

Approved February 24, 1986
Date

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. ~~xxx~~ on Thursday, February 20, 1986 in room 519-S of the Capitol.

All members were present ~~except~~ XXXX:

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:

Harley Duncan, Department of Revenue
Gary Rhodus, AT&T
Janet Robinson, MCI Telecommunications
Kurt Furst, GTE Sprint
David Litwin, Kansas Chamber of Commerce and Industry
Ron E. Calbert, United Transportation Union
Mary E. Turkington, Kansas Motor Carriers Association
Margaret Bearse, League of Women Voters
Frances Kastner, Kansas Food Dealers Association
Charles Nicolay, Kansas Oil Marketers

S.B. 575 - Sales tax on long distance services

Harley Duncan explained that the bill would amend the retail sales tax act to include those interstate long distance telephone calls that originate from and are billed to a telephone in Kansas. The fiscal note on the bill is \$4.5 million. Secretary Duncan estimates that approximately 69% of the increase would be experienced by residential customers and the remaining 31% by business and commercial users.

Gary Rhodus testified in opposition to the bill (Attachments 1 and 2). He gave several reasons for his opposition: businesses will be discouraged from locating in Kansas, large customers may choose to "bypass" through private networks, questions about how the bill would be interpreted, the adverse impact of the bill would outweigh the amount of revenue generated, the tax would extend to local jurisdictions and the bill would result in a multiplying cost to consumers. Mr. Rhodus urged that the Committee take no action before the completion of a study initiated by the Council of State Planning Agencies.

Janet Robinson told the Committee that MCI Telecommunications opposes the bill and concurs with the testimony presented by AT&T.

Kurt Furst spoke in opposition to the bill. He provided an illustration of "Kansas Business Customer Concentrations" (Attachment 3). Mr. Furst feels that the benefits of the bill will be far outweighed by the potential bypass efforts of large users. He said that rural areas would be affected most by bypassing. He pointed out that Kansas City users could simply change their origination points to the Missouri side. Senator Burke asked when bypass becomes economically feasible for a company. Mr. Furst estimated that companies having costs of \$100,000 or more yearly would probably consider taking specific action to reduce those costs.

David Litwin said he neither opposes nor favors the bill (Attachment 4). He discussed concerns that the bill would work in opposition to efforts to encourage economic development.

S.B. 536 - Increase in sales and compensating use tax rates; increase in sales tax refunds on food

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,
room 519-S Statehouse, at 11:00 a.m./~~p.m.~~ on February 20, 1986

Ron E. Calbert testified that he supports the bill provided that food purchased at a grocery store for human consumption be exempt (Attachment 5).

Mary E. Turkington urged that S.B. 536 be passed (Attachment 6). She discussed the plight of the motor carrier industry and recent increases in operating costs.

Margaret Bearse testified in support of the bill (Attachment 7).

Frances Kastner spoke in favor of S.B. 536 (Attachment 8). She urged that an administrative allowance of 3% up to a maximum of \$100 per month be allowed. Ms. Kastner provided data on how much is spent on actual food items by various food plans and family sizes.

Charles Nicolay testified in favor of the bill (Attachment 9).

Testimony of Bev Bradley, Kansas Association of Counties, urging that counties be provided with funds necessary for the implementation of reappraisal was distributed (Attachment 10).

Senator Karr moved that the minutes of the February 19 meeting and the February 17 joint meeting with the Senate Education Committee be approved. Senator Mulich seconded the motion, and the motion carried.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
4/20/86	H Duncan	Topeka	Dept of Rev
	Frances Kastner	Topeka	Ks Food Dealers
	Margaret Bease	Lawrence	LWVK
	JEFF RUSSELL	TOPEKA	UNITED TEL.
	Karen J. Matson	Topeka	KCC
	Bill Schultz	TOPEKA	AT&T
	Joe Dwigan	K City	KCPL
	Wilbur G Leonard	Topeka	Ks Tel. Assn
	Janet Robinson	Topeka	MCI Telecom
	KICK EMMOLD	TOPEKA	AT&T
	Charles Nicolay	Topeka	Ks Oil Marketers Assn
	RON CALBERT	NEWTON	United Transportation Union
	Roger BARR	TOPEKA	BRAC
	Patricia Wiechman	Topeka	K. A. D. R. A.
	Joy Collins	TOPEKA	K-NEA
	Tom Whitaker	Topeka	Ks Motor Carriers Assn
	BRUCE GRAHAM	Topeka	Ks Motor Carriers
	MARY E TURKINGTON	Topeka	Kansas Motor Carriers Assn
	DAVID HARBER	OLATHE	Close Up Kansas
	Jennifer Lockwood	Olathe	Close-Up Kansas
	DAN MCGEE	GREAT BEND	CENTEL/WESTERN POWER
	TURT FLRST	Overland Park	GTE SPRINT
	Ed Schaub	Topeka	SWIBT

BEFORE THE
KANSAS SENATE COMMITTEE ON
ASSESSMENT AND TAXATION

REGARDING
SENATE BILL 575
FEBRUARY 20, 1986

COMMENTS OF
GARY RHODUS
AT&T DISTRICT MANAGER -- TAX LEGISLATION

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE:

MY NAME IS GARY RHODUS AND I AM DISTRICT MANAGER OF TAX LEGISLATION FOR AT&T. I AM A GRADUATE OF KANSAS STATE UNIVERSITY WITH A BACHELOR OF SCIENCE DEGREE IN BUSINESS ADMINISTRATION. I HAVE BEEN IN THE TELECOMMUNICATIONS BUSINESS FOR 18 YEARS, 6 OF WHICH HAVE BEEN DIRECTLY INVOLVED WITH TAX MATTERS. I AM A CERTIFIED SALES TAX MEMBER OF THE INSTITUTE OF PROPERTY TAX.

