

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:40 a.m. on February 19, 2002, in Room 519-S of the Capitol.

All members were present except: Senator Taddiken

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

Conferees appearing before the committee: Richard Cram, Kansas Department of Revenue
Marlee Carpenter, Kansas Chamber of Commerce & Industry
Randy Allen, Kansas Association of Counties
Don Moler, League of Kansas Municipalities
Allie Devine, Kansas Livestock Association
Leslie Kaufman, Kansas Farm Bureau

Others attending: See attached list.

The minutes of the February 13, 2002, meeting were approved.

SB 540—Participation by the Department of Revenue in the Streamlined Sales Tax Project

Richard Cram, Kansas Department of Revenue, noted that the goal of the Streamlined Sales Tax Project (SSTP) is to make administration of state sales and use tax laws more uniform, efficient, and less burdensome on multi-state merchants. He further noted that the legislatures of participating states are in the process of adopting the Streamlined Sales Tax Act and making the legislative changes necessary to conform to the uniformity requirements of the Streamlined Sales Tax Agreement. He explained that **SB 540** provides that the Department can become a signatory to the Agreement at such time as the legislature takes further action to bring Kansas' sales and use tax laws into compliance with the uniformity requirements of the Agreement. The bill also authorizes the Department to continue participation in the SSTP. To stimulate increased awareness of the SSTP, the bill includes a provision authorizing the president and minority leader of the Senate and the speaker and minority leader of the House to appoint a person to represent Kansas at implementing state meetings. Mr. Cram emphasized that, without the passage of **SB 540**, Kansas will not have voting rights in the further development and revision of the Agreement and cannot participate in implementing state meetings. (Attachment 1)

Marlee Carpenter, Kansas Chamber of Commerce and Industry (KCCI), testified in support of the SSTP and **SB 540**. She pointed out that the recommendations for sales tax simplification made by the SSTP are not automatic but must be passed by the Legislature. In addition, she noted that the SSTP will not impose new taxes on Kansans but will only enforce tax laws already in effect. As to concerns regarding uniform definitions, she noted that uniform definitions being drafted are not intended to lock states in a box as to what is exempt from sales tax but rather to clarify what is exempt if a state determines that a sales tax should be charged on a certain item such as food. She noted that, although KCCI supports the SSTP and **SB 540**, it may not support all proposals that come out of the project. (Attachment 2)

Randy Allen, Kansas Association of Counties, testified in support of **SB 540**, noting that local option sales taxes are an important source of revenue for county governments. As to taxation of sales transacted over the Internet, the Association has held that taxation of sales should be equal whether a sale takes place over the counter, by mail order, or by the Internet. Mr. Allen commented that, without a new system to simplify the collection of sales and use taxes, the tax burden will inevitably be shifted to property taxpayers. The Association supports the bill because it is important to Kansas and its local governments that the Department of Revenue be involved in the process of streamlining and simplification. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:40 a.m. on February 19, 2002, in Room 519-S of the Capitol.

Don Moler, League of Kansas Municipalities, testified in support of **SB 540**. In his opinion, the streamlined sales tax initiative is an important first step in looking at taxation of Internet sales. He noted that the League remains steadfast in its belief that there must be a system in place which is equitable for merchants who operate from brick and mortar locations as well as those who operate via the Internet. He echoed Ms. Carpenter's observation that the streamlined sales tax initiative does not involve a new tax. (Attachment 4)

Senator Corbin called the Committee's attention to written testimony in support of **SB 540** submitted by Mike Taylor, City of Wichita. Mr. Taylor states. "The Kansas Legislature and the Department of Revenue should continue to take part in efforts which will lead to the fair and equal taxation of commerce, whether that transaction takes place on Main Street or over the Internet." (Attachment 5)

There being no others wishing to testify, the hearing on **SB 540** closed.

Senator Donovan moved to recommend SB 540 favorably for passage, seconded by Senator Praeger. The motion carried.

