

Approved January 28, 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.~~am~~ on January 27, 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:

Robert More, former Child Care Center owner
Rep. Bruce Larkin
Dr. Stan Koplik, Exec. Dir. Kansas Board of Regents
Merle Hill, Ex. Dir., Ks. Assoc. of Community Colleges
John Blythe, Kansas Farm Bureau
Richard B. Chalker, Arthur Young & Co.

Chairman Kerr called the meeting to order and informed the committee that there would be continued hearings on S.B. 490 and H.B. 2543.

Robert More, testified in support of section three of S.B. 490 and section four of H.B. 2543. (Att. 1) He said such provisions would mean a family may take an amount equal to 25% of their federal child care tax credit against state taxes. Because the federal limit per child is \$720, the state credit could not exceed \$180.00. He stated that there are 60 licensed centers and 600 license homes providing child care in Shawnee County. If each place enrolls just one private-pay child who qualifies for the maximum credit, the state's cost would be a little over \$100,000 in return for an industry with a potential economic impact exceeding \$2,000,000.

Rep. Bruce Larkin testified. (Att. 2) He stated that he was present to ask for consideration of providing an income averaging provision in the Kansas Income tax code. He stated that since the federal government eliminated income averaging from the tax reform in 1986 that some feel the beneficiaries were those with steadily rising incomes rather than those with fluctuating incomes. Rep. Larkin stated that he felt the carry-forward provision was necessary for this reason. A carry-forward provision would allow those with fluctuating incomes to carry forward losses, personal deductions, and standard deductions. This would enable persons with a fluctuating income to be on a more even scale with those having steady yearly incomes.

Dr. Stan Koplick testified. (Att. 3) He stated that he was sensitive to the demands being placed on the state general fund, and yet, felt that higher levels of quality and competitiveness were needed very badly. He felt that the erosion in education funding must be halted. He encouraged support for making as much money as possible available for general fund expenditures.

Merle Hill testified. (Att. 4) He stated that the delegates of the Kansas Association of Community Colleges do not have a position on all of S.B. 490, but they are supportive of the State Board of Education funding plan for Community Colleges. He said this would mean that as much of the windfall as possible should be retained for use in funding education. He said such funding would help hold local property taxes down. He said community colleges do a lot for economic development.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,
room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on January 27, 1988.

John Blythe testified. (Att. 5) He stated that the Kansas Farm Bureau adopted the statement at their annual meeting that, "Kansas should retain all or the greater portion of the so-called "windfall" in the State General Fund so that the state may increase state aid to Unified School Districts and higher education, and also fund agricultural activities that have been overlooked the past few years." He also stated that they felt the state general fund should have adequate balances or reserves. Additional state aid to Unified School Districts will help in property tax relief.

Chairman Kerr called attention to written testimony from Gerald W. Henderson, United School Administrators, (Att. 6) and Connie Hubbell, Kansas State Board of Education, (Att. 7) who were unable to be present but wanted to present testimony.

Richard B. Chalker testified. (Att. 8) He stated that the Tax Reform Act of 1986 not only complicated the federal tax system, but has played a major role in increasing the complexity of Kansas income taxes. He identified some of the major changes proposed by the Governor's Task Force on Tax Reform designed to simplify the existing Kansas tax structure.

Mr. Chalker said that when he first heard that the federal tax deduction was being proposed to be eliminated he had fears that this would cause a tax increase for many of his clients. He said that after analyzing the lower state rates and the lower federal tax in 1988, he readily admits he was "dead wrong." He said that in fact this provision along with several other proposed changes have good policy advantages.

After listing and discussing these changes, he stated that the recommendations are intended to establish a simple, broadbased and equitable tax system for all taxpayers. He stated that the impact to Kansas residents will generally be favorable with most taxpayers having their tax liability remaining the same or reduced.

Mr. Chalker listed some benefits which he felt was consistent with the Governor's findings.

