Approved January 26, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION.

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m./~~p.m.~~ on January 22, 1988 in room 519-S of the Capitol.

All members were present except:
Senator Bud Burke

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

Conferees appearing before the committee:
Harley Duncan, Secretary of Revenue

Chairman Kerr called the meeting to order and brought to the attention of the committee a time change for the meeting of Friday, January 29th.

He then called on the Secretary of Revenue, Harley Duncan to present a briefing of the Governor's Tax Proposal, S.B. 490. (Att. 1)

Secretary Duncan explained that the Governor's Tax Proposal has been introduced in the form of S.B. 490, and that many aspects of S.B. 490 are contained in H.B. 2543.

He stated that there are several basic principles of tax reform listed under "individual Income Tax." Some of these are:

1. Tax reform should simplify our tax code significantly.
2. Tax reform should improve the equity of our system.
3. Tax reform should promote the economic development of our state by making us more competetive with other states.

Secretary Duncan said that findings indicate that Kansas' income tax base is among the most narrow of any state with a broad-based income tax. Also, the complexity ofthe Kansas income tax is increased significantly by the Federal Tax Reform Act of 1986. He also stated that the value of personal exemptions and standard deductions allowed Kansas taxpayers has been greatly eroded since they were changed by the Legislature in 1978-79. Further, the increased personal exemption and standard deduction in the federal Tax Reform Act of 1986 will mean that a large number of low-income Kansans will be subject to state income tax, but not federal. (Att. 2)

Secretary Duncan listed some of the major changes as:

1. Kansas Personal Exemption.
2. Federal Income Tax Deduction.
3. Kansas Itemized Deductions.
4. Tax rates.
5. Tax credits.
6. Fiscal Impact.

Benefits for the proposal would be:

1. Approximately 500,000 to 600,000 taxpayers would be able to file on a "short" tax form.
2. Tax returns for those not filing on the short form will be simplified also.
3. Provides $21 million in tax relief to individual income tax payers.
4. State income tax liability for 105,000 households below the poverty level is eliminated because of increased standard deductions and personal exemptions.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,

room 519-D, Statehouse, at 11:00 a.m./p.m. on January 22, 1988

5. The avilability of tax credit for child care expenses is expanded to all households claiming the federal credit. (25% of the federal credit.)

6. The tax base is more broadly defined and is progressive with respect to income.

7. The repeal of various deductions will eliminate persons of similiar income having different tax liabilities.

8. The top tax rate is cut from 9% to 5.4% for married taxpayers and to 6.2% for single.

9. Interest on Kansas general obligation bonds is exempted from income tax.

Secretary Duncan then discussed several areas of change regarding Business Taxes, along with recommendations for change. Some of the areas of change that are recommended are:

1. Manufacturing machinery and equipment sales tax exemption.
2. Establish an alternative minimum tax.
3. Modify the income apportionment formula.
4. Eliminate operating loss carrybacks.

(See attachment 1)

Senator Hayden made a motion to adopt the minutes of the January 21, 1988 meeting. Senator Allen seconded. Motion carried.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE 1/22/88

NAME	ADDRESS	REPRESENTING
Dana Ferrell	Topeka	Budget
MARK BURGHART	"	REVENUE
RON CALBERT	NEWTON	U.T.U.
Bill Clement	Garden City	Visitor
George A. Hopkins	Garden City	Self/Visitor
Carol Wearson	Topeka	KPC
GERHARD METZ	TOPEKA	KCCI
Tom Whitaker	Topeka	KS MOTOR CARRIER ASSN
MARY E. TURKINGTON	Topeka	"
JANET STUBBS	"	HBAK
Bernie Koch	Wichita	Wichita Chamber
TREVA POTTER	TOPEKA	PEOPLES NATURAL GAS
PATRICIA LESTER	K.C.	UNITED TELECOM
Gene Betts	K.C.	United Telecom
Jamie Schwartz	Topeka	United Telecom
Rich McKee	Topeka	Kansas Livestock
Rich Wame	Hoisington	BLE

THE TAX REFORM PROPOSALS

OF

GOVERNOR MIKE HAYDEN

PREPARED FOR

THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

BY

HARLEY T. DUNCAN
SECRETARY OF REVENUE

JANUARY 21, 1988

FOREWORD

The following is a synopsis of the tax reform recommendations made to the 1988 Session of the Kansas Legislature by Governor Mike Hayden. The Governor's recommendations are based in large part on proposals made by the Task Force on Tax Reform created by Governor Hayden in December 1986. The Task Force recommendations are detailed in **Kansas Tax Reform, Report and Recommendations of the Governor's Task Force on Tax Reform**, issued in January 1988. Members of the Task Force included:

