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Topeka, Kansas 66603

**Testimony on income tax reduction legislation  
Senate Assessment & Taxation Committee  
January 29-30, 2013**

Mr. Chairman and members of the committee, thank you for the opportunity to testify. I'm Bernie Koch with the Kansas Economic Progress Council, a statewide not for profit organization of businesses, trade associations, chambers of commerce, and individuals.

Lowering taxes can be an important part of state policies to encourage economic development.

Public policy which supports **economic freedom** through open economies supports higher growth rates. We would include tax structure and business regulation in that definition.

However, other factors have been shown by respected empirical studies to be as important, if not more important, including investment in infrastructure and equipment; human capital and labor efficiency; continuing technological innovation; and reliable legal systems.

We believe the current emphasis on reducing the individual income tax is unfortunate. Not only does it overemphasize economic freedom, it's also diverting our attention from other problems within our tax structure that should be addressed.

***Council On State Taxation report***

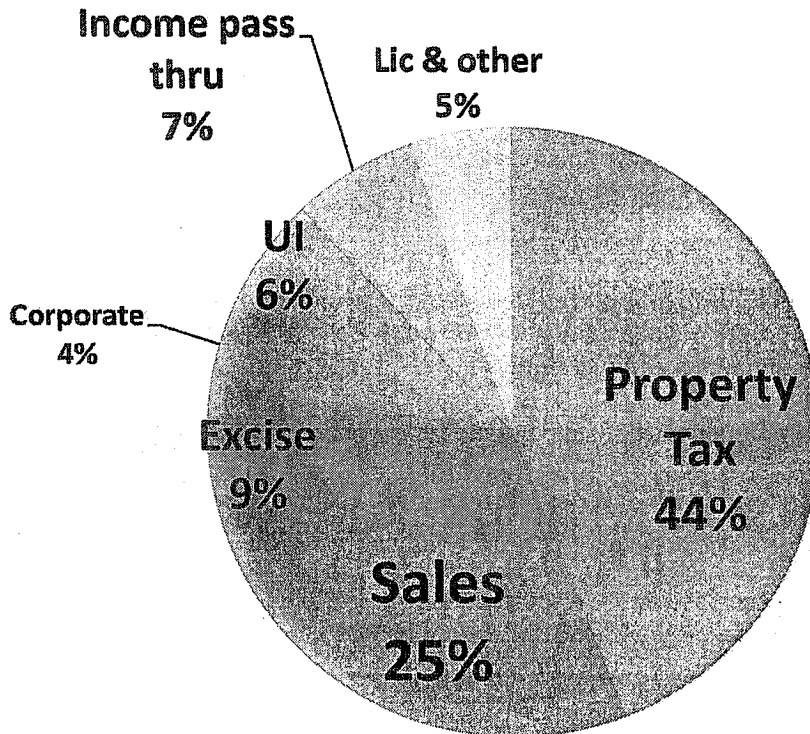
The big picture on Kansas taxes is this: Kansas businesses pay more in property tax than any other tax. Sales tax is the second largest tax paid by business in our state.

That's according to the Council On State Taxation, a nonprofit trade association. Every year, the Council presents state-by-state estimates of the state and local taxes paid by businesses. Their latest report, released in July, shows tax collections from July 2010 through June of 2011.

I've included as an attachment the information for all of the states, but I've put the information for Kansas into a pie chart in my testimony.

44.1 percent of all Kansas local and state business taxes were property taxes. 24.6 percent were sales taxes. Property and sales taxes add up to over 68% of all local and state business taxes paid in Kansas. Only 6.7 percent were individual income taxes on pass-through income. So, even if you totally eliminate individual income taxes, the other 93 percent of state and local taxes on Kansas business still exist.

**Kansas taxes paid by business  
(State and Local)  
Council on State Taxation FY2011**



***Tax Foundation – Location Matters Report***

The Tax Foundation, a nonpartisan tax research group, is often quoted by proponents of eliminating the individual income tax. Their latest study ranks Kansas pretty bad for competitiveness. We are 47<sup>th</sup> for mature operations and 48<sup>th</sup> for newly established operations.

