

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on January 24, 1985 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

Tom Severn, Legislative Research
Melinda Hanson, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Mr. Raymond Boyd, representing Building Supply Center of Holton, presented testimony outlining the economic ills of the farming and ranching communities in Kansas and suggested that the inventory tax should be eliminated and the tax should be based on gross sales. atoh. 1

Mr. Ronald Shouse, Shouse Equipment Company, of Abilene, said that with the present inventory tax he is afraid many small businesses may be taxed out of business. He suggested that the inventory tax be eliminated and replaced with an increase in the sales tax. atoh. 2

Mr. Maynard Estes, Bucklin Tractor & Implement Co., Bucklin, said the inventory tax should be eliminated and replaced with an increase in sales or income tax. atoh. 3

Mr. Jon Jantz, Jantz Implement, Inc., McPherson, said the inventory tax should be eliminated and replaced with an increase in state sales tax or in the form of a local tax on income. atoh. 4

Mr. Max Redding, who is an Allis-Chalmers dealer in Salina, has paid his 1984 inventory tax under protest. He believes that farm equipment dealers, like automobile dealers, should pay taxes on inventory only at the time sales are consumated and then at a rate which is based on weight and which computes to be approximately 1/12 of 1% of fair market value. atoh. 5

A representative of Western Kansas Manufacturers Association testified that several Western Kansas manufacturing plants have closed their doors because of changes in Kansas tax appraisals. He said some inventories appear to be appraised at a rate of four times that of real property. atoh. 6

Mr. E. A. Mosher, Executive Director of League of Kansas Municipalities, expressed the League's opposition to the exemption of inventories. atoh. 7

Judy Anderson, City of Wichita, testified that the City of Wichita opposes further reductions in the property tax base through the use of special interest exemptions such as manufacturers' inventories

Mr. Bill Abbott, Public Affairs Manager for the Boeing Military Airplane Company in Wichita, testified in support of eliminating the inventory tax as part of the tax base, because he believes there are serious flaws in

the tax base. Boeing doesn't object to the amount of tax paid, only to the mix. Atch. 8

Mr. Dee Likes of the Kansas Livestock Association requested to appear but did not have written testimony. Pursuant to committee rules, the chairman asked if any member objected to allowing him to testify. Seeing no objection, Mr. Likes presented oral testimony regarding the Livestock Inventory Tax and its impact on the livestock industry. Atch. 9

Mr. Jeffrey Flora, president of Western Retail Implement and Hardware Associates, said that a change in the Kansas tax system is needed, and suggested that HB-2863 which was introduced in 1980, would serve as an excellent model in dealing with the inequities of the tax at issue. Atch. 10

Mr. David Litwin, Director of Taxation of KCCI, said that the inventory tax is unsound in theory, vexatious in administration, unfair, and an obstacle to economic development. He asked the Committee to introduce a bill which would provide that inventory taxes continue to be paid and that the taxpayer be authorized to take an income tax credit in the amount of the inventory tax is paid. This would shift revenue loss from local units of government to the state. Atch. 11

There being no further business to come before the committee, the chairman declared the meeting adjourned.



Ed C. Rolfs, Chairman

January 24, 1985

Assessment and Taxation Committee
Kansas House of Representatives

Mr. Chairman and Members of the Committee:

I am Ray Boyd from Holton, Kansas, Representing
Building Supply Center

We, as businessmen, look at the overall economic situation in the State of Kansas. We along with others are almost in a state of despair . The problems that are facing the farm economy has led us to believe that the illness has almost passed the point of recovery as we see foreclosures taking place daily. Kansas is still by far a farm state because the largest share of state income is derived from farming and ranching. Due to the economic disaster that has befallen the rural farming and ranching community, statewide, those of us who serve in the agri-business industry have found ourselves in a simular situation.

Every time we hear of increased taxation and spending we despair over the thought of it. Many businesses, particularly the farm implement businesses, have lost large

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sums of money and have forced the owners to live on equity built up in passed years. When the equity is gone, bankruptcy is all that remains for the owner. This has happened all to many times in the last year and the tide still rolls in the same direction. Our governor is asking for another round of taxation and spending. He used the word "boloney" to describe his disfavor of a spending freeze. This man is really out of touch with reality. The group of business people here with me this morning is opposed to any form of increased taxation until a point in time when they have recovered from economic chaos.

The reason I am here this morning is to testify as to the effects of one method of taxation that we consider most unfair. We do understand the need for funds to support government services and we are not opposed to fair taxation. In order to allow for fair competition, taxation must be fairly distributed to the public in general. Over the years and due to inflation, the inventory tax has become a burden too heavy to carry in many areas of business because of uneven distribution. It is based upon possession of goods and not the ability of the owner to generate a profit from the possession of those goods. The greatest inequity of the system is that it does not take into account the availability of certain types of goods held for sale. It does not relate to the number of turns that can be realized per year in a particular business. It does not take into

account the fact that slow moving and expensive items can be in inventory several years and when it is sold there cannot be a profit realized because it has all been paid in taxes. I ask you, is this fair?

A number of years ago an amendment to the constitution was passed which allows the automobile and truck dealers to pay a very small tax on each vehicle with the title application. This amount is so small that the amount is insignificant compared to what we pay on an item of equal value. It is our feeling that we should enjoy the same consideration to a one time only tax, as they do. After all we have a legitimate complaint and because we are in business, as they are, we are unjustly being subjected to a different set of rules.

In order to show the effect of inventory returns per year I want to show how it relates to a slow turn inventory and to a fast turn inventory. A business reporting a \$4000.00 inventory that turns 24 times per year pays on the basis of \$4000.00, yet it is worth to that business \$96,000.00 for the complete year. An implement dealer having a \$96,000.00 inventory will be forced to pay on the basis of \$96,000.00 and his inventory turn will be from 1.5 to 2 times per year. The type of return on small inventories, in the example, is usually associated with food service business. I also want you to understand that the

markup enjoyed by the food service business is far greater than that of an implement dealer.

