, March 1. Attached is a pdf of the PowerPoint deck that I used for my talk.

Here are the key points I made:

1. Economic growth is the "bottom line". Trying to manage Kansas' budget issues with state GDP growing at 1.97% per year (the 1997-2010 average) is like trying to live on 500 calories a day. No matter what recipes you try, you will still starve to death.
2. You must get Kansas' real GDP growing at 3% per year or more. If you do, the state's problems will become solvable, because the present value of future state revenues will go to infinity. If you don't, your financial distress will just go on and on.
3. Private nonresidential capital investment drives GDP growth. To get 3%+ growth, you must encourage (really, stop discouraging) business investment.
4. Kansas' tax structure has become uncompetitive with those of other states. As a result, capital investment is going elsewhere, and Kansas is losing jobs, economic growth, and tax-paying citizens to other states.
5. 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.
6. The most effective and certain way to get the economic growth that Kansas needs would be to replace the personal and corporate income taxes by broadening the base for your sales tax.
7. Per dollar of revenue collected, the corporate income tax is much more damaging to economic growth than the personal income tax, and must be eliminated at all cost.
8. It would be best to put the tax reform proposition to a direct vote of the people. Moving forward this way creates a trap for opponents. Legislator attempting to deny the people an opportunity to vote on an important issue like tax reform would be easy to defeat in the next election.

Again, it was great to be with you. Please contact me if you have any questions.

Louis R. Woodhill
713-419-0754

Forbes

Louis Woodhill, Contributor
I apply unconventional logic to economic issues.

OP/ED | 3/01/2012 @ 2:16PM | 257 views

Kansas Desperately Needs Fundamental Tax Reform

Unconventional Logic visited Kansas for the first time recently. Three things stood out: 1) it isn't in black and white, a la The Wizard of Oz; 2) the people are wonderful; and, 3) Kansas, like America as a whole, desperately needs fundamental tax reform to increase its rate of economic growth.

Kansas is in the middle of the country. As a good place to do business, it is also in the middle. Kansas was ranked #25 in the 2011 list of "Best/Worst States for Business" compiled by *Chief Executive* magazine. However, if the people of Kansas want anything resembling prosperity, this isn't going to be good enough.

In terms of yearly averages, Kansas had fewer payroll jobs in 2011 than it did in 1999. In 2011, the number of payroll jobs in America as a whole was 7% higher it had been in 1997. Kansas lagged the nation as a whole, with only 4% job growth over this period.

The story is similar when it comes to GDP. Over the 13 years ending with 2010, Kansas GDP grew at a real average annual rate of 1.97%. The growth rate for the U.S. as a whole was 2.21%. This may not seem like a big difference, but small changes in long-term economic growth rates have an enormous impact, both upon the lives of citizens and upon government finances.

The ultimate measure of the financial resources available to a government is the "present value to the infinite horizon " (PVIH) of government revenues, which is equal to the PVIH of GDP times the "tax take". Right now, Kansas' tax is in the range of 18.5% of GDP.

At a long-term real annual economic growth rate of 1.97%, the PVIH of Kansas' GDP is about $15.7 trillion, of which the state government would capture about $2.9 trillion in taxes. Increasing the GDP growth to 2.21% would raise both of these numbers by 35%, to $21.2 trillion and $4.0 trillion, respectively. Looked at another way, it would be worthwhile for Kansas to cut overall tax rates by up to 26% (cut its tax take to 13.9% of GDP from 18.5%) in order to get an additional 0.24 percentage points of GDP growth.

Because both government finances and the prosperity of the people are so sensitive to the rate of economic growth, maximizing the GDP growth rate is the "bottom line" of economic policy. This number is perhaps 100 times more important than any other variable. When you hear politicians talking about anything other than economic growth, you can be sure that they don't understand the numbers.

There is a reason that our economic system is called "capitalism". Both jobs and GDP growth are driven by capital investment. One big problem for Kansas right now is that it has to compete for investment dollars with states that have no income taxes. Presently, the top marginal income tax rates in Kansas are 6.45% on personal income and 7.00% on corporate income.

Companies looking for a central U.S. location in which to start or expand operations would logically consider South Dakota and/or Texas as alternatives to Kansas. These two states do not tax personal or corporate income. This fact contributes to their high rankings in the "Best/Worst States for Business" list, with Texas at #1 and South Dakota at #15.

Since 1997, Texas and South Dakota have grown much faster than Kansas, both in terms of GDP and in terms of jobs. In 2011, Kansas had 4% more payroll jobs than it did in 1997, while employment in South Dakota was up by 15% and Texas jobs were up by 23%.

The comparisons with respect to economic growth are even more striking. South Dakota's real GDP was 62.5% larger in 2010 than it was in 1997. The comparable numbers for Texas and Kansas were 46.6% and 28.8% respectively. This came about because South Dakota grew at an average annual real rate of 3.81% over the period, and Texas grew at 2.99%, while the GDP growth rate for Kansas was only 1.97%.

At real GDP growth rates above the real interest rate on government debt (estimated by the Social Security trustees at 2.90% for the federal government, state interest rates are comparable), the PVIH of future GDP is infinity. Accordingly, it is infinitely important to Kansas to get its GDP growth rate up to the level of Texas or South Dakota. Any and all measures required to accomplish would be economically justified.

