

Testimony to the Kansas Senate Assessment and Taxation Committee

By Irene Hoheusle and Arianne Garcia with Account Recovery Specialists, Inc.

In Opposition to House Bill No.2380.

May 17, 2017

My name is Irene Hoheusle from Account Recovery Specialists, Inc, ARSI, and I am the Vice President of Collections and Education. I am also the Vice President of the Kansas Collectors Association. I submit this testimony along with Arianne Garcia, Co-owner, Vice President and COO of ARSI.

Account Recovery Specialists, Inc., or ARSI, was established in 1992 in Dodge City as a company of 3 and has grown to an employer of over 100 with locations in Dodge City, Garden City and Wichita. We are an accounts receivable company that assists businesses, including a large number of rural health care and other service providers, across the state with the recovery of their past due debt.

As a business that falls under the “collection agency” code cited in House Bill 2380 that was suddenly passed by the house last Friday, we are extremely concerned about the potentially devastating effect the purported sales tax could have on our business, our clients and our employees depending on the answers to a number of unclear portions of the bill, that we are seeking clarification on. As written, the changes appear to implement a gross receipts tax, while the amendment was portrayed as a removal of a sales tax exemption.

Now, if it is a sales tax, we would assume any entity that is currently exempt from retail sales tax (hospitals and governments entities) would not be subject to this services sales tax, but that is not clear in the bill. Exempt groups make up a large percentage of the business for our agency and others. Medical debt, court restitution and taxes are typically part of any collection portfolio. Additionally, an even greater percentage of the collection revenue is derived from those exempt groups because the size of the balances placed is larger than the typical business customer. The expected \$19 million in tax receipts this bill contemplates from applying sales tax to collection agencies is very unlikely.

However, if those exemptions for our clients or for when the underlying transaction was exempt do not carry over to this tax, and even if the sales tax on collection agencies is imposed to the non-exempt entities, this bill will unquestionably put at risk small businesses and quality jobs across Kansas in our largest cities as well as those in rural areas.

While we recognize the proposed tax was well-intended, we believe that as it relates to the accounts receivable industry, there may be a lack of information on how our industry operates and the customary contracts that are in place with our clients.

By nature of the service they need from us, our clients are those that are already in a position of needing to maintain a strict budget. They are counting on us to recover money they are owed to make ends meet and cannot afford to pay us for not accomplishing that goal. Thus, we work on a contingency fee basis for our clients – we're only paid for what we can recover, and out of that money we recover. There is no scenario where our clients agree to pay us a price in advance, for which a typical sales tax can be applied to that price.

The likely effect of this sales tax would be that as opposed to our clients receiving their customary percentage of their money from us if and when we recover it, that they would be receiving even less because of the sales tax withholding. Accordingly, those clients could in turn explore other less desirable but possibly tax-free options – using out-of-state entities for collections or selling off debt to those entities, skipping any collection process and going directly to suing anyone and everyone that owes a bill, etc.

Those market adjustments would likely force our business and others suddenly affected by this tax to bear the burden of the tax ourselves, which would be impossible. Our fees are already driven down both by competition and the need to provide our services to our clients at a price they can afford, and we cannot in turn afford to effectively lower our fees even more in order to pay a sales tax that our customers can't. We fear that what is essentially a second income – or revenue – tax would be a final blow to our industry in Kansas, causing the loss of our business and its 105 employees, as well as the service that our clients have relied on for 25 years.

We strongly urge the Senate to vote no to this bill as amended with the inclusion of collection agencies being assessed a so-called sales tax, or to at least pause the process so that a greater understanding of how this industry operates and why the sales tax would be so impractical and harmful can be taken in.

We would like to thank the committee for your time in this matter.