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 23, 1988 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Crowell and Pottorff

Committee staff present:

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

Representative Smith moved, second by Representative Shore, that HB-2905 be passed favorably. The motion carried.

Representative Bob Vancrum discussed HB-2940 - AN ACT amending and supplementing the Kansas income tax act, concerning filing requirements, determination of income, standard and itemized deductions, personal exemptions and liability of an individual thereunder; concerning the net operating loss and apportionment of business income of corporations.

Representative Vancrum outlined the major features of the law for 1988 and compared it with the Governor's proposal and with current law (which is a Department of Revenue term for what happens in 1988 if we do nothing and keep the entire windfall). (Attachment 1) He also read a report from former Governor, Robert Bennett. Representative Vancrum said that HB-2940 retains the federal income tax deduction. The Governor's proposal eliminates this deduction, requiring Kansans to pay taxes upon taxes that have already been sent to Washington. Attachment 1 also has sheets showing comparative cases, ranging from a single individual with no dependents, a retired widow, a married couple with two incomes and two children, and a married couple who both work, one of whom receives significant reimbursement for travel and expenses which are included in wage income.

T. C. Anderson, representing Kansas Society of Certified Public Accountants, submitted a schedule comparing HB-2940 with SB-490. (Attachment 2) Mr. Anderson explained the chart and answered questions from committee members. He said a bill should tie closely with disposable income and not increase more than the 1986 bill.

Jack D. Flesher testified that he believes the three key responsibilities of lawmakers in tax matters are honesty, fairness, and simplicity. He believes the Tax Committee and the Legislature feel these responsibilities. He said, however, that the Task Force tax bill which is being touted as a tax reduction bill would actually increase many Kansans' income tax. He submitted tax comparison sheets of five groups of taxpayers, comparing 1986 and 1988. (Attachment 3)

Gerhard Metz, representing Kansas Chamber of Commerce and Industry, said his testimony would concentrate on the reduction of the corporate base tax rate of .5 percent, which was endorsed by the KCCI Board of Directors. Because the proposed cut is in the base rate, the benefit would accrue not only to large corporations, but to every corporate taxpayer, including small, family-operated businesses. (Attachment 4)

Mr. James A. Cox, representing Ernst & Whitney, discussed the impact that federal tax reform in 1986 will have on corporate taxpayers. He listed four major changes that will affect corporate income the most over the next decade and beyond -- uniform capitalization, accounting methods, depreciation methods, and deduction limitations. Exhibits A, B, C, and D explained each of these changes. (Attachment 5) He then answered questions from committee members.

There being no further business, the meeting was adjourned.

E. C. Rolfs, Chairman

STATE OF KANSAS

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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
CHAIRMAN: ADMINISTRATIVE RULES
AND REGULATIONS
MEMBER: APPROPRIATIONS
JUDICIARY
TAXATION

February 23, 1988

All Members of the Senate and House Tax Committees

On Wednesday, February 10, we introduced HB 2940, which incorporates many of the good features of the income tax reform package proposed by the Governor's Task Force, and yet retains the federal income tax deduction and returns over half of the windfall ($81.4 million) in tax year 1988. A detailed comparison of the bill with TESA, the Governor's proposal and with "current law" (which is a Department of Revenue term for what happens in 1988 if we do nothing and keep the entire windfall) has been prepared by the Legislative Research staff and is attached. I should caution you that this February 8 memo summarizes only the individual income tax changes, and also only for the year 1988. House Bill 2940 also enacts into law for the 1989 taxable year further reductions both in individual and corporate income tax rates so as to return to the taxpayers $122 million of the windfall in that year.

The major features of the law for 1988 include:

1. Retention of the federal income tax deduction. One of the flaws of the Governor's proposal is that it eliminates this deduction, requiring Kansans to pay taxes upon taxes that have already been sent to Washington.

2. A reduction in income tax liability for <u>all brackets</u>. In addition, the proposal reduces income tax liabilities in the other brackets as follows, using married taxpayers as an example:

Adjusted Gross Income		Reduction in State Income Tax Liability by Bracket
$5,000	$15,000	$7.15 Million
$15,000	$25,000	$8.59 Million
$25,000	$35,000	$8.06 Million
$35,000	$50,000	$2.74 Million
$50,000	$100,000	$4.70 Million
$100,000	Over	$7.26 Million

In short, the income tax relief is spread across all income tax brackets.

3. In addition, like the bill introduced by Senators Burke and Bogina, the bill proposes a one time $60 credit against 1988 taxes for those taxpayers over age 65 and blind, to compensate them for their loss of an additional $1,000 personal exemption for 1987.

4. With regard to itemized deductions, the bill is identical to the Governor's proposal and substantially follows federal itemized deductions.

Attachment 1

5. Standard deductions and personal exemptions are identical to the Governor's proposal -- both would be substantially increased. Therefore, the 105,000 lowest income taxpayers will be reduced to 0 liability, as the Governor proposed.

For 1989, the bill offers even further income relief. In addition to making even deeper cuts in rates of tax in all brackets totaling a projected reduction in liability of at least $112 million (unadjusted by inflation) the bill proposes a reduction in the base rate for corporate income tax from 4.5% to 4.0%. This will reduce the corporate income tax windfall by an estimated $10 million. The total fiscal impact in 1989 is estimated to be $122 million.

The fiscal impacts of the proposal may be summarized as follows: 1988 income tax collections would be reduced approximately $60 million below the level proposed to be retained by the Governor. It is therefore possible to retain all spending proposed in the Governor's budget and still have fiscal 1989 ending balances of at least $86 million. I maintain that actual ending balances will be higher than the Governor's projection, because the corporate income tax windfall (which Kansas is only beginning to experience) may range between $20 and $40 million this year. Even if the ending balances were as low as $86 million, however, they would still be higher than three of the last five years.

I expect there will be many questions relating to the policy contained in HB 2940. I would be the first to maintain that it does not address all of the income tax issues facing us. I am offering it only as an additional alternative which appears to be a compromise between TESA as passed by the House last year, Senator Burke's proposal, and some of the key elements of the Governor's proposal that I think have considerable merit.

Sincerely,

Bob Vancrum

Bob Vancrum
State Representative

RJV/elm

SIMULATION 7177 TAX YEAR 1988

Governor's Proposal

Single Rates	$0-$25,000	4.80%
	$25,000-Over	6.20%
Married Rates	$0-$37,500	4.15%
	$37,500-Over	5.40%

Kansas Department of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

Governor's Tax Reform Proposal

Liability Dollars are in Millions

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Increase	Married: Dollar Change In Liability	Married: Dollar Change Per Return	Married: Effective Rate	Single: No. Of Returns	Single: Percent Increase	Single: Dollar Change In Liability	Single: Dollar Change Per Return	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Increase	Total Residents: Dollar Change In Liability	Total Residents: Dollar Change Per Return	Total Residents: Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,526	0.0%	$0.00	$0.00	0.0%	14,211	0.0%	$0.00	$0.00	0.0%
$0 - $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.49)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 - $15	72,105	-55.7%	($4.40)	($61.00)	0.5%	168,316	-4.5%	($1.45)	($8.59)	1.9%	240,421	-14.7%	($5.84)	($24.31)	1.4%
$15 - $25	93,368	-6.4%	($2.13)	($22.85)	1.7%	95,474	-1.3%	($0.74)	($7.75)	3.0%	188,842	-3.2%	($2.87)	($15.21)	2.3%
$25 - $35	97,474	-1.8%	($1.22)	($12.53)	2.3%	37,789	-1.6%	($0.62)	($16.53)	3.4%	135,263	-1.7%	($1.85)	($13.65)	2.6%
$35 - $50	112,211	-1.8%	($2.28)	($20.31)	2.6%	19,684	0.4%	$0.12	$6.10	3.7%	131,895	-1.4%	($2.16)	($16.37)	2.8%
$50 - $100	93,263	-1.8%	($3.11)	($33.33)	2.9%	7,368	3.3%	$0.67	$90.66	4.4%	100,632	-1.2%	($2.44)	($24.25)	3.0%
$100 - Over	13,895	-0.2%	($0.25)	($18.12)	4.9%	1,158	0.3%	$0.04	$34.73	5.3%	15,053	-0.2%	($0.21)	($14.06)	5.0%
Total	508,947	-2.5%	($13.42)	($26.36)	2.8%	444,737	-1.7%	($3.14)	($7.06)	2.9%	953,684	-2.3%	($16.56)	($17.36)	2.8%
Fiscal Impact:			($13.42)					($3.14)					($16.56)		

All Taxpayers: ($21.29)

Non-Resident: ($4.74)

Governor's Proposal
Retaining Federal Income Tax

SIMULATION 7186   TAX YEAR 1988

Governor's Proposal
Plus The Deductibility of Federal Income Taxes

New Kansas Tax Rates

Married	\$0 - \$37,500	4.15%
	\$37,500 - Over	5.40%
Single	\$0 - 25,000	4.80%
	\$25,000 - Over	6.20%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION ~~7193~~ 7186

