

SESSION OF 2004

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2842

As Amended by House Committee on
Taxation

Brief*

HB 2842, as amended, would make a number of changes to the corporation franchise tax.

The bill would reduce the effective rate of the tax from 0.2 percent of shareholder equity or net worth to 0.1 percent.

The bill also would enact an exemption of the first \$1 million of shareholder equity or net worth for entities subject to the tax.

The maximum liability "cap" of \$5,000 under current law would be increased to \$36,000.

Administration of the franchise tax based on shareholder equity or net worth would be relocated from the Secretary of State to the Department of Revenue. Corporations and associations, limited liability companies, limited partnerships, and business trusts would be required to file annual returns with the Director of Taxation and remit the franchise tax liability before April 15 of each year. Franchise tax revenues would continue to be deposited directly in the State General Fund (SGF).

The Secretary of State's office would maintain a separate annual franchise fee of \$40 for for-profit entities and \$20 for not-for-profit entities. Franchise fees collected by the Secretary of State also would be deposited in the SGF.

Background

Legislation enacted in 2002 raised the rate of the franchise tax

*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>

from 0.1 percent to 0.2 percent.

The Department of Revenue has indicated that the provisions of HB 2842 are revenue neutral relative to current law. The current Consensus estimate is that franchise taxes will provide \$36 million in FY 2005 SGF receipts. Under the provisions of HB 2842 as amended, SGF receipts attributable to franchise taxes would be expected to decrease by \$3.8 million (to \$32.2 million); while franchise fees collected by the Secretary of State and also deposited in the SGF would be \$3.8 million.

The Committee amended the bill to include several provisions from another franchise tax bill, HB 2894.