

ROADS AND HIGHWAYS COMMITTEE MEETING -- MARCH 2, 1971

The Roads and Highways Committee met in room 529 at 2:45 P. M. on March 2, 1971. Chairman Dierdorff called the meeting to order and all members were present except Representatives Hughes (excused) and Ossmann.

Attached is a list of those attending a hearing for the Opponents of House Bill 1158.

Conferees were: C. A. Hutton, Kansas Oil Marketers Ass'n.; Amos Kramer, Kansas Petroleum Council; L. D. Sawyer, K. T. Oil Corporation, Eldorado; Jerry Maloney, President of Kansas Oil Marketers Association; Robert Edgar, President of the Service Oil Company of Colby; David Hansen, S. & S. Oil and Propane Company, Inc., Emporia; Bob Pearson, Farmway Coop, Inc., Beloit; Don Bell, Legislative Counsel for Oil Marketers.

HOUSE BILL 1158 - AN ACT relating to the motor-fuel tax law; concerning the rate of tax, allowance for certain losses and exempt transactions; amending KSA 1970 Supp. 79-3408, and repealing the existing section.

Attached are the remarks of the conferees.

Mr. Lady asked Mr. Edgar how he arrived at the 1½% shrinkage he referred to. Mr. Edgar replied that they take the actual gallonage received compared to the gallons sold.

Mr. Lady asked Mr. Bell if he feels a graduated scale as proposed in this bill is more fair for the small dealer and Mr. Bell said he cannot say that it is. He said they had discussed it and there are members of their association that buy less than a million gallons yearly. The cost of the shrinkage does not necessarily go down as the gallons go up. With the 3% they

Except as otherwise noted, the individual remarks recorded herein have not been transcribed verbatim and this record has not been approved by the committee or by the individuals making such remarks.

can compete with American Oil and others. They do not feel the major jobbers should have to absorb the cost either.

Mr. Kramer referred Mr. Lady to the attached letter from Mr. John A. Ainlay.

Mr. Lady asked Mr. Bell, since he commented that this does not compare to the sales tax, would it be more fair to the distributor if they paid on sales rather than take shrinkage?

Mr. Bell said if you do this you must study all the ramifications. If you are going to impose record keeping on all of them the net to the state will probably be less than they now get, and the fiscal note indicates that.

Mr. Dugan asked if the law would allow them to pay on the basis of sales and to allow for provision of bad debts, would that cover them?

Mr. Bell said that he is not in agreement with that as that would be over-simplifying.

Mr. Davis asked what allowance Mr. Bell himself has for bad debts?

Mr. Bell said he gets to deduct on his income tax. He said that in order to practice law in the state of Kansas he does not have to pay to the state of Kansas 30% first and carry that all the way through and then have bad debts too.

Mr. Dugan asked if they had made any study of bad debts.

Mr. Bell said that an operator who takes "foreign" credit cards could have a 2½% loss.

Mr. Weaver asked about bonds - are there figures on that?

Mr. Bell said the bond is 2½ times the highest tax liability.

Except as otherwise noted, the individual remarks recorded herein have not been transcribed verbatim and this record has not been approved by the committee or by the individuals making such remarks

There is a proposal to raise it to three.

Mr. Hutton said the license cost \$5.00 with 50¢ for each additional location.

The chairman announced that our time was up and thanked all of those appearing.

The Chairman asked permission to introduce a bill providing for county tax levies for special road and bridge fund. Mr. Ratner made a motion, second by Mr. Hayes, that the legislation be introduced and referred back to Roads and Highways. Motion carried.

The meeting was adjourned.

Fran Stafford, Recording Secretary

APPROVED:



ARDEN DIERDORFF, CHAIRMAN

March 3, 1971

Except as otherwise noted, the individual remarks recorded herein have not been transcribed verbatim and this record has not been approved by the committee or by the individuals making such remarks

Name	Firm	Town
Ralph Duncan	Champion	Cherokee
Charles Kelly	Phillips	Topeka
Dean Schroeder	at Richfield	Shellsboro
Edm Leisler	Phillips	Play Center, Ks
Lee Jurgens	"	"
East S. Kelly	Attain Corp	Attawa, Ks
Ang Burt	"	"
Harold Gray	Neodesha	
Wm Kelly	The Service Oil Co	Colby, Ks
Bob Ott	Ott Oil Co, Inc	Salina, Ks
Guhandis	Landes Oil Co, Inc	Salina, Ks
Forest Wightman	Herman Oil Co, Inc	Topeka, Ks
George Barber	Amer. Petroleum	Topeka, Ks
Tom Sargent	Natural Marketing	"
Marshall Sargent	Kan Valley Oil Co	"
Jack S. Davis	Deer Creek Co	Attawa, Ks
W.D. Huber	Huber Oil Co	Hays, Ks
Chas. C. (son) Duncan	Duncan Oil Co	Cherokee, Ks
Hyde Thumber	Topok	Topeka
Jack Hillman	Standard Oil	Topeka
Law Boyer	Energy Oil	Topeka
Wm. Lusk	Empire	
R.D. Lamy	Ks	Eldorado
R.J. Atherton	Atherton Oil Co, Inc.	Topeka, Ks
H.C. Kagan	H.C. Kagan	Walla, Ks
H.A. Randall	Louisville	Forest Kansas
Wells Oil Co	Ray Hill	Rosawill, Ks
Bob Pearson	Farmway Co of	Beloit, Kan
John Doug	Farmway Industries	Merriam, Ks
John S. Lister	Farmway Corp	Merriam, Ks
Wm L. Raymond	O.S.	Walla, Ks
Wm R. Summers	Duncan Oil Co	Shuman, Kan

