

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairman Edmonds at 9:00 a.m. on March 26, 2002 in Room 519-S of the Capitol.

All members were present except: Representative Mays, excused
Representative Wilson, excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor
Winnie Crapson, Secretary

Conferrees appearing before the Committee:
Representative Huy
Representative Daniels
Steve Kelly, Department of Commerce and Housing
Marlee Carpenter, Kansas Chamber of Commerce & Industry
Jim Edwards, Kansas Chamber of Commerce & Industry
and Kansas Economic Development Alliance
Don Moler, Kansas League of Municipalities
Bernie Koch, Wichita Chamber of Commerce
Ed O'Malley, Overland Park Chamber of Commerce
Karl Peterjohn, Kansas Taxpayers Network
Hal Hudson, National Federation of Independent Business
David White, SWB Communications
Bob Meuschke, MO-KS Coin Laundry Association
Timothy Etzel, Jetz Services
Kevin Walker, American Heart Association
Marcene Grimes, Alzheimer's Association
Judy Keller, American Lung Association

Written Testimony:
Ron Hein, Kansas Restaurant and Hospitality Association
Mike Beam, Kansas Livestock Association
Corey Peterson, Associated General Contractors
Janet McPherson, Kansas Farm Bureau
Martha Neu Smith, Manufactured Housing Association
Kansas Building Industry Association
Mark Beshears, Sprint

Others Attending: See attached list

Public hearing was opened on **HB 2995** - Income tax deduction for federal income tax liability.

Representative Huy provided written testimony in support of **HB 2995** (Attachment #1) which included a letter from John R. Todd of Wichita supporting the bill.

Marlee Carpenter presented testimony in support of **HB 2995** on behalf of the Kansas Chamber of Commerce and Industry (Attachment #2). It is the longstanding policy of KCCI to support the full deduction of individual and corporate federal income tax liability in computing Kansas taxable income.

Written testimony was presented by Karl Peterjohn setting forth reasons the Kansas Taxpayers Network supports **HB 2995** (Attachment #3).

Hearing on **HB 2995** was closed.

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Public hearing was opened on **HB 2961** - Doubling enterprise zone tax credits.

Steve Kelly presented testimony in support of the bill on behalf of the Kansas Department of Commerce and Housing (Attachment #4), saying the bill was offered in recognition of difficulties confronting Kansas businesses, the primary engine of economic growth and key to the economic health of the state. He explained that there is presently a limited time stimulus of tax credits for capital investment and job creation for companies qualifying. This would allow for projects commenced during a six-month window of time beginning July 1, 2002, for a doubling of credits presently allowed and would extend the limit for enterprise zones to counties 25,000 and under in population from the present 10,000.

In response to questions he said he did not believe a feasibility study would be considered the commencement of a project. Regulations would be written and in his view groundbreaking would probably be considered commencement.

He was asked whether looking at economic incentives as a whole it would be the policy of the Department of Commerce & Housing to encourage manufacturers in preference to others. He responded that while they encourage all businesses, there are in the current statutes some incentives and some restrictions making it easier for manufacturers to qualify for the credit. They try to make it possible for more businesses to qualify but that has not been the will of the Legislature, and that some point to the fact that manufacturing jobs provide more spin-off economic activity because of the nature of the business. They have tried to allow flexibility to adjust to the changing economy so there are more opportunities for services.

When asked he said that although he did not have copies of them, cost benefit analyses studies have been done concerning manufacturing compared with retail and service businesses. He thinks typically machine jobs do tend to have more spin-off economic activity on a local level and that as a rule manufacturing would have more stimulus effect than other types of business.

Marlee Carpenter presented the written testimony of Jim Edwards on behalf of the Kansas Chamber of Commerce and Industry and the Kansas Economic Development Alliance supporting **HB 2961** (Attachment #5). His testimony noted that prior to September 11 in competition for new business growth as well as expansion of existing industry, Kansas found itself on perhaps the highest level seen in several decades. Due to the economic slowdown created by September 11, many businesses are seriously reconsidering expansion or relocation plans. Providing restructured incentives can truly help bring plans off the drawing board and move them towards completion. **HB 2961** would assist by increasing state tax credits for business development activities that start during the period July 1, 2002 to December 31, 2002.