1. State tax liability for 105,000 households below poverty level is eliminated.
2. Approximately 500,000 to 600,000 taxpayers will be able to file on a "short" form.
3. Tax returns for those not filing a short form will also be simplified.
4. Proposal provides an estimated \$21 in tax relief to Kansans, with greatest relief directed to the low-income household.
5. Tax base is broader and progressive with respect to income.
6. Reduces economic distortions by minimizing preferential treatment of various incomes or expenditures and reducing tax rates.

After responding to several questions, Mr. Chalker was asked that if the provisions of S.B. 490, including removing federal tax deductability, became law "what, in your opinion will be the ultimate view of your Kansas clients toward these changes after they have had the opportunity to fully evaluate the changes?" He said, "the reaction will be good."

Sen. Thiessen made the motion to accept the minutes of the January 26 meeting. Senator Montgomery seconded. Motion carried.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
1-27-88	John Blythe	Manhattan	Ks Farm Bureau
"	SHELBY SMITH	Wichita	Stinson Co's.
"	My Cole	Topeka	K-NEA
"	Richard Famb	Topeka	KASB
"	Robert More, Jr.	Denison	Self-Child Care
"	Stanley Z. Koplik	Topeka	Reats
"	Debra Wray Blythe	Manhattan	---
"	BUD GERTT	TOPEKA	KCCJ
"	GERHARD METZ	TOPEKA	KCCI
"	JEFF RUSSELL	TOPEKA	UNITED Telephone
"	Richard B. Chalke	Prairie Village	Arthur Young
"	Gene Betts	Overland Park	United Telephone
"	MARK BURGHART	TOPEKA	DOR
	Mary E. Harper	Scott City	Farmer
	Ed Harber	Topeka	League of KS County Politics
	Bruce Zerkow		Rep
	Nike Germann	Topeka	Ks Railroad Association
	H Duncanson	Topeka	Dept of Revenue
	Bw Boon	"	"
	Jack B. Smith	"	"
	John Luttjoham	"	"
	Tom Whitaker	"	Ks Motor Carriers Assn.
	Jim M. Brude	Topeka	Observer
	John D McNeal	Topeka	TROA
	Bill Kastens	"	NARFE
	Ed Wechsner	Topeka	Warburton Ua
	Merle Hies	"	KACC
	Karen McClain	Topeka	KAR
	JOHN H. HOLMGREN	Topeka	CHAK Catholic Health Assn.

My name is Robert More. I thank Senator Kerr and the committee for letting me speak in favor of Senate Bill 490 and House Bill 2543. If section 3 of SB 490 or section 4 of HB 2543 passes, a family may take an amount equal to 25% of their federal child care tax credit against state taxes. Because the federal limit per child is \$720 dollars, the state credit cannot exceed \$180 dollars and may be less. But what good will that \$180 dollars do for Kansas?

(1) Economic Benefit. For every family credit there must also be a professional caregiver. One study found four ways a caregiver creates a positive economic impact:

- Provider Revenues (e.g., salaries)
- Provider Expenditures (insurance)
- Public Revenues (contracts)
- Public Regulations (licenses).

A research project in rural North Carolina found that wages of 700 caregivers earned \$1,200,000 and leveraged another \$1,000,000 for the local economy.

Here in Shawnee County, Kansas, 60 licensed centers and 600 licensed homes provide child care. If each place has just one employee, some 700 workers care for children. If each place enrolls just one private-pay child who qualifies for the maximum credit, the state's cost would be a little over \$100,000 in return for an industry with a potential economic impact exceeding \$2,000,000 dollars.

(2) Family Benefit. A family-based tax credit strengthens the traditional family unit. The family freely chooses the best child development arrangement. The President of the United States reminded us nearly two decades ago that "good public policy requires that we enhance rather than diminish both parental authority and parental involvement with children--particularly in those decisive early years."

