Approved: March 22, 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 17, 1999 in Room 519-S of the Capitol.

All members were present except: All present

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: None

Others attending: See attached list.

The Chairman opened the meeting to stating that the purpose was to attempt to craft an omnibus tax cutting bill.

The Chairman explained that the Governor had provided some parameters available to the committee to try to determine the appropriate amount of a tax cut bill to bring out of the committee. The Chairman noted that he was interested in what would be the appropriate tax mix and what amount of the tax cut the committee feels is appropriate for a tax proposal. Questions and discussion followed. The committee expressed concern regarding a transportation bill and nothing left for tax cuts.

The Chairman began a consensus building process and polling of the committee regarding the following:

The Chairman asked the committee by a show of hands, of how many believed there should be a tax cutting target that is below the Governor's $560 million dollars. The Chairman indicated that it was the consensus of the majority of the committee to have a tax cutting target below $560 million dollars.

The Chairman explained the various plan options listed on a handout prepared by the Kansas Legislative Research Department (Attachment 1). The Chairman asked the committee to look at Plan A. Questions and discussion followed..

The Chairman asked what the committee choices were regarding sales tax on food: removing it completely, doing the Franklin plan, going with an enhanced rebate program or doing nothing in that area by a show of hands. The committee consensus was either the Franklin plan (8 in favor) or an enhancing the rebate program on food (13 in favor).

The Chairman asked how many on the committee believe that cars should just be left alone as the committee addresses the plan? The committee consensus was to leave cars alone for the present.

The Chairman reviewed with the committee, for the purposes in crafting a plan, if the committee felt that they can leave cars on the table, and liked the food rebate program. Questions and discussion followed and no response at this time.

The Chairman asked how many on the committee think that the property tax and the statewide mill levy should be included in the package, or how many believe that it should be left on the table and not worry about it at this time. The consensus of the committee was to leave those items on the table for the present.

The Chairman asked how many on the committee felt there is some promise in pursuing some aspect of income taxation with personal exemption increases, standard deduction increases, the whole area of child care credit. Some income tax component? The committee consensus was yes to include it.

The Chairman mentioned, if working with Plan A, the other items to determine before going any further is in regard to machinery and equipment income tax credit, the severance tax repealer, the adoption income tax credit and the grains and trains proposal. He asked how many on the committee can support their inclusion in this package at this point. The committee consensus was in agreement that this block be on the table.

The Chairman explained how the official plan would look: it would start with the food sales tax rebate expansion column in Plan D, but that column would begin in Fiscal Year 2001. The next columns would be machinery and equipment credit, severance tax, adoption, grain and then **HB 2054** as 25%, column from Plan D move up and substitute for the Plan A column, the two-mill reduction to 18 mills just as it appears in plan A and the car tax cuts column would be omitted from Plan A. Questions and discussion followed.

The Chairman noted that the integrated plant theory as shown here does not contain the oil components and the assumption was made that with the severance repealer, at least there would be a significant piece in play that addresses it. Integrated plant is explained on the attached sheet, water district is important for a number of people, disaster relief since the bill was passed out of committee makes sense, commercial remodeling has a fairly significant fiscal note, but was passed out and should be part of the mix, PTO/PTA is a relatively small fiscal, but an important matter to clean it up, clinics and assistive device laws sales tax along with the Kidney Foundation on the list of non-profits.

The Committee discussed provisions in **HB 2009** and not sufficient relief for the oil industry with severance, but severance is good to continue to pursue. The Chairman, in regard to these issues, noted that this is a very important piece of an overall package. The Chairman noted that the fiscal impact takes it from $5 million to $12 million and that is a concern.

The committee discussed striking the word commercial in one of the Governor's proposals, **HB 2037**, grains and trains, so it would be available to everyone at the local level. The committee consensus was in agreement that the word commercial should be stricken.

The Chairman opened the meeting for motions to either remove or add something to the list in progress.

The Chairman recognized Representative Kirk who made a motion, and seconded by Representative Jenkins, to include a sales tax exemption for the erection or construction of residential facilities at Washburn University with a Fiscal Note of approximately $390,000. Questions and discussion followed. Motion failed.

Questions and discussion followed.

The committee discussed assistive devices, remote control, repair, and replacement parts and the Chairman noted that when the bill passed out of committee it failed to include the requested amendment with regards to environmental controls as being defined as part of the assistive devices. The Chairman asked the committee how many were in favor of adding repair and replacement parts. The committee consensus was in agreement to add repair and replacement parts.

The Chairman mentioned **HB 2001**, Representative Morrison's bill, to make sure that it is included that includes student unions and dorms not being subject to the property tax which was a statutory clarification. The committee consensus was in agreement to keep it in the proposal.

Chair mentioned that The Estate Tax Reform Measure (**HB 2158**) is going to be the shell through which the committee will offer this measure and there are several amendments that the Revisor has in regard to the estate taxes to be considered before including it. The Revisor explained the amendments. Questions and discussion followed. The Chairman asked the committee if anyone had objections to including the amendments into the language with regard to the estate tax component. The committee had no objection. The Chairman asked the committee to consider **HB 2127**, endowment credit, and **HB 2226**, alternative fuel vehicle loan and income credit expansion. The committee consensus was to leave in **HB 2226**.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on February 17, 1999.

The committee discussed income tax credit issues that would expand the piggyback of the state income tax credit on the federal from 25% to 50%. The Chairman asked those on the committee that favor of including this item in the proposal. The consensus of the committee at this point felt it would fail at this point..

The Committee discussed **SB 18** income tax credit. Chris Courtwright was asked to explain the bill, and he mentioned that it provides an income tax credit for property taxes paid on certain low-producing oil wells with $8 million dollar annual fiscal note, but in first year it is $16 million because it is retroactive to Tax year 1998. The committee was polled and it determined that it would fail at this point in time and would not be included in the package.

The committee discussed **HB 2011**, regarding water districts, and the Revisor had clarifying amendments. The Revisor explained the amendments.

The committee discussed **HB 2009.** Representative Edmonds considered amending **HB 2009** dealing with mobile concrete mixer trucks to include concrete trucks be included with definition of a batch mixing plant that would be bolted to the floor. The committee considered adding it to the integrated plant proposal and determined by consensus to add the provision.

