

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman David Corbin at 10:10 a.m. on February 13, 2004, in Room 519-S of the Capitol.

All members were present except:
Senator Barbara Allen

Committee staff present:
Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:
Marlee Carpenter, Kansas Chamber of Commerce
Natalie Bright, Wichita Independent Business Association

Others attending:
See Attached List.

Senator Corbin called the Committee's attention to the minutes of the February 10 meeting.

Senator Oleen moved to adopt the minutes of the February 10, 2004, meeting, seconded by Senator Donovan. The motion carried.

SB 371—Income tax credit for retailers' cost of implementation of destination-based sourcing rules

Marlee Carpenter, Kansas Chamber of Commerce, testified in support of **SB 371**. She noted that the Chamber supports the Streamlined Sales Tax Project (SSTP). However, the destination sourcing portion of the SSTP has been burdensome for Kansas retailers to administer because they must change and upgrade both their hardware and software. For many businesses, this is a major expense, and the bill addresses some of their concerns. (Attachment 1)

Committee discussion followed regarding the tax credit, which could not exceed \$500 per retailer and which could apply only to costs incurred for purchasing computer hardware or software or to modify existing equipment. Senator Corbin commented that, when the summer interim committee studied the issue, \$500 was suggested as a starting point for the purpose of discussion. As the bill is written, the fiscal note would be approximately \$2,500,000. Staff noted that the interim committee was given a demonstration of a small handheld personal digital assistant (PDA) device which small businesses not on-line could purchase for destination sourcing purposes at a cost of approximately \$700 to \$800. In addition, staff noted that, in order to be eligible for the tax credit, a retailer's sales or compensating use tax liability could not exceed \$10,000 in either calendar year 2003 or 2004. Senator Journey requested that staff prepare a balloon amendment with language providing for a refundable credit instead of a tax credit.

Natalie Bright, Wichita Independent Business Association (WIBA), testified in support of **SB 371**. At the outset, she noted that, due to the hardships destination sourcing has had on WIBA's members, WIBA has taken the official position that it is not necessary to implement the SSTP laws until the federal government actually places an Internet sales tax into effect or rules interstate commerce may be taxed. Although **SB 371** does not delay the implementation, it provides a \$500 tax credit in recognition of the extreme hardship Kansas retailers, particularly small retailers, have incurred since the enactment of **HB 2005** in 2003. (Attachment 2)

Ms. Bright responded to questions from the Committee concerning the extreme burden destination sourcing places on WIBA members, all of which are small business owners. Senator Donovan suggested that, instead of a tax credit, perhaps a better approach would be an administrative allowance (percentage of sales tax collected) for small businesses up to a certain size but not for business beyond that size. In response, Richard Cram, Kansas Department of Revenue, stood to inform the Committee that the SSTP places no restriction on this concept and that it would be a policy decision for participating states.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:10 a.m. on February 13, 2004, in Room 519-S of the Capitol.

Senator Corbin called the Committee's attention to testimony in support of **SB 371** submitted by Ashley Sherard on behalf of the Lenexa Chamber of Commerce (Attachment 3) and Wes Ashton on behalf of the Overland Park Chamber of Commerce (Attachment 4).

There being no others wishing to testify, the hearing on **SB 371** was closed.

The meeting was adjourned at 10:45 a.m.

The next meeting is scheduled for February 16, 2004.

**The Kansas Chamber of Commerce
835 S.W. Topeka Blvd.
Topeka, Kansas
785 357 6321**

**February 4, 2004
Kansas Senate Assessment & Taxation Committee
SB 371
By Marlee Carpenter, Vice President Government Relations**

Mr. Chairman and members of the committee:

I am Marlee Carpenter with The Kansas Chamber of Commerce here to testify in support of SB 371. The Kansas Chamber has been a proponent of the Streamlined Sales Tax Project (SSTP) and continues to support a level playing field for all retailers.

Destination sourcing, which was part of the SSTP, has been exceedingly burdensome for retailers to administer in the state of Kansas. With over 750 sales tax jurisdictions, retailers are faced with increased administrative and compliance costs. For retailers to implement destination sourcing, many must change and upgrade both their hardware and software. For many businesses this is a major expense. SB 371 addresses some of their concerns.

The Kansas Chamber supports the administrative allowance for retailers who today are forced to collect and remit this tax without compensation to the Department of Revenue. With the additional burden brought about by destination sourcing, we feel that it is time to pay retailers for this important job.

While The Kansas Chamber supports the SSTP, we support a delay in implementation of destination sourcing rules. Finally, the Kansas Chamber also requests that retailer amnesty provisions be considered for the period of uncertainty during which the destination sourcing rules have been enacted and the Department of Revenue has declared a grace period regarding enforcement.

Again, the Kansas Chamber supports SB 371 and we urge passage of this measure. Thank you for your time and I will be happy to answer any questions.

The Kansas Chamber is the statewide business advocacy group, with headquarters in Topeka. It is working to make Kansas more attractive to employers by reducing the costs of doing business in Kansas. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have nearly 7,500 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, large and medium sized employers all across Kansas.

