

Approved On: _____

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 February 26, 1985 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Fry, Leach, Adam, Erne, Reardon, Wunsch

Committee staff present:

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

Representative Ruth Luzzati testified as a proponent of HB-2328, which amends the Kansas inheritance tax act; relating to the deduction of class B heirs. Representative Luzzati believes that the present law is not fair to class B heirs.

John K. Blythe, assistant director public affairs division of Kansas Farm Bureau, spoke as a proponent of HB-2328. (Attachment 1)

Representative Jarchow testified as a proponent of HB-2333, which is an act relating to the taxation of motor vehicle inventories. (Attachment 2)

Jim Sullins, executive vice president of the Kansas Motor Car Dealers Association, expressed sincere opposition to HB-2333. (Attachment 3)

Dean Trimmell, Ford-Mercury dealer from Council Grove and chairman of the KMCDA legislative committee, testified in opposition to HB-2333. (Attachment 4)

Jim Clark, of Jim Clark Motors, also appeared in opposition to HB-2333. (Attachment 5)

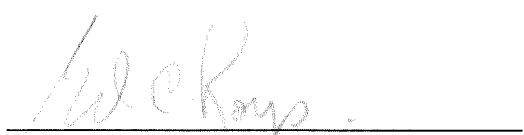
Bev Bradley, Kansas Association of Counties, testified in support of HB-2333. (Attachment 6) She said that raising the cost of the tax stamp would be an acceptable alternative.

Rick Davis, of Kansas Motorcycle Dealers, said that it is impossible to cut inventories of motorcycles in November and December. This concluded the public hearing on HB-2333.

Representative Denise Apt testified as a proponent of HB-2320, an act relating to the taxation of income; providing for a credit therefrom for contributions of qualified vocational education equipment to certain institutions of postsecondary education. This concluded the public hearing on HB-2320.

The minutes of February 25 were reviewed. There being no change, they were approved as presented.

There being no further business, the meeting was adjourned.



E. C. Rolfs, Chairman



Kansas Farm Bureau, Inc.

2321 Anderson Avenue, Manhattan, Kansas 66502 / (913) 537-2261

STATEMENT TO
HOUSE COMMITTEE ON ASSESSMENT & TAXATION

RE: H.B. 2328—Kansas Inheritance Tax Act

February 26, 1985
Topeka, Kansas

Presented by
John K. Blythe, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

I am John Blythe and I appear before you today representing the membership of the Kansas Farm Bureau.

Farm Bureau members for a number of years have supported changes in our inheritance tax statutes. Some amendments have been made. Additional amendments are needed.

It is difficult to subdivide farm land and make gifts prior to the death of an individual and still maintain an operating farm unit. Therefore, in the case of agriculture the entire farm unit is subject to tax at the death of an individual.

H.B. 2328 speaks to the class "B" heirs and the overdue amendment raising the exemption from \$5,000 to \$15,000.

We support this needed amendment, but we would additionally say that in another year when the state general fund budget and finances are in better shape, we would support the complete repeal of the Kansas Inheritance Tax Act.

We thank you for this opportunity to appear.

The reason we suspect that the figures are not quite correct are based on two assumptions, one of which is contained within the statute which is in question here, and the other being a basic accounting procedure which is an accepted way of calculating and reporting the average inventory held by a merchant, manufacturer or livestock inventory holder. I would point out that we are not questioning the integrity or honesty of anyone providing these figures as it is not the provider of the figures, but the figures themselves, which are suspect.

First of all, the next to the last section of the act, K.S.A. 79-1022, requires that dealers report "the average of fair market value in money of such inventory of motor vehicles held for sale,..." even though the inventory is not placed on the tax rolls. Unlike when the inventory was being placed on the tax rolls, dealers now are reporting what their inventory really is for that tax year. They have no reason any longer to adjust their inventory during the calendar year for tax purposes. This is where the second assumption comes into play, that being that dealers did adjust their inventory so that little or no inventory was in stock on the tax day. As many will remember, that at one time was January 1st. If on January 1st you had no inventory, or little inventory, you paid little or no tax. The situation is a little different now with the reporting being done on the inventory held in the first and last month of the fiscal year, but even that can be adjusted by simply taking the month before and after new model introduction, when traditionally, inventories are at their lowest.

Under that system, there were many dealers who paid little or no inventory tax legally. Any good accountant or tax attorney would counsel a client to do this very thing, and things are no different today with all businesses subject to inventory taxes doing exactly the same thing.

