

The Billion-Dollar Question

Why would the State of Kansas ignore the opportunity to generate a \$2.1 Billion surplus for FY2013 in the State General Fund (SGF)?

On Friday, January 20, a number of us attended the Senate Standing Assessment and Taxation Committee hearing in Topeka. It was both astonishing and obvious, from the questions that were not ask by the committee members, that they (individually or as a committee) had no real interest in considering any alternative to the Governors tax reform proposal or plans they may have individually devoted time to crafting.

At the turn of the last century, the United States was essentially debt free. Then in 1913, we provided congress, by constitutional amendment, the authority to tax our income. With the new taxing authority in place, federal lawmakers would no longer need our advice and consent and the march to socialism was on. It would take the better part of the next hundred years to make the million-dollar question obsolete but once government reached the billion dollar spending mark the leap to a trillion dollars occurred in a relative flash. Today, the accumulated annual deficit of the current administration alone exceeds the combined cumulative total deficit of all previous administrations. In less than a decade, we would learn to speak in billions although we really cannot comprehend the quantity. Today, the Million-dollar question equates to little more than pocket change lost in the couch cushions. Perhaps tomorrow, our children will be perplexed at our inability to comprehend such an insignificant amount as a trillion dollars.

Unfortunately, Kansas, like most other states, simply mimics the deficit spending habits and taxation policies of the federal government and now finds themselves in the dubious position of operating its own favor mill, selecting winners and losers each year for receipt of the states shrinking revenue. A fact easily witnessed by the parade of interest groups present and providing testimony in order to protect their share of the pie. With federal tentacles burrowed deep in their hide, our Governor and state legislators lack the fortitude to make a clean break with the federal schemes of taxation. Their plan does not mark an end to state sponsored charity but instead simply shifts state funds from one entitlement (the state earned income tax credit for instance) to another (Medicaid) for the purpose of attracting more funds from the federal government. Drawn inextricably like a moth to a flame, our Governor and legislators fail to appreciate that federal dollars are borrowed dollars that become a liability for future Kansas taxpayers. It is like paying the MasterCard bill with the Visa card. It provides only temporary relief for a chronic if not fatal problem.

The FairTaxKC Triple Zero + 6.3% plan offers the Governor and state legislators the opportunity to cut the shackles and make a clean break with the Federal Government and from the federal schemes of taxation without cutting a single dime from their current projected expenditures.

The FairTaxKC Triple Zero + 6.3% plan would replace all current methods of taxing goods, personal and business income with a single rate consumption tax on services and new products at the Point of Sale only, with zero exceptions or exemptions.

The FairTaxKC Triple Zero + 6.3% plan would provide a prebate (prepayment) monthly to every legal citizen and resident on the registered tax rolls in Kansas for the consumption tax paid up to the poverty level.

The FairTaxKC Triple Zero + 6.3% plan projects a net positive reserve equal to roughly one third of the current SGF total planned expenditures in the first year, or \$2.1 Billion, compounding annually. The Governors tax proposal can only muster on paper about three quarters of the required statutory 7.5% SGF reserve or \$350 Million.

In 1972, the total federal budget was approximately \$230 Billion. Today, the federal government will pay approximately \$238 Billion in interest payments alone this year. Historically, our state budget reflects the same trend in spending and debt (much of which is largely hidden from the public). The only common thread in comments of the committee members and those testifying on behalf of their sacred cow was the apparent acknowledgement that significant change in the Kansas taxation policy was required (even if many hoped it would not affect them). The only question remaining for us is, will Kansas take the bold steps required that would allow the state to operate with billions of whole dollars in reserve? Or will Kansas take a half measured approach to modifying the federal schemes of taxation and leave the state operating on couch cushion change and a greater dependence on a bankrupt federal government.

Please take the opportunity now to contact the Governor and your legislators asking that they give the FairTaxKC Triple Zero + 6.3% plan fair treatment in their deliberations.

The Fair Tax plan for Kansas can be viewed at www.triple0.org

Respectfully,

Larry Halloran, Chairman
Wichita – South Central KS 912 Group
Mulvane, KS

FairTaxKC chart with updated SGF Outlook from the Governor’s Budget Report for FY2013 released January 2012.

