

Approved January 27, 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 26, 1988 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Tom Severn, Research  
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Tom Severn, Research Department  
Michael O'Keefe, Dir. of Budget  
Richard Funk, Kansas Assoc. of School Boards  
Kay Coles, KNEA  
Helen Stephens, Kansas City School Districts  
Basil Covey, Kansas Retired Teachers  
Mark Tallman, ASK GOVERNOR'S TAX PROPOSAL (S.B. 490)

Chairman Kerr called the meeting to order and said that the agenda for the day would be to have hearings on the Governor's Tax Proposal, S.B. 490. He explained that S.B. 490 would be the subject of hearings, but that his preference would be to use H.B. 2543 as the bill to have action taken on.

Senator Allen made the motion to adopt the minutes of January 22, 1988. Senator Mulich seconded. Motion carried.

Tom Severn, of the Research Department explained the "Summary by Section" (Att. 1) of S. B. 490. Dr. Severn also referred to the memorandum regarding Individual Income Tax "Windfall". (Att. 2)

Michael O'Keefe, Director the Budget testified. (Att. 3) He stated that he would discuss the Governor's recommended State General Fund expenditures for FY 1989 and the expenditures of the additional individual income tax revenue that resulted from Federal Tax Reform Act of 1986. He stated that the Governor recommends \$29 million in direct tax reductions and that his recommendations would result in another \$20 million being returned to taxpayers' school districts through the school district income tax rebate. Also, the Governor recommends that approximately \$37.2 million be used to increase funding for education and research. The Governor has also recommended \$37.2 million be used to provide for less advantaged Kansans. Mr. O'Keefe stated that the Governor's overall budget, including the tax reform proposal, provides for an ending balance in FY 1989 of approximately \$146.4 million.

Richard Funk testified on S.B. 490. (Att 4) He stated that the delegate assembly of the KASB passed a resolution asking that the state retain all of the designated "income tax windfall." Mr. Funk said that it has been over three years since there has been significant new money available to K-12 education. The income tax windfall would provide opportunity for significant appropriations to K-12 education.

Kay Coles testified, (Att. 5) stating that she felt the schools and educators had been on a "starvation" diet for the past two years as a result of the fiscal crunch in the state. She urged that much of the "windfall" be retained for higher quality of education.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,  
room 519-S Statehouse, at 11:00 a.m./~~p.m.~~ on January 26, 1988

Helen Stephens testified. <sup>(Att. 6)</sup> She stated that Kansas City USD #500 supports the concepts of S.B. 490, and urged that "windfall" be returned to Kansans through increased funding for elementary and secondary education. This would allow districts to hold the line or lower their school levy.

Basil Covey testified in support of H.B. 2543 because it contains an issue that the Kansas Retired Teachers Assoc. supports, namely, Social Security retirement benefits being excluded from Kansas Income tax. <sup>(Att. 7)</sup>

Mr. Covey stated that he felt two issues were:

1. There is taxation by default.
2. There is the credibility of a successful candidate at the ballot box with a pledge that is not being carried out.

He urged that the section on excluding social security benefits be included in the Tax Reform bill.

In answer to questions Mr. Covey said that only about 8% of the retired teachers currently pay income tax on their social security income and these are probably the upper income taxpayers.

Mark Tallman stated that his organization is supportive of the recommendations the Governor has made in the area of education, namely the "Margin of Excellence."

Chairman Kerr told the committee that the hearings on individual and corporate tax reform would continue at the next meeting, January 27.

Meeting adjourned.



Section 1--Amends filing requirements so that only those individuals required to file federal returns or whose gross income otherwise exceeds the applicable Kansas standard deduction plus applicable personal exemption amounts will be required to file a Kansas return. The Department of Revenue estimates that approximately 105,000 low-income taxpayers will no longer be required to file Kansas returns.

Section 2--Adjusts the individual income tax rates and brackets pursuant to the Governor's recommendations. The top rate for married taxpayers filing jointly would be reduced from 9.0 to 5.4 percent and the top rate for single taxpayers would be reduced from 9.0 to 6.2 percent. The number of brackets also would be reduced from eight to two for all taxpayers.

Section 3--Allows a child care credit equal to 25 percent of the federal credit for all taxpayers. Under current law, low-income taxpayers are allowed to take a percentage of the federal credit according to their KAGI. The credit currently phases out at KAGI of \$14,000.

