

Approved Feb. 4, 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. on February 2, 1988 in room 519-S of the Capitol.

All members were present except:

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:

Representative Robin Leach
Dennis Wolf, CPA Johnson County
Mike Munz, CPA Topeka
Secretary Harley Duncan

SENATE BILL 490

Chairman Kerr called the meeting to order and introduced Rep. Robin Leach.

Rep. Leach testified regarding comparison of impact on resident taxpayers of various tax reform plans. (Att. 1) He stated that there are some differences as to whether all, some, or any of the "windfall" money will be returned.

Dennis Wolf testified. (Att. 2) He stated that he had been working with Rep. Vancrum and had serious questions concerning the Governor's Tax Proposal (S.B. 490) He said that he realized the committee had heard some previous favorable testimony regarding S.B. 490, but he was personally trying to determine who would be paying the windfall with this bill. He stated that he felt taxpayers utilizing the standard deduction would benefit from the bill. He also said that many single taxpayers are adversely affected. Also, he feels higher income taxpayers would be adversely affected. Mr. Wolf stated that although the bill is supposedly exempting poverty level taxpayers, he felt it would penalize low income taxpayers who itemize. (It was pointed out in committee that only 10% of the taxpayers in the \$15-25,000 income category itemize.)

He stated that he also felt there are windfall tax increases being realized by many taxpayers under current tax law. He said this windfall should be returned to the taxpayers in as accurate a way as possible.

Mr. Wolf proceeded to go through his testimony and explain seven cases of Kansas individual income tax returns that he was using as examples. It was pointed out by the Chairman that it seemed some highly "unusual" examples had been chosen, and these cases were certainly out of the normal flow of average Kansas tax returns. In summary, Mr. Wolf stated that he felt the windfall should be returned to the taxpayers. He stated that his position was "neutral" regarding the reforms in the bill.

Mike Munz testified. He stated that his firm is just now beginning to go through the effects of the corporate AMT (alternative minimum tax) on the federal level and felt that until actual returns are worked through, it is difficult to grasp the effect. He felt the clients that would be affected most by AMT would be an oil corporation that is producing oil, (not sales) mining corporation, and construction and real estate developers if they have a large depreciation deductions. He felt that new businesses starting up would be affected.

Mr. Munz felt that another provision that may have some impact in the federal government is the "book income adjustment", but felt it would not have a significant impact on the state of Kansas.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,
room 519-S Statehouse, at 11:00 a.m./~~p.m.~~ on February 2, 19 88

He stated that he liked the conformity of AMT with the federal law. At least companies would not have to keep separate books for federal AMT and state AMT.

Secretary Duncan distributed information that had been requested by the committee. (Att.'s 3,4,5,)

Attachments 6 & 7 were also distributed as requested by conferees that were not able to be present.

Senator Burke made a motion to adopt the minutes of the February 1 meeting. Senator Allen seconded. Motion carried.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-2-88	Rich McKee	Topeka	K.L.A
2-2	PAT LESTER	KC	UNITED TELECOM
2-2	JEFF RUSSELL	TOPEKA	UNITED TEL
2-2-88	DWAYNE ZIMMERMAN	TOPEKA	KDOC
	Richard Funk	"	KAJOB
2-2-88	Amy Apitz	Topeka	KMHA
	Ruth Walker	Topeka	S. A.
	Ron Caches	Wichita	Boeing
	John Blythe	Manhattan	Ks Farm Bureau
	Rick Kready	Topeka	KPL Gas Service
	Tom Whitaker	Topeka	Ks Motor Carriers Assn
	KAREN McCLAIN	TOPEKA	Ks Assoc. of REALTORS
	GERHARD MEIZ	TOPEKA	KCCI
	Bernard A. Koch	Wichita	Wichita Chamber
	Mike Germann	Topeka	Ks Railroad Ass'n
	Mary Birch	Overland Park	O.P. Chamber
	Debrais Welf	O.P.	O.P.A.
	PAT BARNES	Topeka	Ks Motor Car Mfr. Assoc
	Jack Smith	Topeka	Revenue
	Bob Bowen	"	"
	D. Mills		Kans. Opw
	SHELBY Smith	Wichita	Dawson
	W.P. Anderson	Topeka	KSCPA
	Jan Vacek	Topeka	KSCPA
	PL Chamberland	Topeka	KSCPA
	TREVA POTTER	TOPEKA	PEOPLES NATURAL GAS
	MARY E TURKINGTON	Topeka	Kans. Motor Carriers Assn

House Bill 2362 of the 1987 Session

Simulation includes the exemption for taxable social security benefits.

Kansas Department Of Revenue
Individual Income Tax In Tax Year 1988
Resident Taxpayers
SIMULATION 7192

Liability Dollars are in Millions

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Increase	Dollar Change in Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change in Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change in Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.00	\$0.00	0.0%	4,632	0.0%	\$0.00	\$0.00	0.0%	14,316	0.0%	\$0.00	\$0.00	0.0%
\$0 \$5,000	16,947	-95.8%	(\$0.02)	(\$1.42)	0.0%	110,421	-94.4%	(\$1.14)	(\$10.33)	0.0%	127,368	-94.4%	(\$1.16)	(\$9.15)	0.0%
\$5,000 \$15,000	72,421	-73.8%	(\$5.83)	(\$80.45)	0.3%	168,632	-41.5%	(\$13.27)	(\$78.67)	1.1%	241,053	-47.9%	(\$19.09)	(\$79.20)	0.9%
\$15,000 \$25,000	93,263	-35.6%	(\$11.85)	(\$127.09)	1.1%	95,579	-14.0%	(\$7.89)	(\$82.59)	2.6%	188,842	-22.0%	(\$19.75)	(\$104.57)	1.9%
\$25,000 \$35,000	98,842	-12.8%	(\$8.70)	(\$88.07)	2.0%	38,316	-0.4%	(\$0.15)	(\$3.95)	3.4%	137,158	-8.3%	(\$8.86)	(\$64.57)	2.4%
\$35,000 \$50,000	111,789	1.8%	\$2.20	\$19.72	2.7%	19,053	-0.9%	(\$0.27)	(\$14.12)	3.8%	130,842	1.2%	\$1.94	\$14.79	2.9%
\$50,000 \$100,000	92,421	6.2%	\$10.96	\$118.54	3.2%	7,053	-5.2%	(\$1.05)	(\$149.54)	4.3%	99,474	5.0%	\$9.90	\$99.53	3.3%
\$100,000 Over	13,579	-0.8%	(\$0.90)	(\$66.42)	5.0%	1,053	-7.3%	(\$0.86)	(\$816.50)	5.2%	14,632	-1.4%	(\$1.76)	(\$120.38)	5.0%
Total	508,947	-2.7%	(\$14.15)	(\$27.80)	2.8%	444,737	-13.0%	(\$24.64)	(\$55.39)	2.6%	953,684	-5.4%	(\$38.79)	(\$40.67)	2.7%
Fiscal Impact:			(\$14.15)					(\$24.64)					(\$38.79)		
All Taxpayers:			(\$43.99)			Non-Resident:		(\$5.20)							

2/2/88

A & T Mtg. Att. I

SIMULATION 7192

TAX YEAR 1988

House Bill 2362 of the 1987 Session

Simulation includes the exemption for taxable social security benefits.

