

MINUTES OF THE SENATE ASSESSMENT & TAXATION COMMITTEE

The meeting was called to order by Vice Chairman Pat Apple at 10:30 a.m. on March 16, 2011, in Room 152-S of the Capitol.

All members were present except:

Chairman Les Donovan – excused

Committee staff present:

Gordon Self, Office of the Revisor of Statutes

Scott Wells, Office of the Revisor of Statutes

Chris Courtwright, Principal Economist, Kansas Legislative Research Department

Mary Jane Brueck, Committee Assistant

Conferees appearing before the Committee:

Bernie Koch, Kansas Economic Progress Council

Others attending:

The meeting was opened by Vice-Chairman Pat Apple. He asked if there was any objection to re-opening the hearing on **Substitute for SB 95 – concerning taxation; relating to income tax rates, adjustment, procedure and requirements; sales and compensating use tax rates and distribution.** Vice-Chairman Apple explained Bernie Koch did not realize this bill was being heard yesterday, because the wrong short title was printed in the Senate Calendar. There was no objection to re-opening that hearing. Vice-Chairman Apple introduced Bernie Koch, Kansas Economic Progress Council. The organization he represents businesses, trade associations, and chambers of commerce. He said he was reluctantly appearing in opposition to this bill. The people he represents are concerned that narrowing our revenue base makes the state more vulnerable to fluctuations that can be especially harmful during economic hard times. Many of the states that no longer have income taxes have other sources of income: severance taxes on the state's natural resources, sales tax on tourism and other resources we don't have in Kansas. (Attachment 1) Seeing no one else who wished to speak to this bill, Vice-Chairman Apple closed this hearing.

Chris Courtwright, Principal Economist, Kansas Legislative Research Department spoke to the committee in regard to questions yesterday from Sen. Jeff King and Sen Tom Holland questions from yesterday's meeting. He distributed information to the committee members. Option 1 concerned the question of changing the “base year” from FY 2010 to FY 2011, and making the tax year 2013 instead of FY 2012. Option 2 was in regard to leaving FY 2010 as the “base year”, but making the tax year 2013 the first eligible for income tax reductions. (Attachment 2) He gave additional information to committee members with questions, to help them understand this bill. Seeing no further questions, Vice-Chairman Apple closed today's meeting.

The next meeting will be on the call of Vice-Chairman Apple, if needed.

The meeting was adjourned at 11:12 a.m.

DATE: 3/16/11

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Kansas Economic Progress Council  
Suite 200  
212 West 8<sup>th</sup>  
Topeka, Kansas 66603

**Testimony on SB 95  
Senate Taxation Committee  
March 15, 2011**

Mr. Chairman and members of the committee, thank you for the opportunity to submit testimony on Senate Bill 95. I'm Bernie Koch with the Kansas Economic Progress Council, a statewide not for profit organization of businesses, trade associations, and chambers of commerce. We support pro-growth policies for communities and the state.

I'm reluctantly appearing in opposition to Senate Bill 95. We believe there can be a positive impact on the economy by strategically lowering taxes that affect business. However, we also know that economic growth is also affected by encouraging investment in equipment and infrastructure, supporting quality education and the attraction of skilled workers, and supporting innovation.

We are concerned that narrowing our revenue base makes us more vulnerable to fluctuations that can be especially harmful during economic hard times. That's what's happening in a many states that do not have an individual income tax or a corporate income tax.

These states often have other kinds of revenue, usually from rich natural resources. The studies on this topic that you've heard and seen don't include these factors.

**Alaska** - Alaska does not have an individual income tax, but it does have a 9.4% corporate income tax. According to the Tax Foundation, Alaska draws a nation-high 52.6 percent of its state and local revenue from a group of taxes that includes severance taxes on natural resources, stock transfer taxes, estate taxes, and fees for hunting, fishing, and driver's licenses. Alaska is the second-highest oil producing state. Our budget gap is 8.8 percent this year. Alaska doesn't have a budget gap.

