

Approved On: 3/30/87

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 19, 1987 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Shore

Committee staff present:

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

Representative Fox requested that several bills be introduced by the committee. Members of the committee agreed to introduce the bills by consensus.

Mr. Fred Ferguson, Vice President Council of State Chambers of Commerce, spoke as a proponent for HB-2543 and submitted a map showing treatment of foreign dividend and foreign 80/20 income in the western states. (Attachment 1)

Mr. T. C. Anderson, Executive Director Kansas Society of Certified Public Accountants, discussed HB-2543 and analyzed its effects on taxpayers. He presented a table outlining taxpayers' actual 1986 Federal and State tax obligations; their Federal obligation if the Tax Reform Act of 1986 had been effective for tax year 1986, and the resulting Kansas tax with and without HB-2543. (Attachment 2)

Mr. Richard Brewster, Director Public and Government Affairs Amoco Corporation, discussed HB-2542 (with a clarifying amendment) and said that its passage would provide tax liability parity among unitary multi-national corporations based on substance rather than form, and would make Kansas competitive with other states in attracting new business. (Attachment 3).

Mr. Larry R. Tucker, Hutchinson, speaking as a CPA and as a taxpayer, spoke in opposition to HB-2543. He believes that the state is moving too fast in reforming the state's current income tax laws. (Attachment 4) He submitted four proposals that he believes should be studied and incorporated into a new tax reform bill.

Mr. Harley Duncan, Secretary of Revenue, presented the Administration position and said that the Administration cannot support HB-2543 or a similar expansive reform measure at this point in time. He said their concern is with the additional uncertainty and danger it adds to the fiscal condition of the state if such a measure is enacted at this time. (Attachment 5) He requested further consideration and an interim study.

The minutes of the previous meeting were approved.

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



E. C. Rolfs, Chairman

WESTERN STATES RANK IN ENCOURAGING
ECONOMIC DEVELOPMENT THROUGH INCOME TAX LAWS

<u>State</u>	<u>Type of Income Tax</u>
1. Nevada	No Income Tax
South Dakota	"
Texas	"
Washington	"
Wyoming	"
6. Arkansas	Separate Return
Iowa	"
Louisiana	"
Missouri	"
Oklahoma	"
Wisconsin	"
12. Illinois	True Water's Edge
Arizona	"
Colorado	"
15. Idaho	85% Water's Edge
North Dakota (proposed)	"
Montana (proposed)	"
18. Utah	50% Water's Edge
19. New Mexico	80/20 Excl., Div. Incl.
20. Nebraska	80/20 Incl., Div. Excl.
21. Minnesota	80/20 Incl., 85% Div. Excl.
Oregon	"
23. California	80/20 Incl., 75% Div. Excl.
24. Kansas (pre-Executive Order)	80/20 Incl., Div. Incl.