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

Current Law

Single

Total Residents

K.A.G.I. Bracket	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.00	0.0%	0.0%	4,526	0.0%	\$0.00	0.0%	0.0%	14,211	0.0%	\$0.00	0.0%	0.0%
0 \$0 \$5,000	16,947	0.2%	\$0.03	0.0%	0.1%	110,421	4.9%	\$1.21	0.2%	0.4%	127,368	1.4%	\$1.23	0.2%	0.3%
\$5,000 \$15,000	71,895	4.0%	\$7.89	1.1%	1.1%	168,105	25.4%	\$31.93	4.5%	2.0%	240,000	9.5%	\$39.82	5.6%	1.7%
\$15,000 \$25,000	93,474	10.1%	\$33.34	4.7%	1.8%	95,579	28.9%	\$56.38	7.9%	3.1%	189,053	14.9%	\$89.72	12.5%	2.4%
\$25,000 \$35,000	97,684	15.7%	\$68.12	9.5%	2.3%	37,684	17.2%	\$37.99	5.3%	3.5%	135,368	16.1%	\$106.11	14.8%	2.6%
\$35,000 \$50,000	111,789	25.1%	\$125.57	17.5%	2.7%	19,895	12.6%	\$29.69	4.1%	3.7%	131,684	21.9%	\$155.27	21.7%	2.8%
\$50,000 \$100,000	93,474	32.1%	\$177.03	24.7%	3.0%	7,368	7.4%	\$20.35	2.8%	4.3%	100,842	25.8%	\$197.38	27.5%	3.1%
\$100,000 Over	14,000	12.7%	\$115.08	16.1%	4.9%	1,158	3.5%	\$11.84	1.7%	5.3%	15,158	10.3%	\$126.92	17.7%	4.9%
Total	508,947	100.00%	\$527.06	73.56%	2.8%	444,737	100.00%	\$189.40	26.44%	3.0%	953,684	100.00%	\$716.45	100.00%	2.9%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7192

Married

Single

Total Residents

K.A.G.I. Bracket	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.00	0.0%	0.0%	4,632	0.0%	\$0.00	0.0%	0.0%	14,316	0.0%	\$0.00	0.0%	0.0%
0 \$0 \$5,000	16,947	0.2%	\$0.00	0.0%	0.0%	110,421	4.9%	\$0.07	0.0%	0.0%	127,368	1.4%	\$0.07	0.0%	0.0%
\$5,000 \$15,000	72,421	4.1%	\$2.07	0.3%	0.3%	168,632	25.7%	\$18.66	2.8%	1.1%	241,053	9.6%	\$20.73	3.1%	0.9%
\$15,000 \$25,000	93,263	10.2%	\$21.49	3.2%	1.1%	95,579	29.1%	\$48.49	7.2%	2.6%	188,842	15.0%	\$69.97	10.3%	1.9%
\$25,000 \$35,000	98,842	16.0%	\$59.41	8.8%	2.0%	38,316	17.6%	\$37.84	5.6%	3.4%	137,158	16.4%	\$97.25	14.4%	2.4%
\$35,000 \$50,000	111,789	25.2%	\$127.78	18.9%	2.7%	19,053	12.2%	\$29.42	4.3%	3.8%	130,842	21.9%	\$157.20	23.2%	2.9%
\$50,000 \$100,000	92,421	31.9%	\$187.99	27.7%	3.2%	7,053	7.1%	\$19.30	2.8%	4.3%	99,474	25.6%	\$207.28	30.6%	3.3%
\$100,000 Over	13,579	12.3%	\$114.18	16.8%	5.0%	1,053	3.3%	\$10.98	1.6%	5.2%	14,632	10.0%	\$125.16	18.5%	5.0%
Total	508,947	100.0%	\$512.91	75.7%	2.8%	444,737	100.00%	\$164.76	24.3%	2.6%	953,684	100.00%	\$677.67	100.00%	2.7%

Fiscal Impact:

(\$14.15)

(\$24.64)

(\$38.79)

All Taxpayers:

(\$43.99)

Non-Resident:

(\$5.20)

SUMMARY DATA

Marital Status: 1=Single; 2 = Married Joint; 3 = Head of Household

<u>Case 1</u>			
	1986	1987	1988
Marital Status:	1	1	1
Exemptions:	1	1	1
KS AGI		23,456	23,456
Total itemized		10,068	6,058
Federal tax		2,400	0
Net KS tax	\$357	\$449	\$755

<u>Case 2</u>			
	1986	1987	1988
Marital Status:	3	3	3
Exemptions:	3	3	3
KS AGI		77,565	77,565
Total itemized		36,577	26,146
Federal tax		9,450	0
Net KS tax	\$1,825	\$3,382	\$2,501

<u>Case 3</u>			
	1986	1987	1988
Marital Status:	1	1	1
Exemptions:	1	1	1
KS AGI		11,526	11,526
Total itemized		1,844	3,750
Federal tax		624	0
Net KS tax	\$174	\$324	\$283

<u>Case 4</u>			
	1986	1987	1988
Marital Status:	2	2	2
Exemptions:	4	4	4
KS AGI		30,134	30,134
Total itemized		12,407	6,379
Federal tax		2,636	0
Net KS tax	\$352	\$365	\$654

<u>Case 5</u>			
	1986	1987	1988
Marital Status:	2	2	2
Exemptions:	2	2	2
KS AGI		24,729	24,729
Total itemized		2,800	5,000
Federal tax		2,959	0
Net KS tax	\$700	\$703	\$653

<u>Case 6</u>			
	1986	1987	1988
Marital Status:	2	2	2
Exemptions:	4	4	4
KS AGI		60,789	60,789
Total itemized		18,296	11,594
Federal tax		7,193	0
Net KS tax	\$1,412	\$1,748	\$1,756

<u>Case 7</u>			
	1986	1987	1988
Marital Status:	2	2	2
Exemptions:	3	3	3
KS AGI		330,125	330,125
Total itemized		133,117	77,936
Federal tax		81,455	0
Net KS tax	\$8,113	\$8,880	\$12,825

<u>Case 8</u>			
	1986	1987	1988
Marital Status:	2	2	2
Exemptions:	4	4	4
KS AGI		16,887	16,887
Total itemized		9,386	6,442
Federal tax		267	0
Net KS tax			01

CASE 1

General Description: Case 1 is a single individual with no dependents. The taxpayer is a salaried employee with \$836 other income. \$575 of the other income is a Kansas income tax refund, shown as a modification in the detail. The taxpayer owns a home and itemizes deductions on her federal return.

