

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

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

All members were present except: Rep. Howell
Rep. Osborne
Rep. Ruff

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

Conferees appearing before the committee:

Bob Corkins, Kansas Chamber of Commerce & Industry
Joan Cole, Vice Mayor, Wichita
David Burk, MarketPlace Properties, Wichita
Sharon Fearey, Pres., Historic Midtown Citizens Group, Wichita
Jake Schloegel, Schloegel Contracting, Leawood
Garry Calvin, NARI Chapter of Kansas City
Karl Peterjohn, Kansas Taxpayers Network
Hal Hudson, National Federation of Independent Business
LewJene Schneider, Kansas Livestock Association
Ron Hein, Pioneer Natural Resources, Inc.
Gary C. Anderson, Plainville
Jolene Grable, Girl Scout Council

Others attending: See attached list

Chair opened public hearing on:

SB 500 - Kansas Tax Reduction & Reform Act of 1998

Proponents:

Bob Corkins, Kansas Chamber of Commerce & Industry (Attachment 1)
Joan Cole, Vice Mayor, Wichita (Attachment 2)
David Burk, MarketPlace Properties, Wichita (Attachment 3)
Sharon Fearey, Pres., Historic Midtown Citizens Group, Wichita (Attachment 4)
Jake Schloegel, Schloegel Contracting, Leawood (Attachment 5)
Garry Calvin, NARI Chapter of Kansas City
Urged repeal of sales tax on labor for remodeling.
Karl Peterjohn, Kansas Taxpayers Network (Attachment 6)
Hal Hudson, National Federation of Independent Business (Attachment 7)
LewJene Schneider, Kansas Livestock Association (Attachment 8)
Ron Hein, Pioneer Natural Resources, Inc. (Attachment 9)

Written testimony from Jim Allen, CPAK (Attachment 10)

CONTINUATION SHEET

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

Opponents:

Gary C. Anderson, Plainville (Attachment 11)

Jolene Grable, Girl Scouts Council (Attachment 12)

Closed hearing on SB 500.

Moved by Representative Tanner, seconded by Representative Kline, committee introduce a bill to exempt the sales tax on sales of gold and silver coins or bullion having a value of \$1,000 or more. Motion carried.

The next meeting is scheduled for February 10, 1998.

Adjournment.

Attachments - 12

TAXATION COMMITTEE GUEST LIST

DATE: Feb. 9 1998

NAME	REPRESENTING
Sharon Stearns	Historic Midtown - Wichita
Jean Cole	Vice Mayor - Wichita
David Link	OLD TOWN MARKETPLACE - WICHITA
Tom Whitaker	Ks Motor Carriers Assoc
Larry Kleiman	League of KS Municipalities
Bernie Koch	Wichita Area Chamber
Rox Hein	Pioneer Natural Resources USA Inc
Judy Moler	Ks. Assoc of Counties
Billy Kuitala	City of Overland Park
Dave Helthaus	Western Resources
DON SNODGRASS	Ks. FOOD DEALERS ASSOC
Christy Caldwell	The Topeka Chamber of Commerce
Barbara A. Hueter	Enron Corp.
Laura Cole	Intern - Sen. Robert J. Toombs
Bud Burke	Western Resources
Alan Steppat	PETE McGILL & Assoc.
Mark A. Burghart	Atmos Energy
Oliver M. Skabel	#1 Soil Scouts

TAXATION COMMITTEE GUEST LIST

DATE: Jul 9 1998

NAME	REPRESENTING
Susan Anderson	Heim + Wei
Harnif Lang	KAB
Hal Hudson	NFIB/KS
Greg Coston	Ks Taxpayers Network
Karl Peterpahn	" " "
DAN MORGAN	AGC-KC Chapter & Builders' Assn.
Jett Mourla	NARI Kansas City Chapter
GARRY CALVIN	NARI KC CHAPTER
JAMES SCHLOEGER	NARI - KC CHAPTER
TOM SPORNITZ	NARI - KC CHAPTER
DENNIS CLARK	NARI - KC CHAPTER
Bill Jarece	BOEING
STEVE KEARNEY	KS PRESS ASSOC.
Ainda Bloodworth Thomason	F.O.B.
Ashley Sherard	Overland Park Chamber of Commerce
LouJene Schneider	Ks LIVESTOCK ASSOC
Tom Bruno	Allen & Assoc.
Carrie Vargas	Rep. Palmer
Kathy Peterson	YMCA's of Kansas
John Pinegar	SWK ROA, SWK
J. P. Small	KOCH INDUSTRIES, INC.
Mike Taylor	CITY of Wichita
RICHARD RODEWALD	TAXPAYER

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

SB 500

February 9, 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 truly appreciate the chance to express our members' support for the balanced package of tax reductions in SB 500. While it does not contain as significant an amount of relief as KCCI members will ultimately press for and which current business tax burdens justify, it would be a very meaningful improvement. However, I will highlight those areas where we feel it can be improved upon this year.

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 47% 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.

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To avoid redundancy, I'll remind you of testimony KCCI has already delivered this year to this committee which are relevant to SB 500. Our Chamber provided rationale for our support of inheritance tax reform (HB 2610), the lowering of the minimum USD levy (HB 2642), and business personal property tax relief (HB 2706). While we take no position on the individual income tax measures (similar to HB 2708), I'll remind the committee that KCCI suggests what we feel are more compelling policy choices: simple rate reductions, deductibility of federal taxes paid, and corporate income tax relief.

