

KCK Chamber

The Honorable Stephen Johnson

Chairman, House Committee on Taxation

February 15, 2017

RE: SUPPORT FOR HB 2177

Chairman Johnson and members of the House Tax Committee,

My name is Mike Smallwood, owner of Smallwood Lock Supply in Kansas City, Kansas. I appear before you today not only as a third generation small businessman, but also as the legislative committee chairman of the Kansas City, Kansas Chamber of Commerce. We appreciate being given the opportunity to appear as a strong proponent of HB 2177, allowing Kansas to return to being an "origin" based sales tax state for intrastate purchases.

By way of background, we have been working for several years at the KCK Chamber to identify and more strategically focus our resources on policies and proposals that assist small businesses in their efforts to expand and grow the region's economy. As such, we began discussions with the Kansas Department of Revenue staff – led at that time by Mr. Richard Cram – to explore ways in which the tax collection burden might become more streamlined, while remaining in compliance with the Streamlined Sales Tax Agreement.

14 years ago, Kansas joined the Streamlined Sales Tax Agreement. This agreement was established with the goal of creating a more level playing field between in-state and out-of-state retailers and to make the collection process more uniform, efficient and less burdensome on retailers.

Today, I'm here to testify that while that might have been the goal, it is not the experience I have had with destination based tax sourcing.

I find it extremely onerous. As a small businessman, I don't have a large team of IT professionals or tax accountants who can sort out the 900 different taxing jurisdictions in our state. Many of these rates change each year, so it is a moving target and most difficult to stay on top of. For example, in the Village West development alone there are more than 10 distinct local taxing rates depending on precisely where you are in that retail development.

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The concept of trying to level the playing field, while laudable, doesn't really apply when it comes to intra-state purchases. In fact, it is an extreme disadvantage to small businesses who don't have the expertise or manpower to compete with larger multi-state (big box) retailers when it comes to calculating the many hundreds of tax rates. It is much easier for them to comply, thus they become more competitively advantaged.

Since the majority of jobs in the state are provided through small businesses, we should always be looking for ways to lessen the regulations under which these small businesses operate. The current destination tax system for intrastate sales is a regulatory burden that small businesses don't need. They don't need the additional compliance costs or the many other associated burdens ... costs and burdens that have minimal to no impact on larger multi-state (big box) businesses. And the state can make the move to an origin based sales tax state for intrastate purchases and still remain part of the Streamlined Sales Tax Agreement.

Lastly, I would also suggest that returning to an origin based sales tax for intrastate purchases would have a positive impact on the sales tax climate in our state as a result of the increased transparency. If purchasers are aware of the sales tax rate where a purchase is made, it will establish a heightened awareness of the local tax rates and that is a fundamental benefit when it comes to taxation and citizen engagement.

Thank you for your consideration of this important legislation. We urge you to pass it and in so doing, make it much easier for small businesses like myself to grow and prosper in our state.

I'd be happy to answer any questions at the appropriate time.

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