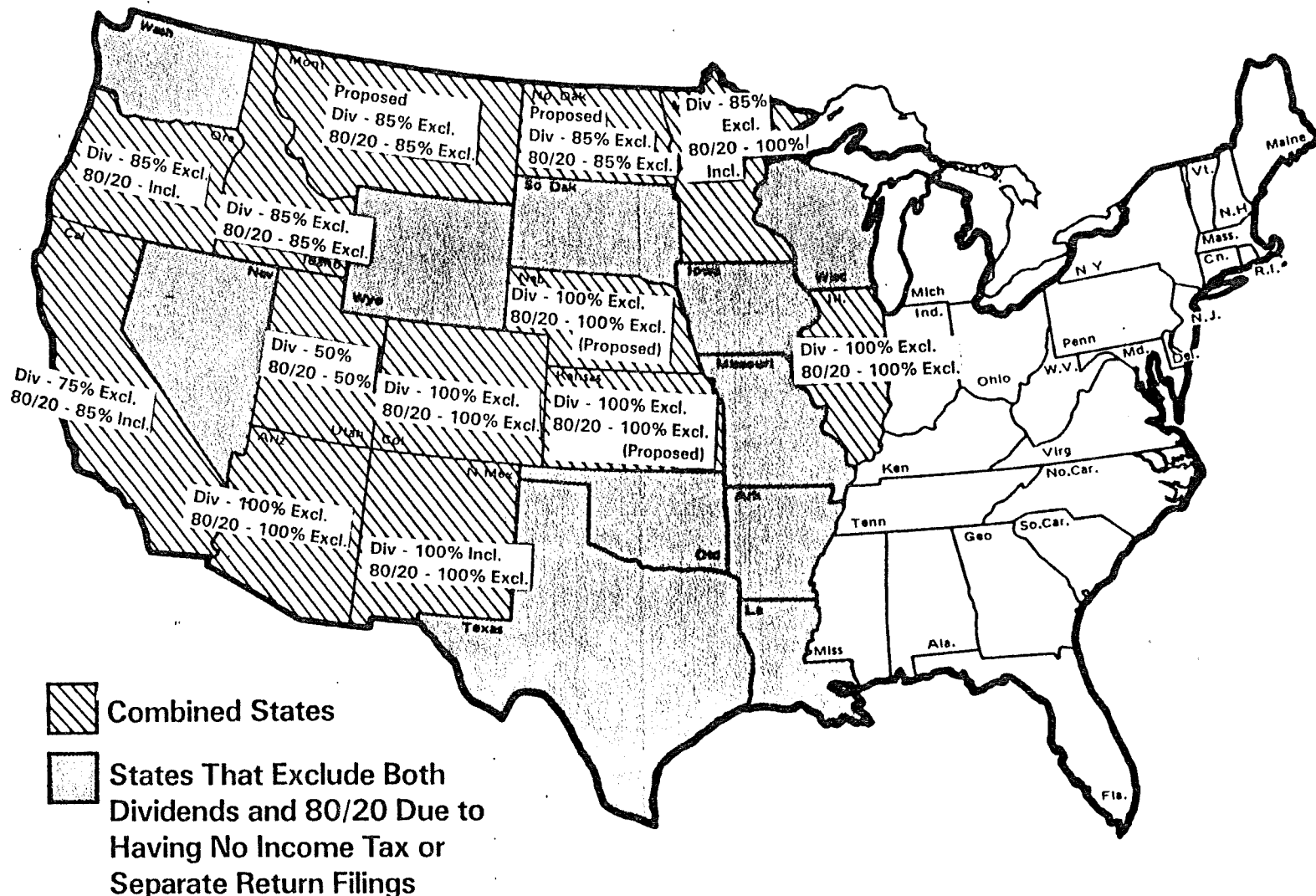
Kansas after Executive Order would rank #21.
 Kansas if equal treatment water's edge would rank #12.

Fred E. Ferguson
 VICE PRESIDENT

COUNCIL OF STATE CHAMBERS OF COMMERCE
 122 C. STREET, N.W., WASHINGTON, D.C. 20001
 TELEPHONE (202) 484-8103

House Tax Com. - 3/19/87 - Attach. 1

Treatment of Foreign Dividend and Foreign 80/20 Income in the West



STATE TREATMENT OF FOREIGN-SOURCE DIVIDENDS
Jean A. Walker, Committee on State Taxation

	Exemption			Treatment of Balance		Statute(s)
	Exempt	Conditional	Partial	Allocate	Apportion	
ALABAMA				X		§§40-18-34, 40-18-35(14), Reg. 810-3-31.02
ARIZONA	X					§43-1122(8), L. 1985, c. 109, eff. for taxable years beginning from/after 12-31-83
ARKANSAS		If 95% ownership of payor.			X	§84-2008(2)(j)
CALIFORNIA 1)		If more than 50% ownership of payor, 75% exclusion of base period dividends (greatest amount of dividends received in any one of 1984, 1985 or 1986 income years); exclusion of foreign dividends in excess of base period amount dependent upon increase or decrease in foreign payroll factor.			X	§§24271, 24402
2)					X	§24411, S.B. 85 as enacted, eff. for tax years beginning on/after 1-1-88
COLORADO			Amount of exclusion of all foreign-source income dependent upon election of federal foreign tax deduction or credit.		X	§39-22-304, §39-22-303(10), L. 1985, H. 1010, eff. for tax years beginning on/after 1-1-86
CONNECTICUT	X					§12-217(a)(D)
DELAWARE	X					§1903(a)(2)
FLORIDA	X					§220.13(1)(b)2.a, ch. 84-549, Laws of Florida, eff. for tax years beginning on/after 9-1-84
GEORGIA	X					§48-7-21(b)(9)
HAWAII					X	§235.7(c)
IDAHO 1)			85% exclusion.		X	§63-3022
2)					X	§63-3027C, L. 1986, c. 342 (HB 669), eff. for tax years beginning 1-1-88 or January 1 of year after Federal disclosure spreadsheet legislation adopted, whichever earlier
ILLINOIS		If 80% ownership of payor.	Otherwise, 85% exclusion.		X	§2-203(b)(2)(0), L. 1982, P.A. 82-1029, eff. for taxable years ending on/after 12-31-82
INDIANA					X	§6-3-1-3.5(b)
IOWA					X	§422-35
KANSAS					X	§79-32,138
KENTUCKY	X					§141.010(12)(b)
LOUISIANA				X		§§42.A, 63, 242(1)(d), 243.A(4)
MAINE					X	§5102.8
MARYLAND		If 50% ownership of payor.			X	§280A(c)(5)
MASSACHUSETTS	X					§38(a)(1)
	(Unless less than 15% ownership of payor.)					
MINNESOTA	X					§290.21 Subd. 4(e), L. 1984, c. 502, eff. for taxable years beginning after 6-30-85