The point to be made here is that dealers are not doing this "creative accounting" any longer on vehicle inventories; therefore, we feel that they are reporting actual inventories which are much higher than would be reported if dealers were still under the ad valorem system.

If this assumption is true, which we wholeheartedly feel it is, then the counties are not, in reality, losing money. They are, in reality, receiving as much as they did before, and as sales begin to increase, as we have seen during 1984 and expect during 1985, will actually be receiving more money. We say this because the tax will be paid on each sale via the stamp, and because inventories, in periods of high sales volume, are traditionally much lower than in periods of low sales.

Of course, that leads back to the total unfairness of inventory tax in general. When inventories are high, and generating high tax dollars, that is the same period of time when sales are generally at their lowest and the merchant, manufacturer, or livestock inventory holder is least able to pay.

Mr. Chairman and members of the Committee, the inventory tax stamp system for collecting inventory tax on vehicle inventory is working, and working very well. We do not feel that any money is being lost, and in reality, we feel that taxes are being received from sources which were not previously paying tax; that being dealerships which ceased to exist on or about tax time or those who had little or no inventory at tax time. Those dealerships are now required to pay the county this tax each time a vehicle is sold. Effectively, the tax base has been broadened in this respect.

Mr. Chairman and members of the committee, we feel that passage of House Bill 2333 would be a mistake, and would not be beneficial to anyone, either the counties or the dealers. We respectfully ask that if any action at all be taken on this bill, that the committee report it unfavorable for passage.

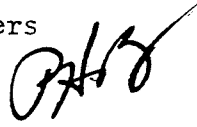
I thank you for your time and attention, and will attempt to answer any questions.

OFFICE OF COUNTY APPRAISER
JOHNSON COUNTY COURT HOUSE
OLATHE, KANSAS 66061

Prather H. Brown, Jr., CKA
County Appraiser

October 17, 1980

2


TO: Board of County Commissioners
FROM: Prather H. Brown, Jr., CKA 
RE: Review of local effect of Motor Vehicle Dealers Inventory
VS: Stamp Tax Law for Motor Vehicles - 1980 Report

On January 25, 1980 I furnished the Board with a factual report showing the difference between possible ad valorem revenue vs that of the vehicle tax stamp law with a loss of revenue in the amount of \$229,237.97.

For 1980, as attached, we have a total of 4,884,589 of assessed valuation attributable to motor vehicle dealers inventory which when applied to the mill levy of the various taxing districts involved would deliver \$527,149.43 in ad valorem tax revenue. Also attached is a copy of a letter from Mrs. Edna Craig, County Treasurer, stating that for the first nine (9) months of 1980 they have collected \$79,389.00 for the in lieu of vehicle tax stamp. When we extend this to an estimated annual collectable amount by adding a fourth quarter, we should be somewhere in the area of \$105,852 from this collection of motor vehicle stamps. If we were to subtract this from the possible tax revenue on a county-wide basis, these figures would indicate a loss of \$421,296.43. This is indicative of a 79.9% loss of potential revenue.

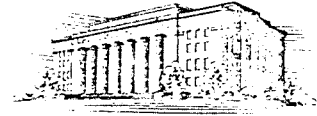
This information has been requested by the Legislative Research Department and a copy of this report will be so delivered.

PHB:jal

cc: Edna C. Craig
Legislative Research Department 

Enclosures: (3)

OFFICE OF
ROBERT C. GARDNER
COUNTY APPRAISER
913/573-2889



WYANDOTTE COUNTY COURTHOUSE
KANSAS CITY, KANSAS 66101

October 17, 1980

3

Senator Burke
% Wayne Morris
Legislative Research Dept
State Office Building
Topeka, Ks 66612

Dear Sir,

I have reviewed the effects of the change in the method of motor vehicle inventory assessment for the tax year of 1980. As provided in K.S.A. 79-1016, the County of Wyandotte collected \$14,185 in revenue from tax stamps, nine and one half months actual revenue, two and one half estimated.

Based on the assessed values of motor vehicle inventories, the amount collected if assessed by the 1978 method, would have been \$217,115.00. The assessed values have been based on inventory figures for the year 1979 supplied by motor vehicle dealers.

The net result is a loss in tax dollars of \$202,930.00 to the taxing units in Wyandotte County.

