

Approved May 7, 1992

Minutes of the House Committee on Taxation. The meeting was called to order by Joan Wagnon, Chairperson, at 9:10 a.m. on Monday, March 23, 1992 in room 519-S of the Capitol.

All members were present except:

Rep. Rex Crowell, excused.

Committee staff present:

Chris Courtwright, Legislative Research; Bill Edds and Don Hayward, Revisors; Linda Frey, Committee Secretary; Douglas E. Johnston, Committee Assistant.

Conferees appearing before the committee:

The Chair opened the public hearing on HB 3037.

Betsy Gwin, First District Chair of the Sedgwick County Board of Commissioners, testified in favor of HB 3037 (Attachment 1).

In response to a question from Rep. Gene Shore, Gwin said all types of personal property were not reported properly.

Rep. Aldie Ensminger noted the bill does not mandate qualifications for tax preparers.

The public hearing on HB 3037 was closed.

The Chair opened the public hearing on HB 3181.

Ron Hein, representing MESA, Inc., a natural gas company, testified in favor of HB 3181.

In response to a question from Rep. Joan Adam, Hein said a tax decrease could promote production. Cutting the severance tax could result in increases in production that will make up some of the tax lost by the cut.

In response to a question from Rep. Bob Krehbiel, Jack Glaves of the Panhandle Eastern Corporation explained the process by which retail market prices for natural gas are determined. Volatility in the market disadvantages individual ratepayers, he said.

The public hearing on HB 3181 was closed.

Rep. Krehbiel made a motion to increase the severance tax to seven percent on gas and oil properties in lieu of any ad valorem tax on those properties. Rep. Jess Harder seconded the motion.

Rep. Krehbiel said the U.S. is the only county in world that allows

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, Statehouse, at 9:10 a.m. on Monday, March 23, 1992.

private ownership of mineral wealth. Property tax revenues are levied at the local level and are used at that level. Severance tax revenues go to the state, he said. The difference between Kansas and Oklahoma is dramatic. The economic environment for oil and gas production in Oklahoma provides many more incentives. Generally the severance tax and exemptions are used to keep property taxes down. The economic environment in Kansas causes premature plugging of wells and that means lost oil reserves and unnecessary damage to the ecosystem. Rep. Krehbiel said the goal of his motion is to put Kansas on parity with Oklahoma.

Rep. Gene Shore spoke against Rep. Krehbiel's motion. He said property in local districts should be taxable by those districts. To suggest otherwise is like taking Boeing property away from Sedgwick County, he said.

In response to a question from Rep. Keith Roe, Rep. Krehbiel said his motion would not statutorily exempt all oil and gas production from property taxes. It would only exempt low production wells as defined in the bill. He noted ad valorem taxes would still be levied on equipment used in production.

Rep. Shore made a substitute motion to report HB 3181 favorable for passage. Rep. Roe seconded the motion.

Rep. Krehbiel said it is necessary to reduce the tax burden on the oil and gas industry in Kansas.

In response to a question from Rep. Adam, Chris Courtwright, Legislative Research Analyst, said the fiscal note for the bill could decrease to perhaps \$19 million.

Rep. Jo Ann Pottorff said she supported the goal of Rep. Krehbiel's motion, but not at this time.

Rep. Bruce Larkin spoke in support of reporting the bill favorable for action.

Rep. Adam cautioned the committee to wait before reporting the bill until it can be determined how to make up the \$19 million loss in revenue.

Rep. Adam made a motion to table HB 3181, seconded by Rep. Gwen Welshimer. The motion carried with 11 for and 9 against.

The meeting adjourned at 10:18 a.m. The next meeting will be on March 24 at 9:00 a.m.



