

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Vice-Chairman David Huff at 9:00 a.m. on February 13, 2003 in Room 519-S of the Capitol.

All members were present except: Representative Flora

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Gordon Self, Office of the Revisor
Carol Doel, Committee Secretary

Conferees appearing before the committee: Representative Dan Johnson
Dan Thiessen, Former Senator, Farmer
Leslie Kaufman, Kansas Farm Bureau
Steve Baccus, Kansas Farm Bureau
Gay Beth Moore, Kansas Farm Bureau
Mark Burghart, Southwestern Association
Duane Lanter, Farmer
John Thaemert, Kansas Association of Wheat Growers
Mike Beam, Kansas Livestock Association
Doug Wareham, Kansas Feed & Grain
Martha Smith, Kansas Manufactured Homes
Chris Wilson, Dairy Association
Greg Foley, Acting Secretary of Agriculture

Others attending: See attached sheet

Vice-Chairman Huff requested introduction of a bill which would clarify the 79-201w exemption for commercial property.

With no objections this will be introduced.

Information requested from Southwestern Bell on **HB 2077** was distributed for review by the committee. (Attachment 1)

Vice-Chairman Huff advised the committee that the fiscal note on **HB 2096** for FY 2004 was \$153,330,000 and opened the meeting for hearings.

Hearing no proponents on the bill, Vice-Chairman Huff accepted the testimony of Representative Dan Johnson who requested keeping the tax exemptions on farm equipment and supplies to avoid increased suffering of the farmers and compounding the problems of implement dealers as well as feed and fertilizer suppliers. (Attachment 2)

Dan Thiessen, farmer/stockman and former Senator submitted testimony in opposition to **HB 2096**. In his testimony, Mr. Thiessen voices the opinion that farmers and ranchers are paying by far the highest amount of property taxes on the lowest net income and there is no way the Kansas farmer can pass on the cost of taxes in their production. His testimony also showed the latest KSU Farm Management Association records show average Kansas farm income dropping from \$37,162 to \$10,147. (Attachment 3)

Next to appear in opposition of **HB 2096** was Leslie Kaufman, State Director, Kansas Farm Bureau Governmental Relations. KFB voiced the opinion that Kansas must have a tax and regulatory structure that is favorable for keeping families on the farm and does not further depress an already sluggish economy or any single sector of the economy. If agricultural operations fail, the rural economy and rural communities lose. (Attachment 4)

Testifying in opposition to **HB 2096** was Steve Baccus, President of Kansas Farm Bureau. The testimony

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on February 13, 2003 in Room 519-S of the Capitol.

presented by Mr. Baccus expressed concern for the Kansas farmer stating that to try to balance the State's budget on the backs of the Kansas farmer, who is some parts of our state are in their fourth year of drought, is not good business. To increase the expenses of the Kansas farmer defies logic and Kansas common sense. ([Attachment 5](#))

Gay Beth Moore, farmer/rancher from the NE corner of Haskell County in Southwest Kansas gave testimony in opposition to **HB 2096**. Ms. Moore stated that she was aware that the state has economic stress, but so do agricultural producers and to take away the existing exemptions would only depress our economy further. ([Attachment 6](#))

Mark A. Burghart, Legislative Counsel, Southwestern Association, gave testimony in opposition to **HB 2096**. It is Southwestern's position that the current sales tax exemption for farm machinery should be maintained fully. To remove the sales tax exemption would make Kansas dealers non-competitive with dealers in other states. ([Attachment 7](#))

Testimony in opposition to **HB 2096** was delivered by Duane Lanter, a farmer from Lancaster, Kansas. In his opinion the agricultural business sector is already suffering from the strain on farmers, and we need to keep competitive with other states in order to set the stage for a strong economic recovery. ([Attachment 8](#))

The Kansas Association of Wheat Growers, was represented by John C. Thaemert, President of the organization testifying in opposition to **HB 2096**. In his testimony, Mr. Thaemert pointed out that farmers cannot pass price increases as other industries do, there are few alternatives for farmers to reduce expenses, they also compete in a world market, and farming is risky both physically and financially, therefore, he implored that the current and longstanding sales tax exemption remain. ([Attachment 9](#))

Next to come before the committee in opposition of **HB 2096**, was Mike Beam, Sr. Vice President of the Kansas Livestock Association. Voiced in their testimony, is the belief that repeal of the sales tax exemption on livestock sales would cause a negative impact to most of rural Kansas. ([Attachment 10](#))

Doug Wareham of the KGFA (Kansas Grain & Feed Association) and KARA (Kansas Agribusiness Retailers Association) presented testimony in opposition to **HB 2096**. They oppose the establishment of any new taxes which would be a disincentive for economic development in the state by discouraging new businesses from expanding. ([Attachment 11](#))

The final conferee to appear before the committee in opposition to **HB 2096** was Carol Jordon giving testimony for Acting Secretary of Agriculture, Greg A. Foley. This testimony also voiced the opinion that eliminating tax exemptions for the inputs to Kansas agriculture would have a devastating short and long-run economic effect. ([Attachment 12](#))

Presenting written testimony in opposition to **HB 2096** was Kansas Cooperative Council ([Attachment 13](#)); Dana Eikenberry, semi-retired farmer ([Attachment 14](#)); Ken Graves, farmer and stockman from Labette County in Southeast Kansas ([Attachment 15](#)); Wanda Kinney, Osage County Farmer-Rancher([Attachment 16](#)); Greg Krissek of the Kansas Corn Growers Association([Attachment 17](#)); Leslie Kalufman, President Kansas Agricultural Alliance([Attachment 18](#)); Kansas Agricultural Aviation Association ([Attachment 19](#)); and Cowley County Economic Development Agency ([Attachment 20](#))

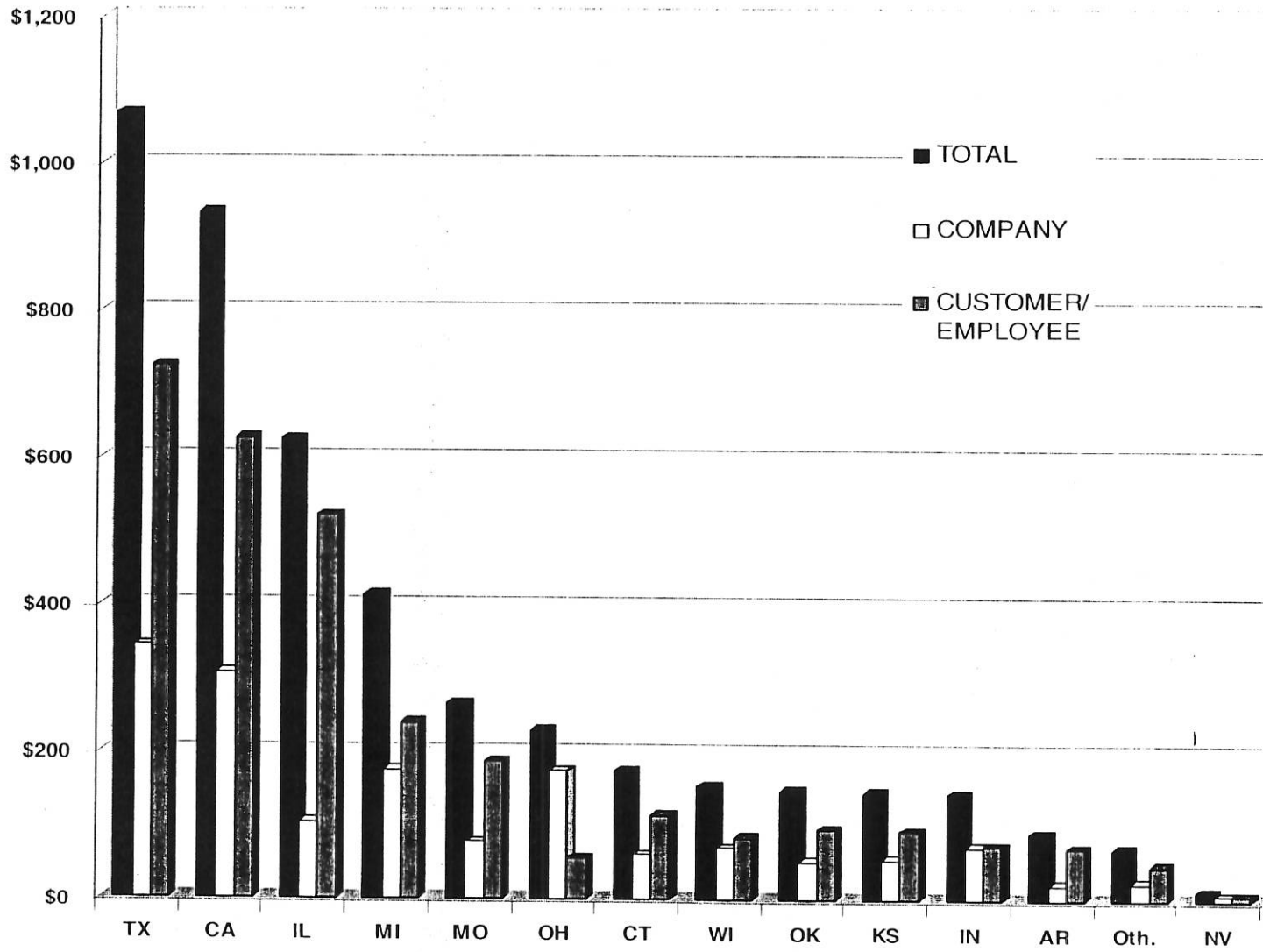
With no further opponents and no further business before the committee the meeting was adjourned by Vice Chairman Huff at 10:30 a.m.

