

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on March 9, 2005 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
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Secretary Wagon, Department of Revenue
David Corbin, Department of Revenue

Others attending:

See attached list.

HB 2131 - Delay of destination sourcing rules for sales tax purposes until action of Congress

The Chairman stated that the meeting was a continuation of the conversation on Friday, March 4, 2005. He invited Mr. Cram to explain a report that was distributed to the Committee.

Mr. Cram reviewed the report from Kansas Department Of Revenue, Office of Policy and Research, regarding the City/County Local Use Tax Distribution for Calendar Year 2003, 2004 (Attachment 1).

The 10 column chart listed the counties/city followed by the Use Tax , Sales Tax, Total Sales and Use Tax for CY 2003 and 2004 and the percent of change for each category. Mr. Cram answered questions regarding changes that had occurred in specific cities and counties.

Secretary Wagon distributed a copy of a letter written by Neal Osten, from the National Conference of State Legislatures meeting in Atlanta, on March 6, 2005 (Attachment 2). She stated that the five organizations that provided the impetus for the national efforts on SSTP were; the National Governor's Association, National Conference of State Legislators, Federation of Tax Administrators, Business Council on State Taxation and the Multi-state Tax Commission. NCSL has been the backbone behind organizing the Legislative impact of the program. Neal Osten, NCSL has been working with Senators Mike Enzi, (Rep.) Of Wyoming and Bryon Dorgan (Dem.) of North Dakota, as prime sponsors and they expect to have Senate hearings this Spring and possible Finance Committee action later this summer.

The concern of NCSL is that states may start backtracking at this time, and that would give Congress the impression that the states are not serious about streamlining their sales and use tax collection system. It is important that the states that have enacted legislation to comply with the Agreement, continue to move forward with the certification process. She reviewed the conversion progress in several states.

Hal Hudson, State Director of NFIB, submitted written testimony in support of **HB 2131** and compensation of retailers who are required to collect Kansas sales tax (Attachment 3).

Free-flow discussion continued regarding:

- The impact of the shift from sales tax to use tax for rural communities
- Tax Projections for FY 2005
- Time lines necessary for true reflection of additional moneys to the state
- Importance of both destination sourcing and use tax for SSTP to work in Kansas
- Possibility of allowing tax credits for businesses to purchase hardware to facilitate conversion.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on March 9, 2005 in Room 519-S of the Capitol.

- Problems with origin sourcing
- Is Kansas' participation necessary to meet the requirement of population percentages
- **HB 2131** is not drafted to allow businesses that have converted to remain in SSTP.
- Definitions of use tax (purchases made out-state for use in Kansas, if the tax was not collected in another state) and sales tax (purchases made in-state).
- Debate on SSTP in Senate and lack of debate on the House floor during the 2004 session
- Report of "cost of start-up", is currently being done jointly by the Multi-state Tax Commission and the Council of State Taxation.
- Ideas for relief for small businesses were suggested and discussed, i.e., reduced penalties, thresholds for reporting taxes, exemptions for specific products and various retailer compensations. David Corbin stated that there were two or three Senate bills, proposed last year, that would compensate retailers in some form or the other.

Secretary Wagnon stated that there are many unknown factors at this time, and she requested that the Legislature leave SSTP stay in place until benchmarks are available to determine the success of the program, such as whether the governing board is operational, after October 1, 2005, and the certified service providers (CSP) have their programs, currently under development, ready to collect the taxes for remote retailers. If these two things do not occur, she believed that would be the time for Kansas to step back and analyze the feasibility of the program.

In response to a request from the Chairman, Secretary Wagnon agreed to provide (1) *2005 projections* from SSTP, (2) a diagram/explanation of the process of streamlined sales tax (3) plan for graduated tax credits (4) a retailer's compensation program and (5) data on the number of business from which 10% of the taxes are collected. She stated that it would take several days to put that information together.

Representative Goico moved that the Committee minutes from the February 9, 10, 11, 15, 16, 17 and 18 meetings be approved. Representative Siegfried seconded the motion. The motion carried.

The meeting was adjourned at 1:30 p.m. The next meeting is March 10, 2005.