

Approved on 2/4/87

Minutes of the House Taxation Committee. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 3, 1987, in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused): Crowell
Lowther
Pottorff
Vancrum

Committee staff present: Tom Severn, Legislative Research
Chris Courtright, Legislative Research
Don Hayward, Revisor of Statutes
Millie Foose, Committee Secretary

Chris Courtright discussed state conformity to medical expense deduction. He said that 24 states, including Kansas, use federal adjusted gross income as the base. Eight of these states, including Kansas, tie their deductions to the Internal Revenue Code that was in effect on a specific date before January 1, 1987, and did not conform to any of the changes brought about by the Tax Reform Act. Kansas, tied to the federal itemized provisions in effect on December 31, 1977, allows all unreimbursed medical and dental expenses in excess of \$50 to be taken as a deduction. (Attachment 1)

Tom Severn made a comparison of Property Tax exemptions for industrial bonds and for Economic Development Purposes under 1986 H.C.R. 5047. (Attachment 2) He also discussed time period of exemption, partial exemptions, and types of units authorized.

Chairman Rolfs and committee members questioned Mr. Severn extensively concerning the Industrial Revenue Bonds and Small-issue Industrial Development Bonds. Mr. Severn emphasized that IDB bonds may no longer be used for certain previously allowed purposes, including sports facilities, trade pollution control, and industrial park facilities.

Representative Leach suggested that Dale Dennis, Department of Education, be contacted for his reaction to these bonds -- also the Board of Tax Appeals. Committee members questioned the amount of input schools have, procedures required, and the limitations.

Chairman Rolfs said he plans to schedule hearings and discussions with different factions next week so the committee will have answers to many of their questions.

Representation Leach motioned, second by Representative Smith, that the bill requests of the Department of Revenue be approved. Motion carried.

The minutes of the January 29 meeting were approved.

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



E. C. Rolfs, Chairman

MEMORANDUM

February 2, 1987

TO: House Taxation Committee
FROM: Kansas Legislative Research Department
RE: State Conformity to Medical Expense Deduction

Of the 40 states imposing broad-based individual income taxes, 24 states, including Kansas, use federal adjusted gross income (FAGI) as the base, six states use federal taxable income (FTI) as the base, and four states base their taxes on a percent of federal liability (FL), including North Dakota which offers taxpayers a choice between FTI and FL.

The ten states using FTI or FL implicitly incorporate all changes in federal itemized deductions into the state tax codes, except where specific legislative exceptions have been created. One of the changes the Tax Reform Act of 1986 made in federal itemized deductions was to raise the floor at which unreimbursed medical and dental expenses could be taken as a deduction from 5 percent of AGI to 7.5 percent of AGI. Nine of these states (Hawaii, Idaho, Nebraska, Oklahoma, Oregon, Rhode Island, South Carolina, Utah, and Vermont) all automatically conformed to medical deduction change. North Dakota allows all unreimbursed medical and dental expenses to be deducted only by those taxpayers choosing FTI as a base and offers no deduction for taxpayers choosing FL. However, most North Dakota taxpayers now choose to use FL, and their incentive to do so will increase under the new federal laws.

At least 10 of the 24 states using FAGI as the base explicitly conformed to changes in federal itemized deductions, including the medical deduction provision, by having state deductions automatically linked to any changes in the Internal Revenue Code.

Eight FAGI-based states, including Kansas, tie their deductions to the Internal Revenue Code that was in effect on a specific date before January 1, 1987, and did not conform to any of the changes brought about by the Tax Reform Act. Barring any changes in their laws, all of these states except Georgia and Kansas will continue to allow all unreimbursed medical and dental expenses in excess of 5 percent to be taken as an itemized deduction on the state return. Georgia, tied to the federal itemized provisions in effect on January 1, 1981, has a 3 percent of AGI floor, and Kansas, tied to the federal itemized provisions in effect on December 31, 1977, allows all unreimbursed medical and dental expenses in excess of \$50 to be taken as a deduction.

Four states using FAGI as a base, Illinois, Indiana, Ohio, and Michigan, allow no deduction for medical expenses.

Wisconsin, also FAGI-based, began allowing a 5 percent tax credit in 1986 instead of an itemized deduction.

Arizona appears to be the only state offering a more generous medical expense deduction than Kansas, allowing all unreimbursed medical expenses to be deducted.

The Department of Revenue has estimated that if Kansas were to conform to the new federal provision of a 7.5 percent floor, State General Fund receipts would increase by \$30.3 million.

According to Steven Gold, National Conference of State Legislatures, most states will ultimately conform to the new federal medical deduction.

