

Approved On: _____

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 March 20, 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

Mr. Bud Grant discussed SB-511, an act relating to sales taxation; providing for the refund thereof upon sales of certain machinery and equipment. He answered questions from the committee and discussed the benefits of exemptions rather than refunds. Harley Duncan, Secretary Kansas Department of Revenue, answered questions and explained the problems his department sometimes has in handling the refunds.

Mr. T. C. Anderson, representing Kansas Society of C.P.A.'s, testified as a proponent of SB-573, an act relating to income taxation; concerning itemized deductions of an individual; concerning penalties for underpayment of estimated tax. Mr. Anderson presented an amendment to this bill that his organization would like to have adopted. (Attachment 1) Mr. Duncan discussed this amendment and also testified as a proponent of SB-573. (Attachment 2) This bill was requested by the Department of Revenue and is designed to create a greater degree of conformity between the state tax code and the federal Internal Revenue code. He answered questions from committee members and gave them information displaying the effect of the requested changes on various types of taxpayers.

The minutes of March 18 and March 19 were reviewed and approved.

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


Ed C. Rolfs, Chairman

KSCPA

SB 573—Am.

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0121 the close of the taxable year for which such estimated tax is a
0122 credit, whichever date is earlier, but such penalty shall not be
0123 added if the total amount thereof does not exceed \$1 \$5. For
0124 purposes of this subsection, the amount of underpayment of
0125 estimated tax shall be the excess of the amount of the installment
0126 which would be required to be paid if the estimated tax were
0127 equal to 80% of the tax shown on the return for the taxable year
0128 or, if no return was filed, 80% of the tax for such year, over the
0129 amount, if any, of the installment paid on or before the last date
0130 prescribed for payment. Amounts due from any employer on
0131 account of withholding or from any taxpayer for estimated tax
0132 may be collected by the director in the manner provided for the
0133 collection of state income tax in K.S.A. 79-3235, and amendments
0134 thereto.

0135 (b) No penalty or interest shall be imposed upon any indi-
0136 vidual with respect to any underpayment of any installment if
0137 the total amount of all payments of estimated tax made on or
0138 before the last date prescribed for the payment of such install-
0139 ment equals or exceeds the amount which would have been
0140 required to be paid on or before such date if the estimated tax
0141 were whichever of the following is the least *for that installment*:

0142 (1) The tax shown on the return of the individual for the
0143 preceding taxable year, ~~if a return showing a liability for tax was~~
0144 ~~filed by the individual for the preceding taxable year and such~~
0145 ~~preceding year was a taxable year of 12 months;~~

0146 (2) an amount equal to 66 $\frac{2}{3}$ %, in the case of individuals
0147 referred to in K.S.A. 79-32,102 (b), and amendments thereto, and
0148 80%, in the case of all other individuals, of the tax for the taxable
0149 year computed by placing on an annualized basis, pursuant to
0150 rules and regulations adopted by the secretary of revenue, the
0151 taxable income for the months in the taxable year ending before
0152 the month in which the installment is required to be made;

0153 (3) an amount equal to 90% of the tax computed, at the rates
0154 applicable to the taxable year, on the basis of the actual taxable
0155 income for the months in the taxable year ending before the
0156 month in which the installment is required to be paid as if such
0157 months constituted the taxable year; or

MEMORANDUM

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

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



RE: Senate Bill 573

DATE: March 20, 1986

Thank you for the opportunity to appear before you today on Senate Bill 573. The Department supports enactment of this measure.

BACKGROUND

SB 573 was requested by the Department of Revenue and is designed to create 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 bill would accomplish the following.

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. It would also allow the deduction of adoption expenses for special needs children.

2. Repeal the special state itemized deduction for works of art. This deduction allows an artist to deduct the fair market value of any works 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.

The Department supports these measures in the interests of conformity with the federal tax code. Where the state and federal tax codes conform to one another, tax matters tend to be simpler for the taxpayer and practitioners. More importantly, from our perspective, our compliance is improved when we conform with the federal government. Because of our limited ability to audit individual returns, we must rely heavily on federal enforcement efforts.

FISCAL IMPACT

We estimate that enactment of SB 573 will increase State General Fund revenues by \$3.4 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.

Because of the relatively limited fiscal impact contained in SB 573, little can be said about its distributional effects. Three-fourths of the total increase will fall on married resident taxpayers, but 80 percent of that additional liability will be paid by taxpayers with incomes in excess of \$35,000. Two-thirds of the total liability will be paid by taxpayers (married and single) with incomes between \$35,000 and \$100,000.

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.