The state Department of Revenue told me last week that "very, very few" families can now claim any child care credit and so the expense to the state is in the lowest possible cost category. The same staff person confided that as a working mother she had wished for years to claim a credit but could not qualify. She then admitted it never occurred to her that the problem could be solved simply by updating archaic 1978 figures.

I ask that you legislators solve this problem and take full credit for caring for our little ones and enhancing our Kansas' family. It seems to me, to close, that line 178 of SB 490 should grammatically use "is" instead of the past imperfect tense "was."

If you have any questions, I will gladly respond to you. Thank you for this opportunity to testify.

January 27, 1988

Mr. Chairman and members of the tax committee. I understand the importance of your time and so I will be brief in my request.

I would like to ask for your consideration for an income averaging provision in the Kansas Income tax code. As you are aware the federal government eliminated income averaging from the reform package in 1986. Critics claimed that beneficiaries were people with steadily rising incomes rather than those with volatile income. I agree with the critics and for this reason I would suggest that income averaging could be accomplished by a carry-forward provision. There are many farmers - ranchers, and businesses across the state of Kansas who are periodically thrown into a higher tax bracket because of volatile income.

Example: based on a 5 year average.

A carry-forward provision which would allow those with volatile incomes to carry forward losses, personal deductions, and standard deductions would help to even out taxable income. In this way those with volatile incomes would pay income tax on a more even scale with those who have a steady yearly income. For your information I have included page 8 of the Governor's task force recommendations for business tax options which include a carry-forward provision.

Currently there are efforts underway in Washington to reinstate income averaging through a carry-forward provision or a modified income averaging proposal which would limit its use to taxpayers whose income has fallen in one of the prior three years. Personally I prefer the carry-forward provision, and would ask the committees consideration of this proposal.

Agriculture and agriculturally related business are the economic base of this state and I feel we should take the lead in promoting tax equity. I do not view this as a tax break but a means of fairly taxing those farmers, ranchers and businesses with volatile income. Thank you for your consideration.

NET OPERATING LOSS CARRYBACKS

ISSUE: Should Kansas repeal its provisions allowing the carryback of net operating losses for three years and replace it with a provision allowing only a carryforward of losses for a ten-year period?

CURRENT LAW: Current law allows Kansas net operating losses to be carried back and offset against taxes paid in the prior three years. Any unused loss may be carried forward for seven years. Refunds are made for the taxes paid in the prior years to the extent there are losses to cover them.

FISCAL IMPACT: The refund of taxes and interest on net operating losses amount to approximately \$14 million annually. The effect of repealing the carryback would be a "one-time" increase in receipts of that magnitude. If made effective for tax years beginning in 1988, the impact would likely be split between FY 1989 and 1990 because of the lag in filing returns.

COMMENTS:

- In the 18 month period from January 1986-June 1987, 4,208 NOLs were processed and roughly \$21 million in tax and interest were refunded. The average refund was \$4,975.
- Seventeen states currently allow only the carryforward of operating losses. Nineteen allow a carryback/carryforward as does Kansas, but the trend among states is toward carryforwards only.
- Repeal of the carryback would affect existing firms who profitability previously, but would not affect a new firm.
- NOLs add a considerable degree of uncertainty and volatility to an already unstable source of revenue. Between FY 1982 and FY 1987, net corporate income tax receipts varied from a high of \$146 million to a low of \$105 million, a spread of nearly 30 percent. The \$41 million spread is equal to 2.0 percent of FY 1989 State General Fund receipts. Refunds accounted for a significant portion of that variance, running as low as \$20 million and as high as \$50 million. Refunds increased from \$24 million in FY 1983 to \$50 million in FY 1984. Such drastic swings make revenue estimating and budgetary planning difficult.
- NOLs are time consuming and can be quite difficult to administer. Each NOL must be subjected to office audit, and significant difficulty is experienced when a year to which a loss is carried and a refund made is subsequently adjusted by a state or federal audit. We estimate that NOLs consume the time of 2.0 FTE which could otherwise be devoted to corporate or other tax compliance work.
- Repeal of the NOL carryback should be seen as a trade-off for other corporate changes desired by taxpayers.
- A ten year carryforward is suggested as being reasonable, but administrable. Longer carryforwards can result in excessive records retention and file space difficulties.
- For further information, see memorandum in notebook.

