



**Date:** February 8, 2012

**To:** House Taxation Committee  
Rep. Richard Carlson - Chair

**From:** Doug Wareham, Senior Vice President-Government Relations

**Re:** Proponent and Amendment Request for House Bill 2560

Chairman Carlson and members of the House Taxation Committee, I am Doug Wareham appearing on behalf of the Kansas Bankers Association (KBA). KBA's membership includes 300 banks that provide financial services in more than 400 towns and cities across the state. Kansas banks currently employ just over 13,600 Kansans, with nearly two-thirds of Kansas banks averaging less than 14 employees.

Thank you for the opportunity to share our insights on this state tax policy reform discussion. We applaud Kansas Governor Sam Brownback for pursuing policies that will spur economic growth in our state and make Kansas the most attractive place to live and do business in our nation. We also appreciate the efforts of this committee to delve into the governor's tax reform proposal and other proposals to find the best tax policy mix that will achieve that objective. Kansas banks are an important part of the economic engine that drives Kansas communities, large and small, so we share the goal of spurring economic growth in our state from Elkhart to Elwood and from St. Francis to Columbus.

You won't often find our organization appearing before the legislature's standing committees on taxation, however, we believe this discussion warrants our involvement for a specific reason I will address momentarily. I'd like to begin by stating that the Kansas banking industry has always been willing to pay its fair share to support the important roles of state and local government. Kansas banks and bank holding companies currently pay property taxes on more than 1,100 banking facilities in Kansas, sales taxes on business items and employment taxes for the over 13,600 Kansans employed by our industry.

Furthermore, Kansas banks support the financial needs of the Office of the State Bank Commissioner, which is funded solely by assessments paid by 236 state-chartered Kansas banks and state licensed consumer and mortgage lenders. Kansas banks are also faced with a unique and significant cost of doing business, in the form of Federal Deposit Insurance Corporation (FDIC) insurance premiums, which provide consumers with \$250,000 in deposit insurance protection. In 2010, FDIC insurance premiums alone were an 84 million dollar cost of doing business for Kansas banks.

I believe it's also important to note that the recent recession and ongoing period of slow and stagnant economic activity in several regions in Kansas have taken a toll on the Kansas banking industry. While we have been fortunate in not experiencing a significant number of bank failures during the past four

years (only 8 failures in Kansas, as compared to 74 in Georgia and 47 in Illinois), we have seen a significant uptake in consolidations and mergers of Kansas banks with the total number of Kansas bank charters declining from 340 in 2007 to 304 today. The standard cost of doing business for Kansas banks has also been exacerbated by the dramatic increase of regulatory compliance costs in the wake of Congress' adoption of the Dodd/Frank Wall Street Reform and Consumer Protection Act. This 2,000+ page federal law and the estimated 10,000 pages of regulations that are now being promulgated by federal bank regulators continue adding compliance cost pressure to main street banks in Kansas.

I appreciate you allowing me to provide some background on some of the tax, compliance and business costs impacting Kansas banks. Now for the primary reason I am appearing before you today. It is the position of the Kansas Bankers Association that if the State Legislature intends to adopt a long-term policy of reducing business income taxes by utilizing excess state revenues in future years, that the privilege tax paid by Kansas banks should be included in that formula for economic growth. House Bill 2560 contains such a provision found on page 62 of the bill. New Section 45 calls for the utilization of state general fund receipts that exceed the previous year's receipts by more than 2% to reduce individual and corporate income tax rates in subsequent tax years. We believe this provision should also apply to the privilege tax, and we support the adoption of an amendment accomplishing that objective should H.B. 2560 be advanced by this committee.

The corporate income tax paid by many Kansas businesses and the privilege tax paid by Kansas banks are often reported together as is the case on page 1 of the Combined State and Local Tax Revenue summary included in the Kansas Tax Facts document presented to this study group by the Kansas Legislative Research Department (see attachment #1). This is understandable, since both the corporate income tax and privilege tax are based upon business income. While banks are similar to other service-related businesses, they are unique in that they are required by state and federal regulators, for liquidity reasons, to maintain a significant amount of U.S Government Securities as assets. This phenomenon led to the creation of the privilege tax in 1963 and subsequent modifications to the Privilege Tax Code requires Kansas banks, unlike other corporations, to pay the privilege (income) tax on their investment income.

Banks headquartered in Kansas and out-of-state banks that operate in Kansas are required to pay the privilege tax, just as many businesses are required to pay the corporate income tax. The current privilege tax rate in Kansas is 2.25% plus a 2.125% surtax on taxable income over \$25,000, for a combined rate of 4.375%. For the record, there is not a federal privilege tax. Kansas banks pay federal income tax, which is typically in the 34% range.

In closing, we believe there are compelling reasons to include the privilege tax in any future "buy-down" provision involving business income taxes in Kansas. As I stated earlier, main street community banks are engines for economic growth and every dollar retained by a Kansas bank is potentially \$10 lent into a local Kansas community. We also believe including the privilege tax in any proposal designed to phase-out and eventually eliminate business income taxes is simply an issue of fairness and we hope this committee will give this request strong consideration.

Once again, I thank you for the opportunity to provide input and I would be happy to stand for questions now or at the appropriate time. If at a later time you have questions or require additional information, please contact me at [dwareham@ksbankers.com](mailto:dwareham@ksbankers.com) or at (785) 232-3444.

## Combined State and Local Tax Revenue

Kansas state and local government net tax revenue totaled \$12.407 billion in FY 2011, which equated to \$4,339 per capita and to 11.13 percent of Kansas personal income in CY 2010. Following are the tax levies or collections, combining state and local tax revenue, in descending order of magnitude for FY 2011.