	Exemption			Treatment of Balance		Statute(s)
	Exempt	Conditional	Partial	Allocate	Apportion	
MISSISSIPPI					X	§§27-7-15(1), 27-7-15(4)(i), 27-7-23(c)(2)(B)
MISSOURI	X					§143.431, <u>Union Electric Co. v. Coale</u> , 347 Mo. 175 (1940)
NEBRASKA	X					§77-2716(7), L. 1984, LB 1124, eff. for taxable years beginning on/after 1-1-84
NEW HAMPSHIRE					X	§§77-A:3.II
NEW JERSEY		If 80% ownership of payor.	Otherwise, 50% exclusion.		X	§54:10A-4(k)(1)
NEW MEXICO					X	§§7-2A-2.M & N
NEW YORK		If 50% ownership of payor.	Otherwise, 50% exclusion.		X	§§208.9(a)(1) & (2) and (b)(2)
NORTH CAROLINA				X		§§105-130.7, 105-130.4(f)
OHIO	X					§5733.04(I)(2)
OKLAHOMA				X		§2358.A.4.b
OREGON			85% exclusion.		X	§317.267(2), c. 1, Oregon Laws 1984, eff. for tax years beginning on/after 1-1-86
PENNSYLVANIA	X					§§7401(3)1.(A) & (B)
RHODE ISLAND					X	§§44-11-11, 44-11-12
SOUTH CAROLINA1)		If 80% ownership of payor.		X		§12-7-700(15) repealed L. 1985, S351, eff. for tax years beginning after 12-31-84; §12-7-1120(2)
	2)			X		§§12-7-415, 12-7-430 added L. 1985, S351, eff. for tax years beginning after 12-31-84; §12-7-1120(2)
TENNESSEE		If 80% ownership of payor.			X	§67-2704(b)(2)(A)
UTAH			50% exclusion.		X	§59-13-5(2)(d), L. 1986, c. 80 (HB 178), eff. for tax years beginning on/after 1-1-86
VERMONT					X	§5811(18)
VIRGINIA		If 50% ownership of payor.		X		§§58-151.032(g), 58-151-037
WEST VIRGINIA 1) X						§11-24-6(c)(3) limited L. 1985, H1693, to taxable years beginning before 7-2-87
	2)				X	§§11-24-6, 11-27-7(d)(3)
WISCONSIN		If 80% ownership of payor.			X	§71.04(4)
DISTRICT OF COLUMBIA					X	§47-1810.1
<u>Worldwide Combination States*</u>						
ALASKA					X	§43.20.065
MONTANA					X	§15-31-113(1)
NORTH DAKOTA					X	§57-38-01.20

*Dividends between combined corporations are eliminated from income, thus the indicated treatment of dividends applies only to dividends received by members of the combined group from corporations not included in the combination.

FEDERAL TAX TREATMENT

	<u>Foreign Corp.</u>	<u>Foreign Branch (80/20)</u>
Foreign Income	1,000	1,000
Less Foreign Tax at 52%	<u>(520)</u>	<u>(520)</u>
After Tax Income	<u><u>480</u></u>	<u><u>480</u></u>
Income in U.S. Return	480 (Div.)	1,000 (Full)
Plus Section 78 Gross-up	<u>520</u>	<u>-0-</u>
Consolidated Income	<u><u>1,000</u></u>	<u><u>1,000</u></u>
U.S. Tax at 40%	400	400
Less Foreign Tax Credit	<u>(400)</u>	<u>(400)</u>
U.S. Tax Due	-0-	-0-