In reviewing this with other County Appriaser's, I find they have also lost tax dollars as a result of this change in law. I would like to suggest that you review this Statute and possibly consider a change in the amount charged for tax stamps or a change in the method of assessment.

Thanking you for your time and effoet.

Very truly yours,

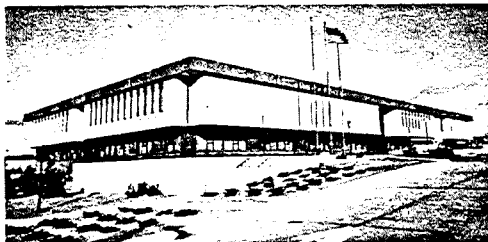
A handwritten signature in cursive script that reads "Robert C. Gardner".

Robert C. Gardner, CKA
County Appraiser

RCG:be
CC
Wyandotte County Commissioners



MEMBER
International Association
of Assessing Officers



City - County Government Center

Kansas County Appraiser's Association
Member

Douglas T. Wilson, CKA
County Appraiser

Saline County Appraiser's Office

Darrell R. Lemon, CKA
Asst. Co. Appraiser

Telephone 913 827-9621
SALINA, KANSAS 67401

October 17, 1980

4

Senator Bud Burke, Chairman
Special Interim Committee on Assessment and Taxation
Wayne Morris
Legislative Research Department
State Capitol
Topeka, KS 66612

Subject: Ad Valorem Inventory Tax Vs. Stamp Tax Saline County, Kansas

Dear Senator Burke:

The following is an updated accounting of revenues generated by the Dealer Stamps on motor vehicles Vs. Ad Valorem Tax on the same inventory. Please refer to my attached letter of January 28, 1980, for 1979 figures.

1980 Ad Valorem Inventory Method	\$220,535.81
Taxes Generated by Tax Stamp*	\$ 22,583.00

*Stamp revenues through September 30, 1980 - third quarter report by County Treasurer.

Please advise if we can be of further assistance.

Sincerely,

Douglas T. Wilson, CKA
Saline County Appraiser

DIW/nd
enclosure

MINUTES OF THE House COMMITTEE ON Assessment and Taxation

Held in Room 519-S at the Statehouse at 1:30 P.M. a. m./p. m.

on March 23, 1981 19

All members were present ~~except~~

The next meeting of the Committee will be held at 1:30 P.M. a. m./p. m.

on March 24, 1981 19

These minutes of the meeting held on _____ 19____ were considered, corrected and approved.


Chairman

The conferees appearing before the Committee were

Ron Gaches, Kansas Association of Commerce & Industry
John Koepke, Kansas Association of School Boards
Jeff Mills, Wichita Area Chamber of Commerce

The meeting was called to order by the Chairman who introduced Ron Gaches who appeared in opposition to HCR 5012.

Mr. Gaches stated his association is comprised of over 3100 businesses and 215 local chambers of commerce and trade organizations representing over 161,000 businessmen and women. He explained they are dedicated to promoting economic growth and job creation in Kansas and to the support of the private enterprise system. He told the committee that KACI continues to support the uniform and equal concept of taxation. (See printed statement I.)

Mr. John Koepke, Kansas Association of School Boards, told the committee his organization has a long-standing position in opposition to classification of property. He explained that this proposal would cause a dramatic shift in state aid of unknown proportions. (See Attachment II.)

Jeff Mills, Wichita Chamber of Commerce, appeared in opposition to the resolution. He stated the Wichita Chamber agrees with the testimony presented by Mr. Gaches, and that they support something like the Arkansas plan. He further stated that they feel the proper way to tax property is through fair market value. (Att. III)

The chairman asked members to return to discussion of SB 4, noting that there had been an original motion by Mr. Guffey to pass the bill favorably, and a substitute by Rep. Jarchow to amend the bill by changing the tax computation to value rather than weight. Staff explained the amendment would carry a estimated fiscal note of \$30,000 additional revenue for calendar year 1982.

Rep. Schmidt stated that during the interim committee meetings he has favored going to the sale price, but that the weight is fixed on the title while sale price is negotiable. Rep. Jarchow explained that his amendment intends to get back on track with the 1977 time frame, taking inflation into consideration. He stated that the counties testified they had lost a great deal of revenue with the passage of the new law and that the dealers themselves had said they want to pay their fair share and were only asking for an easier way to do so. Upon vote the motion carried by a majority.