Liability Dollars are in Millions

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Increase	Married: Dollar Change in Liability	Married: Dollar Change Per Return	Married: Effective Rate	Single: No. Of Returns	Single: Percent Increase	Single: Dollar Change in Liability	Single: Dollar Change Per Return	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Increase	Total Residents: Dollar Change in Liability	Total Residents: Dollar Change Per Return	Total Residents: Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.00	\$0.00	0.0%	4,526	0.0%	\$0.00	\$0.00	0.0%	14,211	0.0%	\$0.00	\$0.00	0.0%
\$0 \$5,000	16,947	-95.8%	(\$0.02)	(\$1.42)	0.0%	110,421	-95.9%	(\$1.16)	(\$10.49)	0.0%	127,368	-95.9%	(\$1.18)	(\$9.29)	0.0%
\$5,000 \$15,000	72,105	-63.4%	(\$5.00)	(\$69.41)	0.4%	168,316	-19.3%	(\$6.17)	(\$36.66)	1.6%	240,421	-28.1%	(\$11.18)	(\$46.48)	1.2%
\$15,000 \$25,000	93,368	-20.8%	(\$6.93)	(\$74.26)	1.4%	95,474	-16.6%	(\$9.36)	(\$98.07)	2.6%	188,842	-18.2%	(\$16.30)	(\$86.30)	2.0%
\$25,000 \$35,000	97,474	-16.9%	(\$11.48)	(\$117.80)	1.9%	37,789	-19.4%	(\$7.38)	(\$195.21)	2.8%	135,263	-17.8%	(\$18.86)	(\$139.43)	2.2%
\$35,000 \$50,000	112,211	-17.5%	(\$22.02)	(\$196.23)	2.2%	19,684	-23.7%	(\$7.05)	(\$358.16)	2.8%	131,895	-18.7%	(\$29.07)	(\$220.40)	2.3%
\$50,000 \$100,000	93,263	-24.9%	(\$44.07)	(\$472.51)	2.2%	7,368	-24.8%	(\$5.04)	(\$684.27)	3.2%	100,632	-24.9%	(\$49.11)	(\$488.01)	2.3%
\$100,000 Over	13,895	-34.7%	(\$39.92)	(\$2,872.73)	3.2%	1,158	-27.5%	(\$3.26)	(\$2,815.73)	3.8%	15,053	-34.0%	(\$43.18)	(\$2,868.35)	3.3%
Total	508,947	-24.6%	(\$129.45)	(\$254.34)	2.1%	444,737	-20.8%	(\$39.42)	(\$88.64)	2.4%	953,684	-23.6%	(\$168.87)	(\$177.07)	2.2%
Fiscal Impact:			(\$129.45)					(\$39.42)					(\$168.87)		
All Taxpayers:			(\$187.21)			Non-Resident:		(\$18.34)							

SIMULATION 7186 TAX YEAR 1988

Governor's Proposal
Plus The Deductibility of Federal Income Taxes

New Kansas Tax Rates

Married	$0 - $37,500	4.15%
	$37,500 - Over	5.40%
Single	$0 - 25,000	4.80%
	$25,000 - Over	6.20%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

Current Law

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	0.0%	0.0%	4,526	0.0%	$0.00	0.0%	0.0%	14,211	0.0%	$0.00	0.0%	0.0%
$0 $5,000	16,947	0.2%	$0.03	0.0%	0.1%	110,421	4.9%	$1.21	0.2%	0.4%	127,368	1.4%	$1.23	0.2%	0.3%
$5,000 $15,000	71,895	4.0%	$7.89	1.1%	1.1%	168,105	25.4%	$31.93	4.5%	2.0%	240,000	9.5%	$39.82	5.6%	1.7%
$15,000 $25,000	93,474	10.1%	$33.34	4.7%	1.8%	95,579	28.9%	$56.38	7.9%	3.1%	189,053	14.9%	$89.72	12.5%	2.4%
$25,000 $35,000	97,684	15.7%	$68.12	9.5%	2.3%	37,684	17.2%	$37.99	5.3%	3.5%	135,368	16.1%	$106.11	14.8%	2.6%
$35,000 $50,000	111,789	25.1%	$125.57	17.5%	2.7%	19,895	12.6%	$29.69	4.1%	3.7%	131,684	21.9%	$155.27	21.7%	2.8%
$50,000 $100,000	93,474	32.1%	$177.03	24.7%	3.0%	7,368	7.4%	$20.35	2.8%	4.3%	100,842	25.8%	$197.38	27.5%	3.1%
$100,000 Over	14,000	12.7%	$115.08	16.1%	4.9%	1,158	3.5%	$11.84	1.7%	5.3%	15,158	10.3%	$126.92	17.7%	4.9%
Total	508,947	100.00%	$527.06	73.56%	2.8%	444,737	100.00%	$189.40	26.44%	3.0%	953,684	100.00%	$716.45	100.00%	2.9%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7186

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	0.0%	0.0%	4,526	0.0%	$0.00	0.0%	0.0%	14,211	0.0%	$0.00	0.0%	0.0%
$0 $5,000	16,947	0.2%	$0.00	0.0%	0.0%	110,421	4.9%	$0.05	0.0%	0.0%	127,368	1.4%	$0.05	0.0%	0.0%
$5,000 $15,000	72,105	4.0%	$2.89	0.5%	0.4%	168,316	25.5%	$25.76	4.7%	1.6%	240,421	9.5%	$28.65	5.2%	1.2%
$15,000 $25,000	93,368	10.1%	$26.41	4.8%	1.4%	95,474	28.9%	$47.02	8.6%	2.6%	188,842	14.9%	$73.42	13.4%	2.0%
$25,000 $35,000	97,474	15.7%	$56.63	10.3%	1.9%	37,789	17.3%	$30.61	5.6%	2.8%	135,263	16.1%	$87.25	15.9%	2.2%
$35,000 $50,000	112,211	25.2%	$103.56	18.9%	2.2%	19,684	12.5%	$22.64	4.1%	2.8%	131,895	22.0%	$126.20	23.0%	2.3%
$50,000 $100,000	93,263	32.1%	$132.96	24.3%	2.2%	7,368	7.4%	$15.31	2.8%	3.2%	100,632	25.8%	$148.27	27.1%	2.3%
$100,000 Over	13,895	12.5%	$75.16	13.7%	3.2%	1,158	3.5%	$8.58	1.6%	3.8%	15,053	10.2%	$83.75	15.3%	3.3%
Total	508,947	100.0%	$397.61	72.6%	2.1%	444,737	100.00%	$149.97	27.4%	2.4%	953,684	100.00%	$547.59	100.00%	2.2%
Fiscal Impact:			($129.45)					($39.42)					($168.87)		

All Taxpayers: ($187.21) Non-Resident: ($18.34)

Kansas Legislative Research Department

February 22, 1988

Comparing Individual Income Tax Reform Plans and Current Law

Principal tax year 1988 features of the Governor's recommendation, Senate Sub. H.B. 2543, H.B. 2940, and the current law include the following:

	Governor[1]	S. Sub. H.B. 2543[1]	H.B. 2940[1]	Current Law
Social Security benefits	taxable	taxable	taxable	taxable
Kansas GO bond interest	all exempt	all exempt	exempt from 1/1/88	taxable
Federal income taxes paid	not deductible	not deductible	deducted	deducted
Rates:				
number of brackets	2	2	7	8
bottom rate, single	4.80%	4.80%	4.00%[2]	2.00%
bottom rate, joint	4.15%	4.15%	4.00%[2]	2.00%
top rate, single	6.20%	6.00%	8.25%[2]	9.00%
top rate, joint	5.40%	5.40%	8.25%[2]	9.00%
Itemized deductions:				
federal conformity	current[3]	current[3]	current[3]	12/31/77
Social Security contributions	not deductible	not deductible	not deductible	deducted
Standard deductions:				
joint	$5,000	$5,000	$5,000	$2,100-2,800
single	3,000	3,000	3,000	1,700-2,400
head of household	4,400	4,400[4]	4,400	1,700-2,400
married, separate	2,500	2,500	2,500	1,050-1,400
1989 and thereafter	not indexed	not indexed	not indexed	same as above
Personal exemption:				
1988	$1,950	$1,950	$1,950	$1,000
1989	2,000	2,000	2,000	1,000
1990 and thereafter	not indexed	not indexed	not indexed	1,000
Elderly/Blind	increase standard deduction	increase standard deduction and $60 TY 1987 credit (nonrefundable)	increase standard deduction and $60 TY 1987 credit (refundable)	none[5]
Fiscal Impact[6]	$(21.29) million	$(33.68) million	$(78.72) million	---

1 Governor's recommendation as it appears in S.B. 490 and H.B. 2684, Senate Sub. H.B. 2543, as recommended by Senate Committee on Assessment and Taxation, and H.B. 2940, as introduced on February 10.

2 All rates would be lowered in TY 1989. The new top rate would be 8.0 percent and the new bottom rate would be 3.75 percent.

