Approved: 1-31-97
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 15, 1997 in Room 519-S of the Capitol.

All members were present except: Rep. Cindy Empson

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: None

Others attending: See attached list

Chair called the meeting to order at 9:07 a.m.

Tom Severn presented information on (1) Tax Relief for the Elderly (Attachment 1) and (2) State Tax Policy and Senior Citizens (Attachment 2).

Chris Courtwright reviewed the Inheritance Tax proposal. (Attachment 3) This proposal was studied by the Special Committee on Assessment and Taxation. He reviewed the Tax Court proposal (Attachment 4) which was also considered by the Special Committee on Assessment and Taxation.

Alan Conroy presented the State General Fund Receipts for FY 1997 (revised) and FY 1998 (Attachment 5) and State General Fund Budget Profile. (Attachment 6)

Chair reviewed the proposed agenda for the next week.

The next meeting is scheduled for January 16, 1997.

Adjournment 10:40 a.m.

Attachments - 6

TAXATION COMMITTEE GUEST LIST

DATE: **JANUARY 15, 1997**

NAME	REPRESENTING
Ashley Sherard	Overland Park Chamber
Harriet Lange	Ks Assn of Broadcasters
Pat Brown	Mid-Am Lumbermen Assn
Don L. McNay	KS Auto Dealers Assn
Dave Holthaus	Western Resources
George Stephanopolous	Clinton/Gore '96
Shirley Sicilian	KDOR
Bud Grant	KCCI
Patrick J. Hurley	KAPL
Ann Spiess	Peterson Public Affairs Group
Bill Fuller	Kansas Farm Bureau
Hal Hudson	NFIB/KS
Susan M. Baker	Hein & Weir
Kathy Taylor	KBA
Jason Pitsenburger	Brad Smoot
Alan Steppat	Pete McGill & Assoc.

MEMORANDUM

Kansas Legislative Research Department

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Revised July 22, 1996

To: Special Committee on Property Tax

From: Tom Severn, Principal Analyst

Re: Tax Relief for the Elderly

Introduction

This memorandum originally was prepared as part of a 1994 interim study of tax relief for the elderly. The memorandum emphasizes the property tax, although other taxes are discussed.

This emphasis squares with a recent study of tax relief measures for the elderly which generalized that:

- The property tax is likely to present the most serious tax problem for seniors. The exemption of most Social Security and all Supplemental Security Income benefits implies that the effective income tax rate for seniors is much lower than for younger households with the same pre-tax income. On the other hand, if seniors remain in their homes when they retire, the property tax typically becomes a much higher proportion of income than during their working years.

- The property tax and sales tax are likely to be more serious problems for the low income elderly than for those with relatively high incomes. These taxes tend to be regressive for households with very low incomes. On the other hand, state income taxes are more progressive for seniors than for the population at large because of favorable treatment given to pensions, Social Security, and other transfer payments.

Income Tax

Currently, state law allows a larger standard deduction for the elderly or blind. Taxpayers, including both spouses if filing jointly, check a box if over 65 or blind, and are allowed the standard deductions shown in the chart below, taken from the income tax booklet.

STANDARD DEDUCTION CHART FOR MOST PEOPLE **DO NOT** use this chart if you are 65 or older or blind, **OR** if someone can claim you as a dependent.	
If your filing status is:	**enter on line 4, page 1 of form K-40, OR line 2 of form K-40S**
Single	$3,000
Married Filing Joint	$5,000
Married Filing Separate	$2,500
Head of Household	$4,400

STANDARD DEDUCTION CHART FOR PEOPLE AGE 65 OR OLDER OR BLIND

If someone can claim you as a dependent, use the worksheet for dependents instead.

Check if:

You were 65 or older ☐ Blind ☐

Your spouse was 65 or older ☐ Blind ☐

Enter the number of boxes you checked above: ☐

If your filing status is:	and the total number of boxes you have checked is:	enter on line 4, page 1 of form K-40, or line 2, of form K-40S
Single	1	$3,750
	2	$4,500
Married Filing Joint	1	$5,600
	2	$6,200
	3	$6,800
	4	$7,400
Married Filing Separate	1	$3,100
	2	$3,700
	3	$4,300
	4	$4,900
Head of Household	1	$5,150
	2	$5,900

Sales Tax

The sales tax is sometimes seen as burdensome to the elderly since they tend to spend a greater proportion of their income on food and health care. However, many states exempt medicines, especially prescription drugs, and most states exempt food for home consumption. Of those that do not exempt such food, nearly half, including Kansas, offer a refund of part of the sales tax paid on food.

There is great variety in these refund programs. Several combine benefits for sales tax on drugs or utilities, and in one case, Wyoming, property taxes.

Kansas Food Sales Tax Refund. In 1978, a program was enacted to refund $20 per person to resident individuals who are disabled or age 59 or above (decreasing to age 55 or above in 1982 and thereafter) and who are members of a household having an income of not over $10,000 in the calendar year for which the claim is filed, for the purpose of refunding the sales tax upon food to such persons. The program was expanded in 1986 by raising the eligible income limitation from $10,000 to $13,000, extending participation to persons with a dependent under age 18 and to other persons who are members of a household of an eligible claimant, and changing the amount of the refund from $20 for each eligible participant to an amount that ranges between $15 and $40 depending on income. Refunds, according to the Department of Revenue, are shown below:

Fiscal Year	Food Sales Tax Refunds ($000)
1990	$3,151
1991	2,915
1992	2,949
1993	2,596
1994	2,438
1995	2,209
1996	1,545

Property Tax Relief in Kansas and Its Neighbors

Introduction. Many kinds of state programs offer property tax relief. Commonly listed examples of such programs would include classification, financial aid to local units, circuit breakers, homestead exemptions, tax deferral programs, and tax freezes. A discussion of classification and financial aid is beyond the scope of this memo. However, the other types of programs offering potential targeted tax relief and a new program called a "tax work-off," will be discussed briefly. This section will conclude with a more detailed discussion of circuit breakers especially for Kansas and its neighbors.

Circuit Breakers. One prominent type of property tax relief is known as a "circuit breaker." A circuit breaker is a form of property tax relief in which the benefit is dependent upon income or other criteria of need and the amount of property taxes paid. The name apparently developed as an analogy to the device that breaks an electrical circuit when an overload occurs -- thus, when a person's property tax becomes "overloaded" relative to income, a benefit will accrue and help relieve the overload.

The first circuit breaker was enacted by Wisconsin in 1964. By 1991, 34 states and the District of Columbia had enacted circuit breakers, although this number dropped to 33 in 1992 with the repeal of Oregon's program. The Kansas Homestead Property Tax Refund Act (discussed below), despite the word "homestead" in the title, is a circuit breaker program.

Homestead Exemptions. Another prominent type of targeted property tax relief that has been enacted by most states is the homestead exemption, which typically exempts a specified portion of the value of a home from property taxation. Many such exemptions were enacted initially in the 1930s and by 1991, 44 states and the District of Columbia had homestead exemptions or credits. In some of the programs, states reimburse the local units, but most are funded from local revenues. Closely related to the homestead exemption is the homestead credit, under which a governmental entity (typically the state) pays a certain amount of the property tax or the tax on a certain amount of the value of a homestead.

Washington and Nebraska have homestead exemptions which vary by household income. These programs are sometimes described as hybrids between homestead exemptions and circuit breakers. For purposes of this memorandum they are categorized as homestead exemptions.

Homestead exemptions or credits are sometimes supplemented by a renters' credit; most poor are renters. However, these programs, like homestead exemptions, usually are considered poorly targeted and thus are very expensive or offer only modest relief.

Table 1 below summarizes homestead exemptions for some nearby states.

