Approved April 22, 1983
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairman Paul "Bud" Burke (Chairperson) at

11:00 a.m./~~p.m.~~ on March 4, 1983 in room 526-S of the Capitol.

All members were present ~~except~~

Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee:

Senator Jack Steineger
Frances Kastner, Kansas Food Dealers' Association
Chuck Mallory, President of Harry's IGA
Rosemary Dunwiddie, Associated Landlords of Kansas
T. C. Anderson, Kansas Society of CPA's
Charles Clinkenbeard, CPA
Ron Gaches, KACI
Janet Stubbs, Homebuilders Association
Tim Underwood, Kansas Association Realtors
Wayne Zimmerman, Electric Co. Ass'n of Kansas
Ben Neill

The chairman recognized Senator Jack Steineger, a sponsor of SB 71, which would amend the state individual income tax rate structure to create two additional tax brackets for taxable income over $25,000 (single) and $50,000 (joint). The current tax rate for all taxable income over $25,000 is 9 percent. (Attachment #1)

The League of Women Voters presented written testimony in support of SB 71.

Senator Angell told the committee he would have extensive amendments on this bill if we pass it.

Senator Johnston moved and Senator Mulich seconded a motion to take whatever procedure is appropriate to move SB 71 to an exempt committee and then refer back to this committee. The motion passed.

Senator Steineger, a sponsor of SB 70, who explained this bill, which would decouple Kansas' corporate tax base from the federal corporate tax base by the disallowance of the accelerated cost recovery system of depreciating capital expenditures by business. (Attachment #2)

The following persons appeared in opposition to SB 70:

Frances Kastner, Kansas Food Dealers' Association, told the committee passage of this bill would place an additional burden on businesses already facing greater financial difficulties than ever before. (Attachment #3)

Chuch Mallory, President of Harry's IGA, said this legislation would work a hardship on retailers, particularly would discourage buying new equipment since there would be no depreciation on equipment, and would increase their accounting costs.

Rosemary Dunwiddie, Overland Park, speaking for the Associated Landlords of Kansas, said this bill affects them as individuals paying taxes on property which is depreciating. ACRS was put into effect at the federal level but the principle of decoupling is something that they as an organization question.

T. C. Anderson, Kansas Society of CPA's, introduced Charles Clinkenbeard, a member of the Association and a practicing CPA, who said the bill would mean a lot of extra work for accountants but will also be an additional burden on the taxpayers because it will be necessary to keep another depreciation schedule. He concurred

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 526-S, Statehouse, at 11:00 a.m.~~xpxm~~. on March 4, 1983

with Senator Steineger's suggestion to change the date in the bill from December 31, 1981 to December 31, 1982, if the legislation is passed.

Ron Gaches, KACI, said this bill would slow the course of economic recovery for Kansas and damage our growing efforts in the area of economic development. Decoupling would have a negative impact on attracting high-tech industries to our state and would encourage Kansas industries to look elsewhere to locate expansions. (Attachment #4)

Janet Stubbs, Homebuilders Association, said their organization opposes the bill for the reasons already stated and this bill definitely would have an adverse effect on home building and real estate.

Tim Underwood, Kansas Association Realtors, said this bill would have a negative effect on the real estate industry and possible developments in housing as well as investments in Kansas.

Wayne Zimmerman, Electric Company Association of Kansas, opposes SB 70 and decoupling from ACRS and would join with others in opposing this legislation.

The League of Women Voters submitted written testimony requesting the committee to consider the loss of revenue to the state resulting from the accelerated depreciation for business property.

Senator Hayden moved and Senator Ehrlich seconded a motion to report SB 70 adversely. The motion carried.

The committee considered SB 68 which provides for a processing tax on natural gas liquids and feedstock. Ben Neill continued his explanation on the plant production, prices and profits of the liquids industry. He said the industry is as much of a "windfall business" as the oil and gas industry and because of the steady demand for natural gas liquids products, they enjoy a profit margin far beyond other industries. (Attachments #5 and #6)

Senator Hayden moved and Senator Angell seconded a motion to report SB 68 adversely.

The chairman expressed concern for the concept of a value added tax and said we do not want to start a precedent of a value added tax. The motion passed.

The committee considered SB 137, optional standard deduction.

Senator Chaney moved and Senator Mulich seconded a motion to report SB 137 favorable for passage. The motion failed to pass.

The committee considered SB 180 which provides for an income tax credit for mileage expense in delivering food to the elderly.

Senator Mulich made a conceptual motion to amend SB 180 to make the legislation apply only to volunteers in nursing homes. Senator Chaney seconded the motion and the motion passed. The fiscal note was $220,000 without the amendment. Senator Mulich moved and Senator Chaney seconded a motion to report SB 180 favorable for passage as amended. The motion failed to pass.

The chairman adjourned the meeting at 12:00 noon. The committee will meet at 11:00 a.m. Monday, March 7. Other bills to be considered at that time will be: SB 181, SB 183, SB 198, and SB 220. SB 71 will be referred to an exempt committee to be referred back

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
MAR. 4			
	Rodney McGraw	5124 Garfield K.C.K. 66102	Murdock
	Ron Gaches	Topeka	KACI
	Michael C. Germann	Topeka	Kans. Railroad Assoc.
	BILL EDDS	"	REVENUE
	Charles Chamberlain	"	KS Soc CPA'S
	T.C. Anderson	"	" "
	Gilbert Green	Topeka	NARFE
	Rosemari S. Dinwiddie	8107 W. 89th St., O.P., Ks	TALK
	Dorothy Stevenson	201 N. 110th Edwardsville Ks.	Observer
	Pat Hubbell	Topeka	Kansas Railroad Assn
	Carol Bondeska	"	DOR
	Janice Marcum	"	"
	[illegible]	Topeka	KAR
	Ruth Wilkin	"	G.S.
	Walter Dunn	"	EKOGA
	Ken Bisby	"	K.L.P.G. Ass'n,
	Frances Kastner	Topeka	KFDA
	CHUCK MALLORY	"	HARRYS IGA
	G.W. EWING	"	S.W. BELL

Attachment #1
#1

REMARKS BY SENATE MINORITY LEADER JACK STEINEGER
ASSESSMENT AND TAXATION COMMITTEE
S.B. 71
MARCH 4, 1983

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO TESTIFY IN FAVOR OF ENHANCING THE PROGRESSIVITY OF THE KANSAS INCOME TAX SYSTEM. SENATE BILL 71 WOULD IMPROVE OUR INCOME BY ADDING TWO NEW BRACKETS, ONE FROM 50,000 DOLLARS TO 100,000 DOLLARS, AND ANOTHER ABOVE 100,000 DOLLARS. THERE WOULD BE NO INCREASES IN THE CURRENT RATES FOR TAXPAYERS BELOW 50,000 DOLLARS.

