



Nick Jordan, Secretary

Sam Brownback, Governor

U.S. House of Representatives Committee on Small Business
Testimony of Revenue Secretary Nick Jordan: Beyond the Beltway
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Chairman Graves, thank you for inviting me to address your committee on the very important work we are doing in Kansas to create an environment for small business success.

This is a topic very dear to us in my state because the vast majority of private sector employers there are small businesses — 77 percent have fewer than 10 employees, and 98 percent have fewer than 100 employees.

This means for Kansas families to flourish economically in the 21st century, we must have flourishing small businesses.

With that in mind, Gov. Sam Brownback has placed the utmost importance on pro-growth tax reform at the state level.

We started with a clear-eyed understanding that taxes at the federal, state, and local levels are a complicated hodge-podge cobbled together over many decades. To help small businesses, it's important to reduce the burden of complying with this onerous system, while also reducing the overall tax burden.

So, since 2011, Gov. Brownback and the Kansas Legislature have teamed up to make the state's tax code fairer, flatter, and simpler for families and small businesses. This approach broadens the base and lowers tax rates for the benefit of the maximum number of Kansans.

The result has been historic and innovative tax relief — focused on providing a shot of adrenaline into the heart of the Kansas economy.

What makes Kansas' approach unique is how we are strategically accelerating tax relief to benefit small businesses.

While individual income tax rates have been reduced 14 to 24 percent for all Kansas taxpayers, we have gone even further to boost small businesses, because those businesses are the engine of job creation for our Kansas families. Once the plan is fully implemented in 2018, Kansas taxpayers will save an additional 23 percent on average.

Starting this year, Kansas began exempting non-wage business income from state income tax. This is the type of income earned by the majority of small Kansas businesses, which typically are structured as LLCs, sole proprietorships, or S-corps, commonly referred to as

“flow-throughs” since the taxes for this business income are filed on individual income tax returns rather than corporate tax returns.

By eliminating the state income tax for many small businesses, we are sending the message that every business, every innovation, and every entrepreneur matters when it comes to creating jobs in Kansas.

This is in addition to programs such as the Kansas Bioscience Authority, NetWork Kansas and the state’s Angel Investor credit which also help foster entrepreneurship.

We are encouraging small businesses to grow in other ways as well. For example, **our tax policy encourages private sector investment by allowing companies to immediately “expense” purchases of equipment and software** as a state tax deduction. As small businesses capture the full tax value of the money related to their investments, they are keeping tens of millions of dollars each year, which can be reinvested in the businesses.

Additional tax relief is being targeted to rural communities to stimulate small business startups in every corner of Kansas, not just our urban centers.

Specifically, Kansas is providing a full state income tax rebate to new residents who move from out-of-state into rural opportunity zones.

By keeping an additional \$4.1 billion in the pockets of Kansas citizens and businesses over the next six years, we hope to experience growth rates similar to the nine states with zero personal income tax, which significantly outperform states with the highest personal income tax rates.

Recently the Tax Foundation released a paper titled, *What Is the Evidence on Taxes and Growth?* The special report found that data “consistently point to significant negative effects of taxes on economic growth even after controlling for various other factors such as government spending, business cycle conditions, and monetary policy ... Every study in the last 15 years finds a negative effect of taxes on growth ... If we intend to increase employment, we should lower taxes on workers and businesses that hire them.”

Therefore, in Kansas, we have been changing the dynamic that has led to average economic results — so more families can achieve a meaningful increase in income and opportunity, and small businesses can invest in growth and new jobs.

This is a model being recognized by our neighboring states, including Chairman Graves’s home state of Missouri, and we hope others in the region will join us in reducing taxes on small businesses and making the heartland of America the fastest growing region in the nation.

As Missouri Speaker of the House Tim Jones recently wrote in *The Kansas City Star*:

“Kansas lawmakers have accomplished major tax reform and have managed to get the state economy back on track. These improvements are great for Kansans and challenge neighboring states to compete for business and job growth ...

“On the other hand, Missouri’s unemployment rate has plateaued at 6.6 percent. Perhaps most troubling for Missouri is the Kauffman Foundation’s small business climate ranking, which gives Missouri a C and Kansas an A ...”

Speaker Jones concluded, “Kansas has proven that competitive economic policies promote a business-friendly environment, attracting new companies and, with those new companies, more jobs ... The facts are right in front of us.”