

Approved January 25, 2001
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson John Edmonds at 9:00 a.m. on January 11, 2001 in Room 519-S of the Capitol.

All members were present except: Representative Cook, excused
Representative Howell, excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor
Winnie Crapson, Secretary

Conferees appearing before the committee:
Stephen S. Richards, Director, Dept. of Revenue
Richard Cram, Director, Policy and Research, Dept. of Revenue

Others attending: See attached list.

By unanimous consent bill will be introduced relating to income taxation of investment funds service companies as requested by Kathy Damron representing Wadell & Reed. [HB 2061 - Income taxation of investment funds service companies]

Stephen S. Richards, Secretary, Department of Revenue, introduced himself to the Committee and responded to questions and comments of members.

Richard L. Cram, Director of Policy & Research, Department of Revenue, presented a report on "Fiscal Impact of Repealing Sales Tax Exclusions and Exemptions", prepared by Steven Brunkan, Sales Tax Research Analyst (Attachment #1). The report provided a listing of each exclusion and exemption, identifying by statute, briefly describing it and estimating revenue. There are ten sales tax exclusions (K.S.A. 79-3603) and 59 exemptions (K.S.A. 79-3606).

Mr. Cram responded to questions of members of the Committee. He explained that an "exclusion" is contained within a statute that imposes a sales tax on a particular item, except in certain specified circumstances. An "exemption" expressly identifies a category of item as not being subject to sales tax.

The meeting adjourned at 9:55 a.m. The next scheduled meeting is January 17.

GUEST LIST

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NAME	REPRESENTING
Janet Stubbs	Ks. Bldg. Ind. Assn.
Judy Melier	KAC
Todd Johnson	KLA
Kathy Damron	Waddell & Reed
GREG SCHNEIDER	GIBBA
Bernie Hoch	Wichita Chamber of Commerce
Kaye Peterson	Ks Taxpayers Network
Alan Miller	LKM
Paul Glaves	PTA - Ruben-Olye Kids Page
John C. Sobotky	BOTA
Ficker Poling	Waddell & Reed
Harriet Lantz	intern - Rep. Huff
Rgs Hein	Ks Assn of Broadcasters
Karl Peterophu	Hein & Weig, Chtd
	Ks Taxpayers Network

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Office of Policy & Research

To: Rep. John Edmonds, Chair
House Tax Committee

From: Richard L. Cram

Re: Fiscal Impact of Repealing Certain Sales Tax Exclusions and Exemptions

Date: January 11, 2001

Attached please find the fiscal impact estimate prepared by Steven Brunkan, our sales tax Research Analyst. Steven was asked to estimate how much additional revenue might be generated in FY 2002 if all sales tax exclusions and exemptions were repealed, except those listed under "Scenario A." Steven provides both an 11 month (\$669 million SGF) and a 12 month (\$730 million SGF) revenue estimate. Steven also prepared an alternative estimate under "Scenario B," which kept certain additional exemptions in place. The Scenario B estimates were \$264 million (SGF) for 11 months and \$288 million (SGF) for 12 months. Steven assumed a 4% annual growth rate in sales tax revenues for FY 2001 and a 3.75% annual growth rate for FY 2002.

Sales tax exclusions are listed under K.S.A. 79-3603. Sales tax exemptions are listed at K.S.A. 79-3606. There are ten sales tax exclusions in K.S.A. 79-3603 and 59 exemptions in K.S.A. 79-3606. An exclusion is contained within a statute that imposes sales tax on a particular item, except in certain specified circumstances. For example, K.S.A. 79-3603(p) imposes sales tax on the service of installing or applying tangible personal property, *i.e.*, construction contract services, except for construction contract services used in original construction, which are excluded from taxation. An exemption expressly identifies a category of item as not being subject to sales tax. Without the exemption, the item would otherwise be subject to sales tax. For example, K.S.A. 79-3606(m) exempts "ingredients or component parts." Without the exemption, retail sales of these items would be taxable.

Also attached is the spreadsheet Steven prepared, which lists each exclusion and exemption, identifies it by statute, briefly describes it, and sets forth an estimated tax expenditure figure (if available) for each exclusion and exemption for FY 2001 and FY 2002. Scenarios A and B are the final 2 columns on the spreadsheet. The tax expenditure figures for the exclusions and exemptions repealed under each scenario are then shown and totaled at the bottom of the last spreadsheet. These total figures are the basis for Steven's FY 2002 estimate under each scenario.

