

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATIONThe meeting was called to order by Senator Paul "Bud" Burke at
Chairperson11:00 a.m./p.m. on January 24, 1984 in room 526-S of the Capitol.All members were present except: Senator Mulich (Excused)Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee:

Ernie Mosher, League of Kansas Municipalities
Buford Watson, City Manager, Lawrence
Fred Allen, Kansas Association of Counties
Janet Stubbs, Homebuilders Association
Harley Duncan, Secretary of Revenue
John Myers, Policy Analyst, Budget Dept.
Bryan Whitehead, BRAC
Ron Calbert, UTU
Leroy Jones, BLE
Ron Gaches, KACI
Dr. Bill Curtis, KASB
Craig Grant, KNEA

A hearing was held on SB 464 which pertains to the redemption period for real estate sold for delinquent taxes.

Ernie Mosher, League of Kansas Municipalities, appeared in support of SB 464 but with a proposed amendment. He noted this bill is similar to a 1983 HB 2011 which had been killed by this committee last year. He said this bill changes the tax redemption foreclosure period from the existing three years to one year except for homestead property. He stated the proposed amendment as applied to real estate would narrow the application to vacant land on which there are delinquent special assessments. (Attachment #1)

Buford Watson, Lawrence City Manager, outlined a specific problem they have which occurs when there is an economic downturn in the housing market after developers have signed up to develop a sub-division and then can no longer pay their special assessment. Most of their delinquency problem is on vacant property. At the present time the law provides for a three-year redemption period for delinquencies, but actually it is three years and ten months. All their property taxpayers have to bear increased taxes to pay for these special assessments, and he would like to shorten the period to eliminate the city paying all the extra interest. Also, the developers sell the property and walk away from their obligation making it impossible to collect the special assessment. He encouraged the committee to consider the amendment proposed by Ernie Mosher.

Fred Allen, KAC, spoke in support of the proposed amendment to SB 464.

Janet Stubbs, Homebuilders Association, told the committee that although they do not condone not paying your taxes, she does have a concern over changing the redemption period to one year. She noted HB 2011 had been amended to a two-year provision. She feels the economy has changed considerably, but the problem was due to the economic downturn, and both the developers and the city fathers had thought the economy was going to continue at a fast pace and both should share in the responsibility for what has happened. Their position is that it is preferable to leave the redemption period at three years, but they would urge the committee to at least consider the two-year change.

CONTINUATION SHEET

MINUTES OF THE SENATE _____ COMMITTEE ON ASSESSMENT AND TAXATION _____,

room 526-S, Statehouse, at 11:00 a.m./p.m. on January 24, 1984

The committee held a hearing on SB 470 which would provide for a local option school district individual income tax.

The chairman recognized Harley Duncan, Secretary of Revenue, who told the committee that the bill has serious flaws from both a tax policy and technical standpoint and urged rejection of SB 470. (See Attachment #2)

John Myers, Budget Dept., spoke in support of the Secretary of Revenue's stand and on behalf of Governor Carlin. He stressed three points of conflict with the bill: 1) the basic tax philosophy issue of local options; 2) the fact that we do have a responsibility to fund education; and 3) the question of equalization. He said the Governor opposes SB 470.

Bryan Whitehead, BRAC, speaking in opposition to SB 470, told the committee that authorizing the levy of individual income taxes by school districts clearly is in conflict with the Kansas Constitution and the intent of the legislature. (Attachment #3)

Ron Calvert, UTU, and Leroy Jones, BLE, spoke in support of Bryan Whitehead's statement and in opposition to SB 470.

Ron Gaches, KACI, stated they oppose this proposal because of the corporate income tax increases that could be triggered by adoption of the local-option income tax in a qualifying number of school districts. He said this could result in corporate income tax increases not directly approved by the Kansas Legislature and the timing of such increases would be out of the control of the legislature and could occur when a corporate income tax increase could have a severe negative impact on the Kansas business climate. (Attachment #4)

Dr. Bill Curtis, KASB, spoke in support of SB 470 as a property tax relief measure and said it is time for local boards of education to have access to income as a funding source. (Attachment #5)

Craig Grant, KNEA, appeared in partial support of SB 470. He said they do not oppose the concept of the bill but did suggest lowering the "trigger" on the corporate income tax portion of the bill. (Attachment #6)

The chairman reported that the Kansas Farm Bureau had indicated that their organization would submit a written memorandum in support of SB 470.