However, if you go to the specific portion of that report concerning Kansas, the study says it property and sales taxes give us those low rankings. I have also included that information as an attachment to my testimony. Here's what the Tax Foundation says about manufacturing and Research and Development operations in Kansas:

**“Once again, these operations have one of the highest property tax burdens in the nation along with a top-10 sales tax burden.”**

Our poor tax ranking for mature Research and Development companies should be a major red flag for our efforts to establish the bioscience sector as a pillar of the Kansas economy.

**Arkansas Chamber Tax Study**

Another study independent of the Tax Foundation also points to a high effective Kansas tax rate on Research and Development firms. The Arkansas Chamber of Commerce commissioned an Ernst & Young report on seven different types of businesses and their tax liabilities in eight states in the region, including Kansas. The study was released in November of 2011 and reflects taxes at that time.

Kansas had the 2<sup>nd</sup> highest effective tax rate on Research and Development firms in the region with a 12 percent rate. Another red flag in this study was in the category of Business Support Services. The effective tax rate on these types of businesses was 19.7 percent. That's the highest of any state in any category of business.

That brings up another important point I want to make. Different kinds of businesses have different tax burdens. Eliminating the individual income tax may be good for some, but not necessarily for others. We already have a tax structure that puts a different burden on different types of companies.

For example, if you look at the Arkansas study matrix, Kansas has a 4.6 percent effective tax rate on headquarters companies, but a 19.7 percent effective tax rate on business support services. That's a tremendous difference in tax burden.

**Arkansas Chamber of Commerce Tax Study**

**Table 6  
State and Local Effective Tax Rates Net of Statutory Credits, by Industry and State**

State	Headquarters		Research & Development		Durable Goods Manufacturing		Business Support Services		Food Product Manufacturing		Renewable Energy Equipment Manufacturing		Motor Vehicle Parts Manufacturing	
	ETR	Rank	ETR	Rank	ETR	ETR	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arkansas	4.7%	3	10.0%	5	12.2%	1	19.2%	1	8.1%	3	12.3%	4	10.8%	1
Kansas	4.6%	3	12.0%	2	8.1%	6	19.7%	1	7.9%	4	8.0%	7	7.2%	7
Louisiana	8.2%	1	12.7%	1	8.6%	7	14.5%	7	8.9%	2	13.6%	2	12.4%	2
Mississippi	1.8%	7	9.5%	8	10.3%	1	15.0%	8	8.2%	1	14.4%	1	12.0%	3
Missouri	4.1%	6	7.7%	9	5.0%	8	15.0%	5	8.5%	8	8.7%	8	5.9%	8
Oklahoma	4.4%	5	11.4%	3	9.2%	2	19.0%	2	7.2%	6	10.8%	5	8.7%	6
Tennessee	4.6%	4	11.1%	4	9.2%	3	18.5%	3	7.3%	5	9.6%	6	9.2%	5
Texas	0.4%	8	8.4%	7	8.7%	5	13.7%	5	8.5%	7	12.0%	3	13.8%	1
Other States' Avg.	3.7%		10.4%		8.2%		16.1%		7.7%		10.8%		9.5%	

**Minnesota Taxpayers Association/ Lincoln Land Institute Property Tax Study 2010**

Rural property taxes on business are another area that needs discussion. A study by the Lincoln Land Institute for the Minnesota Taxpayers Association looked at rural commercial property taxes in all 50 states. It suggests Kansas rural commercial property tax effective rates are probably the highest in the United States.

***Texas Taxpayers and Research Association***

Finally, since we talk so much about becoming like Texas, without an individual income tax, I would like you to see some information from the Texas Taxpayers and Research Association that was given to their legislators this past September. It's about the Mix of Texas Business Taxes and Texas Employment.

It may give us a preview of what to expect if we continue to pursue this course.