SENATE ASSESSMENT AND TAXATION COMMITTEE
SENATE BILL 490

Dr. Stanley Z. Koplik, Executive Director
Kansas Board of Regents
January 27, 1988

Chairman Kerr and Members of the Committee:

I am not here today to advise this committee on the intricacies of tax policy. Neither the Kansas Board of Regents nor I claim to have any special expertise in that area. Furthermore, it is unlikely that you would seek our opinions or guidance regarding matters of general taxation. This is probably how it should be.

Instead, I appear before you today to speak briefly on a subject of which we feel quite well informed--higher education in Kansas. In particular, during the past few months as we developed a longer term plan for the Regents institutions which has become familiar as the Margin of Excellence, the cost implications for Kansas became abundantly clear. Although we will assuredly continue to seek reasonable and responsible revenues from non-state sources, namely tuition and hospital fees, the majority of our funding is borne by the State General Fund of Kansas. To this end, it is therefore in our best interests to urge a healthy and unencumbered general fund for Kansas. Statewide demands on the general fund are presently intense and even the casual observer knows they will become more acute over the next several years. The condition and health of public higher education in Kansas is a direct product of the state's economic condition as measured by whether the general fund is robust or limp. In this connection we urge the state to retain maximum flexibility within its resources thereby allowing various demands, priorities and needs the benefit of full debate, open competition and oftentimes, compromise. This also, is how it should be.

My point is simply this. As you discuss measures affecting the State General Fund, please also consider our collective aspirations for desired levels of quality and competitiveness at Regents institutions. We have not fared well in recent years. The resulting erosion must be halted now or we will encounter a situation best summed up by former Governor Richard Lamm of Colorado who remarked: "The state that is second best educationally will be second best economically."



KANSAS ASSOCIATION OF COMMUNITY COLLEGES

Columbian Title Bldg., 820 Quincy • Topeka 66612 • Phone 913-357-5156

W. Merle Hill
Executive Director

To: Senate Committee on Taxation

From: Merle Hill, Executive Director
Kansas Association of Community Colleges

Date: January 27, 1988

Subj: Senate Bill No. 490

Mr. Chairman, Members of the Committee.

I am Merle Hill, executive director of the Kansas Association of Community Colleges.

The delegates of the Kansas Association of Community Colleges do not have a position on all of Senate Bill No. 490. By voting to support the community college five-year funding plan being proposed by the State Board of Education, based on the retention of the "windfall tax," however, they are proponents of that section of SB 490, with the concern that it be used to fully fund the State Board's budget requests.

As you noted in the Governor's written message to the Legislature, the "percent of community college expenditures financed with state aid has decreased from 31.2 percent in FY 1982 to 24.2 percent in FY 1987."

Currently in second from last place in state funds received as a percentage of operating revenues, the Kansas community colleges are rapidly overtaking Arizona for next to last place, since we're currently only 0.2 percent ahead. And Arizona is planning an 8-percent increase for its community colleges.

We believe returning the "windfall tax" for property tax relief, and in the community colleges' case, to enable them to do even more for economic development, will be an investment and, in a few years, a greater net return to Kansans. In 1987, nearly 500 businesses contracted with the community colleges for education and customized training for their employees. With stronger state financial support, this number can be significantly increased.

Thank you for your support.



PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

Re: S. B. 490 - Amending and Supplementing the Kansas Income Tax Act

January 27, 1988
Topeka, Kansas

Presented by:
John K. Blythe, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

My name is John K. Blythe. I am the Assistant Director of Public Affairs for Kansas Farm Bureau. We appreciate the opportunity to address your Committee today on the issue of amending and supplementing the Kansas Income Tax Act.

