

Approved On: _____

Minutes of the House Committee on Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 5, 1988 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Roe

Committee staff present:

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

Representative Aylward moved, second by Representative Shore, introduce a bill concerning the reappraisal tax lid. The motion carried.

Secretary Duncan, Department of Revenue, distributed charts for comparison. Attachment 1 shows a comparison of the effects of federal tax reform on Kansas individual income tax liability for all resident taxpayers - 1987 and 1988. Attachment 2 shows corporate income tax (dollars in millions) and corporate income tax revenue as a percent of the state general fund.

Secretary Duncan also presented a memorandum on Alternative Tax Bases, compared with the current law. (Attachment 3)

Alternative 1 shows the current law plus conformity to all federal itemized deductions except the deduction for social security and related employment taxes.

Alternative 2 - The Tax Equity and Simplification Act, with full conformity to federal itemized deductions and adoption of the federal standard deduction and personal exemption allowance levels.

Alternative 3 - Current law plus full conformity to federal itemized deductions, adoption of the federal standard deduction and personal exemption amounts and repeal of the state tax deduction for federal taxes paid.

Secretary Duncan then discussed the different issues and answered questions from committee members.

Chairman Rolfs announced that the Board of Tax Appeals had ruled that convents are not exempt from property taxation.

The minutes of February 4 were approved.

There being no further business, the meeting was adjourned.



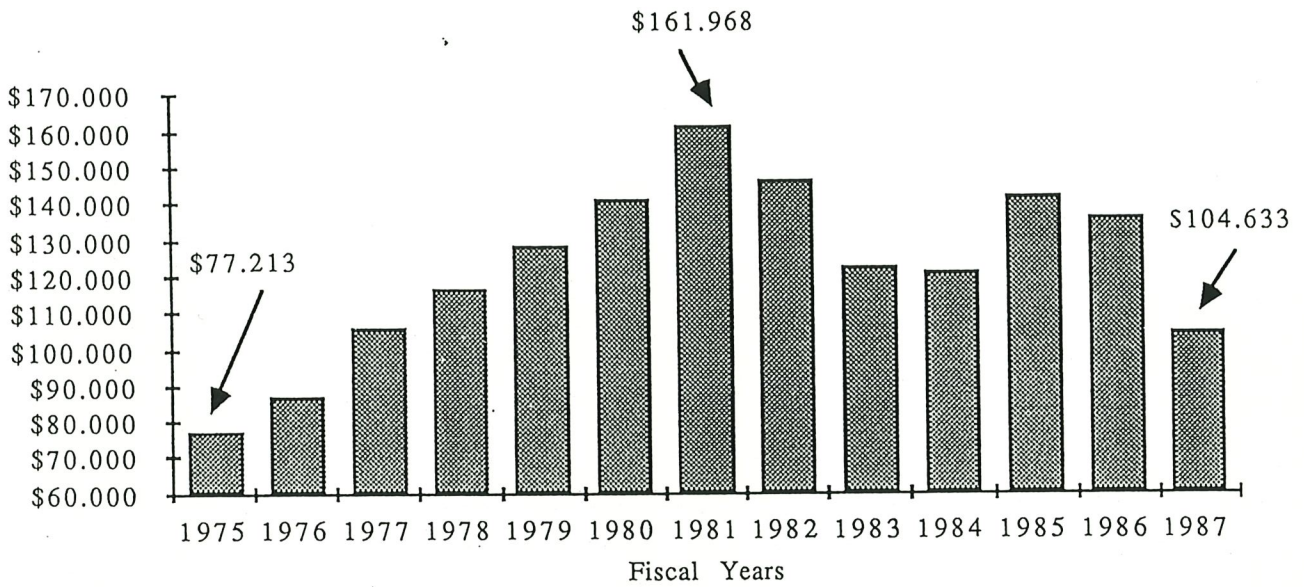
E. C. Rolfs, Chairman

COMPARISON OF THE EFFECTS OF FEDERAL TAX REFORM ON KANSAS INDIVIDUAL INCOME TAX LIABILITY
ALL RESIDENT TAXPAYERS - 1987-1988

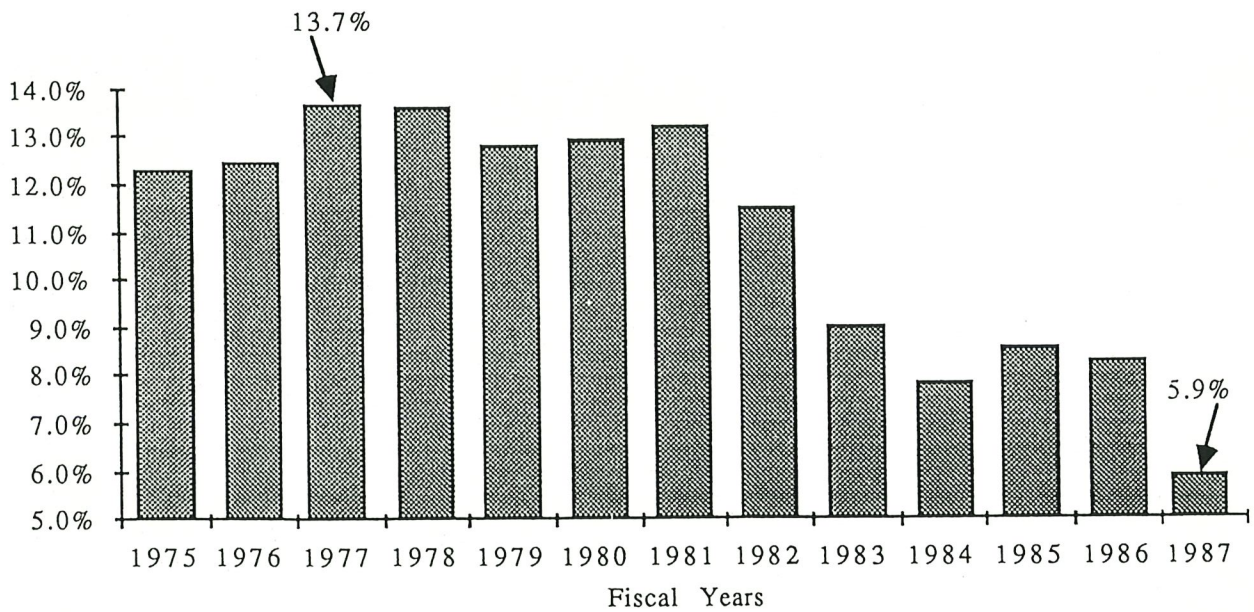
KAGI BRACKET	1987 PRIOR LAW			1987 CURRENT LAW		
	Number of Returns	Liability (\$ Thousands)	Average Liability	Number of Returns	Liability (\$ Thousands)	Average Liability
No KAGI	15,474	\$0.0		14,211	\$0.0	
\$0 - 5,000	135,368	\$1,090.2	\$8.05	132,632	\$1,245.3	\$9.39
\$5 - 15,000	253,895	\$36,987.2	\$145.68	247,789	\$40,848.3	\$164.85
\$15 - 25,000	190,737	\$82,916.2	\$434.71	190,947	\$89,191.8	\$467.10
\$25-35,000	141,053	\$101,228.8	\$717.66	136,105	\$105,865.3	\$777.82
\$35-50,000	128,842	\$131,391.6	\$1,019.79	126,000	\$143,685.7	\$1,140.36
\$50-100,000	76,316	\$129,854.3	\$1,701.53	91,895	\$174,909.2	\$1,903.36
Over \$100,000	12,000	\$71,521.4	\$5,960.12	14,105	\$108,715.2	\$7,707.56
TOTAL	953,685	\$554,989.7	\$581.94	953,684	\$664,460.8	\$696.73

