

Approved February 29, 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 25, 19 88n 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 Johnston
John Blythe, Kansas Farm Bureau
John Luttjohan, Department of Revenue
Jim Kadel, Dept. of Commerce

Chairman called the meeting to order and announced hearings on Senate Bills 581 and 610. He introduced the sponsor of the bills, Sen. Johnston to explain the bills.

SENATE BILL 581

Sen. Johnston said that S.B. 581 would authorize state income averaging. This has been repealed on the federal level. Under this method, part of an unusually large amount of taxable income could be taxed at lower rates, due to the fact that income over a base amount was taxed as if it had been received over a four year period rather than all in one year.

John Blythe testified. (Att. 1) He stated that he felt income averaging could be of great value to people who periodically experience severe income fluctuations such as farmers who depend on weather. He stated that he felt income averaging should be reinstated as it was prior to January 1, 1987.

John Luttjohan testified. (Att. 2 & 3) He stated that prior to the Tax Reform Act of 1986, the Internal Revenue Code contained a provision for computing tax on the federal income tax return by using an averaging concept. He stated that although the federal government allowed income averaging for a number of years, the state of Kansas has never had an income averaging provision. He also stated that hte Dept. of Revenue has no administrative experience with the income averaging concept. A state income averaging concept will require the development of a reporting form, rulings on specific issues, policy decisions and a variety of revisions to the return instructions. He said that due to the complexity of the issue, implementation of a state income averaging computation would result in some administrative problems and delays.

SENATE BILL 610

Sen. Johnston said that S.B. 610 would authorize the formation and development of a Foreign Sales Corporation, (FSC). A Foreign Sales Corporation is a non-U.S. Corporation organized in an eligible U.S. possession or other qualified jurisdiction. This corporation would eventually authorize these corporations to receive a 15% tax credit on their federal income tax liability. (See Att. 4 regarding interim report on subject.)

Jim Kadel testified, (Att. 5) He stated that a state sponsored shared FSC permits up to 25 exporters to participate as shareholders. A shared FSC allows each participating exporter to gain the tax benefits of operating through an FSC while substantially reducing costs. He stated that to date, there have been only nine companies which have expressed interest in joining a state-sponsored FSC. An FSC with only nine companies, though would not economically benefit its members. He suggested an amendment clarifying the extent of "assistance" in Section 3 regarding the costs of establishing an FSC.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,
room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on February 25, 19 88

The one time start up costs are approximately \$50,000. Also, there needs to be clarification regarding which export companies would be eligible in a state-sponsored FSC. He stated that he felt there also needed to be clarification regarding the 15% tax benefit for federal tax purposes.

Mark Burghart stated that he had technical information to be presented to the committee when time allowed and the bill is taken up again.

SENATE BILL 450

Chairman Kerr stated that discussion would continue from the previous day on S.B. 450. There is an additional attachment, (Att. 6) drafted by the Dept. of Revenue requested by the committee titled, "Kansas Real Estate Transfer Information, Certificate of Value." This form could be included in the statute book. Chairman Kerr stated that this proposed form does not include financial information to be used. Therefore, the motion made the previous day by Sen. Salisbury would need to be adopted. (Motion included removing financial information from the form.)
Sen. Salisbury's motion carried.

It was unanimously agreed that on line 6 of the form the words "and any" should replace the word "or."

Senator Parrish made a motion to adopt the amendments that are outlined in the balloon including the adoption of the "Draft" form and making a substitute bill. Senator Salisbury seconded. Motion carried.

Senator Allen made a motin to recommend substitute for S.B.450 adversely.
Senator Frey seconded. Motion carried.

Senator Karr made a motion to adopt the minutes of the February 24th meeting.
Senator Thiessen seconded. Motion carried.

Meeting adjourned.



PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

RE: S.B. 581 - Amending and Supplementing the Kansas Income
Tax Act

February 25, 1988
Topeka, Kansas

Presented by:
John K. Blythe, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

My name is John K. Blythe. I am the Assistant Director of Public Affairs for Kansas Farm Bureau. We appreciate the opportunity to address your Committee today on the issue of allowing the utilization of income averaging to determine the tax liability of Kansas taxpayers.

Most farmers and ranchers file their income tax returns on the cash accounting basis. Therefore, a year with adverse weather conditions, either too dry or too wet, makes for a wide variation of income. Added to the weather conditions are crop disease, insects, such as chinch bugs and others, all contributing to an income that fluctuates from year to year.

Perhaps the most severe fluctuations occur with the complete disbursement of livestock or machinery or both. With the economics of agriculture as they are today, these disbursements could be "forced" or "voluntary" sales.

Attached to this testimony are three sales of the many sales that are listed in the Grass and Grain, a weekly newspaper published at Manhattan.

Our farm accounting service of Farm Bureau has reported to me that income averaging has not been used to any extent but when it has been applicable it was very necessary for tax equity to the taxpayer.