	1986	Old Law 1987	Task Force 1988
Marital Status:	1	1	1
Exemptions	1	1	1
Taxable income:			
Wage income		23,195	23,195
Other income		836	836
Total income		24,031	24,031
Adjustments			
Federal AGI		24,031	24,031
KS Modification		-575	-575
KS AGI		23,456	23,456
KS Std deduction		2,400	3,000
Itemized Deductions:			
Social Security		1,742	0
Medical		245	0
Taxes		1,438	709
Interest		5,660	4,979
Contributions		200	200
Miscellaneous		651	170
Other		132	
Total itemized		10,068	6,058
KS Exemptions		1,000	2,000
Federal tax		2,400	0
Total deduction		13,468	8,058
KS Taxable income		9,988	15,398
Net KS tax	\$357	\$449	\$755

CASE 2

General Description: This individual is a single head of household with two dependents. He is an outside sales person with significant travel and business expenses. He itemizes deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	3	3	3
Exemptions	3	3	3
Taxable income:			
Wage income		83,084	83,084
Other income		2,850	2,850
Total income		85,934	85,934
Adjustments		7,020	7,020
Federal AGI		78,914	78,914
KS Modification		(1,349)	(1,349)
KS AGI		77,565	77,565
KS Std deduction		2,400	4,400
Itemized Deductions:			
Social Security		3,380	0
Medical		1,500	0
Taxes		2,844	1,324
Interest		11,055	8,700
Contributions		700	700
Miscellaneous		0	15,422
Other		98	0
Total itemized		36,577	26,146
KS Exemptions		4,000	6,000
Federal tax		9,450	0
Total deduction		50,027	32,146
KS Taxable income		27,538	45,419
Net KS tax	\$1,825	\$3,382	\$2,501

CASE 3

General Description: Retired widow. All income is from retirement investments and includes interest, dividends and capital gains. She does not itemize.

	1986	Old Law 1987	Task Force 1988
Marital Status:	1	1	1
Exemptions	1	1	1
Taxable income:			
Wage income		0	0
Other income		11,701	11,701
Total income		11,701	11,701
Adjustments			
Federal AGI		11,701	11,701
KS Modification		(175)	(175)
KS AGI		11,526	11,526
KS Std deduction		1,844	3,750
Itemized Deductions:			
Social Security		0	0
Medical		0	0
Taxes		0	0
Interest		0	0
Contributions		0	0
Miscellaneous		0	0
Other		0	0
Total itemized		1,844	3,750
KS Exemptions		1,000	2,000
Federal tax		624	0
Total deduction		3,468	5,750
KS Taxable income		8,058	5,776
Net KS tax	\$174	\$324	\$283

CASE 4

General Description: Case 4 is a married couple with two children. Only one spouse is employed, and they itemize deductions on the federal return. They also have significant medical expenses because the non-working spouse is disabled.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	4	4	4
Taxable income:			
Wage income		30,065	30,065
Other income		69	69
Total income		30,134	30,134
Adjustments			
Federal AGI		30,134	30,134
KS Modification			
KS AGI		30,134	30,134
KS Std deduction		2,800	5,000
Itemized Deductions:			
Social Security		2,258	0
Medical		3,262	1,052
Taxes		1,350	829
Interest		4,927	3,998
Contributions		500	500
Miscellaneous		0	0
Other		110	0
Total itemized		12,407	6,379
KS Exemptions		4,000	8,000
Federal tax		2,636	0
Total deduction		19,043	14,379
KS Taxable income		11,091	15,755
Net KS tax	\$352	\$365	\$654

CASE 5

General Description: Represents a retired married couple. The wife still works part-time. Other income is retirement income. They do not itemize deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	2	2	2
Taxable income:			
Wage income		5,895	5,895
Other income		20,870	20,870
Total income		26,765	26,765
Adjustments		2,036	2,036
Federal AGI		24,729	24,729
KS Modification			
KS AGI		24,729	24,729
KS Std deduction		2,800	5,000
Itemized Deductions:			
Social Security			
Medical			
Taxes			
Interest			
Contributions			
Miscellaneous			
Other			
Total itemized		2,800	5,000
KS Exemptions		2,000	4,000
Federal tax		2,959	0
Total deduction		7,759	9,000
KS Taxable income		16,970	15,729
Net KS tax	\$700	\$703	\$653

CASE 6

General Description: Married couple with two incomes and two children. Other income is from interest and a \$922 Kansas refund (refund shown as a modification). They own a home and itemize deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	4	4	4
Taxable income:			
Wage income		58,606	58,606
Other income		3,105	3,105
Total income		61,711	61,711
Adjustments			
Federal AGI		61,711	61,711
KS Modification		-(922)	(922)
KS AGI		60,789	60,789
KS Std deduction		2,800	5,000
Itemized Deductions:			
Social Security		4,131	0
Medical		908	0
Taxes		2,402	1,771
Interest		10,125	9,323
Contributions		500	500
Miscellaneous		120	0
Other		110	0
Total itemized		18,296	11,594
KS Exemptions		4,000	8,000
Federal tax		7,193	0
Total deduction		29,489	19,594
KS Taxable income		31,300	41,195
Net KS tax	\$1,412	\$1,748	\$1,756

CASE 7

General Description: This is a case of a non-Johnson County resident who lives and owns several businesses in Kansas and employs a significant number of people. Both husband and wife work and have one dependent child. They itemize deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	3	3	3
Taxable income:			
Wage income		85,000	85,000
Other income		283,728	283,728
Total income		368,728	368,728
Adjustments		4,633	4,633
Federal AGI		364,095	364,095
KS Modification		-33,970	-33,970
KS AGI		330,125	330,125
KS Std deduction		2,800	5,000
Itemized Deductions:			
Social Security		6,384	0
Medical		834	0
Taxes		2,753	1,994
Interest		* 60,112	13,063
Contributions		62,879	62,879
Miscellaneous		0	0
Other		155	0
Total itemized		133,117	77,936
KS Exemptions		3,000	6,000
Federal tax		81,455	0
Total deduction		217,572	83,936
KS Taxable income		112,553	246,189
Net KS tax	\$8,113	\$8,880	\$12,825

*

* \$10,824

CASE 8


General Description: The last case is a married couple. Both spouses work, and the husband is an outside sales person who receives significant reimbursements for travel and expenses which are included in wage income and deducted as adjustments. They have two children and itemize deductions.

