Approved: April 27, 1995
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on April 7, 1995 in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Martin, Senator Bond, Senator Clark,Senator Hardenburger, Senator Lee, Senator Ranson, Senator Sallee and Senator Wisdom.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Elizabeth Carlson, Secretary to the Committee

Conferees appearing before the committee: Chris Courtwright, Legislative Research Dept.
Representative Clyde Graeber
Ross Markle, Harris Bros. Cleaners, Leavenworth
Charles Gregor, Mgr., Leavenworth Chamber of Commerce
Ron Swisher, PVD, Department of Revenue
Hal Hudson, NFIB
Larry Clark, Kansas County Appraisers Association
Gerald Frantz, Sedgwick County Appraiser
Paul Welcome, Johnson County Appraiser
Bob Corkins, KCCI
Art Brown, Mid-America Lumbermens Association
Vern McKinzie, Kansas Pest Control Association
Lee Eisenhauer, Propane Marketers Association of Kansas
Alan Cobb, City of Wichita
Janet Stubbs, Kansas Building Industry Association

Others attending: See attached list

APPROVAL OF MINUTES

Senator Corbin made a motion to approve the minutes of April 6, 1995. The motion was seconded by Senator Martin. The motion carried.

HB 2108--PROPERTY TAX EXEMPTION FOR BUSINESS MACHINERY AND EQUIPMENT

Chris Courtwright, Legislative Research Department, explained the contents of **HB 2108**. He said a subcommittee of the House Taxation Committee had worked on the bill and the amendments, except for the amendments to KSA Supp. 79-201a, were added by the House Committee. The House Committee of the Whole added the amendments to KSA Supp. 79-201a.

Proponents

Representative Clyde Graeber, Leavenworth County, spoke of the problems in Leavenworth County with a memorandum from the Property Valuation Department Director to review Personal Property Tax Renditions to make sure that taxes were being collected properly. (Attachment 1) Some counties began audits and the action brought forth the fact that business taxpayers found they were not in compliance and they owed many dollars in penalties and interest along with the tax itself. This involved many hours of work in preparing the required returns. **HB 2108** would use a threshold of $500 before any personal property acquired by a business would have to be listed on their renditions or any personal property tax paid thereon. He said this legislation would bring relief to Kansas businesses and would greatly simplify required record keeping for small businesses across the state.

Ross Markle, Harris Brothers Cleaners, Leavenworth, thanked the Senate Committee for hearing this bill in the waning hours of the Session. (Attachment 2) He reviewed a chart showing the impact of exempting items

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.

of business personal property at different levels. These were analyzed from returns of four existing companies. He listed the figure for which the assessed values in Leavenworth County increased by $3 million from 1993 to 1994 due to the audits and voluntary disclosures. He said these figures will continue to increase if this program is carried out in other counties as it has been done in Leavenworth County, the results will be similar. He pointed to a budget for the Leavenworth County Appraiser's office in which the budget will have increased by $242,153.00 in 1995. He requested an exemption level of $500.00 be established for business personal property in the state of Kansas.

Charles Gregor, Manager, Leavenworth Chamber of Commerce, said if the rest of the state is brought into compliance with the law as it stands now, it will create huge costs for taxpaying businesses, for the county assessor's office, for the Department of Revenue and the Board of Tax Appeals as it deals with the problems. (Attachment 3) He said there are a lot of figures floating around but it is like comparing apples to oranges. He said a $500 threshold will produce no revenue loss for any county in compliance with the business personal property tax law. He urged the committee to pass the bill favorably as presented.

Ron Swisher, PVD, Department of Revenue, gave some historical facts concerning the purpose of **HB 2108**. (Attachment 4) He expressed some concerns with the bill and gave an estimate of exemption, $500 or less, for the fiscal impact statewide. (Attachment 5)

Hal Hudson, NFIB, urged the committee to support **HB 2108** and **HB 2167.** (Attachment 6) He spoke of property taxes as being the most disliked by the tax payer. He said there are constitutional amendments which grant exemptions for farm machinery and equipment, inventories, livestock and all household goods and personal effects not used in the production of income. Other exemptions have also been granted. This job of listing and reporting all other property--not just machinery and equipment subject to depreciation--is a time consuming and burdensome task. This bill, by exemptions of $500 or less, would simplify reporting for business owners and would reduce the workload for the appraisers offices.

Senator Langworthy called for the opponents to **HB 2108** to speak.

Larry Clark, Kansas County Appraisers Association, spoke in opposition to **HB 2108**. (Attachment 7) He said their opposition is because of the increased administrative problems which will be created for the taxpayer and the heightened sense of conflict between the appraiser's office and the taxpayer. He said the exemptions are an exception to the law and the burden for proving exemptions has been placed on the taxpayers. The taxpayer must be able to prove the cost of a piece of machinery and equipment and this would mean by showing the original receipt. He mentioned a way to simplify the burden of the commercial personal property owners by annually re-listing all of their equipment. He said the tax shift will be minimal and the property owners will be rid of this nuisance. This would require the forms to be sent back and then refiled to be in compliance. These forms were due March 1st and all of that work would have to be redone. He requested the effective date be changed to the end of the year.

Senator Langworthy asked if these concerns were brought before the subcommittee of the House Taxation Committee and Mr. Clark said they were.

Chris McKenzie, League of Kansas Municipalities, said he was appearing in partial support and partial opposition to **HB 2108**. (Attachment 8) He said the League strongly supports Section 3 of this bill which was amended in the House Committee of the Whole. He listed a brief explanation of Section 3 of the bill. He spoke of some cities with problems which would be solved by this section and who are anxiously awaiting the passage of the bill. Then he spoke of the League's partial opposition to the exemption provision concerning commercial personal property . He said this will put further fiscal strain on cities which could increase the pressure to levy even higher property taxes. He urged the committee to hold **HB 2108** over until 1996. However, he did recommend approval of Section 3 of **HB 2108.**

Gerald C. Frantz, Sedgwick County Appraiser, spoke as an opponent to **HB 2108.** (Attachment 9) He estimated that approximately $7 million would be taken off of the tax rolls because of these exemptions. He said the tax burden will be shifted to other real and personal property tax. The bill will increase the cost of operation of the county appraisers office by about $150,000 just to maintain the same level of service.

Paul A. Welcome, Johnson County Appraiser, appeared in opposition to **HB 2108**. (Attachment 10) He spoke of two problems with the bill; the first, the implementation date and second, the exemption of items with original cost below $500.00. He said with the proposed change of date, all work which has been done since December 31, 1994 would have to be redone and there is no way they could have the valuations certified to the County Clerk on June 15th. He spoke of the exemption in items with original cost below $500.00. He said he concurred with a minimal threshold value of $100.00.

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S Statehouse, at 11:00 a.m. on April 7, 1995.

Senator Langworthy then called again on the proponents of **HB 2108**

Bob Corkins, KCCI, said **HB 2108 and HB 2167** will benefit businesses in the area of taxation. (Attachment 11) The administrative burden upon businesses is unrealistic. He said their objective is not to cause local units of government to lose any of their tax base because in general county appraisers have not exercised their tax enforcement power before. He said a threshold should be established and set as high as possible as long as the tax base effect is insignificant and KCCI advocates an amount of $1,000. He said **HB 2167** addresses a problem where machinery and equipment, even if it is unused, is still subject to taxation at 20% of its retail cost when new. This bill makes it clear that personal property in this classification is to be appraised at fair market value. He said the House of Representatives passed this bill unanimously. He urged the committee to approve both bills.

Art Brown, Mid-America Lumbermens Association, spoke of a recent incident when he was purchasing office equipment and he said the new cabinet cost approximately $425.00. (Attachment 12) He said $500.00 is not an unrealistic number to use. The intent of the legislation is to provide some needed tax relief for small businesses from having to pay on many "nickel and dime" types of personal property. As a coalition, the threshold was started at $2,500.00, but because of testimony of the impact on local units, it was lowered to $500.00. He urged the committee to pass **HB 2108** favorably.

Vern McKinzie, Kansas Pest Control Association, urged the committee to establish the $500.00 cost figure as a base for declaring equipment and supplies for personal property valuation purposes. (Attachment 13) He mentioned some of the cost of supplies and said it requires two to three days of their operations manager's time to count and list the inventory. He did not think it would realize a significant loss to taxes and asked for some relief for the small businesses.

Lee Eisenhauer, Propane Marketers Association of Kansas, presented testimony from E. M. Boyce of JEM LP Gas Co of Emporia. (Attachment 14) She said they are asking for simplicity. It is not the money but it is the time in having to file these reports. She said the cost to the businesses is $3 to $4 per return. She asked the committee to support **HB 2108** but she said they would like to see the amount of the threshold be $1,000.