Because GDP growth is a function of private business investment, what are needed are policy changes that will attract more capital investment to Kansas. Given both supply-side economic theory and the examples provided by Texas and South Dakota, it is clear that Kansas needs to eliminate both its personal and its corporate income taxes. If you tax something, you get less of it, and income taxes reduce the returns generated by capital investments in business activities.

Against this backdrop, the FY2013 Kansas state budget proposed by Governor Sam Brownback represents an astonishing example of "clueless conservatism". "Appendix A" of this document presents some first rate economic analysis, even going so far as to quote Dr. Arthur Laffer. It then offers a tax reform plan completely out of step with the analysis put forth—a tax plan that is literally designed to fail.

The Brownback plan proposes an immediate cut in the top marginal personal income tax rate to 4.9% from 6.45%, but no reduction in Kansas' very high (7.00%) state corporate income tax rate. This is insane if the goal is GDP growth, because economic growth is most sensitive to the tax rate on corporate income.

The Brownback plan goes on to talk about additional tax cuts in future years, if revenues grow at 2% per year or more. The stated goal is to eliminate Kansas' personal and corporate taxes over a ten-year period.

As Reagan (in 1981 – 1983) and Bush 43 (in 2001 – 2003) found out, a phased-in tax cut prolongs economic weakness, because people defer income until the lower rates take effect. A conditional phased-in tax cut is even worse. Businessmen looking at the Brownback plan would just invest their capital in Texas and South Dakota, and make a note to themselves to check back in ten years and see if the mooted Kansas tax cuts actually occurred. With the state losing jobs, citizens, and capital investment to other states, Kansas can't afford to wait ten years.

Interestingly enough, the Brownback budget document contains the key to successful tax reform. Appendix A states, "Data show that sales tax rates have the least negative impact on economic growth relative to other tax types." This is the truth. And, since it is also true that economic growth is what matters, it is obvious that what is needed is to replace Kansas' personal and corporate income taxes with a sales tax—and to do it now. In other words, Kansas needs to enact the FairTax at the state level.

A grassroots tax reform movement has sprung up to press for this very thing. A bill to replace Kansas' income taxes with sales taxes has been introduced into the state legislature. The proposed law is entitled, "The Kansas Economic Freedom Act of 2014".

State-level economic freedom is a good thing, as the people of South Dakota, Texas, and seven other states can attest. In the long run, higher economic growth makes everyone better off, including the state government. A state-level FairTax would make life more prosperous for the people of Kansas, and perhaps even more colorful.

Kansas, Tax Reform, and Economic Growth

Louis R. Woodhill

March 1, 2012

Best Tax States for Business

(Ranked by The Tax Foundation from 1 to 50, with 50 being the worst)

- For Mature Businesses:
  - 1. Wyoming
  - 2. South Dakota
  - 47. Kansas
- For New Businesses:
  - 1. Nebraska
  - 2. Louisiana
  - 48. Kansas

Why the Tax Foundation Report Is Good News

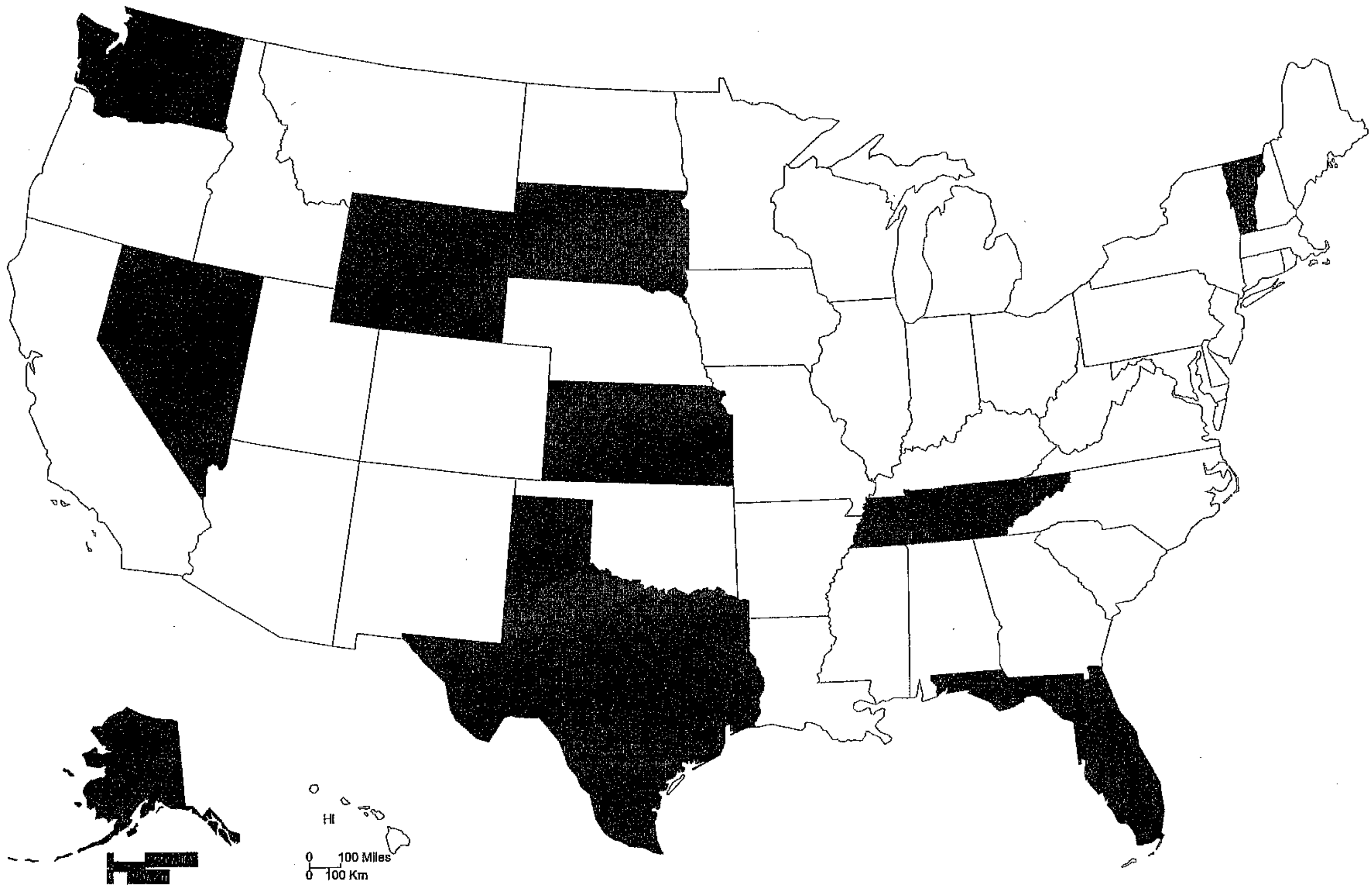
10-Year Economic Performance (2001 - 2010)*