In order to be fair we should look at a method of taxation based on performance rather than the possession of goods. According to the Department of Revenue information we find it will require about $\frac{3}{8}$ of 1% or .00375 to raise the amount needed to replace the inventory tax. This is based on taxable sales from sales tax records. In order to keep from shifting the tax burden we suggest this remain a merchants, manufacturers and livestock tax. Instead of using taxable sales figures we propose to use the gross sales figures of businesses now paying inventory tax. Doing this would make the percentage smaller and more evenly distribute the burden.

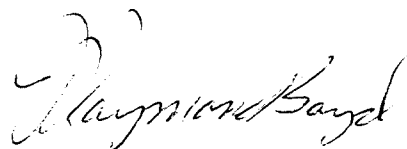
The ability of the state to collect this tax, to be earmarked for distribution as the inventory tax is, is largely in place and would not require a great deal of change.

There are some interesting side effects to this form of tax collections. Reporting gross sales requires more honesty on the part of the business. It puts the implement dealer on the same taxing level with the fast food merchant and businesses with quick turnover. This method will not shift the tax burden to the consumer as a direct sales tax

would do. The tax is largely in place as far as the business expenses it concerned. We would experience more even distribution. It would give business a better chance to replace disappearing inventories. I believe it would give a greater incentive for greater state wide growth.

Finally, I do not think the state is morally responsible when it forces the business community to falsify inventory amounts in order to survive. Give us a chance to help. As business people we are not insensitive to the needs of government as it now appears. We welcome the opportunity in this vital part of government. I want to make my point clear, we do not have the resources to wait two, three, five or ten years down the road. In order to survive we have to have this in place this session so that it can begin in this next fiscal year.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "J. Raymond Boyd".

J. Raymond Boyd

Shouse Implement Co., Inc.
R. R. 2, South 15 Highway
Abilene, Kansas 67410



January 10, 1985

Representative Ed Rolfs
424 North Madison
Junction City, Kansas 66441

Dear Representative Rolfs;

This letter is written in hope that something can be done to give the small town merchant some relief in the taxing of inventories.

I am not writing this letter with the hope of eliminating taxes, because I can understand the need for our state, county and township to have money to operate on. I am concerned though that small businesses, and particularly farm equipment businesses may be taxed out of business.

I have just sold a new 7720 John Deere combine with an invoice price of \$71,000.00. The used 7720 combine was traded on the new 7720 and this 7720 was traded for a used 6600 combine. We have \$14,500.00 in the 6600. We hope to sell it for \$16,000.00. These deals translate into \$1500.00 gross profit. We have not carried the 7720 from last year but a neighboring dealer who couldn't sell the new 7720 transferred it to me. If he paid the legal inventory tax on it last year it was \$71,000.00 minus 40% or \$42,600.00 then 30% of \$42,600.00 which equals \$12,780.00. In this township our levy is about 85 mills (which is 30 mills less than city limits of Abilene). The result is \$1086.30 inventory tax. If you have followed my story you can see that this tax is completely unfair to us and to my neighboring dealer. We delivered this machine just before the end of the year and my customer will not pay any property tax as a farmer of this machine. The \$1500.00 profit is a gross figure and in reality probably will be a loss after expenses are deducted. If we had to pay property tax it would have been a very bad loss. The reason we can sell at such a low price is that John Deere does not charge us interest for about 12 months after we receive the combine. I think you can understand our business is very competitive with our farmer customers having their financial problems.

It is my feeling that some farm equipment dealers will not be able to absorb the heavy inventory taxes. Missouri, Colorado and Nebraska do not have inventory taxes therefore in some cases I can see where a farm equipment dealer will move his business across the border to escape inventory property taxes. Kansas will thus lose the payroll and property taxes of that business.

The automobile business faced a similar problem a few years back and they now pay a tax on each auto sold by the weight of the auto. I would like to see a sales tax increase to offset the loss of revenue. It may be that a one half cent sales tax would more than make up the loss of revenue by the elimination of taxing on merchants inventory.

I think it will benefit the state of Kansas to keep the business community healthy. If this is done some relief must be obtained by businesses like the farm equipment business.

I would be happy to appear before a Committee in Topeka to personally plead our case if this would be needed.

Sincerely,

SHOUSE IMPLEMENT CO., INC.

Ronald Shouse
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TO: The House Committee on Assessment and Taxation

January 24, 1985

Presented by Maynard Estes, Bucklin Tractor & Implement Co., Bucklin, Kansas

Subject: Inventory Tax

I am Maynard Estes, President of Bucklin Tractor & Implement Company, Bucklin, Kansas. The purpose of my testimony this morning is to give you an inside view of a business in the State of Kansas today, trying to deal honestly with our archaic, unrealistic and unjust system of taxation on property.

The Constitution of Kansas calls for equal taxation for real and personal property. If that were upheld today there would be no need for this hearing. On the contrary, what the legislature has done with statutes, supposedly to bring this about, is unreal. What the Property Valuation Department has directed to be done with respect to enforcing these statutes is beyond comprehension. How the officials of our 105 Counties have applied the equal taxation laws varies so greatly it has brought us to our present chaotic mess in our property tax process, especially as applied to personal property.

This situation as it affects merchant's inventories (the same applies to manufacturing and livestock) brings me to describe to you Bucklin Tractor's experience, which is paralleled by many implement dealers and other businesses across the state.

When real property was last reappraised in the mid-sixties, real and personal property were theoretically carrying an equal share of the property tax load. Since that time Bucklin Tractor's inventory has been reappraised every year at escalating values because of inflation. For example, a 100 horsepower tractor in the mid-sixties sold for approximately 8000 dollars. The comparable 100 horsepower tractor today sells for 40,000 to 50,000 dollars. This reflects an increase in price of at least 5 times; consequently, an increase in appraised value of 5 times. Since real estate is still appraised at values of the nineteen sixties, we are presently paying on merchant's inventories five times our share of the total tax load.

