

Approved: January 27, 1997
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on January 24, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Bond,
Senator Harris, Senator Karr, Senator Lee,
Senator Sallee and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Dan Hermes, Director of Governmental Affairs
Wayne Maichel, Kansas AFL-CIO
Bob Corkins, Kansas Chamber of Commerce and Industry
Frank Meyer, Custom Metal Fabricators, Inc.
Charles Warren, Kansas, Inc.
William Brown, Williams Electrical Construction & Wholesale
Don Schnacke, Kansas Independent Oil and Gas Association
Robert Manis, Goodyear Tire and Rubber Company
Michael Granger, Vincent Roofing, Inc.
Joe Douglas, Hill's Pet Nutrition, Inc.
Ron Herman, Payless Shoe Source, Inc.

Others attending: See attached list

Senator Corbin requested the introduction of a bill which would allow a sales tax exemption for the American Heart Association, American Diabetes Association, American Lung Association, the Kansas Alliance for the Mentally Ill, and the Kansas Mental Illness Awareness Council. Approximately \$47,000.00 in sales tax is paid by these organizations per year.

Senator Corbin moved to introduce the bill, seconded by Senator Harris. The motion carried.

The minutes of January 23 were approved.

SB 51--Relating to income taxation; providing a credit therefrom for a portion of property tax levied against commercial and industrial machinery and equipment.

Staff reviewed the bill, noting the bill was requested for introduction on behalf of the Governor as part of his tax package. It would provide for an income tax credit beginning in tax year 1997 in an amount equal to ten percent of the property taxes actually paid on commercial and industrial machinery and equipment. The language in the bill also specifically provides that the credit will be refundable in cases where taxpayers do not have an income tax liability.

Senator Bond asked for a definition of "commercial and industrial machinery and equipment." Staff answered that the language applied to everything classified in Class 2, Subclasses 5 and 6, of the Constitution. It was noted that a copy of that section of the Constitution was attached to the written testimony submitted by Don Schnacke of the Kansas Independent Oil and Gas Association.

Dan Hermes, Director of Government Affairs in the office of the Governor, testified in support of **SB 51**. He explained that the property tax on business machinery and equipment in Kansas is much higher than in surrounding states. This higher property tax hinders Kansas' economic development efforts and discourages needed investment in state-of-the-art equipment for Kansas firms. The bill would reduce the effective burden of this tax by providing a ten percent income tax credit of property taxes paid in this area. (Attachment 1)

Wayne Maichel, Kansas AFL-CIO, followed with further testimony in support of **SB 51**. In his opinion, the bill would have a positive impact on job creation in the state because the tax credit could be the deciding factor for companies to expand or to locate in Kansas. He noted that employers in the area of manufacturing provide the type of employment sought by Kansas citizens as those employers are usually the types that offer good

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:00 a.m. on January 24, 1997.

wages and provide health care, pensions, and other benefits for their employees. Mr. Maichel will submit written testimony at a later date. (Attachment 17 submitted January 27)

Bob Corkins, Kansas Chamber of Commerce and Industry (KCCI) testified in support of **SB 51** as meaningful tax relief for property tax on business machinery and equipment. He said multi-state tax comparisons clearly identified Kansas commercial property owners as the sector most in need of property tax relief. This tax relief would offer a strong incentive for manufacturers to invest in business growth in Kansas. (Attachment 2) Mr. Corkins distributed copies of written testimony in support of the bill from two KCCI members, Jayhawk Plastic, Inc., in Olathe and Corrosion DC, Inc., in Great Bend. (Attachments 3 and 4)

Frank Meyer, Custom Metal Fabricators, Inc., testified in support of **SB 51**. In his opinion, it would improve participation in world market competition. Also, it would provide an incentive to upgrade industrial plants and for new industry to locate in Kansas. (Attachment 5)

Charles Warren, Kansas, Inc., presented further testimony in support of **SB 51**. He believed the proposed tax credit was a significant step which would pay long-term benefits to Kansas companies and the Kansas economy. He felt that investment in new technology and equipment was vital for existing Kansas companies if they are to remain competitive and increase productivity. (Attachment 6)

