

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Chairperson Phill Kline at 9:00 a.m. on January 23, 1998 in Room 519-S of the Capitol.

All members were present except: Rep. Shriver
Rep. Powell
Rep. Howell
Rep. Franklin

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:
Bill Fuller, Kansas Farm Bureau
Bob Corkins, KCCI
Terry Arthur, KCCI General Counsel
George Peterson, Kansas Taxpayers Network
Hal Hudson, NFIB

Others attending: See attached list

Chair opened continued hearing on:

HB 2610 - Kansas estate tax act

Proponents:

Bill Fuller, Kansas Farm Bureau (Attachment 1)
Bob Corkins, KCCI (Attachment 2)
Terry Arthur, KCCI General Counsel
George Petersen, Kansas Taxpayers Network (Attachment 3)
Hal Hudson, NFIB (Attachment 4)

Chair closed hearing on **HB 2610**.

The next meeting is scheduled for January 27, 1998.

Adjournment.

Attachments -4

TAXATION COMMITTEE GUEST LIST

DATE: JANUARY 23, 1998

NAME	REPRESENTING
JERRY ANTHON	KANSAS FARM BUREAU
RICHARD BODEWALD	TAXPAYERS
George Petersen	Ks Taxpayers Network
LewJene Schneider	Ks LIVESOCK ASSOC
HAL HUDSON	NFIB/KANSAS
Don Schunck	ICIOGA



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

RE: HB 2610 – Replacing the Kansas Inheritance Tax with the Kansas Estate Tax Act

January 22, 1998
Topeka, Kansas

Prepared by:
Bill R. Fuller, Associate Director
Public Affairs Division
and
Terry Arthur, General Counsel
Kansas Farm Bureau

Chairman Kline and members of the House Committee on Taxation:

Now is the time to reform the Kansas Inheritance Tax! The farm and ranch members of Farm Bureau spoke loud and clear at their 79th Annual Meeting of Kansas Farm Bureau when the 435 Voting Delegates representing the 105 county Farm Bureaus developed and adopted policy calling for inheritance tax reform (see attachment 1).

My name is Bill Fuller. I am the Associate Director of the Public Affairs Division for Kansas Farm Bureau. Kansas Farm Bureau strongly supports HB 2610. We commend Representative Shore and Representative Carmody for developing and co-sponsoring HB 2610.

We certainly appreciate the leadership of Governor Graves and his message to the Kansas Legislature on January 12, 1998 when he stated, *"Kansas must address its death taxes. In analyzing this issue, it became abundantly clear our inheritance tax is much too high and much too*

complicated. 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 possible in this country. This is a tax reduction for all Kansans. Just ask the store owners on main street in your town, or the farmers or ranchers in rural Kansas, or the retired workers who own their own homes and have savings. They can't pass along their business, their property, or their savings without the State of Kansas imposing an unjust penalty."

Recent changes in the federal estate tax is another reason for reforming the state inheritance tax at this time. Farm Bureau members in Kansas rolled up their sleeves and worked diligently in the national campaign to "Kill the Death Tax" last year. In a letter writing campaign, 1,967 members wrote to their U.S. Representatives and U.S. Senators. Gary Hall, President of Kansas Farm Bureau, personally delivered these letters to the members of the Kansas Delegation in Washington, DC. Significant reform was achieved. The campaign was a success!

We believe it will be helpful to present some examples of how the Kansas Estate Tax Act to be created by HB 2610 would tax estates of various sizes differently than under the existing inheritance law. Terry Arthur, General Counsel for Kansas Farm Bureau has prepared an analysis and several examples (see attachment 2). Chairman Kline, my comments have been brief by design, so that Terry may share some real-world examples illustrating the need for and how this bill would affect Kansas citizens. Terry specializes in tax law and works with a number of clients in his private practice. We will respond to questions at the conclusion of Terry's remarks and examples. Thank You!

