

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 March 16, 1988 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

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

Representative Joe Knopp explained HB-3070 - AN ACT concerning economic development; amending the job expansion and investment credit act of 1976; providing for credits against certain taxes imposed on insurance companies or banks and savings and loan associations. In answer to questions from committee members, he said that tax credits are tied to new employment.

James S. Maag, Director of Research, Kansas Bankers Association, also spoke in support of HB-3070. He said that the banking industry believes that credits allowed to other businesses under the original act should include financial institutions -- that a new bank or branch facility adds as much to community development as other businesses. (Attachment 1) Mr. Maag then answered questions from committee members.

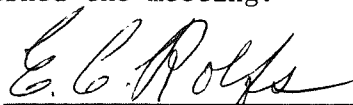
L. M. Cornish, representing the Kansas Association of Property and Casualty Insurance Companies, also spoke as a proponent for HB-3070. He said that this bill will provide banks and insurance companies with the same construction and employment impetus currently granted other Kansas taxpayers. (Attach. 2) Mr. Bill Mitchell also spoke as a proponent, and this concluded the public hearing on HB-3070.

HB-2684 - AN ACT amending and supplementing the Kansas income tax act was discussed -- including the adoption of proposed changes. Chairman Rolfs presented a proposed amendment to the bill. Representative Smith moved, second by Representative Lowther, to adopt changes outlined in simulation No. 7236. (Attachment 3) The motion did not carry.

Representative Leach proposed a change of rates, but there was no second to the motion. Representative Vancrum made a substitute motion, second by Representative Spaniol, to place the provisions of HB-2940 into HB-2684. The motion failed. Representative Leach moved to pass the motion favorably, but there was no second to the motion.

The minutes of March 15 were approved.

The chairman adjourned the meeting.



Ed C. Rolfs, Chairman



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 16, 1988

TO: House Taxation Committee
FROM: James S. Maag, Director of Research
Kansas Bankers Association
RE: HB 3070-Amendments to the Job Expansion and Investment Credit Act

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the committee in support of HB 3070. This bill would expand the 1976 act to allow tax credits against the state privilege and premiums taxes for investments in qualified facilities and the creation of new jobs.

The banking industry has believed for some time that the credits allowed to other businesses under the original act should be expanded to include financial institutions. When a bank builds a new building or establishes a new branch facility they are adding just as much to a community's development as other businesses yet the act has precluded them from realizing a tax credit for their efforts.

Under the 1987 branching act passed by the Legislature 7 *de novo* branch banks have been established in communities which had been without banking services for years. There are currently two additional *de novo* applications pending for branches in towns without banks and these should soon be approved by the state banking board. For these small communities the establishment of these branch facilities is the equivalent of a new small business for the community, but unlike that small business the bank cannot claim a tax credit for its investment and the creation of new jobs. The same scenario occurs when a bank establishes a new branch office within the city limits where the home bank is located.

We believe the existence of the tax credit for banks would be an additional positive factor when banks start considering the pros and cons of establishing additional branch facilities or building a new home office. We would respectfully request that the committee recommend HB 3070 favorably for passage.

RE: H.B. 3070
Testimony on March 16, 1988 Before the
House Taxation Committee

by

L. M. CORNISH
representing
The Kansas Association of Property and Casualty Insurance Cos.
and
The Kansas Life Insurance Companies

Thank you for this opportunity to testify in support
of HB 3070, as amended.

This bill concerns economic development and amends the
Job Expansion and Investment Credit Act of 1976 by authorizing
participation by banks, savings and loans and insurance
companies.

The Act is found at KSA 79-32,153 through KSA
79-32,160 and has been substantially in place and operational
since July 1976 with rules and regulations as prescribed by the
Secretary of Revenue.

Basically, current law grants a Kansas taxpayer who
invests in a qualified business facility (as defined) a credit
for such investment against tax imposed by the Kansas Income
Tax Act.

Credits are allowed based upon the investment value of
the facility and the number of persons employed in the
operation of the facility. An additional credit is allowed if
the facility is located within an enterprise zone.

Current law authorizes credits against taxes imposed by the Kansas Income Tax Act. However, other taxpayers are effectively excluded by this language: Banks and savings and loans which are taxed by a special privilege tax, and insurance companies which are taxed by a gross premium tax as provided by KSA 40-252. In addition, domestic insurance companies also pay a privilege tax.

The amendments provided by HB 3070 will open the tax credit features of current law to banks, savings and loans and insurance companies and will encourage these businesses to construct additional facilities in Kansas and to hire additional employees to staff those facilities. HB 3070 will provide these businesses with the same construction and employment impetus currently granted other Kansas taxpayers.

HB 3070 also grants sales tax exemption for property or services purchased for construction within an enterprise zone. Note lines 0875-0876.

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:

	<u>Governor¹</u>	<u>S. Sub. H.B. 2543¹</u>	<u>H.B. 2940¹</u>	<u>Current Law</u>
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.

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

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

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%	(\$0.14)	(\$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%
scal Impact:			(\$37.06)					(\$32.55)					(\$69.60)		
All Taxpayers:			(\$78.72)			Non-Resident:		(\$9.12)							