

Approved: 3-5-97
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on February 12, 1997 in Room 519-S of the Capitol.

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

Conferees appearing before the committee:

Rep. Les Donovan
Mary Kay Culp, Kansas Catholic Conference
Gene Neely, Kansas National Education Association
Wendy McFarland, American Civil Liberties Union
Rep. Tony Powell
David Payne, Kansas Family Research Institute
Rep. Tim Carmody
Rep. Gene Shore
LewJene Schneider, Kansas Livestock Association
Leslie Kaufman, Kansas Farm Bureau
Rep. Dennis Wilson
Rep. Joann Freeborn
Rev. Eldon Powers, Statewide Organization of Nazarene
Rev. Steve Dighton, Pastor, Lenexa Baptist Church
Bob Runnels, Kansas Catholic Conference

Others attending: See attached list

Chair opened hearing on:

HB 2078 - Income tax credit for teacher donated supplies and materials

Proponents:

Rep. Les Donovan
Mary Kay Culp, Kansas Catholic Conference (Attachment 1)
Gene Neely, Kansas National Education Association (Attachment 2)

Opponent:

Wendy McFarland, American Civil Liberties Union (Attachment 3)

Chair closed hearings on **HB 2078**

Chair opened hearings on:

HB 2111 - Income tax personal exemption amounts conformed to federal amounts

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, ROOM 519-S Statehouse, at 9:00 a.m
February 12, 1997.

Proponents:

Rep. Tony Powell (Attachment 4)
David Payne, Kansas Family Research Institute (Attachment 5)

Chair closed hearing on **HB 2111.**

Chair opened hearing on:

HB 2085 - Kansas Estate Tax Act

Proponents:

Rep. Tim Carmody (Attachment 6)
Rep. Gene Shore (Attachment 7)
LewJene Schneider, Kansas Livestock Association (Attachment 8)
Leslie Kaufman, Kansas Farm Bureau (Attachment 9)

Chair closed hearing on **HB 2085.**

Chair opened hearing on:

HB 2107 - Sales tax exemption for purchase by religious organization

Proponents:

Rep. Dennis Wilson (Attachment 10)
Rep. Joann Freeborn (Attachment 11)
Rev. Eldon Powers, Statewide Organization of Nazarene (Attachment 12)
Rev. Steve Dighton, Pastor, Lenexa Baptist Church (Attachment 13)
Bob Runnels, Kansas Catholic Conference (Attachment 14)

Chair closed hearing on **HB 2107.**

Rep. Jeff Peterson requested introduction of a bill to exempt pensions not originated in Kansas from income tax.

Moved by Rep. Peterson, seconded by Rep. Kline, introduction of a bill to exempt pensions not originated in Kansas from income tax. Motion carried.

Shirley Sicilian, Department of Revenue, presented a memorandum relating to the administration of the Food Sales Tax Refund Program as requested by committee. (Attachment 15)

The next meeting is scheduled for February 13, 1997.

Adjournment.

Attachments - 15

TAXATION COMMITTEE GUEST LIST

DATE: FEBRUARY 12, 1997

NAME	REPRESENTING
Annis Wilson	House Member
Elvin Powers	Church of the Nazarene
Steve Dighton	General Baptist Church
Brenda Sanks	Jonathon Small
Kelly Kuitala	City of Overland Park
Ed Spiess	Peterson Public Affairs
DONALD SVOOD & ASS	K.S. FOOD DEALERS ASSOCI.
Gene Neely	Kansas NEA
Steve Montgomery	Greater K.C. Chamber
WMC Faland	ACLU
Frances Wood	Women's Christian - Temperance Union Kansas Churches of the Nazarene
Paul Grant	KCCI
Doc Brown	MIT - Jim Sunderman
Lessie Kaufman	Ks Farm Bureau
Low Jane Schneider	Ks Livestock Assoc
Kathy Taylor	KBA
Ken Miles	Kansas Electric Cooperatives
Paul Hitchcock	Western Resources
Joyce Lopez	Johnson County Court

Rodney L. Williams

Bro. Pres. USD 217 Kolla

TAXATION COMMITTEE GUEST LIST

DATE: FEBRUARY 12, 1997

NAME	REPRESENTING
<i>Julie Hein</i>	<i>Hein & Weir</i>
<i>Ashley Shepard</i>	<i>Overland Park Chamber</i>
<i>Marsha Ann Smith</i>	<i>KMHA</i>
<i>Glyde Gruber</i>	<i>Governors Staff</i>
<i>Alan Holmes</i>	<i>Division of Budget</i>
<i>Jill Bridges</i>	<i>DOB</i>

TESTIMONY

H.B. 2078

HOUSE TAXATION COMMITTEE
Wednesday, February 12, 1997

KANSAS CATHOLIC CONFERENCE
Mary Kay Culp, Assoc. Dir. of Education

Mr. Chairman, members of the Committee on Taxation - my name is Mary Kay Culp, Associate Director of Education for the Kansas Catholic Conference, which represents the Roman Catholic Bishops of Kansas. Thank you for the opportunity to speak to the provisions of **H.B. 2078**.

The Kansas Catholic Conference supports and encourages the passage of this legislation which enables teachers in accredited schools, "public and otherwise" to receive a tax credit for teaching aids that assist in the education of children, grades kindergarten through 12

I am here to speak on behalf of Kansas Catholic educators, but I imagine our reasons for supporting this bill are not unlike those of the public schools. That is, while there are often processes for reimbursement for certain teaching aids, these must be anticipated in advance and the process accomplished in order to insure that reimbursement will take place. Naturally, the school's overall budget for these purposes comes into play. Sometimes unanticipated, yet credible and necessary purchases by teachers go unreimbursed.

