Approved: January 28, 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 27, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Bond, Senator Goodwin, Senator Hardenburger, Senator Karr, Senator Lee, Senator Praeger, 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
Shirley Sicilian, Department of Revenue

Others attending: See attached list

The minutes of the January 24 meeting were approved.

Tom Severn of the Legislative Research Department briefed the committee on the differences between **SB 40** and **HB 2005**, both of which would amend the homestead property tax refund act. He distributed copies of a memorandum which was prepared as part of a 1994 interim study of tax relief for the elderly. (Attachment 1) He pointed out information on page three relating to the Kansas food sales tax refund program and the types of property tax relief in Kansas. He called the committee's attention to information and tables relating to the Kansas homestead property tax refund act beginning on page five. He explained that the memorandum was used as a starting point for the 1996 Special Committee on Property Taxation and that **HB 2005** was the result of deliberations by that interim committee. **HB 2005** simply raises the maximum refundable amount from the current $600 to $950. However, the Governor's proposal, **SB 40,** provides that refunds be based on a percentage of property tax paid. He explained that, under current law, a certain amount is required to be paid, and the excess paid is refunded. He distributed three charts as an aid in comparing refunds under current law with provisions for refunds in **HB 2005** and **SB 40**. (Attachments 2 through 4) He noted that **SB 40** removes losses from the calculation of income.

Senator Lee asked what the difference in the fiscal notes were for **SB 40** and **HB 2005.** Senator Langworthy said the fiscal note for **SB 40** is $5.8 million and the fiscal note for **HB 2005** is $2.4 million to $2.6 million.

SB 40--Amending the homestead property tax refund act.

SB 42--Relating to sales taxation; concerning refunds on certain sales of food.

Dan Hermes, Director of Governmental Affairs from the Governor's office, testified in support of both **SB 40** and **SB 42.** (Attachment 5) He said **SB 40** expands the income restriction for relief to $25,000, and it revises the table to calculate the refund to enhance the refund received by the taxpayer. The recommended enhancements to the rebate program are a significant step to alleviate concerns by limited, fixed income taxpayers. **SB 40** provides a larger refund than current law or **HB 2005.** As to **SB 42**, it was recommended by the Governor to reduce the regressive nature of the sales tax in Kansas by updating the income eligibility for the food sales tax refund program. Changes to the refund eligibility table contained in the bill are anticipated to increase the average refund from $43 per household to $85 per household for eligible families.

Shirley Sicilian, Kansas Department of Revenue, briefed the committee on conceptual differences between the fiscal notes for **HB 2005** and **SB 40.** **HB 2005** maintains the existing structure for determining refunds.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S Statehouse, at 11:00 a.m. on January 27, 1997.

Under existing structure, refunds for property taxes paid are given to the extent that the taxes paid are greater than a certain percentage of income. The estimated fiscal impact for increasing the maximum refund from $600 to $950 is from $2.4 million to $2.6 million. **SB 40** differs conceptually because it does not have a fixed amount under which there is a refund. The percentage is determined by the taxpayer's income. The higher the income, the lower the percentage of the property taxes paid will be refunded. The estimated fiscal impact for **SB 40** for just this feature is $4.2 million. However, one other major difference is that **SB 40** determines household income as any kind of income. It excludes deduction of net operating losses in determining household income. Current figures show that $131,000 was given to taxpayers with net operating losses. The estimated increase of this feature would cause a reduction in refunds of $300,000.

Senator Langworthy noted that **SB 40** changes the final date for filing for a refund of property taxes from October to April 15. She asked Ms. Sicilian if that would present a problem for the Department of Revenue which would be dealing with income tax at the same time. Ms. Sicilian responded that it would present no problem to the department. In fact, the department encouraged the change to April 15 because it would be easier for taxpayers to remember because that date is already prominent in their minds.

Ms. Sicilian reported that the estimated fiscal impact of **SB 42** is $5 million. She added that applications for refunds would be required to be filed by April 15, and a member of a deceased person's family could file for the refund to the deceased person.

Staff said called attention to drafting errors in **SB 40** on page 4, lines 24 and 25. "Deduction from property tax accrued and/or rent constituting property tax accrued" should be substituted for the word "income."

Senator Langworthy called attention to written testimony in support of **SB 42** submitted by the Kansas Food Dealers Association. (Attachment 6)

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for January 28, 1997.