Names
 James Church
 W. D. Gray
 Leon E. Wenger
 E. B. Vignery
 Harold Elliott
 Donald Barnes
 George T. Meyer
 Alf Chapman
 Richard A. Lewis
 Fred Fraker
 Don Hanson
 A. E. Triple
 L. E. Asher
 Henry Klippner
 John P. Rhea
 W. D. Dad
 Ch. Wallace
 Tom Lyons
 Don Rolley
 Bud Seeger

Firm
 Prewitt Co
 C & C Inc
 Brown Co Coop Assoc
 " " "
 " " "
 " " "
 " " "
 Skelly jobber
 " "
 Reality Petro. Co Inc
 S & S
 Ark Valley Oil Co
 K-Appel Oil
 K. Chapman Oil Co
 John P. Rhea Oil
 Stan Hetter Oil Co
 Huffeth Oil Co
 Lyons Oil Co
 KANSAS IMPERIAL
 Kaneco Assoc.

Town
 Ourland, Mo
 Olathe, Mo
 Hiawatha
 Hiawatha
 Hiawatha
 Hiawatha
 Hiawatha
 Hiawatha
 Olathe, Mo
 Olathe, Mo
 Topeka, Mo
 Emporia
 Garden City, Kans
 W. Liberty
 W. Liberty
 Paola, Mo
 Manhattan, Mo
 Manhattan, Mo
 Wathena
 Topeka
 Emporia, Mo

ROADS AND HIGHWAYS COMMITTEE

GUESTS

Name	Address	Firm or Corporation Represented
F Oswald	Ketchikan, Alaska	ONSERULECO
L E. Selce	Wahuta, Alaska	Klyper odr
Eugen Gersbony	Holtan, Alaska	H & F Oil Co.
R J. Williams	Tapeka, Alaska	Alaska Oil Co
H. Rogers	Wahuta, Alaska	H C Rogers Oil Co.
John L. Shea	Suola, Alaska	John Shea Oil Co.
John Stamp	Nephuson, Alaska	Farmland Industries
Fred D. Allen	Tapeka	League of Alaska Municipalities
Wm C. Duncan	CHANUTE	Duncan Oil Co.
Jack E. Davis	OTTAWA,	DAVIS OIL CO.
Gene Boyer	Tapeka	Quality Oil
Ralph Duncan	Chanute	Changlin
C. H. Fowler	Chanute	Fowler Turf & Ice
E. R. Vignery	Hiawatha	Brown Co Coop.
Harold Elliott	Hiawatha	Brown Co Coop.
Owen E. Wenger	Hiawatha	Brown Co Coop.
Donald Barnes	Hiawatha	Brown Co Coop.

Kansas Petroleum Council
204-A Insurance Building
212 N. Market
Wichita, Kansas 67202

Presentation Made To
House Roads and Highways Committee
March 2, 1971
Room 529 - State Capitol Building
Topeka, Kansas

CHAIRMAN DIERDORFF AND MEMBERS OF THE COMMITTEE:

My name is Amos Kramer, representing the Kansas Petroleum Council. We are here to speak in opposition to House Bill No. 1158. Reduction of the distributors handling allowance from the present 3% could jeopardize the entire motor fuel tax collection system which has served the state of Kansas with outstanding efficiency for over forty-six (46) years.

To set the stage, it would be of value, at least for the new members, to re-cap the activities on this subject during the past couple of years. In 1969, the gasoline tax was increased from 5¢ to 7¢ per gallon and the Handling Allowance was reduced from 3½% to 3%. During the closing hours of the 1969 Session, Senate Resolution No. 22 and House Resolution No. 1029, entitled "Shrinkage Allowance of Motor Fuel Taxes", calling for an interium study on the subject, were adopted. On June 16, a joint meeting of the Senate Transportation and Utilities Committee with the House Roads and Highways Committee was held in the Chamber of the House of Representatives. Please note, that the Resolutions stated "SHRINKAGE". Therefore, in developing our presentation, we came to the conclusion that it was imperative that we present positive proof that there is shrinkage involved in the handling of gasoline.

We obtained the services of John Ainlay, who is a nationally known authority on petroleum handling and safety, to conduct a live experiment on

product loss. The results of the demonstration are contained in a letter written by Mr. Ainlay to Mr. Dierdorff. A copy will be given to you at the conclusion of this hearing along with other items of interest.

So much for history.

The procedure of remitting motor fuel taxes is unique in the field of taxation. The incident of tax occurs at the point of receipt - NOT at the point of sale. Tax on motor fuel is a pre-paid tax. Paid to the state by the distributor before the product is sold to and paid for by the consumer. The distributor pays the tax with the hope that he will eventually receive it back from the consumer. It is a simple case of one man - using his working capital - to pay another man's taxes!

The state cannot lose, because the distributor must be licensed and he must obtain a surety bond equal to $2\frac{1}{2}$ times his highest monthly tax liability. We have been informed, that this bond requirement may be raised to three times the highest monthly tax liability because of the tax increase in 1969. If the distributor does not remit the tax on time, the state imposes a 5% penalty - plus 1% interest per month for every month the tax return is delinquent. In addition, failure to report could involve the distributor in fines up to \$1,000 and possible imprisonment.

The distributor, to serve as a tax remitter for the state of Kansas, must perform many tasks, functions and absorb a number of uncontrollable factors.

