Approved ____May 11, 2002____
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairman Edmonds at 9:00 a.m. on March 26, 2002 in Room 519-S of the Capitol.

All members were present except: Representative Mays, excused
Representative Wilson, excused

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

Conferrees appearing before the Committee:
Representative Huy
Representative Daniels
Steve Kelly, Department of Commerce and Housing
Marlee Carpenter, Kansas Chamber of Commerce & Industry
Jim Edwards, Kansas Chamber of Commerce & Industry and Kansas Economic Development Alliance
Don Moler, Kansas League of Municipalities
Bernie Koch, Wichita Chamber of Commerce
Ed O'Malley, Overland Park Chamber of Commerce
Karl Peterjohn, Kansas Taxpayers Network
Hal Hudson, National Federation of Independent Business
David White, SWB Communications
Bob Meuschke, MO-KS Coin Laundry Association
Timothy Etzel, Jetz Services
Kevin Walker, American Heart Association
Marcene Grimes, Alzheimer's Association
Judy Keller, American Lung Association

Written Testimony:
Ron Hein, Kansas Restaurant and Hospitality Association
Mike Beam, Kansas Livestock Association
Corey Peterson, Associated General Contractors
Janet McPherson, Kansas Farm Bureau
Martha Neu Smith, Manufactured Housing Association
Kansas Building Industry Association
Mark Beshears, Sprint

Others Attending: See attached list

Public hearing was opened on **HB 2995** - Income tax deduction for federal income tax liability.

Representative Huy provided written testimony in support of **HB 2995** (Attachment #1) which included a letter from John R. Todd of Wichita supporting the bill.

Marlee Carpenter presented testimony in support of **HB 2995** on behalf of the Kansas Chamber of Commerce and Industry (Attachment #2). It is the longstanding policy of KCCI to support the full deduction of individual and corporate federal income tax liability in computing Kansas taxable income.

Written testimony was presented by Karl Peterjohn setting forth reasons the Kansas Taxpayers Network supports **HB 2995** (Attachment #3).

Hearing on **HB 2995** was closed.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

Public hearing was opened on **HB 2961** - Doubling enterprise zone tax credits.

Steve Kelly presented testimony in support of the bill on behalf of the Kansas Department of Commerce and Housing (Attachment #4), saying the bill was offered in recognition of difficulties confronting Kansas businesses, the primary engine of economic growth and key to the economic health of the state. He explained that there is presently a limited time stimulus of tax credits for capital investment and job creation for companies qualifying. This would allow for projects commenced during a six-month window of time beginning July 1, 2002, for a doubling of credits presently allowed and would extend the limit for enterprise zones to counties 25,000 and under in population from the present 10,000.

In response to questions he said he did not believe a feasibility study would be considered the commencement of a project. Regulations would be written and in his view groundbreaking would probably be considered commencement.

He was asked whether looking at economic incentives as a whole it would be the policy of the Department of Commerce & Housing to encourage manufacturers in preference to others. He responded that while they encourage all businesses, there are in the current statutes some incentives and some restrictions making it easier for manufacturers to qualify for the credit. They try to make it possible for more businesses to qualify but that has not been the will of the Legislature, and that some point to the fact that manufacturing jobs provide more spin-off economic activity because of the nature of the business. They have tried to allow flexibility to adjust to the changing economy so there are more opportunities for services.

When asked he said that although he did not have copies of them, cost benefit analyses studies have been done concerning manufacturing compared with retail and service businesses. He thinks typically machine jobs do tend to have more spin-off economic activity on a local level and that as a rule manufacturing would have more stimulus effect than other types of business.

Marlee Carpenter presented the written testimony of Jim Edwards on behalf of the Kansas Chamber of Commerce and Industry and the Kansas Economic Development Alliance supporting **HB 2961** (Attachment #5). His testimony noted that prior to September 11 in competition for new business growth as well as expansion of existing industry, Kansas found itself on perhaps the highest level seen in several decades. Due to the economic slowdown created by September 11, many businesses are seriously reconsidering expansion or relocation plans. Providing restructured incentives can truly help bring plans off the drawing board and move them towards completion. **HB 2961** would assist by increasing state tax credits for business development activities that start during the period July 1, 2002 to December 31, 2002.

Ed O'Malley presented testimony in support of **HB 2961** on behalf of the Overland Park Chamber of Commerce (Attachment #6), stating that doubling the enterprise zone tax credits for will have an immediate and significant effect on their business growth. He described aspects of the Overland Park economy and said this would encourage businesses to rehire people and might encourage businesses considering coming to Overland Park.

Hearing closed on **HB 2961**.

Hearing was opened on **HB 2902** - Taxation, repealing income tax, sales tax exemptions.

Representative Williams gave oral opening remarks concerning **HB 2902**. He said it was based on the principle of how he believes the tax system should be structured. Every time exemptions are given to one party, parties not given exemptions end up paying more of the bill for state government. Dealing only with sales tax here. **HB 2902** eliminates a vast majority of sales tax exemptions and allows the food and groceries exemption and if enough money is left over, to completely eliminate the income tax. He noted a mistake in the bill as drafted dealing with a few non-profits. His intention was to repeal the exemption on all not-for-profit organizations it is important to clarify that.

CONTINUATION SHEET

In response to a question as to how it would benefit Kansas to eliminate the income tax, the only tax that is progressive, Representative Williams said it would benefit by exempting food and groceries from sales tax.

Representative Edmonds called attention to the Fiscal Note on **HB 2902** which indicates $389 million reduction of revenue.

Don Moler presented testimony in support of **HB 2902** on behalf of the Kansas League of Municipalities (Attachment #7). The League has no position on elimination of income tax and his comments are directed specifically to the sales tax issue. He said the state of Kansas, and local governments in Kansas, are quickly nearing a point of critical mass concerning the sales tax. It is especially true that sales tax revenues and their distribution are critical to the provision of adequate public services at the local level in Kansas. He noted that at the interim hearing of August 30, 2000, the Department of Revenue released numbers indicating changes in tax laws over the prior three legislative sessions had a statewide impact on an annual basis of reducing sales tax revenues by $35,400,000 per year; and that figuring local taxes at an average of 1.3% that works out to $9,390,000 in annual local sales tax revenues which are now being lost as a result of tax legislation from the 1998, 1999, and 2000 legislative sessions. He said although the League does not take issue with specific sales tax exemptions which have been granted or are under consideration this year, perhaps the time has also come to entirely rethink the sales tax exemption policies of the State of Kansas and that **HB 2902** opens the door for this discussion.

Marlee Carpenter presented testimony on behalf of the Kansas Chamber of Commerce and Industry in opposition to **HB 2902** (Attachment #8).

Hal Hudson presented testimony on behalf of the National Federation of Independent Business in opposition to **HB 2902** (Attachment #9). Attached to the testimony was a list of

Bernie Koch presented testimony in opposition on behalf of the Wichita Chamber of Commerce (Attachment #10).

Bob Meuschke presented testimony in opposition on behalf of MO-KS Coin Laundry Association (Attachment #11).

Timothy Etzel presented testimony in opposition on behalf of Jetz Services (Attachment #12).

Kevin Walker presented testimony in opposition on behalf of the American Heart Association (Attachment #13).

Marcene Grimes presented testimony in opposition on behalf of the Heart of America Alzheimer's Association (Attachment #14).

Judy Keller presented testimony in opposition on behalf of the American Lung Association of Kansas (Attachment #15).

Written testimony in opposition was presented by SBC Communications , Inc. (Attachment #16).

Written testimony in opposition was presented by Ron Hein on behalf of the Kansas Restaurant and Hospitality Association (Attachment #17).

Written testimony in opposition was presented by Mike Beam on behalf of the Kansas Livestock Association (Attachment #18).

Written testimony was presented by Corey Peterson on behalf of Associated General Contractors in opposition to **HB 2902** (Attachment #19).

Written testimony in opposition was presented by Martha Neu Smith on behalf of the Kansas Manufactured Housing Association (Attachment #20).

CONTINUATION SHEET

Written testimony was presented in opposition by the Kansas Building Industry Association (Attachment #21).

Written testimony in opposition was presented by Janet McPherson on behalf of the Kansas Farm Bureau (Attachment #22).

Written testimony in opposition was presented by Mark Beshears on behalf of Sprint (Attachment #23).

Hearing on **HB 2902** was closed.

The Committee adjourned at 10:20 a.m. The next meeting is March 27.

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE Mar. 26, 2002

NAME	REPRESENTING
Bernie Koch	Wichita Area Chamber
Christy A. Caldwell	Topeka Chamber of Comm
Martha Jean Smith	KMHA
Ed O'Malley	OP Chamber
Tim Etzel	Jetz Serv. Co.
Ron Sommers	" " "
Judy Keller	American Lung Assn./KS
Bill Lauree	BOEING
Leonore Rowe	LWVK
John C. Bottenberg	Bottenberg & Assoc.
Bob Meuschke	Mo-Kan Coin Laundry Assn.
Tom Slattery	AGC/KS
Corey Peterson	AGC of KS
Hal Hudson	NFIB/KS
Marlee Carpenter	KCCI
George Petersen	KTN
Karl Peterjohn	KTN
Bill Kirkland	KIOGA
Marcene Grimes	Alzheimers Association
Gina Smith	KCPL
Michelle Peterson	Ks Governmental Consulting
Renne Ann Power	KS Govt Consulting

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE Mar. 26, 2002

NAME	REPRESENTING
Mike Reecht	AT&T
Mike Murray	Sprint
Kevin Walker	American Heart Ass'n.
Marcene Grimes	Alzheimer's Assn. - Topeka Chapter
Anne Spiess	KCRAR - K.C. Realtors

STATE OF KANSAS

Bonnie Huy
Representative, 87th District
1142 S. Governeour Ct.
Wichita, Kansas 67207
(316) 685-7958

Capitol Building
Room 110-S
Topeka, KS 66612
(785) 296-7644
Huy@house.state.ks.us

HOUSE OF REPRESENTATIVES
87TH DISTRICT

Testimony in Support of

House Bill 2995

Before the House Taxation Committee

By Representative Bonnie Huy

March 26, 2002

Chairman Edmonds and Committee Members:

I appreciate the opportunity to appear in support of House Bill 2995 and my thanks to Chairman Edmonds for scheduling hearings on this legislation about tax relief.

To quote Oklahoma Congressman J.C. Watts: "We tax the American people from the time they wake up until the time they go to bed. When you get up in the morning and you go take a shower, you get taxed on the water. When you go and eat your breakfast, you get taxed on your food. Then you go and put your clothes on, you get taxed on your clothes. When you get in your car and go to work and buy fuel, you get taxed on your fuel. When you go to work and punch the clock you get taxed on your income. When you come home in the evening, turn on the TV and you watch Fox News Network or Fox Sports Network or CNN or ESPN, you get taxed on your cable. And then you go and you fall to your knees at night, you pray to the true and living God, thank him for the day you have had, then you get off your knees, kiss your spouse good night and you think that is free, but it is not. You get taxed. You have a marriage tax. Then if you say I am going to get out of all this and die, we still get you. We tax death. It is unfair."

To add insult to injury, Kansas levies a tax on income that is already taxed at the federal level. Taxation can be onerous, but double taxation is outrageous and an example of how Kansas taxes are excessive. The typical American family pays more in taxes than for food, clothing, shelter and transportation combined. That is too much. Government freedom day is now July 6. That's the date that citizens start working for themselves.

The federal government has reported that Kansas State taxes per capita are the highest in our region. Between 1990-2000 Kansas State spending has soared by 82% yet personal income has increased by only 22.9%. If state spending over the last 25 years had only grown at the rate of inflation, the Kansas personal income tax would not be needed based upon data provided by Legislative Research.

Governor Graves stated in his 1999 State of the State address: "Taxes are too high and they must be reduced."

There is a fascinating contrast with our neighbor to the south, Oklahoma. Oklahoma's Governor Keating is pushing to eliminate the Oklahoma State income tax. He wants Oklahoma's tax system to become closer to Texas that does not tax either personal or corporate income.

