

Approved January 12, 1983
Date

MINUTES OF THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Representative Jim Braden at
Chairperson

9:00 a.m. ~~XXXX~~ on January 11, 1983 in room 5195 of the Capitol.

All members were present ~~except~~:

Committee staff present:

Wayne Morris, Research Department
Tom Severn, Research Department
Don Hayward, Revisor of Statutes' Office
Nancy Wolff, Secretary to the Committee

Conferees appearing before the committee:

The meeting was called to order by the Chairman who introduced the members of the staff. He then requested the members of the committee to introduce themselves and tell a little of their background.

Richard Ryan, of the Legislative Research Department, distributed a report prepared by the Research Department on the State General Fund--The Financial Problem (Attachment I). The presentation was then opened for questions from the committee.

Wayne Morris of staff made a presentation on the current status of inheritance tax laws in the State of Kansas. (Attachment II)

The meeting was adjourned.

HOUSE TAX COMMITTEE

State General Fund -- The Financial ProblemIn Millions of Dollars

<u>Fiscal Year</u>	<u>Total Receipts</u>	<u>Increase</u>		<u>% Incr. Expenditures</u>
		<u>Amount</u>	<u>Percent</u>	
1977	\$ 776.5	\$ 75.3	10.7%	16.5%
1978	854.6	78.1	10.1	3.0
1979	1,006.8	152.2	17.8	14.9
1980	1,097.8	91.0	9.0	15.1
1981	1,226.5	128.7	11.7	13.3
1982	1,273.0	46.5	3.8	6.0
Est. 1983	1,304.0 ^a	31.0	2.4	
Est. 1984	1,419.4 ^a	115.4	8.9	

- a) Does not reflect acceleration of receipts, as proposed by the Governor, from income tax withholding and from sales and use taxes.

Receipts in FY 1982 were \$47 million below the last revised estimate. The current estimate of receipts in FY 1983 is nearly \$151 million less than estimated after the 1982 Legislature adjourned.

Receipts in FY 1983 through December were \$4.1 million above the estimate as revised last November. However, receipts in December included \$4.5 million from state government income tax withholding that normally would have been credited to the General Fund in January. Ignoring that amount would make receipts through December \$439,000 below the estimate.

Compared with the same six months of FY 1982, receipts in FY 1983 through December decreased by \$5.7 million, or 1.0 percent, again ignoring the \$4.5 million of state government income tax withholding deposited in December.

For three consecutive quarters (the last one in FY 1982 and the first two in FY 1983), General Fund receipts were below collections in the same quarter of the previous fiscal year. No such decreases occurred throughout the 1970s or the early 1980s.

Unencumbered cash balances in the General Fund were as follows:

<u>End of FY</u>	<u>Amount (Millions)</u>	<u>End of Month</u>	<u>FY 82 (Millions)</u>	<u>FY 83 (Millions)</u>
1977	\$ 140.4	July	\$ 180.5	\$ 133.3
1978	154.9	Aug.	186.1	130.2
1979	195.9	Sept.	151.1	69.8
1980	183.3	Oct.	138.7	55.3
1981	152.1	Nov.	137.6	54.1
1982	92.4	Dec.	118.9	97.4 ^a

- a) Includes \$65 million certificate of indebtedness issued 12/30/82 as authorized by the State Finance Council.

The problem for FY 1983, i.e., without any remedial action, is shown below:

	<u>Millions</u>
Beginning Balance	\$ 92.4
Receipts (revised consensus estimate)	<u>1,304.0</u>
Total Resources	1,396.4
Expenditures	
As Authorized by 1982 Legislature	1,480.3
Adjustments of Certain Demand Transfers	<u>(2.0)</u>
Total Expenditures	1,478.3
Ending Balance	(81.9)

The state cannot have a negative balance, so the Governor has taken and proposed the following action:

	<u>Estimated FY 83 Savings (Millions)</u>
Phase I of allotments and savings by legislative and judicial branches	\$ 52.0
Defer state aid payments from LAVTRF and CCRSF	18.9
Accelerate receipts from income tax withholding and from sales and use taxes	<u>112.1^a</u>
Total	\$ 183.0

- a) Estimate could change depending on final version of legislation proposed to accelerate receipts.

If the Governor's plan is totally implemented, the balance at the end of FY 1983 would be about \$101 million, not counting any supplemental appropriations made by the 1983 Legislature. If, however, state aid payments are not deferred and receipts are not accelerated, the Governor said he would impose Phase II of the allotments, effective February 1, in an amount to produce a zero balance at the end of FY 1983. The Attorney General has ruled that the allotment system law cannot be used to produce a positive or safe balance at the end of a fiscal year.