**Texas Taxes are not evenly distributed across the economy.**

**Capital-intensive industries (finance, utilities, information, transportation, manufacturing, and mining) account for roughly 68 percent of all business taxes paid, yet account for only 28 percent of the state's private sector employment.**

**Labor-intensive industries (services, wholesale trade, retail trade, construction) account for roughly 32 percent of all business taxes, yet account for 72 percent of the state's private sector employment.**

**Over the previous 10 years, the services industry has accounted for two-thirds of the state's job growth.**

That tells me if we continue to pursue this course, the tax burden in Kansas could shift to those capital-intensive industries, and a lighter tax burden will fall on labor-intensive industries, particularly services, which aren't always the highest paying jobs.

I think there are two questions that need to be answered: will the tax burden shift among Kansas businesses, and is that what we want?

Thank you for your attention. Thank you for your service to our state and your willingness to deal with the difficult challenges we face.

# Council On State Taxation

Appendix Table A3. Distribution of state and local business taxes, by type and state - FY2011

State	Property tax	Sales tax	Excise tax	Corporate income tax	UI tax	Individual income tax on pass-through income	License and other taxes*	Total business taxes
Alabama	26.4%	19.9%	23.4%	4.4%	6.7%	5.0%	14.3%	100.0%
Alaska	13.4%	0.0%	2.0%	11.8%	2.1%	0.0%	70.7%	100.0%
Arizona	45.2%	28.1%	9.6%	5.2%	3.4%	3.1%	5.4%	100.0%
Arkansas	23.0%	28.7%	14.1%	9.5%	9.2%	7.3%	8.4%	100.0%
California	33.1%	19.6%	12.4%	10.7%	6.2%	8.9%	9.0%	100.0%
Colorado	44.5%	23.7%	8.6%	3.8%	5.2%	7.8%	6.4%	100.0%
Connecticut	30.9%	21.7%	11.8%	9.1%	9.9%	11.4%	5.2%	100.0%
Delaware	15.2%	0.0%	10.8%	14.9%	4.4%	5.1%	49.6%	100.0%
Florida	49.8%	17.2%	19.6%	4.5%	3.3%	0.0%	5.6%	100.0%
Georgia	42.5%	25.4%	11.4%	4.5%	4.8%	7.4%	4.0%	100.0%
Hawaii	34.3%	27.5%	19.6%	2.3%	6.8%	4.5%	5.0%	100.0%
Idaho	37.2%	14.9%	9.4%	7.6%	12.5%	9.1%	9.4%	100.0%
Illinois	44.8%	13.0%	17.4%	6.5%	7.5%	5.0%	5.7%	100.0%