State	Top PIT Rate*	Gross State Product Growth	Non-Farm Payroll Employment Growth	Population Growth	Net Domestic In-Migration as a % of Population***	State & Local Tax Revenue Growth****
9 States with no PIT**	0.00%	58.54%	5.36%	13.65%	4.12%	123.66%
U.S. Average**	5.47%	46.61%	0.51%	8.63%	0.86%	70.23%
Kansas	**6.45%**	**42.35%**	**-1.90%**	**5.61%**	**-2.36%**	**62.87%**

Fewer total jobs in 2011 than in 1999
Fewer private sector jobs in 2011 than in 1998
69,962 net domestic out-migration 2000 - 2009

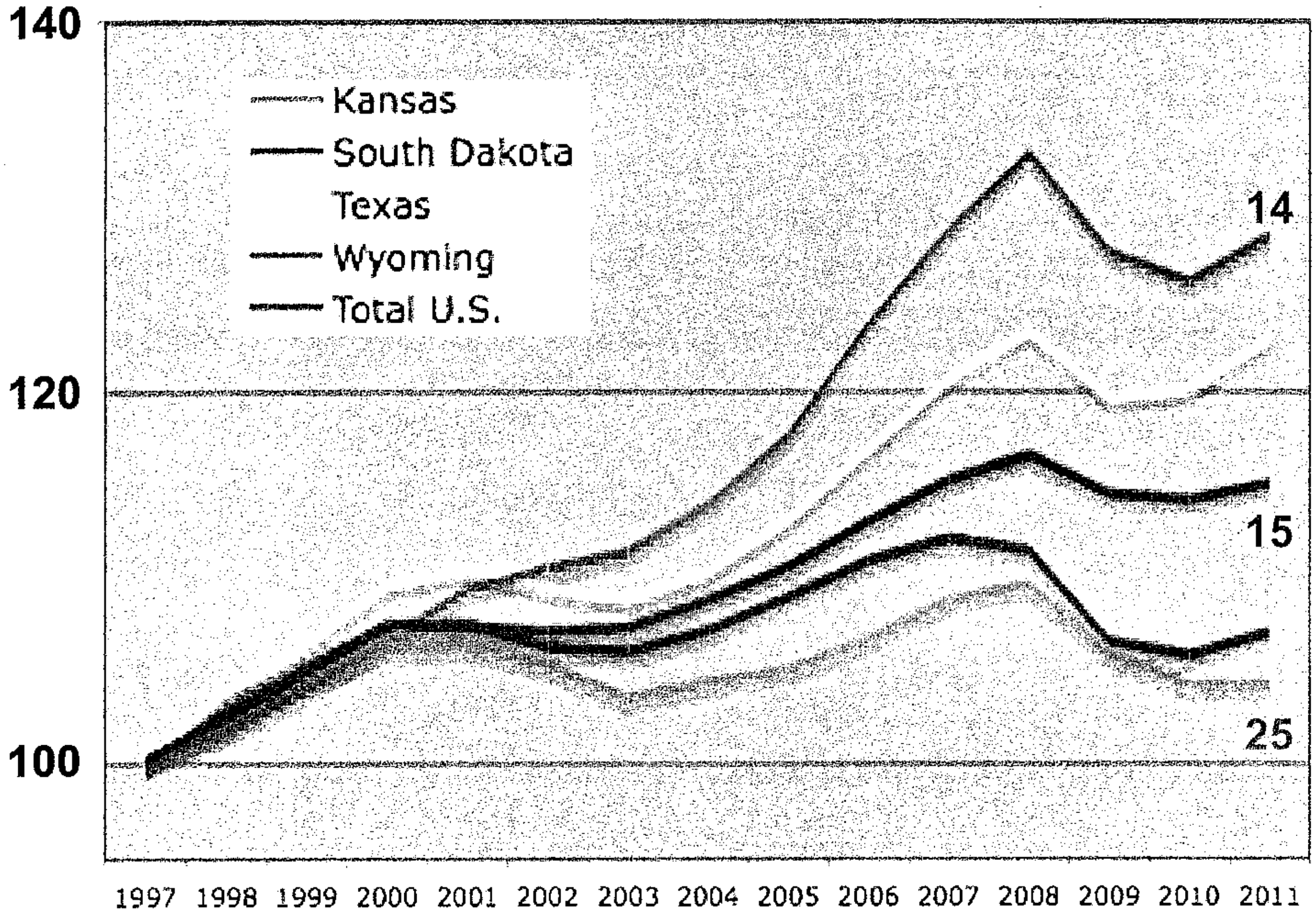
*Source: Kansas FY2013 Budget Appendix A

