

Approved: _____

Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on February 12, 1998 in Room 519-S of the Capitol.

All members were present except: Rep. Howell

Committee staff present: Chris Courtwright, Legislative Research Department
Tom Severn, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Ann McMorris, Committee Secretary

Conferees appearing before the committee:

Rep. Cliff Franklin
Rep. Tom Sawyer
Rep. Gwen Welshimer
Byron Patton
Bob Corkins, KCCI
Ron Hein, Kansas Restaurant Association

Others attending: See attached list

Chair opened hearings on:

HB 2721 - Sales tax exemption of food for human consumption
HB 2406 - Sales tax exemption for food

Proponents:

Rep. Cliff Franklin (Attachment 1)
Rep. Tom Sawyer (Attachment 2)
Rep. Gwen Welshimer (Attachment 3)
Byron Patton, Silver Haired Legislature, Topeka (Attachment 4)

Written testimony only

Wayne Maichel, Kansas AFL-CIO (Attachment 5)
Don Snodgrass, Kansas Food Dealers Association (Attachment 6)

Opponents:

Bob Corkins, Kansas Chamber of Commerce & Industry (Attachment 7)
Ron Hein, Kansas Restaurant Association (Attachment 8)

Closed hearings on **HB 2721** and **HB 2406**.

Chair opened for discussion, motions and amendments.

SB 500 - Kansas tax reduction and reform act of 1998

1. Moved by Representative Franklin, seconded by Representative Findley, amend SB 500 section pertaining to food rebate with exception that it be modeled as \$50 per exemption rebate on the Kansas income tax form and also to retain the program in Homestead with same criteria. Also to be available for anybody earning less than \$25,000 Kansas adjusted gross income who fit one of three criteria: (1) having children, (2) over the age of 55, (3) blind, visually impaired or disabled. Motion carried.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, ROOM 519-S Statehouse, at 9:00 a.m. on February 12, 1998.

2. Moved by Representative Presta, seconded by Representative Powell, amend **SB 500** education savings accounts for qualified college institutions to include deposits as deductible. Motion carried.
3. Moved by Representative Powell, seconded by Representative Palmer, amend **SB 500** to index the personal exemption to conform to Federal law. Motion carried.
4. Moved by Representative Powell, seconded by Representative Johnston, amend **SB 500** to include sales tax exemption for purchases and memberships for zoos operated by non profit groups and not by governmental groups. Motion carried.
5. Moved by Representative Osborne, seconded by Representative Larkin, amend **SB 500** to offer the standard deduction of \$200 for singles, \$400 for head of household and \$600 for joint returns with subsequent indexation. Motion carried.
6. Moved by Representative Tanner, seconded by Representative Wempe, amend **SB 500** to insert earned income tax credit based on 10% of federal earned income tax credit. Motion carried.
7. Moved by Representative Cook, seconded by Representative Powell, amend **SB 500** by including exemption for churches on purchases of property used for religious purposes. Motion carried.
8. Moved by Representative Vickery, seconded by Representative Findley, amend **SB 500** include sales tax exemption on sales by Girls Scouts, Boy Scouts, YMCA, PTAs, broadcasters and other humanitarian groups. Motion carried.
9. Moved by Representative Gregory, seconded by Representative Ruff, amend **SB 500** with conceptual sales tax amendment on machinery and equipment exempted on federal income tax. Motion carried.
10. Moved by Representative Gregory, seconded by Representative Shriver, amend **SB 500** to increase the business personal property tax exemption from \$250 to \$1,000. Motion carried.
11. Moved by Representative Palmer, seconded by Representative Shultz, amend **SB 500** to include pagers in the exemption from all property or ad valorem taxes under KSA 79-201w by striking "actually and regularly" and "exclusively for business purposes, or" and insert "used or to be used in the conduct of the owner's business." Motion carried.
12. Moved by Representative Mays, seconded by Representative Osborne, amend **SB 500** to fix the homestead exemption for residential housing permanently at \$20,000. Motion carried.
13. Moved by Representative Mays, seconded by Representative Kirk, amend **SB 500** to include language regarding leasing of corporate aircraft from HB 2668. Motion carried.
14. Moved by Representative Powell, seconded by Representative Schultz, amend **SB 500** to limit the mill levy provision effective for one year. Motion carried.
15. Moved by Representative Kirk, seconded by Representative Franklin, amend **SB 500** to include an income tax credit for businesses who employ persons with developmental disabilities with protection for employees and limit to tax credit for employers. Motion carried.
16. Moved by Representative Kirk, seconded by Representative Larkin, amend **SB 500** include sales tax exemption for Heartland share project as a result of volunteer work which enables workers to get food packages at reduced cost. Motion carried.
17. Moved by Representative Shore, seconded by Representative Presta, amend **SB 500** include low production gas wells under \$87 per day in the severance tax. Motion carried.
18. Moved by Representative Vickery, seconded by Representative Ruff, amend **SB 500** remove tax exempt vehicles owned by military personnel who are sent out of state or called to duty from reporting to BOTA through county treasurers. Motion carried.
19. Moved by Representative Larkin, seconded by Representative Kline, amend **SB 500** to add a 10 year provision on tax liens. Motion carried.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, ROOM 519-S Statehouse, at 9:00 a.m. on February 12, 1998.

