



March 12, 2020

Chairman Johnson, and Members of the House Committee on Taxation, thank you for the opportunity to submit this written testimony on behalf of the Kansas Building Industry Association (KBIA) in opposition to HB 2727. KBIA is an affiliate of the National Association of Home Builders (NAHB) with nine local building associations and more than 2,000 members across the State of Kansas.

First, allow me to be clear that our opposition is limited to New Section 1 of HB 2727 and we are not providing comments on the new taxes proposed in Section 2(a) or the new exemptions proposed in Section 3.

KBIA believes that enactment of New Section 1 will create a scenario where current and future exemptions are not evaluated based on their individual merit, but rather will pit two constituencies against each other in a winner take all match. A quick glance at the contents of HB 2727 show that Kansas has a significant laundry list of exemptions in current law. That list has led to discussions about the need to develop a comprehensive standard to evaluate potential exemptions and we are not opposed to that. Legislators are often hesitant to pick winners in losers in legislation, but enactment of new section 1 would require exactly that. Not only with this put your constituents and communities at odds with one another, but I fear it could lead to a rural/urban divide where, in the future, rural legislators are simply not able to protect the existing exemptions important to their communities.

Directly on point to the construction industry, I would note that K.S.A. 79-3603(p) provides a sales tax exemption for labor services related to new construction and residential remodeling that is valued at approximately \$130 million dollars per year. This exemption is in place to put Kansas on a level playing field with surrounding states that do not collect tax on these construction services, and it is key to battling the growing concern over cost of housing in many areas of our state.

I point this exemption out specifically to highlight a concern of our industry. While the exemptions considered today, and in fact most currently in law, have a relatively modest fiscal impact this very committee has considered bills related to food sales tax almost every year in recent memory. Should a future legislature decide it is wise policy to eliminate the sales tax on food it would have a fiscal note of almost <\$400M> per year<sup>1</sup>. To comply with new section 1 of

1.Fiscal note for SB 76 (2019). 1% reduction in food sales tax = \$59.8M in FY'20 x 6.5% = \$388.7M to fully eliminate

HB 2727 they could eliminate the 96 smallest existing statutory exemptions to provide the funding necessary to offset the food exemption, and in so doing they would begin taxing residential and agricultural utilities, certain business machinery and equipment, doctor prescribed prosthetics, medical supplies like insulin, youth sports leagues and 90 additional items. Or they could choose to eliminate a smaller number of larger exemptions, the result of which would increase the cost of housing, farm equipment, oil and gas operations, non-profit organ donations, or animal agriculture production.

While I used the potential elimination of the food sales tax in this hypothetical, it could apply to any number of potential future actions such as the need to enact exemptions in the wake of natural disasters in order to rebuild communities or get regional economies back on track. Difficult, and often critical policy decisions, will be further complicated by the enactment of new section 1 of this bill.

I mention these exemptions, including residential home construction, not to put any industry in the crosshairs of a future legislature, but rather to highlight the importance of these exemptions to major sectors of the Kansas economy: agriculture, aviation, manufacturing, oil & gas, and the housing and educational systems needed to sustain the workforce of those industries. This committee makes difficult decisions every day, and past legislatures made difficult decisions when they enacted the exemptions needed to grow our economy. We ask today that you not add additional hurdles that future legislatures will have to overcome in order to continue Kansas' economic prosperity. Current and future sales tax exemptions should be evaluated on their individual merit, impact on the state budget, and ultimate effect on the citizens of your districts.

On behalf of KBIA members across the State of Kansas we urge the committee to oppose New Section 1 of HB 2727 and instead evaluate the proposed changes to Sections 2 and 3 on their own merits as individual policy decisions of the state.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sean Miller', with a stylized flourish at the end.

Sean Miller  
Kansas Building Industry Association