

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 3:38 p.m. on February 10, 2011, in Room 783 of the Docking State Office Building.

All members were present.

Committee staff present:

Gordon Self, Office of the Revisor of Statutes  
Scott Wells, Office of the Revisor of Statutes  
Chris Courtwright, Kansas Legislative Research Department  
Michael Wales, Kansas Legislative Research Department  
Marla Morris, Committee Assistant  
Allen Jeffus, Office Assistant

Conferees appearing before the Committee:

Majority Leader Arlen Siegfried  
Representative Mario Goico  
Kent Eckles, Vice President of Government Affairs, The Kansas Chamber  
Mark Tallman, Associate Executive Director/Advocacy, Kansas Association of School Boards

Conferees providing written only testimony:

Daniel Murray, Kansas State Director, National Federation of Independent Business

Others attending:

See attached list.

Bill Introductions:

Representative Melanie Meier, requested introduction of a bill to clarify the definition of residence rather than commercial classification of bed and breakfasts for the purpose of taxation. Representative Carlson moved introduction of the bill, Representative Dillmore seconded the motion. The motion carried.

Representative Kleeb moved introduction of a bill on economic benefit analysis. Representative Carlson seconded the motion, and the motion carried.

Chairman Carlson opened the hearing on:

**HB 2160-Establishing the simplified state tax structure committee**

Chairman Carlson directed the Committee to the Division of Budget Fiscal Note for **HB 2160** that is located in the daily packet (Attachment 1).

Scott Wells, Office of the Revisor of Statutes, briefed the committee on **HB 2160**. There were no questions.

Majority Leader Arlen Siegfried, testifying in support of **HB 2160**, presented the changes from previous legislation as it pertains to the creation of a Simplified State Tax Structure Committee (Attachment 2). He stood for questions.

Representative Mario Goico spoke in support of changing the state's current tax structure. He suggested the creation of a Special Committee on Tax Reform based on the military BRAC model (Attachment 3). He stood for questions.

Kent Eckles, Vice President of Government Affairs, The Kansas Chamber, testified in support of **HB 2160**. He presented a series of charts based on statistics gathered from various sources commissioned by The Kansas Chamber (Attachment 4). He urged the Committee to pass favorably **HB 2160**, and stood for questions.

## CONTINUATION SHEET

Minutes of the House Taxation Committee at 3:38 p.m. on February 10, in Room 783 of the Docking State Office Building.

Mark Tallman, Associate Executive Director/Advocacy, Kansas Association of School Boards (KASB), endorsed the provisions of **HB 2160**. His testimony reflected the concerns of the 287 KASB members, and their desire for a tax system that encourages economic growth, which supports a strong educational system, which in turn supports economic growth (Attachment 5). He stood for questions.

Chairman Carlson directed the Committee to testimony written-only, testimony in support of **HB 2160** from Daniel Murray, Kansas State Director, National Federation of Independent Business (Attachment 6).

Chairman Carlson closed the hearing on **HB 2160**.

Chairman Carlson opened discussion and action on:

**HB 2161-Retailers may choose place of business sourcing or destination sourcing as method to determine sites of taxable transactions for sales tax purposes.**

Chris Courtwright, Kansas Department of Legislative Research briefed the Committee on **HB 2161**.

Representative Brunk moved **HB 2161** favorable for passage. The motion was seconded by Representative Schwab.

After considerable discussion, and due to time constraints, Chairman Carlson held the working of **HB 2161** in abeyance until adequate time can be scheduled to pursue action on the bill.

The next meeting is scheduled for 3:30 p.m., February 14, 2011, in Room 783 of the Docking State Office Building for the purpose of hearing **HB 2220 -Promoting employment across Kansas act; qualification for benefits.**

The meeting was adjourned at 4:58 p.m.

**HOUSE TAXATION COMMITTEE**

Date: Thursday, February 10, 2011

[illegible]

February 9, 2011

The Honorable Richard Carlson, Chairperson  
House Committee on Taxation  
Statehouse, Room 274-W  
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2160 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2160 is respectfully submitted to your committee.

HB 2160 would establish the Committee on Simplified State Tax Structure to study the overall tax structure and policy of the state. The Committee would meet five times during the 2011 interim and five times during the 2012 interim, submitting reports to the Legislature with its findings and recommendations before December 31, 2011, and December 31, 2012. The 13-member Committee would include: the chairperson, vice-chairperson, and ranking minority leader of the House Committee on Taxation; two members appointed by the Speaker of the House; one member appointed by the Minority Leader of the House; the chairperson, vice-chairperson, and ranking minority leader of the Senate Committee on Assessment and Taxation; one member appointed by the President of the Senate; one member appointed by the Minority Leader of the Senate; and two members appointed by the Governor to represent the public at large.

