

+ Keith Roe

Approved 1/19/89 Date

MINUTES OF THE House COMMITTEE ON Taxation

The meeting was called to order by Representative Keith Roe at
Chairperson

9:00 a.m./~~p.m.~~ on January 13, 1989 in room 519-S of the Capitol.

All members were present except:

Representative Vancrum

Committee staff present:

Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Lenore Olson, Secretary

Conferees appearing before the committee:

Ed Rolfs, Secretary of Revenue

Secretary of Revenue Ed Rolfs presented a briefing on Governor Hayden's Individual Income Tax Proposal (Attachment 1). He stated that the new tax proposal is intended to bring equity into the tax system, simplify the tax system, and bring economic development inducements for business and industry.

Secretary Rolfs reviewed changes in Kansas income tax laws made by the 1988 Kansas legislature. He stated that the proposal for 1989 will result in changes in the Kansas tax rate which will reduce individual income taxes for all Kansas taxpayers and is designed to provide the largest percentage decreases in tax liability to middle income Kansas taxpayers.

Chairman Roe announced that Wednesday, January 18, 1989, is set for the next Taxation Committee meeting.

The meeting adjourned.



KANSAS DEPARTMENT OF REVENUE

Office of the Secretary

Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

MEMORANDUM

TO: The Honorable Keith Roe, Chairman
House Committee on Taxation

FROM: Ed C. Rolfs
Secretary of Revenue

RE: Governor's Individual Income Tax Proposal

Date: January 13, 1989

Thank you for this opportunity to appear before you today to outline the Governor's proposal for reducing Kansas individual income taxes by \$78.9 million in tax year 1989. However, before I present the information on this proposal I would like to briefly review with you the changes made last year to the Kansas individual income taxes.

BACKGROUND

The 1988 Kansas legislature made the most significant changes in state history to Kansas individual income taxes. Listed below is a synopsis of the major changes in Kansas income tax laws:

1. Elimination of the deduction for federal income taxes paid.
2. Conformity to federal itemized deductions less state income taxes.
3. Conformity to federal standard deduction amounts.
4. Conformity to federal personal exemption amounts.

*Items 3 and 4 allowed Kansas to eliminate the tax liability of about 105,000 Kansas taxpayers in tax year 1988.
5. Enactment of a Kansas child care credit which is equal to 25% of the federal credit and is available to all taxpayers who claim the federal credit.
6. Replacement of the old tax rate structure of eight brackets ranging from 2% to 9%, with a two rate structure of 4.05% and 5.3% for married taxpayers and 4.8% and 6.1% for all other taxpayers.
7. Interest earned on all Kansas state and local bonds issued after December 31, 1987 is exempt from Kansas taxes.

The estimated reduction in Kansas individual income tax liability associated with the changes is \$35.5 million in tax year 1988 and \$37.3 million in tax year 1989.

General Information (913) 296-3909

*Office of the Secretary (913) 296-3041 • Legal Services Bureau (913) 296-2381
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*

*1-13-89
attachment 1*

GOVERNOR'S 1989 PROPOSAL

The Governor is recommending a \$78.9 million reduction in tax year 1989 individual income tax liability (see attachment 1). This would be accomplished by cutting each of the current tax rates. The married filing joint tax rates would be reduced from 4.05% and 5.3% to 3.6% and 4.9%. The rates for all other taxpayers would be reduced from 4.8% and 6.1% to 4.45% and 5.85%. These new rates maintain the progressivity (as measured by effective tax rates) of the current Kansas income tax system and further enhance the competitiveness of our tax structure with other states.

Governor Hayden's proposal provides an average tax reduction of \$75.73 for each Kansas taxpayer. The average reduction for married filing joint taxpayers is \$114.79 and for single taxpayers is \$31.03.

The changes in Kansas tax rates will reduce individual income taxes for all Kansas taxpayers and is designed to provide the largest percentage decreases in tax liability to middle income Kansas taxpayers (see attachment 1 and Chart 1).