Tax reduction efforts by former presidents John F. Kennedy and Ronald Reagan helped generate tremendous economic growth and employment. Those who study economic history know when taxes are cut, government revenue increases. It happened in the Coolidge, Kennedy and Reagan administrations when government revenue increased by 61%, 33% and 54% respectively.

President Kennedy and President Reagan understood that the best way to put more money in people's wallets is to leave it there in the first place. After all when you can keep more of what you earn, you have more incentive to be productive and earn more. As your income grows, you spend and save more. And that fuels economic growth.

House Bill 2995 is about restoring the federal income tax exemption at 10% annually over a ten-year period effective in 2003 and would accomplish 100% restoration by 2012. It's the right thing to do

I ask for your favorable support for HB 2995.

Thank you for your time and attention and I'll stand for questions.

Respectfully,

Representative Bonnie Huy

1559 Payne
Wichita, Kansas 67203
(316) 264-6295 home
(316) 262-3681 office

March 25, 2002

Representative Bonnie Huy
STATE CAPITOL—Room 110-S
Topeka, Kansas 66612

Subject: **I SUPPORT PASSAGE OF House Bill No. 2995**

Dear Representative Huy:

I would like to thank you for introducing House Bill No. 2995 that would allow taxpayers to deduct their federal income tax liability from their Kansas adjusted gross income when filing their Kansas income taxes. Passage of this Bill would phase out the "double-tax" provision that exists in the present Law and provide greater tax-equity for the Kansas taxpayer.

I apologize that due to my work schedule I will be unable to appear personally before the Committee on Taxation, and ask that you make the committee members aware of my support for this Bill.

Allowing taxpayers to keep more of their own money is good for the Kansas economy. Economic growth, especially during these times of economic uncertainty, can best be achieved when the taxpayer is allowed to keep and spend more of his own money.

Taxing taxes is not equitable. I urge the Committee on Taxation to support this needed legislation.

Sincerely,

John R. Todd

the Kansas Chamber of Commerce and Industry
The Unified Voice of Business

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HB 2995 March 26, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Taxation Committee

by

Marlee Carpenter
KCCI Director of Taxation

Mr. Chairman and members of the Committee:

My name is Marlee Carpenter and I am here on behalf of the Kansas Chamber of Commerce and Industry. We are here in support of HB 2995, phase in of the deductibility of federal income tax liability. KCCI has had long standing policy to support the full deduction of individual and corporate federal income tax liability in computing Kansas taxable income. This would bring some tax relief to individual taxpayers and the many business entities that file under the individual income tax code.

We understand the fiscal situation of the state and the decisions you have to make this session. Thank you for your time and I will be happy to answer any questions.

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.

.ANSAS TAXPAYERS NETWORK **www2.southwind.net/~ktn**
P.O. Box 20050 **316-684-0082**
Wichita, KS 67208 **FAX 316-684-7527**
26 March 2001

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Testimony Supporting HB 2995
Karl Peterjohn
Exec. Dir.

I am often asked, "How did Kansas taxes make us a high tax point on the prairie?" Sadly, there are many answers to that question but one of them is based on the old phrase, "you can't have your cake and eat it too."

Well in Kansas you can have your income but we can and will, tax it twice. First the feds take their personal income tax cut. Then the state imposes its personal income tax.

Eliminating double taxation is not simple because of the size of this "double" tax is so large. In fact KTN's opinion is that this bill does not go far enough and should be expanded to include FICA other taxes where Kansans have to pay twice to two separate levels of government. HB 2995 tries to address this problem by phasing out this double taxation on federal income taxes over 10 years. KTN believes that eliminating this inequity is too large a task to try and accomplish in a single year.

The fiscal note for this bill says, "HB 2995 would allow federal income tax liability to be deducted from Kansas adjusted gross income." The current state tax provisions that allow this double taxation of the same dollar of income is one of the reasons that Kansas income taxes are more onerous than some of our neighbors who have higher rates but do not double tax the same amount of income.

For folks moving to Kansas, this type of double taxation is an unpleasant surprise. Like annual tax appraisals, no controls over property tax millage, and a general ability of numerous local units to "enhance" revenues, so there is a significant fiscal price to be paid to be a Kansan.

The Kansas legislature and this committee may not want to address this issue at a time when the governor would like this committee to raise income, inheritance, sales, cigarettes, gasoline, and motor vehicle taxes. However, there is an example that this committee must understand when looking at the state income tax. Oklahoma's governor Frank Keating is trying to abolish that state's personal income tax. Oklahoma is losing too many businesses and jobs to Texas where there is NO tax on either personal income or corporate income.

People will vote with their feet from high tax areas. The March 25, 2002 Seattle Post-Intelligencer reported, "State and local taxes vary dramatically in America, a fact that appears to have a major impact on patterns of migration. Scripps Howard News Service compared recent trends in state population growth and taxation and found that, generally, the more a state taxes, the less likely its population is to grow." In this article Ohio University Economics Professor Richard Vedder said, "...I note that the migration of people to states without income taxes was even greater than the total number of people who ever moved from East Germany to West Germany before the Berlin Wall was built."

These are all reasons why this committee should approve HB 2995.

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Attach. No. 3
Page 1 of 1

Testimony to House Tax Committee
House Bill No.2961
March 26, 2002

Chairman Edmonds, members of the Committee. I am Steve Kelly of the Kansas Department of Commerce & Housing; I am here today to testify in support of the changes offered in House Bill 2961. The provisions of House Bill 2961 are offered in recognition of difficulties that confront Kansas businesses, the primary engine of economic growth and key to the economic health of our state.

The provision offered in New Section 1. seeks to address economic difficulties resulting from the recessionary trends of the past 12 months, trends exasperated by the terrorist attacks of September 11, that have left much of our economy in a seriously weakened state. At the national level there are indications that the economic bottom may be in and that the opportunity for recovery is at hand. The Kansas economy, however, is lagging in that recovery if our information relative to layoffs, plant closures and struggling companies are indicative. Our economy remained stronger, longer during the downturn and now appears to be recovering at a slower pace than the national economy.

In an effort to encourage a quicker and stronger recovery this measure would provide additional economic incentive for timely decisions to increase Kansas investment and adding employees. The bill provides, that for a limited time period, July 1, 2002 through December 31, 2002, companies certifying qualifying expansion/location projects would be allowed to benefit from a doubling of the applicable tax credits for job creation and capital investment. To benefit, the company would require certification by the Kansas Department of Commerce and Housing that the project had commenced during the period between July 1, 2002 and December 31, 2002.

This would involve submission of documentation for review and certification by the Secretary. A record of certification would be provided to the Kansas Department of Revenue to identify taxpayer eligibility.

The economic difficulties faced by many of our rural communities is the focus of the second change suggested in this bill. The economic growth and business expansion experienced in Kansas prior to the recent recession did not impact all parts of the state equally, as many rural communities continue to decline during overall good economic times. Oftentimes these communities struggle to maintain the existing business base that provides the goods and services necessary for quality of life and economic viability. Many perceive the lack of retail and service opportunities as major obstacles to any effort to enhance economic growth for rural Kansas. This proposal would allow retailers, in counties of under 25,000 population, to earn tax credits for new investment and job creation in the same manner as other qualifying businesses. We believe that these changes would provide additional spark to our economy and promote increased business growth and vitality.

LEGISLATIVE TESTIMONY

the Kansas Chamber of Commerce and Industry

The Unified Voice of Business

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HB 2961 March 26, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Commerce

by

Jim Edwards
Senior Vice President
Kansas Chamber of Commerce and Industry
and
Secretary/Treasurer
Kansas Economic Development Alliance

Mr. Chairman and members of the Committee:

My name is Jim Edwards. I am Senior Vice President of the Kansas Chamber of Commerce and Industry. I thank you for the opportunity to express KCCI's and KEDA's support for passage of HB2961.

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.

Prior to September 11, Kansas found itself playing on a field where competition for new business growth as well as the expansion of existing industry was maybe on the highest level seen in several decades. Add to that the economic slowdown created by September 11 and you have a situation where many businesses are seriously reconsidering expansion or relocation plans. This is the time when Kansas can truly help by providing restructured incentives that will bring plans off the drawing board and move them towards completion.

HB 2961 would assist by increasing state tax credits for business development activities that start during the period of July 1, 2002 to December 31, 2002. For those businesses that need a little nudging, this move would help get the business construction started soon and the state should realize increased revenues from construction-related jobs. With the facility also coming online sooner, the state should also recognize actual facility job-related revenues quicker.

So that rural Kansas communities are not overlooked in this process, the bill also provides that retail businesses in a county with a population of 25,000 or less would qualify for enterprise zone benefits in the same manner and at the same rate as would a manufacturing firm in that county. This would assist in the job-creation efforts of the counties that just might need the most help during this slow or no-growth cycle.

Thank you for considering KCCI's position regarding the legislation before you today. I would be happy to answer any questions.

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Page 2 of 2

OVERLAND PARK
CHAMBER OF COMMERCE

Testimony for the House Taxation Committee – March 26, 2002

Ed O'Malley, Government Relations Manager
Overland Park Chamber of Commerce

Mr. Chairman and members of the committee, my name is Ed O'Malley. I am the Government Relations Manager for the Overland Park Chamber of Commerce. I appreciate the opportunity to express our support of HB 2961. Our chamber is made up of over 1000 businesses, 80% of which have 50 or fewer employees. The city of Overland Park has a nighttime population of just over 150,000 and a daytime population of 400,000 workers, shoppers and visitors.

The Overland Park Chamber of Commerce supports HB 2961. Doubling the enterprise zone tax credits for one year will have an immediate and significant effect on our business growth. Because of the lagging economy, it makes sense for the state to enact policies and incentives to encourage an economic turnaround.

Before I explain specifically why our chamber supports HB 2961, allow me just a moment to describe three aspects of the Overland Park economy.

- First, for the last seven to eight years, the office vacancy rate in Overland Park has been five to eight percent; however, that rate is projected to balloon to 20% by the end of this year. This can be attributed to downsizing or closure of tech companies (Overland Park lost three technology headquarters in early 2001), layoffs and the decision to postpone expansions and relocations after September 11th. Vacancy rates also will increase as the final employs move to the Sprint campus.
- Second, during the decade of the 90s, the unemployment rate in Overland Park had averaged 1.9%. Currently, that rate is 3.4% in Overland Park and 3.6% in Johnson County. Because of this, there are well-trained, high-quality workers looking for work in Overland Park and Johnson County.
- Third, although Overland Park and Johnson County often compete with Missouri for economic development projects, our community faces considerable competition from around the nation. Frequently we find ourselves on corporate relocation lists with cities such as Indianapolis, Charlotte, Atlanta, Denver and Dallas (which has no income tax) for development projects.

These reasons highlight why the Overland Park Chamber of Commerce supports doubling the enterprise zone tax credits for one year. More specifically, the chamber supports this economic stimulus idea for the following reasons:

- It is hard enough for Kansas to compete against states with beaches, oceans and mountains. Therefore, chamber and business leaders often come before you to encourage the Legislature not to pass unique, out of the mainstream policies, which may negatively set Kansas apart. Although this policy is unique, it is also positive and a good incentive to encourage job creation.
- Because the doubling of tax credits is only good for one year, this policy could encourage companies to make relocation or expansion decisions sooner.
- Most importantly, this policy could stimulate our own companies to rehire more quickly.
- There is no cost to the state general fund because these are new jobs to Kansas. These jobs will provide employment resulting in the economic churn needed to fuel recovery. In addition, the state will also benefit from secondary "spin off" employment and its impact.

This stimulus policy is aggressive, immediate, could allow significant rehiring and is beneficial to business. This policy is good for Kansas, good for business and good for many people who are looking for a job.

Thank you Mr. Chairman. I am happy to stand for any questions.

