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Meeting of the House Tax Committee
Pro-Growth Small Business Incentive Policy Briefing
By Richard Carlson, Legislative Liaison for the Kansas Department of Revenue

Good afternoon Chairman Kleeb and members of the committee.

It is my pleasure to give the committee an informational briefing on the Governor's Pro-Growth Small Business Incentive tax policy of 2012.

Governor Brownback began his first term of office in 2011 with the goals of reducing the tax burden on Kansans, creating a pro-growth tax policy of lower taxes on productivity (income tax) and increasing the income of working Kansas families. Kansas had just finished a decade of higher expenditures and higher taxes further slowing the Kansas economy where in the last decade 0 jobs were created in the private sector. Please keep in mind our goal is to increase private sector job growth, not the public sector. Kansas was the highest income taxing state of all our neighboring states with the exception of Nebraska. Beginning this year we have the lowest income tax of all our neighboring states. Kansas- 4.6% ; Colorado—4.63% ; Oklahoma—5.25% ; Missouri—6.00% ; Nebraska—6.84%. Kansas in just 4 years has reversed a 40 year experiment of higher taxes, higher expenditures and slow or no growth. Michael Austin, our economist, will have further economic information later. We are just now beginning to get published economic data as the tax return information and other statistics are becoming available from regional and national non-partisan entities.

During the 2012 and 2013 sessions the legislature passed S Sub HB2117 and HB2059, respectively. Included in S Sub HB2117 passed in 2012 was the small business incentive package to grow the small businesses of Kansas.

The following is an excerpt from Legislative Research Summary of the legislation.

"The bill totally exempts certain non-wage business income that had been subject to individual income tax (income reported by LLC's, Subchapter-S Corporations, and sole proprietorships on lines 12, 17, and 18 of federal form 1040). Taxpayers availing themselves of this exemption are excluded from receiving another credit designed to eliminate the liability of certain resident individuals pursuant to KSA 2011 Supp. 79-32,266." (Expensing- now only available to C Corps.)

Steve Stotts will be following me with a presentation with the numbers of businesses and the projected assumptions of the cost of the small business incentive policy. Keep in mind KDOR's revenue estimates of $160 million were based on the latest available tax returns from calendar year 2009 and the bill was introduced at the beginning of 2012. KDOR's analysis of the 2013 tax returns reflected a fiscal note of $207 million. The percentage increase over that period of time was less than the increases in corporate income tax receipts.

For Fiscal Year 2015 Kansas the estimated receipts from income tax is $2.280 billion dollars, and the small business incentive policy reduced receipts by $207 million. The question to be answered would have to be whether a further small reduction in individual income tax rate of 4.6 percent would have given the Kansas economy the boost it needed to become the 11th lowest unemployment rate (4.2%) in the nation and whether the boost in average income would have occurred.

Small business is the backbone of the Kansas economy and growing a small business is very difficult due to a lack of investment capital. Government picking the winners and losers was not the intention of the incentive, nor was making the absolute requirement of additional employees the only criteria as capital investments also create economic growth. Allowing the private sector make those economic decisions makes sense. Of course, the long term growth of the Kansas economy through no income taxes on productivity, where all working Kansans can keep and invest their wages is the best desired outcome for future growth and prosperity.

97% of our Kansas businesses have less than 100 employees and almost half have less than 5 employees. Since 2013 small business employment has grown by 2%, compared to 1.2% for large businesses according to the U.S. Bureau of Labor Statistics.

One critic of the current tax policy stated "Kansans are having to pay an unprecedented tab for the failed experiment". I think Mr. Austins presentation later will give you new insights about the economic growth of Kansas, but even aside of that, when has it become a failed policy for working Kansans to keep hundreds of millions of their own money they have earned, not the government spending it. There lies the basic difference of philosophy.

I understand this year presents a difficult situation in balancing the budget and the legislature will have difficult decisions to make. We have made significant progress making Kansas a lower tax state, providing tax relief to our taxpayers and providing more private sector jobs than in the history of Kansas.

At this time I would like to turn over the discussion to Steve Stotts, KDOR's Director of Taxation for a review of the actual numbers and he will be followed by Mr. Michael Austin, economist, KDOR.

Thank You