

Approved 4-29-84
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Paul "Bud" Burke at
Chairperson

11:00 a.m. ~~XXX~~ on February 16, 1984 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:

Stanley Lind, KAFC
Harley Duncan, Secretary of Revenue

The chairman recognized Stan Lind for a request for a committee bill on behalf of the Kansas Association of Finance Companies. He explained the purpose of his request would be to tax financial companies in the same manner as banks. (Attachment #1) In response to a question about the fiscal effect, he said this legislation would result in the loss of taxes to the counties, not the state, of approximately \$100,000.

Senator Allen made a conceptual motion to introduce such a bill and have it referred back to the committee. Senator Mulich seconded the motion and the motion passed.

The committee considered SB 670. The chairman called on Senator Thiessen, a sponsor of the bill, to explain this proposed legislation. Senator Thiessen said the bill originated from an interim committee study to re-view the Kansas homestead property tax refund program. The committee recommended increasing the brackets because there had been no adjustment through the years of operation, and as social security increased and the participants received more income, they got into a higher bracket which reduced their benefits. He said he didn't believe this was the intent of the legislature, and this bill would make it possible to adjust these brackets annually and the participants would not fall behind but would keep on the same level.

Tom Severn explained that beginning July 15 the brackets table would be indexed upward by the cost of living adjustments. The effect of this adjustment upward to reflect inflation would be to keep the homestead property tax refund about constant.

Harley Duncan, Secretary of Revenue, explained some technical problems with SB 670. (See Attachment #2)

Senator Thiessen made a conceptual motion to amend SB 670 in line 71, by striking "dollar amount or" and in line 74, by striking "income" and inserting "dollar". Senator Johnston seconded the motion and the motion passed.

It was decided to delay further action on SB 670 until more fiscal information could be obtained.

The committee considered SB 596 which would provide that the sale of used mobile homes and 50% of the cost of new mobile homes would be sales tax exempt.

Senator Allen moved and Senator Mulich seconded a motion to report SB 596 favorable for passage. The motion passed with Senator Chaney voting "no" and Senator Johnston passing and declaring a possible conflict.

The chairman adjourned the meeting at 11:45 a.m. The committee will meet again on February 20, 11:00 a.m.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE NAME ADDRESS REPRESENTING

Feb. 16

Janet Harris

1154 So. Terrace

John Garrison

1826 S. Stacey

Ruth Wilkins

Topeka

Die South

Stan Land

KCK

KAFB

Tom Regan

Topeka

KAFB

D. Ferrell

"

Budget

John Blythe

Manhattan

Ks. Farm Bureau

Phil Monte

Topeka

DVD

Ron Coches

TOPEKA

KCC

Georganna Meyer

Topeka

DOR

Harley Duncan

Topeka

Dept of Revenue

Bruce Warner

Wichita

City of Wichita

M. Hawa

Topeka

City of Topeka

Margie Braden

Topeka

KMHT

Melvin Norfolk

Topeka

Article 11.—BANKS, BANKING
BUSINESSES, TRUST COMPANIES
AND SAVINGS AND LOAN
ASSOCIATIONS

Attachment #1

Section 1.

79-1103. (a) Every individual, association, group of unincorporated persons or domestic corporations, other than national banking associations, banks, trust companies, savings and loan associations and those taxed under K.S.A. 79-310a and 40-2801, who shall engage in the business of lending money, buying and selling bills of exchange, notes, bonds, stocks or other evidences of indebtedness with a view to profit, shall be, for the purpose of taxation, deemed to be engaged in banking within the meaning of this act. Each such individual, association or unincorporated group of persons shall annually during the month of January, as of January 1, furnish to the assessing officer a statement showing the average amount of capital employed in its business of banking as defined in this section, and the net earnings or income of such business for the year preceding such date. Aided by such statement, the assessing officer shall determine the average capital employed in such business as herein defined, and the true value of the proportional interest or share of each person therein shall be taxed annually at the rate of five mills on the dollar of the value thereof. In determining the average capital employed in such business for assessment and taxation upon a share basis as herein provided, the amount of money borrowed by the business as an entity and employed in the business and the amount of capital invested in real estate used in such business separately listed and taxed in this state shall be deducted therefrom. Personal property, other than motor vehicles subject to taxation under K.S.A. 1982 Supp. 79-5101 et seq., used in the business of banking shall not be separately listed nor shall it be taxed separately other than upon a share basis as herein provided.

