

Approved March 21, 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./~~pm~~ on Wednesday, March 19, 1986 in room 519-S of the Capitol.

All members were present ~~except~~

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:

Frances Kastner, Kansas Food Dealers Association
John Schneider, Department of Social and Rehabilitation Services
Bill Edds, Department of Revenue
Harley Duncan, Department of Revenue
Steve Buchholz, Cardinal Building Services, Inc.
John Wright, Packers Sanitation Service
Sid Wiley, Val-Agri
Grimes Pearson, T & G Service Company, Inc.
Mike Dieterich, Contract Services Limited
Pete McGill, Pete Magill & Associates

H.B. 2767 - Sales tax exemption for food purchased with food stamps

Frances Kastner explained that the bill complies with the federal mandate contained in the farm bill (Attachment 1). She said the bill is needed in order to permit Kansas to continue its participation in the food stamp program. She noted that retailers will be required to break-out the amount of purchases made with food stamps. While her organization does not necessarily support the bill, they do recognize the need that the bill be passed. Ms. Kastner said that the House amended the bill to include other intangible property such as fruit and nut trees and garden seeds. Senator Parrish asked if exempting food stamp purchases from sales tax will overlap with the rebate program. Ms. Kastner believes that S.B. 536 covers any potential problem in this area. She said the average amount per month a food stamp recipient receives is \$45.

John Schneider testified in support of the bill. He advised that approximately \$60 million in food stamps are provided annually. Mr. Schneider said that since the amount of food stamps received is based on income, it is very difficult to make any statement with regard to the rebate program overlapping a sales tax exemption on food stamps. Senator Frey asked when the legislation must be passed in order to meet with the federal mandate. Mr. Schneider answered that it is his understanding that it must be passed by October 1, 1986 unless the legislature of that state is not in session. He went on to say that he has heard that the retailers in some states are pursuing a one-year delay by reason of the complexity of implementation at the retail level. (Attachment 2)

Ks. Kastner stated that she understood the criteria for federal approval of a delay is that it is impossible to implement by October 1, 1986.

Bill Edds said he was not aware that there was any flexibility in the implementation date.

Harley Duncan advised that the fiscal note for the bill for FY 87 is \$1.4 million and \$1.9 million on an annualized basis. He noted that this does not include any consideration of local taxes. Secretary Duncan said that the Governor's budget does not envision the passage of this bill but the administration does support its enactment.

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./~~XXX~~ on March 19, 1986

H.B. 2545 - Sales tax imposed upon cleaning and janitorial services

Bill Edds told the Committee that the Department requested this bill during the 1985 session. He said that in 1978 the Department issued a ruling that janitorial services are included in K.S.A. 79-3603(q). However, a ruling by the Court of Appeals found that the Department's interpretation of the statute to be in error. He said the fiscal impact of the bill for FY 87 is estimated at \$1.4 million of increased revenue. Responding to a question from Senator Karr, Mr. Edds said that the gray area of the statute is the "servicing or maintaining" language of that section. Mr. Edds believes that some janitorial services paid the tax in the past, prior to the 1984 court ruling. He noted that the Supreme Court denied a review of the case. He advised that there are pending suits involving janitorial services for packinghouses.

Harley Duncan said that the revenue from this bill is not included in the Governor's budget but its passage is supported by the administration.

Mr. Edds mentioned that K.S.A. 79-3603 (p) regarding installation or application of personal property applies to some janitorial services. He said that he believes H.B. 2545 would include packinghouses. Responding to questions from Senator Frey, Mr. Edds stated that the controversies involving packinghouses occurred after the bill was requested.

Steve Buchholz testified in opposition to the bill (Attachment 3). He stated that the janitor service business is continuous and ongoing and differs from such services as exterminators, welders, etc.

John Wright spoke in opposition to H.B. 2545 (Attachment 4). He said none of the other 21 states in which his company has done business have a sales tax on janitorial services. He expressed concern that passage of the bill would cause many of his customers to do their janitorial services in-house, resulting in lost jobs for his business.

Sid Wiley opposed passage of the bill. He said that the type of cleaning services performed for packinghouses are government regulated. He mentioned that most packinghouses operate on a 1% profit margin. If these janitorial services were taxed, he feels that many companies would opt to do the cleaning in-house and no tax revenues would be realized.

Grimes Pearson testified in opposition to the bill (Attachment 5). He said that passage of the bill would increase production costs for the packinghouses.

Mike Dieterich spoke in opposition to H.B. 2545. He discussed the importance of the cleaning service to the operation of packinghouses. He, too, feels this bill would cause these services to be done in-house.

Pete Magill advised that he has checked with Senator Bogina and Representative Braden and was told that the potential revenues from H.B. 2545 are not included in either the Governor's projected revenues nor in the Senate or House projected revenues.

H.B. 2994 - Correction of errors in assessment sales ratio study

Senator Allen moved that H.B. 2994 be recommended favorably for passage. Senator Thiessen seconded the motion, and the motion carried.

