

Approved: February 23, 1999
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson David Adkins at 9:00 a.m. on February 2, 1999 in Room 519-S of the Capitol.

All members were present except: Rep. Gatewood - excused
Rep. Krehbiel - excused
Rep. Wilk - excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Mark Burkhart, on behalf of Sprint
Representative Tom Sloan (written)
Gary Toebben, Lawrence Chamber of Commerce
Hal Hudson, National Federation of Independent Business
Natalie Bright, Kansas Chamber of Commerce & Industry
Paul Welcome, Office of the Johnson County Appraiser
Bernie Koch, Wichita Area Chamber of Commerce
Charles H. Gregor, Jr., Leavenworth-Lansing Area Chamber of Commerce
Karl Peterjohn, Kansas Taxpayers Network
Lee Eisenhouer, Propane Marketers Association of Kansas (written)
Kansas Food Dealers Association (written)
Dana Fenton, Coordinator for Johnson County
Chris McKenzie, League of Kansas Municipalities (written)

Others attending: See attached list.

The Chairman introduced Mark Burghart, on behalf of Sprint, who spoke to the committee regarding authorizing certain income tax credits and a request for a bill introduction (Attachment 1).

The Chairman opened the meeting to bill introductions.

Representative Adkins made a motion, and seconded by Representative Gilbert, to introduce a committee bill regarding authorizing certain income tax credits as explained by Mr. Burghart. Motion carried.

Representative Adkins made a motion, and seconded by Representative Aurand, to introduce a committee bill regarding aircraft and recreational vehicle boats and property taxation. Motion carried.

Representative Adkins made a motion, and seconded by Representative Ray, to introduce a committee bill regarding united community services and child care credits. Motion carried.

The Chairman recognized Representative Aurand who made a motion, and seconded by Representative Minor, regarding tax exemption for farm storage and drying equipment. Motion carried.

The Chairman recognized Representative Edmonds who made a motion and seconded by Representative Osborne, to alleviate severance tax on natural gas over five years. Motion carried.

The Chairman opened the public hearing on:

HB 2020 - Property tax appeals procedure; order of proof

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on February 2, 1999.

Proponents:

The Chairman noted that the first conferee on **HB 2020** was Representative Sloan, Proponent, and sponsor of the bill, was unable to appear before the committee at that time. The Chairman directed the committee's attention to the testimony provided by Representative Sloan (Attachment 2).

The Chairman introduced Gary Toebben, Proponent, and President of the Lawrence Chamber of Commerce, Proponent, (Attachment 3).

The Chairman introduced Hal Hudson, Proponent, State Director of the Kansas Chapter, National Federation of Independent Business (Attachment 4).

Written testimony:

Natalie Bright, Proponent, Director of Taxation, Kansas Chamber of Commerce and Industry, submitted written testimony (Attachment 5).

Opponents:

The Chairman introduced Paul Welcome, Opponent, Johnson County Appraiser, Office of the Appraiser (Attachment 6). Mr. Welcome requested amending the bill that the requirement that the county appraiser initiate the production of evidence at appeals beyond the informal level at the county be conditioned on the property owner furnishing income and expense information at the time the initial appeal is filed, as described in his testimony.

The Chairman closed the public hearing on **HB 2020**.

The Chairman opened the public hearing on:

HB 2129 - Property tax exemption for machinery, equipment and supplies, amount increased

The Chairman introduced Chris Courtwright, Staff, Legislative Research Department who gave a briefing on **HB 2129**.

Proponents:

The Chairman introduced Natalie Bright, Proponent, Director of Taxation, Kansas Chamber of Commerce and Industry (Attachment 7).

The Chairman introduced Hal Hudson, Proponent, State Director of the Kansas Chapter, National Federation of Independent Business (Attachment 8).

The Chairman introduced Bernie Koch, Proponent, Vice President of Governmental Relations, Wichita Area Chamber of Commerce (Attachment 9).

The Chairman introduced Charles H. Gregor, Jr., Proponent, Executive Vice President, Leavenworth-Lansing Area Chamber of Commerce (Attachment 10).

The Chairman introduced Karl Peterjohn, Proponent, Executive Director, Kansas Taxpayers Network (Attachment 11).

Written testimony:

Lee Eisenhouer, Proponent, Executive Vice-President, Propane Marketers Association of Kansas, submitted written testimony (Attachment 12).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on February 2, 1999.

Frances Kastner, Proponent, Proponent, Director of Governmental Affairs, Kansas Food Dealers Association, submitted written testimony (Attachment 13).

Opponents:

The Chairman introduced Dana Fenton, Opponent, Intergovernmental Relations Coordinator for Johnson County (Attachment 14).

Written testimony:

Chris McKenzie, Opponent, Executive Director of the League of Kansas Municipalities, submitted written testimony (Attachment 15).

The Chairman closed the public hearing on **HB 2129**.

The Chairman directed the committee's attention to discussion of:

SB 2 - Sales tax authority for Finney county cities

The Chairman recognized Representative Ray who made a motion and seconded by Representative Campbell, to pass SB 2 as favorable. Motion carried.

The meeting adjourned at 10:05 a.m.

The next meeting is scheduled for February 3, 1999.

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE: Feb. 2, 1999

Natalie Bright	KCCI
Bernie Koch	Wichita Area Chamber
Frank Clching	Topeka, Ks, Allen's Farm Bureau
Harry Aubrie	Topeka, Ks Kansas Farm Bureau Allen Co.
Tama Johnson	KDOR
MARK Beck	KDOR
SCOTT SCHNEIDER	McGILL, WICHITA ASSOC -
Judy Molen	Ks. Assn of Counties
Rona Jordan	Johnson County
Hal Hudson	NFIB/Kansas
CHARLIE GREGOR	LEAVENWORTH - LAWSONG AREA CHAMBER OF COMMERCE
Rich McKee	Kansas Livestock Assoc.
Doug Wareham	Ks. Grain & Feed Assn. Ks. Fertilizer & Chemical Assn.
John Frederick	Boeing
Deane Struer	Ks Coop Council
Erik Sartorius	Johnson Co. Board of Realtors
Paul Welcome	Johnson County Appraiser/KCAA
Sue Emphrey	Propane Marketers Assn. of KS
Martha Lee Smith	KMHA

