

Approved: 3-26-96  
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:09 a.m. on March 6, 1996 in Room 519-S of the Capitol.

All members were present except: Rep. Doug Lawrence  
Rep. Tony Powell

Committee staff present: Chris Courtwright, Legislative Research Department  
Tom Severn, Legislative Research Department  
Don Hayward, Revisor of Statutes  
Shirley Sicilian, Department of Revenue  
Ann McMorris, Committee Secretary

Conferees appearing before the committee:

Rep. Laura McClure  
Bob Corkins, Kansas Association of Commerce & Industry  
Hal Hudson, National Federation of Independent Business  
Rick Stuart, Jefferson County Appraiser  
Rep. Tom Sawyer

Chair called on Rep. Richard Alldritt who presented a request for bill that would exempt from sales tax any fencing materials farmers and ranchers use in replacing fences destroyed by wild fires in 1996.

Moved by Rep. McKinney, seconded by Rep. Hayzlett, the committee introduce a bill exempting from sales tax fencing materials used in replacing fences destroyed by wild fires in 1996. Motion carried.

Chair opened hearing on:

**HB 3049 - Valuation of business machinery and equipment for property tax purposes.**

Proponent:

Rep. Laura McClure (Attachment 1)  
Bob Corkins, Kansas Association of Commerce & Industry (Attachment 2)  
Hal Hudson, National Federation of Independent Business (Attachment 3)  
Rick Stuart, Jefferson County Appraiser (Attachment 4)

Chair closed hearing on **HB 3049.**

Chair opened hearing on:

**HB 2935 - Income tax basis and rates**

Proponent:

Rep. Tom Sawyer (Attachment 5)

Opponent:

Written testimony by Ruby M. Creighton (Attachment 6)

Chair closed hearing on **HB 2935.**

Chair announced Subcommittee on **HB 2999 - Sales taxation payment responsibilities** chaired by Rep. Shore will meet on Friday, March 8 at 8:00 a.m. in Room 522-S.

The next meeting is scheduled for March 7, 1996.

Adjournment at 10:00 a.m.

Attachments - 6



# OSBORNE INDUSTRIES INC.

P.O. Box 388, Osborne, KS 67473

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March 1, 1996

TAXATION COMMITTEE  
State Capitol Building  
Topeka, KS 66612

Subj: House Bill No. 3049

Mr. Chairperson and Committee Members:

House Bill No. 3049 appears to be a small improvement of current law. However, even though the Bill is an improvement, the current law and this Bill contain a paragraph that is unnecessarily complicated and creates a very serious problem for our Company. Please consider the following comments and suggestions.

Section 1. (b)(2)(D) as written complicates the description of this personal property subclass unnecessarily. It will raise controversy and the burden to business that inevitably goes with controversy during the administration of the law. Please consider replacing subparagraph (D) (starting on page 2 line 14, ending on line 27) with the following:

"(D) commercial and industrial machinery and equipment (including rolling equipment defined pursuant to K.S.A. 79-6a01 and amendments thereto) which shall be valued at its total cost (including the cost to purchase, to renovate and to place into service) less straight-line depreciation (not to exceed 80% of its total cost) over its economic life (not to exceed seven years) as long as it is being used, at 25%; and"

This wording establishes a value which is consistent with IRS rules and regulations and thereby eliminates the need for yet another depreciation schedule for a single piece of equipment. (We currently are required to keep four different depreciation schedules for the same assets to comply with all regulations!) This wording eliminates the unnecessary and unfair distinction between new and used equipment. It eliminates inevitable controversy over what constitutes "due diligence". It eliminates the requirement to establish a "fair market value" which can be nearly impossible for special machinery and is often very subjective. This wording eliminates the burdensome and potentially impossible task of establishing a "retail cost" published in the distant past and generally simplifies the language of the paragraph.

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This wording also eliminates a very serious burden on our Company, and I suspect many other companies, that is created when an artificial value for used equipment is established based on its "retail cost when new". Our Company is growing and we have added eight jobs thus far by developing a new manufacturing department which relies on our ingenuity to hold capital equipment costs extremely low. We accomplish this by purchasing used, often obsolete equipment from Fortune 500 companies who are suppliers to users of large volumes of parts such as the automotive industry. These big companies paid tens, if not hundreds of thousands of dollars for the equipment, amortized the capital costs over millions of parts and are now modernizing with new automated equipment. However, the old equipment can be rebuilt and is still capable of producing low and intermediate volumes of parts. We acquire this equipment at near "junk" prices, renovate it inexpensively and use our own inexpensive tooling in the equipment. This allows us to serve manufacturers in Kansas and the surrounding area and create jobs that otherwise would not exist. Most of these customers require low to intermediate volumes of parts that can be made with these machines.

