

Approved: 2-3-98
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:05 a.m. on January 29, 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
Don Hayward, Revisor of Statutes
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Terri Roberts, Kansas State Nurses Association
Don Schnacke, Kansas Independent Oil & Gas Association
Ron Hein, Pioneer Natural Resources USA, Inc.
LewJene Schneider, Kansas Livestock Association
Austin Nothern, Kansas Bar Association
Carol Smith, United Community Services of Johnson County
Sister Therese Bangert, Kansas Catholic Conference
Carol Deason, Western Resources
Nancy Shockey
Bob Corkins, Kansas Chamber of Commerce & Industry
Hal Hudson, National Federation of Independent Business

Others attending: See attached list

Senator Steve Morris requested the introduction of a conceptual bill regarding the severance tax. The bill would allow an exemption from the severance tax on certain low production wells that are reworked. The difference between what the wells currently produce and what they produce after being reworked would be exempt from the severance tax. The exemption would provide an incentive for increased production.

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

Terri Roberts, Kansas State Nurses Association, requested the introduction of a bill on behalf of the Tobacco Free Kansas Coalition. The bill would raise the excise tax on cigarettes by fifty cents per pack, effective July 1, 1998. (Attachment 1)

Senator Steineger moved to introduce the bill, seconded by Senator Steffes. The motion carried.

Senator Langworthy requested the introduction of a bill relating to property taxation on behalf of Paul Welcome, County Appraiser's Association. The proposed bill would allow for sales to be presented on the appraised valuation notice.

Senator Donovan moved to introduce the bill, seconded by Senator Goodwin. The motion carried.

Continued hearing on **SB 500--Enacting the Kansas Tax Reduction and Reform Act of 1998.**

Don Schnacke, Kansas Independent Oil and Gas Association, testified in support of the 15 percent credit for taxes paid on machinery and equipment and the reduction of taxes paid relating to marginal oil production. These tax incentives will slow the loss of production from marginal wells and, thus, help the economy of the state. (Attachment 2)

Ron Hein, counsel for Pioneer Natural Resources, followed with further testimony in support of Section 24 of **SB 500**, the portion concerning the reduction of taxes paid relating to marginal oil production. He offered an amendment which would also exempt marginal producing natural gas wells. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:00 a.m. on January 29, 1998.

LewJene Schneider, Kansas Livestock Association (KLA) testified in support of the inheritance tax portion of **SB 500**. KLA members believe that the current Kansas inheritance tax is a regressive tax as research indicates that approximately two-thirds of inheritance taxes paid in Kansas are paid by those who have an estate of less than \$600,000. If the bill passes, the Kansas estate tax would still be applicable as a "pick up" tax which means that 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 which is \$625,000, effective January 1, 1998. (Attachment 4)

Austin Nothern, an attorney representing the Kansas Bar Association, testified in support of the concept of moving towards a complete "pick up" tax in lieu of the inheritance tax. In his experience he has found that most people understand the federal exemption, but they are not aware that they will be impacted by the Kansas inheritance tax and are annoyed by both the compliance cost and the payment of the inheritance tax. Mr. Nothern sees the inheritance tax as falling disproportionately heavy on people of modest means, meaning those who have an estate under \$600,000 or those who inherit less than \$600,000. Furthermore, the Kansas inheritance tax is enforced unequally as only real estate is affected by it. Mr. Nothern noted that at least 31 other states have moved to a complete "pick up" tax because of its simplicity and because of the ability to "piggy back" upon the federal enforcement measures.

Carol Smith, United Community Services of Johnson County, Inc., strongly urged the committee to reconsider the Governor's proposal for a earned income tax credit and include it in **SB 500**, noting that Kansas is one of 24 states with a state income tax that taxes families living below the federal poverty level. She contended that a state earned income tax credit is an efficient way to keep the tax code from taxing families deeper into poverty, and it is a proven tool to reduce welfare dependency. She noted that the reason given for deleting earned income tax credit from the bill was because it was one of the Governor's smaller proposals. She pointed out that for a rather modest amount of money, the Legislature could make a big difference in the lives of families of the working poor, especially young families just starting out. (Attachment 5)

Sister Therese Bangert, Kansas Catholic Conference, followed with further testimony in support of the inclusion of a state earned income tax credit in **SB 500** as it would greatly benefit low income, working families. She emphasized that the majority of the tax credit would go back into the Kansas economy. (Attachment 6)

Carol Deason, Western Resources, testified in support of Section 20 of **SB 500** regarding an income tax credit of 15 percent of the property tax paid on commercial and industrial machinery and equipment. As a matter of equity among Kansas businesses, she proposed an amendment to Section 20 to include public utilities. (Attachment 7)

Nancy Shockey, a single working mother of three, testified in strong support of the inclusion of a state earned income tax credit in **SB 500**, concluding that the earned income tax credit would be dignified help for families, like hers, who are struggling to make ends meet. (Attachment 8)

Senator Langworthy called attention to written testimony in support of the mill levy reduction portion of **SB 500** submitted by Jim Allen, Commercial Property Association of Kansas, (Attachment 9) and George Peterson, Kansas Taxpayers Network (Attachment 10).

Bob Corkins, Kansas Chamber of Commerce and Industry, testified in general support of **SB 500**. (Attachment 11)

Hal Hudson, National Federation of Independent Business, testified in support of all provisions in **SB 500**. (Attachment 12)

There being no further persons wishing to testify, the hearing on **SB 500** was closed.

Senator Bond moved to amend Section 20 of **SB 500** as suggested by Sprint with regard to tax credit for differing forms of business entities, seconded by Senator Steffes. The motion carried.

Senator Bond moved to report **SB 500** as favorable for passage as amended, seconded by Senator Donovan. The motion carried with Senators Lee and Karr passing.

The meeting was adjourned at 12:25 p.m.

The next meeting is scheduled for February 3, 1998.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: January 29, 1998

NAME	REPRESENTING
Bill Fuller	Kansas Farm Bureau
Tom Roberts	Kansas State Nurses Assn.
Bridget Mburu	Tobacco Free Kansas Coalition
Bob Corkins	KCCI
Cindee Stratton	American Heart Association
Mary Joanne Hellebusch	Kansas Smokeless Kids Initiative
Sally Finney	Kansas Public Health Association
Sue Henke	American Lung Association of Kansas
Dave Holthaus	Western Res
Caryl Deason	" "
Bud Burke	" "
Kelly Kullala	City of Overland Park
George Peterson	Ks. Taxpayers Network
Doug Wareham	Ks. Grain & Feed Assn.
Hal Hudson	NFIB/KS
Whitney Damron	KS Bar Assn.
Ashley Shevard	Overland Park Chamber
Christy Caldwell	Topeka Chamber of Comm.
Kathy Olsen	Ks Bankers Assn.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: January 29, 1998

NAME	REPRESENTING
Marshall Lee Smith	KMHA
Tom Whitaker	Ks Motor Carriers Assn
Steve Montgomery	CAS Construction
Jim Lacy, Fols	DOB
Bird Jones	BOEING
Shane Farmer	KASB
DET Brown	Mid-Am Lumberman
Tom Olson	Koma
Ken Peterson	Ks Petroleum Council
Mary Becker	Kansas Respond
Carol Smith	United Community Services of Plo
Dave Shockey	Concerned Citizen
Patricia Randall	Whitney Lawson PA
Tom Barches	WCCMA = Assn.
Christin Nottram	Kansas Bar Assoc.
Louise Schneider	Kansas Unrestok Assoc.



Tobacco *Free* Kansas Coalition, Inc.

TO: Senate Assesment and Taxation Committee

FROM: Terri Roberts, Chair
Tobacco Free Kansas Policy Committee

DATE: January 29, 1998

The Tobacco Free Kansas Coalition (TFKC) respectfully requests the introduction of a bill to raise the Excise Tax on cigarettes by \$.50 per pack, effective July 1, 1998.

The primary goal of the TFKC's request for a substantial increase in excise tax on cigarettes is to reduce childrens usage and access to tobacco. A \$.50 increase in price is estimated to reduce adult consumption by 11% and adolescent consumption by 21%.

Thank you.

**RAISING THE EXCISE TAX ON CIGARETTES BY \$.50
Overview of the Bill**

The bill would, effective June 1, increase the cigarette tax from 24 cents to 74 cents per pack of 20 cigarettes and from 30 cents to 92.5 cents per pack of 25 cigarettes. Cigarette taxes would be continue to be deposited in the SGF (state general fund).

An inventory tax would be imposed on cigarettes in the hands of dealers on June 1, 1998, to coincide with the rate increase. Discounts allowed cigarette products wholesalers would be adjusted to provide the same amount per pack of cigarettes as is allowed under current law.

There are three statutes involved with making this proposed change in the Excise Tax:

K.S.A. 79-3310, 79-3310b, and 79-3311

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*Senate Assesment + Taxation
1-29-98
Attachment 1*

TOBACCO FREE KANSAS COALITION, INCORPORATED OFFICERS

Gary Doolittle, M.D.

Judy Keller, B.A., M.B.A.

Maxine Burch, M.S.,R.D.,L.D.

