



Date: March 21, 2023

To: House Committee on Taxation
Representative Adam Smith, Chair

From: Alex Orel, Senior Vice President – Government Relations
Kansas Bankers Association

Re: SB 2457 – Verbal Proponent Testimony

Mr. Chair and committee members, I am Alex Orel appearing on behalf of the Kansas Bankers Association (KBA). It is also my pleasure to introduce Kelly VanZwoll, who serves as Assistant Vice President – Government Relations & Staff Attorney. We look forward to being a resource for you and the committee as you consider financial service issues for the remainder of this legislative session, and thank you for the opportunity to present proponent testimony on HB 2457.

Kansas Bankers Association Background Information:

The KBA was founded in 1887, is a voluntary, non-profit trade association governed by its membership. The KBA is headquartered in Topeka, Kansas, and is led by our 24-member board of directors. The KBA staff, which President/CEO Doug Wareham leads, includes 37 professionals, including 11 attorneys, that provide services to Kansas bankers ranging from legislative advocacy to educational training to insurance services to legal and regulatory compliance support. Our mission statement is direct and straightforward:

"Together, we support our member banks and bankers with leadership, advocacy, and education to benefit the communities and customers they serve."

KBA's membership includes 98% of the headquartered banks in Kansas. Our membership also includes 20 out-of-state commercial banks operating in Kansas and seven savings and loans. Our member banks employ more than 22,000 Kansans that provide financial services in every county across the state. While our member banks range in assets from the smallest in our state to the largest in our state, each member bank that belongs to the KBA has one vote on policy positions adopted by either our general membership or our Board of Directors. One member, one vote.



KBA Division & Services:

While you are all aware that advocacy is an essential role of the KBA, you may not be aware of the vast array of services and support we provide to Kansas banks and Kansas bankers. Those include:

KBA Insurance, Inc. is a subsidiary of the KBA founded in 1900, offers bonding, property & casualty products, cybersecurity, bank director liability insurance, and life and health insurance products for the Kansas banking industry. KBA's self-funded health insurance plan covers more than 12,000 Kansans making it the second-largest group covered by Blue Cross/Blue Shield. Health insurance premiums collected for our self-funded plan totaled almost \$70 million in 2022 and are growing.

KBA's Education & Conferences Departments provide more than 300 training opportunities annually for more than 4,000 bank employees ranging from high-level economic and investment conferences and seminars to in-depth training for lenders, compliance officers, trust officers, human resource managers, and front-line bank personnel. KBA also invests in financial literacy programs for their customers, focusing on financial literacy for high school students and financial protection for the elderly.

The fastest growing division of the association is KBA's Legal & Compliance Department. The department fields more than 4,000 calls annually from Kansas bankers working to comply with the various state and federal regulations governing the Kansas banking industry. Thirteen years ago, we embarked on a new venture to help Kansas banks with our industry's growing regulatory burden. In 2010, our organization formed a new subsidiary, Kansas Bankers Consulting Services, LLC, to provide KBA member banks with compliance, audit, and legal assistance. We currently have 127 banks utilizing these services, and we expect that number to grow. In 2022 we began offering outsourced compliance services to our member banks through Compliance First Banking Solutions and are working with 8 member banks currently.

SB 2457 – Proponent Testimony

We appreciate the legislature's work this year in looking at tax relief for all Kansans and allowing us to present proponent testimony on HB 2357. This legislation, specifically Sec. 3 and Sec. 4, would provide a corresponding rate reduction equal to the scheduled corporate rate reductions in last year's H. Sub for SB 347 for Kansas privilege taxpayers. The privilege tax is the financial institution's income tax for banks, savings, loans, and trust companies.

Kansas banks, trust companies, and savings and loans are not subject to Kansas corporate income tax because they pay the privilege tax, which is their income tax. The privilege tax requires these entities to pay taxes on the interest income from U.S. Treasury Agency & Securities, whereas the corporate income tax does not require it. The difference in the rate between the two income taxes is meant to reflect the difference in taxation.

The privilege tax is divided into two rates: a normal tax of 2.25% for the first \$25,000 of income and a surtax on income over \$25,000. The surtax for banks is 2.125% and 2.25% for trust companies and savings and loans. Combining the normal rate and the surtax rate brings the total rate to 4.375% for banks and 4.5% for savings and loans and trust companies.

SB 2457 contains that corresponding rate reduction to the total privilege tax rate minus the surtax to establish that new normal rate on the first \$25,000 income. The spreadsheet of our calculations to show how we came to the normal tax rate, compared to corresponding reductions to corporate income tax, is on page 4 of my testimony.

When the committee takes up this bill, we respectfully request that you consider allowing a corresponding reduction for privilege taxpayers, as you did for corporate ratepayers in 2022. Banks, savings and loans, and trust companies are businesses, too; we are just subject to a separate tax.

These corresponding reductions will benefit Kansas consumers by increasing competition and access to credit and, in turn, encourage more economic growth. Overall, these reductions in HB 2457 will benefit individual Kansans, businesses, financial institutions, and the State of Kansas for the long term.

Thank you for the opportunity to provide proponent testimony, and we appreciate your consideration. I would be happy to stand for questions. If, at a later time, you have questions or require additional information, please contact me at aorel@ksbankers.com or (785) 232-3444.

Kansas Privilege Tax (PT) vs. Kansas Corporate Income (CI) Tax Rate Reductions

CI	% Dec.	Total Bank Rate	Total Trust/S&L Rate	Normal Rate		Surtax Rate	
				Banks first \$25k income	Trust/S&Ls first \$25k income	Banks \$25k+ income	Trust/S&Ls \$25k+ income
7.00%	0.00%	4.375%	4.500%	2.25%	2.25%	2.125%	2.250%
6.50%	-7.14%	4.063%	4.179%	1.94%	1.93%	2.125%	2.250%
6.00%	-14.29%	3.750%	3.857%	1.63%	1.61%	2.125%	2.250%