Harley T. Duncan, Chairman
Secretary of Revenue
Topeka, Kansas

Robert F. Bennett
Former Governor
Prairie Village, Kansas

Rochelle B. Chronister
State Representative
Neodesha, Kansas

Glenn W. Fisher
Wichita State University
Wichita, Kansas

H. Edward Flentje
Secretary of Administration
Topeka, Kansas

Gerald Karr
State Senator
Emporia, Kansas

Fred A. Kerr
State Senator
Pratt, Kansas

Michael O'Keefe
Director of the Budget
Topeka, Kansas

Marlin Rein
Kansas Univ. Medical Center
Kansas City, Kansas

Ed C. Rolfs
State Representative
Junction City, Kansas

Shelby W. Smith
Former Lt. Governor
Wichita, Kansas

Tim Witsman
President, Kansas Inc.
Topeka, Kansas

Philip B. Wolfe
Attorney
opeka, Kansas

Joan Wagnon
State Representative
Topeka, Kansas

INDIVIDUAL INCOME TAX

PRINCIPLES

The Governor's proposals are based on several basic principles of tax reform and tax policy.

- Tax reform should **simplify** our tax code significantly. Tax laws must be understandable to our citizens, minimize the costs of compliance, and facilitate fair, efficient enforcement.
- Tax reform should improve the **equity** of our system. Steps should be taken to insure that taxpayers in similar economic circumstances are treated equally and that low-income households are protected from excessive income tax burdens.
- Tax reform should promote the **economic development** of our state by reducing tax rates, minimizing economic distortions, and making our structure more competitive with other states.

These principles can be pursued through a variety of avenues. They are best achieved, however, by adopting a tax base that is broadly and comprehensively defined, contains few provisions for special treatment of certain income or expenses, and has marginal tax rates that, while graduated, are as low as possible.

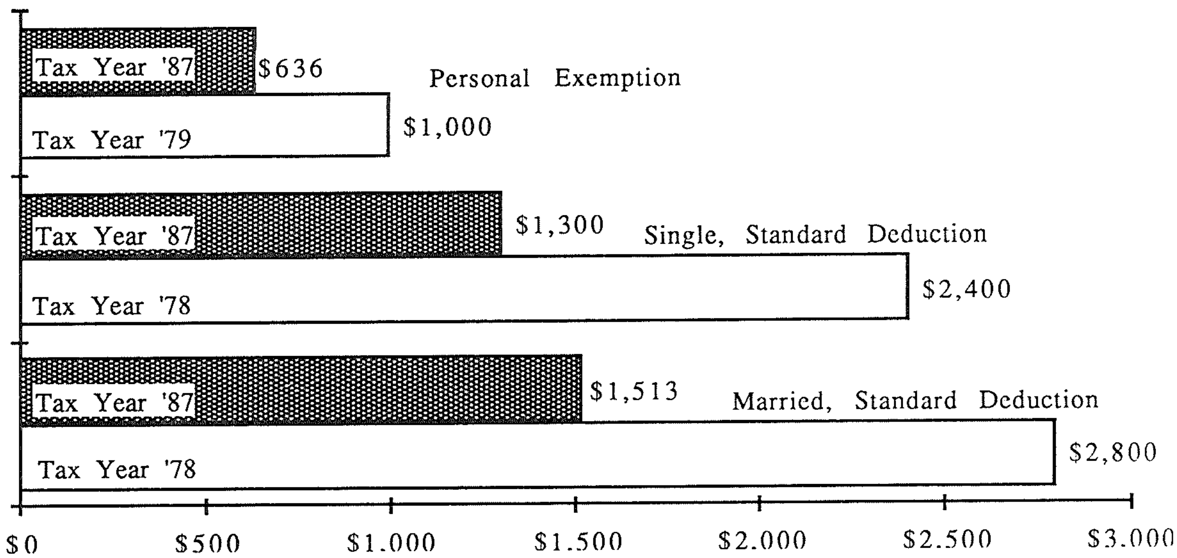
FINDINGS

1. The combination of Kansas itemized deductions and the deduction for federal taxes paid makes the Kansas income tax base among the most narrow of any state with a broad-based income tax. Only three other states allow a deduction for Social Security taxes paid, and only eight states allow a deduction for federal taxes paid. Moreover, the current tax base is proportional across income groups; Kansas taxable income is about 55-58 percent of adjusted gross income for most income groups. This combination causes Kansas tax rates to be higher than would otherwise be necessary to achieve any given revenue level or any given degree of progressivity in the tax. Kansas tax rates are higher than many other states. Only six states have a top tax rate bracket in excess of 9.0 percent; two others are at nine. (See Attachment A.)

