

Approved Feb. 23, 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 18, 1988n 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: None

Chairman Kerr called the meeting to order and announced that the remainder of the week's meetings would be to make decisions on the tax reform. He informed the committee of the meeting at 8:00 a.m. on Friday, in Room 526-S.

Senator Burke handed out Att. 1 and 2. Attachment 1 is a comparison of Senate Bills 490 and 580. He stated that Attachment 2 is a minority report of Robert F. Bennett stating several areas of disagreement Governor Bennett has with the Governor's Task Force on Tax Reform. Governor Bennett's letter stated that he was in general agreement with the Governor's proposal, but he dissented from the recommendation that the State disallow a deduction for social security and self-employment taxes and especially that the State disallow a deduction for federal income tax liability. He felt both deductions should be retained. Senator Burke acknowledged that Governor Bennett feels that all of the "windfall" should be used in the state general fund.

Senator Burke also referred to a letter from Evans Grain Company which speaks to the federal deductibility issue. (Attachment 3) He reiterated his support of S. B. 580, especially in the areas of Social Security benefits being exempted starting with 1990, and the federal deductibility being retained. There was committee discussion.

Chairman Kerr drew attention to the letter from Lenexa Chamber of Commerce supporting the disallowance of federal deductibility in exchange for low tax rates. (Attachment 4) Chairman Kerr stated he felt the committee should take the responsibility to present the most complete and thoroughly researched tax reform bill possible to the Senate floor. He stated that he wanted to proceed through the list (Attachment 5) comparing individual income tax reform plans and current law. He also stated that the current committee position on the issue is S. B. 490 with the AMT amendment out. (Revisor Hayward later noted that a technical amendment had also been adopted to S.B. 490.)

Senator Burke made a motion that Social Security benefits become exempt effective 1990. There was no second to the motion so the motion died.

Senator Karr asked for consideration to be given to "Long-term care insurance tax credit" (Attachment 6). Chairman Kerr stated that on such short notice, he would be more comfortable with a separate hearing and possibly a separate bill regarding this issue. He said he had been told that the House Insurance Committee had recently introduced such a bill.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~pm~~ on February 18, 1988

Senator Allen made the motion to amend S.B. 490 by including measures of S.B. 580 that pertain to federal deductibility and the five brackets of rates for tax year 1988. Senator Mulich seconded.

Department of Revenue and Research Department staff said that the fiscal note on the motion would be \$19 million. Sen. Burke stated that he wanted to clarify that this motion assumes the increased personal exemptions and standard deductions as in S.B. 490.

Chairman Kerr stated that he would like to speak to the motion saying that he felt the fiscal note of \$19 million would be very detrimental to the funding of educational programs which require property tax funding and school transportation funding. He said the sales tax exemption proposal for machinery and equipment could also be jeopardized. He stated that he was also concerned about having to keep our income tax rates up to among the highest in the nation as this motion would require.

Senator Burke stated that he felt the issue being overlooked was that there would be some corporate windfall that was going to occur to be able to offset the fiscal note on this amendment.

Senator Salisbury stated that her concern was what would be the best long term tax policy. She stated that she shared the concern of high rates, but felt she supports the motion of Senator Allen.

Senator Hayden stated that this amendment would certainly have an effect on the ending balance. He said that he felt the current finances of the state could not take such a set-back. He felt the amendment would benefit high income people.

Senator Burke stated that he felt the major benefit went to the \$35,000 and under bracket.

Chairman Kerr stated that he felt most state tax structures were going to the concept of having lower rates and not having the deduction. He felt that if Kansas missed the opportunity to make this adjustment that Kansas would find itself in the same situation that is now being faced regarding sales tax on machinery and equipment. Kansas would be too high in the income tax rates as compared to other states.

He stated that Kansas should modernize its tax structure.

Motion was lost. (5-6)

Meeting adjourned.

