

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on February 15, 2000, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department  
April Holman, Legislative Research Department  
Don Hayward, Revisor of Statutes Office  
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Shirley Sicilian, Kansas Department of Revenue  
Randy Allen, Kansas Association of Counties  
Don Moler, League of Kansas Municipalities  
Dana Fenton, Johnson County Government

Others attending: See attached list.

**SB 560—Enacting the streamline sales tax system for the 21<sup>st</sup> century act**

Shirley Sicilian, Kansas Department of Revenue, explained that **SB 560** is uniform language endorsed by the National Conference of State Legislatures (NCSL), the National Governor's Association, and members of the "Big 7" national associations of state and local government. It would enable Kansas to join with other states in taking the first real steps toward addressing Internet taxation issues. Ms. Sicilian summarized the Internet taxation issue, noting that the issue is about making sure that remote sales, whether made over the phone, fax, mail, or Internet, do not have a tax advantage over local sales. She discussed sales taxation as it applies to a Kansas Seller, an out-of-state seller with nexus, and an out-of-state seller without nexus.

Ms. Sicilian observed that a rapidly expanding Internet market, together with a burgeoning catalogue market, is turning retailing into a regional and sometimes a national industry, wherein a seller often has no physical presence in the buyer's state. She commented on the growing percentage of the retail markets supplied by remote sellers which cannot be required to collect Kansas use tax. She noted that local businesses, consumers, and state and local governments all have a stake in rectifying the current situation. She discussed approaches to address the issue at the federal level and at the state level (**SB 560**). In conclusion, Ms. Sicilian outlined the following provisions of **SB 560** which pertain to the Department: (1) Participation in discussions, (2) Participation in a joint request for information, (3) Participation in the pilot project, (4) Confidentiality concerns, and (5) Structured legislative oversight. She informed the Committee that meetings will begin in March and April to begin developing specifications for a pilot model system. (Attachment 1)

Ms. Sicilian called attention to a handout entitled, "With Trusted Third Party" and went through each step of the proposed plan. (Attachment 2) The first step is when the consumer orders something from a vendor. Through software, the trusted third party is then contacted by the vendor. The trusted third party then submits tax information about what tax is due to the vendor. The vendor gives that information to the consumer. If the consumer agrees to buy and pay for the product, the vendor submits the consumer's credit card information to the credit card company. The credit card company then remits the payment for the product to the vendor and remits the tax dollars to the trusted third party. The trusted third party distributes the tax dollars to the states.

Senator Langworthy explained further that **SB 560** would allow pilot projects to be created in order to determine how the "trusted third party" system works. If that system works, the federal government will be totally bypassed; therefore, uniformity will no longer be the issue as it has been in meetings at the federal level.

## CONTINUATION SHEET

### MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE Room 519-S, Statehouse, at 11:10 a.m. on February 15, 2000.

Randy Allen, Kansas Association of Counties, testified in support of **SB 560**. In light of the relatively large percentage of sales being conducted over the Internet and by mail order, Mr. Allen expressed concern about the continued viability of the state and local option sales taxes to finance basic services. He noted that, without dependable local-option sales taxes, counties will be even more dependent upon the property tax to finance basic services. He strongly supports the basic premise of the bill that all sales, wherever they take place, should be treated the same with respect to taxation. He emphasized that Kansas' participation in discussions with other states is an important first step. (Attachment 3)

Don Moler, League of Kansas Municipalities, gave further testimony in support of **SB 560**. His testimony echoed Mr. Allen's testimony. Mr. Moler emphasized that, while **SB 560** allows for voluntary compliance with the state compensating use tax at a 4.9 percent rate, it would not allow local units of government to recover locally lost sales taxes, which are in addition to the state rate. As "on line" sales continue to increase and, consequently, sales taxes are not collected at the local level, local tax revenue will slowly disappear. Mr. Moler cautioned that, unless legislators at the state and federal level respond to this issue, a huge amount of the tax base of local government will disappear. Without the local effort on sales tax, many local services cannot be provided. If the sales tax is undercut, local governments will have to offset that loss by increasing property taxes or by asking the state for more tax money. (Attachment 4)

Dana Fenton, representing Johnson County Government, gave final testimony in support of **SB 560**. He complimented Ms. Sicilian for her detailed explanation and agreed with the testimony given by previous conferees. His written testimony states, "A key goal of Johnson County's 2000 Federal and State Legislative Platform is the extension of sales and use taxes to remote sellers." Johnson County supports the bill as a step in the path towards realizing this goal. (Attachment 5)

Marlee Berthoff, Kansas Chamber of Commerce and Industry, submitted written testimony in support of **SB 560** as a sound step towards addressing the difficult issues of multi-state compacts and tax simplification. (Attachment 6)

Senator Langworthy closed the hearing on **SB 560** and turned the Committee's attention to a previously heard measure, **SCR 1629**, which would allow the Legislature to change the classification on boats and airplanes.

Senator Praeger moved to report SCR 1629 as favorable for passage, seconded by Senator Bond. The motion carried.

Senator Bond moved to report SB 560 as favorable for passage, seconded by Senator Steineger. The motion carried.

The meeting was adjourned at 11:55 a.m.

The next meeting is scheduled for February 16, 2000.