2. The complexity of the Kansas income tax is increased significantly by the Tax Reform Act of 1986. This is particularly true for itemized deductions where there are now 11 areas of difference between the state and federal taxes. Substantial differences between the state and federal tax code will add complexity for the taxpayer and increase compliance difficulties for the State.

3. The value of personal exemptions and standard deductions allowed Kansas taxpayers has been eroded significantly since they were last changed by the Legislature in 1978-79. In inflation-adjusted terms, the value of these items has declined by 35-45 percent since they were last adjusted. (See chart below.) Further, the increased personal exemption and standard deduction contained in the federal Tax Reform Act of 1986 will mean that a large number of low-income Kansans will be subject to state income tax, but not federal.

Kansas Standard Deduction and Personal Exemptions
Real 1979 Dollars



RECOMMENDATIONS

The Kansas individual income tax should be amended to conform the definition of Kansas taxable income to federal taxable income in most regards. Further, the current tax rate structure should be replaced by one with two marginal rate brackets, and tax rates should be reduced substantially. The specific changes follow:

Kansas Adjusted Gross Income. The adjustments made to federal adjusted gross income in arriving at Kansas adjusted gross income are changed as follows:

- New exemption for interest on general obligation bonds issued by Kansas local governments.
- Conform to federal treatment of state employee payments for group health insurance.
- Eliminate the adjustment for certain insulation expenditures.

Kansas Standard Deductions: The Kansas standard deduction is increased to the 1988 federal level, including the additional standard deduction amounts for elderly and blind taxpayers, as shown below:

	Current*	Proposed Basic	Proposed Additional**
Married	$2,100 - $2,800	$5,000	$600
Single	$1,700 - $2,400	$3,000	$750
Head of Household	$1,700 - $2,400	$4,400	$750
Married Filing Separate	$1,050 - $1,400	$2,500	$600

* The current Kansas standard deduction is 16 percent of Kansas adjusted gross income, but not less than nor more than the above stated minimums and maximums.

** Taxpayers who are over age 65 and/or blind receive an additional standard deduction amount equal to that shown depending on their filing status. For example, a married couple, both over age 65, would receive a standard deduction of $6,200 ($5,000 plus $600 for each person).

Kansas Personal Exemption. The personal exemption is increased from $1,000 to the 1988 federal level of $1,950 per allowance. It will also be increased to $2,000 in 1989, as will be done at the federal level.

Federal Income Tax Deduction. The deduction for federal income taxes paid is eliminated.

Kansas Itemized Deductions: The Kansas itemized deductions are made to conform fully to federal itemized deductions as defined in the Tax Reform Act of 1986, except the deduction for state and local income taxes is not allowed. This eliminates 11 areas of non-conformity between Kansas and federal deductions.

1. Medical and dental expenses
2. Social security and related employment taxes
3. State and local sales taxes
4. State gasoline taxes
5. Non-mortgage interest
6. Miscellaneous deductions
7. Casualty and theft losses
8. Unreimbursed business expenses
9. Political contributions deduction
10. Works of art contributed to a gallery or museum
11. Moving expenses

Tax Rates. The current structure of eight tax rate brackets graduated from 2 percent to 9 percent is replaced by a system employing only two tax rates.

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

Tax Credits. The Kansas credit for child and dependent care expenses is expanded to allow all taxpayers claiming a federal child care credit to claim a Kansas credit equal to 25 percent of the federal credit.

Fiscal Impact. The recommendation is estimated to reduce tax liability under current law by approximately $21.3 million or 2.3 percent in 1988. Most major taxpayer groups experience some reduction, on average, but the greatest reductions are provided to low-income households. Two-thirds of all taxpayers will see their taxes reduced or remain the same under the recommendation. The distribution of the tax reductions for tax year 1988 for resident taxpayers is shown below. Greater detail on the fiscal impact by income bracket is shown in Attachment B.