An Act relating to taxation; authorizing certain income tax credits

Section 1. There shall be allowed as a credit against the tax liability of a telecommunications company, as defined in K.S.A. 79-3271 and amendments thereto, an amount equal to the difference between the property tax levied and paid on property assessed at a 33% assessment rate and the property tax which would be levied and paid on such property if assessed at a 25% assessment rate except that, for taxable year 1999, the credit shall be equal to 25% of such amount, for taxable year 2000, the credit shall be equal to 50% of such amount, for taxable year 2001, the credit shall be equal to 75% of such amount and for taxable year 2001, and all such taxable years thereafter, the credit shall be equal to 100% of such amount. If the amount of such tax credit exceeds the tax liability for the telecommunication company for the taxable year, the amount thereof which exceeds such tax liability shall be refunded to the telecommunications company. If the telecommunications company is a corporation having an election in effect under subchapter S of the federal internal revenue code, a partnership or a limited liability company, the credit provided by this section shall be claimed by the shareholders of such corporation, the partners of such partnership or the members of such limited liability company in the same manner as such shareholders, partners or members account for their proportionate shares of income or loss of the corporation, partnership or limited liability company.

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

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Attachment 1

TOM SLOAN
REPRESENTATIVE, 45TH DISTRICT
DOUGLAS COUNTY

STATE CAPITOL BUILDING
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1-800-432-3924

772 HWY 40
LAWRENCE, KANSAS 66049-4174
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TOPEKA

HOUSE OF
REPRESENTATIVES

Testimony Before House Tax Committee on HB 2020 – February 2, 1999

Thank you Mr. Chairman, members of the Committee for the opportunity to speak with you about a common sense approach to tax policy equity.

HB 2020 is one of the simplest bills the Tax Committee will discuss this session. It does not save anyone any money, it does not change revenue flows for State or local governments, it will not be a morning headline in your local newspaper. However, it speaks eloquently about what type of government we want and how we as public servants view our citizens.

Do we want a government that is cold, demanding, and insensitive; or are we “reinventing” government to be more friendly toward our citizens?

HB xxxx says that if a commercial property owner – a local businessman or woman in your community – appeals the property valuation on their shop, the property owner does not have to prove the government is wrong; but that the government must justify its valuation.

A couple of years ago, we passed just such legislation for homeowners. During legislative debate on that bill, I used the following analogy. If you are given a ticket for speeding, when you go to court the officer has the obligation to prove you were exceeding the speed limit. You do not have the obligation to prove your innocence. A basic tenet of our form of government is that government serves us, we do not serve it.

The county appraiser determines commercial property values by developing a list of comparable properties, examining sales records, reviewing earned income --- in other words by looking at that commercial interest in comparison with others. If the property owner appeals that valuation, who is better prepared to offer substantiation of the actual value --- the appraiser with a county's wealth of information, or the property owner who has his or her property(s)?

I understand that the county appraiser's association may testify that this bill will place a significant burden on their operations. That is the same argument they used when the Legislature reversed the burden of proof on homes and homeowners. It was unreasonable two years ago, it remains so today. The county has the information, the property owner does not.

I encourage you to make a simple, common sense, eloquent statement on behalf of fairness. Listen to those who pay taxes and ask for reasonable and equitable tax policies; then recommend HB 2020 favorably for passage.

Thank you.

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Attachment 2

TESTIMONY IN SUPPORT OF HB 2020

February 2, 1999

My name is Gary Toebben. I am President of the Lawrence Chamber of Commerce and I am here today in support of HB 2020. As you know, HB 2020 would put into place the same protection and rights for commercial and industrial property taxpayers as are currently in place for residential property taxpayers.

I am not here to criticize the Douglas County appraiser or county appraisers throughout the state of Kansas. I am here to say that it is only fair to expect that a county appraiser can back up the valuation notice that he or she sends to all property taxpayers, no matter what kind of property they own. To send a valuation and property tax notice that can not be backed up borders on harassment. We get enough of that from the federal government and the Internal Revenue Service.

This legislation would rightfully require a county appraiser to justify the valuation of a piece of property during the appeals process. Smart property owners will continue to bring their own documentation, but at least they will know that the county appraiser's office has the responsibility to prove its case. Without this change, the appeals process can make the taxpayer feel like he or she is "guilty until proven innocent."

The members of the Lawrence Chamber of Commerce urge your support of HB 2020. We think it is fair and will further contribute to the positive business environment in the state of Kansas. Thank you for your consideration.

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Attachment 3*



**Statement by Hal Hudson, State Director
Kansas Chapter,
National Federation of Independent Business
To the Kansas House Taxation Committee**

Re: House Bill 2020

February 2, 1999

Mr. Chairman and Members of the Committee: Thank you for this opportunity to appear in support of House Bill 2020. My name is Hal Hudson, and I am here today representing the more than 7,000 small and independent business owners who are members of the National Federation of Independent Business. Most of our members are the local owners of "Main Street" businesses in your community.

The U.S. Small Business Administration recently reported that some 97 percent of all employers in Kansas are small business – by their definition of having 500 or fewer employees. Well, 97 percent of NFIB/Kansas members have 100 or fewer employees, and 80 percent employ 15 or fewer persons. Nonetheless, small business is the backbone of the Kansas economy, essentially providing entirely for the net increase in jobs in Kansas over the past several years.

I don't think there is a fiscal note on H.B. 2020. It is an act of fairness and equity.

Enactment of H.B. 2020 is just one more step you can take to help restore taxpayer confidence in the system. It is one more step you can take to reduce the cynicism citizens have toward their government.

I recently talked with a small business owner whose real estate property tax on his business building had gone up about 30 percent in one year. He asked his county appraiser to justify such an increase. The four pages of documentation provided were to the property owner, and to me, a bunch of gobble de gook. Undecipherable pages of number and calculations which only another appraiser could understand.

The fact of the matter, in this instance, and in many instances, there were no sales comparisons to be used. The new appraised value was simply an extrapolation – not of any known facts – but an interpretation by the appraiser of how he thought things out to be.

