

Approved THURS. 2-13-92
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

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

11:00 a.m. ~~xxxx~~ on Tuesday, February 11, 1992 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Bill Edds, Revisors Office
Don Hayward, Revisors Office
Chris Courtwright, Research Department
Tom Severn, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:

Senator Don Sallee, sponsor of SB599 AND SB560

Chairman Dan Thiessen called the meeting to order at 11:05 and said the agenda for today is a hearing on SB559 and SB560. He said, we also have a research request and he recognized Senator Fred Kerr.

Senator Fred Kerr passed a hand-out and explained its purpose by turning attention to the 2nd page of his hand-out. Proposed Research on Possible Changes in the Kansas Tax Structure which was researched by the Institute for Public Policy and Business Research, University of Kansas. Senator Kerr said last year they did an impact study, requested by the House Tax Committee, and impact study of various sales tax exemptions that were removed and the impact on various businesses.

Senator Kerr said the suggestion for this year was for the Senate Committee to make the request that they will go ahead and put this together and they will have the capability again to put together and plug in different items, i.e. if a proposal changes, then they will go ahead and change the impact on the business profiles that they have. (ATTACHMENT 1)

Senator Fred Kerr moved to formally request the Institute for Public Policy and Business Research, University of Kansas to carry out this policy analysis, 2nd by Senator Audrey Langworthy. The motion carried.

Chairman Dan Thiessen turned attention to SB559 and recognized Senator Don Sallee, sponsor of the bill.

SB559:AN ACT relating to the taxation of motor fuels; concerning certain exemptions.

Senator Don Sallee said SB559 would amend a couple of statutes and remove the tax exemption on motor fuels sold to retail dealers on indian reservations. If gas is to be sold to non-tribal members at the pump on indian reservations, this means that sales to non-tribal members would be subject to motor fuel tax.

He said, the amendment needed to give the state of Kansas the ability to collect the taxes from such non-tribal sales because of where these stations are located. He said, the estimated tax loss in Jackson County last year on one particular reservation was estimated by the Department of Revenue to be \$730,000 on fuel tax alone. He said, the exemption for the tribes was never intended to be an exempt route for non-tribal people to escape paying taxes. (ATTACHMENT 2)

SB560:AN ACT requiring the department of revenue to collect certain taxes on Indian reservations; giving certain authority to the attorney general; providing penalties on certain delinquent taxes.

Senator Don Sallee said SB560 would mandate the Department of Revenue collect taxes on products that are sold to non-tribal members on indian reservations. It would also provide that in the event the Department of Revenue refuses to collect such taxes the Attorney General may then enforce the collection of such taxes. (ATTACHMENT 3)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Tuesday, February 11, 1992.

After committee discussion Chairman Thiessen concluded the hearing on SB559 and SB560 and turned attention to HB2381.

HB2381: AN ACT relating to property taxation; concerning the cancellation of certain personal property taxes.

Chairman Thiessen said we had a hearing on HB2381 January 29, 1992 and some testimony saying there would be a loss of revenue at the \$10.00 level, and he asked if there are any amendments to this bill the members would like to make? Chairman Thiessen said another point to be considered is whether it would only apply as it is now, or apply it to all tax bills at that amount of money.

After committee discussion on amendments for HB2381 a member suggested maybe after amending by the committee, the bill go to conference committee.

Senator Marge Petty moved to amend HB2381 line 15, by removing \$10 and insert the amount of \$2. back in, and on line 22 change 1990 to 1991, and strike all of Section 2, 2nd by Senator Don Montgomery. The motion carried.

Senator Don Montgomery moved to recommend changing 18% to 12% interest rates for delinquent property taxes, 2nd by Senator Lana Oleen. The motion carried.

Senator Gerald Karr said SB167 was passed out of this committee last year and dealt with the storm calamities.

Senator Gerald Karr moved to amend HB2381 by providing the authority of Boards of County Commissioners to provide for proration of property taxes levied on residential properties destroyed by calamities, 2nd by Senator Montgomery. The motion carried.

Senator Phil Martin moved to favorably pass HB2381 as amended, 2nd by Senator Marge Petty. The motion carried.

Senator Phil Martin moved to introduce a bill to allow cities and counties to levy 1/4% tax, 2nd by Senator Gerald Karr. The motion carried.

Senator Don Montgomery moved to adopt the minutes dated February 10, 1992, 2nd by Senator Audrey Langworthy. The motion carried.

Chairman Dan Thiessen adjourned the meeting at 12:42 p.m.

