

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman John Edmonds at 9:00 a.m. on March 23, 2003 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisors of Statutes
Carol Doel, Committee Secretary

Conferees appearing before the committee:

Representative Ed O'Malley
Representative Bruce Larkin
Laura McConwell, Mayor of Mission, KS
Mike Scanlon, City Administrator of Mission, KS
John Weber, Mission City Councilman
Kate Michaelis, Northeast Johnson County Chamber of Commerce
Richard Cram, Department of Revenue
Ace Rowley, Bank of America
Jack Ovel, Commerce Bank
Hal Hudson, NFIB
Marlee Carpenter, KCCI
Carl Peterjohn, Kansas Taxpayers Network

Others attending:

See Attached List

Chairman Edmonds opened the meeting for bill introductions. Hearing none, he opened the public hearing on **HB 2891** and recognized Representative O'Malley who brought testimony in support of **HB 2891**. Representative O'Malley thanked the Chairman and the committee for hearing this bill as it is very important to the City of Mission which is in his district. They found out they have quite a significant amount of commercial property that is now in commercial flood plain. (No written testimony)

Laura McConwell, Mayor of Mission, Kansas came before the committee in support of **HB 2891** stating that this bill was written to help the City of Mission. This bill would create a new section in the Kansas TIF law that would allow the City of Mission and other cities with large areas of commercial property in a 100-year flood plain to create TIF districts using a 100-year flood plain as the determining factor. (Attachment 1)

City Administrator of Mission, Kansas, Mr. Mike Scanlon offered testimony in support of **HB 2891**. He stated that the bill is not a want, but a need. Without a change in the TIF law their only options in financing the very large stormwater project would be a very drastic and likely devastating increase in property tax. (Attachment 2)

John Weber, Council member from the City of Mission, came before the committee to give support for **HB 2891**. In his testimony he asked for support of the bill which will create another way that the City of Mission might be able to finance the very large and expensive flood plain project in their community of 10,000. (Attachment 3)

Director of Economic Development for the Northeast Johnson County Chamber of Commerce, Kate Michaelis, offered testimony in support of **HB 2891**. Ms. Michaelis showed a board with the names of 69 businesses that are directly impacted by the 100-year flood plain. Most of the business are family-owned businesses. Her testimony also reflected that this issue isn't simply a city government that's being adversely affected. It is about the 69 businesses, their employees, and their families that will be adversely impacted if the City of Mission doesn't mitigate this flood plain area. (Attachment 4)

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on March 23, 2003 in Room 519-S of the Capitol.

The various representatives of the City of Mission also submitted an article from the Kansas City Star which related the need for the flood plain project. ([Attachment 5](#))

There were no other conferees on **HB 2891** and the Chairman closed the hearing.

Chairman Edmonds then opened the public hearing on **HB 2923** and recognized Representative Bruce Larkin who provided testimony in support of the bill. Representative Larkin related that while the bill is neutral, it does shift the burden of paying income taxes from moderate income to high income taxpayers. It also closes a loophole in our law regarding the resident trust and uses the revenue to reduce income taxes for middle income taxpayers. ([Attachment 6](#)) Representative Larkin also submitted material from the Kansas Department of Revenue which showed changes in new tax rates, increased standard deduction, increased personal exemption ([Attachment 7](#)) as well as an article entitled "*Kansas Taxes Hit Poor & Middle Class Much Harder than the Wealthy*" from ITEP (Institute on Taxation and Economic Policy). ([Attachment 8](#)) Representative Larkin also submitted material for committee review regarding the 50 State State and Local Tax Burden Ranking for Kansas and Surrounding States ([Attachment 9](#)) and an article on policy justifications for tax simulation 005 ([Attachment 10](#)) In his final statement, Representative Larkin stated that he felt that we should seriously start the dialogue about Kansas tax structure and take a look at what we could do to make it more fair.

Richard Cram, Department of Revenue. Mr. Cram says he really has no comments other than what was submitted in the fiscal note. The bill takes Missouri definition of resident trust and adds the current Kansas definition to those provisions. The Department supports **HB 2923**. ([No written testimony](#))

With no other proponents to address the bill, Chairman Edmonds recognized Ace Rowley, Regional Trust Executive Bank of America as an opponent of **HB 2923**. Mr. Rowley's testimony focused on three areas.

1. The strengths of the present statute
2. Compliance and enforcement difficulties
3. The unintended consequences.

Mr. Rowley related that the cost of the unintended consequences may far outweigh any marginal increase in revenue that might be generated. The costs translate into a decline in revenue from income, sales and property taxes that might otherwise be earned from such individuals, a potential reduction in growth from lost investments in Kansas and a direct increase in tax enforcement and litigation expenses. ([Attachment 11](#))

Jack Ovel, Executive Vice President of Commerce Bank, gave testimony in opposition to **HB 2923**. He is responsible for the trust services which his bank provides in the West Region which includes the State of Kansas. He also related that it is their opinion that even if the State of Kansas substantially increases, as this bill would, the number of trusts deemed to be resident trusts, the additional tax to be derived would not be significant. He further discussed the unintended consequences of the bill as did Mr. Rowley before him. They do not believe that additional tax revenue gained from the passage of this bill would be meaningful. ([Attachment 12](#))

Marlee Carpenter representing KCCI (Kansas Chamber of Commerce and Industry) opposes **HB 2923** relating that it creates two new upper individual income tax brackets. This change would increase the cost of doing business in Kansas. She further stated that we need to reduce costs for all businesses so that they can grow and expand. ([Attachment 13](#))

NFIB (National Federation of Independent Business) was represented by Hal Hudson, Kansas State Director, also in opposition to **HB 2923** stating that the bill would increase tax rate in each of the brackets for individual income taxes, and would add new brackets on the upper end. Small businesses are already being stressed by high property taxes, the burden of destination sourcing for collection and payment of sales taxes. ([Attachment 14](#))

Karl Peterjohn, Kansas Taxpayers Network, stated in opposition to **HB 2923** that the bill is unlikely to generate the additional trust income that would allow the increase in personal income tax deductions and exemptions. The bill will provide an additional incentive for affluent folks to move their legal residence out of Kansas. ([Attachment 15](#))

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on March 23, 2003 in Room 519-S of the Capitol.

With no other conferees to address the bill, Chairman Edmonds closed the hearing on **HB 2923**.

Attention was directed to written testimony from Lenexa Chamber of Commerce (Attachment 16), Overland Park Chamber of Commerce (Attachment 17), Greater Topeka Chamber of Commerce (Attachment 18) and the Wichita Independent Business Association (Attachment 19).

Chairman Edmonds addressed **HB 2662** which was heard some time ago dealing with certain State contracts and asked the pleasure of the committee.

Representative Tafanelli moved that the committee recommend **HB 2662** favorable for passage. The motions was seconded by Representative Owens.

Representative Larkin addressed the Chairman requesting a briefing on **HB 2662**.

Chris Courtwright, of the Legislative Research Department explained that this bill would provide a grandfather clause for contractors to enter into written contract prior to the effective date of the statewide local use tax, entering the contract with contemplation that on material they ordered out of state, they are not going to have to pay the new use tax. This grandfather clause would relieve them of that liability.

Representative Larkin stated that he supports the bill.

Vote was taken. Motion passed.

The Chairman then directed the committee's attention to **HB 2540** a bill by Representative Beggs which had been heard previously.

Chris Courtwright of the Legislative Research Department explained that in this bill the rulings of BOTA (Board of Tax Appeal) are made in favor of the taxpayer. It would provide that attorney fees and costs incurred by the taxpayers could be recovered.

Representative Goico made a motion to move **HB 2540** favorable for passage. Representative Goering made a second to the motion.

Representative Larking wished to stand in opposition to this bill.

Representative Huff disagreed with the ranking member and supports the bill.

Representative Thull asked if he sued someone now and lost, would he have to pay the court costs.

Representative Jack, an attorney on the committee, advised that normally the prevailing party is awarded court costs. Attorney fees are different from court costs. The general rule is that each side pays their own attorney fees. However, there are exceptions such as automobile liability cases and civil rights fees.

Following discussion, the Chairman called for a vote on **HB 2540**.

Vote was taken. Motion adopted.

With no further business before the committee, the meeting was adjourned at 10:30 a.m.