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: January 27, 1997

NAME	REPRESENTING
Kelley Kultala	City of Overland Park
John LaFaver	KDOR
Sabrina Wells	Budget
Jeff Bridges	DOB
Jim Huang	DOB.
Don Brown	KS Dept on Aging
DONALD SNODGRASS	KS FOOD DEALERS ASSOC

MEMORANDUM

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Revised July 22, 1996

To: Special Committee on Property Tax

From: Tom Severn, Principal Analyst

Re: Tax Relief for the Elderly

Introduction

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

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

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

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

Income Tax

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

Senate Assessment & Taxation
1-27-97
Attachment 1

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

STANDARD DEDUCTION CHART FOR PEOPLE AGE 65 OR OLDER OR BLIND

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

Check if:

You were 65 or older ☐ Blind ☐

Your spouse was 65 or older ☐ Blind ☐

Enter the number of boxes you checked above: ☐

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

Sales Tax

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

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

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

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

Property Tax Relief in Kansas and Its Neighbors

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

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

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

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

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

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

Table 1 below summarizes homestead exemptions for some nearby states.

TABLE 1

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

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

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

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

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

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

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

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

The Kansas Homestead Property Tax Refund Act

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

TABLE 2

States Enacting Circuit Breakers

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

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

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

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

TABLE 3

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

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

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

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

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

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

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

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

TABLE 4

Summary of Homestead Property Tax Refund Claims Data by Process Year

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

Source: Department of Revenue.

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

1995 Interim Recommendation

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

Neighboring States (not updated)

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

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

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

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

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

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

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

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

TABLE 5

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

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

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

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

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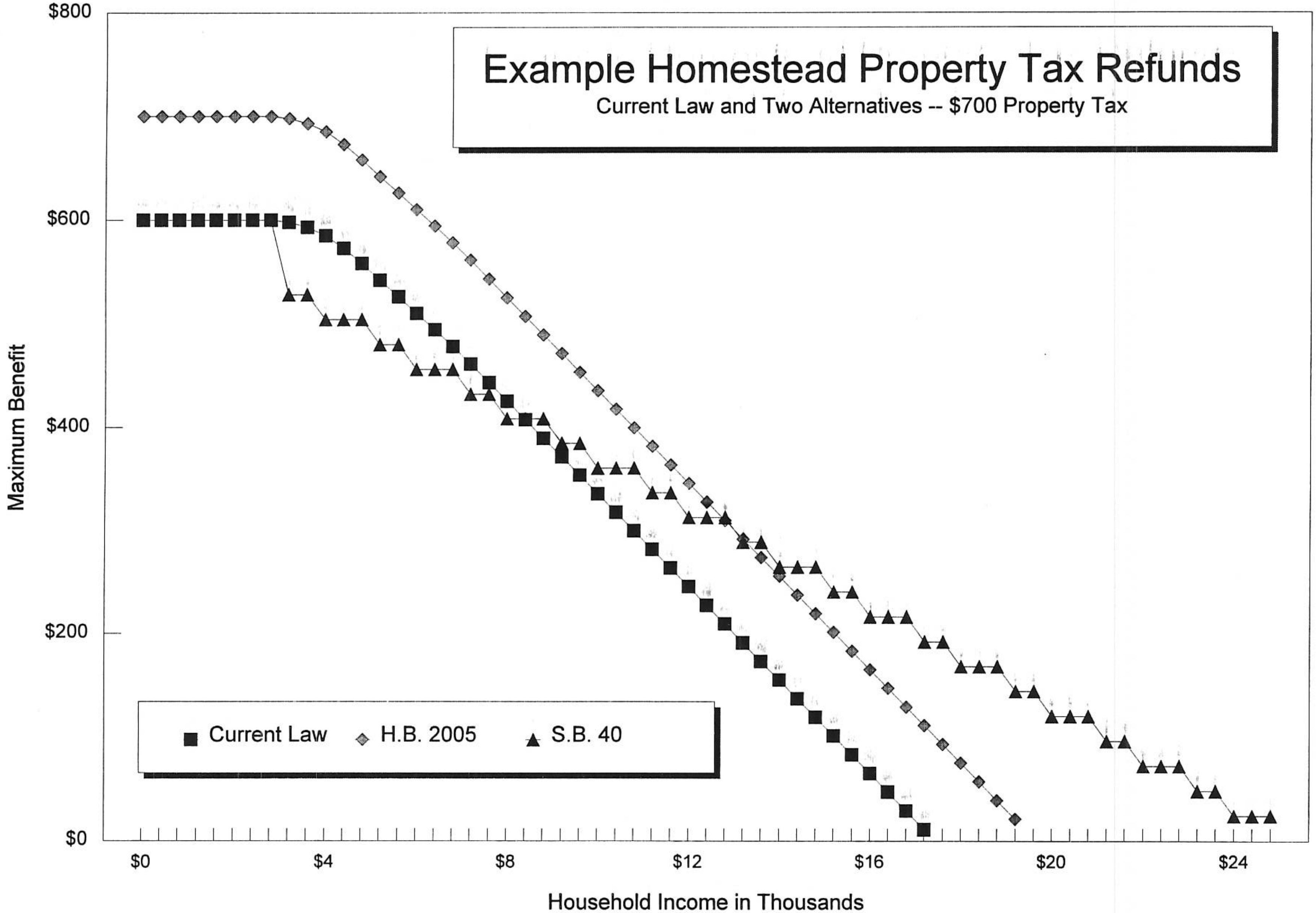