KANSAS TAX TREATMENT

	<u>Pre-Executive Order</u>		<u>Executive Order</u>		<u>Equal Treatment True Water's Edge</u>	
	<u>Foreign Corp.</u>	<u>80/20</u>	<u>Foreign Corp.</u>	<u>80/20</u>	<u>Foreign Corp.</u>	<u>80/20</u>
Parent Income (e.g.)	2,000	2,000	2,000	2,000	2,000	2,000
Foreign Div. Income	480		-0-		-0-	
80/20 Income		<u>1,000</u>		<u>1,000</u>		<u>-0-</u>
Total Kansas Apportionable Income	2,480	3,000	2,000	3,000	2,000	2,000
Apportionment Factors Used	Domestic	Worldwide	Domestic	Worldwide	Domestic	Domestic



Kansas Society of Certified Public Accountants

FOUNDED OCTOBER 17, 1932

400 CROIX / P.O. BOX 5654 / TOPEKA, KANSAS 66605-0654 / 913-267-6460

KANSAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

House Taxation Committee

HB 2543

March 19, 1987

Mr. Chairman and members of the Committee, I am T. C. Anderson, Executive Director of the Kansas Society of Certified Public Accountants. With me today is Charles Clinkenbeard, CPA, a partner in the international firm of KMG Main Hurdman and President of our 2,000 member organization.

Inasmuch as it is tax season and H.B. 2543 was introduced only a short time ago I hope you will understand why the Kansas Society has not yet had an opportunity to meet to discuss and take a formal position on this proposed legislation.

I have, however, circulated information on H.B. 2543 to our Federal and State Taxation Committee, Board of Directors and other interested members.

As of this date over 80 percent responding to the questionnaire indicate they generally support the concepts of conformity contained in H.B. 2543.

Of those offering comments, many have expressed concerns over the phase out of exemptions provision. A member wrote, "I do not particularly care for the personal exemption change, but it ties in with the rest of the package."

One member indicated that in the spirit of conformity and fairness, it seems that the federal definition of gross income as it relates to social security benefits should be followed in Kansas."

HB 2543
March 19, 1987
Page 2

And finally, another member writes, "H.B. 2543 goes along way toward conformity and simplicity. Simplicity is not a goal in itself - but a means to the end result of enhanced voluntary compliance and self-assessment. Removing 60,000 working poor from the Kansas tax rolls is a commendable objective. It must be realized, however, that achieving conformity with Federal rules is transitory. The Federal rules are and will continue to be a moving target."

Through the Topeka offices of KMG Main Hurdman we have also attempted to analyze the effects of H.B. 2543 on actual taxpayers.

Following is a table which outlines these taxpayer's actual 1986 Federal and State tax obligations; their Federal obligation if the Tax Reform Act of 1986 had been effective for tax year 1986 and the resulting Kansas tax with and without H.B. 2543.

Summary

1986 RETURN AS FILED

1986 INFORMATION FILED AS 1987 RETURN WITH NO KANSAS LAW CHANGES

1986 INFORMATION FILED AS 1987 RETURN WITH PROPOSED LAW EFFECTS INCLUDED

EXAMPLE RETURN	1986 RETURN AS FILED			1986 INFORMATION FILED AS 1987 RETURN WITH NO KANSAS LAW CHANGES			1986 INFORMATION FILED AS 1987 RETURN WITH PROPOSED LAW EFFECTS INCLUDED		
	KANSAS AGI	KANSAS TAXABLE INCOME	KANSAS TAX LIABILITY	KANSAS AGI	KANSAS TAXABLE INCOME	KANSAS TAX LIABILITY	KANSAS AGI	KANSAS TAXABLE INCOME	KANSAS TAX LIABILITY
MARRIED, ONE CHILD Does NOT ITEMIZE	\$ 23375	15182	\$ 587	\$ 23375	\$ 15608	\$ 616	\$ 23375	11948	\$ 494
SINGLE, OVER 65 w/ RAILROAD RETIREMENT	\$ 15849	5357	\$ 173	\$ 15863	\$ 8929	\$ 380	\$ 15863	\$ 6679	\$ 312
MARRIED, MOVING EXPENSES, CONSUMER INTEREST AND CAPITAL GAINS	\$ 74189	\$ 38951	\$ 2321	\$ 84839	\$ 46362	\$ 2942	\$ 81839	\$ 51510	\$ 3046
SINGLE, OVER 65, HIGH MEDICAL & SOCIAL SECURITY	\$ 31494	\$ 7378	\$ 280	\$ 31494	\$ 8802	\$ 374	\$ 28551	\$ 8174	\$ 409
MARRIED, BOTH OVER 65 SOCIAL SECURITY, MEDICAL HIGH CAPITAL GAINS	\$ 29322	\$ 15026	\$ 577	\$ 44526	\$ 33499	\$ 1911	\$ 36664	\$ 21737	\$ 1057
MARRIED, ONE CHILD HEAVY CONSUMER INTEREST	\$ 46783	\$ 21341	\$ 1001	\$ 49164	\$ 26783	\$ 1408	\$ 49164	\$ 31579	\$ 1652
MARRIED, 2 CHILDREN CHILD CARE CREDIT	\$ 14352	\$ <1106>	None	\$ 14615	\$ <248>	None	\$ 14615	\$ <919>	None

