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Approved 1-26-89
Date

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MINUTES OF THE House COMMITTEE ON Taxation

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

9:00 a.m./~~pm~~ on January 25, 1989 in room 519-S of the Capitol.

All members were present except:
Representative Adam, absent
Representative Reardon, excused

Committee staff present:
Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Lenore Olson, Committee Secretary

Conferees appearing before the committee:
Secretary of Revenue Ed Rolfs

Tom Severn reviewed a Memorandum on Kansas Tax Facts. The purpose of this Memorandum is to acquaint people with Kansas tax facts and gives broad information about Kansas taxes. He also reviewed the information on page 49 of the Kansas Tax Facts - Fifth Edition - dated October 1983, using cigarette taxes for an example.

Secretary of Revenue Ed Rolfs reviewed the positive and negative effects the "Oklahoma alternative" would have on SB-24.
(Attachment 1)

Representative Vancrum distributed information on the "Oklahoma option." (Attachment 2) This information described three simulations showing:
1. The effect of a separate table permitting federal deductibility
2. The Governor's plan that passed the Senate on January 24, 1989.
3. A simulation prepared by the Department of Revenue showing the estimated effect in each bracket and combined fiscal note of adding such a federal deductibility option.

A motion was made by Representative Charlton and seconded by Representative Fuller to introduce a committee bill similar to 1988 SB-284. The motion carried.

The minutes of January 24, 1989, were approved.

The meeting adjourned.

MEMORANDUM

TO: THE HONORABLE KEITH ROE, CHAIRMAN
HOUSE TAXATION COMMITTEE

FROM: ED C. ROLFS
SECRETARY OF REVENUE

DATE: JANUARY 25, 1989

RE: OKLAHOMA OPTION

Attached is a run with what is commonly known as the "Oklahoma Alternative". The parameters set for this run were: 1) The fiscal effect of the option is the same as that contained in SB 24; 2) an optional election on deduction of federal income taxes paid is provided at an alternative rate schedule; and 3) the option is designed to address those individuals who have had an unusually high federal tax as it relates to their income.

The option before you would simply allow a taxpayer to use either of two methods in computing Kansas Tax. The first would be under current law as it now appears on the books with the only change being a downward adjustment in tax rates. The second would be current law taxable income less federal income taxes paid at a different rate structure.

From my preliminary analysis, the positive attributes of such an option follow:

1. Those with very high federal liability as it relates to Kansas Adjusted Gross Income would receive a tax break.
2. The optional election would address those objecting to non-deductibility of federal income taxes.
3. If federal taxes rose, Kansans would receive a reverse windfall.

The negative attributes of such an option follow:

1. The policy objective of a simple, understandable tax system would be diminished.
2. The current system insulates Kansas from changes in federal income taxes paid. As taxes go up, state revenues would be adversely affected. The legislature would then need to raise taxes to recoup revenues or cut spending.

*1-25-89
attachment 1*

Simulation 7573

Liability Dollars are in Millions

Taxpayers would be allowed to use the current tax structure or deduct their federal taxes paid to determine which tax structure would result in the least amount of Kansas tax.

	With Federal Deductability		No Federal Deductability		Current
		Proposed		Proposed	
Married:	\$0 - \$20	6.00%	\$0 - \$35	3.60%	\$0 - \$35 4.05%
	\$20 - \$35	8.00%	\$35 - Over	4.90%	\$35 - Over 5.30%
	\$35 - \$45	9.00%		5.90%	
	\$45 - Over	10.00%			
Single:	\$0 - \$2	6.00%	\$0 - \$27.5	4.45%	\$0 - \$27.5 4.80%
	\$2 - \$10	7.50%	\$27.5 - Over	5.85%	\$27.5 - Over 6.10%
	\$10 - \$20	8.00%			
	\$20 - \$30	9.00%			
	\$30 - Over	10.00%			

K.A.G.I. Bracket	No. Of Returns	Percent Change	Married			Single			Total Residents						
			Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Effective Rate	No. Of Returns	Percent Change	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	-16.6%	(\$0.5)	(\$7.39)	0.4%	163,684	-8.2%	(\$2.4)	(\$14.46)	1.7%	230,316	-9.0%	(\$2.9)	(\$12.42)	1.3%
\$15 \$25	87,368	-12.1%	(\$3.4)	(\$38.79)	1.4%	96,737	-7.8%	(\$4.3)	(\$44.16)	2.7%	184,105	-9.2%	(\$7.7)	(\$41.62)	2.1%
\$25 \$35	93,368	-11.8%	(\$7.3)	(\$78.17)	2.0%	42,421	-7.7%	(\$3.2)	(\$75.61)	3.1%	135,789	-10.1%	(\$10.5)	(\$77.37)	2.3%
\$35 \$50	112,211	-11.9%	(\$14.4)	(\$128.45)	2.3%	21,579	-7.1%	(\$2.3)	(\$105.00)	3.4%	133,789	-10.9%	(\$16.7)	(\$124.67)	2.5%
\$50 \$100	107,158	-11.1%	(\$22.0)	(\$205.56)	2.6%	9,053	-6.0%	(\$1.4)	(\$159.42)	4.0%	116,211	-10.6%	(\$23.5)	(\$201.97)	2.7%
\$100 Over	16,632	-9.2%	(\$12.1)	(\$724.92)	4.3%	1,368	-4.6%	(\$0.6)	(\$449.23)	5.0%	18,000	-8.8%	(\$12.7)	(\$703.96)	4.4%
Total	508,947	-11.0%	(\$59.7)	(\$117.26)	2.5%	444,737	-7.3%	(\$14.2)	(\$31.86)	2.7%	953,684	-10.0%	(\$73.8)	(\$77.43)	2.5%

