Testimony to House Taxation Committee
HB 2444 Taxing Pass-Through Income and Reducing Sales Tax on Food
March 15, 2016
Dave Trabert, President

Chairman Kleeb and members of the Committee,

We appreciate this opportunity to present testimony in opposition to HB 2444, which we believe would have a negative impact on economic growth and job creation.

There was no fiscal note available as this testimony was prepared, but even if every dollar of new income tax goes to reduce the sales tax on food, taxing employer productivity (income) leads to less business investment, suppresses wages and can also lead to price increases for consumers that eat into savings on sales taxes. And those are just the immediate reaction to higher income taxes on business; there can also be a dampening effect of risk-taking.

To be sure, having to pay less tax on food would free up resources for other economic activity. But some of the sales tax savings for individuals will be wiped out by smaller wage increases and slower job creation over time.

Proponents will likely skip over the implications for the Kansas economy and say that HB 2444 is about tax fairness, but we must respectfully disagree with that positioning. There certainly is a legitimate issue of fairness in not taxing pass-through income and that's one of the primary reasons that Kansas Policy Institute expressed a preference for simply reducing marginal income taxes on all taxpayers when the matter first arose in 2012.

If the purpose of HB 2444 was fairness, then all of the fairness issues would be under consideration, including but not limited to:

- KPERS retirees have been exempt from paying income tax on the majority of the pensions for decades. Indeed, an exemption was added in 2013 for retirees of Overland Park police and fire (see exemption xxiii on page 9 of the bill). Private sector employees are fully taxed on their retirement income.
- Commercial and Industrial real estate is taxed at 117% of the effective tax rate on residential real estate, and some real estate is exempt from paying property tax.
- Reversing course on those who moved their families and businesses here as a result of tax reform is certainly not fair to them.

- HB 2444 itself contains pages of exemptions from sales tax.

- Local and state government routinely waive property and sales taxes for select businesses in the name of economic development, which puts their competitors at a disadvantage and causes everyone else to pay more for the ever-growing cost of government.

Much rationale for the existence of these and other examples have been expressed but 'fairness' is not among them.

It's been said that HB 2444 is about closing a 'loophole' in the tax law but not taxing pass-through income was a deliberate, transparent and indeed highly promoted aspect of the 2012 tax reform plan. The extent of its impact may have been greater than anticipated but its existence is by no means a 'loophole.'

In our opinion, HB 2444 is not about fairness or loopholes, but for the record, we would welcome a thorough examination of all of the exemptions and exceptions to paying taxes for the purpose of broadening the base and reducing rates on everyone. To do so with just one issue, however, is neither fair nor beneficial to the Kansas economy.

We oppose HB 2444 and urge you to do so as well.

Kansas gains new high-income residents

March 12, 2016

A new study from Center on the American Experiment shows that Kansas had positive net migration of households with incomes above $200,000 in 2014. Author Peter J. Nelson analyzed IRS migration data of all 50 states for 2012 through 2014 in his report, which also shows a very positive shift in income migration for Kansas since income tax reform was enacted effective with the 2013 tax year.

Kansas had a small net out-migration in 2013 but was much improved over the prior year, moving from the 35th ranked state to the #24. Migration turned positive in 2014 and Kansas moved up to #17.

Net Income Migration Rate for Taxpayers Earning More than $200,000

State	2011 to 2012		2012 to 2013		2013 to 2014	
	Rate	Nat. Rank	Rate	Nat. Rank	Rate	Nat. Rank
Kansas	-0.72%	#35	-0.06%	#24	0.56%	#17
Missouri	-1.14%	#41	0.04%	#21	-0.39%	#24
Nebraska	-0.24%	#22	-0.67%	#39	-1.23%	#46
Oklahoma	0.04%	#18	-0.08%	#25	-0.52%	#29
Colorado	1.24%	#9	0.63%	#17	0.68%	#16
Iowa	-0.12%	#20	-0.04%	#23	-0.69%	#35
Arkansas	-0.64%	#34	-0.17%	#28	-0.09%	#19

Source: Minnesotans on the Move to Lower Tax States 2016, Table 4

The IRS migration data was temporarily offline as this was written, but a deeper analysis will be published here once the data becomes available.