UNDER THE CURRENT LAW, OUR RATES FLATTEN AT NINE PERCENT FOR ANYONE WITH A TAXABLE INCOME ABOVE 25,000 DOLLARS. IT SEEMS A BIT CURIOUS, WHEN WE LOOK AT THE EXISTING LAW, THAT WE HAVE SEVEN BRACKETS UNDER 25,000, BUT NONE ABOVE. AS DRAFTED, THE BILL WOULD INCREASE THE RATE ABOVE 50,000 DOLLARS FROM NINE PERCENT TO ELEVEN PERCENT--AND ABOVE 100,000 DOLLARS FROM NINE PERCENT TO THIRTEEN PERCENT. THE FISCAL NOTE ON THIS BILL IS 8.9 MILLION DOLLARS FOR FISCAL YEAR 1984. I ALSO SHOULD POINT OUT A PRINTER'S ERROR IN THE BILL ON LINE 65 WHICH RAISES THE SURTAX ON CORPORATE INCOME TAX BY ONE-FOURTH PERCENT. THAT ERROR IS NOT IN THE ORIGINAL BILL, AND THERE'S NO INCREASE IN THE CORPORATE SURTAX.

Atch. 1

STEINEGER/S.B. 71/2

MARCH 4, 1983

BESIDES MAKING THE KANSAS TAXES MORE PROGRESSIVE, WHICH IS ALWAYS A WORTHWHILE GOAL FOR LEGISLATORS, I THINK THIS BILL HAS MERIT FOR OTHER REASONS.

UNDER THE CURRENT FEDERAL ADMINISTRATION'S TAX POLICIES, UPPER-INCOME TAXPAYERS HAVE BEEN GRANTED SUBSTANTIAL TAX CUTS. WHILE BLUE-COLLAR WORKERS HAVE SEEN THEIR UNEMPLOYMENT RATE REACH RECORD HIGHS, TAXPAYERS IN THE UPPER BRACKETS HAVE ENJOYED BOTH SUBSTANTIAL INCOMES AND SUBSTANTIAL INCOME TAX REDUCTIONS. IF THIS LEGISLATURE NEEDS TO LOOK FOR ADDITIONAL REVENUES, AND THERE'S NO DOUBT THAT WE NEED REVENUE, I THINK TAXES ON UPPER-INCOME TAXPAYERS IS AN IMMINENTLY LOGICAL PLACE TO LOOK.

THIS BILL ALSO HAS MERIT FOR AN ADDITIONAL REASON. IF YOU WILL LOOK AT THE ATTACHED CHART, YOU CAN SEE THE PERCENTAGE OF ADJUSTED GROSS INCOME THAT CAN BE WRITTEN OFF--BEFORE TAXES--BY HIGH-INCOME TAXPAYERS. FOR EXAMPLE, IF YOUR ADJUSTED GROSS INCOME IS BETWEEN 25,000 DOLLARS AND 50,000, YOU CAN WRITE OFF ABOUT 46 PER CENT OF YOUR INCOME BEFORE TAXES. BETWEEN 50,000 AND 100,000 DOLLARS--48 PER CENT--AND THE PERCENTAGE KEEPS GOING RIGHT ON UP. IF YOUR ADJUSTED GROSS INCOME IS BETWEEN 100,000 AND 500,000, YOU CAN WRITE OFF 63 PER CENT OF YOUR INCOME, AND ABOVE A MILLION DOLLARS, 69 PER CENT. IT'S OBVIOUS THAT THE HIGHER THE INCOME, THE HIGHER THE PERCENTAGE OF INCOME YOU CAN WRITE OFF AND REMOVE FROM YOUR TAXABLE INCOME.

STEINEGER/S.B. 71/3

MARCH 4, 1983

AS I SAID EARLIER IN THE SESSION IN A DIFFERENT TAX CONTEXT, I BELIEVE THE LEGISLATURE SHOULD TAX THOSE WITH THE ABILITY TO PAY. THIS BILL WOULD ACHIEVE THAT RESULT, AND I RECOMMEND IT FOR YOUR FAVORABLE CONSIDERATION.

THANK YOU VERY MUCH.

