



Written Testimony in Support of HB2444

To: House Taxation Committee
From: Tom Robinett, Vice President of Public Policy and Advocacy
Overland Park Chamber of Commerce
Date: Tuesday, March 15, 2016

Chairman Kleeb and Members of the Committee:

Thank you for the opportunity to submit written testimony in support of HB2444 on behalf of the more than 800 business members of the Overland Park Chamber of Commerce.

The tax cut package passed by the 2012 legislature as Senate Sub for HB2117 included a provision that is now commonly referred to as the “LLC loophole.” That provision totally exempted certain non-wage business income earned by LLC’s, subchapter S corporations, partnerships and sole proprietorships from the payment of income tax. At the time the tax cut package was passed, it was estimated that about 190,000 business owners would be in a position to take advantage of the LLC loophole. However, figures from the Department of Revenue disclose that more than 280,000 owners benefitted in 2013, more than 330,000 if you add in farm returns. It is estimated that this completely exempting this business income costs the state as much as \$250 million each year.

Everyone likes lower taxes, but we have consistently heard from our members that these cuts have gone too far, too fast, and have not resulted in the promised boost to the Kansas economy. To the contrary, the state has consistently fallen short of its revenue estimates. In the first eight months of this fiscal year, revenues have hit the official estimates only once, falling approximately \$80 million short of those predictions, even though the 2015 legislature passed the largest tax increase in Kansas history by increasing its sales tax rate to 6.5%, one of the higher rates nationally. Yet we see the legislature being forced to balance the state’s budget using one-time funds, sweeping funds from revenue sources dedicated for other purposes, and increasing debt – not a sound, sustainable financial policy. We are also seeing more pressure on property taxes

as local units of government continue to work to maintain their services and try to take up the slack.

Our members tell us that the cuts and resulting shortfalls put our state's overall financial condition at risk, threatening our highways, schools and universities, and other quality of life amenities that make Kansas a great place to live, work and raise a family. And, more importantly, they have told us that they believe that paying a fair share of taxes on their businesses income is not only an appropriate and more balanced approach but are necessary to protect those valuable services that are so important to them.

With the 2015 sales tax increase, Kansas now has the highest state sales tax rate on food in the country. Not only does this represent a real and additional burden on the poor and elderly, but it also has a negative impact on businesses across the state, particularly many of those located in our border counties.

HB2444 offers two good policy ideas – not only would it mean a more balanced and fairer tax structure that results in adequate and consistent revenues for the state, but and a lower sales tax on food. In talking with our members, however, it has been suggested that lowering the food sales tax rate to 2.6% all at one time is more than we can afford right now, another example of too far. At a cost of approximately \$66 million per each one cent reduction, a reduction of almost 4% would mean that essentially all of the revenue generated by a reinstated business income tax would be offset by the sales tax cut. Maybe a better idea is to begin an incremental lowering of the sales tax rate on food, possibly to 5% or 5.5% in this first step, leaving a major part of the “new” income tax revenue available to fortify the state general fund and balance the budget.

There are no doubt efficiencies to be found that will improve the operation of state government and save money in the process; however, to characterize the regular and continuing revenue shortfalls as indicative only of a “spending problem” in the state is, in our opinion, quite unrealistic. The state also has a revenue problem that must be addressed responsibly and promptly. We need a predictable, balanced and fair tax revenue stream that generates an adequate income for the state. Asking business owners to pay their share is at least a start toward a fair and responsible response to that problem. For this and the other reasons stated above, the Chamber respectfully requests that you support the passage of HB2609. Thank you for your consideration.