####

ASSESSMENT AND TAXATION

OBSERVERS  
(PLEASE PRINT)

DATE NAME ADDRESS REPRESENTING

5/18/88

DATE	NAME	ADDRESS	REPRESENTING
	Harold Pitts	Topeka	
	Robert Carver	Atchison	Midwest Bank
	RON CALBERT	NEWTON	U.S.U.
	KAREN McCLAIN	TOPEKA	Ks. Assoc. of REALTORS
	JEFF RUSSELL	TOPEKA	UNITED I.O.O. of K.S.
	T.O. ANDERSON	TOPEKA	RSCPA
	John Blythe	Manhattan	KFB
	Jeff Hockett	TOPEKA	Ks. Assn. for Small Bus.
	Tom Coches	WICHITA	Being
	Jim Muscardi	Topeka	ph & other
	Richard Funk	"	KASB
	Joe A. Morris	"	KLSI
	Wilbur Leonard	"	Comm Ks Farm Org.
	Bob McKee	"	K.L.A.
	Ken Peterson	"	KPC
	Tom Taylor	"	KPL Gas Service
	Bernie Koch	Wichita	Wichita Chamber
	Lyndon Drow	Topeka	KDOH
	Basil Covey	Topeka	KRTA
	DUD GRANT	"	KCCI
	BERHARD METZ	"	"
	SHELBY SMITH	Wichita	Stawson
	ROSS MARTIN	TOPEKA	KPC
	CAROLYN GASTON	JUNCTION CITY	UTS
	B.W. Bowen	Topeka	Revenue
	Jack Smith	"	"
	Craig Grant	Topeka	H-NEA
	Donna McGill	"	KLPG





Side by side comparison of Senate bills 490 and 580

	<u>SB490</u>	<u>SB580</u>
returned to individuals taxpayers	\$23.1 million (total)	\$46.3 million (1988) \$112.9 million (1992)
returned to corporate taxpayers	\$1 million	\$24.0 million
\$60 tax credit for blind and elderly	not allowed	non-refundable credit allowed
deduction of federal income taxes	removed	retained
corporate tax rates	unchanged	lowered 1.25 percent
social security benefits	taxed	not taxed
number of rate brackets	2	5

## APPENDIX A

Minority Report  
of  
Robert F. Bennett

Mr. Chairman:

Regrettably, I find it necessary to disassociate myself from certain of the recommendations of a majority of the Governor's Task Force of Tax Reform. While I am in general agreement with most of the recommendations, I must dissent from the recommendation that the State disallow a deduction for social security and self-employment taxes and particularly that the State disallow a deduction for federal income tax liability. In my opinion, both of these deductions should be retained for the following reasons:

1. Historically, in the area of income taxes, deductions have either been allowed because they are an expense that cannot be avoided or because they represent expenditures which government would like to encourage a taxpayer to make. Income tax due to the federal government and social security taxes due to the federal government certainly fall in the first category. The taxpayer has no option but to make the payments. The dollars expended in such tax liability are not discretionary. The tax obligations are, by law, first and prior to all other claims. The amount of the tax liability must be deducted before determining the taxpayer's truly "spendable income". For most taxpayers, the amount of income allocable to tax liability has never been actually received. To tax that liability as though it had been received and as though it constitutes spendable income is in my opinion patently unfair.

Even the federal government recognizes this unfairness when it allows the taxpayer to deduct state and local income taxes which he or she is required to pay. The State should do no less.

2. The argument has been made that the disallowance of these deductions will simplify the filing of the return. Simplification can hardly be justification for an unfair tax exaction and it is highly improbable that taxpayers would view it as such. While simplification is indeed an appropriate goal, it should hardly be an end in and of itself regardless of its tax effect. In any event, continuance of these deductions will not complicate an already greatly simplified return.

3. One of the arguments usually advanced for a maximum of conformity with the federal income tax deductions is that verification of non-conforming deductions would be nearly impossible without significant administrative and audit expense. Such an argument does not apply to these taxes because the Kansas taxpayer will still be required to file his or her withholding tax statements and his or her federal income tax return. These documents clearly disclose, and can be used to verify, the tax deductions claimed. The verification would be simple and swift and without administrative or audit expense.

4. Continued allowance of these deductions, particularly the federal income tax deduction, would better adjust for the increased tax liability that has occurred for Kansas taxpayers as a result of the enactment of income tax changes in the federal law. Kansas taxpayers in the middle to upper income groups have sustained significant increases in their state income tax liability as a result of these changes.