We believe that in the interest of tax equity, income averaging should be reinstated as it was prior to January 1, 1987.

Thank you for the opportunity to appear before your Committee today and express our organizational views on income averaging. I would be pleased to respond to questions.

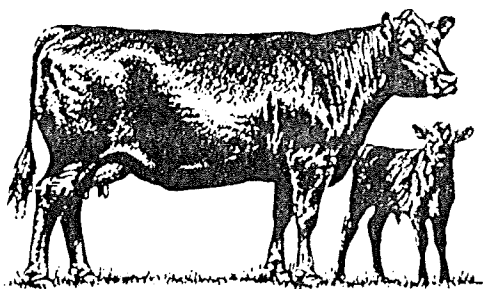
MANHATTAN COMMISSION CO.

LIVESTOCK AUCTION
MANHATTAN, KANSAS

Special Angus Cow Sale

Thurs., Feb. 25 — starting 12:30

Complete Dispersal of Reputation Herd of Purebred
Angus Cows.



**Performance Proven
On the Range — In the Lot**

500 Angus Cows

16 Reg. Angus Bulls

(Target, Masterpiece & New Trend)

A Nationally Prominent

Commercial Performance Herd

DISPERSION AT MANHATTAN LIVESTOCK COMMISSION CO.

166 Angus cows (6 to 8 yrs. old)

100 Angus cows coming with the 2nd calf

100 Angus cows coming with the 3rd calf

The cows above have 40 baby calves on the ground now and the remainder are bred to calve right on out before grass.

54 Angus first calf heifers bred to calf the same way.

60 Top Cut Angus replacement heifers (Coming 1 year old)

80 Angus fall calving cows with calves by side (ages 3 to 8 yrs. old). These cows are bred back.

16 Registered Angus bulls. The breeding on these bulls are from TARGET, MASTERPIECE, and NEW TREND.

Genuine Auction
NO PRICE Reservation

AUCTION

Genuine Auction
NO PRICE Reservation

BY LEGERE
The Real Estate Auctioneers

For Russell State Bank, Et Al
1,520 Acres Russell-Ellis-Osborne
County Farmland
Monday, March 7, 1988
Sale Shall Commence at 2:00 P.M. (CST)

AUCTION LOCATION: Russell County 4-H Building, Fairway Drive, Russell, Ks.
MANNER OF SALE: The land shall be sold in individual tracts only as set out.
POSSESSION: Purchasers shall receive possession on date of closing on all idle land and grassland; after the 1988 harvest on all land presently in growing wheat. Purchaser shall receive an undivided one-third (1/3) interest in the growing wheat and an undivided one-third (1/3) interest of governmental program payments related thereto.
MINERALS: Purchasers to receive all of seller's interest in and to the oil, gas and/or other minerals, except minerals are reserved on the NE1/4 of Tract Two by prior reservation.

TRACT ONE: 160 Acres Russell County

LEGAL DESCRIPTION: Southwest Quarter (SW1/4) of Section Five (5) Township Eleven (11) South, Range Fourteen (14) West of the 6th P.M., Russell County, Kansas, being 160 acres more or less.
GENERAL INFORMATION: This quarter consists of approximately 106.8 acres cultivated land with approximately 42 acres in growing wheat, the balance is idle cropland, terraced, featuring soils in Roxbury, McCook and Cornish-Bogue-Armo Associations; the balance is native grassland watered by Post Rock Rural Water District. Good fences, bounded on the south by State Highway K-18 and on the east and west by improved county roads.

| | BASE | PROVEN YIELDS |
|---------------|------|---------------|
| Wheat | 61.7 | 31 bu. |
| Grain Sorghum | 15.5 | 42 bu. |

TAXES: 1987-\$340.88

TRACT TWO: 640 Acres Ellis County

LEGAL DESCRIPTION: All of Section Three (3), Township Eleven (11) South, Range Sixteen (16) West of the 6th P.M., Ellis County, Kansas, being 640 acres more or less.
GENERAL INFORMATION: This excellent section of grassland is bordered on the east and north by improved county roads. Property is well watered by two ponds. It is divided into two 320-acre pastures. Perimeter fence and crossfences are good 4-wire fences. Good set of corrals, loaded chute and squeeze chute. In area of oil production. Grass was not grazed in 1987.

