House Committee on Taxation

January 19, 2017

Comments addressing House Bill 2023 (HB 2023) Oppose

Chairman Johnson and Members of the Committee:

My name is Bob Stonacek and I'm with NetStandard Inc. We are an IT managed services provider located in the Kansas City, KS area. We have benefited from the incentive by utilizing the funds to invest in additional personnel and capital to cover hardware purchases.

With regard to repealing this incentive, does the state get concerned with what the revenues might look like without the incentive in place? Many of the companies that have applied for these programs employ highly paid individuals that have to pay income tax to the state of Kansas. In our company's case, this far offsets what would be gained from taxing our company's net income. Furthermore, we collect and pay hundreds of thousands of dollars in state sales taxes due to our presence within the state. Much of this is for services that wouldn't even be taxable across the state line. If we and some of the other companies were to leave due to the repeal of this incentive, what would the state's revenue picture look like?

I've read where the migration of wealth gains to Kansas (from a neighboring state) has reversed itself from a time prior to the tax incentives. One would have to wonder if that would have been possible without the incentive. I can honestly say that when my wife and I look at a place to reside and work, even though we aren't business owners, the tax rate differential is of significant importance. Why wouldn't this be true to a business owner as well?

If one were to assume a company with annual revenue of $5m of which half is subject to sales tax at an 8% rate, so $2.5m of revenue at 6.5% tax, the state receives $162,500k in sales tax revenue.

Assume that company generates net income at 4.6% of revenue or $250k. By giving this company a tax break at 5%, the state loses $11.5k. One should ask if it's worth giving up $12.5k from that company in order to keep over $150k in sales tax revenue the state would lose if that company didn't exist in the state. This says nothing about the income tax the state receives from the employees of the company.

Last, the state needs to understand that if they were to repeal this incentive, it would take pass through income tax revenue from a significant amount of companies to offset the effect of a single company that generates reasonable sales tax revenue and employs a fair number of people to run their business in the state of Kansas.

One last point, the incentive was put into place to create certain circumstances within the tax economy. For instance, grow individual taxable income from employees working in these companies. Second, grow sales tax on the revenues from these companies. Rather than eliminate the law which might send companies to other states, why not tweak the program to keep incentive in place from these entities only if a stated amount of employee wage income is being reported in the state of Kansas or sales tax collected is a certain percent of revenues generated within the state of Kansas. This would allow the state to justify the use of the incentive by having the company achieve employment and/or sales tax levels which should justify what the state was trying to achieve with the law in the first place.