Although an analysis of the effect of changes in the federal income tax law clearly indicates that the bulk of the increased Kansas income tax liability rests on taxpayers with income in excess of \$35,000, and although the committee's recommendation is to reduce individual income tax liability by some \$21 million dollars or, on the average, 2.3%, the reduction for taxpayers with incomes of \$35,000 and above would be much less than the average. For some taxpayers, although their liability has been increased, they would sustain, on the average, no modification one way or the other. In fact, for a few taxpayers falling in this bracket who are also single, they would actually sustain, again on the average, an increase. This is not a "return of the windfall", assuming that is a goal; it is merely a reallocation.

Retention of the federal income tax deduction would better adjust for the increased revenue which the state is receiving from these taxpayers.

5. It is difficult, if not impossible, to specifically and proportionately return to each taxpayer any part or all of the increased taxes which he or she will pay to the State as a result of the federal tax changes, assuming that to be a prudent goal. Disallowance of the federal income tax deduction, however, has the effect of "compounding the felony" for those individuals who do not have a congressionally-blessed tax deduction or tax shelter and must pay their full measure of tax liability to the federal government. The only way a "full-measure taxpayer" can receive a modicum of tax fairness is to be allowed to deduct that full measure. With disallowance of the deduction, the tax liability manipulator, with his plans for tax avoidance, becomes the beneficiary twice over.

6. Some have argued that, unless Kansas does away with these tax deductions, because of the high dollar amount involved, Kansas cannot reduce its income tax rates by numbered percentages which would be "dramatic". Such an argument is based on a faulty assumption that taxpayers are so naive that they are impressed with the rate not with the tax. While some may be so shallow or so ignorant, it is my strong conviction that the vast majority of Kansas taxpayers are concerned with the bottom line and, whether the rate is at 5% or at 9%, if the tax at 5% represents greater dollars out of their pockets, they would prefer to have the higher rate and the lower tax liability.

7. If, indeed, reduction of the rates is the most important of goals, then it is respectfully submitted that there are other ways to realize such a goal. For instance, the Committee, really without rhyme or reason, except that the federal government has acted, is recommending increases in the personal exemptions and in the standard deductions. Either or both of these recommendations could be adjusted downward to support a reduced percentage tax rate. In fact, such an adjustment would probably more nearly reduce proportionately the increased tax liability which Kansas taxpayers are being required to pay as a result of the changes in the federal income tax law.

8. Finally, it must be noted that during the prior administration, Kansas attempted to at least partially disallow the federal income tax deduction. As unrestrained of merit as that decision was, it was at least a provision that was sunsetted. Fortunately, the Legislature did allow the sun to set. The public has had experience with the unfairness of the disallowance of the federal income tax deduction, bringing to mind a folk truism, "Once bit, twice shy."

For these reasons, I cannot support the portion of the Task Force recommendations which would disallow the federal income tax deduction and the tax deductions currently allowed for social security and self-employment taxes.

Respectfully submitted,

Robert F. Bennett





February 15, 1988

Senator Paul Burke, Jr.  
Room 357-E, State Capitol  
Topeka, KS 66612

Dear Senator:

I am writing with reference to the problem of creating an equitable refund or adjustment of the windfall created by changes in the Federal tax laws. While it is realistic to assume that all of it cannot be returned, our concern is that it be handled on a basis that will not have the potential of creating inequities in the future.

We understand that consideration is being given to reducing the tax brackets from eight to two with the top rate being reduced from 9% to a little over 5%. This plan, however, provides that Federal income taxes will no longer be deductible.

While the new rate has been adjusted to reflect the disallowance of Federal taxes at their current rates, there is no safeguard built into the plan to adjust for any Federal tax increases. We, therefore, urge you to reconsider this item and make Federal taxes deductible against State income taxes. We believe this is in line with the Federal law since State income taxes are now deductible for Federal tax purposes. It seems only fair that Federal taxes should be deductible for State tax purposes.

I, therefore, urge you to allow the deductibility of Federal taxes against State income.

Thanks for your consideration to this important matter to Kansas taxpayers.