(b) Shares of stock of domestic corporations engaged in the banking business, as defined in subsection (a), shall be assessed to the individual shareholders at their true value at the place where the particular domestic corporation is located. The managing officer of each domestic corporation shall furnish to the assessor on forms prescribed therefor during the month of January each year, a list of all the shareholders and the number of shares owned by each shareholder and the assessor shall fix and determine the true assessable value of such shares. To aid and assist in determining the true value of such shares the director of property valuation shall prescribe such forms for use by the assessor as deemed necessary, and the president, cashier or other managing officer of each domestic corporation shall furnish and make full disclosure of all information required therein. If any portion of the capital stock of any domestic corporation shall be invested in real estate and the domestic corporation holds title thereto in fee simple, the assessed value of the real estate shall be deducted from the gross valuation of all shares of stock and such real estate shall be assessed as other real estate. The net assessment of all shares shall be divided among the shareholders proportionately, according to the number of shares owned by each, and the domestic corporation shall pay the tax assessed upon the shares and shall have a lien thereon until the same is satisfied and such shares shall be taxed annually at the rate of five mills on the dollar of the value thereof, or as otherwise provided by law. Should the domestic corporation fail to pay taxes levied upon shares, the property of the individual shareholder shall be liable therefor.

but which are not organized under the banking, trust or savings and loan association laws of the United States or of this state

(c) As soon as practicable after all tax levies for the current tax year are determined and reported, it shall be the duty of the county clerk to notify each domestic corporation, whose shareholders are assessed and taxed under the terms of subsection (b) hereof in writing, of the valuation, rate of levy and amount of tax assessed against each and all shares and to be paid by each domestic corporation. Such notice to the domestic corporation shall be deemed and held notice to each shareholder. If the domestic corporation or any shareholder so notified shall for any cause be aggrieved by such assessment, appeal may be taken to the board of tax appeals at any time within 30 days after the receipt of such notice, by filing with the county clerk a notice of intention to appeal. An appeal by the domestic corporation shall be deemed an appeal for all shareholders thereof. When notice of intention to appeal is filed with the county clerk by any domestic corporation or shareholder, it shall be the duty of the county clerk to transmit to the board of tax appeals forthwith, a copy of all notices, a statement showing the valuation of the shares, the levies, the amount of the tax assessed and all papers relating to such assessment. Thereupon the board of tax appeals, as soon as practicable, shall fix a time and place for hearing such appeal and shall give notice thereof to the county clerk and appellant at least 10 days prior to such hearing. At such hearing the board of tax appeals shall receive and consider such testimony as may be offered by such corporation or shareholder, or any party in interest, and upon due consideration thereof, shall fix and by order determine and equalize the amount of assessment and the tax to be paid. Such order shall be certified forthwith to the county clerk who shall enter upon the tax rolls of the county the amount of tax so determined and the tax shall be paid as hereinbefore provided by this act. No action shall be instituted or maintained in any court by any domestic corporation or shareholder to set aside or to declare void any tax levied under the terms of this act or to recover any such tax paid under protest unless prior to bringing of the action, an appeal shall have been taken as herein provided and such appeal shall have been determined by the board of tax appeals adverse to the claim of the appellant.

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Section 2.