The following people submitted written testimony:

Alan Cobb, City of Wichita (Attachment 15)
Jamie Clover Adams, Kansas Grain and Feed Association (Attachment 16)
Jennifer Unruh, Overland Park Chamber of Commerce, (Attachment 17
Mark Tallman, Kansas Association of School Boards, (Attachment 18

HB 2167--PROPERTY TAX EXEMPTION FOR CERTAIN COMMERCIAL AND INDUSTRIAL MACHINERY AND EQUIPMENT

Janet Stubbs, representing the Kansas Building Industry Association, said she was concerned because of **SB 275** in its original form. They are very interested in that portion of the bill. A poll was taken of their membership on the $500.00 threshold or the $100.00 threshold and they were concerned if it was lowered too much what kind of reporting would be required.

The meeting adjourned at 12:15 p.m.

The next meeting is scheduled for April 7, 1995 upon adjournment.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: April 7, 1995

NAME	REPRESENTING
Ross Martin	BCC Lvn County
CHARLIE GREGOR	LEAVENWORTH - LANSING AREA CHAMBER OF COMMERCE
Hal Hudson	NFIB/Kansas
Lee Eisenhauer	PMAK / Kansas
Gerry Ray	Johnson Co & City of Overland Park
GERALD FRANTZ	SEDGWICK County APPRAISER
K. Martin	Sedgwick Co.
Larry Clark	KCAA
Paul Welcome	JOHNSON County APPRAISER
Vern McKinzie	Kansas Pest Control Assn.
Trudy Perkins	CPAK
Christy Young	Topeka Chamber of Commerce
Martha Allen	KMHA
Gordon T. Fonett	CPAK
Art Brown	mid-am lumbermens -
Bill Musick	St Bd of Education
RICHARD RODEWALD	TAXPAYERS
ALAN COBB	KS Assoc for Small Business
Frances Kastner	KS Food Dealers Assn.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: April 7 1995 - 3:45

NAME	REPRESENTING
Gerry Ray	Johnson Co. Appraiser's Off.
Janet Stubbs	KBIA
Art Brown	Mid-Am Lumbermens
Jamie Clover Adams	KS Grain & Feed Assn
Christy Young	Topeka Chamber of Commerce
Hal Hudson	NFIB/Kansas
Helen Stephens	BV USD 229/KPOA/KSA
MARK TALLMAN	KASB
Jim Yonally	USD #512
Trudy Parr	CPAK
SHELBY Smith	KKTA

TESTIMONY IN RE HB2108
Rep. Clyde Graeber

In late 1993 the Property Valuation Department Director sent a memorandum to all county appraisers calling attention to the fact that appraisers should review Personal Property Tax Renditions and make sure that taxes were being collected properly on all business personal property subject to taxation.

As a result some counties began audits and some even hired tax ferrets on a contingency fee basis. This action brought forth the knowledge that personal property taxes had been put on the back burner by many county appraisers across our state and neglected. Business taxpayers who felt they were preparing their renditions properly and who, in many cases, had relied on county appraisers for advice and help in preparing their returns, found they were not in compliance and that they owed many dollars in penalties and interest along with the tax itself.

Many legislators learned from their local business owners of the massive detail and hours of work involved in preparing the required personal property renditions and returns. HB2108 would establish a deminimis

Senate Assess + Tax
attach 1-1
4-7-94

amount or threshold of $500 before any personal property acquired by a business, at that dollar amount or less, would have to be listed on their renditions or any personal property tax paid thereon.

This legislation is the cornerstone of the help and relief many have hoped to give our Kansas businesses this year. HB2108 would exempt from property taxes any item of machinery, equipment, materials or supplies used exclusively for business purposes if its original retail cost, when new, is $500 or less. This bill would greatly simplify required record keeping for small businesses across our state and I urge your favorable consideration of this legislation to help our businesses in Kansas.

Attached is a computation of the projected reduction in Total State Assessed Value, if the $500 threshold amount is adopted. The figures used are based on PVD numbers. The result is a .3229% reduction in Total State Assessed Value.

KCCI

Kansas Chamber of Commerce and Industry

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

835 SW Topeka Blvd.
Topeka, KS 66612-1671
(913) 357-6321
Fax (913) 357-4732

To: House Taxation Subcommittee
on HB 2108 & 2167

From: Bob Corkins, KCCI Dir. Taxation
Date: February 22, 1995
Re: Impact of threshold exemption on
statewide property tax base

1994 Statewide Assessed Value	$15.473 billion	TOTAL Realty and Personalty
	1.144 billion	Commercial Mach. & Equip. (7.39% of TOTAL)

Per PVD Memo of 2/21/95

Assuming HB 2108 threshold were set at $2,500
Statewide loss of tax base (i.e. assessed value) for Commercial M&E = 17.75% M&E reduction

17.75% of 7.39% = **1.31% reduction in TOTAL State Assessed Value**

Assuming HB 2108 threshold were set at $1,000
Statewide loss of tax base for Commercial M&E = 8.74% M&E reduction

8.74% of 7.39% = **.65% reduction in TOTAL State Assessed Value**

$500 Amt. 4.37% = .3229%

Introduction

Testimony of Ross E. Markle
Regarding House Bill No. 2108
before the SenateTaxation Committee
April 7, 1995

My name is Ross Markle. I am President of Harris Bros. Cleaners, Inc. of Leavenworth, KS. My wife and I purchased this company fifteen years ago.

In the past, I have served as chairman on the Community Development Advisory Board for the city of Leavenworth, President, Leavenworth / Lansing Area Chamber of Commerce and President, Heart of America Fabricare Association. I currently serve on the board of our local United Way and I am an active member of the Leavenworth County Blue Collar Coalition. I am also a member of the Guardian Advisory Council for the National Federation of Independent Business.

I am testifying today as a small business owner regarding the $500.00 exemption level as proposed in HB 2108.

Senate Assess + Tax
attach 2-1
4-7-95

ANALYSIS

In an attempt to show the impact of exempting items of business personal property at levels of $5,000.00, $2,500.00, $2,000.00, $1,000.00 and $500.00, we analyzed the returns from four existing companies. The object of the analysis was to determine the affect each level of exemption would have on the number of line items reported and the resulting reduction in tax. Please note that these companies were chosen at random and not because their returns supported our position

The first Company is a dry cleaning, laundry operation.

Exemption	**Reduction in line items**	**Reduction in tax**
$5,000.00	95%	42%
$2,500.00	86%	25%
$2,000.00	85%	23%
$1,000.00	79%	13%
$ 500.00	73%	10%

The second company is a construction company.

$5,000.00	78%	19%
$2,500.00	75%	14.5%
$2,000.00	73%	14%
$1,000.00	56%	7.4%
$ 500.00	37%	2.6%

The third company is an excavating contractor.

$5,000.00	79%	13.7%
$2,500.00	69%	7 %
$2,000.00	60%	6.8%
$1,000.00	49.4%	3.8%
$ 500.00	26.4%	1.2%

The fourth company is an auto mechanic shop.

$5,000.00	93%	49%
$2,500.00	83%	28%
$2,000.00	78%	20%
$1,000.00	71%	13%
$ 500.00	57%	7%

Average impact on number of line items and taxes

$5,000.00	86%	31%
$2,500.00	80.5%	18.6%
$2,000.00	74%	16%
$1,000.00	63.7%	9.3%
$ 500.00	47%	5.2%

Leavenworth County
Comm. & Ind. Mach & Equip
Assessed Value

1993	1994
$8,037,460.00	$11,419,984.00

Assessed values in Leavenworth county increased by $3,382,524.00 (+30%) from 1993 to 1994 due to the audits and voluntary disclosure. These figures include very little penalty and interest as a result of the bill that allowed commissioners to waive most of these penalties. Further, these figures will continue to increase as future discovery takes place.

If this law, as currently written, were to be enforced in all Kansas counties as it is now enforced in Leavenworth county, the results would be similar. PVD has directed that this will be the case.

In conversations with fellow business people in my professional association in surrounding counties, including Johnson county, I am assured that enforcement is nothing close to what we are experiencing in Leavenworth.

Leavenworth County
Appraiser
Budget & Expenses

1993 - 1995

	1993	1994	1995
Budget	347,381.00	462,174.00	572,698.00
Spent	330,545.37	598,803.01	?
Deviation	- 16,835.63	+136,629.01	?

If the appraisers office hold the line on it's 1995 budget, their cost for collecting taxes since 1993 will have risen by $242,153.00 (a 57.7% increase).

