

MINUTES OF THE SENATE ASSESSMENT & TAXATION COMMITTEE

The meeting was called to order by Vice Chairman Pat Apple at 10:30 a.m. On March 8, 2011, in Room 152-S of the Capitol.

All members were present except:

Chairman Les Donovan – excused

Committee staff present:

Gordon Self, Office of the Revisor of Statutes

Scott Wells, Office of the Revisor of Statutes

Chris Courtwright, Kansas Legislative Research Department

Michael Wales, Kansas Legislative Research Department

Mary Jane Brueck, Committee Assistant

Conferees appearing before the Committee:

None

Others attending:

See attached list.

Vice-Chairman Pat Apple opened the meeting, and explained this meeting was a staff briefing on **SB 98 – Elimination of certain sales tax exemptions, imposition of sales tax on certain services, provision of sales tax exemption for certain purchases of food, and reduction of sales tax and certain income tax rates.** He explained no testimony would be heard today. Anyone wanting to present testimony should watch the Senate Calendar for a date for a hearing on this bill.

Vice-Chairman Apple recognized Sen. Dick Kelsey who has worked on this bill for quite some time. He asked Sen. Kelsey to explain this bill to the committee. (Attachment 1) Next to speak was Scott Wells, Assistant Revisor. He told the committee this bill comprises many tax law changes. The three primary areas are: income tax, sales tax, and sales tax exemptions. (Attachment 2)

Chris Courtwright, Principal Economist for Kansas Legislative Research Department gave a brief outline of the components of this comprehensive proposal that “would make major changes in the state tax structure while leaving it revenue neutral relative to current law.” (Attachment 3) Richard Cram, representing the Department of Revenue, was last to speak. His testimony included a brief of the bill; a section on the fiscal impact; and repeal of existing sales tax exemptions. (Attachment 4)

Vice-Chairman Apple closed the briefing on SB 98, and said there would be no need for further briefing on this bill tomorrow. Anyone who wants to present written testimony on this bill should take it to Mary Jane [in office 123-S].

The next meeting will be tomorrow, March 9, 2011 for a hearing on **SB 87 - Property exempt from taxation; community service organizations providing humanitarian services.**

There being no further business for the committee, Vice Chairman Apple declared the meeting adjourned at 11:20 a.m.

SENATE

Assessment & Taxation Committee

GUEST LIST

DATE: 3-8-11

NAME	REPRESENTING
Christy Caldwell	Topeka Chamber
Michelle Butler	Cap. Strategist
LARRY R BARR	LKM
Arvin Bratt	DK Co. Leadership
She Kon Jones	DK Co Leadership
Cindy Issitt, ^{Abilene} Chamber Pres	DK CO Leadership
Bryce Koehn	DK CO Leadership
Travis Lowe	Little Fort Relations
Edward Larson	KS Catholic Conference
Doug Lindahl	Leadership Dickinson Cty.
Judy Grom	Am Inst of Architects
Jim Edwards	KASB
Jenna Oitsky	Intern for Sen. Huntington
Rachel Whitten	Kansas Reporter.org
Pete Routhier	Hein Law Firm
Chris Austin	KHA
Melissa Wangermann	KAC
Martha Lee Jones	KMHA
Notchey Byt	KSCPD

DATE: 3-8-11

[illegible]

From the Desk of Senator Dick Kelsey . . .

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316-706-5845 email: dandd@carrollsworld.com

The benefits of the comprehensive tax plan presented by Senator Dick Kelsey and other legislators:

- A. It will make Kansas a more business friendly state. We will be one of the few states in the nation without a corporate income tax.
- B. It begins us on the road to elimination of the state income tax.
- C. It brings greater fairness to the Kansas tax system.
 - a. It will bring us towards a tax system based on taxing consumption instead of production.
 - b. It eliminates the problem of some people paying sales tax and others doing the exact thing not paying sales tax.
- D. Since everyone buys food, the elimination of the sales tax on food benefits everyone equally.
- E. Our economy has moved to being an economy based on the purchase of "things" to the purchase of services. This plan enables our sales tax system to adjust to that reality.
- F. The elimination of most exemptions is based on the fact that an exemption should be granted to every person or organization involved in a certain function or nobody who does that function. Our current exemption system is based on who had the money to hire a good lobbyist.
- G. This is a comprehensive adjustment to our tax system with many dials. Each time we change one dial we affect the others.

Office of Revisor of Statutes

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MEMORANDUM

To: Senate Committee on Assessment and Taxation
From: Scott Wells, Assistant Revisor
Date: March 8, 2011
Subject: SB 98

Senate Bill 98 was introduced in the Senate Committee on Assessment and Taxation on January 25, 2011, at the request of Senator Dick Kelsey. Senate Bill 98 comprises a number of tax law changes in the state of Kansas that can be categorized into three primary areas: Income tax, sales tax and sales tax exemptions. The following memo will provide an overview of the bill and detail the changes being made to each of the aforementioned areas of tax law.

I. Income Tax

Beginning in tax year 2012, resident individual income tax filers will receive a permanent, one time rate reduction in their Kansas income taxes. Under the current income tax schedule, resident individuals pay income taxes according to rates in up to three taxing brackets: For taxable income of less than \$15,000 the tax is 3.5%; for income between \$15,000 and \$30,000 the tax is \$525 plus 6.25% of excess over \$15,000; and for income in excess of \$30,000, the tax is \$1,462.50 plus 6.45% of excess over \$30,000.¹ If the provisions of SB 98 become law, the three brackets described above would see a decrease in the taxing rate as follows: For taxable

¹For married individuals filing joint returns, the same taxing rates apply, but the income thresholds are doubled. In this case, the three brackets would be: For income of \$30,000 and under, 3.5%; for income between \$30,000 and \$60,000, \$1,050 plus 6.25% of excess over \$30,000; and for income in excess of \$60,000, \$2,925 plus 6.45% of excess over \$60,000.

income less than \$15,000, the tax would be 2.8%; for income between \$15,000 and \$30,000, the tax would be \$420 plus 5.3% of excess over \$15,000; and for income in excess of \$30,000, the tax would be \$1,215 plus 5.85% of excess over \$30,000.²

For corporate income tax filers, a two-step reduction would begin in tax year 2011 which would ultimately see an elimination of the corporate income tax and corporate surtax by tax year 2012. Currently, corporations in Kansas pay an income tax of 4% of the Kansas taxable income of the corporation and a surtax equal to 3.05% of the taxable income in excess of \$50,000. In tax year 2011, under the provisions of SB 98, that rate would decrease to 2% and then would disappear altogether in tax year 2012. Similarly, the surtax would in tax year 2011 to 1.525% and then disappear completely in tax year 2012.

II. Sales Tax

On January 1, 2012, Kansas sales and compensating use tax laws will change in two significant ways. First, the rate of taxation will drop from 6.3% to 5.3%.; and second, the sales tax base will be significantly broadened. SB 98 broadens the sales tax base by generally applying the sales tax to all services except those specifically exempted and by removing a number of current sales tax exemptions. Ambulatory health care and hospital services are explicitly exempted by SB 98 from the imposition of the sales tax and therefore would not be affected by the provisions of this bill.³

In conjunction with the reduction of the sales and compensating use tax rate, the amount of sales and compensating use tax revenue transferred to the state highway fund would also see a

²Married individuals filing joint returns would see the same decrease in rates.

