

**House Committee on Taxation**  
**Opposition to House Bill 2444- Small Business Tax Credits, Food**  
**Sales Tax**  
**Presented by Eric Stafford, Vice President of Government Affairs**



**Tuesday, March 15, 2016**

Mister Chairman and members of the committee, my name is Eric Stafford, Vice President of Government Affairs for the Kansas Chamber. The Kansas Chamber appreciates the opportunity to testify in opposition to House Bill 2444 which intends to roll back the small business tax cuts from 2012 and use most of that revenue to buy down food sales tax to 2.6%.

Last year we stood before this committee in opposition to legislation which rolled back the commitment made in 2012 to eliminate income taxes on small businesses. We argued last year for the legislature to find further efficiencies which results in savings instead of making Kansas a more expensive place in which to own and operate a business. Unfortunately a tax bill ultimately passed focused on consumption, itemized deductions and product-specific tax increases.

We were asked last year by this committee where the state should cut spending. The answer of possible savings through efficiencies has been presented in the A&M study, suggesting 105 recommendations that could save the state over \$440 million per year over the next five years. The legislature might not believe that every recommendation is a good one. But if some of the biggest cost-saving recommendations are adopted, Kansas could save over \$200 million per year through a variety of more efficient delivery methods for essential state services. We would suggest the legislature take action on recommendations from the efficiency study before coming back, again, to increase taxes on taxpayers in our state.

But here we are one year later and this committee is having the same debate- should we tax small businesses? Some legislators state that businesses need to pay income taxes in order to fix the budget. If the goal is to fix the budget by raising \$260 million on the backs of the business community, then why is all but \$26 million of the tax increase being used to buy down the food sales tax according to the fiscal note made available online? The answer is because taxes matter. They matter to consumers who buy food, or cars, TV's, jewelry, clothes, computers, or any other goods subject to sales tax. But they also matter to businesses which employ your constituents. Taxes matter.



*The Kansas Chamber, with headquarters in Topeka, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to do business. The Chamber represents small, medium and large employers all across Kansas.*

If the tax cuts have caused the budget problem, why is no one introducing legislation targeting the other 71% of the 2012 and 2013 tax cuts which reduced personal income tax rates? We suspect it's politically more expedient to raise taxes on businesses instead of individuals. Legislation continues to attack the business tax cuts which accounted for only 29% of the total reduction in state income taxes.

Another argument we have heard against the business tax cuts is most of these small businesses are not saving enough to generate job growth. If this is about how much one is saving and whether that will result in an economic benefit for the state, let's look at an average family who spends \$400 per month on groceries. That's \$4,800 per year spent on food. For simple calculation, let's assume \$5,000. The reduction in sales tax of 3.9% multiplied by 5,000 equals \$195 per year in savings, or \$16.25 per month.

How do we best position Kansas to grow in the future? What will result in more economic growth for our state? We would argue the best economic growth could be achieved by protecting the business tax cuts over reductions in food sales tax, and continuing efforts to improve efficiencies to allow for further reductions in income taxes.

After the tax cuts went into effect, many legislators who supported reductions in income taxes talked about the economic benefit of lower taxes. Editorials were written about correcting the decades of over taxation in Kansas. It was said that more money in the pockets of Kansas taxpayers was a good thing. We agreed then and we agree now, that lower taxes position our state over the long-run to be more competitive in our ability to attract and retain investment in our state.

It has also been said that 330,000 business owners pay zero in income taxes. This is untrue. Kansas Adjusted Gross Income includes the following income derived from business and subject to Kansas Income Taxes:

- Subchapter S Corporations are required to pay reasonable compensation to shareholders who provide service to their corporation. Compensation income is reported to the shareholder as W-2 income and is included on line 7 of the Federal Form 1040.
- Interest Income earned by a pass through business entity is reported to the shareholder on their K-1 and included as taxable income on Line 8a of the Federal Form 1040. Likewise, self-employed individuals are taxed on interest income earned in their business.
- Dividend income earned by a pass through business entity is reported to the shareholder/partner on their K-1 and included as taxable income on Line 9a of the Federal Form 1040. Likewise, self-employed individuals are taxed on dividend income earned in their business.
- Capital Gains earned by a pass through business entity are reported to the shareholder/partner on their K-1 and included as taxable income on Line 13 of

the Federal Form 1040. Likewise, self-employed individuals are taxed on capital gains earned on their business assets.

- Guaranteed Payments paid to a partner of a partnership / LLC are reported to the partner on their K-1 and included as taxable income on Line 17 of the Federal Form 1040.

Are the tax cuts working? It's a great question that has been debated heavily since 2012. We know the tax cuts have attracted businesses to Kansas, and now we're looking to change the rules on them just a few short years later. According to data from the department of revenue, there were over 18,000 first time small business filers in the state, bringing over \$1 billion of new income to the state in 2013 and 2014. Year-over-year revenues continue to grow, even with a stagnant economy being pulled down by low oil and ag commodity prices which have adversely impacted forecasted revenues. It should be pointed out that SGF receipts are close to levels seen before the 2012 tax cuts. There has been growth. It just hasn't been as strong as what the Consensus Revenue Estimating Group initially estimated and that impacts the budget development process.

I would add that 20% of respondents to our Business Leader's Poll in December 2015 said the tax cuts helped them stay in business. Even results from the Docking Institute at Fort Hays State fall 2015 survey showed 88 % of respondents felt taxes on small businesses should decrease or stay the same. Only 11% felt they should be increased.

We will close by saying we are extremely disappointed that we are having this debate again after the legislature passed a tax increase in 2015. Again, we encourage you to review, debate the merit, and adopt recommendations from the efficiency study before looking to pass the largest tax increase on businesses in this state's history.

Thank you for the opportunity to testify in opposition to HB 2444 and I am happy to answer any questions at the appropriate time.