We can only be competitive in this market by minimizing the capital cost amortized to each part produced by this equipment. Our "total cost" of this equipment can be lower than the depreciated residual 20% of "retail cost when new". The current law and HOUSE BILL No. 3049 imputes an artificially high value on this equipment and imposes a unrealistic and unfair tax load which will severely hamper and probably totally kill the economic viability of this operation which could otherwise grow to employ two, three or four times the number currently employed. I cannot understand the need for or the wisdom of adding the paperwork burden of artificially establishing a value when "real" values are documented in the normal course of business. Furthermore, the law as written, effectively penalizes those businesses who use "American ingenuity" to make something out of practically nothing and will force other manufacturers like ourselves out of Kansas into adjoining states.

I trust you will seriously consider my comments and suggested wording. I appreciate the opportunity to provide them.

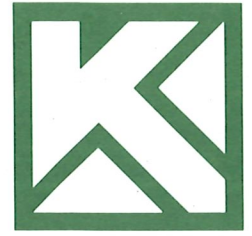
Sincerely,

OSBORNE INDUSTRIES, INC.

  
Stanley M. Thibault  
President

# LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



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

HB 3049

March 6, 1996

## KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the  
House Committee on 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. Thank you for the opportunity to express our members' support for the personal property valuation proposal set forth in HB 3049.

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 46% of KCCI's members having less than 25 employees, and 77% 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.

This measure is prompted by the unfortunate fact that "trending factors" are alive and well in the realm of machinery and equipment (M&E) property taxation. When the legislature approved our

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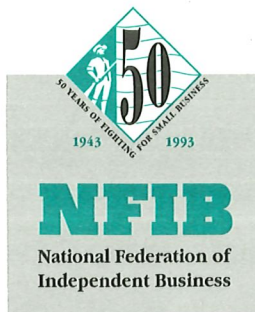
erty classification scheme in 1986, it responded to a loud business complaint about the practice of using charts and graphs to determine M&E tax values. Even today, the state Property Valuation Division instructs county appraisers to rely on a "used factor" table of data that assigns a fictitious original cost when a property's original cost cannot be otherwise determined.

This practice strikes KCCI's membership as being inherently arbitrary and inequitable. It often results in a taxable value calculation (even after straight-line depreciation is applied) which is significantly higher than the used purchase price of the M&E in question. Clearly, the methodology achieves a result which may reflect fair market value only by accident.

Some will say this criticism is irrelevant because our Constitution does not concern itself with M&E fair market value -- the Constitution calls for "original cost when new." However, an item's original cost when new is the result of market forces. Fair market value is therefore an implicit factor in the Constitution's M&E language. HB 3049 would reinsert this principle of fair market value in the appraisal of used M&E. It is a principle that drives almost every other aspect of property taxes, but has been inappropriately erased from the tax code in this instance.

KCCI would like to see a more aggressive proposal than HB 3049 in order to correct all inequities of the M&E appraisal process. Unfortunately, the Kansas Constitution ties our hands. Because of its insistence upon "original cost when new," we believe the Constitution will not allow the fair market value test of HB 3049 to be applied unless the search for "original cost" is fruitless. When you consider that some durable goods are sold three or more times over a long economic life, you can imagine how difficult this records search can be.

Perhaps a movement to amend the Constitution in this regard will show some promise in the near future. Until then, HB 3049 will certainly be an improvement in M&E tax fairness over the way it is administered today. KCCI asks that you recommend it favorably for passage.



**Statement By**  
**Hal Hudson, State Director**  
**Kansas Chapter of the National Federation of Independent Business**  
**Before the**  
**Kansas House Taxation Committee**  
**on House Bill 3049**

**March 6, 1996**

Mr. Chairman and members of the House Taxation Committee, thank you for the opportunity to appear here today in support of H.B. 3049.

My name is Hal Hudson, and I am the State Director for the 8,000-member Kansas Chapter of the National Federation of Independent Business.

Today I want to talk with you about fairness and equity in property taxation, something I know from past actions of this committee appeals to each of you. And, I want to focus your attention on just one section of H.B. 3049 -- that is new section (D), beginning on line 14 of page two of the bill. It addresses the issue of valuation of property purchased used.

The problem we would like you to deal with is the appraised/assessed value assigned to property purchased in used condition.

Let me cite just a couple of examples:

A small business owner who offices in my building has a desk he purchased at a public auction for \$5.00. He says this desk may have cost several hundred dollars when new, but nobody knows who bought it new, how old it is, or even how many owners it may have had. It sold at the auction for \$5.00. What should its fair market value be? How much effort should he have to expend to determine the original cost at retail when new?