TABLE 1

Property Tax Homestead Exemptions and Credits[1]
Selected Nearby States, 1994

State	Qualification	Income Limit	Maximum Exemption
Arkansas	Disabled Vets	--	100%, up to 80 acres (1/4 acre in city)
Colorado	Elderly, Disabled	$7,500	Grant
Iowa	All	--	$4,850 FMV
	Disabled Vet	$25,000	100%
Nebraska	Elderly, Disabled	$10,400	$35,000 FMV
	Totally Disabled Vet	$15,000	$35,000 FMV
Oklahoma	All	--	$1,000 Ass. Val.
	Heads of Households	$10,000	additional $1,000 Ass. Val.
Texas	All	--	$5,000 for school districts
	Elderly, disabled	--	$10,000
Utah	Elderly	--	$475 credit
	Disabled Vet	--	$11,500 Ass. Val.
	Totally Disabled	--	$30,000 Ass. Val.

[1] Summary Only. Details omitted.
Source: ACIR, *Significant Features of Fiscal Federalism*, 1994, Vol. 1, Table 40.

Tax Deferrals. Property tax deferral programs extend the time for paying property tax. Deferred taxes are treated as a loan, with a lien being placed against the property. The loan is due when the owner dies, no longer occupies the property, or when the tax owed approaches the value of the property. In 1979, only nine states had a tax deferral program, all limited to the elderly. In 1994, 22 states had such a program, although in five of these it is a local option. Many of these newer programs are available to a wider range of taxpayers.

One shortcoming of tax deferral plans is poor participation rates. Many taxpayers are reluctant to allow a lien to be placed on their properties.

Reverse Mortgages. Many benefits of a tax deferral can be obtained from lenders in the form of a reverse mortgage. Reverse mortgages are available in all but three states (Alaska, South Dakota, and Texas). Reverse mortgages can also be used for other living expenses besides property taxes.

Tax Freeze. A tax freeze prohibits increases in the property taxes of qualifying taxpayers. This type of program is intended to protect targeted taxpayers from inflation, the increasing cost of government, and increasing property values, thus permitting them to plan their property tax expenses. Only three states, Connecticut, South Dakota, and Texas had such a program in 1985. (Tennessee passed a plan for 1979 but it was ruled unconstitutional.) Connecticut dropped its plan in 1980 but "grandfathered in" those who were then using it. The Texas program freezes only school taxes. Clearly, tax freeze plans have not enjoyed the popularity of other forms of property tax relief.

Work-Off Program. In 1991, Colorado enacted a program which could be considered another form of targeted property tax relief, although we have not yet seen it so described in any of the literature. The "Property Tax Work-Off Program" permits any taxing entity which levies and collects real property taxes to establish such a program. Any taxpayer 60 or older is allowed to perform work for the taxing entity in lieu of paying all or part of the property tax on a homestead owned and occupied by the taxpayer. The law calls for work to be credited against the tax at the minimum wage as set by federal law.

The Kansas Homestead Property Tax Refund Act

The Kansas Homestead Property Tax Refund Act, K.S.A. 79-4501 *et seq.*, was enacted in 1970 following the passage of a bill by the House in 1969 and a recommendation for passage of a revised bill by the Joint Committee on State Tax Structure (The "Hodge Committee"). Kansas was the sixth state to enact a circuit breaker. In the decade of the 1970s, half the states enacted circuit breakers. Only three have been enacted since; by Montana in 1981, by Indiana in 1985, and by New Jersey in 1990. Oregon repealed its program in 1991 following voter approval of a statewide property tax limit, so there are 33 state programs currently in place, plus one in the District of Columbia. See Table 2 on the next page.

TABLE 2

States Enacting Circuit Breakers

Year	States	Cumulative Total
1964	Wisconsin	1
1967	California, Minnesota	3
1969	North Dakota, Vermont	5
1970	Kansas	6
1971	Colorado, Maine, Ohio, Oregon, Pennsylvania	11
1972	Illinois, West Virginia	13
1973	Arizona, Arkansas, Iowa, Michigan, Missouri, Nevada, Tennessee	20
1974	Connecticut, Idaho, Oklahoma	23
1975	Maryland, Wyoming	25
1976	South Dakota	26
1977	Hawaii, New Mexico, Rhode Island, Utah	30
1978	New York	31
1981	Montana	32
1985	Indiana	33
1990	New Jersey	34
1991	Oregon (repeal)	33

Note: Alaska and Delaware have local-option circuit breakers which are not included above. Oregon's program, enacted 1971, was repealed effective 1992. The District of Columbia (not shown above) enacted a circuit breaker program in 1974.

Source: ACIR, *Significant Features of Fiscal Federalism, Vol. 1, 1995*, Table 35.

States typically revise circuit breaker programs periodically. Several factors could explain the frequent revisions. First, estimating the cost of programs is difficult, and estimating errors, especially with new programs, are common. Reactions to changing fiscal and economic conditions, such as inflation, explain many changes. Finally, some revisions reflect major policy changes. Table 3, below, summarizes the changes in the Kansas program since 1970, which would reflect a fairly typical pattern.

TABLE 3

Summary of the History of the Kansas Homestead Property Tax Refund Act,* K.S.A. 79-4501 *et seq.*

	1970 Law	1972 Law	1973 Law	1975 Law	1978 Law	1979 Law	1989 Law	1992 Law
Qualifications								
Age	65	65	65 (widows-50)	60 (widows-50)	55**	55**	55	55
OR								
Disabled or Blind	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
OR								
With Dependent Under 18	No	No	No	No	Yes	Yes	Yes	Yes
Renter and Percent of Rent Allowed	No	No	No	Yes-12%	Yes-12%	Yes-15%	Yes-15%	Yes-15%
Benefits								
Maximum Household Income Qualifying (minimum benefit)	$ 3,620	$ 5,900	$ 8,150	$ 8,150	$ 9,200	$ 12,800	$ 15,000	$ 17,200
Property Tax Maximum	330	330	400	400	400	400	500	600
Maximum Benefit	247.50	330	400	400	400	400	500	600
Minimum Claim Payable	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

* Definitional or administrative changes are not summarized in this table.

** Reduction to age 55, and raising to age 55 for unmarried widows, were phased-in over a five-year period, as follows:

Refund of Taxes For Year	General Age Requirement (As of Jan. 1)	Unmarried Widows (As of Jan. 1)
1978	59	51
1979	58	52
1980	57	53
1981	56	54
1982 and thereafter	55	55

The Kansas Act currently allows a refund of either property tax paid, or rent assumed to be taxes, that is in excess of various percentages of household income, with a maximum benefit of $600. Eligible persons with a household income of $3,000 or under receive a full refund of property taxes up to the $600 limit. The amount of refund decreases as household income increases; persons with household incomes of more than $17,200 are ineligible for a refund. In addition to meeting the income limitation, claimants must be either: (1) age 55 or above; (2) disabled or blind; or (3) a household head with a dependent under age 18. Income is defined broadly, including items not subject to income taxes, such as Social Security benefits, railroad retirement benefits, veteran's disability pensions, workers' compensation, and interest from tax exempt securities.

In the early years, refunds could be taken as credits against Kansas income tax, or as refunds if credits exceeded liability. Administration of the program was soon separated from the income tax. Beginning in 1993, claimants may make application to the county clerk for a certificate of eligibility for the refund and to present the certificate to the county treasurer in lieu of paying a portion of the current taxes on the claimant's homestead. The portion will be the amount of homestead property tax refund received by the claimant for the preceding year's taxes (up to one-half of the current year's tax liability). The claimant then may pay one-half of any remaining taxes prior to December 20 and the remainder prior to June 20. The certificate will assign the refund to the county, to apply against the taxes on the claimant's homestead.

A summary of claims paid (which includes for this table those processed as income tax credits), the total amount refunded (or allowed as a credit), and the average per claim for the life of the program is shown below in Table 4.

