

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman David Corbin at 10:10 a.m. on February 13, 2004, in Room 519-S of the Capitol.

All members were present except:
Senator Barbara Allen

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:
Marlee Carpenter, Kansas Chamber of Commerce
Natalie Bright, Wichita Independent Business Association

Others attending:
See Attached List.

Senator Corbin called the Committee's attention to the minutes of the February 10 meeting.

Senator Oleen moved to adopt the minutes of the February 10, 2004, meeting, seconded by Senator Donovan. The motion carried.

SB 371—Income tax credit for retailers' cost of implementation of destination-based sourcing rules

Marlee Carpenter, Kansas Chamber of Commerce, testified in support of **SB 371**. She noted that the Chamber supports the Streamlined Sales Tax Project (SSTP). However, the destination sourcing portion of the SSTP has been burdensome for Kansas retailers to administer because they must change and upgrade both their hardware and software. For many businesses, this is a major expense, and the bill addresses some of their concerns. (Attachment 1)

Committee discussion followed regarding the tax credit, which could not exceed \$500 per retailer and which could apply only to costs incurred for purchasing computer hardware or software or to modify existing equipment. Senator Corbin commented that, when the summer interim committee studied the issue, \$500 was suggested as a starting point for the purpose of discussion. As the bill is written, the fiscal note would be approximately \$2,500,000. Staff noted that the interim committee was given a demonstration of a small handheld personal digital assistant (PDA) device which small businesses not on-line could purchase for destination sourcing purposes at a cost of approximately \$700 to \$800. In addition, staff noted that, in order to be eligible for the tax credit, a retailer's sales or compensating use tax liability could not exceed \$10,000 in either calendar year 2003 or 2004. Senator Journey requested that staff prepare a balloon amendment with language providing for a refundable credit instead of a tax credit.

Natalie Bright, Wichita Independent Business Association (WIBA), testified in support of **SB 371**. At the outset, she noted that, due to the hardships destination sourcing has had on WIBA's members, WIBA has taken the official position that it is not necessary to implement the SSTP laws until the federal government actually places an Internet sales tax into effect or rules interstate commerce may be taxed. Although **SB 371** does not delay the implementation, it provides a \$500 tax credit in recognition of the extreme hardship Kansas retailers, particularly small retailers, have incurred since the enactment of **HB 2005** in 2003. (Attachment 2)

Ms. Bright responded to questions from the Committee concerning the extreme burden destination sourcing places on WIBA members, all of which are small business owners. Senator Donovan suggested that, instead of a tax credit, perhaps a better approach would be an administrative allowance (percentage of sales tax collected) for small businesses up to a certain size but not for business beyond that size. In response, Richard Cram, Kansas Department of Revenue, stood to inform the Committee that the SSTP places no restriction on this concept and that it would be a policy decision for participating states.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:10 a.m. on February 13, 2004, in Room 519-S of the Capitol.

Senator Corbin called the Committee's attention to testimony in support of **SB 371** submitted by Ashley Sherard on behalf of the Lenexa Chamber of Commerce (Attachment 3) and Wes Ashton on behalf of the Overland Park Chamber of Commerce (Attachment 4).

There being no others wishing to testify, the hearing on **SB 371** was closed.

The meeting was adjourned at 10:45 a.m.

The next meeting is scheduled for February 16, 2004.