Often, as one of our Catholic School principals pointed out, teachers purchase aids such as certain software or items to facilitate presentations or projects on the spur of the moment. In some cases, particularly in private schools, certain hardware such as VCR machines are available, but only on a scheduled or as-available basis. Sometimes a teacher that utilizes such equipment regularly will purchase their own for consistent access. and keep

Testimony
H.B. 2078
February 12, 1997

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such as part of their personal teaching arsenal. Such teachers who may, at some point, hire on at a public school bring this teaching aid advantage with them..

Even when this is not the case, the immediate or consistent, ready use of aids, equipment and materials, when it benefits Kansas private school students, benefits Kansas as well, as those students are future Kansas workers and citizens, whose overall education saves Kansas taxpayers well over 1.6 million per year.

We support passage of H.B. 2078.



KANSAS NATIONAL EDUCATION ASSOCIATION / 715 W. 10TH STREET / TOPEKA, KANSAS 66612-1686

Gene Neely Testimony before
House Taxation Committee on
House Bill 2078
Wednesday, February 12, 1997

Thank you Mr. Chairman and members of the committee. I am Gene Neely, a high school social studies teacher from Coffeyville. I am currently on leave to serve as the vice president of the Kansas National Education Association. I am here today to represent my organization's support of HB 2078 which would provide an income tax credit for school supplies and materials purchased by teachers for use in their classrooms.

It's no secret that most teachers in Kansas spend their own money to purchase items for use in their classrooms. In most school districts, building instructional budgets are so tight that teachers often have no choice but to supplement what the district can afford to buy if the teacher's instructional program is to be implemented. In some districts, the materials and supply acquisition process is so onerous and time-consuming that teachers find it less bothersome to just buy their own supplies. The result is, of course, that teachers in Kansas are dramatically subsidizing the public schools of Kansas.

We believe that teachers will continue to purchase supplies necessary for their classrooms regardless of legislation passed. However, the adoption of HB 2078 is certainly a recognition of teacher donations and an appropriate way to allow them to recoup up to \$300 of their contribution.

Thank you for allowing me to address the committee this morning. KNEA urges your support of HB 2078.

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ACLU

American Civil Liberties Union

Wendy McFarland - Lobbyist
(913) 575-5749

Testimony on HB 2078 Delivered Before The House Taxation Committee 2/12/97

We would like to request an amendment to HB 2078. On Page 1, line 19, the word "public" would be inserted between the words "accredited" and "school" and the words "whether public or otherwise" would be stricken.

The request is based upon the Church & State provisions of the First Amendment to the United States Constitution.

It is our contention that offering tax credits to teachers who are employed by private schools, 85% of which are currently sectarian in the United States, will directly or indirectly subsidize, in many cases, education and promotion of a particular religion.

The US Supreme Court has historically held this type of funding to be unconstitutional.

We respectfully ask you to consider this simple amendment that will make this otherwise admirable piece of legislation one that is constitutional as well.

STATE OF KANSAS
HOUSE OF REPRESENTATIVES

TONY POWELL
REPRESENTATIVE, 85TH DISTRICT
SEDGWICK COUNTY
7313 WINTERBERRY
WICHITA, KANSAS 67226
(316) 634-0114

STATE CAPITOL, ROOM 155-E
TOPEKA, KANSAS 66612-1504
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TOPEKA

MAJORITY WHIP

COMMITTEE ASSIGNMENTS
VICE CHAIRMAN: TAXATION
MEMBER: HEALTH AND HUMAN SERVICES
JUDICIARY
RULES AND JOURNAL

TESTIMONY IN SUPPORT OF HB 2111
BY
REP. TONY POWELL

Mr. Chairman,

It is a pleasure to appear before you today in support of HB 21¹¹~~11~~; legislation that would increase the personal and dependent deduction amounts to that currently set by federal law. Under current law, Kansas provides a \$2,000 deduction for a taxpayer and his or her dependents. However, federal law provides a deduction slightly over \$2,500.

Clearly, both these amounts are too low. According to the Legislative Research Department, middle income families spend between \$7,610 and \$8,710 per child according to information from 1995. As is obvious, the deduction amounts do not even come close to meeting the costs of raising children. This legislation, while falling far short of the amount actually needed to meet the costs of actually raising a child, does make a step in the right direction and is consistent with other budgetary needs.

When much of the talk in recent weeks has been over the unfairness of the singles' tax rate, we cannot forget families and the greater burdens they bear. Since families comprise the backbone of our society, they should not be left behind in our tax relief efforts. Thank you for your time and consideration of this issue.

House Taxation
2-12-97
Attachment 4-1

Testimony Before the House Taxation Committee
February 14, 1997

Re: House Bill 2111

Submitted by:
David Payne
Executive Director
Kansas Family Research Institute
2250 N. Rock Rd., Ste. 118-224
Wichita, KS 67226
316-634-2622

Thank you for the opportunity to appear today in support of House Bill 2111. I addressed some members of this committee in 1995 when I appeared before a joint interim committee on assessment and taxation to speak to this same issue. There appeared to be little opposition to the measure at that time, but there has been no action to advance this long overdue increase in the personal exemption.

Why should Kansas increase the personal exemption to the same level as the federal exemption?

