

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Julia Lynn at 8:30 am on Thursday, January 21, 2016, 548-S of the Capitol.

All members were present

Committee staff present:

Debbie Bartuccio, Kansas Legislative Committee Assistant
Reed Holwegner, Legislative Research Department
Edward Penner, Legislative Research Department
Chuck Reimer, Office of Revisor of Statutes

Conferees appearing before the Committee:

Erik Wisner, Executive Director, Kansas Real Estate Commission
Secretary Nick Jordan, Kansas Department of Revenue
Steve Stotts, Director, Kansas Department of Revenue
Michael Austin, Financial Economist, Kansas Department of Revenue

Others in attendance:

[See Attached List](#)

Possible bill introductions

Chairperson Lynn asked if there were any bill introductions.

Erik Wisner, Executive Director, Kansas Real Estate Commission, requested a bill concerning real estate; relating to licensing requirements for nonresidents, amending K.S.A. 58-3040. ([Attachment 1](#))

Senator Wilborn moved, seconded by Senator Baumgardner, to introduce the bill. The motion passed.

Presentation on:

Chairperson Lynn recognized Secretary Nick Jordan, Kansas Department of Revenue, who presented an update on revenue receipts and the Kansas economy. ([Attachment 2](#)) He stated individual income tax rates have been reduced by 30% for individuals, families and small business. Current rates are 4.6% for the top rate and 2.7% for the lower rate. These rates are frozen until 2018. Kansas individuals and families received 71% of tax savings; 29% went to small business. Kansas has the highest Earned Income Tax Credit in our region and one of the highest nationally. The standard deduction for married filing jointly and head of household was increased; the latter benefits single parent households. Approximately 80% of Kansans use the standard deduction. Kansas has a food sales tax credit. He reported 388,000 of our lowest income Kansans have been removed from the tax rolls, now with a zero tax liability. Sales tax is 6.5%.

CONTINUATION SHEET

MINUTES of the Committee on Commerce at 8:30 am on Thursday, January 21, 2016 in Room 548-S of the Capitol.

Corporate income tax trends are normal. Fiscal year-to-date through December, receipts are up 2.6% over estimates. Use Tax Receipts are increasing. Fiscal year-to-date through December, receipts are up 2.5% over estimates. Individual income tax receipts are growing year over year. This is with a further rate reduction in 2015. It would be expected, now that rates are frozen for a couple of years, to see receipts continue to grow. Low employment is also helpful, increasing individual income tax receipts. December appeared to have an anomaly with the December 31st payday as some individuals did not make withholding payments until after the first of the year.

Secretary Jordan indicated sales tax receipts are a challenge. Since spring 2015, there has been a decline in sales tax receipts. The Department surveyed 67 of the top sales tax filers, who provide over 50% of sales tax receipts. In November, the sales tax receipts from these filers were down 4.2% from the previous year. When comparing Kansas sales tax receipts with other states, it appears that states with significant agriculture and oil industries have experienced declines in sales tax revenue, some much more than Kansas.

Conversations with various economists have concluded the following possible factors for the decline in sales tax receipts: increased savings and paying down debt by individuals; increased on-line sales; states with significant agriculture and oil sectors in their economy are experiencing decreased spending; and increased health care cost, reducing discretionary spending.

The unemployment rate is at 4%, which is the lowest in 14 years, even with three of our major sectors of the economy struggling. Kansas is experiencing an increase in in-migration of wealth to the state. Partly due to the low unemployment rate, Kansas is experiencing positive wage growth. Small businesses are migrating to Kansas.

At the conclusion of Secretary Jordan's testimony, Steve Stotts, Director, Kansas Department of Revenue, reviewed: Individual Income Tax Receipts Cumulative by Month; Withholding Tax Receipts Cumulative by Month; Individual Income Receipts FY 16 Estimated vs Actual; Sales Tax Receipts Estimated vs Actual; Percent Change in Taxable Sales from Same Month of Previous Year; State Sales Tax Collections, Percent Change by County, Fiscal Year-to-Date 2016/2015 Percentage Change; State Sales Tax Collections by Tax Month; and Sales and Use Tax Receipts for Iowa, Missouri, Nebraska and Kansas.

Michael Austin, Economic Research Fellow and Financial Economist, Kansas Department of Revenue, reviewed Kansas economic activity data covering growth rates, economic headwinds, personal income and withholding, consumer spending, and sales taxes.

Mr. Austin also discussed the KCHealthykids study on food sales and cross-border shopping. He indicated seventy Kansas counties share at least one border with another state. The purpose of the study was to estimate the impact of sales tax differentials on food sales in Kansas counties, with particular emphasis on border Kansas counties.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES of the Committee on Commerce at 8:30 am on Thursday, January 21, 2016 in Room 548-S of the Capitol.

A pamphlet entitled "Growing the Kansas Economy" was referenced as a resource for Committee members.

Chairperson Lynn opened the meeting for questions.

Secretary Jordan addressed the revenue estimating process. He stated he believed a weakness in the estimating process has been the need for a more in-depth look at the Kansas economy in real time. Estimators plan to request additional reports during the year from economists concerning real-time economic activity in the state. He said the Department is contacting additional outside economists and third parties to provide input concerning data used in the estimating process.

Senator Denning requested Secretary Jordan to review the Department's plans concerning the staffing levels of auditors and collectors. Secretary Jordan replied the staffing levels have been down due to early retirements and the budget the past few years. The Department has hired 13 positions, with a budget approved for 21 in 2016 and 27 in 2017. Secretary Jordan stated each collection position generally raises one million dollars per year from collections.

Senator Denning questioned, in the case of the Heartland Park Sales Tax and Revenue (STAR) Bond project, if the revenues were being recaptured by the state or continuing to go to the City of Topeka. Secretary Jordan replied the funds are still going to the City. Senator Denning inquired about a potential STAR Bond project in Wyandotte County. Secretary Jordan replied the Department of Commerce could provide updates on the status of these projects.

Senator Melcher asked about the impact of the American Royal project. Secretary Jordan indicated he was not familiar with the project; however, he stated any time a STAR Bond project is implemented, the state loses sales tax revenue.

Senator Melcher questioned the cause of the large personal income tax migration from Missouri to Kansas in the 2013 and 2014 period. Mr. Austin suggested the income tax cuts, which occurred in 2013, incentivized those whom it would benefit the most to move into Kansas to take advantage of it.

Senator Melcher, noting the sales tax number for December was dramatically low, questioned whether it included on-line sales. Secretary Jordan replied the sales were brick and mortar only and the December sales tax data was actually for November sales.

Chairperson Lynn indicated additional updates from the Department of Revenue may occur, dependent upon the Committee's schedule.

Chairperson Lynn adjourned the meeting at 9:30 a.m. The next meeting is scheduled for January 26, 2016.