When last year's estimated decrease in tax year 1988 liability of \$35.6 million is coupled with the proposal of a second phase of tax cuts totalling \$78.9 million yields a total reduction in 1989 tax year liability of \$114.5 million. The combined 1989 impact figures are contained in Attachment 2. This tax year 1989 spreadsheet includes the statutory 1988 changes, the statutory 1989 changes of prospective conformity to federal itemized deductions and increased personal exemption, as well as the proposed tax year 1989 tax rate changes.

I have included several graphs which I hope will provide some helpful information when comparing current law with the Governor's proposal:

- Chart 1 - Percentage Reduction by K.A.G.I. Bracket
- Chart 2 - Average Tax Liability Reduction by K.A.G.I. Bracket
- Chart 3 - Comparison of Current Law and Proposed Effective Tax Rates
- Chart 4 - Combined Reduction in Average Tax Liability by K.A.G.I. Bracket in Tax Year 1989
- Chart 5 - Combined Percentage Reduction in Tax Liability by K.A.G.I. Bracket in Tax Year 1989

SIMULATION 7538

TAX YEAR 1989
 Kansas Personal Exemption is \$2,000

	Proposed	Current
Married: \$0 - \$35,000	3.60%	4.05%
\$35,000 - Over	4.90%	5.30%
Single: \$0 - \$27,500	4.45%	4.80%
\$27,500 - Over	5.85%	6.10%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1989
 Resident Taxpayers

Simulation 7538

Liability Dollars are in Millions

*Kansas Adjusted
 Gross Income*

Married						Single					Total Residents				
K.A.G.I. Bracket	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.0	\$0.00	0.0%	4,526	0.0%	\$0.0	\$0.00	0.0%	14,211	0.0%	\$0.0	\$0.00	0.0%
\$0 \$5	15,895	0.0%	\$0.0	\$0.00	0.0%	105,368	0.0%	\$0.0	\$0.00	0.0%	121,263	0.0%	\$0.0	\$0.00	0.0%
\$5 \$15	66,632	-10.6%	(\$0.3)	(\$4.73)	0.4%	163,684	-7.4%	(\$2.1)	(\$12.98)	1.7%	230,316	-7.7%	(\$2.4)	(\$10.59)	1.3%
\$15 \$25	87,368	-11.5%	(\$3.2)	(\$36.96)	1.4%	96,737	-7.6%	(\$4.2)	(\$43.37)	2.7%	184,105	-8.9%	(\$7.4)	(\$40.33)	2.1%
\$25 \$35	93,368	-11.7%	(\$7.2)	(\$77.64)	2.0%	42,421	-7.7%	(\$3.2)	(\$74.99)	3.1%	135,789	-10.1%	(\$10.4)	(\$76.81)	2.3%
\$35 \$50	112,211	-11.7%	(\$14.2)	(\$126.57)	2.3%	21,579	-7.1%	(\$2.3)	(\$104.31)	3.4%	133,789	-10.7%	(\$16.5)	(\$122.98)	2.5%
\$50 \$100	107,158	-11.1%	(\$22.0)	(\$205.41)	2.6%	9,053	-5.9%	(\$1.4)	(\$158.24)	4.0%	116,211	-10.6%	(\$23.4)	(\$201.74)	2.7%
\$100 Over	16,632	-8.7%	(\$11.4)	(\$686.32)	4.4%	1,368	-4.6%	(\$0.6)	(\$449.23)	5.0%	18,000	-8.3%	(\$12.0)	(\$668.30)	4.4
Total	508,947	-10.7%	(\$58.4)	(\$114.79)	2.5%	444,737	-7.1%	(\$13.8)	(\$31.03)	2.7%	953,684	-9.8%	(\$72.2)	(\$75.73)	2.5%

Fiscal Impact:

All Taxpayers:	(\$78.9)
Residents Only:	(\$72.2)
Married Residents:	(\$58.4)
Single Residents:	(\$13.8)
Non-Residents:	(\$6.6)

13

SIMULATION 7539

TAX YEAR 1989
 Kansas Personal Exemption is \$2,000

This simulation is a comparison of current law plus the Governor's rate reduction proposal with Kansas tax law prior to the passage of the Kansas tax reform law of 1988.

