

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson John Edmonds at 9:00 a.m. on March 11, 2003 in Room 519-S of the Capitol.

All members were present except:

Representative Tom Sawyer

Committee staff present:

Chris Courtwright, Legislative Research Dept.
April Holman, Legislative Research Dept.
Gorden Self, Office of the Revisor
Carol Doel, Committee Secretary

Conferees appearing before the committee:

Gary Reser, Kansas Veterinarian Medical Assn.
Doug Wareham, Kansas Grain and Feed
Ron Gaches, Kansas Society of Professional Engineers
Scott Heidner, Kansas Consulting Engineers
Bill Sneed, KansasFuneral Directos Assn.
Bob Vancrum, Greater Kansas City Chamber of Commerce
Matthew Goddard, Heartland Community Bankers Assn.
Larry Magill, Kansas Assn. Of Insurance Agents
Doug Smith, Kansas Credit Attorneys Assn.
Sara Beezley, Kansas Bar Association/Kansas Assn. of Defense Counsel
Chip Wheelen, Assn of Osteopathic Medicine
David Hinson, Kansas Barbers for Legislative Action
Kenneth Daniel, Midway Wholesale
Natalie Bright, Wichita Independent Business Assn.
Chuck Stephens, Stephen s & Assoc. Advertising
Mark Beshears, Sprint
Tuck Duncan, Kansas Wine and Spirits

Others attending:

See Attached Sheet

Chairman Edmonds opened the meeting with continuation of public hearings on **HB 2421**. Due to the number of conferees, each was limited to a three minute testimony and questioning was limited to one per person. First to appear in opposition was Gary Reser, Executive Vice-President of (KVMA) Kansas Veterinary Medical Association. KVMA offered language for **HB 2421** as well as a number of reasons that the removal of the sales tax exemptions on veterinary services is not good for Kansas. (Attachment 1)

Kansas Grain & Feed Association and Kansas Agribusiness Retailers Association were represented by Doug Wareham in opposition to **HB 2421**. Their testimony showed their belief to be that imposing a sales tax on

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agricultural services provided by agribusiness would further depress the already struggling agricultural economy in our state. ([Attachment 2](#))

Ron Gaches, Executive Vice President of KEPE (Kansas Society of Professional Engineers) appeared next before the committee in opposition to **HB2421**. This testimony stated that imposing higher costs on professional services in Kansas will put Kansas at a significant disadvantage in recruiting new jobs and business investment. ([Attachment 3](#))

Presenting arguments in opposition to **HB 2421**, was Scott Heidner from Kansas Consulting Engineers. They presented the concept that sales tax on design engineering services is a bad idea because it creates multiple taxation of the same product, it harms the ability of Kansas Businesses to compete with out-of-state firms, and it is a difficult and inefficient tax to administer and collect. ([Attachment 4](#))

Bill Sneed, Legislative Counsel for the KFDA (Kansas Funeral Directors Association) spoke in opposition to **HB2421**. Taxing funeral services would be a tax on death. Presently taxes are collected on such items as caskets, vaults, clothing, tent, and grave markers as well as a number of other things. To increase the tax would place an additional financial burden on families already experiencing the traumatic loss of a loved one. Secondly a funeral service is not a service a person voluntarily plans to purchase like many other services. The purchase is unplanned so money has not been set aside for the purchase. These families experiencing the loss of a loved one may already be experiencing a financial hardship if the deceased was the breadwinner of the family or if large medical bills had occurred. A sales tax on funeral services would amount to an additional final expense they would have to pay. ([Attachment 5](#))

Next to appear before the committee in opposition to **HB 2421** was Bob Vancrum, Greater Kansas City Chamber of Commerce, Government Affairs Specialist. Mr. Vancrum's testimony stated that this bill would affect many, many services. Service industries typically would not have major capital investments where they are located, and if faced with a tax which renders their service uncompetitive with their largest competitors, it would be a small task for them to close their Kansas facilities and move across the state line, taking business income, personal income and jobs with them. ([Attachment 6](#))

Matthew Goddard representing Heartland Community Bankers Association presented testimony in opposition to **HB 2421**. Passage of this bill would subject them to sales tax on services and ultimately increase their cost of doing business. This increased cost will eventually impact consumers in the form of lower interest rates on deposit accounts and higher interest rate on loans. ([Attachment 7](#))

Representing Kansas Association of Insurance Agents, Larry Magill, Jr. presented testimony in opposition to **HB 2421**. He presented arguments that premiums are already taxed with mobile insurance transactions, increased administrative costs, economic impact, pyramiding, and the impact on the consumer. ([Attachment 8](#))

Doug Smith, representing Kansas Collectors Association, Inc. and Kansas Credit Attorneys Association, presented testimony in opposition to **HB 2421** stating that the current sales tax exemptions were created to promote and stimulate economic development. Continuing these exemptions from sales tax will likely have more benefit to Kansans than the amount of sales tax which could be collected if the exemptions were