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League of Kansas Municipalities

300 SW 8th Avenue
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Phone: (785) 354-9565
Fax: (785) 354-4186

TO: House Taxation Committee

FROM: Don Moler, Executive Director

RE: HB 2902

DATE: March 26, 2002

First I would like to thank the Committee for allowing the League to testify today concerning HB 2902. As we understand HB 2902, it would eliminate a number of existing sales tax exemptions. Perhaps the time has come to review all of the current sales tax exemptions.

We would like to address an issue that HB 2902 brings into sharp focus. Specifically this has to do with the ever increasing number of sales tax exemptions which are being granted by the state legislature. Let me preface these remarks by saying that individually we do not take issue with any specific sales tax exemption which has been granted or which is under consideration to be granted this year. However the State of Kansas, and local governments in Kansas, are quickly nearing a point of critical mass concerning the sales tax. This is the case because an ever increasing number of groups continue to approach the legislature asking for specific tax relief for specific situations. The League was shocked to hear during an interim committee hearing two summers ago of the number and amount of sales tax exemptions which had been granted by the Kansas legislature over the prior three years.

It is especially true that sales tax revenues, and the distribution of those revenues, is critical to the provision of adequate public services at the local level in Kansas. As we all know, there really are only three major funding sources for local government in Kansas. The first is the property tax, the second is the sales tax, and the third are the demand transfers. When one of these sources are limited or inhibited in any fashion, it is a matter of serious if not grave concern for not only the governmental units in question, but also for the citizens of those units. Having said that, the League is becoming increasingly concerned with the impact of tax legislation on local sales tax collections.

Specifically the Department of Revenue released numbers at the interim hearing of August 30, 2000 which indicated that changes in tax laws over the prior three legislative sessions had a statewide impact, **on an annual basis, of reducing sales tax revenues by $35,400,000 per year.** Figuring local taxes at an average of 1.3% that

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Page 1 of 2

works out to $9,390,000 in annual local sales tax revenues which are now being lost as a result of tax legislation from the 1998, 1999 and 2000 legislative sessions. This is a matter of significant concern to the League and its member cities. We are facing an every increasing list of sales tax exemptions which will further inhibit the ability of cities, counties, and the state itself, to provide public services. We would suggest that the time has come for taking a very strong look at the granting of further sales tax exemptions given the fact that revenue levels appear to have dropped significantly and may be falling in some areas.

Perhaps the time has also come to entirely rethink the sales tax exemption policies of the State of Kansas. HB 2902 opens the door for this discussion and we hope the committee will consider it as an alternative to facilitate revenue enhancements. We would also urge the Committee to be reluctant to pass any more legislation which grants further sales tax exemptions and has the effect of undercutting the state and local sales tax base. Thank you very much for allowing the League to appear today. I will be happy to answer any questions the Committee may have.

LEGISLATIVE TESTIMONY

the Kansas Chamber of Commerce and Industry
The Unified Voice of Business

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HB 2902

March 26, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Taxation Committee

by

Marlee Carpenter
Director of Taxation

Mr. Chairman and members of the Committee:

I am Marlee Carpenter here on behalf of the Kansas Chamber of Commerce and Industry. We are here today to express our opposition to HB 2902. If enacted, this bill would eliminate many important sales tax exemptions. I have attached a portion of a 2001 Kansas, Inc. study comparing the sales tax exemptions for Kansas and our surrounding states. If HB 2902 were enacted Kansas would lose many of the sales tax exemptions that makes us competitive within the region. Here are some specific examples of our concern with the bill:

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.

Ingredient or Component Part (m) and Consumed in Production (n)

To tax materials that are ingredient or component parts or materials that are consumed in the production of another good would amount to double taxation. If a manufacturer pays sales tax on a part that is integral to the manufacturing process or is used up during the manufacturing process and then sells the finished good at retail, where sales tax is charged, the State of Kansas will collect sales tax on all of the component parts and the finished product. This is the double taxation of goods.

Integrated Plant (kk)

Kansas' statutes were changed during the 2000 session to incorporate the integrated plant theory into sales taxation of machinery and equipment.

The integrated plant theory allows exemption from sales and use taxes where equipment and machinery perform an essential or indispensable function in the manufacturing process regardless of whether a physical change is actually caused in raw material.

This change came about because of a 1999 Court of Appeals decision, In the Appeal of Water District No. 1, that stated "[w]e read Collingwood Grain (a 1995 Supreme Court case) as rejecting this restrictive rule [the physical change rule] and instead, as adopting impliedly if not expressly, the integrated plant theory." The Court went on to state "We are convinced our Supreme Court adopted the integrated plant theory in Collingwood Grain."

Since the Kansas Supreme Court and the Kansas Court of Appeals have spoken on this issue, the amendments made during the 2000 session codified the change and more importantly set in place a schedule for businesses to obtain refunds from the Kansas Department of Revenue (KDOR).

If K.S.A. 79-3603 (kk) is repealed, would the refund schedule set forth in the 2000 legislation also be repealed or void?

Sales Tax on Food

Also called for in HB 2902 is the exemption of sales tax on food. KCCI has had a long-standing policy to oppose removing the sales tax on food. Kansas' retailers collect and remit sales tax to KDOR without any compensation. The removal of the sales tax on food would be yet another unfunded cost for retailers to comply with state government. If it is the Committee's desire to provide additional tax relief to lower income Kansans, we would encourage the legislature to fine tune the food sales tax rebate program and provide relief to those needing it the most.

I have only touched on a few important sales tax exemptions our members utilize which will be repealed if HB 2902 is enacted. We encourage you not to approve HB 2902 and I will be happy to answer any questions.

Business Taxes and Costs: A Cross State Comparison 2001 Update

administered by

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and

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December 2001

Table 4-2:
State Sales Tax Applicability and Exemptions, 2001

State	Important Items Specifically Included	Important Items Specifically Excluded
Colorado	Sales of goods at retail plus selected services. –*Consumers*: telephone and telegraph services; restaurant meals; hotel and motel rooms. *Businesses*: gas and electricity sold for commercial (not industrial) consumption.	*Consumers*: sales of prescription drugs; sales of electricity, natural gas, fuel oil, coal, and other energy sources to residences; sales of food. *Businesses*: sales for resale; sales out of state; charges for internet access; sales of goods which become ingredients or component parts of manufactured, compounded, or finished goods; sales of electricity, natural gas, and fuel oil for use in processing, manufacturing, mining, irrigation, construction, communication, and all other industrial uses; ink, newsprint, and packaging. All purchases of machinery, machine tools and parts used directly and primarily in manufacturing are exempt from sales tax if purchase is over $500. Pollution control equipment may be eligible for refunds contingent on state budget surpluses. Exemption from local sales tax is a local option.
Iowa	Sales at retail plus enumerated services. –*Consumers*: gas and electricity (though will be phased out by 2006); intrastate communications; water; amusements; repairs; barbers; dry cleaning; maintenance, and many other services. *Businesses*: intrastate communications, repairs, and maintenance.	*Consumers*: food (except for immediate consumption) and prescription drugs. Internet access charges. *Businesses*: sales for resale; sales out of state; building materials for resale; industrial machinery and computers; farm equipment; medical devices; services connected with construction or remodeling; chemicals, fuels, and electricity used in processing; materials used in processing.
Kansas	Sales of goods at retail plus selected services. –*Consumers*: restaurant meals and drinks; telephone; hotel and motel rooms. *Businesses*: computer software; out of state sales; installations; electricity; gas; water, unless consumed directly in production; repairs; and telecom.	*Consumers*: drugs, when prescribed; sales of gas, electricity, and heat to residential customers (though not exempt from local sales taxes). *Businesses*: sales for resale; sales of used farm machinery; all sales of tangible personal property or services used in constructing or enlarging a new or expanding qualified business facility; component parts of manufactured or produced goods or services; goods consumed (including those dissipated or depleted within one year) in the production of tangible personal property or services; all sales of machinery and equipment used as an integral or essential part of operation by manufacturing or processing plant. Gas, electricity, water (when consumed by manufacturing, mining, irrigation, or service producing processes), and new construction services.

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State	Important Items Specifically Included	Important Items Specifically Excluded
Missouri	Sales of goods at retail plus selected services –***Consumers***: communications except basic phone charge, meals and drinks. ***Businesses***: electricity, water, and gas unless otherwise exempted, and communications.	***Consumers***: water, natural gas, and electricity for domestic use; prescription drugs; basic phone; internet access fees. ***Businesses***: sales for resale; materials and manufactured goods which, when used, become component parts of new goods; ingredients, machinery and equipment used to establish or expand manufacturing, mining, or fabricating plants, when the machinery is used directly in production; machinery and equipment replacements due to design or product changes; replacement parts for machinery and equipment used directly in production; electrical energy used in the actual manufacturing, processing, or mining of a product, if the total cost of electricity so used exceeds 10 percent of total production costs; farm machinery; natural gas; machinery and equipment used to abate air pollution.
Nebraska	Gross receipts from sales of goods at retail plus selected services. –***Consumers***: admissions to events; restaurant meals, utilities, cable TV, and intrastate communications; internet purchases. ***Businesses***: computer software, utilities unless otherwise exempt, and intrastate communications.	***Consumers***: prescription drugs; food products for human consumption (excluding prepared meals). ***Businesses***: sales for resale; goods shipped out of state; electricity, coal, gas, and other fuels, when more than 50 percent of the amount purchased is used directly in processing, manufacturing, refining, irrigation, farming, or generation; agricultural machinery, equipment and chemicals; goods which become an ingredient or component part of manufactured, processed, or fabricated goods. Also, qualified new business facilities with at least $20 million investment or $3 million investment and 30 new employees are entitled to a refund of sales and use taxes paid on the purchase of property for the new investment.
Oklahoma	Sales at retail plus selected services. –***Consumers***: hotel and motel rooms; telephone and telegraph; restaurant meals; and admissions to events. ***Businesses***: sales of services and property used to develop or improve real estate, including materials, supplies, and equipment.	***Consumers***: electricity, water, and natural gas utility bills; sales of farm products directly to consumers; and prescription drugs. ***Businesses***: sales for resale; sales out of state; sales of goods, wares, merchandise, tangible personal property, machinery, and equipment to a manufacturer for use in a manufacturing operation (here a manufacturing operation begins at the point where the materials enter the manufacturing site and ends at the point where a finished product leaves the manufacturing site); agricultural machinery and equipment; sales of tangible personal property to a qualified manufacturer to be consumed or incorporated in a new manufacturing facility (here qualified manufacturers must invest $5 million and hire 100 employees, or invest $50 million and hire 75 employees).

Note: The basic tax base in most of the states is the sale of tangible personal property at retail plus sales of selected services.
Sources: CCH Incorporated, *Business Incentives Guide, 2001*; Federation of Tax Administrators, *Sales Taxation of Services: 1996 Update;* and information from individual states including state web sites.

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Table 4-3:
State Sales Tax Exemptions for Machinery, Equipment, Construction Materials and Services, and Utilities, 2001

State	Machinery and Equipment Exemptions	Construction Exemptions	Utilities Exemptions
Colorado	Machinery or machine tools and parts are exempt when equipment is used directly and primarily in manufacturing. The purchase must be over $500. Within an enterprise zone, these items are exempt when used in refining and mining activities as well as in manufacturing. In enterprise zones, goods used to build or repair machinery and machinery used to repair aircraft also qualify.	Construction labor is not taxable. Materials are taxable.	Electricity, natural gas, and industrial fuels used in manufacturing, mining, irrigation, communications, and transportation are exempt. Water is exempt. Intra-state telephone is taxed, interstate is exempt.
Iowa	Exemptions apply to industrial machinery, equipment, and computers, including replacement parts, when used directly in processing; R&D; manufacturing; data processing by insurance, financial, or commercial firms; or in recycling. Design and installation of new industrial machinery or equipment are exempt. Any other sales taxes paid on any tangible property except furnishings for use in an enterprise zone by a qualified business are refundable.	Construction labor including that used for repair and remodeling is not taxable. Materials are taxable. Taxes paid by a contractor in relation to the construction of a qualified facility in a quality jobs enterprise zone are refundable to the primary or supporting zone business.	Electricity, gas, fuels, and water used to operate machinery to processing goods are exempt. Intrastate telephone is taxed, interstate is exempt.
Missouri	*New and expanding firms*: Machinery, equipment, and parts used to establish new or to expand existing manufacturing, mining or fabricating plants in the state if such machinery and equipment is used directly in manufacturing, mining or fabricating a product which is intended to be sold ultimately for final use or consumption; replacement machinery and equipment satisfying the above. Pollution abatement equipment is exempt.	Construction labor is not taxable. Materials are taxable.	Electricity consumed in the manufacturing process is exempt if it exceeds 10 percent of production costs. Electricity or gas used in basic steel making is exempt. Water is taxed. Intrastate telephone is taxed, interstate is exempt.

