

Chairman Smith and Members of the Committee,

We appreciate this opportunity to submit testimony in support of corporate income tax reforms in HB 2061.

Relief is needed because Kansas does not have a competitive tax environment on business.

A 2021 Tax Foundation analysis found that “Tax burdens in Kansas are slightly below average for new firms—and among the lowest in the nation for new manufacturers and distribution centers—but **Kansas ranks worst in the nation for mature firms**. Kansas offers very low tax costs for new capital- and labor-intensive manufacturing operations and new corporate headquarters due to the Promoting Employment Across Kansas (PEAK) incentive program. Such generous incentives, however, keep tax costs for mature firms much higher than they would be if the tax burden were distributed more equitably. The state ranks 49th or 50th for all mature firm types except corporate headquarters, which rank 38th.”<sup>1</sup>

The Tax Foundation’s 2023 State Business Tax Climate Index ranks Kansas as #25, which is worse than all but one neighboring state. Missouri is #11, Colorado is #21, and Oklahoma is #23.<sup>2</sup>

Those rankings are based on all forms of taxation. On corporate income tax, Kansas is #21 but Missouri is #3 and Oklahoma is #4, and Colorado is #7. Only Nebraska (#30) is less competitive than Kansas.

‘Hey, at least we’re not Nebraska’ is not a competitive position. Two things are certain without corporate tax reform:

1. The Kansas tax structure will become even less competitive over time, and
2. Companies will demand much larger subsidies to locate in Kansas, and that only shifts tax burden to individuals and small businesses.

The balance of my testimony addresses the tax plan implemented under Governor Brownback, explaining some of the flaws in the plan and dispelling misinformation that continues to this day.

### **What was really the matter with the Kansas tax plan**

Tax relief opponents in Kansas and other states repeatedly point to the 2012 Kansas tax plan as to say that tax cuts don’t work.

But other states like North Carolina and Tennessee successfully cut taxes while Kansas struggled.

The Tax Foundation says, “Before the 2013 reforms, North Carolina consistently ranked among the worst states on the Index, indicative of high tax rates on a narrow tax base, with economically inefficient incentives and carveouts that benefited declining legacy industries. Since then, however, it has seen the most dramatic improvement of any state over the past decade, with reforms that broadened individual and corporate income tax bases and lowered rates, broadened the sales tax base to additional consumer services, and repealed the estate tax. These reforms have helped reverse the state’s previously sluggish growth, with the state’s GDP growth rates going from lagging to exceeding the national average when comparing the seven years prior to the 2013 reforms to the seven years following. In addition, over the past decade, North Carolina has seen the third-highest net in-migration after only Florida and Texas, two states that forgo individual income taxes altogether.”<sup>3</sup>

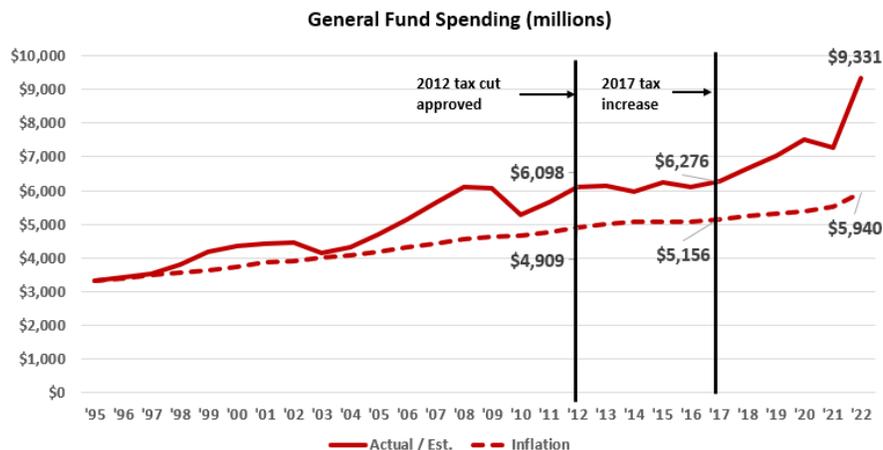
Tennessee improved its tax structure in 2022 when it completed the phaseout of the Hall Tax – the state’s income tax that was levied only on interest and dividends income.<sup>4</sup>

So what was different about the Kansas experience?

Many claims about Kansas are based on incomplete or inaccurate data, but Kansas did have serious budget challenges...and most of that was avoidable. There were a lot of mistakes made, and there were also other circumstances at play that created budget issues, including a very toxic political environment. A few examples of these issues follow.

*Don’t cut taxes and increase spending*

One of the major mistakes during the Brownback era was simultaneously implementing a large tax cut and spending increases. General Fund spending increased from about \$6.1 billion in FY 2012 to \$6.3 billion in FY 2017, when the Legislature imposed the largest tax increase in state history.