H.B. 3013 - State assessed public utilities; definitions

Senator Mulich moved that H.B. 3013 be recommended favorably for passage and placed on the consent calendar. Senator Allen seconded the motion, and the motion carried.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
3/19/86	John Schneider	S.O.B 603-IV	SRS
	Frances Kastner	Topeka	Ks Feed Dealers
	Pete McMillan	Topeka	Iron Beef P
	Milad Weston	416 Killeb, W. Burlington, IA	Contract Services
	Donald E. Carving	P.O. Box 973 Burlington, Ia	Contract Services, St
	John C. Wright	P.O. Box 67 W. Pleasant Ia	Packers Samitellar S. Ia
	Syde Wiley	2410 N. Woodward Wichita	Val-A-Act
	Mike Pearson	4606 15 th Leaback, Tx	
	Grims E. Pearson	4608 15 th Leaback, Tx	The Service Co
	GEORGE S. SPENCER	DAKOTA CITY, NEBRASKA	IBP
	Michael D. Dellichon	Meade Ks.	Close up Ks
	Karina J. Jankendall	Meade Ks.	Close up Ks
	Lee Krehbil	Wichita, Ks.	Close up Ks. Wichita, N.W. U.S.
	Dyle Dutton	Wichita, Ks.	Close - Up K.S.
	Phil Hanes	Marion, Kansas	Close - Up Kansas
	Loel Kanney	Hillsboro, Ks.	Close - Up Kansas
	Tom Walker	Concordia, Ks	Close - up Kansas
	Danen Line	Meade, Ks	Close - up Ks
	Janin Dolliver	Meade, Ks	Close - up Ks
	Brian Rempel	Meade, Ks	Close - Up Ks
	Ray McWhorter	Meade, Ks	Close - Up Ks.
	Don W. Ryckman	Meade, Ks	Close - up Ks
	Hans Lapping	2932 Ambest Manhattan K.S.	Close - Up Ks
	Margaret J. ...	1504 Dunhelm Dr Ks.	Close - up Ks.
	Catherine Riley	Rt 2 Manhattan Ks	Close - up Ks.
	Brian Poston	Manhattan, Ks	Close - Up Ks
	Paul ...	Topeka	KCCI
	Garin Rompke	Lyons, Ks	Close - Up Kansas
	John Rush	" "	" " "
	Kyra Root	Lyons, Ks.	Close - up Ks.



Kansas Food Dealers' Association, Inc.

2809 WEST 47th STREET SHAWNEE MISSION, KANSAS 66205

PHONE: (913) 384-3838

MARCH 19, 1986

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DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

RE: HB 2767

EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

I am Frances Kastner, Director of Governmental Affairs for the Kansas Food Dealers Association. Our membership consists of retailers, wholesalers and distributors of food products through the state.

We have been aware of the federal mandate to exempt purchases made with food stamps from the state and local sales tax for several months.

We were asked if this could be done. We of course have always complied with the letter of the law. This does NOT mean that it will be an easy accomplishment, or that it will be done without an additional cost to our grocers.

As you have heard me say before, ALL cost of doing business has to be paid by the customer or the person or company goes OUT OF BUSINESS. This is not a cost that our members will be able to absorb, and you can expect to see a rise in grocery prices that will be passed on to ALL CUSTOMERS.

WE APPRECIATE VERY MUCH THAT THIS COMMITTEE RECOGNIZED that an Administrative Allowance, even at a cap of \$50 a month, is a clear signal to all Kansans that you are concerned about them staying in business.

That Administrative Allowance will HELP pay part of the extra cost our members will be facing with the elimination of state and local sales tax on food stamp purchases and in a small way compensate them for the additional paperwork involved in transmitting this monthly sales tax collections to the State.

I appreciate the opportunity of appearing before you today, not necessarily in support of HB 2767 but to say we realize the State has no alternative but to accept this federal mandate.

Attachment 1
Senate Tax Comm. - 3/19/86

STATE DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

Testimony in Support of H.B. 2767

My name is John Schneider, Commissioner of Income Maintenance and Medical Services for Social and Rehabilitation Services. I am here to testify in support of H.B. 2767, which would exempt from sales tax those food items purchased with Food Stamps.

The prime reason the Department is in support of this bill is that the Farm Bill of 1985 requires such an exemption in order for a state to continue operation of the federally-funded Food Stamp Program. At the present time, approximately 100,000 needy Kansans receive an average of \$40.00 per month in food stamp benefits to supplement other income or assistance in order to assure an adequate budget. Roughly, \$60 million dollars a year is provided to these needy families. We feel it is essential that this program be continued. Thank you.

John A. Schneider, Commissioner
Income Maintenance/Medical Services
Social and Rehabilitation Services
Office of the Secretary
296-3271
March 19, 1986

The Sales Tax On Janitor Services

Introduction

- Janitor service is a profession.

