

Keith Roe
1/11/90

Approved _____ Date

MINUTES OF THE House COMMITTEE ON Taxation

The meeting was called to order by Representative Keith Roe at _____
Chairperson

9:00 a.m./~~pm~~ on January 10, 1990 in room 519-S of the Capitol.

All members were present except:

- Representative Grotewiel, absent
- Representative Lowther, excused

Committee staff present:

- Tom Severn, Research
- Chris Courtwright, Research
- Don Hayward, Revisor's Office
- Lenore Olson, Committee Secretary

Conferees appearing before the committee:

- Ed Rolfs, Secretary of Revenue

Secretary Rolfs reviewed a Memorandum on Tax Exemptions and Sales Tax on Services (Attachment 1)

The Secretary reviewed the three major groups of exemptions and their fiscal impact:

- (1) definitional at \$2953.9 million
- (2) legal/policy at \$131.3 million
- (3) policy at \$315.5 million

In response to Committee requests, Secretary Rolfs replied that he would furnish information on:

- (1) the number of states that tax mail order sales and those states with agreements
- (2) data on the shift from spending on goods to spending on services
- (3) states that tax services

The Secretary reviewed the elasticity problems with the Kansas sales tax. He explained that in the long run, if tax revenues don't match the rate of growth in personal income, tax rates will be continually increasing to maintain government services or services will be decreased. He stated that the sales tax over time has become more inelastic with the two primary causes:

- (1) the exemption base is growing each year
- (2) more money is being spent on services rather than on goods

The minutes of January 9, 1990, were approved.

The meeting adjourned at 10:00 a.m.

HOUSE COMMITTEE ON TAXATION

DATE 1/10/90

NAME	ADDRESS	REPRESENTING
Chip Wheelen	Topeka	Ks Medical Society
BOB GRANT	"	KCC
Jim Ludwig	Topeka	KPL
Katha Hurt	Manhattan	Rep. 66th dist.
Judy Aron	Topeka	Ks soc Architects
Bill Curtis	Topeka	Ks. Assoc. of School Bds.
George Barber	Topeka	Ks Consulting Engrs.
ED DESOIGNIE	TOPEKA	KS CONTRACTORS ASSOC
Jim Gartner	Topeka	Southwestern Bell
Denny KOCH	Topeka	SWBT
PAT HUBBELL	TOPEKA	AT&SF RAILWAY
RALPH SILOOG	TOPEKA	KCATV ASSN
JOHN C. BOTTENBERG	TOPEKA	Ks. RAILROAD ASSOC.
Harriet Lange	"	Ks Assn Broadcasters
Jan Vack	"	Ks. Society of CPAs
BEU BRADLEY	"	Ks Assoc of Counties
Dennis ZIMMERMAN	WYSSER	Vantage
Curt Carpenter	Great Bend	Centel
Janie Schwarz	Topeka	United Telecom
Brad Hugg	Lawrence	Intertelnet
Mike Hill	Topeka	Hoin & Ebert
Joey Ferguson	Topeka	KO Inc
Bill Juller	Manhattan	Kansas Farm Bureau
Marge Tammington	Topeka	Kan. Motor Carriers Assn

Memorandum

January 10, 1990

To: The Honorable Keith Roe, Chairman
House Taxation Committee

From: Ed C. Rolfs
Secretary of Revenue

Subject: Sales Tax Exemptions and Sales Tax on Services

The information presented below is a list of items that would broaden and strengthen the State General Fund revenue base. Please keep in mind that the figures below are preliminary and will need further research if selected. Some of the sales tax exemption estimates are extrapolated from 1982 Bureau of the Census statistics.

State Sales Tax: Sales tax exclusions and exemptions.

<u>Statute</u>	<u>Exclusion/Exemption</u>	<u>Fiscal Impact</u>
79-3602 (c)	Defines retail sales which exclude wholesale sales, retail sales for resale of tangible personal property, electrical energy, gas, water, services or entertainment	\$2,000.0 m
79-3603 (a)	Included in 79-3602 (c)	
79-3603 (b)	Interstate receipts, telephone or telegraph	\$6.5 m
79-3603 (c)	Amusements, entertainment or recreation receipts, sponsored by a political subdivision	\$.4 m
79-3603 (f)	Coin-operated laundry services	\$.9 m
79-3603 (g)	Hotel, motel rooms rented more than 28 days	\$.6 m
79-3603 (h)	Machinery and equipment purchased by IRB's issued before 7-1-83	minimal
79-3603 (o)	Motor vehicles or trailers exchanged for stock	\$.9 m
79-3603 (p)	Services for original construction of a building, or for construction, restoration, etc., of a bridge or highway	\$60.0 m
79-3606 (a)	Motor fuel and other items taxed under another sales or excise tax	\$60.0 m
79-3606 (b)	Property or services purchased by Kansas, a political subdivision or nonprofit hospital or bloodbank	\$42.0 m