TABLE 4

Summary of Homestead Property Tax Refund Claims Data by Process Year

Calendar Year Processed	Total Claims "Paid"	Amount Allowed (Millions)	Average Per Claim
1971	15,129	$ 1.0	$ 66
1972	15,358	1.1	71
1973	30,416	3.1	104
1974	57,576	8.3	144
1975	63,882	9.4	147
1976	67,056	9.6	143
1977	61,628	8.6	140
1978	56,587	8.1	143
1979	62,233	9.3	150
1980	70,944	10.3	146
1981	67,429	9.8	145
1982	60,478	9.0	149
1983	53,789	8.0	149
1984	52,994	8.3	158
1985	49,286	7.9	160
1986	46,721	7.7	164
1987	46,930	7.4	157
1988	46,628	7.3	157
1989	44,255	7.0	157
1990	46,680	9.0	194
1991	44,684	8.6	191
1992	49,083	9.6	195
1993	46,749	8.5	181
1994	47,677	9.4	197
1995	45,549	8.7	195
1996 (est.)	45,000	8.6	191

Source: Department of Revenue.

Reappraisal Circuit Breaker. In 1989 Kansas enacted a temporary reappraisal circuit breaker which provided refunds of part of residential property tax increases attributable to reappraisal and classification. Qualifications included household incomes of less than $35,000, property tax increases of more than 50 percent, and the household had to meet qualifications for the homestead property tax refund program (elderly, disabled, or dependent child under 18). Maximum refunds were 50 percent of the increase or $500 for taxes levied in 1989 and 25 percent of the increase or $250 for taxes levied in 1990. Refunds under the temporary circuit breaker were an alternative to the "homestead" refunds; taxpayers could not claim both. Refunds under the temporary circuit breaker totaled $1.356 million for 1989 taxes processed in 1990 and $0.391 million for 1990 taxes processed mostly in 1991, although a few returns were processed in 1992.

1995 Interim Recommendation

The 1995 Special Committee on Assessment and Taxation recommended H.B. 2803 to index the maximum amount of property tax eligible for the homestead program. The bill was referred to the House Taxation Committee, where it died at the end of the 1996 Session.

Neighboring States (not updated)

This section will consist of a narrative description of the circuit breaker program in neighboring states as of January 1, 1992 (any changes enacted after 1991 are not reflected). It will conclude with a summary table comparing major features of those programs, including 1992 refund data from *Significant Features of Fiscal Federalism, 1994.*

Nebraska. Nebraska's targeted property tax relief program is a homestead exemption for those 65 or older or physically disabled with a low-income qualification. Homesteads of the elderly and disabled persons with household incomes of not more than $10,400 are exempt on the first $35,000 of "actual value" of the homestead.

For totally disabled veterans and their unremarried widows, and the unremarried widows of servicemen who died during wartime or whose deaths were service-related, a variable percentage of the first $35,000 of "actual value" is exempt, according to the following schedule:

Household Income	Percentage of Relief
$0 through $15,000	100%
15,001 through 16,000	80
16,001 through 17,000	60
17,001 through 18,000	40
18,001 through 19,000	20

This "phased-out" homestead exemption shares some features of a circuit breaker, but is in fact a graduated homestead exemption.

Colorado. Colorado enacted its property tax circuit breaker program in 1971, just one year after Kansas. Homeowners and renters who are 65 or older, and widows, widowers, and the disabled who are 58 or older are eligible. The maximum claim is $500, and benefits "phase out" at income of $7,500 for single individuals and $11,200 for married couples. Income is defined broadly so as to include "all sources." Twenty percent of rent is considered the property tax equivalent. The average claim for FY 1992 was $336.

Missouri. Missouri's circuit breaker program dates from 1973 and is for homeowners and renters age 65 and over with incomes not exceeding $14,000 for single persons or $16,000 for married couples. Income is defined broadly, to include Social Security, pensions, and other benefits. Twenty percent of rent is considered the property tax equivalent. The maximum property tax eligible for the calculation of benefits is $750, and the average refund in 1992 was $262.

Oklahoma. Oklahoma's circuit breaker program was enacted in 1974 and is for elderly and disabled homeowners with incomes not exceeding $10,000. Claims may be made for the amount by which property taxes paid exceed 1 percent of household income, but the maximum refund is $200. Income is defined broadly so as to include all types of income received by all persons occupying the homestead. In 1991 the average refund was $117.

TABLE 5

Summary of Provisions of Property Tax Circuit-Breakers in Kansas and Neighboring States -- Current Provisions[1] and 1992[2] Average Claims Paid

State	Year Enacted	Age	Renters	Widow(ers) and Age	Disabled	Dependent Children	Income Ceiling	Maximum	Claims in 1992[2]	Average 1992[2] Claim
Kansas[1]	1970	55	yes - 15%	yes - 55	yes	yes	$17,200 [1]	$ 600 [1]	$ 50,397	$ 196
Colorado	1971	65	yes - 20%	yes - 58	yes - 58	no	single - $7,500 married - $11,200	500	43,041	336
Missouri	1973	65	yes - 20%	no	no	no	single - $14,000 married - $16,000	750	68,600	262
Oklahoma	1974	65	no	no	yes	no	10000	200	3,387	117
Nebraska					Not comparable; see text.					

[1] Reflects 1992 provisions.
[2] Except FY 1992 for Colorado and FY 1991 for Oklahoma.

Source: ACIR, *Significant Features of Fiscal Federalism*, 1994, Vol. 1, Table 39.

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however, exempt basic "necessities" like medicine. Of the 46 states that impose a sales tax, 43 states do not tax prescription drugs, 26 states do not tax food purchased for home consumption and 31 states do not tax consumer electric and gas utilities (see table 5.1). Therefore, arguments that the elderly pay a greater portion of their income on the sales tax than non-elderly may not be substantiated in those states.[4]

Table 5.1
State Sales Tax Rates and Exemptions
Food, Prescription Drugs and Residential Utilities, 1994

State	State Sales Tax Rate	Exemption Provided for: Food for Home Consumption	Prescription Drugs	Residential Utilities
Alabama	4.0%		■	*
Arizona	5.0	■	■	
Arkansas	4.5		■	*
California	6.0	■	■	■
Colorado	3.0	■		■
Connecticut	6.0	■	■	■
Dist. of Columbia	5.75	■	■ *	■
Florida	6.0	■	■ *	■
Georgia	4.0		■	
Hawaii	4.0		■	■
Idaho	5.0		■	■
Illinois	6.25	*	*	
Indiana	5.0	■	■	
Iowa	5.0	■	■	
Kansas	4.9		■	■
Kentucky	6.0	■	■	■
Louisiana	4.0	*	■	■
Maine	6.0	■	■	■ *
Maryland	5.0	■	■ *	■
Massachusetts	5.0	■	■	■
Michigan	6.0	■	■	*
Minnesota	6.0	■	■ *	■ *
Mississippi	7.0		■	■
Missouri	4.225		■	■
Nebraska	5.0	■	■	
Nevada	6.5	■	■	■
New Jersey	6.0	■	■ *	■
New Mexico	5.0			
New York	4.0	■	■ *	■
North Carolina	4.0		■	
North Dakota	5.0	■	■	*
Ohio	5.0	■	■	■
Oklahoma	4.5		■	■
Pennsylvania	6.0	■	■ *	■
Rhode Island	7.0	■	■ *	■
South Carolina	5.0		■	■
South Dakota	4.0		■	
Tennessee	6.0		■	■
Texas	6.25	■	■	■
Utah	4.875		■	*
Vermont	5.0	■	■	■
Virginia	3.5		■	■
Washington	6.5	■	■	■
West Virginia	6.0		■	■
Wisconsin	5.0	■	■	■ *
Wyoming	4.0		■	
U.S. Total = 46		**26**	**43**	**31**

**Notes:* This table does not reflect local options to impose sales taxes on food, prescription drugs and residential utilities.

Alabama—Utility service is not taxed under the sales tax statute; however, a 6.7% privilege tax, limited to utilities, is considered equivalent to a sales tax.