Source: Governor’s Budget Reports, KLRD, BLS Consumer Price Index Midwest Cities on fiscal basis

Claims that spending was drastically reduced simply are not accurate.

### *Have a plan to balance the budget*

Brownback’s original tax cut proposal was about \$350 million over five years, but it ballooned to \$3.5 billion by the time it left the Senate. Interviews with Governor Brownback revealed that there was never a plan to structuarally balance the budget. Our analysis showed that small spending reductions (2% to 3%) over three years would have balanced the budget and allowed spending to increase as revenues grew, and that could have been accomplished by enacting multiple efficiency opportunities. Unfortunately, Brownback, the Democrats, and some Republicans would not take advantage of those opportunities. Everyone knew the budget would go bust two years after tax cuts were implemented, but it was allowed to happen.

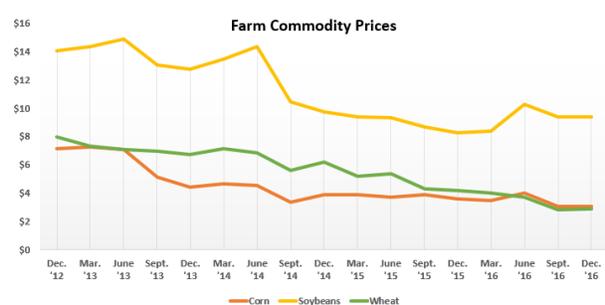
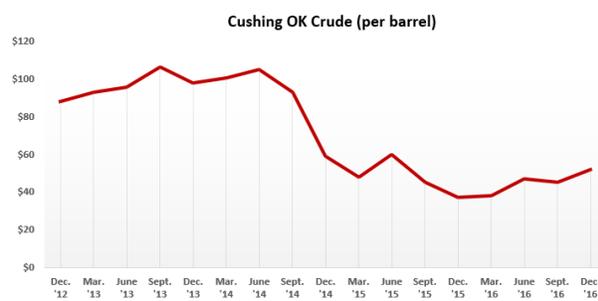
### *No promise that tax cuts will pay for themselves*

Governor Brownback didn’t say that tax cuts would pay for themselves, but that didn’t stop the opposition from making the claim to discourage efforts in Kansas and other states.

His statement that tax cuts would be “a shot of adrenaline” to the economy may have given the impression that tax cuts would pay for themselves, but that was merely political exuberance, as politicians in both parties are known to do.

### *Oil and farm commodity prices plunged at the worst time*

Just as the budget deficits were allowed to surface, prices on oil, corn, soybeans, and wheat dropped precipitously. That caused severe declines in severance tax and also sales and income tax related to agriculture.



### *Conclusion*

The state has ample reserves to provide much-needed income tax relief now and use excess future revenue to trigger further tax cuts.

We encourage the committee to provide as much tax relief as possible and we thank you for your consideration.

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<sup>1</sup> Jared Walczak, Katherine Loughhead, and Janelle Fritts, “Location Matters 2021: The State Tax Costs of Doing Business,” Tax Foundation, May 5, 2021. [https://taxfoundation.org/state-tax-costs-of-doing-business-2021/?utm\\_source=Tax+Foundation+Newsletters&utm\\_campaign=3976b1e7df-EMAIL\\_CAMPAIGN\\_2019\\_10\\_17\\_07\\_28\\_COPY\\_01&utm\\_medium=email&utm\\_term=0\\_8387957ec9-3976b1e7df-427641985&mc\\_cid=3976b1e7df&mc\\_eid=98c87a931f#Interactive](https://taxfoundation.org/state-tax-costs-of-doing-business-2021/?utm_source=Tax+Foundation+Newsletters&utm_campaign=3976b1e7df-EMAIL_CAMPAIGN_2019_10_17_07_28_COPY_01&utm_medium=email&utm_term=0_8387957ec9-3976b1e7df-427641985&mc_cid=3976b1e7df&mc_eid=98c87a931f#Interactive)

<sup>2</sup> Janelle Fritts and Jared Walczak, “2023 State Business Tax Climate,” Tax Foundation, October 25, 2022. <https://taxfoundation.org/2023-state-business-tax-climate-index/>

<sup>3</sup> Loughhead, Katherine, “North Carolina Reinforces Its Tax Reform Legacy,” Tax Foundation, Dec. 3, 2021. <https://taxfoundation.org/north-carolina-tax-reform-2021/>

<sup>4</sup>Fritts, Janelle, “Tennessee Should Build on Success and Improve Corporate Taxes,” Tax Foundation, Jan. 26, 2022. <https://taxfoundation.org/tennessee-tax-reform/>