Regarding improvements to today's bill, KCCI and Governor Graves agree about two missing policy changes. We encourage you, as we did the Senate, to consider additional measures dealing with business personal property: the Governor's proposal to increase the business personal property tax threshold from its current \$250 per item level; and, the Governor's sales tax simplicity proposals in HB 2643 regarding business machinery and equipment.

Again, these are issues about which we have expressed our views to this committee in 1998. KCCI supports the Governor's recommendation of a \$500 personal property tax threshold, as we would support any increase in that exemption level.

Our thoughts about M&E sales tax reform are also unchanged. We support most of the clarifications included in HB 2643 and are still holding discussions with the Revenue Department about the remaining parts which concern us. Implementing the bill's "integrated plant" concept is a very good idea, but we are being cautious because the definitions must be phrased properly so that the sales tax exemption will not be denied to some who are currently eligible for it. We are making good progress with the Revenue Department and are optimistic that we'll reach agreement soon.

KCCI urges your favorable consideration of SB 500, and I thank you again for this opportunity to speak.

1-2



CITY COUNCIL OFFICE
CITY HALL — FIRST FLOOR
455 NORTH MAIN STREET
WICHITA, KANSAS 67202
(316) 268-4331
(316) 268-4333 (FAX)

TESTIMONY TO HOUSE COMMITTEE ON TAXATION February 9, 1998

Mr. Chairman and Committee Members:

My name is Joan Cole and I am the Vice Mayor of the City of Wichita. My 50,000 constituents and I live in the oldest district in the city--an area that holds the first housing and commercial districts built in Wichita. I also am a 50% owner in a business which has been located in Wichita's downtown for 35 years. Today I speak of both personal experience and the experience of many of my constituents who are trying to improve their neighborhoods and commercial areas.

1. Those of us who choose to reside in the inner city must be strong in our resolve. When we first sought to buy an existing home in the center of the city, our realtors advised a move to the suburbs where, they said, "The schools are better and the crimes rates are lower." Today, the facts prove these statements false. When we called upon our lending institutions to borrow substantial money to rehabilitate our inner city homes, the lenders expressed reluctance and then explained that it would be much easier to obtain financing for new homes in the suburbs. When we remodel, we often deal with asbestos, lead based paint and other features which violate the city's current housing codes and are costly to correct.

The fact that we who live in existing housing must pay an almost 6% tax on labor to remodel our homes when new construction labor is exempt from this tax is yet another disincentive and discrimination against inner city residents. This appears to me and to the people I represent, to be extremely unfair to those of us who have chosen to remain in the center of the city and are committed to solving the problems that beset older neighborhoods. It seems to us that people who have fled the core areas to live in new homes on the periphery of cities have been unfairly rewarded in Kansas.

2. As a partner in a small business, I chose to locate my business in downtown. After leasing for many years, we purchased a building built in 1925 which had been condemned and remodeled it. This meant essentially saving a shell and reworking everything inside, mechanical systems, walls, roof. We had to adhere to ADA and lead-based paint removal requirements as well as the

many other codes that did not exist in 1925 when our building was built. Once again, we could have abandoned the downtown and run to newly built office space on the fringes. However, we believe that cities are known for the vitality of their downtowns and my partner and I wanted to contribute to the downtown restoration in process in Wichita.

Large businesses and industries escape the tax through the use of Industrial Revenue Bonds, but most small businesses do not fit the requirements for that process. Once again, I do not understand why people who decide to locate their businesses in the center of the city and to improve or expand their facilities should be penalized while those who either tear down buildings that are part of our city's heritage or chose to build on undeveloped property should receive a six percent break on the cost of labor.

3. As a Wichita City Council member, I have watched, over the past five years, our continued neglect of the infrastructure of the center of the city while we build, at great cost, new sewer, streets and water infrastructure and employ additional personnel to provide services such as fire and police for those citizens who have moved to the suburbs to live and work.

As a Council member, I have worked with developers who have chosen to save and remodel historic buildings which give us a sense of place and remind us of our roots. I am presently working to locate a developer to restore an entire city block--Carey House Square with the 1886 Eaton Hotel on it. These projects are incredibly difficult to accomplish in the best of situations. An added six percent tax on labor provides yet another hurdle.

This tax is another example of the many policy decisions, both public and private, which have encouraged sprawl and left cities to deal with the enormous costs of a decaying central core and rapidly growing new development, both residential and commercial, at the fringes. Both the intrinsic value of the entire city and the actual value of the inner city properties decline.

For these reasons, I am here today, as Wichita's Vice Mayor, a home owner and a business owner in the inner city to urge you to support the repeal of the sales tax on remodel labor for both residential and commercial. Many of us have resources which would allow us to flee to new developments, but we chose to stay. We only ask that you provide some fairness and balance to us as we work to improve our existing neighborhoods and businesses.