Sincerely,

S. Dean Evans, Sr.

SDE:eg



1988 LEGISLATIVE PRIORITIES SUMMARY  
Revised February 2, 1988

<u>ISSUE</u>	<u>POSITION</u>
I. STATE INCOME TAX	
A. Windfall	Support returning the windfall and legislating tax increases. If state fiscal position becomes critical, would support keeping only enough windfall to maintain financial integrity.
B. Tax brackets	Support elimination of federal income tax and F.I.C.A. deductions and making state brackets and rates consistent with federal changes.
C. Multi-State Corporations	Support allowing multi-state corporations a choice of the 3-factor or single factor tax formulas for calculating Kansas income.

ISSUE A

In principal, the Chamber supports that all tax increases be instituted only through legislative action. Consequently, it is recommended that the Governor's budget show all windfall tax being returned to the taxpayers on the same basis as collected.

If balances of the State become critically low because of overall economic conditions, the Chamber supports retaining a portion of the current windfall sufficient enough to maintain prudent cash reserves by legislative vote.

ISSUE B

The Chamber supports simplification of the Kansas income tax system making Kansas more competitive in economic development by eliminating the federal income tax and F.I.C.A. deductions with a corresponding reduction in tax rates. We recommend that brackets be established so that no current income group pays more or less tax based on pre-federal tax law changes.

ISSUE C

That legislation be enacted to allow multi-state corporations the choice of using either the 3-factor tax formula (sales, assets, payroll) or the single factor formula (sales) in the calculation of Kansas income.

Comparing Individual Income 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>Governor<sup>1</sup></u>	<u>S.B. 580<sup>1</sup></u>	<u>TESA<sup>1</sup></u>	<u>Current Law</u>
Social Security benefits	taxable	taxable <sup>2</sup>	exempt	taxable
Kansas GO bond interest	exempt	exempt	taxable	taxable
Federal income taxes paid	not deductible	deducted	deducted	deducted
<b>Rates:</b>				
number of brackets	2	<del>8</del> 5	7 joint, 6 single	8
bottom rate, single	4.80%	4.00%	3.25%	2.00%
bottom rate, joint	4.15%	4.00%	3.25%	2.00%
top rate, single	6.20%	9.00% <sup>3</sup>	8.00%	9.00%
top rate, joint	5.40%	9.00% <sup>3</sup>	8.00%	9.00%
<b>Itemized deductions:</b>				
federal conformity	current <sup>4</sup>	current <sup>4</sup>	current <sup>4</sup>	12/31/77
Social Security contr.	not deductible	not deductible	not deductible	deducted
<b>Standard deductions:</b>				
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	not indexed	not indexed	indexed	same as above
<b>Personal exemption:</b>				
1988	\$1,950	\$1,950	\$1,950 <sup>5</sup>	\$1,000
1989	2,000	2,000	2,000 <sup>5</sup>	1,000
1990 and thereafter	not indexed	not indexed	indexed <sup>5</sup>	1,000
Elderly/Blind	increase standard deduction	increase standard deduction and \$60 TY 1987 credit	increase standard deduction	none <sup>6</sup>
Fiscal Impact <sup>7</sup>	\$(21.29) million	\$(46.29) million	\$5.53 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, with proposed new rate brackets.

<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 1990 and to 7.5 percent in TY 1992. The number of brackets would be reduced to 5 by TY 1992.

<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.

Corporation Income Tax Policy Comparisons

	<u>Governor<sup>1</sup></u>	<u>S.B. 580<sup>1</sup></u>	<u>TESA<sup>1</sup></u>	<u>Current Law</u>
Elimination of net operating less carryback	Yes	Yes	No	No
Provides Income Apportionment Option	Yes	Yes	No	No
Reduce Corporate Base Rate	No	Yes	No	No

<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 with proposed new rate brackets.

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KANSAS LEGISLATIVE RESEARCH DEPARTMENT

Room 545-N – Statehouse

Phone 296-3181

February 16, 1988

TO: REPRESENTATIVE ELAINE WELLS

Office No. 272-W

RE: LONG-TERM CARE INSURANCE TAX CREDIT

This is in response to your request for information regarding a proposed long-term care insurance tax credit. As we have discussed, such a credit could be set up in a similar fashion to the child care credit.