SB 553--Property taxation; submission of report concerning land devoted to agricultural use valuation procedures

Allie Devine, Kansas Livestock Association, testified in support of **SB 553**, which would provide an educational tool for the taxpayer. She noted that many changes to the use value methodology have been proposed and implemented in the past eight years, and some changes are well known to the agricultural taxpayer and others are not. In addition, she noted that the report will serve as a history of the program. For the purpose of clarification, she recommended that the bill be amended on line 19 by striking "during the next preceding eight years" and inserting after "implemented," "within the past ten years, when the change was made." (Attachment 6)

Leslie Kaufman, Kansas Farm Bureau, testified in support of **SB 553**. She quoted the two policy statements regarding use value appraisal adopted by Kansas Farm Bureau delegates at its annual meeting as follows:

- The Division of Property Valuation, Kansas Department of Revenue, must ensure that data, formulas and resulting calculations for determining the use value of agricultural land are valid; and
- The Department of Revenue is encouraged to properly utilize the system in order to assure equity and stability in valuation of agricultural land.

The Bureau believes the report required by **SB 553** will provide information that will be helpful in determining whether the Department is meeting the policy points. (Attachment 7)

There being no others wishing to testify, the hearing on **SB 553** was closed.

Senator Corbin opened a brief discussion of a previously heard bill, **SB 424**, which was requested by the Kansas Department of Revenue to allow the Secretary to abate or compromise uncollectible drug taxes.

Senator Donovan moved to report SB 424 favorably for passage, seconded by Senator Goodwin. The motion carried.

The meeting was adjourned at 11:05 a.m.

The next meeting is scheduled for February 20, 2002.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: February 19, 2002

| NAME | REPRESENTING |
|----------------------|---------------------------------------|
| Randy Allen | Ks. Assn. of Counties |
| Don Molen | LKM |
| Christi Stewart | KS Motor Carriers Assoc. |
| Leann Williams | KS Motor Carriers Assoc. |
| Jack Glaves | Dup - P/T + K-M |
| John Armbrust | Manhattan Area Chamber of Commerce |
| Davell Edie | Manhattan Area Chamber of Commerce |
| Terry Olson | Manhattan Chamber of Commerce |
| Tom Bruno | GBBA |
| Rebecca Reed | KS Dept of Ag |
| Kyle Kewler | DOB |
| Max Peterson | Ks Taxpayers Network |
| Leslie Kaufman | Ks Farm Bureau |
| Marketa Jean Smith | KNHA |
| Mailee Carpenter | KCOI |
| Bill Brady | Ks Govt Consulting |
| Ashley Sheward | Johnson County |
| | |
| | |

Office of Policy & Research
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Topeka, KS 66625



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Office of Policy & Research

February 19, 2002

To: Senator David Corbin, Chair
Senate Committee on Assessment and Taxation

From: Richard Cram

Re: Department of Revenue's Testimony in Support of Senate Bill 540

Overview of Streamlined Sales Tax Project

The Streamlined Sales Tax Project (SSTP) responds to the concerns of merchants about the difficulties in dealing with different States' sales tax laws, and to State and local government concerns about loss of revenues from remote retail sales by mail-order, telephone and the Internet. The SSTP's goal is to make administration of State sales and use tax laws more uniform, efficient, and less burdensome on multi-state merchants. The SSTP seeks to provide incentives for multi-state merchants to voluntarily collect and remit use tax on sales to customers in States where they may not have any physical presence or legal obligation to collect and remit. The SSTP enjoys the strong support and active involvement of 34 participating States, as well as the National Governors Association (NGA), National Conference of State Legislatures (NCSL), Federation of Tax Administrators (FTA) and the Multistate Tax Commission (MTC). More information on this Project is available by visiting the following website: www.streamlinedsalestax.org.