I AM HERE TODAY TO EXPRESS MY COMPANY'S OPPOSITION TO SENATE BILL 575 WHICH EXTENDS THE KANSAS STATE SALES TAX TO INTERSTATE TELEPHONE SERVICES. PLEASE UNDERSTAND FROM THE OUTSET THAT AT&T HAS NO PARTICULAR AXE TO GRIND IN THAT THE PROPOSED CHANGE INVOLVES A TAX ON AT&T'S CUSTOMERS, NOT ON AT&T. NEVERTHELESS, I COME BEFORE YOU TODAY TO EXPRESS AT&T'S CONCERN WITH BOTH THE-- DISCRIMINATORY AND ECONOMIC RAMIFICATIONS OF SB 575.

IN THIS BILL, NUMEROUS DISCRIMINATION ISSUES ARISE. FOR INSTANCE, WHAT IS "TELEPHONE SERVICE" TODAY? WHILE SB 575 WOULD EXTEND THE SALES TAX TO INTERSTATE "TELEPHONE SERVICE" IT DOES NOT DEFINE WHAT IT MEANS BY "TELEPHONE SERVICE." IS IT THE SAME AS TELECOMMUNICATION SERVICE? DOES THIS BILL INTEND TO TAX DATA TRANSMISSION SERVICES THAT USE IDENTICAL AND IN SOME CASES THE SAME FACILITIES AS THOSE USED FOR TRADITIONAL TELEPHONE CALLS? WHO WILL BE TAXED UNDER THIS BILL? HOTELS, MOTELS, RESELLERS, SMART BUILDING OPERATORS, TRADITIONAL TELEPHONE COMPANIES, INTEREXCHANGE CARRIERS? WHAT WILL BE TAXED? TRADITIONAL MESSAGE TELEPHONE

SERVICE, WATS, PRIVATE LINE, CELLULAR RADIO, BEEPERS, CABLE TV COMPANIES, FACSIMILE SERVICES, ELECTRONIC MAIL?

THE BOTTOM LINE IS THAT TAXING TELECOMMUNICATIONS SERVICES TODAY IS MUCH MORE COMPLEX THAN IT WAS A FEW SHORT YEARS AGO. THE TYPES OF ISSUES THAT WILL ARISE FROM SB 575 TRANSCEND THE ISSUES GENERALLY ASSOCIATED WITH TAXING INTERSTATE SERVICES, AND GO DIRECTLY TO THE VERY HEART OF WHAT IS AND WHO PROVIDES TELEPHONE SERVICE TODAY. HOWEVER, AS POTENTIALLY SERIOUS AS THESE DISCRIMINATORY ISSUES ARE, THERE ARE ALSO VALID ECONOMIC AND BUSINESS REASONS FOR NOT ADOPTING SB 575. SOME OF THE MORE IMPORTANT REASONS ARE:

- * THE IMPACT THIS BILL WILL HAVE ON THE BUSINESS CLIMATE IN KANSAS, PARTICULARLY AS TO HOW IT IMPACTS HIGH-TECH BUSINESSES.
- * THE IMPACT THIS BILL WILL HAVE ON THE REAL AND PRESENT THREAT OF BYPASS AND THE FLOW THROUGH EFFECT ON LOCAL RATES.
- * THE POTENTIAL REVENUE GAIN FOR THE STATE VS. THE ECONOMIC RISK OF IMPOSING THE TAX.
- * THE ADDITIONAL ADMINISTRATIVE PROBLEMS CREATED FOR THOSE OF US WHO COLLECT AND REMIT THE TAX, AS WELL AS FOR THE STATE ITSELF, IN THAT LOCALITIES UNDER CURRENT KANSAS LAW WILL ALSO BE ABLE TO IMPOSE THE TAX.
- * THE FLOW THROUGH EFFECT THIS TYPE OF TAX HAS ON THE

CITIZENS OF THE STATE OF KANSAS.

LOOKING FIRST AT THE IMPACT THIS BILL WILL HAVE ON THE STATE OF KANSAS' BUSINESS CLIMATE, ONE MUST CONSIDER THE IMPACT THIS TYPE OF TAX WILL HAVE ON THE DECISIONS OF BUSINESSES CONSIDERING LOCATING IN THE STATE. IN A RECENT STUDY COMMISSIONED BY THE TWIN CITIES METROPOLITAN COUNCIL IN MINNEAPOLIS, MINNESOTA, IT WAS REPORTED THAT 40% OF THE BUSINESSES SURVEYED SAID TELECOMMUNICATIONS AVAILABILITY WAS A MAJOR FACTOR IN MAKING SITE DECISIONS. I SUBMIT THAT THESE BUSINESSES, OBVIOUSLY BEING HEAVY USERS OF TELECOMMUNICATIONS SERVICES, WOULD BE QUICK TO POINT OUT THESE SERVICES MUST ALSO BE AFFORDABLE. IF I HAVE TO PAY A 3% OR MORE PREMIUM ON MY INTERSTATE TELECOMMUNICATION USE IN KANSAS VIS-A-VIS NEBRASKA, MISSOURI OR ANY NUMBER OF OTHER MIDWESTERN STATES, I MIGHT BE INCLINED TO LOCATE MY BUSINESS OUTSIDE OF KANSAS.