A written statement supporting SB 470 from the Kansas Livestock Association was distributed to the committee members. (Attachment #7)

Senator Allen moved and Senator Thiessen seconded a motion to approve the minutes for the meetings held on January 16, 17 and 18. The motion passed.

The chairman adjourned the meeting at 12 noon. The next committee meeting will be held on January 26 at 11:00 a.m.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
JAN. 24	E. Todd Sheldahl	Topeka	KS Assn of Realtors
	Don C. Lauer	Sabetha	USD #441
	Janice Marcum	Topeka	DOR
	Bill Curtis	Topeka	KASB
	RONALD CALBERT	NEWTON	U.I.U.
	BRYAN WHITEHEAD	KC KS.	BRAC
	Leroy Jones	Overland Park	B.L.E.
	Ron Cliches	TOPEKA	KACI
	Rin C. Dewey	WICHITA	Sedwick County
	Fred Allen	Topeka	K.A.C.
	Mark Burghart	Revenue (Top)	Revenue
	Bill Eads	"	"
	Tom Shundan	"	"
	Lyle H. Drescher	City Manager City of Wamego	Wamego Ind. Ks. Mun.
	Scott Lamberts	OVERLAND PARK	OVERLAND PARK
	Herby Duncan	Topeka	Revenue Dept.
	Phil Anderson		Budget Div
	Mary Ellen Orlee	Wichita	City of Wichita
	Craig Grant	Lawrence	H.W.E.A.
	Jim Turner	Topeka	KLST
	Margie Braden	Topeka	KMHI
	JANET STUBBS	"	NBAK
	D. WAYNE ZIMMERMAN	TOPEKA	THE ELECTRIC COS ASSOC. OF KS.
	Bob Stecks	TOPEKA	Governors Office
	Stan Stewart	Abilene	City of Abilene
	CHARLES BELT	WICHITA	WICHITA CHAMBER OF COMMERCE
	Mary Ellen Simon	Topeka	KS. LG. of Women Voters
	Buford Watson	PO Box 708	LAWRENCE KS.
	Ed Mascher	Topeka	Lawrence Ind. Assn
	Curry Cebane	Topeka Olathe	

Statement on SB 464 -- Property Tax Foreclosure Dates

Attachment #1

To Senate Committee on Assessment and Taxation
By E.A. Mosher, Executive Director, League of Kansas Municipalities
January 24, 1984

Background. SB 464 is substantially identical to HB 2011 as originally introduced at the 1983 session on recommendation of the Special Committee on Local Government. It was amended by the House Committee on Assessment and Taxation to (1) reduce the foreclosure period from three years to two years for non-homestead property, and (2) to require the county treasurer to apportion to the county and each taxing subdivision its proportionate share of interest received on delinquent taxes (includes special assessments). The bill passed the House on February 22, 1983, by a 74-50 vote. The Senate Committee on Assessment and Taxation recommended the bill be killed, the Committee report presented on March 18. SB 464 was introduced by the Committee on April 24, 1983.

By city convention action, the League supports passage of SB 474. Of special interest to us is an expedited calendar of tax foreclosure applicable to property on which there are delinquent special assessments.

The substance of the bill is to establish a different tax foreclosure period for two classes of real property. The present three-year period, now applicable to all property, would apply in the future only to homestead property. All other property would be subject to a new one-year foreclosure. Homestead real estate, by reference to the Constitution, is defined as 160 acres of farming land and one acre within a city occupied as a residence by the family of the owner, together with improvements. The League suggests an amendment to limit the application of the bill to vacant land on which there are delinquent special assessments.

While special assessments are not general or ad valorem property taxes, they are considered to be and collected as special taxes on property. For example, special assessments levied against property for a street improvement, which are not paid immediately by the property owner, are certified to the county clerk in essentially the same manner as general property taxes, and are collected and distributed in the same manner. They are a lien against the property. To finance the local improvement, bonds are issued, usually with ten-year payments of the principal and interest. Typically, property owners will have up to ten years of annual installments to pay their special assessments. If the city fails to receive assessment payments annually equal to the amount billed and sufficient to pay the principal and interest, a city-wide property tax must be levied.

Over the years, this process has worked quite well. However, subdivision lots with installed public improvements financed by special assessments, which have not been improved by residences or other buildings have presented some serious problems in the recent years, particularly as a result of the slow-down in housing construction. Where special assessments have been used to finance the capital costs of permanent street improvements as

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well as water and sewer main extensions, a total assessment of several thousand dollars for a residential lot is not uncommon. When the owner of the lot has no immediate prospect for selling or using it, there is a temptation to let the property go delinquent, both in taxes and special assessments. In some instances, the first of three years of delinquent taxes and specials will annually be paid, with interest, preventing foreclosure. While the interest penalty may be 18 percent, this does not help the city; the city special assessment fund does not receive any of the interest or payment--that's kept by the county--although the interest on the bonds continues.

