

SESSION OF 2002

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 524**

As Amended by Senate Committee on  
Judiciary

**Brief\***

SB 524 makes a substantive amendment and several technical and clarifying amendments to statutes dealing with various types of business entities, *i.e.*, business trusts, limited liability companies, and limited partnerships. The bill does the following:

**Franchise Tax Calculation and Reduction.** SB 524 would allow a parent entity to subtract any net worth reported by the subsidiary entity before computing its franchise tax, thereby eliminating the double taxation. A subsidiary entity is defined as ownership of over 50 percent, based on recommendations from the Department of Revenue. Business entities pay a franchise tax at the time they file their annual report with the Secretary of State's Office. The franchise tax is calculated based on net worth; \$1 for each \$1,000 in net worth. Parent entities that own net worth in subsidiaries are therefore taxed twice. This provision will result in a decrease in state revenues, but the decrease cannot be calculated since no state agency has records reflecting parent and subsidiary business entities.

**Business Trust Annual Reports.** SB 524 strikes from the business trust annual report in order to create uniform reporting requirements among all business entities the business trust annual report detailed financial disclosure. This was eliminated from all other entity annual reports in 1997.

**Definition of "doing business" for Foreign Entities.** The definition of "doing business," which determines when a foreign entity must register with the Secretary of State, is amended to reflect the definition given in the corporate code revision suggested this session by

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org/cgi-bin/fulltext/bills.cgi>

the Kansas Bar Association. The new definition is based on Delaware law and the Kansas Revised Uniform Partnership Act. All foreign entities that register with the Secretary of State's Office will use this uniform definition.

**Filing Procedures.** SB 524 directs the Secretary of State to image the original paper document filed by the customer and to return the paper document to the customer as a certified copy. The Secretary of State adopted an imaging system in 2000, which replaced the paper filing system. All documents are indexed and maintained on the imaging system and therefore retention of paper documents is no longer necessary. This new procedure reduces storage needs and provides the customer evidence of the document that was recorded.

**Extensions for Annual Report.** The current law allowing business trusts, limited liability companies, and limited partnerships to file an extension (which delays the filing deadline for the annual report) is contained in the corporate code. SB 524 moves these provisions to their respective acts as a technical amendment. The corporate code also contains a provision limiting public disclosure of the IRS tax extension filed with the Secretary of State; this provision is likewise moved.

## **Background**

The bill was suggested by the Secretary of State's Office to bring various business entity laws other than corporations into compliance with amendments to the Kansas Corporation Code suggested by the Kansas Bar Association. Other amendments are technical.

The fiscal notes states that the bill will reduce franchise tax receipts but the amount cannot be calculated.