THE BUSINESS IMPACT OF EXTENDING A TAX TO INTERSTATE SERVICES SHOULD NOT BE CONSIDERED LIGHTLY. THERE IS NO QUESTION THAT WE ARE IN THE INFORMATION AGE. MOST BUSINESSES, BOTH LARGE AND SMALL, USE AN EXTRAORDINARILY LARGE AMOUNT OF "TELECOMMUNICATIONS SERVICES" IN ORIGINATING, MOVING AND RECEIVING INFORMATION. THESE SERVICES INCLUDE NOT ONLY TRADITIONAL TOLL SERVICES, BUT IN TODAY'S WORLD ALSO INCLUDE DATA OR COMPUTER SERVICES, FACSIMILE SERVICES, ENHANCED MAIL SERVICES, VIDEO SERVICES AND MANY OTHERS. THE COMBINED BILLING FOR THESE SERVICES CAN RUN INTO HUNDREDS OF THOUSANDS OF DOLLARS FOR MANY BUSINESSES. A COMPANY HAVING THE

OPPORTUNITY AND CHOICE OF WHERE TO LOCATE, ESPECIALLY IF THEY ARE A LARGE USER OF "COMMUNICATIONS SERVICES", IS LIKELY TO SELECT A LOCALITY THAT DOES NOT TAX ONE OF ITS LARGEST COST COMPONENTS.

THE SECOND AREA OF CONCERN IS A NATURAL FOLLOW-UP TO THE FIRST. THAT IS, THE POTENTIAL IMPACT THAT A TAX ON INTERSTATE, OR INTRASTATE TELECOMMUNICATIONS SERVICES FOR THAT MATTER, CAN HAVE ON THE REAL AND PRESENT THREAT OF BYPASS. THE FLORIDA PUBLIC SERVICE COMMISSION STATED IN ITS ACCESS REPORT ISSUED IN AUGUST OF 1984: "WITH THE EMERGENCE OF COMPETITION IN THE TELECOMMUNICATIONS INDUSTRY, THE CURRENT REVENUES OF LOCAL EXCHANGE COMPANIES (LECS) ARE BEING THREATENED BY SEVERAL FACTORS. ONE OF THESE IS BYPASS." WHY IS THIS IMPORTANT TO KANSAS? AS IN THE CASE OF BUSINESSES LOOKING TO LOCATE OR RELOCATE, BUSINESSES ALREADY LOCATED IN KANSAS MAY BE FORCED TO CONSIDER ALTERNATIVE METHODS OF INFORMATION MOVEMENT AND MANAGEMENT. GIVEN THAT A BUSINESS ALREADY LOCATED IN KANSAS MIGHT NOT BE INCLINED TO MOVE OUT OF THE STATE, IT MIGHT NEVERTHELESS CHOOSE TO EMBARK UPON THE TECHNOLOGICALLY FEASIBLE AND ECONOMICALLY JUSTIFIABLE BYPASS OF TRADITIONAL COMMUNICATIONS SERVICES. IF THEY DO, THEN ONCE AGAIN SMALL BUSINESSES AND RESIDENTIAL USERS WHO CANNOT ECONOMICALLY JUSTIFY BYPASS WILL BE LEFT TO BEAR A LARGER AND LARGER SHARE OF LOCAL EXCHANGE SERVICE COSTS.

IN ITS SUMMARY, THE FLORIDA PUBLIC SERVICE COMMISSION STUDY STATES: "WHILE NOT ALL THE ASSUMPTIONS USED HERE APPLY EQUALLY TO ALL CUSTOMERS, IT SHOULD BE OF CONCERN TO COMPANIES AND REGULATORS

ALIKE THAT A RELATIVELY SMALL NUMBER OF CUSTOMERS CAN HAVE A DISPROPORTIONATELY LARGE IMPACT ON REVENUE, SHOULD BYPASS BE UNDERTAKEN." AT AT&T, WE ESTIMATE THAT 20% OF OUR CUSTOMERS GENERATE 80% OF OUR REVENUES. SHOULD EVEN A SMALL PERCENTAGE OF THOSE CUSTOMERS LEAVE THE NETWORK, THE REVENUE IMPACT WOULD BE QUITE SEVERE.

ACCORDINGLY, BYPASS IS NOT ONLY A SERIOUS THREAT FOR THE LOCAL EXCHANGE COMPANIES, THE INTEREXCHANGE CARRIERS SUCH AS AT&T, MCI, SPRINT, AND OTHERS, IT IS ALSO A SERIOUS THREAT TO THE TAX BASE OF A JURISDICTION. ONCE AGAIN, THE FLORIDA PSC REPORT CONCLUDED: "ONCE A SYSTEM IS ESTABLISHED FOR ONE PURPOSE, THE INCREMENTAL COSTS OF EXPANDING IT MAY BE NOMINAL." TO FURTHER EMPHASIZE THIS POINT, I REFER YOU TO A MORE RECENT OREGON PUBLIC UTILITY COMMISSION ORDER AUTHORIZING INCREASED RATES FOR LOCAL TELEPHONE COMPANIES AND DECREASED RATES FOR INTRASTATE TOLL. IN THAT ORDER, COMMISSIONER MAUDLIN STATED THAT LARGE USERS WITH THE CAPABILITY TO SET UP THEIR OWN NETWORKS WOULD BE DRIVEN TO BYPASS THE LOCAL TELEPHONE COMPANIES IF INTRASTATE RATES WERE NOT REDUCED. HE FURTHER POINTED OUT THAT THE EFFECT OF BYPASS ON THE LOCAL TELEPHONE COMPANIES COULD BE DISASTROUS. I SUBMIT TO YOU THAT INCREASED TAXES ARE PERCEIVED BY THE GENERAL PUBLIC AS NOTHING MORE THAN INCREASED RATES. THIS MAY HAVE BEEN ACCEPTABLE WHEN THERE WERE NO OTHER ALTERNATIVES TO INFORMATION MOVEMENT, BUT TODAY THERE ARE ALTERNATIVES.

