Approved Wednesday, 2-8-89
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Senator Dan Thiessen, Chairman at
Chairperson

11:00 a.m.~~p.m.~~ on Wednesday, February 1, 1989 in room 519-S of the Capitol.

All members were present except:

Senator Don Montgomery (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:

Mark Burkhart,-Division of Taxation, KS Dept. of Revenue
Joe Lieber, Exec. Vice Pres.-KS Cooperative Council
Marvin L. Wynn, Chief Operating Officer, WI/SE PARTNERSHIP FOR GROWTH INC.
Jerry Lonergan, Vice President for Research-KS INC
Donald P. Schnacke, KS Independent Oil & Gas Association
Bud Grant, Vice President-KS Chamber of Commerce
James S. Maag, KS Bankers Association

Chairman Thiessen called the meeting to order and said yesterday we were on the conferees for HB2041 regarding farm machinery for tax exemption and we did not get to call on John R. Luttjohann, Director of Taxation, and he can not be here today but has asked Mark Burkhart to present his testimony for him.

Mark Burkhart briefly reviewed the handout from John Luttjohann saying he would be happy to answer any questions the committee may have. (ATTACHMENT 1)
I spoke with Mr. Luttjohann briefly before I came to committee today and he said that Chairman Thiessen had expressed some concern that possibly some legislation had been considered in the past that might have changed the situation, and Mr. Chairman we have looked into that and have not been able to identify that, it is still on the books. I do have a copy of the fiscal note if you would like any clarification on how we arrived at $1.0 and $1.5 million for over the counter drugs.

Joe Lieber apologized for not having written testimony and said that he would make his statments brief. Mr. Lieber said he was executive vice president of Kansas Cooperative Council representing about 200 cooperatives' throughout the state of memberships of about 200 thousand farmers and ranchers in Kansas. I want to make some comments about what was said in this committee yesterday. First of all I hope the members know this Bill is not to help the implement dealers, it is to help rural Kansas because that money will stay in Kansas to give them the exemption. Remember agriculture is our number one industry and I would hope that you would want to promote that. We also support the Kansas Fertilizer Dealers Association who came up with a balloon to make sure that the constitutionality tax exemptions must be on the use of property and not only based on dealership. My next point is regarding comments made on the funding of the water plan program verses this particular bill, and there is no relationship between the water fund plan and this legislation.

After committee discussion Chairman Thiessen concluded hearings on HB2041, and turned attention to SB4 and SB5 saying they were scheduled together because he felt the same conferees would be interested in both bills.

SB4:AN ACT relating to income taxation; repealing K.S.A. 1988 Supp. 79-32-183 to 79-32-187, inclusive, relating to the imposition of an alternative minimum tax upon corporations.

SB5:Relating to income taxation; concerning rates of liability imposed upon corporations; amending K.S.A. 1988 Supp. 79-32-110 and repealing the existing section

The following Conferees testified as Proponents.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Wednesday, February 1, 1989.

Chairman Thiessen called upon Bernie Koch, representing the Wichita Chamber of Commerce.

Bernie Koch said he would like to have Marvin L. Wynn take his place if the Chairman would allow it. Chairman Thiessen said that is fine and recognized Mr. Wynn.

Marvin L. Wynn said he is Chief Operating Officer of the Wichita/Sedgwick County Partnership for Growth of Wichita, and said the organization was formed on 7-1-87 to promote the economic development of Sedgwick County. I am here today to speak in favor of SB4 and SB5 and would urge the committee to seriously consider (1) the elimination of the alternative minimum tax; (2) a reduction of both the base rate and the surcharge of the corporate tax rate and (3) raising the amount applicable to the base rate from $25,000 to $50,000 as provided in SB4 and SB5, as this would make Kansas much more competitive than at present. With my handout I have included charts on corporate income tax rates state comparison and corporate income tax rates state comparison. (ATTACHMENT 2)

Chairman Thiessen called upon conferee Charles Warren and Jerry Lonergan said Mr. Warren could not be here today and he would like to take his place. The Chairman recognized Jerry Lonergan.

Jerry Lonergan said he is Vice President for Kansas, Inc. and at our January 1989 meeting, the Board of Directors of Kansas Inc. unanimously approved a policy statement requesting the repeal of the Alternative Minimum Tax. Mr. Lonergan said the Board has not had the time to really analyze SB5 but in this handout we have our recommendations and they feel they want to stay consistant with what they have in the past. (ATTACHMENT 3).

Donald P. Schnacke said our Association opposed the alternative minimum tax for Kansas corporations during the 1988 session. In order to strongly emphasize our opposition to this new tax, we asked our KIOGA Tax Committee Chairman to file a statement during the interim study under Proposal No. 7 and I have attached his statement to our handout which supports our position in opposing the Alternative Minimum Tax on Kansas corporations and, therefore, we support the repeal of the tax as contained in SB4.
I would like to make just a brief comment on SB5. Our Association supports SB5 and we feel it would help to attract new industry into Kansas. (ATTACHMENT 4)

Bud Grant said a lot of testimony he was going to give has already been said so he stated KCCI supports the enactment of (SB4 and SB5) (ATTACHMENT 5)

Chairman Thiessen recognized Mark Burghart.

Mark Burghart said he appeared when this bill was first discussed in committee a few days back and I would just reaffirm the administrations' support to the repeal of the alternative minimum tax and also express our opposition to pass SB5 which provides for the rate reduction for Corporations. (ATTACHMENT 6)

The Chairman recognized Jim Maag.

Jim Maag representing The Kansas Bankers Association said they are in support of SB5. Mr. Maag said a brief history of the state taxation of Kansas banks is attached to his testimony and he would be willing to answer any questions the members might have. Mr. Maag said The Kansas Bankers Association has taken no position on SB4.(ATTACHMENT 7)

After committee discussion Chairman Thiessen said we will entertain bill requests tomorrow and we have scheduled Opponents for SB4 and SB5 and The Chairman adjourned the meeting at 12:05 p.m.

