Approved Wednesday, March 20, 1991
Date

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation Committee.

The meeting was called to order by Senator Dan Thiessen at
Chairperson

11:00 a.m./~~p.m.~~ on Friday, March 1, 1991 in room 313-S of the Capitol.

All members were present except:

Committee staff present:
Marion Anzek, Committee Secretary

Conferees appearing before the committee:
Bob Corkins, Director of Taxation, KS Chamber of Commerce and Industry
T.C. Anderson, Chairman of Kansans for Tax-Free Services
Patrick Hurley, representing Boeing, Lear-Jet, Beach and Cessna
Paul Fleener, Director of Public Affairs Division, KS Farm Bureau
Elwaine F. Pomeroy, KS Collectors Association, Inc.
George Barbee, Executive Director, KS Consulting Engineers
Harriet J. Lange, Executive Director, KS Association of Broadcasters

Chairman Dan Thiessen called the meeting to order at 11:08 and said the agenda for today is continued hearings on SB156.

> SB156:AN ACT relating to taxation; providing means to increase revenue producing state tax sources to local units of government to reduce reliance on revenue received from the levy of property taxes.

THE FOLLOWING CONFEREES ARE OPPONENTS OF SB156

Bob Corkins, Director of Taxation, KS Chamber of Commerce and Industry said KCCI believes that each component of the KS tax revenue structure must be competitive with that of our neighboring states if our economic development efforts are to succeed. He said, whether the new revenue is from the repeal of sales tax exemptions, the taxation of additional services, or from increasing the taxable income of KS businesses, it is unlikely to result in a net benefit to commercial enterprises. He said to avoid losing any further competive ground as it translates into jobs and the sales and income tax base which they bring, KCCI therefore urges you to reject SB156. (ATTACHMENT 1)

T.C. Anderson, Chairman of Kansans for Tax-Free Services said they formed their group May 1990 by a number of organizations and companies concerned with expansion of the current sales tax base in this area, along with 27 additional organizations (listed at the end of his handout) which have joined their fledgling coalition.

He said their comments are directed to the area of imposing the sales tax on currently non-taxed services i.e. Barbers, Lawn Mowing Services or Snow Removal Companies which don't pay the tax, the user of the service does.

He said the imposition of new service taxes on KS citizens has been rejected by this legislature in the past and for good public policy reasons.

He said, any new service tax base has a profound effect on small business, any new service tax base will create a pyramiding of new taxes on to the KS consumer, any new service tax base will harm Kansans as it impacts multistate business patterns, any new service tax base will have an impact on KS employment, and any new service tax base will have an impact on administration and compliance. (ATTACHMENT 2)

Patrick Hurley, representing Boeing, Lear, Beach and Cessna said they would address 4 particular exemptions. He said today the aircraft industry is healthier than it has been in recent years, and in KS the industry employs 37,000. He said the economy has already begun to have an adverse impact on the industry. In the recently past few months, Beach and Lear-Jet have had to announce some lay-offs. He said it is very important for the committee members to realize how significant tax policy and economic

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and TAxation,

room 313-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Friday, March 1, 1991.

policy for the State of KS is to this industry. He said there are 4 exemptions which fall into this catagory, sales of aircraft, repair and service of aircraft, manufacturing equipment and the sales area.

He said, the committee members should remember the terrific impact this would have to these companies, if these wer repealed, because the State has compensative use taxes, so the customers either get credit or would be paying it anyway.

He said, there are 22 States that have a lower rate than we have now and there are 4 States that have no credit for sales tax paid in KS. (ATTACHMENT 3)

Paul Fleener, Director of Public Affairs Division, KS Farm Bureau said they believe existing exemptions should remain in place, therefore they do not support those portions of SB156 which revoke exemptions, those portions which, while not entirely removing exemptions do impose a sales tax at something less than the current 4.25% and he said, they do not support imposition of a sales tax at 2.125% on new and used farm machinery repair parts and service.

Attached to his handout are KS Farm Bureau member responses to two types of questionnaires they provided their members and the county adopted polices in (3) areas. (ATTACHMENT 4)

Elwaine F. Pomeroy, representing KS Collectors Association, Inc. said they feel that this tax proposal would create numberous problems not only for the industry but, more importantly, for the general public as well. He said they felt (1) there's the problem of the indirect taxation items not subject to taxes. (2) where the collections are for items that were subject to sales tax, there is the problem of double taxation. (3) this tax would put an increased burden on small business. (4) this tax would discriminate against local collection agencies in favor of large, out of state agencies, perhaps putting many small agencies out of business. (5) this proposal would tax business services used by small businesses who are not large enough to have in-house staff provide the services which would be taxable under this proposal. (6) with regard to the collection servies, there would be serious tax situs problems, i.e. when would the tax apply? (7) this proposal does not make clear who should pay the tax and (8) they have concerns about the wisdom of replacing a tax that is deductible by individuals who itemize their deductions - real estate taxes - with a sales tax, which cannot be deducted in computing federal income taxes. (ATTACHMENT 5)

George Barbee, CAE Executive Director, KS Consulting Engineers said the proposed amendments of SB156 would have the effect of taxing all services under the sales tax provisions of the state statutes. He said the services included are widely diversified i.e. collecting and interpreting data, engineering studies and reports, cost studies, economic comparisons, long-range facility planning, conducting public hearings, appraisals and evaluations, feasibility studies, investigations, government agency liaison, applications for government grants or advances.

He said, there are other problems with the concept of taxing prior to the fina retail transactions, but the very fact that these services are only component parts of a project leads them to request that this committee report SB156 unfavorably. (ATTACHMENT 6)

Harriet J. Lange, Executive Director, KS Association of Broadcasters said attached to her handout is a resolution adopted by their membership at their October 11, 1990 membership meeting. She said, the resolution opposes the imposition of a new sales tax on services.

She said radio and television stations would be directly impacted by the proposed removal of the exemption cited in 79-3606 (pp) concerning services provided by advertising agencies and licensed broadcast stations. She said, the removal of the exemption in 3606 (pp) would raise the cost of advertising and the cost of doing business in KS.

She said, the advertising process is complex, and it many times includes interstate activities and numberous entities; it would pose administrative problems not only for the state but also for business in determining which transactions are taxable. (ATTACHMENT 7)

Chairman Dan Thiessen said the committee has ran out of time and he would schedule continued hearings at a later date, and he adjourned the meeting at 11:58 a.m.

WRITTEN TESTIMONY WAS TURNED IN BY THE FOLLOWING CONFEREE

Pam ~~Summerfield~~ Somerville, Kansas Motor Dealers (ATTACHMENT 8)

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION   DATE: FRI, 3-1-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Steve Jones	Wichita	Boeing
LARRY MAGILL	TOPEKA	IND. INS. AGENTS
PATRICK HURLEY	TOPEKA	CESSNA
Wm G. Robinson	Wichita	Learjet
Jonathan Small	Topeka	Learjet
Bob Storey	Topeka	Deffert & Dav...
Mike Reecht	Topeka	AT+T
BILL ABBOTT	WICHITA	BOEING
John Peterson	Topeka	Beech Aircraft
BRAD SMOOT	"	Black & Veatch
Paul E. Fleener	Manhattan	Kansas Farm Bureau
Tom Tunnell	Topeka	Kansas Grain & Feed Assn
Ron Hein	Topeka	Ks Assoc. of Personnel Consultants
Bill Henry	Topeka	Ks Engineering Society
Jean Barbee	Topeka	Barbee & Assoc.
Geo. Barbee	Topeka	Ks Cons Engrs
Trudy Aron	Topeka	Am Inst of Architects

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV 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 201

February 27, 1991

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment and Taxation Committee

by

Bob Corkins
Director of Taxation

Mr. Chairman and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I thank you for the opportunity to express our opposition to SB 201 and the alternative minimum corporate income tax it proposes.