As necessary in order to maintain a profitable level of sales, we at Bucklin Tractor have carried a fairly equal number of complete machines in inventory for several years. On some machines and repair parts in inventory for two or more years, we pay taxes on the same inventory two or more times. Then often after paying taxes on a machine, we are required by our manufacturer to transfer it to another dealer; thus, being left with no way to recover these taxes.

In 1976, when inflation had already ran rampant for a few years, our inventory taxes had increased from the 5000 dollar category of the 1960's to 18,000 dollars. By 1978 they had increased to 26,000, in 1979 to 28,000, in 1980 to 31,000, in 1981 to 47,000 in 1982 to 70,000 and in 1983 to 79,000 dollars. In 1983 Bucklin Tractor paid 11% of all merchant's inventory taxes in Ford County, which encompasses the Cities of Bucklin, Ford, Spearville, and Dodge City. During all these years the only increase in taxes on real property was from the increase in mill levies. During these years I was told by Ford County Officials that this was happening equally in all Counties in Kansas.

In 1982 I began researching tax procedures and taxes paid throughout the State. It appears that in the 105 Counties in Kansas there are 105 different ways of appraising property at variances beyond belief. I sincerely believe that the vast majority of merchants in our State would like to pay their fair share of the tax load, but rebel (as I'm sure anyone here would) if asked to pay 5 times their share.

I had a very disheartening experience last fall. I had an opportunity to discuss this situation with the Kansas Director of Property Valuation. Toward the end of our discussion, I asked him, "How can I as a merchant in Kansas report my inventory values honestly and be taxed on them fairly?" His answer was, "I'm sorry to say that at the present time there is no way." This is a sad state of affairs! To further substantiate this, I am attaching to this presentation a report dated September 15, 1982 from the Director of Property Valuation, addressed to All Boards of County Commissioners, State of Kansas. The report is self-explanatory and the situation would surely be no better today.

Dr. Steven D. Gold, of National Conference of State Legislatures, recently stated that "because the inventory tax is both conceptually defective and unfair, it is disappearing from the scene." Thirty-two states have little or no inventory tax and five states have no personal property taxes at all. If personal property taxes cannot in fact be administered fairly, let's follow the lead of those states and eliminate those taxes entirely, replacing that revenue from broader, more equitable sources; for example, a point of sale tax, if in the majority opinion this revenue needs to come from the business sector; or an increase in income or sales tax. At least let's have something that can be administered fairly. Our present system of appraising property for taxes would compare to the Federal Income Tax laws without the IRS.

Classification of real and personal property, as now proposed, would only serve to freeze into the taxing process the gross inequities we now have. Again taking words of wisdom from Dr. Gold, reappraisal is needed as a first step to end our tax paralysis, whether or not it is followed by a classification plan. We need to know the inventory before determining how to allocate tax burdens. These inequities are a vast deterrent to business and industry in Kansas. How can Kansas possibly attract new business and industry to our State where they know they will be taxed heavily on their inventories and equipment? They can locate in any one of thirty some states (including three states bordering Kansas) and not be strapped with these unfair taxes.

We have nothing to sell in Kansas but Kansas itself. The members of this committee have the opportunity to help change the Kansas image for business and industry into one that our Chambers of Commerce and those working with them can sell. Just as important is keeping the business and industry we now have. Let's quit driving them out!

Thank you very much for allowing me to speak to you this morning concerning this very critical issue.



Kansas
 DEPARTMENT OF REVENUE

State Office Building
 September 15, 1982 TOPEKA, KANSAS 66626

TO: All Boards of County Commissioners
 State of Kansas

Pursuant to K.S.A. 79-1445 the following listings are hereby published:

Those Kansas counties in substantial compliance with the requirements of law to appraise taxable real and/or personal property at fair market value:

None

Those Kansas counties not in substantial compliance with the requirements of law to appraise taxable real and/or personal property at fair market value:

Allen	Doniphan	Jackson	Morris	Saline
Anderson	Douglas	Jefferson	Morton	Scott
Atchison	Edwards	Jewell	Nemaha	Sedgwick
Barber	Elk	Johnson	Neosho	Seward
Barton	Ellis	Kearny	Ness	Shawnee
Bourbon	Ellsworth	Kingman	Norton	Sheridan
Brown	Finney	Kiowa	Osage	Sherman
Butler	Ford	Labette	Osborne	Smith
Chase	Franklin	Lane	Ottawa	Stafford
Chautauqua	Geary	Leavenworth	Pawnee	Stanton
Cherokee	Gove	Lincoln	Phillips	Stevens
Cheyenne	Graham	Linn	Pottawatomie	Sumner
Clark	Grant	Logan	Pratt	Thomas
Clay	Gray	Lyon	Rawlins	Trego
Cloud	Greeley	Marion	Reno	Wabaunsee
Coffey	Greenwood	Marshall	Republic	Wallace
Comanche	Hamilton	McPherson	Rice	Washington
Cowley	Harper	Meade	Riley	Wichita
Crawford	Harvey	Miami	Rooks	Wilson
Decatur	Haskell	Mitchell	Rush	Woodson
Dickinson	Hodgeman	Montgomery	Russell	Wyandotte

Philip W. Martin

Philip W. Martin, Director
 Division of Property Valuation
 (913) 296-2365

PWM:bkh

cc: County Appraiser

Good Morning Chairman Rolfs and the entire committee. My name is Jon Jantz. I am the John Deere Farm Equipment Dealer from McPherson. I would like to thank you for this opportunity to express myself on a subject that I have become very familiar with over the past year and one-half - the ad valorem tax on the inventories of retail business.

After talking with Mr. Sager from our dealer association, I sat down to organize my thoughts on paper so that I could convey them to you in an orderly manner. My original intent was to compare my situation in the farm machinery business with that of my brother, a high-paid professional and how dramatically our tax liabilities differ.

Next, I intended to point out the glaring discrimination in how my friend's automobile business is taxed compared to mine.

I was going to go on to point out how unfair this tax is for a business like mine in which I have high inventories with slow, slow turnover compared to a grocery store where the inventory may turn as many as 20-30 times per year.