The University of Kansas

Institute for Public Policy
and Business Research

February 10, 1992

Mr. Jeff Wagaman
State Capitol, Room 354-E
Topeka, Kansas 66612

Dear Mr. Wagaman:

I am faxing you a copy of the revised outline of IPPBR's proposed research on Kansas taxes. As I understand, your office has spoken with Charles Warren since our meeting last Friday. I am sending along a copy of the proposal to Kansas Inc.

I am looking forward to working with you during this Legislative session.

Sincerely,



Pat Oslund
Research Economist
913-864-3701
913-864-3683 (FAX)

SENATE ASSESSMENT & TAX

ATT. 1-1
2-11-92

**Institute for Public Policy and Business Research
University of Kansas**

**Statement of Capacity and
Proposed Research on Possible Changes in the Kansas Tax Structure**

Although proposals for restructuring Kansas taxes have not yet been specified in detail, the general outlines of some proposals are beginning to emerge. In particular, the plan recommended by Governor Finney can be roughly described as follows:

1. Replace the school district portion of the property tax with a uniform state-level property tax of about 45 mills. In most districts of the state this will amount to a reduction in the total property tax rate, but in some districts this will cause a tax increase.

2. Raise additional revenue at the state level by removing a number of specific sales tax exemptions (see Table 1). The revenue raised would be used to replace property tax support of school districts. Current plans do not include broadening the tax base to include a wider range of services.

3. Raise additional revenue for school district property tax relief through non-tax sources such as video lotteries.

The combined effect of these changes will be felt by Kansas households, Kansas firms, and firms that are considering Kansas as a potential business location.

CURRENT MODELING CAPACITY

The Institute for Public Policy and Business Research has developed a model for estimating the impact of tax changes on Kansas export-based industries. The model's current capacities are described below:

1. The model is designed to examine the situation of a representative new firm in each of several export-oriented industries important to the Kansas economy. The model calculates taxes and other business costs that would be faced by the firm in Kansas, and compares the results with the tax and cost situation that a similar new firm would face in one of the surrounding states. The model carefully estimates the effects of various tax credits and incentives that are frequently offered to new or expanding businesses.

2. The model is also designed to examine the situation of a long-established Kansas export-oriented firm. Again, the model estimates the taxes and other business costs that would be paid by a Kansas firm and compares them with the taxes and costs encountered by similar firms in surrounding states.

The IPPBR tax model was last used to examine the impact of several tax plans proposed during the 1991 Legislature. At that time, IPPBR worked with the House Taxation Committee

through Kansas Inc. The model now requires considerable updating, but the basic structure described in 1) and 2) is in place.

It is also useful to describe the capacities that the IPPBR tax model currently lacks. In particular:

3. In its current form, the IPPBR tax model does not in any way deal with the impact of tax changes on consumers, or with issues of income distribution.

4. In its current form, the model does not have the capacity to fully examine issues concerning the responsiveness of Kansas firms to prices and costs. This responsiveness depends on the industry under discussion. Some industries are more likely than others to relocate their production, or some aspects of their production, in response to price or cost changes.

It is one of the Institute's goals to build these additional capacities into the model, but such development will require time and resources beyond the scope of those available for this project.

PROPOSED WORK

PART 1. Impact on Kansas Firms

We propose updating the current IPPBR tax model and using the model to simulate the following impacts:

1. The impact of changes in property taxes on representative new and established firms in several important export-based industries. This analysis should be done for a selection of communities, including those that experience decreases in the mill levy and those that experience increases.

2. The impact of removal of sales tax exemptions on machinery and equipment, new construction, and enterprise zone activities for new or expanding firms, as proposed in Governor Finney's plan (see Table 1). Again the analysis would include representative firms in important industries.

3. The impact of combined tax changes on Kansas costs of doing business with respect to important industries.

4. The impact of changes in the cost of doing business (as in 3 above) on comparisons between Kansas and neighboring states.

In essence, the work will involve calculating the impact of the Governor's proposed tax changes (and perhaps of additional or modified proposals as well) on several key Kansas industries. Comparisons will be made between Kansas and neighboring states. The model provides the flexibility to analyze alternative tax proposals and to compare the effects of alternative plans on Kansas firms.

PART 2: Impact on Specific Industries

Looking at Table 2, it is clear that several sales tax exemptions target specific industries, such as railroads, aircraft sales, etc. We conjecture that many of these exemptions are in place because of the ease with which these industries can move their activities to alternative locations. In some cases, sales taxes affect the price at which the output of these industries can be sold. In other cases, sales taxes affect the prices of critical inputs. Estimating the long term revenue impact of taxing these items is difficult because the volume of sales may be very sensitive to price.

