



**Testimony in Support of HB2560 by Mr. Daniel Murray**  
**Kansas State Director, National Federation of Independent Business**  
**House Taxation Committee**  
**February 8, 2012**

*Taxes that are too high, and a tax system that is ridiculously complex, stand in the way of small business growth.*

Good afternoon Chairman Carlson and members of the Committee. My name is Dan Murray and I am the State Director of the National Federation of Independent Business/Kansas. NFIB is the state's leading small business organization representing small and independent businesses. A non-profit, nonpartisan organization founded in 1943, NFIB represents the consensus views of its over 4,100 members in Kansas.

I am pleased to be here in strong support of HB2560's guiding principle of creating a flatter, fairer and simpler tax code that lowers the rates as much as possible. Specifically, our members are extremely supportive of the proposal to eliminate the individual income tax on non-wage business income for business entities organized as LLC's, S-corps, sole proprietors.

**NFIB Membership & Small Business.** I think it is important to note that NFIB's membership is comprised entirely of independent businesses. Our membership spans the spectrum of business operations, ranging from one-person cottage enterprises to firms with hundreds of employees. NFIB members are a diverse group consisting of high-tech manufacturers, retailers, farmers, professional service providers and many more. Our membership does not include schools, municipalities or not-for-profits. We are the true voice of Main Street.

Further, small business is the backbone of the Kansas economy. Collectively, small business represents over 97 percent of all employer firms and provides employment to over 54 percent of the non-farm private work force in Kansas. Small business pays 44 percent of total U.S. private payroll, and in the past fifteen years, it has annually generated 64 percent of net new jobs.

**Taxes Rates.** NFIB fights for small business tax relief because we know that a complex tax code and burdensome taxes are among the biggest challenges facing small business owners. According to the most recent NFIB *Small Business Problems and Priorities* survey, taxes on business income rank as the third worst problem and tax complexity holds fifth place among major concerns.

High tax rates are a problem for small businesses because they siphon off the after-tax income that owners need to invest back in their business to assure its viability and growth as a creator of jobs. We support low tax rates so that small business owners keep more of their money to reinvest in and grow their business.

**Tax Compliance.** NFIB believes that small business owners are over-taxed and tax compliance is too burdensome. In fact, the Small Business Administration found that the tax compliance burden is 67 percent higher for small businesses than large businesses.

Tax complexity is a problem for small businesses because spending time and money on tax compliance drains financial resources, and most small businesses lack or are unable to afford an in-house tax or finance department, forcing owners to handle the task of compliance or requiring expensive professional assistance from an outside accounting firm. Annually, small business owners spend nearly 2 billion hours and \$18 to \$19 billion complying with the tax code. Tax paperwork is the most expensive paperwork burden the state and federal government places on small businesses—\$74 per hour. HB2560 would undoubtedly reduce the tax compliance burden for Kansas small businesses.

**Kansas Tax Climate.** Kansas must improve its tax climate. The Small Business & Entrepreneurship Council’s “Business Tax Index 2011” ranks the states from best to worst in terms of the costs of their tax systems on entrepreneurship and small business. The Index pulls together 16 different tax measures, and combines those into one tax score that allows the 50 states and District of Columbia to be compared and ranked. **Kansas ranks 26<sup>th</sup>—that is unacceptable.** Here’s how we compare to our neighboring states: SD-1<sup>st</sup>, CO-10<sup>th</sup>, OK-13<sup>th</sup>, MO-15<sup>th</sup>, NE-39<sup>th</sup>.<sup>1</sup> And sadly, this tax climate index is one of several that consistently rank Kansas in the lower half. Quite frankly, I’m sick and tired of Kansas being lower-half or average with regards to tax climate. This committee and the legislature have a choice. We trust you will choose to help move Kansas from 26<sup>th</sup> to 1<sup>st</sup>.

**Conclusion.** So, we know this: 1) Small businesses are the major source of job creation; 2) Taxes, particularly the income tax, matter to small business; and 3) Kansas’ tax climate is average at best. Thus, in order to stimulate small business job growth in Kansas, we must dramatically change our tax policy. NFIB believes that the best way to achieve that goal is to eliminate corporate and individual income taxes.

Therefore, **NFIB wholeheartedly supports tax reform proposals, including Governor Brownback’s plan, which focus on reducing and eliminating state income taxes.** Reducing taxes and eliminating the state income tax on small businesses would put Kansas in the same league as a handful of other states, including Texas and Florida, when it comes to attracting businesses. I appreciate that you are taking a serious look at the Kansas tax structure and urge you to pursue change swiftly. Now is the time to make Kansas the best state in which to grow a small business.

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<sup>1</sup> *Small Business & Entrepreneurship Council’s Business Tax Index 2011: Best to Worst State Tax Systems for Entrepreneurship & Small Business:*  
[http://www.sbecouncil.org/uploads/BTI2011\\_2.pdf](http://www.sbecouncil.org/uploads/BTI2011_2.pdf)