Approved Feb. 2, 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 February 1, 1988 in room 519-S of the Capitol.

All members were present except:

Senator Robert Frey

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:

Secretary Harley Duncan, Dept. of Revenue
Jack Ranson, Ranson & Co., Inc.
Ernie Mosher, Kansas League of Municipalities
Richard Funk, Kanasa Assoc. of School Boards

SENATE BILL 454

Chairman Kerr called the meeting to order and called the committee's attention to the agenda change on Wednesday, February 3. The committee will not be hearing S.B. 453 as previously announced, but will be having discussion and action on Income Tax reform bills.

Tom Severn of the Research Dept. gave briefing on S.B. 454. (Fiscal Note is Att. 1) He stated that S.B. 454 provides that all interest income on debt obligations of the state of Kansas or any political subdivision of the state be exempt from income taxes imposed by the state of Kansas. Under current law, only interest earned on those debt obligations with a specific statutory exemption is excluded from taxation in Kansas.

Secretary Duncan testified. (Att. 2) He stated that the provision of S.B. 454 is also a component of S.B. 490. He said that presently, only interest from obligations which are exempt pursuant to the statute which authorizes their issuance are excluded from Kansas Adjusted gross Income. The provisions of S.B. 454 would apply to all taxable years beginning after December 31, 1987, and would exclude the earnings on all Kansas and Kansas political subdivision obligations from the state's income tax. The exclusion would apply to all issues which are currently outstanding as well as those issued in the future. Secretary Duncan also stated that the Administration supports the intent of this bill because it:

1. Encourages investment in Kansas obligations by Kansas investors.
2. It provides clarity to investors because they will be assured of the tax status of Kansas obligations.
3. It relieves some administrative problems for the department by eliminating the necessity of an annual review of the statutes authorizing the issuance of bonds to determine their tax status.

He also stated that they request one amendment on line 34 asking that the word "exempt" be added, reading, "such interest shall be exempt and excluded from computation of Kansas adjusted gross income whether or not included in federal adjusted gross income." Fiscal impact in FY89 State General Fund revenue is less than $2.0 million.

Jack Ranson testified in support of S.B. 454. He stated that his company would not directly benefit from the bill as a result of the removal of the tax, but felt that it would benefit: local government, (local property taxpayers,) and Kansas investors. He felt that it would encourage Kansas investors to keep the funds in Kansas securities. He said it was a significant factor that forty-five of the fifty states do not levy an income tax on their own states' municipal bond interest income to individuals. (Att. 3)

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 AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./p.~~m.~~ on February 1, 1988

Ernie Mosher testified. (Att. 4) He stated that the Kansas League is supportive of S.B. 454., and Sect. 4 of S.B. 490 which would exempt from state income taxation the intererst on all Kansas municipal bonds. He felt it would reduce the cost of local government borrowing for essential public improvements and facilities.

Richard Funk testified in support of S.B. 454 because it would provide for simplification and lower interest rates.

Secretary Duncan provided the committee with previously requested information regarding "Treatment of employee business expenses for Kansas Income tax purposes in 1987". (Att. 5) He stated that prior to the 1986 federal changes, all reimbursed employee business expenses, reimbursed travel expenses of employees, and all business expenses of an outside salesperson were deductible "above the line" expenses. The 1986 Tax Reform Act provides that only reimbursed employee expenses are deductible above the line. Expenses which are unreimbursed must now be claimed as federal itemized deductions. Also, only 80% of meal and entertainmnet expenses are deductible. He said that taxpayers affected most dramatically by this change are "outside salespeople," because this group tends to have a high level of unreimbursed expenses, all of which used to be deductible above the line. He stated that fiscal impact is difficult to estimate.

Secretary Duncan distributed information regarding "Double" Personal Exemption for Certain Taxpayers", (Att. 6) He stated that this information addresses various options for allowing elderly and blind taxpayers the extra personal exemption they "lost" due to federal tax reform. He stated that the fiscal impact would be $9.1 million for tax year 1987. It would affect about 150,000 taxpayers for an average of $60.00 each. He stated that S.B. 490 would provide state-level tax treatment for these taxpayers that is identical to that provided at the federal level effective for tax year 1988. They would receive a higher standard deduction, an additional standard deduction amount, and a higher personal exemption. In response to a question concerning how this could be enacted, Sec. Duncan stated that if this change is made effective for tax year 1987, it will require submission of an amended return, which would be very difficult to handle efficiently because of the volume it would entail. His suggested proposal is: Instead of providing a refund to the actual tax savings from the exemption, provide a $60.00 refund to each qualifying taxpayer, (a one time $60 credit on their 1988 income tax).