1. The distributor - not the state - assumes most of the cost involved. The state needs only a small administrative staff to check and maintain records sent in by the distributor.
2. The distributor must maintain exhaustive records on all motor fuels received and sold. To perform this task, and it need not be done if there were no fuel taxes, he must hire extra personnel, obtain additional office equipment and require all his personnel to become involved in motor fuel tax duties.
3. Under the title of uncontrollable factors, the Committee should consider --
 - (a) Leakage - Leakage may eat away at a distributor's product in storage - product for which the tax has already been paid. Tank leaks are often difficult to detect, and, if not repaired immediately, can account for sizable losses. One leak of only two drops per second, means a loss of 1,351 gallons annually.
 - (b) Spillage - This too is a source of handling loss. Constantly improved methods of loading and unloading have helped in reducing these losses, but, so long as the human element is involved, spillage will obviously continue.
 - (c) Shrinkage - The fact that gasoline shrinks is unavoidable - its' just the nature of the material. The amount of shrinkage depends on the number of times it is handled, how it is stored - above or below ground - temperature and barometric changes.
 - (d) Credit Risk - Gentlemen, we appreciate the fact that all business endeavors have credit risk problems. We have our share - but with an unusual twist. If the consumer does not pay his fuel bill, we not only lose the price of the product, but also the tax - because it has already been paid to the state and there is NO way to recover the tax.
 - (e) Tax Increase - Mathematics proves that 3% of 7 is greater than $3\frac{1}{2}\%$ of 5. BUT, math also proves that an increase from 5¢ per gallon to 7¢ per gallon

equals 40%. This means that the distributor has been forced to take 40% MORE of his operating capital and use it to pay the state its gasoline tax. What other business is required to have their funds so committed?

The present law states that " an allowance of three percent (3%) of the total gallonage received during each calendar month shall be made and deducted by the distributor to cover all ordinary losses in handling such motor vehicle fuels. " This proviso has given the state of Kansas the best tax bargain it has in its tax bag. For example, to obtain \$100 in motor fuel taxes, the state pays approximately .57¢. To collect \$100 revenue from motor vehicle fees, the state pays approximately \$12.45. Collection costs on other state taxes could range even higher.

Gentlemen, this is the first time that we have had the opportunity to present the full load on this subject to this entire Committee. In 1969, the action was confined to the last day and a half of the Session, with NO opportunity to present the facts on the subject to the Legislature. Again, in 1970, the subject was amended into a highway bill pertaining to a new formula for the distribution of motor fuel taxes, without the benefit of Committee action.

Your careful consideration of the information here and now presented, will be greatly appreciated.

* * * * *

CENTRAL REGION
COMMITTEE ON PUBLIC AFFAIRS



of the
AMERICAN PETROLEUM INSTITUTE

600 SOUTH MICHIGAN AVENUE

CHICAGO, ILLINOIS 60605

341-0030 AREA CODE 312

August 5, 1969

Honorable Arden Dierdorff
Chairman House Roads and Highways Committee
613 North Main Street
Smith Center, Kansas 66967

Dear Mr. Dierdorff:

At your June 16 hearing on gasoline tax handling allowance you were kind enough to permit me to give a small demonstration of evaporation losses resulting from the transfer of gasoline. You asked those who had formal papers to leave a copy with you. Since I did not have a paper, I am taking this means of reviewing my statement and adding a few additional thoughts which came to mind as the hearing progressed.

First, I explained that in the late 1930's and early 1940's I was the gasoline tax administrator for the State of Nebraska, and in 1943 I was elected president of the North American Gas Tax Collectors Conference.

As a gasoline tax collector, I too became much interested in the shrinkage and cost of collection allowance. In fact, I delivered a paper on the subject to the North American Gasoline Tax Conference.

Before discussing the subject, it is necessary to define the terms so that it will be clearly understood what is being discussed. For example, some states refer to SHRINKAGE ALLOWANCE, while other states prefer EVAPORATION ALLOWANCE, and many states refer to the over-all subject of COST OF HANDLING OR COLLECTION ALLOWANCE. Although each of these terms technically represents only one phase of the problem it is not uncommon to find the three terms used interchangeably or collectively.

As an example, the evaporation allowance technically should include only evaporation, but it is often interpreted to include shrinkage, leakage and any loss in volume.

Honorable Arden Dierdorff

August 5, 1969

Shrinkage technically means the change in volume as the result of temperature variation, but here again it often includes evaporation, leakage and other losses.

The cost of collection and the cost of handling are sometimes used interchangeably. This is intended to cover the actual out-of-pocket cost to the gasoline distributor who is in fact the tax collector for the state. At every operation in the distribution of gasoline from the purchase at the refinery or terminal to the ultimate sale to the consumer, the distributor is subject to the extra costs due to the fact that there is a tax to be accounted for.

Other witnesses testified as to the high cost of accounting; uncollected accounts; etc., so I shall not dwell on it except to say that in Kansas an unusually high percentage of gasoline sold is for farm use, and much of the time the farmer's bill for gasoline is not paid until the farmer is ready to apply for his refund. This may be months after the distributor has paid the tax to the state. The same may be said for credit card accounts. This necessitates the distributor using his own or borrowed money to pay the state, even though he may not be able to collect for several months.

When comparing allowances between states it should be kept in mind that all of these terms are used interchangeably. One state may provide for a substantial shrinkage, but not so much for the cost of collection. While another state may allow for the higher cost of collection, but not so much for shrinkage. Over the years it has become common knowledge that all of these terms are closely tied together.

Now concerning my demonstration on evaporation --- the purpose of the demonstration was to show that each time gasoline is transferred there is an evaporation loss.

In Kansas the incident of the gasoline tax starts with the meter at the refinery or terminal. Whatever gallonage registers on that meter is the basis for the tax report to the state. However, when one-thousand gallons of gasoline are delivered through the meter some of it is lost through evaporation and is therefore not delivered into the truck. Again, when the truck delivers to the bulk plant there is additional evaporation. This loss is primarily

Honorable Arden Dierdorff

August 5, 1969

caused by the saturated vapors in the storage tank being displaced by the incoming gasoline. Of course, there is another loss when the gasoline is reloaded into the local delivery truck and further evaporation when delivery is made from the truck into the service station tanks.