Indiana	51.8%	19.6%	7.1%	7.0%	6.0%	6.0%	2.6%	100.0%
Iowa	47.0%	18.3%	7.3%	4.2%	8.9%	8.1%	6.3%	100.0%
Kansas	44.1%	24.6%	8.9%	4.2%	6.3%	6.7%	5.3%	100.0%
Kentucky	28.8%	19.4%	19.2%	8.9%	6.7%	7.1%	9.9%	100.0%
Louisiana	25.7%	43.6%	11.7%	2.0%	2.2%	3.1%	11.7%	100.0%
Maine	55.7%	12.2%	8.8%	6.9%	5.0%	5.9%	5.4%	100.0%
Maryland	24.5%	17.1%	19.2%	8.3%	9.5%	10.0%	11.4%	100.0%
Massachusetts	41.3%	12.9%	6.2%	12.9%	11.9%	9.9%	4.8%	100.0%
Michigan	43.9%	20.9%	8.1%	4.9%	11.0%	5.3%	5.8%	100.0%
Minnesota	34.1%	18.7%	15.3%	9.1%	9.2%	7.1%	6.5%	100.0%
Mississippi	41.8%	22.4%	12.5%	7.2%	2.9%	3.9%	9.4%	100.0%
Missouri	37.8%	24.2%	12.6%	3.6%	6.8%	6.3%	8.7%	100.0%
Montana	44.3%	0.0%	11.7%	6.7%	6.4%	6.7%	24.3%	100.0%
Nebraska	43.3%	22.5%	10.0%	4.0%	5.5%	7.8%	7.0%	100.0%
Nevada	33.2%	22.2%	15.3%	0.0%	5.1%	0.0%	24.2%	100.0%
New Hampshire	47.6%	0.0%	15.0%	22.8%	6.6%	0.4%	7.6%	100.0%
New Jersey	43.9%	14.6%	9.2%	10.2%	11.1%	5.4%	5.6%	100.0%
New Mexico	18.0%	35.1%	9.2%	5.6%	5.9%	3.0%	23.2%	100.0%
New York	35.9%	19.7%	10.6%	14.4%	4.8%	9.4%	5.1%	100.0%
North Carolina	29.6%	23.9%	14.6%	8.4%	6.8%	8.1%	8.6%	100.0%
North Dakota	16.1%	11.1%	5.8%	4.7%	2.2%	2.5%	57.7%	100.0%
Ohio	34.8%	20.7%	13.2%	3.6%	6.5%	6.2%	15.0%	100.0%
Oklahoma	23.9%	29.8%	8.6%	5.5%	3.4%	6.9%	21.8%	100.0%
Oregon	38.9%	0.0%	12.0%	8.8%	14.5%	11.4%	14.4%	100.0%
Pennsylvania	34.8%	14.3%	13.4%	7.8%	10.1%	6.6%	12.9%	100.0%
Rhode Island	46.8%	16.0%	13.1%	6.2%	9.9%	4.8%	3.1%	100.0%
South Carolina	51.5%	14.4%	10.1%	3.2%	4.8%	4.4%	11.6%	100.0%
South Dakota	38.3%	36.6%	10.2%	1.0%	4.4%	0.0%	9.6%	100.0%
Tennessee	29.9%	28.5%	12.2%	10.7%	7.1%	0.4%	11.3%	100.0%
Texas	44.0%	24.9%	12.0%	0.0%	4.3%	0.0%	14.9%	100.0%
Utah	40.5%	21.9%	12.9%	6.4%	4.5%	6.6%	7.3%	100.0%
Vermont	55.4%	8.2%	16.6%	6.6%	5.7%	4.2%	3.3%	100.0%
Virginia	45.2%	11.8%	15.9%	5.8%	4.1%	6.2%	11.1%	100.0%
Washington	25.2%	45.0%	15.1%	0.0%	8.7%	0.0%	6.0%	100.0%
West Virginia	29.7%	9.6%	19.5%	8.4%	5.6%	5.1%	22.0%	100.0%
Wisconsin	42.6%	16.7%	11.0%	8.1%	9.1%	5.2%	7.3%	100.0%
Wyoming	36.7%	19.2%	2.5%	0.0%	3.3%	0.0%	38.2%	100.0%
District of Columbia	51.4%	9.2%	11.7%	10.3%	4.4%	9.7%	3.4%	100.0%
United States	38.0%	20.1%	12.6%	7.2%	6.4%	5.6%	10.0%	100.0%

