

Approved Feb. 9, 1987
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.~~mm~~ on February 4, 19~~8~~⁷ in room 519-S of the Capitol.

All members were present except:

Senator Nancy Parrish

Committee staff present:

Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Senator Thiessen
David Litwin, KCCI
Secretary Harley Duncan, Department of Revenue
Ernie Mosher, League of Ks. Municipalities
Tim O'Sullivan for Kansas Bar Association
Bev Bradley, Ks. Assoc. of Counties
Gerry Ray, Johnson Co. Commissioner
Mike Billinger, Ellis Co. Treasurer
Mary Ladesic, Wyandotte Co. Treasurer
Jerry McCoy, Sedgwick Co. Treasurer
Nick Jordan, Travel Ind. Assoc. of Kansas
George Barbee, Kansas Lodging Assoc.
Lori Ward, Kansas Expo Center
Joe Boyd, Wichita Convention Bureau

Chairman Fred Kerr called the meeting to order. He said that the agenda for the day would be to have hearings on S.B. 76 and S.B. 63.

Senator Thiessen briefly explained S.B. 76 to the committee and testified in support of it.

David Litwin testified in support of S.B. 76. (Attachment 1) He stated that the Kansas Chamber of Commerce feels that the 18% rate is harsh and punitive, and urged passage of the bill.

Secretary Harley Duncan testified in support of S.B. 76. (Attachment 2) He stated that his Department proposed amendments to the bill so that procedures could be established under which the interest is tied to a market rate and set for tax purposes annually by the Secretary of Revenue. Also, the interest paid on late income and inheritance tax refunds be tied to the interest actually earned by the State and that it also be adjusted annually. The Department recommended both changes be made effective January 1, 1988. Two additional considerations are:

1. Interest charged on local property taxes is also tied to K.S.A. 79-296. Unlike state taxes, there is no late payment penalty. The Committee might wish to consider whether a separate rate should be established for local property taxes.
2. The penalty for underpayment of estimated tax is also tied to the bill. He believes this charge should be in the form of a penalty and not interest and would propose that K.S.A. 79-32,107 be amended to retain a penalty of 18% per year.

Secretary Duncan's proposals would have resulted in a 4% differential between late payments and rebates in 1986.

Ernie Mosher testified in support of S.B. 76. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,
room 519-S, Statehouse, at 11:00 a.m./p.m. on February 4, 1987

Tim O'Sullivan testified in support of S.B. 76 on behalf of the Kansas Bar Association. (Attachment 4)

Mr. O'Sullivan stated that the KBA recommends a "floating" interest rate on all refunds and deficiencies imposed by the State of Kansas. The Association urges to statutorily enact provisions requiring the State of Kansas to impose uniform rates on tax deficiencies and refunds tied to an objective market factor index, such as the prime rate. Also, any differential between deficiency and refund rates should be minimal. (He suggested 1%).

Bev Bradley, testified in opposition to S.B. 76 in its present form. She said she believes it appropriate to keep the interest rate charged on delinquent taxes at 18% to discourage late payment and act as a deterrent. (Attachment 5)

Gerry Ray testified in opposition to S.B. 76. (Attachment 6) She said the Johnson Co. Board of Commissioners is opposed to passage of this bill and listed several reasons. (see attachment)

Mike Billinger testified in opposition to S.B. 76. He stated that from an administrative viewpoint, this will cause additional confusion in the computation of past delinquencies. Presently some delinquent tax computations involve the use of three different interest rates. By reducing the rate to 12%, this problem will become more difficult, especially for the counties computing delinquencies manually. (Attachment 7)

Mary Ladesic testified in opposition to S.B. 76. She, too, felt that the bill would complicate the delinquency collection process and requested a negative vote from the committee. (Attachment 8)

Jerry McCoy was present to oppose S.B. 76. He stated that he felt a reduction in interest rate would certainly increase the delinquency rate throughout the State. (Attachment 9)

In answer to several questions regarding S.B. 76, Secretary Harley Duncan stated that he knew it would not be an easy transition for the Department of Revenue, but even though much of this work would have to be done manually, they felt it was time the rate be lowered.

Senate Bill 63

Nick Jordan briefly explained S.B. 63 and testified in support of it. He explained that two years ago legislation was introduced to alleviate a problem with "street corner" vendors coming to a community and setting up shop without obligations. A transient merchants license was the issued answer. Unfortunately no thought was given to the effect on conventions, trade shows, fairs, auctions, bazaars or flea markets. Groups were starting to be closed or threatened by taxation. (Attachment 10)

Mr. Jordan asked the committee to look at the economical impact on the Kansas communities. Convention and community centers, hotels, shopping centers, and restaurants are hurt by the taxation of these groups. He urged swift action on S.B. 63 to remove this hinderance and be able to continue booking business and promote economic growth in Kansas.