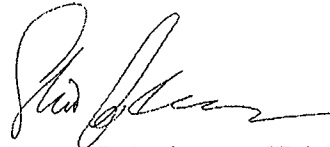
Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	--	--
Expenditure	--	--	\$43,015	\$43,015
FTE Pos.	--	--	--	--

Legislative Administrative Services would process vouchers for mileage and turnpike fees and payment of daily compensation and subsistence for legislative members. The cost estimate assumes average mileage reimbursements of 250 miles per member and that five legislators would claim an "en route" day. The estimated cost for a two-day meeting for legislative pay is \$6,912 and for the two public members would be \$923. The estimated cost of a secretary for each two-day meeting and four days of preparing minutes is \$768. Therefore, the

The Honorable Richard Carlson, Chairperson  
February 9, 2011  
Page 2—Fisc\_Note\_Hb2160

total cost per two-day meeting is \$8,603. For five two-day meetings in the 2011 interim, the total cost would be \$43,015. If daily compensation, subsistence, or mileage costs increase for FY 2013, the total cost for the 2012 interim will be higher. Any fiscal effect associated with HB 2160 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA  
Director of the Budget

cc: Steve Neske, Revenue  
Mary Torrence, Revisor of Statutes  
Alan Conroy, KLRD  
Jeff Russell, Legislative Services  
Diane Duffy, Board of Regents



ARLEN H. SIEGFREID  
HOUSE MAJORITY LEADER

February 10, 2011

**MEMORANDUM**

**To: Members of the Special Committee on Assessment and Taxation**  
**Re: Support for concepts contained in HB 2160**

Mr. Chairman and Members of the House Taxation Committee:

As you know, one of the most daunting challenges we face as legislators stems from our inability to predict the ultimate consequences of the decisions we make. The Kansas tax code exemplifies this notion, and as it exists today, represents a convoluted mosaic of proposals which renders any substantive change in tax structure meaningless, ineffective, or counterproductive.

In response, I have authored a proposal to establish the Simplified State Tax Structure Committee. The bill aims to assemble a committee of tax experts to accomplish 3 goals:

- 1) Review our current tax structure to recognize inefficiencies and/or redundancies.
- 2) Submit recommendations on how to streamline our tax structure.
- 3) Develop a strategy to broaden the tax base.

With this information, and their subsequent recommendations we will not only increase our competitive standing in relation to surrounding states, but also enable job creators in Kansas to thrive. By designing a more streamlined and efficient tax code our producers are relieved of the burdens inherent in our current system—and free to begin re-designing their business models to create more jobs for Kansans.

However, a new tax model doesn't simply benefit producers; it also benefits us as legislators. The value of clarity and precision for this committee and others will be the ability to more accurately understand the direct impact of our decisions. By eliminating the analytical variables inherent in the current formula, we empower ourselves with the ability to more accurately determine what works, what doesn't work, and react accordingly.

Mr. Chairman, a simplified tax structure is one of the most basic tools we can incorporate in re-starting our economy. The concepts addressed in this legislation represent a critical part of this process. I encourage this initial step, and ask that the members of this committee join me in supporting the proposal.

House Taxation

Date: 2-10-11

Attachment: 2



STATE OF KANSAS

MARIO GOICO  
REPRESENTATIVE, 100TH DISTRICT  
SEDGWICK COUNTY  
1254 N. PINE GROVE CT.  
WICHITA, KS 67212  
316-721-3682



TOPEKA

HOUSE OF  
REPRESENTATIVES

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HOMELAND SECURITY  
VICE-CHAIRMAN: ELECTIONS  
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CHAIRMAN: JOINT COMMITTEE ON KANSAS  
SECURITY

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### Using a BRAC Strategy to Create More Kansas Jobs

Lawmakers will have to make tough budget cuts this year. The difficult choice is either massive spending cuts, and/or a rewrite of the basic state tax code (property taxes, sales taxes and income taxes). It could be argued that the present expenditures and taxes are the remnants of an agrarian economy, and that they are long overdue for a change, in order to attract modern industries to the State of Kansas.

Job growth is a major priority, and an important component is the competitiveness of the state in attracting new businesses. Many states have been much more aggressive than Kansas in the economic incentives that they offer. The case has to be made domestic and international competition.

Companies consider their bottom line cost when making location, relocation or expansion decisions. Kansas' future depends on the State having an environment that encourages job creation, quality employees, abundant access to inexpensive electricity and water, and an efficient transportation infrastructure. Questions that need to be answered are: Can the economy of Kansas be boosted by investing in higher education and providing incentives for businesses that ship products out of state? How does Kansas increase the number of high-tech companies? With the uncertainty of the present economy, how can they be brought here now?

The first step needs to be a change to the state's current tax structure; otherwise Kansas will have to offer bigger incentive packages to compete, and to keep the businesses that are already in our State. A recent example is the incentive provided by the State in order to keep Beech Aircraft in Wichita.

Low taxes can help attract business and industrial development; however, it's just as true that the kinds of well-paying high-tech jobs for which the state is, or should be, competing, will demand a skilled labor force. Those skills are, of course, acquired largely through the state's public K-12 and postsecondary educational institutions, which have seen state support drop in recent years. Lowering taxes too much or too quickly could make Kansas a place that wouldn't attract business and industrial development, as the quality of education, transportation and other basic services will decline.

House Taxation  
Date: 2-10-11  
Attachment: 3

Kansas is compelled to find that tricky point between fair levels of taxation and adequate levels of service. This will require the preparation of a reasonable road map for balancing the need for revenue with the need for tax relief; this should include restructuring many areas that have been off-limits in the past few years, like education, public safety, KPERS and Medicaid. The limited resources of the private sector will not and cannot produce new jobs while simultaneously funding and complying with oversized, non-essential levels of government, unless the goal is to have Cuba's economy. Services need to be consolidated and privatized. Surplus and unneeded state property must be sold in order to put it back on the tax rolls, and to cut down on maintenance costs. In order to make the courts more efficient, new drug, DUI, and mental health courts, along with new probation and treatment options should be created.

Legislators in many of the previous sessions have looked at exemptions granted to determine whether they are producing the intended benefits. However, there have not been any significant changes. Issues debated were charging sales taxes on more goods and services and reduction of income taxes. Accomplishing this is a daunting task. Any decision is always difficult because so many legislators have publicly taken political positions.