Percentage Change in Income Tax Liability
Governor's Proposal - Tax Year 1988

	Married	Single	All Residents
$0 - $5,000	-95.8%	-95.9%	-95.9%
$5,000 - $15,000	-55.7	-4.5	-14.7
$15,000 - $25,000	-6.4	-1.3	-3.2
$25,000 - $35,000	-1.8	-1.6	-1.7
$35,000 - $50,000	-1.8	0.4	-1.4
$50,000 - $100,000	-1.8	3.3	-1.2
$100,000 - Over	-0.2	0.3	-0.2
All Resident Taxpayers	-2.5%	-1.7%	-2.3%

BENEFITS OF THE PROPOSAL

The recommendations establish a simple, broad-based and fair tax system. They go far in meeting the principles outlined above -- tax simplification, tax equity and promoting economic development -- and should provide real benefits to Kansas taxpayers. Some of the principal benefits are:

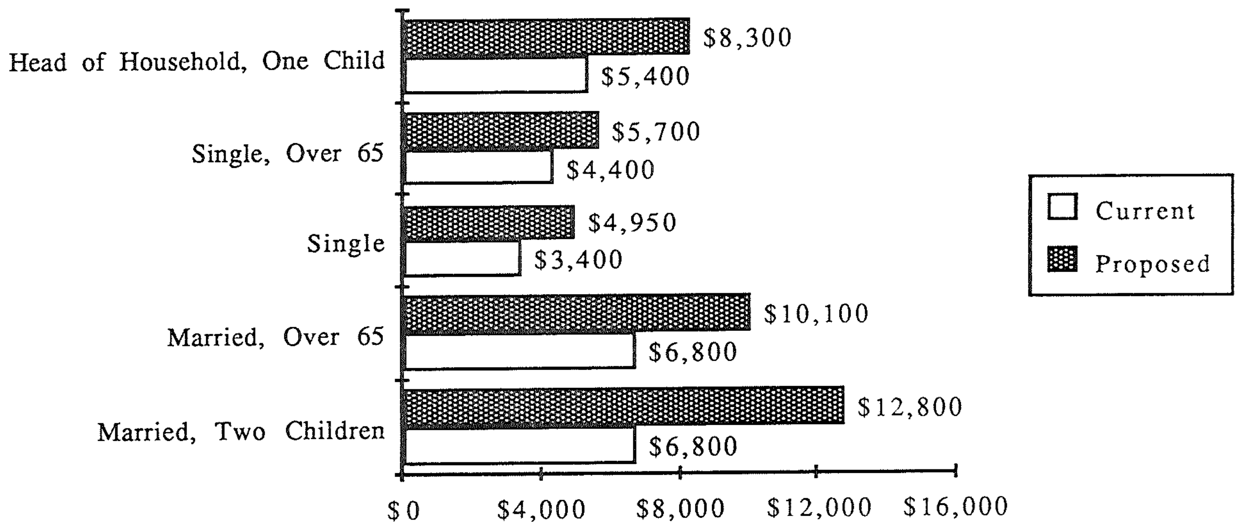
- Approximately 500,000-600,000 taxpayers will be able to file on a "short" tax form that can be reduced to as few as nine lines compared to a minimum of 27 lines now required. (See Attachment C for prototype.)

- Tax returns for those not filing on the short form will also be simplified significantly. The "normal" income tax return can be shortened to 66 lines compared to the 74 lines plus a 38-line schedule required currently.

- The recommendation provides $21 million in tax relief to Kansans, with most income groups receiving some tax reduction. The tax burden for two-thirds of all Kansans will be reduced or stay the same, and the greatest relief is directed to low-income households.

- The state income tax liability for 105,000 households below the poverty level is eliminated because of increased standard deductions and personal exemptions. A display of the increased tax-free threshold (combination of standard deduction and personal exemptions) for various filing categories is presented below.

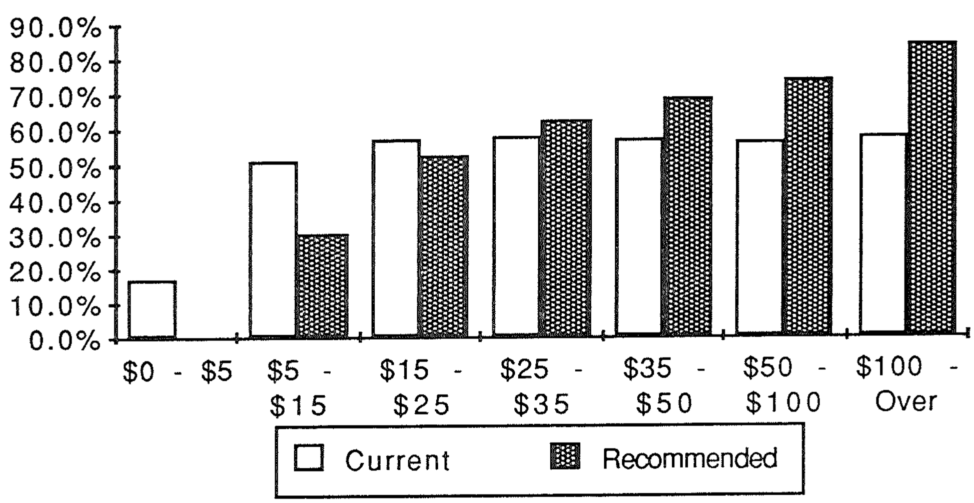
Comparison of Tax Free Income Levels
Current Law and Governor's Proposal