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I'll make this straight to the point. The Legislature has agreed that the burden of proof should be on the appraiser when the valuation of residential property is challenged. Why should not a commercial property owner have the same advantage?

Very often there are no commercial property sales comparisons to be made. It also could be argued that commercial property evaluations – by their very nature – tend to be more subjective than evaluations of residential property.

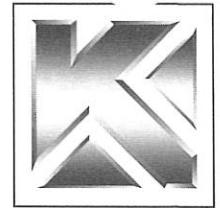
I urge you to grant to the commercial property owner this defense in the case of a property valuation dispute. When property valuations increase, appraisers should be required to clearly explain and justify the increase. The property owner should have the right to such information, and a right to challenge it in an appeals procedure.

H.B. 2020 makes sense. I urge you to report it favorably, and to support its enactment.

Thank you.

Hal Hudson, Kansas State Director
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Topeka, KS 66614-2015
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LEGISLATIVE TESTIMONY



Kansas Chamber of Commerce and Industry

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HB 2020

February 2, 1999

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Written Testimony presented to the
House Committee on Taxation

by

Natalie Bright
Director of Taxation

Chairman Adkins and honorable committee members:

My name is Natalie Bright, director of taxation for the Kansas Chamber of Commerce and Industry, and I am submitting written testimony on behalf KCCI members in favor of HB 2020.

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

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 47% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

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

During recent years, the Kansas Legislature made the policy decision to shift the burden of proving residential property value from the taxpayer who disputes the appraisal, to the county appraiser that assessed the property valuation. However, the Legislature did not include commercial property in its burden-shifting provision. As it now stands, the commercial property owner bears the

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but some and expensive task of proving that the assessment is not accurate. Logically, because the county appraiser establishes the value, and not the business owner, the government should have the burden of proof. This is due in large part because the county appraiser does the assessment and knows the valuation history of the commercial property in question.

In an effort to treat ALL real property owners equally under the law, commercial property owners should bear the same burden of proof as their residential counterparts. The members of KCCI respectfully requests that you favorably consider HB 2020 by enacting the appropriate statutory language to place the burden of proof on the county appraiser, so that all real property tax payers carry the same burden of proof in valuation disputes and are thus treated equally.



To: House Taxation Committee
From: Paul Welcome, Johnson County Appraiser *PMW*
Subject: HB 2020
Date: Feb 2, 1999

My name is Paul Welcome and I appear before you today to respectfully request your consideration of amendments to House Bill 2020.

Nearly every year since the initial reappraisal effort concluded in 1989 someone has suggested that counties should have to prove their values are correct rather than forcing the property owners to prove those same values are wrong. During the 1996 legislative session several laws were changed requiring the county appraiser to initiate the production of evidence in hearings involving *residential* property and to prove by a preponderance of the evidence that the county's value is correct. The current legislation seeks to expand that requirement to commercial and industrial real estate.

There is, however, a significant difference in the circumstances surrounding the appraisal of the latter classes of property. The large majority of residential parcels in this state are valued using the comparative sales approach. That approach would not be nearly as reliable if this legislature had not seen the wisdom in requiring property owners to disclose to the county the selling price of property at the time a deed is conveyed. Further, since the county appraiser has access to every sale in his or her jurisdiction, the burden of producing that evidence to support a value estimate is lessened considerably.

On the other hand, commercial or industrial properties do not sell as often as residential property and the sales are rarely as straightforward. Often it takes a crew of attorneys just to figure out what was sold and even more to determine the exact nature of the sale. As a result few, if any, jurisdictions in the United States have enough valid sales of any kind of commercial and industrial property to fill even a single comp sheet, much less provide one for every parcel.



That is the reason appraisers in and out of government rely more heavily on the income approach to value this type of property. Unfortunately, there is no mechanism for the county to gain access to that information. In the same respect that property owners alone have sale information until it is disclosed to the county, income and expense information is not disclosed until the property owner decides to do so. More often than not, that is after one or two levels of appeal.

It is in the best interest of all commercial and industrial property owners that the county appraiser have and use the most complete information available in the market. To that end I am respectfully requesting that the requirement that the county appraiser initiate the production of evidence at appeals beyond the informal level at the county be conditioned on the property owner furnishing income and expense information at the time the initial appeal is filed.

37 fund attributable to interest the county treasurer shall charge the county
38 general fund. In the event that the board or court finds that any time
39 delay in making its decision is unreasonable and is attributable to the
40 taxpayer, it may order that no interest or only a portion thereof be added
41 to such refund of taxes.

42 (2) No interest shall be allowed pursuant to paragraph (1) in any case
43 where the tax paid under protest was inclusive of delinquent taxes.

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1 (m) Whenever, by reason of the refund of taxes previously received
2 or the reduction of taxes levied but not received as a result of decreases
3 in assessed valuation, it will be impossible to pay for imperative functions
4 for the current budget year, the governing body of the taxing district
5 affected may issue no-fund warrants in the amount necessary. Such war-
6 rants shall conform to the requirements prescribed by K.S.A. 79-2940,
7 and amendments thereto, except they shall not bear the notation required
8 by such section and may be issued without the approval of the state board
9 of tax appeals. The governing body of such taxing district shall make a tax
10 levy at the time fixed for the certification of tax levies to the county clerk
11 next following the issuance of such warrants sufficient to pay such war-
12 rants and the interest thereon. All such tax levies shall be in addition to
13 all other levies authorized by law.

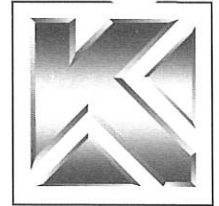
14 (n) The county treasurer shall disburse to the proper funds all por-
15 tions of taxes paid under protest and shall maintain a record of all portions
16 of such taxes which are so protested and shall notify the governing body
17 of the taxing district levying such taxes thereof and the director of ac-
18 counts and reports if any tax protested was levied by the state.

19 (o) This statute shall not apply to the valuation and assessment of
20 property assessed by the director of property valuation and it shall not be
21 necessary for any owner of state assessed property, who has an appeal
22 pending before the board of tax appeals, to protest the payment of taxes
23 under this statute solely for the purpose of protecting the right to a refund
24 of taxes paid under protest should that owner be successful in that appeal.

