

Approved Feb. 16, 1988  
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION

The meeting was called to order by Senator Fred A. Kerr at  
Chairperson

11:00a.m./xxx on February 15, 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:

Senator Bud Burke  
T.C. Anderson, Ks. Society of Certified Public Accountants  
Darwin Daicoff, Kansas University  
Mark Hack, Retired Citizen

SENATE BILL 580

Chairman Kerr called the meeting to order and announced that the agenda for the week would be to have hearings, discussion, and ultimately action on income tax reforms by Friday.

He stated that the committee had previously heard testimony for two to three weeks on the Governor's Tax Proposal, (S.B. 490) but that he felt the committee should have sufficient time to consider the alternate proposal.

Senator Burke testified. (Att. 1) He said that he wished to thank the committee for allowing for the inconvenience of the time being spent on the new proposal. He stated that there were two direct issues being dealt with.

1. What the Kansas tax structure is going to be for some time to come.
2. How much, if any, of the windfall do we return.

He stated that his proposal would not adversely impact the ability of the General Fund to grow. He said that he felt the state needed a proposal that would balance the budget and be of benefit to any and all income tax brackets. He said amendments would be needed to the bill to change some of the rates. The explanation of the bill in its present form is without the amendment to rectify the "upper income tax" situation.

He also stated that he felt the \$60.00 credit to the elderly and the blind should not be part of the proposal but should be addressed separately.

T.C. Anderson testified stating that his organization had not taken a position on any of the tax proposals. He stated that he would be happy to prepare examples of actual taxpayers returns regarding each proposal. He said he would compare the effect of each plan for the committee once the legislature decides how much of the windfall is to be returned in tax year 1988. In response to a question Mr. Anderson stated that anything that could be done to simplify the income tax returns would be a great improvement to accountants and clients.

Darwin Daicoff testified. (Att. 2) He provided a projection of what Kansas personal income is projected to be over the next five years. He went through and explained his Tables (1 through 4) and explained what each represented.

In response to a question concerning this five year projection, Dr. Daicoff

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 & TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on February 15, 19 88

stated that deviation of 1/10% could make a difference of \$30 million dollars.

Senator Karr asked if, because of the volatility of policies in the bill, such policies would have to be reviewed before the end of the projected five year time frame. Dr. Daicoff stated that was a definite possibility, especially if there was a recession. Dr. Daicoff also stated in response to a question that it was extremely difficult or almost impossible to estimate corporate revenue. In responding to questions Dr. Daicoff said it was extremely important for the legislature to use only one set of rules, the consensus estimates, when making tax and budget policy.

Mark Hack testified. (Att. 3 & 4) He stated that he is a VITA volunteer helping the elderly and low income with their tax returns. He explained his attachments and stated that they were a sample of approximately 38% of the tax returns that he does.

Chairman Kerr stated that the hearing on S.B. 580 would continue at the next meeting.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS  
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
3/15	Ron CACHES	WICHITA	Boeing
3/15	Bennie Koch	WICHITA	Wichita Chamber
"	MARK BURGHART	TOPEKA	REVENUE
"	mark HACK	Lyndon	VITA
"	Doris HACK	"	"
	20 Robinson	Topeka	KSCPA
	Jan Vacek	Topeka	KSCPA
	Richard Funk	"	KASD
	Craig Grant	"	H-NEA
	JOE D. MORRIS	TOPEKA	KLSI
	Ted Tubben	"	KPL
	ALAN STEPPAT	Topeka	McGill & Associates
	Barbara Sinden	Topeka	McGill & Associates
	Baril Covey	Topeka	KRTA
	Pat Brough	Overland Park	Yellow Freight System
	Marge Turkington	Topeka	Ks Motor Vehicle Assn
	Gerhard Muz	Topeka	KCEI
	Jim Jess	Lawrence	University Daily Kansan
	TREVA POTTER	TOPEKA	PEOPLES NAT. GAS
	Robert Cuddeback	Ottawa	Mid Cont Oil & Gas
	Paul Klotz	Topeka	Assoc. of CMV-City

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

Section 2--Lowers the individual income tax rates starting in tax year 1989. The individual rates would be lowered again in every year through tax year 1992. The corporate base rate also would be reduced by 0.75 percent in tax year 1990 and by an additional 0.5 percent in tax year 1992.

