

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson John Edmonds at 9:00 a.m. on March 10, 2003 in Room 519-S of the Capitol.

All members were present except:

Representative Sawyer

Committee staff present:

Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Sarah Samuelson, Acting Committee Secretary

Conferees appearing before the committee:

Lewie Klemp, Representing Himself
Larry Baer, Kansas League of Municipalities
Mark Tallman, KASB
Representative Eric Carter, Kansas City Star
T.C. Anderson, Executive Director Certified Public Accountants of Kansas
Chuck Stones - Kansas Bankers Association
Pat Hubbell, Public Accountants Association of Kansas and Kansas Railroads
Hal Hudson, NIFB
Shirley Martin-Smith, KCCI & Adecco Employment Services
Trudy Aron, American Institute of Architects
Gary Reser, Kansas Veterinarian Medical Association
Becky Blades, Geater Kansas City Chamber of Commerce
Dan Koenig, Overland Park Chamber of Commerce
Harriet Lange, Kansas Association of Broadcasters
Kevin Walker, American Heart Association
Ronnie Baker, BGM Industries
Phil Aitken, Heart of America Staffing Services Association

Others attending:

See Attached List

Chairman Edmonds called for any bill introductions, hearing none, he opened the floor for public comment on **HB 2421**. With sixteen conferees wishing to address the bill in one and one half hours' time, the Chairman allotted each conferee three minutes testimony time and the members one line of questioning per conferee.

First to appear before the committee as a proponent of **HB 2421** was Lewie Klemp, representing himself. Mr. Klemp stated in his testimony that he advocated the removal of all exemptions and believes that there will be more money than needed. (Attachment 1)

Also addressing the committee as a proponent of **HB2421** was Larry Baer from the Kansas League of Municipalities. It is their belief that the public would be better served with more sales subject to the tax. (Attachment 2) Mr. Baer also submitted for review a copy of the testimony from Don Moler, Executive Director of LKM (League of Kansas Municipalities) (Attachment 3)

Mark Tallman, Assistant Executive Director/Advocacy, Kansas Association of School Boards, gave testimony in favor of **HB 2421**. Their primary interest is education funding. It is their belief that any revenue plan adequate to meet the needs of Kansas public schools and services will almost certainly require a number of components. They would support a revenue measure that includes extension of the sales tax to services, or repeal of exemptions as part of a revenue strategy that is balanced, fair and efficient. (Attachment 4)

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on March 10, 2003 in Room 519-S of the Capitol.

With no further proponents for **HB 2421**, Chairman Edmonds introduced Representative Eric Carter, who presented testimony from Steve Broas, Vice-President of Advertising, The Kansas City Star. This testimony stated the new tax would severely reduce Kansas businesses ability to compete and win market share. (Attachment 5)

Presenting testimony in opposition to **HB 2421** was T.C. Anderson, KSCPA (Kansas Society of Certified Public Accountants, Executive Director. In their opinion any new service tax base would have a profound effect on small businesses and employment. It would harm Kansans as it impacts multi-state business patterns, as well as impact administration and compliance. Also a sales tax on all services disproportionately imposes a heavier burden on low income individuals. (Attachment 6) Mr. Anderson also included a copy of *Kansans For Tax-Free Services* position statement. (Attachment 7)

Kansas Bankers Association was represented by Chuck Stones, Senior Vice President, who presented testimony in opposition to **HB 2421**. If this bill were to pass, there would be a huge administrative burden to the entire banking industry in order to comply with gathering such a tax. (Attachment 8)

Representing PAAK, (Public Accountants Association of Kansas, Inc.) and Kansas Railroads, Patrick Hubbell appeared before the committee in opposition to **HB 2421**. The PAAK urged the legislature to support an overall state tax structure that is competitive with the surrounding states, oppose the taxation of professional services, including accounting, auditing, tax and consulting services, and maintain the existing exemption from sales taxes on these professional services. (Attachment 9) His testimony for Kansas Railroads suggested that imposing additional costs on a vital economic service during these trying times cannot be the best way to address the budget deficit. (Attachment 10)

Encouragement for continuing to look for ways to reduce the costs of government, rather than increasing the tax burden on an already weak economy, was the request in the testimony for NFIB (National Federation of Independent Business) presented by Hal Hudson in opposition to **HB 2421**. (Attachment 11)

Shirley Martin-Smith addressed the committee representing KCCI (Kansas Chamber of Commerce and Industry in opposition to **HB 2421**. It is their feeling that those hurt the most by a sales tax on the staffing industry are minorities, women, retirees, laid-off workers seeking new opportunities, and individuals transferring from welfare to work. (Attachment 12)

Phil Aitken of Signature Staffing, Inc. gave testimony in opposition to **HB 2421** stating the higher unemployment associated with a sales tax on staffing services will have a dampening effect on consumer spending and will likely offset much of the anticipated sales tax revenue. (Attachment 13)

Speaking for Overland Park Chamber of Commerce, Dan Koenig, President, made a statement that if a tax on services is imposed, thousands of businesses in Overland Park, Johnson County and the State of Kansas will consider alternative locations, resulting overall in millions of dollars of lost state revenue. (Attachment 14)

Ronald Baker presented testimony for Cardinal/BG Service Solutions in opposition to **HB 2421**. In their summation they hoped that rather than tax janitorial services, which would cause economic harm to their employees and businesses, that the legislature look to correcting problems in the mis-classification of employees as "illegal" subcontractors. (Attachment 15)

Next to address the committee was Trudy Aron, Executive Director of AIA Kansas (American Institute of Architects). Ms. Aron spoke in opposition to **HB 2421**. In their opinion removal of the sales tax exemption for architectural services would have a devastating affect on their firms. It is felt that those in the Kansas City metro area would, most likely, move across the state line to Missouri. (Attachment 16)

Harriet Lange with the Kansas Association of Broadcasters, addressed the committee in opposition to **HB 2421**. The altering of these tax measures would discourage advertising in Kansas which would in turn exacerbate our sluggish economy. Although their exemption does not have a major impact on state revenues, it means a great deal to each and every local radio and television station serving the Kansas

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on March 10, 2003 in Room 519-S of the Capitol.

communities.(Attachment 17)

With no further conferees appearing before the committee, Chairman Edmonds called the committees' attention written testimony from Lenexa Chamber of Commerce (Attachment 18), Leawood Chamber of Commerce (Attachment 19), Shawnee Chamber of Commerce (Attachment 20), Kansas Farm Bureau (Attachment 21), Olathe Chamber of Commerce (Attachment 22), American Heart Association (Attachment 23), Kansas Press Association (Attachment 24), The Wichita Eagle (Attachment 25), The Topeka Capitol Journal (Attachment 26), and the Kansas Optometric Association (Attachment 27) all in opposition to **HB 2421**.

There being no further business before the committee, Chairman Edmonds adjourned the meeting at 10:30 a.m.

GUEST LIST

DATE Mar 10

NAME	REPRESENTING
Cheryl A Caldwell	Topeka Chamber of Com
Dag Warcham	KGFA / KARA
George Barber	Kansas Consulting Engrs
KEVIN ROBERTSON	KS DENTAL ASSN
George Peterson	MTN
Phil Aitth	Signature Staffing
LINDA LUKOSKY	KS HOME CARE
Judy ARON	Am INST of Architects
Robert J. WASHATKA	EXPRESS PERSONNEL SERVICES
Ashley Sherard	Genexa Chamber
Diane Bruner	KS Coop Council
Donna Zimmerman	NE Kansas Co of C
Linda Leeper	Shawnee Chamber
Chuck Stone	KS Bankers Assoc
Stuart Little	Overland Park Chamber of Commerce
Doug Switz	Preser, Sm. BZ & ASSOC
Chip Wheelen	Assn of Osteopathic Med.
Bob Wagoner	Greater KC Chamber
Jacqueline Lee Smith	KMHA
Hal Hudson	WFB/KS
Ron Applebult	Water One
Tom Bruner	EKOBA

JP Small

KOCH INDUSTRIES

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE Mar 10

NAME	REPRESENTING
Ed Johnson	KLA
Bruce J. Putman	A-1 STAFFING / HASSA
H. J. Damm	YNEAs, Girl Scout Council
BILLO YANEK	Kansas Assn of REALTORS
Mike Reecht	AT&T
Judy Keller	Am Lung Assn / KS
Bert Hopper	KS Dairy Assoc.
Leslie Kaufman	KS Farm Bureau
Marcel Carpenter	KCT.

March 10, 2003

The Honorable John Edmonds, Chairman
Members of the House Committee on Taxation

Re: House Bill 2421

It is interesting that House Bill 2421 has been dubbed the "Granddaddy" of all sales tax bills. I had heard that there were going to be no more public hearings on this bill, but you were going to allow a few people to speak so that you would have someone to chew on, that's why I am here today.

The State seems to have a money problem, a problem where we are spending more money than we are taking in. In our own homes, we solve this problem by reducing our spending, because we don't have more money available. I believe this common sense solution will work for our State. How can we solve the state's dilemma without raising taxes? Across the board cuts or remove all sales tax exemptions and spend the money wisely.

A study that Governor Finney conducted while she was in office, showed that you could remove all the sales tax exemptions and remove the property tax and still have \$150 million left over. With the upheaval again on property taxes you could cap property appraisals and get out of debt. There is nothing fair and equitable about the current property tax.

House Taxation
Attachment 1
Date 3-10-03

Some states have solved their property tax problems with other methods. Alabama for instance lets the sale and building cost establish the property value.

Many homeowners have never claimed their finished basements for the tax role. For the citizen who pays taxes on their basement this seems unfair.

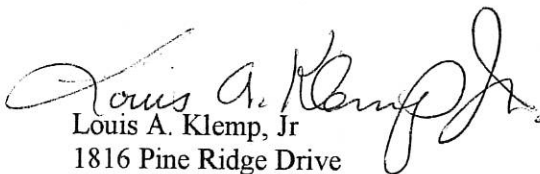
Some counties hold back on their evaluations and they are lower than they should be, the state is loosing money again.

Property tax is not the only answer for revenue; it has been proven that it isn't fair.

As you go through the exemptions, notice that many of our essential needs are taxed; utilities, food, clothing, housing, and medical to name a few.

I am advocating the removal of all exemptions and believe that you will have more money than you will need. We need to work for the whole state, not just special interest groups.

