Kansas Legislative Research Department November 16, 1977

M I N U T E S

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

November 9-10, 1977

Room 510 - State House

Wednesday, November 9, 1977

Morning Session

The Committee was called to order at 9:30 a.m. by Chairman Simpson. Senator Janssen and Representatives Crowell and Slattery were absent. Staff present: Bill Edds, Roy Johnson, and Robert Taylor.

Representative Braden noted that the minutes did not reflect the full extent of his comments on the current method for valuing used farm machinery. Staff reported that the procedure noted in the minutes outlining the computation of depreciation on used farm machinery had been received from the Division of Property Valuation. Representative Braden requested that this procedure be verified again because the 1977 Valuation Manual for farm machinery reflected different depreciation factors. After some additional discussion the Chairman instructed the staff to report back later after discussing this matter with the Division of Property Valuation. Final approval of the minutes was delayed until the staff could provide this additional information.

The Chairman noted the staff memo dated November 1, 1977, outlining the work remaining before the Committee. He expressed the hope that the majority of the Committee's policy decisions could be made at the current two day meeting so that the meeting on November 21-22 could be devoted to final approval of recommended bills and Committee reports.

Proposal No. 9 - State Aid to Local Units

Staff Reports. Staff reviewed a memo dated November 2, 1977, concerning alternative formulae for distributing state aid to cities and counties (a copy is in the Committee notebooks). This memo summarized two tables. The first table compared the county area per capita distribution of $12.0 million using eight different formulae. The second table compared the current distribution of general state aid to county areas with four alternative formulae for distributing the same relative amount.

Committee Discussion. Several members expressed a preference for distributing general state aid to cities and counties from a unified fund following a formula based 75 percent on population and 25 percent on assessed valuation. Other members felt that taxes levied should be a factor in any distribution formula.

One member noted that: (1) cities and counties are not near to exhausting their local resources already available; (2) cities get the greatest portion of federal revenue sharing funds allocated to Kansas; (3) there is a large differential in the operating efficiencies of local governments; and (4) the state should not subsidize those local governments that are operating with gross inefficiencies.

In response to a question staff noted that 8 percent of estimated Fiscal Year 1978 sales and use tax receipts would be approximately $28.7 million.

It was moved by Representative Wilkin, seconded by Representative Eddy, that the current sources of general state aid to local units (4.5 percent of sales and use tax collections and 100 percent of the domestic insurance company tax (LAVTRF), 25 percent of cigarette tax collections, and 60 percent of liquor enforcement tax collections) be consolidated into one fund and distributed to county area units on the basis of a 75 percent population - 25 percent assessed valuation formula with a grandfather provision using 1977 as the base year. Motion failed. (Tie vote: voting yes - Senators Simpson and Sowers, and Representatives Eddy and Wilkin; voting no - Senator Chaney and Represenatives Braden, Fry and Shelor.)

Several Committee members raised questions about the possible effect of the proposed use value appraisal of farm land on any distribution formula using assessed valuation as a component. It was noted by the Chairman that the earliest possible date for implementing the proposed use value appraisal system for farm land was 1981 and that the matter currently before the Committee concerning state aid to local units was more immediate since something could be done now if it was the Committee's intention to take any action.

Senator Chaney moved, seconded by Representative Wilkin, that, in addition to the current levels of general state aid to local units, 10 percent of sales and use tax receipts be distributed to city and county governments with a county area distribution formula based 75 percent on population and 25 percent on assessed valuation. Motion failed. (Voting yes - Senator Chaney and Representatives Eddy and Wilkin; voting no - Senators Simpson and Sowers, and Representatives Braden, Fry and Shelor.)

Following additional discussion it was moved by Representative Wilkin, seconded by Representative Eddy, that the current three sources of general state aid to local units be replaced by an amount equal to 8 percent of sales and use tax receipts and that this state aid be distributed to county area units by a formula based 75 percent on population and 25 percent on assessed valuation.

Representative Braden having voted on the prevailing side offered a substitute motion, seconded by Senator Sowers, to reconsider Representative Wilkin's earlier motion (to distribute current sources on 75 percent population - 25 percent assessed valuation formula with a grandfather clause). Motion failed. (Voting yes - Senator Sowers and Representatives Braden and Fry; voting no - Senator Chaney and Representatives Eddy, Shelor and Wilkin.)

Senator Sowers moved that the motion be amended to provide that no new money could be added to any revised distribution of general state aid to city and county governments. The motion died for lack of a second.