The committee discussed **HB 2129**, the paper clip exemption. It was suggested to make the exemption $500 (was $250) and the Chairman asked the committee how many would include it at $500 or not include it at all. The consensus of the committee was they would add it at $500.

The Chairman asked the committee about including the following two items in the proposal: alternative fuel vehicles (**HB 2226**) - the committee agreed to include it and endowment credit (**HB 2127**) - the committee agreed to not include it.

The Chairman reviewed what the proposal as it currently would be stated stands as follows:

Plan A - the grocery tax cut has been substituted with the food tax sales rebate expansion as indicated in that column on Plan D.

Machinery and equipment in the second year, first year is gone.

The four other components of the Governor's tax cut proposal are retained with commercial being stricken from the grains and trains bill.

The 25% child credit as contained in **HB 2054** is moved from Plan D and is substituted for the same column in Plan A.

The mill levy reduction occurs just as it is stated in Plan A.

The car tax reductions are rescinded from Plan A.

On page 3 of the plan options all the issues for selected sales tax are included, and it is understood that the integrated plant will include oil at this point in time. Cement trucks are in there also.

The water district will have the amendments as indicated that the Revisor has.

Disaster relief will remain just as passed out of committee.

Commercial remodeling, PTO/PTA's, clinics and assistive devices with the modification that repair and renovation be included and that environmental controls be included. The Kidney Foundation is included. The Chairman noted that there were no other amendments in the sales tax area.

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on February 17, 1999.

The personal property tax exemption has been moved from $250 to $500, retained the alternative fueled vehicles income tax credit program, included the property tax exclusion for dorms and student unions as contained in the original **HB 2001**, done the estate tax reform legislation with the modifications on leans and waiver of final payments as indicated by the Revisor, and those are the components of the proposal which the Chairman placed in motion form. Questions and discussion followed. The Chairman asked if the components of the plan as stated at this point understood by the committee. The answer was yes.

Representative Edmonds suggested that this discussion be deferred until a dollar amount is totaled for the plan.

The Chairman noted that in regard to the food sales tax it can be clarified that does the committee want to expand the credit to those up to $50,000 or choose to expand the eligibility requirements as opposed to the income requirement. By a show of hands, the committee determined to massage the eligibility and come back with a fiscal note and options. Questions and discussion followed.

The Chairman noted that in regard to mill levy reductions that the committee previously voted to pursue straight mill levy reductions as opposed to homestead. The Chairman asked the committee how many want to come back with homestead options or continue to reserve those dollars for other tax relief. The committee agreed that they would like to determine a homestead component and try to figure the fiscal impact of it.

The Chairman mentioned that it is not the intent of the Chair to revisit any of the issues that have been attempted to resolve today, but to come back with some modification on the eligibility on food sales tax rebate, some component that builds in homestead and some car tax reductions.

A report titled, "Tax Options for Kansas : Evaluating Recent Reforms and New Proposals" by the Institute on Taxation and Economic Policy,(ITEP), Washington, D.C. was distributed to the committee by Kansans Respond (Attachment 2).

The meeting was adjourned as 11:05 a.m

The next meeting is scheduled for February 18, 1999.

HOUSE TAXATION COMMITTEE
GUEST LIST
DATE: Feb. 17, 1999

George Welch	Barbee & Assoc.
Patrick J Hurley	KCPL
Bernie Koch	Wichita Chamber
Ashley Sherard	O.P. Chamber of Commerce
Christy Caldwell	Topeka Chamber of Comm.
Stacey Farmer	KS Assoc of School Boards
Erin Rooney	Kansas Public Policy Institute
[illegible]	Ks Taxpayers Network
[illegible]	[illegible]
Hal Hudson	NFIB/Kansas
Lori Myers	DAUGHTER OF REP. PALMER
Debbie Carriger	—
Tom Palmer	SPOUSE OF REP. PALMER
Dave Holthaus	Westar [illegible]
JOHN POLZAR	
Tom Bruno	Allen & Assoc
Mary Becker	Kansans Respond
Don Schnacke	KIOGA
Bill Larrea	BOEING

HOUSE TAXATION COMMITTEE
GUEST LIST
DATE: 2-17-99

Randy Allen	Ks. Association of Counties
Kelley Kultala	City of Overland Park
Jim Langford	DOB
Scott Schneider	McGill, Gaches & Assoc.
Erik Sartorius	Johnson Co. Board of Realtors
Nick Powell	Colt Energy, Inc.
Bob Krehbiel	Kans Independent Oil & Gas Assoc

House Taxation
2-17-99
Attachment 1

Governor's Tax Package and SHF Demand Transfer

FY	c and i m and e credit to 20%	car taxes	severance	adoption	grain	total	Gov's shf sales tax demand transfer relative to current law	Tax Cuts + d transf total
00	($6.5)	---	($3.8)	($1.3)	($0.7)	($12.3)	($19.7)	**($32.0)**
01	($10.5)	($22.5)	($5.1)	($1.3)	($0.8)	($40.2)	($35.4)	**($75.6)**
02	($11.3)	($79.4)	($7.6)	($1.3)	($0.9)	($100.5)	($36.8)	**($137.3)**
03	($12.2)	($144.3)	($7.6)	($1.3)	($0.9)	($166.3)	($38.3)	**($204.6)**
04	($13.2)	($218.0)	($7.6)	($1.3)	($0.9)	($241.0)	($39.8)	**($280.8)**
Total 5 yrs	($53.7)	($464.2)	($31.7)	($6.5)	($4.3)	($560.4)	($170.0)	**($730.4)**

Plan "A"

Food Tax Rate Cut Starts June 1, 2000, hb 2054 (20%) starts in TY 2001; and 2 mills prop tax
Local Sales Taxes Remain in Place; All Demand Transfers Held Harmless
Do Gov's Tax Package but delay cars and do not repeal that tax