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.

Our initial reaction concerns the presently high level of corporate income taxes which this state already imposes. Of our neighboring states, only Nebraska levies a higher corporate rate -- having just surpassed Kansas' last spring when their rate was increased by 17 percent of its previous level. The remaining states are significantly

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ATT. 1

fa r behind, with Missouri running in third place. Missouri, however, permits corporations a deduction for federal taxes paid which, in effect, places Missouri much lower than Kansas than the simple comparison of rates would indicate. Kansas' rate is now 6 3/4 percent on income above $25,000, while the other states (except Nebraska) are generally around five percent. KCCI has long supported a reduction in the Kansas rate.

A minimum corporate income tax (AMT) will only exacerbate this disparity in our competitive position. Only Colorado imposes a minimum gross receipts tax as an alternative to their corporate income tax. However, Colorado's alternative is only permitted to companies whose sole nexus to Colorado are sales not in excess of $100,000. Nationwide, only a handful of states impose an AMT.

Other than for increasing state revenues, there appears no rationale for imposing an AMT. Income tax deductions all serve a valid purpose, and the purpose rarely (if ever) is limited to the single reason of granting a tax break. Deductions provide economic incentives, foster progressivity of the tax structure, encourage charitable contributions, and permit enterprises to take calculated risks intended to optimize the profitability and survivability of their business. To impose an AMT would curtail, in some circumstances, these highly justifiable deductions.

Another of KCCI's concerns relates to the administration of this proposal. The formula set forth in SB 201 is exceptionally complex, and we can only speculate as to the high level of governmental -- and business -- personnel time required to interpret, apply and enforce this provision. To counter-balance the new expense of the AMT, there is a lack of reliable data to indicate how much new revenue it would generate. When an AMT was proposed in 1988, it was predicted to generate roughly $5 million. Though this amount would obviously be significant to those businesses paying it, it would only be a token effort towards addressing Kansas' fiscal demands -- assuming the administrative costs of the AMT will not outweigh its benefits.

For these reasons, we respectfully ask that you reject this proposal.

KANSANS FOR TAX-FREE SERVICES

STEERING COMMITTEE
Independent Insurance Agents of Kansas, Inc.
Kansas Association of Broadcasters
Kansas Bar Association
Kansas Chamber of Commerce and Industry
Kansas Consulting Engineers
Kansas Engineering Society
Kansas Society of Architects
Kansas Society of Certified Public Accountants
State Advertising Federation • American Advertising Federation

P.O. Box 5654 • Topeka, Kansas 66605 • 913-267-6460
TOLL FREE IN KANSAS 1-800-222-0452

Testimony on

Senate Bill 156

Presented to the

Senate Assessment and Taxation Committee

by

T. C. Anderson

Chairman

Kansans For Tax-Free Services

February 28, 1991

3-1-91
ATT. 2-1

Chairman Thiessen and

Members of the Senate Assessment and Taxation Committee:

I am T. C. Anderson appearing before you today as Chairman of Kansans For Tax-Free Services, as well as the Executive Director of the Kansas Society of Certified Public Accountants, in opposition to certain aspects of SB 156.

Kansans For Tax-Free Services was organized last May by a number of organizations and companies concerned with expansion of the current sales tax base in this state. Our steering committee includes representatives from the Independent Insurance Agents of Kansas, the Kansas Association of Broadcasters, Kansas Chamber of Commerce and Industry, Kansas Bar Association, Kansas Consulting Engineers, The Kansas Chapter of the American Institute of Architects, State Advertising Federation, Kansas Engineering Society and the Kansas Society of CPAs.

On behalf of these and the 27 additional organizations listed at the end of this testimony which have joined our fledgling coalition, I appreciate the opportunity to reflect upon some of the hazards we see associated with the further taxation of services and the removal of sales tax exemptions which are service oriented or have a direct impact on economic development.

In the essence of time, Bob Corkins' testimony covered our concerns with removal of exemptions. We will limit our comments to the area of imposing the sales tax on currently non-taxed services.

As you begin these two days of hearings please remember, as with any new tax, that tax is paid by Kansas citizens. Barbers, lawn mowing services, or snow removal companies don't pay the tax, the user of the service does.

In an attempt to bring the imposition of any new sales tax into perspective, the fact that Kansas is already a heavy taxer of services should be a great consideration. According to the material offered to the Interim Tax Committee several months ago by Harley Duncan, Kansas ranks 14th in the nation in the number of services already taxed. While Kansas taxes 64 services, Colorado taxes 12, Nebraska 40, Missouri 24 and Oklahoma 33.

The imposition of new service taxes on Kansas citizens has been rejected by this legislature in the past and for good public policy reasons. I hope as you listen to the testimony from those supporting and opposing the taxation of services, you keep these in mind.

<u>Any new service tax base has a profound effect on small business</u>.

Businesses that purchase services are placed at a competitive disadvantage in relation to businesses that provide taxable services in-house. Small businesses are more likely to contract for legal, accounting and other support services while large businesses won't, because they have the capability of developing them in-house. Based upon the results of a survey I just conducted, 73 percent of Kansas CPAs fees are paid by small business. The Department of Revenue projects a sales tax on accounting and tax services would produce nearly $12 million. That means small business in Kansas would pay $8,760,000 of that portion of the proposed sales tax expansion. And let us remember it's the new small business that provides the greatest opportunity for job expansion in this state.

Any new service tax base will create a pyramiding of new taxes on to the Kansas consumer.

Application of the sales tax on professional and business services can result in multiple taxation or pyramiding. For example, the "sale for resale" exemption under the short-lived Florida services tax was narrowly defined so that the costs of subcontractor's services were taxed two or more times. What impact on the Kansas consumer of goods and services will an expanded services tax have. I'd expect small retailers would pass on to the consumer the additional cost of all new sales taxes they would have to pay under HB 2113.

Any new service tax base will harm Kansans as it impacts multistate business patterns.

Sales tax statutes relating to business and professional services engender certain problems given the realities of multistate business activity. The Florida tax was controversial because it used an apportionment approach to reach services that were performed outside the state. The alternative is to apply the tax only to services performed within the state. While that approach avoids the Florida controversy, it creates clear incentives to shift service -related activity out-of-state. This incentive would be particularly significant in the many border counties of the state in which 39 percent of the Kansas population lives.

<u>Any new service tax base will have an impact on Kansas employment</u>.

Increases in the price of a service will result in some reduction in the demand for the service. I may suffer through the preparation of my own tax return rather than pay a professional to do it or if I live near the state border take it out of state for preparation. Service providers may leave the state or transfer some of their major operations to offices in states which do not tax services. As an example several Topeka CPA firms do work nationwide for various franchisers. They could transfer these operations to offices they already have out-of-state. The loss of jobs in this instance would not be great, but would number 50 to 60. It is interesting to note South Dakota taxes CPA services; North Dakota does not. South Dakota (799,000) has more population than North Dakota (745,000). Yet there are over 500 more CPAs in North Dakota than in South Dakota.