Topeka Office

4300 SW Drury Lane
Topeka, Kansas 66604

Phone 785-272-8396

Fax 785-272-9297

ASSISTANT PROFESSOR
OF ONCOLOGY, UNIVERSITY
OF KANSAS MEDICAL CENTER

EXECUTIVE DIRECTOR
AMERICAN LUNG
ASSOCIATION OF KANSAS

CHRONIC DISEASE RISK REDUCTION
HEALTH PROMOTION COORDINATOR
MARION COUNTY HEALTH DEPARTMENT

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

Section 1. On or after June 1, 1998, K.S.A. 79-3310 is hereby amended to read as follows:

79-3310. Tax on cigarettes imposed; rates. There is imposed a tax upon all cigarettes sold, distributed or given away within the state of Kansas. The rate of such tax shall be ~~\$.24~~ on each 20 cigarettes or fractional part thereof or ~~\$.20~~ on each 25 cigarettes, as the

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case requires. Such tax shall be collected and paid to the director as provided in this act. Such tax shall be paid only once and shall be paid by the wholesale dealer first receiving the cigarettes as herein provided.

The taxes imposed by this act are hereby levied upon all sales of cigarettes made to any department, institution or agency of the state of Kansas, and to the political subdivisions thereof and their departments, institutions and agencies.

History: L. 1933, ch. 122, § 10 (Special Session); L. 1935, ch. 309, § 2; L. 1939, ch. 329, § 9; L. 1947, ch. 459, § 1; L. 1957, ch. 505, § 1; L. 1964, ch. 37, § 1 (Budget Session); L. 1965, ch. 529, § 1; L. 1967, ch. 498, § 7; L. 1970, ch. 396, § 1; L. 1983, ch. 329, § 1; L. 1984, ch. 357, § 2; L. 1985, ch. 327, § 1; Oct. 1.

Source or prior law:
79-3020.

Research and Practice Aids:
Licenses § 14.1(5).
C.J.S. Licenses § 30.

CASE ANNOTATIONS

1. Tax increase became effective after payment by wholesaler but prior to distribution; wholesaler not liable for increase. *The Fleming Company v. McDonald*, 212 K. 11, 12, 13, 15, 509 P.2d 1162.

Sec. 2. On or after June 1, 1998,
K.S.A. 79-3310b is hereby amended to
read as follows

79-3310b. Inventory tax on cigarettes;
rate; disposition of revenue. On or before ~~October 31, 1985~~ June 30, 1998, each wholesale dealer, retail
dealer and vending machine operator shall file
a report with the director in such form as the
director may prescribe showing cigarettes, cig-
arette stamps and meter imprints on hand at
12:01 a.m. on ~~October 1, 1985~~ June 1, 1998. A tax of ~~\$.08~~ .50
on each 20 cigarettes or fractional part thereof
or ~~\$.16~~ .625 on each 25 cigarettes, as the case re-
quires and ~~\$.08~~ .50 or ~~\$.16~~ .625, as the case requires
upon all tax stamps and all meter imprints pur-
chased from the director and not affixed to
cigarettes prior to ~~October 1, 1985~~ June 1, 1998, is hereby
imposed and shall be due and payable on or
before ~~October 31, 1985~~ June 30, 1998. The tax imposed
upon such cigarettes, tax stamps and meter
imprints shall be imposed only once under this
act. The director shall remit all moneys col-
lected pursuant to this section to the state
treasurer who shall credit the entire amount
thereof to the state general fund.

History: L. 1983, ch. 329, § 3; L. 1984,
ch. 357, § 3; July 1.

Sec. 3 On and after June 1, 1998, K.S.A. 79-3311 is hereby amended to read as follows:

79-3311. Stamps and meter imprints; sale; discount; corporate surety bond; tax meter, use and bond; cigarette tax refund fund established; transportation for out-of-state sale. The director shall design and designate indicia of tax payment to be affixed to each package of cigarettes as provided by this act. The director shall sell water applied stamps only to licensed wholesale dealers in the amounts of 1,000 or multiples thereof. Stamps applied by the heat process shall be sold only in amounts of 30,000 or multiples thereof, except that such stamps which are suitable for packages containing 25 cigarettes each shall be sold in amounts prescribed by the director. Meter imprints shall be sold only in amounts of 10,000 or multiples thereof. Water applied stamps in amounts of 10,000 or multiples thereof and stamps applied by the heat process and meter imprints shall be supplied to wholesale dealers at a discount of ~~2.55%~~ from the face value thereof, and shall be deducted at the time of purchase or from the remittance therefor as hereinafter provided. Any wholesale cigarette dealer who shall file with the director a bond, of acceptable form, payable to the state of Kansas with a corporate surety authorized to do business in Kansas, shall be permitted to purchase stamps, and remit therefor to the director within 30 days after each such purchase, up to a maximum outstanding at any one time of 85% of the amount of the bond. Failure on the part of any wholesale dealer to remit as herein specified shall be cause for forfeiture of such dealer's bond. All revenue received from the sale of such stamps or meter imprints shall be remitted to the state treasurer daily. Upon receipt thereof, the state treasurer shall deposit the entire amount thereof in the state treasury. The state treasurer shall first credit such amount thereof as the director shall order to the cigarette tax refund fund and shall credit the remaining balance to the state general fund. A refund fund designated the cigarette tax refund fund not to exceed \$10,000 at any time shall be set apart and maintained by the director from taxes collected under this act and held by the state treasurer for prompt payment of all refunds authorized by this act. Such cigarette tax refund fund shall be in such amount as the director shall determine is necessary to meet current refunding requirements under this act. The wholesale cigarette dealer shall affix to each package of cigarettes stamps or tax meter imprints required by this act prior to the sale

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of cigarettes to any person, by such dealer or such dealer's agent or agents, within the state of Kansas. The director is empowered to authorize wholesale dealers to affix revenue tax meter imprints upon original packages of cigarettes and is charged with the duty of regulating the use of tax meters to secure payment of the proper taxes. No wholesale dealer shall affix revenue tax meter imprints to original packages of cigarettes without first having obtained permission from the director to employ this method of affixation. If the director approves the wholesale dealer's application for permission to affix revenue tax meter imprints to original packages of cigarettes, the director shall require such dealer to file a suitable bond payable to the state of Kansas executed by a corporate surety authorized to do business in Kansas. The director may, to assure the proper collection of taxes imposed by the act, revoke or suspend the privilege of imprinting tax meter imprints upon original packages of cigarettes. All meters shall be under the direct control of the director, and all transfer assignments or anything pertaining thereto must first be authorized by the director. All inks used in the stamping of cigarettes must be of a special type devised for use in connection with the machine employed and approved by the director. All repairs to the meter are strictly prohibited except by a duly authorized representative of the director. Requests for service shall be directed to the director. Meter machine ink imprints on all packages shall be clear and legible. If a wholesale dealer continuously issues illegible cigarette tax meter imprints, it shall be considered sufficient cause for revocation of such dealer's permit to use a cigarette tax meter.

A licensed wholesale dealer may, for the purpose of sale in another state, transport cigarettes not bearing Kansas indicia of tax payment through the state of Kansas provided such cigarettes are contained in sealed and original cartons.

History: L. 1933, ch. 122, § 11 (Special Session); L. 1935, ch. 309, § 3; L. 1939, ch. 329, § 10; L. 1957, ch. 505, § 2; L. 1964, ch. 37, § 2 (Budget Session); L. 1965, ch. 529, § 2; L. 1967, ch. 498, § 8; L. 1970, ch. 396, § 2; L. 1971, ch. 315, § 1; L. 1983, ch. 329, § 4; L. 1985, ch. 327, § 2; L. 1986, ch. 381, § 1; July 1.

Source or prior law:
79-3025.

60th
YEAR

KIOGA

KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 S. BROADWAY • SUITE 500 • WICHITA, KANSAS 67202-4262

(316) 263-7297 • FAX (316) 263-3021

800 S.W. JACKSON • SUITE 1400 • TOPEKA, KANSAS 66612-1216

(913) 232-7772 • FAX (913) 232-0917

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* EXECUTIVE COMMITTEE

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

JANUARY 29, 1998

Testimony of Donald P. Schnacke

Kansas Independent Oil & Gas Association

RE: SB 500- Kansas Tax Reduction and Reform Act

I am Don Schnacke, representing the Kansas Independent Oil and Gas Association, appearing in favor of SB 500.

We would like to indicate our support for two provisions provided in SB 500, which include

- (1). The 15% credit for taxes paid on machinery and equipment.
- and
- (2). The reduction of taxes paid relating to marginal oil production.

Yesterday, Senator Kerr's portrayal of the plight of the oil industry was correct, except he mentioned that oil prices had dropped to a low of \$16.- when in fact it recently has dropped as low as \$12.75.- which is devastating to oil operators - especially those with low producing marginal wells, which SB 500 addresses.

Twelve years ago Dr. Anthony Redwood completed a study indicating the strength of the Kansas business environment was its diversity of its economic base, which were like three legs to the Kansas economic stool- agriculture; oil and gas, and manufacturing. The recent robust economic recovery returned agriculture and manufacturing to normal levels, where as the oil industry has failed to recover.

There is great deal of backup support from the IOGCC, KGS, and Kansas Inc. that justifies tax reduction help for the oil industry in Kansas. We have outlined this in a much more in depth and lengthy testimony. A copy of our more lengthy testimony is attached.

We urge the passage of SB 500 which will be of help to our industry.

Donald P. Schnacke

DPS:sm

*Senate Assessment & Taxation
1-29-98
Attachment 2*



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 S. BROADWAY • SUITE 500 • WICHITA, KANSAS 67202-4262
(316) 263-7297 • FAX (316) 263-3021
800 S.W. JACKSON • SUITE 1400 • TOPEKA, KANSAS 66612-1216
(913) 232-7772 • FAX (913) 232-0917

SENATE COMMITTEE ON ASSESSMENT AND TAXATION JANUARY 28, 1998.