Respectfully submitted,



Louis A. Klemp, Jr
1816 Pine Ridge Drive
Leavenworth, KS 66048
(913) 682-2982
Fax (913) 682-1281
lklemp@kr.rr.com
Mobile (913) 683 0501



League of Kansas Municipalities

Date: March 10, 2003
To: House Taxation Committee
From: Larry R. Baer
Assistant Legal Counsel
Re: HB 2421

Thank you for allowing me to appear before the committee on behalf of the Kansas League of Municipalities and its member cities. The League stands in support of HB 2421. The League has long taken a position in opposition to the increasing number of sales tax exemptions. In October, 2002, our voting delegation adopted the following policy statement on the issue: **"We oppose the continued erosion of the state and local sales tax base."**

There are only 2 major sources of funding for local governments since the elimination of demand transfers - property tax and sales tax. Whenever either one of these sources is limited or restricted in some way, it becomes a very serious matter for not only the local governmental units, but also for the citizens of those units. The time has come for taking a very serious look at **all** exemptions - HB 2421 is the way to approach the issue. A copy of testimony given last fall to the Special Committee on Assessment and Taxation by Don Moler, the League's Executive Director, is attached in further explanation of the League's position.

While we question if it is good tax policy for one governmental unit to be taxing another, we are willing to stand and pay our share. We believe that the elimination of all sales tax exemptions will certainly return more to local government than it will cost them. And, frankly, it will certainly return more to the State. The Department of Revenue's January, 2003, summary of the impact of sales tax exemptions on state general fund and local revenues shows total lost revenue in excess of \$4 billion. This breaks down as more than \$3 billion to the state and more than \$900 million to local governments.

I have not been present at all of the hearings on the individual sales tax exemption repealer bills. But, I have been present for about half of them and the testimony has been very consistent. "I'll move to Missouri where I won't be taxed." "It will cause an unlevel playing field between similar businesses in Kansas and Missouri." "Sales tax is a regressive tax." But, I have not heard anyone testify as to the positives that can come from the removal of the sales tax exemptions. Increased cash flow to local governments and to the state is the positive that comes from HB 2421.

House Taxation
Attachment 2
Date 3-10-03

If local governments have \$900 million more in their collective general funds, this could mean a reduction in property taxes; it could mean a reduction in the local sales tax rate. An extra \$3 billion in the SGF could mean reduced sales tax, reduced income taxes, reduced motor vehicle taxes. In other words, total tax expenditures for a Kansas taxpayer could be less and not more.

In conclusion, we believe that the public would be better served with more sales subject to the tax. This could allow for the overall lowering of the sales tax rate and other taxes statewide. Thank you very much for allowing the League to testify before you on this very important issue. I will be happy to stand for questions at such time as the Committee may desire.



League of Kansas Municipalities

TO: Special Committee on Assessment and Taxation
FROM: Don Moler, Executive Director
RE: Sunsetting Sales Tax Exemptions
DATE: October 24, 2002

First I would like to thank the Committee for allowing the League to testify today concerning sunsetting the sales tax exemptions. The League has been concerned for a number of years with the ever increasing number of sales tax exemptions and the negative impact this has on sales tax collections. As the League mentions in its *2003 Statement of Municipal Policy* "We oppose the continued erosion of the state and local sales tax base." To this end we do not believe further tax exemptions should be granted in this area as they further tend to weaken the sales tax base. As these exemptions have continued to expand at an amazing rate, the sales tax base has contracted, thus forcing higher sales tax rates on fewer sales tax payers. We have believed for some time that the time has now come for the legislature to take two very serious actions. The first is to commit to not granting any further sales tax exemptions. The track record here is not very good and I would say that we continue to be concerned that once the State's financial boat has been righted, that the business as usual approach will return in which numerous sales tax exemptions are granted every year by the legislature. Since I am standing before a Committee composed of members of the both the House and Senate Taxation Committees, I would urge the members of this Committee to refuse any further sales tax exemptions which are offered for your consideration. We believe the time has come and gone for this approach as an effective tax policy.

The State of Kansas, and local governments in Kansas, are quickly nearing a point of critical mass concerning the sales tax. This is the case because an ever increasing number of groups continue to approach the legislature asking for specific tax relief for specific situations. The League was shocked to hear during an interim committee meeting during the summer of 2000 of the number and amount of sales tax exemptions which had been granted by the Kansas legislature over the previous three years.

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

Specifically the Department of Revenue released numbers at the interim hearing of August 30, 2000 which indicated that changes in tax laws over the 1998, 1999, and 2000 legislative sessions have had a statewide impact, **on an annual basis, by reducing sales tax revenues by \$35,400,000 per year.** Figuring local taxes at an average of 1.3% that works out to \$9,390,000 in annual local sales tax

revenues which are now being lost as a result of tax legislation over only those three legislative sessions. This is a matter of significant concern to the League and its member cities. We are facing an ever increasing list of sales tax exemptions which further inhibit the ability of cities, counties, and the state itself, to provide basic public services. We would suggest that the time has come for taking a very strong look at the granting of further sales tax exemptions given the fact that revenue levels appear to have dropped significantly and may be falling in some areas.

Our second suggestion would be to take a long and hard look at all of the existing sales tax exemptions to separate the wheat from the chaff. Simply put, many of these exemptions have been put into the statutes by special interest groups which are costing the State, the cities, and the counties of Kansas literally millions and millions of dollars every year. While it is always attractive to grant sales tax exemptions when economic times are good, the real problem rears its head when economic times are hard. Such is the case this year with our huge state budget deficit.

In conclusion we believe it is time for a comprehensive review of all of the existing sales tax exemptions with an eye towards pruning out those that do not have a substantive public policy purpose behind them. As a matter of practicality I would suggest that it would have to be done as a take it or leave it proposition where numerous exemptions were eliminated at the same time. Trying to nickel and dime this process simply would not work, in my opinion. We would also urge the Committee to be reluctant to pass any more legislation which grants further sales tax exemptions and has the effect of undercutting the state and local sales tax base. Thank you very much for allowing the League to appear today. I will be happy to answer any questions the Committee may have.

**KANSAS
ASSOCIATION**



**OF
SCHOOL
BOARDS**

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on
HB 2421 – Sales Tax on Service; Repeal of Exemptions
Before the
House Committee on Taxation

By
Mark Tallman, Assistant Executive Director/Advocacy

March 10, 2003

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to speak on behalf of the Kansas Association of School Boards. We appear today as a proponent of this bill, not because we agree with it in its entirety, but because we believe the needs and expectations of Kansas citizens cannot be met within current revenues. We believe the Legislature must consider all options to raise revenue, and that expanding the tax base by taxing services or repealing sales tax exemptions should be on the table with other revenue options.

The primary interest of our association, of course, is education funding. While school districts have faced less drastic budget reductions than many other state programs during the current fiscal crisis, schools have absorbed the first reduction in the base budget per pupil since 1992 and, under the budget proposed by the Governor, will receive no increase even as mandatory costs continue to rise. On the horizon, school districts must deal with the most significant new requirements at both the federal (No Child Left Behind) and state (new accreditation regulations) in decades, perhaps in history. A study commissioned by the Legislature itself found the state was falling far short of meeting its constitutional obligation to provide “suitable funding” for its public schools. It is hardly surprising that legal challenges are proliferating, and school districts are turning against each other in a scramble to maintain their quality, or even their existence.

We realize that education is not the only important state program. We understand that social services have been sharply reduced, creating serious problems for the elderly, the disadvantaged, and the most vulnerable members of our society. Our members know that failure to meet these needs will create more problems for schools in the long run, and more problems for society as a whole.

House Taxation
Attachment 4
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We know that the promises of higher education have not been kept, and our colleges and universities – the destination of a majority of our graduates and the training institutions for our teachers and administrators – are struggling to sustain programs.

We know that the state highway plan has been significantly reduced, and that important infrastructure projects will be eliminated. Yet highway funding should not be restored at the expense of schools and social services.

We know that state aid to cities and counties has been eliminated for the remainder of this year and for the foreseeable future, at a time when public safety and security demands have never been greater.

We know that the latest revenue estimates show the state is facing a budget shortfall in the current year, an even greater shortfall next year, and a budget profile with no ending balance or reserves. This situation means that every problem described above will get worse before it gets better if the Legislature does not address revenue.

KASB does not accept the idea that the people of Kansas are best served by reducing services to students and families; by adding school employees to the ranks of the unemployed, by closing schools in neighborhoods and communities. Nor do we believe that the answer is shifting the funding burden to local property and sales taxes raised from inequitable local tax bases.

We believe that any revenue plan adequate to meet the needs of Kansas public schools and services will almost certainly require a number of components. We would support a revenue measure that includes extension of the sales tax to services, or repeal of exemptions, as part of a revenue strategy that is balanced, fair and efficient.

Thank you for your consideration.

ERIC C. CARTER
 REPRESENTATIVE, FORTY-EIGHTH DISTRICT
 14340 MACKEY
 OVERLAND PARK, KANSAS 66223
 913.568.4754
 email: ericcarter@kc.rr.com
 STATE CAPITOL BUILDING—427-S
 TOPEKA, KANSAS 66612-1504
 785.296-7699
 carter@house.state.ks.us



TOPEKA

HOUSE OF
 REPRESENTATIVES

COMMITTEE ASSIGNMENTS
 MEMBER: CORRECTIONS AND JUVENILE
 JUSTICE
 SOCIAL SERVICES BUDGET
 UTILITIES
 LEGISLATIVE HOTLINE: 1.800.432.3924
 TTY: 785.296.8430

To: Chairman Edmonds and Members of the House Committee on Taxation
 From: Steve Broas, Vice-President of Advertising, The Kansas City Star
 Re: Sales Tax on Services; HB 2421 (Testimony in Opposition)
 Date: March 9, 2003

This is an effort to help you and the House Taxation Committee better understand the financial burden that would be created with a repeal of the sales tax exemption on advertising space and time. I believe this burden would jeopardize many small-to-medium sized retail businesses that have been hurt by a recessed economy. Much of your new tax base simply would not survive. Please allow me to share a few basics.

Businesses advertising budgets are based on anticipated sales revenues and an advertising-to-sales ratio based on industry standards. This expense is built into an overall business/profitability plan. Allow me to give you a small-business example.

Year 2003 sales/revenue target: \$1,200,000

Advertising-to-sales ratio: 3%

Advertising budget: \$36,000

This budget can be adjusted by increased sales over budget. Unfortunately in a less than robust economy, many small businesses are seeing weak sales results. The alternative is to increase the advertising to sales ratio, which jeopardizes profitability, or reduce the advertising budget.

Advertising and marketing dollars are used to generate customers and drive sales results. The purchases made already contribute to the Kansas tax base through sales tax.

An additional tax will simply reduce the amount of the advertising budget made available to attract customers and drive product demand.

Advertising budget \$36,000

New tax at 5% -\$1800

Reduced Advertising Budget \$34,200

The five-percent reduction in budget would lead to a corresponding reduction in spending on advertising/marketing. This results in a reduction in product demand, which further reduces sales. Fewer sales result in less sales tax.

