Approved:______________________

Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 22, 1998 in Room 519-S of the apitol.

All members were present except:

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

Conferees appearing before the committee:
Rep. Bonnie Sharp
Dan Hermes, Director of Governmental Relations
Bob Corkins, KCCI
Mike Meacham, Ks. Cable Telecommunications Assn
Pete Doll, YMCA's of Kansas
Julene Grabill, Girl Scout Council represented by Eileen Seger, Marion, KS.
Harriet Lange, Broadcasters Assn.
Howard Hill, Chairman, Broadcasters Assn.
Tom Harrington, Boys Scouts, Topeka
Anderson Chandler, Boy Scouts , Topeka
David Furnas, Kansas Press Assn.
Bob Leake, CPA firm Allen, Gibbs & Houlik, Wichita
Rep. Jerry Henry
Rep. Tim Carmody
Rep. Gene Shore
LewJene Schneider, Kansas Livestock Assn.

Others attending: See attached list

Chair opened hearing on:

HB 2643 - Sales tax definitions and exemptions

Proponents:
Rep. Bonnie Sharp (Attachment 1)
Dan Hermes, Director of Governmental Relations (Attachment 2)
Tom Hatten, Department of Revenue (Attachment 3)
Bob Corkins, KCCI (Attachment 4)
Mike Meacham, Ks. Cable Telecommunications Assn (Attachment 5)
Pete Doll, YMCA's of Kansas (Attachment 6)
Julene Grabill, Girl Scout Council represented by Eileen Sieger, Marion, KS. (Attachment 7)
Harriet Lange, Broadcasters Assn. (Attachment 8)
Howard Hill, Chairman, Broadcasters Assn. (Attachment 9)
Tom Harrington, Boys Scouts, Topeka (Attachment 10)
Anderson Chandler, Boy Scouts , Topeka (Attachment 11)
David Furnas, Kansas Press Assn.(Attachment 12)
Bob Leake, CPA firm Allen, Gibbs & Houlik, Wichita (Attachment 13)

Written testimony submitted by Patrick Knorr, JConramp/ Junction City (Attachment 14)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, ROOM 519-S Statehouse, at 9:00 a.m. on January 22, 1998.

Closed hearing on **SB 2643.**

Chair opened hearing on:

HB 2614 - Atchison county jail construction sales tax.

Proponent:

Rep. Jerry Henry (Attachment 15)

Rep. Henry presented the bill and cited the urgency of getting it passed with amendments he had prepared.

Chair closed public hearing on **HB 2614.**

Moved by Representative Larkin, seconded by Representative Kline, introduce **HB 2614** with proposed amendments to be placed on consent calendar. Motion carried.

Chair opened public hearings on:

HB 2610 - Kansas estate tax act

Proponents:

Rep. Tim Carmody (Attachment 16)
Rep. Gene Shore (Attachment 17)
Dan Hermes, Director of Governmental Affairs
LewJene Schneider, Kansas Livestock Assn. (Attachment 18)

Due to lack of time to hear testimony from all desiring to testify, public hearing on **HB 2610** was continued to January 23, 1998.

The next meeting is scheduled for January 23, 1998.

Adjournment.

Attachments - 18

TAXATION COMMITTEE GUEST LIST

DATE: **JANUARY 22, 1998**

NAME	REPRESENTING
Arlene Israelid	Girl Scouts
Eileen Seiger	" "
Bobbie Campbell	" "
Anderson Chandler	
Pete Doll	YMCA
Kathy Peterson	YMCA
Tom Harrington	Boy Scouts

STATE OF KANSAS

BONNIE SHARP
REPRESENTATIVE, THIRTY-FIRST DISTRICT
WYANDOTTE COUNTY
4218 DIXIE COURT
KANSAS CITY, KANSAS 66106
(913) 831-2339

STATE CAPITOL—RM. 278-W
TOPEKA, KANSAS 66612-1504
(913) 296-7680

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
MEMBER: ECONOMIC DEVELOPMENT
FEDERAL AND STATE AFFAIRS
GOVERNMENTAL ORGANIZATION
AND ELECTIONS

January 22, 1998

Thank you Mr. Chairman and Committee Members for the opportunity to testify before you today.

I appear before you today in support of exempting sales tax on Parent Teacher Organizations.

I co-sponsored HB 2145 last year, and I want to thank all of the House Members who supported this bill with me last session, and to those that have supported this effort in the past.

This is certainly not a new issue. I'm sure many of you have heard testimony in favor of exempting sales tax for P.T.A.'s and P.T.O's for many years. Because of the surplus of revenues this year, I think it is the right time to pass this legislation.

Parent Teacher Organizations are not-for-profits with absolutely no paid personnel. The all volunteer organizations contribute all the revenues of their fund raisers directly to their local schools, which benefits the students.

I'm sure many of you have been active in your local P.T.A.'s. I have served as room mother, teacher's helper, local officer, and officer of Wyandotte County Area Council. I know the hours of service that members contribute to their schools. Certainly the motivation of P.T.A. members is their concern for children.

I think it is the right time for the State of Kansas to recognize the role that Parent Teacher Organizations play in promoting the welfare of school children by granting them sales tax exemption. They provide volunteer services to local schools, support children's issues, and raise money for special projects for the students. Certainly, there is a fiscal note for this legislation; however, I think the organization's contribution to children merits this exemption.

Thank you for your time. I will stand for questions.

House Taxation
1-22-98
Attachment 1-1

Bonnie Sharp

STATE OF KANSAS

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

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1-800-748-4408
FAX: (913) 296-7973

OFFICE OF THE GOVERNOR

LEGISLATIVE TESTIMONY

TO: Chairman Phill Kline and Members of the House Taxation Committee

FROM: Dan Hermes, Director of Governmental Affairs

DATE: January 22, 1998

SUBJECTS: HB 2610 and HB 2643 — Estate and Sales Tax Reform and Relief

---

Mr. Chairman and members of the committee, thank you for the opportunity to appear on the Governor's behalf to testify in support of two major components of the package of tax cuts recommended by the Governor to the 1998 Legislature.

HB 2610 (Estate Tax Relief)

Death taxes in Kansas need to be reformed. They are too high and too complicated. The Governor appreciates the work of members of this committee and the house to continue to raise this issue over the past several years. Although the Governor has recognized the undue burden that the current structure of our inheritance tax has placed on our citizens, until now the resources were not available to address this issue. The strong economy over the last year has presented us with an opportunity to resolve this clear imbalance in our tax structure.

As the Governor said in his state of the state address, " Kansans already pay taxes on income when it is earned, taxes on property while we own it, and taxes on goods and services when they are purchased. That's enough taxing. It is time for Kansans to have the lowest inheritance taxes in the country."

This proposal would reduce taxes by $23.1 million in FY 1999 and $54.6 million in FY 2000. The bill is quite simple. It enacts what is known as a "pick-up" federal estate tax and repeals the state inheritance tax. When an estate files a federal estate tax return they can receive a credit for death taxes paid to the state. A "pick-up" tax is equal to that credit. Under this system the state keeps the estate from paying more taxes than the federal government imposes. With a "pick-up" tax, the estate pays the minimum possible tax, but instead of all of the money going to Washington, some of it goes to the state.

A recent quote I saw in the Topeka Capital Journal stated that currently only 41 cents of every dollar is paid by estates worth less than $600,000 (the current federal exemption). Under this proposal the amount paid by estates less than $600,000 would be zero. This is a tax reduction for all Kansans: retired homeowners, small businesses owners, farmers and ranchers cannot pass on their property without the state imposing a tax burden in excess of the federal amount. Folks that inherit a home or other real property from a brother or an uncle may have no income, no savings, no cash. These individuals have a tax imposed that in some instances require them to get a loan just to be able to pay the inheritance tax and receive the property.

I look forward to the committee's favorable consideration of this portion of the Governor's tax package.

HB 2643 (Sales Tax Relief and Reform)

The Governor's proposal to reduce and reform the state retail sales tax can be grouped into three areas: additional exemptions, clarification and fairness and increased eligibility for the food sales tax rebate program.

Included in the bill are exemptions for Girl Scouts of America sales, purchases and sales by parent-teacher associations and organizations, fees paid to humanitarian organizations for participation in recreational activities and membership dues, and purchases of broadcasting equipment and machinery. These exemptions have been discussed and debated for several years. With resources available it is time to provide these organizations with the requested exemptions. By my oversight, not included in the bill are exemptions for the Boy Scouts of America and other youth organizations. Including these organizations was the Governor's intent, I apologize for the error and request the committee to amend the bill to include these groups.

Clarification and fairness in the sales tax code needs to by a goal for all of us. Last year, together, we were able to enact the taxpayer fairness and equity act. In this spirit, Secretary LaFaver brought forward several of the most confusing and litigated aspects of the state's sales tax code for the Governor's review. Inclusion of these items in the package demonstrates the administration's commitment to the taxpayers of this state: a tax code that is easier to understand and does not rely on expensive litigation to establish the ground rules. These items are:

— Changes to the definition of exempt items for manufacturing machinery and equipment

— Clarifying the definition of "consumed in production" for qualification for sales tax exemption

— Exempting repair services for items shipped into and out of Kansas

— Exempting repair services performed on motor carrier rolling stock

— Clarifying the exemption for lease of goods purchased with proceeds of industrial revenue bonds

Finally, the bill includes a major expansion in the income eligibility for food sales tax rebates. Under current law, the income eligibility is $13,800. This bill would increase the eligibility to $25,000, an amount equal to the homestead rebate program. This proposal will increase the average refund per household from $43 to $85 and provide an additional $5.0 million in tax relief for low income Kansans on an annual basis. In addition, the Governor has directed the Secretary of Revenue to develop options to expand the percent of the eligible individuals that use the program. The administration looks forward to working with the members of this committee to assure this is accomplished.

Again, I look forward to the committee's favorable consideration of this portion of the Governor's tax package. I would be happy to respond to any questions the committee or staff would have about these recommendations.

TE OF KANSAS
... Graves, Governor

DEPARTMENT OF REV... E
John D. LaFaver, Secr...ary

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

(913) 296-3081
FAX (913) 296-7928

Office of Policy & Research

MEMORANDUM

TO: Dan Hermes
Director of Legislative Affairs
Governor's Office

FROM: Tom Hatten
Attorney, Policy & Research
Kansas Department of Revenue

RE: House Bill 2643---The Sales Tax Relief and Reform Act of 1998

DATE: January 22, 1998

House Bill 2643, the Sales Tax Relief and Reform Act, contains a number of substantive changes to the Kansas retailers' sales tax act. The overriding concern in drafting these changes was to provide clarity to the law. House Bill 2643 makes five significant changes to the current act. First, the bill adopts the integrated plant theory and thereby expands and clarifies the scope of the exemption for machinery and equipment. Second, it expands the consumed in production exemption and clarifies the way in which the consumed in production exemption interfaces with the exemption for machinery and equipment. Third, it doubles the sales tax refund amounts for food sales and raises the income caps, thereby increasing the number of households eligible for refunds. Fourth, it eliminates certain inconsistencies in the current exemption provisions by exempting both repair services and parts where only parts are now exempt. It also provides a cohesive conceptual treatment for IRB purchases for the first time since 1981. Fifth, it accommodates certain organizations, including the Girl Scouts and PTA organizations, by extending exemption to them on their purchases and sales.

1. **Adoption of the integrated plant theory.** There are two standards for exemption of production machinery and equipment. One standard is the physical transformation theory or the Ohio rule, which requires that exempt machinery and equipment have a "direct and immediate effect" on the physical transformation of raw materials into new products. The second standard is the integrated plant theory, which only requires that exempt machinery and equipment constitute an integral or essential part of the manufacturer's production operations. Under the integrated plant theory, machinery and

equipment are exempt if they perform an essential or necessary function in the taxpayer's manufacturing operations, regardless of whether they actually cause a physical change in the raw materials.

The current Kansas provision, K.S.A. 79-3606(kk), is an amalgam of these two standards. Subsection (kk) exempts machinery and equipment that is used to physically transform raw material into a finished product---the physical transformation theory---but adds to this machinery and equipment that can only be exempt under the integrated plant theory. These include: (1) machinery and equipment used in warehousing and distribution, (2) computers used in research and development, (3) computers used in engineering the finished product, and (4) machinery and equipment used to handle and convey either raw materials or the finished product before and after production. This mixture of taxing theories has caused conceptual and application problems for manufacturers, especially at a time when many other states are moving to the integrated plant theory.

