

Approved On: 3/6/87

Minutes of the House Committee on Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on March 5, 1987 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representative: Adam

Committee staff present:

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

Representative Kerry Patrick spoke as a proponent for HB-2280 - AN ACT concerning mortgage registration fees. He explained the bill, especially lines 62 through 66 which would enable a homeowner to secure a loan and avoid paying a mortgage tax for the second time.

Mr. James Maag, representing Kansas Bankers Association, also spoke in support of HB-2280. (Attachment 1) His testimony included copies of articles printed in the Wall Street Journal and the American Banker which were favorable to this bill.

Lynn Van Aalst, Vice President Kansas League of Savings Institutions, appeared in support of HB-2280. (Attachment 2)

Mr. Tom Groneman, chairman of the legislative committee for the Kansas Register of Deeds Association, spoke as an opponent of HB-2280. He said enactment of the bill would result in lost revenue for the counties and create administrative problems in application of the registration tax. He also said that banks would not omit these fees but would want the counties to absorb them when replacing a second mortgage. (Attachment 3)

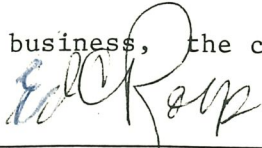
Bev Bradley, representing the Association of Counties, spoke as a proponent for Association of Counties and also supported the position of the Register of Deeds Association. This concluded the public hearing on HB-2280.

Representative Vancrum spoke as a proponent for SB-63 -AN ACT relating to property taxation; concerning exemptions therefrom for personal property held for display or sale at certain functions. He said that the threat of having to appear before the Board of Tax Appeals has cost the state of Kansas shows and conventions that would have located in Kansas in 1987 and subsequent years. (Attachment 4) After committee discussion, Representative Crowell moved, second by Representative Smith, that SB-63 be passed favorably and placed on the consent calendar. The motion carried. Additional testimony regarding SB 63 is included. (Attachments 5 and 6)

There was discussion on HB-2271 - AN ACT concerning stormwater management and flood control, authorizing the imposition of a sales tax to pay for certain improvements. Representative Fox moved, second by Representative Vancrum, that HB-2271 be passed favorably and placed on the consent calendar. The motion passed.

The minutes of the March 4 meeting were approved.

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



E. C. Rolfs, Chairman



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 5, 1987

TO: House Committee on Taxation
FROM: James S. Maag *JSM*
Kansas Bankers Association
RE: House Bill 2280

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee in support of HB 2280. This bill would eliminate the requirement that a mortgage registration fee be paid when a mortgage is given to secure a home equity line of credit.

Due to the progressive elimination of the deductibility of interest on consumer loans on federal income tax returns, home equity lending will become increasingly important. One expert in the field is predicting that such loans will double by 1988. HB 2280 would eliminate one costly and impractical step in the process of securing such a loan---the payment of the mortgage registration fee.

Attached to this testimony are two articles relating to home equity lending which emphasize how important they are becoming for consumers as a result of the new tax act. Your favorable consideration of this bill which would be advantageous for Kansas borrowers would be greatly appreciated.

Home-Equity Loans May Preserve Interest Deductions for Consumers

By SHERYL WUDUNN

Staff Reporter of THE WALL STREET JOURNAL

When the authors of the proposed tax law decided to eliminate interest deductions on consumer loans, some lawmakers worried that the repeal would stimulate "abusive" borrowing against the fair market value of homes, for which the benefit was to have been retained.

As a result, they opted at the last minute to limit as well the deductibility of mortgage interest. Under the new bill, such interest would be deductible only on principal or second residences, and only up to the original purchase price of a home plus the cost of any improvements. The sole exception would be for loans applied to educational or medical expenses.

Though the conferees may have done their best to close the loophole, financial analysts say there is still plenty of leeway for homeowners to use mortgage loans for vacations and the like—and thus still take interest deductions. Moreover, mortgage lenders expect that what's left of the loophole will spark a surge of new borrowings against homes. It will, they say, add to the appeal of already popular home-equity loans and spur banks and thrifts to market them more aggressively.