Testimony of Donald P. Schnacke
Kansas Independent Oil & Gas Association
RE: SB 500- Kansas Tax Reduction and Reform Act

I am Don Schnacke, representing the Kansas Independent Oil and Gas Association, appearing in favor of the passage of SB 500.

Our association likes SB 500 in its entirety but we will limit our comments to two tax reduction features that directly impact on Kansas oil and gas operators.- The 15% credit for taxes paid on machinery and equipment; and the reduction of taxes paid relating to marginal oil production. Both of these proposals were recommended for passage by Governor Graves.

The State of Kansas is an active charter member of the Interstate Oil and Gas Compact Commission (IOCGG). Governor Graves and the members of KCC, participate regularly in IOCGG deliberations.

The IOCGG recently completed a nationwide study on the subject of marginal oil production. Their study is dedicated to urging the producing states to slow the loss of production from marginal wells by passing tax incentives and other measures to keep marginal wells in production. A compilation of data contained in the IOGCC report relating directly to Kansas marginal production is attached. In Kansas, oil production is declining 7% annually and is at a 64-year low, slightly above that recorded in 1933.

As a result of the IOGCC study, Governor Graves released a public statement reflecting the importance of marginal well production as it relates to the economy of the State of Kansas. He indicated that marginal production in Kansas accounts for nearly 8,000 jobs and an economic impact in Kansas of almost \$560 million. His public statement is attached.

HOUSE COMMITTEE ON TAXATION

RE: SB 500

January 28, 1998

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A brief additional set of facts we have accumulated reflecting the condition of the Kansas oil industry is as follows:

Industry Conditions/Contributions at a glance

- Kansas oil production has declined 41% from 1984 to 1995.
- Kansas oil production slumped to a 61-year low in 1995.
- Direct oil field employment has declined 60% from 1984 to 1995.
- Active rotary rigs have declined 77% from 1984 to 1995.
- Kansas drilling activity has declined 87% from 1984 to 1995.
- Kansas is home to over 44,000 marginal wells.
- Each marginal well is a resident Kansas consumer expending over \$12,000 on Kansas jobs, goods and services. This amounts to over \$484 million annually.
- A typical dollar expended by a marginal Kansas well is allocated as follows:

Labor	\$5,000 per year
Utilities	\$4,000 per year
Goods/Services	\$3,000 per year
- Marginal wells return over \$60 million annually to landowners in royalty payments. A significant portion of these funds remain in the rural farm community.

Dr. Anthony Redwood, University of Kansas, completed an economic study in 1986 that was to be the foundation for Kansas Economic Development. In this study, Dr. Redwood determined a major strength in the Kansas business environment was its diversity of economic base, which were like three legs to the Kansas economic stool -agriculture, oil and gas, and manufacturing. The recent robust economic recovery returned agriculture and manufacturing to normal levels, whereas, the oil and gas industry has failed to recover. The enclosed Kansas Oil and Gas Production (prepared by the Kansas Geologic Survey) displays the steep oil production decline of the state.

Kansas, Inc. released a new report, "**A Kansas Vision for the 21st Century - The Strategic Plan for Economic Development**", dated January, 1997. It points out as a major goal and objective that it is important to "*reduce the total tax burden on the oil and gas industry to a level competitive with other marginal producing states.*" That is what SB 500 does. It updates previously passed legislation that reduces the taxes on marginal oil production in Kansas. A special industry tax committee, organized by Kansas, Inc. recommended that marginal wells up to 15 BOPD be relieved of taxation, following that recognized by the federal government. SB 500 does not go that far, but moves in the right direction.

HOUSE COMMITTEE ON TAXATION

RE: SB 500

January 28, 1998

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The passage of SB 500 will save marginal oil wells and preserve employment. It will benefit the oil industry and rural Kansas neither which are keeping pace with the remaining Kansas economy.

Additionally, within SB 500, you have included the Governor's recommendation for a tax credit for industrial machinery and equipment. Your definition includes the proper references within the constitution that refer to machinery and equipment related to oil and gas industry activity.

As we did last year, when SB 51 (1997) was heard before this committee, we supported the percentage credit against the tax liability under the Kansas income tax for machinery and equipment. We continue to support that proposal as contained in SB 500.

Thank you!

Donald P. Schnacke

DPS:sm

Attach: IOGCC Summary for Kansas
Statement by Governor Graves
Kansas Oil and Gas Production



INTERSTATE OIL AND GAS COMPACT COMMISSION

P.O. Box 53127, Oklahoma City, OK 73152-3127 • 900 N. E. 23rd Street, Oklahoma City, OK 73105

Phone: 405/525-3556 • Fax: 405/525-3592 • E-Mail: iogcc@oklaosf.state.ok.us

World Wide Web <http://www.iogcc.oklaosf.state.ok.us>

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Marginal Oil and Gas: Fuel for Economic Growth KANSAS FACTS — 1995 DATA

It would be an understatement to say oil and gas are major contributors to Kansas' economy. The IOGCC's economic report estimates the total value of all oil and gas produced in Kansas in 1995 at \$1.65 billion. Oil and gas produced from marginally economic, "stripper" (low-volume) wells contributed more than \$559 million of that amount in 1995.

Secondary recovery techniques are important to Kansas' stripper oil production, totaling 48 percent (15,275 MBBLS) of the oil produced from stripper wells in 1995.

The average stripper oil well in Kansas produces just 2.08 barrels of oil per day, just under the national average of 2.10. Kansas' stripper gas wells produced an average 32.8 MCF per well each day, well above the national average of 15.9 MCF.

Kansas ranks fourth nationally in stripper oil production, with total 1995 stripper oil production at 31,796,645 BBLS. Kansas' total oil produced, including stripper and all other production, according to IOGCC figures, was 44,233 MBBLS in 1995. Stripper gas production in Kansas topped 33,967,364 MCF in 1995, with total gas produced totaling 723,968 MMCF.

Kansas is third-highest in the nation in the number of stripper oil wells, with 41,913 wells, and has nearly 3,000 stripper gas wells. The IOGCC's economic report indicates Kansas' stripper oil and gas industry contributed 7,944 jobs inside and outside the oil and gas industry and more than \$107 million in earnings in 1995.

During 1995, 1,754 stripper oil wells and 238 stripper gas wells were permanently plugged and abandoned in Kansas. This abandonment cost Kansas more than \$25.2 million in revenues and 359 jobs. Permanently plugging and abandoning a well effectively eliminates the possibility of harvesting any remaining resource from the well.

Stripper oil production lost in 1995 due to abandonment totaled 1,330,645 BBLS; stripper gas production lost was 2,846,561 MCF.

MEMBER STATES Alabama • Alaska • Arizona • Arkansas • California • Colorado • Illinois • Indiana • Kansas • Kentucky • Louisiana • Maryland • Michigan
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West Virginia • Wyoming ASSOCIATES Georgia • Idaho • Missouri • North Carolina • Oregon • South Carolina • Washington INTERNATIONAL AFFILIATE Alberta

(3)

2-5

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
 WEEKLY COLUMN
 Week of October 6, 1996

Kansas Oil and Gas Production Fuels Economic Engine

We are fortunate to be geographically and geologically blessed. The state of Kansas sits atop some of the richest deposits of known oil reserves in the country, and the vast Hugoton natural gas field of southwest Kansas is the nation's largest. Ninety-five of our 105 counties have some amount of oil and gas production. For decades, the recovery and production of these vital natural resources have supported many a Kansas family and community, and provided the entire country with crucial fuel supplies.

The agriculture, manufacturing, and service sectors are each crucial components to the Kansas economy, but for more than a century, the oil and gas industries have employed thousands of people, generated billions of dollars, and carved out its own unique niche in our rich Kansas heritage.

A new report published by the Interstate Oil and Gas Compact Commission helps drive home my point. The report chronicles the key role played by marginal oil and gas wells. These marginal or low-volume wells -- sometimes called "stripper" wells -- account for nearly 8,000 jobs and almost \$560 million in economic impact in Kansas.

The report only reinforces the fact that the oil and gas industries are essential to our state's economic vitality. Seventy-one percent of the oil produced in Kansas comes from stripper wells. Every dollar of marginal oil and gas production in this country creates 58 cents in additional economic activity, and every \$1 million in production creates more than nine jobs. Oil and gas production in Kansas also helps provide revenues for essential government services.

When oil was first discovered in Kansas, it would often spout from the ground in huge gushers. Those days are long gone, but there is still plenty of oil and gas below the ground in Kansas and across the country. We have what the industry calls a "mature" resource. That means we have to work to get at it, but it is that work that creates the jobs and helps fuel the economic engine.