The new tax would severely reduce Kansas businesses ability to compete and win market share. Business is competitive. This tax would allow non-Kansas businesses a marketing advantage. Border city businesses like the non-Kansas side of the Kansas City metro area would spend less without the new tax and reach Kansas households. The non-Kansas businesses could lower prices and maintain margin, further reducing Kansas's business sales and Kansas's sales tax. Kansas businesses would struggle as non-Kansas businesses target Kansas's sales opportunities less expensively.

Sincerely,

Steven T. Broas
 Vice-President of Advertising
 The Kansas City Star

House Taxation
 Attachment 5
 Date 3-10-03



Kansas Society of Certified Public Accountants

1080 S.W. Wanamaker, Suite 200 • P.O. Box 4291 • Topeka, Kansas 66604-0291 • 785-272-4366 • Fax 785-272-4468

Testimony on HB 2421

Presented to the House Committee on Taxation

By

T.C. Anderson, KSCPA Executive Director

and

Volunteer Coordinator For
Kansans For Tax-Free Services

March 10, 2003

House Taxation
Attachment 6
Date 3-10-03

Chair Edmonds and members of the Committee.

You have had an exhausting stretch of hearings on all of the state's current statutory sales tax exemptions--the most extensive study on the subject in at least 12 years and possibly the most extensive in the history of the Legislature. I know you have heard it said at least 100 times in the past month, "our exemption is important to us and we shouldn't lose it."

As you begin these final two days of hearings for those representing currently untaxed services, I hope you will hear our message that the provider of a service will not pay any new imposed sales tax. The user of that service will pay the tax. Also, the implications of sales tax base expansion or the removal of business related sales tax exemptions will have a very negative affect on the state's economy.

As you hear the testimony from different service providers, I hope you will reflect on the numbers released last Friday by the Consensus Revenue Estimating Group. State revenues for FY 2003 are projected to be down \$105 million from last November's estimates. Individual income taxes down \$45 million; corporate taxes down \$25 million; sales tax revenue down \$30 million. Kansans are earning less, their businesses are earning less, and collectively we are spending less. What's the outlook for FY 2004? Reduce those income estimates by another \$125 million.

I am T.C. Anderson, Executive Director of the 2,600-member Kansas Society of CPAs, and the volunteer coordinator of Kansans For Tax-Free Services.

Kansans For Tax-Free Services was first organized in 1990 to address the expansion of the sales tax base and the removal of sales tax exemptions proposed by Governor Joan Finney. Kansans For Tax-Free Services has been re-energized this year in response to the many sales tax exemption bills that have been introduced, to monitor revenue enhancement proposals being developed by the administration, and to address the bill you are hearing today and tomorrow—HB 2421. A position statement and current membership of our ever-growing organization is attached to the end of my testimony.

In an attempt to bring the imposition of any new sales tax into perspective, the fact that Kansas is already a heavy taxer of services should be a great consideration. According to the Federation of Tax Administrators, in 1990 Kansas ranked 14th in the nation with its 64 taxed services. Today, according to the same group, Kansas would rank 10th with its 75 taxed services. Today, Kansas taxes 61 more services than does Colorado, 47 more than does Missouri, 43 more than does Oklahoma and 7 more than does Nebraska.

The imposition of new service taxes on Kansas citizens has been rejected by this Legislature in the past and for good public policy reasons.

Any new service tax base has a profound effect on small business.

Small businesses are more likely to contract for legal, accounting and other support services. Based upon the results of surveys I have conducted in the past, about 70 percent of Kansas CPAs' fees are paid by small business. The Department of Revenue projects a sales tax on accounting and tax services would produce \$10.4 million in FY 2003. Expansion of the sales tax to tax and accounting services would result in small business paying \$7.3 million in new taxes on accounting services alone. It's the small business that provides the greatest opportunity for job expansion in this state.

As an aside, in 1991, when the state's sales tax rate was 4.25 percent, the estimate from the Department of Revenue on the amount of revenue that would be raised by extending the sales tax to accounting and tax services was nearly a \$1 million more than today's estimate.

Any new service tax base will have an impact on Kansas' employment.

Increases in the price of a service will result in some reduction in the demand for that service. If the sales tax is applied to services provided by CPAs here are some things that could happen:

1. Taxpayers who live close to a city in a surrounding state could take their tax return to an out-of-state tax preparer and save seven plus percent on the fee.
2. Kansas accountants who have clients in neighboring states could lose them over a fee increase of seven plus percent.
3. Kansas accounting firms that have offices in cities that border our neighboring states could move into those states and escape the hassle of increasing their fees by seven plus percent.

All three scenarios result in the potential reduction of accounting related jobs in this state.

It is interesting to note that South Dakota taxes CPA services; North Dakota does not. South Dakota (756,600) has more population than North Dakota (634,500). Yet North Dakota has nearly 1,000 more CPAs than does South Dakota.

Any service tax base expansion will harm Kansans as it impacts multistate business patterns.

Sales tax statutes relating to business and professional services engender certain problems given the realities of multi-state business activity. When you apply the tax to services performed within the state, as it is my understanding Kansas does, it creates clear incentives to shift service related activity out-of- state. This incentive would be particularly significant in the many border counties of the state in which over 40 percent of the state's population lives.

I saved the following comments from James W. Wetzler, State Tax Commissioner of the state of New York in the early 1990s. His quote in the January 30, 1991, edition of the New York Times is still appropriate for today. "In looking at the tax system," he said, "its important to be mindful that just as manufacturing firms have the option of leaving, its just as possible that service firms might leave." The state of New York rejected an expansion of the sales tax base to business services in 1990.

Any new service tax expansion will have an impact on administration and compliance.

The last state to impose a sweeping expansion of its sales tax base was Florida in 1987. It was repealed a year later. Tax officials informally reported that the Department of Revenue was overwhelmed by thousands of letters requesting technical advice. The state appropriated 240 new positions for the collection and enforcement of the tax, however, many experienced employees had to be reassigned to assist taxpayers on the complexities of the new law.

Governor Finney's budget for FY 1992 contained an increase of only six new positions for the Department of Revenue to administer her proposed sales tax base expansion.

Any expansion of the sales tax base is regressive.

A sales tax on all services disproportionately imposes a heavier burden on low-income individuals. A study by William J. Shelley in March of 1987 reflected those in Florida with incomes of under \$7,500 would see their tax bill increase 2.48 percent, while those with incomes of \$75,500-plus would see a percentage increase of only .57 percent.

Mr. Chairman, with all this said, should the decision of the Committee be to advance HB 2421, I respectfully request an amendment to Section 3 on page 10 that would **exempt all services provided by Kansas certified public accounting firms from the sales tax imposed by the bill.**

Thank you and I'll stand for questions.

Kansans For Tax-Free Services

P.O. Box 4291, Topeka, Kansas 66604-0291

785-272-4366

TOLL FREE IN KANSAS 1-800-222-0452

KFTFS POSITION STATEMENT

We believe:

1. Further taxation of services will impose greater costs on consumers; lower demand on sales and production; and ultimately result in the loss of jobs and general fund revenue for Kansas; and
2. Further taxation of services will impose substantial administrative collection burdens not only upon service providers, but also the state; add to the size, complexity and cost of government; and effectively tax only those consumers upon whom the tax can be most easily enforced, i.e., businesses; and
3. Further taxation of services and the loss of statutory sales tax exemptions will cause significant damage to Kansas' economic development efforts; harm small businesses in particular since they must purchase many services which larger firms can provide internally; discourage larger businesses from contracting services out to small businesses; discourage all service oriented firms from locating in or expanding in Kansas; and add to the already high level of service taxes in this state.

Therefore, KFTFS adopts the following positions:

1. KFTFS supports an overall state tax structure which is competitive with our neighboring states; and
2. KFTFS opposes the taxation of any additional services; and
3. KFTFS opposes repealing any business related sales tax exemption designed to promote economic development.

The members of Kansans For Tax-Free Services (see reverse for membership) hereby acknowledge their concurrence in the aforementioned beliefs and are in general agreement with the policies adopted by this organization.

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Kansas Society of Professional Engineers
Kansas Bankers Association
Financial Planning Association of Greater Kansas City
Kansas Chamber of Commerce & Industry
National Federation of Independent Business
Public Accountants Association of Kansas
Heart of America Staffing Services
Kansas Consulting Association
Kansas Federation of Chain Pharmacies
Wichita Association of Health Underwriters
Kansas Agricultural Aviation Association
Kansas Building Industry Association
Kansas Dairy Association
Kansas Medical Society
AT&T
Kansas Organization for Private Enterprise
Kansas Seed Industry Association
Greater Topeka Chamber of Commerce
American Institute of Architects-Kansas
Heartland Community Bankers Association
American Massage Therapy Association-Kansas Chapter
Kansas Credit Attorneys Association
Kansas Collectors, Inc.
Kansas Academy of Physician Assistants
Kansas State Society of Anesthesiologist
Kansas Hearing Aid Association
Kansas Bar Association
Wichita Area Chamber of Commerce
Sprint
Kansas Association of Broadcasters
Kansas Association of Health Underwriters
Kansas Consulting Engineers
Kansas Association of Realtors
Dietetic Association of Kansas
Associated General Contractors of Kansas
Kansas Society of Radiologic Technologists
Kansas Independent Oil & Gas Association
Kansas Hospital Association
Kansas Dental Association
Kansas Optometric Association
Wichita Independent Business Association (WIBA)
Kansas Pharmacists Association
Kansas Manufactured Housing
Kansas Trial Lawyers Association
Kansas Association of Insurance Agents
Kansas Veterinary Medical Association
Kansas Association of Osteopathic Medicine
Kansas Society of CPAs
Kansas Motor Carriers Association
Kansas City Association of Health Underwriters
The Kansas Funeral Directors and Embalmers Association
Jetz Service Co., Inc.



The Kansas Bankers Association

To: House Taxation Committee
From: Chuck Stones, Senior Vice President

Re: SB 2421

Mr. Chairman and Members of the Committee:

The Kansas Bankers Association appreciates the opportunity to appear before you regarding SB 2421. The KBA opposes imposing a sales tax on services such as service charges and fees charged by financial institutions. The approach of HB 2421 is a complete reversal of sales taxation methodology and theory and is headed down the wrong path.

This is such a totally new approach; we are concerned with what would be considered taxable under such a requirement. Imposing a sales tax on the service charges and fees charged by financial institutions would be a tax increase without calling it a tax increase. This is not a tax on banks, it is a tax on our customers. The result would be that the citizens of Kansas would pay more sales tax than they do now.

Banks charge services charges and fees for many things. We wonder if all would be assessed, and which ones. Would some services fall under such a tax and not others? There are also many ways for banks to collect those service charges and fees. Imposing a sales tax on the service charges and fees charged by financial institutions might affect lower income Kansans disproportionately. For individual accounts, most, if not all, banks typically look at the total customer relationship when determining services charges and fees. The more products a customer uses at a bank, the less likely the bank is to charge a fee for every product. Those Kansans that do not have a total account relationship that would allow for service charges and fees to be waived would inevitably pay more sales tax.