This simulation shows the total impact by K.A.G.I Bracket of the tax year 1989 changes made in the 1988 legislative session and the current proposal.

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1989
 Resident Taxpayers

Simulation 7539

	Proposed	Current
Married: \$0 - \$35,000	3.60%	4.05%
\$35,000 - Over	4.90%	5.30%
Single: \$0 - \$27,500	4.45%	4.80%
\$27,500 - Over	5.85%	6.10%

Liability Dollars are in Millions

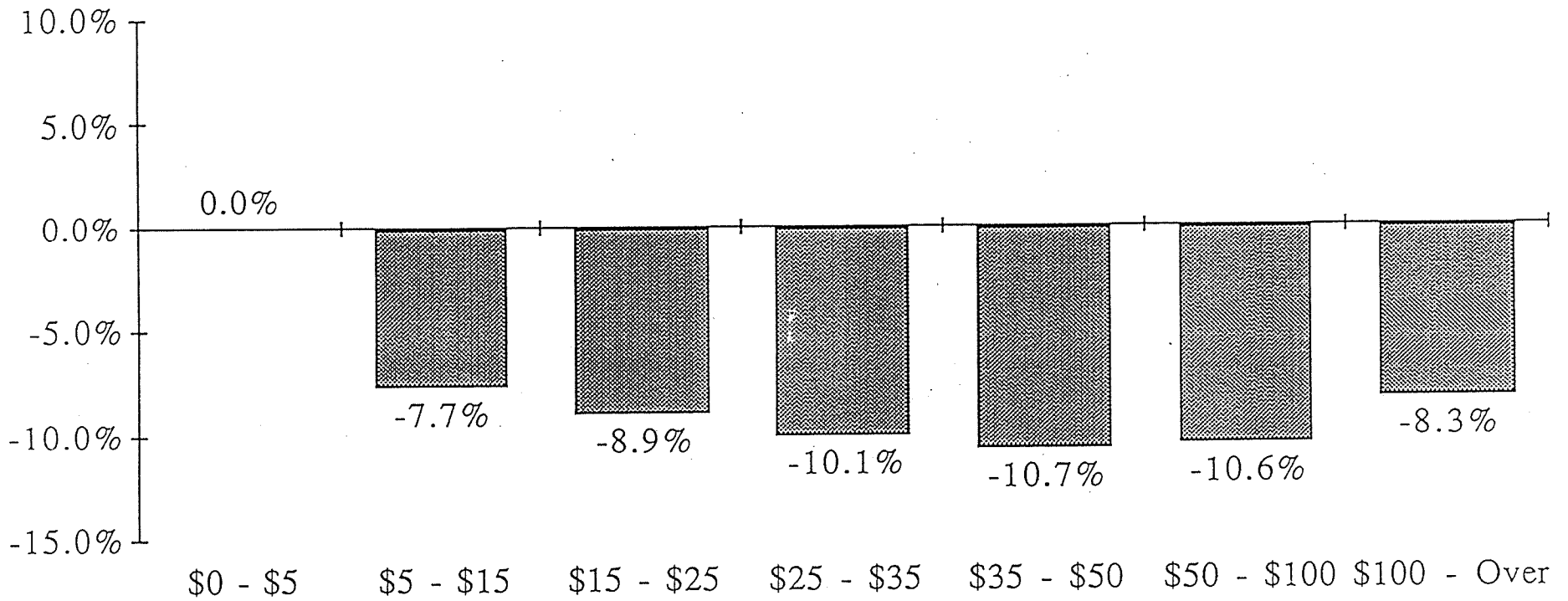
K.A.G.I Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	\$0.0	\$0.00	0.0%	4,526	0.0%	\$0.0	\$0.00	0.0%	14,211	0.0%	\$0.0	\$0.00	0.0%
\$0 \$5	15,895	-95.6%	\$0.0	(\$1.43)	0.0%	105,368	-96.6%	(\$1.2)	(\$11.50)	0.0%	121,263	-96.6%	(\$1.2)	(\$10.18)	0.0%
\$5 \$15	66,632	-64.0%	(\$4.7)	(\$70.85)	0.4%	163,684	-15.1%	(\$4.7)	(\$28.94)	1.7%	230,316	-24.4%	(\$9.5)	(\$41.07)	1.3%
\$15 \$25	87,368	-20.5%	(\$6.4)	(\$73.31)	1.4%	96,737	-12.1%	(\$7.0)	(\$72.23)	2.7%	184,105	-15.1%	(\$13.4)	(\$72.74)	2.1%
\$25 \$35	93,368	-15.5%	(\$10.1)	(\$107.96)	2.0%	42,421	-11.5%	(\$5.0)	(\$117.19)	3.1%	135,789	-13.9%	(\$15.1)	(\$110.84)	2.3%
\$35 \$50	112,211	-15.7%	(\$20.0)	(\$177.81)	2.3%	21,579	-8.8%	(\$2.9)	(\$133.18)	3.4%	133,789	-14.3%	(\$22.8)	(\$170.61)	2
\$50 \$100	107,158	-13.2%	(\$26.7)	(\$248.80)	2.6%	9,053	-5.3%	(\$1.3)	(\$139.81)	4.0%	116,211	-12.3%	(\$27.9)	(\$240.31)	2.7%
\$100 Over	16,632	-9.7%	(\$12.9)	(\$775.58)	4.4%	1,368	-5.3%	(\$0.7)	(\$528.46)	5.0%	18,000	-9.3%	(\$13.6)	(\$756.79)	4.4%
Total	508,947	-14.3%	(\$80.7)	(\$158.64)	2.5%	444,737	-11.2%	(\$22.8)	(\$51.20)	2.7%	953,684	-13.4%	(\$103.5)	(\$108.54)	2.5%