3 All three plans would eliminate most major areas of nonconformity.

4 Heads of household would also receive an extra personal exemption.

5 Prior to 1987, extra personal exemptions were allowed through federal conformity.

6 Tax Year 1988 fiscal impacts based on Department of Revenue's latest simulation model.

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Comparing Tax Reform Plans and Current Law

Principal tax year 1988 features of TESA, the Governor's recommendation, H.B. 2940 and the current law include the following:

Tax Feature	TESA[1]	Governor[1]	H.B. 2940[1]	Current Law
Social Security benefits	exempt	taxable	taxable	taxable
Kansas GO bond interest	taxable	all exempt	exempt from 1/1/88	taxable
Federal income taxes paid	deducted	not deductible	deducted	deducted
Rates:				
number of brackets	7 joint, 6 single	2	7	8
bottom rate, single	3.25%	4.80%	4.00%[2]	2.00%
bottom rate, joint	3.25%	4.15%	4.00%[2]	2.00%
top rate, single	8.00%	6.20%	8.25%[2]	9.00%
top rate, joint	8.00%	5.40%	8.25%[2]	9.00%
Itemized deductions:				
federal conformity	current[3]	current[3]	current[3]	12/31/77
Social Security contributions	not deductible	not deductible	not deductible	deducted
Standard deductions:				
joint	$5,000	$5,000	$5,000	$2,100-2,800
single	3,000	3,000	3,000	1,700-2,400
head of household	4,400	4,400	4,400	1,700-2,400
married, separate	2,500	2,500	2,500	1,050-1,400
1989 and thereafter	indexed	not indexed	not indexed	same as above
Personal exemption:				
1988	$1,950[4]	$1,950	$1,950	$1,000
1989	2,000[4]	2,000	2,000	1,000
1990 and thereafter	indexed[4]	not indexed	not indexed	1,000
Elderly/Blind	increase standard deduction	increase standard deduction	increase standard deduction and $60 TY 1987 credit	none[5]
Fiscal Impact[6]	$5.53 million	$(21.29) million	$(81.44) million	---

1 TESA, as amended by House Committee of the Whole, Governor's recommendation as it appears in S.B. 490 and H.B. 2684, and H.B. 2940, as introduced on February 10.

2 All rates would be lowered in TY 1989. The new top rate would be 8.0 percent and the new bottom rate would be 3.75 percent.

3 All three plans would eliminate most major areas of nonconformity.

4 Exemption amounts would be reduced by $100 for each $2,000 of KAGI in excess of $35,000 for joint filers and by $100 for each $2,000 of KAGI in excess of $25,000 for single filers.

5 Prior to 1987, extra personal exemptions were allowed through federal conformity.

6 Tax Year 1988 fiscal impacts based on Department of Revenue's latest simulation model.

DD87295b/CC

COMPARISON OF INDIVIDUAL INCOME TAX JOINT RATE BRACKETS UNDER CURRENT LAW, H.B. 2543, S.B. 490, AND H.B. 2940

Current Law

Taxable Income	
$0 to $4,000	2.0 percent
$4,000 to $6,000	$80 + 3.5 percent of excess over $2,000
$6,000 to $10,000	$150 + 4.0 percent of excess over $3,000
$10,000 to $14,000	$310 + 5.0 percent of excess over $5,000
$14,000 to $20,000	$510 + 6.5 percent of excess over $7,000
$20,000 to $40,000	$900 + 7.5 percent of excess over $10,000
$40,000 to $50,000	$2,400 + 8.5 percent of excess over $20,000
$50,000 and up	$3,250 + 9.0 percent of excess over $25,000

H.B. 2543 (As Amended by House Committee of the Whole)

Taxable Income	
$0 to $6,000	3.25 percent
$6,000 to $10,000	$195 + 4.7 percent of excess over $6,000
$10,000 to $20,000	$383 + 5.7 percent of excess over $10,000
$20,000 to $30,000	$953 + 6.0 percent of excess over $20,000
$30,000 to $40,000	$1,553 + 6.3 percent of excess over $30,000
$40,000 to $50,000	$2,183 + 7.5 percent of excess over $40,000
$50,000 and up	$2,933 + 8.0 percent of excess over $50,000

S.B. 490 (Federal Taxes Paid No Longer Deductible)

$0 to $37,500	4.15 percent
$37,500 and up	$1,556 plus 5.4 percent of excess over $37,500

H.B 2940

Tax Year 1988	
$0 to $10,000	4.0 percent
$10,000 to $14,000	$400 plus 5.0 percent of excess over $10,000
$14,000 to $20,000	$600 plus 5.5 percent of excess over $14,000
$20,000 to $40,000	$930 plus 6.0 percent of excess over $20,000
$40,000 to $50,000	$2,130 plus 7.0 percent of excess over $40,000
$50,000 to $100,000	$2,830 plus 8.0 percent of excess over $50,000
$100,000 and up	$6,830 plus 8.25 percent of excess over $100,000

Tax Year 1989	
$0 to $10,000	3.75 percent
$10,000 to $14,000	$375 plus 4.5 percent of excess over $10,000
$14,000 to $20,000	$555 plus 5.25 percent of excess over $14,000
$20,000 to $40,000	$870 plus 5.75 percent of excess over $20,000
$40,000 to $50,000	$2,020 plus 6.75 percent of excess over $40,000
$50,000 to $100,000	$2,695 plus 7.75 percent of excess over $50,000
$100,000 and up	$6,570 plus 8.0 percent of excess over $10,000

88-43/CC

SIMULATION 7236 TAX YEAR 1988

Governor's Proposal
Plus The Deductibility of Federal Income Taxes
Exempt Kansas Municipal Bonds Issued After December 31, 1987
$60 Refundable Credit for Elderly and Blind Taxpayers
New Kansas Tax Rates
$1,950 Kansas Personal Exemption

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7236

Liability Dollars are in Millions

	Married					Single					Total Residents				
K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	($0.14)	($14.46)	0.0%	4,526	0.0%	($0.08)	($17.67)	0.0%	14,211	0.0%	($0.22)	$0.00	0.0%
$0 $5	16,947	-2321.8%	($0.58)	($34.47)	0.0%	110,421	-151.3%	($1.83)	($16.56)	0.0%	127,368	-195.6%	($2.41)	($18.94)	0.0%
$5 $15	71,895	-88.8%	($7.01)	($97.53)	0.4%	168,105	-36.7%	($11.72)	($69.71)	1.4%	240,000	-47.0%	($18.73)	($78.04)	1.1%
$15 $25	93,474	-25.8%	($8.59)	($91.87)	1.4%	95,579	-17.6%	($9.90)	($103.56)	2.6%	189,053	-20.6%	($18.49)	($97.78)	2.0%
$25 $35	97,474	-11.9%	($8.08)	($82.88)	2.1%	37,684	-11.7%	($4.46)	($118.43)	3.1%	135,158	-11.8%	($12.54)	($92.79)	2.3%
$35 $50	112,000	-2.4%	($2.99)	($26.69)	2.6%	19,895	-8.2%	($2.45)	($122.96)	3.4%	131,895	-3.5%	($5.44)	($41.21)	2.7%
$50 $100	93,474	-2.2%	($3.94)	($42.17)	2.9%	7,368	-7.4%	($1.51)	($204.66)	4.0%	100,842	-2.8%	($5.44)	($53.95)	3.0%
$100 Over	14,000	-5.0%	($5.72)	($408.73)	4.7%	1,158	-5.2%	($0.61)	($527.45)	5.0%	15,158	-5.0%	($6.33)	($417.80)	4.7%
Total	508,947	-7.0%	($37.06)	($72.81)	2.7%	444,737	-17.2%	($32.55)	($73.20)	2.5%	953,684	-9.7%	($69.60)	($72.98)	2.6%
Fiscal Impact:			($37.06)					($32.55)					($69.60)		
All Taxpayers:			($78.72)			Non-Resident:		($9.12)							

Simulation 7236 Use Simulation 7207

Single Taxable Income			Tax Rate	Excess Over
$0	$5,000		4.00%	$0
$5,000	$7,000	$200	5.00%	$5,000
$7,000	$10,000	$300	5.50%	$7,000
$10,000	$20,000	$465	6.00%	$10,000
$20,000	$25,000	$1,065	7.00%	$20,000
$25,000	$50,000	$1,415	8.00%	$25,000
$50,000	Over	$3,415	8.25%	$50,000

Married Taxable Income			Tax Rate	Excess Over
$0	$10,000		4.00%	$0
$10,000	$14,000	$400	5.00%	$10,000
$14,000	$20,000	$600	5.50%	$14,000
$20,000	$40,000	$930	6.00%	$20,000
$40,000	$50,000	$2,130	7.00%	$40,000
$50,000	$100,000	$2,830	8.00%	$50,000
$100,000	OVER	$6,830	8.25%	$100,000

SIMULATION 7233 TAX YEAR 1989

Governor's Proposal
Plus The Deductibility of Federal Income Taxes
Exempt Kansas Municipal Bonds Issued After December 31, 1987
New Kansas Tax Rates

