

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m./~~p.m.~~ on Monday, March 25, 1985 in room 519-S of the Capitol.

All members were present except:
Senator Bud Burke (Excused)

Committee staff present:

Tom Severn, Research Department
Melinda Hanson, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:

Representative Homer Jarchow
Bev Bradley, Kansas Association of Counties
Jim Sullins, Kansas Motor Car Dealers Association
Rick Davis, Kansas Motorcycle Industry Council

H.B. 2333 - Concerning the motor vehicle inventory stamp tax act

Representative Homer Jarchow read his testimony in support of the bill (Attachment 1). The bill would increase by 50% the amount of the motor dealers stamp and would be indexed annually based on the consumer price index. The tax would be determined by the gross weight of the vehicle, except for motorcycles and motorized bicycles. Representative Jarchow discussed the background of the motor vehicle inventory stamp. He said that this system costs the dealers less than the ad valorem tax did.

Chairman Kerr read a letter (Attachment 2) from E. A. Mosher, League of Kansas Municipalities, in support of H.B. 2333.

Bev Bradley read her statement in support of the bill (Attachment 3).

Senator Allen asked about the fiscal impact of the bill. Staff advised that H.B. 2333 would raise approximately \$20,000 for the general fund and \$967,000 for local taxing units per year.

Jim Sullins read his testimony in opposition to the bill (Attachment 4). He reviewed the history of the motor vehicle inventory stamp tax act. Mr. Sullins stated that his industry is paying their fair share of the taxes and are paying as much as they would if under the ad valorem system. He talked about the difficulty of finding any type of figures which would show whether or not the counties are losing money under the present tax system. Mr. Sullins discussed several objections to the bill: he feels the 50% increase is excessive, the bill provides for two increases within six months, he oppose indexing and also opposes increasing the inventory tax paid by his association when other types of inventory taxes may be eliminated. Chairman Kerr asked how much the price of cars has risen since 1981. Mr. Sullins said that his rough estimate for a base price increase would be an average of somewhere around \$300-\$500 a year, depending on the vehicle and other factors. Mr. Sullins said he would prefer an across-the-board increase rather than a percentage-type increase. Chairman Kerr noted that farm implement dealers are paying a much higher inventory tax on similarly priced units than car dealers are with the stamp tax. Mr. Sullins said he did not think a stamp tax for implements would be constitutional. Answering a question from Senator Hayden, Mr. Sullins said the weight system is easy to administer for the counties and the Department of Revenue while a valuation system would be extremely difficult to administer. Senator Frey asked why the dealers object to an increase if the increase is passed on to consumers and if all dealers are equally affected. Mr. Sullins said an increase would raise the total cost of doing business and would put dealers out of balance with what they would have to pay under an ad valorem system. In response to Chairman Kerr's request, Mr. Sullins agreed to obtain figures reflecting increases in the price of automobiles since 1981.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,
room 519-S Statehouse, at 11:00 a.m./~~p.m.~~ on Monday, March 25, 1985.

Rick Davis testified in opposition to H.B. 2333. He pointed out that the increase proposed for motorcycles and motorized bicycles would be 100% rather than 50%. He compared the weight of a motorcycle with that of a light-weight automobile and said that if the same ratio were used, the increase would only be 14¢. Chairman Kerr suggested that Mr. Davis provide his recommendations about separating new and used cycles or a straight increase for all cycles.

Senator Hayden moved that the minutes of the March 21, 1985 meeting be approved. Senator Salisbury seconded the motion, and the motion carried.

Meeting adjourned.

