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Is Kansas being left behind?

By Jonathan Williams

It's official; the "dog days of summer" are here. Many parents are already purchasing school supplies for the coming school year. High school football hopefuls are on the practice fields battling the oppressive heat. Even without the participation of the Kansas City Royals, Major League Baseball's playoff race is beginning to heat up.

The start of August also marks a hiatus in the legislative season. In Washington, D.C., Congress adjourned for a month-long recess. Many state legislatures also adjourned and lawmakers are back in their home districts politicking for the fall elections. This pause in the action gives us a great opportunity to reflect and analyze the performance of our lawmakers in Topeka.

On a positive note, policymakers approved legislation to separate Kansas' estate tax from the federal estate tax. The legislation creates a "stand alone" estate tax for Kansas. More importantly, it also mandates the phase-out of the tax by January 1, 2010. The future elimination of the estate tax is a significant development for many family farmers, ranchers and small business owners throughout Kansas. For the first time since 1909, residents of the Sunflower State will not have to agonize over the prospect of the state government taxing their estates at the time of death.

Unfortunately, all news is not good news. Even though the economy is expanding and tax receipts are up, talk of additional spending dominates most of the discussion regarding surpluses in Kansas when tax reductions would engender far more productive conversation. Even worse is the discussion of creating an individual income tax surtax to raise additional funds for higher education.

Other states in our region are taking a different path. Several are reducing taxes with surplus funds and enhancing their tax climate in the process. For instance, lawmakers in Oklahoma recently passed major tax reductions that included phasing down the top individual income tax bracket from 6.25 percent to 5.25 percent. The Oklahoma legislation provides \$600 million in annual tax relief and also eliminates the estate tax in 2010.

Further to the south, lawmakers in Texas used a portion of their tax surplus to pass a massive property tax reduction. Early estimates indicate a reduction in local property taxes of \$15.7 billion over the next five years. Governor Rick Perry calls the plan "the largest tax cut in Texas history."

Nebraska also took action to reduce taxes. This spring, lawmakers approved legislation to reduce taxes by roughly \$100 million annually. Furthermore, during his highly competitive primary race against Nebraska football legend Tom Osborne, Governor Dave Heineman signaled he would seek further tax reductions if elected to a full term. Now that Governor Heineman won the primary and is a strong favorite in November, it is very probable that we will see further tax reductions from our neighbor to the north.

It is evident from the actions of our neighboring states that they are serious about making their tax systems more competitive for the 21st Century. While oftentimes necessary, playing defense by stopping tax increases is no longer sufficient to stay in the game. Lawmakers in Kansas must go further. They must take a proactive approach to reduce tax burdens if they wish to make Kansas's tax system more competitive.

According to the Tax Foundation, residents of Kansas will pay an average of 10.7 percent of their income in state and local taxes this year, which ranks 18th highest nationally. This year marks the seventh consecutive year that Kansas' average state and local tax burden met or exceeded the national average.

When you compare our state and local tax burden in Kansas to the tax burden faced by neighboring states, only residents of Nebraska pay more - and that may soon change. If lawmakers do nothing, it is obvious that Kansas will be left behind and may even become the high-tax state in the region.

In the 21st Century, individuals and businesses are highly mobile and tax changes are not made in a vacuum. When a state enacts new tax legislation it either enhances or reduces its relative attractiveness for human and business capital.

Economist Richard Vedder has written extensively on the impact of taxation. His work and the work of numerous other economists show that high levels of taxation impede economic growth, reduce job opportunities, lower worker output and foster out-migration of both businesses and residents.

Our regional competitors are making changes to significantly reduce tax burdens. In the process they are making their states more attractive venues for investment. Unless our tax climate becomes more hospitable, Kansas will fall behind in the battle to attract America's best and brightest.

For better or worse, the "dog days" of August have arrived. It's the perfect time for lawmakers in Topeka to make Kansas more competitive.

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