Consider, for example, a couple who bought a \$100,000 house 15 years ago with an \$80,000 mortgage. Since then, they have spent \$20,000 of savings on home improvements and have paid down the mortgage loan by \$10,000. Under the new bill, they would be able to deduct interest on total mortgage loans of up to \$120,000—which could put at a disadvantage homeowners whose property had appreciated considerably. Of course, the amount they could actually borrow would depend on a variety of factors, including bank policies, the couple's equity and the home's market value. But as long as the loan was within the \$120,000 limit, the couple could spend it on whatever they choose—and retain the interest deduction.

A Source of Credit

Michael Moebis, who heads his own Chicago-based research firm, believes home-equity loans for consumer purchases will double to nearly \$100 billion by January 1988. Having a standing line of credit arranged as a second mortgage on a residence could become "a way of life" for U.S. homeowners, adds Donald K. Crowley, senior vice president of Keefe, Bruyette & Woods, a New York-based banking research concern.

Some less enthusiastic observers feel the impact of the loophole would be minimal. They predict that reductions in overall tax rates will dim the appeal of deducting interest, and point out that Internal Revenue Service data indicates only 38% of all taxpayers itemized deductions on their 1984 returns. They also suggest that

consumers simply won't care enough about the tax savings to bother establishing a home-equity credit line when they're hot to buy a snazzy new car.

Itemizers, however, are heavy borrowers. In 1984 they claimed \$53.9 billion in interest deductions on loans other than mortgages, up from \$45.9 billion the previous year. While the maximum individual tax rate of 28% could reduce the incentive to itemize, most tax specialists agree that much of this consumer credit is likely to shift into interest-deductible home-equity loans.

In fact, property owners are already rushing to use the equity they've built up in their homes—either by paying down

HAVING a standing line of credit arranged as a second mortgage on a residence could become 'a way of life' for U.S. homeowners, says one analyst.

mortgages or through rapid appreciation in property values—to obtain loans for various purposes. Secured home loans for consumer purchases grew 20% last year to more than \$50 billion, or more than a third of the nation's \$150 billion in second mortgages, estimates David Olsen, a Washington-based consultant who specializes in the second-mortgage market.

And there's room for further growth: In 1984, residential equity available for use as loan collateral totaled \$700 billion nationwide, according to the General Accounting Office.

Loans tapping the equity in real estate, first offered about seven years ago, provide several advantages over traditional means of financing consumer purchases. Beyond the key attraction of the longer five- to 15-year terms, which permit smaller monthly payments, the interest rates are typically one to two percentage points lower than on consumer loans. For example, the buyer of a new boat who finances \$20,000 of the purchase price with a four-year conventional consumer loan at 12% annual interest would face monthly payments of \$527. A boat-buying homeowner who could borrow the \$20,000 with a 15-year home-equity loan at 10% would have monthly principal-and-interest payments of only \$215.

Also, there aren't any prepayment restrictions or penalties on home-equity loans. And once a credit line is established, money can be borrowed anytime—often by using a credit card or writing a check.

With the added appeal of tax savings, many banks and thrifts are betting that consumers will increasingly favor home-equity loans. Commercial banks, which hold 50% to 60% of the outstanding home-equity credit and have had long experience with revolving lines of credit, may be the best poised to profit, suggests Mr. Olsen, the Washington consultant. Mr. Crowley predicts that thrifts will be "as or more aggressive" in marketing such loans, especially where they can arrange variable interest rates on the borrowings.

A number of them have already started. Current mortgage customers of Los Angeles-based Great Western Financial Corp., one of the nation's largest thrifts, received brochures on the thrif's home-equity revolving credit line a few weeks ago, alerting them to the impending changes in the tax bill. The mailing stressed the home-equity credit line's easy accessibility through credit cards or checks, deductible interest and flexible payment schedules that permit postponing payment of the principle.

Greater Accessibility

And in Miami, Amerifirst Federal Savings & Loan Association has been at work since June developing plans for promoting its home-equity loans. "There will be many innovations for tying credit cards and all types of consumer loans to second trust deeds or home-equity loans" under the loophole, says A. Lynn Reaser, a senior economist at Los Angeles-based First Interstate Bancorp.

