



Kansas Grain & Feed Association (KGFA)
Kansas Cooperative Council (KCC)
Kansas Agribusiness Retailers Association (KARA)
816 SW Tyler, Topeka, Kansas 66612

Feb. 7, 2017

TO: House Committee on Taxation

FROM: Mandy Roe, Director of Member Services
Kansas Cooperative Council (KCC)

Randy E. Stookey, General Counsel,
Kansas Grain and Feed Association (KGFA)
Kansas Agribusiness Retailers Association (KARA)

RE: Written only testimony on HB 2237 adjusting/increasing certain taxes – Opposition comments relative to only the increase in motor fuels taxes; concern with the Section 199 add back

Chairman Johnson and members of the House Tax Committee, thank you for the opportunity to provide comments and share our concerns with the portions of HB 2237 that increase state motor fuel taxes and add back the federal Section 199 deduction for domestic production on the individual return.

I am Mandy Roe, Director of Member Services for the Kansas Cooperative Council. We share this statement with you on behalf of our Council members and on behalf of the Kansas Grain and Feed and Kansas Agribusiness Retailers Associations, as well.

KGFA is a voluntary state association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in Kansas. KGFA's membership includes over 950 Kansas business locations and represents 98% of the commercially licensed grain storage in the state. The KCC represents all types of cooperative businesses in Kansas with members from various sectors including agriculture marketing and supply, rural electric, rural telecom, financial and risk management co-ops. KARA is a voluntary trade association that includes membership of over 700 agribusiness firms that register for sale, supply or apply fertilizers, crop protection products, seed, and petroleum products; and, provide agronomic expertise, and agricultural services to Kansas farmers.

Our three associations share many common members and a significant number of them are engaged in selling fuels such as gasoline, diesel, dyed diesel and propane either at the pump, in bulk or both. Thus, any increase in the excise tax on motor fuels or fee increases on such fuels is of interest to our members. For cooperatives and agribusiness along our state's borders, increases in fuel taxes/fees, like the \$0.11 increase contained in HB 2237, further disadvantages Kansas businesses and means there is even a greater likelihood consumers will travel across state lines for their fuel needs.

The position we take today is not an easy one to come to as our members rely heavily on road transportation for moving product in and out on a daily basis. We support adequate funding for our roads, maintaining thoroughfares and maximizing the investments the state has already made in transportation infrastructure. We are concerned with the diversion of any fee funds away from their intended purpose. The

fuel excise tax revenue is protected from diversion, but we are keenly aware that this new money, in essence, replaces other fee dollars which have been, or will likely be diverted, in the future.

Three of the four surrounding states have lower fuel tax rates than Kansas currently does, even without the Governor's proposed increases. Only Nebraska's fuel excise tax is higher than ours right now (chart reflects excise tax only and not other fees on fuel as reported by *Federation of Tax Administrators – Jan. 2017*):

<u>State</u>	<u>Gasoline</u>	<u>Diesel</u>
Nebraska	\$0.273	\$0.273
Kansas	\$0.24	\$0.26
Colorado	\$0.22	\$0.205
Missouri	\$0.17	\$0.17
Oklahoma	\$0.16	\$0.13

Kansas, if HB 2237 is implemented, will see our excise tax on gasoline increase to 35 cents per gallon and diesel goes to 37 cents per gallon. That will give us the highest excise tax rate of all our surrounding states. We will be 7.7 to 19 cents higher than surrounding states on gasoline and 9.7 to 24 cents above the others on diesel.

This past fall, I had the opportunity to visit with the manager of one of our multi-cooperative marketing alliances. One of the items he brought forward during our discussions was the amount of fuel business they were losing to the neighboring state. That concern is sure to grow if Kansas increases fuel taxes even beyond the current limit. As the gap widens between Kansas gas prices and the prices in the states next door, there is more economic incentive for Kansas consumers to buy from out of state. So, more will drive across the state line to pumps in border states and the number of bulk orders from out of state vendors is likely to increase, as well. That hurts small business on the border, like our cooperative and agribusiness members. If they lose business to out of state dealers, that reduction in sales volume will cycle through to state tax collections, too, although the higher tax rate may mitigate some of the lost volume. But individual businesses are sure to notice a drop in sales volume and feel the impact.

The industries represented within our three associations are heavily reliant on transportation for receiving product and moving it to market. Increased fuel costs, undoubtedly, impact their cost of doing business. Additional operational costs can make it more difficult to maintain profitability, especially when dealing in products where the price is so heavily influenced by the global market place. It's not always possible for our members to fully pass along increased costs and additional costs cut into margins, which at times are very thin to begin with.

We realize the state has a major budget issue to deal with. There are no easy answers for solving that dilemma. But, we cannot support an approach that, most likely, further drives market share on fuel sales across the borders into neighboring states, reducing sales volumes for our members and, at the same time, increases members' transportation costs/cost of doing business.

We would also note for the committee, preserving a cooperative's ability to take the federal IRS section 199 deduction for domestic production for themselves, and/or to also be able to pass the deduction on to members, is a key federal tax priority for the cooperative community. That ability for the co-op to elect to pass that deduction down to the member-owner is a benefit within the cooperative system. HB 2237 will require the section 199 deduction passed down to a co-op member to be added back into their federal adjusted gross income for purposes of Kansas' individual tax. Although this adjustment is made at the individual level, it can essentially function to diminish the benefit the co-op is able to provide to members.

Thank you, again, for the opportunity to comment today. If you have questions for us, we will gladly stand for them or you may contact us at the numbers below.

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