This bill strikes the language from the current law that is consistent with the physical transformation theory and replaces it with language that is consistent with the integrated plant theory. It provides a separate subsection (Subsection (xx)) for warehouses and distribution facilities that are not part of a manufacturing or processing plant. It expands the exemption and exempts services done to install the exempt equipment and to repair it. The bill also: (1) identifies manufacturers and processors by SIC code, (2) provides exemption to businesses that are substantially similar to these businesses, and (3) is written so that other manufacturers and processors can be specifically added to the bill by the legislature, if the legislature so desires.

This bill attempts to extend the integrated plant exemption to the same businesses that qualify for exemption under current law. If a business has been missed, it can be added to the bill after the words "electric generation plants" in subsection (2)(F) on page 17 of the bill. Our review of the bill with business representatives suggests that the current bill should be amended by adding "water treatment plants" as a second provision after "electric generation plants." We ask that this addition be made now.

2. **Consumed in production.** The proposed change to the definition of consumed in production strikes the word "immediately" from the requirement, adds the word "depleted" for clarity, and provides a one year period in which the property can be consumed, dissipated or depleted in order to be considered exempt. To further clarify the definition, "petroleum products, lubricants, chemicals, solvents, sorbents, reagents and catalysts" are added to the list of exempt items.

   The consumed in production proposal must be read with the proposed exemption of "repair and replacement parts and accessories" found in subsection (2)(G) on page 18 of the bill. These two provisions should eliminate the confusion that has produced hundreds of refund request denials and the resulting administrative appeals.

These appeals question whether or not replacement parts used in production machinery qualify for exemption as being immediately consumed in production. These appeals are the direct result of the current law's attempt to tax those things that fall between being immediately consumed and being a major component of exempt machinery or equipment. Not only has this taxing scheme created an administrative nightmare, from a policy standpoint there is little sense in trying to tax this small portion of a manufacturer's cost continuum, which ranges from things such as gas and electricity that are immediately consumed through machinery and equipment that may last for decades. What rationale can there be for trying to tax only those production items that last too long to be considered immediately consumed but are too small to be considered major components of exempt machinery? The proposed changes that define "consumed in production" and "repair and replacement parts and accessories" eliminate these incongruities in the law.

3. **Changes to the Kansas food sales tax program.** The Kansas food sales tax assistance program currently provides for a refund of sales tax paid on food purchases for certain residents whose household income totals $13,000 or less. This bill would double the refund amount for most qualifying households and raise the cap for refunds from an income level of $13,000 per household to $25,000 per household. The bill also creates certain rights of survival to the refund that can be claimed by a decedent's survivors or estate.

4. **Eliminating other inconsistencies and contradictions in the current act.** Kansas exempts the sales of a number of items, including production machinery and equipment, repair parts sold to common carriers, and parts that are shipped out-of-state in interstate commerce. These exemptions currently extend only to the sale of the machinery or parts, and not to installation and repair services that involve the machinery or parts. This means that Kansas is extending an exemption to businesses with one hand and taking part of it back with another. This taxing policy is unpopular with businesses.

   House Bill 2643 contains a number of separate proposals that are intended to provide a coextensive exemption for the sale of repair parts or machinery and for any associated repair and installation services needed to install the repair part or machinery. These changes expand the exemptions in a way that makes them more rational and more easily understood by taxpayers.

   For years, the conflicting provisions in K.S.A. 79-3603(h), K.S.A. 79-3606(d), and K.S.A. 79-3640 have caused problems for businesses that have secured industrial revenue bonds financing. These statues provide inconsistent tax treatment to tangible personal property that is purchased with IRB proceeds and leased to an IRB beneficiary. This bill reconciles the conflicting provisions by clarifying that the lease of tangible personal property from the political subdivision to the bond beneficiary is always exempt from sales tax.

5. **Extending exemption to the Girl Scouts and PTA, among others.** The bill also proposes to accommodate certain groups such as the PTA and Girl Scouts by extending exemption to them.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

835 SW Topeka Blvd. Topeka, KS 66612-1671 (785) 357-6321 FAX (785) 357-4732 e-mail: kcci@kspress.com

HB 2643 January 22, 1998

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Taxation Committee

by
Bob Corkins
Director of Taxation

Honorable Chair and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to express our members' views on HB 2643 and their general support for changes to the business sales tax incentives it addresses.

> 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 46% of KCCI's members having less than 25 employees, and 77% 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.

KCCI's driving motivation for legislation in this area is prompted by a 1997 Kansas Court of Appeals decision. You will not find it expressly mentioned in HB 2643, but the Alsop Sand opinion validates an unjust criteria for determining eligibility for the machinery and equipment (M&E) sales tax exemption. Alsop Sand held that eligibility turns on whether a business decides to expense or to depreciate its M&E purchase for federal income tax purposes: if you expensed an item on your federal return, it is not exempt from Kansas sales tax.

House Taxation
1-22-98
Attachment 4-1

We disagree with the Kansas Court of Appeals because the expense/depreciate election, albeit simple, is an arbitrary test to employ for this purpose. Federal taxpayers choose whether to depreciate any given item of business machinery, perhaps regardless of its cost. If you are having a particularly profitable year, you might choose to fully expense an item even though it cost many thousands of dollars to buy. Alternatively, you might establish a practice of depreciating every item of machinery that cost more than $200.

KCCI is uncertain at this time whether HB 2643 would preclude future use of this eligibility test. The bill would make a wholesale replacement of existing M&E sales tax language with a very promising new trend called the "integrated production operation" approach. It is an innovative sales tax concept that has been adopted in other states and about which many KCCI members have spoken favorably. However, we have not had much time to review this specific language which was drafted by the Department of Revenue without our input. Some have indicated that the "integrated operation" approach would render the Alsop Sand decision obsolete, if not irrelevant. I cannot verify that today. We are also concerned that the details of this plan, such as the SIC Code restrictions, might serve to deny the M&E exemption to companies that are legitimately availing themselves of it now.

Nevertheless, the gist of the integrated operation approach is good. It would broaden and simplify administration of the M&E exemption for taxpayers and KDOR alike -- particularly in conjunction with several other components of HB 2643. The bill would create an exemption for parts and services relating to the installation, repair and maintenance of M&E. It would also bring much needed clarification to the current "consumed in production" exemption. These are highly litigated parts of our sales tax code, frequently interrelated, fraught with application problems and, as Alsop Sand demonstrates, ambiguous to the detriment of taxpayers.

HB 2643 appears well intended, but we need a little more time to assess its impact. We support its concept and some of its particulars. KCCI contends that Kansas should do everything reasonably possible to offer tax relief toward the operation and modernization of business machinery and equipment. Our tax burden on this property is grossly out of line with that of competing states. Today's bill represents a chance to improve tax fairness while also addressing this heavy tax burden that business and labor strongly agree is so detrimental to job growth.

Thank you for your time and consideration.

4-2

Michael R. Meacham, J.D.
Governmental Relations Counsel

Testimony of the
Kansas Cable Telecommunications Association
House Committee on Taxation
January 22, 1998

Thank you Mr. Chairman. My name is Mike Meacham and I appear before the committee today on behalf of the Kansas Cable Telecommunications Association. The KCTA is a trade association comprised of cable systems, both large and small family-owned, located all across Kansas, in both rural and urban communities.

We appear today as proponents of House Bill 2643. We believe the Governor is striving for equity in the business of information distribution and we are pleased to endorse the effort. It is our understanding that the policy rationale underlying the proposed exemption from the sales tax for equipment purchased by broadcasters used to produce and distribute a broadcast signal, rests upon the analogy to newspaper production. In as much as newspapers (and other forms of print media) enjoy an exemption from the sales tax on equipment because it is considered to be manufacturing equipment, the broadcasters believe that their "manufacturing" equipment --- that equipment which is necessary to produce and broadcast a signal --- should likewise be exempt. We agree.

With a clarification. If the analogy between production of a newspaper and production of a broadcast signal holds true, then so, too, should an extension of that analogy to the companies engaged in the production and distribution of cablecast signals. There is virtually no difference between "broadcast" and "cablecast" for the purposes of considering production and distribution of a signal except for the mode of transmission of the signal. Both receive programming from distant locations. Both generate local origination programming. Both disseminate information and entertainment to the public.

The sole difference between the two is that cable systems have paying subscribers, while the broadcast signal is offered over the airwaves "free" by obtaining revenue from respective networks and advertising. This is not an important distinction for the purpose of this issue, however, in that newspapers also have paying subscribers (as well as retail sales) and still enjoy the benefit of the sales tax exemption on machinery used in production of their product. Cable subscribers pay --- not for the right to receive what is already available free over the airwaves, but for improved reception and service as well as the right to receive additional product that is not available either over the airwaves at all, or not available in their home communities.

There is an additional reason why the cable industry should be granted an exemption from sales tax on equipment purchased to produce and distribute a signal. Such an exemption would provide an incentive, particularly for the smaller, rural systems, to upgrade their equipment to state of the art digital and fiber optic transmission. This would enhance the quality of service significantly in those smaller areas and bring them on a par with their larger, urban counterparts which have already made substantial investments in upgrading and rebuilding their systems. These upgrades will uniformly improve signal quality and cablecast service and capability.

Thus, Mr. Chairman and members of the committee, we would ask that an amendment be crafted to include the cable industry within the ambit of the policy underlying this exemption as a matter of equity between the two forms of electronic media and as a matter of development of improved cable service in rural areas of the state. A draft amendment for your consideration is on the reverse side of this testimony.

Michael R. Meacham, J.D.
Governmental Relations Counsel

Amend House Bill 2643
on page 23 following line 41, by adding the following:

ccc) all sales of machinery and equipment purchased by community antenna television systems which is used directly and primarily for the purpose of producing and distributing a cablecast signal or is such that the failure of the machinery or equipment to operate would cause cablecasting to cease. For purposes of this subsection, machinery and equipment shall include, but not be limited to, that required by rules and regulations of the federal communications commission, any franchise granting authority under which the community antenna television system operates, and all sales of electricity which are essential or necessary for the purpose of producing or distributing a cablecast signal or is such that the failure of the electricity would cause telecasting to cease.

TESTIMONY SUPPORTING

HB 2643

by
YMCAs of KANSAS
Pete Doll
Topeka YMCA

for the
HOUSE TAXATION COMMITTEE
Phill Kline, Chairman

Thursday, January 22, 1998

Chairman Kline and Members of the House Taxation Committee:

My name is Pete Doll, President of the Topeka YMCA. I appreciate having the opportunity to testify on behalf of the YMCAs of Kansas in a strong support of **House Bill 2643**.

House Bill 2643 would, among other items, clarify the sales tax issue regarding memberships and program fees. If passed, these fees and dues in humanitarian organizations would not be subject to sales tax.

I should note that this committee saw the merits of this tax policy last year with the passage of identical language contained in HB 2107.

We have 12 YMCA's in Kansas, serving more than 62,000 young Kansans ages 1-17; more than 52,000 Kansans ages 18-54 and more than 7,000 residents over the age of 55.

As you probably know, YMCA's have the following mission: to put Christian principals through programs that build healthy spirit, mind, and body for all. Although we use Christian values as the fundamental way we operate, all people can and do participate in our programs.

The YMCA's of Kansas have as their program commitments, programs which develop strong kids, strong families and strong communities.

YMCA's are the largest not-for-profit provider of child care. In addition, we serve youth from all faiths, abilities, and incomes in programs like child care, youth sports, camping, leadership training, substance abuse prevention, and gang prevention.

YMCA's work in partnership with schools and other organizations to meet community needs. Nearly half of all YMCA's collaborate with their local public school; one in five with public housing authorities and more than 400 with the juvenile courts.

On a more local basis I'd like to share the following examples of our involvement in the community:

A. Currently serve some 400 children a day in two pre-schools and 15 elementary school site in four school districts for child care services. 20% of the families in these programs receive some form of financial assistance.

B. Serve 8,000 youth in sports activities during 1997 with participants ranging from age 5 to 18 in 27 different sports programs. Participants reflected all socioeconomic characteristics from our community.

C. Served 80 families in counseling and monitored exchange activities during divorce. The focus of this program is the safety, welfare, and emotional needs of the child.

D. We collaborate with 14 other agencies to provide reference and referral services for residents of North Topeka for needs ranging from child care, employment services, health care, and GED training.