- The availability of tax credit for child care expenses is expanded to all households claiming the federal credit. It is set at 25 percent of the federal credit.

- The tax base is more broadly defined and is progressive with respect to income. This allows tax rates to be reduced significantly and will help insure that persons in similar economic circumstances are treated equally. (See chart below.)

Taxable Income as Percent of AGI
Current Law vs. Recommended Proposal



- The repeal of various deductions, exclusions and the like will eliminate instances in which persons of similar incomes have very different tax liabilities. Examples of the differences eliminated include those between itemizers and non-itemizers in the same bracket, between wage earners and non-wage earners, between employees and self-employed, and between persons of the same income with very different federal liabilities.

- The top tax rate is cut from 9 percent to 5.4 percent for married taxpayers and to 6.20 percent for single taxpayers. The number of brackets is reduced from eight to two. Arbitrary distinctions between relatively small amounts of income, as is now present in the rate structure, are no longer required.

- The recommendations reduce economic distortions and resource misallocations by minimizing preferential treatment of various types of income or expenditures and reducing tax rates.

- Interest on Kansas general obligation bonds is exempted from income tax in the interest of equity and reducing local government borrowing costs.

BUSINESS TAXES

FINDINGS

1. The state corporation income tax, the primary state business tax, is an extremely volatile revenue source due to certain features of Kansas law and the concentration of liability in a relatively few large corporations. This complicates revenue estimating and budgetary planning. The first table below presents the degree of annual change in the various components of the corporation income tax over the past five years. The second presents data on the concentration of the income tax among a relatively few taxpayers.

Components of Corporation Income Tax Collections
Annual Percent Change

	1987	1986	1985	1984	1983
Regular	-2.6%	12.4%	-6.6%	9.2%	-10.4%
Estimated	-1.7	-17.2	6.3	14.2	16.7
Assessments	-43.2	-12.7	59.5	69.6	56.9
Gross Collections	-7.9%	-8.4%	7.6%	16.3%	-11.7%
Less: Refunds	48.8	-19.4	-15.8	104.4	21.6
Net to General Fund	-22.4%	-5.1%	17.4%	-1.5%	-16.3%
Total ($ Millions)	$104.6	$134.8	$142.0	$121.0	$122.8

Kansas Corporation Income Tax
Returns Processed in 1986

	Number of Returns	Percent of Returns	Amount of Liability#	Percent of Liability
No Taxable Income	20,518	55.9%	$0.0	0.0%
$0 - $50,000	12,383	33.7%	$8.5	7.0%
$50,000 - $100,000	1,868	5.1%	$7.7	6.3%
$100,000 - $500,000	1,449	3.9%	$19.9	16.3%
$500,000 - $1 million	208	0.6%	$9.5	7.8%
Over $1 million	265	0.7%	$76.3	62.6%
TOTAL	36,691	100.0%	$121.9	100.0%

2. The total tax burden faced by businesses in Kansas is about the median of the surrounding states. The sales and corporation income taxes imposed in Kansas tend toward the high end of the surrounding states. These conclusions are drawn from research sponsored by Kansas Inc.

The research sponsored by Kansas Inc. estimated the total federal, state and local tax burden that a new or expanding firm would face over a 15-year period in Kansas and the surrounding states of Colorado, Iowa, Missouri, Nebraska, and Oklahoma. The estimates were made for firms in each of nine industry groups. The taxes estimated were federal income, state income, sales, unemployment and workers' compensation, real and personal property, and franchise taxes. The structure, asset mix, and employment were based on industry-wide averages, and the study assumed a new or expanding firm would take advantage of all available incentives. The table below presents the ranking of each state for each industry based on the total estimated tax liability for all federal, state and local taxes.

