

**Testimony to the House Taxation Committee  
In Support of H.B. 2444**

February 29, 2016

Chairman Kleeb and members of the committee:

H.B. 2117, which provided a tax exemption on income generated by pass-through entities and sole proprietorships, was initially described to the citizens of Kansas as one that would encourage the start up of new small businesses within the state. Unfortunately, this legislation has had the opposite effect. The beneficiaries of this legislation are well-established, profitable businesses. On the other hand, struggling start-up businesses have been penalized by this legislation.

Most start-up businesses operate at a loss for at least the first five years in operation. Often times, either the owner or his/her spouse continues to hold a job outside of the business in order to supplement the family's income and provide capital to the new business during the lean years while the business is becoming established. Under H.B. 2117, the loss generated by the new business cannot be taken on the owner's Kansas tax return. The loss has to be added back to Federal AGI in the calculation of Kansas taxable income. So, the business owner not only has to pay income tax on the wages that are being used to help get the business off the ground, he/she also cannot deduct the loss generated by their new business.

It is hard enough to keep a new business afloat long enough to cash flow without also having an onerous tax policy which makes it that much more difficult. This tax policy sends the message loudly and clearly that Kansas does not want start-ups in our state.

I have had a Schedule C loss on oil operations for both the 2013 and 2014 years. H.B. 2117 requires that I disregard these losses in calculating my Kansas taxable income. I have calculated that this change in the calculation of Kansas income tax has cost me an additional \$9,590.00 in Kansas tax over the past two years. Due to the steep decline in oil prices, I will have another loss to report for 2015. I have had to borrow money to pay my lease operating expenses, and will probably have to borrow money to pay the Kansas taxes on my loss. This is not a tax cut. This is a huge tax increase for my family. As such, I encourage you to support the passage of H.B. 2444.

Sincerely,

Andrea Krug Krauss