	1986	Old Law 1987	Task Force 1988
Marital Status:	2	2	2
Exemptions	4	4	4
Taxable income:			
Wage income		24,080	24,080
Other income		975	975
Total income		25,055	25,055
Adjustments		8,014	8,014
Federal AGI		17,041	17,041
KS Modification		-154	-154
KS AGI		16,887	16,887
KS Std deduction		2,702	5,000
Itemized Deductions:			
Social Security		1,097	0
Medical		3,741	2,463
Taxes		1,058	820
Interest		3,155	3,133
Contributions		26	26
Miscellaneous		100	0
Other		209	0
Total itemized		9,386	6,442
KS Exemptions		4,000	8,000
Federal tax		367	0
Total deduction		13,753	14,442
KS Taxable income		3,134	2,445
Net KS tax	\$59	\$63	\$101

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 
 Secretary of Revenue

RE: Hypothetical Taxpayers

DATE: February 1, 1988

To help the Committee assess the impact of SB 490 on various types of taxpayers, the Department of Revenue has prepared a comparison of tax liabilities for certain hypothetical taxpayers. The results of the comparisons are summarized below and more detail is provided in an attachment. Also attached is a table displaying the number and proportion of taxpayers receiving a tax reduction, tax increase or whose liability stays the same under the Governor's proposal. The data are presented by income bracket.

In the analysis, the 1988 tax liability under the Governor's proposal is compared to the 1988 liability under current law. That is also how the tax reduction figures I outlined earlier to the Committee were developed. For itemized deduction taxpayers, the amount of deductions used is the average for the income bracket and filing status.

Comparison of 1988 Kansas Tax Liability
 For Various Hypothetical Taxpayers
 Current Law vs. Governor's Proposal

Taxpayer	AGI	Current Law	Governor's Proposal	Dollar Change
Single, SD, 1 Ex	\$ 7,000	\$ 105	\$ 98	\$ (7)
Single, SD, 1 Ex	17,500	616	602	(14)
Single, ID, 1Ex	35,000	1,232	1,315	83
Head of Household, SD, 2 Ex with Child Credit @ \$120	15,000	326 326	322 202	(4) (124)
Married, SD, 2 Ex, Both over 65	15,000	305	203	(102)

Taxpayer	AGI	Current Law	Governor's Proposal	Dollar Change
Married, SD, 4 Ex with Child Credit @ \$120	25,000	664 664	506 386	(158) (278)
Married, ID, 2 Ex	35,000	941	1,034	93
Married, ID, 4 Ex with Child Credit @ \$120	60,000	1,923 1,923	1,825 1,705	(98) (218)
Married, ID, 4 Ex with Child Credit @ \$120	100,000	3,673 3,673	3,619 3,499	(54) (174)

SD = Standard Deduction; ID = Itemized Deductions; Ex = Exemptions

Comparison of 1988 Kansas Tax Liability for Various Hypothetical Taxpayers

Current Law vs. Governor's Proposal

Single, Standard Deduction

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability
Tax Year 1988							
Kansas	Current	\$7,000	\$1,700	\$308	\$1,000	\$3,993	\$105
	Governor's Proposal	\$7,000	\$3,000		\$1,950	\$2,050	\$98
		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability
Tax Year 1988							
Kansas	Current	\$17,500	\$2,400	\$1,883	\$1,000	\$12,218	\$616
	Governor's Proposal	\$17,500	\$3,000		\$1,950	\$12,550	\$602

Single, Itemized Deductions

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability
Tax Year 1988							
Kansas	Current	\$35,000	\$8,750	\$4,876	\$1,000	\$20,374	\$1,232
	Governor's Proposal	\$35,000	\$6,195		\$1,950	\$26,855	\$1,315

Head of Household, Standard Deduction, One Exemption

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability	Child Care Credit	Tax Liability After Credit
Tax Year 1988									
Kansas	Current	\$15,000	\$2,400	\$1,508	\$3,000	\$8,093	\$326	\$0	\$326
	Governor's Proposal	\$15,000	\$4,400		\$3,900	\$6,700	\$322	\$120	\$202

Married Filing Joint, Standard Deduction, Both Over 65 Years of Age

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability
Tax Year 1988							
Kansas	Current	\$15,000	\$2,400	\$735	\$2,000	\$9,865	\$305
	Governor's Proposal	\$15,000	\$6,200		\$3,900	\$4,900	\$203

January 29, 1988

Married Filing Joint, Standard Deduction, Two Children

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability	Child Care Credit	Tax Liability After Credit
Tax Year 1988									
Kansas	Current	\$25,000	\$2,800	\$1,830	\$4,000	\$16,370	\$664	\$0	\$664
	Governor's Proposal	\$25,000	\$5,000		\$7,800	\$12,200	\$506	\$120	\$386

Married Filing Joint, Itemized Deductions, No Children

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability
Tax Year 1988							
Kansas	Current	\$35,000	\$8,925	\$3,526	\$2,000	\$20,549	\$941
	Governor's Proposal	\$35,000	\$6,195		\$3,900	\$24,905	\$1,034

Married Filing Joint, Itemized Deductions, Two Children

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability	Child Care Credit	Tax Liability After Credit
Tax Year 1988									
Kansas	Current	\$60,000	\$15,000	\$7,355	\$4,000	\$33,645	\$1,923	\$0	\$1,923
	Governor's Proposal	\$60,000	\$9,720		\$7,800	\$42,480	\$1,825	\$120	\$1,705

		Adjusted Gross Income	Standard/Itemized Deductions	Federal Tax Deduction	Personal Exemption	Taxable Income	Tax Liability	Child Care Credit	Tax Liability After Credit
Tax Year 1988									
Kansas	Current	\$100,000	\$25,000	\$16,298	\$4,000	\$54,702	\$3,673	\$0	\$3,673
	Governor's Proposal	\$100,000	\$16,500		\$7,800	\$75,700	\$3,619	\$120	\$3,499

Kansas Department of Revenue
Governor's Proposal
Simulation 7177

Compared to Current Law
Taxpayers by Bracket with Liabilities
Increasing, Decreasing, or Staying the Same

	No Change	Increase	Decrease	Total
No K.A.G.I.	15,053	0	0	15,053
\$0 - \$5,000	83,053	737	50,421	134,211
\$5,000 - \$15,000	42,737	77,789	145,368	265,895
\$15,000 - \$25,000	14,000	70,632	132,000	216,632
\$25,000 - \$35,000	4,421	75,263	80,421	160,105
\$35,000 - \$50,000	5,895	81,368	70,421	157,684
\$50,000 - \$100,000	6,526	61,895	60,316	128,737
\$100,000 - Over	2,000	6,105	13,474	21,579
Total	173,684	373,789	552,421	1,099,895

Simulation 7177

Compared to Current Law
Taxpayers by Bracket with Liabilities
Increasing, Decreasing, or Staying the Same