***Sec. 4. With regard to appeals of the valuation placed on real property
used for commercial and industrial purposes, the duty of the county or
district appraiser to initiate the production of evidence and to
demonstrate, by a preponderance of the evidence, the validity and
correctness of the valuation shall be contingent upon the property owner
who initiates the appeal voluntarily delivering to the county or district
appraiser a complete statement of the income and expenses of the
property under appeal for the last three years next preceding the tax
year of the appeal.***

25 Sec. 45. K.S.A. 79-1609 and 79-2005 and K.S.A. 1998 Supp. 74-2438

LEGISLATIVE TESTIMONY



Kansas Chamber of Commerce and Industry

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HB 2129

February 2, 1999

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Taxation

by

Natalie Bright
Director of Taxation and Small Business

Honorable Chair and members of the Committee:

My name is Natalie Bright, director of taxation and small business for the Kansas Chamber of Commerce and Industry. I am pleased to have this opportunity to express our members' support for the increase in the exemption threshold allowed for business personal property as set out in HB 2129.

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 that represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 47% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

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

KCCI was one of the leading organizations to push for this provision in 1995 to counteract a wave of aggressive county audits across the state. When the 1995 bill was introduced, the threshold was proposed at \$2,500 per item. The Property Valuation Department surveyed all counties -- most

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of which responded -- and their conclusion was that a threshold of \$1,000 would cause less than a 1% loss of statewide tax base. The House overwhelmingly approved a \$500 threshold and in conference committee the compromise was struck at \$250.

Some will debate that increasing the exemption level will cause a decrease in the tax base which in turn will cause a loss in state revenue. However, a "loss" in the state tax base is a relative term. The actual change in statewide tax base between 1996 and 1997 was a 9% growth in M&E assessed value and a 6% growth in the "all other" category which is largely composed of small non-machinery business property. If the cost assessment by the Department of Valuation is correct, the 1% loss in the tax base is offset by the overall growth rate in the state tax base for business machinery and equipment.

Today, there is ample justification for increasing the exemption threshold amount to \$1000. First, it is very difficult and time consuming for the taxpayer to accurately complete an annual tax rendition form that lists **every** item of business personal property. Second, such a small percentage of our tax base is represented by business personal property so that raising the exemption threshold will have a minimal effect on the state tax base. Finally, the tax penalties for unreported or underreported property, however innocent the mistake, are extremely high, in fact some of the highest in the nation.

KCCI supports any increase in the current \$250 level, including the \$1000 recommendation in today's bill. We urge your favorable recommendation of this proposal, and I thank you for your time and consideration.



**Statement by Hal Hudson, State Director
Kansas Chapter,
National Federation of Independent Business
To the Kansas House Taxation Committee**

Re: House Bill 2129

February 2, 1999

Mr. Chairman and Members of the Committee: Thank you for this opportunity to appear in support of House Bill 2129. My name is Hal Hudson, and I am here today representing the more than 7,000 small and independent business owners who are members of the National Federation of Independent Business. Most of our members are the local owners of "Main Street" businesses in your community.

The U.S. Small Business Administration recently reported that some 97 percent of all employers in Kansas are small business – by their definition of having 500 or fewer employees. Well, 97 percent of NFIB/Kansas members have 100 or fewer employees, and 80 percent employ 15 or fewer persons. Nonetheless, small business is the backbone of the Kansas economy, essentially providing entirely for the net increase in jobs in Kansas over the past several years.

There is no doubt that NFIB/Kansas members support the increase in the property tax exemption on machinery and equipment. Those of you who were on this committee in 1995 will recall that NFIB was a leading proponent of the "Paper Clip Tax" bill which established the present \$250.00 threshold exemption for business personal property.

Some of you also may remember that in 1998 Governor Graves proposed increasing the machinery and equipment exemption to \$500. And, it was the House Tax Committee that approved increasing the exemption to \$1,000. That proposal passed in the full House, where it then became a part of the comprehensive tax relief bill of 1998. The provision to increase the exemption to \$1,000 was lost in the conference committee.

NFIB members were asked on the 1999 Kansas State Ballot if they still wanted this property tax exemption increased. A total of 81 percent of those responding said YES to this question. Property tax reduction continues as a top priority of NFIB/Kansas members.

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Some of you also have heard me say before that the tax small business owners dislike most is property tax – and especially property tax on machinery, equipment, materials, and supplies. That is because payment of property tax has no relevance to the ability to pay.

Many small businesses, in the years they are growing and expanding make substantial investments in machinery and equipment, as they provide new jobs. It is this very growth that may reduce their income, hence their ability to pay property taxes. Any reduction in the cost of property tax is one way to encourage investment in new machinery and equipment and the creation of more jobs for Kansans.

When the concept of this tax exemption threshold was first introduced in 1995, there were those who said local tax revenues would be slashed, resulting in big shifts of the tax burden to home owners. There is little evidence to support that fear. In fact, in some counties the assessed value of machinery and equipment, and the actual tax dollars received, have increased. There are at least four reasons why this may be true:

- 1) Items which cost less than \$1,000 when purchased new do not produce very much tax revenue. And, after 3 to 5 years, when they have been depreciated to 20 percent of original cost, they generate even less in tax collections.
- 2) Since 1995, many businesses, relieved of the time consuming effort of listing minutiae, have undertaken a serious approach to accurately listing those items that should be reported.
- 3) Legislation enacted as a companion to the first threshold exemption bill established a two-year statute of limitation for county appraisers to go back into company books looking for unreported or under reported property. This also encouraged some who may have been negligent to clean up their reporting.
- 4) Tax relief granted to businesses, including the unemployment tax moratorium, has provided business with the capital to invest and grow – adding to the value of their “personal” property on which property tax is assessed.

As I ask you to seriously consider enactment of H.B. 2129, I would like to leave you with one more thought, and that is this: Virtually all property taxes paid by businesses are at a higher rate than those paid by individuals, and only businesses pay “personal” property tax on the machinery and equipment they own. Dollar-for-dollar, tax relief granted to Kansas businesses will do more to bolster the Kansas economy than the same dollars granted in tax relief to individuals.

I urge you to report H.B. 2129 favorably, and to support its enactment by the full House.