20. Moved by Representative Larkin, seconded by Representative Ruff, amend **SB 500** to restructure the inheritance tax proposal in Governor's plan to the inheritance tax already in place and raising thresholds on Class A to \$1.3 million and Class B to \$100,000. Motion failed. Yes 9 No 12.

Kirk and Krehbiel asked to be recorded as yes votes.

It was noted the fiscal note on the amendments above is approximately \$225 Million.

21. Moved by Representative Johnston, seconded by Representative Larkin, amend SB 500 in addition to repealing the sales tax for remodeling in residential that we also repeal sales tax on business remodeling services. Motion failed. Yes 10, No 12

22. Moved by Representative Ruff, seconded by Representative Presta, amend **SB 500** to exempt property under \$250 that has already been declared exempt from reporting this property to appraisers each year. Motion withdrawn.

23. Moved by Representative Powell, seconded by Representative Presta, move **SB 500** as amended favorably for passage. Motion carried.

The next meeting is scheduled for February 17, 1998.

Adjournment.

Attachments - 8

TAXATION COMMITTEE GUEST LIST

DATE: **FEBRUARY 12, 1998**

NAME	REPRESENTING
<i>Harry Beckwith</i>	USD 418
<i>[Signature]</i>	USD 418
<i>Bob Tulle</i>	USD 418
<i>John Frederick</i>	Boeing
<i>Bernie Koch</i>	Wichita Chamber
<i>Hal Hudson</i>	NEIB/KS
<i>Ann Dukes</i>	DOB
<i>J. P. Small</i>	KOCH INDUSTRIES / LEARJET
<i>Ashley Shevard</i>	Overland Park Chamber
<i>Nanon Jordan</i>	Revlon International
<i>Steve Montgomery</i>	CAS
<i>Jane Willis</i>	Self
<i>Bob Corkins</i>	KCCI
<i>Don Schmacke</i>	KIOWA
<i>Karen Sessler</i>	USD 355
<i>Byron Patton</i>	Ks Council of Silver Hair Leg. Patrons
<i>Joan M. Sauser</i>	Cliff Franklin
<i>Therese Barget</i>	Ks. Catholic Conference

CLIFF FRANKLIN
 REPRESENTATIVE, TWENTY-THIRD DISTRICT
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 MERRIAM, KANSAS 66203
 (913) 677-6672
 OFFICE: ROOM 426-S STATEHOUSE
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TOPEKA

HOUSE OF
 REPRESENTATIVES

**GROCERY SALES TAX
 ELIMINATION**

2-12-98

MEMBER: EDUCATION
 FEDERAL & STATE AFFAIRS
 TAXATION

Mr Chairman and fellow Tax Committee members, thank you for this opportunity to discuss with you the many benefits of eliminating the state sales tax on food bought in grocery stores for home consumption. This is arguably the most broad based tax in Kansas. Who doesn't eat? The poor, middle income, and rich all eat food at home. Young families, the elderly, singles, farmers, urban dwellers, and even politicians consume food purchased in grocery stores. Because of this indiscriminate nature of consuming food all but 16 states have eliminated or dramatically reduced the food tax.