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Attachment 1

		<u>Fiscal Impact</u>
79-3606 (c)	Purchase or rental of personal property by nonprofit educational institution	\$25.0 m
79-3606 (d)	Property or services purchased by a contractor for erection or repair of buildings for nonprofit hospitals, educational institutions or political subdivisions	\$23.0 m
79-3606 (e)	Property or services purchased by a contractor for erection, repair, or enlargement of buildings for the United States government, its agencies, or instrumentalities	\$3.0 m
79-3606 (f)	Property purchased by a railroad or public utility for use or movement in interstate commerce	\$35.0 - \$45.0 m
79-3606 (g)	Sales or repair, modification of aircraft sold and used in interstate commerce	\$10.0 - \$15.0 m
79-3606 (h)	Rentals of nonsectarian texts by elementary and secondary schools	\$.3 m
79-3606 (i)	Receipts from lease or rental of films, records tapes, etc., used by motion picture exhibitors	\$1.2 m
79-3606 (j)	Free meals to restaurant employees	\$.6 m
79-3606 (k)	Sales of any motor vehicle, semi-trailer, pole trailer, or aircraft which is purchased by and delivered to a non-resident in the state of Kansas	\$30.0 - \$40.0 m
79-3606 (l)	Isolated or occasional sales	\$5.2 m
79-3606 (m)	Tangible personal property used as a component part of tangible personal property or services produced, manufactured, or compounded for sale at retail within or without the state of Kansas	\$450.0 m
79-3606 (n)	Tangible personal property consumed in the production, manufacture, processing, mining, drilling, refining, or irrigation of crops for ultimate sale at retail	\$350.0 m
79-3606 (o)	Sales of animals, fowl, and fish to be used in agriculture, food, animal, fowl, and fish products or for production of offspring	\$150.0 m
79-3606 (p)	Trade fixtures and equipment already installed in a business when sold	\$1.2 m
79-3606 (q)	Prescription drugs	\$21.0 m
79-3606 (r)	Insulin	\$2.2 m
79-3606 (s)	Prosthetic devices	\$7.3 m

		<u>Fiscal Impact</u>
79-3606 (t)	Property or services purchased by a groundwater management district	\$.1 m
79-3606 (u)	Used farm machinery and equipment	\$15.0 m
79-3606 (v)	Lease or rental of mobile homes for more than 28 consecutive days	\$1.2 m
79-3606 (w)	Food products purchased for meals served to disabled or homebound elderly	\$.1 m
79-3606 (x)	Sale of natural gas, electricity and water for residential or agricultural use	\$41.0 m
79-3606 (y)	Sale of propane, L-P gas, coal, wood, etc., for heating residences	\$1.6 m
79-3606 (z)	Residential intrastate local telephone and telegraph services	\$7.0 m
79-3606 (aa)	Sales of material or services used to repair, service, alter, etc., railroad rolling stock used in interstate or foreign commerce	\$5.0 - \$7.0 m
79-3606 (bb)	Property or services purchased by a port authority	\$.6 m
79-3606 (cc)	Materials and services for repair, service, maintenance, of equipment used outside Kansas for transmission of natural gas	\$.9 m
79-3606 (dd)	Used mobile homes for dwelling	\$.6 m
79-3606 (ee)	New and used machinery and equipment for qualified facility located within enterprise zone	\$1.0 m
79-3606 (ff)	Commodity purchases using USDA food stamps	\$3.3 m
79-3606 (gg)	Sales of lottery tickets	\$2.0 m
79-3606 (hh)	Sales of new mobile homes (40% of gross receipts exempt)	\$.7 m
79-3606 (ii)	Tangible personal property purchased using vouchers issued to the federal special supplemental food program	minimal
79-3606 (jj)	Medical supplies and equipment purchased by non-profit skilled or intermediate nursing homes	\$.6 m
79-3606 (kk)	Tangible personal property purchased by a nonprofit organization for youth development programs	minimal
79-3606 (ll)	Tangible personal property sold, rented, or leased by a community-based mental retardation facility or mental health center	\$1.4 m

