

Approved February 25, 1986
Date

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./~~p.m.~~ on Monday, February 24, 1986 in room 519-S of the Capitol.

All members were present except:
Senator Leroy Hayden (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:
Jim Murphy, Governor's Office
Senator Bud Burke
Harley Duncan, Department of Revenue

Jim Murphy requested that the Committee introduce a bill to eliminate the 5% distribution of inheritance tax to the counties. He said the counties have not administered the program since 1978 and that it would amount to some \$1.3 million state-wide. Senator Burke moved that the bill be introduced. Senator Allen seconded the motion, and the motion carried.

Chairman Kerr advised that Senator Mike Johnston had requested that the Committee introduce a bill regarding financing of a law enforcement center or jail. Senator Mulich moved that the bill be introduced. Senator Thiessen seconded the motion, and the motion carried.

Senator Bud Burke moved that the Committee introduce a bill providing that when property taxes are paid under protest and a ruling is made in favor of the taxpayer, the county be required to pay 12% interest on those monies from the date the tax is paid until the ruling. Senator Mulich seconded the motion, and the motion carried.

Senator Karr moved that a "booster tax" bill be introduced. It was pointed out that a "modified booster tax" bill, S.B. 150, is currently alive in the Committee. Senator Karr withdrew his motion.

S.B. 536 - Increase in sales and compensating use tax rates; increase in sales tax refunds on food

Chairman Kerr advised that he requested the Department of Revenue to provide estimates on the costs of an administrative allowance for merchants collecting sales tax. Harley Duncan provided estimates of the costs for various discounts and caps (Attachments 1 and 2).

Senator Parrish moved that the bill be amended to exempt food purchased for off-premise consumption. Senator Karr seconded the motion. Senator Parrish mentioned the expenditures for food made by low-income families and the low participation in the rebate program. Senator Frey questioned why this exemption was not included in the Governor's budget.

Jim Murphy advised that the matter had been considered by the Governor and the decision was made to increase the rebate program since the amount of the sales tax increase would have to be almost double to raise the same amount of money.

Staff advised that the fiscal note for exempting food items would be approximately \$95 million at 4%.

Upon a vote, the motion failed.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,
room 519-S Statehouse, at 11:00 a.m./~~p.m.~~ on February 24, 1986

Chairman Kerr said Committee members have indicated their support and concern for the state providing its share of the costs of reappraisal. The current estimate is \$48-50 million for the total cost. He explained a proposed concept which provides that the state allocate \$24 million over a three-year period to cover 50% of the projected costs of reappraisal (Attachment 3). Chairman Kerr said it was his recommendation that the concept be requested for introduction as a separate bill by the Ways and Means Committee. Senator Burke moved that the Ways and Means Committee be requested to introduce the bill. Senator Mulich seconded the motion. In response to a question from Senator Montgomery, the Revisor explained that the proposed bill provides that distribution be made on a per-parcel basis. Senator Karr made a substitute motion that S.B. 536 be amended to provide for a \$24 million allocation, over a three-year period, for reappraisal costs. Senator Parrish seconded the substitute motion. There was discussion that the issue of reimbursement, definition of parcel, etc. has not had formal hearings. Upon a vote, the substitute motion failed. The primary motion then carried.

Senator Frey moved that S.B. 536 be amended to provide for a 2% discount for merchants with a \$50 per month cap. Senator Salisbury seconded the motion. Bud Grant (Kansas Chamber of Commerce and Industry) advised that 29 states now offer some type of allowance for collection administration. He said all of the four neighboring states have such an allowance. Upon a vote, the motion carried.

Senator Thiessen moved that the minutes of the February 20, 1986 meeting be approved. Senator Karr seconded the motion, and the motion carried.

Meeting adjourned.

(Note: Secretary Duncan later provided more detailed information with regard to the administrative allowances and caps with regard to the sales tax matter and this information is Attachment 4.)