³SB 98 specifically exempts services described in subsectors 621 and 622 of the North American industry classification system (NAICS), United States, 2002 edition.

reduction. Under current law, on July 1, 2012, the state treasurer is to credit 11.233% of the revenue received from sales and compensating use taxes to the credit of the state highway fund. Under the provisions of SB 98, on January 1, 2012, the state highway fund would begin to receive 9.023% of such revenue collected.⁴ Finally, on July 1, 2012, and thereafter, the state highway fund would begin to receive 8.466% of the revenues collected.

As stated previously, under the provisions of the bill the sales tax would apply to all services unless otherwise specifically exempted. A number of services currently exempted from imposition of the sales tax under Kansas law would see this exemption repealed. These services would include: Certain telecommunications services; sale of gas, electricity and heat to residential premises for noncommercial use; laundry services; fees and charges by political subdivisions; entry fees for participation in special events sanctioned by a national sporting association; dues charged by certain organizations exempt from property taxation under paragraphs *Eighth* and *Ninth* of K.S.A. 79-201; sales of memberships by a nonprofit zoo; certain transfers of motor vehicles; and certain construction and remodeling services. Additionally, the sales tax would also apply to the sale of, and the gross receipts for providing access to or use of, all compute software. Finally, the sales tax would be imposed upon the sale of specified digital products, including electronically transferred digital audio works, digital audio-visual works and digital books.

III. Sales Tax Exemptions

On January 1, 2012, significant changes would occur under the provisions of SB 98 relative to sales tax exemptions under Kansas law. Sales of food and food ingredients would

⁴Under current law, on July 1, 2011, the state highway fund is begin receiving 11.26% of such revenue. That would remain unchanged in SB 98 and would be in effect until January 1, 2012 under the provisions of the bill.

become exempt from sales tax under the provisions of the bill. The number of exemptions which would be repealed under SB 98 is extensive and this memo will not try to detail each and every one. Instead, a list has been provided below showing only those current exemptions (by the exemption's current subsection) which would remain in effect under the provisions of the bill.

SALES TAX EXEMPTIONS UNAFFECTED BY SB 98

- (a) Motor-vehicle fuel
- (e) Construction of U.S. government buildings
- (g) Sales of certain aircraft
- (k) Sales of certain property to residents of another state
- (l) Isolated or occasional sales of tangible personal property
- (m) Ingredient or component part
- (n) Property consumed in production
- (o) Sales of animals, fowl, etc. for use in agriculture or aquaculture
- (p) Prescription drugs
- (q) Sales of insulin
- (r) Oxygen delivery equipment, kidney dialysis, etc.
- (t) Farm machinery and equipment
- (y) Railroad rolling stock
- (aa) Equipment transported into the state for repair
- (dd) Food stamps
- (ee) Lottery tickets
- (gg) Special supplemental food program for women, infants and children
- (kk) Integrated production operation
- (jjj) Prescription dietary supplements

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January 18, 2011

To: Senator Dick Kelsey
From: Chris W. Courtwright, Principal Economist
Re: Proposed Comprehensive Tax Plan

The purpose of this memo is to briefly outline the components of a comprehensive proposal that would make major changes in the state tax structure while leaving it revenue neutral relative to current law.

As we have been discussing, the major sales and use tax components would include a significant expansion of the state sales tax base pursuant to repealing a number of sales tax exemptions; extending the tax to a number of previously untaxed services; lowering the rate back to 5.3 percent; and eliminating the tax on groceries. Assuming a one-month lag in receipts, the net amount of additional revenue provided for all of these changes for FY 2012 would be \$277.5 million. Repealing the food sales tax rebate program, which would no longer be necessary, would increase net receipts by an additional \$42 million. So the amount of additional revenues provided would total \$319.5 million.

Reducing the corporation income tax rates by half for tax year 2011 would reduce receipts by \$190 million, according to the Department of Revenue.

This would leave \$129.5 million to apply to a major reduction in individual income taxes starting in tax year 2012. As we discussed, the Legislature would certainly be at liberty to explore any number of options to provide individual income tax relief of this magnitude.

The corporation income tax is repealed altogether beginning in tax year 2012. Using the estimates for the twelve-month impacts of the sales tax changes and individual income tax provisions also produces a revenue-neutral fiscal note for FY 2013 (when all provisions have been fully annualized).

Sn. Assmnt & Tax

3-8-11

Attachment # 3

Restoring Equity in Our Tax System

Basic Goals:

- Eliminate the sales tax on food;
- Eliminate the corporate income tax;
- Reduce the individual income tax;
- Reduce the state sales tax by 1.0 percent;

Path to Reach the Above Goals:

- Apply the reduced state sales tax rate to services (excluding health care services).
 - Professional, scientific and technical services;
 - Administrative and support services;
 - Personal care and taxi services;
 - Other services;
- Eliminate most of the existing sales tax exemptions:
 - EXCEPT:
 - conceptual;
 - lottery tickets;
 - farm machinery and equipment;
 - manufacturing machinery and equipment; and
 - those which are legally mandated by federal law
 - Include:
 - Governmental;
 - Educational;
 - Other Agricultural;
 - Charitable; and
 - Consumer.

Proposal - Details

Basic Goals:

- **Eliminate the sales tax on food:**
 - While net changes in sales tax base would increase receipts, rate would be reduced substantially;
 - The sales tax on food would be eliminated effective January 1, 2012;
 - Kansas would join 31 other states (that have a sales tax) that do not tax food. Five states do not have a sales tax;
 - Currently, Kansas is only one of seven states that apply their full sales tax rate to food;
 - Repeal the existing food sales tax rebate program, since it would no longer be needed.
- **Eliminate the corporate income tax:**
 - Corporate rates would be cut in half for tax year 2011;
 - The corporate income tax would be eliminated altogether for tax year 2012;
 - Kansas would join three current states that do not have any type of corporate income tax - Nevada, Washington, and Wyoming.
- **Reduce the individual income tax;**
 - Starting in FY 2012, rates would be reduced from 3.5, 6.25 and 6.45 percent to 2.8, 5.3, and 5.85 percent, respectively

- **Reduce the state sales tax by 1.0 percent;**
 - While net changes in sales tax base would increase receipts, rate would be reduced substantially;
 - Decrease the rate from 6.3 percent to 5.3 percent, effectively repealing the 2010 tax increase on many consumer purchases; and
 - The 1.0 percent rate decrease would equate to a savings of \$200 on a \$20,000 vehicle purchase.

Path to Reach the Above Goals:

- Apply the reduced sales tax rate to services (excluding health care services) (See Attachment A):
 - Professional, scientific and technical services;
 - Administrative and support services;
 - Personal care and taxi services; and
 - Other services.
- Eliminate the most existing sales tax exemptions (See Attachment B):
 - EXCEPT:
 - conceptual;
 - lottery tickets, farm and manufacturing m and e ; and
 - certain exemptions mandated by federal law.
 - Include:
 - Governmental;
 - Educational;
 - Other Agricultural;
 - Charitable; and
 - Consumer.

Revenue-Neutral Fiscal Note for FY 2012 and FY 2013

Although the plan is only implemented for the final six months of FY 2012, it is structured to be revenue-neutral relative to current law for that fiscal year, as well as for FY 2013 when it has been fully implemented and annualized.

(\$ in millions)

Proposal - Worksheet for FY 2012

\$ 277.5	- Repeal all exemptions except conceptual, legal, farm machinery and equipment, manufacturing machinery and equipment, lottery, and certain others mandated by federal law; Extending tax to previously untaxed services, but not health care services; Exempt food, reduce rate to 5.3 percent; All occur on January 1, 2012.
(190.0)	- Corp income tax phased out over two years
42.0	- Repeal Food Sales Tax Rebate Credits
(129.0)	- First year of lower individual income tax rates
<u>\$ 0.5</u>	- Final Fiscal Note Relative to Current Law

Proposal - Worksheet for FY 2013

\$ 684.1	- Net of all aforementioned sales tax changes
(288.8)	- Full repeal of corporation income tax
42.0	- Repeal food sales tax rebate credit
<u>(436.6)</u>	- Annualized impact of lower individual income tax rates
\$ 0.7	- Final Fiscal Note Relative to Current Law

How Is It Fair?

