



Date: January 31, 2024

To: Senate Committee on Assessment and Taxation
Senator Caryn Tyson, Chair

From: Alex Orel, Senior Vice President – Government Relations
Kansas Bankers Association

Re: SB 377 – Written Proponent Testimony

Madam Chair and committee members, I am Alex Orel, and I am submitting testimony on behalf of the Kansas Bankers Association (KBA). I am also pleased to submit this testimony on behalf of my colleague Kelly VanZwoll, our Vice President – Government Relations & Staff Attorney. We look forward to being a resource for you and the committee as you consider financial service and tax issues for the remainder of this legislative session. Thank you for the opportunity to submit proponent testimony on SB 377.

Kansas Bankers Association Background Information:

The KBA was founded in 1887 and is a voluntary, non-profit trade association governed by its membership. The KBA is headquartered in Topeka, Kansas, and is led by our 24-member board of directors. The KBA staff, which President/CEO Doug Wareham leads, includes 40 professionals, including 13 attorneys, that provide services to Kansas bankers ranging from legislative advocacy to educational training to insurance services to legal and regulatory compliance support. Our mission statement is direct:

"Together, we support our member banks and bankers with leadership, advocacy, and education to benefit the communities and customers they serve."

KBA's membership includes 98% of the headquartered banks in Kansas. Our membership also includes 20 out-of-state commercial banks operating in Kansas. Our member banks employ more than 21,000 Kansans who provide financial services in every county across the state. While our member banks range in assets from the smallest to the largest in our state, each member bank that belongs to the KBA has one vote on policy positions adopted by either our general membership or our Board of Directors. One member, one vote.

KBA Division & Services:

While you are all aware that advocacy is an essential role of the KBA, you may not be aware of the vast array of services and support we provide to Kansas banks and Kansas bankers. Those include:

KBA Insurance, Inc. is a subsidiary of the KBA founded in 1900, offers bonding, property & casualty products, cybersecurity, bank director liability insurance, and life and health insurance products for the Kansas banking industry. KBA's self-funded health insurance plan covers over 12,000 Kansans, making it the second-largest group that Blue Cross/Blue Shield covers. Health insurance premiums collected for our self-funded plan totaled more than \$70 million in 2023 and are growing.

KBA's Education & Conferences Departments provide more than 300 training opportunities annually for more than 4,000 bank employees, ranging from high-level economic and investment conferences and seminars to in-depth training for lenders, compliance officers, trust officers, human resource managers, and front-line bank personnel. KBA also invests in financial literacy programs for its customers, focusing on financial literacy for high school students and financial protection for older adults.

The fastest growing division of the association is KBA's Legal & Compliance Department. The department fields more than 4,000 calls annually from Kansas bankers working to comply with the various state and federal regulations governing the Kansas banking industry. Fourteen years ago, we embarked on a new venture to help Kansas banks with our industry's growing regulatory burden. In 2010, our organization formed a new subsidiary, Kansas Bankers Consulting Services, LLC, to provide KBA member banks with compliance, audit, and legal assistance. We currently have 127 banks utilizing these services, and we expect that number to grow. In 2022, we began offering outsourced compliance services to our member banks through Compliance First Banking Solutions and are currently working with ten member banks, with many on the waiting list.

Despite rising regulatory costs, the banking industry remains the backbone of local economies across Kansas, as we all saw through the COVID-19 pandemic that upended our lives. We are proud to say that our member banks stuck in there, remained open throughout the pandemic, and did everything they could to help their customers and communities.

The rest of my testimony will focus on our proponent testimony for SB 377. Regarding advocacy, the KBA will continue pursuing policies that strengthen the traditional banking industry because strong and vibrant main-street Kansas banks are vital to solid and vibrant Kansas communities.



SB 377 – Proponent Testimony

We appreciate the legislature's work these past few years in looking at tax relief for all Kansans and allowing us to submit proponent testimony on SB 377. This legislation, specifically Sec. 3 and Sec. 4, would provide a corresponding rate reduction equal to the scheduled corporate rate reductions in H. Sub for SB 347 (2022) for Kansas privilege taxpayers. For reference, this language passed with a strong bi-partisan vote of 34-6 as a stand-alone bill in SB 300 in the 2023 Kansas Senate. We also appreciate the continued bi-partisan support evidenced by the inclusion of this language in SB 377 for this year's tax conversations.

The privilege tax *is* the financial institution's income tax for banks, savings, loans, and trust companies. Kansas banks, trust companies, and savings and loans are not subject to Kansas corporate income tax because they pay the privilege tax, which is their income tax. The privilege tax requires these entities to pay taxes on the interest income from the U.S. Treasury Agency & Securities, whereas the corporate income tax does not require it. The difference in the rate between the two income taxes is meant to reflect the difference in taxation.

The privilege tax is divided into two rates: a normal tax of 2.25% for the first \$25,000 and a surtax on income over \$25,000. The surtax for banks is 2.125% and 2.25% for trust companies and savings and loans. Combining the normal rate and the surtax rate brings the total rate to 4.375% for banks and 4.5% for savings and loans, and trust companies. Trust companies and savings and loans' tax rates are slightly different because they receive a separate deduction from net income on establishing a fund for the sole purpose of meeting or absorbing losses.

SB 377 contains that corresponding rate reduction to the total privilege tax rate minus the surtax to establish that new normal rate on the first \$25,000 income. The spreadsheet of our calculations to show how we came to the normal tax rate, compared to corresponding reductions to corporate income tax, is on page 4 of my testimony.

When the committee takes up this bill and other tax proposals, we respectfully request that you consider including of Sec. 3 and Sec. 4 and allowing a corresponding reduction for privilege taxpayers, as you did and scheduled for corporate ratepayers in 2022 starting in TY 2024. Banks, savings and loans, and trust companies are businesses, too; we are just subject to a separate tax.

These corresponding reductions will benefit Kansas consumers by increasing competition and access to credit and, in turn, encourage more economic growth. Overall, these reductions in SB 377 will benefit individual Kansans, businesses, financial institutions, and the State of Kansas in the long term.

Thank you for the opportunity to provide proponent testimony, and we appreciate your consideration. If you have questions or require additional information later, please get in touch with me at aorel@ksbankers.com or (785) 232-3444.

Kansas Privilege Tax (PT) vs. Kansas Corporate Income (CI) Tax Rate Reductions

CI	% Dec.	Total Bank Rate	Total Trust/S&L Rate	Normal Rate		Surtax Rate	
				Banks first \$25k income	Trust/S&Ls first \$25k income	Banks \$25k+ income	Trust/S&Ls \$25k+ income
7.00%	0.00%	4.375%	4.500%	2.25%	2.25%	2.125%	2.250%
6.75%	-3.57%	4.219%	4.339%	2.09%	2.09%	2.125%	2.250%
6.50%	-7.14%	4.063%	4.179%	1.94%	1.93%	2.125%	2.250%
6.25%	-10.71%	3.906%	4.018%	1.78%	1.77%	2.125%	2.250%
6.00%	-14.29%	3.750%	3.857%	1.63%	1.61%	2.125%	2.250%