TAXES: 1987-\$698.00

TRACT THREE: 560 Acres Osborne County

LEGAL DESCRIPTION: East Half of the Northeast Quarter (E1/2-NE1/4) of Section Thirty-one (31) and North Half (N1/2) and Southwest Quarter (SW1/4) of Section Thirty-two (32), all in Township Eight (8) South, Range Fourteen (14) West of the 6th P.M., Osborne County, Kansas, being 560 acres more or less.
GENERAL DESCRIPTION: This tract is bordered on the south, east and north by improved county roads. There is approximately 123.3 acres of cultivated land, presently idle, terraced. The wheat base is 28.6 acres and grain sorghum base is 28.4 acres. Balance of 436.7 acres in native grassland. Livestock watered by large pond.

| | BASE | YIELDS |
|---------------|------------|--------|
| Wheat | 19.2 Acres | 30 bu. |
| Grain Sorghum | 46.5 | 49 |

TAXES: 1987-\$1,085.90

**TRACT FOUR: 160 Acres Ellis County
St. Anthony Hospital Building Foundation**

LEGAL DESCRIPTION: Northwest Quarter (NW1/4) of Section Twenty (20), Township Eleven (11) South, Range Sixteen (16) West of the 6th P.M., Ellis County, Kansas, being 160 acres more or less.
GENERAL INFORMATION: This quarter is in all native grassland, fenced by new 4-wire fence. Water provided by one earthen pond and Saline River. Producing oil wells in an area of production. Grass was not grazed in 1987.
POSSESSION: Immediate day of closing.
MINERAL RIGHTS: Surface Rights
TAXES: 1987-\$171.97
Only at present due to production.

AUCTION HEADQUARTERS
Realtors

Legere

Auctioneers

Auction & Realty, Inc.
1013 Main - Box 458 - Mays, Kansas 67401
For information or to bid call 913-675-2545

Let us do your property. Licensed Auctioneers
Auction of Farm & Land in Ok. Licensed Real Estate Broker in Oklahoma

AUCTIONEER'S NOTE: GENUINE AUCTION as defined by Legere's "Auctioneer's Manual" is a term coined by Legere many years ago. It is defined as a "Legere Auction", in short, no other for licitous bidding practices tolerated and no member of Legere's organization purchases. A GENUINE AUCTION - certain, fair, efficient. All statements and representations herein are believed to be correct, however, the Auction Firm makes no warranties either expressed or implied. ANNOUNCEMENTS MADE AT THE DISCRETION OF AUCTIONEER. SALE DAY SHALL TAKE PRECEDENCE. Tracts 1, 2 and 3 owned by the Russell State Bank, Russell, Ks. Tract 4 owned by St. Anthony Hospital Foundation, Mays, Ks.
Copyright by Legere 1988



MONDAY, FEBRUARY 29
STARTS 11:00 AM
Lunch by Presbyterian Ladies
Located as described below, NW of
WASHINGTON, KANSAS

Due to the death of my husband, I will sell the following described property at public auction at the place 1 mile north of Hwy. 36 & 15 junction in Washington, Ks., then 1 1/4 west and 1/2 north.

FARM MACHINERY

1980 IHC 1460 axial flow combine, heater, radio, air, monitors, 810 header 17 1/2', Serial No. U012018

Leeway 6-row milo head with platform

Header trailer

1980 JD 4440 diesel, heater, air, power shift, duals, triple hyd., 4271 hrs., near new 20.8x38 radial tires, No. 40712

1979 JD 4240 diesel, QR, heater, air, triple hyd., 4513 hrs., SN 9467

1979 JD 158 loader with grapple fork

Sudega grain auger 8" 65'

Hutchinson grain auger 6" 48'

Grain auger 5" 18'

Hutchinson grain cleaner with motor

JD Van Brunt B-16-8 drill, press wheels, fertilizer box, grass seeder

JD 7000 planter, 6 row, monitor, fertilizer, insecticide boxes, SN 062297

JD 220 disk 18'

JD 630 cultivator, 6 row

JD 24' vibra shank No. 1000 with harrow

JD No. 414 rotary hoe

JD No. 900 V-chisel, 9 shank

JD No. 534 dozer, 9'

Big Ox 8' blade

IHC 5x18 plow No. 710

JD 5x14 plow No. 1450

JD 630 tandem wheel manure spreader

John Deere N manure spreader

Two 3 pt. QT units, Category 2 & 3

TRUCKS & TRAILERS

1963 Chevy 60 with 16' combination bed & hoist, V8, 5 sp, 2 sp axle, silage gate & bale rack

4-wheel trailer with hoist & grain bed

2-wheel flatbed trailer 8x16

1977 Bullmobile 20' stock trailer, new floor

CATTLE EQUIPMENT

1970 Chevrolet, 366 V8, Oswalt Butler mixer, 23,000 GVW, dial scales, new rubber on back

Pearson cattle chute
Foremost Model 30 head gate

Four 20' wooden feed bunks

Two 16' wooden feed bunks

Round metal cattle feeders

Combination cattle panels

Liquid protein tank with 2 HP motor & pump, 1000 gal.

HAY EQUIPMENT

1982 JD 1424 swather

JD 894 side rake

JD No. 37 mower 9'

JD 24T baler, PTO

Bale fork

Roskamp 36" roller with hydraulic extension auger

MISCELLANEOUS

Pace 23-channel base station

3 Pace CB mobile receivers

Winco generator, 15,000 watts, 55 amps, on trailer

JD power washer; JD pallet fork

Battery operated fogger

Dual truck chains; tractor chains

Fuel tank for pickup with electric motor

Bulk tank, 5 ton with 4" auger & motor

Shop built 3 pt. sprayer

Two fuel tanks, 500 & 300 gal.

