

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 27, 1997 in Room 519-S of the Capitol.

All members were present except: Rep. Johnston
Rep. Howell

Committee staff present: Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Ann McMorris, Committee Secretary

Conferees appearing before the committee:

Bob Corkins, Kansas Chamber of Commerce & Industry
Don Schnacke, Kansas Independent Oil & Gas Association
Charles Warren, Kansas, Inc.
Ed Shifman, Interconnect Devices, KC, Ks.
Bob Manis, Goodyear Tire & Rubber
Ron Herman, Payless Shoe Source
Rick Wienckowski, Hills, Pet Products
Hal Hudson, Natl. Federation of Independent Business
Bernard, Koch, Wichita Area Chamber of Commerce

Others attending: See attached list

Chair opened the floor for introduction of bills.

Joan Wagon presented information on a bill for sales tax exemption on sale of Girl Scout cookies.

Moved by Rep. Larkin, seconded by Rep. Kirk, committee introduce a bill to provide sales tax exemption on sale of Girl Scout cookies. Motion carried.

Rep. Joann Freeborn asked for introduction of a bill relating to community colleges authorizing the imposition of a retailers' sales tax by the governing body thereof, providing authorities and duties for the department of revenue relating thereto.

Moved by Rep. Wempe, seconded by Rep. Donovan, introduction of bill relating to imposition of a retailers' sales tax by the governing body of any community college. Motion carried.

Moved by Rep. Larkin, seconded by Rep. Findley, introduce bill to exempt sales tax for Habitat for Humanity. Motion carried.

Moved by Chairman Kline, seconded by Rep. Larkin, introduction of a bill requiring prior to abatement of property taxes that the school districts affected at the local level provide an affirmative vote of approval. Motion carried.

Don Hayward, Revisor of Statutes office, noted an error in **HB 2037** on line 20 the word "of" should be "or" and an amendment is needed to correct this error. Duly noted by Chair and will be amended when committee works the bill.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, ROOM 519-S Statehouse, at 9:00 a.m. on January 27, 1997.

Chair opened hearings on:

HB 2037 - Income tax credit for property tax imposed on business machinery and equipment.

Proponents:

Bob Corkins, Kansas Chamber of Commerce & Industry (Attachment 1)

Don Schnacke, Kansas Independent Oil & Gas Association (Attachment 2)

Charles Warren, Kansas, Inc. (Attachment 3)

Ed Shifman, Interconnect Devices, KC, Ks. (Attachment 4)

Bob Manis, Goodyear Tire & Rubber (Attachment 5)

Ron Herman, Payless Shoe Source (Attachment 6)

Rick Wienckowski, Hills, Pet Products (Attachment 7)

Hal Hudson, Natl. Federation of Independent Business (Attachment 8)

Bernard Koch, Wichita Area Chamber of Commerce (written testimony to be prepared and handed out at a later meeting)

Written testimony only:

Don Snodgrass, Kansas Food Dealers (Attachment 9)

Christy Caldwell, Topeka Chamber of Commerce (Attachment 10)

Lynn Mitchellson, Greater Kansas City Chamber of Commerce (Attachment 11)

Frank Meyer, Custom Metal Fabricators Inc, Herington (Attachment 12)

Jack D. Paradise, Jayhawk Plastics, Inc., Olathe (Attachment 13)

The next meeting is scheduled for January 28, 1997.

Adjournment.

Attachments - 13

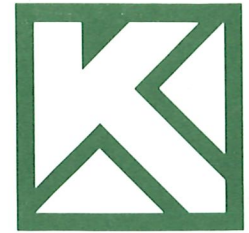
TAXATION COMMITTEE GUEST LIST

DATE: JANUARY 27, 1997

NAME	REPRESENTING
Wesley Seal	Seed Scouts
Steve Stotts	Revenue
Tom Bryan	Mid-Missouri
Charles Wang	Kansas, Inc
Mark Baselluna	KDOCH
Robert Martin	Goodyear
Richard Winkowski	Hills Pet Nutrition
Tom Heras	Payless Shoe Source
Alan Holmes	Division of Budget
Lee Eisenhauer	Propane Marketers Assoc of K.S
Christy Caldwell	Texas Chamber of Commerce
Brook Smoot	KCCC
John Peter	Payless Shoe Source
Chuck Stones	KBA
Brenda Pink	Optimathon Small
Harriet Lange	Ks Assn of Broadcasters
KEVIN ROBERTSON	Ks Lodging Assn
DAVE HOLTBAUS	Western Resources
HAL HUDSON	NFIB/KS

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



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HB 2037

January 27, 1997

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 and I truly appreciate the chance to express our members' call for meaningful property tax relief. We especially appreciate the Legislature's and the Governor's recognition of property tax on business machinery and equipment as an area in particular need of reform, and so KCCI is pleased to express its support of HB 2037.

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.

Multi-state tax comparisons clearly identify Kansas commercial property owners as the sector most in need of property tax relief. A 1996 nationwide study by the Minnesota Taxpayers

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Association ranked Kansas as the 12th most expensive state for urban commercial property taxes, combining typical real estate **and** personal property tax burdens on hypothetical business firms in each state. These comparisons placed Kansas as the seventh most expensive for suburban commercial, and as the nation's highest in rural commercial property taxes (effective tax rates for all states were compared). The same study ranked Kansas residential property taxes as 34th highest in the country.

Tax relief for business machinery and equipment (M&E) could arguably be more justified than with any other property class in Kansas. The 1995 effective tax rate on M&E averaged 2.97% across Kansas. Nebraska and Colorado's M&E rate for 1995 was 20% lower than Kansas, Missouri's was 32% lower, Oklahoma's was 66% lower, and Iowa has repealed the tax altogether. As with the nationwide comparisons, Kansas residential property tax rates are also in the middle of the pack regionally.

The approach by which HB 2037 addresses M&E tax relief is both practical and astute. The options for reforming M&E taxation are extremely limited by virtue of the restrictive language in our Constitution's classification amendment. HB 2037 obviously avoids entanglement of the Constitution's provisions. Kansas businesses have also suffered for decades under an extremely high corporate income tax, and that impact, too, would be softened somewhat with this proposal.

Perhaps the most compelling argument, though, for targeting relief to M&E is that such efforts have empirically shown an impressively good "bang for the buck." The reduction in the constitutional assessment rate on M&E down to 20% (unfortunately later increased to 25%) and the exemption of M&E purchases from sales tax were strong incentives for manufacturers to invest in business growth, particularly in Kansas' most industrialized counties. Despite these tax cuts -- or as KCCI contends, **because** of these cuts -- the statewide property tax based represented by M&E is even larger than when such property was assessed at a higher rate. Furthermore, we are talking about the type of companies whose machinery modernization quickly results in a significant growth

high paying jobs for Kansas workers. The prominent labor union support expressed for this proposal is an indication of that close cause-and-effect relationship between this tax and jobs.

We applaud the Governor's initiative on this issue and are grateful for the interest and supportive comments which many legislators have already expressed. KCCI encourages you to recommend HB 2037 favorably for passage and I thank you for your time and consideration.



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HOUSE TAXATION COMMITTEE

JANUARY 27, 1997

Testimony of Donald P. Schnacke, Executive Vice President

Kansas Independent Oil & Gas Association

*RE: HB 2037 - Income Tax Credit for Property Tax Paid on Commercial
& Industrial Machinery & Equipment*

I am Don Schnacke, Executive Vice President of the Kansas Independent Oil and Gas Association, appearing in favor of the passage of HB 2037. We want to offer an amendment that would conceptually allow the machinery and equipment assessed pursuant to Article 11, Section 1, Class 2(2) of the Kansas Constitution to also receive the beneficial tax credit contained in HB 2037.

