

Approved Friday, January 13, 1989
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Audrey Langworthy, Vice Chairperson at
Chairperson

11:00 a.m. on Wednesday, January 11, 1989 in room 519-S of the Capitol.

All members were present except:

Chairman, Senator Dan Thiessen (excused)
Senator James Francisco (excused)

Committee staff present:

Don Hayward, Revisor's Office
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:

Ed Rolfs, Secretary of Revenue
Steve Stotts, Analyst-Department of Revenue

Senator Audrey Langworthy, Vice Chairperson, called the meeting to order at 11:00 a.m. and said unfortunately Chairperson, Senator Dan Thiessen could not be with us today and we hope he will be back tomorrow.

Senator Langworthy opened the meeting by introducing the committee and the staff members and stated today we would address SB24 relating to income taxation and called upon Acting Secretary of Revenue, Ed Rolfs.

SB24: An Act relating to income taxation; concerning rates imposed upon individuals; amending K.S.A. 1988 Supp. 79-32-110 and repealing the existing section.

Ed Rolfs said he was appearing before the committee today to explain the Governor's income tax proposal. He gave a brief review of the changes made last year to the Kansas individual income taxes and said the Governor's proposal for 1989 is on page 2 of (Attachment 1) and Attachment 1 includes 2 Attachments, and 5 Charts. He explained several areas of the Governor's proposal and some of them were.

1. \$78.9 million reduction in tax year 1989.
2. \$75.73 million reduction in individual income taxes for each Kansas taxpayer.
3. 1988 liability of \$35.6 million coupled with the second phase of tax cuts totaling \$78.9 million yields a total reduction in 1989 tax year liability of \$114.5 million.

Senator Martin asked if there was any look at this same analysis with the question of Federal deductibility and the whole issue discussed in the 1988 session, that we would be able to compare the reductions on that basis?

Mr. Rolfs said the Department could run any set of circumstances you would want and we can do a Federal deductibility run if you would like.

Senator Martin asked Mr. Rolfs to get this as he would like to have it to look at because when it was prepared last session we had two different situations to look at.

Senator Karr asked what kind of rate adjustments would we need for Federal deductibility?

Steve Stotts said the rate structure would have to range from 3 3/4 to 7 1/2.

Committee discussion concerning total numbers on what is windfall and what is growth and has this been divided and are we stuck on the \$135 million figure and what computer model is used to come up with \$135 million.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S Statehouse, at 11:00 a.m./~~p.m.~~ on Wednesday, January 11, 1989

Ed Rolfs said nobody knows what the windfall really is. The consensus estimating group estimated it at \$135 million and some think this is low and some think high. It has not changed because there is no consensus to change it. We do not have another figure.

Steve Stotts said the model is the same one we have used for two years, it's the model used for 1985 tax returns and has been modified for 1988 tax returns.

Senator Karr said last year bills incorporated 2 components, Corporate Apportionment and Alternative Minimum Tax and the operating carry back was expected to be, I believe \$13 million and was supposed to have a 2 year impact and we also incorporated some one time rebates. Can you give an idea how rebates and the other elements of the 1988 tax bill played into what we see in revenue?

Ed Rolfs said on the rebates, I believe \$8. million has been sent out to senior citizens and this was projected at \$6. million. We were under on senior citizens and over on the business expense. The total of the rebates was \$8. million and we sent out 110 to 120 thousand checks.

Committee discussion and concerns about nothing being in the Governor's proposal for Corporate tax relief and how much of an increase was there on Corporate taxes in the \$135 million windfall.

Ed Rolfs said the \$135 million is individual income tax. We believe for Corporate it is low, and if it exists probably single digits. A very large number of Corporate taxpayers got an extension to April 1st, and those returns I presume have been filed and processed in the sense that checks have been deposited but they have not been processed to my knowledge, in the sense that the data has been extracted and analyzed so you could separate out and determine what would account for the liability. I guess the answer is, if every Corporation had filed in April, by now we may have been able to do that, but a lot of Corporations put off filing until October 15th.

Senator Fred Kerr said the interim committee discussion this summer was mostly on comparison to other states and the fact there might be flexibility this year to do something about Corporate taxes. The sales tax exemption for machinery and equipment for businesses was enacted last year and that may or may not have been in response or somewhere equal to a potential windfall, but the issue on the interim committee this summer was mostly on comparison to other states, and of course the AMT was a part of that and most states don't have an AMT.