Raytheon Aircraft Company
Corporate Affairs Department
P.O. Box 85
Wichita, KS 67201-0085
Tel 316 676 7689

Raytheon Aircraft

Beech
Hawker

February 5, 1998

Ms. Joan Cole
City Council Member
City Hall
435 North Main
Wichita, KS 67202

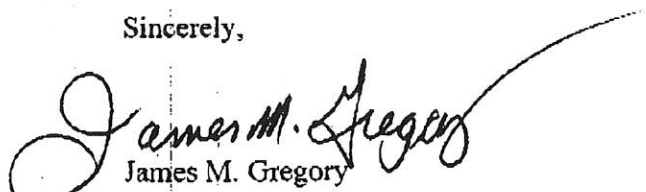
VIA FAX 264-2788

Dear Joan:

Raytheon Aircraft supports the extension of sales tax exemptions for commercial remodeling activities, even though the company doesn't pay sales taxes on its sizable remodeling activities due to the use of Industrial Revenue Bonds.

However, Raytheon Aircraft Company spends \$250 million annually with hundreds of Kansas suppliers that can be more competitive in the state as they remodel and modernize their operations to add value to their products and services.

Sincerely,


James M. Gregory
Director - Corporate Affairs



Mr. Chairman and Committee Members,

My name is David Burk. I am a resident and a citizen of the State of Kansas, living at 431 South Roosevelt in Wichita, Kansas. My company, MarketPlace Properties, L.L.C, is the preferred developer in the Old Town Marketplace area in Wichita, Kansas.

The Old Town Marketplace area is a collection of approximately sixty, turn of the century warehouses clustered together in our downtown. Historically, this area made up a large part of the beginnings of the City and is currently being transformed into a mixed use area, which includes residential, dining, retail, office and entertainment. There are approximately 160 new businesses housed in this complex. Many of these businesses, though now financially successful, were originally new start up businesses.

I believe that the single most important issue at the State level for future downtown development is the state sales tax which is still applied to remodeling / restoration projects, but not to new construction. This really puts a handicap on developers such as myself trying to make a difference in our downtown. Much of the remaining stock of downtown buildings in Wichita need to be renovated, but with the 5.9 percent penalty to renovate most owners and tenants choose the suburbs. The present sales tax structure in Kansas is designed to favor the business that occupies new buildings that are usually constructed on the fringes of cities and penalizes business persons who would prefer to help revitalize the center city. This policy contributes to increasing problems. It encourages urban sprawl and rewards the conversion of farmland to high density commercial development. All this adds to the cost local government must spend through the need for additional infrastructure that is already in place and paid for in the center city.

Some of you who have never been involved in the rebirth of old buildings may believe that we are talking about minor adaptations. The renovations that I have been completing in the Old Town MarketPlace Area are really new buildings in old shells. I begin with an old building that needs to be stripped of the old utilities, interior walls, roof membranes, inefficient and nonoperable windows and mechanical systems (many of which contain asbestos). This demolition / strip out cost is not a cost incurred with new construction. When the demolition phase is completed, all that remains is the structural shell of the building, which usually needs a lot of attention such as replacement of rotten timbers and tuck pointing. Only after these two critical and expensive steps are complete can the new the new electrical, mechanical, interior finishes, windows, doors, new sprinkler and fire systems be installed. Many buildings were built dock high or four foot off the ground. These must have additional work done to ramp for the handicapped. All in all, much of what I do to help revitalize our downtown and preserve our architectural heritage cost more than new construction. When one adds the sales tax that is applied to renovation and not to new construction, you provide a disincentive to the redevelopment of our inner cities and towns. By equalizing the tax cost of renovation to that of new construction you help the local citizens in many ways. When old buildings are restored to modern use, it increases the tax base, encourages other building owners to spruce up their property and contributes to community pride in our heritage.

If removing the entire remodeling sales tax cost too much, then please redefine the term new construction to be as follows:

If the construction cost of a building exceeds the assessed value of the property than the work shall be considered new construction. The assessed value is defined as the purchase price of the real estate, less the land value, plus any previous improvements, less any depreciation.

This definition is what is used by the Federal Government in defining if historic tax credits apply to a renovation project. This eliminates the small miscellaneous projects from the benefits, but give an incentive for the larger projects.

In conclusion let me remind you that tax policy that helps restore our inner cities and towns by promoting business will result in new jobs, additional tax revenue, and improved quality of life for all of our citizens. Thank-you for the opportunity to bring this important issue to your attention and for your consideration.

February 7, 1998

Good morning. My name is Sharon Fearey. My husband and I live in a 90 year old home in the heart of Wichita, I chair the local Historic Preservation Board, and I am active in the Historic Midtown Citizens Association. I am here today to voice my support for removing the sales tax on labor for remodeling homes and businesses.

The suburbs, with every house as bright and shiny as the next, still lures many people away from city's established core areas. In recent years, however, we have seen a desire on the part of many people to locate in older areas of towns all over the nation. The older homes with large porches and their sense of neighborliness appeal to people looking for a simpler life style that doesn't involve fighting the freeway traffic morning, noon, and night.

As those of us who have chosen to live in the inner-city strive to save our neighborhoods, we are placed at an unfair disadvantage by having to pay sales tax on labor that we use in our rehabilitation work. Stabilizing, updating, and improving our homes and businesses is expensive in both dollars and time. It would almost always be easier to buy a new property in the suburbs. We have chosen, however, to live and work in the inner-city. By doing so, we are not only preserving the history, the core area and the viability of our cities, but also the tax base. Instead of letting our homes and businesses continue to decline, thereby losing value and being appraised lower and lower, we pump thousand and thousands of dollars into them which in turn amounts to a much higher appraised value and much higher property taxes.