Please note on page one that a $500.00 exemption level will reduce the number of line items reported by the four companies by and average of 48.35%.

GENERAL COMMENTS

Our analysis of the four companies (page 2) shows that setting the exemption level at $500.00 would drastically reduce (-48.35%) the number of line items accounted for while only reducing taxes by 5.2%.

Our analysis of the four companies (page 3) shows that this reduction in taxes is conservatively offset by an average 30% increase in collections resulting from audits in 1994. (Audits are on-going).

The costs to administer the business personal property tax law, as it is currently written, has risen drastically for business, and Leavenworth county (up 57.7%).

CLOSING

In closing my testimony I would like to emphasize the while taxes are an issue here, to the small business man and woman it is the demand on our time that is bringing us to our knees.

As the Personal Property Tax law is currently written, we are expected to spend hours accounting for items that produce pennies in taxes.

Madame Chairman, Ladies and gentlemen of the committee, please help those of us in business do what we do best - pay our fair share of taxes - create jobs - and provide goods and services. Please make this law "user friendly". To quote one of our since ousted county commissioners, "The only way to change a bad law is to enforce it." His problem was he didn't care who got crushed in the scuffle.

I respectfully request that you establish an exemption level of $500.00 for business personal property tax in the State of Kansas.

TESTIMONY OF CHARLES H. GREGOR, JR.
EXECUTIVE VICE PRESIDENT,
LEAVENWORTH-LANSING CHAMBER OF COMMERCE
SENATE TAXATION COMMITTEE
April 7, 1995

RE: House Bill No. 2108

Madame Chair, members of the committee, thank you for the opportunity to come before you to speak on behalf of House Bill 2108. This is a key bill of several that have been generated to lift a truly onerous burden from the backs of Kansas' small businesses as they face the requirement to fully comply with Kansas business and personal property tax constitutional and statutory provisions that are so vague, so contradictory, and so ineptly interpreted and sporadically enforced that accountants and attorneys hired by our businesses cannot produce compliance, complete and honest intention to do so not withstanding.

The Property Valuation Division (PVD), Department of Commerce, is tasked to bring the entire state into compliance with existing business personal property tax law. That effort began in Leavenworth County in late 1993 and Leavenworth County is currently the only county close to being in compliance. As such it is unique in that it can offer a data base, with real figures, of the impact of full compliance with current business personal property tax law.

Full compliance across the state, applied with the diligence and at the standard applied in Leavenworth County, and that is PVD's mission, will create huge costs for taxpaying businesses, huge cost increases for most county assessor's offices, and substantial cost increases for the Department of Revenue as it, PVD, and the Board of Tax Appeals deal with the problems created by unfair, and, albeit unintentional, ridiculous and costly requirements.

This bill, with absolutely no loss of revenue, brings some sanity to our business personal property tax laws. Several facts explain how and why:

* Compliance with Business Personal Property tax law will generate an increase in county revenue of approximately 30% across the state.
* Compliance with tax law will multiply by a factor of ten or more the number of line items to be inventoried, listed and submitted for tax valuation. The cost to some small businesses can be almost overwhelming, particularly as accountants and attorneys become involved - and they will.
* This bill will reduce the number of line items by almost half (48%) on average. The savings to businesses will be substantial and meaningful.
* This bill will reduce actual tax revenues by approximately 5%, a reduction taken from revenues <u>after the 30% compliance increase</u>.

These are real-life figures. You will hear others. As an example, one of the major counties in the state, reacting to a letter of request from PVD to estimate the revenue losses based on the $5,000 threshold originally suggested for HB 2108, produced three figures. The outgoing County Assessor estimated the cost at $13 million. The incoming assessor, on the job for several months, estimated the cost at $10 million. A county commissioner using data from the assessors' office, estimated the loss of revenue at $4 million.

Senate Assess + Tax
attach 3-1
4-7-95

The wild fluctuations are symptomatic verification of the deep problems within our tax laws. The PVD query, however, would produce utterly misleading responses in any event to what appears to be a straight forward question. It asks we compare apples to oranges, i.e., it asks for the impact of a $5,000 threshold on 1994 valuations and revenues. The question that should have been asked is what impact would a $5,000 threshold have on a compliance-based county, i.e., 1994 valuation and revenue plus 30%. The question begs the fact that revenues will increase substantially.

Let me give you a concrete example of this "no revenue loss - no tax shift needed" reality. Johnson County reports that it has a 1995 budget of $245 million. Of that amount, $34 million, or approximately 14%, comes from personal property taxes. As Johnson County comes into compliance in 1995, that $34 million will increase by approximately $10.2 million, producing revenue from personal property taxes of approximately $46.2 million. With the 5% taken off that amount to account for application of the $500 threshold, that amount becomes $43.8 million and contributes almost 18% of the Johnson County budget, a net gain to Johnson County of $9.2 million. Instead of a tax shift, other taxes within the county could actually be reduced. ***THIS HAPPENS WITH THE APPLICATION OF THE $500 THRESHOLD !***

A $500 THRESHOLD WILL PRODUCE NO REVENUE LOSS FOR ANY COUNTY IN COMPLIANCE WITH BUSINESS PERSONAL PROPERTY TAX LAW. THE THRESHOLD COULD BE TRIPLED AND THERE WOULD BE NO REVENUE LOSS. THERE IS A NET GAIN IN REVENUE WHEN A COUNTY COMES INTO COMPLIANCE.

To fail to favorably report this bill, or to reduce the already low threshold to less than $500 would be to provide a condescending pat on the head to small businesses already reeling under heavy administrative and tax burdens, without meaningful relief. You will require the reporting of the pictures on the walls, the employees' break table, the mini-refrigerator with the secretaries' lunches and juice, and a host of small items that cost thousands of dollars to report, audit, and assess, with virtually no measurable revenue produced.

I have watched as businesses closed their doors and terminated employees because the administrative and tax burden became to much and was "no longer worth it." Worse, I watched business leave Kansas and relocate in Missouri.

This bill, at the $500 level, offers relief and sends a positive message. To kill it, or reduce it, also sends a very clear message. Please pass this bill as presented.

\- - - - - - - - - -

STATE OF KANSAS

David C. Cunningham, Director
Robert B. Docking State Office Building
915 S.W. Harrison St.
Topeka, Kansas 66612-1585

(913) 296-2365
FAX (913) 296-2320

Department of Revenue
Division of Property Valuation

TO: All County Appraisers
FROM: Ron Swisher, Bureau Chief, County Appraised Bureau
SUBJECT: Legislators request - Personal Property Exemption
DATE: January 9, 1995

We have been requested to provide information concerning the impact on the tax base if all pieces of business machinery and equipment whose
1) appraised (retail cost new less depreciation) value is $5,000 or less would be exempted
1 and/or 2) retail cost new at $5,000 or less would be exempted.

Your assistance has been requested in regards to the above and we would appreciate any help you can give us. All valuations should be indicated as 100% value rather than the 25% assessed value.
2

1. What valuation would have been eliminated from the 1994 tax base if individual pieces of commercial/industrial personal property with depreciated values of $5,000 or less were exempted?

2. What valuation would have been eliminated from the 1994 tax base if individual pieces of commercial/industrial personal property with a retail cost new before depreciation of $5,000 or less were exempted?
3

Please return this information on or before February 15, 1995.

If you have any questions regarding this request, you can contact the following individuals in the statistical section of this Division. Paula Moege at (913) 296-6641 or Vicki Lignitz at (913) 296-2150.

Thank you for your assistance.

STATE OF KANSAS

Mark S. Beck, Director
Robert B. Docking State Office Building
915 S.W. Harrison St.
Topeka, Kansas 66612-1585

(913) 296-2365
FAX (913) 296-2320

Department of Revenue
Division of Property Valuation

House Bill 2108

House Bill 2108 was proposed for the stated purpose of alleviating some of the reporting burden imposed upon taxpayers who must file a rendition for ad valorem tax purposes. The Bill originally proposed to exempt commercial and industrial machinery and equipment and materials and supplies that have a retail cost new of $2,500 or less. The bill was amended to exempt machinery and equipment and materials and supplies with a cost of *$500* or less, when reported by a business or a *taxpayer exempt from paying state income tax*. The bill was amended in an attempt to include the property of masonic lodges and similar 501(c) corporations in the exemption. However, when the bill was expanded to include personal property in the "other" subclass, it also appears to have been expanded to encompass other personal property subclasses, such as public utilities and mineral leasehold interests

Important, recent events led to the proposal of House Bill 2108. Over a year ago, Leavenworth County contracted with a private for-profit entity to conduct personal property audits on a contingency fee basis. These audits received considerable publicity. The public's perception soon became that the state and counties were now requiring that all property on business premises, even those as trivial as pens, paperclips, rubberbands, etc., must be separately reported on the rendition. This legislation is an effort to alleviate the paperwork and reporting burden associated with this perception.