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE: February 1, 1989

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Bud Grant	Topeka	KCCI
Gerhard Metz	"	"
Jeff Russell	Topeka	Unit. Tel. Co. of KS
Ed Bruske	Topeka	KCCI
Rob Hodges	Topeka	KTA
Jim Turner	Topeka	KLSI
Jeff Sonnich	Topeka	KLSI
Andrea A. McDowell	Lawrence	K.U. Law School
Ed Riemann	Topeka	KDOC
Chuck Stones	Topeka	Ks Bankers Assn
Kathy Taylor	"	"
Jim Maag	"	"
Harold Stones	"	"
Carrie Blubaugh	Burton	page
Marsha Wiese	Haven	page
Joe Lieber	Topeka	Ks. Co-op Council
Becky Shirley	Topeka	Intern
Trevor Potter	"	Peoples Nat. Gas
Dan Stevens	Tulsa	Texaco
Robert Alderson	Olathe	[illegible]
Jerry Lonergan	Topeka	Ks Inc
Alan Steppat	Topeka	Pete McGill & Associates
Don Schnacke	Topeka	KIOGA

KANSAS DEPARTMENT OF REVENUE
Division of Taxation
Robert B. Docking State Office Building
Topeka, Kansas 66625-0001

TO: THE HONORABLE DAN THIESSEN, CHAIRMAN
SENATE COMMITTEE ON ASSESSMENT AND TAXATION

FROM: JOHN R. LUTTJOHANN
DIRECTOR OF TAXATION

RE: HOUSE BILL 2041
PERMANENT SALES TAX EXEMPTION ON FARM MACHINERY

DATE: JANUARY 31, 1989

Thank you for the opportunity to appear today on House Bill 2041.

During last year's session, legislation was passed which provided for a sales tax exemption on purchases of new farm machinery. This provision was scheduled to be effective for a one year period of time, from July 1, 1988 through June 30, 1989.

The changes proposed by House Bill 2041 would make this sales tax exemption permanent. Such a change was included in Governor Hayden's budget recommendations in order to provide on-going support to our state's struggling agricultural sector.

I would point out to the Committee that, even with the adoption of the changes proposed herein, purchases of agricultural machinery will continue to be subject to local sales tax levied by ten local units of government. An amendment would be required to K.S.A. 12-190 to exempt such purchases from all local taxes. Listed below are the affected local units of government.

Local units of Government which would still levy a tax on farm machinery include:

Johnson County
Wyandotte County
Lawrence
Manhattan
Overland Park
Seward County
Galena
Leavenworth
Ogden
Topeka

An amendment to the bill, added by the House Committee of the Whole would extend our current sales tax exemption for "prescription only" drugs to include sales of over-the-counter drugs which are prescribed by a physician. In essence, this would mean that if a physician wrote a prescription for a drug which does not require one, the sale would be exempt from sales tax.

The estimated fiscal impact of the change relating to the exemption for agricultural machinery and equipment would be a decrease in state general fund revenue of $7.6 million annually. The estimated fiscal impact for the change relating to over-the-counter drugs sold on a prescription order would be a decrease in state general fund revenue of $1.0 to $1.5 million.

I would happy to respond to any questions which you may have.

Attachment 1
Senate Assessment & Tax
2-1-89

TESTIMONY OF

MARVIN L. WYNN
CHIEF OPERATING OFFICER
WI/SE PARTNERSHIP FOR GROWTH INC.
350 WEST DOUGLAS AVENUE
WICHITA, KANSAS 67202

BEFORE

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION
LEGISLATURE OF THE STATE OF KANSAS

CONCERNING

SENATE BILL NO. 4
AND
SENATE BILL NO. 5
(SESSION OF 1989)

FEBRUARY 1, 1989

Attachment 2
Senate Assessment & Tax
2-1-89

My name is Marvin L. Wynn. I'm chief operating officer of the Wichita/Sedgwick County Partnership for Growth, 350 W. Douglas, Wichita, Kansas.

As the name implies, the Wichita/Sedgwick County Partnership for Growth or "WI/SE Partnership" is an alliance of the City of Wichita, Sedgwick County, The Wichita State University, the Association for Legislative Action of Rural Mayors of Sedgwick County (ALARM), the Wichita Area Chamber of Commerce and approximately 32 Wichita area business firms. The organization was formed on July 1, 1987 to promote the economic development of Sedgwick County.

WI/SE was created to serve as a single source for economic development in Sedgwick County and to implement and manage the countywide strategic action plan for economic development called Blueprint 2000.

The 15-member board of directors, who represent the various partners, set the policies and monitor the programs under the Blueprint 2000 umbrella. Funding is provided by the partners. The Blueprint 2000 plan has seven action initiatives which focus on traditional economic development activities such as prospecting for new business and industry, and working to retain and expand local business and industry. It also includes a very comprehensive program to improve the infrastructure to support economic development of the south central Kansas area. This broad program includes efforts to improve air service, highways, education and a special program using technology as a tool for economic development -- a program managed jointly with The Wichita State University.

WI/SE programs and activities are managed by a professional economic development staff. I serve as chief operating officer for the program.

I'm here today to speak in favor of SB4 and SB5. I believe the elimination of the alternative minimum tax (AMT), now scheduled to go in effect in

1990, AND A REDUCTION OF THE CORPORATE TAX RATE WOULD BENEFIT THE ECONOMIC DEVELOPMENT OF KANSAS. THE KANSAS LEGISLATURE WAS WISE TO ELIMINATE THE SALES TAX ON PRODUCTION MACHINERY AND EQUIPMENT EFFECTIVE THIS YEAR TO KEEP KANSAS COMPETITIVE IN THAT AREA. THANK YOU FOR THAT ACTION. I BELIEVE, HOWEVER, THAT OUR CORPORATE TAX RATES ALSO NEED TO BE ADDRESSED ALONG WITH THE ACTION WHICH YOU HAVE ALREADY TAKEN.

COMPETITION FOR NEW BUSINESS AND INDUSTRY INVOLVES NOT ONLY EFFORTS TO ATTRACT NEW BUSINESS INTO THE STATE, BUT ALSO EFFORTS TO RETAIN EXISTING BUSINESS AND FACILITATE THEIR EXPANSION IN KANSAS. THIS IS NOT SOMETHING THAT HAPPENS AUTOMATICALLY. KANSAS BUSINESSES ARE BEING RECRUITED TO RELOCATE AND/OR EXPAND INTO OTHER STATES. WE MUST MAINTAIN A GOOD BUSINESS AND TAX CLIMATE TO BE SUCCESSFUL IN EITHER ATTRACTING NEW FIRMS TO THE STATE OR RETAINING THE ONES WE HAVE.

IN PREPARATION FOR THIS TESTIMONY, OUR RESEARCH DEPARTMENT REVIEWED CURRENTLY PUBLISHED INFORMATION ON OTHER STATES IN OUR REGION, CHECKED WITH THOSE STATES DIRECTLY AND COMPARED THIS INFORMATION WITH DATA MAINTAINED BY THE KANSAS DEPARTMENT OF COMMERCE. THIS SURVEY INDICATES THAT KANSAS WOULD BE THE ONLY STATE IN THE REGION, COMPOSED OF KANSAS AND THE FOUR CONTIGUOUS STATES OF COLORADO, NEBRASKA, MISSOURI AND OKLAHOMA, WHICH WOULD "ENJOY" AN ALTERNATIVE MINIMUM TAX IF K.S.A. 1988 SUPP. 79-32,183 TO 79-32,187, INCLUSIVE ARE ALLOWED TO GO INTO EFFECT NEXT YEAR AS SCHEDULED.