While the state coffers may lose money for a time due to loss of revenue from sales taxes, they will gain money for many years to come due to increased property taxes being collected. There will also be increased sales tax on building materials sold for remodeling and on the goods and services that are sold from our remodeled businesses. This tax base will also help support schools and services on the local level.

All that we are really asking of you is that you tax us fairly by removing the sales tax on labor for remodeling. This would level the playing field with new home construction which has already had the tax eliminated and could be the incentive needed to help the older neighborhoods of Kansas show the rest of the nation how cities can and should look.

Thank you.



HISTORIC MIDTOWN
CITIZENS ASSOCIATION
February 8, 1998

P.O. BOX 47302
WICHITA, KANSAS 67201

Representative Phill Kline
Chairman, House Taxation Committee
State Capitol
Topeka, Kansas 66612

Dear Representative Kline:

Historic Midtown Citizens Association wholeheartedly supports the elimination of the sales tax on home remodeling services. This is an important issue for those of us living in older Kansas neighborhoods such as the one we represent.

Our association represents 3,500 homes in Historic Midtown, a neighborhood located just north of downtown Wichita, Kansas. The majority of the area's homes were constructed between 1890 and 1940. Over the years, the area has witnessed decay and decline, as property owners abandoned older homes and flocked to the suburbs where new houses could be built more economically than old houses could be remodeled.

But in recent years, there has been a resurgence of interest in investing in older neighborhoods, and stopping the decay and decline brought on by previous decades of neglect. We have seen this begin to happen in Historic Midtown. However, much work still needs to be done.

Eliminating the sales tax on remodeling services would provide a significant incentive for homeowners to invest and restore homes in older Kansas neighborhoods. The elimination would also "level the playing field" with construction of new homes for which the tax has already been eliminated.

While there is a cost associated with the elimination of this tax, part of that cost would be recouped in the form of higher property tax revenues resulting from increased property values, and increased sales tax revenues resulting from increased sales of remodeling materials. So it truly is a win-win situation for both the state of Kansas and Kansans committed to restoring older neighborhoods.

We encourage you to support the elimination of this tax on remodeling services, which will mean investment in and revitalization of the state's older neighborhoods, without a substantial cost to the state of Kansas.

Sincerely,

Janet L. Miller, President
Historic Midtown Citizens Association

To: Kansas House Taxation Committee
Representative Phill Kline - Chairman

From: Jake Schloegel CR
2201 W. 120th Terrace
Leawood, KS 66209

Re: Support for the repeal of the tax on residential remodeling services (HB500)
Public Hearing, February 9, 1998

Mr. Chairman,

Thank you for the opportunity to address this committee on the subject of repealing the state tax on remodeling. I support the repeal of this tax and hope that you Representatives feel the same.

I am the past president of the Kansas City chapter of the National Association of the Remodeling Industry (NARI). I currently serve as the Chairman of the Government Affairs Committee for our chapter. I have been a house captain for the past eight years in the home renovation program known as Christmas in October that is held annually in Kansas City. I have owned my own remodeling business since 1979. And, most importantly, I am a Kansas homeowner.

Over the past 18 years I have seen many sides of the home improvement industry. My company has installed luxurious master suites to bare essential bathroom maintenance projects. I have seen the cost of these home improvement projects rise in cost over the years to the point where they are now out of the reach of some homeowners. Particularly those with fixed or limited incomes. The people of Kansas constantly complain about this tax being oppressive rather than progressive.

Through my involvement with Christmas in October, I have seen the effects of homes not being maintained and whole neighborhoods deteriorating. I have seen the once decent neighborhoods succumb to the drug houses, the tax bases vanish and the schools fall into despair.

As a business owner I have seen homeowners forgo maintenance because of the cost involved in keeping up what is usually their largest and most important investment. The remodeling tax adds approximately 3% to the cost of a job. Based upon information from the national office of NARI, Kansas is one of the few, if not the only state, that singles out homeowners with a burdensome tax for maintaining their homes. There should be tax incentives for homeowners to improve and maintain their homes. Well maintained homes have higher values which in turn mean higher property taxes.

As we enter the 21st Century, remodeling is a \$120 billion industry that is larger than the new home industry and is still growing. The inventory of older homes in Kansas is huge. Any thing that can be done to save these homes and the neighborhoods they are in should be done. An excellent way to start is to do away with this remodeling tax. Well maintained homes make up viable neighborhoods that help reduce crime, maintain better tax bases, and create an environment that is conducive to attracting new business.

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KANSAS TAXPAYERS NETWORK

P.O. Box 20050
Wichita, KS 67208
9 February 1998

316-684-0082
FAX 316-684-7527

TESTIMONY ON S.B. 500

By Karl Peterjohn, Executive Director

The Kansas Taxpayers Network supports S.B. 500 as an improvement over the initial package of state tax cuts proposed by Governor Graves. KTN supports larger, broader based, and economically stimulative tax cuts. The senate plan, with an initial size which is \$5 million larger and simpler improves upon the governor's proposal. Six of the seven items contained in the senate's bill address the four major areas within the governor's proposal: 1) property tax reductions, 2) income tax reductions, 3) the remodeling sales tax exemption on residential property, and 4) reducing and simplifying the death tax.