79-1107. National banking associations and state banks; tax imposed; rate. Every national banking association and state bank located or doing business within the state shall annually pay to the state for the privilege of doing business within the state a tax according to or measured by its net income for the next preceding calendar year or fiscal year ending in the next preceding year to be computed as provided in this act. Such tax shall consist of a normal tax and a surtax and shall be computed as follows:

(a) The normal tax shall be an amount equal to four and one-fourth percent (4¼%) of such net income; and

(b) the surtax shall be an amount equal to two and one-eighth percent (2⅛%) of such net income in excess of twenty-five thousand dollars (\$25,000).

The tax levied shall be in lieu of ad valorem taxes which might otherwise be imposed by the state or political subdivisions thereof upon shares of capital stock or the intangible assets of national banking associations and state banks. The state of Kansas hereby adopts the method numbered (4) authorized by the act of March 25, 1926, amending section 5219 of the revised statutes of the United States (12 U.S.C.A. 548), relating to the manner and place of taxing national banking associations located within its limits.

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and those described in K.S.A. 1983 Supp. 79-1103, as amended, who are for the purpose of taxation, deemed to be engaged in banking and are

Section 3.

79-1110. Taxation of national banking associations, banks, trust companies and savings and loan associations; procedure for returns; tax payment; laws applicable. Every national banking association, bank, trust company, and savings and loan association subject to taxation under this act shall make its return and pay the tax imposed to the director of taxation on or before the 15th day of the fourth month following the close of its federal taxable year, in the same manner, except for computing the net income subject to tax, as corporations are required to make their returns and pay their taxes under the Kansas income tax act. Every such national banking association, bank, trust company and savings and loan association shall be subject to other provisions of the Kansas income tax act applicable to other corporations and shall be subject to the penalties imposed on corporations by K.S.A. 79-3222 and K.S.A. 1982 Supp. 79-3228 and 79-3234 insofar as the same can be made applicable.

those described in K.S.A. 1983 Supp. 79-1103, as amended, who are for the purpose of taxation, deemed to be engaged in banking

, those described in K.S.A. 1983 Supp. 79-1103, as amended, who are for the purpose of taxation, deemed to be engaged in banking

the

Section 4.

79-32,113. Exempted organizations.

(a) A person or organization exempt from federal income taxation under the provisions of the internal revenue code shall also be exempt from the tax imposed by this act in each year in which such person or organization satisfies the requirements of the internal revenue code for exemption from federal income taxation. If the exemption applicable to any person or organization under the provisions of the internal revenue code is limited or qualified in any manner, the exemption from taxes imposed by this article shall be limited or qualified in a similar manner.

(b) Notwithstanding the provisions of subsection (a) of this section, the unrelated business taxable income, as computed under the provisions of the internal revenue code, of any person or organization otherwise exempt from the tax imposed by this act and subject to the tax imposed on unrelated business income by the internal revenue code shall be subject to the tax which would have been imposed by this act but for the provisions of subsection (a) of this section.

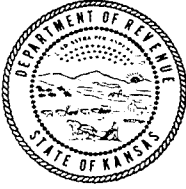
(c) In addition to the persons or organizations exempt from federal income taxation under the provision of the internal revenue code, there shall also be exempt from the tax imposed by this act, express companies, insurance companies, banks, trust companies, savings and loan associations, credit unions and any other organizations, entities or persons specifically exempt from Kansas income taxation under the laws of the state of Kansas.

, those described in K.S.A. 1983 Supp. 79-1103, as amended, who are for the purpose of taxation, deemed to be engaged in banking,

Section 5. The provisions of K.S.A. 1983 Supp. 79-1103, 79-1107, 79-1109 and 79-1110, as amended, as they are applicable to those described in K.S.A. 1983 Supp. 79-1103, as amended, who are for the purpose of taxation, deemed to be engaged in banking, shall be applicable to all taxable years commencing after December 31, 1983.

Section 6. K.S.A. 79-1105, 79-1105b., K.S.A. 1983 Supp. 79-1103, 79-1105a., 79-1107 79-1110 and 79-32,113 are hereby repealed.

Section 7. This act shall take effect and be in force from and after its publication in the statute book.