Staff called attention to a proposed amendment of the Municipalities, relating to the distribution

TABLE II
NEW UNIT SALES AND TOTAL REGISTRATIONS

	<u>Average Number of Dealerships</u>	<u>Total New Units Sold</u>	<u>New Units Sold Per Dealership</u>	<u>Total Vehicle Registrations</u>	<u>Total Vehicle Registrations Per Dealers</u>
1970	695	113644	164	1521000	2189
1971	685	136650	199	1599000	2334
1972	683	155243	227	1671000	2448
1973	668	174001	261	1750000	2622
1974	638	147430	231	1757000	2757
1975	620	134156	216	1784000	2878
1976	613	163522	267	1845000	3012
1977	608	171238	282	1866000	3072
1978	598	162397	272	1908000	3193
1979	585	171708	294	1946000	3326
1980	568	130114	229	1979000	3488
1981	533	113147	212	2038000	3827
1982	495	110220	223	2089000	4220

OFFICE OF COUNTY APPRAISER
JOHNSON COUNTY COURT HOUSE
OLATHE, KANSAS 66061

Prather H. Brown, Jr., CKA
County Appraiser

January 25, 1980

TO: Board of County Commissioners

FROM: Prather H. Brown, Jr., CKA *PHB*

RE: Review of the Local Effect of
Motor Vehicle Dealers Inventory
vs. New Tax Stamp Law for Motor Vehicles

In 1979 this new stamp law required that this office continue to determine the assessed value of the motor vehicles dealers inventory and report same to the County Clerk to be attributable to the total assessed valuation for Bond Debt limits. This total inventory in all taxing districts assessed valuation was \$4,074,911.00. By applying the proper mill levy of each of the affected taxing districts, these inventories would have generated \$417,610.97 in ad valorem tax receipts. It should be remembered that the inventory expressed above are the actual 1978 inventory as reported in 1979.

The Treasurer's Office has advised that they sold \$188,373 in Motor Vehicle Tax Stamps in 1979. The essence of this report is that Johnson County has lost \$229,237.97 in ad valorem tax receipts had this law not been in existence. These are County wide mill levys as they maybe so attributed to each of the taxing districts; so the Schools, City, County, and State would have participated in this quarter million dollars. The basis of the stamp law was for this to be an equalified wash-out; not a 54.9% loss.

PHB:j1

Attachment

HOMER E. JARCHOW
 REPRESENTATIVE, NINETY-FIFTH DISTRICT
 SEDGWICK COUNTY
 2121 WEST DOUGLAS
 WICHITA, KANSAS 67213



TOPEKA

HOUSE OF
 REPRESENTATIVES

COMMITTEE ASSIGNMENTS
 MEMBER: ASSESSMENT AND TAXATION
 COMMERCIAL AND FINANCIAL
 INSTITUTIONS

MR. CHAIRMAN -- MEMBERS OF THE COMMITTEE

FEBRUARY 26, 1985

HOUSE BILL NO. 2333 IS A REPEALER BILL ON THE MOTOR VEHICLE DEALER'S STAMP TAX. THE EFFECT OF THE BILL WOULD BE TO PLACE MOTOR VEHICLES BACK ON THE MERCHANTS INVENTORY BASIS OF TAXATION.

WHEN WE ESTABLISHED THE SPECIAL AUTOMOBILE STAMP METHOD OF PROPERTY TAXATION FOR AUTOMOBILE DEALERS IT WAS BASICALLY, ACCORDING TO THE DEALERS, TO HELP COLLECT TAXES FROM THE SHYSTER DEALER WHO DELIBERATELY WENT OUT OF BUSINESS EACH YEAR END TO AVOID TAXES. THE DEALERS AT THAT TIME ASSURED THE TAX COMMITTEE THAT THEY WANTED TO PAY THEIR FAIR SHARE OF TAXES.

