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Comments regarding the hearing on SB78 in the Senate Committee on Taxation at 9:30 am on Tuesday Feb 5, 2013 in Room 548S

My name is Earl Long, a Kansas Resident living in Overland Park. I am President of FairTaxKC a Kansas Corporation representing thousands of taxpayers in the Midwest. We have over 23 thousand names in our database who reside primarily in Kansas, Missouri, Iowa and Nebraska.

When Senator Brownback was running for election for the Governor of Kansas several years ago he said he wanted Kansas to be pro-growth state. He even mentioned the FairTax on some of his radio interviews. His friends sponsored a state wide Bus Tour called the NO INCOME TAX tour. His early public statements indicated he wanted the State to become a NO INCOME TAX state in order to grow the economy and create jobs.

He retained the services of Dr Arthur Laffer the Nobel Prize winner that promotes the elimination of the Income Tax. He has been to Kansas several times and I understand we have paid him something close to $100,000 to guide us in a pro-growth, pro-jobs path to prosperity. His report and public speech on August 14, 2012 at the Johnson County Community College, analyzed the performance of all 50 states regarding economic growth and jobs creation. His analysis is very clear. States that have no income tax are providing their resident tax payers with jobs and better economic out looks. States that have income taxes perform poorly when compared to the nine with no Income Tax.

FairTaxKC sought the advice of Louis Woodhill, a nationally recognized economist, who is the economic advisor to the Club for Growth and is a frequent author of Forbes Magazine On-line. We brought him to Kansas twice. He made three public appearances and analyzed the economic factors confronting Kansas. His recommendation was to replace all state income taxes with a broad based sales tax and do it now. His letter is attached.

Dave Trabert, President of the Kansas Policy Institute published an article in the Wall Street Journal on December 14, 2012 titled "States that Spend Less, Tax Less – and Grow More". Article is attached.

We have competition from Missouri, Nebraska, Oklahoma, and many other states. The Wall Street Journal published an opinion piece on January 30, 2013 titled "The State Tax Reformers" where they described this intense competitive environment.

SB78 does not indicate we are on a path to NO INCOME TAX. It indicates just the opposite. It retains the state sales tax rate at 6.3% and does not eliminate the exemptions necessary to fund the state's budget. It also has a rate schedule for both the Corporate and the Personal Income taxes that change frequently and never gets to zero. Kansas needs outside investors. Investors do not like uncertainty.

What is happening here? Promises broken and expert advice ignored? This bill does not promote economic growth and job creation. This bill supports the big government agenda we call the "Favor Factory". This bill keeps in place the very expensive government bureaucracy required to process millions of tax returns, tax credits, tax offsets, tax payments, etc. This bill also retains the PEAK and HPIP programs which allow corporations to keep the payroll deductions in their account and not send them to the State General Fund.

We the people and the members of the FairTax organization strongly recommend this bill be defeated.

Earl Long
President FairTaxKC
February 5, 2013

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Reprinted from the Wall Street Journal
December 14, 2012

States that Spend Less, Tax Less—and Grow More

States with an income tax spent 42% more per resident in 2011 than the nine states without an income tax.

By DAVE TRABERT AND TODD DAVIDSON

In the midst of a dismal recovery where every job counts, one fact stands out: States that tax less achieve better economic performance. Conventional thinking (at least within government) says that low state taxes are dependent upon having access to unusual revenue sources, but that's not it. A state could be awash in oil and gas severance taxes and still have a high tax burden if the government will not exercise restraint.

The secret to having low taxes is controlling spending, and that's exactly what low-tax-burden states do.

States with an income tax spent 42% more per resident in 2011 than the nine states without an income tax. States in the bottom 40 of the Tax Foundation's Business Tax Climate Index (which assesses business, personal, property and other taxes) spent 40% more per resident. In the American Legislative Exchange Council's "Rich States, Poor States" Economic Outlook (based on 15 policy variables), the bottom 40 spent 35% more than the top 10 states.

The data used for these analyses come from the National Association of State Budget Officers. They reflect general-fund spending, which pays for education, Medicaid, prisons, welfare and other primary government functions—and accounts for the vast majority of state tax revenues. The states with no income tax, plus those included in the Tax Foundation and "Rich States, Poor States" rankings (18 in all) are quite diverse: large, small, coastal, inland, bordering Canada and Mexico, densely and sparsely populated.

Every state has public schools, social-service programs, prisons, etc. Some just find ways to provide essentially the same basket of services at lower prices.

Does higher spending deliver higher results? Spending on public education—most states' single largest expenditure—has no relationship to outcomes. The Kansas Policy Institute report, "Removing Barriers to Better Public Education," compared each state's Current Spending Per-Pupil (from the U.S. Census) with their student cohort scores (white, Hispanic, low income, etc.) on the National Assessment of Educational Progress. Among the 20 states with the highest composite scores, there was very little difference

between the highest and lowest scores; most variances were in single digits. However, per-pupil spending fluctuated wildly, ranging from a low of $8,507 to a high of $18,126.