Percent of All Taxpayers by K.A.G.I. Bracket Using Each Alternative

Fiscal Impact:	No Federal Deductability	Federal Deductability
All Taxpayers:	(\$80.5)	(\$80.5)
Residents Only:	(\$73.8)	(\$73.8)
Married Residents:	(\$59.7)	(\$59.7)
Single Residents:	(\$14.2)	(\$14.2)
Non-Residents:	(\$6.7)	(\$6.7)
Total	99.3%	0.7%

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TOPEKA

HOUSE OF
REPRESENTATIVES

January 24, 1989

COMMITTEE ASSIGNMENTS

CHAIRMAN: ADMINISTRATIVE RULES
AND REGULATIONS
MEMBER: APPROPRIATIONS
JUDICIARY
TAXATION

BOB VANCNUM

REPRESENTATIVE, TWENTY-NINTH DISTRICT

9004 W. 104TH STREET

OVERLAND PARK, KANSAS 66212

(913) 341-2609

STATE CAPITOL, ROOM 112-S

TOPEKA, KANSAS 66612

(913) 296-7678

To: Selected Representatives Who Supported Federal Deductibility Last Year

Dear Colleague:

Many of you have expressed an interest in pursuing the so-called modified "Oklahoma Option" permitting taxpayers to elect to deduct federal taxes paid as an option to paying taxes at the reduced brackets proposed in the Governor's plan. Attached you will find copies of three simulations showing (1) The effect of a separate table permitting federal deductibility (7561), (2) the Governor's plan that passed the Senate yesterday (7538), and (3) A simulation prepared by the Department of Revenue (7562) showing the estimated combined effect in each bracket and combined fiscal note of adding such a federal deductibility option.

Many of you have expressed support based on the proposal being revenue neutral. I believe this simulation is as close to revenue neutral as is practical. You will note that the tabulated revenues are reduced under the federal deductibility table at approximately the same level as the Governor's plan with no federal deductibility. Obviously, when the two options are combined, the fiscal note is going to go up somewhat since people will only elect federal deductibility option if it reduces the taxes they otherwise pay. Interestingly, I would point out the Revenue Department estimates that 50 percent of the taxpayers in the \$5,000 to \$15,000 bracket would benefit from federal deductibility, whereas only 23 percent of those above \$100,000 would benefit.

Vince Snowbarger, Art Douville, Rex Hoy and I have been working on putting together this plan for several weeks. I believe this is about as good as we are going to do. If you have any interest in co-sponsoring the bill to provide this option, please contact one of us, or my secretary Lorene in Rm-112-S to sign as a co-sponsor. The bill must be introduced by Wednesday since the Tax Committee will commence hearings on the Governor's bill tomorrow.

Sincerely,

Bob Vancrum
State Representative

RJV/elm

1-25-89
Attachment 2

ATION 7561

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

	Proposed	Current
Married:		
\$0 - \$20	4.20%	\$0 - \$35 4.05%
\$20 - \$35	4.60%	\$35 - Over 5.30%
\$35 - \$45	6.80%	
\$45 - Over	7.95%	

Single:		
\$0 - \$2	4.20%	\$0 - \$27.5 4.80%
\$2 - \$10	5.50%	\$27.5 - Over 6.10%
\$10 - \$20	5.65%	
\$20 - \$30	7.25%	
\$30 - Over	7.95%	