George Barbee (attachment 11) testified in support of S.B. 63. He stated that convention and visitor business is extremely competitive and we need to remove the possibility of this tax barrier from occurring throughout the state.

Lori Ward testified in support of S.B. 63. (Attachment 12) She stated that the Kansas Expo Center will be opening on April 3, 1987 and after spending \$20 million on this venture, they would like to attract business with as little difficulty as possible in this state.

Joe Boyd testified in support of S.B. 63.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,
room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on February 4, 1987

Senator Karr moved that S.B. 63 be amended on line 55 so that the enacting date would be in the State Register. Senator Mulich seconded. Motion carried.

Senator Montgomery made the motion that S.B. 63 be passed as amended. Senator Salisbury seconded. Motion carried.

Meeting adjourned.

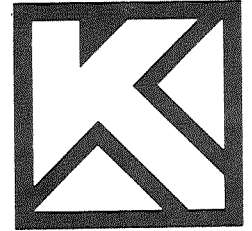
ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-4-87	MARK A. BURGHART	TOPEKA	KS. DEPT. OF REVENUE
2-4-87	JERRY McCoy	WICHITA	KS. Co. TREAS. ASSOC.
2-4-87	Mary Sadosie	K.C.	Wreas. Assoc.
2-4-87	Wm. E. O'BRIEN	OLATHE	Wey Co. TREASURERS' ASSIK.
"	BOB BRADLEY	KS Assoc of Counties	Topeka, KS
	Mike Reecht	TOPEKA	AT + T
	LOW STANTON	"	Northern Natural Gas
	WALTER DUMM	"	E K OGA
	Eleanor Korr	Coate	personal
	H. Martin	Wichita	Sedgewick Co
	Sherry Day	Olathe	Johnson Co
	JOHN KUBEREG	SALINA	SALINA CONV & VLS. Bu
	JOE BOYD	WICHITA	Wichita Conv & VLS. Bu.
	BUD GRAY	TOPEKA	KCCI
	Bob Allen	"	"
	Ray M. Smith	Topeka	Shawnee Co
	Dennis Ward	Topeka	Kansas Exporter
	Ed Mascher	Headquarters of Counties	Topeka
	Barbara Butts	Public Accounting	Topeka

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

SB 76

February 4, 1987

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment and Taxation Committee

by

David S. Litwin

Mr. Chairman, members of the committee. My name is David Litwin, representing the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to testify in support of enactment of SB 76.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

K.S.A. 79-2968 was enacted in 1980 as part of L. 1980, c. 308. At that time, we were still dealing with double-digit inflation and historically high interest rates. At one point, even the prime rate exceeded 20%. It was in that context that the

Sen. A & T
2/4/87

Att. 1

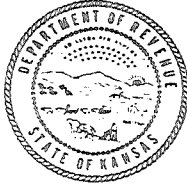
statutory 18% interest rate was enacted. No doubt this rate seemed reasonable enough at the time. Today however, when an 8% rate is considered outstanding, the 18% rate is harsh and punitive. Thus we support the proposed reduction.

Even the proposed rate of 12% is very high by current market standards. I would concede that it is not inappropriate for the interest rate to be somewhat higher than market conditions, as an extra inducement to pay one's taxes. But the rate of 12% is at the outside edge of appropriate regulation when savings accounts are returning 6% or less.

It is important to note that the interest rate set by Sec. 2968 is in addition to statutory penalties that may exist. For example, K.S.A. 79-3228 provides that for income tax, if a taxpayer who does not intend to evade tax fails to pay on time but does pay within 60 days of the due date, he shall be assessed a 10% penalty in addition to the statutory interest rate, or 28% total. If a taxpayer does not pay within the 60-day period the penalty jumps to 25% (43% total), and the statute continues on to provide a penalty that tops out at 50%, in addition to the interest rate.

I am not suggesting that these penalties are or are not appropriate. That issue could be explored on another day. My point is that when combined with these stiff penalties, the 18% interest rate is doubly punitive and unnecessary. Moreover, the state pays no interest on tax refunds.

Thank you again. If there are any questions, I will try to answer them.




