



Greater Kansas City Chamber of Commerce
Testimony to Kansas Senate Committee on Assessment and Taxation
Supporting Kansas Senate Bill 508
April 27, 2016

The KC Chamber believes Senate Bill 508 offers an important opportunity to help return the state's income tax structure to its original intention of job creation while providing a more balanced and fair tax structure for all wage earners that will improve the adequacy and consistency of state revenues. SB508 would tax wage income of business owners and exempt nonwage (investment) income from income taxes.

When Kansas lawmakers in 2012 passed an income tax reform package, the state estimated 191,000 business owners would benefit. However, the law actually created a loophole exempting many small businesses including limited-liability corporations and S corporations from income taxes as well, resulting in over 330,000 individuals who no longer pay taxes on income wages. This carve out has resulted in critical revenue losses to the state. The Chamber and its leaders have taken particular note of the Tax Foundation's report that the state's ongoing "revenue underperformance" can be attributed to the 2012 tax carve-out for small business owners.

The 2012 Kansas income tax cuts were designed to spur growth and allow businesses to keep more of their revenue with the hopes that the savings would be invested into new job creation and hiring. While LLC businesses may occasionally create jobs, the individual professionals of most Sub S corporations and LLCs are not in the business of job creation so these savings are not invested into new jobs for the Kansas economy.

The KC Chamber is also concerned that while these small business owners are allowed to keep their profits tax-free, employees of the LLC businesses, typically earning far less than the business owners, must continue to pay income taxes, creating a real question of fairness. The Chamber believes reasonable taxes on wage income provide an important and necessary revenue stream for the state. Wages should be taxed at a responsible and equitable rate whether the person earning wages is a business owner, has a Limited Liability Corporation or is someone's employee.

The KC Chamber urges the Kansas Legislature to pass SB508 or take much-needed measures to enact policy to close the LLC loophole and institute a fair and equitable income tax policy for all wage-earners.

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