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Table 5.2
Sales Tax Credit and Rebate Programs: 1994

State	Income Ceiling	Maximum Sales Tax Credit or Rebate Per Exemption: Under Age 65	Maximum Sales Tax Credit or Rebate Per Exemption: Age 65 and Older	Refundable?
Georgia	AGI less than $20,000	$26	$52	Yes
Hawaii	AGI less than $30,000	$55	$110	Yes
Idaho	None	$15	$30	Yes
Kansas	TI less than $13,000	-----$40 Rebate if Age 55 or Older----		N/A
Michigan (drugs)	HI less than 150% of FPL	$0	$600	Yes
Michigan (heat)*	Varies by household size	$272 less 3.5% HI or actual costs up to $1,312 less 11% HI, the result times 70% if meet state income criteria		Yes
New Mexico (drugs)	None	$0	$150 ($300 max)	Yes
Oklahoma	HI less than $12,000	$40	$40	Yes
South Dakota*	HI less than $9,000 single and $12,000 joint	$0	$258 (s) Rebate $581 (j) Rebate	N/A
Wyoming*	AI less than $7,500 single and $11,000 joint	$0 unless total disability	$500 (s) Rebate $600 (j) Rebate	N/A

AI = Actual income as defined by state statute
AGI = Adjusted gross income as defined by state statute
FPL = Federal poverty level
(s) = filing single
(j) = married filing jointly
HI = Household income as defined by state statute
N/A = Not applicable
TI = Taxable income as defined by state statute
(drugs) = refers to out-of-pocket purchases
(heat) = refers to home heating costs

***Notes:**
Michigan—Tax credit for heat is adjusted annually for inflation (1994 rates not available) and is scheduled to expire in 1995.
South Dakota—Rebate may be claimed in lieu of circuitbreaker relief (see chapter 4: Property Taxes). Totally disabled people age 19 or older in South Dakota also qualify for a rebate.
Wyoming—Rebate represents a refund of a portion of property taxes paid and a rebate of home utility costs.

Source: NCSL survey, summer 1993 and Commerce Clearing House, State Tax Guide 1994.

total benefits went to low income households.[5] Exemptions of consumer goods can create tax policy problems for states. Exemptions reduce the taxable base, increasing the volatility of a general sales tax. Exemptions also diminish the rate at which state revenues would otherwise grow resulting in a loss that, everything being equal, must be made up elsewhere in the tax structure.[6] For these reasons, states have looked for other ways to provide relief from sales taxes—most notably, credit and rebate programs.

Unlike sales tax exemptions, credit and rebate programs can be targeted to select populations. The drawback is the lag between payment of the sales tax at purchase and the receipt of a credit or rebate at tax time. States with sales tax credit and refund programs often find participation well below 100 percent of those eligible.[7] Anecdotal evidence suggests that eligible people may be unaware of the

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Proposal No. 7

STUDY TOPIC: Inheritance Tax Repeal.

BACKGROUND

The inheritance tax proposal required the Committee to study the policy and fiscal implications of replacing the inheritance tax with an estate "pick-up" tax as proposed in H.B. 2150 as passed by the House Committee of the Whole and in H.B. 2171 as introduced. The Committee also considered a plan to increase the exemption amounts within the existing inheritance tax structure, as proposed in H.B. 2150 as introduced.

Estate "Pick-Up" Tax Plan

House-Passed Version

H.B. 2150, as amended by the House Committee of the Whole, would enact the Kansas Estate Tax Act and repeal the Kansas Inheritance Tax Act. The estate tax would be an amount equal to the maximum credit allowed by Section 2011 of the Internal Revenue Code against the tax that otherwise would be imposed on the transfer of the taxable estate of the decedent, multiplied by a fraction, the numerator of which is the Kansas gross estate value and the denominator of which is the total gross estate value. This type of estate tax is known as a "pick-up" tax.

Under a pick-up tax, estates with a value of $600,000 or less would incur no liability. The bill references the Internal Revenue Code in effect on December 31, 1994, so any subsequent federal change in the exemption threshold would not change the $600,000 level in Kansas law.

Inheritance Tax Exemption Amounts

Under the current inheritance tax, surviving spouses are totally exempt; Class A distributees – defined to include lineal ancestors, lineal descendants, step-parents, step-children, adopted children, lineal descendants of any adopted child or step-child, the spouse or surviving spouse of a son or daughter, and the spouse or surviving spouse of an adopted child or step-child of the decedent – receive a $30,000 exemption; and Class B distributees – brothers and sisters of the decedent – receive a $5,000 exemption.

Effective Date and Fiscal Impact

The new estate tax law contained in the House-passed version of H.B. 2150 would have been applicable to the estates of all decedents dying after December 31, 1995. The Inheritance Tax Act would have continued to apply to the estates of all decedents dying before January 1, 1996.

A fiscal note from the Department of Revenue said that receipts would decrease by about 67 percent under the estate pick-up tax relative to collections under the inheritance tax law. Based on collections in tax years 1992 through 1994, that percentage reduction in receipts would have represented a drop of about $35 million annually in SGF receipts. The impact on FY 1996 receipts would have been unclear because of the January 1 changeover date and the fact that estates sometimes take many months to be settled. Once the impact of the new law would be fully phased-in, a 67 percent drop in receipts would mean an annual reduction in SGF receipts of at least $40 million (based on the April, 1995 consensus estimate of $60 million for inheritance tax receipts).

Resident Trust Amendment

A House floor amendment also would redefine "resident trust" for income tax purposes to mean:

1. trusts created in Kansas by wills of decedents who were domiciled in Kansas at the time of death and which provide for distributions to at least one beneficiary domiciled in Kansas; and

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2. trusts created by or consisting of property of persons domiciled in Kansas on the date the trusts become irrevocable, provided at least one beneficiary is domiciled in Kansas. This income tax provision would have a positive, but indeterminate, impact on SGF receipts.

Alternative Plan to Increase Inheritance Tax Exemptions

H.B. 2150 as Introduced

The original H.B. 2150, which was introduced by Representative Carmody and others, would have simply increased the exemption amounts for Class A and B distributees within the existing inheritance tax structure. The exemption for Class A distributees would have been increased from $30,000 to $100,000, and the exemption for Class B distributees would have been increased from $5,000 to $25,000.

The Department of Revenue said that based on data from tax years 1992 through 1994, such increases would have meant an annual reduction in SGF receipts of approximately $11.6 million. Given the fact that the current consensus estimate is somewhat higher than the average amount of receipts in tax process years 1992 through 1994, the actual fiscal impact would be expected to be slightly more than the $11.6 million figure.

COMMITTEE ACTIVITIES

At the July meeting, staff briefed the Committee on a number of the inheritance and estate tax issues raised in H.B. 2150 and H.B. 2171. The Committee asked the Department of Revenue to provide information on the size of estates.

At the August meeting, the Department provided data on the size of estates subject to the Kansas inheritance tax in tax years 1992 through 1994. During the public hearing, John Wachter, Kansas Bar Association, and Representative Tim Carmody told the Committee that a pure pick-up estate tax would be much simpler administratively. Jack Ovel, Boatmen's Bank and Trust Company, expressed opposition to the resident trust provision.

At the October meeting, the Committee discussed the desirability of moving to an estate tax but also expressed concern over the fiscal impact of a pure pick-up tax as envisioned in H.B. 2150. The Committee asked staff from the Department of Revenue to return in November to explain 1991 S.B. 188, an estate tax proposal thought to be closer to revenue-neutral.

CONCLUSIONS AND RECOMMENDATIONS

The Committee requests that the Department of Revenue provide the 1996 Legislature with data regarding the fiscal impacts and tax shifts associated with a number of different estate tax exemption thresholds.

The Committee notes that if the 1996 Legislature is to consider any sort of "revenue-neutral" estate tax system, the tax shifts involved with such a change would need to be carefully studied.

