

Keith Roe
Approved 1-20-89 Date

MINUTES OF THE House COMMITTEE ON Taxation

The meeting was called to order by Representative Keith Roe at
Chairperson

9:00 a.m./~~pm~~ on January 19, 1989 in room 519-S of the Capitol.

All members were present except:

Representative Adam
Representative Grotewiel
Representative Reardon

Committee staff present:

Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Elmer McConnell, Western Retail Implement & Hdwe Assoc.
Paul Fleener, Farm Bureau
David Schirmer, Governor's Task Force on the Future of Rural Communities
Wilbur Leonard, Kansas Farm Organizations
Harland Priddle, Secretary of Commerce
Bob Williams, Kansas Pharmacists Association
Chris Wilson, Kansas Fertilizer & Chemical Assoc.
Dee Likes, Kansas Livestock Assoc.
Ed Rolfs, Secretary of Revenue
Howard Tice, Kansas Assoc. of Wheat Growers

The minutes of January 13 and January 19, 1989, were approved.

Paul Fleener testified in support of HB-2041, stating that his organization has supported this legislation for some time. He expressed appreciation to the co-sponsors of this bill and to Governor Hayden. (Attachment 1)

Harland Priddle testified in support of HB-2041, stating that this bill is an economic development incentive for agriculture. (Attachment 2)

David Schirmer testified in support of HB-2041, stating that under this bill, the agriculture industry would receive the benefits that other basic enterprises now receive. (Attachment 3)

Dee Likes testified in support of HB-2041, stating his organization strongly supports this bill as a means for returning some share of the windfall to the agricultural sector of the Kansas economy. (Attachment 4)

Elmer McConnell testified in support of HB-2041, stating that this bill is important to their industry and to the survival of many of his colleagues who are in business today, especially those in close proximity to the borders of states with a state sales tax exemption. (Attachment 5)

Bob Williams testified in support of HB-2041, and requested that the words "prescription drugs" be stricken from page 6, item (q), line 212. This would ease the cost of medication to the elderly. (Attachment 6)

Wilbur Leonard testified in support of HB-2041, stating that his organization feels that it seems only fair and logical that those who create the food and fiber and constitute the largest economic group in this state should receive the same tax treatment as those engaged in industrial production. (Attachment 7)

Chris Wilson testified in support of HB-2041, but feels that it should include the same definition of farm machinery that is in 79-201J. This should replace the definition that is in the bill because it has been upheld by the Board of Tax Appeals. (Attachment 8)

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation

room 519-S, Statehouse, at 9:00 a.m./~~p.m.~~ on January 19, 1989.

Secretary of Revenue Ed Rolfs testified on HB-2041, stating that such a change was included in Governor Hayden's budget recommendations in order to provide on-going support to our state's struggling agricultural sector. (Attachment 9)

Howard Tice testified in support of HB-2041, stating that the Kansas Association of Wheat Growers endorses this bill.

Chairman Roe concluded the hearing on HB-2041.

Secretary of Revenue Ed Rolfs reviewed current laws and proposed legislation included in Governor Hayden's Individual Income Tax Proposal. (Attachment 10)

The meeting adjourned.

HOUSE COMMITTEE ON TAXATION

DATE 1/19/89

NAME

ADDRESS

REPRESENTING

NAME	ADDRESS	REPRESENTING
Alan Steppat	Topeka	Pete McBillie Associates
John Lutzman	✓	Revenue
Sherril Holliday	"	Budget
Chris Wilson	Topeka	KS Fert. & Chem Ass'n
Warren Tarker	Topeka	Kansas Farm Bureau
Bill Liben	Topeka	KLA
ELMER McCONNELL	LAWRENCE	WESTERN FIMPLE ASSN.
DALE AMICK	Jc Mo	" " "
Bob Williams	Topeka	Ks. Pharmacists Assoc
Debbie Bengtson	Lawrence	legislative intern for Rep. Roy
Gerhard Metz	Shawnee Co.	KCCI
Joe A Henry Jr	Nemaha Co	Farm Equip Dealer
Evelyn Henry	Nemaha Co	" "
D. WAYNE ZIMMERMAN	TOPEKA	KDOC
Wilbur Leonard	Topeka	Comm Ks Farm Org.
Tom TUNNELL	TOPEKA	KS GRAIN & FEED ASSN.
Clayton Mantz	Enid, OK	Union Equity Cooperative Exchange
Howard W Tice	Hutchinson	K.A.M.C.
Joni McBride	Topeka	observer
Gerald Larris	LYNDON	KVMA
Harold Johnson	Holtan	Rural Tech Force
Harland Priddy	BE. Commerce	
Nancy McCabe	Dept. Commerce	
Ann Patterson	Topeka	KDOC



PUBLIC POLICY STATEMENT

House Committee on Taxation

RE: H.B. 2041 - Relating to sales tax exemption for farm machinery and equipment

January 19, 1989
Topeka, Kansas

Presented by:
Paul E. Fleener, Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

My name is Paul E. Fleener. I am the Director of Public Affairs for Kansas Farm Bureau. We sincerely appreciate the opportunity to address your Committee today. We are a **strong proponent** of H.B. 2041. We want to express our appreciation to all 50 of the co-sponsors of this legislation. We express our appreciation, as well, to Governor Mike Hayden for his message supporting the permanent exemption for farm machinery and equipment.

We were before this Committee a year ago asking the Committee's support for the legislation which created the permanent exemption for business machinery and equipment. We asked at that time that farm machinery and equipment be added to the legislation. By the time the legislative process had worked in 1988, business machinery and equipment was granted a permanent

*1-19-89
Attachment!*

exemption from the sales tax. Farm machinery and equipment was granted an exemption for one-year only.