The fact that mineral leasehold interests are assessed as personal property in Kansas is often overlooked. The Director of Property Valuation annually issues a tax guide that is used by taxpayers and county appraisers to calculate the value of mineral leaseholds. This guide contains a listing of machinery and equipment to be valued and taxed along with the minerals. It is easy to determine what portion is singled out in the rendition as machinery and equipment, so as to qualify for the tax credit provided by HB 2037.

The reason our industry appears regularly before your committee asking for tax relief is because the Kansas oil and gas industry has by far the highest average effective tax rate of any industry in Kansas. Arthur D. Little states, "*the average effective tax rate focuses on the total taxes paid in relation to total revenue, rather than marginal tax and revenue. As applied to an oil and gas producer, the average effective tax rate can be determined by relating total taxes paid to the total value of production over a given period.*"

The 1990 Arthur D. Little report prepared for Kansas Inc. pointed out that Kansas production is more like that found in Illinois except that the effective tax rate on Kansas oil and gas is 9.7% compared to 1.3% in Illinois. A 1992 Kansas Inc. tax study found that the effective tax rate on commercial and industrial property in Kansas is 3.7%, one-third of that imposed on oil and gas in Kansas. The latest data reflecting 1993 taxes, has Kansas commercial and industrial property at 2.69% and machinery and equipment at 2.97%.

Another distinction between commercial and industrial machinery and equipment cited in Class 2 in the Constitution is Class (2) is at 30% and Class (5) is at 25%. The point made here is that, again, oil and gas equipment and machinery is valued and taxed higher than all other industrial and commercial machinery and equipment found throughout Kansas. Until there are substantial adjustments downward in the state severance tax and ad valorem property tax applied to oil and gas properties, the average effective tax rate on oil and gas will remain exceptionally high.

Some new members of the Committee may not be aware of the economic slump that hit the Kansas oil industry in 1986. A brief set of facts reflecting the current condition of the Kansas oil industry include: 1) Kansas oil production has declined 41% from 1984 to 1995; 2) Kansas oil production slumped to a 61-year low in 1995; 3) Direct oilfield employment has declined 60% from 1984 to 1995; 4) Active rotary rigs have declined 77% from 1984 to 1995; 5) Kansas drilling activity has declined 87% from 1984 to 1995; 6) Kansas is home to over 44,000 marginal wells. Any tax relief our industry can receive will be helpful.

DPS:pp
Attach: Article 11, Kansas Constitution

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Reapportionment of senatorial and representative districts; members of state board of education. 89-11.

Census data; reapportionment of senatorial and representative districts; definitions. 89-141.

State board of education; vacancy; effect of redistricting. 91-84.

Reapportionment of senatorial and representative districts; census. 91-99.

Powers and duties of county commissioners; rearrangement of commissioner districts. 94-51.

CASE ANNOTATIONS

10. Census accuracy, minor population deviations as factors in reapportionment considered. In re Substitute for House Bill No. 2492, 245 K. 118, 775 P.2d 663 (1989).

11. Validity of bill reapportioning house and senate districts upheld; formal opinion to follow. In re House Bill No. 3083, 251 K. 595, 833 P.2d 1017 (per curiam); 251 K. 597, 598, 836 P.2d 574 (1992).

Article 11.—FINANCE AND TAXATION

Law Review and Bar Journal References:

"Survey of Kansas Law: Taxation," Sandra Craig McKenzie and Eric B. Milstead, 37 K.L.R. 961, 964 (1989).

§ 1. System of taxation; classification; exemption. (a) The provisions of this subsection shall govern the assessment and taxation of property on and after January 1, 1993, and each year thereafter. Except as otherwise hereinafter specifically provided, the legislature shall provide for a uniform and equal basis of valuation and rate of taxation of all property subject to taxation. The legislature may provide for the classification and the taxation uniformly as to class of recreational vehicles, as defined by the legislature, or may exempt such class from property taxation and impose taxes upon another basis in lieu thereof. The provisions of this subsection shall not be applicable to the taxation of motor vehicles, except as otherwise hereinafter specifically provided, mineral products, money, mortgages, notes and other evidence of debt and grain. Property shall be classified into the following classes for the purpose of assessment and assessed at the percentage of value prescribed therefor:

Class 1 shall consist of real property. Real property shall be further classified into seven subclasses. Such property shall be defined by law for the purpose of subclassification and assessed uniformly as to subclass at the following percentages of value:

- (1) Real property used for residential purposes including multi-family residential real property and real property necessary to accommodate a residential community of mobile or manufactured homes including the real property upon which such homes are located 11½%

- (2) Land devoted to agricultural use which shall be valued upon the basis of its agricultural income or agricultural productivity pursuant to section 12 of article 11 of the constitution 30%
- (3) Vacant lots 12%
- (4) Real property which is owned and operated by a not-for-profit organization not subject to federal income taxation pursuant to section 501 of the federal internal revenue code, and which is included in this subclass by law 12%
- (5) Public utility real property, except railroad real property which shall be assessed at the average rate that all other commercial and industrial property is assessed 33%
- (6) Real property used for commercial and industrial purposes and buildings and other improvements located upon land devoted to agricultural use 25%
- (7) All other urban and rural real property not otherwise specifically subclassified 30%

Class 2 shall consist of tangible personal property. Such tangible personal property shall be further classified into six subclasses, shall be defined by law for the purpose of subclassification and assessed uniformly as to subclass at the following percentages of value:

- (1) Mobile homes used for residential purposes 11½%
- (2) Mineral leasehold interests except oil leasehold interests the average daily production from which is five barrels or less, and natural gas leasehold interests the average daily production from which is 100 mcf or less, which shall be assessed at 25% 30%
- (3) Public utility tangible personal property including inventories thereof, except railroad personal property including inventories thereof, which shall be assessed at the average rate all other commercial and industrial property is assessed 33%
- (4) All categories of motor vehicles not defined and specifically valued and

- taxed pursuant to law enacted prior to January 1, 1985 30%
- (5) Commercial and industrial machinery and equipment which, if its economic life is seven years or more, shall be valued at its retail cost when new less seven-year straight-line depreciation, or which, if its economic life is less than seven years, shall be valued at its retail cost when new less straight-line depreciation over its economic life, except that, the value so obtained for such property, notwithstanding its economic life and as long as such property is being used, shall not be less than 20% of the retail cost when new of such property 25%
- (6) All other tangible personal property not otherwise specifically classified 30%
 - (b) All property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent and charitable purposes, farm machinery and equipment, merchants' and manufacturers' inventories, other than public utility inventories included in subclass (3) of class 2, livestock, and all household goods and personal effects not used for the production of income, shall be exempted from property taxation.

History: Adopted by Convention, July 29, 1859; ratified by electors, Oct. 4, 1859; L. 1861, p. 62; L. 1923, ch. 255, § 1; L. 1963, ch. 459, § 1; L. 1974, ch. 460, § 1; L. 1985, ch. 364, § 1; L. 1992, ch. 342, § 1; Nov. 3, 1992.

Law Review and Bar Journal References:

- "Reappraisal—How Long Will It Last," Bruce Landeck, 58 J.K.B.A. No. 1, 15, 18 (1989).
- "Liberalizing Kansas Real Property Tax Exemptions: The 1988 Legislation," Joan M. Bowen, 37 K.L.R. 597, 615, 639 (1989).
- "Kansas Property Classification and Reappraisal: The 1986 Constitutional Amendment and Statutory Modifications," Nancy Ogle, 29 W.L.J. 26 (1989).
- "Spurring Economic Development in Kansas Through Property Tax Exemptions—Are We Getting the Results We Want?" Laura Ellen Johnson, 30 W.L.J. 82, 83 (1990).
- "Survey of Kansas Law: Taxation," Sandra Craig McKenzie, 41 K.L.R. 727, 735 (1993).
- "Tax Law: Braum, a Valuable Tax Crop [Board of County Commissioners v. Smith, 857 P.2d 1386 (Kan. Ct. App. 1993)]," Nels P. Noel, 34 W.L.J. 381, 388 (1995).