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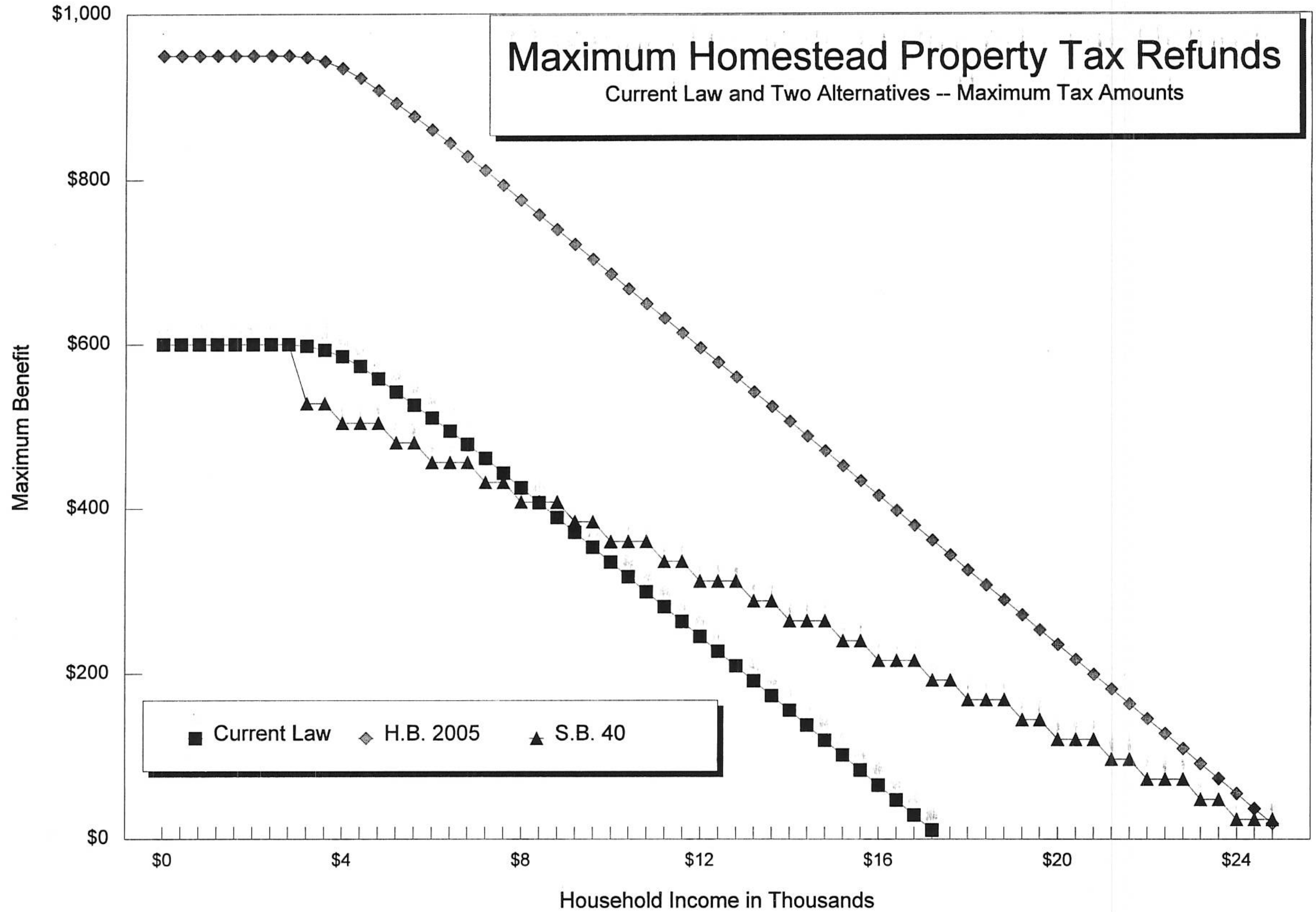
1-27-98
Attachment 2