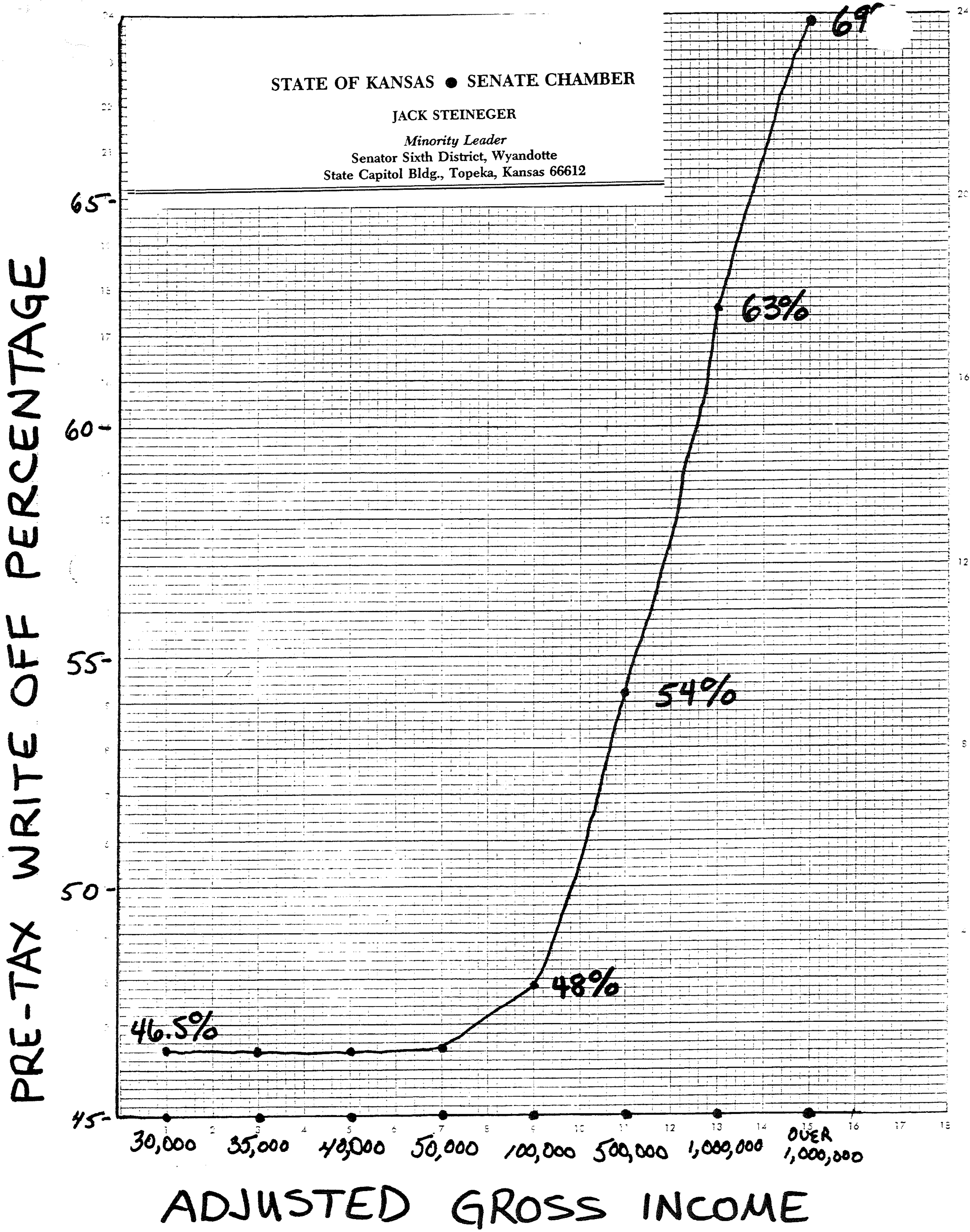
STATE OF KANSAS • SENATE CHAMBER

JACK STEINEGER

Minority Leader

Senator Sixth District, Wyandotte

State Capitol Bldg., Topeka, Kansas 66612



REMARKS OF SENATE MINORITY LEADER JACK STEINEGER
SENATE ASSESSMENT AND TAXATION COMMITTEE
S.B. 70
MARCH 4, 1983

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, SENATE BILL 70 IS WHAT WE COMMONLY KNOW AS THE "DECOUPLING" BILL. AS YOU KNOW, KANSAS IS A CONFORMITY STATE. WHEN THE FEDERAL GOVERNMENT CHANGES THE FEDERAL TAX LAW, KANSAS AUTOMATICALLY CONFORMS.

IN AUGUST 1981, THE CONGRESS PASSED THE ECONOMIC RECOVERY TAX ACT, WHICH INCLUDED A SECTION CALLED ACRS---ACCELERATED COST RECOVERY SYSTEM. IN PRACTICAL TERMS, THE ACRS ALLOWS BUSINESS ASSETS SUCH AS MACHINE TOOLS, TRUCKS OR WAREHOUSES TO BE DEPRECIATED AT A MUCH FASTER RATE THAN UNDER PRIOR LAW.

THIS FASTER DEPRECIATION, IN TURN, CAUSES A LOSS OF REVENUE TO THE KANSAS TREASURY---A LOSS, I MIGHT ADD, DETERMINED BY A POLICY SET IN WASHINGTON BY THE CONGRESS AND NOT IN TOPEKA BY THE LEGISLATURE.

LAST YEAR, A MAJORITY OF THE 44 STATES WITH CORPORATE INCOME TAX ENACTED LAWS TO DEAL WITH THE REVENUE REDUCTIONS FLOWING FROM THE ACCELERATED COST RECOVERY SYSTEM. TWENTY-ONE STATES DISALLOWED THE ACRS. IN OTHER WORDS, THEY "DECOUPLED" FROM FEDERAL TAX CONFORMITY. FOUR OTHERS RAISED THEIR CORPORATE TAX RATE.

Atch. 2

OF THE 21 STATES WHICH DECOUPLED, TWELVE RETAINED PRE-1981 DEPRECIATION SCHEDULES. NINE OTHERS ALLOWED ONLY A SET PORTION OF ACRS TO BE CLAIMED FOR STATE TAX PURPOSES. THIS MARKS A MAJOR CHANGE IN THE TAX POLICIES OF THE STATES. PRIOR TO 1981, CALIFORNIA WAS THE ONLY STATE NOT CONFORMING TO FEDERAL DEPRECIATION PROVISIONS.

THE FINANCIAL IMPACT ON STATES HAS BEEN ACCESSED BY THE N.C.S.L.'S INTERGOVERNMENTAL FINANCE PROJECT. THE REVENUE LOSS FOR KANSAS IS $24 MILLION IN FISCAL 83, $37 MILLION IN FISCAL 84, $48 MILLION IN FISCAL 85, $54 MILLION IN FISCAL 86, AND $51 MILLION IN FISCAL 87---A TOTAL OF $214 MILLION.