Some lenders, however, are downplaying the loophole's impact on their business. Besides citing a large percentage of taxpayers who won't use the interest deduction because they won't itemize, Anthony Frank, chairman of Ford Motor Co.'s First Nationwide Financial Corp. thrift unit, notes that congressional tax writers say 80% of taxpayers will be paying a 15% rate, "so the deduction is obviously less significant" for many people.

General Motors Acceptance Corp., the consumer finance unit of General Motors Corp., also says it is "not worried about any loss of business. "If you need a car, you need a car," says a spokesman. "How many people will run to their bank to take out a second mortgage?" In fact, he adds, many consumers may find car leasing a more attractive alternative.

For their part, financial planners seem to be taking a cautious view. Despite the tax advantage, many say they will discourage their clients from using equity in their homes to pay for purchases of consumer goods. "It's not good economic planning," explains Alexandra Armstrong, president of the Washington-based International Association of Financial Planning. It doesn't make sense, she says, to borrow against an appreciating asset, such as a house, to buy a depreciating one like a car.

Newest Hot Product: Home Equity Credit Lines

Tax Reform Will Spur the Competition to Sell Equity Lines, Predicts Synergistics

By LYNN BRENNER

NEW YORK — Institutions that don't quickly join the competition to sell home equity lines of credit will lose "the damndest preemptive opportunity ever to lock in customers," William O. Adcock Jr., chairman of Synergistics Research Corp., said last week.

The home equity line of credit is essentially an open-ended second mortgage. As a revolving credit line, it lets customers borrow for any purpose and repay loans as they wish. The interest on equity loans up to the price of a home plus home improvements will remain tax deductible.

Competition to sell equity lines of credit is already strong. Mr. Adcock predicted that it will intensify as a result of tax reform, which has eliminated the deductibility of interest charges on consumer loans.

Speaking at a seminar sponsored by Synergistics, an Atlanta-based research and consulting firm, Mr. Adcock pointed out that credit cards have been a key factor in the expansionary plans of major financial services firms. These firms, he said, will now use equity lines of credit as an alternative marketing hook.

Synergistics predicts that to preserve the deductibility of interest charges, more than 25% of U.S. credit users will seek equity lines of credit they can tap with a card.

Mr. Adcock warned assembled financial services executives not to delay in marketing the equity line of credit. The provider that doesn't offer the customer an equity line of credit until he needs to borrow will have lost that customer to competitors, he said.

Synergistics is conducting a series of consumer surveys about the impact of tax reform. At last week's seminar, the firm reported results of the first survey, in which it did nationwide tele-

phone interviews with 500 households whose income is \$25,000 or more.

The survey suggests one result of tax reform will be a reduced use of credit cards, and a consolidation of the number of credit card accounts consumers maintain. Seventy-five percent of the credit card users who itemize tax returns said the consumer interest deduction is an important factor in their decisions on how to pay for purchases.

Only three in 10 said they'd use the cards the same way if the interest wasn't deductible. About 24% of those surveyed said they would either pay credit card balances in full, or try harder to do so. Most of these consumers have household incomes between \$25,000 and \$74,000 a year.

This has serious implications for many financial services providers, Mr. Adcock said. Among them are banks that have used credit cards to spearhead interstate expansion, and firms like Sears Roebuck and Co., whose nationwide direct mail campaigns rely on the cards to build multiple relationships with customers.

The equity line of credit is the logical alternative for these firms, Mr. Adcock said. "To paraphrase General Patton, when you've got them by the equity line, their minds will follow."

In the report analyzing its survey findings, Synergistic noted that "the equity line provider is likely to control borrowing on both an installment loan and revolving credit card basis. "Many consumers will probably do less comparison shopping for automobile loans and may stop carrying credit cards that do not provide deductible finance charges through linkages to equity lines of credit."

Commercial banks now control about 65% of the home equity market. The total market is currently estimated

at between \$10 billion and \$30 billion, but the untapped home equity market is estimated at \$3.5 trillion.

Capturing a profitable share of this market won't be like shooting fish in a barrel, however, Synergistics said. For one thing, competition will be fierce. For another, the real potential market for equity lines of credit is limited. The Synergistics survey indicates that most homeowners are not strong prospects for the product.