$2,000 Kansas Personal Exemption

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1989
Resident Taxpayers

SIMULATION 7233

Liability Dollars are in Millions

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,526	0.0%	$0.00	$0.00	0.0%	14,211	0.0%	$0.00	$0.00	0.0%
$0 $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.50)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 $15	71,895	-68.6%	($5.42)	($75.34)	0.3%	168,105	-36.3%	($11.59)	($68.92)	1.3%	240,000	-42.7%	($17.00)	($70.85)	1.0%
$15 $25	93,474	-29.5%	($9.82)	($105.09)	1.2%	95,579	-22.2%	($12.52)	($130.95)	2.4%	189,053	-24.9%	($22.34)	($118.17)	1.8%
$25 $35	97,474	-18.7%	($12.74)	($130.66)	1.9%	37,684	-16.3%	($6.19)	($164.25)	2.9%	135,158	-17.8%	($18.93)	($140.02)	2.2%
$35 $50	112,000	-9.1%	($11.44)	($102.12)	2.4%	19,895	-12.5%	($3.72)	($186.96)	3.2%	131,895	-9.8%	($15.16)	($114.92)	2.6%
$50 $100	93,474	-8.1%	($14.37)	($153.75)	2.7%	7,368	-10.5%	($2.13)	($289.63)	3.8%	100,842	-8.4%	($16.51)	($163.68)	2.8%
$100 Over	14,000	-8.8%	($10.08)	($720.19)	4.5%	1,158	-8.2%	($0.97)	($840.55)	4.8%	15,158	-8.7%	($11.06)	($729.38)	4.5%
Total	508,947	-12.1%	($63.89)	($125.54)	2.5%	444,737	-20.2%	($38.28)	($86.07)	2.4%	953,684	-14.3%	($102.17)	($107.13)	2.5%
Fiscal Impact:			($63.89)					($38.28)					($102.17)		
All Taxpayers:			($114.36)			Non-Resident:		($12.19)							

Tax Year 1989

Simulation 7233 Use Simulation 7230

Single Taxable Income			Tax Rate	Excess Over
$0	$5,000		3.75%	$0
$5,000	$7,000	$188	4.50%	$5,000
$7,000	$10,000	$278	5.25%	$7,000
$10,000	$20,000	$435	5.75%	$10,000
$20,000	$25,000	$1,010	6.75%	$20,000
$25,000	$50,000	$1,348	7.75%	$25,000
$50,000	Over	$3,285	8.00%	$50,000

Married Taxable Income			Tax Rate	Excess Over
$0	$10,000		3.75%	$0
$10,000	$14,000	$375	4.50%	$10,000
$14,000	$20,000	$555	5.25%	$14,000
$20,000	$40,000	$870	5.75%	$20,000
$40,000	$50,000	$2,020	6.75%	$40,000
$50,000	$100,000	$2,695	7.75%	$50,000
$100,000	OVER	$6,570	8.00%	$100,000

CASE 1

General Description: Case 1 is a single individual with no dependents. The taxpayer is a salaried employee with $836 other income. $575 of the other income is a Kansas income tax refund, shown as a modification in the detail. The taxpayer owns a home and itemizes deductions on her federal return.

	1986	Old Law 1987	Task Force 1988
Marital Status:	1	1	1
Exemptions	1	1	1
Taxable income:			
Wage income		23,195	23,195
Other income		836	836
Total income		24,031	24,031
Adjustments			
Federal AGI		24,031	24,031
KS Modification		-575	-575
KS AGI		23,456	23,456
KS Std deduction		2,400	3,000
Itemized Deductions:			
Social Security		1,742	0
Medical		245	0
Taxes		1,438	709
Interest		5,660	4,979
Contributions		200	200
Miscellaneous		651	170
Other		132	
Total itemized		10,068	6,058
KS Exemptions		1,000	2,000
Federal tax		2,400	0
Total deduction		13,468	8,058
KS Taxable income		9,988	15,398
Net KS tax	$357	$449	$755

CASE 3

General Description: Retired widow. All income is from retirement investments and includes interest, dividends and capital gains. She does not itemize.

	1986	Old Law 1987	Task Force 1988
Marital Status:	1	1	1
Exemptions	1	1	1
Taxable income:			
Wage income		0	0
Other income		11,701	11,701
Total income		11,701	11,701
Adjustments			
Federal AGI		11,701	11,701
KS Modification		(175)	(175)
KS AGI		11,526	11,526
KS Std deduction		1,844	3,750
Itemized Deductions:			
Social Security		0	0
Medical		0	0
Taxes		0	0
Interest		0	0
Contributions		0	0
Miscellaneous		0	0
Other		0	0
Total itemized		1,844	3,750
KS Exemptions		1,000	2,000
Federal tax		624	0
Total deduction		3,468	5,750
KS Taxable income		8,058	5,776
Net KS tax	$174	$324	$283

CASE 6

General Description: Married couple with two incomes and two children. Other income is from interest and a $922 Kansas refund (refund shown as a modification). They own a home and itemize deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	4	4	4
Taxable income:			
Wage income		58,606	58,606
Other income		3,105	3,105
Total income		61,711	61,711
Adjustments			
Federal AGI		61,711	61,711
KS Modification		(922)	(922)
KS AGI		60,789	60,789
KS Std deduction		2,800	5,000
Itemized Deductions:			
Social Security		4,131	0
Medical		908	0
Taxes		2,402	1,771
Interest		10,125	9,323
Contributions		500	500
Miscellaneous		120	0
Other		110	0
Total itemized		18,296	11,594
KS Exemptions		4,000	8,000
Federal tax		7,193	0
Total deduction		29,489	19,594
KS Taxable income		31,300	41,195
Net KS tax	$1,412	$1,748	$1,756

CASE 7

General Description: This is a case of a non-Johnson County resident who lives and owns several businesses in Kansas and employs a significant number of people. Both husband and wife work and have one dependent child. They itemize deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	3	3	3
Taxable income:			
Wage income		85,000	85,000
Other income		283,728	283,728
Total income		368,728	368,728
Adjustments		4,633	4,633
Federal AGI		364,095	364,095
KS Modification		-33,970	-33,970
KS AGI		330,125	330,125
KS Std deduction		2,800	5,000
Itemized Deductions:			
Social Security		6,384	0
Medical		834	0
Taxes		2,753	1,994
Interest		*60,112	13,063
Contributions		62,879	62,879
Miscellaneous		0	0
Other		155	0
Total itemized		133,117	77,936
KS Exemptions		3,000	6,000
Federal tax		81,455	0
Total deduction		217,572	83,936
KS Taxable income		112,553	246,189
Net KS tax	$8,113	$8,880	*$12,825
			*$10,824

CASE 8

General Description: The last case is a married couple. Both spouses work, and the husband is an outside sales person who receives significant reimbursements for travel and expenses which are included in wage income and deducted as adjustments. They have two children and itemize deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	4	4	4
Taxable income:			
Wage income		24,080	24,080
Other income		975	975
Total income		25,055	25,055
Adjustments		8,014	8,014
Federal AGI		17,041	17,041
KS Modification		-154	-154
KS AGI		16,887	16,887
KS Std deduction		2,702	5,000
Itemized Deductions:			
Social Security		1,097	0
Medical		3,741	2,463
Taxes		1,058	820
Interest		3,155	3,133
Contributions		26	26
Miscellaneous		100	0
Other		209	0
Total itemized		9,386	6,442
KS Exemptions		4,000	8,000
Federal tax		367	0
Total deduction		13,753	14,442
KS Taxable income		3,134	2,445
Net KS tax	$59	$63	$101

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

FEB 2 2 1988

MEMORANDUM

TO: Governor's Task Force on Tax Reform

FROM: Harley T. Duncan
Secretary of Revenue

RE: Average Taxpayer Data

DATE: August 31, 1987

As you recall, the data presented at the last meeting on the impact of tax reform on state income tax liability by adjusted gross income (AGI) group was based on the AGI group of the taxpayer after the reform. As requested, we have developed similar data which arrays the taxpayers on the basis of the AGI group in which they started, rather than the one in which they ended. This data can be used to answer the question, "What is the state income tax impact of the federal Tax Reform Act of 1986 on the average taxpayer with an AGI of $_______."

The attached spreadsheets present this data. They display (for tax years 1987 and 1988): (a) the number of taxpayers in the AGI group under pre-reform law; (b) the distribution of those taxpayers under post-reform law; (c) the AGI of the taxpayers under pre- and post-reform laws; (d) the total tax liability of the taxpayers in that group under pre- and post-reform laws; and (e) the average tax liability of the taxpayers under pre- and post-reform laws along with the percentage increase in the average liability.

The data is summarized in the tables below. The first presents the distribution of the total increased burden across income groups for tax year 1988. The second presents the effect on average income tax liability by income group for tax year 1988.

Distribution of Additional Income Tax Liability by Adjusted Gross Income
All Resident Taxpayers - Tax Year 1988
Dollar Amounts in Thousands

Adjusted Gross Income Group	Number of Taxpayers	Additional Liability	Percent of Total
$0 - $5,000	129,579	$361.1	0.3%
$5,000 - $15,000	246,632	$6,715.3	5.1%
$15,000 - $25,000	190,316	$10,373.6	7.8%
$25,000 - $35,000	138,632	$14,061.2	10.6%
$35,000 - $50,000	134,526	$27,234.1	20.6%
$50,000 -$100,000	85,684	$35,850.9	27.1%
Over $100,000	12,842	$37,908.5	28.6%
ALL TAXPAYERS	953,684	$132,519.5	100.0%

Average State Income Tax Increase by Adjusted Gross Income
All Resident Taxpayers - Tax Year 1988

Adjusted Gross Income Group	Pre-reform Avg. Liability	Post-reform Avg. Liability	Percent Increase
$0 - $5,000	$8.35	$10.78	33.9%
$5,000 - $15,000	$145.12	$172.20	18.7%
$15,000 - $25,000	$442.57	$497.07	12.3%
$25,000 - $35,000	$719.24	$820.67	14.1%
$35,000 - $50,000	$1,042.58	$1,245.03	19.4%
$50,000 -$100,000	$1,701.90	$2,120.03	24.6%
Over $100,000	$5,999.39	$8,951.29	49.2%
ALL TAXPAYERS	$612.29	$751.25	22.7%

These results are very similar to the results obtained last year. They essentially say that 55 percent of the increased burden will be borne by the 10-12 percent of the taxpayers with an adjusted gross income in excess of $50,000 and fully 75 percent will fall on those with an AGI in excess of $35,000. The average tax increase runs about 15-20 percent until AGI reaches $50,000. At that point, the change increases to 25 percent and reaches nearly 50 percent for those with an AGI in excess of $100,000.