Senator Hayden made a motion to adopt the minutes of January 28 and 29 meetings. Senator Karr seconded. Motion carried. Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-1-88	Dana Ferrell	Topeka	Budget
✓	John Luttjohann	Topeka	Revenue
✓	JACK RANSON	WICHITA	RANSON & CO., INC.
	H Duncan	Topeka	Rev
✓	John Conard	"	Governor
	[illegible]	"	[illegible]
	Mary Harper	Scott City	Farmer
	Jamie Schwartz	Topeka	United Telecom
	RON CALBERT	NEWTON	U.T.U.
	Rich Dame	HOISINGTON	B.L.E.
	TREVA POTTER	TOPEKA	PEOPLES NAT GAS
	Ken Bahr	Topeka	Norton [illegible] Corp.
	Rebecca Rice	"	Amoco
	Tom Whitaker	TOPEKA	Ks Motor Carriers Assn
	John T. Torbert	"	KS. ASSOC. OF COUNTIES
	Gerry Ray	Olathe	Jo Co Comm.
	Richard Funk	Topeka	KASB
	Shelby Smith	Wichita	[illegible]
	Terry Stevens	Topeka	City of Topeka
	Ken Peterson	"	KS Petroleum Cncl
	GERHARD METZ	"	KCCI
	[illegible]	[illegible]	G. K. GAUM
	D. WAYNE ZIMMERMAN	TOPEKA	KDOC
	Chuck Stones	Topeka	KBA
	[illegible]	"	Girl Scouts
	Allen Bell	"	KDFA
	Rebecca Beutler	Lawrence	Intern - Sen. Parrish

43N

412	454
Fiscal Note	Bill No.

1988 Session
January 25, 1988

The Honorable Fred Kerr, Chairperson
Committee on Assessment and Taxation
Senate Chamber
Third Floor, Statehouse

Dear Senator Kerr:

SUBJECT: Fiscal Note for Senate Bill No. 454 by Special Committee on Assessment and Taxation.

In accordance with K.S.A. 75-3715a, the following fiscal note concerning Senate Bill No. 454 is respectfully submitted to your committee.

Senate Bill No. 454 provides that all interest income on debt obligations of the state of Kansas or any political subdivision of the state be exempt from income taxes imposed by the state of Kansas. Under current law, only interest earned on those debt obligations with a specific statutory exemption is excluded from taxation in Kansas.

The provisions of Senate Bill No. 454 would apply to all taxable years commencing after December 31, 1987 and would take effect and be in force from and after its publication in the statute book.

The Department of Revenue estimates that passage of this bill would reduce tax year 1988 liability by approximately $2,000,000. Tax year 1988 liability would be credited to the State General Fund during fiscal year 1988 and 1989, the majority being received in FY 1989.

The Department indicates that no administrative costs would be incurred by the passage of this bill.

Sincerely,

M F O'Keefe

Michael F. O'Keefe
Director of the Budget

MFO:DF:pks

1464

A & T 2/1/88

Att. 1

KANSAS DEPARTMENT OF REVENUE
Division of Taxation
Robert B. Docking State Office Building
Topeka, Kansas 66625-0001

MEMORANDUM

TO : THE HONORABLE FRED KERR, CHAIRMAN
SENATE COMMITTEE ON ASSESSMENT AND TAXATION

FROM: HARLEY T. DUNCAN
SECRETARY OF REVENUE

DATE: JANUARY 22, 1988

RE: SENATE BILL 454

Thank you for the opportunity to appear before you on Senate Bill 454 which would exclude interest on obligations of the State of Kansas or its political subdivisions from Kansas income tax. The provision discussed herein is also a component of Senate Bill 490.

