March 15, 2016

House Bill 2444
Testimony Before the Taxation Committee
Denis W. Miller, CPA

Chair and Members of the Committee:

Thank you for hearing my testimony on House Bill No. 2444 that has been introduced, concerning eliminating business nonwage income tax exemption and reducing the tax rate on food. I am a CPA in Western Kansas, member of a firm with four offices, including my office in Phillipsburg. In our office in Phillipsburg, we have four CPAs employed, including myself, as well as other staff and paraprofessionals. We do tax returns and file state returns in over thirty states at the last count. The current law in Kansas, eliminating the taxation of income on individuals filing a Schedule C, Schedule F, and Schedule E in their tax return, has been the one of the factors severely decreasing the cash flow from taxation to the State of Kansas. It is probably not the single largest cause of the lack of revenue created for the state of Kansas, but it has caused the most derogatory comments in the press.

I would simply like to pass on my observations of the impact on the law itself and the feeling of my clients in our region. The law originally hoped to spur an incentive in the state of Kansas for small businesses. However, my experiences have indicated that the decisions the taxpayers make are driven by the federal tax code with the income tax being 15-39%, employment tax being an additional 15%, compared to the approximate 4% tax rate by the state of Kansas. Their tax structure generally, is not driven by the state of Kansas considerations, but by federal tax considerations. In many cases, the savings in Kansas taxes have paid the increases in federal taxes, but I have seen no business expansion due to the reduced Kansas taxes. In addition, several features of the law make it a free tax pass in the state of Kansas by individuals who would not even consider investing in a business. These include land rentals, royalty interests, and trust investment returns. Very few of the individuals that have this type of income are going to invest in a business to expand to employ more persons. In addition, the waiver of these nontax type incomes from taxation has allowed out-of-state persons who have investment interests in Kansas to not pay state of Kansas taxes, but instead effectively passes the taxes to the state in which they reside. If they paid Kansas taxes, it would reduce their respective state taxes. However, since they aren't paying Kansas taxes, their corresponding resident state taxes are higher. Therefore, their total tax structure is not much, if diminished at all.

It has been asked how the tax bill has affected our area, realizing that most of our businesses are small to medium sized and individually owned businesses, which would include farmers. The comments I hear from a large percentage of these clients are that they are concerned for the lack of funding for their schools, a perceived future deterioration of the roads in our region due to the severe withdrawal of monies from KDOT to fund general fund operations, and especially for farmers a perceived significant increase in property taxes to fund the schools.

In our area, one of the biggest enticements in the state of Kansas to entice job growth has been the ROZ (Rural Opportunity Zone) for especially the students coming out of secondary education. Phillips County has probably close to seventy young families who have moved to the county in the last five years, strictly based on the fact the ROZ program is available to help reduce or eliminate their college debt. In fact, I have two employees who have been enticed to join me in our firm in Phillips County, strictly on this one issue alone. One of them, was specifically looking at Kansas City at the time when we were able to entice him to come to Phillips County. It has really brought a strong entrance of young people to the county with young families, children, etc.

I realize that another part of this bill is a reduction of the sales tax on food. However, as long as the state of Kansas is in such a dire financial state, it seems to be a poor move to reduce the sales tax on food. I realize that several parties have expressed that the sales tax is a regressive tax, but I feel the welfare monies received by individuals compensate for this regressiveness. Therefore, until the state can get on its feet financially and have the funds to provide what citizens expect in providing infrastructure and services including education, I feel this would be a foolish move.

I would be glad to answer any questions that the committee might have. I should point out that these comments are strictly my opinion and should not reflect any other organization with whom I am affiliated.

Thank you for your time.

Sincerely,

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