MINUTES

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

September 4-5, 2003
Room 519-S—Statehouse

Members Present

Senator David Corbin, Chair
Senator Mark A. Buhler
Senator Stan Clark
Senator Les Donovan
Senator Janis Lee
Representative Steve Brunk
Representative Paul Davis
Representative Tom Holland
Representative David Huff
Representative Bruce Larkin
Representative Don Myers
Representative Arlen Siegfried

Staff Present

Chris Courtwright, Kansas Legislative Research Department
Mike Heim, Kansas Legislative Research Department
Gordon Self, Revisor of Statutes Office
Theresa Kiernan, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees

Laurel Murdie, Legislative Division of Post Audit
Joan Wagnon, Secretary, Kansas Department of Revenue
Jo Ann Raaf, Coffey County Treasurer
Scott Peterson, South Dakota Department of Revenue, Division of Sales Tax
Byron G. Porter, CPA, Cavanaugh, Porter & Holloman, PA
Scott Baker, BT Solutions
James Bartle, General Counsel, Kansas Department of Revenue
Richard Cram, Kansas Department of Revenue
Jim Weisgerber, Kansas Department of Revenue
Representative Margaret Long
Melissa Bynum, Leavenworth Road Association
Mike Montgomery, Crawford County Appraiser
Mark Beck, Director of Property Valuation, Department of Revenue
Thursday, September 4
Morning Session

The meeting was called to order in Room 519-S, Statehouse, by Senator David Corbin, Chair, at 10:15 a.m. on September 4, 2003. Senator Corbin called upon Chris Courtwright, Legislative Research Department, for an overview of the following topics assigned to the Committee:

- Topic 1—Sales Taxes Due on Motor Vehicles;
- Topic 2—Estate/Death Taxes;
- Topic 3—Monitor Streamlined Sales Tax Implementation;
- Topic 4—Administration of the Severance Tax;
- Topic 5—Transportation of Cigarettes;
- Topic 6—Property Tax Exemptions for Not-for-Profit Senior Care Facilities;
- Topic 7—Local Sales Tax Uniformity;
- Topic 8—Use Tax on Computer Customization Services;
- Topic 9—Corporation Franchise Taxes;
- Topic 10—Job Retention Policy;
- Topic 11—Property Tax on Damaged Property; and
- Topic 12—Property Tax Income and Expense Information (Senate Bill 99).

Senator Corbin opened the public hearing on Topic 1 and called upon Laurel Murdie, Legislative Division of Post Audit, for an overview of the Division’s April 2003 “Performance Audit Report on Taxes on Motor Vehicle Sales: Reviewing the Department of Revenue’s Procedures to Ensure That Correct Amounts of Sales and Compensating Use Taxes Are Paid.” A copy of the report may be obtained at the office of the Legislative Division of Post Audit.

At the outset, Ms. Murdie noted that the audit revealed that the Department of Revenue does not have adequate procedures in place to ensure that all vehicle sales taxes are being remitted. She identified the weaknesses in the steps the Department takes to help ensure the collection of vehicle sales taxes. For the Committee’s information, she called attention to a chart in the performance audit report which lists the types of information the Department could use to ensure that dealers remit all the vehicle sales taxes they owe.
Ms. Murdie went on to discuss a Post Audit review of records of vehicle sales that occurred during calendar year 2002 at five large dealerships and seven small, used car dealerships. The large dealerships appeared to be calculating and remitting vehicle sales taxes correctly, but four of the small dealerships had not remitted all of the sales taxes they collected from their customers. Three of the four had a long history of not remitting taxes, yet the Department allowed them to continue to operate. The performance audit report recommends that the Department review and revise its enforcement procedures.

With regard to sales taxes collected on privately sold vehicles, Ms. Murdie noted that the amount of sales tax is generally based upon the actual selling price of the vehicle. If the sale price is not known or if the sale price does not bear a reasonable relationship to the fair market value of the vehicle, a Department regulation requires that county treasurers collect vehicle sales taxes based on the fair market value. However, the Department has not taken any action to ensure that the regulation is being enforced. A random sample of 80 private vehicle sales in calendar year 2002 suggests that a significant amount of vehicles are not being taxed at fair market value. If county treasurers had adhered to the Department’s regulation, several million dollars in additional sales taxes from private vehicle sales would have been collected. When several county treasurers were questioned about the enforcement of the Department’s regulation, they indicated that it was difficult to apply. The performance audit report suggests that the regulation be amended or revoked if Department officials determine that it cannot be effectively enforced.

