

Approved

Keith Roe
Date 3/12/90

MINUTES OF THE House COMMITTEE ON Taxation

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

1:00 a.m.~~p.m.~~ on March 7, 1990 in room 519-S of the Capitol.

All members were present except:

Representative Fuller, excused
Representative Pottorff, excused
Representative Spaniol, excused

Committee staff present:

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

Conferees appearing before the committee:

Mark Burghart, General Counsel, Department of Revenue

Representative Adam commented on a Kansas Chamber of Commerce and Industry Survey dated February 20, 1990, which related to KCCI testimony on March 6, 1990 on HCR 5052. (Attachment 1)

Chairman Roe directed the Committee to return to the March 6, 1990, motion to amend SB 332 by Representative Wagnon, seconded by Representative Aylward, on which no action had been take. (See minutes of March 6, 1990, and (Attachment 13) with those minutes. The motion carried.

A motion was made by Representative Wagnon, seconded by Representative Aylward, to amend SB 332 to add the provision that appraisers must have at least one year of appraisal experience. The motion carried.

A motion was made by Representative Snowbarger, seconded by Representative Crowell, to make two technical amendments requested by Staff to SB 332. The motion carried.

A motion was made by Representative Wagnon, seconded by Representative Aylward to pass SB 332 as amended. The motion carried with a vote count of 12 ayes and 6 nays.

The Chairman directed the Committee to turn to SB 488.

A motion was made by Representative Snowbarger, seconded by Representative Long to pass SB 488. The motion carried.

The Chairman directed the Committee to turn to SB 495.

Mark Burghart, Department of Revenue, explained background on SB 495, stating that this bill would extend the interest provision to apply to delinquent drug taxes. (Attachment 2)

A motion was made by Representative Roy, seconded by Representative Guldner, to pass SB 495. The motion carried.

The minutes of March 6, 1990, were approved.

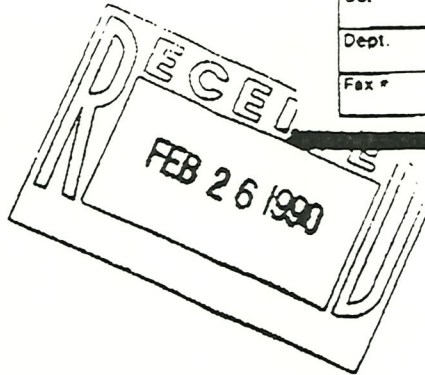
The meeting adjourned at 1:35 p.m.

HOUSE COMMITTEE ON TAXATION

DATE 3/7/90

NAME	ADDRESS	REPRESENTING
V. H. Fran	Topeka	Deputy Treasurer
Alan Steppat	Topeka	KLP6 - Pete McGill & Assoc.
Ann Dapary	Wessex	Grant / Station Comm
Timothy N. Haggan	LAKIN	K.L.P.
Jessie M. Muehnick	Topeka	observer
CINDY GILPIN	TOPEKA	BUDGET
John Luttichand	Topeka	Rwenha
Steve Stotts	"	"
MARK A. BURSHART	"	"
Pete McGill	Topeka	Pete McGill Assoc.
Janet Stubbs	"	WBAK
BEV BRADLEY	"	KS Assoc of Counties
Curt Carpenter	Great Bend	Centel
Kevin Kelly	OP	2000
Karen France	TOPEKA	KAR
Max E. Turcinstad	Topeka	Kansas Motor Carriers Assoc.
Mike Bean	Topeka	Ks. Road. Assn.
Loch McKee	Topeka	KCA
Woody Woodman	KC mo	KCPK
Robert Henderson	Olathe	Midland City Gas

To	From
Co.	Co.
Dept.	Phone #
Fax #	Fax #



Kansas Chamber of Commerce and Industry

A consolidation of the Kansas State Chamber of Commerce, Associated Industries of Kansas, Kansas Retail Council

February 20, 1990

TO: KCCI Members

Dear Friends:

IMPORTANT SURVEY - RESPONSE NEEDED

As an important member of the Kansas Chamber, your opinion is highly valued. PLEASE COMPLETE AND RETURN THE ENCLOSED SURVEY FORM NO LATER THAN FEBRUARY 26, 1990!

Every survey taken among KCCI members since the discussion of classification of property began in 1985, has indicated strong support for eliminating the tax from merchants' and manufacturers' inventories. As late as this past fall, 88% of those responding indicated support for this exemption. Since the exemption took effect in 1989, Kansas has joined with 42 other states, including all of our neighbors, in not imposing a tax on inventories.