KAGI BRACKET	1988 CURRENT LAW			1988 GOVERNOR'S PROPOSAL		
	Number of Returns	Liability (\$ Millions)	Average Liability	Number of Returns	Liability (\$ Millions)	Average Liability
No KAGI	14,211	\$0.00		14,211	\$0.00	
\$0 - 5,000	127,368	\$1.23	\$9.66	127,368	\$0.05	\$3.93
\$5 - 15,000	240,000	\$39.82	\$165.92	240,421	\$33.98	\$141.34
\$15 - 25,000	189,053	\$89.72	\$474.58	188,842	\$86.85	\$459.91
\$25-35,000	135,368	\$106.11	\$783.86	135,263	\$104.26	\$770.79
\$35-50,000	131,684	\$155.27	\$1,179.11	131,895	\$153.11	\$1,160.85
\$50-100,000	100,842	\$197.38	\$1,957.32	100,632	\$194.94	\$1,937.16
Over \$100,000	15,158	\$126.92	\$8,373.14	15,053	\$126.71	\$8,417.59
TOTAL	953,684	\$716.5	\$751.24	953,685	\$699.9	\$733.89

Kansas Department of Revenue
 Corporate Income Tax
 (Dollars in Millions)




Corporate Income Tax Revenue as a Percent of the State General Fund



MEMORANDUM

TO: Governor's Task Force on Tax Reform

FROM: Harley T. Duncan 
Secretary of Revenue

RE: Alternative Tax Bases

DATE: October 8, 1987

At its last meeting, the Task Force determined that it wanted to review income tax options under three different tax bases. This memorandum presents some baseline information on the alternative tax bases. For each proposal, we have included the tentative decisions made at the last meeting regarding changes to the definition of Adjusted Gross Income. These include: (a) exemption of interest on all Kansas municipal bonds (accomplished by deleting 50% of the bond interest added to the Kansas return); (b) elimination of the insulation adjustment modification; and (c) exemption of Social Security benefits made taxable at the federal level.

The information on the alternatives is presented in the attached table and graphs. The table presents four items for each alternative: (a) total taxable income by Kansas adjusted gross income (AGI) bracket; (b) the average tax rate necessary under the alternative to equal the revenue generated under current law; (c) the percentage change in taxable income by bracket compared to current law; (d) a percentage distribution of the taxable income by AGI group; and (e) taxable income as a percent of AGI by income bracket. The graphs include total taxable income, the percentage change in taxable income by bracket compared to current law, a percentage distribution by AGI of taxable income under each alternative, and a presentation of taxable income as a percent of AGI for each alternative by bracket.

This memorandum summarizes the alternatives and offers some comments on each. The comments attempt to capture the highlights of the data presented in the table and graphs. Also enclosed is a spreadsheet which attempts to provide a qualitative evaluation of each alternative against the goals of tax reform we accepted at the August meeting.

Current Law

DESCRIPTION: Current law. No change in standard deductions, personal exemptions, and itemized deductions remain as they are.

TOTAL TAXABLE INCOME:	\$14.05 billion
CHANGE FROM CURRENT LAW:	NA
AVERAGE TAX RATE:	5.1%
TAXABLE INCOME AS PERCENT OF AGI:	56.6%

COMMENTS: Taxable income as a percent of AGI is relatively constant across all income groups from \$15,000 and up. Thus, any progressivity must come through rate graduation.

ALTERNATIVE I

DESCRIPTION: Current law plus conformity to all federal itemized deductions¹ except the deduction for social security and related employment taxes. Standard deduction and personal exemptions are unchanged.

TOTAL TAXABLE INCOME:	\$14.81 billion
CHANGE FROM CURRENT LAW:	+ 5.4%
AVERAGE TAX RATE:	4.8%
TAXABLE INCOME AS PERCENT OF AGI:	59.6%

COMMENTS: Total taxable income is increased by about 5.4 percent. The increase is greatest in the \$25-50,000 middle income groups with the bulk of the rest in the \$50-100,000 group. Taxable income as a proportion of AGI remains relatively constant across income groups.

ALTERNATIVE II

DESCRIPTION: The Tax Equity and Simplification Act of 1987 (TESA). Includes full conformity to federal itemized deductions and adoption of the federal standard deduction and personal exemption allowance levels. The personal exemption allowance is phased out in a stairstep fashion for single taxpayers from \$15,000-\$35,000 AGI and for married taxpayers from \$35,000-\$55,000.

TOTAL TAXABLE INCOME:	\$13.66 billion
CHANGE FROM CURRENT LAW:	- 2.8%
AVERAGE TAX RATE:	5.2%
TAXABLE INCOME AS PERCENT OF AGI:	55.0%

COMMENTS: Taxable income is more concentrated in the middle and upper income groups because of the increased personal exemption and standard deduction and the conformity to itemized deductions. The \$35,000-\$100,000 group carries a greater proportion of taxable income than under other alternatives because of the itemized deductions that are eliminated and the phase-out of the personal exemption. Taxable income as a percent of AGI increases until the "Over \$100,000" bracket when it drops slightly (65% v. 67% for the \$50-\$100,000 group). This results from retaining the federal tax deduction and its greater relative importance to that income group. Total taxable income is slightly less than current law.

