

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 24, 1986 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

Tom Severn, Legislative Research  
Melinda Hanson, Legislative Research  
Don Hayward, Reviser of Statutes  
Millie Foose, Committee Secretary

HB-3001, an act amending the Kansas retailers' sales tax act; relating to the taxation of telephone services, was discussed. Mr. Gary Rhodus, A T & T District Manager, expressed opposition to HB-3001. He said that A T & T believes this bill is discriminatory and also has economic ramifications. (Attachments 1 and 2)

Janet Robinson, representing MCI Telecommunications, also testified in opposition to HB-3001 and said they believe possible gain to the state would be far out-weighted by the adverse economic effects on businesses. (Attachment 3)

David Litwin, representing Kansas Chamber of Commerce and Industry, also testified in opposition to the bill. He said its most obvious potential impact would be to discourage businesses that make intensive use of interstate telephone service from locating or expanding here. (Attachment 4)

Mr. Fred Furst, representing SPRINT, spoke in opposition to the bill and submitted a chart comparing the percentage of business customers and business MTS revenues. (Attachment 5)

This concluded the public hearing on HB-3001.

Mr. Harley Duncan, Secretary Kansas Department of Revenue, explained HB-3002, an act relating to income taxation; concerning the medical expense deductions of an individual. (Attachment 6) He said that the bill is intended to conform the state itemized deduction for medical and dental expenses with the current deduction allowed for the same expenses on the federal return.

Mr. Leroy Jones, representing Brotherhood of Locomotive Engineers, spoke in opposition to HB-3002. He believes it shifts the burden to the middle income wage earners of the state. (Attachment 7)

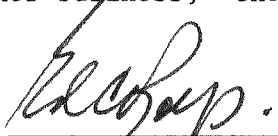
This concluded the public hearing on HB-3002.

Representative Reardon moved, second by Representative Leach, that a bill be introduced providing for a check off for the silver haired legislature on the state income tax form. The motion carried.

Representative Fox moved, second by Representative Vancrum, that a bill be introduced dealing with the distribution of sales tax in Johnson County. The motion carried.

Representative Leach moved, second by Reardon that a bill be introduced which would conform all deductions to the federal return. Representative Lowther moved, second by Representative Leach, that a substitute motion be introduced for total conformity but reduce the rated to make the bill revenue neutral. The motion carried.

There being no further business, the chairman adjourned the meeting.

  
Ed C. Rolfs, Chairman

BEFORE THE  
KANSAS HOUSE COMMITTEE ON  
ASSESSMENT AND TAXATION

REGARDING  
HOUSE BILL 3001  
FEBRUARY 24, 1986

COMMENTS OF  
GARY RHODUS  
AT&T DISTRICT MANAGER -- TAX LEGISLATION

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE:

MY NAME IS GARY RHODUS AND I AM DISTRICT MANAGER OF TAX LEGISLATION FOR AT&T. I AM A GRADUATE OF KANSAS STATE UNIVERSITY WITH A BACHELOR OF SCIENCE DEGREE IN BUSINESS ADMINISTRATION. I HAVE BEEN IN THE TELECOMMUNICATIONS BUSINESS FOR 18 YEARS, 6 OF WHICH HAVE BEEN DIRECTLY INVOLVED WITH TAX MATTERS. I AM A CERTIFIED SALES TAX MEMBER OF THE INSTITUTE OF PROPERTY TAX.

I AM HERE TODAY TO EXPRESS MY COMPANY'S OPPOSITION TO HOUSE BILL 3001 WHICH EXTENDS THE KANSAS STATE SALES TAX TO INTERSTATE TELEPHONE SERVICES. PLEASE UNDERSTAND FROM THE OUTSET THAT AT&T HAS NO PARTICULAR AXE TO GRIND IN THAT THE PROPOSED CHANGE INVOLVES A TAX ON AT&T'S CUSTOMERS, NOT ON AT&T. NEVERTHELESS, I COME BEFORE YOU TODAY TO EXPRESS AT&T'S CONCERN WITH BOTH THE DISCRIMINATORY AND ECONOMIC RAMIFICATIONS OF HB 3001.

IN THIS BILL, NUMEROUS DISCRIMINATION ISSUES ARISE. FOR INSTANCE, WHAT IS "TELEPHONE SERVICE" TODAY? WHILE HB 3001 WOULD EXTEND THE SALES TAX TO INTERSTATE "TELEPHONE SERVICE" IT DOES NOT DEFINE WHAT IT MEANS BY "TELEPHONE SERVICE." IS IT THE SAME AS TELECOMMUNICATION SERVICE? DOES THIS BILL INTEND TO TAX DATA TRANSMISSION SERVICES THAT USE IDENTICAL AND IN SOME CASES THE SAME FACILITIES AS THOSE USED FOR TRADITIONAL TELEPHONE CALLS? WHO WILL BE TAXED UNDER THIS BILL? HOTELS, MOTELS, RESELLERS, SMART BUILDING OPERATORS, TRADITIONAL TELEPHONE COMPANIES, INTEREXCHANGE CARRIERS? WHAT WILL BE TAXED? TRADITIONAL MESSAGE TELEPHONE

SERVICE, WATS, PRIVATE LINE, CELLULAR RADIO, BEEPERS, CABLE TV COMPANIES, FACSIMILE SERVICES, ELECTRONIC MAIL?