HOWEVER, IN THE EARLY YEARS IT WAS APPARENT THAT THE COUNTIES WERE LOSING LARGE AMOUNTS OF REVENUE THROUGH THE STAMP METHOD. (SEE ATTACHED 4 MEMORANDUMS.) THE DEALERS WANTED THE TAX ON WEIGHT AND EVERYONE KNOWS WHAT THEN HAPPENED TO THE SIZE OF CARS. LATER IN 1981 (SEE 1981 ATTACHED MINUTES) WE TRIED TO GET THE AUTOMOBILES BACK ON A VALUE BASIS BECAUSE WE KNOW THERE WAS CONTINUED LOSS OF REVENUE TO THE COUNTIES AND CITIES ON THE WEIGHT STAMP METHOD. IN THE COMMITTEE HEARINGS IN 1981 THE DEALERS PASSIVELY AGREED TO THE CHANGE AND THE HOUSE COMMITTEE PASSED THE BILL OUT ON A VALUE BASIS. THEN, APPARENTLY BECAUSE OF BEHIND THE SCENE PRESSURES, THE BILL WAS DEFEATED ON THE HOUSE FLOOR. SO THEIR STAMP TAXES HAVE MAINTAINED A CONSTANT LOWER VALUE AND HAVE NOT OR NEVER WILL RECEIVE THE TAX INCREASES EXPERIENCED BY OTHER MERCHANTS. CONSIDER THE PLIGHT OF THE IMPLEMENT DEALER. WE HEARD FROM THEM THIS YEAR. IS IT FAIR?

PAGE 2

ALSO, I HAVE BEEN ADVISED THAT SOME DEALERS HAVE STARTED SOME MARGINAL PRACTICES: 1) THE DEALER MAKES A DEAL FOR THE SALE OF AN AUTOMOBILE AND THEN ADDS THE TAX STAMP COST TO THE CUSTOMERS BILL THUS MAKING THE CUSTOMERS DIRECTLY RESPONSIBLE FOR THE DEALERS TAX. WE ALL KNOW THAT THE CUSTOMER PAYS FOR THE DEALERS TAXES BUT IT SHOULD BE IN THE QUOTED PRICE OF THE PRODUCT AND NOT BLATANTLY ADDED TO THE SELLING PRICE AFTER THE SALE IS MADE.

LAST BUT NOT LEAST -- TRUTHFULNESS IN ADVERTISING. I WAS SHOCKED A FEW YEARS BACK WHEN, IN WICHITA, I SAW SOME ADVERTISING ON TELEVISION, DURING THE MONTH OF DECEMBER, WHICH ELABORATED ON A SALE TO REDUCE THEIR INVENTORY SO THEY WOULD NOT HAVE TO PAY THE YEAR END PROPERTY TAX. MIND YOU--THIS WAS SEVERAL YEARS AFTER AUTOMOBILES WERE PUT ON THE STAMP TAX BASIS. THE ONLY YEAR END INVENTORY THEY PAY IS ON THEIR PARTS INVENTORY.

MY PLAN THIS SESSION WAS TO ONCE AGAIN INTRODUCE A BILL TO PUT THE STAMP TAX ON A VALUE BASIS. INSTEAD, WHEN I FOUND OUT THAT THE DEALERS ASSOCIATION WAS PROMOTING A CHANGE IN LOCAL SALES TAX SITUS AWAY FROM THE CAR DEALERS HOME BASE WHICH WOULD FURTHER ERODE THE HOME BASE REVENUES, I FELT OBLIGATED TO INTRODUCE THE TAX STAMP REPEALER BILL.

THIS IN MY TENTH SESSION IN THE LEGISLATURE AND THIS IS THE FIRST TIME I HAVE FELT I COULD NOT FULLY RELY ON THE WORD OF A GROUP IN THE BUSINESS COMMUNITY. OTHER GROUPS, ALTHOUGH I FREQUENTLY DISAGREED WITH THEM, HAVE BEEN ABOVE BOARD WITH ME AND I APPRECIATE THAT.

THE LEAST WE SHOULD EXPECT OF ALL AUTOMOBILE DEALERS, IN MY OPINION, IS A STAMP TAX BASED ON VALUE THAT EQUATES REASONABLY TO THE MERCHANTS INVENTORY TAX. I WOULD BE AGREEABLE TO THE VALUE BASIS IF THE COMMITTEE CONSIDERS THE BILL AND AN UPDATED STAMP VALUE COULD BE DEVELOPED.

IMAGINE A \$35,000 CAR WITH A TAX STAMP OF \$8.00 AS COMPARED TO THE TAXES PAID FOR FARM IMPLEMENTS OF A SIMILAR VALUE.

ARE THERE ANY QUESTIONS?



TO: REPRESENTATIVE HOMER JARCHOW

FROM: LEGISLATIVE RESEARCH DEPARTMENT

RE: LEGISLATIVE HISTORY OF THE MOTOR VEHICLE INVENTORY STAMP TAX,
K.S.A. 79-1016 et. seq.