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE March 23, 2004

NAME	REPRESENTING
Christy Caldwell	Joplin Chamber
Tom Bruno	GBBA
Bernie Koch	Wichita Area Chamber
Hal Hudson	NFIB/KS
Dann Williams	KS Motor Carriers Assoc.
Tom Gaches	GBBA
Jackie Clark	Hallmark
PAT Holden	Bank of America
Karl Peterjohn	KS Taxpayers Network
Kathy Olsen	KS Bankers Assoc.
Steve Pitts	KS Taxpayer Net
April Holme	KS Action for Children
Michelle Peterson	KEC
John Blawie	Debra - P. 710 KM
Bill Day	KS Credit Union Assoc
Erik Sartorius	City of Overland Park
T. O. Anderson	KSCPA
John Weber	Mission, KS
Ann Surber	DEB

Testimony Honorable Laura McConwell

My name is Laura McConwell and I'm the Mayor of Mission, Kansas. I'm here to testify in support of House Bill 2891.

House Bill 2891 is a bill that is written to help the City of Mission.

While other communities in Kansas might be able to benefit from this legislation – the purpose of this bill is fairly straight forward – this bill would create a new section in the Kansas TIF law that would allow the City of Mission and other City's with large areas of commercial property in a 100-year flood plain to create TIF districts using a 100-year flood plain as the determining factor.

We believe that a floodplain TIF district may be one of the ways that will allow us to make these very needed improvements in our community. The size of this stormwater project that we need assistance on is somewhere between \$15,000,000 and \$20,000,000 and for a community of 10,000 this is equivalent to all of our City's Infrastructure Improvement projects over the last 25-30 years.

A common question is why would the City of Mission have allowed the downtown to be built inside of a 100-year flood plain?

We didn't.

What has happened is that as the City developed and as Johnson County developed the amount of water running in Rock Creek has increased. This increase in run-off has been incremental and we now have reached a point that based on engineering models we have a 100-year floodplain that covers a substantial portion of our downtown area.

Rock Creek, which is the creek that is creating this problem, runs through our downtown then on into Fairway, Mission Hills and eventually flows into Brush Creek in Kansas City, Missouri.

So part of the difficulty for in this project is to figure out how we get the runoff of a storm through and then out of Mission without impacting other communities downstream negatively.

HOUSE TAXATION

Attachment 1

Date 3-23-04

Rock Creek is what engineers term a highly responsive flood plain. Meaning that when it rains Rock Creek rises very quickly and then recedes quickly after the rain has passed.

The volume of water that we're trying to tame is approximately 5,500 cubic feet per second. To help you visualize this volume of water this would be the equivalent of filling up a 2,000-sq. ft. house in about 3-5 seconds.

So what does it cost to tame this creek?

The cost of handling this volume of water is somewhere between \$15,000,000 and \$20,000,000. We have such a large range in our estimated because of the many utility relocations that we are going to be faced with, along with the fact that we have to carry this creek underneath 7 different streets as it winds through the downtown.

HB 2891 offers the City of Mission just one way – through redevelopment—to possibly handle some of the costs associated with these flood improvements.

For the Committee's information we have also done the following,

- We're working with Johnson County to see if there are ways using what is called Stormwater Management Advisory Council (SMAC) funds to help with the project.
- We went to Washington DC two weeks ago to seek assistance from Senator Brownback, Senator Roberts, Congressman Tiahrt, and Congressman Moore.
- We have been working with the Governor's office to see if there might be some state or federally administered programs that could assist us with our engineering design.
- We have passed a Charter Ordinance to establish a Stormwater Utility that we can use to pay for a portion of the Rock Creek improvement and to hopefully allow us to set aside money in the future to maintain the many stormwater improvements we have in our City.

What we know is that with the strain currently on the Federal and State budget we as a City are going to have to find our own solution. With the

passage of House Bill 2891 we believe that you will give us another tool to apply in fixing this problem.

Thank you for your time and if you have any additional questions I will be happy to answer them.

Testimony Mr. Michael Scanlon

My name is Mike Scanlon and I'm the City Administrator and I'm here today to speak in favor of House Bill 2891.

For my community passage of House Bill 2891 is not a want it is a very necessary need. Without a change in the TIF law our only options in financing this very large stormwater project would be a very drastic and likely devastating increase in property taxes.

As you are aware commercial property owners pay a disproportionate share of the property tax bill. In our community if you were a business owner in the 100-year flood plain you would not only be facing a significant increase in property taxes but at the same time the likely addition of flood insurance as a cost of doing business.

A business owner in the flood plain would face a very serious decision....do I stay or do I move. I think we all know what the ultimate decision would be.

As businesses would leave our sales tax base would continue to erode placing an even greater burden on property tax. As the spiral continues it becomes a losing proposition.

We as the leaders in our community don't believe it has to be a losing proposition we think we can stop the impending blight, but only with your help.

I strongly urge that you support House Bill 2891 and give the citizens and their elected leaders and opportunity to stem the tide (stormwater) on commercial decline and redevelop and resurrect our floodplain.

Thank you for your time and if you have any questions I'm happy to answer them.

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Attachment 2

Date 3-23-04

Testimony Mr. John Weber

My name is John Weber, City Council member from the City of Mission. A large portion of this flood-plain is in my Ward.

I was trying to figure out how to best communicate this problem to my constituents and to members of the Kansas House, so I put our City Staff to work looking for comparisons – here's what I came up with,

The size of our flood plain (in terms of commercial value) is the equal to taking

- all of the commercial property in Barton County, plus
- all of the commercial property in Cheyenne County, plus
- all of the commercial property in Rawlins County, plus
- all of the commercial property in Decatur County, plus
- all of the commercial property in Norton County, plus
- all of the commercial property in Phillips County,
- and almost all of the property in Labette County,

combined and stuck in a 100-year flood plain.

It would be like taking all of either Montgomery County or Harvey County's Commercial Property, adding another \$20,000,000 to it and placing the entire commercial area in the 100-Year flood plain.

In other words it's BIG!

For my Mission residents in terms of value it would be like placing over 425 houses in the flood plain or almost 20% of our total single family housing in the 100-year flood plain.

Because of the work of Johnson County our 100-year floodplain, which we thought was only in the center of our City, has grown towards the east and increased in size by almost \$35,000,000. And while the size has grown so has the cost of making the improvements. A couple of years ago we thought the ultimate price tag might be somewhere in the neighborhood of

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Attachment 3

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\$8,000,000. That figure has grown by \$12,000,000 and that's just an estimate.

I'm not asking for money – I'm asking for you to support this bill which will create another way that we—the City of Mission—might be able to finance this very large and expensive project in our community of 10,000.

I thank you for your time and I would appreciate your support.

Testimony Ms. Kate Michaelis

My name is Kate Michaelis and I'm the Director of Economic Development for the Northeast Johnson County Chamber of Commerce and I'm here today to speak in favor of House Bill 2891.

As the Chamber's Director of Economic Development – I'm focused on Business Retention and Business Expansion in the northeastern part of Johnson County.

While the pictures that the Mayor has shown might speak a thousand words I think the names of the Businesses that are being affected are just as important, I have on this board the names of 69 business that are directly impacted by the 100-year floodplain. Most of these businesses aren't large corporations, but rather mom and popor family-owned businesses that almost every City in Kansas has in their downtown.

It is vital to our area that the City of Mission be given as many tools as possible to handle their flooding problems.

As I understand it – this legislation is just one of five or six different options that the City of Mission is looking at in order to finance this very expensive project.

This particular issue isn't about simply a City government that's being adversely affected. It's about 69 businesses, their employees, and their families that will be adversely impacted if the City of Mission doesn't mitigate this floodplain area.

Small businesses are important to Northeast Johnson County Kansas and their important to the State of Kansas and right now they need your help.

On behalf of the Northeast Johnson County Chamber of Commerce I ask for your support of House Bill 2891.

Thank you.

HOUSE TAXATION
Attachment 4
Date 3-23-04

New flood map's fallout could change the face of Mission

KARA CHILDERS

A lot of Mission business owners could soon find themselves in Becky Mosby's soggy shoes.

Mosby, owner of Edgevale Interiors on Johnson Drive, watched nearby Rock Creek fill up on Thursday and hoped that her business wouldn't flood. It didn't, but Mosby still laments the \$1,000 she pays for flood insurance each year because her business is in the flood plain.

"I would not rent another building in a flood plain," she said. "For a little guy that's a lot of money."

More than 100 Mission businesses - about half the downtown business district - are now in the middle of a flood plain. Many, including Mission Center mall, Mission Bank and Wild Oats Market, were added this year.

