

Approved: 2-25-00
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on February 22, 2000, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Bill Jarrell, The Boeing Company
Marlee Bertholf, Kansas Chamber of Commerce & Industry
Shirley Sicilian, Kansas Department of Revenue

Others attending: See attached list.

Hearing on: Integrated Plant Theory

Senator Langworthy informed the Committee that the bill draft for the integrated plant theory was not yet completed. She called the Committee's attention to copies of the briefing on the integrated plant theory presented by Shirley Sicilian, Kansas Department of Revenue, at the January 31, 2000, meeting.

Bill Jarrell, The Boeing Company, stated that Boeing is very pleased to be a part of the Kansas Tax Coalition which has worked closely with the Department of Revenue, the Governor's office, and both the Senate and House Tax Committees to develop meaningful language to define "integrated plant." He reminded the Committee that the language was amended into **HB 2543** during the 1999 Legislative Session; however, the bill did not emerge from the tax conference committee. He contended that the language found in **HB 2543** will help ensure that Boeing and other manufacturers in Kansas can remain competitive in today's global market. He strongly supports the integrated plant language in **HB 2543** with no modifications. (Attachment 1)

Ms. Sicilian stood in answer to committee questions regarding what would be exempted under the bill. She explained that the bill clarifies what is to be considered a part of plant machinery. The bill expands the current definition to include anything that performs an integral or essential function in production.

Mr. Jarrell called attention of written testimony in support of the integrated plant theory language found in **HB 2543** submitted by Bernie Koch, Wichita Area Chamber of Commerce, who was unable to attend the meeting. Mr. Koch emphasizes that, although the integrated plant theory may seem like a big business issue, it is important to medium and small manufacturers as well. (Attachment 2)

Marlee Bertholf, Kansas Chamber of Commerce and Industry, followed with further testimony in support of the integrated plant theory. She pointed out that, under the integrated plant theory, an exemption from sales and use tax may be claimed when machinery and equipment perform an essential or indispensable function in the manufacturing process, regardless of whether a physical change is actually caused in raw material. In her opinion, implementing the integrated plant theory will simplify a problematic exemption and encourage manufacturers to continue to make investments within the state. (Attachment 3)

Senator Langworthy called the Committee's attention to copies of written testimony in support of the integrated plant theory which was submitted by Paul Marr, representing General Motors. Mr. Marr believes that an integrated plant theory bill will place Kansas in a more competitive position with other states and will provide direction to both taxpayers and auditors with respect to the parameters of the manufacturing process. (Attachment 4)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE
Room 519-S, Statehouse, at 11:10 a.m. on February 22, 2000.

There being no further persons wishing to testify, Senator Langworthy closed the hearing on the integrated plant theory. She announced that the bill draft for the integrated plant theory would be completed soon, and projected fiscal notes on the bill were in the process of being completed.

The meeting was adjourned at 11:30 a.m.

The next meeting is scheduled for February 25, 2000.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: February 22, 2000

NAME	REPRESENTING
Bill Jauree	The Boeing Company
Jacqui Clark	Hallmark Cards Inc.
Cynthia Smith	KCPL
Patrick Skerley	KCPH
Ashley Shevard	Overland Park Chamber
Marka Bill	KCCT
Anne Spiess	Peterson Public Affairs Group
Wendy W	KAPA
Bob Kuehnel	K206A
Loraine Cole	Sen. Jason Office
Christy Caldwell	Topeka Chamber of Commerce
BUD GRANT	KCC
Jane HOLTMAUS	W. Resources
Dick A	W. Resources
Sandra Braden	McCall Cashes & Assoc.
Jim Langford	DOB
Mike Stadler	W Resources
ED SCHAUB	WESTERN RESOURCES
Julie Hein	Hein and W. W

**Statement to
Senate Assessment and Taxation Committee
February 22, 2000**

**William E. Jarrell
Regional Director, State Relations
The Boeing Company**

Madam chairman and distinguished committee members. Thank you for the opportunity to testify on this very important subject, regarding the integrated plant theory. My name is Bill Jarrell and I am the director of state and local government relations for Boeing's eleven-state central region. This committee and others know that I reserve my appearance for the most significant business issues facing the legislature. This is one of those instances.

Boeing is very pleased to be a part of the Kansas Tax Coalition, which has worked closely with the Department of Revenue, the Governor's office and the Senate and ^{HOUSE} tax committees to develop meaningful, fair language to define "integrated plant." More than two years of cooperation and diligent work resulted in the introduction of HB 2009 during the 1999 legislative session, which was passed by the House 122-0 and was later amended into HB 2543 in this ~~committee~~. Although the integrated plant language did not emerge from the tax conference committee last year, we do appreciate your successful action in 1999 to change the definition in K.S.A. 79-3606(kk) from "consumed immediately" to "consumed within one year." It was an important first step.

I do not have to tell anyone in this room that The Boeing Company has faced difficult challenges during the past several years, following our merger with McDonnell Douglas and the very serious Asian financial crisis, which significantly reduced commercial jet orders. At the same time, Airbus has continued its relentless challenge for market share. The requirement to reduce our cost of doing business in the twenty-seven states where we have operations has never been greater, and the responsible clarification of state statutes, such as that provided by the integrated plant language found in HB 2543, will help ensure that Boeing and other manufacturers in Kansas can remain competitive in today's global marketplace.

Let me state very clearly that we are not looking for any addition to the integrated plant language found in HB 2543. This language represents a fair definition agreed to by the Department of Revenue, the Kansas Tax Coalition and others. It is truly the win-win solution that was set as our goal in 1999. Business wins by having an appropriate, reasonable definition of the sales tax exemption for machinery and equipment, and the state wins both by eliminating confusing language (and thus reducing contentious litigation) and ultimately by continuing to grow the manufacturing base, with accompanying high-paying jobs, in Kansas. I urge your favorable consideration of the integrated plant legislation documented in HB 2543, with no modifications.