¹ Note that in all cases where reference is made to conformity to federal itemized deductions, it is assumed that we will nonconform, i.e., not allow a deduction for state income tax payments.

ALTERNATIVE III

DESCRIPTION: Federal Taxable Income (FTI). Current law plus full conformity to federal itemized deductions, adoption of the federal standard deduction and personal exemption amounts and repeal of the state tax deduction for federal taxes paid.

TOTAL TAXABLE INCOME:	\$15.83 billion
CHANGE FROM CURRENT LAW:	+ 12.7%
AVERAGE TAX RATE:	4.5%
TAXABLE INCOME AS PERCENT OF AGI:	63.7%

COMMENTS: The proportionate distribution of taxable income is moved upward because of the higher standard deduction and personal exemption amounts as well as the elimination of the federal tax deduction. The proportion of taxable income in the "Over \$100,000" group is higher than under other alternatives as is the proportion of AGI which is taxable (64%). The proportion of AGI which is taxable increases significantly as income increases because of the elimination of the federal tax deduction, i.e., the tax base is more progressive than under the other alternatives. Taxable income as a percent of AGI is also higher in the lower income levels (\$5,000-\$25,000) than under the other alternatives. Total taxable income exceeds current law by about 12 percent.

Kansas Department of Revenue
Kansas Income Tax Reform Alternatives

Taxable Income by K.A.G.I. Bracket

NOTE: Dollars are in Millions

K.A.G.I. Bracket	Current Law	Alternative I	Alternative II	Alternative III
\$0 - \$5,000	\$62.5	\$62.7	\$0.0	\$0.0
\$5,000 - \$15,000	\$1,217.1	\$1,245.3	\$601.1	\$713.1
\$15,000 - \$25,000	\$2,150.2	\$2,244.8	\$1,678.9	\$1,976.0
\$25,000 - \$35,000	\$2,349.3	\$2,543.1	\$2,183.9	\$2,564.1
\$35,000 - \$50,000	\$3,129.3	\$3,355.7	\$3,309.1	\$3,744.0
\$50,000 - \$100,000	\$3,633.6	\$3,832.0	\$4,263.9	\$4,737.9
\$100,000 - Over	\$1,508.0	\$1,522.1	\$1,618.0	\$2,094.7
Total	\$14,050	\$14,806	\$13,655	\$15,830
Flat Tax Rate Required to Remain Revenue Neutral:	5.1%	4.8%	5.2%	4.5%

**Percent Change in Taxable Income
From Current Law**

K.A.G.I. Bracket	Current Law	Alternative I	Alternative II	Alternative III
\$0 - \$5,000	N/A	0.3%	-100.0%	-100.0%
\$5,000 - \$15,000	N/A	2.3%	-50.6%	-41.4%
\$15,000 - \$25,000	N/A	4.4%	-21.9%	-8.1%
\$25,000 - \$35,000	N/A	8.2%	-7.0%	9.1%
\$35,000 - \$50,000	N/A	7.2%	5.7%	19.6%
\$50,000 - \$100,000	N/A	5.5%	17.3%	30.4%
\$100,000 - Over	N/A	0.9%	7.3%	38.9%
Total	N/A	5.4%	-2.8%	12.7%

N/A: Current Law is the Denominator in this table.

Kansas Department of Revenue
Kansas Income Tax Reform Alternatives

October 1, 1987

Percent of Total Taxable Income

NOTE: Dollars are in Millions

K.A.G.I. Bracket	Current Law	Alternative I	Alternative II	Alternative III
\$0 - \$5,000	0.4%	0.4%	0.0%	0.0%
\$5,000 - \$15,000	8.7%	8.4%	4.4%	4.5%
\$15,000 - \$25,000	15.3%	15.2%	12.3%	12.5%
\$25,000 - \$35,000	16.7%	17.2%	16.0%	16.2%
\$35,000 - \$50,000	22.3%	22.7%	24.2%	23.7%
\$50,000 - \$100,000	25.9%	25.9%	31.2%	29.9%
\$100,000 - Over	10.7%	10.3%	11.8%	13.2%
Total	100.0%	100.0%	100.0%	100.0%

Percent of K.A.G.I.

K.A.G.I. Bracket	Current Law	Alternative I	Alternative II	Alternative III
\$0 - \$5,000	17.5%	17.5%	0.0%	0.0%
\$5,000 - \$15,000	51.0%	52.2%	25.2%	29.9%
\$15,000 - \$25,000	57.7%	60.3%	45.1%	53.1%
\$25,000 - \$35,000	57.5%	62.3%	53.5%	62.8%
\$35,000 - \$50,000	57.5%	61.7%	60.8%	68.8%
\$50,000 - \$100,000	57.2%	60.3%	67.1%	74.5%
\$100,000 - Over	60.5%	61.0%	64.9%	84.0%
Total	56.6%	59.6%	55.0%	63.7%

All of the above alternatives contain the following changes from current law: 1) All Kansas municipal bonds are excluded from K.A.G.I.; 2) the insulation adjustment modification has been eliminated; 3) a Kansas child care credit equal to 25% of the federal amount; 4) and social security benefits taxable at the federal level are exempt from taxation in Kansas.

Current Law: Make no changes to current Kansas income tax laws.

