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WRITTEN TESTIMONY

Presented to the House Committee on Taxation in Support of HB 2585 By Allen Dillingham, Government Relation Director, The Builders, a Chapter of the AGC

Mr. Chairman, members of the committee, I am Allen Dillingham, Government Relations Director of The Builders, a Chapter of the AGC and I appreciate the opportunity to convey our **strong support of HB 2585**. While most of our contractor and subcontractor members who are domiciled in or perform work in Kansas do so primarily in the Kansas City metropolitan area, we support tax policy that encourages commercial remodeling construction in all areas of the state. This important legislation will clear up a very confusing area of sales tax law, spur commercial remodeling construction and benefit state and local government as well.

HB 2585 would exempt "labor services" involved in commercial remodeling construction from sales tax. The Department of Revenue provides a formula for determining labor services on a project: "Gross sales, less subcontractors, less taxed job materials = total labor". In other words, taxable labor services include the entire contract amount less taxed materials and less subcontractors. Each contractor or subcontractor is responsible for collecting and remitting sales tax on his or her own taxable labor services, including those performed for other contractors. This bill does not affect the taxation of materials that are taxable unless the work is performed for a tax-exempt entity and purchased with a project exemption certificate.

The impact of sales tax on commercial remodeling labor services can be significant as the current 6.5% base state sales tax rate together with any city, county and possible special assessment rates can result in combined sales tax rates ranging from 6.5% to nearly 11.5% depending on a building project's location. Every commercial remodeling construction project is different depending on such things as the type, location and complexity of the project. Obviously, the negative impact of imposing sales tax on labor services on any given commercial remodeling project only grows as labor services costs approach or sometimes even exceed the cost of materials.

The elimination of this labor services tax is long overdue. Labor services are exempt from taxation on new commercial construction, on both new and remodeling residential construction and even on the construction, reconstruction, restoration, replacement or repair of a bridge or highway in Kansas. None of Kansas' neighboring states impose such a tax and only a few states in the entire nation do so. This harmful tax puts Kansas at a competitive disadvantage with other states and that is especially true in the Kansas City area.

Most will agree that sales tax law can be very confusing. Distinguishing remodeling construction from original construction is often extremely difficult and misunderstanding leads to mistaken payment or nonpayment of tax. On mixed original/remodel projects, state auditors are often as confused as contractors as to what labor services are taxable. Adoption of HB 2585 would eliminate much of this confusion and uncertainty.

Finally, the elimination of sales tax on commercial remodeling construction will encourage such construction and help to preserve and improve older commercial structures throughout the state. Construction activity has a direct economic impact on over forty related industries and an indirect impact on many more. With newly renovated buildings come new and expanded businesses, new employees and residents to the state and new homes in our communities. Such growth will produce additional tax revenues to state and local governments.

In closing, I respectfully urge you to support HB 2585 and thank you very much for your thoughtful consideration of our position on this very important issue.