- Not a new tax break—merely an adjustment for inflation that has been ignored for too long.
- Both Republicans and Democrats have agreed on the need for dramatic increases in per-child tax benefits at both the federal and state levels. (See the bipartisan National Commission on Children report entitled “Beyond Rhetoric: A New American Agenda for Children and Families”)
- Families with dependent children or those who are caring for elderly parents are paying an increasingly larger share of the tax burden—a “hidden” tax hike every year.
- Increase in the personal exemption benefits all taxpayers, including singles on an equitable basis.
- Provides the greatest tax relief to those who are caring for dependent children or the elderly.

To review, the Kansas personal exemption has not changed since 1989. Seven tax years later, the personal exemption has remained at \$2,000 in Kansas (for each exemption claimed on your federal income tax return). There has not been a single upward adjustment for inflation. On the other hand, the federal personal exemption has gradually increased during the same period from \$2,000 to \$2,550.

The result is that families with dependent children and those who are caring for elderly parents or other dependents are overtaxed.

The problem is even more apparent when viewed in a historical context. In 1948, the average American family with children paid only 3 percent of its income to the federal

government. Today the same family pays about 25 percent in income and Social Security payroll taxes.

In 1948, the personal exemption was \$600. This was equal to roughly 17 percent of the median income of a family of four, then \$3,468. This shielded 68 percent of that family's income from federal income tax. Families could protect most of the remaining 32 percent by itemizing deductions or by taking the standard deduction. The result: in the late 1940's and early 1950's, the average family with children paid little or no income tax.

Since then, the increases in the personal exemption have lagged far behind the rise in incomes and inflation. As the value of the personal exemption has declined, the income tax paid by families with children has increased. For the personal exemption today to have the same value relative to family income that it had in 1948, it would have to be about \$8,000 for the 1996 tax year.

I realize that we are not here to correct problems in the federal tax code. Indeed, President Clinton and the Republican Congress appear to be in agreement—at least in principle—about tax credits for families to partially address this very problem. But I believe that we should be sympathetic to the plight of families who continue to pick up an ever increasing share of the tax burden. At the very least, we should bring long overdue tax relief to families with dependent children by increasing the personal exemption to the same level as the federal exemption.

You are probably not going to have too many people beating your door down to clamor for an increase in the personal exemption. That's because the people who care most about this issue are too busy working and raising a family. They don't have the lobbying strength of all the special interest groups that have their hands out in Topeka. And that's why they keep getting shoved to the back of the line when it comes to tax breaks.

Traditionally, the tax code has given favorable treatment to parents--society's way of acknowledging that raising children is both socially desirable and expensive. Sadly, the erosion in the value of tax exemptions at both the federal and state levels has unfairly shifted a greater share of the tax burden to families. We urge you to restore equity for taxpayers with dependents by adjusting the personal exemption in Kansas to the same level as the federal exemption by supporting House Bill 2111.

TIM CARMODY
 REPRESENTATIVE, SIXTEENTH DISTRICT
 10710 W. 102ND STREET
 OVERLAND PARK, KS 66214



TOPEKA

HOUSE OF
 REPRESENTATIVES

COMMITTEE ASSIGNMENTS
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 MEMBER—FISCAL OVERSIGHT
 —JOINT COMMITTEE ON SPECIAL CLAIMS
 AGAINST THE STATE

115-S
 STATE CAPITOL
 TOPEKA, KANSAS 66612-1504
 (913) 296-7695

February 12, 1997

OVERVIEW OF THE KANSAS INHERITANCE
 (AND ESTATE) TAXES

Overview

There are two types of death taxes, estate taxes and inheritance taxes. An estate tax is a tax on the wealth owned by a person at their death while an inheritance tax is a tax on the beneficiaries who receive wealth from a person who has died. The Federal government and more than half the states, including California, Florida, Colorado and Missouri, levy an estate tax. Kansas and a small handful of states levy an inheritance tax.

Formula - Estate Tax

An estate tax is calculated by adding up all the wealth of the decedent (including real estate, life insurance, transfer on death accounts, trusts, etc.), then deducting debts, probate expenses, etc., to arrive at an amount called the "taxable estate". The tax is then determined from the tax tables to arrive at a "tentative tax". Various credits are then applied to arrive at the amount of the tax which is actually paid.

Credits: Two of the most widely used, but misunderstood, credits are the Unified Credit and the State Death Tax Credit. The Unified Credit is an amount up to \$192,800 which can be applied to any tentative tax on the Federal return. This coincides with the amount of Federal Estate Tax (FET) on a taxable estate of \$600,000. (Many people believe that they are entitled to a \$600,000 "exemption" for their estate when actually such estates are potentially taxable but only avoid tax if the decedent did not use up part or all of the Unified Credit during his or her lifetime.) The Unified Credit is the reason why most taxable estates of \$600,000 or less do not pay Federal Estate Tax (FET).

The State Death Tax Credit is a credit against the FET for any death taxes, estate or inheritance, paid to a state. In other words, the amount of federal tax can be reduced, sometimes substantially, by applying the amount of death tax paid to the state as a credit against the federal tax. The amount of this credit is the amount actually paid to the state, but not to exceed a formula set out in the FET return.

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 Attachment 6-1

Kansas Estate Tax: Over half the states, including Kansas, levy a tax on the estate of a decedent equal to the amount of the FET state death tax credit. This is called a "pickup tax". The states rationalize this tax by saying that if they do not levy such a tax the taxpayer will end up paying the same total tax, but it will all go to the federal government. So, why not split this total tax with the federal government rather than let Uncle Sam have it all? The problem in Kansas is that we have two death taxes, the "pickup tax" or Kansas Estate Tax (KET), and the Kansas Inheritance Tax (KIT), and the amount which is paid is the larger of the two, not the smaller.