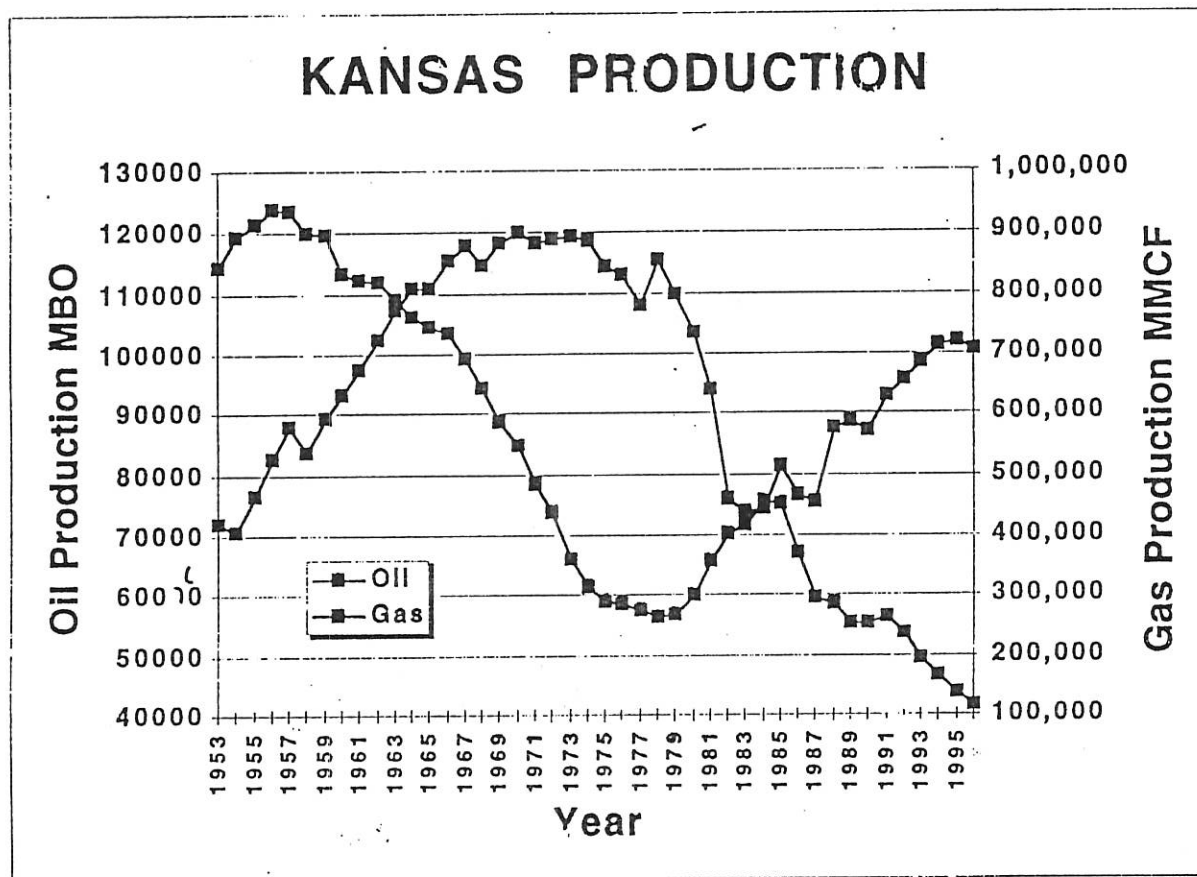
With imported oil expected to reach 67 percent of total American consumption within 10 years, it is important that we sharpen the competitive edge of our domestic producers, and provide them an environment that allows them to do what they do best.

I am proud to be Governor of a state with such a rich history in oil and gas production, and I am confident the industry's future holds bright promise.

For more information on this or other issues dealing with Kansas government, contact Gov. Bill Graves' office at 1-800-748-4408, or visit the Governor's homepage at <http://www.kspress.com/governor/index.html>.

Kansas Oil & Gas Production

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HEIN AND WEIR, CHARTERED

ATTORNEYS AT LAW

5845 S.W. 29th Street, Topeka, KS 66614-2462

Telephone: (785) 273-1441

Telefax: (785) 273-9243

Ronald R. Hein

Stephen P. Weir

Susan Baker Anderson

SENATE TAXATION COMMITTEE

TESTIMONY RE: SB 500

Presented by Ronald R. Hein

on behalf of

PIONEER NATURAL RESOURCES USA, INC.

January 29, 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, lines 29-43]. The oil exemption for marginal wells was set out in (b)(2), on page 19, commencing on 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

Senate Assessment & Taxation
1-29-98
Attachment 3

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.

3-3

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 provisions
 4 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 produced
 14 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 deduction
 16 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 production
 34 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 ~~\$81~~ 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 computing
 41 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

W-1



Since 1894

Testimony

presented by

LewJene Schneider,
Director of Research and Legal Affairs

regarding

Senate Bill 500

before the

SENATE COMMITTEE ON ASSESMENT AND TAXATION

JANUARY 28, 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.

*Senate Assessment & Taxation
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Attachment 4*

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

We urge you to give favorable consideration to 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.

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

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

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

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

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

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

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

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

ESTATE:

Dillons Stock	\$550,000	
Checking Account	\$2,000	
Car	<u>\$6,500</u>	
	\$558,500	Estate

TAX COMPUTATION:

\$	<u>558,500</u>				
\$	<u>100,000</u>	@	10% Tax	=	\$10,000
\$	458,500				
\$	<u>100,000</u>	@	12% Tax	=	\$12,000
\$	358,500	@	15% Tax	=	<u>\$53,700</u>
					\$ 75,700 due

Estimated Legal and Accountants Fee:

\$ 2,000

Uncle Fred's Estate

ESTATE:

Dillons Stock	\$550,000	
Checking Account	\$2,000	
Car	<u>\$6,500</u>	
	\$558,500	Estate

TAX COMPUTATION:

\$558,500

\$ 100,000 @ 10% Tax = \$10,000

\$458,500

\$ 100,000 @ 12% Tax = \$12,000

\$ 358,500 @ 15% Tax = \$53,700

\$ 75,700 due

Estimated Legal and Accountants Fee:

\$ 2,000

PURSUANT TO SENATE BILL 500
Fred Jones' Estate

ESTATE:

Dillons Stock	\$550,000
Checking account	2,000
Car	<u>6,500</u>

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

ESTIMATED PROFESSIONAL FEES:

\$00.00 to \$500.00

KANSAS INHERITANCE TAXES DUE:

ZERO

JOHN SMITH lived in Nemaha County. He died on October 30, 1997. John and Doris, his wife, were farmers. Doris died in 1985. John had not farmed for years. His nephew, Mark Smith, took care of the ground and Uncle John.

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

John and Doris never had children. They wanted children and tried, but it just didn't happen. John and Doris decided to leave their land to Mark Smith, their nephew and only living relative.

Mark has farmed Doris and John's ground for the last 25 years. He owns the adjoining section, and has purchased additional land over the years. Uncle John's section of land is very important to Mark's farming operation. To lose the land would put a financial strain on the business.

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

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

Mark must pay **10%** tax on the first \$100,000.,

12% tax on the next \$100,000.,

15% tax on anything over \$200,000.

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

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

Mark does not have **\$80,875**. His wife does not work outside the home. She works on the farm. Where will the money come from to pay the inheritance taxes? He does not want to have to sell the land or procure a loan from the bank. If he sells the land there may be capital gains tax due, along with a 6% to 7% commission fee to the real estate agent.

If he takes out a 20 year loan, his monthly payment will be \$676.47 In twenty years he will have paid \$81,478. in interest, making the total cost of the inheritance \$162,353. If he takes out a 10 year loan, his monthly payment will be \$981.24 a month on an 8% note. He will pay \$36,873. in interest, making the total cost of the inheritance \$117,748.

Therefore, Mark and his wife much decide how much they are willing to pay in interest to retain the land. They cannot pay off an \$81,000. loan in one or two years. They have a son who is a freshman at K-State. Mark planned to give Johnny the pickup. He was going to use Uncle John's cash to buy an annuity for each of his two children.

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

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

JOHN SMITH'S ESTATE:

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

KANSAS GROSS ESTATE: \$592,500.

TAX COMPUTATION FOR KANSAS INHERITANCE TAX:

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

TOTAL KANSAS INHERITANCE TAX DUE: \$80,875.

TAX COMPUTATION FOR FEDERAL ESTATE TAX:

NONE

TOTAL FEDERAL ESTATE TAX DUE:

ZERO

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

PURSUANT TO SENATE BILL 500
John Smith's Estate

JOHN SMITH'S ESTATE:

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

KANSAS GROSS ESTATE: \$592,500.

ESTIMATED PROFESSIONAL FEES:
\$00.00 to \$500.00

KANSAS INHERITANCE TAXES DUE:

ZERO

No land sold or loan procured to pay inheritance taxes.

TAX COMPUTATION SCHEDULE

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

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

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United Community Services
of Johnson County, Inc.

TESTIMONY

Senate Assessment and Taxation Committee

January 28 or 29, 1998

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- Karen Wulffkuhle

Good morning. My name is Carol Smith. As their research director, I am here to speak to you on behalf of United Community Services of Johnson County (UCS). UCS is United Way's planning partner in Johnson County and monitors the Kansas Legislature for the United Way Association of Kansas.

UCS's number one priority for the 1998 legislative session is the creation of a state earned income tax credit. Kansas is one of 24 states with a state income tax that taxes families living below the federal poverty level. A state earned income tax credit is a pro-family policy that reduces the tax burden for a significant number of young Kansas families with children. SB 500 removes Governor's Graves proposal for a Kansas state earned income tax credit. UCS urges you to reconsider that decision.

The reasons to support the credit are many. A state earned income tax credit is an efficient way to keep the tax code from taxing families deeper into poverty. It is also a targeted way to offset other state and local taxes, such as the sales tax on food. UCS chose to support an earned income tax credit because it can provide tax relief to working low- and moderate-income families without creating large revenue losses that must be made up in other parts of the tax system. Secondly, most of the tax cuts granted in the last several years have not been targeted toward the working poor, but rather towards property owners and those of a more affluent status. Finally, for a relatively modest amount of money, this policy can take place.