Business account relationships are also handled in a similar manner. Many business account service charges and fees are paid through soft dollar charges called "compensating balances". These are balances kept on deposit at a bank in lieu of hard dollar charges. Many small businesses do not have the extra cash to keep these compensating balances and have to pay hard charges for the services they use. We think assessing a sales tax for bank service charges and fees would affect small businesses hardest.

There would be huge administrative burden to the entire banking industry in order to comply with gathering such a tax. Since there are no procedures in place for the banking industry, we would be starting from scratch. All new software would need to be written, new administrative procedures would have to be developed and implemented, and training of staff would have to take place. This would hit small banks especially hard. Small banks would not have the current in-house resources to implement such a large undertaking and would likely have to contract with an outside source for software and training.

The KBA opposes HB 2421, but if it passes in some form, **the exemption for the service charges and fees charged by financial institutions should remain exempt.**



Pat Hubbell Associates, Inc.
800 Jackson, Suite 914
Topeka, KS 66612-2214

March 10, 2003

Testimony offered to the Kansas House Taxation Committee regarding House Bill #2421, concerning sales tax on professional services.

The Public Accountants Association of Kansas, Inc. (PAAK) would like to thank the House Taxation Committee for their time and consideration of our comments related to this proposed legislation.

PAAK has represented public accountants in the State of Kansas for over 50 years. We are an affiliated state organization of the National Society of Accountants. Our membership consists of approximately 350 members, which includes both Public Accountants and Certified Public Accountants from all across the State of Kansas. As professional accountants serving the small business community, we also speak as advocates for our clients.

We are aware that the State of Kansas must address existing budgetary and related fiscal problems. While we in no way minimize the importance of those concerns, our comments today will focus on other potentially negative consequences created by the proposed tax on professional services. We will focus on these issues:

- Kansas economy
- Small vs. large business
- Intrastate vs. Interstate
- City/County
- Cost of government

A new tax on services will place Kansas businesses at a competitive disadvantage with businesses in other states. It will also discourage new business from locating within the State of Kansas. The fallout from this means lower demand for sales and production in Kansas, which results in the loss of profits as well as jobs within the state. As business leaves the state, and we do not replace that business with new business, general fund revenues, i.e. income tax revenue, will continue to decline. This will have a crippling effect on the state.

As you know, Kansas business can be described as mostly "small business". Most of the clients served by our members are small businesses and are not large enough to maintain the internal professional staff and specialists that a large organization would employ. Because of their size, their purchases of professional service are mandatory business needs, not discretionary, and are disproportionately high as compared with larger organizations. Large business can avoid this tax

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while small business owners would be forced to bear the entire cost of this new tax. This is an unfair advantage to large business.

Expanding sales tax to professional services harms Kansas's in several ways. First, it forces business to go outside the State of Kansas for service of all types. In regards to accountants, thousands of out-of-state companies are served by Kansas public accountants. An accountant located in the state would automatically be put at a competitive disadvantage and would lose many out-of-state contracts for services. Secondly, in-state companies would be looking to maintain their current cost for services. Either the Kansas public accountant would have to absorb the additional tax on service, or they will lose their business to an accountant outside the state. This will be especially harmful to those businesses located close to Kansas borders, but could affect any public accountant in the state. For example, it would be an incentive for an accountant to move their practice from Overland Park to the Missouri side of Kansas City. Not only have you lost the potential collection of sales tax on their services, you have lost their business net profit for income tax purposes. Other complicating issues would revolve around services mailed into the state, or performed outside the state.

Another border issue would involve cities and counties. Local sales taxes have different rates throughout the State of Kansas. Some localities have an additional county sales tax, some have an additional city sales tax, and some localities have both an additional county and city sales tax. This would cause damage to accountants competing inside the state as well as outside the state. A Kansas public accountant located in the city that has a local sales tax will be competing with other Kansas public accountants located in another locale without a local sales tax. They will either have to absorb the additional tax on services, or they will lose their business to another accountant. This is also unfair.

Lastly, the cost of government is going to increase substantially. The cost of administering a tax on professional services would be substantial. There are thousands of service providers located in the State of Kansas. Staffing at the Kansas Department of Revenue would have to be increased dramatically in order to ensure compliance with this new tax. The legislature should be commended for holding down the cost of state government in the past. This tax would drastically increase the cost of state government in the future.

We would, again, like to thank you for your consideration of House Bill #2421. We encourage the legislature to consider our assessment of why enactment of the proposed sales tax on professional service would be a mistake in that it would be damaging to the State's economy and specifically, would have an especially adverse impact on small business owners and consumers. In summary, the Public Accountants Association of Kansas, Inc. urges you to:

- Support an overall state tax structure that is competitive with the surrounding states,
- Oppose the taxation of professional service, including accounting, auditing, tax and consulting services, and
- Maintain the existing exemption from sales taxes on these professional services.

KANSAS RAILROADS

PATRICK R. HUBBELL

800 SW JACKSON
TOPEKA, KS 66612

(785) 235-6237

Tax Committee Opposition to HB 2421 – Repeal of S/U Tax Exemptions & Expansion of Tax Services

March 10, 2003

- **What Does HB 2421 Do:** HB 2421 repeals existing sales/use tax exemptions and expands the tax base to include all services not specifically exempted, including transportation service. The current railroad exemptions subject to the proposed repeal are found in KSA §79-3606 Section 1 (f), (y), and (z).
- **Transportation Service:** Expansion of the tax base to include transportation service would turn Kansas transportation service providers into State tax collectors. The imposition of the tax would fall upon both Kansas consumers and the producers of Kansas goods, who are critically dependent upon efficient, effective and inexpensive access to the world's market place.
 - *Kansas Consumers:* Transportation service is a key component in the cost of goods either imported or produced in the State and sold to Kansas consumers. Imposing an additional tax upon transportation service increases the cost of goods to Kansas consumers.
 - *Kansas Producers:* Agricultural products produced by Kansas farmers are sold in the world's market place where they are subject to intense competitive pressures. Imposing an additional tax upon such a basic and necessary service increases the real cost of such products, which must either limit the competitiveness of those products or minimize the margins realized by Kansas producers.

Transportation service is an integral component of the Kansas economy critical to accessing the world's market place to either obtain goods needed by Kansas consumers or to market goods produced by Kansas producers. Increasing the cost to provide transportation service for either purpose during the current economic environment can only serve to impede any economic recovery.

- **Oppose HB 2421:** Based upon the above, I respectfully request that you vote in opposition to HB 2421. Imposing additional costs on a vital economic service during these trying times cannot be the best way to address the budget deficit.

hub@cjnetworks.com

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Date 3-10-03



KANSAS

**Statement by
Hal Hudson, State Director
National Federation of Independent Business
Before the
House Committee on Taxation
On House Bill 2421
Monday, March 10, 2003**

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to speak with you today regarding HB 2421.

My name is Hal Hudson, and I am the State Director for the National Federation of Independent Business. On behalf of the 6,000 small business owners of NFIB in Kansas, I want to ask that you NOT add to their business operating costs by imposing sales tax on services that now are not taxed.

I would like to point out that wages paid to employees by business owners are not subject to sales tax. Many small businesses contract for services of accounts, attorneys, and others because they are not large enough to afford hiring full time employees to provide these services. Adding sales tax to the cost of these services simply would reduce the income available to the business.

We know that the state's sales tax revenues are down - because the farm economy is down and farmers are not buying; thousands are unemployed and they are not spending at the level they did when they were fully employed. Corporate profits are down, in part, because sales are down. Hence corporate income tax receipts are down.

At a time when the Kansas economy is so fragile, I urge you not to increase the tax burden on the business community by increasing sales tax in any area that impacts on businesses. To do so would only make it more difficult, especially for small business to continue providing jobs for their current employees, or to provide jobs for any of the thousands currently unemployed.

Everyone recognizes the revenue dilemma facing Kansas government, and we know you have a tough job ahead trying to find a way to fund necessary services. However, we encourage you to continue looking at ways to reduce the costs of government, rather than increasing the tax burden on an already weak economy.

Thank you.

March 10, 2003

Representative John Edmonds
Chairman of the House Taxation Committee
300 S. W. 10th Avenue
Room 171-W
Topeka, Kansas 66612-1504

Chairman Edmonds and Members of the Committee,

My name is Shirley Martin-Smith. I am proud to be a native Kansan and I live in Lawrence. I appreciate the opportunity to address this committee as you try to determine how to address the fiscal issues of our Great State.

I am here today, representing the Kansas Chamber of Commerce and Industry as Chair-elect of the KCCI Board of Directors. I am also here to speak to you on behalf of my business and the impact a sales tax would have on my company.

The Kansas Chamber of Commerce and Industry strongly opposes HB2421, enacting a sales tax on services.

The business community believes that in order to keep Kansas competitive in the marketplace, the cost of doing business cannot be increased. Enacting a sales tax on services would put Kansas companies at a competitive disadvantage with surrounding states and the nation as a whole.

The Kansas Chamber adopted a policy in 1987 opposing the expansion of the tax base to services. The KCCI Board unanimously reaffirmed this policy in December 2002. We firmly believe that enacting a sales tax on services would be detrimental to the Kansas business community. The sales tax revenues estimated for services, if enacted, would be difficult to realize by the State of Kansas. The enactment of a sales tax on services will translate to a decrease in sales.

Some Kansas businesses will plan around these increases by moving their taxable operation to another state, meaning less Kansas jobs. Other businesses will not be able to pass these increases to their customers because it will make them less competitive in the marketplace. Absorbing these costs will mean less taxable profit and less money available for expansion and creation of more Kansas jobs.

Chairman Edmonds, I indicated that I am a small business owner. I am president of Martin-Smith Personnel Services, Inc., a Kansas Corporation. We own the franchise rights to do business under the brand name of Adecco Personnel Services a/k/a Adecco – The Employment People. We are part of the world's largest international staffing company. Our offices are located in Wichita, Topeka and Lawrence.

We recruit, train, and test talent for both fulltime and temporary careers in both the private and public sectors. Taxing my industry presents interesting ramifications for our business, and affects

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the very core of what we do – help people find work.

A sales tax on staffing services is a tax on jobs and wages.

Industry studies show that raising the cost of staffing services reduces the demand for those services. Reducing demand means less opportunity for temporary workers to get jobs and also can reduce employ's wages.

Those hurt the most by a sales tax on the staffing industry are minorities, women, retirees, laid-off workers seeking new opportunities, and individuals transferring from welfare to work – the men and women of our state to whom our recruiting efforts are principally directed.

Taxing our industry will make it harder to attract businesses to our state. 95% of U.S. businesses depend on our industry to help them through peaks and valleys of their business cycles. Those states which tax staffing services are less attractive in which to do business.