Section 4--Exempts Kansas state and local general obligation bond interest from the Kansas income tax base. The Department of Revenue has estimated that the fiscal impact of this provision by itself is approximately \$1.0 million.

Section 5--Conforms the Kansas standard deduction to the federal amounts in 1988 and 1989, including the additional standard deduction amounts for elderly and blind taxpayers (\$600-\$750 per person).

Section 6--Would closely conform Kansas' itemized deductions to the federal itemized deductions enacted in 1986. The deduction for federal income taxes paid, currently available to all taxpayers, would be repealed.

Section 7--Raises the personal exemption to \$1,950 in tax year 1988 and to \$2,000 for tax year 1989 and every year thereafter. Under current law, the personal exemption is \$1,000.

Section 8--Excludes amounts withheld pursuant to so-called cafeteria plans from the state income tax base. State employees, for example, would no longer be required to add amounts withheld for participation in the state health insurance plan back into adjusted gross income. This change would conform to the federal treatment of such plans.

Section 9--Allows corporations whose payroll in Kansas exceeds 200 percent of their property and sales in the state to apportion their income under the existing three-factor formula or under a single-factor, sales-based formula. The Department of Revenue has estimated the fiscal note to the SGF to be about \$1 million.

Section 10--Eliminates the "carryback" of deductions for corporation net operating losses. It is estimated that this provision could create a one-time revenue increase of about \$15 million.

Section 11--Imposes an alternative minimum tax on corporations, "piggy-backed" on the federal alternative minimum tax. The Department of Revenue estimates a positive fiscal impact of \$6 million.

Section 12--This section clarifies that alternative minimum tax net operating loss deductions also may only be carried forward and not "carried back".

Section 13--The alternative minimum tax will be paid only if it exceeds the normal tax.

Section 14--The alternative minimum tax does not apply to financial institutions or to corporations not required to compute the tax for federal purposes.

Section 15--The provisions of the bill apply to tax year 1988 and all future years.

Section 16--Repeals the amended statutes.

Section 17--Enacting clause.

## MEMORANDUM

REVISED  
January 14, 1988

TO: Interested Persons  
FROM: Kansas Legislative Research Department  
RE: Individual Income Tax "Windfall"

### What is the Windfall and What Causes It?

Kansas' individual income tax "windfall" represents the additional revenue the state receives solely as a direct result of the passage of the new federal law, the Tax Reform Act of 1986. Kansas starts computation of its income tax with federal adjusted gross income (FAGI). Provisions of the Tax Reform Act that substantially broadened FAGI, including the repeal of the capital gains exclusion and new limits on the deductibility of contributions to Individual Retirement Accounts (IRAs), have the effect of implicitly increasing Kansas' income tax base. Changes in allowable itemized deductions at the federal level (i.e., eliminating the deductions for sales taxes, phasing out the deduction for consumer debt, and restricting the medical deduction to unreimbursed expenses in excess of 7.5 percent of FAGI), coupled with increased federal standard deductions, will result in fewer taxpayers who will itemize at the federal level. Fewer taxpayers thus will qualify to take advantage of the more liberal Kansas itemized deductions because only those taxpayers who itemize on the federal return may itemize on the Kansas return. Finally, all Kansas individuals are allowed to deduct federal income tax paid. Since the net federal income tax for individual taxpayers will be reduced under the new federal law, Kansas taxable income will be even larger, as most taxpayers will be taking a smaller deduction for federal tax paid.

### How Large is the Windfall?

The latest estimate from the Consensus Estimating Group on the amount of the windfall is \$135 million for FY 1988 and \$135 million for FY 1989. In other words, Kansas revenues are estimated to be \$135 million more than they would have been if the new federal law had not been enacted. The Department of Revenue has estimated that approximately \$20 million in additional revenue was received in FY 1987 as a result of the windfall.

### Conformity Issues

Besides various policy decisions raised about the use of the windfall, the current structure of the state individual income tax as it relates to the new federal law has raised several equity and conformity issues. Administration of the state income tax has become increasingly complex. Kansas itemized deductions, tied to federal deductions that were in effect in 1977, are now considerably different from the current federal provisions. Conforming itemized deductions to match current federal law could raise in excess of an additional \$100

million. Another conformity issue is that since the Kansas standard deduction and personal exemption are considerably lower than similar federal provisions, approximately 60,000 Kansans with no federal liability will incur state liability for tax year 1987.