Presently, only interest from obligations which are exempt pursuant to the statute which authorizes their issuance are excluded from Kansas Adjusted Gross Income. Effective for taxable years beginning after December 31, 1987, this bill would exclude the earnings on all Kansas and Kansas political subdivision obligations from our state's income tax. The exclusion would would apply to all issues which are currently outstanding as well as those issued in the future.

The Administration supports the intent of this bill because it accomplishes three significant goals. First, it encourages investment in Kansas obligations by Kansas investors since the earnings therefrom won't be subject to state income tax. Secondly, it provides clarity to investors, because they will be assured of the tax status of Kansas obligations. Third, it relieves some administrative complexity for the department by eliminating the necessity of an annual review of the statutes authorizing the issuance of bonds to determine their tax status.

We suggest one slight amendment at line 34 of the bill. We recommend that the word "exempt" be added so that the provision reads "such interest shall be exempt and excluded from computation of Kansas adjusted gross income whether or not included in federal adjusted gross income." This change would complement similar language in K.S.A. Supp. 79-1109.

The estimated fiscal impact of this bill is a reduction in Fiscal Year 1989 State General Fund revenues by an amount of less than $2.0 million. This provision is included as a component of Senate Bill 490, and the fiscal impact hereof is likewise included in the fiscal impact statement presented with regard to Senate Bill 490.

Director of Taxation (913) 296-3044 • Income & Inheritance Tax Bureau (913) 296-3051
Business Tax Bureau (913) 296-2461 • Mineral Tax Bureau (913) 296-7713
Audit Services Bureau (913) 296-7719

A & T 2/1/88

Att. 2

RANSON & COMPANY, INC.

& R Co.
Investment Banking
Since 1935

February 1, 1988

Senate Committee on Assessment and Taxation
State Capitol Building
Topeka, Kansas 66612

Dear Committee Members:

We wish to support S.B. 454 which extends the current exemptions from state income tax to include the interest income to Kansas individuals on bonds issued by Kansas municipalities. Such legislation would result in all Kansas municipal bonds, rather than some, having the interest thereon being tax-exempt from state income tax.

Our firm is in the investment banking business specializing in Kansas municipal bonds and has been in that business for over 50 years. Our experience convinces us that significant benefits will accrue to Kansas local governments, who will experience lower interest costs on their borrowings and a better market for their bonds. Also benefitted will be Kansas investors who will be encouraged to reinvest in Kansas securities rather than out-of-state securities.

Future interest cost savings to Kansas local governments can only be estimated, but we believe borrowing rates would be lowered at least one-quarter of one percent (.25%) on a significant portion of the bonds issued in Kansas. If you assume a .25% lower interest rate on $200,000,000 issued annually for ten years, we believe the interest cost savings on those issues would be at least $35,000,000. This would result in lower property taxes for Kansas taxpayers.

We believe it is significant that forty-five of the fifty states do not levy an income tax on their own states' municipal bond interest income to individuals. Those states are extending the benefits of such tax exemption to their own local governments and to their own investors, and it stands to reason that they consider such benefits to be worth the state foregoing the revenue from such a tax.

A & T 2/1/88
Att. 3

SUITE 610, 120 SOUTH MARKET • WICHITA, KANSAS 67202 • (316) 262-2651
BUILDING 100, SUITE 3, 8100 EAST 22nd. STREET NORTH • WICHITA, KANSAS 67226 • (316) 684-8300
1035 BANK IV TOWER • TOPEKA, KANSAS 66603 • (913) 233-1173

Obviously, the broadening of this exemption will cause the state some loss of revenue. It is difficult, if not impossible, to quantify the amount of that loss because tax revenues from Kansas bonds have been intermingled with the tax revenues on out-of-state bonds. We believe that changes in the federal tax code will result in an increase in Kansas tax revenues from out-of-state bonds which will exceed the decrease in tax revenues due to the removal of the tax on Kansas bonds.

Tax simplification is talked about a lot, but is hard to come by. S.B. 454 would definitely be tax simplification. This tax is difficult to compute in that there are over twenty-five spearate statutory exemptions for certain categories of Kansas bonds, and it is a time-consuming and difficult chore for Kansas taxpayers and their tax preparers to sort out which securities are taxable and which are tax-exempt. So there is a high dollar-cost to the tax that means extra expense to taxpayers with no increased revenues to the state.

