WICHITA METRO CHAMBER OF COMMERCE

February 14, 2012

Mr. Chairman and Members of the Committee,

On behalf of the Wichita Metro Chamber of Commerce and our nearly 1,600 member businesses, thank you for the opportunity to testify in support of SB 339. We are supportive of SB 339 as we believe it moves the state of Kansas towards a more competitive and productive business environment through a more reliable and efficient tax structure.

The Wichita Metro Chamber of Commerce's number one objective is to enhance economic prosperity for our members. As you are well aware, achieving prosperity has been a rather difficult endeavor in recent years. The South-central region of Kansas, in which the majority of our members operate their businesses, has been especially hard hit by the recent economic recession. The downturn has resulted in high unemployment, business closures, and reduced wages for workers. In addition, we are extremely troubled by the fact that many of our manufactures have either moved or expanded their operations in states other than Kansas. As we pursue our objective of enhancing economic prosperity for our members and our region, we have undoubtedly come to the conclusion that while the "Great Recession" has had a devastating impact on our regional and state economies, so too have issues of competiveness with other states.

One has to look no further than to our neighbor, Oklahoma, to see how an aggressive and innovative approach to tax policy and economic growth impacts jobs, state GDP and overall prosperity. Wealth and jobs are being created in Oklahoma as its economy expands. People, as well as firms, are moving to Oklahoma. Boeing, which has long been a major employer and significant driver of the Kansas economy, is not expanding in Kansas. In fact, Boeing is closing its Wichita operations. Make no mistake, Boeing, as an international firm, is not decreasing its overall business operations; they are growing and expanding, but in states like Oklahoma, Texas, and Washington rather than Kansas. Spirit AeroSystems, which at one time was the largest employer in Wichita, has also expanded in Oklahoma and South Carolina.

Certainly, incentives have played a role in Oklahoma's success, but so has tax policy. Oklahoma led the nation in state GDP growth in 2009 with a 6.6% increase (Kansas declined -1.1%). Over the last decade Oklahoma has increased its population while Kansas has seen a decrease. This is a pattern we actually see nationwide. People are voting with their feet; leaving high tax states and moving to low tax states. Low tax states are outpacing high tax states in income, population growth and growth in state receipts. However, people for the most part, are not moving in an effort to avoid taxes; they are seeking jobs and personal prosperity. Simply put, people are going where the work is and the work is in states with low taxes that are thereby attracting employers.

While firms have an obligation to their employees and the communities in which they operate, they also have an obligation to their shareholders and members. The market demands that firms produce goods and services at the lowest cost in order to maximize profits and returns to shareholders and members. Taxes are a cost driver and in this ultra competitive era where capital is difficult to acquire and an annual profit and loss statement may be the difference between survival and demise, everything must be on the table. Companies are being forced by market pressures to relocate and expand operations in states that extract the least amount of taxes from their operations and provide the best opportunity for the

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maximization of profits. This is a winning situation for the company, the employees and the state that provides this type of environment.

Kansas has long recognized that taxes are a key factor in efforts to attract capital investment, jobs and industry. Were that not the case, we would not have the various tax credits, rebates, and abatements that we offer certain industries. If issues of taxation are important to the bottom-line of the film industry or a plastics firm or some other type of manufacturer, then would they not be important in the decision making process of most all other firms that could employ Kansans?

SB 339 would reduce personal income taxes and over a period of time could eliminate it altogether. We believe are confident this would lead to job creation and a more vibrant economy in Kansas. We also believe that this legislation would create a more efficient and productive system of taxation that incentivizes production from both firms and individual citizens. Taxing the efforts of the individual worker for his own production leads to a less productive workforce and creates issues of tax avoidance; neither of which are beneficial to our business environment or our state's general fund. Peter Ferrara, writing for *Forbes,* summed it well recently saying "Income taxes are the most economically destructive of all taxes. That is because income levies tax directly the reward for work, savings, investment, and entrepreneurship. With the reward reduced, the incentive for pursuing these economically productive activities is reduced. The result is less work, less saving, less investment, fewer new businesses, less business growth, less job creation, lower wages and income, and lower overall economic growth. Higher marginal tax rates reduce these incentives more. Lower marginal tax rates reduce these incentives less. A marginal tax rate of zero, as with no income tax, maximizes these incentives, at least as far as the burden of income taxes is concerned."

To a great degree, the same holds true for pass through taxation on S corporations and LLCs. The income tax encourages firms to use debt finance, rather than equity. Debt finance makes companies riskier. But because payments on debt are tax deductible, and dividends are not, companies have a strong incentive to use debt rather than equity finance. The deductibility of debt payments also lowers the required rate of return for new projects, possibly encouraging companies to invest in marginal ideas that aren't really worth it. Without the income tax giving them a percentage reduction on their interest payments, they might think twice. Do you think any CEO or board chairman or small business owner has a significant desire to pursue risky behavior? Absolutely not. We incentive companies to be risky by levying an income tax.

One would have to search far and wide to find a Kansan that does not desire an economically vibrant state. In addition, Kansans also want a state government that meets the needs of citizens in the areas of infrastructure, public safety, education and safety nets for the less fortunate. These two desires cannot be mutually exclusive, as a vibrant economy needs certain protections and assurances from government, and government needs a vibrant economy with profitable firms and citizens in order to provide those essential services. The two should never be pitted against the other. Rather, policymakers should strive to create a system of taxation and economic policy that creates economic vitality while also providing the necessary funding for state government. SB 339 accomplishes this goal and we urge your support for this legislation.

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