



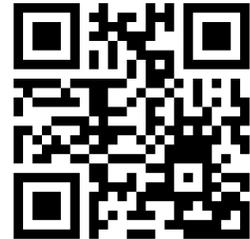
Chairman Johnson and Members of the Committee,

We appreciate this opportunity to submit testimony in opposition to HB 2685, which imposes a sales tax on Digital Property and subscription services. Our opposition is based on these topics:

1. HB 2685 is not revenue neutral; it's a tax increase.
2. HB 2685 risks slowing the Kansas economy

HB 2685 is not revenue neutral; it's a tax increase

According to the fiscal note, HB 2685 will collect roughly \$40 million a year into the State General Fund and \$50 million to all funds. However, there are no provisions in the bill to offset the added tax Kansans would experience. HB 2685 is a tax increase. **Scan the adjacent QR code with your smartphone camera** for a discussion with House Majority Leader Dan Hawkins on a proposal to tax digital downloads.



A rule of thumb for optimal tax policy is to broaden the tax base and pair it with rate reductions. Such a policy provides stability to tax sources during economic swings and volatility, while not increasing the tax burden on taxpayers on average. HB 2685 could pay for

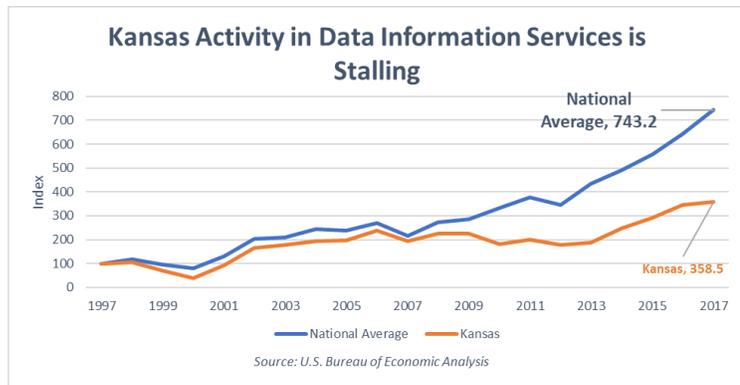
- Increasing the standard deduction
- Allowing non-retroactive itemization of state income tax returns
- Making food sales tax credit refundable
- Lowering the sales tax rate by 0.1 percentage points

HB 2685 risks slowing the Kansas economy

HB 2685 affects digital products and subscription services. These products for consumption can be found in NAICS 518210 – Data Processing, Hosting, and Related Services. Illustrative examples include:

- Application hosting
- Web hosting
- Computer data storage services
- Video and audio streaming services
- Computer input preparation services

As such, the adjacent chart plots economic activity in this industry for Kansas and the national average.¹ A value of 100 means economic activity in 1997. Nationwide, economic activity in this sector is more than 7X what it was in 1997. In Kansas, however, the growth in the industry is more than three times higher than its 1997 levels. In other words, HB 2685's imposition of a tax could further hurt the growth in the industry and the stability of tax revenues.



For these reasons, we encourage the Committee to reject HB 2685 and thank the members for their consideration.

¹ U.S. Bureau of Economic Analysis, *Gross Domestic Product by State*, https://apps.bea.gov/iTable/iTable.cfm?reqid=70&step=30&isuri=1&major_area=0&area=00000,20000&year=-1&tableid=505&category=1505&area_type=0&year_end=-1&classification=naics&state=0&statistic=49&yearbegin=-1&unit_of_measure=index