Governor Hayden, in his State of the State Message on January 9, 1989, told you that together the executive and legislative branches accomplished sweeping changes in the tax codes in Kansas, greatest change in 55 years concerning the state income tax. The Governor highlighted these points in his address:

- * Income tax rates were slashed;
- * Inequities were addressed through a rebate to our senior citizens;
- * **Depressed family farms were given a boost with a sales tax exemption on new farm machinery;**
- * Our ability to attract jobs to the state was enhanced through a sales tax exemption on new business machinery and equipment; and
- * 105,000 low-income Kansans were removed from the state income tax roles.

Mr. Chairman, and members of the Committee the exemption for one year made a great difference. You will hear testimony from implement dealers on renewed activity in sale of farm machinery and equipment. We believe the state is now in a position, a fiscal condition it did not enjoy last year so perhaps could not make the sales tax exemption for farm machinery and equipment permanent at that time, to proceed, to take the next step and make the exemption permanent.

In his State of the State Message, the Governor, on page 29 of the Message, addressed this topic specifically. He said: "In 1988, I signed legislation enacting a sales tax exemption for new farm machinery purchased in Kansas. This tax exemption was granted for one-year only.

"My budget recommendations call for making this tax exemption permanent. This recommendation provides for on-going support to our state's struggling agricultural sector."

Our policy position on this issue was refined at the recent (December 4-6, 1988 KFB Annual Meeting) to reflect and express appreciation for the one-year exemption but to encourage you to take that next step now, in 1989, to make the exemption permanent. Our policy says this:

"In 1988 the Kansas Legislature determined it was in the public interest to promote economic development by granting sales tax exemptions for manufacturing machinery and equipment. In the same legislation, agriculture - the number one industry in the state - was granted only a one-year exemption of sales tax for new farm machinery. The one-year exemption has demonstrated a positive economic impact on rural Kansas by increased farm machinery and equipment sales by rural dealers.

We strongly urge that the sales tax exemption for new farm machinery and equipment be made permanent."

In conclusion, Mr. Chairman, I want to point out that we have attached to our testimony today, information which we have collected from the other states concerning the sales tax and property tax exemption and treatment of various kinds of property. You will notice in the left-hand column of the two-page attachment the list of states who provide either an exemption for farm

machinery ... 32 states counting Kansas with its now one-year exemption ... while other states have a reduced rate or limited tax on machinery and equipment. The second attachment relates to industrial revenue bonds. We give that to you for information only, but we want to stress that we are and have been strong supporters of economic development, of initiatives to keep Kansas competitive in the tax field.

Thank you for the opportunity you have given us to make this statement. We would be pleased to respond to any questions.

STATE SALES TAX AND PROPERTY TAX SURVEY

State	Sales tax required on farm machinery and equipment	Farm Machinery Rate	State Sales Tax	Property tax required on farm machinery and equipment
Alabama	Yes - reduced rate	1.5%	4.0%	No
Arizona	Yes	5.0%	5.0%	Yes - Farm mach & equip assessed at 16% - most other taxable property assessed at 25%
Arkansas	No	----	4.0%	Yes - assessed at 20% of value
California	Yes	4.75%	4.75%	Yes - survey of implement dealers in each county to determine appraisal in each county
Colorado	Yes	3.0%	3.0%	No
Connecticut	No - reduced rate on repair & replacement parts	----	7.5%	No - exempt up to \$100,000
Delaware	No	----	----	Yes
Florida	Yes - reduced rate	5.0%	6.0%	Yes
Georgia	No	----	3.0%	Yes
Idaho	No	----	5.0%	Yes
Illinois	No - some counties levy a local 1% sales tax	----	5.0%	No
Local sales tax to be eliminated 1-1-90 and state tax increased to 6.25 on 1-1-90				
Indiana	No	----	5.0%	Yes
Iowa	No	----	4.0%	No
Kansas	No - new farm mach & equip exempt for 1 yr (7-1-88 to 6-30-89). Used farm mach, equipment and repairs are exempt	----	4.0%	No
Kentucky	No	----	5.0%	Yes - tax rate is .001 per \$100.00 value
Louisiana	Yes - limited - sales tax only on amount above \$50,000 per item	4.0%	4.0%	No - also exempt all farm structures except principal residence

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Maine	No - if in excess of \$1,000	----	5.0%	Yes - reduced assessment
Maryland	No	----	5.0%	No
Massachusetts	No	----	5.0%	Yes
Michigan	No - effective 1935	4.0%	4.0%	No - effective 1964
Minnesota	Yes - reduced rate	2.0%	6.0%	No
Mississippi	Yes - reduced rate	3.0%	6.0%	No
Missouri	No	----	4.225%	Yes - agricultural land assessed at 12%; residential property 19%; commercial 32%. Beginning 1-1-89 farm mach assessed at 12%
Montana	No	----	----	Yes - farm machinery is appraised at 80% of value. In 1989, Montana Dept. of Revenue will introduce legislation to exempt all personal prop
Nebraska	Yes	4.0%	4.0%	No
Nevada	Yes	5.75%	5.75%	Yes (Dealers farm mach is exempt)
New Hampshire	No	----	----	No
New Jersey	No	----	6.0%	No
New Mexico	Yes (50% of receipts from sales of unregistered agric mach and equipment)	4.75%	4.75%	Yes (Some counties use an estimated market value, some counties use straight-line depreciation off of purchase price)
New York	No	----	4.0%	No Also: Exempt farm bldgs. from property tax
North Carolina	Yes - reduced rate; 1% limit to \$80.00	1.0%	3.0%	Yes (Each co. appraises fm mach & equip. Farmer may apply for an income tax credit against his state income taxes for ad valorem taxes paid to the county on fm mach & equip & repair parts)
North Dakota	Yes - reduced rate	3.0%	5.5%	No
Ohio	No	----	5.0%	No