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State	Machinery and Equipment Exemptions	Construction Exemptions	Utilities Exemptions
Kansas	*New and expanding firms*: New or expanding manufacturing businesses that add at least 2 new jobs qualify for exemptions on all property and services used in constructing, expanding, or remodeling a facility. Non-manufacturing firms other than retail qualify for the above if they add 5 jobs. Retail firms qualify if they add 2 jobs and locate or expand in a city of population of 2,500 or less, or outside of a city in a county having a population of 10,000 or less. *Other*: Sales of machinery and equipment used directly and primarily for manufacturing, assembling, processing, finishing, warehousing, or distributing goods within a plant are exempt. Also, repair and replacement parts and accessories for the above.	All materials and services used in construction are exempt for qualified new or expanding businesses (see previous column). For other original construction, materials are taxed, and labor is exempt. Labor is taxable for repair or remodeling construction for businesses.	Electricity, gas, fuels, and water exempt when consumed by manufacturing, mining, irrigation, or service producing processes. Both intrastate and interstate telephone are taxed.
Nebraska	*New and expanding firms*: Qualified business facilities with at least $20 million in new investment or $3 million in new investment and 30 new employees are entitled to a refund of sales and use taxes paid on the purchase of machinery, equipment and other property (except motor vehicles, aircraft, barges, and railroad rolling stock) related to the facility. "Credits" which can be used as sales tax refunds can be earned by qualifying new or expanding businesses when they invest $75,000 and add at least two new full time employees.	Construction labor is not taxable. Materials are taxable. Materials may qualify for a refund if purchased as investment in real estate improvements of a qualified new or expanding firm.	Water used exclusively for manufacturing purposes is exempt. Electricity, gas, and other fuels are exempt provided more than 50 percent of the energy is used directly in processing, manufacturing, or refining. Intrastate telephone is taxed, interstate is exempt.

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State	Machinery and Equipment Exemptions	Construction Exemptions	Utilities Exemptions
Oklahoma	Sales of all tangible personal property to a qualified manufacturer to be consumed or incorporated in a new or expanded manufacturing facility (here qualified manufacturers must invest $5 million and hire 100 new employees, or invest $50 million and hire 75 new employees). Sales of machinery and equipment to a manufacturer for use in a manufacturing operation. Machinery and equipment used by qualified computer service firms. Sales of computers, data processing equipment, and telecommunication equipment for use in qualified new or expanding R&D establishments are eligible for a refund.	Construction labor is not taxed. Materials are taxable. *New or expanding firms*: Refunds on construction materials are allowed for new or expanded manufacturing facilities. The manufacturer must invest $5 million and add 100 new jobs, or invest $50 million and add 75 jobs. The term manufacturing also applies to warehousing facilities of Oklahoma manufacturers. This refund is not available if the firm also participates in the Quality Jobs Program (see Table 3-6).	Electricity, gas, and other fuel used in manufacturing are exempt. Water is exempt. Both intrastate and interstate telephone are taxed.

Note: For more specific definitions of new and expanding firms and enterprise zone qualifications (see Chapter 3, Table 3-7).
Sources: CCH Incorporated, *Business Incentives Guide, 2001*; Federation of Tax Administrators, *Sales Taxation of Services: 1996 Update;* and information from individual states including state web sites.

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LEGISLATIVE NFIB TESTIMONY

The Voice of Small Business

KANSAS

Statement by
Hal Hudson, Kansas State Director
National Federation of Independent Business
Before the House Taxation Committee
On House Bill 2902
March 26, 2002

Mr. Chairman and Member s of the Committee:

Thank you for the opportunity to speak with you today. For the record, I am Hal Hudson, and I am the State Director for the National Federation of Independent Business.

Establishing and implementing tax policy for the State of Kansas is what you do. But I have to ask you in all sincerity, do you really want to take away the sales tax exemption:

For the labor component of new construction;

For erection, repair or enlargement of a building for the U.S. government;

For sales of aircraft including remanufactured or modified aircraft;

For isolated or occasional sales of tangible personal property (garage sales?)

For sales of farm machinery or repair and replacement parts therefore;

For sales of natural gas, electricity, heat and water to residences?

I don't need to keep going. If you've read the bill, you know that it takes away sales tax exemptions for many individuals and groups – most of whom are part of your constituent base.

I'd like to summarize by saying this seems to be a bad bill, poor public policy – especially in an election year, and I hope you will report it unfavorably.

Thank you.

National Federation of Independent Business – KANSAS
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the Chamber
Wichita Area Chamber of Commerce

Testimony to House Taxation Committee
on House Bill 2902
March 26, 2002

Bernie Koch
Wichita Area Chamber of Commerce

Mr. Chairman, members of the committee, thank you for the opportunity to appear today on House Bill 2902. There are many items in this bill we find objectionable, but I'll confine my remarks to some that will have a particularly strong impact on the Wichita/Sedgwick County economy.

Manufacturing machinery and equipment (kk)
The bill re-imposes the sales tax on manufacturing machinery and equipment. Most states do not impose a sales tax on machinery and equipment. I've attached a list to my testimony from the Council on State Taxation, a private research agency. I've also attached information from the Kansas Department of Commerce and Housing on Equipment and Machinery tax incentives in all of the states.

Just two weeks ago today this committee passed out House Bill 2714, which increases the refundable tax credit for property taxes on machinery and equipment to 40% by the year 2007. House Bill 2902 tends to cancel out the savings provided by House Bill 2714.

For example, under 2714, a business with a machine valued at $10,000 in a jurisdiction with a 110 mill levy would see a tax savings of $110 when the full 40% tax credit is implemented. However, if sales tax is charged on that same $10,000 machine when it's purchased, that's an additional 5.9% in Sedgwick County, or $590, five times as much as the property tax savings you passed two weeks ago.

Ingredients and component parts (m)
This bill imposes a sales tax on the raw materials that go into manufacturing. In many cases, this will result in a double tax. Consumers will be paying the sales tax on the raw materials to make a product, and then they pay the sales tax on the sales tax. The cost to buy products made in Kansas goes up, making Kansas products less competitive with those produced in other states and other countries.

Aircraft and aircraft repair, modification and replacement parts (g)
House bill 2902 puts a sales tax on sales of aircraft, including remanufactured and modified aircraft. It puts the sales tax on aircraft repair, modification and replacement parts. This provision will result in an immediate loss of hundreds of jobs in the Wichita area.

Rather than take delivery of an airplane in Wichita, it would take very little time to move delivery to an airport in another state to avoid the tax. There are many jobs connected to aircraft sales, delivery, and repair. There are extensive training facilities where pilots learn to fly new planes.

Summary
These are just a few of the many provisions of this bill to which we object, but they are the ones that stand out for us.

I would like to make one other point. I have heard hall talk that removing these exemptions for just one year might be a way for the state to get by this budget crisis. Should that happen, you would be delaying the economic recovery in Kansas. Businesses and individuals will wait for the sales tax to expire before investing to save paying the 4.9 percent sales tax, plus any city or county sales tax that might apply. Construction and real estate, in particular, would seem to be hurt because labor used in original construction would be subject to sales tax.

The result will not only hurt those industries, but you will not bring in the revenues you desire because you will change purchasing behavior with this bill.

Thank you for the opportunity to appear today.

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Sales Tax Treatment of Production Machinery, Agricultural Machinery, Materials, and Pollution Control Equipment (Part 1)

Production Machinery, Agricultural Machinery, and Pollution Control Equipment

Legend:
NA Not applicable
NR Not required

	Does State Either Exempt Production Machinery or Apply a Reduced Tax?	If "Yes," How Should the Machinery Be Used in the Manufacturing Process?	Level of Use in Manufacturing Process Required for Exemption: More Than 50%	More Than 90%	100%	Other Standard	Is Pollution Control Equipment Exempt from Sales/Use Tax?	Is Agricultural Machinery Exempt from Tax?
Alabama	No, 1.5% rate	Directly and exclusively					Yes	No, 1.5% rate
Alaska	Alaska imposes no sales/use tax.							
Arizona	Yes	Directly	NR	NR	NR		No. 5% rate	Yes, if new
Arkansas	Yes	Directly	X				Yes	Yes
California	Yes, with a 5% exemption from state tax	NA	X				No	No
Colorado	Yes	Direct and predominant use in manufacturing	X				NR	Yes, mobile equipment
Connecticut	Yes	Directly				Predominant use	Yes	Yes
Delaware	Delaware imposes no sales or use tax.							
District of Columbia	No, 5.75% rate	NA	NA	NA	NA		No, 5.75% rate	No, 5.75% rate
Florida	See F.S. 212.08(5)(b)(c).	Directly and exclusively	X				See F.S. 212.08(5)(b)(c)	See F.S. 212.08(5)(b)(c)

Georgia	Yes	Directly			X		Yes	Yes
Hawaii	No, 4% rate	NA	NA	NA	NA		Yes, if to a certified facility	No, 4% rate
Idaho	Yes	Directly and primarily	X				Yes	Yes
Illinois	Yes, see 86 Ill. Adm. Code § 130.330.	Directly	X				Yes, see 86 Ill. Adm. Code § 130.335.	Yes, see 86 Ill. Adm. Code § 130.305.
Indiana	Yes	Directly			X		Yes	Yes
Iowa	Yes	Directly, primarily	X			Directly used in processing	Yes	Yes
Kansas	Yes	Integral or essential part					Yes	Yes
Kentucky	Yes	Directly	X			Predominant use	Yes	Yes
Louisiana	No, 4% rate	NA	No production machinery exemption				Yes	Yes
Maine	Yes	Directly	X				Yes	Yes
	Note: Aircraft, certain trailers and special mobile equipment are taxed.							
Maryland	Yes	Directly	X				Yes	Yes
Massachusetts	Yes	Directly and exclusively	NR	NR	NR		No, 5% rate	Yes
Michigan	Yes	Directly	NR	NR	NR		Yes	Yes
Minnesota	No, 6.5% rate and any applicable local tax. A refund is allowed for capital equipment.	Directly, no upfront exemption; exemption by refund	X, no upfront exemption; exemption by refund	NR	NR		No, 6.5% rate and any applicable local tax. Exempt for purchases by steel reprocessing firms.	Yes

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Sales Tax Treatment of Production Machinery, Agricultural Machinery, Materials, and Pollution Control Equipment (Part 1) *(continued)*

Production Machinery, Agricultural Machinery, and Pollution Control Equipment

Legend:
NA Not applicable
NR Not required

	Does State Either Exempt Production Machinery or Apply a Reduced Tax?	*If "Yes," How Should the Machinery Be Used in the Manufacturing Process?*	*Level of Use in Manufacturing Process Required for Exemption:* More Than 50%	More Than 90%	100%	Other Standard	*Is Pollution Control Equipment Exempt from Sales/Use Tax?*	*Is Agricultural Machinery Exempt from Tax?*
Mississippi	No, 1.5% rate	NA	NA	NA	NA		Yes, applies to some purchases after July 1, 2001.	No, 1% or 3% rate
Missouri	Yes	Directly. Manufactured product must be intended to be sold for final use and consumption.	Directly used to produce product ultimately sold for final use or consumption				Yes	Yes
Montana	Montana imposes no sales/use tax.							
Nebraska	No, 5%	NA	NA	NA	NA		No, 5%	Yes
Nevada	No, full tax rate	NA	NA	NA	NA	NA	No, full tax rate	No, full tax rate
New Hampshire	New Hampshire imposes no sales/use tax.							
New Jersey	Yes	Directly and primarily	X				No, 6%	Yes
New Mexico	No	NA	NA	NA	NA		No	No
New York	Yes	Directly and predominantly	X				Yes	Yes