William Brown, Williams Electrical Construction and Wholesale, Inc., testified in support of **SB 51** from the perspective of an owner of a small Kansas business. If the ten percent tax credit were enacted, he would be able to invest back into his company for more growth which ultimately would provide additional jobs. (Attachment 7)

Don Schnacke, Kansas Independent Oil and Gas Association, testified in support the passage of **SB 51** and offered 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 the bill. He pointed out that oil and gas equipment and machinery is valued and taxed higher than all other industrial and commercial machinery and equipment found throughout Kansas. Therefore, any tax relief the oil and gas industry could receive due to legislative action would be helpful. (Attachment 8)

Bob Manis, Goodyear Tire and Rubber Company, presented testimony in support of **SB 51** 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. (Attachment 9)

Mike Granger, Vincent Roofing, spoke in favor of the passage of **SB 51**. A ten percent tax credit would be beneficial to his company and afford him an opportunity to expand his company's growth. (Attachment 10)

Joe Douglas, Hill's Pet Nutrition, Inc., urged the committee's support of **SB 51**. He believed that the property tax burden in Kansas was very oppressive and that it discouraged major business from either relocating to or expanding in Kansas. He felt the bill would be a first step toward making Kansas more attractive as a location to expand business. (Attachment 11)

Ron Herman, Payless Shoe Source, Inc., presented testimony in support of **SB 51**. He supported the bill not only for the obvious reason of a tax credit but also because it would stimulate economic development within the State of Kansas, noting that one of the fundamental factors considered by corporations in deciding whether to locate or expand within a given state was the tax climate. (Attachment 12)

Senator Langworthy called attention to written testimony in support of **SB 51** submitted by the Greater Kansas City Chamber of Commerce (Attachment 13) and the Kansas Food Dealers Association (Attachment 14).

Shirley Sicilian, Kansas Department of Revenue, reviewed the fiscal impact of **SB 51**. She estimated that passage of the bill would reduce fiscal year 1998 state general fund revenues about \$16.4 million, assuming that 90 percent of taxpayers will file on time to take advantage of the refundable credit. (Attachment 15) Senator Langworthy requested that Ms. Sicilian prepare a revised fiscal report as was requested by Don Schnacke of the Kansas Independent Oil and Gas Association.

Senator Langworthy called attention to the fiscal note prepared by the Division of the Budget. The report indicated that passage of **SB 51** would reduce fiscal year 1998 General Fund revenues by \$11.2 million. (Attachment 16).

The meeting was adjourned at 12:03 p.m. The next meeting is scheduled for January 27, 1997.

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: January 24, 1997

NAME	REPRESENTING
Charles Wane	Kansas Inc.
Mike Miller	Kansas Inc
Mark Buccellina	KDOCTH
Pat James	Wichita Chamber
Robert Main	Goodyear
Ron Herman	Payless ShoeSource
John Petersen	Payless ShoeSource
Frank Messer	custom metal fabricators
Michael Stranger	VINCENT ROOFING
Bob Corkins	KCCI
Mark Lee Smith	KMHA
Ashley Sherard	Overland Park Chamber
Christy Caldwell	Topeka Chamber of Comm
Harriet Laage	Ks Assn B'casters
Henry Williams	
Caron Williams	
H. Henry Williams	
DONALD SNODGRASS	KANSAS FOOD DEALERS ASSOC,
Conrad Schneider	VS LINCOLN ASSOC.

STATE OF KANSAS



BILL GRAVES, Governor
State Capitol, 2nd Floor
Topeka, Kansas 66612-1590

(913) 296-3232
1-800-748-4408
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OFFICE OF THE GOVERNOR

LEGISLATIVE TESTIMONY

TO: Chairperson Audrey Langworthy and Members of the Senate Committee on Assessment and Taxation

FROM: ^{DWH} Dan Hermes, Director of Governmental Affairs

DATE: January 24, 1997

BILL: Senate Bill Number 51

Income Tax Credit for Property Tax Paid on Commercial and Industrial Machinery and Equipment

Madam Chair and members of the committee, thank you for the opportunity to appear today in support of the portion of the Governor's tax reduction package related to income tax credits for property taxes paid on commercial and industrial machinery and equipment. As you have numerous conferees on this bill -- and because it is Friday and every one wants to get on with their "other" lives -- my testimony will be brief.