The fiscal note is approximately \$150 million in 1999 and \$225 million in 2000. Listed below are some talking points which I would like to go over with you this morning. I would also like to thank my intern Joan Sauser for putting together these talking points.

Proposals

1. HB 2721 to eliminate the entire 4.9% state sales tax on food starting October 1, 1998.
 To a family of six this would mean a tax savings of around \$700/year.
2. Governor Graves has included a food tax rebate program in his tax package.

	<i>Current</i>	<i>Graves</i>	<i>GOP Senate SB-500</i>
General Tax Reductions			
◆ food sales tax rebate - increase salary cap to \$25,000			
double the credit		\$5 million	no relief

** This bill would not include a sales tax repeal on food purchased in restaurants and vending machines. This applies to essential grocery purchases. Those with limited incomes are not eating in restaurants.

Border Communities are Impacted Adversely by the Tax on Groceries.

The 23rd District is one of many districts which are located on the border of Missouri and Kansas. Voters in the 23rd district can drive just a few minutes and purchase their groceries from out-of-state retailers and save themselves 3% on their grocery purchases. This creates a hardship for not only for Kansas residents but also for Kansas businesses.

Voters desire to repeal grocery tax in 23rd district bested only by property tax.

In a survey mailed last October to the voters in the 23rd district, voters in my district told me that a reduction in the sales tax on food items bought in grocery stores was their second most important tax issue - ahead of reducing the income tax rate, acceleration of the phase in of tax equalization and a constitutional spending limit. It ranked only behind their request to reduce the property tax.

Results of Survey to 23rd district voters:

Tax Issues

- #1 Significantly reduce the property tax on homes and businesses.
- #2 Reduce the sales tax on food items bought in grocery stores.**
- #3 Reduce the income tax rate.
- #4 Accelerate the phase in of the single/married income tax equalization.
- #5 Set a constitutional spending limit for state and local governments.

Kansas is one of only 14 states holding on to tax on food.

Presently 37 states have zero tax, a significant reduction or are contemplating repeal of tax on grocery purchases. Kansas joins ranks with Alabama, Hawaii, Idaho, Mississippi, New Mexico, North Carolina, South Carolina, South Dakota, Tennessee, Utah, Virginia, West Virginia, Wyoming. (see attached listing of state status).

Kansas has the fourth highest sales tax on food in the nation!

At a tax rate of 4.9% on food, Kansas ranks as number 7 out of 50 states in the amount taxed on grocery purchases, with the fourth highest tax rate in the country. (see attached listing of states listed in descending order according to the amount of tax imposed on grocery purchases)

Compared to our neighboring states.

Iowa, Nebraska, Colorado - no sales tax on food.

Missouri and Illinois have eliminated most of their food tax.

Arkansas and Oklahoma are expected to repeal their sales tax on food this year.

After the 1998 session, Kansas will have the most regressive sales tax on food.

Tax on food impacts everyone and especially hurts young families and elderly people which frequently eat at home.

Supporting the repeal.

Kansas Republican Party, the Silver Haired Legislature, American Associations for Retired Persons (AARP), and the Kansas Family Research Institute.

Possible improvements to the governor's sales tax rebate.

Provide \$50 credit per exemption to all income tax filers earning less than \$25,000 adjusted gross income which have children, are at least 55 years old, are visually impaired, or are disabled.

For a single mother with 2 children this means \$200 of tax relief!!

Myth: It will cost too much to retailers to implement.

Grocery store retailers across the state are already programmed to exempt food items purchased through WIC and the federally-funded food stamp program. Since this tax would apply to the same food items which are exempt under these programs, retailers will not incur this added expense.

However, if this tax is incrementally reduced, the retailers will incur an expense, because they will need to re-program their machines and do so at each incremental reduction period.

Kansas grocery retailers as an industry will benefit from the repeal of the grocery sales tax, especially those in border counties, where residents may drive across the border in order to save the 4.3% extra now added in Kansas.

Myth: Those that earn more, benefit more from the repeal of this tax.

Wrong. As a percentage of income, low-income residents spend a greater percentage of their income on food purchases than those with high incomes. In addition, the tax specifically applies to the essentials of food marketing which the lower income residents purchase on a routine basis.

