

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 9:12 a.m. on March 2, 2010, in Room 783 of the Docking State Office Building.

All members were present except:

Representative Mario Goico- excused

Representative Tom Hawk- excused

Committee staff present:

Gordon Self, Office of the Revisor of Statutes

Scott Wells, Office of the Revisor of Statutes

Chris Courtwright, Kansas Legislative Research Department

Brandon Riffel, Kansas Legislative Research Department

Marla Morris, Committee Assistant

Conferees appearing before the Committee:

Others attending:

See attached list.

Discussion and Possible Action on:

HB 2549 - Imposition of sales tax on certain goods and services, elimination of certain sales tax exemptions and fund-raising sales

Staff Chris Courtwright, Kansas Legislative Research Department, briefed the Committee on **HB 2549**. The bill was part of the Kansas Advisory Council on Intergovernmental Relations (KACIR) package and deals with the repeal of certain sales tax exemptions. He stood for questions.

Representative Menghini distributed for consideration, newspaper articles from *The Seattle Times* and *The Denver Post* as an indication of what other states are doing regarding sales tax exemptions (Attachment 1). She offered information in the Legislative Post Audit Performance Audit Report and portions that pertained to the sales tax exemptions addressed in **HB 2549**.

At the request of Chairman Carlson, Secretary Wagnon, Kansas Department of Revenue, offered clarification on the conceptual exemptions in **HB 2549**. She stood for questions.

Representative George moved to amend **HB 2549** by re-inserting *repair* on page 15, line 11 and striking section q. The motion was seconded by Representative Brown. The motion carried.

Representative Siegfroid moved a conceptual amendment to reinsert the group of non-profits by name and non-profits by purpose. The motion was seconded by Representative Powell. The motion carried.

Representative Siegfroid moved to pass **HB 2549** adversely. The motion was seconded by Representative Powell.

Representative King made a substitute motion to pass **HB 2549** as amended without recommendation. Representative Wolf seconded the motion. The motion carried.

Representative Menghini introduced her Legislative Pages Tanner Smith and Ryan Menghini from Frontenac.

The next meeting is scheduled for March 3, 2010.

The meeting was adjourned at 10:20 a.m.

HOUSE TAXATION COMMITTEE

DATE: March 2, 2010

NAME	REPRESENTING
Jimmy Rose	KCSL
Bob Eckhardt	Self
Tom Brown	Setz Cos.
JUDITH GARD	CAPITOL ADVANTAGE
GENE MEYER	KANSAS REPORTER
Michelle Butler	Cap. Strategics
Greg Eckles	KS Chamber of Commerce
Laura Shaw	KACCT
Tracy Racine	KCSL
Maisha Lee Jones	KMHA
Samuel Lopez	United Health Group
Ray Johnson	Federal Reserve
BRAD HARRISON	KFB
Mark Schreiber	Westar
Judi Fogel	Civil Service
LARRY R. BAER	UICM
Bob Laverman	Greater KC Chamber
Ron Stribe	KARL
Chris Messner	American Cancer Society

The Seattle Times

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\$500M in tax breaks targeted to help close budget gap

By Jim Brunner
Seattle Times political reporter

OLYMPIA — Washington's \$2.7 billion budget shortfall is prompting the Legislature to take a closer look at a state tax code riddled with hundreds of tax breaks carved out over decades for various businesses.



TIM BOYLE / GETTY IMAGES

Senate Democrats propose to cap a tax break for first-mortgage lenders as part of a budget that would pare 26 specific loopholes and exemptions.

Senate Democratic leaders on Tuesday proposed a budget that would pare 26 tax loopholes and exemptions, bringing back \$500 million a year to the state treasury. They also want to ensure closer scrutiny of any future tax exemptions.

The Senate plan would end a long-standing tax deduction for used-car trade-ins, cap a tax break for first-mortgage lenders, and start charging sales tax on nonorganic fertilizers and sprays purchased by farms. Private airplane owners, coin dealers and out-of-state credit-card companies would also see higher taxes.

That's only a small slice of the more than \$50 billion a biennium worth of state tax breaks on the books.

But the Senate plan immediately drew shots from critics who argue many of the tax breaks are justified — and ending them would cost jobs.

And even as lawmakers look to halt tax exemptions for some industries, there are proposals in the Capitol to extend others benefiting aluminum smelters, zinc mines and newspapers, among others.

With state House budget writers set to unveil their own tax plans as early as Wednesday, the argument over which industries receive or lose cherished tax breaks is bound to grow more intense. Lawmakers are scheduled to pass a budget and adjourn the 60-day legislative session by March 11.

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"For every one of these tax breaks there was a lobbying campaign to get them on the books in the first place, and there is a lobbying campaign to retain them," said Marilyn Watkins, policy director for the Economic Opportunity Institute, a labor-supported think tank that has urged legislators to close many more corporate tax loopholes.

Republicans and some business representatives argued the Senate Democrats' tax plans will cost the state jobs.

"The two industries hit the hardest are the two we need the most to recover — home sales and auto sales," said Sen. Joe Zarelli, R-Ridgefield, the ranking Republican on the Senate Ways and Means Committee.

Zarelli was referring to the Senate plan's intent to end long-standing tax breaks that aid auto sellers and banks selling home loans.

The car-tax break was created by a voter-approved initiative in 1984. Now, for example, if a customer trades in a \$5,000 used car toward the purchase of a \$20,000 car, the customer pays sales tax only on \$15,000, saving around \$400 in taxes.