I was going to point out how mil levies vary dramatically from county to county with as much as almost 100% difference in neighboring counties. I was going to talk about the fact that a recent association survey showed that from 1980 - 1983, members taxes increased 114% while profits declined by 96%.

I was going to point out how the Kansas State Constitution mandates that all property be assessed at a uniform and equal rate. However, while doing some research on the subject, I came across something that I wanted to share with you. I will identify the author at the end of this excerpt - and I quote:

"Many, especially those in the professions, at least so it seems to me, are of the opinion that an independent retail businessman should pay up to ten times more in taxes to support our local city and county governments and our local educational systems than should his counterpart in the professions with equal net income. I firmly believe if an independent retail businessman has a net income of \$24,000. this year and his professional counterpart also has a net income of \$24,000. and both of these people are receiving the same services, each one should be obligated to pay the same amount in taxes to support these

units of governments. One should not be riding on the shirt tail of the other.

I've had professional people ask me why I went into the retail farm equipment business when I knew this discrimination in taxes existed. The problem is that I did not know it existed at the time I went into business for myself and I had burned all my bridges behind me and I could not turn back.

Though I did not realize this inequity existed when I went into the retail business world, I know it now and my wife and I have done something about it so our two sons do not have to experience this same discrimination. Our oldest son, Frederick, is in his third year of law school at Kansas University - our youngest son, Jonathan, is now employed by The Caterpillar Tractor Company, Peoria, Illinois, after getting his Bachelors Degree in Industrial Engineering and his Masters in Business Management. Personally, I do not like it when parents have to take steps such as this to keep others from exploiting their children because society refuses to right a wrong even when it is made aware of the wrong.

Some of my friends have asked me why I spend all this time, energy and money trying to eliminate this discriminatory tax when I will probably be ready to retire from the retail farm equipment business in five years anyhow. My answer is, this is a wrong that I want made right so all of the young people who are willing to take the risk of our free enterprise system and provide services and jobs in their respective communities are not laying themselves open to this same exploitation.

Our youngest son would like to come into our business with me and take over when I retire. I would gladly encourage him to do so if this wrong is made right. As his parents we would enjoy seeing him do this.

I've been told by some legislators that inventories are property and property indicates wealth. They are so right, at least as far as the farm equipment dealer is concerned, a lot of "wealth" that he has to borrow just to get an inventory so he can give service to the FOOD PRODUCERS in his trade area. BUT, and I want to emphasize this BUT - - if he can not get it sold at a profit, because the people he sells to are losing money, there is no "wealth" in it for the retail businessman for he is deeper in debt than he was before he brought

the inventory. Yet he has to pay taxes on it and absorb the loss also.

In 1975 I bought, among many other items of farm equipment, one 15' off-set wheel carried disk. I did not get it sold in 1975 but I had to pay ad valorem taxes on it. I did not get it sold in 1976 but I had to pay ad valorem taxes on it. I did not get it sold in 1977 but I will have to pay ad valorem taxes on it. For three years I will have had to pay ad valorem taxes on it and I received no value from it at all - not one cent. In December 1977 I was able to sell it to the John Deere Dealer in Lawrence, KS by taking a 20% loss on the original invoice price plus the loss of all the interest and all the ad valorem taxes on it. Yet there are those who are saying that I am only being forced to pay taxes on the "wealth" inventories represent. Inventories are not, and let me repeat, are not "wealth" until they are sold. When this happens, and the mortgage with accumulated interest is paid off that made it possible to purchase the inventory in the first place, there should be a profit. It is from this profit that taxes should be collected."

These excerpts are taken directly from testimony given by my father, Melvin Jantz, to the Senate Assessment and Taxation Committee on February 2, 1978. Although his remarks are now almost 7 years old, they are as practical and sound in their assessment of the tax situation today as they were then, unfortunately.

I don't know if any of you know my father, but believe you me, he is probably the most honest, fair and determined person I know. He has spent 30 years in a business and community that he loves a great deal, as is evidenced by his history of community and industry leadership and services. For him to tell me that he didn't want his own son to come back into his business because of this inequitable tax situation, must have caused him a great deal of personal anguish, for he built that business from nothing to one with sales of approximately \$5 million dollars per year and I know that he wanted it to remain in the family.

Well, call me naive or call me just plain dumb, because I did not heed by father's advice. Quite frankly, I guess I really didn't understand what he was talking about. I had always dreamed, as I'm sure most young professionals do, of some day being in business for myself and being able to be rewarded for exercising my full potential. I have always loved Kansas and my local community of McPherson

and guess that I always wanted to end up back there to raise my own family some day. So despite my father's advice to the contrary, I decided to go ahead and give up the security of a salaried professional career and return to pursue a career as a farm equipment dealer. I came back to Kansas even though I was aware that the farm economy was extremely depressed, as I felt that I had what it took to make the business go in these worst of times. Well, I want to tell you that I got initiated into the school of Kansas tax law quickly. Within 1 year I now fully understand why my father's blood pressure soars when the subject of inventory taxes comes up. I have gone to that school about as long as I care to. Quite frankly, gentlemen, if I knew then, what I know now, I seriously doubt that I would be here today to address you as I would still be working for Caterpillar Tractor Co.

However, as I have made a commitment to my father as well as my financial backers, I have no choice but to remain in this business for many years. I won't deny the fact that I also enjoy what I'm doing, however, it is very frustrating to have worked hard all year, risked everything I own and come away with no profit for the year. My frustration turns to plain old disgust, however, when I am forced to sign that check that goes to the county treasurer for my tax liability on the "wealth" that is represented by my inventories. Therefore, I will continue to actively push for legislation that will eliminate this discriminatory tax.