The change came after Johnson County decided to redraw flood plain maps after the 1998 flood. For the first time, engineers surveyed the bottom of the creek and found the creek bed was higher than they had thought. The higher creek bed meant a larger flood plain for Mission, said Mike Scanlon, city administrator.

Other cities have seen changes to their maps, but none have been as dramatic as those in Mission, said Kent Lage, manager of the county storm water management program.

Mission's new map shows the value of commercial property in the flood plain has increased from \$15 million to more than \$35 million.

The new map still must be approved by the Federal Emergency Management Agency, which officials say is likely.

The city received the new flood plain map in January but just notified business owners in a letter this week. Some business owners said they hadn't received it yet.

"There's a lot of questions I don't have answers to," said Greg Fuciu, owner of Lucky Brewgrille on Johnson Drive.

The city decided it has two options - it can do nothing and risk losing businesses that don't want to buy expensive flood insurance.

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Attachment 5

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Or the city can embark on its largest capital improvement project in history - the Rock Creek Drainage Project.

City leaders didn't hesitate to pick the second option. Properties in the flood plain generate between \$1 million and \$2 million in sales tax revenue for the city, Scanlon said.

The \$15 million project would include widening and deepening the channel, which follows Martway and then winds along Johnson Drive, ending in Mission around the mall, Scanlon said.

Rock Creek then flows to Fairway, crosses Mission Road into Mission Hills and finally dumps into Brush Creek in Kansas City.

Like other Johnson County cities, Mission has a history of flooding. A picture in a Johnson Drive restaurant shows a flooded downtown in the 1950s. And big floods in 1977 and 1998 damaged several businesses on Johnson Drive, Scanlon said.

In response to these floods, Mission spent more than \$3 million from 1988 to 2001 on improvements to Rock Creek and Birch Creek.

In the latest project, the city plans to encase the entire creek between Woodson and Nall Avenue with large concrete drainage pipes. Those improvements alone could cost more than \$12 million. The city is also considering a redevelopment of the residential and commercial property between Woodson and Nall Avenue.

Scanlon said one option for the area could be a mixed use of retail and residential properties, or even clearing it to build a parking lot and pedestrian walkways.

The city could ask some properties to relocate, Mayor Laura McConwell said in the letter to business owners this week.

The city hopes to provide information to property owners with timelines for construction and relocation by June. The drainage project could take three to five years.

Scanlon said the community will have to get behind the plans for them to be successful. An informational meeting will be held in early April.

Business owners, for the most part, are still asking questions.

"We only recently became aware of the proposed new flood plain calculation and are reviewing the situation with the city of Mission," said Keith Copaken, a developer with Copaken, White & Blitt, which owns Mission Center mall.

Clay Coburn, president of Mission Bank, said he does not know how the property owners will feel about the new flood plain map.

Hersh Casey, owner of Casey Brothers Sinclair on Johnson Drive, believes the business community will support any plan the city throws its way.

"Something needed to be done years ago," said Casey, whose 45-year-old business is not part of the flood plain.

But before beginning the project, the city has to work with Fairway, Mission Hills and Kansas City to come up with a plan that doesn't send more water downstream.

"We've committed to work together," said Fairway Mayor John St. Clair. "We want to make sure it's a northeast solution that benefits us all in the end."

And then the city has to secure funding.

The county's Stormwater Management Advisory Council typically funds 75 percent of study, design and construction costs, said Lage, manager of the county storm water program.

The advisory council spends about \$10 million a year, and the waiting list already totals \$70 million, Lage said. Projects are ranked depending on their cost benefit, and often expensive projects are pushed to the bottom of the list. So Mission could have a long wait, Lage said.

But Mission doesn't want to wait.

Last week, the City Council approved an ordinance that could charge residents a storm water utility fee on their annual property tax bill. The assessment does not have to go before the voters, but the council still has to approve the fee. Home and business owners would pay different fees based on the roofline and amount of concrete on their property.

And in Topeka, Rep. Ed O'Malley of Roeland Park has introduced legislation that would allow Mission to use sales tax revenue from the flood plain area to make improvements.

On Monday, city leaders are taking their case to Washington, D.C., for the National League of Cities conference. They plan to meet with U.S. Sens. Pat Roberts and Sam Brownback, and U.S. Rep. Dennis Moore to talk about securing federal funding.

"It's going to take a lot of people to solve the problem," Scanlon said.

To reach Kara Childers, call (816) 234-7737 or e-mail kchilders@kcstar.com.

First glance

The city of Mission recently received a new flood plain map that puts many businesses in the flood plain. The city hopes to undertake a \$15 million project that would address

Rock Creek flooding problems. "We want to make sure it's a northeast solution that benefits us all in the end."
Fairway Mayor John St. Clair

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BRUCE F. LARKIN
REPRESENTATIVE, DISTRICT 62
R.R. 1
BAILEYVILLE, KANSAS 66404



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

SENATE MINORITY MEMBER: EDUCATION
MEMBER: AGRICULTURE
TRANSPORTATION
INTERSTATE COOPERATION
MEMBER OF ADVISORY COMMITTEE
TO DEPT. OF REVENUE ON USE VALUE
TAXATION ON AGR. LAND

**Testimony before the
Taxation Committee
Regarding
House Bill 2923
on
March 23, 2004**

Mr. Chairman and Members of the Committee.

HB 2923 is what I call the Tax Fairness Act of 2004. While this bill is revenue neutral, it does shift the burden of paying income taxes from moderate income to high income taxpayers. It also closes a loophole in our law regarding the resident trust and uses the revenue to reduce income taxes for middle income taxpayers.

Having served on this Committee for several years, studied numerous state and national reports on tax liability, I feel it is important for us to recognize that our tax structure penalizes those in the low to middle income tax brackets. This bill is a small step to correct that inequity by changing income tax rates to make our system more fair than it is today.

Kansas has various programs to help low income individuals that include the Homestead Property Tax Refund Program, the food sales tax rebates and the Earned Income tax credit. I have supported the implementation and expansion of the programs and will continue to do so.

This bill is designed to reduce the tax burden on moderate or middle income Kansans.

HOUSE TAXATION

Attachment 6

Date 3-23-04

Simulation 005

Kansas Department of Revenue
Individual Income Tax
Tax Year 2004

Changes: New Tax Rates
Increased Standard Deduction
Increased Personal Exemption

Dollars are in Thousands

KAGI Brackets	Returns	Tax Liability		Dollar Change	Percent Change	Average Dollar Change
		Current Law	Proposed Change			
\$ - \$ 10,000	119,144	\$ 8,490	\$ 5,896	\$ (2,594)	-30.6%	\$ (21.77)
\$ 10,000 \$ 20,000	215,476	\$ 44,989	\$ 36,664	\$ (8,325)	-18.5%	\$ (38.64)
\$ 20,000 \$ 30,000	102,675	\$ 57,543	\$ 49,844	\$ (7,699)	-13.4%	\$ (74.98)
\$ 30,000 \$ 50,000	256,898	\$ 251,199	\$ 224,308	\$ (26,891)	-10.7%	\$ (104.68)
\$ 50,000 \$ 75,000	210,999	\$ 382,893	\$ 351,891	\$ (31,002)	-8.1%	\$ (146.93)
\$ 75,000 \$ 100,000	130,112	\$ 364,778	\$ 344,929	\$ (19,849)	-5.4%	\$ (152.55)
\$ 100,000 \$ 200,000	89,857	\$ 386,169	\$ 398,655	\$ 12,486	3.2%	\$ 138.95
\$ 200,000 Over	25,987	\$ 443,094	\$ 520,368	\$ 77,274	17.4%	\$ 2,973.56
	1,151,148	\$ 1,939,155	\$ 1,932,555	\$ (6,600)	-0.3%	\$ (5.73)

Proposed Change:

Taxable Income Brackets

Single			
\$ -	\$ 15,000		3.00%
\$ 15,000	\$ 30,000	\$ 450.00	6.00%
\$ 30,000	\$ 40,000	\$ 1,350.00	7.25%
\$ 40,000	\$ 50,000	\$ 2,075.00	7.50%
\$ 50,000	Over	\$ 2,825.00	7.75%

Married			
\$ -	\$ 30,000		3.00%
\$ 30,000	\$ 60,000	\$ 900.00	6.00%
\$ 60,000	\$ 80,000	\$ 2,700.00	7.25%
\$ 80,000	\$ 100,000	\$ 4,150.00	7.50%
\$ 100,000	Over	\$ 5,650.00	7.75%