Nine States Have No Personal Income Tax



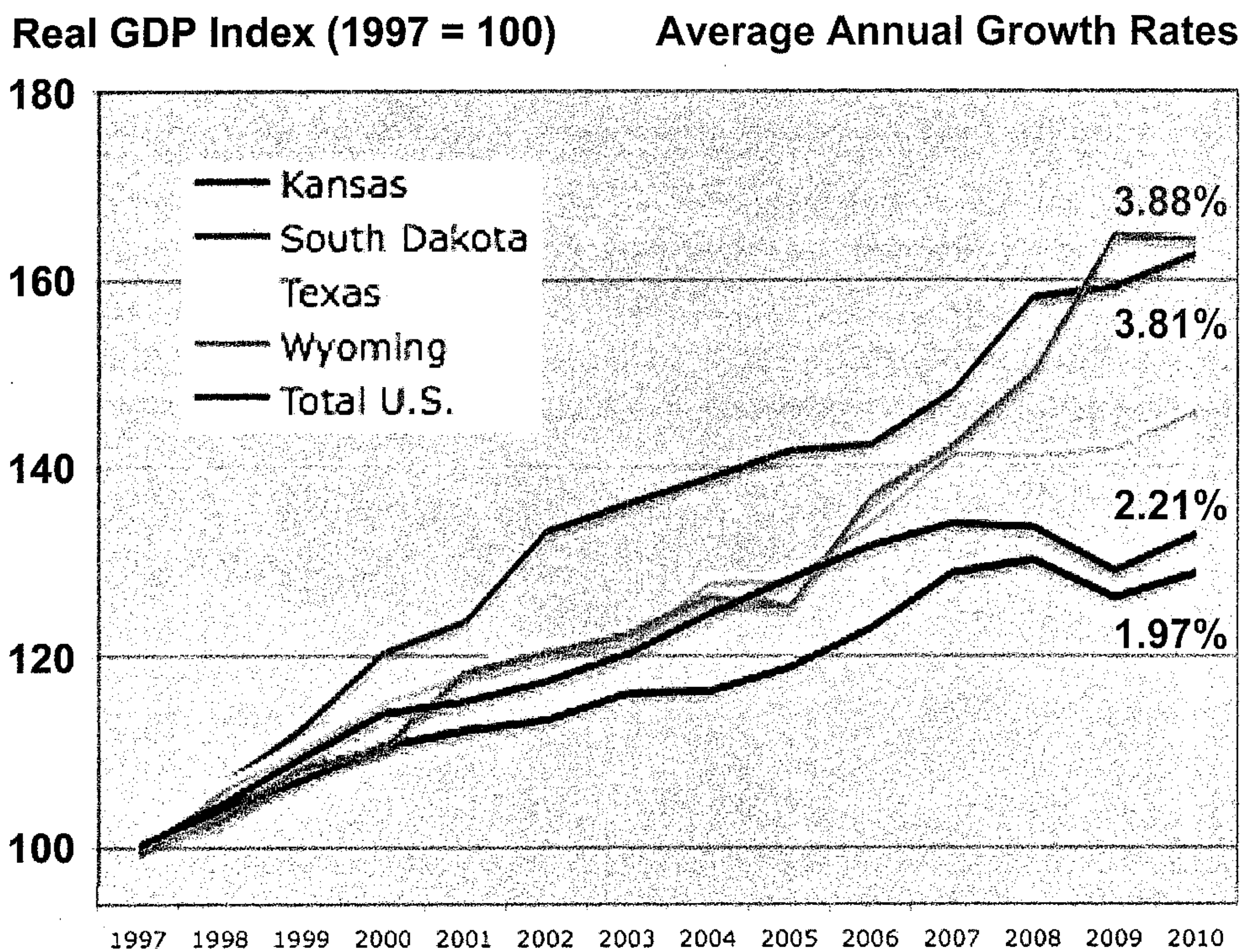
Jobs Comparison

Payroll Employment Index (1997 = 100) **Best/Worst Ranking***



***CEO Magazine Best and Worst States for Business 2011 Rankings**

GDP Growth Comparison



“Economic Growth Isn’t the Most Important Thing, It’s the Only Thing”—Vince Lombardi as an Economist