Oklahoma	No	----	4.0%	Yes
Oregon	No	----	----	No
Pennsylvania	No	----	6.0%	No
Rhode Island	No (If farmer has \$2,500 gross sales)	----	6.0%	No (Also exempt motor vehicles with farm registration)
South Carolina	No	----	5.0%	No
South Dakota	Yes - reduced rate; replacement parts and used equip are exempt	3.0%	4.0%	Yes
Tennessee	No	----	5.5%	No
Texas	No	----	6.0%	No
Utah	No	----	5 3/32%	No
Vermont	No	----	4.0%	No
Virginia	No	----	3.5%	No - property tax on all farm mach & livestock is local option. Local governing body may exempt in whole or in part or provide a different rate of taxation.
Washington	Yes	6.5%	6.5%	Yes
West Virginia	No	----	6.0%	Yes - reduced rate
Wisconsin	No	----	5.0%	No
Wyoming	Yes	3.0%	3.0%	Yes

32 states - no sales tax

9 states - reduced rate or limits

27 states - no property tax

10 states - taxed differently or reduced rate

20 states - exempting both

37 states exempt livestock from Property Tax

Alabama	Illinois	Maryland	Nevada
California	Iowa	Michigan	New Hampshire
Colorado	Kansas (1-1-89)	Minnesota	New Jersey
Connecticut	Kentucky	Mississippi	New York
Florida	Louisiana	Montana	North Dakota
Idaho	Maine	Nebraska	Ohio
Oregon	South Carolina	Texas	Virginia
Pennsylvania	South Dakota	Utah	Washington
Rhode Island	Tennessee	Vermont	Wisconsin
			Wyoming

INDUSTRIAL REVENUE BONDS

*Issues; 1961-1987

Number of issues - 2,152 Amount - \$7,232,230,718

*Issues; 1978-1987

Number of issues - 1,339 Amount - \$6,158,508,168

* Source: Kansas Department of Commerce

PROPERTY TAX EXEMPTION

KSA 79-201a authorizes the exemption from property tax on all property constructed or purchased with proceeds of IRB's

\$6,158,508,168
 x 10%

615,850,816.80
 x .12366

\$76,156,112.00

amount IRB's issued 1978-1987
assess at 10% -- **not the required 30%**
assessed value
average 1987 state mill levy
property tax due at a 10% assessment and
1987 state average mill tax levy

\$3,513,301.76* -- In lieu-of-taxes paid in 1987 on IRB properties
*Source: Statistical Report of P.V.D.

SALES TAX EXEMPTION

The Attorney General on about 7-1-80 determined that sales tax need not be collected on building materials and personal property purchased with IRB money.

Let us assume that 60% of the IRB issue is for building material and personal property. Labor on new construction is not subject to sales tax.

We have used 1/2 of the 1980 IRB issue but in 1986 we used 3% sales tax for the entire year.

IRB Issues 1980-1987

	No. of issues	Amount	(1/2 year)			Sales Tax exemption
1980	139	\$581,493,800	\$290,746,900	x 60% =	\$174,448,140	x 3% = \$5,233,444
1981	183	454,825,600		x 60% =	272,895,360	x 3% = 8,186,861
1982	181	284,591,000		x 60% =	170,754,600	x 3% = 5,122,638
1983	169	734,305,874		x 60% =	440,583,520	x 3% = 13,217,505
1984	153	751,929,094		x 60% =	451,157,450	x 3% = 13,534,723
1985	149	1,091,957,644		x 60% =	655,174,560	x 3% = 19,655,236
1986	80	785,170,000		x 60% =	471,102,000	x 3% = 14,133,060
1987	52	961,465,356		x 60% =	576,879,210	x 4% = 23,075,168
		\$5,645,738,368				\$102,158,635

No one seems to have the figures for the sales tax exemption for property purchased in enterprise zones.

1.1

Testimony

Presented to:

The House Assessment and Taxation Committee

on House Bill 2041

by

Harland E. Priddle
Secretary of Commerce

January 19, 1989

1-19-89
Attachment 2

Mr. Chairman and members of the committee. I am happy to be here this morning and speak on behalf of a bill that would continue to exempt farm machinery and equipment from sales tax. Agriculture creates wealth in Kansas and that is the type of economic development we want to stimulate. A lot of discussion about economic development incentives centers around allocating our scarce resources to where they will do the most good. Those industries that bring outside money into the state need to be targeted. Agriculture does just that. In the 1987 crop year, agriculture in Kansas was a \$5.7 billion dollar industry. As a further comparison, at the present time, there are 65,015 business establishments in Kansas. There are 72,000 farms. This bill to continue the sales tax exemption for farm machinery is an economic development incentive for agriculture.

Recently attention has centered on the many problems of the rural areas. The Governor's Task Force on Rural Development addressed some of these. David Schirmer will explain the influence this bill would have in the rural areas. Agriculture is still a major industry in all parts of the state, even in some areas that are thought of as urban. In 1987, 55% of Johnson County's acreage was designated as farmland and its revenues were \$20.8 million dollars.

This sales tax exemption for farm machinery and equipment will serve to increase the productivity of farms and the generation of wealth for Kansas.

