

Approved Wednesday, March 1, 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./p.m. on Monday, February 20, 1989 in room 519-S of the Capitol.

All members were present except:

Senator Dan Thiessen, Chairman (Excused)

Committee staff present:

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

Conferees appearing before the committee:

Senator James Francisco  
Senator Janis Lee  
Bill R. Fuller-Kansas Farm Bureau  
Charles Stones-Kansas Bankers Association  
Ron Wilson-Farm Credit Council of Wichita

Madam Chairperson called the meeting to order and told the members they had minutes before them and would ask for approval of the minutes at the end of the meeting. She recognized Senator Francisco for a bill request.

Senator Francisco said he and Representative Baker had worked on a bill relating to commercial property taxes. He would like for the committee to introduce it, and it could be called a "circuit breaker" on commercial tax. It applies to any commercial property owner who had at least a 100% increase in his property tax for this to go into effect. The amount of the refund would be calculated according to the 1989 assessed value of the property. No more than \$5,000 could be refunded for any piece of commercial property. In 1990, the refund would be cut in half, and eliminated altogether in 1991 and beyond. (ATTACHMENT 1)

Senator Francisco moved for the committee to introduce this as a committee bill, seconded by Senator Fred Kerr. The motion carried.

Madam Chairperson said she would like to add a bill request, and reminded the committee members that on the windfall bill there was a check off for kids that was amended onto the bill, and that bill did not make it through the conference committee.

Senator Langworthy moved to request this be introduced as a committee bill, seconded by Senator Frahm. The motion carried.

Madam Chairperson turned attention to SB138 and recognized Senator Lee.

SB138:AN ACT relating to tax credits against privilege taxes imposed upon banks; amending K.S.A. 1988 Supp. 79-1126 and repealing the existing section.

Senator Lee said she had written testimony (ATTACHMENT 2) The bill is permissive and will allow a bank which extends or renews agricultural production loans to write down the interest rate on an eligible agricultural loan by at least 1% but not more than 3% of the unpaid principal balance of the loan.

After committee discussion Madam Chairperson recognized Bill R. Fuller, Assistant Director, Public Affairs Division, Kansas Farm Bureau as a proponent of SB138.

Bill R. Fuller said The Kansas Farm Bureau recognizes that many things have improved in "farm country" but not all of agriculture has fully recovered, and the drought of last year slowed the recovery, and urges the committee to approve SB138. (ATTACHMENT 3)

Madam Chairperson recognized Charles Stones, Kansas Bankers Association, a proponent of the bill.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Monday, February 20, 1989.

Charles Stones said most of his testimony has already been said before him, and he would just add the The Kansas Bankers Association is in favor of SB138. (ATTACHMENT 4)

Madam Chairperson called upon Ron Wilson, executive director of the Wichita District Farm Credit Council, a proponent of the bill.

Ron Wilson presented written testimony, and made one request of the committee. In 1986 when the original legislation was extended, the PCA's were included. In 1987 and again in 1988 the sunset date was extended, and it was extended only for banks. Mr. Wilson requested that the legislation be amended to include the PCAs along with banks and perhaps credit associations. (ATTACHMENT 5) Senator Francisco asked Ron Wilson if he had any problem with putting "not to exceed a 1 year term" into the bill? Mr. Wilson said he would have no problem with that.

Madam Chairperson closed the hearing on SB138 and turned attention to SB42.

SB42:AN ACT relating to property taxation; concerning the exemption of merchants' inventory, amending K.S.A. 1988 Supp. 79-201m and repealing the existing section.

Senator Fred Kerr said he felt this is something that the committee should be deciding fairly soon. He felt there is some concern as to what is going to be eligible for "inventory exemption" depending on whether or not there is an "intervening use". There are several options, (1) go back to the language that we had prior to the passage of SB453 last year, and that would be the language that was in effect all those years where there was a 40% write-down for inventory property. The (2nd) option would be to repeal the whole statute and let the courts decide.

After committee discussion.

Senator Fred Kerr asked Don Hayward if he would provide the committee with the previous language of SB42, and if the department wants to provide any reaction, the committee would like to see it, and any further explanation or testimony.