As mentioned earlier, IPPBR does not currently have a model in place to examine the quantitative impact of taxing these specific items. We expect that the development of such a model would be outside the time constraints of the 1992 Legislature.

As an alternative, we propose a qualitative approach. We will first perform a detailed review, summary and analysis of the economics and business literature concerning these issues. Additionally we will gather data outlining the tax treatment of these items in other states. Perhaps more importantly, we will examine the experiences of any states which do choose to tax these items. The analysis will be primarily descriptive.

Proposal Summary

In summary, we propose to look at two aspects of current plans to restructure Kansas taxes:

1. Impact on firms in key Kansas export-based industries
2. Impact on industries strongly affected by specific sales exemptions.

Both of the above are feasible, but will require time and resources. We anticipate that the basic research work on these issues will be finished in about one month. The model (described in Part 1) will then be ready to use in the analysis of alternative tax scenarios as they emerge during the 1992 legislative session. The results from the model will be presented in easy to understand tables and graphs.

February 7, 1992

Table 1
Kansas Department of Revenue

Sales Tax Exemptions - Fiscal Impacts
"Fiscal Impacts below are calculated at the current 4.25% rate"
(Dollars are in Millions)

<u>Sales Tax Exemptions</u>	<u>Description</u>	<u>Fiscal Year 1993</u>	
		<u>Annual Fiscal Impact</u>	<u>First Year Fiscal Impact</u>
3602 m(B)	Electricity, gas, and water consumed in production	\$30.900	\$25.750
3603 b	Interstate Telephone	13.300	11.638
3603 e	Participation in recreation sponsored by Pol. Sub.	1.000	0.667
3603 f	Coin-Op Laundry	0.726	0.635
3603 g	Hotel-Motel Rooms	1.136	0.994
3603 h	Machinery IRB	0.092	0.000
3603 o	Vehicles for Stock	0.017	0.013
3603 p	Original Construction Services	74.000	61.667
3606 a	Tangible personal property taxed by another Excise Tax	81.700	71.488
3606 f	Property purchased by an interstate carrier	22.215	14.810
3606 g	Sales, repair, or modification of aircraft used in interstate commerce	32.346	18.869
3606 h	Textbooks	0.892	0.669
3606 i	Lease or rental of films, record, or tapes	1.905	1.429
3606 k	Sale of motor vehicles, trailers, or aircraft to a non-resident	32.410	24.308
3606 l	Occasional Sales (Only planes, boats, etc. are taxable)	0.400	0.300
3606 p	Trade fixtures and equipment already installed	0.975	0.731
3606 t	Groundwater management districts	0.013	0.010
3606 u	Farm Machinery	31.606	21.071
3606 x	Gas, Elec., Water - Res. Use	55.900	48.913
3606 y	Propane - L-P - Res. Use	3.314	2.900
3606 z	Intrastate Tel. - Res. Use	5.419	4.742
3606 aa	Railroad rolling stock	5.254	3.941
3606 bb	Port authority	0.000	0.000
3606 cc	Repair of equipment used for the transmission of gas	0.297	0.223
3606 dd	Used Mobile Homes	2.265	1.982
3606 ee	Enterprise Zones (Exclude Mach. & Equip.)	8.751	4.376
3606 gg	Lottery Tickets	3.188	2.790
3606 hh	New Mobile Homes	0.563	0.493
3606 kk	Youth Devel. Programs	0.214	0.161
3606 mm	Manf. Mach & Equip.	34.142	25.607
3606 nn	Educational materials purchased by a non-profit corporation	0.041	0.036
3606 oo	Seed & Trees	1.255	0.941
3606 rr	Drill Bits	0.339	0.254
3606 ss	Museums & Hist. Society	0.210	0.158
3606 tt	Annual Events Non Profit Org.	0.100	0.075
	State Total	\$446.9	\$352.6

Table 2
Potential Sales Tax Exemption Removals by Category

1. Exemptions affecting Kansas non-agricultural business costs.
(* denotes exemptions particularly important to new or expanding firms)
 - 3602 m electricity, gas, and water consumed in production
 - 3603 b interstate telephone
 - 3603 h* machinery IRB
 - 3603 p* original construction services
 - 3606 a property taxed by excise tax (gasoline)
 - 3606 p trade fixtures and equipment already installed
 - 3606 ee* enterprise zones
 - 3606 mm* manufacturing machinery and equipment

2. Exemptions affecting Kansas households
 - 3603 c interstate telephone
 - 3603 e recreation sponsored by political subdivision
 - 3603 f coin-operated laundry
 - 3603 g hotel motel (> 28 day stay)
 - 3603 p original construction services
 - 3606 a property taxed by excise tax (gasoline)
 - 3606 h textbooks
 - 3606 l rental of films, records, tapes
 - 3606 x gas, electric, water--residential use
 - 3606 y propane--residential use
 - 3606 z intrastate telephone--residential use
 - 3606 dd used mobile homes
 - 3606 gg lottery tickets
 - 3606 hh new mobile homes

