Approved: February 24, 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 February 20, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Lee, Senator Bond, Senator Goodwin, Senator Hardenburger, Senator Harris, Senator Karr, Senator Praeger, Senator Steffes and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Senator Jerry Karr
Senator Anthony Hensley
Basil Covey, Kansas Retired Teachers Association
Joann Wiley, Speaker of the Silver-Haired Legislature

Others attending: See attached list

The minutes of the February 18, 1997, meeting were approved

**SB 295--Relating to income taxation; providing for cost-of-living adjustment to the standard deduction.**

Senator Jerry Karr, author of the bill, testified in support of **SB 295**. He noted that the bill is similar to **SB 58** which was introduced in the legislative session of 1995 as a result of an interim study in 1994. Basically, **SB 295** addresses the growing inequality between the standard deduction at the state level and the federal standard deduction. Kansas has not increased the standard deduction since 1989. He believes that not allowing the standard deduction to increase has had an adverse effect, particularly on low-income Kansas taxpayers. An estimated two-thirds of taxpayers use the standard deduction. Those who itemize have been able to take advantage of increases in deductions allowed in completing their income tax calculation, creating a disparity for those who use the standard deduction. The Department of Revenue's estimated fiscal note on **SB 295** is $3.6 million for fiscal year 1998. The bill would allow the use of an index system which would be applied each year and which would allow a growth of approximately 3 percent per year. This would impact an estimated 640,000 Kansans who use the standard deduction each year in computing their Kansas tax liability.

Basil Covey, Kansas Retired Teachers Association, followed with testimony in support of **SB 295.** Mr. Covey will submit copies of his written testimony at a future time. He thanked the senators who introduced and sponsored the bill. Basil Covey noted that any bill that has the cost-of-living in it attracts the eye of retired teachers. Mr. Covey felt **SB 295** would save all taxpayers in all walks of life about $175 each. Mr. Covey noted that retired teachers have not received an increase in benefits for two years from KEPRS; therefore, the savings resulting from the passage of **SB 295** would offer another means to help them pay their bills. He felt the bill would test the theory that the Department of Revenue wants to be more taxpayer friendly. Attachment 3, submitted February 21, 1997)

Shirley Sicilian, Kansas Department of Revenue, distributed copies of a Department memorandum on the fiscal impact of **SB 295.** (Attachment 1)

**SB 352; Enacting the property tax relief act of 1997.**

**SB 353; Amending the homestead property tax refund act.**

Senator Anthony Hensley testified in support of **SB 295, SB 352,** and **SB 353.** He contended that, in combination, the three bills would enhance the Governor's tax package by giving a fairer share of the tax relief to those who need it the most. With regard to **SB 295,** Senator Hensley briefly reiterated that those who file itemized tax deductions already receive a cost-of-living adjustment, and it is only fair that those who do not itemize receive the same benefit. With regard to **SB 352**, he explained that it changes the Governor's tax reduction plan so that those who need property tax relief the most are benefitted. Also, it would reduce the mill levy to 25 mills as proposed by the Governor but would phase this in more gradually over four years. With regard to **SB 353**, he said it would amend the Homestead Property Tax Refund Act by expanding it to provide relief to lower income Kansans who do not own their home, yet who still pay property taxes as part of their rent. Senator Hensley concluded by calling attention to attachments to his written testimony comparing the Governor's tax relief plan with the Senate Democrats' tax relief plan. (Attachment 2)

Joann Wiley, Speaker of the Silver-Haired Legislature, stood to testify in support of **Senate Bills 295, 352, and 353.** She reminded the committee that senior citizens are still taxpayers, and it is a struggle for her generation to pay taxes. She supports any form of tax relief for senior citizens and for the benefit of all Kansans.

Senator Langworthy closed the hearings on **Senate Bills 295, 352, and 353.**

The meeting was adjourned at 11:48 a.m.

The next meeting is scheduled for February 21, 1997.

