

Summary of Testimony

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Brief Background:

Education: Business Administration, with emphasis in Accounting, passed CPA Exam

Work Experience:

- 3 Years, Criminal Investigator, Internal Revenue Service
- 10 Years, working full time as CPA
- Currently (for past 25 years):
- Owns and operates family farm business, including land ownership
- Self-employed, including accounting, income tax preparation and related
- Assists businesses on volunteer basis; startups and ongoing, some with 25+ employees

Summary of testimony:

Current Kansas Income Tax is not reasonably and equally applied:

- **One category of earned income is taxed, wages. All the rest are exempt.**
- Some passive income is taxed (interest, dividends, capital gains) some is not (land and building rentals, oil royalties), so those who invest in stocks and bonds pay tax on their income, while those who invest in land do not.
- **Some of the income excluded from Kansas income tax cannot cause businesses to move to Kansas, or expand their business, or result in hiring employees** due to the source of the income; examples; land rentals, oil royalties (federal schedule E).
- Taxpayers, both the winners and losers in the Kansas Income tax law changes, see the inequality and don't consider it to be reasonable. Many of us benefitted significantly. **I saved thousands of dollars each year. However, I am not in favor of saving in this way, due to the unequal nature of who is taxed, and who is not.**
I want to pay my fair share of the operations of running the state. Other tax preparers and accountants I visited with about this shares this view.
- I have asked dozens of Kansans, and **none of them (other than income tax preparers) knew the extent of what was excluded**, and were **shocked when they found out the types of income that were not taxed**. In addition, once informed of the details, no one I visited with believed this system is fair regarding what is taxed, and what is not.

Business owners are not rewarded for expanding and hiring, they are rewarded for having their income flow to the correct line on federal income tax form 1040.

- Accountants and tax preparers who deal with these issues daily as they work with their clients are in a good position to see the inequity of taxing some sources of income and not others, as well as witness firsthand **the lack of connection** between the exemption from Kansas Income tax and the expansion of business and hiring of employees. **(Please see accompanying example of business structure and employee hiring.)**
- I visited with several business owners, and each one of them said that the **exclusion of their income from Kansas income tax would not influence their decision to hire an employee or start or expand their business**; the tax savings is not that significant, considering the cost of hiring an employee, or the cost and risks of starting a business. **(Please see accompanying example of the amount of income that would need to be excluded to hire one moderately paid employee with the tax savings.)**

Effect on Kansas Tax Credit Purchases:

- The income tax law changes significantly decreased the Kansas Income Tax on many higher income taxpayers, thus diminishing their incentive to purchase Kansas Tax Credits.

Example of Funding an Employee using Kansas Income Tax Savings

Amount of Income that would need to be excluded from Kansas Income Tax

In order to cover the cost of hiring one employee working full time making \$12.00 per hour

The payroll costs to hire a full time employee at \$12.00 per hour would look something like this:

Wages for 2,000 hours (50 weeks at 40 hours per week):	\$24,000
Employer's share of Social Security and Medicare (7.65%)	1,836
Federal unemployment tax (0.6% on \$7,000)	42
Kansas unemployment tax (2.70% on \$14,000)	378
Workers compensation (assume 2% rate on \$24,000)	480
Total Payroll Costs	\$26,736

For a sole proprietorship business owner to save enough money on Kansas Income Tax to pay for one employee making \$12.00 per hour working full time, assuming all of business owner's income would have been taxed at the maximum Kansas Individual Income Tax rate, that business owner would have to make the amount of taxable income shown as follows:

Payroll Cost of one employee	\$26,736
Divide by Maximum Tax Rate	4.60%

**Amount of Income to be excluded from
Kansas Income Tax in order to provide
enough funds to hire this employee \$581,217**

Considering this example:

The above business owner would have at least \$580,000 of income to use in their business if their income was excluded from income tax, and at least \$554,000 net of tax if their income were not excluded.

- **Would you expect the business owner that was taxed on their income to decide not to hire an employee they needed or would otherwise hire because their income was \$554,000, instead of \$580,000?**
- **Would you expect the business owner who was not taxed on their income to hire an employee they did not need or would not otherwise hire because their income was \$580,000, instead of \$554,000?**

Considering an example of lesser income:

- **How often would you expect a business owner making \$100,000 to hire one more employee with a payroll cost of \$26,736 than they would otherwise hire because they saved \$4,600 in Kansas Income Tax?**

Example of Effect of Business Structure and Employee Hiring on Kansas Income Tax

The following example represents a large family with 10 brothers and sisters, all who operate plumbing businesses. They all make \$150,000 per year before paying themselves anything. They each happen to have selected a different type of organizational structure.									
Those treated as S Corporations pay half of their profit out as wages to themselves, since IRS frowns upon S Corporation shareholders that work in their own business that don't reflect some of that profit as income subject to social security taxes, which can only happen via paying wages. Those that are taxed as corporations paid all of their profit out as wages so they can have access to the profit outside of the company to take care of their financial needs. In this example all of the owners used the entire \$150,000 to cover their living expenses.									
Some of them hired new employees, some did not. In this example, the cost of the additional employees was offset by additional revenue, so bottom line profit did not change. As you can see from this example, hiring employees has no effect on how much Kansas income tax is paid by the business owner. The amount of tax paid is completely dependent upon profit level, and where the income is reported on form 1040.									
IRS 1040 Line #	Business Form that each owner selected:	Additional New Employees Hired	Additional Revenue as Result of Hiring New Employees	Additional Payroll Costs of Hiring New Employees	Amount Subject to Federal Income Tax	Amount Subject to Kansas Income Tax	Amount of Kansas Income Tax Eliminated at 4.6%		
12	Sole Proprietorship	5	\$250,000	\$250,000	\$150,000	\$0	\$0	\$6,900	
12	Single Member LLC, making no special election	0	\$0	\$0	\$150,000	\$0	\$0	\$6,900	
17	Partnership	5	\$250,000	\$250,000	\$150,000	\$0	\$0	\$6,900	
17	Multiple Member LLC, default is to be treated as partnership	0	\$0	\$0	\$150,000	\$0	\$0	\$6,900	
7, 17	S- Corporation	5	\$250,000	\$250,000	\$150,000	\$75,000	\$75,000	\$3,450	
7, 17	Single Member LLC, electing to be taxed as S Corp	2	\$100,000	\$100,000	\$150,000	\$75,000	\$75,000	\$3,450	
7, 17	Multiple Member LLC, electing to be taxed as S Corp	0	\$0	\$0	\$150,000	\$75,000	\$75,000	\$3,450	
7	C Corporation	5	\$250,000	\$250,000	\$150,000	\$150,000	\$150,000	\$0	
7	Single Member LLC electing to be taxed as C Corp	2	\$100,000	\$100,000	\$150,000	\$150,000	\$150,000	\$0	
7	Multiple Member LLC, electing to be taxed as C Corp	0	\$0	\$0	\$150,000	\$150,000	\$150,000	\$0	
Totals		24	\$1,200,000	\$1,200,000	\$1,500,000	\$675,000	\$675,000	\$37,950	