Ed Rolfs thanked the committee and urged the members for favorable consideration on SB24.

The Vice Chairperson told the committee members we would hear opponents and proponents to SB24 tomorrow at 11:00 a.m.

The meeting adjourned at 11:57 a.m.



KANSAS DEPARTMENT OF REVENUE

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

MEMORANDUM

TO: The Honorable Dan Theissen, Chairman
Senate Committee on Assessment and Taxation

FROM: Ed C. Rolfs
Secretary of Revenue

RE: Governor's Individual Income Tax Proposal

Date: January 11, 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*

SENATE ASSESSMENT & TAXATION
ATTACHMENT 1 1-11-89

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

Kansas Department Of Revenue

	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%

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)

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

Liability Dollars are in Millions

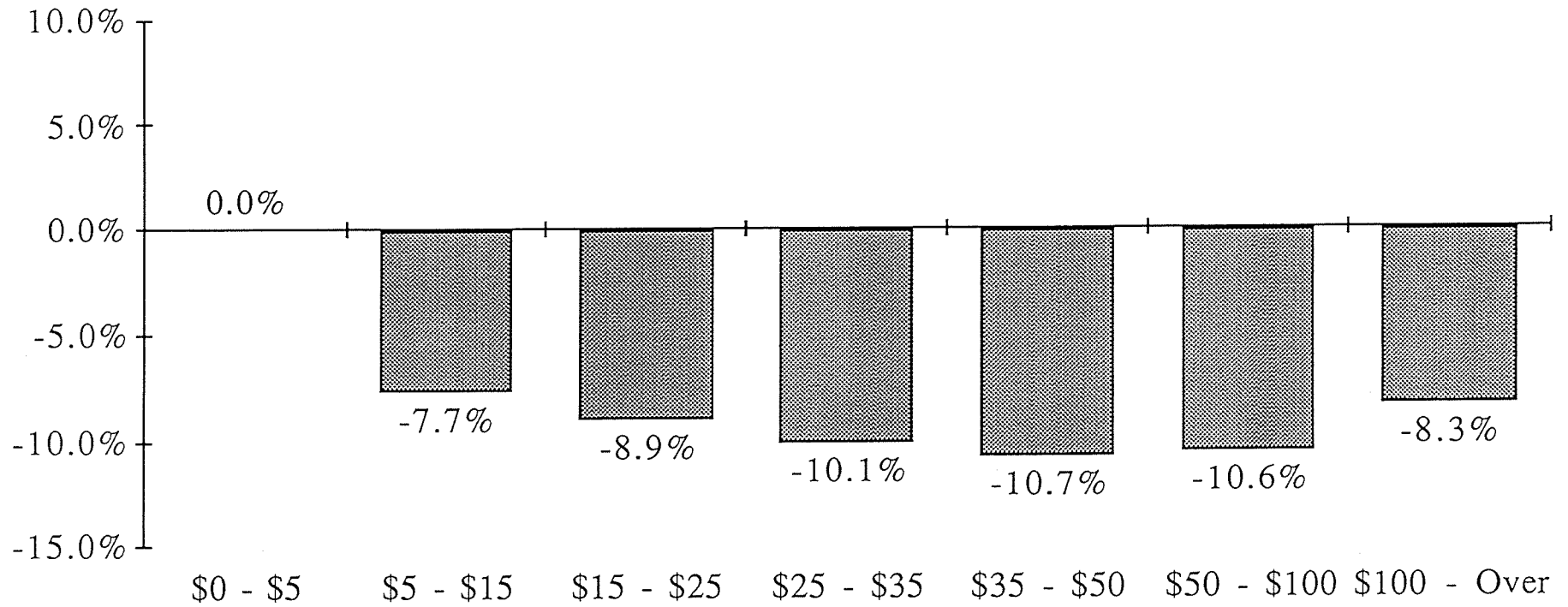
Married						Single					Total Residents				
K.A.G.I Bracket	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
Married: \$0 - \$35,000															
\$35,000 - Over															
Single: \$0 - \$27,500															
\$27,500 - Over															
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)	2.5%
\$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)

