

Approved: 3-18-98
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:08 a.m. on March 10, 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: Shirley Sicilian, Department of Revenue

Others attending: See attached list

The minutes of February 20, 23, and 24 were approved.

Senator Langworthy called the committee's attention to a bill which was heard by the committee in 1997, **HB 2249**. She announced that the bill was to be used as a vehicle to combine two of the most important bills of the session: the Tax Reduction Reform Act and the School Finance Reform Act. The new plan was crafted by the Senate Republican caucus and was approved by nearly all members of the caucus. Out of courtesy, the minority leader of the Senate and the Speaker of the House of Representatives had been apprised of the new plan.

Senator Langworthy called attention to a hand out entitled Senate **Substitute for HB 2249**, the Education and Tax Reform Act of 1998. (Attachment 1) She explained that **Substitute for HB 2249** is a blend of the original **SB 500** (Enacting the Kansas Tax Reduction and Reform Act of 1998), which passed the Senate, and new ideas added to **SB 500** by the House. She noted that the new plan includes approximately \$13.5 million additional tax cuts above the first Senate plan in an effort to compromise with the House which advocated many more tax reductions for the coming year. She pointed out that changes from the original **SB 500** included exemptions for religious groups, Girl Scouts and youth groups, the Governor's standard deduction, and the personal exemption at \$2,300 (non-indexed). In addition, the proposal includes \$9 million above the Governor's proposal for educational funding for grades K-12.

Senator Karr expressed his disappointment that input from the public or the committee was not considered before drafting the new proposal.

Senator Langworthy replied that the substitute bill was merely a means to move the process along in a timely manner. Senator Corbin added that the members of the caucus agreed that it was important to compromise on the tax package and at the same time address school finance as the two issues need to be considered together.

In further response to Senator Karr, Senator Bond commented that legislators are not in complete agreement with each other on any plan. However, he believed that the new Senate proposal combines the two greatest responsibilities of the Legislature this year: how to manage the largest tax cut ever in the state and how to manage the funding of education. He felt placing those two issues in one bill was appropriate because they must be looked at together. Senator Bond viewed this effort as a positive contribution to move forward as it was designed to give another option as attempts to come to agreement are made. He noted that the proposal has considerable support from the majority party without any amendments.

Senator Langworthy agreed that no one likes everything in **Substitute for HB 2249**; however, she believed that it has much in it for all. She noted that a great deal of thought went into the plan to insure that it would not be necessary to raise taxes in the "out years."

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:00 a.m. on March 10, 1998.

Senator Donovan stated that he was not in complete agreement with the tax plan in past years or with the current proposal. In his opinion, one of the most important issues is taxation of commercial machinery and equipment, but he felt that the proposed oil severance tax exemptions offered too little too late. However, he intends to support the proposed bill because it offers all that the state can afford and it is a good political bill because it addresses areas where the most people will get relief.

Senator Karr commented that persons in his senatorial district ask him why the state does not pay its bills. He felt the Taxation Committee should try to address those concerns rather than concentrating on the politically correct thing to do. He reiterated his belief that the Taxation Committee members should have had an opportunity to participate in the drafting of the proposal.

Senator Steffes commented that he represented the same kind of district as Senator Karr, and he has not had that concern expressed to him. He would prefer that more money be spent on state infrastructure repair; therefore, this proposal is not his personal preference. However, he stressed that the proposal is a good compromise, and he intends to support it.

Senator Praeger was in agreement with comments made by Senators Bond, Donovan, and Steffes. She added that she felt it was important to pass a bill that balances the will of the majority to have a significant tax cut with the state's future school finance obligation.

Senator Hardenburger emphasized that the bill was developed to discipline the process to enable the Legislature to adjourn on time. She strongly supported the compromise and encouraged that it be passed out of Committee.

Senator Bond moved to amend **HB 2249** with the proposal presented by Senator Langworthy, seconded by Senator Hardenburger.

Senator Lee commented that, although the new proposal was a compromise by 27 Republicans, she felt it was sad that the public was left out of the debate. She could support parts of the bill, but she could not support the process in which it was developed.

Upon a call for a vote on Senator Bond's motion, the motion carried.

Senator Bond moved to report **HB 2249** favorable for passage as amended, seconded by Senator Hardenburger. The motion carried with Senators Lee, Karr, Steineger, and Goodwin voting "No."

Attention was turned to the subcommittee report on **SB 541** concerning privilege tax on financial institutions. As Chairman of the subcommittee, Senator Corbin called the committee's attention to a copy of the Supplemental Note on **SB 541** which explains the technical amendments recommended by the subcommittee. (Attachment 2) He called on Shirley Sicilian, Department of Revenue, to summarize the technical changes.

Senator Steffes explained that **SB 541** would not increase bank taxation. It only puts bank taxation back to the same place it was prior to the use of investment subsidiaries. Ms. Sicilian confirmed Senator Steffes' explanation, clarifying that the bill establishes the authority to combine the investment subsidiary with the bank so that the tax base remains the same.

Senator Lee moved to adopt the subcommittee report on **SB 541**, seconded by Senator Corbin. The motion carried.

Senator Lee moved to report **SB 541** favorable for passage as amended, seconded by Senator Corbin. The motion carried.