THE BOTTOM LINE IS THAT TAXING TELECOMMUNICATIONS SERVICES TODAY IS MUCH MORE COMPLEX THAN IT WAS A FEW SHORT YEARS AGO. THE TYPES OF ISSUES THAT WILL ARISE FROM HB 3001 TRANSCEND THE ISSUES GENERALLY ASSOCIATED WITH TAXING INTERSTATE SERVICES, AND GO DIRECTLY TO THE VERY HEART OF WHAT IS AND WHO PROVIDES TELEPHONE SERVICE TODAY. HOWEVER, AS POTENTIALLY SERIOUS AS THESE DISCRIMINATORY ISSUES ARE, THERE ARE ALSO VALID ECONOMIC AND BUSINESS REASONS FOR NOT ADOPTING HB 3001. SOME OF THE MORE IMPORTANT REASONS ARE:

- \* THE IMPACT THIS BILL WILL HAVE ON THE BUSINESS CLIMATE IN KANSAS, PARTICULARLY AS TO HOW IT IMPACTS HIGH-TECH BUSINESSES.
- \* THE IMPACT THIS BILL WILL HAVE ON THE REAL AND PRESENT THREAT OF BYPASS AND THE FLOW THROUGH EFFECT ON LOCAL RATES.
- \* THE POTENTIAL REVENUE GAIN FOR THE STATE VS. THE ECONOMIC RISK OF IMPOSING THE TAX.
- \* THE ADDITIONAL ADMINISTRATIVE PROBLEMS CREATED FOR THOSE OF US WHO COLLECT AND REMIT THE TAX, AS WELL AS FOR THE STATE ITSELF, IN THAT LOCALITIES UNDER CURRENT KANSAS LAW WILL ALSO BE ABLE TO IMPOSE THE TAX.
- \* THE FLOW THROUGH EFFECT THIS TYPE OF TAX HAS ON THE CITIZENS OF THE STATE OF KANSAS.

LOOKING FIRST AT THE IMPACT THIS BILL WILL HAVE ON THE STATE OF KANSAS' BUSINESS CLIMATE, ONE MUST CONSIDER THE IMPACT THIS TYPE OF TAX WILL HAVE ON THE DECISIONS OF BUSINESSES CONSIDERING LOCATING IN THE STATE. IN A RECENT STUDY COMMISSIONED BY THE TWIN CITIES METROPOLITAN COUNCIL IN MINNEAPOLIS, MINNESOTA, IT WAS

REPORTED THAT 40% OF THE BUSINESSES SURVEYED SAID TELECOMMUNICATIONS AVAILABILITY WAS A MAJOR FACTOR IN MAKING SITE DECISIONS. I SUBMIT THAT THESE BUSINESSES, OBVIOUSLY BEING HEAVY USERS OF TELECOMMUNICATIONS SERVICES, WOULD BE QUICK TO POINT OUT THESE SERVICES MUST ALSO BE AFFORDABLE. IF I HAVE TO PAY A 3% OR MORE PREMIUM ON MY INTERSTATE TELECOMMUNICATION USE IN KANSAS VIS-A-VIS NEBRASKA, MISSOURI OR ANY NUMBER OF OTHER MIDWESTERN STATES, I MIGHT BE INCLINED TO LOCATE MY BUSINESS OUTSIDE OF KANSAS.

THE BUSINESS IMPACT OF EXTENDING A TAX TO INTERSTATE SERVICES SHOULD NOT BE CONSIDERED LIGHTLY. THERE IS NO QUESTION THAT WE ARE IN THE INFORMATION AGE. MOST BUSINESSES, BOTH LARGE AND SMALL, USE AN EXTRAORDINARILY LARGE AMOUNT OF "TELECOMMUNICATIONS SERVICES" IN ORIGINATING, MOVING AND RECEIVING INFORMATION. THESE SERVICES INCLUDE NOT ONLY TRADITIONAL TOLL SERVICES, BUT IN TODAY'S WORLD ALSO INCLUDE DATA OR COMPUTER SERVICES, FACSIMILE SERVICES, ENHANCED MAIL SERVICES, VIDEO SERVICES AND MANY OTHERS. THE COMBINED BILLING FOR THESE SERVICES CAN RUN INTO HUNDREDS OF THOUSANDS OF DOLLARS FOR MANY BUSINESSES. A COMPANY HAVING THE OPPORTUNITY AND CHOICE OF WHERE TO LOCATE, ESPECIALLY IF THEY ARE A LARGE USER OF "COMMUNICATIONS SERVICES", IS LIKELY TO SELECT A LOCALITY THAT DOES NOT TAX ONE OF ITS LARGEST COST COMPONENTS.

THE SECOND AREA OF CONCERN IS A NATURAL FOLLOW-UP TO THE FIRST. THAT IS, THE POTENTIAL IMPACT THAT A TAX ON INTERSTATE, OR INTRASTATE TELECOMMUNICATIONS SERVICES FOR THAT MATTER, CAN HAVE ON

THE REAL AND PRESENT THREAT OF BYPASS. THE FLORIDA PUBLIC SERVICE COMMISSION STATED IN ITS ACCESS REPORT ISSUED IN AUGUST OF 1984: "WITH THE EMERGENCE OF COMPETITION IN THE TELECOMMUNICATIONS INDUSTRY, THE CURRENT REVENUES OF LOCAL EXCHANGE COMPANIES (LECS) ARE BEING THREATENED BY SEVERAL FACTORS. ONE OF THESE IS BYPASS." WHY IS THIS IMPORTANT TO KANSAS? AS IN THE CASE OF BUSINESSES LOOKING TO LOCATE OR RELOCATE, BUSINESSES ALREADY LOCATED IN KANSAS MAY BE FORCED TO CONSIDER ALTERNATIVE METHODS OF INFORMATION MOVEMENT AND MANAGEMENT. GIVEN THAT A BUSINESS ALREADY LOCATED IN KANSAS MIGHT NOT BE INCLINED TO MOVE OUT OF THE STATE, IT MIGHT NEVERTHELESS CHOOSE TO EMBARK UPON THE TECHNOLOGICALLY FEASIBLE AND ECONOMICALLY JUSTIFIABLE BYPASS OF TRADITIONAL COMMUNICATIONS SERVICES. IF THEY DO, THEN ONCE AGAIN SMALL BUSINESSES AND RESIDENTIAL USERS WHO CANNOT ECONOMICALLY JUSTIFY BYPASS WILL BE LEFT TO BEAR A LARGER AND LARGER SHARE OF LOCAL EXCHANGE SERVICE COSTS.