Fiscal Impact:

All Taxpayers:	(\$116.4)
Residents Only:	(\$103.5)
Married Residents:	(\$80.7)
Single Residents:	(\$22.8)
Non-Residents:	(\$12.9)

Page 4

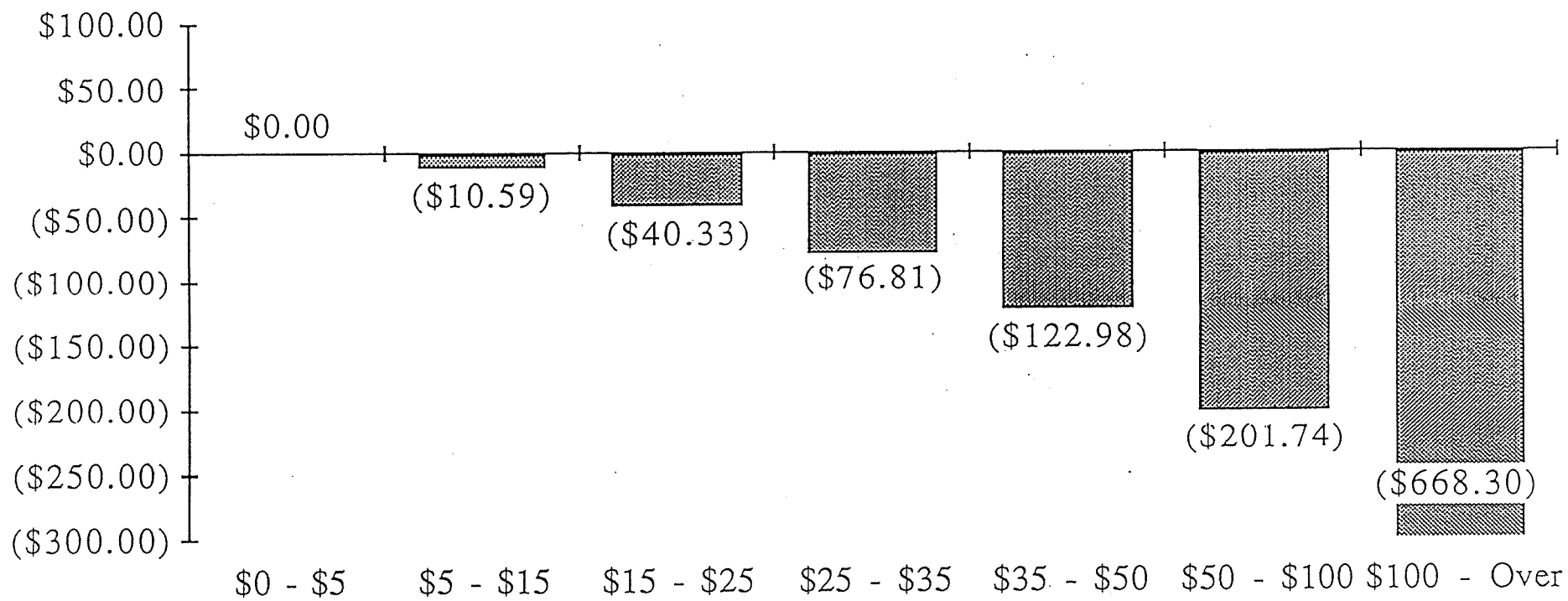
Kansas Department of Revenue
Kansas Resident Taxpayers
Percent Change by K.A.G.I Bracket