SEDGWICK COUNTY, KANSAS

Board of County Commissioners

**525 N. Main, Suite 320
Wichita, Kansas 67203
(316) 383-7575
FAX (316) 383-7055**

**Betsy Gwin, 1st District
Chair**

***Testimony Supporting
House Bill 3037***

*House Taxation
Attachment 1
03-23-92*



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Board of County Commissioners

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**Betsy Gwin, 1st District
Chair**

STATEMENT OF SEDGWICK COUNTY COMMISSION CHAIR BETSY GWIN

Good morning. I am Betsy Gwin, chair of the Sedgwick County Commission. Today, I am here to tell you of Sedgwick County's support for House Bill 3037, a measure that the Sedgwick County Commission believes will bring about accountability and fairness in the reporting of business personal property taxes.

I'd like to begin this morning by giving you a brief outline of how Sedgwick County discovered the need for this legislation.

A little over a year ago, a task force was formed in Sedgwick County to review business personal property tax filings. The County Appraiser and County Counselor, along with the County's independent outside auditor, began an extensive review of business personal property tax renditions.

- more -

The Task Force was formed after workers in our Appraiser's Office noticed inconsistencies in the filings of similar business concerns and noted that some large business concerns were reporting less personal property than much smaller businesses. As they reviewed more tax filings, the Appraiser's Office found similar inconsistencies. Clearly, something was amiss. The initial findings justified further investigation.

The County Tax Task Force is in the final stages of completing an inspection of tax records of the first companies selected for review. The task force has discovered an estimated \$2.2 million in delinquent business personal property taxes owed by the companies that have been reviewed. I would like to point out here that four of the companies reviewed were found to owe no additional taxes. The Task Force reviewed the businesses' own records, and in some cases, conducted on-site inspections. The Task Force has found instances of underreported personal property and cases of personal property not being reported at the original purchase price when new, as required by state law.

This probe was not launched as an effort to pick on businesses in Sedgwick County. Our concern was tax equity.

Once workers in the Appraiser's Office discovered that some taxpayers were not paying their fair share of taxes - a fact that automatically meant other taxpayers were paying more than their fair share - Sedgwick County had a legal and moral obligation to all taxpayers to determine the scope of this problem.

As all of us well know, a tax system can work only when each individual and business taxpayer pays his or her fair share of the load to maintain schools, roads and other vital government services.

As we told you earlier, the estimated amount of back taxes owed to date is about \$2.2 million. For the average taxpayer, that's a significant number. That's equal to nearly 1.25 mills countywide. Nearly \$41 for every child in the Wichita School System.

That's the background. Now let me tell you why we're here today. The County Tax Task Force has uncovered the need for legislative action to ensure accountability and compliance with laws governing the reporting of business personal property. House Bill 3037, we believe, addresses this problem. This bill requires outside tax representatives to register with the state and it calls for accountability.

I want to focus first on the tax representatives. Tax representatives prepare tax filing documents for businesses. The filings are supposed to fully list all taxable personal property owned by the business and include the original purchase price, when new, of the business personal property.

In far too many cases, the county's review has found underreporting of personal property in tax renditions. Property tax renditions filed by these businesses' tax representatives have listed less personal property than the taxpayers' own books and records. This has resulted in a loss of tax revenue and has put an unfair share of the property tax burden on individual and businesses that are properly reporting personal property holdings.

Sedgwick County is not alone. Many of the companies reviewed in this probe - companies that use tax representatives - have operations in other counties around the state. Other counties are beginning to deal with this issue.

Tax representatives are often granted power of attorney by their clients. This means that the business owners never see or sign what is filed by the tax representative.

House Bill 3037 will hold tax representatives accountable for their actions.

The bill:

- o Requires tax representatives to register with the Kansas Department of Revenue, where they'll receive a registration number.
- o Tax representatives would be required to sign a statement declaring that they will obey all appropriate statutes related to the reporting of business personal property.
- o The Secretary of Revenue will be given the authority to impose civil penalties of up to \$1,000 for each instance of repeated or flagrant violations of the appropriate statutes.
- o Civil penalties assessed by the Kansas Secretary of Revenue could be appealed to the Kansas Board of Tax Appeals.
- o And most important, this bill creates criminal penalties for knowingly filing false Tangible Personal Property Ad Valorem Tax Returns. Criminal violations of this act could be prosecuted as a Class D felony under Kansas statutes.