	No Change	Increase	Decrease	Total
No K.A.G.I.	100.00%	0.00%	0.00%	100.00%
\$0 - \$5,000	61.88%	0.55%	37.57%	100.00%
\$5,000 - \$15,000	16.07%	29.26%	54.67%	100.00%
\$15,000 - \$25,000	6.46%	32.60%	60.93%	100.00%
\$25,000 - \$35,000	2.76%	47.01%	50.23%	100.00%
\$35,000 - \$50,000	3.74%	51.60%	44.66%	100.00%
\$50,000 - \$100,000	5.07%	48.08%	46.85%	100.00%
\$100,000 - Over	9.27%	28.29%	62.44%	100.00%
Total	15.79%	33.98%	50.22%	100.00%

MEMORANDUM

To: The Honorable Fred Kerr, Chairman
Senate Committee on Assessment and Taxation

From: Harley T. Duncan, Secretary
Kansas Department of Revenue

Re: Federal and State Corporate Alternative Minimum Taxes

Date: February 2, 1988

The federal corporate Alternative Minimum Tax (AMT) is an attempt to adjust for inequities thought to arise when, under regular tax law, certain kinds of income are given special treatment, or "preference."

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

Adjustments:

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

Tax Preferences (* indicates new in 1987)

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

Corporations may be liable for the AMT if taxable income, plus or minus the adjustments plus the preference items equal more than the base exemption amount of \$40,000. This exemption amount is phased-out at the rate of \$0.25 for each \$1.00 by which the Alternative Minimum Taxable Income (AMTI) exceeds \$150,000. The current AMT rate is 20%, applied to the AMTI less exemption, if allowable.

Federal Experience with Corporate AMT

The year 1983 is the most-recent one for which there is a break-down between the regular corporate tax and the amount for the corporate AMT. These figures do not include corporations filing as S Corps and as DISCs, because S-Corps are liable for the AMT only on capital gains and Domestic International Sales Corporations are not liable for the AMT (they are taxable through the stockholders). The AMT rate in 1983 was 15% and the total reported corporate tax including alternative tax before credits amounted to \$57.412 billion. Of this amount, the AMT was \$532 million, or .93% of the tax. The business codes contributing over 80% to the total in 1983 were Manufacturing, followed by Finance and Mining (which includes oil).

Federal Taxes: Regular and Tax on Preference Items , 1983

Not including filers of 1120S and 1120-DISC *

Tax Preference Items Rate at 15%

Business Code or Group	(amounts in thousands)		AMT Percent of Group	AMT Percent of Total
	Regular Tax and AMT	Tax on Preferences		
Agriculture, Fishing, Forestry	\$118,001	\$816	0.69%	0.15%
Mining	\$879,687	\$80,267	9.12%	15.09%
Construction	\$511,212	\$11,664	2.28%	2.19%
Manufacturing	\$36,863,127	\$252,913	0.69%	47.54%
Transportation and Public Utilities	\$9,087,566	\$38,189	0.42%	7.18%
Wholesale Trade	\$1,324,019	\$10,686	0.81%	2.01%
Retail Trade	\$2,803,457	\$15,931	0.57%	2.99%
Finance, Insurance, Real Estate	\$4,827,873	\$104,976	2.17%	19.73%
Services	\$995,457	\$16,125	1.62%	3.03%
Unclassified	\$1,720	\$464	26.98%	0.09%
Total	\$57,412,119	\$532,031	0.93%	100.00%

* S Corps are liable for AMT only on capital gains; and Domestic International Sales Corporations are not liable for AMT (taxable thru stockholders).

Source: IRS, Corporation Income Tax Returns 1983, Publ. 16, rev. 8-86, Table 15, page 59.

Revised U.S. Treasury estimates of the fiscal impact (i.e. increased collections) arising from the Tax Reform Act of 1986 indicate that the reform of the corporate AMT is expected to increase collections considerably, to 14% of the total in 1987:

Current Estimates of Fiscal Impact, Tax Reform Act of 1986

(amounts in millions)

Tax or Calendar Year	Regular Tax and AMT	Tax on Preferences	AMT Percent of Total
1987	\$31,413	\$4,529	14.42%
1988	\$22,987	\$4,729	20.57%
1989	\$27,742	\$4,781	17.23%
1990	\$30,351	\$3,854	12.70%
1991	\$32,592	\$3,317	10.18%
1987-1991	\$145,085	\$21,210	14.62%

Source: U.S. Treasury, Tax Reform Act of 1986, TRA_87MR, 7-10-87, Mimeo.

The Office of Management and Budget estimates a total corporate collection of \$89.600 billion for 1987 and \$105.400 billion for 1988. Applying the .9% percentage yields an estimated \$806 million for 1987 and \$949 million for 1988 under prior law. When these are added to the estimated impact from the Tax Reform Act of 1986, the total AMT for 1987 is estimated at \$5.3 billion for 1987 and at \$5.6 billion for 1988:

Estimated Federal AMT under Tax Reform

(amounts in billions)

Calendar Year	Corporate Est. Collections	Estimated AMT @ .9%	Estimated Tax Reform Impact	Total AMT
1987	\$89.6	\$0.8	\$4.5	\$5.3
1988	\$105.4	\$0.9	\$4.7	\$5.6

Source: Office of Management and Budget, Mid-Season Review of the 1988 Budget, Economic Indicators, September, 1987, page 33.

Piggybacking the Federal AMT in Kansas

The federal estimate for the corporate AMT is 5.3% of the regular corporate tax (\$5.6 billion/\$105.4 billion). For estimating purposes, it is assumed that calendar and fiscal year can be equated and that the relationship between the regular federal rate of 34% and the regular Kansas rate of 6.7% (19.9%) will hold for the corporate AMT. Applying the 5.3% (federal AMT to regular tax) to the Fiscal Year 1988 Consensus Estimate of \$113 million for regular corporate tax, yields an estimated corporate AMT in Kansas of \$5.989, or nearly \$6 million (\$113 million x .053) at the 20% rate, or an estimated \$4.5 million at a 15% rate (\$6 million / .20 = \$30 million x .15 = \$4.5 million).

Experience of States with Corporate AMT

States that apply a tax to preference items either: a) piggyback on the federal, by applying a state rate to their the federal tax itself or to the tax preference items; or b) develop a state list of tax preference items. We contacted each of the five states that are known to have such an income tax, as well as Minnesota, which has an AMT based on the factors of property, payroll and sales:

- Alaska adds 18% of the Federal AMT to the Alaska liability. Estimates of the impact of the federal tax reform act have not been made; nor have estimates of the tax for

their next fiscal year. Alaska is not able to separate collections from the alternative tax from regular corporate collections.