I SHOULD NOTE THAT THESE FIGURES ALSO TAKE INTO ACCOUNT THE MITIGATING EFFECTS OF TEFRA---THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982--WHICH REDUCED THE FULL IMPACT OF THE ACRS BY REPEALING PLANNED INCREASES IN DEPRECIATION ALLOWANCES IN 1985 AND 1986.

THE EFFECTS OF THE FEDERAL TAX POLICY HAVE NOT BEEN DIFFICULT TO IDENTIFY IN TERMS OF KANSAS INCOME TAXES. ATTACHED TO MY TESTIMONY IS A TABLE PREPARED BY THE DEPARTMENT OF REVENUE. IN FISCAL YEARS 79, 80, AND 81, THE BASIC SPLIT IN KANSAS BETWEEN INDIVIDUAL AND CORPORATE TAX REVENUES WAS 70-30. INDIVIDUAL INCOME-TAX PAYERS SUPPLIED 70 PERCENT OF THE TAX, CORPORATE-TAX PAYERS 30 PERCENT.

STEINEGER/S.B. 70/3
MARCH 4, 1983

IF YOU WILL LOOK DOWN THE LEFT-HAND COLUMN TO FISCAL 82, YOU CAN SEE THE ACRS SHIFT BEGIN. IN FISCAL 82, OUR USUAL 70-30 SPLIT BECAME 74-26. THIS YEAR IT SHOULD BE 79-21, ALTHOUGH THE DEPARTMENT NOTED THAT CORPORATE TAX COLLECTIONS ARE NOW RUNNING $12 MILLION BEHIND ESTIMATES.

IN FISCAL 1984, IT APPEARS KANSAS WILL HAVE MOVED FROM A 70-30 SPLIT TO 81-19. THAT MEANS THAT INDIVIDUALS WILL BE PAYING A MUCH GREATER PORTION OF THE KANSAS INCOME TAX WHILE CORPORATIONS WILL BE PAYING A MUCH SMALLER PART.

THERE'S ALSO ANOTHER WAY TO LOOK AT THESE FIGURES. THE GROWTH IN TOTAL INCOME TAX REVENUE FROM FISCAL 1979 THROUGH FISCAL 1984 SHOULD BE $250 MILLION---FROM $425 MILLION TO $675 MILLION. OF THIS INCREASE IN REVENUES, 100 PER CENT WILL BE PAID BY INDIVIDUAL TAXPAYERS---NOT CORPORATE TAXPAYERS. IN FACT, CORPORATE TAXES IN FISCAL 84 WILL BE EXACTLY THE SAME AS THEY WERE IN FISCAL 79.

FRANKLY, I DON'T BELIEVE THIS COMMITTEE--OR THIS LEGISLATURE--EVER MADE A DECISION TO CREATE THESE KINDS OF SHIFTS IN KANSAS INCOME TAXES. THE INDIVIDUALS END UP PAYING MORE, CORPORATIONS LESS, NOT BECAUSE OF OUR DECISIONS, BUT BECAUSE WE'RE STILL IN CONFORMITY WITH FEDERAL TAX LAW--AND FEDERAL TAX POLICY.

STEINEGER/S.B. 70/4
MARCH 4, 1983

AS THE COMMITTEE CONSIDERS THIS BILL, YOU MIGHT WANT TO CONSIDER ONE CHANGE. AS DRAFTED, THE BILL WOULD APPLY TO TAX YEARS AFTER 1981. THIS PROBABLY SHOULD BE CHANGED TO 1982. IT WASN'T OUR INTENT TO GO BACK A YEAR.

FOR FISCAL 1984, SENATE BILL 70 WOULD RAISE $38.4 MILLION, AND I SUBMIT TO YOU DECOUPLING MAY BE ONE OF THE FAIREST THINGS WE CAN DO THIS YEAR TO ADDRESS OUR REVENUE NEEDS. WE ALL KNOW OUR REVENUE PROBLEMS. WE ALSO ALL KNOW THE DIFFICULTY THIS LEGISLATURE HAS ENCOUNTERED IN TRYING TO SOLVE THOSE PROBLEMS.

WHEN WE CONSIDER THE SHIFT OF INCOME TAXES ONTO INDIVIDUALS, THEN I THINK IT'S ABSOLUTELY CLEAR THAT DECOUPLING---BRINGING OUR CORPORATE CITIZENS' CONTRIBUTIONS BACK TO REASONABLE LEVEL---MAKES GOOD SENSE.

IT ALSO MAKES GOOD SENSE FOR KANSAS TO TAKE CONTROL OF KANSAS TAX POLICY AND QUIT BEING THE TAX TAIL ON THE FEDERAL DOG. DECISIONS ABOUT KANSAS TAXES SHOULD BE MADE IN TOPEKA, NOT WASHINGTON, D.C.

I BELIEVE A REPRESENTATIVE OF THE DEPARTMENT OF REVENUE IS HERE TO ANSWER ANY TECHNICAL QUESTIONS YOU MIGHT HAVE ABOUT THIS BILL.

THANK YOU VERY MUCH.

		INDIVIDUAL		CORPORATION		TOTAL
FY 79	$	296 million	$	129 million	$	425
Percent		70		30		100
FY 80		328		142		470
Percent		70		30		100
FY 81		387		162		549
Percent		70.5		29.5		100
FY 82 (1)		418		147		565
Percent		74		26		100
FY 83 (est)		475		127 (2)		602
Percent		79		21		100
FY 84 (est)		546		129		675
Percent		81		19		100

(1) A.C.R.S. began to be reflected in collection totals.

(2) While individual collections for FY 83 are on target through February, corporation income tax collections are $12 million below the estimate.

Attachment #? #3

3

Kansas Food Dealers' Association, Inc.

