

Revised
SESSION OF 2006

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2548

As Recommended by House Committee
on Taxation

Brief*

HB 2548 would reduce the rate of the corporation franchise tax from the current 0.125 percent of shareholder equity or net worth to 0.083 percent for tax year 2007; and to 0.41 percent for tax year 2008. The tax would be repealed altogether, effective for tax year 2009.

Background

Legislation enacted in 2002 increased the rate of the tax from 0.1 percent to 0.2 percent of shareholder equity or net worth and increased the maximum liability "cap" from \$2,500 to \$5,000.

Legislation enacted in 2004 subsequently made numerous structural changes in the franchise tax, effective for tax year 2004 and thereafter. The rate of the tax was reduced from 0.2 percent to 0.125 percent; the cap was increased from \$5,000 to \$20,000; and a new exemption was provided for entities with equity or net worth of \$100,000 or less. Administration of the franchise tax based on shareholder equity or net worth was relocated from the Office of the Secretary of State to the Department of Revenue. Corporations and associations, limited liability companies, limited partnerships, and business trusts are now required to file annual returns with the Director of Taxation and remit the franchise tax liability before April 15 of each year.

The Secretary of State's Office maintains a separate "annual report fee" of \$40 for for-profit and not-for-profit entities. All franchise taxes and annual report fees are deposited in the State General Fund. (The Secretary of State also collects administrative and technology fees relative to the filing of reports by for-profit entities pursuant to KSA 75-438 and 75-444, with the revenues earmarked for specific fee funds.)

*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>

Under current law, FY 2007 franchise tax and annual report fee collections are estimated to be \$46 million, \$42 million of which is attributable to tax collections and \$4 million of which is attributable to annual report fee collections. The Department of Revenue on March 27 revised the fiscal note on the bill to indicate that it would be expected to reduce State General Fund receipts as follows:

FY 2008	(\$14.3 million)
FY 2009	(\$29.1 million)
FY 2010	<u>(\$44.6 million)</u>
3-Year Total	<u><u>(\$88.0 million)</u></u>