

Approved January 14, 1983
Date

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Representative Jim Braden at
Chairperson

9:00 a.m./~~p.m.~~ on January 12, 1983 in room 519-S of the Capitol.

All members were present ~~except~~

Committee staff present:

Wayne Morris, Research Department
Tom Severn, Research Department
Don Hayward, Revisor of Statutes' Office
Nancy Wolff, Secretary to the Committee

Conferees appearing before the committee:

The meeting was called to order by the Chairman.

Wayne Morris of staff made a presentation on Sales Taxes in Kansas (Attachment I). During the course of this presentation, members of the committee questioned Mr. Morris on various phases of current sales tax within the state. The presentation also covered various use taxes and how they relate to the current tax base.

Dr. Tom Severn of staff presented information on Sin Tax Options (Attachment II) currently imposed in Kansas and how they relate to our current tax structure. Following the presentation, questions were asked by the committee members.

The Chairman presented two bills to the committee and requested that they be introduced by the committee. He explained that these bills are required because of statutes that were erroneously repealed under S.B. 832 of the 1982 session.

The first bill related to property taxation and the apportionment of valuation and taxes of certain real property. It also prescribed duties and authority for county appraisers. Representative Homer Jarchow made the motion that the bill be introduced by the Assessment and Taxation Committee. This motion was seconded by Representative LeRoy Fry. The motion carried.

The second bill concerned taxation of property. It also related to statements of assessment of oil and gas properties and provided penalties for late filing thereof. Representative Rolfs moved that this bill be introduced by the committee and said motion was seconded by Representative Erne. The motion carried.

Both bills are to be referred back to the House Assessment and Taxation Committee for hearings and action.

The minutes for the meeting held on January 11, 1983, were approved as printed.

The meeting was adjourned at 10:50 a.m.

MEMORANDUM

January 7, 1983

TO: House Committee on Assessment and Taxation
FROM: Kansas Legislative Research Department
RE: Sales Tax

SALES TAXES IN KANSAS

This memorandum reviews briefly the history, tax base, administration, and collections for the state and local sales taxes in Kansas.

History

The Kansas retailers' sales tax act, enacted in Chapter 374 of the 1937 Laws of Kansas, was, along with the state income tax, a depression spawned addition to the Kansas tax structure. The initial rate of the tax was 2 percent, and its enactment required support from three diverse elements, i.e., those interested in:

1. financing the new federal-state-local welfare program;
2. state aid to elementary schools; and
3. direct property tax relief.

Receipts from the tax were originally deposited in the Retail Sales Tax Fund after 3 percent of collections were deposited in the Retail Sales Tax Administration Fund. Moneys in the sales tax fund were then appropriated for social welfare purposes, the state school aid fund, the state employment service account, and for distribution to all local taxing subdivisions for property tax relief. The sales tax rate was raised from 2 percent to 2.5 percent in 1958, and to 3 percent in 1965. Currently, all of the receipts from the sales tax are deposited in the State General Fund, with 4.5 percent of such receipts earmarked for transfer to the Local Ad Valorem Tax Reduction Fund and 3.5 percent to the County and City Revenue Sharing Fund.

Tax Base

The tax applies to the sales of tangible personal property and specified services. Sales exempt from the tax in the original law were:

1. sales for resale;

2. sales and purchases of electricity, coal, gas, fuel oil or other petroleum products or feed for animals for use in farming, processing, manufacturing, mining, drilling, refining, irrigation, building, construction, telegraph and telephone and other taxable services;
3. isolated or occasional sales of tangible personal property by a person not engaged in such business;
4. sales of tangible personal property or service made to a person engaged in the producing, manufacturing or compounding for sale, any article, substance, service or commodity which is actually used in the production, and enters into the processing of, and becomes an ingredient or component part of the article, substance, service, or commodity;
5. interstate telephone or telegraph services;
6. admissions to state, county, district and local fairs and receipts from educational, religious, or charitable activities where the entire amount is expended for educational, religious, or charitable purposes;
7. motor vehicle fuel and cigarettes, or other articles the sale or use of which is made subject to a sales or excise tax under the laws of this state;
8. all sales to the state and its political subdivisions, except when engaged in business specifically taxable;
9. sales which under the U.S. Constitution or statutes, or state statutes which may not be made subject to taxation; and
10. sales of tangible personal property or service used in or for the performance of a contract for public works.

Sales tax exemptions were thoroughly reviewed by the Joint Committee on the State Tax Structure (the Hodge Committee) in 1968-69, and by the 1980 Special Committee on Assessment and Taxation.

Attached to this memorandum (Attachment I) is a summary listing of all existing sales tax exemptions, along with the most recent available estimate of this fiscal impact. The exemptions have been classified into one of the following four categories:

1. Conceptual. These are designed to make the sales tax a tax on ultimate consumer expenditures at retail. They prevent the tax from becoming a turn-over or value-added tax by exempting goods purchased for resale or used in production.
2. Legal. These are granted to meet the presumed limits on the taxing power of the state.
3. Administrative. These are enacted to simplify and expedite administration.

4. Public Policy. These are granted as a matter of public policy to make the tax more equitable or to benefit an activity held to deserve the encouragement or protection of government.

Administration

The sales tax law is administered by the Sales and Excise Tax Bureau within the Division of Taxation, Kansas Department of Revenue. County treasurers collect the tax on isolated sales of motor vehicles by individuals. Retailers remit collections to the state under the following schedule:

<u>Filing Bracket</u>	<u>Frequency</u>	<u>Filing</u>
		<u>Dates</u>
\$0 - \$60/year	Annually	End of following month
\$61 - \$1,200/year	Quarterly	End of following month
\$1,201 - over/year	Monthly	End of following month

Compensating Use Tax

The Kansas compensating use tax (the use tax) is imposed under K.S.A. 79-3701 *et seq.* The use tax is an excise tax imposed on "every person in this state . . . for the privilege of using, storing, or consuming within this state any article of tangible personal property" (K.S.A. 79-3703). The rate of the tax is 3 percent, and it is imposed on the sale or lease of any property used in Kansas if the sale or lease of such property would have been subject to the Kansas sales tax had the transaction been wholly within Kansas. The use tax may be viewed as a complement to the sales tax and is intended to prevent consumers from avoiding the sales tax by making their purchases by mail or in another state.

If the purchaser of tangible personal property pays a sales tax on a purchase delivered in another state but used in Kansas, use tax is due only for the difference between the other state's sales tax and the Kansas use tax (K.S.A. 79-3705). The state sales tax rate in Colorado is 3.0 percent, the rate in Nebraska is 3.5 percent, the rate in Oklahoma is 2 percent, and the rate in Missouri is 4.125 percent. On small consumer purchases, however, it is virtually impossible for the state to collect the use tax which may be owed.

