Approved: 2-9-99
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:15 a.m. on February 4, 1999, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance
Shirley Sicilian, Kansas Department of Revenue

Others attending: See attached list.

Senator Langworthy began a discussion regarding **SB 2** which the Committee heard and recommended as favorable for passage. On February 3, the House amended an exemption for sales tax on food into the bill. The bill was originally requested by Finney County and simply gave Finney County the authority to raise its sales tax by a vote of the people. Several other counties and cities were amended into it. Senator Langworthy reminded the Committee that Finney County would like to put the sales tax issue on their ballot in April. In order to do so, the bill must be signed by the Governor by Friday, February 12. To be helpful to Finney County, Senator Langworthy proposed to amend **SB 2** as it left the Senate into **HB 2001**, which was referred to the Senate Tax Committee on February 3 and which deals with a property tax exemption for student unions and dormitories. It had appeared on the House Consent Calendar. **HB 2001** was sponsored by Representative Jim Morrison. **SB 124**, providing a property tax exemption for nonprofit nursing homes with day care centers within their facilities, passed out of Committee favorably and is currently on the Senate Calendar. Senator Langworthy said **SB 124** can be re-referred to the Committee. Representative Morrison can then come to the Committee and request that the original language of **HB 2001** be amended into **SB 124**. Senator Hardenburer, sponsor of **SB 124**, had no objection to the bill being amended in this way.

Senator Goodwin reported that she received a call before the meeting notifying her that the Economic Development Council of Cowley County met on February 3 and is requesting that the Board of County Commissioners of Cowley County be allowed to submit the question of imposing a countywide retailer's sales tax at the rate of one-tenth of one percent and pledge the revenue therefrom for the purpose of financing economic development initiatives in their county. Staff said increments other than .25 percent have not appeared in any other instance. A suggestion was made that "up to .25 percent" be substituted for one-tenth of one percent, leaving the amount implemented up to the county. Senator Goodwin was in agreement with the suggestion.

Senator Bond moved that all the language of **HB 2001** be removed and be replaced by the provisions of **SB 2** as it left the Senate floor with amendments, that language be added to include Cowley County's request for a vote on a sales tax up to .25 percent, and that **HB 2001** be reported as favorable for passage, seconded by Senator Donovan. The motion carried.

Senator Langworthy introduced Dr. W. Bartley Hildreth, Regents Distinguished Professor Public Finance, who presented a briefing on the 1998 report of the Governor's Tax Review Committee for which he served as Chairman. Dr. Hildreth referred to copies of the report and briefly reviewed each section. The report includes the following topics: "Kansas Tax Policy Should Be," "Guiding Principles and Criteria of Kansas Tax Policy," "Guiding Principles, Criteria, and Sample Benchmark Indicators," "Benchmark Goals to be

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE, Room 519-S Statehouse, at 11:15 a.m. on February 4, 1999.

Achieved by Fiscal Year 2002," "Specific Non-Prioritized Tax Results to be Achieved by Fiscal Year 2002," and "Tax Analyses to be Established by Fiscal Year 2002." (Attachment 1) In conclusion, Dr. Hildreth commented that he did not know of any other state that has tried to benchmark its tax decisions as proposed by the task force in this type of report. He noted that all the comparisons that would be generated are designed to inform. The information will show any gap between a vision of what good tax policy includes with the recognition that good tax policy involves several trade offs. The intent of the process is that it be a learning experience to improve tax policy.

Senator Langworthy commented that she feels one of the most important items outlined in the report regards gaining more data, noting that the data will allow legislators to make decisions based on more than what seems politically popular at the moment as they can justify their actions by looking at the data. She said it is her understanding that the Department of Revenue is willing to be involved in the collection of the data.

In response to Senator Langworthy's comments, Shirley Sicilian, Department of Revenue, informed the Committee that the Governor has directed the Secretary of Revenue to perform an analysis. The Department did a preliminary analysis last fall which it wants to perfect. The analysis was a household incident study. Ms. Sicilian agreed to present the preliminary results to the Committee, noting that she would also include the caveats. She also noted that the Department has requested funding to establish a state of the art model. The Department is in a unique position as it has access to confidential data not available to anyone else.