I explained that because of the many varied factors, I could not claim that the demonstration was accurate in comparison to actual operating procedures, but that it did demonstrate the principle of evaporation. You will also recall that the loss in the demonstration equaled 2.9%, and that this loss was only during transfers and did not include additional losses due to shrinkage and evaporation while in storage.

Gasoline has a rather high coefficient of expansion or shrinkage (0.0006 per degree Fahrenheit). Therefore, it is necessary to consider the temperature when measuring gasoline in large quantities at the refinery or terminal. When the meter measures a given quantity of gasoline the quantity is re-computed to reflect the gallonage of that gasoline were it at 60° which is the standard for tax purposes. According to the U.S. Weather Bureau the average year-round underground temperature (8 feet below the surface) in Garden City, Kansas, is 55.4°. This means that the average gasoline after being stored in underground tanks at a service station is sold at a lower temperature than the standard 60° used for tax accounting purposes. This also means that the temperature shrinkage alone can account for an additional loss of nearly 0.3%.

It is next to impossible to compute the loss from evaporation while the product is in storage. It should be pointed out that the vapor space above the liquid gasoline in any closed tank soon becomes saturated with gasoline vapor, and every time there is a temperature change such as between day and night, during or after a rainstorm, or even barometric changes some of this vapor is expelled and lost forever. To my knowledge the only scientific study made of evaporation losses at a conventional bulk plant was made by the U.S. Department of the Interior in 1935.

The result of the study was incorporated in the government report No. 565, entitled "Reduction of Vapor Losses from Gasoline Bulk-Storage at Stations". I am enclosing a copy of page 19 from this government report. You will notice that the evaporation loss in the four 12,000 tanks varied from a low of 1.40% for a tank with

Honorable Arden Dierdorff

August 5, 1969

insulated housing (it is doubtful whether there are any such tanks in Kansas) to a high of 3.54% for tanks painted red.

This, coupled with the demonstrated loss from evaporation due to the handling of gasoline and shrinkage and due to temperature changes while in storage underground, certainly is proof that the 3.5% previously allowed in Kansas is not excessive. This is particularly true when you realize that in the above computation there is nothing included to cover any loss by spillage or leakage, nor has there been allowance for cost of collection or handling.

Incidentally, although I did not include it in my demonstration, later experimentation shows that 60% of the evaporation occurred in the first two of the four transfer operations. This is due to the fact that most volatile substances in the gasoline have been lost in the two initial transfers.

It must also be remembered that in some of the states where the shrinkage or evaporation loss is lower than in Kansas, the tax incident may not occur until the gasoline is removed from the distributors storage, and therefore the first two transfer losses have already taken place before having to account for the tax gallonage.

I, again, wish to express my thanks for being permitted to appear before your Committee.

Very truly yours,

John A. Ainlay

cc: Mr. Amos Kramer

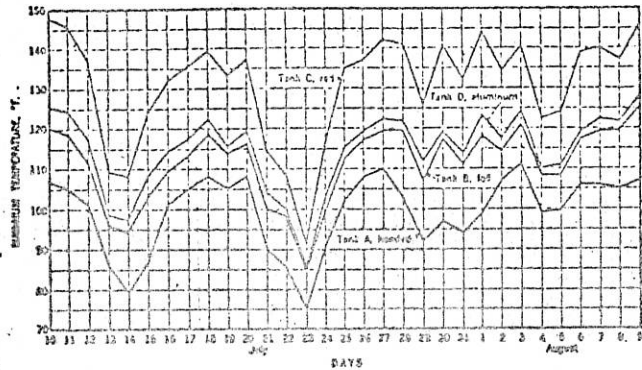


FIGURE 8.—Maximum temperatures recorded during 30-day period on test tanks A, B, C, and D.

TABLE 8.—Results of comparative evaporation tests on four 12,000-gallon horizontal gasoline-storage tanks from May 29 to Oct. 15, 1930

Tank	Description	Evaporation losses		Change in grav. sp. A. P. I.
		Gallons	Percent	
A	Painted white and protected with insulated housing.....	112	1.40	0.45
B	Covered with aluminum foil.....	170	2.12	.65
C	Painted red.....	284	3.54	.89
D	Coated with aluminum paint.....	157	2.34	.62

Table 8 shows the value of protective housing and light colors in reducing the evaporation losses of gasoline in bulk-storage tanks. Although the evaporation losses ranged from 1.40 percent in the housed tank to 3.54 percent in the red-painted tank they would have been greater if the tanks had been in service as bulk-station tanks during the same period instead of in standing storage. The increase in evaporation losses in actual bulk-station service over those observed during the test period would be due to the constant supply of fresh and more highly volatile gasoline, as well as the losses due to repeated filling or emptying. The change in A. P. I. gravity of the gasoline, however, would not have been as great as shown in table 8, because the total loss would be made up of the sum of the losses from new shipments of gasoline, which individually would be small. The total cumulative loss, however, would be greater.

The results of these tests show that a protective housing is more effective in reducing evaporation losses than painting the tanks with light-color paints. Although protective housings add to the initial cost of storage tanks, the saving they effect in many localities would make such installations economical over a period of time.

Only noninflammable material should be used in building protective housing, and the design of the housing should provide ample protection against wind storms. In the test only the top and sides

An Unseen Industry Service

Collection of Gas Tax Saves Government Millions of Dollars

A detailed study of consumer tax programs in a 13 state area shows that the average cost to the states of collecting gasoline taxes is only 1/2 of one percent and that this "unseen service" of the petroleum industry saves state governments many millions of dollars annually.