FY	Grocery Tax Cut F Notes	Grocery Tax Rates Effective June 1	m and e credit to 20%	severance	adoption	grain	HB 2054 piggyback fed credit at 20% (starts ty 01)	(2 Mill Reduction to 18 Mills) USD Gen Fund Prop Tax Levy Reduction	This Plan Total (includes car tax -->)	Car Tax Cuts start CY 2002	MV Rate CY
00	---		($6.5)	($3.8)	($1.3)	($0.7)	---	($20.8)	**($33.1)**	---	20
01	($19.5)	4.5% june 1, 2000	($10.5)	($5.1)	($1.3)	($0.8)	---	($35.2)	**($72.4)**	---	20
02	($45.5)	4.0% june 1, 2001	($11.3)	($7.6)	($1.3)	($0.9)	($29.5)	($36.5)	**($142.2)**	($9.7)	18
03	($73.7)	3.5% june 1, 2002	($12.2)	($7.6)	($1.3)	($0.9)	($29.8)	($37.8)	**($202.5)**	($39.2)	15
04	($104.0)	3.0% june 1, 2003	($13.2)	($7.6)	($1.3)	($0.9)	($30.1)	($39.2)	**($259.7)**	($63.4)	15
Total 5 yrs	($242.7)		($53.7)	($31.7)	($6.5)	($4.3)	($89.3)	($169.5)	**($710.0)**	($112.3)	

Governor's Tax Package and SHF Demand Transfer

FY	c and i m and e credit to 20%	car taxes	severance	adoption	grain	total	Gov's shf sales tax demand transfer relative to current law	Tax Cuts + d transf total
00	($6.5)	---	($3.8)	($1.3)	($0.7)	($12.3)	($19.7)	**($32.0)**
01	($10.5)	($22.5)	($5.1)	($1.3)	($0.8)	($40.2)	($35.4)	**($75.6)**
02	($11.3)	($79.4)	($7.6)	($1.3)	($0.9)	($100.5)	($36.8)	**($137.3)**
03	($12.2)	($144.3)	($7.6)	($1.3)	($0.9)	($166.3)	($38.3)	**($204.6)**
04	($13.2)	($218.0)	($7.6)	($1.3)	($0.9)	($241.0)	($39.8)	**($280.8)**
Total 5 yrs	($53.7)	($464.2)	($31.7)	($6.5)	($4.3)	($560.4)	($170.0)	**($730.4)**

Plan "B"

Food Tax Rate Cut Starts June 1, 2000 and totally repealed on June 1, 2004
Local Sales Taxes Remain in Place; All Demand Transfers Held Harmless
Do Gov's Tax Package but ACCELERATE car tax cut to 2000 but do not repeal that tax

FY	Grocery Tax Cut F Notes	Grocery Tax Rates Effective June 1	m and e credit to 20%	severance	adoption	grain	Car Tax Cuts start CY 2000	Car Tax Assess Rate	This Plan Total
00	---		($6.5)	($3.8)	($1.3)	($0.7)	($12.5)	17	**($24.8)**
01	($19.5)	4.5% june 1, 2000	($10.5)	($5.1)	($1.3)	($0.8)	($35.3)	16	**($72.5)**
02	($81.0)	3.3% june 1, 2001	($11.3)	($7.6)	($1.3)	($0.9)	($44.2)	16	**($146.3)**
03	($142.1)	2.2% june 1, 2002	($12.2)	($7.6)	($1.3)	($0.9)	($47.4)	16	**($211.5)**
04	($218.9)	0.9% june 1, 2003 repealed june 1, 2004	($13.2)	($7.6)	($1.3)	($0.9)	($56.3)	15	**($298.2)**
Total 5 yrs	($461.5)		($53.7)	($31.7)	($6.5)	($4.3)	($195.7)		**($753.4)**

Governor's Tax Package and SHF Demand Transfer

FY	c and i m and e credit to 20%	car taxes	severance	adoption	grain	total	Gov's shf sales tax demand transfer relative to current law	Tax Cuts + d transf total
00	($6.5)	---	($3.8)	($1.3)	($0.7)	($12.3)	($19.7)	**($32.0)**
01	($10.5)	($22.5)	($5.1)	($1.3)	($0.8)	($40.2)	($35.4)	**($75.6)**
02	($11.3)	($79.4)	($7.6)	($1.3)	($0.9)	($100.5)	($36.8)	**($137.3)**
03	($12.2)	($144.3)	($7.6)	($1.3)	($0.9)	($166.3)	($38.3)	**($204.6)**
04	($13.2)	($218.0)	($7.6)	($1.3)	($0.9)	($241.0)	($39.8)	**($280.8)**
Total 5 yrs	($53.7)	($464.2)	($31.7)	($6.5)	($4.3)	($560.4)	($170.0)	**($730.4)**

Plan "C"

Food Tax Rate Cut Starts June 1, 1999 and subsequent cut on June 1, 2000
Local Sales Taxes Remain in Place; All Demand Transfers Held Harmless
Do Gov's Tax Package identical to recs, including car tax cuts

FY	Grocery Tax Cut F Notes	Grocery Tax Rates Effective June 1	m and e credit to 20%	severance	adoption	grain	Car Tax Cuts Gov's Recs	Car Tax Assess Rate	This Plan Total
00	($18.7)	4.5% june 1, 1999	($6.5)	($3.8)	($1.3)	($0.7)	---	20	**($31.0)**
01	($34.1)	4.2% june 1, 2000	($10.5)	($5.1)	($1.3)	($0.8)	($22.5)	15	**($74.3)**
02	($35.4)	4.2% june 1, 2001	($11.3)	($7.6)	($1.3)	($0.9)	($79.4)	10	**($135.9)**
03	($36.8)	4.2% june 1, 2002	($12.2)	($7.6)	($1.3)	($0.9)	($144.3)	5	**($203.1)**
04	($38.3)	4.2% june 1, 2003	($13.2)	($7.6)	($1.3)	($0.9)	($218.0)	0	**($279.3)**
Total 5 yrs	($144.6)		($53.7)	($31.7)	($6.5)	($4.3)	($464.2)		**($723.7)**

Governor's Tax Package and SHF Demand Transfer

FY	c and i m and e credit to 20%	car taxes	severance	adoption	grain	total	Gov's shf sales tax demand transfer relative to current law	Tax Cuts + d transf total
00	($6.5)	---	($3.8)	($1.3)	($0.7)	($12.3)	($19.7)	**($32.0)**
01	($10.5)	($22.5)	($5.1)	($1.3)	($0.8)	($40.2)	($35.4)	**($75.6)**
02	($11.3)	($79.4)	($7.6)	($1.3)	($0.9)	($100.5)	($36.8)	**($137.3)**
03	($12.2)	($144.3)	($7.6)	($1.3)	($0.9)	($166.3)	($38.3)	**($204.6)**
04	($13.2)	($218.0)	($7.6)	($1.3)	($0.9)	($241.0)	($39.8)	**($280.8)**
Total 5 yrs	($53.7)	($464.2)	($31.7)	($6.5)	($4.3)	($560.4)	($170.0)	**($730.4)**

