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Testimony IN SUPPORT of HB 2237
Before the House Taxation Committee
Tuesday, February 7, 2017

Chairman Johnson and members of the committee:

My name is Lisa Ochs, the President of the American Federation of Teachers-Kansas, our organization represents State and local public employees, nurses, teachers, and public universities. Our representation covers workers in all Kansas counties. Thank you for the opportunity to provide testimony in support of HB 2237.

Public services are a vital part of a strong economy, and revenue allows the state to support those healthcare, education, sanitation, and criminal justice services that form the foundation of strong communities and that promise a thriving future for Kansas. Sadly, every year, we lose millions to tax breaks that powerful special interests have forced into the tax code. It's time to reinvest in Kansas, and end the out-of-control tax breaks that are syphoning off the resources that would be better used in our communities.

According to an analysis by former Kansas Budget Director Duane Goossen, the state gave up \$2.715 billion in revenue from 2013-2015 because of the state's drastic income tax cuts.¹ This would have been enough to fund a number of public services and priorities and more:

¹ Duane Goossen, "It's the Income Tax," The Kansas Budget, December 15, 2015
<http://www.kansasbudget.com/2015/12/its-income-tax.html>

- Kansas could have hired or retained 40,516 teachers. That’s enough to double the states teacher workforce.²
- Kansas could have hired 48,237 public servants at the Kansas Department of Health and Environment³
- Kansas could have repaired those roads in “poor” condition and preserved its entire current network of roads—nearly 35,000 miles of major roads in the state—and have enough left over to pave an additional 204 more miles of highway. This could have supported nearly 55,600 jobs, including 19,000 in construction, 28,000 in industries supporting construction, and 28,000 in other sectors.⁴
- Kansas could have restored state education funding to pre-recession levels—and had millions left over to fund capital projects.
- Kansas could have reduced the unfunded liability of its retirement plans by over 25 percent.⁵
- Kansas could have hired 67,000 corrections officers to make the facilities and communities that host them safer.⁶
- Kansas could have paid for expanded and effective economic development initiatives to help Kansas businesses and create more jobs.

And these drastic income tax cuts have exacerbated the state’s unfair tax system. According to a study by the Institute on Taxation and Economic Policy, Kansas has the 9th most unfair state and local tax system in the

²See Kansas State Department of Education, “Average Salaries for Classroom Teachers 2013-2014 and 2014-2015,” (April 2015)
http://www.ksde.org/Portals/0/School%20Finance/reports_and_publications/Salaries/Teacher%20Salary%20Intro.pdf

³ See Kansas Department of Health and Environment, “Careers at KDE, Annual Total Compensation Statement” (2016) <http://www.kdheks.gov/employment/>

⁴ Smart Growth America and Taxpayers for Common Sense, “Repair Priorities 2014: Transportation spending strategies to save taxpayer dollars and improve roads” (2014) <http://www.smartgrowthamerica.org/documents/repair-priorities-2014.pdf>; US Department of Transportation Federal Highway Administration, “Employment Impacts of Highway Infrastructure Investment,” (December 14, 2016)
<http://www.fhwa.dot.gov/policy/otps/pubs/impacts/>

⁵ Bryan Lowry, “Brownback defends using public pension funds to fill Kansas budget hole” Wichita Eagle, December 10, 2014 <http://www.kansas.com/news/politics-government/article4413431.html>

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<http://www.kansasopengov.org/StateGovernment/PayandBenefits/SGPayGrid/tabid/1553/Default.aspx>

country. This means a disproportionate share of state and local taxes are paid by middle and low-income residents.

Which path will we take: the path toward thriving communities across our state or the path toward slow deterioration and a widening gap in quality of life? Kansas has a number of options it can take to raise revenue to fund the services the public needs and invest in our state's future and the generations to come. We should look to taxes that are the most fair to lower- and middle-income residents. Most importantly, we should commit to comprehensive tax reform. Picking one or two of the options below may nibble at the edges of the current revenue abyss in which our state finds itself, but nothing less than broad scale reforms will solve the state revenue crisis or address the glaring inequities of the current tax code.

