

House Committee on Taxation Support of House Bill 2177- Origin Sourcing of Sales Tax Presented by Eric Stafford, Vice President of Government Affairs

Wednesday, February 15, 2017

Mister Chairman and members of the committee, my name is Eric Stafford, Vice President of Government Affairs for the Kansas Chamber. The Kansas Chamber appreciates the opportunity to testify in support of House Bill 2177 which would amend Kansas law to determine sales tax at the "origin" on intrastate transactions.

With the passage of House Bill 2005 in 2003, Kansas joined the Streamlined Sales and Use Tax Agreement which was an effort to bring uniformity and simplicity to state sales tax laws. Those who were around at the time will tell you that this was a big decision by the legislature which faced a lot of division among all parties including the business community.

One of the biggest changes from the passage of HB 2005 is Kansas became a "destination-based" sourcing state, meaning sales taxes would be collected at the destination of the purchaser, not the location of the seller ("origin"). For the 13 states that do not authorize local taxing authority, compliance from the business community focuses only on determining the state sales tax rate, if any, on purchases. But for a state like Kansas which has over 900 taxing jurisdictions, compliance is a nightmare. When a business provides products or services subject to sales tax in a community other than where they are located, they must determine the local tax rates on top of the state sales tax and accurately report the tax owed.

Prior to July 1, 2003, Kansas was an "origin-based" state so this wasn't a problem. But in order to join the Streamlined Agreement, Kansas had to make the change. Several years ago, roughly 2010, legislation was introduced to move Kansas back to an origin-based state. Those efforts stalled because the change would have put Kansas out of compliance with the Streamlined Agreement and the state would have faced significant monetary penalties.



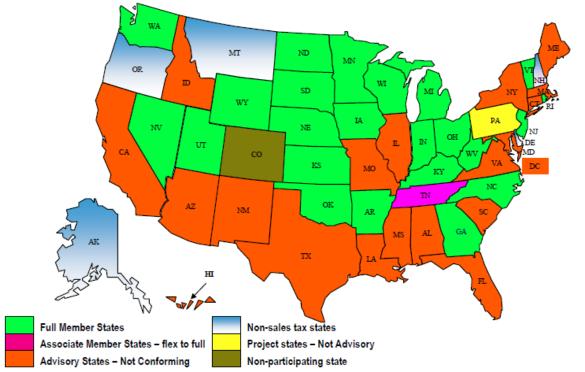
advocacy group moving Kansas towards becoming the best state in America to do business. The Chamber represents small, medium and large employers all across Kansas.

In recent years however, the Streamlined Agreement has been amended in an effort to attract non-partner states to join the coalition and now allows for origin-based sourcing. This fall, retailers on our tax work group asked that the Chamber adopt a policy position in our legislative agenda to move Kansas back to an origin-based sourcing state. After conducting research on this issue, we held a second call with our tax work group to discuss this change. Our group ultimately adopted the proposal and took it to our board for approval. Our board did adopt this item in our 2017 legislative agenda and we are here today asking for your support.

HB 2177 has been drafted with the intent of maintaining compliance with the Agreement. Under our proposal, some transactions will remain "destination-based" such as for remote sellers (see map further down in our testimony). Additionally, Kansas utilities have requested an amendment to maintain their operation as a destination-based for determining sales tax. We support their proposed amendment which has been included with our testimony. There are other examples of products and industries who were exempted from the change in 2003 which are highlighted in the Department of Revenue notice included with our testimony.

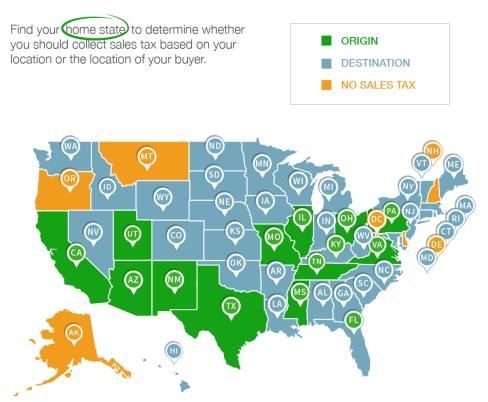
HB 2177 will not cost the state any sales tax revenue. We do acknowledge that there could be a tax shift among communities who are currently receiving sales tax through the destination-sourcing approach. Some communities could see an increase, while others could see a decrease. Ultimately our goal with HB 2177 is to reduce the regulatory burden of compliance for businesses who are collecting sales tax without compensation on behalf of the state of Kansas.

We respectfully ask for your support of House Bill 2177 which simplify calculation of sales tax for Kansas businesses. I am happy to answer any questions the committee may have on this issue.



Streamlined State Status 01-01-17

Origin v. Destination Based Sales Tax Collection



Origin v. Destination-based Sales Tax Guide for Remote Sellers

Remote sellers are sellers based in one state but who have sales tax nexus and must collect sales tax in another state. Are you considered a "remote seller"? This is what you need to know about collecting sales tax at either the origin or destination-based sales tax rate in states where you sell remotely.