E. During 1997, the Topeka YMCA provided 700 people financial assistance to participate in YMCA memberships and programs. This reflects over $200,000 in assistance. Assistance was provided on a family basis with qualification based on federal poverty guidelines and to various group homes throughout the community.

Knowing our mission and our involvement in Kansas, we hope you will give favorable consideration to the sales tax exemption contained in **House Bill 2643**.

Passage of this proposal would enable the YMCA to increase our financial support for people who need our programs and services.

In short, it will increase our capacity to carry out our mission.

Although the estimated fiscal impact to the state is relatively small, calculated by the Revenue Department at just over $300,000, this revenue would be tremendously useful re-invested in the programs we and other YMCA's in Kansas are providing to children and families.

Kansas is currently one of the only states in America where YMCA's membership fees and dues are subject to the sales tax.

YMCA's are humanitarian organizations as defined by the State of Kansas. In addition, we are organized as a nonprofit corporation, governed by a volunteer board of directors, and under the Internal Revenue Code we are exempt from federal income tax under section 501(c)(3). It should also be pointed out that contributions to the YMCA are tax deductible under the Kansas income tax act.

So, on nearly every other front, tax policy, both state and federal, recognizes the non-profit nature and humanitarian services YMCA's provide. Thus, it seems inconsistent to have a sales tax imposed on program fees and membership dues.

Thank you for your time, attention and thoughtful consideration of this matter.

House Assessment and Taxation Committee
Representative Phill Kline, Chairperson
Thursday, January 22, 1998

Testimony of Eileen Sieger, Legislative Chair
Girl Scout Councils Serving Kansas Girls

Chairman Kline, Vice-Chairman Powell, Representative Larkin and distinguished members of the committee. Thank you for the opportunity to speak today on behalf of over 60,000 Girl Scouts statewide. I am Eileen Sieger of Marion, Kansas. As the volunteer chairperson of the Legislative Monitoring Program for Girl Scout Councils serving Kansas Girls I appear before you today in strong support of House Bill 2643.

The sales tax exemption contained in this legislation will bring Kansas in line with the forty-seven other states who do not tax the sale of Girl Scout cookies. Those forty-seven states have recognized the unique nature of the Girl Scout cookie sales program established in the 1920's. Simply put, Girl Scout Cookie Sales began as a tool to teach girls self-reliance. It is time Kansas recognizes this important contribution to our state. It is time for Kansas to pass this exemption. Hawaii and South Dakota are the only other states that currently impose a sales tax on the sale of Girl Scout Cookies.

My daughter, Lesley, and I have experienced first hand the positive benefits of Girl Scouting. For twelve years, Lesley was an active Girl Scout. Now she and I are both lifetime members. Though she is now teaching high school English, I continue to serve as a volunteer for the Flint Hills Girl Scout Council. This is my seventeenth year, and I have held nearly every volunteer position in the organization.

You will find this level of volunteer involvement is not uncommon in Girl Scouting. In fact, two of the most important aspects of Girl Scout operations are 1) heavy reliance on volunteer involvement and 2) community based program delivery. I'm sure many of you are familiar with the most local Girl Scout entity - the troops.

To learn how this exemption will benefit your legislative district please review the materials in your green folder. You will notice there is no statewide office of Girl Scouts. Instead, there are twelve regional councils that support the troops. The map and the chart titled "State of Kansas - Girl Scout Organization" shows which counties are in each council. For current cookie sales campaigns, each council will calculate the total revenue from cookie sales and then send the State Department of Revenue the appropriate amount of sales tax. When House Bill 2643 is enacted into law, those revenues will stay in each council and will be invested in expanded programming for girls at the community level.

Recently the results were released from a national outcomes study titled "Girls, Families and Communities Grow Through Girl Scouting." [1] This study reveals what those of us involved

[1] Prepared by Social Program Evaluators and Consultants, Inc. of Detroit, Michigan.

in Girl Scouting have always known, that Girl Scouting makes a real difference in the lives of girls, families and communities. The study found that Girl Scouts reported greater opportunities to achieve in several areas: self-reliance, self-competence, social skills, respect for others, feelings of belonging, helpfulness, concern for the community, teamwork, leadership and values clarification.

Not only does Girl Scouting provide role models and leadership, it also places girls in leadership roles. Nearly two-thirds of the women listed in "Who's Who of American Women" were Girl Scouts in their youth, and most of them credit Girl Scouting with contributing to their success as adults. Many Girl Scouts have become our nation's leaders. In fact, several members of the Kansas Legislature are outstanding examples of the fine leaders Girl Scouts do, in fact, become.

Today the real problem is helping children and teens reject what is hurtful and select what is helpful from the world around them. The Girl Scout program results in developmental assets that both protect girls against health-compromising choices and promote healthy development. Girls tell us that their Girl Scout values help them make the right decisions when they are faced with uncertain situations. Women tell us that the lessons they learned in Girl Scouting changed their lives, especially if they were raised in families with unique challenges. The cost of teenage pregnancy, drug abuse, high school dropouts, juvenile crime and dependence on public assistance is tremendous. Instead of finding Girl Scouts in the headlines regarding these issues, you are likely to find Girl Scouts helping others, being of service to their community, and setting good examples for their peers. Girls who grow up with acceptance, achievement, friendship, knowledge of life skills and plenty of adult support and recognition are more likely to stay out of trouble.

On a final note, we need to clarify the cost of this exemption. In your materials you have the council breakdown of sales tax paid in 1996 and 1997 which total $340,686 and $353,509 respectively. The councils were pleased to see that the Governor's bill includes an exemption for "all sales" by members of the Girl Scouts. However, that slight broadening of the exemption will also increase the fiscal note slightly. I have gathered those figures from each council and can report to you that the total estimated sales tax by all councils <u>for sales other than cookies</u> is an additional $53,123.91. That increase represents sales of calendars, badges, uniforms, and other Girl Scout items.

Investing these revenues locally in Girl Scouts will pay big future dividends to the state. By passing the Girl Scout exemption and allowing those funds to remain in community programming for girls, you will be making an important investment in one of our state's most important assets - our children.

I would be happy to answer any questions, but I do encourage you to make contact with the Girl Scout Council serving your district. That is the best way for you to learn what investments this exemption will yield in the youth of your district. Thank you.

STATE OF KANSAS - GIRL SCOUT ORGANIZATION

GIRL SCOUTS

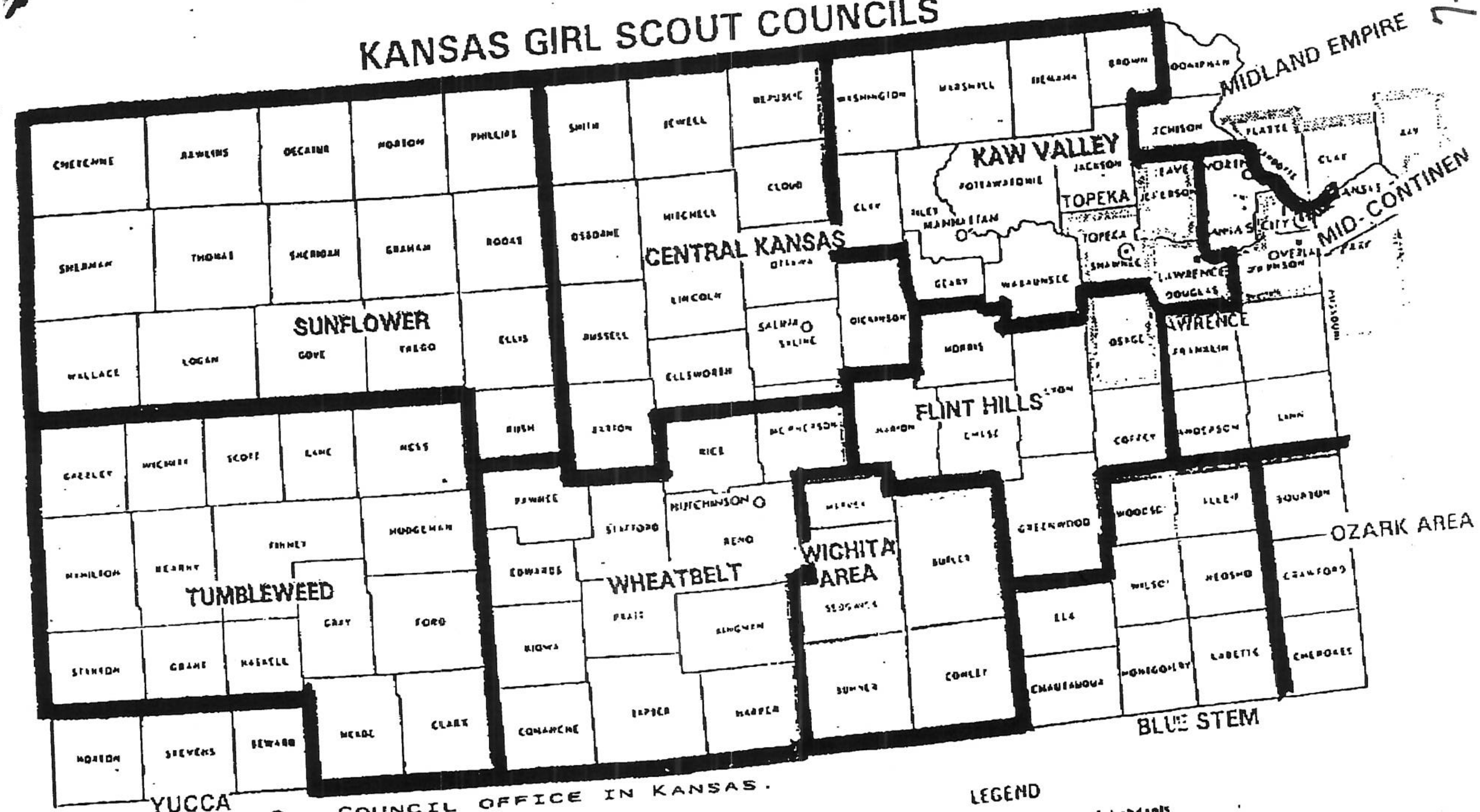
Council Name	Counties	Sales Tax $ Paid on Cookies - 1996	Sales Tax $ Paid on Cookies - 1997
Blue Stem	Allen, Woodson, Elk, Wilson, Neosho, Chautauoua, Montgomery, Labette	13,198	11,880
Central Kansas	Smith, Lincoln, Jewell, Ottawa, Republic, Saline, Osborne, Dickinson, Mitchell, Ellsworth, Cloud, Barton, Russell	27,000	25,951
Flint Hills	Morris, Marion, Chase, Lyon, Osage, Coffey, Greenwood	18,703	16,864
Kaw Valley	Brown, Clay, Douglas, Geary, Jackson, Jefferson, Marshall, Nemaha, Pottawatomie, Riley, Shawnee, Wabaunsee, Washington	53,022	60,595
Mid-Continent	Leavenworth, Wyandotte, Anderson, Johnson, Miami, Franklin, Linn	65,640	68,000
Midland Empire	Atchison, Doniphan	2,376	2,270

Council Name	Counties	Sales Tax $ Paid on Cookies - 1996	Sales Tax $ Paid on Cookies - 1997
Ozark	Bourbon, Crawford, Cherokee	-0-	-0-
Sunflower	Cheyenne, Rawlins, Decatur, Ellis, Norton, Phillips, Sherman, Graham, Rooks, Rush, Wallace, Logan, Gove, Thomas, Trego, Sheriden	13,361	14,260
Tumbleweed	Greeley, Wichita, Scott, Lane, Ness, Hamilton, Kearney, Finney, Hodgeman, Stanton, Grant, Hawskell, Gray, Ford, Meade, Clark	11,790	13,189
Wheatbelt	Pawnee, Reno, Edwards, Barbar, Kiowa, Kingman, Comanche, Harper, Rice, McPherson, Stafford, Pratt	25,044	25,000
Wichita	Butler, Cowley, Harvey, Sumner	107,052	113,500
Yucca	Morton, Steven, Seward	3,500	Approximately 2,000
Kansas Totals		340,686	353,509

GIRL SCOUTS

7-5

KANSAS GIRL SCOUT COUNCILS



⊙ – COUNCIL OFFICE IN KANSAS.

O – COUNCIL OFFICE OUTSIDE KANSAS.