**Wyoming** - Wyoming does not have individual or corporate income taxes, but like Alaska, Wyoming has rich natural resources. It's now the largest coal mining state. About 9 percent of the work force is employed in mining. 25 percent of the workforce is employed by government. That's the largest employment sector in the state. That's an important part of their economy, and they have no budget gap.

**Florida** - Florida has no individual income tax, but has a corporate income tax of 5 percent. Florida's economy is based on tourism and international trade. Florida is the top travel destination in the world.

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Attachment # L

Over 60 percent of Florida's budget is based on sales tax. They have to cut 14.9 percent from their budget to make it balance.

**Nevada** - Nevada has no individual or corporate income tax and it is in the most trouble of any state right now. It has the highest unemployment rate and the biggest budget gap, about 45 percent. Its budget relies heavily on sales tax paid by tourists and the tourists are not coming to the casinos. There's no backup revenue. Sales tax is over 48 percent of their revenue.

Here's how bad it is. The state budget director says if Nevada keeps education spending level, it will have to eliminate all other state programs and agencies to have a balanced budget.

**South Dakota** - South Dakota has no individual income tax, but it does have a state corporate tax on financial institutions

Their budget gap is 10.9 percent. Over 56 percent of their revenue comes from sales tax. The most valuable industry sector is finance, insurance, and real estate. Several large financial companies have operations located in the state, especially in Sioux Falls.

The financial service industry began to grow after South Dakota became the first state to eliminate caps on interest rates. That attracted Citibank in 1981, which moved its credit card operations from New York. That was the real spark that helped South Dakota, along with a good work force and low real estate prices.

The population is growing, but like Kansas, rural areas have declining populations.

**Washington** - The State of Washington does not have an individual income tax or a corporate income tax. The largest sector of the economy is aircraft manufacturing. That's Boeing, so like Kansas, they have been struggling. They are also home to Microsoft.

However, there are a few things you should know about Washington that you probably have not heard.

- They have something called a Business and Occupation Tax that applies to almost all businesses located or doing business in the state. It varies depending on the type of industry. It's a tax on gross income.
- Washington relies on sales tax more than any other state. It's over 60 percent of their revenue.
- Washington raised several taxes last year, including the cigarette tax by a dollar, to over \$3 a pack.

The State of Washington is dealing with an 18 percent budget gap.

**Texas** - Texas has no individual income tax or corporate income tax and you've heard studies that indicate that's why they are growing employment so fast. They led the country in employment growth last year. However, a closer look indicates over 40 percent of that growth came in three areas: natural resource production, education and health services, and government.

Texas says it has no corporate income tax, but it really does. In May of 2007, the legislature replaced the franchise tax with a gross margins tax on businesses. This year, Texas collected \$4.3 billion from this tax. That's estimated to be about ten percent of the taxes collected by the state this year.

It really is an income tax.

Mining and oil and gas are a big part of the Texas economy. It's number one in the country. Texas collected \$2.76 billion dollars in severance taxes in 2007. They also have a lot of fees and other taxes. Over 22 percent of Texas revenues come from these other taxes:

- A fee on oysters taken from Texas waters
- A petroleum products delivery fee
- An automotive oil sales fee
- A fireworks tax
- A battery sales fee that's two to three dollars per battery
- A 14 percent mixed beverage tax
- For every customer who enters a sexually oriented business, there's fee of \$5

What really surprised me were the comments of the Texas Taxpayers and Research Association, a well respected non-partisan organization that has been active for over 50 years. I'm going to quote from some of their material.

"61 percent of Texas' state and local taxes are paid by businesses – only five states are higher."

"If you are a business, Texas is a high tax state."

"Texas reliance on sales and property taxes heavily ties our tax system to the production and sale of 'goods,' placing a high tax burden on capital-intensive businesses."

Texas budget gap this year is 31.5 percent.

**Oklahoma** - Oklahoma does have an individual and corporate income tax, but they are often cited in studies as a state we ought to emulate, and this legislation is very similar to Oklahoma legislation.

