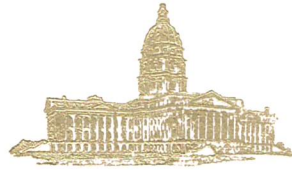


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JEFF KING

SENATOR, FIFTEENTH DISTRICT

March 15, 2016

Chairman Kleeb, members of the committee,

Thank you for the opportunity to appear before you today in support of HB 2444. I will limit my testimony to the part of HB 2444 that closes the LLC loophole.

In 2012, Governor Brownback introduced legislation to lower Kansas income tax. These tax cuts helped Kansas taxpayers in many ways, transforming Kansas from the highest income tax state in the region to the lowest. The guiding principle of the 2012 tax plan was to "broaden the base and lower the rate." The goal was to eliminate many deductions, credits, and exemptions, while using the revenue from those actions to lower the overall tax rate. This portion of the tax plan has been a success.

Unfortunately the 2012 tax plan also created an unfair tax exemption. The LLC loophole was created to exempt a business's working capital from tax so it could be reinvested back into the business. Specifically, the 2012 tax plan claimed only to "eliminate individual income tax on Non-Wage business income as reported by LLC's, S-Corps, and Sole Proprietorships...." This approach made sense. Kansas would treat identically all income earned from the labors of hard-working Kansans while encouraging business reinvestment through an exemption on non-wage income.

This promise proved short lived. After passage of the 2012 tax plan, the Kansas Department of Revenue interpreted this provision as exempting 333,792 entities, primarily LLCs, subchapter S corporations, and sole proprietorships, from all state income tax. This loophole is not what the Kansas Legislature intended in 2012. It is not fair to wage earners who pay taxes to see their counterparts in LLCs have the income earned from their labor exempt from tax.

There are two approaches for addressing this inequity. The first is to distinguish between wage and non-wage income for LLCs, sole proprietorships and subchapter S corporations, taxing only the wage portion of that income. Two of my Senate colleagues and I have taken such an approach in SB 508, which uses a formula based on the federal Tax Reform Act of 2014 to differentiate between wage and non-wage income. HB 2444 takes a second approach by eliminating the entire LLC loophole.

I strongly support both the approach taken in HB 2444 and that in SB508 to restore fairness to our income tax code. We should be proud of making Kansas the lowest income tax state in the region. I look forward to passage of HB2444 so we can share equal pride in restoring tax fairness to our state.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jeff King", written over a horizontal line.

Senator Jeff King
District 15