Approved April 23, 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.~~/p.m.~~ on April 6, 1983 in room 519-S 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:

Mark Beshears, Department of Revenue
Ron Gaches, Kansas Association of Commerce & Industry
Jerry Courington, Assistant Secretary & Assistant Treasurer
KP & L - Representing Electric Co. Assn. of KS.
Ron Hall, Chief Accountant, Southwestern Bell

The meeting was called to order by the Chairman.

Mark Beshears, Revenue Department, gave the background information on House Bill 2567. (Attachment I) House Bill 2567 would allow 85% of all federal depreciation expense claimed by a subchapter C corporation regardless of the method utilized in determining such depreciation. Presently, Kansas law allows 100% of such depreciation expense.

Ron Gaches, Kansas Association of Commerce & Industry testified that KACI strongly opposes House Bill 2567.

Jerry Courington, Assistant Secretary and Assistant Treasurer of Kansas Power and Light, but representing the Electric Companies Association of Kansas opposed House Bill 2567 as it would raise the price of service and would deter economic growth in their service territory. (Attachment II)

Ron Hall, Chief Accountant for Southwestern Bell, spoke in opposition to House Bill 2567 as it would impact the business climate within the state of Kansas.

Vice-Chairman Representative Ed Rolfs assumed the duties of the chair.

Representative Leach made a motion that Senate Bill 382 be amended by striking new wording in lines 31, 32, and 33. Representative V. Miller seconded the motion.

Representative Braden made a substitute motion to amend Senate Bill 382 by striking the provisions of Senate Bill 382 and amending the language contained in Senate Bill 384 into the bill. Representative Barkis seconded the motion. The motion carried.

Representative Braden made a motion that Senate Bill 382 be reported favorable for passage as amended and Representative V. Miller seconded the motion. The motion carried. Representatives Wunsch, Crowell, and Erne voted "No".

The meeting was adjourned.

DATE: April 6, 1983

GUEST REGISTER

HOUSE

ASSESSMENT & TAXATION
COMMITTEE

NAME	ORGANIZATION	ADDRESS
[illegible]	Empire District Electric Co.	Columbus, Ks
Wm. D. Jennings	KCP&L Co.	K.C., Mo.
Joe Dwigans	Kansas City Power & Light Co.	K.C. Mo.
Mike Stadler	KPL	Topeka, KS
Peggy Brooks	KPL	Topeka, KS
Jerry D. Carrington	KPL	TOPEKA, KS
D. WAYNE ZIMMERMAN	THE ELECTRIC COs ASSOC. OF KS	TOPEKA
Roy D. Shenkel	K.C.P.&L.	Shawnee
Ruth Wilkin	~~Girl Scouts~~	~~Topeka~~
Jim Edwards	KACT	Topeka
JANET STUBBS	HBAK	"
Tim Underwood	KAR	Topeka
[illegible]	S.W. BELL	"
Ron Hall	"	"
Tom Whitaker	Ks Motor Carriers Assn	Topeka
Jerry Conrad	KGE	Topeka
BILL PERDUE	KPL	"
Lon Stanton	Kansas Power & Light Co	Topeka
[illegible]	Kansas Railroad Assn.	Topeka
Jim Maag	Ks Bankers Assoc.	"
[illegible]	KMHI	Topeka

Kansas
DEPARTMENT OF REVENUE
State Office Building
TOPEKA, KANSAS 66625

MEMORANDUM

TO: House Assessment & Taxation Committee DATE: April 6, 1983

FROM: Mark Beshears, Director of Taxation RE: House Bill 2567

House Bill 2567 as proposed would allow 85% of all federal depreciation expense claimed by a subchapter C corporation regardless of the method utilized in determining such depreciation. Presently, Kansas law allows 100% of such depreciation expense. The 15% disallowance would be treated on the Kansas corporate income tax return as an addition modification to federal taxable income. The addition modification would not be recognized in computing the basis of an asset for purposes of determining gain or loss upon its disposition. The provisions of this bill would be applicable to all taxable years commencing after June 30, 1982.