Oklahoma is the 6<sup>th</sup> largest U.S. oil producer. Oklahoma collected \$1.168 billion from gross production taxes in Fiscal Year 2008. That's part of the 26 percent of Oklahoma's major tax sources that are listed as "other." Like most of the other state's I've discussed, these very rich natural resources make it easier to have lower taxes in other areas. The Oklahoma Tax Commission web site put it this way:

"It should be noted that gross production tax revenues on oil and gas constitute a substantial portion of Oklahoma's tax revenues, relieving manufacturers and other lines of business and industry from a corresponding portion of the cost of government in Oklahoma."

That's the point. These states have resources we don't have. They have different economies. I urge you to take a broader view of what impacts an economy. If these revenues are eliminated, the state will likely be relying on sales tax as its major source of funding. Without exploring what that means to future Kansas budget, this legislation appears to be premature.

Thank you for your consideration.

**Poverty rate in 2008 (Nationally 13.2%)**

U.S. Census Bureau

		Rank
Texas	16.3 %	8
Oklahoma	16.3	9
South Dakota	13.1	21
Florida	12.6	24
<b>Kansas</b>	<b>11.6</b>	<b>31</b>
Washington	11.5	33
Nevada	10.8	36
Wyoming	9.2	45
Alaska	9.4	44

**ACT Average Composite Score in 2009**

		Rank
Washington	22.8	8
South Dakota	22.0	19
<b>Kansas</b>	<b>21.9</b>	<b>21</b>
Nevada	21.5	29
Alaska	21.0	33
Texas	20.8	34
Oklahoma	20.7	37
Wyoming	20.0	44
Florida	19.5	48

**NAEP tests – US Department of Education – National Assessment of Educational Progress**

**Percent of public school 4<sup>th</sup> graders proficient or better in reading in 2007**

**National percent = 32 %**

		Rank
<b>Kansas</b>	<b>36%</b>	<b>10</b>
Washington	36	10
Wyoming	36	10
Florida	34	23
South Dakota	34	23
Texas	30	33
Alaska	29	34
Oklahoma	27	41
Nevada	24	45

**Percent of public school 8th graders proficient or better in reading in 2007**  
**National percent = 29 %**

		Rank
South Dakota	37%	5
<b>Kansas</b>	<b>35</b>	<b>13</b>
Washington	34	16
Wyoming	33	19
Florida	28	30
Texas	28	30
Alaska	27	35
Oklahoma	26	37
Nevada	22	44

**Percent of public school 4th graders proficient or better in math in 2009**  
**National percent = 38%**

		Rank
<b>Kansas</b>	<b>46%</b>	<b>6</b>
Washington	43	16
South Dakota	42	19
Wyoming	40	25
Florida	40	25
Alaska	38	29
Texas	38	29
Oklahoma	33	41
Nevada	32	42

**Percent of public school 8<sup>th</sup> graders proficient or better in Math 2009**  
**National percent = 33%**

		Rank
South Dakota	42	8
<b>Kansas</b>	<b>39%</b>	<b>13</b>
Washington	39	13
Texas	36	18
Wyoming	35	23
Alaska	33	30
Florida	29	35
Nevada	25	41
Oklahoma	24	44

## State Reliance on Major Tax Sources (2009)

States vary in their tax mix, but all depend on various major and numerous minor taxes to fund government operations. Personal income and general sales taxes serve as the principal revenue sources for many states, although some may levy only one of these taxes or, in a few instances, neither of them. A few states rely heavily on business taxes, either through a corporate income tax or some other business levy. States with extensive natural resources tend to rely on severance taxes for a sizeable proportion of total revenues. Miscellaneous taxes also play a role in overall tax performance. The following table provides information on states tax mix and its relative reliance on each.