- 1974 Constitutional amendment authorizes separate classification and taxation of motor vehicles
- 1976 Attorney General Opinion 76-314 declares that motor vehicles as inventory in the hands of dealers may be taxed differently from other inventories
- 1977 Interim Study-Proposal No. 5 -- Committee recommends HB 2454, a bill that would impose a stamp tax on sales of motor vehicles held by dealers as inventory, in lieu of property tax on such inventory. The original version of the bill provided for a \$5.00 per vehicle amount. As passed, the bill provided for stamp tax rates based on vehicle weight.
- 1978 HB 2454, as amended, is approved by the Legislature and becomes law effective January 1, 1979.
- 1979 HB 2454 clarifies that "gross weight" by which vehicles are assessed refers to actual weight. See attached 1980 letters reflecting lose of revenue.
- 1980 Interim Study-Proposal No. 2 -- Committee recommends SB 4.
- 1981 Senate Bill No. 4 after a number of amendments, is approved by the Legislature and becomes law effective January 1, 1982. (See attached copies of bill) The bill was passed by the House Committee based on value. However, was changed back to weight in the Committee of the Whole. See attached Tax Committee Minutes dated March 23, 1981.

Testimony Before the
HOUSE COMMITTEE ON ASSESSMENT AND TAXATION

by the
KANSAS MOTOR CAR DEALERS ASSOCIATION

Tuesday, February 26, 1985

HOUSE BILL 2333

Mr. Chairman and members of the Committee. I am Jim Sullins, Executive Vice President of the Kansas Motor Car Dealers Association, a 385 member trade association representing the franchised new car and truck dealers of Kansas. I come before you this morning to express our sincere opposition to House Bill 2333.

Although the bill is only four lines long, the effect it would have on not only the franchised dealers but on all vehicle dealers would be quite large.

During the 1978 session of this Legislature, the tax stamp act, K.S.A. 79-1016 through K.S.A. 79-1022, was enacted. At that time, the Legislature recognized the proposed stamp tax act as being not a way for dealers to avoid inventory taxes, but rather it being a fair and equitable way for all dealers to pay a tax on every vehicle which was sold at retail.

During the 1980 summer interim, a special committee on assessment and taxation, during a review of the entire tax structure and policy of Kansas, again reviewed the tax stamp act which went into place on January 1, 1979. From that interim study came Senate Bill 4 of the 1981 session, which adjusted upward the dollar amount of the stamps which are used by dealers to pay their in lieu of inventory tax.

To familiarize those members of the Committee who may have not been a part of either of these earlier studies, the stamp tax act exempts motor vehicle dealers inventory from personal property, or ad valorem, taxes. This is done through authority granted in the Kansas Constitution, which allows motor vehicles to be taxed separately and differently from other types of personal property. In lieu of the ad valorem tax, the statutes provide for a tax stamp to be affixed to the manufacturer's statement of origin or the title of the vehicle when that vehicle is sold at retail. Under this method, every vehicle sold at retail in Kansas has an in lieu of inventory tax paid on it by the dealer selling the vehicle. Additionally, the tax is one that is paid by the dealer, and not by the purchaser of the vehicle.

When KMCDCA asked for the passage of this act in 1978, we asked that it be passed as it was, and still is, a fair and equitable method of taxing the inventory held for resale by motor vehicle dealers. It is fair for the reason that every vehicle dealer pays tax on every vehicle sold. No vehicle sold legally can escape the tax. It is equitable because the tax paid by a dealer in Shawnee County on a 1985 Oldsmobile, for example, is exactly the same as the tax paid by a dealer in Sedgwick, Geary, Ellis, Wallace, or any other county in the state, on the identical vehicle.

Many will argue that the dealers of Kansas are not paying their fair share of the inventory tax because their vehicle inventory is not on the personal property tax rolls. They will sight thousands, and millions, of dollars in vehicle inventory which is listed on the county tax rolls, which should be generating X amount of dollars in tax. Then they will tell you that they are only receiving Y amount of dollars, which is much less than X. KMCDCA contends that while all of this may look good on paper, we do not feel that if true figures were used, the result would be as dramatic as the proponents of this bill want you to believe.

34

Testimony before the
HOUSE COMMITTEE ON ASSESSMENT AND TAXATION
by the
KANSAS MOTOR CAR DEALERS ASSOCIATION
Tuesday, February 26, 1985
HOUSE BILL 2333

Mr. Chairman and members of the Committee. I am Dean Trimmell, Ford-Mercury dealer from Council Grove and the Chairman of the KMCDL Legislative Committee. I come before you this morning in opposition to HB 2333 which would repeal the inventory tax stamp method of collecting inventory tax on new and used vehicles sold by vehicle dealers in Kansas.