If gasoline distributors did not perform this service, amounting to a \$22 million tax bill to the nation daily, the states would have to hire thousands of new employes and increase budget appropriations, Ethyl Corp states.

By comparison, the study of consumer tax programs showed that the average cost to the states for collecting motor vehicle taxes amounted to 10.5 of the funds derived and for alcoholic beverages was 5.5 percent, making gasoline tax collection one of the most inexpensive revenue producers available to state governments.

One of the key reasons behind this administrative benefit has been pointed out by Dr Finla G Crawford of Syracuse University, recognized as an expert in the field of gasoline taxes. He observed that the "relatively few distributors have acted as tax collectors for the state and have assumed the responsibility of turning over to the state the taxes actually paid by the innumerable consumers."

Ethyl Corp points out that gasoline taxes, both federal and state, are essentially consumer taxes but, because the levies are "hidden" in the overall price of gasoline, few consumers ever realize that the tax is being paid. It observed that the facts are that on the national average state and federal taxes constitute close to 50 percent of the service station price of motor fuel.

According to recent statistics, 100 million vehicles—cars, buses and trucks—use America's highways, consuming nearly 80 billion gallons of taxable gasoline a year. In 1967 these sales yielded about \$8 billion in state and federal revenues, a sum greater than the total tax receipts collected by the federal government for any year up to 1942.

The sums brought in by motor

fuel taxes are considered crucial, particularly to finance highway projects. The four cent per gallon federal gasoline tax is reported to have provided more than 75 percent of the money spent by the national government on the national highway program of interstate and "ABC" highways, while, in the states, fuel tax revenues account for a major portion of roadway expenditures.

Gasoline distributors function as unpaid agents of the state, performing the enormous task of collecting the duties paid on gasoline at every local service area throughout the states. This serves to centralize and greatly simplify the job of state tax collectors who need to deal with only a relatively few people. It also results in considerable savings for state governments, because only a small administrative staff is required to oversee the tax program.

The task is much more complicated for distributors. The size of the collection makes a tax department imperative for the oil company and this involves the cost of salaries and benefits for oil company employes as well as the expense of office facilities and equipment.

Oil employes in the credit, operating and transport departments are often drawn away from their normal assignments to deal with gasoline tax matters, and even tank truck drivers must spend some time doing paperwork on taxes. Every phase of a distributor's operations is touched at one point or another by tax-related activities.

Every state demands that gasoline distributors post a bond guaranteeing that they will transfer all the taxes paid on the fuel they sell. The distributor who finds this beyond his means must under the law post a surety bond based upon prompt filing of reports and payment of the fuel tax. It is not unusual for premium payments on surety bonds to run in excess of \$200 a year.

There is no remuneration for fuel distributors performing tax duties in eight states and only 16 other grant allowances covering both collection costs and gallonage losses.

Kansas Oil Marketers Assoc.

439 First National Bank Bldg.

Wichita, Kansas 67202

MEMORANDUM

TO: Chairman and members of the Roads and Highways Committee

FROM: C. A. Hutton, Kansas Oil Marketers Association

SUBJECT: House Bill number 1158

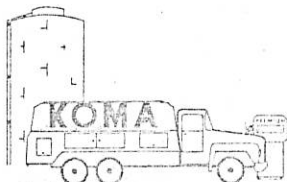
March 2, 1971

We of the Kansas Oil Marketers Association are gravely concerned with House Bill number 1158 which reduces the Handling Allowance to distributors from the present three percent (3%) on a sliding scale to a minimum of one percent (1%).

Enclosed are several actual case studies based on jobber operations in different parts of Kansas. Please note that the handling losses involved range from a minimum of 3% to a maximum of 4%. The variance in percentages is attributable to the volume of product delivered and methods of operation. These statements can be documented and verified. Additional studies reflecting the stated trend can be obtained from members of the Kansas Oil Marketers Association.

This proposed reduction in the Handling Allowance will cause jobbers to use a larger portion of their operating capital to serve as tax collectors for the State of Kansas.

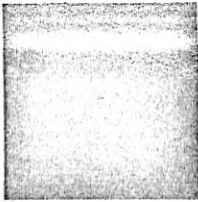
Your consideration of these case studies will be appreciated. We respectfully request that you maintain the Handling Allowance at it's present level.



Representing
Independent Oil Jobbers



THE



OIL CORPORATION

February 5, 1971

Mr. C. A. Hutton
K.O.M.A.
439 First National Bank Bldg.
Wichita, Kansas 67202

Dear Neal:

As we discussed, I am attaching a breakdown of estimated costs we incur in handling gasoline that we do not have in the other lines of merchandise we distribute.

Physical loss, the interest cost of carrying tax value in inventory and farm receivables are quite accurate. Data processing and clerical costs were roughly determined by simply percentaging the amount of tax to totals in the areas.

I feel these figures very closely indicate the direct costs of detail involved in handling gasoline that is peculiar to the product and the taxing methods applied as compared to most other products we or other businesses might handle.