# SENATE ASSESSMENT & TAXATION COMMITTEE
# GUEST LIST

DATE: February 20, 1997

| NAME | REPRESENTING |
|---|---|
| Anthony Hensley | State Senator |
| Basil Covey | KRTA |
| Jon Freed | Sen. Clark |
| Sonja Erickson | Senate Minority Leader |
| Bill Dexter | |
| Joann Wiley | Silver-Haired Legislature - Speaker |
| Doug Wareham | Ks. Grain & Feed Assn / Ks. Fert & Chem Assn |
| LeeJene Schneider | Ks Livestock Assoc. |
| Dave Holthaus | Western Resources |
| Kate Shaer | Kansas AMI |
| MARK BECK | KDOR |
| Si Sicilian | KDOR |
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PRM F

# MEMORANDUM

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

DATE: February 17, 1997

FROM: Kansas Department of Revenue

RE: Senate Bill 295, as Introduced

BRIEF OF BILL

Senate Bill 295, as introduced, amends K.S.A. 79-32,119 and would increase the standard deduction of individuals by adjusting the standard deduction to include a cost-of-living adjustment as determined under section 1(f)(3) of the IRC for the calendar year in which the taxable year commences.

The effective date of this bill is on publication in the statute book for tax year beginning after December 31, 1996.

FISCAL IMPACT:

Passage of this bill would reduce state general fund revenues about $6.0 million in fiscal year 1998.

The department's individual income tax simulation model was used to determine the impact of increasing the Kansas standard deductions. Assuming the cost of living adjustment is 3% each year, and rounding to the nearest $50, the reduction in tax year 1997 liability is $3.7 million, and an additional $3.8 million for a combined impact in tax year 1998 of $7.5 million. The fiscal year 1998 impact to the state general fund is $6.0 million, the tax year 1997 impact of $3.7 million and 30% of the tax year 1998 impact, or $2.3 million ($7.5 million x 30%).

ADMINISTRATIVE IMPACT:

ADMINISTRATIVE PROBLEMS AND COMMENTS:

TAXPAYER/CUSTOMER IMPACT:

LEGAL IMPACT:

APPROVED BY:

John LaFaver
Secretary of Revenue

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Attachment 1

**Senator Anthony Hensley's testimony for SB 295, SB 352, SB 353**

Senator Langworthy and committee members, I stand before you to testify in support of fairer shared tax relief.

As of yesterday's vote on Senate Bill 44, the repeal of the sales tax on remodeling, the Kansas Senate has unanimously approved all that Governor Graves has asked for in tax reductions except for Senate Bill 42, the food sales tax rebate bill, which has not come to the floor of the Senate, and the statewide mill levy issue.

Republicans and Democrats in the Kansas Senate have approved:
Senate Bill 20 (Jan. 28) - Unemployment tax moratorium extended
Senate Bill 53 (Feb. 5) - Single individual income tax rates reduced
Senate Bill 41 (Feb. 6) - Income tax credit for adoption expenses
Senate Bill 51 (Feb. 12) - Income tax credit for property tax imposed on business machinery and equipment
Senate Bill 40 (Feb. 13) - Increase income eligibility for Homestead refund

Now, after Democrats have supported every one of these bills, I am asking you to consider supporting Senate Bills 295, 352 and 353. These bills, combined with the other tax reduction measures we have passed, would provide nearly $350 million in tax cuts to individuals and businesses in Kansas in the next fiscal year, and would continue to provide tax relief in the years to come. In combination, these three bills would enhance the Governor's tax package by giving a fairer share of the tax relief to those who need it the most.

First on this list is Senate Bill 295. Senate Bill 295 would provide a yearly cost-of-living adjustment to the standard deduction on Kansas income tax returns. Those who file itemized tax deductions already receive a cost of living adjustment, and it is only fair that those who do not itemize receive the same benefit. I would point out that the standard deduction for federal taxes is currently indexed for inflation, and it needs to be so for state taxes as well. I believe that providing this cost-of-living adjustment to the standard deduction is a more equitable approach for Kansas taxpayers.

Second is Senate Bill 353, which would amend the Homestead Property Tax Refund Act. While I supported Governor Graves' expansion of the homestead property tax refund, I believe we should go further in providing tax relief to lower income Kansans who do not own their home, yet who still pay property taxes as part of their rent. Current Kansas law allow renters to be eligible for a homestead tax refund based on 15% of what they pay each year in rent. We are proposing to increase that percentage, and to allow renters to claim 25% of their

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Attachment 2

rent as attributable to their landlord's property taxes. Only by making a concerted effort to target renters in this way can we offer real tax relief to the many Kansans who contribute to property taxes through their rent, but who do not own property. Fiscal Note: $3 M

Finally, I ask the committee to support Senate Bill 352, the Senate Democrats' property tax reduction plan for 1997. In our plan, we support the Governor's proposal to lower the statewide mill levy, and we firmly support the idea that both homeowners and businesses must receive a fair share of property tax relief.