### **How to Implement the Restructuring of Taxes**

Whatever tax plan is considered will bring a lively debate in a statehouse where every special interest ranging from big businesses to social services has many lobbyists. After having served on the Taxation Committee for many years, I have observed that "Any tax break or tax increase has its own constituency". Nobody wants to be taxed, but they want to tax the other person. It will be difficult for a legislative committee to consider a solution in a logical and effective manner; there are too many political forces in play! Creating a Special Committee on Tax Reform modeled after the successful military BRAC model is an alternative approach. This will be a panel created by the legislature to rewrite Kansas' tax code. This group should be composed of legislators, community leaders, economists and businessmen that will recommend a package of tax reforms. Any legislation approved by the special committee would go directly to the floor of the House of Representatives and the Senate for an up-or-down vote, bypassing the regular process of debate and consideration of amendments. The Legislature would be required to vote on the proposal as-is with no changes.

Without a doubt, the budget and where to cut it will be this session's top priority. It will require adding new jobs by expanding, franchising, and adding on to existing businesses. The tax structure should be completely reviewed for areas where it is antiquated and should be updated to achieve tax parity and tax equity across a broad base of citizens and businesses. A tax system that is growth-enhancing must be established. Marginal tax rates affect economic behavior, so any reduction would foster more commercial activity. We should start moving in the direction of a consumption tax verses and income tax.



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 CHAIRMAN: JOINT COMMITTEE ON KANSAS  
 SECURITY

## Changes to Kansas Tax Structure

Economists support redirecting the state's taxing emphasis to what people buy and the services they use (consumption taxes) rather than the income they earn. This would require that the sales tax cover many untaxed personal services. Many existing exemptions have no proven economic benefit and some appear to be only there to help politically favored industries. A consumption tax will allow Kansas to collect taxes that will contribute to our tax base from thousands of illegal immigrants, tourists, passersby, and temporary residents. This could be accomplished by slowly decreasing income taxes and at the same time charging sales taxes on more goods and services phased over several years. Cutting income taxes and making people pay more in sales taxes would provide a tax break for upper-income and make the poor pay more. The poor, the unemployed and the elderly will argue that they will spend a higher percentage of their income on goods and services that would be taxed. These tax changes will increase the percentage that they pay; however, they would also provide benefits as new jobs and increases in pay.

Certainly there needs to be an analysis of the tax credits, the exemptions that are in the code now and whether they're doing what was intended. A pro-growth plan that is, less complicated and less riddled with special exemptions and credits needs to be adopted. Incentives should be enacted to entice manufacturers to locate in Kansas, especially in areas that have had large decrease in population. This can be accomplished by cutting the state's corporate income tax rate and developing measures aimed at boosting business recruitment.

Business inputs should not be taxed. Current exemptions for business inputs should remain and new exemptions should be created for energy used in manufacturing, mining and agriculture. This would make Kansas's business climate more attractive and avoids the tax compounding that arises from taxing both inputs and outputs of firms with multi-stage production processes. This could also include eliminating taxes on inventory, establishing tax courts to handle appeals, giving out tax credits to businesses that create jobs, and letting local governments spend sales taxes, earmarked for capital projects on operating costs, if they roll back property taxes.

**Testimony before the House Tax Committee  
HB 2160 – Establishing the Committee on Simplified State Tax Structure  
Presented by J. Kent Eckles, Vice President of Government Affairs**

**Thursday, February 10<sup>th</sup>, 2011**

The Kansas Chamber of Commerce appreciates the opportunity to present testimony in favor of HB 2160, which would establish the Committee on Simplified State Tax Structure.

Each year the Kansas Chamber commissions an Annual Competitive Index, which compares nearly 80 metrics against our peer states (surrounding geographic states plus Iowa). State Business Tax Structure and Business Tax Burden are but two of them and we rank 37<sup>th</sup> and 39<sup>th</sup> respectively for each metric. (See attachment 1)

Also on an annual basis, the Kansas Chamber commissions Cole Hargrave Snodgrass & Associates to poll 300 member and non-member businesses that reflect Kansas geographically and by number of employees. When asked what was most important to their profitability, the overwhelming response was "Lower Taxes on Businesses" with 49%. (See attachment 2)

The bottom line is taxes matter to business and Kansas definitely has room to improve. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus, a state with lower tax costs will be more attractive to business investment, and more likely to experience economic growth.

Further, states do not enact tax changes (increase or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

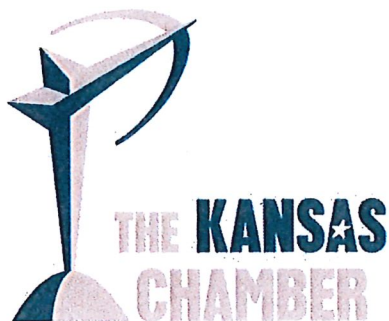
We do acknowledge taxes are not the only consideration businesses have when deciding to locate in Kansas or relocate from Kansas. Attached are the results from Area Development Magazine's 2009 Annual Corporate Survey in which they ask site location consultants throughout the country "What factors are very important or important to your clients (businesses) when considering relocation?" You will notice four of the top ten survey responses were tax related. (See attachment 3).



The Kansas Chamber welcomes the establishment of a Committee on Simplified State Tax Structure to explore ways in which to make the state more competitive economically and thus grow our tax base by adding new, high-paying jobs to in Kansas.

We urge the Committee to pass favorably House Bill 2160.

