Tes .ony before the Senate Taxation Committee
SB 339
Presented by J. Kent Eckles, Vice President of Government Affairs

achieve more

Tuesday, February 14th, 2012

The Kansas Chamber of Commerce appreciates the opportunity to present testimony in favor of Senate Bill 339.

Tax Competitiveness Rankings & Polling

Each year the Kansas Chamber commissions an Annual Competitive Index, which compares nearly 80 metrics against our peer states (surrounding geographic states plus Iowa). State Business Tax Structure and Business Tax Burden are but two of them and we rank 35th and 37th respectively for each metric. Kansas must become more competitive in our tax climate.

Also on an annual basis, the Kansas Chamber commissions Cole Hargrave Snodgrass & Associates to poll 300 member and non-member businesses that reflect Kansas geographically and by number of employees. When asked what was most important to their profitability, the overwhelming response was again "Lower Taxes on Businesses."

Our Position

In December, our Board of Directors, which is well-represented demographically and geographically throughout Kansas, unanimously approved the following language regarding tax reform: "Restructure the tax code by eliminating corporate and individual income taxes to reduce volatility in revenues and encourage investment in Kansas."

As you will recall, last legislative session the Chamber supported Senate Bill 1, which passed the House and we remain in favor of such income tax reductions measures that reduce income taxes over time based on growth in state receipts. We are therefore pleased the Governor has a similar trigger mechanism in SB 339.

Tax Policies & Economic Growth

In the book Rich States, Poor States by economists Laffer, Moore & Williams, it is noted that between '98-'07, 400,000 people moved from the nine highest tax states to those without income taxes. Those recipient states grew 89% more jobs than the nine highest tax states combined and personal income increased 32%. The Kansas Chamber believes our state should capitalize on this economic climate! By eliminating income taxes over time, Kansas will grow its tax base and have more people and private sector employers paying property and sales taxes.

Additionally, those states with no income taxes hardly lack infrastructure and good schools: they actually increased their general fund spending by 54% between 2000 and 2008, while the rest of the country increased theirs by 46%. How is that possible? Their increased economic activity allowed them to spend more because they grew their private sector!

Kansas has literally poured billions of dollars into infrastructure and education over the last two decades and yet we had fewer private sector jobs in 2011 than we did in 2001. That's obviously not a good growth strategy. Reducing the cost of doing business by lessening the tax burden is!

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Most of the world's economists recognize having a consumption tax is the most pro-growth tax policy a government entity can have. Unfortunately, Kansas' biggest source of tax receipts is via income taxes. Sales tax receipts have shown to be a more stable source of tax receipts than income or property, so states that derive a larger portion of their receipts from consumption taxes are more insulated from economic downturns.

As we all know, Kansas increased their consumption (sales) taxes by nearly 19% during the 2010 legislative session and the Kansas Chamber opposed that because there was no trade-off on reducing income taxes and it was a net tax increase. That's not the case now under the Governor's tax reform proposal, since we are reducing income taxes and thus the tax burden.

Years of evidence shows that the government often *can* lower rates and raise revenue. At the federal level, when tax rates were dropped in the 1920s from more than 70 percent to less than 25 percent, revenues grew from $719 million in 1921 to $1.16 billion in 1928. When President Kennedy dropped the top tax rate from 90 percent to 70 percent, revenues rose from $94 billion in 1961 to $153 billion in 1968. Under President Reagan's sweeping tax reforms revenues rose 99.4 percent in the 1980s.

Reducing the Tax Burden

It has been asserted that eliminating income taxes will cause a "tax shift." People & businesses pay income, property and sales taxes and when you reduce one of them, you are lowering their cumulative tax burden, not shifting it. Again, by eliminating income taxes, Kansas will have more people and employers paying property and sales taxes so revenue from those sources will grow.

Finally, there is no dispute that property taxes are the most reviled among those levied by government, and they are certainly higher than they were a decade ago. However, it's important to remember property taxes are levied by counties, cities, school districts and other local taxing entities – often the same entities who ask the legislature to raise taxes from a distance so they don't have to deal with the consequences from the electorate. Relief from those taxes should be sought from elected officials at the local level who continually raise them – they should be held accountable, not State Legislators.

We urge the Committee to pass legislation that eliminates income taxes over time based on growth in state receipts, which SB 339 does.

The Kansas Chamber, with headquarters in Topeka, Kansas, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to live and work. The Chamber represents small, medium, and large employers all across Kansas. Please contact me directly if you have any questions regarding this testimony.