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

March 25, 1985

MR. CHAIRMAN -- MEMBERS OF THE COMMITTEE

HOUSE BILL NO. 2333, AS AMENDED BY THE HOUSE COMMITTEE, INCREASES BY 50% THE AMOUNT OF THE MOTOR DEALERS STAMP TAX PAID IN LIEU OF ADVALOREM INVENTORY TAX. THE TAX WOULD CONTINUE TO BE DETERMINED BY THE GROSS WEIGHT OF THE VEHICLE, EXCEPT IN THE CASE OF MOTORCYCLES AND MOTORIZED BICYCLES. THE COMMITTEE ALSO AMENDED THE BILL TO PROVIDE THAT THE TAX STAMP BE INDEXED ANNUALLY BASED ON THE CONSUMER PRICE INDEX. THE AMOUNT FOR EACH WEIGHT CLASS SHALL BE EQUAL TO AN AMOUNT DETERMINED BY MULTIPLYING THE CURRENT YEAR'S TAX STAMP AMOUNT BY A PERCENTAGE EQUAL TO 100 PLUS THE CUMULATIVE PERCENT INCREASE IN THE AVERAGE U.S. AVERAGE CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS FOR THE 12 MONTH PERIOD ENDING OCTOBER 31 OF THE CURRENT CALENDAR YEAR OVER THAT FOR THE 12 MONTH PERIOD ENDING OCTOBER 31, 1984, ROUNDED TO THE NEAREST DOLLAR AMOUNT.

HOUSE BILL NO. 2333 AS I ORIGINALLY SUBMITTED THE BILL WAS TO REPEAL THE MOTOR VEHICLE DEALER'S STAMP TAX.

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

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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 LOW VALUE AND HAVE NOT OR NEVER WILL RECEIVE THE TAX INCREASES EXPERIENCED BY OTHER MERCHANTS. CONSIDER THE PLIGHT OF THE IMPLEMENT DEALER. WE IN THE HOUSE COMMITTEE HEARD FROM THEM THIS YEAR. IS IT FAIR?

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 CUSTOMER'S 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 INITIAL PLAN THIS SESSION WAS TO AGAIN INTRODUCE A BILL TO PUT THE STAMP TAX ON A VALUE BASIS. IN ONE OF MY WEAKER MOMENTS I ALLOWED MYSELF TO BE TALKED INTO THE REPEALER BILL.

I TOLD THE HOUSE TAX COMMITTEE THAT I FELT THE LEAST WE SHOULD EXPECT OF ALL AUTOMOBILE DEALERS IS A STAMP TAX BASED ON VALUE THAT EQUATES REASONABLY TO THE MERCHANTS INVENTORY TAX.

PAGE 3

THE AUTOMOBILE DEALERS LOBBYIST DID NOT LIKE THE "VALUE" APPROACH AS THEY FEARED THE DEFINITION OF "WHAT IS VALUE?" IT WAS IMPLIED THAT THEY WOULD GO ALONG WITH AN INCREASE BUT THAT THEY WANTED TO CONTINUE ON THE WEIGHT BASIS SO THERE WOULD BE UNIFORM TAX STATEWIDE. I AM SURE YOU WILL HEAR FROM SOME INDIVIDUAL DEALERS RELATIVE TO THE TAX INCREASE. WE IN THE HOUSE DID.

THE BILL YOU SEE IS REALLY NOT MINE BUT CERTAINLY HAS MY BLESSING. REPRESENTATIVES FOX AND LOWTHER CAME UP WITH THE WEIGHT AND INDEXING AMENDMENTS SO THE DEALERS WOULD NOT HAVE THE PROBLEMS THEY ENVISIONED WITH THE VALUE BASIS. THE COMMITTEE BY A SUBSTANTIAL MAJORITY APPROVED THE BILL AS AMENDED. ATTACHED IS A BRIEF HISTORY YOU MIGHT FIND HELPFUL.

THANK YOU -- ARE THERE ANY QUESTIONS?

A handwritten signature in cursive script, reading "Homer Jarchow". The signature is written in dark ink and is positioned in the lower-left quadrant of the page.

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.