KANSAS DEPARTMENT OF REVENUE

Office of the Secretary

Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan, Secretary
Kansas Department of Revenue 

RE: Senate Bill 76

DATE: February 4, 1987

Thank you for the opportunity to appear before you on Senate Bill 76 reducing the rate of interest charged on delinquent tax payments. The Department of Revenue supports a measure accomplishing this end, but would propose a different approach.

Proposed Amendment (See attached language.)

Rather than establishing the rate of interest in statute, we propose a procedure be established under which the interest rate is tied to a market rate and set for tax purposes annually by the Secretary of Revenue. Specifically, we recommend that the interest rate to become effective on any January 1 would be the average prime interest rate for the prior September - November plus 3 percentage points. The rate would be rounded to the nearest whole percentage point and would be published in the *Kansas Register* before January 1.

Further, we believe the rate of interest paid on late income and inheritance tax refunds (K.S.A. 79-32,105(e)) be tied to the interest actually earned by the State and that it also be adjusted annually. Specifically, we recommend the rate of interest paid on refunds for any year be the average earnings of the Pooled Money Investment Board on Time Deposit Open Accounts in the preceding September - November. This rate would be rounded to the nearest whole percentage point and published in the *Kansas Register* prior to January 1.

We recommend both changes be made effective January 1, 1988 (January 15, 1988 for income taxes because the due date for income taxes is the 15th of the month.) If this system were in effect today, the rate charged on delinquent taxes would be 11 percent (based on a 7.5% prime rate), and the rate paid would be 6 percent.

Rationale for the Proposal

1. It will tie our interest rates to a market basis and provide a means to adjust the rate annually so that future legislative changes will not be necessary. Our rates should not get as far out-of-line as they have in the recent past.
2. The rate proposed to be charged is based on the manner in which banks determine interest rates (i.e., the prime plus 1-5 points depending on creditworthiness of the borrower.) It reflects that delinquent taxpayers are not necessarily the best credit risks; yet it is not usurious. It should be sufficiently high, however, to avoid a situation in which it is a profitable option to be delinquent in tax payments.
3. The rate to be paid on income tax refunds is tied to what the State actually earns on the use of the taxpayer's funds.
4. The annual adjustment represents a balance between the need to keep the rate current and the desire to avoid a splitting of tax years and the limited ability of our automated and manual processing systems to handle variable rates.
5. The approach is similar to that in about 15 other states.

Fiscal Impact

This proposal will reduce State General Fund receipts, but we do not have sufficient data to provide a precise estimate. However, the largest single source of interest receipts is on audit assessments which cover prior years. Therefore, the full impact will not be felt until at least several years in the future for two reasons. We have an inventory of audit assessments with interest assessed at the current rate which will be collected over the next 2-3 years. Also, the current rate will be applied to all taxes payable through 1987 (under our proposal), and assessments will be made and collected on these years for the next several years. Despite the negative fiscal impact, the proposed changes is desirable.

Additional Considerations

1. **Local Property Taxes** - Interest charged on local property taxes is also tied to the K.S.A. 79-2968. Unlike state taxes, however, there is no late payment penalty which attached to delinquent property taxes. Only if renditions are filed delinquenty or the appraiser must file the rendition is a penalty applied. The Committee therefore may wish to consider whether a separate rate should be established for local property taxes.

2. **Underpayment Penalty** - The penalty for underpayment of estimated tax is also tied to K.S.A. 79-2968. We believe this charge should be in the form of a penalty and not interest and would propose that K.S.A. 79-32,107 be amended to retain a penalty of 18 percent per year.

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

16-204. Interest on judgments. Except as otherwise provided in accordance with law, and including any judgment rendered on or after July 1, 1973, against the state or any agency or political subdivision of the state:

(a) Any judgment rendered by a court of this state before July 1, 1980, shall bear interest as follows:

(1) On and after the day on which the judgment is rendered and before July 1, 1980, at the rate of 8% per annum;

(2) on and after July 1, 1980, and before July 1, 1982, at the rate of 12% per annum;

(3) on and after July 1, 1982, and before July 1, 1986, at the rate of 15% per annum; and

(4) on and after July 1, 1986, at the rate provided by subsection (e).

(b) Any judgment rendered by a court of this state on or after July 1, 1980, and before July 1, 1982, shall bear interest as follows:

(1) On and after the day on which the judgment is rendered and before July 1, 1982, at the rate of 12% per annum;

(2) on and after July 1, 1982, and before July 1, 1986, at the rate of 15% per annum; and

(3) on and after July 1, 1986, at the rate provided by subsection (e).

