

Date: February 21, 2019

To: Chairman Steven Johnson and House Taxation Committee Members

From: Trey Cocking, Deputy Director

Re: Testimony in Support of HB 2352

Chairman Johnson and Taxation Committee Members, thank you for the opportunity to testify in support of HB 2352, on behalf of the League of Kansas Municipalities' member cities.

The inability of governments to collect local option sales or compensating use tax on remote sales continues to erode a viable and fair revenue source. The League supports state legislation establishing a program to help the state collect state and local sales and compensating use taxes due from in-state purchasers. Remitted taxes should be distributed using existing methods/formulas for the state and local governments. The League further supports the adoption of the safe harbor provisions as used by South Dakota to ensure constitutional compliance with the recent U.S. Supreme Court decision in *South Dakota v. Wayfair, Inc et al.*, 138 S. Ct. 2080 (2018) in order to bring tax fairness to Kansas' brick-and-mortar businesses.

Current law in Kansas requires Kansans to report unpaid compensating use tax on line 19 on their K-40 tax form. Unfortunately, compliance is extremely low, possibly due to many taxpayers being unaware of the law. HB 2352 would require any marketplace facilitator or out of state retailer, receiving gross revenues more than \$100,000 from the state to collect the state and local retail and use tax and remit to the Kansas Department of Revenue. This is not a new tax, but a potential new way to collect sales tax due to the state, cities, and counties.

The state, cities, and counties are all impacted by the loss of sales tax due to remote sales. Remote sales are expected to continue increasing, while "brick and mortar" sales continue declining, which inevitably means the current sales tax structure will see declining revenue if remote sales are untaxed. Legislative Post Audit estimates that the loss of state sales tax is between \$40-\$70 million. Looking at information from other states and cities we believe that this range is conservative.

According to Adobe Analytics, Cyber Monday 2018 was the biggest shopping day of all time with \$7.9 billion in sales. This represents over a 300% increase in Cyber Monday sales since 2014 when Cyber Monday sales were only \$2.65 billion.

Analyzing my own *Amazon.com* purchases in the last six months, I have made 41 transactions, and 20 have been taxed and 21 were not taxed. On Monday, I had a package arrive that contained two items, one item was taxed and the other was not.

Brick-and-mortar sellers are at a 7-10% price disadvantage, depending on their location in Kansas compared to online sellers. These retailers are carrying a heavier burden because online retailers are not required to collect and submit retail sales tax. It is time to update the laws and make equitable the collection of sales and compensating use tax.

Based on this testimony, the League of Kansas Municipalities requests you pass HB 2352 favorably out of committee and to the full House.