2809 WEST 47th STREET SHAWNEE MISSION, KANSAS 66205
PHONE: (913) 384-3838

March 4, 1983

OFFICERS

PRESIDENT
ROY FRIESEN
SYRACUSE

VICE-PRESIDENT
JOE WHITE
KINGMAN

TREASURER AND SECRETARY
LEONARD McKINZIE
OVERLAND PARK

CHAIRMAN OF THE BOARD
BILL WEST
ABILENE

BOARD OF DIRECTORS

J.R. WAYMIRE
LEAVENWORTH
VIC STANLEY
BLUE RAPIDS
JOHN McKEEVER
LOUISBURG
CHARLES BALLOU
CHANUTE
DONALD CALL
CEDARVILLE
JOE ENSLINGER
WICHITA
BOB BAYOUTH
WICHITA
JOE WHITE
KINGMAN
JOHN DONELAN
COLBY
DELL KLEMA
RUSSELL

DIRECTORS AT LARGE

CHUCH MALLORY
TOPEKA
PAUL DART
GARDEN CITY
BOB KLEIER
WELLSVILLE

AFFILIATE DIRECTOR

BOB MACE
TOPEKA

DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

EXECUTIVE DIRECTOR
JIM SHEEHAN
SHAWNEE MISSION

Senate Assessment & Tax Committee Re: SB 70

The members of the Kansas Food Dealers Association OPPOSE SB 70. As you are well aware, every segment of the business community has been hit because of the economic conditions prevailing throughout Kansas, and the United States.

At a time when when retailers are facing more greater financial difficulties than ever before, are being asked to pay more in unemployment insurance, absorbing the additional cost to pay sales tax and withholding tax on an accelerated schedule, we can NOT revert to the old depreciation schedules without adding yet another burden for our members.

We were in favor of the federally passed accelerated cost recovery system, and delighted when it also applied to the Kansas Income Tax laws. We do not feel that going back to the old method in place for Kansas prior to December 31, 1980 is in the best interests of the State.

More dollars will be lost if a business is so over-taxed that they have to close their doors. I am certain many really small businessmen are just barely hanging on and this might be the final blow if SB 70 is passed.

We respectfully request that you NOT recommend SB 70 for passage. Thank you for the opportunity to appear before you today and if you have any questions, I will be happy to answer them.

Frances Kastner, Director
Governmental Affairs,

3310 SW 7th Street, # 2
Topeka, Kansas 66606

(913) 232-3310

Atch. 3

#4

Attachment #4

#4

Legislative Testimony

Kansas Association of Commerce and Industry

500 First National Tower, One Townsite Plaza Topeka, Kansas 66603 A/C 913 357-6321

March 4, 1983

TESTIMONY BEFORE

SENATE ASSESSMENT AND TAXATION COMMITTEE

REGARDING: SB 70, DECOUPLING FROM ACRS

PRESENTED BY: RON GACHES

Thank you Mr. Chairman for this opportunity to express the concerns of the Kansas Association of Commerce and Industry regarding the provisions of SB 70.

The Kansas Association of Commerce and Industry (KACI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KACI is comprised of more than 3,000 businesses plus 215 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KACI's members having less than 25 employees, and 86% having less than 100 employees.

The KACI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

The Kansas Association of Commerce and Industry is strongly opposed to decoupling the Kansas income tax base from the accelerated cost recovery system provided by the federal Economic Recovery Tax Act of 1981. Decoupling would slow the course of economic recovery for Kansas and damage our growing efforts in the area of economic development. Particularly, decoupling would have a negative impact on attracting high-tech industries to our state and and would encourage Kansas industries to look elsewhere to locate expansions.

Atch. 4

The accelerated cost recovery system is an aid to those industries needing to modernize their industrial machinery and equipment. It is a valuable and necessary government assistance to American industries having to compete against heavily government subsidized industries in other countries and to those companies that have been unable to modernize their manufacturing operations.

The Kansas business community has already agreed to the transfer of $109 million in withholding, sales, and use taxes for this fiscal year; a loss of cash-flow that will never be returned. Also, the business community has agreed to an additional $51.5 million in unemployment compensation taxes to maintain a solvent UC fund. Further revenue will likely be generated by a highly punitive severance tax on the Kansas mineral production industry. Coupled with no relief for the discriminatory property tax situation and a failure to reverse the corporate disallowance for federal taxes, these recent tax policies are dramatically eroding the tax climate on Kansas business.

Voting NO on SB 70 means saying yes to industrial modernization, yes to purchases of new machinery and equipment, yes to reduced unemployment, and yes to economic recovery. Decoupling from ACRS is not a free lunch for Kansas taxpayers. There will be a negative impact that will affect investment and employment decisions.

One final comment. The bill proposes to make changes beginning with the 1982 tax year, requiring the modification of thousands of tax statements filed last year. This type of retroactive tax change is highly punitive and arbitrary and should be avoided at all cost. We urge you to reject SB 70.

LEAGUE OF WOMEN VOTERS OF KANSAS

909 Topeka Boulevard-Annex 913/354-7478 Topeka, Kansas 66612

March 4, 1983

TO: Senate Committee on Assessment and Taxation.
FROM: Marian Warriner, LWVK Lobbyist, State Finance
RE: SB 70, Income tax deduction for accelerated depreciation for business property disallowed.

The League of Women Voters of Kansas is aware of the significant impact of the federal income tax changes on revenue collections in Kansas.

Our members ask that you carefully analyze the loss of revenue to the state resulting from the accelerated depreciation for business property.

Please evaluate the equity of the resultant shift of state tax burdens from corporations to individuals.

Marian Warriner

Marian Warriner, LWVK Lobbyist
State Finance

LEAGUE OF WOMEN VOTERS OF KANSAS

909 Topeka Boulevard-Annex 913/354-7478 Topeka, Kansas 66612

March 4, 1983

TO: Senate Committee on Assessment and Taxation.
FROM: Marian Warriner, LWVK Lobbyist, State Finance
RE: SB 71, in support of increased income tax rates.

The League of Women Voters supports a broad-based tax system with substantial reliance on progressive taxes.

Our top priority, the severance tax, has already been debated and passed by the Senate. According to predicitons, this tax will not provide sufficient revenue to maintain essential programs nor will it produce fiscal solvency for the state.