IN ITS SUMMARY, THE FLORIDA PUBLIC SERVICE COMMISSION STUDY STATES: "WHILE NOT ALL THE ASSUMPTIONS USED HERE APPLY EQUALLY TO ALL CUSTOMERS, IT SHOULD BE OF CONCERN TO COMPANIES AND REGULATORS ALIKE THAT A RELATIVELY SMALL NUMBER OF CUSTOMERS CAN HAVE A DISPROPORTIONATELY LARGE IMPACT ON REVENUE, SHOULD BYPASS BE UNDERTAKEN." AT AT&T, WE ESTIMATE THAT 20% OF OUR CUSTOMERS GENERATE 80% OF OUR REVENUES. SHOULD EVEN A SMALL PERCENTAGE OF THOSE CUSTOMERS LEAVE THE NETWORK, THE REVENUE IMPACT WOULD BE QUITE SEVERE.

ACCORDINGLY, BYPASS IS NOT ONLY A SERIOUS THREAT FOR THE LOCAL EXCHANGE COMPANIES, THE INTEREXCHANGE CARRIERS SUCH AS AT&T, MCI, SPRINT, AND OTHERS, IT IS ALSO A SERIOUS THREAT TO THE TAX BASE OF A JURISDICTION. ONCE AGAIN, THE FLORIDA PSC REPORT CONCLUDED: "ONCE A SYSTEM IS ESTABLISHED FOR ONE PURPOSE, THE INCREMENTAL COSTS OF EXPANDING IT MAY BE NOMINAL." TO FURTHER EMPHASIZE THIS POINT, I REFER YOU TO A MORE RECENT OREGON PUBLIC UTILITY COMMISSION ORDER AUTHORIZING INCREASED RATES FOR LOCAL TELEPHONE COMPANIES AND DECREASED RATES FOR INTRASTATE TOLL. IN THAT ORDER, COMMISSIONER MAUDLIN STATED THAT LARGE USERS WITH THE CAPABILITY TO SET UP THEIR OWN NETWORKS WOULD BE DRIVEN TO BYPASS THE LOCAL TELEPHONE COMPANIES IF INTRASTATE RATES WERE NOT REDUCED. HE FURTHER POINTED OUT THAT THE EFFECT OF BYPASS ON THE LOCAL TELEPHONE COMPANIES COULD BE DISASTROUS. I SUBMIT TO YOU THAT INCREASED TAXES ARE PERCEIVED BY THE GENERAL PUBLIC AS NOTHING MORE THAN INCREASED RATES. THIS MAY HAVE BEEN ACCEPTABLE WHEN THERE WERE NO OTHER ALTERNATIVES TO INFORMATION MOVEMENT, BUT TODAY THERE ARE ALTERNATIVES.

A THIRD AREA OF CONCERN IS WHETHER THE STATE HAS SUFFICIENTLY CONSIDERED THE RELATIVELY INSIGNIFICANT INCREASE IN REVENUES THAT THIS TAX WOULD GENERATE FOR THE STATE IN COMPARISON TO ITS IMPACT ON INDIVIDUAL CONSUMERS. WHILE THE TAX WILL HAVE A DIRECT 3% IMPACT ON CONSUMERS IT WILL APPARENTLY GENERATE A RELATIVELY SMALL AMOUNT OF ADDITIONAL REVENUES FOR THE STATE. IN LIGHT OF THE PRECEDING COMMENTS A QUESTION MUST BE ASKED -- IS THE POTENTIAL REVENUE GAIN WORTH THE RISK?

THE FOURTH AREA OF CONCERN IS THAT, UNDER CURRENT KANSAS LAW, THE IMPACT OF THIS TAX WILL NOT BE LIMITED TO THE STATE LEVEL BUT WILL ALSO EXTEND TO LOCAL JURISDICTIONS. THIS WILL NOT ONLY ADD TO THE ECONOMIC IMPACT OF THIS BILL BUT IT WILL ALSO CREATE SERIOUS ADMINISTRATIVE PROBLEMS AND ADDITIONAL COSTS FOR THE COLLECTING COMPANIES. IT WOULD APPEAR THAT THE STATE ITSELF WILL INCUR ADDITIONAL COSTS IN THAT THE STATE ADMINISTERS THE LOCAL TAX. WHILE BOTH AT&T AND THE STATE ARE CURRENTLY SET UP TO HANDLE LOCAL TAXES, THERE IS NO ASSURANCE THAT THIS TAX WILL BE UNIVERSALLY ADOPTED, OR REJECTED, AND AS A RESULT, ANOTHER LAYER OF RECORD KEEPING, DISTRIBUTION AND AUDIT PROBLEMS WILL BE CREATED FOR BOTH THE COMPANY AND THE STATE.