The Streamlined Sales Tax Act ("Act") is the legislative authorization for a State to join the Streamlined Sales Tax Agreement ("Agreement") after the State has adopted the sales/use tax administrative uniformity requirements contained in the Agreement. When at least 5 States have adopted the Act and joined the Agreement, it can be implemented, and collection and reporting of sales or use tax on remote sales from retailers volunteering to participate in the SSTP commences. The legislatures of the participating States are in the process of adopting the Streamlined Sales Tax Act ("Act") and making the legislative changes necessary to conform to the uniformity requirements of the Agreement ("Agreement"). According to the January 28, 2002 report on the SSTP website, 21 States and the District of Columbia have passed the Act and are now considered Implementing States. SSTP legislation has been introduced and is pending in 10 more States (including Kansas).

The SSTP will meet next in Dallas, Texas on March 14-15, 2002, to continue further development of uniform definitions and various issue papers for recommendation to the "Implementing States" (those States that have passed some version of the Streamlined Sales Tax Act). The Implementing States will be meeting on March 16 in Dallas. Kansas cannot join this group until Senate Bill 540 is passed. The Implementing States' goal is to finalize any changes

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to the Agreement by mid-2002, so that participating States' legislatures will have time to consider the sales tax statutory changes needed to join the Agreement by the Spring of 2003.

Senate Bill 540

Senate Bill 540 is a modified, abbreviated version of the Act and provides that the department of revenue can become a signatory to the Streamlined Sales Tax Agreement at such time as the legislature takes further action to bring Kansas' sales and use tax laws into compliance with the uniformity requirements of the Agreement. Senate Bill 540 further authorizes the department to continue participation in the Streamlined Sales Tax Project, identify the changes that need to be made to Kansas' sales and use tax laws that would be required to comply with the Agreement, and take such other actions needed to prepare Kansas to enter into the Agreement. Senate Bill 540 is similar to Senate Bill 252, but adds a provision authorizing the president and minority leader of the senate and the speaker and minority leader of the house to each appoint a person also authorized to represent Kansas at Implementing States meetings, in addition to the secretary of revenue or the secretary's designee. This should encourage increased involvement in and awareness of the SSTP by the Kansas legislature.

The department already has authority under prior legislation, K.S.A. 2001 Supp. 79-3655, to participate in the SSTP. However, those States that have not yet adopted the Act have no voting rights. Because Senate Bill 252 was not enacted this past session, Kansas does not have voting rights in the further development and revision of the Agreement, and cannot participate in any Implementing State meetings. The department strongly urges the passage and enactment of Senate Bill 540 during this session in order for Kansas to become an Implementing State and actively participate in the development and molding of the Agreement.

Conclusion

The Kansas Legislature needs to pass Senate Bill 540, so that Kansas can become an Implementing State in the SSTP and participate in shaping the developing contours of the Agreement to Kansas' benefit.

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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SB 540

February 19, 2002

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Committee on Assessment and Taxation

by

Marlee Carpenter

Director of Taxation

Executive Director of the Kansas Retail Council

Mr. Chairman and members of the Committee:

My name is Marlee Carpenter and I am here representing both the Kansas Retail Council and the Kansas Chamber of Commerce and Industry. I am here in support of the Streamlined Sales Tax Project (SSTP) and SB 540.

The current system for collecting and remitting sales tax is very burdensome and complex. Multi-state companies must file sales tax remittance forms in every state they operate and in some

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 2,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 48% of KCCI's members having less than 25 employees, and 78% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

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cases, every local jurisdiction. A streamlined system would simplify the process of sales tax collection and remittance, increase compliance with sales tax laws, and bring increased revenue to the state.

Kansas' retailers also support this project. Retailers feel that they do not have a level playing field to operate on. Businesses with nexus in the state, a physical presence, are required to collect and remit sales tax. Vendors that do not have a physical presence are not. Some large retail companies are creating separate Internet entities that do not have a presence in many states, thus getting around the requirements of collecting and remitting sales tax. Additionally, large retailers with physical presence in only a handful of states, do not have to charge sales tax and as a result, their product is sold at a lower price.

