

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairman Edmonds at 9:00 a.m. on May 2, 2002 in Room 519-S of the Capitol.

All members were present except: Representative Mays, excused
Representative Osborne, excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor
Winnie Crapson, Secretary

Conferrees appearing before the Committee:
Representative Merrick
Sally Finney, Kansas Health Care Access Coalition
Mark Tallman, Kansas Association of School Boards'
Stephanie Sharp, American Cancer Society
Jerry Slaughter, Kansas Medical Society
Ron Hein, R. J. Reynolds Tobacco Company
Tom Palace, Petroleum Marketers and Convenience Store Association
Karl Peterjohn, Kansas Taxpayers Network
Marlee Carpenter, Kansas Association of Commerce and Industry

Others Attending: See attached list.

Hearing was opened on

HB 3038 - Cigarette and tobacco product tax rate increase.

Chairman Edmonds explained that **HB 3038** would increase tax on cigarettes from 24 cents to \$1.00 with corresponding increases in tax on tobacco products.

Sally Finney presented testimony in support on behalf of the Kansas Health Care Access Coalition (Attachment #1). She said there are now 124 organizations which have come together in the Coalition specifically for the purpose of supporting a sales tax increase on cigarettes of not less than 65 cents. Her testimony included a list of those members. The testimony addresses questions raised such as regressivity, cross-border sales, and reduction in smoking and increasing revenue. Her testimony included the poll findings indicating that support for a significant cigarette tax increase is broad based and cuts across party lines with 72% of all voters in Kansas in support. She provided with the testimony editorials by Bob Johnson in the Iola Register and by Tom Bell in the Salina Journal.

In response to questions Ms. Finney said Kansas last raised its excise tax on cigarettes in 1985 and that a number of other states are considering increases, including Missouri and Oklahoma, and a measure passed in Nebraska last month rising their cigarette excise tax by 30 cents. She said that Kansas City, Missouri has more excise tax than Kansas when considering taxes are levied by the state, by Jackson County, and by the City of Kansas City, Missouri. She said that because the tax is assessed at the distributor level, providers of cigarettes through mail order and the internet are required by federal law to register with states so tax can be levied at the distributor level. Tax is paid on cigarettes sold on Reservations although they may choose not to pass that cost on to their customers.

When asked if she believed this increase in tax on cigarettes would result in reduction in smoking, she said it would contribute in a comprehensive program to discourage smoking.

CONTINUATION SHEET

Mark Tallman presented testimony in support of **HB 3038** on behalf of the Kansas Association of School Boards and the School Finance Coalition (Attachment #2), which also included testimony in support of **HB 3039**. The organizations have not proposed a specific tax proposal but believe both measures being heard in the Committee today are acceptable as part of a revenue plan to fund the state's priority programs. The testimony set forth goals they believe the revenue plan enacted by the Legislature must meet. They believe considering inflation and rising costs for health and property insurance a flat budget does not hold education "harmless" and that without a revenue measure that meets the criteria outlined the quality of education will be at risk, local property taxes will increase, and families will face higher student fees and fewer services. They believe that Kansans have enjoyed significant cuts in both state and federal taxes in recent years and are willing to pay more to support their schools. Mr. Tallman responded to questions.

Stephanie Sharp presented testimony in support of **HB 3038** on behalf of the American Cancer Society (Attachment #3). She presented information on tobacco use and cancer and said since 1985, the last time Kansas increased the tax, every other state in the Union has increased their taxes with the exception of the eight primary tobacco-producing states and Kansas.

Jerry Slaughter appeared on behalf of the Kansas Medical Society in support of **HB 3038**.

Ron Hein presented testimony in opposition to **HB 3038** on behalf of R. J. Reynolds Tobacco Company (Attachment #4) because they believe it would hurt customers and retailers alike. He said that since the Kansas excise tax was last increased Kansas smokers have seen significant increases in the cost of cigarettes due to federal excise tax increases and as a result of the Master Settlement Agreement between the states and the tobacco industry. His testimony outlined the factors that impact the cost of cigarettes. Mr. Hein said tobacco sales have an especially magnified impact on smaller establishments such as convenience stores because cigarette sales in such stores accounted for nearly 30% of merchandise sales and that over 50% of all tobacco products are sold through convenience stores nationwide. The cross-border threat was also addressed in the testimony.

Tom Palace presented testimony on behalf of the Petroleum Marketers and Convenience Store Association in opposition to **HB 3038** (Attachment #5). He said the increase proposed would change buying habits and surrounding states and internet sales may be the benefactors at the expense of Kansas convenience stores.

Karl Peterjohn provided a statement in opposition on behalf of the Kansas Taxpayers Network (Attachment #6), saying the Network's opposition to raising taxes is constant, consistent and continuing; that **HB 3038** proposes another large increase in the cigarette excise tax as the latest effort to enact this type of tax and referred members of the Committee to his earlier testimony stating that the bill should be labeled "Western Missouri Retail Development Act of 2002." They believe there will be huge unintended negative consequences by creating a larger disparity between Kansas tax rates and our neighbors.

Hearing on **HB 3038** was closed.

Hearing was opened on HB 3039 - Sales tax rate.

Chairman Edmonds explained the bill would increase sales tax from 4.9 to 5 on a permanent basis and to 5.25 for one year.

Marlee Carpenter presented testimony on behalf of the Kansas Association of Commerce and Industry (Attachment #7) taking a neutral position on the bill but noting the desirability of providing allowances for administrative costs.

Mark Tallman testified in support of **HB 3039** on behalf of the Kansas Association of School Boards and the School Finance Coalition. He referred the Committee to his earlier comments and the testimony provided in Attachment #2.

CONTINUATION SHEET

Karl Peterjohn presented testimony in opposition to **HB 3039** on behalf of the Kansas Taxpayers Network (Attachment #8). He said this was another large increase in the sales tax this June with a partial roll back that may or may not take place next June and that only Nebraska among our neighboring states imposes as high a state rate on sales as 5 percent and Nebraska exempts grocery/food purchases from its sales tax.

Hearing on **HB 3039** was closed.

The Committee adjourned at 10:15. No schedule is set for a future meeting.