

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m./~~xxx~~ on Tuesday, March 5, 1985 in room 519-S of the Capitol.

All members were present except:
Senator William Mulich (Excused)

Committee staff present:
Tom Severn, Research Department
Melinda Hanson, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:
Senator Phil Martin
Senator Leroy Hayden
Senator Joe Warren
Leroy Jones, Brotherhood of Locomotive Engineers
John Koepke, Kansas Association of School Boards
Marian Warriner, League of Women Voters of Kansas
David Litwin, Kansas Chamber of Commerce and Industry
Bill Abbott, Boeing
Gilbert Green, Association of Retired Federal Employees

S.B. 150 - Federal income tax liability deduction limited

S.B. 201 - Individual income tax rates

Senator Phil Martin testified in favor of both bills. He feels the bills are an equitable answer to revenue needs. He discussed the need for school finance and said S.B. 150 or S.B. 201 would reduce the anticipated increases in proper tax. Senator Martin distributed the following: "Comparison of Kansas Marginal Rates" (Attachment 1), "S.B. 201 Compared to Current Law" (Attachment 2) and "State Individual Income Tax Collections Per \$1,000 of Personal Income" (Attachment 3).

Senator Leroy Hayden testified in favor of S.B. 150. He said the sharply increased marginal tax rate for certain taxpayers has been removed that was contained in the original booster tax. He pointed out that S.B. 150 would pick up 18-20% of the amount that the federal income taxes have been reduced for the same taxpayers. Senator Hayden mentioned that it is not known what the consensus estimating group will predict and that it would be a good idea to have this bill available to use.

Senator Joe Warren testified in support of S.B. 201. He said he feels it is a better way to raise revenues than a sales tax increase.

Harley Duncan (Department of Revenue) explained his methodology for arriving at an estimate that S.B. 201 would raise 16 million dollars. He pointed out the figure could be on the low side. Tom Severn explained the method he used to arrive at an estimate of 24 million dollars and said the figure could be on the high side.

Senator Frey asked Senator Warren whether S.B. 201 would affect people who were not affected by the booster tax. Senator Warren replied that some people in the lower-middle brackets could be included who were not affected by the booster tax. Senator Montgomery asked Senator Warren if he would support an amendment designating the funds raised to school districts on a per-pupil basis. Senator Warren answered that he is opposed to any type of earmarking of funds. Chairman Kerr pointed out that 20% of the revenues would automatically go back to schools under the bill.

Leroy Jones testified in favor of both bills, especially S.B. 150.

John Koepke supported the concept of the bills and said his association prefers S.B. 150. He talked about the possible property tax increase of some 47

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 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Tuesday, March 5, 19 85

million dollars for school finance. He pointed out that S.B. 150 would have an impact on the school district equalization formula. Mr. Koepke said he is opposed to earmarking the funds because that would have a disequalizing effect.

Marian Warriner read her written statement in support of S.B. 201 (Attachment 4).

David Litwin read his testimony in opposition to S.B. 150 (Attachment 5). He mentioned that the House Assessment and Taxation Committee killed an almost identical bill.

Bill Abbott testified against S.B. 150. He said this type of tax is a deterrent in recruiting people for jobs in Kansas. He stated that more objections are raised about income tax than about property and sales taxes when recruiting people from other states.

Gilbert Green testified in opposition to both bills. He urges a sales tax increase (exempting food and prescription drugs) rather than increased income taxes to raise revenues.

Meeting adjourned.

