

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman David Corbin at 10:45 a.m. on February 3, 2004, in Room 519-S of the Capitol.

All members were present.

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:

Ron Hein, Kansas Cooperatives  
Joan Wagon, Secretary, Kansas Department of Revenue  
Rich Prem, Amazon.com, Seattle  
Bert Wagner, Amazon.com, Coffeyville, Kansas

Others attending:

See Attached List.

Senator Corbin announced that there will be a confirmation hearing next week for an appointee for the State Board of Tax Appeals, Thomas H. Slack. He noted that the Confirmation Oversight Committee approved Mr. Slack's appointment; however, his name has not yet been voted upon by the full Senate.

Ron Hein, requested the introduction of a bill on behalf of Kansas Cooperatives, which is a coalition of low income cooperative housing projects under HUD regulations currently exempt from property taxation. Recently, HUD restructured how it will handle the projects. As a result, HUD will cease doing the financing. In order for the projects to continue the property tax exemption as the original financing is paid off, K.S.A. 79-201(b) must be amended.

Senator Donovan moved to introduce the bill, seconded by Senator Buhler. The motion carried.

Joan Wagon, Secretary, Kansas Department of Revenue, informed the Committee that a major retailer, Amazon.com, will soon begin collecting Kansas sales tax. She introduced Amazon.com's State and Local Director of Taxation, Rich Prem, from Seattle. She also introduced Bert Wagner, the manager of an Amazon.com fulfillment center in Coffeyville, Kansas. She also announced that the Department will begin using the new Streamlined Sales Tax data base next week. The Department will present a demonstration on how the data base works over the noon hour in Topeka on Tuesday, February 10. In addition, information on an alternative jurisdiction code which will reduce the number from 751 to 301 will be available for retailers. Furthermore, the Department will be unveiling its new "e" filing system on the Streamline Sales Tax form (ST 36). Technical clinics will be held in Olathe, Kansas City, Lawrence, Pittsburg, Wichita, Hutchinson, Salina, and Manhattan.

Mr. Prem discussed Amazon.com's commitment to collecting sales and use taxes for Kansas. He noted that Amazon.com has been actively involved in the Streamlined Sales Tax Project, which simplifies sales tax collections for all remote sellers. He further noted that, as a remote seller, Amazon.com believes it has a responsibility to educate state tax administrators and state legislators about the challenges Amazon.com faces in collecting taxes. He went on to say that after legislation passed in Kansas last year requiring remote sellers with affiliates in Kansas to collect sales and use taxes, Amazon.com worked with Secretary Wagon for several months regarding a number of tax and technical challenges Amazon.com had with complying with the legislation. Some of the issues that Amazon.com discussed with the Secretary included how to allocate order level shipping and handling and order level coupons and discounts, how to deal with certain tax exempt customers, how to apply the destination based rules, and the taxation of digital goods and downloaded software. Mr. Prem informed the Committee that Amazon.com has registered for tax with Kansas and will be collecting taxes on retail sales beginning April 1, 2004. Based on projected 2004 shipments into Kansas, he estimated that tax collections will be between \$1 million and \$1.2 million.

## CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on February 3, 2004, in Room 519-S of the Capitol.

Mr. Wagner informed the Committee that Amazon.com's one million square foot fulfillment center north of Coffeyville opened in the summer of 1999. At that point, Amazon.com mostly served books, music, and video, and it had just begun to deal with toys. The Coffeyville fulfillment center now serves all product lines of Amazon.com. and is one of three automated buildings worldwide. He noted that there are fulfillment centers in Friendly, Nevada; Grand Forks, North Dakota; Camelsville, Kentucky; Lexington, Kentucky; New Castle, Delaware; and there are four international centers located in Japan, Germany, France, and the United Kingdom. He went on to say that, for the Coffeyville fulfillment center, automation means heavy reliance on technology to fill orders. In addition, the center relies on an educated work force which is able to use the system and software. He noted that the center has over 22 miles of conveyers, and it employs 375 associates full time and over 1,000 during the holiday season.

Senator Donovan asked for an estimate of the increase in sales from the facility from 2002 to 2003. In response, Mr. Prem said there is no breakdown for just the Coffeyville facility, but Amazon.com sales in North America grew approximately 34% between 2002 and 2003. He commented that one of the key drivers was a free shipping offer for purchases over \$25. In order to make a profit with the offer, it was necessary to rely very heavily on automated fulfillment centers such as the one in Coffeyville. He emphasized that the key ingredient in operating fulfillment facilities is an educated work force. He went on to say that sales in 1999 were about \$2 Billion worldwide. For the past year, worldwide sales were \$5.3 Billion. He noted that there was less growth in sales in the United States because Amazon.com is a more mature business here. In 1999, there was less than \$100 Million in international sales, but last year Amazon.com had approximately \$1.8 Billion in international sales. Much of the growth has occurred in Europe, Japan, and Canada.

Senator Donovan asked if Amazon.com has been dealing with other states with regard to the Streamlined Sales Tax Project. Mr. Prem said Amazon.com has been collecting tax for North Dakota for about one year and also remits sales tax to Washington. The company is working with Nevada and Kentucky in their process of adopting or complying with the Streamlined Sales Tax Agreement. He commented that states are currently working together to move the current system from a voluntary system to a system simple enough for Congress possibly to enact legislation making the system mandatory across the United States.

Mr. Prem explained that a large part of Amazon.com's business has moved from being a retailer to being a service provider. Some of the cutting edge technology developed by Amazon.com in facilities such as Coffeyville has attracted other companies, such as Target and Toys R Us, to out source their Internet operations to Amazon.com. In the last quarter of 2003, 35% of the customer website orders were for items that Amazon.com does not sell. Over the past three to four years, Amazon.com has spent almost \$1 Billion for automated fulfillment center costs and software and another \$1 Billion for its software platform. The cost to acquire and install software to implement a system for destination sourcing for all states was approximately \$1.3 Million.

Senator Corbin updated the Committee on the progress of the Streamlined Sales tax issue in Washington, D.C. Last fall, Congress separated the issue of taxation on Internet connection and the issue of collection of taxes on Internet sales. The bill did not allow the connection tax to continue to be enforced; however, the House passed an amendment dealing with telecommunications which provides that some new technologies which may be developed in the future will be exempt from the tax. The bill became locked in the Senate when attempts to strike or improve that language were made. Unfortunately, the blockage of the Internet connection tax has held up the Streamlined Sales Tax side. Even though the Senate has indicated hearings on the issue will be held during upcoming spring session, he feels that it is doubtful that the bill will move because Congress plans only a 60 day session due to the fact that it is an election year.

Senator Donovan moved to approve the minutes of the February 2, 2004, meeting, seconded by Senator Buler. The motion carried.

The meeting was adjourned at 11:20 a.m.

A joint meeting with the Senate Education Committee is scheduled for 1:30 p.m.

The next meeting of the Senate Assessment and Taxation Committee is scheduled for February 4, 2004.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on February 3, 2004, in Room 519-S of the Capitol.