State of Kansas

Senate Chamber

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Good Afternoon Mr. Chairman and members of the committee,

Thank you for the opportunity to testify today in favor of SB430.

Simply put, it embeds an apolitical formula into statute that methodically shifts us structurally away from a tax on personal income and incentivizes a broader and fairer tax base. It moves us away from reliance on revenue estimates and projected profiles used in our annual arguments, to an actual look back which allows us to react to real numbers. All we know for certain about revenue estimates, estimated fiscal notes, and profile projections is that they are always wrong; we just don't know how wrong they are when we act on them.

So here is the base formula:

Logic Test: IF (MCFYR) > (IPFYR) Then (if true):

$$CITR * \left[1 - \frac{(MCFYR - BFYAR)}{BFYAR} \right] = NCYITR$$

MCFYR = Most Current Fiscal Year Actual Receipts (income +excise)

IPFYR = Immediately Previous Fiscal Year Actual Receipts (income + excise)

BFYAR = Base Fiscal Year Actual Receipts (FY 2011 receipts (income + excise))

CITR = Current Income Tax Rate

NCYITR = Next Calendar Year Income Tax Rate

In simplistic written form: if the most currently concluded fiscal year actual receipts, in totaled income and excise taxes, are greater than the immediately preceding fiscal year actual receipts in the same categories; then the income tax rates applied to the following calendar year will be reduced by the calculated percentage of receipt growth, calculated from the base fiscal year (FY2011) actual receipts to the most currently concluded fiscal year actual receipts.

Sn. Assmnt & Tax
3-13-12
Attachment # 1

This predominantly removes the political spin and guess work from the process. It looks back to <u>actual</u> receipts (in the combined tax line items), gives time to review and adjust, and applies any adjustments forward. Since this bill begins with the base language I wrote last year that eventually became commonly known as SB1 that year, those that want to maintain our high income tax structure and increase our government spending have tried to attach negative political "buzz words" like Tabor-lite or Tax cap, all are far from the truth. There is nothing here that requires any kind of super majority or caps any tax at any level. Nothing would prevent us (the legislature) from raising any tax, stopping any formula adjustment before it takes effect. If there is no tax receipt growth, in this formula there is no change. <u>Total receipts have to grow</u> for the formula to trigger. The growth has to be sufficient enough to, not only replace any reduced receipts from one line item, but from all income and excise taxes lines.

Not understanding this, they may ask if we can afford it. There is no doubt our state's economic recovery is being hampered by our tax structure. I ask, how can we afford not to? Several states are working in this direction. We need to be in front of the curve, not behind it.

To help amplify the curve, reduce the top rates, and broaden the base on the revenue side this bill includes the sales tax nexus language, the Governors severance tax piece, and removes simply the refundablity of tax credits. It does not remove any deductions or credits. Any qualified person or company may claim their applicable deductions and credits down to zero (0) tax liability, but the state would no longer be in the business of cutting welfare checks, whether corporate or personal, back through the tax code. That is for the separate agencies on that side of the fence. It's just better policy.

This bill also, like the Governors plan, reduces the number of income tax brackets to 2 from 3, but does not achieve initial rates as low as his does. Under this plan personal income tax rates would initially drop from 3.5 to 3.25 in the lowest bracket and 6.25/6.45 to 5.95 in the top bracket with the top corporate income rate only moving from 7 to 6.95.

Thank you for the opportunity to address you, and I would stand for questions when you deem it appropriate.

Sen. Ty Masterson