I would emphasize the difference between delinquent general taxes and delinquent special assessments. Theoretically, property taxes have some relationship to the owners' ability to pay or wealth, since it is based on the value of the property. Further, property taxes are used for general government purposes, and there is no requirement that the property benefit dollar-for-dollar in relation to the taxes paid. Special assessments, however, are related solely to the benefits to that individual parcel. Indeed, the amount of special assessments levied on a parcel of property may not legally exceed the benefits accruing to that property. Given their nature and purpose, requiring city-at-large property owners to pick up the tax for unpaid special assessments is much more unreasonable, in my judgement, than picking up the tax for delinquent general property taxes.

Proposed amendments attached.

Amendments to SB 464
Proposed by League of Kansas Municipalities

Strike the substantive changes in subsections (a), (b) and (c) of Section 1, and create a new subsection, with an appropriate cross-reference to such subsection, substantially as follows:

"The following real estate shall be subject to redemption by the owner thereof within one year from the date of the sale: real estate on which there are no attached improvements, or attached improvements with an assessed valuation of less than \$100, and on which there are delinquent taxes outstanding in the amount of \$500 or more resulting from the levying of special assessments or other special taxes not of a general ad valorem tax nature.

On page 2:

- On line 54, before the word "Whenever", insert "(a). Except as provided by subsection (b),";
- On line 57, restore "third";
- On line 58, amend to conform to changes in Section 1 of act;
- On line 72, insert before "Whenever" the words "Except as provided by subsection (b),";
- On line 80, before "taxes", insert "general or special";
- On line 87, before "taxes", insert "general or special";
- On line 108, create a new subsection (b), substantially as follows:
 "(b) The county attorney or county counselor shall commence action for the foreclosure of real estate subject to a one-year redemption period under the provisions of subsection ____ of K.S.A. 1983 Supp. 79-2401a, as amended by this act, within one year of the tax sale and an order of the board of county commissioners shall not be required prior to such action.

The \$10,000 of assessed valuation in line 74 (page 2) could be increased. This amount has been the same since 1949 (Ch. 477). The 1982 "state real estate assessment ratio" was 6 % in 1982. Presumably, this statute now means that the board of county commissioners has discretion as to whether foreclosure action is taken when the market value of all delinquent real estate is less than \$166,666 (6% of \$166,666 is \$9,999).



Kansas
DEPARTMENT OF REVENUE

Attachment #2

State Office Building
Topeka, KS 66625

MEMORANDUM

January 24, 1984

TO: The Honorable Paul Burke, Chairman
Senate Committee on Assessment of Taxation

FROM: Harley T. Duncan
Secretary of Revenue *HTD*

SUBJECT: SB 470

Thank you for the opportunity to appear before you today on SB 470 which sets in place the mechanism for levying a local option income tax at the school district level.

Briefly stated, the bill provides that a school district may levy an income tax on its residents when such a tax is approved by a majority of the residents in the district voting on such a proposition. The tax is to be in increments of 10.0 percent of the resident's state individual income tax liability. The bill also provides that when districts comprising 50.0 percent of the student enrollment have approved such a tax, an additional tax of 0.5 percent of taxable income is to be levied against all corporations, domestic insurance companies, and financial institutions doing business in Kansas. When districts comprising 80.0 percent of the student enrollment approve an individual income tax, the additional tax on corporations, insurance companies and financial institutions is increased to 1.0 percent of taxable income. All funds generated under the tax are to be used to offset property tax levies of the unified school districts.

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I appear in opposition to S.B. 470. That opposition is based on philosophical differences with the approach taken in the bill as well as differences with several of the tax policies embedded in the bill.

State Responsibility for Education

Article 6, Section 1 of the Kansas Constitution states that the Legislature shall provide for intellectual, educational and scientific improvement by establishing and maintaining a system of public schools and educational institutions. Concomitant with this responsibility is the responsibility to establish a system of financing local public schools, through a mix of state and local tax dollars, which provides, to the extent possible, equal educational opportunity for all children in Kansas regardless of where they live.

I submit to you that to enact SB 470 would make the achievement of this goal extremely difficult. SB 470 effectively calls for state government to relinquish one of the primary tools at its disposal (the individual income tax) for achieving equal educational opportunity. Not only would the resources available to local districts differ substantially, but the ability of the state to utilize the income tax to overcome those differences is seriously diminished because of the local tag-on to the tax.