Another element to the SSTP that we support is the enactment of a vendor or administrative allowance. Retailers in Kansas are required to collect and remit sales tax to the Department of Revenue without compensation. They are not reimbursed for any of their expenses. Kansas' retailers believe that they should be compensated for this. Businesses that collect and remit sales tax, retailers, telecommunications companies and manufacturers alike, are optimistic that this is part of the SSTP and may be enacted in Kansas.

Let me now address several concerns that have been expressed about this project. First, recommendations for sales tax simplification made by the SSTP will not be automatically implemented at the state level. The Kansas Legislature must pass all proposals and the Governor must sign all passed bills into law. The SSTP has no way around this. It must go through this body before it is enacted in the state.

Second, the SSTP will not impose new taxes on Kansans. Sales and use tax laws have been on the books for many years. Today, if a person buys something out of state and does not pay sales tax on that item, they are required by Kansas law to pay a use tax when they bring it back into the state. Many of us who order products over the Internet or through a catalogue and do not pay sales tax on the item should remit a use tax to the Kansas Department of Revenue. There are very few

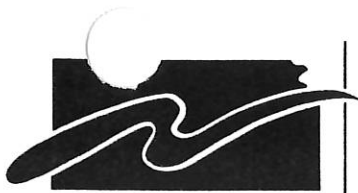
pe who do this. In effect, enactment of the SSTP in Kansas would only be enforcing a law that is already on the books.

Finally, you will hear concerns about uniform definitions. Uniform definitions are being drafted not to lock states into a box as to what is exempt from sales tax or not, but to clarify what is exempt if a state determines that sales tax should not be charged on a certain item. For example, if a state exempts food from sales tax, the SSTP needs to know how that state is defining food. Are marshmallows a food or candy—are they exempt or not? As these definitions are being formed, it is vitally important for Kansas to have a vote on these issues.

However, one caveat should be made, KCCI's support for the Streamlined Sales Tax Project should not be construed as support for all the proposals that come out of the project. We strongly support sales tax simplification, and uniform sales and use tax collection. However, as different proposals are drafted, KCCI may have some concerns.

KCCI supports SB 540. The State of Kansas' ability to participate in this process is important. It is important for companies domiciled in Kansas and companies that operate in the state to have a voice at national meetings. Additionally, we support the addition of delegates appointed by leadership of both the Senate and the House. We feel that the addition of legislators to this process will enhance legislative understanding. Those delegates can carry an important message from Kansas to those involved in the Streamlined Sales Tax Project at the national level.

Thank you for your time and I will be happy to answer any questions the committee may have.



KANSAS
ASSOCIATION OF
COUNTIES

TESTIMONY

concerning Senate Bill No. 540

re: Streamlined Sales Tax Administration
Senate Assessment and Taxation Committee

Presented by Randy Allen, Executive Director
Kansas Association of Counties

February 19, 2002

Mr. Chairman and members of the committee, my name is Randy Allen, Executive Director of the Kansas Association of Counties. I am here today to express support for Senate Bill No. 540, authorizing the Department of Revenue to enter into an agreement with other states to provide a multi-state, voluntary, streamlined system for sales and use tax collection and administration.

Local option sales taxes are an important source of revenue for county governments. 75 counties currently impose local-option, voter-approved sales taxes independent of any local-option sales taxes imposed by cities. In FY 00, countywide sales taxes generated \$309 million. As an estimate, counties retained about 50%, or about \$150 million of countywide sales tax revenue, sharing the balances with cities. By contrast, Kansas counties levied \$606.4 million in property taxes to finance their 2000 budgets.

