

M I N U T E S

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

May 27, 1977

The meeting was called to order by Chairman Simpson at 9:30 a.m., with all members present except Senator Janssen. Staff present: Bill Edds, Richard Ryan, Roy Johnson, Robert Taylor.

Introductory Comments

The chairman stressed the magnitude and complexity of the research proposals before the Committee. He expressed the thought that the Committee should apply whatever time and effort is necessary to thoroughly review the five topics before the Committee and to come up with well researched proposals. He further stated that it was his intent, with the concurrence of the vice chairman, to hold one two-day meeting each month as long as Committee work remained unfinished.

Staff Review of Proposals

Proposal No. 5 -- Taxation of Personal Property. Staff reviewed 1977 legislative activity relating to assessment manuals, taxation of motor vehicles, and farm machinery and taxation of inventories; summarized the results of a recent survey of motor vehicle dealers concerning average personal property taxes per vehicle; noted the recommendation and survey results contained in a 1976 interim study on the merchants inventory tax; and outlined a 1977 Attorney General's Opinion concerning the requirements for listing motor vehicles and mobile homes for taxation. Copies of the staff background memo, Attorney General Opinion No. 77-69, staff memo on taxation of motor vehicle dealer inventories, and the 1976 Committee report on "Proposal No. 4 - Merchants Inventory Tax" are in the Committee notebooks.

Proposal No. 6 - Inheritance Tax. Staff reviewed the available background material on the inheritance tax including the results of prior studies in 1969, 1968, and 1955 and five 1977 bills carried over to the 1978 Session; presented summary tables from a publication by the Advisory Commission on Intergovernmental Relations (ACIR) illustrating comparative death and transfer tax rates and exemptions of the various states; and summarized the major federal estate tax changes in the Tax Reform Act of 1976, including a notation of four areas where a review of the current Kansas law may be warranted. Copies of the staff background memo, the ACIR tables, and the staff summary of the Tax Reform Act of 1976 are in the Committee notebooks.

Proposal No. 7 - Sales Tax. Staff reviewed 1977 legislative activity and other background data relating to increasing sales tax rates, expanding the sales tax base, and the exemption of food and drugs from the sales tax. Copies of the staff background memo and the memo on food and drug exemptions or credits are in the Committee notebooks.

In response to questions from Committee members, staff noted that most income tax credit programs for sales tax paid on food included provisions for a refund where no income tax liability existed, that a $\frac{1}{2}$ cent increase in the state sales tax would generate an estimated \$53 million, and that one state with a credit program had recently shifted to an exemption-type program. Staff also noted that under a credit-type program the administrative costs of exempting food from the sales tax would generally be borne by the state, whereas under an exemption-type program the costs are typically borne by the merchant.

A Committee member noted that an exemption-type program would provide more fuel for a "merchants discount" for collecting the sales tax. Staff commented that approximately half the states with a sales tax provide some form of compensation to merchants for collecting the tax. (As of July, 1976, 23 states provide merchants discounts ranging from 1 percent to 5 percent of total collection. The most common rate is 2 percent.)

The Chairman directed the staff to search for data comparing the costs and benefits of exemption-type programs to credit-type programs. He also requested staff to ascertain why a state shifted from a credit program to an exemption program.

Proposal No. 8 - Income Tax. Staff reviewed background material on conformity with the federal law; including temporary measures enacted by the 1977 Legislature in anticipation of a major change in the federal IRS code; 1977 bills relating to taxation of retirement income, child and dependent care credits, itemizing on the state tax return regardless of federal filing status, and non-revenue uses of the individual income tax; and prior comprehensive studies of the income tax conducted in 1971 and 1969. Other material presented to the Committee included a summary of other states that conform their income tax law to the federal IRS code, the 1976 committee report on Proposal No. 65, "Income Tax Conformity," and a staff summary of the Tax Reduction and Simplification Act of 1977. Copies of these memos are in the Committee notebooks.