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removed. In addition, the removal of the sales tax exemptions could have greater negative impact because of the trickle down effects that could touch our local communities. ([Attachment 9](#))

Arguing in opposition to **HB 2421** was Sara Beezley, President of the Kansas Bar Association. In her testimony, Ms. Beezley presented facts that this is not a tax on attorneys, but a tax on those who hire attorneys. She also states they take the position that this tax un-proportionately is borne by small businesses, the tax will drive clients out of Kansas, collection may violate client confidentiality, will result in double taxation and that collection difficulties exist within this bill. ([Attachment 10](#))

Chip Wheelen, of Kansas Association of Osteopathic Medicine, appeared before the committee in opposition to **HB 2421** stating that it would be highly unlikely that sales taxes on physicians' services would be added to insurance claim forms to be collected from health insurers. Sales taxes on these services would be straightforward only in the event the patient is not insured at all. Because the sales tax is inherently regressive, those who are least able to afford the additional tax burden would be affected most. Mr. Wheelen included in his testimony some suggested language changes in the bill. ([Attachment 11](#))

Opposing **HB 2421** was David Hinson, speaking for KBLA (Kansas Barbers for Legislative Action) It is their opinion that enactment of the bill not only places a tax on their business, but a tax increase on the users. ([Attachment 12](#))

Kenneth Daniel, Chairman and C.E.O. of Midway Wholesale, appeared before the committee to present argument against **HB 2421**. Mr. Daniels presented a number of reasons that he felt that this bill would be detrimental to Kansas business and in finality stated that the small businesses that provide services will have a competitive disadvantage if buyers can shift the purchase of services out-of-state. This would hurt Kansas economy as well as the businesses. ([Attachment 13](#)) Mr. Daniels also included a copy of a report from the Small Business Administration's Office of Advocacy "*The Impact of Regulatory Costs on Small Firms*". ([Attachment 14](#))

Natalie Bright appeared on behalf of the Wichita Independent Business Association (WIBA) in opposition to **HB 2421**. This association is requesting that when the Legislature is looking for possible sources of revenue for the state, they look at the dynamic impact or costs the expansion of the sales tax base and/or removal of sales tax exemptions will have on the Kansas economy. ([Attachment 15](#))

Chuck Stephens, owner of Stephens & Associates Advertising, Overland Park, Kansas, spoke in opposition to **HB 2421**. Mr. Stephens listed ten reasons why he felt this bill was "BAD" tax. He suggested rather than consider a tax on advertising, why not give consideration to an incentive for advertisers who choose to do business with agencies who reside in the state of Kansas. ([Attachment 16](#))

Sprint was represented by Mark Beshears in opposition to **HB 2421**. In his testimony, Mr. Beshears states that taxation of professional services is particularly problematic for Sprint for two reasons. First, such taxes increase the cost of telecommunications services and second, many of these services are provided by its' management company. These inter-company services would be subject to sales taxes. Additional taxes on services provided both by Sprint's own management company and by third party providers makes Kansas very unattractive from a tax perspective. ([Attachment 17](#))

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R.E. "Tuck" Duncan of Kansas Wine & Spirits Wholesalers Association presented testimony to the committee in opposition to **HB 2421**. His testimony stated that removing the exemption from sales when the consumer has paid excise taxes on the good purchases, constitutes double taxation. "Double taxation" is defined as a form of taxation under which any dollar of income is subject to more than one level of tax. With capital gains taxes and estate taxes, it is possible for a single dollar of income to be taxed four times. (Attachment 18)

Each person testifying on the bill stood for questions from the committee.

With no further persons wishing to appear in testimony of **HB 2421**, Chairman Edmonds closed the hearing on the bill.

Chairman Edmonds called attention to written testimony from American Lung Association, (Attachment 19), Kansas Motor Carriers (Attachment 20), Kansas Manufactured Houses (Attachment 21), Kansas Hospital Association (Attachment 22), Kansas Automobile Dealers (Attachment 23), Northwest Kansas Groundwater Management District No. 4 (Attachment 24), Kansas Grain Sorghum Producers, Assn. (Attachment 25), Kansas Association of Realtors (Attachment 26), Kansas Building Industry Association (Attachment 27), Kansas Dairy Association and Kansas Seed Industry Association (Attachment 28), Kansas Independent Oil & Gas Association (Attachment 29), Kansas Medical Society (Attachment 30) and the Kansas Optometric Society (Attachment 31) each being submitted in opposition to **HB 2421**.

Chairman Edmonds asked if there were any bill introductions. Representative Schwab asked for the introduction of a bill with a 1% income tax rate cut and a 1% earnings tax on out of state residents employed in Kansas.

Hearing no objection, the Chairman accepted this proposal for introduction.

With no further business before the committee, Chairman Edmonds adjourned the meeting at 10:40 a.m.