- * That coin-operated laundromats are exempt but coin-operated car washes are taxable?
- * That municipal golf course admissions are exempt but privately owned golf course admissions are taxable?
- * That the labor services associated with washing the floor are exempt but the services associated with waxing the floor are taxable?
- * That some backhoes purchased for agricultural use qualify for an exemption but other backhoes purchased and used almost identically are taxable?
- * That human haircuts are exempt but pet haircuts are taxable?
- * That certain purchases of the West Sedgwick County and the Shawnee Rotary Clubs are exempt but all other Rotary Clubs' purchases are taxable?

State Sales Tax Exemptions - Listed by Groups

Statute	Description of Exemption or Exclusion	FY2012 (\$ in Millions)	FY2013 (\$ in Millions)
Tax Rate		6.3%	5.3%
Est Annual Growth		3%	3%
Conceptual Exclusions			
All Conceptual Exemptions Retained			

Public Policy: Charitable, Religious, Benevolent Exemptions			
3603 (e)	Admission to any cultural and historical event which occurs triennially	Minimal	Minimal
3606 (v)	Sales of food products purchased by contractor for use in preparing meals for delivery to homebound elderly persons. In 2004, expanded exemption to all personal property purchased by contractor and sales of food products by or on behalf of contractor or organization	\$ 0.44	\$ 0.91
3606 (ii)	Property purchased by nonprofit organization for nonsectarian comprehensive multidiscipline youth development programs and activities and sales of property by or on behalf of such organization	\$ 1.39	\$ 2.88
3606 (oo)	Property purchased by a community action group or agency to repair or weatherize housing occupied by low income individuals.	Minimal	Minimal
3606 (qq)	Property and services purchased by a nonprofit museum or historical society which is organized under the federal income taxation code as a 501 (c)(3)	\$ 0.21	\$ 0.43
3606 (rr)	Property which will admit purchases to an annual event sponsored by a nonprofit organization organized under the federal income taxation code as a 501 (c)(3)	\$ 0.02	\$ 0.04
3606 (tt)	Property and services purchased by not-for-profit corporation for the sole purpose of constructing a Kansas Korean War memorial and is organized under the federal income taxation code as a 501 (c)(3)	\$ -	\$ -
3606 (xx)	Property and services purchases by nonprofit zoo or on behalf of a zoo by an entity that is a 501(c)(3)	\$ 0.32	\$ 0.66
3606 (yy)	Property and services purchased by a parent-teach association or organizations and all sales of tangible personal property by or on behalf of such association	\$ 0.30	\$ 0.62
3606 (aaa)	Property and services purchased by religious organizations and used exclusively for religious purposes	\$ 9.16	\$ 19.05
3606 (bbb)	Sales of food for human consumption by organizations exempt by 501(c)(3) pursuant to food distribution programs which offers such food at a price below cost in exchange for the performance of community service by the purchaser.	Minimal	Minimal
3606 (hhh)	Property and services purchased by or on behalf of Domestic Violence Shelters as members of the Kansas coalition against Sexual and Domestic Violence	\$ 0.03	\$ 0.06
3606 (iii)	Property and services purchased by organizations distributing food without charge to other nonprofit food distribution programs. Includes taxes paid on and after July 1, 2005 and prior to July 1, 2006.	\$ 0.13	\$ 0.26
3606 (ppp)	Property and services purchased by non-profit Homeless Shelters, and sales made by or on behalf of these organizations.	\$ 0.06	\$ 0.12
3606 (ttt)	Property and services purchased a contractor for a purpose of restoring, constructing, equipping, reconstructing, maintaining, repairing, enlarging, furnishing or remodeling a home or facility owned by a nonprofit museum which is a qualified under the governor hometown heritage act (KSA 75-5071)	\$ 0.06	\$ 0.12
Subtotal		\$ 12.10	\$ 25.16
Public Policy: Exemptions to Charitable Organizations by Name			
3606 (vv)	Property purchased by the following organizations who are organized under the federal income taxation code as a 501 (c)(3): American Heart Association, Ks Affiliate; Ks Alliance for the Mentally Ill, Inc.; Ks Mental Illness Awareness Council, Heartstrings Community Foundation, Cystic Fibrosis, Spina Bifida Assn, CHWC, Inc., Cross-lines Cooperative Council, Dreams Work, Inc., KSDS, Inc., Lyme Association of Greater Kansas City, Inc Dream Factory, Ottawa Suzuki Strings, International Assn of Lions Clubs, Johnson County young Matrons, American Cancer Society, Community Services of Shawnee, Angel Babies Assn, Kansas Fairground Foundation	\$ 0.42	\$ 0.87
3606 (ww)	Property purchased by the Habitat for Humanity for use within a housing project	\$ 0.06	\$ 0.13
3606 (ggg)	Property and services purchased by or on behalf of the Kansas Academy of Science.	Minimal	Minimal
3606 (kkk)	Not Used	\$ -	\$ -
3606 (lll)	Property and services purchased by Special Olympics Kansas, Inc., and sales made by or on behalf of Special Olympics.	\$ 0.01	\$ 0.03
3606 (mmm)	Property and services purchased by Marillac Center, Inc. and sales made by or on behalf of the Marillac Center.	\$ 0.03	\$ 0.06