An impact of enacting a sales tax on our industry will be more than a tax of 5.3%. For example...

Our industry has been providing staffing services to the State of Kansas since 1996. As an approved vendor to the State, we must pay the State 2% of our sales to the State back to the State for contract management. As a provider of staffing services to the State, we will not only be required to pay a 2% management fee, but a 5.3% tax on that same sale to the State which equals a 7.3% charge on each sale to the State.

The ripple effect is that our prices will increase to the State in order to cover our costs. Higher prices will translate to decreasing sales for my company. A decrease in sales translates to fewer jobs in my company due to the decrease in business.

Another impact of enacting a sales tax on our industry is that it will tax taxes...

When we provide temporary staff to public and private entities, the sale to our client is in the form of an hourly rate for actual hours our temporary associate works for our client. Within that hourly rate are all legal employer related costs such as Worker's Compensation, State Unemployment Insurance, Social Security, and Federal Withholding. These taxes paid on wages would be taxed again.

A tax on the employer related taxes would not only drive up costs for labor, but also will naturally drive down the need for workers and eliminate job opportunities for those individuals who choose temporary work to enhance their search for employment opportunities.

In closing, Mr. Chairman, I want to thank you for the opportunity to present this information to you today. The Kansas Chamber stands ready to provide you with any additional information you may require in your consideration of the consequences of the sales tax on services and its impact on Kansas business.

March 10, 2003

To: House Taxation Committee

From: Phil Aitken, Signature Staffing, Inc.

Re: H. 2421

I am testifying before you to ask you to oppose H 2421 which would impose a sales tax on staffing services. I am general manager of Signature Staffing, Inc., a temporary staffing firm located in Overland Park, Kansas. We recruit and place job candidates on temporary, temp-to-hire, and permanent positions with dozens of Kansas companies. Our company employs hundreds of great people each year. According to industry sources, staffing service firms in Kansas created over 17,000 jobs per day last year.

Sales taxes on staffing services are a tax on jobs and wages. Industry studies show that by increasing the cost of my staffing services, a sales tax will reduce the demand for those services and put my temporary employees out of work or reduce their wages. Those who would be hurt most by a sales tax are minorities, women, retirees, laid-off employees seeking new opportunities, and individuals transferring from welfare to work—the men and women of this state to whom our recruiting efforts are principally directed. This will cause a negative ripple effect throughout the state economy. Support services associated with providing temporary help, such as telephone service and other utilities, also will be affected and a sales tax will cost jobs in those industries as well.

The higher unemployment associated with a sales tax on staffing services will have a dampening effect on consumer spending and will likely offset much of the anticipated sales tax revenue. The job losses that result from taxing staffing services will not only reduce expected sales tax revenue, but will also reduce income tax and other tax collections throughout the state. The unavoidable conclusion is that a sales tax would be largely, if not entirely, self-defeating. The negative impact on the overall state economy also will make it harder to attract workers and businesses to our state. This will put us at a serious competitive disadvantage relative to the great majority of states that do not impose such taxes.

For these reasons, I would appreciate your opposition to H 2421.

I am a member of HASSA (Heart of America Staffing Services Association) and also ASA (American Staffing Association). Please do not hesitate to utilize me as a resource if you need further information regarding the negative impact of sales tax on staffing.

Thank you for your time.

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Monday, March 10, 2003

To: House Taxation Committee, Representative John Edmonds, Chair

From: Dan Koenig, President – Overland Park Chamber of Commerce

Re: Opposition to HB 2421 - Tax on Services

A handwritten signature in black ink, appearing to be "DK", written over the "From:" line.

The Overland Park Chamber of Commerce greatly opposes a sales tax on services.

Overland Park is a service and knowledge-based city. We are home to corporate giants such as Sprint, Black and Veatch, Employers Reinsurance Corporation, Farmers Insurance, Universal Underwriters, Midland Loan Services and thousands of businesses in the financial, legal, insurance, technologies, telecommunications and engineering fields.

Since 1990 Overland Park has built more than 15 million square feet of commercial office space, and, according to land use plans, we have room for additional 10 million square feet of office. Overland Park, population 160,000, has more than 6,700 businesses employing more than 130,000 workers, giving us a daytime population well in excess of 250,000.

Research statistics indicate that our service sector makes up more than 1/3 of Johnson County's entire employment base. Based on our concentration of professional office space, regional and corporate headquarters, that percentage is substantially higher in Overland Park.

As the Chamber's previous Director of Economic Development, I know first hand that a tax on services would put Overland Park and Johnson County business in a competitive disadvantage with neighboring states. During the last several weeks I have heard business owners say that if a tax on services is imposed, they will move, not out of the area, not out of their marketplace, but across the state line – to Missouri.

In the past decade, Johnson County accounted for 40 percent of state's total job growth and 48 percent of the state's business growth. Locally, Johnson County accounts for nearly two-thirds, or 58 percent of the Kansas City MSA's business and job growth. Statewide, Johnson County accounts for 25 to 30 percent of all income, sales, property and corporate income tax collected.

Having worked side-by-side with the Kansas Department of Commerce and Housing on numerous attraction, expansion and retention projects, I know the State of Kansas, Overland Park and Johnson County have competitive advantages over neighboring states. I've worked the numbers. I know the product.

Simply stated, if a tax on services is imposed, thousands of business in Overland Park, Johnson County and the State of Kansas will consider alternative locations, resulting overall in millions of dollars of lost state revenue.

It is for these reasons, and the sake of time, that I strongly encourage the committee not to impose a tax services.

TESTIMONY

STATE OF KANSAS HOUSE TAXATION COMMITTEE

In Opposition to House Bill #2421

**ARNOLD GORDON
CARDINAL/BG SERVICE SOLUTIONS**

**RONALD BAKER
BG SERVICE SOLUTIONS**

March 10, 2003



Cardinal/BG Service Solutions

Thank you for the opportunity to provide testimony before the Kansas House Committee on Taxation this morning. I am Arnold Gordon of Cardinal/ BG Service Solutions in Topeka and with me is Ronald Baker one of the founders of BG Service Solutions in Kansas City. Our company has a history of over thirty years of service in the building service contracting industry. We are a member of the Building Service Contractors Association International, an international association representing our industry. Mr. Baker is a past President of the organization.

A majority of our the industry is made of up independent small business owners. Currently our services are not subject to the Kansas Sales Tax. We as business owners are very concerned about the possibility of our services being subject to a sales tax. Our concerns are based on the following:

The addition of a sales tax on our services is **not** something we can pass along to our customers. In conversations with our customers they have advised us that if a sales tax is passed on our services, they will have several choices to make in order to not pay the increased fees. They will either make the decision to take the service “in house” or ask us to reduce the fees we charge to include sales tax.

Our customers contract with building services contractors to outsource the service in order to reduce costs. The addition of a sales tax will raise the cost of services provided to a point it may be more cost effective to the customer to bring the service in house. This will result in the loss of jobs for employees of our companies and loss of revenue to our companies. In an environment where we would like to see government promoting business growth, this would actually harm business. If the customer requires us to absorb the cost of the sales tax, we would be forced to lay off staff at each facility where work is performed. Lost jobs translate into added costs for the state as well as loss of taxation income to the state.

15-2

Today our companies are faced with serious situations where competitors illegally misclassify their employees as "subcontractors". When our competition does this, the price to the customer is reduced by almost twenty percent, because of the avoidance of various taxes due to the state and federal governments. This practices while illegal is going unchecked and causing a loss of jobs and income. Our company recently lost a large job in Overland Park to a competitor who illegally classifies their employees as subcontractors. Over sixty of our men and women lost their jobs. Many times the competition employee's undocumented workers to fill these subcontractor positions. The result is the following:

The customer saves money, almost twenty percent

The "illegal" subcontractor is not tracked by the state or federal governments

The Federal and State governments do not collect a wide range of taxes

The undocumented workers use various state services.

Our recommendation is that rather than pass a measure, which we view as being harmful to business pass legislation that would eliminate illegal subcontracting. This could be a measure, which perhaps could place liability for taxes onto the customer, when they deal with building service contractors who illegally classify their employees as subcontractors. We have given information to Representative Gordon on this matter.

On a personal basis, Mr. Baker has had several off the record conversations with individuals from various economic development authorities in Kansas City. They have indicated that over the years they have battled Kansas trying to attract and retain business. They believe a tax on services in the state of Kansas, would actually aid Missouri in its' efforts to attract business from Kansas.

In summation: we hope that rather than tax janitorial services, which would cause economic harm to our employees and our businesses, you look to correcting problems in the misclassification of employees as "illegal subcontractors.

March 7, 2003



President
Robert D. Fincham, AIA
Topeka

President Elect
Richard Bartholomew, AIA
Overland Park

Secretary
Mark Franzen, AIA
Overland Park

Treasurer
Jan Burgess, AIA
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Topeka
John Gaunt, FAIA
Lawrence
Justin Harclerode, AIAS
Manhattan
James Jones, Assoc AIA
Manhattan
Brad Kingsley, AIAS
Manhattan
Jeff Kloch, AIAS
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Manhattan
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Andover
Nancy L. Steele, AIA
Wichita
Jason Van Hecke, AIA
Wichita
Jeffrey W. Weiford, AIA
Wichita
Bruce Wrightsman, AIA
Manhattan
Topeka, KS 66615

Executive Director
Trudy Aron, Hon. AIA, CAE
aron@aiaks.org

TO: Representative Edmonds and Members of the House Tax Committee

FROM: Trudy Aron, Executive Director

RE: **OPPOSITION FOR HB 2421**

Good Morning Mr. Chairman and members of the Committee. I am Trudy Aron, executive director, of the American Institute of Architects in Kansas (AIA Kansas.) Thank you for the opportunity to address your committee today regarding our opposition to HB 2421.

AIA Kansas is a statewide association of architects and intern architects. Most of our 700 members work in over 100 private practice architectural firms designing a variety of project types for both public and private clients including justice facilities, schools, hospitals and other health facilities, industrial buildings, offices, recreational facilities, housing, and much more. The rest of our members work in industry, government and education where many manage the facilities of their employers and hire private practice firms to design new buildings and to renovate or remodel existing buildings.