Attorney General's Opinions:

- Exemption of property for economic development; exclusive use requirement. 88-123.
- Shawnee county fair association—tax levy, protest petition and election. 88-136.

- Statewide reappraisal of farm land; methods of establishing valuations. 88-144.
- Tax exempt property; machinery and equipment of electric utility company. 88-158.
- Property valuation, county and district appraisers' duties; valuation methods; pasture and rangeland. 89-63.
- Coal and gas of public utility; system of taxation; classification; exemption. 89-85.
- Statewide reappraisal of real property; CRP land. 89-144.
- Taxation; classification. 89-145.
- Extending deadline for property tax payment; equal protection. 89-146.
- Property exempt from taxation; merchants' and manufacturers' inventory. 89-148.
- Classification; excise tax on inventories. 89-150.
- Classification of property; constitutionality. 90-10.
- County planning and zoning; agricultural purposes; greyhound operations. 90-68.
- Change in property valuation for tax purposes. 90-82.
- System of taxation; classification; exemptions; uniform and equal provisions of constitution. 91-71.
- Community colleges; boards of trustees; powers and duties; political campaign posters and signs on campus. 91-112.
- Taxation; classification; uniform and equal requirement on state assessed taxes. 91-147.
- Taxation; extent of classification for 501 organizations. 93-17.
- Water pollution act; stormwater utility fee; state-owned and operated facility. 93-32.
- Public utilities; definition; constitutionality of excluding certain telephone companies. 93-142.
- Contracts for assistance in collecting property taxes. 94-8.
- Property taxation; classification; commercial and industrial machinery and equipment not in use. 94-52.
- Property tax obligation release; escaped personal property; constitutionality. 94-79.
- Property tax accumulated interest amnesty program in Wyandotte county; uniform operation of law; constitutionality. 94-89.
- Taxation classification; recreational vehicles; application to houseboats. 95-18.

CASE ANNOTATIONS

- 197. Cited; allegations regarding illegal or void valuations or assessments of real property prohibited before exhausting administrative remedies examined. Board of Osage County Commr's v. Schmidt, 12 K.A.2d 812, 813, 758 P.2d 254 (1988).
- 198. Cited; tax exempt status of publicly owned property leased to private business and unavailable to general public examined. Salina Airport Authority v. Board of Tax Appeals, 13 K.A.2d 80, 83, 761 P.2d 1261 (1988).
- 199. County appraiser authorized (79-1461) to scrutinize and revalue taxpayer's filed inventory statement to fair market value. In re Tax Appeal of Wichita Bldg. Material Co., 14 K.A.2d 39, 779 P.2d 875 (1989).
- 200. Taxable status under 79-201a Second of property owned to produce revenue for financing governmental function (airport, 27-315 et seq.) examined. Tri-County Public Airport Auth. v. Board of Morris County Comm'r's, 245 K. 301, 305, 777 P.2d 843 (1989).
- 201. NCAA as educational institution exempt from payment of sales taxes on purchases (79-3606(c)) examined. NCAA v. Kansas Dept. of Revenue, 245 K. 553, 555, 781 P.2d 726 (1989).

January 27, 1997

**Testimony on
House Bill 2037
House Committee on Assessments and Taxation
by
Charles R. Warren, Ph.D.
President, Kansas, Inc.**

Madame Chair, members of the Committee, thank you for the opportunity to testify in support of House Bill 2037. During the past several years, the Kansas Legislature has made significant reforms in the Kansas tax system. These changes have led to substantial reductions in the tax burden on residents and business, and have improved considerably our competitive position. Governor Graves has proposed a comprehensive package of tax reductions that is fiscally responsible, balanced and fair.

From an economic development perspective, The Governor's proposal to provide a tax credit for property tax paid on commercial and industrial equipment is a very significant step that will pay long term benefits to Kansas companies, the Kansas economy, and state revenues.

Kansas, Inc. has just released its new strategic plan, *A Kansas Vision for the 21st Century*. The first major goal within the strategy is: *Create a positive, competitive business climate that encourages investment and growth*. Our strategy suggests that one of the most important actions to improve the competitiveness of the business tax structure is:

reduce on a phased-in basis and eventually eliminate the property tax on manufacturing machinery and equipment, telecommunications equipment, computers, and other equipment.

The Kansas property tax on business equipment places us at an extreme disadvantage and is a disincentive to investment and modernization of capital equipment. Investment in new technology and equipment is absolutely vital for existing Kansas companies, if they are to remain competitive and increase productivity.

Kansas wages depend on gains in productivity. Increases in productivity depend on sustained investments in advanced technology and equipment, such as computers, computer aided manufacturing equipment, and advanced telecommunications. We are deeply concerned about the future competitiveness of Kansas companies because of declining trends in capital investment, productivity, and wages. In 1985, Kansas ranked 21st nationally in manufacturing capital investment as a percent of value added. By 1992, Kansas fell to a national rank of 35th. From 1987 to 1992, the average annual capital expenditure per employee has been below the U.S.

average. Worker productivity in Kansas slipped from 5th in the nation in 1985 to 24th in 1992.

There is, in my opinion, a direct relationship between the declines in capital investment and worker productivity to wage levels in this state. In 1985, Kansas wages were 90 percent of the U.S. wages. By 1994, Kansas wages accounted for only 85 percent of U.S. wage levels. During this same period, wage growth in Kansas was 41st among the states.

Extremely high property taxes are one factor that has led to the decline in capital investment. The table below compares the property tax rate in Kansas on machinery and equipment to other states in this region.

**Property Taxes on Machinery and Equipment
As a Percent of Market Value**

State	1995 Statewide Average Effective Tax Rate
Kansas	2.97%
Colorado	2.39
Nebraska	2.39
Missouri	2.03
Oklahoma	1.03
Iowa	Not Taxed

The Kansas tax rate exceeds those of other states in the region. Iowa eliminated its property tax on machinery and equipment in 1995.

The effective tax rate allows a comparison of property tax level among other states and communities. For example, using the table above, a business that purchases manufacturing equipment valued at \$100,000 will pay property tax of \$2,970 in Kansas, but in Oklahoma the tax bill would be \$1,030 -- a difference of 188 percent.

We have used the average mill levy rate in Kansas to calculate the average effective tax rate. As you know, mill levies vary widely across the State. The average rate greatly understates the impact of this tax on businesses. For example, a business with that same equipment valued at \$100,000 would pay \$3,580 in Cowley County, \$3,150 in Johnson County, \$2,860 in Sedgwick, 3,740 in Shawnee, and \$4,460 in Wyandotte County. Attached to my testimony is a table that provides the average county mill levy and the effective tax rate in 1995 for all 105 counties.

I have provided the Chair of this Committee an information paper on the property tax on machinery and equipment that was prepared for Kansas, Inc. and its strategic planning committee in September 1996. This report provides background information on the tax in question and answer format.

As input to our strategic planning process, Kansas, Inc. asked the Institute for Public Policy and Business Research at the University of Kansas to conduct a survey of 800 businesses throughout the state. The purpose of the survey was to identify the needs, priorities and issues as perceived by the business community.

Business taxes received the highest negative rating and was perceived by business as the greatest weakness in the state business environment. The tax singled out as the most burdensome was the property tax on machinery and equipment. Eighty percent of the 400 manufacturing firms surveyed stated that this property tax had a negative effect on their firm's investment decisions. Among an equal number of service sector companies, 60 percent said it had a negative effect.