Liquid manure pump with gas engine

2 propane bottles

Old fuel tank 3000 gal.

Extended hydraulic cylinders

Brady liquid fertilizer spreader, as is

Front end tractor weights

Two sets of duals 18x38

Offering a line of good clean machinery. Only a few small items not listed, so be on time.

If you have any questions prior to the sale, call E. J. Pannbacker, 913-325-2539.

Terms cash. All property bid in at bidder's risk and cannot be removed from the premises until settled for. Not responsible for accidents.

WILLIS KEESECKER ESTATE

SUSAN KEESECKER, PR — 913-325-2884

Clerk: First National Bank, Washington, Ks.

Harold R. Siegel — Auctioneers — Steve Kettelhut
Phone 402-729-3651 Fairbury 402-729-3060
1812 G Street, Fairbury, Nebraska

MEMORANDUM

TO: The Honorable Fred Kerr, Chairman
Senate Assessment & Taxation Committee

FROM: John R. Luttjohann
Director of Taxation
Department of Revenue

DATE: February 25, 1988

RE: Senate Bill 581 - Allowing Income Averaging as a Method
of Tax Computation on the Kansas Income Tax Return

Thank you for the opportunity to appear before you on Senate Bill 581.

The proposed legislation would allow a taxpayer to use the income averaging method to compute their Kansas tax liability. The statutory authority would be provided by the code sections 1301 to 1305, inclusive of the federal revenue code prior to the Tax Reform Act of 1986. This provision is effective with the 1988 tax year.

Prior to the Tax Reform Act of 1986, the Internal Revenue Code contained a provision for computing tax on the federal income tax return by using an averaging concept. Under this method, part of an unusually large amount of taxable income could be taxed at lower rates, due to the fact that income over a base amount was taxed as if it had been received over a four year period rather than all in one year. Therefore, the income would be taxed at a lower marginal rate. Although the federal government allowed income averaging for a number of years, the state of Kansas has never had an income averaging provision.

The Department of Revenue has no administrative experience with the income averaging concept. A state income averaging computation will require the development of a reporting form (federal schedule G contained 28 lines), rulings on specific issues, policy decisions and a variety of revisions to the return instructions.

The underlying purpose of the federal income averaging provision was to cushion the effect of the federal brackets, which ranged from 11% to 50%. Hence, a large amount of additional income could potentially be taxed at 39% more than if it had been received equally over a number of years. Presently, the Kansas brackets range from 2% to 9%, a 7% spread. Under Governor Hayden's tax reform proposal, the range would be less than 1 1/4%. Therefore, there is much less need for income averaging at the state, simply due to the fact that the absolute difference between our lowest and highest rates is not as great as at the federal level.

Due to the complexity of this issue, implementation of a state income averaging computation will inevitably result in some administrative problems and delays.

I'd be happy to answer any questions you might have.

JRL:bkh

**Schedule G
(Form 1040)**

Department of the Treasury
Internal Revenue Service (X)

Income Averaging

▶ See instructions on back. ▶ Attach to Form 1040.

OMB No. 1545-0074

1986

Attachment
Sequence No. 16

Name(s) as shown on Form 1040

Your social security number

Step 1 Add your income from 1983-1985

| | | | | | |
|--------------|----------|---|----------|--|--|
| 1983 | 1 | Enter the amount from your 1983 Form 1040 (line 37), Form 1040A (line 19), or Form 1040EZ (line 7). If less than zero, enter zero | 1 | | |
| 1984 | 2 | Enter the amount from your 1984 Form 1040 (line 37), Form 1040A (line 19), or Form 1040EZ (line 7). If less than zero, enter zero | 2 | | |
| 1985 | 3 | Enter the amount from your 1985 Form 1040 (line 37), Form 1040A (line 19), or Form 1040EZ (line 7). If less than zero, enter zero | 3 | | |
| Total | 4 | Enter all income less deductions earned outside of the U.S. or within U.S. possessions and excluded for 1983 through 1985 (include housing exclusion) | 4 | | |
| | 5 | Add lines 1 through 4 | 5 | | |

Step 2 Figure your averageable income

| | | | | |
|-----------|--|-----------|--|--|
| 6 | Divide the amount on line 5 by three (3) | 6 | | |
| 7 | Multiply the amount on line 6 by 140% (1.4) | 7 | | |
| 8 | Enter your taxable income for 1986 from Form 1040, line 37 | 8 | | |
| 9 | If you received a premature or excessive distribution subject to a penalty under section 72, see instructions | 9 | | |
| 10 | Subtract line 9 from line 8 | 10 | | |
| 11 | If you live in a community property state and are filing a separate return, see instructions | 11 | | |
| 12 | Subtract line 11 from line 10. If less than zero, enter zero | 12 | | |
| 13 | Enter the amount from line 7 above | 13 | | |
| 14 | Subtract line 13 from line 12. This is your averageable income. If this line is \$3,000 or less, do not complete the rest of this form | 14 | | |