SIMILARLY, THE CORPORATE TAX RATE IN KANSAS IS CURRENTLY THE HIGHEST RATE IN THE FIVE-STATE REGION. ONLY NEBRASKA'S 6.65% RATE IS ANYWHERE NEAR THE KANSAS RATE OF 6.75%, AND NEBRASKA ONLY CHARGES 4.75% FOR THE <u>SECOND</u> $25,000 OF PROFIT, WHILE KANSAS ASSESSES ITS SURCHARGE FOR ALL INCOME OVER THE <u>FIRST</u> $25,000.

THIS MAKES THE KANSAS RATE OF 6.75% (COMBINED BASE RATE PLUS SURTAX FOR ALL INCOME OVER $25,000) 1.75 PERCENTAGE POINTS HIGHER ON THE SECOND $25,000 THAN ANY OF THE ADJACENT STATES. THIS IS PARTICULARLY PUNITIVE FOR SMALL AND MEDIUM-SIZE KANSAS FIRMS WHICH ARE THE BASE OF THE KANSAS ECONOMY.

THE CORPORATE INCOME TAX RATE IS 5% - ACROSS THE BOARD - IN OKLAHOMA AND MISSOURI, AND COLORADO IS GRADUALLY REDUCING THE CORPORATE RATE IN THAT STATE TO 5% BY 1993. ADDITIONALLY, MISSOURI ALLOWS A DEDUCTION OF THE FEDERAL TAX PAID AND NEBRASKA, MISSOURI AND COLORADO ALL APPEAR TO HAVE A MORE FAVORABLE BASIS FOR DETERMINING TAX LIABILITY FOR MULTISTATE CORPORATIONS THAN DOES KANSAS.

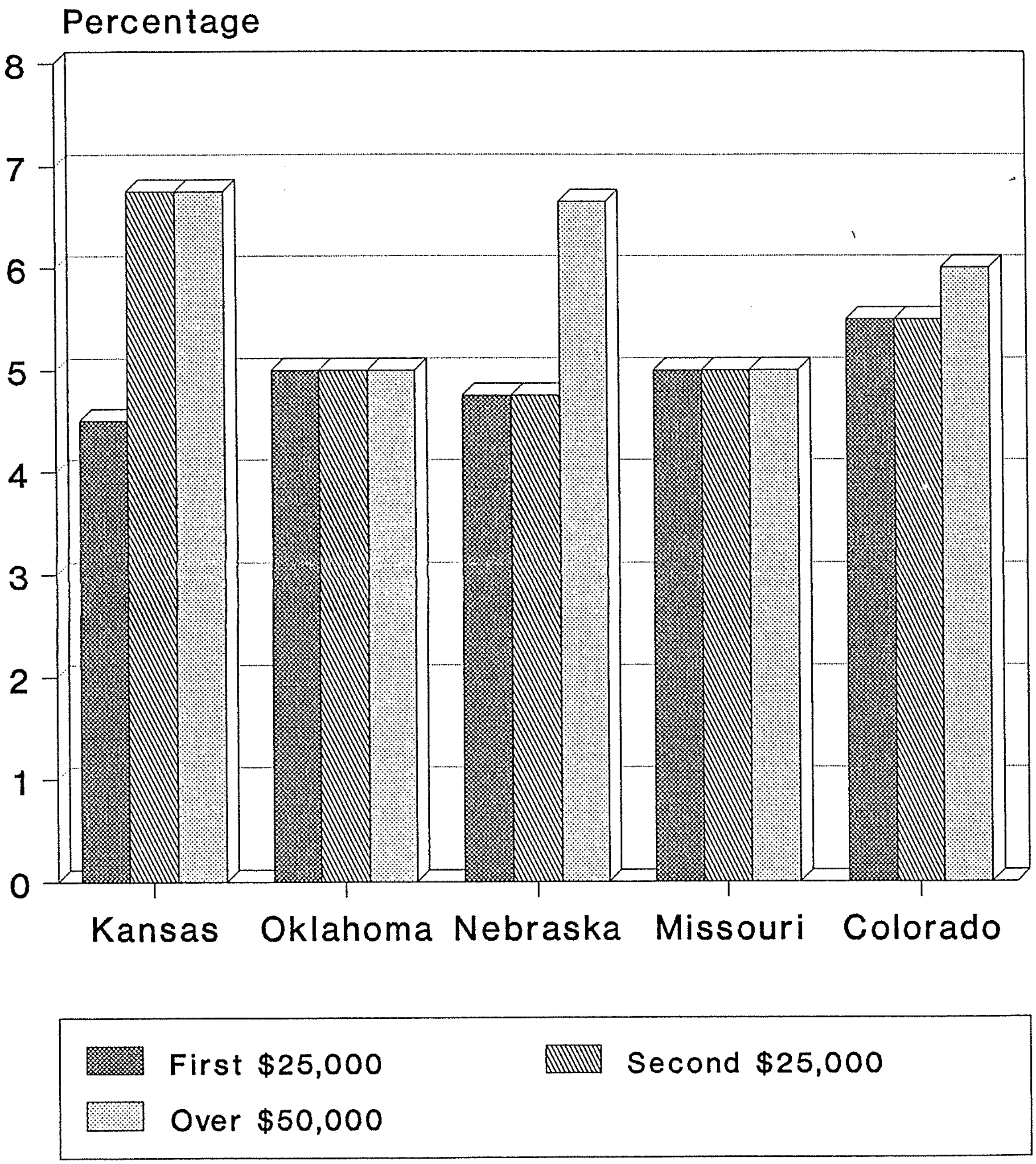
THE SITE SELECTION PROCESS IS NOT ONE OF <u>SELECTION</u> BUT MORE A PROCESS OF <u>ELIMINATION</u>. WE OFTEN DO NOT EVEN KNOW WHEN KANSAS IS ELIMINATED FROM SERIOUS CONSIDERATION FOR NEW PROJECTS WHEN EXPANDING FIRMS CONSULT COMMERCE CLEARING HOUSE OR SOME OTHER TAX SERVICE TO MAKE COMPARISONS ON ALTERNATE LOCATIONS.

THE QUESTION HAS BEEN RAISED ABOUT A SO-CALLED WINDFALL IN CORPORATE TAX COLLECTIONS. THERE ARE DIFFERENCES IN OPINION AS TO WHAT THE AMOUNT OF THAT WINDFALL MAY BE. I AM NOT HERE TO ADDRESS THAT SUBJECT ABOUT WHICH I KNOW VERY LITTLE. I WILL LEAVE THAT TO THE EXPERTS.