#### 1987 H.B. 2543

H.B. 2543, also known as the Tax Equity and Simplification Act of 1987 (TESA), would have implemented a number of changes in Kansas individual income tax structure in response to the federal tax reform.

As amended by the House Committee of the Whole, the bill would exempt all persons not required to file a federal income tax return from requirements to file a Kansas return. Individual rates would range from 3.25 percent to 8 percent, compared with 2 percent to 9 percent under current law. A number of itemized deductions also would be changed to bring Kansas into closer conformity with new federal itemized deductions, including the elimination of deductions for gasoline, Social Security, railroad retirement, and sales taxes paid, as well as not allowing unreimbursed medical expenses to be deducted until they exceed 7.5 percent of adjusted gross income.

The bill would also conform the amounts of Kansas standard deductions and personal exemptions to the new amounts being phased in by the federal law. The amount of each personal exemption, however, would be adjusted downward by \$100 for each \$2,000 of adjusted gross income above \$25,000 for single filers and above \$35,000 for married filers.

Child care credits of 25 percent of federal credits would be allowed. All Social Security benefits also would have been excluded from the state tax base starting in tax year 1988. All other provisions of the bill would have applied to tax year 1987 and thereafter.

Estimates during the 1987 Session indicated that the enactment of TESA would have increased tax year 1987 receipts by about \$6 million over current law (which includes the windfall), and tax year 1988 receipts would have decreased by about \$11 million, according to the estimates. The Department of Revenue's updated model now estimates that tax year 1988 receipts would increase by over \$5 million.

#### Governor's Task Force on Tax Reform

The Governor's Task Force on Tax Reform has made recommendations similar in some respects to TESA. The Governor has proposed a plan nearly identical to the Task Force recommendation. The following table compares the various plans.

Comparing Tax Reform Plans and Current Law

Principal features of TESA, the Task Force recommendation, the Governor's plan, and the current law include the following:

<u>Tax Feature</u>	<u>TESA<sup>1</sup></u>	<u>Task Force<sup>1</sup></u>	<u>Governor<sup>1</sup></u>	<u>Current Law</u>
Social Security benefits	exempt	taxable	taxable	taxable
Kansas GO bond interest	taxable	exempt	exempt	taxable
Federal income taxes paid	deducted	not deductible	not deductible	deducted
Rates:				
number of brackets	7 joint, 6 single	2	2	8
bottom rate, single	3.25%	4.90%	4.80%	2.00%
bottom rate, joint	3.25%	4.15%	4.15%	2.00%
top rate, single	8.00%	6.25%	6.20%	9.00%
top rate, joint	8.00%	5.40%	5.40%	9.00%
Itemized deductions:				
federal conformity	current <sup>2</sup>	current <sup>2</sup>	current <sup>2</sup>	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 <sup>3</sup>	\$1,950	\$1,950	\$1,000
1989	2,000 <sup>3</sup>	2,000	2,000	1,000
1990 and thereafter	indexed <sup>3</sup>	not indexed	not indexed	1,000
Elderly/Blind	increase standard deduction	none	increase standard deduction	none <sup>4</sup>
Fiscal Impact <sup>5</sup>	\$5.53 million	\$(21.34) million	\$(21.29) million	---

<sup>1</sup> TESA, as amended by House Committee of the Whole, Task Force recommendation and Governor's plan based on the latest information from the Department of Revenue.

<sup>2</sup> All three plans would eliminate most major areas of nonconformity.

<sup>3</sup> 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.

<sup>4</sup> Prior to 1987, extra personal exemptions were allowed through federal conformity.

<sup>5</sup> Tax Year 1988 fiscal impacts based on Department of Revenue's latest simulation model.