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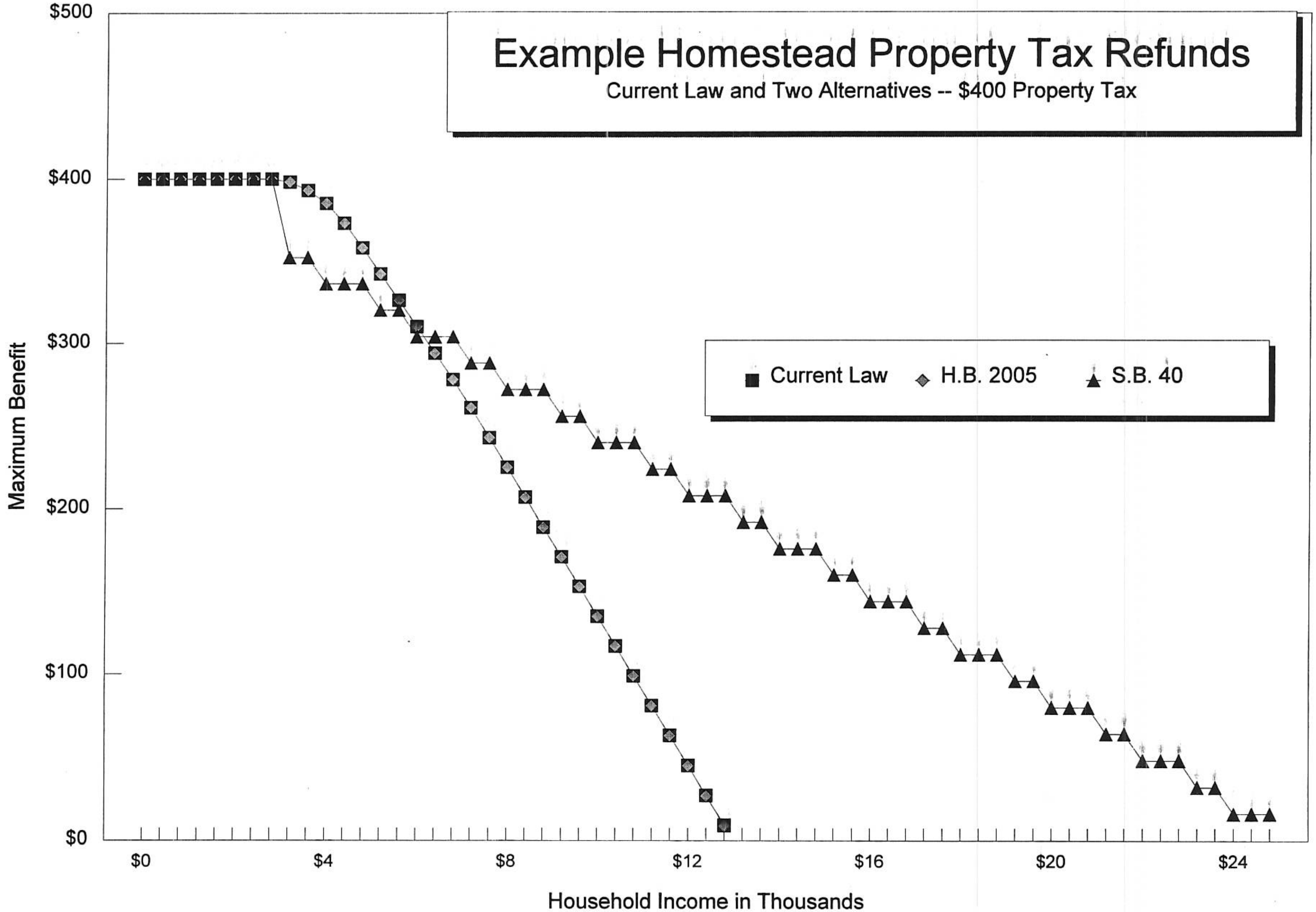
Attachment 3



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Attachment 4

STATE OF KANSAS

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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: Dan Hermes, Director of Governmental Affairs Dan

DATE: January 27, 1997

BILL: Senate Bill Numbers 40 and 42

Increasing eligibility for the homestead property tax refund and the refund on certain sales of food

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Madam Chair and members of the committee, thank you for the opportunity to appear today in support of two important portions of the Governor's tax reduction package. These measures establish higher income thresholds to reduce the regressive nature of the property and sales tax in our state. Combined with the other measures that you are considering, the package provides meaningful, targeted and balanced relief. Page two of my testimony relates to the homestead property tax refund program and page three relates to the food sales tax rebate.