The Governor sincerely appreciates the committee's willingness to hold hearings on all aspects of his tax reduction package in such a timely manner. As the hearings over the next week will bear out, the Governor's package is balanced, fair and responsible. The package addresses many of the inequities in our current tax system as well as providing across-the-board property tax relief.

One of the most glaring noncompetitive aspects of the state's tax structure is the property tax on machinery and equipment compared to our surrounding states. As many of the conferees that will appear before you today will testify, this burden hinders our economic development efforts and discourages needed investment in state of the art equipment for Kansas firms. Senate Bill Number 51 is a step to bring Kansas closer to its neighboring states by reducing the effective burden of this tax. This inequity is driven by the constitutional classification that establishes assessment levels for commercial and industrial machinery and equipment at 25 percent of retail cost when new, depreciated, compared to 11.5 percent of fair market value for residential real

*Senate Assessment + Taxation
1-24-97
Attachment 1*

property. This, in addition to average mill levy rates, establishes an effective tax rate for commercial and industrial machinery and equipment of 2.97 percent, the highest in the region. The region for this comparison includes:

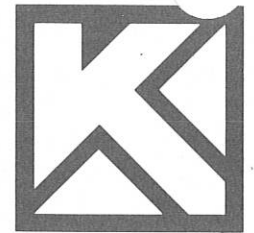
--	Colorado	2.39 percent
--	Iowa	0.00 percent
--	Missouri	2.03 percent
--	Nebraska	2.39 percent
--	Oklahoma	1.02 percent

Simply stated, the bill in front of you would provide a 10 percent income tax credit of property taxes paid in this area. The tax is refundable -- assuring that firms that experienced a bad year have the same tax savings as a firm that experienced record profits and taxable income; applies only to taxes actually paid -- no refunds to organizations that have property tax abatements; and applies to all taxpayers -- regardless of the form that the entity is organized.

Thank you for the opportunity to visit with the committee related to this important portion of the Governor's tax relief package. I would be happy to respond to any questions the committee or staff may have.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry



835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732
SB 51

January 24, 1997

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Assessment and Taxation

by
Bob Corkins
Director of Taxation

Madam 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 SB 51.

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

*Senate Assessment + Taxation
1-24-97
Attachment 2*

A. ation ranked Kansas as the 12th most expensive state for urban commercial property tax. 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 SB 51 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. SB 51 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

of 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 SB 51 favorably for passage and I thank you for your time and consideration.



Phone (913) 764-8181
Fax (913) 782-3103

January 23, 1997

To: Kansas Senate Committee on Assessment and Taxation

Re: SB 51--Tax relief for business machinery & equipment

Dear Committee Members,

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

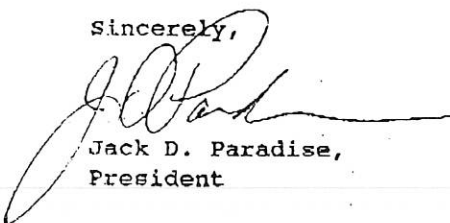
1. It sends an importantly needed message to the existing business community in Kansas, that the legislature recognizes our taxes on machinery are higher than neighboring states and we in the business community are unfairly burdened as such. Kansas companies thinking about relocating or expanding elsewhere 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:n142

** TOTAL PAGE.001 **

Senate Assessment + Taxation
1-24-97
Attachment 3

CORROSION DC, INC.

P.O. Box 1353
Great Bend, Kansas 67530
(316) 793-3251

January 23, 1997

Senator Audrey Langworthy
c/o Kansas Chamber of Commerce
835 SW Topeka Blvd.
Topeka, KS 66612-1671

Re: Income Tax Credit - Machinery and Equipment

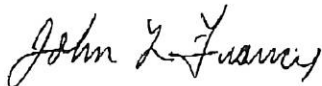
Dear Senator:

Recently I attended a meeting with the Governor and Lt. Governor. During that meeting the above tax credit was discussed.