I'm no tax law expert, however, I would like to propose that the loss in revenues from elimination of the inventory tax be made up in one of two ways: either through an increase in state sales tax or in the form of a local tax on income. I have some reservations about promoting an increase in sales tax as my farmer customers would be some of the hardest hit under this proposal. As farmers are forced to pay an incredible amount for their farm machinery and other farm inputs to grow crops, they would feel this sales tax increase particularly hard. I am not sure that this minority taxpayer can afford to pay more tax while he is already struggling just to hold his operation together. If a sales tax increase were used, I would propose that farm machinery and trucks for farm purposes, be exempted from this increase. In my way of thinking, the second alternative, a local income tax makes much more sense. It seems to me to be fair and equitable to all taxpayers. Let those who are most able, support our local education and governing systems. I, for one, am perfectly willing to pay my fair share of taxes if I am fortunate enough to reap the rewards of free enterprise.

I want to take this opportunity to thank those of you on this committee who have pledged your support to help correct this serious problem. I appreciate it very much as do my fellow businessmen. I also want to thank each one of you for giving me the opportunity to explain our problem. Good Morning.

I am Max Redding.

I own and operate an Allis-Chalmers and Hesston Dealership in Salina, Kansas. I have paid my 1984 inventory tax under protest.

We believe the assessed value being protested is illegal or void because it is in violation of Section One (1) of Article Eleven (11) of the Constitution of the State of Kansas because retail sales businesses are not taxed based on a uniform and equal rate of assessment as required under the Constitution of the State of Kansas and such unequal assessment is fraudulent. In support of this statement I cite the following:

1. Farm equipment dealers pays taxes on machinery, equipment and other personal property held in inventory at the same rate as all other personal property is taxed.
2. Automobile dealers who are in a business similar to farm equipment dealers business pay taxes on inventory only at the time sales are consumated and then at a rate which is based on weight and which computes to be approximately one twelfth of one percent of the fair market value. My dealership's rate is 3.9% of fair market value which is approximately 32.5 times the rate being paid by an automobile dealers.
3. If a farm equipment dealer has the same item in inventory at January 1st of more than one year, we must pay taxes on the same inventory item for each year it is in our possession. Automobile dealers pay the tax assessed one time only, at the time of sale.
4. Farm equipment dealers pays taxes on property not owned by them and owned by the manufacturer. Automobile dealers, in not having to make a payment until the inventory item is sold, pay tax only on inventory owned by them. Due to the nature of our business, we are required to carry inventory. The merchant is the only tax payer required to pay inventory taxes on current market values.

Current taxation practices are driving farm equipment dealers out of business. My 1984 inventory taxes are \$20,259.52. This is much more than the net profits for the year. We are not trying to get anything for nothing, we are just asking for property taxes to be assessed equal and equitable.

It is for these and other reasons that we take the position that the inventory tax assessed against us is not a fair and equal rate of assessment as required under the Constitution of the State of Kansas.



1700 E. Wyatt Earp Blvd.
 P. O. Box 1382
 Dodge City, Kansas 67801

316-227-8082

COMMITTEE ON ASSESSMENT AND TAXATION
 Thursday, January 24, 1985
 Room 519-S, Statehouse
 Topeka, Kansas

The Western Kansas Manufacturers Association would like to thank you for giving us this opportunity to present testimony on the Inventory tax issue. We understand that this is the first hearing on this specific topic scheduled by this committee in the current legislative year. Manufacturers in Kansas need assistance in every possible way in the future if they are going to survive. We need relief in the area of inventory taxation.

Many of our members have been in the manufacturing business for quite some time and have witnessed some very significant changes in recent years. Many of their raw material prices have increased by as much as 8 to 10 times. As individual manufacturers our costs have risen faster than our profits. One member indicated that inventory cost had increased by one million dollars for the same amount of material they had purchased 10 years before. Some of their costs such as buildings, machinery, interest, etc. had done the same.

What is happening? The cost of machinery and inventory tend to follow inflation, especially inventory. In one Western Kansas county, 3 manufacturers are assessed as much on the tax roles as the real estate of 1/8 of the total county.

You can easily see what the problem is. Not only has the manufacturers appraisal gone up but the levies have also increased. We are

certain that some counties are hit harder than others, however we do believe that most are paying more than their fair share. The problem is state wide.

During the past few months three and possibly four Western Kansas Manufacturing plants have indicated that they will be closing their doors. Many Kansas employees are now without jobs. The Dodge City Daily Globe in it's January 23, 1985 issue reported that "The company is apparently one of many manufacturing plants to have experienced financial difficulties due to sagging agricultural sales and increased tax loads caused by CHANGES IN KANSAS TAX APPRAISALS.

States that border Kansas have no inventory tax as such and create for our businesses a very difficult competitive situation. The administration of the various tax programs varies from county to county causing an unfair "within" state competitive climate. These problems must be addressed now before it is too late for our Kansas Manufacturers, retailers and livestock owners. Some inventories appear to be appraised at a rate of four times that of real property.

One WKMA member said "If we are on a sinking ship now just wait until we have another round of inflation. Manufacturers are paying more than their share now, what will it be like in 10 years? He continued saying that "in 5 years there will not be any manufacturers left in Kansas if this situation is not reversed."

We must continue to review our tax policy in Kansas. If we are to encourage economic growth and development in our great state we must be aware of the difficulties facing our current manufacturers. The current inventory tax has certainly contributed to this negative situation.



League of Kansas Municipalities

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TO: The House Committee on Assessment and Taxation

RE: Taxation of Inventories

BY: E.A. Mosher, Executive Director

January 24, 1985

In the absence of a specific proposal, my mission today is to simply express the opposition of the League of Kansas Municipalities to proposals to exempt from property taxation the inventories of merchants, manufacturers and livestock. The League's convention-adopted Statement of Municipal Policy provides "We oppose the granting of tax exemptions to private property, including... merchants', manufacturers' and farmers' inventory, equipment and livestock..."

Consistent with this convention policy, and anticipating, once again, the efforts of various interest groups to shift the cost of local government services to other taxpayers, the Governing Body of the League, in its initial 1985 legislative program, agreed to "oppose legislation or constitutional amendments granting further exemptions from the property tax, including merchant's and manufacturers' inventory and farmers' livestock."