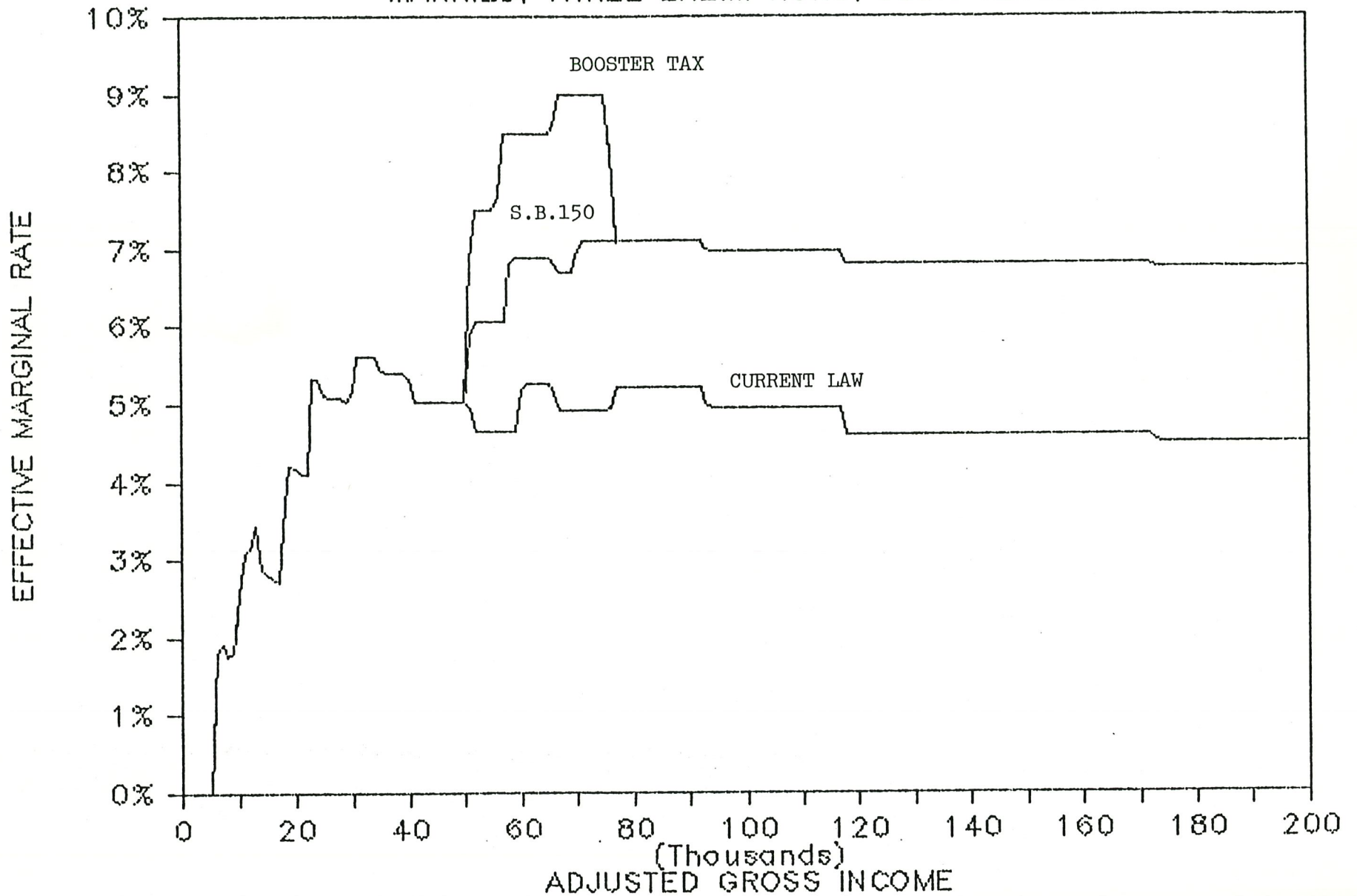
ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
3/5/85	Phil Mart	Topka	St. Louis
	Joe Warren	Senath	
3/5	Don Fisher	Sopeka	KCCJ
	Harold Pitts	Topoka	TARTA
	Chip Wheelen	"	Leg. Policy Group
	Bill Eddy	"	REVENUE
	Suber Brown	Topoka	NARFE
	Leroy Jones	Overland Park	B.L.E
	RON CALBERT	NEWTON	UJUL
	Tom Rickman	KC Mo	MORON LAB
	CHARLES BELT	WICHITA	CHAMBER OF COMMERCE
	Ray D. Shenkel	Shawnee	KCP&L Co.
	Ernest Freeman	Ripon Ks	KCP&L Co.
	Marian Harrison	Lawrence	LWVK
	Jacque Dales	Joplin	KASB
	Nick Slechts	Ellsworth	KASB
	Tom Veselitz	Topoka	KASB
	Jim McBride	Topoka	United Way
	Lohn K. Blythe	Manhattan	Ks Farm Bureau
	M. Heaven	Topka	Cap-downs