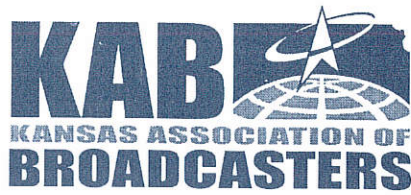
The passage of HB 2421 would do irreparable harm to the architectural firms in the State of Kansas. Architecture is a highly competitive profession with high overhead and slim profit margins. It is also an extremely portable service that can be easily performed outside the State. A sales tax on architectural services will have the following impact:

- **Competitive disadvantage with out-of-state firms.** The additional cost of sales tax on architectural services will cause many Kansas clients to seek services from outside our state to avoid paying this added cost. Even if the tax could be applicable to out-of-state firms, the state would find it difficult to collect.
- **Kansas firms doing national and international design will be forced to relocate outside the state, significantly reducing jobs and tax revenues.** A number of design firms presently export their services nationally and internationally. The addition of the tax on these services will make it impossible for our firms to compete with those in other states for these contracts. These firms will be forced to move outside Kansas to remain competitive. The net result will be less design services provided by Kansas firms, less income and profit for Kansas firms, and one more reason not to do business in Kansas.
- **Architecture design involves many team players – consultants, not employees.** The complexities of designing today's building projects require many specialists. In most projects the client hires the architect who contracts with a host of consultants – structural engineers, civil engineers, mechanical engineers, electrical engineers, landscape architects, interior designers, and any special consultants such as security, food service, lighting, acoustical, etc. The fee paid the architect includes the fees of the consultants – many times half or more of the total fee goes to consultants. Each consultant would charge the architect sales tax on their fees and the architect would bill the owner for the total fees + tax, thereby taxing the tax already paid to the consultants.
- **Radical Increase in Cost for Government in the State of Kansas.** Removing the sales tax exemption for the State, cities, counties, school districts, special districts, and all other government entities will severely impact their budgets. This increased cost will hamper these entities in providing services to their constituents. 48% of all architectural services

are provided to governmental entities. There will be fewer dollars to spend on architectural services and those services will cost more – both of these will combine to further restrict the number of projects and the ability of firms to continue to practice in Kansas.

The removal of the sales tax exemption for architectural services will have a devastating affect on our firms. Those in the Kansas City metro area will, most likely, move across the state line to Missouri where their services are not taxed, others will continue to practice but will find it more difficult to find clients and to pass on their increased costs. We urge this committee to continue to exempt architectural and engineering services from sales tax.

I will be happy to answer any questions you may have.



1916 SW Sieben Ct, Topeka KS 66611-1656
(785) 235-1307 * FAX (785) 233-3052
Web site: www.kab.net * E-mail: harriet@kab.net

Testimony Before House Taxation Committee
March 10-11, 2003
HB 2421

Mr. Chairman and members of the Committee, I am Harriet Lange with the Kansas Association of Broadcasters. KAB's membership is comprised of free, over-the-air broadcast radio and television stations who bring you and your constituents, news, information and entertainment, and who commit on a daily basis, the resources of their stations to sponsor or support worthwhile community service projects and causes; stations who contribute more than \$111 million in public service and fund raising activities in a year's time.

We oppose passage of HB 2421. The KAB opposes the repeal of the sales tax exemption on broadcast equipment and electricity; we oppose the repeal of all business related sales tax exemptions; and we oppose a tax on the sale of advertising, advertising services and all professional services. Enactment of this bill will send a message to businesses across this country that we are not interested in being competitive in attracting businesses and jobs.

The remainder of my remarks will focus on the issues which directly impact broadcasters.

The programming which broadcasters provide is free to our listeners and viewers. Our only source of revenue is advertising. So we are very concerned when this body starts talking about a sales tax on advertising and advertising services. In these economic times, many of our members could not survive what would amount to a 5.3% or higher, hit to their bottom line.

There will be severe economic repercussions if the sale of advertising or advertising services become subject to sales tax:

- Kansas businesses who provide advertising and advertising services would be placed at a disadvantage with their competitors in other states. This is particularly damaging for stations in state line cities like Kansas City. For example, the radio and television stations located in Johnson County and Wyandotte County - KCTV/5, Entercom Radio (KMBZ AM, WDAF AM, KUDL FM, KYYS FM, KXTR AM, KQRC FM, KRBZ FM and KCIY FM), Susquehanna Radio (KCMO AM/FM, KCFX FM), KFME FM, KCCV AM/FM, KCNW AM, KCZZ AM, and WHB AM/KCTE AM - who compete for advertising revenue with

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stations located in Kansas City, MO, would stand to lose significant revenue if they are required to collect a sales tax on advertising while their competitors in Missouri are not.

- Tax measures which discourage advertising will exacerbate our sluggish economy; advertising creates sales and sales create jobs. Advertising is the fuel which energizes our economy. We should be encouraging the sale of advertising, rather than discouraging it.
- A tax on advertising or advertising services would increase the cost of doing business and would place a greater burden on small and emerging businesses because small businesses do not typically have in-house advertising/creative departments, as many larger businesses do;
- A tax on advertising would cause chaos with national ad buys as it did in the state of Florida several years ago. Florida enacted a tax on professional services, including advertising, and later rescinded it because of the devastating impact it had on Florida's economy. National and regional advertisers would just bypass Kansas in their advertising buys.

Although we appeared at the February 4 hearing on HB 2075, the bill which would repeal the sales tax exemption on equipment and electricity purchased by radio and television stations, I want to remind the Committee why this exemption was enacted.

(KSA 79-3606(zz) exempts "all sales of machinery and equipment purchased by over-the-air, free access radio or television stations. . . and all sales of electricity" . . . required to produce and put a broadcast signal on the air.")

This exemption addressed an inequity that existed in our sales tax law. Newspapers, which are broadcasters' primary competitors for advertising revenue, are able to take advantage of the sales tax exemption on machinery, equipment and utilities granted to manufacturers. Prior to the exemption in 79-3606(zz), the state, through its tax policy, was providing a competitive advantage to newspapers over broadcasters. The exemption in 79-3606(zz) corrected this inequity. Although our exemption does not have a major impact on state revenues, it means a great deal to each and every local radio and television station serving your respective communities.

We urge you NOT to pass HB 2421.

Thank you for your consideration.



The Historic Lackman-Thompson Estate

11180 Lackman Road
Lenexa, KS 66219-1236
913.888.1414
Fax 913.888.3770

TO: Representative John Edmonds, Chairman
Members, House Taxation Committee

FROM: Blake Schreck, President
Lenexa Chamber of Commerce

DATE: March 10, 2003

RE: **HB 2421—Sales Tax on Services**

The Lenexa Chamber of Commerce would like to express its strong opposition to House Bill (HB) 2421, which imposes sales tax on the rendering or furnishing of all services, including professional services.

The services sector is a critical component of the Kansas economy, contributing through capital investment, payroll and other taxes. **Services accounted for at least 48% of the state's total job growth between 1990 and 2000, adding more than 142,000 jobs during that period. In 2000, the most recent year for which data is available, services accounted for at least 600,000 Kansas jobs, over 1/3 of the state's total employment of 1,782,814, and produced earnings of more than \$7.5 billion (over 1/3 of total earnings in Kansas.)**

On a local level, services accounted for at least 46% of Johnson County's total job growth between 1990 and 2000, adding more than 56,000 positions. In 2000, services accounted for at least 160,000 Johnson County jobs, almost half of the county's total employment of 364,721, and produced earnings of more than \$3.3 billion (nearly half of the total earnings in Johnson County.)

Imposing sales tax on the rendering or furnishing of services would be poor long-term economic policy for the state. **Taxation of services would create a number of detrimental effects, including:**

- Higher costs for consumers
- Lower demand for services and production
- Costly new administrative burdens for both the state and for service providers
- Harming small businesses who must purchase services that larger firms provide internally, such as accounting, legal services, janitorial support, and computer services
- Discouraging large businesses from outsourcing certain services to small businesses

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More importantly, by increasing business costs, the competitive position of Kansas service providers would be significantly worsened against competitors located in the vast majority of states that do not tax services. **This impact would make it very difficult both to recruit service firms or to retain them in Kansas, resulting in lost capital investment, jobs and taxes.**

While these negative impacts would be felt by businesses throughout the Kansas economy, the potential consequences are particularly onerous in the state's forty border counties. Because they require few durable fixed assets, service sector firms can be relatively fluid. This concern is especially true in the Kansas City metropolitan area, where labor and capital flow freely across the state line and competing business opportunities abound on the Missouri side of the border—a state that does not tax services.

The possibility of out-migration is a very real threat. When the Kansas legislature last considered this issue in the early 1990s, the chief executive officers of three major Johnson County firms publicly reported that, should such a proposal become law, it would be necessary to move their businesses to Missouri (along with thousands of jobs) in order to remain competitive within their markets. In the January 25, 1991, edition of the *Johnson County Sun* newspaper, the managing partner of Black & Veatch engineering firm explained:

“This firm cannot be competitive nationally or internationally with a sales tax on our services. It is a very competitive environment.

Oftentimes the difference between the top three contenders on a major project is just a few percent. A sales tax would put us at a horrible competitive disadvantage.

We might be able to pass on the tax for work done in Kansas, but that represents a small part of our work. We would not be able to pass along the work we do for virtually every state and in 30 countries. Competition won't allow it, and we cannot absorb \$12 million in taxes.

We would begin to phase out of Kansas.”

The economic impact of out-migration on local communities and the state would not end there. Such job loss initiates an economic ripple effect that touches almost every other sector of the economy, resulting in more lost jobs and a decline in household earnings.

At a time when promoting economic recovery is critical, it makes poor sense to seriously jeopardize a key economic sector that has managed to stay relatively healthy, and we strongly believe the short-term revenue gains Kansas might realize from taxing services would be far outweighed by its long-term costs and losses in capital investment, payroll, taxes, and other economic factors. Therefore, because it would not be good long-term economic policy for the state, the Lenexa Chamber of Commerce strongly urges the committee not to recommend HB 2421 for passage. Thank you for your time and attention.



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Mayor Peggy
Dunn, *Advisory
Director*

Memorandum

To: Representative John Edmonds, Chairperson
Members, House Taxation Committee
From: Kevin Jeffries
President & CEO of the Leawood Chamber of Commerce
Date: March 10, 2003
RE: HB 2421

The Leawood Chamber of Commerce would like to express its opposition to HB 2421, which would impose sales tax on services performed by Kansas businesses.

Taxing these services when they are not taxed by adjoining states would put Kansas businesses at a competitive disadvantage, especially for businesses in communities that share borders with states not imposing similar taxes. Nearly 50% of the businesses that are members of the Leawood Chamber of Commerce provide services that would be impacted by this legislation. Without exception, our member businesses that have contacted us about this legislation have indicated they would be put at a substantial competitive disadvantage. They have informed us that as responsible business persons, they would be forced to seriously examine relocating their businesses to the Missouri side of the state line in the event this bill became law in the State of Kansas.

As we are sure you are aware, rather than taxing the provider of the services, such a tax has the effect of increasing the cost to the user of the services. In a time when we are trying to stimulate economic recovery in Kansas, it does not seem appropriate to impose additional taxes on a sector of our Kansas economy that is relatively healthy, and potentially chase that healthy sector of the Kansas economy out of our state.

For these reasons, we would ask that you not recommend HB 2421 favorably for passage. Thank you for your time and attention.