There remains, however, strong sentiment within the Kansas Legislature to change the 1986 classification amendment to the Kansas Constitution. Thirteen new amendments have been introduced...12 of which would reimpose the inventory tax, either in whole or in part. At the same time, these amendments would lower the assessment rate on commercial property by varying amounts.

The KCCI Board of Directors has requested the enclosed survey as part of its program of continually monitoring the pulse of the members on important business issues. The survey is brief and will take only a few minutes to complete. The alternatives listed offer the basic choices your legislator will consider which relate to the inventory tax and the assessment rate on commercial property.

Beyond the questions, the information about your firm is vital to the creditability of the data collected. Our lobbyists must be able to respond to questions from legislators about not only the number of responses, but the type of businesses and their size.

Thank you again for your assistance, and if you have any additional comments on this, or any other issue, please feel free to add them.

Sincerely,

EDWARD G. BRUSKE
President

*3/9/90
Attachment 1*

RATIONALS FOR REJECTING INVENTORY TAXES

Inventory taxes discourage economic growth by:

- A. Placing Kansas at an even worse competitive disadvantage compared to other states' tax systems for recruiting new firms.
- B. Discouraging expansion of existing Kansas businesses as the costs of increasing inventory could offset the additional profits projected for such expansion.
- C. Prompting existing Kansas firms to locate elsewhere.
- D. Reducing employment since employment tends to parallel inventories and manufacturers are forced to match their employment levels with their capacity for production.
- E. Thwarting growth in the industrial sector which adversely affects the demand for jobs in the industry-supporting or industry-supported service business sector.

Inventory taxes discourage efficient business practices by:

- A. Preventing long-range production schedules and creating a situation that inhibits bidding on jobs because of uncertain inventory schedules.
- B. Making it more difficult for manufacturers and merchants to establish reliable and high quality suppliers for finished and raw materials.
- C. Discouraging manufacturers from purchasing materials from suppliers at high quantity discounts.
- D. Keeping merchants from stocking a complete line of products, thus forcing the consumer to shop elsewhere. In many instances, consumers will make their purchases out-of-state, affecting retail sales and sales tax collections in Kansas.
- E. Requiring bookkeeping and management activities for an unjust tax when a company could better allocate this investment in plant management improvements and market development.

Inventory taxes are regressive taxes

- A. They are not an accurate indication of wealth. Rather they are a tax, in most circumstances, upon debt.
- B. They are not based upon a business' ability to pay.
- C. For many businesses, both large and small, the current repeal of the inventory tax is the only factor which saves them from insolvency due to sharply increased real estate taxes.

Inventory taxes are relatively inelastic sources of state revenue, not responding well to changes in inflation.

Inventory taxes are an arbitrary form of taxation

- A. They are not imposed on the basis of wealth and benefit other classes without regard to their relative accumulation of wealth.
- B. They favor one segment of the business community at the expense of another and other classes of property taxpayers at the expense of the business community as a whole.

The inventory tax is a species on the verge of extinction.

- A. None of Kansas' neighboring states impose the tax.
- B. Only six states nationwide now impose the tax.
- C. Economists uniformly acknowledge that the tax is unjustified, anomalous, and should be repealed where they exist.

Inventory taxes are disadvantageous even on a temporary basis

- A. Business growth planning depends upon a predictable tax system. Some current plans would be scrapped if the tax were reinstated. A reinstatement in any form would tell prospective Kansas firms that this state's business tax policies are unstable.
- B. Doubt would be shed on Kansas' overall business climate. The tax would abruptly reverse public policy on this issue and imply that the legislature would backtrack on other favorable business policies. This perception is particularly likely since the tax has been so broadly renounced by experts and state governments nationwide.
- C. There is a critical balance that must be maintained by businesses as it relates to markets, inventories and employment. Any tampering with these factors creates a situation that limits the full potential of businesses to produce and sell goods at maximum levels.
- D. In accordance with the Kansas Constitution, all businesses are taxed on a uniform and equal basis. All pay on land, facilities, and equipment. No class of property is singled out to pay a special tax.

Evidence suggests Kansas has benefitted from repealing the tax

- A. Beginning in 1986, after the legislature approved the current classification system, Kansas' employment growth rate in the manufacturing sector has outpaced the national average. Previously, Kansas was consistently lower than the national average.
- B. After maintaining historic peaks in the first half of the 1980s, the last increase in Kansas' overall unemployment rate occurred in 1986 and has steadily dropped in each subsequent year. The current rate of 3.9 percent is the lowest in ten years.