Our opposition to the exemption of inventories is a matter of principle as well as one of practical considerations. The essential principle is simply that we should retain a broad base for the property tax, as a matter of public policy.

From the practical side, we deal with money to support public services--services and facilities which permit our private sector to function!

Current and reliable statistics are not available, but we do have the Legislative Research Departments' analysis of last March, with its estimate that inventory taxes totaled about \$86.1 million in 1983, constituting about 7.7% of total taxes. On a county basis, inventory taxes constituted a high of 14.3% of all taxes in Neosho, down to .7% in Stevens.

These are countywide estimates. There is some evidence that the proportion of inventory taxes in some cities is much higher than the countywide total suggests, such as in the 15% range.

We are well aware of proposals to off-set the local tax loss by non-property tax sources. Interestingly, inventory taxes produces about the same as a half cent sales tax, with food not exempt. I would suggest this trade-off is not as simple as it sounds--try writing an equitable, long-term distribution revenue replacement plan.

We are likewise aware of phase-out proposals, to spread the agony of lost revenue over several years. I would observe that the predictable real growth in local assessed valuations of real property is unlikely to grow sufficient to offset the loss of 90 to 100 million in taxes on inventories.

Finally, I would note the obvious: what we do with inventories is related to classification and reappraisal. The League believes it appropriate that a constitutional amendment permit the legislature, by law, to deal with inventories. We have opposed in the past amendment provisions to fully or partially directly exempt inventories or other personal property from taxation.

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Representative Edward C. Rolfs, Chairman, House
Assessment and Taxation Committee and Members
of the House Assessment and Taxation Committee.

As one of the largest sources of revenue supporting city services, the equity and the stability of the property tax base is of utmost importance to the City of Wichita.

Currently, property taxes account for almost one-quarter of the city's total budget. The \$39,000,000 in property taxes is budgeted for such vital city services as police, fire, health, community facilities, etc.

The City of Wichita opposes further reductions in the property tax base through the use of special interest exemptions such as manufacturers' inventories. Such reductions and exemptions in the property tax base will require corresponding reductions in services provided OR a shift in the burden to other tax-payers. As this Committee and the Legislature address the well-known problems of the current property tax system, the City of Wichita urges the protection of the property tax base for the funding of local government services.

Judy Anderson
City of Wichita

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BOEING MILITARY AIRPLANE COMPANY

A Division of The Boeing Company
Post Office Box 7730 • Wichita, Kansas 67277-7730

January 24, 1985

House Assessment & Taxation Committee
State House
Topeka, Kansas

Mr. Chairman
Members of the Committee:

My name is Bill Abbott. I am the Public Affairs Manager for the Boeing Military Airplane Company in Wichita. We are an airplane and aerospace engineering, and manufacturing firm employing approximately 17,500 employees at our plant in Wichita.

I appear today in support of eliminating the inventory tax as a part of the tax base for the state of Kansas.

First, I would like to emphasize to the committee that we do not think Boeing pays too much tax in the state of Kansas. We recognize that as a corporate member of our community we must pay our fair share. However, we do feel we pay too much tax in the wrong categories. We would prefer to pay tax on any base other than inventories.

Ad valorem tax assessment of manufacturers' inventory should be eliminated because of serious defects as a tax base.

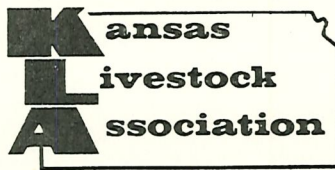
1. Manufacturing inventory is not uniformly assessed. In the case of CY 1983, for Sedgwick County, Boeing employed 30% of the manufacturing work force, and was assessed 49% of the total manufacturers' inventory base. In the same year, Boeing employed 9% of the total Kansas manufacturing work force, but was assessed 22% of the total manufacturers' inventory base for the State.
2. Manufacturing inventory is not a stable tax base. Boeing's ad valorem assessment is approximately 70% of the Derby School District's total ad valorem tax base. From 1982 to 1983, the Boeing manufacturer's inventory assessment increased 26%; from 1983 to 1984, it decreased 10%. Those are serious fluctuations to a bedroom community. Those fluctuations in inventory are a function of world wide business conditions.
3. Manufacturers' inventory is assessed differently from other property classes, e.g. Residential at 8% statewide averages and manufacturing inventory at 30%. Uniformity and equality is not achieved.

4. Boeing pays inventory taxes on some inventory three times. Due to the flow time from buying material until final delivery of a build order, some inventory will be assessed for taxes in three different calendar years.
5. Under Department of Defense accounting rules, inventory taxes cannot be passed through as a cost of performing work. Boeing had to absorb out of earnings in the past two years, \$9.7 million of manufacturers' inventory taxes.

Mr. Chairman, as I have stated, Boeing is willing to pay our fair share of taxes. We believe that the time is right for consideration of eliminating the inventory tax. This action will send a strong signal to the business community outside our state borders that Kansas is a good place to do business and will enhance our opportunities for economic development.

Thank you Mr. Chairman. I would respectfully urge the committee to give consideration to this recommendation.

Bill Abbott



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Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

Statement of the
Kansas Livestock Association
to the
House Assessment & Taxation Committee
Rep. Ed Rolfs, Chairman
relative to
Merchants, Manufacturers & Livestock Inventory Taxation
January 24, 1985
presented by
Dee Likes
Executive Vice President
Kansas Livestock Association

Mr. Chairman and members of the committee, the Kansas Livestock Association is a statewide voluntary association of livestock producers. Our association represents the entire spectrum of beef cattle production including cow-calf operators, stocker operators and feeders. In addition, KLA also represents swine and sheep producers. A large percentage of our membership is also engaged in farming and crop production activities. For many, many years our association has actively participated in the legislative process to represent the best interests of Kansas agriculture generally and the livestock producing segment specifically. We appreciate this chance to appear before your Committee to share with you some of our views and experiences relative to certain classes of personal property taxation in Kansas.