Plan "D"

HB 2054 starts in TY 2000; FS Rebate Credit Expansion Start in TY 99 ($75, $50, $30; 12.5k, 25k, 50k)
Balance of Governor's Tax Plan and SHF Money, Shaving Back Car Tax Cut, delaying them, and not repealing that tax

FY	m and e credit to 20%	severance	adoption	grain	HB 2054 at 25%	FS Rebate Expansion	This Plan -> Car Tax Cuts -->	Car Tax Assess Rate	This Plan Total
00	($6.5)	($3.8)	($1.3)	($0.7)	---	($23.5)	---	20	**($35.8)**
01	($10.5)	($5.1)	($1.3)	($0.8)	($36.5)	($23.5)	---	20	**($77.7)**
02	($11.3)	($7.6)	($1.3)	($0.9)	($36.8)	($23.5)	($48.3)	10	**($129.7)**
03	($12.2)	($7.6)	($1.3)	($0.9)	($37.2)	($23.5)	($118.4)	10	**($201.1)**
04	($13.2)	($7.6)	($1.3)	($0.9)	($37.6)	($23.5)	($154.6)	5	**($238.7)**
Total 5 yrs	($53.7)	($31.7)	($6.5)	($4.3)	($148.1)	($117.5)	($321.3)		**($683.1)**

Governor's Tax Package and SHF Demand Transfer

FY	c and i m and e credit to 20%	car taxes	severance	adoption	grain	total	Gov's shf sales tax demand transfer relative to current law	Tax Cuts + d transf total
00	($6.5)	---	($3.8)	($1.3)	($0.7)	($12.3)	($19.7)	**($32.0)**
01	($10.5)	($22.5)	($5.1)	($1.3)	($0.8)	($40.2)	($35.4)	**($75.6)**
02	($11.3)	($79.4)	($7.6)	($1.3)	($0.9)	($100.5)	($36.8)	**($137.3)**
03	($12.2)	($144.3)	($7.6)	($1.3)	($0.9)	($166.3)	($38.3)	**($204.6)**
04	($13.2)	($218.0)	($7.6)	($1.3)	($0.9)	($241.0)	($39.8)	**($280.8)**
Total 5 yrs	($53.7)	($464.2)	($31.7)	($6.5)	($4.3)	($560.4)	($170.0)	**($730.4)**

Plan "E"

HB 2054 starts in TY 2000, FS Rebate Credit Expansion Start in TY 99 ($75, $50, $30; 12.5k, 25k, 50k)
Balance of Governor's Tax Plan and SHF Money, Replace Car Tax $ from Plan D with USD Mill Levy Cut

FY	m and e credit to 20%	severance	adoption	grain	HB 2054 at 25%	FS Rebate Expansion		School Finance Gen Fund Levy		This Plan Total
00	($6.5)	($3.8)	($1.3)	($0.7)	---	($23.5)	---	tax year 99	20	**($35.8)**
01	($10.5)	($5.1)	($1.3)	($0.8)	($36.5)	($23.5)	---	tax year 00	20	**($77.7)**
02	($11.3)	($7.6)	($1.3)	($0.9)	($36.8)	($23.5)	($48.3)	tax year 01 not more than	15.67	**($129.7)**
03	($12.2)	($7.6)	($1.3)	($0.9)	($37.2)	($23.5)	($118.0)	tax year 02 not more than	12.54	**($200.7)**
04	($13.2)	($7.6)	($1.3)	($0.9)	($37.6)	($23.5)	($154.7)	tax year 03 not more than	11.83	**($238.8)**
	($53.7)	($31.7)	($6.5)	($4.3)	($148.1)	($117.5)	($321.0)			**($682.8)**

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SELECTED SALES TAX ISSUES

House Bill	Issue	FY 2000 SGF	FY 2000 SHF	FY 2000 Total	FY 2001 Total	FY 2002 Total	FY 2003 Total	FY 2004 Total
HB 2009	Integrated Plant Theory	($4.745)	($0.255)	($5.000)	($5.673)	($5.900)	($6.136)	($6.381)
HB 2011	Water District Sales	($4.200)	($0.225)	($4.425)	($5.673)	($0.520)	($0.541)	($0.562)
HB 2048	Disaster Relief	($1.423)	($0.077)	($1.500)	($0.500)	($0.520)	($0.541)	($0.562)
HB 2059	Commercial Remodeling	($15.089)	($0.811)	($15.900)	($18.039)	($18.761)	($19.511)	($20.292)
HB 2189	PTO/PTA Sales	($0.087)	($0.005)	($0.092)	($0.104)	($0.109)	($0.113)	($0.117)
HB 2099	Clinics/Assistive Device	($1.167)	($0.063)	($1.230)	($1.395)	($1.451)	($1.509)	($1.570)
HB 2175	Kidney Foundation	minimal	minimal	minimal	minimal	minimal	minimal	minimal

Food Sales Tax Rebate Program Qualifications

(a) Kansas Adjusted Gross Income $25,000 or less

(b) Someone in household must meet one of four demographic tests:
age 55+; dependent child below age 18; blind; otherwise disabled.

"Integrated Plant" -- Sales tax exemption for all machinery and equipment which is an integral part of the manufacturer's production process. Current law only exempts m and e with a direct and immediate effect on physical transformation of raw materials into new products. The bill also expands exemption for property consumed in production process to include property consumed within one year. (Current law exempts only that which is immediately consumed.)

INCOME TAX ISSUES

House Bill		FY 2000 SGF
HB 2127	Endowment Credit	($1.000)
HB 2226	Alt Fuel Vehicles Loan and Inc Credit Expansion	($0.747)

Federal Child Tax Credit (HB 2054 would piggyback)

Qualifying Children defined in federal law to descendants, stepchildren, eligible foster children who are US citizens, age 16 or less at close of tax year, and for whom taxpayer may claim dependency exemption.