State Sales Tax Exemptions - Listed by Groups

Statute	Description of Exemption or Exclusion	FY2012 (\$ in Millions)	FY2013 (\$ in Millions)
Tax Rate		6.3%	5.3%
Est Annual Growth		3%	3%
3606 (nnn)	Property and services purchased by West Sedgwick County - Sunrise Rotary Club for constructing boundless playground.	\$ 0.01	\$ 0.02
3606 (qqq)	Property and services purchased by TLC for Children and Families, Inc. and sales made by or on behalf of TLC	\$ 0.09	\$ 0.19
3606 (sss)	Property and services purchased by catholic charities or youthville and sales made by or on behalf of catholic charities or youthville	\$ 0.34	\$ 0.71
3606 (uuu)	Property and services purchased by Kansas Children's Service League and sales made by or on behalf of the KCSL	\$ 0.08	\$ 0.16
3606 (vvv)	Property and services purchased by Jazz in the Woods and sales made by or on behalf of such organization	\$ 0.01	\$ 0.01
3606 (www)	Property purchased by or behalf of Frontenac Education Foundation and sales made by or on behalf of such organization	\$ 0.00	\$ 0.00
3606 (xxx)	Property and services purchased by the Booth Theatre Foundation, Inc. Provides for refund of sales taxes paid from January to July 2007.	\$ 0.02	\$ 0.03
3606 (yyy)	Property and services purchased by the TLC Charities Foundation, Inc. and sales made by or on behalf of these organizations.	\$ 0.00	\$ 0.00
3606 (zzz)	Property purchased by Rotary Club of Shawnee Foundation	\$ -	\$ -
3606 (aaaa)	Property and services purchased by or on behalf of Victory in the Valley and sales made by or on behalf of such organization	\$ 0.01	\$ 0.02
3606 (bbbb)	Guadalupe Health Foundation, sales of entry or participation fees, charges or tickets for annual fundraising event	\$ 0.06	\$ 0.12
3606 (cccc)	Property and services purchased by or on behalf of Wayside Waifs for the purpose of providing such organizations annual fundraising event and sales made by or on behalf of such organization	\$ 0.00	\$ 0.01
3606 (dddd)	Property or services purchased by or on behalf of Goodwill Industries or Easter Seals of Kansas, Inc for the purpose of providing education, training and employment opportunities for people with disabilities and other barriers to employment	\$ 0.02	\$ 0.04
3606 (eeee)	Property or services purchased by or on behalf of All Beef Battalion, Inc. for the purpose of educating, promoting and participating as a contract group through the beef cattle industry in order to carry out such projects that provide support and morale to members of the United States armed forces and military services.	\$ 0.00	\$ 0.00
3606 (ffff)	Property and services purchased by Sheltered Living, Inc for the purpose of providing residential and services for people with developmental disabilities or mental retardation, or both; and sales made on behalf of such organization	\$ 0.02	\$ 0.03
	Subtotal	\$ 1.17	\$ 2.44
Public Policy: Consumer Exemptions			
3602 (ii)	Modified definition of sales or selling price to not include cash rebates granted by a manufacturer to a purchaser or lessee of a new motor vehicle if paid directly to the retailer as a result of the original sale. The exemption is granted from July 1, 2006 and ending June 30, 2009.	\$ -	\$ -
3603 (b)	Taxes telephone and telegraph services except certain interstate and international services and value-added nonvoice data services	\$ 0.76	\$ 1.59
3603 (c)	Residential and agricultural use utilities. Effective Jan 1 2006, exemption moved here from 3606 (w) and (x).	\$ 65.44	\$ 136.09
3603 (o)	Motor vehicles exchanged for corporate stock, corporate transfer to itself and immediate family member sales.	\$ 0.11	\$ 0.23
3603 (p)	Labor services of installing or applying property in original construction of a building or facility or the construction reconstruction, restoration, replacement or repair of a residence, bridge or highway	\$ 95.99	\$ 199.63
3603 (v)	Sales of bingo cards, bingo faces and instant bingo tickets. Tax rate 2.5 on July 1, 2001 to June 30, 2002; exempt on July 1, 2002	\$ 1.44	\$ 3.00
3606 (u)	Leases or rentals of property used as a dwelling for more than 28 consecutive days.	\$ 0.38	\$ 0.80
3606 (w)	Residential and agricultural use of water and severing oil & gas and property exempt from property tax. Effective Jan 1 2006, exemption for residential and agricultural use of electricity and heat moved to 3603(c).	\$ 6.12	\$ 12.73
3606 (x)	Sales of propane, gas, LP-gas, coal, wood, and other fuel sources for the production of heat or lighting for noncommercial use in a residential premise. Effective Jan 1 2006, exemption for residential and agricultural moved hereto 3603(c).	\$ -	\$ -
3606 (bb)	Used mobile and manufactured homes	\$ 2.34	\$ 4.87
3606 (ee)	Lottery tickets and shares made as part of a lottery operated by the State of Kansas	Retained	Retained

State Sales Tax Exemptions - Listed by Groups

Statute	Description of Exemption or Exclusion	FY2012 (\$ in Millions)	FY2013 (\$ in Millions)
Tax Rate		6.3%	5.3%
Est Annual Growth		3%	3%
3606 (ff)	New mobile or manufactured homes to the extent of 40% of the gross receipts	\$ 1.72	\$ 3.57
3606 (ooo)	Sales made by or on behalf of a public library	Retained	Retained
	Subtotal	\$ 174.32	\$ 362.51
	Public Policy: Governmental Exemptions		
3603 (g)	Service of renting of rooms by holds or accommodation brokers to federal government or any federal employee in performance of official government duties.	\$ 0.06	\$ 0.13
3603 (h)	Service of leasing or renting machinery and equipment owned by city purchased with industrial revenue bonds prior to July 1, 1973	\$ -	\$ -
3606 (b)	Property or services purchases by State of Kansas, political subdivision, nonprofit hospital or blood /donor bank. In 2001, deleted sales of water to make purchases for water suppliers exempt.(Neutral FN due to Clean Water Fee)	\$ 174.71	\$ 363.32
3606 (d)	Property or services purchased by contractor for building or repair of buildings for nonprofit hospital, elementary or secondary schools or nonprofit educational institutions, and for state correctional institution	\$ 62.81	\$ 130.61
3606 (e)	Property or services purchases by federal government, its agencies or instrumentality's	\$ 2.92	\$ 6.08
3606 (s)	Sales of property or services purchased by a groundwater management district	\$ 0.02	\$ 0.05
3606 (z)	Property and services purchased directly by a port authority or a contractor therefore.	Minimal	Minimal
3606 (ss)	Property and services purchased by a public broadcasting station licensed by FCC as a noncommercial educational television or radio station.	Minimal	Minimal
3606 (uu)	Property and services purchased by rural fire fighting organization	Minimal	Minimal
3606 (rrr)	Property and services purchased by county law library,	\$ 0.06	\$ 0.12
	Subtotal	\$ 240.58	\$ 500.31
	Public Policy: Educational Exemptions		
3606 (c)	Property or services purchased and leasing by elementary or secondary schools and educational institutions	\$ 30.87	\$ 64.20
3606 (h)	Rental of nonsectarian textbooks by elementary or secondary schools	\$ 0.50	\$ 1.05
	Subtotal	\$ 31.38	\$ 65.25
	Public Policy: Health Care Exemptions		
3606 (p)	Sales for prescription drugs	Retained	Retained
3606 (q)	Sales of insulin dispensed by pharmacist for treatment of diabetes	Retained	Retained
3606 (r)	Sales of prosthetic or orthopedic appliances prescribed by a doctor. IN 2004, exempted all hearing aids, parts and batteries by licensed providers	\$ 4.37	\$ 9.08
3606 (hh)	Medical supplies and equipment purchased by nonprofit skilled nursing home or intermediate nursing care home for providing medical services to residents	\$ 0.55	\$ 1.14
3606 (jj)	Property and services, includes leasing of property, purchased for community-based mental retardation facility or mental health center.	\$ 1.27	\$ 2.65
3606 (ll)	Educational materials purchased for distribution to the public at no charge by a nonprofit public health corporation	\$ 0.04	\$ 0.09
3606 (ccc)	Property and services purchases by health care centers and clinics who are serving the medically underserved.	\$ 0.20	\$ 0.41
3606 (jjj)	Sales of dietary supplements dispensed by prescription order by a licensed practitioner or mid-level practitioner.	Minimal	Minimal
	Subtotal	\$ 6.43	\$ 13.38
	Public Policy: Agriculture Exemptions		
3606 (t)	Sales of farm or aquaculture machinery and equipment, parts and services for repair and replacement. In 2006, added work-site utility vehicle as exempt. To include precision farm equipment	Retained	Retained
3606 (mm)	Seeds, tree seedlings, fertilizers, insecticides, etc., and services purchased and used for producing plants to prevent soil erosion on land devoted to agricultural use.	\$ 0.50	\$ 1.05
	Subtotal	\$ 0.50	\$ 1.05
	Legal Exemptions		
3606 (g)	Sales, repair or modification of aircraft sold for interstate commerce directly through an authorized agent. IN 2004, expanded aircraft exemption for repair, modification plus parts and labor	Retained	Retained