North Carolina	No, reduced rate of 1% applies. Maximum tax of $80 per item.	Directly	See Sales and Use Tax Technical Bulletin 2-1 and 3-1				1%; maximum tax of $80 per item. Only applies to ingredients or component parts.	NR
North Dakota	Yes	Directly	X				No, 5% rate	No, 3% or 1.5% rate
Ohio	Yes, if produced and raised for sale	Primarily	NR	NR	NR		Yes	Yes, if produced and raised for sale
Oklahoma	Yes	Directly	X			Used in a manufacturing operation at a manufacturing site by a manufacturer	Yes, when sold to a manufacturer	Yes
Oregon	Oregon imposes no sales/use tax.							
Pennsylvania	Yes	Directly and exclusively	NR	NR	NR		Yes	Yes
Rhode Island	Yes	Directly				"To the extent used," in an industrial plant in the actual manufacture conversion or processing of tangible personal property to be sold	Yes	Yes
South Carolina	Yes	Directly, substantial use					Yes	Yes
South Dakota	No, 4% plus municipal tax	NA	NA	NA	NA		No, 4% plus municipal tax	No, 3% plus municipal tax

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Sales Tax Treatment of Production Machinery, Agricultural Machinery, Materials, and Pollution Control Equipment (Part 1) *(continued)*

Production Machinery, Agricultural Machinery, and Pollution Control Equipment

Legend:
NA Not applicable
NR Not required

	Does State Either Exempt Production Machinery or Apply a Reduced Tax?	If "Yes," How Should the Machinery Be Used in the Manufacturing Process?	Level of Use in Manufacturing Process Required for Exemption: More Than 50%	More Than 90%	100%	Other Standard	Is Pollution Control Equipment Exempt from Sales/Use Tax?	Is Agricultural Machinery Exempt from Tax?
Tennessee	Yes	Necessary and primarily for manufacturing	X				Yes	Yes
Texas	Yes	Directly and primarily				See Note 1.	Yes	Yes

Effective 10/1/97, Tax Code § 151.318 limits the exemption for tangible personal property used in the manufacturing process to property used directly in the process and that makes or causes a chemical or physical change in the product being manufactured for sale or in an intermediate or preliminary product that becomes a part of the product manufactured for sale.

Note 1. Use tax is due on the fair market rental value of equipment for the period of time for which a divergent use is made of the equipment. Use tax is due on the purchase price of the equipment used in a nonexempt manner if no fair market rental value can be established.

	Does State Either Exempt Production Machinery or Apply a Reduced Tax?	If "Yes," How Should the Machinery Be Used in the Manufacturing Process?	More Than 50%	More Than 90%	100%	Other Standard	Is Pollution Control Equipment Exempt from Sales/Use Tax?	Is Agricultural Machinery Exempt from Tax?
Utah	Yes	Directly used in manufacturing process	X				Yes	Yes
Vermont	Yes	Directly and exclusively				X, 96%	No	Yes
Virginia	Yes	Directly				Preponderance of use test	Yes, if certified by VA Dept. of Environmental Quality	Yes
Washington	No	Directly, must have useful life of a year or longer	X				Yes	Yes
West Virginia	Yes	Directly and exclusively	X				Yes	Yes

Wisconsin	Yes	Directly and exclusively			Infrequent or sporadic use	Yes	Yes
Wyoming	No, full rate	NA	NA	NA	NA	No, full rate	No, 3% rate plus local option taxes

Equipment and Machinery Tax Incentives Statewide

State	Incentive Applies To	Incentive
Alabama	Manufacturing Machinery and Equipment	Low Tax Rate (1.5%)
	IR Bond Funded Machinery and Equipment	Tax-exempt
	New or Expanding Company Machinery/Equip	Tax-exempt for 10 years
Alaska	All Businesses and Business Equipment	Not Taxed
Arizona	Manufacturing or Processing Machinery/Equip	Tax-Exempt
	Research and Development Equipment	Tax-Exempt
Arkansas	Manufacturing Machinery	Tax-Exempt
	Air or Water-Pollution Control Machinery	Tax-Exempt
California	New Manufacturing Equipment	6% Tax Credit
Colorado	Manufacturing Equipment Purchases	Tax-Exempt over $500
	Business Equipment in Enterprise Zone	3% Tax Credit up to $5,000
	Component parts, fuels and electricity, ink and newsprint, packaging materials, general maintenance aircraft parts, farm equipment and machinery, clean-fuel vehicles, or biotech equipment	Tax-Exempt
Connecticut	Manufacturing Machinery	Tax-Exempt
	Manufacturing Machinery Replacement or Enhancemt Parts	Tax-Exempt
Delaware	Industrial Machinery and Equipment	Tax-Exempt
Florida	Equipment in Enterprise Zone	Sales Tax Refund
	Pollution Control Equipment	Assessed at Salvage Value
Georgia	Pollution Machinery and Equipment	Tax-Exempt
Hawaii	Tangible Goods Manufacturing Equipment	Tax-Exempt
	Aviation Maintenance and Repair Operations	Tax-Exempt
	Ships used in international trade; Vessels transporting passengers and property within the state	Tax-Exempt
Idaho	Manufacturing, Processing, Mining, Farming, or Fabricating Operation Machinery and Equipment	Tax-Exempt
	Broadcasting equipment; Motor vehicles, aircraft and vessels properly registered	Tax-Exempt
Illinois	All Business Personal Property (includes equipment)	Property Tax-Exempt
	Manufacturing Machinery and Replacement Parts	Sales and Use Tax-Exempt
	Computers used to control manufacturing machinery, printing presses, rolling stock used by carriers in interstate commerce, watercraft fuel, newsprint and ink, raw materials, and component parts. Food and prescription drugs are taxed at reduced rates.	Sales and Use Tax-Exempt
	New Manufacturing Equipment	R&D Tax Credits
Indiana	Manufacturing Equipment and Utilities	Sales Tax-Exempt
	Pollution Control Equipment	Property Tax-Exempt
Iowa	Industrial Machinery, Equipment and Computers	Tax-Exempt
Kentucky	Machinery in New or Expanding Businesses	Sales and Use Tax-Exempt
	Railroad locomotives, rolling stock and aircraft used in interstate commerce, and commercial vessels and ships transporting persons or property	Sales and Use Tax-Exempt
	Manufacturing Machinery	Low Prop. Tax Rate (.15%)
Louisiana	Manufacturers, Distributors, and Retailers	Tax Credit, Local Income
	Manufacturers, Distributors, and Retailers	Tax Credit, Corp Franchise

	Qualified Recycling Equipment	20% Income Tax Credit
Maine	Manufacturing Machinery	Tax-Exempt
	Aircraft and boats sold to nonresidents, various railroad rolling stock, aircraft and watercraft for interstate commerce, and trucks and trailers manufactured in the state and purchased by a nonresident	Tax-Exempt
	Other qualified business machinery and equipment	Property Tax Reimbursemt
Maryland	Manufacturing Machinery, Materials, and Supplies	Tax-Exempt
	Research and Development Equipment	Tax-Exempt
	Enterprise Zone Focus Areas	80% Tax Credit
Massachusetts	Manufacturing, Broadcasting & Utilities Machinery	Sales and Use Tax-Exempt
	Tools and dies used to cast metal products, new and used buses, concrete-mixing trucks, barges and commercial fishing vessels, and printing corporations	Sales and Use Tax-Exempt
	Manufacturing; Research and Development Companies in Economic Development Areas	3% Tax Credit
Michigan	Manufacturing Machinery, Intrastate Telephone and Telegraph Service, and certain Commercial Vessels	Sales and Use Tax-Exempt
	Certain Tools, wood-harvesting equipment, farm implements, and motor vehicles	Property Tax-Exempt
Minnesota	Manufacturing Equipment	Tax-Exempt
	Pollution and Waste Control Equipment	Tax-Exempt
Mississippi	New, Expanding Manufacturers Equipment	Tax-Exempt
	Manufacturing Machinery and Parts	Low Sales Tax Rate (1.5%)
	All Businesses and Business Equipment	No State Property Tax
Missouri	New or Expanding Company Machinery/Equip	Tax-Exempt
	Qualified Replacement Manufacturing Machinery	Tax-Exempt
	Pollution Control Equipment	Tax-Exempt
	Research and Development Equipment	Tax-Exempt
	Computer Equipment	Tax-Exempt
Montana	All Businesses and Business Equipment	No Sales or Use Taxes
Nebraska	Manufacturing and Process Equipment	Tax-Exempt
	Railroad rolling stock, barges, and common carrier vehicles are exempt from sales and use taxation	Tax-Exempt
	Pollution Control Equipment	Tax-Exempt
	All Businesses and Business Equipment	No State Property Tax
Nevada	All Businesses and Business Equipment	Sales Tax Abatements
	Qualified Pollution Control Equipment	Tax-Exempt
	New, Expanding Manufacturers Equipment Over $100,000	Sales and Use Tax Defermt
New Hampshire	All Businesses and Business Equipment	No Sales or Use Taxes
	Pollution and Waste Control Equipment	Tax-Exempt
	solar energy heating and cooling systems, wind-powered energy systems, and wood energy heating systems	Tax-Exempt
New Jersey	Manufacturing, railroad rolling stock, utilities, newspapers, motor vehicles, buses, and aircraft	Tax-Exempt
	Research and Development Equipment	Tax-Exempt
	Pollution and Waste Control Equipment	Tax-Exempt
New Mexico	Qualifying Manufacturing Equipment	5% Tax Credit
	Research and Development Equipment	Tax-Deduction and Credit
	Call Center Equipment	Tax Credits
New York	Manufacturing Machinery and Equipment	Sales and Use Tax-Exempt
	Mining, Research and Development Equipment	Sales and Use Tax-Exempt

	Commercial aircraft, machinery and equipment installed in such aircraft, personal property used in aircraft repairs, and certain aircraft equipment	Sales and Use Tax-Exempt
North Carolina	Manufacturing and Process Equipment	Tax Credits
	Qualifying warehousing and distribution, data-processing industries, and air carrier services	Tax Credits
North Dakota	Manufacturing and Food Processing Equipment	Sales and Use Tax-Exempt
	All equipment, inventory, materials in process, and accounts receivable	Property Tax-Exempt
	New businesses	5-year Tax Exemption
Ohio	Manufacturing Machinery and Equipment	Tax-Exempt
	Machinery for packaging, handling, and transportation equipment; and ships in commerce	Tax-Exempt
	Research and Development Equipment	Tax-Exempt
	Certified Pollution Control Equipment	Tax-Exempt
Oklahoma	Manufacturing Machinery and Equipment	65% Tax Credit to $500,000
	Hazardous Waste Plants	Income Tax-Exempt
Oregon	All Businesses and Business Equipment	No Sales or Use Taxes
	Pollution Control Equipment	Tax Credits
	Research and Development Equipment	Tax Credits
Pennsylvania	Manufacturing Machinery and Equipment	Tax-Exempt
	Materials, machinery, parts, and supplies directly used in research and development and pollution-control equipment	Sales and Use Tax-Exempt
Rhode Island	Manufacturing Machinery and Equipment	Property Tax-Exempt
	Qualified Manufacturing Machinery and Equipment	4-10% Sales Tax Credit
	Pollution Control Equipment	Sales Tax-Exempt
South Carolina	Manufacturing Machinery; Mining, processing, quarrying, or farming machinery	Sales & Use Tax-Exempt
	Supplies purchased by television or radio stations; railroad rolling stock and barges and vessels; and motor vehicles, boats, recreation vehicles, and semitrailers	Sales & Use Tax-Exempt
South Dakota	Manufacturing Machinery and Equipment	Property Tax-Exempt
	Transport Trucks for Manufactured Goods	Property Tax-Exempt
Tennessee	All Business Personal Property (includes equipment)	No State Property Tax
	Pollution Control Equipment	Sales and Use Tax-Exempt
	Component parts, containers and packaging materials, and repair parts used in manufacturing	Sales and Use Tax-Exempt
Texas	Manufacturing Machinery and Equipment	Sales and Use Tax-Exempt
	Solar energy heating and cooling systems	Property Tax-Exempt
Utah	Research Machinery and Equipment	6% Tax Credit
	Recycling Equipment	Tax Credits
Vermont	Manufacturing Machinery and Equipment	Tax-Exempt
	Research and Development Equipment	Tax Credits
Virginia	Manufacturing Machinery and Equipment	Tax-Exempt
	Pollution Control Equipment	Tax-Exempt
	Recycling Equipment	Tax Credits
Washington	All Businesses and Business Equipment	No Income or Inventory Tax
	Certain Manufacturing Machinery	Property Tax-Exempt
West Virginia	Industrial Expansions; Manufacturing Equipment	Tax Credits
	Research and Development Equipment	10% Tax Credit
Wisconsin	Manufacturing Machinery and Equipment	Tax-Exempt
	Computers used in business	Tax-Exempt