Both Jobs and GDP Are Driven by Capital Investment

GDP = 0.07 (Residential Assets) + 0.48 (Nonresidential Assets)

—This relationship has held for the past 60 years

$210,000 investment in Nonresidential Assets = 1 average job

—As this number increases, productivity increases and wages rise

The massive “investments” in education since 1970 have produced no return in terms of GDP:

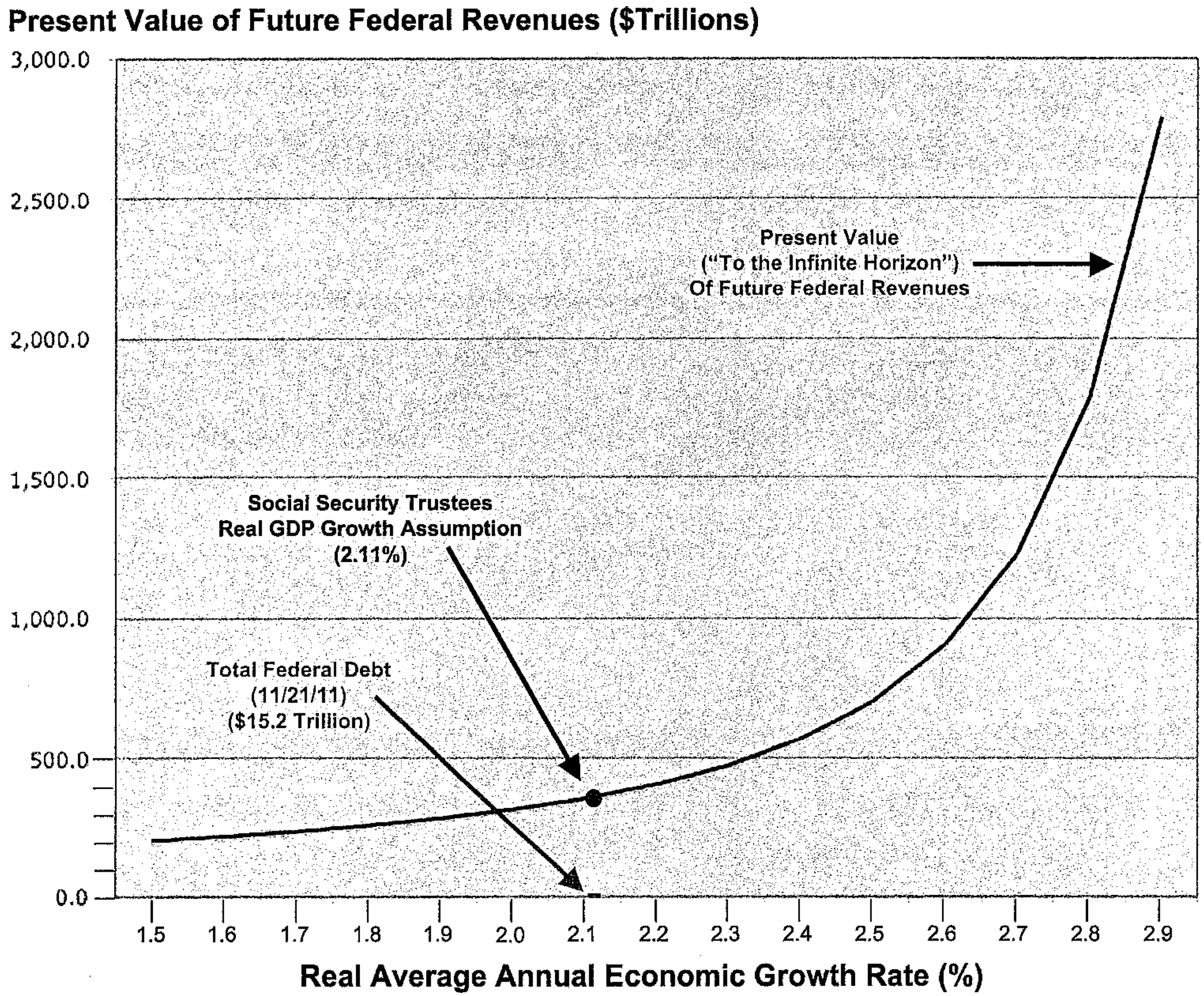
—Returns on education would show up in the BEA numbers as rising GDP/Nonresidential Assets (and they don’t)