OUR FINAL CONCERN HAS TO DO WITH THE FLOW THROUGH EFFECT A TAX OF THIS NATURE WILL HAVE ON THE CITIZENS OF KANSAS. IT IS HARD TO IMAGINE A SERVICE THAT IS MORE INTEGRALLY INVOLVED IN PEOPLES' LIVES THAN TELECOMMUNICATIONS. THIS TAX WILL NOT ONLY ADD A NEW COST DIRECTLY TO THE CONSUMER, BUT IT WILL ALSO RESULT IN A MULTIPLYING FLOW THROUGH EFFECT IN THE COST OF VIRTUALLY EVERY PRODUCT AND SERVICE PURCHASED FROM VENDORS IN KANSAS.

TO THE DEGREE THAT EXTENSION OF THE SALES TAX TO INTERSTATE SERVICES WILL BRING ADDITIONAL PRESSURE TO BEAR ON THE COST OF TELECOMMUNICATION SERVICES, THE TAXING OF INTERSTATE SERVICE WILL BE WORKING AGAINST THE GOAL OF MAINTAINING AFFORDABLE, UNIVERSAL TELEPHONE SERVICE. IT WILL ALSO BE WORKING AGAINST AT&T'S EFFORTS



TO BRING THE BENEFITS OF COMPETITION TO THE TOLL USER. THIS IS ESPECIALLY SIGNIFICANT IN A STATE LIKE KANSAS WHICH IS WORKING HARD TO EXPAND ITS ECONOMIC BASE.

THEREFORE, IN LIGHT OF THE SIGNIFICANT IMPACT THIS TAX WILL HAVE ON THE CITIZENS AND BUSINESSES OF THE STATE OF KANSAS, AND IN VIEW OF THE QUESTIONABLE BENEFITS TO BE RECEIVED BY THE STATE, AT&T RESPECTFULLY URGES THE KANSAS LEGISLATURE TO REJECT THE EXTENSION OF THE KANSAS SALES TAX TO INTERSTATE TELEPHONE SERVICES. AT THE VERY LEAST, THIS BILL SHOULD BE TABLED OR WITHDRAWN PENDING A COMPLETE STUDY OF THE TELECOMMUNICATIONS INDUSTRY IN THE NEWLY COMPETITIVE MARKETPLACE, AND UNTIL THE BILL'S FULL IMPACT ON THE RESIDENTS AND BUSINESSES OF KANSAS CAN BE MEASURED.

IN CLOSING, I BRING TO YOUR ATTENTION THAT GOVERNOR KERREY OF NEBRASKA HAS VOLUNTEERED TO BE THE LEAD GOVERNOR FOR THE COUNCIL OF STATE PLANNING AGENCIES' 1986 TELECOMMUNICATIONS PROJECT. THE COUNCIL IS AFFILIATED WITH THE NATIONAL GOVERNORS ASSOCIATION AND HAS IDENTIFIED THE ISSUES OF TELECOMMUNICATIONS TO BE ITS 1986 STUDY ISSUE. GOVERNOR KERREY HAS EXPRESSED AN INTEREST IN TELECOMMUNICATIONS AND BELIEVES STRONGLY THAT STATES MUST GET MOVING TO PREPARE FOR THE CHANGING SOCIAL AND ECONOMIC STRUCTURE EMERGING FROM THE INFORMATION AGE. THE FINAL CONCLUSIONS OF THIS STUDY ARE TO BE DISTRIBUTED TO THE GOVERNORS OF ALL FIFTY STATES. CONSIDERING THE POTENTIAL RAMIFICATION OF HB 3001, IT WOULD SEEM PRUDENT TO AWAIT THE OUTCOME OF THE COUNCIL'S STUDY.

IF YOU HAVE ANY QUESTIONS, I WILL BE HAPPY TO TRY AND ANSWER THEM. AGAIN THANK YOU FOR THE OPPORTUNITY TO EXPRESS MY COMPANY'S VIEWS BEFORE YOUR COMMITTEE.

KANSAS HOUSE BILL 3001  
AT&T's POSITION  
FEBRUARY 24, 1986

WHAT THE BILL DOES:

This bill extends Kansas' 3% retailers' sales tax on long distance service to interstate calls. This bill impacts all customers by imposing the sales tax and a local option sales tax on an interstate telephone call. Additionally, any local option sales tax could be assessed to these interstate charges.

AT&T's POSITION:

We oppose HB 3001. It will impose an unfair tax on our interstate long distance customers. This bill will add an additional tax burden on competitive long distance services. Here are some reasons for our position:

1. This bill will seriously impact Kansas' communication network by imposing a state tax on interstate long distance service that is not taxed by most of the states in the country. Businesses that use long distance service will consider this interstate tax when making their decisions to move to Kansas or another state.
2. Increasing the tax burden on interstate calls will increase the probability that large business customers will "bypass" the long distance network through private networks, thus avoiding the tax altogether.
3. This bill may discriminate against AT&T Communications since the definition of "telephone service" may not be broad enough to cover all providers of interstate telecommunications services.
4. This bill will generate a relatively small amount of revenue for the state in comparison to its direct adverse impact on individual consumers.
5. Under current Kansas law, the impact of this tax will not be limited to the state level but will also extend to local jurisdictions.
6. This bill will not only add a new direct cost to the consumer, but it will also result in increasing the cost of virtually every product and service purchased from vendors in Kansas.

