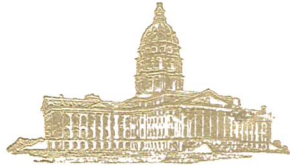


State of Kansas

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JEFF KING

SENATOR, FIFTEENTH DISTRICT

April 28, 2016

Chairman Donovan, members of the committee,

Thank you for the opportunity to appear before you today in support of SB 508. SB 508 would restore the Kansas income tax on wages earned by business owners thereby restoring fairness to the Kansas tax code.

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.

SB 508 would correct the error in the 2012 tax plan that created the LLC loophole, returning the tax plan to its original intent. SB 508 would tax all wage income earned by business owners exactly the same as wages earned by employees. It would exempt only non-wage or investment income from state income tax. SB 508 applies the same approach to determining wage and non-wage income for these entities used by House Ways and Means Chairman Dave Camp (R-Michigan) in the Tax Reform Act of 2014.

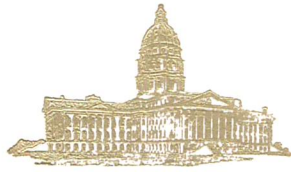
I would suggest two changes in SB 508 when it is considered by the Taxation Committee. First, I understand that we are almost 1/3 of the way through 2016. Accordingly, I would amend SB 508 to only eliminate the loophole for half of the wage income in 2016 and all of the wage income in subsequent years. I don't think it is fair to tax Kansans on wage income that they have already made when that income was exempt from tax at the time they earned it. Second, I would reinstitute 70% of the loss carry-forward capacity, which was eliminated in the 2012 reforms. If we close the LLC loophole, we should also address the tax treatment of previous losses for those individuals.

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The Legislature has worked aggressively to make Kansas the lowest income tax state in the region. But we cannot lower taxes in ways that are unfair to hard working Kansans. SB 508 will restore tax fairness, ensuring that all Kansans are taxed equally for equal pay.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'J. King', with a long, sweeping flourish extending to the right.

Senator Jeff King
District 15