James W. Wetzler, State Tax Commissioner of the state of New York, was quoted in the January 30, 1991, issue of the New York Times. He urged great caution in entering the area of service taxes. "In looking at the tax system," he said, "it's important to be mindful that just as manufacturing firms have the option of leaving, it's just as possible that service firms might leave." As you'll recall, the state of New York rejected an expansion of the sales tax base to business services last year.

<u>Any new service tax base will have an impact on administration and compliance</u>.

As you will hear from other conferees, there are serious concerns connected with compliance. By imposing a sales tax on services, the administrative costs to businesses would increase because such a tax would create a different set of requirements than for normal retail "point of sale" collection procedures.

The impact on government maybe even greater. In Florida, tax officials informally reported that the Department of Revenue was overwhelmed by the thousands of letters it received requesting technical advice, and could not respond effectively. The state appropriated 240 new positions for collection and enforcement of the tax. In addition, many experienced employees were reassigned to assist taxpayers on the complexities of the new law.

Further, the collection of use tax by out-of-state vendors for services performed for in-state purchasers would be difficult to levy and costly to enforce.

I hope you will keep these major policy consideration in mind as you weigh the testimony you will hear on SB 156. I further hope as you compare that testimony with the policy considerations you will concur that expansion of the sales tax base to include business and professional services is not in the best interest of Kansas.

Thank you for the opportunity to address you today and I'll be happy to stand for questions.

KANSANS FOR TAX-FREE SERVICES

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State Advertising Federation •
American Advertising Federation

KFTFS

P O S I T I O N   S T A T E M E N T

We believe:

1. Further taxation of services will impose greater costs on consumers; lower demand on sales and production; and ultimately result in the loss of jobs and general fund revenue for Kansas; and

2. Further taxation of services will impose substantial administrative collection burdens not only upon service providers, but also the state; add to the size, complexity and cost of government; and effectively tax only those consumers upon whom the tax can be most easily enforced, i.e., businesses; and

3. Further taxation of services and the loss of statutory sales tax exemptions will cause significant damage to Kansas' economic development efforts; harm small businesses in particular since they must purchase many services which larger firms can provide internally; discourage larger businesses from contracting any services out to small businesses; discourage all service oriented firms from locating in or expanding in Kansas; and add to the already high level of service taxes in this state.

Therefore, KFTFS adopts the following positions:

1. KFTFS supports an overall state tax structure which is competitive with our neighboring states; and

2. KFTFS opposes the taxation of any additional services; and

3. KFTFS opposes repealing any business related sales tax exemptions designed to promote economic development.

The members of Kansans for Tax Free Services hereby acknowledge their concurrence in the aforementioned beliefs and are in general agreement with the policies adopted by this organization.

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Kansas Auctioneers Association

American Telephone & Telegraph

National Electrical Contractors Association

Kansas Podiatric Medical Association

Kansas Funeral Directors Association

Blue Cross and Blue Shield of Kansas

The American Home Life Insurance Company

Kansas Dental Association

Kansas Chapter, National Association of Master Appraisers

The Public Accountants Association of Kansas

Kansas Pharmacists Association

Motion Picture Association of America

Kansas Trial Lawyers

Kansas Collectors Association

Kansas Independent Oil & Gas Association

Kansas Insurance Associations

Home Builders Association of Kansas

American Society of Interior Designers

Professional Insurance Agents of Kansas

Associated Credit Bureaus

Kansas Lumber Dealers Association

Farmers Insurance Group of Companies

Kansas Society of Land Surveyors

Kansas Association of Non-Profit Organizations

Kansas Industrial Developers Association

Kansas City Chapter Independent Computer Consultants Association

Kansas Association of Personnel Consultants

STATEMENT

PRESENTED TO THE

SENATE COMMITTEE

ON

ASSESSMENT AND TAXATION

ON BEHALF OF
BEECH AIRCRAFT CORPORATION
THE BOEING COMPANY
CESSNA AIRCRAFT COMPANY
LEARJET INC.

MARCH 1, 1991

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This statement is presented on behalf of the Kansas aircraft manufacturers' industry, in particular, the Cessna Aircraft Company, Beech Aircraft Corporation, The Boeing Company, and Learjet, Inc.

We are pleased to be here today to provide this industry's perspective on the importance of sales tax exemptions which apply to most aircraft sales, some service and modification work, and the parts businesses which they all have.

The aviation industry in Kansas currently employs approximately 37,000 individuals and collectively has a Kansas payroll of $1.246 billion. They also buy more than $575 million worth of supplies from other Kansas companies each year.

1990 was a very good year for many in the aircraft industry as increased sales and profits were reported by Beech, Cessna, and Boeing. However, these companies' economic outlook has always been cyclical, as the legislature knows very well. The general aviation companies in Kansas, despite solid performance in 1990, are already feeling the results of a domestic recession and uncertainty in their marketplace due to the international situation. Indeed, Beech and Learjet have announced layoffs in the past three months.

Kansas is clearly the strongest general aviation center in the country, and the presence of Boeing in Wichita greatly strengthens their position in the entire aviation industry. However, for this to continue to be the case, the business environment which state government has created must remain consistent and conducive to first stability and then growth in the aviation industry. Current sales tax exemptions which this committee is reviewing are extremely important to the aircraft industry and, to a very real extent, reflect the state's attitude toward the industry. These manufacturers are concerned that this discussion is even taking place, and it will impact business decisions which they are making today and will be making in the future.

The sale of aircraft and the purchase of the manufacturing equipment are currently exempt from sales tax under a number of statutes. The most important in the area of sales are K.S.A. 79-3606(g) which exempts sales to foreign customers, and K.S.A. 76-3606(k), which exempts sales, domestic and foreign, if the aircraft is flown away within ten days. The most important exemptions for maintaining a modern production facility are K.S.A. 79-3606 (ee) which establishes enterprise zones, and K.S.A. 79-3606 (mm) which exempts the sales of equipment and machinery used in manufacturing.

Any possible perception that the repeal of these tax exemptions would have no impact upon the Kansas aircraft industry is erroneous. To begin with, 22 states have lower use tax rates than 5.25 percent (if the statewide 4.25 percent tax applies, local taxes at 1 percent would also be applicable) which would be applicable in Kansas. Four states give no credit for sales tax paid in Kansas, and four states have no use tax at all.

More importantly, there is no applicable use tax for aircraft sold to foreign customers. Currently, 40 percent to 60 percent of all Cessna aircraft sales are made to foreign customers. Sales to the military or foreign governments cannot be taxed because of the U. S. Constitution.

The 10-day fly-away rule under §79-3606(k) exempts as high as 97 percent of aircraft sales because it includes sales to foreign and domestic customers. Whenever sales tax would be imposed and a use tax of less than 5.25 percent is <u>not</u> applicable in the customer's state, the cost of aircraft is increased or the company's financial results would be negatively impacted. This would always be the result with sales to foreign customers. This change clearly does one of two things -- increases the price of the products or hurts financial performance. It would also occur at a time when pricing increases already do not fully pass along cost increases. Indeed, many models today are policy priced to stimulate sales as history clearly shows all aircraft products are price sensitive.

There is another result this would have, and that would be to provide a competitive advantage to non-Kansas manufacturers.

The Kansas general aviation manufacturers have product competitors outside the State of Kansas who do not have this tax issue, and a competitive disadvantage against them would exist as you can most clearly see with respect to foreign sales. These competitors include Piper in Florida, British Aerospace and Falcon Jet in Arkansas, Gulfstream in Georgia, and Fairchild in Texas. Furthermore, the State of Nebraska has just granted Piaggio a sales tax exemption as a part of the economic inducements package to have Piaggio locate its final assembly and delivery operations there.