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House Taxation Committee

Kansas Department of Revenue
Office of Policy and Research
Impact of Repealing Certain Sales Tax Exclusions and Exemptions

Question: What would be the fiscal impact if sales tax exclusions and most sales tax exemptions were repealed?

Scenario A.

The following sales tax exemptions would remain, all other exclusions and exemptions would be repealed:

- KSA 79-3606 (a) Motor Fuels and excised taxed items
- KSA 79-3606 (e) Federal govt.
- KSA 79-3606 (f) Railroads - interstate commerce
- KSA 79-3606 (g) Aircraft - interstate commerce
- KSA 79-3606 (m) Ingredient.component part
- KSA 79-3606 (n) Processing, manufacturing
- KSA 79-3606 (p) Prescription drugs
- KSA 79-3606 (q) Insulin
- KSA 79-3606 (r) Prosthetic, orthopedic appliances
- KSA 79-3606 (u) Leases and rentals of dwellings
- KSA 79-3606 (y) Materials for railroad rolling stock in interstate commerce
- KSA 79-3606 (dd) Food stamps
- KSA 79-3606 (gg) Supplemental Food program
- KSA 79-3606 (kk) Manufacturing Machinery and Equipment

In FY 2002 Scenario A is estimated to generate:

<u>Collections</u>	<u>Total</u>	<u>State General</u>	<u>Highway</u>
12 months	\$ 769.227 M	\$ 730.000 M	\$ 39.230 M
11 months	\$ 705.120 M	\$ 669.160 M	\$ 35.960 M

The top 6 exemptions, ranked by value, assumed as repealed in this scenario are listed below, along with the FY 2002 potential sales tax revenue estimate for each exemption:

<u>Exemption</u>	<u>Value (millions)</u>
KSA 79-3606(b) State of Kansas, political subdivisions, nonprofit hospitals	\$ 227.9
KSA 79-3606(o) Sales of animals, etc. for production of food	110.2
KSA 79-3606(w) Sales of gas, electricity, etc. for residential/ag. Use	106.2
KSA 79-3606(d) Property/services purchased for building schools, etc.	74.4
KSA 79-3606(t) Sales/repair of farm machinery & equip.	50
KSA 79-3606(cc) Property/services in enterprise zone construction projects	48.7

Scenario B:

All of the items in (A) plus these additional sales tax exemptions would remain:

- KSA 79-3606 (b) State of Kansas, political subdivisions, nonprofit hospitals
- KSA 79-3606 (c) Elementary & Secondary Schools
- KSA 79-3606 (d) Contractor purchases for political subs, hospitals
- KSA 79-3606 (h) Textbook rental
- KSA 79-3606 (k) Nonresident vehicle sales
- KSA 79-3606 (o) Animals, fish, plants for food

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In FY 2002 Scenario B is estimated to generate:

<u>Collections</u>	<u>Total</u>	<u>State General</u>	<u>Highway</u>
12 months	\$ 303.790 M	\$ 288.290 M	\$ 15.490 M
11 months	\$ 278.470 M	\$ 264.270 M	\$ 14.200 M

The top 6 exemptions/exclusions, ranked by value, assumed repealed in this scenario are listed below, along with the FY 2002 potential sales tax revenue estimate for each exemption:

<u>Exemption</u> <u>(Exclusion)</u> → (except for)	<u>Value (millions)</u>
KSA 79-3606(w) Sales of gas, electricity, etc. for residential/ag. Use	\$ 106.2
KSA 79-3606(t) Sales/repair of farm machinery & equip.	50
KSA 79-3606(cc) Property/services in enterprise zone construction projects	48.7
KSA 79-3603(p) Original construction	37.1
KSA 79-3603(s) Sale and service of customized computer software	16
KSA 79-3606(ee) Lottery tickets	10.9

The estimates were developed from the Kansas Tax Expenditure Report published November 1999. The fiscal year estimate for 2001 was generated based on a growth rate of 4% annually. The fiscal year estimate for 2002 was generated based on a growth rate of 3.8% annually.