I DO KNOW SOMETHING ABOUT COMPETITION FOR NEW BUSINESS AND INDUSTRY, AND I KNOW THAT THE CORPORATE INCOME TAX RATE IN KANSAS IS CURRENTLY NOT COMPETITIVE WITH OUR SURROUNDING STATES. EVEN THOUGH THE LEGISLATURE HAS ALREADY ELIMINATED THE SALES TAX ON PRODUCTIVE MACHINERY AND EQUIPMENT, I URGE YOU TO SERIOUSLY CONSIDER (1) THE ELIMINATION OF THE ALTERNATIVE MINIMUM TAX; (2) A REDUCTION OF BOTH THE BASE RATE AND THE SURCHARGE OF THE CORPORATE TAX RATE AND (3) RAISING THE AMOUNT APPLICABLE TO THE BASE RATE FROM $25,000 TO $50,000 AS PROVIDED IN SB4 AND SB5. THIS WOULD MAKE KANSAS MUCH MORE COMPETITIVE THAN AT PRESENT.

THANK YOU FOR THIS OPPORTUNITY TO APPEAR BEFORE YOU. I WOULD BE GLAD TO ANSWER QUESTIONS OR ADDRESS ANY OF YOUR CONCERNS.

CORPORATE INCOME TAX RATES
STATE COMPARISON



Source: Various States

CORPORATE INCOME TAX RATES
STATE COMPARISON

KANSAS

Tax on multi-state firms: three factor formula.
Note: If payroll incurred in Kansas exceeds 200% of Kansas property and sales amounts, a two factor formula can be used.

OKLAHOMA

Tax on multi-state firms: three factor formula.

NEBRASKA

Tax on multi-state firms: three and one factor formula.

COLORADO

Tax on multi-state firms: three or two factor formula.
Note: Effective in 1989, Colorado will have a flat 5% rate to be phased in fully by 1993.

MISSOURI

Tax on multi-state firms: three or one factor formula.
Note: Missouri allows 100% deduction for federal income tax.

Definitions

Three factor formula - 1/3 sales, 1/3 property, 1/3 payroll
Two factor formula - 1/2 sales, 1/2 property
One factor formula - sales

TESTIMONY

On

Alternative Minimum Tax

Senate Committee on Assessment and Taxation

February 1, 1989

prepared by

Jerry Lonergan
Vice-President for Research
Kansas Inc.

Attachment 3
Senate Assessment & Tax
2-1-89

At its January 1989 meeting, the Board of Directors of Kansas Inc. unanimously approved a policy statement requesting the repeal of the Alternative Minimum Tax. The Board's vote affirms its previous stance stemming from a 1987 study in which, Kansas Inc. undertook an analysis of the business tax structure of Kansas. The purpose of our study was to evaluate the degree to which Kansas' business tax structure is competitive in a six-state region (Kansas, Colorado, Iowa, Nebraska, Missouri, and Oklahoma). Based on the tax analysis, the Board of Director's of Kansas Inc. developed a "package" of reforms to make the state's business tax structure more competitive. This package included five proposed changes.

<u>Tax Reduction</u>:

1) The sales/use tax exemption for manufacturing machinery and equipment;

2) The option of a two-factor formula for apportionment of corporate income taxation; and,

3) A one-half percent reduction in the corporate tax rate.

<u>Revenue Enhancements</u>:

4) Establishment of an alternative minimum tax on corporations; and,

5) elimination of the state's loss/carry-back provision on corporate taxes.

The changes would produce net gains and losses to the State Treasury on both a one-time and annual basis. In giving priority to the recommendations, the Board determined that the two revenue enhancing proposals should be adopted only if the state's fiscal stability was impacted by implementation of the three revenue reducers.

Four of the five Kansas Inc. recommendations were enacted into law, the corporate tax rate reduction was not adopted. While there are several possible ways to quantify the impacts of these recommendations, I will note those estimates provided Kansas Inc. by the Department of Revenue during the research.

* the sales use/tax exemption saved business $16 million;
* the two factor formula saved business $.5 million;
* the Alternative Minimum Tax will cost business $6 million; and,
* the loss/carry-back provision will cost business $14 million on a one-time basis.

The net change to business during this first year is $2.4 million gain. In the future without loss/carry-back's one year impact and with AMT there will be an estimated $10.5 million gain for business.

There has been improvement in Kansas business tax structure however, the Board continues to feel that the state's business tax structure is not as competitive as they desired when making their recommendations. Our business competitiveness will not be increased by adding AMT to our tax structure. In fact, implementation of AMT in 1989 will hurt our competitiveness as we become only the second state in the study region to adopt AMT.

Thank you, I would be glad to respond to questions of the Committee.

KIOGA
KANSAS INDEPENDENT OIL & GAS ASSOCIATION
105 SOUTH BROADWAY • SUITE 500 • WICHITA, KANSAS 67202 • (316) 263-7297

February 1, 1989

TO: Senate Committee on Assessment & Taxation

RE: SB 4 - Corporate Income Tax
Alternative Minimum Tax for Kansas
Corporations

Our Association opposed the alternative minimum tax for Kansas corporations during the 1988 session. We filed statements with both the Senate and House committees that conducted hearings.

We are certain that members of the legislature must know that the combination of the Kansas severance tax and the Kansas ad valorem tax on oil and gas average at least 10% on oil and, in some cases, in excess of 20% on natural gas, both being the highest in the nation. When you consider the Kansas rates with our neighboring energy states, Oklahoma at 7%, Arkansas at 5%, Texas at 5%, New Mexico at 4%, and Nebraska at 3%, you can see that if you have money to spend on exploring and drilling for oil and gas, Kansas is not even close to competing. None of these energy producing states nearby have an alternative minimum tax as was passed in the 1988 Session.

Allowing the alternative minimum tax to be implemented means that our industry will bear the brunt of yet another Kansas tax at a time when the industry needs to be helped, not hurt with a new tax.

In order to strongly emphasize our opposition to this new tax, we asked our KIOGA Tax Committee Chairman, Will G. Price, III, managing partner of Peat Marwick Main and Company, Wichita, to file a statement during the interim study under Proposal No. 7. We attach his statement to ours which supports our position in opposing the Alternative Minimum Tax on Kansas corporations and, therefore, we support the repeal of the tax as contained in SB 4.