TESTIMONY

REGARDING H.B. 2041

PRESENTED TO:
THE HOUSE ASSESSMENT AND TAXATION COMMITTEE

BY:
David Schirmer, Governor's Task Force
on the Future of Rural Communities
January 19, 1989

House Bill No. 2041 proposes to permanently exempt farm equipment and machinery from sales taxation. This bill should be given serious consideration and support for several reasons.

The Task Force on the Future of Rural Communities has worked over the past year to develop recommendations to improve the economic climate of rural Kansas. These recommendations covered a wide spectrum of community issues including, coordination of economic development services, health care availability, the needs of our rural aging, and public and private sector capital availability. Efforts to implement many of these recommendations have already begun.

Although the Task Force focus was on the community in rural Kansas, the farmers' income directly affects rural communities. If the farmer receives lower prices for his commodities, or if his operating costs increase, less money can be spent on goods and services in their communities. Agri-businesses and financial institutions are also affected, creating a "multiplier effect" on the viability of rural communities.

Within state policy there is little that can be done to affect commodities prices. However, exempting farm equipment from sales taxation is one small step that could be taken to help keep operating costs down.

In providing a permanent exemption the State would become more consistent in its sales tax policies. Currently, sales of used equipment are permanently exempt from taxation. Under this bill both new and old farm equipment would be treated equally. Furthermore, the agriculture industry would receive the benefits that other basic enterprises now receive, as manufacturing equipment and machinery is exempted from sales tax.

The future of Kansas rests on the sum of all its parts, both rural and urban. Passage of H.B. 2041 would demonstrate the commitment of the state to the future of rural Kansas.

*1-19-89
Attachment 3*



2044 Fillmore • Topeka, Kansas 66604 • Telephone: 913/232-9358
Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

STATEMENT
OF THE
KANSAS LIVESTOCK ASSOCIATION
TO THE COMMITTEE OF
HOUSE ASSESSMENT & TAXATION
WITH RESPECT TO
HOUSE BILL 2041
(Permanent Sales Tax Exemption on Farm Machinery)
Presented by
DEE LIKES
Executive Vice President
JANUARY 19, 1989

Good morning Mr. Chairman and members of the committee. My name is Dee Likes and I'm the Executive Vice President of the Kansas Livestock Association. We appear before you today in support of House Bill 2041.

KLA lobbied in favor of the sales tax exemption for all new farm machinery purchases last year as the so-called "windfall" issue was being debated. We felt that if it made sense to give a sales tax exemption for new manufacturing equipment as an economic development incentive that it also made sense to exempt the equipment used in the state's largest industry ... agriculture.

We and the other individual legislators and interest groups who supported the farm machinery sales tax exemption were partially successful when the temporary exemption was adopted with a one year sunset provision. The rationale for the sunset was:

1. The relative size of the windfall was not as well defined as it is now.
2. Political compromise.

This year, we are pleased that the Governor has proposed and that many legislators have endorsed the idea of removing the sunset clause from the law, thus, making permanent the sales tax exemption for new farm machinery sales. We strongly support this bill as a means for returning some share of the windfall to the agricultural sector of the Kansas economy.

1-19-89
Attachment 4

TO: House Taxation and Assessment Committee
FROM: Elmer McConnell, McConnell Machinery Co., Lawrence, Kansas
RE: Permanent State Sales Tax Exemption on New Farm Equipment
DATE: Jan. 19, 1989

Mr. Chairman, members of the committee. I'm Elmer McConnell of McConnell Machinery Co. in Lawrence, Kansas. I'm here today as a representative of the some 250 farm equipment dealers operating in Kansas. I am also representing the Western Retail Implement and Hardware Association.

First of all, we appreciate the opportunity to testify and for the committee to consider this most important issue.

I'm typical of the farm equipment dealer in Kansas today. Our business employes 13 persons and serves a large trade area. Our business was directly and adversely affected when Kansas imposed state sales tax on new farm equipment sales.

The permanent exemption of the state sales tax on new farm equipment sales is important to our industry and to the survival of many of my colleagues who are in business today, especially those in close proximity to the borders of states with a state sales tax exemption. Making permanent the state sales tax on new farm equipment sales can help our Kansas dealers remain competitive with other dealerships in adjoining states that either have no sales tax on new farm equipment sales or a reduced rate compared to our four per cent figure.

Missouri and Oklahoma on our border have no state sales tax on new

*1-19-89
Attachment 5*

farm equipment sales. I am in direct competition with dealerships in Western Missouri and they have taken business away from my business solely because of the sales tax exemption advantage in Missouri.

Colorado on our western border has a reduced rate compared to our sales tax figure---three per cent. Only Nebraska, among our border states, has a four per cent state sales tax on new farm equipment.

Other states in close proximity to Kansas--Arkansas, Iowa, Texas, and Illinois--have no state sales tax on new farm equipment.

In talking with other dealers in close proximity to states with no state sales tax on new farm equipment, they indicate a loss of business as Kansas farmers travel to other states to purchase expensive equipment. And you can't really blame the farmer. He can save literally thousands of dollars on a big ticket item by travelling a few hundred miles. We need to keep these sales at home in Kansas.

Needless to say, our industry has suffered the past few years. The depression in our agriculture economy and other factors are involved in helping to shove many farm equipment dealers out the door and out of business in Kansas. About one-third of all farm equipment dealers in Kansas have gone out of business since 1981. Sales of new farm equipment are off 70 per cent since 1981. Dealers that are surviving are doing so by tightening their belts yet another notch. The situation may be improving though and making permanent the state sales tax exemption can only help our dealers survive.

By maintaining the exemption you would be not only helping our farm equipment dealers, but you would be helping Kansas farmers as well. You would be helping them save on equipment costs. You would be encouraging them to stay at home and buy from their hometown retailer.