To see the differential effects that a local option income tax can have, I invite your attention to Attachment A prepared by the Legislative Research Department. The attachment displays the revenues which could be generated by a local income tax in various districts and converts those to a mill-rate equivalent. As shown,

the mill-rate equivalent of a 10.0 percent tax varies from 0.9 mills in Little River to over 9 mills in Shawnee Mission, a difference of over 10 fold. To overcome these disequalizing effects would seem to be difficult.

In the same fashion that Senate Bill 470 will have differential affects among school districts, it will create similar differences among similarly situated taxpayers. An income-rich but property-poor patron in a school district imposing the tax will pay more than a similar taxpayer in a non-income tax district. Conversely, a property-rich but income-poor patron may receive tax relief without additional burden in an income tax imposing district, but have no change in burden in a non-income tax district.

Unguided Tax Relief

A second issue raised by SB 470 is the nature of the tax relief accorded by the bill. Under the bill, all funds generated would be used to provide across-the-board property tax reductions. While we might all agree that property tax reductions are desirable, I believe we should consider whether some of that relief ought to be targetted to certain individuals or certain classes of property rather than granted on an across-the-board basis. Moreover, the bill makes no attempt to distinguish areas of the state most in need of property tax relief. Rather, the amount of property tax relief accorded is in direct relationship to the income levels of the school district patrons. This contrasts with other state mechanisms for property tax relief.

I am also concerned about the shift that will occur, at least at the outset, between individual and business taxpayers. The Committee should be mindful that such a shift has already occurred as a result of federal tax changes enacted in 1981 and 1982. Estimates are that in FY 1985 individual income taxes will be \$39.0 million higher than they otherwise would be and corporation income taxes will be \$36.0 million lower than they otherwise would be because of the federal changes. This shift of over \$75.0 million would be compounded by SB 470.

Along the same line, the Committee should be mindful of the distributional consequences of levying a local income tax as a percent of state liability. The additional burden will fall on those now paying the tax in proportion to their current burden. While the state income tax is moderately progressive, at least from the lower income ranges through the middle and upper middle income ranges, the degree of progressivity tends to taper off at the very high income levels. I suspect that if the question before this body were "How should we distribute a 10 percent increase in income taxes among income groups?" there would be substantial differences of opinion. Yet, SB 470 assumes that everyone is comfortable with the current distribution and leaves it up to local school boards to determine whether the additional burden should be put before the voters. For perspective, I would note that 72 percent of our current liability is assessed against taxpayers with an adjusted gross income to \$10,000 - \$50,000.

Tax Base Sharing

The Committee should also be aware that SB 470 begins to break relatively new ground in the sharing of tax bases between state and local governments. Only in the sales tax area is such sharing now prevalent. The situation created is that

with a local option income tax, every subsequent action taken by the Legislature with respect to the income tax is magnified by a factor of 10.0 percent or more. That is, any increase or decrease in income taxes enacted by the Legislature will also have a local impact which must be considered. The state begins to lose control of one of its primary revenue sources. The situation is especially perverse when the income tax is used for school finance, and any increase or decrease will affect the resources available for local education. This situation seems extremely important to me given that over two-thirds of State General Fund revenues are generated by the income and sales taxes.

Other Considerations

SB 470 also raises several other unanswered questions or matters that the Committee should consider.

Constitution Question: Article 11, Section 2 of the Kansas Constitution provides that the state shall have the power to levy and collect taxes on income. It would seem necessary to determine whether a school district board of education has the authority to levy an income tax and if the state power can be delegated as contained in SB 470.

Potential Vagueness: Section 4 of the bill provides that the provisions of the Kansas Income Tax Act are to apply to the local income tax "to the extent the source can be made applicable thereto." This raises problems of vagueness that may subject the bill to attack. It will also raise continuing questions regarding the Department's administration of the act.

Non-Residents: Because of the manner of its application, (i.e., school district by school district), any local option income tax will not apply to non-resident taxpayers. Yet, if these non-resident taxpayers are also property owners they will receive the benefits of any property tax reduction. In 1981 the state income tax liability of non-resident individuals was \$32.3 million.

Free-Rider Districts: The bill creates a question of equity and fairness in that all districts will share in the distribution of proceeds for any increased corporation, insurance company or financial institution taxes, even though some of them may not have imposed an individual income tax. Such districts get something for nothing provided sufficient other school districts tax the income of their residents to cause the income and privilege tax to be imposed upon business entities. Similarly, business entities could enjoy the benefits of property tax reduction, but may not have to contribute to it through income taxes if sufficient districts do not act to trigger the income and privilege tax increases.

