Approved: 1-28-98
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:07 a.m. on January 27, 1998, in Room 519--S of the Capitol.

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

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

Conferees appearing before the committee: Senator Anthony Hensley
Don L. McNeely, Kansas Automobile Dealers Association
Dan Hermes, Director of Governmental Affairs

Others attending: See attached list

The minutes of the January 21 meeting were approved.

On behalf of a constituent, Senator Anthony Hensley requested the introduction of two bills relating to taxation of private pensions. The first bill would phase out the Kansas income tax applied to private pensions over a three year period. The second bill would establish an $8,000.00 exemption on the first $8,000.00 of private pensions that would be exempted from the Kansas income tax.

Senator Bond moved to introduce both of the bills, seconded by Senator Praeger. The motion carried.

Don McNeely, Kansas Automobile Dealers Association, requested the introduction of a bill which would impose the difference in a local option sales tax on a vehicle which is purchased out of the taxing jurisdiction other than which it is to be domiciled. (Attachment 1)

Senator Lee moved to introduce the bill, seconded by Senator Corbin. The motion carried.

Dan Hermes, Director of Governmental Affairs, reviewed all tax relief bills introduced in the 1998 legislative session at the Governor's request. The bills concerned property tax relief, income tax relief, sales tax relief and reform, death taxes, business taxes, and severance tax relief. (Attachment 2)

With regard to income tax relief, Senator Steineger asked that the Department of Revenue supply a statistical report comparing the number of Kansas individual income taxpayers who take advantage of the standard exemption with the number who take the personal exemption. He also requested that the report include data regarding corresponding income levels. Staff indicated that approximately two-thirds of all filers take the standard deduction and about one-third itemize.

The meeting was adjourned at 11:55 a.m.

The next meeting is scheduled for January 28, 1998.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: January 27, 1998

NAME	REPRESENTING
Dixie Horton	Sunflower Girl Scout Cncl
Frances Shearer	Sunflower Girl Scout Council
Elizabeth Hare	Wheatbelt Girl S Council
Martha Fee	Wheatbelt Girl Scout Council
Bobbie Campbell	Girl Scouts Kaw Valley
Eileen Lieger	Flint Hills Girl Scout Council
Harriet Lange	Ks Assn of Broadcasters
[illegible]	KS AUTOMOBILE DEALERS ASSN.
Jim Langford	Div of Budget
[illegible]	YMCAs of KS
Wanda Davis	Flint Hills Girl Scouts
Wanda Kinney	Flint Hills Girl Scouts
Betty L Wright	Flint Hills Girl Scout Council
Steve Montgomery	CAS Construction
TOM WHITAKER	KS MOTOR CARRIERS ASSN.
Sky Westerlund	KS Chapter-National Assoc. of Social Workers
Ashley Sherard	Overland Park Chamber
Bernie Koch	Wichita Area Chamber
Christy Caldwell	Topeka Chamber of Comm

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: JAN 27, 1998

NAME	REPRESENTING
Mike Taylor	City of Wichita
John Frederick	Boeing
Hal Hudson	NFIB/KS
Bridget Mburu	TFKC

KANSAS AUTOMOBILE DEALERS ASSOCIATION

TO: The Honorable Audrey Langworthy, Chairperson
Senate Committee on Assessment and Taxation

FROM: Don L. McNeely, KADA Executive Vice President

RE: Bill Introduction - Modified Situs Bill for Automobiles
Motor Vehicle Local Option Fairness Proposal

DATE: January 27, 1998

Madam Chair and Members of the Senate Committee on Assessment and Taxation:

My name is Don McNeely, Executive Vice President of the Kansas Automobile Dealers Association, a state trade association representing the 287 franchised new car and truck dealers in the state of Kansas.

I appear before you this morning to request introduction of a modified tax situs bill for automobile sales. Included with this cover page is a bill draft for a compensating use tax proposal which would impose the difference in a local option sales tax on a vehicle which is purchased out of the taxing jurisdiction other than which it is to be domiciled.

Under our proposal, a purchaser would pay the difference (if higher) in sales taxes levied to their county of residence if they purchase an automobile outside of their city or county. The city or county of purchase would not lose any sales tax revenues. However, the local city or county where the vehicle is to be domiciled would receive the difference at the time of registration if their sales tax is higher than that locality where the vehicle was purchased. If a sales tax is higher in the non-residential purchasing jurisdiction, there would be no additional tax levied.

We believe the bill draft before you is a fair compromise which protects revenues currently going to local units of government and at the same time levels the playing field statewide for the purchase of automobiles.

On behalf of the Kansas Automobile Dealers Association, I respectfully ask for introduction of this bill proposal. Thank you.

Senate Assessment & Taxation
1-27-98
Attachment 1

800 S.W. Jackson, Suite 1110 • Topeka, KS 66612
Telephone (913) 233-6456 • Fax (913) 233-1462

By Committee on Taxation

AN ACT imposing a local compensating use tax by cities and counties upon intrastate sales of certain vehicles.