The problem of taxation of personal property in this state is becoming serious. In 1979, personal property comprised 36% of the property tax base in Kansas, second only to West Virginia, where personal property was 40% of the tax base. The national average in 1979 was only 11.7%. Past memorandums released by the Legislative Research Department pointed out that historically and currently, Kansas has seen a shift of the general property tax burden from real estate to personal property. Our industry seriously questions the desirability of such a trend. Those of us who participate in the Tax Committee of the Kansas Livestock Association believe we should move away from using personal property as a

major tax base to fund local units of government. Our Tax Committee has studied this issue for years and, from time to time, has tried to develop an equitable approach to the entire area of personal property taxation. Each time, we came up with the same conclusion: that personal property tax defies equity. Incidentally, various legislative committees have studied the same issue and arrived at the same conclusions. Personal property is simply not a good tax base because it's not a good measure of wealth or of the ability of the taxpayer to pay. Personal property taxes are difficult to administer and they are basically inequitable. More appropriate sources of revenue are a combination of income and sales taxes along with real property which is a more reliable indicator of wealth.

I want to emphasize to you that there's a nagging personal property tax problem that's in need of solution ... merchants, manufacturers and livestock taxation. This is a problem that the legislature has attempted to solve on several occasions by suggesting a phase out of the tax. Unfortunately, it appears such an approach would meet with problems because of our Supreme Court's interpretation of the "uniform and equal" clause of the constitution. Both the Supreme Court and the Attorney General have said that "partial exemptions" are unconstitutional. We do know, however, that a total exemption of livestock taxes would involve a revenue loss to counties of approximately a range of \$12 to \$15 million on a statewide basis and that such a complete exemption is unquestionably constitutional. I want to emphasize so that you develop a clear understanding of the arguments about why livestock taxes are undesirable: It's a tax on honesty; it's impossible to count inventory; it becomes a negotiated tax between the assessor and the assessed; and there are wide differences of value within a class of livestock. However, I want to give you an appreciation for another very important problem that affects one of the major industries in this state ... the feedlot industry. Feedlots deal with a transient product -- feeder cattle -- and, all other things being equal, those cattle will usually go wherever the cost of gain is cheapest. If the tax is higher in county A than county B, the cattle could have a tendency to go to the feedlot with the lower tax.

More importantly, however, Kansas custom feedlots are rapidly being put into a situation of being at a competitive disadvantage with the other 36 states that have exempted livestock taxes. Even though Kansas has a viable cattle feeding industry that has a huge economic impact on all the citizens of the state because of the tremendous quantities of feed grains it consumes and the high number of workers it employs, Kansas should not take that industry for granted. During the past ten years or so the nation's cowherd has been reduced because of significant losses to cow-calf producers. Therefore, with less feeder cattle available and less cattle being fed over the past several years, Kansas feedlots must compete with those located in Texas, Oklahoma, Nebraska, Colorado, Iowa, Arizona and California. Four of those states, Texas, Oklahoma, Nebraska and Colorado, are the closest competition from a custom feeding standpoint. Neither Texas nor Oklahoma nor Nebraska nor Colorado levies a livestock tax.

Imagine a cattleman who looks at professional, superbly managed feedyards in several states where gain costs and markets are comparable and then considers the bottom line and realizes his cattle in Kansas will have an additional tax ranging from \$1 to \$5 per head, depending on the type of animal, the county mill levy and other local factors. If that cattleman feeds just 2,000 head of cattle annually, that \$2,000 to \$10,000 cost

difference will definitely influence his decision on where to feed them ... especially in view of an industry where losses occur frequently. And believe me, it makes a very irritating difference to cattle feeders. The average feedlot steer incurs expenses of \$250 to \$300 per head during the feeding period. If economists are correct in calculating that the multiplier effect of the beef industry is somewhere between 5 and 7 to 1 (\$5 of economic activity generated for every \$1 spent), it's easy to see that the property tax on cattle is a losing proposition if it causes just a fairly small diversion of cattle to other states.

The livestock tax also has an impact on the cow-calf business, an industry which is cyclical in nature and which is subject to extended periods of net losses. At the present time, while those in the cow-calf business are experiencing losses, our Tax Committee chairman has calculated that the property tax levied on a mother cow unit in Lane county for example, raises the break even price on the calf she weans by \$1.50/cwt. Wouldn't it be more equitable to tax a person when they're making money than when they're struggling to survive?

Keep in mind that cows, feedlot cattle, a sow herd and a ewe flock are the only agricultural production that are subject to personal property taxes in Kansas.

KLA doesn't pretend to have all the answers and we certainly don't want to suggest that we're experts, but we support working toward a solution during the coming legislative sessions and we will certainly attempt to cooperate with this Committee in order to find a solution that is acceptable and saleable in Kansas. Thank you very much for the opportunity to present our views.

STATEMENT TO HOUSE COMMITTEE ON ASSESSMENT AND TAXATION

Thursday, January 24, 1985

GIVEN BY: Jeffrey H. Flora, President
Western Retail Implement and Hardware Association

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It's time for a change in our tax system! The most out-dated, anti-
quated tax in existence is the tax on inventories. Before a retail
merchant ever opens his doors for business, he is assessed a tax on
those inventories--before a manufacturer sells one of his finished
goods, he may owe the inventory tax on that item--and livestock owners
pay tax on their "inventories" as well, possibly before they realize
one dime in sales, let alone profits. Is the tax tied to productivity?
Is it based on profits? The answer is no and why we have such a tax
remains a mystery to the Kansas business community.

Kansas is in the vast minority when you look at states that continue
to assess an inventory tax. The reason why most states have elimi-
nated this tax is that it is anti-business. This tax drives business
out of our state and forces companies to look at other locations when
planning warehouses, manufacturing facilities and retail outlets. How
can we expect Kansas businesses to be able to compete, when three of
the four states surrounding us have eliminated the tax? Is it fair
for a retail merchant to continue to be taxed on an item he may have
in inventory for over a year? How many times have some inventory items
been taxed? I know that in these tough economic times in agriculture,
with farm equipment sales down, it might be two or three years before
an item is finally sold. And with the slim margins retailers work
with today, those sales are thus made at a gross loss!