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	Solar and Wind Energy Systems	Tax-Exempt
Wyoming	All Businesses and Business Equipment	No Corporate or Personal Tax
	Trucks, truck trailers, semitrailers, or trailers; manufacturing supplies	Sales Tax-Exempt
	Pollution Control Equipment	Tax-Exempt

MISSOURI - KANSAS COIN LAUNDRY ASSOCIATION
PRESIDENT Robert H. Meuschke II

I want to thank you for the opportunity to exercise our rights as American Citizens to speak to you today. We live in a great country that gives us that right to speak for the well being of all, in the Great State of Kansas.

I am here both as President of The Missouri-Kansas Coin Laundry Association, representing all coin laundry owners in the state of Kansas, and as a fellow coin laundry owner.

We have great concern for the bill HB 2902 that will discontinue the sales tax exemption for coin operated laundries.

Clean clothes are a necessity of life. Both for health and welfare reasons. Would any of you folks consider wearing your clothes for 2 or 3 days? How about your underwear? Would you wear it for 2 or 3 days without changing? Many of our customers have to because of their income.

Our customer make-up, according to a National Coin Laundry Survey is that 60% of our customers are in the lowest income levels; 30% of our customers are in the lower middle income level; and the other 10% comes from the rest. (Usually that 10% makes up most of our drop-off wash & fold business that is already taxed)

As Coin Laundry Owners we pay sales and use tax on all of our equipment and fixtures. We pay sales and use tax on all of our parts when in need of repair. We pay sales and use tax ongoing for electricity, water, sewer, natural gas, and propane. Many of us pay our cities a tax on our gross business; plus county, state, and federal tax on our net revenue where applicable, regardless of our profits. That makes an added sales tax on washer/dryer usage, an oppressive tax on our customers and on us as coin laundry owners if we end up bearing the burden rather than passing it on.

In our industry we must raise our prices in 25 cents increments. If this tax is approved and we must raise our prices by 25 cents to cover it; that means for a family of four with normal laundry needs, about a $20.00 increase in their expenses every month. The ones that cannot afford it will just wear their clothes a little longer. Regardless of the health hazards to adults or children. How about the ones that have to wear their clothes a day or two longer that work in either the food industry or the health and welfare industry.

The Coin Laundry Industry is one of the few that is limited to being able to raise prices when ever we feel we need to. We are governed by the incomes of our Customers. When the natural gas problem plagued us many of us had to raise prices, which we had not done for 10-12 years previous. Some coin laundries closed because they felt that they could not raise prices and they could not take the hit.

I have had several calls in the last week that if HB 2902 would pass with the exemption removed, then they would have to close their business. The calls I had were from owners that they were the only laundries in small towns in Kansas. Who wins there?! The State of Kansas does not, the towns they are in do not, the owners do not, and your constituency does not!

This would be a terrible tax on the poor. And a slam in their face by the lawmakers that always say they want to protect the poor.

Example:
If you own your own washer and dryer regardless of how much energy they waste, you would not have to pay this tax. But if you are poor and or do not live where you can have washer/dryer hook-ups, you would be taxed. The industry is striving greatly to

make energy efficient equipment. Those newer types will save up to 1/2 of what home units will use. And we all know how much environmental problems are costing us. It has been proven that Household water usage could be cut by taking your laundry to a Coin Laundry and using there equipment. And we know how many towns are having not only drinking water problems but sewage as well. If the water usage is less the sewer will be too!

We are greatly concerned about our states financial problems but we feel strongly and hope we presented the same that this would not only be an unfair tax but would cost the state more in lost revenues in other places. Would not an across the board general sales tax be more equally applied to all Kansas citizens??

Thank you again for your time.

Missouri-Kansas Coin Laundry Association
11525 Blue Ridge Boulevard
Kansas City, Missouri 64134
816-809-8454

Dear Kansas Laundry Owner:

As President of the Missour-Kansas (Mo-Kan) Coin Laundry Association, I was recently contacted by Brian Wallace of the National Coin Laundry Association about an issue taking place in the Kansas Legislature.

There is a Committee on taxation that is writing a "repealer" bill that would no longer exempt sales tax on washer and dryer useage. The bill is HB 2902. We are not sure when or if this is going to the floor for a vote, but we wanted to inform you so you can contact your State Representative about this matter. The sponsor of the bill is Daniel Williams (Rep). There will be a hearing on March 26th in Topeka, where you are invited to testify. I will be doing so myself, on behalf of all Kansas Coin Laundry Owners, and you are also welcome to arrange testimony. You may call 785-368-7166, and ask for Winnie. She will give you whatever information you need. We feel that repealing the current exemption will create an excessive tax against the citizens of low to middle income means, as well as coin laundry owners throughout Kansas.

As you know we already pay sales and use tax on water, sewer, electricity and gas each month. We paid sales tax on our equipment when we purchased it, and will do so when we update our equipment. We pay sales tax on parts as we repair our equipment. We pay county and possibly city tax on our gross revenue per year, regardless of our profits. If this bill is made law, we would be paying tax on tax!

Please consider letting your Representative know that although we are interested in profits, we are also truly committed to serving an economically challenged public. We provide invaluable services to the common Kansas citizen who cannot afford to own a washer and dryer, and may not even be able to afford housing that provides laundry facilities. Our customers must still go to work and send their children to school in clean clothes. Coin laundry prices are largely controlled by the income of our customers!

Please inform your representative that coin laundries seldom raise their prices, rather try to absorb the shock of other economic pressures. The price of natural gas in 2000/2001 forced some owners to change prices for the first time in ten (10) years! What other industry could claim this? Ask your representative to consider that this tax will force us to raise our prices again, which must be done in 25 cent increments. This can mean a $20 increase per month to a family of 4 who washes clothes every week. This family may have to make sacrifices in other areas, in addition to wearing clothes that are not laundered as often as they'd like. Doing laundry is not a luxury. It is a necessity for personal hygiene and public health.

This is definitely a tax on the working class citizen. Taxing the working class is a philosophy that politicians tell us they do not want. Please encourage your Representative to prove his/her philosophy on this matter.

(over)

Unless the Legislature can figure out how to tax EVERYONE on EVERY load laundered in their own equipment at home, we strongly urge them to abandon the idea of singling out poor constituents and taxing them on every load they launder in public equipment.

The Mo-Kan Coin Laundry Association meets the second Tuesday every other month for socializing and dinner, and to discuss industry issues and listen to a pertinent speaker. Our next meeting will be in May. We invite you to attend. For more information, please call me at the above number.

Our source of information for contacting you gave us only those who bought a yellow page ad this last year. If you know of others who own coin laundries (that don't advertise), please feel free to copy this letter and pass it on. Thank you for your time and please be ready for the challenge! Call anytime if we can be of service.

Sincerely yours for the betterment of our Industry,

MISSOURI-KANSAS COIN LAUNDRY ASSOCIATION

Robert H. Meuschke II
President
Owner of Family Laundries

JETZ SERVICE CO. INC.
Professional Laundry Systems

CORPORA[illegible] [illegible]FICE
(78[illegible] [illegible]-7588
FAX (785) 354-7069
1-800-530-5719
901 NE RIVER ROAD
TOPEKA, KANSAS 66616-1133
E-mail: jetz@cjnetworks.com
Jetz Online: www.jetzservice.com

March 15, 2002

To: House Taxation Committee

Re: Review of Sales Tax Entities (Exempt)

This letter is in response to House Bill No. 2902 (Rep. D. Williams)

I have appeared before the House Taxation Committee several times over the past 30 years, concerning the issue of a proposed sales tax on coin-operated laundry receipts. I would like to point out the following reasons why this tax is both immoral and uncollectible:

1. It is the most regressive tax that you could possibly impose. (See schedule). It primarily affects the low income, the poor, the students and the elderly.

2. In order to collect the 6.80% our industry will have to raise prices by a $.25 increase on a $1.00 cycle.

3. Washing clothes, (cleanliness) is a necessity not a luxury. To tax cleanliness in a regressive manner is simply not right.

4. There are approximately 400,000 Kansas citizens that live in multi-family facilities (apartments) that utilize coin-operated laundry equipment (see attachment). If this regressive tax is passed on to these residents at a 25% increase, how is that to be explained?

5. Why are you singling out previously exempt industries? Why not tax all services?

6. The argument has been made that we are the last coin-operated industry not being taxed for sales. I have not heard whether it is right or wrong, collectable or uncollectible, just that we are the last. I am not arguing the case for product vendors, however they do have control over the size of their products, as an example, four sticks of gum instead of five, smaller roll of life savers, smaller candy bar and so on. For our service can we stop our machine in the middle of the final spin and accomplish the same thing? Obviously no!

7. Jetz Service Co., Inc. presently is located in eleven (11) states. Not <u>one</u> of these states has a sales tax on coin-operated laundry receipts. Obviously they have had to deal with the same issue your dealing with and found this tax to be unconscionable.

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Colorado Springs (719) 636-3928 | Des Moines (515) 224-9754 | Kansas City (816) 454-WASH (9274) | Omaha (402) 339-2565 | St. Louis (314) 385-JETZ (5389) | Topeka (785) 354-7588 | Wichita (316) 263-1037

8. Jetz Service Co., Inc. has approximately nine thousand (9,000) washers and dryers located at various multi-family communities in the state of Kansas. We can only practically increase the price for using our equipment a minimum of $.25. This charge would cost $50.00 per machine. That translates to a $450,000.00 cost for our company to increase the price on these machines.

I feel that in order to understand better the service our company provides, it would be beneficial to give you a brief summary of our service. Jetz Service Co., Inc. is referred to in the trade as a coin operated laundry route. We install, service, maintain, and collect coin receipts from washers and dryers that are primarily placed in apartment communities. The laundry rooms are not attended, therefore it is impossible for us to collect sales tax from the customer. I believe that the honor system involving a container would probably not be appropriate either. We enter into long term lease agreements where we have rights as any tenant would have according to laws of the individual states. Our leases do not generally provide for any withholding from gross receipts other than what the terms of the contract might imply. This means that a tax that cannot practically be passed on would penalize either Jetz Service Co., Inc. or the owner of the property. In the event that the prices would increase to provide additional revenues for the tax then the low to middle income populous would be affected.

It is not difficult for me to understand why businesses in Kansas have become frustrated about doing business in this state. I believe that our company does its fair share in supporting the state and in paying its share of fair taxes. Legislators, this is not a fair tax and no matter how it is analyzed it is not going to come out a fair tax.

In closing, I hope that you will be tolerant of my obvious frustration and hopefully my comments will be helpful to you in making an objective decision. Thank you very much for your time.

Sincerely yours,

JETZ SERVICE CO., INC.

Timothy N. Etzel
President

TNE:kks

Enc.

