

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 2, 2006 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Representative David Huff
Don McNeely, KS Auto Dealers Assoc.
Bob Peterson, private citizen
Jim Ibach, private citizen
John Federico, General Motors

Others attending:

See attached list.

The Chairman called for bill introductions:

Representative Pat Colloton requested a Committee bill that would grant a sales tax exemption to all 501(3)(c)'s that have requested a sales tax exemption within the 2006 session. Representative Wilk moved the motion to introduce the bill and Representative Owens seconded. The motion carried.

Representative O'Malley, on behalf of Representative Terrie Huntington, requested a bill introduction that will make modifications to the way sales tax is determined on the purchase of a new car. Representative Owens seconded the motion. The motion carried.

Representative Huff requested a Committee bill be introduced, on behalf of Representative Sue Storm, extending the deadline for corporate reports. Representative Owens seconded the motion. The motion carried.

Nancy Bryant, Secretary of State's Office, requested a Committee bill introduction regarding a franchise tax. Representative Huff moved to introduce the bill. Representative Wilk seconded the motion. The motion carried.

HB 2640 - No sales taxation of manufacturer rebates to purchasers and lessees of new motor vehicles.

Martha Dorsey said the bill would exempt from sales taxation the amount related to a manufacturer rebate on a motor vehicle, if the rebate is paid directly to the retailer. DOR has advised staff that this bill will not be a problem with respect to the streamlined sales tax program. The bill will be effective July 1, 2006 and the fiscal note for FY07 will be \$10,930 million.

The Chairman opened the public hearing on **HB 2640**.

PROPOSERS:

Representative Huff, said that the bill dealt with one of the most unfair sales taxes that is imposed on Kansas citizens. He posed a scenario citing the actual price a buyer might pay for the vehicle, followed by an analysis of the tax structure the purchaser must pay. He added that he believed the fiscal note was flawed and questioned the methodology used to gather data. He also questioned why the fiscal note, supposedly prepared to aid the Legislators, was copied to the KS Association of Counties and the KS League of Municipalities (Attachment 1).

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 2, 2006 in Room 519-S of the Capitol.

Don McNeely, KS Auto Dealers Assoc. said that manufacturers' coupons, rebates and incentives have become an integral part of the pricing of new vehicles. Competitive pricing has become an issue since 1996, when the Missouri Legislature exempted manufacturers' coupon and other incentives from their sales tax. He urged the Committee to pass out **HB 2640** (Attachment 2).

Bob Peterson related a recent experience when he purchased three GMC pickups to be used in business. He said that paying more than 10% sales tax was exorbitant and asked the Legislators to change the law and give relief to those citizens who pay taxes (Attachment 3).

Jim Ibach, testified that he had recently purchased a new motorcycle in Missouri. He described the experience that took place when he paid the taxes at the Olathe licensing office. He said that if the law is changed to disallow sales tax on all motor vehicle rebate amounts, it would make much more sense as well as have significant positive taxation impact to the citizens of Kansas (Attachment 4).

John Federico, General Motors, spoke to the Committee about General Motors support for the bill. Incentives are important to manufacturers to promote and move inventory. He encouraged the Committee to pass out **HB 2640** (No written testimony).

The Chairman closed the hearing on **HB 2640**.

It was noted that testimony from Dr. Art Hall, Center for Applied Economics, University of Kansas School of Business, regarding "*An Economic Evaluation of Two Kansas Tax Credit Programs; High Performance Incentive Program and Business and Job Development Credit*" had been distributed (Attachment 5).

The Chairman turned the Committee's attention to **HB 2619** and reminded the Committee they would resume discussion on the Siegfried motion to amend the bill. Chris Courtwright distributed copies of a chart, formatted as the Slider Amendment (Attachment 6) which was based on the fiscal note he had received from DOR. He explained the data and responded to clarifying questions.

Gordon Self explained the Siegfried amendment (Attachment 7) and stated that this amendment would be added as a completely separate section.

Representative Carlson made a substitute motion to pass out **HB 2619**, as originally submitted, without amendments. It was seconded by Representative Kelly. The motion failed.

Representative Goico made a substitute motion to insert the provisions of **HB 2679**, (sales tax credit for three years), into **HB 2619**, add the utility and railroad amendment, and in the fourth year return to **HB 2619** as currently written. It was seconded by Representative O'Malley.

Richard Cram explained the fiscal note related to a 100% tax credit for years one, two and three, related to Representative Goico's substitute motion. Discussion followed on the pros and cons of the plans.

Representative Goico closed on his substitute motion. The motion failed 3-18. Representative Goico and Carlin requested their yes votes be recorded.

Representative Davis made a motion to amend the bill to state that if there is growth of assessed values that exceeds the loss of assessed values, the state would not be obligated to pay the amount designated under the Siegfried amendment. Representative Menghini seconded the motion. The motion failed.

An Executive Summary of an Analysis of Corporate Income Tax FY 2000-2002 and an update FY 2003, from the Department of Revenue were distributed (Attachment 8).

The Chairman announced that the noon meeting for today had been cancelled. Discussion on **HB 2619** would continue on Monday at 9:00 a.m., with the intention of working the bill at that time. The meeting adjourned at 10:30 A.M. The next meeting is February 6.