



Kansas Economic Progress Council
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Testimony on SB 147
Senate Assessment and Taxation Committee
Bernie Koch, Kansas Economic Progress Council
February 6, 2017

Senator Tyson and members of the committee, thank you for the opportunity to give testimony on Senate Bill 147. I am Bernie Koch with the Kansas Economic Progress Council, a not for profit membership organization of businesses and individuals interested in advancing sound public policy in Kansas to enhance our state's quality of life.

It is evident that the 2012 and 2013 Kansas income tax changes went too far and resulted in severe cuts that impact the ability of government at the state and local levels to provide very basic services necessary to the health of the economy and the well-being of its citizens. Even with the revenue adjustments made in 2015 and 2016, the Kansas budget remains unbalanced.

KEPC supports revisiting the income tax cuts and restoring what Kansas once had in the way of services and a fair, stable, and balanced tax structure. We support efforts to balance the current fiscal year budget and work on balancing the unbalanced structure of our tax system.

We believe this bill is a good start. It restores some of the income tax rate reductions and ends the business income tax exemption.

We think it needs to go farther. We support ending the March to Zero, the trigger mechanism that automatically reduces income taxes beginning in 2019 when revenues exceed two and a half percent.

The idea of shifting the burden of state government finance from income to sales taxes was flawed.

Sales lost to the internet are growing much faster than expected. Most fail to capture sales tax. Our combined local and state sales tax may be influencing consumer behavior.

The decision was made in 2012 without adequate consideration of whether the sales tax could support the burden and especially the affect of the sales tax on business in Kansas.

45 percent of all sales tax collected in Kansas is paid by business on business inputs. That information comes from the Council on State Taxation, or COST.

COST says 45 percent of all sales tax collected in Kansas in Fiscal Year 2014 amounted to 1.6 billion dollars. That was paid by business. That's not what business collected for the state on sales. It's what businesses paid on business inputs, on what they purchased to run their businesses.

Government stability in revenue and services is a strong foundation of business growth. We support a return to income tax to balance our revenue streams.

Thank you for your consideration of our position on Senate Bill 147.

What grows the economy?

The Kansas Economic Progress Council recognizes there are common components of economic growth which are broadly supported by respected empirical studies. State governments have the ability to affect five of these elements.

The **investment rate** in plant and equipment, including efficient physical and communications infrastructure, has a strong positive impact on growth. The higher an economy's capital intensity (machines, buildings, roads, bridges, etc.) the more prosperous the economy.

Human capital and the efficiency of labor have also been shown to be significant to growth. Measures of human capital include the literacy rate, school enrollment ratios, and labor demographics.

Linked to investment and human capital, there is substantial support for the contribution of **continuing technological innovation and improvement** in sustaining economic growth. This suggests that support for research and development and education is important.

Public policy which supports **economic freedom** through open economies supports higher growth rates.

Reliable legal systems are a significant basis for economic growth. These systems provide dependable enforcement of private contracts, protection of private property rights, effective law enforcement, and an absence of corruption.

Total Effective Business Tax Rate – FY 2015
From the Council on State Taxation

11.5%	North Dakota
8.9	Alaska
7.3	Wyoming
5.4	Nevada
5.4	Washington
5.2	Florida
4.9	Texas
4.7	<u>Kansas</u>
4.7	Oklahoma
4.6	South Dakota
4.7	Tennessee
4.3	Nebraska
4.1	New Hampshire
3.5	Missouri
3.4%	Colorado, Oregon, and Connecticut

U.S. Average 4.6%

Summary for KANSAS Based on Recent COST Scorecards and Studies*

Property Tax Administration Overall Grade: C

- Transparency: C
 - Property tax laws are on a centralized website but not the regulations
 - Internet document explaining property tax system is very limited
- Simplicity & Consistency: C
 - Assessment ratios vary greatly by type, from 11% to 33% of fair market value
 - Annual appraisal cycle with physical inspection every six years
 - Intangible property is not exempt
- Procedural Fairness: D
 - Interest on underpayments is 4-6%, interest on overpayments is 2-6%
 - Appeal period is 30 days for real property and 14 days for personal property
 - Property tax litigation over expansion of real property definition (personal property being phased out)