Step 3 Figure your tax

| | | | | |
|-----------|--|-----------|--|--|
| 15 | Multiply the amount on line 14 by 25% (.25) | 15 | | |
| 16 | Enter the amount from line 7 above | 16 | | |
| 17 | Add lines 15 and 16 | 17 | | |
| 18 | Enter the amount from line 11 above | 18 | | |
| 19 | Add lines 17 and 18 | 19 | | |
| 20 | Tax on amount on line 19 (from Tax Rate Schedule X, Y, or Z) | 20 | | |
| 21 | Tax on amount on line 17 (from Tax Rate Schedule X, Y, or Z) | 21 | | |
| 22 | Tax on amount on line 16 (from Tax Rate Schedule X, Y, or Z) | 22 | | |
| 23 | Subtract line 22 from line 21 | 23 | | |
| 24 | Multiply the amount on line 23 by 3 <i>If you have no entry on line 9, skip lines 25 through 27 and go to line 28.</i> | 24 | | |
| 25 | Tax on amount on line 8 (from Tax Rate Schedule X, Y, or Z) | 25 | | |
| 26 | Tax on amount on line 10 (from Tax Rate Schedule X, Y, or Z) | 26 | | |
| 27 | Subtract line 26 from line 25 | 27 | | |
| 28 | Add lines 20, 24, and 27. If the result is less than the tax figured from the tax rate schedule or tax table, also enter on Form 1040, line 38, and check the Schedule G box | 28 | | |

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Instructions

If your income this year is greater than the average of your income for the past 3 base period years (1983–1985), you may be able to pay less tax by income averaging. To see if you qualify, complete lines 1–14 of this schedule. If line 14 is more than \$3,000, complete the rest of this schedule to see if you will save by income averaging. Income averaging will not always result in a lower tax.

You must attach this schedule to your Form 1040 to choose the benefits of income averaging. You may make or change this choice anytime within 3 years from the date you filed your return.

For more information and a filled-in sample Schedule G, see **Publication 506**, *Income Averaging*.

Who Can Income Average?

To be eligible to file Schedule G with Form 1040, you (and your spouse, if you are filing a joint return) must meet the following requirements:

- (1) **Citizenship or residence.**—You must have been a U.S. citizen or resident for all of 1986. You are not eligible if you were a nonresident alien at any time during the 4 tax years ending with 1986.
- (2) **Support.**—You must have furnished at least 50% of your own support for each of the years 1983 through 1985. In a year in which you were married, you and your spouse must have provided at least 50% of the support of both of you. For the definition of support, see Form 1040 Instructions.

Exceptions: Disregard the support requirement if either of the following situations applies to you:

- (1) More than 50% of your 1986 taxable income (line 8) is from work you performed in substantial part during 2 or more of the 3 tax years before 1986; or
- (2) You file a joint return for 1986 and your income for 1986 is not more than 25% of the total combined adjusted gross income (line 33, Form 1040).

If you were a full-time student for any of the years, 1983 through 1985, you cannot average your income unless exception (2) above, applies.

For the definition of full-time student, see Form 1040 Instructions.

Caution: In the same year you file Schedule G you may not claim the benefits of Internal Revenue Code sections 911 or 931 through 935, dealing with certain income from U.S. possessions and foreign sources.

Figure Your Income for 1983–1985

(1) Use your separate income and deductions for all years if you were unmarried in 1983 through 1986.

(2) Use the combined income and deductions of you and your spouse for a base period year:

- if in 1986 you are married and file a joint return, or are a qualifying widow(er), and
- you were not married to any other spouse in that base period year.

(3) If (1) and (2) do not apply, your separate base period income is the largest of the following amounts:

(a) Your separate income and deductions for the base period year as explained below;

(b) Half of the base period income from adding your separate income and deductions to the separate income and deductions of your spouse for that base period year; or

(c) Half of the base period income from adding your separate income and deductions to your 1986 spouse's separate income and deductions for that base period year.

Note: *If you were married to one spouse in a base period year and are married and file a joint return with a different spouse in 1986, your separate base period income is the larger of (3)(a) or (b) above. Combine that amount with your 1986 spouse's separate base period income for that base period year.*

Figuring Your Separate Income and Deductions

The amount of your separate income and deductions for a base period year is your gross income for that year minus your allowable deductions.

If you filed a joint return for a base period year, your separate deductions are:

(1) For deductions allowable in figuring your adjusted gross income, the sum of those deductions attributable to your gross income; and

(2) For deductions allowable in figuring taxable income (exemptions and itemized deductions), the amount from multiplying the deductions allowable on the joint return by a fraction whose numerator is your adjusted gross income and whose denominator is the combined adjusted gross income on the joint return. However, if 85% or more of the combined adjusted gross income of you and your spouse is attributable to one spouse, all deductions allowable in figuring taxable income are allowable to that spouse.