*Reading
same as tables 1 & 2*

Table 3

KANSAS DEPARTMENT OF REVENUE

Merchant Fee Program Costs

FY 1987 - 4 Percent Tax Rate

Payment Program	Total Collections	Percent of Fee Limit	Monthly Program (Millions)	Cost of Merchants At Fee Limit	No. of MERCHANTS AT FEE LIMIT * OCC. 12
1.	3%	None	20.4 19.1	N.A.	N.A.
2.	3%	\$100	9.7 8.9	4,578 4,138	1436
3.	3%	\$50	7.6 7.0	8,892 8,081	2892
4.	2%	None	20.4 13.6 12.7	N.A.	N.A.
5.	2%	\$100	7.3 6.7	3,960 2,692	976
6.	2%	\$50	5.9 5.4	6,089 5,519	1904

\$180.8

\$467.4

NOTE: Estimated tax collections = ~~\$336.3~~ million. (i.e. ~~\$436.9~~ x 4/3 x 1.09238)

** ONE OR MORE MONTHS OF YEAR*

*** 12 MONTHS OF THE YEAR*

KANSAS DEPARTMENT OF REVENUE

Sales Tax Accounts as of February 14, 1986

<u>Frequency of Filing</u>	<u>Annual Liability</u>	<u>Accounts</u>		<u>Annualized Liability</u>	
		<u>Number</u>	<u>Percent of Total</u>	<u>Amount (Millions)</u>	<u>Percent of Total</u>
Annual	\$.01 to \$ 60.00	\$26,114	32.0%	\$.266	0.1%
Quarterly	60.01 to 1,200.00	25,942	31.8	11.495	2.3
Monthly	1,200.01 to 24,000	26,367	32.4	149.979	29.5
High Dollar*	Over 24,000	<u>3,132</u>	<u>3.8</u>	<u>347.314</u>	<u>68.1</u>
	Total	\$81,555	100.0%	\$509.054	\$100.0%

*Monthly - Paying First half of current month.

JP:e/1076/3380

Fiscal Note for Merchants Discount
(\$ millions)

Limit ("Cap")

Discount	None	\$ 100	\$ 50
3%	\$ 20.4	\$ 9.7	\$ 7.6
2%	\$ 13.6	\$ 7.3	\$ 5.9

Proposed Amendment to SB 536

On page 7, after line 242, by inserting a new section to read as follows:

"Sec. 3. K.S.A. 79-3620 is hereby amended to read as follows: 79-3620. (a) All revenue collected or received by the director of taxation from the taxes imposed by this act shall be deposited daily with the state treasurer. The state treasurer shall credit all revenue received from this act, less amounts withheld as provided in ~~subsection~~ subsections (b) and (c), to the state general fund.

(b) A refund fund, designated as "sales tax refund fund" not to exceed \$100,000 shall be set apart and maintained by the director from sales tax collections and estimated tax collections and held by the state treasurer for prompt payment of all sales tax refunds including refunds authorized under the provisions of K.S.A. 79-3635, and amendments thereto. Such fund shall be in such amount, within the limit set by this section, as the director shall determine is necessary to meet current refunding requirements under this act. In the event such fund as established by this section is, at any time, insufficient to provide for the payment of refunds due claimants thereof, the director shall certify the amount of additional funds required to the director of accounts and reports who shall promptly transfer the required amount from the state general fund to the sales tax refund fund, and notify the state treasurer, who shall make proper entry in the records.

(c) The state treasurer shall credit amounts which total \$24,000,000 during the fiscal year ending June 30, 1987, from sales and estimated tax collections to the statewide reappraisal cost sharing fund which is hereby established. Expenditures from such fund shall only be made to counties for the purposes provided in K.S.A. 1985 Supp. 79-1478, and amendments thereto,

upon warrants of the director of accounts and reports issued pursuant to vouchers approved by the secretary of revenue, except that, no more than \$8,000,000 may be expended from such fund in the fiscal years ending June 30, 1987, 1988 and 1989."