**Table 1**  
**Kansas State and Local Taxes**  
(In Thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	Percent of FY 2011 Total	Percent Change from FY 2010
General Property (a)	\$ 3,765,993	\$ 3,953,527	\$ 3,996,442	\$ 4,017,712	32.38%	0.53%
Sales and Use (b)	3,126,006	3,019,908	2,944,083	3,435,819	27.69%	16.70%
Income and Privilege	3,410,089	2,998,010	2,699,159	2,952,837	23.80%	9.40%
Motor Fuels	431,307	421,272	424,571	436,245	3.52%	2.75%
Unemployment Comp	223,271	171,035	305,645	398,878	3.21%	30.50%
Various Vehicle (a) (c)	336,165	346,570	338,873	337,735	2.72%	(0.34)%
Vehicle Registration	189,238	195,721	205,239	207,007	1.67%	0.86%
Insurance Premiums	133,913	128,554	138,769	159,824	1.29%	15.17%
Liquor and Beer	106,339	111,553	111,361	113,111	0.91%	1.57%
Severance	159,325	133,601	93,783	112,791	0.91%	20.27%
Cigarette and Tobacco	118,253	112,944	106,181	102,496	0.83%	(3.47)%
Mortgage Registration	50,679	41,563	41,397	35,471	0.29%	(14.32)%
Transient Guest	31,437	32,084	29,129	32,444	0.26%	11.38%
Corporation Franchise	46,659	41,720	41,462	30,283	0.24%	(26.96)%
Motor Carrier Property	29,032	29,257	24,993	23,167	0.19%	(7.31)%
Intangibles (a)	3,382	4,326	3,645	2,738	0.02%	(24.88)%
Estate/Inheritance	44,247	22,530	8,396	229	0.00%	(97.27)%
Parimutuel	1,946	262	13	11	0.00%	(15.38)%
All Other (d)	8,763	7,921	7,879	8,172	0.07%	3.72%
<b>Total</b>	<b>\$ 12,216,044</b>	<b>\$ 11,772,358</b>	<b>\$ 11,521,020</b>	<b>\$ 12,406,970</b>	<b>100.00%</b>	<b>7.69%</b>

(a) Taxes levied for collection during the fiscal year.

(b) Includes state, county, city, municipal university, and other special district sales and use taxes.

(c) Includes motor vehicle, recreational vehicle, 16m and 20m "tagged" vehicles, and rental car excise taxes.

(d) Total revenue from nine taxes, the largest of which for FY 2011 was the clean water drinking tax at \$2.905 million

TABLE 2

State Tax Revenue  
(Net Refunds)  
FY 2006-FY 2011  
(In Thousands)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Property</b>						
Educational Bldg. (1)	\$ 26,901	\$ 29,143	\$ 30,215	\$ 31,207	\$ 30,517	\$ 29,671
Institutional Bldg. (1)	13,450	14,572	15,108	15,603	15,258	14,835
State General	55	26	18	10	4	1
Mortgage Regis. (2)	1,204	1,258	1,093	1,008	1,087	1,022
Motor Carrier	22,056	25,812	29,032	29,257	24,993	23,167
Various Vehicle (3)	4,621	4,704	4,778	4,819	4,728	4,639
Excess Local Effort (4)	4,526	6,170	3,700	3,500	4,449	2,733
Total	\$ 72,813	\$ 81,685	\$ 83,944	\$ 85,404	\$ 81,036	\$ 76,068
<b>Income and Privilege</b>						
Individual	\$ 2,401,129	\$ 2,744,934	\$ 2,944,851	\$ 2,731,560	\$ 2,457,704	\$ 2,706,319
Corporation	350,204	442,324	432,078	240,258	224,940	224,867
Financial Inst.	31,058	31,126	33,160	26,192	16,515	21,651
Total	\$ 2,782,388	\$ 3,218,384	\$ 3,410,089	\$ 2,998,010	\$ 2,669,159	\$ 2,952,837
Inheritance/Estate	\$ 51,784	\$ 55,620	\$ 44,247	\$ 22,530	\$ 8,396	\$ 229
<b>Sales, Use, and Excise</b>						
Retail Sales	\$ 1,844,744	\$ 1,934,390	\$ 1,983,594	\$ 1,958,999	\$ 1,918,397	\$ 2,268,352
Compensating Use	282,853	307,635	281,153	268,182	234,873	326,020
Subtotal	\$ 2,127,597	\$ 2,242,025	2,264,747	2,227,181	2,153,270	2,594,372
Motor Fuels	428,166	434,047	431,307	421,272	424,571	436,245
Vehicle Registration (5)	162,714	169,867	168,822	174,952	185,034	186,639
Cereal Malt Beverage	2,090	2,091	2,228	2,089	1,989	1,905
Liquor Gallonage	17,508	17,901	18,474	19,140	18,869	19,231
Liquor Enforcement	44,234	47,138	49,983	53,794	54,827	56,120
Liquor Drink	31,450	33,834	35,654	36,530	35,676	35,855
Cigarette	117,899	115,282	112,705	107,216	99,829	95,923
Tobacco Prod.	5,093	5,305	5,548	5,728	6,352	6,573
Corporation Franchise	46,880	47,892	46,659	41,720	41,462	30,283
Boat Registration	992	1,038	992	1,078	1,087	1,005
Severance	143,476	124,758	159,325	133,601	93,783	112,791
New Tires	692	711	707	677	681	702
Motor Vehicle Rental	2,862	3,361	3,366	3,396	3,126	3,280
Drycleaning & Laundry	1,205	1,242	1,178	1,103	993	917
Clean Water	3,285	3,535	3,226	2,905	2,873	3,602
Total	\$ 3,136,143	\$ 3,250,027	\$ 3,304,921	\$ 3,232,382	\$ 3,124,422	\$ 3,585,443