

Approved April 8, 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.m.~~ on April 7, 1987 in room 519-S of the Capitol.

All members were present except:

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:

Basil Covey, Retired Teachers Assoc.  
Dr. Robert More, Home Helping Center  
Dick Brewster, AMOCO  
Secretary Harley Duncan  
David Litwin, KCCI  
John Miller

Chairman Kerr called the meeting to order and said that the agenda for the day was to continue hearings on H.B. 2543.

#### HOUSE BILL 2543

Basil Covey testified in support of H.B. 2543. (Attachment 1) He stated that the Kansas Retired Teachers Association commended the House and Senate Tax Committees and their leadership in combining effort to make the bill a reality. He stated that he felt federal retirement income was never meant to be taxed by the states, and the Retired Teacher's Association greatly favored Social Security exemption from taxation.

He said that H.B. 2543 gives relief to upper income retired citizens, and he feels that the bill would affect approximately 45,000 Kansans who now do pay some state income tax on their Social Security receipts. He urged the committee to support H.B. 2543.

In response to a question regarding if it would make a difference to his association if the bill were passed this year or postponed until next year, Mr. Covey stated that they would prefer that the legislation passed this year so that the policy would be in place even though the Social Security receipts would not be exempt until January 1, 1988.

Dr. Robert More (Attachment 2) testified in support of H.B. 2543. He stated that he is the owner of Home Helping Center, a licensed child care facility in Topeka. He stated that he was interested in section four of the bill, concerning proposed state child care tax credit. He said that maximum federal tax credit for child care cannot exceed \$1,440. The proposed 25% cap in Kansas would allow a maximum credit of \$360 per family. He urged passage of H.B. 2543.

Dick Brewster (Attachment 3) testified and said that on behalf of Amoco Corp, he wanted to express support for the policy contained in H.B. 2542, a bill which was introduced as a companion to H.B. 2543, but which did not pass the House Taxation Committee. He felt that no action by legislature would be a disadvantage to U.S. Oil Corporations. He said that current Kansas policies toward income tax on corporations which do business in foreign countries rates at the bottom of the twenty-four western states in the United States. In other words, Kansas taxes these corporations higher than any of the other twenty-three states. He urged the committee to amend H.B. 2543 by including language in H.B. 2542. He also said that another bill passed by the House of Representatives, H.B. 2177 would be a candidate for such an amendment.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,  
room 519-S, Statehouse, at 11:00 a.m./p.m. ~~XX~~ on April 7, 19 87

Secretary Duncan testified in opposition to H.B. 2543. (Attachment 4)  
He stated that the Administration's primary concern with this bill is with the enactment of such a comprehensive measure in 1987. He said that since income tax collection estimates are "soft" anyway because of the 1986 federal changes, that this bill would create further uncertainty. He said that H.B. 2543 eliminates most of the flexibility the Department would have to respond to a significant overestimation of the windfall. If this bill is enacted this year, there will be no tools left in the income tax area with which to offset a shortfall if it should occur.

Secretary Duncan stated that he knew this bill contains many features considered desirable from a tax policy, tax equity and tax simplification standpoint, but unfortunately, 1987 is a most inopportune time to enact this measure. He felt it would be wise to delay for at least a year when the fiscal position of the state and the accuracy of the estimates could be more clear. He said that the Administration intends to present a comprehensive income tax reform package to the 1988 Legislature and would like to see an interim study done. He said the Department would be happy to work with the Legislature concerning this issue.

In response to questions, Secretary Duncan said that perhaps 40,000 of the 60,000 Kansans who will now owe state income taxes but not federal income taxes will have to file federal returns anyway in order to receive refunds. He said that the fiscal note for only exempting the 60,000 such taxpayers from state income tax would be \$1.3 million dollars in 1987 and \$3.0 million dollars in 1988.

David Litwin, KCCI, said that his organization also supported the policies contained in H.B. 2542, the measure which was a companion to H.B. 2543. He said that he would encourage enactment of that policy, but that the enactment date should be sooner than the 1990 date, which is contained in the bill.

He stated that he had not taken a position on H.B. 2543. He said that there was a great deal to be said about conformity but he felt we do not want to become less competitive than other states.

John Miller testified in favor of H.B. 2543. His concern regarding this bill is the exemption of Social Security income tax. He stated that he felt taxation of Social Security in Kansas was never voted on in state legislature, but was added into federal taxation. He would greatly support the exemption.

Senator Montgomery made a motion to accept the minutes of April 6, 1987 meeting. Senator Thiessen seconded. Motion carried.

Meeting adjourned.





# Kansas Retired Teachers Association

## Together We Can

1986-1987



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April 7, 1987

To Members of the SENATE Taxation Committee:

My name is Basil Covey and I represent the Kansas Retired Teachers Association.

We support HB 2543 known as the Tax Equity & Simplification Act of 1987.