We believe this is an opportunity to confer on Kansas local governments and Kansas investors benefits which greatly exceed the minimal tax revenue loss to the state, and we urge the committee´s favorable consideration of this proposal. We thank you for this opportunity to present this testimony.

Sincerely,

RANSON & COMPANY, INC.

Jack Ranson

Jack Ranson
President

klm

League
of Kansas
Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL/112 WEST SEVENTH ST., TOPEKA, KANSAS 66603/AREA 913-354-9565

RE: SB 454 and Section 4 of SB 490--State Taxation of Municipal Bond Interest
TO: Senate Committee on Assessment and Taxation
FROM: E.A. Mosher, Executive Director
DATE: February 1, 1988

The League is in support of SB 454, and Section 4 of SB 490, which would exempt from state income taxation the interest on all Kansas municipal bonds. Enactment of such legislation has long been a convention-adopted policy objective of the League, and is one of the League's highest legislative priorities for 1988.

In our judgment, enactment of SB 454 or similar legislation is properly a part of income tax reform and simplification, given the complicated mess we now have as to interest exemption, which I will later discuss. However, our primary objective is to reduce the cost of local government borrowing for essential public improvements and facilities. I frankly do not know how much an interest exemption will lower local property taxes or reduce municipal utility charges in the future. We have heard comments that it could amount to as much as one-fourth of one percent, which is a significant amount for a 20-year bond. We think there will be significant savings to local governments, off-setting some of the increasing costs resulting from federal intervention in municipal bonds. We also think it will help increase the Kansas market for Kansas municipals--especially in the future, when the Kansas Department of Revenue receives through federal tax returns information as to the interest received from municipal bonds, whether taxable or non-taxable.

Beyond these objectives is the fact that enactment of SB 454 or SB 490 will establish some reasonable rationality to our present system. We simply do not now have a consistent public policy as to the taxability of municipal bond interest.

Review of attached Research/Information Bulletin.

In my judgment, we are now doing things fanny-backwards, to use a euphemistic term. The classic, traditional, essential governmental public improvement bonds, usually supported by property taxes, are now taxable. But other kinds, primarily revenue bonds, often used for proprietary-type purposes, are exempt. We think it should be the other way around--the first priority should be the exemption of clear public purpose bonds. Since it's highly unlikely that we will make bonds now exempt subject to state income taxation, we simply suggest that those bonds most justifiably exempt also be those that are legally exempt.

We urge the passage of the provisions of SB — A & T 2/1/88

Att. 4

RESEARCH/INFORMATION BULLETIN

published by league of kansas municipalities / 112 west seventh street / topeka, kansas 66603 / 913 354-9565

Vol. X, No. 464
January 26, 1988

STATE TAXATION OF MUNICIPAL BOND INTEREST

As a general rule:

...The interest on Kansas municipal bonds, issued by state agencies and by local governments and their agencies, is subject to state income taxes--unless there is a specific statutory exemption. See K.S.A. Supp. 79-32,117.

...The interest on classic, traditional public purpose bonds issued by local governments is subject to state taxation. This includes general obligation bonds, and revenue bonds with limited exceptions, issued for such purposes as park and recreation facilities; sewerage and refuse systems; roads, streets and bridges; libraries, public buildings and school buildings; and water and other utility systems.

...The interest on revenue bonds, for proprietary-type, "private activity" purposes tend to be exempt, while the interest on general obligation, tax supported bonds are taxable.

...The interest on state agency-issued revenue bonds tend to be exempt, while general municipal utility revenue bonds (e.g. water systems) are taxable.

...Bond authorization statutes of recent years, since 1950, tend to provide for an exemption, especially when a special agency or authority is created, while the bond authorization statutes of earlier years do not provide for an exemption.

We have in Kansas a number of bond interest taxation anomalies. For example, turnpike and freeway bonds are exempt from taxation, but not local bonds for streets, highways and bridges; bonds issued for "private" buildings for economic development purposes are exempt, but not bonds for libraries, school buildings or city halls; rural water districts may issue tax exempt bonds, but the bonds issued by cities for water system improvements are taxable; university bonds for unions and dormitories are exempt, but bonds for community facilities like a park or swimming pool are taxable. If a city issues revenue bonds for a sewerage system under one statute it is exempt, but if the general revenue bond statute or general obligation bonds are used, the issue is taxable. If sales tax bonds are used for a county jail, the bonds are exempt, but if the bonds are retired by property taxes, they are taxable. If two cities each issue $200,000 of bonds for fire stations, the bonds are taxable, but if they jointly issue a $400,000 bond for the same buildings, they are exempt.