With regard to the collection of compensating use taxes, Ms. Murdie noted that county treasurers (incorrectly) did not charge compensating use taxes on manufacturers’ rebates in at least 10 percent of a sample of 147 vehicles purchased from out-of-state dealers in 2002. If county treasurers had taxed all manufacturers’ rebates identified on the invoices, the state could have received approximately $209,000 more in compensating use tax. The performance audit report suggests that the Department routinely test a sample of records of new vehicles purchased out-of-state to see if county treasurers are calculating the tax correctly. It also suggests that the Department provide feedback and training for staff at treasurers’ offices where problems are identified.

In conclusion, Ms. Murdie informed the Committee that most of the states surrounding Kansas do not require vehicle dealers to collect the sales tax. She noted that the performance audit report indicates that Department of Revenue collection and enforcement staff would be significantly reduced if the collection of vehicle sales taxes were moved from dealers to county treasurers.

Joan Wagnon, Secretary, Kansas Department of Revenue, noted that the Department found the performance audit report to be extremely helpful. She informed the Committee the Department supports the recommendation that county treasurers, instead of motor vehicle dealers, collect and remit the state and local sales taxes due on the sale of new and used motor vehicles in Kansas. But she explained that conversion to a new system could result in as much as a month’s lag in the Department’s receipt of the sales tax on motor vehicle sales, causing a one-time loss of one month’s sales tax receipts on sales by dealers in Kansas. She suggested that the lag could be avoided by changing the law to require that treasurers issue temporary tags, instead of dealers, and collect the sales tax at the same time. Secretary Wagnon went on to say that, since implementing the Legislative Post Audit recommendations to enhance collection and enforcement efforts, the Department has made significant progress in reducing the number of motor vehicle dealers owing delinquent sales taxes. In addition, the Department is putting procedures in place to ensure that the Division of Motor Vehicles does not renew dealers’ licenses without first verifying their tax clearance. In conclusion, she reported the progress the Department has made in implementing the following Legislative Post Audit recommendations:
Recommendations 1 and 2, concerning communication between the Divisions of Taxation and Motor Vehicles;

Recommendation 3, concerning control of access to exemption certificates;

Recommendation 4, concerning enforcement of the regulation concerning vehicle sales between private citizens; and

Recommendation 5, concerning efforts to ensure that county treasurers are correctly computing the use tax due on out-of-state vehicle purchases (Attachment 1).

Jo Ann Raaf, Coffey County Treasurer, informed the Committee that transferring the responsibility for the collection of vehicle sales taxes to county treasurers would not require additional staff at the local level. She noted that the vehicle sale price could be ascertained by the treasurer's office easier and more quickly if the purchaser would bring paperwork showing the price of the car and any rebates. She acknowledged that country treasurers would encounter problems in applying the NADA retail value concept on private vehicle sales because the purchaser may not agree that the NADA value correctly reflects the value of the car. She commented that county treasurers’ primary concern with collecting sales taxes has been that customers would not be prepared to pay at the treasurer’s office because they were not aware that taxes would be due. To alleviate this problem, she suggested that an effort could be made to educate the public.

The meeting was recessed for lunch at 11:50 a.m.

Afternoon Session

Senator Corbin called the meeting to order at 1:40 p.m., at which time he began discussion on Topic 3 - Monitor Streamlined Sales Tax Implementation. Secretary Wagnon presented a progress report regarding the Department of Revenue’s efforts to implement the new destination-based sourcing rules contained in House Bill 2005, the 2003 Streamlined Sales and Use Tax Agreement conforming legislation which became effective July 1, 2003. Her report addressed the following: (1) the number of businesses the Department has assisted with implementation, (2) the number of telephone calls the Department received from businesses regarding the new sourcing rules, (3) the seminars/public meetings the Department has held to address questions about the new rules, and (4) the progress the Department has made in modifying its systems for destination-based sourcing. She also distributed copies of a Department publication entitled, “Kansas Sales and Use Tax Jurisdiction Code Booklet,” which lists the combined sales tax rates effective July 1, 2003. She illustrated how the booklet simplifies sales tax collection for retailers. In conclusion, she noted that the Department’s outreach efforts have accomplished some very positive results, and she pointed out that destination-based sourcing is one of the central uniformity requirements contained in the Streamlined Sales Tax Agreement (Attachment 2).