COMPARISON OF KANSAS MARGINAL RATES

MARRIED, THREE EXEMPTIONS, JOINT RETURN



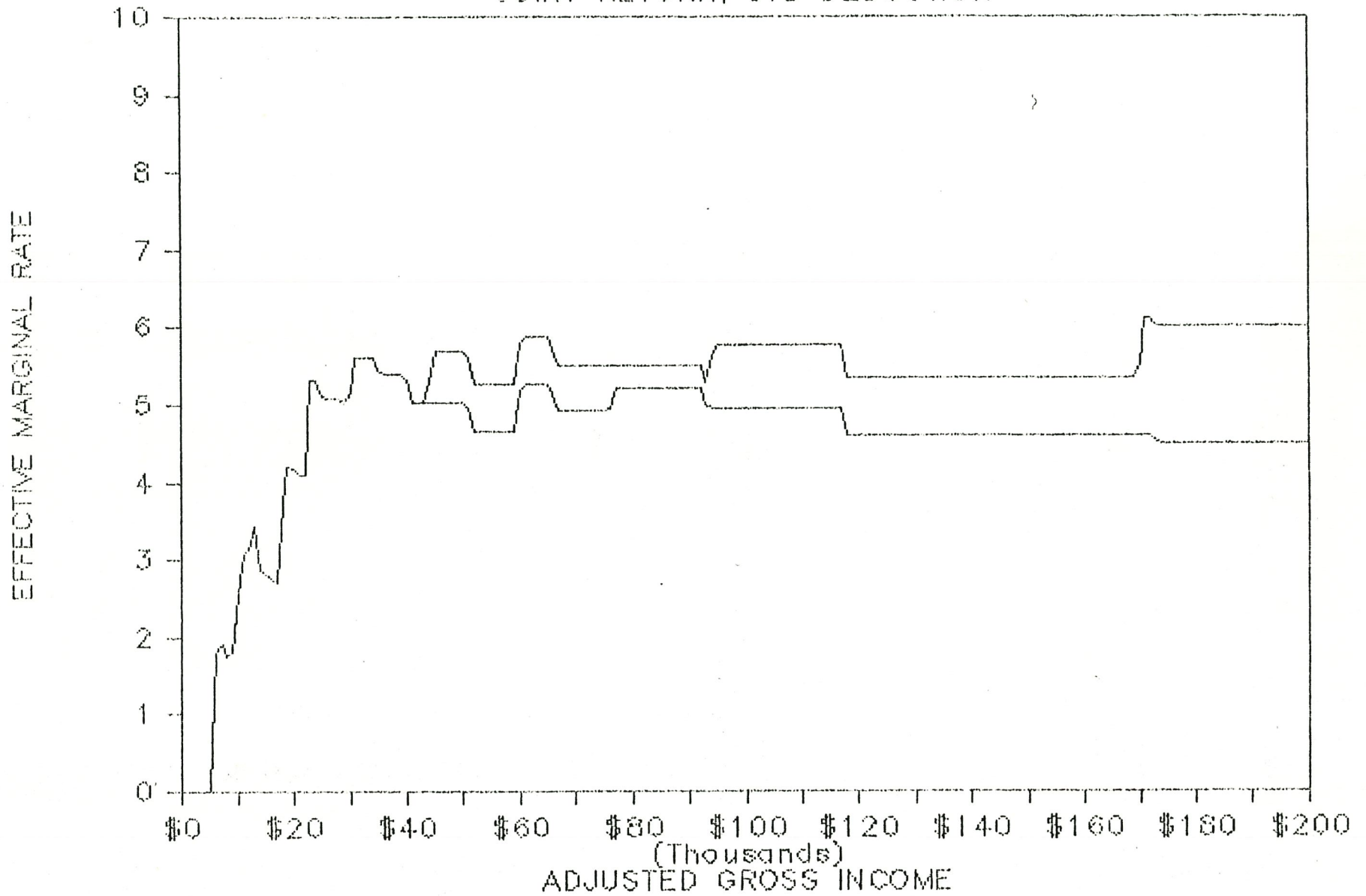
Attachment 1

Attachment 1

S.B. 201 COMPARED TO CURRENT LAW

JOINT RETURN, STD DEDUCTION

Attachment 2



Attachment 2

STATE INDIVIDUAL INCOME TAX COLLECTIONS PER \$1,000 OF PERSONAL INCOME, FY 1982;
MINIMUM AND MAXIMUM RATES AND OTHER ASPECTS OF CURRENT STATE TAX
STRUCTURE FOR STATES IMPOSING AN INDIVIDUAL INCOME TAX