By renumbering existing sections 3 to 7, inclusive, as sections 4 to 8, respectively;

On page 10, in line 372, before "79-3633" by inserting "79-3620,";

In the title, in line 18, after the second semicolon by inserting "establishing the statewide reappraisal cost sharing fund;"; in line 19, before "79-3633" by inserting "79-3620,"



2/25

KANSAS DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY
State Office Building . Topeka, Kansas 66612-1588

MEMORANDUM

February 24, 1986

TO: Senator Fred Kerr

FROM: Harley T. Duncan

SUBJECT: Proposed Merchant Fees for Collection of State Sales Tax

In response to your request, the attached tables summarize the annual costs of paying merchants a fee for their collection of the state sales tax.

Six alternative payment programs were considered.

<u>Payment Program</u>	<u>Percent of Total Collections</u>	<u>Monthly Fee Limit</u>
1.	3%	None
2.	3%	\$100
3.	3%	\$50
4.	2%	None
5.	2%	\$100
6.	2%	\$50

The source for our computer simulation computations was the entire master sales tax file of returns for FY 1985. Compensating use tax was not included in our analysis.

Table 1 shows what the cost of a merchant collection fee program would have been in FY 1985 at a 3 percent tax rate, for the six alternatives.

Table 2 Shows similar costs for FY 1985, assuming a 4 percent tax rate had been in effect.

Table 3 incorporates a two year growth factor of 9.24% to reflect increases from FY 1985 to FY 1987 and assumes a 4% tax rate for FY 1987.

Please let me know if you desire any further information.

Harley T. Duncan

HTD:JP:e/02/S959

Table 1

KANSAS DEPARTMENT OF REVENUE

Merchant Fee Program Costs

FY 1985 - 3 Percent Tax Rate

<u>Payment Program</u>	<u>Percent of Total Collections</u>	<u>Monthly Fee Limit</u>	<u>Cost of Program (Millions)</u>	<u>No. of Merchants at Fee Limit</u>	
				<u>Occ.*</u>	<u>12**</u>
1.	3%	None	\$14.0	N.A.	N.A.
2.	3%	\$100	7.4	3,060	996
3.	3%	\$50	6.0	6,266	1,966
4.	2%	None	9.3	N.A.	N.A.
5.	2%	\$100	5.5	1,977	646
6.	2%	\$50	4.6	4,167	1,329

NOTE: Actual sales tax collections = \$478.8 million.
 Less Assessments
 Penalty and Interest = 11.3
 FY 1985 Net liability \$467.4 million = Base for computations

*One or more months of year.

**Twelve months of year.

Table 2

KANSAS DEPARTMENT OF REVENUE

Merchant Fee Program Costs

FY 1985 - 4 Percent Tax Rate

<u>Payment Program</u>	<u>Percent of Total Collections</u>	<u>Monthly Fee Limit</u>	<u>Cost of Program (Millions)</u>	<u>No. of Merchants at Fee Limit</u>	
				<u>Occ.*</u>	<u>12**</u>
1.	3%	None	\$18.7	N.A.	N.A.
2.	3%	\$100	9.1	4,167	1,329
3.	3%	\$50	7.2	8,208	2,640
4.	2%	None	12.5	N.A.	N.A.
5.	2%	\$100	6.8	2,675	897
6.	2%	\$50	5.5	5,562	1,739

NOTE: Estimated sales tax collections = \$623.3 million (i.e. \$467.5 x 4/3)

*One or more months of year.

**Twelve months of year.

Table 3

KANSAS DEPARTMENT OF REVENUE

Merchant Fee Program Costs

FY 1987 - 4 Percent Tax Rate

<u>Payment Program</u>	<u>Percent of Total Collections</u>	<u>Monthly Fee Limit</u>	<u>Cost of Program (Millions)</u>	<u>No. of Merchants at Fee Limit</u>	
				<u>Occ.*</u>	<u>12**</u>
1.	3%	None	\$20.4	N.A.	N.A.
2.	3%	\$100	9.7	4,578	1,436
3.	3%	\$50	7.6	8,892	2,892
4.	2%	None	13.6	N.A.	N.A.
5.	2%	\$100	7.3	2,960	976
6.	2%	\$50	5.9	6,089	1,904

NOTE: Estimated tax collections = \$680.9 million. (i.e. $\$467.5 \times \frac{4}{3} \times 1.09238$)

*One or more months of year.

**Twelve months of year.