Now I am told that the Senate Tax Committee has this proposal before them. This letter is to request your's and the committee's support of this bill. Given recent trends by the federal government to increase taxes, it seems appropriate to me that Kansas make the attempt to encourage business investment and capital spending. Should such a bill become law, I believe both of these ends will be met. Consequently, the cash flow from such a tax credit would lead to job growth and personal income increases as businesses re-employ those assets in the Kansas economy.

With these worthwhile goals in mind, I humbly ask that you send this proposal to the Senate floor as well as urge your fellow legislators to support it. Thank you for your consideration in this matter.

Respectfully,



John L. Francis
President

Senate Assessment & Taxation
1-24-97
Attachment 4



CUSTOM METAL FABRICATORS, INC.

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

January 24, 1997

Testimony on S.B. 51
before the
Senate Committee on Assessment and Taxation
by
Frank Meyer
President Custom Metal Fabricators Inc.
Herington, Kansas

Madam Chair and Committee Members, I thank you for the opportunity to be here today to share my thoughts on S.B. 51.

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 S.B. 51 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. S.B. 51 will be another "tool" that might make the difference when we ask a company to locate here.

Do you have any questions?

Thank you and I urge you to send S.B. to the full Senate with a recommendation for passage.

"Where workmanship isn't just a word."

*Senate Assessment + Taxation
1-24-97
Attachment 5*

January 24, 1997

**Testimony on
Senate Bill 51
Senate 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 Senate Bill 51. 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 Senate Bill 51 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	3.38%
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	2.98%

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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	110.86	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	128.02	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.

6-6



**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.

William D. Brown
President

*Senate Assessment + Taxation
1-24-97
Attachment 7*

Residential • Commercial

• Industrial



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 S. BROADWAY • SUITE 500 • WICHITA, KANSAS 67202-4262

(316) 263-7297 • FAX (316) 263-3021

800 S.W. JACKSON • SUITE 1400 • TOPEKA, KANSAS 66612-1216

(913) 232-7772 • FAX (913) 232-0917

SENATE COMMITTEE ON ASSESSMENT & TAXATION

JANUARY 24, 1997

*Testimony of Donald P. Schnacke, Executive Vice President
Kansas Independent Oil & Gas Association*

RE: SB 51 - 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 SB 51. 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 SB 51.

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 SB 51.

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.

Your Committee is keenly aware of the economic slump the Kansas oil and gas industry has been in for the past ten years. This is one Kansas industry that has not recovered from the slump that started in 1986. I won't take the time to repeat the negative economic statistics that we presented during the hearing this week on SB 34. Any tax relief our industry can receive due to legislative action will be helpful. It is for that reason we ask that your amend SB 51 to include the machinery and equipment that is assessed and taxed as defined by the Kansas Constitution.

DPS:pp

Attach: Article 11, Kansas Constitution

Senate Assessment & Taxation

1-24-97

Attachment 8

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).

The Goodyear Tire & Rubber Company

P. O. BOX 1069

TOPEKA, KANSAS 66601

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

January 23, 1997

Chairman Langworthy 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 Senate Bill number 51 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. Senate Bill number 51 would provide for 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.

*Senate Assessment + Taxation
1-24-97
Attachment 9*



January 24, 1997

Senator Audrey Langworthy, Chairperson
Senate Assessment and 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 Senate Bill No. 51.

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, Senate Bill No. 51 is a step in the right direction for easing some of their operational costs.

*Senate Assessment & Taxation
1-24-97
Attachment 10*

Good morning Madam Chair and Members of the Committee. My name is Joe Douglas and I am the Vice President of Product Supply for Hill's Pet Nutrition, Inc. headquartered here in Topeka. Part of my responsibilities are to manage our worldwide manufacturing plants. I am here today to urge your support for Senate Bill Number 51.

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 dollar 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 both the real estate and property tax burdens in Kansas are very oppressive and discourage 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 is encouraged that you are addressing these tax issues and 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.

*Senate Assessment + Taxation
1-24-97
Attachment 11*

Testimony of Ron Herman
Payless ShoeSource, Inc.
Senate Bill No. 51
Senate Committee on Assessment and Taxation

Senate Langworthy and Members of the Committee:

My name is Ron Herman. I am responsible for formulating Payless ShoeSource's position regarding reductions in 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 Senate Bill No. 51.