Formula - Kansas Inheritance Tax

Unlike an estate tax, which taxes the wealth owned by a decedent at death, the KIT taxes the recipients of that wealth. The actual amount of tax is determined by the relationship of the beneficiary to the decedent. For example, a child gets an initial \$30,000 exemption and then pays a KIT of from 1% to 5% on the balance. But a nephew would get no exemption and would pay a rate of from 10% to 15% on the same amount.

Example

Mr. James died and left property to his two children which is worth \$1,000,000 and had deductions of \$250,000 for a taxable estate of \$750,000. The tentative federal estate tax on \$750,000 is \$248,300. The Unified Credit of \$192,800 is applied to the tentative tax for a tax due of \$55,500. The state death tax credit formula yields an additional credit of \$20,400. Therefore, if the state of the decedent has a pickup tax, like the KET, the estate sends a check to the federal government for \$35,100 and to the state for \$20,400.

However, in Kansas, the inheritance tax (KIT) on the children would be \$12,050 each or a total of \$24,100 or \$3,700 more than the pickup tax and the estate and/or children would pay the higher amount.

An even more startling example would be if Mr. James decided to leave his estate to two nephews. In that case, the KIT would be \$96,500 or \$76,070 more than the pickup tax. In the case of the nephews, the estate would pay the federal government the same \$35,100 but would pay Kansas \$96,500! Is this wise public policy?

Proposal

The bill which passed the House of Representatives in 1995 by a vote of 85-40 would have eliminated the Kansas Inheritance Tax and continued the use only of the Kansas Estate Tax (pickup tax). The bill was bottled up in the Senate Taxation Committee for two

years. Along with several other sponsors, including Rep. Gene Shore (R-Johnson), I will again introduce the bill in the House and I respectfully request the support of the Kansas Chamber of Commerce and Industry. The National Federation of Independent Businesses and the Kansas Farm Bureau have already endorsed the proposal.

Arguing Points

1. **Loss of Revenue.** Since fiscal year 1988 (FY 88) the baseline collection of the KET/KIT has risen from approximately \$55 million to approximately \$65 million, with two "spikes" in FY94 and FY96 due to the settlement of two large estates in those years. Estimates of lost revenue if the KIT is dropped range from \$12M to \$40M. (The "loss" grew bigger as the bill proceeded through the legislative process.) The two large estates would have still paid the same amount because they paid the "pickup tax" amount rather than the KIT amount, therefore, large estates would still pay a substantial amount under the proposed bill.

There is a two part response to the loss of revenue argument. First, several articles in investment and financial management publications point out that we are in the initial years of a massive wealth transfer phenomenon as the parents of the "baby-boomer" generation begin to die and pass down their wealth. I personally believe that collections from the KET/KIT will rise dramatically in the next twenty years and the windfall will be at the expense of the taxpayers and property owners of Kansas. Second, small estates bear a disproportionate burden of the KIT. The Kansas Department of Revenue testified in the House Taxation Committee that approximately two-thirds of the KIT is paid by estates of less than \$600,000 which do not even have to file federal estate tax returns. In other words, it is not the "wealthy" who pay most of the tax, it is mom and dad who own a modest home or farm.

2. **Kansas Cannot Absorb Another Tax Cut.** The effective date of the proposed bill would be applied to those who died on or after a certain date. That date could be 1/1/98, halfway through the upcoming fiscal year, or 7/1/98, thus not effective until FY99, or a later date, in order to give the Governor enough lead time to build a budget based on revenue projections under the new bill.

3. **The Proposal Would Be A Major Change in Kansas Tax Policy.** At first glance, a tax system which apparently favors closer relatives over more distant ones or even strangers would be good public policy. However, in the example above, the children still pay more KIT than they would have under the proposal. Looking at it from another direction, why should a Kansas taxpayer be punished by punitive tax rates simply because he or she has no children to receive their estate? In advising business owners it is not unusual to leave the business to the child or nephew or

other relative who has stayed on and wants to continue the operation. Why should this be discouraged by a punitive tax system? Finally, the KIT exemption levels have remained unchanged since at least 1972.

4. **Simplicity.** Under the current system, a decedent's family may have to file one of three types of KIT returns. They would file a Form 80 if the estate also files a federal estate tax return, a Form 90 if they owned KIT but did not file a federal estate tax return or a Form 100 if they owed no tax at all. I tell my clients that the Form 100 is the "No Tax" tax return.

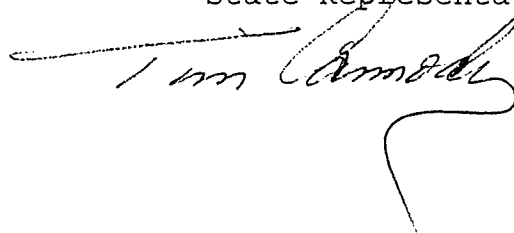
5. **Fairness.** The KIT is a tax that is not uniformly and fairly collected. I stated in committee hearings that, to a great degree, only "farmers and fools" paid the tax. Farmers (and all landowners) paid it in order to clear title to their real estate, and "fools" who did not own real estate paid it because they did not take advantage of any one of numerous ways to avoid collection. I am speaking here of tax evasion. This tax is widely avoided but monitoring and collection by the Department of Revenue is lax at best and nonexistent at the worst. A tax that is not fairly collected is not a fair tax. The proposal would require only one return, not three, and that return would only be filed if a federal return was also required.

