

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION.The meeting was called to order by Representative Jim Braden at
Chairperson9:00 a.m. ~~XXXX~~ on March 21, 1984 in room 519S of the Capitol.All members were present ~~except~~.

Committee staff present:

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

Conferees appearing before the committee:

Representative Ken Francisco
Margie Braden, Kansas Manufactured Housing Institute
Ron Gaches, Kansas Chamber of Commerce & Industry
Janet Stubbs, Home Builders Association of Kansas
Dan Morgan, Associated General Contractors
Todd Sherlock, Kansas Realtors Association
Charles Carey, Mechanical Contractors Association
Bob West, National Electrical Contractors
Don Schnacke, Kansas Independent Oil & Gas Association
Dan Ramlow, Kansas Contractors Association
Tom Puckett, Attorney

Hearings were held on House Bill 2211 which would remove the sales tax exemption for the sale of services in new construction.

Representative Ken Francisco, sponsor of the bill, testified in support of House Bill 2211. He stated that he did not feel that it was fair to exempt services performed on new construction while requiring that the sales tax be charged on services performed in repairing or remodeling. He testified that he felt this was particularly unfair to lower income people who could not afford to build new.

Margie Braden, Kansas Manufactured Housing Institute, testified as a proponent of House Bill 2211 and stated that KMHI's interest in the legislation is because of the inequity that currently exists relating to the difference between the way sales taxes are collected on site-built homes and the way they are collected on mobile/manufactured homes. She stated that passage of the bill would remove the inequity relating to the way new mobile/manufactured homes are taxed. She further stated that if the committee felt that enactment of the provisions of House Bill 2211 would not be a good move for the Kansas economy at this time, the committee could amend it to remove a portion of the sales tax from new manufactured homes which would be commensurate with the approximate labor costs and exempt used mobile/manufactured homes from sales tax. She stated that this would also achieve equity in the application of sales tax on all types of housing. (Exhibit I)

Ron Gaches, Kansas Chamber of Commerce and Industry, testified in opposition to House Bill 2211. He did state that the inequities between the site-built homes and manufactured housing should be removed and that the Kansas Chamber of Commerce would have no opposition to extending the labor services exemption to manufactured housing and exempting used manufactured housing.

Janet Stubbs, Homebuilders Association of Kansas, testified in opposition to House Bill 2211. (Exhibit II)

Dan Morgan, Associated General Contractors, presented testimony in opposition to House Bill 2211. (Exhibit III)

Todd Sherlock, Kansas Association of Realtors, testified in opposition to House Bill 2211. (Exhibit IV)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION,
room 519S, Statehouse, at 9:00 a.m./~~PM~~ on March 21, 1984

Charles Carey, Mechanical Contractors Association, spoke in opposition to House Bill 2211. (Exhibit V)

Bob West, National Electrical Contractors Association, Kansas Chapter, testified in opposition to House Bill 2211. (Exhibit VI)

Don Schnacke, KIOGA, testified against House Bill 2211.

Dan Ramlow, Kansas Contractors Association, testified in opposition to House Bill 2211.

Tom Puckett, a Topeka attorney, testified in opposition to House Bill 2211.

The Chairman then asked the committee to discuss Senate Bill 477 which would increase the forgiveness threshold from \$1 to \$5 for the income tax, inheritance tax, and the privilege tax on financial institutions. Payments or refunds of less than \$5 will not be required.

Representative Rolfs made a motion that SB 477 be reported favorable for passage and Representative Jarchow seconded the motion.

Representative Vancrum made a substitute motion that SB 477 be amended conceptually to provide that a refund of \$5 or less be carried forward as a credit to the next year's taxes. The taxpayer would still not be required to pay \$5 or less and the state would not be required to refund \$5 or less. Representative Miller seconded the motion. The motion carried.

Representative Rolfs made a motion that SB 477 be reported favorable as amended and Representative Spaniol seconded the motion. The motion carried.

The committee then discussed Senate Bill 467 which would amend two statutes relating to the valuation of personal property for taxation purposes.