Yes, the more you spend, the more you save and those with higher incomes have more to spend and will spend more at the grocery store. However, those with lower incomes spend a higher percentage of their income on the food purchases, thereby more greatly affecting a person's purchasing power the less he/she earns.

Why is this better than the governor's proposed tax rebate?

1. Simplicity. You keep the money from the date of purchase. You do not have to wait until the end of the year and declare it on your taxes. You have increased purchasing power today.
2. Everyone benefits from a repeal on grocery taxes. Under the tax rebate, only those who are disabled, have two children or more, are over 55 and earn less than \$25,000 are eligible. What about all those other people who do not fit into this category and are still the working poor? They deserve a break also. By having a straight break across the board, it is non-discriminatory, and benefits all Kansans. Those in the upper-income brackets who also benefit make it up in taxes on income and luxury taxes.
3. Taxation affects the ability of Kansas to compete with bordering states. The tax is damaging to Kansas retailers. Those counties bordering the state have the most to gain. By repealing the tax, retailers of food items will benefit by increased business, residents benefit by not having the added expense of driving across the border to shop for decreased prices, and the general community benefits because grocery dollars stay within their own community, creating jobs in the retail sector.
4. Kansas will be the only state in our region with a regressive tax on food.

Why is a tax repeal better than an incremental reduction?

1. Costs retailers less. There will be no need for retailers to incur an added expense of reprogramming their equipment. The food that will be exempt is already exempt under WIC and the federally funded food stamp program.

2. Greater benefit to Kansas. Kansas will remain competitive with surrounding states, keeping grocery purchases within our borders

Fallback Position - a tax no greater than the lowest neighboring state.

Buy Kansas First!

Kansas should at least have its tax on groceries no higher than the lowest of its neighboring states in order to be fair for residents and grocery retailers located close to the border.

How the Kansas tax on food stands in relation to other states.

** indicate states in process of repealing taxation

neighboring states are in italics

1	7.0 %	Mississippi	<u>Taxing States</u>
2	6.0 %	West Virginia	
3		Tennessee	
4	5.0 %	Idaho	
5		New Mexico	
6		South Carolina	
7	4.9 %	Kansas	
8	4.75%	Utah	
9	4.625 %	<i>Arkansas ** (on public ballot)</i>	
10	4.5 %	<i>Oklahoma ** (will be debated this session of legislature)</i>	
11	4.0 %	Alabama	
12		Georgia ** (fully exempt 10/1/98)	
13		Hawaii	
14		Louisiana ** (fully exempt 7/1/98)	
15		North Carolina	
16		South Dakota	
17		Wyoming	
18	3.5 %	Virginia	
19	1.225 %	<i>Missouri</i>	<u>States with significant tax reduction</u>
20	1.0 %	Illinois	
21	0.0 %	Alaska	<u>0% tax on food</u>
22		Arizona	
23		California	
24		<i>Colorado</i>	
25		Connecticut	
26		Delaware	
27		Florida	
28		Indiana	
29		<i>Iowa</i>	
30		Kentucky	
31		Maine	
32		Maryland	
33		Massachusetts	
34		Michigan	
35		Minnesota	
36		Montana	
37		Nebraska	
38		Nevada	
39		New Hampshire	
40		New Jersey	
41		New York	
42		North Dakota	
43		Ohio	
44		Oregon	
45		Pennsylvania	
46		Rhode Island	
47		Texas	
48		Vermont	
49		Washington	
50		Wisconsin	

Where Kansas will stand with other fully-taxing states after 1998.

1	7.0 %	Mississippi
2	6.0 %	West Virginia
3		Tennessee
4	5.0 %	Idaho
5		New Mexico
6		South Carolina
7	4.9 %	Kansas
8	4.75%	Utah
9	4.0 %	Alabama
10		Hawaii
11		North Carolina
12		South Dakota
13		Wyoming
14	3.5 %	Virginia

State of Kansas
House of Representatives

TOM SAWYER
House Democratic Leader



Topeka Address
State Capitol
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Office of the Minority Leader

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify this morning on behalf of House Bill 2406.

Crafting a state budget is about making choices. Some people say that we can't afford to cut the sales tax on food this year. But if we choose to make it a priority, we can. I strongly believe that if we don't make the choice to reduce the food sales tax now, at a time when we have a budget surplus, then we never will.

