Senate Committee on Assessment and Taxation
Opposition to Senate Bill 175- *Governor's Tax Plan*
Presented by Eric Stafford, Vice President of Government Affairs

THE KANSAS CHAMBER
UNITED FOR BUSINESS

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Madam Chair 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 Senate Bill 175 which includes numerous tax increases proposed by Governor Brownback in an effort to balance the budget.

Specifically, SB 175 includes the following tax increases:

- Taxing passive income including rents/royalties
- Increasing the annual filing fee from $40 to $200 on for-profit entities
- Increasing the cigarette tax $1.00 per pack
- Increasing taxes on tobacco products from 10% to 20%; and
- Increasing liquor enforcement tax from 8% to 16%

Collectively, these increases would generate $180 million next year. Many in this legislature continue to target income taxes as a source of revenue to grow state spending. On top of a potential $200 million repeal on the backs of small businesses, SB 175 proposes to generate $33 million through fee increases.

Within the Kansas Chamber is the Kansas Retail Council which focuses on issues impacting the retail industry in our state. According to 2014 data from the National Association of Convenience Stores, tobacco products and cigarettes accounted for 37.4% of all in-store sales. Beer accounted for 7.7% of sales (in Kansas convenience stores remain at a bigger disadvantage due to outdated liquor laws). According to a recent study released by the Tax Foundation last month, Kansas ranked 20th highest for percentage of cigarettes smuggled into the state. The report reads:

"Public policies often have unintended consequences that outweigh their benefits. One consequence of high state cigarette tax rates has been increased smuggling as people procure discounted packs from low-tax states to sell in high-tax states."

Before increasing taxes on products that are readily available across state lines for lower cost, we would urge this committee to proceed cautiously and consider the negative economic impact on the businesses impacted by uncompetitive tax rates.

As stated before this committee on previous proposals to raise taxes, we believe this legislature should focus on adopting efficiencies from the A&M study and others to achieve cost savings rather than increasing taxes. Historical spending in our state has far outpaced the rate of inflation. Had spending been held reasonably in line with inflation, we would not be having this discussion today.

Two-thirds of states are facing budget shortfalls for various reasons. Not all of those states have cut taxes like Kansas, although some have. We believe outside factors in the Kansas economy have kept revenues down. Those lagging sectors along with a revenue estimating process that had missed revenue projections 33 out of 46 months are why Kansas faces a budget deficit this fiscal year.

The administration has taken steps to correct the estimating process and now has hit projections three consecutive months which is a positive sign that the legislature can build a budget based on a more realistic revenue picture, rather than one that has caused repeated budget shortfalls. We give this background simply to point out that a lack of tax revenue is not the problem. Spending was established based on what the legislature thought it would receive, rather than what it actually brought in.

Thank you for the opportunity to testify in opposition to Senate Bill 175, and I am happy to answer any questions the committee may have at the appropriate time.