LEGEND

⊙ Places of 100,000 or more inhabitants

• Places of 50,000 to 100,000 inhabitants

o Places of 25,000 to 50,000 inhabitants outside SMSA's

Standard Metropolitan Statistical Areas (SMSA's)

Kansas

SCALE

0 10 20 30 40 50 MILES

Girl Scout Councils Serving Kansas Girls
1998 Council Directory

Bluestem Girl Scout Council
Kimberly Lynch, Executive Director
511 E. 11st St.
Bartlesville, Oklahoma 74003
(918) 336-3378

Central Kansas Girl Scout Council
Deborah Ray, Executive Director
1809 S. Ohio
Salina, Kansas 67401
(913) 827-3679
1-800-888-0872

Flint Hills Girl Scout Council
Betty Wright, Executive Director
PO Box 309
Emporia, Kansas 66801
(316) 342-4532

Kaw Valley Girl Scout Council
Bobbie Campbell, Executive Director
7315 SW 10th St.
PO Box 4314
Topeka, Kansas 66604
(785) 273-3100

Mid-Continent Girl Scout Council
Karen McGuigan, Executive Director
8383 Blue Parkway
Kansas City, MO 64133
(816) 358-8750

Midland-Empire Girl Scout Council
Interim Executive Director
PO Box 8185
St. Joseph, MO 64508
(816)279-7438

Ozark Area Girl Scout Council
Karen Morgan, Executive Director
PO Box 2400
Joplin, MO 64803
(417) 623-8277

Sunflower Girl Scout Council
Dixie Horton, Executive Director
2707 Vine, Suite 8
Hays, Kansas 67601
(785) 625-5671

Tumbleweed Girl Scout Council
Janice M. Brown, Executive Director
PO Box 1755
Garden City, Kansas 67846
(316) 276-7061

Wheatbelt Girl Scout Council
Elizebeth Hare, Executive Director
PO Box 2345
Hutchinson, Kansas 67504
(316) 662-5485

Wichita Area Girl Scout Council
Joann Kamas, Executive Director
360 Lexington Road
Wichita, Kansas 67218
(316) 684-6531

Yucca Girl Scout Council
Earlene Schaefer, Executive Director
PO Box 70
Guymon, Oklahoma 73942
(405) 338-6414

Kansas Association of Broadcasters
1916 SW Sieben Ct., Topeka, KS 66611-1656
(785) 235-1307 FAX (785) 233-3052
E-mail: kab@ink.org

Testimony before House Taxation Committee
RE: HB 2643, January 22, 1998
by Harriet Lange, President/Executive Director, Kansas Association of Broadcasters

Thank you Mr. Chairman and Members of the Committee. I am Harriet Lange, president and executive director of the Kansas Association of Broadcasters (KAB). The KAB serves a membership of free, over-the-air broadcasters in Kansas and we appreciate the opportunity to appear on HB 2643.

The KAB supports the provision in HB 2643 which would grant free, over-the-air radio and television stations, a sales tax exemption on the purchase of broadcast equipment and electricity.

This provision addresses an inequity that currently exists in our sales tax law. Newspapers, which are broadcasters' primary competitors for advertising revenue, may take advantage of the sales tax exemption on machinery, equipment and utilities granted to manufacturers. Radio and television stations may not. This exemption for newspapers affords them a competitive advantage over broadcasters, whose ONLY source of revenue is advertising.

Kansas broadcasters, like their competitors in the newspaper publishing business, have a fine tradition of providing information, entertainment and public service to their listeners and viewers. We're asking only for a level playing field with our competitors.

HB 2643 would extend to broadcasters the same exemption newspapers enjoy. It would exempt from sales and use tax, the purchase of equipment and electricity, necessary for producing programs and putting them on the air.

Had the exemption for Kansas broadcasters been in place the last couple years, we estimate it would have had a fiscal impact to the state of $500,000 to $600,000 per year.

Because of the onslaught of digital technology, radio and television stations are being forced to make larger and larger capital outlays for equipment just to stay competitive and to bring the best in technology to their listeners and viewers. The proposed exemption in HB 2643 would mean a great deal to Kansas radio and television stations as they make these investments to better serve their local communities and your constituents.

Thank you for your consideration.

Testimony of KLWN/KLZR General Manager Hank Booth
Representing the Kansas Association of Broadcasters
2/22/98

Thank you for this opportunity to testify today. My message will be simple and short. It is time to give all media in the state of Kansas equal treatment under the tax codes. It is time for broadcasters to share an even playing field with the print media. While the final product we distribute is free and over the air-waves; it is a product no less than the printed word. It is free over-the-air information and entertainment. It can be and often is copyrighted. It is a product manufactured by a skilled workforce. It has a value not only to our listeners and advertisers, but also to the hundreds of Kansans who ask for the help of radio and television stations everyday.

Almost every Kansas broadcast operation is considered a small business even if some own several stations. As such we face the same challenges as the other small business owners you represent. In smaller communities this is especially true. You know how hard it is for local retailers and service providers to survive in your hometowns. Please remember our only income as commercial broadcasters is the sale of advertising and public broadcasters depend on local underwriting dollars. As monster retail operations develop many of our advertising resources are diminished.

On the technical side of our operations we face a new digital age and this is the main reason we are asking for your help today and in the future. It won't matter if a radio or television station is in Wichita or Goodland we are all faced with buying new equipment to give our customers the best possible product. This will come at an enormous cost.

Unfortunately, I was not quite persuasive enough in last years hearings. Today I can tell you the consequenses to our small two station broadcasting company. We have just updated our local radio stations with digital equipment and have paid just about $30,000 in Kansas taxes. This figure will be many times higher for televsion as it moves into the digital age. Stations in smaller communites will be hard pressed to offer the very best radio and television signals to your constituants without significant tax relief.

In past testimony I've been asked if we are actually in the manufacturing business. No, we do not take raw materials and turn them into a product to be sold to the public. After answering that question driving home I listened to our stations and heard six public service announcements. It was then I realized I had sold our product short. When the Kansas Highway Patrolman who did a public service announcement for child-safety restraint seats came to our radio station "plant" he didn't have a clue about what to do to get that message to the public When he left we'd helped him get that message out in a clear and concise manner. Then his product was heard dozens of times on our stations. When a representative of our county Extentsion Service called to get out information on an agricultural chemical safety program he depended on his local station to produce the product necessary to get the message out. When the local school superintendent called last week to tell our community that school would be closed that day because of the ice we immediately went to work and produced a product that an entire community needed immediately. The bottom line...these are the same products every Kansas televison and radio station produce everyday.

The machinery we use to produce these products is constantly changing and we feel it is time to recognize that Kansas braodcasters deserve equal treatment in the purchase of that equipment.

Testimony by Thomas R. Harrington
Council Scout Executive
Jayhawk Area Council, Boy Scouts of America
Topeka, Kansas

Before the House of Representatives Taxation Committee, January 22, 1998

Thank you Chairman Kline and ladies and gentlemen of the Committee for this opportunity to speak briefly in support of house bill #2643. My name is Tom Harrington, and I'm the local Scout Executive for the Jayhawk Area Council here in Topeka. Our council serves over 7,000 young people in 11 counties in Northeastern Kansas. I'm also representing this morning the other five Boy Scout councils through-out the State of Kansas.

All of us know that the purpose of Scouting is to help young people develop character, to teach citizenship and leadership skills, and to help youth make ethical decisions. What you may not know is that the Boy Scouts is the largest youth-serving organization in the state, serving over 55,000 boys; Boy Scouts are found in every county of our state, and over 14,000 adults Kansans volunteered as a Scout leader last year.

All of us know that a good Scouting program costs money . Fortunately, the United Way provides 22% of our budget, but the rest must be raised by ourselves. One of our largest fund raisers is the Boy Scout popcorn sale. Each fall, Scouts go door-to-door, taking orders for popcorn. We think this popcorn sale teaches some valuable lessons to boys, such as salesmanship, responsibility, and self-reliance. The sale helps a boy "pay his own way. But in addition, the sale has become a significant fund raiser for us.

Last year's sale netted our council just over $140,000, and our local troops the same $140,000. An additional $18,000 was paid in state sales tax. If this sales tax exemption is enacted, these funds would be available to help us start new Urban Scouting programs for low-income youth, to provide camperships for youth who cannot afford camp, or provide additional training courses for volunteer leaders.

On Monday night of this week I attended a Cub Scout meeting in the basement of a local church here in Topeka. The Pack had a great turn-out, and all of the boys were brought forward and presented with the prizes they earned selling popcorn. The Pack was proud to announce that the boys had sold over 40% more popcorn than last year, and had raised $2,000 for the Pack treasury. If this sales tax exemption is enacted, next year an additional $120 would be available to help them pay for badges, camp fees, or registrations.

It is our understanding that only three other states in the nation charge sales tax on Boy Scout popcorn. We're not here today to ask the State of Kansas for money for our programs. We're simply asking that you not tax our own self-support efforts. Thank you for your time and consideration.

Testimony by Anderson Chandler
Chairman and President
Fidelity State Bank and Trust Co.
Topeka, Kansas

Before the House of Representatives Taxation Committee, January 22, 1998 in Room 519 South

Thank you Chairman Phillip Kline and ladies and gentlemen of the House of Representatives Taxation Committee for allowing me to speak briefly in support of house bill ~~2623~~ 2643 concerning sales tax relief for certain charities. You have already heard testimony from the Boy Scouts, Girl Scouts and YMCA on behalf of the sales tax exemption statewide on Girl Scout cookie sales, Boy Scout popcorn and YMCA dues. I am not going to repeat their capable testimony you've already heard but simply explain why I am here and emphasize the need for this exemption. I am currently on the board of directors of Jayhawk Council Boy Scouts, Topeka and Boy Scouts of America National and Board of Director's of the YMCA of Topeka and have served as chairman and treasurer of Kaw Valley Girl Scout Council Inc.

All of these youth oriented organizations provide opportunities for children, a safety net for our next generation to allow them to develop leadership and character and respect of GOD and country. At a time when we are fortunate enough to have a state budget surplus it seems appropriate to ask for sales tax relief on products sold and dues collected from these youth opportunity serving charities that serve our state. With the United Ways being asked to serve an increasing number of charities the amount that United Ways have been able to allocate to each charity this has been reduced as percentage in their budgets supported by the United Way. United Ways have asked charities to increase the amount of their funding from product sales and other sources. Hence, there is a statewide need for this sales tax relief to allow Boy Scouts, Girl Scouts and YMCA to put more of the money received directly into the program for serving youth. The Topeka YMCA alone provides scholarships and subsidy to youth and low income users of $200,000.00 a year now. I hope that you will include in the final version of house bill 2643 the statewide exemption for sales tax for products sold by Boys Scouts and Girl Scouts and a exemption from sales tax collected on dues from YMCA's statewide. If you have any questions I would be glad to have an opportunity to answer them. I thank you for hearing me.

Kansas Press Association, Inc.

5423 SW 7th St., Topeka, KS 66606 • (785) 271-5304 • Fax (785) 271-7341
http://www.kspress.com

Testimony on HB 2643
Before House Taxation Committee
submitted by
Kansas Press Association
Jan. 22, 1998

Mr. Chairman and members of the committee: I am David Furnas, Executive Director of the Kansas Press Association, the trade association that represents the 250 daily and weekly newspapers in the state.

The Kansas Press Association does not specifically support or oppose HB 2643, but is concerned about the proposed amendment, section (bbb) relating to the exemption of all sales of machinery and equipment used to produce a broadcast.

It would be inappropriate for KPA to oppose such an amendment, because as a general rule the press association would not want a tax on the distribution of information. Additionally, under the general provisions of sales tax exemptions for equipment and component parts used in the manufacturing process. newspaper equipment and component parts are exempt from sales tax.

However, the end product of the manufacturing process -- the newspaper which is sold -- is subject to sales tax. While the sales tax on newspapers is paid by the consumer, the tax is perceived as part of the cost of the final product. The end product of radio and television is not subject to a sales tax.

As a matter of equity, the policy of the press association is that the cost of doing business for information providers -- newspapers, broadcasters and new types of media -- should generally be on an even playing field.

As such, KPA is urging the committee to consider the sale of newspapers be exempt from sales tax. Our association would be willing to work with staff to draft the appropriate amendment to HB 2643 to add such an exemption.

On behalf of the KPA members, I want to thank the chairman and committee for allowing our association to present its views on this issue.