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:jl

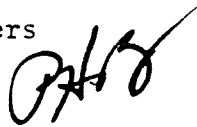
Attachment

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

2

Prather H. Brown, Jr., CKA
County Appraiser

October 17, 1980

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.

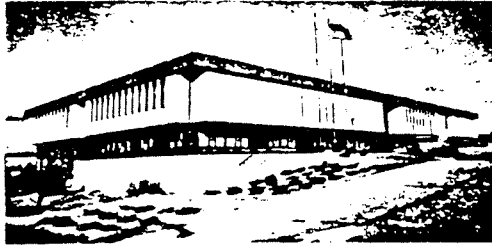
Thanking you for your time and effoet.

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



Kansas County Appraiser's Association
Member

City - County Government Center

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

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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

DTW/nd
enclosure

MINUTES OF THE House COMMITTEE ON Assessment and Taxation

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

on March 23, 1981 1981

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 1981

These minutes of the meeting held on _____ 1981 were

considered, corrected and approved.



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 \$100,000 additional revenue for calendar year 1982.

Rep. Schmidt stated that during the interim committee meetings he had 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.

_____ called attention to a proposed amendment by the _____ Municipalities, relating to the distribution



**League
of Kansas
Municipalities**

3/25 Attachment 2

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL / 112 WEST SEVENTH ST., TOPEKA, KANSAS 66603 / AREA 913-354-9565

March 21, 1985

Senator Fred Kerr, Chairman
Senate Committee on Assessment and Taxation
State Capitol--Room 143-N
Topeka KS 66612

Dear Fred:

Some conflicts will prevent League testimony at your hearing next Monday on HB 2333, to increase the stamp tax on motor vehicle dealer inventories. However, I want to advise you of the League's support of the bill, as passed by the House. We think the tax increase is fair and reasonable.

Sincerely,

E.A. Mosher
Executive Director

EAM:grs

Attachment 2

Kansas Association of Counties

Serving Kansas Counties

Suite D, 112 West Seventh Street, Topeka, Kansas 66603

Phone 913 233-2271

Senator Fred Kerr

Members Senate Assessment and Taxation Committee:

I am Bev Bradley, from the Kansas Association of Counties. I appear today in support of HB 2333. It is my understanding that the Motor Vehicle Dealers Stamp Tax has not produced the amount of revenue anticipated. In fact, I am told counties have received about half of what was promised at the time of enactment. I also understand the amount of Stamp Tax has not been changed since 1981. This bill is a step in the right direction. I urge your support for HB 2333.

Testimony Before the
SENATE COMMITTEE ON ASSESSMENT AND TAXATION

by the

KANSAS MOTOR CAR DEALERS ASSOCIATION

Monday, March 25, 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, the 385 member trade association representing the franchised new car and truck dealers of Kansas. I appear before you this morning to express our sincere and strong opposition to House Bill 2333.

The bill you have before you was originally introduced in the House to repeal the current inventory tax stamp system which has been in effect since January 1, 1979. KMCDA appeared in opposition to the bill before the House Assessment and Taxation Committee when it was in the repeal form. During the Committee's discussion, the House Assessment and Taxation Committee amended the bill to its present form. Since the bill was amended during Committee discussion, KMCDA did not have an opportunity to address the provisions of the bill before the House Committee amended it to its present form. We would also like to point out that the bill, after no debate on General Orders in the House, only passed that body by a vote of 65-60, far from what would be considered strong support for the argument that the dealers are not paying their fair share of taxes as well as strong support for an increase in taxes from one portion of the business community.

To give a brief history of the tax stamp act for those members of the Committee who are not familiar with the act, the 1978 Legislature enacted K.S.A. 79-1016 through 79-1023, which 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 every vehicle when the vehicle is sold at retail. Under this system, every vehicle sold by a licensed Kansas dealer has an in lieu of tax paid on the vehicle by the selling dealer. A dealer may not sell a vehicle at retail without affixing the stamp, and the tax is paid by the dealer and may not be, "assessed in addition to the agreed upon price of the vehicle" (K.A.R. 92-53-6).