Representative Rolfs made a motion that Senate Bill 467 be amended on page 3 in line 94, by striking all after "the"; in line 95, by striking all before the first comma and inserting "fair market value of the business itself, except when specifically authorized by law". Representative Frey seconded the motion.

Representative Frey made a substitute motion that the contents of Representative Rolfs amendment, and in line 95, by striking "whether arrived at by comparable sales, capitalization of earnings or any other methodology". Representative Lowther seconded the motion. The motion carried.

Representative Wunsch made a motion that SB 467 be amended on page 1, line 44, by striking the word "that" and inserting in lieu thereof, "an". Representative Vancrum seconded the motion. The motion carried.

The meeting was adjourned.

GUEST REGISTER

HOUSE

ASSESSMENT & TAXATION
COMMITTEE

NAME	ORGANIZATION	ADDRESS
Ron Caches	Kansas Chamber	Topoka
Don Schuack	ICIOGA	Topoka
Steven Hustison	EKOGA	LAWRENCE
WALTER DUNN	✓	Topoka
L.O. TENK	EKOGA	OTTAWA
Robert C. Cardona	Mid Cont Oil & Gas	Ottawa
Janet Stubbs	HBAAK	Topoka
Margie Braden	KMHT	Topoka
Beta Wilkin	S. S.	"
Ge. Hodges	Cities Council & Gen	Tulsa
Doss Martin	Ks Petroleum Council	Topoka
ML Jenkins	Speakers Office	"
Tom Slattery	AGC of Ks	"
Dan Morgan	AGC of Kansas	"
George Barber	Ks Consulting Engne	"
Thomas Puckett	Attorney	"
Robert West	Natl Elec. Contractors Assn.	"
DAN RAMLOW	Ks. CONTRACTORS ASSN.	"
CHARLES CAREY	MECH. CONTR. ASSOC.	"
D. Ferrell	Budget	"
Janice Marcus	Dept of Rev	"
Hedy Dime	Dept of Rev	Topoka
Todd Shubert	Ks Assn. of Realtors	Topoka



KANSAS MANUFACTURED HOUSING INSTITUTE
100 East Ninth Street • Suite 205 • Topeka, Kansas 66612 • (913) 357-5256

Testimony before House Assessment and Taxation Committee, March 21, 1984

Re: House Bill 2211

By: Margie Braden, Executive Director, Kansas Manufactured Housing Institute

Mr. Chairman and members of the committee, I am Margie Braden, Executive Director of the Kansas Manufactured Housing Institute. KMHI is a trade association representing all facets of the manufactured housing industry, i.e. manufacturers, retailers, suppliers, park owners, financial institutions, insurance companies, service and transport companies.

Our interest in House Bill 2211 stems from the fact that its passage would correct a sales tax inequity which has existed for some time and which we have been unable to correct through reduction and exemption. I don't want to sound like sour grapes by saying, "if we have to pay, so should they" but fair is fair (even though I know that doesn't always apply in the area of taxation!!) and an unfair sales tax situation exists in Kansas which if not corrected soon may become more and more difficult to correct or may even begin to cost middle and low income homebuyers a great deal more if a sales tax increase should become necessary in the future. There are a number of exemptions from sales tax in Kansas, including the one contained in the statute being amended by H.B. 2211. Perhaps removal of some of these exemptions will help to avoid some future sales tax percentage increase.

Obviously, any sales tax increase under the present system of exemptions would have the effect of further increasing the sales tax burden for those items which have remained in the sales tax base. The people in my industry and our customers find themselves in this category.

We have tried, unsuccessfully, in the past to correct this inequity and now find ourselves in the position of having most people agree that it is unfair but they are reluctant to allow the loss of revenue to the state which might result if the situation were corrected through exemption or reduction. The possibility exists that the fiscal note for such removal and exemption may increase each year as our product better, more costly and more in demand--thus, having the effect of making it more difficult each year to correct the situation.