(attachment 1)

KANSAS FARM BUREAU

1998 Resolution

Inheritance Tax

AT-1

In Kansas there is a tax identified as an "inheritance tax", imposed on the privilege of succeeding to the ownership of property. The inheritance tax often makes it difficult for future generations to continue farming when the death of a family member occurs.

The federal government and several states impose a levy under the name "estate tax". Short of eliminating the Kansas inheritance tax, the Kansas Legislature should provide significant reforms to lessen the impact, then index this tax for inflation.

ANALYSIS OF H.B. NO. 2610

I have carefully reviewed H.B. No. 2610 sponsored in the 1998 Session of the Kansas Legislature by Rep. Shore and Rep. Carmody. I would have the following comments insofar as the bill is concerned:

1. This House Bill would replace the Kansas Inheritance Tax with what is known commonly as a "pick up" tax. No estate or beneficiary of an estate would be taxable for inheritance or estate tax in Kansas, unless the value of the estate exceeds the effective federal estate tax exemption. Accordingly, estates would be exempt from taxation in Kansas if they were less than the following amounts in each of the following years:

1998	\$625,000
1999	\$650,000
2000 & 2001	\$675,000
2002 & 2003	\$700,000
2004	\$850,000
2005	\$950,000
2006 & thereafter	\$1,000,000

2. The amount of the estate tax that would be imposed in Kansas would be equal to the state death tax credit allowed by the Internal Revenue Code if the estate is subject to federal estate taxation. The state death tax credit is contained in the Internal Revenue Code and is a percentage of the adjusted taxable estate. The percentage increases as the estate becomes larger.

3. There would be no requirement to file Kansas inheritance or estate tax returns unless the estate is subject to the requirement of filing a federal estate tax return.

4. In a news article written by the Associated Press, the estimate of decline in inheritance taxes would be from \$80 million to \$25.4 million, or approximately \$55 million per year. I assume that this amount would increase as the effective exemption increases to \$1 million by 2006, but do not have any figures to support that. The article indicated that the Legislative Research Department indicated

that \$41 of every \$100 collected from the inheritance tax comes from an estate worth less than \$600,000.

The following represents some examples of how the new law would tax estates of various sizes differently than under the existing law:

Example 1

Assume an estate of \$625,000. Parent dies in 1998 leaving 3 children.

Under the current Kansas inheritance tax law, the tax would be determined as follows:

	Child 1	Child 2	Child 3
Share of Estate	\$208,300	\$208,300	\$208,300
Exemption	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Taxable Share	\$178,300	\$178,300	\$178,300
Tax	\$ 5,382	\$ 5,382	\$ 5,382
		\$ 16,146 (Combined tax for all 3 children)	

Under the new pick up tax set forth in H.B. 2610, there would be no Kansas inheritance tax for this estate.

Example 2

Husband and wife own together \$1,050,000 of property and both die in 1998. The husband and wife divide their estates equally

for planning purposes. The husband's estate would \$625,000, and the wife's estate \$625,000. You would have the same calculations as in Example 1 - \$16,146.00 per estate, for a combined tax for the children of \$32,292.00 on a combined estate of \$1,050,000.

Example 3

An estate of a person dying in 1998 equal to \$625,000, leaving their estate to five nephews. The tax would be as follows:

Nephew 1	Nephew 2	Nephew 3	Nephew 4	Nephew 5
\$125,000	\$125,000	\$125,000	\$125,000	\$125,000
_____00 exem.	_____00 exem.	_____00 exem.	_____00 exem.	_____00 exem.
exem.				
\$ 13,750 tax	\$ 13,750 tax	\$ 13,750 tax	\$ 13,750 tax	\$ 13,750 tax
13,750 tax				

Total combined tax of all nephews for this estate is \$68,750.00 under the existing Kansas Inheritance Tax law.

Under H.B. 2610, the nephews would pay no tax on this estate. The same would be true if it were left to five unrelated persons.

Example 4

Estates left totally to charity or bequests to spouses would be tax free under the old or new law.