Donald P. Schnacke

DPS:pp
Attch

Attachment 4
Senate Assessment & Tax
2-1-89

cc: [illegible] / Randall

KPMG Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.
600 Fourth Financial Center
Wichita, KS 67202

Telephone 316 267 8341

Telecopier 316 267 8341
Ext 230

January 19, 1988

Mr. Don Schnacke
KIOGA
500 Broadway Plaza
105 S. Broadway
Wichita, Kansas 67202

Dear Don:

Proposed Kansas Alternative Minimum Tax for Corporations

I have read with concern the information you provided regarding the proposed Kansas alternative minimum tax for corporations which would be equal to 20 percent of the federal alternative minimum tax. For your information, only four states presently have a separate state alternative minimum tax on so-called "preference items" (percentage shown is the approximate percentage of the state alternative minimum tax compared to the federal alternative minimum tax):

Alaska	18%
California	12.5%
Iowa	*
Maine	11%

*Iowa excludes excess depletion and tax exempt interest as preferences. Accordingly, the Iowa tax base is less than the federal tax base.

There are a number of reasons for Kansas businessmen in general and the oil and gas industry in particular to be concerned by the proposed Kansas alternative minimum tax, including the following:

1. Such a tax would put Kansas corporations at a competitive disadvantage with our neighbor states, none of which have such a tax. In fact, Kansas would become only one of a handful of states nationwide with such a tax and might be perceived as furthering an "anti-business" attitude.

2. A Kansas alternative minimum tax would add substantially to the complexity of the current taxation system and the burdens of taxpayers to comply therewith.

3. The State of Kansas already enjoys a substantial non-legislative tax increase ("windfall") as a result of retaining substantial Kansas tax revenue increases caused by the 1986 federal tax reform.

If Kansas adopts a state alternative minimum tax, the Kansas Legislature should consider following the lead of Iowa and exclude percentage depletion as a preference item. As you are painfully aware, the combination of Kansas severance taxes and ad valorem taxes places approximately an average 10 percent tax burden on Kansas production - which rate is in excess of any of our neighboring energy states (e.g., Oklahoma, 7%; Arkansas, 5%, Texas, 5%; New Mexico, 4%; and Nebraska, 3%).

Very truly yours,

PEAT MARWICK MAIN & CO.

Will G. Price, III, Partner

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the Kansas State Chamber of Commerce, Associated Industries of Kansas, Kansas Retail Council

SB 4 & 5 February 1, 1989

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Assessment and Taxation

by

Bud Grant
Vice President

Mr. Chairman and Members of the Committee:

My name is Bud Grant, and I am here today on behalf of the Kansas Chamber of Commerce and Industry to present a few very brief comments in support of Senate Bills 4 and 5.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Attachment 5
Senate Assessment & Tax
2-1-89

In November of 1987, Kansas Inc., presented recommendations to the Governor's Task Force on Tax Reform designed to increase the state's competitive tax structure. It was composed of five points:

1. Exempting manufacturing machinery and equipment from the sales tax;
2. Adjusting the apportionment formula for taxing multi-state firms;
3. Reducing the corporate income tax rate;
4. Changing the state's loss-carryback provision of corporate taxing; and
5. Establishing an alternative minimum tax on corporations.

The Kansas Inc. Board recommended the enactment of the first three points, with points four and five to be used only in the event the income generated from their enactment was needed in order to maintain state services.

The Governor's Task Force chose to recommend to the 1988 Legislature the enactment of points one, two, four, and five, and did not recommend the reduction in corporate tax rates. The Legislature then adopted all the recommendations of the Task Force, with the proviso that an interim committee would study the alternative minimum tax and the corporate tax rate issues.

The results of that study are before you today represented by Senate Bills 4 & 5. KCCI supports the enactment of both. A review of the effects of the alternative minimum tax revealed a tax difficult to administer, very punitive on particular types of industry, and minimal in creating revenue to the state. It certainly isn't needed for the state to maintain adequate services, which was the Kansas Inc. criteria for its enactment.

SB 5 represents the one Kansas Inc., recommendation not adopted to date by the Legislature. The bill does not represent a tax reduction, but does represent a partial rollback of corporate taxes to a level which approximates the level before federal tax reform.

What do we know now that the Governor's Task Force didn't know when making its recommendations? We know there was a corporate windfall. How much was it? The number is hard to determine, but consider the following:

a. according to the Department of Revenue in previous testimony, two Kansas corporations alone will be paying an additional $10 million in state taxes (enough to finance SB 5); keep in mind there are more than 36,000 corporations in Kansas;

b. the Council of State Chambers of Commerce estimated the Kansas corporate windfall at $20.4 million for 1987;

c. corporate tax payments to the state for FY '89 exceeded FY '88 by $65 million, and were higher than any previous year in the state's history by $20 million.

Since 1985, the Kansas Legislature has put in place a sound and innovative program designed to promote economic development and create jobs. Yet it makes little sense that the cornerstone of such a program, i.e., tax rates, should be allowed to increase from a position which was already higher than our neighboring states.

We come to you recognizing that the number of items on the table are many...that the list of items to be funded is long. Yet, in fairness, and with the knowledge that the greatest of economic development programs will be ineffective if the cost of doing business in the state is too high, we ask your support for SB 5.

Thank you, Mr. Chairman and Members of the Committee. I would be pleased to attempt to answer questions.

SUMMARY OF SENATE BILL NO. 24

As Amended by House Committee of the Whole

S.B. 24, as amended by the House Committee of the Whole, makes a number of changes in the Kansas individual income tax structure and provides a new source of state aid for school districts.

Tax Structure Changes

Certain individual income tax rates are reduced. Also, taxpayers are given an option of taking a deduction for federal income taxes paid. However, those taking the deduction would use a different set of rate tables than those not taking the option. The rates would be as follows:

Rates for Taxpayers Taking Federal Deduction

Joint Filers Taxable Income		Single Filers Taxable Income	
$0 - $20,000	4.55%	$0 - $2,000	4.55%
$20,000 - $35,000	4.85%	$2,000 - $10,000	5.60%
$35,000 - $45,000	7.45%	$10,000 - $20,000	5.75%
over $45,000	8.45%	$20,000 - $30,000	7.50%
		over $30,000	8.45%

Rates for Taxpayers Not Taking Federal Deduction

Joint Filers Taxable Income		Single Filers Taxable Income	
$0 - $35,000	3.85%	$0 - $27,500	4.65%
over $35,000	4.85%	over $27,500	6.00%

Attachment 6
Senate Assessment & Tax
2-1-89

House Committee of the Whole amendments bring Kansas into prospective conformity with federal standard deductions and personal exemptions. The federal standard deduction amount would be indexed upward beginning in tax year 1989, and the federal personal exemption amount would be indexed upward beginning in tax year 1990. An additional "checkoff" program would be available on the income tax forms, with contributions earmarked for the Kansans for Kids program. Contributions to the fund would be matched up to $500,000 annually by transfers from the State General Fund. Moneys in the fund would be expended in accordance with K.S.A. 75-5328, as amended.