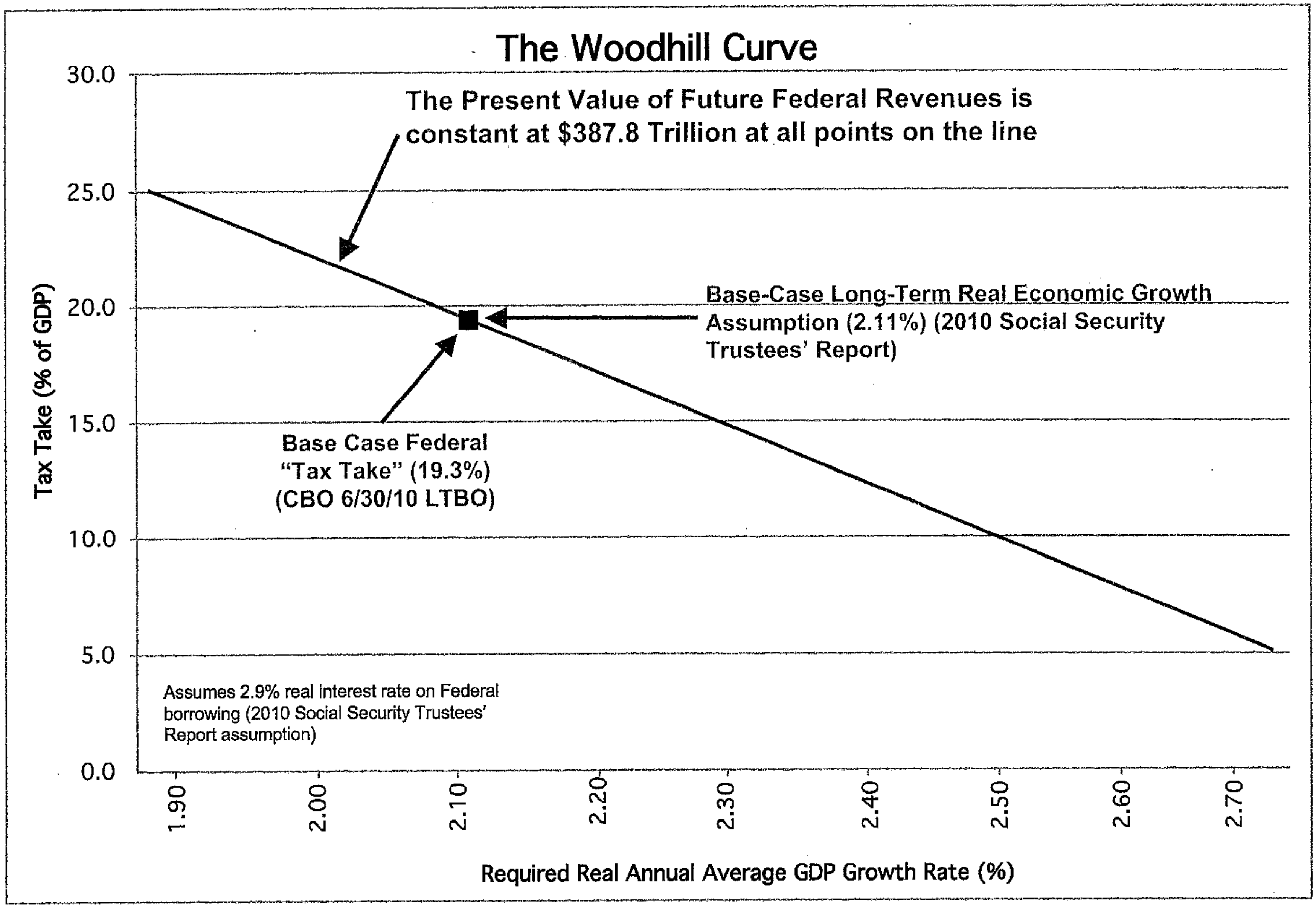
—We are “investing” twice as much in real terms in each student now than we were in 1972, but average SAT scores are lower

There is a Reason that They Call our System "Capitalism"

Company	Fortune 500 Compilation (2011) Total Assets ($Billions)	Fortune 500 Compilation (2011) Employees (Number)	Average Assets per Employee ($)
Goldman Sachs	911.3	38,700	23,547,804
Exxon-Mobil	302.5	103,700	2,917,068
General Electric	751.2	287,000	2,617,422
Google	57.9	24,400	2,372,951
Apple Computer	75.2	49,400	1,522,267
Ford	164.7	164,000	1,004,268
Microsoft	86.1	89,000	967,416
Caterpillar	64.0	104,490	612,499
Boeing	68.6	160,500	427,414
Hewlett-Packard	124.5	324,600	383,549
Dell	38.6	101,800	379,175
IBM	113.5	426,751	265,963
Target	43.7	355,000	123,099
Walmart	180.7	2,100,000	86,048
Safeway	15.1	180,000	83,889
McDonalds	32.0	400,000	80,000
Kroger	23.5	338,000	69,527