This bill also mandates changes in the Tangible Personal Property Ad Valorem Tax Return. This return is designed by the Kansas Department of Revenue Property Valuation Division.

If you will turn to the back pages of this testimony, you will find a copy of the current Tangible Personal Property Ad Valorem Tax Return. Notice the signature block. There is no accountability. This form can be signed by the business or its tax representative.

House Bill 3037 would make businesses and their tax representatives sign the Tangible Personal Property Ad Valorem Tax Return and attest to its truthfulness under penalty of perjury. Please take a look at the suggested language attached to this testimony. This change would make the Tangible Personal Property Ad Valorem Tax Return conform with all other tax returns at the state and federal level.

House Bill 3037 is simple tax fairness. As I said when the county first asked for this legislation, everyone should pay a fair share of taxes. No more. No less.

Sedgwick County asks that you act quickly to repair this problem with accountability in our reporting of business personal property holdings. No one likes taxes. But I would venture to say that people have an even stronger dislike for tax inequities. Thank you for your time this morning.

Current Personal Property Tax Return

1992 TAX YEAR, SEDGWICK COUNTY, KANSAS

TANGIBLE PERSONAL PROPERTY
AD VALOREM TAX RETURN

ACTION	DATE	INITIAL
Master Ck-In		
TRL-BED-BOD-VEH		
Leasing		
Pricer		
Final Calcs		
Proofed		
CRT Entry		
Proofed		
CRT Entry		
NSU/Delete		

(Make Necessary Changes Above If Not Correct)

Is property located within the corporate limits of a city? 1. Yes 2. No

Is Your Company Incorporated? _____ yes or _____ no

AFFIRMATION: Please check one and sign below.

I DO HEREBY AFFIRM that this summary and the attached schedules contain a full and true list of all personal property owned or held by me subject to personal property taxation under the laws of the State of Kansas.

By: _____ Owner _____ Date _____

(A/C) Telephone Number _____



NO PROPERTY STATEMENT

STATE OF KANSAS, _____ COUNTY SS.
I do solemnly swear or affirm that I did not own or have under my control on the first day of January, A.D. 1992 any property of any kind specified in the list of items contained herein.

NO PROPERTY STATEMENT _____

By _____
Date _____

PHONE NO.: _____
Please provide information as to whom business was sold.

Date of Sale _____

NOTICE:

K.S.A. 79-303: Every person who owns or holds tangible personal property shall list said property for assessment. Property held, and taxable to others, shall be listed with the appraiser in the name of the owner thereof on Schedule 7.

K.S.A. 79-306: Filing Deadline: Individuals and Partnerships on or before March 1, Corporations on or before April 1.

K.S.A. 79-1422: Penalty for Late Filing: Within 15 days, 10%; Within 16 to 30 days, 20%; 31 to 45 days, 30%; 46 days to 60 days, 40%; more than 60 days, 50%.

SUMMARY FOR COUNTY USE

1992 TAX YEAR LOCATOR INFORMATION	SCHEDULE DESCRIPTION	APPRAISED VALUE (1)	ASSESSED VALUE (2)	PENALTY		TAXABLE VALUE
				%	(3)	
COUNTY CODE: _____ TAX UNIT: _____ LAND USE CODE: _____ CITY / TWP CODE: _____ PARCEL I.D. NO: _____	SCHEDULE 1 (Class 2A) MOBILE HOMES USED FOR RESIDENTIAL HOUSING					
	SCHEDULE 2 (Class 2B) MINERAL LEASEHOLD INTEREST 1 - Royalty 2 - Working Int. 3 - Item Equip. 4 - Sub-Total					
	SCHEDULE 3 (Class 2C) PUBLIC UTILITY PERSONAL PROPERTY (LOCALLY APPRAISED)					
	SCHEDULE 4 (Class 2D) MOTOR VEHICLES					
ABATEMENT Date: _____ By: _____ Control # _____ PV-PP-1 (Rev. 10/91)	SCHEDULE 5 (Class 2E) COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT VALUE CHANGE					
	SCHEDULE 6 (Class 2F) ALL OTHER PERSONAL PROPERTY VALUE CHANGE					
	GRAND TOTALS THIS RETURN (3)					
	VALUE CHANGE					