Senator Donovan asked Dr. Hildreth to explain the achievement suggested at the top of page ten of the report–"The top marginal tax rate for the personal income tax is removed and the progressive rate structure is narrowed." Dr. Hildreth responded that the personal income tax can be structured in many ways such as none at all, a flat rate tax, or a multi-tiered rate structure. Currently, Kansas has a three-tiered system. What the Governor's Tax Review Committee is suggesting is that, if you take the personal income tax in Kansas and then recognize as a tax burden the tax imposed by the federal government and its rate structure and pull the two together, perhaps the state may want to have as a vision that the rate structure could be best served by having two rates as opposed to three, lowering the top marginal tax rate. He added that low income taxpayers should also be considered in tax policy, and perhaps the vision in this area should change somewhat. The vast middle should be considered in terms of broad base, low rate. The total consideration should be what is good tax policy over time.

Senator Donovan commented that the states which grow economically faster than other states tend to have either no income tax or very low income tax rates, very competitive property tax rates, and much higher sales taxes. He asked Dr. Hildreth if the Kansas could be steered in that direction. Dr. Hildreth responded that such factors as climate or market access may influence the economy in those states; therefore, it cannot be empirically concluded that a no income tax fosters "x" amount of growth. States that do not have an income tax have other characteristics, such as warm climates or being located in the far west, which cannot be totally discounted as having powerful influences on growth.

There being no further time, the meeting was adjourned at 12:00 p.m.

The next meeting scheduled is a joint meeting with the Senate Ways and Means Committee on February 8, 1999, for a review of highway program financing by the Kansas Department of Transportation.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: February 4, 1999

NAME	REPRESENTING
[illegible]	Wichita State U.
[illegible]	Ks Dept. of Revenue
Ben Murray	Pottorff
Shane [illegible]	Sen. Stephens staff
[illegible]	Ks Taxpayers Network
Ken Frahm	Ks Development Finance Auth.
Jim Kamp	City of Garden City
George Welch	Barbee + Assoc
Carol Cruzgren	Harris News

Governor's Tax Review Committee

Mr. Daniel Hermes
Director, Governmental Affairs
Governor's Office

Dr. W. Bartley Hildreth, Chair
Regents Distinguished Professor of Public Finance
Director, Kansas Public Finance Center
Wichita State University

Representative Phill Kline
House Tax Committee, Chair
Shawnee Mission, Kansas

Mr. Charles Ranson
President
Kansas, Inc.

Dr. Anthony Redwood
Professor of Business
University of Kansas

Senator Audrey Langworthy
Senate Tax Committee, Chair
Shawnee Mission, Kansas

Dr. Edwin Olson
Professor of Economics
Kansas State University

Staff

Aaron Dunkel, George Van Riper Fellow, Kansas Public Finance Center, Hugo Wall School of Urban and Public Affairs, Wichita State University

Senate Assessment & Taxation
2-4-99
Attachment 1

State of Kansas

Governor's Tax Review Committee

Governor Bill Graves;

It is a great pleasure to give you the final report from the Governor's Tax Review Committee. On July 16, 1998, you asked the seven of us to assess the current and future status of the state tax system given the major changes that have taken place since the Governor's Tax Equity Task Force issued its report to you three years ago.

We did our work in five public meetings held at the State Capitol that involved about 25 hours of informative and probing discussions. In addition to briefings from the Revenue Department, Legislative Research, and university researchers, we issued an open call for testimony that resulted in several presentations.

Our report is brief, and to the point. We present guiding principles and criteria for Kansas tax policy. This permits us to recommend particular tax results to achieve by Fiscal Year 2002, as conditions permit. Furthermore, we think the state should enhance its tax analysis reporting in ways that will benchmark yearly results to the guiding principles and that will clarify the tax burdens placed on Kansas households and businesses.

While these recommendations only reflect our personal views, they convey our shared desire to help make tax policy beneficial to all Kansans.

Respectfully submitted,

W. B. Hildreth

W. Bartley Hildreth
Chair of the Committee

KANSAS TAX POLICY
should be

GROWTH ENHANCING	Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans.
EFFICIENT	Tax structures should minimize distortions of both household economic decisions and capital and labor allocations by business.
ECONOMICAL	Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time.
CLEAR	Tax structures should be simple, understandable and predictable.
FAIR	The tax burden should be equitable in impact on all Kansans.

