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New Study Confirms Kansas' Poor Business Tax Climate

By Jonathan Williams

The Tax Foundation, a non-partisan tax research organization based in Washington, D.C., just released the 2007 State Business Tax Climate Index and the study shows Kansas' tax system needs major improvement.

This comprehensive study of the 50 state tax systems is designed as a guide for lawmakers who wish to make their state's business tax climate more competitive in the regional, national and international marketplace. The Index compares the states in five areas of taxation that impact business: corporate business taxes, individual income taxes, sales taxes, unemployment insurance taxes, and property taxes. This year, the ten states with the most business-friendly tax systems are: Wyoming, South Dakota, Alaska, Nevada, Florida, Texas, Montana, New Hampshire, Delaware and Oregon.

Unfortunately, Kansas' tax system does not receive high marks on this year's index. The new study ranks Kansas' overall business tax climate 31st out of the 50 states. In fact, Kansas' business tax climate significantly lags behind all bordering states, with the lone exception of Nebraska. Throughout the region and the nation as a whole, states are using surplus dollars to reduce taxes and improve their business tax climates. If lawmakers in Kansas fail to reduce taxes, it is a real possibility that next year's State Business Tax Climate Index will find Kansas' tax system as the worst in the area.

In what should also be alarming for Kansas, the corporate tax sub-index ranks Kansas' business taxes as some of the worst in the nation. The corporate tax sub-index evaluates tax policies that have a direct impact on business, including corporate income tax rates and bases. This year, Kansas ranks 38th out of the 50 states with regard to the corporate tax sub-index. This disappointing ranking places Kansas dead last among neighboring states.

Hopefully the State Business Tax Climate Index will remind lawmakers in Kansas that reform of the state's tax system is necessary to foster a competitive business environment for the 21st Century. Today, businesses in Kansas pay a top statutory corporate income tax rate of 7.35 percent. This top rate applies to all corporate income over \$50,000 per year. With regard to their top corporate income tax rate, (again with the sole exception of Nebraska), Kansas finds itself with the least desirable tax policy among its neighbors.

Today, business capital is increasingly liquid and can easily be shifted between competing opportunities throughout the international marketplace. This phenomenon puts additional

pressure on governmental jurisdictions to provide a competitive tax structure that will attract this new form of business investment. Unfortunately, Kansas' top corporate tax rate puts an undue burden on business investment because of its uncompetitive nature. When you add Kansas' top statutory corporate tax rate to the 35 percent U.S. corporate rate, a business looking to invest in Kansas will face the prospect of paying a combined tax rate of 42.35 percent on its earnings. In fact, Kansas' top combined corporate rate exceeds the top corporate tax rates in all OECD countries, even France and Sweden.

On a positive note, the Kansas legislature passed legislation to phase out Kansas' estate tax by Jan. 1, 2010. The elimination of the estate tax is a step in the right direction, but there is much more work to be done. If lawmakers want to make significant improvements to the business tax climate in Kansas, reducing the corporate income tax rate to a level that is regionally competitive and eliminating the onerous corporate franchise tax would be a great place to start.

Considering the poor ranking that Kansas received in the 2007 State Business Tax Climate Index, lawmakers would be judicious to examine the uncompetitive nature of current tax policy. Careful consideration should be directed towards eliminating the roadblocks to competitiveness that are currently embedded in Kansas' tax system. If nothing is done by lawmakers to enhance Kansas' business tax climate, Kansas will be left behind by jurisdictions that realize the increasingly competitive nature of business in the 21st Century.

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