Secretary Wagnon also called attention to a packet of related information attached to her written testimony. The packet includes a letter mailed to Kansas retailers on June 20, 2003, to assure them that auditors and tax examiners will not penalize them for making errors in the initial six-month period which ends December 2003, a letter signed by the Governor on July 2, 2003, following a press conference in which she expressed support of the new streamlined sales tax law, a letter
signed by the Governor on September 4, 2003, confirming the Department’s relaxed approach toward enforcing the new rules, and four pages of statistics relating to implementation of destination-based sourcing (Attachment 3). Secretary Wagnon also distributed copies of a report on other states entitled, “State Legislative Status of Streamlined Sales and Use Tax Agreement As of July 7, 2003” (Attachment 4), and copies of Notice 03-10, Application to the New Sourcing Rules to Certain Businesses (Attachment 5).

Secretary Wagnon introduced Scott Peterson, Director of the Sales Tax Division, South Dakota Department of Revenue, whom she invited to address the Committee regarding destination sourcing. Mr. Peterson informed the Committee that he also co-chairs the steering committee for the Streamlined Sales Tax Project (SSTP). He explained that the SSTP became necessary because tax collection methods will become obsolete if radical changes to the current sales tax system are not made. He pointed out that the SSTP, particularly the destination-based sourcing portion, provides an opportunity for sales tax administrators to address the impact that collection of sales taxes has on retailers. The first task the SSTP committee undertook was to ask retailers nationwide to list what makes sales tax collection expensive. The next task was to find the best practice to make sales tax collection simple or uniform. The first step for uniformity was destination-based sourcing. At this point, Mr. Peterson noted that South Dakota had already used destination sourcing for years except for repair services and newspapers. He explained that South Dakota had taxed repair services based on the location of the repair until 2003 legislation required that sales tax on repairs be based upon where the item is delivered. South Dakota did not place a sales tax on newspapers until legislation passed in 1995 had implemented origin-based sourcing. In 2003, the law was changed to provide that newspapers were subject to destination-based sourcing. He noted that destination-based sourcing has placed a burden on rural newspapers because 85 percent of the newspapers are sold outside the city; however, the South Dakota Division of Sales Tax is working on a solution.

As to the choice of the effective date for destination-based sourcing legislation, Mr. Peterson commented that, in his experience, he has found that it is best to pass taxation legislation without addressing implementation. He observed that it is not possible to get to a point of implementation if an attempt to work through it is the first priority. Therefore, he supports the effective date chosen by the Kansas Legislature. He commented that both taxpayers and tax administrators do not like change. He noted that he argues for strict conformity with the Streamlined Sales Tax Agreement when meeting with the group of implementing states. At this time, he considers 17 states to be in compliance with the Agreement. He explained that several other states have indicated that they must balance their budget before considering the significant changes in the Agreement.

Mr. Peterson and Secretary Wagnon responded to several questions from the Committee regarding problems retailers encounter in the collection of sales taxes under the new destination-based sourcing. Both emphasized that very competent software companies are currently helping retailers simplify collection under the streamlined sales tax system. Secretary Wagnon suggested that perhaps legislation alleviating the cost to small retailers could be enacted next year.

Ron Grant, a staff member of the Department’s tax education group, introduced a CPA with Cavanaugh, Porter, and Holloman, Byron G. Porter, who presented a demonstration on how QuickBooks software can be configured to help track and report the new destination-based sales tax provisions. He referred to a copy of a sample configuration to illustrate existing QuickBooks configurations, necessary modifications, ongoing adaptations, reporting capabilities, and limitations (Attachment 6). In response to Committee questions concerning the cost, he said the version which he recommends for business, the QuickBooks Pro, can be purchased for approximately $300 for a single-user version. For larger businesses, a five user version can be purchased for approximately $700. In his opinion, the new destination-based sales tax law will not force retailers to change to an
automated system, but the size of the business and the lack of efficiency of a manual process would tend to drive retailers to an automated system.

Secretary Wagnon clarified that, although the Department asked Mr. Porter to appear before the Committee, it is not endorsing QuickBooks. She explained that the Department will develop a list of certified vendors which meet the Department’s reporting requirements. In response to questions raised by the Committee earlier in the meeting regarding the tax rates in Kansas’ 752 tax jurisdictions, she informed the Committee that there are 19 taxing rates in effect as follows:

