

Testimony to House Taxation Committee on HB2560
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Chairman Carlson and Other Honorable Representatives:

The Greater Kansas City Chamber was founded in 1887 and has nearly 2,500 businesses, including 40% of which are in Kansas. The Chamber certainly agrees that income taxes should be reduced if it can be done without harming essential services and without discriminating against certain businesses.

However, several sections of HB2560 must be opposed as currently drafted. The Chamber would note the current fiscal note in this bill shows that it is nearly \$90 million short of achieving the stated goal of revenue neutrality. Although there are a number of ways to correct this issue, The Chamber believes the best would be to reduce the exemption for non-wage income tax paid by sub-S corporations, LLC or partnerships or proprietorships under HB2560. Kansas would be the first state to completely exempt such income and it actually would be a huge step forward to exempt a portion of earnings from an operating business to allow small businesses retain capital in order to employ more people. The language, however, exempts investment income in the form of rent, interest or other payments to an LLC, sub-S or partnership which does not employ any Kansans. Small business owners can be given an incentive to create jobs, but passive investment income should be taxed. I believe the Department of Revenue can easily determine which part derives from an active trade or business that employs Kansas citizens.

In addition, it is not necessary to reduce the top rate of tax to 4.9% in order to put the state in a good competitive position with its surrounding states. The rate of tax in Missouri is 6% and Oklahoma is currently at 5.25%.

The second problem with the plan is that it repeals angel tax credits going forward. Currently, our statute only allows \$6 million in credits each year. The most innovative new businesses derived from university and private research

benefit from these angel tax credits. Businesses that cannot be expected to show a profit for years in the commercialization or development stage need this kind of incentive. In fact, surveys indicate that Kansas suffers from a significant shortage of such capital even with this \$6 million fund. Certainly this small amount cannot hurt the ability of the state to provide essential services but could launch the next bioscience or high technology company which would generate far more in revenue.

The preceding two objections can be cured by amendments made by the committee to simply slow the rate of reductions and narrowing of the tax base provided in HB2560. The last objection, however, is that Section 45 dedicates all growth in state revenues exceeding an arbitrary 2% of the base year for further automatic rollbacks of state income tax. In The Chamber's view, the impact of this Section 45 would be identical to the impact of the so-called taxpayer bill of rights (TABOR) as enacted in our neighboring state of Colorado in the 1990s. The plain fact is that this type of proposal likely would put the state in an ever downward spiral of budget slashing that would rather quickly devastate higher education, economic development programs and eventually both school funding and highway funding. This was the result in Colorado and the elected representatives were powerless to do anything about it – it took a vote of the people in 2005 to repeal TABOR in Colorado.

This is not to say that we do not support responsible reductions in state spending which are derived from identified inefficiencies and phase out of programs that do not have a demonstrated track record of producing the results that were intended. But once you take control of future budgets out of the hands of elected officials, all kinds of mischief can and does occur. Please remove Section 45 from the bill.

I will be happy to stand for questions.