- California has had a tax of 2.5% of the state's tax preference items. Effective January 1, 1988 and for income years beginning on that date, California will tax corporations at the rate of 7% of the federal AMTI (with modifications). S-Corps will be taxed at the rate of 2% of the federal tax. California has a set of exemptions: California interest on activity bonds; NOL is computed so that only 50% is carried forward and no carryback; and depreciation is computed on assets acquired before 1987. For tax year 1985, California collected \$6.249 million in AMT and \$3.295 billion in total tax. The alternative tax represented .19% of the total collection. No estimates are available for collections from the changed California tax.

- Iowa has added 70% of the state-apportioned tax preference items to the Iowa liability. For tax year 1985, Iowa collected \$764 thousand in the AMT and \$130.1 million in total tax. The alternative tax represented .6% of the total.

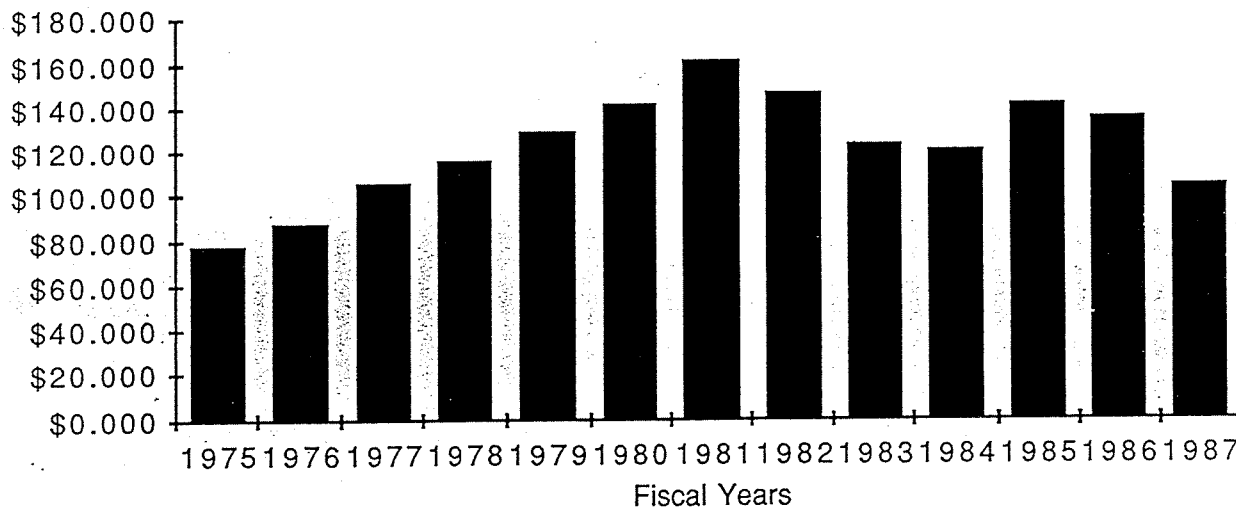
- Maine taxes at the rate of 2.25% of the apportioned federal tax preference items up to a maximum of \$1500. Maine foresees no changes because of the federal tax reform. Maine does not separate collections from the alternative tax from total corporate revenue; but a representative stated that the AMT amount is "not great."

- Pennsylvania does not have an AMT as such, but does require that the federal tax preference items be included in the computation of taxable income. The state had, for tax years 1984 through 1986, an alternative method for the computation of capital gains stock value.

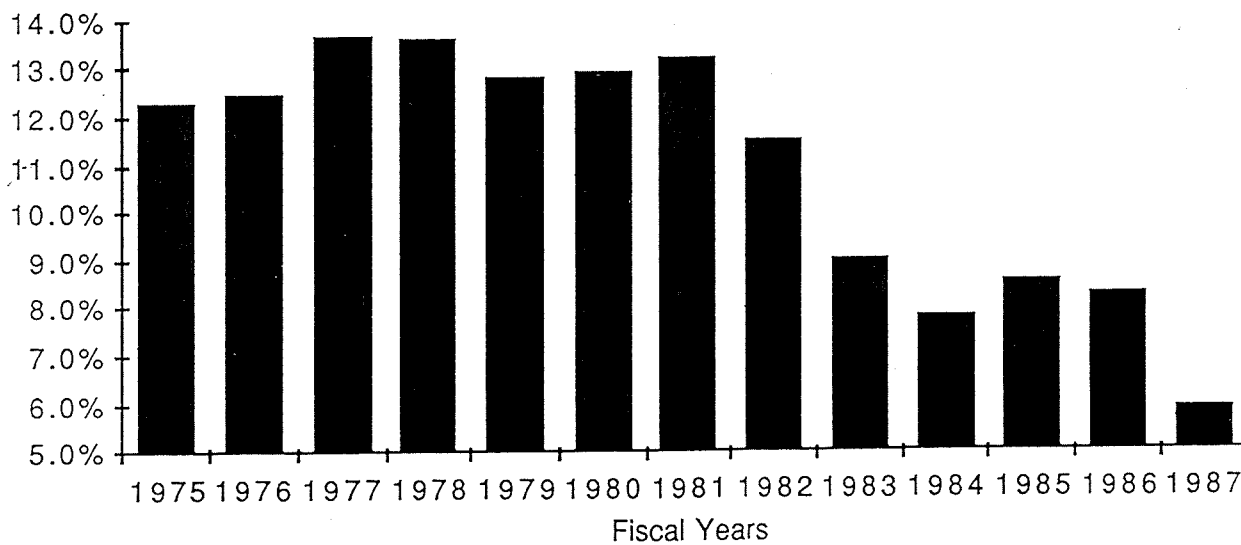
The percentages of the income-based alternative tax to the total collection vary widely from state to state. Because of the variance and because so few of the five were able to break-out the minimum tax from the regular collection, the experience of the states was not used as an estimating tool.

- Minnesota's alternative tax is not strictly comparable to the other five, because it is not based on income, but on the three factors of property, payroll and sales. The tax rate is one mill applied to the unweighted sum of the three factors, beginning after December 31, 1986. Exempted from the tax are "smaller" corporations with combined factors of less than \$5 million; and "new" corporations (i.e. in first five years), which are deemed to have property and payroll at zero. Revenue generated by the alternative tax is estimated to be \$56.7 million, with \$455.8 million total tax. The alternative tax represents 12% of the total estimate.