MCI TELECOMMUNICATIONS CORPORATION

Testimony Before the  
House Assessment and Taxation Committee

MCI Telecommunications wishes to express its opposition to House Bill 3001 which would extend to interstate telephone services the Kansas sales tax. Such a sales tax will not directly impact MCI as it represents a "passed through" cost our customers would have to bear. MCI is concerned about the increased burden not only to our customers, but to all consumers of interstate long distance services.

One of the reasons for the AT&T divestiture and the allowance of competition in long distance telephone service was the reduction in long distance telephone rates. To now raise those rates through the addition of a sales tax obviates, at least in part, the savings being realized by consumers.

Obviously, a consumer with a low monthly long distance bill will not be greatly affected by a 3% sales tax. For example, a monthly toll charge of \$25.00 to \$100.00 would be taxed only \$.75 to \$3.00. This would most probably not work a hardship on those having to pay. But these relatively small amounts are not where the state is expecting to realize the large portion of its estimated \$4.5 million gain in revenue. It is the large businesses which spend thousands and thousands of dollars per month on long distance telephone services who will see a significant raise in their telephone bills with the addition of a 3% sales tax. You are proposing that these businesses

pay thousands of dollars per year in sales tax - in addition to all the other taxes they pay. It is very probable that many businesses, faced with a dramatic increase in their long distance telephone costs, will turn to by-pass as a way of reducing those costs. If large commercial customers by-pass the local telephone networks, not only will the state lose a large chunk of the revenue it was expecting to receive through this sales tax, but the local telephone companies, and therefore the small business and residential ratepayers, will be hard hit.

A sales tax on interstate telephone service will also have an adverse impact on the economic growth we are striving for in our state. Businesses which make extensive use of interstate telephone service will not be attracted to a state imposing such a tax. If new businesses do not locate in Kansas, additional sources of revenue such as income taxes, will be lost.

In conclusion, we believe the possible gain to the state's coffers through imposition of a sales tax on interstate long distance telephone service would be far out-weighed by the adverse economic effects on businesses, both large and small, and to the individual consumers. We urge you to continue the sales tax exemption of long distance telephone service.

# 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

HB 3001

February 24, 1986

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the  
House Assessment and Taxation Committee

by

David Litwin  
Director of Taxation

Mr. Chairman, members of the committee. My name is David Litwin, representing KCCI. Thank you for the chance to comment on HB 3001.

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. KCCI receives no government funding.

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.

KCCI's Board of Directors has not had occasion to address the precise issue presented by this bill, and I am not here today to testify in favor of or in opposition to its passage.

Rather, I would like to emphasize a consideration that I think this committee should factor into its deliberations on this bill. Kansas is in the early stages of gearing up as never before in an effort to nurture our existing business base and attract new investment. We are concerned that SB 575 would work at cross-purposes with this overriding need.

I am informed that only five states presently tax interstate phone service, and only one - Oklahoma - is in this region. Kansas would be the sixth such state if SB 575 is enacted.

Thus to enact this bill would be to send out a signal that would conflict with our effort to create a highly competitive business atmosphere. Its most obvious potential impact would be to discourage businesses that make intensive use of interstate telephone service from locating or expanding here. Indeed, while the approximately \$5 million in new revenue that I understand this bill could produce is not insignificant, it's still quite small when compared with the state's operating budget. If this bill caused just one telephone-intensive substantial business to not come here or to relocate, the damage to the state's economy and loss of other tax revenue, especially sales and income, would probably more than offset the benefit of the additional sales tax revenue that the bill would generate.

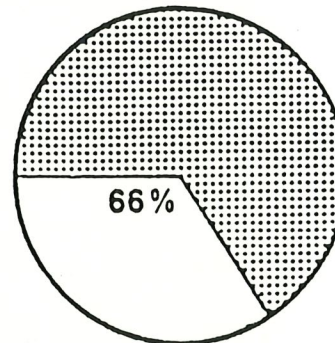
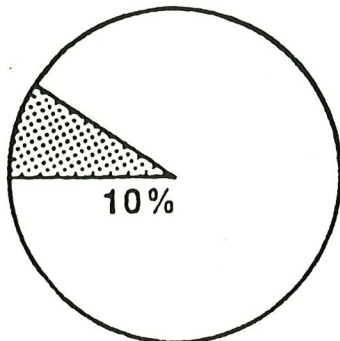
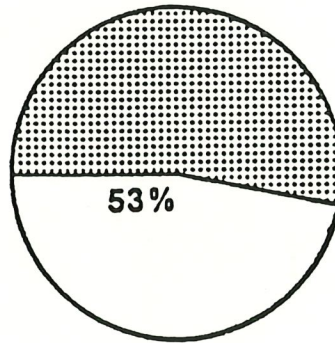
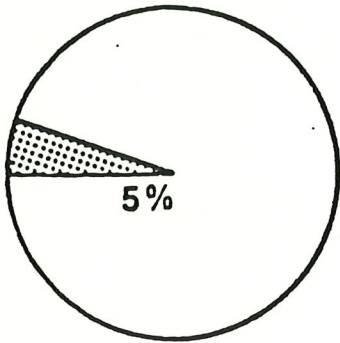
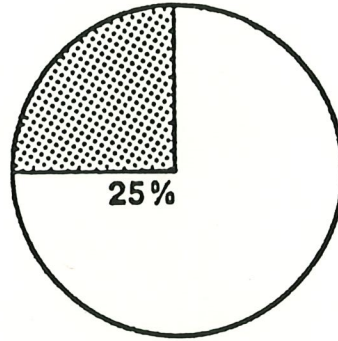
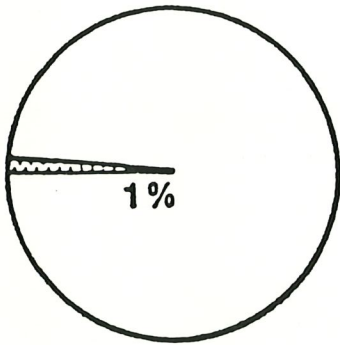
More generally, well over half of the dollar volume of interstate phone sales is business-related. Thus this bill would add measurably to the cost of doing business in Kansas, as compared to most other states, for thousands of businesses that are already here.