Current Law			
Taxable Income Brackets			
Single			
\$ -	\$ 15,000		3.50%
\$ 15,000	\$ 30,000	\$ 525	6.25%
\$ 30,000	Over	\$ 1,462.50	6.45%

Married			
\$ -	\$ 30,000		3.50%
\$ 30,000	\$ 60,000	\$ 1,050	6.25%
\$ 60,000	Over	\$ 2,925	6.45%

Proposed

Standard Deduction:

Married Filing Joint	\$ 6,800
Single	\$ 3,400
Head of Household	\$ 4,500
Married Filing Separate	\$ 3,400
Personal Exemption	\$ 2,300

Current Law	
Standard Deduction:	
Married Filing Joint	\$ 6,000
Single	\$ 3,000
Head of Household	\$ 4,500
Married Filing Separate	\$ 3,000
Personal Exemption	\$ 2,250

HOUSE TAXATION

Attachment 7

Date 3-23-04

17-2

Kansas Department of Revenue
Federal and Kansas Individual Income Tax Burden
Federal Tax Changes in Tax Year 2003 and Kansas Simulation 005

Federal Income Tax - Tax Year 2000

FAGI	\$ 15,000	\$ 25,000	\$ 50,000	\$ 75,000	\$ 100,000	\$ 150,000	\$ 200,000	\$ 250,000	\$ 350,000	\$ 750,000
Fed Tax	\$ -	\$ 968	\$ 4,718	\$ 10,106	\$ 17,106	\$ 31,871	\$ 48,371	\$ 66,371	\$ 103,922	\$ 262,322

Federal Income Tax - Tax Year 2003

FAGI	\$ 15,000	\$ 25,000	\$ 50,000	\$ 75,000	\$ 100,000	\$ 150,000	\$ 200,000	\$ 250,000	\$ 350,000	\$ 750,000
Fed Tax	\$ -	\$ 330	\$ 3,545	\$ 7,295	\$ 13,195	\$ 26,105	\$ 40,285	\$ 56,785	\$ 90,112	\$ 230,112

Change	\$ -	\$ (638)	\$ (1,173)	\$ (2,811)	\$ (3,911)	\$ (5,766)	\$ (8,086)	\$ (9,586)	\$ (13,811)	\$ (32,211)
% Change		-66%	-25%	-28%	-23%	-18%	-17%	-14%	-13%	-12%

Ks Tax (Current Law)	\$ -	\$ 350	\$ 1,363	\$ 2,925	\$ 4,538	\$ 7,763	\$ 10,988	\$ 14,213	\$ 20,663	\$ 46,463
Ks Tax (Sim 005)		\$ 278	\$ 1,155	\$ 2,655	\$ 4,469	\$ 8,304	\$ 12,179	\$ 16,054	\$ 23,804	\$ 54,804

Change		\$ (73)	\$ (208)	\$ (270)	\$ (69)	\$ 542	\$ 1,192	\$ 1,842	\$ 3,142	\$ 8,342
% Change		-21%	-15%	-9%	-2%	7%	11%	13%	15%	18%

Change(Fed and Kansas)		\$ (710)	\$ (1,380)	\$ (3,081)	\$ (3,979)	\$ (5,224)	\$ (6,894)	\$ (7,744)	\$ (10,669)	\$ (23,869)
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**EMBARGOED FOR RELEASE ON
TUESDAY, JANUARY 7, 2003 AT 10:00 AM**
CONTACT: Bob McIntyre, 202/737-4315

Kansas Taxes Hit Poor & Middle Class Much Harder than the Wealthy

Low- and middle-income families in Kansas pay a much higher share of their income in state and local taxes than do the richest Kansans, according to a new study by the Institute on Taxation & Economic Policy.

"State and local governments are being called upon to take on more and more responsibilities," said Robert S. McIntyre, ITEP's tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. "Unfortunately, when it comes to paying for services, Kansas has an unfair tax system."

Kansas's Tax Code: Tax the Poor & Middle Class More Than the Wealthy

When all Kansas taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Kansas families—with average incomes of \$781,000—is 8.0% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.7%.
- The average tax rate on families in the middle of the income distribution—those earning between \$27,000 and \$44,000—is 10.4% before the federal offset and about the same after, nearly double the effective rate on the best-off one percent.
- But the tax rate on the poorest Kansas families—those earning less than \$14,000—is the highest of all. At 11.5% it is more than double the effective rate on the very wealthy.

"Kansas's income tax fails to offset the regressivity of its sales and excise taxes, giving the state a regressive tax system," McIntyre said. "Taxes ought to be based on people's ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Kansas."

MORE ...

HOUSE TAXATION
Attachment 8
Date 3-23-04

Tax Regressivity Has Worsened Since 1989

The study also examined the impact of changes in the regressivity of Kansas taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Effective tax burdens rose across the board, but they increased far more heavily on the low- and middle-incomes than on those with the highest incomes.
- Substantial increases in the state and local sales taxes and rises in excise taxes drove up tax burdens on the poor and middle class.
- The elimination of the deduction for federal income tax paid and higher tax rates overall raised income tax burdens on higher-earning Kansans.

"Low- and moderate-income Kansans were forced to take the money they saved from cuts in income taxes and pay it right back in higher sales and excise taxes," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

Two pages of tables detailing the Kansas findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

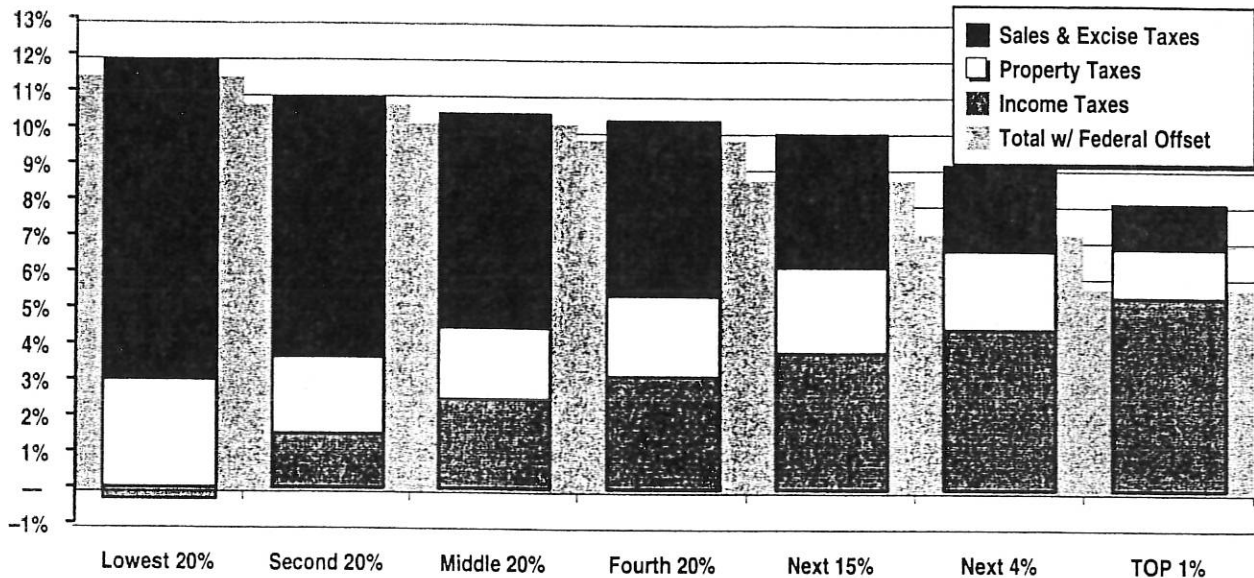
Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities. The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

MORE . . .