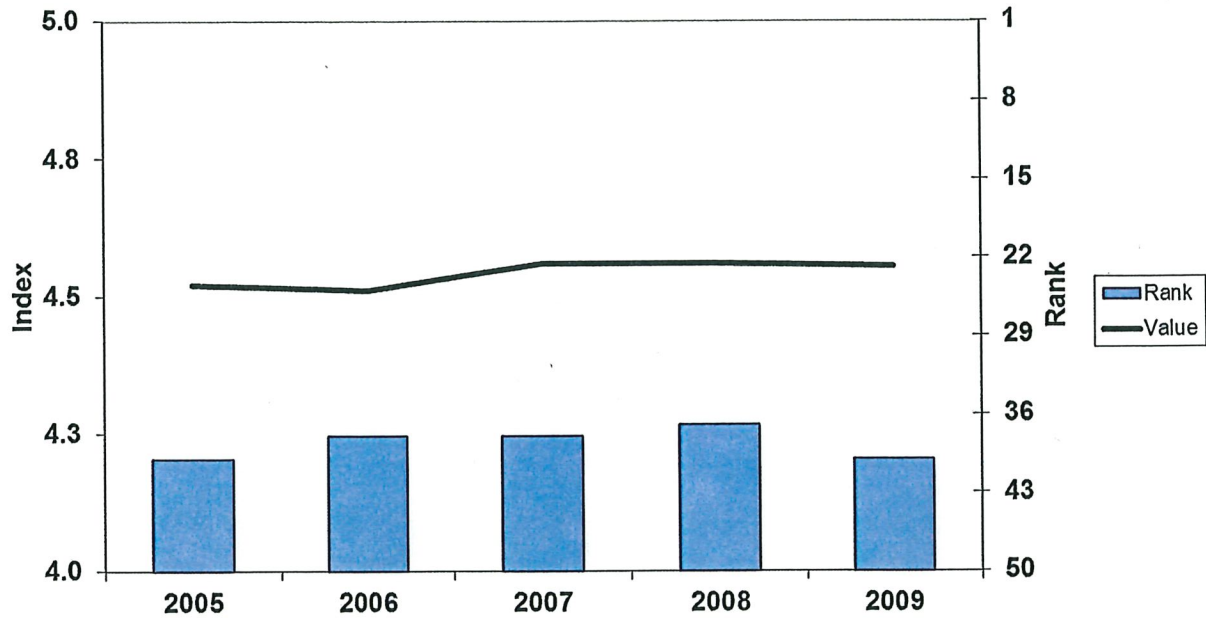
The Kansas Chamber, with headquarters in Topeka, Kansas, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to live and work. The Chamber represents small, medium, and large employers all across Kansas. Please contact me directly if you have any questions regarding this testimony.



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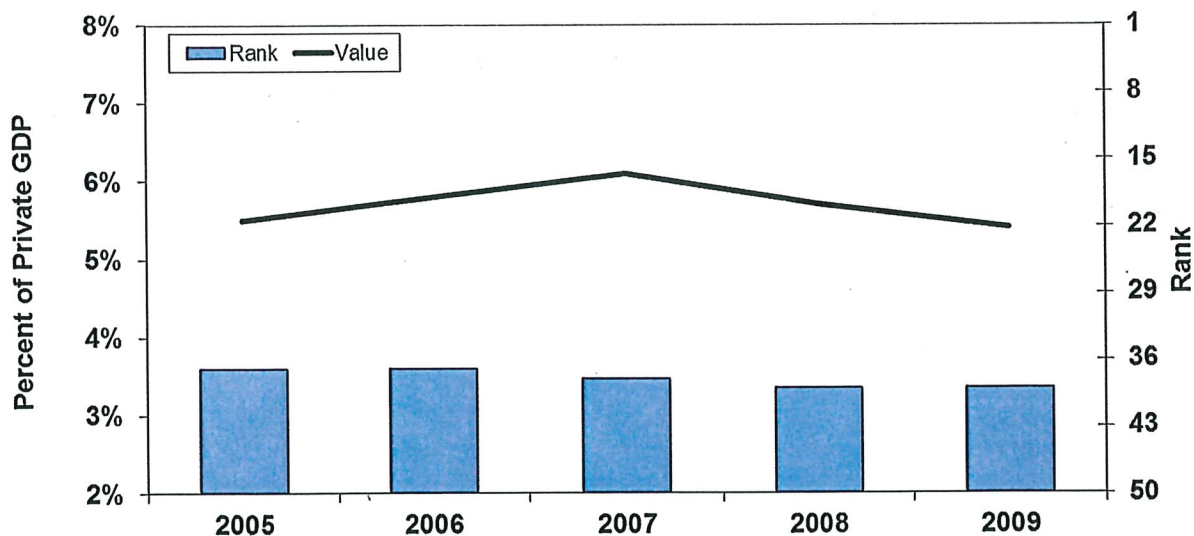
Source: Tax Foundation. Prepared for the Kansas Chamber Annual Competitiveness Index by GrowthEconomics, Inc.

### Kansas State Business Tax Structure, 2005 - 2009



**What's it mean?** This measure is the Corporate Tax Index taken from the Tax Foundation. It strives to measure fairness and balance across all businesses by favoring tax systems that are simple and have low tax rates across a broad base. The Kansas score has held steady over the past five years, indicating little change to tax structure. Overall, the State does not rank well at 37<sup>th</sup>.

### Kansas Business Tax Burden, 2005 - 2009



Source: Ernst & Young, prepared for The Council On State Taxation. Prepared for the Kansas Chamber Annual Competitiveness Index by GrowthEconomics, Inc.