STATE OF KANSAS  
DEPARTMENT OF ADMINISTRATION  
MIKE HAYDEN, Governor  
MICHAEL F. O'KEEFE, Director of the Budget  
Room 152-E, Capitol Building  
(913) 296-2436

MEMORANDUM

TO: Senate Committee on Assessment and Taxation

FROM: Michael F. O'Keefe

DATE: January 26, 1988

SUBJECT: Testimony

I appear before you today to briefly discuss the Governor's recommended State General Fund expenditures for FY 1989, and more specifically, the expenditures of the additional individual income tax revenue that resulted from Federal Tax Reform Act of 1986. The Consensus Revenue Estimating Committee estimates individual income tax collections of \$815.0 million for FY 1989; the Committee agrees that \$135.0 million of that amount or 16.6 percent, is attributable to the Federal Tax Reform Act of 1986. Others may testify to the quality of that estimate. I would only note that it is one that the Committee agrees to.

The Governor recommends that his tax reform proposal, which is estimated to cost \$28.6 million in FY 1989, be financed from that \$135.0 million. That leaves \$106.4 million.

The Governor recommends that \$20.0 million be returned to taxpayers through the School District Income Tax Rebate and used to

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Att. 3

lower local property taxes. The Governor's state school aid recommendations include budget controls of two and four percent. That means that the budgets of districts with "per pupil spending" below the norm be allowed to increase their budgets up to four percent and that those with "per pupil spending" above the norm be allowed to increase their budgets up to two percent. With those budget limits in place, property tax increase can be controlled by the expenditure of state monies. The \$20.0 million increased expenditure of income tax rebate recommended by the Governor helps to hold the property tax increase down.

The Governor recommends that approximately \$37.2 million be used to increase funding for education and research. The largest part of that amount goes to the Department of Education in general state aid and to the Board of Regents to provide funding for the Margin of Excellence for higher education. The Governor states in his Legislative Message that "this investment of proceeds from the Federal Tax Reform Act of 1986 can yield a greater return in the future as well as provide property tax relief."

The Governor recommends that approximately \$37.2 million be used to provide for less advantaged Kansans. This includes funding for division of assets, which allows seriously ill elderly to receive adequate care without impoverishing their spouses. The Governor recommends over \$30.0 million in additional funding above the FY 1988 approved level for the Department of Social and Rehabilitation Services, and an additional \$9.0 million for its mental health and mental retardation institutions.

The Governor recommends expenditure of an additional \$12.0 million. That is equivalent to the non-resident portion of the so called "windfall" on other government functions.

The Governor's overall budget, including the tax reform proposal, provides for an ending balance in FY 1989 of approximately \$146.4 million. This is based upon revenues of \$1,990.8 million and expenditures of \$1,990.6 billion from the State General Fund. Total expenditures requested from the general fund were \$2,177.0 million, or, \$186.4 million greater than the amount recommended by the Governor. If the Governor had recommended those expenditures and not incorporated all the individual income revenue except his tax reform recommendation. The FY 1989 State General Fund would have been over \$125.0 million negative.

You can compare the FY 1989 C agency requests with the Governor's recommendations in the schedules in the back of Volume 1 or on the individual pages of Volume 2 of the Governor's Report on the Budget to get an idea of the difference between the requests and the recommended levels. I assure you that there were no frivolous requests. Indeed, the Governor spent many days in the months of November and December thoroughly reviewing each agency budget with me and the Budget Analysts assigned to the agencies to arrive at that set of recommendations that would provide for tax reform, for the needs of the socially disadvantaged, for increased funding for education, and for that the fiscal integrity of the state.

I would be pleased to answer any questions.

KANSAS  
ASSOCIATION



OF  
SCHOOL  
BOARDS



5401 S. W. 7th Avenue Topeka, Kansas 66606  
913-273-3600

TESTIMONY ON S.B. 490

by

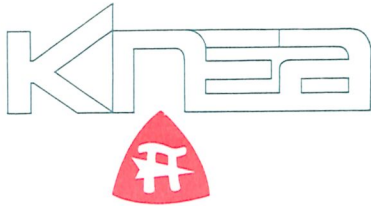
Richard S. Funk, Assistant Executive Director  
Kansas Association of School Boards

January 26, 1988

Mr. Chairman and members of the committee, we appreciate the opportunity to appear today on behalf of the 302 members of the Kansas Association of School Boards. KASB supports the provisions found in S.B. 490.

The Delegate Assembly of the Kansas Association of School Boards passed a resolution asking that the state retain all of the designated "income tax windfall." We have gone over three years without significant new money available to K-12 education. The income tax windfall provides us with the opportunity to make significant appropriations to K-12 education. As you deliberate the provisions found in this bill, please bear in mind that any action affecting Kansas' taxable income will have an effect upon school district income tax rebate. This is an area that must enter into your deliberations.