PROPERTY TAX ISSUES

HB 2001 (original bill re dorms) ---- no fiscal note -- statuory clarification

ESTATE TAX REFORM

HB 2158 No Fiscal Impact -- Clean Up Legislation

Summary of the Report

Tax Options for Kansas: Evaluating Recent Reforms and New Proposals

by the Institute on Taxation and Economic Policy (ITEP) Washington, D.C.

Summary

- In the past fifteen years, Kansas has increased its reliance on regressive sales and excise taxes as a source of revenue.
- The effect of these cumulative changes has been a shift in the tax burden more to low and middle income people.
- There is discussion about the data used to argue in favor of motor vehicle property tax cuts over food sales tax cuts as the best relief for low income residents.
- Three progressive tax relief options are discussed.
    - Eliminate the sales tax on food - provides tax relief to Kansans at all income levels, while giving a greater share of tax relief to low income residents. Estimated cost in 1998 is $200 million.
    - Extend the food sales tax rebate to single taxpayers under age 55, who are currently excluded from eligibility. Targets tax relief to more low income Kansans at a smaller cost to the state than eliminating the food sales tax. Cost is estimated at $25 million.
    - Expand the state earned income tax credit from 10 percent of the federal EITC to 20 percent. Would provide more tax relief to low income working families at less than a quarter of the cost of an across-the-board food tax exemption, or an estimated $40 million per year.

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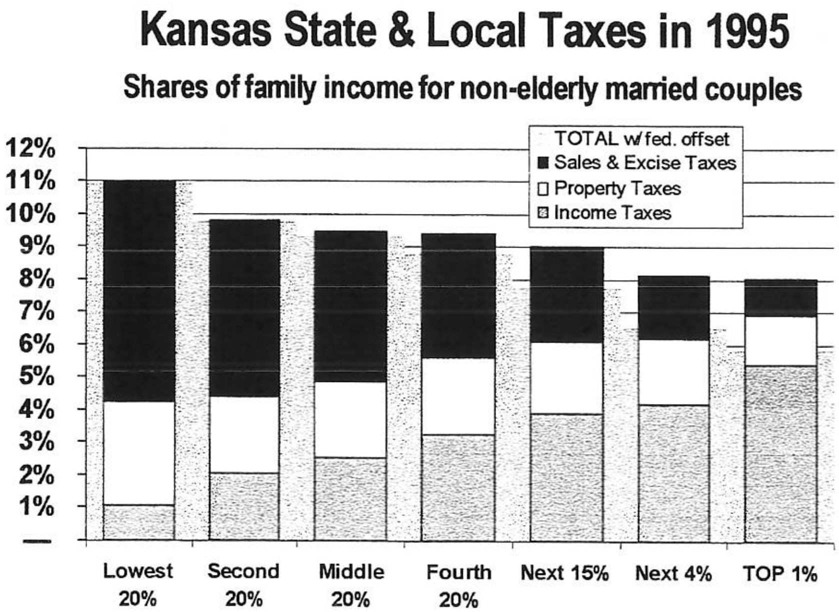
House Taxation
2-17-99
Attachment 2

Tax Options for Kansas:
Evaluating Recent Reforms and New Proposals

Institute on Taxation and Economic Policy, February 1999

In 1996, the Institute on Taxation and Economic Policy released a report entitled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States.*[1] One of the findings of the study was that in 1995, Kansas had a regressive tax structure—that middle- and low-income Kansans paid a higher share of income in Kansas state and local taxes than did the better-off.



In particular, we found that:

- The poorest fifth of all Kansas taxpayers pays 11.0 percent of its income in total Kansas taxes.
- Families in the middle of the income scale pay 9.5 percent of their income in Kansas taxes.
- The very best-off Kansans pay only 8.0 percent of their income in Kansas taxes.

Since the ITEP analysis was conducted, a series of substantial tax changes have been enacted that are reducing Kansas tax collections by more than $200 million per year. Further

[1]Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. Ettlinger, O'Hare, McIntyre, King, Fray and Miransky (Institute on Taxation and Economic Policy and Citizens for Tax Justice, 1996). The study is available from ITEP and can be found on the Internet at www.ctj.org/ITEP.

changes are being proposed for the upcoming fiscal year.[2]

This analysis attempts to shed some light on the evolution of Kansas tax revenues over the past 15 years, and analyzes several current tax reform proposals in this context. The analysis uses the Institute on Taxation and Economic Policy Microsimulation Tax Model to calculate the impact on different income groups of several proposed tax law changes. (see Appendix for a description).

Changes in the Composition of Kansas Revenue, 1985-1995

The composition of Kansas tax revenue is broadly similar to that of most other states. In 1995, Kansas relied slightly more on sales, excise and property taxes— and slightly less on personal and corporate income taxes— than did the average American state. The composition of Kansas tax revenue in 1995[3] was the product of several distinct trends in tax liability over the previous decade.

The Composition of Kansas Tax Revenue, 1995

Percent of Total Revenue from:

	Individual Income Tax		Sales and Excise Taxes		Property Taxes		Corporate Income Tax	
	1995	Rank	1995	Rank	1995	Rank	1995	Rank
Iowa	23.4%	23	30.8%	33	35.0%	15	3.1%	36
Kansas	**20.3%**	**31**	**37.2%**	**22**	**31.8%**	**20**	**4.3%**	**22**
Oklahoma	22.3%	26	42.4%	14	16.6%	46	2.6%	42
Nebraska	18.9%	34	34.6%	28	37.7%	11	3.2%	35
Arkansas	23.9%	21	50.6%	10	14.8%	48	4.4%	19
Colorado	24.1%	20	37.1%	23	31.2%	21	2.2%	44
Wyoming	—	46	30.7%	35	40.2%	8	—	47
ALL STATES	**20.9%**		**36.2%**		**30.8%**		**4.4%**	

SOURCE: Bureau of Economic Analysis, Bureau of the Census

In particular:

- Kansas has become much more reliant on sales and excise taxes as a source of revenue. In 1995, sales and excise taxes represented more than 37 percent of total Kansas tax revenue, up from 31 percent in 1985.

- Kansas' reliance on sales and excise taxes as a source of revenue was 22nd in the nation in 1995, up from a ranking of 36th in 1985.