UCS believes one of the most attractive reasons to support a state earned income tax credit is because it is a proven tool to reduce welfare dependency. Last month, UCS released a report on the impact of welfare reform in Johnson County. The trends

United Way's Planning Partner in Johnson County • Funded by Heart of America United Way

Senate Assessment & Taxation

1-29-98

Attachment

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observed hold implications for welfare reform statewide. Caseloads for cash assistance are dropping in record numbers across the state. UCS found that in Johnson County, the number of children and their families receiving cash assistance dropped in half from 1996 to 1997. Statewide, the number of Kansans receiving cash assistance dropped by a third during the same time period. Clearly, increasing numbers of poor families across Kansas are depending upon earned income to cover basic living expenses.

The UCS welfare reform report also found that former welfare participants most often receive wages that leave them in poverty. In 1997, a two-parent family with two children and one wage earner making \$7.75 per hour would still live below the federal poverty level (\$16,050 for a family of four). S.R.S. documents that the average hourly wage of former cash assistance recipients in Johnson County is \$6.33 per hour for full-time work and \$5.75 for part-time work. The earned income tax credit is a policy option that helps to ensure that families succeed at work, not cycle back on public assistance. For families leaving welfare for work at earnings below the poverty level, it is critical that the earned income tax credit be refundable.

It is equally important to note that this policy would help thousands of working families who do not live below the poverty level. Kansas had between 40,000 and 50,000 families with children living below the poverty line during the 1990's. In 1996, 151,000 Kansas families and individuals claimed an average federal EITC of \$1,245. Clearly, the federal EITC is well-used by thousands of Kansas families with both poverty- to moderate-level incomes. The federal EITC is phased-in for low-wage or part-time working families, serving as an incentive to expand work. It is phased-out as family income increases. In 1997, the federal EITC phases-out for one child families at \$25,760 and at \$29,290 for families with two or more children.

Before closing, I would like to comment briefly on the Governor's proposal to expand the existing Kansas rebate for sales tax on food. The existing policy has been little used, primarily because it is invisible and unknown to the people who might benefit. If outreach for the food sales tax rebate was tied to outreach for a state earned income tax credit, you could be assured that many thousands of the families which should be able to benefit from this policy would at least

know that it existed. The earned income tax credit would provide an inexpensive, customer-friendly way to do outreach on the food sales tax rebate.

In closing, thank you for your time this morning. At UCS, we realize that you are faced during this Session with many competing tax cuts. We hope you will give the earned income tax credit the attention that it deserves, as a very effective tool to target tax relief to a group of Kansans who need our help. If you have questions or would like additional information about anything in this testimony, we welcome the opportunity for continued dialogue.

###

1998 Kansas Legislature
COMPARISONS OF TAX REDUCTION PROPOSALS:
IMPACT ON THE WORKING POOR

5-4

	Current Law *	Governor Graves' Plan**	Senate Bill 500**
Single Parent with One Child - <i>Living at 100% of Federal Poverty Level</i> \$11,440 Annual Income (\$5.50 Hourly Wages)	KS Income Tax Owed = \$125 TAX OWED = \$125	KS Income Tax Owed = \$85 Minus State Earned Income Tax Credit CREDIT = \$ 136	KS Income Tax Owed = \$ 82 TAX OWED = \$ 82
Single Parent with Two Children - <i>Living at 100% of Federal Poverty Level</i> \$13,500 Annual Income (\$6.50 Hourly Wages)	KS Income Tax Owed = \$128 TAX OWED = \$128	KS Income Tax Owed = \$85 Minus State Earned Income Tax Credit CREDIT = \$264	KS Income Tax Owed = \$72 TAX OWED = \$72
Married Couple with Two Children - <i>Living at 100% of Federal Poverty Level</i> \$16,120 Annual Income (\$7.75 Hourly Wages)	KS Income Tax Owed = \$109 TAX OWED = \$109	KS Income Tax Owed = \$74 Minus State Earned Income Tax Credit CREDIT = \$187	KS Income Tax Owed = \$60 TAX OWED = \$60

* Based on 1997 Kansas tax code.

** Based on proposals for 1998 tax year.

5-4



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**TESTIMONY FOR SENATE ASSESSMENT and TAXATION
COMMITTEE**

JANUARY 28-29, 1998

Sister Therese Bangert
Kansas Catholic Conference

Kansas Catholic Conference is the voice of the four Roman Catholic Bishops of the state of Kansas. Because of the concerns that they have heard from the directors of Catholic Charities across the state of Kansas, they are asking you to pass legislation that will enact a state Earned Income Tax Credit. This is part of their legislative agenda for 1998 as outlined in their brochure and I am privileged to speak for them today.

Kansas has the distinct luxury of having an abundance of revenue. You will make decisions on tax reductions this legislative session. Should not low-income working families share in the abundance?

- **FAIRNESS:** low-income working families should receive a part of the tax relief that is being debated in this legislative body
- **WELFARE REFORM:** Parents, rightfully, are being asked to work to support their families. However, four out of five children who live in poverty in this state are in households where the main income is from work. The State Earned Income Tax Credit is a way to add to their low incomes and enable families to take care of the extras involved in car repair, car insurance, utility costs, medical bills, etc.

MOST REVEREND GEORGE K. FITZSIMONS, D.D.
DIOCESE OF SALINA

MOST REVEREND JAMES P. KELEHER, S.T.D.
Chairman of Board
ARCHDIOCESE OF KANSAS CITY IN KANSAS

MOST REVEREND EUGENE J. GERBER, D.D.
DIOCESE OF WICHITA

MOST REVEREND IGNATIUS J. STRECKER, S.T.D.
MOST REVEREND MARION F. FORST, D.D.

MOST REVEREND STANLEY G. SCHLARMAN, D.D.
DIOCESE OF DODGE CITY

ROBERT RUNNELS, JR.
Executive Director

REVEREND WILLIAM A. FINNERTY
J. FRANCIS HESSE

Senate Assessment & Taxation

*1-29-98
Attachment 6*

- **MONEY PUT BACK IN KANSAS ECONOMY:** Money received in this credit will be spent on necessities and thus it will be put back into the Kansas economy.
- **EFFICIENT:** Governor Graves speaks of looking for efficiency in government. If this tax credit is set up according to 10% of the Federal Earned Income Tax credit, it will be easier to administer for our state.
- **FOOD SALES TAX REBATE:** The proposed expanded food sales tax rebate tied in with the application for the state EITC would be another efficient way to support low-income working families.
- **STANDARD OF NEED:** The standard of needs study that SRS asked K-State to do in 1995 concluded that a household of one adult and two children should have \$1,173 a month of take home pay which would provide an “adequate but austere” meeting of basic needs.
- **MINIMUM WAGE:** A full time minimum wage job with standard deductions provides around \$750 a month take home pay. A parent of two children, by the K-State standard, does not have enough income to meet basic needs. A State EITC would help fill in some of this gap.

The Kansas Catholic Conference urges you to restore the State Earned Income Tax Credit as proposed by the Governor to the tax relief of working families in Kansas.

Senate Assessment and Taxation Committee
Thursday, January 29, 1998
Senate Bill 500

Madam Chair, Senators

My name is Carol Deason. I am the Director of Ad Valorem Tax for Western Resources, Inc. Thank you for the opportunity to speak before you.

I wish to address Section 20 of Senate Bill 500. This section allows an income tax credit of 15% of the property tax paid on commercial and industrial machinery and equipment.

From the handout you can see that I propose amending that section to include public utilities, as a matter of equity among Kansas businesses.

If such a credit would have been in place for Western's 1997 tax year, 15% of machinery and equipment property tax would have been approximately 5.4 million dollars.

Thank you.

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Attachment 7

13 shall be allowed an additional Kansas exemption of \$1,950 for tax year
14 1988, and \$2,000 for each tax year thereafter \$2,350 for tax year 1998,
15 and all tax years thereafter.

16 (b) For tax year 1987, there shall be allowed as a credit against the
17 tax liability of a resident individual imposed under the Kansas income tax
18 act who except for the operation of the provisions of K.S.A. 79-32,121
19 resulting from amendments to the federal internal revenue code would
20 have been allowed an additional exemption for blindness or age or both
21 pursuant to such section in tax year 1987, an amount equal to \$60 for
22 each such exemption. The total amount of such credits shall not exceed
23 the amount of tax imposed by K.S.A. 79-32,110, and amendments thereto,
24 reduced by the sum of any other credits allowable pursuant to law.

25 New Sec. 20. For all taxable years commencing after December 31,
26 1997, there shall be allowed as a credit against the tax liability of a taxpayer
27 imposed under the Kansas income tax act, the premiums tax upon insur-
28 ance companies imposed pursuant to K.S.A. 40-252, and amendments
29 thereto, and the privilege tax as measured by net income of financial
30 institutions imposed pursuant to article 11 of chapter 79 of the Kansas
31 Statutes Annotated, an amount equal to 15% of the property tax actually
32 paid during an income or privilege taxable year upon commercial and
33 industrial machinery and equipment classified for property taxation pur-
34 poses pursuant to section 1 of article 11 of the Kansas constitution in
35 subclass (5) or (6) of class 2 and machinery and equipment classified for
36 such purposes in subclass (2) of class 2, If the amount of such tax credit
37 exceeds the taxpayer's income tax liability for the taxable year, the amount
38 thereof which exceeds such tax liability shall be refunded to the taxpayer.