During the 1980 summer interim, a special committee on assessment and taxation again reviewed the tax stamp act, after one year under the system. From that interim study came Senate Bill 4 of the 1981 session, which adjusted upward the dollar amount of the stamps which were purchased by the dealers to pay their in lieu of inventory tax. With the exception of the new and used motorcycle class, all stamps at that time were increased \$3.00 per stamp to the present level.

When KMCDA asked for the passage of this act in 1978, and then supported the \$3.00 per stamp increase in 1981, we did so because it is a fair and equitable way for dealers to pay tax on their inventories, and because we want to pay our fair share of the tax. We firmly believe that under the

act as a whole, and under the rates which are currently in the statutes, that we are carrying our fair share of the tax burden and paying as much under the tax stamp act as we would under the ad valorum system. The tax stamp act simply provides vehicle dealers with an easier way to pay the tax.

Many will and have argued that the dealers of Kansas are not paying their fair share of the inventory tax because the vehicle inventory is not on the personal property tax rolls. They will sight thousands, and possibly millions, of dollars in vehicle inventory which is listed on the county tax rolls and which would generate X amount of dollars under the ad valorum system. Then they will tell you that they only received Y amount of dollars from the sale of tax stamps, which is less than the X dollars which should have been generated under the ad valorum system.

KMCDA contends that while all of this may look good on paper, we do not feel that if true figures were used, the results would be as dramatic as the proponents of this bill want you to believe. This has nothing to do with the honesty or integrity of those providing the figures or supporting the bill. It simply is based on the fact that the figures being used are not the same figures which would be used if dealer's inventory was on the old system. The figures are not correct for two reasons; 1) the statute requires that dealers report the "average of fair market value in money of such inventory for motor vehicles held for resale,..." (K.S.A. 79-1022) even though the inventory is not on the tax rolls, and 2) the dealers are not using "creative" accounting procedures to control or adjust their inventory for tax purposes.

Unlike when the inventory was placed on the tax rolls, dealers are now reporting what their inventory actually is for the tax year. They have no reason to adjust their inventory downward during the tax year for inventory

tax purposes. This is where the "creative" accounting plays its role in the respect that dealers did adjust their inventory downward so that little or no inventory was in stock on tax day. As many will remember, at one time tax day was January 1st. If on January 1st you had little or no inventory, you paid little or no tax. The situation is a little different today 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 the new model introduction, when traditionally inventories are at their lowest, at least in the case of new vehicle dealers.

Under the old 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 business subject to inventory taxes doing exactly the same thing.

Given this, then the figures which are being provided to the counties by vehicle dealers are considerably higher than what would be reported under the old system, and therefore, it is next to impossible to come up with any type of figure which would accurately reflect that counties are losing money due to the tax stamp system.

KMCDA members tell us that they feel they are paying as much, if not more, tax under this system than they did under the old system. This is especially true now with the increase in vehicles sales which we have enjoyed during the past year, and with the increased sales expected during the 1985 and 1986 sales years. Additionally, we are sure that some used vehicle dealerships are paying much more tax now than they did under the old system for the mere fact that they can no longer avoid the tax through "creative" accounting. Under the old system, some used vehicle dealerships simply ceased to exist around tax time, thereby totally avoiding inventory taxes.

While we are pleased that the House Committee recognized that the tax stamp system is a fair way for dealers to pay their tax and did not agree that the entire system should be repealed, we cannot and do not agree with the increases which they added to the act as well as the indexing of the prices based on the Consumer Price Index (CPI).

First of all, we feel that a 50% increase in the price of the stamp is excessive and not justified. As pointed out earlier, there are no accurate figures to base or justify the increase with. Additionally, while a 50% increase on a \$6.00 stamp is only \$3.00, the 50% increase on the \$33.00 stamp is a large \$16.50 increase, for a total stamp price of \$49.50. We feel that all of the increases are too high and unfair, and that a straight percentage increase of all stamps throws the entire system out of balance.