(c) Any judgment rendered by a court of this state on or after July 1, 1982, and before July 1, 1986, shall bear interest as follows:

(1) On and after the day on which the judgment is rendered and before July 1, 1986, at the rate of 15% per annum; and

(2) on and after July 1, 1986, at the rate provided by subsection (e).

(d) Any judgment rendered by a court of this state on or after July 1, 1986, shall bear interest on and after the day on which the judgment is rendered at the rate provided by subsection (e).

(e) (1) On and after the effective date of this act, the rate of interest on judgments rendered by courts of this state pursuant to the code of civil procedure shall be at a rate per annum: (A) Which shall change effective July 1 of each year for both judgments rendered prior to such July 1 and judgments rendered during the twelve-month period beginning such July 1; and (B) which is equal to an amount that is four percentage points above the discount rate (the charge on loans to depository institutions by the New York federal reserve bank as reported in the money rates column of the Wall Street Journal) as of July 1 preceding the date the judgment was rendered. The secretary of state shall publish notice of the interest rate provided by this subsection (e) (1) not later than the second issue of the Kansas register published in July of each year.

(2) On and after the effective date of this act, the rate of interest on judgments rendered by courts of this state pursuant to the code of civil procedure for limited actions shall be 12% per annum.

History: L. 1889, ch. 164, § 4; R.S. 1923, 41-104; L. 1969, ch. 114, § 1; L. 1973 § 1; L. 1980, ch. 74, § 2; L. 1982, ch. — L. 1986, ch. 89, § 1; July 1.

Sen. A & T
2/4/87

Att. 3

TESTIMONY BEFORE SENATE ASSESSMENT AND TAXATION COMMITTEE

RE: Interest Rates on Tax Underpayments and Overpayments

DATE: February 4, 1987

BY: Timothy P. O'Sullivan of Fleeson, Gooing, Coulson & Kitch, Wichita
on behalf of the Kansas Bar Association

Current Law

Underpayments: K.S.A. 79-2968 currently provides for a uniform 18% rate on any delinquent or underpaid taxes levied by the State of Kansas or any political subdivision thereof for which interest is charged by law.

Overpayments: K.S.A. 79-32,106(e) currently provides for a 12% per annum interest rate on income tax refunds. There is no provision for interest on any other overpayment of taxes imposed by the State of Kansas or any political subdivision thereof.

KBA Recommendation

Kansas should impose a "floating" interest rate on all refunds and deficiencies imposed by the State of Kansas and any political subdivision thereof.

Rationale

The current provisions of state law imposing Master Card rates on tax deficiencies while providing for no interest on tax refunds other than income taxes is patently unfair, particularly in situations where taxes (such as property and unemployment) must often be paid by the taxpayer prior to any adjudication that they are in fact owing. Such current interest provisions provide little incentive

for taxing authorities of this state to settle cases based upon their merits or move cases expeditiously. Such taxing authorities often have free use of taxpayers' money during the litigation process and should there ultimately be any deficiency owing, their 18% return is more than twice that could be earned anywhere else. In short, taxpayers are faced with an unfair return on their tax moneys deposited, an exorbitant interest rate on deficiencies, a system which furnishes little incentive for equitable treatment by taxing authorities, and a system which no doubt imposes additional costs on the Board of Tax Appeals and the courts of this state in litigating tax controversies which otherwise would have been settled.

Attached hereto is an Exhibit which would tie interest rates on all tax deficiencies to the prime rate established by the Federal Reserve Board. This is the mechanism utilized by the federal government under Internal Revenue Code Section 6621 in setting interest rates on tax refunds and deficiencies through 1986 (although theirs was adjusted twice a year). Commencing in 1987, the federal government will adjust its rates four times a year and set them 2% above the short-term AFR rate (treasury obligations of three years or less) for tax refunds and 3% above the same rate for tax deficiencies. It is anticipated these rates will approximate the prime rate index previously used.

The prime rate index is the most equitable guage of the use of money concept in the marketplace. The attached exhibit retains the 1% differential under current federal law by imposing the prime rate plus 1% on tax deficiencies. Although the tying of the state rate to the federal rate would be preferable, the Committee may find the annual adjustment based upon the prime rate simpler to

implement and for the taxpayer to calculate.

The Committee no doubt will hear arguments that the refund rate should be tied to a state index related to the return the state receives on its moneys. This approach would be misplaced. First of all, there is little to recommend applying this rate to tax refunds to other taxing subdivisions of this state. Secondly, as taxes paid are non-voluntary, the rate of return on any refunds should be based upon objective marketplace loan criteria, not on an arbitrary rate of return the state happens to make on its invested funds.