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Sales Tax Exemptions Summary

Statute	Description of Exemption or Exclusion	Recent Revision	FY 2001	FY 2002	Scenerio A	Scenerio B
			(\$ in Millions)	(\$ in Millions)	FY 2002	FY 2002
			4.00%	3.75%		
3603 (b)	Taxes telephone and telegraph services except ceratin WATS and private data lines		\$ 0.292	\$ 0.303	\$ 0.303	\$ 0.303
3603 (e)	Admission to any cultural and historical event which occurs triennially	Revised 1994	\$ -	\$ -	\$ -	\$ -
3603 (f)	Coin operated Laundry Services		\$ 0.263	\$ 0.272	\$ 0.272	\$ 0.272
3603 (h)	Service of leasing or renting machinery and equipment owned by city purchased with industrial revenue bonds prior to July 1, 1973		\$ -	\$ -	\$ -	\$ -
3603 (m)	Fees and charges by any political subdivision, youth recreation organization exclusively providing services to persons 18 or younger organized as a 501(c)(3) for sports, games and other recreational activities and entry fees and charges for participation.	Revised 1994	\$ 0.648	\$ 0.672	\$ 0.648	\$ 0.672
	In 1998, added fees and charges by any organization exempt by paragraph 9 of 79-201	1998 SB493			\$ -	\$ -
3603 (n)	Dues charged by any organization pursuant to paragraph 8 and 9 of 79-201 (veteran & humanitaran organizations) and zoos	1998 SB493	\$ 0.239	\$ 0.248	\$ 0.239	\$ 0.248
3603 (o)	Motor vehicles exchanged for corporate stock, corporate transfer to itself and immediate family member sales		\$ 0.123	\$ 0.128	\$ 0.123	\$ 0.128
3603 (p)	Labor services of installing or applying property in original construction of a building or facility or the construction reconstruction, restoration, replacement or repair or a residence, bridge or highway					
		1998 SB493	\$ 35.754	\$ 37.094	\$ 37.094	\$ 37.094
3603 (q)	Service of repairing, servicing , maintaining computer software as described in section 3603 (s)	1988	\$ -	\$ -	\$ -	\$ -
3603 (s)	Customized computer software and services for modifying software for single end use and billed as a separate invoiced item	1988	\$ 15.419	\$ 15.997	\$ 15.997	\$ 15.997
3606 (a)	Motor fuels and items taxed by sales or excise tax	1999	\$ 106.441	\$ 110.432		
3606 (b)	Property or services purchases by State of Kansas, political subdivision, nonprofit hospital or blood /donor bank		\$ 219.662	\$ 227.899	\$ 227.899	
3606 (c)	Property or services purchased and leasing by elementary or secondary schools and educational institutions		\$ 39.329	\$ 40.804	\$ 40.804	
3606 (d)	Property or services purchased by contractor for building or repair of buildings for nonprofit hospital, elementary or secondary schools or nonprofit educational institutions		\$ 74.454	\$ 77.247	\$ 74.454	
3606 (e)	Property or services purchases by federal government, its agencies or instrumentalities		\$ 4.426	\$ 4.592		
3606 (f)	Property purchased by railroad or public utility for use in the movement of interstate commerce		\$ 11.119	\$ 11.536		
3606 (g)	Sales, repair or modification of aircraft sold for interstate commerce directly through an authorized agent	1998 SB493	\$ 0.749	\$ 0.777		
3606 (h)	Rental of nonsectarian textbooks by elementary or secondary schools		\$ 1.662	\$ 1.725	\$ 1.725	
3606 (i)	Lease or rental of films, records, tapes, etc. by motion picture exhibitors		\$ 4.190	\$ 4.347	\$ 4.347	\$ 4.347
3606 (j)	Meals served without charge to employees if duties include furnishing or sale of such meals or drinks		\$ 2.807	\$ 2.912	\$ 2.912	\$ 2.912
3606 (k)	Vehicles, trailers or aircraft purchased and delivered out of state to a nonresident		\$ 12.032	\$ 12.453	\$ 12.453	
3606 (l)	Isolated or occasional sales, except motor vehicles		\$ -	\$ -	\$ -	\$ -
3606 (m)	Property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail		\$ 1,609.348	\$ 1,669.699		
3606 (n)	Property consumed in the production, manufacturing, processing, mining, drilling, refining or compounding of property; or irrigation of crops for ultimate sale at retail		\$ 211.154	\$ 219.072		
3606 (o)	Sales of animals, fowl, aquatic plants, and animals used in agriculture or aquaculture, for production of food for human consumption, the production of animal, dairy, poultry, or aquatic products, fiber or fur or the production of offspring.		\$ 110.240	\$ 110.240	\$ 110.240	
3606 (p)	Sales for prescription drugs	1999 SB 45	\$ 35.030	\$ 36.344		
3606 (q)	Sales of insulin dispensed by pharmacist for treatment of diabetes		\$ 0.389	\$ 0.403		
3606 (r)	Sales of prosthetic or orthopedic appliances prescribed by a doctor.	Amended 1997	\$ 5.363	\$ 5.564		
3606 (s)	Sales of property or services purchased by a groundwater management district		\$ 0.030	\$ 0.031	\$ 0.030	\$ 0.031