	FY 1982 Collections/ \$1,000 Personal Income	Rate Structure for 1984 Income		Federal Income Used as Tax Base	Federal Income Tax Deductible
		Minimum	Maximum		
Alabama	\$ 16.32	2.0%	5.0%		X
Arizona	16.52	2.0	8.0	X	X
Arkansas	19.99	1.0	7.0		
California	24.62	1.0	11.0	X	
Colorado	17.50	3.0	8.0	X	X
Connecticut ^a	4.12	6.0	13.0		
Delaware	44.44	1.3	10.7	X	Partial
Georgia	24.84	1.0	6.0	X	
Hawaii	29.97	2.25	11.0	X	
Idaho	25.67	2.0	7.5	X	
Illinois ^b	15.89	3.0	3.0	X	
Indiana ^b	14.94	3.0	3.0	X	
Iowa	23.10	0.5	13.0	X	X
KANSAS	18.73	2.0	9.0	X	Partial
Kentucky	19.75	2.0	6.0	X	Partial
Louisiana	5.14	2.0	6.0	X	X
Maine	23.02	1.0	10.0	X	
Maryland	27.95	2.0	5.0	X	
Massachusetts ^a	35.38	12.5	17.5	X	
Michigan ^b	25.72	6.1	6.1	X	
Minnesota	42.83	1.6	16.0	X	X
Mississippi	10.14	3.0	5.0		
Missouri	17.58	1.5	6.0	X	X
Montana	19.78	2.0	11.0	X	X
Nebraska ^c	16.57	19.0	19.0	X	
New Hampshire ^a	1.64 ^d	5.0	5.0 ^d		
New Jersey	14.79 ^d	2.0	14.0 ^d	X ^d	
New Mexico	1.33	0.7	7.8	X	
New York	38.06	2.0	14.0	X	
North Carolina	28.48	3.0	7.0		
North Dakota	4.82	2.0	9.0	X	X
Ohio	17.12	.95	9.5	X	
Oklahoma	18.03	0.5	17.0	X	X
Oregon	43.17	4.2 ^f	10.8 ^f	X	Partial
Pennsylvania ^a	15.73	2.35 ^f	2.35 ^f		
Rhode Island ^c	25.41	24.9	24.9	X	
South Carolina	26.40	2.0	7.0		Partial
Tennessee ^a	1.26	6.0	6.0		
Utah	25.08	2.25	7.75	X	X
Vermont ^c	\$ 23.19	26.0%	26.0%	X	
Virginia	25.43	2.0	5.75	X	
West Virginia	18.19	2.1	13.0	X	
Wisconsin	33.78	3.4	10.0	X	
TOTAL	\$ 19.43 ^e			32	16

- a) Applies to limited kinds of income only.
b) Applies to AGI.
c) Applies to federal income tax liability.
d) Reflects New York commuter (income) tax.
e) Average of the 43 states imposing a personal income tax.
f) Applies to second six months of tax year 1984.

SOURCE: Commerce Clearing House, Inc., State Tax Guide (updated October, 1984); U.S. Department of Commerce, Bureau of the Census, State Government Finances in 1983 (GF 83, No. 3), Table 6.

NOTE: The following states currently do not impose an individual income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

LWVK LEAGUE OF WOMEN VOTERS OF KANSAS

March 5, 1985

STATEMENT TO THE SENATE ASSESSMENT AND TAXATION COMMITTEE

in support of SB 201

Mr. Chairman and Members of the Committee:

I am Marian Warriner speaking for the League of Women Voters of Kansas.

The League of Women Voters is supporting adequate funding of programs that deal with children, believing that here is the most cost effective way of using the state's limited dollars. These programs include:

- 1) public education - elementary and secondary
- 2) general assistance to the very poor
- 3) aid to dependent children
- 4) health, food and nutrition programs.

In other words, the things that help people to be productive, to become productive and to develop into healthy mature citizens able to support themselves. The members of the League of Women Voters are willing to pay higher taxes to achieve them.

We endorse three possible ways of raising more revenue:

- 1) progressive income tax with a broad base
- 2) sales tax with food exempt
- 3) repeal of some of the many exemptions to both income and sales taxes.

Income taxes

SB 201. We support the philosophy embodied in SB 201: additional brackets with increased rates. A House bill, recently defeated, has a somewhat different set of brackets and rates, and an increase in the personal exemption of 5%. This is certainly due, for the last increase was passed in 1979.