But the environment which exists in this state is equally important to Boeing. Competition in the commercial aircraft marketplace in which Boeing competes is more fierce today than it has ever been. More than 200 modification and maintenance facilities compete worldwide for market share. Historically, U.S. aircraft manufacturers have maintained a dominant share of the new commercial jet transport market, led by Boeing. Today, that market position is being seriously challenged by Airbus Industrie, a European consortium.

Airbus, formed just 20 years ago, is almost completely subsidized by its respective European governments. Richard Evans of British Airospace, an Airbus Industrie partner, recently stated: "Airbus is going to attack the Americans, including Boeing, until they bleed and scream. And we are going to make a lot of money in the process." Airbus has captured 35 percent of the new jet transport market since 1970, eliminating Lockheed and slicing McDonnell Douglas jet aircraft sales in half.

If these exemptions were repealed, there could very well be a major dislocation among Kansas manufacturers. Learjet has a facility in Arizona from which it can deliver airplanes without sales tax. Beech also has a facility in Alabama which specifically passed a sales tax exemption for Beech. In addition to being at a competitive disadvantage with Piaggio, British Aerospace, Falcon Jet, Fairchild, and Gulfstream, Cessna would, in all probability, have to eventually relocate its delivery operations and related work to be on equal footing with these present Kansas manufacturers. It is estimated that approximately 350 jobs would be lost if they were to have to take these steps. Other manufacturers could have similar impacts.

Other exemptions are also very important. Aircraft sales for resale and trade-ins are also exempt from sales tax through other statutory exemptions. Parts sales to out-of-state customers are exempt due to a ruling by the Kansas Department of Revenue based upon the commerce clause. Service and parts used in the modification or repair of aircraft are taxed in Kansas for domestic customers, but tax exempt for foreign customers.

These exemptions for parts and services are extremely important as they represent major business segments for Kansas manufacturers which are growing. Equally as important, parts and service business has historically reduced the impact of depressed aircraft sales during recessions as these business activities increase in those times.

Finally, a good example of how changing tax policy drives business decisions is the question of Cessna resuming its piston manufacturing. At one time Cessna produced 8,000 single engine piston aircraft and employed 5,000 in doing so. Product liability costs caused Cessna to cease production of those airplanes, but Cessna has said publicly they would resume production immediately if that issue were resolved. While resuming production in Kansas is not assured, the continued availability of these sales tax exemptions described today would be an absolute factor in that business decision.

Thank you for the opportunity to appear before your committee and to present this testimony on behalf of the Kansas aircraft manufacturing industry.

PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

RE: S.B. 156 -- Property Tax Relief Measure

February 28, 1991
Topeka, Kansas

Presented by:
Paul E. Fleener, Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to make some brief comments on S.B. 156. In order to do that, and in order to make clear the policy position of farmers and ranchers who are members of Farm Bureau in the 105 counties of Kansas, we have attached to our statement responses to two types of questionnaires we provided Farm Bureau members and county policy committees last year. We are also providing for you the adopted policies in three areas: 1) Sales Tax; 2) State and Local Governmental Budgeting, Spending and Taxation; and 3) School Finance.

For the record, my name is Paul E. Fleener. I am the Director of Public Affairs for Kansas Farm Bureau. It is my desire to make a positive statement about two portions of S.B. 156. We like very much the stated goal of this bill, enunciated in the title: "To reduce reliance on revenue received from the levy of property taxes."

If we can review together some of the statements which were posed for our members in order to garner their views, we will find modest support for an increase in the income tax. If we could review together the policy position of our people on sales tax, you will see that "we

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believe existing exemptions should remain in place." Therefore, we **do not support** those portions of S.B. 156 which remove exemptions. We **do not support** those portions of S.B. 156 which, while not entirely removing exemptions do impose a sales tax at something less than the current 4.25% rate. Specifically we do not support imposition of a sales tax at 2.125% on new and used farm machinery, repair parts and service.

Mr. Chairman, and Members of the Committee, it has long been a goal of farmers and ranchers who belong to our organization to reduce the reliance on the property tax. The best way to do that is to provide dollars from another source. In the view of our members a school district income tax would be the **best way** to provide revenue to unified school districts. And remember, it is USDs which are the heaviest users of the property tax. We do not have a fiscal note on lines 18 through 40, page 1, for S.B. 156. But it is that portion of this legislation which increases the rates and brackets for the income tax. Those increases would appear to be supportable by our members when we have examined how they responded to questions on the income tax. One mechanism to provide property tax relief by the additional income taxes generated would be a 25% rebate of income taxes collected to each USD **requiring** that those monies (particularly the new monies over and above last year's 24% rebate) be used dollar for dollar to provide relief from property taxes.

In order to be consistent with what we told the Senate Committee on Education last week, we want to make some suggestions to this committee. This may be the year to wean school districts from the COLA, known as the legislated "budget per pupil" limits. This may be the year for you to suggest to local school districts to tighten belts, to hold the line, to do some zero-based budgeting. This is most certainly the year for state agencies, county governments, municipalities, and all school districts to put their fiscal houses in order.

We appreciate the opportunity to share these views with members of this committee. If you have any questions on any of our policy positions or anything in this statement, I would be pleased to respond at this time.

11. Do you support change in the Kansas sales tax statutes which would have the effect of removing the exemptions for goods and services?

Yes 15 No 37

12. Should ALL exemptions be repealed?

Yes 3 No 51

13. If something less than all exemptions are to be repealed, would you support repeal of exemptions that might generate $150-$200 million if among exemptions repealed is that for:

a) new farm machinery?

Yes 10 No 43

b) used farm machinery, repair and service?

Yes 4 No 50

14. Should the Legislature impose the sales tax on services ... including, but not limited to legal services, engineering, architectural, accounting, barbers (haircuts), cosmetologist?

Yes 23 No 31

15. Do you believe all present exemptions should continue and the general "rate" of sales tax imposed should be increased?

Yes 19 No 28

16. If your answer to Question 15 is "yes," what amount of sales tax increase would you support?

1/4 cent 9 1/2 cent 8 3/4 cent 3 1 cent 7 other 0

17. Do you believe Kansas Income Tax rates for ALL taxpayers should be adjusted upward modestly?

Yes 20 No 33

18. Should individual income tax rates be adjusted and income brackets changed so that those with a higher income pay more?