- Over the same period, Kansas' reliance on property taxes as a source of revenue has declined, from almost 37 percent of total state and local tax revenue in 1985 (ranking Kansas 13th nationwide), to less than 32 percent in 1995, ranking Kansas 20th nationwide.

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[2]For example, the Governor's budget recommendations for fiscal year 2000 include tax cuts that will reduce annual collections by $81 million per year when fully implemented in fiscal year 2002. The majority of this reduction would be due to the phase-out of the state motor vehicle property tax.

[3]1995 data is used here because it is the last year for which the United States Census Bureau makes official and complete cross-state comparisons of state and local tax revenue available.

Change in Kansas Tax Revenue Sources, 1985 to 1995

	Individual Income Tax		Sales and Excise Taxes		Property Taxes		Corporate Income Tax	
	%	Rank	%	Rank	%	Rank	%	Rank
1985	18.2%	31	31.4%	36	36.9%	13	4.8%	24
1995	20.3%	31	37.2%	22	31.8%	20	4.3%	22

SOURCE: Bureau of Economic Analysis, Bureau of the Census

In short, the ten-year period between 1985 and 1995 has seen an increasing reliance on regressive sales and excise taxes as a source of revenue, and a decreasing reliance on property taxes. While the percentage of Kansas revenue derived from the personal income tax has increased, it has done so at roughly the same rate as states nationwide, so that the state's ranking in terms of reliance on income tax revenue was as low in 1995 as it was in 1985.

The Effect of Post-1995 Changes

How did the tax cuts enacted between 1995 and 1998 change this balance? While Census data is not available for direct comparison with the statistics cited above, the Governor's recently released Fiscal Year 2000 budget projections include estimates of the total tax reductions enacted by Governor Graves for each type of tax. Using the fiscal year 1995 Census data as a baseline, this data can be used as a rough estimate of the overall effect of the post-1995 tax cuts on the balance of Kansas tax revenue.

Personal income tax collections, according to the Governor's budget, were cut by a total of $159 million between 1995 and 1999, for a total reduction of 13 percent of FY 1995 collections. Property tax collections were cut by a total of $632 million over the same period, representing a 33 percent cut from 1995 levels. By contrast, sales and excise taxes were cut by only $163 million over this period. This represents a cut of only 7 percent of FY 1995 sales and excise tax collections.

Cumulative Kansas Tax Cuts
FY1995-FY1999

		$ Millions	%of total
Property Taxes	$	632	36%
Income Taxes	$	159	9%
Sales Taxes	$	163	9%
Other	$	823	46%
Total:	$	1,777	

Source: Governor's Budget Report, FY2000, p.10.

Another way of looking at this question is to ask what percentage of the tax cuts enacted by Governor Graves are due to each tax type. Using the same data, we see that property tax cuts account for more than a third— 36 percent— of the tax cuts enacted since 1995. Income tax cuts represent 9 percent of total tax cuts, as do sales and excise taxes.

The historical Census data and the Graves estimates for FY 1999 cuts are derived from different sources, so the combination of these data sources provided above should be understood as only a rough estimate of the effects of changes from 1985 to 1998. In addition, the Governor's estimates for fiscal year 1999 are subject to further revision as fiscal year 1999 revenue continues to be collected. But the thumbnail sketch provided by these two sets of data provides a clear picture: in 1995, sales and excise taxes represented the biggest share of Kansas revenue. Tax cuts enacted since then have overwhelmingly taken the form of property and income tax cuts, with a significantly smaller share of total cuts going to sales tax relief. This suggests that one principal consequence of the tax reforms enacted since 1995 has been to increase the state's reliance on regressive sales and excise taxes as a source of revenue.

Choosing Tax Cuts: Sales Tax v. Vehicle Property Tax

While any tax cuts proposed in 1999 are likely to be of a smaller magnitude than those enacted in 1998, there remains considerable interest in some form of tax cuts. Two approaches that have been considered in the opening weeks of the 1999 legislative session are sales tax relief (in the form of a reduction or outright repeal of the state sales tax on food) and the elimination of the vehicle property tax.

A central issue in the debate between these options has been the relative incidence of these two taxes. On January 14, testimony was presented by the Governor's Director of Governmental Affairs, Dan Hermes, arguing that "the assertion by advocates that an elimination of the tax on food is the most effective way to help working class taxpayers is simply not the case." The evidence Hermes offered to support this claim included a table comparing the percentage of each tax paid by taxpayers at various income levels. For example, the table provided by Hermes (part of which is reproduced above) included estimates of the percentage of each tax paid by Kansans with 1996 adjusted gross income less than $10,000. According to Hermes, this income group pays only 3.0% of all sales and use taxes, but pays a staggering 10.0% of all vehicle property taxes.

1996 AGI	Sales and Use Tax (% of tax paid)	Vehicle Property Tax (% of tax paid)
$1-$10,000	3.0	10.0
$10-$20,000	9.3	12.4
$20-$30,000	11.3	12.9

The principal problem with this estimate is that it assumes the consumption of food follows the same patterns as consumption generally. The Kansas Department of Revenue has, in fact, estimated that the poorest Kansans are responsible for 3 percent of total taxable consumption. However, the consumption of food is not distributed identically to the sum of all taxable consumption, as the table at right shows.

An ITEP analysis of Kansas consumption estimates that the poorest 20 percent of Kansans — those earning less than $12,000 in 1998— account for 8.8 percent of taxable food consumption, compared to 6.5 percent of consumption of all items taxable under the sales tax. This means that while the poorest twenty percent of Kansans pay 6.5 percent of the total sales tax, they pay considerably more— almost 9 percent— of the sales tax *on food only*. The following chart spells this out more clearly by showing the percentage of consumption represented by food for each income quintile. The chart shows that while food represents one quarter of taxable consumption for the poorest twenty

Comparing Tax Base Regressivity: Sales Base v. Food

Income Group	Percent of: All taxable Consumption	Percent of: Food Consumption
Lowest 20%	6.5%	8.8%
Second 20%	13.5%	14.8%
Middle 20%	18.6%	20.1%
Fourth 20%	25.6%	25.3%
Next 15%	23.5%	22.2%
Next 4%	7.8%	6.7%
Top 1%	4.3%	2.1%

percent of Kansans, food consumption represents only 9 percent of total taxable consumption for the wealthiest Kansans. Since the incidence result presented by Hermes represents all taxable consumption, this suggests that the Hermes estimate considerably underestimates the cost of the food sales tax to the poorest Kansans— and the benefits from reducing the sales tax on food.

