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TO: Rep. Steven Johnson, Chair  
Members, House Tax Committee

FROM: Ashley Sherard, Vice President  
Lenexa Chamber of Commerce

DATE: January 19, 2017

RE: HB 2023 – Support for Repeal of Non-Corporate Business/Farm Income Tax Exemption

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The Lenexa Chamber of Commerce appreciates the opportunity to share its support for HB 2023.

We strongly support initiatives that enable and encourage business reinvestment and growth. We believe, however, the scope of the pass-through income tax exemption has produced a fiscal impact that is contributing to the state's budget instability, while not producing the meaningful net economic benefit to individual businesses or the State that was originally envisioned. For example, according to Kansas Department of Revenue figures for TY2013, 81% of eligible businesses saved an average of only \$158 or were actually hurt by the policy because they could no longer deduct losses. More than 98% of eligible businesses saved an average of \$4,100 or less – not enough to enable the job creation and statewide economic boost that would reasonably offset reduced revenues.

As a result, we believe the policy is adding to the pressure to increase other taxes, fees, and sweeps, including dedicated highway funds and the state sales tax – borne out in the 2015 jump from 6.15% to 6.5% – which are a particular concern. Most recently, the Governor's proposed budget for FY2018 and FY2019 suggests increasing the annual report filing fee for for-profit entities from \$40/year up to \$200/year to generate an additional \$33 million/year from tens of thousands of businesses.

When we surveyed our members regarding this issue prior to the legislative session, 58% of respondents supported revisiting the exemption and only 26% supported leaving it as is (while the remaining respondents needed more information to answer.)

To that end, HB 2023 would repeal the current exemption for non-corporate business entities – *some of which are small businesses and some of which are large businesses or subsidiaries* – and return treatment of losses, et al, to as it was before the 2012 tax changes. In so doing, we believe it would create a more equitable tax policy, help reduce counterproductive pressure to raise other taxes and fees, and provide legislators with an opportunity to reconsider whether the State could better maximize those resources.

If the repeal is to remain retroactive to January 1, 2017, however, we would urge that it be approved quickly so affected businesses can be advised and have time to plan and that special allowances be made for businesses who make estimated quarterly payments and will be most immediately impacted.

Again, we encourage you to support HB 2023 and thank you for your consideration of our input.