The Kansas Farm Bureau at their Annual Meeting in Wichita December 1, 1987 adopted the following policy statement:

State and Local Governmental Budgeting, Spending and Taxation

It is time in Kansas to write a basic tax policy of taxing people for services to people and taxing property for services to property.

Expenditures by the State of Kansas and by local units of government in Kansas in any fiscal year should never exceed projected revenue receipts for that fiscal year.

Zero-base budgeting is essential to fiscal planning and should be required for all state agencies as well as all local units of government.

The federal "Tax Reform Act of 1986" has made Kansas individual and corporate income tax more complex. Estimates and predictions by experts vary greatly regarding the size of the "tax windfall" for Kansas.

We believe Kansas should retain all or the greater portion of the so-called "windfall" in the STATE GENERAL FUND so that the state may increase state aid to Unified School Districts and higher education, and also fund agricultural activities that have been overlooked the past few years.

The State General Fund should have
ances or reserves.

A & T Mtg.

1/27/88
Att. 5

We would like to place emphasis upon the last two paragraphs. "We believe Kansas should retain all or the greater portion of the so-called "windfall" in the State General Fund so that the state may increase state aid to Unified School Districts and higher education, and also fund agricultural activities that have been overlooked the past few years.

The State General Fund should have adequate balances or reserves." We believe that we should adequately fund agricultural extension education and research to have economic development in the rural areas of the State.

Additional state aid to Unified School Districts will help in property tax relief.

Thank you for the opportunity to appear before your Committee today and express our organizational views on Kansas Tax Reform and the so-called "windfall" income tax. I would be pleased to respond to any questions.

KANSAS PERSONAL INCOME

SOURCE: Kansas Economic Report

add 000,000

	Total Per. Income	Farm Income	Percent of Total	Gov't. Income	Percent of Total	Non-farm Income	Percent of Total
1950	\$ 2,671	\$520	19.8%	\$390	14.6%	\$1,752	65.6%
1960	4,546	449	9.9%	881	19.4%	3,216	70.7%
1965	6,039	490	8.1%	1,235	20.5%	4,314	71.4%
1970	8,860	554	6.3%	2,227	25.1%	6,079	68.6%
1975	14,141	756	5.4%	3,767	26.6%	9,618	68.0%
1979	22,470	1,365	6.1%	5,275	23.5%	15,830	70.4%
1980	24,318	652	2.7%	6,170	25.4%	17,496	71.9%
1981	26,836	333	1.25%	6,990	26.0%	19,513	72.7%
1982	29,476	1,221	4.1%	7,649	25.9%	20,606	69.9%
1983	30,363	825	2.7%	7,823	25.8%	21,715	71.5%
1984	33,193	779	2.3%	8,201	24.7%	24,213	72.9%
1985	35,221	1,087	3.1%	8,642	24.5%	25,492	72.4%
5 yr ave.	31,017.8	849.0	2.7%	7,861.0	25.3%	22,307.8	71.9%

Farm Income = Net income from Crops and Livestock; Gov't. farm payments,
Value of home consumption and rental value of dwellings

KANSAS PROPERTY TAXES

	Total Property Tax	Agricultural Land and Improvements	Percent of Total	Agricultural Personal Prop.	Percent of Total
1979	\$889,556,072	\$121,192,630	13.6%	\$49,258,056	5.5%
1980	903,382,188	126,424,060	14%	43,156,095	4.8%
1981	1,005,497,341	134,778,910	13.4%	49,566,630	4.9%
1982	1,049,865,569	136,334,725	13.0%	47,308,054	4.5%
1983	1,113,944,595	151,944,980	13.6%	18,121,006	1.6%
1984	1,170,076,729	156,167,220	13.35%	17,325,293	1.5%
1985	1,250,579,932	162,977,050	13.03%	17,878,133	1.43%
1986	1,291,393,002	168,064,010	13.0%	17,006,087	1.4%
4 yr ave.	1,206,498,564	159,788,315	13.2%	17,582,629	1.5%

Source: Statistical Report of Property Valuation Department



SB 490

Written testimony submitted to the Senate Assessment and Taxation Committee
by Gerald W. Henderson, Executive Director
United School Administrators of Kansas

January 25, 1988

Mister Chairman and members of the committee.

