TO: CHAIRMAN LES DONONVAN and MEMBERS OF THE SENATE COMMITTEE ON ASSESMENT AND TAXATION

REFERENCE SENATE BILL 376

There are many important provisions of this bill, especially the ultimate goal of completely eliminating the income tax as the preferred method of funding the government. In particular the items in this bill that are favorable for the tax payer are these:

1. Effective date January 1, 2013.
2. Reduces the corporate income tax
3. Allows the one percent sales tax increase to expire.
4. Reduces the personal income tax.
5. Eliminates most of the sales tax exemptions
6. Captures the lost revenue from e commerce
7. Taxes more services
8. Enables Counties and local governments to keep their windfall of sales tax revenue from a broadened sales tax base.

I can support this bill because it is a step in the right direction.

I only urge the Tax Committee to accelerate the time table so that the tax payers of Kansas may be free from the Income tax sooner rather than later.

Earl Long

Sn. Assmnt & Tax
3-7-12

Attachment # 5

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

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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.

This article is available online at:
http://www.forbes.com/sites/louiswoodhill/2012/03/01/kansas-desperately-needs-fundamental-tax-reform/