Perhaps you are aware, but I will briefly outline for you the sales tax situation with regard to mobile/manufactured homes. I refer to our product as a manufactured home--however, realizing that that term is still new to many people, and that we are in a period of transition in the industry, I will call the home which is factory built on a steel frame, with wheels and axles for transporting to the homesite, a "mobile/manufactured home." That is the home to which I now refer--the home which has been known by a variety of names, beginning with trailer, progressing to coach, then mobile and now manufactured. And, for those of you who may not have had a first hand look at one of today's homes, I think such a look would quickly enlighten you as to why they are no longer trailers or even mobile!!!

Currently, under Kansas law, when a mobile/manufactured home is sold, it is titled through the Department of Motor Vehicles and probably, in part at least, because of this connection, sales tax is still collected on the entire retail price of that home. Additionally, each time that home is sold again, sales tax is paid on the entire sale price of the home. The exception to this is the home which is placed permanently on a foundation and is subsequently sold with land--in which case it is treated as real estate and no further sales tax is collected. However, on the original sale, even that home is subject to sales tax on the entire sale price.

With regard to real estate--if you are not already aware--when one builds a home on site, sales tax is paid only on the materials; not on the labor or the builder's profits and sales tax is never paid on the second and subsequent sales of the home. Ironically, the same is true for factory built modular homes.

I'm sure the argument will be made by those who oppose H.B. 2211 that removal of the labor exemption at this time would add significantly to the cost of construction and, thus, perhaps have a detrimental affect on the state's economy, as well as placing an added burden on the potential homebuyer. I certainly would not disagree with that but would only state that I think you should consider that the present system already places that same added, unfair burden on the potential manufactured homebuyer and is a detriment to our segment of the housing industry.

In all fairness, it seems entirely possible that when the sales tax on mobile/manufactured housing was put in place, it was not an inequity. Mobile homes, or trailer houses, were many times temporary housing or auxiliary housing which was moved from place to place with some frequency. They were almost considered a part of the vehicle with which they were transported. They were personal property and it seemed logical to treat them as such for purposes of taxation, since they were licensed and titled under the jurisdiction of the Department of Motor Vehicles. Certainly, they were seldom placed permanently on land.

Today's manufactured homes are not vehicles, they are homes. And, they are permanent, economical affordable homes for a great many young first-time home buyers and older citizens living on retirement incomes. For many of these people, particularly those in the low and middle income ranges, manufactured homes represent the only affordable new homes. You may be aware that the average cost of a new site-built home has ⁽ⁿ⁾not topped \$80,000 nationally.

In many parts of the country where site-built housing has become particularly prohibitive, legislatures and local units of government are re-examining their planning and zoning practices, as well as their tax laws, to correct those which may have prohibited or restricted mobile/manufactured homes in the past. In 1982, manufactured homes accounted for 37% of all new single family homes sold nationwide. Seventy-eight percent of all new single-family homes sold for under \$50,000 in that year were manufactured homes. These homes are now eligible for FHA Title II 30-year financing and for 30-year VA-guaranteed mortgage financing when permanently sited on land. People purchasing such in the 1980's are younger, more affluent and better-educated--all this according to the latest survey by Foremost Insurance Company, a leading insurer and demographic authority in the manufactured housing industry.

According to a table which appeared just last week in the Wichita Eagle-Beacon, the family that pays \$50,000 for a home should have an annual income of at least \$20,000. One can easily see that with manufactured homes some of the only new homes available for less than \$50,000, many people are faced with our product as their only choice--if what they want is a new home.

I do not see the manufactured housing industry as any kind of threat to the site-builder--indeed, we see ourselves as just one segment of the housing industry. Site-builders are already either developing our factory construction methods or turning to our product in order to provide lower cost housing and those persons who find a manufactured home the only affordable home are probably in a position where it will be the manufactured home or no new home at all.

The manufactured home is recognized as a "home" and I make the above statements to emphasize that fact. The Report of the President's Blue Ribbon Housing Commission in April, 1982, advocated making manufactured housing more readily available to all who desire it. The U.S. Savings and Loan League, in a recent position paper on Housing in the 80's stated that 42 million Americans

will enter the prime first-time home-buying age of 30 in this decade--that is 10 million more than entered the marketplace during the 1970's. Yet, based on construction costs and income levels, fewer of these will ever be able to own any home, certainly not a new home, unless they turn to manufactured housing. The National Conference of State Legislatures in its recently published booklet on affordable housing stresses the need for removal of barriers which may prevent or make more difficult the purchase of manufactured homes.