States that allow taxpayers and employers to keep more of their earnings are reaping the benefits. States without an income tax have significantly better growth in private sector GDP (59% versus 42%) over the last 10 years. They increased the number of jobs by 4.9% while jobs in the rest of the states declined by 2.6%. States without an income tax gained population (+5.5%) from domestic migration (U.S. residents moving in and out of states) while all other states as a whole lost 1.3% of population between 2000 and 2009.

The 10 states with the highest rank in the State Business Tax Climate Index also dramatically outperform the rest of the country. They win handily on private-sector GDP growth (61% versus 42%), gained 6.1% private jobs while other states declined by 2.8%, and gained 5.5% from domestic migration at the expense of other states, which lost 1.2% between 2000 and 2009.

The margin of victory for Rich States, Poor States' 10 best Economic Outlook states was narrower but the trends are the same—gains in jobs and domestic migration compared to losses, and stronger GDP growth.

The path to superior economic growth and job creation is clear.

Mr. Trabert is president of the Kansas Policy Institute, where Mr. Davidson is a fiscal policy analyst.

Kansas Desperately Needs Fundamental Tax Reform

Louis Woodhill

March 1, 2012

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.

THE WALL STREET JOURNAL.
WSJ.com

REVIEW & OUTLOOK | Updated January 30, 2013, 11:16 a.m. ET

The State Tax Reformers

Washington may be a tax reform wasteland, but out in the states the action is hot and heavy. Nine states—including such fast-growing places as Florida, Tennessee and Texas—currently have no income tax, and the race is on to see which will be the tenth, and perhaps the 11th and 12th.

Oklahoma and Kansas have lowered their income-tax rates in the last two years with an aim toward eliminating the tax altogether. North Carolina's newly elected Republican Governor Pat McCrory has prioritized tax reform this year and wants to reduce the income tax. Ditto for another newcomer, Mike Pence of Indiana, who has called for a 10% income-tax rate cut. Susana Martinez, New Mexico's Republican Governor, has called for slashing the state corporate tax to 4.9% from 7.6%, and the first Republican-controlled legislature since Reconstruction in Arkansas is considering chopping its tax rates by as much as half.

But those are warm-up acts compared to Nebraska Governor Dave Heineman's announcement this month that he wants to eliminate the state income tax and replace it with a broader sales tax. "How many of you have sons and daughters, grandchildren, brothers and sisters and other family members who no longer live in Nebraska because they couldn't find a job here or they couldn't find the right career here in Nebraska?" he asked. He believes eliminating the income tax—with a top rate of 6.84%—will make the Cornhusker State a new magnet for jobs.

Then there's Louisiana Governor Bobby Jindal, who wants to zero out his state's income tax (top rate 6%) and the 8% corporate tax and replace them by raising the state's current 4% sales tax. He would also eliminate some 150 special interest exemptions from the sales tax, including massage parlors, art work and fishing boats.

As an economic matter, this swap makes sense. Income taxes generally do more economic harm because they are a direct penalty on saving, investment and labor that create new wealth. Sales taxes, by contrast, hit consumption, which is the result of that wealth creation. Governors Jindal, McCrory and Heineman cite the growing evidence that states with low or no income taxes have done better economically in recent decades compared to states with income-tax rates of 10% or more.

A new analysis by economist Art Laffer for the American Legislative Exchange Council finds that, from 2002 to 2012, 62% of the three million net new jobs in America were created in the nine states without an income tax, though these states account for only about 20% of the national population. The no-income tax states have had more stable revenue growth, while states like New York, New Jersey and California that depend on the top 1% of earners for nearly half of their income-tax revenue suffer wide and destabilizing swings in their tax collections.

Att. 1 - 7

In the case of North Carolina, a new study by the Civitas Institute concludes that a tax reform that shifts more of the burden to consumption from income would increase average annual personal income growth by 0.38% to 0.66%. That's enormous over time and would lead to much higher state tax revenues. North Carolina's top income tax rate is 7.75%, which is higher than that of most nearby states that it competes with for investment. Virginia's top rate is 5.75% while Tennessee has no personal income tax.

The main challenge for these Governors will be making the political sale. Critics will call the income-for-sales-tax swap regressive because everyone pays it. Mr. Jindal is countering by exempting food, medicine and utilities from his sales tax and providing a rebate for low-income families so their tax bills would not rise. But Governors will have to trump the critics by stressing the larger economic benefits for the state.

States with big energy production, like Louisiana and Oklahoma, also have another reform option: replacing the income tax with revenues from oil and gas extraction taxes, drilling leases and royalty payments. This kind of reform makes everyone in the state a stakeholder in America's energy renaissance from horizontal drilling and hydraulic fracturing. It also helps build a political constituency for more mining and drilling.

This state reform trend is a rare bright spot in the current high-tax era, and it will further sharpen the contrast in economic policies between GOP reform Governors and the union-dominated high-tax models of California, Illinois, New York, Massachusetts and now Minnesota, where last week Governor Mark Dayton proposed a huge tax hike. Let the policy competition begin.

Att. 1 - 8