The general rule is that if an article is purchased and delivered in one state, that transaction would be subject to a sales tax, if any, in that state. If the order and delivery of goods is in one state, but the retailer is in another state, then generally that transaction would not be subject to a sales tax in the state where the merchant is located, but would be subject to a use tax, if any, in the state where the goods are delivered.

Every state which imposes a sales tax also imposes a use tax. Each state's use tax rate is the same as its state sales tax rate. The U.S. Supreme Court has held that a state's use tax base may not be broader in scope than its sales tax base.

The Kansas use tax is to be paid by the consumer to the out-of-state retailer, and the retailer is to file a return and remit the tax to the Department of Revenue. If the use tax is not collected by the out-of-state retailer, however, the person using the property in Kansas is to file a return and pay the tax (K.S.A. 79-3705a).

Collections

Sales and use tax collections (net of refunds) during the last four fiscal years have been:

	<u>Sales Tax</u> <u>(\$000)</u>	<u>Use Tax</u> <u>(\$000)</u>
FY 1982	\$ 407,617	\$63,145
FY 1981	388,973	60,240
FY 1980	360,718	57,672
FY 1979	345,611	53,492

All of the sales and use tax collections (after refunds) are deposited in the State General Fund, but 4.5 percent of such collections are earmarked for transfer to the Local Ad Valorem Tax Reduction Fund, and 3.5 percent to the County and City Revenue Sharing Fund.

Local Sales Taxes in Kansas

As currently authorized, both cities and counties may each levy a local sales tax of either 0.5 percent or 1.0 percent, thus allowing a maximum total state and local sales tax rate of 5 percent. A local sales tax, including any increase thereof, may be imposed only with approval of the local governing unit's voters and the local governing unit may adopt an ordinance or resolution pledging the general purposes for which any sales tax moneys would be used if approved by the voters. As of November 16, 1982, local sales taxes had been adopted in 78 cities and 46 counties (see Attachments II and III for a list of jurisdictions). The Department of Revenue collected \$48,204,000 in local sales tax for cities and counties in FY 1982.

Local sales taxes are administered by the Kansas Department of Revenue, and all collections from a local unit are returned to that unit on a monthly basis. With several exceptions, the application of a local sales tax is the same as that of the state sales tax. Differences between the state and local sales tax bases are: (1) used farm machinery is exempt from state and local taxes, but new farm machinery as well as all manufacturing machinery and equipment is exempt from local taxes imposed after April 26, 1976; and (2) residential and agricultural utilities which are exempt from the state sales tax are still subject to local sales taxes.

Other States

The following table lists the sales tax rates for the 45 states which impose general sales and use taxes. The five states that do not impose general sales taxes are Alaska, Delaware, Montana, New Hampshire, and Oregon. Because of the difficulty in comparing sales taxes merely on the basis of the rates, some additional detail concerning major policy exemptions and limits on local sales taxes for Kansas and the four surrounding states is presented after the table.

STATE SALES TAXES

State	Sales Tax Rate	State	Sales Tax Rate
Alabama ^a	4	Nebraska ^a	3.5 ^d
Arizona ^a	4	Nevada ^a	5.75 ^e
Arkansas ^a	3	New Jersey	6
California ^a	4.75	New Mexico ^a	3.5
Colorado ^a	3	New York ^a	4
Connecticut	7.5	North Carolina ^a	3
Florida ^a	5	North Dakota	3
Georgia ^a	3	Ohio ^a	5
Hawaii	4	Oklahoma ^a	2
Idaho	3	Pennsylvania ^a	6
Illinois ^a	4	Rhode Island	6
Indiana	5	South Carolina	4
Iowa	3	South Dakota ^a	4 ^f
KANSAS ^a	3	Tennessee ^a	4.5 ^f
Kentucky ^a	5	Texas ^a	4
Louisiana ^a	3	Utah ^a	4 ^g
Maine	5	Vermont	4 ^g
Maryland	5	Virginia ^a	3 ^h
Massachusetts	5	Washington ^a	5.4 ^h
Michigan	4 ^b	West Virginia ^a	5 ^j
Minnesota ^a	6 ^b	Wisconsin ^a	5 ^j
Mississippi	5	Wyoming ^a	3
Missouri ^a	4.125 ^c	TOTAL	45

- a) Local sales taxes are additional.
- b) Minnesota: Effective July 1, 1983, the rate drops to 5 percent.
- c) Missouri: Rate of 4.125 percent is effective January 1, 1983.
- d) Nebraska: Effective January 1, 1984, the rate drops to 3 percent.
- e) Nevada: Effective July 1, 1983, the combined state and required local rate is reduced from 5.75 percent to 3.5 percent.
- f) Tennessee: Effective July 1, 1983, the rate drops to 3 percent.
- g) Vermont: Effective July 1, 1987, the rate drops to 3 percent.
- h) Washington: Effective July 1, 1983, the rate drops to 4.5 percent.
- i) Washington: Effective May 1, 1982 through June 30, 1983 the former exemption for food is temporarily repealed.
- j) Wisconsin: Rate will be reduced to 4 percent effective July 1, 1983 if a constitutional amendment providing property tax relief is not approved by the electors by April, 1983.

SOURCE: Commerce Clearing House, Inc., State Tax Guide.

State	State Rate	Food Exempt	Prescription Drugs Exempt	Residential Utilities Exempt	Farm Machinery Exempt	Industrial Machinery Exempt	Maximum Local Sales Tax Rates		Maximum Total State and Local Rate
							City	County	
Colorado	3.0%	Yes ^a	Yes	Yes	No	Yes	4%	4%	7.0%
KANSAS	3.0	No ^b	Yes	Yes	No ^c	No	1	1	5.0
Missouri	4.125	No	Yes	No	Yes	Yes	1	1	6.125
Nebraska	3.5 ^d	No ^e	Yes	No	No	Yes	1	0	4.5
Oklahoma	2.0	No	Yes	No	Yes	Yes	No Limit	0	6.0 ^f

a) Cities may tax.

b) \$20 credit for each person either disabled or age 55 and above, and in a household with household income of not over \$10,000.

c) Sales of used farm machinery are exempt.

d) Effective January 1, 1984, the rate dropts to 3 percent.

e) Income tax credit of \$28 per exemption (except exemptions for blindness or age).

f) Highest existing city sales tax rate is 4 percent.