Example 5

A parent dies in 1998 leaving a \$1 million estate to three children. The computation of the Kansas Inheritance Tax would be as follows:

Federal Estate	\$1,000,000
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1-6

State Death Tax Credit

33,200

Computation of Kansas Inheritance Tax Under Existing Law:

	Child 1	Child 2	Child 3
Share of Estate	\$333,333	\$333,333	\$333,333
Exemption	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
Taxable Share	\$303,333	\$303,333	
	\$303,333		
Tax	\$ 10,383	\$ 10,383	\$10,383

Combined Kansas Inheritance Tax - \$31,149 under above computation. The existing law requires that the estate pay the greater of the regular method of determination or the state death tax credit of \$33,200. The Kansas Inheritance Tax under the old method would be \$33,200 since it is more.

Under H.B. 2610, the pick up tax would be \$33,200 and the tax would be exactly the same as under the existing Kansas Inheritance Tax law. By the year 2006, this estate would pay no Kansas inheritance tax because the estate would be \$1,000,000 and thereby exempt from federal estate tax.

OTHER CONSIDERATIONS IN H.B. 2610

1-7

1. This bill would allow for tax simplification in the Kansas inheritance and estate tax area. A smaller staff in the inheritance tax department would be required, as the number of returns filed would be dramatically reduced.

2. Families would save some expense on preparation and filing of inheritance tax returns, if their estates were not equal to the federal estate tax exemption.

3. The greatest savings would be for nieces and nephews and unrelated persons because they are in the highest inheritance tax bracket now. There would also be savings for the children, but the percentage of savings would not be as great.

ALTERNATIVE TO H.B. 2610

If the Legislature would determine that the expected loss in revenue as a result of passing H.B. 2610 would be more than a majority of the Legislators would be willing to accept, there would still need to be substantial review of the Kansas Inheritance Tax. It has not been totally reviewed and overhauled for approximately 20 years. The Associated Press newspaper articles have indicated that the intent of the Governor and the Legislature for change in inheritance tax was to benefit farms, ranches and small businesses.

The Internal Revenue Code was amended in 1997 by Congress to allow \$1.3 million exemption for farms, ranches and small businesses in which the farm, ranch or business remained in the family and is operated by the family for a period of 10 years from the date of death. The Kansas inheritance tax could be adjusted to allow for a similar exemption. The Kansas inheritance tax now tracks closely with the federal estate tax, and this would merge with the new federal estate tax exemption. For a husband and wife with proper planning, \$2.6 million could be exempted for qualified farms, ranches and small businesses.

The benefits to this type of revision of the Kansas Inheritance Tax would be as follows:

1. It allows the State of Kansas to exempt from inheritance or estate tax in Kansas those estates it really wishes to benefit, such as farms, ranches and small businesses, without exempting many other estates that it may not have intended to cover.

2. It would allow the State of Kansas to still collect an inheritance tax from unrelated persons and distant relatives, which H.B. 2610 would not allow for estates under the federal estate tax exemption.

In addition to adopting the exemption for farms, ranches and small businesses, the exemption for children should be increased. This has not been increased for approximately 20 years. The Legislature would have to determine what would be the proper exemption per child, but doubling it to \$60,000 per child would seem to be in line with inflation since it was last increased.

CONCLUSION

Review and reworking of the Kansas Inheritance Tax is long overdue. There are pros and cons to any type of inheritance tax changes, and hopefully the foregoing information will be helpful in identifying the persons most impacted by the proposed changes. If you have additional questions, please advise.

Respectfully submitted,

Terry Arthur
General Counsel
Kansas Farm Bureau

TA/vl

LEGISLATIVE TESTIMONY



Kansas Chamber of Commerce and Industry

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HB 2610

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, and I am pleased to have this opportunity to express our members' support for the inheritance tax reform proposal in HB 2610.

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.

This approach toward restructuring Kansas' death tax as one upon estates rather than upon beneficiaries is clearly not a new idea, but we believe it is one whose time has come.

