



February 6, 2017

Testimony in Opposition of HB 2237

Chairman Johnson and Members of the Committee:

On behalf of Americans for Prosperity activists across Kansas, thank you for this opportunity to voice our opposition to HB 2237. Starting the 2017 Legislative session with a \$820 million tax increase, including a \$250 million retroactive increase, will send a message to Kansas businesses and wage earners that state spending is a higher priority than job growth.

The tax reforms passed in 2012 gave tax relief to Kansas families, and incentivized small businesses. The results are clear: 2016 saw more Kansans employed than any time in our state's history. The unemployment rate has remained below 4.5% for more than two yearsⁱ. Kansas has been setting records for number of new businesses.

As recently as last Friday, a Wichita Eagle story titled "Kansas Grows 3.9 Percent in Third Quarter, Beats Country" reported that Kansas ranks 15th in the nation for economic growth for the quarter. The story went on to report that "Kansas has grown faster than the country as a whole in the first three quarters of 2016ⁱⁱ."

Personal Income Taxes

HB 2237 will raise income tax rates for Kansans. Since the changes do not take effect until the 2018 tax year, this bill will have negligible effect on the FY17 and FY18 budgets. An individual reporting an income of \$50,000 in 2018 will receive a tax bill 31% higher than 2017. A married couple, each earning \$45,000 will owe an additional \$1080 in 2018, a 30% increase.

The bill does provide the window dressing of a tax cut. An individual reporting income of \$40,000 or less will have a \$15 tax reduction in 2018. Joint filers reporting \$80,000 or less will have an extra \$30 to spend each year, unless they drive a car.

Motor Fuels Tax

The current Kansas Motor Fuels is 4 cents higher than the national average and 7 cents higher than both Missouri and Oklahoma. HB 2237 would raise the Kansas tax on gasoline by 11 cents per gallon. This would place Kansas well into the top ten highest gasoline tax states.

An 11 cent increase would cost a Kansan purchasing 20 gallons of gasoline a week \$114 more a year. That's on top of the \$249 she is already paying annually for the Kansas motor fuels tax. The total tax bill for fuel tax of \$364 a year.

In 2011, President Obama clearly identified the impact of increasing fuel costs. "Businesses see rising prices at the pump hurt their bottom line. Families feel the pinch when they fill up their tank. And for Americans that are already struggling to get by, a hike in gas prices really makes their lives that much harder. It hurts."ⁱⁱⁱ

Small Business Taxes

This \$250 million tax increase^{iv} will reverse the progress that Kansas has made toward reducing the income tax burden on Kansas small businesses and farms. In a time when job growth from traditional C-Corporations has been relatively flat, the pass through entities affected by this bill have hired tens of thousands of Kansans.^v

Not only is this a substantial tax increase for Kansas small businesses, HB 2237 applies the tax increase retroactively. Kansas businesses, including businesses that have recently relocated to Kansas, have relied on existing policy. Such retroactive tax increases will cause long term damage to Kansas' reputation as a low tax state with stable tax policy.

The changes to Kansas individual income and small business tax policy contained in HB 2237 would not only set the Kansas economy back, but miss the underlying problem in state finances: Long term spending growth.

The Kansas Legislature used the bulk of the 2015 and 2016 Sessions to consider additional sources of revenue to fix a perceived 'budget shortfall', without first seriously considering a budget to reduce overall state spending.

Kansas has added thousands of new businesses, and tens of thousands of new jobs. The 2012 tax reforms are benefitting Kansas businesses, and the Kansas job market. Now is not the time to place a \$820 million tax on the source of Kansas job growth, increase income taxes on wage earners and reverse the progress made by the 2012 tax reform package.

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ⁱBureau of Labor Statistics. January 2017.

ⁱⁱ <http://www.kansas.com/news/business/article130290719.html>

ⁱⁱⁱ Remarks by the President on America's Energy Security, Georgetown University, March 30, 2011.

^{iv} KSHB News "Kansas lawmakers to repeal LLC tax exemption" January 9, 2017.

^v kansaspolicy.org, "Pass-Through Entities Drive Job Growth in Kansas" October 31, 2016.