These survey responses demonstrate that one important action that the Legislature can take to improve the business climate of the state is to reduce the property tax burden on business equipment.

I believe that the proposed tax credit will be an important step toward increasing the competitiveness of our state and our firms. This proposed tax reduction should contribute to increased investment and higher worker productivity.

I urge the Committee to report House Bill 2037 favorably. I would be pleased to answer any questions.

**Effective Tax Rates on Machinery and Equipment
1995**

County	Average County Mill Levy	Effective Tax Rate Machinery and Equipment
Allen	130.47	3.26%
Anderson	123.79	3.09%
Atchison	125.36	3.13%
Barber	122.97	3.07%
Barton	139.10	3.48%
Bourbon	137.11	3.43%
Brown	122.21	3.06%
Butler	129.62	3.24%
Chase	109.11	2.73%
Chautauqua	125.74	3.14%
Cherokee	90.33	2.26%
Cheyenne	93.49	2.34%
Clark	134.41	3.36%
Clay	136.64	3.42%
Cloud	161.36	4.03%
Coffey	67.62	1.69%
Comanche	126.40	3.16%
Cowley	143.10	3.58%
Crawford	115.86	2.90%
Decatur	116.84	2.92%
Dickinson	105.27	2.63%
Doniphan	123.41	3.09%
Douglas	116.39	2.91%
Edwards	134.80	3.37%
Elk	127.24	3.18%
Ellis	120.54	3.01%
Ellsworth	114.81	2.87%
Finney	110.19	2.75%
Ford	136.17	3.40%
Franklin	116.19	2.90%
Geary	124.74	3.12%
Gove	111.30	2.78%
Graham	149.61	3.74%
Grant	78.30	1.96%
Gray	118.36	2.96%
Greeley	114.38	2.86%
Greenwood	143.81	3.60%
Hamilton	118.03	2.95%
Harper	129.44	3.24%
Harvey	121.92	3.05%
Haskell	76.01	1.95%
Hodgeman	156.42	3.91%
Jackson	115.76	2.89%
Jefferson	119.11	2.95%

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**Effective Tax Rates on Machinery and Equipment
1995**

County	Average County Mill Levy	Effective Tax Rate Machinery and Equipment
Jewell	131.77	3.29%
Johnson	125.88	3.15%
Kearny	70.29	1.76%
Kingman	110.88	2.77%
Kiowa	110.84	2.77%
Labette	140.11	3.50%
Lane	152.39	3.81%
Leavenworth	114.46	2.86%
Lincoln	145.43	3.64%
Linn	87.14	2.18%
Logan	120.56	3.01%
Lyon	123.08	3.08%
McPherson	114.59	2.86%
Marion	112.60	2.82%
Marshall	119.04	2.98%
Meade	105.23	2.63%
Miami	108.38	2.71%
Mitchell	125.33	3.13%
Montgomery	142.99	3.57%
Morris	107.10	2.68%
Morton	84.69	2.12%
Nemaha	108.60	2.72%
Neosho	144.44	3.61%
Ness	126.02	3.20%
Norton	145.79	3.64%
Osage	104.58	2.61%
Osborne	134.76	3.37%
Ottawa	129.64	3.24%
Pawnee	137.36	3.43%
Phillips	127.24	3.18%
Pottawatomie	89.26	2.23%
Pratt	133.59	3.34%
Rawlins	121.76	3.04%
Reno	133.08	3.33%
Republic	133.57	3.34%
Rice	123.43	3.09%
Riley	125.01	3.13%
Rooks	135.52	3.39%
Rush	138.85	3.47%
Russell	131.00	3.28%
Saline	93.33	2.33%
Scott	106.45	2.66%
Sedgwick	114.53	2.86%
Seward	104.73	2.62%

**Effective Tax Rates on Machinery and Equipment
1995**

County	Average County Mill Levy	Effective Tax Rate Machinery and Equipment
Shawnee	149.62	3.74%
Sheridan	132.85	3.32%
Sherman	116.98	2.92%
Smith	125.91	3.15%
Stafford	126.39	3.16%
Stanton	86.37	2.16%
Stevens	62.92	1.57%
Sumner	141.42	3.54%
Thomas	126.41	3.16%
Trego	128.94	3.22%
Wabaunsee	110.77	2.77%
Wallace	111.80	2.80%
Washington	129.08	3.23%
Wichita	137.67	3.44%
Wilson	123.93	3.10%
Woodson	114.64	2.87%
Wyandotte	178.55	4.46%
Kansas	118.89	2.97%

SOURCE (mill levies): Kansas Department of Revenue
 "Statistical Report of Property Assessment and Taxation, 1995."
 Effective rates calculated by IPPBR.

**Some Issues Concerning the
Taxation of Industrial Machinery and Equipment**

prepared for Kansas, Inc.

by Pat Oslund, Research Economist

Institute for Public Policy and Business Research
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Charles Krider, Director

September 23, 1996

Some Issues Concerning the Taxation of Industrial Machinery and Equipment

1. What is the basis of the tax?

Most states divide property into two major types for the purpose of taxation: real estate and personal property. Industrial machinery and equipment is a sub-category of personal property. Other types of personal property include inventories, mineral leases, and intangible assets such as savings accounts. These may or may not be taxable, depending on the state.

2. How many states tax industrial machinery and equipment?

The most recent survey of property taxation in all 50 states is from the *1992 Census of Governments*, which contains 1991 data. As of 1991, machinery and equipment was included in the property tax base in 41 states. In Maryland, local governments have the option to tax or exempt machinery and equipment as they choose. During its 1995 legislative session, Iowa removed new industrial machinery and equipment from the property tax rolls from the tax rolls. Significantly, several large industrial states such as Illinois, New York, New Jersey, and Pennsylvania do not apply property taxes to industrial machinery and equipment.

3. How is machinery and equipment assessed?

Some states assess the property at a percentage of market value, while others tax the full value. Practices for depreciating property vary across states. In Kansas, machinery and equipment is assessed at 25 percent of market value when new, minus depreciation. Property in Kansas is depreciated using a 7 year straight line depreciation schedule. But while any property is still in use, its value is placed at no less than 20 percent of its original value when new.

4. How do tax rates on machinery and equipment in Kansas compare with those in other states in the region?

In order to compare taxes on machinery and equipment across states, IPPBR has estimated an "effective" tax rate (Table 1). The effective rate measures the annual property tax on machinery and equipment as a percentage of its true market value. The effective rate is based on the assumption that the property is indeed taxed--that it has not been granted a property tax abatement.

Kansas clearly has the highest statewide average rate in the region. As of 1995, Kansas rates average 2.97 % of value. Effective rates in Colorado and Nebraska are estimated at 2.39%. Other states in the region have substantially lower rates.

Iowa recently (1995) removed property taxes on machinery and equipment entirely. But as seen in Table 1, Iowa had applied a very low rate to machinery and equipment even before this change in tax policy.

With the exception of Iowa, there have been no other major policy changes in taxation of machinery and equipment in the region since 1993. However, effective rates have changed somewhat due to changes in mill levies in the surrounding states.

On the basis of a recent review of legislation, it appears that Iowa is the only state in the nation to enact major changes in the basic taxation of machinery and equipment in the last two years. However, a few states have enacted more generous property tax abatements.