S.B. 500 can be improved with the growth in state revenues and I would like to recommend several changes which can build upon both the governor's and the senate's proposals.

1) The governor proposed a standard deduction increase which was deleted from the senate's plan. This has a \$15 million fiscal note.

2) A larger property tax cut would improve this plan. With state revenues growing the state's total property tax should be reduced to 20 mills. Property tax reductions are complicated by rising appraisal growth on existing properties and soaring local mill levies. While the state is enacting these property tax cuts, provisions should be added which restrict this local property tax hikes. In Colorado, Oklahoma, and Missouri these limitations on local property tax growth are contained in their constitutions.

Regardless of the size of the property tax cut enacted by the 1998 Kansas legislature, provisions are needed which would provide Kansans with protection from local property tax growth which exist in our neighboring states.

3) The governor proposed raising the \$250 exemption on personal property for machinery and equipment to \$500 per item. This provision should be added back into S.B. 500

4) A 1 cent reduction on the sales tax on food should be enacted with a \$42 million fiscal note this year.

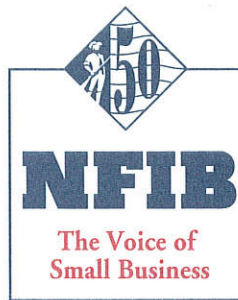
5) The governor's proposal to simplify sales tax exemptions is a worthwhile objective with a reasonable fiscal note.

6) An education income tax credit of \$250 per child for all Kansas children in grades K-12 for fees, textbooks and other educational expenses.

KTN's annual survey of supporters generated results similar to WIBW radio's 1997 listener poll for priority of tax cuts. First, was cutting property taxes. Kansas has a high level of property taxes in our region which hurts economic growth due to the disproportionate impact on businesses through the state's classification structure.

Second and third were sales tax cut on food and income tax reductions. The inheritance/death tax ranked fourth but is a strongly felt concern to small business, farmers, and retired Kansans.

I strongly urge this committee, the Kansas house, and the full legislature to utilize S.B. 500 as a tool to enact a package of state tax cuts which exceed \$200 million in 1998. This will provide an excellent benchmark to indicate that the fiscal climate is changing for the better in our state. Thank you.



NFIB Kansas

Testimony of Hal Hudson, State Director
Kansas Chapter,
National Federation Of Independent Business
Before the
Kansas House Taxation Committee
on Senate Bill 500
January 1997

Mr. Chairman and members of the Committee: Thank you for this opportunity to appear here today. My name is Hal Hudson, and I am here today representing the more than 7,000 small business owners of Kansas who are members of the National Federation of Independent Business.

Those of you who have heard me testify before know that the NFIB/Kansas Legislative Agenda is set by our members through their response to our Ballot surveys. In December 1997, we asked our members to prioritize the manner in which they would like to see tax reductions enacted in 1998. Their top three priorities were: property tax, income tax, and "death tax," in that order.

PROPERTY TAX. Topping the list was property tax - ALL property. NFIB/Kansas members have supported gradual reduction of the state property tax mill levy. But they really want to see this tax on property -- ALL property -- totally removed. Therefore, we support Sec. 21 of SB 500 which reduces the overall state mill levy from 27 to 23 mills. However, we also would support a larger reduction - say seven to nine mills this year, followed by similar annual reductions until the tax has been eliminated.

INCOME TAX. The second priority sought by our members was income tax relief. The increase of the individual exemption to \$2,350, as proposed in Section 19, is a clean and simple way to reduce personal income taxes of individuals. We support adoption of Section 19.

Keeping in mind that property tax reduction was our members' top priority, we view New Sec. 20, with its refundable income tax credit provision, as another way to encourage business investment in machinery and equipment and the creation of jobs for Kansans. Many small businesses, in the years they are growing and expanding, may make investments that substantially increase their property tax liability. It is this very growth that may reduce their income, hence their ability to pay property taxes. We commend you for proposing this important tax credit for business and encourage each of you to pursue its enactment.

ESTATE TAX. Small business owners, farmers, and others who have spent their life building value in their business, farm or other investments long have been concerned about the complicated inheritance/estate tax provisions of Kansas law. Those with relatively small estates have feared

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scenarios where their loved ones would have to liquidate their assets, just to pay the death tax. They say: "A death in the family should not precipitate a tax event."

By linking the responsibility for filing and the liability for payment of estate taxes to federal law, you would lift this burden from many families of small business owners. We support the concept of changing Kansas inheritance tax to an estate tax, and adopting the federal "pick-up" tax concept.

REMODELING TAX. Although it was not a top priority for 1998, NFIB members have supported removal of sales tax from labor services in remodeling, and continue to do so. However, part of the problem that existed previously with exempting labor in new construction, but not remodeling, may actually be exacerbated by Section 25 (p). Bookkeepers in construction companies, and the Department of Revenue, have been challenged to distinguish between the two -- new construction or remodeling -- when it referred to all work. Section 25, limiting the tax exemption to residential remodeling labor services, introduces a new element to further complicate record keeping for small companies that do both residential and commercial work. We realize there is a fiscal note, but we encourage you to consider expanding the tax credit to all remodeling labor.