We support SB 71 which extends brackets with higher rates into upper level income, thereby increasing progressivity of the tax.

Marian Warriner

Marian Warriner, LWVK Lobbyist
State Finance

Ben Neill

#5

Attachment #5

#5

SENATE BILL 68

TESTIMONY

3/3/83

NATURAL GAS LIQUIDS

I. TOTAL PRODUCTION (see Exhibit I)

The most difficult part of evaluating natural gas liquids is to obtain reliable and accurate production and price figures. Each year we go through this exercise, we get smarter and better informed. It is a pleasure to report that this year, because of our extensive efforts to locate each plant in Kansas, and to verify their production, we believe we have the most accurate production figures available. Exhibit I is a summary showing that 21 extraction plants and 3 fractionation plants produced a total of 75.5 million barrels of natural gas liquids in calendar year 1981.

One of the major consultants to the industry, Cancrude Consultants Ltd. of Calgary, Canada, has also published estimates for 1981 production of 75.5 million barrels.

According to Page 29 of the August, 1982, "Short-Term Energy Outlook", published by the Energy Information Administration of the U.S. Department of Energy, and I quote, "The consumption of liquefied petroleum gases (LPG's)--propane, butane, and mixtures thereof--exhibits a highly seasonal consumption pattern, although little year-to-year change (emphasis added). Colder-than-normal weather in the first half of 1982 kept

Atch. 5

consumption at approximately the same as year-earlier levels, despite a weak economy. On an annual basis, assuming normal weather, the consumption of LPG's is projected to average just under 1 million barrels per day in both 1982 and 1983 (emphasis added)". End quote. Because of this national projection of little change from year to year, it was assumed that 1981 Kansas production of 75.5 million barrels will continue for 1982 and 1983.

It is believed that historical production and price figures previously published by Legislative Research and the Geological Survey may be incomplete and not comparable since those volumes probably reflected liquids produced only by extraction plants, from natural gas feedstock, and did not include production from fractionation plants.

II. INDIVIDUAL PLANT PRODUCTION (see Exhibit II)

Exhibit II shows a detailed breakdown of the total production of 75.5 million barrels, by plant.

The total column which is the next to the right-hand column, shows the total of all of the specification products (ethane, propane, iso-butane, normal butane and gasoline), by plant. Three plants have an asterisk by their total, indicating these are fractionation plant production totals. The grand total of specification products is 68.7 million barrels.

The right-hand column shows each plant's production of raw natural gas liquids (NGL) mix which totals 6.8 million barrels. This is the raw material (also known as liquid feedstock) used by fractionation plants to produce the specification products.

A very significant observation should be made. As we saw on Exhibit I, fractionation plants produced 49 million barrels of specification products. However, Kansas extraction plants produced only 6.8 million barrels of their raw material. It therefore appears that the difference, 42.2 million barrels of mixed NGL, was shipped into Kansas plants for fractionation into specification products! This will be discussed in more detail later.

Exhibit II shows the value of production on the last line but this will also be discussed in detail later.

III. PRODUCT PRICES (see Exhibit III)

Opponents of the tax will contend that 1982 was a disastrous year for prices of liquids! And they will be partially correct! For example, because of a glut of propane, primarily in Texas, Mont Belvieu, Texas, the January 1982 price for propane was 35.2% under the January 1981 price! (Texas prices heavily influence Kansas prices.) At the end of the second quarter of 1982, propane prices were still 5.5% lower than 1981! However, by the end of the third quarter, 1982 propane prices had moved 12.6% above September 1981 and by November, a peak sales month, the price was 21.8% above November 1981!

Exhibit III is based on Conway, Kansas, spot prices published by a major purchaser of liquids. This exhibit shows significant price increases in 1982 over 1981 ranging from 7.9% for iso-butane to 28% for propane. Only gasoline decreased (1.7%) from 1981 prices.

IV. <u>WEIGHTED AVERGE PRICE</u> (see Exhibit IV)

Although the processing tax would be levied on the actual price (value) of each specification product, in order to compute a statewide fiscal impact, it was necessary to compute a statewide average price per barrel.

In Exhibit IV, each product's price (as shown in Exhibit III) is shown in the first column labeled "Barrel Price". These product prices were then multiplied by the barrels of production, for both extraction plants and fractionation plants, to obtain the total value. The total values were then divided by their respective total production figures to obtain weighted averages per barrel of $24.93 for extraction plants and $23.82 for fractionation plants.

As was shown on Exhibit II, fractionation plants produce 77% of all ethane produced, which pulls their average down because ethane, at $11.63 per barrel, is the lowest priced product.

The overall average, $24.14 per barrel, was rounded to $24.00 by the consensus estimating committee to compute the fiscal impact.

V. <u>PROFIT PER BARREL</u> (see Exhibit V)

Regardless of what tax opponents may declare, there is an enormous profit in producing liquids.

In the early days, the gas industry was forced to extract some liquids from the natural gas stream because the "wet" gas would clog the pipelines. Over the years, with expanded technology and greater demand for liquid hydrocarbons, the old "necessary evil" of extracting liquids from gas has become one of the most profitable businesses in existence.

Consider the facts! According to the U.S. Department of Energy, it takes 1.428 MCF of gas to produce a barrel of liquid. The 1.428 MCF of gas could have been sold at $1.35 per MCF for a total of $1.93. Instead it has been used to produce a barrel of liquid worth $24.00 or 12.4 times the value of gas. How many (if any) other industries can you think of where raw material is as cheap or the "mark-up" so great?

Exhibit V contains other facts worth considering, such as the extraction/fractionation costs required to produce a barrel of liquid. Three liquids processing plant systems engineers were contacted and the average of their figures was $1.34 per barrel.

The total cost is shown on Exhibit V as $4.29 at extraction plants and $2.07 at fractionation plants. The remaining profit of about $20 per barrel would be considered "ample" by any standard! The reduction in profit attributed to the tax, does not appear to be such a horrendous burden as to destroy the industry.