**What's it mean?** Business Tax Burden accounts for all business tax costs as percent of private state GDP. Kansas has experienced a decline in the business tax burden since 2007. However, as other states have followed suit, this trend was not enough to improve its competitive position, currently ranking it 39<sup>th</sup>.

## Kansas Business at a Glance

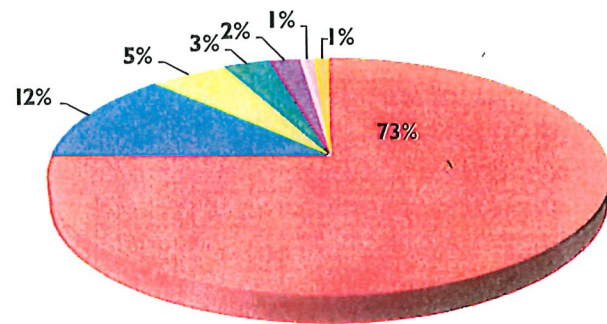
The Kansas Chamber commissions Cole Hargrave Snodgrass & Associates to poll 300 member and non-member businesses that are reflective of Kansas businesses geographically and with regard to number of employees. The issues identified by the business community in the CEO poll lay the foundation for the 2011 Legislative Agenda.

### Most Important to Profitability:

<b>MENTIONED:</b>	<b>2010</b>	<b>2009</b>
Workers' compensation	13%	19%
Unemployment compensation	7%	3%
Managing health care costs	38%	32%
Lower taxes on business	49%	43%
Decrease regulation/mandates	22%	18%
Stop frivolous lawsuits/tort reform	16%	13%
Limit growth of state government	14%	17%
Economic incentives for business	20%	18%
Reduce fuel and energy costs	21%	20%

(Each survey participant was allowed up to two responses)

### Number of Business Employees



- Less than 10
- 10 to 20
- 21 to 50
- 51 to 100
- 101 to 500
- 501 to 1000
- More than 1000

Figure 26

## Combined Ratings\* of 2009 Factors

Corporate Survey 2009

## SITE SELECTION FACTORS

RANKING	2009	2008
1. Labor costs	96.7	91.4 (2)**
2. Highway accessibility	92.9	95.4 (1)
3. Tax exemptions	88.4	88.6 (4)
4. Energy availability and costs	88.0	87.9 (5)
5. Corporate tax rate	87.0	85.3 (8)
6. Availability of skilled labor	86.9	87.7 (6)
7. Occupancy or construction costs	86.7	90.4 (3)
8. State and local incentives	84.9	87.2 (7)
9. Availability of advanced ICT services	83.2	55.5 (21)
10. Inbound/outbound shipping costs	81.7	N/A
11. Low union profile	75.8	82.7 (9)
12. Available land	75.7	82.0 (10)
12T. Availability of buildings	75.7	80.8 (11)
14. Right-to-work state	74.0	76.6 (13)
15. Proximity to major markets	73.3	78.7 (12)
16. Expedited or "fast-track" permitting	72.2	72.5 (15)
17. Environmental regulations	71.2	76.1 (14)
18. Availability of long-term financing	65.4	64.2 (17)
19. Proximity to suppliers	63.9	69.2 (16)
20. Training programs	61.7	62.3 (19)
21. Raw materials availability	57.0	56.8 (20)
22. Availability of unskilled labor	55.5	62.9 (18)
23. Accessibility to major airport	49.0	53.3 (22)
24. Proximity to technical university	36.7	38.4 (23)
25. Railroad service	27.4	27.2 (24)
26. Waterway or oceanport accessibility	17.7	15.7 (25)

## QUALITY-OF-LIFE FACTORS

RANKING	2009	2008
1. Low crime rate	79.0	78.2 (1)
2. Healthcare facilities	68.4	77.6 (2)
3. Housing availability	62.4	66.2 (4)
4. Housing costs	61.5	67.1 (3)
5. Ratings of public schools	61.4	65.7 (5)
6. Climate	55.0	56.0 (6)
7. Recreational opportunities	52.7	48.6 (8)
8. Colleges and universities in area	50.7	55.3 (7)
9. Cultural opportunities	46.0	46.4 (9)

\*All figures are percentages and are the total of "very important" and "important" ratings of the Area Development Corporate Survey and are rounded to the nearest tenth of a percent.

\*\* (2008 ranking)



KANSAS  
ASSOCIATION



OF  
SCHOOL  
BOARDS



1420 SW Arrowhead Road • Topeka, Kansas 66604-4024  
785-273-3600

Testimony before the  
**House Committee on Taxation**  
on  
**HB 2160 – Simplified State Tax Structure**

by  
**Mark Tallman, Associate Executive Director/Advocacy**  
Kansas Association of School Boards

**February 10, 2011**

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify today on **HB 2160**, which would establish a committee on a simplified state tax structure. KASB appears as a proponent of this bill. As veteran members of the committee will remember, KASB has repeatedly advocated a comprehensive study of state tax policy, and supported similar legislation last year.

For new members: KASB is a voluntary membership organization of locally elected boards of education and other local education agencies. This year, 287 of the 289 Kansas school boards belong to KASB in order to receive a wide range of services to help them serve their students and patrons. Legislative representation and information is just one of those services. Each member board is entitled to a vote in our KASB Delegate Assembly, which determines the lobbying positions we take.

For several years, our delegates have adopted a resolution encouraging a comprehensive study of state and local tax policies. In particular, we have been concerned with the narrowing of the Kansas tax base, which has tended to either increase tax rates or shift the tax burden. Therefore, we endorse the provisions of **HB 2160**.

