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Kansas Tax Policy Talking Points

- In 2008, the Tax Foundation ranked Kansas as having the 21st highest state and local tax burden and 33rd overall business climate.
- Kansas already ranks 38th nationally in Business Tax Structure, behind all of its peer states except Iowa at 45th. Peer states include all surrounding states plus Iowa. *(Growth Economics Inc. Annual Competitive Index 2009)*
- Kansas also ranks 38th nationally in Business Tax Burden. *(Growth Economics Inc Annual Competitive Index 2009)*
- The truism of "if you want less of something, tax it more" applies. The state should be growing our way out of this recession, not exacerbating it and slowing our recovery by taxing businesses.
- Halting these reductions will perpetuate the "unstable tax climate" associated with the state.

Estate Tax Phase-out Repeal (HB 2047):

HB 2047 would repeal the estate tax phase out by permanently freezing the tax at 2008 rates. This tax was scheduled to go away completely after this year.

- Under House Bill 2047, businesses with under $1 million in assets remain exempt from the estate tax; however, assets over $1 million would be taxed as follows:
    - $1 million - $2 million would pay a 1% tax
    - $2 million to $5 million would pay $10,000 plus 2% of excess over $2 million
    - $5 million to $10 million would pay $70,000 plus 5% of excess over $5 million
    - $10 million + would pay $320,000 plus 7% plus excess over $10 million
- Kansas will remain at a competitive disadvantage unless we allow this tax burden to expire as scheduled.
    - Kansas is one of only 10 remaining states with an estate tax and only Iowa and Nebraska are our peer states with it.
    - However, even Iowa and Nebraska have exemptions for direct descendents, which Kansas does not.
- The estate tax is an obstacle for small and family owned business owners leaving their businesses to family members.
    - Family businesses can lose up to 55% of all its assets when it passes from one generation to the next.
    - 70% of families choose to cash out or abandon their businesses after one generation, often laying off workers.
    - Only 13% survive into the 3rd generation. *(Source: U.S. Chamber of Commerce)*

Franchise Tax Phase-out Repeal (HB 2028):

The franchise tax is a tax on a companies' net worth. Companies pay this tax just for the privilege of doing business in Kansas. There are no offsets for corporate subsidiaries, which must pay the full franchise tax and are thus penalized under Kansas law.

- Under the bill passed in '07, the rate went to .09375% in '08 and would have gone to .0625% in '09 and finally to .03125% in 2010 before being completely phased out for 2011 and subsequent tax years.
- In a recession, the worst thing the state can do is increase taxes on Kansas businesses.

Decoupling Federal & State Depreciation Schedule:

Changes to federal depreciation calculations also affect state taxable income because states conform to federal rules on depreciation in the calculation of their business income taxes. Decoupling prevents immediate revenue losses at the state level, but it increases complexity for states and taxpayers as businesses must conform to different depreciation schedules in different tax jurisdictions.

- Most states have coupled their depreciation rules with federal guidelines. If federal officials adopt temporary accelerated depreciation provisions as part of a stimulus package, states can either decouple from the federal system, or be forced to raise revenues or cut spending to counter the loss in business income tax revenue.
- Lowering the cost of capital will help spur the Kansas economy. Entrepreneurs will be more likely to invest in capital equipment, which will create jobs, income and a more desirable destination for investment.
- Many in the Statehouse frame this issue as merely as a "cost" for the state. In actuality, the higher the so called cost, the greater the investments being made in Kansas and its future. If indeed the state would "lose" $77 million (estimated fiscal note of NOT decoupling), this represents $77 million in investments that will help create better, higher paying jobs.

Corporate Income Tax Phase-out Repeal:

As passed in 2008, HB 2434 reduced the top corporate income tax rate (incomes over $50,000) to a flat 7%, phased in over time as follows: 7.35% to 7.10% in tax year 2008; 7.05% in tax years 2009 and 2010; and 7.00% in tax year 2011 and thereafter.

- Fiscal notes associated with the rate reductions for each year are as follows:
  - FY09 ($13.3 M); FY10 ($15.9 M); FY11 ($15.9 M); FY12 ($18.6 M); FY13 ($18.6 M); 5-year total ($82.3 M)
- Employers throughout Kansas are the very entities that help the Kansas economy. Let's not make matters worse and punish those who create jobs, make investment and grow the state's tax base by levying higher taxes on them.

The Case Against Decoupling Kansas Tax Law

The American Recovery and Reinvestment Act of 2009 extended for one year the depreciation rules of the Economic Stimulus Act of 2008 of 50% bonus depreciation. Decoupling would mean trading off a key long run economic development strategy for short-term revenues that will be nowhere near sufficient to cover the budget gaps currently projected.

Kansas' long-term strategy is to make it one of the most investment friendly tax environments in the nation. However, consistency is a key element of any investment related goal. Decoupling goes in exactly the wrong direction. It sends the signal that investors will be the first targets when budget problems arise. And it is questionable whether it would provide the tax revenue legislators desire.

It is very unwise tax policy to have small businesses bear the brunt of the budget gap – especially when everyone considers the gap to be driven by K-12 education spending.

Why, as a policy matter, should that not be all taxpayers in the state? Kansas is consistently in the bottom ten of states with regard to business formation. Using small businesses as a cash source will not help that situation.

Decoupling has the potential to place the highest burdens on smaller businesses. And the franchise tax is essentially a small business property tax. Stopping the phase out does promise about $15 million per year, but that is based on pre-recession net worth levels, not 2009 levels.

<u>Bottom line: If businesses do start investing again in 2009, decoupling could make other states even more attractive vs. Kansas.</u>

Economic Benefits of the Holcomb Power Plant Expansion

- The Project will maximize the value of the existing Holcomb Station site for the benefit of Sunflower Electric's Member systems for generations to come.
- The benefits created by the Project for communities located in the region include job creation, new tax revenues, and an increased demand for goods and services.
  - Dr. Ralph Gamble, a noted economist and former professor at Fort Hays State University, conducted an economic impact study of the Project. He found that the average number of jobs available in western Kansas will grow by more than 1,500 during the construction period.
  - These workers will earn more than $42 million per year. The taxes collected will increase by more than $1 million, and construction crew spending in Kansas is expected to be more than $56 million.
    - At full operation, the Project will add more than 250 full-time equivalent positions in western Kansas, earning nearly $15 million per year.
    - It is estimated that about 2,500 jobs (direct and induced) will be created in Kansas with an annual payroll of $78 million during the construction period.
- The Project will also result in the purchase of many goods and services for the power plant and by the workforce. Certain construction materials will likely be obtained locally, while major equipment will be obtained nationally and internationally.

Total Project Impacts, Two Units			
	Jobs	Earnings	Local & State Taxes
Temporary Impacts			
Western	1,501	$42.3	$1.2
Eastern Kansas	967	$35.9	$.453
Kansas	2,466	$78.3	$9.3
Out-of-State	11,857	$321.9	NA
Permanent Impacts			
Western	274	$14.8	$.300
Eastern Kansas	53	$1.4	$.054
Kansas	329	$16.1	$.684
Out-of-State	280	$7.4	NA