I hope this information is helpful. I would be glad to attempt to answer any questions.

Individual Income Tax In Tax Year 1985
Resident Taxpayers

		Married					Single					Total Residents				
K.A.S.I. Bracket	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	0.2%	\$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	0.2%	0.0%	103,053	4.9%	\$928,091.84	0.6%	0.3%	118,947	1.4%	\$941,561.22	0.2%	0.3%	
\$5,000 \$15,000	75,474	4.5%	\$6,618,627.55	1.6%	2.9%	166,105	26.4%	\$28,081,524.49	17.6%	1.6%	241,579	10.1%	\$34,620,152.04	6.0%	1.5%	
\$15,000 \$25,000	97,368	11.2%	\$31,912,859.18	7.6%	1.7%	84,316	27.3%	\$45,157,027.55	28.9%	2.9%	181,684	15.3%	\$76,269,686.73	13.5%	2.2%	
\$25,000 \$35,000	127,789	16.5%	\$71,070,618.37	17.0%	2.3%	35,842	17.9%	\$34,453,386.12	21.6%	3.3%	144,632	18.4%	\$105,523,924.49	18.3%	2.5%	
\$35,000 \$50,000	125,263	29.8%	\$129,225,378.41	31.2%	2.6%	15,263	10.3%	\$20,111,582.65	12.6%	3.3%	142,526	24.8%	\$149,317,053.06	25.9%	2.6%	
\$50,000 \$100,000	71,158	25.8%	\$121,078,324.06	29.2%	2.6%	6,632	7.1%	\$16,226,425.51	10.2%	3.9%	77,789	21.1%	\$137,324,723.59	23.8%	2.9%	
\$100,000 Over	9,253	9.5%	\$57,273,156.33	13.7%	3.4%	1,368	6.0%	\$13,520,811.22	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%	\$159,458,669.39	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 1985
Resident Taxpayers

SENATE BILL 573: ELIMINATION OF THE KANSAS GAS TAX DEDUCTION AND "OTHER" DEDUCTIONS

		Married					Single					Total Residents				
K.A.S.I. Bracket	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	0.2%	\$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	0.2%	0.0%	103,053	4.9%	\$928,091.84	0.6%	0.3%	118,947	1.4%	\$941,561.22	0.2%	0.3%	
\$5,000 \$15,000	75,474	4.5%	\$6,623,321.43	1.6%	0.8%	166,105	26.4%	\$28,250,197.95	17.5%	1.8%	241,579	10.1%	\$34,623,519.39	6.0%	1.5%	
\$15,000 \$25,000	97,368	11.2%	\$32,226,675.59	7.6%	1.6%	84,316	27.3%	\$46,302,945.52	28.9%	2.8%	181,684	15.3%	\$78,331,825.51	13.5%	2.2%	
\$25,000 \$35,000	127,789	16.5%	\$71,434,324.03	17.0%	2.2%	35,842	17.9%	\$34,616,775.51	21.6%	3.2%	144,632	18.4%	\$105,111,679.59	18.3%	2.5%	
\$35,000 \$50,000	125,263	29.8%	\$130,188,941.04	31.2%	2.5%	15,263	10.3%	\$20,213,625.51	12.6%	3.3%	142,526	24.8%	\$150,422,767.35	25.9%	2.6%	
\$50,000 \$100,000	71,158	25.8%	\$121,975,446.94	29.1%	2.7%	6,632	7.1%	\$16,348,570.41	10.2%	3.8%	77,789	21.1%	\$138,324,117.35	23.9%	2.6%	
\$100,000 Over	9,253	9.5%	\$57,359,901.02	13.7%	3.3%	1,368	6.0%	\$13,565,484.69	8.5%	3.6%	10,421	8.9%	\$70,969,365.71	12.2%	3.4%	
Total	514,526	100.0%	\$419,734,854.29	100.00%	2.4%	419,789	100.00%	\$160,249,591.64	100.00%	2.7%	934,316	100.00%	\$579,764,856.12	100.00%	2.5%	
Fiscal Impact:			\$2,562,448.96					\$591,122.45					\$3,153,571.43			
All Taxpayers:			\$3,361,026.53			Non-Resident:		\$207,455.10								