Kansas

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$14,000	\$14,000 – \$27,000	\$27,000 – \$44,000	\$44,000 – \$69,000	\$69,000 – \$126,000	\$126,000 – \$292,000	\$292,000 or more
Average Income in Group	\$8,600	\$20,200	\$34,900	\$55,400	\$89,300	\$174,700	\$780,500
Sales & Excise Taxes	8.8%	7.2%	5.9%	4.9%	3.7%	2.4%	1.2%
General Sales—Individuals	4.9%	4.3%	3.7%	3.2%	2.5%	1.6%	0.9%
Other Sales & Excise—Ind.	1.9%	1.3%	0.9%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	2.0%	1.7%	1.4%	1.1%	0.8%	0.5%	0.3%
Property Taxes	3.0%	2.1%	2.0%	2.2%	2.4%	2.2%	1.4%
Property Taxes on Families	2.9%	2.1%	1.9%	2.1%	2.2%	1.8%	0.7%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.2%	0.4%	0.7%
Income Taxes	-0.3%	1.5%	2.5%	3.1%	3.8%	4.5%	5.4%
Personal Income Tax	-0.4%	1.5%	2.5%	3.1%	3.8%	4.4%	5.2%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.5%	10.8%	10.4%	10.2%	9.9%	9.0%	8.0%
Federal Deduction Offset	—	-0.1%	-0.1%	-0.4%	-1.2%	-1.8%	-2.2%
TOTAL AFTER OFFSET	11.5%	10.8%	10.3%	9.8%	8.7%	7.2%	5.7%

Note: Table shows 2002 tax law at 2000 income levels.

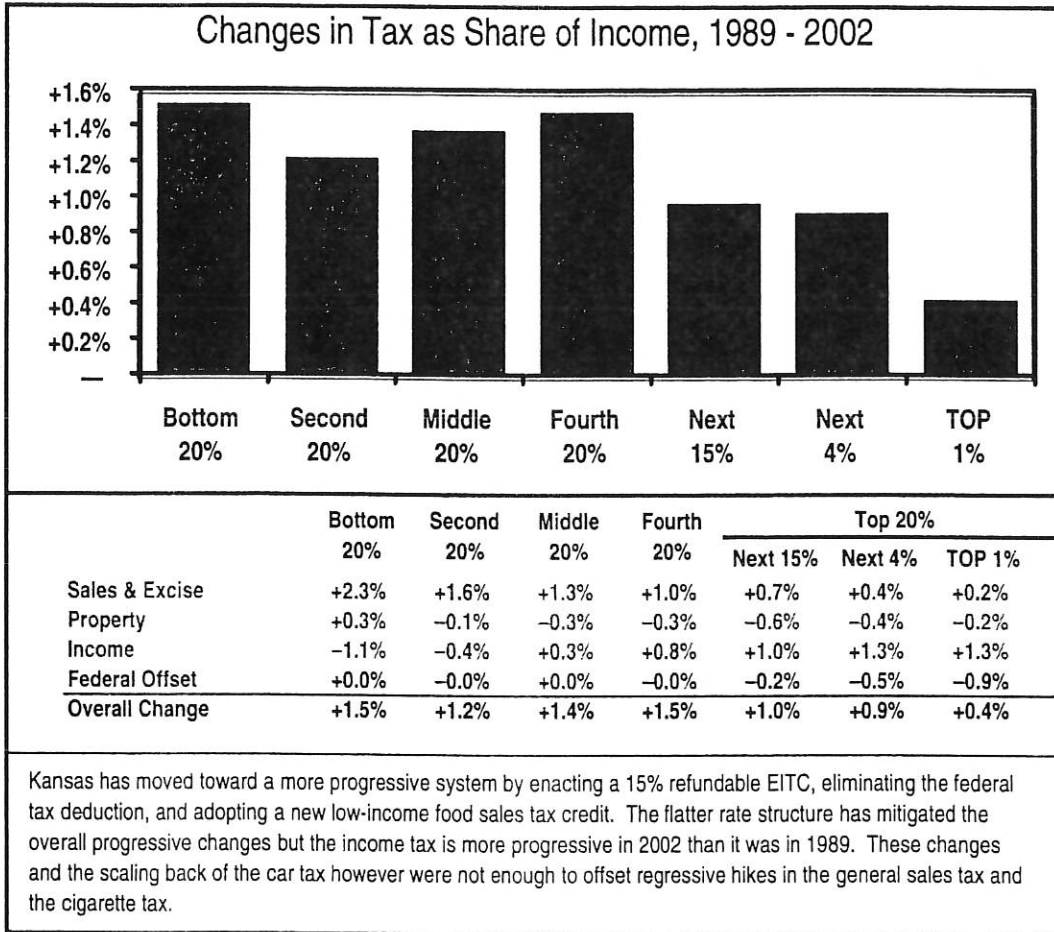
Kansas Details

Progressive Features

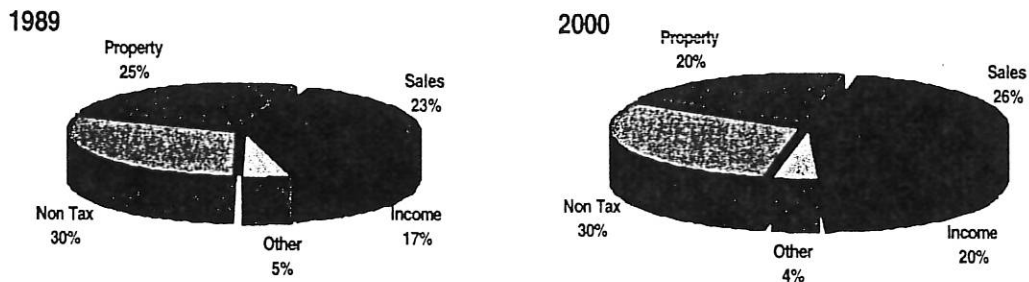
- ✓ Refundable EITC
- ✓ Low income property tax circuit breaker

Regressive Features

- ✗ Food subject to tax



Composition of Revenues



Source: Government Finances, US Department of Census

**50-State State and Local Tax Burden Ranking
for Kansas and Surrounding States**

	FY 2000 State and Local <u>Taxes Per Capita</u>	FY 2000 State and Local <u>Taxes as % PI</u>
Kansas	30	34
Missouri	45	49
Oklahoma	44	25
Colorado	17	35
Nebraska	23	26

Source: US Census Bureau

**50-State State and Local Tax Burden Ranking
for Division 4 States (West North Central
Division of Midwest States)**

	FY 2000 State and Local <u>Taxes Per Capita</u>	FY 2000 State and Local <u>Taxes as % PI</u>
Kansas	30	34
Missouri	45	49
Iowa	28	21
Minnesota	7	12
Nebraska	23	26
N Dakota	19	7
S Dakota	49	47

Source: US Census Bureau

HOUSE TAXATION

Attachment 9

Date 3-23-04

Census Bureau Regions and Divisions with State FIPS Codes

Region 1: Northeast

**Division 1:
New England**

Connecticut (09)
Maine (23)
Massachusetts (25)
New Hampshire (33)
Rhode Island (44)
Vermont (50)

**Division 2:
Middle Atlantic**

New Jersey (34)
New York (36)
Pennsylvania (42)

Region 2: Midwest*

**Division 3:
East North Central**

Indiana (18)
Illinois (17)
Michigan (26)
Ohio (39)
Wisconsin (55)

**Division 4:
West North Central**

Iowa (19) Nebraska (31)
Kansas (20) North Dakota (38)
Minnesota (27) South Dakota (46)
Missouri (29)

Region 3: South

**Division 5:
South Atlantic**

Delaware (10)
District of Columbia (11)
Florida (12)
Georgia (13)
Maryland (24)
North Carolina (37)
South Carolina (45)
Virginia (51)
West Virginia (54)

**Division 6:
East South Central**

Alabama (01)
Kentucky (21)
Mississippi (28)
Tennessee (47)

**Division 7:
West South Central**

Arkansas (05)
Louisiana (22)
Oklahoma (40)
Texas (48)

Region 4: West

**Division 8:
Mountain**

Arizona (04) Montana (30)
Colorado (08) Utah (49)
Idaho (16) Nevada (32)
New Mexico (35) Wyoming (56)

**Division 9:
Pacific**

Alaska (02)
California (06)
Hawaii (15)
Oregon (41)
Washington (53)

*Prior to June 1984, the Midwest Region was designated as the North Central Region.

