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As Hard Times Hit the States, Another Study Confirms Kansas' Poor Business Tax Climate

We all know the economic damage from the recent crash of the financial sector is not confined to Wall St. Even before the recent meltdown, roughly 30 states faced budget deficits for fiscal year 2009 (which began on July 1 for most states). More than 20 states are now facing fresh budget shortfalls for the upcoming year, and few remain hopeful that state coffers will recover anytime soon.

During these difficult times, it becomes increasingly important for lawmakers to find innovative solutions to solve budget problems – without increasing taxes. If families and businesses are required to live within their means, government should be required to as well.

In the face of these budget pressures, many states are misguidedly looking to target businesses as a strategy to balance the books. As our elected officials think about beginning the annual task of budget writing, it is important they remember that levying tax increases is not a sustainable answer for budget problems. In fact, it comes at a great cost.

Whenever a state changes its tax and fiscal policies, it directly and immediately influences that state's competitive position for personal and business investment. Especially during an economic downturn, Kansas needs to be doing everything it can to become more competitive, not less.

With this in mind, a new study released by a non-partisan tax research organization based in Washington, D.C. could help highlight this need for competitiveness in Kansas. The Tax Foundation's 2009 State Business Tax Climate Index shows Kansas' tax system needs some major improvements.

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, Nevada, Alaska, Florida, Montana, Texas, New Hampshire, Oregon and Delaware.

Unfortunately Kansas's 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.

In what should also be alarming for Kansas, the 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 37th out of the 50 states with regard to the corporate tax sub-index. This disappointing ranking places Kansas dead last among neighboring states.

The historical evidence is clear: States that keep spending and taxes low exhibit the best economic results, while states that follow the tax-and-spend path lag far behind. Colorado, for example, was able to restrain government spending and tax burdens through the Taxpayers' Bill of Rights in the early '90s, creating one of the strongest economies in the nation.

With competitors like these sitting just across the border, it should make every policymaker in Topeka very aware that changes to policy are not created in a vacuum.

On a positive note, the Kansas legislature has passed legislation to phase out the estate tax and the corporate franchise tax in Kansas. Additionally, legislation was passed in the 2008 session to reduce Kansas' corporate income tax. These actions certainly are a step in the right direction, but there is more work to be done to attract businesses to come and create jobs.

Hopefully the State Business Tax Climate Index will remind lawmakers in Kansas that further reform of the state's tax system is necessary to foster a competitive business environment for the 21st Century. Today, business capital is increasingly liquid and can easily be shifted between competing opportunities throughout the international marketplace.

Over the past several years, states across the nation had the option of using their surplus dollars to reduce taxes and improve their business tax climates. Today, the situation has changed dramatically, and many states don't have that luxury. With budget deficits at hand, states must now begin the process of belt tightening.

In these difficult times, it is important to remember the consequences of raising taxes. As this study shows, in the battle for business investment, Kansas only ranks a lukewarm mediocre.

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