The Committee also no doubt will hear arguments that a much higher rate should be charged on tax deficiencies, based upon the theory that to do otherwise would place taxing authorities in the role of lenders, thus encouraging non-payment of taxes. These arguments also lack merit. Non-payment of tax liabilities are and should be discouraged by imposition of penalties, such as non-payment, non-filing, negligence and fraud penalties, not by extracting an unreasonably high interest rate on tax deficiencies. Congress¹⁹⁷⁸ has recognized this principle at the federal level and the State of Kansas should as well. Where a reasonable difference exists as to the amount of taxes owing, thereby avoiding imposition of tax penalties, taxing authorities should be compensated for late payment after final resolution of taxes owing based upon a reasonable use of money concept. Nor is a higher rate of interest on tax deficiencies justified by the fact that some taxes are in fact never paid by taxpayers. This loss should be borne by all taxpayers, not by imposing an unjustifiable interest rate on those taxpayers having tax deficiencies.

In summary, the Kansas Bar Association urges the legislature

to statutorily enact provisions requiring the State of Kansas and every taxing subdivision of this state to impose uniform rates on tax deficiencies and refunds tied to an objective market factor index, such as the prime rate. Further, as there is no justification for taxing authorities charging the taxpayer a significantly higher rate on taxes owed than they are willing to pay on tax refunds owing to taxpayers, any differential between deficiency and refund rates should be minimal. Without following these principles, there can be no equity between taxing authorities and taxpayers, and taxpayer confidence in the tax system will be eroded as a consequence, possibly resulting in significant tax revenue losses. The attached Exhibit represents an equitable approach to this issue and the Kansas Bar Association urges its passage.

EXHIBIT

K.S.A. 79-2968 Rate of Interest on Underpaid or Overpaid Taxes

(a) Interest shall accrue on any underpayment or overpayment of tax levied or imposed by the State of Kansas or any taxing subdivision thereof at the rates provided in subsection (b) of this act.

(b) The annual rate of interest established under this subsection shall be such rate as is so established by the Director. If the adjusted prime rate charged by banks (rounded to the nearest full percent) during the twelve-month period ending on September 30 of any calendar year differs from the annual rate then in effect under this subsection, the Director shall establish, within 15 days after the close of such twelve-month period, an annual rate of interest equal to such adjusted prime rate. An adjusted annual rate of interest shall become effective on January 1 of the immediately succeeding year. The overpayment rate of interest shall be the annual rate. The underpayment rate of interest shall be the sum of the annual rate plus one percent. The term "adjusted prime rate charged by banks" shall mean the average predominant rate quoted by commercial banks to large businesses, as determined by the Board of Governors of the Federal Reserve System.

(c) The provisions of this act shall become effective on January 1, 1988.

(d) The Secretary of Revenue shall adopt rules and regulations to implement the provisions of this act.

Kansas Association of Counties

Serving Kansas Counties

212 S.W. SEVENTH STREET, TOPEKA, KANSAS 66603 PHONE 913 233-2271

February 4, 1987

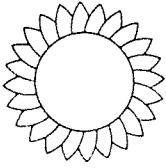
To: Senator Fred Kerr
 Members of the Senate Assessment & Taxation Committee

From: Bev Bradley, Legislative Coordinator, KAC

Re: Senate Bill 76

Thank you Mr. Chairman, and Members of the Committee.

The Kansas Association of Counties opposes SB-76 in its present form. We believe it is appropriate to keep the interest rate charged on delinquent or unpaid taxes at 18% to discourage this activity. Counties are not and cannot be in the finance business. As you know most counties as well as the State, have financial problems. Federal Revenue sharing is gone. The tax base has been gradually eroded over several years. When taxes are not paid, the short fall costs all the other taxpayers in the jurisdiction. We believe a higher interest rate will act as a deterrent and should be maintained. We would respectfully request that counties be excluded from the bill.



Johnson County
Kansas

SENATE ASSESSMENT AND TAXATION COMMITTEE

HEARING ON SENATE BILL 76

FEBRUARY 4, 1987

TESTIMONY OF GERRY RAY, INTERGOVERNMENTAL COORDINATOR

JOHNSON COUNTY BOARD OF COMMISSIONERS

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS GERRY RAY. I APPEAR TODAY ON BEHALF OF THE JOHNSON COUNTY BOARD OF COMMISSIONERS TO EXPRESS OPPOSITION TO SENATE BILL 76 DECREASING THE INTEREST ON DELINQUENT PROPERTY TAX BY 6%.