ACT
Apartment Council of Topeka
P.O. Box 3845
Topeka, KS 66604

March 24, 2002

Office of the Governor
State Capital
Topeka, Kansas 66612-1590
Attn: Governor Bill Graves

Dear Governor Graves,

I have been asked to write this letter in behalf of the 35 apartment communities and 6 owners/property management companies.

They are concerned about the proposed tax-relief program, as to how it will affect the renters of Kansas and to coin-operated vendors.

Washing and drying your clothes is a common necessity of life. If the costs go up 25%, that will have to be absorbed by the residents using these machines. A lot of the properties in our area do not have washer/dryer hookups, so the residents would have not have a choice but to pay the higher price to wash and dry their clothes.

We are asking that you prevent the burden of the tax to be passed on to the renters of Kansas by retaining the exemption for coin-operated washer and dryer vendors.

Thank you for your time and consideration.

Respectfully,

Lee Anne Skinner

Lee Anne Skinner
Vice-President/Apartment Council of Topeka

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March 15, 2002

Office of the Governor
State Capital
Topeka, Kansas 66612-1590
Attn: Bill Graves

Dear Governor Graves;

I am writing this letter, concerned about the proposed tax-relief program, as it affects the renters of Kansas and to coin-operated washer and dryer vendors.

I am the President of the Apartment Association of Greater Wichita and have been asked to write this letter, representing an estimated 77 apartment communities and 27 owners/property management companies.

Our primary concern about the proposed sales tax is that the tax would be passed directly to the residents of our communities. No matter what the increase of the tax, the machines would have to be increased by 25% (since the machines operate with quarters).

With an increase of 25% per wash and dry, it is likely our residents will no longer wish to use our facilities, and many of the properties in our area do not have washer/dryer hookups in the apartments. Many will not have a choice but to spend the extra money for the tax relief program, and it is not right for the residents to have to bear this proposed tax for a necessity of life.

We are asking that you retain the exemption for coin-operated washer and dryer vendors and ask that you prevent the burden of the tax to be passed on to the renters of Kansas.

Thank you for your time and consideration.

Respectfully,

Teri L. Powell
President/The Apartment Association of Greater Wichita

COMMERCIAL MANAGEMENT INC.
P. O. BOX 524
BELOIT OFFICE
BELOIT, KS. 67420

E-MAIL: jan@kans.com
Tele: & Fax: 785-738-4168

March 25, 2002

Office of the Governor
State Capital
Topeka, Kansas 66612-1590
Attn: Bill Graves;

Dear Governor Graves;

We as a management company of low income apartments, are quite concerned about the proposed tax-relief program, as it affects the renters of Kansas and the coin-operated washer and dryer vendors, that provide this service to our tenants.

Laundry is a necessity for personal hygiene, and public health for our residents, many of whom, are disabled, elderly, and young children of single parents, who are struggling to make ends meet. Some of these, would be forced to make a choice between clean clothes to wear to work, or school or eating. Citizens of our great State of Kansas should not be put in positions that they have to make that choice. Those who are working, would lose their jobs if they were not dressed in clean clothes, so that would mean they would go hungry.

I firmly believe that there are other ways of providing necessary funding that would not punish the elderly, handicapped or disabled, and low income citizens of Kansas.

Sincerely;

Jan Joiner

Jan Joiner
C. M. I. Operations Director

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American Heart Association®
Fighting Heart Disease and Stroke

Heartland Affiliate
5375 SW 7th St.
Topeka, KS 66606
(785) 272-7056
(800) 284-3979
fax (785) 272-2425
www.americanheart.org/ks

Testimony In Opposition to HB 2902
American Heart Association

House Committee on Taxation
26 March 2002

Mr. Chairman and members of the Committee, I am Kevin Walker, Director of Public Advocacy for the American Heart Association. I am here today in opposition to HB 2902.

Heart disease and stroke are the first and third leading causes of death in Kansas. During the past few years we have seen significant progress in the prevention and treatment of heart disease and stroke. The outlook for continued progress is bright, but we must continue to be vigilant in our efforts to educate the public, continue medical research and work with physicians to ensure the latest medical techniques and technology are being employed.

The $40,000 we save with this sales tax exemption can, for example, fund an additional researcher at one of our state research institutions or fund our new CPR In Schools initiative that we are currently launching at school districts throughout the state including Salina, Topeka, Wichita and in Johnson County.

Furthermore, because of our tax-exempt status, we have been able to bring millions of dollars of national Heart Association purchasing contracts to Kansas based employers including Sunflower Marketing in Topeka.

While I recognize that you are in a tough fiscal situation, I urge you to consider the impact that eliminating this sales tax exemption would have on not-for-profit organizations within the state. I ask you to oppose the elimination of the sales tax exemptions for not-for-profit organizations such as the American Heart Association.

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Heart of America
ALZHEIMER'S® ASSOCIATION
Someone to Stand by You

TESTIMONY ON H.B. 2902 regarding sales tax exemption of certain 501(c)3 organizations

I am Marcene Grimes, Director of the Topeka office of the Alzheimer's Association, one of the three offices in Kansas that strongly oppose the stripping of their sales tax exemption which H.B. 2902 seeks to do.

Together, the Alzheimer's Association offices in Kansas provide information, support and referral services to an estimated 64,000 Kansas Alzheimer families and we provide these services without the support of state funds. This is not true in many of the other states, such as Missouri, which has appropriated significant funds to the Alzheimer's Association Chapters in Missouri to help provide caregivers' relief services.

The only break we have ever gotten from the State of Kansas is our sales tax exemption. Without it, I estimate that our Topeka office alone would have to start paying sales tax on approximately $50,000 worth of supplies, newsletter costs, informational materials, phone costs, and other services so desperately needed by our Alzheimer families. At a rate of 6.8%, the tax involved would be around $3,400, a drop in the bucket for the State of Kansas but a significant part of our meager budget of $175,000.

The impact on the Prairie Village and Wichita offices would be even greater. However, Prairie Village has the great advantage of being able to take their vendor business over to the Missouri side. Since the Topeka office is now part of them, we also may be compelled to stop using our local Topeka area vendors.

The $3,400 that we would have to extract from our budget would go a long way to help Alzheimer families understand how to cope with this disease. That is about the same amount we are proposing to spend next year on informational materials to distribute to Alzheimer caregivers.

As a taxpayer, I want to see Kansas' fiscal problems solved as much as everyone does but I do not believe picking on the 501(c)3 organizations in the disease field is the way to go about it.

Thank you for allowing me to testify against H.B. 2902.

Topeka Regional Office
515 South Kansas Avenue, Suite B-2 • Topeka, KS 66603
P.O. Box 1427 • Topeka KS 66601
785.234.2523 • Fax 785.234.0919 • marcene.grimes@alz.org
Alzheimer's Disease and Related Disorders Assoc. Inc.

State Office
4300 SW Drury Lane
Topeka, KS 66604-2419
Phone: (785) 272-9290
In State: 1-800-LUNG-USA
Fax: (785) 272-9297
www.kslung.org

AMERICAN LUNG ASSOCIATION. of Kansas

Written Testimony on HB 2902
Before the House Committee on Taxation
By Judy Keller, Executive Director, American Lung Association of Kansas
March 26, 2002

Members of the Committee:

On behalf of the Board of Directors, volunteers and staff of the American Lung Association of Kansas, I ask that you not summarily dismiss sales tax exemptions for non-profit organizations in Kansas.

While looking at Kansas' budget, and shortfall, the approximately $6,000 in sales tax relief the American Lung Association of Kansas receives each year may not seem like a large amount — for our programs it has a substantial impact.

You can look at this sales tax relief as allowing us to send 20 more asthmatic youngsters to the summer camp they could only dreamed about before; as helping 80 current smokers find help to stop through smoking cessation clinics; as 60 classrooms of elementary school students with asthma that will be able to learn to manage their disease through Open Airways For Schools; and the ability to continue training volunteers to facilitate these programs across the state.

For a non-profit agency, which must rely solely on the support of donations to carry on its important work, every little piece of assistance is valued. The provisions of HB 2902 will restrict our efforts.

The sales tax exemption we currently receive is doing good work for Kansans, helping provide necessary programs to help promote lung health and prevent lung disease.

Thank you for your attention.

When You Can't Breathe, Nothing Else Matters®

Please fight lung disease by remembering us in your will.

David D. White
Director of State Tax Legislation

SBC Communications, Inc.
Phone: (210) 351-3918
Fax: (210) 351-2971
e-mail: dwhite@corp.sbc.com

To: House Taxation Committee

Re: HB 2902

Date: March 26, 2002

Mr. Chairman and members of the Committee – SBC/Southwestern Bell appreciates the opportunity to submit written testimony for HB 2902. SBC Communications is not only a large employer (with over 3,500 employees in Kansas) but we are also one of the largest taxpayers (we remit approx. $100 million in taxes on business activities in Kansas annually). Although we understand the budget crisis currently facing the State -- SBC believes many of the provisions contained in HB 2902 are not condusive to a strong business climate.

Specificly, as introduced, HB 2902 would attempt to subject many telecommunication services to sales tax for the first time – increasing taxes for Kansas consumers and job providers:

- Interstate WATS and Private Line / data services would be taxed
- Non-voice computer processing services would be taxed
- Carrier access fees would be subject to tax
- Affiliated group transactions would be subject to tax

By taxing carrier access fees, Kansas would be taxing telecommunication services twice. Access fees are essentially wholesale transactions paid by carriers for the right to connect calls through another carrier's network. By taxing the wholesale transaction (access fees) and then also taxing the retail transaction (such as long distance service) – the state would be essentially taxing the same call twice. Furthermore, by repealing the affiliated group exemption, the State would be taxing telecom services SBC provides to itself. This is expecially unfair when we are required to separate our company into separate affiliated entities for regulatory purposes.

In addition, the legislation would appear to also tax labor attributable to installing telecommunications equipment. In many cases, labor comprises up to 50% of the cost of installing networks (outside plant) in connection to the construction of new facilities. HB 2902 would appear to subject these labor expenses to sales tax (see sec. 79-3603(p)). Rather than incenting the buildout of the broadband infrastructure to new facilities, this makes the buildout of broadband significantly more expensive.

For the reasons stated above, SBC/Southwestern Bell cannot support HB 2902. Thank you for this forum to advocate our concerns -- and we look forward to working with the Committee on these issues.

HEIN LAW FIRM, CHARTERED

5845 SW 29th Street, Topeka, KS 66614-2462
Phone: (785) 273-1441
Fax: (785) 273-9243

Ronald R. Hein
Attorney-at-Law
Email: rhein@hwchtd.com

House Taxation Committee
Testimony Re: HB 2902
Presented by Ronald R. Hein
on behalf of
Kansas Restaurant and Hospitality Association
March 26, 2002

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 Kansas professional association for restaurant, hotel, lodging and hospitality businesses in Kansas.

The KRHA opposes HB 2902. HB 2902 contains a provision with regards to removal of sales tax on food which 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.

First of all, a little information about the food service industry. In 1998, for every $1.00 spent on food, 44¢ is spent at a food service establishment. The restaurant industry employs 10.2 million people nationwide. In Kansas the industry employs approximately 80,700 people and another 51,900 people are employed in related industries. Nationwide, restaurants constitute approximately 30% of retail establishments.

And this fact may surprise you, but the average restaurant meal is approximately $4.60. I can assure you that there are a lot of low income people eating at restaurants.

KRHA feels that this legislation will have an adverse impact on the food service industry in Kansas. To the extent that the differential in tax affects an individual's decision to eat at a restaurant or to eat at home, this bill will cause restaurants to lose business, resulting in 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, as written, it will not accomplish its goal.

The KRHA has supported the expansion of the sales tax credit for low income individuals. That approach insures that the benefit of the state dollars go to the people who need help the most. Some would say that program is not enough, or has administrative problems. If that is the case, then the program should be expanded and the administrative problems solved rather than passing this legislation where the tax relief is not as focused on those who need it.

The KRHA recognizes that the reason for taxation is to raise money for government programs, and has never taken a position against paying our fair share of taxes. However, we do want to be kept on a level playing field. Retail grocery stores are already competing with restaurants by offering prepared food for sale. This bill further tips the playing field.