Changes: **New Tax Rates**
Increased Standard Deduction
Increased Personal Exemption

Dollars are in Thousands

KAGI Brackets	Returns	Tax Liability		Dollar Change	Percent Change	Average Dollar Change	
		Current Law	Proposed Change				
\$ -	\$ 10,000	119,144	\$ 8,490	\$ 5,896	\$ (2,594)	-30.6%	\$ (21.77)
\$ 10,000	\$ 20,000	215,476	\$ 44,989	\$ 36,664	\$ (8,325)	-18.5%	\$ (38.64)
\$ 20,000	\$ 30,000	102,675	\$ 57,543	\$ 49,844	\$ (7,699)	-13.4%	\$ (74.98)
\$ 30,000	\$ 50,000	256,898	\$ 251,199	\$ 224,308	\$ (26,891)	-10.7%	\$ (104.68)
\$ 50,000	\$ 75,000	210,999	\$ 382,893	\$ 351,891	\$ (31,002)	-8.1%	\$ (146.93)
\$ 75,000	\$ 100,000	130,112	\$ 364,778	\$ 344,929	\$ (19,849)	-5.4%	\$ (152.55)
\$ 100,000	\$ 200,000	89,857	\$ 386,169	\$ 398,655	\$ 12,486	3.2%	\$ 138.95
\$ 200,000	Over	25,987	\$ 443,094	\$ 520,368	\$ 77,274	17.4%	\$ 2,973.56
		1,151,148	\$ 1,939,155	\$ 1,932,555	\$ (6,600)	-0.3%	\$ (5.73)

1,035,304
115,844

Proposed Change:

Taxable Income Brackets

Single			
\$ -	\$ 15,000		3.00%
\$ 15,000	\$ 30,000	\$ 450.00	6.00%
\$ 30,000	\$ 40,000	\$ 1,350.00	7.25%
\$ 40,000	\$ 50,000	\$ 2,075.00	7.50%
\$ 50,000	Over	\$ 2,825.00	7.75%

Married			
\$ -	\$ 30,000		3.00%
\$ 30,000	\$ 60,000	\$ 900.00	6.00%
\$ 60,000	\$ 80,000	\$ 2,700.00	7.25%
\$ 80,000	\$ 100,000	\$ 4,150.00	7.50%
\$ 100,000	Over	\$ 5,650.00	7.75%

Current Law			
Taxable Income Brackets			
Single			
\$ -	\$ 15,000		3.50%
\$ 15,000	\$ 30,000	\$ 525	6.25%
\$ 30,000	Over	\$ 1,462.50	6.45%

Married			
\$ -	\$ 30,000		3.50%
\$ 30,000	\$ 60,000	\$ 1,050	6.25%
\$ 60,000	Over	\$ 2,925	6.45%

Proposed

Standard Deduction:

Married Filing Joint	\$ 6,800
Single	\$ 3,400
Head of Household	\$ 4,500
Married Filing Separate	\$ 3,400

Personal Exemption \$ 2,300

Current Law	
Standard Deduction:	
Married Filing Joint	\$ 6,000
Single	\$ 3,000
Head of Household	\$ 4,500
Married Filing Separate	\$ 3,000

Personal Exemption \$ 2,250

$115,844 \div 1,151,148 = 0.1006$ or 10% pay more
 $1,035,304 \div 1,151,148 = 0.899$ or 90% pay less

Bruce Larkin: Policy Justifications for Tax Simulation 005:

1. Questions to ask about Simulation 005
 - a. Federal Off-set
 - b. Pay Roll Tax (Social Security tax, Medicare)
 - i. Regressive b/c the pay out is capped.
2. The Institute on Taxation & Economic Policy: Who pays: *A distributional Analysis of the Tax systems in All 50 States 2nd Edition January 2003.*
 - a. While tax adequacy (ensuring that sufficient revenue is available to fund important services) but it is equally important to assess the fairness of state tax systems
 - b. Legislators would do well to focus on real tax reform that achieves both improved tax fairness and long-term revenue stability. The alternative—increasing a wide range of taxes in times of fiscal difficulty but reducing mainly progressive taxes in times of plenty—undermines both progressivity and revenues.
 - c. Primary finding of the study was that: **most state and local tax systems take a much greater share of income from middle- and low-income families than from the wealthy.** Most tax systems are *regressive*.
 - d. However, there are **four model states** that require their best-off citizens to pay as much of their incomes in taxes as middle-income families have to pay.
 - i. Vermont =
 1. Has a highly progressive income tax
 2. Relatively low reliance on sales and excise tax
 3. Refundable credits are allowed even if they exceed a low-income family's income tax liability.
 - ii. Montana =
 1. Low use of Sales & Excise Taxes
 - iii. Delaware =
 1. High reliance on income taxes
 2. Very low use of consumption taxes
 - iv. California =
 1. Very progressive income tax
 - e. Eight states tax their wealthiest residents at effective tax rates as high as the poorest taxpayers are required to pay.
 - i.
 - f. But still most states tax the wealthy at rates that are much lower than the rates on middle- and low-income families.
 - g. The Federal Personal income tax is progressive.
 - h. **Kansas**
 - i. Moved toward a more progressive system by enacting a 15% refundable EITC, eliminating the federal tax deduction, and adopting a new low-income food sales tax credit.
 1. Taxing groceries:

HOUSE TAXATION
Attachment 10
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- a. Is a particularly regressive strategy because poor families spend most of their income on groceries and other necessities?
 - 2. Excise Taxes are typically based on volume rather than price- per gallon, per pack and so forth. So better-off people pay the same absolute tax on an expensive premium beer as low-income families pay on a run-of-the-mill variety.
 - ii. The income tax is more progressive in 2002 than it was in 1989
 - iii. But, flatter rate structure has mitigated the overall progressive changes.
 - iv. The above changes and the scaling back of the car tax however were not enough to offset regressive hikes in the general sales tax and the cigarette tax.
- i. Federal Itemized Deduction Offset**
 - i. State and local personal income and property taxes, unlike sales and excise taxes are allowed as itemized deductions in computing federal income taxes.
 - ii. Thus federal itemizers- (mostly better-off group) – can effectively export part of their state tax burden to the federal government
 - iii. On average, a fifth of all state personal income and individually – paid property taxes are exported to the federal government (and to taxpayers nationwide) as a result of itemized federal deductions. For the very best-off taxpayers, close to 40 percent of their state and local income and property tax bills are effectively paid by the federal government
 - iv. For a taxpayer in the top federal bracket, 38.6% of, say \$5,000 in state tax is essentially paid for by the federal government. The state receives the \$5,000 from the taxpayer but the taxpayer only pays \$3,070, or three-fifths of the state tax bill.
- j. Ten Most Regressive Tax States:**
 - i. Washington =
 - ii. Florida =
 - iii. Tennessee =
 - iv. South Dakota =
 - v. Texas =
 - vi. Illinois =
 - vii. Michigan =
 - viii. Pennsylvania =
 - ix. Nevada =
 - x. Alabama =
- k. Reasons why they are so regressive;
 - i. May lack a broad-based personal income tax
 - ii. May levy broad-based income taxes, but have structured the tax in a way that makes it much less progressive than in other states.
 - iii. May have flat-rate income taxes,
 - iv. May allow for a deduction of federal income taxes paid

3. Tax analysts: Tax Facts from the Tax Policy Center Taxes and Income Volatility
by Peter R. Orszag

- a. Increasing marginal tax rates produces a progressive tax system, which provides a kind of insurance: Compared with a flat rate tax designed to raise the same amount of revenue, the extra tax paid in good years under a progressive system can be viewed as an insurance premium in exchange for a tax break in bad years.
- b. The average tax change from income volatility could thus be viewed as a measure of the effectiveness of the tax systems in cushioning after-tax family incomes against fluctuations.

STATE INDIVIDUAL INCOME TAXES

(Tax rates for tax year 2003 - as of January 1, 2003)