Stop the "March to Zero." Kansas's experiment with zeroing out income taxes should immediately be abandoned. Stopping the glide to zero should include creating a new income tax structure that requires the rich to pay more, helping turn our upside-down tax system right-side up. Already, the Brownback income tax plan has prevented the state from making much needed investments in healthcare, education, transportation, and criminal justice. Staying the course—which means allowing an arbitrary state spending growth cap of 2.5% in 2020 to trigger more income tax cuts—would mean fewer teachers, nurses, state troopers, corrections officers, and other public employees on the job to serve the public. These are people the state needs to thrive and compete in the modern economy, and you cannot get something for nothing. The only way to provide the effective public services every Kansas deserves is for the state to return to a more stable and dependable revenue system.

Close the LCC loophole. The Governor's 2012 tax plan eliminated income taxes for Kansas' 333,000 LLC's, S corporations, partnerships, farms, and sole proprietorships. This costs the state nearly \$290 million per year in lost revenue, and has not spurred job creation in the state.⁷ In fact, the state ranked 46th in job creation in 2015⁸, with 0.4 percent drop in jobs, and total employment has risen only 2.6 percent since the tax plan took effect in 2013. Nationally, total employment has grown 6.5 percent since 2013.⁹

⁷ Kansas Center for Economic Growth "Close the LLC Loophole"(November 2016)

<http://realprosperityks.com/wp-content/uploads/2016/11/LLC-Loophole-1P-FINAL.pdf>

⁸ Bryan Lowry, Report: Kansas economy ranks 46th in nation," Wichita Eagle April 3, 2016

<http://www.kansas.com/news/politics-government/article69776282.html>

⁹ Michael Mazerov "Kansas' Tax Cut Experience Refutes Economic Growth Predictions of Trump Tax Advisors," Center on Budget and Policy Priorities, August 12, 2016

<http://www.cbpp.org/research/federal-tax/kansas-tax-cut-experience-refutes-economic-growth-predictions-of-trump-tax>

With no evidence that anemic in-state job growth hinged on this tax break, the legislature should close this loophole as part of a comprehensive tax reform plan.

Revisit the food tax. The repeal of the Food Sales Tax Rebate in the Governor's 2012 tax plan made Kansas one of three states—Alabama and Mississippi being the other two—that places a full sales tax on groceries without a rebate or tax credit for low income households. Kansas's 6.5 percent rate on groceries is the second highest in the country.¹⁰ As part of a comprehensive package to increase revenue, the legislature should revisit the state's abnormally high tax on food.

Modernize the Gas Tax Kansas has the 31th highest gas tax in the country, levying a 24.03 cent per gallon tax on fuel. Raising the tax would still keep Kansas competitive with its neighbors Nebraska (27 cents), Colorado (22 cents per gallon), Missouri (17.30 cents per gallon) and Oklahoma (17 cents per gallon). According to a report by the Institute on Economic and Taxation Policy, after adjusting to account for rising transportation construction cost, the real value of the rate has fallen by 19% since the last increase.¹¹

Enact comprehensive combined reporting and close the water's edge tax loophole. Kansas very early adopted combined reporting for multistate corporations with U.S. subsidiaries. Combined reporting laws are an effective tool to prevent multistate corporations from sheltering income in U.S. tax havens. But they do little to affect the offshoring of revenue beyond the "water's edge" of the U.S.

¹⁰ Scott Rothschild, "Kansas sales tax on groceries is unpopular but untouchable" Lawrence Journal World October 20, 2012 <http://mobile.ljworld.com/news/2012/oct/20/kansas-sales-tax-groceries-unpopular-untouchable/>

¹¹ Institute on Taxation and Economic Policy, "Building a Better Gas Tax" (December 2011) <http://www.itep.org/bettergastax/>