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Date 3-10-03



Shawnee Area Chamber of Commerce

“Partnering with Business to Showcase Our Community”

6333 Long, Suite 350
Shawnee, KS 66216
(913) 631-6545
(913) 631-9628 (fax)
www.shawneechamber.com

March 7, 2003

TO THE ATTENTION OF THE HOUSE TAXATION COMMITTEE

**THE SHAWNEE AREA CHAMBER OF COMMERCE,
REPRESENTING OVER 600 BUSINESSES,
STRONGLY OPPOSES
HB 2421, SALES TAX ON SERVICES,
REMOVAL OF ALL SALES TAX EXEMPTIONS.**

The strength and growth of the Kansas economy depends on businesses continuing to compete in a fair and competitive arena.

The service sector is one of the strongest and growing sectors of the economy. To tax this sector at a time when we are trying to promote economic recovery is not acceptable. This says nothing to the fact that virtually no other state imposes a sales tax on their professional services businesses.

Executive Committee, SACC Board Of Directors
Linda Leeper, President of Shawnee Area Chamber of Commerce

House Taxation
Attachment 20
Date 3-10-03



Kansas Farm Bureau

2627 KFB Plaza, Manhattan, Kansas 66503-8508 • 785.587.6000 • Fax 785.587.6914 • www.kfb.org
800 S.W. Jackson, Suite 817, Topeka, Kansas 66612 • 785.234.4535 • Fax 785.234.0278

PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

Re: HB 2421 -- sales tax on services and repealing sales tax exemptions.

**March 10 and 11, 2003
Topeka, Kansas**

**Leslie J. Kaufman, State Director
KFB Governmental Relations**

Mr. Chairman and members of the Committee, thank you for the opportunity to present comments in opposition to HB 2421. As you know, the bill would result in applying the state sales tax to services and removal of sales tax exemptions. I am Leslie Kaufman, State Director of Governmental Relations for Kansas Farm Bureau (KFB). KFB is the state's largest general farm organization and represents agricultural producers through the 105 county Farm Bureau Associations across Kansas.

Farm Bureau members are significantly impacted by a wide variety of taxes and fees and have a vested interest in the state's tax structure. As such, our delegates have enacted policy on a wide variety of tax issues:

- *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;*
- *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;*
- ***The sales tax should not be imposed on services; and***
- ***Existing exemptions should remain in place.***

These strong policy statements demonstrate how firmly our members feel about sales tax issues and preserving sales tax exemptions. As such, changes proposed in HB 2421 fall outside our member-adopted policy guidelines and we must oppose the bill.

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Date 3-10-02

The elimination of a tax exemption results in increased operational expenses. Unlike many other businesses and industries, agricultural producers are almost always price takers in the marketplace, not price setters. Generally, a producer does not have the ability to increase the price for his or her commodity if expenses go up.

Taxing services will, most likely, increase operational costs for producers. Providers of crop consulting services, farm management advisors, veterinarians, accountants, attorneys, feed/agricultural services providers and a multitude of other service providers are all likely to have their services taxed under this bill. Most will likely need to increase their costs to cover this additional business expense, thus passing the impact on to the consumer/farmer. The farmer will see his/her cost of business increase, but will not have a way in which to pass on that cost. He/she will have to absorb that additional expense. Margins are extremely thin in the agricultural sector and many producers will suffer under this additional burden.

We have already commented before this committee on removal of sales tax exemptions many times this session. We will not repeat all that we have said previously, but would remind you of the statements we have submitted throughout this process and our desire to see current exemptions preserved.

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 tax and regulatory structures that are favorable for keeping families on the farm and do not further depress an already sluggish economy or any single sector of the economy. If agricultural operations fail, the rural economy, rural communities and the state all lose.

We appreciate this opportunity to briefly convey our opposition to HB 2421 and respectfully ask the committee to continue current state sales taxation policy ensuring existing exemptions remain and that services currently not subject to sales tax remain so. Please feel free to contact us should you have any questions on our policy positions or testimony. 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.

To: House Taxation Committee

From: Diane Costello, Olathe Chamber of Commerce

"dcostello@olathe.org".SMTP.GWDOM1

Date: 3/9/2003 5:55 PM

Subject: Re: Sales tax on Services - HB 2421

CC: Taylor, Frank

>>> "Diane Costello" <dcostello@olathe.org> 03/07/03 07:23PM >>>

While certainly recognizing the severity of our state's budget crisis, **the Olathe Chamber of Commerce, through its Board of Directors and 1,500 members, strongly opposes the implementation of new sales tax on services not currently taxed (HB 2421).**

To many struggling, taxpaying families and small businesses who are tired of seeing government grow faster than their own incomes, the prospect of higher taxes is understandably unsettling.

Expanding the sales tax base to include services is a tempting plum for legislators longing for those heady days when money flowed into Topeka like water. The broad range of productive service activities encompasses everything from finance to advertising. A new tax on any number of those services would almost surely become a permanent stream of new revenue that would be used for more than just budget balancing in the near-term.

Even if revenue from taxing services went to deficit reduction dollar for dollar, however, this is still an idea that carries substantial baggage. When the State of Florida extended its 5 percent sales levy in 1987 to most services, 240 new full-time enforcement positions had to be created. Massive and expensive "education" programs were planned to dispel confusion and raise the expected first-year compliance rate of only 65 percent. But the unworkable tax never made it to its first anniversary. It was killed by an outraged citizenry, a chastened legislature and a thoroughly embarrassed governor. That experience is a major reason why you can count on one hand the number of states which levy a broad-based and comprehensive sales tax on services.

Taxing services in Kansas would have especially detrimental effects on small businesses, which routinely contract out for bookkeeping, accounting, office equipment repair, janitorial, legal, computer and a host of other service activities. A large competitor can often provide such things in-house, thereby avoiding a sales tax on them. This should concern us, since the lion's share of new jobs are created by small businesses.

Economists have shown that sales tax collection and compliance costs rise as the size of the business decreases. Small, family-run firms experience compliance costs that can be four to five times greater than those incurred by their big competitors.

A 1987 study by the American Legislative Exchange Council pointed out that the regressive impact of the sales tax on low income people would be further magnified with its application to services. It would show up in their medical, dental, and legal bills, for instance.

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All across Kansas, citizens are coping with the challenges of an ailing economy. And they are coping by reexamining their spending. They are re-prioritizing, and doing without some things they'd love to have. They are hiring less, spending less, taking fewer and shorter vacations closer to home. They are stretching further the dollars they have, and generally exerting the discipline necessary to weather the storm. Why should state government do otherwise?

In other states:

There are very few states that impose sales taxes upon services. Attempts to extend the sales tax base to cover services are usually met by fierce opposition. New Mexico levies what appears to be a 5% sales tax upon services; however, the New Mexico tax is actually levied on businesses' gross receipts. The tax resembles a sales tax in that in almost every case the business passes the tax on to the consumer. Hawaii and South Dakota also levy taxes upon services, but these states also implement the tax as a tax on businesses' gross receipts.

Texas currently taxes a wide range of services including amusement services, (e.g. sporting events, health clubs, golf courses etc.) cable TV services, insurance services, and various personal services (laundry, dry cleaning, carpet cleaning, etc).

The state of Florida implemented a major expansion of its sales tax to include services in 1987, but the policy was quickly repealed after being in effect for 6 months. Observers of the 1987 Florida policy cite antitax campaign rhetoric in the 1988 election in combination with a concerted opposition effort by the media (who were aggravated by the inclusion of the tax on advertising services) as factors for the swift repeal. There even was an effort by the Florida State Senate to again implement the state sales tax on services, but this has since been scaled back to be a constitutional amendment proposal to form a committee with the power to repeal certain sales tax exemptions.

Diane Costello
Vice President, Public Affairs
Olathe Chamber of Commerce
142 N. Cherry Street; PO Box 98
Olathe, KS 66051-0098
913 764-1050 / 800 921-5678
Fax 913 782-4636
dcostello@olathe.org
www.olathe.org

Cardiovascular diseases and stroke claim the lives of more Americans than the next seven leading causes of death combined.

Heartland Affiliate

6800 West 93rd St.
Overland Park, KS 66212
(913) 648-6727
fax (913) 648-0423
www.americanheart.org/ks

**Testimony In Opposition to HB 2421
House Taxation Committee
9 am – March 10, 2003**

Mr. Chairman and members of the Committee, thank you for the opportunity to appear before you today. I am Kevin Walker, Senior Director of Advocacy for the American Heart Association.

The American Heart Association exists to fight heart disease and stroke – the first and third leading causes of death in Kansas. In fact, cardiovascular disease and stroke account for 44% of all deaths in Kansas each year and are responsible for more deaths than the next seven leading causes of death combined. Nationally, it is estimated that total direct expenditures for treatment of cardiovascular disease in 2003 will be nearly \$210 billion. Adding indirect costs for lost productivity and the total cost of cardiovascular disease for 2003 is estimated to top \$350 billion.

The Health Care Finance Administration (HCFA) reports that in 1999 \$26.3 billion in payments were made to Medicare beneficiaries for hospital expenses due to cardiovascular problems nationwide. That was an average of \$7,883 per discharge. In May of 2000 it was reported that acute care for coronary artery disease in Kansas results in more than 17,000 hospital admissions annually with an estimated direct cost of \$700 million.

The human and financial impact of cardiovascular disease and stroke are too great to ignore. The American Heart Association has been the leader in the prevention and treatment of cardiovascular diseases. The research we have funded just at our Kansas institutions of higher learning has yielded tremendous results including the discovery of new drugs to treat and prevent minor strokes as well as the collection of important data on the re-narrowing of arteries following angioplasty.

Simply stated, the work of not-for-profit health organizations such as the American Heart Association play a major role in the betterment of life for all Kansans. Not only are Kansans benefiting from our free health screenings and information, but our universities benefit from the investment we make through our research grants.

Here is just a quick look at some of the major contributions the American Heart Association offered to Kansans without charge during 2002.

Research Projects Funded

Kansas State University	\$308,939
Kansas University Medical Center	\$938,435
Kansas University – Lawrence	\$684,740
	\$1,932,114

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Date 3-10-03

Cardiovascular diseases and stroke claim the lives of more Americans than the next seven leading causes of death combined.

Heartland Affiliate

6800 West 93rd St.
Overland Park, KS 66212
(913) 648-6727
fax (913) 648-0423
www.americanheart.org/ks

Free CPR training

Community based events

2,200 people trained at an average cost of \$25 amounts to **\$55,000**

CPR In Schools Program

100 students at Blue Valley Schools in Overland Park. In 2003 the program was expanded to schools in Independence, Kansas and the Washburn Rural School District in Topeka where we expect an additional **300+** students to be trained this year. Amounts to **\$2,500** in 2002.

Free educational literature

37,000 pieces distributed at an average value of \$.25 each amounts to **\$9,250**

Health Education Programs and Screenings

24,800 people screened at an average value of \$10 amounts to **\$248,000**.