PROPERTY TAX EXEMPTION. Conspicuous by its omission from SB 500 is the Governor's recommendation to increase the threshold exemption for machinery and equipment from \$250 to \$500. NFIB was a leader in the effort to gain this property tax exemption in 1995. We asked for more, but would have settled for \$500 then. It's two years later. The economy is strong. Local tax receipts, like State revenues, are not lacking. We would like to see the paperwork load of reporting business personal property reduced further, by increasing this exemption to \$500. We do not seek an amendment to this bill, but urge your support in a separate bill.

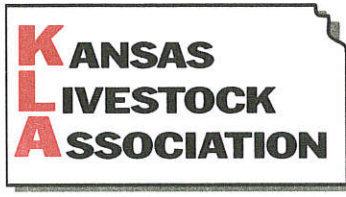
We find no fault or reason to oppose portions of SB 500 on which we have remained silent. We encourage the enactment of SB 500.

Thank you.

Hal Hudson, Kansas State Director
National Federation of Independent Business
3601 S.W. 29th ST. - Suite 116-B
Topeka, KS 66614-2015
Phone: 785/271-9449
FAX: 785/273-9200
e-mail: Hal.Hudson@nfib.org

SMALL BUSINESS WORKS FOR KANSAS -- NFIB WORKS FOR SMALL BUSINESS

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Since 1894

Testimony

presented by

LewJene Schneider,
Director of Research and Legal Affairs

regarding

Senate Bill 500

before the

HOUSE TAXATION COMMITTEE
Representative Kline, Chairman

February 9, 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.

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Attachment 8-1

Chairperson Kline and members of the house taxation committee, 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 Senate Bill 500. I am specifically addressing the repeal of the inheritance tax provision. KLA members believe 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. It would be a "pick up" tax. No estate or beneficiary of an estate would be taxed for inheritance or estate tax in Kansas, unless the value of the estate exceeds the effective federal estate tax exemption. 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.

The amount of estate tax owed to the state of Kansas would be equal to the state death tax credit allowed by the federal government. 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.

Senate Bill 500 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 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 inheritance tax forms. The federal government has their own form. 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. It is questionable whether this tax is being fairly collected and is a fair and equitable tax.

Kansas Senate Bill 500 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%.

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

KLA respectfully requests favorable passage of Senate Bill 500.

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			

8-4

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DOUGLAS K. STACKEN, ISC

February 2, 1998

Kansas Livestock Association
Lewjene Schneider
6031 SW 37th Street
Topeka, KS 66614-5129

Re: Kansas Inheritance Tax

Dear Lewjene:

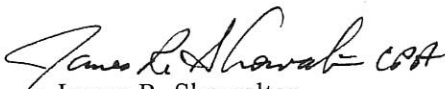
You recently asked if we had an example of a federal estate return and Kansas inheritance tax return that we prepared that was non-taxable by the federal government but taxable to Kansas. We do in fact have one. The facts follow below.

An area farmer died, leaving a gross estate of approximately \$1,400,000. Through proper estate planning this was not taxed at the federal level by using a marital trust and a family trust. The family trust consisted of farm property that will be distributed to the farmer's children when his wife dies. The children will continue to operate the farms, just as they did before the farmer's death. The bequests to the surviving spouse were designed to reduce the federal taxable estate down to approximately \$600,000. As a result, the maximum unified credit reduced the federal estate tax to zero.

The state of Kansas, however, looks at the family trust differently. Kansas assesses an inheritance tax based on the remainder interest. The remainder interest is computed by using the life interest tables based on the age of the survivor (in this case, the farmer's wife), who will receive the income of the family trust until her death. The remainder interest is applied to the children. In our client's case, this calculation resulted in inheritance tax payable to the state of Kansas in the amount of \$1945.01. Had the couple only had one child, the Kansas inheritance tax would have been \$6838.70. This trust only owns farm land, and the liabilities attributable to that land. My experience shows that farmers generally have their money invested in their land and equipment, and, therefore, do not have large amounts of cash readily available to pay taxes of this nature.

If you have any questions, please call me.

Sincerely,


James R. Showalter
Shareholder

HEIN AND WEIR, CHARTERED

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Ronald R. Hein

Stephen P. Weir

Susan Baker Anderson

HOUSE TAXATION COMMITTEE

TESTIMONY RE: SB 500

Presented by Ronald R. Hein

on behalf of

PIONEER NATURAL RESOURCES USA, INC.

February 9, 1998

Mr. Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for Pioneer Natural Resources USA, Inc. Pioneer was formed from the merger of MESA and Parker & Parsley this past year. Pioneer is the second largest independent oil and gas exploration and production company in the United States based on total proved reserves.

Pioneer supports Sec. 24 of SB 500, and the concept upon which it is based--that Kansas should insure that our marginal oil and gas wells in the state are not prematurely abandoned due to the burden placed on the producer with Kansas' high severance and ad valorem taxes.

As introduced, Sec. 24 of SB 500 only addresses the problem with regards to oil wells. Pioneer believes that the same philosophy should be utilized for marginal producing natural gas wells.

When the severance tax was first adopted in 1983, the Act recognized that the tax should not be imposed on marginal oil or gas wells. The Legislature set out the exemption for gas wells in K.S.A. 79-4217(b)(1), [SB 500, page 18, line 29]. The oil exemption for marginal wells was set out in (b)(2), [SB 500, page 19, line 6]. Over the years, the oil exemption has been amended several times to provide additional exemptions for marginal wells, and to provide exemption from ad valorem tax for some wells. Throughout that same 15 year period, there has been no change made on the exemption for low producing natural gas wells.