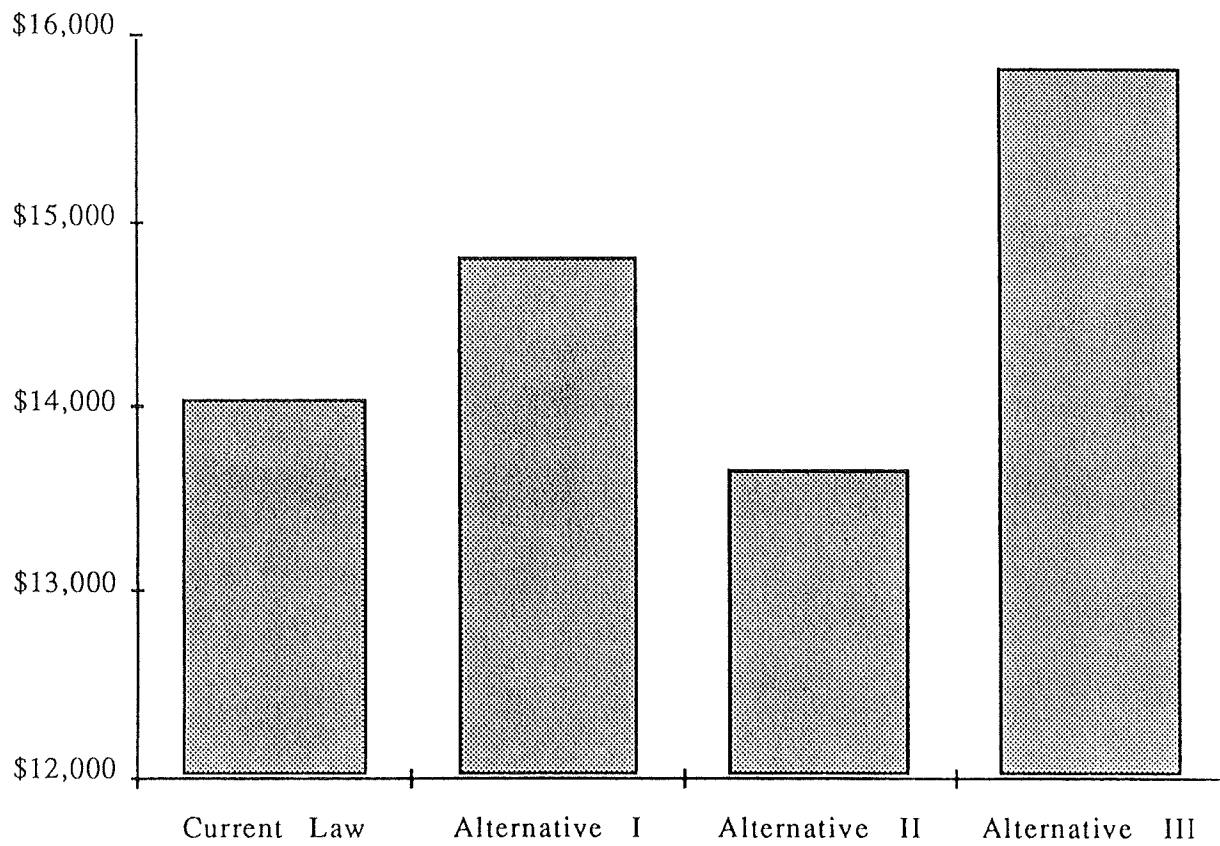
Alternative I : Conforms to federal itemized deductions except for Social Security and other related employment taxes.

Alternative II : Tax Equity and Simplification Act

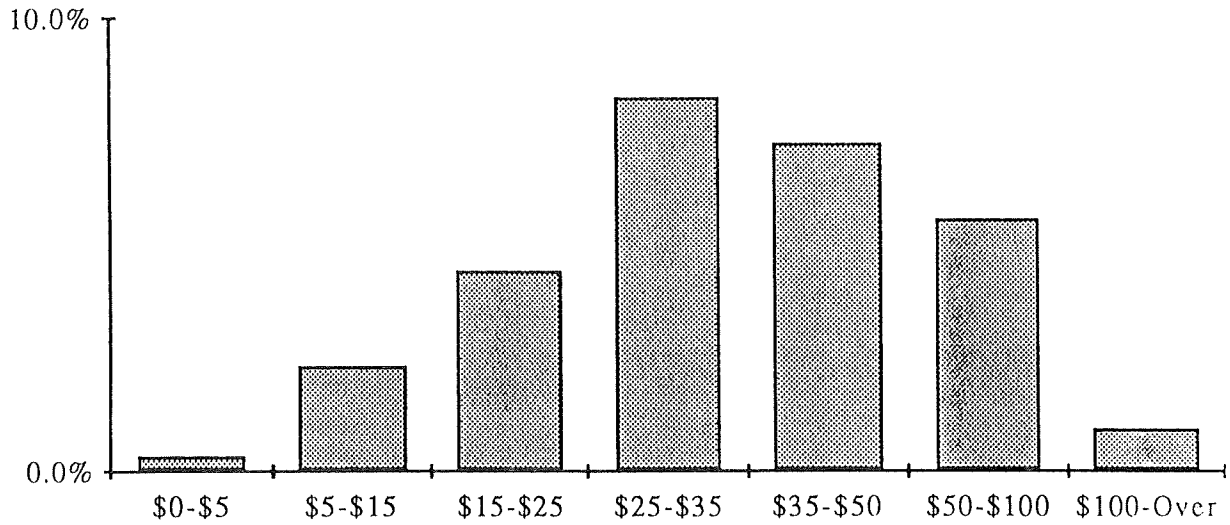
Alternative III : Conforms to federal itemized deductions, federal standard deduction amounts, and federal personal exemption amounts. The federal income tax deduction has also been eliminated. New Kansas tax tables.

October 20, 1977

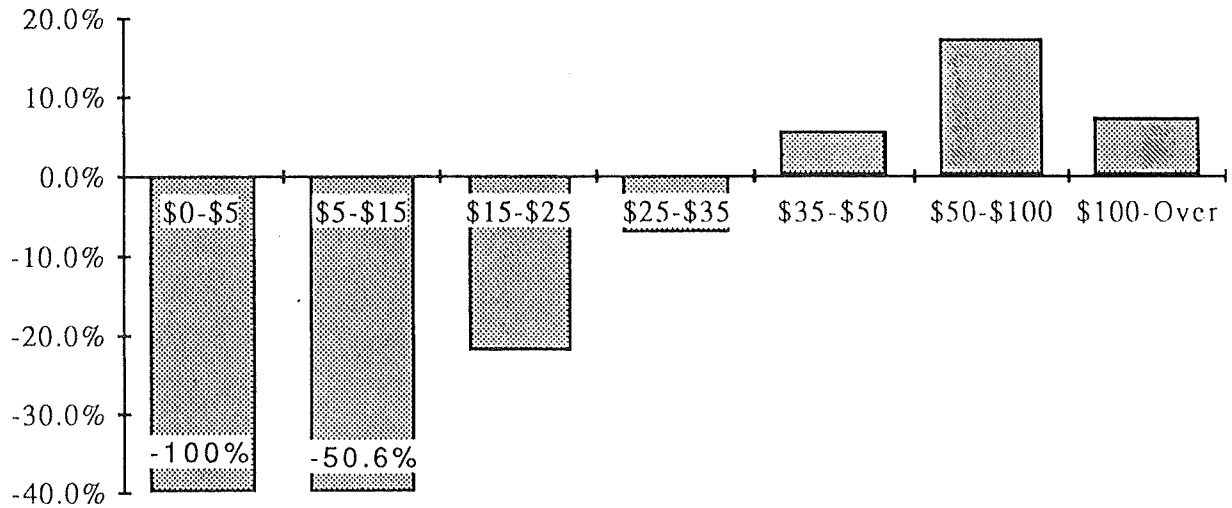
Kansas Department of Revenue
Total Taxable Income
Dollars are in Millions