Yes 43 No 10

19. If your answer to Question 18 is "yes," at what income level should the higher tax rate be charged?

$50,000 9 $75,000 15 $100,000 10 $150,000 1 Other 2

20. Should there be increases in the corporate income tax in Kansas?

Yes 21 No 32

4-4

B. Sales Tax

8. All Kansas sales tax exemptions should be repealed.	29	40	51	129	114
9. There should be a transaction tax, or sales tax, or value added tax on every product, commodity, service.	19	40	61	123	112
10. New farm machinery should continue to be exempt from the sales tax.	115	135	30	70	26
11. Used farm machinery, repairs and service should continue to be exempt from the sales tax.	150	165	15	28	18
12. New and used farm machinery should pay sales tax at 1/4 to 1/2 the rate of sales tax on other goods and services.	13	54	70	124	96
13. The Legislature should impose the sales tax on all services ... legal, engineering, architectural, accounting, barbers.	38	81	62	105	77
14. Services should continue to be exempt from the sales tax.	62	130	60	73	35
15. All sales tax exemptions should continue and the "rate" of sales tax should be increased by one cent.	38	110	68	107	58

C. Kansas Income Tax

16. Kansas Income Tax rates should be adjusted upward modestly for all taxpayers.	22	88	54	131	69
17. The Kansas Income Tax rates should be adjusted and brackets changed so those with higher income pay more income taxes.	98	171	41	46	18
18. Rates should be increased so that corporations pay more income tax in Kansas.	68	137	75	60	26

D. School Finance

19. There should be a reduced reliance on the property tax for support of elementary and secondary schools.	110	170	37	38	10
20. The value of intangible property should be included in "District Wealth" in the school finance formula.	53	114	109	42	32
21. There should be a tax on intangible property in every school district.	55	96	87	64	46
22. Corporations, financial institutions, insurance companies and non-resident individuals who receive some of their income in Kansas should pay more for support of our elementary and secondary schools.	81	187	66	28	11
23. The state sales tax should be increased to provide additional funding for K-12 education in Kansas.	41	114	92	77	37

Sales Tax AT-3

State: Kansas has appropriately created justifiable sales tax exemptions for agriculture, business, industry, and many not-for-profit groups. This has been done to assist economic development and state competitiveness with our neighbors. We believe existing exemptions should remain in place.

In agriculture we cannot pass our taxes on to someone else. Grain prices are disasterously low, while our costs — particularly for fuel and petroleum-based inputs — are soaring. We oppose taxing inputs or raw agricultural products, whether by removal of sales tax exemptions or by the imposition of an excise tax, a value-added tax or a transaction tax.

All citizens are consumers of food and are uniformly taxed on the food they purchase. We oppose legislation to exempt food from the state sales tax.

Kansas should require out-of-state mail order companies to collect and remit to Kansas the sales or use taxes applicable within Kansas.

Local: The local sales tax on motor vehicles should be collected by the county treasurer at the time of registration of the vehicle, and situs for the local sales tax should be the residence or business location of the registrant.

State and Local Governmental Budgeting, Spending and Taxation AT-4

It is time in Kansas to write a basic tax policy of taxing people for services to people, and taxing property for services to property. We strongly support reducing the reliance on the property tax, and we likewise support increasing reliance on sales and income taxes for the support of state and local governmental units.

Expenditures by the State of Kansas and by local units of government in Kansas in any fiscal year should never exceed projected revenue receipts for that fiscal year.

Zero-based budgeting is essential to fiscal planning and should be required for all state agencies as well as all local units of government.

School Finance ED-7

We believe the Kansas Legislature should develop a school finance formula to assist in the delivery of and funding for a "basic education" for every child enrolled in public schools in each unified school district in the state.

In order to facilitate timely preparation of budgets by Unified School Districts in Kansas, we urge the Legislature to set and to meet an appropriate early deadline for passing school finance legislation.

We continue to believe that there should be minimal reliance on the property tax for support of our elementary and secondary schools. As long as property is used as a measure of wealth, then intangible property should be a part of such measurement of wealth.

We support legislation to create a school district income tax to be collected by the state from every resident individual and returned by the state to the school district of residence of the individual taxpayer.

We will oppose the application or use of a local income or earnings tax by any other local unit of government.

We support legislation to place increased reliance on the state sales tax for financing elementary and secondary education in order to reduce reliance on property taxes now levied for school finance.

State General Fund revenues should be enhanced for school finance purposes by increasing the rates of income and privilege taxes imposed on corporations, financial institutions, insurance companies, and nonresident individuals.

We believe that federally and state-mandated programs should be fully funded by the federal or state government, whichever mandates a given program.

We have opposed in the past, and we continue to oppose efforts to establish a statewide property tax levy.

February 28, 1991

COMMENTS CONCERNING SENATE BILL 156
PRESENTED TO SENATE ASSESSMENT AND TAXATION COMMITTEE

I am Elwaine F. Pomeroy, appearing on behalf of the Kansas Collectors Association, Inc. The collection industry feels that this tax proposal would create numerous problems not only for the industry but, more importantly, for the general public as well. I will briefly highlight some of those problems.

First, there's the problem of the indirect taxation items not subject to taxes. For example, a tax on collection services would indirectly increase the cost of many items not included in this sales tax proposal--items such as medical services. Medical accounts are collectors' top market. Thus, while medical services are excluded from taxation, the collection of accounts relating to the provision of these services would be taxed under this proposal.

Second, where the collections are for items that were subject to sales tax, there is the problem of double taxation. A retail account has already been taxed at the time of sale: for example, if a retailer sells a piece of furniture, that sale is subject to the sales tax already. But if the consumer fails to pay the retailer and the retailer then turns that account over for collection, the collection of the account is taxed again under this proposal.

Third, this tax would put an increased burden on small business. Many of the businesses who will be responsible for paying the proposed tax on services are small businesses. The business climate of Kansas would be worsened by this tax. Adding a tax on business services would put additional pressure on many of those surviving businesses that are barely keeping their heads above water.

Fourth, this tax would discriminate against local collection agencies in favor of large, out of state agencies, perhaps putting many small agencies out of business.

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Fifth, this proposal would tax business services used by small businesses who are not large enough to have in-house staff provide the services which would be taxable under this proposal, whereas large corporations that were able to employ professionals full time would not be subjected to this tax, whether those professionals were rendering legal, accounting, or collection services.

Sixth, with regard to collection services, there would be serious tax situs problems. When would the tax apply? Would it be on creditors living in Kansas collecting accounts from debtors who lived in other states? Would the tax only apply on collection activities against debtors living in Kansas? Would it only apply if the collection agency was located in Kansas? What if the debt had been incurred in Iowa, the collection agency officed in Kansas, and the debtor resided in Missouri? What if the collection agency was located in Missouri but the debtor was in Kansas?

Seventh, this proposal does not make clear who should pay the tax. Would the tax be assessed against the debtor, who incurred the debt that was being collected? Or would it be upon the creditor?

Eighth, we have concerns about the wisdom of replacing a tax that is deductible by individuals who itemize their deductions - real estate taxes - with a sales tax, which cannot be deducted in computing federal income taxes. Why replace a deductible tax with a non-deductible tax?

We support the position taken by Kansans For Tax-Free Services.

Elwaine F. Pomeroy

Elwaine F. Pomeroy, for
Kansas Collectors Association, Inc.

KANSAS
CONSULTING
ENGINEERS

GEORGE BARBEE, EXECUTIVE DIREC
810 MERCHANTS NATIONAL BANK
8TH & JACKSON
TOPEKA, KANSAS 66612
PHONE (913) 357-1824

STATEMENT

Date: February 20, 1991

To: Senate Taxation Committee

From: George Barbee, CAE
Executive Director

Re: SB-156 (Sales Tax on Professional Services)

The proposed amendments of SB-156 would have the effect of taxing all services under the sales tax provisions of the state statutes. Engineering services have not been taxed because they were not listed as a taxable service for good reason.

As I reviewed the sales tax statutes it became evident that the entire retailers sales tax statutes were clearly intended for the retailer to collect from the consumer a tax on the final retail transaction. The providing of a professional service such as engineering is not a retail transaction.

The design of a project is a necessary step toward providing the builder the necessary contract documents and plans from which the builder can determine ways, means, materials and methods to build according to the design and specifications.