Lastly, the KRHA is concerned because elimination of the sales tax on food might, at some point, necessitate a tax increase in another area that might adversely affect our industry. Property taxes and income taxes are deemed by some to be too high already. Sales tax is viewed by many as a fair tax when used in conjunction with income and property taxes. In a pure sense, sales tax has been argued to be a regressive tax, but that is without consideration for other government programs, including food stamps, welfare assistance, and credits for sales tax on food. With such protections, sales tax can be a very fair tax when part of a multi-tax mix.

Although this bill raises other revenue, there are obvious serious policy ramifications to removal of sales tax exemptions as a revenue raising methodology. The KRHA will not take a position on those aspects of the bill.

Although the KRHA could probably support a level playing field program that exempts food purchased at retail establishments equally, whether purchased at a grocery store or a restaurant, the KRHA cannot support the exemption for food dealers alone without consideration for food sold in restaurants.

The KRHA urges the committee to report HB 2902 adversely, to eliminate the exemption for food sold in grocery stores, or to exempt all food purchased by the public, either in grocery stores or restaurants.

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

KANSAS LIVESTOCK ASSOCIATION

Since 1894

To: House Taxation Committee
Representative John Edmonds, Chairman

From: Mike Beam, KLA Governmental Affairs Staff

Subject: Opposition to **HB 2902** – Imposition of New Sales Taxes and Repeal of Individual Income Taxes.

Date: March 26, 2002

The Kansas Livestock Association (KLA) submits this statement of opposition to House Bill Number 2902. As we understand the proposal, the bill would impose a sales tax on many items currently exempt and repeal the individual income tax. While we empathize with your challenge to address the unprecedented state budget crisis, we firmly believe this plan will wreck havoc on the agriculture industry. Furthermore, we question the wisdom of repealing the income tax. The income tax is a reliable indicator of wealth and is perhaps the surest and fairest method of measuring a taxpayer's ability to pay.

There are several sales tax exemptions, proposed by HB 2902, which would cause our members considerable expense and consternation. These exemptions include, but are not limited to (a) sales of animals for use in agriculture, (b) component parts of personal property or services produced for ultimate resale at retail, (c) services of installing or applying personal property in connection with original construction of a building or facility, (d) farm machinery and farm machinery parts, repairs and services, and (e) sales of natural gas, electricity, heat and water for agriculture use.

It has been our observation that previous legislative decisions to authorize sales tax exemptions, especially for business costs, were based on the burden they impose on a business or industry and/or if such a tax places our states' businesses at a competitive disadvantage. I assure this committee, the imposition of the above mentioned exemptions would drive a stake in the heart of the states beef cattle industry. This is an industry that generated $4.5 billion in cash receipts in 2000.

We strongly urge the House Taxation committee to not advance HB 2902 for further consideration.

Thank you!

House Tax 3·26·02
Attach. No. 18
Page 1 of 1

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AGC of KANSAS

Associated General Contractors of Kansas, Inc.

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TESTIMONY OF
ASSOCIATED GENERAL CONTRACTORS OF KANSAS
BEFORE HOUSE COMMITTEE ON TAXATION
ON HB 2902

March 26, 2002

By Corey D Peterson, Associated General Contractors of Kansas, Inc.

Mister Chairman and members of the committee, my name is Corey D Peterson, Executive Vice President of the Associated General Contractors of Kansas, Inc. The AGC of Kansas is a trade association representing building general contractors and subcontractors throughout Kansas (with the exception of Johnson and Wyandotte counties).

The Associated General Contractors of Kansas asks that you do not recommend House Bill 2902 for passage. The AGC of Kansas opposes this bill because of the proposed elimination of the sales tax exemption for new construction.

Elimination of the sales tax exemption on new construction would increase the cost of new construction projects. This increased cost may be a determining factor in owners' decisions not to proceed with projects, thus extending the economic downturn. This would be occurring at a time when economic growth seems essential to correct the revenue shortfalls being experienced by the State.

Also, the elimination of the sales tax exemption would create an unfair market for counties adjacent to states that have no tax on new construction. There will be instances when owners will choose to construct businesses in neighboring states because of the cost savings provided by having no sales tax added to the price of the project.

Again, AGC of Kansas requests that you do not recommend HB 2902 favorable for passage. Thank you for your consideration.

KANSAS
MANUFACTURED HOUSING
ASSOCIATION

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WRITTEN TESTIMONY
BEFORE THE

HOUSE COMMITTEE
ON
TAXATION

TO: Representative John Edmonds and
Members of the Committee

FROM: Martha Neu Smith, Executive Director

DATE: March 25, 2002

RE: HB 2902 – Repeal of Income and Sales Tax Exemptions

Thank you for the opportunity to present written testimony regarding HB 2902 - Taxation, repealing income tax, and sales tax exemptions. The Kansas Manufactured Housing Association **opposes** the provision of HB 2902 that would repeal three sales tax exemptions that apply to manufactured housing.

First, K.S.A. 79-3606 (bb) in 1985 the Kansas Legislature passed Senate Bill 152 that granted a sales tax exemption for Kansan's who purchase a pre-owned manufactured home. The rational for exempting pre-owned homes was based on the fact that when an individual buys a pre-owned site built home sales tax is not paid. For many years manufactured home buyers were treated unfairly when compared to other homebuyers and this sales tax exemption corrected that problem.

Second, K.S.A. 79-3606 (ff) in 1987 the manufactured housing industry again, when through the Kansas Legislative process (SB 309) and received a 40% sales tax exemption on the sale price of new manufactured homes. This partial exemption was passed because site built housing only paid sales tax on materials used to construct the home and not on labor. Therefore, the 40% exemption for manufactured housing represents the labor in the home.

Third, K.S.A. 79-3606 (u) deals with sales tax on lease or rental agreements for manufactured housing. Currently sales tax does not apply to the lease or rental agreements for apartments or single-family homes that are rented.

While the major thrust behind the passage of these sales tax exemptions was based on equity between all housing, the Legislature also recognized that manufactured housing serves the low to moderate-income families. The tax issues that I describe are very serious when you consider that typically the people that either purchase or rent manufactured housing are low to moderate income.

Recently, at all levels of government the focus has been on the need for affordable housing. Consequently, if Kansas would begin to apply a sales tax to housing purchases it would negatively affect our ability to deal with affordable housing issues. Therefore, I respectfully request that you **reject the repeal** of any sales tax exemption dealing with manufactured housing. Thank you.

LEGISLATIVE TESTIMONY

KANSAS BUILDING INDUSTRY ASSOCIATION, INC.

2206 SW 29th, Terr., Topeka, KS 66611 ◈ 785-267-2936 Fax 785-267-2959 ◈ E-mail: janetstubbs@worldnet.att.net

HOUSE TAXATION COMMITTEE
HB 2902
March 26, 2002

MISTER CHAIRMAN AND MEMBERS OF THE COMMITTEE:

The Kansas Building Industry Association and the approximately 2700 members we represent throughout the State of Kansas are opposed to the removal of the sales tax exemptions granted the Kansas citizens for the construction labor of essential new shelter for their families. We would also oppose removal of the sales tax exemption on remodeling and renovation labor. Those families who cannot afford or choose not to build new housing should not be forced to pay tax on labor for performing needed upkeep on their property.

Historically, the housing industry leads the country out of recessions and adds significantly to the economy of any state and community via other taxes generated by their activities. To injure the "goose which lays the golden egg" would seem unproductive and unwise!

Each time any homeowner improves his property with a new roof, etc., there is sales tax generated for the materials purchased, as well as income tax for the roofing company performing the work, etc. Then the appraiser increases the value of the property to increase the property tax levied the following year. We should be seeking ways to give an incentive to people to generate this type activity. Instead, we are considering an additional disincentive!

The Kansas Building Industry opposes removal of the sales tax exemption on construction labor services.

Farm Bureau
Helping Feed the World

Kansas Farm Bureau

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PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

Re: HB 2902 – An act relating to taxation, repealing certain sections.

March 26, 2002
Topeka, Kansas

Prepared by:
Janet McPherson, Assistant Director
Public Policy Division

Chairman Edmonds and members of the House Taxation Committee, thank you for the opportunity to provide comment regarding HB 2902. Member-adopted policy enacted through a grassroots process represents more than 42,000 farmers and ranchers of the Kansas Farm Bureau. That policy strongly opposes the repeal of the tax exemptions suggested in HB 2902.

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 provide for competitiveness with our neighboring states. Existing exemptions should remain in place.

The sales tax should not be imposed on services. The sales tax should be applied at the retail level. 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. The ingredient or component part exemption should be maintained for the sound practice of economic development and for the assistance of manufacturing, business, industry and agriculture in this state. (KFB Policy, AT-4)

Kansas agriculture and industry would suffer in the current economy from a change in tax policy that would stifle business activity and curtail productivity in the agricultural sector. Kansas Farm Management data shows that 110% of farm income was a result of federal farm payments last year. Farmers and ranchers do not set the prices for the products they produce. Instead, they strive to be least-cost producers and have no mechanism to pass on additional costs in the marketing chain. Production agriculture is a capital-intensive endeavor, and the tax exemptions enjoyed by farmers and ranchers reflect good and proper public policy. Expenditures for machinery purchases and repairs, livestock, and inputs are critical for viable farming and ranching operations. The additional cost of doing business, such as the taxes imposed by HB 2902, would be a strong deterrent to the agricultural community, and a disincentive for business to advance and grow in Kansas.

The farmers and ranchers of Kansas Farm Bureau are willing to shoulder additional expenses to support the cost of government. In fact, member policy adopted at the 83rd annual meeting last November supports reasonable user fees for the functions performed by the Kansas Department of Agriculture.

We encourage members of the committee to consider the ramifications of HB 2902 and the dramatic burden it would place on farmers and ranchers, and the entire Kansas economy. As such, the Kansas Farm Bureau respectfully requests you not act favorably on HB 2902.

Thank you.

Kansas Farm Bureau represents grassroots agriculture. Established in 1919, this non-profit advocacy organization supports farm families who earn their living in a changing industry.

Sprint

March 26, 2002

To: The Honorable John Edmonds, Chairman
House Committee on Assessment and Taxation

From: Mark Beshears, Assistant Vice President
State and Local Tax, Sprint

RE: House Bill No. 2902 - Repealing certain sales tax exemptions.

This memorandum is respectfully submitted in opposition to House Bill No. 2902 and in hopes this legislation will be recommended unfavorable for passage.

Specifically, House Bill No. 2902 eliminates a number of sales tax exemptions currently in place for telecommunications providers and their customers. If this legislation is passed many Kansas telecommunications customers would see a large tax increase on their invoices which bear an already high level of taxation. And, this bill would increase further the onerous administrative filing requirements imposed on telecommunications providers.

Kansas tax laws currently levy high industry-specific taxes on telecommunications services which are paid by our customers and your constituents. Some states have begun the process of reforming their telecommunications tax laws, but House Bill No. 2902 does nothing to reduce the already high level of telecommunications taxation. Two recent studies indicate Kansas taxpayers pay $73 million more in excess telecommunications taxes relative to taxes generally imposed on other industries and their customers.*

Business and residential customers are becoming more dependent on communications services provided over networks like Sprint's. The burdens and complexities imposed by House Bill No. 2902 will have a substantial impact on the growth of the telecommunications infrastructure that is critical to the expansion of e-commerce as well as traditional Kansas businesses.

House Bill No. 2902 is a step backward for Kansas telecommunications tax policy. Our goal should be a simpler and more equitable tax structure to foster the continued development of advanced telecommunications services to provide Kansans with increased access to many new business, medical and educational opportunities over the telecommunications network.

We respectfully urge the Committee to defeat HB 2902.

*State Study and Report on Telecommunications Taxation by the Council on State Taxation, 2001; and Telecommunications Taxes: 50 State Estimates of Excess State and Local Tax Burdens, November 2001, Ernst and Young, LLP.