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You would be helping to keep the money from the purchase of new farm equipment in our local economies, which in turn would help other businesses, help keep jobs in our communities and bring in added local and state revenue.

By maintaining the exemption you would be helping to keep our dealers competitive with their counterparts in adjoining states. Again, we appreciate your consideration of our views on this issue and we thank you for the opportunity to appear here today. I'd be happy to answer any questions.

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THE KANSAS PHARMACISTS ASSOCIATION

1308 WEST 10TH

PHONE (913) 232-0439

TOPEKA, KANSAS 66604

ROBERT R. (BOB) WILLIAMS, M.S., C.A.E.
EXECUTIVE DIRECTOR

TESTIMONY

HOUSE COMMITTEE ON TAXATION

HB 2041

I am Bob Williams, Executive Director of the Kansas Pharmacists Association. Thank you for this opportunity to address the committee regarding House Bill 2041. We are in support of House Bill 2041 and would like the committee's assistance in helping us clear up a technical problem we have with KSA 79-3606. On page 6, item (q), line 212, we request that the words "prescription drugs" be stricken. Item (q) would then read "all sales of drugs, as defined by KSA 65-1626 and amendments thereto, dispensed pursuant to a prescription order, as defined by KSA 65-1626 and amendments thereto, by a licensed practitioner;".

Back in the late 70's the Kansas Legislature exempted prescription medication from the sales tax. This was done in an effort to ease the cost of medication--particularly to the highest users of medication--the elderly. At that time the intent was to exempt all medication when purchased with a prescription order, including over-the-counter medication. That is how the pharmacists of this state have been operating up to last summer when the Department of Revenue pointed out the statute exempts only those medications which are classified as "prescription only." A prescription only drug is defined as one

*1-19-89
Attachment 6*

which is required to state on its label that Federal law prohibits dispensing without a prescription. This, of course, precludes over-the-counter medication from the exemption.

While it is not a common practice, there are a number of reasons why a doctor would write a prescription for an over-the-counter medication. Chief among these is in a nursing home setting where every medication from aspirin to laxatives must be dispensed via prescription order. We would appreciate the committee's assistance in this matter. Thank you.

Committee of . . .

Kansas Farm Organizations

Wilbur G. Leonard
Legislative Agent
109 West 9th Street
Suite 304
Topeka, Kansas 66612
(913) 234 9016

TESTIMONY IN SUPPORT OF HB NO. 2041

BEFORE THE HOUSE COMMITTEE ON TAXATION

January 19, 1989

Mr. Chairman and Members of the Committee:

I am Wilbur Leonard, appearing for the Committee of Kansas Farm Organizations which is currently comprised of 22 organizations representing various segments of the agricultural community. A roster of our membership is attached to my brief statement.

We appreciate this opportunity to appear before you today in support of House Bill 2041.

At the present time Kansas farmers and ranchers and those businesses engaged in manufacturing and other industrial activities within the state are all exempt from payment of the state sales tax. The difference is that after July 1st of this year the agricultural purchasers of machinery will become liable for that tax. It seems only fair and logical that those who create the food and fiber and constitute the largest economic group in this state should receive the same tax treatment as those engaged in industrial production. To do otherwise puts the Kansas farmers and ranchers at a disadvantage with respect to their counterparts in those neighboring states where there is no sales tax on farm machinery.

It also creates an unfair situation for Kansas implement dealers, particularly those along its borders. Many of those businesses are struggling to survive and the 4% differential in the price of a tractor or a combine could very well result in the loss of a potential sale. The more dollars we can keep turning over within our state's boundaries the better our general economy will be. Each sale, regardless of size, counts and, collectively, they add up.

We sincerely believe that the continuation of this exemption not only aids the farmer but, in the long run, benefits the entire state. We, therefore, urge the Committee to report House Bill 2041 favorably for passage.

- Wilbur Leonard

1-19-89
Attachment 7

MEMBERS OF THE COMMITTEE OF KANSAS FARM ORGANIZATIONS

ASSOCIATED MILK PRODUCERS

KANSAS AGRI-WOMEN

KANSAS ASSOCIATION OF SOIL CONSERVATION DISTRICTS

KANSAS ASSOCIATION OF WHEAT GROWERS

KANSAS COOPERATIVE COUNCIL

KANSAS CORN GROWERS ASSOCIATION

KANSAS ELECTRIC COOPERATIVES

KANSAS ETHANOL ASSOCIATION

KANSAS FARM BUREAU

KANSAS FERTILIZER & CHEMICAL INSTITUTE, INC.

KANSAS GRAIN & FEED DEALERS ASSOCIATION

KANSAS LIVESTOCK ASSOCIATION

KANSAS MEAT PROCESSORS ASSOCIATION

KANSAS PORK PRODUCERS COUNCIL

KANSAS RURAL WATER ASSOCIATION

KANSAS SEED DEALERS ASSOCIATION

KANSAS SOYBEAN ASSOCIATION

KANSAS STATE GRANGE

MID-AMERICA DAIRYMEN

KANSAS VETERINARY MEDICAL ASSOCIATION

KANSAS WATER WELL ASSOCIATION

WESTERN RETAIL IMPLEMENT AND HARDWARE ASSOCIATION



KANSAS FERTILIZER AND CHEMICAL ASSOCIATION, INC.