We urge the committee to take these factors into consideration when it takes action on this bill. Thank you again for the chance to testify. I would be happy to try to answer any questions.

# KANSAS BUSINESS CUSTOMER CONCENTRATIONS

BUSINESS  
CUSTOMERS


BUSINESS  
MTS REVENUES





MEMORANDUM

TO: The Honorable Ed C. Rolfs, Chairman  
House Committee on Assessment and Taxation

FROM: Harley T. Duncan, Secretary  
Kansas Department of Revenue 

RE: House Bill 3002

DATE: February 24, 1986

Thank you for the opportunity to appear before you today on House Bill 3002. The Department takes no position on the enactment of this measure. Instead, my purpose is to explain the bill and its fiscal impact.

**BACKGROUND**

HB 3002, as I understand it, is intended to conform the state itemized deduction for medical and dental expenses with the current deduction allowed for the same expenses on the federal return. At the present time, the federal return allows an itemized deduction for all unreimbursed medical and dental expenses in excess of 5 percent of adjusted gross income. Current state law allows an itemized deduction for all unreimbursed expenses in excess of \$50.

If this is the intent, the bill will need to be amended to update the date of reference to the Internal Revenue Code contained in K.S.A. 79-39,120(a) from December 31, 1977 to December 31, 1985. Otherwise, the allowed state medical deduction will be what was allowed at the

federal level on 1977 income tax returns. This also has the effect of conforming on several other itemized deductions such as the gas tax, political contributions and casualty losses.

## **FISCAL IMPACT**

We estimate that enactment of HB 3002, with the amendment suggested above, will increase State General Fund revenues by approximately \$34.0 million in FY 1987. The estimate was developed through our individual income tax simulation model. The model is based on a sample of 10,000 individual income tax returns from 1983 with income and expenses increased to 1986 levels based on actual increases in 1984 and assumptions used in the consensus revenue estimates for 1985 and 1986.

Attached to this testimony is information displaying the effect of these changes on various types of taxpayers broken between single and married returns and various income groups. At the top of the first page is a breakdown of current law income tax liability which shows for various income groups of married residents, single residents, and all residents the following data: number of returns, percent of Kansas Adjusted Gross Income, estimated income tax liability, percent of total liability for that group, and the effective tax rate for that income group with effective rate being tax liability expressed as a percentage of AGI. The bottom half of the first page shows the same information after one makes the changes encompassed in the bill. The second page focuses on the increase resulting from the bill. It presents the estimated amount of increase, the percentage increase, the percent of total increase and the effective tax rate for the various income groups and filing categories.

**Note that the because of some uncertainty over the intent and effect of the bill, data include only the \$31.0 million that would be raised if the State conformed only the federal**

medical deduction as it existed in 1985. An additional \$3.0-3.5 million would be raised by updating our itemized deduction reference date from 1977 to 1985, but these revenues are not shown on the attachment.

Of the total increase, \$22.7 million falls on married residents, \$6.1 million on single residents and \$2.2 million on non-residents. On average, married resident liability would increase by 5.5 percent, and single resident liability would rise by 3.8 percent. For all resident taxpayers (married and single), the average increase is 5.0 percent with the largest relative increase of 6.1 percent being experienced in the \$35,000 to \$100,000 income brackets. Of the total increase, 60.6 percent would be paid by taxpayers with an AGI between \$35,000 and \$100,000. Taxpayers with an AGI of \$25,000 to \$35,000 will pay an additional 17.4 percent of the increase.

Since this bill and others deal with itemized deductions, the Committee may find the following information on our itemized filing population helpful.

1. In 1984, 39 percent of all resident taxpayers itemized their deductions. This constitutes 372,773 returns.
2. Of the itemizers, 77 percent (288,000) were married taxpayers and the rest (84,000 or 23 percent) were single.
3. For all resident taxpayers, 80 percent of those with under \$25,000 AGI file with a standard deduction while 79 percent of those over \$25,000 AGI file with itemized deductions.
4. For married resident taxpayers, 68 percent under \$25,000 AGI use the standard deduction and 80 percent of those over \$25,000 use itemized deductions.

5. For single resident taxpayers, 86 percent of those under \$25,000 AGI file with a standard deduction and 71 percent of those over \$25,000 use itemized deductions.

While the Department takes no position on HB 3002, we would recommend that if the Committee takes affirmative action on the bill that the amend into it certain provisions of SB 573. Senate Bill 573 was requested by the Department in order to achieve a greater degree of conformity between the state tax code and the federal Internal Revenue Code in the area of itemized deductions and penalties for underpayment of estimated tax. Specifically, the additional provisions include:

1. Update the reference date for federal itemized deductions from December 31, 1977 to December 31, 1985. This means that state itemized deductions will be federal itemized deductions as they existed on December 31, 1985 plus and minus certain state modifications. The effect of this change is to eliminate the gasoline tax deduction which was repealed at the federal level in 1978, conform our casualty loss deduction to the federal level of only losses in excess of 10 percent of AGI, and repeal the deduction for political contributions.
2. Repeal the special state itemized deduction which allows an artist to deduct the fair market value of any work of art donated to a non-profit art gallery or museum supported wholly or in part by public funds. With the amendment, the artist would deduct only what is allowed at the federal level which is the cost of materials. Since it was enacted in 1979, we are unaware of any taxpayer using this provision.
3. Repeal a special state provision disallowing charitable contributions to racially segregated educational institutions. This is no longer necessary since federal law disallows such contributions.