A THIRD AREA OF CONCERN IS WHETHER THE STATE HAS SUFFICIENTLY

CONSIDERED THE RELATIVELY INSIGNIFICANT INCREASE IN REVENUES THAT THIS TAX WOULD GENERATE FOR THE STATE IN COMPARISON TO ITS IMPACT ON INDIVIDUAL CONSUMERS. WHILE THE TAX WILL HAVE A DIRECT 3% IMPACT ON CONSUMERS IT WILL APPARENTLY GENERATE A RELATIVELY SMALL AMOUNT OF ADDITIONAL REVENUES FOR THE STATE. IN LIGHT OF THE PRECEDING COMMENTS A QUESTION MUST BE ASKED -- IS THE POTENTIAL REVENUE GAIN WORTH THE RISK?

THE FOURTH AREA OF CONCERN IS THAT, UNDER CURRENT KANSAS LAW, THE IMPACT OF THIS TAX WILL NOT BE LIMITED TO THE STATE LEVEL BUT WILL ALSO EXTEND TO LOCAL JURISDICTIONS. THIS WILL NOT ONLY ADD TO THE ECONOMIC IMPACT OF THIS BILL BUT IT WILL ALSO CREATE SERIOUS ADMINISTRATIVE PROBLEMS AND ADDITIONAL COSTS FOR THE COLLECTING COMPANIES. IT WOULD APPEAR THAT THE STATE ITSELF WILL INCUR ADDITIONAL COSTS IN THAT THE STATE ADMINISTERS THE LOCAL TAX. WHILE BOTH AT&T AND THE STATE ARE CURRENTLY SET UP TO HANDLE LOCAL TAXES, THERE IS NO ASSURANCE THAT THIS TAX WILL BE UNIVERSALLY ADOPTED, OR REJECTED, AND AS A RESULT, ANOTHER LAYER OF RECORD KEEPING, DISTRIBUTION AND AUDIT PROBLEMS WILL BE CREATED FOR BOTH THE COMPANY AND THE STATE.

OUR FINAL CONCERN HAS TO DO WITH THE FLOW THROUGH EFFECT A TAX OF THIS NATURE WILL HAVE ON THE CITIZENS OF KANSAS. IT IS HARD TO IMAGINE A SERVICE THAT IS MORE INTEGRALLY INVOLVED IN PEOPLES' LIVES THAN TELECOMMUNICATIONS. THIS TAX WILL NOT ONLY ADD A NEW COST DIRECTLY TO THE CONSUMER, BUT IT WILL ALSO RESULT IN A MULTIPLYING FLOW THROUGH EFFECT IN THE COST OF VIRTUALLY EVERY

PRODUCT AND SERVICE PURCHASED FROM VENDORS IN KANSAS.

TO THE DEGREE THAT EXTENSION OF THE SALES TAX TO INTERSTATE SERVICES WILL BRING ADDITIONAL PRESSURE TO BEAR ON THE COST OF TELECOMMUNICATION SERVICES, THE TAXING OF INTERSTATE SERVICE WILL BE WORKING AGAINST THE GOAL OF MAINTAINING AFFORDABLE, UNIVERSAL TELEPHONE SERVICE. IT WILL ALSO BE WORKING AGAINST AT&T'S EFFORTS TO BRING THE BENEFITS OF COMPETITION TO THE TOLL USER. THIS IS ESPECIALLY SIGNIFICANT IN A STATE LIKE KANSAS WHICH IS WORKING HARD TO EXPAND ITS ECONOMIC BASE.

THEREFORE, IN LIGHT OF THE SIGNIFICANT IMPACT THIS TAX WILL HAVE ON THE CITIZENS AND BUSINESSES OF THE STATE OF KANSAS, AND IN VIEW OF THE QUESTIONABLE BENEFITS TO BE RECEIVED BY THE STATE, AT&T RESPECTFULLY URGES THE KANSAS LEGISLATURE TO REJECT THE EXTENSION OF THE KANSAS SALES TAX TO INTERSTATE TELEPHONE SERVICES. AT THE VERY LEAST, THIS BILL SHOULD BE TABLED OR WITHDRAWN PENDING A COMPLETE STUDY OF THE TELECOMMUNICATIONS INDUSTRY IN THE NEWLY COMPETITIVE MARKETPLACE, AND UNTIL THE BILL'S FULL IMPACT ON THE RESIDENTS AND BUSINESSES OF KANSAS CAN BE MEASURED.

IN CLOSING, I BRING TO YOUR ATTENTION THAT GOVERNOR KERREY OF NEBRASKA HAS VOLUNTEERED TO BE THE LEAD GOVERNOR FOR THE COUNCIL OF STATE PLANNING AGENCIES' 1986 TELECOMMUNICATIONS PROJECT. THE COUNCIL IS AFFILIATED WITH THE NATIONAL GOVERNORS ASSOCIATION AND HAS IDENTIFIED THE ISSUES OF TELECOMMUNICATIONS TO BE ITS 1986 STUDY ISSUE. GOVERNOR KERREY HAS EXPRESSED AN INTEREST IN

TELECOMMUNICATIONS AND BELIEVES STRONGLY THAT STATES MUST GET MOVING TO PREPARE FOR THE CHANGING SOCIAL AND ECONOMIC STRUCTURE EMERGING FROM THE INFORMATION AGE. THE FINAL CONCLUSIONS OF THIS STUDY ARE TO BE DISTRIBUTED TO THE GOVERNORS OF ALL FIFTY STATES. CONSIDERING THE POTENTIAL PANIFICATION OF SB 575, IT WOULD SEEM PRUDENT TO AWAIT THE OUTCOME OF THE COUNCIL'S STUDY.