### State Reliance on Major Tax Sources, 2009

State	General sales	Individual	Selective sales	Corporation	Property taxes	Other taxes
	and gross receipts	income	taxes	net income		
<b>United States</b>	<b>31.9%</b>	<b>34.4%</b>	<b>16.0%</b>	<b>5.6%</b>	<b>1.8%</b>	<b>10.3%</b>
Alabama	24.9%	32.1%	25.7%	5.9%	3.8%	7.6%
Alaska	X	X	4.9%	12.8%	2.2%	80.1%
Arizona	50.4%	17.4%	15.2%	5.3%	7.4%	4.2%
Arkansas	37.0%	30.0%	13.2%	4.6%	9.8%	5.3%
California	28.7%	43.9%	7.3%	9.4%	2.3%	8.3%
Colorado	24.5%	50.7%	13.5%	3.8%	X	7.5%
Connecticut	25.4%	49.3%	16.5%	3.4%	X	5.3%
Delaware	X	32.5%	16.9%	7.4%	X	43.2%
Florida	60.2%	X	23.9%	5.7%	0.0%	10.2%
Georgia	33.0%	48.5%	10.5%	4.3%	0.5%	3.1%
Hawaii	52.2%	28.4%	14.1%	1.7%	X	3.6%
Idaho	38.0%	37.1%	11.6%	4.5%	X	8.8%
Illinois	25.5%	31.4%	24.0%	9.4%	0.2%	9.5%
Indiana	41.6%	29.0%	17.8%	5.6%	0.1%	5.9%
Iowa	31.5%	38.7%	15.3%	3.8%	X	10.7%
Kansas	33.3%	40.8%	12.2%	5.5%	1.2%	7.0%
Kentucky	29.3%	34.0%	18.5%	4.0%	5.3%	9.0%
Louisiana	29.6%	29.4%	20.5%	6.1%	0.6%	13.8%
Maine	29.0%	39.3%	18.0%	4.1%	1.2%	8.4%
Maryland	25.5%	42.8%	15.1%	5.0%	4.6%	7.1%
Massachusetts	19.9%	54.4%	10.4%	9.2%	0.0%	6.1%
Michigan	40.2%	25.6%	15.0%	2.8%	9.9%	6.5%
Minnesota	25.5%	40.5%	17.4%	4.5%	4.2%	7.9%
Mississippi	46.5%	22.8%	17.1%	5.0%	0.8%	7.9%
Missouri	29.3%	46.1%	15.2%	2.7%	0.3%	6.4%
Montana	X	34.4%	22.0%	6.8%	9.8%	27.1%
Nebraska	37.6%	40.0%	12.8%	5.0%	0.0%	4.6%
Nevada	48.2%	X	29.8%	X	3.7%	18.3%
New Hampshire	X	4.6%	39.0%	23.2%	18.5%	14.7%
New Jersey	30.1%	39.2%	13.0%	8.8%	0.0%	8.8%
New Mexico	38.9%	19.2%	12.5%	4.2%	1.3%	23.9%
New York	17.0%	56.7%	14.1%	6.8%	X	5.4%
North Carolina	24.2%	46.6%	16.9%	4.4%	X	7.8%
North Dakota	25.2%	15.3%	13.9%	5.4%	0.1%	40.1%
Ohio	30.6%	34.7%	20.1%	2.2%	X	12.4%
Oklahoma	26.5%	31.2%	12.2%	4.2%	X	25.9%
Oregon	X	73.2%	10.0%	3.5%	0.3%	12.9%
Pennsylvania	28.3%	31.8%	21.9%	5.8%	0.2%	12.1%



# State Reliance on Major Tax Sources, 2009

State	General sales and gross receipts	Individual income	Selective sales taxes	Corporation net income	Property taxes	Other taxes
<b>United States</b>	<b>31.9%</b>	<b>34.4%</b>	<b>16.0%</b>	<b>5.6%</b>	<b>1.8%</b>	<b>10.3%</b>
Rhode Island	31.5%	37.2%	22.0%	4.2%	0.1%	5.1%
South Carolina	40.7%	32.9%	16.3%	3.1%	0.1%	6.8%
South Dakota	56.7%	X	24.5%	3.7%	X	15.1%
Tennessee	60.9%	2.1%	15.7%	7.8%	X	13.4%
Texas	51.6%	X	25.8%	X	X	22.7%
Utah	32.2%	42.8%	12.1%	4.5%	X	8.5%
Vermont	12.8%	21.3%	20.0%	3.5%	36.4%	6.1%
Virginia	20.8%	55.1%	13.2%	3.9%	0.2%	6.9%
Washington	61.2%	X	18.7%	X	10.9%	9.2%
West Virginia	23.2%	32.5%	23.3%	8.8%	0.1%	12.1%
Wisconsin	28.2%	42.9%	17.4%	4.3%	0.9%	6.2%
Wyoming	35.8%	X	4.7%	X	10.4%	49.1%