Ed O'Malley presented testimony in support of **HB 2961** on behalf of the Overland Park Chamber of Commerce (Attachment #6), stating that doubling the enterprise zone tax credits for will have an immediate and significant effect on their business growth. He described aspects of the Overland Park economy and said this would encourage businesses to rehire people and might encourage businesses considering coming to Overland Park.

Hearing closed on **HB 2961**.

Hearing was opened on **HB 2902** - Taxation, repealing income tax, sales tax exemptions.

Representative Williams gave oral opening remarks concerning **HB 2902**. He said it was based on the principle of how he believes the tax system should be structured. Every time exemptions are given to one party, parties not given exemptions end up paying more of the bill for state government. Dealing only with sales tax here. **HB 2902** eliminates a vast majority of sales tax exemptions and allows the food and groceries exemption and if enough money is left over, to completely eliminate the income tax. He noted a mistake in the bill as drafted dealing with a few non-profits. His intention was to repeal the exemption on all not-for-profit organizations it is important to clarify that.

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In response to a question as to how it would benefit Kansas to eliminate the income tax, the only tax that is progressive, Representative Williams said it would benefit by exempting food and groceries from sales tax.

Representative Edmonds called attention to the Fiscal Note on **HB 2902** which indicates \$389 million reduction of revenue.

Don Moler presented testimony in support of **HB 2902** on behalf of the Kansas League of Municipalities (Attachment #7). The League has no position on elimination of income tax and his comments are directed specifically to the sales tax issue. He said the state of Kansas, and local governments in Kansas, are quickly nearing a point of critical mass concerning the sales tax. It is especially true that sales tax revenues and their distribution are critical to the provision of adequate public services at the local level in Kansas. He noted that at the interim hearing of August 30, 2000, the Department of Revenue released numbers indicating changes in tax laws over the prior three legislative sessions had a statewide impact on an annual basis of reducing sales tax revenues by \$35,400,000 per year; and that 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 from the 1998, 1999, and 2000 legislative sessions. He said although the League does not take issue with specific sales tax exemptions which have been granted or are under consideration this year, perhaps the time has also come to entirely rethink the sales tax exemption policies of the State of Kansas and that **HB 2902** opens the door for this discussion.

Marlee Carpenter presented testimony on behalf of the Kansas Chamber of Commerce and Industry in opposition to **HB 2902** (Attachment #8).

Hal Hudson presented testimony on behalf of the National Federation of Independent Business in opposition to **HB 2902** (Attachment #9). Attached to the testimony was a list of

Bernie Koch presented testimony in opposition on behalf of the Wichita Chamber of Commerce (Attachment #10).

Bob Meuschke presented testimony in opposition on behalf of MO-KS Coin Laundry Association (Attachment #11).

Timothy Etzel presented testimony in opposition on behalf of Jetz Services (Attachment #12).

Kevin Walker presented testimony in opposition on behalf of the American Heart Association (Attachment #13).

Marcene Grimes presented testimony in opposition on behalf of the Heart of America Alzheimer's Association (Attachment #14).

Judy Keller presented testimony in opposition on behalf of the American Lung Association of Kansas (Attachment #15).

Written testimony in opposition was presented by SBC Communications, Inc. (Attachment #16).

Written testimony in opposition was presented by Ron Hein on behalf of the Kansas Restaurant and Hospitality Association (Attachment #17).

Written testimony in opposition was presented by Mike Beam on behalf of the Kansas Livestock Association (Attachment #18).

Written testimony was presented by Corey Peterson on behalf of Associated General Contractors in opposition to **HB 2902** (Attachment #19).

Written testimony in opposition was presented by Martha Neu Smith on behalf of the Kansas Manufactured Housing Association (Attachment #20).

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Written testimony was presented in opposition by the Kansas Building Industry Association (Attachment #21).

Written testimony in opposition was presented by Janet McPherson on behalf of the Kansas Farm Bureau (Attachment #22).

Written testimony in opposition was presented by Mark Beshears on behalf of Sprint (Attachment #23).

Hearing on **HB 2902** was closed.

The Committee adjourned at 10:20 a.m. The next meeting is March 27.