



KANSAS AUTOMOBILE DEALERS ASSOCIATION

February 11, 2021

To: The Honorable Adam Smith, Chairman and Members of the House Taxation Committee

From: Don L. McNeely, KADA President

Re: HB 2143 - AN ACT concerning sales taxation; relating to exemptions on certain cash rebates on sales or leases of new motor vehicles; making exemption permanent.

Good afternoon, Chairman Smith and Members of the House Taxation Committee. My name is Don McNeely, and I serve as the President of the Kansas Automobile Dealers Association, which represents the franchised new motor vehicle industry in Kansas.

On behalf of KADA, I am pleased to appear today in support of HB 2143, which would remove the sunset of June 30, 2021 for the sales tax exemption associated with motor vehicle manufacturer rebates from the taxable selling price or lease amount of a new motor vehicle.

As some members of the committee will remember, the sales tax exemption for motor vehicle manufacturer rebates was enacted during the 2018 Legislative Session. The original bill that session, SB 367 passed the Senate unanimously with no sunset. The House Taxation Committee held hearings on the bill with no opponents. However, the House Taxation Committee did not work the bill.

Ultimately in Tax Conference, the House offered to place SB 367 in a stand-alone bill with a three-year sunset. The Senate again approved the bill 38-0 and on the last day of Veto Session the House passed the provision 111-6. This happens to be the second time this exemption has passed the Legislature with a three-year sunset. As a similar scenario happened during the 2006 Legislative Session.

Prior to the Covid-19 Pandemic bringing the 2020 Legislative Session to a halt, this proposal was contained in SB 322, which passed the Senate Committee unanimously and was approved in the Senate on a vote of 35-2 but was never scheduled for hearings by the House Taxation Committee or worked into a conference committee.

While this issue is not new to the members of the Committee, it is extremely important to the consumers of Kansas and the retail motor vehicle industry. Since the enactment of the sales tax exemption, the heated debate with consumers about the taxability of a manufacturer rebate has ceased. This had become commonplace prior to the enactment of the sales tax exemption, especially along the state-line, due to the fact that Missouri, Oklahoma and Nebraska had previously exempted manufacturer rebates from the taxable selling price or lease amount of a new motor vehicle.

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With the average selling price of a new vehicle now over \$38,000 and the average combined sales tax rate in Kansas getting close to 10 percent, the imposition of sales tax on manufacturer rebates is detrimental to new vehicle sales. Especially, when you consider that the State of Kansas makes more money off the sale of a new vehicle than does the selling dealer.

The franchised new vehicle dealers are a critical and essential part of our state's economy generating \$5.9 billion in annual retail sales. Needless to say, it is extremely important that the State of Kansas have a healthy and viable retail motor vehicle industry and a tax structure which supports it. Sales of new and used cars, as well as parts and service, are one of the single largest source of sales tax revenue for our state and the majority of our city and county governments.

On behalf of the Kansas Automobile Dealers Association, I thank the Members of the Committee for allowing me to appear before you this afternoon in support of HB 2143.