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 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 Senate Bill No. 51 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. Senate Bill No. 51 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, Senate Bill No. 51 will also promote the expansion of Payless' business within the state. Payless currently employs over 1,500 in the Topeka area alone and over 100 more in stores throughout the state. The tax credits provided the company by Senate Bill No. 51 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 Senate Bill No. 51 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 Senate Bill No. 51.

*Senate Assessment & Taxation
1-24-97
Attachment 12*



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

Senate Assessment & Taxation Committee

Friday, January 24, 1997

Good morning, madam chair, and committee members. I regret that I am not able to appear personally before the committee to testify in favor of SB 51. 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 SB 51 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 SB 51 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). SB 51 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. SB 51 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 SB 51.

*Senate Assessment & Taxation
1-24-97
Attachment 13*



EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

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BILL WEST
Abilene

**DIRECTOR OF
GOVERNMENTAL AFFAIRS**

FRANCES KASTNER

January 24, 1997

SENATE ASSESSMENT AND TAX COMMITTEE

SUPPORTING SB 51

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 SB 51.

Frances Kastner
Frances Kastner, Director
Governmental Affairs, KFDA

*Senate Assment & Taxation
1-24-97
Attachment 14*

MEMORANDUM

TO: Ms. Gloria M. Timmer, Director
Division of Budget

DATE: January 24, 1997

FROM: Kansas Department of Revenue

RE: Senate Bill 51, as Introduced
"Revised"

BRIEF OF BILL

Senate Bill 51, as introduced, will allow an income tax credit equal to ten percent of the property tax paid on commercial and industrial machinery and equipment as classified for property taxes in section 1 of article 11 of the Kansas constitution in subclass (5) of (6) of class 2.

If the amount of the credit exceeds the tax liability the excess amount will be refunded to the taxpayer.

The taxpayer paying the property tax to the county treasurer on commercial and industrial machinery and equipment is the taxpayer entitled to the credit.

This bill is effective on July 1, 1997, for tax years beginning after December 31, 1996.

FISCAL IMPACT:

Passage of this bill would reduce fiscal year 1998 state general fund revenues about \$16.4 million.

This 10% credit is for property taxes paid during the tax year. For tax year 1997 the property taxes paid will be the last half of 1996 and the first half of 1997. Figures for 1996 are not yet available and 1997 taxes will not be known until November. Property taxes on commercial and industrial machinery and equipment in 1995 were \$159.9 million and were 8.8% over taxes paid in 1994. Assuming 8.8% growth for each year, the taxes for 1996 would be \$174.0 million and for 1997 would be \$189.3. The total amount of the 10% credit for tax year 1997 would be about ~~\$17.4~~^{\$18.2} million ($\$174.0 \text{ million} \times .50 \times .10$) + ($\$189.3 \text{ million} \times .50 \times .1$). Each year many corporations and individuals request extensions to file their returns. Assuming that 90% of taxpayers claiming this credit file their returns on the due date, the impact to the state general fund in fiscal year 1998 would be \$16.4 million ($\$18.2 \text{ million} \times .90$). None of these figures take into account any proposals to reduce the statewide school finance mill levy.

The above estimate assumes most taxpayers will file on time to take advantage of the refundable credit. However, if only 60% of taxpayers file on time and do not request an extension, the fiscal impact would be only \$10.9 million. If 80% file timely the impact is \$14.6 million.

ADMINISTRATIVE IMPACT:

None.

ADMINISTRATIVE PROBLEMS AND COMMENTS:

None.

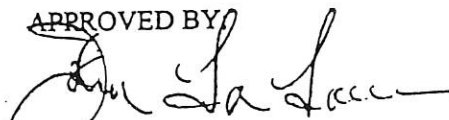
TAXPAYER/CUSTOMER IMPACT:

Property tax reduction for those taxpayers with commercial and industrial machinery and equipment.

LEGAL IMPACT:

None.