Total Tax Liability of Hypothetical New and Expanding Firms
Ranking of States by Industry

Industry	Kansas	Colo.	Iowa	Mo.	Nebr.	Okla.
Meat Products	4	6	3	1	2	5
Grain Mill Products	4	3	5	1	6	2
Misc. Plastic Products	3	4	5	1	6	2
Fabricated Structured Metal	3	6	4	1	2	5
Construction and Rel. Machinery	2	4	5	1	6	3
Electronic Components and Acc.	4	2	5	1	6	3
Motor Vehicles and Acc.	2	6	4	1	5	3
Telecommunications	5	2	6	1	4	3
Data Processing and Computer Ser.	4	2	6	1	5	3
Average	3.44	3.89	4.78	1.00	4.67	3.22
Overall Rank (Based on Average)	3	4	6	1	5	2

SOURCE: Darwin Daicoff and Patricia Oslund, **Tax Structure of Kansas and Nearby States**, Part 2, Hypothetical Firm Study. Final Report to Kansas, Inc., Report No. 131, October, 1987, Institute for Public Policy and Business Research, University of Kansas, Lawrence, KS.

The Kansas Inc. study found that Kansas tended to rank higher in the corporation income tax and the sales tax than for other taxes. As shown below, with some exceptions, the Kansas rank for sales and corporation income tax was generally fifth highest among the six states analyzed. This is generally consistent across all industry groups.

Ranking of Kansas by Industry and by Tax
Tax Liability of Hypothetical New and Expanding Firms

Industry	Income	Unemp.	Ppty.	Franch.	Sales	Total
Meat Products	5	2	1	4	5	3
Grain Mill Products	5	4	1	4	5	4
Misc. Plastic Products	3	6	1	4	5	2
Fabricated Structured Metal	5	3	1	4	5	3
Construction and Rel. Machinery	3	3	1	4	5	2
Electronic Components and Acc.	5	3	1	4	5	3
Motor Vehicles and Acc.	5	3	1	4	5	2
Telecommunications	2	3	5	4	1	5
Data Processing and Computer Ser.	4	4	5	4	2	4
Average	4.11	3.44	1.89	4.00	4.22	3.11

SOURCE: Darwin Daicoff and Patricia Oslund, **Tax Structure of Kansas and Nearby States,** Part 2, Hypothetical Firm Study. Final Report to Kansas, Inc., Report No. 131, October, 1987, Institute for Public Policy and Business Research, University of Kansas, Lawrence, KS.

RECOMMENDATIONS

Manufacturing Machinery and Equipment. The purchase of certain machinery and equipment should be exempted from the state and local retail sales and compensating use taxes. The exemption would be limited to purchases of productive machinery and equipment used directly in the manufacturing and distribution processes in primary job creation industries with a significant value-added or export component to them. The estimated fiscal impact is $16 million annually. The exemption is to become effective January 1, 1989.

The recommended exemption will reduce directly the cost of capital investment in productive assets in Kansas. It will also improve our competitive posture among all states, most of which already provide such an exemption. The primary benefits of the exemption will flow to existing firms which are engaged in normal replacement activity or expansion of productive capacity. Such firms are responsible for the creation of 80 percent of new jobs and the exemption may prove very valuable in retaining existing jobs.

Alternative Minimum Tax. A state alternative minimum tax for corporations should be enacted. The tax will conform to and "piggy-back" on the federal alternative minimum tax with the apportionment to Kansas for multistate firms being based on the formula used to apportion regular taxable income to Kansas. The state alternative minimum tax rate is to be equal to 20 percent of the federal alternative minimum tax (i.e., 4 percent of state alternative minimum taxable income.) The estimated fiscal impact is $6 million. The tax would become effective for tax year 1988.

As a result of the federal Tax Reform Act of 1986, the current federal corporate AMT is an income tax that is parallel to the regular corporate tax, rather than a surtax, as it had been. The starting point for the corporate AMT is regular taxable income, to which a set of adjustments are made, followed by the addition of a a set of tax preference items:

Adjustments: (* indicates new in 1987)

a. Accelerated depreciation on new property*
b. Mining exploration and development costs
c. Long-term contracts*
d. Pollution control facilities
e. Installment sales*
f. Circulation expenses (personal holding companies only)
g. Merchant marine fund*
h. Book income adjustment*
i. Net operating losses*

Tax Preferences: (* indicates new in 1987)

a. Accelerated depreciation on depreciable real property and depreciable leased personal property placed in service before 1987 (pre-ACRS and pre-MACRS property)
b. Depletion
c. Intangible drilling costs
d. Tax-exempt interest on certain activity bonds*
e. Appreciated property charitable deduction*
f. Reserves for losses on bad debts of financial institutions

An alternative minimum tax will improve the fairness of the Kansas tax system by eliminating possible avoidance of state taxes through the excessive use of tax preferences. It will also improve the stability of the corporation income tax and enhance the ability of state government to forecast and plan revenues and expenditures. By basing the state AMT directly on the federal tax, Kansas will gain the equity benefits of the federal AMT, but will not increase significantly the compliance costs of corporations. All state calculations will be based on figures derived for federal or other state income tax purposes.

