

Approved On: 2/3/87

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 January 29, 1987 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Fox and Francisco

Committee staff present:

Tom Severn, Legislative Research
Chris Courtright, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

The meeting was called to order by Chairman Rolfs. Representative Roe moved, second by Rolfs, that a bill concerning taxation of foreign source dividends be introduced. The motion carried.

Secretary Harley Duncan continued his discussion of the changes in the tax laws and his comparison of the federal and state deductions. He distributed copies of Schedule A - Itemized Deductions - and discussed how itemizing deductions would affect tax payment in different income categories. (Attachment 1)

Mr. Duncan then distributed a form showing individual income tax in the tax year 1986 for resident taxpayers and the impact by bracket. (Attachment 2)

Mr. Duncan also distributed a schedule showing areas of non-conformity between state and federal itemized deductions after the reform act of 1986, and the changes in federal itemized deductions. (Attachment 3) Paragraph 1 covers Medical and Dental Expenses, paragraph 2 Social Security and Related Employment Taxes, paragraph 3 State and Local Gas Taxes. and the fiscal impact for tax year 1987.

Section 4 of this report covers other deductions - Solar Energy Amortization, Contributions to Segregated Schools, Casualty Losses, Charitable Contributions, Political Contributions, Work of Art Contribution, and the fiscal impact for tax year 1987.

The next three paragraphs of the report cover State and Local Sales Taxes, Non-Mortgage Interest, Moving Expenses, and the fiscal impact for years 1987 and 1988.

Attachment 4 lists Areas of Non-Conformity Between State and Federal Itemized Deductions After the Tax Reform Act of 1986. The Committee members asked questions and discussed the fiscal note on Conformity and Personal Exemptions. They also discussed what the result would be if personal deductions were increased. Chairman Rolfs asked the Committee to think about options.

The minutes of the January 28 meeting were approved.

There being no further business to come before the Committee, the meeting was adjourned.


E. C. Rolfs, Chairman

**SCHEDULES A&B
(Form 1040)**

Department of the Treasury
Internal Revenue Service (X)

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074

1985
07

Name(s) as shown on Form 1040

Your social security number

Medical and Dental Expenses (Do not include expenses reimbursed or paid by others.) (See Instructions on page 19.)	1	Prescription medicines and drugs; and insulin	1		
	2	a Doctors, dentists, nurses, hospitals, insurance premiums you paid for medical and dental care, etc.	2a		
		b Transportation and lodging	2b		
		c Other (list—include hearing aids, dentures, eyeglasses, etc.)			
		3 Add lines 1 through 2c, and write the total here <i>Modified</i>	3		
	4 Multiply the amount on Form 1040, line 33, by 5% (.05) <i>7.5%</i>	4			
	5 Subtract line 4 from line 3. If zero or less, write -0-. Total medical and dental	5			
Taxes You Paid (See Instructions on page 20.)	6	State and local income taxes <i>[Delete]</i>	6		
	7	Real estate taxes	7		
	8	a General sales tax (see sales tax tables in instruction booklet)	8a		
		b General sales tax on motor vehicles	8b		
	9	Other taxes (list—include personal property taxes)	9		
	10 Add the amounts on lines 6 through 9. Write the total here. Total taxes	10			
Interest You Paid (See Instructions on page 20.)	11	a Home mortgage interest you paid to financial institutions	11a		
		b Home mortgage interest you paid to individuals (show that person's name and address)			
		Qualified residence interest	11b		
	12	Total credit card and charge account interest you paid	12		
	13	Other interest you paid (list)			
	Investment Interest				
	14 Add the amounts on lines 11a through 13. Write the total here. Total interest	14			
Contributions You Made (See Instructions on page 21.)	15	a Cash contributions. (If you gave \$3,000 or more to any one organization, report those contributions on line 15b.)	15a		
		b Cash contributions totaling \$3,000 or more to any one organization. (Show to whom you gave and how much you gave.)			
			15b		
	16	Other than cash. (You must attach Form 8283 if over \$500.)	16		
	17	Carryover from prior year	17		
	18 Add the amounts on lines 15a through 17. Write the total here. Total contributions	18			
Casualty and Theft Losses	19	Total casualty or theft loss(es). (You must attach Form 4684 or similar statement.) (See page 21 of Instructions.) <i>Modified</i>	19		
Miscellaneous Deductions (See Instructions on page 21.)	20	Union and professional dues	20		
	21	Tax return preparation fee	21		
	22	Other (list type and amount)			
		Employee Business Expenses			
		Adoption Expenses			
	23 Add the amounts on lines 20 through 22. Write the total here. Total miscellaneous	23			
Summary of Itemized Deductions (See Instructions on page 22.)	24	Moving expenses	24		
	25	Add the amounts on lines 5, 10, 14, 18, 19, and 23. Write your answer here.	25		
	25	If you checked Form 1040 <i>[Filing Status box 2 or 5; write \$3,540]</i> <i>[Filing Status box 1 or 4; write \$2,390]</i> <i>[Filing Status box 3; write \$1,770]</i>	25		
	26	Subtract line 25 from line 24. Write your answer here and on Form 1040, line 34a. (If line 25 is more than line 24, see the Instructions for line 26 on page 22.)	26		