I support cutting the sales tax on food for two reasons.

First, I simply believe that the sales tax on food is morally wrong. I don't think it's right for the state to make a profit each time a family buys a gallon of milk or a senior citizen buys a loaf of bread. The sales tax on food is a regressive tax that hits hardest low-income families and those living on fixed incomes, because they spend a larger percentage of their income on food.

Secondly, I believe that eliminating the sales tax on food is the most fair and balanced way to provide tax relief to Kansas citizens. Both the Governor's budget and the Senate tax plan propose far too much tax relief to a privileged few. The Governor's budget proposes a 4% cut in income tax, a 3% cut in property tax, and a whopping 70% cut in inheritance tax.

We must make better choices than that. We must make fair choices that will provide relief for all our citizens, not just the wealthy. Reducing the sales tax on food is the one tax break that is guaranteed to effect every single Kansas citizen.

I urge you to make the right choice by supporting a reduction on the sales tax on food.

House Taxation
2-12-98
Attachment 2-1

STATE OF KANSAS

GWEN WELSHIMER
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TOPEKA

HOUSE OF
REPRESENTATIVES

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MEMBER: GOVERNMENTAL ORGANIZATION
& ELECTIONS, RANKING MINORITY MEMBER
FINANCIAL INSTITUTIONS
HEALTH & HUMAN SERVICES
ADMINISTRATIVE RULES & REGULATIONS

February 12, 1998

TO: Rep. Phill Kline, Chairman, and Members House Taxation
Committee

FROM: Rep. Gwen Welshimer

SUBJECT: HB2406, "THE KANSAS FAMILY FRIENDLY TAX RELIEF PLAN"

Removing the sales tax on food could become the most important tax legislation in decades! The concept has integrity. Unlike other tax proposals, it is not influenced by special interests, and it benefits all Kansans more equally than any other tax benefit concept. It doesn't require applications, qualifying, time, expense, or knowledge of state tax laws.

The fiscal note is about \$210,000,000, so most of the other tax proposals would be crowded out this session. But, if put to a vote, would Kansas citizens vote for a reduction in inheritance tax or eliminating the food tax? I believe the majority of Kansas voters have little to gain from inheritance tax breaks.

HB2406 completely exempts from sales tax food items purchased in grocery stores. These food items are easily identified. The bill describes them as only that food which is eligible for purchase with food stamps issued by the United States Department of Agriculture pursuant to their January 1, 1997 Regulations. These Rules would apply regardless of whether the retailer from which the food is purchased is participating in the food stamp program. The exemption does not include meals prepared for immediate consumption on or off the premises of the retailer or food sold through vending machines.

Federal data tells us that if you have a family of four with an income of \$50,000, you are probably spending 9-10% on food items plus about \$295 (5.9%) state and local tax. If your income is about \$100,000, 5-6% on food plus \$354 in sales tax. If your income is \$20,000, you are probably spending 15-16% on food plus \$188 in state and local sales tax. According to the Kansas Dept. of Revenue, we have about 2.5 million citizens and about 200,000 or 10% of them earn less than \$25,000 annually. This is based on the 1990 census.

House Taxation
2-12-98
Attachment 3-1

One must be a property owner in order to benefit from any property tax reduction which leaves out those who rent, especially young people who have not yet accumulated the necessary money to make their first home purchase. It also leaves out the elderly segment of the population who might have disposed of their home and gone into an independent living situation. In contrast, eliminating sales tax on food purchased in grocery stores benefits everyone immediately and continuously.

There is no federal or state deduction on income tax allowed for any sales taxes paid, other than for those who earn less than \$13,000 and qualify for the food tax refund. Therefore, any savings which result from a sales tax being eliminated is a full dollar savings.

In Sedgwick County, a single family home with an appraised value of \$60,000 paid property taxes of about \$750 in 1997, based upon a combined mill levy of about 109 mills, or \$6.88 per mill. In order to deliver the same tax relief via property tax reduction as can be achieved with elimination of the the sales tax on food the property tax would have to be decreased by 43 mills and only homeowners would benefit (based on \$50,000 income).