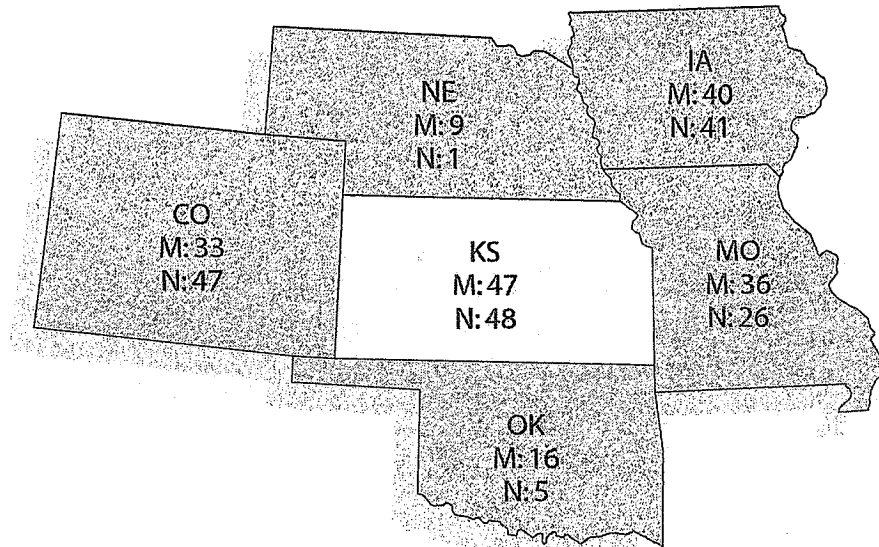
Figures may not sum due to rounding.