We commend the House and Senate Tax Committees and their leadership in combining effort to make this bill a reality.

HB 2543 makes changes up and down that brings protests from some taxpayers and support from others. That is to be expected in making corrections in the tax law.

The legislature in its wisdom in past action excluded state retirement dollars from Kansas income tax for retired state workers and retired teachers. The wisdom of their action is again stated in HB 2543.

The members of this committee have heard repeatedly reasons in hearings to exclude social security retirement dollars from Kansas income tax.

We offer two different reasons to exclude social security retirement dollars from Kansas income tax.

1. It is a matter of principle that federal retirement dollars were never meant to be taxed by the states. The same principle followed by the legislature in excluding state retirement dollars should be followed as stated in HB 2543--that of excluding social security retirement dollars from Kansas income tax.
2. Kansas in taking no action when the federal government taxed social security funds allowed a new tax to be levied for some retired citizens--a tax by default.

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— Sen. A & T  
4/7/87

Att. 1

HB 2543 gives relief to upper income retired citizens--reported to be 45,000 citizens to be now paying tax on their social security retirement dollars. Since the bill is revenue neutral and the same retired citizens may pay more tax by schedule changes there will be a trade-off and no one carries a tax burden that cannot be handled.

We urge your support for HB 2543.

Sincerely,

  
Basil Covey  
Chairman, KRTA  
Legislative Committee

Home Helping Center  
2018 S.E. Swaggart  
Topeka, Kansas 66607

TESTIMONY OF ROBERT MORE, Ph.D.  
April 7, 1987

My name is Robert More. I own Home Helping Center, a licensed child care facility here in Topeka. I wish to thank the committee chairman, Senator Kerr, and members of the committee for this opportunity to appear and give testimony in support of HOUSE BILL 2543. Attached to this testimony is my business card and a reprint of an article by me which first appeared in the Topeka Capital-Journal.

Let me say that section 4 of the bill, the proposed state child care tax credit, makes good sense to me for several reasons. I do not think it is overly costly to the state. The maximum federal tax credit for child care cannot exceed \$1,440. The proposed 25 per cent cap in Kansas would allow a maximum credit of just \$360 per family. Compared to the estimated annual cost of \$2,500 per child, the proposed credit does not overly credit families in my opinion. In a second way, this proposed tax credit should stimulate economic development. I say that because families which pay for their child care are usually families in which parents are employed and so tax payers. To provide these hard working citizens with a child care tax credit provides a great incentive to keep on earning and keep on paying taxes. The proposed tax credit, in a third and final reason, is timely. Families and child care have significantly changed over the past ten years. This tax credit keeps pace with those social changes by updating a law enacted in 1978 which never was changed through the intervening years.

Section 4 of HOUSE BILL 2543 provides much good to Kansas I think. It reflects sensitivity to social changes now and evidences political leadership for the future. I encourage you to help Kansas homes by supporting the proposed child care tax credit.

If you have any questions or comments for me, I will gladly respond to them at this time. Thank you.



# Viewpoints

The Topeka Capital Journal Friday, March 27, 1987

## Child care needs support

By ROBERT MORE

### Perspective

**T**wo wrongs never make a right, especially with child care. It is wrong to reason good mothers stay home with children. It is wrong to say families are private affairs. It is not right to conclude mothers should provide child care at home as a private affair.

Such reasoning might fit an agricultural society or be understandable in an industrial economy. But when service-oriented jobs join with thieving inflation and teeter-totter economics, such reasoning becomes unreasonable.

Our workplace amply shows its reorientation to the home. For example, 13.3 million mothers with 7 million preschool children are now employed.

By 1990, more than three-fifths of all workers will be women, 90 percent being mothers. Almost 20 percent of all working women are single heads of households.

The majority of mothers simply are not home, and female-headed households often mean public welfare.

What about the children? In Shawnee County, around 65 licensed centers and pre-schools may serve up to a hundred or so children each. Day homes licensed for a dozen or so children each number around 400. Homes registered for a few children

each number about 75.

Much child care seems to be by private arrangement outside state regulation.

Is child care affordable? Parents and providers both say no. Business Week found that employed women annually earn \$15,600. This unfavorably compares to the estimated annual cost of \$2,500 per child.

From the provider's side, the current Kansas rate reimburses little more than half the prevailing rate. Public job training only pays about a third if at all.

What can be done? Kansas authorized in 1975 a child care levy for cities and counties. None has implemented that law.

A bill now in the State Legislature would update parents' child-care tax credit for the first time since 1978. Also, a mere 3 percent of all companies now provide child care benefits to employees though 550 companies support corporate centers.

Child care is being hailed as the employee benefit in the 1990s. Our communities and state need to grow also in providing quality, affordable child care for our presently little future.



Robert More

### About the writer

Robert More holds a Ph.D in adult and occupational education from Kansas State University. He is an ordained minister and is president of Home Helping Center. He lives in Denison.