Community property laws.—In figuring your separate taxable income when community property laws apply, you must take into account:

- all of your earned income without regard to the community property laws, or
- your share of the community earned income under community property laws, whichever is more.

If you must figure your separate taxable income for any of the base period years, attach a statement showing the computation and the names under which the returns were filed.

Line-by-Line Instructions

Lines 1–3.—If you did not file a return for any year from 1983 through 1985, enter the amounts that would otherwise be reportable on the appropriate lines. If the amount reported on your return for any of the years was changed by an amended return or by the Internal Revenue Service, enter the corrected amount.

Line 4.—If you excluded any income in any year from 1983 through 1985 because the income was earned from sources outside the United States or within U.S. possessions, enter the total amount of income (less deductions) that you excluded during that period.

Line 9.—If you are or were a 5-percent owner of a business, and you received income in 1986 from a premature or excessive distribution from a Keogh (H.R. 10) plan or trust that was subject to a penalty under section 72(m)(5), enter the amount of that income on this line. If you were an employee in a qualified plan and made deductible voluntary contributions, and received a premature distribution of those contributions subject to a penalty under section 72(o), include that amount on line 9. If you received a premature distribution under an annuity contract subject to a penalty under section 72(q), that amount must also be included on line 9.

Line 11.—Complete this line if you are married, a resident of a community property state, and file a separate return for 1986. Enter the community earned income you reported minus that part of the income which is attributable to your services. Skip this line if the earned income attributable to your services is more than 50% of your combined community earned income.

Example:

| Community Earned Income | Attributable to the services of | | |
|-------------------------|---------------------------------|----------|----------|
| | John | Carol | Both |
| | \$40,000 | \$20,000 | \$60,000 |

• **John**, filing a separate return, skips this line since the amount of earned income attributable to the services of John (\$40,000) is more than 50% of the combined community earned income (\$60,000).

• **Carol**, filing a separate return, enters \$10,000 on line 11. This is figured by taking 50% of the combined community earned income (\$30,000) and subtracting the amount of community earned income attributable to Carol's services (\$20,000).

TOPIC IX

The Committee examined the need for the state to provide financial assistance to small exporting firms in Kansas.

Major Issues and Background

The policy questions underlying this topic are the following:

1. Should the state provide financial or technical assistance to exporting firms?
2. If it is determined that the state should provide such assistance, what form should a state export finance program assume? The response to this question is largely dependent on the ensuing questions:
 - a. Whom should a state export finance program serve?
 - b. How much and what type of financial counseling is needed?
 - c. Should the state be a lender or only a guarantor?
 - d. How much, if any, credit risk should the state assume?
 - e. What other service gaps exist with respect to export activities?
 - f. What marketing efforts is the state willing to undertake to encourage involvement by firms in export activities?
 - g. What policy options exist that would deter the state from competing unfairly with financial institutions?

This topic was recommended by the Senate Committee on Economic Development for interim study. The Legislature focused increased attention on this topic in response to a recommendation by Drs. Redwood and Krider to "establish an export assistance program to aid small and medium-sized firms in exporting Kansas products to international markets". (Kansas Economic Development Study, 1986). The following export assistance services and programs were recommended in that report: export finance counseling services; pre-shipment and post-shipment guarantees; medium-term fixed rate financing assistance; post-shipment export credit insurance; and an Eximbank delivery system program. The Task Force on Capital Markets examined the need for state involvement in export finance and made the following recommendations which were, in turn, endorsed by the Legislative Commission on Kansas Economic Development:

1. Professor Ray Coleman, International Trade Institute, in conjunction with Kansas exporters, should draft guidelines for a state

bid bond guarantee program, to be administered by the Department of Commerce. The Department of Commerce, in turn, should develop plans to implement this program and make a report to the standing committees on Economic Development during the 1987 Session.

2. The Department of Commerce, through the Trade Division, should manage other cost-effective loan-guarantee programs to enhance export finance.

Committee Activities

In the course of reviewing this topic, the Committee learned that in the United States there are 18,000 to 25,000 manufacturers -- mostly small-- that could export their products but do not. Reasons cited for the underrepresentation of small- and medium-sized firms engaged in exporting activities include: (1) ignorance and misconceptions of small businesses about exporting procedures, available federal and bank export financing programs, and potential benefits to be derived from exporting; (2) the lack, on the part of small business, of working capital, resources to conduct initial research of foreign markets, and technical expertise; (3) cultural and linguistic differences between exporters and foreign market importers; (4) the seemingly insuperable difficulties associated with federal trade and exporting regulations; and (5) the perceived and actual disincentives to banks to extend or guarantee loans to small business exporters.