(i)

and (ii) 15% of the property tax paid during an income taxable year upon public utility property classified for property tax purposes pursuant to section 1 of article 11 of the Kansas constitution in subclass (3) of class 2, or personal property required to be listed as real estate pursuant to K.S.A. 79-422.

39 Sec. 21. K.S.A. 1997 Supp. 72-6431 is hereby amended to read as
40 follows: 72-6431. (a) The board of each district shall levy an ad valorem
41 tax upon the taxable tangible property of the district in the school years
42 specified in subsection (b) for the purpose of:

43 (1) Financing that portion of the district's general fund budget which

SB 500

- 1 is not financed from any other source provided by law;
- 2 (2) paying a portion of the costs of operating and maintaining public
- 3 schools in partial fulfillment of the constitutional obligation of the legis-
- 4 lature to finance the educational interests of the state; and
- 5 (3) with respect to any redevelopment district established prior to
- 6 July 1, 1997, pursuant to K.S.A. 12-1771, and amendments thereto, pay-
- 7 ing a portion of the principal and interest on bonds issued by cities under
- 8 authority of K.S.A. 12-1774, and amendments thereto, for the financing
- 9 of redevelopment projects upon property located within the district.
- 10 (b) The tax required under subsection (a) shall be levied at a rate of
- 11 ~~27-23 mills in the 1997-98 school year and in the 1998-99 school year and~~
- 12 ~~in the 1999-2000 school year.~~
- 13 (c) The proceeds from the tax levied by a district under authority of
- 14 this section, except the proceeds of such tax levied for the purpose of
- 15 paying a portion of the principal and interest on bonds issued by cities
- 16 under authority of K.S.A. 12-1774, and amendments thereto, for the fi-
- 17 nancing of redevelopment projects upon property located within the dis-
- 18 trict, shall be deposited in the general fund of the district.
- 19 (d) On June 1 of each year, the amount, if any, by which a district's
- 20 local effort exceeds the amount of the district's state financial aid, as
- 21 determined by the state board, shall be remitted to the state treasurer.
- 22 Upon receipt of any such remittance, the state treasurer shall deposit the
- 23 same in the state treasury to the credit of the state school district finance
- 24 fund.
- 25 (e) No district shall proceed under K.S.A. 79-1964, 79-1964a or 79-
- 26 1964b, and amendments to such sections.
- 27 Sec. 22. K.S.A. 79-201x is hereby amended to read as follows: 79-
- 28 201x. For taxable years ~~1997 and~~ 1998 and 1999, the following described
- 29 property, to the extent herein specified, shall be and is hereby exempt
- 30 from the property tax levied pursuant to the provisions of K.S.A. 1997
- 31 Supp. 72-6431, and amendments thereto: Property used for residential

MS NANCY SHOCKEY

512 S. Central
Olathe, KS 66061

TESTIMONY

Senate Assessment & Taxation Committee

January 29, 1998

Good Morning. My name is Nancy Shockey. I am here to testify that a state earned income tax credit is good idea for families like mine. The federal earned income tax credit currently provides important income for my family. But first, let me tell you a little about my family.

I am a single, divorced mother with three children, ages Sixteen, Thirteen, and Ten. I work full-time for USD #231 / Gardner-Edgerton Schools. As of this month, I have been working there for 3 3/4 years as a Night Custodian. At present, my hourly wage is \$7.50 per hour. This is only \$1.25 per hour more than when I was hired in May of 1994. My family makeup is one person less since divorcing my husband in November 1996, however, I have been the only wage earning support of my family since 1992.

My family has had a difficult time with issues that normally follow a divorce. My children receive no Child Support from their father and, due to an abusive relationship with my children's father, we have had to move out of the Section 8 Housing Complex we were living in as my children's father is living in that same complex. Rent in our Section 8 Housing was \$ 340 per month. The home we rent now is not subsidized and our rent is \$ 425 per month.

From time to time in the past years, we have had to rely on food pantries and charities to make ends meet. Lately, I am having to ask for help with food, with clothing, with fuel costs, and with utilities on a monthly basis. We receive Food Stamps based on the income I receive per month so the amount fluctuates monthly. We currently have no Child Care expenses but that situation changes in the summer.

The federal earned income tax credit makes an important contribution to my family's income. In 1996, we received over two thousand dollars from the federal earned income tax credit. We were able to make some car repairs, pay utility bills, and purchase some clothes and shoes. These are expenses we normally have to keep putting off until they affect us so adversely they can no longer be put off.

Governor Graves proposal is for a ten percent Kansas earned income tax credit. Ten percent of my 1997 federal earned income tax credit would be ninety-eight dollars. With this credit my family might have one of these options:

- Make a payment on a winter utility bill.
- Pay for one child to go to Summer School (1997 expense: \$ 90.00)
- Make a payment on a K. U. Medical Center bill.
- Buy shoes for everyone in the family.
- Partially pay for car tires and a wheel alignment we desperately need for safety.

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The ability to pay some of these expenses would be, for my family, a very tremendous help.

In closing, I ask that you remember families like mine in your decisions. I work very hard to take care of my children to ensure that they become self-sufficient. The Governor's plan for a state earned income tax credit would be dignified help for families like mine. Please consider giving your support for a state earned income tax credit.

CPAK

Commercial Property
Association of Kansas

1-28-98

Chairperson Langworthy and members of the Senate 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.

820 SE Quincy, Suite 220 C - Topeka, KS 66612 - Phone/Fax (913) 232-0486

*Senate Assessment & Taxation
1-29-98
Attachment 9*

George Peterson

**KANSAS TAXPAYERS NETWORK
P.O. Box 20060
Wichita, KS 67208**

**Testimony to Senate Assessment and Taxation Committee
Senate Bill 500**

The Kansas Taxpayers Network strongly supports legislation which would phase down the statewide property tax in this state. KTN supports the four mill reduction proposed by this bill. Although this is a step in the right direction, we would hope that further reductions in the mill levy can be made in the future.

The KTN would hope that a cap can be placed on appraised value growth so that local governmental bodies do not approve increases in local mill levys and effectively eliminate the states proposed mill reduction.

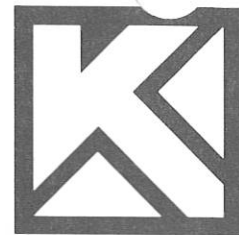
KTN supports the proposed increase in the personal income tax exemption, the reform of the inheritance tax and the reduction of rates by enacting a pick up tax, and other proposals in SB 500.

KTN strongly urges the legislature to pass meaningful tax relief thru the reduction of property tax and other tax reform and to guarantee that this tax cut gets back into the hands of the people who earned it , the Kansas taxpayers.

*Senate Assessment & Taxation
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Attachment 10*

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

January 28, 1998

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
Senate Committee on Assessment and Taxation

by
Bob Corkins
Director of Taxation

Madam 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 extend our members' general and appreciative support for a broad range of the tax relief proposals contained in SB 500.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 46% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

KCCI applauds the Governor and the Legislature for reducing business property taxes. Our members have consistently, and as recently as last autumn, ranked property tax relief as their highest tax priority in statewide polling. The eight-mill drop in the minimum USD levy (from 35 down to 27 mills) has represented roughly a six percent rate cut. Simultaneously, however, this benefit is diluted as appraised values and other mill levies keep rising. We believe that the appropriate target should be a one-third reduction in business property taxes

*Senate Assessment + Taxation
1-29-98 Attachment II*

and, more specifically, a one-half reduction in property taxes on business machinery and equipment (M&E) in order to bring Kansas in line with competing states.

Fortunately, SB 500 scores well on this latter point also. Please recall and apply again today the public testimony submitted last year regarding the proposed income tax credit for property taxes paid on business M&E. KCCI supported that plan which was overwhelmingly approved by both the House and Senate in 1997 and we support the similar (i.e. larger) plan included in this bill. Such incentives for M&E operation and modernization have historically had a direct correlation with Kansas job growth, as indicated by the strong support for these measures by business and labor alike.

We cannot overemphasize the importance of tax relief for M&E to the economic development of this state. This summer a highly sophisticated computer analysis of M&E tax relief was performed by Kansas Inc. The results show that a 50% reduction in M&E property taxes would create over 2,500 new jobs and boost state personal income by \$59 million in just its first year of implementation. Kansas M&E tax burdens are oppressive -- our 1996 effective property tax rate exceeds three percent while neighboring states range from zero to two percent. We are also at a disadvantage with respect to M&E sales taxes. Kansas does not exempt installation and repair services and parts for M&E as do most other states. Furthermore, the M&E sales tax exemption has been narrowed due to a recent interpretation by the Kansas Court of Appeals. Governor Graves endorses a legislative correction to these sales tax problems with his "Sales Tax Simplicity and Fairness" proposal and, although that plan is not contained within SB 500, we urge your favorable consideration of it. Similarly, the Governor proposes a \$250-per item increase in the personal property tax threshold exemption -- about which KCCI members are also enthusiastically supportive. In short, Kansas should extend every bit of tax relief to M&E that is reasonably possible this year.

Another provision of SB 500 which KCCI supports is its proposed restructuring of Kansas' inheritance tax. Our interest in it 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, plus the general equity argument, plus the appearance of a unique window of opportunity to enact the changes this year combine to make a strong case for reform.