Proposal No. 8

STUDY TOPIC: Tax Court

BACKGROUND

The tax court proposal required the Committee to study the proposal embodied in 1995 S.B. 40 and recommend whether the State Board of Tax Appeals (SBOTA) should be abolished and replaced by a Kansas Tax Court. The Committee analyzed the issues raised during the debate on S.B. 40, including qualifications of Tax Court members, the proposal to establish a special Small Claims Division, and the duties and functions of the Property Tax Appeals Board. Additional policy issues concerned a provision which would prevent interest from accruing on assessments for more than one year after the requests for hearing have been received by the Director of Taxation.

Replacing SBOTA with Kansas Tax Court

S.B. 40 as amended by the Senate Committee on Assessment and Taxation would have abolished SBOTA as of July 1, 1995 and transferred all of its powers, duties, functions, property, and personnel to a new Kansas Tax Court. Sections 1 through 6 and 9 through 12 of the bill provide for the transition and the establishment of the Tax Court. The Tax Court would be an independent agency within the executive branch. According to a 1994 study by the Federation of Tax Administrators, two states – Maryland and Minnesota – have actual tax courts established as independent agencies within the executive branch to hear tax appeals. Seventeen states, including Kansas, have independent boards or commissions within the executive branch dedicated exclusively or primarily to reviewing tax appeals.

Qualifications of Tax Court Judges

Section 7 of the bill provides that the Tax Court would consist of three judges appointed by the Governor from a list submitted by the Supreme Court Nominating Commission. Judges would normally serve eight-year terms, but the first three judges appointed would be named to an eight-year term, a six-year term, and a four-year term, respectively. All judges would be eligible to be appointed for an additional eight-year term.

Two of the judges would be required to:

1. have been regularly admitted to practice law in Kansas;

2. be a resident of Kansas at the time of taking the oath of office and maintain residency while holding office; and

3. have been engaged for at least five years in the active practice of law as a lawyer, judge, full-time teacher of law in an accredited law school, or as a certified public accountant who has maintained active registration as an attorney, or any combination thereof.

The third judge would be required to be classified as a certified general real property appraiser pursuant to the State Certified and Licensed Real Property Appraisers Act.

Pursuant to New Section 10, Tax Court judges would be paid salaries similar to those currently paid to SBOTA members. The annual salary of the chief judge would be an amount equal to the annual salary paid to a district judge designated as an administrative judge, and the annual salary of the other judges would be equal to the amount paid to district judges.

Qualifications of SBOTA Members

Under current law, SBOTA members are required by K.S.A. 74-2433 to be selected with special reference to training and experience for duties imposed by the SBOTA statutes. New language added by 1995 H. Sub. S.B. 19 requires members appointed after July 1, 1995 to have "legal, accounting, or appraisal training and experience." SBOTA members are selected by the Governor to serve four-year terms, subject to confirmation by the Kansas Senate. SBOTA members are required to be residents of Kansas, and not more than three members are to be from the same political party. One member is to be appointed from each congressional district, with one at-large member.

Small Claims Division

One specific division of the Tax Court, as established by S.B. 40, would be the Small Claims Division (SCD). Taxpayers could elect to appeal decisions, findings, orders, or rulings of the Director of Taxation to the SCD when the amount of tax in controversy does not exceed $15,000, or – in the case of multiple year assessments or denials of refunds – when the amount of tax does not exceed $15,000 for any given year. Taxpayers could appeal to the SCD in lieu of a formal hearing before the Director but would not be precluded from seeking resolution in an informal procedure established by the Department of Revenue.

Taxpayers appealing to the SCD would be precluded from appealing to the regular division of the Tax Court. Judgments in the SCD would be conclusive upon all parties and could not be further appealed. Hearings in the SCD would be informal in nature. All testimony would be given under oath, but no transcript of the proceedings would be kept. Parties could appear in person or be represented by an attorney or other representative.

Kansas Tax Court judges could sit as judges of the SCD or could designate hearing officers to hear the SCD cases. Determinations made by hearing officers so appointed would be binding and have the same force and effect as if they had been made by a judge.

Property Tax Appeals Board

Another division of the Tax Court would be the Property Tax Appeals Board (PTAB). The PTAB, which would consist of five members, would be appointed by and serve at the pleasure of the Tax Court. All PTAB members would have to be Kansas residents, and at least two of the members would have to be classified as certified general real property appraisers. The remaining PTAB members would be required to have been:

1. actively engaged as a licensed real estate salesperson or broker for the five years immediately preceding their appointment;

2. actively engaged as a licensed real estate appraiser for the four years immediately preceding their appointment; or

3. performing real estate appraisals as an occupation for at least five years preceding their appointment.

Not more than three members of the PTAB could be of the same political party. Subject to the provisions of K.S.A. 1994 Supp. 75-4315c, one PTAB member would have to be appointed from each of the state's four congressional districts, and one individual would be designated as the at-large member. PTAB members would be in the unclassified service of the Kansas Civil Service Act. The Governor would have specific authority to remove a PTAB member for cause, after a public hearing has been conducted in accordance with the Kansas Administrative Procedures Act (KAPA). Members of PTAB would receive an annual salary equal to that paid to magistrate judges.

Hearings before the PTAB would be conducted by one member, and records of the proceedings would not be maintained. In cases involving the valuation of property, the board member would be required to issue a summary disposition within ten working days stating the value of the property. Orders of the PTAB in which the value of property is in issue would not be required to contain specific findings of fact and conclusions of law.

The PTAB Option

Taxpayers paying property taxes under protest pursuant to K.S.A. 1994 Supp. 79-2005 or appealing decisions rendered by a hearing officer or hearing panel pursuant to K.S.A. 1994 Supp. 79-1606 would have a choice of appealing EITHER to the PTAB or to the regular division of the Tax Court, whereas under current law such cases go to SBOTA. Moreover, taxpayers going to the PTAB could subsequently appeal to the regular division of the Tax Court if they were aggrieved of the finding of the board.

The Regular Tax Court Division

Proceedings before the regular division of the Tax Court would be governed by the provisions of KAPA to the extent that the provisions of S.B. 40 do not provide differently. Taxpayers could be represented by an attorney, any person enrolled to practice before the United States Tax Court, or could appear *pro se*. Hearings would be conducted by one judge, unless the Chief Judge makes a determination that a case should be heard *en banc*. Hearings would be *de novo*, as provided in Section 20.

The Tax Court would have the power to summon witnesses from any part of the state to appear and give testimony and to compel such witnesses to produce materials relating to any subject matter before the court. The Tax Court also would have the power to direct depositions of witnesses residing in Kansas or elsewhere, to be taken in a like manner as civil depositions in district court.

All final actions of the Tax Court, including final actions on non-state-assessed property tax cases, could be appealed to the Court of Appeals. Under current law, property tax valuation cases not involving state-assessed property are appealed from SBOTA to district court before being eligible for appeal to the Court of Appeals.

Interest on Tax Assessments

New Section 22 of the bill provides that interest would no longer accrue on tax assessments subject to hearing by the Director of Taxation after one year subsequent to the date on which a request for hearing is received by the Director.

The Department of Revenue has indicated that this provision could have a negative impact on SGF receipts to the extent that some complicated corporation income tax assessments often take longer than a year at the Director's level.

COMMITTEE ACTIVITIES

At the July meeting, staff briefed the Committee on the tax court proposal. Secretary LaFaver said that the Department of Revenue was looking into setting up a mediation process in response to concerns about hearings bogging down at the Director of Taxation level. Representatives of the Kansas Bar Association and KCCI testified in support of the tax court concept. The Rural Kansas Taxpayers Association and two members of SBOTA spoke in opposition.

Also at the July meeting, SBOTA was asked to provide information on the average time a "normal" residential appeal takes from beginning until final resolution and on the number of times SBOTA decisions ultimately are overturned at the district court level.