816 S.W. Tyler St. P.O. Box 1517 A/C 913-234-0463 Topeka, Kansas 66601-1517

HB 2041

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230 property;

231 (t) all sales of tangible personal property or services purchased
232 directly by a groundwater management district organized or oper-
233 ating under the authority of K.S.A. 82a-1020 *et seq.*, and amend-
234 ments thereto, which property or services are used in the operation
235 or maintenance of the district;

236 (u) ~~(t)~~ all sales of ~~used~~ farm machinery and equipment, repair
237 and replacement parts therefor and services performed in the repair
238 and maintenance of such machinery and equipment. For the pur-
239 poses of this subsection the term "farm machinery and equipment"
240 shall not include any passenger vehicle, truck, truck tractor, trailer,
241 semitrailer or pole trailer, other than a farm trailer, as such terms
242 are defined by K.S.A. 8-126 and amendments thereto. ~~For the pur-~~
243 ~~poses of this subsection "sales of used farm machinery and equip-~~
244 ~~ment" shall mean and include sales other than the original retail~~
245 ~~sale of such machinery and equipment.~~ Each purchaser of farm
246 machinery or equipment exempted herein must certify in writing
247 on the copy of the invoice or sales ticket to be retained by the seller
248 that such purchaser is engaged in farming or ranching and that the
249 farm machinery or equipment purchased will be used only in farming
250 or ranching. As used in this subsection, farming or ranching shall
251 include the operation of a feedlot;

252 ~~(2) on and after July 1, 1988, and on or before June 30, 1989,~~
253 ~~all sales of farm machinery and equipment, repair and replacement~~
254 ~~parts therefor and services performed in the repair and maintenance~~
255 ~~of such machinery and equipment. For the purposes of this sub-~~
256 ~~section, "farm machinery and equipment" shall not include any pas-~~
257 ~~senger vehicle, truck, truck tractor, trailer, semitrailer or pole trailer,~~
258 ~~other than a farm trailer, as such terms are defined by K.S.A. 8-~~
259 ~~126, and amendments thereto. Each purchase of farm machinery~~
260 ~~and equipment exempted herein must certify in writing on the copy~~
261 ~~of the invoice or sales ticket to be retained by the seller that such~~
262 ~~purchaser is engaged in farming or ranching and that the farm ma-~~
263 ~~chinery and equipment purchased will be used only in farming or~~
264 ~~ranching. For the purposes of this subsection, "farming or ranching"~~
265 ~~shall include the operation of a feedlot;~~

266 (v) all leases or rentals of tangible personal property used as a

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History: L. 1975, ch. 495, § 7; L. 1979, ch. 308, § 1; L. 1984, ch. 350, § 1; L. 1987, ch. 369, § 1; July 1.

79-201g.**Attorney General's Opinions:**

Waters and watercourses; collection, storage and impounding of waters; construction and maintenance of dams; donation of easements; tax exemption. 85-43.

79-201i.**Law Review and Bar Journal References:**

"Survey of Kansas Law: Taxation," Sandra Craig McKenzie and Virginia Ratzlaff, 33 K.L.R. 71, 73 (1984).

Attorney General's Opinions:

Property exempt from taxation; farm machinery and equipment held as inventory. 86-132.

CASE ANNOTATIONS

1. Property owned by non-tax-exempt entity leased or providing service for profit to tax-exempt entity taxable. *Farmers Co-op v. Kansas Bd. of Tax Appeals*, 236 K. 632, 640, 694 P.2d 462 (1985).

2. Machinery and equipment used in commercial feedlot not within exemption from taxation as farming or ranching. *T-Bone Feeders, Inc. v. Martin*, 236 K. 641, 649, 693 P.2d 1187 (1985).

79-201j. Property exempt from taxation; farm machinery and equipment. The following described property, to the extent specified by this section, shall be exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

All farm machinery and equipment. The term "farm machinery and equipment" means that personal property actually and regularly used exclusively in any farming or ranching operation. The term "farming or ranching operation" shall include the performing of farm or ranch work for hire. The term "farm machinery and equipment" shall not include any passenger vehicle, truck, truck tractor, trailer, semitrailer or pole trailer, other than a farm trailer, as the terms are defined by K.S.A. 8-126 and amendments thereto.

The provisions of this section shall apply to all taxable years commencing after December 31, 1984.

History: L. 1982, ch. 390, § 3; L. 1985, ch. 311, § 4; July 1.

Law Review and Bar Journal References:

"Survey of Kansas Law: Taxation," Sandra Craig McKenzie and Virginia Ratzlaff, 33 K.L.R. 71, 72 (1984).

Attorney General's Opinions:

Property exempt from taxation; farm machinery and equipment held as inventory. 86-132.

CASE ANNOTATIONS

1. Property owned by non-tax-exempt entity leased or providing service for profit to tax-exempt entity taxable. *Farmers Co-op v. Kansas Bd. of Tax Appeals*, 236 K. 632, 640, 694 P.2d 462 (1985).

2. Machinery and equipment used in commercial feedlot not within exemption from taxation as farming or ranching. *T-Bone Feeders, Inc. v. Martin*, 236 K. 641, 649, 693 P.2d 1187 (1985).

3. Cited; nonbusiness use of rental airplane from airplane rental company making property ineligible for tax exemption (79-201k) examined. *Kenneth Godfrey Aviation, Inc. v. Smith*, 12 K.A.2d 434, 746 P.2d 1068 (1987).

79-201k. Property exempt from taxation; purpose; business aircraft. (a) It is the purpose of this section to promote, stimulate and develop the general welfare, economic development and prosperity of the state of Kansas by fostering the growth of commerce within the state; to encourage the location of new business and industry in this state and the expansion, relocation or retention of existing business and industry when so doing will help maintain or increase the level of commerce within the state; and to promote the economic stability of the state by maintaining and providing employment opportunities, thus promoting the general welfare of the citizens of this state, by exempting aircraft used in business and industry, from imposition of the property tax or other ad valorem tax imposed by this state or its taxing subdivisions. Kansas has long been a leader in the manufacture and use of aircraft and the use of aircraft in business and industry is vital to the continued economic growth of the state.