Statement of:

Amoco Corporation

To:

Kansas House Committee on Taxation

Re: 1987 House Bill 2542

By:

E. Richard Brewster
Director,
Public and Government Affairs
Amoco Corporation
Box 800, 1670 Broadway
Denver, Colorado 80201
(303) 830-4104

Mr. Chairman, Members of the Committee, my name is Dick Brewster. I am Western Area Director, Public and Government Affairs, for Amoco Corporation, formerly Standard Oil Company (Indiana).

I appear today on behalf of Amoco Corporation and its subsidiaries, Amoco Production Company, its exploration and production subsidiary, Amoco Oil Company, its refining and marketing subsidiary, both of which have substantial business interests (property, payroll and sales) in the State of Kansas. I also appear on behalf of other subsidiaries, Corporations chartered in Delaware, such as Amoco Chemicals, Amoco Egypt, Amoco Tanzania, Amoco Gabon, and others which have no property, payroll or sales within the State of Kansas, but which are indirectly, Kansas taxpayers.

I know this committee has been briefed thoroughly by Secretary of Revenue Harley Duncan on the way Kansas taxes multi-state and multi-national corporations. Mr. Chairman, I know that Kansas is often listed among other states as having a so-called "domestic combination" requirement for such corporations which are deemed "unitary." However, the way the scheme operates on Amoco and companies organized, as we are, conducting foreign business operations through subsidiaries organized in the U. S., it is really a "worldwide combination." Let me explain:

Let me show you the disparity by way of example. Let us assume that we have two multi-national, unitary corporations. One, we'll call "A" Corporation, does business in Kansas and several other states, and through a subsidiary, a Delaware corporation, conducts business in Egypt. The other, we'll call "B" Corporation, likewise, does business in Kansas and several other states, and through a subsidiary, an Egyptian Corporation, conducts business in Egypt.

Now, I want to talk about the Kansas tax treatment of these two corporations, under current law and without the Executive Order issued early this year by then-Governor Carlin. Included within the income subject to the Kansas three-factor apportionment formula was the income from the Delaware subsidiary of "A," and the income from the Egyptian subsidiary of "B." The income from the subsidiary of "B" was essentially "after tax" income, whereas the income from the subsidiary of "A" was "pre-tax" income. (See first page of attachments, and note the calculation.) So, the two types of corporate structure produced a differential in the tax treatment, based, not on substance, but on form. For, arguably at least, the income from subsidiaries with no property, payroll within Kansas, indeed within the U. S., should not be included within income apportionable to Kansas for state income tax purposes, regardless of corporate structure.

With the executive order, this scenario changes significantly. Under that order, income from the Delaware subsidiary of "A" Corporation **remains within** the income apportionable to Kansas. But the income from the Egyptian subsidiary of "B" Corporation is **excluded**. This happens because the income from that Egyptian subsidiary is in the form of "Dividends received or deemed to be received from corporations which are not subject to the internal revenue code." (The exclusion provided in the executive order.)

So, you see the dilemma. A unitary corporation organized to conduct its overseas business through foreign subsidiaries, gets a nice tax break under the order. But a unitary business organized to conduct its overseas business through subsidiaries organized in the U. S. continues to pay Kansas income tax based, in part, on its overseas earnings.

Some major oil companies, including Amoco, are organized to conduct overseas business through subsidiaries organized in the U. S. There are a number of reasons for this fact. Years ago, there were some Federal tax advantages to this sort of organization. Those tax advantages are long gone. There are several major political reasons for this organizational structure now (and I'm talking about the politics of the foreign nations in which major oil companies do business). There are other major American corporations conducting foreign business through domestic subsidiaries for other reasons.