State Sales Tax Exemptions - Listed by Groups

Statute	Description of Exemption or Exclusion	FY2012 (\$ in Millions)	FY2013 (\$ in Millions)
Tax Rate		6.3%	5.3%
Est Annual Growth		3%	3%
3606 (y)	Sales of materials and services used in repairing, maintaining, etc., of railroad rolling stock used in interstate commerce	Retained	Retained
3606 (aa)	Materials and services brought into Kansas for usage outside of Kansas for repair, services, alteration, maintenance, etc. used for the transmission of liquids or national gas by a pipeline in interstate commerce	Retained	Retained
3606 (dd)	Property purchased with food stamps issued by US Department of Agriculture	Retained	Retained
3606 (gg)	Property purchased with vouchers issued pursuant to the federal special supplemental food program for women, infants and children	Retained	Retained
3606 (ddd)	Property and services purchases by any class II or III railroad (shortline) for track and facilities used directly in interstate commerce. Only for calendar year 1999.	Retained	Retained
	Subtotal	\$ -	\$ -
	Public Policy: Exemption of Services		
3603 (f)	Coin operated Laundry Services	\$ 0.19	\$ 0.40
3603 (m)	Fees and charges by any political subdivision, youth recreation organization exclusively providing services to persons 18 or younger organized as a 501(c)(3) for sports, games and other recreational activities and entry fees and charges for participation.	\$ 0.48	\$ 0.99
3603 (n)	Dues charged by any organization pursuant to paragraph 8 and 9 of 79-201 (veteran & humanitarian organizations) and zoos	\$ 0.18	\$ 0.37
3606 (nn)	Services rendered by advertising agency or broadcast station	\$ 2.24	\$ 4.65
	Subtotal	\$ 3.08	\$ 6.41
	Public Policy: Exemptions for Businesses		
3603 (q)	Exemption for Service of repairing, servicing, maintaining custom computer software as described in section 3603 (s)	\$ -	\$ -
3603 (s)	Customized computer software and services for modifying software for single end use and billed as a separate invoiced item. In 2004, amended to tax only prewritten software. Custom software is exempt	\$ 2.73	\$ 5.67
3606 (f)	Property purchased by railroad or public utility for use in the movement of interstate commerce	\$ 8.20	\$ 17.05
3606 (i)	Lease or rental of films, records, tapes, etc. by motion picture exhibitors	\$ 0.90	\$ 1.88
3606 (j)	Meals served without charge to employees if duties include furnishing or sale of such meals or drinks	\$ 2.00	\$ 4.16
3606 (cc)	Property or services purchased for constructing, reconstructing, enlarging or remodeling a business; sale and installation of machinery and equipment purchased for installation in such business. (Enterprise Zone Exemption)	\$ 34.62	\$ 72.00
3606 (kk)	Machinery and equipment used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of property for resale by the plant or facility. In 2004, added exemption for building new facility in Riverton Ks (minimal impact)	Retained	Retained
3606 (pp)	Drill bits and explosives used in the exploration and production of oil or gas	\$ 0.21	\$ 0.44
3606 (zz)	Machinery and equipment purchased by over-the-air free access radio or television station used directly and primarily for producing signal or the electricity essential for producing the signal.	\$ 0.50	\$ 1.05
3606 (eee)	Property and services purchases for reconstruction, reconstruction, renovation, repair of grain storage facilities or railroad sidings. Only for calendar year 1999 and 2000.	n/a	n/a
3606 (fff)	Material handling equipment, racking systems & other related machinery & equipment used for the handling, movement or storage of tangible personal property in a warehouse or distribution facility; installation, repair, maintenance services, and replacement parts.	\$ 3.31	\$ 6.89
	Subtotal	\$ 52.48	\$ 109.13
	Total - These Exemption Repeals	\$ 522.04	\$ 1,085.65
	NET AFTER ALL OTHER SALES TAX CHANGES	\$ 277.53	\$ 684.12

Kansas Department of Revenue
Office of Policy and Research
Sales Tax Exemption Fiscal Impact Estimate -All Funds
(dollars in millions)

	Growth	FY 2012 3%	FY 2013 3%
Professional, Scientific & Technical			
Legal Services	\$ 786,065	\$ 10,840	\$ 26,797
Accounting & Tax Services	\$ 643,230	\$ 8,870	\$ 21,928
Architectural Services	\$ 294,852	\$ 4,066	\$ 10,052
Engineering Services	\$ 1,793,645	\$ 24,735	\$ 61,145
Drafting Services	\$ 3,751	\$ 52	\$ 128
Building Inspection Services	\$ 4,054	\$ 56	\$ 138
Geophysical surveying and Mapping	\$ 17,680	\$ 244	\$ 603
Surveying and Mapping (except geophysical)	\$ 29,485	\$ 407	\$ 1,005
Testing Services	\$ 66,724	\$ 920	\$ 2,275
Specialized Design Services (1)	\$ 121,340	\$ 1,673	\$ 4,136
Computer systems design & related services	\$ 1,966,137	\$ 27,114	\$ 67,026
Management, Scientific & Technical Consulting	\$ 737,212	\$ 10,167	\$ 25,132
Scientific research & development services	\$ 255,313	\$ 3,521	\$ 8,704
Advertising & Related Services	\$ 608,358	\$ 8,390	\$ 20,739
Other Prof. Tech, and Science (2)	\$ 451,038	\$ 6,220	\$ 15,376
Total, Professional, Scientific & Technical	\$ 7,778,884	\$ 107,275	\$ 265,183
Administrative & Support Services			
Office Administrative Services	\$ 343,428	\$ 4,736	\$ 11,707
Facilities Support Services	\$ 122,236	\$ 1,686	\$ 4,167
Employment Services	\$ 1,229,323	\$ 16,953	\$ 41,908
Business Support Services	\$ 627,631	\$ 8,655	\$ 21,396
Travel Arrangement and Reservation Services	\$ 86,734	\$ 1,196	\$ 2,957
Investigation and Security services	\$ 193,621	\$ 2,670	\$ 6,601
Services to buildings and dwellings (3)	\$ 830,576	\$ -	\$ -
Other Support Services	\$ 210,735	\$ 2,906	\$ 7,184
Total, Administrative & Support Services	\$ 3,644,284	\$ 38,802	\$ 95,919

Health Care Services

RETAIN EXEMPTIONS

Personal Care			
Personal Care Services (hair, nail and skin)	\$ 207,470	\$ 2,861	\$ 7,073
Death Care Services	\$ 159,835	\$ 2,204	\$ 5,449
Other Personal Care (4)	\$ 124,776	\$ 1,721	\$ 4,254
Total, Personal Care	\$ 492,081	\$ 6,786	\$ 16,775
Other			
Taxi And Limousine Services	\$ 13,071	\$ 180	\$ 446
RV Parks and Recreational Camps	\$ 3,536	\$ 49	\$ 121
Rooming and Boarding Houses (5)	\$ 21,223	\$ 293	\$ 724
Total, Other	\$ 34,294	\$ 522	\$ 1,290
Total All Services		\$ 153,385	\$ 379,167

The estimate on services was developed based on the U.S Census 2007 Economic Census for the state of Kansas. The Economic Census provides data on receipts by business classifications for both employers and nonemployers. The estimate assumes 50% of the receipts would be exempt from tax. This would allow for sales made to exempt entities (government, schools, exempt businesses) and for sales of tangible property that is already subject to sales tax. An annual increase was applied to each year as shown in the FY column.

