

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman John Edmonds at 9:00 a.m. on March 10, 2004 in Room 519-S of the Capitol.

All members were present except:

Representative Jeff Goering- excused

Committee staff present:

Chris Courtwright, Legislative Research Department

Martha Dorsey, Legislative Research Department

Gordon Self, Revisors of Statutes

Carol Doel, Committee Secretary

Conferees appearing before the committee:

Representative Tom Holland

Joan Wagon, Secretary of Revenue

Melissa Wangemann, Office of the Secretary of State

Hal Hudson, NFIB

Ken Daniel, Midway Wholesale

Marlee Carpenter, KCCI

Matthew Goddard, Heartland Community Bankers Association

Chuck Stones, Kansas Bankers Assn.

Barb Hinton, Post Auditor

Leo Hafner, Deputy Post Auditor

Chris Cartwright, Legislative Research Department

Others attending:

See Attached List

Chairman opened the meeting requesting the introduction of a bill dealing with the mortgage registration tax.

With no objections, that is accepted for introduction.

There were no other bill introductions.

Barb Hinton from Legislative Post Audit was recognized and introduced Leo Hafner, Deputy Post Auditor who briefed the committee on the performance audit report on **HB 2882**. Mr. Hafner provided the committee with a copy of the performance audit which was done during the summer of 2002 as they were asked to look at various aspects of the Department of Revenue's tax processing. One of the issues was how the Department handled their review credits and the amount of scrutiny that the Department officials gave to credits. (Attachment 1)

Due to the similarities of **HB 2842** and **HB 2894** and the fact that many of the conferees are the same on both bills, Chairman Edmonds announced the two bills would be heard simultaneously. He then requested Chris Courtwright from Legislative Research Department give a brief overview of the two bills prior to starting the hearing. (Attachment 2)

First to address the committee in support of **HB 2842** was Representative Tom Holland. In his testimony, Representative Holland stated that this legislation will help to make Kansas a better environment for small business by reducing or eliminating the franchise tax for over 31, 000 Kansas small businesses. He described the changes which the franchise tax legislation implements. (Attachment 3)

Chairman Edmonds recognized Joan Wagon, Secretary of the Department of Revenue who came before the committee with testimony supporting both **HB 2842** and **HB 2894**. These bills propose to move administration of the corporate franchise tax to the Department of Revenue as well as requires that entities must file with their franchise tax balance sheets substantiating the determination of the amount of net equity subject to franchise tax. (Attachment 4 and Attachment 5)

Testimony from the office of the Secretary of State delivered by Melissa Wangemann also supported both

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HB 2842 and **HB 2884**. Both bills would replace the franchise tax with a flat filing fee for the annual report submitted to the Secretary of State. Also, the bills would require the payment of a franchise tax to the Department of Revenue. The Secretary of State supports this concept because a flat fee for the annual report is consistent with the flat filing fees paid by customers for filings in their office; the flat fee is easily understood by customers and easily enforced by the Secretary's office; the tax that is based on capital is paid to, and reviewed by, the state agency that maintains the entity's tax records and that has accounting expertise, auditing powers and record confidentiality; and such a bifurcated system would make Kansas more uniform with other states.

They also offer the amendment that the amended franchise fee applies to "all tax years commencing after December 31, 2003." (Attachment 6)

Hal Hudson, Kansas State Director National Federation of Independent Business also support **HB 2842** and **HB 2884**. They NFIB has advocated reducing the franchise tax or fee since it was doubled in the 2002 session. Their position is supported by member response to a ballot survey before the 2003 session. They do not intend to gain a tax advantage for small business at the expense of large business, but state that small businesses have been paying a disproportionately higher franchise tax, based on their net worth, than larger businesses. (Attachment 7)

Giving an opinion in support of **HB 2842** and **HB 2894** for NFIB and Midway Wholesale was Mr. Ken Daniel. In his testimony he stated that the franchise tax is a highly unfair tax. It is levied whether a business is profitable or no. He also supplied charts showing the comparison of the two bills as well as franchise taxes in our region. He stated that rolling back the franchise tax will help small business, the only sector of the Kansas economy that is growing, to create jobs for Kansans and further stimulate our economy. (Attachment 8)

There was on other person wishing to testify in support of **HB 2842** and **HB 2894**.

Chairman Edmonds directed attention to the opponents and recognized Marlee Carpenter, KCCI (Kansas Chamber of Commerce and Industry) as an opponent of **HB 2842** and **HB 2894**. It is their opinion that lowering taxes is a much better formula for economic success than the shifting taxes from one business segment to another which these bills would do and they are extremely opposed to those measures. (Attachment 9)

Next to address the committee in opposition to **HB 2894** was Matthew Goddard, Heartland Community Bankers Association. In his testimony, Mr. Goddard related that this bill would have a negative impact on the cost of doing business in Kansas for banks and savings and loans. This increased cost will eventually be passed on to consumers in the form of lower interest rates on deposit accounts and higher interest rates on loans. (Attachment 10)

Testifying in opposition to **HB 2894** was Chuck Stones, Senior Vice President of The Kansas Bankers Associations. Mr. Stones related that **HB 2894** would create a whole new class of franchise tax payer and result in double, maybe triple franchise taxation for the banking industry. They would urge the committee to eliminate the double taxation potential of this bill by eliminating the reference to national and state banking associations in the bill. (Attachment 11)

There were no other conferees on **HB 2894** and Chairman Edmonds closed the hearing.

Being out of time, **SB 38** was canceled.

The Chairman adjourned the meeting at 10:27 a.m.