On the vote on the motion as presented by Representative Wilkin to distribute 8 percent of sales and use taxes, motion carried. (Voting yes - Senators Chaney and Simpson, and Representatives Eddy, Fry and Wilkin; voting no - Senator Sowers and Representatives Braden and Shelor.)

It was the Committee's consensus that there should be no recommendations made in regard to any of the bills relating to increased state aid to local units carried over from the 1977 Session.

The Chairman directed the staff to draft a bill to reflect the Committee's decisions and to prepare a Committee report for review and approval by the Committee at the November 21-22 meeting.

Proposal No. 81 - Solar Energy Tax Incentives

Staff reviewed the changes in the Committee report requested by the Committee at the last meeting. Several members of the Committee felt that the income tax insulation deduction should be allowed to anyone who insulates an existing dwelling and that contractors who remodel existing dwellings should be able to use the deduction.

Representative Braden moved, seconded by Representative Fry, that the bill be revised to allow contractors who insulate existing dwellings held for resale to qualify for the deduction. Motion carried.

After additional Committee discussion the staff was instructed to work with the Revenue Department in drafting the necessary language. Final approval of the bill drafts and the Committee report was delayed until later.

Proposal No. 5 - Personal Property Tax

Staff reviewed the changes in the Committee report requested by the Committee at the last meeting. The staff was requested to make several changes in the bill draft on page 2 relating to the procedure followed by the Property Valuation Division in computing the depreciation of farm implements for property valuation purposes. Final approval of the Committee report was delayed until later.

Staff reviewed the changes in the bill draft (requiring all counties to list motor vehicles for property taxation from data on vehicle registration documents) requested by the Committee at the last meeting. After some discussion it was moved by Representative Wilkin, seconded by Representative Braden, that the bill draft be favorably recommended to the Legislative Coordinating Council to be prefiled for introduction in the 1978 Session. Motion carried.

Afternoon Session

The Committee was called to order by the Chairman at 1:30 p.m. Absent were Senator Janssen and Representatives Crowell and Slattery.

Hearing on Proposal No. 7 - Sales Tax

The Kansas League of Women Voters (LWV) urged the Committee to adopt a point of purchase exemption for sales of food, rather than a refundable income tax credit, and to off set the cost of this action by raising the state sales tax rate to 3.5 percent. The LWV also suggested that the Committee consider a revenue source other than the sales tax (such as the income tax) if additional revenue is needed for an expansion of the Homestead Property Tax Relief Program.

The Kansas Association of Commerce and Industry (KACI) suggested that additional revenues for an expansion of any state program be derived from sales or income taxes. However, KACI noted that its members preferred a refundable income tax credit as the means for providing sales tax relief for tax paid on sales of food. KACI representatives noted that a sales tax proposal offered for the Committee's consideration in Proposal No. 5 (which would increase the state sales tax to 4 percent, eliminate the sales tax on food and the personal property tax on merchants, manufacturers, and livestock inventories, and reduce the sales tax rate on sales of farm machinery, farm machinery parts and associated labor to 1 percent) was being reviewed by the organization's board of directors and that meanwhile it constituted only a proposal for discussion purposes and not an official KACI recommendation.

The Kansas Food Dealers Association (KFDA) urged the Committee to consider a refundable income tax credit rather than a point of purchase exemption for providing relief for sales tax paid on sales of food. KFDA reported that currently retail grocers must expend an amount equal to 3 percent of the sales tax collected to account for and remit the sales tax to the state. Providing a point of purchase exemption for food would, in the opinion of KFDA, place an unreasonable burden on retail grocers by, in some cases, doubling the grocers' administrative expenses. If the Committee were to seriously consider a point of purchase exemption, the KFDA recommended that retail grocers be allowed a discount on taxes collected and remitted to the state to offset these additional administrative expenses.

The Brotherhood of Railway and Airline Clerks (BRAC) urged the Committee to consider a point of purchase exemption of food from the sales tax. It was noted that elimination of the sales tax on food would make this tax non-regressive. To offset the reduced revenues BRAC recommended an expansion of the sales tax base to include other currently non-taxable, professional services and an increase in the state tax rate to 4 percent. Coupled with the state tax rate increase was a recommendation to eliminate the local option sales taxes and a proposal to distribute the excess state collections to city and county governments (similar to S.B. 161 and H.B. 2273).

The Kansas Farm Bureau (KFB) did not make a specific recommendation. However, the KFB did provide information on the sales tax rate for farm machinery in other states and a preliminary summary of the results of a questionnaire sent to the various county policy chairmen. According to KFB data, sales of farm machinery is exempt from the sales tax in 16 states and it is taxed at a reduced rate in 10 other states. In addition, KFB membership seems to be overwhelmingly against increasing the sales tax to expand the Homestead Property Tax Relief Program, increasing state aid to local governments or exempting food from the sales tax.

