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**Testimony on HB 2763
House Taxation Committee
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Mr. Chairman and members of the committee, thank you for the opportunity to submit testimony in opposition to House Bill 2763.

I'm Bernie Koch with the Kansas Economic Progress Council, a statewide not for profit organization of businesses, trade associations, chambers of commerce, and individuals.

We cannot support this legislation because of its imposition of a consumption tax on many services. The Kansas Economic Progress Council has had a long-standing opposition to such legislation.

In a perfect world, this legislation might work, but we live in one of 50 states that compete for business expansions and retentions. Because so much of the state's population lives near a border, adding a consumption or sales tax to services acts as a deterrent to retaining the many businesses in these areas.

In particular, legal services, accounting, tax preparation, bookkeeping, payroll services, architectural, engineering and related services would suffer a disadvantage when competing with surrounding states, particularly Missouri.

For example, there are 838 establishments with a NAICS code of 5413, Architectural, Engineering, and Related Services. According to the U.S. Economic Census, they had receipts in 2007 of over \$2.2 billion in Kansas, an annual payroll of over \$827 million, and 12,266 employees.

They compete with the 1,752 establishments in Missouri that employ 21,693 people and have receipt of over \$4 billion.

In a time when Missouri and Kansas compete strongly in the Kansas City area, and there is much discussion about working together for the region rather than competing, this legislation can only add fuel to the fire.

This bill eliminates the income tax. However, as we have said before, we do not believe Kansas has an income tax problem. This has been reinforced once again by a study released this week by the Tax Foundation, which compares taxes paid by businesses in the 50 states.

The study ranks Kansas 47th overall for mature operations and 48th overall for newly established operations. However, the report concludes Kansas' poor ranking is not due to income tax burden, but to sales and property taxes.

The study says for mature corporate offices, companies have a fairly low income tax burden, but face above average sales tax burden and one of the highest property tax burdens in the nation.

The study says for a new distribution center, operations have one of the lowest income tax burdens in the country, but face the highest property tax burden and fourth-highest sales tax burden.

The report concludes: "Kansas offers among the most generous property tax abatements and investment tax credits across most firm types, yet these incentives seem to have little impact on the state's ranking for new operations."

We once again urge you to consider overall tax burden as you look at how best to structure Kansas taxes to be competitive in today's economy.

Thank you for the opportunity to present testimony today.