

Approved: 4-30-97
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

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

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

Conferees appearing before the committee:
Rep. Tom Sawyer

Others attending: See attached list

Chairman Kline introduced three new committee members - Rep. Ralph Tanner of 10th District; Rep. Dave Gregory of 95th District (replacing Les Donovan) and Rep. Vernon Osborne of 61st District (replacing Ed Pugh). Donovan and Pugh moved to Senate to fill two vacancies. Rep. Jeff Peterson was moved to Appropriations Committee and taken off Taxation Committee.

Chair opened hearing on:

HB 2385 - Income tax flat rate system

Chris Courtwright of Kansas Legislative Research reviewed the previous activities on **HB 2385**.

Proponent:
Rep. Tom Sawyer (Attachment 1)

Considerable discussion and questions on the areas encompassed by **HB 2385**. Chair requested more information be provided by the Department of Revenue and Legislative Research in order to focus on the big picture and determine which category of taxpayers would be benefited, which category may be penalized and pay higher taxes and how the small taxpayer would be affected.

Chair closed hearing on **HB 2385**.

The next meeting is scheduled for March 13, 1997.

Adjournment.

Attachment - 1

State of Kansas
House of Representatives

TOM SAWYER
House Democratic Leader



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Topeka, Kansas 66612-1504
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Office of the Minority Leader

Mr. Chairman and Members of the Committee:

I would like to thank the Chairman and members of the Committee for the opportunity to testify before you this morning. I would also like to thank Chairman Kline for agreeing to hold this hearing on a very important piece of legislation, which will provide long overdue reform to our state income tax.

Kansans are hardworking individuals who are justifiably frustrated with a complicated, inequitable and overburdensome state income tax system, and are often skeptical that their share is a fair share.

House Bill 2385, referred to as "Fit & Trim" for (Fairer Income Tax and Tax Reduction In the Middle) is an effort to reform the state's income tax into a simpler and fairer system, while providing a modest tax cut for Kansas working families and single taxpayers.

This legislation eliminates the current table for Kansas Income Tax and replaces it with a simple 27 percent of the Federal Tax liability. This change conforms the Kansas Income Tax with the Federal Income Tax for purposes of computing personal exemptions and standard deductions.

Let me state, that this does not move our state income tax to a flat tax system, but to a system of total conformity. A system that is much simpler and more equitable.

By conforming to the federal guidelines, personal exemptions and standard deductions will rise. Since the federal tax code indexes these items each year they will automatically keep pace with future inflation rates, resulting in more Kansans keeping more of their hard earned money.

Let me also say that this legislation would have no affect on modifications, such as pensions (state or federal), social security or U.S. Treasury bonds.

The bill only impacts state income tax brackets, standard deductions and personal exemptions, it does not change what income should or should not be taxed. If an individual has modifications to their adjusted gross income that is not currently taxed by the state, it is not taxed under this proposal.

Another benefit of "Fit & Trim" is that it treats the state's single and married filers the same as the Federal Tax Code, which rectifies the state's unfair practice of charging different rates between its single and married filers.

Furthermore, House Bill 2385 accomplishes the equalization of rates in one year compared to the three-year phase-in proposed by the Governor. Accelerating the equalization brings relief to single taxpayers now, rather than telling them "yes, we've treated you unfairly, but we're going to continue to treat you this way for three more years."

Yet another benefit to Kansas taxpayers under "Fit & Trim" is that a vast majority of them could file their income taxes on a postcard.

As property taxes have assumed most of our time and attention, we must not overlook the fact that property taxes make up only part of the tax burden on Kansas families.

House Bill 2385 offers a simple and fair way to provide additional tax relief to those Kansans who need it the most.

SIMULATION 9004 TAX YEAR 1997

Piggyback of Federal Tax Liability
Current Modifications to FAGI continue to be allowed

New Tax Rates

Proposed Tax Rates		
Married:	27.00%	Federal Tax Liability
Single:	27.00%	Federal Tax Liability

Kansas Department Of Revenue
Individual Income Tax In Tax Year 1997
Resident Taxpayers
Liability Dollars are in Millions
SIMULATION 9004