TABLE I
SUMMARY OF SALES TAX EXEMPTIONS

Exemption	Definition	Type*	FY 1982 Fiscal Impact (Thousands)
1. K.S.A. 79-3606 (m)	Ingredient or Component Part	D	\$ 426,600
2. K.S.A. 79-3606 (n)	Property Consumed in Production	D	335,200
3. K.S.A. 79-3602 (e)	Sales for Resale	D	1,300,000
4. K.S.A. 79-3606 (i)	Film Rental for Exhibitors	D	400
5. K.S.A. 79-3606 (o)	Livestock	D	138,700
6. K.S.A. 79-3606 (e)	Federal projects	L	2,300
7. K.S.A. 79-3606 (f)	Railroads and Utilities - I.C.	L	37,300
8. K.S.A. 79-3606 (g)	Aircraft, Parts, and Service - I.C.	L	1,100
9. K.S.A. 79-3603 (b)	Interstate Telephone and Telegraph	L	40,000
10. K.S.A. 79-3606 (l)	Isolated or Occasional Sales	A	5,300
11. K.S.A. 79-3606 (p)	Used Fixtures	A	1,500
12. K.S.A. 79-3603 (o)	Transfers of Vehicles for Stock	A	500
13. K.S.A. 79-3606 (b)	State, Local and Hospital Purchases	P	27,000
14. K.S.A. 79-3606 (c)	School Purchases	P	12,700
15. K.S.A. 79-3606 (h)	School Textbook Rentals	P	200
16. K.S.A. 79-3606 (d)	Projects for Subdivisions	P	13,800
17. K.S.A. 79-3641	Enterprise Zone Project	P	NA
18. K.S.A. 79-3603 (e)	Local Recreational Fees	P	200
19. K.S.A. 79-3606 (a)	Gas, Liquor, and Drinks	P	81,700
20. K.S.A. 79-3603 (f)	Coin-Op Laundries	P	300
21. K.S.A. 79-3603 (h)	Lease of IRB Equipment	P	150
22. K.S.A. 79-3603 (p)	Services in Original Construction	P	42,000
23. K.S.A. 79-3606 (j)	Meals for Restaurant Employees	P	100
24. K.S.A. 79-3606 (k)	Vehicles, Aircraft for Nonresidents	P	34,600
25. K.S.A. 79-3606 (q)	Prescription Drugs	P	3,500
26. K.S.A. 79-3606 (r)	Insulin	P	100
27. K.S.A. 79-3606 (s)	Prosthetic and Orthopedic Appliances	P	1,000
28. K.S.A. 79-3606 (t)	Groundwater Management Purchases	P	
29. K.S.A. 79-3606 (u)	Used Farm Machinery, Parts and Ser.	P	13,200
30. K.S.A. 79-3603 (g)	Room Rentals - 28+ days	P	60
31. K.S.A. 79-3606 (v)	Mobile Home Rentals - 28+ days	P	470
32. K.S.A. 79-3606 (w)	Food for Homebound Persons	P	120
33. K.S.A. 79-3606 (x)	Electricity, Gas, Heat and Water	P	19,800
34. K.S.A. 79-3606 (y)	Propane, LP, Coal, and Wood	P	3,200
35. K.S.A. 79-3606 (z)	Local Intrastate Telephone	P	2,700
36. K.S.A. 79-3606 (aa)	Repair, Manufacture of Railroad Cars	P	5,300
37. K.S.A. 79-3606 (bb)	Port Authority Property	P	NA
38. K.S.A. 79-3606 (cc)	Repair of Interstate Pipeline Equip.	P	NA
TOTAL			\$ 2,551,100

Subtotals

* Types:	D - Definitional Exemption	D -	\$ 2,200,900
	L - Legal Exemption	L -	80,700
	A - Administrative Exemption	A -	7,300
	P - Policy Exemption	P -	262,200

Source: Fiscal impact estimates were prepared by the Department of Revenue, September 22, 1980.

Attachment II

Kansas Legislative Research Department

November 16, 1982

LOCAL SALES TAXES - CITY

<u>City (78) (County Where Located)</u>	<u>Rate</u>	<u>Effective Date</u>
Arkansas City (Cowley)	0.5%	October 1, 1978
Arma (Crawford)	0.5	November 1, 1982
Atchison (Atchison)	0.5	October 1, 1978
Baldwin (Douglas)	0.5	January 1, 1982
Basehor (Leavenworth)	0.5	July 1, 1982
Baxter Springs ¹ (Cherokee)	0.5	July 1, 1982
Bonner Springs ¹ (Wyandotte)	0.5	October 1, 1981
Caldwell ² (Sumner)	1.0	November 1, 1982
Caney ² (Montgomery)	1.0	November 1, 1982
Chanute ¹ (Neosho)	0.5	October 1, 1979
Cherryvale ³ (Montgomery)	1.0	November 1, 1982
Clay Center ¹ (Clay)	0.5	November 1, 1980
Coffeyville (Montgomery)	0.5	November 1, 1980
Columbus ¹ (Cherokee)	0.5	July 1, 1982
Concordia ⁵ (Cloud)	1.0	February 1, 1983
DeSoto ¹ (Johnson)	0.5	July 1, 1982
Dodge City ¹ (Ford)	0.5	December 1, 1981
Edgerton ¹ (Johnson)	0.5	July 1, 1982
Elkhart (Morton)	0.5	November 1, 1981
Erie ¹ (Neosho)	0.5	November 1, 1982
Eudora (Douglas)	0.5	November 1, 1982
Frontenac (Crawford)	0.5	November 1, 1982
Galena ¹ (Cherokee)	0.5	February 1, 1977
Garden City ¹ (Finney)	0.5	February 1, 1983
Gardner ¹ (Johnson)	0.5	November 1, 1982
Girard (Crawford)	0.5	November 1, 1982
Hays (Ellis)	0.5	November 1, 1982
Herington (Dickinson)	0.5	July 1, 1980
Hiawatha ¹ (Brown)	0.5	November 1, 1980
Horton ¹ (Brown)	0.5	November 1, 1980
Hugoton (Stevens)	0.5	November 1, 1980
Humboldt ¹ (Allen)	0.5	January 1, 1982
Independence (Montgomery)	0.5	February 1, 1981
Iola ¹ (Allen)	0.5	November 1, 1981