Secondly, the bill as written would take effect July 1st of this year, and mandates that the Secretary of Revenue, on December 1, 1985, recompute the amount of the tax stamp based on the CPI for calendar year 1986. This would effectively give two increases in the tax stamp price in a matter of 6 months. Since we oppose any increase in the present stamp prices, two increases in 6 months is totally unacceptable.

Thirdly, we do not feel that indexing to the CPI or any other measure is a good idea. This bill would create a never-ending acceleration in the price of the stamp. As you can see by the chart we have provided as an attachment to this testimony, based on an annual increase of 5% in the CPI, nearly all stamps would increase at least \$1.00 per year, and the highest bracket would increase \$3.00 per year, with no end in sight. We would much prefer coming back to the Legislature on an occasional basis and working out

a mutually agreed to increase rather than have a never ending cycle of increases in the stamp cost. Additionally, we would point out that if we get into another cycle of high inflation rates such as we had a few years ago, the increases would be much more dramatic than what the chart reflects.

Finally, already this session, and possibly again in the final weeks of this session, the Senate has dealt with legislation which would have taken merchant's, manufacturer's, and livestock inventories off the personal property tax rolls. Tomorrow this Committee will hear testimony on a bill which would give a direct income tax credit for a percentage of the inventory taxes which are paid on merchant's, manufacturer's, and livestock inventory; a bill which has already passed the House of Representatives.

With a growing sentiment within the Legislature that inventory taxes are unfair and that something needs to be done to provide relief to those who pay inventory taxes, we can only wonder if a bill to raise the inventory tax paid by one segment of the business community is consistent with what is being attempted through other legislation.

Mr. Chairman and members of the Committee, we feel that passage of HB 2333 in its present form would place an unfair tax burden on all motor vehicle dealers. The increase in the bill before you is unjustified and unsubstantiated. The indexing provisions would only serve to accelerate the price of the stamp, thereby putting it farther out of balance. And, the increase in the price of the stamps to the dealers on July 1st and again on January 1st is simply unfair.

We respectfully request that if any action be taken on this bill, that the Committee report it unfavorably for passage.

I thank you for your time and attention, and for allowing me to bring before you the views of the franchised dealers of Kansas, and I will attempt to answer any questions you may have.

ATTACHMENT #1

| <u>Vehicle Weight</u> | <u>Current</u> | <u>HB 2333</u> <u>(July 1st)</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|-------------------------------|----------------|-------------------------------------|-------------|-------------|-------------|-------------|
| Used Motorcycle | \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 |
| New Motorcycles | \$ 1 | \$ 2 | \$ 2 | \$ 2 | \$ 2 | \$ 2 |
| Used under 3000 | \$ 5 | \$ 7.50 | \$ 8 | \$ 8 | \$ 9 | \$ 9 |
| New under 3000/Used 3000-4000 | \$ 6 | \$ 9 | \$ 9 | \$ 10 | \$ 11 | \$ 12 |
| New 3000-4000/Used 4000-4500 | \$ 8 | \$ 12 | \$ 13 | \$ 14 | \$ 15 | \$ 16 |
| New 4000-4500/Used 4500-8000 | \$ 10 | \$ 15 | \$ 16 | \$ 17 | \$ 18 | \$ 19 |
| New 4500-8000 | \$ 12 | \$ 18 | \$ 19 | \$ 20 | \$ 21 | \$ 22 |
| Used 8000+ | \$ 18 | \$ 27 | \$ 28 | \$ 29 | \$ 30 | \$ 32 |
| New 8000+ | \$ 33 | \$ 49.50 | \$ 52 | \$ 55 | \$ 58 | \$ 61 |

Calculations are based on an estimated 5% per year increase in the CPI.