- (1) data not available in 2007 data, estimating 25% increase over 2002 data
- (2) data not available for all categories, estimating missing data makes up 25% of the industry total
- (3) currently taxable
- (4) includes parking lots, bail bonding, dating services. Photofinishing omitted- currently taxable
- (5) data not available, used 2002 Census data with 10% growth (2% annual)

MEMORANDUM

To: Mr. Steve Anderson, Director
Division of Budget

From: Kansas Department of Revenue

Date: 02/16/2011

Subject: Senate Bill 98
Introduced as a Senate Bill

Brief of Bill

Senate Bill 98, as Introduced, concerns taxation. The proposal would do the following:

- amend K.S.A. 12-198 to subject services to local sales and use tax
- amend K.S.A. 79-32,110 to lower the individual income tax rates effective in tax year 2012
- amend K.S.A. 79-32,110 to lower the corporate income tax rate for tax year 2011 and then eliminate the tax in tax year 2012
- amend K.S.A. 79-3602 to remove the definition of prewritten computer software and the definition of service
- amend K.S.A. 79-3603 to lower the state sales tax rate to 5.3% effective January 1, 2012, tax the rendering or furnishing of any services exempt for ambulatory health care services and hospital services, remove several exemptions, and impose tax on specified digital products
- amend K.S.A. 79-3606 to remove a significant number of existing sales tax exemptions and add an exemption for food and food ingredient products
- amends K.S.A. 79-3620 for the depositing of the state sales tax to maintain existing allocations to the state general and highway funds.
- amends K.S.A. 79-3703 and 3720 for the rate increase and depositing of funds for the state use tax.
- repeals K.S.A. 79-3633, 79-3635 and 79-3639, the food sales tax refund program.

The Act would be effective July 1, 2011. However the exemption repeals and rate changes would not be effective until January 1, 2012.

Fiscal Impact

The proposal would be revenue neutral in fiscal years 2012 and 2013. Adjustments made in the sales and use tax statutes maintain current revenue levels for the state highway fund. Note, that the changes proposed are effective January 1, 2012

Sn. Assmnt & Tax

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Attachment # 4

For fiscal year 2012, the proposal would have the following effect:

\$277.5 M Repeal of sales tax exemptions, tax services (except health care), exempt food,
reduce rate to 5.3%

\$42.0 M Repeal of food sales tax rebate credits

-\$190.0 M Loss due to lower corporate income tax rate and phasing out over two years

-\$129.0 M Loss due to lower individual income tax rates

In fiscal year 2013, the proposal would have the following effect:

\$684.1 M Net increase in sales tax changes (repealing exemptions, taxing services,
exempting food, reduced rate)

\$42.0 M Repeal of food sales tax rebate credits

-\$288.8 M Loss due to full repeal of corporate income tax

-\$436.6 M Loss due to full year of lower individual income tax rates

Sales tax on Services:

	FY 2012	FY 2013
Professional, Scientific & Technical		
Legal Services	\$ 11.17	\$ 27.60
Accounting & Tax Services	\$ 9.14	\$ 22.59
Architectural Services	\$ 4.19	\$ 10.35
Engineering Services	\$ 25.48	\$ 62.98
Drafting Services	\$ 0.05	\$ 0.13
Building Inspection Services	\$ 0.06	\$ 0.14
Geophysical surveying and Mapping	\$ 0.25	\$ 0.62
Surveying and Mapping (except geophysical)	\$ 0.42	\$ 1.04
Testing Services	\$ 0.95	\$ 2.34
Specialized Design Services	\$ 1.72	\$ 4.26
Computer systems design & related services	\$ 27.93	\$ 69.04
Management, Scientific & Technical Consulting	\$ 10.47	\$ 25.89
Scientific research & development services	\$ 3.63	\$ 8.96
Advertising & Related Services	\$ 8.64	\$ 21.36
Other Prof. Tech, and Science	\$ 6.41	\$ 15.84
Total, Professional, Scientific & Technical	\$ 110.49	\$ 273.14
Administrative & Support Services		
Office Administrative Services	\$ 4.88	\$ 12.06
Facilities Support Services	\$ 1.74	\$ 4.29
Employment Services	\$ 17.46	\$ 43.16
Business Support Services	\$ 8.91	\$ 22.04
Travel Arrangement and Reservation Services	\$ 1.23	\$ 3.05
Investigation and Security services	\$ 2.75	\$ 6.80
Services to buildings and dwellings	\$ -	\$ -
Other Support Services	\$ 2.99	\$ 7.40
Total, Administrative & Support Services	\$ 39.97	\$ 98.80
Personal Care		
Personal Care Services (hair, nail and skin)	\$ 2.95	\$ 7.28
Death Care Services	\$ 2.27	\$ 5.61
Other Personal Care	\$ 1.77	\$ 4.38
Total, Personal Care	\$ 6.99	\$ 17.28
Other		
Taxi And Limousine Services	\$ 0.19	\$ 0.46
RV Parks and Recreational Camps	\$ 0.05	\$ 0.12
Rooming and Boarding Houses	\$ 0.30	\$ 0.75
Total, Other	\$ 0.54	\$ 1.33
Total All Services	\$ 157.99	\$ 390.54

Repeal of existing sales tax exemptions

	FY2012	(\$	FY2013	(\$

Statute	Description of Exemption or Exclusion	In Millions)	In Millions)
	Public Policy: Charitable, Religious, Benevolent Exemptions		
3603 (e)	Admission to any cultural and historical event which occurs triennially	Minimal	Minimal
3606 (v)	Sales of food products purchased by contractor for use in preparing meals for delivery to homebound elderly persons. In 2004, expanded exemption to all personal property purchased by contractor and sales of food products by or on behalf of contractor or organization	\$ 0.44	\$ 0.91
3606 (ii)	Property purchased by nonprofit organization for nonsectarian comprehensive multidiscipline youth development programs and activities and sales of property by or on behalf of such organization	\$ 1.39	\$ 2.88
3606 (oo)	Property purchased by a community action group or agency to repair or weatherize housing occupied by low income individuals.	Minimal	Minimal
3606 (qq)	Property and services purchased by a nonprofit museum or historical society which is organized under the federal income taxation code as a 501 (c)(3)	\$ 0.21	\$ 0.43
3606 (rr)	Property which will admit purchases to an annual event sponsored by a nonprofit organization organized under the federal income taxation code as a 501 (c)(3)	\$ 0.02	\$ 0.04
3606 (tt)	Property and services purchased by not-for-profit corporation for the sole purpose of constructing a Kansas Korean War memorial and is organized under the federal income taxation code as a 501 (c)(3)	\$ -	\$ -
3606 (xx)	Property and services purchases by nonprofit zoo or on behalf of a zoo by an entity that is a 501(c)(3)	\$ 0.32	\$ 0.66
3606 (yy)	Property and services purchased by a parent-teacher association or organizations and all sales of tangible personal property by or on behalf of such association	\$ 0.30	\$ 0.62
3606 (aaa)	Property and services purchased by religious organizations and used exclusively for religious purposes	\$ 9.16	\$ 19.05
3606 (bbb)	Sales of food for human consumption by organizations exempt by 501(c)(3) pursuant to food distribution programs which offers such food at a price below cost in exchange for the performance of community service by the purchaser.	Minimal	Minimal
3606 (hhh)	Property and services purchased by or on behalf of Domestic Violence Shelters as members of the Kansas coalition against Sexual and Domestic Violence	\$ 0.03	\$ 0.06
3606 (lli)	Property and services purchased by organizations distributing food without charge to other nonprofit food distribution programs. Includes taxes paid on and after July 1, 2005 and prior to July 1, 2006.	\$ 0.13	\$ 0.26
3606 (ppp)	Property and services purchased by non-profit Homeless Shelters, and sales made by or on behalf of these organizations.	\$ 0.06	\$ 0.12
3606 (tti)	Property and services purchased a contractor for a purpose of restoring, constructing, equipping, reconstructing, maintaining, repairing, enlarging, furnishing or remodeling a home or facility owned by a nonprofit museum which is a qualified under the governor hometown heritage act (KSA 75-5071)	\$ 0.06	\$ 0.12
	Subtotal	\$ 12.10	\$ 25.16
	Public Policy: Exemptions to Charitable Organizations by Name		
	Property purchased by the following organizations who		