<u>City (78) (County Where Located)</u>	<u>Rate</u>	<u>Effective Date</u>
Junction City ¹ (Geary)	1.0	November 1, 1982
Kansas City ¹ (Wyandotte)	0.5	November 1, 1980
Lansing (Leavenworth)	0.5%	July 1, 1982
Lawrence (Douglas)	0.5	July 1, 1971
Leavenworth (Leavenworth)	0.5	July 1, 1977
Leawood ¹ (Johnson)	0.5	January 1, 1979
Lenexa ¹ (Johnson)	0.5	February 1, 1980
Louisburg (Miami)	0.5	July 1, 1982
Manhattan ^{1,4} (Riley & Pottawatomie)	1.0	November 1, 1982
Mayfield (Sumner)	0.5	November 1, 1982
Merriam ¹ (Johnson)	0.5	July 1, 1979
Mission ¹ (Johnson)	0.5	February 1, 1979
Neodesha ² (Wilson)	1.0	February 1, 1983
Ogden ^{1,2} (Riley)	1.0	November 1, 1982
Olathe ¹ (Johnson)	0.5	June 1, 1980
Onaga (Pottawatomie)	1.0	November 1, 1982
Osawatomie (Miami)	0.5	July 1, 1981
Oskaloosa ¹ (Jefferson)	1.0	November 1, 1982
Ottawa (Franklin)	0.5	February 1, 1979
Overland Park ¹ (Johnson)	0.5	January 1, 1978
Paola (Miami)	0.5	July 1, 1981
Perry ¹ (Jefferson)	0.5	July 1, 1981
Pittsburg (Crawford)	0.5	February 1, 1981
Pomona (Franklin)	0.5	July 1, 1981
Prairie Village ¹ (Johnson)	0.5	October 1, 1978
Roeland Park ¹ (Johnson)	0.5	July 1, 1982
St. Marys (Pottawatomie)	0.5	November 1, 1982
Sedan ¹ (Chautauqua)	0.5	November 1, 1981
Shawnee ¹ (Johnson)	0.5	November 1, 1980
Spivey (Kingman)	0.5	January 1, 1979
Spring Hill ¹ (Miami & Johnson)	0.5	July 1, 1982
Sublette ¹ (Haskell)	0.5	January 1, 1983
Topeka ⁴ (Shawnee)	1.0	November 1, 1982
Toronto (Woodson)	0.5	November 1, 1982

<u>City (78) (County Where Located)</u>	<u>Rate</u>	<u>Effective Date</u>
Wakefield ^{1,2} (Clay)	1.0	November 1, 1982
WaKeeney (Trego)	1.0	February 1, 1983
Wamego (Pottawatomie)	0.5	November 1, 1982
Wellington (Sumner)	0.5	February 1, 1979
Westmoreland (Pottawatomie)	0.5	February 1, 1983
Westwood ¹ (Johnson)	0.5	July 1, 1981
Westwood Hills ¹ (Johnson)	0.5	July 1, 1980
Williamsburg (Franklin)	0.5	July 1, 1982
Winfield (Cowley)	0.5	October 1, 1981
Yates Center (Woodson)	0.5	November 1, 1982

1 City sales tax is in addition to the county sales tax; see "Local Sales Taxes — County."

2 Rate of 0.5% was effective November 1, 1980.

3 Rate of 0.5% was effective February 1, 1981.

4 Rate of 0.5% was effective July 1, 1971.

5 Rate of 0.5% was effective September 1, 1981.

Attachment III

Kansas Legislative Research Department

November 16, 1982

LOCAL SALES TAXES - COUNTY

<u>County (46)</u>	<u>Rate</u>	<u>Effective Date</u>
Allen	0.5%	November 1, 1982
Anderson	1.0	January 1, 1983
Barber	1.0	February 1, 1983
Barton	1.0	November 1, 1982
Brown	1.0	November 1, 1982
Chautauqua	1.0	February 1, 1983
Cherokee	1.0	November 1, 1982
Clay	0.5	November 1, 1982
Elk	1.0	November 1, 1982
Finney	0.5	November 1, 1981
Ford	0.5	January 1, 1983
Geary	1.0	October 1, 1978*
Gray	1.0	February 1, 1983
Greeley	1.0	November 1, 1982
Haskell	0.5	January 1, 1983
Jackson	1.0	November 1, 1982
Jefferson	1.0	May 1, 1983
Jewell	1.0	February 1, 1983
Johnson	0.5	October 1, 1975
Kiowa	1.0	November 1, 1982
Labette	1.0	September 1, 1981
Lincoln	1.0	February 1, 1983
Logan	1.0	November 1, 1982
McPherson	1.0	July 1, 1982
Mitchell	1.0	November 1, 1982
Morris	1.0	November 1, 1982
Nemaha	1.0	November 1, 1982
Neosho	0.5	November 1, 1982

<u>County (46)</u>	<u>Rate</u>	<u>Effective Date</u>
Osage	1.0	November 1, 1982
Osborne	0.5	January 1, 1983
Ottawa	1.0	February 1, 1983
Pawnee	1.0	July 1, 1983
Pratt	1.0	July 1, 1982
Reno	0.5	November 1, 1977
Republic	1.0	November 1, 1982
Rice	1.0	November 1, 1982
Riley	0.5	February 1, 1983
Saline	1.0	November 1, 1982
Scott	1.0	May 1, 1982
Seward	1.0	November 1, 1980**
Sherman	1.0	February 1, 1983
Thomas	1.0	November 1, 1982
Wabaunsee	1.0	February 1, 1983
Washington	1.0	February 1, 1983
Wichita	1.0	November 1, 1982
Wyandotte	0.5	October 1, 1975

* Rate of 0.5 percent was effective November 1, 1974.

** Rate of 0.5 percent was effective October 1, 1975.

MEMORANDUM

December 13, 1982

FROM: Kansas Legislative Research Department

RE: Sin Tax Options

This memorandum discusses options for increasing sumptuary, or "sin," taxes in Kansas. Some general cautions are mentioned first, followed by specific options.

General MattersAnnualized Estimates

Each of the estimates for FY 1984 is made on an annualized basis. The actual yield in FY 1984 would probably be less because of lags in collecting, remitting, processing, and depositing the tax to the State Treasury. Depending on the tax, as much as 20 percent of the annualized yield might not actually be received in the first year.

Inventory Taxes

Usually, when the rate is increased on gasoline, cigarettes, liquor or beer, an inventory tax is imposed on the amount held by wholesalers and distributors so as to prevent evasion of the higher tax by "stocking up" before the rate increase. The inventory tax is usually impossible to estimate with any reliability; however, it could offset a substantial part of the revenues lost to the lag in the first year.

Elasticity of Demand

Increases in prices will, other things remaining equal, decrease the quantity sold. Increases in taxes which lead to increases in the prices of goods or services may, as a result of the decrease in the base, lead to less than proportional increases in receipts. For small increases in tax rates, especially where the tax is a small percentage of the selling price, this decrease in the base (sales) may not be important. This cannot be said, however, when the increase in the tax is large relative to the selling price. Thus, proposals to increase taxes by a substantial amount will probably result in significantly less revenue than might be projected on the assumption of zero elasticity of demand (that price will not affect demand).

The possibility of tax evasion by purchasing in another state is very real whenever the tax is a major part of the price of a product and particularly when a large metropolitan area straddles the state border, as it does in Kansas City. The loss of sales by in-state merchants must also be considered. This issue can become emotional, especially when the laws designed to prohibit such activity are suddenly or effectively enforced.

Policy Options

Cigarette Tax

In FY 1984 the cigarette tax of 11 cents per pack is expected to yield \$33.0 million. Assuming zero elasticity of demand (that the tax increase will not affect the number of cigarettes sold), revenues would increase approximately \$3 million for each 1 cent increase in the rate. The Kansas cigarette tax rate has been 11 cents since 1970. Recent prior rates and the year of adoption are as follows:

<u>Rate</u> <u>(In Cents)</u>	<u>Year</u> <u>Adopted</u>
11	1970
8	1965
6	1964

Payment of the tax is evidenced by tax stamps or tax meter imprints on the package. Dealers receive a discount of 3.25 percent on the face value of stamps or meter settings for expenses involved in affixing the stamps.