Source: NCSL calculations based on data from the Bureau of the Census, 2010

**TABLE 1:  
STATES WITH PROJECTED FY2012 GAPS**

	FY12 Projected Shortfall	Shortfall as Percent of FY11 Budget
Arizona	\$974 million	11.5%
California*	\$25.4 billion	29.3%
Colorado	\$988 million	13.8%
Connecticut	\$3.7 billion	20.8%
District of Columbia	DK	na
Florida	\$3.6 billion	14.9%
Georgia	\$1.7 billion	10.3%
Hawaii	\$410 million	8.2%
Idaho	\$300 million	12.6%
Illinois	\$15.0 billion	44.9%
Indiana	\$270 million	2.0%
Iowa	\$294 million	5.6%
Kansas	\$492 million	8.8%
Kentucky*	\$780 million	9.1%
Louisiana	\$1.7 billion	22.0%
Maine	\$436 million	16.1%
Maryland	\$1.6 billion	12.2%
Massachusetts	\$1.8 billion	5.7%
Michigan	\$1.8 billion	8.6%
Minnesota	\$3.9 billion	24.5%
Mississippi	\$634 million	14.1%
Missouri	\$1.1 billion	14.4%
Montana	\$80 million	4.3%
Nebraska	\$314 million	9.2%
Nevada	\$1.5 billion	45.2%
New Hampshire	DK	na
New Jersey	\$10.5 billion	37.4%
New Mexico	\$410 million	7.6%
New York	\$9.0 billion	16.9%
North Carolina	\$3.8 billion	20.0%
Ohio	\$3.0 billion	11.0%