Thank you.

CAPITOL COVERAGE

Here's How NFIB Members Voted on the '99 Kansas Ballot

1. Should Legislation be enacted to increase the property tax exemption for each single item of commercial machinery and equipment to \$1,000?

Yes81 percent
 No15 percent
 Undecided4 percent

2. Should legislation be adopted to exempt computers and related peripherals from state and local property tax?

Yes71 percent
 No22 percent
 Undecided7 percent

3. Should legislation be enacted to exempt motor vehicles from state and local business personal property tax?

Yes66 percent

No26 percent
 Undecided8 percent

4. Should the Legislature enact a new Comprehensive Transportation Program to fund major highway and other transportation facilities improvement?

Yes43 percent
 No41 percent
 Undecided16 percent

5. Should the present reserve-ratio approach be replaced with a benefit-ratio formula for determining the Kansas unemployment tax for employers?

Yes62 percent
 No17 percent
 Undecided21 percent

Who's in Charge in the House?

Last December, both the Democrat and Republican Caucuses met and selected their leaders for the 1999-2000 biennium. The following were elected to their respective leadership posts:

Speaker of the House: Robin Jennison (R-117th Dist. - Healy)	Minority Leader: Jim Garner (D-11th Dist. - Coffeyville)
Speaker Pro Tem: Doug Mays (R-45th Dist. - Topeka)	Asst. Minority Leader: Dennis McKinney (D-108th Dist. - Greensburg)
Majority Leader: Kent Glasscock (R-62nd Dist. - Topeka)	Minority Whip: Richard Aldritt (D-105th Dist. - Harper)
Asst. Majority Leader: Shari Weber (R-68th Dist. - Herington)	Caucus Chair: Barbara Ballard (D-44th Dist. - Lawrence)
Majority Whip: Clark Shultz (R-73rd Dist. - Lindsborg)	Policy Chair: Troy Findley (D-46th Dist. - Lawrence)
Caucus Chair: John Toplikar (R-15th Dist. - Olathe)	

Hal Hudson
State Director

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www.nfibonline.com/states/kansas

Small Business Works
FOR KANSAS
...and NFIB works for small business.

Senate Leadership is Unchanged

President:
Richard Bond (R-8th Dist. - Overland Park)
Vice President:
Alicia Salisbury (R-20th Dist. - Topeka)
Majority Leader:
Tim Emert - (R-15th Dist. - Independence)
Asst. Majority Leader:
Ben Vidricksen (R-24th Dist. - Salina)
Minority Leader:
Anthony Hensley (D-19th Dist. - Topeka)
Asst. Minority Leader:
Janis Lee (D-36th Dist. - Kensington)

Important Topeka Phone Numbers

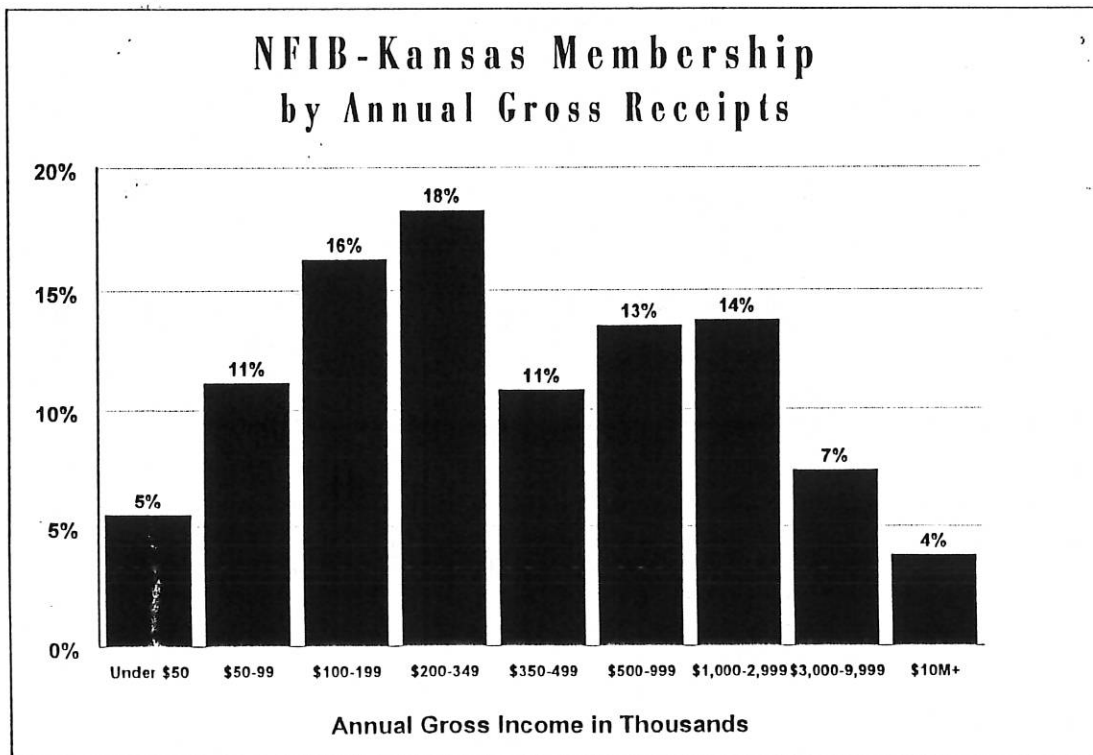
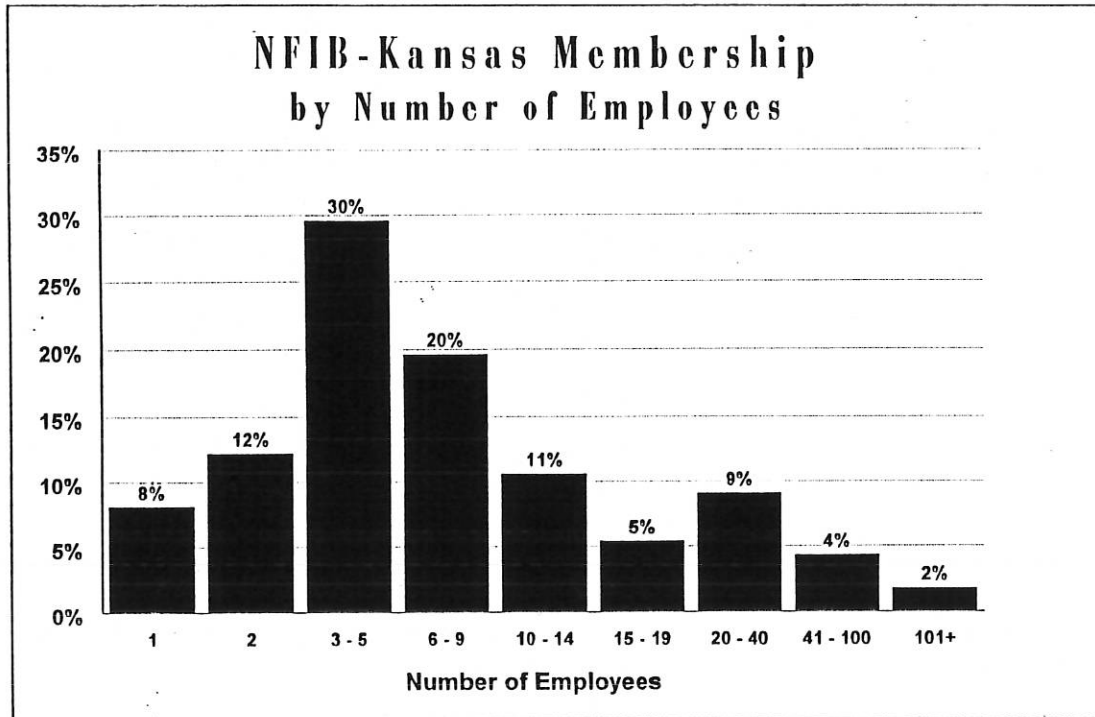
SENATE
 President's Office: (785)296-2419
 Majority Leader's Office: (785)296-2497
 Minority Leader's Office: (785)296-3245

