

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

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

10:00 a.m./~~pm~~ on Tuesday, April 30, 1991 in room 519-g of the Capitol.

All members were present except:

Committee staff present:

Don Hayward, Assistant Revisor
Bill Edds, Assistant Revisor
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:

Mark Burghart, General Counsel, Department of Revenue
Senator Norma Daniels
Senator Richard Rock

Chairman Dan Thiessen called the meeting to order at 10:18 a.m. and he turned attention to HB2122 and he said the contents of the bill have been worked in another bill, which deals with taxation and makes it a vehicle that can be used, amended and used in another way. The Chairman recognized Senator Fred Kerr.

HB2122: AN ACT relating to income taxation; concerning extensions of time for the performance of acts by certain persons; amending K.S.A. 79-3221 and repealing the existing section.

Senator Fred Kerr said everyone really knows that we are trying in some way to resolve the final issues of this session. He said, one is the tax issue, which was discussed almost every day in some form before this wrap-up session started. He said the President has said there really appears to be a need before this session winds down, for the Senate to address the issue, and he said he felt the most straight forward way, and to take the least amount of time on the Senate Floor would be to use HB2122 and strike the provisions that are in the bill now, because they are not needed. He proposed taking HB2031 as amended by the full senate and put that into HB2122 and send the bill to the floor. He said it is a starting point, after the way the bill ended up after the hours on the Senate Floor, we could just start from there. He said, it would be the tax committees part of this process and he said there is a certain amount of concernation in the Ways and Means Committee about their part of the process as well, of which we are asking them to identify in some general way the cuts that we will be voting on, maybe tomorrow on the Senate Floor. He asked if staff could explain what was in HB2031.

Senator Jack Steineger said, we did make an alternate suggestion to send HB2031 to the floor just as it came from the House, because we are going to have to deal with the House in the final analysis, so why is it not better to send it to the floor of the Senate just as it came from the House, he said he would suggest this would be a much more expedient way.

Chairman Dan Thiessen said we need to review where we were, and then the way it came from the House, and then the committee can make that decision, and he asked staff to explain.

Chris Courtwright said as it came over from the House the bill had a ballpark number of \$120.M of revenue in it, about \$100.M was individual income tax and \$15.M for corporation income tax and about \$4.M from National Institute Privilege Tax. He said when the bill was in this committee the corporation income tax was changed to leave the revenue neutral in current law, but there would still be some changes in the base rate in the surtax, minor changes which do not effect revenues very much, he said, the National Institution Privilege Tax provisions were striken from the bill, and a new set of income tax provisions were put in leaving that at about \$100.M, and he said, the $\frac{1}{2}\%$ sales tax was put in. He said, when the bill left this committee the last time it had about \$150.M to \$151.M, with about \$100.M to individual income tax, and

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\$50.M to \$51.M from the $\frac{1}{4}\%$ sales tax, and when the bill got to the floor, the amendments that got on the bill, were Senator Frahm's amendment the individual income features, which would have raised about \$80.2M, and $\frac{1}{4}\%$ sales tax is still in it, which is another \$51.2M, and provisions from SB10 were put in for dividends, with a positive fiscal note of about \$2.M, and those add up to \$135.6M and he said, Senator Karr amended the food and sales tax rebate program which is estimated at a decrease of receipts at about \$1.5M, which is about \$134.1M left in the bill, and Senator Oleen's, amendment relating to the hold harmless on the public pensions is \$92.150 threshold from the bill. He said the \$134.1M holds Senator Oleen's amendment also.

Senator Karr said there were a couple of other linkages tied to the education expenditures, and he asked if that could be clarified? Chris Courtwright as the bill came out of the House Committee, it was going to earmark almost all of the revenues for education, and he said, when it left the Senate Committee when it had \$150.M, none of the money was earmarked, and with the amendments that were put on, on the Senate Floor, about \$134.M left. He said he thought with the amendments that Senator Frahm offered about \$70.M taken into account, both the SDEA and the rebate would have ultimately have gone back to education, and about \$65.M would have been left for the general fund.

After committee discussion regarding budget and school finance.

Senator Fred Kerr made a motion to amend Substitute HB2122, to include the technical provisions as explained by Staff, to be put the provision of HB2031 as the Senate finished debate on in the floor, 2nd by Senator Oleen.

Senator Jack Steineger made a substitute motion to report HB2031 as it originated in the House, plus the Foreign Source Dividends and Military Retirement. The motion failed for lack of 2nd.

Senator Jack Steineger withdrew his substitute motion.

Senator Steineger made a substitute motion to report HB2031 as it came from the House. The motion failed for lack of 2nd.

Senator Jack Steineger moved a substitute motion to report HB2031 favorably as it came from the House, plus The Foreign Source Dividend amendment. The motion failed for lack of 2nd.