Testimony Before the
House Taxation Committee
January 22, 1998

House Bill 2643

By
Robert B. Leake
Managing Consultant
Allen, Gibbs & Houlik, L.C.

My name is Robert B. Leake. I am with the CPA / Consulting Firm of Allen, Gibbs & Houlik, L.C. based in Wichita, Kansas where I specialize in sales & use tax consulting. Before joining AGH in 1996, I was the Sales & Excise Tax Manager for Koch Industries, Inc. for 15 years.

Since joining AGH, my practice has focused on the exemptions available in the Kansas statutes to attract and retain manufacturers in Kansas. Specifically, my focus has been on two exemptions that the Kansas Legislature made available to these businesses: the consumed in production exemption and the manufacturing machinery and equipment exemption.

It is my opinion that the Kansas Department of Revenue has tried to circumvent the intent of the Kansas Legislature by administratively restricting these two exemptions. Because the Department now realizes that there is virtually no support for their "narrow interpretations" they are now asking the Kansas Legislature to change the statute. The statute really does not need to be changed. What really needs to be changed is the interpretation of these two exemptions by the Kansas Department of Revenue.

That being said, I do feel that there are some beneficial aspects to this legislation:

First, the extension of the 79-3606 (kk) to include services being performed on exempt machinery is a positive step. Most states do not tax repair or installation labor services at all. Therefore, allowing this exemption will certainly help Kansas manufacturers remain competitive with their counterparts in other states and countries.

Second, to expand the manufacturing machinery and equipment exemption is also a positive step. While this might appear to be a big improvement, it really is not. The only new activities being exempted under the proposed language is equipment used to for pollution control and some pre-production processes. Frankly, the exemption presently contained in the Kansas statute exceeds that of most other states by including machinery and equipment used in research and development, product design and the activities within the plant warehouse. Whether this committee wants to extend this exemption even more or simply fix the problems created by the Department of Revenue's "narrow interpretation" of the present exemption is a matter that you will want to consider.

JC ONRAMP

January 21, 1998

Kansas State Legislature
Topeka Kansas

Distinguished Representatives:

I manage a small Internet Company based in Junction City Kansas, JC Onramp. It has recently been brought to my attention that Radio and Television companies are seeking tax-exempt status regarding the purchase of hardware necessary to for them to provide services. As an Internet company we feel this would give them an unfair advantage in the entertainment and information market that we are also a part of. Radio and Television are well established with establish sources of revenue and profit. On the other hand the Internet is new and growing industry, that is still struggling to establish itself in the market.

If such tax- exempt status is granted then it should extend to Internet companies as well. Internet related technology and hardware needs to be replaced more often. As the Internet becomes as important of a piece of State infrastructure as our asphalt highways the Legislature should do what it can to help private sector companies like ours improve and expand that information highway. Where Tax laws are not used to generate revenue they should be structured to foster growth and expansion. The Internet is not only helping to grow its own industry but also is helping all Kansas businesses communicate and compete in a world market. If the tax-exemption for Radio and Television companies is based on this principle then Internet companies are at least as deserving if not more of a similar consideration.

I would like to thank you for the opportunity to share my concerns. If you have any questions or would like to discuss any of the above issues with me, please feel free to contact me at (785) 223-5551 or email me at pknorr@jc.net. I place my trust in the Legislatures ability to objectively weigh all interests and benefits.

Sincerely,

Patrick Knorr
Chief Operating Officer

House Taxation
1-22-98
Attachment 14-1

P.O. Box 3179 • 133 West 7th • Junction City, Kansas 66441 USA
tel- 785 • 223 • 5551 • fax- 785 • 223 • 6651 • http://www.jc.net

A Division of Kansas Network and Communications, Inc.

Third, the proposed exemption for repair labor services which when applied to tangible personal property is a significant improvement. Kansas is one of only 20 states that impose a sales tax on repair labor services. Of those that do impose this tax, a majority of the states offer a similar exemption to that being proposed in this bill. In fact, I could only identify Kansas, South Dakota and West Virginia as states that currently attempt to tax these types of transactions. The enactment of this legislation will relieve many problems currently faced by repair facilities which must now either try to collect the tax from an out-of-state customer or, more likely, simply "write off" this tax as a cost to the business.

There are several suggestions that I would have concerning this legislation.

First, I feel that the consumed in production exemption needs a few more examples. Items like catalysts, solvents, grinding wheels, drill bits, sand used for sandblasting, milling cutters, saw blades, greases, gloves and clothing used by workers to prevent contamination, chemicals and cleaners used clean machinery where production takes place to prevent contamination all need to be included. I will leave a list with your staff.

Second, I feel that the consumed in production exemption should cover the same activities in the plant as does the machinery and equipment exemption. Therefore, I would expand this exemption to include the research and development and product design. This would simplify understanding by taxpayers and the KDOR.

Third, I feel that the consumed in production exemption should be based on the predominate use of an item. In other words, if more than 50% of the items is used for an exempt purpose, the entire purchase would be exempt. This would prevent the current problem of estimating the exempt and non-exempt portion of each purchase.

Fourth, if this committee wants to embrace the "integrated plant theory" proposed by this bill, it may be necessary to "rethink" the use of Standard Industrial Classification codes. While many states allow manufacturers to purchase machinery and equipment exempt from sales tax, I do not recall if any other state uses the SIC code as a litmus test. Nevertheless, I do think clear language should be contained in the statute as to who is covered by the exemption. Since many states have an exemption for manufacturing machinery and equipment, there are certainly some good definitions which should work.

Finally, if this committee decides to simply "fix" the Alsop Sand problem, a simple fix is certainly available. All that is required is to define a "major component" as "all sales of repair and replacement parts and accessories purchased for exempt machinery regardless of accounting methodology." If you do decide to fix the Alsop Sand problem, a separate exemption for the repair and installation labor services performed on exempt machinery and equipment would also need to be initiated.

I thank you for your time and attention. If you have any questions, I would be happy to respond to them.

Proposed

Consumed in Production Definition

KSA 79-3602 (m) "Property which is consumed" means tangible personal property and services which is essential or necessary to and which is predominately used in the actual process of and ~~immediately~~ consumed, depleted or dissipated within one year in (1) the production, manufacture, processing, mining, drilling, refining, ~~or~~ compounding of tangible personal property, (2) the providing of taxable services identified in K.S.A.79-3603 or (3) the irrigation of crops, for sale in the regular course of business, and which is not reusable for such purpose. For purposes of this definition, "property which is consumed" includes all essential and necessary tangible personal property and services consumed in research and development; product design; producing of tangible personal property used in the production process, such as molds and dies; production of the actual items to be sold or transported; quality testing and the treatment of wastes and by-products. For purposes of this definition, predominately means more than fifty percent (50%). The following items of tangible personal property are hereby declared to be "consumed" but the listing of such property shall not be deemed to be exclusive nor shall such listing be construed to be a restriction upon or an indication of, the type or types of property to be included within the definition of "property which is consumed" as herein set forth:

(A) Insecticides, herbicides, germicides, pesticides, fungicides, fumigants, antibiotics, biologicals, pharmaceuticals, vitamins and chemicals for use in commercial or agricultural production, processing or storage of fruit, vegetables, feeds, seeds, grains, animals or animal products whether fed, injected, applied, combined with or otherwise used; ~~and~~

(B) electricity, gas and water.

(C) absorbents, acids, bleaching agents, catalyst, chemicals, fluxing material, reagents, solvents, cutting oils, lapping and grinding compounds, welding gases and wood used to smoke products;

(D) chemicals, cleaning compounds, cleaning agents and solvents used to clean manufacturing machinery, walls, ceilings, floors and drains of the rooms where manufacturing takes place in order to prevent contamination of the manufactured product;

(E) gloves and other wearing apparel used by employees on the production line to prevent contamination of the manufactured product;

(F) greases and lubricating oils,

(G) filters, filtering clay and sand, purification agents, masking tape and masking paper to prevent contamination of the manufactured product;

(H) sandpaper, grinding wheels, grinding balls, sand for sandblasting, drill bits, auger bits, milling cutters, emery wheels, saw blades, and reamers, and

(I) the service of removing and treating hazardous wastes and by-products.

Proposed

Manufacturing Machinery & Equipment Exemption
Modifications to Existing Statute

K.S.A. 79-3606 (kk) on and after January 1, 1989, all sales of machinery and equipment which are used directly and primarily for the purposes of manufacturing, assembling, processing, finishing, storing, warehousing or distributing articles of tangible personal property in this state intended for resale or a storage, warehousing or distribution facility:

(1) For purposes of this subsection, machinery and equipment shall be deemed to be used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of tangible personal property where such machinery and equipment is used during a manufacturing, assembling, processing or finishing, storing, warehousing or distributing operation:

(A) To effect a direct and immediate physical change upon the tangible personal property;

(B) to guide or measure a direct and immediate physical change upon such property where such function is an integral and essential part of tuning, verifying or aligning the component parts of such property;

(C) to test or measure such property where such function is an integral part of the production flow or function;

(D) to transport, convey or handle such property during the manufacturing, processing, storing, warehousing or distribution operation at the plant or facility; or

(E) to place such property in the container, package or wrapping in which such property is normally sold or transported.

(2) For purposes of this subsection "machinery and equipment used directly and primarily" shall include, but not be limited to:

(A) Mechanical machines or major components thereof contributing to a manufacturing, assembling or finishing process;

(B) molds and dies that determine the physical characteristics of the finished product or its packaging material;

(C) testing equipment to determine the quality of the finished product;

(D) computers and related peripheral equipment that directly control or measure the manufacturing process or which are utilized for engineering of the finished product; and

(E) computers and related peripheral equipment utilized for research and development and product design.

(3) "Machinery and equipment used directly and primarily" shall not include:

(A) Hand tools;

(B) machinery, equipment and tools used in maintaining and repairing any type of machinery and equipment;

(C) transportation equipment not used in the manufacturing, assembling, processing, furnishing, storing, warehousing or distributing process at the plant or facility;

(D) office machines and equipment including computers and related peripheral equipment not directly and primarily used in controlling or measuring the manufacturing process;

(E) furniture and buildings; and

(F) machinery and equipment used in administrative, accounting, sales or other such activities of the business;

<u>(4) For purposes of this subsection:</u>

<u>(A) "major component" means all sales of repair and replacement parts and accessories purchased for such machinery and equipment.</u>

(B) <u>"repair and replacement parts and accessories" means all parts and attachments to exempt machinery and equipment without which the machine would not function as intended by the manufacturer or processor.</u>

<u>(C) "hand tool" means any tool which is solely powered by a human being.</u>

Proposed

Manufacturing Machinery & Equipment Services Exemption

K.S.A. 79-3606 (??) on and after July 1, 1998, all sales of installation, repair and maintenance services performed machinery and equipment which are used directly and primarily for the purposes of manufacturing, assembling, processing, finishing, storing, warehousing or distributing articles of tangible personal property in this state intended for resale or a storage, warehousing or distribution facility:

For purposes of this subsection, machinery and equipment shall be the same as that identified in K.S.A. 79-3606 (kk)

Proposed

Manufacturing Machinery & Equipment Exemption
Integrated Plant Theory

K.S.A. 79-3606 (kk) ~~on and after January 1, 1989,~~ (1)(A) all sales of machinery and equipment which are used ~~directly and primarily for the purposes of manufacturing, assembling, processing, finishing, storing, warehousing or distributing articles of tangible personal property in this state intended for resale~~ in this state as a part of and integrated production operation by a manufacturing or processing plant or facility ~~or a storage, warehousing or distribution facility~~ as a part of a mining and production operation at a mining site:

(B) all sales of installation, repair and maintenance services performed on such machinery and equipment, and

(C) all sales of repair and replacement parts and accessories purchased for such machinery and equipment.