Kansas Department of Revenue
Corporate Income Tax Revenue
(million)



Kansas Department of Revenue
Corporate Income Tax Revenue as a Percent of the State General Fund



Kansas Department of Revenue

States (and D.C.) with a Form of Corporate Minimum Tax and/or an Alternative or Supplemental Corporate Tax

Key:

Tax Year 1987

G=Greater of
L=Lesser of
R=Rate
S=Surtax
V=Various

AP=Aprtmnt Factor
AR=Applicable Rate
CG=Capital Gain
CS=Capital Stock
CU=Credit Union

GI=Gross Income
GR=Graduated Rate
MV=Market Value
NW=Net Worth
PPS=Payrl, Prop & Sales

RT=Replacement Tax
SNI=Supplemental Net Income
TI=Taxable Income
TPI=Tax Preference Items
VR=Various Rates

State	Corporate Tax		Minimum Tax		
	Regular Rate	Alternative or Supplemental	Must Pay at Least	And/Or	Tax Preference Items (TPI)
Alabama	5.0%	+\$10/\$1M CS	\$50 CS		
Alaska	1% - 9.4%	or 4.5% CG			Add 18% of Fed TPI tax to state tax
Arizona	2.5% - 10.5%	or (6.4% * CG) + [AR*(TI-CG)]			
California	0.096 (a)		\$200	\$25 for CU	Add 2.5% of CA's TPI; 1/1/88 @ 7% Fed AMI
Connecticut	11.5%	or L: 3.1 mills per \$1 capital or \$500M	\$100		
D. C.	10.0%	plus 2.5% Surtax (10/1/87 @ 2.5%)	\$100		
Hawaii	4.4 %- 6.4%	or (3.08% * CG) + [AR*(TI-CG)]			
Idaho	8.0%		\$20	& \$10 for Bldg Fund	
Illinois	4.0%	plus 2.5% Pers Prop RT to \$1 million			
Indiana	3.4%	or (R GI or R TI) + (4.5%*SNI)			
Iowa	6% - 12%				Add 70% of state apportioned Fed
Kansas	4.5%	plus 2.25% Surtax over \$25M			
Kentucky	3% - 7.25%	plus 2.1 mills * net worth			
Louisiana	4% - 8%	G of CS surplus or ass'd value real & prsnl property	\$10		
Maine	3.5% - 8.93%				Add AP*(2.25% * modified Fed TPI)- G of \$1500 or Regular Tax
Massachusetts	\$2.60/M on tang values or net worth	plus 9.5% TI	\$228		
Minnesota	9.5%	or 1 mill (.001) x wghtd sum of PPS			One mill x sum of apportioned P, P & S

State	Corporate Tax		Minimum Tax		
	Regular Rate	Alternative or Supplemental	Must Pay at Least	And/Or	Tax Preference Items (TPI)
Missouri	5.0%	.005*Apportnd MV of CS & Surplus	\$25		
Montana	6.75%		\$50	\$10 Sm Bus	
New Jersey	9% net income	plus graduated mill ratio on net worth	\$25 up to	\$250	
New York	9% net income	various (b)	\$250		
Ohio	5.1% - 9.2% (c)	plus Litter tax at V tiers & VR	\$50		
Oregon	6.6%		\$10		
Pennsylvania	8.5%				Add TPI not included in Pennsylvania TI
Rhode Island	8%	or \$.40/\$100 net worth	\$100		
Utah	5% net income	plus 4% of tax	\$100	& \$4 for Educ Fund	
Vermont	6% - 9%		\$75		

General Notes:

- (1) Added tax on oil cos.: CT, NY, PA and RI.
- (2) Multistate Tax Compact members: HI, ID, MT, OR, UT, CA, D.C., KS.

Specific Notes:

- (a) California: Regular rate to 9.3% as of 1-1-88. Unitary business electing water's edge combined report must pay fee of .03% of local property-payroll-sales; 0.01 min. fee effective after 12-31-87.
- (b) New York: Other minimums and added taxes.
- (c) Ohio: Greater of V * TI tax or NW tax; plus, if TI tax exceeds NW tax, add 2.7 % of II as Surtax.

Sources: Individual State Tax Records; Minnesota DOR ; CCH, State Tax Review, Vol 48, No 50, 12-15-87.

Kansas Department of Revenue
All States' 1987 Corporate Rates

State	Top Rate	Income Level	Federal Income Tax Deductible	Carry Back and Carry Forwards		
				None	Both	Forward Only
Alabama	5.00%	All	YES			X
Alaska	9.40%	\$90,000	NO		X	
Arizona	10.50%	\$6,000	YES			X
Arkansas	6.00%	\$25,000	NO			X
California	9.60%	All	NO			X
Colorado	6.00%	\$50,000	NO			X
Connecticut	11.50%	All	NO			X
Delaware	8.70%	All	NO		X	
D.C.	15.00%	All	NO	X		
Florida	7.70%	All	NO			X
Georgia	6.00%	All	NO		X	
Hawaii	6.40%	\$100,000	NO		X	
Idaho	8.00%	All	NO		X	
Illinois	6.50%	All	NO		X	
Indiana	7.90%	All	NO		X	
Iowa	12.00%	\$250,000	YES		X	
Kansas	6.75%	\$25,000	NO		X	
Kentucky	7.25%	\$250,000	NO		X	
Louisiana	8.00%	\$200,000	YES		X	
Maine	8.93%	\$250,000	NO		X	
Maryland	7.00%	All	NO		X	
Massachusetts	9.50%	All	NO			X
Michigan	2.35%	All	NO			X
Minnesota	9.50%	All	NO			X
Mississippi	5.00%	\$10,000	NO			X
Missouri	5.00%	All	YES		X	
Montana	6.75%	All	NO		X	
Nebraska	6.65%	\$50,000	NO		X	
New Hampshire	8.25%	All	NO	X		
New Jersey	9.00%	All	NO			X
New Mexico	7.60%	\$1,000,000	NO		X	
New York	9.00%	All	NO		X	
North Carolina	7.00%	All	NO			X
North Dakota	10.50%	\$50,000	YES		X	
Ohio	9.20%	\$25,000	NO			X
Oklahoma	5.00%	All	NO		X	
Oregon	6.60%	All	NO			X
Pennsylvania	8.50%	All	NO			X
Rhode Island	8.00%	All	NO		X	
South Carolina	6.00%	All	NO			X
Tennessee	6.00%	All	NO			X
Utah	5.00%	All	NO		X	
Vermont	9.00%	\$250,000	NO		X	
Virginia	6.00%	All	NO		X	
West Virginia	9.75%	All	NO		X	
Wisconsin	7.90%	All	NO			X
Total with Tax	46		YES = 6	2	25	19

NO = 40

States with rates above Kansas 28
States with rates below Kansas 16
States with same rate as Kansas 1
Total Other States 45



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

To: The Honorable Fred Kerr, Chairman
Senate Committee on Assessment and Taxation

From: Harley T. Duncan

Date: February 2, 1988

Re: Kansas Alternative Minimum Tax

The Governor's Task Force on Tax Reform recommended that a state alternative minimum tax (AMT) for corporations be enacted which would conform to and "piggy-back" on the federal alternative minimum tax. The alternative minimum tax created by S.B. 490 implements the Task Force recommendation. The AMT computation set forth in the bill parallels to a certain extent the methodology which is utilized by the state of California in computing its AMT.