In 1970, approximately 20,000,000 cigarette tax stamps were purchased at the 8 cent rate and held for use after the 11 cent rate had become effective. As a result, FY 1970 receipts were more than expected and FY 1971 receipts showed a decline. It is estimated that the inventory tax on cigarettes will yield \$150,000 for each penny increase. Because of the lack of any experience with a cigarette inventory tax, this estimate of the inventory tax on cigarettes is only a ballpark estimate.

The federal cigarette tax has been increased from 8 cents to 16 cents per pack, effective January 1, 1983 through October 1, 1985. An inventory ("floor") tax will be imposed upon distributors and wholesalers, but apparently not on retailers. The estimated FY 1984 receipts for Kansas take this federal tax increase into account.

Attachment 1 is a map showing the cigarette tax rate in each of the 50 states as of July 1, 1982. Washington increased its rate from 20.8 to 23 cents, effective August 1, 1982. The rates in Kansas and neighboring states are as follows:

	<u>Cigarette</u> <u>Tax</u> <u>(In Cents)</u>	<u>Subject to</u> <u>Sales Tax</u>
Colorado	10	No
Kansas	11	Yes - 3%
Missouri	13	Yes - 4.125%
Nebraska	14	Yes - 3.5%
Oklahoma	18	No

Among neighboring states, Missouri permits local cigarette taxes in addition to the state tax. For example, the cities of St. Joseph, Kansas City and Springfield levy local cigarette taxes of 5 cents per pack, for a total tax of 18 cents per pack. St. Louis imposes a 7 cent tax, and St. Louis County imposes 5 cents.

Tobacco Products Tax

The Kansas tobacco products tax is levied at the rate of 10 percent of wholesale price. Dealers are permitted to retain 4 percent of the tax as reimbursement for expenses. In FY 1984 the tobacco products tax is expected to yield \$1.2 million. Each 1 percent increase in the rate would yield approximately \$120,000 in FY 1984, on an annualized basis.

Among neighboring states, only Oklahoma currently levies a tobacco products tax. Rates in Oklahoma are as follows: little cigars, 18 cents per pack; little cigars weighing more than three pounds per 1,000, 20 cents; other cigars, 1 cent or 2 cents each depending on weight; smoking tobacco, 40 percent of factory list price; and chewing tobacco, 30 percent of factory list price.

Current tobacco tax rates for states which tax tobacco products other than cigarettes are shown in Attachment 2.

Small Cigars. In many states, small cigars are taxed like cigarettes. They look like cigarettes and are marketed as are cigarettes. In Kansas, they are subject to the tobacco products tax (10 percent of wholesaler's cost) rather than the 11 cent per pack cigarette tax because their wrappers are not "in greater part made of any material except tobacco." (K.S.A. 79-3301, definition of "cigarette.") Taxing these small cigars as cigarettes would raise an unknown amount of revenue.

Cereal Malt Beverage Tax

"Cereal malt beverage" is, for all practical purposes, 3.2 beer. The cereal malt beverage (CMB) tax is imposed at the rate of 18 cents per gallon or \$5.58 per 31 gallon barrel. Estimated FY 1984 receipts are \$5.1 million. Assuming that the elasticity of demand is zero, each 1 cent the rate is increased would bring in just under \$300,000.

Current state tax rates for malt beverages are shown in Attachment 3. Note that in some states the rate for "high point" beer exceeds that for "3.2 beer" or "low point" beer, and that the rate for beer in bottles and cans exceeds the barrel, or "draught," rate in some states. In Kansas and its four neighboring states, the rate on CMB is the same as the rate on strong beer.

Liquor Gallonage Tax

The liquor gallonage tax is in fact a combination of taxes upon four distinct types of alcoholic liquors. The tax on strong or "high point" beer is imposed at \$.18 per gallon and yielded approximately \$4.3 million in FY 1982 on apparent consumption of

23.8 million gallons, about the same as the previous year. Assuming about the same consumption, each 1 cent increase in the rate on strong beer would yield approximately \$250,000 in FY 1984.

The second component, the tax on light wine, imposed at the rate of \$.30 per gallon, yielded \$508,000 in FY 1982, an increase of nearly 12 percent from the prior year. Each 5 cent increase in the rate would yield approximately \$100,000 in FY 1984.

Fortified wine, the third component, is taxed at the rate of \$.75 per gallon. The tax totaled \$141,000 in FY 1982. Assuming that consumption of such wine continues at about the same level, each 5 cent increase in the tax on fortified wine would produce approximately \$9,000 in FY 1984.

The tax on alcohol and spirits (generally distilled liquors) is imposed at a rate of \$2.50 per gallon, with one-tenth of the tax credited to the Community Alcoholism and Intoxication Programs Fund (AIPF). In FY 1982, collections net of refunds were \$7.9 million, of which \$7.1 million was credited to the State General Fund (SGF). Assuming consumption remains about constant, each 10 cent increase in the rate per gallon would produce about \$320,000 of which about \$280,000 would be allocated to the SGF under the current formula. If the amount going to the AIPF were frozen at \$.25 per gallon, then each 10 cent increase would produce \$320,000.

In FY 1978, when the liquor gallonage taxes were last increased, the inventory tax amounted to approximately 7 percent of collections from the liquor gallonage tax in FY 1978.

Liquor gallonage tax rates for Kansas and neighboring states are shown below:

State	Tax Rate Per Gallon				
	Beer	Light Wine	Strong Wine*	Sparkling Wine*	Spirits
Colorado	\$.08	\$.24	\$.36	\$ *	\$2.16
Kansas	.18	.30	.75	*	2.50
Missouri	.06	.30	.30	.30	2.00
Nebraska	.12	.55	1.10	*	2.50
Oklahoma	.32	.50	1.00	1.50	4.00

* Strong wine exceeds 14 percent alcohol. Only Oklahoma has a separate rate for sparkling wine. Missouri taxes all wine at the same rate.

Current tax rates for distilled liquor and wine for states with specific taxes are shown in Attachment 4, and a history of rates on distilled spirits through 1981 is shown in Attachment 5. Alcoholic liquor or beer taxes were increased in Colorado, Indiana, Maine, Nebraska, Nevada, New Hampshire, New Mexico, South Dakota, Tennessee, Utah, Vermont, Washington, West Virginia, and Wisconsin in 1981; and in Alabama, Kentucky, Utah, Virginia, and Washington in 1982.