THE COMMISSIONERS OBJECT TO THIS ACTION FOR THE FOLLOWING REASONS:

1. THE COUNTY IS NOT IN THE BUSINESS OF LENDING MONEY, THEREFORE SHOULD NOT BE AFFECTED BY THE CURRENT COMMERCIAL RATE.
2. THE INTEREST CHARGED SHOULD BE VIEWED AS AN INCENTIVE FOR PROPERTY OWNERS TO PAY THEIR TAXES IN A TIMELY MANNER.
3. REDUCING THE RATE OF INTEREST ON THE DELINQUENCIES IS NOT IN THE BEST INTEREST OF CITIZENS WHO PAY THEIR TAX BILL WHEN IT IS DUE.
4. THE EXPENSE TO THE COUNTY FOR COLLECTING DELINQUENT TAXES DOES NOT NECESSARILY DECREASE WHEN THE COMMERCIAL INTEREST RATE IS LOWERED.

IN JOHNSON COUNTY THE NUMBER OF DELINQUENCIES ARE SIGNIFICANT EACH YEAR. TO REDUCE THE INTEREST RATE BY ONE THIRD WILL HAVE A NEGATIVE IMPACT ON REVENUES AT A TIME WHEN LOCAL GOVERNMENTS ARE HAVING PROBLEMS DEALING WITH CUTS FROM BOTH THE FEDERAL AND STATE LEVELS.

THE JOHNSON COUNTY COMMISSIONS URGE THE MEMBERS OF THE COMMITTEE TO VOTE "NO" ON SENATE BILL 76.

Sen. A & T
2/4/87

Att. 6

MIKE BILLINGER
TREASURER

JERRY SCHMIDTBERGER
DEPUTY TREASURER

OFFICE OF
ELLIS COUNTY TREASURER
DRAWER 520
HAYS, KANSAS 67601

TAX OFFICE 913 628-8249
MOTOR VEHICLE REGISTRATION OFFICE 913 628-2034

February 4, 1987

To: Members of The Senate Assessment & Taxation Committee.

From: Mike Billinger, Ellis County Treasurer

RE: Senate Bill 76.

Mr. Chairman and Members of the Committee:

Good morning, I am Mike Billinger, Treasurer of Ellis County; and I am appearing on behalf of the Kansas County Treasurers Association.

I would like to extend my appreciation to this Committee for allowing me to make my presentation. I realize your time is very valuable and therefore I shall be brief and concise.

My intent is to express serious concerns about Senate Bill 76. The Kansas County Treasurers Association is aware that the current 18% per annum interest rate is substantially higher than that being charged by financial institutions. However any attempt to coincide these two rates might create an incentive for taxpayers to defer payment of taxes. I can sight several instances where taxpayers have indicated it would be in their best economic interest to defer payment of taxes. (1) Where the expense of borrowing money to pay taxes is greater than that being charged by the county for taxes and interest. (2) Where investing tax dollars, as opposed to paying them, would yield a greater rate than the rate being charged by the County for taxes and interest. Thereby earning interest for the taxpayer by deferring tax liabilities.

From an administrative viewpoint this will cause additional confusion in the computation of past delinquencies. Presently some delinquent tax computations involve the use of three different interest rates. By reducing the rate to 12% this problem will be compounded even more, especially for counties computing delinquencies manually.

Also counties would realize a loss of approximately 33% of delinquency interest revenues. In Ellis County this loss computes to \$10,000.00 for 1988. And let us not forget that the deferment of taxes is an initial loss in tax dollars received, thereby reducing the amount of monies available to invest. Consequently creating a loss in interest earnings for the County General Fund.

In conclusion let it be known that Kansas County Treasurers are concerned for those taxpayers who legitimately are unable to pay their taxes. And with the

Sen. A & T
2/4/87

Att.7

MIKE BILLINGER
TREASURER

JERRY SCHMIDTBERGER
DEPUTY TREASURER

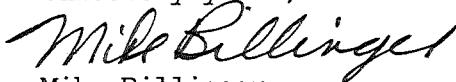
**OFFICE OF
ELLIS COUNTY TREASURER
DRAWER 520
HAYS, KANSAS 67601**

**TAX OFFICE 913 628-8249
MOTOR VEHICLE REGISTRATION OFFICE 913 628-2034**

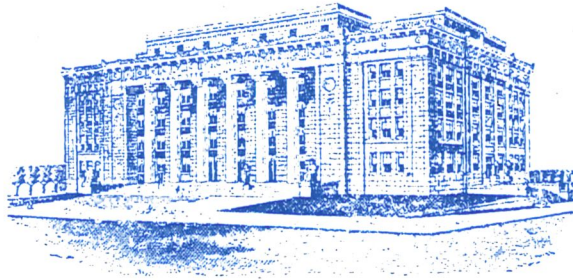
high interest rate may possibly feel the payment of taxes and interest to be an unattainable goal. Nonetheless most taxpayers feel a patriotic obligation to meet tax liabilities and make financial arrangements to do so. Needless to say we must maintain a strong incentive for taxpayers to pay taxes and thusly we request that Counties be excluded from Senate Bill 76.