Testimony before the Senate Assessment and Taxation Committee  
 January 26, 1988

Thank you, Mr. Chairman. Members of the Committee my name is Kay Coles and I am here today representing the 22,000 members of Kansas-NEA.

Kansas-NEA believes it is essential to the future of Kansas that adequate funding from the state be provided to all levels of education. Our schools and our educators have been on a "starvation" diet for the past two years as a result of the fiscal crunch facing the state.

But our schools and our educators cannot survive much longer on a limited diet. Stresses within the education system, including projected enrollment increases of as many as 18,000 new students by 1990, make it vital that you, as lawmakers, provide additional state assistance to education.

Today we stand before you and urge you to retain as much of the federal tax "windfall" as possible. Such funds can provide needed relief to our schools, resources essential to ensure that the high quality of education in Kansas continues and can reverse the trend of declining state dollars to our public schools and institutions of higher education.

A few facts you might find interesting indicate that:

- \* Kansas is 14th in the nation in the percent change in public school enrollment, indicating the "mini-baby boom" students are entering our schools.
- \* Kansans enjoy a relative tax advantage over residents in other states, with our state ranking 40th in the nation in state tax revenue per \$1,000 of personal income and 35th in the nation in per capita state tax revenue.
- \* Kansas is 31st in the nation in percent of revenue for public elementary and secondary schools from state government for 1986-87. In Kansas, only about 43% of school funds come from the state. The national average indicates that many states provide at least 50% funding for K-12 education.
- \* Kansas ranks 19th in the nation in personal income per pupil, with an average of \$92,571 per pupil. This indicates that Kansans can pay more for the advantages of having a high quality system of public education.
- \* Teachers' salaries in Kansas dropped from a ranking of 29th in the nation to a ranking of 33rd for 1986-87. It is likely that the figures for this school year will further demonstrate that Kansas teachers' salaries are not keeping pace with salaries throughout the country. In fact, this year's average salary increase for teachers is about 3.8%; inflation during this time has increased by 4.4%. Increasing teachers' salaries at least to the national average has long been a goal of many legislators and we urge you to continue efforts to reach this goal.

Thus you can see that providing funds for education is both possible and necessary. Kansas-NEA urges you to act fairly and to provide for a sound system of public education by retaining the "windfall" from federal tax reform and using the funds to enhance our public schools. Certainly all Kansans benefit from a strong system of public education.