In actuality, pens, paperclips, rubberbands, etc. are supplies that are expensed, not capitalized. These items do not fall in the commercial and industrial machinery and equipment subclass. They are not valued based upon their retail cost when new and depreciated. Rather, they are "other" property valued based upon their fair market value. Supplies may be presented on the rendition as a lump sum, with a brief description. If an inventory is not taken, the amount of supplies on hand may be estimated on January 1st.

Larry Clark (KAC, Johnson County Appraiser's Office) has pointed out to the House that once a taxpayer prepares a list of their property, the list only needs to be updated each year with additions and deletions. The list can benefit the taxpayer; the list is similar for that used for income tax purposes. The list may also be used for insurance purposes.

This bill proposes to exempt certain assets (machinery and equipment) and expenses (materials and supplies) that have a retail cost of $500 or less. The taxpayer would not have to apply to the State Board of Tax Appeals for the exemption. The taxpayer would simply not list, for personal property tax purposes, that qualifying property with a retail cost of $500 or less. This exemption is similar to the merchant's and manufacturer's inventory exemption and the farm machinery and equipment exemption in that respect. However, Directive 92-025 instructs county appraisers that if in doubt regarding whether such property qualifies for exemption, it should be placed on the tax rolls and the taxpayer should file an application for exemption with the State Board of Tax Appeals. Only if a county appraiser is conducting a review of a business' personal property rendition and finds some property that does not appear to have cost $500 or less, and the taxpayer does not have the documentation to support the exemption, will the property will be listed and the taxpayer will have to apply to the State Board of Tax Appeals for the exemption.

Senate Assess + Tax
attach 4-1
4-7-95

<u>House Bill 2108: Estimate of Exemption, $500 or Less</u>

Below is an estimate of the state-wide fiscal impact of House Bill 2108. While some costs could be quantified, others could not, for the reasons set forth below. This estimate is based on a sample that comprised 32% of the 1994 assessed value for the commercial and industrial machinery and equipment subclass of personal property.

<u>Estimated Commercial and Industrial Machinery and Equipment, $500 or Less</u>
Only those items purchased new and separately listed

Sampled Assessed Amount of C & I, $500 or less	$ 4,814,864
Sampled Assessed Amount of C & I	367,139,957
Estimated Percent:	1.31%
Apply to Total Assessed C & I for State:	$ 1,144,116,552
Estimated C & I, $500 or less, for State	$ 14,987,927
Apply Average Urban Personal Property Tax Levy:	.135999
Estimated Tax Shift:	$ 2,038,343

C & I = commercial and industrial machinery and equipment

This quantified portion of the estimate dramatically underestimates the impact of the exemption, for the reasons set forth below:

(1) <u>Taxpayers sometimes report commercial and industrial machinery and equipment in lump sums</u>. These lump sum amounts contain items that have a retail cost new of $500 or less. The amount of lump-summed property varies; however, some counties have estimated that the lump summed property would add an additional 10% to 50% to the estimate.

(2) <u>Taxpayers that currently report items with component parts as a single item will have the incentive to break the item down as far as possible</u> in order to take full advantage of the new exemption. For example, a computer may be broken down into a monitor, key board, etc. The impact of this occurrence cannot be quantified but is likely substantial.

(3) <u>Taxpayers sometimes purchase items used</u>. The sampled counties were unable to convert a used purchase price to retail cost new in order to estimate the number of used purchases with a retail cost of $500 or less. The impact used purchases cannot be quantified, but is likely substantial.

(4) <u>Supplies and materials are expense items that are reported as a lump sum</u>; supplies and materials are not listed separately on Schedule 5 of the personal property tax return as a depreciable capital asset. The impact of supplies and materials cannot be quantified, but is likely to be only moderate or even insignificant.

(5) <u>House Bill 2108 appears to exempt oil and gas machinery, equipment, materials and supplies</u>. The impact on oil and gas property has not been estimated. However, in 1994, the assessed value of oil and gas personal property was $1,431,603,339, slightly more than the assessed value for commercial and industrial machinery and equipment. Thus, if oil and gas property is exempted, the impact could double the fiscal impact of House Bill 2108.

(6) <u>House Bill 2108 appears to exempt public utility machinery, equipment materials and supplies</u>. The impact on public utility property cannot be estimated. However, in 1994, the assessed value of public utility property (real and personal) was $2,873,398,503, over twice as much as the assessed value for commercial and industrial machinery and equipment. Thus, if public utility property is exempted, the impact could double the fiscal impact of House Bill 2108.

Senate Assessment + Tax
attach 5-1
4-7-95

K A N S A S

LEGISLATIVE TESTIMONY

NFIB
National Federation of Independent Business

50 Years of Fighting for Small Business 1943 1993

Testimony of
Hal Hudson, Kansas State Director
National Federation of Independent Business

Before the Kansas Senate Assessment & Taxation Committee

on House Bill 2108 & House Bill 2167

Friday, April 7, 1995

Madam Chairperson and members of the Committee: Thank you for this opportunity to appear here today. My name is Hal Hudson. I am State Director for the Kansas Chapter of National Federation of Independent Business. NFIB is the State's largest small-business advocacy group, with over 8,000 members who employ more than 100,000 Kansans. NFIB represents a broad cross section of Kansas employers who have one thing in common -- they all are small businesses. Over 80 percent of our members have 15 or less employees, and only one percent of our members employ over 100.

I am here today to urge you to support enactment of H.B. 2108 and H.B. 2167, to bring a measure of reasonableness to the administration of business personal property tax.

For many people, property tax is the most unpopular tax they pay. Our most recent evidence of this fact is the junior college bond issue in Johnson County which was to be funded by property tax. Over 60 percent of the voters, on this past Tuesday, rejected this proposal. On the same ballot, over 50 percent voted for a sales tax increase to improve the County's jail.

For many small businesses, personal property tax is the most despised of the taxes they pay. Many believe the current administration of personal property tax is unreasonable and is both unfair and discriminatory. Evidence of this was demonstrated by the fact that 91.8 percent of the NFIB/Kansas members -- from all across the State -- responding to our 1995 Kansas Ballot said the Legislature should enact a threshold exemption of $1,000 - $3,000, per single item, for commercial and industrial property. Please consider the plight of Kansas small business owners, as follows:

By Constitutional amendment, exemption has been granted for farm machinery and equipment, merchants' and manufacturers' inventories, livestock, and all household goods and personal effects not used in the production of income.

Then by statute, exemption has been granted for aquaculture and Christmas tree machinery and equipment, and legislation is pending to exempt property of nurseries. All hand tools and hand tool boxes used exclusively by a mechanic or tradesperson in the construction industry are exempt, unless, of course, such tools or tool boxes are the property of the owner of a business. Then they are presumed to be commercial property subject to taxation.

Prior to adoption of the classification amendment, many businesses simply copied their property listing from the depreciation schedule of their federal income tax return. Since, that procedure no longer is acceptable. Records must be kept for all machinery and equipment, because assessment of such property will always be some percentage of its original cost when new. It can never be depreciated below 20 percent of original cost when new.

And now, under direction of the PVD, appraisers are being directed to require business owners to list and report all other property - not just machinery and equipment subject to depreciation. This has become a time consuming, burdensome task, because they must also keep track of when items of little value were purchased and how much was paid for them -- forever.

Kansas law provides for self-reporting of property by the owner. Yet, if the rendition reported is found to be inaccurate or incomplete, the business owner can be subjected to penalties and interest charges going back years. Remember, efforts by this Legislature last year to provide amnesty were found unconstitutional by the Kansas Supreme Court.

H.B. 2108, by exempting any and all single items for which the cost when new was $500 or less, would simplify reporting for business owners, and would reduce the workload of county appraisers' offices trying to maintain records and track items which produce very little tax revenue. I urge you to report H.B. 2108 favorably, just as approved by 119 House members last Friday.

For all of the above reasons, I urge you also to report H.B. 2167 favorably. H.B. 2167 simplify codifies in statute directions of the PVD to the effect that old machinery and equipment, which has been fully depreciated and no longer is being used in the production of income should be classified as "other" and appraised at 30 percent of its fair market value.

The 8,200 members of NFIB would appreciate your vote in favor of both of these measures, here in committee and on the Senate floor. Thank you for your attention.