As noted above, the general rule is that bonds interest is taxable unless there is a specific exemption. Following is a statutory reference to a number of known tax exempt provisions, with the date of the original enactment of the cited statute.

1. Kansas Turnpike Revenue Bonds--K.S.A. 68-2013 (1953), 68-2062 (1967), etc.

2. Express Highway and Freeway Bonds--K.S.A. 68-2309 (1972).

3. Board of Regents Revenue Bonds--K.S.A. 76-6a22 (1947).

University Dormitory Revenue Bonds--K.S.A. 76-6a10 (1941).

5. University of Kansas Medical Center Revenue Bonds--K.S.A. 76-810,823 (1973).

6. Higher Education Loan Program Bonds--K.S.A. 72-7407 (1977).

7. State Park and Resources Authority Bonds--K.S.A. 74-4522 (1955).

8. State Office Building Revenue Bonds--K.S.A. 75-3607,3616 (1953).

9. Kansas Armory Board Bonds--K.S.A. 48-317 (1947).

10. State Sewage Disposal Revenue Boards--K.S.A. 12-3710,3716 (1973).

11. Kansas Development Finance Authority Bonds--K.S.A. 1987 Supp. 74-8901,8908 (1987).

12. Irrigation District Bonds--K.S.A. 42-388b (1933).

13. Urban Renewal Bonds--K.S.A. 17-4751 (1955).

14. Rural Water District Bonds--K.S.A. 82a-625 (1957).

15. Leavenworth Toll Bridge Revenue Bonds--K.S.A. 13-14d01, 14d09 (1953).

16. Housing Authority Revenue Bonds--K.S.A. 17-2351 (1957).

17. Municipal Pollution Control Revenue Bonds (K.S.A. 12-3101,3106) (1959).

18. Municipal Parking Authority Revenue Bonds, Cities 1st Class--K.S.A. 13-13c01, 13c15 (1959).

19. Wichita Transit System Revenue Bonds--K.S.A. 13-3101,3115 (1965).

20. Port Authority Bonds--K.S.A. 12-3418 (1969).

21. County Hospital, Nursing Building Revenue Bonds--K.S.A. 19-18,103;18,110 (1967).

22. Johnson County Park and Recreation District Revenue Bonds--K.S.A. 19-2862a (1968).

23. Economic Development Revenue Bonds (IDBs)--K.S.A. 12-1746 (1961).

24. Municipal Airport Revenue Bond--K.S.A. 3-153,158 (1974).

25. City Tax Increment Financing Bonds--K.S.A. 12-1774, (1976).

26. Municipal Energy Agency Revenue Bonds--K.S.A. 12-885,8-106 (1977).

27. Local Residential Housing Bonds--K.S.A. 12-5230 (1982).

28. Joint Local Bonds--K.S.A. 1987 Supp. 12-2904a (1987).

29. Local Sales Tax Bonds--K.S.A. 1987 Supp. 12-195 (1987).

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

MEMORANDUM

TO: HONORABLE FRED KERR, CHAIRMAN
SENATE TAXATION COMMITTEE

FROM: HARLEY T. DUNCAN HTD
SECRETARY OF REVENUE

RE: TREATMENT OF EMPLOYEE BUSINESS EXPENSES FOR KANSAS INCOME TAX PURPOSES IN 1987

DATE: FEBRUARY 1, 1988

The federal Tax Reform Act of 1986 altered the tax treatment of certain employee business expenses in a manner which will cause some of these expenses not to be deductible for Kansas income tax purposes in 1987.