Yours very truly,

L. D. Sawyer
LDS/gb
Attachment
cc: Amos Kramer



Sales Volume In Gallons	1,350,000
2/3 to Retail Service Stations	
1/3 to Consumers-Tank Wagon	
Physical Loss - All sources, shrinkage, spillage, shortage, leakage - 14,877 Gallons (1.102%)	\$ 1,041.39
Inventory Cost of Tax - 610,000 gallons at 7¢ - Total \$42,100 - 8%. Per Month Cost	280.66
Receivables Cost - Farm receivables \$121,200 total. State tax accounting for 24/1% (\$29,209.20) 8% - Per Month Cost	186.40
Data Processing Cost Assigned to Tax - (Calculated in percentage of State tax to total cost or product sold)...	963.40
Clerical - Station reports (Calculated in percentage of State tax to total volume)	614.00
Kansas State Report Preparation - Clerical	90.00
Accounting	60.00
Extra Cost - Special sales tickets required to meet farm tax refund requirements	60.00
Record Retention - (Office and file space)	<u>64.00</u>
	\$ 3,359.85
Present 3% handling allowance on 1,350,000 gallon volume	<u>2,835.00</u>
Short	\$ 524.85



520 South Mead / P. O. Box 11145 / Wichita, Kansas 67202 / (316) 264-9387

February 25, 1971

Chairman Dierdorf & Members:

My name is Jerry Maloney and I am President of Kansas Oil Marketers Association. Also, an independent gasoline jobber from Wichita.

Gentlemen, I am not sure that everyone understands the functions of an oil jobber and why his economic stability is important to everyone. A jobber is primarily a reseller of gasoline to dealer accounts and consumer accounts such as farmers, manufacturing firms, etc. There is very definitely a handling loss when the product is handled. In most cases he handles the credit of dealers and consumer accounts and commercial accounts. The only credit he is able to send to his supplier is credit card sales, and there are many reasons why these can be charged back to him. In my particular case we bill our own credit cards. We all know that credit is a fact of life anymore and we must do some of it.

The month of January, 1971 the tax on gasoline sold was approximately 30% of the total selling price of that product. So, you can see that any credit loss we had was money that we had already collected and paid to the State of Kansas. I don't believe there is any industry that does credit business where the tax is 30% of the selling price of the product and I don't believe that we can discontinue credit business in this day and age. As a matter of fact, you are allowed to deduct from sales tax reporting any sales tax you lost in bad debts. I think we must realize there is going to be some of this in our business and we must absorb it as part of our handling allowance.

As you may or may not know, oil jobbers as a whole are probably the most efficient form of petroleum distribution and for this reason I feel they are responsible for getting the product to the consumer at a lower cost than would be possible if the jobber did not exist. For that reason I think it is vitally important that we see he is kept healthy. My company paid to the State \$61,853.68 in gasoline tax in the month of January, 1971 and furnished a bond to assure the State they would get their money. All of this was at no cost to the State, and we had to absorb shrinkage, bad debts, financing expense and costs of compliance. I doubt if any tax the State has costs this little to collect.

I can tell you this, that reducing the handling allowance would be a severe economic blow to many and in my position as President of the Kansas Oil Marketers Association I have to go on record as assuring you it will be a severe blow to all oil jobbers.

Jerry Maloney

Mr. Chairman
Members of the Committee

My name is Robert Edgar. I am President of The Service Oil Company of Colby, Kansas. For the past 18 years I have been engaged in marketing petroleum products in the Central Kansas and Western Kansas markets.

I am appearing before this committee as a Petroleum Distributor to discuss the section of the Motor Fuel Tax Law which provides that an allowance of 3% of the total gallonage received during each calendar month shall be made and deducted by the distributor to cover all ordinary losses in handling such motor-vehicle fuels.

I am concerned about House Bill No. 1158 which would provide for a reduction in the amount of the allowance.

During 1970, our company received approx. 4½ million gallons of gasoline in Kansas, and we remitted gasoline taxes, amounting to almost \$290,000 to the State of Kansas. We provided the State of Kansas with a tax collection service for well over one-quarter of a million dollars. We accumulated these taxes from eighteen retail locations.

As a Distributor, I feel we are providing an important service to the State of Kansas, and we presently are assuming a risk of \$70.00 for every 1,000 gallons of gasoline we receive. For each 1,000 gallons we receive, our experience shows that we will be able to actually sell about 985 gallons; therefor, one-half of the handling allowance is used immediately because of evaporation and other normal losses. The remaining handling allowance on this 1,000 gallons, which amounts to \$1.05, must necessarily cover our handling costs which include:

1. Cost of a Tax Bond.
2. Salaries of office employees and office overhead to account for these taxes.
3. Costs of capital represented by the tax in the inventory of gasoline on hand.

4. Interest on the investment in taxes, which are included in our Accounts Receivable.
5. Tax included in uncollectible farm accounts. The tax has been paid to the State of Kansas, but the State will never be required to return the tax to the farmer.

With due consideration for the tax collection service provided to the State of Kansas, and the actual costs and risks assumed by each gasoline distributor, I feel that the present handling allowance is fair to all concerned, and that it should be retained at its present rate.



S & S OIL & PROPANE COMPANY, INC.

BOX 494 - PHONE DI 2-2835

EMPORIA, KANSAS 66801

GAS TAX INFORMATION
1970

TOTAL ALLOWANCE		\$6,471.26
LESS ALLOWANCE (Sold to sub-jobber)		<u>869.43</u>
NET ALLOWANCE		\$5,601.13
INTEREST (For money borrowed to carry State Gas tax on Accounts Rec.) Rate $8\frac{1}{2}\%$	\$1,445.00	
ACCOUNTING SERVICE (Per State Regulation)	\$1,325.00	
Loss OF TAX THRU HANDLING (State Tax Only)	\$1,674.96	
SPECIAL TICKETS (Required by State Law)	\$ 125.00	
STATE TAX LOSS THRU BAD DEBTS (5 year average)	\$ 425.00	
ADMINISTRATIVE	\$1,400.00	
BONDING EXPENSE	\$ 145.00	
TOTAL EXPENSE IN HANDLING STATE GAS TAX	\$6,539.96	
TOTAL ALLOWANCE GIVEN FOR HANDLING STATE GAS TAX		\$5,601.83
NET COST OF COLLECTING GAS TAX IN 1970		<u>938.13</u>
TOTALS	\$6,539.96	\$6,539.96

STATEMENT OF BOB PEARSON
 OF FARMWAY COOP, INC., BELOIT, KANSAS
 BEFORE THE ROADS & HIGHWAYS
 COMMITTEE OF THE KANSAS HOUSE,
 MARCH 2, 1971

I am Bob Pearson, employed by Farmway Coop, Inc., Beloit, Kansas. We are Petroleum distributors in the North Central part of the State, operating 8 service stations and 10 farm delivery tank wagons. I am here also to represent the Cooperatives of Kansas, of which there are 192 associations, supplying approximately 97,493,508 gallons of gasoline to 92,439 patrons of these associations per year.