4. Repeal two exceptions to the penalty for underpayment of estimated tax which will bring us into conformity with the federal underpayment exceptions as they exist currently. The two remaining exceptions will be if the payments equal the liability for the prior year or if they equal 80 percent (66 2/3 percent for farmers) of the current year liability.

Thank you for the opportunity to appear, and I hope this information is helpful. I would be glad to attempt to answer any questions.

Individual Income Tax In Tax Year 1986  
Resident Taxpayers

Current Law

K.A.S.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No. K.A.S.I.	12,526	0.0%	\$0.00	0.0%	0.0%	6,211	0.0%	\$0.00	0.0%	0.0%	18,737	0.0%	\$0.00	0.0%	0.0%
\$0 - \$5,000	15,895	0.2%	\$13,469.39	0.0%	0.0%	103,053	4.9%	\$928,091.84	0.6%	0.3%	118,947	1.4%	\$941,551.22	0.2%	0.3%
\$5,000 - \$15,000	75,474	4.5%	\$6,618,627.55	1.6%	0.9%	166,105	26.4%	\$28,001,524.49	17.6%	1.8%	241,579	10.1%	\$34,650,152.04	6.2%	1.5%
\$15,000 - \$25,000	97,368	11.2%	\$31,912,959.18	7.6%	1.7%	84,316	27.3%	\$46,157,027.55	28.9%	2.9%	181,684	15.3%	\$75,059,866.73	13.5%	2.2%
\$25,000 - \$35,000	107,769	18.5%	\$71,070,616.37	17.0%	2.3%	36,842	17.9%	\$34,453,306.12	21.6%	3.3%	144,632	18.4%	\$125,523,924.49	18.3%	2.5%
\$35,000 - \$50,000	125,253	29.8%	\$129,225,378.41	31.0%	2.6%	15,263	10.3%	\$20,111,682.65	12.5%	3.3%	140,526	24.8%	\$149,317,022.06	25.9%	2.5%
\$50,000 - \$100,000	71,153	25.8%	\$121,078,324.29	29.0%	2.8%	6,632	7.1%	\$16,225,425.51	10.2%	3.9%	77,789	21.1%	\$137,524,729.59	23.6%	2.9%
\$100,000 - Over	9,052	9.9%	\$57,273,166.33	13.7%	3.4%	1,368	6.0%	\$13,580,811.22	8.5%	3.9%	10,421	8.9%	\$70,853,977.55	12.3%	3.5%
Total	514,526	100.0%	\$417,172,415.31	100.00%	2.5%	419,789	100.00%	\$159,458,869.39	100.00%	2.7%	934,316	100.00%	\$576,631,284.69	100.00%	2.5%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986  
Resident Taxpayers

SIMULATION NO. 007: CONFORMITY TO FEDERAL MEDICAL AND DENTAL EXPENSE DEDUCTIONS

K.A.S.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No. K.A.S.I.	12,526	0.0%	\$0.00	0.0%	0.0%	6,211	0.0%	\$0.00	0.0%	0.0%	18,737	0.0%	\$0.00	0.0%	0.0%
\$0 - \$5,000	15,895	0.2%	\$13,469.39	0.0%	0.0%	103,053	4.9%	\$949,724.49	0.6%	0.3%	118,947	1.4%	\$953,193.88	0.2%	0.3%
\$5,000 - \$15,000	75,474	4.5%	\$6,722,301.82	1.5%	0.9%	166,105	26.4%	\$28,956,932.65	17.5%	1.8%	241,579	10.1%	\$35,675,233.67	5.9%	1.5%
\$15,000 - \$25,000	97,368	11.2%	\$32,927,553.05	7.5%	1.7%	84,316	27.3%	\$47,953,354.08	29.0%	2.9%	181,684	15.3%	\$62,870,927.14	13.4%	2.3%
\$25,000 - \$35,000	107,769	18.5%	\$74,640,205.10	17.0%	2.3%	36,842	17.9%	\$35,904,530.61	21.7%	3.3%	144,632	18.4%	\$110,544,735.71	18.3%	2.6%
\$35,000 - \$50,000	125,253	29.8%	\$137,454,847.96	31.2%	2.6%	15,263	10.3%	\$20,928,009.10	12.6%	3.4%	140,526	24.8%	\$158,382,857.14	26.2%	2.7%
\$50,000 - \$100,000	71,153	25.8%	\$128,774,732.65	29.3%	2.9%	6,632	7.1%	\$16,955,813.27	10.2%	4.0%	77,789	21.1%	\$145,730,545.92	24.1%	3.0%
\$100,000 - Over	9,052	9.9%	\$59,402,043.88	13.5%	3.4%	1,368	6.0%	\$13,919,658.78	8.4%	3.8%	10,421	8.9%	\$73,321,732.65	12.1%	3.5%
Total	514,526	100.0%	\$439,915,153.05	100.00%	2.5%	419,789	100.00%	\$165,578,053.05	100.00%	2.8%	934,316	100.00%	\$605,493,226.12	100.00%	2.6%
Impact:			\$22,742,737.76					\$6,119,183.57					\$56,851,321.43		
Non-Resident:			\$31,222,524.49					\$2,150,623.06							

