THE KANSAS CHAMBER
UNITED FOR BUSINESS

835 SW Topeka Blvd.
Topeka, KS 66612
785.357.6321

Testimony before House Tax Committee
HB 2307 – Gov's Tax Plan
Presented by Mike O'Neal, Kansas Chamber CEO
(Opposed)

March 4, 2015

Mr. Chairman & members of the Committee

On behalf of The Kansas Chamber, I appreciate the opportunity to testify in opposition to HB 2307 as introduced.

At the outset it is important to remind the Committee of our 2015 Legislative Agenda, which was approved unanimously last December by our nearly 50-member Board of Directors, who represent Kansas businesses, large and small, from all over our state. We are proud of the role we have played in helping develop tax policy for a low-tax, pro-growth Kansas economy. Specifically, we supported income tax relief in the 2012 and 2013 Legislative sessions. Lowering the state income tax continues to be a primary goal of the Kansas Chamber and Governor Brownback. We hasten to remind the Legislature, however, that **for lower taxes to be fully effective in growing and stimulating our economy, they must be accompanied by reductions in government spending**, something we respectfully suggest has not occurred to the extent necessary since the passage of comprehensive tax reform.

That point is reflected in our 2015 Legislative Agenda. Our overarching position on taxation is to reduce taxes and encourage investment and growth. We urge the Legislature to reduce the cost of doing business and will encourage efforts to: **"oppose any attempts to roll back the tax cuts of 2012 & 2013 or suspend future statutory or growth-enabled rate reductions"** and **"reduce government spending instead of increasing the cost of doing business through tax increases."**

Unfortunately, HB 2307 does, in fact, attempt to roll back some of the tax cuts of 2012 & 2013 and would suspend future statutory rate reductions. Further, other legislation being considered would actually increase taxes before fully exploring spending reductions to match tax reductions. HB 2307 contains the current statute governing the submission of the Governor's annual budget. K.S.A. 2014 Supp. 75-3721(b)(1)(A) states that the Governor's proposed budget **"…shall not include (i) any proposed expenditures of anticipated income attributable to proposed legislation that would provide additional revenues from either current or new sources of revenue; …"** In other words, the Legislature is to receive an existing resources budget. The statute goes on to provide that "(n)othing in this section shall be construed to restrict or limit the privilege of the governor to present supplemental budget messages or amendments to previous budget messages, which may include proposals for expenditure of new or increased sources of revenue derived from proposed legislation." In other words, after submitting an existing resources budget, the Governor may propose amendments that reflect his proposal for revenue increases and the expenditure thereof.

To date we have not seen a statutory existing resources budget and respectfully request that before considering balancing the budget on the backs of Kansas taxpayers, through consumption taxes, income taxes or property taxes, that full consideration be given to an actual balanced budget based on existing resources. Only after full consideration is given to that budget can the Legislature truly determine if, and to what extent, there is a short-term revenue need.

In Sec. 3, which amends this budget law, we understand the desire to strike reference to the old ending balance law, but suggest that you reinsert language prohibiting the Governor's existing resource budget from including funds in the budget stabilization fund, given the intent of reaching and then maintaining a 5% cushion.

Taxpayers who pay their taxes shouldn't subsidize those who don't. An amnesty program calculated to enhance collection of delinquent or escaped taxes has merit and precedent. The concept of a budget stabilization fund to replace the outdated ending balance law has merit. Unfortunately, it's also realistic, since the spend-down of ending balances has occurred, to capture the growth between 102% and 103% of prior year's revenues and modify the tax reduction growth trigger to make it kick in at 103%, provided it does kick in and is not amended to be left to legislative discretion.

In looking at the language of the bill, however, it appears that the way it is worded growth would have to be 102% greater than last year's revenues vs. 102% of last year's revenues. The original growth trigger law appears to be the correct version, where it speaks of 2% rather than 102%. The same error appears with regard to the 103% language.

With regard to the 3% growth trigger, we question why statutorily certain application of this trigger to reduce rates, as provided in the 2013 law, was abandoned in favor of a discretionary trigger that requires legislative enactment each time. Needless to say, we prefer the certainty of the statutory trigger given the propensity to delay or divert funds away from their intended use. This is true with regard to the march to zero and after, when corporate and other tax rates are in line for reduction.

With regard to modifying the statutory income tax rate reductions and accelerated reduction in deductibility of itemized deductions, we see these as premature since there has not been a full exploration of the spending side of the equation. Until and unless we see a concerted effort to address spending, the *quid pro quo* for tax relief, we must and will oppose attempts to unravel the hard-fought tax reforms of 2012 and 2013.