As you can note on the detailed tables, we project the 1987 percentage increase for the "Over $100,000" group to be 37 percent. The reason for the large increase between 1987 and 1988, we have concluded, is the relatively large federal tax reduction these taxpayers will experience when the maximum federal tax rate drops from 38.5 percent in 1987 to 28 percent in 1988.

I hope this information is helpful. Please contact me if you desire any further information.

Attach 2

HB 2940 PLUS CERTAIN COMPARISONS WITH SB 490. PREPARED BY T.C. ANDERSON, KANSAS SOCIETY OF CPAS.

		1	2	3	4	5	6	7	8	9	10	11	12
		MARRIED, BOTH OVER 65 MEDICAL, CAPITAL GAINS TWO EXEMPTIONS		SINGLE DOES NOT ITEMIZE ONE EXEMPTION		SINGLE SELF-EMPLOYED, DOES NOT ITEMIZE ONE EXEMPTION		MARRIED TWO WAGE EARNER / SOCIAL SECURITY BENEFIT TWO EXEMPTIONS		MARRIED TWO WAGE EARNER / S.S. FIVE EXEMPTIONS		MARRIED DOES NOT ITEMIZE THREE EXEMPTIONS	
	KS. AGI		29322		18720		95208		57215		77411		23375
8	STAND OR ITEMIZED DEDUCTIONS	7372		2480		2480		21687		44456		2800	
	FED TAX DEDUCTION	2924		2490		34045		6944		5507		2393	
	EXEMPTIONS / TOTAL DEDUCTIONS	4000	14296	1000	5870	1000	37525	2000	30621	5000	54963	3000	8193
0	TAXABLE INCOME		15026		12750		57683		26584		22448		15182
	TAX DUE	$577		$656		$4,566		$1394		$1083		$587	
	KS. AGI		39458		18720		95208		57563		77718		23375
8	STAND OR ITEMIZED DEDUCTIONS	2800		2540		2540		21382		43234		2800	
	FED. TAX DEDUCTION	4841		2069		28910		6111		4444		1967	
7	EXEMPTIONS / TOTAL DEDUCTIONS	2000	9641	1000	5609	1000	32450	2000	29493	5000	52678	3000	7767
	TAXABLE INCOME		29817		13111		62758		28070		25040		15608
	TAX DUE	$1636		$683		$5,023		$1505		$1278		$616	
	KS. AGI		39458		18720		95208		57563		77718		23375
8	STAND OR ITEMIZED DEDUCTIONS	6200		3000		3000		15693		36109		5000	
	FED. TAX DEDUCTION	4831		1766		25307		6060		4448		1879	
8	EXEMPTIONS / TOTAL DEDUCTIONS	3900	14931	1950	6716	1950	30257	3900	25653	9750	50307	5850	12729
	TAXABLE INCOME		24527		12004		64951		31910		27411		10646
	TAX DUE	WITH $120 CREDIT $1082		$585		$4648		$1645		$1375		$432	
	KS. AGI		39458		18720		95208		57563		77718		23375
8	STAND OR ITEMIZED DEDUCTIONS	6200		3000		3000		15445		35580		5000	
	FED. TAX DEDUCTION	4829		1758		25291		6100		4525		1856	
9	EXEMPTIONS / TOTAL DEDUCTIONS	4000	15029	2000	6758	2000	30291	4000	25645	10000	50105	6000	12856
	TAXABLE INCOME		24429		11962		64917		32018		27613		10519
	TAX DUE	$1125		$548		$4478		$1561		$1308		$399	
(490 W	KS. AGI		39458		18720		95208		57563		77718		23375
$83m	STAND OR ITEMIZED DEDUCTIONS	6200		3000		3000		15693		36109		5000	
	FED. TAX DEDUCTION	0		0		0		0		0		0	
8	EXEMPTIONS / TOTAL DEDUCTIONS	3900	10100	1950	4950	1950	4950	3900	19593	9750	45859	5850	10850
	TAXABLE INCOME		29358		13770		90258		37970		31859		12525
	TAX DUE	$1145		$620		$4514		$1481		$1243		$488	
2940 W	KS. AGI		39458		18720		95208		57563		77718		23375
$25.8m	STAND OR ITEMIZED DEDUCTIONS	6200		3000		3000		15693		36109		5000	
	FED TAX DEDUCTION	4831		1766		25307		6000		4448		1879	
8	EXEMPTIONS / TOTAL DEDUCTIONS	3900	14931	1950	6716	1950	30257	3900	25653	9750	50307	5850	12729
	TAXABLE INCOME		24527		12004		64951		31910		27411		10646
	TAX DUE	$1263		$613		$4889		$1798		$1473		$407	
490)	KS AGI		39458		18720		95208		57563		77718		23375
8	STAND OR ITEMIZED DEDUCTIONS	6200		3000		3000		15693		36109		5000	
	FED TAX DEDUCTION	0		0		0		0		0		0	
8	EXEMPTIONS / TOTAL DEDUCTIONS	3900	10100	1950	4950	1950	4950	3900	19593	9750	45859	5850	10850
	TAXABLE INCOME		29358		13770		90258		37970		31859		12525
	TAX DUE	$1218		$661		$4046		$1581		$1323		$520	

Attachment 2

COMMITTEE ON TAXATION
February 23, 1988

Testimony of Jack D. Flesher

In my opinion the 3 key responsibilities of lawmakers in tax matters are honesty, fairness and simplicity. You have indicated that you feel these responsibilities, so I'd like to first say that I admire and respect this Committee and this legislature for what it has done the last couple of weeks and what it is doing today and what it proposes to do this session.

The federal Tax Reform Act of 1986 provided you with a marvelous opportunity to increase the Kansas income tax without taking any action at all. The legislature could have increased the state income tax Kansans pay, by doing nothing, and could even have taken credit for <u>not</u> doing anything to increase taxes. It would have been the easy thing for the legislature to do. But you didn't. Instead, you have taken the bull by the horns and tried to take an affirmative step to correct the inequities that the federal tax reform would have caused in Kansas income taxation. Again, I must say I admire and respect you for that.

Now, though, you are being asked to approve a Task Force tax bill which is being touted as a tax reduction bill, but which I have reason to believe would actually increase many Kansans' income tax. My purpose in being here, then, is to try to point out what the Task Force bill actually does, as opposed to what it has been advertised to do, so that you won't unknowingly be misleading Kansas taxpayers.

Attachment 3

Don't misunderstand me. I think the Task Force bill has some good features. But it has a couple of bad ones which I would like to point out. Furthermore, I don't think it should be referred to as a tax reduction bill when it would actually increase taxes for many taxpayers.

Honesty in taxation means to me that if you need to raise more taxes, you tell the taxpayers so, you tell them why, and you tell them how you propose to do it. I think the Task Force bill falls short on 2 of these 3 points, because it is being pushed as a tax reduction bill when it isn't, and because taxpayers aren't being told how their taxes would be increased.

Fairness in taxation means to me that you try to distribute the tax burden more or less proportionately among the citizenry based on their ability to pay, treating similarly situated taxpayers in similar manner. In <u>income</u> taxation this means we try to tax "disposable" income. I'll expand on this in a minute.

Simplicity in taxation means to me that we try to structure the tax law so that taxpayers are able to understand the general principals on which the tax is based, and so that they are not unduly burdened by complicated forms and procedures. I think the Task Force bill would take a step or two in the right direction, as far as simplicity is concerned, by eliminating several areas of nonconformity as between federal income tax and Kansas income tax principals. But I believe it would do so at the expense of honesty and fairness, at least with respect to many Kansas taxpayers.

I'd like to explain what I mean by that. The Task Force Report proposes to disallow deductions for federal income tax and social security tax, and at least part of the deduction for medical expenses. Clearly, these are conformity proposals, and are consistent with the goal of simplicity. But they are contrary to fairness, because they would take more Kansas income tax from those who have proportionately less disposable income. To disallow the deduction for federal income tax paid would be to tax a person on income which is not disposable, but which he <u>has</u> to pay to the federal government. To disallow the deduction for social security tax would not only be taxing a person on income which is not disposable, but it would also be <u>double</u> taxation, at least in part, because when a person retires and starts receiving social security benefits, those benefits are partly taxed. Finally, if we disallow most of the medical expense deduction, we are again taxing expenditures of which the taxpayer has no control and is therefore not "disposable".

I can't honestly say that it's fair to impose as much Kansas income tax on a person who pays a larger federal income tax, as on a person who has the same amount of gross income but who, by whatever means, is able to pay less federal income tax. And I can't honestly say it's fair to impose the same amount of income tax on a person who has relatively large medical expenses, as on a person who has the same gross income but no medical expenses. In either case, we would be raising taxes in a way that would be only marginally simpler, but completely sacrificing fairness. I encourage you not to do that.