I give you these facts to emphasize two things: (1) the mobile/manufactured home is recognized as an affordable, comfortable, permanent home and (2) revenue to the state of Kansas from such sales will probably continue to increase. I would further emphasize that I believe the Kansas Legislature has shown intent to consider all such homes as real estate, even those placed on rental space in parks, through passage of legislation which provides that all be treated as real estate for purposes of appraisal and assessment for property tax purposes.

Manufactured housing is not the biggest industry in Kansas but we are an important part of the state's economy and, an important part of the homebuilding industry. If removing the exemption from sales tax from labor costs on new construction would be viewed as a blow to the building economy, then certainly, refusing to exempt the labor costs on manufactured home construction must be viewed as having the same affect.

There are twelve mobile/manufactured home plants in Kansas who, in 1982 employed approximately 1400 persons, for a total payroll of approximately 17 million dollars. When you add to this the retail business, including that which comes from out-of-state manufacturers, the financing and insurance, supplier and transport business, as well as the income produced through operation of mobile home parks, you will see that we are an important industry in the state and as I indicated earlier, one which has potential for growth.

We recognize that it might be difficult for this committee to vote to enact the provisions of H.B. 2211, in light of its possible affect on the Kansas economy and, in view of the number of persons who are going to come to you with good, legitimate reasons why it should not be done. I hope, however, you will consider the fact that it might help to avoid a sales tax increase in the near future for those of us who remain fully in the tax base.

On the other hand, if you feel it is not a good move for the Kansas economy to remove this exemption, I urge you to give serious thought to whether it is good for the economy or for the many middle and low income homebuying citizens--perhaps our children and grandchildren--not to give the same exemption to all forms of housing. If this exemption is to remain, I hope you will amend it to remove a portion of the sales tax from new manufactured homes which would be commensurate with the approximate labor costs. We feel that a tax on 50% of the retail price of each new manufactured home would be a fair representation of the materials in the home. Additionally, we would hope to see the sales tax removed completely from second and subsequent sales of manufactured homes but that might not be possible in this particular bill.

TESTIMONY BEFORE
HOUSE ASSESSMENT AND TAXATION
MARCH 21, 1984
BY
JANET STUBBS
HOME BUILDERS ASSOCIATION OF KANSAS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS JANET STUBBS, EXECUTIVE DIRECTOR OF THE HOME BUILDERS ASSOCIATION OF KANSAS, A TRADE ASSOCIATION WITH APPROXIMATELY 1800 MEMBERS STATEWIDE.

HBAK OPPOSES HB 2211 AND THE REPEAL OF THE SALES TAX EXEMPTION ON LABOR AFFORDED NEW CONSTRUCTION UNDER K.S.A. 79-3603.

WE ARE CONCERNED WITH THE INCREASED COST OF A NEW HOME BY REMOVAL OF THIS EXEMPTION.

FOR EXAMPLE, ON A \$66,897.00 HOME IN TOPEKA, KANSAS, APPROXIMATELY \$475.00 ADDITIONAL SALES TAX WOULD BE ADDED TO THE APPROXIMATELY \$1,139.00 SALES TAX CURRENTLY BEING PAID. THIS IS BASED UPON A \$11,650.00 FIGURE FOR LABOR ON THIS PARTICULAR HOUSE.

THE COMMITTEE SHOULD KEEP IN MIND THAT A HOUSE WITH MORE EXPENSIVE TRIM AND LUXURIOUS FEATURES WOULD HAVE A SMALLER PERCENTAGE OF LABOR TO THE OVERALL COST OF THE DWELLING.

HOME BUILDER ASSOCIATIONS, FROM NATIONAL TO THE LOCAL LEVEL, CONSTANTLY WORK TO CONTROL THE COST OF HOUSING AND ACHIEVE AFFORDABLE HOUSING FOR AS MANY PROSPECTIVE BUYERS AS POSSIBLE.