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

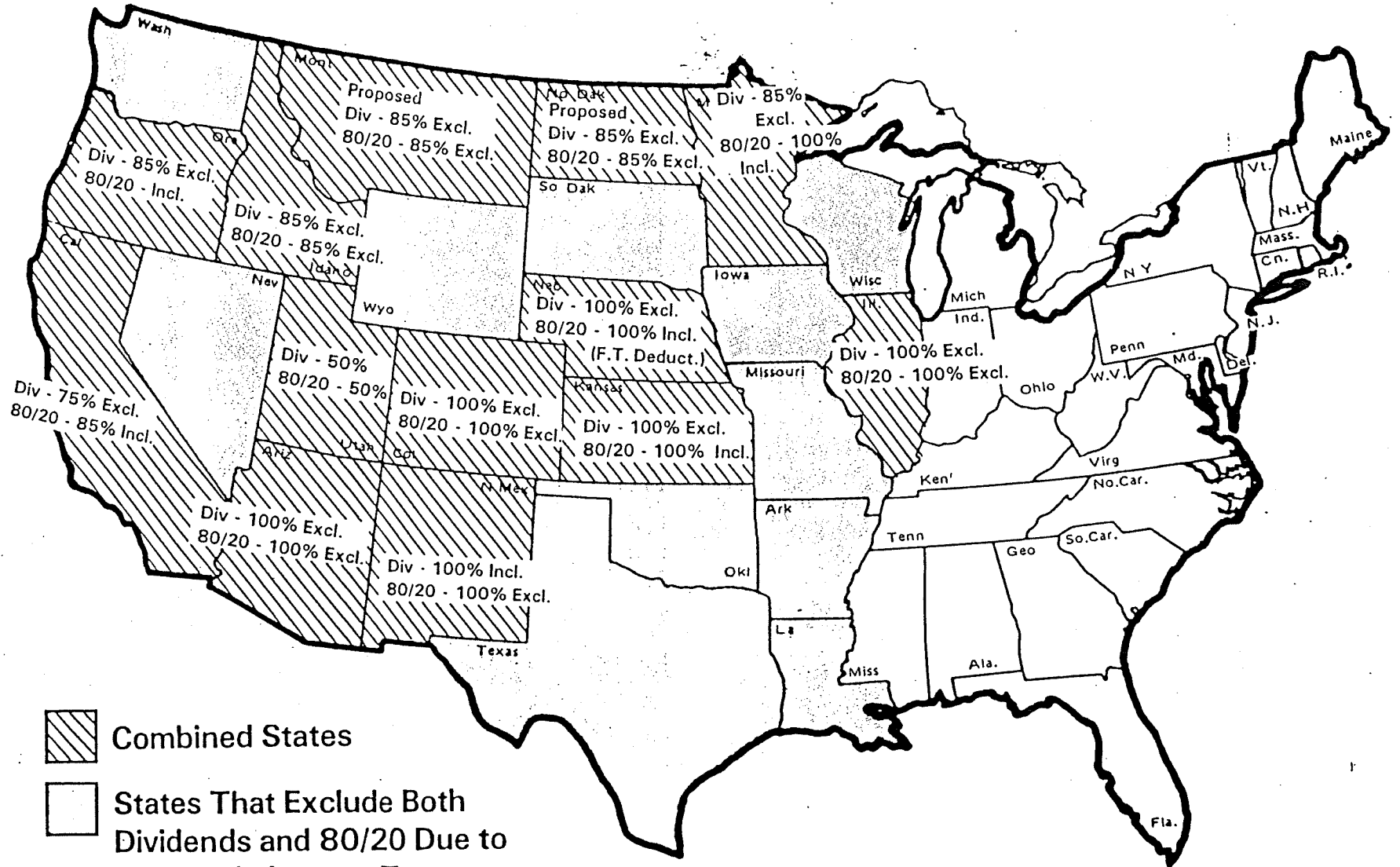




WESTERN STATES RANK IN ENCOURAGING  
ECONOMIC DEVELOPMENT THROUGH INCOME TAX LAWS

<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
13. Arizona	"
14. 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.

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



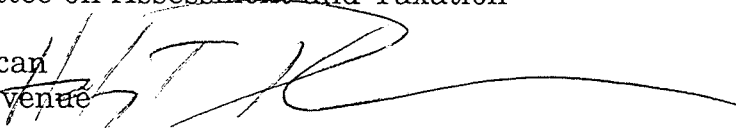
-  Combined States
-  States That Exclude Both Dividends and 80/20 Due to Having No Income Tax or Separate Return Filings



KANSAS DEPARTMENT OF REVENUE  
*Office of the Secretary*  
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 of Revenue 

RE: HB 2543 - The Tax Equity and Simplification Act

DATE: April 4, 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.