Whether we like to think about it or not, we are in competition with other states for tax-paying citizens. The more taxpaying citizens we have, the further we can spread the tax burden. Taxpayers in this country who don't like the tax burden in one state are free to move to another state where the burden is less, or where they perceive the system of taxation to be fairer.

Obviously, most taxpayers don't have the financial freedom to change their residence from one state to another to escape unfavorable state income tax laws, but some do, including many retired people, and I believe we should try not to drive them away with bad income tax laws. Again, I encourage you to continue to be honest and fair with Kansas taxpayers. Since the Task Force bill constitutes a tax increase for many Kansans, tell them so. Don't try to conceal the tax increase. Don't submit to the temptation to call it a tax reduction. And if you do approve it, or something like it, at least fix the bad parts first, by not disallowing the deductions for federal income tax, social security tax and medical expenses.

(Review attached case examples Taxpayers A through E)

TAXPAYERS A

(Married Filing Jointly)

	1986	1988 Same Income as 1986, No Change in Kansas Law	1988 Same Income as 1986, Task Force Recomm.
1986 Kansas Taxable Income	50,246	50,246	50,246
Adjustment for Estimated Decrease in Federal Income Tax due to 1986 Act		1,742	
Disallow Deductions for:			
Federal Income Tax			20,618
Social Security Tax (or SE)			3,003
Medical Expense			918
Increase Personal Exemptions			(4,750)
Kansas Taxable Income	50,246	51,988	70,025
Kansas Income Tax	3,272	3,429	3,333
Increase in Kansas Income Tax		157	61
% Increase		4.8%	1.9%

TAXPAYER B

(Widow)

	1986	1988 Same Income as 1986, No Change in Kansas Law	1988 Same Income as 1986, Task Force Recomm.
1986 Kansas Taxable Income	19,872	19,872	19,872
Adjustment for Estimated Decrease in Federal Income Tax due to 1986 Act		254	
Disallow Deductions for:			
Federal Income Tax			11,027
Social Security Tax (or SE)			1,677
Medical Expense			1,156
(Increase) Personal Exemptions - Decrease		1,000	50
Kansas Taxable Income	19,872	21,126	33,782
Kansas Income Tax	1,190	1,296	1,773
Increase in Kansas Income Tax		106	583
% Increase		8.9%	49.0%

TAXPAYER C

(Widow)

	1986	1988 Same Income as 1986, No Change in Kansas Law	1988 Same Income as 1986, Task Force Recomm.
1986 Kansas Taxable Income	39,601	39,601	39,601
Adjustment for Estimated Decrease in Federal Income Tax due to 1986 Act		931	
Disallow Deductions for:			
Federal Income Tax			17,769
Social Security Tax (or SE)			1,745
Medical Expense			
(Increase) Personal Exemptions - Decrease		1,000	50
Kansas Taxable Income	39,601	41,532	59,165
Kansas Income Tax	2,939	3,113	3,359
Increase in Kansas Income Tax		174	420
% Increase		5.9%	14.3%

TAXPAYER D

(Widow)

	1986	1988 Same Income as 1986, No Change in Kansas Law	1988 Same Income as 1986, Task Force Recomm.
1986 Kansas Taxable Income	31,679	31,679	31,679
Adjustment for Estimated Decrease in Federal Income Tax due to 1986 Act		931	
Disallow Deductions for:			
Federal Income Tax			14,834
Social Security Tax (or SE)			
Medical Expense			829
(Decrease) Personal Exemptions		1,000	50
Kansas Taxable Income	31,679	33,610	47,392
Kansas Income Tax	2,226	2,400	2,623
Increase in Kansas Income Tax		174	397
% Increase		7.8%	17.8%

TAXPAYERS E

(Married Filing Jointly)

	1986	1988 Same Income as 1986, No Change in Kansas Law	1988 Same Income as 1986, Task Force Recomm.
1986 Kansas Taxable Income	19,560	19,560	19,560
Adjustment for Estimated Decrease in Federal Income Tax due to 1986 Act		254	
Disallow Deductions for:			
Federal Income Tax			4,520
Social Security Tax (or SE)			3,364
Medical Expense			1,727
Increase Personal Exemptions			(2,850)
Kansas Taxable Income	19,560	19,814	26,321
Kansas Income Tax	871	888	1,092
Increase in Kansas Income Tax		17	221
% Increase		2.0%	25.4%

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

HB 2940

February 23, 1988

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Taxation Committee

by

Gerhard Metz
Director of Taxation

Thank you, Mr. Chairman and members of the committee. I am Gerhard Metz, representing the Kansas Chamber of Commerce and Industry. We appreciate the opportunity to appear before you today concerning HB 2940.

> 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.

In the course of your efforts to effect fair and evenhanded tax reform, we have testified concerning several proposed changes in the corporate tax code. Today, I should like to address a specific proposal in the bill before you which we believe

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would benefit the Kansas economy and thereby help all Kansans, at relatively little cost to any taxpayer. The issue is reduction in the corporate base rate of .5 percent and has the effect of realizing one of the facets of Kansas Inc.'s original proposal which was endorsed by our Board of Directors in its December meeting. Because testimony touching other aspects of the business portions of this bill would be duplicative, we will limit our testimony to the issue of corporate income tax "windfall," and the need to address this issue in any tax reform plan. In support of the corporate rate reduction before you this morning, it is necessary to look more closely at the issue of corporate windfall. Initial estimates have been inconclusive, or tended to estimate such an increase in corporate tax revenues to be negligible. Based upon information we have been hearing from our members, we believe that the extent of corporate tax increases resulting from federal tax reform to be understated. The likelihood of such increases would justify a reduction in the corporate tax rate, as corporations will be paying more taxes, and would thereby not require an undercutting of ending balances. Furthermore, because the proposed cut is in the base rate, the benefit would accrue not only to large corporations, but to every corporate taxpayer, including small, family-operated businesses.

It has been alleged that corporations' contributions to the state's tax revenues have declined over the past several years. Because there have been no tax reductions to the corporate sector, such a decline must have another cause. Among the possibilities are that changes in the Internal Revenue Code have caused a reduction in corporate adjusted gross income, which is the starting point for calculating Kansas tax liability. Other possibilities include the likelihood that the number of corporations has declined or that the same number of corporations are making smaller profits owing to a slower economic recovery. Finally, because of a national trend towards more service-oriented businesses in proportion to traditional, manufacturing firms, it is even possible that more corporate taxpayers are paying less taxes because they make less money in the aggregate. Whichever the cause for reduction in the revenue flow, we are confident that it is not attributable to corporations' not bearing their fair share of the tax burden in Kansas.

KCCI has over the past two weeks sent out questionnaires to all of our nearly three thousand members. Firm figures are hard to come by this early in the tax season, but thirty-one respondents thus far can account for an approximate increase of nearly five million dollars. These figures are not restricted to the largest firms; indeed, the respondents ranged from small corporations with two members and an increase of several hundred dollars to large corporations with hundreds of employees and tax increases of a million-and-a-half dollars stemming from state tax increases--"windfall," if you will. Although our figures represent only a small fraction of the total number of Kansas corporations, we believe that they demonstrate a clear trend.

The Council of State Chambers of Commerce has estimated, based on 1987 tax returns, that the Kansas corporate windfall will be in the neighborhood of $20.4 million for tax year 1987 and $191 million over the next five years. Our informal survey has documented a fourth of the 1987 amount in only two weeks' time, with the vast majority of firms not having completed their tax filings. Time and again we have spoken with corporate tax departments or accounting firms which handle corporate clients, and the response has been that although it is too early to ascertain exact amounts, Kansas corporations will see a significant increase in their tax liability as a result of the so-called windfall. It is because of this information that KCCI asked the Senate Committee, and is now asking you, to consider the practicality of a small adjustment in the corporate tax rates. While, unfortunately, that request has been characterized as greed by some, it is in reality an attempt to recognize, as Kansas Inc. did in its recommendations to the Governors Task Force, that Kansas corporate tax rates are high and increasing the effective rate because of a large corporate windfall would be counterproductive to the economic development efforts of the last two legislatures.

Should it be your decision to not recommend a change, so be it. But your decision will have been based on a broader base of knowledge than you might have had otherwise.

Thank you. I will gladly stand for questions.

Ernst & Whinney

2000 City Center Square
1100 Main Street
Kansas City, Missouri 64105

816/474-8050

February 23, 1988

Representative Ed Rolfs

Chairman

House Taxation Committee

Dear Mr. Chairman:

I am pleased to appear today before your committee. My comments will center around the impact that federal tax reform in 1986 and 1987 will have on Kansas corporate taxpayers.

As you are aware, most of the changes that were made to the Internal Revenue Code during 1986 became effective during calendar 1987. As a result, many corporate taxpayers will soon be filing Kansas tax returns which include these changes. Since Kansas corporate tax returns are prepared beginning with federal taxable income, the changes made to federal taxable income are included in the Kansas tax base. Only statutory adjustments are made to this beginning amount to arrive at Kansas taxable income. I am not aware of any changes that Kansas has made to federal

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taxable income of corporations that will serve to mitigate any of this broadening of the federal tax base. Any change to federal taxable income that the Treasury estimates will be a positive increase to income, and hence increase federal tax liabilities, will have the identical impact on Kansas corporate taxes. The dollar impact will of course be proportionately less.