Eliminating the food tax would touch everyone and cross the entire spectrum of our population, rich and poor, individual or business, employed, unemployed, self employed, young and old.

So I urge your favorable consideration of this proposal to eliminate sales tax on food. I think much of the money which people can keep in their pockets as a result will be recycled back into the economy in the form of consumer spending which can only further fuel our state's robust economy.

The most common response I have received in opposition to this bill is, "nobody will notice it like they do when they get a tax bill and it is less than the year before." I must argue that I notice that tax when it is added on at the grocery store register. Renters don't notice property tax reductions. Homebuyers didn't notice the sales tax on construction abatement, and a majority of Kansans probably won't notice an inheritance tax break.

We have a responsibility to do what is right for the greatest number of people in our state without influence. We have a unique opportunity right now to eliminate permanently a regressive tax and provide a benefit to the maximum number of people. I ask for your support to make elimination of sales tax on food the centerpiece for the 1998 session which can rightfully be called "The Kansas Family Friendly Tax Relief Plan"!

Thank you.

Loren Welshimer

3-2

IN SUPPORT OF HB 2721

Sponsored by Representative Cliff Franklin, Phill Kline and
Robert Tomlinson

WHY DO WE HAVE SALES TAX ON A NECESSITY SUCH AS FOOD?

32 states never did; or, have removed this Abusive Tax.

Some states do not tax clothing and other necessities.

LOW INCOME PEOPLE DO PAY OTHER TAXES:

Sales Tax on Autos - a major tax for a Reliable Work Car-a necessity.

Gasoline (sales) Tax (known as a Regressive Use Tax).

Real Estate Tax for Home owners; Renters pay indirect Real Estate
Tax.

Hidden Taxes passed on by merchants and manufacturers.

Sales Tax on labor (a service) for Auto Repair.

(many services are exempt; i.e., services in Hair Salons).

Byron Patton
Topeka 785) 271-2180

REMOVE SALES TAX FROM GROCERIES IN KANSAS

For Fairness To Those Who Struggle

Who speaks for low income elderly and large families?

They are hit hardest by a tax on groceries - a necessity.

Most states (32) do not tax groceries.

Taxing groceries is a particularly regressive element of taxation.

(This information comes from Who Pays?, an analysis of the tax systems of all 50 states, compiled by Citizens for Tax Justice, et al, 1311 L St. N.W., Washington D.C. 20005; 202-626-3780; e-mail: ct@ctj.org; World Wide Web page WWW.ctj.org. Send for your own book on taxation in 50 states - no cost. It's a revelation!)- Also available at Kansas Legislative Library in the State House.

Kansas rebate for Sales Tax paid on groceries is only a partial rebate:

For family income below \$13,000.00

Participation about **23%**; low rebate for graduated income

Cumbersome program; inadequate notification; contact your Older Citizen Agency For Details.

Tax money is needed each week to buy groceries; many of these people count their money, then leave needed items on the shelf.

The Rebate requires a Beauracracy cost paid by tax money.

ONLY LOW INCOME CITIZENS IN KANSAS are required to make application to to receive a Rebate for a Tax that is unfair.

MIDDLE AND HIGH INCOME CITIZENS IN KANSAS are granted Exemptions if the tax is inappropriate.

THE 1997 SILVER HAired LEGISLATURE OF KANSAS (Oct. 14 to 17) passed this issue and recommended to the Kansas Legislature:

Removal of Kansas Sales Tax on groceries

Contact your own state senator, state representative and Governor Graves.

Names, telephone numbers and addresses can be obtained from the Division of the Secretary of State office (785-296-4561).

Please formulate your own message. Form letters and petitions are often ignored.

Will you join me and the Kansas Council of Silver Haired Legislature in bringing this long neglected Tax Abuse issue before the Governor and the current session of the Kansas Legislature?

Byron Patton
Member, Kansas Council of Silver Haired Legislators
Topeka, Kansas 785) 271-2180

P.S. "Sales Tax on Food is an Onerous Tax" according to Ruth Wilkin in a letter to the Editor. She is a former Kansas Legislator from Topeka.

**TESTIMONY PRESENT TO
HOUSE TAXATION COMMITTEE**

**By: Wayne Maichel, Executive Vice President
Kansas AFL-CIO**

Mr. Chairman, Members of the committee, we thank you for the opportunity to appear before your committee in support of House Bills 2406 and 2721.