School Finance Provision

A House Committee of the Whole amendment provides that beginning on October 1 of the 1990-91 school year (FY 1991) and on each October 1 thereafter, the sum of $50.0 million collected from individual income taxes will be transferred from the State General Fund to the new School District Income Tax Equalization Fund for distribution to school districts. The method of distribution will be the same as is now used for general state aid under the School District Equalization Act (SDEA). This means that the funds would be distributed to school districts inversely to district wealth.

This distribution will not be made in any year if the following condition has not been met. The ratio of general state aid and income tax rebate (combined) to the legally adopted budget of operating expenses of all districts under the SDEA in the second preceding year must be equal to or exceed 43.8 percent. For example, if the distribution provided for in the bill is to be made in the 1990-91 school year, the ratio of general state aid and income tax rebate (combined) to the general fund budgets of school districts for the current year (1988-89 school year) must be equal to or greater than 43.8 percent.

Combined Fiscal Impact

The fiscal impact for the income tax changes for tax year 1989 is estimated at approximately $53.1 million. The prospective conformity features would cause this $53.1 million fiscal note to grow in FY 1991 and thereafter. Assuming that the school finance transfer is made, the aggregate fiscal note for FY 1991 is somewhere in excess of $103 million.

Background

The original bill, which reflected the Governor's proposal, would have reduced individual income tax rates (without changing the current non-deductibility structure) to provide a reduction of approximately $78.9 million in receipts.

The rate reductions contained in S.B. 24 as introduced were the following:

Joint Filers		Single Filers	
Taxable Income		Taxable Income	
$0 - $35,000	3.60%	$0 - $27,500	4.45%
over $35,000	4.90%	over $27,500	5.85%

The Kansas individual income tax form currently contains a checkoff for the Nongame Wildlife Improvement Fund.

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 1, 1989

TO: Senate Committee on Assessment and Taxation
FROM: James S. Maag, Kansas Bankers Association
RE: SB 5 - Corporate Tax Rates

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear in support of SB 5. We agree with the conclusion of the Special Committee that it is "an appropriate time" to make changes in the Kansas corporation income tax structure. We would, however, go one step further and recommend that these changes also be applied proportionately to the state privilege tax paid by financial institutions (banks and S&Ls).

Banks and S&Ls are taxed under a separate Article (11) of Chapter 79 because they are the only institutions which pay tax on the income from federal government securities. The State of Kansas chose many years ago to impose a franchise tax (referred to as a "privilege" tax) on these financial institutions in lieu of the corporate income tax. A brief history of the state taxation of Kansas banks is attached to this testimony. The Legislature has historically tried to keep the rates for corporate and privilege taxes as parallel as possible. To create a different tax rate structure for one group and not for the other would create an imbalance in what is presently perceived as a fair and equitable system. In addition to the issue of equity, we believe the same sound reasons which led the Special Committee to recommend changes for corporations also apply to the banking industry.

The Special Committee, for instance, addressed the question of whether the 1986 federal tax act adversely impacted the state income tax liability for Kansas corporations thus creating a "windfall" for the state. In an attempt to answer the same question as it related to banks, the KBA requested the privilege tax returns of Kansas banks for 1987 and 1988. Those returns were received from over 400 banks representing approximately 80% of the total assets of all Kansas banks. Among the information gained from analyzing the returns was the following:

Attachment 7
Senate Assessment & Tax
2-1-89

Office of Executive Vice President • 1500 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444

(1) The federal taxable income of these banks increased by $23.7 million from 1987 to 1988 - a 106% increase. Only a sharp drop in the amount of income derived from state and municipal bond interest (over $15 million) kept these banks from experiencing a big increase in their privilege tax liability.

(2) We believe it is significant that interest on state and municipal bonds accounted for 77.5% of the Kansas taxable income for these banks in 1987 and for 71.5% of the taxable income in 1988. Not only does this show a very strong involvement in meeting the needs of Kansas communities, but these investments also create a sizeable part of the privilege tax revenues for the state.

(3) The total privilege taxes paid by all banks and S&Ls in 1987 in 1987 were $21.6 million of which banks paid $15.7 million (72.7%). For 1988 the total privilege taxes paid by banks and S&Ls were $22.4 million of which banks paid $16.4 million (73.2%). As noted above, the privilege tax liability for banks would have been much higher due to the increased federal taxable income if there had not been a significant drop in state and municipal bond income.

It should be noted that no adjustments have been made in the privilege tax rates since 1979 and none have been requested by our industry. Kansas banks believe it is their responsibility to carry their fair share of the corporate tax burden in the state and we believe current rates reflect that situation. We do not believe that would be true if the Legislature were to lower the rates and increase the surtax floor for corporations only. Therefore, in order to maintain a fair and equitable tax system for Kansas we strongly recommend that SB 5 be amended to apply a proportionate change in the privilege tax rates and the amount of income subject to the surtax.

We appreciate the committee's willingness to address this important economic issue for Kansas and to listen to our recommended amendment.

Form **K-130**

KANSAS

PRIVILEGE TAX

19 3

For the year beginning ____________, 1987, ending ____________, 19 ____

Do not write in this space except to write your file number if known.

F-

File Number

Validation Number

PLEASE PRINT OR TYPE

Name	A. Federal Identification Number
Number and Street of Principal Office	B. State and Date of Incorporation
City / State / Zip Code	C. State of Commercial Domicile

D. Type of Federal Return Filed	E. Business Code Number	F. Date Business Began in Kansas	G. Check if:
(1) ( ) Separate (2) ( ) Consolidated	1 2 3 4		1. ( ) Initial Kansas return 2. ( ) Final Kansas return

1. Federal taxable income			1
2. Total state and municipal interest		2	
3. Income received from federal government securities not included in federal taxable income		3	
4. Federal net operating loss deduction		4	
5. Savings and Loan Association bad debts included in federal deductions		5	
6. Other additions to federal taxable income (Attach schedule)		6	
7. Total additions to federal taxable income (Add lines 2, 3, 4, 5, & 6)			7
8. Total (Add lines 1 & 7)			8
9. Other subtractions from federal taxable income (Attach schedule)		9	
10. Kansas net operating loss deduction (Attach schedule)		10	
11. Savings and Loan Association bad debt deductions (Attach schedule)		11	
12. Total subtractions from federal taxable income (Add lines 9, 10, & 11)			12
13. Kansas taxable income (Subtract line 12 from line 8)	[B]		13
14. Normal Tax: A. Banks (4¼% of line 13)		14A	
B. Savings and loans and trust companies (4½% of line 13)		14B	
15. Surtax: A. Banks (2⅛% of amount on line 13 in excess of $25,000)		15A	
B. Savings and loans and trust companies (2¼% of amount on line 13 in excess of $25,000)		15B	
16. Total Tax (Line 14A plus 15A or line 14B plus line 15B)	[F]		16
17. Venture capital credit (Attach schedule K-55)	[H]	17	
18. Interest reduction credit (Attach schedule K-51's and K-52)	[I]	18	
19. Handicapped accessibility credit (Attach schedule K-37)	[J]	19	
20. Total nonrefundable credits (Add lines 17, 18 and 19)			20
21. Balance (Subtract line 20 from line 16) (Cannot be less than zero)			21
22. Other tax payments	[L]		22
23. Balance due (Subtract line 22 from line 21)			23
24. Interest (If applicable)	[M]		24
25. Penalty (If applicable)	[N]		25
26. Total tax, interest, & penalty due (Add lines 23, 24, and 25)	[O]		26
27. Refund (Subtract line 21 from line 22)	[P]	27	

