NFIB

The Voice of Small Business®

Testimony in Opposition to SB508
Before Senate Assessment & Taxation Committee

Mr. Daniel Murray, Kansas State Director
National Federation of Independent Business

Thursday, April 28, 2016

On behalf of the National Federation of Independent Business (NFIB), thank you for the opportunity to submit testimony on SB508. NFIB is the state's leading small business organization representing small and independent businesses. A non-profit, nonpartisan organization founded in 1943, NFIB represents the consensus views of its over 4,200 members in Kansas.

The NFIB opposes SB508, which wallops Kansas small businesses with an over $150 million income tax punch. The bill reverses course on the state's promise to reduce and eliminate income taxes on individuals and small businesses. It will inject uncertainty and complexity into small business operations and remove vital investment dollars from the Kansas economy.

Listen, we understand there's no good solution to the budget problem, but there are better solutions and worse solutions. The worst solution of all would be rolling back the job-creating income tax cuts on small business; the very businesses that can least afford to pay them. Allowing small business owners to keep more of their hard-earned money to reinvest in and grow their business is sound policy that is growing the Kansas economy. The small business income tax exemptions have only been in place for three short years. SB508 effectively deploys the parachute before the drag race has even started. We urge you to stay the course and not sock small businesses with what appears to be an over $150 million retroactive tax hike.

Further, small businesses need tax simplicity and predictability. SB508 provides neither. In fact, the bill promises to create confusion and unexpected expense by making the tax increase retroactive. Many small businesses have likely spent their state income tax savings on capital upgrades or improved employee benefits. This means they aren't saving and paying estimated quarterly taxes, and will be hit with an unexpected, and possibly door-closing, tax bill on April 15, 2017. Just imagine what your small business constituents will think when they learn the legislature voted to increase their income taxes by hundreds of millions ***AND*** that this potentially unaffordable broken pledge is retroactive!

In addition to the tax increase and retroactivity, the bill injects complexity into the code by modifying how passive and non-passive business income is taxed. A new 70% tax would be imposed on business income. However, if state business income is not fully taxed or fully exempted, it's not clear how state income tax law would interact with federal deductions, state deductions, loss carry-forward, and other tax level modifications. More complexity in compliance equals increased costs and less time focused on running the business. Few small businesses have accounting or human resources specialists to handle taxes. Administrative tasks fall to owners, diverting them from their core businesses. Lacking tax expertise, 89% of owners rely on outside tax preparers. Tax compliance costs are 67% higher for small businesses than for big businesses. Compliance costs small-business owners $18-$19 billion per year. Paperwork costs come to $74.24 per hour. (Includes Federal Tax Compliance) SB508 would exacerbate an already onerous compliance problem.

Again, SB508 increases taxes on small businesses by over $150 million and will increase uncertainty and compliance costs. Our members strongly urge you to oppose the bill.