Approved Feb. 5, 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 5, 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:

SENATE BILL 490

Chairman Kerr called the meeting to order and called attention to Attachments 1 & 2 which was information requested from the Budget Director, Michael O'Keefe. (Att. 3 is from Dept. of Education.)

Chairman Kerr stated that there was a motion made by Sen. Allen at the committee meeting on Wednesday, Feb. 3rd during consideration of S.B. 490. (The chairman said that today's discussion will begin with consideration of that motion.)

Senator Allen stated that the motion was regarding putting the federal tax deduction being put back in the bill. He stated that he now widhed to withdraw the motion and support study of a new concept that Senator Burke is proposing. Senator Mulich withdrew his second to the motion.

Senator Burke stated that he wanted to apologize to the Chairman and the Committee for the great inconvenience that was being placed on the committee because of his new proposal. He requested that the committee not amend his proposals into S.B. 490 but allow time for a new bill draft to be brought before the committee before further acting on the income tax reforms.

After Committee discussion concerning this request, Chairman Kerr suggested that Sen. Burke explain some of his proposal to the committee so that they may have a better understanding of what he was requesting.

Sen. Burke responded by explaining that he proposes to:

1. Restore federal deductibility.
2. Restore current law rate brackets.
3. Allow $60.00 tax credit for elderly/blind.
4. Do not provide for AMT on corporations.

He said that further changes are proposed for future years:

1. Rates would be reduced every year through TY 1992. Top rates are reduced in TY 89 and 91 and across the board in TY 1990 & 1992.
2. Social Security benefits would be exempt in TY 1990.
3. Corp. base rates would be reduced by 0.75% in TY 90, and would be reduced by an additional 0.5% in TY 92.

After considerable committee discussion, Chairman Kerr stated that starting the hearings over would delay the legislative process considerably but he felt the concensus of the committee was to wait and have hearings on Senator Burke's proposals.

Senator Thiessen made the motion to accept the minutes of the Feb. 4th meeting. Senator Karr seconded. Motion carried.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE 2/5/88

NAME	ADDRESS	REPRESENTING
Dana Ferrell	Topeka	Budget
T.C. Anderson	Topeka	KSCPA
Jim McBride	Topeka	Observer
Linda McGill	"	Coastal Corp.
Tom Whitaker	"	Ks Motor Carriers Assn
B.W. Bower	"	Revenue
Jack B. Smith	"	"
Ted Fukiken	"	KPL
Rich Dame	Hoisington	BLE
Craig Grant	Topeka	K-NEA
Kay Coles	Topeka	K-NEA
Pat Barnes	Topeka	Ks. Motor Car Dlrs. Assn
Ken Baker	Topeka	Ks. CMB
Mary E. Turkington	Topeka	Kansas Motor Carriers Assn
Shelley Sutton	"	KES
Ken Peterson	"	KPC
Ross Martin	"	KPC
Jeff Pickett	Topeka	KASB
Gerhard Metz	"	KCCI
Richard Funk	"	KASB
Ron Gaches	Wichita	Boeing
John Conard	Topeka	Governor
Manuel G. Ortiz	Lawrence	Overland Park
John Blythe	Manhattan	K.F.B.
M. Hauver	Topeka	Cap. Inc.
Bud Grant	Topeka	KCCI

2-3-

STATE OF KANSAS

DEPARTMENT OF ADMINISTRATION
DIVISION OF THE BUDGET

MIKE HAYDEN,
Governor
MICHAEL F. O'KEEFE
Director of the Budget

Room 152-E
State Capitol Building
Topeka, Kansas 66612-1575
(913) 296-2436

February 2, 1988

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

Dear Senator Kerr:

I have attached a copy of the November 5, 1987 memorandum to Governor Hayden and the Legislative Budget Committee regarding the consensus revenue estimates. I invite your attention to the fourth paragraph under Impact of Federal Tax Reform on page 6. While many members of the Consensus Estimating Group felt that there might be modest amounts in corporate income tax receipt estimates attributable to federal tax reform, the amounts and the timing were not deemed to be estimable.

