SENATORS SUPPORT TAX FAIRNESS LEGISLATION

Topeka, Kan. – Senator Jeff King (R-Independence), Senator Jim Denning (R-Overland Park), and Senator Greg Smith (R-Overland Park) introduced legislation today to restore fairness to the Kansas tax code. This bill would restore the Kansas income tax on wages earned by business owners.

In 2012, Governor Brownback introduced legislation to radically alter Kansas income tax. By eliminating many tax exemptions, deductions and credits, his proposal lowered income tax rates from 6.45% to 4.6%. These tax cuts transformed Kansas from the highest income tax state in the region to the lowest.

“The Legislature has worked aggressively to make Kansas the lowest income tax state in the region,” said Senator Jeff King. “But we cannot lower taxes in ways that are unfair to hard working Kansans. Today’s bill will restore tax fairness ensuring that all Kansans are taxed equally for equal pay.”

Confusion in the 2012 tax plan also created an unfair tax exemption. This exemption was created to exempt a business’s working capital from tax so it could be reinvested back into the business. This plan claimed only to “eliminate individual income tax on Non-Wage business income as reported by LLC’s, S-Corps, and Sole Proprietorships...” This proved false. Shortly after passage of the 2012 tax plan, the Kansas Department of Revenue interpreted this provision as exempted 333,792 entities, primarily LLCs, subchapter S corporations, and sole proprietorships, from all state income tax. This loophole is not what the Kansas Legislature intended in 2012. It is not fair to wage earners who pay taxes to see their counterparts in LLCs have their wages exempt from tax.

“We must close the LLC loophole,” Said Senator Jim Denning (R- Overland Park). “It grows bigger every year, costing Kansas at least a $250 million annually. It continues to make the budget unstable. Given the rapid deterioration of the budget, I believe we have the votes to close the loophole and send the bill to the Governor.” said Senator Jim Denning (R-Overland Park).

The bill proposed today would correct the error in the 2012 tax plan that created the LLC loophole, returning the tax plan to its original intent. The bill would tax all wage income earned by business owners exactly the same as wages earned by employees. It would exempt only non-wage or investment income
from state income tax. The bill calculates wage and non-wage income based on a formula created by U.S Congressman Dave Camp in the Tax Reform Act of 2014, making 70% of all business income wages and 30% investment income.

“I voted against the tax plan last year because it did not provide solutions in making the budget solvent. This bill will provide additional revenue, restore equity to the income tax system, and continue to provide the impetus for job growth. Couple this with the continued effort to reduce the growth of government in scope, size and spending and it is a real solution for all Kansans.” said Senator Greg Smith.

Besides restoring tax fairness, the bill will also help address the state’s long-term budget shortfall. Kansas received $57 million less in revenue this February than had been predicted by the nonpartisan revenue estimating group. This revenue shortfall further strains an already tenuous state budget.

“Closing this loophole would save the state hundreds of millions of dollars annually,” said Senator Jeff King. “By ending this special loophole, Kansas will have enough money to meet its basic budget needs while restoring fairness to its tax code.”

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