Good schools and a strong economy are strongly linked. Improving education improves personal income, productivity and economic development. A growing economy provides the revenues to finance educational improvement. Kansas has traditionally funded its school system well, and has among the best educational outcomes in the region and the nation. We want a tax system that encourages economic growth, which supports a strong educational system, which in turn supports economic growth.

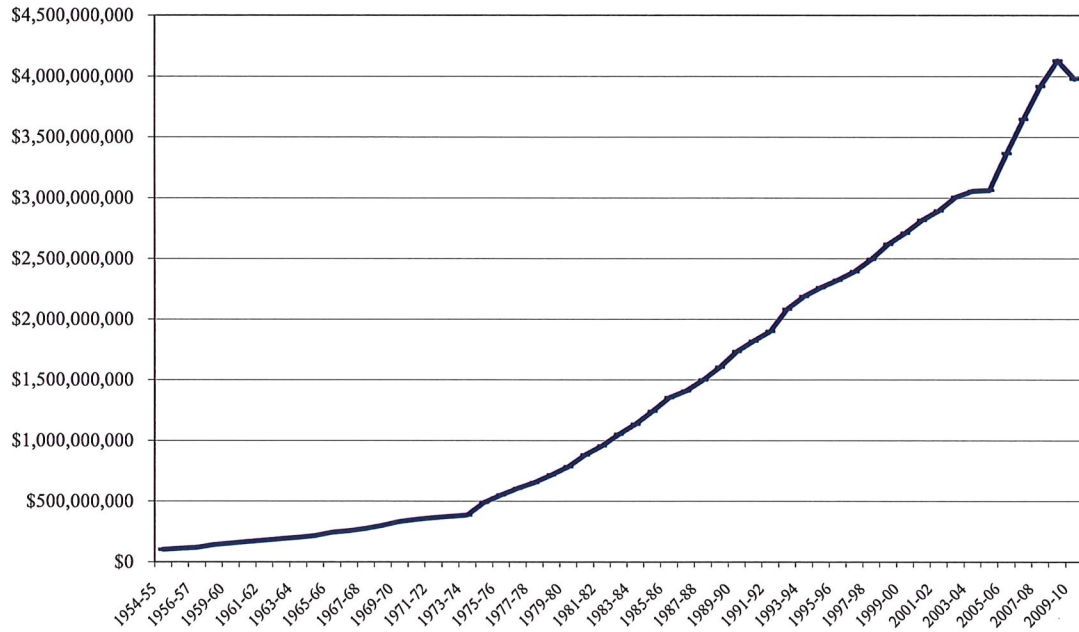
House Taxation

Date: 2-10-11

Attachment: 5

**Table 1**

**Total General Fund Expenditures**



**Table 2**

**District GF Expenditures As % of Kansas Personal Income**

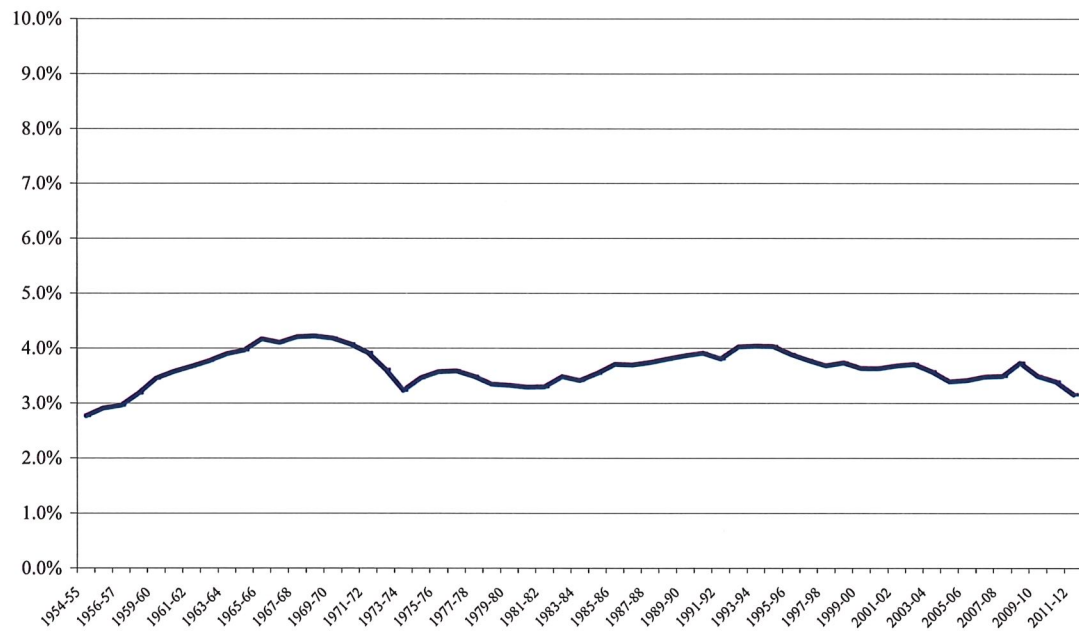


Table 3

### School District Budgets as Percent of Kansas Personal Income

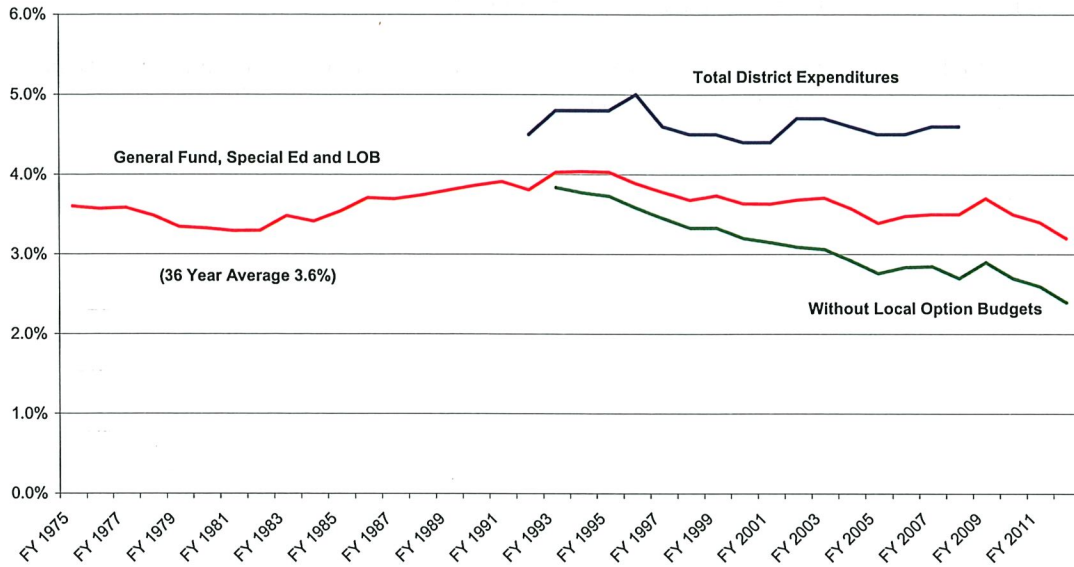
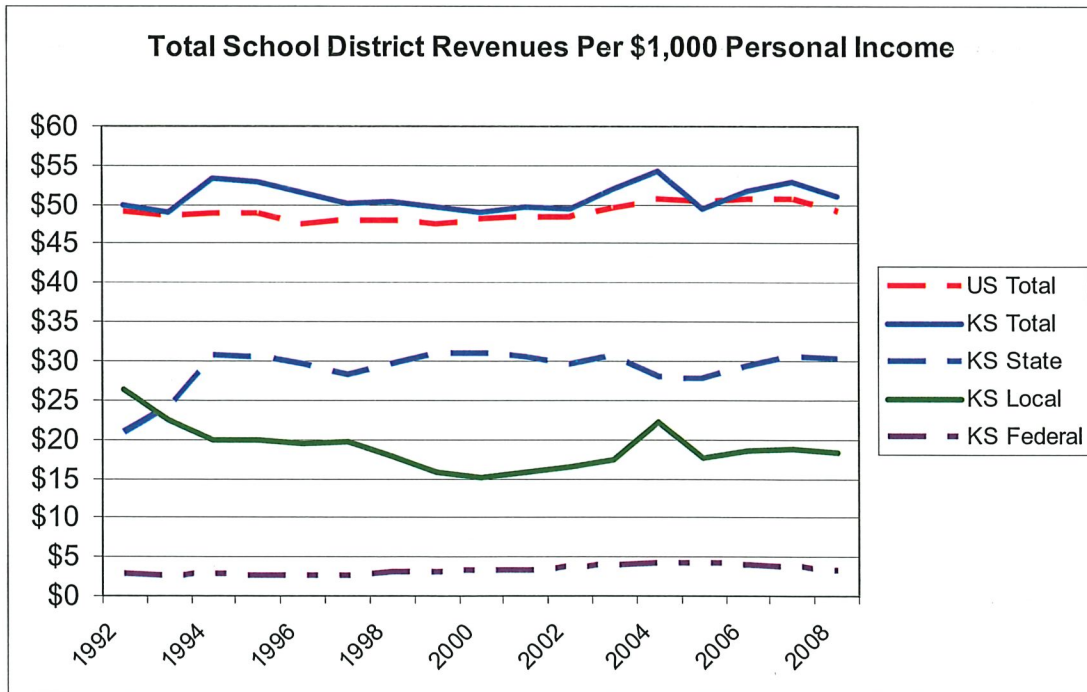


Table 4



These charts indicate the cost of the Kansas public school system has remained very stable compared to Kansas income. If we can both maintain that level of support and keep state income levels growing, we can continue to improve educational attainment. If our tax system doesn't keep up with income, the quality of education will begin to decline. It will be extremely difficult to attract high skill/ high wage jobs to Kansas if our school system falls behind. Our concern is that erosion of the tax base makes this more likely.

We believe these issues demand the attention the commission proposed in **HB 2160** could provide. Thank you for your consideration.



The Voice of Small Business®

**Written Testimony by Mr. Daniel Murray**  
**Kansas State Director, National Federation of Independent Business**  
**House Taxation Committee**  
**Thursday, February 10, 2011**

*Taxes that are too high, and a tax system that is ridiculously complex, stand in the way of small business growth.*

Good afternoon Chairman Carlson and members of the Committee. My name is Dan Murray and I am the State Director of the National Federation of Independent Business/Kansas. NFIB/KS is the leading small business organization representing small and independent businesses. A nonprofit, nonpartisan organization founded in 1943, NFIB/KS represents the consensus views of its over 4,100 members in Kansas. NFIB/Kansas supports HB2160.

First, small business is the backbone of the Kansas economy. Collectively, small business represents over 97 percent of all employer firms and provides employment to over 54 percent of the non-farm private work force in Kansas. Small business pays 44 percent of total U.S. private payroll, and in the past fifteen years, it has annually generated 64 percent of net new jobs. Small business isn't small.

