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Date: January 22, 2020

To: Senator Robert Olson, Chairman, Senate Committee on Financial Institutions and Insurance

From: Brandi Miller, President/CEO

RE: Senate Bill 259 – Privilege tax deduction for net interest on certain business and single-family residence loans

Mr. Chairman and Members of the Committee,

Thank you for the opportunity to testify in opposition to Senate Bill 259. The Kansas Cooperative Council (KCC) represents all types of cooperatively structured businesses across the state. The industries covered by cooperatives are vast, including agriculture, utility, healthcare, insurance, housing, childcare, and credit unions. Co-ops differ from for-profit businesses because they are member-owned, member-controlled, democratically-governed, and profits are returned to the members.

Credit unions are not-for-profit financial cooperatives and have a rich history in the state. Members of ag co-ops in Kansas originally formed many of the credit unions in their communities; and those members continue to own and operate their credit union co-ops today. Undermining the not-for-profit cooperative structure of credit unions would go against the long-term financial interests of these Kansans and their communities.

For generations, Kansas lawmakers have recognized the structural difference between not-for-profit cooperatives and for-profit corporations and valued the right of individuals to come together and pool their resources to form cooperatives.

SB 259 would go against that long-held precedent in our state by applying a not-for-profit taxation benefit to for-profit businesses without applying the same business structure requirements that not-for-profit cooperatives adhere to in order to earn those taxation benefits.

Because of their not-for-profit organizational and tax structure, credit unions are not subject to the state privilege tax. A privilege tax is an income tax assessed against a financial institutions' net earnings. However, unlike for-profit banks, credit unions do not have investors expecting market rate of return on their investment. Therefore, like other cooperatively structured businesses, credit union earnings are directly passed through to their member-owners through lower interest rates on loans, lower fees, higher returns on savings, and direct dividends. It is important to note that the member-owners do pay income taxes on those earnings.

On behalf of the Kansas Cooperative Council, I stand in opposition to SB 259, which would create new precedent in Kansas tax policy and disregard the cooperative structure that is an important part of, not only our state's financial market, but also our agricultural & rural economy.

The KCC respectfully requests that when the committee considers the bill for action, you vote NO. Thank you for the opportunity to speak today, and I'd be happy to answer any questions from the committee.