

Thursday, January 19, 2017

Mister Chairman and members of the committee, my name is Eric Stafford, Vice President of Government Affairs for the Kansas Chamber. The Kansas Chamber appreciates the opportunity to testify in opposition to House Bill 2023 which repeals the small business tax cuts from 2012.

***Historical Perspective on 2012 Tax Plan***

The legislature has many new faces and we believe it is important to offer a historical perspective as to why the Kansas Legislature chose to cut taxes in 2012. Prior to the passage of HB 2117, Kansas ranked 35<sup>th</sup> and 37<sup>th</sup> in our Business Tax Structure and Business Tax Burden in our Annual Competitive Index which measures 80 metrics against our peer states. Kansas had been doing a lot of things well, but our tax policy remained one of the most uncompetitive in the nation.

- From 2000-2009, only nine states had more OUT-migration of taxpayers than Kansas.
- Fewer Kansans held private sector jobs in 2011 than in 2001.
- SGF spending increased \$2 billion from 2003-2008.

Using data from the IRS, author Travis Brown reviews migration data in his book *How Money Walks*. Of note between 1995 and 2010:

- The nine states with no income tax gained \$146.2 billion in working wealth.
- The nine states with the highest personal income tax rates lost \$107.8 billion.
- The 10 states with the lowest per capita state-local tax burdens gained \$69.9 billion.
- 10 states with the highest per capita state-local tax burden lost \$139 billion.

In 2011, Kansas ranked 35<sup>th</sup> in the nation in the Tax Foundation state business tax climate. We now rank 22<sup>nd</sup> thanks to the reforms passed in 2012. Corporations saw no relief in the 2012/2013 tax reform and ranks 39<sup>th</sup> today. As the data shows above, our tax climate has, before 2012, been very uncompetitive. Those reforms helped move Kansas from the bottom tier of rankings to the upper-middle section of states.

According to the Tax Foundation's Facts and Figures most recent data available, the per capita state-local tax burden in Kansas ranks 22<sup>nd</sup> highest at \$4,131. While tax policy is not the only factor for a business decision on where to locate, it is without a doubt an important factor as the migration data shows.



*The Kansas Chamber, with headquarters in Topeka, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to do business. The Chamber represents small, medium and large employers all across Kansas.*

### ***Tax Reform***

The legislature chose in 2012 and 2013 to take steps to improve the tax climate of our state through elimination of income taxes on small business income, a reduction in personal income tax rates and adoption of a growth trigger which brought down income taxes when state receipts exceed 2% (has since been modified to 2.5% excluding KPERS contributions).

Just last week, this committee heard testimony from the Kansas Legislative Research Department on a variety of tax proposals. Specifically, fiscal notes were provided on plans which repealed the 2012 tax cuts in their entirety, with slightly modified tax rates compared to previous law. The first proposal raised income taxes by \$2.7 billion over five years, the small business component accounts for roughly \$200 million annually. The rest of the tax relief went to individual taxpayers. We bring this up simply for the knowledge of the committee that over 71% of the tax relief went to individual taxpayers. The small business tax cuts are not the cause of the state's budget deficit.

Each year as part of our legislative agenda development process, the Kansas Chamber commissions a poll of 300 business leaders from across the state, representative of industry make-up, size of employer, and geographical representation of businesses across the state. While the results were in fact split on whether or not to repeal the small business taxes, what the legislature should do with that money was not. 71% said to either keep the tax cuts in place or if repealed, use the revenue to lower other taxes. Only 15% of respondents said the state should use the money for additional government spending. Taxes remain a top concern to the business community, along with uncontrollable health care costs.

### ***Finding Further Efficiencies***

For the past two years, we have stood before this committee in opposition to legislation which rolled back the commitment made in 2012 to eliminate income taxes on small businesses, as well as opposed other tax increases. We argued last year for the legislature to find further efficiencies which results in savings instead of making Kansas a more expensive place in which to own and operate a business.

The answer of possible savings through efficiencies has been presented in the A&M study from 2016, suggesting 105 recommendations that could save the state over \$440 million per year over the next five years. The legislature might not believe that every recommendation is a good one. But if some of the biggest cost-saving recommendations are adopted, Kansas could save at least \$200 million per year through a variety of more efficient delivery methods for essential state services. We would suggest the legislature take action on recommendations from the efficiency study before coming back, again, to increase taxes on taxpayers in our state.

We will close by saying we are extremely disappointed that we are having this debate again after the legislature passed a tax increase in 2015 to address the budget shortfall from that fiscal year. There are outside economic indicators that are impacting the budget outside of tax cuts, such as the sharp drop in the price of oil and ag commodity

prices. Again, we encourage you to review, debate the merit, and adopt recommendations from the efficiency study and consider cost savings before looking to pass the largest tax increase on businesses in this state's history.

Thank you for the opportunity to testify in opposition to HB 2023 and I am happy to answer any questions at the appropriate time.