IF YOU HAVE ANY QUESTIONS, I WILL BE HAPPY TO TRY AND ANSWER THEM. AGAIN THANK YOU FOR THE OPPORTUNITY TO EXPRESS MY COMPANY'S VIEWS BEFORE YOUR COMMITTEE.

KANSAS SENATE BILL 575
AT&T's POSITION
FEBRUARY 20, 1986

WHAT THE BILL DOES:

This bill extends Kansas' 3% retailers' sales tax on long distance service to interstate calls. This bill impacts all customers by imposing the sales tax and a local option sales tax on an interstate telephone call. Additionally, any local option sales tax could be assessed to these interstate charges.

AT&T's POSITION:

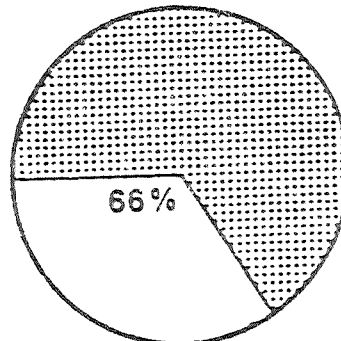
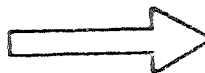
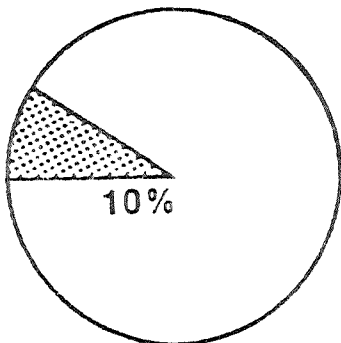
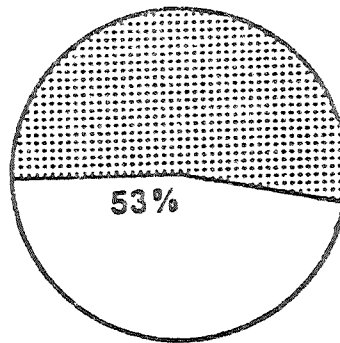
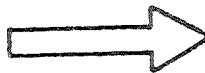
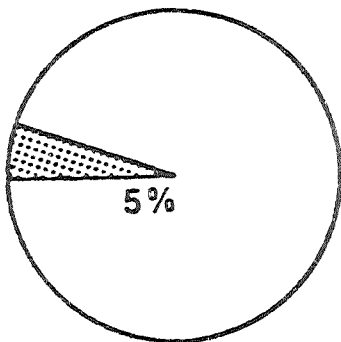
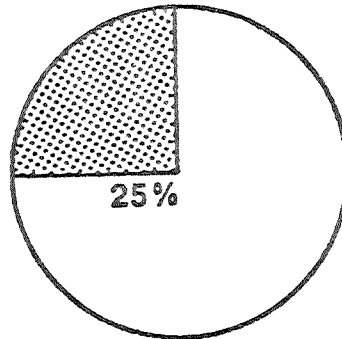
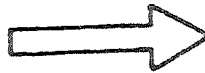
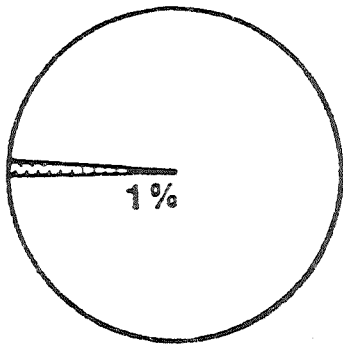
We oppose SB 575. It will impose an unfair tax on our interstate long distance customers. This bill will add an additional tax burden on competitive long distance services. Here are some reasons for our position:

1. This bill will seriously impact Kansas' communication network by imposing a state tax on interstate long distance service that is not taxed by most of the states in the country. Businesses that use long distance service will consider this interstate tax when making their decisions to move to Kansas or another state.
2. Increasing the tax burden on interstate calls will increase the probability that large business customers will "bypass" the long distance network through private networks, thus avoiding the tax altogether.
3. This bill may discriminate against AT&T Communications since the definition of "telephone service" may not be broad enough to cover all providers of interstate telecommunications services.
4. This bill will generate a relatively small amount of revenue for the state in comparison to its direct adverse impact on individual consumers.
5. Under current Kansas law, the impact of this tax will not be limited to the state level but will also extend to local jurisdictions.
6. This bill will not only add a new direct cost to the consumer, but it will also result in increasing the cost of virtually every product and service purchased from vendors in Kansas.

KANSAS BUSINESS CUSTOMER CONCENTRATIONS

BUSINESS
CUSTOMERS

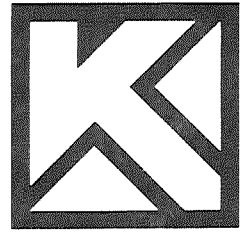
BUSINESS
MTS REVENUES



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

SB 575

February 20, 1986

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment and Taxation Committee

by

David Litwin
Director of Taxation

Mr. Chairman, members of the committee. My name is David Litwin, representing KCCI. Thank you for the chance to comment on SB 575.