KCCI's view has been influenced in recent years by persuasive arguments challenging the

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Attachment 2-1

equity of the state's present system. Our interest is particularly driven by our representation of smaller businesses and by our observation of the following tax consequences: Kansas death tax revenue would fall by roughly two-thirds under this plan; and, (not coincidentally) roughly two-thirds of current revenue from the tax is generated from estates that are small enough to be exempt from the federal estate tax. Hence, small Kansas estates are paying a disproportionate share of current state liability.

To be candid, our members have articulated higher tax relief priorities which would have a much greater economic effect if enacted. That is why property tax reductions for both personal property and real estate continue to get KCCI's top focus. Nevertheless, inheritance tax reform ranked impressively high (following property tax and income tax rate reductions) in KCCI's statewide membership poll of tax cut preferences last fall. Business owners clearly identify this as an important business tax policy. We are sensitive to anecdotal accounts of businesses, upon the death of their principal, which have been forced to liquidate in order to pay inheritance taxes. Kansas law should do a better job of allowing family-owned companies to pass to family members if they so desire. Furthermore, the state should not discourage Kansas as a place in which to retire since the contribution of retirees to their local economies can be significant.

These points couple with the general equity argument to make a strong case for reform. Fortunately, this year the significant size and balance of the Governor's overall tax relief package, together with its positive reception thus far by members of both parties, indicates that this may be the best window of opportunity yet for restructuring the inheritance tax.

We encourage you to do so with this bill and I thank you for the opportunity to testify.

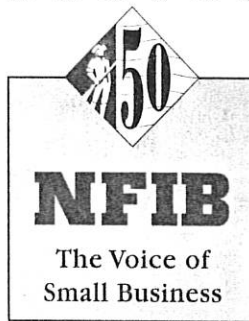
**KANSAS TAXPAYERS NETWORK
P.O. Box 20050
Wichita, KS 67208**

23 January 1998

Kansas Inheritance Tax Legislation Testimony

The Kansas Taxpayers Network (KTN) supports this legislation which would reform the inheritance tax and reduce the rates by enacting a pick up estate tax. The Kansas inheritance tax needs to be reformed so that the paperwork burden at the time of a loved ones death is not onerous or creates a financial burden upon the survivors. KTN urges the House Taxation Committee to promptly pass this legislation and enact the governor's bill.

LEGISLATIVE TESTIMONY



Purpose: To influence public policy
at the State and Federal level for the
benefit of Small and Independent
Business in America.

**Statement by Hal Hudson, State Director
Kansas Chapter,
National Federation Of Independent Business
to the
Kansas House Taxation Committee
re: House Bill 2610
January 22, 1997**

Mr. Chairman and members of the Committee: Thank you for this opportunity to submit a written statement re: H.B. 2610. I regret that I can not be with you in person, because a meeting of the NFIB/Kansas State Leadership Council was previously scheduled for January 22, at the very hours this committee is meeting, and my presence is required there today.

Last Month, December 1997, a question on our State Ballot survey of our more than 7,000 small business owners in Kansas who are members of the National Federation of Independent Business was: *Should legislation be enacted to eliminate the Kansas estate tax?* A total of **84.8** percent of the respondents said **YES**.


H.B. 2610 is a measure that would accomplish the goal of relieving the majority of Kansas small businesses from the possible devastating impact of inheritance/estate tax as it now is administered under Kansas law.

We believe that a death in the family should not precipitate a tax event!

We believe that present Kansas law is complicated, confiscatory and can be devastating to families who inherit farms or small businesses. Often, families, at the very time of bereavement over the loss of a loved one, must face the fact that they will have to sell their farm or their small business, just to pay taxes. This is not only a financial blow to the beneficiaries, but can result in the loss of jobs for valued, long-term employees.

We urge you to support the concept embodied in H.B. 2610, and to move Kansas *"to a federal pick-up estate tax under which 90 percent of estates will be entirely exempted from federal and state death taxes."*

Thank you for accepting my statement in absentia.


Hal Hudson

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