KCCI is pleased to see a continued interest in repealing the sales tax on construction remodeling services. For contractors whose business is exclusively residential and exclusively remodeling, this part of SB 500 would be a welcome change in state policy. Unfortunately, this kind of specialization does not apply to the majority of companies in the building industry. The typical small business contractor takes whatever kind of work is available, whether original/remodeling or commercial/residential, and makes a living from the hybrid. Today's bill would further complicate their bookkeeping responsibilities and tax compliance while inviting additional sales tax audits and litigation. The residential/commercial distinction was not a serious possibility when the original construction sales tax was created in 1992, nor was it a practical option when the tax was repealed in 1995. KCCI has persistently sought repeal of the entire tax -- even with respect to repair and maintenance services -- and we respectfully ask you to expand this policy in SB 500 accordingly. Nevertheless, we recognize the development incentive of residential remodeling alone and appreciate the legislature's efforts in this regard.

Finally, KCCI would like to convey its thoughts in the area of income tax. We encourage the legislature to consider alternatives to the idea of boosting personal exemption levels and/or the standard deduction. Our research indicates that although Kansas' scope of these tax "offsets" is significantly lower than those allowed for federal income tax, Kansas is quite competitive -- if not generous -- in the size of standard deduction and personal exemptions which it currently provides. In fact, the attached list compiled by the Federation of Tax Administrators identifies only 14 states which extend larger personal exemptions (or relevant tax credits as the case may be) than does Kansas.

You will also see attached my regional comparison of these income tax features. The last two columns in each of the three income examples again illustrates the very competitive posture that Kansas has taken with its tax offsets. I have had two certified public accountants independently review this data to verify its accuracy.

KCCI suggests two other options for reforming the state income tax. One would be to simply cut the rates. Providing the same aggregate level of income tax relief as that proposed by SB 500, the rates for each current income bracket could be lowered to provide roughly a three percent reduction for each tax filer. This is just a crude estimate, but one upon which I am certain the Revenue Department can elaborate. The second option would be for Kansas to return to its practice of allowing a deduction for federal taxes paid. It is a common provision in other states and it would eliminate the inequitable impact of charging taxes on your taxes. While allowing the deduction of 100% of federal taxes is not an affordable option for Kansas right now (perhaps over \$400 million fiscal note), we could implement it (as does Missouri) with restrictions: you could deduct a specified percentage of your federal taxes with the maximum deduction set at a given dollar amount.

Of course, I would be remiss if I didn't acknowledge that SB 500 does little to relieve the excessive burden of this state's corporate income taxes. The 15% M&E income tax credit would extend to corporations, but that is the bill's only provision in this area. KCCI continues to support a reduction in Kansas' corporate income tax rates and changes to our apportionment formula that would stimulate corporate and industrial growth here.

On balance -- and balance is a key adjective for every tax relief package this year -- SB 500 takes meaningful steps to address problems with our entire state tax structure. We appreciate the bill's sincere efforts and are pleased to extend our support with the caveats I have noted.

Thank you for your time and consideration.

STATE INDIVIDUAL INCOME TAXES
(Tax rates for tax year 1997 -- as of January 1, 1997)

	TAX RATE RANGE		Number of Brackets	INCOME BRACKETS		PERSONAL EXEMPTIONS			FEDERAL INCOME TAX DEDUCTIBLE
	Low	High		Lowest	Highest	Single	Married	Dependents	
ALABAMA	2.0	- 5.0	3	500 (b)	- 3,000 (b)	1,500	3,000	300	*
ALASKA	No State Income Tax								
ARIZONA	3.0	- 5.6	5	10,000 (b)	- 150,000 (b)	2,100	4,200	2,300	
ARKANSAS	1.0	- 7.0 (e)	6	2,999	- 25,000	20 (c)	40 (c)	20 (c)	
CALIFORNIA (a)	1.0	- 9.3	6	4,908 (b)	- 223,390 (b)	67 (c)	134 (c)	37 (c)	
COLORADO	5.0		1	---Flat rate---		-----None-----			
CONNECTICUT	3.0	- 4.5	2	2,250 (b)	- 2,250 (b)	12,000 (f)	24,000 (f)	0	
DELAWARE	0.0	- 6.9	7	4,500	- 30,000	100 (c)	200 (c)	100 (c)	
FLORIDA	No State Income Tax								
GEORGIA	1.0	- 6.0	6	750 (g)	- 7,000 (g)	1,500	3,000	1,500	
HAWAII	2.0	- 10.0	8	1,500 (b)	- 20,500 (b)	1,040	2,080	1,040	
IDAHO	2.0	- 8.2	8	1,000 (g)	- 20,000 (g)	2,650 (d)	5,300 (d)	2,650 (d)	
ILLINOIS	3.0		1	---Flat rate---		1,000	2,000	1,000	
INDIANA	3.4		1	---Flat rate---		1,000	2,000	1,000	
IOWA (a)	0.4	- 9.98	9	1,112	- 50,040	20 (c)	40 (c)	40 (c)	*
KANSAS	4.4	- 7.75	3	20,000 (i)	- 30,000 (i)	2,000	4,000	2,000	
KENTUCKY	2.0	- 6.0	5	3,000	- 8,000	20 (c)	40 (c)	20 (c)	
LOUISIANA	2.0	- 6.0	3	10,000 (b)	- 50,000 (b)	4,500 (j)	9,000 (j)	1,000 (j)	*
MAINE (a)	2.0	- 8.5	4	4,150 (b)	- 16,500 (b)	2,100	4,200	2,100	
MARYLAND	2.0	- 5.0	4	1,000	- 3,000	1,200	2,400	1,200	
MASSACHUSETTS	5.95 (k)		1	---Flat rate---		2,200	4,400	1,000	
MICHIGAN (a)	4.4		1	---Flat rate---		2,500	5,000	2,500	
MINNESOTA (a)	6.0	- 8.5	3	16,510 (l)	- 54,250 (l)	2,650 (d)	5,300 (d)	2,650 (d)	
MISSISSIPPI	3.0	- 5.0	3	5,000	- 10,000	6,000	9,500	1,500	
MISSOURI	1.5	- 6.0	10	1,000	- 9,000	1,200	2,400	400	* (m)
MONTANA (a)	2.0	- 11.0	10	1,900	- 66,399	1,520	3,040	1,520	*
NEBRASKA (a)	2.62	- 6.99	4	2,400 (n)	- 26,500 (n)	69 (c)	138 (c)	69 (c)	
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only								
NEW JERSEY	1.4	- 6.37	6	20,000 (o)	- 75,000 (o)	1,000	2,000	1,500	
NEW MEXICO	1.7	- 8.5	7	5,500 (p)	- 65,000 (p)	2,650 (d)	5,300 (d)	2,650 (d)	
NEW YORK	4.0	- 6.85	4	8,000 (b)	- 20,000 (b)	0	0	1,000	
NORTH CAROLINA	6.0	- 7.75	3	12,750 (q)	- 60,000 (q)	2,500 (d)	5,000 (d)	2,500 (d)	
NORTH DAKOTA	2.67	- 12.0 (r)	8	3,000	- 50,000	2,651 (d)	5,301 (d)	2,651 (d)	* (s)
OHIO (y)	0.693	- 7.004	9	5,000	- 200,000	850 (s)	1,700 (s)	850 (s)	
OKLAHOMA	0.5	- 7.0 (t)	8	1,000	- 10,000	1,000	2,000	1,000	* (t)
OREGON (a)	5.0	- 9.0	3	2,200 (b)	- 5,550 (b)	124 (c)	248 (c)	124 (c)	* (u)
PENNSYLVANIA	2.8		1	---Flat rate---		-----None-----			
RHODE ISLAND	27.5% Federal tax liability								
SOUTH CAROLINA (a)	2.5	- 7.0	6	2,280	- 11,400	2,650 (d)	5,300 (d)	2,650 (d)	
SOUTH DAKOTA	No State Income Tax								
TENNESSEE	State Income Tax is Limited to Dividends and Interest Income Only								
TEXAS	No State Income Tax								
UTAH	2.3	- 7.0	6	750 (b)	- 3,750 (b)	1,988 (d)	3,975 (d)	1,988 (d)	* (v)
VERMONT	25% Federal tax liability (w)								
VIRGINIA	2.0	- 5.75	4	3,000	- 17,000	800	1,600	800	
WASHINGTON	No State Income Tax								
WEST VIRGINIA	3.0	- 6.5	5	10,000 (b)	- 60,000 (b)	2,000	4,000	2,000	
WISCONSIN	4.9	- 6.93 (x)	3	7,500	- 15,000	0	0	50 (c)	
WYOMING	No State Income Tax								
DIST. OF COLUMBIA	6.0	- 9.5	3	10,000	- 20,000	1,370	2,740	1,370	

STATE INDIVIDUAL INCOME TAXES (footnotes)