However, we believe the Governor's plan is structured so that those who need property tax relief the most are the least benefitted. Senate Bill 352 would eliminate the statewide mill levy on the first $30,000 of residential property. Under our plan, the bulk of the mill levy reduction goes to the first $30,000 of assessed values on homes. Those Kansans who live in $30,000, $40,000 and $50,000 homes would receive a proportionally larger tax break than those who live in higher valued homes. We also include in our plan the Governor's proposal to reduce the mill levy to 25 mills, but we would phase this in more gradually, over four years.

These bills were drafted with the intent of sharing tax relief with all Kansans, and in full agreement with Governor Graves' philosophy that Kansas businesses should receive substantial tax relief. Our fairer shared tax relief package is still quite favorable to businesses. When combined with tax reductions that the Democrats have already supported in the Governor's plan, our plan will give Kansas businesses twice as much in tax cuts as we give to individual Kansans. In the first year, businesses will receive $237.2 million (68%) in tax relief as compared to $111.2 million (32%) in tax relief for individual Kansans. However, we offer our tax plan because we differ with the Governor in one major sense. We believe that when tax relief is being offered we cannot, and should not, short change those who need it the most.

I believe that these bills are necessary to ensure that all Kansans receive their fair share of tax reduction.

## Senate Democratic Fairer Share for Kansans Tax Relief Plan

**Senate Democrats' 2/1 tax relief**

$237.2 million in tax breaks for businesses (68%)
$111.2 million in tax breaks for individual Kansans (32%)

Total Tax Relief $348.4 million

**VS**

**Governor Graves' 4/1 tax relief**

$249.4 million tax breaks for businesses (81%)
$58.8 million in tax breaks for individual Kansans (19%)

Total Tax Relief $308.2 million

**Senate Democrats Plan**

$40.2 million over the Governor's plan
(less than 1% of total revenues)

$30.1 additional targeted $30,000 exemption and mill levy reduction
$3.6 million in individuals income tax relief
$2 million in renters' increase in Homestead Refund
$4.6 million in additional business tax reductions (insurance industry)

($ in millions)

Gov's Proposal

| | Single-Family Residential Relief | All Other Property Tax Relief | Car Tax Relief | Total Relief |
|---|---|---|---|---|
| FY 98 | ($13.623) | ($26.850) | --- | ($40.473) |
| FY 99 | ($31.048) | ($58.235) | --- | ($89.283) |
| FY 2000 | ($38.294) | ($67.445) | --- | ($105.739) |
| FY 2001 | ($41.160) | ($67.752) | --- | ($108.912) |
| FY 2002 | ($44.155) | ($68.025) | --- | ($112.180) |

Sen Dem's Proposal

| | Single-Family Residential Relief (includes 30k exemption AND mill levy cut) | All Other Property Tax Relief | Car Tax Relief | Total Relief |
|---|---|---|---|---|
| FY 98 | ($57.113) | ($13.160) | ($0.265) | ($70.538) |
| FY 99 | ($94.536) | ($21.838) | ($0.798) | ($117.172) |
| FY 2000 | ($101.607) | ($36.840) | --- | ($138.447) |
| FY 2001 | ($114.592) | ($58.788) | --- | ($173.380) |
| FY 2002 | ($123.921) | ($68.024) | --- | ($191.945) |