Kansas Department of Revenue
 Alternative I
 Percent Change in Taxable Income by K.A.G.I. Bracket

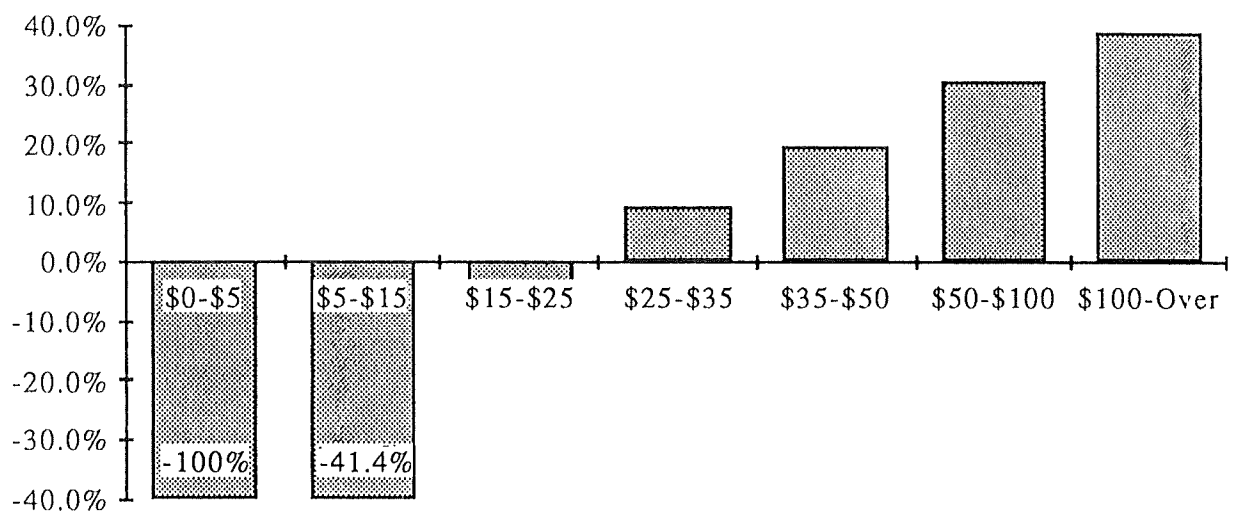


Kansas Department of Revenue
 Alternative II
 Percent Change in Taxable Income by K.A.G.I. Bracket



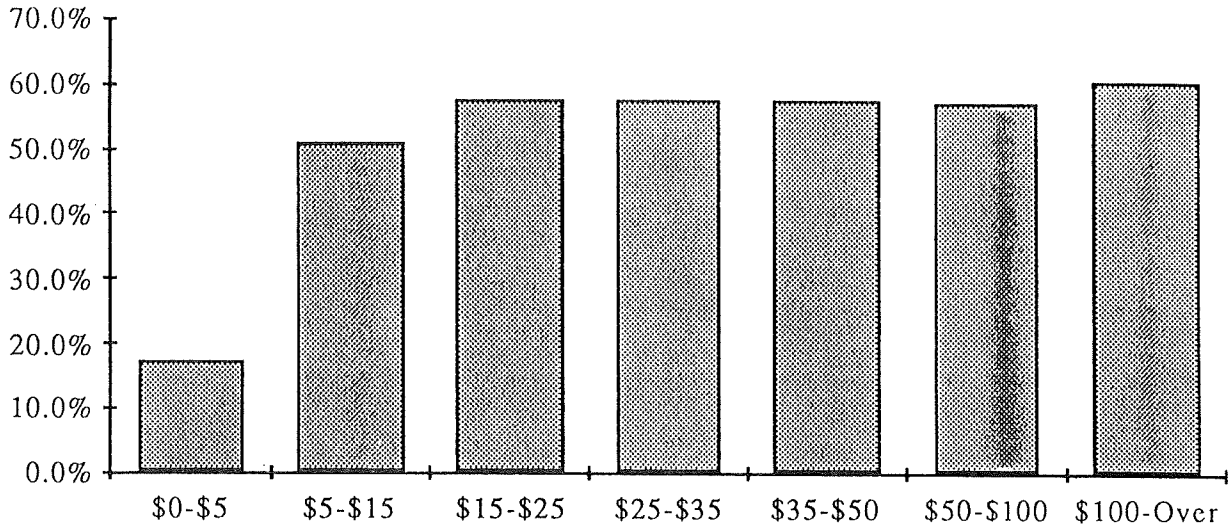
October 20, 1987

Kansas Department of Revenue
Alternative III
Percent Change in Taxable Income by K.A.G.I. Bracket