Kansas
DEPARTMENT OF REVENUE

State Office Building
TOPEKA, KANSAS 66625

MEMORANDUM

Harley Duncan

TO: Senator Bud Burke, Chairman
Senate Assessment & Taxation Committee

FROM: Georganna Meyer

DATE: February 16, 1984

SUBJECT: Senate Bill 670

The Department of Revenue would like to point out two technical problems with Senate Bill 670.

First, this bill states that the amounts deducted from the property tax will not be changed, but the household income brackets will be changed. A problem occurs here with the dollar figures that are added to the percentages equalling the total amount of "coinsurance". These dollar figures have been calculated specifically for the original household income brackets, based on the size of the brackets (the percentage in the lower bracket times the dollar span of the lower bracket equals the dollar figure to be added to the next higher percentage). By indexing these brackets, and therefore changing the size of the brackets, these dollar figures no longer correspond to the percentages. To illustrate this, please see the attached exhibit. Note that when the size of the brackets become large at the upper end of the income range, a distortion occurs in the amount of the deduction from property tax. This distortion causes persons with a household income of \$8,100 to pay a greater deduction amount than persons with an income of \$8,500. This distortion occurs regardless of whether the cost-of-living increase is large or small.

Secondly, unless the \$400 maximum refund amount is indexed, the persons in the upper end of the household income ranges do not get the same break as the other claimants. For example, the current maximum household income eligible for a refund is \$12,889. If the cost-of-living increase is 3.5%, this figure should increase to \$12,889 X 1.035 or \$13,340. If the "old"

*Attch. 2
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deduction table is kept, the coinsurance stops allow refunds at a household income amount of \$13,139. If the dollar figures added to the percentages are indexed, maintaining the \$400 limit means the maximum household income eligible for a refund is \$13,034. Therefore, the \$400 limit must also be indexed to allow those in the upper bracket to get the full benefit of indexing.

In summary, if the homestead refund program is to be indexed, all amounts involved must be indexed if all claimants are to receive equal benefits. If it is desired to maintain the \$400 refund limit, it must be realized that the maximum household limit will not increase by the indexing percentage.

Georganna Meyer

Georganna Meyer

GM:bak

KANSAS DEPARTMENT OF REVENUE
PLANNING AND RESEARCH BUREAU

Assume a 20% Cost-of-Living Increase:

<u>Household Income</u>	<u>Old Deduction</u>	<u>Indexed Deduction</u>
\$3,600	0	0
\$3,600.01 to \$4,200	1%	1%
\$4,300.01 to \$4,800	\$5 + 2%	\$6 + 2%
\$4,800.01 to \$5,400	\$15 + 3%	\$18 + 3%
\$5,400.01 to \$8,400	\$30 + 4%	\$36 + 4%
\$8,400.01 and up	\$130 + 4.5%	\$156 + 4.5%

<u>With a Household Income of</u>	<u>Deduction from Property Tax Will Be</u>	<u>Indexing Coinsurance</u>
\$4,000	\$ 4	\$ 4
4,500	11	12
5,000	21	24
5,500	34	40
6,000	54	60
8,000	134	140
8,100	138	144
8,200	142	148
8,300	146	152
8,400	150	156
8,500	134.50	160

At a 3.5% Cost-of-Living Increase:

<u>Household Income</u>	<u>Old Deduction</u>	<u>Indexed Deduction</u>
\$3,110	0	0
\$3,110.01 to \$3,620	1%	1%
\$3,620.01 to \$4,140	\$5 + 2%	\$5.10 + 2%
\$4,140.01 to \$4,660	\$15 + 3%	\$15.50 + 3%
\$4,660.01 to \$7,250	\$30 + 4%	\$31.10 + 4%
\$7,250.01 and up	\$130 + 4.5%	\$134.70 + 4.5%

<u>With a Household Income of</u>	<u>Deduction from Property Tax Will Be</u>	<u>Indexing Coinsurance</u>
\$7,100	\$127.60	\$128.70
7,200	131.60	132.70
7,250	133.60	134.70
7,300	132.25	136.95