Withholding: The bill is clear that the local income tax is not to be withheld from employee's wages and to attempt such would place an unreasonable burden on employers because of the likelihood that some employees will live in affected districts while others will not. This does, however, mean that taxpayers will be faced with a requirement to pay the tax in a lump sum which will create collection difficulties. One method to overcome this would be to allow state refunds to be credited against the local tax, but such is not specifically authorized in the bill.

Processing: Enactment of SB 470 will place substantial processing requirements on the Department of Revenue. All individual income tax systems will require modification to handle the accounting and distribution of the monies. In addition, any change or complication of the tax forms will increase errors in tax returns filed. These returns will likely require manual handling and will slow tax processing. In addition, all adjustments to state tax liability will require further adjustment at the local level. The Department estimates that annual operating expenses of approximately \$150,000 will be required to administer SB 470.

Collection: While the bill clearly states that the Department is to enforce and collect the local tax, it does assign any priority in the attribution of receipts on a partially collected liability. That is, are all collections to be applied first to state liability or local liability or pro-rated between the state and local liabilities.

Enrollment Certification: The bill requires the Secretary of Revenue to certify when districts with a sufficient enrollment to trigger the corporation, insurance company and financial institutions taxes have enacted the individual tax. The Department of Revenue does not maintain such data and considers this to be an appropriate responsibility of the Department of Education.

Compliance Problems: It would seem that a taxpayer could avoid the local tax simply by filing with an address and indicating residence in a school district which does not impose such a tax. Obviously, the individual would have

to have some method of collecting mail from the specified address (if a refund were in order), but such a situation would be, at best, difficult to detect given the 1.1 million returns filed annually.

In conclusion, SB 470 has serious flaws from both a tax policy and technical standpoint. I urge you to reject the bill.

HTD:1/2/S370

ESTIMATED MILLAGE EQUIVALENT OF ESTIMATED RECEIPTS
FROM A TEN PERCENT SCHOOL DISTRICT INCOME TAX
PER H.B. 2053

U.S.D. No.	District Name	1 10% Based on 1981 Returns*	2 1982 District Valuation Excluding Farm Machinery**	3 Est. Mill Equivalent of Col. 1
205	Leon	\$ 39,227	\$ 19,675,247	1.99
253	Emporia	434,981	77,147,428	5.64
259	Wichita	6,654,693	984,540,111	6.76
263	Mulvane	129,519	17,753,481	7.30
278	Mankato	24,050	8,231,707	2.92
283	Elk Valley	10,704	5,065,312	2.11
305	Salina	721,410	120,887,625	5.97
331	Kingman	102,460	65,449,722	1.57
342	McClouth	27,442	6,867,827	4.00
367	Osawatomie	70,806	14,960,275	4.73
379	Clay Center	110,688	33,651,502	3.29
444	Little River	26,519	29,959,185	0.89
445	Coffeyville	269,811	57,194,706	4.72
453	Leavenworth	336,586	53,372,989	6.31
475	Junction City	233,851	52,866,518	4.42
480	Liberal	337,086	74,415,036	4.53
489	Hays	337,688	97,555,740	3.46
500	Kansas City, Ks.	1,857,393	308,328,501	6.02
501	Topeka	2,047,777	283,047,817	7.23
512	Shawnee Mission	6,165,386	663,433,824	9.29

Source: Reports of the Department of Revenue and the State Department of Education.

* Based on school district rebates for 1981 returns filed in 1982.

** Based on fall, 1982 assessed valuations as reported to the State Department of Education for school aid purposes.

**BROTHERHOOD OF RAILWAY, AIRLINE AND STEAMSHIP CLERKS,
FREIGHT HANDLERS, EXPRESS AND STATION EMPLOYES**

AFL-CIO — CLC

Attachment #3

GEORGE W. FALLTRICK
Regional Legislative Director
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BRYAN K. WHITEHEAD
Assistant Regional Legislative Director
4917 Haskell
Kansas City, KS 66104
Phone: (913) 287-9062

Kansas City, Kansas, January 22, 1984

STATEMENT OF

BRYAN K. WHITEHEAD

Kansas Legislative Director

For The

Brotherhood Of Railway And Airline Clerks

IN RE:

SENATE BILL NO. 470

Presented At Hearing

Before The

SENATE ASSESSMENT AND TAXATION COMMITTEE

Topeka, Kansas

January 24, 1984

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SENATE BILL NO. 470 - AN ACT relating to financing of public schools; authorizing the levy of individual income taxes by school districts;

Mr. Chairman, and members of the Committee, I am Bryan Whitehead, Kansas Legislative Director and a Regional Representative for the Brotherhood of Railway & Airline Clerks union representing over eight thousand employed and retired members residing in Kansas.