At the September meeting, Secretary LaFaver provided a draft of the proposed mediation process and said it would be implemented in a matter of weeks. SBOTA responded to the data requests made in July, and new Chairman Gus Bogina spoke to the Committee in opposition to the tax court proposal.

In October, the Committee voted to recommend the Tax Court proposal adversely and asked SBOTA Chairman Gus Bogina to appear in November to discuss efforts to streamline and modernize procedures at SBOTA.

CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends the Tax Court proposal adversely.

The Committee approves of Chairman Bogina's efforts to streamline and modernize procedures at SBOTA and recommends that SBOTA submit any proposed statutory changes necessary to both standing tax committees during the 1996 Session. The Committee also requests that SBOTA articulate positions on:

1. any further changes necessary in the qualifications of SBOTA members; and

2. whether the Legislature should consider renewing the binding arbitration option which was previously available to taxpayers in four counties.

State of Kansas

REVISED
11/18/96

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Bill Graves
Governor

Gloria M. Timmer
Director

MEMORANDUM

TO: Governor Bill Graves and Legislative Budget Committee

FROM: Kansas Division of the Budget and Kansas Legislative Research Department

DATE: November 18, 1996

SUBJECT: State General Fund Receipts for FY 1997 (Revised) and FY 1998

Estimates for the State General Fund are developed using a consensus process that involves the Legislative Research Department, Department of Revenue, three consulting economists from state universities, and the Division of the Budget. This estimate is the base from which the Governor and the Legislature build the annual budget. This group met on November 7, 1996 and increased the estimate for FY 1997 by $100.4 million or 2.9 percent and developed the first estimate for FY 1998. The revised FY 1997 estimate is $3.615 billion and the FY 1998 estimate is $3.755 billion. The FY 1997 estimate represents an increase of $167.0 million (4.8 percent) when compared to actual FY 1996 receipts of $3.448 billion. FY 1998 estimates represent an increase of $139.8 million or 3.9 percent when compared to the revised FY 1997 estimate. Detailed information regarding the specific sources of revenue constituting total receipts is presented in Table 1. Table 2 compares the FY 1997 estimate developed on April 2, 1996 (as adjusted for legislation enacted after that meeting) with the revised estimate from the November 7, 1996 meeting.

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Economic Forecast for Kansas

The state of Kansas enjoyed stable periods of growth from 1991 to 1995. In 1996, the state economy is experiencing what would be considered robust growth. This is attributable to several factors including strong overall job growth, especially in the transportation manufacturing area (aviation), and personal income growth. The agriculture economy is particularly strong at this time with record or near record fall harvests in bushels per acre and price per bushel. These items, coupled with increasing personal incomes and continued relatively low inflation forecasts, combine to account for a healthy economy in the forecast period. It should be noted that unpredictable events such as changes in federal fiscal policies, monetary policies and other events that are beyond the control of Kansas policy makers could affect estimates reached by the Consensus Estimating Group.

Kansas Personal Income

In calendar year 1995, Kansas Personal Income increased by 5.2 percent over 1994 levels. For 1996, personal income is expected to increase by 6.2 percent. Continued growth is anticipated for 1997 and 1998, but at slower rates. Personal income is forecasted to grow at 5.2 percent in 1997 and 4.6 percent in 1998.

Inflation Rate

Inflation, as measured by the Consumer Price Index for all Urban Consumers, rose by 2.8 percent in 1995. Forecasts maintain this at a relative flat rate with 3.0 percent estimated for 1996 and 2.9 percent estimated for 1997 and 1998. This compares to previous years rates of 2.6 percent in 1994 and 3.0 percent in 1993.

Interest Rates

The Pooled Money Investment Board makes investments in bank certificates of deposits, repurchase agreements, and other statutorily authorized securities. In FY 1996, the state earned 5.13 percent on the portfolio. A slight rate increase is anticipated for FY 1997 with a return forecast of 5.25 percent. This growth continues into FY 1998 with an estimated return of 5.50 percent forecast. This rate of return is anticipated to be approximately 25 basis points higher than the forecast rate on the 31-day Treasury Bill.

Oil and Gas Markets

The average price for crude oil per barrel is estimated to be $19.50 in FY 1997 and decrease to $18.00 in FY 1998. These figures compare to actual FY 1996 prices of $17.13 per barrel. Forecast prices are impacted positively by stock levels remaining low and are subsequently offset as increases in foreign oil imports are anticipated in the later part of FY 1997 and early FY 1998. Gross production is anticipated to continue to decline with 41.0 million barrels estimated for FY 1997 and 39.0 million barrels in FY 1998. Actual FY 1996 production was 43.3 million barrels.

Increased prices relative to the previous forecast period will result in a decrease in the exempt percentage in FY 1998. This will assist in stabilizing receipts.

Low storage has impacted the price of natural gas for the forecast period. The average price for natural gas in FY 1997 is forecast at $1.81 mcf, an increase of 23.1 percent when compared to actual FY 1996 prices of $1.47. The price is anticipated to remain stable in FY 1998 at $1.80 mcf as the market has reached an apparent equilibrium between supply and demand. Production is anticipated to continue its growth with an estimated 730 million cubic feet of production in FY 1997 and 735 million cubic feet of production in FY 1998.

Economic Forecasts

	CY 1994	CY 1995	CY 1996*	CY 1997*	CY 1998*
Kansas Personal Income (growth rate)	3.9%	5.2%	6.2%	5.2%	4.6%
Inflation Rate (CPI-U)	2.6%	2.8%	3.0%	2.9%	2.9%
	FY 1994	FY 1995	FY 1996	FY 1997*	FY 1998*
Applicable interest rates**	4.4%	4.7%	5.1%	5.3%	5.5%
Oil and Gas					
Oil Price (avg. per bbl.)	$14.30	$16.02	$17.13	$19.50	$18.00
Taxable Oil Production (000 bbls.)	31,230	27,484	24,155	23,370	24,180
Gas Price (avg. per mcf-gross)	$1.81	$1.40	$1.47	$1.81	$1.80
Gas Taxable Value ($000)	$1,151,546	$907,373	$1,004,164	$1,242,002	$1,323,000

*--*Estimated.*

**--*These are the rates on the total investment portfolio applicable to interest earnings for the State General Fund based on legislation enacted by the 1992 and 1996 Legislatures.*

State General Fund Receipt Estimates

Fiscal Year 1997. The revised estimate of State General Fund receipts for FY 1997 is $3.615 billion, an increase of $100.4 million when compared to the previous estimate produced on April 2, 1996 as adjusted for 1996 legislation enacted after that date. The revised estimate is $167.0 million or 4.8 percent above actual FY 1996 receipts. Details of the estimate are reflected in Tables 1 and 2.

The increase is attributable to a number of factors but income and privilege taxes account for about 73.0 percent of the increase. Each source was analyzed independently and consideration was given to current economic forecasts, collection information from the Departments of Revenue and Insurance, and year-to-date receipts.

The largest increase ($40.3 million) is in individual income taxes. As mentioned, strong job growth and continued personal income growth are the significant factors driving the estimate. The new estimate for FY 1997 of $1.45 billion represents an increase of 4.3 percent when compared to FY 1996 actual individual tax receipts. In addition, tax receipts from retail sales have been increased by $11.0 million. However, both the April income and sales tax estimates each included an assumed $6.25 million attributable to the Department of Revenue's Project 2000. The revised FY 1997 estimates for Project 2000 do not include estimates attributable to specific tax sources. An adjusted comparison of the April and November income and sales tax figures would, therefore, indicate an increase of only $34.1 million and $4.8 million, respectively.

The Department of Revenue's Project 2000 is anticipated to realize receipts of $16.7 million in FY 1997, an increase of $4.2 million over the estimate from April. After certification by the Director of the Budget and the Director of the Legislative Research Department, all receipts from this source in the current fiscal year are expected to be transferred from the State General Fund to the Project 2000 fund.

