Double-Taxation/Tax Pyramiding: Implications for the Industrial Laundry and Linen Supply Industry

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July 17, 2024

TRSA – The Linen, Uniform and Facility Services Association

TRSA (trsa.org) represents the $50 billion+ linen, uniform and facility services industry which employs 200,000+ people at 2,500+ facilities in North America.

TRSA Members are local, independent family-owned multigenerational businesses as well as national, publicly traded companies.

The industry promotes environmental stewardship and a circular economy as recyclers that use highly efficient, water- and energy-saving technology to maintain, process and recycle reusable textiles for healthcare, industrial, hospitality and food and beverage industries.

Business Model

Industrial laundries purchase items (uniforms, linens, mats) to rent to a client.

The rental agreement generally includes delivery and processing of the goods (clean and mend) to return to a client on an agreed upon time frame.

Kentucky Industrial Laundry Industry

$82,179,000 Annual Payroll	1,945 Employees	$23/hour Avg. Wage Statewide

- Industrial laundries provide clean reusable linens, uniforms, protective apparel, and other articles on rental basis to businesses including healthcare facilities, hotels, restaurants, manufacturers, and other essential businesses.
- Vertically-integrated companies.
- Interstate operations moving products over multiple taxing jurisdictions.

2024 Planned Expansions & Investments

- **Exceed:**
  - **$4M** in sustainable machinery upgrades.
  - **$74.5M** in expansion of existing operations.
  - **181 jobs** including 110 direct new hires, with roughly $7.6M in initial earnings and $1.1M in direct earnings.
- Construction phase will create an additional:
  - **598 jobs** with both a direct and indirect impact.
  - **$2.6M** in new taxes, specifically almost **$1M** at the state level.
- **Impact:** Louisville, Owensboro, Bowling Green, and Lexington. Two of these planned expansions can take place across the Ohio River in southern Indiana.
- **Generate:** approximately **$1M in new tax revenue**, including over **$360,000** at the state level.

2018 Tax Policy Amendments

Before 2018

- Industrial laundries paid KY sales or use tax on items purchased for rental to customers, with no additional tax collected from or imposed on the customers themselves.

After July 1, 2018

- Requires industrial laundries to charge KY sales tax on charges for supplying those items to customers.
- The KY Department of Revenue (KDOR) ALSO requires industrial laundry and linen supply industry to continue to pay KY use tax on purchases of textiles (uniform, linens, mats, etc…).
- KDOR claims industry must pay tax on purchases of items purchased for rental to customers AND charge tax on charges to customers.

Impacts of Tax Policy

- DOUBLE TAXATION - KDOR interpretation imposes KY sales tax twice on textiles.
- TAX PYRAMIDING – imposes sales tax on sales tax of items.
- Contradicts the resale exemption.
- <u>Kentucky is the only state that applies sales tax this way.</u>

Negative Impacts

- Creates averse economic development climate and harms growth.
- Places KY at a competitive disadvantage to other states.
- Negatively impacts additional businesses and industries that rely on industrial laundry and linen supply companies (e.g., hospitals/healthcare facilities, restaurants, hotels, industrial services operations).
- Incentivizes industrial laundry and linen supply companies to move processing operations out of KY to minimize double taxation.

Negative Impacts – cont.

- Violates uniformity by discriminating between renters and sellers – the KDOR allows a resale exemption to uniform and linen suppliers who sell the items they clean, but denies the exemption to those who rent the items they clean.
- Makes the tax economically inefficient and non-neutral, discouraging use of "industrial laundry services" and "linen supply services" and instead encouraging businesses to purchase and clean their own uniforms and to purchase disposable napkins and other items as opposed to reusable items.
- Lacks transparency – rather than the ultimate customer paying tax on the final purchase, a greater amount of tax is paid by customers without their knowledge.
- Violates principles of good tax policy.

Recommendation

The General Assembly in levying sales tax on "industrial laundry services" and "linen supply services" did not intend to either (i) double-tax uniforms, linens and similar property supplied to KY customers or (ii) impose tax on tax (increasing the cost of these items for gas stations, butcher shops, restaurants, hospitals, manufacturers, and other customers).

The General Assembly should amend the KY sales and use tax statutes, retroactive to July 1, 2018, to make clear that industry members are entitled to the sale for resale exemption.