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

Section 4--Exempts Kansas state and local general obligation bond interest from the Kansas income tax base. The Department of Revenue has estimated that the fiscal impact of this provision by itself is approximately \$2.0 million if all interest on outstanding bonds is exempted. Social Security benefits also would be exempt starting in tax year 1990.

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

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

Section 7--Raises the personal exemption to \$1,950 in tax year 1988 and to \$2,000 for tax year 1989 and every year thereafter. Under current law, the personal exemption is \$1,000. Elderly taxpayers would be allowed a \$60 credit, equivalent to an extra personal exemption, to be taken in tax year 1988. Such taxpayers were denied an extra personal exemption in tax year 1987 because Kansas currently conforms to the number of federal personal exemptions allowed.

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

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

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

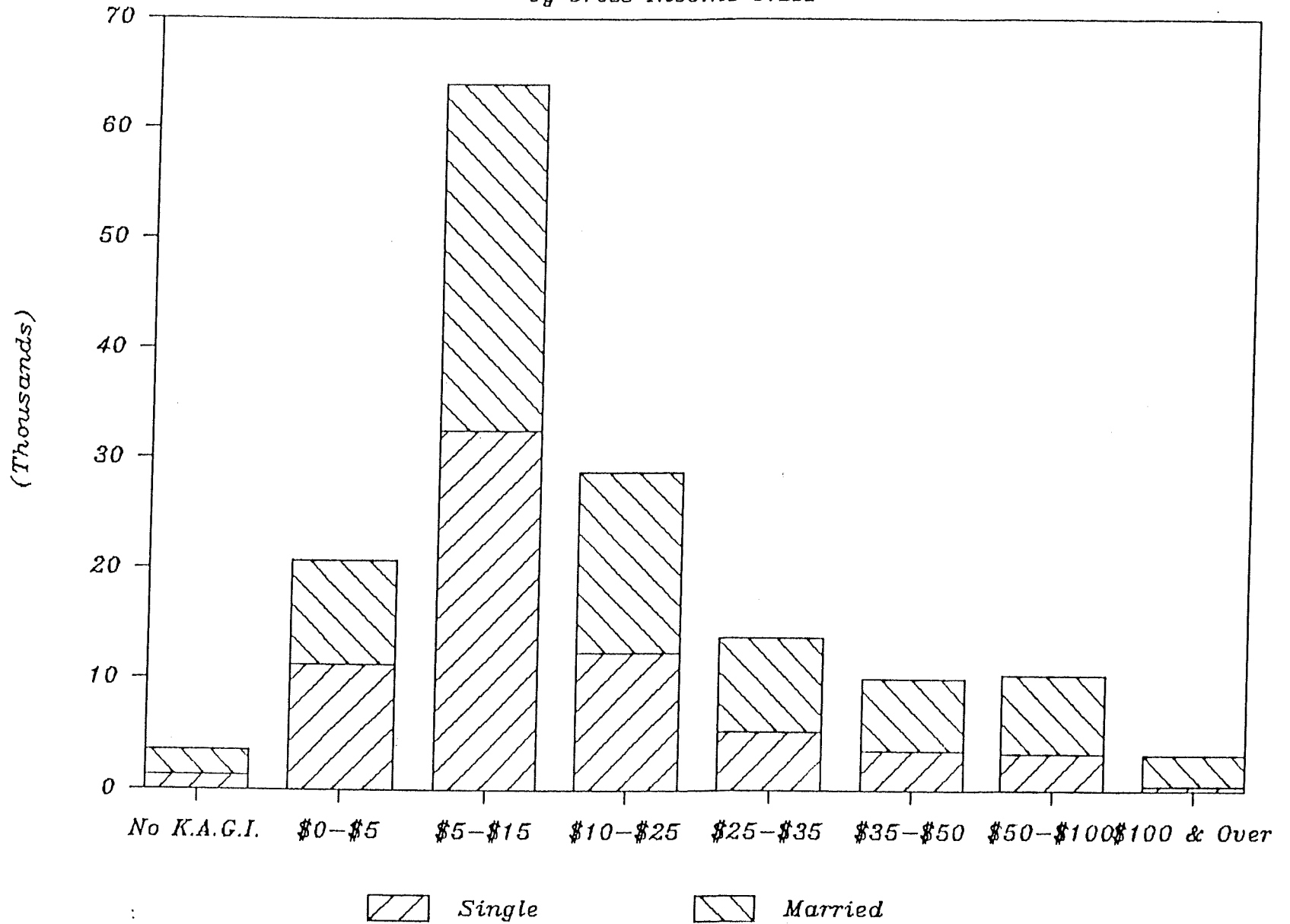
Section 11--The provisions of the bill apply to tax year 1988 and all future years.