Liquor Enforcement Tax

Kansas imposes a tax on the retail sale of alcoholic liquors, not including CMB or 3.2 beer, at the rate of 4 percent. FY 1984 receipts are expected to be \$10 million. Assuming zero elasticity, each 1 percent increase would yield about \$2.5 million. The tax is in lieu of the 3 percent state sales tax (and, hence, any local sales tax). None of Kansas' neighboring states has such a tax. CMB is subject to the sales tax.

Private Club Liquor Tax

The private club liquor tax is imposed at the rate of 10 percent on the gross receipts from the sale of alcoholic beverages by private clubs. Beginning in FY 1983, one-fourth of net revenues are distributed to the State General Fund and the balance to cities and counties. It is estimated that total receipts will be \$8.4 million in FY 1983 and \$9.2 million in FY 1984, with \$2.1 million and \$2.3 million, respectively, to go to the State General Fund. A 5 percent increase in the rate would add approximately \$1.15 million of receipts to the State General Fund.

If the amount distributed to cities and counties in any calendar year is less than the amount distributed in 1981 (\$6.99 million), an amount equal to the difference will be transferred from the State General Fund for distribution to cities and counties on the next March 15. It is estimated that, under this provision, \$465,000 will be transferred in March, 1984. A 5 percent increase in the club tax effective July 1, 1983 would thus reduce FY 1984 transfers from the State General Fund by an estimated \$420,000 because additional receipts to cities and counties will reduce the amount necessary for the guarantee.

Bingo Enforcement Tax

The bingo enforcement tax is a gross receipts tax of 3 percent of the gross receipts from charges for admission to and participation in bingo games. Collections in FY 1984 are expected to be \$900,000, of which one-third will be credited to the State General Fund. Two-thirds of receipts go to the cities and counties in which the licensed bingo premises are located. Assuming zero elasticity, each 1 percentage point increase in the rate would yield about \$100,000 for the State General Fund and \$200,000 for local units.

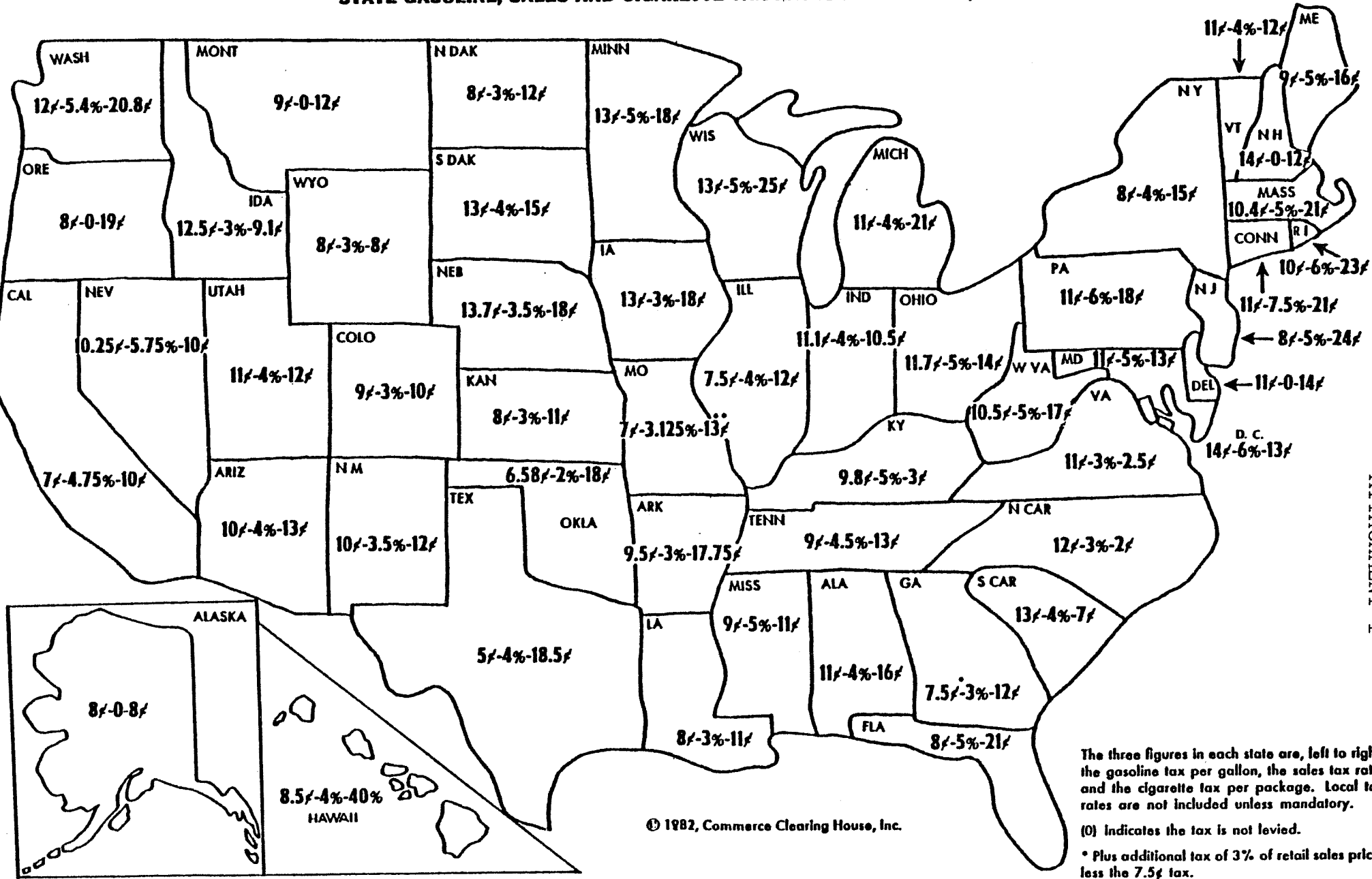
Soft Drink Tax

One tax which raises considerable revenue at fairly low rates is a soft drink tax. Presently, at least five states (Louisiana, North Carolina, South Carolina, Tennessee and West Virginia) levy such a tax. Preliminary 1981 tax year figures for taxes collected were as follows:

	<u>Preliminary FY 1981 Collections</u>	<u>Collections Per Capita</u>
Louisiana	\$ 6,816,000	\$ 1.62
North Carolina	22,279,000	3.79
South Carolina	13,372,000	4.29
Tennessee	3,176,000	.69
West Virginia	7,686,000	3.94

Ballpark estimates of the potential revenue from a soft drink tax can be made from the per capita figures shown above. Specific taxes of a fixed amount per bottle or per gallon are levied by North Carolina, South Carolina, and West Virginia. Kansas would probably realize about \$9 million from a specific tax. The Tennessee tax is simply 1 1/2 percent of the gross receipts from the business of manufacturing soft drinks. This sort of tax seems the easiest to administer. Again, based on the per capita figures above, Kansas would probably raise about \$1.6 million from this sort of tax. The Louisiana tax is at the rate of 2 1/2 percent of the wholesale selling price of soft drinks or syrups. A similar tax in Kansas would probably yield about \$3.8 million.

