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TO: Rep. Marvin Kleebe, Chair
Members, House Tax Committee

FROM: Ashley Sherard, Vice President
Lenexa Chamber of Commerce

DATE: March 15, 2016

RE: HB 2444 – Support for Pass-Through Income Tax Exemption Clarification

The Lenexa Chamber of Commerce appreciates the opportunity to share its support for HB 2444.

We strongly support initiatives that enable and encourage business reinvestment and growth. We believe, however, the scope of the pass-through income tax exemption is being interpreted beyond legislators' original intent, the expanded fiscal impact is contributing to the state's budget instability, and the measure is not producing the meaningful economic benefit to individual businesses or the State that was envisioned. According to Kansas Department of Revenue figures for TY2013, 81% of eligible businesses saved an average of only \$158 or were actually hurt by the policy because they could no longer deduct losses. More than 98% of eligible businesses saved an average of \$4,100 or less -- not enough to enable the job creation and statewide economic boost that would reasonably offset reduced revenues.

As a result, the policy is adding pressure to increase other taxes and fees, including the state sales tax -- borne out in last year's jump from 6.15% to 6.5% -- which is a particular concern. First, like all border counties, maintaining an overall sales tax rate competitive with both our neighboring state and the online marketplace is very important to our business community. Buyers, particularly making large purchases, are aware they have options where to shop. Second, businesses are also consumers of goods and services, so higher sales tax rates hurt their bottom line (and if eligible for the pass-through exemption, reduce or even negate its benefit.)

HB 2444 narrows the exemption back to lawmakers' original intent, continuing to allow working capital of non-corporate business entities -- including sole proprietorships, partnerships, and LLCs, *some of which are small businesses and some of which are large businesses or subsidiaries* -- to remain exempt but taxing what is essentially the equivalent of personal income. In so doing, **we believe it would create a more equitable tax policy, help reduce counterproductive pressure to raise other taxes and fees, and provide legislators with an opportunity to reconsider whether the State could better maximize those resources.**

For these reasons, we strongly encourage you to support HB 2444, and thank you for your consideration of our input.