Attachment 2
 Pa. 1

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



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

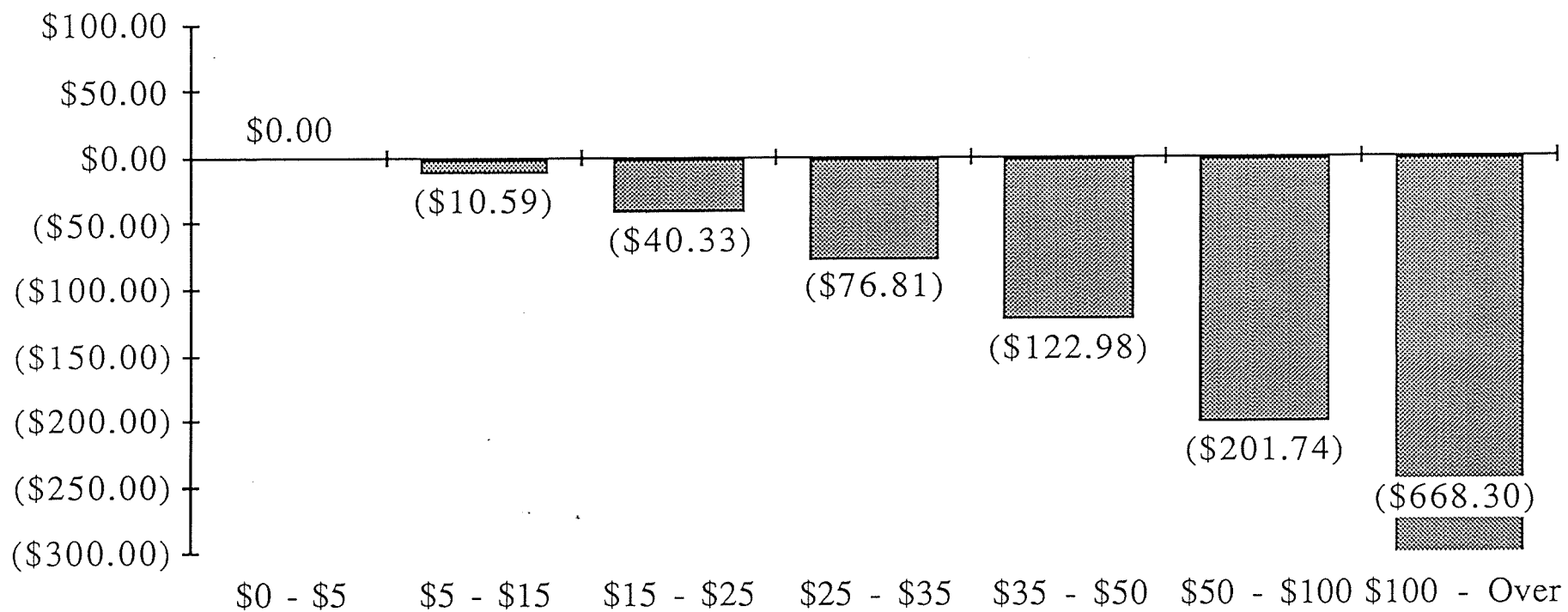