GUEST LIST

DATE Feb. 13-2003

NAME	REPRESENTING
Dag Wareham	KCFAT KARA
Jeanne Wedd	KFB
Bon Stoss	KFB
Ron Rice	KFB
Trudy Rice	KFB
Alvin JAO KROEKER	KFB
Susan Griffin	KFB
Stevie Magnuson	KFB
Roger Guffin	KFB
Phil Boller	KFB
Troy Wedel	KFB
Mark Toews	KFB
Larry Steinbrook	KFB
Bob Zeller	KFB
Samuel Manjat	KFB
Nancy Claborn	KFB
Frank Claborn	KFB
Opal Leathurstos	KFB
Jim Schmitt	KFB
William Roth	KFB
How Perkins	KFB
Leslie Kaufman	KFB
Jerry McReynolds	KFB

SBC Communications & Subsidiaries
2001 Company vs Customer/Employee Paid Taxes
 (amounts in millions)



House Taxation
 Attachment /
 Date 2/13-03

DAN JOHNSON
REPRESENTATIVE, 110TH DISTRICT
BARTON, ELLIS, ROOKS, RUSH
AND RUSSELL COUNTIES
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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

CHAIRMAN: AGRICULTURE
MEMBER: BUSINESS, COMMERCE AND LABOR
ENVIRONMENT

HOUSE TAXATION COMMITTEE

RE: HB 2096 – Eliminating certain agricultural related sales tax exemptions
February 13, 2003
Topeka, Kansas
Presented by
Representative Dan Johnson

Mr. Chairman and members of the committee, I appear before you today in opposition to HB 2096. I am asking for these exemptions to remain in place not only to benefit our farmers and ranchers but to benefit our small rural communities as well.

I know you are aware of the poor economy because of the drought. Many of our farmers and ranchers are having trouble paying their bills because they have not been able to raise a crop, but they still have bills to pay.

If they must pay this added tax, it will increase the suffering. Many will choose to purchase their equipment and supplies in other states. This will compound the problem because implement dealers and feed and fertilizer sales will be decreased.

I respectfully request you keep the sales tax exemptions for farm equipment and supplies.

Mr. Chairman, I will be glad to stand for questions.

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Senator Dan Thiessen
Personal Statement Regarding HB2096

Mr Chairman and members of this committee. Thank you for this opportunity to present comments regarding the elimination of sales tax exemptions in this bill.

I am Dan Thiessen, former stockman and former, 12 year member of this tax committee, and served on many other committees ending with 4 years as chairman of the senate tax committee. The time period ran from 1969 to 1992.

During these years Legislators and research personnel dedicated extensive, intensive hours of study of the Kansas tax system, in order to ensure the Kansas tax policy would be constitutional, fair, equitable, and competitive with other states while also trying to attract industrial development.

I believe you have the hardest job assignment in this Building, maybe the state. To tax and be liked, is like loving, and trying to be wise, this is not given to man.

In these 24 years I had the opportunity to listen to countless taxpayers, CEO's industry tax accountants, plant managers and industrialists. They always asked about Kansas tax laws pertaining to their particular industry when looking for a plant location but then almost without exception they would ask about Kansas general tax policy for other industries, workers and etc. Does Kansas have a stable tax policy? This question is easy to understand; they have to want to be able to count on a stable tax policy. They are not interested in locating in a state that has a history of jumping tax liabilities around, they might be the next target or just like this proposed bill HB2096 would also do to farmers and ranchers. Tax policies and actions can have far reaching effects for all the people of Kansas.

In the early days of this state a high percentage of the wealth was in property. Today this has basically reversed. As studies show, farmers and ranchers are paying by far the highest amount of property taxes on the lowest net income. There is no way farmers and ranchers can pass on their cost of taxes in the price of their production, they have to deal in world markets.

Farmers and ranchers are 6.5% of state population. They receive only 3.1% of net income in Kansas and pay 13.18% of all Kansas property taxes. To have a fair and uniform tax policy we must count the total tax liability.

The main issue, sales taxes, Kansas State Extension Service reports show farmers and ranchers paid a total in sales taxes in 1988 of \$28,727,860. at a 5.25% rate. Not all equipment needed on a farm is classed as farm machinery therefore not exempt. They also pay sales tax on all cost of living items for a family like everyone else.

When cities and counties were permitted to levy local sales taxes, At the start the imposition of this tax could be put to a vote of the people in a city! Most farmers and

ranchers could not vote because they didn't live in the city. As farmers and ranchers pay these local sales taxes, the revenue goes to reduce city property taxes.

In the December 1990 USDA economic report it stated the United States lost an average of 2100 farms a week for the last 5 years and they also predicted this to continue for the next 5 years, predicted 10% drop in US farm income in 1991 and a 13% drop in our wheat exports. This would reduce our price 25%. We export 60% of our production. For 1987, 1988, and 1989 farm income dropped 33%, while Kansas personal income increased 5.85%. In 1990 over half of the farmers income came from "off the farm" jobs. The latest KSU Farm Management Association records show average Kansas farm income dropping from \$37,162 to \$10,147.

In 2001 the average age of the Kansas farmer and rancher was 55. This means that in the next 10-15 years there will have to be a huge turn over in the operators of our farms and ranches replacing the older operators.

I don't think a single one of us, is ready to tell the present operators of our farms and ranchers and especially the young operators already starting to take over operations. We definitely need you on Kansas farms and ranches and there is just one thing in Kansas you will have to pay a privilege tax, that we call sales tax on all the items it takes to operate your farming and ranching business. Many other states do not have this tax but we sure hope you will stay in Kansas.

Thank you for your time this morning.



Kansas Farm Bureau

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PUBLIC POLICY STATEMENT

HOUSE COMMITTEE TAXATION

**Re: HB 2096 -- repealing sales tax exemptions
related to agriculture.**

**February 13, 2003
Topeka, Kansas**

**Presented by:
Leslie J. Kaufman, State Director
KFB Governmental Relations**

Mr. Chairman and members of the Committee, thank you for the opportunity to present comments regarding the elimination of agricultural related sales tax exemptions. I am Leslie Kaufman, the State Director of Governmental Relations for Kansas Farm Bureau (KFB). As I am sure you are aware, KFB is the state's largest general farm organization. We represent agricultural producers, operating diverse types of agricultural production, through the 105 county Farm Bureau Associations across Kansas. I appear before you on behalf of Kansas Farm Bureau in opposition to HB 2096.

My testimony today will focus primarily on our Kansas Farm Bureau policy statements related to the bill before you today. There are several other Farm Bureau members on your conferee list, including our President, Steve Baccus, who will describe how elimination of agricultural sales tax exemptions impacts actual farmers and ranchers.

Farm Bureau members have strong policy on a wide variety of tax issues. Resolutions language related to sales taxes includes:

- *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;*

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- *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;*
- *The sales tax should be applied at the retail level; and*
- ***Existing exemptions should remain in place.***

These are strong policy statements. They reflect our members' firm belief in preserving tax exemptions. As such, removal of sales tax exemptions would conflict with our member-adopted policy.

Currently, there is a lot of discussion in various arenas focusing on the need for rural economic development. *Rural revitalization must be a high priority for private citizens and all levels of government. We support initiatives that enhance the economic, social and cultural climate for farm and rural families and improve the general potential for rural communities to attract and retain people, business and industry.* Sound tax policy helps ensure there is an economic base upon which to build in rural areas.

Agriculture and related enterprises are the backbone of the rural economy. As such, the continued viability of many rural communities is dependant on the survival of production agriculture in this state. Kansas must have a tax and regulatory structure that is favorable for keeping families on the farm and does not further depress an already sluggish economy or any single sector of the economy. If agricultural operations fail, the rural economy and rural communities lose.

We appreciate this opportunity to briefly convey some of our policy positions that are the basis for our opposition to HB 2096 and respectfully ask the committee to retain agricultural related sales tax exemptions. Thank you.

Leslie Kaufman, State Director
KFB Governmental Relations
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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.



Office of the President

PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

Re: HB 2096; repealing sales tax exemptions on farm machinery and equipment, livestock and inputs for soil conservation

**February 11, 2003
Topeka, Kansas**

**Presented by:
Steve Baccus, President
Kansas Farm Bureau**

Mr. Chairman and members of the Committee, I appreciate the opportunity to speak today. I am Steve Baccus, President of the Kansas Farm Bureau, the state's largest general farm organization. More than 41,000 farmers and ranchers are members of the 105 county Farm Bureaus in Kansas. I appear before you on behalf of our members, and as a farmer from Minneapolis, Kansas, in opposition to HB 2096.

I run a medium-sized, no-till family grain farm in northcentral Kansas. On this one farm, potential taxes imposed via HB 2096, and bills you have heard previously, would increase my sales tax liability by nearly \$20,000. That is an unconscionable burden to place on the Kansas farmer during these economic times.

American agriculture's competitive advantage is technology. That is the way American farms strive to overcome the economics of a global marketplace, in which many countries have far more competitive land, labor, and input costs. The cornerstone of the Kansas economy is agriculture, and Kansas farmers and ranchers need a policy environment that enables them to adopt new technologies, to enhance stewardship,



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conserve water, reduce input costs – be they land, labor, or supplies – and continually improve the management of the farm.