Source: Ernst & Young LLP estimates based on data from the U.S. Census Bureau, State & Local Government Finances.

AH. 1-5

## Kansas

M = Rank for mature firms  
N = Rank for new firms



Kansas ranks 47th overall for mature operations and 48th overall for newly established operations. Specifically:

- In Kansas, all 14 firm types have total tax costs above the national average.
- Kansas ranks 30th for the mature corporate office, which has a total effective tax rate (TETR) of 16.2 percent, just 3 percent larger than the national average. This firm has a fairly low income tax burden due to the state's apportionment formula; however, it faces an above-average sales tax burden and one of the highest property tax burdens in the nation.
- The state ranks 50th for the new distribution center, which has a TETR of 65.4 percent, more than 80 percent above the national average. While this operation has one of the lowest income tax burdens of its type nationally, it faces the highest property tax burden and fourth-highest sales tax burden.

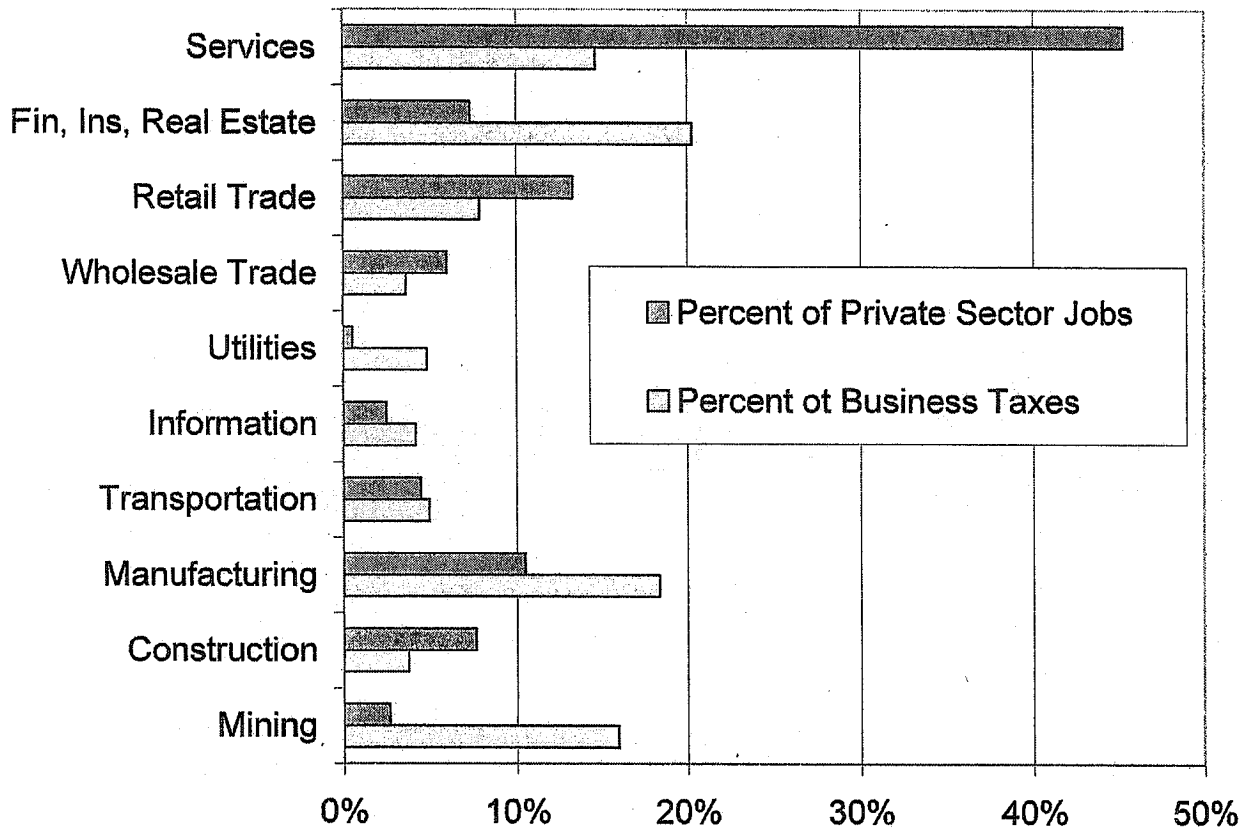
- For mature operations, Kansas ranks 47th for both labor- and capital-intensive manufacturing and ranks 46th for the mature R&D center. Once again, these operations have one of the highest property tax burdens in the nation along with a top-10 sales tax burden. Although the firm's 7.0 percent corporate income tax rate is not unusually high, its throwback rule gives these operations an above-average income tax burden.
- Kansas offers among the most generous property tax abatements and investment tax credits across most firm types, yet these incentives seem to have little impact on the state's rankings for new operations.