APPROVED BY



John LaFaver

Senate Assessment & Taxation
1-24-97
Attachment W5

STATE OF KANSAS



DIVISION OF THE BUDGET
 Room 152-E
 State Capitol Building
 Topeka, Kansas 66612-1504
 (913) 296-2436
 FAX (913) 296-0231

Bill Graves
 Governor

Gloria M. Timmer
 Director

January 24, 1997

The Honorable Audrey Langworthy, Chairperson
 Senate Committee on Assessment and Taxation
 Statehouse, Room 143-N
 Topeka, Kansas 66612

Dear Senator Langworthy:

SUBJECT: Fiscal Note for SB 51 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 51 is respectfully submitted to your committee.

SB 51 would provide an income tax credit equal to 10 percent of the total property taxes paid on commercial and industrial machinery and equipment that is classified for business use. If a taxpayer's liability is less than the calculated amount of the tax credit, the taxpayer would receive a refund. Provisions of the bill would take effect in calendar year 1997.

Estimated State Fiscal Impact				
	FY 1997 SGF	FY 1997 All Funds	FY 1998 SGF	FY 1998 All Funds
Revenue	--	--	(\$11,200,000)	(\$11,200,000)
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

Passage of SB 51 would reduce FY 1998 State General Fund revenues by \$11.2 million. This amount is calculated using actual calendar year 1995 tax receipts of \$159.9 million from this

Senate Assessment & Taxation
 1-24-97
 Attachment 16

he Honorable Audrey Langworthy, Chairperson

January 24, 1997

Page 2

source (This is the latest data available at this time). The estimate assumes the same growth rate from 1994 to 1995 of 8.8 percent. In addition, the estimate assumes that approximately 62 percent of eligible taxpayers will use the income tax credit, a number comparable to current taxpayer behavior. Use of these assumptions results in estimated reductions to the State General Fund of approximately \$11.2 million in FY 1998 and \$17.0 million per year thereafter.

1996 credit calculation (\$174.0 valuation * .5 half year * .10 percent credit = \$8.7 million

1997 credit calculation (\$189.2 valuation * .5 year * .10 percent credit = \$9.5 million)

1998 credit calculation (\$205.8 valuation * .5 year * .10 percent credit = \$10.3 million)

Total Calculation (\$8.7 + 9.5) * 62.0 percent of eligible taxpayers = \$11.2 million.

The reduction to State General Fund revenues are accounted for in *The FY 1998 Governor's Budget Report*.

The Department of Revenue estimates that if taxpayer patterns change and 90 percent of eligible taxpayers would make use of the credit, the estimated reduction to the State General Fund would be \$14.0 million in FY 1998. If 50 percent of eligible taxpayers would make use of the credit, the estimated reduction to the State General Fund would be \$9.1 million in FY 1998.

Sincerely,



Gloria M. Timmer
Director of the Budget

cc: Lynn Robinson, Revenue

**TESTIMONY PRESENTED TO
THE SENATE ASSESSMENT & TAXATION COMMITTEE
ON S.B. 51**

January 24, 1997

Thank you madam Chairperson; members of the Committee. My name is Wayne Maichel, and I represent the Kansas AFL-CIO, and we appear before your committee in support of S.B. 51.

We support S.B. 51 because we believe it could have a positive impact on job creation in our state.

It takes workers to install new machinery and equipment. It takes workers to operate new machinery and equipment, and it takes workers to maintain and service new machinery and equipment.

A company that does not invest in new machinery and equipment, during this highly technological and competitive time in our history is a company that is heading down one of two roads--1.) They are going to go out of business, or 2.) They're getting ready to move their jobs to Old Mexico.

S.B. 51 could be the deciding factor in whether companies come to or expand in Kansas.

S.B. 51 would probably, in our opinion, impact manufacturing more than any other segment of the Kansas business community. These are usually the types of employers who pay decent wages and provide health care and pensions and other benefits for their employees.

These are the kinds of jobs Kansas needs. These are the types of jobs Kansas workers want so they can provide for the basic needs of their families.

Madam Chairperson, the Kansas AFL-CIO urges your committee to recommend S.B. 51 favorable for passage.

Thank you.

*Senate Assessment & Taxation
1-24-97
(Submitted 1-27-97)
Attachment 17*