STATE GASOLINE, SALES AND CIGARETTE TAX RATES AS OF JULY 1, 1982



© 1982, Commerce Clearing House, Inc.

The three figures in each state are, left to right, the gasoline tax per gallon, the sales tax rate, and the cigarette tax per package. Local tax rates are not included unless mandatory.

(0) Indicates the tax is not levied.
 * Plus additional tax of 3% of retail sales price, less the 7.5¢ tax.
 ** Effective August 13, 1982 (9¢ until then).

STATE TOBACCO TAX RATES
(For States Imposing a Tobacco Tax)

State	Little Cigars (Per Pack of 20)	Cigars (Per 1,000)	Smoking Tobacco	Chewing Tobacco	Snuff
Alabama ¹	4¢	\$1.50-\$20.25	3¢ per oz. ²	3/4¢ per oz.	1¢ per oz. ²
Arizona	2¢	\$3.33-\$10.00	1¢ per oz. ³	1¢ per oz. ³	1¢ per oz. ³
Arkansas	16% ⁴	16% ⁴	16% ⁴	16% ⁴	—
California	10¢ ⁵	—	—	—	—
Connecticut	21¢ ⁵	—	—	—	—
Georgia	4¢	\$1.50-\$20.00	—	—	—
Hawaii	40% ⁶	40% ⁶	40% ⁶	40% ⁶	40% ⁶
Idaho	35% ⁶	35% ⁶	35% ⁶	35% ⁶	35% ⁶
Iowa	18¢ ⁵	10% ⁶	10% ⁶	10% ⁶	10% ⁶
KANSAS	10% ⁶	10% ⁶	10% ⁶	10% ⁶	10% ⁶
Louisiana	8% ⁵	8-20% ⁷	33% ⁷	—	—
Minnesota	18¢ ⁵	20% ⁶	20% ⁶	20% ⁶	20% ⁶
Mississippi	3.6¢	\$1.80-\$25.20	1 1/8¢ per 5¢ ⁷	9/16¢ per 5¢ ⁷	9/16¢ per 5¢ ⁷
Montana	12.5% ⁶	12.5% ⁶	12.5% ⁶	12.5% ⁶	12.5% ⁶
North Dakota	11% ⁶	11% ⁶	11% ⁶	11% ⁶	11% ⁶
Oklahoma	18¢ ⁵	\$10.00-\$20.00	40% ⁴	30% ⁴	30% ⁴
South Carolina	5¢	\$11.00-\$20.00	36% ⁴	5% ⁴	5% ⁴
Tennessee	13¢ ⁵	6% ⁶	6% ⁶	6% ⁶	6% ⁶
Texas	2¢	\$7.50-\$15.00 ⁴	25% ⁴	25% ⁴	25% ⁴
Utah	25% ⁴	25% ⁴	25% ⁴	25% ⁴	25% ⁴
Vermont	20% ⁶	20% ⁶	20% ⁶	20% ⁶	20% ⁶
Washington	48.15% ⁶	48.15% ⁶	48.15% ⁶	48.15% ⁶	48.15% ⁶
Wisconsin	20% ⁶	20% ⁶	20% ⁶	20% ⁶	20% ⁶

Notes:

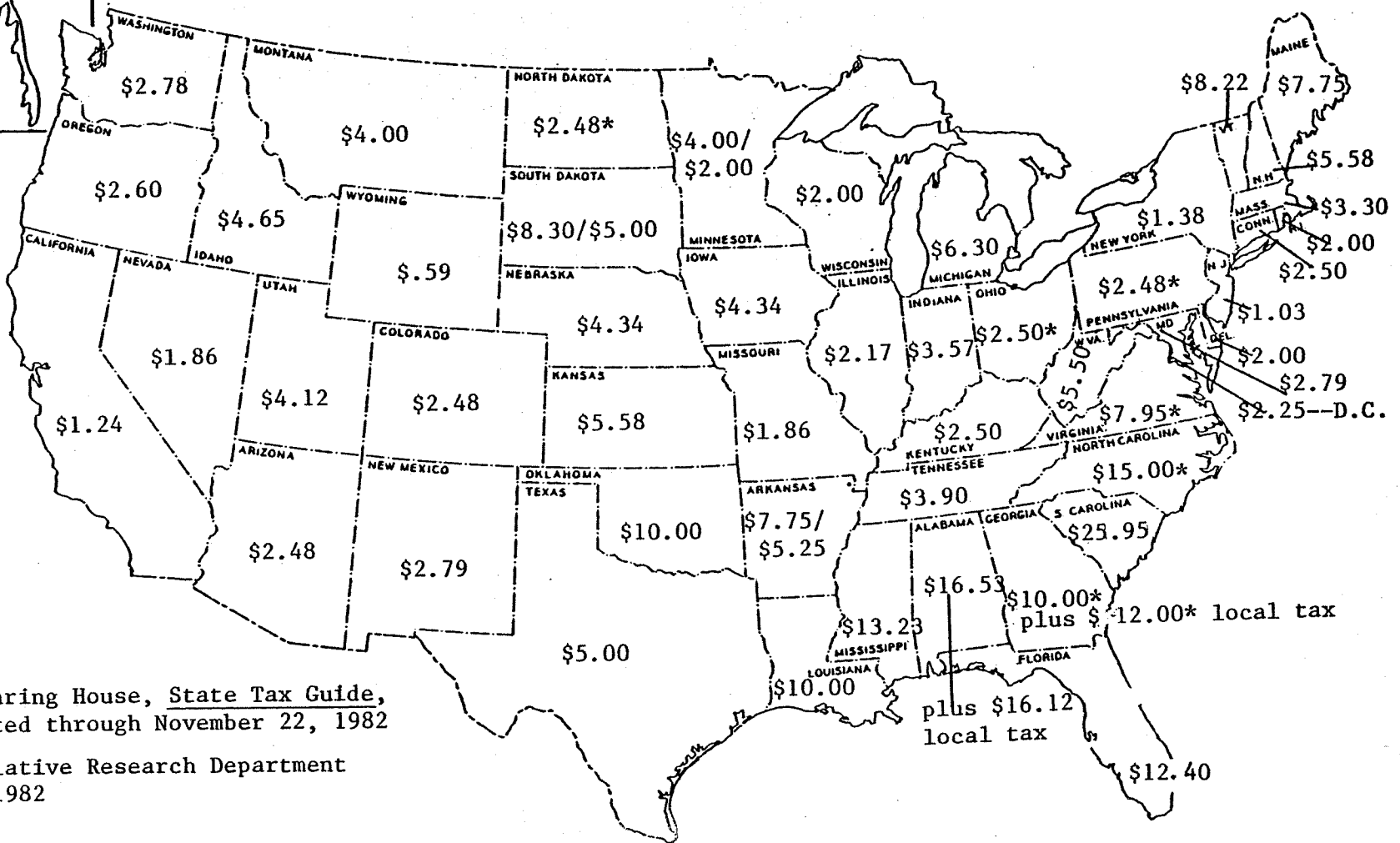
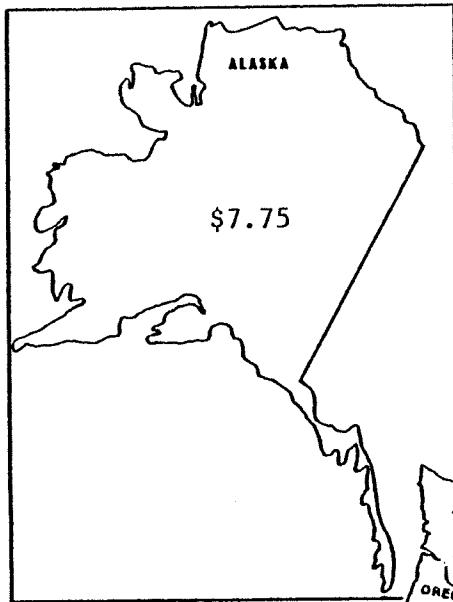
- 1) Alabama also taxes cigarette papers at the rate of 25¢ per package.
- 2) Bracketed rates for small packages.
- 3) Cavendish, plug or twist, 1/4¢ per ounce.
- 4) Rate applies to manufacturer's list price or selling price.
- 5) Same as cigarette tax rate.
- 6) Rate applies to wholesale price or cost.
- 7) Rate applies to retail selling price.