Section 12--Repeals the amended statutes.

Section 13--Enacting clause.

# Number of Elderly and Blind

by Gross Income Class



Comparing Tax Reform Plans and Current Law

Principal tax year 1988 features of TESA, the Governor's recommendation, S.B. 580, and the current law include the following:

<u>Tax Feature</u>	<u>TESA<sup>1</sup></u>	<u>Governor<sup>1</sup></u>	<u>S.B. 580<sup>1</sup></u>	<u>Current Law</u>
Social Security benefits	exempt	taxable	taxable <sup>2</sup>	taxable
Kansas GO bond interest	taxable	exempt	exempt	taxable
Federal income taxes paid	deducted	not deductible	deducted	deducted
Rates:				
number of brackets	7 joint, 6 single	2	8	8
bottom rate, single	3.25%	4.80%	2.00%	2.00%
bottom rate, joint	3.25%	4.15%	2.00%	2.00%
top rate, single	8.00%	6.20%	9.00% <sup>3</sup>	9.00%
top rate, joint	8.00%	5.40%	9.00% <sup>3</sup>	9.00%
Itemized deductions:				
federal conformity	current <sup>4</sup>	current <sup>4</sup>	current <sup>4</sup>	12.31/77
Social Security contributions	not deductible	not deductible	not deductible	deducted
Standard deductions:				
joint	\$5,000	\$5,000	\$5,000	\$2,100-2,800
single	3,000	3,000	3,000	1,700-2,400
head of household	4,400	4,400	4,400	1,700-2,400
married, separate	2,500	2,500	2,500	1,050-1,400
1989 and thereafter	indexed	not indexed	not indexed	same as above
Personal exemption:				
1988	\$1,950 <sup>5</sup>	\$1,950	\$1,950	\$1,000
1989	2,000 <sup>5</sup>	2,000	2,000	1,000
1990 and thereafter	indexed <sup>5</sup>	not indexed	not indexed	1,000
Elderly/Blind	increase standard deduction	increase standard deduction	increase standard deduction and \$60 TY 1987 credit	none <sup>6</sup>
Fiscal Impact <sup>7</sup>	\$5.53 million	\$(21.29) million	\$(44.80) million	---

<sup>1</sup> TESA, as amended by House Committee of the Whole, Governor's recommendation as it appears in S.B. 490 and H.B. 2684, and S.B. 580, as introduced on February 8.

<sup>2</sup> Social Security benefits would be exempt starting in tax year 1990.

<sup>3</sup> The top rate would be lowered to 8.0 percent in TY 1989 and to 7.5 percent in TY 1992. The number of brackets would be reduced to 7 in TY 1989.

<sup>4</sup> All three plans would eliminate most major areas of nonconformity.

<sup>5</sup> Exemption amounts would be reduced by \$100 for each \$2,000 of KAGI in excess of \$35,000 for joint filers and by \$100 for each \$2,000 of KAGI in excess of \$25,000 for single filers.

<sup>6</sup> Prior to 1987, extra personal exemptions were allowed through federal conformity.

<sup>7</sup> Tax Year 1988 fiscal impacts based on Department of Revenue's latest simulation model.