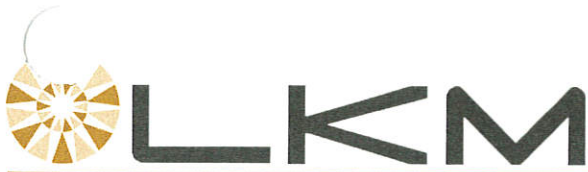
From the onset of the discussions about taxation of sales transacted over the internet, the Kansas Association of Counties has held that taxation of sales should be equal whether a sale takes place over the counter, by mail order, or by the internet. Without a new system to simplify the collection of sales and use taxes, the sales tax continues to hemorrhage as a reliable revenue source and the tax burden is inevitably shifted to property taxpayers. That is why we have been supportive of the Kansas Department of Revenue's position of leadership in simplifying the sales tax system, and that is why we have continually supported various versions of this bill (including SB 252 in the 2001 session). This is simply too important to Kansas and its local governments for the Department of Revenue not to be very involved and participating in the process of streamlining and simplification.

We urge the committee to report SB 540 favorably for passage.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randy Allen or Judy Moler by calling (785) 272-2585.

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Senate Assessment & Taxation
2-19-02
Attachment 3



League of Kansas Municipalities

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

TO: Special Committee on Assessment & Taxation
FROM: Don Moler, Executive Director
DATE: February 19, 2002
RE: Support for Streamlined Sales Tax Initiative – SB 540

First I would like to thank you very much for the opportunity to testify today regarding the Streamlined Sales Tax Initiative. The League has been involved since the beginning in this initiative and I remain part of a working group which was formed at the time the initiative was being considered and it remains in place to this day. We have spent many hours reviewing various aspects of this issue and I remain convinced that the Streamlined Sales Tax Initiative is an important first step in looking at taxation of Internet sales.

I think it is important for all of us to remember how quickly the Internet has come upon us and the fact that prior to 1995 there were essentially no commercial sales being made over the Internet. Today I believe we see an exponential growth in trade and sales over the Internet and I would expect, and I believe that most observers would agree, that the size of this trade will continue unabated for the foreseeable future. The League remains steadfast in its belief that we must have a system which is equitable for merchants who operate from brick and mortar locations as well as those who operate via the Internet. The League position on Internet sales, adopted by our Convention of Voting Delegates October 9, 2001, reads as follows: ***“Internet Commerce. We support a sales tax system that is equitable for brick and mortar businesses and maintains an adequate source of tax revenue for cities.”***

What we mean by this statement is the simple fact that it is not equitable nor a level playing field for in-state merchants to collect sales tax while out of state merchants, selling via the Internet, are able to sell similar products without sales tax consequences. We believe very strongly that the streamlined sales tax initiative, courageously undertaken by the State of Kansas three years ago, remains a valiant first step in moving towards equitable sales taxation for all Kansans. We do not believe it to be a new tax and fully support the continuation of the Streamlined Sales Tax Initiative in Kansas. Thank you very much for allowing the League to testify today on this very important issue.



TESTIMONY

City of Wichita
Mike Taylor, Government Relations Director
455 N Main, Wichita, KS. 67202
Phone: 316.268.4351 Fax: 316.268.4519
Taylor_m@ci.wichita.ks.us

Senate Bill 540 Streamline Sales Tax Project

**Delivered February 19, 2002
Senate Assessment and Tax Committee**

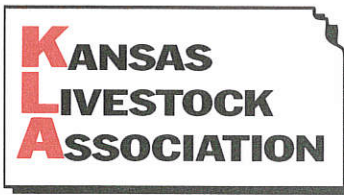
The City of Wichita supports legislation which will result in State and Local sales taxes being applied to Internet sales. Continued exemption of Internet transactions from the sales tax will have a dramatic impact on state and local sales tax structures and continue to hurt Main Street businesses.

Charging sales tax for online purchases and catalog sales does not represent new taxes. These taxes are already charged on over-the-counter sales and even on some online purchases. It is imperative that our Kansas businesses be protected from unfair competition. Our local merchants should not be imperiled by an arbitrary tax subsidy for electronic commerce.