The Consensus Estimating Group will reexamine its estimates for FY 1988 and FY 1989 in early spring. The Group generally does not revise the estimate of any individual source of the State General Fund estimate unless it is decided that conditions warrant a significant revision in the estimate of total receipts for either or both fiscal years. Even if such a decision is made, the estimate for a particular source would not be changed if it appears that the previous estimate is still reasonable as of late March or early April.

Sincerely,

M F O'Keefe

Michael F. O'Keefe
Director, Division of the Budget
Chairman, Consensus Estimating
Group

MFO:sr
Attachment

1569

A & T

2/8/88

Att. 1

The nearly 18 percent decrease in inheritance tax receipts is the result of several unusually large tax remittances in FY 1988 which cannot reasonably be expected to occur in FY 1989. On the other hand, the 50 percent increase in collections from the financial institutions privilege tax is due to the aforementioned large refund to be made in FY 1988.

Impact of Federal Tax Reform

Following the usual practice, the Consensus Estimating Group made its estimates for FYs 1988 and 1989 based on current federal and state tax laws. The 1986 federal "tax reform" legislation will have a positive impact on state income tax revenue because Kansas statutes conform with the federal code in many particulars. As noted above, the estimates for FYs 1988 and 1989 include $135 million each year in individual income tax receipts as a result of tax reform.

These estimates are based on the Department of Revenue's latest simulation model, i.e., 10,000 returns for tax year 1985. The 1985 data were inflated to 1988 levels by estimating the growth in items of income and expenses between 1985 and 1988. The model itself does not adjust for taxpayer behavior changes, so the Department made some adjustments to what the model produced based on certain assumptions relating to capital gains and tax sheltering. Furthermore, some significant changes in the federal law, such as limitations on passive losses, were not included in the model due to the lack of data.

Last year at this time the Consensus Estimating Group pointed out that it is difficult to estimate the increase in Kansas revenue resulting from federal tax reform and urged that the estimates be viewed as approximations and used very cautiously. That statement is still in order. Although the Department of Revenue up-dated the simulation model since last year, the individual income tax estimates still reflect projections of income and expenses from 1985 to 1988, certain assumptions about taxpayer behavior but in only two areas, lack of data, and the problem of translating tax year data to the state's fiscal year.

As to the corporation income tax, the consensus estimates do not include any specific amount attributable to federal tax reform. The Department of Revenue has no corporation income tax model and the timing on a fiscal year basis of any increase in Kansas revenue would be very difficult to determine.

Concluding Comment

When the Consensus Estimating Group meets again in March or April 1988, it will review all of the economic forecasts discussed herein as well as the trend of actual receipts to the General Fund in FY 1988. The revenue estimates will then be raised or lowered if there have been significant changes in the economic outlook and revenue expectations to warrant a revision of the estimates made in November.

BB87-275/RR

Kansas State Department of Educati

Kansas State Education Building

120 East 10th Street Topeka, Kansas 66612-1103

February 5, 1988

TO: Senator Fred Kerr

FROM: Dale M. Dennis, Asst. Commissioner
Division of Financial and Support Services

SUBJECT: Special Request

This memorandum is written in response to your inquiry concerning what the effects would be on the property tax using the Governor's recommended funding with budget controls of 2%-4% and 0%-2%. You also requested estimated effects on those two proposals assuming there was no increase in state aid or income tax rebate. Listed below are my calculations for your review.

	Recommendation	Alternative 1	Alternative 2
Budget Controls	2% - 4%	2% - 4%	0% - 2%
General State Aid Inc.	24,850,000	0	0
Est. Income Tax Rebate Increase	20,160,000	0	0
Est. Property Tax Increase	24,612,000	92,666,000	51,741,000

A & T 2/8/88
Att. 3