



Testimony to Senate Taxation Committee  
HB 2399  
17 March 2015  
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Chairman and members of the committee it is a privilege to address you today in opposition to House Bill 2399.

I would caution the Legislature from sending mixed signals to businesses and individuals on whether Kansas has decided to start a new era of economic prosperity by departing from the high tax rate approach of the past. We have seen the results of this past policy as the state has shrunk in population relative to the other states of the union and the out migration of not only citizens and wealth. Every time a bill like this gets traction the media sends out a 'tax cuts aren't working' message that we would be naïve to believe is not heard by both existing businesses thinking of expanding in Kansas and those pondering a potential move to the state. Reversing a fifty year decline is not going to happen overnight even without the issues these mixed signals send.

I am here to speak in opposition to increasing the sales tax from 6.3% to 6.15%. I would hope the legislature would consider this tax increase within the historical context of the sales and individual income tax over the last 50 years.

Surprisingly, in the not too distant past Kansas had a more consumption tax based revenue system. Kansas Legislative Post Audit noted that "the percentage of State revenues provided by income taxes tripled between 1960 and 2009, rising from 15% to 45% of the total. During the same period, the percentage of State revenues from sales and excise taxes declined from 71% of the total to 49%. This reduction occurred even though the State's sales tax rate more than doubled, from 2.5% in 1960 to 5.3% in 2009".

During this same 50 year time period we have watched our state shrink in population in relation to the other states in the union and a huge out migration of resources with those residents who have left us.

Members of the committee I ask you to consider what it is each "increment of distortion" ---to quote Milton Friedman---the legislatures of the past have created for you and what you become part and parcel of by approving this tax increase.

Type of Sales Tax Exemption	Fiscal Impact \$s in Millions
Conceptual Exclusions	\$ 4,004.3
Public Policy: Charitable, Religious, Benevolent Exemptions	\$ 31.0
Public Policy: Exemptions to Charitable Organizations by Name	\$ 3.0
Public Policy: Consumer Exemptions	\$ 466.2
Public Policy: Governmental Exemptions	\$ 617.0
Public Policy: Educational Exemptions	\$ 80.5
Public Policy: Health Care Exemptions	\$ 112.5
Public Policy: Agriculture Exemptions	\$ 68.5
Legal Exemptions	\$ 21.4
Public Policy: Exemption of Services	\$ 7.9
Public Policy: Exemptions for Businesses	\$ 231.6
Source Kansas State Tax Expenditure Report, Calendar Year 2012	

After all these exemptions you have reduced the tax base so when you increase sales tax it dips disproportionately into the pockets of individuals who lack a lobby or champion for their cause to be among this \$5.6 B in exemptions. Add in the effect of the shrinking population base which further constricts the taxable base and this impact is compounded. This is not a geometric progression that can be allowed to continue. Before you consider tax increases look first to reducing expenditures or striking more of these exemptions. Sometimes you will find they are reinforcing government expenditures in places you would not necessarily want such as capital expenditures for buildings on university and K-12 campuses.

Spending must be reduced to levels that are in line with the resources available. This state did not reduce or retarget spending during the last recession while businesses and individuals were tightening their belts. Instead the state used federal funds and a huge ending balance to maintain state agencies while continuing to drain the private sector of capital. An ending balance in the state treasury in FY-2007 of nearly a billion dollars turned into a NEGATIVE \$27.4 million ending balance in just three years as the state refused to cut spending. Where were the media and the loyal opposition decrying this lack of fiscal responsibility then?

It is time that every program in the state be examined from top to bottom. Private business is forced by the market and economic circumstances to continually examine how they deliver services and the quality of those services. Kansas state government in general has not done that yet! Those who say that reducing spending means reduced services are merely protecting the status quo by attempting to scare citizens, especially those who are vulnerable and need the state's help. Better services at a better cost is not only a viable approach but the one citizens would have you make instead of tax increases to continue the big government approach of the past. Until every agency can bring to you their cost to deliver a unit of service including all direct and indirect overheads in a way that will let you see the layers of expenses incurred this Legislature cannot claim that a tax increase is needed based on facts. In closing I ask you to consider carefully the message you send and the impact on the citizens of Kansas with House Bill 2399.