Ending the trade-in deduction would hurt car dealers already reeling from the recession, said Vicki Giles Fabre, executive vice president of the Washington State Auto Dealers Association. She said new car sales in Washington dropped about 26 percent in 2009, while the national drop was 22 percent.

"This is an industry that has been on the brink — in this state — of disaster for lost dealerships and franchises and you are making that worse by taking away incentives for the customers. You are going to add fuel to the fire," she said.

The Senate plan also would change Washington's sales-tax exemption for nonresidents to a rebate program.

Instead of just flashing an Oregon driver's license to avoid sales tax, for example, Oregonians would have to keep track of purchases and send in an application for a rebate. The state assumes many wouldn't bother, so the state would reap an additional \$24 million a year in taxes.

Senate Democratic leaders said they're weighing each of the tax exemptions against cuts to state services that will be required if the state does not raise more revenue.

Senate Majority Leader Lisa Brown, D-Spokane, called the Senate budget blueprint a "moral document" that takes a "balanced and responsible" approach of cuts, tax increases and closing some tax exemptions to avoid slashing services such as education and health care.

The Senate plan also calls for more scrutiny of any new tax exemptions proposed in the Legislature.

Attachment
Date

At the very least, any tax-break legislation should be required to include a statement saying why it is needed and an end date, according to an outline provided by Sen. Phil Rockefeller, D-Bainbridge Island, who helped write the Senate tax plan.

His proposal also would require businesses receiving tax breaks to divulge more information about the benefits they get.

Rockefeller sits on a citizen panel that has been slowly poring over the tax code's 500-plus exemptions and special, lower tax rates for certain businesses or industries. But that group's mandate has been limited, resulting in few recommendations to actually end tax breaks.

So Rockefeller said he'll also propose a new task force charged with more aggressively scouring tax exemptions, evaluating their worth, and comparing them to other states.

"The narrower the tax exemption, the more specifically targeted to a specific taxpayer or group of taxpayers, the more you have to ask whether it was developed in the public interest," he said.

Staff reporter Lillian Tucker contributed to this report.

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Ritter signs bills to end tax breaks, help balance budget

By Tim Hoover
The Denver Post

Posted: 02/25/2010 01:00:00 AM MST

Updated: 02/25/2010 05:59:52 AM MST

Thousands of businesses will be getting letters over the next few days from the Colorado Department of Revenue with an important message: Sales of items ranging from soda to farm pesticide are no longer tax-free starting as soon as Monday.

Gov. Bill Ritter signed nine bills into law Wednesday eliminating or suspending tax exemptions and credits, and six of the bills take effect March 1. A measure that would impose the state's 2.9 percent sales tax on candy and soda, items that previously had been tax-free like all food purchased for home consumption, goes into effect May 1.

The latest estimates show the bills are expected to generate \$15.6 million for the current budget year and \$102.3 million for fiscal 2010-11. Two other

Extras

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bills scaling back tax credits for conservation easements and corporations that locate in enterprise zones still are making their way through the legislature and could add about \$30 million to that total for 2010-11.

Ritter signed the bills in his office without fanfare but answered questions later from reporters.

The Democratic governor said he believed cutting the tax breaks "was appropriate given the necessity to close the shortfall" in the state budget, which stands at \$2.2 billion for the current budget year that ends in June and \$1.3 billion next year.

He said concerns about how the tax measures might affect Democratic election prospects in November did not weigh into his decision.


"I would hope that nobody in this building would

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think that they should worry more about the 2010 election than they would worry about balancing this budget," Ritter said.

But Senate Minority Leader Josh Penry, R-Grand Junction, said Democrats will see the fallout from the bills next fall.

"When the voters head to the polls this November, an unwritten question they'll be asked is, 'Do we want a one-party Democratic monopoly that views tax increases as the solution for every challenge that confronts us, or do we want balanced leadership who will cut spending across the board instead of kicking businesses and families when times are tough enough?' " Penry said.

Senate Republicans called for more than \$300 million in cuts next year that they said should be focused on state payroll, though they did not offer specifics on programs or departments to trim.

Asked whether the cost to businesses from the removal of the tax exemptions wouldn't just be passed on to consumers, Ritter said it depends.

"There are some that may well be passed on to the consumer by choice," said Ritter, citing the removal of the tax exemption for soda and candy. "There's a variety of these that I think are probably not going to be passed on to the consumer as much as they'll impact the bottom line of the corporation or the company that is involved."

Tim Hoover: 303-954-1626 or thoover@denverpost.com

What the changes will do

The nine bills signed into law Wednesday will:

HB 1189, eliminate a sales-tax exemption on direct-mail materials.

HB 1190, suspend a sales-tax exemption on energy used in the industrial process.

HB 1191, eliminate the sales-tax exemption on candy and soda.

HB 1192, repeal a sales-tax regulation that imposed a sales-tax exemption on downloaded software.

HB 1193, attempt to collect sales tax on out-of-state online retail sales in the same way online sales made by retailers with physical locations in Colorado are subject to sales tax.

HB 1194, eliminate a sales-tax exemption on "nonessential" food items purchased by restaurants, such as paper napkins, plastic forks and cardboard containers.

HB 1195, suspend a sales-tax exemption on agricultural compounds such as pesticides and bull semen.

HB 1196, limit an income-tax credit for

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alternative-fuel vehicles.

HB 1199, temporarily limit the amount of net operating losses companies can carry forward on their taxes.

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