My testimony is also submitted on behalf of the Kansas State Federation of Labor, AFL-CIO, which has an affiliate membership of over 70,000 wage-earner taxpayers in Kansas.

For several reasons, Mr. Chairman, we rise in opposition to S.B. 470 which proposes authority for Boards of Education to levy a school district income tax against resident individual's Kansas income tax liability. The rate of such tax would be a minimum of 10% or any unlimited higher percentage which is the product of 10% multiplied by any whole digit.

In my view, S.B. 470 clearly contravenes the Kansas Constitution; Article 6., Section 6., Sub-Section (b) provides:

"The legislature shall make suitable provision for finance of the educational interests of the state."

And Article 11., Section 2. provides:

"The state shall have power to levy and collect taxes on incomes from whatever source derived which taxes may be graduated and progressive."

The intent of the Legislature seems equally clear as K.S. A. 12-140 provides:

"No city shall have power to levy and collect taxes on incomes from whatever source derived."

S.B. 470, at lines 0031 and 0065, proposes an "initiative petition" and references K.S.A. 10-120. The statewide Intangibles Tax "mess" persuades me that an initiative petition is not necessarily democracy-at-work. I suggest an amendment at line 0031 to require a "51% petition" or an amendment at line 0038 to provide:

"If a majority of the qualified electors vote thereon at such election and approve the levying of such tax ..."

In either event, why not require "majority rule" on questions of taxation just as must prevail on the floor of the Kansas Senate and House to enact a law? Then there will be no more referendums where 5% of the electorate can force an election in which only 10% vote, the "question" is approved by 5.1% and 94.9% of the electorate gets "shafted" by a tax "shift" such as occurred in repeal of the Intangibles Tax in Wichita!

I have heard estimates that over half of Kansas' agricultural investment land is owned by non-residents. Yet, you have heard proponents of S.B. 470 praise it as an "alternative revenue source" and as "property tax relief". Non-residents cannot be taxed on their income so over half of the district's income wealth would escape taxation!

My questions are: "Whose alternative revenue source?" and "Whose property tax relief?" The taxpayers I represent have only one "pocketbook" and they do not have Schedule "F" to write off their taxes and expenses.

I am acquainted with a "family farmer" in Ford County who is desperately trying to stay on the farm. He's living in rented property with his family of four, feeding livestock on rented pasture, and farming a section of land on crop-share contract.

He holds a night-shift job so he can afford to stay on the farm. He owns no farm machinery; his father and brother live close by so he uses their machinery. He does, however, own a car and a pick-up truck.

Last year, my "family farmer" friend really got the "shift shaft" as he began to pay his share of the \$40 million tax exemption for farm machinery and airplanes - a 3.5% increase in his property tax!

If S.B. 470 is enacted, his fellow "residents" will move to impose a school district income tax and as a "wage earner" he will get "shafted" again as "property tax relief" is achieved at the expense of income taxpayers in the district!

I am certain that attorneys for corporations, banks, savings and loan associations, and insurance companies will be ecstatic about Sections 5., 6., and 7. of S.B. 470. H.B. 2053 introduced early in the 1983 Session was identical to S.B. 470 and was considered by the House under General Orders on April 8, 1983. By a vote of 89 to 21 an amendment was adopted to change the school district total enrollment "triggers" from "50% and 80%" to "25% and 50%". The effect of the amendment was that if the "big four" school districts, having more than 50% of the total enrollment, voted to impose the surtax on individual taxpayers the tax would also be imposed on corporations, banks, savings and loan associations and insurance companies. A motion to report the amended bill favorably was resoundingly defeated and H.B. 2053 was stricken from the Calendar! I urge favorable consideration of the "25% and 50%" amendment by your Committee.

Department of Revenue officials will apprise the Committee of the numerous administrative problems should S.B. 470 be enacted. While they are before you it would be helpful if the Committee heard some statistics as to just how many Kansas residents with high adjusted gross income on federal form 1040 arrive at the bottom line on Kansas form K 40 or K 40A with "zero" state income tax liability. A surtax of 10% (or more) of "zero" state income tax liability is "zero". But, to the average wage-earner taxpayer with a \$500 Kansas income tax liability it's another \$50!

