



MEMO TO: House Taxation Committee
FROM: Thomas M. Palace, Executive Director of the Petroleum Marketers and
Convenience Store Association of Kansas
DATE: May 5, 2015
RE: HB 2427

Mr. Chairman and members of the House Taxation Committee: My name is Tom Palace and I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA), a statewide trade association that represents over 360 independent petroleum marketers and convenience store retailers throughout Kansas.

I appreciate the opportunity to comment in opposition to HB 2427.

Convenience store owners in Kansas who compete with bordering states are already at a competitive disadvantage due to the diversity of the excise tax rates. The current rates are:

KS	\$.2503 (gas)	\$.2703 (diesel)
NE	\$.265	\$.259
MO	\$.173	\$.173
CO	\$.22	\$.205
OK	\$.170	\$.140

(Includes environmental and inspection fees)

If HB 2427 is enacted Kansas will have the highest motor fuel tax rate of all 4 contiguous states.

MO	\$.13 advantage on gas	\$.15 advantage on diesel tax
NE	\$.04	\$.06
CO	\$.08	\$.12
OK	\$.13	\$.18

Consumers buy fuel based on price. The National Association of Convenience Stores has reported that consumers are more sensitive to gas prices than other top economic concerns. Consumers will change their behavior to save a few cents per gallon. In fact it would not be uncommon for a person to drive 5-7 miles out of their way to save 2 cents. Price is the deciding factor when consumers purchase fuel. If people are willing to drive 5-7 miles out of their way to save 2 cents per gallon, it is a pretty good guess that consumers will drive 10-15 miles (or more) out of their way to save 6-15 cents.

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It is no secret that there is a tax disparity for retailers that compete on the border. Not too long ago (2010) a Kansas retailer decided to change its street address to a Missouri address so they could take advantage of the reduced taxes. I am referring to the actions taken by the QuikTrip Corporation. QuikTrip moved a store in Kansas City, Kansas 100 feet to the east so that it would have a Missouri address – at a cost of \$3.4 million. The loss to Kansas was estimated to be \$1.4 million in state and local taxes. The \$1.4 million is a financial loss that Kansas cannot afford. I would venture a guess that if more Kansas convenience store retailers had the corporate backing to be able to do the same thing QuikTrip did, they would give serious consideration to a similar move.

When fuel prices increase so do credit card processing costs...*and unlike the state or local government, we cannot recoup the credit card fee costs.* Today 70% of fuel sales are paid by debit or credit card. A small convenience store with fuel sales fewer than \$1 million in fuel sales annually will pay an additional \$750 annually in credit card fees...**just from this tax change!** The cost of credit card fees for a convenience store retailer is the largest expense incurred annually other than employee costs.

I sat in several informational hearings this year when the Kansas Department of Transportation made a presentation outlining their current financial position and made the statement, “All T-Works projects already scheduled for letting will be constructed under the Governor’s proposed budget.” The report also stated, “Remaining available T-Works dollars will fund additional preservation projects to a level that allows KDOT to maintain a positive ending balance in the State Highway Fund.” To me the funding plan works...but only if government can keep their hands out of the till!

It is sad that just a like child that wants to take a cookie out of a cookie jar just before dinner...Mom is forced to slap the hand saying, you can’t have that... lawmakers are forced to do the same thing and put in standards so money cannot be shifted, stolen or moved.

Additionally KDOT reported that they will receive \$1,490,286 in revenue in 2016. This number includes the sales & compensating use tax. We currently have the funding necessary to make our road system work...But we need to leave the money alone!

Fee sweeps are nothing new to Kansas businesses. It happens so often that it has become an accepted practice and what is the remedy to replace the funds...more taxes.

HB 2427 also increases the cost of dyed fuel (off road) 5 cents. The bill has a sunset of 3 years for other products but the 5 cents on dyed fuel remains in place. I am not sure if this was a typo or not but I wanted to point that out. Also, it does not appear that the tax increase is imposed on inventory. This is always a problem for fuel distributors that have tens and thousands of gallons of product in storage to make sure customer’s needs are served. Inventory tax is a severe penalty for fuel distributors that buy bulk fuel to keep prices low for their customer. If this bill has any chance passing I would ask that any discussion about inventory tax be eliminated from consideration.

As I stand before you today, the increase in motor fuel taxes is one of several tax increases that the Kansas Legislature is considering that will have a direct impact on the convenience store retailers in Kansas. HB 2306 would raise the price on a pack of cigarettes \$1.50 and there is another bill that would increase fees and penalties (fines) on tobacco retailers. Couple these with a potential increase in sales tax and motor fuel tax...these are all ingredients to run convenience stores out of business. Kansas is supposed to be a tax friendly state...these proposals does not appear to be very business friendly.

All these tax increases impact retailers, but more importantly, they impact the Kansas consumer. Tax increases have a negative impact upon every convenience store retailer in the state. Consumers won't change what they buy; they will change where they buy: they will simply find a cheaper way to purchase their goods. More specifically, retailers who compete on the border are hit the hardest when tax increases in their home state are passed. They watch the exodus of their customers cross the state line without the wherewithal to do anything about the cost disparity. They simply can't lower their prices enough to be competitive.

Small businesses in Kansas urge you to oppose HB 2427.

Thank you.