There was a general consensus among conferees that the state should be involved in assisting small business exporters. However, recommendations varied with respect to the type of such involvement. These recommendations could be classified as either informational or programmatic:

Informational. Several conferees were of the opinion that the state should host conferences, seminars, or symposia to disseminate information about exporting opportunities and the necessary steps for engaging in export activities. Others believed that surveys should be conducted to help determine the potential need for state involvement; these surveys would be conducted to identify existing and potential Kansas exporters and determine the barriers which presently inhibit small businesses from either engaging in or expanding their export activities. It was recommended that a data base be developed to list all the existing export financing programs in the United States. It was also recommended that a state resource center for international business be established or housed in the Department of Commerce to respond to questions, provide training, and disseminate information relating to trade finance. All services would be provided at no charge to the client industry.

Programmatic. Recommendations by conferees include direct loans and loan guarantees for preexport financing, state purchase of a Federal Credit Insurance Association (FCIA) umbrella insurance policy, a state-supported bid bond guarantee program, establishment in foreign countries of regional offices sponsored by several states, and establishment of a shared Foreign Sales Corporation (FSC).

In testimony to the Committee, the Secretary of Commerce set priorities for certain export-related activities that have not yet been initiated or are only in the early stages of implementation. His highest priorities include: a needs assessment of companies that are interested in exporting; the development of a computerized trade leads program; and state sponsorship of a shared FSC. His second-level priority is the purchase of a state FCIA umbrella policy.

Committee Conclusions and Recommendations

The Committee believes that certain information must exist if any state-supported export financing program is to be truly effective. To that end, the Committee recommends that the Trade Division of the Department of Commerce continue its efforts to gain expertise in the area of export financing and continue its compilation of Kansas exporting businesses. In addition, the Committee recommends that the Trade Division, in conjunction with Kansas, Inc., develop and administer a survey to assess the technical and financial needs of exporting firms. The Committee believes that such an assessment will assist the state in developing export programs in the future. In conjunction with a needs assessment, it is recommended that the effectiveness of other state export finance assistance programs also be evaluated.

Not only must the state have certain information to make enlightened policy decisions on export programs, but small businesses also need certain information to expedite and facilitate their involvement in exporting activities. The Committee, therefore, supports the dissemination of export-related information by the Trade Division, Small Business Development Centers, Certified Development Companies, banks, and Department of Commerce field offices, and recommends that such activities be continued and expanded.

The Committee is of the opinion that a state FCIA umbrella policy program might be one of the most cost-effective approaches at this juncture for the state to support in the area of export financing assistance. Such a policy would insure export receivables against market and political risks. To that end, the Committee recommends that at the beginning of the 1988 Legislative Session, the House and Senate Economic Development Committees review the options associated with the state's purchase of an FCIA umbrella policy, such as a state-administered policy, as opposed to a contractual arrangement with a private broker. Prior to the legislative session, the Department of Commerce is requested to explore both of these options and provide the committees with additional information. The Committee also recommends that the House and Senate committees consider options associated with a shared FSC program and introduce legislation, if needed, to implement that program and the FCIA umbrella policy program. Finally, the Committee recommends that the Department of Commerce or Kansas, Inc., or both, conduct a needs assessment to determine the number and types of companies which are interested in exporting but have not done so and report its or the conclusions and recommendations to the House and Senate Committees by March 1, 1988. Information gleaned from the needs assessment study presumably will enable the Legislature to make other determinations concerning state support for export activities.

STATE OF KANSAS



DEPARTMENT OF COMMERCE
400 S.W. 8th, 5th Floor
Topeka, Kansas 66603-3957
Phone (913) 296-3481
Telex No.—4931494KS

Mike Hayden, *Governor*

Harland E. Priddle, *Secretary*

Date: February 25, 1987
To: Senate Assessment and Taxation Committee
From: The Kansas Department of Commerce
Re: Testimony on SB 610

Senate Bill 610 would allow the Secretary of Commerce to sponsor the formation and development of a Foreign Sales Corporation (FSC). The Department is investigating the need for this concept.

Foreign Sales Corporation means a non-U.S. corporation organized in an eligible U.S. possession or other qualified jurisdiction. To qualify for benefits, the company must meet certain statutory requirements and engage in certain export-related activities. A state-sponsored, shared FSC permits up to 25 exporters to participate as shareholders. A shared FSC allows each participating exporter to gain the tax benefits of operating through an FSC while substantially reducing costs. By sharing administrative costs as stockholders of an FSC, smaller exporters can benefit from the 15% federal exemption on gross profits from overseas sales processed through an offshore sales corporation.

On February 10, the Trade Division held a seminar for Kansas

exporters to explain FSC's, and to determine the amount of interest in the State for a state-sponsored FSC. The seminar has been followed up with a survey to further establish the degree of interest in Kansas. To date, there have been approximately nine companies which have expressed interest in joining a state-sponsored FSC. An FSC with only nine companies, however, would not economically benefit its members. There is some concern that sufficient interest may not exist in the State to form an FSC at this time.