Source: Commerce Clearing House, State Tax Guide, 2nd Edition, updated through November 22, 1982.

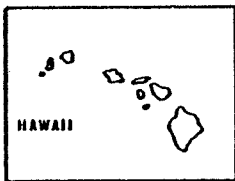
Kansas Legislative Research Department
December 7, 1982

BEER TAX PER 31-GALLON BARREL

Where two figures are shown, the first is for high point beer and the second is for 3.2 beer. Asterisk indicates a higher rate for beer in bottles and cans. Local taxes are shown only where they are uniformly applied under state law.



20% of wholesale



Source: Commerce Clearing House, State Tax Guide, 2d Ed., updated through November 22, 1982

Kansas Legislative Research Department
December 2, 1982

Kansas Legislative Research Department

December 7, 1982

SPECIFIC⁽¹⁾ STATE ALCOHOLIC BEVERAGE TAX RATES

State	Distilled Spirits (Per Gallon)	Wines (Per Gallon)	
		14% or Less Alcohol	14-21% Alcohol
Alaska	\$4.00	\$.60	\$.60
Arizona	2.50	.42	.42
Arkansas	2.50	.75	.75
California	2.00	.01	.02
Colorado	2.28	.28	.28
Connecticut	2.50	.25	.25
Delaware	2.25	.40	.40
District of Columbia	1.50	.15	.33
Florida	9.53	1.75	2.43
Georgia	3.79	1.51	2.54
Illinois	2.00	.23	.60
Indiana	2.68	.47	.47
KANSAS	2.50	.30	.75
Kentucky	2.50	.50	.50
Louisiana	2.50	.11	.23
Maryland	1.50	.40	.40
Massachusetts	4.05	.55	.55
Minnesota	4.39	.27	.79
Mississippi	2.50	.35	.35
Missouri	2.00	.30	.30
Nebraska	2.75	.65	1.25
Nevada	2.05	.30	.50
New Jersey	2.80	.30	.30
New Mexico	2.61	.45	.45
New York	3.25	.10	.10
North Dakota	2.50	.50 ⁽²⁾	.60 ⁽²⁾
Oklahoma	4.00	.50	1.00
Rhode Island	2.50	.40	.40
South Carolina	2.96	1.08	1.08
South Dakota	3.80	.90	1.40
Tennessee	4.00	1.10	1.10
Texas	2.00	.17	.34
Wisconsin	3.25	.25	.45
Wyoming	.95	.28	.28

Notes:

- 1) Specific taxes are imposed upon physical units (volume) rather than on an ad valorem basis. Only states where the principal source of revenue is a specific tax are shown. Several states also impose a gross receipts tax on liquor distributors. In some states, distilled beverages in excess of 100 proof, brandy, vermouth, sparkling wine, and other specified beverages are taxed at higher rates than shown. Rates on smaller quantities may be proportionate or higher. Rates for beverages manufactured in the state are not shown where they differ from the rates on imported beverages.
- 2) Tax rate increases for wine with alcoholic content in excess of 17 percent.

Source: Commerce Clearing House, State Tax Guide, 2d Ed., updated through November 22, 1982.

CHARACTERISTICS OF CERTAIN SUMPTUARY TAXES

Sin Tax	Present Rate	Last Change		Estimated Total FY 1984 Receipts (Thousands)	If Tax Rates Increased*	
		Prior Rate	Year of Change		Estimated Yield (Thousands)	From Increase of
Cigarette	\$.11/pack	\$.08	1970	\$ 33,000	\$ 3,000	\$.01
Tobacco	10% wholesale	new	1972	1,200	120	1% point
CMB (3.2 beer)	\$.18/gal.	\$.15	1977	5,100	300	\$.01
Liquor Enforcement	4%	2.5%	1965	10,000	2,500	1% point
Liquor Gallonage:						
Beer	\$.18/gal.	\$.15	1977		250	\$.01
Light Wine	.30/gal.	.20	1977		100	.05
Strong Wine	.75/gal.	.50	1977		9	.05
Spirits**	2.50/gal.	1.50	1977		320**	.10
TOTAL				\$ 12,500**		
Private Club Liquor**	10%	new	1979	\$ 9,200**	\$ 4,600**	5% points
Bingo**	3%	2%	1977	900**	300**	1% point

* Estimates are for FY 1984 on an annualized basis. Actual receipts in FY 1984 will differ because of lags in collecting, remitting, processing and depositing the tax. Inventory taxes, which could be imposed to prevent evasion of the higher tax by "stocking up" at lower rates, are not included. A price increase which results from a higher tax rate will, other things equal, decrease the quantity of the good or service taxed. These estimates do not reflect decreases in quantities which could result from tax increases. This factor may result in less than proportional increases in revenue when the increase in tax is a substantial part of selling price.

** Indicates at least part of revenue distributed to a fund other than the State General Fund. One-tenth of the tax on spirits goes to the Community Alcoholism and Intoxication Programs Fund. The private club liquor tax goes one-fourth to the State General Fund and three-fourths to the city or county where collected, but the increase in State General Fund balances could exceed one-fourth of the new revenue because of a decrease in the amount necessary for a guarantee to cities and counties. One-third of the revenue from the bingo enforcement tax is credited to the State General Fund and two-thirds is returned to the city or county of origin.

Kansas Legislative Research Department
December 10, 1982