## Minnesota Taxpayers Association 50 State Property Tax Study 2010

**Table 34: Rural Commercial Property Taxes**  
Payable 2010

<u>\$100,000 VALUED PROPERTY</u>				<u>\$1 MILLION-VALUED PROPERTY</u>			
\$20,000 Fixtures				\$200,000 Fixtures			
Rank	State	City	Net Tax ETR	Rank	State	City	Net Tax ETR
1	Kansas	Iola	4,771 3.976%	1	Kansas	Iola	47,710 3.976%
2	Indiana	North Vernon	3,630 3.025%	2	Indiana	North Vernon	36,300 3.025%
3	Iowa	Hampton	3,628 3.023%	3	Iowa	Hampton	36,278 3.023%
4	Michigan	Manistique	3,423 2.853%	4	Michigan	Manistique	34,233 2.853%
5	New York	Warsaw	3,421 2.850%	5	New York	Warsaw	34,205 2.850%
6	South Carolina	Mullins	3,251 2.709%	6	South Carolina	Mullins	32,510 2.709%
7	Connecticut	Windham	3,081 2.568%	7	Connecticut	Windham	30,811 2.568%
8	Mississippi	Aberdeen	2,962 2.468%	8	Mississippi	Aberdeen	29,620 2.468%
9	Colorado	Walsenburg	2,810 2.341%	9	Colorado	Walsenburg	28,096 2.341%
10	Nebraska	Sidney	2,739 2.282%	10	Nebraska	Sidney	27,389 2.282%
11	Texas	Fort Stockton	2,678 2.232%	11	Texas	Fort Stockton	26,778 2.232%
12	Illinois	Clinton	2,596 2.164%	12	Florida	Moore Haven	26,766 2.231%
13	Missouri	Boonville	2,552 2.127%	13	Minnesota	Glencoe	26,563 2.214%
14	Wisconsin	Rice Lake	2,502 2.085%	14	Illinois	Clinton	25,965 2.164%
15	Vermont	Newport	2,342 1.952%	15	Wisconsin	Rice Lake	25,556 2.130%
16	Florida	Moore Haven	2,272 1.893%	16	Missouri	Boonville	25,523 2.127%
17	South Dakota	Sisseton	2,250 1.875%	17	Vermont	Newport	23,418 1.952%
18	Maine	Rockland	2,184 1.820%	18	South Dakota	Sisseton	22,500 1.875%
19	Pennsylvania	Ridgway	2,109 1.757%	19	Maine	Rockland	21,840 1.820%
20	Minnesota	Glencoe	2,098 1.749%	20	Pennsylvania	Ridgway	21,087 1.757%
21	North Dakota	Devils Lake	2,097 1.748%	21	North Dakota	Devils Lake	20,973 1.748%
22	New Jersey	Maurice River Township	2,048 1.706%	22	New Jersey	Maurice River Township	20,476 1.706%
23	Massachusetts	Adams	2,037 1.698%	23	Massachusetts	Adams	20,373 1.698%
24	Maryland	Denton	2,029 1.691%	24	AVVERAGE	AVVERAGE	19,782 1.648%
25	Rhode Island	Hopkinton	1,953 1.627%	24	Rhode Island	Hopkinton	18,828 1.569%
25	Rhode Island	Hopkinton	1,883 1.569%	25	Rhode Island	Hopkinton	18,828 1.569%
26	New Hampshire	Lancaster	1,864 1.553%	26	New Hampshire	Lancaster	18,640 1.553%
27	Georgia	Fitzgerald	1,789 1.491%	27	Georgia	Fitzgerald	17,890 1.491%
28	Ohio	Bryan	1,722 1.435%	28	Ohio	Bryan	17,220 1.435%
29	Montana	Glasgow	1,643 1.369%	29	Montana	Glasgow	16,433 1.369%
30	Idaho	Saint Anthony	1,632 1.360%	30	Idaho	Saint Anthony	16,316 1.360%
31	Louisiana	Natchitoches	1,618 1.348%	31	Louisiana	Natchitoches	16,176 1.348%
32	Nevada	Fallon	1,489 1.241%	32	Nevada	Fallon	14,888 1.241%
33	Utah	Richfield	1,354 1.128%	33	Arizona	Safford	13,948 1.162%
34	New Mexico	Santa Rosa	1,345 1.121%	34	Utah	Richfield	13,537 1.128%
35	West Virginia	Elkins	1,320 1.100%	35	New Mexico	Santa Rosa	13,446 1.121%
36	West Virginia	Elkins	1,299 1.083%	36	West Virginia	Elkins	13,202 1.100%
37	Alaska	Ketchikan	1,257 1.047%	37	Alaska	Ketchikan	12,995 1.083%
38	California	Yreka	1,239 1.033%	38	Kentucky	London	12,569 1.047%
39	California	Safford	1,149 0.957%	39	California	Yreka	12,395 1.033%
40	Oklahoma	Mangum	1,130 0.942%	40	Oklahoma	Mangum	11,303 0.942%
41	Tennessee	Savannah	1,028 0.856%	41	Tennessee	Savannah	10,276 0.856%
42	North Carolina	Edenton	1,004 0.837%	42	North Carolina	Edenton	10,042 0.837%
43	Alabama	Monroeville	904 0.754%	43	Alabama	Monroeville	9,044 0.754%
44	Wyoming	Worland	902 0.751%	44	Wyoming	Worland	9,018 0.751%
45	Oregon	Tillamook	898 0.748%	45	Oregon	Tillamook	8,977 0.748%
46	Arkansas	Pocahontas	842 0.701%	46	Arkansas	Pocahontas	8,417 0.701%
47	Washington	Colville	830 0.691%	47	Washington	Colville	8,295 0.691%
48	Hawaii	Kauai	770 0.642%	48	Hawaii	Kauai	7,700 0.642%
49	Virginia	Wise	717 0.598%	49	Virginia	Wise	7,173 0.598%
50	Delaware	Georgetown	509 0.424%	50	Delaware	Georgetown	5,094 0.424%

# The Mix of Texas Business Taxes and Texas Employment



Note: Data is from 2008.

Source: Texas Taxpayers and Research Association and the US Bureau of Labor Statistics.

Texas taxes are not evenly distributed across the economy.

Capital-intensive industries (finance, utilities, information, transportation, manufacturing, and mining) account for roughly 68 percent of all business taxes paid, yet account for only 28 percent of the state's private sector employment.

Labor-intensive industries (services, wholesale trade, retail trade, construction) account for roughly 32 percent of all business taxes, yet account for 72 percent of the state's private sector employment.

Over the previous 10 years, the services industry has accounted for two-thirds of the state's job growth.