Thank you for your time and considerations.

Sincerely yours,



Mike Billinger
Ellis County Treasurer



573-2823

OFFICE OF
MARY P. LADESIC
COUNTY TREASURER
WYANDOTTE COUNTY COURT HOUSE
KANSAS CITY, KANSAS 66101



TO: SENATE COMMITTEE ON ASSESSMENT AND TAXATION
FROM: MARY P. LADESIC, WYANDOTTE COUNTY TREASURER
RE: SENATE BILL 76

MR. CHAIRMAN AND HONORABLE MEMBERS OF THE ASSESSMENT AND TAXATION
COMMITTEE:

I WOULD LIKE TO THANK YOU FOR THE OPPORTUNITY TO SPEAK TO
YOU TODAY.

I AM HERE ON BEHALF OF THE TREASURER'S ASSOCIATION IN
OPPOSITION TO SENATE BILL 76 WHICH WOULD REDUCE THE INTEREST
RATE ON DELINQUENT OR UNPAID TAXES. WE FEEL THAT THIS BILL WILL
ONLY COMPLICATE THE DELINQUENCY COLLECTION PROCESS.

TO BEGIN WITH, SENATE BILL 76 WILL ACT TO DISCRIMINATE
AGAINST THE CONSCIENTIOUS TAXPAYERS DUE TO THE FACT THAT THERE
IS A PERCENTAGE BUILT INTO THE BUDGET FOR DELINQUENCY. REDUCING
THE PENALIZING INTEREST RATE COULD RESULT IN LESS TAX COLLECTION
AND AN INCREASE IN THE DELINQUENCY PERCENTAGE IN THE BUDGET.

NEXT, SENATE BILL 76 WILL CAUSE DIFFICULTY IN DETERMINING A
TOTAL TAX ON DELINQUENT PARCELS DUE TO VARIED INTEREST RATES IN
THE DELINQUENCY PERIOD. FOR THOSE COUNTIES WITHOUT THE BENEFIT
OF COMPUTER ASSISTANCE, THIS PROBLEM WILL BE GREATLY ENHANCED

Sen. A & T
2/4/87

Att. 8

FINALLY, A REDUCTION IN THE RATE OF INTEREST WILL LESSEN THE INCENTIVE OF THE DELINQUENT OWNER TO PAY. WITH A LOWER INCENTIVE TO PAY, THE NUMBER OF DELINQUENT PARCELS WILL INCREASE.

THE TREASURER'S ASSOCIATION AND I FEEL THAT SENATE BILL 76 WILL NOT ASSIST IN CURBING THE DELINQUENCY PROBLEMS IN OUR COUNTIES AND RESPECTFULLY REQUEST A NEGATIVE VOTE FROM THE COMMITTEE.

Mr. Chairman and Members of the Committee:

I am Jerry McCoy, Sedgwick County Treasurer and would like to address you today in opposition to Senate Bill 76 in it's present form. I also believe I represent those honest taxpayers of the State of Kansas who pay their taxes on a timely basis as provided by law.

I believe the interest rate on unpaid or delinquent taxes should not be decreased from the present 18% to 12% as provided in S.B.76 for the following reasons.

1. The 18% interest rate is really an interest penalty for failure to pay legally assessed taxes in a timely manner as prescribed by law. Reducing this rate would result in an increase in delinquent taxes and only encourage developers and other delinquents to borrow their money from the county rather than the bank to the detriment of all taxpayers who pay on time. Failure to pay taxes when due results in essentially a loan with no collateral to that person from the county, and they don't even have to show the debt on a financial statement. When rates were 12% I have actually had taxpayers directly tell me that the county has better rates than the bank for the aforementioned reasons.
2. Reducing the interest rate would seriously hamper collection efforts by reducing incentives to pay on time and would increase personnel costs spent on collecting delinquent taxes.
3. County taxpayers are not bankers. I want delinquent taxpayers to have a strong incentive to go to their lending

institution, borrow the money at a lower rate than the county charges, pay their taxes on time, and then pay off the banker. He is equipped and ready to handle payments and the attendant risks. I believe it is unfair for delinquents to borrow from you, me and other law-abiding taxpayers, many whom are on fixed incomes and who diligently save all year to enable them to pay their taxes on time.