According to the survey, 13% of homeowners already have an equity line of credit, and 48% aren't interested in getting one. Thirty-nine percent of homeowners expressed some interest in the product. A majority of the last group are under 50 years old and are currently credit users.

But only 35% of this group said they would pay as much as \$500 in closing costs for an equity line of credit. Even among these strong prospects, Synergistics noted, 41% said they are afraid to use their house as collateral except to finance the purchase of a home, or home improvements.

These consumer reservations suggest that providers will have to promote home equity lines as an astute way to manage personal finances and take advantage of legitimate tax deductions, Synergistics noted.

Heavy promotion of equity lines of credit also entails some dangers for financial institutions. "There's a tremendous opportunity for deteriorating credit quality," said Mr. Adcock.

A bank's exposure will be increased as the line is used to meet all the customer's borrowing needs. Quality service will become more important because the institutions will have "more relationship with the customer to lose," he added — while at the same time, a surge in volume will make careful processing more difficult. ■

KLSI Kansas League of Savings Institutions

LYNN G. VAN AALST, Vice President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

March 4, 1987

TO: HOUSE COMMITTEE ON TAXATION
FROM: LYNN VAN AALST, VICE PRESIDENT
RE: H.B. 2280 (MORTGAGE REGISTRATION TAX)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the House Committee on Taxation in support of H.B. 2280, which would exempt certain mortgages from payment of mortgage registration tax.

The Tax Reform Act passed by Congress in 1986 makes a number of substantive changes in the deductibility of interest on consumer debts.

As a result of these changes, the federal government has removed the incentives for consumers to carry standard types of consumer debt, and is instead encouraging the use of equity loans. An equity loan is simply a loan made to a consumer for a variety of purposes using the equity already built up in the consumer's home as security.

The growth in the equity loan market has been recent and rapid, and is expected to continue as a result of the favorable tax legislation. However, the federal government's encouragement of this shift from consumer to equity debt results in an additional expense to the consumer -- the mortgage registration tax. It is an expense the consumer would not otherwise bear. Therefore, the League supports exempting these loans from payment of mortgage registration tax.

In addition, we would point out that many of the people who would be affected by H.B. 2280 have already paid this tax once. Because of the nature of the loan and the restrictions imposed by the federal legislation, this tax treatment is only available to Kansans who have earned the right to use the equity they have built up in their homes. Many, perhaps most, will be

House Committee on Taxation
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able to do so because they have paid down their existing mortgages. In these cases, the borrower paid the mortgage registration tax on the dollars borrowed at the time of the original mortgage and, absent this legislation, would be required to pay it again.

We feel S.B. 2280 represents a reasonable approach to addressing these issues, and would appreciate the committee's consideration of reporting H.B. 2280 favorably for passage.

Lynn Van Aalst
Vice President

LVA:bw

Register of Deeds Association

Testimony on

House Bill 2280

Chairman Rolfs, members of the House Assessment and Taxation Committee, my name is Tom Groneman, I am Chairman of the legislative committee for the Kansas Register of Deeds Association. On behalf of the association I would like to thank you for the opportunity to present our feelings on H.B. #2280.

The Register of Deeds Association along with the other associations which comprise the Kansas Association of Counties met in November of last year to develop a County Legislative Platform. Included in the platform was a plank opposing any legislation which would further limit the applicability of mortgage registration tax to mortgage instruments as currently defined by state law.

House Bill #2280 proposes an additional exemption to the registration tax which in turn will effect revenue to counties. The extent of the impact is subject to conjecture. Estimates of lost revenues range from 10% to 50% and will certainly depend upon interpretation of the exemption and what methods lenders will use in the future to try to fall within the exemption. Exemptions allow certain mortgagees to obtain the benefits of registering a mortgage without having to pay for the protection.

During the 1985 interim session a special Committee on Assessment and Taxation did a broad based "study on mortgage registration tax and its relationship to modern debt instruments." One of the committee considerations was to exempt construction loans from mortgage registration tax. In their conclusions and recommendations the committee acknowledged that certain loans secured by mortgages had unique characteristics, but concluded that constitutional questions could arise from a proposal attempting to create special tax treatment for an isolated class of mortgages. The committee, therefore, recommended no change

in the current law.

