



Kansas Grain & Feed Association
Kansas Cooperative Council
Kansas Agribusiness Retailers Association

March 12, 2015



TO: House Committee on Taxation

FROM: Ron Seeber
Randy E. Stookey
Kansas Grain and Feed Assoc. (KGFA)
Kansas Agribusiness Retailers Assoc. (KARA)
Leslie Kaufman, Kansas Cooperative Council (KCC)



RE: Written Joint testimony regarding HB 2392 – modifying Kansas' individual AGI relative to passive income. Neutral with questions.

Chairman Kleeb and members of the Committee, thank you for allowing us the opportunity to submit testimony as a neutral conferee with concerns regarding HB 2392 which modifies Kansas' adjusted gross income (AGI) calculation relative to passive income. Our attorneys and accountants are still evaluating this bill as it pertains to co-op patronage. We apologize that this analysis is still underway, but hope to follow-up with the committee ahead of working this bill. Should our attorneys/accountants determine SB 260 has a detrimental impact on the way co-op patronage is accounted for in members' individual income reporting, we our stance on this bill could change.

KGFA is a voluntary trade association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. The Kansas Cooperative Council (KCC) represents all types of cooperative businesses in Kansas including agriculture marketing and supply, utilities, financial co-ops and consumer cooperatives. KARA is a voluntary trade association whose membership includes over 700 agribusiness firms that are primarily retail facilities supplying fertilizers, crop protection chemicals, and seed to Kansas farmers.

As representatives of agribusiness, which include farmer-owned cooperatives (and in the case of the KCC, all co-ops) we appreciate the financial difficulty the state currently faces. Many proposals to fix the state's looming budget crisis are being considered and each will have those raising concerns with a particular approach. For our cooperative members, this proposal is one of particular concern.

A foundational component of the cooperative business structure is returning profits back to the members. In the ag co-op world, it is referred to as patronage. In general terms, patronage is returned in cash and equity to a member based on the amount of business they did with the cooperative over the course of a year. Farmers and ranchers patronize the co-op knowing the profits will be returned to them, either outright in cash or as retains which fund continued operations, growth, and improvements to the cooperative. When individuals join a cooperative, they agree to take patronage distributions into their income.

As we understand this bill, would treat patronage as passive income. Since members agree, already, to account for patronage distributions in their income, already are still evaluating the full impacts of the bill on individual co-op members, as noted above. Again, we will be following up with the committee should our evaluation reveal HB 2392 will have a detrimental impact on co-op members

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