Second, taxes matter to small business. As part of representing small business owners the NFIB pays close attention to the concerns of our members and taxes consistently rates high on the list. The NFIB Research Foundation's Small Business Problems and Priorities consistently ranks tax issues, **whether tax rates or complexity**, at the top of the list.<sup>1</sup> In addition, the monthly Small Business Economic Trends (SBET) survey regularly ranks taxes as amongst the most important problems.<sup>2</sup>

Third, Kansas must improve its tax climate. The Small Business & Entrepreneurship Council's "Business Tax Index 2010" ranks the states from best to worst in terms of the costs of their tax systems on entrepreneurship and small business. The Index pulls together 16 different tax measures, and combines those into one tax score that allows the 50 states and District of Columbia to be compared and ranked. **Kansas ranks 32nd—that is unacceptable.** Here's how we compare to our neighbor states: SD-1<sup>st</sup>, CO-10<sup>th</sup>, OK-14<sup>th</sup>, MO-16<sup>th</sup>, NE-36<sup>th</sup>.<sup>3</sup>

With that, NFIB/Kansas supports HB2160 because we hope this is the first step in making Kansas the best state in America for our members to own, operate and grow their business. We hope that the creation of a committee to study a simplified Kansas tax structure represents a commitment by this legislature to make dramatic, positive change to the Kansas tax structure. We ask, if HB2160 is signed into law, that the committee consider how taxes uniquely impact small businesses. To that end, the committee must consider the following:

**I. Most Small Businesses are Taxed at the Individual Level.**

No matter what business structure the small business owner chooses, you cannot separate the business owner from the business. The majority of small businesses are organized as pass through entities, with nearly 75-percent choosing a pass through business structure.<sup>4</sup> This means that most small businesses will pay their taxes at the individual level rather than the corporate level.

<sup>1</sup> William J. Dennis, *Small Business Problems and Priorities*, NFIB Research Foundation, Washington, DC series.

<sup>2</sup> In the latest Small Business Economic Trends Survey, taxes ranked first among important problems. *Small Business Economic Trends*, NFIB Research Foundation, Washington, DC, August 2010.

<sup>3</sup> *Small Business & Entrepreneurship Council's Business Tax Index 2010: Best to Worst State Tax Systems for Entrepreneurship & Small Business*: [http://www.sbecouncil.org/uploads/BTI2010\\_2.pdf](http://www.sbecouncil.org/uploads/BTI2010_2.pdf)

<sup>4</sup> Firms of all size responded that 20.9-percent organized as sole proprietors, 5.8-percent as partnerships, 25.6-percent as C-Corps, 30.9-percent as S-Corps, 12.4-percent as LLCs, and 4.2-percent as other/DNK. *Business Structure – NFIB Small Business Poll*, NFIB Research Foundation, Washington, DC, Volume 4; Issue 7; 2004.

**House Taxation**  
Date: 2-10-11  
Attachment: 5

#### ...ne importance of cash flow.

Cash flow is an especially difficult challenge for small businesses that is made worse by increasing taxes. One in five small businesses experiences a continuing cash flow problem and one in two businesses face regular cash flow problems.<sup>5</sup> This is a problem common to all small businesses and is just as true for a larger small business as it is for the smallest business.<sup>6</sup>

#### III. Keep it Simple.

Cumulatively, typical small businesses spend annually between 1.7 billion and 1.8 billion hours on tax compliance and \$18 billion to \$19 billion on compliance costs.<sup>7</sup> The result is that 88-percent of small business owners now hire a paid tax preparer to complete their returns.<sup>8</sup> Small business owners also spend on average \$74.24 per hour on the paperwork associated with tax compliance – the highest paperwork cost imposed on small business by the federal government.<sup>9</sup> Unlike a larger business, the small business does not have a finance department or a staff of accountants and lawyers to focus on the nuances and changes in the tax laws. Nor does the typical small business have a full-time human resources specialist to keep up with the tax changes impacting health care and retirement plans.

#### IV. Certainty for Small Business

More certainty in the law will help to reduce compliance and planning burdens on small businesses. We are hearing regularly from our members that they are concerned about uncertainty, whether it's the expiring individual tax rates, the unresolved estate tax, or potential tax increases at the state and local level. In as much as the state legislature can act on these issues, you should proceed quickly so that small business owners know what the laws are relative to the business decisions they have to make. It is counterproductive in the current economic climate for a business owner to keep capital locked-up until they see what the legislature does.

In closing, taxes at the state and local levels matter by diverting resources from and reducing incentives for productive, private-sector risk taking that generates innovation, growth and jobs. Quite simply, economic recovery will be restrained by high and/or increasing taxes, or boosted by low and/or falling taxes. This legislature has a choice. We trust this legislature will choose to help move Kansas from 32<sup>nd</sup> to 1<sup>st</sup>. Please support HB2160.

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<sup>5</sup> *The Cash Flow Problem – NFIB Small Business Poll*, NFIB Research Foundation, Washington, DC, Volume 1; Issue 3; 2001.

<sup>6</sup> *Ibid.*

<sup>7</sup> Donald DeLuca, Scott Silmar, John Guyton, Wu-Lang Lee, and John O'Hare, "Aggregate Estimates of Small Business Taxpayer Compliance Burden," Proceedings of the 2007 IRS Research Conference.

<sup>8</sup> *Tax Complexity and the IRS – NFIB Small Business Poll*, NFIB Research Foundation, Washington, DC, Volume 6; Issue 6; 2006.

<sup>9</sup> *Paperwork and Record Keeping – NFIB Small Business Poll*, NFIB Research Foundation, Washington, DC, Volume 3; Issue 5; 2003.