Conclusion

In committee hearings the Secretary of Revenue called the Kansas Inheritance Tax "a dinosaur". It is time to let the KIT join the other dinosaurs in extinction. Kansas should join the majority of states, including our neighbors, Colorado and Missouri, in adopting the "pickup" estate tax as our only death tax. It is fairer, compliance would be simpler and the revenue loss, if any, could be anticipated and dealt with responsibly.

Respectfully,

Tim Carmody,
State Representative

A handwritten signature in black ink, appearing to read "Tim Carmody", with a long horizontal stroke extending to the left and a large, sweeping flourish underneath.

HB2085
INHERITANCE TAX
FEBRUARY 12, 1997

It has been said that nothing is sure but death and taxes. In Kansas nothing is more onerous than death taxes.

~~HB 2085 would make Kansas Death Taxes~~

1. ~~Simpler and~~
2. ~~Reduce taxes for Kansas Citizens~~

No major changes since 1978

~~Under current law Kansans are taxed different under Kansas law than under Federal law~~

~~The Federal Estate Tax is not collected under a \$600,000 estate value. While no Federal tax is owed, Kansas would collect up to \$67,000 on an estate the Feds would not even tax. These are taxes paid with money on which the deceased has already paid income tax.~~

~~The Kansas exemption is only \$30,000 for the closest relatives and only \$5,000 for brothers and sisters of the decedent and for someone more removed than a brother or a sister. Only a surviving spouse or a charity is exempt.~~

LIFE INSURANCE

Life insurance proceeds under Kansas inheritance tax law currently is exempt. With HB2085 we would be under an estate tax plan where we would conform with Federal Tax Law. The owner of a life insurance policy would have the cash value of the policy in his or her estate, as opposed to the beneficiary of the policy.

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HB2085 - INHERITANCE TAX
FEBRUARY 12, 1997

HB2085 would piggyback off the Federal law. Estates under \$600,000 would not owe any tax or have to file an Estate Tax Form. If Federal exemption goes up or down, Kansas would follow. Kansas Estate tax under HB2085 would be what we call a pick-up tax. That means the only tax Kansas would collect would be the amount the Feds allowed the State to deduct from the amount sent to Washington.

This bill allows Kansas families to keep more of what is rightfully theirs. A person's estate is built on after-tax money. Income tax has already been paid on. With Kansas' unfair and outdated system, businesses are lost, farms are lost, homes are sold, and savings are depleted just to pay a punitive inheritance tax. Passing this bill will keep business and Kansas money in Kansas. ~~1978 -~~

Yes, it is a loss to the state, but a gain to families in Kansas.

The Department of Revenue two years ago, when we had an exhaustive interim study on this issue estimated a cost of \$23 million. When we started discussing HB2085, they decided the cost was unclear, but based on 1992 - 1994 the cost might be \$34.8M. If you recall in 1994 and 1995, we had two huge estates settled which dramatically increased the collections in those years. Since the bill passed out of committee, the Department of Revenue decided the amount could be as high as \$41.3. I believe the fiscal note is bogus and can be what they want it to be. The lower figure seems to be more realistic. The facts are, Kansas Inheritance Tax collects most of the dollars from small estates.

HB2085 is an attempt to place some fairness in Kansas Estate tax law. Current Kansas law makes the inheritance tax a real shock to most Kansans when they are unfortunate enough to lose a loved one. Most believe they have the same \$600,000 exemption on State tax as they have on Federal taxes. HB2085 would make Kansas conform with Federal law as to exemptions and tax. The Death Tax due would be the pick-up tax.

HB2085 provides simplicity and fairness in Estate Taxes. HB2085 is a family bill, it is a fair bill. I would stand for questions.



Since 1894

Testimony

presented by

LewJene Schneider,
Director of Research and Legal Affairs

regarding

House Bill 2085

before the

HOUSE COMMITTEE ON TAXATION

FEBRUARY 12, 1997

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing over 7,300 members on legislative and regulatory issues. KLA members are involved in all segments of the livestock industry, including cow-calf, feedlot, seedstock, swine, dairy and sheep. In 1996 cash receipts from agriculture products totaled over \$7.5 billion, with sixty percent of that coming from the sale of livestock. Cattle represent the largest share of cash receipts, representing ninety percent of the livestock and poultry marketings.

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Chairperson Kline and members of the House Committee on Taxation, thank you for the opportunity to testify today. My name is LewJene Schneider, and I am representing the Kansas Livestock Association.

We urge you to give favorable consideration of House Bill 2085. KLA members believe that such taxes are a major burden on family farms, ranches and small businesses.

The Kansas Inheritance Tax taxes the recipients. The actual amount of tax is determined by the relationship of the beneficiary to the decedent. Brothers and sisters are allowed a \$5,000 exemption and nephew and nieces receive no exemption, and pay at a rate of 10% to 15% on the amount they inherit. One's children are taxed at a rate of up to .05%.

Furthermore, the Kansas estate tax would still be applicable, if this bill passes. Currently the federal government allows each person to "gift out" \$600,000 tax free. There are no stipulations as to whom inherits the estate. This "tax free gift" is applicable to anyone.

In filling out an estate tax return, a credit is given on the form of \$192,800. If the estate is larger than \$600,000, then this amount is applied against the tax owed.

The federal government also allows for a State Death Tax Credit. This is a credit against the Federal Estate Tax for any death taxes, estate or inheritance tax paid to the state. In other words, the amount of federal tax can be reduced, sometimes substantially, by applying the amount of death tax paid to the state as a credit against the federal tax. The amount of this credit is the amount actually paid to the state, but not to exceed a formula set out in the Federal Estate Tax return.