REDUCTION IN THE NUMBER OF UNITS BUILT TO SATISFY THE DEMAND OF BUYERS WHO ARE ABLE TO QUALIFY WOULD HAVE AN ADVERSE EFFECT ON THE KANSAS ECONOMY AND UNEMPLOYMENT RATE.

THANK YOU.

COST ITEM	MATERIAL OVERHEAD & PROFIT	PERMITS & FEES	SALES TAX	LABOR	TOTAL COST
SAND	\$323		\$13		\$336
PAINT	\$350		\$14	\$727	\$1091
LUMBER	\$12322		\$493		\$12815
STEEL	\$525		\$21		\$546
GUTTER	\$100		\$4	\$145	\$249
APPLIANCES	\$940		\$38		\$978
EXCAVATION				\$700	\$700
CONCRETE	\$3168		\$127	\$1600	\$4895
DRYWALL	\$1400		\$56	\$920	\$2376
FLOOR COVERING	\$1700		\$68	\$400	\$2168
ROOFING	\$520		\$21	\$306	\$847
MASONRY	\$1050		\$42	\$1000	\$2092
MACHINE HIRE	\$150		\$6		\$156
INSURANCE	\$210				\$210
UTILITIES	\$400		\$16		\$416
BUILDING PERMIT		\$225			\$225
LAND	\$13000				\$13000
PLUMBING	\$1848	\$600	\$98	\$900	\$3446
ELECTRICAL	\$643	\$25	\$27	\$572	\$1267
HEAT & AC	\$1930	\$16	\$78	\$405	\$2429
FRAMING LABOR				\$2600	\$2600
EXTERIOR TRIM LABOR				\$200	\$200
INTERIOR TRIM LABOR				\$600	\$600
CLEANING LABOR				\$275	\$275
YARD GRADE LABOR				\$100	\$100
MISC. LABOR				\$120	\$120

COST ITEM	MATERIAL OVERHEAD & PROFIT	PERMITS & FEES	SALES TAX	LABOR	TOTAL COST
GLASS & SCREEN REPAIR	\$40		\$2		\$42
SURVEY & ENGINEERING	\$200				\$200
GARAGE DOORS	\$380		\$15	\$80	\$475
CONTRACTORS RESERVE FOR OVERHEAD, BULK, & MISC ITEMS					\$9300
CONTRACTORS RESERVE FOR PROFIT					\$2743
TOTALS	\$41,199	\$866	\$1139	\$11650	\$66897

RE: HB 2211
MARCH 21, 1984

THANK YOU MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS DAN MORGAN AND I AM REPRESENTING THE ASSOCIATED GENERAL CONTRACTORS OF KANSAS. OUR ORGANIZATION CONSISTS OF OVER 200 GENERAL CONTRACTOR AND ASSOCIATE SUBCONTRACTOR AND SUPPLIER MEMBERS FROM THROUGHOUT THE STATE AND I CAN TELL YOU THAT I AM VOICING THEIR UNANIMOUS OPPOSITION TO HB 2211 WHICH WOULD REMOVE THE SALES TAX EXEMPTION ON LABOR SERVICES IN NEW OR ORIGINAL BUILDING CONSTRUCTION.

I THINK WE ALL UNDERSTAND THAT THIS EXEMPTION IS NOT GRANTED TO THE CONSTRUCTION INDUSTRY, IT IS GRANTED TO THE INDIVIDUALS AND BUSINESSES RECEIVING THE SERVICE. CONTRACTORS DON'T PAY SALES TAX -- PURCHASERS DO. IF THE SALES TAX EXEMPTION ON LABOR SERVICES IN NEW CONSTRUCTION IS TAKEN AWAY THE INCREASED COST OF BUILDING COMMERCIAL AND INDUSTRIAL BUILDINGS WILL HAVE TO BE ABSORBED BY THE PURCHASERS OF CONSTRUCTION SERVICES. MOST OF THAT COST WILL ULTIMATELY BE PASSED ON, IN SOME WAY, TO US ALL AS TAXPAYERS AND CONSUMERS. SO IT'S ON BEHALF OF THE PURCHASERS OF OUR SERVICES, THE TAXPAYER/CONSUMERS AND OUR OWN MEMBER CONTRACTORS, WHO WILL THEMSELVES SUFFER BECAUSE OF THE SURE DECLINE IN NEW BUILDING CONSTRUCTION PROJECTS, THAT WE STAND UP IN OPPOSITION TO THIS BILL.

