

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 Thursday, April 11, 1985 in room 519-S of the Capitol.

All members were present ~~XXXXX~~

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: None

Senator Hayden moved that the minutes of the April 9, 1985 meeting be approved. Senator Thiessen seconded the motion, and the motion carried.

H.B. 2159 - Income tax credit for inventory property taxes

Chairman Kerr said that he understood from committee members that there was little interest in passing H.B. 2159 in its current form but there is considerable interest in doing something to alleviate the problems of inventories, especially implement dealers. One of the suggestions is to increase the 40% obsolescence, overhead, depreciation, etc. inventory reduction. Senator Frey explained his idea of including farm implements with motors and wheels under the definition of motor vehicles in the Constitution. A stamp tax concept would be his idea for taxing the implements when sold.

The Committee discussed whether this would be changing the definition of motor vehicles from what people had in mind when they passed the Constitutional amendment in 1974. The Revisor said it is his opinion that it would be ruled unconstitutional. Senator Frey disagreed on the grounds that there is precedent for expanding constitutional definitions beyond their original intent. The Committee discussed the fact that when the constitutional amendment relating to motor vehicles was voted on in 1974, there was no explanation of the amendment included on the ballot. The Revisor said that the 1973 interim report and minutes only refer to passenger vehicles, but he said that the legislative intent is not as important with regard to constitutional amendments as it is with statutory changes.

It was discussed that the current problem with inventories is similar to the former problem with farm machinery and that what is needed is a short-term solution since there seems to be strong support for a constitutional amendment which would exempt inventories under classification proposals.

The Committee discussed the mechanics of how a concept as that proposed by Senator Frey would actually work. Serial numbers could be used as a means of identification and possibly some sort of registration system would be used for the dealers.

Senator Mulich asked Bill Edds (Department of Revenue) for his comments. Mr. Edds said the voters in 1974 were actually voting on a tax and tags law rather than a motor vehicle stamp tax. He personally has questions as to the constitutionality of the stamp tax under the present constitutional framework and said further modifications in this area might possibly result in the current stamp tax being ruled unconstitutional.

It was pointed out that the inventory reduction percentage idea would help all merchants, not just implement dealers. The Revisor told the Committee that the 40% level has been upheld on the district court level and that the district court judge is now a member of the Kansas Supreme Court. The issue is the case was the constitutionality of the matter. Staff said the inventories would still be reported after reduction. Chairman Kerr said that any relief to implement dealers by an increase in the 40% level would be shifted to other taxpayers. On the other hand, it appears there will be

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MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,
room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on April 11, 1985

more rigid enforcement of the inventory tax, so that portion of the tax base may expand.

Senator Montgomery moved that H.B. 2159 be amended by striking all current provisions of the bill and by providing that the 40% obsolescence, overhead, depreciation, etc. inventory reduction be increased to 60%. Senator Thiessen seconded the motion.

The impact on merchants with high volume, low profit inventories was discussed. The Committee also talked about the fact that the percentage allowed may vary from county to county. It was pointed out the proposed amendment would result, roughly, in a one-third reduction in the merchants inventory tax base, without taking into account any other changes. Staff said that approximately 14.6 million dollars in local property taxes would potentially be lost. How much of this that would be shifted to other taxpayers would depend on factors such as levy limits.

The motion to amend H.B. 2159 carried, with Senator Mulich voting "no".

Senator Montgomery moved that H.B. 2159, as amended, be recommended favorably for passage. Senator Frey seconded the motion, and the motion carried, with Senator Mulich voting "no".

Meeting adjourned.