A small manufacturer in a neighboring county bought a complex used milling machine

for his plant in 1990. He paid \$30,000 for the machine. He didn't know what it cost new, how old it was, or how many owners had used it. The County appraiser came along and said since the owner could not establish the original cost when new, he would use a formula -- presumably that provided by PVD -- and he assigned a value of five times the used purchase price. Then allowing straight depreciation, admitting the machine was over seven years old, he put it on the tax rolls at \$30,000. Many months and hundreds of dollars later, the owner was able to establish that this piece of equipment sold when new in 1960 for only \$10,000. On appeal, he was able to get BOTA to agree that the constitutionally depreciated value was \$2,000. But he had spent months and hundreds of dollars in attorney fees to get to this point.

Property taxes shouldn't be so complicated.

Of all taxes, small business owners hate property taxes worst of all. Not only because they bear no relevance to the owner's ability to pay, but also because they just don't have time to play games with County Appraisers and the PVD.

The small businesses I represent -- over 80% have 15 or fewer employees -- are busy trying to make a living, provide needed goods or services to their communities, and possibly grow their businesses so they can provide a few jobs for others. Jobs that are needed in the Kansas economy to take the place of jobs lost to layoffs and downsizing of big business.

Many of them face stiff competition in the marketplace, and they just don't need more competition from government in the form of complex, hard to understand, tax policies.

I urge you to send H.B. 3049 out of committee with the recommendation that it be passed, and to support its enactment by the full House.

Thank you for your attention. I will stand for questions at the pleasure of the Chair.

HOUSE BILL NO. 3049

3/6/96

PRESENTATION TO : HOUSE SUB. COMMITTEE ON TAXATION

PRESENTATION BY : RICK STUART , JEFFERSON COUNTY APPRAISER

CURRENT STARTING WITH LINE 20 ON PAGE 2.

life, or which, if its retail cost when new is not determinable after the taxpayer has exercised due diligence in attempting to ascertain such cost, shall be valued at its fair market value as of the of its acquisition less straight-line depreciation over its economic life which shall not exceed seven years,

PROPOSED CHANGE IN BOLD TYPE.

life, or which, if its retail cost when new is not determinable after the taxpayer has exercised due diligence in attempting to ascertain such cost, shall be value at its **acquisition cost plus freight, taxes, and installation** less straight-line depreciation over its economic life which shall not exceed seven years,



State of Kansas  
House of Representatives

TOM SAWYER  
House Democratic Leader

Topeka Address  
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Office of the Minority Leader

March 6, 1996

House bill 2935 eliminates the current table for exempting Kansas Income Tax and replaces it with a simple 27% of Federal tax liability.

This change conforms the Kansas Income Tax with the Federal Income Tax for purposes of computing personal exemptions and the standard deductions.

The result of this change brings about three benefits for Kansas taxpayers:

1. Most Kansans will be able to file on a very short, simple form.
2. Conforming to the Federal guidelines, raises the personal exemption and standard deduction and since the Federal code indexes these items each year they will automatically keep pace with inflation in the future. This change provides a tax cut for working families.
3. House Bill 2935 treats single filers and married filers just like the Federal tax code, eliminating our legal problem.

The fiscal note of H.B. 2935 is about \$3 million in FY 97 and \$10 million a year thereafter.

I feel that H.B. 2935 is important legislation, that is long overdue. For too long, Kansas by not indexing the standard deduction or personal exemptions, has been slowly increasing the tax burden on working families. H.B. 2935 corrects this problem by giving working families the tax break they deserve. It also will allow most Kansans to file a very short, simple form.

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Rep Bill Clinton  
6 a.m. 3/6/96

Dear Member of the House Taxation Committee:

I am a US Civil Service Annuitant (not a pensioner even though it is frequently labeled that). Those of us in that category paid in high amounts of our wages to the US Civil Service Trust Fund whereas private pensioners often paid no contribution AND Social Security workers paid into their Trust Fund at a much smaller rate than we did for many years.

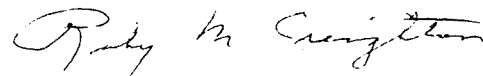
None of the Social Security benefits are taxable unless a single person exceeds \$34,000 per year adjusted gross or \$44,000 per couple. Those of us who receive US Civil Service and no Social Security have no such protection. If you go to a flat percentage in Kansas, we are in trouble.

Kansas has close to 27,000 US Civil Service Annuitants and Survivors in our state. Approximately one-half of us do **not** receive any Social Security benefit. Do you wish to chase us out of the state? Remember Kansas has a high percentage of retired people living here.

I once was for a % tax of federal--BUT NOT NOW. It would be disastrous for me, as my primary income is my US Civil Service Annuity. I already pay a horrendous amount of federal income tax. Please remember that private pensioners ALSO have a Social Security benefit. That makes a big difference when you consider tax matters.

Do not go to a % of federal--PLEASE.

Thank you for reading this.



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