The new vehicle dealers of Kansas represent a 1.9 billion dollar sales industry based on 1982 figures, and I would guess that it is now probably an industry that generates retail sales in excess of 2 billion dollars. Approximately 84% of that figure comes from new and used vehicle sales. The 1.9 billion dollars in sales make the franchise dealers the second largest retailer in the state of Kansas, second only to the grocery industry which accounts for 15.4% of Kansas retail sales.

In 1982 the franchise dealers of Kansas paid and/or collected 72 million dollars in federal, state and local taxes. Of that 72 million dollars, 37.7 million represents sales tax collected on the sale of new and used vehicles, parts and service, and 16.8 million represents state and local taxes paid by the dealerships themselves, a majority of which consisted of inventory taxes. Breaking that down to a cost-per-dealer, approximately 480 franchise dealers in the state in 1982 paid an average of \$35,000 in state and local taxes, the majority of this representing inventory taxes. Assuming that the inventory tax was at least 50% of \$35,000 per dealership, we could extrapolate that \$17,500 per dealership was paid in inventory taxes.

Attached to my testimony, you will see new unit sales and total registrations for the calendar years 1970-1982. In the first two columns you will note the average the average number of dealerships that were in existence during those years and then the average total of new unit sales during those 12 calendar years. We would like to point out that you will see upswings from 1970 through 1973 when new unit sales went from 113,000 units to 174,000 units. When the oil crisis hit the United States in 1973, new unit sales dropped off to 147,000 in 1974, swung back up in 1976 and 1977, and finally up through 1979, where a total of 171,708 new units were sold in Kansas by 585 franchise dealers. As we all too well remember, in the latter part of 1979 and through most of 1983, there was a dramatic, economic recession which is very pointedly marked by the fact that new unit sales dropped over that four-year period to a low of 110,000 new units sold during calendar year 1982--the lowest mark in 20 years for new vehicle sales in the state of Kansas.

I would also point out that it was the 1978 session of the Kansas Legislature which enacted the inventory tax stamp method, under which we currently operate, and that bill went into effect on January 1, 1979. Since 1979 we have seen a 36% decrease through 1982 in the number of new units sold by franchise dealers. 1983 sales figures fairly parallel those of 1982 with, again, approximately 110,000 new units sold. 1984 final figures are not yet available. The basic point I would like to make with these figures, is that the new vehicle industry of Kansas is a very important and vital industry to this state.

Dealers of Kansas are not in any way attempting to avoid paying their fair share of state and local taxes through either the inventory tax stamp system or through any other means. I believe that the reverse is true--that the dealers are paying their fair share, and in turn, are generating more retail sales dollars than any other retail industry in the state, with the exception of the grocery industry.

We maintain that the inventory tax stamp system will generate as much, if not more, inventory tax revenue for the cities and counties than the old ad valorem system of taxation. It has been unfortunate that since the enactment of the inventory tax stamp method, this country and this state have gone through a tremendous economic recession which saw a dramatic downturn in the sale of new and used motor vehicles and which, in turn, has probably caused the assumed loss of revenue by the counties and cities. It is my personal feeling, though, and that, too, of the franchised dealers, that had the ad valorem system of taxation been in place, you would see even fewer dealers than you see today representing the franchise manufacturers. We say this because during those periods of time of very low sales, inventories were quite high, and the tax on those inventories very well may have been too much to be bear by a few of the dealerships which are still in existence today. Had those dealerships, along with some 200 of their counterparts who did go out of business, also gone out of business, we feel that the overall economic impact on the cities and counties, as well as the state government, would have been much more tremendous than that of just what possible inventory tax may have been lost during the periods of time when there were low unit sales in the calendar years. It is my personal feeling that the counties did not lose tax money, in fact, and are probably getting as much now as they would have under the ad valorem system for various accounting reasons as have been pointed out in previous testimony.

Mr. Chairman and members of the committee, the economy of this nation is back on the upswing. 1984 was a very good year for the motor vehicle industry nationwide as well as in Kansas. Although we did not have final sales figures as I mentioned previously, I think we will see an increase in new unit sales during calendar 1984 for the state of Kansas, and I believe that the inventory tax stamp method is about to receive its first real test--that being a test of a period of time when inventories on lots are low and sales volume is high.