Source: The Federation of Tax Administrators from various sources

- (a) Seven states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Nebraska indexes the personal exemption amounts only.
- (b) For joint returns, the tax is twice the tax imposed on half the income.
- (c) tax credits.
- (d) These states allow personal exemption or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemptions. Amounts reported include the 1996 index adjustment.
- (e) A special tax table is available for low income taxpayers reducing their tax payments.
- (f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over \$71,000. For tax years beginning after 1996, the tax bracket amount increases to \$4,500.
- (g) The tax brackets reported are for single individuals and married households filing jointly. For married households filing separately, the same rates apply to income brackets ranging from \$500 to \$5,000.
- (h) For joint returns, the tax is twice the tax imposed on half the income. A \$10 filing fee is charge for each return and a \$15 credit is allowed for each exemption.
- (i) The tax brackets reported are for single individual and married households filing separately. For married household filing jointly, the rates range from 3.5% for income under \$30,000 to 6.45% for income over \$60,000.
- (j) Combined personal exemption and standard deduction.
- (k) A 12% tax rate applies to interest, dividends and capital gains.
- (l) The tax brackets reported are for single individuals. For married taxpayers filing jointly, the same rates apply to income brackets ranging from \$24,140 to \$95,920. An addition 0.5% tax is applied to certain income levels.
- (m) Limited to \$10,000 for joint returns and \$5,000 for individuals.
- (n) The tax brackets reported are for single individual. For married couples, the tax rates range from 2.62% for income under \$4,000 to 6.99% over \$46,750.
- (o) The tax brackets reported are for single individuals. A separate schedule is provided for married households filing jointly which ranges from 1.4% under \$20,000 to 6.37% for income over \$150,000.
- (p) The tax brackets reported are for single individuals. For married individuals filing jointly, the rate ranges from 1.7 under \$8,000 to 8.5% over \$100,000. Married households filing separately pay the tax imposed on half the income.
- (q) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$21,250 to \$100,000. An additional middle income tax credit is allowed.
- (r) Taxpayers have the option of paying 14% of the adjusted federal income tax liability, without a deduction of federal taxes. And additional \$300 personal exemption is allowed for joint returns or unmarried head of households.
- (s) Plus an additional \$20 per exemption tax credit.
- (t) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets ranging from \$2,000 to \$21,000. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
- (u) Limited to \$3,000.
- (v) One half of the federal income taxes are deductible.
- (w) If Vermont tax liability for any taxable year exceeds the tax liability determinable under federal tax law in effect on December 31, 1994, the taxpayer will be entitled to a credit of 106% of the excess tax.
- (x) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$10,000 to \$20,000.
- (y) Tax Rates are temporarily adjusted downward for tax years 1996 and 1997 based on the amount of revenue in the general fund. Rates reported are adjusted for 1996. Statutory rates range from 0.743 to 7.5 percent with the same income brackets.

REGIONAL COMPARISON
OF
STATE PERSONAL INCOME TAX FEATURES

Tax Year 1997 comparison
Married Couple, filing jointly
Two dependent children

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	Adjusted Gross Income	Standard Deduction	Personal Exemptions	Taxable Income	Tax	Credit	Actual Liability	Liability w/o Offsets	Liability Savings of Offsets	% Liability Savings
Arkansas	25,000	2,000	[see credit]	23,000	960	80	880	1,080	200	19%
Colorado	25,000	6,900	10,600	7,500	375		375	1,250	875	70%
Iowa	25,000	3,480	[see credit]	21,520	1,154	120	1,034	1,414	380	27%
Kansas	25,000	5,000	8,000	12,000	420		420	875	455	52%
Missouri	25,000	6,900	3,200	14,900	669		669	1,275	606	48%
Nebraska	25,000	6,900	[see credit]	18,100	592	344	248	833	585	70%
Oklahoma	25,000	2,000	4,000	19,000	635		635	1,035	400	39%

	Adjusted Gross Income	Standard Deduction	Personal Exemptions	Taxable Income	Tax	Credit	Actual Liability	Liability w/o Offsets	Liability Savings of Offsets	% Liability Savings
Arkansas	40,000	2,000	[see credit]	38,000	1,990	80	1,910	2,130	220	10%
Colorado	40,000	6,900	10,600	22,500	1,125		1,125	2,000	875	44%
Iowa	40,000	3,480	[see credit]	36,520	2,324	120	2,204	2,630	426	16%
Kansas	40,000	5,000	8,000	27,000	945		945	1,675	730	44%
Missouri	40,000	6,900	3,200	29,900	1,569		1,569	2,175	606	28%
Nebraska	40,000	6,900	[see credit]	33,100	1,163	344	819	1,509	690	46%
Oklahoma	40,000	2,000	4,000	34,000	1,665		1,665	2,085	420	20%

	Adjusted Gross Income	Standard Deduction	Personal Exemptions	Taxable Income	Tax	Credit	Actual Liability	Liability w/o Offsets	Liability Savings of Offsets	% Liability Savings
Arkansas	60,000	2,000	[see credit]	58,000	3,390	80	3,310	3,530	220	6%
Colorado	60,000	6,900	10,600	42,500	2,125		2,125	3,000	875	29%
Iowa	60,000	3,480	[see credit]	56,520	4,160	120	4,040	4,507	467	10%
Kansas	60,000	5,000	8,000	47,000	2,113		2,113	2,925	812	28%
Missouri	60,000	6,900	3,200	49,900	2,769		2,769	3,375	606	18%
Nebraska	60,000	6,900	[see credit]	53,100	1,927	344	1,927	2,732	805	29%
Oklahoma	60,000	2,000	4,000	54,000	3,065		3,065	3,485	420	12%

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Applicable Rates & Offsets for 1997

Arkansas \$1,080 + 7% of excess over \$25,000; Std deduct \$1,000/spouse; Tax credit of \$40/couple, \$20/dependent.

Colorado 5% of Federal taxable income; Std deduct \$6,900 (same as fed); Personal exemptions \$2,650/person (same as fed).

Iowa \$2,042 + 8.8% of excess over \$33,320 (9.98% of excess over \$50,040); Std deduct \$3,480; Tax credit of \$40/couple, \$40/dependent.

Kansas \$1,050 + 6.25% of excess over \$30,000 (6.45% of excess over \$60,000); Std deduct \$5,000; Personal exemptions \$4,000/couple, \$2,000/dependent.

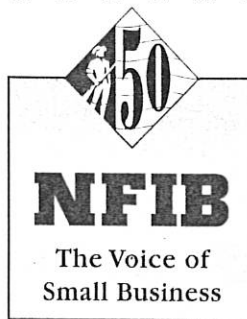
Missouri \$315 + 6% of excess over \$9,000; Std deduct \$6,900 (same as fed); Personal exemptions \$2,400/couple, \$400/dependent.

Nebraska \$1,008 + 5.01% of excess over \$30,000 (6.68% of excess over \$46,750); Std deduct \$6,900 (same as fed); Tax credit of \$172/couple, \$86/dependent.

Oklahoma \$755 + 7% of excess over \$21,000; Std deduct 15% of adjusted gross income, capped at \$2,000; Personal exemptions \$2,000/couple, \$1,000/dependent.

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LEGISLATIVE



TESTIMONY

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

Madam Chairperson 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 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

National Federation of Independent Business

Kansas

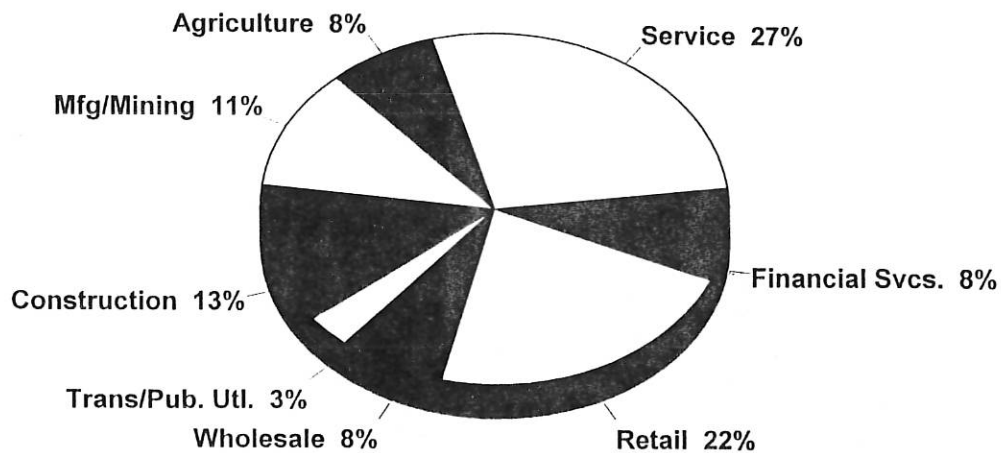
About NFIB-Kansas

Since 1943, business owners from all walks of commercial life have joined the National Federation of Independent Business to have a powerful, united voice in government decision making. Today, NFIB's Kansas chapter has more than 7,000 members, making it the largest small-business advocacy group in the state.

Each year, NFIB-Kansas polls its entire membership on a variety of state legislative and regulatory issues. The federation uses the poll results to set its legislative agenda and aggressively promotes those positions approved by a majority vote.

This democratic method of setting policy assures that the positions advanced by NFIB reflect the consensus view of the entire small-business community rather than the narrow interests of any particular trade group. Lawmakers wanting to know how proposed legislation and regulation will affect Main Street businesses can get the authoritative answer from NFIB's legislative office in Topeka.

NFIB-Kansas by Industry Classification



...and NFIB works for small business.

Hal Hudson
State Director

3601 S.W. 29th Street • Suite 116B • Topeka, Kansas 66614-2015
913-271-9449 • Fax 913-273-9200

NFIB-Kansas Membership Profile

NFIB-Kansas represents the entire spectrum of independent business, from one-person home-based operations to enterprises employing more than 100 people. The typical NFIB-Kansas member is quite small, employing six workers and ringing up gross sales of about \$340,000 per year. Yet, in aggregate, the membership is a potent economic force, employing more than 110,000 and earning about \$8 billion (gross) annually.