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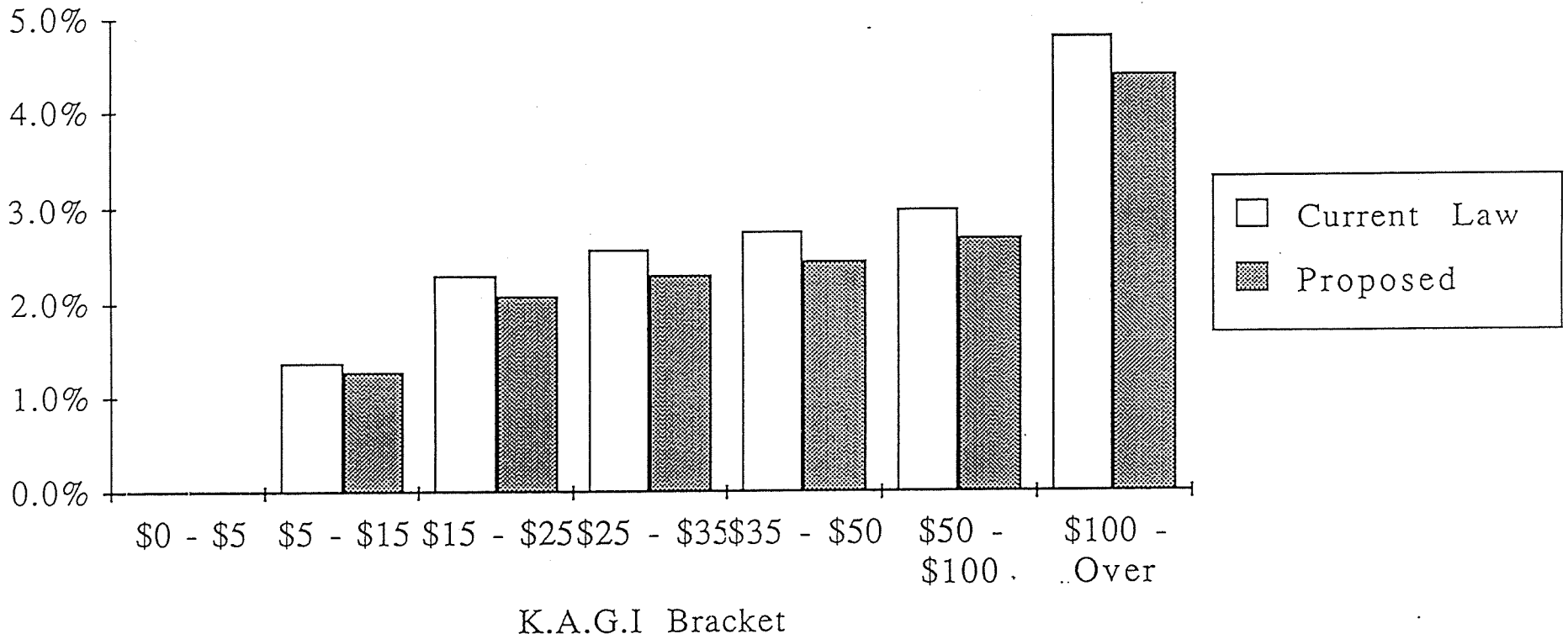
Kansas Department of Revenue
 Kansas Resident Taxpayers
 Dollar Change by K.A.G.I. Bracket