As you know, Kansas levies a tax on the estate of the decedent equal to the amount of the Federal Estate Tax state death tax credit. This is called a "pickup tax". The state rationalizes this tax by saying that if they do not levy such a tax, the taxpayer will end up paying the same total tax, but it will all go to the federal government.

Therefore, Kansas will still receive death taxes under the "pickup tax" or Kansas Estate Tax.

Research indicates that roughly two-thirds (2/3) of the inheritance tax is paid by estates less than \$600,000. It has been stated that the Kansas inheritance tax is a regressive tax.

The Inheritance Tax in Kansas is currently being paid by real property owners. I would suggest when many Kansas residents decease, their families are unaware of the inheritance tax, the person has some assets but no real property. Consequently, many times only people who own land and need to have "clear title" to their real estate hire an attorney and file the forms.

Kansas has three different forms. The estate or beneficiary incurs an expense in hiring an attorney to fill out the forms and file them. Therefore it becomes rather obvious why estates without real property many times do not file the forms and pay the tax. Thus, it is questionable whether this tax is fairly collected and a fair tax.

House Bill 2085 would require only one estate tax form be filled out and filed, not three. That return would only be filed if a federal return was also required. Not only will this simplify the procedure, it will reduce the cost of administration of an estate.

Please know, all money in the estate has been taxed at least once, either as income or capital gains. Therefore, it hardly seem fair that Kansas currently requires a nephew or niece to pay an additional 15% tax on their inheritance.

KLA respectfully requests favorable passage of House Bill 2085.

Thank you.



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

Re: HB 2085 - Enacting the Kansas Estate Tax Act

February 12, 1997
Topeka, Kansas

Presented by
Leslie Kaufman
Assistant Director
Public Affairs Division

Chairman Kline and members of the Committee, thank you for the opportunity to appear before you in support of SB 2085. We also appreciate the 42 Representatives who co-sponsored the bill. I am Leslie Kaufman. I serve as the Assistant Director of the Public Affairs Division for Kansas Farm Bureau.

Our members are very interested in matters, such as taxation, that impact all Kansans. At our 1996 Annual Meeting held this past November, over 435 voting delegates, themselves agricultural producers, adopted new policy language on the inheritance and estate tax systems.

This new policy essentially states death taxes, both inheritance and estate, often have a negative impact on the passing of property and make it difficult for future generations to continue farming. Additionally, our policy advocates reforms of death tax systems, both on the national and state levels, which would lessen the impacts of these taxes and include indexing for inflation.

We believe HB 2085 provides significant and beneficial reform to the system of death taxation in Kansas. It will allow us to take full advantage, under the federal estate tax, of the maximum credit for state death taxes paid. It will simplify the Kansas death tax system by eliminating the mixed inheritance and estate system in favor of a straight estate system. This simplification can result in less paper work, and for many Kansans, a reduction in attorney's fees. Finally, we believe the estate tax structure proposed in HB 2085 will result in a more fair system of taxation in Kansas and will allow the continuation of more family farm and business operations.

As such, we would respectfully request the Committee look favorably on HB 2085 which enacts the Kansas Estate Tax Act.

Thank you, again, for the opportunity to bring the concerns and recommendations of the farm and ranch members of Kansas Farm Bureau before the Committee today.

DENNIS M. WILSON
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VICE-CHAIR: INSURANCE
 MEMBER: BUSINESS, COMMERCE AND LABOR
 FINANCIAL INSTITUTIONS

TOPEKA

HOUSE OF
 REPRESENTATIVES

February 12, 1997

House Taxation Committee
 Honorable Phill Kline, Chairman

House Testimony/Bill 2107 Religious Organizations Tax Exemption

Good morning, and thank you again for this opportunity to speak before you on behalf of a bill that I am co-sponsoring.

First of all, this is a non-partisan bill, that 36 have signed on in support of. This only amends the current statutes to allow religious organizations exemption from paying sales tax on personal property they purchase and use in the course of their religious services. So there will be no confusion, religious organizations in the state's definition would mean synagogues, parishes, churches, and all others who perform religious worship activities and are filed under the 501(C)3 of the Internal Revenue Code.

Up to 1970, all these religious organizations were exempt from paying this tax, along with other special interest groups as all were repealed in 1970. Slowly, over the last 26 years, as you can see, many of these special interest groups have become tax-exempt once again. To my amazement, it appears we might have just forgotten about one of the most important groups that plays a major impact on our lives, and that is our place of worship. These religious organizations make great contributions to serve the needy citizens of our country and of our state, sparing the taxpayers an untold fortune. This committee is considering tax relief for many groups but I assure you these groups do no more for our citizens of Kansas than our religious organizations.

Please allow me to answer some of the possible questions that might arise:

#1 Who else could be considered a religious organization? The staff assures me it would be difficult for many others to claim this exemption.

#2 Do our bordering states now exempt their religious organizations?

Answer, YES, all 4 states bordering Kansas currently exempt their religious organizations from paying sales tax on personal property

#3 What would be the fiscal note for this exemption?

There is no way to actually predict the number but applying the same evaluation process they used in 1970 to today's dollars and inflation, the guess would be approximately \$6 to \$7 million. Others have different opinions. The dollars, even if doubled, are not significant enough to outweigh the benefit and the return the citizens of this state get from an institution that is much older than our country. Two years ago, this very bill passed as an amendment on the House floor that got weighted down in conference committee because we weren't addressing tax cuts of this type. On the four state line borders of our state, many churches can just go across the state line and get a deduction as they purchase goods in the use of their services. Many dollars are lost by Kansas businesses due to this type of problem. Please give us your support, not only in this committee, but throughout the whole process until this exemption becomes law.