Sales taxes are paid by the engineer, architect, contractor and subcontractors as they individually make final retail transactions for materials that are incorporated as components of the final constructed project.

The engineering firm pays sales tax on paper, pencils, computers, automobiles, trucks and equipment. The contractor pays tax on construction materials and the sophisticated construction equipment of the 90's. It is not as if taxes are not being paid. They are being paid at the proper time when the final retail transaction is conducted on component parts of the project. To do otherwise than at the final retail transaction would be an administrative nightmare.

First let me share with you what a consulting engineer does.

Consulting engineering services vary in scope from short-term consultations to the development and design of large and complex projects. These professional engineering services, commonly summarized into four basic classifications, are provided directly to owner-clients or in association with architects.

ATT 6-1
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The services included are widely diversified. Typical examples are:

- Collecting and interpreting data
- Engineering studies and reports
- Cost studies
- Economic comparisons
- Long-range facility planning
- Conducting public hearings
- Appraisals and evaluations
- Feasibility studies
- Investigations
- Government agency liaison
- Applications for government grants or advances

To provide any of those often requires a coalition of professionals working together through sub-contracts.

Imagine that we are finally going to get a new major convention hotel in downtown Topeka. The owner of this new imaginary high-rise is located in Chicago. The owner has options on property, knows how many units, restaurants and meeting rooms are needed and it is time to hire an architect to coordinate with a team of design firms to design the project.

The architect will eventually hire an electrical engineering firm to design the electrical distribution system; a structural engineering firm to design the skeletal support frame; a mechanical engineering firm to design the air conditioning, heating and ventillation system, and water and fire sprinkling system; a geo-technical engineering firm to perform site investigation and many other specialists to develop the construction documents, plans and specifications.

Will the owner hire a team of Kansas designers on this project and pay a sales tax at every sub-contracting level of engineering, or will the owner simply hire a non-Kansas team to save the sales tax? What would you do?

Remember the service of design is not performed on the site of construction. It is performed in the locatiaon or locations where the design team members have their offices. That very likely will not be Kansas if this bill passes without exemptions.

Mr. Chairman, there are other problems with the concept of taxing prior to the final retail transactions, but the very fact that these services are only component parts of a project leads me to request that this committee report this bill unfavorably.

Thank you for the opportunity to speak to this issue and I would be glad to respond to questions.

PSMJ
Professional Services Management Journal ■ 271 Cross Gate Drive ■ Marietta, GA 30067 ■ 404-971-7586

February 15, 1991

Mr. George Barbee
Executive Director
Kansas Consulting Engineers
810 Merchants National Bank
Topeka, Kansas 66612

REF: Draft Services Sales Tax Proposal

Dear Mr. Barbee:

We have reviewed both the draft sales tax legislation (House Bill No. 2113) and the Secretary of Revenue's estimate of taxes (January 10, 1990) and we find the revenue estimates are grossly overstated due to errors in the assumed value of taxable sales..

Our analysis and data show the proper estimates of revenues and costs are as follows:

Revenue Estimates for Sales Taxes

	Secretary of Revenue Estimate	PSMJ Estimate	Difference
A/E Services	$10 million	$1.26 million	$8.74 million decrease
Additional Cost to Government of Higher A/E Costs	not estimated	$2.12 million	$2.12 million increase
Revised Estimate of Sales Tax on A/E Services	$10 million	($.86 million)	$10.86 million decrease
Construction (New)	$60 million	$24 million	$36 million decrease
Construction (Renovation)	$3.0 million	$1.2 million	$1.8 million decrease
Revised Estimate of Sales Tax on Construction	$63.0 million	$25.2 million	$37.8 million decrease

Quite obviously, our estimates vary significantly from the Secretary of Revenue. Our reasons for these changes are as follows:

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First, the revenue estimate relative to architectural and engineering services and construction, is wrong for the following reasons:

A. The Census Bureau includes in the Kansas data the Kansas City Metropolitan Area, which includes Cass, Clay, Jackson, Lafayette, Platte and Ray counties in Missouri. Attached is a page from the census guide which shows this.

B. The value of A/E services reported is the revenue generated by A/E firms located in Kansas, not the value of A/E services performed on projects located in Kansas.

C. The Census Bureau data used for A/E revenues that would be subject to the tax is for gross revenues, including subconsultants. Thus, subconsultant revenues are double counted. This was an error by the Census Bureau.

To illustrate this, you have, in the Kansas City MSA, several large A/E firms, including Black & Veatch, HNTB and Burns and McDonnell. These firms perform engineering services on projects located all over the world in their local offices. The sales value of engineering services these firms perform for projects outside of Kansas, or for government users, both of which would not be taxable under the proposed law is included in the Census Bureau A/E revenue data. Thus you should not use Census Bureau data to develop a tax revenue estimate.

The key point which is not reflected in either the A/E or the construction revenue estimate figures is that government is the biggest user of both A/E and construction services. Since the present proposal continues the exemption for government services, the portion of these estimates reflecting government use is in error.

The revenue estimates also do not contain any factor for increased costs for government due to higher costs of their suppliers.

The current draft legislation contains the three most expensive provisions of sales tax laws:

A. **Local Option Taxes** - Since A/E services would be "used" at the project site, a single office firm would be forced to track and report sales by each local jurisdiction that imposes a local option tax, greatly expanding filing requirements and costs.

B. **Individual Project Sale for Resale Exemption Certificate** - Since each A/E project would be a separate sale and subcontracting is prevalent in the profession, this adds a considerable volume of paperwork.

C. **Compensating Use Tax** - This is a full time employment for accountants provision in any firm that purchases services out-of-state and has sales out-of-state. It often requires a complete re-building of a firms' accounting system.

Beside these administrative costs, firms also incur higher costs due to the tax on their purchases.

Our surveys of firms in Florida while their services sales tax was in effect showed the tax increased their cost of doing business by 4%.

As the largest user of A/E services, government would pay this increased cost of doing business in higher A/E fees. Firms could not absorb this cost as the median profit margin for A/E firms is 3.3% and no firm can have costs in excess of revenues and continue to stay in business.

Finally, I would add, it would be impractical to delete A/E services from the tax without also deleting construction, accounting, legal and business consulting services. These firms have become very similar in the services they offer (contractors have design build, A/Es and accounting consulting firms do planning and environmental consulting, accounting and legal do financial consulting, etc.) thus imposing a sales tax should not be done on the type of business.

Attached is the basis for our revised estimates on this tax. We will be happy to discuss these with you, at your convenience.

Sincerely;

William F. Fanning

William F. Fanning
Director of Research

WFF/cp
Enclosure

Revised Revenue Estimate - Construction

Original Secretary of State Estimate - Construction

Construction Services - New	$60.0 million
Construction Services - Renovation	$3.0 million
Total	$63.0 million
Adjust for 60% (1) of construction that is included in revenue estimate but is for government users (roads, water, sewer, schools, etc.)	($37.8 million)
Net New Sales Tax Revenue from Construction (2)	$25.2 million

Revised Revenue Estimate - Architectural and Engineering Services

Comment: The Secretary of Revenue's estimate of $10 million was based on the 1987 Census Bureau data on revenues of Architectural, Engineering and Surveying Services performed in Kansas. This is not an appropriate base, since this value includes services performed in Kansas for projects outside of Kansas, plus revenues on government projects.

The correct base to use is the value of taxable construction in Kansas, which can be determined by extrapolating the tax revenues to be generated from construction.