The attached memorandum outlines the bases used as starting points for computation of state individual income taxes.

housetax.mem/bd

MEMORANDUM

August 7, 1986

TO: Capital Markets and Taxation Task Force
FROM: Kansas Legislative Research Department
RE: State Income Tax Conformity Through July, 1986

States Imposing No Individual Income Tax (7)

Alaska	South Dakota	Wyoming
Florida	Texas	
Nevada	Washington	

States Not Imposing Broad-Based Income Taxes (3)

Connecticut	New Hampshire	Tennessee
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States Using FAGI as Base (24)

Arizona	Indiana	Maryland	New Mexico
California	Iowa	Massachusetts	New York
Colorado	KANSAS	Michigan	Ohio
Delaware	Kentucky	Minnesota	Virginia
Georgia	Louisiana	Missouri	West Virginia
Illinois	Maine	Montana	Wisconsin

States Using FTI as Base (6)

Hawaii	Oklahoma	Utah
Idaho	Oregon	South Carolina

States Using FL as Base (4)

Nebraska	North Dakota*	Rhode Island	Vermont
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States Not Using-Federal Starting Point as Base (6)

Alabama	Mississippi	North Carolina
Arkansas	New Jersey	Pennsylvania

* North Dakota currently offers its taxpayers a choice between FTI and FL. Federal reform would provide incentive for most taxpayers to choose FL.

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MEMORANDUM

February 3, 1987

TO: House Committee on Taxation

FROM: Kansas Legislative Research Department

RE: Comparison of Property Tax exemptions for Industrial Revenue Bonds and for Economic Development Purposes under 1986 H.C.R. 5047

This memorandum compares the property tax exemptions for properties financed with Industrial Revenue Bonds (IRBs) and the economic development abatements authorized by 1986 H.C.R. 5047 (now Article 11, Section 13). They are compared in terms of the time period of exemption, partial exemptions, qualifying projects, and procedures for claiming the exemption.

Time Period of Exemption. Property financed with bonds issued prior to July 1, 1963 is exempt so long as any IRB remains outstanding and unretired. Property financed with city IRBs issued since that date has been exempted for a period of 10 years after the calendar year in which the bonds were issued. Although an attorney general's opinion stated that the term of an exemption granted pursuant to bonds issued by counties under their home rule authority was not limited in duration to 10 years, no such extended exemptions are known to have been granted. Beginning July 1, 1981, counties were authorized statutorily to issue IRBs with property tax exemptions extending 10 years.

Property tax exemptions or abatements authorized by cities and counties under Art. 11 Sec. 13 are limited by that authority to a maximum of 10 years, although they could be for a shorter period.

Partial Exemptions. Any property financed entirely or in part with IRBs issued prior to July 1, 1981, and any property financed entirely with the proceeds of bonds issued after that date is entirely exempt from taxation. Any property financed in part with the proceeds of an IRB issued after July 1, 1981 is exempt to the extent of the portion so financed. However, many properties have, in effect, been partially exempt because issuing cities or counties commonly required significant payments in lieu of taxes. For instance, cities often require that the taxes paid on the undeveloped property continue to be paid.

Under the constitutional amendment, cities and counties may exempt properties in whole, or in part, by exempting a portion of the assessed value.

Types of Units Authorized. After July 1, 1981, cities, counties, and certain airport and improvement districts may issue IRBs. Abatements under the constitutional amendment, however, may be granted only by cities and counties.

Qualifying Projects. The IRB exemption extends to "[a]ll property owned or operated by the state or any municipality or political subdivision of the state which is used or is to be used for any governmental or proprietary function and for which bonds may be issued or taxes levied to finance the same. . ." The 1980 Special Committee on Assessment and Taxation conducted a survey of all IRB issues and found a variety of uses including manufacturing facilities and equipment, distribution facilities, retail stores, pollution control equipment, and oil leases. The uses for which IRB property may be exempted has not been limited by the Kansas Legislature.

In contrast, the abatements granted under the constitutional amendment are limited to manufacturing, research and development, and warehousing.

Procedures Required. K.S.A. 1986 Supp. 79-213 provides that "[a]ny property owner requesting an exemption from the payment of ad valorem property taxes assessed, or to be assessed, against their property shall be required to file an initial request for exemption, on forms approved by the board of tax appeals and provided by the county appraiser." In addition, IRBs issuers are required by K.S.A. 1986 Supp. 12-1744a to register with the Board of Tax Appeals certain information relating to the IRB such as the legal description of the property, payments in lieu of tax, current assessed value (if an exemption is sought), and the estimated total cost of the project.

Art. 11, Sec. 13 permits the Legislature to limit or prohibit cities and counties from exempting property and abating taxes. The Board of Tax Appeals has ruled that such exemptions and abatements must be initially reviewed by the Board.

Federal Law Change. The federal income tax exemption for Small-issue Industrial Development Bonds (IDBs) for other than manufacturing activities and first-time farmers sunset on December 31, 1986. IDBs for manufacturing facilities and first-time farmers are to sunset on December 31, 1989. Such bonds continue to be counted toward the state's \$250 million limitation (for 1987) and \$150 million limitation (for 1988 and 1989).

In addition, the limitations on the allowable private purpose component of governmental purpose bonds have been reduced from 25 percent to 10 percent effective January 1, 1987. IDB bonds may no longer be used for certain previously allowed purposes, including sports facilities, trade, pollution control and industrial park facilities.

IRB.mem/bd