In response to a question from the Committee, Mr. Blythe noted that, typically, the county policy meetings were attended by 10 to 25 persons.

Proposal No. 81 (continued)

Staff reviewed a bill draft that would: (1) change the initial certification date under the Solar Energy Property Tax Rebate Program from 1978 to 1979; and (2) establish a procedure for recoupment of fraudulent or excessive claims under this program.

It was moved by Representative Fry, seconded by Representative Wilkin, that the bill draft be favorably recommended to the Legislative Coordinating Council to be prefiled for introduction in the 1978 Session. Motion carried.

Staff reviewed a second bill draft that amended K.S.A. 79-32.117(c)(xi) to provide the insulation income tax deduction whenever an existing dwelling is insulated (page 2). A technical amendment also changed the term "energy" to "heat" on page 3. After some Committee discussion it was moved by Representative Braden, seconded by Representative Wilkin, that the draft be amended to add the language "existing on July 1, 1977," and following the term "dwelling or dwellings" on page 3. Motion carried.

Representative Braden moved, seconded by Representative Eddy, that the bill draft, as amended, be favorably recommended to the Legislative Coordinating Council to be prefiled for introduction in the 1978 Session. Motion carried.

It was moved by Representative Braden, seconded by Representative Fry, that the Committee report be approved for submission to the Legislative Coordinating Council, subject to an amendment to reflect the change to the bill draft noted above, and that the report be submitted to the Chairman for his approval of said revision prior to submission to the Legislative Coordinating Council. Motion carried.

Proposal No. 5 (continued)

Staff reported that upon checking with the Division of Property Valuation, those persons who could discuss the procedure followed in computing depreciation tables for the purpose of valuing farm implements and machinery were out of the office and would not return until the next week. However, staff did report it had been learned that while the original list price is used as the starting point for determining a value for farm implements and machinery, the depreciation amount is computed from the current price of new machinery, and that perhaps this factor could explain the apparent confusion between the Division's earlier response (discussed above in conjunction with the approval of the minutes) and the material in the valuation manuals. Staff promised a more complete report at the next meeting. In further discussion of the bill draft, staff suggested: (1) a modification in the bill draft on page 2 which would strike the language in the third paragraph, "According to the Division of Property Valuation, depreciation is computed on a 10 year straight line basis with a minimum value established as 10 percent of original cost"; (2) change the language of the third paragraph by replacing the term "original cost" with "original list price"; and (3) change the language in the third paragraph by replacing the phrase "in comparison to" with "while decreasing the personal property taxes of."

It was moved by Representative Fry, seconded by Senator Chaney, that the revisions as drafted by the staff be adopted and that the bill draft, as amended, be favorably recommended to the Legislative Coordinating Council to be prefiled for introduction in the 1978 Session. Motion carried.

Proposal No. 6 - Inheritance Tax

Staff reviewed the changes requested by the Committee in the bill draft and Committee report. As a point of clarification it was requested by several Committee members that all references in the Committee report draft referring to "no tax estates" be changed to "non-taxable estates".

The Chairman noted that it would be helpful if the Committee could have input from the Bar Association Tax Section prior to final approval of this bill draft. The staff was instructed to arrange a meeting for the week of November 14th and to report any comments and recommendations of the Bar Association Tax Section to the Committee at its November 21-22 meeting.

There was a short discussion concerning a possible revision of the bill draft that would clarify who is liable for the inheritance tax and who should file a return. It was noted that, while this question is a problem under the current law, this would be a good time to attempt to clarify this part of the law.

A question was raised by a Committee member about new Section 27 and why insurance proceeds are included in the gross estate for the purpose of prorating expenses and deductions. The Committee was informed that this is the way the current law is administered and new Section 27 merely codifies existing procedures.

Thursday, November 10, 1977

Morning Session

The Chairman called the Committee to order shortly after 9:00 a.m. Senators Janssen and Sowers and Representative Slattery were absent. Staff present: Bill Edds, Richard Ryan, Roy Johnson, and Robert Taylor.

Proposal No. 9 (continued)

Staff requested additional technical clarification on several points concerning the Committee's action of the previous day.

Representative Eddy moved, seconded by Representative Wilkin, that 55 percent of all general state aid distributed to county areas under the Committee's previous action be used for property tax reduction as is now done under the LAVTRF. Motion carried. (Representatives Crowell and Shelor voted no.)