Sales taxes are essential to providing safe-neighborhoods, good schools, well-paved roads, attractive and safe parks and recreation, good libraries and an overall quality of life that sustains a healthy local economy with good jobs and a promising future. Our tax structure should work the same for everyone in the community, or some will bear an unfair burden to offset the exemptions given to others via electronic commerce.

The Kansas Legislature and Department of Revenue should continue to take part in efforts which will lead to the fair and equal taxation of commerce, whether that transaction takes place on Main Street or over the Internet.

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Attachment 5*



Since 1894

Testimony

To: Senate Committee on Assessment and Taxation

From: Allie Devine, KLA Research and Legal Affairs

Subject: SB 553

Date: February 19, 2002

Good morning. My name is Allie Devine, Director of Research and Legal Affairs for the Kansas Livestock Association. KLA is a nonprofit trade association that represents several aspects of the livestock industry including cow-calf producers, seedstock producers, stocker operators, and commercial cattle feeders.

KLA members have a keen interest in property taxes in Kansas. KLA has been active on the Secretary of Revenue's Agricultural Advisory Board, Chaired by Senator Lee since its beginning. Many changes to the use value methodology have been proposed and implemented in the past eight years. Some changes are well known to the agricultural taxpayer and others are not. We strongly support SB 553 as a means of recording the changes that have taken place and as an educational tool for the taxpayer.

During the summer meeting of the Special Committee on Assessment and Taxation there was a review of the IOAA report. This report recommended that the Department of Revenue prepare educational materials to assist taxpayers in understanding the methods of valuation of agricultural properties. The report required in SB 553 is a first step in that process. Legislators and taxpayers will use this document to describe what changes have taken place and the use value methodology.

In addition, such a report will serve as the "history" of the program. This administration will be leaving office in approximately ten months, and this report will serve as a status report of what has taken place and why. KLA and many other agricultural organizations have spent hours reviewing proposed changes in the use value methodology. We do not want to reinvent the wheel!

For clarity, we recommend that the committee strike, "during the next preceding eight years, on line 19 and insert after "implemented" ", within the past 10 years, when the change was made," We believe this would provide the historical references needed to fully understand the current system.

Finally, thank you for considering this report. We think this is a simple request and one that needs to be done.

Senate Assessment & Taxation



Kansas Farm Bureau

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Public Policy Statement

SENATE COMMITTEE ON ASSESSMENT & TAXATION

RE: SB 553 – requiring the director of the property valuation division to submit a report regarding interpretation and implementation of use value appraisal.

**February 19, 2002
Topeka, Kansas**

**Presented by:
Leslie Kaufman, Associate Director
Public Policy Division**

Chairman Corbin and members of the Senate Assessment and Taxation Committee, thank you for the opportunity to appear today in support of SB 553, which requires the director of the property valuation division of the Kansas Dept. of Revenue to submit a report regarding the interpretation and implementation of use value statutes.

As farmers and ranchers, we are members are intrinsically interested with the use value appraisal system in Kansas. As an organization, we are extremely concerned with the procedures utilized to implement the system and are pleased to hold a seat on the Secretary of Revenue's Use Value Advisory Committee.

Kansas Farm Bureau members strongly support use value appraisal as a means for determining the taxable value of agricultural land. Basing the valuation on the land's inherent ability to produce is a sound principal.

The voting delegates at the 83rd Annual Meeting of Kansas Farm Bureau reaffirmed existing language and adopted some new language regarding use value appraisal. Two policy statements are of significant relevance to the bill before you:

- The Division of Property Valuation, Kansas Dept. of Revenue, must ensure that data, formulas and resulting calculations for determining the use value of agricultural land are valid; and
- The Dept. of Revenue is encouraged to properly utilize the system in order to assure equity and stability in valuation of agricultural land.

We believe the report required by SB 553 will help provide information that is helpful in determining whether the department is meeting the above policy points. As such, we respectfully request the committee act favorably on the bill. 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.

*Senate Assessment & Taxation
2-19-02 Attachment 7*