Nearly one-quarter of Kansas farmers use no-till practices, requiring different equipment, management, and inputs than used just ten years ago. Increased tax liabilities on equipment and inputs would raise my cost of production in a global marketplace, where my price is set. The tax policy of this state, in good times and bad, should reflect an environment that encourages production agriculture, business and industry to adopt technologies, grow, and adapt to the needs of the marketplace. The current exemptions are sound policy that do just that. Kansas must have a tax and regulatory structure favorable to keeping families on the farm, and mainstreet businesses serving rural communities.

The sales tax exemptions you are reviewing have benefits beyond the farm gate. I can tell you, and so can my banker, that for the past two years there has not been much profit on my farm, nor on many others. And, this year isn't looking very encouraging either. There is no doubt that we have to balance the State's budget, but to try and do so on the backs of the Kansas farmer, who in some parts of our state are in their fourth year of drought, to say the least, is not good business. To increase the expenses of the Kansas farmer, whether it be the young farmer struggling to raise a family and get started in the business, or the older farmer just trying to survive in his or her retirement, is something that defies logic and Kansas common sense.

I appreciate the deliberate effort this committee is undertaking to examine tax exemptions. In doing so, you have afforded farmers and ranchers the opportunity to share with you the sound justification for current tax policy. With that, I respectfully ask that you do not advance repeals of the tax exemptions so critical to Kansas agriculture. 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.

Gay Beth Moore
604 XX Rd.
Copeland, KS 67837
620/668-5332

Mr. Chairman and House Members:

I am Gay Beth Moore, a farmer/rancher from the NE corner of Haskell County in Southwest Kansas. Our county seat is Sublette and my address is Copeland. I own land in Osborne County and Haskell County. The land in Osborne County was homesteaded by my grandfather, who came over to America from Germany. After he became established, he also brought over my grandmother, a mail order bride. My father continued to operate this farm as long as he lived, and now it belongs to my sister and I. The Haskell County farm/ranch has also been operated by our family for a long time. Both farms have always had a cow/calf herd, a small herd, by most standards. Since 1979, I have rented out the cropland but maintain and manage the cow/calf herd myself, or with occasional help from my family.

I wish to speak in opposition to House Bill 2096.

Kansas has had these justifiable sales tax exemptions for agriculture, business, industry, and not for profit groups for a number of years. I can appreciate your efforts to look at all types of ways to raise the needed funds for our state. However, I sincerely hope you will not take away the agriculture, small businesses, manufacturing and other related exemptions. I wish I could say that I had an answer as to how it could be done. I don't.

* I do know that the state has economic stress, but so do our agricultural producers. I feel taking these exemptions away would only depress our economy more. *

Up until the last two and one-half years, I always had some pasture and did not have to purchase all of the feed for my livestock. However, due to the drought, I have had to buy all the grain and feed for the livestock all year long in Southwest Kansas. If the exemptions were taken away, this cost of sales tax on feed for the cattle would have increased my cost another \$25.00 per animal per year, not counting the other taxes besides the feed that would come into play before the end product. Twenty-five dollars might not seem much to some of you but that increase applied across a herd is significant.

Kansas Farm Management Association analysis of a five-year average estimate for state sales tax came to approximately \$20.00 a head across the whole state.

This would be another loss at a bad time for the way the economy is right now. I ask you to support a commitment to agriculture to help keep the costs of productions in line. Agriculture enterprises are the backbone of Kansas. Rural communities are dependant on the survival of production agriculture in our state.

Thank you.

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**ALDERSON, ALDERSON, WEILER,
CONKLIN, BURGHART & CROW, L.L.C.**
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LL.M., TAXATION
LICENSED TO PRACTICE IN
KANSAS AND MISSOURI

MEMORANDUM

TO: Honorable John Edmonds
Chairman, House Committee on Taxation
FROM: Mark A. Burghart, Legislative Counsel, Southwestern
Association
RE: House Bill No. 2096
DATE: February 13, 2003

Thank you for the opportunity to appear today to present testimony in opposition to House Bill No. 2096. I am here representing Southwestern Association, one of the industry's largest dealer trade organizations, covering an eight-state territory and representing more than 1,500 farm, construction, industrial and outdoor power equipment dealers and more than 2,000 hardware, lumber and home center retailers. It is primarily on behalf of the farm equipment dealers that I appear in opposition to House Bill No. 2096.

It is Southwestern's position that the current sales tax exemption for farm machinery and equipment should be maintained fully. To remove this sales tax exemption would make Kansas dealers non-competitive with dealers in other states. All of our surrounding states have exempted the sale of farm machinery and equipment and, when dealing in equipment that can cost in excess of \$100,000, given the opportunity to save \$5,000 or \$6,000 on the purchase of such equipment, there is little question that farmers will go to Missouri, Oklahoma, Nebraska or Colorado to purchase this equipment. Removing this exemption would be devastating to Kansas retailers. Losing this exemption would also discourage the expansion of business in Kansas in the future.

The number of dealers in this state is already declining dramatically. These businesses, which are often passed from generation to generation, would no longer be viable, and the farm economy would also be severely and adversely impacted by the dramatic decline in local dealerships who not only sell equipment but provide service, as well. State government should do everything in its power to retain local farm equipment dealerships -- not take steps to hasten their demise.

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Southwestern Association and its Kansas members strongly urge the members of this committee to vote "no" on House Bill No. 2096.

AFA/jdk/gaa

House Committee on Taxation

February 13, 2003

Presented by:

Duane Lanter
12257 Graham Rd.
Lancaster, KS 66041
785/847-6801

Mr. Chairman and members of the committee, thank you for the opportunity to appear today to explain my opposition to HB 2096, and general opposition to the other bills that would repeal sales tax exemptions important to Kansas farmers. I am Duane Lanter, and I farm in the very northeast corner of Kansas.

Over the past two years, many counties in Kansas have been declared disaster areas and the Congressional delegation in Washington, D.C. is currently working on disaster aid to help farmers in Kansas and in other states to survive the financial burden drought has put upon us.

The legislature is considering taxing input costs on farm machinery, repairs, seed, chemicals, and many other necessary tools we use to raise a crop. Our property taxes through increased valuations continue to rise to fund schools, counties and townships as well. The people of Kansas – and the world – like to buy affordable food, but the repeal of these sales tax exemptions would threaten the viability of Kansas farmers, who cannot charge more for products. We take the price available in the marketplace, a price that does not always cover our costs of production.

Agriculture is what made the State of Kansas the best state in our Nation. I chose to be a farmer and am thankful that so many in our society can choose other career paths because of the productivity of our state's farmers and ranchers. I continue to look toward the day when the agricultural economy improves, at which time we will be able to create more jobs and generate more income – including income tax the state so needs.

Living in the northeast corner of Kansas, it is only a short drive to three of our neighboring states. I respectfully suggest that the committee consider the effects of taxation policy relative to border states, and consider the broad public policy goal that Kansas enacted when these exemptions were created.

The agricultural business sector is already suffering from the strain on farmers, with machinery and chemical dealers closing their doors one after the other. I believe we need to keep competitive with other states to be fair to the farmers and the agricultural industry of Kansas, and to set the stage for a strong economic recovery for all.

Thank you.

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Date 2-13-03



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Testimony to
The Kansas House of Representatives
Committee on Taxation
Re: Imposition of Sales Taxes on Agricultural Inputs

February 13, 2003
Topeka, KS

Presented by

John C. Thaemert, President
The Kansas Association of Wheat Growers

Mr. Chairman and members of the committee, thank you for this opportunity to comment on the possible imposition of sales tax on certain items purchased as inputs for production agriculture which, under current law, are tax exempt. My name is John Thaemert; I am currently serving as President of the Kansas Association of Wheat Growers. I have a dry land farming operation in Lincoln County. Also, I serve as a Trust Investment Officer for Citizens State Bank & Trust Co. of Ellsworth, Kansas. Having interests in farming as well as finance have provided me with a unique perspective on the economic impacts of business cost increases and the ability of various industries and sectors of the economy to absorb or adjust to these increases and remain competitive.

Kansas State University through the Kansas Farm Management Association (KFMA), a fee-based tax preparation, management consulting and data gathering service available to Kansas farmers has provided the following data. This information represents a sampling of data from 2,084 member farms from 1997-2001. To estimate the impact of the imposition of sales tax on Kansas farmers the KFMA calculated the simple average sales tax of 644 incorporated cities in Kansas to arrive at a rate of 6.34%. This rate was then applied to actual operating expense

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figures averaged over the 5-year period of 1997 through 2001. This rate was also applied to the average of capital expenditures for buildings and equipment during this same 5-year period for these same farm operations. The average cash operating expenses for this time period amounted to \$175,023. With the hypothetical imposition of a 6.34% sales tax an additional expense of \$9,684 would be levied on these farm operations for a total of \$184,707. This represents an increase of 5.53% in annual operating expenses and, of course, a directly proportional decline in income.