~~(1) For purposes of this subsection, machinery and equipment shall be deemed to be used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of tangible personal property where such machinery and equipment is used during a manufacturing, assembling, processing or finishing, storing, warehousing or distributing operation:~~

~~(A) To effect a direct and immediate physical change upon the tangible personal property;~~

~~(B) to guide or measure a direct and immediate physical change upon such property where such function is an integral and essential part of tuning, verifying or aligning the component parts of such property;~~

~~(C) to test or measure such property where such function is an integral part of the production flow or function;~~

~~(D) to transport, convey or handle such property during the manufacturing, processing, storing, warehousing or distribution operation at the plant or facility; or~~

~~(E) to place such property in the container, package or wrapping in which such property is normally sold or transported.~~

~~(2) For purposes of this subsection "machinery and equipment used directly and primarily" shall include, but not be limited to:~~

~~(A) Mechanical machines or major components thereof contributing to a manufacturing, assembling or finishing process;~~

~~(B) molds and dies that determine the physical characteristics of the finished product or its packaging material;~~

~~(C) testing equipment to determine the quality of the finished product;~~

~~(D) computers and related peripheral equipment that directly control or measure the manufacturing process or which are utilized for engineering of the finished product; and~~

~~(E) computers and related peripheral equipment utilized for research and development and product design.~~

~~(3) "Machinery and equipment used directly and primarily" shall not include:~~

~~(A) Hand tools;~~

~~(B) machinery, equipment and tools used in maintaining and repairing any type of machinery and equipment;~~

~~(C) transportation equipment not used in the manufacturing, assembling, processing, furnishing, storing, warehousing or distributing process at the plant or facility;~~

~~(D) office machines and equipment including computers and related peripheral equipment not directly and primarily used in controlling or measuring the manufacturing process;~~

~~(E) furniture and buildings; and~~

~~(F) machinery and equipment used in administrative, accounting, sales or other such activities of the business;~~

(2) For purposes of this subsection:

(A) "integrated production operation" means and integrated series of operations engaged in by a manufacturing business, including electric generation plants, to transform or convert tangible personal property by physical, chemical or other means into a different form, composition, or character from that in which it originally existed. The scope of an integrated production operation includes operations done at the plant or facility to handle, store and treat raw materials in preparation of any production line operation, post production handling, storage, warehousing and distribution operation, and waste pollution and environmental control operations;

(B) "production line" means the assemblage of machinery and equipment at a manufacturing or processing plant or facility where the actual transformation of tangible personal property occurs, beginning with the first manufacturing or processing operation an continuing through any packaging of the finished product for transportation and sale;

(C) "manufacturing or processing plant or facility" means a single, fixed location owned or controlled by a manufacturing business that is a contiguous area where integrated production operations are conducted to manufacture or process tangible personal property for resale or to generate electricity for resale;

(D) "mining and production operation" means all operations that are part of a an integrated series of operations that are performed in a mining site by a mining business: (i) To extract raw materials that occur naturally; (ii) to crush, grind, mill, screen, wash, dry, separate or otherwise treat or prepare the raw materials be extracted; (iii) to handle, convey, transport of store such materials; and (iv) to treat waste and pollution that result from such operation;

(E) "mining site" means a single, fixed location owned or controlled by a mining business where minerals, coal, rock, sand or gravel is extracted, and where milling, crushing, screening or other preparation , production or storage activities are done to the extracted material. Mining site includes underground mines, strip mines, quarries, sand pits, gravel pits and other similar sites where the extraction of minerals, coal, rack, sand or gravel occurs;

(F) "manufacturing or mining business' shall include; (i) all manufacturing and processing businesses classified under the manufacturing standard industrial classification codes, major groups 20 through 30, and all mining businesses classified under major groups 10, 12 and 14; and (ii) businesses that are substantially similar to those identified in the listed major groups, including electric generation plants. "Manufacturing business" shall be limited to those businesses that are commonly regarded as manufacturers or processors and shall not include non industrial businesses whose operations are predominately retail and that manufacture or process tangible personal property as an incidental part of conducting a retail business;

(G) "repair and replacement parts and accessories" means all parts and attachments to exempt machinery and equipment without which the machine would not function as intended by the manufacturer or processor.

(H) "predominately" means more than 50%.

(3) For purposes of this subsection, machinery and equipment shall be deemed to be used as part of an integrated production operation when used:

(A) For research and development of new products or for product design of tangible personal property to be sold from a manufacturing or production process,

(B) To receive, transport, convey, handle, treat or store raw materials in preparation of placement into the production process,

(C) To transport, convey, handle or store the property undergoing manufacturing or processing at any point from the beginning of the manufacturing or conversion process through the warehousing or distribution operation of the final product that occurs at the plant or facility.

(D) To act upon or affect a direct physical change on the property undergoing manufacturing or processing,
(E) To guide, physically control or direct the movement of property undergoing manufacturing or processing,
(F) To test or measure raw materials, the property undergoing manufacturing or processing of the finished product,
(G) To record the flow of property undergoing manufacturing or processing,
(H) To produce energy for, lubricate, control the operation of or otherwise enable the functioning of other production machinery and equipment and the continuation of production operations,
(I) To package the property being manufactured or processed in a container or wrapping in which such property is normally sold or transported,
(J) To transmit or transport electricity, coke, gas, water, steam or similar substances used in production operations from the point of operation, if produced by the manufacturer or processor, to production operations or from the point where the substance enters the site of the plant or facility, if purchased by the manufacturer or processor, to production operation,
(K) To cool, heat, filter, refine or otherwise treat water, steam, acid, oil, solvents or other substances that are used in production operations,
(L) To provide and control an environment required to maintain certain levels of humidity or temperature in special and limited areas of the plant or facility where such regulation of temperature or humidity is part of and essential to the production process,
(M) To treat, transport or store waste of the by-products of production operations at the plant or facility,
(N) To control pollution at the plant, facility or at the mining site where pollution is produced by the manufacturing processing or mining operations, or
(O) To extract mineral, coal, rock, sand or gravel, to mill crush, screen, wash or otherwise produce such raw materials , and to transport, convey or handle such raw materials at a mining or processing site.

(4) "Machinery and equipment used as part of an integrated production operation or as part of a mining and production operation" shall include:
(A) Machinery and equipment that directly control or measure production operations; machinery and equipment which process or which are utilized for engineering the finished product; for product design or for research or development,
(B) Machinery, equipment and tools used in maintaining and repairing any type of machinery and equipment,
(C) Materials sold for the purpose of fabricating exempt production equipment or parts for or accessories, including special foundations for exempt machinery and equipment.

(5) "Machinery and equipment used as part of an integrated production operation or as part of a mining and production operation" shall include not include:

(A) Machinery and equipment used for non-production purposes, including but not limited to machinery and equipment used for plant security, fire prevention, first aid, administration accounting, record keeping, advertising, marketing, plant cleaning, and plant communications.

(B) Transportation equipment not primarily used in a production, warehousing or material handling operation at the plant or facility

(C) Office machines and equipment including computers and related peripheral equipment not directly and primarily used in controlling or measuring the manufacturing process

(D) Furniture or other furnishings,

(E) Buildings, materials and other property that is intended to become a structural part of a building or any other part of real estate that is not otherwise exempted,

(F) Machinery and equipment used for general plant heating, cooling and lighting

(G) Motor vehicles that are registered for highway use; and

(H) Employee clothing, including special protective clothing.

STATE OF KANSAS

JERRY HENRY
REPRESENTATIVE, FORTY EIGHTH DISTRICT
ATCHISON AND JEFFERSON COUNTIES
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CUMMINGS, KANSAS 66016
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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
RANKING MINORITY MEMBER: HEALTH AND HUMAN SERVICES
JOINT COMMITTEE ON CHILDREN AND FAMILIES
MEMBER: AGRICULTURE
ECONOMIC DEVELOPMENT

January 22, 1997

Rep. Phill Kline, Chairman
House Committee Members
Committee on Taxation
Kansas House of Representatives

Thank you for the opportunity to speak to you today to ask for your support of House Bill 2614. House Bill 2614 would give authority to the Atchison County Commission to ask the citizens of Atchison County to impose a sales tax to build a new jail for our community.

Attached to my testimony, you will find copies of letters of support for House Bill 2614. The letters are from the Atchison County Commissioners, Atchison City Commissioners, The Atchison County Sheriff and two citizen members of the Atchison County New Law Enforcement Center Task Force.

The current Atchison County Jail was built in1941 for a Kansas Jail Standards rating of 9 inmates. Today, the Atchison County Jail houses up to 25 inmates per day in only 6 cells and, at times, is housing prisoners in other jails at County expenses. Last years average daily population at the jail was 19.8 prisoners. The jail does not have the inmate bed space to adequately hold criminals and they are continuously releasing inmates early on sentences due to overcrowding.

The Atchison County New Law Enforcement Center Task Force has recommended that a vote of the citizens of Atchison County on a new sales tax for the construction of the jail be held as soon as possible. It is their desire to place this issue on the April, 1998 ballot to ask for voter approval. It is my hope that we will be able to move this bill through the legislature and to the Governor, so that an April vote will be possible.

After I had introduced House Bill 2614, it has come to my attention that there needs to be a couple of changes in the bill to make it workable for the Atchison County New Law Enforcement Center Task Force and the Atchison County Commissioners. The two amendments that I would like to request would add language to give the Atchison County Commissioners the authority to impose either a half cent (.50) or a three quarter cent (.75) sales tax increase for the construction of a new jail. The second amendment would allow this law to take affect upon publication in the Kansas Register.

Thank you for your time and I will be happy to stand for questions.

Jerry Henry
State Representative
48th District

House Taxation
1-22-98
Attachment 15-1

COUNTY COMMISSIONERS

423 No. 5th ATCHISON COUNTY
ATCHISON, KANSAS 66002-1861

913-367-8220
FAX NO. 913-367-0227

January 16, 1998

Rep. Phill Kline, Chairman
House Taxation Committee
State Capital - Room 170 West
Topeka, Kansas 66612

Dear Mr. Kline:

We fully support House Bill 2614 that would authorize Atchison County to impose a sales tax to construct a new jail in our community. Our jail is 50 years old and does not meet today's needs. We hope the bill will be passed without any unnecessary delay.

Thank you for your assistance in this matter, if you would need any other information concerning this issue, please contact Leonard L. Buddenbohm, Atchison County Counselor, at 913-367-5246.

Sincerely,

BOARD OF COUNTY COMMISSIONERS
ATCHISON COUNTY, KANSAS

By Russell Eckert
Chairman

Tom Lykins

Mike Cavanaugh

county/ltkline

15-2

Preserving our past, working for our future

January 16, 1998

Rep. Phil Kline, Chair
House Taxation Committee
State Capitol – Room 170 West
Topeka, KS 66612

Dear Sir:

On behalf of the citizens of the City of Atchison, we request your assistance in accomplishing the speedy consideration of House Bill 2614. Passage of this bill would authorize Atchison County to impose a sales tax to construct a new jail in our community.

Atchison County's present jail was built in 1941 and has a current recommended capacity of 9 prisoners; last year's daily average population was 19.8 prisoners. Overcrowding to this extent creates a potentially dangerous situation for county law enforcement personnel, safety and health issues for the prisoners, and a substantial security risk to the general population.

Passage of House Bill 2614 will enable Atchison County to act quickly in solving this problem.

Sincerely,

Commissioner Dave Butler
David W Butler
Commissioner Katherine Ross
Katherine Ross
Commissioner Larry Purcell
Larry Purcell
Vice-Mayor Rita Hartman
M. Scott Knoch
Mayor M. Scott Knoch
Rita E Hartman

15-3

ATCHISON COUNTY SHERIFF'S OFFICE

PHONE: (913) 367-0216

JOHN CALHOON
SHERIFF

FAX: (913) 367-0227

518 PARALLEL
ATCHISON, KANSAS
66002

January 20, 1998

Dear Honorable Legislative Members;

Please accept this letter as an official request for your support of *H.B. 2614* regarding taxation.

During the past four years, it is my belief, Atchison County has made vast improvements in the area of Public Safety and Criminal Justice as a whole. However, we have quickly outgrown our facilities with regards to inmate capacity as well as staff needs.

While we are not the only jurisdiction with this problem, I do feel that we owe it to our community to provide them with the utmost protection by having the ability to incarcerate criminals who have violated laws and/or have been convicted of crimes.

To date, we do not have the inmate bed space to adequately hold criminals and we are continuously releasing inmates early on sentences due to overcrowding.

In closing, we are operating out of jail facility that was built in 1941, and it is in such a deteriorating condition, that it is undesirable and unsafe for the entire community of Atchison County.

Respectfully,

John Calhoon

Sheriff John Calhoon

Atchison County New Law Enforcement Center Task Force

January 20, 1998

The Honorable Phill Kline
Chairman, House Taxation Committee
State Capitol - Room 170 West
Topeka, KS 66612

Dear Rep. Kline:

As a citizen member of the Atchison County New Law Enforcement Center Task Force, I have become very much aware of the critical need for a new jail in Atchison County. I am also convinced that we must deal with this need as soon as possible in order to maintain effective law enforcement in our county.