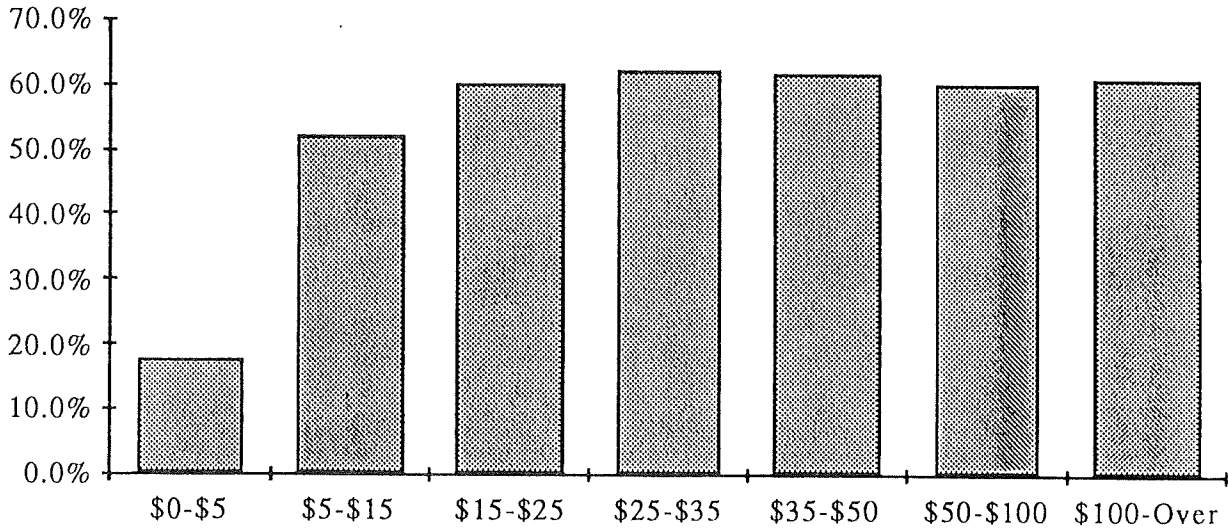


October 20, 1987

Kansas Department of Revenue
Current Law
Taxable Income as a Percent of K.A.G.I.

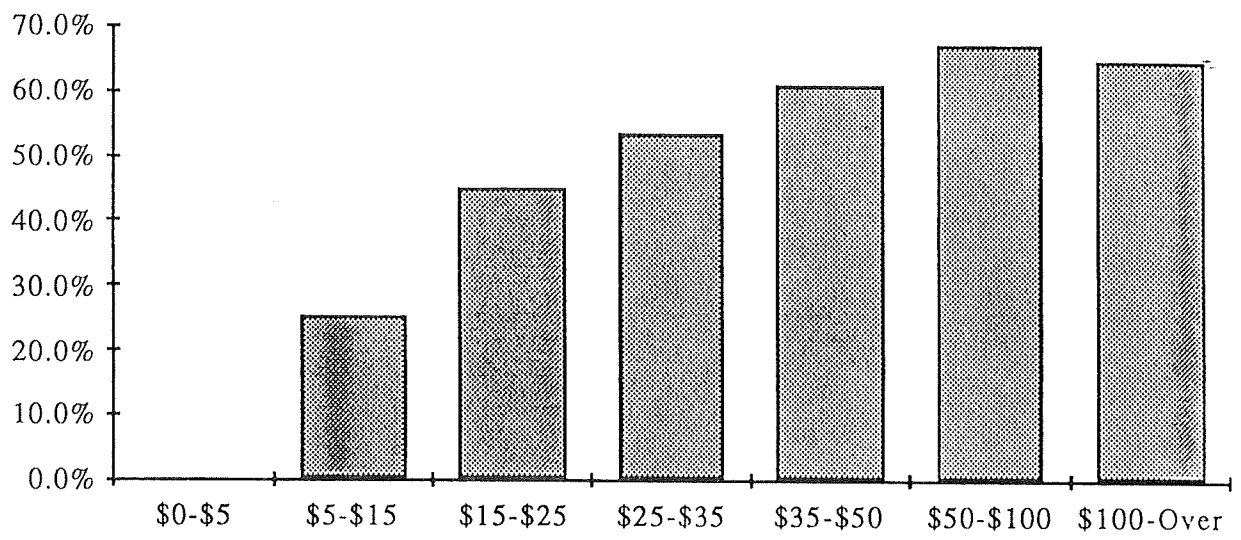


Kansas Department of Revenue
Alternative I
Taxable Income as a Percent of K.A.G.I.