Kansas Legislative Research Department
January 6, 1983

MEMORANDUM

Inheritance Tax

Enacted: 1909; repealed 1913; reenacted 1915.

Statutory Citation: K.S.A. Ch. 79, Art. 15.

Administration: Department of Revenue, Division of Taxation.

Tax Base. The tax is imposed on the interests received by beneficiaries from a decedent's estate and is based primarily on the relationship of the beneficiary to the decedent. In this, it differs from the federal estate tax which is based on the total value of the estate regardless of the relationship of beneficiaries to the decedent. Kansas also imposes a "pick-up" tax designed to absorb the maximum state death tax credit allowed on the federal estate tax return.

1978 Recodification. Following interim study in 1977, the inheritance tax law was extensively revised by the 1978 Legislature. The recodification made substantive changes in procedures for computing the tax and for determining responsibility for filing a return and paying the tax, and conformed the Kansas tax to many of the federal definitions concerning what is to be included in the estate for tax purposes.

Major policy changes included increasing the spouse's exemption from \$75,000 to \$250,000 and the exemption for other class A heirs from \$15,000 to \$30,000; conforming to the new federal provision for use value appraisal of farmlands and closely held business property for inheritance tax purposes, but without any recapture provision and with more liberal criteria for qualifying for such treatment; providing for payment of the tax in installments under certain circumstances; and imposing a Kansas pick-up estate tax equal to the federal credit on the new federal generation skipping estate tax.

1982 Amendments. The 1982 Legislature enacted three bills making the following major changes in the tax: H.B. 2732 (Chapter 398, 1982 Session Laws) exempted all property left to a surviving spouse. H.B. 2798 (Chapter 400, 1982 Session Laws) provided that for spousal joint property, the estate of the first spouse to die will include one-half of the value of the property regardless of which spouse furnished the consideration for the property. H.B. 2799 (Chapter 399, 1982 Session Laws) clarified that the "pick-up" tax will apply only in cases where a federal estate tax return (as that tax was amended by the Economic Recovery Tax Act of 1981) is due and payable, and will apply even if there is an exemption from the Kansas inheritance tax.

The tax was further reviewed by the 1982 Special Committee on Assessment and Taxation under Proposal No. 3. That Committee recommended further conformity to federal estate tax law in the area of use valuation of farms and closely held businesses (1983 S.B. 16).

Tax Rates and Exemptions. The rates and exemptions for the three classes of distributees, as amended by the 1982 legislation, are summarized in the following table:

TAX RATES, EXEMPTIONS AND EXCLUSION FOR INHERITANCE
TAX DISTRIBUTEES

Value of Share Above Exemption*		Class A-Children, Lineal Relations		Class B-Brothers and Sisters		Class C- All Others	
		Tax on Col. 1	Rate on Excess	Tax on Col. 1	Rate on Excess	Tax on Col. 1	Rate on Excess
(1)	(2)						
\$ 0	\$ 25,000	\$ 0	1%	\$ 0	3%	\$ 0	10%
25,000	50,000	250	2	750	5	2,500	10
50,000	100,000	750	3	2,000	7.5	5,000	10
100,000	200,000	2,250	4	5,750	10	10,000	12
200,000	500,000	6,250	4	15,750	10	22,000	15
500,000	—	18,250	5	45,750	12.5	67,000	15

*Exemptions

Class A - lineal ancestors and descendants, adopted children, etc., \$30,000 exemption.

Class B - brothers and sisters, \$5,000 exemption.

Class C - all others, no exemption.

Property left to a surviving spouse or to a charity is exempt from the inheritance tax.

Note: Exemptions are prorated when there are assets located outside Kansas. No tax is due on any class if the share is less than \$200, after deduction of the exemptions.

Exclusion

The act was amended in 1980 (K.S.A. 1981 Supp. 79-1545, 1545b, and 1545c) to allow a graduated exclusion from the tax for qualified farm and closely-held business property, if the person filing the return elects the exclusion. Qualified real property valued at less than \$250,000 is completely excluded and that with a value of between \$250,000 and \$835,000 is partially excluded, according to a schedule. Qualifications to obtain the exclusion are the same as those for use valuation, but the exclusion, if taken, is in lieu of use valuation. The exclusion is available to the estates of all decedents dying after December 31, 1980, and before January 1, 1986.

Disposition of Revenue: 100 percent to State General Fund with 5 percent earmarked for transfer to the County Inheritance Tax Fund.

Net Collections (state and county shares) in the last four fiscal years have been as follows:

1982	\$31,607,000	1980	\$26,979,000
1981	29,131,000	1979	19,276,000