

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATIONThe meeting was called to order by Senator Paul "Bud" Burke at
Chairperson11:00 a.m./p.m. on March 15, 1984 in room 526-S of the Capitol.All members were present except: Senator Mulich (excused)Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee:

Mark Beshears, Phillip Morris Incorporated
Bill Edds, Department of Revenue

The committee held a hearing on HB 3031 which allows cigarette manufacturers to distribute sample packages of up to 19 cigarettes.

The chairman recognized Mark Beshears, representing Phillip Morris, who spoke in support of this proposal. (Attachment #1) He said there is a problem with handstamping the free samples in packs; the normal stamping process and machinery are geared to packs of 20. Passage of this bill would have benefits to the state by reducing the cost of collecting excise taxes, and by reducing the number of stamps and the printing costs.

One of the committee members inquired about the possible confusion of the sample packages with the regular packs of cigarettes, and the possibility of bootlegging.

Bill Edds, Revenue Department, said the department has no problem with this legislation.

The committee considered HB 2609 which allows inheritance tax credit for art works donated to publicly supported Kansas museums.

Wayne Morris presented information as to the value of a \$5,000 inheritance tax credit for donation of a \$100,000 painting and for a \$50,000 painting, based on the class of the person receiving the property. (Attachment #2) If the donor claimed this inheritance tax credit he could not get an income tax deduction for a charitable contribution. He explained how this tax credit could vary by cases where the credit could be worth more, and where the charitable deduction could be worth more than the credit.

The committee considered HB 2611, gains from corporate dissolutions.

Wayne Morris explained this bill as originally introduced would conform the state income tax treatment to the federal tax code beginning in the 1983 tax year. The portion relating to the personal exemption income tax would result in a fiscal note of around \$9 million.

Senator Angell made a motion to strike sections 4 and 5 from HB 2611.
Senator Allen seconded the motion.

There was discussion about the possibility of finding another vehicle for this portion of the bill relating to the income tax credit and the possibility of using HB 2823, the hazardous waste bill, for this when it is considered on March 21.

Senator Angell withdrew his motion.

The committee considered HB 2926 which allows the voters to petition for an election to reduce the tax levy for recreation commissions.

Senator Angell made a conceptual motion to amend HB 2926 by having the petition state what the reduced mill levy would be. Senator Montgomery seconded the motion and the motion carried.Senator Montgomery moved and Senator Angell seconded a motion to report HB 2926 favorable for passage as amended. The motion passed.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,
room 526-S Statehouse, at 11:00 a.m./~~p.m.~~ on March 15, 1984

The chairman then asked if the committee desired to take action on HB 2609. There were no motions made on the bill.

The chairman adjourned the meeting at 11:40 a.m. The committee will meet at 11:00 a.m. on March 16.

March 15, 1984

STATEMENT IN SUPPORT OF HOUSE BILL NO. 3031

TO: Senate Assessment and Taxation Committee:

Current Kansas Law levies an excise tax on cigarettes of 16¢ per 20 cigarettes or fraction thereof, and requires a tax stamp on each pack as evidence of payment. The exception is for free sample packs of five or fewer cigarettes. In this case the manufacturer pays the excise tax directly to the Department of Revenue without affixing tax stamps. This provision of the cigarette tax law has been in existence since 1953.

The provisions of House Bill 3031 would amend KSA 79-3302 and 79-3313 to permit cigarette manufacturers to distribute sample packages of up to 19 cigarettes. The cigarette manufacturer would be required to remit the excise tax on these packages directly to the Department of Revenue.

(The per cigarette tax amounts to 8 mills or 8/10 of 1 cent.)

There are over 300 brands, domestic and foreign, available to the public. The ban on cigarette TV advertising has caused the sampling of cigarettes to become a very important marketing practice. In 1953 when the current statute was enacted, it was common industry practice to sample in packages of four. Recent market research has shown that samples of four are often insufficient to allow a consumer to give a brand a fair test. For this reason, sample fours have been replaced, in large part, by sixes, tens, twelves, and full packs of 20.