It was moved by Representative Wilkin, seconded by Representative Braden, that the remaining 45 percent of general state aid distributed to county areas under the Committee's previous action be distributed - 50 percent to the general fund of the county government and 50 percent to the general fund of the various city governments based upon the proportion each city's population bears to the total population of all cities in the county. Motion carried.

It was moved by Representative Eddy, seconded by Representative Wilkin, that 100 percent of the Domestic Insurance Companies Privilege Tax be deposited to the state general fund (previously this had gone into the LAVTRF). Motion carried.

Several members expressed the desire that the minutes reflect the position that the Committee was not, by these actions, voting to take away anything local governments are currently receiving in the form of general state aid. Representative Braden stated specifically that he was not voting to take away the various local governments' current share of cigarette tax and liquor enforcement tax revenues, and that these amounts were being replaced by an equivalent increase in sharing from sales tax revenues.

Following a brief discussion on possible distribution dates, the staff was directed to develop alternatives for the Committee's consideration when preparing the bill draft.

Proposal No. 7 (continued)

In a discussion of possible amendments to the sales tax law, several members argued that the Committee should exempt food from the sales tax on humanitarian grounds in that such a move would make the sales tax less regressive. Other members argued that the real problem for lower income persons was not the sales tax but inflation, which the state is powerless to control, that to eliminate the sales tax on food would not solve this basic problem of inflation, but would eliminate the only tax that many lower income persons pay.

Representative Eddy moved, seconded by Representative Wilkin, that the sales tax be eliminated on sales of food (point of purchase exemption) and that the state sales tax rate be raised to 3.43 percent to offset the cost of such action.

After some additional discussion, a substitute motion was offered by Representative Wilkin, seconded by Representative Eddy, that: (1) the sales tax be eliminated on sales of food (point of purchase exemption); (2) the sales tax on farm machinery, and farm machinery repair parts and services be reduced to 2 percent; and (3) the state sales tax rate on all other items be raised to 3.5 percent to offset the cost.

Senator Chaney requested a division of the question. The Chairman ruled that the question was divisible and that there would be a separate vote on each of the three parts of the motion.

On the question of exempting food from the sales tax (point of purchase exemption), the motion failed due to a tie vote. (Voting yes - Senators Chaney and Simpson and Representatives Eddy and Wilkin; voting no - Representatives Braden, Crowell, Fry and Shelor.)

There was some discussion on whether the Committee should vote on the two remaining questions. The Chairman ruled the Committee would vote on the two remaining questions. Representative Eddy appealed the decision of the chair. On the question to sustain the chair, motion carried.

On the question of increasing the state sales tax to 3.5 percent, motion failed.

On the question to reduce the sales tax rate on sales of farm machinery and farm machinery repair parts and services, motion failed due to a tie vote. (Voting yes - Representatives Braden, Crowell, Fry and Shelor; voting no - Senators Chaney and Simpson, and Representatives Eddy and Wilkin.)

On the original motion by Representative Eddy, motion failed due to a tie vote (voting yes - Senators Chaney and Simpson, and Representatives Eddy and Wilkin; voting no - Representatives Braden, Crowell, Fry and Shelor.)

Representative Eddy moved that the state sales tax be raised to 3.25 percent with all of the increased revenues being distributed to city and county governments. Motion died for lack of a second.

Representative Eddy moved that the state sales tax be raised to 3.1 percent with the increase in revenues being used to fund an expanded Homestead Property Tax Relief Program. Motion died for lack of a second.

Representative Wilkin stated that, while she favored many of the potential expanded uses of additional sales tax revenue, she would not vote to increase the state sales tax rate until food is exempted from the tax.

Since there was no apparent support for any further action on this proposal the Chairman directed the staff to prepare a Committee report reflecting the input to the Committee and the Committee's deliberations and to report that the Committee makes no recommendation on this proposal.

Afternoon Session

The Chairman called the Committee to order at 1:30 p.m. Absent were Senators Janssen and Sowers, and Representative Slattery.

Proposal No. 8 - Income Tax

The Department of Revenue reported that it would not be possible to report on the Committee's request for information on the fiscal impact of adopting a uniform policy for taxing retirement income until the November 21-22 meeting, and that only a partial report was possible on the Committee's request for information on the fiscal impact of going to a flat rate standard deduction.

The Department noted its earlier estimate that adopting a flat rate standard deduction equal to the federal amounts ($3,200 joint, and $2,200 single) would reduce income tax receipts by about $14.0 million annually. While adopting the federal standard deduction amounts would result in a tax decrease for most persons currently using the standard deduction. The Department reported that it would also result in a tax increase for all single persons with incomes above $13,750 who had to use the standard deduction.