Thank you, and now I would like to yield to the 3 or 4 proponents that have come here to testify today, or I will be happy to stand for questions.

Thank you.

House Taxation
 2-12-97
 Attachment 10-1

ASSESSMENT AND TAXATION

Inheritance Tax

AT-1

In Kansas there is a tax identified as an “inheritance tax,” imposed on the privilege of succeeding to the ownership of any property. The inheritance tax often makes it difficult for future generations to continue farming when the death of a family member occurs. The federal government and several states impose a similar levy under the name “estate tax.” Short of eliminating the federal estate and Kansas inheritance taxes, Congress and the Kansas Legislature should provide significant reforms to lessen the impacts, then index these taxes for inflation.

A needed tax exemption

Rep. Dennis Wilson, an Overland Park Republican, wants to fix a tax inequity. The Kansas Legislature should go along.

Wilson wants the state to grant religious groups a sales tax exemption for goods and services they buy and use exclusively for religious purposes. He points out that they used to have this exemption before legislative changes in 1970 repealed sales tax exemptions for almost every purpose. Many of those repealed exemptions have been returned since then, but not the exemption for religious organizations.

Many other states, he says, grant the exemption and so should Kansas.

Wilson argues persuasively that in their charitable work with the poor, homeless, hungry and others in need, churches and other religious organizations reduce the burden that otherwise

would fall on the state.

"If all these organizations would tell the state to do it (alone)," Wilson says, "it would break the SRS (Social and Rehabilitation Services). If anyone's going to get a break in this state, it should be the people taking the load off the state. We're hurting the oldest benevolent organization in the world."

Under Wilson's proposal — still to be heard by the House Taxation Committee — churches, synagogues and other religious groups could save the 4.9 percent state sales tax on a wide variety of items.

Since so many other sales tax exemptions have been reinstated, it does not seem fair for the state to deny such exemptions for religious organizations. Wilson's idea should become law.

JOANN LEE FREEBORN
REPRESENTATIVE, 107TH DISTRICT
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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
VICE-CHAIR: ENVIRONMENT
MEMBER: AGRICULTURE
PUBLIC HEALTH AND WELFARE
JOINT COMMITTEE ON CHILDREN
AND FAMILIES

To: House Tax Committee

February 12, 1997

Concerning: House Bill 2107

Passage of House Bill 2107 would offer a way to stretch the services for the betterment of the civic and church community. Our society has realized the cultural value found in the strength of communities across Kansas. Evidence shows that programs left in the control of communities are delivered more economically and have a greater sensitivity to needs. When individuals feel that they have a close relationship to the decision makers an atmosphere of neighborhood begins to take place. The feeling of neighborhood and community brings stability.

Churches are totally dependent on donations in order to function. Volunteerism and charitable giving result in cost effective service to the citizens which are served. The service model which churches give is copied by other non profits and in fact, even public agencies attempt to model the human service success of churches. The returns to society as a result of this tax change will far out weight the cost to the state.

I feel that HB2107 is an incentive bill. Churches are showing compassion and concern for the disabled by attempting to meet ADA standards. The additional money which can be spent to meet such needs will be greatly expanded. Church leaders will be encouraged to enhance current programs which meet the needs of children and their families. The state must let go of the idea that government makes better choices on how those dollars are to be spent. State Policy should enable communities of citizens to make choices and work toward solutions. Passage of this bill would be good public policy.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in blue ink that reads "Joann".

Joann Freeborn

House Taxation
2-12-97
Attachment 11-1

CHURCH OF THE NAZARENE

KANSAS CITY DISTRICT

KEITH M. WRIGHT, *District Superintendent*



February 12, 1997

To the Honorable Chairman, Phil Kline, and other distinguished members of the State Taxation Committee:

I come to you representing 135 congregations of the Church of the Nazarene in the State of Kansas. As the Assistant Superintendent of the Kansas City District of the Church of the Nazarene, I want you to know that we are encouraged that consideration is being given to exempting religious organizations from paying sales tax on purchases.

Having served churches in several other states, I believe that the current Kansas practice of sales taxation is unusual. Since all of the states contiguous to Kansas exempt religious organizations from paying sales tax on purchases, it seems evident that the State of Kansas is "out of step." Even the Federal government grants tax exemption to religious organizations that are classified as 501 (c) (3).

All of us as Kansans have reason to be proud of our state. We applaud your efforts as our elected representatives to find ways to make Kansas an even better place to live. We want to assure you that our churches are your allies in this effort. However, we are facing tremendous financial pressures as basic maintenance costs continue to escalate. Your granting an exemption from taxes on purchases would be a tremendous assist.

On behalf of our Nazarene churches as well as other religious organizations across the state, I urge your support of House Bill 2107.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Elvin M. Powers". The signature is fluid and cursive.

Elvin M. Powers
Assistant District Superintendent

House Taxation
2-12-97
Attachment 12-1

Lenexa Baptist Church

" BRINGING THE MESSAGE OF HOPE TO THE HEARTLAND "

February 5, 1997

Kansas State House of Representatives
Chairman of Taxation Committee,
Mr. Phil Kline

Dear Mr. Kline:

I am an ordained Baptist minister who had the privilege of being called to a church in Johnson County, Kansas seven years ago. While being a native Oklahoman for 36 years, I have come to love the great state of Kansas and I'm happy to claim it now as my home.