Given this data please consider the following points:

- Net returns are eventually capitalized into land values; lower net returns reduce land values thereby further reducing tax base for rural county revenues to fund schools and other governmental operations.
- Kansas's farmers cannot pass along price increases, as other industries are able to do.
- Kansas's farmers are currently at a point where there are few alternatives to reduce expenses and for the most part, even fewer alternatives for increased income.
- Kansas's farmers compete on a world market as opposed to a county, regional or even statewide trade territory. This is a point most other businesses, excepting the aviation industry, often fail to consider. Businesses that compete locally are subject to very similar costs of taxation, labor and input costs. When trade competition goes beyond state and especially national borders many other factors come into play. Factors such as currency valuations, trade policies/international disputes and the value that other nations place on the availability of a safe, abundant and affordable food supply.
- Production agriculture, farming, is a risky business both physically and financially. The financial risks associated with this occupation leave little margin for error. A 5% increase in operating expense is an exorbitant cost to impose on an industry with profit margins that typically run less than 5% of gross revenue.

In light of these points, and given the fact that the State of Kansas is so heavily dependent on agriculture, it is the firm conviction of the Kansas Association of Wheat Growers that an imposition of sales tax on currently tax exempt farm inputs is not only ill advised but counter-productive to the economic well being of the State of Kansas. While the budget problems currently facing our state are great I can assure you that many Kansas farmers are currently facing a similar if not more dire situation with little or no room to cut expenditures as well as little or no means to increase revenue. The impact of a newly imposed sales tax would not only affect farmers but also many smaller towns as well as rural county tax bases.

In closing I would implore you to leave intact the current and long standing sales tax exemptions for agricultural inputs for the farmers of the State of Kansas. Thank you Mr. Chairman and members of the committee for this opportunity to express our concerns on this important issue.

Estimated Sales Tax for Farm Expenses

9-3

	Cash Operating Expenses						Sales Tax* 6.34%	Est. Sales Tax	
	1997	1998	1999	2000	2001	1997-2001 Average		2001	1997-2001 Average
Feed Purchased	29,970	22,841	23,497	22,721	24,204	24,647	6.34%	1,534	1,562
Fertilizer-Lime	18,440	16,807	16,856	18,590	21,849	18,508	6.34%	1,385	1,173
Machinery Repairs	17,866	17,201	17,827	16,739	18,149	17,556	6.34%	1,150	1,113
Herbicide-Insecticide	13,374	13,297	13,115	13,752	14,661	13,640	6.34%	929	864
Seed-Other Crop Expense	10,471	10,988	12,098	13,034	14,525	12,223	6.34%	921	775
Gas-Fuel-Oil	8,821	7,196	7,765	10,316	10,622	8,944	6.34%	673	567
Machine Hire	9,671	9,381	10,020	9,962	10,470	9,901	6.34%	664	627
Utilities	3,469	3,399	3,449	3,678	4,066	3,612	6.34%	258	229
Irrigation Energy	1,781	1,925	1,680	3,744	3,466	2,519	6.34%	220	160
Vet-Med-Drugs	3,158	2,770	3,202	3,187	3,282	3,120	6.34%	208	198
Livestock Marketing-Breeding	2,561	2,202	2,616	2,635	2,827	2,568	6.34%	179	163
Organization Fees, Publications	2,303	2,323	2,522	2,341	2,428	2,383	6.34%	154	151
Building Repairs	1,620	1,492	1,373	1,576	1,606	1,533	6.34%	102	97
Irrigation Repairs	954	981	863	1,013	1,055	973	6.34%	67	62
Dairy Expense	927	797	836	870	838	854	6.34%	53	54
Auto Expense	764	779	726	782	812	773	6.34%	51	49
Conservation	386	343	420	427	426	400	6.34%	27	25
Interest Paid	15,573	16,217	16,905	17,202	18,056	16,791		-	-
Cash Farm Rent	11,944	12,161	12,999	13,427	13,868	12,880		-	-
Hired Labor	9,486	9,191	10,106	10,018	10,305	9,821		-	-
General Farm Insurance	2,973	3,171	3,446	3,595	3,809	3,399		-	-
Crop Insurance	3,386	3,128	2,909	3,248	3,603	3,255		-	-
Real Estate Taxes	2,733	2,638	2,743	3,088	3,236	2,888		-	-
Crop Storage-Marketing	900	1,175	932	1,153	1,202	1,072		-	-
Personal Property Tax	679	694	738	760	943	763		-	-
Total	174,210	163,097	169,643	177,858	190,308	175,023		8,574	7,868
Capital Expenses									
Farm Machinery & Equipment	30,428	26,124	22,197	24,173	25,077	25,600	6.34%	1,589	1,622
Buildings	3,138	3,663	2,598	3,382	2,499	3,056	6.34%	158	194
Total	33,566	29,787	24,795	27,555	27,576	28,656		1,748	1,816
TOTAL APPLICABLE SALES TAX								\$10,321	\$9,684



Since 1894

TESTIMONY

To: House Taxation Committee
Representative John Edmonds, Chairman

From: Mike Beam, Sr. Vice President

Date: February 13, 2002

Subject: **HB 2096** - Sales Tax Exemptions
K.S.A. 2002 Supp. 79-3606, subsections (o), (t), & (mm).

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing over 6,000 members on legislative and regulatory issues. KLA members are involved in many aspects of livestock production, including cow-calf/stocker enterprises, cattle feeding, seed stock production and diversified farming operations.

Kansas ranked third nationally with 6.6 million cattle on ranches and in feed yards as of January 1, 2002. The state's beef industry consumes 72% of the corn, 16% of the soybeans, and 60% of the hay grown in Kansas. Cattle sales typically generate nearly two-thirds of all annual agricultural receipts.

Mr. Chairman and committee members, I am Mike Beam and I am employed by the Kansas Livestock Association. Thank you for an opportunity to briefly explain our opposition to House Bill 2096. This legislation would repeal several exemptions that pertain to business transactions of livestock producers.

Subsection (t) is an exemption for the sales of farm machinery and equipment, repair and replacement parts. The purchase of these items are typically big ticket items and the sales tax for one tractor could represent nearly half of what many producers will report as net farm income in 2002. We also advise against the repeal of items contained in subsection (mm). This exemption was implemented to clarify that seeds and trees used in Conservation Reserve Program lands would be treated like other agricultural inputs.

The exemption provided in subsection (o) is also a concern and is the provision of HB 2096 that I'll focus on for the balance of my testimony. This subsection specifically exempts the sales of livestock from the state's sales tax. KLA is adamantly opposed to repealing this exemption because it will wipe out any sustained profit potential for Kansas producers and quickly export the marketing, custom feeding, processing, transportation, and other related industry segments to other states.

House Taxation
Attachment 10

Date 2-13-03

The producing segment of the beef cattle industry is typically defined as three segments. The cow-calf producer relies on a mother beef cow to convert grass and forage into a live calf weaned at about 500 pounds each year. The size of the state's cowherd is about 1.5 million animals. Another segment of the industry grazes or feeds young calves to about a year of age where they typically weigh 750 to 900 pounds. It is estimated Kansas's producers own, manage, or care for about 3 million yearlings each year.

The last stage of the production cycle is the feeding period where cattle are fed for about 120 days on a high grain diet in a feedyard. In 2001, over 5 million cattle were fed in Kansas feedyards. As you can see, this state imports most of the cattle that eventually graze our pastures, consume our crop residues, and eat our farmers' hay and grain.

Attached are four charts that characterize the average per head profit for the various segments of the industry. How much would a 5.3% sales tax raise the costs to various segments of the industry?

On Monday, the JC Livestock Sales reported sales of 500-pound calves at \$1.02 per pound or \$510 for one animal. With a 5.3% tax rate we can assume the buyer of this calf will be charged an extra \$26.50 for sales taxes. A buyer of this animal would naturally discount the calf by some amount to compensate for his/her added costs. The first chart will show you, on the average, a cow-calf producer had a net return of about \$30 per cow in 2002. If HB 2096 was enacted during last year's session it would wipe out most of the meager profit experienced by our state's cow-calf producers.

The second and third charts outline the returns for two types of operations that buy and grow calves to yearlings. These producers try their best to work on a margin and will try to anticipate the new sales tax costs in their purchase price. It's important to note, however, when these producers sell an 800-pound yearling the buyer will have to now pay an additional \$34.64 (800 pounds, at 77 cents/lb., times 5.3%) and try to deduct this cost from the purchase price. I'm confident our members would have been furious if the state would have assessed them \$34.64 per head when the cattle they grazed last summer averaged a loss of \$20.00 per head.

The last chart shows the profitability of those who have fed cattle since 1980. As you can see, this segment has experienced sustained losses for the past two years. In recent weeks this picture has changed and feeders are starting to regain a small part of the equity lost during the two years. Last week Kansas's feeders were selling 1200 pound steers for 82 cents per pound or \$984 per head. If HB 2096 were law, the packer buying the animal would be required to collect \$52.15. Will the packer buyer absorb this cost? It is more likely that fed cattle owners in this state would have the \$52.15 deducted from their check.

I've tried to show examples of the financial impact this bill would have on individual producers under today's environment. The state's entire livestock industry would no longer be competitive with the passage of this legislation. For example, would an Oklahoma producer south of Coffeyville, Kansas haul his calves to the Coffeyville Stockyards where they will be taxed at 5.3% or will he/she stop at the market in South Coffeyville, Oklahoma?

Would a cattle feeder in Texas send his calves to a custom feedyard in Kansas if he/she knew the packer would discount the end product by more than \$50.00? On top of that, there could be even greater costs for feeding in Kansas if this legislature imposes the sales tax on the feed and other inputs that are contained in separate bills pending in this committee.