Implementation of this proposal would be expected to yield 15 million dollars in fiscal year 1984.

Since fiscal year 1981, corporate income tax collections in actual dollar receipts and as a percentage of general fund receipts have declined steadily, as illustrated by the following table:

	General Fund Actual Receipts	Corporate Income Tax Receipts	
Fiscal Year	Amount (Millions)	Amount (Millions)	Percentage of General Fund
1979	$1,006.8	$129	12.8%
1980	1,097.8	142	12.9
1981	1,226.5	162	13.2
1982	1,273.0	147 [1]	11.6
1983 (est)	1,258.4	110 [2]	8.7
1984 (est)	1,378.8	120 [3]	8.7

1. $ 7 million ACRS loss
2. $18 million ACRS loss
3. $33 million ACRS loss

Atch. I

A major cause of this decline has been Kansas' conformity with the accelerated depreciation provisions of the Economic Recovery Tax Act of 1981 (ERTA). Specifically, ERTA added an entirely new system, the Accelerated Cost Recovery System (ACRS) which for the first time provides recovery periods for the cost of property which bears no relationship to the period during which the asset is actually used in a business. Prior law used an Asset Depreciation Range (ADR) system which provided that the class life of an asset must reflect the anticipated use life of the class of property in the taxpayer's industry or other group. ACRS applies to new or used tangible depreciable property placed in service after 1980. Property eligible for ACRS is called Recovery Property and is grouped into five recovery period classes:

(i) Three-year property
(ii) Five-year property
(iii) Ten-year property
(iv) 15-year real property
(v) 15-year public utility property

Unlike prior law salvage value is completely ignored so that the entire cost of eligible property may be recovered. Also the method of cost recovery and the recovery periods are the same for both new and used property, eliminating the necessity for segregating new and used property.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), repealed the faster recovery schedules under ACRS prescribed by ERTA for recovery property placed in service in 1985 and 1986. Thus, recovery property placed in service in those years can be depreciated under the currently prescribed accelerated method, which approximates the benefit of using the 150% declining balance method.

Specific revenue losses resulting from the more rapid depreciation allowances are estimated to have been $7 million in FY '82, and to be $18 million in FY '83 and nearly $33 million in FY '84.

States have responded to ACRS in different ways. (See attached table.) Among the states where changes in federal depreciation provisions are automatically accpeted for state tax purposes, some states have passed legislation to reject ACRS and some have allowed only a portion of ACRS. Among the states where the adoption of ACRS is not automatic, some have acted to adopt ACRS and some have allowed a portion of ACRS depreciation. Twenty states have enacted legislation in 1981 or 1982 affecting the application of ACRS for state tax purposes.

As a result of these changes, 24 states and the District of Columbia were generally in conformity with federal depreciation provisions in 1982. (Two of these states have denied ACRS to certain industries.) Ten states allowed a flat percentage of depreciation determined under ACRS or made similar adjustments. Another ten states did not allow ACRS and required that depreciation for state tax purposes be determined under the same rules as before.

House Bill 2567 retains the major portion of any incentive for capital investment associated with the ACRS provisions of the Economic Recovery Tax Act. The method prescribed by House Bill 2567 imposes less burdensome record keeping, reporting and enforcement requirements on business taxpayers and state tax compliance personnel than decoupling from federal ACRS. The total amount of depreciation claimed on federal form 4562 could be simply reduced by 15% and that amount added back to the total federal taxable income for purposes of computing the Kansas tax due. (See attached form 4562.) Corporations could utilize any depreciation method without the need to maintain multiple sets of accounting records.