Proposed Personal Property Tax Return

1992 TAX YEAR, SEDGWICK COUNTY, KANSAS TANGIBLE PERSONAL PROPERTY AD VALOREM TAX RETURN

ACTION	DATE	INITIAL
Master Ck-In		
TRL-BED-BOD-VEH		
Leasing		
Pricer		
Final Calcs		
Proofed		
CRT Entry		
Proofed		
CRT Entry		
NSU/Delete		

(Make Necessary Changes Above If Not Correct)

Is property located within the corporate limits of a city? 1. Yes 2. No

Is Your Company Incorporated? _____ yes or _____ no

AFFIRMATION: Please check one and sign below.

Under penalties of perjury, I declare that this summary and attached schedules contain a full and true list of personal property owned or held by me, subject to personal property taxation under the laws of the State of Kansas. Under penalties of perjury, declaration of preparer (other than owner) is based on all information of which the preparer has any knowledge.

By: Owner/Officer _____ Date _____
By: Preparer _____ Registration Number _____ Date _____

NOTICE:
K.S.A. 79-303: Every person who owns or holds tangible personal property shall list said property for assessment. Property held, and taxable to others, shall be listed with the appraiser in the name of the owner thereof on Schedule 7.

K.S.A. 79-306: Filing Deadline: Individuals and Partnerships on or before March 1, Corporations on or before April 1.

K.S.A. 79-1422: Penalty for Late Filing: Within 15 days, 10%; Within 16 to 30 days, 20%; 31 to 45 days, 30%; 46 days to 60 days, 40%; more than 60 days, 50%.

(A/C) Telephone Number _____

NO PROPERTY STATEMENT

STATE OF KANSAS, _____ COUNTY, SS. I do solemnly swear or affirm that I did not own or have under my control on the first day of January, A.D. 1992 any property of any kind specified in the list of items contained herein.

NO PROPERTY STATEMENT _____

By _____ Date _____

PHONE NO. _____
Please provide information as to whom business was sold.

Date of Sale _____

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1992 TAX YEAR LOCATOR INFORMATION	SCHEDULE DESCRIPTION	APPRAISED VALUE (1)	ASSESSED VALUE (2)	PENALTY % (3)	TAXABLE VALUE
COUNTY CODE: _____ TAX UNIT: _____ LAND USE CODE: _____ CITY / TWP. CODE: _____ PARCEL I.D. NO: _____	SCHEDULE 1 (Class 2A) MOBILE HOMES USED FOR RESIDENTIAL HOUSING				
	SCHEDULE 2 (Class 2B) MINERAL LEASEHOLD INTEREST 1 - Royalty 2 - Working Int. 3 - Perm Equip. 4 - Sub-Total				
	SCHEDULE 3 (Class 2C) PUBLIC UTILITY PERSONAL PROPERTY (LOCALLY APPRAISED)				
	SCHEDULE 4 (Class 2D) MOTOR VEHICLES				
	SCHEDULE 5 (Class 2E) COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT VALUE CHANGE				
ABATEMENT Date: _____ By: _____ Control # _____ PV-PP-1 Rev 10/91	SCHEDULE 6 (Class 2F) ALL OTHER PERSONAL PROPERTY VALUE CHANGE				
	GRAND TOTALS THIS RETURN: 3 VALUE CHANGE				

1-12