Under current law, Kansas allows a certain percentage of the federal child care credit, based on Kansas Adjusted Gross Income (KAGI). The credit is totally phased out at KAGI of \$14,000. The federal credit allows a certain percentage of expenses up to \$2,400 per child to be taken as a credit. The Governor's proposal is to change the Kansas credit available to a constant 25 percent of the federal credit available. The attached table shows some example credits, under current law and under the Governor's proposal, that could be taken by taxpayers with expenses of \$2,400 or above for one child.

If you want to allow all long-term care insurance premiums up to \$1,200 per policy to be eligible for a credit, a percentage plan like Option B from the attached table would allow taxpayers with one policy similar amounts of credits to child care credits available under the Governor's proposal.

The fiscal note for allowing such a long-term care insurance credit, of course, depends largely on the premium volume. As you know, the Insurance Department has been unable to supply aggregate information to date. However, we have calculated that if the Governor's tax reform plan (S.B. 490) were to pass, given the current distribution of taxpayers age 65 and above, assuming the credit is nonrefundable, assuming that \$1,200 is paid for each policy, assuming that exactly 10 percent of all taxpayers age 65 and above take the credit available under Option B and are distributed among income brackets in the same manner as all such taxpayers, and assuming that all joint filers purchase two such policies, the fiscal impact of allowing such a credit would be about \$2.0 million. Of course, these assumptions ignore the fact that a number of policies are purchased by persons under age 65. On the other hand, very few such policies cost as much as \$1,200 unless written for an unusually high level of care or for persons far older than age 65.

I also have enclosed some background information on long-term care insurance policies provided by the Insurance Department. I hope this information is useful to you. If I can be of further assistance, please let me know.



Chris Courtwright  
Research Assistant

CC/jar

Enclosures

A & T

2/18/88

Att. 6

CHILD CARE  
CREDIT  
Maximum allowable  
for expenses on  
1 child of \$2,400  
or over

LONG-TERM CARE INSURANCE CREDIT  
Maximum allowable  
for expenses on  
1 policy of \$1,200  
or over

KAGI	Current Law	Gov's Proposal	Option A (orig bill)	Option B		Option C	
				pcts	amt	pcts	amt
0-5	\$720	\$180	\$1,200	15%	\$180	40%	\$480
5-6	\$648	\$180	\$1,080	15%	\$180	40%	\$480
6-7	\$576	\$180	\$960	15%	\$180	40%	\$480
7-8	\$504	\$180	\$840	15%	\$180	40%	\$480
8-9	\$432	\$180	\$720	15%	\$180	40%	\$480
9-10	\$360	\$180	\$600	15%	\$180	40%	\$480
10-11	\$278	\$174	\$480	15%	\$174	20%	\$240
11-12	\$209	\$174	\$360	15%	\$174	20%	\$240
12-13	\$134	\$168	\$240	14%	\$168	20%	\$240
13-14	\$67	\$168	\$120	14%	\$168	20%	\$240
14-16	\$0	\$162	\$60	14%	\$162	10%	\$120
16-18	\$0	\$156	\$60	13%	\$156	10%	\$120
18-20	\$0	\$150	\$60	13%	\$150	10%	\$120
20-22	\$0	\$144	\$60	12%	\$144	10%	\$120
22-24	\$0	\$138	\$60	12%	\$138	10%	\$120
24-26	\$0	\$132	\$60	11%	\$132	10%	\$120
26-28	\$0	\$126	\$60	11%	\$126	10%	\$120
28-30	\$0	\$120	\$60	10%	\$120	10%	\$120
30-32	\$0	\$120	\$0	10%	\$120	0%	\$0
32-34	\$0	\$120	\$0	10%	\$120	0%	\$0
34-36	\$0	\$120	\$0	10%	\$120	0%	\$0
36-38	\$0	\$120	\$0	10%	\$120	0%	\$0
38-40	\$0	\$120	\$0	10%	\$120	0%	\$0
40-42	\$0	\$120	\$0	10%	\$120	0%	\$0