S.B. 490 imposes an AMT at the rate of 4% against the Kansas alternative minimum taxable income of a corporation. Those corporations which are not required to compute the federal AMT also are not required to file an AMT for Kansas purposes. Banks and savings and loan institutions subject to the provisions of K.S.A. 79-1106 et seq. are specifically exempted from the Kansas AMT provisions.

The tax base against which the Kansas AMT is applied is relatively simple to compute. If a taxpayer completes the federal AMT computation and a regular Kansas corporate income tax return, the basic information required for the state AMT calculation is present.

The Kansas AMT calculation is as follows:

Federal Alternative Minimum Taxable Income (Prior to NOL)
<u>+/- Modifications: K.S.A. 79-32,138 and 79-32,117 (except Fed. NOL)</u>
<u>Modified Alternative Minimum Taxable Income</u>
<u>x Apportionment Percentage (same as for regular tax)</u>
<u>Net Alternative Minimum Taxable Income</u>
- <u>Kansas Alternative Tax Net Operating Loss</u>
<u>Kansas Alternative Minimum Taxable Income</u>
<u>x Tax @ 4%</u>
<u>Tentative Kansas Alternative Minimum Tax</u>
- <u>Income Tax (before credits)</u>
<u>Kansas Alternative Minimum Tax</u>

The Kansas AMT calculation begins with federal alternative minimum taxable income (prior to alternative tax net operating loss deduction) which appears on line 9 of federal Form 4626. This particular figure includes all adjustments and tax preference items required at the federal level. Certain additional modifications are then required for state purposes. These are the

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Audit Services Bureau (913) 296-7719 • Planning & Research Services Bureau (913) 296-3081
Administrative Services Bureau (913) 296-2331 • Personnel Services Bureau (913) 296-3077

A & T 2/2/88

Att. 5

same modifications which are required by K.S.A. 1987 Supp. 79-32,138 for the regular Kansas corporate tax computation. For instance, federal interest would be deducted and taxes based on income would be added to federal alternative minimum taxable income.

It is important to note that these modifications appear on Kansas Form K-120 and require no additional effort on the part of the taxpayer to compile. Once these modifications have been made, the resulting income base is apportioned to Kansas by using the same apportionment ratio that was computed for the regular Kansas corporate tax and which appears on Form K-120.

In keeping with the overriding intent to create a separate and independent income tax system in the same fashion as the Internal Revenue Code, it was necessary to statutorily create a separate alternative tax net operating loss for the Kansas AMT calculation. The alternative tax net operating loss provision closely parallels the regular NOL provision under K.S.A. 79-32,143. Consistent with the Task Force recommendation to repeal the NOL carryback, the alternative tax NOL may not be carried back but may be carried forward for 10 years.

The AMT calculation set forth in S.B. 490 was designed to mirror the computation of the regular Kansas corporate tax to the greatest extent possible. To a certain degree, that objective was accomplished. For that reason the process of computing the Kansas AMT is not envisioned to be a time consuming exercise or require extraordinary record-keeping requirements on the part of the taxpayer. Unfortunately, due to the nature of certain of the tax preference items, it was necessary to create a Kansas AMT credit to be applied against a taxpayer's regular tax liability. The creation of the AMT credit does add a degree of complexity to the AMT calculation.

It was the intent of Congress to accelerate the payment of tax attributable to the use of deferral preference deductions rather than to permanently tax these items. The AMT credit takes into account the notion that to the extent that a tax preference or adjustment causes deferral, rather than permanent avoidance of tax liability, some adjustment is required with respect to years after the taxpayer has been required to treat the item as a preference because, in those later years, such a preference or adjustment causes an increase in tax liability. Deferral preference items would include such items as depreciation and intangible drilling costs. Preference items of a permanent nature (exclusion preferences) would include depletion and tax exempt interest.

The AMT credit provision of S.B. 490 allows a credit against the regular tax for any AMT which had been paid on a deferral preference item in an earlier tax year. This particular provision will require the taxpayer to maintain records which reflect the year of a tax preference and the state apportionment percentage for that year. This tracing requirement is made necessary by the fact that the apportionment percentage of a corporation changes from year to year. The precise manner in which the preference items are accounted for in the credit computation would be a proper subject for administrative regulations.

ISSUE #10:

Municipal Bonds

SUMMARY:

Cities should enjoy broad powers and flexibility in debt financing and in current financing of capital improvements, facilities and equipment. Local governments should also have flexibility in the marketing of municipal bonds, so that they are sold in the best interest of the taxpayer or utility ratepayers. State laws governing municipal bonds should be continuously modernized to preserve their high investment quality in what has become an increasingly competitive bond market, and to reduce the cost of borrowing.

We currently suggest legislation to exempt all Kansas municipal bonds from state income taxation just as most state and local "special purpose" bonds are now tax exempt (this would encourage more citizens of Kansas to invest in their state and communities and lower the cost of borrowing). Also, cities should be allowed to issue Revenue Anticipation Notes.

In light of the 1986 Federal Tax Act, it will be necessary to take steps which will make our state and municipal bonds more attractive to potential investors.

ACTION & COMMENTS:

Have bill introduced.

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OF KANSAS INCORPORATED

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SYNOPSIS OF MUNICIPAL BOND INDUSTRY OPINION

REGARDING THE ELIMINATION OF KANSAS (INDIVIDUAL) INCOME TAXATION ON MUNICIPAL BONDS

- 1.) Tax-exempt bonds sell better than taxable bonds. Lower taxes for Kansas taxpayers will be resultant due to interest cost savings directly attributable to lower interest cost via additional Kansas investor demand for Kansas bonds.
- 2.) Additional demand by Kansas investors for Kansas bonds would keep investment dollars in Kansas.
- 3.) All states but five in the United States of America do not currently have a state income tax upon their respective state's municipal bonds.
- 4.) The benefit of full exemption associated with current fully exempt Kansas bonds should be distributed to all Kansas municipalities instead of only to various authorities and instruments of the State of Kansas.
- 5.) The Kansas Municipal Bond Industry will not benefit from this tax elimination. Bidding competition will be increased. This will lower interest costs and underwriter profit margins through bidding procedures on municipal bonds, thus lowering taxes levied for interest and costs of funds borrowed for capital improvements.
- 6.) Due to recent federal tax law changes enacted, municipal bonds are not as attractive to certain investors as in prior years. This reduces overall demand for Kansas municipal bonds. State legislation to remove said tax would reverse downward demand trends.
- 7.) The fiscal impact upon the general fund of the State of Kansas, due to removal of said tax, is uncertain. However, the long-term benefits of elimination of said tax to Kansas taxpayers should outweigh the revenue loss to the State of Kansas.