Table 1
Taxes on Machinery and Equipment as a Percent of Value

State	1993 Statewide Average Effective Rate	1995 Statewide Average Effective Rate
Colorado	2.44 %	2.39 %
Iowa	0.90 %	not taxed
Kansas	2.85 %	2.97 %
Missouri	1.86 %	2.03 %
Nebraska	2.44 %	2.39 %
Oklahoma	1.07 %	1.02 %

5. How are taxes on machinery and equipment affected by property tax abatements?

For new and expanding firms that qualify for property tax abatements, the impact of the tax on machinery and equipment is mitigated. In Kansas, these firms may receive up to 100 percent property tax relief for 10 years. For firms that do not receive abatements, the tax on machinery and equipment stands out as unusually high. The situation is reversed for firms that receive tax abatements--Kansas abatements on machinery and equipment are the most generous in the region (Table 2).

Table 2
Property Tax Abatements for Manufacturing Machinery and Equipment

State	Maximum Abatement Allowed
Colorado	50% for 4 Years
Iowa	Property already exempt
Kansas	100% for 10 years
Missouri	No abatements on machinery and equip.
Nebraska	No abatements on machinery and equip.
Oklahoma	100% for 5 years

The extent to which Kansas firms actually receive abatements on machinery and equipment is an interesting question. Data published by the Kansas Department of Revenue (*Statistical Report of Property Assessment and Taxation, 1995*) shed some light on this issue. In 1995, over \$1 billion in personal property was listed as exempt, either through IRB (industrial revenue bond) abatements or through the Kansas constitutional economic development provisions. In comparison, about \$5 billion in industrial and commercial machinery and equipment was taxed in 1995 (Table 3). Overall, about 19% of commercial and industrial machinery and equipment appears to be abated.¹

Table 3
1995 Value of Commercial and Industrial Machinery and Equipment

Description	appraised value \$ mil
Appraised Value Subject to Taxes	\$5,012
Exempt Value: Economic Development Abatements	\$103
Exempt Value: IRB Abatements	\$1,066
Total Commercial and Industrial Personal Property (Taxed plus Exempt)	\$6,180
Exempt as % of Total	18.91%

¹ There may be property listed in the IRB category that would have been exempt from the property tax in any case, such as property belonging to community hospitals. A further examination of the data would be necessary to see what percentage of IRB exemptions are strictly for economic development projects.

It should be pointed out that property tax abatements are not granted automatically to firms that purchase machinery and equipment. A firm must make a formal application to local government for an abatement, and the local government must examine the costs and benefits of granting the abatement. Because of the red tape involved, it is likely that small firms "underutilize" property tax abatements.

6. What are some of the arguments against applying the property tax to machinery and equipment?

- a) The personal property tax adds the "price" of owning machinery, and, according to the laws of supply and demand, discourages its use. In other words, personal property taxes discourage investment in capital goods.
- b) Firms with similar net income may pay very different amounts of property tax--firms with a high level of machinery and equipment will pay more.
- c) If a state's tax rates on machinery and equipment are usually high, this will reduce the attractiveness of the state as a business location.
- d) Costs to discover and appraise property, and to insure compliance may be high (this was the finding of a recent study of taxation in Ohio).²

7. What are some of the arguments for continuing the property tax on machinery and equipment?

- a) Machinery and equipment is a form of wealth just like any other property. Thus if some forms of wealth (such as real estate) are taxed, machinery and equipment should be as well.
- b) The tax is probably very inelastic, in the sense that it does not fluctuate much with income changes. (This result was shown in the Ohio study--it has not been established for Kansas, but probably holds true). Inelastic taxes can provide an advantage during periods of slow economic activity.
- c) Revenue lost from removal of the tax may need to be made up elsewhere--in other words, reducing or removing the tax may involve tax shifting.

8. Does Kansas suffer from lack of capital investment?

To shed some light on the issue, we look at two (albeit imperfect) statistics--the book value of assets of Kansas manufacturers, and the average annual amount of investment in

² Roy Bahl, ed. *Taxation and Economic Development: A Blueprint for Tax Reform in Ohio*. Columbus: Battelle Press. 1996.

manufacturing. The two statistics reflect both buildings and machinery/equipment--separate data for machinery/equipment were not available.

Book value of assets reflects the purchase price of capital goods less depreciation. The measure does not take into account changes in the value of capital goods that might have occurred since purchase due to inflation or market forces. Nevertheless, it provides some measure of the capital intensity of a state's manufacturing industries. As seen in Table 4, Kansas manufacturing is the most capital intensive in the region by this measure, and is more capital intensive than US manufacturing as a whole. This is no doubt due to the importance of the aircraft industry in Kansas.

Over a six-year period (1987-1992), Kansas investment per employee hovered in the mid-range for the region and was 93 percent of the US average. The data indicate that the stock of capital goods in Kansas is not growing as fast as the stock of capital goods for the US as a whole. Similarly, Kansas is not growing as fast as Colorado or Iowa. The data also suggest that Kansas manufacturing as a whole may be becoming less capital-intensive.

It should be emphasized that the above findings are preliminary. A detailed industry by industry examination would be necessary to see whether there are alternative explanations for the data.

Table 4
Book Value of Assets In Manufacturing and Capital Investment

State	Book Value of Assets per Mfg. Employee, 1992	Av. Annual Capital Expenditure per Employee, 1987-92	Investment per Emp. in State as Percent of US Average	Av. Annual Investment as % of Book Value
Colorado	55,861	4,947	99.1%	8.9%
Illinois	78,071	6,175	123.7%	7.9%
Iowa	66,151	4,987	99.9%	7.5%
Kansas	74,652	4,641	93.0%	6.2%
Missouri	49,564	3,964	79.4%	8.0%
Nebraska	46,294	3,879	77.7%	8.4%
Oklahoma	67,950	4,546	91.1%	6.7%
US Average	61,971	4,992		8.1%

Source: US Bureau of the Census, 1992 *Census of Manufactures*. Note that 1992 data are the most recent available.

Dollars on Commercial and Industrial Equipment, 1995

Source: Kansas Department of Revenue, Statistical Report of Property Assessment and Taxation, March 1996