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1989
 Resident Taxpayers

Simulation 7561

Liability Dollars are in Millions

		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	-18.5%	(\$0.5)	(\$8.23)	0.3%	163,684	-13.9%	(\$4.0)	(\$24.48)	1.6%	230,316	-14.3%	(\$4.6)	(\$19.78)	1.2%
\$15	\$25	87,368	-12.3%	(\$3.5)	(\$39.53)	1.4%	96,737	-7.0%	(\$3.8)	(\$39.66)	2.7%	184,105	-8.8%	(\$7.3)	(\$39.60)	2.1%
\$25	\$35	93,368	-11.9%	(\$7.4)	(\$79.07)	2.0%	42,421	-5.4%	(\$2.2)	(\$52.57)	3.2%	135,789	-9.3%	(\$9.6)	(\$70.79)	2.3%
	\$50	112,211	-11.0%	(\$13.3)	(\$118.67)	2.3%	21,579	-5.1%	(\$1.6)	(\$75.73)	3.4%	133,789	-9.8%	(\$14.9)	(\$111.74)	2.5%
\$50	\$100	107,158	-12.5%	(\$24.7)	(\$230.93)	2.5%	9,053	-7.2%	(\$1.7)	(\$192.51)	3.9%	116,211	-11.9%	(\$26.5)	(\$227.94)	2.6%
\$100	Over	16,632	-7.1%	(\$9.2)	(\$555.51)	4.4%	1,368	-6.8%	(\$0.9)	(\$671.00)	4.9%	18,000	-7.0%	(\$10.2)	(\$564.29)	4.5%
Total		508,947	-10.8%	(\$58.7)	(\$115.31)	2.5%	444,737	-7.4%	(\$14.4)	(\$32.31)	2.7%	953,684	-9.9%	(\$73.1)	(\$76.60)	2.5%

Fiscal Impact:

All Taxpayers:	(\$79.5)
Residents Only:	(\$73.1)
Married Residents:	(\$58.7)
Single Residents:	(\$14.4)
Non-Residents:	(\$6.5)

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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

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	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)

Individual Income Tax In Tax Year 1989
Resident Taxpayers

Simulation 7562

Liability Dollars are in Millions

Resident taxpayers would be allowed to use the current tax structure or deduct their taxes paid to determine which tax structure would result in the least amount of tax.

	With Federal Deductability			No Federal Deductability		
		Proposed		Proposed		Current
Married:	\$0 - \$20	4.20%	\$0 - \$35	3.60%	\$0 - \$35	4.05%
	\$20 - \$35	4.60%	\$35 - Over	4.90%	\$35 - Over	5.30%
	\$35 - \$45	6.80%				
	\$45 - Over	7.95%				
Single:	\$0 - \$2	4.20%	\$0 - \$27.5	4.45%	\$0 - \$27.5	4.80%
	\$2 - \$10	5.50%	\$27.5 - Over	5.85%	\$27.5 - Over	6.10%
	\$10 - \$20	5.65%				
	\$20 - \$30	7.25%				
	\$30 - Over	7.95%				

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K.A.G.I. Bracket	No. Of Returns	Percent Change	Married			Single					Total Residents				
			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	-18.6%	(\$0.6)	(\$8.27)	0.3%	163,684	-11.8%	(\$3.4)	(\$20.78)	1.6%	230,316	-12.4%	(\$4.0)	(\$17.16)	1.2%
\$15 \$25	87,368	-12.5%	(\$3.5)	(\$40.28)	1.4%	96,737	-8.4%	(\$4.6)	(\$47.51)	2.7%	184,105	-9.8%	(\$8.1)	(\$44.08)	2.1%
\$25 \$35	93,368	-12.0%	(\$7.4)	(\$79.65)	2.0%	42,421	-7.9%	(\$3.3)	(\$77.02)	3.1%	135,789	-10.3%	(\$10.7)	(\$78.83)	2.3%
\$35 \$50	112,211	-12.4%	(\$15.0)	(\$133.62)	2.3%	21,579	-7.5%	(\$2.4)	(\$111.55)	3.4%	133,789	-11.4%	(\$17.4)	(\$130.06)	2.4%
\$50 \$100	107,158	-13.4%	(\$26.5)	(\$247.73)	2.5%	9,053	-8.4%	(\$2.0)	(\$224.74)	3.9%	116,211	-12.9%	(\$28.6)	(\$245.94)	2.6%
\$100 Over	16,632	-13.9%	(\$18.2)	(\$1,092.47)	4.1%	1,368	-6.8%	(\$0.9)	(\$669.92)	4.9%	18,000	-13.2%	(\$19.1)	(\$1,060.35)	4.2%
Total	508,947	-13.1%	(\$71.2)	(\$139.93)	2.4%	444,737	-8.5%	(\$16.6)	(\$37.38)	2.7%	953,684	-11.9%	(\$87.8)	(\$92.11)	2.5%

Percent of All Taxpayers by K.A.G.I. Bracket
Using Each Alternative

Fiscal Impact:		No Federal Deductability	Federal Deductability
All Taxpayers:	(\$95.4)	\$0 - \$5 100.0%	0.0%
Residents Only:	(\$87.8)	\$5 - \$15 50.1%	49.9%
		\$15 - \$25 85.6%	14.4%
Married Residents:	(\$71.2)	\$25 - \$35 82.8%	17.2%
Single Residents:	(\$16.6)	\$35 - \$50 83.7%	16.3%
		\$50 - \$100 32.9%	67.1%
Non-Residents:	(\$7.6)	\$100 - Over 77.0%	23.0%
		Total 70.8%	29.2%