We are concerned with House Bill 1158 which would reduce the Handling Allowance to distributors.

I would like to point out some actual facts and figures from our association at Beloit.

Handling Allowance on volume of 3,040,672 gallons, at the rate of 3%	6,385.40
--	----------

Actual Handling loss at the rate of .07 per gallon, on 39,287 gallon shrinkage	2,750.09
--	----------

Clerican and accounting costs total \$8,018.64 for the year - 30% of cost allocated to tax collection procedure, (3 girls, 40% of their time)	2,405.59
---	----------

Cost to carry Accounts Receiv- able of \$138,911.00 - 30% of this figure is tax or 41,673.00 already paid the state. Inter- est cost at the rate of 7-1/2% annual rate	3,125.48
---	----------

Costs for collecting Tax --	8,281.16
Handling Allowance --	6,385.40

Cost in excess of Handling Allowance -- 1,895.76

Our experience the past year shows a cost over and above the 3% handling allowance of \$1,895.76.

We think the State of Kansas is getting more than an even break in this tax collecting procedure and we strongly urge retention of the 3% handling allowance.

O & B OIL COMPANY, INC.

Telephone (316) 329-4400

P. O. Box 98

ELK FALLS, KANSAS 67345

March, 1971

Chairman Dierdorff Members of the Committee

My name is Neal Osborn. I'm a Petroleum jobber located in Elk Falls, Elk County, Kansas. I have some information to present in opposition to H B # 1158.

The handling allowance of 3% as it is at this time has to cover our actual loss of shrinkage, evaporation, and spillage. It also has to cover our cost of collecting 7¢ per gallon and turning it over to the State, auditing our books, cost of bonds to insure payment of the tax to the State, and the cost of borrowed money to cover the increased accounts receivable which include the tax on all the gasoline we sell on credit.

We are not so fortunate as the Fuel Tax Department in having each customer bonded so we can be guaranteed one hundred per cent return, or a 5% penalty plus interest on all money that we invest and collect in fuel tax.

During 1970, I lost approximately \$3,000 in farm gasoline accounts. Two of these accounts took bankruptcy and will be impossible to collect. This gasoline was sold on open account and included the 7¢ per gallon state tax. The farmer will never be able to claim refund of the tax because he will never pay for the gasoline. The State will never have to make refund because paid gasoline invoices will never be presented to the Motor Vehicle Fuel Tax Department. This gasoline was not used in over the road vehicles but the tax was paid by the distributor and will be lost along with the cost of the gasoline. The State of Kansas actually was paid this tax on these accounts and the distributor stands to be the loser.

The 3% handling allowance will not cover my actual costs of loss and handling now. My costs of collection are increasing. A reduction in the handling allowance would be a severe blow to my company and all other independent jobbers in the State.

Thank you.

STATEMENT OF DONALD A. BELL, LEGISLATIVE COUNSEL
FOR THE KANSAS OIL MARKETERS ASSOCIATION, BEFORE
THE ROADS AND HIGHWAYS COMMITTEE OF THE KANSAS
HOUSE, MARCH 2, 1971

Gasoline distributors, including members of the Kansas Oil Marketers Association, for the most part are independent, local businessmen. They do not seek special favors, but they do ask for a fair opportunity to compete in the open market. Nothing stifles competition more than to impose undue burdens on the independent local businessman.

The present 3% handling allowance is sufficient to permit the independent gasoline distributor to pre-pay gasoline taxes and market his product in the free market. If HB 1158 is enacted, gasoline taxes and regulations can become unreasonable burdens and threaten his existence. This is the result of factors peculiar to the industry and the nature of the tax including:

1. The industry itself includes major oil companies, but the balance of the industry is composed of independents many of whom have no other operations to absorb additional burdens.
2. The tax itself constitutes, in most cases, over 30% of the total cost of the product to the distributor.
3. The tax is pre-paid on purchases by the distributor who must provide financing and absorb credit losses on sales.
4. The product itself is highly volatile and subject to recognized loss through shrinkage and leakage after the purchase on which the tax is paid.
5. The methods of handling and record keeping required by licensing and regulations impose unusual costs on even the most efficient distributors.

The existing statute refers to the 3% as an allowance "to cover all ordinary losses in handling such motor-vehicle fuels". Contrary to popular belief, the statute makes no mention of "shrinkage". Because of the factors specifically enumerated above, the "ordinary losses in handling such motor-vehicle fuels" may be construed to include at least all of the following:

1. Credit losses (bad-debts).
2. Financing the pre-paid taxes.
3. Shrinkage and leakage.
4. Bookkeeping expense.
5. Cost of regulatory and license requirements including bonding.

At least the first 3 of these factors are directly affected by the amount of the tax and thus the loss becomes larger as the tax increases.

