KLBA KCBG KVFWA ADK

February 18, 2015
Testimony Opposing HB 2306
House Tax Committee

Chairman Kleeb, and Members of the Committee,

I am Philip Bradley representing the Kansas Licensed Beverage Association. The KLBA represents the interests of the men and women in the hospitality industry, who own, manage and work in Kansas bars, breweries, clubs, caterers, hotels, and restaurants. These are the places you frequent and enjoy with the tens of thousands of employees that are glad to serve you. . And in respect for your time I am also speaking for the KS Craft Brewers Assn., the KS Viticulture and Farm Winery Assn. and the Artisan Distillers of KS. Thank you for the opportunity to speak today and I will be brief.

We all ask and urge you to oppose HB 2306!

We have combined our testimony and tried to be brief in the following pages. We ask for your attention and that you to carefully consider our information.

There are undoubtedly further issues and questions that will arise as these are read therefore I am available for your questions today and at your convenience.

Again thank you for your attention and consideration.

Philip Bradley

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KVFWA *– Kansas Viticulture and Farm Winery Assn: We began our association in 2004 but our journey began decades ago. Our mission is the promotion of the production of wine from Kansas grapes, the science and practice of viticulture in the State of Kansas, and the development of Kansas Farm Wineries. We include farm wineries (such as Blue Jacket, Davenport, Holy-Field, Stone Pillar and White Tail Run) and numerous growers of fine grapes*

KCBG*- Kansas Craft Brewers Guild is made up of the microbrewers and craft brewers of Kansas. We are a diverse group that embraces the commercial operations and the home hobby artist brewer.*

ADK*-Artisan Distillers of Kansas consist of the Microdistilleries that are making fine crafted spirts in our state for our appreciative citizens.*

Our tier has been hurting! Kansas operates under a **4 tier** system of alcohol distribution and sales. Alcohol must be manufactured or imported, that is the First Tier. A Distributor or wholesaler acquires from the first tier for resale to retailers. That is the second tier. They then sell to a retailer, usually to a package store or (for only bulk wine or bulk beer) to an on premise licensee. That is the third tier. And then the package liquor store sells to the restaurant, bar or caterer who is required to purchase from them. That is the fourth tier.

There are many taxes on alcohol. Each of which imposes different rates and provides for a different disposition of revenue, including: Liquor Gallonage Tax, Liquor Enforcement and Liquor Drink Tax.

Gallonage. The first level of KS taxation is the gallonage tax, which is imposed upon the person who first manufactures, sells, purchases, or receives the liquor or cereal malt beverage (CMB).
Enforcement. The second level of KS taxation is the enforcement essentially in lieu of Sales tax, which is imposed on the gross receipts from the sale of liquor (or in CMB sales tax) to consumers by retail liquor dealers; and to clubs, drinking establishments, and caterers by liquor stores and/or distributors.
Drink Tax. A tertiary level of taxation is levied in KS on the gross receipts from the sale of liquor by clubs, caterers, and drinking establishments.

All liquor taxes are compounded unlike other taxes in other businesses and industries. The consumer pays a drink tax, on the enforcement tax that the restaurant paid, on the gallonage tax that the liquor store paid when they purchased from the wholesaler, on the federal fees they paid.

It is often said that the enforcement is like the sales tax for alcohol. We ask that you, like sales taxes, then exempt the sales for resale from the enforcement tax. We ask that that be amended to this bill.

Our people still pay all the other taxes including; Sales, Income, Property, Payroll, SS, and Income. And in addition we collect and pay the liquor taxes. And every year we pay more taxes. The revenue to the state increases every year. Kansas receives more from our industry each year without ever having to increase rates. Please refer to the charts provided. But these past few years something is different. The Drink tax, which indicates the health of the fourth tier, was down and now is increasing at a lower rate. Luckily for the State the other tiers have increased enough to compensate for the SGF's benefit. What that shows is more people are going home for dinner and entertainment. And that means that the business on the forth tier are hurting, and all the folks, jobs, suppliers and vendors are hurting. More of them would be here except that most have reduced hours of their employees. Many have reduced their Workers too. They are increasing their own hours and they are picking up some of the shifts of cut back workers. And this is a Friday, the biggest Lunch day of the week and a game weekend. They have asked me to speak to you for them. And ask you to go out again please. OFTEN!

Targeted taxes, in this case, are bad idea. Our taxes go to SGF-these do not go to run the agency in fact alcohol taxes create more than the required dollars for licensing and regulation and create a profit for the state. That profit goes into the SGF so that the Legislature can use the proper process to appropriate those funds.

Also we oppose targeted taxes. We believe that the funds the state needs for general state needs should come from the taxes that all citizens pay, sales, property and income. **Targeting individual industries only makes that industry less competitive** in the market place and drives consumers to other states or on-line sales outlets where Kansas receives no tax revenue. The legislature has considered and granted many roll backs and tax benefit to individual industries for just that reason. We ask that you apply consistent reasoning here as well.

Some legislators are rallying around the argument that targeted taxes will pull us out of the state's budget deficit or that they are the answer to specific programs budget woes. They mistakenly contend that consumers of alcoholic beverages, tobacco, lottery tickets and/or some other group should be obliged to pay disproportionately high taxes to help underwrite services that all Kansans enjoy.

This proposed increase will increase our cost of goods and therefore increase the prices to the consumer! By a projected factor of 7 to 10 percent!

Targeted taxes of any kind are the fuzziest form of math, and dangerous because of the implication that a small group of "others" should and can generate enough revenue to fill our current budgetary shortfalls. And they are certainly no way to balance a budget: According to the National Conference of State Legislators, a stable revenue source is "one that is broad-based, equitable, and not narrowly targeted at one specific type of economic activity . . ." The above-mentioned taxes do not pass this test.

The state's spending is overwhelmingly for general purposes: education, social services, transportation, and public safety. Where all citizens benefit, all taxpayers have been willing to contribute equitably to the revenue stream that pays for these programs. It is discriminatory to expect even larger taxes on targeted industries to subsidize statewide needs, and in fact, the numbers that are coming out of budget committees leave too large a hole to be filled with a simple targeted tax.

The needs of all should not be carried on the backs of a few. In a previous state of the state, about the state budget solution, a previous Governor said, "Every Kansan will be affected. Every Kansan will be asked to contribute to the solution." The citizens of Kansas, when shown where specific monies can be directed to provide services, have always been willing to pay their fair share, but first have rightfully asked exactly how existing revenues have been allocated. Increasing the tax burden of the hospitality industry, a segment extremely hard-hit since the 9-11 tragedy, and first and most deeply affected in the current economic downturn, would be counterproductive.

Asking every Kansan to be part of the budget solution is, I suggest, the fairest way out of the budget crisis and the only route that will put the state back on a fiscally sound track. To attempt to balance the budget with any other selective form of taxation would not only be punitive to the targeted group in the short term; it would be fiscally irresponsible in the long run.

Our Industry creates more revenue each year without an increase in rates. That is because of the multiple taxes, compounded upon each other. And that most liquor tax dollars are based on sales prices. Those prices increase with inflation, cost of living and increase of input costs.

Our industry is working and is a compliant contributor to the success of the state of Kansas. Please do not kill the golden goose in an effort to fix that that is not broken!

There is no such thing as a 'self-made' man. We are made up of thousands of others. Everyone who has ever done a kind deed for us, or spoken one word of encouragement to us, has entered into the make-up of our character and of our thoughts, as well as our success. George Matthew Adams

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