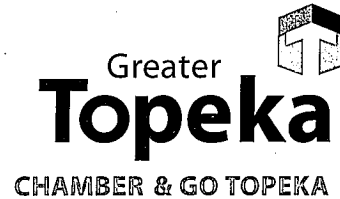


Written Testimony  
House Taxation Committee  
HB 2763, Consumption Tax Replacing Sales and Income Taxes  
Thursday, March 15, 2012  
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Chairman Carlson and members of the Committee:

The Greater Topeka Chamber of Commerce would like to express our opposition to HB 2763.

As we read HB 2763, it eliminates income and sales taxes and substitutes a consumption tax at the rate of 5.7%. The Greater Topeka Chamber of Commerce has a long standing policy of not supporting sales taxes on business professional services. We believe such a change will make our state's businesses less competitive. We believe the proposed consumption tax is similar to a sales tax, and the bill says the consumption tax would be levied on all services unless specifically exempted. The bill does exempt some services as they relate to agriculture, production and manufacturing but the consumption tax appears to apply to all other service transactions.

We believe, should Kansas institute a consumption tax on professional services, the state may jeopardize the future use of Kansas professional services by customers located outside Kansas. Companies bidding to provide services outside the state, alongside competitors from other states, will have an automatic disadvantage due to the additional costs of a Kansas consumption tax. We also see great potential for Kansans to seek out services outside the Kansas borders.

It is unclear in HB 2763 how local sales taxes will be charged and administered. Currently the state provides the administration of local sales taxes and remits the dollars to local governments. If the intent is to not permit local sales taxes, there will be a significant negative impact on citizens as local property taxes increase to fund local government services. Local governments rely on sales taxes as a portion of their revenue to provide services, including streets, sewers, water and other infrastructure. Local governments house criminals and operate the court system, provide local recreation and parks and sometimes operate hospitals and other utilities. Local sales taxes have been approved, at one time or another, by local taxpayers in elections. It is not apparent local governments will retain the authority to collect local sales taxes or if they can, how the tax will be collected.

The Topeka Chamber supports and appreciates legislative efforts to reduce taxes as long the state maintains and funds core services necessary to the citizens of Kansas. We are unsure of the impact this radical change in state tax policy will have on future economic growth in Kansas. Before the state determines this is an appropriate method of funding state government there must be a thorough study of the potential impact on the state, the economic consequences and the effect it will have on local government. It is not clear what impact a downturn in the economy, such as our country has been experiencing since 2008, would have on the amount of consumption tax collected and available for state core services. How will it affect bonding and debt the state currently has and securing bonds in the future. Growing our state's economy must include the realization that there are common needs throughout our state that require financial support from citizens. These needs do not subside during a down economy. There must be a stable source of funds available for governing. Reliance on only one source of funds has significant risk. We are also very concerned

with the impact such a change will have on local governments and the potential increased reliance on property tax. What impact will this tax have on health care; the consumption tax seems to apply.

In reading the bill, we are not sure what the implications are for a family consumption allowance for all Kansas citizens. How will citizens become aware of their need to report to the state everyone in the household and the comings and goings of residents within each household? How will deaths be tracked? How will new persons moving into the state become aware of the need to register and provide social security numbers and address changes, etc.? How will the state monitor the businesses starting and terminating; will there need to be a new division set up to check up on businesses and citizen's status? How much will all this administrative tracking cost? How much will it cost to monthly transfer money to every household; what is it supposed to be for and what if a family does not have a bank account?

There are too many unknowns and risks to pass this legislation; sincere consideration would require the legislature and citizens fully understanding the ramifications. The Topeka Chamber requests the House Taxation Committee vote "NO" on HB 2763.