Mark Beshears

MARK BESHEARS
DIRECTOR OF TAXATION

MB:jc

Attachments

ACRS Allowed	Percentage of ACRS	ACRS Not Allowed
Alabama	Connecticut	Arkansas
Alaska (1)	Florida	California
Arizona	Kentucky (7)	Georgia
Colorado	Maine (6)(9)	New Jersey (6)(7)
Delaware	Minnesota	New York (6)
Hawaii	Ohio (7)	North Dakota (8)
Idaho	Pennsylvania (7)	Oklahoma (6)(9)
Illinois	Tennessee	Oregon
Indiana (2)	Virginia	South Carolina
Iowa	West Virginia	Utah (9)
Kansas		
Louisiana		
Maryland		
Massachusetts (3)		
(Michigan) (4)		
Mississippi		
Missouri		
Montana		
Nebraska		
New Hampshire		
New Mexico		
North Carolina		
Rhode Island		
Vermont		
Wisconsin (5)		
District of Columbia		

(1) Depreciation for oil and gas producers and pipelines is computed on the basis of section 167 of the Internal Revenue Code as that section read on June 30, 1981.

(2) ACRS not allowed in 1981.

(3) ACRS not available to individuals because the personal income tax is based on the Internal Revenue Code existing on November 6, 1978.

(4) No corporation income tax. ACRS allowed for personal income tax. Depreciation not relevant for single business tax.

(5) ACRS not available to public utilities.

(6) ACRS allowed in full in 1981.

(7) ACRS allowed in full for individuals.

(8) Individuals filing the short form may use ACRS because the short form is based on the current Internal Revenue Code.

(9) ACRS allowed in full for individuals and Subchapter S corporations.

Source: Federation of Tax Administrators News

Kansas currently imposes a corporate income tax at the rate of 4.5% on the first $25,000 of taxable income and 6.75% over $25,000. The rate has not changed since 1970.

rm 4562
(Rev. September 1982)
Department of the Treasury
Internal Revenue Service (x)

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545 72
Expires 8/31/
67

Name(s) as shown on return | Identifying number

Business or activity to which this form relates

Part I Depreciation

Section A Election to expense recovery property (Section 179)

A. Class of property	B. Cost	C. Expense deduction

1 Total (not more than $5,000). Enter here and on line 8 (Partnerships—enter this amount on Schedule K (Form 1065)) . . . . .

Section B Depreciation of recovery property

A. Class of property	B. Date placed in service	C. Cost or other basis	D. Recovery period	E. Method of figuring depreciation	F. Percentage	G. Deduction for this year
2 Accelerated Cost Recovery System (ACRS) (See instructions):						
(a) 3-year property						
(b) 5-year property						
(c) 10-year property						
(d) 15-year public utility property						
(e) 15-year real property—low-income housing						
(f) 15-year real property other than low-income housing						
3 Property subject to section 168(e)(2) election (See instructions):						

4 Total column G. Enter here and on line 9 . . . . .

See Paperwork Reduction Act Notice on page 1 of the separate instructions.

Form 4562 (Rev. 9–82)

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TESTIMONY OF JERRY D. COURINGTON
ASSISTANT SECRETARY AND ASSISTANT TREASURER
OF
THE KANSAS POWER AND LIGHT COMPANY
ON HOUSE BILL NO. 2567
BEFORE THE COMMITTEE ON WAYS AND MEANS
APRIL 6, 1983

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS JERRY D. COURINGTON. THIS STATEMENT IS BEING MADE ON BEHALF OF THE INVESTOR-OWNED ELECTRIC COMPANIES DOING BUSINESS IN KANSAS. I AM THE ASSISTANT SECRETARY AND ASSISTANT TREASURER OF THE KANSAS POWER AND LIGHT COMPANY (KPL). IN THAT CAPACITY I HAVE THE OVERALL RESPONSIBILITY OF THE TAXES OF KPL.