Pioneer would recommend the adoption of an amendment to SB 500 to increase the \$81 per day exemption on page 18, line 37, to \$120. [See balloon amendment attached.]

Kansas is a declining oil and gas producing state. The state of Kansas should take every action that it can to insure that there is not premature abandonment of any

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marginal oil and gas wells throughout the state. The concept supported by the Legislature in 1983, and carried forward to this day that we should not tax a producing well out of existence is valid and sound. Even though the state of Kansas may not receive any tax directly from that low-producing well, the income that it provides and the economic development that it creates helps generate taxes through other means.

Obviously, there has been greater inflation since 1983 than the adjustment in the \$81 per day rate that Pioneer is proposing this morning. However, this action would take a first step towards recognizing that inflation is slowly eating away on the exemption that was established for gas in 1983.

I do not have a fiscal note on this amendment yet, but I am attempting to get some information for the committee on that matter.

In conclusion, I urge the adoption of this proposed amendment, and adoption of SB 500.

Thank you very much for permitting me to testify, and I will be happy to yield to questions.

9-2.

1 4217. (a) There is hereby imposed an excise tax upon the severance and
2 production of coal, oil or gas from the earth or water in this state for sale,
3 transport, storage, profit or commercial use, subject to the following pro-
4 visions of this section. Such tax shall be borne ratably by all persons within
5 the term "producer" as such term is defined in K.S.A. 79-4216, and
6 amendments thereto, in proportion to their respective beneficial interest
7 in the coal, oil or gas severed. Such tax shall be applied equally to all
8 portions of the gross value of each barrel of oil severed and subject to
9 such tax and to the gross value of the gas severed and subject to such tax.
10 The rate of such tax shall be 8% of the gross value of all oil or gas severed
11 from the earth or water in this state and subject to the tax imposed under
12 this act. The rate of such tax with respect to coal shall be \$1 per ton. For
13 the purposes of the tax imposed hereunder the amount of oil or gas pro-
14 duced shall be measured or determined: (1) In the case of oil, by tank
15 tables compiled to show 100% of the full capacity of tanks without de-
16 duction for overage or losses in handling; allowance for any reasonable
17 and bona fide deduction for basic sediment and water, and for correction
18 of temperature to 60 degrees Fahrenheit will be allowed; and if the
19 amount of oil severed has been measured or determined by tank tables
20 compiled to show less than 100% of the full capacity of tanks, such amount
21 shall be raised to a basis of 100% for the purpose of the tax imposed by
22 this act; and (2) in the case of gas, by meter readings showing 100% of
23 the full volume expressed in cubic feet at a standard base and flowing
24 temperature of 60 degrees Fahrenheit, and at the absolute pressure at
25 which the gas is sold and purchased; correction to be made for pressure
26 according to Boyle's law, and used for specific gravity according to the
27 gravity at which the gas is sold and purchased, or if not so specified,
28 according to the test made by the balance method.

29 (b) The following shall be exempt from the tax imposed under this
30 section:

31 (1) The severance and production of gas which is: (A) Injected into
32 the earth for the purpose of lifting oil, recycling or repressuring; (B) used
33 for fuel in connection with the operation and development for, or pro-
34 duction of, oil or gas in the lease or production unit where severed; (C)
35 lawfully vented or flared; (D) severed from a well having an average daily
36 production during a calendar month having a gross value of not more
37 than \$1 per day, which well has not been significantly curtailed by reason
38 of mechanical failure or other disruption of production; in the event that
39 the production of gas from more than one well is gauged by a common
40 meter, eligibility for exemption hereunder shall be determined by com-
41 puting the gross value of the average daily combined production from all
42 such wells and dividing the same by the number of wells gauged by such
43 meter; (E) inadvertently lost on the lease or production unit by reason of

\$120

CPAK

Commercial Property
Association of Kansas

2-9-98

Chairman Kline and members of the House Tax Committee:

Thank you for allowing me to appear before you today. I am Jim Allen, representing the Commercial Property Association of Kansas (CPAK). CPAK was established in 1991 to represent the concerns of commercial property professionals in Kansas.

CPAK is in support of S.B. 500, which reduces the mill levy to 23 mills from 27 mills. Property taxes are one of the largest deterrents to doing business in the state of Kansas. The state has the revenue this year to lower many taxes for all Kansans. The revenue is available to pass a meaningful property tax reduction proposal this session.

I know some want to lower the mill levy more than 23 mills, but I understand that you have a tax reduction package that will impact many Kansans. CPAK hopes that the mill levy will be lowered in future years.

Whatever mill levy reduction passes, CPAK believes that education should be properly funded.

Thank you for your time this morning. I will be happy to stand for any questions.

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PROPERTY TAX UNCONSTITUTIONAL

I am Gary Anderson, of Plainville, Kansas, located in Ellis County. I am here today to protest the property tax law of Kansas.

To qualify myself, I will say, I am a property owner and have paid property taxes for approximately 33 years. I have agricultural real estate and residential real estate.

My contention is that the property tax is unconstitutional under Article 14 of the US Constitution, which guarantees equal protection in the law. Since there is no possibility that all people of the US have the same or equal property, there is no possibility that the law can provide equal protection. Varying rates and exempt properties further demonstrate the "inequality" of the system.