Organizations who have joined with NFIB/Kansas in a Coalition to support enactment of H.B. 2108 and H.B. 2167 include:

Associated General Contractors of Kansas (AGC)
Kansas Automobile Dealers Association
Kansas Bankers Association
Kansas Building Industry Association
Kansas Chamber of Commerce and Industry
Kansas Contractors Association (heavy & highway group)
Kansas Grain & Feed Dealers Association
Kansas Land Improvement Contractors
Kansas Lodging Association
Kansas Motor Carriers Association
Kansas Pest Control Association
Kansas Taxpayers Network
Kansas Wine & Spirits Wholesalers
Leavenworth Chamber of Commerce
Mid-America Lumbermans Association
Western Association (retail hardware and implement dealers)
Wichita Chamber of Commerce
Wichita Independent Business Association.

KANSAS COUNTY APPRAISERS ASSOCIATION

P.O. Box 1714
Topeka, Kansas 66601
HOUSE BILL 2108

To: Senate Assessment Taxation Committee
From: Larry Clark, CAE, Chair Legislative Committee
Date: April 7, 1995

I am presenting this testimony on behalf of the Kansas County Appraisers Association in opposition to House Bill 2108.

The reason for our opposition is the increased administrative problems which will be created for the taxpayer and the heightened sense of conflict between the appraiser's office and taxpayers unnecessarily created by this legislation. It is true that property owners will have less to report to the appraiser as a direct result of this legislation. Any item of personal property whose retail cost when new is $500 or less will not have to be listed on the annual form. That part is clear.

What is equally clear is that the legislature is establishing yet another exemption and that will require appraisers to demand a higher level of reporting from property owners. One of the foundations on which the property tax system is built is that taxation is the rule and exemption is the exception. The State Board of Tax Appeals, as well as the courts, have consistently laid the burden for proving exemption at the feet of those claiming it. County appraisers can do nothing less. As a result, property owners will have to prove with clear and convincing evidence the exact retail cost when new of each item that is left off of annual listings as a result of this legislation. I don't believe it is unreasonable to assume that appraisers will not only demand to see original receipts but that the taxpayer be able to specifically match a given receipt with an item or items of personal property. This may necessitate businesses setting up equipment inventory systems which were unnecessary under the existing system. If the taxpayer cannot provide clear and convincing evidence of the retail cost when new of items which were not listed, those items become escaped personal property, which the appraiser will have to list and penalize the taxpayer for failing to list.

All this is totally unnecessary. The administrative burden of commercial personal property owners can be eased through less drastic means. Proponents have stated that it is a burden to annually re-list all of their equipment. This can be eased by the counties simply making a copy of the prior year's return and mailing it to the property owner along with the rendition form. Several counties are already doing this with positive results. For those proponents who argue against county appraisers listing paper clips, exempt all office supplies. The tax shift will be minimal and the property owners will be rid of this nuisance.

Senate Assess + Tax
attach 7-1
4-7-95

League of Kansas Municipalities

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 112 S.W. 7TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

TO:	**Senate Assessment and Taxation Committee**
FROM:	Chris McKenzie, Executive Director *Chris McKenzie*
DATE:	April 7, 1995
RE:	Testimony on HB 2108

Thank you for the opportunity to appear today in partial support and partial opposition to HB 2108. The League strongly supports Section 3 of this bill which was successfully added during the proceedings of the House Committee of the Whole. It would amend K.S.A. 1994 Supp. 79-201a *Second*, in two important respects. A brief explanation of the bill is as follows:

First, Section 3 would clearly exempt from property taxation property which is acquired for a future use which is not actively used for a period of time, such as real or personal property acquired by a Police Department in a drug forfeiture case. Such an exemption also could apply to property acquired for downtown redevelopment, neighborhood redevelopment and park development purposes.

Second, Section 3 would clearly exempt from taxation real property which is leased by one tax exempt entity to another. For example, when a city owns a city-county law enforcement center and leases part of it to the county the property could be treated as exempt even though it is not being "used exclusively" by the city as required by K.S.A. 79-201 *Second.* Under K.S.A. 79-201 *First* school district property can be leased to other tax exempt entities.

A more complete explanation is as follows:

1. Property That Is Vacant or Lying Dormant. In July, 1994 the Kansas Supreme Court handed down a decision in In the Matter of the Application of the City of Wichita, Kansas, affirming a BOTA decision denying the City's application for ad valorem tax exemption for a residence acquired by the Police Department in a drug forfeiture case. The Court concluded that the fact the City was not actively and actually using the property for a governmental purpose precluded it from eligibility. It held this despite the fact the city's narcotics officers repaired the property and sold it as provided by state law. Furthermore, the proceeds of the sale went into a special fund to finance police narcotic enforcement activities.

The problem with the Court's holding is that it not only discourages requests by law

Senate Assess + Tax
attach 8-1
4-7-95

enforcement officers to courts to require forfeiture of such property, but it also diminishes the amount of funds that would be available for future narcotics enforcement activities. Similar interpretations could subject property held by cities for downtown redevelopment, housing rehabilitation, and park development to taxation.

2. Property Leased to Another Tax Exempt Entity. Recent decisions by BOTA have raised serious questions about the ability of a city or county to lease part of a city hall or county courthouse to another government agency (local, state or federal) or other tax exempt entity without losing the tax exemption for the property. In these cases BOTA has held that the "used exclusively" requirement of K.S.A. 1994 Supp. 79-201a *Second*, does not allow any lease of property by one exempt entity to another since it would destroy the "exclusive use".

Section 3 of HB 2108 allows such leases "...if no portion of the lease payments include compensation for return on the investment in such leased property..." In other words, such intergovernmental lease agreements are permissible if a profit is not made after all expenses, including debt service, are paid.

The cities of Kansas are eager to enter into lease agreements with other governmental agencies in order to better use municipally owned property. This legislation is necessary, however, if cities and other local units are not going to lose their tax exemption for publicly owned property. I am aware of two cities that are awaiting the enactment of this legislation, one of which is the City of Topeka which would like to lease part of its new law enforcement center to Shawnee County.

Comments on Sections 1 and 2 of HB 2108

We also appear in partial opposition to HB 2108 and its exemption provisions concerning commercial personal property. With the enactment of SB 14 cities and counties with local sales taxes will suffer an estimated loss of $10 - $15 million in local sales tax revenue. The League did not oppose the provisions of SB 14, but we respectfully submit that erosion of the local property tax base, as provided in Section 1 of HB 2108, will put further fiscal strain on cities which could increase the pressure to levy even higher property taxes--a result none of us wants. For this reason, we would urge the Committee to hold this measure over until 1996 until we can assess the impacts of SB 14 and obtain even better information about the fiscal impacts of Section 1 of HB 2108.

Conclusion

We recommend the approval of Section 3 of HB 2108. Thank you for your assistance.

SEDGWICK COUNTY, KANSAS
OFFICE OF THE APPRAISER

COUNTY COURTHOUSE ● 525 N. MAIN, ROOM 227 ● WICHITA, KANSAS 67203-3795 ● PHONE: (316) 383-7461 ● FAX: (316) 383-7457
REAL PROPERTY DIVISION ● 604 N. MAIN, SUITE F ● WICHITA, KANSAS 67203-9896 ● PHONE: (316) 383-7810 ● FAX: (316) 267-1658

TO: SENATE TAX COMMITTEE

FROM: GERALD C. FRANTZ, SEDGWICK COUNTY APPRAISER

SUBJECT: SENATE VERSION OF H.B. 2108

DATE: APRIL 7, 1995

This bill exempts business personal property purchased for less than $500. We estimate that business personal property generating approximately $7 million for the city of Wichita, Sedgwick County and the associated schools and small cities will be taken off of the tax rolls.

It is unlikely that these jurisdiction will decrease their budgets to account for this lost revenue. The tax burden will, therefore, be shifted to other real and personal property taxpayers.

<u>In Sedgwick County, $3.78 million of the tax shift will be borne by residential and agricultural property owners.</u> An estimated $2.03 million of the tax shift will be realized by the owners of commercial and industrial property, with another $1.05 million shifted to the remaining business personal property accounts.

This bill will benefit primarily service type businesses and retail establishments. Generally speaking, desks, chairs, tables, typewriters, shelves, personal computer equipment and other office and retail business equipment, when purchased separately, cost less than $500. Those business that are more capital intensive, such as manufacturing and heavy construction, have the majority of their value in big ticket items, e.g. mainframe computers, machinery and heavy equipment.

<u>This bill will increase the cost of operating our County Appraiser's office.</u> We estimate that the administration of this legislation will increase our cost by $150,000 just to maintain the same level of service to the taxpayers of Sedgwick County.