Mr. Chairman, Members of the Committee, I appreciate the fact that H. B. 2542 attempts to correct the oversight of the executive order. I would, however, respectfully call your attention to a concern we have with the language, though certainly not the intent, of the bill.

New Section 2 of the bill is intended to provide that after 1989, all income from so-called "80/20" corporations, corporations such as Amoco Egypt, with at least 80 percent of its property and payroll outside the U. S., will be excluded from the Kansas taxable income of a corporation required to file a combined return. The bill also incorporates the provisions of the executive order, which accords the same treatment to foreign subsidiaries.

The bill, as drafted, does not exclude the foreign factors from use in the apportionment formula to determine Kansas taxable income. It, therefore, seems to give multi-national unitary corporations an unintended benefit.

In addition, the reference on line 96, page 3, of the bill, to "Kansas taxable income," is not clear. I think it should refer to "income to which the Kansas apportionment formula applies." With your permission, we would suggest a more simple approach. If a corporation, organized in the U. S. has more than 80 percent of its property and payroll outside the United States, it should simply be excluded from the unitary combination altogether. We would suggest replacing New Sec. 2, with the following language:

New Sec. 2. For all taxable years commencing after December 31, 1989, for corporations required to file a combined report pursuant to K.S.A. 79-32,141, and amendments thereto, any affiliated corporation with 80 percent or more of the average of its payroll and property assignable to a location outside the United States and the district of Columbia, and any distributions therefrom, shall be excluded from such combined report.

We believe the concept in H. B. 2542 is sound tax policy, and, if clarified as outlined above, places Kansas in a very competitive position with other states for its share of economic development. (The second page of my attachment is a ranking of the states, as more-favorable to less-favorable to economic development. As you can see, Kansas ranks toward the bottom of the list, because it brings in all foreign income. If H. B. 2542 were passed, Kansas would rank at near the top of those states with a unitary tax treatment. The third and fourth pages of the attachment show you additional information about the states with which you are competing for investment dollars.)

H. B. 2542, with a clarifying amendment, provides tax liability parity among unitary multi-national corporations, based upon substance rather than form. It would send a message to business and industry throughout the world that Kansas welcomes development and treats all taxpayers fairly and equally. And, it would make the position of Kansas competitive with other states in attracting new business, and expansion of existing operations.

Mr. Chairman, Members of the Committee, we support passage of H. B. 2542. I appreciate your attention, and will be happy to try and answer any questions you have.

SUBJECT - INCOME TAX EQUITY AND SIMPLIFICATION
ACT OF 1987

Members of the Assessment and Taxation Committee
State Capitol
Topeka, Kansas

I come today to speak in opposition of House Bill No. 2543. Speaking as a CPA, but more importantly as a taxpayer, I believe that the Legislature is moving too fast in reforming the State's current income tax laws.

More time should be given to study the overall effect that Federal tax reform legislation will have on the Kansas taxpayer. Although estimates have been made, no one for certain can predict the outcome of the anticipated tax windfall and the impact it will have upon the State's budget process.

In addition, more time should be given for input on how best the State can reform and simplify its income tax laws. I would challenge the tax committee to study the following proposals:

1. Implement a new alternative minimum tax. Similar in design to Federal legislation, this would require those that take advantage of individual, business and corporate loopholes to pay their fair share of income tax. Properly structured, this could generate additional revenue for the state.
2. Amend current statutes, to allow taxpayers the option to itemize personal deductions regardless of how they file their Federal return. The current law is unfair and in particular hurts those who cannot afford medical insurance and incur large medical expenses. As the Kansas work force moves more toward service oriented companies, I believe fewer workers will have access to health coverage. I challenge the social conscience of the legislature and ask you not to eliminate the current \$50 limit for medical expenses.
3. Implement a new tuition tax credit for expenses paid for children attending accredited private schools. Colleges are demanding that students applying for entrance must have graduated from State accredited schools. To be accredited, private schools must comply with State Board of Education requirements such as teacher and administrator certification and the number of days required in the school year. All of these add to the costs of operating accredited private schools. Now is the time for the State to support private schools that meet these accreditation requirements through the use of tax credits.

