

TASK FORCE ON TAX EXPENDITURES

Minutes of the 3rd Meeting of the 2018 Interim

August 30, 2018

Call to Order and Roll Call

The 3rd meeting of the Task Force on Tax Expenditures was held on Thursday, August 30, 2018, at 3:00 PM, in Room 154 of the Capitol Annex. Representative Ken Fleming, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Ken Fleming, Co-Chair; Senators David P. Givens, Morgan McGarvey, Dennis Parrett, and Wil Schroder; Representatives Jason Petrie, Steven Rudy, Diane St. Onge, James Tipton, and Susan Westrom.

Guests: Mark Haney, President, Kentucky Farm Bureau Federation; Eddie Melton, 1st Vice President, Kentucky Farm Bureau Federation; Jeff Harper, Director of Public Affairs Division, Kentucky Farm Bureau Federation; Alyson Roby, Medica Pharmacy, Bardstown KY; Shannon Stiglitz, Kentucky Retail Federation; Lee Lingo, Executive Director, Kentucky Association of Manufacturers; and Mike Helton, Director of Advocacy, Kentucky Association of Manufacturers.

LRC Staff: Jennifer Hays, Cynthia Brown, Amit Shanker, Micah Johnson, and Chase O'Dell.

Sales and Use Tax Exemptions for the Agricultural Industry

Mark Haney, President, Kentucky Farm Bureau Federation; Eddie Melton, 1st Vice President, Kentucky Farm Bureau Federation; and Jeff Harper, Director of Public Affairs Division, Kentucky Farm Bureau Federation, reviewed and discussed sales and use tax exemptions for the agricultural industry.

Mark Haney testified that tax exemptions for sales tax on production agriculture is important because every state surrounding Kentucky has some form of a program with a sales tax exemption for agriculture. He stated that removing the sales and use tax exemption would cause a disruption for the supply industry for agriculture in Kentucky, and that farm communities would take the biggest hit from the elimination.

In response to questions from Representative Fleming, Mr. Haney said that the tax exemption is important for a young farmer starting in agriculture production. Kentucky Farm Bureau does not believe that farmers abuse the sales and use tax exemptions.

Kentucky Farm Bureau believes there is room to modernize the verification process for farmers and tax exempt purchases.

In response to a statement from Senator Higdon, Mr. Haney testified that the Kentucky Farm Bureau has looked at how other states administer sales tax on agricultural products.

In response to a question from Representative St. Onge, Representative Rudy stated that the percent of inventory that is tax exempt in a farm supply store depends on the nature of the business and the end user.

In response to a question from Representative Tipton, Mr. Haney stated that there is probably some form of a plan similar to Georgia's that would be appropriate for Kentucky.

In response to questions from Representative Petrie, Mr. Haney said that the current system for verification is working, but that Kentucky Farm Bureau would be open to modernizing it. Kentucky Farm Bureau has not made any recommendations or proposals to change the current verification system.

In response to a question from Representative St. Onge, Mr. Haney testified that true farm supply stores handle mostly tax exempt farm products.

In response to a question from Representative Fleming, Mr. Haney testified that Kentucky Farm Bureau would identify farming as production agriculture.

Approval of Minutes

Representative Rudy moved that the minutes of the July 26, 2018, meeting be approved. Representative Petrie seconded the motion, and the minutes were approved by voice vote.

Sales and Use Tax Exemptions for the Medical Industry

Alyson Roby, Medica Pharmacy, Bardstown, and Shannon Stiglitz, Kentucky Retail Federation, reviewed and discussed sales and use tax exemptions for the medical industry. Ms. Roby said that Illinois is the only state that applies sales tax to prescription drugs. The administrative burden and cost of collecting and remitting the sales tax would have significant negative effects on all pharmacies.

Ms. Roby said that increased prescription costs would be harmful to the health and economic well-being of those patients that already struggle to pay for basic needs. The federal government would not pay sales tax on prescription drugs for any patients participating in programs where they pay all or part of the costs. In 2017, 55 percent of all prescriptions dispensed were paid for with federal funds.

Ms. Stiglitz testified that Kentucky currently exempts all prescription drugs from sales tax and that 22 states exempt medical equipment and supplies from the sales tax. Illinois is the only state contiguous state that taxes medical equipment and supplies.

Incentives for the Manufacturing Industry

Lee Lingo, Executive Director, Kentucky Association of Manufacturers; and Mike Helton, Director of Advocacy, Kentucky Association of Manufacturers, reviewed and discussed incentives for the manufacturing industry.

Mr. Lingo testified that there are 2,500 manufacturing facilities in Kentucky that employ almost 256,000 people. The Kentucky Association of Manufacturers (KAM) supports a tax code that is competitive and consistent with surrounding competitor states. KAM also supports Kentucky moving towards a more consumption-based system and away from an income-based system. He provided a list of the tax expenditures, credits, and incentives that KAM would like to retain.

In response to a question from Representative Petrie, Mr. Helton stated his belief that the energy tax credit should be looked at for possible change. The way repair, replacement, and spare parts are taxed should be looked at for possible change.

In response to a question from Representative Fleming, Mr. Helton testified that the effect of the income tax rate going to five percent has been positive for the manufacturing industry. The single sales factor change has been positive for the manufacturing industry.

Information from DOR and OSBD

Chairman Fleming reviewed information received from the Department of Revenue and the Office of State Budget Director since the last meeting.

With no further business before the committee, the meeting was adjourned.