



The Kansas FairTax Act of 2013

BASIC CONCEPTS

This Act provides a tax system that:

1. Promotes state economic growth faster than any other tax system;
2. Completely eliminates the State Income Tax as a basis for state revenue in Kansas;
3. Minimizes the cost of compliance, which is the cost imposed on the Private Sector by government tax policy;
4. Reforms the existing sales tax system making it a true, pure consumption tax by –
 - a. Eliminating all sales tax exemptions that are not business inputs;
 - b. Broadening the tax base to include the consumption tax on all new products and services that are personally consumed;
5. Eliminates the inherently “regressive” nature of typical “standard” sales taxes by providing a system to prepay the sales tax (by means of a “Prebate”) on all spending up to the poverty level for individuals and families, without “means testing”;
6. Recompenses the product retailers and personal service providers $\frac{1}{4}\%$ for collecting the tax;
7. Allows local governments (Counties, Cities and Special Tax Districts) to retain the “windfall” of additional sales tax revenue for their own purposes, free of mandates from the State;
8. Establishes by statute a three-year implementation schedule, which allows investors and everyone else to know early in 2013 that Kansas is the best place to expand and create new businesses.

IMPLEMENTATION SCHEDULE

- A. Completely repeal the Corporate Income Tax on July 1, 2013.
- B. Eliminate all Sales Tax exemptions that are not business inputs on July 1, 2013.
- C. Reduce the Personal income tax rate effective Jan 1, 2014.
- D. Completely eliminate the Personal Income Tax Jan 1, 2015.
- E. Establish a Prebate program to pay the sales tax (i.e. consumption tax) on all spending up to the poverty level effective Jan 1, 2014.
- F. Expand the sales tax base by taxing all new (excluding all used) retail products and personal services delivered to all consumers effective July 1, 2013.
- G. Keep the sales tax rate (i.e. as the consumption tax) the same (6.3%) through 2015 or until the amount of sales tax collected exceeds the needs of the State’s budget – then reduce the sales tax rate.
- H. Pay the sales tax collectors $\frac{1}{4}\%$ for collecting the tax beginning July 1, 2013.
- I. Repeal any residual Income Tax-related statutes beyond Dec 31, 2015.

Last year’s introductory bill, “The Economic Freedom Act of 2014” (HB2763), should be used as a model to implement the continuing NO INCOME TAX plan for Kansas this year. Step one above has already been taken, with the reduction of Income Taxes on small businesses. The new tax law for 2013 should build on that base.

The goal of this plan is to achieve revenue neutrality over the transition period while growing the future economy by attracting large out-of-state investors during the first three years. The metrics listed below show that this goal can be reached within a very few years.

- a. The current loss of small business revenues is estimated to be about \$283 million per year. This lost revenue can be replaced by avoiding the transfer of highway funds.
- b. The loss of corporate taxes today is \$250 million per year, which can be replaced by temporarily keeping the sales tax rate at 6.3% instead of falling back to 5.7%. The cash flow is basically unchanged in CY2013, because the corporate tax liability is not reduced until 2014.
- c. The loss of personal Income Tax revenue (About \$1 billion) is replaceable by the removal of sales tax exemptions on non-business inputs of \$1 billion. (Refer to the table below.)

Table 3 Consumption Tax Exemptions / Exclusions (\$Millions)						
	FY2012	FY2013	FY2014	FY2015	FY2016	Repealed
Conceptual Exclusions	\$3,859.56	\$4,004.29	\$3,758.79	\$3,899.74	\$4,045.99	No
Public Policy: Charitable, Religious, & Benevolent Exemptions	29.91	31.03	29.13	30.22	31.35	Yes
Public Policy: Exemptions to Charitable Organizations by Name	\$2.90	\$3.01	\$2.82	\$2.93	\$3.04	Yes
Public Policy: Consumer Exemptions	\$449.34	\$466.19	\$437.61	\$454.02	\$471.05	Yes
Public Policy: Governmental Exemptions	\$594.71	\$617.01	\$579.18	\$600.90	\$623.43	Yes
Public Policy: Educational Exemptions	\$77.57	\$80.47	\$75.54	\$78.37	\$81.31	No
Public Policy: Health Care Exemptions	\$108.45	\$112.51	\$105.61	\$109.58	\$113.68	Yes
Public Policy: Agriculture Exemptions	\$66.04	\$68.52	\$64.32	\$66.73	\$69.23	No
Legal Exemptions	\$20.64	\$21.42	\$20.10	\$20.86	\$21.64	No
Public Policy: Exemption of Services	\$7.62	\$7.91	\$7.42	\$7.70	\$7.99	Yes
Public Policy: Exemptions for Businesses	\$270.94	\$231.60	\$217.40	\$225.55	\$234.01	No
Totals	\$5,487.67	\$5,643.96	\$5,297.93	\$5,496.61	\$5,702.73	
Repealed	\$1,192.93	\$1,237.66	\$1,161.77	\$1,205.35	\$1,250.54	Yes
Retained	\$4,294.75	\$4,406.30	\$4,136.15	\$4,291.25	\$4,452.18	No
Exempted business inputs (\$millions)	\$4,217.18	\$4,325.83	\$4,060.61	\$4,212.88	\$4,370.87	
Recovered business inputs (%)			0%	5%	10%	
Recovered business inputs (\$millions)			\$0.00	\$210.64	\$437.09	