3606 (vv)	are organized under the federal income taxation code as a 501 (c)(3): American Heart Association, Ks Affiliate; Ks Alliance for the Mentally Ill, Inc.; Ks Mental Illness Awareness Council, Heartstrings Community Foundation, Cystic Fibrosis, Spina Bifida Assn, CHWC, Inc., Cross-lines Cooperative Council, Dreams Work, Inc., KSDS, Inc., Lyme Association of Greater Kansas City, Inc Dream Factory, Ottawa Suzuki Strings, International Assn of Lions Clubs, Johnson County young Matrons, American Cancer Society, Community Services of Shawnee, Angel Babies Assn, Kansas Fairground Foundation	\$ 0.42	\$ 0.87
3606 (ww)	Property purchased by the Habitat for Humanity for use within a housing project	\$ 0.06	\$ 0.13
3606 (ggg)	Property and services purchased by or on behalf of the Kansas Academy of Science.	Minimal	Minimal
3606 (kkk)	Not Used	\$ -	\$ -
3606 (lll)	Property and services purchased by Special Olympics Kansas, Inc., and sales made by or on behalf of Special Olympics.	\$ 0.01	\$ 0.03
3606 (mmm)	Property and services purchased by Marillac Center, Inc. and sales made by or on behalf of the Marillac Center.	\$ 0.03	\$ 0.06
3606 (nnn)	Property and services purchased by West Sedgwick County - Sunrise Rotary Club for constructing boundless playground.	\$ 0.01	\$ 0.02
3606 (qqq)	Property and services purchased by TLC for Children and Families, Inc. and sales made by or on behalf of TLC	\$ 0.09	\$ 0.19
3606 (sss)	Property and services purchased by catholic charities or youthville and sales made by or on behalf of catholic charities or youthville	\$ 0.34	\$ 0.71
3606 (uuu)	Property and services purchased by Kansas Children's Service League and sales made by or on behalf of the KCSL	\$ 0.08	\$ 0.16
3606 (vvv)	Property and services purchased by Jazz in the Woods and sales made by or on behalf of such organization	\$ 0.01	\$ 0.01
3606 (www)	Property purchased by or behalf of Frontenac Education Foundation and sales made by or on behalf of such organization	\$ 0.00	\$ 0.00
3606 (xxx)	Property and services purchased by the Booth Theatre Foundation, Inc. Provides for refund of sales taxes paid from January to July 2007.	\$ 0.02	\$ 0.03
3606 (yyy)	Property and services purchased by the TLC Charities Foundation, Inc. and sales made by or on behalf of these organizations.	\$ 0.00	\$ 0.00
3606 (zzz)	Property purchased by Rotary Club of Shawnee Foundation	\$ -	\$ -
3606 (aaaa)	Property and services purchased by or on behalf of Victory in the Valley and sales made by or on behalf of such organization	\$ 0.01	\$ 0.02
3606 (bbbb)	Guadalupe Health Foundation, sales of entry or participation fees, charges or tickets for annual fundraising event	\$ 0.06	\$ 0.12
3606 (cccc)	Property and services purchased by or on behalf of Wayside Waifs for the purpose of providing such organizations annual fundraising event and sales made by or on behalf of such organization	\$ 0.00	\$ 0.01
3606 (dddd)	Property or services purchased by or on behalf of Goodwill Industries or Easter Seals o Kansas, Inc for the purpose of providing education, training and employment opportunities for people with disabilities and other barriers to employment	\$ 0.02	\$ 0.04

3606 (eeee)	Property or services purchased by or on behalf of All Beef Battalion, Inc. for the purpose of educating, promoting and participating as a contract group through the beef cattle industry in order to carry out such projects that provide support and morale to members of the United States armed forces and military services.	\$ 0.00	\$ 0.00
3606 (ffff)	Property and services purchased by Sheltered Living, Inc for the purpose of providing residential and services for people with developmental disabilities or mental retardation, or both; and sales made on behalf of such organization	\$ 0.02	\$ 0.03
	Subtotal	\$ 1.17	\$ 2.44
	Public Policy: Consumer Exemptions		
3602 (ll)	Modified definition of sales or selling price to not include cash rebates granted by a manufacturer to a purchaser or lessee of a new motor vehicle if paid directly to the retailer as a result of the original sale. The exemption is granted from July 1, 2006 and ending June 30, 2009.	\$ -	\$ -
3603 (b)	Taxes telephone and telegraph services except certain interstate and international services and value-added nonvoice data services	\$ 0.76	\$ 1.59
3603 (c)	Residential and agricultural use utilities. Effective Jan 1 2006, exemption moved here from 3606 (w) and (x).	\$ 65.44	\$ 136.09
3603 (o)	Motor vehicles exchanged for corporate stock, corporate transfer to itself and immediate family member sales.	\$ 0.11	\$ 0.23
3603 (p)	Labor services of installing or applying property in original construction of a building or facility or the construction reconstruction, restoration, replacement or repair of a residence, bridge or highway	\$ 95.99	\$ 199.63
3603 (v)	Sales of bingo cards, bingo faces and instant bingo tickets. Tax rate 2.5 on July 1, 2001 to June 30, 2002; exempt on July 1, 2002	\$ 1.44	\$ 3.00
3606 (u)	Leases or rentals of property used as a dwelling for more than 28 consecutive days.	\$ 0.38	\$ 0.80
3606 (w)	Residential and agricultural use of water and severing oil & gas and property exempt from property tax. Effective Jan 1 2006, exemption for residential and agricultural use of electricity and heat moved to 3603(c).	\$ 6.12	\$ 12.73
3606 (x)	Sales of propane, gas, LP-gas, coal, wood, and other fuel sources for the production of heat or lighting for noncommercial use in a residential premise. Effective Jan 1 2006, exemption for residential and agricultural moved hereto 3603(c).	\$ -	\$ -
3606 (bb)	Used mobile and manufactured homes	\$ 2.34	\$ 4.87
3606 (ee)	Lottery tickets and shares made as part of a lottery operated by the State of Kansas	Retained	Retained
3606 (ff)	New mobile or manufactured homes to the extent of 40% of the gross receipts	\$ 1.72	\$ 3.57
3606 (ooo)	Sales made by or on behalf of a public library	Retained	Retained
	Subtotal	\$ 174.32	\$ 362.51