<table>
<thead>
<tr>
<th>Number of Jurisdictions</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>127</td>
<td>5.3 percent</td>
</tr>
<tr>
<td>28</td>
<td>5.8 percent</td>
</tr>
<tr>
<td>2</td>
<td>6.05 percent</td>
</tr>
<tr>
<td>3</td>
<td>6.20 percent</td>
</tr>
<tr>
<td>393</td>
<td>6.30 percent</td>
</tr>
<tr>
<td>5</td>
<td>6.40 percent</td>
</tr>
<tr>
<td>26</td>
<td>6.55 percent</td>
</tr>
<tr>
<td>47</td>
<td>6.80 percent</td>
</tr>
<tr>
<td>12</td>
<td>7.05 percent</td>
</tr>
<tr>
<td>3</td>
<td>7.20 percent</td>
</tr>
<tr>
<td>68</td>
<td>7.3 percent</td>
</tr>
<tr>
<td>9</td>
<td>7.4 percent</td>
</tr>
<tr>
<td>5</td>
<td>7.525 percent</td>
</tr>
<tr>
<td>10</td>
<td>7.55 percent</td>
</tr>
<tr>
<td>3</td>
<td>7.65 percent</td>
</tr>
<tr>
<td>10</td>
<td>7.8 percent</td>
</tr>
<tr>
<td>2</td>
<td>8.05 percent</td>
</tr>
<tr>
<td>1</td>
<td>8.15 percent</td>
</tr>
<tr>
<td>1</td>
<td>8.3 percent</td>
</tr>
</tbody>
</table>

Noting that a number of vendors have contacted the Department of Revenue searching for possible solutions to the destination sourcing process, Mr. Grant introduced Scott Baker, BT Solutions, who developed a solution with a pocket PC “Sales Tax Tracker” with his partner, Greg Tallent. Mr. Baker pointed out that the “Sales Tax Tracker” could be placed by a cash register to calculate city or county tax rates instantly and that it has pre-loaded reports for easy return filing. He demonstrated how the pocket PC touchscreen works, calling attention to a handout containing examples of its capabilities (Attachment 7). Mr. Baker also explained that the pocket PCs could be updated in the field every quarter by entering the new tax rates on a secure digital module and shipping it to each business using it. In addition, he explained that back-ups can be stored on the same type of storage device used on digital cameras. He informed the Committee that the cost of the machine and software is $780, and there is an annual charge of $310 for upgraded tax rates and upgraded software.

Secretary Wagnon introduced James Bartle, General Counsel for the Department of Revenue, who presented the Department’s legal opinion on the conflict between the tax increment financing (TIF) law and the new destination-based sourcing sales tax law passed in House Bill 2005 (Attachment 8). Mr. Bartle clarified that the issue concerns the STAR bond district situation wherein, historically, the sales tax revenues generated by retailers in those districts went towards retirement...
of the bonds. Sales taxes were due where the sale was consummated, and sales were deemed to be consummated at the retailer’s place of business. With passage of the destination sourcing law, the sales tax is now due in the jurisdiction where the product is delivered. Some retailers in the bond district deliver their products outside the municipality in which they are located; therefore, some of the local sales tax revenue will not be available to retire bonds in the retailer’s district.

The meeting was adjourned at 5:10 p.m.

Friday, September 5

Senator Corbin called the meeting to order at 9:10 a.m. at which time he opened the public hearing on Topic 7—Local Sales Tax Uniformity. He called upon Mike Heim, Kansas Legislative Research Department, for a review of the status of city home rule powers and the local sales tax law.

At the outset, Mr. Heim commented that the purpose of the study is “to evaluate the current status of local sales tax statutes with respect to uniformity and home rule power of cities and counties and to determine whether uniformity should be assured or reestablished in the wake of multi-state streamlined sales tax simplification efforts.” He called attention to copies of the key language of the provision in the Kansas Constitution which grants cities home rule power (Attachment 9). He went on to explain that his review focuses on city home rule powers and local sales tax law because a statute already restricts the exercise of county home rule powers in reference to the local sales tax law. He followed with an outline of cities’ ordinary and charter home rule ordinances and uniformity issues, citing related court cases (Attachment 10).

Richard Cram, Kansas Department of Revenue, presented further background information on home rule authority, focusing on a court case which concerned the uniform application of local sales tax laws by cities. He emphasized that the more classes of cities that exist, the more the risk of non-uniformity. He pointed out that as long as the argument exists that the local sales tax laws are not uniform, Kansas’ ability to comply with the Streamlined Sales and Use Tax Agreement provision can be placed at risk. In conclusion, Mr. Cram discussed possible legislation or a constitutional amendment to ensure that local sales tax laws are uniform, thus remaining in compliance with the Agreement (Attachment 11).

