



Responsible Policy. Real Prosperity.

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Heidi Holliday, Executive Director
Kansas Center for Economic Growth
House Bill 2023 Testimony
House Taxation Committee

Chairman Johnson and Members of the Committee:

The Kansas Center for Economic Growth (KCEG) is a nonpartisan organization promoting balanced budget and tax policies to ensure all Kansans prosper. In December, we joined a diverse coalition of advocacy organizations to propose comprehensive tax reform under the banner “Rise Up Kansas.” **Although the Rise Up plan supports closing the non-wage business tax exemption – or the LLC loophole – KCEG testifies as neutral on HB2023 because it fails to address the structural revenue imbalance that causes this repeated fiscal crisis.**

Current tax policy is unaffordable and unsustainable. While the rest of the nation spent the last five years recovering from the Great Recession, Kansas endured nine rounds of budget cuts (and counting), three state credit rating downgrades, and the accumulation of record high debt...all as a result of failed tax policy. In fact, the first year of the 2012 tax plan inflicted more damage to state finances than the entire Great Recession. Lawmakers enacted over \$700 million in tax hikes since 2012 to help fill the gap, but Kansas continues to face repeated budget shortfalls because no proposals to date fixed the underlying source of the problem.

The LLC Loophole is unfair, expensive, and failed to create jobs. According to the Institute on Taxation and Economic Policy, the LLC loophole costs Kansas nearly \$290 million per year. It was originally touted as the plan’s signature feature, but now legislators and business leaders of all political stripes publicly acknowledge that it failed to live up to its promise. Kansas has consistently lagged the region and the nation in most measures of economic performance since 2012, including personal income growth, gross domestic product, and job growth. In fact, in 2015, Kansas ranked 46th in the country in job growth.

Lawmakers must close the loophole, but only as part of a comprehensive tax reform plan. The loophole is just one part of a much larger problem. The reduction in individual income tax rates has done far greater damage, accounting for nearly 70% of the tax plan’s unaffordable and unsustainable price tag. In dollars and cents, closing the loophole without fixing other provisions of this failed tax policy merely moves 330,000 Kansans from the loophole (where they pay no income tax) to the “March to Zero (where they will eventually pay no income tax again).

House Bill 2023 is a step in the right direction, but we implore lawmakers to “hold out” for a comprehensive solution. This bill on its own will only prolong a fiscal crisis that has wreaked havoc on our state economy. By demanding the LLC loophole close as part of a comprehensive overhaul, lawmakers will ensure that this 10th budget crisis is the last their constituents are forced to endure as a result of failed tax policy.