Reduction. See Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1985

House Tax Com. -

Gas Tax AND SOCIAL SECURITY
Social Security

1/29/87 - Attach. 1

TAX REFORM ACT OF 1986

TAX YEAR 1987
CONFORMITY TO FEDERAL ITEMIZED DEDUCTIONS

Kansas Department Of Revenue

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

CONFORMITY TO FEDERAL ITEMIZED DEDUCTIONS

	Married						Single					Total Residents				
	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	
	11,263	0.0%	\$0.00	\$0.00	0.0%	5,789	0.0%	\$0.00	\$0.00	0.0%	17,053	0.0%	\$0.00	\$0.00	0.0%	
\$0 - \$5,000	14,947	0.0%	\$0.00	\$0.00	0.0%	104,185	-4.8%	(\$49,489.00)	(\$0.48)	2.3%	119,053	-4.8%	(\$49,489.00)	(\$0.42)	0.3%	
\$5,000 - \$15,000	73,895	-16.8%	(\$1,176,832.65)	(\$15.93)	0.8%	166,421	-3.6%	(\$1,057,522.45)	(\$6.35)	1.0%	240,316	-6.2%	(\$2,234,355.10)	(\$9.30)	1.4%	
\$15,000 - \$25,000	98,842	5.4%	\$1,865,745.92	\$18.68	1.0%	85,158	6.5%	\$3,173,265.31	\$37.26	3.1%	184,020	6.1%	\$5,039,011.22	\$27.39	2.4%	
\$25,000 - \$35,000	126,947	16.5%	\$12,892,443.65	\$114.94	2.7%	34,421	11.4%	\$3,630,385.12	\$107.21	3.6%	141,368	15.0%	\$15,922,750.00	\$113.06	2.9%	
\$35,000 - \$50,000	116,842	23.2%	\$31,126,621.02	\$261.75	3.4%	15,263	16.7%	\$3,339,755.92	\$216.75	3.7%	134,185	22.4%	\$24,447,356.94	\$256.67	3.4%	
\$50,000 - \$100,000	78,842	15.7%	\$32,259,979.59	\$381.38	3.6%	6,947	8.7%	\$1,476,718.37	\$212.56	4.2%	85,789	18.6%	\$31,545,697.96	\$357.71	3.7%	
\$100,000 - Over	10,947	11.2%	\$9,519,751.02	\$869.59	4.4%	1,684	5.4%	\$1,147,755.10	\$681.48	4.8%	12,632	10.0%	\$10,667,586.12	\$844.51	4.4%	
Total	514,526	17.2%	\$83,678,568.78	\$162.63	3.1%	419,789	6.9%	\$11,719,828.57	\$27.92	3.0%	924,315	14.5%	\$95,398,517.35	\$102.11	3.1%	
Fiscal Impact:			\$83,678,568.78					\$11,719,828.57					\$95,398,517.35			
All Taxpayers:			\$183,757,905.10			Non-Resident:		\$8,359,387.76								