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986  
Resident Taxpayers  
Impact By Bracket

SIMULATION NO. 007: CONFORMITY TO FEDERAL MEDICAL AND DENTAL EXPENSE DEDUCTIONS

K.A.S.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Increase	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Increase	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Increase	Liability	Percent Of Total	Effective Rate
No K.A.S.I.	12,526	0.0%	\$0.00	0.0%	0.0%	6,211	0.0%	\$0.00	0.0%	0.0%	18,737	0.0%	\$0.00	0.0%	0.0%
\$2 \$5,000	15,895	0.0%	\$0.00	0.0%	0.0%	103,053	2.3%	\$21,632.65	0.4%	0.3%	118,947	2.3%	\$21,632.65	0.1%	0.3%
\$5,000 \$15,000	75,474	1.6%	\$103,673.47	0.5%	0.9%	166,105	3.4%	\$955,408.16	15.6%	1.8%	241,579	3.1%	\$1,059,081.63	3.7%	1.5%
\$15,000 \$25,000	97,368	3.1%	\$994,693.88	4.4%	1.7%	84,316	3.9%	\$1,006,326.53	29.5%	2.9%	181,684	3.6%	\$2,001,020.41	9.7%	2.3%
\$25,000 \$35,000	107,789	5.0%	\$3,569,585.73	15.7%	2.3%	36,842	4.2%	\$1,451,224.49	23.7%	3.3%	144,632	4.8%	\$5,022,811.22	17.4%	2.5%
\$35,000 \$50,000	125,263	6.4%	\$8,249,477.55	36.2%	2.6%	15,253	4.1%	\$816,326.53	13.3%	3.4%	140,526	5.1%	\$9,065,824.08	31.4%	2.7%
\$50,000 \$75,000	71,153	6.4%	\$7,696,428.57	33.8%	2.9%	6,632	4.5%	\$729,387.76	11.9%	4.0%	77,789	6.1%	\$8,425,816.33	29.2%	3.0%
\$75,000 Over	9,253	3.7%	\$2,128,877.55	9.4%	3.4%	1,368	2.5%	\$338,077.55	5.5%	3.8%	10,421	3.5%	\$2,467,755.10	8.6%	3.5%
Total	514,526	5.5%	\$22,742,737.76	100.00%	2.5%	419,789	3.8%	\$6,119,183.67	100.00%	2.8%	934,316	5.0%	\$28,861,921.43	100.00%	2.6%
Fiscal Impact:			\$22,742,737.76					\$6,119,183.67					\$23,081,921.43		
All Taxpayers:			\$31,022,524.49			Non-Resident:		\$2,160,683.06							

# Brotherhood of Locomotive Engineers

## Kansas State Legislative Board

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FEBRUARY 24, 1986

TESTIMONY IN OPPOSITION TO THE PASSAGE OF HOUSE BILL 3002

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM LEROY JONES, CHAIRMAN OF THE KANSAS LEGISLATIVE BOARD FOR THE BROTHERHOOD OF LOCOMOTIVE ENGINEERS. I AM HERE TODAY TO SPEAK IN OPPOSITION TO THE PASSAGE OF HOUSE BILL 3002, CONCERNING THE MEDICAL EXPENSE DEDUCTION OF AN INDIVIDUAL.

WE FEEL THAT THIS BILL IS JUST LIKE A NUMBER OF OTHER BILLS THAT HAVE BEEN INTRODUCED THIS SESSION THAT SHIFTS THE BURDEN ON THE MIDDLE INCOME WAGE EARNERS OF OUR STATE. IN THIS BILL, THIS IS DONE BY STRIKING LINE 0087 THROUGH LINE 0090. BY DOING THIS, IT BRINGS OUR DEDUCTIONS FOR MEDICAL OR DENTAL EXPENSES IN CONFORMITY WITH THE FEDERAL DEDUCTIONS.

ACCORDING TO THE KANSAS DEPARTMENT OF REVENUE, IN 1984, 82.3% OF THE MARRIED RESIDENT TAXPAYERS IN THE STATE OF KANSAS, WITH A KANSAS ADJUSTED GROSS INCOME OVER \$25,000, ITEMIZED. THESE ARE THE CITIZENS OF KANSAS THAT I REPRESENT.

FOR AN EXAMPLE OF WHAT THIS DEDUCTION MEANS TO THE AVERAGE MEMBER THAT I REPRESENT, I WILL USE MY 1985 KANSAS INCOME TAX RETURN FOR AN EXAMPLE. ON LINE 51 OF MY RETURN, I WAS ABLE TO REDUCE MY KANSAS TAX



PAGE 2  
HOUSE BILL 3002

LIABILITY BY \$812. IF YOU DECIDE TO PASS HOUSE BILL 3002, WHICH CHANGES THE DEDUCTION IN THE EXPENSE IN EXCESS OF \$50 FOR MEDICAL OR DENTAL CARE NOT COMPENSATED FOR BY INSURANCE, TO THE EXCESS OVER 5% OF THE ADJUSTED GROSS INCOME, I WOULD NOT HAVE BEEN ABLE TO REDUCE MY KANSAS AGI ONE PENNY.

AS I HAVE STATED EARLIER, WE FEEL THAT THIS IS ONE OF MANY BILLS THAT HAS BEEN INTRODUCED THIS SESSION THAT HAS THE MOST IMPACT ON THE LEVEL OF WAGE EARNERS THAT I REPRESENT. I URGE THE COMMITTEE NOT TO PASS HOUSE BILL 3002.

THANK YOU FOR THIS TIME TO EXPRESS OUR OPINION.