SB 150. While the limitation of the deduction of federal income taxes does conform to the League principles of progressive taxation, we do not have an explicit position in support of it.

Sales taxes

We also support the option of a sales tax increase of 1¢ with sales of food exempt because food is a basic necessity. We do not support the credit method of reducing the progressivity of the sales tax. Kansas' experience with credits of this type shows that only one-third of those eligible apply and receive the benefit.

Exemptions. Repeal of exemptions and deductions can be viewed as a way to gain additional revenue without a general tax increase.

Income taxes. Income tax deductions and exemptions, in addition to those granted at the federal level, cost the State General Fund over \$300,000,000 (1980 data). Credits allowed against income tax liability cost an additional \$1.3 million. The deductions are available only to those who itemize.

Sales taxes. Policy exemptions from the sales tax will cost Kansas \$332,600,000 in FY 1986.

We believe there should be sunset legislation and review with state guidelines whereby these are evaluated to see if they are:

- 1) cost effective,
- 2) are in fact accomplishing an endorsed social policy, and
- 3) are not outdated.

These guidelines should be applied to all proposed exemptions, deductions and credits.

This is a summary of our position on state revenue. I trust that when you become convinced, as we are, that the state cannot operate effectively and discharge its responsibilities with the revenue anticipated at present, you will consider all three options and choose the one or a combination that serves all Kansans the best.

Thank you.

Marian Warriner

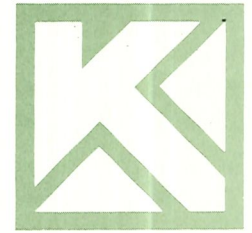


LWK
909 Topeka-Annex
Topeka, KS 66612
354-7478

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

SB 150

March 5, 1985

KANSAS CHAMBER OF COMMERCE AND INDUSTRY
Testimony Before the
SENATE ASSESSMENT AND TAXATION COMMITTEE
by
David S. Litwin
Director of Taxation

Mr. Chairman, members of the committee, I am David Litwin, representing the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to testify on SB 150.

The Kansas Chamber of Commerce and Industry (KCCI) 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.

KCCI 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 KCCI's members having less than 25 employees, and 86% having less than 100 employees.

The KCCI 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.

We are opposed to the enactment of this bill. It would resurrect a variation of the recently expired, so-called booster tax. The formulas are not the same, but the

purpose and intention are identical, that is, to raise revenue by limiting the amount of federal income tax liability that can be deducted.

From my vantage point, I can tell you that the expiration of this tax was greeted by widespread relief in much of the business community. This tax was particularly resented by many taxpayers, and the problem was not one of money per se. Rather, it was widely perceived that this tax was nothing other than double taxation. It is inherently distasteful to have to pay tax on a tax. Please bear in mind I am not suggesting that there should be a tax credit on state tax for federal tax paid, but only that in calculating taxable income there should be full allowance for federal income tax paid. There is enough fodder for disputes in ordinary taxation, without injecting double taxation into the picture.

This negative feeling was heavily reinforced by the perception that the booster tax was discriminatory in that it affected only a segment of the taxpaying public. We believe that on the whole, while there should be progressivity, when it is necessary to raise additional revenue the measure should be applied broadly, not just to those who are already in the higher tax brackets. Everyone should pull a share of the load, and by having a higher income to begin with, the taxpayer in the higher bracket would have a larger tax increase. That is entirely acceptable, but to put all of the burden on such taxpayers is not. If more revenue is required, then let's do so directly through a sales tax increase or a broad income tax increase, not through the back door.

The bill would be unfair in another way as well. If you take two taxpayers with similar incomes; one may have a much larger federal tax liability than the other, for a variety of reasons. Yet, by limiting its deductibility, this bill would disregard the difference in their effective net incomes and the resulting difference in their abilities to pay Kansas income tax. What is there about federal income tax that

warrants discriminatory treatment? Why should this unavoidable expenditure be deemed any less, or more, deductible than others?

Finally, this bill would impact middle and upper income taxpayers. These categories include the people who make major economic decisions such as site location and expansion plans. When one considers that this kind of tax is widely viewed as unfair, it is particularly ill advised to apply this sort of measure to those who hold the key to Kansas' economic future.

Thank you again. If there are questions, I will be pleased to address them.