Senator Petty asked if it would be possible to have a committee hearing on SB283, prior to the deadline.

Madam Chairperson said she would look at the bill, and see if we could work it in.

Senator Fred Kerr requested a bill introduction. It is a local option income tax bill for financing schools. The bill is the 1986 House version which was amended in the House, which passed that year, but not the Senate.

Senator Fred Kerr made a conceptual motion to introduce the amended version of HB2836 of 1986, seconded by Senator Montgomery. The motion carried.

Senator Lee moved to approve the minutes of February 14, 15 and 16th, seconded by Senator Petty. The motion to approve carried.

Madam Chairperson adjourned the meeting at 12:09 p.m.



To: Jim Francisco - 136 North

2/20/89

PTT

9 RS 1

From Elizabeth Baker

AN ACT relating to property taxation; providing property tax relief to certain owners of commercial real estate; prescribing authorities and duties for the department of revenue relating thereto.

Be it enacted by the Legislature of the State of Kansas:

Section 1. (a) The owner of commercial real property located in this state whose property taxes levied in 1989 upon all of such owner's commercial real property exceed by at least 100% the property taxes levied upon the same commercial real property in 1988, may apply to the division of taxation of the department of revenue for a refund of property taxes levied upon such property. For calendar year 1989, the amount of such refund shall be equal to the amount determined by deducting the amount computed in accordance with the following schedule from excess tax:

| 1989 Total Assessed Value of All Commercial Real Property | Deduction From Excess Tax                |
|---|--|
| Not over \$10,000 .....                                   | 0  |
| Over \$10,000 but not over \$20,000 .....                 | 2% of excess over \$10,000               |
| Over \$20,000 but not over \$30,000 .....                 | \$200 plus 3% of excess over \$20,000    |
| Over \$30,000 but not over \$40,000 .....                 | \$500 plus 5% of excess over \$30,000    |
| Over \$40,000 but not over \$60,000 .....                 | \$1,000 plus 7% of excess over \$40,000  |
| Over \$60,000 but not over \$80,000 .....                 | \$2,400 plus 9% of excess over \$60,000  |
| Over \$80,000 .....                                       | \$4,200 plus 11% of excess over \$80,000 |

As used in this section, "excess tax" means the lesser of the amount by which the 1989 property tax levied exceeds the 1988 property tax levied upon the same commercial real property, or \$5,000.

(b) For calendar year 1989, the amount of such refund shall be equal to 50% of the amount of the refund allowed pursuant to subsection (a).

Sec. 2. (a) In administering this act, the division of taxation shall make available suitable forms with instructions for applicants for refund. Copies of such forms shall also be made available to all county clerks and county treasurers in sufficient numbers to supply applicants for refund residing in their respective counties. It shall be the duty of the county clerk to assist any applicant seeking assistance in the filing of a claim under the provisions of this act. The county treasurer of each county shall mail to each taxpayer owning commercial real estate with the property tax statement of such taxpayer information on eligibility for property tax relief under the provisions of this act to be provided by the secretary of revenue.

(b) The secretary of revenue is hereby authorized to adopt such rules and regulations as may be necessary for the administration of the provisions of this act.

Sec. 3. Subject to the limitations provided in this act, an applicant may claim property tax refunds under the provisions of this act with respect to commercial property taxes levied in the year 1989, and after audit by the division of taxation, the allowable amount of such claim shall be paid to the applicant from funds appropriated for such purposes upon warrants of the director of accounts and reports pursuant to vouchers approved by the director of taxation or by any person designated by the director. No warrant issued hereunder shall be drawn in an amount of less than \$5. No interest shall be allowed on any payment made to an applicant pursuant to this act.

Sec. 4. No claim for refund of property taxes levied in 1989 shall be paid or allowed unless such claim is actually filed with and in the possession of the department of revenue on or before October 15 of the year next succeeding the year for which the refund is allowed.

Sec. 5. The amount of any refund otherwise payable under this act may be applied by the division of taxation against any liability outstanding on the books of the department against the applicant.