Clarifications

New Section 3 authorizes the Secretary to "assist in the formation and development" of FSC's. The extent of "assistance", however, is not well defined concerning the costs of establishing an FSC. The one-time start-up costs of an FSC are approximately \$50,000. The Department believes that the bill should explicitly state who would bear these costs. The Department believes that if the State pays the start-up costs it will be an incentive to Kansas companies to increase their exports by joining the FSC.

The Department also believes the bill should be amended to clarify which export companies would be eligible in a state-sponsored FSC. First, clarification is needed concerning whether the Secretary may allow out-of-state companies to join the state-sponsored FSC. The Department suggests that Kansas-domiciled companies be given priority, and that a minimum of 80% of the companies in a state-sponsored FSC be Kansas-domiciled. Secondly, the bill should better address the size of the companies which would be allowed to join. The Department recommends that all businesses, regardless of size, be allowed to join.

Recognizing that small and medium-sized companies have greater difficulties competing in foreign markets, the Department further recommends that they be given priority. However, due to the lack of sufficient interest initially expressed by those companies surveyed, the Department feels all companies should be allowed to join increasing the potential for finding enough members to make the FSC beneficial.

Section 2.c.vii. (lines 85-87) also needs clarification regarding the 15% tax benefit to an FSC on foreign trade income. First, because FSC's receive a 15% tax benefit for federal tax purposes, and because state taxable income is based on federal taxable income, the question arises of whether there would already be an implicit 15% benefit to FSC's for state tax purposes. Secondly, should all FSC's in the State be allowed the tax benefit, or just members in a state-sponsored FSC?

The Department believes that all businesses in the State which have membership in an FSC receive a 15% tax benefit on income derived from exporting for state income tax liability purposes.

Thank you Mr. Chairman and members of the Committee.

KANSAS REAL ESTATE TRANSFER INFORMATION

CERTIFICATE OF VALUE

Pursuant to the "Kansas Real Estate Transfer Information Act," no deed or other conveyance document shall be recorded in the office of the register of deeds without an accurate and complete "Certificate of Value" signed by at least one of the grantees, grantors, or their attorney or agent. In the absence of agreement between multiple grantees as to the content of this certificate of value, more than one certificate of value, each signed by a grantee, or by an attorney or agent may be filed.

GRANTOR (SELLER) §3(h) line 85
STREET _____
CITY _____ STATE _____ ZIP _____

GRANTEE (BUYER) §3(h) line 85
STREET _____
CITY _____ STATE _____ ZIP _____

[] ADDRESS TO WHICH TAX STATEMENTS AND OTHER OFFICIAL CORRESPONDENCE SHOULD BE MAILED IF DIFFERENT FROM GRANTEE:

NAME §3(i) lines 87-88
STREET _____
CITY _____ STATE _____ ZIP _____

[] CHECK HERE AND ADD A SEPARATE SHEET IF MORE SPACE IS REQUIRED FOR TRANSFER PARTICIPANT INFORMATION.

ADDRESS OF PROPERTY SOLD §3(b) line 74

THE FULL PRICE PAID OR TO BE PAID: \$ §3(l) lines 92-94 DATE OF CONVEYANCE: §3(c) line 75
M / D / Y

RECORDED CONVEYANCE DOCUMENT: _____ / §4(a) lines 108-109
DEED BOOK PAGE NO.

DRAFT

CHECK THE APPROPRIATE RESPONSE: YES NO UNKNOWN

- 1. DOES THIS TRANSFER INCLUDE IMPROVEMENTS AFFIXED TO THE LAND? [] [] [] §3(e) lines 78-81
- 2. ARE THERE IMPROVEMENTS ON THE LAND WHICH ARE NOT INCLUDED IN THIS TRANSFER? [] [] [] §3(e) lines 78-81
- 3. HAVE THERE BEEN ANY IMPROVEMENTS ADDED TO OR REMOVED FROM THE LAND SINCE JANUARY 1 OF THE CURRENT YEAR? [] [] [] §3(f) lines 82-83
- 4. DOES THIS TRANSFER INCLUDE ANY PERSONAL PROPERTY? [] [] [] §3(g) line 84
- 5. IS THIS A TRANSFER OF A PARTIAL OWNERSHIP INTEREST? [] [] [] §3(j) line 89
- 6. IS THERE A FAMILY OR BUSINESS RELATIONSHIP BETWEEN ANY GRANTOR OR GRANTEE? [] [] [] §3(n) lines 100-101
- 7. WHAT WAS THE USE OF THE PROPERTY AT THE TIME OF THE SALE? old KSA 58-2223d
- 8. WHAT IS THE INTENDED USE OF THE PROPERTY? old KSA 58-2223d

I HEREBY ATTEST THAT THE ABOVE INFORMATION IS CORRECT AND COMPLETE TO THE BEST OF MY KNOWLEDGE:

SIGNER (PLEASE PRINT) _____
STREET _____
CITY _____ STATE _____ ZIP _____

SIGNATURE §3 lines 61-68
TITLE _____
(GRANTEE, AGENT, ETC.)

REVISED 2/25/88

A & T

2/25/88

Att. 6