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. KCCI receives no government funding.

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.

KCCI's Board of Directors has not had occasion to address the precise issue presented by this bill, and I am not here today to testify in favor of or in opposition to its passage.

Rather, I would like to emphasize a consideration that I think this committee should factor into its deliberations on this bill. Kansas is in the early stages of gearing up as never before in an effort to nurture our existing business base and attract new investment. We are concerned that SB 575 would work at cross-purposes with this overriding need.

I am informed that only five states presently tax interstate phone service, and only one - Oklahoma - is in this region. Kansas would be the sixth such state if SB 575 is enacted.

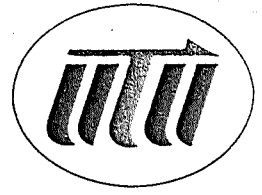
Thus to enact this bill would be to send out a signal that would conflict with our effort to create a highly competitive business atmosphere. Its most obvious potential impact would be to discourage businesses that make intensive use of interstate telephone service from locating or expanding here. Indeed, while the approximately \$5 million in new revenue that I understand this bill could produce is not insignificant, it's still quite small when compared with the state's operating budget. If this bill caused just one telephone-intensive substantial business to not come here or to relocate, the damage to the state's economy and loss of other tax revenue, especially sales and income, would probably more than offset the benefit of the additional sales tax revenue that the bill would generate.

More generally, well over half of the dollar volume of interstate phone sales is business-related. Thus this bill would add measurably to the cost of doing business in Kansas, as compared to most other states, for thousands of businesses that are already here.

We urge the committee to take these factors into consideration when it takes action on this bill. Thank you again for the chance to testify. I would be happy to try to answer any questions.

R. E. (RON) CALBERT
DIRECTOR CHAIRMAN

united
transportation
union



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NEWTON, KANSAS 67114-0726
TELEPHONE (316) 283-8041

KANSAS STATE LEGISLATIVE BOARD

STATEMENT RE: SENATE BILL NO. 536 -

Increasing the state sales tax and the refund of such taxes paid upon food.

PRESENTED TO: Senate Assessment and Taxation Committee

February 1986

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you today on Senate Bill 536. I am Ron Calbert, Director, Kansas State Legislative Board, **UNITED TRANSPORTATION UNION**. I am authorized to speak for our some seven thousand (7,000) active and retired members and their families who reside in Kansas.

Mr. Chairman, we believe there is a genuine need for some kind of an increase in revenue. For this reason, the Kansas State Legislative Board supports the one cent sales tax increase, providing the Legislature exempt food purchased at the grocery store for human consumption.

May I suggest that you accept the fact that both the rich and the poor buy groceries, but there is no doubt that the low to middle income taxpayer will reap the major benefit of sales tax relief. Mr. Chairman, is it too much to ask that a state which exempts food for animals should do the same for food for people?

I respectfully suggest that removing food from the retail sales tax is both fair and uniformly equitable. Kansas would then have a new "vehicle"

Attachment 5
Senate Tax - 2/20/86

for revenue which exempts the necessities of life and taxes the luxuries. We believe that the sales tax increase has more merit than the gasoline tax increase, or deductions on state income taxes for the amount a Kansas resident pays in federal income taxes. The Kansas State Legislative Board also believes that the state sales tax increase is more compatible than the elimination of state deductions for political contributions, along with deductions for Social Security, self employment and railroad retirement contributions.

In conclusion, I most respectfully urge the Committee to perform the necessary legislative surgery on S.B. 536 and give it life with a favorable Committee report.


RON E. CALBERT
Kansas State Legislative Director
UNITED TRANSPORTATION UNION

STATEMENT

By The

KANSAS MOTOR CARRIERS ASSOCIATION

Supporting adoption of an increase
in the state sales tax and re-affirm-
ing support for the highway funding
program adopted by the Legislature in
1983.

Presented to the Senate Assessment and
Taxation Committee, Senator Fred Kerr,
Chairman; Statehouse, Topeka, Monday,
February 17, 1986.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Mary E. Turkington, Executive Director of the Kansas Motor Carriers Association with offices in Topeka. I appear here today on behalf of the members of our Association and the highway transportation industry to add our support to Senate Bill 536 which proposes an increase in the state sales tax.

No one enjoys supporting a tax increase. Such an increase should be considered only if a demonstrated need exists for additional revenue.

We believe the need is there and that a broad-based tax that will produce revenues of the magnitude only a sales tax can generate, is the tax this Legislature should consider.

Press reports indicate that the public strongly supports a sales tax if a tax increase is to be considered. Governor John Carlin has proposed the tax increase provided in Senate Bill 536. The tax increase clearly is a recommendation of the Governor to which the Legislature may respond.

The Kansas Motor Carriers Association recognizes the need for increased funding for education, for economic development programs, and for other vital services provided for citizens of our state.

We believe in the legislative process which has and will produce workable solutions to the problems of our state.

We fully understand that the Legislature is a body politic and that political ramifications of issues always are involved in working through problems large and small that confront Kansas citizens. We respectfully suggest that those political considerations be minimized when the future of our state literally is involved.

We also ask your support for the highway funding concept that at times painfully was structured and finally adopted by the 1983 session of the Kansas Legislature.

An important component of that funding package was the transfer of sales tax collections on the sale of vehicles from the General Fund to the highway fund along with a substantial increase in fuel taxes.