Chart 2
16

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

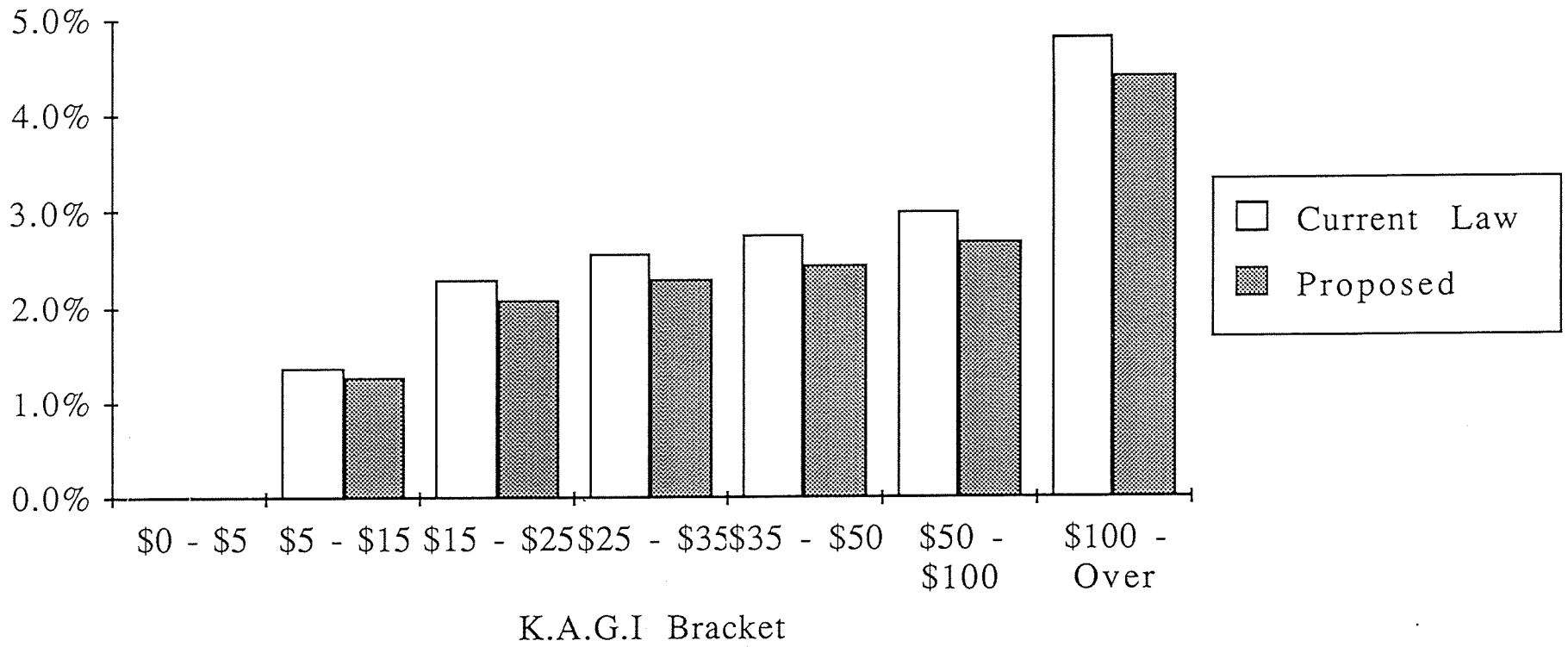
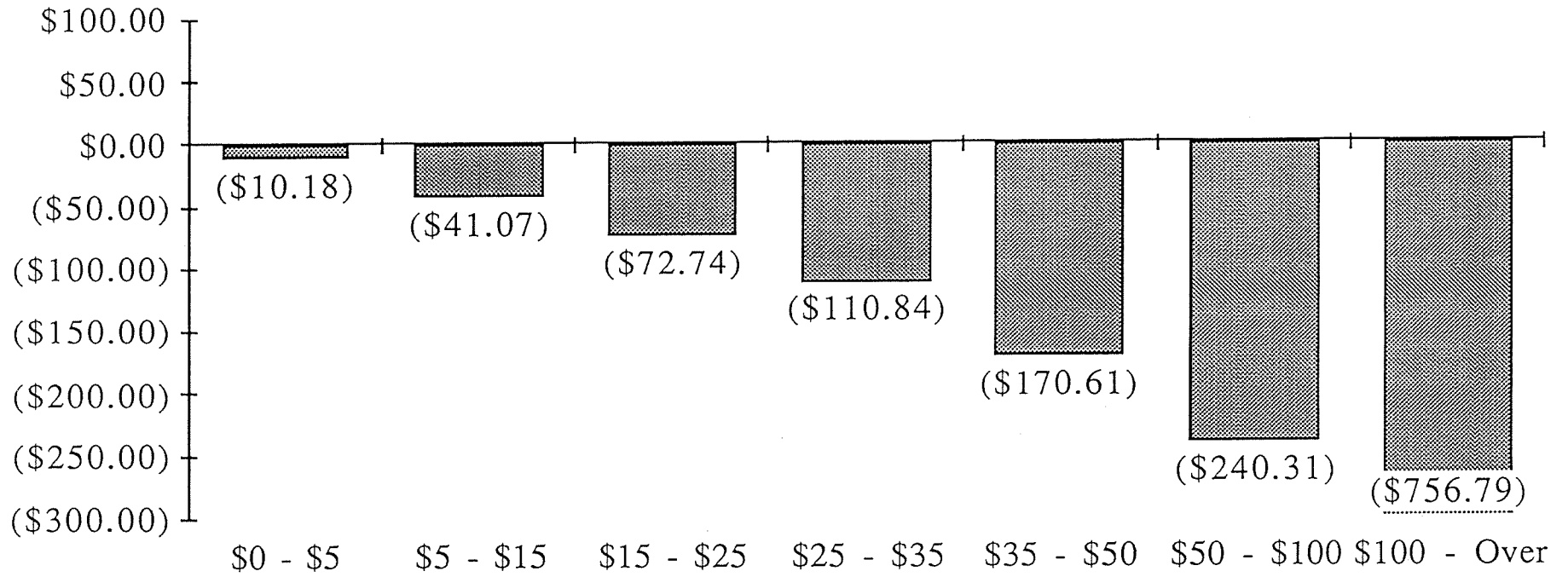