Corporate income taxes have been increased by $31.0 million, mainly due to two one-time assessments totaling nearly $20.0 million. In addition, continued growth in corporate profits led the Consensus Estimating Group to estimate that corporate income tax collections will continue its pattern of growth throughout the remainder of the fiscal year.

The estimate for revenue from compensating use taxes has been increased by $4.0 million. Receipts for the first four months of FY 1997 have been stronger than anticipated. That trend is not expected to continue; however, a flat pattern of receipts is expected to continue.

Financial institutions privilege tax estimates have been increased by $1.0 million to $37.0 million to reflect a continued favorable financial climate for this industry. The revised estimate represents an increase of 4.9 percent when compared to actual FY 1996 receipts of $35.3 million.

Receipts from gas and oil production have been increased by $9.1 million due to strong oil and gas prices and increased gas production. Of the total $9.1 million, $6.3 million is from natural gas production and $2.8 million is from oil production.

Based on current year trends and new information, agency earnings have been increased $2.2 million, net transfers by $1.2 million, corporate franchise tax by $0.7 million, domestic insurance company privilege tax by $0.5 million, and miscellaneous taxes by $0.1 million. Insurance premium taxes have been decreased by $2.7 million.

Fiscal Year 1998. State General Fund receipts are estimated to total $3.755 billion in FY 1998. This is an increase of $139.8 million or 3.9 percent when compared to the revised FY 1997 estimate. Details of this estimate are shown in Table 1.

The principal sources of State General Fund revenue are estimated to increase as follows: individual income tax by 5.9 percent (compared to 4.3 percent estimated growth in FY 1997); retail sales tax by 4.0 percent; and compensating use taxes by 3.8 percent. But corporate income tax collections are estimated to decrease by 8.0 percent to $230.0 million. This is attributable to the

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assumption that no extraordinary assessments will occur in FY 1998 according to the Department of Revenue; such assessments amounted to $19.925 million in the first four months of FY 1997.

Accuracy of Consensus Revenue Estimates

For 23 years, State General Fund revenue estimates for Kansas have been developed using the consensus revenue estimating process. Besides the three state agencies referred to on the first page, the economists currently involved in the process are Joe Sicilian from the University of Kansas, Ed Olsen from Kansas State University, and John Wong from Wichita State University. Each of the entities and individuals involved in the process prepared independent estimates and met on November 7, 1996 to discuss estimates and come to a consensus for each fiscal year.

State General Fund Estimates

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from Original Estimate Amount	Difference from Original Estimate Percent	Difference from Final Estimate Amount	Difference from Final Estimate Percent
1975	--	$614.9	$627.6	--	--	$12.7	2.1 %
1976	$676.3	699.7	701.2	$24.9	3.7 %	1.4	0.2
1977	760.2	760.7	776.5	16.3	2.1	15.8	2.1
1978	830.1	861.2	854.6	24.5	3.0	(6.5)	(0.8)
1979	945.2	1,019.3	1,006.8	61.6	6.5	(12.5)	(1.2)
1980	1,019.3	1,095.9	1,097.8	78.5	7.7	1.9	0.2
1981	1,197.1	1,226.4	1,226.5	29.4	2.5	0.1	0.01
1982	1,351.3	1,320.0	1,273.0	(78.3)	(5.8)	(47.0)	(3.6)
1983	1,599.2	1,366.9	1,363.6	(235.6)	(14.7)	(3.2)	(0.2)
1984	1,596.7	1,539.0	1,546.9	(49.8)	(3.1)	7.9	0.5
1985	1,697.7	1,679.7	1,658.5	(39.2)	(2.3)	(21.3)	(1.3)
1986	1,731.2	1,666.4	1,641.4	(89.8)	(5.2)	(25.0)	(1.5)
1987	1,903.1	1,764.7	1,778.5	(124.6)	(6.5)	13.8	0.8
1988	1,960.0	2,031.5	2,113.1	153.1	7.8	81.6	4.0
1989	2,007.8	2,206.9	2,228.3	220.5	11.0	21.4	1.0
1990	2,241.2	2,283.3	2,300.5	59.3	2.6	17.2	0.8
1991	2,338.8	2,360.6	2,382.3	43.5	1.9	21.7	0.9
1992	2,478.7	2,454.5	2,465.8	(12.9)	(0.5)	11.3	0.5
1993	2,913.4	2,929.6	2,932.0	18.6	0.6	2.4	0.1
1994	3,040.1	3,126.8	3,175.7	135.6	4.5	48.9	1.6
1995	3,174.4	3,243.9	3,218.8	44.4	1.4	(25.1)	(0.8)
1996	3,428.0	3,409.2	3,448.3	20.3	0.6	39.0	1.1

* *The adjusted original estimate is the estimate made in November or December prior to the start of the next fiscal year in July and adjusted to account for legislation enacted, if any, which affected receipts to the State General Fund.*

** *The final estimate made in March or April is the adjusted original estimate plus or minus any changes subsequently made by the Consensus Estimating Group. It also includes the estimated impact of legislation on receipts.*

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The table on the preceding page presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. First, the adjusted original estimate is compared to actual collections and then the final estimate is compared to actual receipts. In the first six fiscal years of the process, actual receipts were an average of 4.3 percent higher than the adjusted original estimates; from FY 1982 to FY 1987, receipts were lower than the estimates by an average of 6.3 percent; and beginning in FY 1988, actual receipts have been higher than original estimates except in FY 1992 when collections were 0.5 percent less than estimated.

As might be expected, there was a smaller difference between actual receipts and the final estimate because only three months remained in the fiscal year when the final estimate was made. In the last eight fiscal years, the difference ranged from 0.5 percent to 1.6 percent and in six of these years the difference was 1.0 percent or less.

Concluding Comments

Consensus revenue estimates are based on current federal and state laws. The group will meet again in April to revise these estimates. Developments which may occur between the November and April meeting will be taken into account at the April meeting.

SGFREC98.REV

Table 1

State General Fund Receipts

(In Thousands)

	FY 1996 Amount	FY 1996 Percent Increase	Consensus Estimates, November 7, 1996: FY 1997 (Revised) Amount	FY 1997 (Revised) Percent Increase	FY 1998 Amount	FY 1998 Percent Increase
Property Tax:						
Motor Carrier	$14,008	19.5%	$16,000	14.2%	$17,000	6.3%
Income Taxes:						
Individual	$1,390,708	11.7%	$1,450,000	4.3%	$1,535,000	5.9%
Corporation	218,587	-4.7%	250,000	14.4%	230,000	-8.0%
Financial Inst.	35,262	15.8%	37,000	4.9%	39,000	5.4%
Domestic Ins. Co.	1,025	-33.8%	1,000	-2.4%	1,000	–
Total	$1,645,582	9.2%	$1,738,000	5.6%	$1,805,000	3.9%
Inheritance	$98,704	74.1%	$67,000	-32.1%	$69,000	3.0%
Excise Taxes:						
Retail Sales	$1,179,695	1.6%	$1,245,000	5.5%	$1,295,000	4.0%
Compensating Use	149,892	1.3%	158,000	5.4%	164,000	3.8%
Cigarette	52,359	0.2%	53,000	1.2%	53,500	0.9%
Tobacco Prod.	2,925	9.1%	3,100	6.0%	3,400	9.7%
Cereal Malt Bev.	2,533	-6.0%	2,400	-5.3%	2,300	-4.2%
Liquor Gallonage	12,447	-0.7%	12,600	1.2%	12,700	0.8%
Liquor Enforce.	26,205	5.7%	26,200	–	27,500	5.0%
Liquor Dr. Places	4,804	3.9%	4,800	-0.1%	5,000	4.2%
Corp. Franchise	13,140	9.3%	14,000	6.5%	14,500	3.6%
Severance	63,581	-11.4%	66,000	3.8%	67,600	2.4%
Gas	48,046	-13.9%	47,600	-0.9%	50,100	5.3%
Oil	15,535	-2.3%	18,400	18.4%	17,500	-4.9%
Total	$1,507,581	1.0%	$1,585,100	5.1%	$1,645,500	3.8%
Other Taxes:						
Insurance Prem.	$88,947	0.6%	$91,000	2.3%	$93,000	2.2%
Project 2000	–	–	16,700	–	28,000	67.7%
Miscellaneous	1,771	2.4%	2,000	12.9%	2,000	–
Total	$90,718	0.6%	$109,700	20.9%	$123,000	12.1%
Total Taxes	$3,356,593	6.3%	$3,515,800	4.7%	$3,659,500	4.1%
Other Revenues:						
Interest	$63,309	1.7%	$70,000	10.6%	$73,000	4.3%
Net Transfers						
Project 2000	–	–	(16,700)	–	(17,414)	-4.3%
Others	(14,506) *	–	1,500	–	(5,100)	–
Agency Earnings	42,876	2.5%	44,700	4.3%	45,100	0.9%
Total Other Revenue	$91,679	49.4%	$99,500	8.5%	$95,586	-3.9%
Total Receipts	$3,448,272	7.1%	$3,615,300	4.8%	$3,755,086	3.9%