By adopting the federal adjusted income for Kansas tax purposes the inequities of the federal code are also adopted. The code has squeezed out the average payday-to-payday wage-earner and forced him to standard deductions and short form 1040. He's already lost the gasoline and medical expense deductions and interest and insurance deductions are in jeopardy. His Social Security or Railroad Retirement tax increases wiped out most salary increases and income tax "indexing" is bearing down on him. Moreover, he looks at all the wonderful tax benefits enacted by the Congress such as the \$2,000 income exemption if he had \$16,000 to invest in an All-Savers Certificate and the \$2,000 to \$4,000 income adjustment if he could afford to invest in an Individual Retirement Account. And, finally, he looks at the record and discovers that he pays more federal and state income tax than General Motors or Standard Oil!

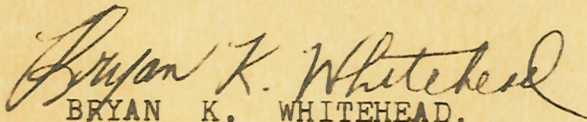
Mr. Chairman, and members of the Committee, I suggest that if Kansas must have increased general revenue in our School Districts, or anywhere else, there are certainly more equitable vehicles than the federal income tax.

For example, why not repeal the retail sales tax on food-for-people and raise the rate statewide to increase general revenue? Our Sales Tax Refund Act responds to the needs of low income taxpayers. Certainly we have an excellent Homestead Tax Refund Act to benefit those taxpayers who are truly hurt by property taxes. And, our Intangibles Tax Act exempts the low income investor and saver regardless of the local option rate.

The record is clear that the tax incidence in Kansas impacts squarely on the middle-income, wage-earner taxpayer who already pays the highest ratio of taxation-to-income. He is the victim of unbelievable tax "shifts": Repeal of the Intangibles Tax and exemption of farm machinery has increased the property tax on his home and automobile; local option sales taxes are taking another 1% to 2% out of his pocket and S.B. 470 proposes at least a 10% increase in his Kansas income tax. I urge you to reject S.B. 470!

Mr. Chairman, I appreciate this opportunity to express our views on this most important and controversial subject. I will, of course, respond to questions.

Thank you.


BRYAN K. WHITEHEAD,
Kansas Legislative Director,
Bro. of Railway & Airline Clerks



Legislative Testimony

Kansas Association of Commerce and Industry

500 First National Tower, One Townsite Plaza

Topeka, Kansas 66603

A/C 913 357-6321

Attachment #4

January 24, 1984

KANSAS ASSOCIATION OF COMMERCE AND INDUSTRY

Testimony Before the

SENATE ASSESSMENT AND TAXATION COMMITTEE

by

Ronald N. Gaches, General Counsel

and Director of Taxation, KACI

Thank you Senator Burke for this opportunity to share with your Committee the concerns of KACI regarding the proposed School District Income Tax, SB 470.

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 which includes 200 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.

KACI opposes this proposal because of the corporate income tax increases that could be triggered by adoption of the local-option income tax in a qualifying number of school districts. This trigger mechanism could result in corporate income tax increases

never directly approved by the Kansas Legislature. The timing of such increases would be out of the control of the Legislature and could occur when a corporate income tax increase could have a severe negative impact on the Kansas business climate.

This concern over business climate becomes more easily understood when the possible ramifications of SB 470 are examined in more detail. The proponents of the school district income tax have included the corporate income tax increase as an offset to the property tax reduction that businesses would receive in those communities that adopt the local-option individual income tax increase. The rationale has been that business should not have its property tax bill reduced at the cost of the individual income taxpayer. While that argument has a certain appeal, exactly the opposite could occur if this bill were to become law; businesses could be paying higher corporate income taxes in areas of the state where there has been no increase in the individual income tax. Corporate taxpayers would be further subsidizing public services for other taxpayers.

While KACI supports reducing the reliance on the local property tax to fund local government, we cannot support this particular proposal. Hopefully, other alternatives can be found that satisfy the needs of all taxpayers.



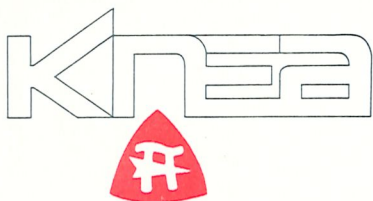
Testimony of the
Kansas Association of School Boards
before the
Senate Assessment and Taxation Committee
on
Senate Bill 470 .

Mr. Chairman and members of the committee, we appreciate the opportunity to express the views of KASB on this important piece of legislation. The organization I represent has 299 of the 306 unified school district boards of education as members.