SUMMARY - THIS LEGISLATION WILL:

* 1) SHIFT THE BURDEN OF TAXATION TO RESIDENTIAL AND AGRICULTURAL PROPERTY OWNERS.
* 2) INCREASE THE COST OF GOVERNMENT.

"... To Be The Best We Can Be."

Senate Assess + Tax
attach 9-1
4-7-95

April 6, 1995

TO: Senate Assessment and Taxation Committee

FROM: Paul A. Welcome, CAE, Johnson County Appraiser

SUBJECT: House Bill 2108

This bill addresses two major issues. First, the implementation date and second, the exemption of items with original cost below $500. Each item is discussed.

The implementation date for this bill would impact all renditions filed after December 31, 1994. This would cause all renditions filed with the County in 1995 to be in error. With the proposed change, all the filings by the business community would have to be refiled with the county appraiser's office. The other alternative would be for the property owner to file a *Tax Grievance* and the State Board of Tax Appeals would have to rule on the corrections. I firmly believe this would cause chaos in the valuation that the County Appraiser certifies to the County Clerk on June 15th. In addition, approximately 19,000 renditions in Johnson County would have to be reworked with a new rendition or corrected in the *Tax Grievance* process.

Since January, the staff has been working full time to process the filed returns and complete the valuation in the required statute deadlines. All of their work would have to be redone. Does the state propose to reimburse the county for the additional expense to correct a retroactive bill passed after the filing deadline?

The second part is if the item cost less than $500 the item would be exempt. I have heard many times about staples being counted for taxation purposes. It seems the issue is for the insignificant items not to be counted. We concur with a minimal threshold value, say $100. If the $500 is adopted, we could see a computer workstation being bought with several invoices: one for the computer terminal, one for the computer, one for the keyboard, and so on, to keep the cost below $500.

As you look around here or in your offices, most equipment would be exempt from taxation. Tables, chairs, file cabinets and computers would all be eliminated if the exempted amount is $500 per item or less. We believe a $100 threshold would be reasonable to eliminate the insignificant items for future years or having office supplies exempt from taxation.

As a side note, office supplies, as well as Schedule 6 items, should be considered exempt for taxation purposes. Schedule 6 equipment items are parted out to repair other machinery or are not intended to be used. The appraiser is to estimate "market value" for equipment used for spare parts. Who knows what the market value is?

JOHNSON COUNTY SQUARE
111 SOUTH CHERRY STREET, SUITE 2100
OLATHE, KANSAS 66061-3468

ADMINISTRATIVE OFFICE
(913) 764-8484

CUSTOMER SERVICE
(913) 829-9500

FAX (913) 791-1770

We estimate at the $500 threshold, the governmental taxxing units would be in the position of shifting taxes to the other remaining properties owners. Approximately $65,803,153 in assessed value loss or $8,422,804 in tax dollar loss would be shifted to the remaining property owners.

This bill would have a profound impact on Johnson County. This exemption diminishes the personal property tax roll, because one major industry is the service business with small equipment. With the threshold of $500, have we used a sledge hammer when a fly swatter would do the job with a $100 threshold.

In addition, I would like to illustrate the tax shift, not tax cutting, occurring in the State and in Johnson County, specifically:

	Statewide		**Johnson County**	
Property Type	1988	1993	1988	1994
Real Property	44.34%	55.13%	53.11%	72.62%
Personal Property	24.31%	16.19%	17.49%	8.17%
Utility Property	17.77%	15.93%	6.43%	4.86%
Motor Vehicles	13.58%	12.75%	22.97%	14.35%

The tax burden is shifting to real property statewide and in Johnson County. As you diminish the personal property valuation, the problem will continue to shift to the homeowner and other property owners.

A:\HB2108SE.WPD

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732

HB 2108 & 2167

April 7, 1995

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Assessment and Taxation

by

Bob Corkins

Director of Taxation

Honorable Chair and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry, and I appreciate the opportunity to speak today. KCCI members believe that fairness in the administration of personal property taxes could be substantially improved and we view both HB 2108 and HB 2167 as very good ways to accomplish that goal.

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.

The reason for KCCI's interest in both of today's proposals is the same as that we provided for two other bills this legislative session. We appreciated your support when House bills 2113 and 2115

Senate Assess + Tax
attach 11-1
4-7-94

were approved virtually unanimously in both the House and Senate and were then signed by the Governor. Those bills will help curb the growing zealous enforcement of business personal property taxes, and we explicitly asked your endorsement of their reforms (reducing penalties and tax discovery periods) with this objective in mind. As important as those measures are, you may recall that I spoke of more significant reform plans to come.

KCCI expresses its gratitude for the steps you took (in both 1994 and 1995) to address the personal property tax situation. Unfortunately, the state Property Valuation Division (PVD) still persists with an "educational" program which encourages counties to adopt crackdown techniques in ferreting out new tax revenue. KCCI has good reason to believe that the Department of Revenue in the new administration will be at least as severe as the past administration in their enforcement tactics on this and other tax matters.

PVD has distributed form letters to the counties for their use in demanding production of business documents that <u>may</u> reveal escaped personal property. This tactic has been launched in many counties and if the PVD crackdown has not yet caused a taxpayer backlash in your Senatorial district, the odds are substantial that these letters will yet cause such a reaction. One such form letter calls for the recipient business to supply their fiscal year end, chart of accounts, audited financial statements, trial balance, fixed asset and depreciation schedule, federal income tax return, schedule reconciling accounting records to their tax rendition (if available), general ledger, subsidiary ledgers, supporting journals, year-end adjusting entries, <u>and</u> equipment leases.

Today's hearing addresses the heart of the problem with HB 2108 and 2167. The threshold exemption proposed in HB 2108 would be the single most useful change to benefit businesses in this area of taxation. Currently, all business property which is not real estate is a target for personal property taxes. The administrative burden upon businesses is an unrealistic, overwhelming, and even counter-productive from a tax collection perspective when they are forced to track items of low value. Furthermore, this part of the tax code is fraught with ambiguity which allows for the challenge of virtually every property tax rendition ever submitted.

Consequently, some "safe harbor" legislation is warranted. Our objective is not to cause local units of government to lose any of their tax base. No local tax revenue should be sacrificed under this plan because, generally speaking, this is property upon which county appraisers have not exercised their tax enforcement power before. Whether the appropriate threshold amount is $2500, $500, or $5000, it should nevertheless be established. We contend that the level should be set as high as possible so long as the tax base effect is insignificant. Data distributed by PVD during the House debate on this issue indicates that a threshold exemption level of $1,000 would disturb less than 1% of the statewide property tax base [see attachment]. KCCI therefore advocates a $500 increase in the House-approved threshold of $500.

Today's second proposal, HB 2167, addresses a problem which may come as a surprise to many. Business machinery and equipment, even if its economic life has expired and even if it is unused and gathering rust in a vacant lot, is still subject to taxation at 20% of its retail cost when new. In some circumstances, tax officials have deemed that the assessed valuation of such outdated and unused property should *increase* because (by virtue of being unused) it is no longer within the explicit machinery and equipment definition of our constitution. If such property does not fall within that classification which applies tax at an assessment rate of 25%, then it falls within the catch-all "other" classification which applies a 30% assessment rate. HB 2167 in its present form acknowledges and codifies this interpretation. However, the bill also makes it clear that personal property in this classification is to be appraised at fair market value, not at 20% of original price. We, and a unanimous House of Representatives, believe this solution to be reasonable.

We respectfully ask that you approve both bills with the modification indicated on HB 2108. Again, thank you for the opportunity to address the Committee.

KCCI

Kansas Chamber of Commerce and Industry

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

835 SW Topeka Blvd.
Topeka, KS 66612-1671
(913) 357-6321
Fax (913) 357-4732

To: House Taxation Subcommittee
on HB 2108 & 2167

From: Bob Corkins, KCCI Dir. Taxation
Date: February 22, 1995
Re: Impact of threshold exemption on
statewide property tax base

1994 Statewide Assessed Value	$15.473 billion	TOTAL Realty and Personalty
	1.144 billion	Commercial Mach. & Equip. (7.39% of TOTAL)

Per PVD Memo of 2/21/95

Assuming HB 2108 threshold were set at $2,500
Statewide loss of tax base (i.e. assessed value) for Commercial M&E = 17.75% M&E reduction

17.75% of 7.39% = **1.31% reduction in TOTAL State Assessed Value**

Assuming HB 2108 threshold were set at $1,000
Statewide loss of tax base for Commercial M&E = 8.74% M&E reduction

8.74% of 7.39% = **.65% reduction in TOTAL State Assessed Value**

11-4

800 WESTPORT ROAD • KANSAS CITY, MISSOURI 64111-3198
816/931-2102 FAX 816/931-4617
MID-AMERICA LUMBERMENS ASSOCIATION

TESTIMONY FOR THE SENATE TAXATION COMMITTEE

APRIL 7, 1995 HOUSE BILL 2108

Madame chair, members of the Senate Taxation committee. My name is Art Brown, and it is my pleasure to appear before you today representing the retail lumber dealers in the State of Kansas as a proponent for HOUSE BILL NO. 2108.