This is a critical time for our industry. The herd numbers are down and custom feed yards in states such as Kansas, Texas, Colorado, and Nebraska are experiencing difficulties filling their feedyards. It will be an easy decision for cattle feeders to place cattle in neighboring states that do not charge a sales tax. I do not believe we want to pass legislation that prices our commercial feeding industry out of the market.

For these reasons, I believe a repeal of the sales tax exemption on livestock sales would cause a negative impact to most of rural Kansas. This economic blow would be more devastating than any legislation that has been seriously considered in recent history.

Thanks for listening. I'd be happy to respond to any questions or comments.

Chart One

Cow/Calf Returns

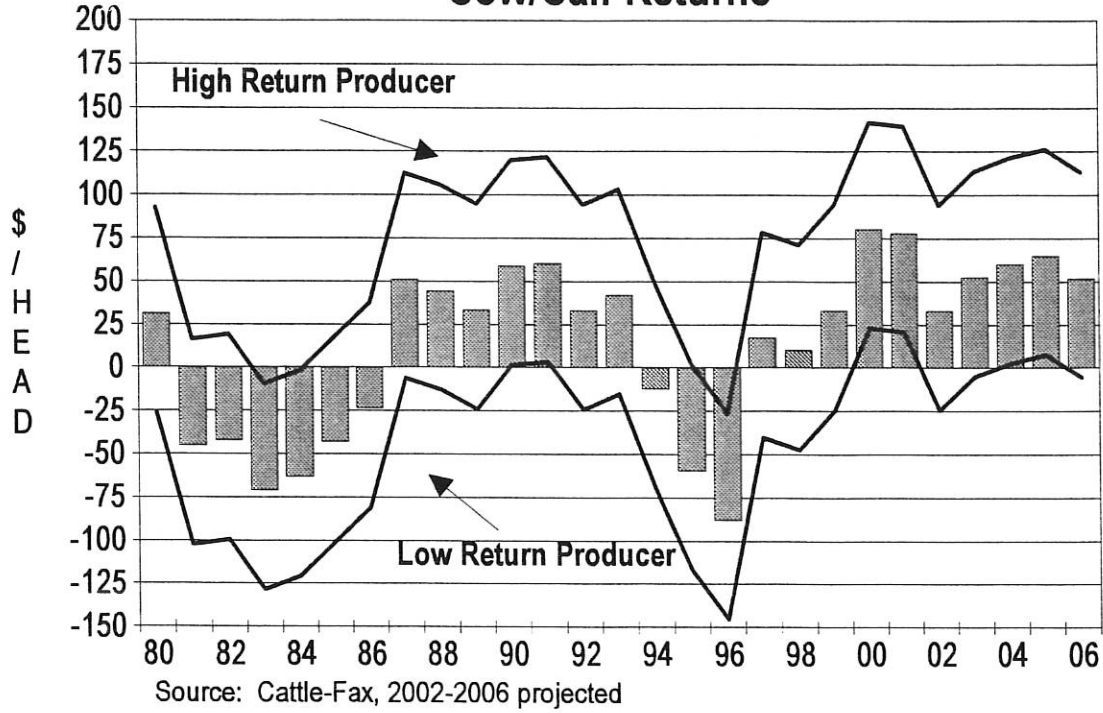


Chart Two

Stocker Cattle Profit (Loss) Summer Grazing Program

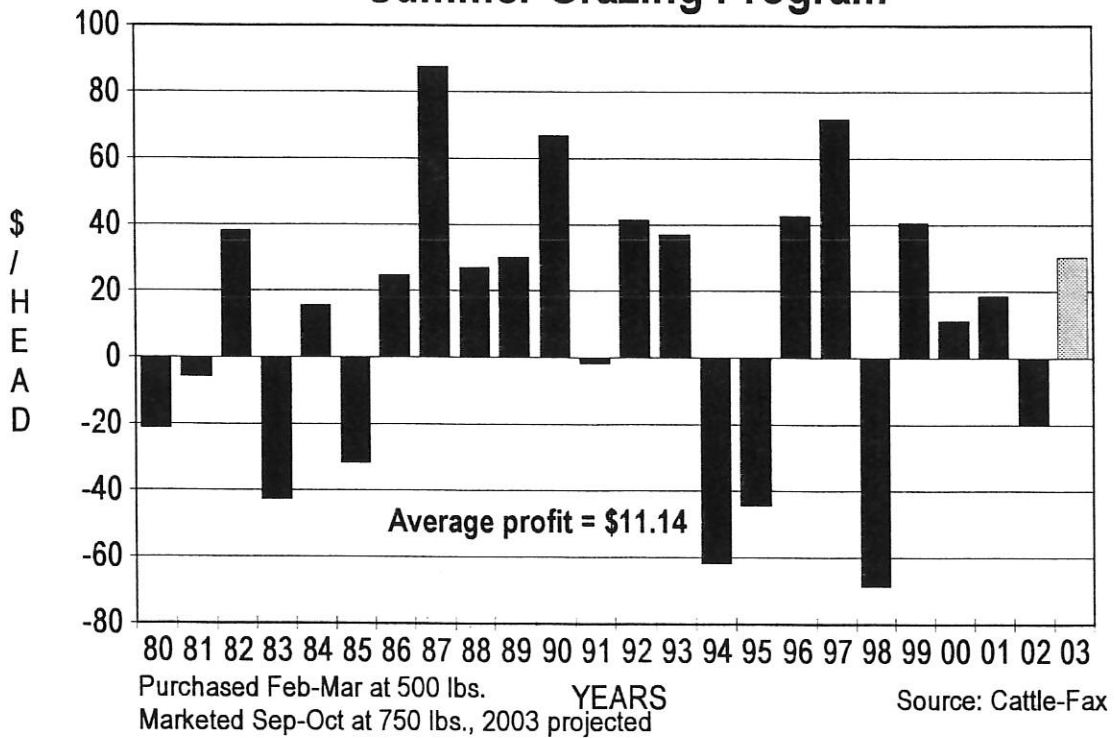
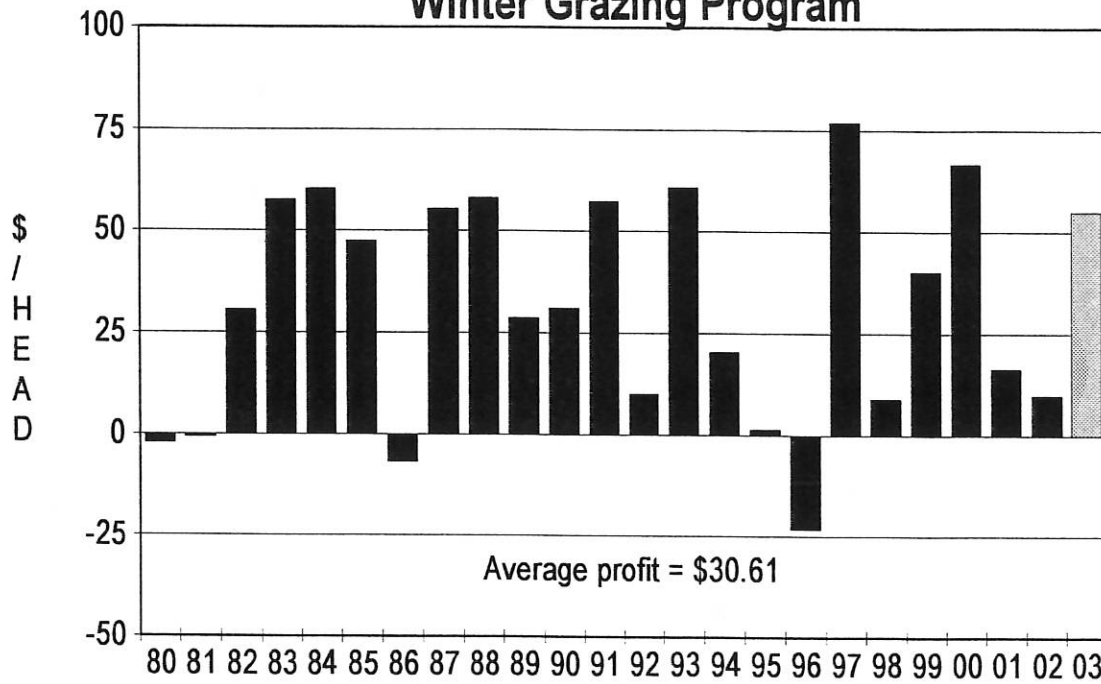