Thank you for your continued attention and support for this important issue. I will be pleased to address your questions.

*Senate Assessment & Taxation
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Attachment 1*

**Senate Assessment and Taxation Committee
February 22, 2000**

**Testimony of Bernie Koch
VP/Government Relations, Wichita Area Chamber of Commerce**

Thank you for the opportunity to present these comments concerning integrated plant theory. The Wichita Area Chamber supports the integrated plant language found currently in HB 2543. This issue is especially important to our area because of our strong manufacturing economy. Twenty-six percent of our work force is manufacturing. That is the fifth highest percentage in the country.

This may seem like a big business issue, but it's important to medium and small manufacturers as well.

For example, many of them use heavy equipment, which requires an extra thick floor or special foundation to eliminate vibration. Also, this is not equipment you just plug into an electric outlet. Special power lines are often required.

JR Custom Metal, a longtime Wichita minority-owned company recently expanded, doubling its employment to 100 people. The expansion required large ovens to dry and cure paint on metal parts that are manufactured by the company. Those ovens got a sales tax exemption, but the equipment needed to bring electricity to such machines is subject to the sales tax. In the case of JR Custom Metal, underground trenches to carry electric lines were not possible due to a high water table in the area of the plant. Instead, the company went with overhead bus bars, a kind of power strip that hangs from the ceiling.

The cost of these bus bars was about \$160,000. Sales tax was about \$9,440.

Another reason that small and medium manufacturers support this measure is the problem of trying to keep up with all of the information needed to operate within the law. Many smaller companies don't have an attorney or a tax expert on staff. They must hire the expertise to keep them out of trouble. Anything that simplifies their understanding of what's subject to sales tax and what isn't would be helpful. This bill appears to address that understanding.

I urge your support.

Thank you.

*Senate Assessment & Taxation
2-22-00
Attachment 2*

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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February 22, 2000

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment and Taxation Committee

by

Marlee Bertholf

Director of Taxation & Small Business

Madam Chair and members of the Committee:

My name is Marlee Bertholf and I am here on behalf of the members of the Kansas Chamber of Commerce and Industry (KCCI). Thank you for the opportunity to express our members' support of the integrated plant theory.

In a 1996 survey, auditors for the Kansas Department of Revenue identified K.S.A. 79-3603 and K.S.A. 79-3606 as two of the most problematic sales tax exemptions the Department administers. In response to this survey, the Governor and the Department of Revenue introduced HB 2684 during the 1998 Legislative Session as an effort to clarify the sales tax exemption. Unfortunately, the bill did not receive enough support to pass. However, the need to "fix" the exemptions has not subsided.

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 2,000 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 48% of KCCI's members having less than 25 employees, and 78% 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.

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the encouragement of the Interim Committee on Assessment and Taxation, the Kansas Department of Revenue, KCCI, local chambers and several manufactures formed a working group to develop the proposed changes encompassed in HB 2009, which was introduced last session. That language was amended into HB 2543 and was passed by the House last session. That is where we are today.

Historically, the Department of Revenue has required manufacturing machinery and equipment to have a "direct and immediate effect" on the transformation of raw material into the finished products. Today's manufacturing process is highly technical and as a result no longer simply involves a machine that has an ascertainable "direct effect" on the final product. The passage of the integrated plant theory will broaden the manufacturer's exemption to encompass all machinery and equipment that constitutes an "integral or essential" part of the manufacturer's production process. Under the integrated plant theory, an exemption from sales and use tax may be claimed when machinery and equipment perform an essential or indispensable function in the manufacturing process, regardless of whether a physical change is actually caused in raw material.

By implementing the "integrated plant theory," manufacturers and producers will perceive Kansas as a favorable taxing environment and easily recognize the exemption benefits Kansas has to offer. Currently, Kansas has over 3,200 manufacturers who have made an investment and commitment to produce goods in Kansas. By passing "integrated plant," the Legislature will not only be simplifying a problematic exemption but has the opportunity to encourage manufacturers to continue their investments and commitments in the State of Kansas.

Again, the members of KCCI strongly support the implementation of an "integrated plant" method of assessing manufacturing machinery and equipment sales tax exemption. I would like to thank you for the opportunity to appear before you today. I will be happy to answer any questions.

February 22, 2000

Senator Audrey Langworthy
Chairperson, Assessment and Taxation
Kansas Statehouse
Topeka, KS 66612

Dear Chairperson Langworthy,

General Motors Corporation (GM) has a 2.4 million square foot motor vehicle manufacturing facility located in the Fairfax Industrial District of Kansas City. Last year, the Fairfax Plant produced over 272,000 Pontiac Grand Prix and Oldsmobile Intrigue automobiles. The plant has over 3,000 employees which generated a payroll of \$223 million last year.

This letter is provided in support of the "integrated plant theory" bill which will serve to place the State of Kansas in a more competitive position with other states relative to the imposition of sales and use tax upon various manufacturing related transactions. GM supports the clarification and expansion of the manufacturing exemption and elimination of tax on labor services for installation and repair of manufacturing machinery and equipment. We also believe that this bill will provide direction to both taxpayers and auditors with respect to the parameters of the manufacturing process, and thereby reduce confusion and controversy surrounding the taxability of manufacturing related transactions.

In conclusion, we respectfully request your support for the principles of House Bill 2009.



Paul Marr
Plant Manager

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Attachment 4