IT HAS ALWAYS BEEN OUR POLICY TO OPPOSE LEGISLATION WHICH DISCRIMINATES AGAINST PUBLIC UTILITIES WHICH RAISES THE PRICE OF OUR SERVICE OR WHICH DETERS ECONOMIC GROWTH IN OUR SERVICE TERRITORY. CONVERSELY, WE HAVE ENCOURAGED LEGISLATION WHICH PROVIDES FAIR AND EQUITABLE TREATMENT OF UTILITIES, MINIMIZES THE PRICE OF OUR SERVICE AND ENCOURAGES ECONIMIC GROWTH IN KANSAS. IN OUR OPINION, HOUSE BILL NO. 2567 WOULD PROVIDE FOR HIGHER TAXES FOR UTILITIES AND OTHER CAPITAL INTENSIVE INDUSTRIES, WOULD INCREASE THE COST OF ELECTRICITY AND GAS AND WOULD DISCOURAGE NEW INDUSTRIES FROM LOCATING WITHIN THE STATE. FOR THESE REASONS THE INVESTOR-OWNED ELECTRIC UTILITIES IN KANSAS ARE OPPOSED TO THE PASSAGE OF THIS BILL.

HOUSE BILL NO. 2567 PROPOSES A MODIFICATION TO INCREASE KANSAS TAXABLE INCOME BY 15% OF THE FEDERAL DEPRECIATION DEDUCTION. IN OUR OPINION, THIS PROVISION WOULD PLACE A HEAVIER TAX BURDEN ON INVESTOR-OWNED ELECTRIC UTILITIES AS WELL AS OTHER CAPITAL INTENSIVE CORPORATIONS. THIS OCCURS SINCE OUR PRIMARY TAX DEDUCTION IS DEPRECIATION. IN 1983, THE KANSAS POWER AND LIGHT COMPANY WILL GENERATE APPROXIMATELY $70 MILLION IN TAX DEPRECIATION. PASSAGE OF THIS BILL WOULD MEAN THAT OUR INCOME WOULD BE INCREASED BY $10.5 MILLION AND THUS, OUR STATE INCOME TAXES WOULD INCREASE BY $700,000.

Atch. II

THIS MEANS THAT OUR COMPANY ALONE IN ONE YEAR WOULD BE PROVIDING 5% OF THE GOVERNOR'S PROJECTED $15 MILLION WHICH THIS PROVISION IS EXPECTED TO GENERATE.

SECONDLY, HOUSE BILL NO. 2567 WOULD INCREASE THE COST OF ELECTRICITY AND GAS TO THE CITIZENS OF KANSAS. IT SHOULD BE NOTED THAT IN ITS TRUE SENSE, UTILITIES ARE NOT TAX PAYERS BUT ARE SIMPLY TAX COLLECTORS. PUBLIC POLICY ALLOWS PUBLIC UTILITIES TO RECOVER IN THEIR COST OF SERVICE TAXES WHICH HAVE BEEN ASSESSED UPON THEM. AN INCREASE IN TAXES UPON PUBLIC UTILITIES IS AN INCREASE IN TAXES ON THE CITIZENS OF KANSAS HIDDEN IN THEIR ELECTRIC BILLS. THIS CAN BE A SERIOUS PROBLEM FOR UTILITIES WHICH OPERATE IN MORE THAN ONE STATE, WITH LARGE INVESTMENT IN PLANT IN KANSAS AND ONLY A FEW CUSTOMERS. THESE FEW CUSTOMERS WOULD BE REQUIRED TO ABSORB THE ENTIRE TAX INCREASE FOR THOSE COMPANIES.

FINALLY, WE ARE CONFIDENT THAT PASSAGE OF HOUSE BILL NO. 2567 WOULD BE A DETERRENT TO ECONOMIC GROWTH IN THE STATE OF KANSAS. INDUSTRIES INTERESTED IN LOCATING WITHIN KANSAS CAN ONLY BE DISCOURAGED KNOWING THEY WOULD BE ABLE TO RECOVER ONLY 85% OF THE COST OF THEIR CAPITAL EXPENDITURES. FOR THESE REASONS, THE INVESTOR-OWNED ELECTRIC UTILITIES IN KANSAS OBJECT TO THE PASSAGE OF HOUSE BILL NO. 2567.