I do have a concern, however, with the state's policy on requiring churches to pay sales tax. Having only pastored in Oklahoma before coming here, I was shocked to learn that churches are required to pay this tax. I suppose the rub was even further aggravated when I discovered that Missouri also exempt the churches of its state from paying this sales tax. I'm convinced Kansas would not suffer from the lost revenue and many struggling churches could greatly benefit from the savings.

As I have learned as a parent and pastor, just because others are doing something doesn't necessarily make it right. So as a rationale for exempting churches, I would like to mention some benefits that churches bring to any community.

The goal of every church I know is to strengthen first the family unit. When we have stronger families, we will have stronger communities and a stronger government. Conversely, if the family crumbles, the concentric effects are felt all the way to Topeka.

Second, the church promotes moral behavior. What community doesn't need several lighthouses for those who wander in darkness? An institution created for the purpose of calling people to walk in moral righteousness.

Third, as an organization that depends solely on the contribution of its members, it is difficult to build and sometimes maintain facilities plus do the work of the ministry. It is especially difficult in churches like my own, where real estate prices are high and churches are relatively small. These savings could benefit many churches and would enable these dollars to be spent in church operations. Thank you for your consideration in this important issue.

Sincerely Yours,


Steve Dighton

House Taxation
2-12-97
Attachment 13-1

8865 Bourgade • Lenexa, Kansas 66219 • 913/599-6447

TESTIMONY

H.B. 2107

House Taxation Committee
February 12, 1997 - 9:00 a.m. - 519S

KANSAS CATHOLIC CONFERENCE
Robert Runnels, Jr., Executive Director

Thank you Mr. Chairman and members of the House Taxation Committee. I appreciate the opportunity to appear before you and speak to the merits of **House Bill 2107** and the benefits that it holds for all members of churches in Kansas.

The good people of Kansas, here in the Heart of America, are ones of strong religious beliefs, and are mostly "church going and church supporting".

It is our hope that you will vote your support of this bill giving tax relief and exemption from sales tax.

Churches and their members are those folks who pay taxes on their incomes and also then give dollars in support of their faith beliefs. A great deal of the money contributed is used in **Social Welfare** programs to make our communities a better more hospitable place to live.

The thrust of our request then is to give our churches tax relief from punitive sales taxes so that they might be able to **better serve others**.

Testimony - House Taxation Committee
February 12, 1997
H.B. 2107

2

You have heard or will hear that all of the surrounding states in the mid-west (Missouri, Iowa, Nebraska, Oklahoma, Colorado) already **exempt** churches from sales tax. I don't know how many of the churches in Kansas are tempted to do business in these states to avoid sales taxes.

Looking at the current statutes, you will find a multitude of exemptions and for good reasons, but I challenge you to find one with a higher purpose or need than the **Churches of Kansas**.

I ask you to report this bill favorably for passage.

Shirley K. Sicilian, Director
Office of Policy & Research
Kansas Department of Revenue
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Topeka, KS 66612-1588



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Office of Policy & Research

Representative Phill Kline
Chairman, House Taxation Committee
Statehouse

Mr. Chairman:

You asked the Department to respond to several questions relating to the administration of the Food Sales Tax Refund Program.

1) How much time elapses before the taxpayer receives their Food Sales Tax Refund? Although the time can vary depending on the workload and available personnel in that Section, as little as three weeks will elapse from the time the refund is mailed to the time the refund is received by the taxpayer. If the Department must contact the taxpayer, an additional three weeks may be required.

2) How much does it cost to process a Food Sales Tax Refund? The Department estimates the cost for the booklet which includes the instructions and forms for the Homestead Refund amount to about \$0.15 per booklet and the costs for data entry of the refund are estimated at approximately \$0.23 per refund. Other administrative costs associated with auditing each refund are more difficult to quantify. The five to six personnel assigned to this section may be temporarily assigned to assist in other areas while the data processing and programming costs are blended with costs for other taxes. Consequently, it is difficult to determine the total cost for processing a refund.

3) What is the participation rate for the "present" Food Sales Tax Refund Program? The Department issued just over 47,000 food sales tax refunds totaling \$2.0 million in FY 1996. The 1990 United States Census indicates that approximately 207,000 households qualify for the program based solely on income (\$13,000 or less); a 23 percent participation rate. However, of that number approximately 112,000 households would qualify based on age (55 or older) and income; a 42 percent participation rate. The Department does not have any data that would further divide the number of households based on the head of the household being under the age of 55 who have dependent children under the age of 18 or who have a disability. Keep in mind that these participation rates are based on 1990 data and may not reflect precisely reflect the number of households in those income groupings today.

4) What is the participation rate for the Governor's proposal? The Department estimates raising the household income limitation from \$13,000 to \$25,000 will add approximately 54,800 refunds. The 1990 United States Census indicates that approximately 217,000 households qualify for the program based solely on income (between \$13,000 and \$24,999); a 25 percent participation rate. However, of that number approximately 83,000 households would qualify based on age (55 or older) and income; a 66 percent participation rate. Cumulatively, the present and Governors proposal would result in a participation rate of 24 percent based on income alone and 46 percent based on income and age 55 and older.

Please keep in mind these are estimates and past attempts to estimate the number of participants has proven difficult.

If you have additional questions, please let me know.

A handwritten signature in cursive script that reads "Shirley Sicilian".

Shirley Sicilian
Director, Policy and Research

House Taxation
2-12-97
Attachment 15-1