SUBSTANTIAL BENEFITS WILL ACCRUE TO ALL TAXPAYERS AND BUSINESSES

Here's the Bottom Line:

When these policies begin to be implemented,

- A. Economic growth in Kansas will be rapid and spectacular;**
- B. Investment of capital in the private sector will create economic growth seven times faster than the government can;**
- C. More cash will remain in people's pockets by eliminating payroll taxes, which will stimulate retail sales;**
- D. Out-of-state investors will see Kansas as a high growth, high return on investment state instead of one of the worst states for existing businesses (47th place) or new businesses (48th place) on a scale of 1-to-50, where 50 is the worst;**
- E. Existing businesses in Kansas will find that the reduction in Income tax enhances their competitive effectiveness;**
- F. Business owners will focus on being successful businesses rather than contestants in the ongoing challenge of how to get more from the government;**
- G. The cost of compliance will be drastically reduced allowing the government to be operated more efficiently with lower costs and fewer burdening regulations;**
- H. The cost savings in the Department of Revenue (and related organizations) will reduce by at least 50% the cost of operating the current DOR, which currently has over a thousand employees and an annual budget of over \$100 million;**
- I. Counties and local governments will enjoy increased revenue and subsequent reduction in administrative costs and regulations. The individual taxpayer will love the change and will want to re-elect government officials, who were so effective.**
- J. Individuals' standard of living will be much better in Kansas, encouraging more people and businesses to come here to the Sunflower State.**
- K. The migration of people and businesses out of Kansas will be stopped and reversed.**
- L. With NO INCOME TAX to pay and very little government involvement in their businesses, our exporters will experience significant competitive advantages.**

These People Understand Economic Growth:

The most prosperous period in America in recent times was when Ronald Reagan was President, Milton Friedman was his Economic Advisor, and Tip O'Neil was Speaker of the House.

President Reagan said, **“Government is not the solution to our problem, Government is the problem.”** Milton Friedman said **“Underlying most arguments against the free market is a lack of belief in freedom itself.”**

President Reagan (Republican) and Tip O'Neil (Democrat) promoted federal laws and government policies that resulted in outstanding economic growth. Under this political environment, America prospered and become the stand alone, superpower in the world.

Dave Trabert, President of the Kansas Policy Institute, said, **“States without an income tax have significantly better growth in private sector GDP (59% versus 42%) over the last 10 years. They increased the number of jobs by 4.9%, while jobs in the rest of the states declined by 2.6%. States without an Income Tax gained population (+5.5%) from domestic migration (U.S. residents moving in and out of states), while all other states as a whole lost 1.3% of population between 2000 and 2009.”** (See this in The Wall Street Journal, December 14, 2012.)

Louis Woodhill, Economic advisor to Club for Growth and regular contributor to Forbes Online, said, **“With the state losing jobs, citizens, and capital investment to other states, Kansas can't afford to wait ten years. And, since it is also true that economic growth is what matters, it is obvious that what is needed is to replace Kansas' personal and corporate Income Taxes with a sales tax—and to do it now. In other words, Kansas needs to enact the FairTax at the state level.”**

Dr. Arthur Hall, Executive Director of the Center for Applied Economics at Kansas University, says, **“Absent sustained record-breaking revenues over the next decade, the budget is going off the cliff....”**

Dr. David Tuerck, et al. of the Beacon Hill Institute at Suffolk University said (if the states would adopt a FairTax at the state level), **“As a result, all states, with the exception of Hawaii, could lower their existing sales tax rates by almost one percentage point. On the average, states could more than halve their sales tax rates, or 3.5% percentage points, from 5.25% to 2.02%.”** This amazing finding was published in September 2007 titled **“Fiscal Federalism: The National FairTax and the States.”**

With these principles in mind, Kansas needs to concentrate first and foremost on Economic Growth, and do it now.