Chart Three

Stocker Cattle Profit (Loss) Winter Grazing Program

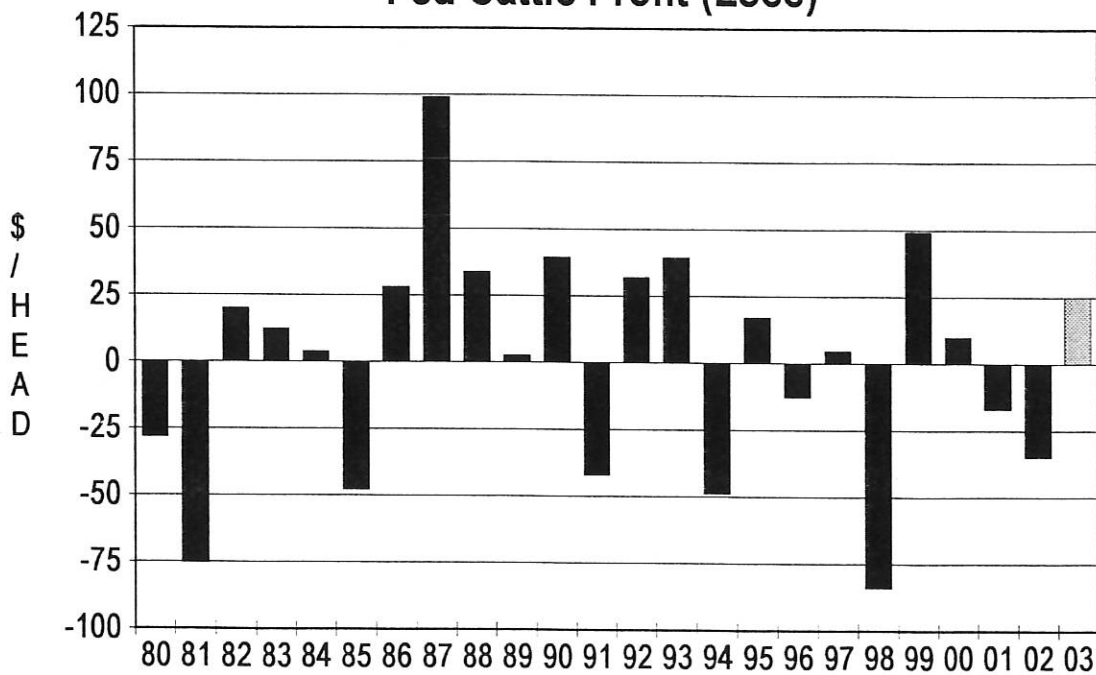


Purchased Oct. - Nov. at 500 lbs. YEARS
Marketed Feb. - Mar. at 750 lbs, 2003 projected

Source: Cattle-Fax

Chart Four

Fed Cattle Profit (Loss)



Source: Cattle-Fax, 2003 projected YEARS



STATEMENT OF THE
KANSAS GRAIN & FEED ASSOCIATION
AND THE
KANSAS AGRIBUSINESS RETAILERS ASSOCIATION
SUBMITTED TO THE
HOUSE TAXATION COMMITTEE
REGARDING HOUSE BILL 2096
REPRESENTATIVE JOHN EDMONDS, CHAIR
FEBRUARY 13, 2003

House Taxation
Attachment 11
Date 2-13-03

KGFA & KARA MEMBERS ADVOCATE PUBLIC POLICIES THAT ADVANCE A SOUND ECONOMIC CLIMATE FOR AGRIBUSINESS TO GROW AND PROSPER SO THEY MAY CONTINUE THEIR INTEGRAL ROLE IN PROVIDING KANSANS AND THE WORLD THE SAFEST, MOST ABUNDANT FOOD SUPPLY.

816 SW Tyler, Topeka KS 66612 - 785-234-0461 - Fax: 785-234-2930

The following statement is presented on behalf of the Kansas Grain and Feed Association (KGFA) and the Kansas Agribusiness Retailers Association (KARA). The KGFA is a voluntary state association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. KGFA's membership includes over 1,100 Kansas business locations and represents 98% of the commercially licensed grain storage in the state. KARA's membership includes nearly 750 agribusiness firms that are primarily retail facilities that supply fertilizers, crop protection chemicals, seed, petroleum products and agronomic expertise to Kansas farmers. KARA's membership base also includes ag-chemical and equipment manufacturing firms, distribution firms and various other businesses associated with the retail crop production industry.

KGFA and KARA are opposed to House Bill 2096, which would eliminate the sales tax exemptions found at K.S.A. 79-3606 (o) sales of animals used in agriculture, K.S.A. 79-3606 (t) sales of farm machinery and equipment and K.S.A. 79-3606 (mm) sales of seeds, fertilizers and other inputs used to produce plants that help control soil erosion. If adopted, House Bill 2096 would increase by over 180 million dollars the annual tax burden on agricultural producers and agribusiness. The exemptions targeted in H.B. 2096 are necessary to ensure farmers & ranchers, farmer-owned cooperatives, independent grain elevators and agribusiness retailers in Kansas are competitive with surrounding states. The impact of losing these exemptions would be devastating to all segments of the agriculture industry and the lost of business to surrounding states that currently maintain these exemptions would be immediate.

KGFA and KARA oppose the establishment of any new taxes, which would be a disincentive for economic development in the state by discouraging new businesses from expanding. KGFA and KARA stand in opposition to H.B. 2096 and hope this committee will refrain from taking action on this measure.

*For additional information contact Doug Wareham, Senior Vice President
(785) 234-0461 or doug@kansasag.org.*

KANSAS

DEPARTMENT OF AGRICULTURE
GREG A. FOLEY, ACTING SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

House Taxation Committee February 13, 2003

Testimony on HB 2096—Eliminating agriculturally related sales tax exemptions

Acting Secretary of Agriculture Greg A. Foley

Good morning, Chairman Edmonds and members of the committee. I am Greg Foley, acting secretary of the Kansas Department of Agriculture. I am here to testify in opposition to HB 2096.

I understand the committee's desire to look for real and effective ways to improve the state's financial situation. Tax exemptions should be scrutinized, along with other components of the budget and the economy. However, elimination of these agriculturally related sales tax exemptions would not benefit the Kansas economy.

This bill would eliminate exemptions for agriculture including livestock, machinery and equipment, seeds and chemicals. These are necessary inputs to food production for our nation and the world. Their purchases support rural businesses in our already-stressed rural communities, and have an effect on the state as a whole.

Today many farmers and their bankers are holding their breath, waiting for the final word on disaster assistance after two very difficult years for agriculture. The average net farm income last year was \$10,147, compared to the five-year average of \$37,162. Many family farm businesses are operating on the edge. Removal of these important tax exemptions would be devastating to our farms and rural communities.

The Kansas farmer provides a safe, affordable and reliable supply of food to our nation. This is true homeland security. Eliminating tax exemptions for the inputs to Kansas agriculture will have devastating short and long-run economic effects.

Mr. Chairman, I respectfully request that you and the committee not support this bill; instead, that you support the backbone of our Kansas economy, agriculture.

House Taxation
Attachment 12
Date 2-13-03



Written testimony
on behalf of the
Kansas Cooperative Council
816 SW Tyler, Suite 300
Topeka, KS 66612
785-233-4085

Mr. Chairman and members of the committee. The Kansas Cooperative Council opposes HB 2096, which if passed, would repeal sales tax on all sales of livestock and poultry, farm machinery/equipment, environmental protection filter strip needs and food production.

The Kansas Cooperative Council represents nearly 200 farmer-owned cooperative businesses that have a combined membership of nearly 200,000 rural Kansans. These farmer-owned businesses include farm supply and grain elevators. These cooperatives serve their producers by providing products necessary for both crop and livestock production.

If passed, this legislation would create an additional financial burden on agricultural producers in the state as well as the entire food and fiber system.

The state has also been recognized on a national level for its leadership in the environmental stewardship program of "filter strips," which have been used to reduce agricultural runoff and to improve water quality. This measure, if passed, will do away with the advantage Kansas has over other Midwestern states in the area of water quality protection.

Currently, Kansas agricultural producers are under great burden and the potential loss of this important tax exemption will only provide additional adverse impact on their bottom lines. Thus, once producers feel the negative impact, the ripple effect of adverse financial conditions will continue to grow through the entire agricultural community, thus adversely impacting the state's agricultural and food industry.

Passage of this legislation will not be good for the state of Kansas. Therefore, we urge you to oppose HB 2096.

Thank you for your consideration.

House Taxation
Attachment 13
Date 2-13-03

5078 Gray Road
Edna, KS 67342
February 10, 2003

Representative Jeff Jack
182-W Capitol Building
Topeka, KS 66612-1504

Re: HB2096

Dear Sir:

I urge you to block the repeal of the farm sales tax exemption.

I am a semi-retired farmer and even with my reduced operation the repeal of the sales tax exemption would be a burden on my income. Using my 2002 farm income as an example, the additional taxation would increase my expenses by almost 7%. I did not purchase machinery or cattle in 2002, but will do so in future years, which would then result in a higher percent of tax to income expense.

I believe that this tax will force many farmers to go out of state to purchase supplies and equipment.

My 2002 property and personal tax was \$3,000, which is already a heavy tax burden.

Thank you.

Yours very truly,


Dana Eikenberry

DE:re

House Taxation
Attachment 14
Date 2-13-03

February 10, 2003

Representative Jeff Jack
Kansas House Taxation Committee
284-W Capitol Building
Topeka, KS 66612-1504
Re: HB 2096
HB 2110

Dear Rep. Jack:

This letter is to express our opposition to proposed bills
HB 2096 and HB 2110.

Agriculture in Kansas is still in a depressed economic state. Farmers are struggling in our area just to make ends meet. These bills would create a huge financial burden in addition to high prices for fertilizer, fuel, farm machinery, seed, and chemicals, while still receiving low prices for our commodities.

Below are some figures that show the impact on our farming operation. As you can see, the increase in taxes would amount to more than our net farm income. We feel an increase in income tax would be a more fair tax than having the farm sector shoulder such a huge tax bill.

Thank you for your consideration.