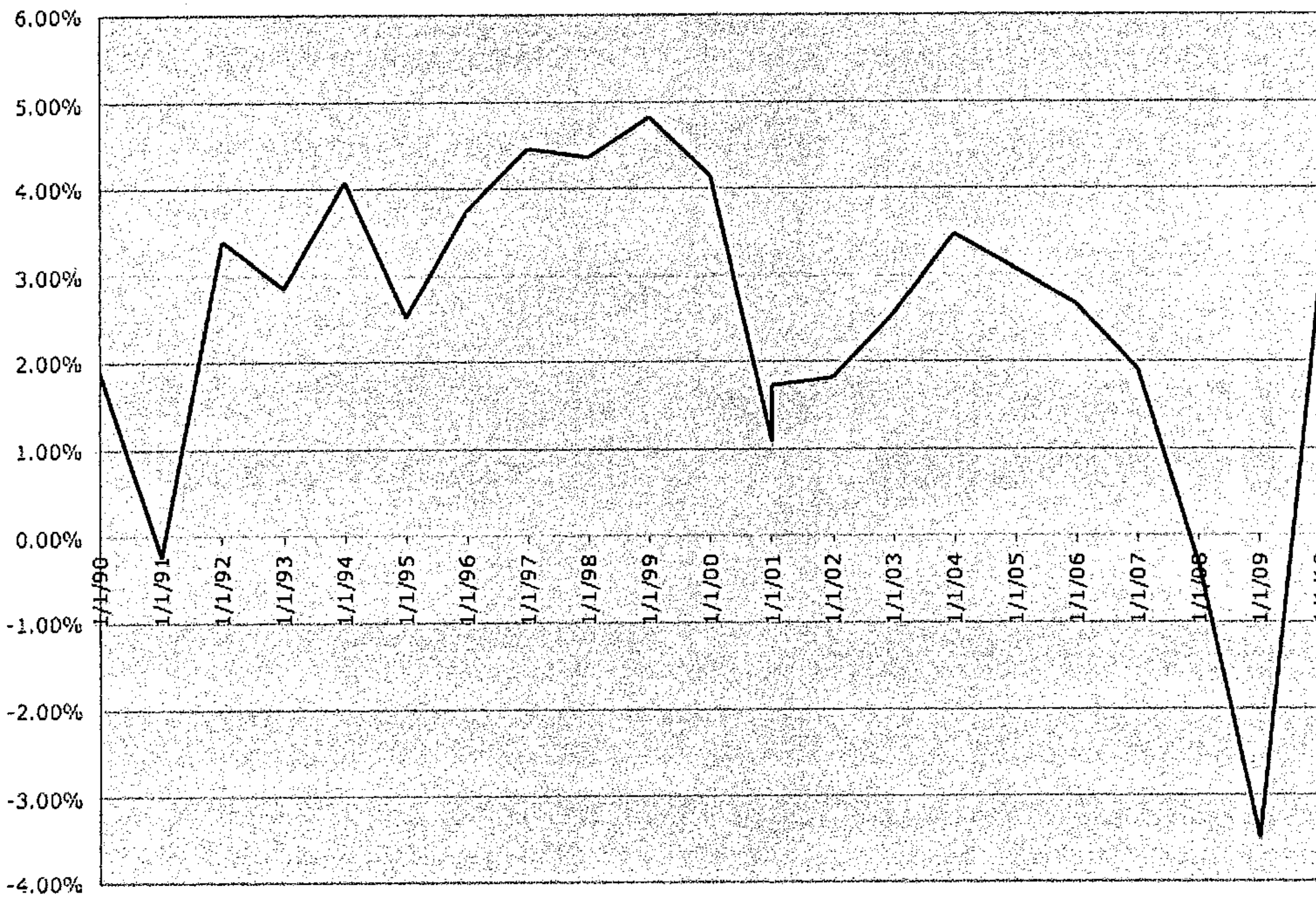
Economic Growth and Federal Finances



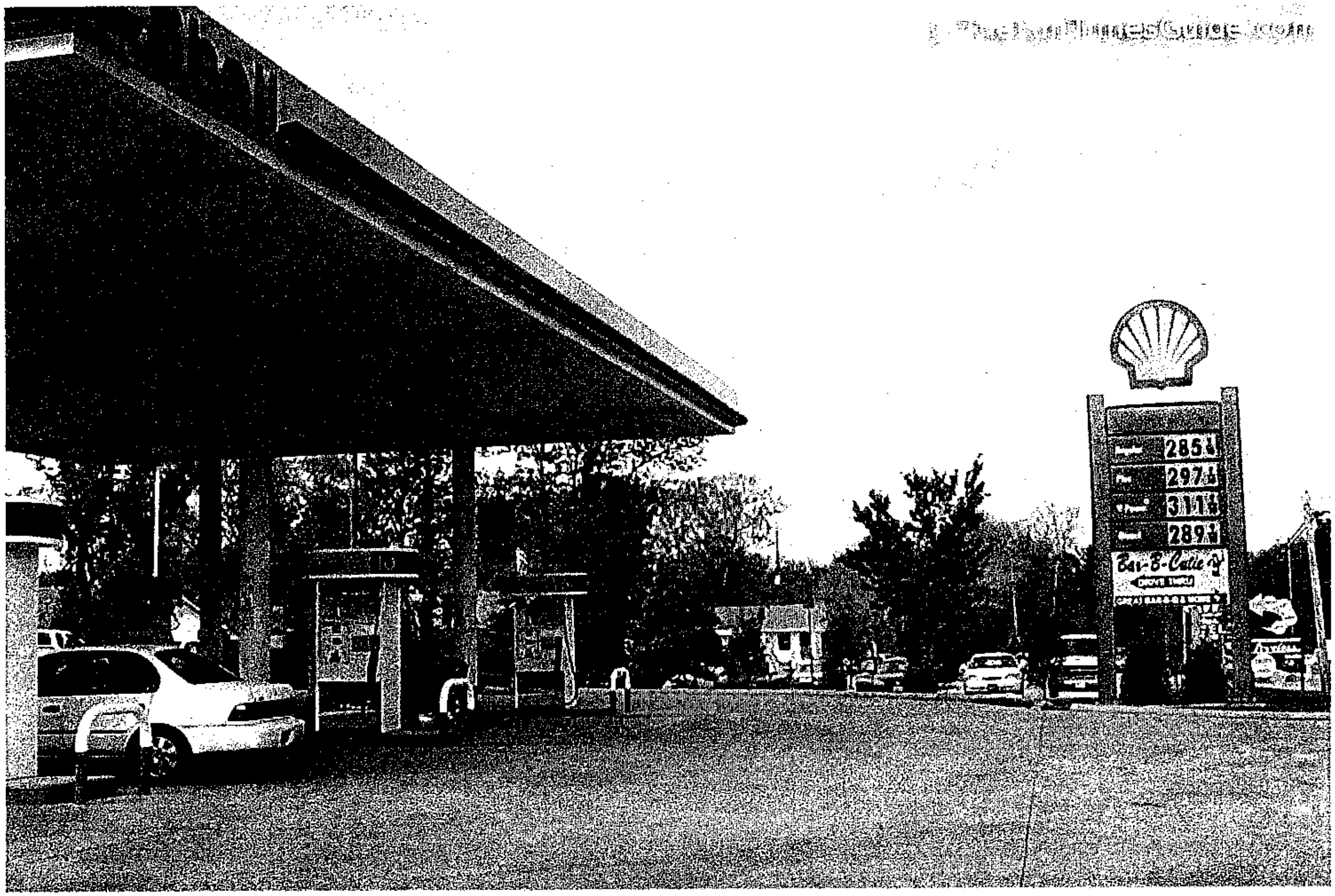

The Woodhill Curve
The Present Value of Future Federal Revenues is constant at $387.8 Trillion at all points on the line
Base-Case Long-Term Real Economic Growth Assumption (2.11%) (2010 Social Security Trustees' Report)
Base Case Federal "Tax Take" (19.3%) (CBO 6/30/10 LTBO)
Assumes 2.9% real interest rate on Federal borrowing (2010 Social Security Trustees' Report assumption)
Tax Take (% of GDP)
30.0
25.0
20.0
15.0
10.0
5.0
0.0
1.90
2.00
2.10
2.20
2.30
2.40
2.50
2.60
2.70
Required Real Annual Average GDP Growth Rate (%)

Government Finances Are Highly Leveraged with Respect to the Rate of Economic Growth

U.S. Real GDP Growth (%)



State Are Like Gas Stations



Why Kansas Should Replace Its Income Taxes with Sales Taxes

Economic growth is what matters. In financial terms, it is infinitely important to get Kansas' GDP growth rate above 3%

"Data show that states with zero personal income tax significantly outperform states with the highest personal income tax rates (in terms of gross state product); experience larger than average population growth; and boost state tax revenues at a faster pace than states with higher tax rates."

"Data show that sales tax rates have the least negative impact on economic growth relative to other tax types."

*Quotes from Kansas FY2013 Budget Document

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- Income Tax By State
- Property Taxes
- Corporate Tax
- Excise Taxes
- World Taxes