Five other states -- Alaska, California, Iowa, Maine, and Pennsylvania -- have adopted similar alternative minimum taxes. Minnesota also has an alternative minimum tax based on the property, payroll and sales factors of companies doing business in that state.

Income Apportionment Formula. The statutory formula for apportioning the income of multistate businesses to Kansas should be amended to allow a taxpayer whose payroll factor is 200 percent of its average property and sales factor to elect an apportionment formula utilizing only property and sales factors on an equally weighted basis. The change will reduce receipts by less than $1 million annually and is effective for tax year 1988.

Constitutional taxation of multistate businesses requires that the portion of income taxed by a state be reasonably related to the activities of the business in the state and that the factors on which the apportionment is made be reasonably related to the manner in which income is generated. Kansas currently apportions income on the basis of the standard three factor formula used by most states. It gives equal weight to the property, payroll and sales factors of the business and is expressed in the following formula.

$$\frac{\text{Kansas Property}}{\text{All Property}} + \frac{\text{Kansas Payroll}}{\text{All Payroll}} + \frac{\text{Kansas Sales}}{\text{All Sales}} \quad \text{divided by 3} = \text{Apportionment Percentage}$$

The effect of the formula is to say that if a multistate business has 10 percent each of its property, payroll and sales in Kansas, then 10 percent of its income is taxable to Kansas. If it has 10 percent of its property, 20 percent of its payroll and 30 percent of its sales in Kansas, 20 percent of its income (60 percent divided by 3) would be taxable to Kansas.

The Governor's recommendation will make Kansas a more attractive environment for the location of company headquarters or other large, payroll-intensive installations by eliminating the influence of the payroll factor in a selected instances. This is felt to be a preferable situation to the pattern used in some other states of placing greater weight on the sales factor. In other states such changes have generally served to broaden the tax base and export the income tax. In Kansas, however, increasing the weight on the sales factor would reduce the tax base and could affect revenues significantly. The Governor also was concerned with the effect of such changes on the uniformity of tax practices among the states. The targeted approach recommended is directed at a highly desirable type of activity and is not disruptive of either revenues or uniformity.

Net Operating Loss Carrybacks. Current law allowing the carryback of net operating losses for three years should be repealed and replaced with an extension of the carryforward period from seven years to ten years. The estimated fiscal impact is a one-time $15 million revenue increase. The repeal would be effective for tax year 1988.

Current law allows net operating losses to be carried back and used to obtain a refund of taxes for the prior three years. Unused losses may be carried forward for a seven-year period. In the 18-month period from January 1986 - June 1987, the Department of Revenue processed 4,208 net operating loss applications and refunded approximately $21 million in tax and interest. The average refund was $4,975. The Department currently devotes about 2.0 FTE positions to processing loss carrybacks. Each return is subjected to office audit and recomputation. Significant difficulty is experienced when a year to which a loss is carried is later adjusted by a subsequent state or federal audit.

The recommendation will reduce the volatility of the corporation income tax and improve the ability of the State to plan its revenue and expenditure needs. It will also reduce administrative burdens experienced by the Department of Revenue. Seventeen states currently allow only the carryforward of operating losses. Nineteen states allow a carryback/carryforward as does Kansas, but the trend among the states is toward carryforwards only.

Attachment A

Summary of Social Security Tax Payments and Deductibility of Federal Income Taxes by State