	Public Policy: Governmental Exemptions		
3603 (g)	Service of renting of rooms by holds or accommodation brokers to federal government or any federal employee in performance of official government duties.	\$ 0.06	\$ 0.13
3603 (h)	Service of leasing or renting machinery and equipment owned by city purchased with industrial revenue bonds prior to July 1, 1973	\$ -	\$ -
3606 (b)	Property or services purchases by State of Kansas, political subdivision, nonprofit hospital or blood /donor bank. In 2001, deleted sales of water to make purchases for water suppliers exempt.(Neutral FN due to Clean Water Fee)	\$ 174.71	\$ 363.32
3606 (d)	Property or services purchased by contractor for building or repair of buildings for nonprofit hospital, elementary or secondary schools or nonprofit educational institutions, and for state correctional institution	\$ 62.81	\$ 130.61
3606 (e)	Property or services purchases by federal government, its agencies or instrumentality's	\$ 2.92	\$ 6.08
3606 (s)	Sales of property or services purchased by a groundwater management district	\$ 0.02	\$ 0.05
3606 (z)	Property and services purchased directly by a port authority or a contractor therefore.	Minimal	Minimal
3606 (ss)	Property and services purchased by a public broadcasting station licensed by FCC as a noncommercial educational television or radio station.	Minimal	Minimal
3606 (uu)	Property and services purchased by rural fire fighting organization	Minimal	Minimal
3606 (rrr)	Property and services purchased by county law library,	\$ 0.06	\$ 0.12
	Subtotal	\$ 240.58	\$ 500.31
	Public Policy: Educational Exemptions		
3606 (c)	Property or services purchased and leasing by elementary or secondary schools and educational institutions	\$ 30.87	\$ 64.20
3606 (h)	Rental of nonsectarian textbooks by elementary or secondary schools	\$ 0.60	\$ 1.05
	Subtotal	\$ 31.38	\$ 65.25
	Public Policy: Health Care Exemptions		
3606 (p)	Sales for prescription drugs	Retained	Retained
3606 (q)	Sales of insulin dispensed by pharmacist for treatment of diabetes	Retained	Retained
3606 (r)	Sales of prosthetic or orthopedic appliances prescribed by a doctor. IN 2004, exempted all hearing aids, parts and batteries by licensed providers	\$ 4.37	\$ 9.08

3606 (hh)	Medical supplies and equipment purchased by nonprofit skilled nursing home or intermediate nursing care home for providing medical services to residents	\$ 0.55	\$ 1.14
3606 (ji)	Property and services, includes leasing of property, purchased for community-based mental retardation facility or mental health center.	\$ 1.27	\$ 2.65
3606 (ll)	Educational materials purchased for distribution to the public at no charge by a nonprofit public health corporation	\$ 0.04	\$ 0.09
3606 (ccc)	Property and services purchases by health care centers and clinics who are serving the medically underserved.	\$ 0.20	\$ 0.41
3606 (jjj)	Sales of dietary supplements dispensed by prescription order by a licensed practitioner or mid-level practitioner.	Minimal	Minimal
	Subtotal	\$ 6.43	\$ 13.38
	Public Policy: Agriculture Exemptions		
3606 (t)	Sales of farm or aquaculture machinery and equipment, parts and services for repair and replacement. In 2006, added work-site utility vehicle as exempt. To include precision farm equipment	Retained	Retained
3606 (mm)	Seeds, tree seedlings, fertilizers, insecticides, etc., and services purchased and used for producing plants to prevent soil erosion on land devoted to agricultural use.	\$ 0.50	\$ 1.05
	Subtotal	\$ 0.50	\$ 1.05
	Legal Exemptions		
3606 (g)	Sales, repair or modification of aircraft sold for interstate commerce directly through an authorized agent. IN 2004, expanded aircraft exemption for repair, modification plus parts and labor	Retained	Retained
3606 (y)	Sales of materials and services used in repairing, maintaining, etc., of railroad rolling stock used in interstate commerce	Retained	Retained
3606 (aa)	Materials and services brought into Kansas for usage outside of Kansas for repair, services, alteration, maintenance, etc. used for the transmission of liquids or national gas by a pipeline in interstate commerce	Retained	Retained
3606 (dd)	Property purchased with food stamps issued by US Department of Agriculture	Retained	Retained
3606 (gg)	Property purchased with vouchers issued pursuant to the federal special supplemental food program for women, infants and children	Retained	Retained
3606 (ddd)	Property and services purchases by any class II or III railroad (shortline) for track and facilities used directly in interstate commerce. Only for calendar year 1999.	Retained	Retained
	Subtotal	\$ -	\$ -
	Public Policy: Exemption of Services		

3603 (f)	Coin operated Laundry Services	\$ 0.19	\$ 0.40
3603 (m)	Fees and charges by any political subdivision, youth recreation organization exclusively providing services to persons 18 or younger organized as a 501(c)(3) for sports, games and other recreational activities and entry fees and charges for participation.	\$ 0.48	\$ 0.99
3603 (n)	Dues charged by any organization pursuant to paragraph 8 and 9 of 79-201 (veteran & humanitarian organizations) and zoos	\$ 0.18	\$ 0.37
3606 (nn)	Services rendered by advertising agency or broadcast station	\$ 2.24	\$ 4.65
	Subtotal	\$ 3.08	\$ 6.41
	Public Policy: Exemptions for Businesses		
3603 (q)	Exemption for Service of repairing, servicing, maintaining custom computer software as described in section 3603 (s)	\$ -	\$ -
3603 (s)	Customized computer software and services for modifying software for single end use and billed as a separate invoiced item. In 2004, amended to tax only prewritten software. Custom software is exempt	\$ 2.73	\$ 5.67
3606 (f)	Property purchased by railroad or public utility for use in the movement of interstate commerce	\$ 8.20	\$ 17.05
3606 (l)	Lease or rental of films, records, tapes, etc. by motion picture exhibitors	\$ 0.90	\$ 1.88
3606 (j)	Meals served without charge to employees if duties include furnishing or sale of such meals or drinks	\$ 2.00	\$ 4.16
3606 (cc)	Property or services purchased for constructing, reconstructing, enlarging or remodeling a business; sale and installation of machinery and equipment purchased for installation in such business. (Enterprise Zone Exemption)	\$ 34.62	\$ 72.00
3606 (kk)	Machinery and equipment used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of property for resale by the plant or facility. In 2004, added exemption for building new facility in Riverton Ks (minimal impact)	Retained	Retained
3606 (pp)	Drill bits and explosives used in the exploration and production of oil or gas	\$ 0.21	\$ 0.44
3606 (zz)	Machinery and equipment purchased by over-the-air free access radio or television station used directly and primarily for producing signal or the electricity essential for producing the signal.	\$ 0.50	\$ 1.05
3606 (eee)	Property and services purchases for reconstruction, renovation, repair of grain storage facilities or railroad sidings. Only for calendar year 1999 and 2000.	n/a	n/a
3606 (fff)	Material handling equipment, racking systems & other related machinery & equipment used for the handling, movement or storage of tangible personal property in a warehouse or distribution facility; installation, repair, maintenance services, and replacement parts.	\$ 3.31	\$ 6.89
	Subtotal	\$ 52.48	\$ 109.13

	Total - These Exemption Repeals	\$ 522.04	\$1,085.65
	NET AFTER ALL OTHER SALES TAX CHANGES	\$ 277.53	\$ 684.12

Administrative Impact

Total costs to administer the provisions of this bill are estimated at \$113,109.

The proposal will require informing taxpayers of the rate changes for sales and use tax, corporate and individual income taxes and the changes to forms, website, and procedures associated with the proposal. There are also changes to the computer processing system that will be required for the rate changes.

Administrative Problems and Comments

The sales tax exemption for water districts (K.S.A. 79-3606 (s)) is repealed under this proposal. Water companies had the option of an exemption from sales tax in exchange for remitting the Clean Drinking Water Fee (K.S.A 82a-2101). The Clean Drinking Water Fee was intended to be an in lieu of sales tax fee, with the proceeds of the fee deposited into the state water plan fund. There would be inequity between water companies as all water companies would be subject to sales tax on their purchases but not all are paying the Clean Drinking Water Fee as they did not use the sales tax exemption. Suggest K.S.A. 82a-2101 be amended to require all water companies to remit the fee or to remove the fee from all water companies.

Taxpayer/Customer Impact

Significant change to the Kansas tax system.

Legal Impact

Approved By:



Nick Jordan
Secretary of Revenue