Eugene & Darlene Ferguson
Eugene & Darlene Ferguson
10097 Gray Road
Mound Valley, Ks. 67354

	2002 EXPENSES		COUNTY SALES TAX RATE		AMOUNT OF SALES TAX
Machinery Repairs (Parts & Labor)	<u>13184</u>	X	6.55%	=	<u>863.55</u>
Seed Purchased	<u>38576</u>	X	6.55%	=	<u>2526.73</u>
Fertilizer	<u>54092</u>	X	6.55%	=	<u>3543.03</u>
Chemicals	<u>36497</u>	X	6.55%	=	<u>2390.55</u>
Fuel (Off-road)	<u>16008</u>	X	6.55%	=	<u>1048.52</u>

	2002 PURCHASES		COUNTY SALES TAX RATE		AMOUNT OF SALES TAX
Farm Machinery	<u>156689</u>	X	6.55%	=	<u>10263.13</u>
Livestock Purchases	<u>1200</u>	X	6.55%	=	<u>78.60</u>

Total impact sales tax would have had on 2002 farm operation \$ 20714.11

Total property taxes (real and personal) assessed to you for 2002 \$ 8968.00

Optional: Show percent of net income that it would take to pay sales tax
(Total sales tax divided by net income) 100 % +

Our net farm income in 2001 was 18880⁰⁰

From: Graves [kgraves@ckt.net]
Sent: Friday, February 07, 2003 6:08 PM
To: jack@house.state.ks.us; umbarger@senate.state.ks.us; Palmer, Lee; edmonds@house.state.ks.us
Subject: HB2096 and HB2110

Dear Sir:

My name is Ken Graves. I am a farmer and stockman in Labette county in southeast Kansas, and I would like a minute of your time to comment about HB2096 and HB2110.

I know you are aware of the current depressed state of the agricultural economy so I won't waste time detailing the specifics of that point. The important point to be considered at this time is the effect that tax changes proposed in the above mentioned house bills would have on an already stressed segment of the Kansas economy. Some of the effects that I can foresee are as follows:

- As far as me personally, I couldn't pay these taxes and stay in business. As you well know, those of us in production agricultural have very little or no control over the end price of the commodities that we produce. There fore it is virtually impossible for us to "pass on" increased expenses. They must be absorbed. Considering the razor thin, or nonexistant, margins that we are currently operating with, I fear that a tax burden of this magnitude would be fatal to me and many of my neighbors.
- Also to be considered is the impact these taxes would have on Kansas businesses. Being in a border county, I can personally attest to some of the direct effects, the most obvious being the use of businesses in other states and internet vendors to supply as many of my inputs as possible. I am a firm believer in the old saying that "if you buy at home and you sell at home, you will always have a home", but if circumstances are such that trading at "home" will instead jeopardize my survival, then I and others like me will do whatever we must to try and stay in business. The result is that Kansas agricultural support businesses will also suffer. The effect would be particularly devastating to the Kansas feedlot industry. But the passage of these bills would benefit some businesses though. I'm sure the feedlots in Oklahoma and Texas would be elated by their passage.

I don't mean to be an alarmist, but you, our representatives in the Kansas legislature, must remember that agriculture, not aircraft or technology, is the backbone of the Kansas economy. When agriculture prospers the Kansas economy prospers and these proposed bills are repressive to agriculture. As you search for solutions to the State's budget problems, seek out alternatives that will stimulate rather than repress agriculture and I'm sure that in time we will once again find our State budget with ample funds to meet the needs of all Kansans. Thank you for listening.

Sincerely,
Ken Graves
4102 Pratt Road
Bartlett, Ks 67332
(620) 226 3326
kgraves@ckt.net

2/10/2003

House Taxation
Attachment 15
Date 2-13-03

I represent DWKFarms in Osage County. Our family homesteaded the property in 1861 and we are the 5th generation to derive a living from this property. Our daughter and her family who work in a segment of the business, represent the 6th and 7th generations. There is a lot of pride obviously in this longevity, but pride doesn't pay the bills! A profit margin does that.

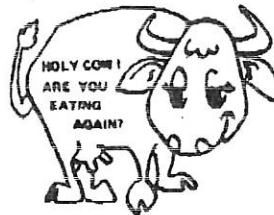
We are, as you possibly are aware, still receiving basically the same commodity prices for our products as when we started farming and ranching nearly 40 years ago while paying multiplied amounts for goods and services used in our operation. The bankers only keep an open door for so long!

Farming and/agriculture in general is and always has been "buy retail and sell wholesale". Net farm income is what we live on after all the expenses including taxes are paid. Income tax increases would be a more fair justification than raising either the property tax bases or the present exemptions be put back on the taxing rolls.

We know who puts an abundant and safe food supply on the groccrs shelves, we hope that you realize this too. Let us continue to provide the supplies for this, while making a decent return on our investments..

Sincerely,
Wanda Kinney
Osage County Farmer-Rancher

AS LONG AS THE AMERICAN FARMER HAS ADEQUATE INCENTIVE AND OPPORTUNITY FOR A FAIR RETURN ON HIS INVESTMENT OF TIME, ENERGY, AND MONEY, HE WILL CONTINUE TO GROW THE FOOD NEEDED TO FEED THE WORLD.



Wanda Kinney
13055 Berryton Rd.
Carbondale, KS 66414
785-836-7275

House Taxation
Attachment 16
Date 2-13-03



Rep. John Edmonds, Chair
House Taxation Committee
State Capitol, Room 171-W
Topeka, Kansas 66612

February 13, 2003

Re: Written testimony in opposition to HB 2096 repealing the sales tax exemption for certain agricultural products and property

Dear Chairman Edmonds:

The Kansas Corn Growers Association and the Kansas Grain Sorghum Producers Association appreciate the opportunity to submit this written testimony in opposition to the passage of HB 2096. The proposed legislation would repeal the Kansas sales tax exemption available for sales of certain agricultural property including animals, plant and animal products produced as food for human consumption, and farm machinery and equipment.

The mechanization of American agriculture in the past century has contributed significantly to the enormous productivity of farmers and ranchers. Kansas corn and grain sorghum producers purchase many types of farm machinery and equipment that fall within the current exemption provided in statute at K.S.A. 79-3602 (t) and that are proposed for repeal by HB 2096. With the high cost of most farm machinery today, this exemption is critical to maintain Kansas' farmers competitiveness in the marketplace.

Further, many of these same Kansas agricultural producers purchase, own, and sell animals or plant and animal products that currently are provided a similar sales tax exemption in K.S.A. 79-3602 (o). Repeal of this exemption as proposed in HB 2096 will dramatically affect agricultural producers potentially with both upstream purchases and downstream sales of these products in the normal channels of commerce.


And as you now are aware, in the last several years most Kansas agricultural producers have experienced very challenging financial and growing season conditions. Almost exclusively, farmers are price takers for purchasing their inputs and equipment and for selling their products. Drought and generally low commodity prices have seriously weakened Kansas agriculture's balance sheet and financial strength.

In 2002 alone, Kansas State University's Farm Management Association estimated that the drought cost corn producers \$314 million in farm gate values of production with Kansas' total crop loss pegged at \$1.1 billion. Less than one-third of this financial loss will be offset by federal crop insurance. Net farm income for 2002 is forecast to average about \$10,147 per farm.

Most Kansas corn and grain sorghum producers simply do not have positive operating margins at this time. The state's long-term strategy of sales tax exemptions for agricultural plant and animal products of food for human consumption and for farm machinery and equipment has been critical to what agriculture has been able to contribute to the Kansas economy through the years.

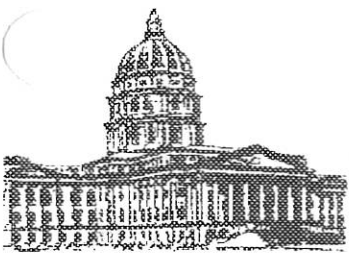
We strongly request your opposition to passage of this legislation.

Sincerely,


Greg Krissek
Director of Operations

House Taxation
Attachment 17
Date 2-13-03





KANSAS AGRICULTURAL ALLIANCE

*Kansas Agribusiness
Retailers Association*

*Kansas Agricultural
Aviation Association*

Kansas Agri-Women

*Kansas Association of
Agriculture Educators*

*Kansas Association of
Conservation Districts*

*Kansas Association of
Wheat Growers*

*Kansas Corn Growers
Association*

Kansas Cooperative Council

Kansas Dairy Association

*Kansas Electric
Cooperatives*

Kansas Ethanol Association

Kansas Farm Bureau

*Kansas Grain & Feed
Association*

*Kansas Grain Sorghum
Producers*

*Kansas Livestock
Association*

*Kansas Nursery &
Landscape Association*

Kansas Pork Association

*Kansas Seed Industry
Association*

Kansas Soybean Association

*Kansas Veterinary Medical
Association*

HOUSE COMMITTEE ON TAXATION

**RE: HB 2096 – an act eliminating certain
agricultural sales tax exemptions.**

**February 13, 2003
Topeka, Kansas**

**Presented by:
Leslie Kaufman, President
Kansas Agricultural Alliance**

Good morning Chairman Edmonds and members of the House Taxation Committee. I am Leslie Kaufman, President of the Kansas Agricultural Alliance (KAA). The KAA is a group of twenty farm and rural organizations. The alliance only takes positions on legislation when it's members are unanimous in their support or opposition to a bill.