Rank	County	Taxes Paid of Commercial & Industrial Equipment 1995	Percent of State Total	Cumulative Total	Rank	County	Taxes Paid of Commercial & Industrial Equipment 1995	Percent of State Total	Cumulative Total
	Kansas	159,900,137.26	100.0%		53	Clay	220,498.68	0.1%	96.6%
1	Johnson	34,458,168.05	21.5%	21.5%	54	Mitchell	215,897.14	0.1%	96.7%
2	Sedgwick	32,846,286.70	20.5%	42.1%	55	Sherman	213,824.45	0.1%	96.8%
3	Wyandotte	16,478,452.05	10.3%	52.4%	56	Gray	195,587.25	0.1%	96.9%
4	Shawnee	16,111,141.28	10.1%	62.5%	57	Lincoln	179,979.01	0.1%	97.1%
5	Douglas	4,677,423.63	2.9%	65.4%	58	Greenwood	173,866.41	0.1%	97.2%
6	Reno	4,279,064.13	2.7%	68.1%	59	Coffey	168,681.92	0.1%	97.3%
7	Montgomery	3,628,338.27	2.3%	70.3%	60	Rush	168,449.85	0.1%	97.4%
8	Cowley	3,302,033.51	2.1%	72.4%	61	Scott	166,299.72	0.1%	97.5%
9	Saline	2,974,140.05	1.9%	74.3%	62	Linn	163,589.46	0.1%	97.6%
10	McPherson	2,532,909.50	1.6%	75.9%	63	Morris	160,081.53	0.1%	97.7%
11	Ford	2,124,634.01	1.3%	77.2%	64	Osborne	159,314.49	0.1%	97.8%
12	Finney	1,786,508.85	1.1%	78.3%	65	Edwards	154,287.79	0.1%	97.9%
13	Lyon	1,644,190.36	1.0%	79.3%	66	Osage	153,352.74	0.1%	98.0%
14	Harvey	1,559,252.60	1.0%	80.3%	67	Republic	145,492.31	0.1%	98.1%
15	Leavenworth	1,532,954.18	1.0%	81.3%	68	Pawnee	134,264.09	0.1%	98.2%
16	Atchison	1,457,768.36	0.9%	82.2%	69	Norton	132,829.40	0.1%	98.2%
17	Crawford	1,401,355.68	0.9%	83.0%	70	Washington	127,882.94	0.1%	98.3%
18	Riley	1,290,963.84	0.8%	83.9%	71	Rooks	125,830.53	0.1%	98.4%
19	Barton	1,286,093.62	0.8%	84.7%	72	Smith	123,204.40	0.1%	98.5%
20	Butler	1,155,167.71	0.7%	85.4%	73	Haskell	121,277.27	0.1%	98.5%
21	Seward	1,153,024.07	0.7%	86.1%	74	Anderson	120,695.33	0.1%	98.6%
22	Labette	1,061,386.50	0.7%	86.8%	75	Stevens	119,624.78	0.1%	98.7%
23	Doniphan	1,056,684.34	0.7%	87.4%	76	Elk	116,618.61	0.1%	98.8%
24	Allen	1,001,038.27	0.6%	88.1%	77	Wabaunsee	106,573.28	0.1%	98.8%
25	Ellis	948,659.21	0.6%	88.6%	78	Morton	100,910.39	0.1%	98.9%
26	Neosho	928,563.77	0.6%	89.2%	79	Wichita	97,344.33	0.1%	99.0%
27	Sumner	800,569.02	0.5%	89.7%	80	Graham	94,218.57	0.1%	99.0%
28	Pottawatomie	787,255.64	0.5%	90.2%	81	Stafford	93,989.35	0.1%	99.1%
29	Ceary	687,883.76	0.4%	90.7%	82	Trego	92,835.48	0.1%	99.1%
30	Cherokee	684,155.49	0.4%	91.1%	83	Gove	85,907.62	0.1%	99.2%
31	Franklin	640,177.60	0.4%	91.5%	84	Ness	85,598.51	0.1%	99.2%
32	Miami	578,375.27	0.4%	91.8%	85	Meade	81,813.75	0.1%	99.3%
33	Bourbon	578,276.10	0.4%	92.2%	86	Chautauqua	78,582.55	0.0%	99.3%
34	Wilson	532,660.60	0.3%	92.5%	87	Lane	74,599.75	0.0%	99.4%
35	Dickinson	478,436.41	0.3%	92.8%	88	Woodson	72,625.89	0.0%	99.4%
36	Marshall	435,781.09	0.3%	93.1%	89	Kiowa	69,852.35	0.0%	99.5%
37	Pratt	429,468.43	0.3%	93.4%	90	Jewell	67,829.91	0.0%	99.5%
38	Jefferson	418,940.35	0.3%	93.6%	91	Logan	67,522.02	0.0%	99.6%
39	Nemaha	392,568.49	0.2%	93.9%	92	Decatur	61,366.03	0.0%	99.6%
40	Ellsworth	360,406.13	0.2%	94.1%	93	Hamilton	60,688.21	0.0%	99.6%
41	Brown	359,549.15	0.2%	94.3%	94	Kearny	57,203.88	0.0%	99.7%
42	Barber	351,177.33	0.2%	94.6%	95	Ottawa	55,105.89	0.0%	99.7%
43	Rice	350,465.78	0.2%	94.8%	96	Comanche	55,060.54	0.0%	99.7%
44	Cloud	343,814.65	0.2%	95.0%	97	Sheridan	52,502.93	0.0%	99.8%
45	Thomas	336,952.63	0.2%	95.2%	98	Clark	51,999.31	0.0%	99.8%
46	Phillips	328,777.31	0.2%	95.4%	99	Cheyenne	51,239.48	0.0%	99.8%
47	Jackson	325,909.49	0.2%	95.6%	100	Rawlins	49,701.35	0.0%	99.9%
48	Marion	305,989.47	0.2%	95.8%	101	Greeley	48,406.25	0.0%	99.9%
49	Kingman	298,211.98	0.2%	96.0%	102	Stanton	46,588.84	0.0%	99.9%
50	Grant	234,054.38	0.1%	96.1%	103	Chase	44,316.54	0.0%	100.0%
51	Harper	233,311.06	0.1%	96.3%	104	Hodgeman	34,017.80	0.0%	100.0%
52	Russell	227,253.15	0.1%	96.4%	105	Wallace	23,683.06	0.0%	100.0%

Testimony

by

Edward J. Schifman, president, Interconnect Devices, Inc.

before the

House Taxation Committee

Monday, January 27, 1997

Good morning Chairman Kline and members of the committee. Thank you for the opportunity to appear before you today in support of HB 2037.

My name is Ed Schifman and I am the president of Interconnect Devices, Inc. I am also a member of the Greater Kansas City Chamber of Commerce where I serve on the Metropolitan Entrepreneurs Council. IDI was named one of the Top Ten Small Businesses of the Year by the Chamber in 1995.

Located in Kansas City, Kansas, IDI manufactures spring-loaded electronic probes used in testing electronic components and circuit boards for all types of electronic products. IDI currently employs over 200 people, which is twice the number of people employed by IDI in 1993.

All of us at IDI are very proud of its growth. Just last Friday we held an open house to celebrate the recent expansion of our existing location. This expansion was necessary to accommodate IDI's rapid growth. The decision to expand at our current location was an expensive one considering the high business property taxes in Wyandotte County. We did consider other locations in the Kansas City area, but decided to expand into vacant space in our current building, in large part, because many of our employees could not have made the commute to another location in the metro area. IDI has an outstanding group of employees and we are committed to their future at IDI.

IDI continues to enjoy positive growth in sales domestically and internationally. Recently named Kansas Exporter of the Year, approximately 30% of IDI's sales are outside the United States. Increased sales and production means IDI will have future opportunities to expand capacity.

The current property tax on business machinery and equipment is a real obstacle for IDI's continued investment in capital equipment. The property tax burden on machinery and equipment in Kansas is the highest in the region. Not to mention,

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in Wyandotte County, it is probably higher than anywhere else in the state. We have found it necessary to find ways to depreciate equipment faster in order to decrease our total property tax bill.

A 10 percent income tax credit for property taxes paid on business machinery and equipment would help IDI modernize equipment. IDI has budgeted over \$500,000 for new equipment in 1997. We are expanding into a new area of the business that requires different high-tech testing equipment. This tax credit encourages small high-tech companies like IDI to invest in modern equipment to better compete in a rapidly changing industry.

Investing in new equipment means hiring and training more employees to use the equipment. Under our current projected growth rate, we are planning to add seven new employees this year. Increased investments in new manufacturing equipment will lead to the creation of high-paid jobs in Kansas.

Tax relief targeted for business machinery and equipment is much needed by all Kansas businesses. HB 2037 is an opportunity to encourage investment in capital equipment and jobs that should not be missed. I understand the Legislature is considering a variety of tax relief proposals this session and I respectfully ask you to include this proposal in property tax relief legislation passed this year.

Thank you for your consideration of my remarks.

The Goodyear Tire & Rubber Company

P. O. BOX 1069
TOPEKA, KANSAS 66601

PHONE (913) 295-7111
FAX (913) 295-7134

January 27, 1997

Chairman Kline and Members of the Committee:

My name is Robert Manis, and I am the Plant Controller at the Goodyear Tire and Rubber Company's Topeka Plant.

Goodyear strongly supports House Bill number 2037 as an effective way to improve the tax climate for manufacturing concerns and ultimately increase the number of quality manufacturing jobs in the State of Kansas.