Sales Tax Exemptions Summary

Statute	Description of Exemption or Exclusion	Recent Revision	FY 2001	FY 2002	Scenerio A FY 2002	Scenerio B FY 2002
			(\$ in Millions)	(\$ in Millions)		
			4.00%	3.75%		
3606 (t)	Sales of farm or aquaculture machinery and equipment, parts and services for repair and replacement		\$ 49.941	\$ 49.941	\$ 49.941	\$ 49.941
3606 (u)	Leases or rentals of property used as a dwelling for more than 28 consecutive days.		\$ 0.522	\$ 0.541		
3606 (v)	Sales of food products purchased by contractor for use in preparing meals for delivery to homebound elderly persons		\$ 0.594	\$ 0.616	\$ 0.616	\$ 0.616
3606 (w)	Sales of natural gas, electricity, heat, & water delivered through mains, lines or pipes to residential premises for noncommercial use, for agricultural use (to include propane gas), for use in severing oil and any property exempt from property taxation		\$ 102.345	\$ 106.183	\$ 106.183	\$ 106.183
3606 (x)	Sales of propane, gas, LP-gas, coal, wood, and other fuel sources for the production of heat or lighting for noncommercial use in a residential premise		\$ 7.151	\$ 7.419	\$ 7.419	\$ 7.419
3606 (y)	Sales of materials and services used in repairing, maintaining, etc., of railroad rolling stock used in interstate commerce		\$ 0.670	\$ 0.696		
3606 (z)	Property and services purchased directly by a port authority or a contractor therefor.		\$ 0.108	\$ 0.112	\$ 0.112	\$ 0.112
3606 (aa)	Materials and services brought into Kansas for usage outside of Kansas for repair, services, alteration, maintenance, etc. used for the transmission of liquids or national gas by a pipeline in interstate commerce		Minimal	Minimal	Minimal	Minimal
3606 (bb)	Used mobile and manufactured homes		\$ 3.174	\$ 3.293	\$ 3.174	\$ 3.293
3606 (cc)	Property or services purchased for constructing, reconstructing, enlarging or remodeling a business; sale and installation of machinery and equipment purchased for installation in such business. (Project Exemption Certificates)		\$ 48.692	\$ 50.518	\$ 48.692	\$ 50.518
3606 (dd)	Property purchased with food stamps issued by US Department of Agriculture		\$ 4.693	\$ 4.869		
3606 (ee)	Lottery tickets and shares made as part of a lottery operated by the State of Kansas		\$ 10.525	\$ 10.920	\$ 10.920	\$ 10.920
3606 (ff)	New mobile or manufactured homes to the extent of 40% of the gross receipts		\$ 2.570	\$ 2.666	\$ 2.666	\$ 2.666
3606 (gg)	Property purchased with vouchers issued pursuant to the federal special supplemental food program for women, infants and children		\$ 1.468	\$ 1.523		
3606 (hh)	Medical supplies and equipment purchased by nonprofit skilled nursing home or intermediate nursing care home for providing medical services to residents		\$ 0.745	\$ 0.773	\$ 0.773	\$ 0.773
3606 (ii)	Property purchased by nonprofit organization for nonsectarian comprehensive multidiscipline youth development programs and activities and sales of property by or on behalf of such organization	1998 SB493	\$ 1.880	\$ 1.951	\$ 1.951	\$ 1.951
3606 (jj)	Property and services, includes leasing of property, purchased for community-based mental retardation facility or mental health center.		\$ 1.727	\$ 1.792	\$ 1.792	\$ 1.792
3606(kk),(fff)	Machinery and equipment used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of property for resale by the plant or facility.	2000 HB2011	\$ 87.204	\$ 90.474		
3606 (ll)	Educational materials purchased for distribution to the public at no charge by a nonprofit public health corporation		\$ 0.058	\$ 0.060	\$ 0.058	\$ 0.060
3606 (mm)	Seeds, tree seedlings, fertilizers, insecticides, etc., and services purchased and used for producing plants to prevent soil erosion on land devoted to agricultural use.	1988 HB2626	\$ 0.684	\$ 0.710	\$ 0.684	\$ 0.710
3606 (nn)	Services rendered by advertising agency or broadcast station		\$ 3.017	\$ 3.130	\$ 3.017	\$ 3.130
3606 (oo)	Property purchased by a community action group or agency to repair or weatherize housing occupied by low income individuals.		Minimal	Minimal	Minimal	Minimal
3606 (pp)	Drill bits and explosives used in the exploration and production of oil or gas		\$ 0.288	\$ 0.299	\$ 0.299	\$ 0.299
3606 (qq)	Property and services purchased by a nonprofit museum or historical society which is organized under the federal income taxation code as a 501 (c)(3)		\$ 0.283	\$ 0.293	\$ 0.293	\$ 0.293
3606 (rr)	Property which will admit purchases to an annual event sponsored by a nonprofit organization organized under the federal income taxation code as a 501 (c)(3)		\$ 0.022	\$ 0.022	\$ 0.022	\$ 0.022