Do not write in this space

I declare under the penalties of perjury that to the best of my knowledge and belief this is a true, correct, and complete return.

sign here

Signature of officer | Title | Date

Individual or firm signature of preparer | Address | Date

MAIL THIS RETURN AND PAYMENT TO: KANSAS DEPARTMENT OF REVENUE, PRIVILEGE TAX, TOPEKA, KANSAS 66699-0001

ATTACH A COPY OF YOUR FEDERAL RETURN AND SUPPORTING SCHEDULES TO THIS RETURN

79-1107. National banking associations and state banks; tax imposed; rate. Every national banking association and state bank located or doing business within the state shall pay to the state for the privilege of doing business within the state a tax according to or measured by its net income for the next preceding taxable year to be computed as provided in this act. Such tax shall consist of a normal tax and a surtax and shall be computed as follows:

(a) The normal tax shall be an amount equal to 4 ¼% of such net income; and

(b) the surtax shall be an amount equal to 2 ⅛% of such net income in excess of $25,000.

The tax levied shall be in lieu of ad valorem taxes which might otherwise be imposed by the state or political subdivisions thereof upon shares of capital stock or the intangible assets of national banking associations and state banks. The state of Kansas hereby adopts the method numbered (4) authorized by the act of March 25, 1926, amending section 5219 of the revised statutes of the United States (12 U.S.C.A. 548), relating to the manner and place of taxing national banking associations located within its limits.

History: L. 1963, ch. 463, § 2; L. 1968, ch. 142, § 1; L. 1970, ch. 382, § 1; L. 1972, ch. 359, § 1; L. 1979, ch. 314, § 1; L. 1987, ch. 374, § 1; July 1.

Cross References to Related Sections:

Tax credit for investment in stock of Kansas Venture Capital, Inc., see 74-8205.

Attorney General's Opinions:

Tangible personal property of bank is not exempt from taxation. 87-32.

79-1108. Trust companies and savings and loan associations; tax imposed; rate. Every trust company and savings and loan association located or doing business within the state shall pay to the state for the privilege of doing business within the state a tax according to or measured by its net income for the next preceding taxable year to be computed as provided in this act. Such tax shall consist of a normal tax and a surtax and shall be computed as follows:

(a) The normal tax on every trust company and savings and loan association shall be an amount equal to 4 ½% of such net income; and

(b) the surtax on every trust company and savings and loan association shall be an amount equal to 2 ¼% of such net income in excess of $25,000.

The tax levied shall be in lieu of ad valorem taxes which might otherwise be imposed by the state or political subdivision thereof upon shares of capital stock or other intangible assets of trust companies and savings and loan associations.

History: L. 1963, ch. 463, § 3; L. 1968, ch. 142, § 2; L. 1970, ch. 382, § 2; L. 1972, ch. 359, § 2; L. 1987, ch. 374, § 2; July 1.

Cross References to Related Sections:

Tax credit for investment in stock of Kansas Venture Capital, Inc., see 74-8205.

A HISTORY OF THE KANSAS PRIVILEGE TAX

1926-1989

Kansas Bankers Association

February 1, 1989

March 30, 1979

KANSAS BANKERS ASSOCIATION

HISTORY OF STATE TAXATION OF BANKS

Taxation of shares of national banking associations was restricted by Title 12, Section 548 of U.S.C.A. From March 25, 1926 until December 24, 1969, Section 5219 U.S.R.S. provided that a state could tax the shares of national banking associations located within its limits in one of the four following ways subject to certain conditions:

1. A tax on shares.
2. Include dividends derived from banks in the taxable income of an owner or holder thereof
3. Tax on net income of the bank
4. According to or measured by their net income

One of the conditions was that the imposition of any one of the above four shall be in lieu of all the others. Another condition was that the rate of tax shall not be greater than assessed upon other moneyed capital and that a tax on net income shall not be higher than the rate assessed against other financial or business corporations within its limits.

For many years, banks, trust companies and savings and loan associations were exempt from Kansas income tax (K.S.A. Sec. 79-32, 113(c)) but paid a 5 mill intangible tax on the book value of capital stock. Such tax was paid to local units of government. However, Ch. 463, Laws 1963 subjected both national and state banks, trust companies and savings and loan associations to a franchise tax measured by net income. Thus, Kansas chose option No. 4 which is an excise tax, or franchise tax, but chose to call it a tax for the privilege of doing business within the state.

Effective December 24, 1969, Congress amended Section 5219 and until January 1, 1972, several temportary amendments went into effect. Among them were:

1. The basic restrictions of Sec. 5219 (four choices listed above were retained).
2. Restrictions on sales and use taxes imposed on national banks were removed.
3. Restrictions on ad valorem taxes on tangible personal property of national banks were removed.

The full impact of the National Bank Tax Bill of 1969 went into effect on January 1, 1973. Effective that date, there were no restrictions imposed on a state's taxation of a national bank, except that a national bank must be treated the same as a state bank.

Dividends received from Kansas banks prior to July 1, 1970 were exempt from Kansas income tax on the recipient. Since July 1, 1970, they are fully taxable.* Dividends received from Kansas banks are not subject to intangibles tax. Dividends received by corporations (one bank holding companies qualify) are subject to 85% dividend received credit by virtue of the Kansas Income Conformity Law.

*Even though the U.S. Congress Tax Bill of 1969 retained the four basic restrictions listed at the beginning of this memo, Congress did grant authority to the States to place dividends from National banks subject to state income taxes, provided the same treatment was given to other businesses and corporations generally.

