

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:30 A.M. on January 18, 2007 in Room 519-S of the Capitol.

All members were present except:

Derek Schmidt- excused
Les Donovan- excused

Committee staff present:

Chris Courtwright, Kansas Legislative Research Department
Martha Dorsey, Kansas Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Jason Thompson, Office of Revisor of Statutes
Judy Swanson, Committee Assistant

Conferees appearing before the committee:

State Senator John Vratil	Secretary of State Ron Thornburgh
Pete Schrepfermann	Christy Caldwell
Kenneth Daniel	Alan Cobb
Derrick Sontag	Brad Harralson
Charles Gregor	Bret Haden
Karl Peterjohn	Marlee Carpenter
Richard Cram	Mark Tallman
April Holman	

Others attending: See attached list.

SB 50: Repealing the Kansas franchise tax

Hearing on **SB 50** was opened. State Senator John Vratil said Kansas has had some form of a franchise tax since 1866. (Attachment 1) A complete repeal of the Kansas franchise tax would reduce state revenues by \$230 million over a five year period. He provided an illustration of the impact of the changes proposed. He said repeal of the franchise tax will benefit Kansas by reducing the current tax burden placed on businesses, assist economic development and increase our competitive position relative to neighboring states.

Secretary of State Ron Thornburgh presented an amendment to **SB 50**, which would eliminate the \$40 franchise fee paid to the Secretary of State's Office. (Attachment 2)

Pete Schrepfermann, Wichita Independent Business Association, said WIBA has advocated for the elimination of the franchise tax for several years because WIBA believes it is an anti-business tax that disproportionately burdens small business. (Attachment 3) Kansas is in the minority as a state that employs a franchise tax, and WIBA supports elimination of it.

Christy Caldwell, Greater Topeka Chamber of Commerce, testified **SB 50** is good policy, and urged the Committee to support it. (Attachment 4)

Kenneth Daniel, Midway Wholesale and KsSmallBiz.com, said the franchise tax is an aggressive anti-business tax. (Attachment 5) Kansas needs to eliminate the franchise tax because it is unfair, it is levied whether a business is profitable or not, identical businesses pay widely varying amounts due to their varying net worth, and the tax is nothing less than a tax on life savings.

Alan Cobb, Americans for Prosperity, said Kansas is not keeping up, over the long-term, by most any economic measure, especially in private sector job creation. (Attachment 6) In 2006, Kansas ranked near the bottom among the fifty states in private sector job growth. Mr. Cobb said he also supports Secretary of State Thornburgh's proposed amendment.

Derrick Sontag, National Federation of Independent Business, testified in favor of **SB 50**. (Attachment 7) A majority of NFIB members supported the elimination of the franchise tax.

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:30 A.M. on January 18, 2007 in Room 519-S of the Capitol.

Brad Harrelson, Kansas Farm Bureau, testified KFB policy supports **SB 50**. Many farm and ranch operations are structured in a way that meets the definition and threshold of businesses that must pay the franchise tax. ([Attachment 8](#))

Charles Gregor, Leavenworth-Lansing Area Chamber of Commerce, said business tax reductions increase state revenue. ([Attachment 9](#)) The franchise tax is regressive, thus penalizes successful businesses that want to grow. The tax is applied unevenly, based on formulae applied to net worth.

Brent Haden, Kansas Livestock Association, supported **SB 50**. ([Attachment 10](#)) KLA members voted to seek the repeal or reduction of the franchise tax at their 2005 convention.

Karl Peterjohn, Kansas Taxpayers Network, said repealing the Kansas franchise tax would be a significant and important step in improving the state's fiscal climate. ([Attachment 11](#))

Marlee Carpenter, The Kansas Chamber, encouraged the passage of **SB 50**. ([Attachment 12](#))

Written testimony in support of **SB 50** was received from:

Ashley Sherard, Lenexa Chamber of Commerce ([Attachment 13](#))

Mike Murray, Embarq ([Attachment 14](#))

Kansas Grain & Feed Association & Kansas Agribusiness Retailers Association ([Attachment 15](#))

Leslie Kaufman, Kansas Cooperative Council ([Attachment 16](#))

Bernie Koch, Wichita Metro Chamber of Commerce ([Attachment 17](#))

Richard Cram, Kansas Department of Revenue testified in opposition to **SB 50**. ([Attachment 18](#)) KDOR is concerned there are no proposals to replace the revenue stream that would be lost if the bill were enacted. The Governor's tax proposal includes increasing the Kansas net worth threshold for entities subject to the corporate franchise tax from \$100,000 to \$1 million, and a reduction of the corporate income tax surcharge rate over 2 years from 3.35% to 2.75%, beginning in tax year 2008.

Mark Tallman, Kansas Association of School Boards, said he was also testifying for the Kansas National Education Association. KASB and KNEA are generally concerned about the direction of state tax policies. ([Attachment 19](#)) The mix of tax sources is becoming less balanced and more skewed toward property tax. He provided a chart of Education Costs and Outcomes with his testimony.

April Holman, Kansas Action for Children, testified KAC is concerned the elimination of the franchise tax would result in less money available for programs and services impacting children and their families. ([Attachment 20](#)) KAC believes major tax policy changes such as this should be done in the context of a comprehensive modernization of the Kansas tax system.

There were no questions of conferees from Committee members. The hearing on **SB 50** was closed.

Senator Bruce moved to correct the Minutes of the January 17 meeting on page 2, paragraph 3 to correctly read, "Mr. Larkin said not all internet forms were KDOR approved". Senator Pine seconded the motion, and the motion passed.

Senator Bruce then moved to approve the Minutes of the January 16 Committee meeting and the amended Minutes of the January 17 Committee meeting. Senator Jordan seconded the motion, and the motion passed.

Being no further business, the meeting adjourned at 11:25 a.m. Next meeting is scheduled for January 23.