SESSION OF 1982

SUPPLEMENTAL NOTE ON HOUSE CONCURRENT RESOLUTION NO. 5030

As Amended by House Committee on Assessment and Taxation

Brief of Resolution*

H.C.R. 5030 would amend Article 11, Section 1 of the Kansas Constitution to classify the property tax system.

The resolution would provide for the following assessment ratios:

Class	Ratio
Class 1(A) - Public utility real property	30%
Class 1(B) - Industrial, commercial, rail transportation, and motor carrier transportation real property	15
Class 1(C) - Agricultural land valued under use valuation	20
Class 1(D) - Agricultural land except property used for residential purposes	6
Class 1(E) - All other urban and rural real property not otherwise classified (primarily residential property)	8
Class 2(A) - Rail transportation and motor carrier transportation personal property, including motor vehicles	15
Class 2(B) - Inventories of merchants and manufacturers and livestock, with 20 percent of such values exempt the first year classification is implemented, and an additional 20 percent becoming exempt for the next four years so that such property is exempt in the fifth and following years	30
Class 2(C) - Public utility personal property, including motor vehicles, industrial and commercial personal property not otherwise classified, including motor vehicles, mineral products and mineral leasehold interests, and all other tangible personal property not otherwise classified	30
Class 2(D) - Mobile homes used for residential purposes	8
Class ~~4~~ 3 - All commercial and industrial and farm machinery. Such machinery is to be valued at its retail cost when new less straight line depreciation over a 10 year period.	15

The resolution would exclude motor vehicles, mineral products, intangibles and grain from the requirement of a uniform and equal rate of assessment and taxation.

If adopted, the resolution would take effect on January 1, 198~~8~~9, or prior to 198~~8~~9 following certification by the Governor that statewide reappraisal has been completed.

Background

Article 11, Section 1 of the Kansas Constitution currently requires that the Legislature "provide for a uniform and equal rate of assessment and taxation" and authorizes the Legislature to classify and tax separately certain classes of personal property.

The resolution was introduced by the 1981 Special Committee on Assessment and Taxation and was supported as a means to minimize the shifts in tax burdens between classes that might otherwise occur after a reappraisal. The Committee also recommended a bill ordering a statewide reappraisal by the 1986 tax year (see H.B. 2611).

* Bill briefs are prepared by the Legislative Research Department and do not expresss legislative intent.

1981 PROPERTY VALUES - STATE TOTALS

Percentage Each Class Bears to Total

	1981 (Minus Farm Mach.)	Uniform & Equal	HCR 5009
Agriculture			
Ag Non-Investment	.3	1.1	.6
Ag Investment	16.1	35.7	19.4
Livestock	1.7	.6	.0
	18.1	37.4	1.4 -farm mach
			.1 -irrigation
			21.5
Commerce and Industry			
Rural Ind. & Com.	1.4	2.9	4.0
Commercial	7.2	7.7	10.5
Industrial	.6	.8	1.0
Recreational	.0	.1	.1
Rural			
Mer. Inventory	.4	.2	.0
Mfg. Inventory	1.4	.5	.0
Office Equipment	.1	.0	.1
Equipment	.9	.3	.5
Urban			
Mer. Inventory	2.6	.9	.0
Mfg. Inventory	1.5	.6	.0
Office Equipment	.6	.2	.3
Equipment	1.8	.7	.9
	18.5	14.9	17.4
Residences			
Urban			
Residences	18.9	24.4	17.8
Multi-Family	2.3	2.5	1.8
Rural			
Homesites	1.2	2.4	1.7
Planned Subdivisions	1.4	2.2	1.6
	23.8	31.5	22.9
State Assessed			
Railroads	1.9	.7	1.0
Other	15.5	5.6	15.2
	17.4	6.3	16.2
Other			
Total Gas & Oil Production	17.1	6.2	16.8
Other	5.1	3.7	5.2
	22.2	9.9	22.0
GRAND TOTAL	100.0	100.0	100.0

Kansas Legislative Research Department
March 23, 1983

82-65/WM