Furthermore, the property law of Kansas makes no attempt to provide equal treatment. On the contrary, the law is a political football that is being used to collect taxes from "The other guy". The Equal Rights section of the Kansas Bill of Rights guarantees inalienable natural rights. Natural rights promise protection of property. Instead we receive persecution if we hold property of certain types. If there is debt against the property you pay on the debt also.

If you study the formation of this countries government and constitution you will find that the Bill Of Rights was adopted to protect citizens from government. Life, Liberty and Property have come to be the most cherished and protected items of the modern free world. Millions of men and women have fought and died for these very simple things.

Thomas Jefferson, as a framer of the constitution, wrote two hundred years ago "A Bill of Rights, is what the people are entitled to against every government on earth". James Madison, also a major contributor to the formation of our Bill of Rights, stated that a wise and just government " will equally respect the rights of property, and the property in rights".

I will give you an example of some of the unfair treatment I am talking about under the tax laws of Kansas.

Example #1

I want to own property or a business in the state of Kansas. I borrow 100 thousand dollars to invest in our state. I purchase property with this 100 thousand dollars. I now have to make interest payments to the bank, pay income tax on the earned profit, and then I also get taxed year after year on this property even if I don't own it. I get taxed on the

full amount of this property. In a sense, I am getting punished for being a property owner and investing in the state of Kansas.

Example #2

Now, if I take this 100 thousand dollars and instead of purchasing property with it, I put my money in bonds, the stock market or etc., I do not have to pay property tax on this money ever. I will pay income tax on the increase, but I do not have to pay property tax. I do not think this is how the fair and equal treatment is meant to be. More than likely the money that was put in the stock market or bonds is not even in the state to help our economy.

I have invested in our state, by purchasing land to help feed our people and I have a property tax on my investment that is getting worse each year. I, as an investor in the state of Kansas, am getting fined every year because of this investment I have made in this state! A person not investing in the Kansas economy has all of the services and privileges as I have while sending his assets out of state.

In closing, I would appreciate you giving serious thought in abolishing all property tax in the state. If property can not be taxed at the same rate to every person regardless of their investment bonds, stock market or land then it should not be taxed at all. Our country has a government of the people, for the people, by the people. People require government spending. People can and will pay the bill, but I doubt that they will request the privilege. Property on the other hand has no vote or representation or money to pay tax. This tax can only be paid by the unfortunate person who has no equal protection.

If it is not possible to abolish this illegal tax this year possibly an attempt could be made to at least remove from the value of agricultural and commercial taxable property the amount of debt existing against this property. This would help self supporting business people invested in Kansas to meet their interest expenses. Having to pay property tax on debt is difficult to justify.

Thank you, for letting me appear before you today and give my feelings on this matter.

Gary C. Anderson
2357 Saline River Road
Plainville, Kansas 67663

House Assessment and Taxation Committee
Representative Phill Kline, Chairperson
Monday, February 9, 1998

Testimony of Jolene M. Grabill, Legislative Monitor
Girl Scout Councils Serving Kansas Girls
Senate Bill 500

Mr. Chairman and members of the committee. My name is Jolene Grabill, the legislative monitor for the 12 Girl Scout Councils serving Kansas Girls. I appear today on behalf of over 60,000 Girl Scouts statewide, to respectfully request an amendment to SB 500.

Each year, Girl Scout troops in your districts conduct the annual Girl Scout Cookie Sale. The cookie sale a proven tool which teaches girls the fundamentals of commerce and self-reliance. In fact, in many councils, cookie sales generate 50% or more of the council's total annual operating budget. Rather than appear before you requesting additional funding for this important youth development program, the Girl Scout Councils of Kansas simply request you remove the sales tax from their self-support efforts.

Eileen Sieger of Marion appeared before you on HB 2643, your sales tax exemption bill. The substance of the amendment I request today is the exact language on the Girl Scout exemption contained in that legislation. It provides a sales tax exemption for:

“all sales of tangible personal property by members of the Girl Scouts the purpose of which is to finance their activities and programs.”

In 1997 Girl Scouts across Kansas sold enough cookies to pay \$353,509 in sales tax. In addition, Girl Scout Councils sell calendars, badges, uniforms, and other Girl Scout items on which \$53,123.91 in sales tax revenue is paid each year. When reinvested in Kansas girls through youth development strategies determined by each local council, this \$406,632 could yield countless long term benefits for the state, by building future citizens.

There are only two times in the life of a girl when we can invest in her - prevention before, and intervention after she make mistakes. Girl Scouting is a proven prevention program and a smart investment in Kansas girls.

Finally, I want you to know that because of the success Girl Scouts have with cookie sales, they pay a disproportionate amount of sales tax compared to other non-profit organizations. The annual Girl Scout cookie sale is much more than an additive fund-raiser. Each cookie sale is a primary program component which teaches girls the art of commerce and self-reliance. It also serves as the primary budgetary source for each council - for some councils, it provides 50% of the annual revenue. While each Girl Scout Council does develop additional revenue sources to meet their annual budgets, this is a difficult pursuit. You need to know that corporations and private foundations fund a mere 5% of the budgets of organizations for girls and women. For these reasons, the Girl Scout Councils serving Kansas Girls respectfully request your support for this amendment.

Thank you.

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