How Much Revenue is needed in 2013?	
<u>From Governor’s 2013 Budget Expenditures</u>	(\$ Million)
Total Expenditures to be replaced by Consumption Tax	\$6,089.6
How much is Available with the Consumption Tax?	
Total GDP in Kansas in 2013	\$159,163.0
Estimated Personal Consumption in 2012 (85%)	\$135,288.0
Gross Revenue with a Consumption Tax Rate of 6.3%	\$8,523.0
Prebate	\$300.0
Retailers Allowance ¼%	\$21.0
Net Revenue to SGF	\$8,202.0
Revenue Surplus (uncommitted)	\$2,112.4

What is important with regard to our legislators support of the Fair Tax for KS

1. Fair Tax is about how we will allow ourselves to be taxed. It is **not** about what we are willing to pay for. That is a separate discussion. They are uniquely different from each other.
2. Any time an opportunity presents itself or any time taxation is being discussed, our legislators should engage the Fair Tax proposal as part of the discussion. That was the opportunity missed the other day (Friday). Those that were there to protect their slice of the pie do not understand the Fair Tax either and need to hear about it and understand how it would affect them. They will find that the Fair Tax itself is not a threat to their sacred cow as it does not ask legislators to cut a single dime from their currently planned expenditures.
3. How might it help the low income folks? Consider that Fair Tax does not impose a tax on used goods. Those buying a used car would pay NO sales tax. There would no longer be a need for a property tax on new or used vehicles. So that saves everyone even more. There would still be a tag fee to register so the vehicle could be ticketed to the owner for parking, speeding or to make sure they are carrying the required insurance but the tag fee would only need to cover the actual cost of issuing it. You do not need extra property tax or higher tag fees for the SGF.
4. **Everyone receives a prebate up to the poverty level**. Low income earners making above the poverty level will pay the same tax as others for new goods and services. But there is NO Tax on used vehicles, clothing, appliances, furniture, etc, that represent the kinds of things that would be within the purchasing power of low income people.
5. The greatest gain for all is we get our productive time back (that is not being compensated now) for the time we spend maintaining tax records (receipts, etc) for deduction and preparing detailed tax returns. If we unleash that productive time alone we should see a significant improvement in the economy. We spend hundreds or thousands of man hours and dollars in just trying to comply with the tax laws. For those of us that operated a small business and could not afford to hire a tax accountant we probably left many deductions on the table that we did not know about because we did not have time to scourer hundreds or thousands of state and federal tax codes to find all of the deductions for which we might have been eligible.
6. **Most importantly**, we can get a small portion of our freedom back from the state, at least, because neither they or the federal government have any right to know how much we make, how much property we own or how much we have in savings or investments.

Improvements to the plan are still needed.

1. Perhaps a Constitutional amendment to ban income tax as long as the consumption tax was in place should be considered.
2. A limit on the amount the legislature could increase the consumption tax annually or in aggregate over several years without the approval of the voters should be considered. My personal preference would be to allow the legislature to increase the tax in a single year up to half of one percent unless there was an emergency that the Governor could declare. When they reached a total aggregate increase of one percent over several years the total increase above 6.3% would have to go on the next general election ballot and the voters would have the option to retain the whole 1% or some lesser portion $\frac{1}{4}$, $\frac{1}{2}$, $\frac{3}{4}$. or none in which case the tax would automatically revert to the lowest approved level beginning in the following fiscal year. This too would probably need to be a Constitutional amendment.

Where can or where must our legislators help.

1. We all know most people are tuned out or ignorant of what is going on. We can try to educate them and we will do all that we can. **But the burden really rests on our legislators' shoulders** because they will ultimately have to cast the votes. **This is their opportunity to stand up and really represent the citizens in the way we thought elder statesmen would. They are going to have to carry the fight.** Without a ton of money to educate the citizens it is really on them. We will do all that we can to help. **But they cannot allow an opportunity to pass in committee where they could bring the Fair tax front and center and give it serious consideration.**