(b) The following described property, to the extent herein specified, is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

First. For all taxable years commencing after December 31, 1982, all aircraft actually and regularly used exclusively to earn income for the owner in the conduct of the owner's business or industry.

History: L. 1982, ch. 390, § 4; L. 1988, ch. 374, § 3; July 1.

CASE ANNOTATIONS

1. Flying club with full-time staff using aircraft exclusively for rental to members held to be business. *In re Tax Appeal of Cessna Employees' Flying Club*, 11 K.A.2d 378, 381, 721 P.2d 298 (1986).

2. Nonbusiness use of rental airplane from airplane rental company makes airplane ineligible for tax exemption. *Kenneth Godfrey Aviation, Inc. v. Smith*, 12 K.A.2d 434, 439, 746 P.2d 1068 (1987).

79-201m. Property exempt from taxation; merchants' inventory. To the extent specified by this section, property, to the extent specified by this section, shall be and is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas.

As used in this section (a) "Merchant" means a person, company or corporation, or individual, or hold, subject to the provisions of this section, personal property which has been purchased, modified or changed, and without any intervention of another person, have been purchased, modified or changed, and without any intervention of another person.

(b) "Manufacturer" means every person, company or corporation, engaged in the business of refining or combining, or converting, tangible personal property into another form, or form to another form, including, but not limited to, (c) "inventory" means items of tangible personal property held for sale in the ordinary course of business (finished goods); (2) items of tangible personal property produced for such sale; (3) are to be consumed, or used, indirectly in the production of other goods (raw materials and supplies); (4) depreciation or cost recovery; (5) federal income tax paid thereon; (6) classified as inventory; (7) is retired from regular use; (8) or as standby or as surplus; (9) shall be classified as inventory.

The provisions of this section shall apply to all taxable years commencing after December 31, 1988.

History: L. 1988, ch. 374, § 3; July 1, 1989.

79-201n. Property exempt from taxation; grain. The following described property, to the extent specified by this section, shall be and is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

All grain. As used in this section, "grain" includes soybeans, cowpeas, sorghum, barley, kafir, rye, flax and other grains, but shall not include any grain which has not been milled or processed.

The provisions of this section shall apply to all taxable years commencing after December 31, 1988.

History: L. 1988, ch. 374, § 3; July 1, 1989.

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KANSAS DEPARTMENT OF REVENUE

Division of Taxation

Robert B. Docking State Office Building
Topeka, Kansas 66625-0001

MEMORANDUM

TO: THE HONORABLE KEITH ROE, CHAIRMAN
HOUSE COMMITTEE ON TAXATION

FROM: ED C. ROLFS *ECR*
SECRETARY OF REVENUE

RE: HOUSE BILL 2041
PERMANENT SALES TAX EXEMPTION ON FARM MACHINERY

DATE: JANUARY 19, 1989

Thank you for the opportunity to appear today on House Bill 2041.

During last year's session, legislation was passed which provided for a sales tax exemption on purchases of new farm machinery. This provision was scheduled to be effective for a one year period of time, from July 1, 1988 through June 30, 1989.

The changes proposed by House Bill 2041 would make this sales tax exemption permanent. Such a change was included in Governor Hayden's budget recommendations in order to provide on-going support to our state's struggling agricultural sector.

I would point out to the Committee that, even with the adoption of the changes proposed herein, purchases of agricultural machinery will continue to be subject to local sales tax levied by ten local units of government. An amendment would be required to K.S.A. 12-190 to exempt such purchases from all local taxes. Listed below are the affected local units of government:

Johnson County	Seward County
Wyandotte County	Galena
Lawrence	Leavenworth
Manhattan	Ogden
Overland Park	Topeka

The estimated fiscal impact of this change would be a decrease in state general fund revenue of \$7.6 million annually.

I would happy to respond to any questions which you may have.

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Kansas Department of Revenue

Comparison of Proposed Tax Year 1989 Liability
With Estimated Tax Year 1987 Liability
Before Federal and Kansas Tax Reform

Liability Numbers are in Constant 1987 Dollars

K.A.G.I. Brackets			Before Federal and Kansas Tax Reform Estimated Tax Year 1987		
			Returns	Liability	Average
No K.A.G.I.			15,474		
\$0	-	\$5	135,368	\$1,090,211	\$8.05
\$5	-	\$15	253,895	\$36,987,158	\$145.68
\$15	-	\$25	190,737	\$82,916,211	\$434.72
\$25	-	\$35	141,053	\$101,228,842	\$717.67
\$35	-	\$50	128,842	\$131,391,579	\$1,019.79
\$50	-	\$100	76,316	\$129,854,316	\$1,701.54
\$100	-	Over	12,000	\$71,521,368	\$5,960.11
Total			953,684	\$554,989,684	\$581.94

K.A.G.I. Brackets			Proposed Tax Year 1989		
			Returns	Liability	Average
No K.A.G.I.			14,211		
\$0	-	\$5	132,632	\$52,842	\$0.40
\$5	-	\$15	247,789	\$30,478,211	\$123.00
\$15	-	\$25	190,947	\$76,301,684	\$399.60
\$25	-	\$35	136,000	\$91,173,474	\$670.39
\$35	-	\$50	126,105	\$125,105,158	\$992.07
\$50	-	\$100	91,895	\$156,353,368	\$1,701.44
\$100	-	Over	14,105	\$108,081,158	\$7,662.47
Total			953,684	\$587,545,895	\$616.08