We all have pride in our communities. When I travel throughout Kansas,
the pride of our people is in their towns and the businesses that make
up those towns. What we're talking about here today is a threat to
those communities. Small towns need retail businesses for jobs and
for the taxes they pay to help keep the town and county operating, but
there has got to be a more equitable method of taxation. If we're
going to tax business, let's tax all business--what about those busi-
nesses that don't need inventories in order to operate? It would seem
that inventory-intensive businesses are bearing the burden.

During the 1980 Legislative session, a bill was introduced in the
House--House Bill No. 2863. This Bill allowed for a credit against
the State income tax for the amount of inventory tax a merchant, manu-
facturer and livestock owner paid. Business continued to pay their
inventory tax to the county, but received a credit from the state for
the amount of tax they paid.

In visiting with other businesses and business organizations in the
state, I find no one that doesn't realize that inventory tax relief
is not going to happen without some alternative form of taxation.

STATEMENT TO HOUSE COMMITTEE ON ASSESSMENT AND TAXATION (page 2)

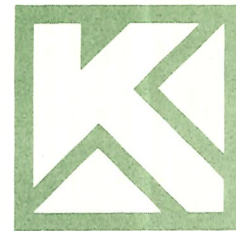
We are concerned about the fiscal needs of the local government and schools, and business is willing to pay its' share, but the administration and assessment of that share must be fair. The State could provide this tax credit through an increase in the State Sales Tax or an income tax increase.

We need a more equitable form of taxation and the House Bill that was introduced in 1980 provides a solution to the growing problem of inventory taxation.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

January 24, 1985

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

HOUSE ASSESSMENT AND TAXATION COMMITTEE

by

David S. Litwin
Director of Taxation

Mr. Chairman and members of the Committee, my name is David Litwin, Director of Taxation of the Kansas Chamber of Commerce and Industry. I thank you for the opportunity to appear at this hearing and provide our viewpoint with regard to phaseout of merchants', manufacturers' and livestock owners' inventory tax.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

You have heard from representatives of a variety of segments of the business and agricultural communities. Since KCCI is an umbrella organization that includes in its membership the entire spectrum of types and sizes of businesses, and since we are nearing the end of the list of conferees, perhaps it would be appropriate if I summarized the various considerations supporting inventory tax relief that have been articulated by earlier witnesses, and perhaps add a point or two.

The inventory tax is unsound in theory, vexatious in administration, unfair, and an obstacle to economic development.

First, with regard to theory, property is taxed at all because it is rightly regarded as one of a number of measures of wealth or ability to pay, and in addition its owners enjoy its beneficial use. None of these considerations supports taxation of inventories. The relationship between the purveyor of goods and his or her inventory is significantly different than that existing between the owner and other kinds of property. Inventory is mere stock-in-trade. It is temporarily possessed by the merchant or manufacturer only as a means to an end. The temporary owner does not and cannot enjoy the beneficial use of the inventory, and the size or nature of the inventory is not at all indicative of the owner's ability to pay. Thus the theoretical basis for taxing inventories is unsound.

With regard to administration, taxes on the same amount of inventory vary widely because of different local tax rates and methods used by taxpayers in determining "fair market value in money," with some taxpayers paying a tax on maximum value while others pay on a much lower amount. Inventory taxes are, by universal admission, almost impossible to administer fairly, even by the most conscientious tax assessor. This difficulty and the perceived lack of fairness have a corrosive effect on taxpayer

morale and respect for government. Moreover, county appraisers have to spend many hours on this tax that could be utilized more productively in administering other, more stable and reliable sources of revenue.

Third, inventory taxation is unfair. It bears no relationship to profit or loss. Indeed in operation the tax is always basically regressive because it ignores ability (or inability) to pay, but in some situations it is worse than regressive and actually penalizes the very people who need assistance. For example, our agricultural economy has been in big trouble for some time now. When farmers hit hard times, they, like other business people, defer nonessential capital purchases. The result has been that agricultural implement dealers have been carrying big ticket items like tractors and combines in inventory for more than one year, sometimes three or four years. Yet the inventory tax works in such a manner that, instead of providing assistance or at least leaving these dealers alone, the government collects inventory tax on the same stale goods every year.

Inventory taxation places a heavy burden on one segment of the population that is not borne by other segments of the business community. The person who does not happen to hold personal property for resale, but who may deal with services, pays no comparable or similar tax. In fact, the merchant who attempts to compete effectively and provide the best service to Kansans by stocking a greater variety of styles and sizes is penalized for his efforts by paying more inventory tax -- even if there is no profit with which to pay it.

With respect to economic development, current research reveals that 30 states that do tax some personal property exempt inventory. These states include all of Kansas' neighbors except Oklahoma -- Colorado, Nebraska and Missouri exempt inventory. South Carolina is in the process of phasing-out inventory tax, and inventory is taxed at

favorable, special rates in North Carolina. Five additional states do not tax any personal property. Thus Kansas is among a small group of only about 13 states that continue to tax inventory.

In summary, the inventory tax is unwieldy, unfair and unworkable and has been recognized as such by most states which seek to attract and retain a wide variety of business and industry. If the tax falls unfairly upon a limited few, and if its enforcement is irregular and compliance strained, then the tax should be abolished and a better system substituted in its place. The tax on inventories should be repealed or phased-out.

We respectfully ask the Committee to introduce a bill which would provide that inventory taxes continue to be paid and that the taxpayer be authorized to take an income tax credit in the amount of the inventory tax is paid. This would shift any revenue loss from local units of government to the state.

We further suggest that an increase in the state sales tax be considered as a possible replacement source of revenue to the state. Most of the provisions that I am suggesting are contained in HB 2863 which was considered during the 1980 session.

Thank you once again for the opportunity to appear before you. I will be pleased to answer any questions.