Credit losses are absorbed by the gasoline distributor as part of his 3% allowance. If you believe the State should not subsidize credit losses you may want to advocate a complete change in sales tax reporting. Kansas Administrative Regulation (Department of Revenue) 92-6-20, referring to sales tax, specifically permits bad debts to be deducted from sales --- no sales tax is paid on amounts not in fact collected on sales (or if paid a later deduction is allowed). The gasoline distributor, of course, gets no such deduction on gasoline sales, even though the gasoline tax, as to selling price, is ten times the sales tax. Thus a gasoline distributor who purchases a million gallons a year and has 1% in bad debts must absorb \$700.00 as part of his gasoline tax handling allowance while a department store which sustains 1% less on bad debts simply pays no sales tax on its loss.

Financing the pre-paid tax is a handling loss which can be a significant factor to most distributors. Thus the distributor who purchases a million gallons a year and has approximately a 60 day time lag between purchases and actual collection on sales will be forced to continuously finance approximately one month of pre-paid gasoline tax. At 8% interest this would be another \$560.00 per year he has to absorb as part of his 3% handling allowance. On the other hand the department store never has to finance the sales tax because the Regulations (92-6-20) specifically allow a sales tax retailer to pay tax only on the actual gross receipts (if a negotiable instrument or conditional sale is not involved) even if actual sales are a much larger amount.

Shrinkage and leakage are, of course, commonly recognized as substantial factors peculiar to the gasoline distribution industry. The actual amount of these will vary depending much on the particular distributor's operation. Our hypothetical distributor who purchases one million gallons a year will lose \$1,050.00 of his prepaid tax if his shrinkage and leakage is only a conservative 1 1/2%. (Actual case studies presented to Kansas Legislative Committees have claimed 1 1/2% to 2% to be proven.) The hypothetical department store, on the other hand, never pays sales tax on goods he does not sell.

Bookkeeping expense is a substantial factor to the gasoline distributor because of the complicated bookkeeping and reporting requirements peculiar to the gasoline tax regulations. It is estimated that our hypothetical distributor purchasing one million gallons a year would have to maintain at least a \$400 per month bookkeeper at least 1/3 of whose time would be spent on record keeping and reporting requirements of the gasoline tax. This would mean another \$1,600.00 for our distributor to absorb as part of his allowance.

Cost of regulatory and license requirements (except bookkeeping) including bonding is difficult to estimate but our hypothetical million gallon a year distributor certainly has no less than an additional \$200.00 per year in bond premium, supplies and other miscellaneous costs which he must absorb because of this factor.

Summarizing our hypothetical distributor's gasoline tax expenses, which he must absorb, we find:

Bad Debts -----	\$700.00
Financing pre-paid tax---	560.00
Shrinkage and Leakage---	1050.00
Bookkeeping expense-----	1600.00
Regulatory expense-----	<u>200.00</u>

TOTAL-----\$4110.00

3% Allowance 2100.00

Distributor's unreim- (\$2010.00)
bursed loss

As you can see, in this hypothetical case (which is consistent with documented cases), the 3% allowance does not even cover the first 3 items: bad debts, financing, and shrinkage and leakage.

Gasoline distributors of all sizes have similar expenses which, for the most part are comparable percentages of the tax paid. Sometimes the specific factors will vary depending on the size of the distributor and his method and area of operation. But it averages out about the same and the 3% allowance proves to be conservative any way you look at it and no matter how many gallons you handle.

It has been said that the gasoline distributors received a "windfall" in 1969 when the gasoline tax was raised from 5 cents to 7 cents per gallon and the handling allowance was reduced from 3 1/2% to 3%. Such a contention is not accurate since losses related to bad debts, financing, shrinkage and leakage all increase as the amount of the pre-paid tax increases. When the tax increased from 5 cents to 7 cents our hypothetical million gallon a year distributor pre-paid an additional \$20,000.00 a year gasoline tax but incurred an additional \$200.00 loss on his 1% bad debts, an additional \$160.00 financing cost and an additional \$300.00 shrinkage and leakage loss. Thus his additional losses would be \$560.00 per year, but he receives only \$350.00 additional handling allowance. The percentage reduction which he received can hardly be described as a "windfall".

The Kansas allowance has been compared to other States. The fact is that such comparisons are confusing and inaccurate

unless all pertinent statutes, regulations and procedures are researched and compared. For example, the Department of Revenue has furnished more recent information indicating that the allowance in New Hampshire and North Carolina actually in practice amounts to more than that previously understood. Only personal contacts with the Revenue Departments in those states revealed these facts.

If comparisons with other states have any value, it is interesting to note that, of our surrounding states, Nebraska allows 3% for shrinkage plus 1/2% to 2% for collecting, Colorado allows 2% for shrinkage plus 1/2% for collection and bad debts, Missouri allows 3%, and Oklahoma allows on the basis of a complicated formula which recognizes both actual shrinkage and leakages plus a percentage of the tax. The Kansas allowance is simply not out of line when compared with other states.

It is difficult in the short time available to fully analyze all the factors which affect the collection of gasoline taxes and the ramifications of a particular bill. A study of the fiscal note and Department of Revenue memoranda on HB 1158 will show additional questions which we have not discussed for the simple reason that we feel any reduction in the handling allowance is unjustified; and we caution that any change in method of collection can have severe and far-reaching implications which should be the basis for a completely separate study if a change is being considered.

It is our belief that actual Kansas experience shows that our motor vehicle fuel tax system, including the 3% handling allowance, is one of the most efficient and productive systems in the United States. Any implication, that Legislative Committees have given only superficial study to these matters in the past, is simply not accurate.

We appreciate your consideration of the position of the independent gasoline distributor and respectfully request that you continue to consider his problems as matters affecting his interests come before the Legislature.