HOUSE
 Speaker's Office: (785)296-2302
 Majority Leader's Office: (785)296-7662
 Minority Leader's Office: (785)296-7630

General Information
 (during session): (785)296-0111
 Bill Status: (785)296-3296

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.



THE CHAMBER



Testimony on HB 2129
House Taxation Committee
February 2, 1999

Bernie Koch
VP/Government Relations
Wichita Area Chamber of Commerce

Thank you for the opportunity to appear today.

Mr. Chairman, members of the committee, I'm Bernie Koch with the Wichita Area Chamber of Commerce. It should come as no surprise that we support House Bill 2129. As you know, the Wichita Area has a strong manufacturing community with lots of machinery and equipment, so this especially benefits us.

Prior to last year's enactment of the refundable tax credit for machinery and equipment property taxes, Kansas had the highest effective tax rate in the region on machinery and equipment. It was so high, in fact, that even when you factor in the 15 percent refundable tax credit, we're still the highest in the region today. That's why we need to continue to attack this problem.

When the \$250 exemption was first proposed, there were many opponents who suggested that this would shift taxes from business to homeowners. The actual assessed valuations for the past several years in Sedgwick County show that to be untrue.

In fact, the \$250 exemption merely slowed an ongoing, natural shift of the tax base to business property, as the attachment to my testimony shows.

I urge your favorable consideration of House Bill 2129.

Thank you for your consideration.

PERCENT OF SEDGWICK COUNTY PROPERTY TAX BASE COMPOSED OF COMMERCIAL AND INDUSTRIAL PROPERTY

	COMMERCIAL & INDUSTRIAL MACHINERY & EQUIPMENT			COMMERCIAL & INDUSTRIAL REAL PROPERTY		TOTAL COMMERCIAL & INDUSTRIAL PROPERTY	
	TOTAL PROPERTY TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE	ASSESSED VALUE	PERCENT OF TAX BASE
1984	\$1,339,610,776	\$183,930,207	13.73%	\$220,623,496	16.47%	\$404,553,703	30.20%
1985	\$1,394,266,112	\$187,085,820	13.42%	\$227,298,750	16.30%	\$414,384,570	29.72%
1986	\$1,448,022,385	\$185,445,528	12.81%	\$250,987,830	17.33%	\$436,433,358	30.14%
1987	\$1,494,160,620	\$195,126,906	13.06%	\$261,418,256	17.50%	\$456,545,162	30.56%
1988	\$1,537,513,579	\$211,576,704	13.76%	\$266,438,350	17.33%	\$478,015,054	31.09%

(1989 was the first year after reappraisal and reclassification. Mach/equip from 30% to 20%. Comm/indust real property remained 30%.)

1989	\$1,867,511,789	\$180,826,219	9.68%	\$613,043,418	32.83%	\$793,869,637	42.51%
1990	\$1,912,253,139	\$177,862,882	9.30%	\$622,574,204	32.56%	\$800,437,086	41.86%
1991	\$1,962,204,160	\$212,948,990	10.85%	\$625,921,336	31.90%	\$838,870,326	42.75%
1992	\$2,017,833,007	\$220,016,005	10.90%	\$638,151,101	31.63%	\$858,167,106	42.53%

(1993 was the first year during which both comm/indust machinery & equipment and comm/indust real property were assessed at 25%)

1993	\$2,007,037,441	\$281,394,061	14.02%	\$469,597,688	23.40%	\$750,991,749	37.42%
1994	\$2,060,281,521	\$282,127,156	13.69%	\$535,365,114	25.99%	\$817,492,270	39.68%
1995	\$2,118,312,007	\$295,632,718	13.96%	\$523,594,346	24.72%	\$819,227,064	38.67%
1996	\$2,204,320,563	\$309,179,886	14.03%	\$557,505,466	25.29%	\$866,685,352	39.32%
1997	\$2,335,445,803	\$326,055,773	13.96%	\$609,002,374	26.08%	\$935,058,147	40.04%
1998	\$2,453,805,137	\$355,717,918	14.50%	\$635,027,905	25.88%	\$990,745,823	40.38%

5% growth

9.09%

4.27%

5.9%



Leavenworth-Lansing Area Chamber of Commerce

**TESTIMONY OF CHARLES H. GREGOR, JR.
EXECUTIVE VICE PRESIDENT
LEAVENWORTH-LANSING AREA CHAMBER OF COMMERCE
HOUSE TAXATION COMMITTEE
February 2, 1999**

Mister Chairman, members of the Committee, thank you for the opportunity to come before you to speak on behalf of House Bill 2129. Inclusion within the bill of a business personal property tax exemption of one thousand dollars (\$1,000.00), up from the current two hundred and fifty dollars (\$250.00) exemption, is a major step forward in providing our small businesses substantial tax relief. This Chamber of Commerce has taken the position that even a minimum increase in the exemption to five hundred dollars (\$500.00), as requested by the Governor prior to the 1998 session of the legislature, would provide a measure of tax relief for Kansas small businesses.