As has been pointed out in the past, Goodyear's Topeka facility is burdened with the highest property tax bill among Goodyear's North American tire plants. Our 1996 real and personal property tax bill is in excess of \$2.74 million, of which \$2.07 million represents tax on personal property, almost all of which is industrial machinery and equipment. House Bill number 2037 would provide an income tax credit to Goodyear in excess of \$200,000. This is a substantial amount, and would contribute to "leveling the playing field" not only between Goodyear Topeka and our sister plants throughout the United States, but also with our competition worldwide.

We believe that this legislation would go far towards showing Kansas' determination to rectify the property tax burden on industries such as ours. We hope that the Committee will support this legislation.

Thank you.

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**Testimony of Ron Herman
Payless ShoeSource, Inc.
House Bill No. 2037
House Committee on Assessment and Taxation**

Senator Kline and Members of the Committee:

My name is Ron Herman. I am responsible for formulating Payless ShoeSource's position regarding reductions in the Kansas personal property tax burdens on Payless ShoeSource. I am pleased to appear today to present testimony on behalf of Payless ShoeSource, Inc. in support of House Bill No. 2037.

Payless has been operating in Kansas for over thirty (30) years and we have experienced significant personal property tax liabilities. In 1996, our personal property tax liability was approximately \$660,000 for personal property located at our corporate headquarters and our distribution center alone. This tax liability is projected to increase to over \$700,000 for the 1997 tax year. Accordingly, this issue has a significant impact on Payless's current bottom line and business plan going forward.

Payless supports House Bill No. 2037 not only for the obvious reason of a tax credit, but also because it will stimulate economic development within the State of Kansas. One of the fundamental factors considered by corporations in deciding whether to locate or expand within a given state is the tax environment. It has been notably reported in the media that Kansas currently has an unfavorable tax climate. House Bill No. 2037 will send a message to potential businesses that Kansas encourages economic development within its borders. This bill demonstrates the Kansas legislature's commitment to economic development.

Not only will other companies expand or locate in Kansas, House Bill No. 2037 will also promote the expansion of Payless' business within the state. Payless currently employs over 1,500 persons in the Topeka area alone and over 100 more in stores throughout the state. The tax credits provided the company by House Bill No. 2037 will stimulate increased employment and expansion. Payless continues to look for opportunities to grow and these credits will aid Payless as it looks to expand.

In summary, Payless supports House Bill No. 2037 for the following reasons:

- It will provide much needed tax relief;
- It provides opportunities for economic growth within the State of Kansas;
- It will create a positive image for businesses considering locating to Kansas; and
- It will allow for increased employment by Payless and other companies within the state through reinvestment of the tax credit.

Thank you for the opportunity to speak to you today in support of House Bill No. 2037.

Good morning Mr. Chairman and Members of the Committee. My name is Rick Wienckowski and I am the CFO for Hill's Pet Nutrition, Inc. headquartered here in Topeka. I am here today to urge your support for House Bill Number 2037.

For those who may be unfamiliar with Hill's Pet Nutrition, Inc., we are the leading producer of specialty pet foods under the Science Diet® and Prescription Diet® labels, for dogs and cats. We are a division of the Colgate-Palmolive Company and like our parent company, distribute both domestically and internationally.

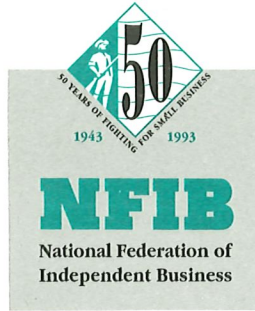
We continue to enjoy very positive growth in both arenas and as such have been continually challenged to develop additional capacity. We have four domestic plants that are located in California, Kentucky, Indiana, and here in Topeka. In order to support our growth we recently completed a \$70 million dollar expansion at our Indiana facility and a \$20 million acquisition in Holland. One of the critical factors that we considered in where to build the additional capacity was the overall tax structure of the states where we are located.

We continue to believe that the property tax burden in Kansas is very oppressive and discourages major business from either relocating to or expanding in Kansas. In fact, on an equal value of assets basis, our property taxes for our Kansas plant are 9 times higher than our Kentucky plant, 6 times higher than our Indiana plant, and 3 times higher than our California plant.

In summary, Hill's believes this legislation is a critical first step toward making it more attractive to expanding the business base in Kansas.

Thank you very much for your attention and consideration.

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Testimony of Hal Hudson
Kansas State Director
National Federation of Independent Business
Before the House Committee on Taxation
on House Bill 2037

January 27, 1997

Mr. Chairman and Members of the Committee, my name is Hal Hudson, and I am the State Director for the Kansas Chapter of the National Federation of Independent Business.

I am here today to urge enactment of House Bill 2037, granting an income tax credit for property taxes paid on commercial and industrial machinery and equipment.

As you know, commercial and industrial enterprises are the only taxpayers who must pay property tax on their "personal property." Individuals and farmers are exempt from paying this tax -- deemed by many small and independent businesses as the most onerous of taxes they pay.

An income tax credit on such property tax is viewed by many as an economic development incentive -- encouraging business owners to expand or upgrade machinery and equipment investments.

While many of the 8,000 Kansas members of NFIB would like to see a complete and total elimination of the 35-mill property tax, the income tax credit on commercial and industrial machinery is considered a step in the right direction - toward reducing the cost of this tax to their business operations.

I urge you to report HB 2037 favorable for passage, and to support its enactment on the floor of the House.

Thank you.

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Shawnee Mission

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DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

January 27, 1997

HOUSE ASSESSMENT AND TAX COMMITTEE

SUPPORTING HB 2037

Thank you for the opportunity to express the views of the Kansas Food Dealers Association. Our membership includes retailers, distributors and manufacturers of food products.

We appreciate the concerns expressed by the Governor and members of the 1997 legislature with regard to providing meaningful tax relief to all Kansans. Certainly giving business and industry tax reductions creates a healthier business climate which ultimately benefits their customers or consumers of their products.

Property taxes levied against commercial and industrial business equipment and machinery is a major business expenses. Allowing ten percent of that tax as a credit against income taxes paid by Kansas businesses will help all Kansans.

We respectfully request your favorable consideration of **HB 2037**.

Frances Kastner, Director
Governmental Affairs, KFDA

Donald Snodgrass, Lobbyist

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120 SE 6th Avenue, Suite 110 • Topeka, Kansas 66603-3515
(913) 234-2644 • FAX (913) 234-8656



Written Testimony for the:
House Taxation Committee
Representative Phill Kline, Chairman
January 27, 1997

The Greater Topeka Chamber of Commerce would like to express our strong support for HB 2037. This is very positive legislation that is a good first step in addressing the problem with the high machinery and equipment property taxes in Kansas. The 1996 assessed valuation on machinery and equipment in Shawnee County is \$103,587,448. This will generate approximately \$15.4 million in taxes. A 10% tax credit would provide significant relief which can be reinvested in capital expenditures and jobs.

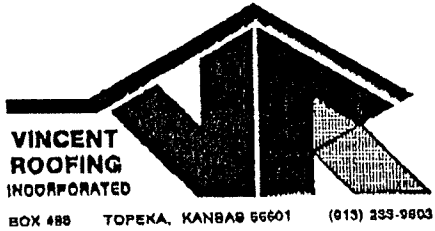
We asked five local companies to testify before the Senate Assessment and Taxation committee last Friday, however only three were able to return today for the House Taxation Committee hearing. The two that were unable to attend today are small businesses who were already committed to business duties. However, they both wanted to provide their testimony to your committee and it is attached. (Due to time constraints, Mr. William Brown, owner of Williams Electrical Contracting, was unable to update his letter to reflect the House committee and bill number, we ask your indulgence.)