A second, related problem with the results cited above is that focus on the incidence of the tax, rather than the incidence of the proposed cuts. That is, the chart implicitly compares the *elimination* of the sales tax to the elimination of the vehicle property tax. However, more precisely targeted means exist of cutting each of these taxes. For example, one targeted tax cut that currently exists in Kansas is the state's credit against state food sales taxes. This credit focuses its benefits entirely on Kansas residents earning less than $25,000 a year; the distributional effects of this credit are therefore clearly different from the distributional effects of current proposals for sales tax relief. More generally, while incidence analysis is an important tool for understanding and evaluating state tax policy, an informative analysis should examine the distributional consequences of proposed changes to a tax, rather than of the tax itself.

Food Consumption as a %of Taxable Consumption	
Lowest 20%	25%
Second 20%	21%
Middle 20%	20%
Fourth 20%	18%
Next 15%	18%
Next 4%	16%
Top 1%	9%

Finally, the comparison of tax incidence cited above does not take into account the effect of the "federal offset" of state taxes. Because property taxes are deductible on federal tax returns, a cut in property taxes automatically means an *increase* in federal taxes, and an increase in property taxes means a *decrease* in federal taxes. By contrast, sales and excise taxes are *not* deductible on federal tax returns. A reduction in the state sales tax has no effect on federal income taxes on Kansans. This means that a $1 million cut in the sales tax delivers considerably more "bang for the buck" than does a similar cut in property taxes.

To illustrate this more precisely, imagine a Kansas resident earning $40,000 in 1998. Suppose (reasonably) that this resident pays an effective federal tax rate of 15%. What will be the *net* tax consequences for this resident of a $100 cut in the property tax versus a $100 cut in the sales tax?

A $100 cut in the property tax means a $100 reduction in the amount of property tax paid that the resident can claim as an itemized deduction on her federal return. This means that taxable federal income increases by $100. At a 15% rate, this directly implies a federal tax *increase* of $15 for itemizing taxpayers. So for this taxpayer, a $100 decrease in the property tax puts only $85 into the taxpayer's pocket as a tax refund. The remaining $15 is "exported" directly to the federal government in the form of higher federal taxes. *This is not true of cuts in the sales tax.* Since sales taxes are not deductible on federal returns, a $100 decrease in the sales tax means a $100 tax cut for Kansas residents.

Sales and excise taxes are generally understood to be among the most regressive tax options available to state governments. The data offered in testimony by the Governor's Office, for the reasons cited above, does not offer convincing evidence that vehicle property tax reductions are a better means of low- and middle-income tax relief than sales tax relief. The next section offers several options for sales tax relief in Kansas.

Options for Low Income Tax Relief

1. Extend the credit against food sales taxes to single filers.

Since 1986, Kansas has allowed a low-income tax credit of up to $40 per head of household and $30 per dependent for filers earning less than $13,000 per year. Historically, the linkage between this credit and the sales tax has been rather tenuous: the tax paid on groceries by the average Kansan has always been considerably greater than the value of the credit, and eligibility for the credit is not linked to actual grocery purchases. Tax cuts enacted in 1998 expanded the income eligibility thresholds and increased the value of the credit. Beginning in tax year 1998, eligible filers earning less than $12,500 can claim $60 per exemption, while eligible filers earning more than $12,500 but less than $25,000 receive $30 per exemption. One factor that continues to limit the effectiveness of the credit in 1998, however, is the non-income-based eligibility criteria for the credit. In particular, while all taxpayers over 55 who meet the income criteria are eligible, able-bodied taxpayers under 55 must have one or more children whom they can claim as a personal exemption in order to claim the credit.

From an equity perspective, there is no compelling reason to exclude single filers from the benefits of the sales tax credit: sales taxes are an onerous burden on low-income Kansans of all filing types. Since approximately 60 percent of single filers in Kansas would qualify for the credit based only on the income guidelines, the credit as currently structured is clearly missing a large segment of the low-income population of Kansas.

Since 1998 is the first tax year for which the food credit is available on the income tax form, there is little previous data upon which to estimate the probable cost of expanding the credit. The Kansas Department of Revenue estimates the current cost of this credit as $15.4 million for fiscal year 1999, but the cost of the credit may increase somewhat in future years as more and more eligible filers claim the credit.

One way of estimating the cost of expanding the food sales tax credit is to compare the number of filers currently *eligible* for the credit with the number who would be eligible under the income criterion alone. ITEP estimates that in 1998, 37 percent of tax returns reporting income less than $25,000 were single filers under 55 years of age and thus ineligible for the credit. This suggests that expanding credit eligibility to all Kansas taxpayers earning less than $25,000 would have the effect of increasing the universe of eligible filers by 60 percent. A 60 percent increase in aggregate food credits would mean a total yearly revenue loss of close to $25 million from the expanded credit. However, since the credit is given on a per-exemption basis, the average credit amount claimed by single filers will almost certainly be lower than the average credit claimed by other filers, suggesting that the total cost of the expanded credit might be less. While there is too little data available on utilization rates to date to allow more precise estimation of the cost of an expanded food credit, the cost would clearly be small relative to the cost of exempting food entirely.

2. Eliminate the State Sales Tax on Food.

While the food sales tax credit is an effective means of targeting tax relief to low-income Kansans, a more broad-based approach to sales tax relief is an *exemption* on certain items. Food for home consumption is among the most regressive elements of the sales tax base, so a food exemption will inevitably decrease the regressivity of the sales tax. On the other hand, food for home consumption is also one of the *biggest* elements of the sales tax base, so eliminating (or reducing) the sales tax on food will carry a fairly large price tag.

The estimated cost of eliminating the state sales tax on food in 1998 is close to $200 million. The greater cost of a sales tax exemption reflects the impossibility of targeting such an exemption: a food sales tax exemption is available to Kansans at all income levels, regardless of need.