*Senate Assessment & Taxation
2-13-04
Attachment 1*



Wichita Independent Business Association

THE VOICE OF INDEPENDENT BUSINESS

Testimony in favor of
SB 371
Submitted to the
Senate Committee on Assessment and Taxation
February 9, 2004

Chairman Corbin and Honorable Committee Members,

I am Natalie Bright and I am appearing on behalf of the Wichita Independent Business Association (WIBA) in favor of SB 371. As all of you are aware, implementation of Destination Sourcing has been very burdensome for Kansas retailers. Many WIBA members have struggled with its implementation because it has taken a tremendous amount of administrative time and effort which equates to a considerable amount of cost in order to implement the tracking system required to comply with Destination Sourcing. In addition, several of our members have invested significant dollars in having to purchase new computer systems and software to meet the demands of the new law.

Due to the hardships Destination Sourcing has had on our retail members, WIBA has taken the official position that it is not necessary to implement the Streamline Sales Tax Project (SSTP) laws until such a time as the federal government actually places an Internet Sales Tax into effect or rules interstate commerce may be taxed. WIBA recommended in late August of last year that a bill be introduced to place the implementation of SSTP into abeyance until six months following the date the federal government authorizes collection of state sales tax on interstate commerce transactions. Additionally, WIBA recommended the State maintain origin sourcing for Kansas businesses shipping to Kansas destinations and if that is not possible then the 751 Destination Sourcing codes should be reduced to one statewide tax or at a minimum one tax for each County.

Although SB 371 does not propose to do any of the above, it does provide a \$500 income tax credit for some retailers incurring expense associated with complying with the implementation of Destination Sourcing and the members of WIBA appreciate your recognition of the hardship Kansas retailers have incurred since the enactment of HB 2005. While several of our members have reported incurring expenses larger than the \$500 proposed credit, we believe this proposed bill is both an acknowledgement of the great amount of cost associated with Destination Sourcing and is, at the very least, a step in trying to assist the smaller sized retailers with offsetting their costs.

Thank you for the opportunity to appear before you today. I will stand for questions.

415 S. Main Street / Wichita, KS 67202-3719
316-267-8987 / 1-800-279-9422 / FAX 316-267-8964 / E-mail: info@wiba.org / Web Site: www.wiba.org

*Senate Assessment & Taxation
2-13-04
Attachment 2*



The Historic Lackman-Thompson Estate

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

TO: Senator David Corbin, Chairman
Members, Senate Taxation Committee

FROM: Ashley Sherard, Vice-President
Lenexa Chamber of Commerce

DATE: February 9, 2004

RE: **SB 371—Tax Credits for Costs Associated with
Implementing Destination Sourcing**

The Lenexa Chamber of Commerce would like to express its support for the concepts embodied in Senate Bill (SB) 371, which would create a one-time income tax credit of up to \$500 for certain small business retailers' costs incurred in implementing destination-based sourcing of sales tax.

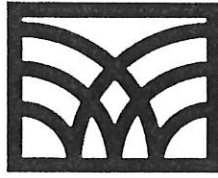
Recognizing the importance of striving for a level playing field among retailers and the legitimate need to enforce collection of sales tax revenues in order to fulfill critical governmental responsibilities, the Lenexa Chamber of Commerce continues to support legislation that facilitates the collection of state and local sales tax on remote sales.

Implementation of legislation passed during the 2003 session toward that aim, however, has resulted in increased burdens for many retailers, particularly effort and expense necessary to comply with new destination-based sourcing rules. Direct costs associated with this change have included the purchase of computer hardware, computer software, modifications to existing systems, and other equipment – costs that hit small businesses particularly hard.

The credit contained in SB 371 would not only help mitigate the financial impact of last year's legislation on the smallest businesses, but it would also send an important message to affected retailers that the legislature recognizes the burden it has imposed on them and that retailers continue to be valued Kansas businesses.

While we would prefer that the bill benefit a greater number of retailers, the Lenexa Chamber of Commerce urges the committee to consider SB 371 favorably for passage. Thank you for your time and attention to this issue.

*Senate Assessment & Taxation
2-13-04
Attachment 3*



OVERLAND PARK CHAMBER OF COMMERCE

TO: Senator David Corbin, Chairman
Members, Senate Taxation Committee

FROM: Wes Ashton, Director of Government Relations
Overland Park Chamber of Commerce

DATE: February 13, 2004

RE: **SB 371- Tax credit for Compliance with Destination Sourcing.**

The Overland Park Chamber of Commerce supports the concepts contained in SB 371, which will assist the businesses of Kansas in their efforts to comply with the destination sourcing rules. We believe this is important legislation that can help alleviate some of the burden for businesses that are working to comply with the new law.

The Overland Park Chamber has recognized that the national compact dealing with the Streamline Sales Tax is a worthy goal. The Overland Park Chamber has followed the Streamline Sales Tax issue throughout the legislative process, and continues to support this tax as a way of leveling the playing field among retailers and to gain additional revenues for government that could otherwise be lost. The Chamber encourages this committee to continue to remain in compliance with the national compact, while still looking for ways to assist businesses that are making the transition.

This credit would help businesses to cover the costs of the transition, including costs associated with updating software and additional payroll costs to remain in compliance. The Overland Park Chamber has over 1000 member-businesses, and this bill would affect a significant number of them, particularly small businesses. Additionally, with the close proximity to the state line and the large number of taxing jurisdictions in Johnson County, this credit would mean a great deal to the small business owner that is trying to update his or her business to destination sourcing.

The Overland Park Chamber believes that this legislation is a concept worthy of support, and encourages the committee to continue to look for ways to help business while moving forward with implementation.

For all the foregoing reasons, the Overland Park Chamber of Commerce encourages the committee to consider SB 371 favorably for passage. Thank you for your time and attention to this issue.

*Senate Assessment & Taxation
2-13-04
Attachment 4*