Chairman Thiessen said we are back to the original motion, and asked for discussion.

Senator Montgomery said there was concern the other day about Senator Oleen's taxing amendment, which did not include regents and colleges, and he asked if the one's she was taxing, were Federal? Senator Oleen said she was not familiar with that particular part, the T.I.A.A.. She said, her amendment in a bill we have had for a couple of years addresses the issue of Federal retirees, she said not only did it bring in Federal retirees and State retirees, but she said, we also have Federal retirees who are paying taxes, and there is also a question with regards to KPERS employees, of being taxed twice, once contributing and once with the threshold, and she said, that is not the case, because the bill has been fashioned so that taxation occurs only once. She said, she did not know about the retirement system for the Board of Regents, but she knows people who work at the Regents Office are under the KPERS plan.

Senator Karr asked if staff would clarify that, as he understands it KPERS come under taxation.

Tom Severn said there was a revenue ruling, an opinion letter a couple of years ago that he believes still stands, but thought maybe Mark Burghart, General Counsel, Department of Revenue should address this.

Mark Burghart said they are exempt from the State.

After committee discussion regarding military retirement, KPERS and T.I.A.A. it was suggested to have additional hearings on that provision of the bill, as some members were not sure who would be impacted, and if some people are taxed twice and some once. The question was asked if this part should be deleted?

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Senator Fred Kerr said he thought we should adopt the bill and then if there are further amendments, we could work them.

Mark Burghart said the provision basically effects the large multi-national manufacturing corporations that operate through foreign subsidiaries. He said, foreign dividends is simply a payment that is received by the domestic parent corporation from these foreign subsidiaries that they own. He said, gross-up is a little more complicated, it is part of the Federal tax computation that comes into play when a Company is seeking to take a tax credit for the taxes that they pay on foreign source income, Federally. It is part of the Federal tax computation and basically the gross-up is just the taxes that are paid on foreign source dividend income, and then goes back into the tax base so you don't get a deduction and a tax credit for the same item. KS picks it up because we conform to the federal tax. He said, this is a very limited number of corporations that would be effected. He said, KS has 13,000 corporations that pay taxes in KS and this is probably limited to 100. (NO WRITTEN TESTIMONY)

Chairman Thiessen asked Mark Burghart what other states do on this? Mark Burghart said there are about 18 states that tax foreign dividends, and probably an equal number that get some sort of deduction one way or another, some of it is excluded in dividends. He said, gross-up is a little more in favor of exclusion of that from the tax base.

Chairman Thiessen said we are back to the original motion by Senator Fred Kerr on Substitute HB2031 for HB2122, and The Chairman called for a vote on the motion. The motion carried.

Senator Phil Martin amended HB2122 to bring back the provisions in the original HB2031 which exempts the military retirement instead of the threshold, 2nd by Senator Gerald Karr. After committee discussion The motion carried.

Senator Norma Daniels said for a long time she has been bothered that single taxpayers pay at a higher rate of income tax than married taxpayers do, and she said recently she was told that KS is the only state in the union that declares income tax rate according to martial status. She said, historically that it was done that way on purpose because KS didn't want to promote the family, she said she thought, in today's society you see quite a different senario than you did 40 years ago.

She said, her proposal would put both the single and married taxpayer on the same level playing field, because there are many households today headed by single taxpayers and they also have many single people caring for elderly parents. She explained her proposal by a simulation (0092) run, (ATTACHMENT 1) and asked the committee members favorable consideration.

Senator Karr said this proposal has been a concern for several years, and that is the differential between single and married. He said simulation (0092) does raise approximately the same amount of monies, which was raised in the proposal in this committee a couple of weeks ago. He said he thinks, it is a valid proposal that would put the revenues totals similar to what we have in the other bill, and he said he was not sure how the committee would want to handle it, and he said Senator Rock has a proposal he would like the committee to consider and he suggested considering both Senator Rock's and Senator Daniel's proposals to allow the committee time to adopt or reject.

Senator Richard Rock said he would introduce his proposal as a Substitute Bill. He said he is trying to seek a moderate approach, to have about 1/3rd in income tax, 1/3rd in sales tax, and 1/3 services. He said, he has sought to limit both the number and the catagory of kind of services to those which it is easy to collect and account for, and avoid some of the problems that have been involved in trying to tax services. He said, the proposal raises in the beginning for the fiscal year, about \$163.M, and of that \$58.7M for income taxes, \$55.2M for sales taxes and \$49.18M are referred to as service taxes. (ATTACHMENT 2)

After committee discussion Chairman Thiessen asked for the committees pleasure on the above proposals.

Senator Lana Oleen moved to amend the bill that was adopted by the Senate Substitute HB2031, to include other Federal Retirees, 2nd by Senator Phil Martin. The motion carried.