The policy decision of the 1983 Legislature clearly identified such sales tax collections on the sale of vehicles as a user tax. There is indeed similar policy at the federal level through the assessment of an excise tax on equipment which goes into the Highway Trust Fund. That tax was increased substantially, incidentally, from eight percent on the wholesale price of equipment to a 12 percent tax on the retail price of such equipment in the Highway Revenue Act of 1982.

I further would point out to the Committee, that our industry has been assessed other substantial increases in federal taxes since the 1983 highway funding package was adopted in Kansas.

The tax on diesel fuel was increased an additional 6 cents per gallon effective August 1, 1984. Owners of diesel motor truck vehicles now pay a 13-cent state tax (which includes a 2-cent differential over the 11-cent-per-gallon tax on gasoline) and pay a 15-cent per gallon federal tax on diesel fuel which includes a 6-cent differential at the federal level for a combined total tax of 28 cents per gallon.

The heavy vehicle use tax also was increased from a maximum of \$240 per vehicle to \$550 per vehicle effective July 1, 1984.

Those tax increases combined with the crushing increases our industry has experienced with insurance premiums has severely impacted the financial hardship our industry already was experiencing from the economic recession.

It may be of some interest to this Committee that the number of trucking companies regulated by the Interstate Commerce Commission has increased 69 percent (more than 30,000 today) in four years, but tonnage has yet to return to the 1978 levels.

Net income for our industry has been below three percent every year since 1978. Statistics for the first three months of 1985 show that 45 percent of the carriers operated in the red. Truck taxes have nearly doubled in the past five years and our insurance premium rates have increased between 200 and 600 percent.

Appropriately, the recent Caucus Program of the Kansas Chamber of Commerce and Industry, addressed the state's aircraft industry and the 35,000 jobs estimated to be involved with that industry's production. There is a need for concern about this industry and its economic contribution to Kansas and its people.

We would remind this Committee and members of the Kansas Legislature that the motor carrier industry provides directly more than 70,000 jobs - twice that of the aircraft industry - in this state. We call for recognition of the importance of our transportation industry in any economic development program for progress and ask that you consider the impact of any additional fuel taxes on the ability of this industry literally to survive as an essential employer and taxpayer.

We believe the components of the 1983 highway funding package are fair and workable. We ask your continuing support for that program and further ask that you consider the recommendation of the Governor for an increase in the state sales tax as provided in Senate Bill 536. We thank you for the opportunity to submit these comments.

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LWVK LEAGUE OF WOMEN VOTERS OF KANSAS

Statement to the Senate Committee on Assessment and Taxation In Support of SB 536

I am Margaret Bearse speaking for the League of Women Voters of Kansas. We support SB 536 for several reasons.

First, we believe there is a genuine need for increased revenue, and if none is generated vital services and programs will be eroded, particularly those for our most needy citizens.

Second, the League recognizes that the sales tax has many of the characteristics of a good tax, such as stability and ease of administration, and accept it as part of a broad-based tax system. It is easy for taxpayers to understand and comply with, and raising additional revenue requires only minimal adjustments.

Third, we endorse the expansion of the sales tax refund program. This lessens the regressive nature of the sales tax and targets the relief to those who need it. This, theoretically, makes rebates a more efficient method of lessening regressivity. The difficulty arises in actually getting this relief to eligible persons. In the past, 38% of those eligible for this program applied. Nationwide, the percentage of eligible persons applying for an assistance program is 50%, so we have some room for improvement. Perhaps we need a more aggressive outreach program to educate local social service agencies and private helping organizations to help persons become aware of and apply for these refunds.

In conclusion, because of the financial need, the positive characteristics of the tax, and the inclusion of the refund program, we urge you to report this bill favorable for passage.



Kansas Food Dealers' Association, Inc.

2809 WEST 47th STREET SHAWNEE MISSION, KANSAS 66205

PHONE: (913) 384-3838

February 17, 1986

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FRANCES KASTNER

SENATE ASSESSMENT & TAX COMM.

RE: SB 536

EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

We appreciate the opportunity of appearing before you today to express the views of the Kansas Food Dealers Association. Our membership consists of retailers, wholesalers and distributors of food products throughout the state.

As an Association, we do NOT have a position on whether to raise the sales tax or not. We have asked our individual members to contact their own legislators expressing their own views about the need for additional taxes.

However, we have ALWAYS supported legislation to provide true sales tax relief to those who need it through the CREDIT OR REFUND METHOD. Insofar as that is addressed in this bill, we AGAIN SUPPORT IT.

Several of you have asked us how much is spent on actual food items by various sizes of families. The latest figures I have are attached and quote data submitted by the U. S. Department of Agriculture in July of 1985.

They computed the costs for food at home for four food plans -- thrifty, low-cost, moderate-cost, and liberal. They did not, however, indicate the income levels for those four plans.

We must assume that even by raising the eligibility level from \$10,000 to \$13,000 as you do in SB 536, the thrifty plan is the one most logical to use in figuring how close SB 536 comes to compensating Kansans for sales tax spent on food items.

Attachment 8
Senate Tax - 2/20/86

If we figure \$35 a week for food for a family of two, at the age of 51 and over, with a 4% sales tax it figures out to \$1.40 a week, or \$72.80 a year. Using 3% sales tax it would be \$54.60. I hope the chart will be helpful in figuring other family groups, and we will trust your wisdom at setting the amounts refundable.

When the accelerated sales tax bill first passed several years ago, we asked for an Administrative Allowance. Of course, with the economic straits experienced by the state, it was not in the budget to permit any type of allowance for the extra bookkeeping involved.

Since you are considering increasing the sales tax, we do not believe this is an unreasonable request since all our neighboring states already are providing some compensation.