Tax opponents will say they will pack up and move to another state. I say not likely! Look at the facts. Millions of dollars are invested in extraction and fractionation plants in Kansas. The plants can't be moved! The plants are in Kansas because the natural gas is in Kansas. Some liquids must be removed from the gas before it can enter the pipelines out of Kanss. Kansas is considered the "hub" for both natural gas and natural gas liquids pipelines and extraction facilities. What makes Kansas ideal for extraction and fractionation is its salt dome liquids storage facilities, second only to Texas and Louisiana! Our liquids storage facilities are not going to move either. Opponents may say they will stop importing the estimated 42.2 million barrels of liquid feedstock for fractionation in Kansas. In all fairness they could reduce their imports. However, ask yourself this question: Why are they now importing 42.2 million barrels, and paying additional transportation costs, unless processing and storage facilities elsewhere are inadequate? Ask another question: With a severance tax of 88 cents per barrel and a transportation cost of $1 to $2 per barrel, how much of your imports would you divert?

VI. TAX AS A PERCENT OF PROFIT AND VALUE (see Exhibit VI)

Based on Kansas production of liquids of 75.5 million barrels and an average price of $24.00 per barrel, the total value of Kansas production is $1.8 billion! This is a huge and stable industry! By comparison, total taxable sales of all retail merchants in Kansas in FY 1982 was only $13.6 billion. Imagine! For every $100 of other retail sales or services in Kansas, the liquids industry matches it with $13.20! Since materials and processing costs are so low, the liquids industry's gross profit of $1.6 billion almost equals their gross sales of $1.8 billion.

Exhibit VI shows that the modest 4% tax rate, which would produce FY 1984 revenue of $20.38 million (or $27.17 million on an annual basis), would equate to only 1.5% of total production value of 1.7% of gross profit.

VII. FISCAL IMPACT (see Exhibit VII)

Exhibit VII shows the estimated production and price figures previously discussed, as well as the computational methodology of determining the credits allowed.

In summary, a 4% processing tax rate will produce estimated annual revenue of $27.2 million. Nine months of collections will produce $20.4 million for FY 1984.

VIII. CONCLUDING COMMENT (no exhibit)

One last fact. The state needs the money.

The liquids industry is as much of a "windfall business" as the oil and gas industry. Because of the strong demand for alternate energy sources and steady demand for natural gas liquids products, they enjoy a profit margin beyond the wildest dreams of other industries. That's the key. With a gross profit margin of about 88% of gross sales, they do not appear "about to go under".

I sincerely request your favorable consideration of Senate Bill 68.

ML:JP:mks/C134/1076

Ben Neill

Attachment #6
#6

EXHIBIT I
3/2/83

S.B. 68

Natural Gas Liquids-Kansas Production

Type of Plant(s)-Product	1981 No. of Plants	1981 Est. Total Production (Barrels)
Extraction-Specification Products (1)	11	19,700,000
-Mixed Natural Gas Liquids (NGL)	19	6,800,000
Subtotal Extraction	21(2)	26,500,000
Fractionation-Specification Products Only	3	49,000,000
Total	25	75,500,000
Can Crude Consultants LTD. Estimate	26	75,525,000

(1) Ethane, Propane, Butanes, Natural Gasoline (N.G.)
(2) Nine plants produce both specification products and mixed NGL

Atch. 6

EXHIBIT II

S. B. 68

KANSAS DEPARTMENT OF REVENUE 11/30/82

1981 KANSAS NATURAL GAS LIQUIDS PRODUCTION (Barrels/yr) and VALUE

#Source: CC = Corporation Commission Annual Survey
DR = Dept. of Rev. Phone Call
OGJ = Oil & Gas Journal 7/19/82

COMPANY	PLANT	COUNTY	SOURCE #	ETHANE	PROPANE	ISO-BUTANE	NORMAL OR UNSPLIT BUTANE	GASOLINE	TOTAL	RAW NGL MIX
Alamo Chemical	Elkhart		CC	0	0	0	0	213,857	213,857	0
Amoco	Ulysses	GT	OGJ	0	411,060	99,929	393,667	317,190	1,221,846	0
Anadarko	Cimmaron	SW								
	Interstate	MT								
	Lone Star	SV								
	Woods	SW								
	Total Anadarko		DR	0	125,357	0	0	205,167	330,524	17,286
City Service	Cheney	KM	DR	0	0	0	0	0	0	1,113,249
	Hutchison*	RN	DR	1,456,348	4,980,264	814,655	2,154,889	1,800,826	11,206,982*	0
	Jayhawk	GT	DR	0	0	0	0	0	0	2,605,192
	Midway	KM	DR	0	0	0	0	0	0	322,462
	Spivey	HP	DR	0	216,382	0	58,448	202,055	476,885	0
	Sunflower	SC	DR	0	0	0	0	0	0	1,283,107
	Wichita	SG	DR	0	289,887	0	150,563	135,042	575,492	269,174
	Wilburton	MT	DR	0	0	0	0	0	0	69,167
	Total City Service			1,456,348	5,486,533	814,655	2,363,900	2,137,923	12,259,359	5,662,351
Colorado Interstate	Lakin	KE	OGJ	0	0	0	0	0	0	13,048
Getty	Medicine Lodge		CC	0	38,374	0	20,731	22,812	81,917	0
	Minneola	FO	CC	0	53,078	0	24,245	24,530	101,853	0
	Total Getty			0	91,452	0	44,976	47,342	183,770	0
Mapco	McPherson*	MP	DR	4,554,546	7,848,362	1,590,078	3,975,195	3,422,405	21,390,586*	0
Mesa	Ulysses	GT	OGJ	0	0	0	0	0	0	692,643
Mobil	Hickok	GT	CC	0	22,626	0	0	54,199	76,825	370,071
National Helium		SW	CC	0	1,602,021	0	1,297,783	1,213,802	4,113,606	0
Northern Gas	Bushton Gas Feedstock		CC	4,128,845	5,034,381	585,738	1,417,405	1,323,548	12,489,917	0
	Liquid Feedstock*		DR-CC	7,916,620	4,581,217	788,524	1,493,091	1,647,583	16,427,035*	0
	Total Bushton		DR	12,045,465	9,615,598	1,374,262	2,910,496	2,971,131	28,916,952	0
Northern Natural G	Holcomb	FI	CC	0	0	0	0	0	0	53,373
People's	Johnson	ST	OGJ	0	0	0	0	0	0	7,833
Total Production				18,056,359	25,203,009	3,878,924	10,986,017	10,583,016	68,707,325	6,816,605
Value of Production ($1000)				209,973	591,783	140,819	354,855	361,145	1,658,575	

