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# TESTIMONY

NOVEMBER 6, 2009

## TESTIMONY SUBMITTED TO KANSAS CITY MAYOR AND CITY COUNCIL IN RESPONSE TO REQUEST FOR COMMENTARY ON CHANGES TO THE CITY'S BUSINESS AND OCCUPATIONAL LICENSING CODES

*By David Stokes*

To the honorable mayor and City Council members of Kansas City:

I applaud and support many of the proposed changes to the Kansas City business license tax now being considered by the city. The positive changes include: the clarification that young people doing neighborhood jobs, such as mowing lawns, do not need a license; the elimination of outdated regulations, such as the television repairman license; the elimination of any tax or fee for very small businesses; and, the enactment of a small annual fee of \$35 for other small businesses. Many of the proposed alterations to the business license code would simplify the process for both businesses and government, which would create a better business environment for Kansas City. The new code also appears to eliminate special occupational licensing requirements, which restrict competition and limit consumer choices, in favor of general business taxation.

There is one change to the proposal that I would strongly recommend. I believe that the city's economic climate would benefit by either replacing the proposed gross receipts tax for receipts of more than \$45,000 with a second-tiered flat tax, or, at a minimum, by capping the annual amount that a business would potentially pay. Kansas City should encourage businesses to remain within the city as they grow and expand, not discourage them from staying by increasing their business license tax through a continual increase in the business license fee every time the business grows. As businesses grow within Kansas City, they will still pay higher commercial property taxes and surcharges, larger taxes on profits, have a greater amount of earnings taxes withheld from employees, and more sales taxes submitted on behalf of customers. Keeping the basic business license fee largely flat — perhaps at \$100 for gross receipts between \$45,000 and \$1 million, and \$1,000 for

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gross receipts higher than \$1million — would give large, successful businesses more of an incentive to remain within the city limits. Another option would be to keep the proposed rate of \$0.79 per \$1,000 in gross receipts, but cap the annual license tax at a maximum of \$5,000. This might seem to favor large businesses over mid-sized competitors, but, as I have already summarized, this drawback could be balanced out by the numerous other taxes that must be considered, which would continue to impose a larger tax burden on larger companies.

Kansas City officials deserve credit for wanting to update and revamp the city's business and occupational licensing system. Economic activity benefits the city whenever it occurs, whether directly or indirectly. Many of the changes proposed here will positively benefit Kansas City's economy by simplifying many parts of the system. The benefits of these changes will be enhanced further if the proposed, open-ended gross receipts taxation is changed or rescinded.

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***For more of the Show-Me Institute's research about Kansas City Licensing Codes, visit [www.showmeinstitute.org](http://www.showmeinstitute.org).***



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