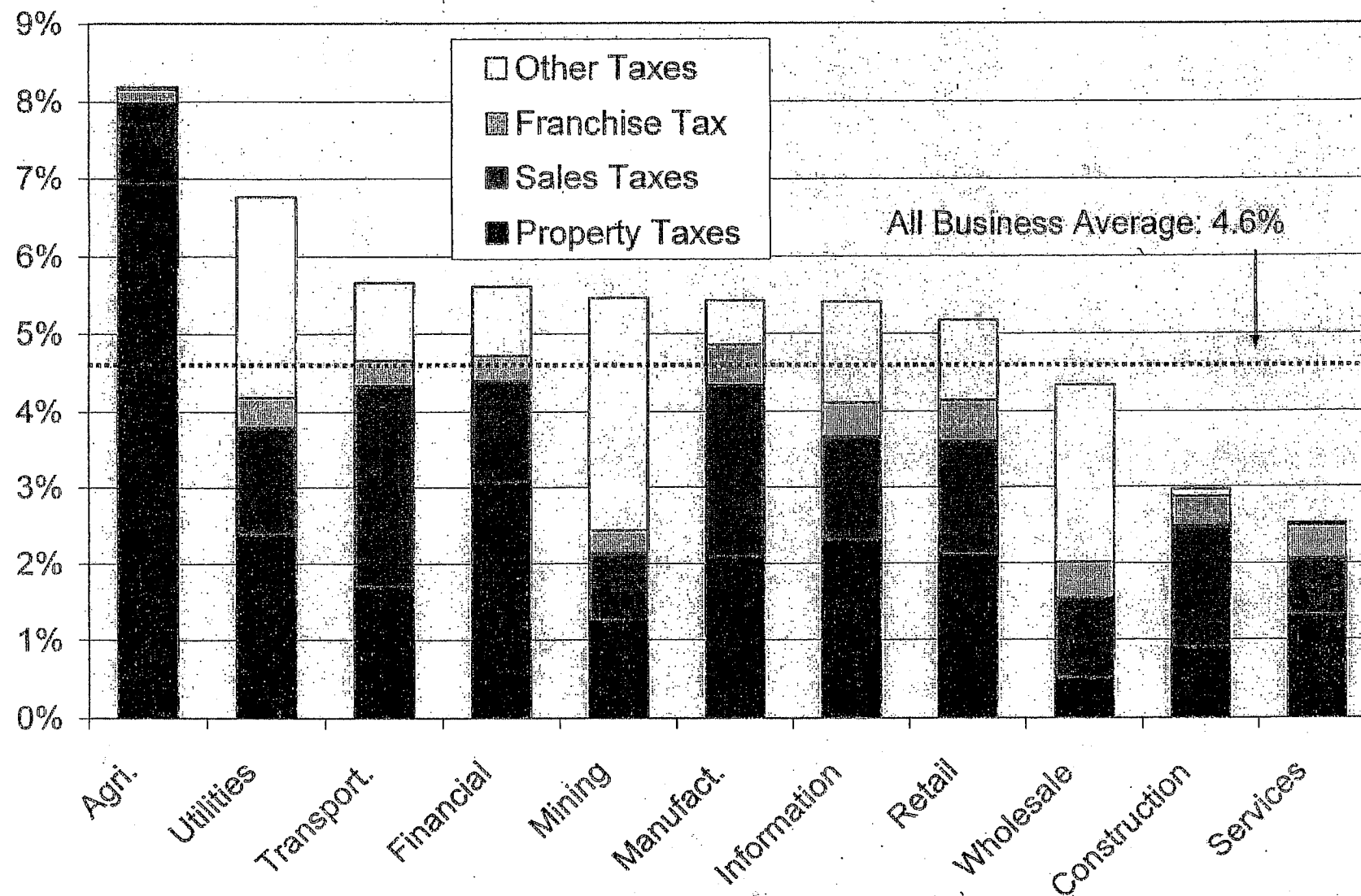
Oklahoma	\$600 million	11.3%
Oregon*	\$1.8 billion	25.0%
Pennsylvania	\$4.5 billion	17.8%
Rhode Island	\$290 million	9.9%
South Carolina	\$877 million	17.4%
South Dakota	\$127 million	10.9%

Tennessee	DK	Na
Texas	\$13.4 billion	31.5%
Utah	\$437 million	9.2%
Vermont	\$150 million	13.9%
Virginia*	\$2.3 billion	14.8%
Washington	\$2.9 billion	18.5%
West Virginia	\$155 million	4.1%
Wisconsin	\$1.8 billion	12.8%
States Total	\$124.7 billion	20.0%

Note: Kentucky and Virginia have two-year budgets. They closed their FY2012 shortfalls when they enacted their budgets for the FY2011-FY2012 biennium. California's shortfall includes an \$8.2 billion shortfall carried forward from FY2011. Oregon's shortfall is one half of the state's total projected shortfall for the 2011-2013 biennium.

Source: Center on Budget and Policy Priorities

# Tax Burden Relative to Output



# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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March 16, 2011

**To:** Senate Assessment and Taxation Committee  
**From:** Chris W. Courtwright, Principal Economist  
**Re:** Fiscal Notes for Proposed Changes to Sub SB 95

This memo summarizes some of the results of the questions asked by Senators King and Holland yesterday. More detail is provided in the emails from the Department of Revenue.

The Department of Revenue has developed these models based on an assumption that the selected group of SGF tax receipts would grow by 4 percent beginning in FY 2013. It is my understanding that this assumption is similar to that used by the Research Department and the Budget Division in making out-year projections beyond the current Consensus estimates.

Option 1 – Changing the “base year” from FY 2010 to FY 2011 and making tax year 2013 (instead of FY 2012) the first year eligible for income tax rate reductions.

FY 2013: Total fiscal note -- \$50.4 million (reductions: \$44.8 million individual; 5.6 million corporation)

FY 2014: Total fiscal note -- \$4.5 million (reductions: \$229.4 million individual; 26.5 million corporation; increase: \$251.4 million sales/use)

Eliminating the sales tax provisions of the bill would leave \$255.9 million in reductions.