Senator Corbin opened the public hearing on Topic 2—Estate Taxes. He called upon Mr. Courtwright for a review of 2003 estate and succession tax law changes (House Bill 2005). Mr. Courtwright explained that one section of the legislation retroactively repeals the succession tax enacted in 2002 and provides for refunds of any such taxes which have been paid. Other provisions provide amendments to the Kansas Estate Tax Act designed to improve administration and enforcement and authorize under certain circumstances the filing of tax liens and provide for the issuance of tax warrants. Additionally, the Kansas estate tax exemption filing threshold is conformed to the federal threshold, effective for estates of decedents dying on and after January 1, 2007. Mr. Courtwright discussed the fiscal impact of succession and estate tax changes. He also noted that legislation enacted in 1998 tied the Kansas pick-up tax to the federal law in effect on December 31, 1997. In 2001, federal law was amended again, but Kansas did not provide for prospective conformity (Attachment 12). For the Committee’s information, Mr. Courtwright distributed copies of an article from the Center on Budget and Policy Priorities concerning states which are decoupling from the most recent federal estate tax law (Attachment 13).
Noting that his written testimony contains background information on Kansas estate taxes similar to that presented by Mr. Courtwright, Jim Weisgerber, Kansas Department of Revenue, discussed the Department’s decision to decouple from federal law after recently determining that it was no longer practical or advisable to continue conformity with federal law. He explained that the practical effect of the Department’s position is that all estates of decedents dying on or after May 22, 2003, must complete the April 1997 version of the federal Form 706 and file it with the Kansas estate tax return. In other words, Kansas now looks solely to federal law existing on December 31, 1997, for the purpose of computing the Kansas tax. Mr. Weisgerber said the Department is currently trying to “gear up” to be able to effectively administer that federal law. Because the old federal Form 706 is no longer available, the Department is making it available through its website. Although attorneys have expressed their concern that it will be necessary to file two estate tax federal forms, one for Kansas and one for the federal government, most seem pleased that Kansas law is now stable and understandable (Attachment 14).

Senator Corbin opened the public hearing on Topic 6—Property Tax Exemptions for Certain Senior-Care Facilities. He reminded the Committee that the issue concerns the fact that there are certain communities in the state wherein property tax rolls have been reduced by exemptions for independent living units owned by not-for-profit nursing homes to the point that the community no longer has an adequate tax base. He called upon Gordon Self, Revisor of Statutes Office, for a review of the 2002 Special Committee on Assessment and Taxation interim study and related legislation approved by the Senate but not the House during the 2003 Legislative Session, SB 161.

Mr. Self explained that KSA 79-201b, Fifth, contains the relevant tax exemption. In 1999, the statute was amended to provide that any property used in a manner consistent with federal Internal Revenue ruling 72-124 shall be deemed to be operating at the lowest feasible cost. The 2002 interim committee recommended that a bipartisan working group be formed early in the 2003 Legislative Session. The group made recommendations to the Senate Assessment and Taxation Committee which then sponsored a bill incorporating the recommendations, SB 161. In its original form, the bill eliminated the exemption in its entirety for any taxable year commencing after December 31, 2005. After extensive hearings, the Senate Assessment and Taxation Committee passed the bill as amended. The amended bill did not eliminate the exemption in general, but it did eliminate the exemption with regard to living units which are not located on property contiguous to the main facility campus. The bill was passed by the Senate and is currently residing in the House Taxation Committee. The 2003 interim study was requested by the House.

Senator Corbin emphasized that an extensive study was conducted during the 2002 interim, and the Senate Assessment and Taxation Committee spent a great deal of time hearing testimony during the 2003 Session. He noted that if hearings on the topic were scheduled again, testimony would simply be a repeat. He acknowledged that the topic is controversial and represents a growing problem. He commented that the amended bill was passed out of the Senate committee as a beginning point for a discussion process, and he was still awaiting additional input from the House.

Senator Corbin opened the public hearing on Topic 11—Property Tax on Damaged Property and called upon Representative Margaret Long, who discussed the extensive property damage resulting from strong tornado producing storms that ripped through Kansas in May. She said that it is unfair for families whose homes were either completely destroyed or damaged beyond repair in May to pay taxes due in December for the whole year. She noted that surrounding states have passed legislation providing for a reduction in property value on homes damaged or destroyed by tornadoes. She requested that the Committee sponsor similar legislation and that the legislation be made retroactive to provide tax relief for victims of the 2003 tornadoes. She suggested that the legislation give counties authorization to grant a tax abatement for property damaged by a natural
Representative Long also called attention to information on Oklahoma and Missouri law reducing the value of destroyed property (Attachment 15).