The Kansas AFL-CIO supports the complete removal of sales tax on food.

Kansas is not the only state that has budget surpluses. More than 40 states are recommending the lowering of state taxes. Many of those states have chosen the route of lowering or eliminating sales tax on food. Nebraska and Colorado have no sales tax on food. Missouri, effective October 1, 1997, reduced their tax by 3%. The Oklahoma House of Representatives has voted to repeal their 4.5% sales tax on food and the Senate is expected to follow suit this year.

The lowering or removal of sales tax on food is a tax reduction that could be enjoyed by all Kansans.

You have removed the sales tax on prescription drugs, on utilities and by removing the sales tax on food, you will have exempted the basic necessities of life, medication, heat or cooling and food. The present system of a sales tax refund on food simply doesn't work. I have attached to my testimony information showing that only 17.4% of eligible households received this benefit last year.

We ask for your support on the elimination of sales tax on food and encourage you to support House Bills 2406 and 2721.

Kansas Food Sales Tax Refund Program

Total Kansas households	939,828
Households eligible for Food Sales Tax Rebate	206,589
Applications for Food Sales Tax Rebate	36,012*
Amount of money rebated	\$1,588,472 (FY 97)
Average rebate per household	\$44

*3.8% of all households, 17.4% of eligible households

Source: Kansas Department of Revenue (based on 1990 census data)



EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

House Bill 2721

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FRANCES KASTNER

EXEMPTING FOOD FROM SALES TAX AT POINT OF PURCHASE

The Kansas Food Dealers Association's membership includes retailers, distributors and manufacturers of food products throughout the State.

As you have heard from us in the past, many of our members along border states that do not have sales tax on food could support a complete sales tax exemption at the point of purchase IF the definition for "food" is the same as used for the food eligible for purchase with FOOD STAMPS.

We are aware that it is a very expensive proposal to exempt food from all of the 4.9 percent state sales tax at one time. Our members have not taken a position on when or how much to exempt the sales tax on food. However, we are asking you to please keep in mind that each time you ask grocers to reprogram their cash registers, there is an added expense involved.

It should also be remembered when local sales tax remains on food items it is necessary to ring up food items exempt from the state sales tax, keep the food items subject to the local tax, and then include all non-food items in both the local and state sales tax before reaching a total cost.

Technology allows us to do that relatively easily, but there is an expense to the grocer each time the sales tax rate is changed.

We appreciate the opportunity to present this information to you.

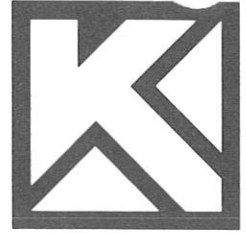
Donald Snodgrass
Donald Snodgrass

Frances Kastner
Frances Kastner

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LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



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HB 2721 & HB 2406

February 12, 1998

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by
Bob Corkins
Director of Taxation

Honorable Chair 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 members' views on both HB 2721 and HB 2406. While KCCI is sensitive to the reasons advanced for eliminating the sales tax on food, we feel there are better ways to achieve its tax policy objective without creating a substantial new compliance burden on Kansas retailers.

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 46% of KCCI's members having less than 25 employees, and 77% 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 primary concern is the administrative cost of implementing and complying with this change in the tax base. Proponents of the change often cite the technology of cash register scanners as a means for easily adapting to the new exemption. Clearly, a scanning system does make the transition easier, but still not without an additional business expense.

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First, however, the legislature should consider the impact on retailers who do not utilize scanning devices. These will predominantly be small independent businesses which cannot afford the installation costs of the more sophisticated registers. The taxability of each item they sell will turn on the judgment and tax knowledge of their cashiers. You may recall last year's debate about sales tax exemption certificates and the extreme difficulty retailers experienced in satisfying the "good faith" acceptance standard. Today's proposal would present a similarly subjective burden on retailers which is even broader in scope. It would create very fertile ground within which state sales tax auditors could find countless mistakes to penalize. To satisfy this collection duty without the aid of scanners would be an oppressive expense that invites a new wave of tax audits.