TAX YEAR 1988
CONFORMITY TO FEDERAL ITEMIZED DEDUCTIONS

Kansas Department Of Revenue

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

CONFORMITY TO FEDERAL ITEMIZED DEDUCTIONS

K.A.B.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.B.I.	11,353	0.0%	\$0.00	\$0.00	0.0%	5,789	0.0%	\$0.00	\$0.00	0.0%	17,053	2.0%	\$0.00	\$0.00	0.0%
\$0 - \$5,000	14,947	0.0%	\$0.00	\$0.00	0.0%	184,105	-4.6%	(\$49,387.75)	(\$0.47)	0.3%	119,053	-4.7%	(\$49,387.75)	(\$0.41)	0.3%
\$5,000 - \$15,000	73,895	-16.3%	(\$1,142,955.10)	(\$15.47)	2.8%	166,421	-3.4%	(\$1,083,848.98)	(\$6.03)	1.8%	240,316	-5.9%	(\$2,146,804.08)	(\$8.93)	1.4%
\$15,000 - \$25,000	98,842	6.4%	\$2,225,958.00	\$22.32	1.8%	85,158	7.2%	\$3,586,020.41	\$41.17	3.2%	184,000	6.9%	\$5,711,978.41	\$31.04	2.4%
\$25,000 - \$35,000	125,947	17.8%	\$13,218,555.33	\$103.60	2.7%	34,421	12.1%	\$4,228,916.37	\$116.80	3.7%	141,368	15.2%	\$17,239,434.69	\$121.95	3.2%
\$35,000 - \$50,000	115,842	24.8%	\$33,377,586.76	\$288.06	3.4%	15,263	17.1%	\$3,722,624.45	\$243.92	4.1%	134,125	23.6%	\$37,120,613.27	\$276.65	3.5%
\$50,000 - \$100,000	75,842	21.2%	\$32,775,835.73	\$415.73	3.7%	5,947	8.7%	\$1,542,122.04	\$236.08	4.6%	85,789	19.7%	\$34,416,936.78	\$401.18	3.6%
\$100,000 Over	10,947	13.5%	\$11,457,914.29	\$1,046.64	4.5%	1,684	5.4%	\$1,386,061.22	\$776.66	5.4%	12,632	11.7%	\$12,765,975.51	\$1,010.64	4.6%
Total	514,526	16.7%	\$91,894,321.02	\$178.60	3.2%	419,769	7.4%	\$13,144,469.60	\$31.31	3.1%	524,316	15.7%	\$125,238,790.62	\$112.42	3.2%
Fiscal Impact:			\$91,894,321.02					\$13,144,469.60					\$125,238,790.62		
All Taxpayers:			\$114,364,248.02			Non-Resident:		\$9,325,450.00							

January 14, 1987

Kansas Department of Revenue

AREAS OF NON-CONFORMITY BETWEEN
STATE AND FEDERAL ITEMIZED DEDUCTIONS
AFTER THE TAX REFORM ACT OF 1986

Changes to Federal Itemized Deductions

1. Medical and Dental Expenses -- Kansas allows all unreimbursed expenses in excess of \$50 while the federal deduction allows only unreimbursed expenses in excess of 7.5% of A.G.I. Requires two calculations and delays in processing when taxpayers who cannot claim federally do not provide detail on Schedule A for state verification.

Fiscal Impact:	Tax Year
	1987
	State
Total	\$ 30.3 m
Resident	\$ 28.2 m
Non-Resident	\$ 2.1 m

2. Social Security and Related Employment Taxes -- Allowed as a deduction at the State level, but not at federal.

Fiscal Impact:	Tax Year
	1987
	State
Total	\$ 52.8 m
Resident	\$ 47.7 m
Non-Resident	\$ 5.1 m

3. State and Local Gas Taxes -- Still allowed as state itemized deduction. Repealed at the federal level in 1979.

Fiscal Impact:	Tax Year
	1987
	State
Total	\$ 2.7 m
Resident	\$ 2.5 m
Non-Resident	\$.2 m

4. Other Deductions

- A. Solar Energy Amortization -- More generous provisions allowed at the State level. To our knowledge has never been used. Two calculations necessary.
- B. Contributions to Segregated Schools -- No longer necessary as federal law now interpreted to coincide with state law.
- C. Casualty Losses -- Non-Conformed since 1983. State allows all unreimbursed losses in excess of \$100. Federal is limited to losses in excess of 10% of A.G.I. Two calculations required.
- D. Charitable Contributions -- Our rate for mileage is 7 cents per mile which was the federal rate in 1977. Current federal rate is 12 cents. Also, the Tax Reform Act imposed additional limits on travel which can be included as charitable.
- E. Political Contributions -- State allows itemized deduction of \$100/\$200. At the federal level, it was converted to a credit in 1979 and with the Tax Reform Act, the credit will be repealed.
- F. Work of Art Contribution -- Special excess deduction allowed at the State level. Never been utilized.

Fiscal Impact:	Tax Year
	1987
	State
Total	\$.50 m
Resident	\$.45 m
Non-Resident	\$.05 m

5. State and Local Sales Taxes -- Federal deduction repealed in the Tax Reform Act. If continued at the State level, we should maintain deduction tables for all states to accommodate part-year residents which would involve considerable research time to keep current. Also, local option considerations make the non-conformity more cumbersome.