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

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Attachment 5

HOMESTEAD PROPERTY TAX REFUND EXPANSION

Senate Bill Number 40 is the Governor's recommended method to expand targeted property tax relief to Kansans under the homestead rebate program. Under current law, relief is limited to individuals with income of less than $17,200 who are 55 years or older, disabled or have dependent children under the age of 18. Homeowners and renters are eligible for the program, with homeowners limited to maximum refunds of $600 (or the actual amount of their property taxes) with renters allowed 15 percent of their rent as a rebate.

The bill in front of you expands the income restriction to $25,000 and revises the table to calculate the refund to enhance the refund received by the taxpayer. Officials from the Department of Revenue can give details of the changes in the table to determine refund amounts. More important, however, are the changes in refunds that the modifications produce. Following are several examples of the current law refund, the refund under the interim committee recommendation (HB 2005) and the Governor's recommended modifications. The examples are based on the average 1996 state mill levy of 118 on a home with an appraised value of $50,000 or, in the case of renters, with 25 percent of their income going toward rent.

	Taxes	Current law	HB 2005	SB 40
Homeowner:				
$12,000	$679	$245	$324	$380
$18,000	$679	$0	$55	$217
$25,000	$679	$0	$0	$27
Renter:				
$12,000	$450	$95	$95	$252
$18,000	$675	$0	$55	$216
$25,000	$938	$0	$0	$38

During my experience as staff for the Governor's tax equity task force during the summer and fall of 1995, a consistent and emotional theme heard in all of the public hearings around the state was a concern of limited, fixed income folks having ever higher property taxes, often exceeding mortgage payments. The recommended enhancements to the state's rebate program are a significant step to alleviate these concerns. The Governor would appreciate favorable consideration of the approach contained in SB 40.

FOOD SALES TAX REFUND EXPANSION

Senate Bill Number 42 is a measure recommended by the Governor to reduce the regressive nature of the sales tax in Kansas by updating the income eligibility for the food sales tax refund program. The current income eligibility of $13,000 has not been adjusted since 1986. This proposal doubles the refunds for current income levels and adds refunds for households with up to $25,000 in income. The refund eligibility table contained in the bill, compared to current law, is as follows:

Household Income	**Present Law**		**Governor's Proposal**	
	Head	Add'l Members	Head	Add'l Members
$0-5,000	$40	$30	$80	$60
$5,000-$10,000	$30	$25	$60	$50
$10,000-13,000	$20	$15	$40	$30
$13,000-15,000	None	None	$40	$30
$15,000-$20,000	None	None	$30	$20
$20,000-$25,000	None	None	$20	$10

The changes in the table are anticipated to increase the average refund from $43 per household to $85 per household for eligible families. The current number of participants in the program under the bill is estimated to increase by more than 100 percent, from 47,000 to 102,000. For example, the impact on a household of three with an income of $15,000 that spends 15 percent of its income on food, demonstrates the significance of the enhancement to the program. At the state sales tax rate of 4.9 percent, the family would spend $115 on food sales tax. Under current law, the family would not receive a rebate, while under the Governor's proposal the rebate from the state would be $100, close to the sales tax paid.

Given the regressive impact of the sales tax on food for low income Kansans, the proposal in front of you today is a positive step toward providing a more equitable tax system in Kansas.

KANSAS FOOD DEALERS ASSOCIATION

EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

January 27, 1997

SENATE ASSESSMENT AND TAXATION COMMITTEE

SUPPORTING SB 42

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 have always supported legislation which uses the credit or refund method of providing sales tax relief. The same is true this year.

Raising the income level and covering more Kansans appears to be a step in the right direction towards benefiting those who need it the most.

We respectfully request your favorable consideration of SB 42.

Frances Kastner

Frances Kastner, Director
Governmental Affairs, KFDA

Senate Assessment & Taxation
1-27-97

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Attachment 6