The Leavenworth-Lansing Area Chamber of Commerce was one of the organizations instrumental in the passage of the original two hundred and fifty dollar (\$250.00) exemption by the 1995 Legislature. Since the passage of that legislation, this Chamber of Commerce has consistently fought for an increase in the business personal property tax exemption level. While the current level of \$250 is a great saver in terms of reducing the administrative and associated costs that burden our small businesses, it has created minimal property tax relief. It simply allowed our small businesses to comply with the law and more accurately report business property. As a result, and as predicted by this Chamber of Commerce in testimony before a joint taxation committee in 1995, business personal property tax collections actually increased once the exemption went into effect.

Experience has demonstrated that the economic impact of such an increase in the business personal property tax exemption will not adversely affect state or local revenues. This Chamber of Commerce testified before this committee in 1995, in the face of predictions of catastrophic losses of revenue by some county assessors, that the exemption would actually increase revenues as the task of filing business personal property taxes was simplified and businesses were able to comply with the law. We were correct -- revenues increased in all counties. More businesses paid personal business property taxes and many more were able to render more accurate tax reports as the administrative burden was made less onerous. That same phenomenon, to a lesser extent, will apply now. While a five hundred dollar (\$500.00) exemption, or even a one thousand dollar (\$1,000.00) exemption, may not prove to be totally revenue neutral, it will have negligible impact.

The exemption increase we are requesting would offer meaningful tax relief to Kansas' small businesses, such as our "mom and pop" retailers, small service businesses, and small manufacturers that make up the heart and soul of so many of our communities, not only in Leavenworth County but throughout the State of Kansas. These businesses are a critical part of our tax base and provide the jobs that form the economic core of many Kansas communities. Many of these business owners work 60 to 80 hours a week just to survive. It is more than appropriate that they reap the tax relief an exemption increase would provide. Such an exemption increase will allow reinvestment of profits,

Testimony of Charles H. Gregor, Jr.
Executive Vice President
Leavenworth-Lansing Area Chamber of Commerce
House Taxation Committee
February 2, 1999
Page 2

expansions, and job development within that part of Kansas' economic base that has been a primary cause of the tax revenue growth that has demanded adjustment of our tax laws over the past several years.

I respectfully urge you to approve HB 2129, to include provision for an increase in the business personal property tax exemption level.

I would be glad to try to respond to any questions you may have of me at this time.

-----End of Testimony-----

KANSAS TAXPAYERS NETWORK

P.O. Box 20050
Wichita, KS 67208

web:www2.southwind.net/~ktn

316-684-0082

FAX 316-684-7527

2 February 1999

PERSONAL PROPERTY TAX EXEMPTION

By Karl Peterjohn, Exec. Dir.

KTN has testified in support of increasing the \$250 or less per item business personal property tax exemption whenever this has appeared on past legislative agendas. In the past, this was normally part of a larger package of tax cuts. Last year, the governor proposed doubling this exemption to \$500 and an increase in this exemption passed out of the Kansas house. Unfortunately, this tax cut was not enacted as part of the 1998 tax reduction legislation.

Increasing this exemption would be very helpful to Kansas business for the following reasons: First, a large number of relatively low valued items have to be listed. Second, a separate list must be created since the federal IRS depreciation schedules and the Kansas personal property list diverge, and there is a high cost in both complying with this tax and with collecting the information so this tax can be properly assessed and collected.

Since Kansas commercial real property is assessed at 2.2 times residential property it can not be argued that Kansas business is not paying its fair share. High property taxes are one very important reason that Kansas has achieved the dubious distinction of being the high tax point on the prairie. Imposing a personal property tax which exacts a substantial price in compliance compounds the tax rate problem. High taxes are a serious impediment to economic growth. It is no mystery that a positive tax climate is one of the key ingredients behind the states which have the fastest rates of economic growth.

Since the current law at \$250 was set in place about four years ago, this value has been eroded due to inflation. Fortunately, inflation in the 1990's has not been nearly as bad as inflation in the 1980's. If the legislature can not raise this exemption to \$1,000, KTN strongly urges the legislature to increase this value with an automatic inflation adjustment.

*HOUSE TAXATION
2-2-99
Attachment 11*



Propane Marketers Association of Kansas

214 S.W. 6th Avenue, Suite 305

Topeka, KS 66603-3719

Phone 785-354-1749

Fax 785-354-1740

e-mail: pmak@inlandnet.net

Lee Eisenhauer
Executive Vice-President

Written Comments

Regarding House Bill 2129

Provided by Lee Eisenhauer, Executive Vice-President,

Propane Marketers Association of Kansas,

to the House Committee on Taxation

February 2, 1999

Mr. Chairman and Members of the House Committee on Taxation:

The propane marketers in the state of Kansas join with other small businesses in support of House Bill 2129.

Increasing the exemption from all property or ad valorem taxes of machinery, equipment, materials and supplies from \$250 to \$1,000 or less original retail cost would certainly be a help in the cost of doing business which, foreseeably, could reduce costs to consumers.

The increased exemption would also provide some much-needed relief from the abundance of paperwork and recordkeeping required of businesses.

We thank your for your consideration, and urge your passage of, House Bill 2129, to help this industry and all small businesses in Kansas.