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926

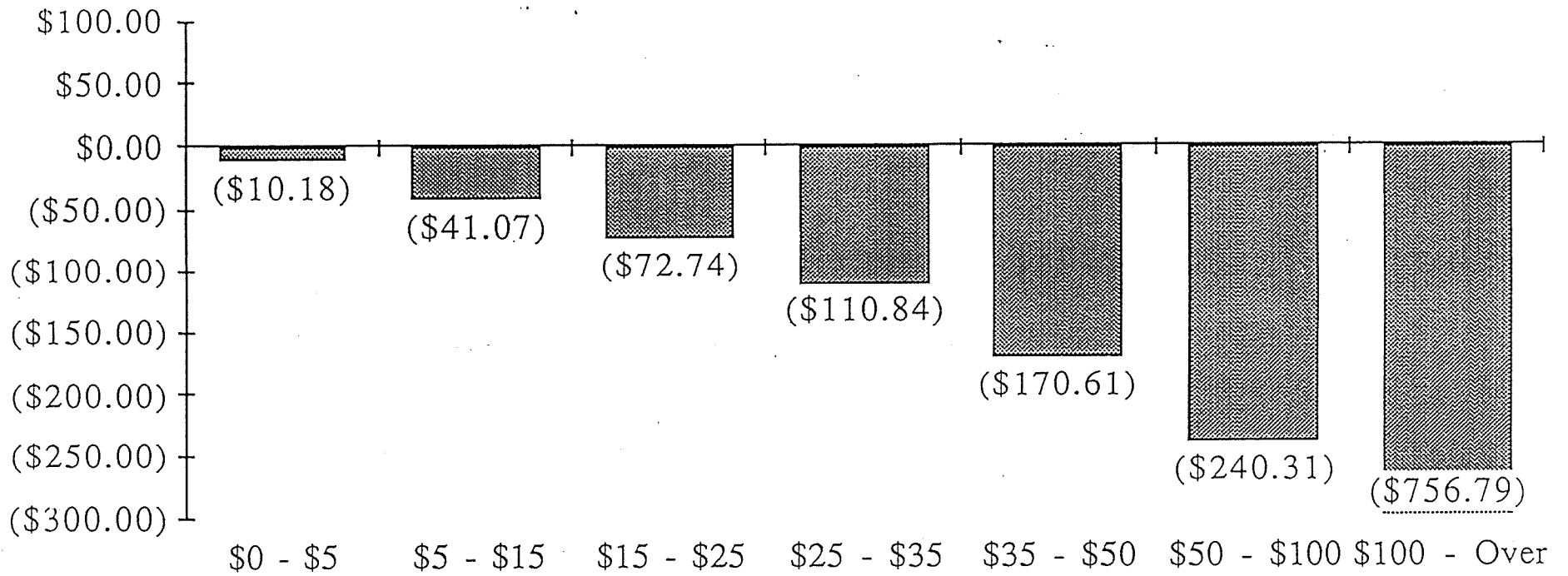
Kansas Department of Revenue
Effective Tax Rate Comparison
Current Law vs. Governor's Proposal



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Chart 3
1-7

Kansas Department of Revenue
 Kansas Resident Taxpayers.
 Dollar Change by K.A.G.I. Bracket
 Current Law and Governor's Proposal vs. 1987 Law



Kansas Department of Revenue
Kansas Resident Taxpayers - Combined Current and Proposed
Tax Year 1989 Percent Change by K.A.G.I Bracket



1-9

Chart 3
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