GUIDING PRINCIPLES AND CRITERIA
OF KANSAS TAX POLICY

Taxes are necessary to help fund economical governmental services, but tax policy must be fair and clear to all taxpayers and respect private economic decisions in order for everyone to benefit from economic growth. State and local tax policy requires tradeoffs since there is no perfect tax or perfect tax system. Therefore, all tax legislation has to balance competing principles and criteria.

Tax policy requires continuous review based upon:

GUIDING PRINCIPLES	foundations for policy
CRITERIA	implementation guides
BENCHMARKING	measurement scales and indicators
BENCHMARK GOALS	desired ranks or results by a specified year

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Guiding Principles, Criteria, and

Sample Benchmark Indicators

I. **Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans. For this to occur:**

A. **Tax policy should foster an economic development strategy benefitting households and businesses.**

Sample benchmarks include:

1. *Gross state product growth rate, by state*
2. *State personal income growth rate, by state*
3. *Annual earnings per job, by state*
4. *Business formations, by state*
5. *Unemployment rate, by state*

B. **The tax base should be broad with a clearly articulated rationale for any tax preference or imposition on any particular group or sector of the economy.**

1. *Relationship of tangible goods subject to the sales tax in comparison to services*
2. *Amounts and types of sales tax deviations from uniform base*
3. *Amounts and types of property tax deviations from uniform base*
4. *Amounts and types of income tax deviations from uniform base*

C. **Tax policy should focus on the long run and not overreact to short-run immediate concerns for any particular firm or market condition.**

1. *Cost of tax incentives compared to induced direct business activity*

D. **Government services, as well as taxes, should be competitive with other states.**

1. *Education attainment, by state*
2. *Infrastructure condition, by state*
3. *Measures of public goods providing quality of life (e.g., parks & recreation), by state*
4. *State and local expenditure growth rate, by state*
5. *State and local taxes per capita and per $1,000 of state personal income, by state*

II. **Tax structures should minimize distortions of both household economic choices and capital and labor allocations by business. For this to occur:**

A. **Tax structures and levels should minimize interference with private economic decisions.**

Sample benchmarks include:

1. *Effective tax rates on capital-intensive business, by state*
2. *Effective tax rates on representative households and business segments, by state*

B. **The state and local tax structure should have a diversification of revenue sources over broad bases instead of high tax rates on limited tax bases.**

1. *Percentage of reliance on major tax sources by type of Kansas government, in comparison to other states*

C. **The marginal rate should be as low as possible.**

1. *Comparison of marginal tax rates by source, by state*

III. **Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time. For this to occur:**

A. **Revenues generated should be lower than, and not exceed, long run changes in Kansas personal income.**

Sample benchmarks include:

1. *Comparative state and local revenue growth rates*
2. *Combined income elasticities of state and local tax sources that approximately equal 1.0 over the long run*

B. **Over the business cycle, there should be stability of (inflation adjusted) real revenue without rate changes.**

1. *Inflation adjusted revenues compared to actual collections*
2. *Inflation adjusted expenditures compared to actual expenditures*

C. **Adequate budget balances should be used to ensure balanced budgets over time thereby avoiding frequent or short-term tax and spending changes.**

1. *Size of fund balance relative to general fund revenues and expenditures*
2. *Comparison to policies in other states*

D. **State tax policies should not unduly restrain local initiatives in meeting local obligations.**

1. *Percentage of state taxes to total state and local taxes*
2. *Percentage of locally raised revenues to total local revenues*

E. **The costs and effectiveness of government services should be justified periodically.**

1. *Estimates of the costs and effectiveness of governmental services*
2. *Per capita revenues by source, and per capita expenditures by function*

IV. Tax structures should be simple, understandable, predictable, and efficient. For this to occur:

A. Each tax or revenue structure should be as simple as possible to increase voluntary compliance while lowering compliance and administrative costs.

Sample benchmarks include:

1. *Costs for taxpayers to comply with particular taxes*
2. *Costs to administer particular taxes, including delinquencies and appeals*
3. *Utilization rates of tax preferences*

B. Taxpayers should understand how their tax is determined.

1. *Readability of tax materials*
2. *Accessibility of tax information*
3. *Complaints on handling and resolution procedures*
4. *Taxpayers' views*

C. The tax structure should be relatively stable and predictable to avoid disrupting business and individual tax planning and to reflect the full economic and competitive effects of past actions.