The Atchison County Jail was built in 1941 for a Kansas Jail Standards rating of 9 inmates. Today, the County is housing up to 25 inmates per day in only 6 cells and, at times, is housing prisoners in other jails at County expense. This situation adversely affects the Courts' ability to properly sentence offenders, and results in offenders being released earlier than the Courts would prefer.

Our jail is not only too small, its layout is inefficient, and it is also very difficult to maintain. The National Institute of Corrections, U.S. Dept. of Justice, visited Atchison in July 1997 and concluded: "The Atchison County Jail is currently in a severe state of physical deterioration."

As you know, our problems are not unique to Atchison County. New law enforcement centers have been or are being built by many other counties in the state. Like us, they have all experienced the problem of increasing inmate population, and the need to control that growth with maximum security, adequate space, and cost effectiveness.

The legislation introduced by our Representative Jerry Henry and being considered by your Committee, House Bill 2614, will enable our County Commissioners to give the voters of Atchison County the opportunity to deal with this critical need as soon as possible. It is also supported by our State Senator, Ed Pugh. We will appreciate your efforts to move this bill quickly through the Legislature to permit an early vote.

Sincerely,

Richard J. Bruggen
Task Force Co-Chairman

15-5

Atchison County New Law Enforcement Center Task Force

January 20, 1998

Rep. Phill Kline, Chairman
House Taxation Committee
State Capitol - Room 170 West
Topeka, KS 66612

Dear Representative Kline:

House Bill 2614 was recently introduced by Rep. Jerry Henry. This bill would authorize Atchison County to increase sales tax to pay for a new Law Enforcement Center.

The proposed new Law Enforcement Center is badly needed for a number of reasons. The present jail is only rated to have 9 beds, but has had as many as 25 in recent months. Due to overcrowding, it is potentially dangerous for both the inmates and the staff of the jail. Maintenance costs at the present keep escalating due to the age of the plumbing, wiring, and heating systems.

We would appreciate your help in expediting this bill, which will hopefully allow an election to be held on this issue in April 1998.

Sincerely,

J.R. Loch, Co-Chairman
Atchison County Law Enforcement Center Task Force

Proposed amendment to HB 2614

On page 6, in line 20, by striking "Atchison,"; in line 23, before "and" by inserting "the board of county commissioners of Atchison county, for the purposes of paragraph (2) of subsection (b) of K.S.A. 12-187, and amendments thereto, may fix such rate at 1.5% or 1.75%"

On page 7, in line 43, by striking "statute book" and inserting "Kansas register"

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REPRESENTATIVE, SIXTEENTH DISTRICT
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OVERLAND PARK, KS 66214

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STATE CAPITOL
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TOPEKA

HOUSE OF
REPRESENTATIVES

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

January 22, 1998

OVERVIEW OF THE KANSAS INHERITANCE (AND ESTATE) TAXES

Overview

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

Formula - Estate Tax

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

Credits: Two of the most widely used, but misunderstood, credits are the Unified Credit and the State Death Tax Credit. In 1997 the Unified Credit was $192,800 and could be applied to any tentative tax on the Federal return. $192,800 is the amount of Federal Estate Tax (FET) on a taxable estate of $600,000. (Many people believe that they are entitled to a $600,000 "exemption" for their estate when actually such estates avoid tax only if the decedent did not use up part or all of the Unified Credit during his or her lifetime to pay federal Gift tax.) The Unified Credit is the reason why most taxable estates of $600,000 or less do not pay Federal Estate Tax (FET). However, the unified credit will gradually increase beginning in 1998 and by 2006 will shelter the equivalent of $1,000,000.

The State Death Tax Credit is a credit against the FET for any death taxes, estate or inheritance, paid to a state. In other

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words, the amount of federal tax can be reduced, sometimes substantially, by applying the amount of death tax paid to the state as a credit against the federal tax. The amount of this credit is the amount actually paid to the state, but not to exceed a formula set out in the FET return.

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

Formula - Kansas Inheritance Tax

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

Example

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

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

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

Proposal

In 1996 repeal of the inheritance tax passed the Kansas House by a vote of 115-9. That bill would have eliminate the Kansas Inheritance Tax and continued the use only of the Kansas Estate Tax (pickup tax). A similar proposal passed the House last session but is locked up in the Senate Assessment and Taxation Committee.

Arguing Points

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

There is a two part response to the loss of revenue argument. First, several articles in investment and financial management publications point out that we are in the initial years of a massive wealth transfer phenomenon as the parents of the "baby-boomer" generation begin to die and pass down their wealth. I personally believe that collections from the KET/KIT will rise dramatically in the next twenty years and the windfall will be at the expense of the taxpayers and property owners of Kansas. Second, small estates bear a disproportionate burden of the KIT. The Kansas Department of Revenue testified in the House Taxation Committee that approximately two-thirds of the KIT is paid by estates of <u>less than</u> $600,000 which do not even have to file federal estate tax returns. In other words, it is not the "wealthy" who pay most of the tax, it is mom and dad who own a modest home or farm. Finally, as the tax reforms passed by Congress in 1997 are phased in (eg. increase in the unified credit, $1.3M farm exemption, etc.) the burden will shift even more dramatically onto the families who pay Kansas, but not the federal, death tax.

2. **Kansas Cannot Absorb Another Tax Cut.** The effective date of the reform could be applied to those who died on or after any date chosen by the legislature. That date could be 1/1/99, halfway through the upcoming fiscal year, or 7/1/99, thus not effective until FY2001, or an even later date, in order to give the Governor enough lead time to build a budget with revenue projections based on death tax reform.

3. The Proposal Would Be A Major Change in Kansas Tax Policy. At first glance, a tax system which apparently favors closer relatives over more distant ones or even strangers would be good public policy. However, in the example above, the children still pay more KIT than they would have under the proposal. Looking at it from another direction, why should a Kansas taxpayer be punished by punitive tax rates simply because he or she has no children to receive their estate? In advising business owners it is not unusual to leave the business to the child or nephew or other relative who has stayed on and wants to continue the operation. Why should this be discouraged by a punitive tax system? Finally, the KIT exemption levels have remained unchanged since at least 1972.

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

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

Conclusion

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

Respectfully

Tim Carmody,
State Representative

Tim Carmody

STATE OF KANSAS

EUGENE L. SHORE
REPRESENTATIVE, 124TH DISTRICT
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HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

LEGISLATIVE POST-AUDIT — CHAIRMAN
EDUCATION — VICE-CHAIRMAN
TAXATION — MEMBER
TRANSPORTATION — MEMBER

Mr. Chairman and members of the Committee.

HB 2610 is the 1998 version of Inheritance Tax Reform. It repeals the Kansas Inheritance tax and keeps the "pick-up" tax. It also conforms to the recently enacted federal guidelines for estate taxes.

A "pick-up" tax is an amount the federal government allows the state to keep which otherwise would have to be sent to the Federal Government.
HB 2610 is not a bill designed for the wealthy. Estates large enough to owe federal estate tax would contribute to Kansas also.

The effective date of HB 2610 is July 1, 1998.

Twenty-nine states currently assess only a "pick-up tax" which is simple and can be determined immediately upon death. The inheritance tax cannot be determined until the will has been probated to see who inherited what.

Estates are built with after-tax dollars. Income tax is paid on the money estates are built from. A family ends up with funeral expense and a huge tax bill at the time they should be left alone. This bill moves in that direction.

Current law requires homes to be sold, businesses to be sold and farms to be sold. In reality people work a lifetime to pay off a mortgage only to have Inheritance tax and estate tax force them to re-mortgage and work the next generation only to pay it off again.

It is important to realize this is tax relief for the middle class, not the wealthy family. It is fair, it keeps people in Kansas and lets them keep what is theirs.

I stand for questions.

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'DEATH TAX' COULD BE DEATH SENTENCE FOR SMALL BUSINESSES

A CONSIDERED OPINION

BY JACK FARIS

For North Carolina small-business owner Clarence Tart, leaving the family business to his son is one of the hardest things he's ever had to do. Because when Clarence dies, his son will owe the federal government $1.5 million plus in death taxes. And it won't be easy to make payments on $1.5 million when the son's annual salary is $31,000.

These taxes are known by many as "estate" taxes or "inheritance" taxes-pseudonyms for what is really a death tax. What else could you call a tax that is levied on a business for no reason except that a member of the family has died? There is no worse time for the government to step into a business than when the family is mourning the death of a parent or some other loved one.

For example, when Clarence Tart dies, his family will be punished by the Internal Revenue Service for the fourth time. The family's mistake: Tart & Tart, Inc. has been successful. For nearly four generations, the Tart family has worked hard and expanded its business. The family provides jobs to 70 people and contributes to North Carolina's economy with three small farms, a fertilizer and tobacco warehouse business, and a small lumber mill.

The current death tax applies to a family business owner whose estate has a gross value of $600,000 or more. Keep in mind that the gross value includes the property (the store front on Main Street or the farmer's hundreds of acres of land) and the equipment (the computers, the tractors or the kitchen appliances in a restaurant as well as all personal assets like the family's home and car). A small-business owner who makes a middle-class salary can be considered a millionaire.

The National Federation of Independent Business has long championed eliminating the death tax because it kills family businesses and is an obstacle to entrepreneurship and job creation. At about 1 percent of all federal revenues, the death tax generates more ruin than government funds. Those heirs who cannot pay the death tax are forced to either sell the business, break it up or liquidate the assets. Any of these options is devastating to a community, the business' employees and the surviving owners.

Even if heirs prepare for death taxes, the costs are staggering. Clarence Tart has not been able to expand his business or create any new jobs in the past few years because he has had to pull capital from his operations to cover legal fees, insurance costs, and trustee costs — all in hopes of putting together a plan that will offset the death taxes his son will eventually have to pay. There are years when the profits of Tart & Tart are less than the cost of this protection.

One way or another, death taxes must be paid, whether the business is mortgaged up front in life insurance and other fees, mortgaged after death in loan payments, or liquidated entirely.

The death tax was established in 1916 to redistribute wealth to prevent certain families from amassing the majority of the nation's riches. But, as is the case with most tax schemes aimed at the rich, the extremely wealthy find a way to stay extremely wealthy in spite of the tax, and the small-business owners, the Clarence Tarts and their employees, are the ones to struggle.

For a tax that generates so little in government revenues, it's not worth the devastation it causes to family businesses, entrepreneurship and our nation's international competitiveness. As Clarence Tart puts it, the solution is simple: "eliminate the death tax."■

Jack Faris is President of the National Federation of Independent Business, representing 600,000 small business men and women.

17-2

Topeka Cap. 4-11-97

'After the bull market of the '90s, it's going to be a major problem.' — James Bayles, Washburn University professor of law

Article: Kansas one of the worst with death taxes

By MORGAN CHILSON
The Capital-Journal

Don't die in Kansas.

That is the message from a May article in Money magazine, which ranks the Sunflower State with 17 other states that have less-than-friendly death taxes.

Those 18 states, seven of which are in the Midwest, don't follow the federal guidelines, which say the first $600,000 of an inherited estate isn't taxed.

Instead, all the states tax spouses, children and friends or distant relatives in different ways.

■ In Kansas, where there are three types of guidelines for receiving inheritance, children of the deceased can receive only a $30,000 exemption.

And while there hasn't been much talk about the Kansas death taxes in recent years, that probably will change after the bull market of the 1990s, said Washburn University professor of law James Bayles.

"I think it (death tax) raises so little revenue and it impacts so few people that it hasn't been a concern," he said. "After the bull market of the '90s, it's going to be a major problem. Most decedents who have any savings at all are going to pay Kansas inheritance tax.

"It's going to be rather a large nuisance," Bayles said. "The typical middle-class person would not have to pay federal tax, but would have to pay Kansas tax."

Kansas, in agreement with federal guidelines, doesn't tax the spouse. But children of the deceased receive only a $30,000 exemption, said Kevin Tucker, a certified financial planner in Topeka. The Kansas system, simplified, breaks down into three classes of survivors.

■ Class A includes the children of the deceased, as well as the children's spouses.

"That means that the first $30,000 that the person in (Class A) gets is not taxed," he said. After that initial $30,000, the remainder of the estate is taxed at a maximum of 5 percent, Tucker said.