To better understand the impact that federal tax reform will have on corporate taxpayers I think it is prudent to briefly outline the major changes. It is these changes that the revenue estimators must review when determining the net increase to Kansas corporate taxes that logically seems to result. The following changes are ones which will affect corporate federal taxable income the most over the next decade and beyond:

Uniform capitalization
Accounting methods
Depreciation methods
Deduction limitations

Attached as exhibit I is a brief explanation of each of the above changes. Exhibit II shows the Treasury's federal revenue impact for each of the years 1987 to 1991. Kansas will recognize a portion of this increase based on the portion of business the corporate community transacts in Kansas.

Many of the federal changes outlined above are based on the timing of the transaction, while others relate to deductibility. Due to the nature of most businesses, items which appear on the surface to be timing differences in reality become permanent differences. It is only when the business liquidates that many differences reverse. It is for this reason that the Treasury and Congress considers the above mentioned changes as "revenue raisers".

Perhaps the most relevant change mentioned relates to the new uniform capitalization rules for inventory. All "manufacturers" are subject to these rules regardless of the level of sales. Retailers become subject after a specific level of sales. The first change is that opening inventories for 1987 must be restated to reflect the fact that more "overhead" must be allocated to inventory. In the past, many businesses were able to expense many items in the year incurred. The 1986 tax act now requires the allocation of these costs to inventory. They will only be expensed when the related inventory is sold. While at first it would appear that the timing of the item has been only minimally affected, further analysis dictates otherwise. For a company that has some inventory all of the time, the additional amount of "overhead" capitalized becomes more like a permenantly nondeductible item. In addition, the impact of inflation on the types of items allocable to inventory makes the capitalizable item increase income exponentially. This occurs because each year the corporation must recalculate the effect the current year costs have on any increase or change to its inventory. Suffice it to say that the amount of time necessary to accurately calculate this information for opening 1987 inventories and 1987 activity is substantial. For this reason, I believe that many corporations won't file returns until later this summer. This will allow further clarification of rules, at least this is their hope. Accurate determination of the revenue impact of this change is therefore impossible. Preliminary results of our work in this area indicate all affected companies will see taxable income increase. Any economic expansion of the corporation's business will cause the effect of these capitalization rules to be even greater. These rules will have an adverse affect on growing manufacturing businesses and other growth oriented businesses. Exhibit III shows a comparison of capitalization rules for the old law versus the new law.

Many of the statements made relative to the inventory capitalization rules also are valid for other changes made by the 1986 tax act. The changes to such items as travel and entertainment are more substantial than were first envisioned. For example, many taxpayers were intially unaware that out of town meals for salesmen and other employees are subject to the 20% disallowance rule. Some taxpayers may still be unaware. The disallowance of trademark expenditures also will impact Kansas taxpayers. With the advent of the Venture Capital fund, I assume that businesses will hope to take advantage of this fund to create new products and ideas that can be patented. The inability to deduct these costs, as well as any costs to defend these patents, will cause Kansas corporate taxable income to increase.

Once again I appreciate the opportunity to appear before this committee. I would be happy to answer any questions about my remarks.

Respectfully submitted,

James A. Cox

Mr. James A. Cox

Sr. Tax Manager

EXHIBIT I

A. UNIFORM CAPITALIZATION

The 1986 Act requires the use of uniform capitalization rules by any producer of tangible property including self-constructed assets, and by any taxpayer who acquires and holds property for resale, including retailers and wholesalers.

The new rules are patterned after the "extended-period, long-term contract" rules. These rules are not always compatible with inventory accounting, but provide the basis for including substantially more indirect costs in inventories than current practice. The Treasury Department has issued temporary and proposed regulations which should facilitate the application of the long-term contract rules to inventory accounting. However, these proposed regulations establish requirements beyond traditional inventory costing principles. They provide only general guidance for inventory costing, based on the principle that costs should be allocated to inventories if they are merely identified as benefiting or being associated with inventory production. This represents a departure from the traditional accounting concept of only capitalizing those costs that are directly related to the production process and add utility to the goods in inventory. Therefore, significant judgment will be required in determining what constitutes inventoriable costs under these new rules.

Because the rules are intended to raise tax revenues, we expect the IRS will interpret the requirements broadly, with an eye towards including rather than excluding specific items in inventory calculations. Companies can best respond to the new rules and possible IRS challenge by carefully planning a strategy for complying with the new rules and maintaining clear records to support the company's treatment of each cost.

The amount of effort required to adopt the new rules will depend, in large part, on the extent a company has previously capitalized indirect costs. In 1973, the IRS adopted the full absorption rules, which required all manufacturers to include certain indirect costs in inventories. These costs were segregated into those that required allocation to inventories, those that did not, and those that were allocated to inventories only if they also were allocated for financial reporting purposes.

The new rules take the three categories of indirect costs and compress them into two - those that must be allocated to inventories and those that do not require allocation. Many of the costs that were previously not allocated to inventories, or were allocated based on their financial reporting treatment, must now be allocated regardless of their treatment for financial reporting purposes. Therefore, at a minimum, manufacturers will have to modify their cost accounting systems to capture the additional costs requiring allocation. See Exhibit III for a comparison chart.

B. ACCOUNTING METHOD CHANGES

1. Limitation on the Use of the Cash Method of Accounting

The 1986 Act requires the use of the accrual method of accounting for corporations, partnerships that have a corporation as a partner, tax shelters, and certain tax-exempt trusts. Prior to the 1986 Act, taxpayers could adopt either the cash method or the accrual method of accounting, provided the method chosen clearly reflected income. The accrual method was required any time the production, purchase, or sale of inventories was a material income - producing factor. Under the new law, with certain exceptions, entities with average annual gross receipts over the three previous tax years of $5 million or more must use the accrual method.

2. Percentage of Completion Method

The 1986 and 1987 Acts require that a taxpayer accounting for long-term contracts must do so under the "percentage of completion" method. Under previous rules, a taxpayer could report income from a long-term contract under the accrual method, the cash method in certain circumstances, or a long-term contract method, i.e., either the percentage-of-completion method or the completed contract method. The "percentage of completion-capitalized cost method" is now required for use by any taxpayer not using the percentage-of-completion method. Under this method, 40 percent of a contract must be reported under the percentage-of-completion method, while the remaining 60 percent of the contract is reported under the taxpayer's regular method. Second, the Act requires these taxpayers to use the more inclusive costing rules currently used for extended period long-term contracts. These rules apply to any contracts entered into after February 28, 1986.

The Revenue Act of 1987 further changed these rules for contracts entered into after October 13, 1987. The rules governing accounting for long-term contracts are modified to provide that under the percentage-of-completion capitalized-cost method, 70 percent of items with respect to a long-term contract must be reported under the percentage of completion method. This 70-percentage rule replaces the 40-percent rule under the 1986 Tax Act. The remaining 30 percent of the items with respect to the contract must be taken into account under the taxpayer's normal method of accounting.

3. Calendar Year-End Adoption

The 1986 Act requires all partnerships, S corporations, and personal service corporations (PSCs) to adopt the same tax year as that of their owners, unless they could establish a business purpose for a different year (e.g., the requested year is the taxpayer's natural business year). In most cases, this would require fiscal year partnerships, S corporations, and PSCs to change from a fiscal year to a calendar year in 1987, thereby accelerating the taxation of income from the deferral period.

An electing partnership or S corporation wishing to retain its current fiscal year or adopt a different fiscal year with a deferral period of three or fewer months generally must make a single-deposit payment approximately equal to the tax on the deferred income created by the entity's use of a fiscal year.

Rather than making the special deposit required of partnerships and S corporations, an electing personal service corporation will be limited in the amount of deductions it can take for payments to employees who are more than 10 percent owners on any day during the tax year, unless certain minimum distributions are made to such employee-owners before the end of the calendar year. If such requirements are not met, a calendar year-end must be adopted.

According to current practice, however, the administrative difficulties of making the fiscal year election (provided all requirements are met) have acted as a substantial deterrent, and a calendar year-end will probably be adopted in most cases.

4. Accrual of Vacation Pay

The deduction for vacation pay for any tax year generally will be limited to amounts paid during the year plus accrued amounts paid within 2 1/2 months after the end of the year.

5. Bad Debt Reserve

The 1986 Act generally eliminated the reserve method of accounting for bad debts for all taxpayers except for thrifts and commercial banks with less than $500 million in assets. Taxpayers can deduct bad debts only as they become wholly or partially worthless under the specific charge-off method. Any balance in an existing reserve account will generally be taken into income over four taxable years.

C. DEPRECIATION METHODS

The 1986 Act requires that the cost recovery for property placed in service after 12/31/86 will be changed. The highlights of the changes prescribe -

- Reclassifying certain assets, according to their present class life, (or ADR midpoint life), including creation of a 7-year and 20-year class.

- Providing more accelerated depreciation for the 3-, 5- and 10-year ACRS classes.

- Requiring the cost of realty to be recovered using the straight line method over extended recovery periods.

- New averaging conventions for use in determining when property is treated as placed in service or disposed of during a tax year.