Sec. 6. Every applicant under this act shall supply to the division, in support of the refund claim, a copy of the statement of property taxes levied upon such commercial real property in 1988 and 1989, and a statement that such applicant was the owner of such commercial real property in both 1988 and 1989.

Sec. 7. (a) Only the owner of record of commercial real property is eligible to file a refund claim under this act. In the case of multiple owners of a single parcel of commercial real property only one claim for refund may be made for each parcel of commercial real property.

(b) Each claim for refund must be accompanied by a sworn affidavit that improvements on the commercial real property for which refund is claimed have not been added or altered between January 1, 1988 and January 1, 1989.

Sec. 8. If the commercial real property for which a refund is being claimed is subject to more than one constitutional assessment rate, total market value and total taxes levied for all uses in 1989 will be used to determine eligibility and refund under section 1.

Sec. 9. Whenever on the audit of any claim filed under this act the division determines the amount thereof to have been incorrectly determined, the division shall redetermine such claim and notify the applicant of such redetermination and the reasons therefor. Such redetermination shall be final unless appealed to the board of tax appeals within 30 days of notice thereof.

Sec. 10. In any case in which it is determined that a

refund claim is or was excessive and was filed with fraudulent intent, the claim shall be disallowed in full, and, if the claim has been paid, the amount paid may be recovered by assessment as income taxes are assessed, and such assessment shall bear interest from the date of payment of the claim, until recovered, at the rate of 1% per month. The applicant in such case, and any person who assisted in the preparation or filing of such excessive claim, or supplied information upon which such excessive claim was prepared, with fraudulent intent, shall be guilty of a class B misdemeanor. In any case in which it is determined that a claim for refund is or was excessive and was negligently prepared, 10% of the corrected claim shall be disallowed, and if the claim has been paid, the proper portion of any amount paid shall be similarly recovered by assessment as income taxes are assessed and such assessment shall bear interest at the rate of 1% per month from the date of payment until recovered.

Sec. 11. Any person aggrieved by the denial in whole or in part of relief claimed under this act, except when the denial is based upon late filing of claim for relief, may appeal such denial to the board of tax appeals by filing a petition with the board within 30 days after such denial.

Sec. 12. A claim for refund shall be disallowed if the division finds that the applicant received title to the commercial property primarily for the purpose of receiving benefits under this act.

Sec. 13. The director of taxation may extend the time for filing any claim for refund under the provisions of this act when good cause exists therefor.

Sec. 14. This act shall take effect and be in force from and after its publication in the statute book.





To: Senate Committee on Assessment and Taxation

By: Senator Janis Lee

RE: Senate Bill No. 138

Mr. Chairman, fellow Senators, Senate Bill No. 138 was originally passed in 1986, renewed in 1987 and again in 1988. The bill is permissive and will allow a bank which extends or renews agricultural production loans to write down the interest rate on an eligible agricultural loan by at least 1% but not more than 3% of the unpaid principal balance of the loan. The definition given for an 'eligible agricultural loan' means one that has been classified by any banking regulator as substandard or doubtful or classified as a problem or vulnerable. In return for writing down the interest rate on the loan the bank would be given a credit against their privilege tax liability. The total credit against liability would be equal to the amount by which the loan had been reduced, except the credit allowed for any taxable year shall not exceed 1/5 of the total tax credit of the bank. Unused tax credits shall be carried forward.

In the past, this interest rate write down has been used by individual banks to target specific problem loans. The fiscal note for 1989 is estimated by the Department of Revenue to be less than \$200,000. This estimate is based upon actual usage during 1988.

Mr. Chairman, Senator Karr will be happy to answer any questions you may have on this bill.



# PUBLIC POLICY STATEMENT

SENATE ASSESSMENT AND TAX COMMITTEE

**RE: S.B. 138 -- Bank privilege tax credit for interest rate reduction on production loans**

February 20, 1989  
Topeka, Kansas

Presented by:  
Bill R. Fuller, Assistant Director  
Public Affairs Division  
Kansas Farm Bureau

Chairman Thiessen and Members of the Committee:

My name is Bill Fuller. I am the Assistant Director of the Public Affairs Division for Kansas Farm Bureau. We are speaking on behalf of the farmers and ranchers who are members of the 105 County Farm Bureaus in Kansas.