I think if new unit sales continue to increase during calendar year 1985 as they did through calendar year '84, you will see an increase in revenue to the counties that will far surpass the revenue that would be derived from the ad valorem system. I hope you will give very strong consideration to opposing HB 2333 and that you will recommend it unfavorably for passage. Thank you.

5

Statement before the
HOUSE COMMITTEE ON ASSESSMENT AND TAXATION
Tuesday, February 26, 1985

Mr. Chairman and Members of the Committee. I am Jim Clark, Jim Clark Motors, Lawrence; Jim Clark Chevrolet-Oldsmobile-Cadillac, Junction City; and, J-J Chevrolet/J-J Imports, Salina. I also appear before you today in opposition to HB 2333.

I would say at the outset that I totally agree with Mr. Trimmell and the statements he made earlier concerning our feeling that the current inventory tax stamp system is, in reality, generating as much if not more money for the counties than the old ad valorem system.

Retailers in general have had to deal with the question of inventory taxes for many years. You have heard previous testimony on other bills for a number of years dealing with the unfairness of the inventory tax system which we currently have in Kansas on all merchants, manufacturers, and livestock inventories. You are also well aware that some states have seen the light and have repealed the merchants, manufacturers and livestock inventory tax.

When we, the franchised dealers, came before you in 1978 and introduced the concept of the inventory tax stamp, franchised dealers of Kansas were not trying to avoid inventory tax. In reality, and as you know, we were trying to develop an alternative way of paying those taxes in a way which we felt was the most fair and equitable manner of doing so. The legislature in 1978, and again in 1981,

reaffirmed that this was a fair and equitable manner, one in 1978 by passing and enacting the inventory tax stamp system, and two, in 1981 by maintaining that system at a slightly increased fee for the stamp.

Dealers are paying inventory tax. They are paying their fair share of inventory tax, an amount of tax that is what we believe to be equivalent to what we would be paying under that old system. It is simply a different and easier way of paying the tax. Each time we sell a motor vehicle, the tax is paid. Every motor vehicle sold in Kansas is taxed. That is a far cry from what we saw under the old system.

If you enact HB 2333, the cities and counties will not see a dramatic increase in the amount of inventory tax they receive from motor vehicle inventories. It simply will not happen because dealers will go back to the form of accounting which we had to live with for the many years prior to 1979, and which other holders of merchants, manufacturers, and livestock inventories continue to live with today. That is not the case today for vehicle dealers. It doesn't matter if you have 10 or 100 vehicles in inventory, each time one of those vehicles is retailed, tax is paid.

I have gone back to our tax records at the Lawrence dealership for the calendar years prior to the enactment of the act, and for the years after the act became law. Those figures are attached, and clearly reflect that we did pay more tax dollars to Douglas County in 1982, 1983, and 1984, than we paid under that ad valorem system in 1977 and 1978.

If this example is true for franchised dealers, then I feel confident in saying that it would also be true for used vehicle dealers, possibly more so in their case. We feel then, and show that in reality, the counties are receiving as much under this system as they would under the old system. And, I would also point out that sales are on the increase, and the more vehicles sold means that more tax stamps will be affixed to the titles, increasing the money flowing to the counties.

Mr. Chairman and members of the Committee, I urge you to vote "No" on HB 2333.

Jim Clark Motors, Inc.

Lawrence, KS.

<u>Year</u>	<u>**Actual Tax Paid</u>	<u>*Tax Stamps Paid</u>
1977	\$ 13,417	
1978	\$ 14,268	
1979	\$ 13,068	\$ 3,252
1980	\$ 12,716	\$ 2,225
1981	\$ 12,793	\$ 2,133
1982	\$ 14,342	\$ 5,225
1983	\$ 15,216	\$ 5,540
1984	\$ 14,798	\$ 4,880

* -- This figure is included in the total shown in the middle column.

** -- This figure includes approximately \$7000+/- in real estate tax.

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Chairman Rolfs
Members of House Assessment & Taxation Committee

I am Bev Bradley, from the Kansas Association of Counties. I appear before you today to support the concept expressed in HB 2333. As I understand the history of automobile tax stickers, they have not produced the amount of tax money predicted or promised for that matter. Counties have been dissatisfied with the amount of money received. It has turned out to be about half of what was anticipated.

A county treasurer has suggested that raising the sticker price would also be an acceptable alternative.

