HB 2318 Proponent Testimony – written
House Committee on Taxation
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March 3, 2023

Chairman Smith and Members of the Committee,

We appreciate this opportunity to offer testimony in support of HB 2318, a bill that reduces the sales and compensating use tax from 6.5% in Kansas to 6.15%.

We reducing the sales tax. Kansas has the 9th highest combined state and average local sales tax rate in the country at 8.66%.[i] Reducing the sales tax is a way that government can provide relief to Kansas families facing higher costs at all stores due to inflation. In Kansas, 15% of business inputs are subject to the sales tax which raises the cost of growing and running a business.[ii]

With that being said, the reduction of the sales tax requires spending changes to avoid a shift in the burden on taxpayers' wallets. Furthermore, other tax relief bills that have already been approved by the Senate - like SB 248's immediate elimination of the food sales tax, SB 169's flat tax, and SB 33's retirement tax exception - make it increasingly difficult to balance changes in spending to account for the reductions.

Kansas needs tax reductions to stay more competitive economically against other states. As documented in our 2023 Green Book publication, between 1998 and 2021, Kansas's private sector jobs grew by 13.2%, ranking it at 44th in the nation.[iii] By comparison, the number #1 spot of Utah has grown by 76.8% in that same time period. Kansas's neighbor of Colorado ranked 8th and grew by 46.1%. Slow growth occurred with wages from 1998 and 2021 as well: Kansas ranked in the bottom percentile for wage and GDP growth as well.

Meanwhile, the states that grew the most were those like Utah and Idaho that have provided fiscally responsible tax relief, or other low-tax states like Texas and Florida where there isn't an income tax. Between 1998 and 2021, private-sector jobs in non-income taxing states grew by 56.8% compared to 25.0% in income-taxing states. Over the same time period, wages in non-income taxing states almost tripled, whereas, in income-taxing states, they grew only 2.4 times.

The commonality between the high-growth states was reducing the tax burden – be it on income, sales, property, or elsewhere, and making that burden last through controlled spending.
Kansas's tax reform under Governor Brownback is often cited to deter tax relief. Yet 24 states from around the country achieved income tax cuts since the 2012 Brownback tax cuts, which should serve as a sign of caution but not a deterrent to tax reform.[iv]

KPI 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.[v] An 8.5% reduction in spending over several years would have worked. But 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. Similarly, 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.

Similarly, there are hundreds of different ways that the state can approach and reduce spending to make room for tax reform. In 2021, Kansas spent an average of $4,932 per resident, which was $324 higher than the 50-state national average.[iii] States that tax income spent 80% more per resident than states that don't. Much of that difference includes decisions on what to spend, how to do it, and where that funding goes. Improving the efficiency of the state's hundreds of programs by just a little bit at each agency adds up to savings over time.

Our 2024 Responsible Kansas Budget provides estimates and methods by which spending and taxation can be balanced so as to provide public goods while at the same time fostering a healthy economy.[vi]

According to the Kansas Legislative Research Department's performance-based budgeting report in 2021, there were $815 million going to programs that self-identified as having performance measures with declining outputs in which funding was increasing or no measures listed at all.[vii] Finding ways to improve efficiency in these programs is another place to save.

Thank you for the opportunity to provide this testimony.

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[i] Janelle Fritts. State and Local Sales Tax Rates, 2023. Tax Foundation, February 7th, 2023, https://taxfoundation.org/publications/state-and-local-sales-tax-rates/
[ii] Andrew Phillips and Muath Ibaid. The impact of imposing sales taxes on business inputs. Ernest and Young LLP, May 2019, https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/1903-3073001_cost-ey-sales-tax-on-business-inputs-study_final-5-16.pdf
[iii] Kansas Policy Institute. *2023 Green Book.* https://kansaspolicy.org/2023-green-book/
[iv] Jared Walczak. Two Dozen States Show Why the Kansas Critique of Income Tax Cuts is Mistaken. Tax Foundation, May 24, 2022, https://taxfoundation.org/kansas-experiment-kansas-tax-cuts-critique/
[v] Todd Davidson, David Tuerkc, Paul Bachman, and Michael Head. Tax Reform Gears Kansas for Growth. July 1st, 2012, https://kansaspolicy.org/tax-reform-gears-kansas-for-growth/.
[vi] Ganon Evans and Vance Ginn. Responsible Kansas Budget 2024. January 3rd, 2023, https://kansaspolicy.org/2024-responsible-kansas-budget/.
[vii] Ganon Evans and Michael Austin. A Review of Kansas' Performance-Based Budgeting. Kansas Policy Institute and Americans for Prosperity Kansas, January 6th, 2023, https://kansaspolicy.org/a-review-of-kansas-performance-based-budgeting/