4. To stimulate new exploration in our economically depressed oil and gas industry, independent producers should be allowed a greater percentage of depletion deduction than the current 15% allowed for Federal taxation purposes. This is already being done in other States and should be done in Kansas as well. A Sunset provision could be attached to this proposal that would require the legislature to monitor the special deduction as the selling price of oil and gas changes.

These are but a few proposals that should be studied and incorporated into a new tax reform bill.

In the short term, the legislature should exempt Kansas filers who in 1987 will not be required to pay Federal income tax.

But changes in the tax laws should be deferred to allow more time for careful study and input so that real tax reform can serve Kansas and its citizens to their best interest. Accordingly, I ask that you not support House Bill No. 2543. Thank You.


Larry R. Tucker, CPA
3901 Quivira
Hutchinson, Kansas 67502



KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
State Office Building · Topeka, Kansas 66612-1588

MEMORANDUM

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

FROM: Harley T. Duncan
Secretary of Revenue 

RE: HB 2543 - The Tax Equity and Simplification Act

DATE: March 19, 1987

Thank you for the opportunity to appear before you on HB 2543, "The Tax Equity and Simplification Act of 1987." This bill truly represents the most dramatic reform of the Kansas Income Tax Act since its original enactment on March 29, 1933. It affects the rates, exemptions and deductions of every taxpayer and addresses a number of desirable policy goals. The sheer magnitude of the proposal counsels for a very deliberate approach to action.

ADMINISTRATION POSITION

The Administration cannot support HB 2543 or a similar expansive reform measure at this point in time. Our concern is not necessarily related to the merits of the proposal. Rather, the primary concern is with the enactment of such a measure in the 1987 Legislature because of the additional uncertainty and danger it adds to the fiscal situation of the State. The concerns regarding added uncertainty arise from several avenues.

First, as this Committee is well aware, the FY 1988 budget is heavily dependent on the additional revenues estimated to accrue as a result of the Tax Reform Act of 1986. As this Committee also knows, everyone associated with the estimated tax reform impact urges that the estimates be used with extreme caution for several reasons, including: (a) the data base on which the estimates were made; (b) potential and likely changes in taxpayer behavior; (c) the difficulty and imprecision in translating tax year impacts into fiscal year cash flow; and (d) the possibility of additional federal changes to "undo" some of the reforms.

HB 2543 compounds the problem posed by these uncertainties because it eliminates virtually all the flexibility we would have to respond to a significant overestimation of the windfall. That is, if HB 2543 is enacted this year, there will be no tools left in the income tax with which one could offset a shortfall and modify

certain other shortcomings in the income tax. The "softness" inherent in the Tax Reform impact estimates, along with the reduced fiscal flexibility caused by HB 2543, argue strongly that we should wait at least until next year when our information is better before pursuing a broadsweeping reform of the sort envisioned here.

Second, much like the "windfall" estimate, the estimated impact of HB 2543 must be treated with caution. It has been developed using the same 1983 data base; it also will be affected by changes in taxpayer behavior; it also is difficult to spread among fiscal years; and it also may be affected by additional federal changes. Further, if the windfall is overestimated, it could cause some of the revenue reduction components of HB 2543 to be underestimated. To wit, if taxpayer income does not increase as much as estimated, the "phase-out" of the personal exemption in HB 2543 will cost more than projected.

Finally, we must be concerned about the distributional aspects of HB 2543. Middle income families will shoulder a greater burden under this plan than under current law, and we ought to examine all options to mitigate that impact to the extent possible. Also, to the extent that the actual distribution of the tax burden after Tax Reform differs from the projected impact, the distribution under HB 2543 will differ. Again, the lack of reliable information argues that broad scale reform should await a later date.

CONCLUSION

To conclude, HB 2543 contains many features which must be considered desirable from a tax policy, tax equity and tax simplification standpoint. Unfortunately, 1987 is the most inopportune of times to enact such a measure. The fiscal position of the State is precarious and uncertain to say the least, and the effects of the Tax Reform Act of 1986 are in many respects unknown. To compound these uncertainties with enactment of TESA is unwise.

Instead, the prudent course is to delay substantial reform of the sort envisioned in TESA until at least next year when the fiscal position of the State and the accuracy of the estimates are more clear. It is the intention of the Administration to present a comprehensive income tax reform package to the 1988 Legislature. I have little doubt but that the package will contain several elements of TESA. Alternatively, we would welcome the assignment of this topic to an interim study and would work with you to develop such a plan.

Thank you for the opportunity to appear. I would be glad to answer any questions.