



## Testimony to Senate Assessment and Taxation Committee

### SB 78 Income Tax

January 30, 2013

Dave Trabert, President

Chairman Donovan and members of the Committee:

We appreciate this opportunity to present testimony on SB 78. Our position on this legislation is 'neutral.' We fully support efforts to further reduce, and hopefully eventually eliminate, the income tax. Doing so may require a small sales tax increase in the future, but it is not necessary to increase the sales tax rate in order to implement tax reform passed in 2012.

For the same reason, we are opposed to the elimination of the mortgage interest deduction and the property tax deduction. Governor Brownback and the 2012 Legislature passed bold income tax reform that will foster economic growth and job creation. SB 78, on the other hand, reduces the amount of tax reform by more than 50%.

The secret to having a low tax burden or functioning without an income tax is to keep spending under control, and that's exactly what those states do.

2012 State Spending Per- Resident (budget)		
State Grouping	Amount	Variance
No Income Tax	\$2,604	
Income Tax	\$3,764	45%
Lowest State/Local Tax Burden	\$2,784	
Highest State/Local Tax Burden	\$4,022	44%
Best Business Tax Climate	\$2,639	
Worst Business Tax Climate	\$3,896	48%

*Source: National Association of State Budget Officers, Tax Foundation, Census Bureau; State & Local Tax Burden and Business Tax Climate compares ten best states to the ten worst states as ranked by The Tax Foundation.*

All states have the same basket of essential services, but those that find ways to provide services at a better price are reaping the rewards of economic growth and job creation.

	10 Lowest Burden States	10 Highest Burden States	Kansas
Private sector jobs ('98-'12)	12.2%	4.1%	1.6%
Wages & Salaries ('98-'11)	70.7%	58.7%	52.1%
Domestic Migration ('98-'11)	3.5%	-4.3%	-2.7%
Private sector GDP ('98-'11)	92.5%	66.9%	65.6%

Source: Bureau of Labor Statistics, Census Bureau, Tax Foundation, Bureau of Economic Analysis

Some people falsely assume that the secret to having a low tax burden or eliminating an income tax is having unusual revenue sources like oil or tourism revenues, but that's not the case. States could be awash in unusual revenue and still have a high tax burden if they spent more. States like Texas and Florida have a low tax burden because they keep spending under control.

2012 State Spending Per- Resident (budget)		
States	General Fund	Total
Kansas	\$1,857	\$3,713
Texas	\$1,695	\$2,310
Florida	\$1,199	\$2,238
Missouri	\$1,318	\$2,628
Oklahoma	\$1,315	\$3,239
New Hampshire	\$969	\$2,555
Nevada	\$1,125	\$2,019

Source: National Association of State Budget Officers (NASBO)

Our dynamic analysis of the tax reform passed in 2012 shows that only a one-time spending adjustment of about \$186 dollars per-resident is needed to have balanced budgets and a 7.5% ending balance. To put that in further perspective, state government need only operate about 8.5% more efficiently...and would still be a high-spender compared to many states.

Instead of unnecessarily raising sales tax or taking away income tax deductions for home mortgage interest and property taxes, we believe state government should avail itself of

multiple opportunities to reduce the cost of government. We also state government should stop giving away taxpayer money in the name of economic development.

Regardless of how the state tax scheme is devised, state sales and income tax rates will be higher than necessary until the cost of government services is reduced through multiple efficiency opportunities and crony capitalism is eliminated.

Finally, we believe the percentage of sales tax that is transferred from the General Fund to the state highway fund should remain at its current level of 11.233%. A little-known provision of previous legislation will cause the allocation to increase to 18.421% on July 1, 2013. SB 78 proposes to scale that allocation back to 16.67%. Media reports indicate that Secretary King is finding many ways to increase efficiencies. Until an efficiency audit indicates that Transportation needs more revenue, the General Fund should not be depleted; given Secretary King's record, the amount of sales tax needed to be transferred could actually decline.