In addition to lost revenues to the counties and the constitutional questions of special treatment for certain types of mortgages exemptions create administrative problems in application of the registration tax. Any exemption creates an administrative problem. The more exemptions, and the more complicated the exemption, the greater the administrative problem. In this case the proposed change could create substantial administrative burdens.

In a typical home loan equity mortgage transaction the mortgage registration tax would be included in the closing costs. In comparison to the loan origination fees, title insurance, points and other loan transaction costs mortgage registration tax will not significantly effect a home equity mortgage. However, loss of the revenue on these type mortgages could significantly effect the County General Fund.

The negative fiscal impact this bill will have could not come at a worse time for county governments. The loss of mortgage registration tax revenues, coupled with the loss of General Revenue Sharing Funds, will place an additional burden on county coffers. At this time when Federal, State and Local governments are faced with the difficulty of raising new revenues we ask that mortgage registration tax be left intact and that this committee not approve House Bill #2280.

Estimated Cost of securing a Home Equity Loan
in the amount of \$40,000.00

1% Origination Fee	\$400.00
Title Report	350.00
Appraisal	200.00
Credit report	50.00
Points (1½)	600.00
Close and Record	125.00
MORTGAGE FEE	100.00
Recording fee	<u>6.00</u>
TOTAL	\$1831.00



TOPEKA

HOUSE OF
REPRESENTATIVES

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COMMITTEE ASSIGNMENTS
 MEMBER APPROPRIATIONS
 TAXATION
 JUDICIARY
 JOINT COMMITTEE ON SPECIAL CLAIMS
 AGAINST THE STATE

March 5, 1987

SB 63
 HOUSE TAXATION COMMITTEE

Mr. Chairman and Members of the Committee:

This bill represents the latest in a series of attempts to make it very clear that personal property displayed at fairs, expositions, trade shows and conventions is exempt from inventory tax in the state of Kansas. I am sure all except the freshmen on this committee remember SB 412 which was enacted last year for the purpose of exempting all such personal property displayed or sold at shows that are sponsored by nonprofit associations or in facilities owned by governmental entities.

Subsequent to passage of that legislation, several issues have arisen concerning when a show is "sponsored" by the nonprofit association and whether property displayed by a for profit entity at such shows is exempt from inventory tax.

In light of the fact that all inventory will be exempt from taxation even by regular retail merchants as of January 1, 1989, and since I'm sure we all felt that we had exempted all the exhibitors in the state from taxation by the bill passed last year, SB 63 as passed by the Senate simply states that all property exhibited at any such event is exempt from property tax.

The bill also provides that there need be no payment of taxes and ruling on the matter by the Board of Tax Appeals. It should be obvious that no one displaying antiques or other goods at such a show would have enough interest to actually test the matter before the Board of Tax Appeals. Therefore this language is absolutely mandatory if the matter is to be laid to rest without a loss of shows and conventions. I ask that you give this bill your immediate and prompt attention since continuing questions as to this exemption have cost the state of Kansas shows and conventions that would have located here in 1987 and subsequent years.

LEGISLATIVE TESTIMONY

SENATE BILL NO. 63

HOUSE TAXATION COMMITTEE

THURSDAY, MARCH 5, 1987

BY

NICK JORDAN

LEGISLATIVE CHAIRMAN

TRAVEL INDUSTRY ASSOCIATION OF KANSAS

Mr. Chairman and members of the Committee, my name is Nick Jordan and I am appearing as Legislative Chairman of the Travel Industry Association of Kansas.

Thank you for this opportunity to testify in support of Senate Bill No. 63 pertaining to property taxation of personal property held for display or sale at certain functions.

Legislation was originally introduced two years ago to alleviate a problem with "street corner" vendors coming to a community and setting up shop without obligations. There was a need to regulate these vendors in some way. Issuing a transient merchants license was the prescribed answer.

