

Rep. Don Hineman's questions about tax cut plan

Many who attended Revenue Secretary Nick Jordan's tax tour of Western Kansas were impressed with the comments of State Representative Don Hineman (R-Dighton), who posed some questions about what the Governor will propose, and below you will find the comments in their entirety:

Nick Jordan Listening Tour Hays, Kansas November 2, 2011 Remarks and Questions by Representative Don Hineman

Secretary Jordan, I want to welcome you to Western Kansas and I thank you for conducting this listening tour on possible tax reform. I agree with you that reducing personal and corporate income tax rates is a desirable goal, and that doing so can lead to economic growth for the state. We must insure that our tax policy enhances our competitive position relative to neighboring states. However that is true not only for income tax, but for sales and property tax as well.

I applaud and support your efforts, and the hard work of Governor Brownback's entire "tax team" in searching for a more growth-oriented but equitable tax plan. Finding that "best fit" solution will require input from many Kansas policymakers and citizens. I submit the following questions as issues that deserve careful consideration as we work together toward that end.

1. For many years Kansas government has been largely financed by the "three-legged stool" of sales tax, income tax, and property tax. Part of the rationale for the three-legged stool is that it spreads the burden of financing government broadly, over as many Kansas citizens and visitors as possible. It is often said that such a system is relatively fair or equitable. If Kansas moves from a "three-legged taxation stool" to a "two-legged stool", does the Kansas taxation system become less equitable?
2. The experience of some states with no income tax indicates that governmental revenues become less stable if income tax is eliminated. If Kansas moves from a three-legged stool to a two-legged stool, do governmental revenues become more volatile and less predictable?
3. Rural Kansas is currently saddled with property tax rates that are much higher than the rest of the state, as the handout illustrates. Imagine the difficulty in generating any new economic growth in these rural communities with total mill levies ranging from 200 to as high as 274, when major urban centers in the state have total mill levies as low as 121

(Wichita) or 114 (Overland Park). Or equally as important, imagine trying to keep a struggling retail business alive in a rural Kansas town with such a high property tax burden. If we move to reduce income tax and property taxes go up as a result, what do we say to the residents of Smith Center, where the mill levy is 274, the L.O.B. is maxed out, and the sales tax trade pull factor is an anemic 0.70? What hope do we offer to the residents of dozens of similar rural Kansas communities where property taxes are through the roof and population has declined by double digits in the past ten years? What assurance can we give them that tax reform will not accelerate those unfortunate trends?

4. Kansas' three-legged stool is already seriously unbalanced. As recently as fiscal year 2008 the funding sources were roughly equivalent, with property tax bringing in \$3.8 billion, income tax \$3.4 billion, and sales tax \$3.1 billion. But two short years later, property taxpayers were shouldering a disproportionate share of the burden, with property tax raising \$4 billion in state and local revenue, but sales and income tax only contributing \$2.9 billion and \$2.7 billion, respectively. In the past, Kansas policy-makers have recognized the negative effects of high property taxes and taken steps to mitigate those effects. The Kansas legislature for many years maintained an *ad valorem* Property Tax Reduction Fund, which channeled state-raised revenues to local units of government to enable them to reduce property taxes. In recent years that fund has not been funded by the Kansas legislature. When the Kansas lottery was first established in the 1980's, one of the promised uses of the revenue generated was property tax reduction. Today that is nothing more than an empty promise.

And now, tax reform and school finance revisions are being considered that point to even more reliance on local property tax.

My final question is, is that appropriate? It is really the best tax and public policy to make the property tax the bedrock foundation of financing governmental operations? Many Kansas residents would answer "no" to that question, and I urge very careful consideration of the negative ramifications of moving in that direction.