The privilege tax on all financial institutions, including banks and savings and loan associations, was 5% until the 1970 session of the Kansas Legislature. During this time, the state corporate income tax rate was 4½%. Thus, financial institutions were assessed 1/2% more than other corporations. It is logical to assume that the 1/2% differential was due to the fact that state banks received a credit against privilege tax for any ad valorem tax assessed and paid on personal property. Because the state legislature had no authority to impose an ad valorem tax on personal property of national banks, state banks received a credit against the privilege tax in order to keep state and national banks on an equal basis.

The 1970 session of the Kansas Legislature imposeda 2¼% surtax on income in excess of $25,000 for corporations and financial institutions (SB 558 and 559 Laws 1970). In addition to this, the 1970 Legislature amended the taxation of intangibles to cover all corporate dividends from stock and dividends paid to savings and loan customers. However, Sec. 5219 of the U.S. Code prohibited the state legislature from taxing bank dividends under state intangibles tax and bank dividends, therefore, remained exempt from intangibles tax. The Research Department of the Legislative Council estimated that the amount of money which would be raised if the intangibles tax were imposed upon bank dividends would roughly equal 1/2 of 1% of the privilege tax. Therefore, an additional 1/2 of 1% was added to the privilege tax base for banks only. The net result, therefore, of the 1970 session was that the base corporate income tax rate in Kansas was 4½%, the base privilege tax rate for savings and loan associations was 5% and the base rate of privilege tax for Kansas banks was 5½%.

Another problem was covered in 1972. The State Legislature required state banks to pay ad valorem tax on personal property, but they did not have the authority to require the same of national banks. Therefore, a statute was enacted (K.S.A. 79-1109(c)) which allowed a bank to credit its ad valorem tax on personal property against its privilege tax. The purpose of this statute was clearly to provide uniformity of tax liability for state and national banks.

With the passage of the National Bank Tax Bill, however, both state and national banks could be assessed personal property tax and both were entitled to credit such tax against the privilege tax.

Therefore, in 1972, the Legislature passed H.B. 1739 amending K.S.A. 79-1107-8-9. The bill removed the personal property tax payment as a credit against the Privilege Tax, and also reduced savings and loan base rate from 5% to 4½%; and the base rate of banks from 5½% to 5%. H.B. 1739 also amended K.S.A. 79-1109 to exempt from the Privilege Tax interest income which is specifically exempt from income tax under such law authorizing the issuance of such obligation.

This, then is the history of bank taxation from 1926 right up to the present 1978-1979 situation regarding the constitutional status of the Privilege Tax.

HAROLD A. STONES
Director of Research
Kansas Bankers Association

February 1, 1989

KANSAS BANKERS ASSOCIATION

HISTORY OF STATE TAXATION OF BANKS (Supplement to March 30, 1979, paper)

In the 1972 Legislative session, House Bill 1739 was enacted into law. This new law made several changes to bank taxation, as follows:

1. It removed the personal property tax credit against tax liability on the Kansas privilege tax return.
2. It reduced privilege tax base for banks from 5 1/2% to 5%.
3. It allowed the personal property tax payment to be used as a deduction in computing net taxable income.
4. It excluded from privilege tax income, the income from state and political subdivisions which was specifically exempt from state income tax. This included interest received from armory bonds, urban renewal bonds, industrial revenue bonds, Kansas Turnpike bonds, board of regents bonds, and any other revenue bond issued under statutes providing that interest income was exempt from income tax.

Provision No. 4, above, was the specific reason for many problems to appear seven years later, in 1979.

Although Provision No. 4 of H. B. 1739 was read by tax experts in and out of government and private businesses all over Kansas, no one considered that it would later threaten to render the entire Kansas Privilege Tax to be unconstitutional.

But in 1978, Kansas Revenue Department Attorney Nancy L. Suelter held that savings and loan associations shouldn't have to pay privilege taxes on interest they received from Federal Home Loan Bank dividends and interest. This "Suelter Memo" went on to reason that the privilege tax was discriminatory, because it did not uniformly tax the income from all units of government equally.

The Kansas Revenue Department added to the problem by unilaterally sending refunds to applicants. Their first refund was in March 1978, and ultimately refunds were sent to 36 banks totalling $206,000; and 12 S&L's totalling $276,000. But in March 1979, the enormity of it caused the Revenue Departmentto reverse their position, and they began rejecting refund claims and began to attempt to reclaim those refunds issued.

The issue revolved around a U. S. Supreme Court decision that held that states could levy a franchise tax on financial institutions which included income from U. S. government obligations, <u>so long as it did not do so in a discriminatory manner.</u> Hence, in 1972, when Kansas exempted the income from certain state and local obligations, discrimination was introduced, and the entire Privilege tax was probably unconstitutional during that entire period. We all faced the problem of the state refunding some $40 million of five-years worth of back taxes to privilege taxpayers.

After much study and effort, the Kansas Legislature and the KBA worked very closely to solve the problem. KBA stated earlyi on its goal was not to void 5 years worth of privilege taxes, and we would cooperate fully in an effort to salvage our present tax statutes.

An entire series of legislative actions occured in the 1979 Session, which resolved the problems.

Substitute for Senate Bill 485 made the following changes:

1. It included income from those state and municipal obligations (which had been exempted in 1972) back into the tax base for privilege tax payers. All income from all units of government at all levels was to be included as taxable income.

2. The base tax rate of 5% and the surtax rate of 2 1/4% was reduced for banks only to 4 1/4% and 2 1/8% in order to keep the privilege tax "revenue neutral". KBA computed this figure to be an even trade off for the increase in the tax base. S&L's received no such rate reduction, because they could not document that their industry owned any significant amount of such formerly-exempt securities.

3. It imposed a "refund recapture tax" which stipulated that the recapture tax on any refund made upon the basis on unconstitutionality would be slightly more than 100% of the refund.

4. If such "refund recapture tax" should be found unconstitutional, then a flat surtax of 10% of net income would be imposed on all banks and S&L's for two years.

KBA advised all member banks to file formal applications for refunds for 1975 privilege tax, in order to protect themselves from stockholder liablility. Such applications were filed, and rejected by the Kansas Revenue Dept. KBA urged member banks not to initiate any court action to collect refunds, because of items 3 & 4 above. We believed our privilege tax was fair, and our goal was not to eliminate any past taxation.

Not one bank pursued any such court action for refunds, and the consitutionality crisis was successfully avoided. All parties won, and an attitude of strong mutual trust prevailed between the Kansas Legislature and the KBA. Substitute for Senate Bill 485 passed both Houses unanimously with virtually no debate, after Senate Taxation Committee Chairman John Simpson and House Taxation Committee Jim Braden explained the bill, and explained that the Committees were inclined to fully accept the KBA's "trade-off" computations for privilege tax rate reduction, to keep the final tax liability revenue neutral.

The Privilege tax has continued unchanged from 1979 until the 1989 Legislative session.