IT IS MY UNDERSTANDING THAT THE FISCAL NOTE ON HB2211 IS SOMEWHERE IN THE NEIGHBORHOOD OF 55 MILLION DOLLARS. NOW IT'S TEMPTING AT FIRST BLUSH TO CONSIDER TAPPING INTO LABOR SERVICES ON NEW CONSTRUCTION FOR NEW STATE REVENUES AT A TIME LIKE WE HAVE BEEN EXPERIENCING WHEN IT'S DIFFICULT OR IMPOSSIBLE TO FIND ALL THE

REVENUES THE STATE NEEDS TO DO ALL THE THINGS WE WOULD LIKE FOR THE CITIZENS OF KANSAS. IT'S TEMPTING TO DO THAT -- UNTIL YOU CONSIDER THE CONSEQUENCES.

WHEN YOU CONSIDER THE FACT THAT CONSTRUCTION SERVICE PURCHASERS ARE GOING TO HAVE TO PICK UP THAT EXTRA 55 MILLION PER YEAR THE TEMPTATION BEGINS TO DIMINISH. WE CAN ALL REST ASSURED THAT, FACED WITH THESE KINDS OF ADDITIONAL COSTS (AND I'M TALKING ABOUT AN EXTRA 3 PERCENT ON 50 - 70 PERCENT OF NEW BUILDING CONSTRUCTION CONTRACT COSTS), MANY MANY PURCHASERS WILL DECIDE THAT THIS IS NOT THE TIME OR KANSAS IS NOT THE STATE IN WHICH TO BUILD THEIR NEW COMMERCIAL BUILDINGS, OR THEIR NEW INDUSTRIES, OR THEIR NEW SANTA FE OFFICE BUILDINGS, FOR EXAMPLE.

OUR INDUSTRY HAS BEEN THROUGH DIFFICULT TIMES DURING THE LAST FOUR YEARS, IT'S NO SECRET. HIGH INTEREST RATES AND HIGH MATERIAL AND LABOR COSTS HAVE CAUSED PURCHASERS TO HOLD OFF ON NEW CONSTRUCTION AND EXPANSION. A LARGE NUMBER OF CONTRACTORS WERE SIMPLY FORCED OUT OF BUSINESS OR WORKED JUST TO KEEP THEIR COMPANIES INTACT AND THEIR EMPLOYEES IN JOBS WITH NO EXPECTATION OF TAKING A PROFIT. A LOT OF PEOPLE LOST THEIR JOBS. MANY WERE FORCED TO LOOK TO THE STATE FOR THEIR BASIC NEEDS. THE STATE AND THE NATION LOST THEIR MEASURE OF THEIR PRODUCTIVITY AND PURCHASING POWER. RATHER THAN PAYING TAXES AND GENERATING NEW TAXABLE SERVICES, MANY WERE FORCED INTO THE RANKS OF THE UNEMPLOYED. OF COURSE THIS HAPPENED IN MANY INDUSTRIES OTHER THAN OUR OWN.

ONLY RECENTLY HAS THE PICTURE BEGUN TO BRIGHTEN. PEOPLE ARE GOING BACK TO WORK. THE CONSTRUCTION INDUSTRY HAS ONLY JUST

BEGUN TO SHOW SIGNS OF A MODEST RECOVERY, WE HOPE THAT THE RECOVERY IN OUR INDUSTRY CAN BE SUSTAINED AND STIMULATE GROWTH IN OTHER INDUSTRIES.