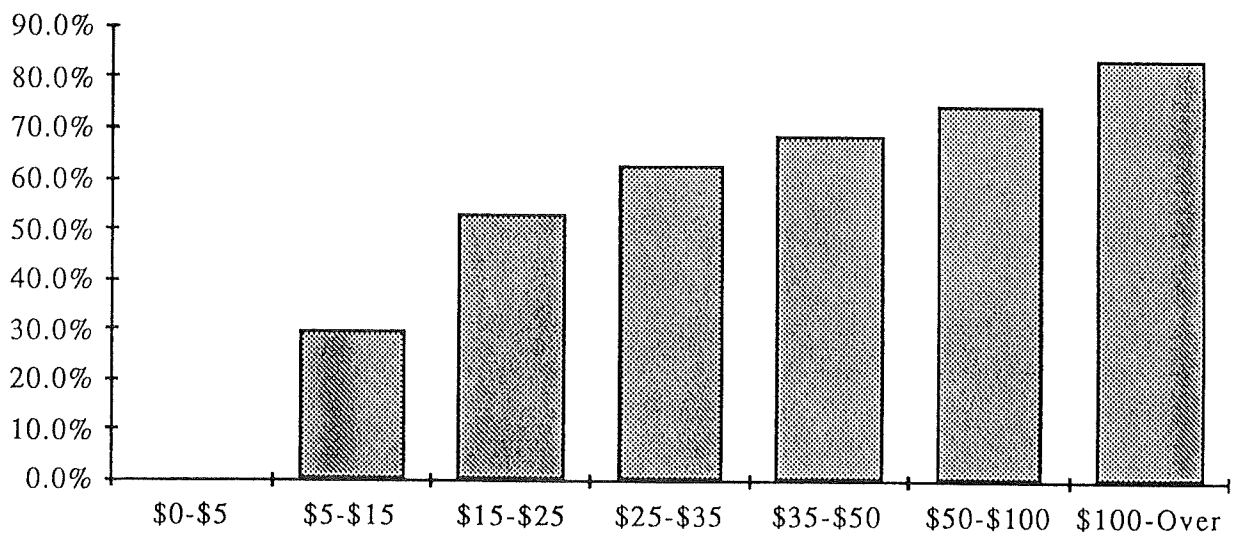


October 20, 1987

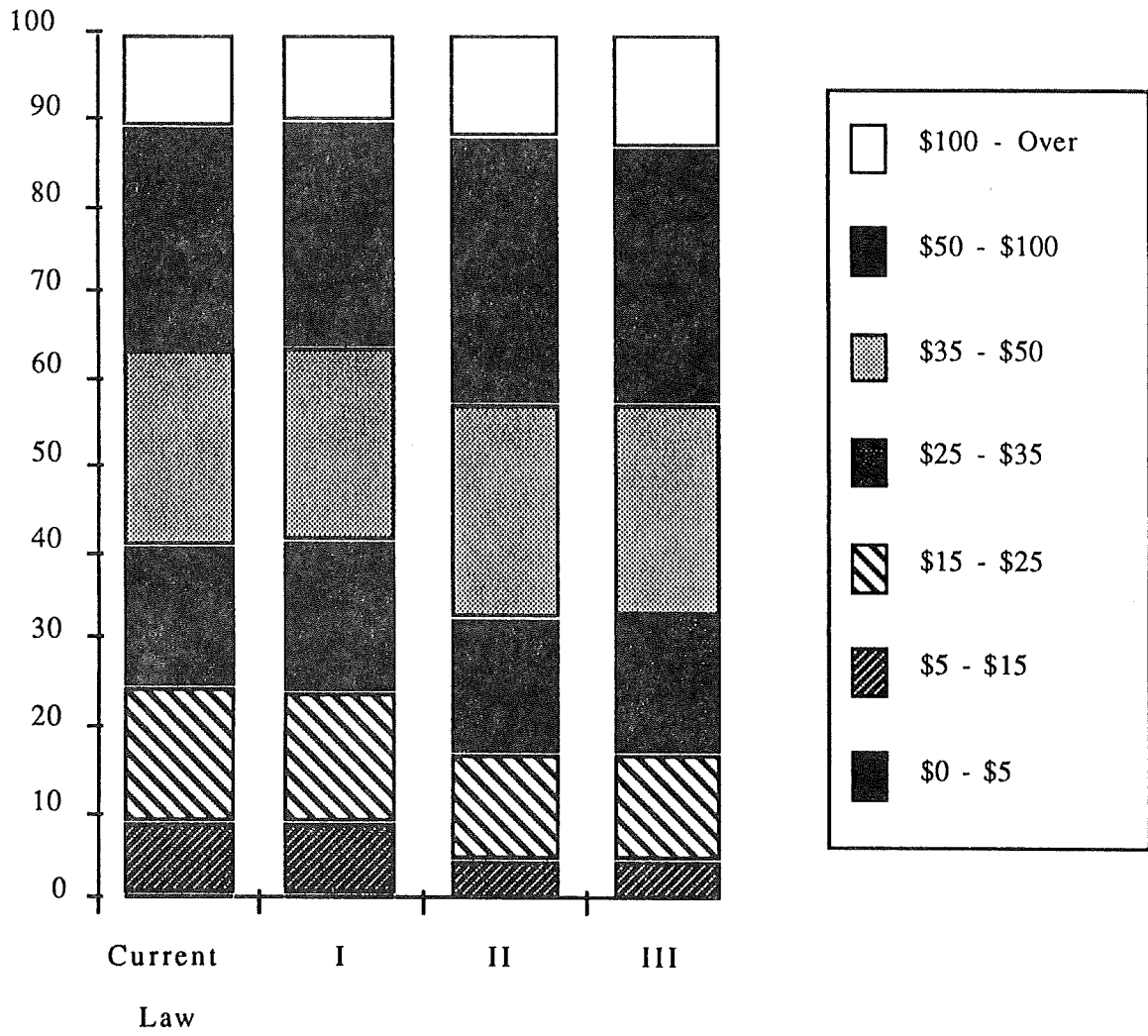
Kansas Department of Revenue
Alternative II
Taxable Income as a Percent of K.A.G.I.



Kansas Department of Revenue
Alternative III
Taxable Income as a Percent of K.A.G.I.