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Sales Tax Exemptions Summary

Statute	Description of Exemption or Exclusion	Recent Revision	FY 2001	FY 2002	Scenerio A FY 2002	Scenerio B FY 2002
			(\$ in Millions) 4.00%	(\$ in Millions) 3.75%		
3606 (ss)	Property and services purchased by a public broadcasting station licensed by FCC as a noncommercial educational television or radio station.		Minimal	Minimal	Minimal	Minimal
3606 (tt)	Property and services purchased by not-for-profit corporation for the sole purpose of constructing a Kansas Korean War memorial and is organized under the federal income taxation code as a 501 (c)(3)	1996 HB2656			\$ -	\$ -
3606 (uu)	Property and services purchased by rural fire fighting organization	1997 SB184	Minimal	Minimal	Minimal	Minimal
3606 (vv)	Property purchased by the following organizations who are organized under the federal income taxation code as a 501 (c)(3): American Heart Association, Kansas Affiliate; Kansas Alliance for the Mentally Ill, Inc.; Kansas Mental Illness Awareness Council;	1997 SB184	\$ 0.066	\$ 0.069	\$ 0.069	\$ 0.069
3606 (ww)	Property purchased by the Habitat for Humanity for use within a housing project	1997 SB184	\$ 0.082	\$ 0.085	\$ 0.085	\$ 0.085
3606 (xx)	Property and services purchases by nonprofit zoo or on behalf of a zoo by an entity that is a 501(c)(3)	1998 SB493	\$ 0.432	\$ 0.448	\$ 0.448	\$ 0.448
3606 (yy)	Property and services purchased by a parent-teach association or organizations and all sales of tangible personal property by or on behalf of such association	1998 SB493	\$ 0.406	\$ 0.015	\$ 0.015	\$ 0.015
3606 (zz)	Machinery and equipment purchased by over-the-air free access radio or television station used directly and primarily for producing signal or the electricity essential for producing the signal.	1998 SB493	\$ 0.681	\$ 0.026	\$ 0.026	\$ 0.026
3606(aaa)	Property and services purchased by religious organizations and used exclusively for religious purposes	1998 SB493	\$ 4.867	\$ 0.183	\$ 0.183	\$ 0.183
3606 (bbb)	Sales of food for human consumption by organizations exempt by 501(c)(3) pursuant to food distribution programs which offers such food at a price below cost in exchange for the performance of community service by the purchaser.	1998 SB493	Minimal	Minimal	Minimal	Minimal
3606 (ccc)	Property and services purchases by health care centers and clinics who are serving the medically underserved.	1999 SB 45	\$ 0.270	\$ 0.010	\$ 0.010	\$ 0.010
3606 (ddd)	Property and services purchases by any class II or III railroad (shortline) for track and facilities used directly in interstate commerce. Only for calendar year 1999.	1999 SB 45	n/a	n/a	n/a	n/a
3606 (eee)	Property and services purchases for reconstruction, reconstruction, renovation, repair of grain storage facilities or railroad sidings. Only for calendar year 1999.	1999 SB 45	n/a	n/a	n/a	n/a

12 months	\$ 769.227	\$ 303.785
SGF	\$ 730.00	\$ 288.29
Highway	\$ 39.23	\$ 15.49
11months	\$ 705.12	\$ 278.47
SGF	\$ 669.16	\$ 264.27
Highway	\$ 35.96	\$ 14.20

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