Kansas Senate Tax Committee Testimony – Dennis W. Lauver – 3.12.12

This past Friday evening, my wife and I went shopping with our 14 and 9 year old sons. The "quality family time" experience cost us $215.

We went to Kohl's and Wal-Mart in Salina. At Kohl's, we purchased dress shorts for the boys to wear plus other summer clothing, including several shirts for our nine year old. Our 14 year old insisted he needed a hat. At Wal-Mart, we bought several boxes of cereal, bananas, milk and more food. We also bought something related to the Xbox game system in our basement. We got a combination compass/whistle/thermometer and a waterproof container to hold matches (my older son & I went camping Saturday with our Boy Scout troop – slept outside without a tent).

My point is this: it is likely a wheat farmer in Kansas provided the raw material for the shredded wheat cereal, Coleman's name was on the waterproof match container and we contributed a little bit to the wages of someone at Kohl's and Wal-Mart. Our spending of $215 did little to create sustained economic value for the Kansas economy nor did it really help create premium high wage jobs. We are like most Kansas families, very little of what we buy and consume is made in Kansas.

The Governor's proposal and House sub for Senate bill 177 would both provide the average tax filer just a little more income tax relief than my family spent Friday.

There is "a better way to cut taxes" It may not be politically correct to say this but "people and employees do not create jobs, employers create jobs." The tax code should encourage payroll and capital investment. Tax policy should encourage businesses that make stuff to locate in Kansas instead of a tax policy that will likely encourage people to buy things like my family did – things that are all too often not made in Kansas.

Switching to a single factor sales formula is a proven and solid first step toward the better way to cut taxes. In 2014, 37 percent of Americans will live a state with single factor sales formula. These are the states with the most job growth. Only 9 percent of Americans live in states with the system used in Kansas. These are the states that are not growing. In his interview with The Salina Journal in February, Dr. Arthur Laffer agreed that my criticism of his work was valid (I have the same criticism of the Tax Foundation's methodology); as an economist, he fails to account for the difference between tax RATES and tax BURDEN. Iowa and Minnesota have higher RATES than Kansas. Yet, the same firm in Iowa will pay 227 percent less income tax than one in Kansas because "it is not able the rate, it is about how the rate is applied." In 2014, Minnesota switches to a single factor sales formula, thus the same firm in Minnesota will pay 8 percent less in taxes than a similar firm in Kansas. Cutting the rates alone will not create promised results. Senate Bill 457 will drive down the tax burden for those with property and payroll in KS. It merits approval by the legislature and the Governor.

Sn. Assmnt & Tax
3-12-12
Attachment # 5

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In regards to SB 458, I am a native of Kansas who graduated from high school in Minnesota. I drove through South Dakota to attend college in Iowa and I have seen the way South Dakota transformed itself by targeting financial services by targeting its tax code to appeal to a certain high wage business sector. The approach of targeting Bioscience is an excellent idea to encourage businesses who make stuff…as opposed to a tax policy that will help people like my family buy more stuff – that isn't made in Kansas.

I want to make one other point: the 457 and 458 package of proposals also merits approval because what they do NOT do: the proposals do not undercut the funding source of PEAK, which is a strong and effective tool for job creation and capital investment. Within the past month, we announced a factory is adding a minimum of 100 new premium wage manufacturing jobs in Salina. PEAK was critical to adding over $4,000,000 of annual payroll to the Salina economy. The first 24 PEAK projects in Kansas created $226,095,892 of payroll and $99,233,320 of capital investment. The first 3,871 new jobs created via PEAK had an average wage of $59,861.

Likewise; these bills not undercut Kansas' solid transportation system. SB 457 and SB 458 do something that Kansas has not previously done: leverage a properly funded transportation plan together with a tax policy that will encourage payroll and property.

We believe the idea targeting of employers with S Corporations and LLC's to grow is also good tax policy. We support allowing small business owners to retain non-wage profits and to invest those funds back into their business and to create jobs.

In closing, we think a tax policy that protects PEAK plus eliminating the disincentive to have property or payroll Kansas is the right approach. This will better position Kansas for growth because it will match our quality transportation system with a better tax policy than the status quo and a more growth oriented approach that what is proposed in alternative bills – thus it becomes the better way to cut taxes.