3. **EITC expansion.**

Kansas' earned income tax credit, enacted in 1998, provides progressive tax relief to low-income Kansans. The Kansas EITC is currently equal to 10 percent of the federal earned income credit. But several states allow a greater percentage of the federal EITC as a tax credit. For example, New York and Vermont offer refundable credits of 20 and 25 percent, respectively. By increasing the Kansas EITC to 20 percent of the federal credit, Kansas could target tax relief to the residents who need it most.

While revenue estimation is difficult for the Earned Income Tax Credit due to its brief history in Kansas, the current law EITC of 10 percent in 1998 could cost as much as $20 million, depending on the percentage of residents utilizing the credit. Increasing the EITC percentage could therefore double the revenue cost of the credit to as much as $40 million per year. Because the EITC is structured as a low-income credit, 95 percent of this tax cut would go to Kansans earning less than $25,000 per year. Once again, the newness of the Kansas credit makes precise revenue estimation difficult for the Earned Income Credit. The central point is that an expansion of the EITC would certainly represent only a fraction of the cost of a sales tax exemption for food.

Summary and Conclusion

In the past fifteen years, Kansas has increased its reliance on regressive sales and excise taxes as a source of revenue. While tax cuts enacted since 1995 have offered some relief for the sales tax burden on Kansans in the form of expanded exemptions, the largest share of the post-1995 tax relief enacted in Kansas has been devoted to a tax that had already been declining as a source of Kansas revenue— the property tax. As a result, taxation in Kansas has become even more skewed toward consumption taxes. This analysis has offered several tax relief options for low-income Kansans.

Any of the three alternatives described above would result in progressive tax relief for Kansans. Two of the options— the expansion of the sales tax and Earned Income credits— would target tax relief to those who feel the increasing burden of sales and excise taxes most heavily—low-income Kansans. A third option, by exempting food for home consumption from the sales tax base, provides tax relief to Kansans at all income levels, while giving a greater share of tax relief to low-income residents.

While exempting food from the sales tax would reduce the tax burden on lower-income Kansans, the large revenue losses associated with such a reform could constrain Kansas' spending options in the future. ITEP estimates that food purchases represent 19 percent of total taxable consumption in Kansas; exempting food would reduce sales tax collections by roughly that amount.

By contrast, an expansion of the food sales tax credit would effectively target tax relief to the Kansans who need it most: the more than 40 percent of Kansas residents earning less than $25,000 in 1998. The food sales tax credit is a more cost-effective means of providing low-income tax relief. Similarly, an expansion of the existing Earned Income Tax Credit would target further Kansas tax relief to low-income residents at less than a quarter of the cost of an across-the-board food tax exemption.

ITEP Methodology

The Institute on Taxation & Economic Policy has engaged in research on tax issues since 1980, with a focus on the distributional consequences of both current law and proposed changes. ITEP's research has often been used by other private groups in their work, and ITEP is frequently consulted by government estimators in performing their official analyses. Over the past several years, ITEP has built a microsimulation model of the tax systems of the U.S. government and of all 50 states and the District of Columbia.

What the ITEP Model Does

The ITEP model is a tool for calculating revenue yield and incidence, by income group, of federal, state and local taxes. It calculates revenue yield for current tax law and proposed amendments to current law. Separate incidence analyses can be done for categories of taxpayers specified by marital status, the presence of children and age.

In computing its estimates, the ITEP model relies on one of the largest databases of tax returns and supplementary data in existence, encompassing close to three quarters of a million records. To forecast revenues and incidence, the model relies on government or other widely respected economic projections.

The ITEP model's federal tax calculations are very similar to those produced by the congressional Joint Committee on Taxation, the U.S. Treasury Department and the Congressional Budget Office (although each of these four models differs in varying degrees as to how the results are presented). The ITEP model, however, adds state-by-state estimating capabilities not found in those government models.

Below is an outline of each area of the ITEP model and what its capabilities are:

The Personal Income Tax Model analyzes the revenue and incidence of current federal and state personal income taxes and amendment options including changes in:

- rates—including special rates on capital gains,
- inclusion or exclusion of various types of income,
- inclusion or exclusion of all federal and state adjustments,
- exemption amounts and a broad variety of exemption types and, if relevant, phase-out methods,
- standard deduction amounts and a broad variety of standard deduction types and phase-outs,
- itemized deductions and deduction phase-outs, and
- credits, such as earned-income and child-care credits.

The Consumption Tax Model analyzes the revenue yield and incidence of current sales and excise taxes. It also has the capacity to analyze the revenue and incidence implications of a broad range of base and rate changes in general sales taxes, special sales taxes, gasoline excise taxes and tobacco excise taxes. There are more than 250 base items available to amend in the model, reflecting, for example, sales tax base differences among states and most possible changes that might occur.

The Property Tax Model analyzes revenue yield and incidence of current state and local property taxes. It can also analyze the revenue and incidence impacts of statewide policy changes in property tax—including the effect of circuit breakers, homestead exemptions, and rate and assessment caps.

The Corporate Income Tax Model analyzes revenue yield and incidence of current corporate income tax law, possible rate changes and certain base changes.

Local taxes: The model can analyze the statewide revenue and incidence of aggregate local taxes (not, however, broken down by individual localities).

Addendum: Data Sources

The ITEP model is a "microsimulation model." That is, it works on a very large stratified sample of tax returns and other data, aged to the year being analyzed. This is the same kind of tax model used by the U.S. Treasury Department, the congressional Joint Committee on Taxation and the Congressional Budget Office. The ITEP model uses the following micro-data sets and aggregate data:

Micro-Data Sets:
IRS Individual Public Use Tax File, Level III Sample; IRS Individual Public Use Tax File; Current Population Survey: Consumer Expenditure Survey; U.S. Census, 1990.

Partial List of Aggregated Data Sources:
Miscellaneous IRS data; Congressional Budget Office and Joint Committee on Taxation forecasts; other economic data (Commerce Department, WEFA, etc.); state tax department data; data on overall levels of consumption for specific goods (Commerce Department, Census of Services, etc.); state specific consumption and consumption tax data (Census data, Government Finances, etc.); state specific property tax data (Govt. Finances, etc.); American Housing Survey 1990; 1990 Census of Population Housing; etc.

A more detailed description of the ITEP Microsimulation Tax Model can be found on the ITEP internet site at www.ctj.org\itep\.