State	---Tax Rates---		# of Brackets	--Income Brackets--		---Personal Exemption---			Fede D
	Low	High		Low	High	Single	Married	Child.	
ALABAMA	2.0	- 5.0	3	500 (b) -	3,000 (b)	1,500	3,000	300	
ALASKA	No State Income Tax								
ARIZONA	2.87	- 5.04	⑤	10,000 (b) -	150,000 (b)	2,100	4,200	2,300	
ARKANSAS (a)	1.0	- 6.5 (e)	⑥	2,999 -	25,000	20 (c)	40 (c)	20 (c)	
CALIFORNIA (a)	1.0	- 9.3	⑥	5,834 (b) -	38,291 (b)	80 (c)	160 (c)	251 (c)	
*COLORADO	4.63		1	----Flat rate----			-----None-----		
CONNECTICUT	3.0	- 4.5	2	10,000 (b) -	10,000 (b)	12,500 (f)	24,000 (f)	0	
DELAWARE	2.2	- 5.95	⑦	5,000 -	60,000	110 (c)	220 (c)	110 (c)	
FLORIDA	No State Income Tax								
GEORGIA	1.0	- 6.0	⑥	750 (g) -	7,000 (g)	2,700	5,400	2,700	
HAWAII	1.4	- 8.25	⑧	2,000 (b) -	40,000 (b)	1,040	2,080	1,040	
IDAHO	1.6	- 7.8	⑧	1,087 (h) -	21,730 (h)	3,000 (d)	6,000 (d)	3,000 (d)	
ILLINOIS	3.0		1	----Flat rate----			2,000	4,000	2,000
INDIANA	3.4		1	----Flat rate----			1,000	2,000	1,000
IOWA (a)	0.36	- 8.98	⑨	1,211 -	54,495	40 (c)	80 (c)	40 (c)	
KANSAS	3.5	- 6.45	3	15,000 (b) -	30,000 (b)	2,250	4,500	2,250	
KENTUCKY	2.0	- 6.0	⑤	3,000 -	8,000	20 (c)	40 (c)	20 (c)	
LOUISIANA	2.0	- 6.0	3	10,000 (b) -	50,000 (b)	4,500 (i)	9,000 (i)	1,000 (i)	
MAINE (a)	2.0	- 8.5	④	4,200 (b) -	16,700 (b)	4,700	7,850	1,000	
MARYLAND	2.0	- 4.75	④	1,000 -	3,000	2,400	4,800	2,400	
MASSACHUSETTS	5.3		1	----Flat rate----			3,300	6,600	1,000
MICHIGAN (a)	4.0 (j)		1	----Flat rate----			3,000	6,000	3,000
MINNESOTA (a)	5.35	- 7.85	3	18,710 (k) -	61,461 (k)	3,000 (d)	6,000 (d)	3,000 (d)	
MISSISSIPPI	3.0	- 5.0	3	5,000 -	10,000	6,000	12,000	1,500	
*MISSOURI	1.5	- 6.0	⑩	1,000 -	9,000	2,100	4,200	2,100	
MONTANA (a)	2.0	- 11.0	⑩	2,200 -	75,400	1,720	3,440	1,720	
*NEBRASKA (a)	2.56	- 6.84	④	2,400 (l) -	26,500 (l)	94 (c)	188 (c)	94 (c)	
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only.								
NEW JERSEY	1.4	- 6.37	⑥	20,000 (m) -	75,000 (m)	1,000	2,000	1,500	
NEW MEXICO	1.7	- 8.2	⑦	5,500 (n) -	65,000 (n)	3,000 (d)	6,000 (d)	3,000 (d)	
NEW YORK	4.0	- 6.85	⑤	8,000 (b) -	20,000 (b)	0	0	1,000	
NORTH CAROLINA (o)	6.0	- 8.25	④	12,750 (o) -	120,000 (o)	3,000 (d)	6,000 (d)	3,000 (d)	
NORTH DAKOTA	2.1	- 5.54 (p)	⑤	27,050 (p) -	297,350 (p)	3,000 (d)	6,000 (d)	3,000 (d)	
OHIO (a)	0.743	- 7.5 (q)	⑨	5,000 -	200,000	1,200 (q)	2,400 (q)	1,200 (q)	
OKLAHOMA	0.5	- 7.0 (r)	⑧	1,000 -	10,000	1,000	2,000	1,000	
OREGON (a)	5.0	- 9.0	3	2,500 (b) -	6,250 (b)	145 (c)	290 (c)	145 (c)	
PENNSYLVANIA	2.8		1	----Flat rate----			-----None-----		
RHODE ISLAND	25.0% Federal tax liability (t)								
SOUTH CAROLINA (a)	2.5	- 7.0	⑥	2,400 -	12,000	3,000 (d)	6,000 (d)	3,000 (d)	
SOUTH DAKOTA	No State Income Tax								
TENNESSEE	State Income Tax is Limited to Dividends and Interest Income Only.								
TEXAS	No State Income Tax								
UTAH (a)	2.30	- 7.0	⑥	863 (b) -	4,313 (b)	2,250 (d)	4,500 (d)	2,250 (d)	
VERMONT	3.6	- 9.5	⑤	27,950 (v) -	307,050 (v)	3,000 (d)	6,000 (d)	3,000 (d)	
VIRGINIA	2.0	- 5.75	④	3,000 -	17,000	800	1,600	800	
WASHINGTON	No State Income Tax								
WEST VIRGINIA	3.0	- 6.5	⑤	10,000 -	60,000	2,000	4,000	2,000	
WISCONSIN	4.6	- 6.75 (w)	④	8,280 -	124,200	700	1,400	400	
WYOMING	No State Income Tax								

DIST. OF COLUMBIA 4.5 -

8.7	(x)	3
21		Total = 27

 10,000 - 40,000 1,370 2,740 1,370
100

Source: The Federation of Tax Administrators from various sources.

- (a) Eight states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Arkansas, Michigan, Nebraska and Ohio indexes the personal exemption amounts only.
- (b) For joint returns, the taxes are twice the tax imposed on half the income.
- (c) tax credits.
- (d) These states allow personal exemption or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemptions.
- (e) A special tax table is available for low income taxpayers reducing their tax payments.
- (f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over \$54,500.
- (g) The tax brackets reported are for single individuals. For married households filing separately, the same rates apply to income brackets ranging from \$500 to \$5,000; and the income brackets range from \$1,000 to \$10,000 for joint filers.
- (h) For joint returns, the tax is twice the tax imposed on half the income. A \$10 filing tax is charge for each return and a \$15 credit is allowed for each exemption.
- (i) Combined personal exemption and standard deduction.
- (j) Tax rate scheduled to decrease to 3.9% for tax years after 2003.
- (k) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$27,350 to over \$108,661.
- (l) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$4,000 to over \$46,750.
- (m) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$20,000 to over \$150,000.
- (n) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$8,000 to over \$100,000. Married households filing separately pay the tax imposed on half the income.
- (o) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$21,250 to \$200,000. Lower exemption amounts allowed for high income taxpayers. Tax rate scheduled to decrease after tax year 2003.
- (p) Rates reported are for short form filers. Long form filers rates range from 2.67% for income under \$3,000 to 12% over \$50,000. Long form filers only can deduct federal income taxes. An additional \$300 personal exemption is allowed for joint returns or unmarried head of households.
- (q) Plus an additional \$20 per exemption tax credit. Rate reported are for tax year 2002, the 2003 rates will not be determined until July, 2003.
- (r) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets ranging from \$2,000 to \$21,000. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
- (s) Deduction is limited to \$10,000 for joint returns and \$5,000 for individuals in Missouri and to \$5,000 in Oregon.
- (t) Federal Tax Liability prior to the enactment of Economic Growth and Tax Relief Act of 2001.
- (u) One half of the federal income taxes are deductible.
- (v) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$46,700 to over \$307,050.
- (w) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$11,040 to \$165,600. An additional \$250 exemption is provided for each taxpayer or spouse age 65 or over.
- (x) Tax rate decreases are scheduled for tax years 2004.



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Help ?

United States—Postal Information

State Abbreviations and State Postal Codes

Since the Postal Service instituted ZIP codes and their accompanying state postal codes in 1963, the two-letter abbreviations have steadily gained popularity. Though it is usually preferable to write out the full name, space constraints often require use of an abbreviation. When you have to use an abbreviation, the standard abbreviation is strongly preferred. The postal code abbreviation should be used only in mailing addresses.