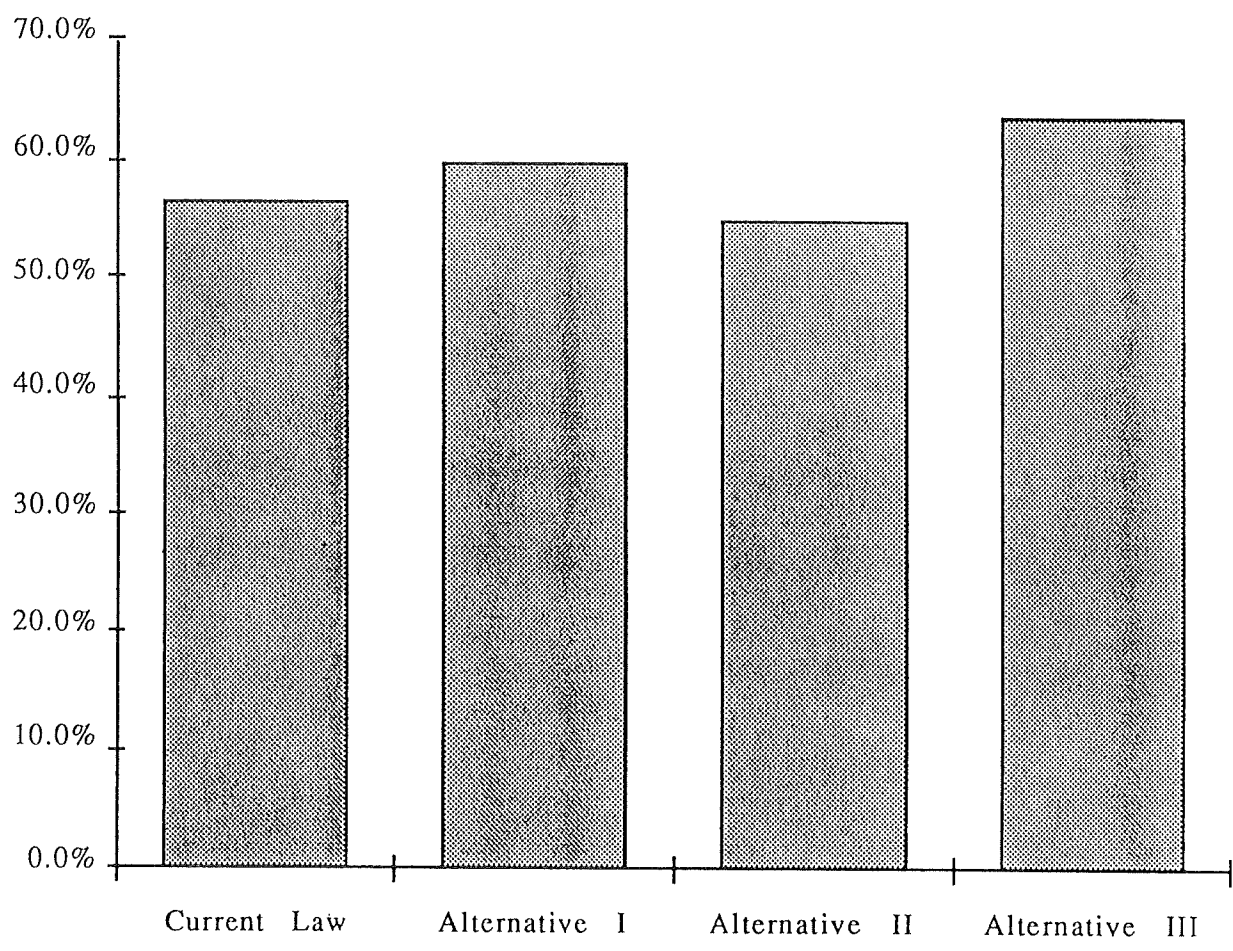


Kansas Department of Revenue
Percent of Taxable Income by K.A.G.I. Bracket



October 20, 1987

Kansas Department of Revenue
Total Taxable Income as a Percent of K.A.G.I.



QUALITATIVE EVALUATION OF ALTERNATIVE TAX REFORM PROPOSALS

KDOR 10/20/87

TAX REFORM GOAL	ALTERNATIVE I	ALTERNATIVE II- TESA	ALTERNATIVE III -FTI
TAX SIMPLIFICATION			
1. Number of Taxpayers	Not Affected	Reduced by 110,000	Reduced by 110,000
2. Complexity to TP	IDs simplified - one modifications remain	IDs simplified - Modifications minimized	IDs simplified - Modifications minimized
		Std. Ded. simplified	Std. Ded. simplified
		Exemption phase-out adds complexity	Fed. tax calculation and proration eliminated
3. Admin. complexity	ID schedule eliminated	ID schedule eliminated	ID schedule eliminated
	Short form doubtful	Short form doubtful	Short form possible
			Withholding simplified
ECONOMIC DEVELOPMENT			
1. Lower marginal rates	Minimal reduction	Moderate reduction	Significant reduction
2. Broader tax base	Minimal increase	Minimal reduction	Significant broadening
TAX EQUITY			
1. Horizontal Equity	2 large deductions remain	Only fed tax deduction remains	Deductions minimized
2. Vertical Equity	No automatic improvements	110,000 TPs removed	110,000 TPs removed
	Depends on rates/credits	Base progressive until top bracket	Base quite progressive throughout income levels
		Rest on rates/credits	
FEDERAL CONFORMITY	Minimal Improvement	Maximum except for federal tax and phase out	Maximum Conformity
REVENUE STABILITY	Minimal improvement	Modest improvement depending on nature of conformity to SD and PE	Significant improvement depending on nature of conformity to SD and PE
INFLATION EFFECTS	Little change and is dependent on rates/brackets	Depends on rates and nature of SD and PE conformity	Depends on rates and nature of SD and PE conformity
		Opportunity is good w/ fed conformity and limited number of brackets	Opportunity is good w/ fed conformity and limited number of brackets

KANSAS TAXABLE INCOME
CHANGE CAUSED BY CONFORMING TO FEDERAL AMOUNTS
\$ MILLIONS

	Current Law K.A.G.I.	Medical Expenses	Employment Taxes	Other Deductions	Federal Tax Deduction	Standard Deduction	Personal Exemption	Revised Total
\$0-\$5	\$62.5	\$0.1	\$0.1	\$0.0	\$0.5	(\$52.4)	(\$42.1)	(\$31.3)
\$5-\$15	\$1,217.1	\$11.4	\$13.0	\$1.3	\$112.4	(\$338.3)	(\$330.0)	\$686.9
\$15-\$25	\$2,150.2	\$43.1	\$75.6	\$6.3	\$296.3	(\$191.7)	(\$399.8)	\$1,980.1
\$25-\$35	\$2,349.3	\$71.1	\$154.4	\$10.2	\$386.1	(\$107.1)	(\$360.4)	\$2,503.6
\$35-\$50	\$3,129.3	\$118.7	\$296.2	\$16.1	\$588.0	(\$54.1)	(\$389.9)	\$3,704.3
\$50-\$100	\$3,633.6	\$140.4	\$352.2	\$14.8	\$903.2	(\$12.6)	(\$301.7)	\$4,729.8
\$100-Over	\$1,508.0	\$34.4	\$53.7	\$1.9	\$577.8	(\$0.2)	(\$44.0)	\$2,131.7
Total	\$14,050.0	\$419.3	\$945.3	\$50.6	\$2,864.3	(\$756.4)	(\$1,868.0)	\$15,705.1

AS A PERCENT OF CURRENT LAW ADJUSTED GROSS INCOME

Income Bracket	Medical Expenses	Employment Taxes	Other Deductions	Federal Tax Deduction	Standard Deduction	Personal Exemption	Revised Total
\$0-\$5	0.2%	0.2%	0.0%	0.7%	-83.8%	-67.3%	56.4%
\$5-\$15	0.9%	1.1%	0.1%	9.2%	-27.8%	-27.1%	92.1%
\$15-\$25	2.0%	3.5%	0.3%	13.8%	-8.9%	-18.6%	106.6%
\$25-\$35	3.0%	6.6%	0.4%	16.4%	-4.6%	-15.3%	118.4%
\$35-\$50	3.8%	9.5%	0.5%	18.8%	-1.7%	-12.5%	130.2%
\$50-\$100	3.9%	9.7%	0.4%	24.9%	-0.3%	-8.3%	141.4%
\$100-Over	2.3%	3.6%	0.1%	38.3%	0.0%	-2.9%	141.4%
Total	3.0%	6.7%	0.4%	20.4%	-5.4%	-13.3%	111.8%