We support the concepts contained in Senate Bill No.490 with some reservations. We believe all revenues accruing to the state due to the so-called windfall should be made available as needed to fund **existing** state obligations. One of the major obligations of the state of Kansas is its public educational system. During the past several years the state of Kansas has reduced its percent of funding to public education from almost 47 percent to 42 percent. We realize this reduction in state support was due to the economic climate in Kansas. This fall of state support from 47 to 42 percent has placed an undue burden on local property taxes. The use of funds available from the so-called windfall to reinstate the state's shared percentage of support to schools will slow further escalation of the ad valorem tax. This is, in fact, a direct tax relief to the citizens of Kansas. Administrative costs associated with returning the funds could be eliminated by using the so-called windfall to fund these very important programs. This approach will assist the state of Kansas in funding these mandated programs in future years.

Respectfully submitted,

Gerald W. Henderson
Executive Director
United School Administrators

GWH/sh

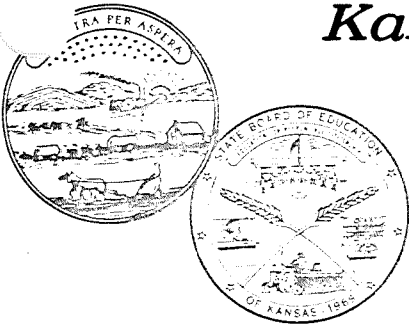
A & T Mtg.

1/27/88

Kansas State Board of Education

Kansas State Education Building

120 East 10th Street Topeka, Kansas 66612-1103



Mildred McMillon
District 1

Connie Hubbell
District 4

Bill Musick
District 6

Evelyn Whitcomb
District 8

Kathleen White
District 2

Sheila Frahm
District 5

Richard M. Robl
District 7

Robert J. Clemons
District 9

Paul D. Adams
District 3

Marion (Mick) Stevens
District 10

January 27, 1988

TO: Senate Assessment and Taxation Committee

FROM: State Board of Education

SUBJECT: 1988 Senate Bill 490

The State Board of Education supports retaining the windfall tax that the state will be receiving in fiscal years 1988 and 1989 to assist in the improvement of Kansas education. During the past two years, the amount of funds appropriated to education has been limited due to the economic condition of the state. This has placed a burden on the property taxpayer.

The State Board is also concerned about the state's ranking in teacher salaries that has declined over the past year from 29th to 33rd. We believe it is important that if Kansas is to continue its economic growth in the recruitment of business and industry that additional aid be made available for the improvement of education and to assist the continued rise in the property tax.

The State Board of Education supports an adequate funding system for the community colleges and area vocational-technical schools which have been underfunded for the past two years.

Following a brief review of the Margin of Excellence Program submitted by the State Board of Regents, we believe that program is justifiable and should be funded.

We, therefore, recommend that the windfall tax received by the State of Kansas be retained in the state general fund and the majority of that revenue used for educational enhancement.

TESTIMONY BEFORE THE
SENATE ASSESSMENT AND TAXATION COMMITTEE

JANUARY 27, 1988

RICHARD B. CHALKER, CPA
PARTNER
ARTHUR YOUNG & COMPANY
KANSAS CITY

The Tax Reform Act of 1986 not only complicated the federal tax system, but it has also played a major role in increasing the complexity of Kansas income taxes. Presently, there are considerable differences between Kansas itemized deductions, the standard deduction, and personal exemptions and the corresponding federal provisions. These differences will add complexity for the taxpayer and increase compliance difficulties for the State of Kansas. Thus, to simplify greatly the existing Kansas tax structure, the Governor's Task Force on Tax Reform has made some proposals to amend the Kansas individual income tax laws. A brief description of the major changes is as follows:

Kansas Standard Deductions: The standard deduction is increased to conform with federal, including an additional amount (\$600 for married taxpayers and \$750 for single) for elderly and blind taxpayers, as shown below:

	<u>Current</u>	<u>Proposed</u>
Married	\$2,100 - \$2,800	\$5,000
Single	1,700 - 2,400	3,000
Head of Household	1,700 - 2,400	4,400
Married Filing Separate	1,050 - 1,400	2,500

Kansas Personal Exemptions: The personal exemption is also increased from \$1,000 to \$1,950 per allowance (\$2,000 in 1989) to conform with federal.

Federal Income Tax Deduction: The deduction for federal income taxes has been eliminated.

Kansas Itemized Deductions: The Kansas itemized deductions will conform with the federal itemized deductions, with the exception of state and local income taxes, which will continue to be nondeductible. The proposal will eliminate eleven areas

of existing non-conformity between Kansas and federal law, including medical expenses, sales tax, and the deduction for social security, self-employment and railroad retirement taxes.

Kansas Tax Rates: The current rate structure of eight tax brackets ranging from two percent to nine percent will be reduced to two tax brackets:

Single:	\$ 0 - \$25,000	4.8%
	over \$25,000	6.2%
Married:	\$ 0 - \$37,500	4.15%
	over \$37,500	5.4%

Tax Credits: All taxpayers eligible to claim a federal child care credit are allowed to claim a Kansas credit equal to 25% of the federal credit.

The above recommendations are intended to establish a simple, broad-based and equitable tax system for all taxpayers. According to the Governor, the impact to resident Kansans will generally be favorable with most taxpayers having their tax liability reduced or at least remaining the same as under the current system. As shown below, we have tested examples under various scenarios and the results support the Governor's statements. We believe that, in most situations, taxpayers will see a decrease in their tax. Since every individual situation is unique, we could not test all possible combinations of income, deductions, exemptions and filing status. However, a number of examples were tested, from which we have selected five different economic situations which we believe to be a representative sample of Kansas taxpayers living in the Kansas City metropolitan area.

	Examples				
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Filing status	Married	Single	Married	Married	Married
Personal Exemptions	3	1	2	2	3
Kansas Adjusted					
Gross Income	20,000	30,000	55,701	74,215	99,215
1988 Kansas Tax					
- Proposed Law	380	1,202	1,458	2,788	3,128
1988 Kansas Tax					
- Current Law	451	1,363	1,339	2,888	3,594
Increase <Decrease>	<71>	<161>	119	<100>	<466>
Percentage Change	<15.74%>	<11.81%>	8.89%	<3.46%>	<12.97%>

The Governor's committee has identified some principal benefits which stress the simplicity and fairness of the proposal. Our research and examples produced results which are consistent with the Governor's conclusions.

- The state tax liability for 105,000 households below the poverty level is eliminated because of the increased standard deduction and personal exemptions.
- 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.
- Tax returns for those not filing a short form will also be simplified significantly.
- The proposal provides an estimated \$21 million in tax relief to Kansans, with the greatest relief directed to the low-income households. The tax burden for two-thirds of all Kansans will be reduced or stay the same.
- The tax base is broader and is progressive with respect to income. This allows tax rates to be reduced and will help insure that persons in similar economic circumstances are treated equally.

- The proposal reduces economic distortions by minimizing preferential treatment of various types of income or expenditures and reducing tax rates.

The proposed changes will be a giant step towards tax simplification and tax equity in the Kansas tax system. As indicated by Governor Hayden and supported by our calculations, this tax reform can be accomplished without increasing the tax burden for the majority of our Kansas population. Although in certain selected cases, individuals may experience a slight tax increase, the majority of taxpayers will pay the same or less tax. We believe that the comprehensive individual tax reform package is worthy of serious consideration.