In response to a question from a Committee member, Department of Revenue representatives stated that preliminary statistics on 1976 tax returns filed in 1977 might be available in September. However, it was noted that no detailed information on the use of federal child and dependent care credits nor on the new state job expansion and investment credit would be available at that time.

Proposal No. 9 - State Aid to Local Units. Staff reviewed background materials including prior studies, ACIR recommendations for equalizing general state aid to local units, and 1977 bills relating to this subject. A copy of this background memo is in the Committee notebooks.

A Committee member asked if the ACIR had commented in any of its publications on the degree to which states should subsidize inefficient or unnecessary local government operations that are not consistent with statewide policy priorities. Staff responded that the ACIR noted the existence of such problems but offered no recommendations. Staff also noted that any type of general, nonrestricted state aid program (such as general school aid or other existing city/county aid programs) carries the problem of identifying the purpose for which general aid funds are expended.

State-Shared Taxes and State Aids

Staff reviewed in detail the five existing general aid programs and six special or functional aid programs currently authorized. The staff memo is in the Committee notebooks.

State aid to cities and counties for FY 1978 is estimated to be \$70.8 million, or approximately 16 percent of the estimated \$438 million in total state aid payments. Staff noted that schools receive approximately 82 percent of state aid with other local units receiving the remaining 2 percent.

Staff reviewed the population and assessed valuation ratios for the various counties (copy in Committee notebooks), and noted that 32 counties have a population ratio in excess of their assessed valuation ratio.

Committee Meeting Dates

After some Committee discussion the following days were selected for future Committee meetings:

Wednesday	June 29
Thursday	June 30
Thursday	July 28
Friday	July 29
Thursday	August 25
Friday	August 26
Wednesday	September 28
Thursday	September 29
Thursday	October 27
Friday	October 28
Wednesday	November 9
Thursday	November 10

It was moved by Representative Crowell, seconded by Representative Braden, that the Committee request approval from the Legislative Coordinating Council for these dates. Motion carried.

The Chairman stated that the starting time on the first day of each two-day session would be 10:00 a.m., with 9:30 a.m. the starting time on the second day. The Chairman also noted the possibility of requesting additional meeting dates should the Committee's work load necessitate such action.

Establishment of Committee Priorities on the
Nature and Scope of Interim Work

The Committee discussed the relative merits and significance of the various proposals and concluded that due to the complexity of the issues involved, Proposal No. 6 should have the first priority and Proposal No. 8 should have the second priority.

It was moved by Representative Eddy, seconded by Representative Wilkin, that the Committee review Proposals No. 7 and 9 together as the Committee's third priority, since there was some relationship between the elements of each proposal.

On a substitute motion by Senator Sowers, seconded by Representative Braden, it was moved that proposal No. 9 be studied alone as the third priority. Motion Failed. On the original motion by Representative Eddy, Motion carried.

Proposal No. 5 was given fourth priority.

The Chairman noted that the purpose for establishing priorities was to create an agenda for consideration of the proposals and for establishing priorities in the scheduling of the Committees initial meetings. It was not to be considered a reflection of the Committee's feeling toward the merits of the various proposals. The Chairman concluded it was his intent to give each proposal thorough and comprehensive consideration in the time available to the Committee.

Other Staff Reports

Homestead. Staff reported on the current status of the Homestead Property Tax Relief Program. Staff memo is in Committee notebooks.

General Fund. Staff reported on the current status of the State General Fund, which, as of April 1977, was \$5.6 million (0.9 percent) above current revenue estimates. Staff memo is in Committee notebooks.

Next Meeting

The next meeting was scheduled for Wednesday and Thursday, June 29-30, 1977. The agenda will include a presentation from the Department of Revenue, other conferees, and Committee discussion on Proposal No. 6 - Inheritance Tax.

Prepared by Robert L. Taylor

Approved by Committee on:

6-29-77

DATE