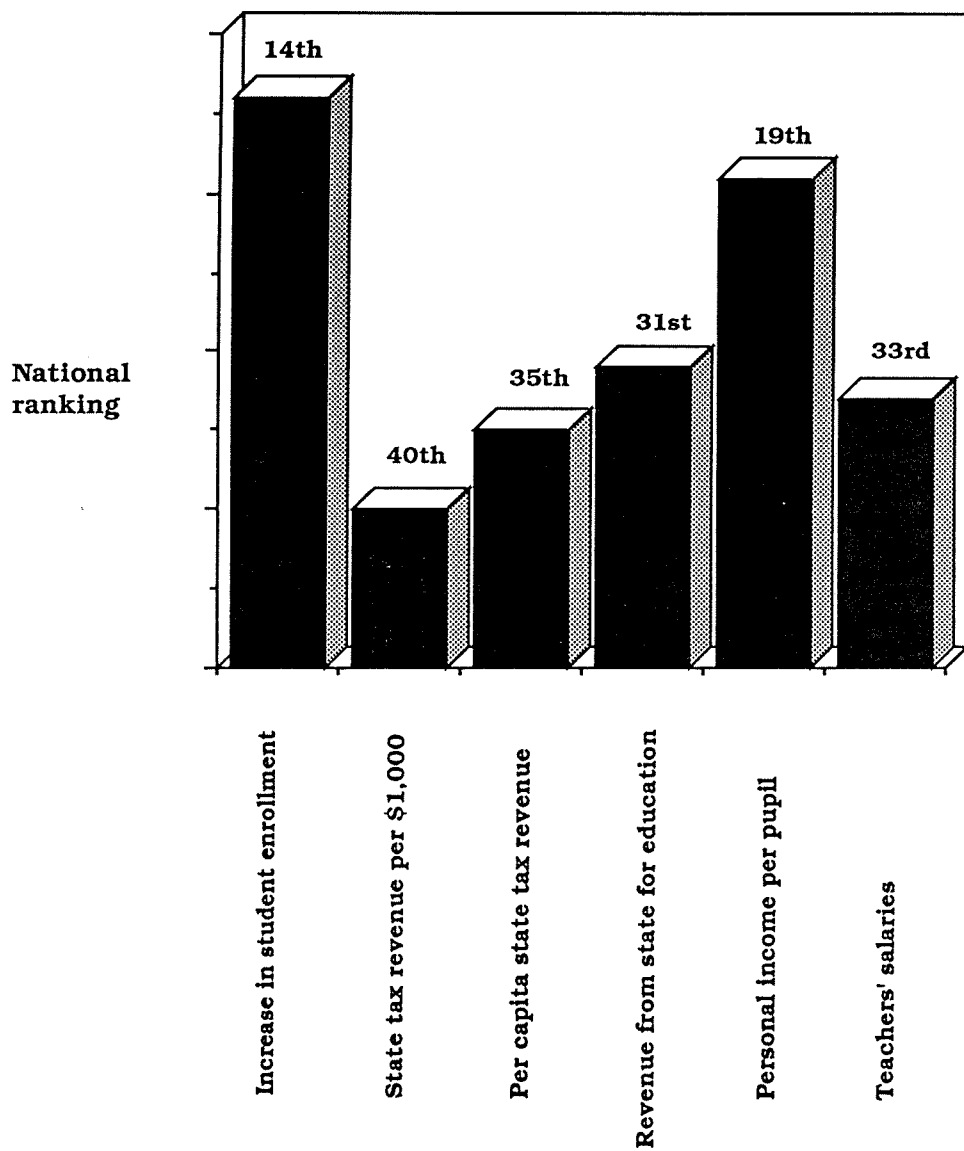
Thank you, Mr. Chairman and Members of the Committee.

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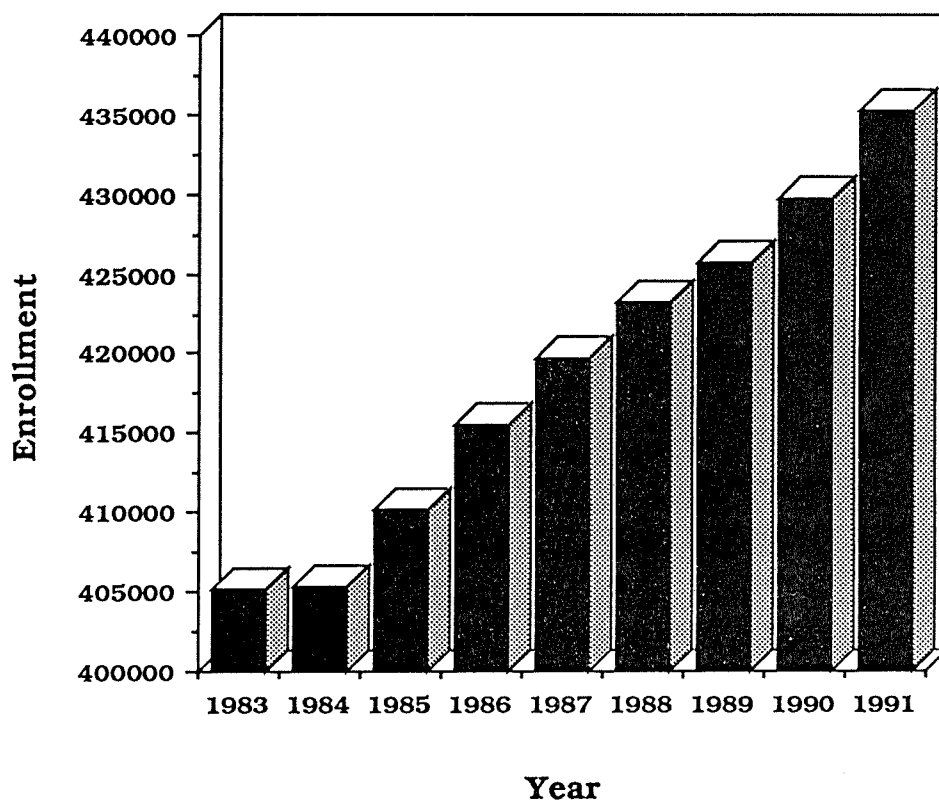
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Att. 5