The Department reported that if Kansas adopted a flat rate standard deduction amount of $2,400 for joint returns and $2,100 for single returns the result would mean: (1) a moderate tax increase for approximately 150,000 taxpayers (with single return income above $13,125, joint return income above $15,000, who would be required to use the standard deduction); (2) a small tax decrease for approximately 530,000 taxpayers (with single return income below $13,125 and joint return income below $15,000 who would receive a slightly higher standard deduction); (3) no change in tax liability for appproximately 152,000 taxpayers who would still itemize; and (4) a revenue deduction of approximately $5.0 million annually.

The Department reported that it was compiling data on the effect of a $2,200 joint and $2,000 single deduction, and that it was anticipated such a level of standard deductions would possible result in no significant revenue changes, but about the same tax shifts as noted above. This additional data, the Department noted, would be available at the November 21-22 meeting.

Several members of the Committee asked why the current $400 differential between the joint and single standard deduction amounts was not maintained in the Department's examples. The Department replied that it represented a bias towards equalizing the tax burdens of single persons and married couples.

When asked what a moderate increase in tax liability was, the Department responded that if a joint taxpayer with $17,500 adjusted gross income (the maximum income under the current percentage method, or $2,800 ÷ .16 = $17,500) used the standard deduction, a flat rate of $2,400 would mean a tax increase of $20 assuming four exemptions and a marginal tax rate of 5.0 percent ($400 x .05 = $20). A single taxpayer with an adjusted gross income of $15,000 ($2,400 ÷ .16 = $15,000) using the standard deduction would experience a tax increase of $30 ($400 x .075 = $30).

The Committee discussed the possibility of retaining the current percentage standard deduction with its minimum and maximum amounts. Several members expressed a reluctance to increase taxes for taxpayers in the middle ranges even if it did mean tax simplification and a small tax decrease for those persons with lower incomes and no change for those persons who itemize. The Department stated that not adopting a flat amount would result in a significant increase in errors on tax returns due to the additional computation, and that would significantly increase the workload of the Department and delay the processing of returns.

When asked about the problems inherent in returning to an optional tax table concept to reduce return preparation errors, the Department responded that it would be easier to prepare such tables now to include the general tax credit. However, the Department noted that it would still not be possible to account for other credits when computing the federal income tax in the preparation of the tables. When asked if it would be possible to compute the federal tax by another method which would incorporate the federal credits, the Department responded that such an alternative would probably end up being more complicated than the percentage standard deduction method.

After additional discussion on other alternatives, Representative Braden (having voted on the prevailing side) moved, seconded by Representative Crowell, to reconsider the action of August 25, 1977 when the Committee voted to set the Kansas standard deduction at a flat rate amount equal to the federal standard deduction amounts. Motion carried. (Senator Chaney and Representative Shelor voted no.)

When reconsidering the August 25 action a substitute motion was offered by Representative Braden, seconded by Representative Wilkin, to set the flat rate Kansas standard deduction amount at $2,300 for joint returns, $1,900 for single returns, and $1,250 for married filing separately. After additional discussion concerning the additional taxes this action would put on those persons in the middle income ranges, the motion failed. (Voting yes - Representatives Braden and Wilkin; voting no - Senator Chaney and Representatives Crowell, Eddy, Fry and Shelor.)

A substitute motion was offered by Representative Braden, seconded by Representative Wilkin, to maintain the current percentage standard deduction method at 16 percent of Kansas adjusted gross income with a minimum and maximum range of $2,100 to $2,800 for joint returns and $1,700 to $2,400 for single returns. After some discussion concerning the desire by some members to review other flat rate standard deduction alternatives, the motion carried. (Senator Chaney voted no.)

Following additional discussion on the confusion and taxpayer errors that could result from a percentage standard deduction method, the Committee requested the Department to present an estimate of the fiscal impact of adopting a flat rate standard deduction of $2,400 for joint returns and $1,900 for single returns in addition to the other material the Department is to provide.

Agenda for November 21-22 meeting

Review of bill drafts and final approval of Committee reports for Proposal No. 6 - Inheritance Tax, Proposal No. 8 - Income Tax, and Proposal No. 9 - State Aid to Local Units, and final approval of the Committee report on Proposal No. 7 - Sales Tax.

Prepared by Robert L. Taylor

Approved by Committee on:

11/21/77
(date)

RLT/dmb