

House Committee on Taxation

Testimony in Support of House Bill 2061

Presented by Eric Stafford, Vice President of Government Affairs

Tuesday, February 14, 2023

Mister Chairman and members of the committee, my name is Eric Stafford, Vice President of Government Affairs for the Kansas Chamber. The Kansas Chamber appreciates the opportunity to support House Bill 2061, which reduces the personal and corporate income tax rates to 5%.

Personal Income Taxes

Breaking this bill into two parts and focusing on the individual income tax portion first, in our *Kansas Tax Modernization- A Framework for Stable, Fair, Pro-Growth Reform by the The Tax Foundation*, authors wrote “The *Index* highlights how Kansas’ individual income tax structure is also average in terms of its competitiveness compared to other states.”

Kansas personal income tax rates		
Tax rate	Single, married filing separately, head of household	Married, filing jointly
3.10%	\$0 to \$15,000	\$0 to \$30,000
5.25%	\$15,001 to \$30,000	\$30,001 to \$60,000
5.70%	\$30,001 and above	\$60,001 and above
Source: Kansas Department of Revenue		

TABLE 4.4.

Share of AGI and Tax Liability by Income Group for Resident Taxpayers (Tax Year 2016)

AGI Class	Share of AGI	Share of Tax Liability
\$0 - \$24,999	8%	0.20%
\$25,000 - \$49,999	16%	11%
\$50,000 - 74,999	14%	13%
\$75,000 - \$100,000	14%	14%
\$100,000 - \$250,000	32%	39%
\$250,000 +	18%	23%

Source: Kansas Department of Revenue, “2018 Complete Annual Report,” 22.- Kansas Tax Modernization, Tax Foundation December 2019

As you see above, Kansas’ top rate kicks in at only \$30,000 for single filers. While that group of taxpayers has a disproportionate share of tax burden, their tax liability, according to the Tax Foundation, is largely offset because of the state’s EITC program.

We believe shifting to a single rate for personal income taxes would not only simplify returns but would result in stronger economic growth due to a lower top marginal rate. The largest impact to the fiscal note for HB 2061 is caused by the \$15,000 exemption included in the bill to avoid an increased tax burden on those earning \$15,000 or less who currently pay an income tax rate of 3.1%.

As we stated, we believe going to a single rate will improve our state’s competitive position and with record revenues, we have the ability to make reasonable reductions to our tax rates. However, we are sensitive to the reality that going to a single rate would result in a tax increase on the first \$15,000 of income, but a net tax cut on all income above that threshold. Not knowing what this exemption would cost, we asked to have it included as this committee builds a tax plan over the next few months.

While this approach is the most expensive and not likely to be possible, this committee could consider either a smaller exemption, or an increase in the standard deduction to accomplish the same goal of neutralizing any tax increase.

Corporate Income Taxes

HB 2061 would also reduce the corporate income tax rate from 7% to 5%. Current tax structure charges a rate of 4% on the first \$50,000 of income and 7% on everything over \$50,000. As stated by the Tax Foundation to this committee two weeks ago, corporate income taxes ultimately are a pass through to consumers and prevent businesses from spending more on wages and investment.

TABLE 3.
Corporate Tax Component of the State Business Tax Climate Index (2014–2023)

State	Prior Year Ranks								2022		2023		2022-2023 Change	
	2014	2015	2016	2017	2018	2019	2020	2021	Rank	Score	Rank	Score	Rank	Score
Alabama	23	24	22	14	21	22	23	23	17	5.53	18	5.52	-1	-0.01
Alaska	25	26	26	25	26	25	25	25	27	5.10	28	5.09	-1	-0.01
Arizona	22	22	20	19	14	16	21	22	23	5.31	23	5.29	0	-0.02
Arkansas	36	36	38	38	38	39	33	33	29	4.90	29	4.96	0	0.06
California	29	31	33	32	31	37	27	27	46	4.06	46	4.05	0	-0.01
Colorado	19	13	15	18	18	6	7	9	6	6.03	7	6.00	-1	-0.03
Connecticut	27	29	31	31	30	33	26	26	26	5.10	27	5.09	-1	-0.01
Delaware	50	50	50	50	50	50	50	50	50	2.41	50	2.41	0	0.00
Florida	13	14	16	19	19	11	9	6	7	5.99	10	5.77	-3	-0.22
Georgia	9	10	10	11	10	8	6	7	8	5.92	8	5.90	0	-0.02
Hawaii	5	5	4	6	11	12	17	19	19	5.48	19	5.46	0	-0.02
Idaho	17	21	21	23	23	27	28	28	28	5.02	26	5.10	2	0.08
Illinois	43	44	32	24	35	36	35	35	38	4.48	38	4.47	0	-0.01
Indiana	28	27	23	22	22	19	11	12	11	5.75	11	5.74	0	-0.01
Iowa	48	48	48	48	48	46	48	46	33	4.86	34	4.85	-1	-0.01
Kansas	35	35	37	37	37	31	34	30	21	5.39	21	5.38	0	-0.01

CORPORATE TAX

For comparison purposes, if Kansas were to reduce its corporate income tax rate to 5%, we would have the second-lowest rate in the region behind Colorado’s 4.63%. Thanks to the recent announcement of the second APEX project, the Kansas corporate income tax is set to drop to 6%, as each project results in a .5% reduction.

Growth Trigger

Kansas’ population has remained flat in recent years. While we’ve seen success stories of businesses choosing Kansas, or expansion of Kansas businesses, those headlines could be followed up by headlines of businesses struggling to fill job vacancies. Kansas has an above average tax liability when considering all tax sources. Our state has many great things to offer its residents. However, money walks and

families or individuals considering a move will weigh all financial decisions when considering job openings.

To help improve our state's competitiveness in the future , HB 2061 includes a growth trigger that would use any revenues over estimates to buy down the personal and corporate income tax rates. A similar trigger mechanism was adopted in 2013 by North Carolina to further improve their state's tax climate. North Carolina has seen their Tax Foundation ranking improve from the 40's to consistently top 10. Their state is rapidly expanding.

As drafted, this trigger in HB 2061 relies on the consensus revenue estimating group estimates. North Carolina's trigger uses revenues over actual dollars received to reduce rates. We are supportive of this approach as well, or capping expenditure increases at a set level and excess growth can be used to buy down rates further. Again, we are happy to be partners with the legislature in this process of determining the best approach for comprehensive, long-term rate reduction.

In closing, House Bill 2061 will place Kansas in a strong position to grow as a state, not only in terms of investment, but also in terms of population, to become a low-tax state attractive for individuals and families from outside of the state. Thank you for the opportunity to testify and I'm happy to answer questions at the appropriate time.