I am going to draw on a personal experience I had just two weeks ago to bring support for this measure. I am in the process of purchasing some office equipment for a room in my dwelling to work out of. My need is a 4-drawer file cabinet. In looking in the newspaper, making some runs to office supply stores, and just generally "testing the market" on this item, I found a new cabinet cost approximately $425.00. I was able to locate a used one for $191.00, orginally marked at $255.00. I suggest to you, that the $500.00 threshold mentioned in this bill certainly does track values in the "real world" when it comes to personal property used by small business.

I apply my purchasing example as a test to any small business in the district you as a Senator represent. I am confident, most of them would tell you, that $500.00 is certainly not an unrealistic number to use as a

Senate Assess + Tax
attach 12-1
4-7-95

threshold in the valuation of personal property used in business.

The intent of this legislation is to provide some needed tax relief for small business' from having to pay on many "nickel and dime" type of personal property. At a $500.00 threshold, you do just that.

We will not try to add any type of rhetoric, or embellish the prior testimony from the folks in Leavenworth County, who as business owners, have a far greater first hand knowledge of the impact of this legislation than we do at this point.

We as a coalition started this threshold at $2500.00. The information necessary to make an accurate determination as to the impact on local units has been difficult to attain, and that is an understatement. However, through prior testimony from County appraisers in two urban counties, dior forecast were prophesized and rather then be responsible for the end of the world as we know it, the business coalition relented to the $500.00 level passed by the House of Representatives on a 119-6 vote.

Of course we are not appraisers. They seem to have the numbers to prove their case, and in no way to we want to make light of their expertise in this area. We only know this:
The biggest issue that I have heard about this year, in a positive light, was the 2-year moratorium on the unemployment reserve fund. You have a chance for a 2nd home run, by passing out this legislation to the small business community to give some much needed regulatory and paper work relief, and some instant tax

relief by passing out House Bill 2108 favorably with a $500.00 threshold for taxes paid on personal property used in business.

Would every single business benefit? Would every single County benefit? In some areas is $500.00 to high a threshold? Perhaps. BUT, in the LIONS SHARE of the State, with the LIONS SHARE of small business' this particular bill, with this level of a threshold, would be accepted by far more small business' then a lower level, which, in our view, would almost provide below minimal relief to our smaller members.

You as a legislative body, made a great, and successful decision by passing the 2-year moratorium on the unemployment reserve fund. This bill is not related to that fund. We know that. But the impact of the decision to further help out the small business' in this State is still no less of a positive and gutsy decision that can be made to enhance the tax relief effort that this Legislature has charted a course on since the 95' session began.

We leave it to the wisdom of this body, but we urge you, in the most persuasive language we can offer, to pass out House Bill 2108 favorably with the $500.00 threshold recommened in this bill.

I thank you for this opportunity to visit with you as a proponent for HB 2108 and stand ready to anwer any questions you may have or address any of your comments.

McKINZIE PEST CONTROL
A McKINZIE INC. COMPANY

MEMBER
NATIONAL PEST CONTROL ASSOCIATION

HEADED BY AN ENTOMOLOGIST

DIRECT INQUIRIES TO:
☐ MPC EMPORIA INC. • 209 Commercial • Emporia, Kansas 66801 • (316) 342-4222
☐ MPC PARSONS INC. • 1612 Washington St. • Parsons, Kansas 67357 • (316) 421-2070
☐ MPC MANHATTAN INC. • 1129 Hayes Drive • Manhattan, Kansas 66502 • (913) 776-6063

APRIL 7, 1995

COMMENTS TO THE SENATE COMMITTEE ON TAXATION

Thank you madam chair and members of the committee for allowing me to appear before you today to comment on HB 2108. My name is Vernon McKinzie, Emporia, Kansas. I have pest control interests in Emporia, Manhattan and Parsons. We employ about 20 persons.

I am also chair of the Kansas Pest Control Association Government Affairs Committee. Our association has about 150 member companies in Kansas, ranging from sole proprietorships to regional and national firms. Our members all have similar business operations. I will illustrate my personal numbers from our Emporia office as a typical example. The percentages will be close, but the dollar values and time requirements will change in proportion to the size of company.

We urge you to establish the $500.00 acquisition cost figure as a base for declaring equipment and supplies for personal property valuation purposes.

In my company's case, acquisition costs for items we continue to have range from $5.00 for a small step ladder in 1968 to a new computer in 1991 for $10,270.00. Our office supplies consist of items ranging in cost of $288.00 for 4800 sheets of letterhead stationery to fifty-two cents for one cash receipts book.

It requires two to three days of our operations manager's time to count and list our inventory. Our office manager spends at least one half day counting and listing our office supplies. Our total property tax bill for these items for 1994 was $459.34.

If the $500.00 acquisition cost figure were applied, our estimated time savings would be about eighty percent of the above figures, but the tax loss or reduction would only be about $100.00. We do not object to paying the property tax, but we believe the time we spend in counting small items actually costs us more in labor than the tax amount is.

By adopting HB 2108 you will greatly reduce the time spent by small businesses to count minutiae, yet not realize significant loss to taxes. Please give us some relief! Thank you.

Senate Assess + Tax
attach 13-1
4-7-95

JEM LP GAS CO.
710 INDUSTRIAL RD.
EMPORIA, KANSAS 66801
FEBRUARY 15TH, 1995

Audrey Langworthy, Chairman, Senate Assessment & Taxation Committee:

Following is information I would like to present to your committee in regard to H.B. 2108

I am E.M. Boyce, owner of JEM LP Gas Co., Emporia, Kansas. We also have locations in Ottawa and Garnett. Our business is retail sales of LP Gas to Industrial and Residential customers in the state of Kansas.

H.B. 2108 effects the LP Gas business in Kansas very much. One of the services we and other propane dealers in the state offer is the leasing of LP Gas Tanks. These tanks are located at the home or place of business. This means each tank is in a different taxing district in the County in which it is located so it is necessary to fill out a Tangible Personal Property Ad Valorem Tax Return for each tank. At the present time we have about 300 tanks leased. To cover 300 tanks we fill out up to 200 returns. As near as I can figure it costs us about $3.00 to $4.00 per return. For the County then the figure is about $10.00 per return. Together we are spending about $2800.00 from beginning to end in bookkeeping and postage. The total tax the Counties collect per year is about $400.00 on 300 tanks. Most of this equipment is old so the tax on some tanks is as low as $.35 . Most of them run a little over a dollar. These figures come from my returns in Coffey County.

I have complained to the appraisers over the years and they agree it's not a good deal but the law says do it so we have been doing it. They said if I didn't like it to get the law changed so here I am today. Please hear me.

You will find most of the dealers over the State are not complying with the law. One reason is it is hard to do.

At the present time the law is such that it can't be enforced properly. Now I understand starting this year 25% of all businesses will be audited each year for the next four years. Again to do this properly the assessor or his employee will be required to see and account for each tank to verify the number, size, age etc.

Senate Assess + Tax
attach 14-1
4-7-95

Another business that is going to be effected will be the companies leasing these small TV Dishes. There are thousands of them being installed around the State and each one of them fall in the same category as the propane tank.

H.B. 2108 will not cost the State and Counties much revenue because of the saving's in cost of additional personnel and vehicle mileage.

For the above stated reasons I request you give favorable attention to H.B. 2108

E.M. Boyce

TESTIMONY ON HB 2108
of the
City of Wichita
for the
Senate Taxation Committee

The City of Wichita submits this testimony in **support** of HB 2108 as amended by the House Committee of the Whole.

Section 3 of this bill amends K.S.A. 79-201a *Second* pertaining to ad valorem tax exemption for municipally owned property. The amendments clarify that property acquired by a municipality or other political subdivision of the State does not lose its tax exemption just because it is currently vacant or lying dormant.