Option 2 – Leaving FY 2010 as “base year” but making tax year 2013 the first year eligible for income tax reductions.

FY 2013: Total fiscal note -- \$197.6 million (reductions: \$178.0 million individual; \$19.6 million corporation)

FY 2014: Total fiscal note -- \$591.3 million (reductions: \$761.6 million individual; \$81.1 million corporation; increase: \$251.4 million sales/use)

Eliminating the sales tax provisions of the bill would leave \$842.7 million in reductions.

Sn. Assmnt & Tax

3-16-11

Attachment # 2

## Chris Courtwright

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**From:** Steve.A.Stotts@kdor.ks.gov  
**Sent:** Tuesday, March 15, 2011 12:55 PM  
**To:** Chris Courtwright  
**Subject:** New SB 95 Calculations - Option 1 using FY 2011 as the base  
**Attachments:** corporate rate decrease 005 all rate 2013 and 2014.xls; courtwright rate decrease 015 all rate 2013 and 2014.xls

Option 1 - Use FY 2011 selected SGF receipts as the base. Tax year 2013 is first year impacted.

FY 2011 - \$5,440,345

FY 2012 - \$5,681,700

Dollar Growth - \$241,355

Percent Change - 4.44%

Rate Reduction Percentage - .9556

Individual Rates - TY 2013

3.345%

5.973%

6.164%

Corporate Rates - TY 2013

3.822%

6.689%

Fiscal Impact FY 2013-

Individual - (\$44.8)

Corporate - (\$5.6)

Total - (\$50.4)

Calculation for TY 2014 rates -

FY 2011 - \$5,440,345

FY 2012 - \$5,681,700

FY 2013 - \$5,908,968 4% growth

Less - (\$50,400)

ADJ FY 2013 - \$5,858,568

Dollar Growth from FY 2011 - \$418,223

Percent Change - 7.69%

Rate Reduction Percentage - .9231

Individual Rates - TY 2014

88%  
5.514%  
5.69%

Corporate Rates - TY 2014

3.53%  
6.175%

Fiscal Impact FY 2014-

Individual - (\$229.4)  
Corporate - (\$26.5)  
Total - (\$255.9)

(See attached file: corporate rate decrease 005 all rate 2013 and 2014.xls) (See attached file: courtwright rate decrease 015 all rate 2013 and 2014.xls)

## Chris Courtwright

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**From:** Steve.A.Stotts@kdor.ks.gov  
**Sent:** Tuesday, March 15, 2011 1:06 PM  
**To:** Chris Courtwright  
**Subject:** New SB 95 Calculations - Option 2 using FY 2010 as the base  
**Attachments:** courtwright rate decrease 016 all rate 2013 and 2014.xls; corporate rate decrease 006 all rate 2013 and 2014.xls

Option 2 - Use FY 2010 selected SGF receipts as the base. Tax year 2013 is first year impacted.

FY 2010 - \$4,830,452

FY 2012 - \$5,681,700

Dollar Growth - \$851,248

Percent Change - 17.62%

Rate Reduction Percentage - .8238

Individual Rates - TY 2013

2.883%

5.149%

5.314%

Corporate Rates - TY 2013

3.50%

5.767%

Fiscal Impact FY 2013-

Individual - (\$178.0)

Corporate - (\$19.6)

Total - (\$197.6)

Calculation for TY 2014 rates -

FY 2010 - \$4,830,452

FY 2012 - \$5,681,700

FY 2013 - \$5,908,968 4% growth

Less - (\$197,600)

ADJ FY 2013 - \$5,711,368

Dollar Growth from FY 2010 - \$880,916

Percent Change - 18.24%

Rate Reduction Percentage - .8176

Individual Rates - TY 2014



357%  
4.21%  
4.345%

Corporate Rates - TY 2014

3.50%  
4.715%

Fiscal Impact FY 2014-

Individual - (\$761.6)  
Corporate - (\$81.1)  
Total - (\$842.7)

(See attached file: courtwright rate decrease 016 all rate 2013 and 2014.xls)(See attached file: corporate rate decrease 006 all rate 2013 and 2014.xls)