3. Other categories of exemptions.
(* denotes exemptions related to interstate commerce)
 - 3603 o vehicles for stock
 - 3606 f* property purchased by interstate carrier
 - 3606 g* sales, repair, or modification of aircraft used in interstate commerce
 - 3606 k* sales of motor vehicles, trailers, or aircraft to a non-resident
 - 3606 l occasional sales
 - 3606 t groundwater management districts
 - 3606 u farm machinery
 - 3606 aa* railroad rolling stock
 - 3606 bb* port authority
 - 3606 cc* repair of equipment used in transmission of gas
 - 3606 kk youth development programs
 - 3606 nn educational materials purchased by a non-profit corporation
 - 3606 oo seeds and trees
 - 3606 rr drill bits
 - 3606 ss museums and historical societies
 - 3606 tt annual events of non-profit organizations

DON SALLEE
SENATOR, FIRST DISTRICT
ATCHISON, BROWN, DONIPHAN, JACKSON
AND JEFFERSON COUNTIES
R.R. 2
TROY, KANSAS 66087



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS

CHAIRMAN: ELECTIONS
VICE-CHAIRMAN: ENERGY AND NATURAL RESOURCES
MEMBERS: AGRICULTURE
LABOR, INDUSTRY AND SMALL BUSINESS
TRANSPORTATION AND UTILITIES
JOINT SPECIAL CLAIMS AGAINST
THE STATE

TESTIMONY ON SB-559

BY SENATOR DON SALLEE

MR. CHAIRMAN AND COMMITTEE MEMBERS:

SENATE BILL 559 WOULD AMEND KSA 79-3475 AND 79-3408 BY REMOVING THE TAX EXEMPTION ON MOTOR FUELS SOLD TO RETAIL DEALERS ON INDIAN RESERVATIONS IF THE GAS IS TO BE SOLD TO NON-TRIBAL MEMBERS AT THE PUMP ON INDIAN RESERVATIONS. THIS MEANS SALES TO NONTRIBAL MEMBERS WOULD BE SUBJECT TO THE MOTOR FUEL TAX.

THIS AMENDMENT IS NEEDED TO GIVE THE STATE OF KANSAS THE ABILITY TO COLLECT TAXES FROM SUCH SALES TO NON-TRIBAL MEMBERS.

THE ESTIMATED TAX LOSS TO JACKSON COUNTY LAST YEAR ON ONE PARTICULAR RESERVATION WAS ESTIMATED BY THE DEPARTMENT OF REVENUE TO BE \$730,000 ON FUEL TAX ALONE. I BELIEVE WE MUST DO SOMETHING TO ADDRESS THIS PROBLEM, NOT ONLY IN THE AREA OF TAX LOSS BUT ALSO IN WHAT IT DOES TO COMPETING BUSINESSES WHO DO NOT ENJOY THIS EXEMPTION. THE EXEMPTION FOR THE TRIBES WAS NEVER INTENDED TO BE AN EXEMPT ROUTE FOR NON-TRIBAL MEMBERS PEOPLE TO ESCAPE PAYING TAXES.

SENATE BILL 559 IS NEEDED TO ADDRESS THIS SITUATION.

*SENATE ASSESSMENT & TAX
ATT. 2
2-11-92*



TOPEKA

SENATE CHAMBER

DON SALLEE
SENATOR, FIRST DISTRICT
ATCHISON, BROWN, DONIPHAN, JACKSON
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LABOR, INDUSTRY AND SMALL BUSINESS
TRANSPORTATION AND UTILITIES
JOINT SPECIAL CLAIMS AGAINST
THE STATE

TESTIMONY ON SB-560

BY SENATOR DON SALLEE

MR. CHAIRMAN AND COMMITTEE MEMBERS:

SENATE BILL 560 WOULD MANDATE THE DEPARTMENT OF REVENUE COLLECT TAXES ON PRODUCTS THAT ARE SOLD TO NON-TRIBAL MEMBERS ON INDIAN RESERVATIONS.

IT WOULD ALSO PROVIDE THAT IN THE EVENT THE DEPARTMENT OF REVENUE REFUSES TO COLLECT SUCH TAXES THE ATTORNEY GENERAL MAY THEN ENFORCE THE COLLECTION OF SUCH TAXES.

SENATE ASSESSMENT & TAX
ATT. 3
2-11-92