* Includes $5.886 million transferred to the Department of Revenue for Project 2000.

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Table 2

State General Fund Receipts -- Comparison of Estimates for FY 1997
Made on April 2, 1996, and November 7, 1996 (In Thousands)

	Estimate * 04/02/96	Revised Estimate 11/07/96	Difference
Property Tax:			
Motor Carrier	$16,000	$16,000	--
Income Taxes:			
Individual	$1,409,700	$1,450,000	$40,300
Corporation	219,000	250,000	31,000
Financial Inst.	36,000	37,000	1,000
Domestic Ins. Co.	500	1,000	500
Total	$1,665,200	$1,738,000	$72,800
Inheritance	$64,000	$67,000	$3,000
Excise Taxes:			
Retail Sales	$1,233,986	$1,245,000	$11,014
Compensating Use	154,000	158,000	4,000
Cigarette	53,000	53,000	--
Tobacco Prod.	3,100	3,100	--
Cereal Malt Bev.	2,400	2,400	--
Liquor Gallonage	12,600	12,600	--
Liquor Enforce.	26,200	26,200	--
Liquor Dr. Places	4,800	4,800	--
Corp. Franchise	13,300	14,000	700
Severance	56,900	66,000	9,100
Gas	41,300	47,600	6,300
Oil	15,600	18,400	2,800
Total	$1,560,286	$1,585,100	$24,814
Other Taxes:			
Insurance Prem.	$93,700	$91,000	($2,700)
Project 2000	12,500	16,700	4,200
Miscellaneous	1,900	2,000	100
Total	$108,100	$109,700	$1,600
Total Taxes	$3,413,586	$3,515,800	$102,214
Other Revenues:			
Interest	$71,000	$70,000	($1,000)
Net Transfers			
Project 2000	(12,500)	(16,700)	(4,200)
Others	312	1,500	1,188
Agency Earnings	42,500	44,700	2,200
Total Other Revenue	$101,312	$99,500	($1,812)
Total Receipts	$3,514,898	$3,615,300	$100,402

*--As adjusted for legislation enacted subsequent to this meeting.

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FY 1997 as approved by the 1996 Legislature, plus shifting.
November 18, 1996 Revised Consensus Revenue Estimates
November, 1996 Education Consensus Estimates

House Taxation
1-15-97
Attachment 6-1

STATE GENERAL FUND PROFILE
In Millions

	FY 1996	Increase	FY 1997	Increase	FY 1998	Increase	FY 1999	Increase	FY 2000	Increase	FY 2001	Increase
Beginning Balance	$ 367.0		$ 379.2		$ 441.1		$ 292.8		$ 295.0		$ 306.7	
Released Encumbrances	3.2[a]											
Receipts*	3,448.3	7.1%	3,615.3	4.8%	3,755.1	3.9%	3,935.1	4.8%	4,101.0	4.2%	4,275.2	4.2%
		$229.5		$167.0		$139.8		$180.0		$165.9		$174.2
Expenditures												
Gen. and Supp. School Aids**	1,370.4	$ 33.2	1,387.0	$ 16.6	1,437.7	$ 50.7	1,500.9	$ 63.2	1,526.2	$ 25.3	1,528.6	$ 2.4
Demand Transfer to:												
SDCIF	15.6	4.6	17.0	1.4	18.0	1.0	19.0	1.0	20.0	1.0	21.0	1.0
SHF	83.2	1.7	84.4	1.2	97.4	13.0	101.3	3.9	105.4	4.1	109.6	4.2
LAVTRF	46.3	1.7	46.9	0.6	50.6	3.7	52.7	2.1	54.8	2.1	57.0	2.2
CCRSF	34.6	1.2	35.1	0.5	38.6	3.5	40.1	1.5	41.8	1.7	43.4	1.6
CCHF	10.4	0.4	10.6	0.2	16.4	5.8	17.1	0.7	17.8	0.7	18.5	0.7
WPF	6.0	0.1	6.0	--	6.0	--	6.0	--	6.0	--	6.0	--
State Fair	0.2	0.1	0.1	(0.1)	0.1	--	0.1	--	0.1	--	0.1	--
All Other Expend.	1,872.5	86.4	1,966.3	93.8	2,238.6	272.3	2,195.7	(42.9)	2,317.2	121.5	2,478.0	160.8
Total	3,439.2	129.4	3,553.4[b]	114.2	3,903.4	350.0	3,932.9	29.5	4,089.3	156.4	4,262.2	172.9
Percent Increase		3.9%		3.3%		9.8%		0.8%		4.0%		4.2%
Ending Balance	379.2		441.1		292.8		295.0		306.7		319.7	
% of Expenditures	11.0%		12.4%		7.5%		7.5%		7.5%		7.5%	
Receipts in Excess of Expend.	9.1		61.9		(148.3)		2.2		11.7		13.0	

Demand Transfers

SDCIF -- School District Capital Improvements Fund. SHF -- State Highway Fund LAVTRF -- Local Ad Valorem Tax Reduction Fund CCRSF -- County-City Revenue Sharing Fund CCHF -- City-County Highway Fund WPF -- Water Plan Fund	Demand transfers for FY 1996 were capped at no greater than a 3.7 percent increase above the FY 1995 levels with the exception of the SDCIF and the State Fair; in addition, a 1.5 percent reduction applied to the SHF transfer. For FY 1997, the demand transfers are capped at 1.4 percent growth (except SDCIF, WPF, and State Fair). For FYs 1998-2001, the transfers are projected based on <u>current law</u> with no caps.

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FOOTNOTES:

* Receipts are actual for FY 1996. Receipts for FY 1997 and FY 1998 reflect the November 7, 1996 consensus estimates. The projections for FYs 1998 through 2001 are not consensus estimates of receipts but are based on an annual growth rate of 4.3 percent for total taxes and separate estimates for nontax revenue.

** Estimates of general and supplemental school aid payments in FYs 1997-2000 were made on November 8, 1996 by the Department of Education, Division of the Budget, and the Legislative Research Department. For FY 2001, the projection is by the Research Department. All estimates assume $3,648 base state aid per pupil; full funding of the correlation weighting factor added by 1995 legislation; the provisions of 1995 S.B. 150 (motor vehicle property tax reductions); 35 mills levied for the general fund of school districts in 1996, 33 mills in 1997, and 31 mills in 1998 and thereafter.

a) Actual FY 1996 released encumbrances.

b) As approved by the 1996 Legislature and for shifting of $18.9 million in expenditures from FY 1996 (excluding $11.1 million reappropriated for general state aid to school districts), plus the latest estimates for general and supplemental school aid payments and the School District Capital Improvements Fund.

Kansas Legislative Research Department
December 13, 1996