Be it enacted by the Legislature of the State of Kansas:

Section 1. (a) A compensating use tax for the privilege of using or storing within a city or county any vehicle which is required to be registered under the provisions of article 1 of chapter 8 of the Kansas Statutes Annotated, and amendments thereto, and which is purchased within this state but without the local retailers' sales taxing jurisdiction of such city or county, is hereby imposed by every city or county imposing a retailers' sales tax. The rate of any such tax shall be equal to the difference between the aggregate rate of all local retailers' sales tax rates imposed by all local retailers sales taxing jurisdictions of the situs of such vehicle less the aggregate rate of all local retailers' sales tax rates imposed by all local retailers' sales taxing jurisdictions of the situs of the purchase of such vehicle. Except as otherwise provided in this section, any city or county imposing a compensating use tax is prohibited from administering such tax locally, but shall utilize the services of the state department of revenue to administer and enforce such tax. All laws and rules and regulations of the state department of revenue relating to the Kansas compensating tax shall apply to such local compensating use tax insofar as the same may be made applicable. Such tax shall be collected by the county treasurer at the time the vehicle is registered in this state following a sale occurring within this state. Registration of such vehicle within a taxing jurisdiction shall be deemed to constitute use or storage thereof for compensating tax purposes and the residence or place of business of the applicant shall be deemed to be the situs of such use or storage for purposes of the collection and distribution thereof.

(b) The secretary of revenue is authorized to administer and enforce a city's or county's compensating use tax and to adopt such rules and regulations necessary for the efficient and effective administration, enforcement and collection thereof.

(c) All revenue received by any county treasurer from a countywide compensating use tax shall be apportioned among the county and each city located in such county in the same manner as provided in K.S.A. 12-192, and amendments thereto, for the apportionment of revenue received from a countywide retailers' sales tax, and all revenue received from a city compensating use tax shall be remitted at least quarterly to the treasurer of such city.

Sec. 2. This act shall take effect and be in force from and after its publication in the statute book.

STATE OF KANSAS

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

(913) 296-3232
1-800-748-4408
FAX: (913) 296-7973

OFFICE OF THE GOVERNOR

LEGISLATIVE TESTIMONY

TO: Chairperson Audrey Langworthy and Members of the Senate Committee on Assessment and Taxation

FROM: Dan Hermes, ~~Director~~ of Governmental Affairs

DATE: January 27, 1998

BILL: The Governor's Tax Relief Package

Madam Chairperson and members of the committee, thank you for the opportunity to appear today in support of the Governor's package of tax relief measures for the 1998 Legislative Session.

The package the Governor has recommended is fair, significant and balanced. It will provide Kansans with tax cuts of $178.5 million next fiscal year and more than $200 million on an annual basis. The cuts include property, income, sales, death, business and severance tax relief to ensure that all Kansans benefit from the package.

Property Tax Relief

The Governor's recommendation would reduce the uniform mill levy for financing public schools from 27 mills in 1997 to 23 mills for 1998 and 1999. An extension of the current exemption of $20,000 in value of residential property from this levy for the same time period is also recommended.

Combined with the reduction from 35 to 27 mills for 1997, this recommendation would result in a reduction of over one-third in the mill levy controlled by the state.

This will save Kansas property taxpayers an estimated $40.3 million in FY 1999 and $68.9 million in FY 2000. Combined with prior mill levy reductions and the cut in vehicle taxes approved in 1995, total property tax savings are estimated to total nearly $370 million in FY 1999.

Senate Assessment + Taxation
1-27-98
Attachment 2

Income Tax Relief

The Governor's recommendation for income tax relief has four components. Together, the income tax relief proposals will provide for a balanced package to provide relief of $73.4 million in FY 1999 to all Kansans:

— Immediate equalization of the rates paid by married and single income tax payers is recommended. Tax justice was phased-in over four years last session. There is no need to wait, we have the resources and it is time for us to end this discrimination now — with an equal rate in tax year 1998.

— An increase in both the standard deduction and personal exemption is recommended. Single taxpayers would be increased from $3,000 to $3,200, head of households would be increased from $4,400 to $4,400 and married filers would be increased from $5,000 to $5,600 under this proposal. In addition, the personal exemption would be increased by $100, from $2,000 to $2,100.

— An earned income tax credit of 10 percent of the amount allowed under the federal tax code is recommended. We do not need to impose income tax on our citizens that have income less that the federal definition of poverty. This recommendation — in most cases — eliminates the Kansas income tax on our working poor.

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 proposal are exemptions for Girl Scouts, Boy Scouts and other youth organizations 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.

Clarification and fairness in the sales tax code needs to be 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 recommendation 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.

Death Taxes

Death taxes in Kansas need to be reformed. They are too high and too complicated. 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.

This is a tax reduction for all Kansans: retired homeowners, small businesses owners, farmers and ranchers who 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.

Business Taxes

The state is clearly out of step with the rest of the region for property taxes on business machinery and equipment. The time has come to reduce this tax burden. The Governor is recommending that the state allow an income tax credit equal to 15 percent of the tax paid by businesses for property taxes on machinery and equipment.

Personal property taxes on these items is also an administrative headache. The Governor is recommending that if an item is valued at less than $500, it does not need to be included in the tax base and should be exempt from the tax.

Severance Tax Relief

The case for providing tax relief for the oil industry in Kansas has been well documented. The Governor's Tax Equity Task Force in 1996 and the Kansas Inc. revised *Kansas Vision* released last year both highlighted the need to provide relief to marginal production wells and the relative high tax burden on the industry compared to surrounding states.

The Governor's proposal is similar to 1997 Senate Bill 34. It would increase the exemption from the severance tax for most marginal wells from two to five barrels per day and on tertiary recovery wells from three to six barrels per day. The bill also makes corresponding adjustments in the value of oil that is subject to ad valorem taxes.

When viewed with the income tax credit for property taxes paid on machinery and equipment and the reduction in the uniform school mill levy, this will provide significant relief to the oil production industry.

Thank you for the opportunity to visit about the Governor's tax relief package and I will be happy to stand for any questions.