Body

- Correlation to other professional services.
- Repetitive, on-going work.
- Taxable services.
- The cost of hiring professionals.
- Lost revenue for all of us.

Results

- A professional, continuous service should be exempted from the sales tax, just as security is.

The Sales Tax On Janitor Service

Introduction

Janitor services are professional services requiring the supervision of an individual well versed in the art of cleaning.

Correlation To Other Professions

The janitor service business can be correlated to other professional services such as attorneys and accountants. Often an attorney will be given a retainer to perform necessary services as needed, at some future date.

Repetitive On-Going Work

Contracts at Cardinal are entered into with the understanding that Cardinal will be responsible for service work in the future. In the performance of our contract, an ongoing intrinsic value occurs at the customer location. This is in part due to the quality of our work, but also in the fact that the work is repetitive; day-to-day, week-to-week; month-to-month.

This in fact is a difference that allows the janitor service business to stand apart from exterminators, welders, wallpaper hangers and others. Our service is continuous and a change to the customer's location does not occur.

Taxable Services

When a change does occur, or an addition is made, such as waxing a floor, a sales tax should be charged.

Cost of Hiring Professionals

Due to the nature of the janitor service business, a sales tax on service work would be discriminatory to our business.

Sales Tax On Janitor Services (Cont.)

Since janitor services are repetitive, many customers will be forced to hire their own professionals, due to the added burden of the sales tax. Many firms now employ their own accountants and attorneys. I doubt many firms can afford to retain wallpaper hangers, exterminators or welders and find sufficient work to justify the ongoing day-to-day payroll that would occur. And yet, to leave janitor service exempt from sales tax still allows for collection of sales tax from our professionals as they spend their money in Topeka.

Lost revenue For All Of Us

If service work is determined to be taxable, I can predict that small "mom and pop" janitor services will crop up, willing to give cut-rate service, by not charging or paying sales tax. This will not accomplish your desired results.

Results

Because the janitor service business takes a professional attitude and is a continuous and necessary function, please determine that this work should continue to be exempt from sales tax.

There can only be added frustration and revenue loss for all of us if the sales tax on janitor service is approved.

March 18, 1986

Mr. Chairman:

I am John Wright, Vice-President and General Manager of Packers Sanitation Services. PSSI provides cleaning services to food processing plants in 16 states and Canada.

I am here today to present my views in objection to passing House Bill #2545.

As I mentioned before, PSSI presently does business in 16 different states and has done business in 5 other states in the past. Not once has there been a service tax levied on our services in any of these 21 states or Canada.

Total profit for our company in fiscal year 1985 was 3.84% of Sales and for last month, February, 1986, it was 2.15%. So you can see that we would have no choice but to pass on this proposed service tax to our customer.

However, the majority of our customers can already do the job as cheap or cheaper than what they are now paying us. Consequently, they will have little choice but to cancel our services and do the job themselves. This will result in the elimination of 82 jobs in the state of Kansas and cause these employees and their families to relocate to another state with our company or seek other employment locally.

I believe it is pretty obvious that if you vote for and pass this tax amendment, it is the beginning of the end of our Company which has over 700 employees, of whom many, like myself, have staked their careers. Also, I believe that it is pretty obvious that this amendment will not generate the revenue you are looking for, but will simply disrupt lives and create great hardships for many people.

Thank you Mr. Chairman, for the time you have allotted me and I am open for any questions anyone may have.

The Service Co.

POST OFFICE BOX 1692 • HEREFORD, TEXAS 79045 • 806 364-7104

March 18, 1986

REF: Kansas House Bill No. 2545

I am Grimes E. Pearson, President of T & G Service Company, Inc., d/b/a The Service Company, which has been in business for over fourteen (14) years.

Our company provides contract cleaning service for production areas, vending machine operation, hot food service, and interior cleaning of meat trailers at Federally Inspected Meat Plants from Texas to Nebraska. Our Company provides production area contract cleanup service to the following federally inspected meat packing plants located in Kansas: Val Agri, Garden City; Excel, Dodge City; National Beef, Liberal; Excel, Wichita. The company also contracts the cleaning of the interior of meat trailers at Dodge City.

Since cleanup is our function at a meat packing plant, we are able to offer our customers a continually improving cleanup service in a more efficient way of cleaning and sanitizing. Therefore, the costs are equal to or less than those for which our customers could perform these jobs. Meat packers operate on a 1% margin of profit and cannot tolerate a 3 to 5% increase in any part of their cost of doing business.

Should this bill be enacted, the meat packer may choose to clean his own plant at some increase over present cost. In this event, no tax revenue has occurred for the State. The packer might choose to pay the increased cost to the contractor, in which case some tax revenue would be generated for the State. In either case, Kansas has raised the production cost of a leading job producing and agricultural benefiting industry within the State. At this time, Kansas has become the leading meat packing state in the nation, and this bill would do harm to that industry.

Grimes E. Pearson, President



Attachment 5
Senate Tax Comm. - 3/19/86