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

The next meeting is scheduled for March 11, 1998.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: March 10, 1998

NAME	REPRESENTING
Judi Stork	Office of the State Bank Comm.
S. Sicilian	KDOR
Aue Achmuler	KCUA
Mike Beam	Ks LIVSTK Assn.
Jim Langford	DOB
Kelly Kuitala	City of Overland Park
Raul Pefeyhua	Ks Taxpayers Network
Stacey Farmer	KASB
Han. Lamy	KAB
Donald Cashell	Dg. Co. Prop. OWNERS, Assn.
Josie Torres	Families Together, Inc.
John D. Piregar	SITA
Tom Whitaker	Ks Motor Carriers Assn
Red Meege	Ks for Equal Pension Taxes
Stan Simons	" " "
Clayton Charles	Treasurers Office
Janalle	KBA
Bobby Otter	KCSA
Chuck Stones	"

**SENATE SUB For HB 2249
EDUCATION AND TAX REFORM ACT OF 1998**

(\$ in millions)

	FY 99	FY 2000	FY 2001	FY 2002	FY 2003
Religious SGF	\$3.919	\$4.447	\$4.624	\$4.809	\$5.002
Girl Scouts and Youth Groups SGF	\$1.281	\$1.453	\$1.512	\$1.572	\$1.635
Gov's Standard Deductions	\$15.700	\$12.400	\$12.700	\$13.100	\$13.500
Accelerate singles'	\$23.000	\$7.900	—	—	—
Pers Ex \$2,300 non-indexed	\$43.400	\$34.400	\$35.600	\$36.700	\$37.900
Mill levy cut 27 to 23 mills (local effort)	\$40.300	\$68.900	\$71.900	\$74.600	\$77.400
Bus mach and equip income tax credit	\$16.000	\$25.800	\$28.400	\$31.200	\$34.300
Pick-up estate tax	\$23.100	\$54.600	\$57.300	\$60.200	\$63.200
Oil severance tax exemptions SGF	\$1.415	\$1.415	\$1.415	\$1.415	\$1.415
Oil severance tax exemptions (local effort)	\$0.053	\$0.053	\$0.053	\$0.053	\$0.053
Oil property tax exemptions (local effort)	\$0.197	\$0.327	\$0.327	\$0.327	\$0.327
Resdl remodeling sales tax SGF	\$13.744	\$15.594	\$16.217	\$16.866	\$17.541
SGF Receipts	\$141.559	\$158.009	\$157.768	\$165.863	\$174.493
Local Effort Reduction -- Mill Levy	\$40.300	\$68.900	\$71.900	\$74.600	\$77.400
Local Effort Reduction -- Oil Property Tax	\$0.197	\$0.327	\$0.327	\$0.327	\$0.327
Local Effort Reduction -- Oil Severance Tax	\$0.053	\$0.053	\$0.053	\$0.053	\$0.053
Total SGF Implications	\$182.109	\$227.289	\$230.048	\$240.843	\$252.273
SHF Receipts	\$1.019	\$1.155	\$1.202	\$1.250	\$1.300
CMPTF (Counties Only)	\$0.053	\$0.053	\$0.053	\$0.053	\$0.053
Total Revenue Implications	\$183.181	\$228.497	\$231.303	\$242.146	\$253.626

K-12 Funding above Governor's Recommendations--\$9 Million

	FY 1999
BSAPP	\$3.400
Correlation Weight	4.000
FTE Distribution Districts 1,200-1,764	0.650
"New" Innovative Program Assistance	<u>0.975</u>
	\$9.025 Million

*Senate Assessment + Taxation
3-10-98
Attachment 1*

SESSION OF 1998

SUPPLEMENTAL NOTE ON SENATE BILL NO. 541

As Amended by Senate Subcommittee

Brief*

S.B. 541 would enact a new statute to require privilege taxpayers to file consolidated returns with any subsidiaries which own, hold, or manage all or part of the taxpayers' securities portfolio. The consolidated return would be determined without regard to transactions between the companies involving securities income, but including as income all earnings on the securities held by the subsidiary.

The Secretary of Revenue would be authorized to allocate or distribute gross income, deductions, credits, or allowances when necessary to prevent the evasion of taxes or to clearly reflect income of the taxpayer.

The new provisions would be applicable to all taxable years commencing after December 31, 1997.

Background

Many financial institutions have formed investment subsidiaries, as authorized under state and federal law, to hold their federal securities. The income on the federal securities thus is not shown on the financial institution's privilege tax return, but on the subsidiary's tax return. Since the subsidiaries file under the corporation income tax, the income on the federal securities is exempt from state taxation. Such income when earned by a financial institution is subject to the Financial Institutions Privilege Tax. Financial Institutions Privilege Tax is measured by, but not

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.ink.org/public/legislative/fulltext-bill.html>.

Senate Assessment & Taxation
2-10-98
Attachment 2

upon, all income of financial institutions, including earnings on federal securities. So far, all of the subsidiaries have been formed by banks.

In November, the Consensus Revenue Estimating Group reduced the estimate for the Financial Institutions Privilege Tax by \$18.0 million in FY 1998 and by \$28.0 million in FY 1999 to reflect the establishment of investment subsidiaries.

At the subcommittee hearings, the bill was opposed by representatives of the banking industry who said that taxes on the industry are too high compared to neighboring states.

Enactment of this bill is estimated to increase Financial Institutions Privilege Tax revenues by \$28.8 million in FY 1999 and by \$29.5 million in FY 2000. Financial Institutions Privilege Tax receipts are credited to the State General Fund.

The subcommittee amendments were technical.