TABLE 1

Kansas Personal Income

Calendar Year	Level	% Change
1987 <sup>c</sup>	\$ 38.1B	5.6
1988 <sup>c</sup>	39.9	4.9
1989	42.3	6.0
1990	45.2	6.9
1991	48.0	6.2
1992	51.0	6.3

Growth 1988 - 1992, over 1987 level: \$35.9B or 94% of 1987 level

Annual Average Compound Growth, 1987 - 1992: 6.0%

TABLE 2

Kansas General Revenue Fund Receipts

Fiscal Year	Level	% Change	\$ Change
1988 <sup>c</sup>	\$1.963B	10.3	\$ 184M
1989 <sup>c</sup>	2.019	2.9	56
1990	2.112	4.6	93
1991	2.225	5.4	113
1992	2.331	4.8	106
1993	2.444	4.8	113

Growth 1989 - 1993, over 1988 level: \$1.316B or 67% of 1988 level

Annual Average Compound Growth, 1988 - 1993: 4.5%

TABLE 3

Fiscal Year	Receipts	Expenditures		Remainder	
		I (at 4.2%)	II (at 4.1%)	I	II
1988	\$ 1.963B	\$ 1.897B	\$ 1.897B		
1989	2.019	1.977	1.975	\$ 42M	\$ 44M
1990	2.112	2.060	2.056	52	56
1991	2.225	2.146	2.140	79	85
1992	2.331	2.236	2.228	95	103
1993	2.444	2.330	2.319	114	125
Total				\$382M	\$413M

TABLE 4

Adjusted Proposal Growth at

Tax Year	Proposal	KPI rate	1.5 KPI rate
1988	\$ 45M	\$ 45M	\$ 45M
1989	50	53	55
1990	82	88	90
1991	91	97	99
1992	110	117	120
Total	\$378M	\$400M	\$409M



# Analysis & Comparison 1987 Exemption Allowances

FAGI	KAGI	Kansas Itemized Deductions	Total Deductions	Taxable Income	Tax	Additional Deductions	Ta
11554.00	5405.00	2100.00 81.00 2000.00	4181.00	1224.00	25.00	2000.00	-
11553.00	11553.00	2100.00 238.00 2000.00	4338.00	7205.00	199.00	1000.00	15%
10204.00	10204.00	2100.00 23.00 2000.00	4123.00	6081.00	153.00	2000.00	8%
7973.00	7973.00	1700.00 165.00 1000.00	2865.00	5108.00	161.00	1000.00	120.00
7444.00	7444.00	1700.00 -0- 1000.00	2700.00	4744.00	144.00	1000.00	104.00
6747.00	6747.00	1700.00 120.00 1000.00	2820.00	3927.00	112.00	1000.00	72.00
5187.00	5187.00	1700.00 -0- 1000.00	2700.00	2487.00	57.00	2000.00	10.00
3459.00	3459.00	1700.00 -0- 1000.00	2700.00	759.00	16.00	1000.00	-0-
15915.00	8521.00	2100.00 483.00 2000.00	4583.00	3938.00	79.00	1000.00	59.00

2/15/88  
Att. 3  
A & T Mtg.

# Analysis & Comparison 1988

## Exemption Allowances

FAGI	KAGI	Kansas Itemized Deductions	Total Deductions	Taxable Income	Gov. Proposed Tax	S.B. Prop. Tax
11554.00	5405.00	6200.00 3900.00	10100.00	-0-	-0-	-0-
11553.00	11553.00	5600.00 3900.00	9500.00	2053.00	85.00	41.00
10204.00	10204.00	6200.00 3900.00	10100.00	104.00	4.00	2.00
7973.00	7973.00	3600.00 1950.00	5550.00	2423.00	116.00	55.00
7444.00	7444.00	3600.00 1950.00	5550.00	1894.00	91.00	38.00
6747.00	6747.00	3600.00 1950.00	5550.00	1197.00	57.00	24.00
5187.00	5187.00	4200.00 1950.00	6150.00	-0-	-0-	-0-
3459.00	3459.00	3600.00 1950.00	5550.00	-0-	-0-	-0-
15915.00	8521.00	5600.00 3900.00	9500.00	-0-	-0-	-0-

A & T Mtg. 2/15/88

Att. 4