The KAA opposes the provisions of HB 2096 which would repeal sales tax exemptions currently provided for many agricultural items. These exemptions apply to farm machinery and equipment, livestock and inputs for soil conservation.

KAA members represent a wide variety of agricultural interests. Kansas agriculture has faced significant negative financial and weather conditions in the past few years. Any increased costs of productions, such as additional sales taxes, will further the dire consequences faced by many farmers and ranchers and their small businesses.

Many of the member groups within KAA are ardently seeking financial assistance for their members from the U.S. Congress in the form of disaster payments. It would be ironic if such assistance is obtained as a stopgap measure, only to see additional sales tax costs incurred at the state level for many Kansas operations.

We respectfully request you oppose HB 2096 when you hold deliberations on this legislation. Additionally, our organization was not able to appear on HB 2111. We would also ask for your opposition on that measure.

Thank you.

House Taxation
Attachment 18
Date 2-13-03

**STATEMENT OF THE KANSAS DAIRY ASSOCIATION
KANSAS AGRICULTURAL AVIATION ASSOCIATION
KANSAS SEED INDUSTRY ASSOCIATION
TO THE HOUSE TAXATION COMMITTEE
REGARDING H.B. 2096
FEBRUARY 13, 2003**

Mr. Chairman and Members of the Committee, I am Chris Wilson, submitting this statement on behalf of Kansas Dairy Association, Kansas Seed Industry Association, and Kansas Agricultural Aviation Association. These associations are statewide professional trade organizations, with over 1050 member farms and agribusiness companies. We are in opposition to H.B. 2096, which would remove the sales tax exemptions for animals, inputs used in conservation, and farm machinery and equipment.

Regarding K.S.A. 79-3606(o), sales of animals, adding sales tax to an animal would often negate any potential profit on the animal. Recently, I met with FC Stone, a company dedicated to helping producers increase profitability in their operations by use of the futures market. As an example of the impact of sales tax on animals, a copy of the USDA chart FC Stone's representatives gave me, regarding cattle feeding profitability, is attached. The USDA data shows that historically, cattle feeding profitability is at \$0.05 per hundredweight. This means that a 1200 pound steer sold out of the feedlot averages a profit of \$ 0.60. FC Stone's goal would be to help a producer achieve a profit of \$18.00 per head. If that steer costs \$500 going into the feedlot and sales tax is paid on the animal, the sales tax amount would be \$26.50. As you can see, the sales tax would clearly exceed the potential profit on the animal.

Regarding K.S.A. 79-3606(t), all sales of farm machinery and equipment, it is my recollection that one of the reasons for including this exemption was that not having it put Kansas' businesses at a competitive disadvantage compared to those in surrounding

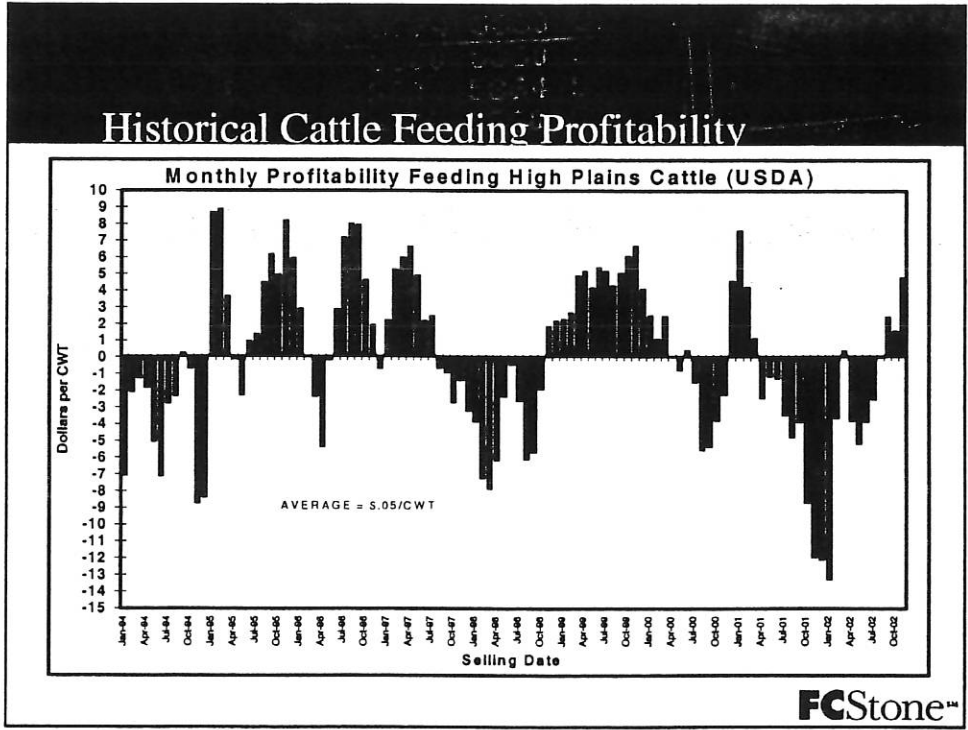
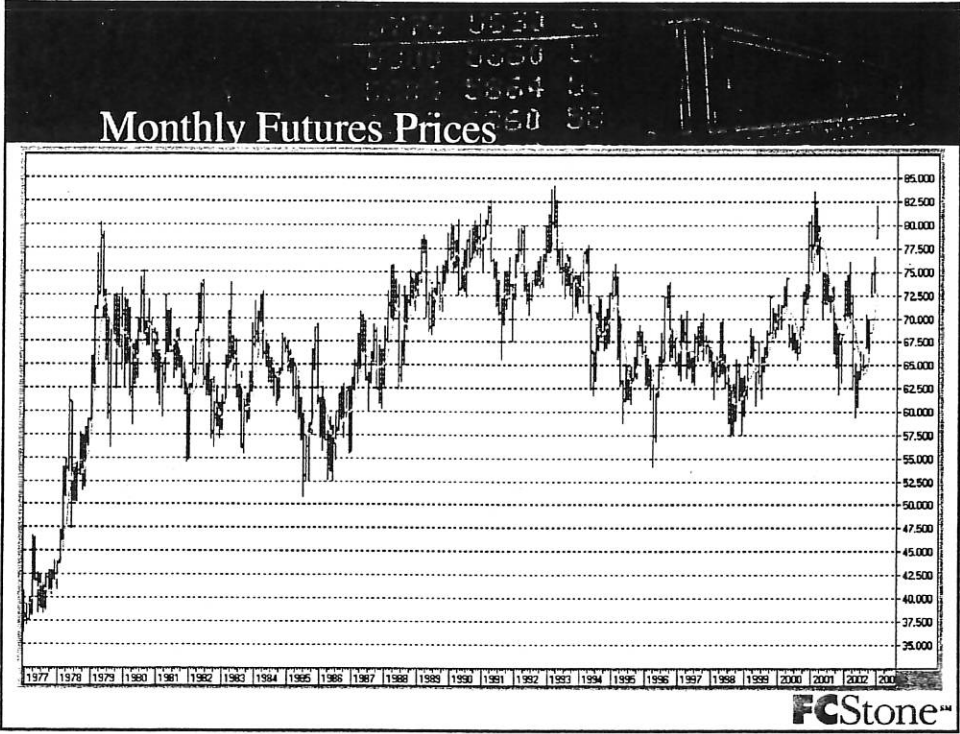
House Taxation
Attachment 19
Date 2-13-03

states. Much equipment was purchased in other states that did not have the burden of sales tax on already hard to afford equipment.

K.S.A. 79-3606(mm) was put into the statute to provide a sales tax exemption for inputs used to produce plants for conservation. This clarified that the inputs were not taxed, just as with crops harvest, where the plants produced were not harvested but used for soil conservation. Separating whether seed, fertilizer and pesticides are used on a crop that is eventually going to be harvested or not would be impossible for the seedsman or agrichemical retailer.

Adding a cost of a few percent to an industry that throughout it only has a few percent margin of profitability – at best – would at best place a very difficult burden on the industry. It would certainly be a motivation for people to discontinue their agricultural operations. Coupled with the effects of recent droughts, I can say with certainty that members of our organizations would cease their operations in increasing number.

We respectfully request that you retain these current exemptions in the law.





February 10, 2003

The Honorable John Edmonds
House Taxation Committee
State Capitol
Topeka, KS 66612

Dear Representative Edmonds and members of the House Taxation Committee:

It has come to my attention that the matter of House Bill 2148 will be discussed in committee on Wednesday. I would like you to oppose any change to the sales tax exemptions discussed in this bill.

With the current state of the Kansas business economy, we need to do everything in our power to support our current Kansas businesses and keep Kansas competitive. Cowley County has been home to a longstanding manufactured housing builder, Skyline Corporation, for over 50 years. In a struggling market the added cost to this Kansas manufactured product would be a major blow in competing with similar products manufactured elsewhere. Products that are built in Kansas should not be subject to the double taxation that the proposed bill would impose. For Kansas to grow and expand its business base, the cost of doing business in the state must not be increased.

Representative Edmonds, we ask your assistance in keeping Kansas competitive through your support of the manufacturers that bring jobs to the State of Kansas. Repealing these sales tax exemptions is bad for business and would be detrimental to our entire State economy.

Thank you for your consideration and I urge you to oppose HB 2148 for the good of the State of Kansas and Cowley County.

Sincerely,

George McCune, Executive Director
Cowley County Economic Development Agency

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House Taxation
Attachment 20

Date 2-12-03