Gross Value of Taxable Construction - $25.2 million divided by 4.25% tax rate	$592 million
Eliminations:	
Value of Housing not using A/E services (20%) (3)	$118.0 million
Value of Construction performed by Design/Build where A/E services are not performed by A/Es (10%) (3)	$59.2 million
Value of Construction performed by owners in-house design and not performed by A/Es (15%) (4)	$85.9 million
Net Value of Construction Designed by A/Es (2)	$328.9 million
Average Fees for A/E Services (4)	9%
Value of A/E Services for Sales Tax	$29.6 million
Estimated Sales Tax Revenues (4.25%)	$1.26 million

Additional Costs of A/E Services to Government

Value of Government Engineering Services (5)	\$53 million
Additional Costs of A/E firms (6)	4%
Additional Costs of A/Es to be paid by Government (7)	\$2.12 million

Notes:

(1) Allocation of Government/Private sector division of revenues based on historical average of construction use. Figures may vary from year to year, but over longer time frame, most likely will approximate these factors as sub-categories of construction expand and contract.

(2) May be overstated due to inclusion of Missouri counties in Kansas City Metropolitan Statistical Area.

(3) A/E services are typically not used for low and mid price single family housing. A/E services are typically limited to very high end single family housing and multi family housing projects.

Some construction performed is by design/build where the contractor performs the design as part of the construction price, and no A/E services are used.

Many large property owners maintain in-house design staffs who perform the design services for projects without the use of A/E firms services.

All deductive estimates in the value of taxable construction are based on typical long term average values for the specific types of construction.

(4) Based on **PSMJ Design Services Fee Structure Surveys** 1983 to 1990 as overall average A/E fee as a % of construction costs for private sector construction.

(5) Based on % of government fees reported in **PSMJ Financial Statistics Surveys** 1984 to 1990. Note this does include federal, state and local government revenues, so cost estimate is not limited to state government only.

(6) Based on studies of Florida firms during the term of their services sales tax, which included the same provisions on local option, detailed project by project exemption certificate, and compensating use tax as the proposal for Kansas.

(7) All government contracts are based on payment of costs incurred, thus increased costs of doing business will be passed on to government users of A/E services.

Comment: No estimates are included for additional government costs associated with collection and enforcement of this tax, or for loss of other revenues due to loss of jobs as firms relocate people and operations out of Kansas. Both of these factors have also contributed to declines in state revenues in Florida and South Dakota where similar taxes have been repealed, and in Connecticut where this type of tax remains in force.

Hunt... .-Ashland, WV-KY-OH MSA
Boyd County, KY
Carter County, KY
Greenup County, KY
Lawrence County, OH
Cabell County, WV
Wayne County, WV
Huntsville, AL MSA
Madison County, AL
Indianapolis, IN MSA
Boone County, IN
Hamilton County, IN
Hancock County, IN
Hendricks County, IN
Johnson County, IN
Marion County, IN
Morgan County, IN
Shelby County, IN
Iowa City, IA MSA
Johnson County, IA
Jackson, MI MSA
Jackson County, MI
Jackson, MS MSA
Hinds County, MS
Madison County, MS
Rankin County, MS
Jackson, TN MSA
Madison County, TN
Jacksonville, FL MSA
Clay County, FL
Duval County, FL
Nassau County, FL
St. Johns County, FL
Jacksonville, NC MSA
Onslow County, NC
Janesville-Beloit, WI MSA
Rock County, WI
JerseyCity,NJ PMSA—seeNewYork-Northern New Jersey-Long Island, NY-NJ-CT CMSA
Johnson City-Kingsport-Bristol, TN-VA MSA
Carter County, TN
Hawkins County, TN
Sullivan County, TN
Unicoi County, TN
Washington County, TN
Scott County, VA
Washington County, VA
Bristol city, VA
Johnstown, PA MSA
Cambria County, PA
Somerset County, PA
Joliet, IL PMSA—see Chicago-Gary-Lake County, IL-IN-WI CMSA
Joplin, MO MSA
Jasper County, MO
Newton County, MO
Kalamazoo, MI MSA
Kalamazoo County, MI
Kankakee, IL MSA
Kankakee County, IL
Kansas City, MO-KS MSA
Johnson County, KS
Leavenworth County, KS
Miami County, KS
Wyandotte County, KS
Cass County, MO
Clay County, MO
Jackson County, MO
Lafayette County, MO
Platte County, MO
Ray County, MO

Kenosha, WI PMSA—see Chicago-Gary-Lake County, IL-IN-WI CMSA
Killeen-Temple, TX MSA
Bell County, TX
Coryell County, TX
Knoxville, TN MSA
Anderson County, TN
Blount County, TN
Grainger County, TN
Jefferson County, TN
Knox County, TN
Sevier County, TN
Union County, TN
Kokomo, IN MSA
Howard County, IN
Tipton County, IN
La Crosse, WI MSA
La Crosse County, WI
Lafayette, LA MSA
Lafayette Parish, LA
St. Martin Parish, LA
Lafayette-West Lafayette, IN MSA
Tippecanoe County, IN
Lake Charles, LA MSA
Calcasieu Parish, LA
Lake County, IL PMSA—see Chicago-Gary-Lake County, IL-IN-WI CMSA
Lakeland-Winter Haven, FL MSA
Polk County, FL
Lancaster, PA MSA
Lancaster County, PA
Lansing-East Lansing, MI MSA
Clinton County, MI
Eaton County, MI
Ingham County, MI
Laredo, TX MSA
Webb County, TX
Las Cruces, NM MSA
Dona Ana County, NM
Las Vegas, NV MSA
Clark County, NV
Lawrence, KS MSA
Douglas County, KS
Lawrence-Haverhill, MA-NH PMSA—see Boston-Lawrence-Salem, MA-NH CMSA
Lawton, OK MSA
Comanche County, OK
Lewiston-Auburn, ME MSA
Androscoggin County, ME (part)
Auburn city, ME
Greene town, ME
Lewiston city, ME
Lisbon town, ME
Mechanic Falls town, ME
Poland town, ME
Sabattus town, ME
Lexington-Fayette, KY MSA
Bourbon County, KY
Clark County, KY
Fayette County, KY
Jessamine County, KY
Scott County, KY
Woodford County, KY
Lima, OH MSA
Allen County, OH
Auglaize County, OH
Lincoln, NE MSA
Lancaster County, NE
Little Rock-North Little Rock, AR MSA
Faulkner County, AR
Lonoke County, AR
Pulaski County, AR
Saline County, AR