Prior to the 1986 federal changes, all reimbursed employee business expenses, unreimbursed travel and transportation expenses of employees, and all business expenses of an "outside salesperson" (a salesperson who sells away from the employer's place of business) were deductible to arrive at Adjusted Gross Income (commonly called "above the line" expenses). The 1986 Tax Reform Act provides that only reimbursed employee expenses are deductible above the line. Expenses which are **unreimbursed** must now be claimed as federal itemized deductions ("below the line"). In addition, only 80% of meal and entertainment expenses are deductible, and only the amount of such itemized deductions in excess of 2 percent of the taxpayer's A.G.I. is deductible. Reimbursed expenses are allowed above the line because the amount of the reimbursement is included in W-2 income. Thus, the amounts offset each other.

K.S.A. 79-32,117 defines Kansas A.G.I. as being equal to federal A.G.I. with specified modifications. None of the modifications affects employee business expenses. Therefore, the amount brought forward from the federal return includes a deduction only for reimbursed employee business expenses. K.S.A. 79-32,120 which defines Kansas itemized deductions provides that the amount thereof shall be equal to federal itemized deductions, **as such term was defined on December 31, 1977**, with certain modifications, none of which deal with employee business expenses. Therefore, since the 1977 definition of itemized deductions does not include unreimbursed employee travel and transportation expenses or expenses of an outside salesperson, there is no deduction for such items for Kansas income tax purposes in 1987.

The taxpayers affected most dramatically by this change are "outside salespeople". This group tends to have a high level of unreimbursed expenses, all of which used to be deductible above the line. For employees other than outside salespeople, only travel and transportation costs were above the line deductions. Many types of unreimbursed employee expenses are not affected

General Information (913) 296-3909
Office of the Secretary (913) 296-3041 • Legal Services Bureau (913) 296-2381
Audit Services Bureau (913) 296-7719 • Planning & Research S[illegible] Bureau (913) 296-3081
Administrative Services Bureau (913) 296-2331 • Personnel S[illegible]

A & T 2/1/88

Att. 5

by this change because they are included in the 1977 definition of itemized deductions. Examples include educational costs, professional dues, supplies, books, and similar items. Also, expenses incurred by a self-employed person, whether a proprietor or partner, are not affected because such expenses continue to be deductible above the line for federal purposes.

The fiscal impact of this change would be very difficult to estimate, particularly in view of the fact that many employers changed their expense reimbursment policy in 1987 due to the federal law changes.

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

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan HTD
Secretary of Revenue

RE: "Double" Personal Exemption for Certain Taxpayers

DATE: February 1, 1988

This memorandum addresses your request to assess various options for allowing elderly and blind taxpayers the extra personal exemption they "lost" due to federal tax reform.

1. The issue arises because state law provides that a taxpayer is allowed the same number of personal exemptions for state income tax purposes that he/she is allowed at the federal level. Pre-1986 federal law allowed taxpayers over age 65 and blind taxpayers to claim an extra personal exemption. The Tax Reform Act of 1986 repealed the extra exemption, but offset this by a higher exemption amount, higher standard deduction and an additional standard deduction amount for elderly and blind taxpayers. The effect at the state level is simply to repeal the extra personal exemption.

2. We estimate the fiscal impact of allowing the extra personal exemption to be $9.1 million for tax year 1987. It would affect about 150,000 taxpayers for an average impact of $60 each. The actual savings would be less than $60 for lower income taxpayers and more for upper income. About one-half of the savings would accrue to those taxpayers with an Adjusted Gross Income of $25,000 or less. A spreadsheet displaying the impact across income brackets is attached.

3. Senate Bill 490 would provide state-level tax treatment for these taxpayers that is identical to that provided at the federal level effective for tax year 1988. They would receive a higher standard deduction, an additional standard deduction amount, and a higher personal exemption. Thus, any disadvantage they experience is a one-year phenomenon.

4. This was clearly identified last year as one of the impacts of not making any tax law changes during the 1987 legislative session. All of our writings and assessments of federal tax reform identified it as such.

5. If this change is made effective for tax year 1987, it will require submission of an amended return or other separate application to claim the extra exemption and will impose severe administrative burdens on the Department of Revenue. There is no information provided on the Kansas or federal return allowing us to identify these returns and make an adjustment as we process the return. As a result, taxpayers would be required to file an amended return and claim a refund after their original return had been filed. The processing of amended returns is largely a manual system. Processing 150,000 of them would be a nearly impossible task.

