

Ashley McMillan, President
Kansans for No Income Tax
Testimony
House Committee on Taxation

Good afternoon Chairman Carlson and members of the House Committee on Taxation. My name is Ashley McMillan and I am the President of Kansans for No Income Tax. KFNIT is a non-profit organization working to educate Kansas taxpayers about the benefits of reducing and eventually eliminating the state income tax.

SUMMARY OF NEED

Our state needs economic policy that encourages growth. Loss of population and loss of revenue can be attributed to a lack of jobs and in essence, a lack of opportunity. Kansas will never see economic stability and population growth without creating an environment to grow jobs.

In much of our information, we look at states with no income tax as models of tax policies that encourage growth. Of course, no state will create an apple to apple comparison, because Kansas is unique. However, Kansas is not uniquely considering a reduction in income tax rates. Our neighbors Missouri and Oklahoma are well on their way to lowering and eliminating their state income taxes. On Monday, Oklahoma Governor Mary Fallin announced her call to lower the state income tax rate to 3.5% next year from the current 5.25% while also implementing a plan to phase out the tax in 10 years.

According to a Wall Street Journal article that ran yesterday, South Carolina, Idaho, Maine, Nebraska, New Jersey and Ohio are all considering income tax cuts this year.

When we look at states with no income tax, we see why this idea is gaining momentum. States with no income tax saw increases in population. As such, no state without an income tax lost a Congressional Seat during the last Census. [1]

Kansas grows by only 37 people per day. Meanwhile, Tennessee is adding 76 people a day, and Texas is adding 380 people a day. [2] 73% of Kansas counties lost population in the last decade with 22% of counties losing 10% or more. [3]

Kansas has been losing wealth to other states. Between 1995 and 2008, Kansas lost \$2.8 billion in Net Adjusted Gross Income to other states. In that same period, no-income tax states Tennessee, Texas and Florida gained \$6.6 billion, \$15 billion, and \$73 billion respectively. [4]

[1] 2010 U.S. Census.

[2] Current Population Survey Data on Geographical Mobility/Migration; time period 2005-2009.

[3] *State and Local Population Counts and Trends; Focus on 2010 Census Data*, Nebraska State Data Center and U.S. Census Bureau, March 22, 2011.

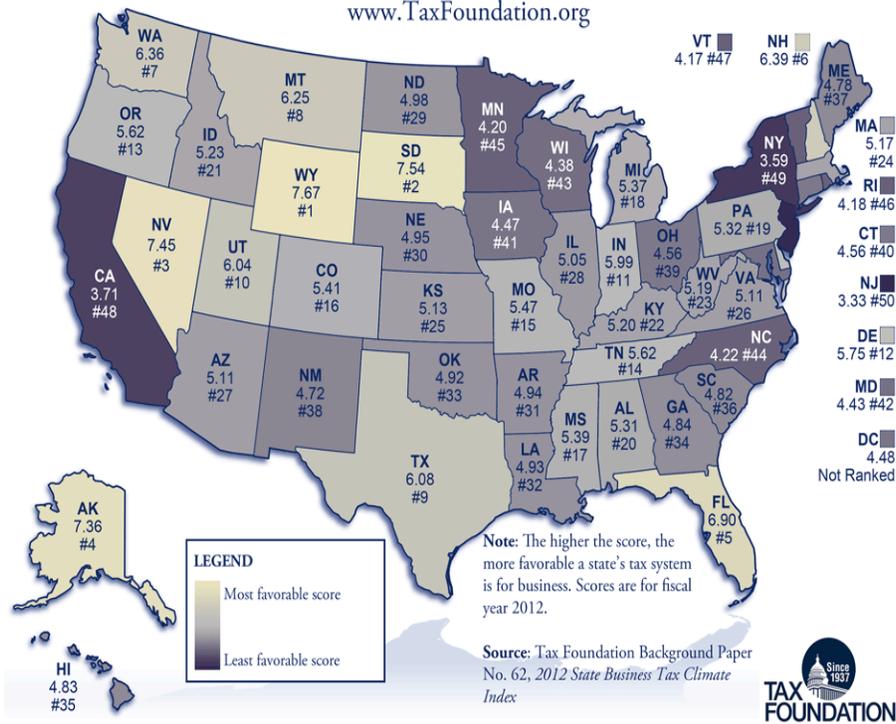
[4] IRS Tax Filer Database.

[5] *Tax Foundation Background Paper No. 62, "2012 State Business Tax Climate Index"* by Mark Robyn.

Recently, The Tax Foundation presented the 2012 version of the *State Business Tax Climate Index* to gauge how states' tax systems compare and which states are best for businesses. Eight out of the top ten states are no-income tax states.

State Business Tax Climate Index 2012

www.TaxFoundation.org



The 10 best states in this year's *Index* are:

1. Wyoming
2. South Dakota
3. Nevada
4. Alaska
5. Florida
6. New Hampshire
7. Washington
8. Montana
9. Texas
10. Utah

According to the Tax Foundation, "The lesson is simple: a state that raises sufficient revenue without one of the major taxes will, all things being equal, have an advantage over those states that levy every tax in the state tax collector's arsenal." [5]

We must take the necessary steps to make our tax policy a favorable reality for all Kansans. We must also ensure Kansas stays competitive in our region as our neighbors create more business friendly environments in their state. The time for no income tax is now.

For these reasons, we stand in solid support of HB 2560.

FAIRER, FLATTER, SIMPLER

HB 2560 helps create a job growth environment by reducing the individual tax burden on citizens.

[1] 2010 U.S. Census.

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- Immediate cut - A dramatic cut in individual tax rates provide the direct stimulus needed to kick-start the economy. This automatic reduction gives every taxpaying Kansan an immediate pay raise allowing for the broadest tax relief to the most people.
- Eliminating the individual tax on non-wage business income allows for **growth**. Small businesses make up 66% of our businesses in the state and are the job incubators. Cutting their income tax to zero is a direct stimulus to maintain and grow the businesses we have while attracting more people to set up shop in our state.
- We support ratcheting down and/or eliminating tax deductions as a way to get to a lower rate for a broader group of individuals. It is essential to maintain this ratchet mechanism in statute in order to reach zero and remain competitive with neighboring states.
- Sales tax is the most stable way to generate revenue. Income is more mobile and harder to collect than sales tax. Income tax reduces returns for those who produce and those they employ. Relying on state income tax also produces huge swings in state revenues, raising more uncertainty for those who depend on our state services. Keeping the sales tax at 6.3% maintains this stable revenue flow at an already acceptable rate.
- Our resources are valuable and should be treated that way. Eliminating the two year severance tax exemption on new oil and gas wells over 50 barrels per day allows Kansas to receive a hefty stream of revenue from large oil companies planning to profit handsomely on Kansas resources.

CONCLUSION

We encourage the House Committee on Taxation to favorably move forward with HB 2560 or a similar plan that would include lowering and eventually eliminating the state income tax. This is the only tax relief that has a direct correlation with economic growth. It is the tax relief that provides the best chance to grow our state, attract more citizens, and achieve lasting sustainability.

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