

Approved: March 16, 2012
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Les Donovan at 10:32 a.m. on March 7, 2012, in room 152-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Mary Jane Brueck, Committee Secretary

Conferees appearing before the committee:

Sen. Dick Kelsey
Hans Nettelblad, American Institute of Architects in Kansas
Joseph Molina, Kansas Bar Association
Ron Gaches, representing Kansas Society of Professional Engineers
Martha Neu Smith, KS Manufactured Housing Association
Kent Eckles, Vice President of Government Affairs, The Kansas Chamber
Gary Allerheilgen, Kansas Society of CPAs
Martha Neu Smith, Executive Director, Kansas Manufactured Housing Association
Bob Meuschke, Mo-Kan Coin Laundry Assn.

Others attending:

See attached list.

Chairman Les Donovan opened the meeting by opening the hearing on **SB 376 – concerning taxation; relating to income tax, rates; sales taxation, exemptions, rates and distribution of revenue and imposition of tax on certain services; elimination food sales tax refund; local compensating use tax; duties of secretary of revenue; local property tax reductions.** He introduced Sen. Dick Kelsey who sponsored this bill. He told the committee this bill, if passed, would be effective January, 2013. He had a list of the highlights of this bill: Reduce the sales tax on food by half over two years; reduce corporate income tax from 7% to 4% over 2 years; allow the one cent sales tax increase to expire as in current law; reduce the personal income tax to two categories: 3.1% for those in the lowest bracket and 5.8% for higher income earners; capture lost revenue from internet sales; eliminate most of the sales tax exemptions except medical, lottery tickets, and others prevented by federal law; tax more of the services currently exempt; this plan calls for city and counties to use 30% of the increase in sales tax revenue they receive from this plan to reduce the mill levy on property tax. He said this plan is revenue neutral and will have a positive effect on economic growth and be more fair toward all Kansans. (Attachments 1, 2, 3, 4) He told the committee he had talked about this bill with Arthur Lafler, who approved it.

Sen. Apple was recognized. He asked Sen. Kelsey if this bill will increase sales tax on electricity. It will. Sen. Apple asked if Sen. Kelsey thinks this bill will pass this year. He thinks it is needed to spread the

sales tax base to lower taxes. Sen. Donovan explained the state does not want to tax lottery tickets, because the state could not have Powerball if it were to be taxed. Sen. King asked what the effect of this bill would be on border counties (Montgomery, Johnson, Wyandotte, for example), and what the impact would be on firms that can move across the state line if this bill is passed. Sen. Kelsey did not think there would be a negative. Earl Long, Fair Tax Kansas City was not able to be at this hearing, but had sent testimony. ([Attachment 5](#))

Seeing no other proponents for this bill, Sen. Donovan introduced opponents to this bill. He introduced Hans Nettelblad, American Institute of Architects in Kansas who told the committee this organization strongly opposes this bill that would place sales tax on architectural services. He said it is not in the best interest of the State and certainly not in the best interest of the design and construction industry of Kansas. ([Attachment 6](#)) Joseph Molina spoke on behalf of the Kansas Bar Association. He pointed out the uneven playing field for attorneys who will be serving individual Kansas citizens and bearing the burden of this tax, in favor of corporations and governmental litigants. It would compromise attorney-client relationships by requiring an attorney to transmit sensitive client information to the Department of Revenue; this tax would put the majority of Kansas attorneys at a significant disadvantage vs. corporation lawyers; and this could cause use of more legal services outside Kansas. ([Attachment 7](#))

Ron Gaches, executive director for the Kansas Society of Professional Engineers, told the committee this organization and its members urge the committee to maintain the current exemption for professional services and oppose efforts to subject new and emerging technical services to the state sales tax. ([Attachment 8](#)) Martha Neu Smith was recognized to speak on behalf of KS Manufactured Housing Association which opposes this bill's repeal of the sales tax exemption that applies to the purchase of pre-owned or used manufacturer housing. Kansas would charge families sales tax on the purchase of pre-owned manufactured homes while families that purchase a pre-owned site built home would not be charged that tax. ([Attachment 9](#)) Kent Eckles, Vice President of Government Affairs, The Kansas Chamber also spoke against this bill. Chamber of Commerce members who sell professional services to state and local units of government would automatically be placed at a 6-10% price disadvantage, which state and local units of government would then have to absorb, increasing pressure on the legislature to raise other taxes to make up for the increased cost of providing services. ([Attachment 10](#))

Gary Allerheilgen, Kansas Society of Certified Public Accountants told the committee the states of Florida, Iowa, and Michigan all passed legislation taxing professional services and have since repealed the laws: Florida, after 6 months; Iowa repealed it after one month; and Michigan repealed it before it became effective. The exemption of professional services from the Kansas sales tax has been good policy in the past and should be continued in the future. ([Attachment 11](#)) Bob Meuschke, Mo-Kan Coin Laundry Assn. Spoke in opposition to this bill. He pointed out the need for self-service laundries. He told the committee these businesses are labeled as a service organization, which they are not. This bill would make them re-sellers of the utilities they pay for and use to run their washers and dryers, paying the tax on those utilities twice. ([Attachment 12](#))

Bernie Koch, Executive Director, Kansas Economic Progress Council provided neutral testimony on this bill. ([Attachment 13](#)) Written testimony in opposition to this bill was provided by: Christy Caldwell, Topeka Chamber of Commerce ([Attachment 14](#)), YMCAs of Kansas ([Attachment 15](#)), Girl Scouts of Kansas Heartland ([Attachment 16](#)), Dona Booe, President and CEO, Kansas Children Service League ([Attachment 17](#)), Scott Heidner, American Council of Engineering Cos. Of Kansas (ACEC-K) ([Attachment 18](#)), Jennifer Bruning, Overland Park Kansas Chamber of Commerce ([Attachment 19](#)), Bob Van Crum, Legislative Policy & Government Affairs Consultant, Greater Kansas City Chamber of

Commerce ([Attachment 20](#)), Ron Seeber, Kansas Grain & Seed Association, Kansas Agribusiness Retail Association, and Kansas Co-Op Council ([Attachment 21](#)), Tom Foulkes, Vice President, State Government Affairs, Entertainment Software Association ([Attachment 22](#)), Callie Denton, Kansas Association for Justice ([Attachment 23](#)), Kent Cornish, President/Executive Director, Kansas Association of Broadcasters ([Attachment 24](#)), Dick Carter, City of Overland Park ([Attachment 25](#)), Ashley Sherard, Vice-President, Lenexa Chamber of Commerce ([Attachment 26](#)), Nancy Riedel, Director, State Tax Policy, Verizon ([Attachment 27](#)), Stephen P. Kranz, Sutherland Asbill & Brennan LLP ([Attachment 28](#)), Chris Wilson, President, Kansas Council for Affordable and Rural Housing (KCARH) ([Attachment 29](#)), Dave Holthaus, Kansas Electric Co-Op ([Attachment 30](#)).

Seeing no further questions or comments, Sen. Donovan closed the discussion.

The next meeting will be March 8, 2012.

The meeting was adjourned at 11:26 a.m.