# How Kansas compares



# Projected enrollment increases in Kansas schools



KANSAS CITY UNIFIED SCHOOL DISTRICT NO. 500  
625 Minnesota Avenue  
Kansas City, Kansas

January 26, 1988

Senate Assessment and Taxation Committee  
Re: Senate Bill No. 490

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before you today. My name is Helen Stephens and I represent Kansas City USD #500 and I appear today as a proponent with a concern.

Kansas City USD #500 supports the concepts of Senate Bill 490; which we believe are to return a part of the "windfall" through tax reform and for the State to retain the balance.

The state is experiencing some economic difficulties, which have been reflected in the funding of education. Over the past several years, state funding for school district equalization aid, special education and transportation have been lowered; which has increased the personal property taxes for all Kansans.

We urge you to retain the windfall and "return" it to Kansans through increased funding for elementary and secondary education. This will allow districts to hold the line or lower their school levy.

Thank you for your time and I would be happy to answer any questions you have.





# Kansas Retired Teachers Association

Retired — Not Withdrawn

1987 - 1988



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**Legislative Chairman**  
Basil Covey  
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Topeka, Ks. 66614  
Phone 913-272-5914

January 26, 1988

Members of the Senate Assessment and Taxation Committee:

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

We support HB 2543 because it contains an issue we support, mainly, that Social Security retirement benefits are excluded from Kansas income tax.

There are two issues here:

1. There is taxation by default. This type of taxation dates back to the Boston Tea Party.
2. There is the credibility of a successful candidate at the ballot-box with a pledge that is a matter of public record. That pledge is not being carried out.

AS far as we know there has never been a bill in either Kansas house introduced to tax social security retirement dollars. There have been several bills introduced in the last four years to exclude social security retirement dollars. You know what happened to those bills.

Social security retirement dollars were never meant to be taxed. This was a bond, a contract between the U.S. government and the citizens. The contract was changed by mutual consent to save the SS system. Forty states have honored the original contract and have not taxed social security retirement dollars. Kansas is not one of them.

If social security retirement dollars had been present when the 1929 stock market crashed the Great Depression would not have been so devastating. We were saved from a depression following Black Monday in 1987 because retired citizens kept the economy going.

Most Kansas retired teachers have three

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**District 3**  
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**District 4**  
Laurence Stanton  
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Dodge City, Ks. 67801

**District 5**  
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1956 N. Tyler Rd.  
Wichita, Ks. 67212

**District 6**  
James McCollam  
Box 6  
Wier, Ks. 66761

sources of income, none of which by itself will keep us from living with our children. Retired teachers have KPERS benefits, social security retirement dollars and, if lucky, some private investment earnings. It is difficult to balance a retired person on a three-legged stool with one leg shortened. Other retired Kansas citizens with both husband and wife working during their life for industry with higher salaries than teachers, have a four-legged stool. It is easier to balance a four-legged stool with one leg shorter.

Those of us who have worked for school districts and the state, as legislators are, are constantly subjected to an element of intimidation by taxpayers who pay our salaries. If a person has other sources of income, or other occupations one tends to take refuge in it by saying, "This is not a full-time job."

Teaching is a full-time job. Although school is for nine months the other three months is used for more education or other jobs to supplement a salary to support a family.

We have tried to learn the amount of tax from Kansas retirees on social security retirement dollars but were never successful. We were told an estimate of 3 to 4 million. We were surprised and somewhat intimidated to learn the amount is 9 million retirement dollars.

The jury is still out on Reaganomics, but was not the theory behind that--to tax is to stifle the economy?

Would not the Kansas economy be better with 9 million retirement dollars left with the owners to be exchanged for goods and services?

We urge you to lift the section on excluding social security benefits from Kansas income tax and amend the Tax Reform bill, if HB 2543 goes by the wayside as other similar bills have.

You can help this successful candidate regain credibility by making this a part of the Governor's Tax Reform bill.

Surely, he will not veto his campaign pledge.

Sincerely,

  
Basil Covey  
KRTA