Comparison of The Top Tax Rate and Top Taxable Income Bracket by State

Tax Year 1987

	Federal Tax Deduction	Social Security Deduction	Top Rate	Top Taxable Income Bracket	
Alabama	Yes	Yes	5.0%	$3,000	*
Arizona	Yes	Yes	8.0%	$7,100	*
Arkansas	No	No	7.0%	$25,000	
California	No	No	9.3%	$23,800	*
Colorado	No	No	5.0%	Flat Rate	
Delaware	No	No	8.8%	$40,000	
Georgia	No	No	6.0%	$7,000	*
Hawaii	No	No	10.0%	$20,000	*
Idaho	No	No	8.2%	$20,000	
Illinois	No	No	2.5%	Flat Rate	
Indiana	No	No	3.4%	Flat Rate	
Iowa	Yes	No	13.0%	$76,725	
Kansas	**Yes**	**Yes**	**9.0%**	**$25,000**	*
Kentucky	Yes	No	6.0%	$8,000	
Louisiana	Yes	No	6.0%	$50,000	
Maine	No	No	10.0%	$25,000	*
Maryland	No	No	5.0%	$3,000	
Massachusetts	No	Limited	5.0%	Flat Rate	
Michigan	No	No	4.6%	Flat Rate	
Minnesota	No	No	9.0%	$16,000	*
Mississippi	No	No	5.0%	$10,000	
Missouri	Yes	Yes	6.0%	$9,000	
Montana	Yes/Item. Only	No	11.0%	$48,100	
Nebraska	No	No	5.9%	$45,000	*
New Jersey	No	No	3.5%	$50,000	
New Mexico	No	No	8.5%	$41,600	*
New York	No	No	8.8%	$14,000	*
North Carolina	No	No	7.0%	$10,000	
North Dakota	Yes	No	12.0%	$50,000	
Ohio	No	No	6.9%	$100,000	
Oklahoma	Yes	No	6.0%	$7,500	*
Oregon	Yes/Limited-$7,000	No	9.0%	$5,000	*
Pennsylvania	No	No	2.1%	Flat Rate	
Rhode Island	No	No	23.5%	% of Federal	
South Carolina	No	No	7.0%	$10,000	
Utah	Yes	No	7.8%	$3,750	
Vermont	No	No	25.8%	% of Federal	
Virgina	No	No	5.8%	$14,000	
West Virginia	No	No	6.5%	$60,000	*
Wisconsin	No	No	6.9%	$15,000	*

* = Brackets are for single taxpayers, brackets are generally doubled for married filing joint taxpayers.
Source: Advisory Commission on Intergovernmental Relations:

SIMULATION 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					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)	($10.49)	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)							

Attachment 8

Form

K 40S

KANSAS RESIDENT SHORT FORM

1988

For the year January 1-December 31, 1988

USE KANSAS LABEL Otherwise Print or Type

Last Name	First Name(s) and Initial(s)	Your Social Security Number	For Office Use Only
Home Address (Number and Street or Rural Route)		Spouse's Social Security Number	Attachment C
City, Town or Post Office, and State	Zip Code	School District No. / County Abbreviation	
YOUR TELEPHONE NUMBER ______	TELEPHONE NUMBER – The number you furnish will be confidential and should be the one at which you can be reached during our office hours.	For Office Use Only	

SAMPLE

Filing Status (Check ONE)

(S) [ ] Single

(F) [ ] Married filing joint return (Even if only one had income)

(M) [ ] Married filing separately. Give spouse's name and social security number ______

1. Federal taxable income (Kansas taxable income) 1______

2. Tax 2______

3. Credit for child & dependent care expenses 3______

4. Balance (Subtract line 3 from line 2) 4______

5. Kansas income tax withheld (Attach Kansas copies, form W-2) 5______

6. BALANCE DUE (If line 4 is greater than line 5)
Interest ______ Penalty ______
Penalty-Estimated Tax ______ 6______

Write your Social Security Number on check or money order and make payable to Kansas Income Tax

7. OVERPAYMENT (If line 5 is greater than line 4) 7______

8. CHICKADEE CHECKOFF (Kansas nongame wildlife improvement program): If you wish to donate to this program, enter the amount you want to be donated. This donation will reduce your refund or increase the amount you owe. 8______

9. REFUND (Enter the amount of line 7 you wish to be refunded to you) 9______

Attach State Copy of W-2(s) here

I declare under the penalties of perjury that to the best of my knowledge and belief this is a true, correct, and complete return.

sign here

______ Signature of taxpayer ______ Date ______ Signature of preparer other than taxpayer

______ If joint return, BOTH husband and wife must sign even if only one had income. ______ Date ______ Address

DO YOU WISH TO RECEIVE AN INCOME TAX BOOKLET NEXT YEAR? (SEE INSTRUCTIONS) [ ] Yes [ ] No

MAIL THIS RETURN TO: KANSAS INCOME TAX, TOPEKA, KANSAS 66699

A & T ATTACHMENT 2 1/22/88

Kansas Department of Revenue
Percent Change Total Federal and State Tax Burden
After Federal and State Tax Reform