#####

HOUSE TAXATION
2-2-99
Attachment 12



EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

OFFICERS

PRESIDENT
DUANE CROSIER
Seneca

VICE-PRESIDENT
ARNIE GRAHAM
Emporia

ASST. TREASURER
JOHN CUNNINGHAM
Shawnee Mission

BOARD OF DIRECTORS

CHAIRMAN
MIKE BRAXMEYER
Atwood

CARY BINNEY
Ulysses

GLEN CATLIN
Herington

MIKE FLOERSCH
Clay Center

TOM FLOERSCH
Fredonia

STAN HAYES
Manhattan

SKIP KLEIER
Carbondale

JIM MCGUFFEY
Cheney

JOHN MCKEEVER
Louisburg

LEONARD MCKINZIE
Overland Park

GEORGANNA MCCRARY
Russell

CLIFF O'BRYHIM
Overbrook

BILL STEINMETZ
Norton

J. R. WAYMIRE
Leavenworth

BILL WEST
Abilene

DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

HOUSE TAXATION

SUPPORTING HB 2129

2-2-99

We are very much in support of HB 2129, raising the \$250 exemption to \$1000 for equipment, material and supplies when figuring the property tax for business.

We worked with the Leavenworth County Task Force before the first exemption was passed, and eliminating the tax on items with an original retail cost of \$250 was beneficial to all our members -- manufacturers, wholesalers, distributors and retailers of food products.

As you look at ways to help all Kansans reduce their tax liability, please remember that a tax benefit to a business in their community is going to help the people in that community as well as the citizens of the state.

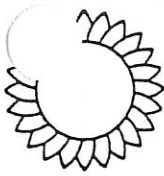
Thank you for the opportunity to share our views with you, and we respectfully request that you recommend HB 2129 favorable for passage.

Frances Kastner, Director
Governmental Affairs

Don Snodgrass
Lobbyist

HOUSE TAXATION
2-2-99

Attachment 13



FEBRUARY 2, 1999

HOUSE TAXATION COMMITTEE

HB 2129

TESTIMONY OF DANA FENTON, INTERGOVERNMENTAL RELATIONS
COORDINATOR FOR JOHNSON COUNTY

Mister Chairman, members of the Committee, thank you for the opportunity to testify today. My name is Dana Fenton, Intergovernmental Relations Coordinator for the Johnson County Board of Commissioners.

I am here today to testify in opposition to HB 2129. This bill increases the Retail Cost when New level from \$250 to \$1,000 effective December 31, 1998.

By increasing the Retail Cost when New to \$1,000 the Johnson County personal property tax roll is decreased by 3% or \$12.6 million. Not only does this bill decrease the personal property tax roll it places more of the burden of taxation on real property. The shift in the burden of taxation to real property is a concern for local governments around the State.

Insofar as a fiscal impact, a decrease in the tax roll of \$12.6 million and an average millage of 120 equates to a drop in tax revenues of \$1.5 million for all Johnson County taxing entities. Of course, not all entities will absorb the decrease in the tax roll. Some will undoubtedly raise their mill levies to make up the difference.

This bill also has an administrative impact upon Johnson County. The Johnson County Appraiser's Office has already started the process of collecting personal property information from taxpayers. By making the bill retroactive to December 31, 1998, appraisal staff will have to redo the rendition process for the 1999 tax year. This could have an impact on the timeliness of the 1999 personal property tax roll certification.

Mister Chairman, thank you for this opportunity to testify in opposition. I will be glad to stand for any questions.

HOUSE TAXATION
2-2-99


Attachment 14



**League
of Kansas
Municipalities**

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 300 S.W. 8TH TOPEKA, KS 66603-3896 (785) 354-9565 FAX (785) 354-4186

TO: House Taxation Committee

FROM:  Chris McKenzie, Executive Director

DATE: February 2, 1999

SUBJECT: HB 2129

Thank you for the opportunity to appear before you today on behalf of the League of Kansas Municipalities to express concerns about HB 2129. As you know, this bill would increase from \$250 to \$1,000 the personal property tax exemption for any item of machinery, equipment, materials and supplies of any profit-making or not-for-profit business. We have three specific concerns with this proposal.

First, the proposed increase in the exemption (300%) seems excessive given that this exemption was first approved in 1995. The cost-of-living has increased only a fraction of this amount since 1995.

Second, the increase will create an incentive for taxpayers to break the purchases of component parts of equipment into separate purchases, each of which would be \$1,000 or less. Although the Property Valuation Division may direct counties to treat such purchases as one "purchase" for purposes of Article 11, Sec. 1 of the state constitution, the Kansas Supreme Court's 1997 decision in *Leavenworth County Commissioners v. McGraw Fertilizer Service, Inc.* indicates that the terms "machinery and equipment", as used in Article 1, Sec. 1, would be interpreted in light of the ordinary dictionary definition of these terms.

Third, as the state government's reliance on the property tax is reduced, there may be a temptation to be even more generous with property tax exemptions such as those contained in this bill. After all, narrowing the tax base by granting exemptions will simply shift the cost of financing local (not state) government services to other property taxpayers. We need to remember that if all other aspects of the tax base remain the same, every time the tax base is reduced it requires a higher mill levy rate to generate the same amount of property tax revenue. This is paid by the owners of other property.

RECOMMENDATION: We urge you to reject HB 2129 unless you find a compelling reason to shift the burden of financing local government services to other classes of personal and real property.

President: Chris Cherches, City Manager, Wichita * Vice President: John R. Zutavern, Commissioner, Abilene * Past Presidents: Donald L. Anderson, Mayor, Lindsborg * Ed Eilert, Mayor, Overland Park * Irene French, Mayor, Merriam * R alph T. Goodnight, Mayor, Lakin * Directors: Carol Bloodworth, City Administrator, Cheney * Joan Bowman, Mayor, Lenexa * Delores Dalke, Mayor, Hillsboro * Tony Fiedler, Commissioner, McPherson * Rod Franz, Finance Director, Salina * Warren C. Hixson, Mayor, Colby * Don J. Knappenberger, City Attorney, St. John * Carol Marinovich, Mayor, Kansas City * Ralph Soelster, Mayor, Paxico * Joan Wagnon, Mayor, Topeka * Glen Welden, City Manager, Parsons * Ed Wiltse, Councilmember, Ulysses * Executive Director: Christopher K. McKenzie

HOUSE TAXATION
2-2-99
Attachment 15