*Liquid Feedstock Production

EXHIBIT II
3/3/83

EXHIBIT III
3/2/83

S.B. 68

Natural Gas Liquids-Specification Product Prices

	Estimated Prices (1)				
	1981 Per		1982 Per		1982
Specification Product	Gallon	Barrel	Gallon	Barrel	Increase
Ethane	22.50¢	$ 9.45	27.69¢	$11.63	23.1%
Propane	43.70	18.35	55.91	23.48	28.0
Normal Butane	62.38	26.20	76.91	32.30	23.3
ISO Butane	80.08	33.63	86.44	36.30	7.9
Gasoline	82.65	34.71	81.25	34.13	(1.7)

(1) Based on published spot prices, which become posted prices within four to six weeks.

EXHIBIT IV
3/2/83

S.B. 68

Natural Gas Liquids-Weighted Average Price

	Barrel Price	Type of Plant: Extraction* Production	Extraction* Value	Fractionation* Production	Fractionation* Value	Total* Production*	Total* Value
Ethane	$11.63	4.2	$ 48.85	13.9	$ 161.66	18.1	$ 210.50
Propane	23.48	7.7	180.80	17.4	408.55	25.1	589.35
Normal Butane	32.30	3.4	109.82	7.6	245.48	11.0	355.30
ISO Butane	36.30	.7	25.41	3.2	116.16	3.9	141.57
Gasoline	34.13	3.7	126.28	6.9	235.50	10.6	361.78
Total		19.7	$491.16	49.0	$1,167.35	68.7(1)	$1,658.50
Weighted Average Price		$24.93		$23.82		$24.14	
Consensus Estimated Price		$24.00		$24.00		$24.00	

*Millions of barrels and dollars

(1) Raw liquids mix production of 6.8 million barrels excluded because their value is determined after conversion to specification products.

EXHIBIT V
3/2/83

S.B. 68

Natural Gas Liquids-Profit Per Barrel

	Extraction	Fractionation
Weighted Average Value Per Barrel	$24.00	$24.00
Less Cost:		
Natural Gas-1.428 MCF Used @ $1.35	$ 1.93	N/A
Processing Tax-$1.93 @ 7% Rate	.14	N/A
Transportation Cost (Liquids Feedstock)	N/A	.65
Cost Subtotal	$ 2.07	$ .65
Profit Per Barrel-Before Cost of Production and Tax	$21.93	$23.35
Less Extraction/Fractionation Cost	1.34	1.34
Net Profit Per Barrel-Before Tax	$20.59	$21.36
Less Processing Tax (Extraction= 4% of $21.93 and Fractionation= 4% of $2.00)	.88	.08
Net Profit Per Barrel-After Tax	$19.71	$21.28

EXHIBIT VI
3/2/83

S.B. 68

Natural Gas Liquids-Tax as Percent of Profit and Value

	Before Tax	Gross Profit		After Tax	
	Total Production*	Per Barrel	Total*	Per Barrel	Total*
Extraction	19.7	$20.59	$ 405.62	$19.71	$ 388.29
Fractionation	55.8(1)	$21.36	1,191.89	21.28	1,187.42
Total	75.5		$1,597.51		$1,575.71

Processing Tax (12 months)	$ 27.17
Tax as Percent of Gross Profit	1.70%
Total Value of Production (75.5 x $24)	$1,812.00
Tax as Percent of Production Value	1.5%

*Millions of barrels or dollars.

(1) Includes 6.8 million barrels of mixed natural gas liquids assuming ultimate conversion to specification products.

JP:1/1076/SB68A

EXHIBIT VII
3/3/83

DEPARTMENT OF REVENUE
COMPUTATION OF FISCAL IMPACT

NATURAL GAS LIQUIDS:	FY 1984
PRODUCTION EXTRACTED FROM GAS (Extraction and Processing Plants)	26,500,000 * Barrels
@ Weighted Avg./Bbl.	x $24.00 *
Gross Value	$ 636,000,000
Less Nat. Gas Credit for Shrinkage and Tax	− 54,662,769 1/
Taxable Value	$ 581,337,231
COLLECTIONS	
@ 1% Tax Rate	$ 5,813,372
@ 4% Tax Rate	$ 23,253,488
Nine Months at 4%	$ 17,440,116
PRODUCTION EXTRACTED FROM LIQUIDS (Fractionation Plants)	49,000,000* Barrels
@ Weighted Avg./Bbl.	x $24.00
Gross Value	$1,176,000,000
Less Liquids Cost Credit (no shrink)	-1,078,000,000 2/
Taxable Value	$ 98,000,000
COLLECTIONS	
@ 1% Tax Rate	$ 980,000
@ 4% Tax Rate	$ 3,920,000
Nine Months at 4%	$ 2,940,000

SUMMARY OF COLLECTIONS	FY 1984
From Natural Gas	$ 17,440,116
From Liquids Feedstock	2,940,000
Total	$ 20,380,116

1./Shrinkage = 3%* or 1.428 MCF/Barrel produced; therefore, 26,500,000 barrels x 1.428 MCF x $1.35/MCF x 1.07 = 37,842,000 MCF shrink x $1.35/MCF x 1.07 = $54,662,769

2./Estimated at $22* per barrel which includes cost of liquid feedstock and severance tax: 49,000,000 x $22 = $1,078,000,000

*CONSENSUS ESTIMATES, 12/1/82

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