■ Class B includes brothers and sisters of the deceased, who get a $5,000 exemption, he said. Any inheritance above that $5,000 can be taxed at a maximum rate of 12.5 percent.

■ Class C is the friend, who is no blood relative at all, and that class has no exemption and is taxed at a rate between 10 percent and 15 percent, Tucker said.

Kansas death taxes on a $600,000 estate would be $21,750 for a child and $82,000 for a distant relative or friend, according to the Money article. Tucker confirmed those numbers.

Kansas lines up well with other states listed in the article. Oklahoma allows a $175,000 exemption for children, though, which is significantly more than that in Kansas. But Nebraska and Indiana allow only $10,000 for children, and Iowa allows $50,000.

Bayles said he wasn't surprised at the varying rates of estate taxation between states.

"What happened, I think, was at the beginning of the Depression or thereabouts, there was a strong feeling nationwide that tax systems should be used to redistribute wealth," he explained. "The federal government and most of the states passed what I call death taxes. They're an excise tax on the transfer of property at death."

Then, during Richard Nixon's administration, there was "quite a strong feeling of antagonism toward these taxes," Bayles said. That was when the federal government passed a substantial increase in the threshold before estates would be taxed, he said.

"That's where we got the $600,000 exemption equivalent at the federal level," Bayles said. "It can really be garnered into $1,200,000 for a married couple."

Many states followed the federal government, doing away with their death taxes, also.

Obviously, Kansas didn't follow the federal government's lead. The Kansas death tax, in fact, isn't well-written, he said.

"There are illogical provisions in it," he said. "But as with any tax, there are people who are proponents of those illogical provisions because they save them money."

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KANSAS LIVESTOCK ASSOCIATION

Since 1894

Testimony

presented by

LewJene Schneider
Director of Research and Legal Affairs

regarding

House Bill 2610

before the

HOUSE COMMITTEE ON TAXATION

January 22, 1998

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

House Taxation
1-22-98
Attachment 18-1

6031 SW 37th Street Topeka, KS 66614-5129 (785) 273-5115 Fax (785) 273-3399 E-mail: kla@kla.org

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

We urge you to give favorable consideration to House Bill 2610. KLA members believe that such taxes are a major burden on all Kansans, especially those with family farms, ranches and small businesses.

Research indicates that roughly two-thirds (2/3) of the inheritance tax is paid on estates less than $600,000. Therefore, I would argue that the Kansas Inheritance Tax is a regressive tax.

The Kansas Inheritance Tax taxes the beneficiaries. The actual amount of tax is determined by the relationship of the beneficiary to the decedent. Brothers and sisters are allowed a $5,000 exemption. Nephews, nieces and brothers-in-law receive no exemption, and pay at a rate of 10% to 15%. One's children are taxed at a top rate of .05%.

The Kansas Estate Tax would still be applicable, if this bill passes. As of January 1, 1998, the federal government allows each person to "gift out" $625,000 tax free. This amount has been "indexed" to keep up with inflation. There are no stipulations as to whom receives the gift. This "tax free gift" is applicable to anyone.

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

This House Bill 2610 provides that the State of Kansas will still receive death taxes under the "pickup tax" or Kansas Estate Tax, as provided for by the Federal Estate Tax law.

The Inheritance Tax in Kansas is currently being paid by real property owners. I would suggest when many Kansas residents decease, their families are unaware of the Kansas Inheritance Tax Law if the deceased had some assets but no real property. Consequently, many times only people who own a home or land and must have "clear title" to sell their real estate pay this tax. Therefore, they must hire an attorney and file the forms.

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

Kansas House Bill 2610 would require only one estate tax form be filled out and filed. That return would only be filed if a federal return was required. Not only will this simplify the procedure, it will reduce the cost of administration of an estate.

Please know, all money in a deceased's estate has been taxed at least once, either as income or capital gains. Therefore, it hardly seems fair that Kansas currently requires a beneficiary to pay an additional tax of up to 15% on their inheritance.

Please see the attached Kansas Tax Computation Schedule. Note the tax rates in the far right hand column.

KLA respectfully requests favorable passage of House Bill 2610.

Thank you.

TAX COMPUTATION SCHEDULE

.ax rates are imposed upon each distributee's share after the allowance for the personal deduction has been taken. Note: when the net taxable share is less than $200, no tax is imposed.

	Personal Exemption	Column 1	Column 2	Tax on Col. 1	Rate on Excess, Col. 2 over Col. 1
Surviving Spouse	Total	All bequests, legacies, devises or gifts, to or for the benefit of the surviving spouse are EXEMPT from taxation.			
CLASS A—lineal ancestors, lineal descendants, step-children, step-parents, adopted children, lineal descendants of any adopted child or step-child, the spouse or surviving spouse of son or daughter, or the spouse or surviving spouse of an adopted child or step-child of the decedent. "Step-child" means a child of a spouse or former spouse of the decedent.	30,000.00	$0	$25,000	$	.01
		25,000	50,000	250.00	.02
		50,000	100,000	750.00	.03
		100,000	500,000	2,250.00	.04
		500,000	....	18,250.00	.05
CLASS B—brothers and sisters of the decedent.	5,000.00	$0	$25,000	$	.03
		25,000	50,000	750.00	.05
		50,000	100,000	2,000.00	.075
		100,000	500,000	5,750.00	.10
		500,000	....	45,750.00	.125
CLASS C—all persons not included in Class A or B.	—00—	$0	$100,000	$	.10
		100,000	200,000	10,000.00	.12
		200,000	....	22,000.00	.15
Entities receiving bequests, legacies, devises or transfers for public, religious, charitable, scientific, literary, educational or such other uses.	Total	EXEMPT			

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UNCLE JOHN SMITH lived in Nemaha County. He died on October 30, 1997. Uncle John was a farmer. His father had been a farmer and his brother was a farmer. In fact, he inherited 640 acres from his parents years ago. He brother also inherited a section of ground from their parents. Uncle John had not farmed for years. His brother's son, Uncle John's nephew took care of his ground. Uncle John liked the fact Mark and his family still farmed the Smith Family place.

Uncle John's land was valued at $540,000. (640 acres times $850 an acre); machinery at $10,000; a rental house in town at $30,000; $2,000 in his checking account and a pickup valued at $6500. Uncle John pre-paid his funeral and burial costs. Total gross estate: $592,500.00

Uncle John never married. Therefore, he left his entire estate to Mark Smith, his nephew. Mark has farmed Uncle John's ground for the last 25 years. He inherited the adjoining section from his father, Uncle John's brother. He has also purchased additional land over the years. Uncle John's section of land is very important to Mark's operation. To lose the land would put a strain on his business.

Uncle John kept an old tractor around to move snow for the mail woman. He also took it upon himself to clear the roads so the school bus wouldn't get stuck. Mark and his wife took care of Uncle John the last few years. He ate most of his meals with the family.

Mark is a Class C beneficiary. Therefore, none of the inheritance is exempted.

Mark must pay 10% on the first $100,000;
12% on the second $200,000;
15% on anything over $200,000.

Mark owes the State of Kansas, Department of Revenue **$80,875.00**.

Mark owes the Federal Government **$000.00.**

Mark does not have **$80,875.** His wife does not work. She helps out on the farm. Where is he going to get the money to pay the inheritance taxes? He does not want to have to sell Uncle John's land or procure a loan from the bank. If he sells the land there may be capital gains tax due. He will have to pay a 6% to 7% commission fee to the real estate agent.

The counter is how much he is willing to pay in interest to keep this inheritance. He cannot pay off an $81,000. loan in one or two years.

He planned to keep the pickup and give it to his son who is a freshman at KSU. He was going to use Uncle John's cash to buy an annuity for each of his two children.

Mark's attorney advised professional must be hired to appraise the farm land, appraise the farm machinery, and a third appraiser to appraise the house in town.

Mark has not decided what to do with the house in town. His son, Johnny, wants to major in agriculture and return to the family farm. This would give him a place to live and after all, it did once belong to Mark's grandparents. Anyway, it is only valued at $30,000., so even if he sold it the money would not pay the inheritance tax. He would also have to pay the real estate agent approximately $2000.

UNCLE JOHN'S ESTATE:

LAND	640 acres @ $850.00 per acre	$544,000.
MACHINERY		10,000.
RENTAL HOUSE IN TOWN		30,000.
CHECKING ACCOUNT		2,000.
PICKUP		6,500.

KANSAS GROSS ESTATE: $592,500.

TAX COMPUTATION FOR KANSAS INHERITANCE TAX:

$592,500		
- 100,000:	taxed at 10% inheritance tax rate:	$10,000
492,500		
- 100,000:	taxed at 12% inheritance tax rate:	12,000
392,500:	taxed at 15% inheritance tax rate:	58,875

TOTAL KANSAS INHERITANCE TAX DUE: $80,875.

TAX COMPUTATION FOR FEDERAL ESTATE TAX:
NONE

TOTAL FEDERAL ESTATE TAX DUE:
$0000.

PROFESSIONAL FEES: legal, appraisal, accounting
Between **$5000.** and **$15,000.**

PURSUANT TO HOUSE BILL 2610
Uncle John's Estate

UNCLE JOHN'S ESTATE:

LAND	640 acres @ $850.00 per acre	$544,000.
MACHINERY		10,000.
RENTAL HOUSE IN TOWN		30,000.
CHECKING ACCOUNT		2,000.
PICKUP		6,500.

KANSAS GROSS ESTATE: **$592,500.**

ESTIMATED PROFESSIONAL FEES:
$00.00 to $500.00

KANSAS INHERITANCE TAXES DUE:

$00000.00

No land sold or loan procured to pay inheritance taxes.

UNCLE FRED JONES lived in Wichita, He died on October 30, 1997. He was 93.

Uncle Fred was a delivery truck driver for Dillons all his life. Through the payroll deduction plan and reinvestment of dividends, Uncle Fred amassed a fair amount of Dillons stock. He was fortunate as the stock spilt several times, Dillons merged with Kroger and all in all it has been a "winner" for Uncle Fred. His stock, on October 30, 1997, was valued at $550,000. He had $2,000 in his checking account and a car valued at $6,500. Uncle Fred has pre-paid his funeral and burial.

Uncle Fred never married; however, he had a niece, Amy Smith. In the hope he could help her, he left her this entire estate. She is a single mother of three children, ages 6,4, & 2. She works full time, has to pay for day care, and her car isn't in too good of shape. Uncle Fred hoped she'll be able to quit her job and stay at home with her children. He also is hoped this inheritance would help pay for her children's college education.

Amy is a Class C beneficiary. Therefore, none of the inheritance is exempted.

Amy must pay 10% on the first $100,000
12% on the second $200,000
15% on anything over $200,000

Amy owes the State of Kansas, Department of Revenue **$75,700.00**

Amy does not have $75,000. She plans to keep the car and was going to use Uncle Fred's cash to pay off her Christmas bills and buy a $1,0000 IRA.

Her CPA and attorney advised her she must sell some stock. As if this is not bad enough, she discovers Uncle Fred died on the day the bottom fell out of the stock market in October. The price of stock is up and so now Amy must sell enough stock to first pay the capital gains tax and then the Kansas Inheritance Tax.

ESTATE:

Dillons Stock	$550,000	
Checking Account	$2,000	
Car	$6,500	
	$558,500	Estate

TAX COMPUTATION:

	$558,500					
$	100,000	@	10% Tax	=		$10,000
$	458,500					
$	100,000	@	12% Tax	=		$12,000
$	358,500	@	15% Tax	=		$53,700
					$	75,700 due

Estimated Legal and Accountants Fee:

$	2,000

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Uncle Fred's Estate

ESTATE:

Dillons Stock	$550,000	
Checking Account	$2,000	
Car	$6,500	
	$558,500	Estate

TAX COMPUTATION:

$558,500				
$ 100,000	@	10% Tax	=	$10,000
$ 458,500				
$ 100,000	@	12% Tax	=	$12,000
$ 358,500	@	15% Tax	=	$53,700
				$ 75,700 due

Estimated Legal and Accountants Fee:

$ 2,000

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PURSUANT TO HOUSE BILL 2610
Uncle Fred's Estate

ESTATE:

Dillons Stock	$550,000.
Checking account	2,000.
Car	6,500.

KANSAS GROSS ESTATE: **$558,500**

ESTIMATED PROFESSIONAL FEES:
$00.00 to $500.00

KANSAS INHERITANCE TAXES DUE:

$00000.00

No stock sold to pay inheritance taxes.

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