Farm Bureau worked hard in the development and passage of the original program to provide reduced interest rates on troubled outstanding agricultural production loans. During that period of severe financial stress in agriculture, qualified borrowers who could reasonably be expected to service the principal and interest of the loan were provided this assistance in an effort to slow the flow of those being forced off farms.

**We are proponents of S.B. 138** which extends the program one year to 1990. We recognize that many things have improved in "farm country." However, not all of agriculture has fully recovered. In fact, the drought in many parts of the state last year slowed that recovery. In addition, the moisture outlook for agricultural production appears very serious at this time.

We respectfully encourage this Committee to approve S.B. 138. We will attempt to respond to any questions. Thank you!



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

February 20, 1989

TO: Senate Committee on Assessment and Taxation  
FROM: Charles Stones, Kansas Bankers Association  
RE: SB 138 - Interest Rate Reduction on Agricultural Loans

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to discuss the provisions of SB 138 with the Committee. The bill would extend for one more year the law which allows Kansas banks to receive a privilege tax credit for the amount of interest income lost when reducing the interest rate on certain classified agricultural loans. This law was first enacted by the 1986 Legislature and has been extended for one year in each subsequent session.

A survey conducted by the KBA during the summer following the enactment of the program indicated that over 60 banks planned to immediately use the provisions of the law to assist ag customers and another 55 banks stated they might use the program at some future date. The KBA has just completed an extensive analysis of the 1987 and 1988 privilege tax returns of over 430 Kansas banks (73% of all banks). 1988 was, of course, the first year in which banks could claim 20% of the credit allowed under the law. 61 of the banks whose returns were analyzed claimed credits totaling \$157,854. Thus it would appear that the annual fiscal note for the program will run something less than \$250,000 of revenues lost to the State General Fund.

It would appear that the state program was used in conjunction with FmHA interest rate buy-down and guaranty programs throughout the state. It may well have resulted in keeping a significant number of farmers in business who otherwise would not have been able to service a growing debt load. If this is the case then the relatively small number of participating banks should not be overly emphasized. The intent of the law from the outset was to assist farmers in maintaining their operations and that obviously happened in many instances.

Thus we see no reason why the program should not be continued. While the agricultural environment has improved significantly over the past two years there always looms the possibility of a downturn in the ag economy due to drought or other factors. To have such a program in place and ready to work is good insurance for the ag economy of this state. Therefore, we would urge the committee to recommend SB 138 favorably.

Attachment 4  
Senate Assessment & Tax  
2-20-89

ATT 5  
2-89

WICHITA DISTRICT FARM CREDIT COUNCIL

February 20, 1989

Mr. Chairman and Members of the Committee,

I am Ron Wilson, executive director of the Wichita District Farm Credit Council. The Council represents the farmer-owned associations and banks of the Farm Credit System in four states. Our headquarters is in Wichita, Kansas.

We support Senate Bill 138, which would extend the interest buy-down program for farmers and ranchers to July 1, 1990, with an amendment to include the same eligible lenders as when the program was first enacted.

As background, please understand that "Production Credit Associations", or PCAs, are farmer-owned, federally-regulated organizations which provide short- and intermediate-term loans to farmers and ranchers for agricultural production purposes. They make loans which are comparable to those offered by rural banks, for example. PCAs provide approximately \$140 million in loans to farmers and ranchers in Kansas.

In 1986, when the interest buy-down was first enacted, both banks and PCAs were included as lenders which were eligible to participate. In following years, the program was extended for banks only. We regret the oversight. We would like PCAs to be included in the program on a comparable basis as is applied to the banks, just as they were in 1986.

A farmer who borrows from a PCA should have at least the same opportunity to qualify for this program as one who borrows from a bank. The amendment we seek would restore a "level playing field" as originally intended. Recent history suggests that any cost to the state from PCA participation would be minimal.

We commend you in the Legislature for your concern for agriculture. We would appreciate the opportunity to again participate in this program. Thank you for today's opportunity to comment.

Attachment 5  
Senate Assessment & Tax  
2-20-89