The Topeka Chamber, along with Vincent Roofing and Williams Electrical Contracting, urge the committee to support HB 2037. Thank you.

Christy A. Caldwell
Vice President Government Relations

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January 27, 1997

Representative Phill Kline, Chairman
House Taxation Committee

My name is Michael Granger. I am the Office Manager/Treasurer of Vincent Roofing, Inc., a small construction company in Topeka. I have been with Vincent Roofing for over 21 years. I am here to speak in favor of House Bill No. 2037.

Our firm employs approximately 90 individuals with an annual sales volume of nearly Six Million dollars (\$6,000,000). Our small contracting firm utilizes a great deal of equipment and machinery. A 10% credit would be very beneficial to our company. In this day and age of escalating costs in nearly every facet of our day to day operation, any savings or credit on this type of tax would help us considerably. It would afford us an opportunity for additional equipment acquisitions and allow us to expand our company's growth.

Realizing that small businesses today can be burdened by many different costs and taxes, House Bill No. 2037 is a step in the right direction for easing some of their operational costs.



**Williams Electrical Construction
& Wholesale Inc.**

3860 N.W. 16th • Topeka, Kansas
(913) 354-7411 • Fax (913) 354-1831

January 24, 1997

SENATE ASSESSMENT &
TAXATION COMMITTEE
Capitol Building
Topeka, Kansas

REF: Senate Bill No. 51

To The Honorable Senator Andrey Langworthy and Senate Committee:

I am in favor of the TEN PERCENT credit against the tax liability of a taxpayer under the Kansas income tax act.

As a small Electrical Contractor in the City of Topeka, Kansas. Last year in 1996, we purchased NINETY FIVE THOUSAND DOLLARS worth of machinery and equipment. I estimate a tax liability of approximately FIVE THOUSAND DOLLARS for last year's purchased equipment. If the TEN PERCENT tax credit is enacted by the Legislature it will enable us to invest back into the company for more growth. This will enable us to persue additional jobs which could create more opportunities for employment.

Respectfully,
WILLIAM ELECTRICAL CONSTRUCTION & WHOLESALE, INC.

A handwritten signature in cursive script that reads "William D. Brown".

William D. Brown
President

10-3



GREATER KANSAS CITY ♥
CHAMBER OF COMMERCE

Testimony

on behalf of the

Greater Kansas City Chamber of Commerce

by

Lynn Mitchelson, chairman, Kansas State Affairs Committee

before the

House Taxation Committee

Monday, January 27, 1997

Good morning, mister chairman, and committee members. I regret that I am not able to appear personally before the committee to testify in favor of H 2037. Thank you in advance for your consideration of my written remarks.

As chairman of the Kansas State Affairs Committee of the Greater Kansas City Chamber of Commerce, which represents nearly 1,000 business on the Kansas side of the Greater Kansas City area, I respectfully ask you to recommend H 2037 favorably for passage.

The Chamber strongly supports reducing key business taxes to stimulate job growth and capital investment. The 10 percent income tax credit for property taxes paid on business machinery and equipment proposed in H 2037 is important because, according to a 1994 Kansas Inc. report, Kansas assesses the highest tax rate for machinery and equipment as compared to Oklahoma, Iowa, Nebraska and Colorado (*Costs and Taxes in Selected Kansas Industries 1994 Update*, p. 56). H 2037 would be a step toward bringing Kansas' taxation of machinery & equipment in line with surrounding states. This tax credit will also encourage Kansas businesses to invest in modern equipment.

As the Legislature considers various plans to reduce property taxes, the Chamber urges adoption of a legislative package that provides equitable tax relief to business and residential property taxpayers. Business tax cuts stimulate economic growth, which translates into new jobs and an expanded tax base for the state. H 2037 should be included in the mix of tax relief measures passed by the Legislature this year.

Again, thank you for your consideration of the Chamber's position on H 2037.

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Attachment 11

2600 COMMERCE TOWER
911 MAIN STREET
KANSAS CITY, MISSOURI 64105-2049
816/221-2424 FAX 816/221-7440
www.kcity.com



CUSTOM METAL FABRICATORS, INC.
HWY 77 NORTH, P.O. BOX 286
HERINGTON, KS 67449-0286
TELEPHONE (913) 258-3744
FAX (913) 258-2584

January 27, 1997

Testimony on H.B.2037
before the
House Taxation Committee
by
Frank Meyer
President Custom Metal Fabricators Inc.
Herington, Kansas

Mr. Chairman and Committee Members, I regret that I am unable to be in Topeka today but thank you for the opportunity share my thoughts on H.B. 2037.

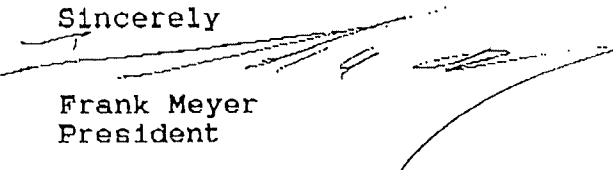
First allow me to introduce Custom Metal Fabricators to you. We are a small Kansas corporation with 45 employees. In 1996 over 35% of our sales were exported, going to China, Chile, Indonesia and Portugal. We have equipment in 29 countries around the world.

My interest in H.B. 2037 is threefold:

1. Commercial and industrial machinery and equipment required to compete on the world market requires a large investment on our part as well as a high tax burden. S.B. 51 would reduce the risk and loss we have when there is a down turn in the world wide economy and give us incentive to acquire more equipment, hire more people and increase the amount of money flowing into the Kansas economy from overseas.
2. About 95% of our production is industrial machinery and equipment. This bill will give our Kansas customers the same incentive to upgrade their plants with new and more productive machinery and equipment.
3. For the past 25 years I and many others have worked to bring new industry and jobs to Kansas and our local communities. H.B. 2037 will be another "tool" that might make the difference when we ask a company to locate here.

Thank you and I urge you to send H.B. 2037 to the full House with a recommendation for passage.

Sincerely



Frank Meyer
President

"Where workmanship isn't just a word."

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1-27-97
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**JAYHAWK PLASTICS, INC.**15285 South Keeler
Olathe, Kansas 66062Phone (913) 764-8181
Fax (913) 764-5149

January 24, 1997

To: Kansas House Committee on Taxation

Re: HB 2037--Tax relief for business machinery & equipment

Dear Committee Members,

I am writing to urge your support of this bill for several reasons:

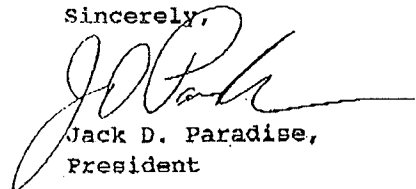
1. It sends an importantly needed message to the existing business community in Kansas, that the legislature recognizes our taxes on machinery are higher than neighboring states and we in the business community are unfairly burdened as such. Kansas companies thinking about relocating or expanding elsewhere will be influenced by passage of this bill.
2. Making Kansas companies more competitive through tax reduction adds incentive for expansion by investment in more plant and equipment.
3. Investment in more plant and equipment means more jobs.

We have been in talks for about a year with a foreign supplier that we may purchase in a joint venture with a partner from the southeast U.S. This foreign company employs about 70 people. If the purchase comes to pass, we will relocate the entire production facility in either Kansas, Missouri or the southeast U.S.

To be very frank, we don't have much to brag about when it comes to Kansas tax structure for manufacturing businesses. Our potential partner in the southeast would most likely convince us to move this business to one of his two southeastern states.

This legislation is important and needed if Kansas truly wants to retain good businesses and attract new ones.

Sincerely,



Jack D. Paradise,
President

ms:n144

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Attachment 13