MY POINT IS THIS, THE ADDED COSTS WHICH WOULD BE CAUSED BY TAXING LABOR SERVICES ON NEW BUILDING CONSTRUCTION WILL DISCOURAGE OR PROHIBIT NEW BUILDING IN OUR STATE. SUCH A TAX IS REGRESSIVE IN NATURE. IT WOULD INHIBIT POSITIVE GROWTH AND ONLY ADD TO KANSAS UNEMPLOYMENT FIGURES.

THERE HAS NEVER BEEN A TAX ON LABOR SERVICES ON NEW CONSTRUCTION IN THIS STATE, AS FAR AS I HAVE BEEN ABLE TO ASCERTAIN. IF THERE WAS AT SOME EARLY POINT IN TIME THEY REALIZED IT WAS A MISTAKE AND REMOVED IT. WE DON'T BELIEVE SUCH A MISTAKE SHOULD BE MADE TWICE - OR EVEN ONCE.

WE AGREE WITH THOSE THAT PRECEDED US IN THIS BUILDING OVER THE YEARS, THAT NEW CONSTRUCTION SHOULD NOT BE DISCOURAGED IN KANSAS. BY MAINTAINING A SALES TAX EXEMPTION ON LABOR SERVICES ON THE ORIGINAL CONSTRUCTION OF BUILDINGS AND FACILITIES, AS WELL AS ON THE RECONSTRUCTION, RESTORATION, REPLACEMENT OR REPAIR OF BRIDGES AND HIGHWAYS WE HAVE ELECTED TO BE PROGRESSIVE AND ENCOURAGE GROWTH IN OUR STATE AT LEAST TO THIS DEGREE.

CONSTRUCTION, ESPECIALLY NEW CONSTRUCTION, STIMULATES THE ECONOMY. PEOPLE ARE PUT TO WORK BUILDING NEW OFFICE BUILDINGS AND INDUSTRIES AND OTHER PEOPLE ARE PUT TO WORK IN THOSE OFFICES AND INDUSTRIES.

HISTORICALLY NEW CONSTRUCTION HAS BEEN THE CURE FOR HARD TIMES. IT MEANS EMPLOYMENT, WAGES AND PROSPERITY, IT ATTRACTS AND HOUSES BUSINESSES, AND IT PROMOTES COMMUNITY GROWTH AND DEVELOPMENT.

WE SHOULD NOT CHOOSE AT THIS TIME TO DISCOURAGE NEW BUILDING CONSTRUCTION BY REMOVING THE SALES TAX EXEMPTION ON LABOR SERVICES INVOLVED AND FURTHER ADDING TO ITS COST. FOR THESE REASONS WE WOULD HOPE THAT THE MEMBERS OF THIS COMMITTEE WILL SEE FIT TO DEMONSTRATE A STRONG POSITION IN FAVOR OF POSITIVE GROWTH AND EMPLOYMENT IN KANSAS BY A UNITED VOTE AGAINST HB 2211. THANK YOU.



HOUSE ASSESSMENT AND TAXATION COMMITTEE

Mr. Chariman and members of the Committee, my name is Todd Sherlock and I represent the Kansas Association of REALTORS. Our association takes exception to House Bill 2211, an act amending the Kansas retailer's sales tax act. We are concerned about adding a 3% tax on the labor or services involved in the "construction of a building or facility" found on lines 112 and 113 of House Bill 2211.

Realotrs across the state have cause to be concerned with the possibilty of the higher construction costs which will inevitably occur should H.B. 2211 become law. Commercial property owners and the home buying public will be on the losing end of this proposition should a 3% tax be imposed on the labor to construct these new buildings. We understand the need for the state to occasionally raise present forms of revenue or find new sources of revenue to fund much needed projects for the state. However, we feel property owners have in the past and will continue to pay a disproportionate share of taxes to fund state government.

Just this session, the Kansas legislature is seriously considering the increase of approximately \$50 million in new property taxes to fund school finance. Other pieces of legislation, if passed, could see a significant increase in property taxes down the road for the Kansas homeowner and property owner. We ask you to consider the combined effects of property tax increases with this proposed sales tax increase and the negative effect such increases will have on the building construction and selling industry.

We hope this committee will agree that the tax burden on the property owner is high enough without adding the additional burden of a sales tax on labor used to construct new homes and buildings.