Kansas Department Of Revenue

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

SENATE BILL 573: ELIMINATION OF THE KANSAS GAS TAX DEDUCTION AND "OTHER" 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%	\$2.00	0.0%	0.0%	6,211	0.0%	\$2.00	0.0%	0.0%	18,737	0.0%	\$2.00	0.0%	0.0%
\$0 \$5,000	15,895	0.0%	\$2.00	0.0%	0.0%	103,053	0.0%	\$2.00	0.0%	0.3%	118,547	0.0%	\$8.00	0.0%	0.3%
\$5,000 \$15,000	75,474	0.2%	\$14,593.00	0.6%	0.8%	166,185	0.2%	\$48,673.47	0.2%	1.8%	241,579	0.2%	\$63,357.35	2.0%	1.5%
\$15,000 \$25,000	97,368	0.4%	\$116,022.41	4.5%	1.6%	84,316	0.3%	\$145,918.37	24.7%	2.8%	181,684	0.3%	\$261,938.78	0.3%	2.2%
\$25,000 \$35,000	127,789	0.6%	\$424,265.71	16.6%	2.2%	36,842	0.5%	\$163,469.39	27.7%	3.2%	144,632	0.6%	\$567,755.10	18.6%	2.5%
\$35,000 \$45,000	125,263	0.6%	\$563,571.43	38.4%	2.5%	15,263	0.5%	\$102,142.86	17.3%	3.3%	140,526	0.7%	\$1,055,714.29	34.4%	2.6%
\$45,000 \$100,000	71,156	0.7%	\$697,142.66	35.0%	2.7%	6,632	0.8%	\$122,244.90	28.7%	3.8%	77,789	0.7%	\$1,019,387.76	32.3%	2.6%
\$100,000 Over	9,053	0.2%	\$126,734.69	4.9%	3.3%	1,368	0.1%	\$8,673.47	1.5%	3.8%	10,421	0.2%	\$135,408.16	4.3%	3.4%
Total	514,526	0.6%	\$2,562,448.98	100.00%	2.4%	419,789	0.4%	\$591,122.45	100.00%	2.7%	934,316	0.5%	\$3,153,571.43	100.00%	2.5%
Fiscal Impact:			\$2,562,448.98					\$591,122.45					\$3,153,571.43		
All Taxpayers:			\$3,361,026.53			Non-Resident:		\$207,455.10							

(ii) 100 percent of the tax shown on the return of the individual for the preceding taxable year.

Clause (ii) shall not apply if the preceding taxable year was not a taxable year of 12 months or if the individual did not file a return for such preceding taxable year.

Lower required installment where annualized income installment is less than amount determined under paragraph (1).—

(A) **In general.**—In the case of any required installment, if the individual establishes that the annualized income installment is less than the amount determined under paragraph (1)—

(i) the amount of such required installment shall be the annualized income installment, and

(ii) any reduction in a required installment resulting from the application of this subparagraph shall be recaptured by increasing the amount of the next required installment determined under paragraph (1) by the amount of such reduction (and by increasing subsequent required installments to the extent that the reduction has not previously been recaptured under this clause).

(B) **Determination of annualized income installment.**—In the case of any required installment, the annualized income installment is the excess (if any) of—

(i) an amount equal to the applicable percentage of the tax for the taxable year computed by placing on an annualized basis the taxable income, alternative minimum taxable income, and adjusted self-employment income for months in the taxable year ending before the due date for the installment, over

(ii) the aggregate amount of any prior required installments for the taxable year.

(C) **Special rules.**—For purposes of this paragraph—

(i) **Annualization.**—The taxable income, alternative minimum taxable income, and adjusted self-employment income shall be placed on an annualized basis under regulations prescribed by the Secretary.

(ii) **Applicable percentage.**—

In the case of the following required installments:	The applicable percentage is:
1st	20
2nd	40
3rd	60
4th	80

(iii) **Adjusted self-employment income.**—The term “adjusted self-employment income” means self-employment income (as defined in section 1402(b)); except that section 1402(b) shall be applied by placing wages (within the meaning of section 1402(b)) for months in the taxable year ending before the due date for the installment on an annualized basis consistent with clause (i).

Exceptions.—

(1) **Where tax is small amount.**—No addition to tax shall be imposed under subsection (a) for any taxable year if the tax shown on the return for such taxable year (or, if no return is filed, the tax), reduced by the credit allowable under section 31, is less than \$500.

(2) **Where no tax liability for preceding taxable year.**—No addition to tax shall be imposed under subsection (a) for any taxable year if—

(A) the preceding taxable year was a taxable year of 12 months,

(B) the individual did not have any liability for tax for the preceding taxable year, and

(C) the individual was a citizen or resident of the United States throughout the preceding taxable year.

(3) **Waiver in certain cases.**—

(A) **In general.**—No addition to tax shall be imposed under subsection (a) with respect to any underpayment to the extent the Secretary determines

