

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson John Edmonds at 9:00 a.m. on January 30, 2003 in Room 519-S of the Capitol.

All members were present except: Representative Huff

Committee staff present: Chris Courtwright, Legislative Research Department  
Gordon Self, Office of the Revisor  
Carol Doel, Committee Secretary

Conferees appearing before the committee: Patrick Hubbell, Kansas Railroads

Others attending: See Attached List

Chairman Edmonds gave an update on the progress of Representative Huff.

The first order of business was bill introductions with the Chair recognizing Representative Huntington who requested the introduction of exemption from taxes for the Cystic Fibrosis Foundation.

With no objection, the bill was introduced.

Representative Bethell came before the committee with two conceptual ideas which he introduced. One of them had to do with the reappraisal of real estate in rural areas. He distinguished that from the urban areas to the rural because of the issues that come out. Representative Bethell continued to explain that what is being looked at is an every year reassessment of property in rural areas which is really an overkill. His suggestion was to move that to every three years.

There were no committee objections, the bill will be introduced.

The second bill Representative Bethell wished to be introduced was a bill he worked on with the Department of Human Resources. This would deal with the unemployment compensation tax that is paid by employers for H2A alien workers. These workers primarily affect farming and farming activities. This tax is charged by the state, but it is not charged by the federal government. He continued explaining that typically the state and federal law are made to conform with each other and in this particular case the Department of Human Resources has overlooked that, and they are in favor of making conforming to federal law. This would keep the employer from having to send in unemployment compensation for individuals who will never claim it since they are only here for a limited amount of time and will return to their native country.

Hearing no objections, Chairman Edmonds stated the bill would be introduced.

Chairman Edmonds opened the meeting for hearing on **HB 2005** with Mr. Patrick Hubbell representing Kansas Railroads. In his testimony, Mr. Hubbell explained that the state of Kansas centrally assesses railroad property, both real and personal. Under section 306 the Federal 4-R Act, four taxing practices are detailed that "unreasonably burden and discriminate against railroads in interstate commerce." Mr. Hubbell supports passage of **HB 2005** to grant railroads tax credits on machinery and equipment beginning in 2003, with the credit being set at 15 percent. (Attachment 1)

With no further business before the committee, Chairman Edmonds adjourned the meeting at 9:30 a.m.



# KANSAS RAILROADS

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## Kansas Railroads Statement on HB 2005

My name is Patrick Hubbell. I represent the Kansas Railroads. During the 2002 legislative session a provision in Senate Bill 39 was passed allowing railroads to utilize machinery and equipment income tax credits. The tax legislation created by SB 39, would be made available for railroad property beginning in tax year 2005, when the credit amount would be 20 percent. Railroad property would then qualify for a subsequent credit increase in tax year 2007, when the credit would be raised to 25 percent.

Previously, legislation was enacted to provide refundable income tax credits beginning in tax year 1998, to offset 15 percent of property taxes on commercial and industrial machinery and equipment. At the time of the 1998 legislation railroads were not given these tax credits.

The state of Kansas centrally assesses railroad property, both real and personal. Under section 306 the Federal 4-R Act, four taxing practices are detailed that "unreasonably burden and discriminate against railroads in interstate commerce."

The 4-R Act provides:

- Rail transportation property may not be assessed at a higher ratio to its value than other commercial and industrial property in the same jurisdiction.
- A tax may not be levied or collected based on this unlawful assessment.
- Railroads are protected from paying property taxes at a higher rate than the rate applicable to other commercial and industrial property.
- States are forbidden from imposing any other tax that results in discriminatory treatment of railroads.

Failure to give tax credits to railroads is not only discriminatory, but also a detriment to the industries overall productivity within the state. Without these tax credits railroads will be forced to pay additional taxes towards machinery and equipment.

Since the close of the 2002 session a concern has been raised that the language in SB 39 would extend these tax credits to all machinery and equipment taxes paid by state-

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House Taxation  
Attachment 1

Date 1-30-03

assessed public utilities. A Special Committee on Assessment and Taxation was formed by the Legislative Coordinating Council to compare the interpretation of the law compared with the fiscal implications assumed by the Legislature at the end of the 2002 session. The Committee reported that a clarification of the language in SB 39 was needed as to whom the tax credits would be given. House Bill 2005 clarifies the intent of the 2002 Legislature extending the tax credits to railroads, but not to other state-assessed utilities.

I would recommend passage of HB 2005 to grant railroads tax credits on machinery and equipment beginning in 2003, with the credit being set at 15 percent. This change would allow railroads the same benefits that other commercial and industrial businesses have had since 1998. HB 2005 would then increase the credit amount to 20 percent in 2005 and 25 percent in 2007, the same as other commercial and industrial property.