State Tax Administration Overall Grade: A-

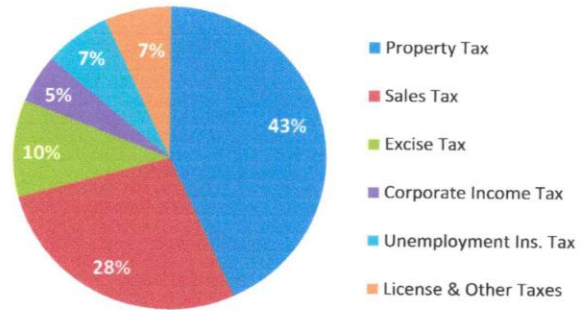
- 125% bond is required when appealing a COTA decision
- No definition of final determination

Unclaimed Property Statutes Overall Grade: B+

- Unclaimed property statutes do not address appeals
- Contingent fee audits are not banned
- Penalty for failure to report is \$100 per day; for failure to pay, 25% of the property value; willful failure to pay is a Class B misdemeanor with up to 6 months imprisonment

FY14 State and Local Business Tax Burden (\$billion)

Type of Business Tax	Kansas
Property Tax	2.5
Sales Tax	1.6
Excise Tax	0.6
Income Tax (Corporate and Individual on Business Income)	0.3
Unemployment Ins. Tax	0.4
License & Other Taxes	0.4
Total Business Taxes	5.9
Total Effective Business Tax Rate (TEBTR)	4.7%



Sales Taxation of Services and Business Inputs Study

- Estimated percentage of state and local sales taxes imposed on business input purchases: **45%**

State and Local Business Tax Competitiveness Index

- Weighted Capital Investment Rank: **48**
- Jobs Rank: **48**

* COST Scorecards

[The Best and Worst of International Property Tax Administration Scorecard – September 11, 2014](#)

[The Best and Worst of State Tax Administration – December 16, 2013](#)

[The Best and Worst of State Unclaimed Property Laws – October 2, 2013](#)

COST Studies

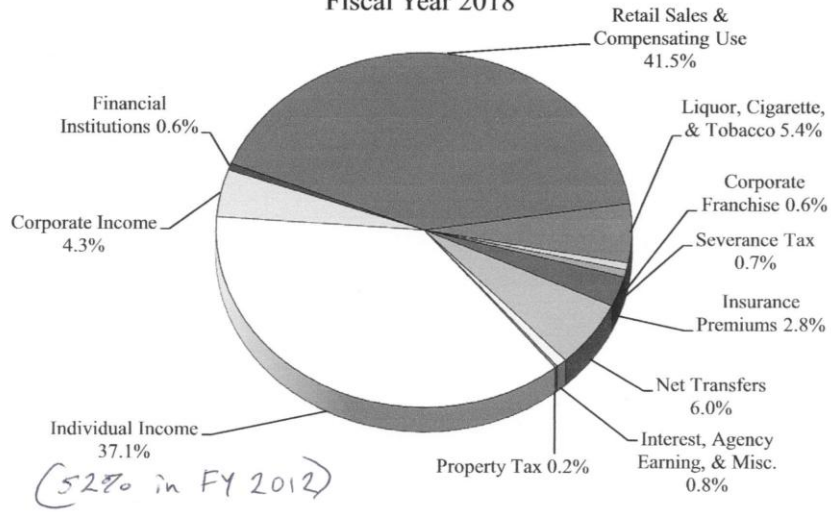
[FY14 State and Local Business Tax Burden Study – November 2015](#)

[Sales Taxation of Services and Business Inputs Study – April 4, 2013](#)

[Competitiveness of State and Local Business Taxes – April 20, 2011](#)

Where State Dollars Come From

State General Fund
Fiscal Year 2018



Where State Dollars Go by Function

State General Fund
Fiscal Year 2018