As you can see, any money we save through the sales tax exemption is put to good use and reaches people of all ages throughout the state. In addition to the services above, we continually provide physicians and other medical personnel the latest research and prevention education so that they can be of better service to their patients.

Our efforts are paying off. In Kansas, from 1989 – 1999 we've seen a 14.8-percent decline in the death rate from cardiovascular disease. For the same period we've seen a 6-percent decrease in the death rate from stroke. These survivors are returning to the workforce and adding to our economy through renewed productivity and spending.

While we are seeing some cost savings in treating cardiovascular disease, the explosive increase in type II diabetes and obesity – particularly among youth – will only fuel the cardiovascular epidemic for years to come. Eliminating our sales tax exemption will only shift money away from prevention and toward expensive treatment. This is precisely the opposite of what we should be doing.

I recognize that you and your colleagues have difficult decisions to make, but I doubt that the value of the Heart Association's sales tax exemption will amount to much more than a rounding error in your budget deliberations. On the contrary, however, the loss of the exemption would certainly impact our ability to deliver life-saving benefits back to the state at the levels we currently do.

I respectfully ask that you oppose this bill, and appreciate the opportunity to appear before you today. I will be happy to answer any questions you may have.



Kansas Press Association, Inc.

Dedicated to serving and advancing the interests of Kansas newspapers

5423 SW Seventh Street • Topeka, Kansas 66606 • Phone (785) 271-5304 • Fax (785) 271-7341 • www.kspress.com

March 10, 2003

HB 2421

Committee on Taxation

Chairman John Edmonds

Speaking on behalf of the Kansas Press Association and its 230 member newspapers, I strongly oppose HB 2421.

The repeal of the current sales tax exemptions and the imposition of a sales tax on the rendering or furnishing of all services would be counterproductive. It would create a domino effect that would have far-reaching consequences on business and industry, place additional burdens on an already struggling economy, and encourage higher prices, which would ultimately be passed on to Kansas consumers.

A tax on advertising is counterproductive because it would inhibit the sales of goods, depressing the economy and reducing the state's sales tax revenues.

A tax on advertising would create a domino effect because the tax would be passed on through the advertiser, who will have to charge more for his goods and services. This amounts to double taxation.

Advertising makes a major contribution toward holding down prices because it fosters competition. Reduced advertising means reduced competition and encourages higher prices. Newspapers also would lose revenue critical to their operations.

Furthermore, we support the continuation of the current sales tax exemptions. We believe these exemptions are appropriate and justifiable. Since the time they were enacted, these exemptions have contributed to the growth of manufacturing and business in this state. They boost economic development and assist Kansas' businesses in competing with neighboring states.

In these difficult times, Kansas needs tax legislation that encourages, not discourages, stability and economic growth.

I urge you to vote against HB 2421. Thank you.

Jeff Burkhead, executive director
Kansas Press Association

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Date 3-10-03

March 7, 2003

Representatives:

The State of Kansas will be making a grievous error if House Bill 2421 passes and results in taxation of advertising space and time. If the intent is to generate tax dollars for the state, this measure will prove counter-productive. This has been demonstrated in other states that proceeded with, and later rescinded, an advertising tax. Here's why:

- Businesses establish an advertising schedule based on a percent of sales, following guidelines and norms established for their industry. If the state tax becomes a part of that advertising cost, businesses will simply reduce the amount of advertising so that their budgets remain the same.
- Advertising creates demand for products and increases retail sales. Consequently, a reduction in advertising will result in less demand and a decrease in retail sales.
- When retail sales decline, the collection of sales tax is also diminished. Furthermore, reduced sales eventually translate into fewer jobs both in the retail and manufacturing sector.

In short, advertising produces the final sale -- which is already taxed. Advertising itself is not the end product. Therefore, taxation of advertising is regressive because it ultimately results in higher retail prices for consumer goods.

In addition to its detrimental effect on consumers and retail businesses, House Bill 2421 would also harm the State of Kansas. The aforementioned decline in sales taxes would only aggravate the state's economic woes and budget shortfalls. What's more, the state would need to invest a great deal of money (that could be better spent on more immediate needs) on the administration and collection of this new tax. In its 1987 effort to tax advertising, the State of Florida spent millions of dollars to hire over 200 new auditors, and it was not enough! Advertising is an exceptionally complex field with many variable rates and considerations. Not to mention the variety of media and advertising options available to every business.

The harm to media companies must also be considered, for it is substantial. Reduced advertising necessitates reduced content. This is why a tax on advertising is construed by some, including the Association of National Advertisers, as a direct attack on the First Amendment. And in this ongoing economic slump, advertising expenditures have already been dramatically cut. A tax on advertising guarantees that media companies will see additional cuts due to:

- Retailer's reallocation of their advertising budgets to include sales tax.
- A decline in sales. (Because advertising budgets are based upon a percent of sales, when sales decline so do advertising budgets.)
- Economic impact. By reducing sales, this tax reduces jobs (which reduces help-wanted advertising). As retailers advertise less, consumer confidence will continue to wane. This becomes a vicious circle.
- National advertising dollars leaving the state. National companies have many choices regarding where to invest their advertising budgets. During the 1987 Florida tax, Pensacola broadcasters experienced a 45% loss of revenue as advertisers shifted their dollars to competitors across the state line in Mobile, Alabama.

Our plea to you today is that you think long-term about the harm that HB2421 will do to the State of Kansas, its citizens and its businesses. Advertising is the engine that fuels the economy. Do not allow that engine to be stalled!

Thank you,

Steven T. Broas
Vice President of Advertising
The Kansas City Star

March 10, 2003

Good Morning,

It is my understanding that House bill 2421 will be discussed today in the Taxation committee. I'd like to go on record as opposing this bill.

My reasons are: Local media will experience huge losses, which will lead to the loss of jobs and make it extremely difficult to provide the current level of news and programming.

The increased cost of advertising will cause advertisers on fixed budgets to run smaller or less ads to compensate for the increase expense caused by such a tax. This in turn will affect their advertising results lowering their sales thus lowering the sales taxes collected.

Finally, other states have tried this (Florida) and have not been successful. The results were as predicted, the loss of dollars and jobs.

Thank you for your consideration.

Mike Tieman
Vice President of Advertising
The Wichita Eagle

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Attachment 25
Date 3-10-03



THE TOPEKA CAPITAL-JOURNAL

616 SE Jefferson • Topeka, KS 66607-1110 • 785-295-1237 • FAX 295-5637 • e-mail: rwilliamson@cjonline.com • www.cjonline.com

March 10, 2003

The Honorable John Edmonds, Chairman
Kansas House Committee on Taxation
State Capitol
300 S. W. 10th Avenue
Topeka, Kansas 66612-1590

Dear Rep. Edmonds:

I represent the Topeka Capital-Journal and our 255 employees and their families. We are gravely concerned about the proposed repeal of sales tax exemptions contained in House Bill 2421. We are concerned not only about the effects on our own industry, newspaper publishing, but also about the effects on the people of Kansas and the economy of the State as well. Of particular concern is the repeal of the sales tax exemption for services, which covers the advertising services we provide to our clients.

We recognize that the critical State budget situation requires that new sources of revenue be considered. However, we feel that the repeal of the sales tax exemptions, especially those on services, would only make a difficult situation worse. A repeal of the sales tax exemption on services would have far reaching consequences such as further increasing the medical, dental, and child care expenses, to name just a few, which have already increased substantially and now burden many Kansas families.

In the case of our industry, newspaper publishing, applying sales tax to the advertising services we provide will increase the costs to our clients. These increased costs will have cascading negative effects in the form of reduced sales because of reduced advertising or increased costs that must be passed along to consumers. To state the obvious, decreased retail sales will result in less sales tax revenue to the State of Kansas.

Taxing advertising services in Kansas will place Kansas businesses at a relative disadvantage to neighboring states that do not impose sales tax on advertising. National advertisers will leave the State to move to markets where higher coverage can be achieved with fewer dollars. Cheaper, untaxed advertising will reach Kansas consumers from out of state sources across our borders, reducing advertising expenditures and associated sales revenue that would have been spent in Kansas.

Advertising is a primary source of revenue for the newspaper publishing industry. Because of the economy, advertising revenue has decreased from prior year levels. Further, many Kansas newspaper publishers are also struggling to deal with increased newsprint, medical, distribution, and insurance costs. A reduction in advertising, caused

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Date 3-10-03

by the increased expense due to sales tax, will inevitably contribute to job losses in newspapers throughout the State.

Finally, newspapers provide advertising services in many forms and it will be difficult to develop an equitable tax structure. Administration of such a tax structure will also be complicated, expensive, and cumbersome.

In summary, a repeal of the sales tax exemption for advertising simply does not make good sense for Kansas. I strongly urge you to oppose the repeal of the sales tax exemption on services as it now exists in Kansas.

Sincerely,

John Fish
Publisher
Topeka Capital-Journal



KANSAS OPTOMETRIC ASSOCIATION

1266 SW Topeka Blvd. • Topeka, KS 66612

(785) 232-0225 • (785) 232-6151 (FAX)

koa@cjnetworks.com

HOUSE COMMITTEE ON TAXATION TESTIMONY ON HOUSE BILL 2421 March 10, 2003

Thank you for the opportunity to share our views on House Bill 2421. I am Gary Robbins, Executive Director of the Kansas Optometric Association. We would respectfully request an exemption for "optometric services" in Section 3 starting on page 10. Taxation of professional services provided by an optometrist will only be an additional increase in rising medical costs and insurance premiums. As the Legislature is acutely aware, rising health insurance premiums have significantly affected virtually all agency budgets in recent years. In addition, there are significant administrative complications in attempting to collect a sales tax for medical and optometric services involving health insurance coverage. This would include addressing whether or not the sales tax is computed on the billed amount or what the insurance company actually pays weeks or months later. Would the sales tax apply on co-insurance, crossover claims with other insurance including workers compensation and deductibles? In light of the potential to increase health insurance costs further, we strongly urge the House Committee on Taxation to insert an exemption for optometric services in Section 2.

In addition, we would also respectfully ask that the subsection (r) exemption on medical, prosthetic and orthopedic devices found on page 15, starting at line 4 be restored. The arguments noted above related to rising health care costs apply equally to the need to restore this exemption. I have also attached a copy of my February 5, 2003 remarks to the House Committee on Taxation on this exemption. The burden of a sales tax on all forms of medical devices and supplies would penalize some of our most vulnerable citizens suffering from serious health and medical problems.

In conclusion, thank you for considering our requests for an exemption in section 3 for "optometric services" and restoring the exemption for various medical devices in 79-3606 r on page 15 of House Bill 2421.



Affiliated with
American Optometric Association

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Attachment 27
Date 3-10-03