Fiscal Impact:	Tax Year	
	1987	1988
	State	State
Total	\$11.6 m	\$11.9 m
Resident	\$10.1 m	\$10.3 m
Non-Resident	\$ 1.5 m	\$ 1.6 m

6. Non-Mortgage Interest -- The Tax Reform Act phases out the deduction for non-mortgage interest from 1987-1991 with exceptions of home equity loans for educational and medical purposes. State law would still allow the full deduction.

Fiscal Impact:	Tax Year	
	1987	1988
	State	State
Total	\$12.6 m	\$22.3 m
Resident	\$12.0 m	\$21.2 m
Non-Resident	\$.6 m	\$ 1.1 m

7. Moving Expenses -- The Tax Reform Act makes moving expenses a miscellaneous itemized deduction not subject to the 2% of A.G.I. floor. It is currently an allowable adjustment to adjusted gross income. At the state level, therefore, taxpayers would lose the adjustment to income but not have the itemized deduction available to them

Fiscal Impact:	Tax Year	
	1987	1988
	State	State
Total	\$(3.2)m	\$(3.2)m
Resident	\$(1.9)m	\$(1.9)m
Non-Resident	\$(1.3)m	\$(1.3)m

8. Employee Business Expenses -- Those currently taken as an adjustment to income on the front of the 1040 are converted to a miscellaneous itemized deduction subject to the 2% of A.G.I. floor. These would be lost to Kansas taxpayers at the State level.

Fiscal Impact:	Tax Year	
	1987	1988
	State	State
Total	\$(7.2)m	\$(7.3)m
Resident	\$(6.3)m	\$(6.6)m
Non-Resident	\$(.9)m	\$(.7)m

9. Other Miscellaneous Deductions -- Are allowed only to the extent they exceed 2% of A.G.I. Would be allowed fully at the State level. In short, with respect to miscellaneous itemized deductions, taxpayers would be required to both delete some from the federal total and add back greater amount of others.

Fiscal Impact:	Tax Year	
	1987	1988
	State	State
Total	\$8.7 m	\$9.1 m
Resident	\$7.8 m	\$7.6 m
Non-Resident	\$.9 m	\$1.5 m

**Areas of Non-Conformity Between
State and Federal Itemized Deductions
After the Tax Reform Act of 1986**

1. **Medical and Dental Expenses** - Kansas allows all unreimbursed expenses in excess of \$50 while the federal deduction allows only unreimbursed expenses in excess of 7.5% of AGI.
2. **Social Security and Related Employment Taxes** - Allowed as a deduction at the state level, but not at federal.
3. **Solar Energy Amortization** - More generous provisions allowed at the state level. To our knowledge has never been used.
4. **Contributions to Segregated Schools** - No longer necessary as federal law now interpreted to coincide with state law.
5. **Casualty Losses** - Non-conformed since 1983. State allows all unreimbursed losses in excess of \$100 per occurrence. Federal is limited to losses in excess of 10% of AGI.
6. **Charitable contributions** - Our rate for mileage is 7 cents per mile which was the federal rate in 1977. Current federal rate is 12 cents. Also, TRA imposed additional limits on travel which can be included as charitable.
7. **State and Local Gas Taxes** - Still allowed as state itemized deduction. Repealed at the federal level in 1979.
8. **Political Contributions** - State allows deduction of \$100/200. At the federal level, it was converted to a credit in 1979 and with TRA, the credit will be repealed.
9. **Work of Art Contribution** - Special excess deduction allowed at the state level. Never been utilized.
10. **State and Local Sales Taxes** - Federal deduction repealed in TRA. If continued at the state level, we should maintain deduction tables for all states to accommodate part-year residents which would involve considerable research time to keep current. Also, local option considerations make the non-conformity more cumbersome.
11. **Non-mortgage interest** - TRA phases out the deduction for non-mortgage interest from 1987 - 1991 with exceptions of home equity loans for educational and medical purposes. State law would still allow full deduction.
12. **Moving Expenses** - TRA makes moving expenses a miscellaneous itemized deduction not subject to the 2% of AGI floor. It is currently an allowable adjustment to gross income. At the state level, therefore, taxpayers would lose the adjustment to income but not have the itemized deduction available to them.
13. **Employee Business Expenses** - Those currently taken as an adjustment to income on the front of the 1040 are converted to a miscellaneous itemized deduction subject to the 2% of AGI floor. These would be lost to Kansas taxpayers at the state level.
14. **Other Miscellaneous Deductions** - Are allowed only to the extent they exceed 2% of AGI. Would be allowed fully at the state level. Taxpayers would be required to both delete some from the federal total and add back greater amounts of others.