Married						Single					Total Residents				
K.A.G.I. Bracket	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Change	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	5,600	0.0%	\$0.0	\$0.00	0.0%	1,000	0.0%	\$0.0	\$0.00	0.0%	10,600	0.0%	\$0.0	\$0.00	0.0%
\$0 \$5	10,600	0.0%	\$0.2	\$18.27	0.7%	103,500	-51.4%	(\$0.5)	(\$5.19)	0.2%	114,100	-32.9%	(\$0.3)	(\$3.01)	0.2%
\$5 \$15	40,700	-2.6%	(\$0.1)	(\$1.33)	0.5%	158,700	-30.8%	(\$1.6)	(\$54.28)	1.3%	199,400	-28.8%	(\$1.7)	(\$43.47)	1.1%
\$15 \$25	56,500	-12.6%	(\$2.2)	(\$38.24)	1.3%	95,500	-18.0%	(\$9.1)	(\$95.09)	2.2%	152,000	-16.6%	(\$11.2)	(\$73.96)	1.9%
\$25 \$35	59,700	-3.7%	(\$1.3)	(\$21.51)	1.9%	61,400	-21.5%	(\$13.3)	(\$216.18)	2.7%	121,100	-15.0%	(\$14.6)	(\$120.21)	2.3%
\$35 \$50	94,700	-2.7%	(\$2.7)	(\$21.73)	2.4%	44,700	-20.9%	(\$16.3)	(\$364.66)	3.3%	139,400	-10.7%	(\$19.0)	(\$136.47)	2.7%
\$50 \$100	177,600	-6.2%	(\$26.7)	(\$150.22)	3.3%	25,500	-17.5%	(\$13.8)	(\$541.32)	4.0%	201,100	-8.0%	(\$40.5)	(\$199.32)	3.4%
\$100 Over	51,000	18.3%	\$73.5	\$1,479.98	3.4%	3,600	-3.6%	(\$1.2)	(\$343.42)	3.8%	34,600	16.6%	\$74.2	\$1,359.63	3.4%
Total	496,400	4.3%	\$42.8	\$16.16	3.6%	497,900	-18.9%	(\$62.9)	(\$126.24)	2.8%	994,300	-1.5%	(\$20.1)	(\$20.20)	3.4%

Fiscal Impacts

All Taxpayers:	(\$9.9)
Residents Only:	(\$20.1)
Married Residents:	\$42.8
Single Residents:	(\$62.9)
Non-Residents:	\$10.2

Current Law Tax Rates			
Married:	\$0 - \$30		3.50%
	\$30 - \$60	\$1,050 +	6.25%
	\$60 - Over	\$2,925 +	6.45%
Single:	\$0 - \$20		4.40%
	\$20 - \$30	\$180 +	7.50%
	\$30 - Over	\$1,630 +	7.75%

Married Filing Joint, 2 children

Federal Tax Calculation: 1995 Federal Tax Brackets, Standard Deduction and Personal Exemption

Federal Adjusted Gross	\$20,000	\$30,000	\$50,000	\$75,000	\$100,000	\$250,000
Standard Deduction	\$6,550	\$6,550	\$6,550	\$6,550	\$6,550	\$6,550
Personal Exemption	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$6,230
Taxable Income	\$3,450	\$13,450	\$33,450	\$58,450	\$83,450	\$237,210
Federal Tax Liability	\$518	\$2,018	\$5,018	\$11,303	\$18,303	\$70,320

State Tax Calculation:

Federal Adjusted Gross	\$20,000	\$30,000	\$50,000	\$75,000	\$100,000	\$250,000
Kansas Adjusted Gross	\$20,000	\$30,000	\$50,000	\$75,000	\$100,000	\$250,000
Standard Deduction	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Personal Exemption	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Taxable Income	\$7,000	\$17,000	\$37,000	\$62,000	\$87,000	\$237,000
Current Law Tax Liability	\$245	\$595	\$1,488	\$3,054	\$4,667	\$14,342
27% of Federal Liability	\$140	\$545	\$1,355	\$3,052	\$4,942	\$18,986
Difference	(\$105)	(\$50)	(\$133)	(\$2)	\$275	\$4,645

Single, No children

Federal Tax Calculation: 1995 Federal Tax Brackets, Standard Deduction and Personal Exemption

Federal Adjusted Gross	\$10,000	\$15,000	\$20,000	\$30,000	\$50,000	\$150,000
Standard Deduction	\$3,900	\$3,900	\$3,900	\$3,900	\$3,900	\$3,900
Personal Exemption	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$706
Taxable Income	\$3,600	\$8,600	\$13,600	\$23,600	\$43,600	\$145,394
Federal Tax Liability	\$540	\$1,290	\$2,040	\$3,573	\$9,173	\$41,713

State Tax Calculation:

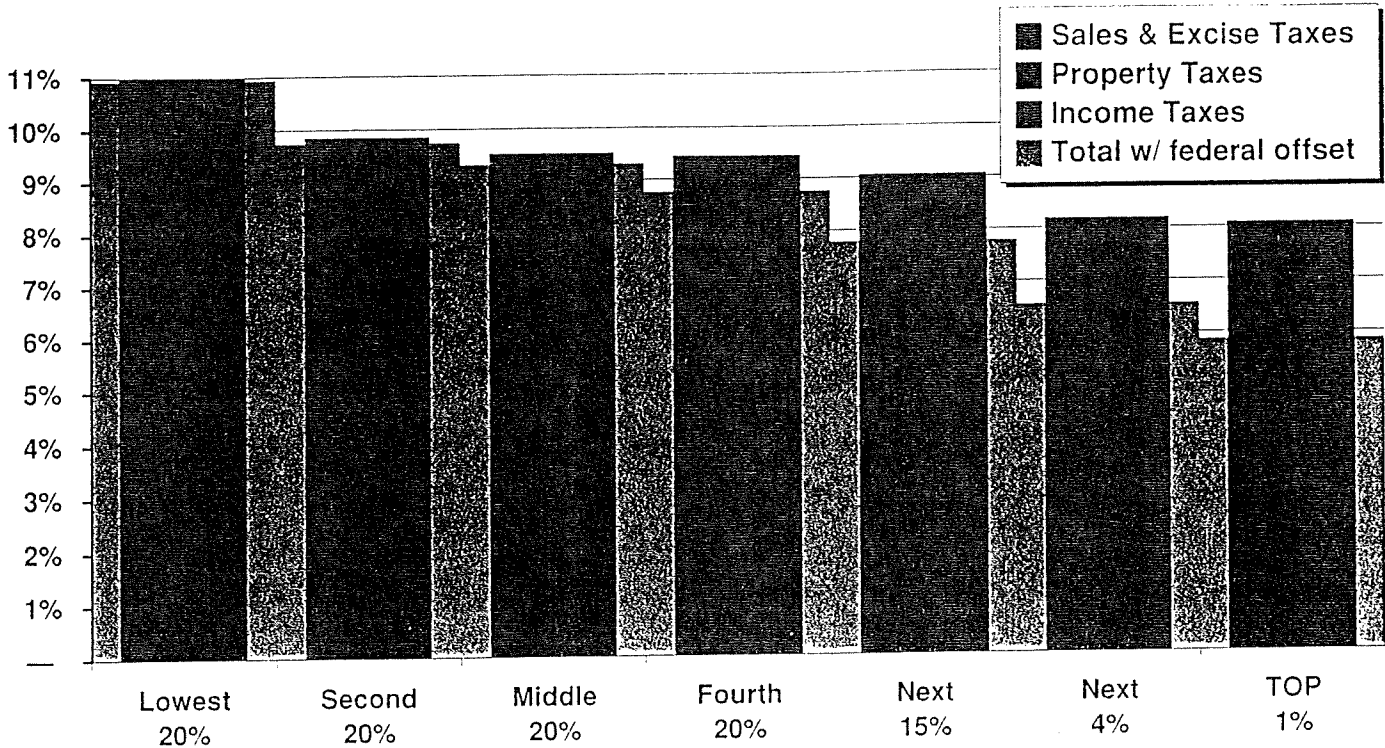
Federal Adjusted Gross	\$10,000	\$15,000	\$20,000	\$30,000	\$50,000	\$150,000
Kansas Adjusted Gross	\$10,000	\$15,000	\$20,000	\$30,000	\$50,000	\$150,000
Standard Deduction	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Personal Exemption	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Taxable Income	\$5,000	\$10,000	\$15,000	\$25,000	\$45,000	\$145,000
Current Law Tax Liability	\$220	\$440	\$660	\$1,255	\$2,793	\$10,543
27% of Federal Liability	\$146	\$348	\$551	\$965	\$2,477	\$11,262
Difference	(\$74)	(\$92)	(\$109)	(\$290)	(\$316)	\$720



Kansas

State & Local Taxes in 1995

Shares of family income for non-elderly married couples



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$27,000	\$27,000 - \$41,000	\$41,000 - \$54,000	\$54,000 - \$71,000	\$71,000 - \$115,000	\$115,000 - \$273,000	\$273,000 or more
Average Income in Group	\$17,600	\$34,200	\$47,200	\$61,600	\$87,200	\$158,000	\$667,000
Sales & Excise Taxes	6.7%	5.4%	4.6%	3.8%	2.9%	2.0%	1.1%
General Sales—Individuals	4.2%	3.5%	3.1%	2.5%	2.0%	1.3%	0.8%
Other Sales & Excise—Ind.	1.0%	0.7%	0.5%	0.4%	0.3%	0.2%	0.1%
Sales & Excise on Business	1.5%	1.2%	1.0%	0.8%	0.6%	0.4%	0.3%
Property Taxes	3.1%	2.4%	2.4%	2.3%	2.2%	2.0%	1.5%
Property Taxes on Families	2.9%	2.2%	2.2%	2.2%	2.1%	1.6%	0.6%
Other Property Taxes	0.2%	0.1%	0.1%	0.1%	0.2%	0.3%	0.9%
Income Taxes	1.1%	2.1%	2.5%	3.3%	3.9%	4.2%	5.4%
Personal Income Tax	1.0%	2.0%	2.5%	3.2%	3.8%	4.1%	5.2%
Corporate Income Tax	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.0%	9.8%	9.5%	9.4%	9.0%	8.1%	8.0%
Federal Deduction Offset	-0.0%	-0.1%	-0.2%	-0.7%	-1.3%	-1.6%	-2.2%
TOTAL AFTER OFFSET	10.9%	9.7%	9.3%	8.8%	7.8%	6.6%	5.9%

ATTACHMENT C

EXAMPLE OF STATE INCOME TAX POSTCARD

FEDERAL TAX LIABILITY		\$ _____
X		.27
KANSAS TAX		\$ _____
TAX CREDITS	_____	
	_____	\$ _____
TAX REFUND OR LIABILITY		\$ _____