1. *Minimized frequency of tax rate changes*
2. *Estimated versus actual economic effects of past tax changes*

D. Taxpayers should know which government is responsible for each tax and spending component, and the services funded by the tax.

1. *Taxpayers' views*
2. *Adherence to publication and disclosure standards*

E. To foster informed public debate, taxpayers should have access to non-confidential tax data for modeling taxpaying behavior under alternative tax policies.

1. *Frequency and ease of access*

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V. The tax burden should be equitable in impact on all Kansans. For this to occur:

A. Tax burdens should recognize the ability to pay.

B. A comprehensive measure of ability to pay should include income, consumption, and wealth.

C. General business taxation should be structured to recover the costs of governmental services rendered to the business community.

D. Taxpayers with similar levels of income, consumption, or wealth, in a particular taxing jurisdiction, should pay approximately the same amount of tax.

E. Competing businesses should be handled similarly for tax purposes.

F. Tax equity should be measured not only by effective tax rates but also by the distribution of family income by income group.

G. The State should estimate the economic burden of who pays Kansas taxes and promote the public's use of the tax burden distributions in assessing tax legislation.

Sample benchmarks include:

1. *Effective tax rates for taxpayers at different income levels and characteristics*
2. *Net spendable income and implicit tax rates on low income Kansans*
3. *Economic incidence of tax burdens on households in Kansas and comparison states*
4. *Economic incidence of tax burdens on business sectors in Kansas and comparison states*
5. *Ratio of state and local business taxes to related public expenditures*
6. *Comparison of the shares of total income earned by families ranked from the poorest one-fifth to the highest one-fifth*
7. *Frequency of use by the public of the tax burden distribution models for "what if" analysis.*

BENCHMARK GOALS
To be Achieved by Fiscal Year 2002

Kansans expect a fair, efficient and understandable tax system that is capable of generating sufficient revenues to support economical governmental services in a growing economy. Accordingly, the Governor's Tax Review Committee finds that by no later than Fiscal Year 2002, as revenues permit, the State of Kansas should have permanently established frequent analyses of its tax system, but more importantly, achieved specific tax results.

SPECIFIC NON-PRIORITIZED TAX RESULTS TO BE ACHIEVED BY FISCAL YEAR 2002:

The overall tax burden on Kansans is about average for the region.

The tax burden on households is about average for the region.

The business tax burden is about average for the region and for similar industries.

Kansans at or below the poverty level bear a tax burden as low as possible.

The top marginal tax rate for the personal income tax is removed and the progressive rate structure is narrowed.

The tax on business machinery and equipment is at or below the regional average.

The sales tax base includes a broader definition of consumption.

In years of a prosperous state economy, tax receipts are managed to create a fund balance for years of weak economies.

The combined state and local tax structure is balanced in reliance on income, sales and property taxes.

The tax burden on the oil and gas industry is reduced* consistent with the characteristics of the Kansas industry.

TAX ANALYSES TO BE ESTABLISHED BY FISCAL YEAR 2002:

The State reports biennially on who pays Kansas taxes based on tax burden analyses of households and business. The report presents information on (1) the overall tax incidence and (2) the distribution by income classes (at least by quintiles) and other taxpayer characteristics.

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*which may mean repeal (according to some committee members).

The State reports annually on the progress in meeting the Guiding Principles. The report is available to the public before the start of the regular legislative session, and includes the following information:

1. Summary of economic and fiscal trends related to tax policy;
2. Data for each relevant benchmark indicator;
3. Details on who pays Kansas taxes based on the household and business tax burden models, with information on the overall tax incidence and the distribution by income classes (at least by quintiles) and other taxpayer characteristics.;
4. Summary of "tax expenditures" for each major tax structure;
5. Comparison of existing tax policy to the state's economic development strategy;
6. Strengths and weaknesses of existing tax structures,
    a. Identify any tax sources that are out of step with modern realities of the economy and with generally accepted taxing practices;
    b. Review the economic and competitive effects of past tax changes;
7. Policy questions relevant for priority attention by the governor and the legislature.

Household and business tax burden models are available to permit the public to construct alternative tax structures and to make "what if" changes to the existing structure.

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