

M I N U T E S

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

July 9, 1976

The meeting was called to order by Vice-Chairman Thiessen shortly after 9:00 a.m., with all members except Senators Gaar and Hudson present. Staff present: Bill Edds, Roy Johnson, Richard Ryan, Bob Taylor.

Proposal No. 7 - Mineral Interests Taxation

Staff reviewed a bill, drafted pursuant to Committee instructions at the prior meeting, which would remove mineral leasehold interests (royalty interests taxed as personal property) and mineral interests in real estate from the regular delinquent tax collection procedures and substitute a forfeiture procedure. Sections 1-5 of the draft relate to leasehold interests taxed as personal property and Sections 6-10 to mineral interests in real estate.

Aspects of the subject discussed included effectiveness of the proposed forfeiture procedure in solving some of the problems involved, the relative merits of forfeiture (which would tend to favor the owner of the surface) and tax sales (which give the general public a chance to buy), problems of valuing mineral interests when there is no production, and the issue of possible double taxation.

Property Tax Statistical Reports

Staff reported that the survey relating to inventory valuations would secure valuations of merchants' inventories (regular and service stations) manufacturers, and livestock (feedlots and cow herds). It was not considered feasible to expand the data gathering in view of time requirements. However, as the Property Valuation Division is now having discussions with county officials and preparing its abstracting forms for next year it could arrange to break out additional items that may be useful to future legislatures. After discussion, it was moved by Representative Hineman and seconded by Representative Frey that the Committee request collecting as separate items valuations of business inventories, livestock, and farm machinery. Motion carried.

It also was requested that abstracting of motor vehicle valuations be continued and expanded to separate rural and urban valuations. The possibility of eliminating the July 1 abstract (and expanding the breakdowns in the November 1 abstract) also was discussed but the consensus was that the July 1 abstract be continued.

Proposal No. 6 - Classification of Soils

Dr. Bidwell and Mr. McBee explained and answered questions about a Supplemental Soil Survey Project Proposal prepared at the Committee's request. (Copies are filed in the Committee notebooks.) The proposal would essentially complete mapping of the state by June, 1982, at an estimated cost of about \$1.8 million. Mr. Lyle Clark reported that the Property Valuation Division could use the results as soon as mapping is completed and would not have to wait for publication.

In response to questions: (1) Mr. McBee stated that similar programs in other states have not resulted in a lessening of federal financial support; (2) Mr. McBee stated that for the overall program data is available to show an "astronomical" cost-benefit ratio, but that computation of such a ratio for a four-year acceleration of completion would be difficult; Dr. Bidwell stated that the acceleration of publication costs would be absorbed by the federal government; both Dr. Bidwell and Mr. McBee stated that the proposed addition of personnel a few at a time is within reason in terms of supply of qualified individuals.

When a question was raised as to whom the appropriation should be made if the proposal is approved, Dr. Bidwell expressed a preference for not having it made directly to the University. Mr. McBee stated that the best possibility might be an appropriation to the State Soil Conservation Commission. The staff was instructed to work with Dr. Bidwell and Mr. McBee in checking on how other states have handled the mechanics and developing alternatives for Committee consideration at the next meeting.

Proposal No. 5 - Sales Tax Revisions

Staff reviewed a memo summarizing background pertinent to 1975 H.B. 2526. Mr. Bob King, KDED, read a letter from Mr. Ray Barmby, an investment banker, in support of H.B. 2526.

Mr. Ben Neill, Chief Counsel, Department of Revenue, discussed 1976 H.B. 3057, provided copies of a Fiscal Note Information Sheet thereon, and reported that the position of the Department of Revenue is that the major feature of the bill from the standpoint of the sponsor, the intent of which is to require repairmen to register as retailers, is addressed to what basically is an administrative problem that can be solved through increased auditing without the need of registering some 4,000 to 4,500 contractors as retailers.

Both H.B. 3057 and H.B. 3111 proposed to allow contractors on state projects to buy materials exempt from the sales tax as is now the case with contractors on local and federal government contracts. One explanation for the fact that the same provision has not been adopted for state contracts is that about half their cost is paid from federal matching funds.

Mr. Neill also reviewed provisions of H.B. 3111 relating to 79-3603(p) which imposed a tax on installation, maintenance, servicing and repairing of tangible property, except services rendered in installing property in connection with the original construction of a building or structure, and problems that have developed in the interpretation and application of the section. (Copies of a 1972 AG opinion defining "structure", a memorandum to the 1975 interim committee, and a Shawnee County district court opinion holding subsection (p) unconstitutionally vague and ambiguous were provided.)

Mr. Neill described two problem areas: (1) the distinction made between realty and personalty which created the problems involved in the pending Supreme Court case in which the Shawnee County decision has been appealed; and (2) defining the word "structure". He stated that H.B. 3111 attempted to resolve the first problem by splitting subsection (p) into two subsections, and the second by eliminating the word structure. An alternative to the latter would be to provide a statutory definition of "structure". He also reported an estimated revenue loss of \$6.4 million if the Supreme Court affirms the decision holding subsection (p) unconstitutional.

Staff Reports

Staff reviewed a preliminary report on state general fund receipts in FY 1976, a report on total homestead property tax relief claims paid in calendar years 1971-1975, and a report on claims paid through June 24, 1976. (Copies filed in Committee notebooks.)

Agenda for Next Meeting

It was agreed that the agenda for the meeting on August 6 would include hearings on Proposal No. 5 (Sales Tax) and Proposal No. 7 (Mineral Interests) and consideration of the additional information requested relative to Proposal No. 6 (Soil Classification).

Prepared by Roy H. Johnson

Approved by Committee on:

August 6, 1976
(Date)