The failure to pay taxes due in a timely manner also adversely affects taxing sub-divisions who must make up this shortfall in their budget. This will become increasingly important as the State initiates reductions in State monies returned to the local taxing districts.

4. A higher delinquency in tax collections results in a tax increase for the rest of those honest taxpayers who pay by the current deadlines.
5. Current statutes are very lenient. The first 1/2 payment on current taxes isn't even due until December 20th and June 20th the following year for the second half. I am unaware of any place else where you can get those kind of terms.
6. A reduction in interest rate will certainly increase the delinquency rate throughout the State. In many counties, the total tax delinquencies is a very large factor in determining the rate of interest the county pays on bond issues. Again, higher delinquencies result in higher interest costs to the county and therefore higher taxes passed through to the honest taxpayers.

LEGISLATIVE TESTIMONY

SENATE BILL NO. 63

COMMITTEE ON ASSESSMENT AND TAXATION

WEDNESDAY, FEBRUARY 4, 1987

BY

NICK JORDAN

LEGISLATIVE CHAIRMAN - TRAVEL INDUSTRY ASSOCIATION OF KANSAS

DIRECTOR - OVERLAND PARK CONVENTION & VISITORS BUREAU

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.

Page Two

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.

Page Three

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 is an attempt to finally resolve our problem. Subsection 3, lines 43 thru 46 specifically allows the counties to exempt these very important facilities or more accurately their valuable clients. By exempting the facility we eliminate clients from having to "jump thru hoops" they are not required to jump thru in other areas. We also allow for regulation of "street corner" vendors.

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.



DATE: February 4, 1987
TO: Senate Assessment & Taxation Committee
FROM: George Barbee, Executive Director
RE: Senate Bill 63

Mr. Chairman and members of the committee, my name is George Barbee 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.

You tried to fix the problem in 1986 and after extensive hearings we thought you had solved the problem. Now a county tax assessor has started making interpretations that has 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.

Convention and visitor business is extremely competitive and we need your help to remove the possibility of this tax barrier to convention and visitor business from occurring throughout the state.

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.

Sen. A & T
2/4/87

Att. 11



Kansas EXPOCENTRE

Laurie A. Ward
Director of Sales & Marketing
KANSAS EXPOCENTRE
Topeka, Kansas

MANAGEMENT BOARD

R. R. DOMER, DVM
Chairman

KAY MEADOWS
Vice-Chairman

HARRY "BUTCH" FELKER
Secretary

R. E. "TUCK" DUNCAN
Member

WINIFRED KINGMAN
County Commissioner

JULIE SCHLOETZER
Member

DOUGLAS S. WRIGHT
Mayor

EXECUTIVE MANAGER
STEVEN R. ROSENBLATT

TO: Senator Fred Kerr and members of the Committee
on Assessment and Taxation

I am speaking today as a proponent of Senate Bill No. 63, and to further attest to the importance of Senate Bill No. 63 as it relates to the convention & tourism business in Topeka as well as throughout the entire state of Kansas. The Kansas ExpoCentre will open its doors on April 3, with a Boat Sport and Travel Show which will consist of a minimum of 200 exhibitors and will attract thousands of spectators. You have heard all of the testimony as to how this show and the many trade shows that will utilize the Kansas ExpoCentre and similar facilities across the state will impact our local and state economies. We, as industry representatives, hope that you understand the competitive nature of our business, and therefore, how tremendously important it is that our current and prospective convention and trade show clients be allowed to do business in this state without the additional burden of not only being required to pay property tax on inventory but also to understand and interpret our state's legislation affecting their convention or trade show.

As Director of Sales & Marketing for the Kansas ExpoCentre, I see clearly that Senate Bill No. 63 contains the amendments necessary to assure that Topeka and the state of Kansas will not be placed in an uncompetitive position in our marketing of convention and trade show facilities.

Shawnee County, as a government entity, has invested 20 million dollars in a facility to attract business to this state and will continue to invest thousands of dollars annually to market the Kansas ExpoCentre to the very people who would be penalized if Senate Bill No. 63 were not enacted by the Legislature of the State of Kansas. Our tax payer's dollars should be invested wisely. Senate Bill No. 63 will ensure that our marketing efforts are not in vain.

Sen. A & T
2/4/87

Att. 12