An unforeseen problem then arose. No one had any thought or intent that licensing would affect conventions, trade shows, fairs, festivals, expositions, auctions, bazaars, or flea markets. However, when the licensing act was passed a connection was made with a 1917 statute relating to the taxation of transient merchant goods. All of a sudden groups were closed or threatened by taxation all over the State. THIS HAD NEVER HAPPENED PREVIOUSLY AND IS NOT A REGULATION IN SURROUNDING STATES. The Smoky River Festival in Salina was hit with a \$30 tax due bill. An antique show in the Bicentennial Center in Salina was shut down for payment of taxes due. Publicity began to appear in national publications and at meetings of national organizations who plan conventions and shows. Kansas was showing these people we didn't recognize their economic benefits to our communities. Unlike other states and communities across America we were going to tax them for doing business here.

Nick Jordan Testimony

Everyone thought we had solved the problem in the last legislative session by exempting conventions, trade shows, fairs, festivals, expositions, auctions, bazaars or flea markets. Unfortunately, this was not the case.

There are some who do not want to define a convention, trade show, etc., and decided each group should be challenged by appealing to the State Tax Appeals Board. This is an unacceptable requirement to the people who plan those gatherings. Ducks Unlimited has been sitting on needles and pins for the last year concerning their Wildlife Art Show in Johnson County. Last March they were threatened and obtained an injunction to keep the County Assessor out. They were forced to appeal to the State Tax Appeals Board, who refused at first to rule, and then just recently ruled in favor of Ducks Unlimited. This process made Ducks Unlimited look at Kansas City, Missouri for their show and would have been over a quarter million dollar loss to Johnson County in economic impact. People from all over Kansas and the Midwest attend this fundraiser for Ducks Unlimited. In other words, the threat still hangs over groups who want to book business in the State of Kansas. Groups may be asked to "jump thru hoops" they are not asked to jump thru in other areas.

Nick Jordan Testimony

Please remember these functions have significant impact on local communities economically. Convention and community centers (most of which operate on city subsidies), hotels, motels and shopping centers are particularly hurt by the taxation of these groups. These businesses contribute tremendously to the economy of the State and local communities providing jobs, taxes and importing dollars. Hindering a local community's ability to attract business does not seem to be a wise economic development policy. A real irony in all this is many shopping centers sponsor antique sales and craft shows to lure buyers. Local merchants are sponsoring transient merchants!

Senate Bill No. 63 allows for the exemption of important groups, yet provides a way to air grievances. This solves the original problem of street corner vendors, but allows groups, that are important to communities throughout Kansas, to conduct business without jumping through numerous hoops.

We would recommend swift action on Senate Bill 63 to remove this dark cloud from over the State. We can then move on to booking business and promoting economic growth. Thank you for your consideration.



STATEMENT

DATE: March 5, 1987
TO: House Taxation Committee
FROM: Kevin Robertson, Director of Governmental Affairs
RE: Senate Bill 63

Mr. Chairman and members of the committee, my name is Kevin Robertson and I am representing the Kansas Lodging Association today in support of SB-63.

Many of you will recall that the subject of Transient Merchants Tax surfaced during the summer of 1985 when a 1919 law was discovered and promoted for enforcement by the Director of the Division of Property Valuation. Kansas received national recognition in convention trade journals as the place not to hold your convention or trade show.

The Legislature tried to fix the problem in 1986 and after extensive hearings we thought the problem had been solved. Now a county tax assessor has started making interpretations that have caused the convention and visitor's business to regress back to a state of confusion. At least one tax assessor thinks that shows like antique and art shows are subject to tax. That was not your intent. One organization, Ducks Unlimited, in order to have a fund raising event by selling art items was told they had to pay personal property tax. They eventually found themselves before the State Tax Board of Appeals for a ruling. They won, but it is not conducive to the state's emphasis on economic development to force potential convention and show clients to overcome unnecessary obstacles to spend money in Kansas. It's too easy for them to take their business across the line into Kansas City, Missouri, or south to Oklahoma or north to Nebraska if we don't want their business.

The people of Kansas have now approved classification so therefore this issue of personal property tax and inventories will soon be moot, but for now we have a problem. The Kansas Lodging Association urges you to vote favorably for SB-63.