**Colorado allows 3 1/3%; Missouri allows 2%;
and Oklahoma and Nebraska each allow 3%.**

As you are considering this bill, and the ones that would put Kansas in compliance to exempt food stamp purchases from all state and local sales tax, we would like to ask you to consider the FREE SERVICE rendered by grocers and other retailers in Kansas. The cost for administering this federal mandate is one more cost for our grocers to have to absorb or pass along to their customers.

We are asking you to help our Kansas businesses by permitting them to keep 3% of the sales tax they collect EACH MONTH, up to a MAXIMUM OF \$100.00 per month.

By placing the \$100 cap on the maximum amount any retailer can keep in ONE MONTH, you eliminate losing a lot of tax money to big-ticket retailers who do very little administrative paper work for transmitting sales tax on high priced items.

But those small retailers who DO most of their own work, or have to pay an accountant outside their business to figure and transmit the sales tax each month would be PARTIALLY COMPENSATED for the important service they perform for the State. Many hours are spent doing paper work FREE for some level or other of government, and usually the smaller the business, the more expensive it is to keep up with filling out all the forms.

The 3% administrative allowance we are asking you for will NOT pick up the extra cost that is involved. However, it will be viewed by the business people as an indication that legislators see the home town business just as important to our state's economy as trying to lure new industries into Kansas.

We urge you to amend SB 536 to include an Administrative Allowance for all those who collect sales tax in Kansas.

Frances Kastner, Director of Gov't. Affairs

USDA Releases Cost Of Home Food

The following is the U.S. Department of Agriculture's monthly update of the weekly cost of food at home for July 1985.

COST OF FOOD AT HOME FOR A WEEK IN JULY 1985

	Food plans			
	Thrifty	Low-cost	Moderate-cost	Liberal
Families:				
Family of 2 (20-50 years)	37.00	46.40	57.20	70.50
Family of 2 (51 years and over)	35.00	44.30	54.70	65.20
Family of 4 with preschool children	53.80	66.90	81.60	99.60
Family of 4 with elementary school children	62.00	78.80	98.30	117.90
Individuals in four-person families:				
Children:				
1-2 years	9.70	11.70	13.70	16.40
3-5 years	10.50	13.00	15.90	19.10
6-8 years	13.00	17.10	21.40	24.90
9-11 years	15.40	19.50	24.90	28.90
Females:				
12-19 years	15.90	19.00	23.00	27.70
20-50 years	15.90	19.70	23.80	30.30
51 and over	15.70	19.00	23.50	28.00
Males:				
12-14 years	16.10	22.10	27.40	32.20
15-19 years	16.70	22.90	28.30	32.80
20-50 years	17.70	22.50	28.20	33.80
51 and over	16.10	21.30	26.20	31.30

USDA's Human Nutrition Information Service computes the cost of food at home for four food plans—thrifty, low-cost, moderate-cost, and liberal.

Suzanne S. Harris, acting administrator of the Human Nutrition Information Service, said the plans consist of foods that provide well-balanced meals and snacks for a week.

In computing the costs, USDA assumes all food is bought at the store and prepared at home. Costs do not include alcoholic beverages, pet food, soap, cigarettes, paper goods, and other nonfood items bought at the store.

"USDA costs are only guides to spending," Harris said. "Families may spend more or less, depending on such factors as where they buy their food, how carefully they plan and buy, whether some food is produced at home, what foods the family likes, and how much food is prepared at home.

*From "KANSAS City Grocer"
January 1986*

Statement Prepared For The
Senate Assessment & Taxation Committee
RE: SB 536, Sales Tax Increase
BY: Charles H. Nicolay
Executive Director
Kansas Oil Marketers Association

February 20, 1986

Mr. Chairman and Members of the Committee:

My name is Charles Nicolay, Executive Director of the Kansas Oil Marketers Association. This association represents the independent licensed motor fuel distributor as well as the Convenience Store industry in Kansas.

We appear before you in support of Senate Bill #536, a proposal that would increase the State Sales Tax.

Our Board of Directors adopted a policy in 1982, and have confirmed this policy each year, stating that if additional revenue is needed to maintain sufficient balances to operate the state government efficiently, an increase in the sales tax is the most equitable measure.

We also believe this legislature made a wise decision in 1983 when it provided additional funding for our highway system by allowing a transfer from the general fund of a portion of the sales tax from collections on new and used motor vehicles, based on a formula established by the same piece of legislation. We ask for your support to maintain this concept.

Attachment 9
Senate Tax - 2/20/86

Statement Prepared For

The Senate Assessment & Taxation Committee

February 20, 1986

Page 2

We believe a sales tax should be the only form of a tax increase in 1986 and that SB 536 provides for sufficient revenue to meet future economic development needs while at the same time maintaining sufficient balances to fund current programs.

We thank you for the opportunity to appear today, and we urge your support of SB 536.

Kansas Association of Counties

Serving Kansas Counties

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

Phone 913 233-2271

February 17, 1986

To: Chairman Fred Kerr
Members of the Senate Assessment and Taxation Committee

From: Beverly Bradley, Legislative Coordinator
Kansas Association of Counties

Re: SB 536
Funding Reappraisal

Counties in Kansas are concerned about financing, particularly about financing reappraisal. The Kansas Association of Counties supports efforts by the state to provide the funds necessary for the implementation of reappraisal. We have asked for 75 per cent reimbursement to counties for reappraisal costs. We do understand that some new source of revenue may be necessary. We would depend on the wisdom of the Legislature to provide this needed funding.

Attachment 10
Senate Tax - 2/20/86