| | House $100,000 | House $50,000 | |
|---|---|---|---|
| 1997 Taxes Under Current Law (33 mills) | $379.50 | $189.75 | |
| Taxes w/ Exempt first 30k and drop to 31 mills (Sen Dem | $249.55 | $71.30 | |
| Tax Cut First Year of Sen Dem Plan | ($129.95) | ($118.45) | 1997 |
| 1997 Taxes Under Current Law (33 mills) | $379.50 | $189.75 | |
| Taxes w/ Drop to 29 mills (Governor) | $333.50 | $166.75 | |
| Tax Cut First Year of Governor Plan | ($46.00) | ($23.00) | |
| 1998 Taxes Under Current Law (pretends 31 mills) | $356.50 | $178.25 | |
| Taxes w/ Exempt first 30k and drop to 29 mills (Sen Dem | $233.45 | $66.70 | |
| Tax Cut Second Year of Sen Dem Plan | ($123.05) | ($111.55) | |
| 1998 Taxes Under Current Law (pretends 31 mills) | $356.50 | $178.25 | 1998 |
| Taxes w/ Drop to 25 mills (Governor) | $287.50 | $143.75 | |
| Tax Cut Second Year of Governor Plan | ($69.00) | ($34.50) | |
| 1999 Taxes Under Current Law (pretends 31 mills) | $356.50 | $178.25 | |
| Taxes w/ Exempt first 30k and drop to 27 mills (Sen Dem | $217.35 | $62.10 | |
| Tax Cut Third Year of Sen Dem Plan | ($139.15) | ($116.15) | |
| 1999 Taxes Under Current Law (pretends 31 mills) | $356.50 | $178.25 | 1999 |
| Taxes w/ No Drop Beyond 25 in Third Year (Governor) | $287.50 | $143.75 | |
| Tax Cut Third Year of Governor Plan | ($69.00) | ($34.50) | |
| 2000 Taxes Under Current Law (pretends 31 mills) | $356.50 | $178.25 | |
| Taxes w/ Exempt first 30k and drop to 25 mills (Sen Dem | $201.25 | $57.50 | |
| Tax Cut Fourth Year of Sen Dem Plan | ($155.25) | ($120.75) | |
| 2000 Taxes Under Current Law (pretends 31 mills) | $356.50 | $178.25 | 2000 |
| Taxes w/ No Drop Beyond 25 in 4th Year (Governor) | $287.50 | $143.75 | |
| Tax Cut Fourth Year of Governor Plan | ($69.00) | ($34.50) | |
| Cumulative Tax Cut through 2000 | | | |
| Sen Dems | ($547.40) | ($466.90) | |
| Governor | ($253.00) | ($126.50) | |

Property Taxes

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | change 91-96 |
|---|---|---|---|---|---|---|---|
| Statewide All | $1,832,653,945 | $1,607,728,732 | $1,696,367,780 | $1,830,372,020 | $1,925,561,967 | $1,973,670,681 | $141,016,736 |
| C and I Real | $443,669,655 | $376,400,435 | $340,893,091 | $359,655,235 | $369,277,218 | $385,423,948 | ($58,245,707) |
| % of state tax dollars | 24.21% | 23.41% | 20.10% | 19.65% | 19.18% | 19.53% | |
| Residential Real | $690,982,069 | $608,794,167 | $637,133,751 | $696,911,196 | $767,068,499 | $798,899,265 | $107,917,196 |
| % of state tax dollars | 37.70% | 37.87% | 37.56% | 38.07% | 39.84% | 40.48% | |
| C and I Mach and Eq | $111,385,312 | $97,899,557 | $132,395,793 | $146,945,659 | $159,900,137 | $169,224,647 | $57,839,335 |
| % of state tax dollars | 6.08% | 6.09% | 7.80% | 8.03% | 8.30% | 8.57% | |

1992 data reflect implementation of new school finance law
1993 data reflect changed assessment levels

The 1995 Governor's Tax Equity Task Force reports notes that the "class of property that is the biggest statewide net beneficiary as a result of school finance and the new classification amendment is commercial and industrial real property." (See p. 3)

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# Kansas Retired Teachers Association

**ABC's of KRTA**
**ACTIVE, BUILDING, CARING**
**1996-1997**

Members of the Senate Assessment and
Taxation Committee:

My name is Basil Covey and I represent the Kansas Retired Teachers Association.

We thank Sen. Karr and Sen. Hensley for introducing SB 295, and the other senators for sponsoring the bill.

SB 295 is unique in that it represents a saving benefit from the "back door".

SB 295 saves all Kansas taxpayers about $175, based on the CPI in 1996.

Retired teachers not receiving an increase in benefits for two years in KPERS, will be able to pay other bills with the savings.

This bill will test the theory that the Dept. of Revenue wants to be more "taxpayer friendly".

We support SB 295 which helps taxpayers in all walks of life.

Thank you,

Basil Covey

Basil Covey
Chairman, KRTA
Legislative Committee

February 20, 1997

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Attachment 3