Chart 3
F. 17

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

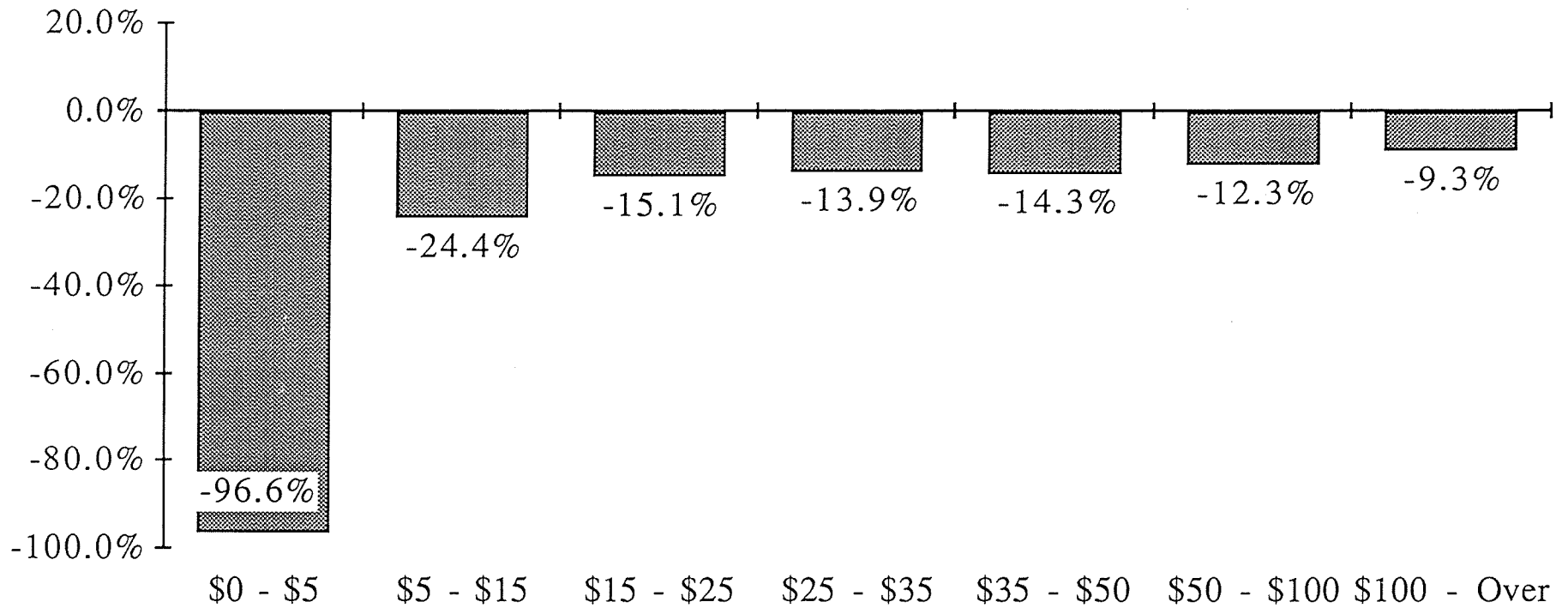


Chart 5
page