Testimony to House Taxation Committee on SB339
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February 15, 2012

Chairman Donovan and Other Honorable Senators:

The Greater Kansas City Chamber was founded in 1887 and has nearly 2,500 members 40% of which are in Kansas. We certainly agree that income taxes should be reduced if it can be done without harming essential services and without discriminating against certain businesses. We also commend the Governor's plan for focusing on help to small businesses.

However, several sections of SB339 must be opposed as currently drafted. We would note the current fiscal note in this bill shows that it is nearly $90 million short of achieving the stated goal of revenue neutrality. Kansas would be the first state to completely exempt such income and it actually would be a huge step forward to exempt a portion of the same to allow small businesses retain capital in order to employ more people. The language, moreover, exempts investment income in the form of rent, interest or other payments to an LLC, sub-S or partnership which does not employ any Kansans. Small business owners can be given an incentive to create jobs, without exempting purely passive investment income. I believe the Department of Revenue can easily determine which part derives from an active trade or business that employs Kansas citizens.

Our second problem with the plan is that it repeals angel tax credits going forward. Currently, our statute only allows $6 million in credits each year. The most innovative new businesses derived from university and private research benefit from these angel tax credits. Businesses that cannot be expected to show a profit for years in the commercialization or development stage need this kind of investment badly. In fact, surveys indicate that Kansas suffers from a significant shortage of such capital even with this $6 million fund. Certainly this small amount cannot hurt the ability of the state to provide essential services but could

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launch the next bioscience or high technology company which would generate far more in revenue.

Our biggest problem with the plan, however, is that Section 45 dedicates all growth in state revenues exceeding an arbitrary 2% of the base year for further automatic rollbacks of state income tax. In our view, the impact of this Section 45 would be identical to the impact of the so-called taxpayer bill of rights (TABOR) as enacted in our neighboring state of Colorado in the 1990s. The plain fact is that this type of proposal likely would put the state in an ever downward spiral of budget slashing that would rather quickly devastate higher education, other economic development programs and eventually both school funding and highway funding. This was the result in Colorado and the elected representatives were powerless to do anything about it – it took a vote of the people in 2005 to repeal TABOR in Colorado.

This is not to say that we do not support responsible reductions in state spending which are derived from identified inefficiencies and phase out of programs that do not have a demonstrated track record of producing the results that were intended. But once you take control of future budgets out of the hands of elected officials, all kinds of mischief can and does occur. PLEASE remove Section 45 from the bill.

I will be happy to stand for questions.