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Senator Phil Martin moved a substitute motion on Substitute Bill HB2031 to include appraisers in sales tax services. 2nd by Senator Lana Oleen.

Senator Janis Lee moved a conceptual Substitute motion to take Simulation 0092, Senator Daniel's proposal and put in Federal Conformity to \$80.M and Senator Rock's proposal by putting in the single and married tax rates, 2nd by Senator Marge Petty.

Chairman Thiessen asked Tom Severn to comment on the concepts of the Substitute motions.

Tom Severn said there should be an understanding as to what the issue's are in this matter, and he said we need to go back to 1988 to what the issue was, when we formed income tax. He said, we had tables such as these and the rates that were adopted were such that we managed to keep the burden of the tax, across adjusted gross income tax levels, approximately what it was before, and then we reduced it some in 1988. He said in 1989 again the issue was, could we arrive at new brackets to conform to the current Federal Law that kept the adjusted gross income taxes roughly equal, to where they were with and without the changes. He said, while it has been true since the conception of the income tax, that we had rates and brackets that were the same for singles and joint taxpayers, the fact is the income splitting feature of the old law, did give an advantage to married couples over single people with the same incomes, even ignoring the personal exemption and the differences if they used the standard deduction. He said, while it is true that we are the only State with different rates, there are many states with, either income splitting or different bracket widths within their law. He said, it is simply not true that there are many other states that apply exactly the same rate structure to married and single taxpayers.

He referred the committee to (Simulation-Run 0092) to look at the dollar change in liability between married and single taxpayers. He said, we do not have a run that goes back and compares and looks at exactly what the structure would have been in our old law and our new, as we have had (2) changes since then, but in each case we have tried to keep the burden approximately equal, in terms of percentage changes between married and single. He said under this proposal you have \$116.M increase on married and \$20.M decrease on single, and he thought it would not be the intent of the committee to cause a \$150.M.

After committee discussion on the above (2 motions) Senator Lee withdrew her conceptual substitute motion, and asked if this could be referred for interim study. Senator Petty withdrew her 2nd.

Chairman Dan Thiessen, said we are back to the Rock Plan substitute motion by Senator Martin, and he asked for the committees pleasure on the motion. The substitute motion by Senator Martin, 2nd by Senator Oleen failed.

Senator Jack Steineger moved to amend HB2122 to re-establish the income tax structure, as it came to us from the House, 2nd by Senator Karr. The motion failed.

Senator Jack Steineger moved to strike the sales tax out of HB2122. The motion failed for lack of a 2nd.

Senator Phil Martin moved to stop transfers on sales tax in HB2122, 2nd by Senator Fred Kerr. The motion carried.

Senator Martin moved to favorably pass HB2122 as amended, 2nd by Senator Oleen. Senator Martin withdrew his motion so a committee member could move to amend.

Senator Lee moved to amend HB2122 to freeze transfers from the additional income tax increase, 2nd by Senator Frahm. The motion failed.

Senator Phil Martin moved to favorably pass HB2122 as amended, 2nd by Senator Oleen. The motion carried. The following Senator's asked to be recorded as voting no, Langworthy, Steineger, Montgomery, Frahm and Thiessen.

Chairman Thiessen adjourned the meeting at 12:18 p.m..

Changes:

New tax brackets are listed on the left side of this report

	With Federal Deductibility			No Federal Deductibility		
	Proposed Tax Rates					
Married:	\$0 - \$10	4.75%	\$0 - \$30	4.10%		
	\$10 - \$25	5.30%	\$30 - \$50	5.60%		
	\$25 - \$45	9.50%	\$50 - \$100	6.10%		
	\$45 - Over	12.00%	\$100 - Over	6.50%		
Single:	\$0 - \$10	4.75%	\$0 - \$30	4.10%		
	\$10 - \$25	5.30%	\$30 - \$50	5.60%		
	\$25 - \$45	9.50%	\$50 - \$100	6.10%		
	\$45 - Over	12.00%	\$100 - Over	6.50%		

Kansas Department Of Revenue
Individual Income Tax In Tax Year 1991
Resident Taxpayers
Liability Dollars are in Millions
SIMULATION 0092