CLASSIFICATION SURVEY

Please complete and return to:
KCCI
500 Bank IV Tower
Topeka, KS 66603

Rank the following three property tax concepts in the order you consider to be from most acceptable to least acceptable: "1" being most acceptable and "3" being least acceptable. If any option is unacceptable to you under any circumstances, indicate so by writing "NO" in the space provided by that option.

- Keep the present property classification system in place, adding no new classes, changing no classes' tax burden, and exempting all businesses from the inventory tax.
- Reinstate the inventory tax on a temporary basis, phasing it out over five years, and make a permanent reduction in the assessment percentage applied to all commercial real estate from 30 down to 20 percent of fair market value.
- Permanently reinstate the inventory tax, but exempt the first \$200,000 of each taxpayer's inventory, and make a permanent reduction in the assessment percentage applied to all commercial real estate from 30 down to 20 percent of fair market value.

Though we do not need to know the specific identity of your business, the following information would be helpful in determining how different segments of the business community feel about the options discussed above.

1. In what COUNTY is your business located? _____

2. How many workers do you employ?

100

- 0 - 5
- 6 - 15
- 16 - 50
- 51 - 200
- over 200

3. What TYPE of business do you conduct? _____

- manufacturing or construction
- primarily retail
- primarily wholesale
- restaurant/lounge/tavern
- hotel/motel
- financial institutions or insurance
- other professional services
(barber, attorney, plumber, accountant, etc.)

If you have any additional comments, please indicate here _____

1-4



KANSAS DEPARTMENT OF REVENUE

Office of the Secretary
Robert B Docking State Office Building
915 SW Harrison St
Topeka Kansas 66612-1588

MEMORANDUM

TO: The Honorable Keith Roe, Chairman
House Committee on Taxation

FROM: Mark A. Burghart, General Counsel
Kansas Department of Revenue

DATE: March 7, 1990

SUBJECT: S.B. 495

Thank you for the opportunity to appear before you today to discuss Senate Bill 495, a Department of Revenue proposal to impose a tax on marijuana plants. The bill also allows the Department to charge interest on delinquent drug taxes.

BACKGROUND

In assessing tax liability for marijuana plants, current law (K.S.A. 79-5201(a) and 65-4101(o)) necessitates the stripping of leaves from each plant. This requirement exists because the definition of "marijuana" excludes the mature stalks of the plant. Simply weighing seized marijuana plants, therefore, is insufficient in assessing tax liability since, legally, the stalk of each plant is not considered "marijuana."

Because of the impracticality in regard to processing time involved with stripping the leaves, local law enforcement has asked the Department to recommend legislation to tax the entire marijuana plant.

COMPOSITION OF MARIJUANA PLANTS

The "active" components in a marijuana plant are its leaves, flowering tops and seeds. These portions are usable after the plant has been cut down and dried. Approximately 55% of the weight of a marijuana plant at almost all stages of growth is comprised of moisture. A marijuana plant, therefore, loses more than half of its weight after being cut down and dried. The weight of dried leaves, flowering tops and seeds encompass roughly 12 percent of the weight of a wet plant and 28 percent of the weight of a dry plant. These percentages, along with the average weight of marijuana plants ranging from 12 weeks old to 21 weeks (1868 grams), were used in arriving at the tax rates used in the bill. The numbers used are taken from a University of Mississippi study performed for the Drug Enforcement Administration to determine the yield of usable marijuana from plants.

General Information (913) 296-3909
Office of the Secretary (913) 296-3041 • Legal Services Bureau (913) 296-2381
Audit Services Bureau (913) 296-7719 • Planning & Research Services Bureau (913) 296-3081
Administrative Services Bureau (913) 296-2331 • Personnel Services Bureau (913) 296-3077

3/7/90
Attachment 2

The Honorable Keith ...
S.B. 495
March 7, 1990

SENATE BILL 495

The tax rates of \$.40 per gram of a whole wet plant and \$.90 per gram of a dry plant reflects the amount of "usable" marijuana. A definition of a "domestic marijuana plant" was formulated to distinguish between plants intended for harvest and plants growing wild. The Kansas Bureau of Investigation reported 391 marijuana plots eradicated in calendar year 1989. Of these, 201 were plots consisting of wild marijuana plants.

INTEREST

The Department currently is authorized to assess interest at the rate of 18% per annum on all delinquent taxes, except taxes imposed under the marijuana and controlled substances act. The bill would extend the interest provision to apply to delinquent drug taxes.

The Department urges the House Committee's favorable consideration of S. B. 495. I would be happy to respond to any questions you might have.