The first amendment (page 4, line 15) adds the phrase "including property which is vacant or lying dormant" to the description of property eligible for tax exemption. This amendment is intended to address the problem resulting from In re Tax Exemption Application of City of Wichita, 255 Kan. 838 (1994). In this case the Board of Tax Appeals and ultimately the Supreme Court denied tax exemption for a house acquired by the Wichita Police Department under the drug forfeiture law. The house was held and maintained (vacant) by the police department and ultimately sold with the sale proceeds returning to the Police Trust Fund for drug enforcement purposes. The Court found: "Exclusive use of property as defined by K.S.A. 79-201a *Second* requires actual use of the property for a public purpose. . . . The term "use" contemplates some active, actual utilization of the property." (Syl. ¶ 7)

The Supreme Court also invited the Legislature to decide the policy issue of whether such property should be exempt.

In addition to houses acquired by drug forfeiture, local governments are now being faced with the problem of the Board of Tax Appeals (BOTA) potentially considering any vacant property as being subject to property taxes -- whatever the nature of the acquisition or anticipated use of the property. The Board of Tax Appeals, for example, has denied exemption on unoccupied properties acquired by the City of Wichita through sheriff deeds under its low income home rehabilitation loan program where the City will either rehabilitate and sale or demolish the properties.

Under this amendment, the municipality would still have to qualify the property for exemption under the other criteria of the statute and case law (used for any governmental or proprietary function and for which bonds my be issued or taxes levied). The amendment clarifies the state of the law and keeps municipalities from having to pay property taxes out of such funds as the police drug fund and the housing rehabilitation fund.

The second amendment (page 4, lines 29-34) addresses the related problem of leases by cities to other governmental entities or to non-profit organizations. The BOTA has already

Senate Assess + Tax
attach 15-1
4-7-95

questioned whether such leases retain the "used exclusively" character of the property. Exemption is denied merely because the property is being used by two tax exempt entities rather than one (and thus not "exclusively" by either). The proposal would still require the lessee (whether public or non-profit) to use the property in a manner that would qualify for exemption under some other section of the chapter if it were owned by that entity. The bill is more restrictive than the previous version in HB 2261, however, in that it limits exemption to those situations where "no portion of the lease payments include compensation for return on the investment in such lease property."

The bill is a common sense approach to address the potential challenge to the tax exemption of numerous properties owned by local government which have been traditionally exempt. The City of Wichita supports the adoption of HB 2108.

April 7, 1995
ii

The following statement supporting H.B. 2108 & H.B. 2167 is submitted on behalf of the Kansas Grain and Feed Association (KGFA). KGFA is the state's professional trade association for the grain handling, merchandising and processing industry. Founded in 1896, the 1200 member firms are in every Kansas county and include country elevators -- both independent and cooperative -- subterminal and terminal elevators, feed manufacturers, grain merchandisers, equipment manufacturers and others who serve the industry.

With regard to the personal property targeted in H.B. 2108, the grain industry shares the concerns of other businesses in the state. Items required to be listed by our members include telephones, typewriters, copiers, tools, calculators, fax machines, adding machines, desks, chairs and supplies. KGFA members also have items unique to the grain business. These include gram scales, moisture testers, grain dividers and portable grain augers. Setting a $500 floor and removing these items from the personal property tax rolls would accomplish several things, the least of these being tax reduction. KGFA believes the floor established in H.B. 2108 would (1) relieve a clerical and paperwork burden; (2) clear the air with regard to compliance and relieve the anxiety level of those trying to be complete; (3) level the playing field between counties as some strictly enforce personal property tax reporting while others do not, and; (4) delete a provision that requires a great deal of effort for a relatively small return -- for both county officials if they are truly going to enforce and business owners when they try to be complete.

KGFA supports H.B. 2167. It draws a necessary line between property used to make income -- why KGFA firms are taxed as businesses -- and items that have outlived their usefulness. This is especially true today. The rapid advance of technology makes many items obsolete before they wear out and also strips away the market for the resale of these obsolete items more quickly. Valuing items no longer used to produce income at fair market value is good old fashion common sense -- it is taxed at the level the business could receive in the marketplace if the item were sold.

In closing, KGFA supports H.B. 2108 and H.B. 2167. Both bring a sense of reasonableness to the personal property tax scheme in Kansas. Any questions may be directed to Jamie Clover Adams, Director of Legislative and Regulatory Affairs, 234-0461.

Senate Assess + Tax
attach 16-1
4-7-95

OVERLAND PARK chamber of commerce

2/17/95

POSITION STATEMENT
HB 2108

PERSONAL PROPERTY TAX ON BUSINESS MACHINERY & EQUIPMENT

- Chamber opposes HB 2108 in its current form.

- This is not a tax reduction. It is a tax shift.

- Although on the surface this appears to be a very popular bill for small business:

  - A shift is not a reduction.
  - There are already too many tax reduction proposals and so far, no spending reductions.
  - Original construction, personal and corporate income tax, real estate property taxes and motor vehicle taxes are higher priorities to be addressed first.

- There are other unknowns as it relates to the tax base in Johnson County.

  - Motor vehicle tax reduction
  - Recent new appraisals show an average 14.5% increase in our market value. Even if local governments roll back their mill levy, most residential and business real estate will see an increase due to the 36.5 mills levied at the state level for school finance and state buildings.
  - If the Jail Sales Tax issue should fail, the county will fund the jail with property tax.
  - If JCCC Bond Issue passes, it will also be property tax funded.

- Although statewide averages may show different overall results, the Johnson County tax base is different and once again we find ourselves at the extreme end of a statewide average. Currently 72% of Johnson County property tax base is real estate. The Chamber opposes any further shift onto real estate.

- Opposed to $2,500 threshold because it would result in an approximate 50% reduction in total county personal property assessed value.

- Currently the issue experienced by other counties is not the practice or a problem in Johnson County.

- Local issues should not be solved with statewide solutions.

- If state insists on addressing this issue, a $100 floor should solve problems along with some technical language changes such as:

  - Used purchase equals retail cost when new
  - The definition of old unused equipment (exempt if used for parts)

- The Chamber does support the reduction of the rate (currently 25%) on personal property along with that of commercial real estate (25%) through the classification amendment.

ACCREDITED

10975 Benson • Suite 350 • Overland Park, Kansas 66210 • 913/491-3600
P.O. Box 12125 • Overland Park, Kansas 66282-2125 • Fax 913/491-0393

Senate Assess + Tax
attach 17-1
4-7-95

Johnson County HB 2108 Impact Estimates

Exemption Thresholds	$2,500	%	$1,000	%	$500	%	$250	%	$100	%
Total Assessed Value	$253,442,380	100%	$253,442,380	100%	$253,442,360	100%	$253,442,360	100%	$253,442,380	100%
Estimated Assessed Value Loss	$135,223,088	53.35%	$118,020,261	46.57%	$65,803,153	26.98%	$46,574,074	18.38%	$25,545,460	10.08%
Remaining Assessed Value	$118,219,274	46.65%	$135,422,099	53.43%	$187,639,207	74.04%	$208,868,288	81.62%	$227,896,900	89.92%
Total Estimated Tax Dollars	$32,440,622	100%	$32,440,622	100%	$32,440,622	100%	$32,440,622	100%	$32,440,622	100%
Estimated Tax Dollar Loss	$17,308,555	53.35%	$15,106,593	46.57%	$8,422,804	26.96%	$5,961,481	18.38%	$3,289,819	10.08%
Remaining Tax Dollars	$15,132,067	46.65%	$17,334,029	53.43%	$24,017,818	74.04%	$26,479,141	81.62%	$29,170,803	89.92%

Notes: The exemption thresholds are based on the replacement cost new (RCN) or original cost values.
Only commercial and Industrial Machinery and Equipment is considered.

Comparisons to Statewide Averages

	Johnson County	State - PVD Survey
Total Assessed Value	$2.912 billion	$15.473 billion
Total Assessed M & E	$253,442,360	$1.44 billion
Percent of Total	8.66%	7.39%

17-2

KANSAS ASSOCIATION OF SCHOOL BOARDS

1420 S.W. Arrowhead Rd, Topeka, Kansas 66604
913-273-3600

TO: Senate Committee on Assessment and Taxation
FROM: Mark Tallman, Director of Governmental Relations
DATE: April 7, 1995

RE: **Written Comments on H.B. 2108**

Madam Chair, Members of the Committee:

The Kansas Association of School Boards would like to express support for the provision of H.B. 2108 which would allow political subdivisions (such as school districts) to lease real property to other entities without loss of tax exemption as long as the property is used exclusively for an exempt purpose.

KASB believes that school districts should be allowed and encouraged to cooperate with other local units and community organizations to provide services in the most efficient means possible. We believe that this legislation is consistent with that goal.

Thank you for your consideration.

Senate Assess + Tax
attach 18-1
4-7-95