Even companies with scanning registers would pay a substantial sum to adapt their systems. One large grocery chain which recently made the food sales tax conversion in Missouri estimated that necessary software modifications required approximately four manpower days per store using their own in-house personnel. If a company should need to hire contract help to make the adjustments, the going rate is around \$180 per hour. That translates to over \$5,700 per store for contract labor conversion.

According to the Kansas Department of Commerce and Housing, there are more than 2,600 retail food outlets in this state. Hence, a crude estimate of statewide conversion costs associated with today's proposal would be in the neighborhood of \$15 million. To the extent retailers are able to use in-house labor to accomplish the feat, the cost would be less. However, for retailers that do not already have scanning registers, the cost would be considerably more. But perhaps of even greater interest to policymakers is the fact that this tax change would apply to many retailers beyond grocery stores and convenience stores. The Kansas Department of Revenue estimates that the number of retailers whose business involves at least some food sales eligible for this new exemption would probably exceed 10,000. Therefore, a conservative estimate of the cost to all retailers would be at least \$30 million.

Unfortunately, this expense represents only the up-front transition costs. The sales tax audits which would follow would be a persistent spawning ground for tax appeals, penalties and litigation. Defining tax exempt food as that which is eligible for purchase with federal food stamps is helpful, but far from clear. The degree of preparation, the type of packaging, the presence or absence of dining tables at the establishment, and a myriad of other factors may determine whether the exemption applies. For example, hardware stores might charge too

much sales tax on garden seeds while convenience stores might charge too little tax for frozen pizzas which are warmed up in the store's microwave.

This new tax compliance burden would be on top of the administrative costs our retailers are already absorbing. A 1994 Price-Waterhouse study of Kansas retailers indicated that the average cost of collecting sales tax was equal to 3.48% of the taxes collected. The state of Kansas -- unlike most other states and all of our immediately neighboring states -- does not reimburse retailers for this service to any extent. Coincidentally, the 2% vendors' allowance which KCCI has advocated in recent years would save retailers approximately the same amount of money which it would cost them to implement the food sales tax exemption.

Finally, if there is a desire to provide additional tax relief to lower income Kansans, we would encourage the legislature to consider fine-tuning the current approach in this area. The food sales tax rebate program is appropriately targeted to those needing it most and it could be refined to increase its outreach. Greater public education and/or an application for the sales tax rebate on one's income tax return would be reasonable alternatives.

We respectfully urge your opposition to HB 2721 and HB 2406 and I thank you for your time and consideration.

HEIN AND WEIR, CHARTERED

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Stephen P. Weir

Susan Baker Anderson

HOUSE TAXATION COMMITTEE TESTIMONY RE: HB 2406, HB 2721

Presented by Ronald R. Hein
on behalf of

KANSAS RESTAURANT AND HOSPITALITY ASSOCIATION

February 12, 1998

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for the Kansas Restaurant and Hospitality Association. The KRHA is the trade association for 1,200 restaurant and hospitality businesses in Kansas.

The KRHA opposes HB 2406 and HB 2721. These bills would set a state policy that discriminates against 1) businesses that prepare and serve food, and 2) against those individuals who, either by choice or by necessity, eat at restaurants or other food service establishments.

KRHA feels that this legislation will have an adverse impact on the food service industry in Kansas. This industry provides 80,700 jobs in the state and another 51,900 jobs in related industries. To the extent that the differential in tax affects an individual's decision to eat at a restaurant or to eat at home, and to the extent that restaurants lose business, the result will be less economic development, and less employment.

If the intent of this legislation is to benefit lower income individuals, then the legislation should not draw a distinction between food at home and food eaten out. As written, persons with high income who consume expensive foods purchased at a grocery store will not have to pay tax, while many lower and middle income people who are forced to eat out at least one meal a day, and sometimes more, will be forced to pay the tax. Many working men and women of average income will have to pay the tax, even if they are eating at their employer's cafeteria or a low-priced diner. If this legislation is an effort to do some social or economic justice, it should include all food purchases.

The KRHA would not oppose an approach along the lines proposed by Governor Bill Graves, to expand the sales tax credit for low income individuals.

The KRHA would urge the committee not to approve HB 2406 or HB 2721 as written.

Thank you very much for permitting me to testify, and I will be happy to yield to questions.

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