		<u>Fiscal Impact</u>
79-3606 (mm)	Machinery and equipment used in all stages of the production process of tangible personal property intended for resale	\$15.0 m
79-3606 (nn)	Educational materials purchased by a nonprofit corporation for distribution to the public to improve public health	minimal
79-3606 (oo)	Seeds and tree seedlings, fertilizers, insecticides, herbicides, germicides, pesticides and fungicides used to produce plants to prevent soil erosion on agricultural land	\$.4 m
79-3606 (pp)	Services rendered by an advertising agency or licensed broadcast station	\$.0 - \$.5 m
79-3606 (qq)	Tangible personal property purchased by a community action group or agency to repair or weatherize housing occupied by low-income individuals	\$.1 m
79-3606 (rr)	Drill bits and explosives used in oil and gas exploration and production	\$.3 m
79-3606 (ss)	Tangible personal property and services purchased by a nonprofit museum or historical society or by a nonprofit organization dedicated to stimulate public interest in space exploration	\$.2 m
79-3606 (tt)	Tangible personal property to admit purchaser to an annual event sponsored by a nonprofit organization	\$.1 m

Apply the sales and use tax to the following services:

	<u>Fiscal Impact</u>
Legal services	\$15 - \$20 m
Engineering, architectural, and surveying services	\$10 - \$15 m
Accounting, auditing, and bookkeeping services	\$10 - \$15 m

Kansas Department of Revenue

Summary: Fiscal Impact of Sales Tax Exclusions and Exemptions at 4.25% tax rate.

Statute - KSA	Type of Exclusion/Exemption	Fiscal Impact
79-3602 (c)	Definitional	\$2,000.0 m
79-3603 (a)	Definitional	a
79-3603 (b)	Legal/Policy	\$6.5 m
79-3603 (c)	Policy	b
79-3603 (e)	Policy	\$4 m
79-3603 (f)	Policy	\$9 m
79-3603 (g)	Definitional	\$6 m
79-3603 (h)	Policy	minimal
79-3603 (i)	Policy	c
79-3603 (o)	Definitional	\$9 m
79-3603 (p)	Policy	\$60.0 m
79-3606 (a)	Legal/Policy	\$60.0 m
79-3606 (b)	Policy	\$42.0 m
79-3606 (c)	Policy	\$25.0 m
79-3606 (d)	Policy	\$23.0 m
79-3606 (e)	Legal/Policy	\$3.0 m
79-3606 (f)	Legal/Policy	\$35.0 - \$45.0 m
79-3606 (g)	Legal/Policy	\$10.0 - \$15.0 m
79-3606 (h)	Policy	\$3 m
79-3606 (i)	Definitional	\$1.2 m
79-3606 (j)	Policy	\$6 m
79-3606 (k)	Policy	\$30.0 - \$40.0 m
79-3606 (l)	Policy	\$5.2 m
79-3606 (m)	Definitional	\$450.0 m
79-3606 (n)	Definitional	\$350.0 m
79-3606 (o)	Definitional	\$150.0 m
79-3606 (p)	Definitional	\$1.2 m
79-3606 (q)	Policy	\$21.0 m
79-3606 (r)	Policy	\$2.2 m
79-3606 (s)	Policy	\$7.3 m
79-3606 (t)	Policy	\$1 m
79-3606 (u)	Policy	\$15.0 m
79-3606 (v)	Definitional/Policy	\$1.2 m
79-3606 (w)	Policy	\$1 m
79-3606 (x)	Policy	\$11.0 m
79-3606 (y)	Policy	\$1.6 m
79-3606 (z)	Policy	\$7.0 m
79-3606 (aa)	Legal/Policy	\$5.0 - \$7.0 m
79-3606 (bb)	Policy	\$6 m
79-3606 (cc)	Policy	\$9 m
79-3606 (dd)	Policy	\$6 m
79-3606 (ee)	Policy	\$1.0 m
79-3606 (ff)	Legal/Policy	\$3.3 m
79-3606 (gg)	Policy	\$2.0 m
79-3606 (hh)	Policy	\$7 m
79-3606 (ii)	Legal/Policy	minimal
79-3606 (jj)	Policy	\$6 m
79-3606 (kk)	Policy	minimal
79-3606 (ll)	Policy	\$14 m
79-3606 (mm)	Policy	\$15.0 m
79-3606 (nn)	Policy	minimal
79-3603 (oo)	Policy	\$4 m
79-3606 (pp)	Policy	\$0 - \$5 m
79-3606 (qq)	Policy	\$1 m
79-3606 (rr)	Policy	\$3 m
79-3606 (ss)	Policy	\$2 m
79-3606 (tt)	Policy	\$1 m

a - Included in 79-3602 (c)
 b - Included in 79-3606 (b), (c), (d), (e), (l), (n), and (x)
 c - Included in 79-3603 (f)

Total	\$3,401.9 m
Definitional	2,953.9 m
Legal/Policy	\$131.3 m
Policy	\$315.5 m
Definitional/Policy	\$1.2 m