Melissa Bynum, the Executive Director of the Leavenworth Road Association (LRA), testified in support of Representative Long’s proposed legislation. She explained that the LRA is a neighborhood and business revitalization organization serving approximately 30,000 people in the Kansas City area affected by the 2003 tornadoes. She noted that the aftermath of the tornadoes has forever changed the lives of the citizens in a 40-block area who lost their homes and almost all of their possessions. Even though abatement of a portion of real estate taxes would impact the local budget, she believes the relief would far outweigh any additional burden on local tax revenues. She pointed out that once homes are rebuilt, the increased fair market value and property taxes could represent an additional burden for the tornado victims (Attachment 16).

Crawford County Appraiser Mike Montgomery testified in support of the concept of potential legislation on behalf of Crawford County Commissioner, Tom Moody. He noted that Crawford County lost approximately 65 homes, and property damage in the county amounted to approximately $4 million. The Crawford County Board of Commissioners requests that a provision be included to allow the county appraiser the final say on the amount of the abatement (Attachment 17).

Mark Beck, Director of Property Valuation, discussed the issues which he believes need to be addressed prior to implementation of tax relief for those who suffer significant damage due to a natural disaster. At the outset, he noted that most property owners are made whole by insurance, and many properties are fully restored within the same calendar year. In addition, he observed that two-thirds of all property owners have mortgages; therefore, they pay their taxes monthly through an escrow account. He went on to list several other questions regarding administrative issues which should be considered (Attachment 18).

Senator Corbin opened the public hearing on Topic 8—Use Tax on Computer Software Customization Services. He recalled that legislation concerning the tax was passed in the waning hours of the 2002 Legislative Session without the benefit of a committee hearing on the issue. He called upon Mr. Cram to discuss the legislation.

Mr. Cram noted that sales tax was imposed only on canned software prior to 2002. Under the legislation, canned software is defined as tangible personal property, and the sale of custom software is considered the sale of a taxable service. He explained that the Department’s intent in requesting the legislation was to ensure that an out-of-state purchase of custom software would be subject to a use tax if it is used in Kansas. However, the legislation as passed provides that the use tax applies to out-of-state purchases of canned software, but it does not apply to out-of-state purchases of custom software. Thus, out-of-state custom software vendors that do not have nexus in Kansas appear to have been given an unfair competitive advantage over Kansas custom software vendors. He pointed out that destination-based sourcing rules may limit the problem somewhat, but only in instances where an out-of-state custom software vendor has nexus in Kansas. He went on to discuss definitions relevant to the imposition of sales tax on computer software adopted in Section 5 of House Bill 2005, amending KSA 79-3602 (Attachment 19).

With regard to the discussion of Topic 3 at the September 4 meeting, Mr. Cram distributed copies of a memorandum on destination sourcing implementation issues in Kansas which the Kansas Department of Revenue presented to the steering committee on the SSTP on July 11, 2003, at the Savannah, Georgia, meeting. He explained that the Department was given an half hour to discuss the circumstances in Kansas which present challenges for destination sourcing implementation (Attachment 20).
In addition, Mr. Cram offered further comments regarding the issue of local sales tax uniformity (Topic 7). He emphasized that destination sourcing brings some urgency to the issue of whether the sales tax is uniform because, if the Legislature wants to consider simplifying the rate structure or making fewer sales tax jurisdictions, the law would need to be uniform before those kind of solutions could be approached.

Marlee Carpenter, Kansas Chamber of Commerce and Industry, discussed the Chamber's support for the repeal of the sales tax on custom computer software. She noted that the imposition of the tax affects business of all sizes, creating an additional burden in a time when they are operating on smaller margins and incurring major expenses to comply with new sales tax laws related to the SSTP (Attachment 21).

Mark Beshears, Sprint, testified in opposition to taxation of sales and servicing of custom computer software. He pointed out that bills enacting new taxes have been passed in the last two legislative sessions without public hearings. He complained that Sprint was not given an opportunity to discuss the imposition of a tax on custom computer software at a public hearing. He noted that the telecommunications industry is going through hard times, and the ability to retain jobs and attract new jobs becomes more difficult every time the cost of doing business in Kansas goes up. In conclusion, he requested that the Committee recommend legislation to reinstate the sales tax exemption for custom computer software (Attachment 22).

The meeting was adjourned at 12:00 p.m.

Prepared by Shirley Higgins
Edited by Chris Courtwright

Approved by the Committee on:

October 10, 2003