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Tax-Rates.org – Average Property Tax Rates By State

The property tax is a municipal tax levied by counties, cities, or special tax districts on most types of owned property including homes, businesses, and real estate.

Tax-Rates.org provides detailed statistics on the property taxes collected in every county in the United States, as well as aggregated data for each of the states. Choose your state from the table below for a detailed data sheet. County-specific property tax rates are available on the state pages, and you can use the property tax calculator to estimate your yearly tax burden.

Median Property Tax Rates By State *

Alabama	Alaska	Arizona	Arkansas	California
0.33%	1.04%	0.72%	0.52%	0.74%
Colorado	Connecticut	Delaware	Florida	Georgia
0.6%	1.63%	0.43%	0.97%	0.83%
Hawaii	Idaho	Illinois	Indiana	Iowa
0.26%	0.69%	1.73%	0.85%	1.29%
Kansas	Kentucky	Louisiana	Maine	Maryland
1.29%	0.72%	0.18%	1.09%	0.87%

Massachusetts	Michigan	Minnesota	Mississippi	Missouri
1.04%	1.62%	1.05%	0.52%	0.91%
Montana	Nebraska	Nevada	New Hampshire	New Jersey
0.83%	1.76%	0.84%	1.86%	1.89%
New Mexico	New York	North Carolina	North Dakota	Ohio
0.55%	1.23%	0.78%	1.42%	1.36%
Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
0.74%	0.87%	1.35%	1.35%	0.5%
South Dakota	Tennessee	Texas	Utah	Vermont
1.28%	0.68%	1.81%	0.6%	1.59%
Virginia	Washington	West Virginia	Wisconsin	Wyoming
0.74%	0.92%	0.49%	1.76%	0.58%
District of Columbia				
0.46%				

* Median property tax rates displayed as a percentage of property value.

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