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Attachment 10*

SIMULATION 7538

TAX YEAR 1989
Kansas Personal Exemption is \$2,000

Kansas Department Of Revenue

2-01

	Proposed	Current
Married: \$0 - \$35,000	3.60%	4.05%
\$35,000 - Over	4.90%	5.30%
\$0 - \$27,500	4.45%	4.80%
\$27,500 - Over	5.85%	6.10%

Individual Income Tax In Tax Year 1989
Resident Taxpayers

Current Law

Married								Single					Total Residents					
K.A.G.I. Bracket	No. Of Returns	Percent Of KAGI	Liability	Average Per Return	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Average Per Return	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Average Per Return	Percent Of Total	Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.00		0.0%	0.0%	4,526	0.0%	\$0.00		0.0%	0.0%	14,211	0.0%	\$0.00		0.0%	0.0%
\$0 \$5	15,895	0.2%	\$0.00	\$0.07	0.0%	0.0%	105,368	4.5%	\$0.04	\$0.41	0.0%	0.0%	121,263	1.3%	\$0.04	\$0.36	0.0%	0.0%
\$5 \$15	66,632	3.6%	\$2.97	\$44.54	0.4%	0.4%	163,684	23.6%	\$28.80	\$175.95	3.9%	1.8%	230,316	8.7%	\$31.77	\$137.93	4.3%	1.4%
\$15 \$25	87,368	9.0%	\$28.12	\$321.88	3.8%	1.6%	96,737	27.9%	\$54.89	\$567.40	7.4%	2.9%	184,105	13.8%	\$83.01	\$450.89	11.2%	2.3%
\$25 \$35	93,368	14.3%	\$62.11	\$665.17	8.4%	2.2%	42,421	18.5%	\$41.52	\$978.74	5.6%	3.3%	135,789	15.4%	\$103.62	\$763.13	14.0%	2.6%
\$35 \$50	112,211	24.0%	\$121.30	\$1,081.00	16.4%	2.6%	21,579	13.1%	\$31.91	\$1,478.84	4.3%	3.6%	133,789	21.2%	\$153.21	\$1,145.17	20.8%	2.8%
\$50 \$100	107,158	35.0%	\$198.03	\$1,848.04	26.8%	2.9%	9,053	8.6%	\$24.15	\$2,667.86	3.3%	4.2%	116,211	28.2%	\$222.18	\$1,911.90	30.1%	3.0%
\$100 Over	16,632	14.0%	\$130.99	\$7,875.87	17.7%	4.8%	1,368	3.8%	\$13.50	\$9,863.00	1.8%	5.2%	18,000	11.4%	\$144.48	\$8,026.94	19.6%	4.8%
Total	508,947	100.00%	\$543.52	\$1,067.92	73.6%	2.8%	444,737	100.00%	\$194.81	\$438.04	26.4%	2.9%	953,684	100.00%	\$738.33	\$774.18	100.00%	2.8%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1989
Resident Taxpayers

SIMULATION 7538

Married								Single					Total Residents					
K.A.G.I. Bracket	No. Of Returns	Percent Of KAGI	Liability	Average Per Return	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Average Per Return	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Average Per Return	Percent Of Total	Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.00		0.0%	0.0%	4,526	0.0%	\$0.00		0.0%	0.0%	14,211	0.0%	\$0.00		0.0%	0.0%
\$0 \$5	15,895	0.2%	\$0.00	\$0.07	0.0%	0.0%	105,368	4.5%	\$0.04	\$0.41	0.0%	0.0%	121,263	1.3%	\$0.04	\$0.36	0.0%	0.0%
\$5 \$15	66,632	3.6%	\$2.65	\$39.82	0.4%	0.4%	163,684	23.6%	\$26.68	\$162.97	4.0%	1.7%	230,316	8.7%	\$29.33	\$127.34	4.4%	1.3%
\$15 \$25	87,368	9.0%	\$24.89	\$284.92	3.7%	1.4%	96,737	27.9%	\$50.69	\$524.03	7.6%	2.7%	184,105	13.8%	\$75.59	\$410.56	11.3%	2.1%
\$25 \$35	93,368	14.3%	\$54.86	\$587.53	8.2%	2.0%	42,421	18.5%	\$38.34	\$903.75	5.8%	3.1%	135,789	15.4%	\$93.19	\$686.32	14.0%	2.3%
\$35 \$50	112,211	24.0%	\$107.10	\$954.43	16.1%	2.3%	21,579	13.1%	\$29.66	\$1,374.53	4.5%	3.4%	133,789	21.2%	\$136.76	\$1,022.19	20.5%	2.5%
\$50 \$100	107,158	35.0%	\$176.02	\$1,642.62	26.4%	2.6%	9,053	8.6%	\$22.72	\$2,509.62	3.4%	4.0%	116,211	28.2%	\$198.74	\$1,710.16	29.8%	2.7%
\$100 Over	16,632	14.0%	\$119.57	\$7,189.55	18.0%	4.4%	1,368	3.8%	\$12.88	\$9,413.77	1.9%	5.0%	18,000	11.4%	\$132.46	\$7,358.64	19.9%	4.4%
Total	508,947	100.00%	\$485.09	\$953.13	72.8%	2.5%	444,737	100.00%	\$181.01	\$407.01	27.2%	2.7%	953,684	100.00%	\$666.11	\$698.45	100.00%	2.5%

Fiscal Impact:

All Taxpayers:	(\$78.9)
All Residents:	(\$72.2)
Married:	(\$58.4)
Single:	(\$13.8)
Non-Resident:	(\$6.6)