Longview-Marshall, TX MSA
Gregg County, TX
Harrison County, TX
Lorain-Elyria, OH PMSA—see Cleveland-Akron-Lorain, OH CMSA
Los Angeles-Anaheim-Riverside, CA CMSA
Anaheim-Santa Ana, CA PMSA
Orange County, CA
Los Angeles-Long Beach, CA PMSA
Los Angeles County, CA
Oxnard-Ventura, CA PMSA
Ventura County, CA
Riverside-San Bernardino, CA PMSA
Riverside County, CA
San Bernardino County, CA
Los Angeles-Long Beach, CA PMSA—see Los Angeles-Anaheim-Riverside, CA CMSA
Louisville, KY-IN MSA
Clark County, IN
Floyd County, IN
Harrison County, IN
Bullitt County, KY
Jefferson County, KY
Oldham County, KY
Shelby County, KY
Lowell, MA-NH PMSA—see Boston-Lawrence-Salem, MA-NH CMSA
Lubbock, TX MSA
Lubbock County, TX
Lynchburg, VA MSA
Amherst County, VA
Campbell County, VA
Lynchburg city, VA
Macon-Warner Robins, GA MSA
Bibb County, GA
Houston County, GA
Jones County, GA
Peach County, GA
Madison, WI MSA
Dane County, WI
Manchester, NH MSA
Hillsborough County, NH (part)
Bedford town, NH
Goffstown town, NH
Manchester city, NH
Merrimack County, NH (part)
Allenstown town, NH
Hooksett town, NH
Auburn town, NH
Candia town, NH
Mansfield, OH MSA
Richland County, OH
Mcallen-Edinburg-Mission, TX MSA
Hidalgo County, TX
Medford, OR MSA
Jackson County, OR
Melbourne-Titusville-Palm Bay, FL MSA
Brevard County, FL
Memphis, TN-AR-MS MSA
Crittenden County, AR
De Soto County, MS
Shelby County, TN
Tipton County, TN
Merced, CA MSA
Merced County, CA
Miami-Fort Lauderdale, FL CMSA
Fort Lauderdale-Hollywood-Pompano Beach, FL PMSA
Broward County, FL
Miami-Hialeah, FL PMSA
Dade County, FL

6-5

TESTIMONY
Before the Senate Committee on Assessment and Taxation
February 20, 1991
By
Harriet J. Lange, Executive Director
Kansas Association of Broadcasters

RE: SB 156

Mr. Chairman, Members of the Committee, I am Harriet Lange, executive director of the Kansas Association of Broadcasters (KAB). The KAB represents a membership of 120 radio stations and 21 television stations in Kansas.

We appreciate the opportunity to appear before you concerning SB 156.

We support the position and concur with the testimony presented on behalf of Kansans for Tax-Free Services. And attached to this testimony is a resolution adopted by our membership at our October 11 membership meeting. The resolution opposes the imposition of a new sales tax on services.

Radio and television stations would be directly impacted by the proposed removal of the exemption cited in 79-3606 (pp) concerning services provided by advertising agencies and licensed broadcast stations. We are unsure whether some of the services we provide would fall under services targeted for taxation in SB 156, such as "management, consulting and public relations".

K.S.A. 79-3606 (pp) was added to the statute in 1988, in response to a Department of Revenue guideline that would have assessed a sales tax on advertising agency services and on the production of broadcast commercials. The language was added to maintain the status quo and was revenue neutral, in that these services had never been taxed in the past.

The removal of the exemption in 3606 (pp) would raise the cost of advertising and the cost of doing business in Kansas. Every dollar spent on advertising generates significantly more than a dollar in sales. If ad budgets decrease in proportion to the tax, the end result will be less advertising, therefore fewer sales. An advertising services tax is counter-productive; and because it impedes advertising, it also will result in decreasing the flow of information to consumers.

ATT. 7-1
3-1-91

A tax on advertising services would place Kansas businesses which provide these services at a competitive disadvantage with their competitors in other states. The net result for Kansas radio and television stations would be less revenue. Ad budgets are set and a tax on advertising services could not be passed on to advertisers.

Broadcast employment in Kansas decreased by nine percent from 1985 to 1989. Many stations in Kansas operate on very narrow profit margins and could not withstand the loss of revenue without cutting back on the programming services they provide your local communities and on which your constituents depend.

Advertising is a cost of doing business which is reflected in the retail price of a product and on which a sales tax is collected. And an ad services tax would place a disproportionate burden on small and emerging firms, many of which operate with a marginal profit or at a loss, and whose advertising comprises a larger portion of their total operating budget.

The advertising process is complex. It many times includes interstate activities and numerous entities; it would pose administrative problems not only for the state but also for business in determining which transactions are taxable.

To summarize, a tax on advertising services would be counter-productive; it would pose administrative problems because of the complexity of the advertising process; and it could do economic harm to the state and its businesses.

Thank you for your consideration.

ATT 7-2
3-1-91

RESOLUTION

WHEREAS, a new sales tax on the services which small businesses purchase would place those small businesses at a competitive disadvantage with their larger competitors; and

WHEREAS, a tax on services would place many service businesses in Kansas at a competitive disadvantage with their competitors in other states which do not collect a services tax; and

WHEREAS, a tax on services places a multiple tax on products violating the tenet of a single tax; and

WHEREAS, the fair administration and enforcement of a services tax would be a burden on government as well as business; and

WHEREAS, very few states assess a services tax, placing Kansas' economic development efforts at a competitive disadvantage, if a services tax in Kansas was to be implemented; and

WHEREAS, placing a tax on services would not "expand" the tax base, but rather would increase the cost of doing business and the tax load of all Kansas taxpayers; and

WHEREAS, a tax on advertising and advertising services would result in a net loss of tax revenue because advertising increases sales; and

WHEREAS, a tax on advertising would do harm especially to small and emerging firms, many of whom operate with a marginal profit or at a loss;

THEREFORE, BE IT RESOLVED, that the Kansas Association of Broadcasters, representing 120 radio stations and 21 television stations, strongly opposes the imposition of a new sales tax on services, due to the detrimental effect such a tax would have on the Kansas economy, Kansas businesses, and Kansas taxpayers.

BE IT FURTHER RESOLVED, that a copy of this resolution be sent to all Kansas broadcast stations and provided to each member of the Kansas Legislature and to the Governor of Kansas.

Adopted by the KAB Board of Directors, September 25, 1990, Hutchinson

Adopted by the KAB General Membership, October 11, 1990, Lawrence

Stuart Melchert

Stuart Melchert, KSCB AM/FM
President

ATT. 7-
3-1-91

kmcda

KANSAS MOTOR CAR DEALERS ASSOCIATION
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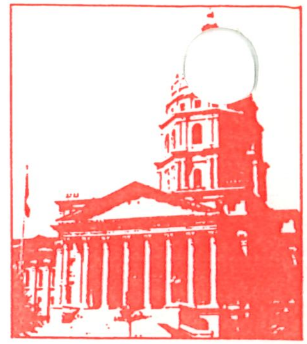

LEGISLATIVE TESTIMONY

February 20, 1991

Senate Assessment and Taxation Committee
Testimony on Senate Bill 156

Mr. Chairman and members of the Committee:

Thank you for the opportunity to present written testimony on SB 156. The Kansas Motor Car Dealers Association represents 329 franchised new car dealers in the state of Kansas. Our Board of Directors voted to support property tax reduction to the local units in the form of reduced budgets, and a combination of sales and income tax increases. Our members are adamant that in times of tough budget constraints, they are compelled to reduce their budgets and find meaningful cuts in their operations to deal with declines in revenues.

While we support the concept in SB 156, we do oppose the stricken language on Page 13, lines 37-43. This section, K.S.A. 79-3606(k) removes the exemption for out-of-state sales. It is difficult to place a revenue amount on this particular exemption. Currently, Kansas has reciprocity agreements with adjoining states and removal of this exemption as it applies to motor vehicles will simply be a "wash". If the out-of-state exemption is repealed we seriously doubt that the state will realize any significant revenue increase; more importantly, we alienate individuals both in and out of the state. We would also point out that we do have individuals in Western Kansas that purchase vehicles in Oklahoma, Colorado and Nebraska simply because they do not have a dealer in their county, and purchasing out of state means sales tax revenues in their home county.

We respectfully ask that you reinstate the language contained in SB 156, Page 13, lines 37-43. Again, thank you for the opportunity to present our position.

3-1-91
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