MECHANICAL CONTRACTORS Association of Kansas, Inc.

Phone 913-354/1130

500 Kansas Avenue, Topeka, Kansas 66603



March 21, 1984

To: Chairperson James Braden, Vice-Chairperson Ed Rølfs and Members of the House Assessment and Taxation Committee.

From: Charles Carey, Executive Director of the Mechanical Contractors Association of Kansas.

Re: AGAINST HB 2211, the Addition of Sales Tax to Labor for the "original" new construction of a building or facility.

Chairperson Braden and Members of the Committee I appreciate the opportunity to appear here on be-half of my Members in OPPOSITION to HB 2211.

Our "original" construction work contracts can typically include from 25 to 50% labor. If a project was 50% labor a 1 1/2% cost increase on the total bid amount could add \$15,000 cost to a million dollar project.

Our industry is depressed. Work volume is down since 1980 in the order of 33% or more. Workers are voluntarily taking cuts in pay even though the consumer price index is still going up. Another cost increase on construction is not what we need to stimulate construction work and create more jobs.

If this Bill should become law it could have a cruel impact on the small profits of Contractors. Contractors who have already committed themselves to firm fixed bids for long term contracts have no way to pass this additional cost on to the consumer. They will simply have to pay it themselves.

Retail sales tax should never have been applied to real estate in the first place. This misjudgment should not be amplified by passage of HB 2211.

We urge that you not pass HB 2211.

Charles Carey

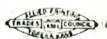


EXHIBIT V

3/21/84

TESTIMONY
BEFORE THE
HOUSE ASSESSMENT & TAXATION COMMITTEE

MARCH 21, 1984

BY

ROBERT A. WEST

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

Mr. Chairman and Members of the Committee:

My testimony here this morning is on behalf of the member firms of the Kansas Chapters, National Electrical Contractors Association. N.E.C.A. wishes to appear in opposition to H.B. 2211.

Our first concern with this proposal that would tax the services involved with original construction is the cost consideration to the consumer. This consumer could be an individual attempting to finance new addition for his or her home, or this consumer could be a corporate officer analyzing whether or not he or she will build their multi-million dollar facility in Kansas. Both of these consumers will give a great deal of consideration to the costs involved with their project and the additional money which they would have to come up with by taxing that construction could very well be the difference as to whether or not that project will be built.

There is no doubt that a sales tax is passed directly on to the consumer who purchases the goods, and on the surface it seems there would be little doubt that such a tax on all construction would raise revenue for the state. But would it actually stimulate growth, and subsequently revenues, for the state of Kansas? If an individual decides not to build his house or a corporation not build their

factory, our industry and our employees suffer, other Kansas industries and their employees suffer, and ultimately the state of Kansas suffers.

We can only wonder if Santa Fe would have located their \$40 million new office building in Kansas if they had been obligated to pay over 1 million extra dollars in taxes? Would Frito-Lay have made their \$10 million expansion or Security Benefit Life, or Boeing, or Beechcraft, their multi-million dollar expansion? Thus economic growth for this state could very well be adversely affected.

Our other reason for opposing this bill, lies specifically within our industry. Because of a lack of growth and a depressed construction market, our contractors and their employees have been hurt and many are still hurting. Employment is not as bad today as it was this time last year, but we still have over 400 unemployed electricians in this state, about 20% of our work force. In the wage negotiations with our labor force, they have been willing to take wage reductions to try to stimulate more work. To now tax those very wages that have been cut would jeopardize the goal our industry has had to increase employment. I can almost assure you that if the industry and the consumer had been able to bear a wage increase, there probably would have been one. If the industry and the consumer cannot bear a wage increase, and in fact, wage cuts have been taken, how can the industry and the consumer bear a tax increase?

With the problems the construction industry has had with sales tax in the past by taxing services on remodel work, and the

argument that taxation of construction only hinders growth, we would gladly offer that instead of taxing all construction services that you cross out all of the lines not only in subsection p but subsection q and r as well, all which deal with taxing services for construction work.

Thank you for allowing me to testify today; we hope the Committee gives its favorable consideration to our position.