6. Similar difficulty will be experienced if Kansas law to provide that in tax year 1987 no person is required to file a federal income tax if they are not required to file a federal tax return. We estimate the fiscal impact of such a measure to be about $2.0 million. Once again, our difficulty is that neither state or federal returns contain an identification of elderly taxpayers. Thus, am amended return or separate application would be required to claim any tax adjustment.

7. Because of this difficulty, we would propose consideration of several alternatives.

   a. Instead of providing a refund geared to the actual tax savings from the exemption, provide a $60 refund to each qualifying taxpayer. The $60 figure is average impact for affected taxpayers. This could be handled with a rather straightforward, separate claim application which would be simpler to process than a complete amended return. We will prepare an estimated fiscal impact for such a process.

   b. The recommended procedure (if it is felt this issue needs to be addressed) would be to allow these taxpayers a special, one time $60 credit on their **1988 income tax**. This reimburses the taxpayers, on average, and it avoids the process of separately applying for and producing refunds for the exemption. The time delay is obviously a drawback, but it is likely that the processing a separate application for a refund would be delayed to the October - December 1988 timeframe even if allowed on the 1987 return.

I hope this information is helpful. Please contact me if you have any questions.

SIMULATION 7185 TAX YEAR 1987

House Bill 2671

Additional Personal Exemption for Elderly and Blind Taxpayers

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7185

Liability Dollars are in Millions

Married

K.A.G.I. Bracket		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%
$0	$5,000	17,684	-71.3%	($0.01)	($0.80)	0.0%
$5,000	$15,000	76,632	-15.8%	($1.32)	($17.27)	0.9%
$15,000	$25,000	97,895	-3.5%	($1.23)	($12.57)	1.7%
$25,000	$35,000	99,789	-1.2%	($0.83)	($8.36)	2.3%
$35,000	$50,000	108,947	-0.6%	($0.74)	($6.77)	2.6%
$50,000	$100,000	85,263	-0.6%	($0.90)	($10.50)	2.9%
$100,000	Over	13,053	-0.5%	($0.54)	($41.24)	4.5%
Total		508,947	-1.1%	($5.57)	($10.95)	2.7%
Fiscal Impact:				($5.57)		
All Taxpayers:				($9.14)		

Single

K.A.G.I. Bracket		No. Of Returns	Percent Increase	Dollar Change in Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.		4,526	0.0%	$0.00	$0.00	0.0%
$0	$5,000	114,947	-8.7%	($0.11)	($0.92)	0.3%
$5,000	$15,000	171,158	-4.1%	($1.34)	($7.81)	1.9%
$15,000	$25,000	93,053	-1.6%	($0.86)	($9.23)	3.0%
$25,000	$35,000	36,316	-1.1%	($0.40)	($11.02)	3.3%
$35,000	$50,000	17,053	-1.4%	($0.32)	($18.93)	3.4%
$50,000	$100,000	6,632	-1.6%	($0.28)	($42.19)	4.0%
$100,000	Over	1,053	-0.3%	($0.03)	($27.00)	4.7%
Total		444,737	-1.9%	($3.33)	($7.49)	2.8%
Fiscal Impact:				($3.33)		
Non-Resident:				($0.23)		

Total Residents

K.A.G.I. Bracket		No. Of Returns	Percent Increase	Dollar Change in Liability	Dollar Change Per Return	Effecti' Rate
No K.A.G.I.		14,211	0.0%	$0.00	$0.00	0.0%
$0	$5,000	132,632	-9.7%	($0.12)	($0.91)	0.3%
$5,000	$15,000	247,789	-6.5%	($2.66)	($10.73)	1.6%
$15,000	$25,000	190,947	-2.3%	($2.09)	($10.94)	2.3%
$25,000	$35,000	136,105	-1.2%	($1.23)	($9.07)	2.6%
$35,000	$50,000	126,000	-0.7%	($1.06)	($8.42)	2.7%
$50,000	$100,000	91,895	-0.7%	($1.18)	($12.79)	3.0%
$100,000	Over	14,105	-0.5%	($0.57)	($40.18)	4.5%
Total		953,684	-1.3%	($8.91)	($9.34)	2.7%
Fiscal Impact:				($8.91)		

A & T
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