Since each sample pack containing more than five cigarettes must have a tax stamp affixed to it, cigarette manufacturers must make special arrangements with distributors to hand stamp the sample packs. The distributors do not favor this approach because it disrupts their normal business operations and is not cost effective. The normal stamping process and machinery are geared to packs of 20. Also, the State is required to compensate distributors for this service at the rate of 5¢ for each ten packs stamped.

The passage of House Bill No. 3031 would also have benefits to the State. First, it would reduce the cost of collecting applicable excise taxes. It would eliminate the need to affix tax stamps which would reduce the number of stamps and the printing costs. Secondly, the State's three and one-fourth percent (3-1/4%) discount allowed to distributors for stamping would be

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eliminated for the samples. Direct payment of all excise tax on sample cigarettes would insure that Kansas would receive all revenues due ten days after the end of the month in which such distributions occur.

Cigarette sampling is an important marketing tool to the manufacturer. The cigarette manufacturers would certainly do nothing to jeopardize what they consider to be a privilege of sampling in Kansas. If the cigarette manufacturer would abuse the privilege of sampling, the bill contains a penalty provision which would bar a manufacturer from sampling for up to one (1) year.

House Bill 3031 reflects a method of tax payment when sample cigarettes are distributed that is currently being used by 47 other states, including Oklahoma, Colorado and Missouri. It follows the recommendation of the National Tobacco Tax Association of which Kansas is a member. This recommendation asks that manufacturers be permitted to distribute sample cigarettes to consumers without taxing indicia and remit the tax due on these samples by report.

House Bill 3031 does nothing to eliminate the cigarette tax on those sample cigarettes distributed. All House Bill 3030 does is to allow a distribution of packages containing 19 or less sample cigarettes without tax stamps and the remission of the tax owed directly to the State of Kansas by report.

Respectfully submitted,

PHILIP MORRIS INCORPORATED

By Mark Beshears
Mark Beshears

VALUE OF \$5,000 INHERITANCE TAX CREDIT FOR
DONATION OF \$100,000 PAINTING

<u>Beneficiary</u>	<u>Tax on Painting</u>	<u>Tax After Credit</u>	<u>Difference</u>
Child	\$ 1,350	\$- 0 -	\$1,350
Brother	5,375	375	5,000
Friend	10,000	5,000	5,000

* Painting assumed to be the sole bequest to each beneficiary. Each beneficiary would also be entitled to a charitable deduction if the museum is a qualified charity.

VALUE OF \$5,000 INHERITANCE TAX CREDIT FOR
DONATION OF \$50,000 PAINTING*

<u>Beneficiary</u>	<u>Tax on Painting</u>	<u>Tax After Credit</u>	<u>Difference</u>
Child	\$ 200	\$- 0 -	\$ 200
Brother	1,750	- 0 -	1,750
Friend	5,000	- 0 -	5,000

* Painting assumed to be the sole bequest to each beneficiary. Each beneficiary would also be entitled to a charitable deduction if the museum is a qualified charity.

Kansas Legislative Research Department
February 3, 1984

VALUE OF \$5,000 INHERITANCE TAX CREDIT FOR
DONATION OF \$100,000 PAINTING

<u>Beneficiary</u>	<u>Tax on Painting</u>	<u>Tax After Credit</u>	<u>Difference</u>
Child	\$ 1,350	\$- 0 -	\$1,350
Brother	5,375	375	5,000
Friend	10,000	5,000	5,000

* Painting assumed to be the sole bequest to each beneficiary. Each beneficiary would also be entitled to a charitable deduction if the museum is a qualified charity.

VALUE OF \$5,000 INHERITANCE TAX CREDIT FOR
DONATION OF \$50,000 PAINTING*

<u>Beneficiary</u>	<u>Tax on Painting</u>	<u>Tax After Credit</u>	<u>Difference</u>
Child	\$ 200	\$- 0 -	\$ 200
Brother	1,750	- 0 -	1,750
Friend	5,000	- 0 -	5,000

* Painting assumed to be the sole bequest to each beneficiary. Each beneficiary would also be entitled to a charitable deduction if the museum is a qualified charity.

Kansas Legislative Research Department
February 3, 1984

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