

Medical Equipment. According to SalesTaxSupport.com, 22 states and the District of Columbia structure their sales tax exemption on medical equipment and supplies in the same manner as Kentucky. Of Kentucky's surrounding states, only Illinois requires sales taxes at a rate of 1% to be paid on medical equipment and supplies.

Cost of Collection. Currently retailers in Kentucky are not reimbursed adequately for being the state's tax collector. Retailers are only allowed a maximum of \$50 for each return timely filed. A national cost of collection study estimates that the cost of collecting and remitting the sales tax is approximately 3% of the retailers' gross receipts.⁸

Balanced Health Kentucky Initiative. A new nonprofit organization called Balanced Health Kentucky has taken up the charge of educating legislators on provider taxes. According to this group, the potential exists to provide additional revenue to fund an expected \$200-\$300 million shortfall in Medicaid. This additional funding could save the Medicaid expansion population. This coalition of hospitals has developed a tool to evaluate the outcome of applying a provider tax to 18 other areas of healthcare that the federal government allows to be taxed for Medicaid-matching funds. One of those 18 taxable areas is outpatient prescription drugs. More information is needed before proceeding with the Balance Health Kentucky proposal or expanding the sales and use tax base to include prescription drugs.

Kentucky Association of Manufacturers (KAM)

KAM General Tax Principles. KAM supports:

- A tax code that is competitive and consistent with surrounding and competitor states;
- The Commonwealth moving to a more consumption-based system and moving away from an income-based system;
- Maintaining the sales and use tax exemptions for anything used in the manufacturing process; and
- Providing sufficient funding to support an education system to produce work-ready employees.

Sales and Use Tax Rates, Exemption, and Expenditures. According to the KAM presentation, Kentucky has the second lowest sales tax rate among our competitor states and the 38th lowest in the country. Thirty-eight states collect some sort of local sales tax. If Kentucky were to move to a local sales tax, any local expenditures or exclusions granted should be consistent with the state exemptions or exclusions. Expenditures and exemptions should be understandable and applied consistently across the Commonwealth.

The sales tax base expansion from the 2018 Regular Session of the General Assembly included services that did not dramatically impact manufacturers. However, the legislation eliminated a tool manufacturers had used to reduce their tax on energy. An energy tolling company was created to take ownership of inventory, thereby reducing the cost of production and reducing the energy costs. Many states use a lower sales tax rate on energy or exempt energy from the tax completely:

⁸ PriceWaterhouseCoopers, "Retail Sales Tax compliance Costs: A National Estimate," <https://netchoice.org/wp-content/uploads/cost-of-collection-study-sstp.pdf>.