D. DEDUCTION LIMITATIONS

1. Limitations on Travel and Entertainment Expenses

The 1986 Act requires that for tax years starting after 1986, only 80 percent of the amount of an otherwise allowable entertainment expense can be deducted. The reduction applies before any other limitations on deductions, like the 2 percent floor for employee travel and transportation expenses.

The taxpayer's entertainment, amusement and recreation expenses ordinarily must be "directly related" to active conduct of a trade or business, or to production of income. However, the cost of entertainment immediately before or after a substantial and bona fide business discussion (including business meetings at a convention) can be deducted subject to the 80 percent limit if the taxpayer can establish that the items are "associated with" the active conduct of his trade or business. No deduction will be allowed for an entertainment expense that is lavish or extravagant.

For tax years starting after 1986, meal expenses come under requirements similar to those of entertainment expenses (i.e. the 80 percent limitation). Thus, the "quiet business meal" rule is eliminated. Specifically, to deduct a meal expense: (1) the item must be "directly related to" or associated with" the active conduct of taxpayer's trade or business; and (2) the "lavish or extravagant" standard applies. In addition, penalties apply to "overstated" meal expenses.

2. Trademark and Trade Name Expenditures

The 1986 Act requires that trademark and trade name expenditures must be capitalized. Under prior law, a taxpayer could elect to amortize any trademark or trade name expenditure paid or incurred during a taxable year over a period of not less than 60 months.

Such expenditures will not be expensed until the asset is disposed of.

3. Dividends Received Deduction

The 1986 Act reduced the corporate dividends received deduction to 80 percent of domestic dividends received. Prior law allowed an 85 percent deduction for dividends received. The 1987 Act further reduced this deduction. Corporations that own less than 20 percent of the distributing corporation may deduct 70 percent (formerly 80 percent) of post-1987 dividends received or accrued. There is no change in the rule that corporations that own at least 20 percent, but less than 80 percent, of the stock of a corporation are entitled to deduct 80 percent of the dividends received from a domestic corporation. (A 100 percent deduction may apply to dividends received by a parent corporation that owns 80 percent or more of the distributing corporation.)

EXHIBIT II

Table A. 2.—Estimated Budget Effects of the Provisions of H.R. 3838, as Approved by the Conference Committee, Fiscal Years 1987-1991

[Millions of dollars]

Title and Provision	1987	1988	1989	1990	1991	1987-91
II. Capital Cost Provisions						
Depreciation, expensing						
Individual	−502	−584	498	1,980	3,304	4,696
Corporate	−3,280	−2,844	192	444	9,231	7,740
Investment tax credit						
Individual	3,860	3,862	4,679	5,653	6,119	24,173
Corporate	18,801	20,979	25,132	25,618	28,148	118,678
Repeal finance leasing						
Corporate		125	335	449	444	1,353
Credit limitations[10]						
Corporate	346					346
Incremental research tax credit						
Individual	−92	−78	−59	−15	−9	−253
Corporate	−1,337	−1,105	−774	−414	−250	−3,880
Orphan drug credit						
Corporate	−7	−15	−15			−37
Amortization of trademarks and tradenames						
Individual	1	4	8	14	20	47
Corporate	3	9	17	27	38	94

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Title and Provision	1987	1988	1989	1990	1991	1987-91
IV. Agriculture, Timber, Energy, and Natural Resources						
Special expensing provisions						
Individual	81	25	23	22	22	123
Corporate	19	12	11	11	10	63
Dispositions of converted wetlands and highly-erodible croplands						
Individual	(5)	(5)	(5)	(5)	(5)	(5)
Preproductive period expenses of farmers						
Individual	56	161	144	121	110	592
Corporate	42	62	53	50	48	255
Prepayments of farming expenses						
Individual	14	30	10	11	14	79
Discharge of farm indebtedness						
Individual	−9	−10	−8	−7	−5	−89
Intangible drilling costs						
Corporate	70	118	119	114	54	470
Oil, gas, geothermal depletion						
Individual	20	49	45	45	45	204
Mining exploration and development						
Corporate	23	34	28	24	21	130

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EXHIBIT II

Table A. 2.—Estimated Budget Effects of the Provisions of H.R. 3838, as Approved by the Conference Committee, Fiscal Years 1987-1991—Continued

[Millions of dollars]

Title and Provision	1987	1988	1989	1990	1991	1987-91
VI. Corporate Taxation						
Corporate rate reductions						
Corporate	−6,711	−20,068	−27,505	−29,999	−32,415	−116,698
Dividends received deduction						
Corporate	140	223	225	239	253	1,080
Dividend exclusion						
Individual	212	573	580	605	631	2,601
Extraordinary dividends						
Corporate	30	52	54	57	60	253
Stock redemption payments						
Corporate	2	3	3	3	3	14
NOL carryovers						
Corporate	9	29	39	38	29	144
Recognition of gain or loss in liquidations						
Individual	−1	−13	−32	−44	−53	−143
Corporate	16	193	380	504	604	1,697
Basis allocation						
Individual	−2	2	9	13	16	38
Corporate	60	55	58	63	66	302
Related party sales						
Corporate	4	5	5	5	5	24
VIII. Accounting Provisions						
Limitation on the use of cash accounting						
Corporate	290	595	631	646	650	2,812
Simplified LIFO for certain small businesses						
Individual	−11	−18	−28	−44	−69	−170
Corporate	−120	−189	−289	−469	−738	−1,805
Recognition of gain on pledges of installment obligations						
Individual	12	42	31	32	33	150
Corporate	1,319	1,719	1,387	1,401	1,439	7,265
Capitalization of inventory, construction and development costs						
Individual	146	479	583	639	608	2,455
Corporate	4,110	6,972	7,405	7,746	6,009	32,242
Long-term contracts						
Individual	98	109	103	62	42	414
Corporate	2,791	3,188	2,175	907	567	9,628
Repeal of reserve for bad debt for nonfinancial institutions						
Individual	32	97	100	101	76	406
Corporate	1,177	1,816	1,737	1,751	967	7,448

II-871

II-873

Table A. 2.—Estimated Budget Effects of the Provisions of H.R. 3838, as Approved by the Conference Committee, Fiscal Years 1987-1991—Continued

[Millions of dollars]

Title and Provision	1987	1988	1989	1990	1991	1987-91
IX. Financial Institutions						
Limitation on bad debt reserves						
Corporate	647	1,092	1,218	1,406	631	4,994
Disallow interest to carry tax-exempt bonds						
Individual	−117	−370	−682	−940	−1,188	−3,279
Corporate	168	420	687	923	1,154	3,352
Special NOL carryover rules for depository institutions						
Corporate		−59	−93	−92	−77	−321
Special reorganization rules for troubled thrifts						
Corporate			46	105	164	315
Treatment of losses on deposits in insolvent institutions						
Individual	−3	−1	−1	−1	−1	−7
Subtotal, Financial Institutions						
Individual	**−120**	**−371**	**−683**	**−941**	**−1,189**	**−3,304**
Corporate	**815**	**1,453**	**1,858**	**2,342**	**2,872**	**8,340**
Total	**695**	**1,082**	**1,175**	**1,401**	**683**	**5,036**
X. Insurance Products and Companies						
Life insurance products						
Corporate	2	5	6	7	8	28
Life insurance companies						
Corporate	430	787	857	919	959	3,952
Property and casualty insurance companies						
Corporate	871	1,454	1,636	1,745	1,842	7,548
Subtotal, Insurance Products and Companies						
Corporate	**1,303**	**2,246**	**2,499**	**2,671**	**2,809**	**11,528**
Total	**1,303**	**2,246**	**2,499**	**2,671**	**2,809**	**12,528**

EXHIBIT III

Table 1. Comparison of Capitalization Rules

	Former Law			New Law	
	I	II	III	Capitalize	Expense
Maintenance and Repairs	X			X	
Utilities	X			X	
Rent	X			X	
Indirect Labor	X			X	
Indirect Materials	X			X	
Small Tools & Equipment	X			X	
Quality Control	X			X	
Marketing		X			X
Advertising		X			X
Selling		X			X
Distribution and Handling*		X		X	
Interest**		X		X	
Research & Experimental		X			X
Engineering (Product Development)		X		X	
Casualty and Theft Losses		X			X
Percentage Depletion in Excess of Cost Depletion		X		X	
Depreciation and Amortization in Excess of Financial Reporting		X		X	
Income Taxes		X			X
Pensions (Past Service)		X			X
General & Administrative (Overall Activities)		X			X
Officers' Salaries (Overall Activities)		X			X
Bidding Expenses (Unsuccessful)		X			X
Bidding Expenses (Successful)		X		X	
Taxes (Other Than Income)			X	X	
Financial Depreciation			X	X	
Employee Benefits and Pensions (Current Service)			X	X	
Rework, Scrap, and Spoilage			X	X	
Strikes			X		X
Officers' Salaries (Incident to Production)			X	X	
Factory Administration			X	X	
Insurance (Incident to Production)			X	X	
General & Administrative (Incident to Production)			X	X	

*Distribution costs related to warehousing must be capitalized. Distribution costs related to customer delivery are not capitalized.

**For real property, long-lived property, property requiring more than two years to complete, or property costing more than $1 million and requiring more than one year to complete.