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.	5,835	0.0%	\$0.0	\$0.00	0.0%	4,728	0.0%	\$0.0	\$0.00	0.0%	10,563	0.0%	\$0.0	\$0.00	0.0%
\$0 - \$5	12,374	0.0%	\$0.0	\$0.00	0.0%	113,179	-8.7%	(\$0.1)	(\$0.82)	0.3%	125,553	-8.7%	(\$0.1)	(\$0.74)	0.3%
\$5 - \$15	59,155	10.7%	\$0.2	\$4.22	0.4%	169,517	-8.8%	(\$2.6)	(\$15.27)	1.6%	228,672	-7.3%	(\$2.3)	(\$10.23)	1.3%
\$15 - \$25	83,099	12.0%	\$3.1	\$37.21	1.6%	96,881	-9.6%	(\$5.1)	(\$53.08)	2.5%	179,980	-2.6%	(\$2.0)	(\$11.39)	2.1%
\$25 - \$35	79,577	12.9%	\$6.6	\$82.42	2.3%	52,213	-10.4%	(\$5.1)	(\$97.55)	2.7%	131,791	1.5%	\$1.5	\$11.12	2.5%
\$35 - \$50	113,380	15.3%	\$17.6	\$154.80	2.6%	29,779	-11.7%	(\$5.1)	(\$170.77)	3.0%	143,159	7.9%	\$12.5	\$87.07	2.7%
\$50 - \$100	131,187	17.5%	\$44.1	\$335.85	3.3%	14,185	-8.4%	(\$3.0)	(\$210.89)	3.5%	145,372	14.3%	\$41.1	\$282.50	3.3%
\$100 - Over	22,334	26.1%	\$44.7	\$2,002.45	4.5%	2,213	3.6%	\$0.7	\$332.44	4.5%	24,547	23.7%	\$45.5	\$1,851.87	4.5%
Total	506,942	18.9%	\$116.2	\$229.28	3.1%	482,696	-8.7%	(\$20.3)	(\$41.97)	2.6%	989,638	11.3%	\$96.0	\$96.98	2.9%

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

Fiscal Impact:		No Federal Deductibility	Federal Deductibility
All Taxpayers:	\$103.9	\$0 - \$5 99.9%	0.1%
Residents Only:	\$96.0	\$5 - \$15 93.3%	6.7%
		\$15 - \$25 80.6%	19.4%
Married Residents:	\$116.2	\$25 - \$35 78.4%	21.6%
Single Residents:	(\$20.3)	\$35 - \$50 90.6%	9.4%
		\$50 - \$100 99.7%	0.3%
Non-Residents:	\$7.9	\$100 - Over 99.7%	0.3%
		Total 90.5%	9.5%

Current Law Tax Rates

	With Federal Deductibility			No Federal Deductibility		
Married:	\$0 - \$20	4.75%		\$0 - \$35	3.65%	
	\$20 - \$35	5.00%		\$35 - Over	5.15%	
	\$35 - \$45	8.50%				
	\$45 - Over	8.75%				
Single:	\$0 - \$2	4.75%		\$0 - \$27.5	4.50%	
	\$2 - \$10	5.60%		\$27.5 - Over	5.95%	
	\$10 - \$20	5.75%				
	\$20 - \$30	8.50%				
	\$30 - Over	8.75%				

ATT: 1
10/23/91

ELEMENTS OF SENATE BILL

INCOME TAX

<u>RATES</u>				<u>FY 92 IMPACT</u>	<u>ANNUALIZED IMPACT</u>
CURRENT (MARRIED)		PROPOSED (MARRIED)			
\$0-20:	3.65%	\$0-35:	3.65%	\$58.7 m	\$58.7 m
\$35-Over:	5.15%	\$30-60:	5.15%		
		\$60-Over:	6.25%		
CURRENT (SINGLE)		PROPOSED (SINGLE)			
\$0-27.5:	4.50%	\$0-25:	4.50%		
\$27.5-Over:	5.95%	\$25-50:	5.95%		
		\$50-Over:	6.95%		

SALES TAX

CURRENT:	4.25%	PROPOSED:	4.50%	\$51.1 m	\$55.2 m
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SALES TAX ON SERVICES

SERVICES TAXED AT 4.50%

Pub Warehousing	\$2.668 m	\$4.269 m
Arrangement of Pub Transportation	2.007	3.211
Laundries	.249	.398
Beauty Shops	6.375	10.200
Barber Shops	.291	.465
Funeral Services	1.186	1.898
Credit Reporting	2.957	4.371
Mailing, Reproduction, Stenographic	3.331	5.329
Misc. Equip. Rental & Leasing	.335	.568
Personnel Supply Service	9.570	15.312
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subtotal-services	\$30.744	\$49.185
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TOTAL IMPACT--ALL COMPONENTS	\$140.544 m	\$163.085 m

NOTE: CITY-COUNTY REVENUE SHARING FUND (CCRF), STATE HIGHWAY FUND (SHF), LOCAL AD VELORUM TAX REDUCTION FUND (LAVTRF), AND INCOME TAX REBATE FUND WOULD ALL BE CAPPED UNDER THIS PROPOSAL SO THAT THE NEW REVENUE WOULD GO INTO THE STATE GENERAL FUND.

4-30-91
ATT. 2