We have long expressed the belief that boards of education should have access to income as a means of funding the local effort portion of a school district budget. Philosophically, we believe that the use of income in the definition of district wealth of a school district cannot be justified unless the school district has access to that wealth. S.B. 470 would correct that defect in our present school finance formula and make it a more equitable formula for all concerned.

It is important to realize that the measure before you does not grant any greater budget authority to local boards of education. It is, pure and simple, a property tax relief measure. Each dollar of income raised in a school district is a dollar of property tax decreased. S.B. 470 does not in any way change school district budget limitations.

This measure is similar to several other bills introduced in previous sessions. Several years ago a similar measure passed the Kansas House of Representatives and emerged from three committees in the Kansas Senate. However, it was never considered on the Senate floor. We believe it is time for local boards of education to have access to income as a funding source. S.B. 470 accomplishes that goal. We would urge your favorable consideration of this measure. Thank you for your attention.



Craig Grant Testimony Before
Senate Assessment & Taxation Committee
January 24, 1984

Thank you Mr. Chairman. Members of the committee, my name is Craig Grant and I represent the Kansas-NEA. I appear before you today in partial support of SB 470, the local option income tax.

K-NEA has long been a proponent of a greater tax mix to fund our public schools. We have stood for property tax relief for many years. We have proposed the concept of bringing the state's share of the cost of public education to the 50% mark to help ease the burden of the property tax payer. SB 470 would allow local boards of education to decide whether or not to relieve the property tax by imposing a local income tax.

K-NEA certainly does not oppose this concept. The problem which we have with SB 470 is the corporate portion of the bill. There is little chance of the one-half percent rate being imposed on corporations, fiduciaries, insurance companies, and banking companies. The chances of 80% of the districts imposing such a tax in order for the 1% rate to be put into effect are extremely remote. K-NEA believes that these corporations have a major interest in the quality of our public schools. It is the educational environment which can set the climate for obtaining and retaining businesses in the community.

K-NEA would suggest that the one-half percent rate on these corporations and institutions be imposed at the 25% level of participation and the 1% rate start when school districts with 50% of the enrollment in the state have chosen to impose the local option income tax. With this change in SB 470, K-NEA would support the concepts contained in the bill.

Thank you, Mr. Chairman and members of the committee, for listening to the concerns of teachers.

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Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

January 20, 1984

Sen. Paul "Bud" Burke, Chairman
Senate Committee on Assessment & Taxation
State Capitol
Topeka, Kansas 66612

Dear Senator Burke:

My apologies for not being able to personally appear before the committee because of a long standing commitment to participate in several activities associated with the National Cattlemen's Association convention in New Orleans this week. Please see that the KLA position on SB 470 is relayed to the committee:

As you know, neither our Association or I consider ourselves experts on school finance. However, because our members who attempt to make a living in the livestock industry require large investments in land, equipment and livestock, and are, therefore, greatly impacted by the heavy reliance on the property tax to finance education, we do have a substantial stake in school finance issues. The Kansas Livestock Association has long been a proponent of increased reliance on the income tax to raise the needed revenues for school finance because we believe the state should begin a significant movement away from the antiquated property tax to fund schools. KLA believes that the income tax is the fairest tax of all because income is a better measure of wealth today than any other source and because it's obviously based on the individual's ability to pay. We sincerely hope the state makes recognition of that fact and proceeds accordingly.

Even though KLA would prefer a mandatory statewide school district income tax we recognize the political realities and support SB 470, as we have supported previous local option school district income tax measures. We urge the committee's favorable consideration of this bill.

We also fully recognize that opposition to this measure will come from those who will complain that the "business community" is being asked to provide a higher level of funding to schools and that such a measure will be a retardant to business activity in the state. We would only remind the committee that the provisions of SB 470 clearly stipulate that any revenues derived there from shall be used for property tax relief and that some of those who oppose the measure are also complaining of excessive property taxes. This bill is purely

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Sen. Paul "Bud" Burke
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and simply a property tax relief measure. Each dollar of income raised from this bill in a school district will be a dollar of property tax decreased. SB 470, if enacted, would allow some school districts to avoid property tax increases in the coming year. We believe that the time has come to quit simply talking about property tax relief and do something about it. KLA respectfully urges your favorable consideration of this legislative proposal.

Myself or other members of the KLA staff would be pleased to provide additional information or clarification relative to our position on this issue at a later time. Thank you.

Sincerely,



Dee Likes
Executive Secretary
Feedlot Division

DL:cv