State	Abbreviation	Postal code
Alabama	Ala.	AL
Alaska	Alaska	AK
Arizona	Ariz.	AZ
Arkansas	Ark.	AR
California	Calif.	CA
Colorado	Colo.	CO
Connecticut	Conn.	CT
Delaware	Del.	DE
Dist. of Columbia	D.C.	DC
Florida	Fla.	FL
Georgia	Ga.	GA
Guam	Guam	GU
Hawaii	Hawaii	HI
Idaho	Idaho	ID
Illinois	Ill.	IL
Indiana	Ind.	IN
Iowa	Iowa	IA
Kansas	Kans.	KS

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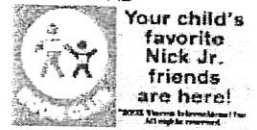
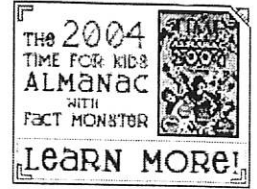
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Site Map

10-6

Kentucky	Ky.	KY
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Massachusetts	Mass.	MA
Michigan	Mich.	MI
Minnesota	Minn.	MN
Mississippi	Miss.	MS
Missouri	Mo.	MO
Montana	Mont.	MT
Nebraska	Nebr.	NE
Nevada	Nev.	NV
New Hampshire	N.H.	NH
New Jersey	N.J.	NJ
New Mexico	N.M.	NM
New York	N.Y.	NY
North Carolina	N.C.	NC
North Dakota	N.D.	ND
Ohio	Ohio	OH
Oklahoma	Okla.	OK
Oregon	Ore.	OR
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Puerto Rico	P.R.	PR
Rhode Island	R.I.	RI
South Carolina	S.C.	SC
South Dakota	S.D.	SD
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Texas	Tex.	TX
Utah	Utah	UT
Vermont	Vt.	VT
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Virgin Islands	V.I.	VI
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 ZIP Codes

10-7

Comparison of Kansas State Individual Income Taxes to those of Other States

1. **KS** =
 - a. 3.5 – 6.45 Tax Rate
 - b. 3 tax brackets
 - a. 15K-30K low and high brackets

Five State Region

2. **MO** =
 - a. 1.5-6.0 tax rate
 - b. 10 tax brackets
 - c. 1K - 9K low and high brackets
3. **NE** =
 - a. 2.56 – 6.84 tax rate
 - b. 4 tax brackets
 - c. 2.4K –26.5K low and high brackets
4. **OK** =
 - a. 0.5- 7.0 tax rate
 - b. 8 tax brackets
 - c. 1K –10K low and high brackets
5. **CO** =
 - a. 4.63 tax rate
 - b. 1 tax bracket
 - c. flat rate
6. **IA** =
 - a. 0.36- 8.98 tax rate
 - b. 9 tax brackets
 - c. 1,211K –54,495K low and high brackets

Number of State Having a Tax Rate higher than 6.45% and with 4 or more Tax Brackets

7. 18 states
 - a. AR, CA, HA, ID, IA, ME, MA, NE, NM, NY, NC, OH, OK, SC, UT, VT, WV, WI.

Number of States Having a Tax Rate Higher than 6.45%

8. 21 states
 - a. AR, CA, HA, ID, IA, ME, MN, MT, NE, NM, NY, NC, OH, OK, OR, SC, UT, VT, WV, WI, D.C.

Number of States with a Tax Rate Higher than 6.45% and with 3 tax brackets

9. 3 states
10. MN, OR, D.C.

Number of States with High Brackets above 30K (as in KS)

11. 16 states
 - a. AZ, CA, DE, HA, IA, LA, MN, MT, NJ, NM, NC, ND, OH, VT, WI, D.C.

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Resident Trusts (House Bill No. 2923)

Committee on Taxation

Testimony by

**Ace Rowley
Regional Trust Executive
Bank of America, NA**

March 23, 2004

HOUSE TAXATION

Attachment 11

Date 3-23-04

Good morning, Chairman Edmonds and members of the committee. My name is Ace Rowley. I am Bank of America's Regional Trust Executive for the Central Region that includes Kansas. On a national level, I am also a member of our company's Trust Policy and Fiduciary Executive Committees. I have worked in the trust industry for more than eight years. For eight years prior to that, I was a litigation attorney with the Kansas City law firm of Stinson, Mag and Fizzell.

My testimony in opposition to the Resident Trust portion of House Bill No. 2923 will focus on three areas. First, I will comment on the strengths of the present statute. The statute is not broken, and therefore, it does not need to be fixed. Second, I will comment on the significant compliance and enforcement burdens that would be created by the proposed bill. Third, I will comment on the unintended consequences the proposed bill may cause. House Bill No. 2923 may not generate any additional net revenue.¹

The Present Statute Embodies a Practical Taxing Policy

The current tax policy in K.S.A. Section 79-32,109(d) provides that if a trust is administered within Kansas, then Kansas income tax laws will apply to the trust. This approach gives all interested parties, including the Department of Revenue, what has been proven to be clear guidance regarding this issue. Indeed, the statute has never been challenged on constitutional or other grounds.

At its core, K.S.A. Section 79-32,109(d) is a practical taxing policy. Grantors and beneficiaries regularly choose to have their trusts administered in Kansas. They do so for a variety of reasons including a commitment to the people and institutions that make up Kansas. The individuals that choose to directly and continuously use Kansas resources expect to pay Kansas taxes. Kansas residents have relied on the current law to draft their documents and had an expectation that the law would apply to their trusts. As a result, Kansas' current tax policy in this area appears to be sound and reasonable.

The Proposed Amendment Will Present Compliance and Enforcement Difficulties

If Kansas adopts House Bill No. 2923, Kansas will be creating problems for itself and its residents. House Bill No. 2923, adds two new circumstances when Kansas will purport to tax trusts: (1) when a trust is created by will of a person domiciled in Kansas; and has at least one income beneficiary who, on the last day of the taxable year, was a resident of this state; or (2) when a trust is created by, or consisting of property of, a person domiciled in Kansas on the date that a portion or all of the trust becomes irrevocable; and has at least one income beneficiary who, on the last day of the taxable year, was a resident of this state. Under these circumstances, a decision to adopt House Bill No. 2923 must also be accompanied by an expectation that tax dollars will be spent to enforce and defend the new law.

¹ To simplify my testimony, I will use the term trust or trusts to refer to the types of non-grantor trusts that would be affected by this proposed amendment, which are testamentary trusts and inter vivos irrevocable trusts.

The administrative and enforcement challenges associated with changing the definition of resident trusts are significant. For instance, it will not always be clear where the residence of the trust creator is located. Many trusts are very old, and records are often lacking as to the state of residence of the creator at the time that the trust became irrevocable. Furthermore, some trusts have multiple creators, not all of whom are Kansas residents. Trusts are also scattered across the country, which would make it likely that more remote trustees would be unaware of this tax liability.

This change would create an administrative burden for a trustee to be required to know during the life of the trust where all of the income beneficiaries are at all times and what state they were a resident of on the last day of each taxable year.

From a tax enforcement standpoint, the Kansas Department of Revenue would face the same challenges as trustees in identifying trusts with Kansas creators and Kansas beneficiaries.

Unintended Consequences

*If Kansas adopts House Bill No. 2923, the cost of the unintended consequences may far outweigh any marginal increase in revenue that might be generated. The proposed amendment could trigger the following costs: *

- For individuals that desire to fashion an estate plan that is free from state income tax, the change in the law will create an incentive for such individuals to avoid residing in Kansas.
- For beneficiaries of existing trusts the change in the law will create an incentive for such individuals to avoid residing in Kansas or to leave the State.
- For individuals desiring to relocate a business or start a new business, the change in the law will create a disincentive for such individuals to make such investments in Kansas for fear that their future estate planning might be adversely impacted.
- For Kansas, the change in the law increases litigation and enforcement expenses as the law is challenged and creates uncertainty regarding its taxing authority in this area.

*These costs translate into a decline in revenue from income, sales and property taxes that might otherwise be earned from such individuals, a potential reduction in growth from lost investments in Kansas and a direct increase in tax enforcement and litigation expenses. In the face of these costs, the prospect of taxing some additional trusts, seems insignificant.

Even if additional trusts are taxed, this proposed bill will likely generate little if any additional income to the State. Most trusts are revocable and all income as well as gains are taxed in Kansas for a Kansas Resident, regardless of where the trustee is located. Second, in the case of irrevocable trusts, most do not accumulate income, so in this case a Kansas beneficiary is already paying the Kansas tax. There is no longer any significant tax reason to accumulate income in trusts, in fact there is a significant disincentive because of the very high rate of federal income tax on accumulations in trusts. In addition, trustees actively manage the amount of capital gains they realize within a trust. They use capital losses in the trust to offset those capital gains just as individual taxpayers would.

Thank you for your time in considering my comments. It is my hope that you will not adopt House Bill No. 2923.

Good morning, Chairman Edmonds and members of the committee. My name is Jack Ovel. I am an Executive Vice President of Commerce Bank, responsible for the trust services we provide in our West Region, which includes the state of Kansas. I also serve as a member of the Trust Executive Committee for Commerce. I have worked in the trust industry for over 30 years.

My testimony in opposition to House Bill #2923 will emphasize the minimal positive impact this bill might have in the short run. Secondly, I will comment on the unintended consequences of this bill, which I believe would be significant.

The Proposed Bill Would Have Minimal Positive Impact in the Short Run

When trusts pay income to beneficiaries who live in Kansas, those beneficiaries pay Kansas income tax on that income, regardless of where that trust is administered. However, when trusts accumulate income or realize capital gains, there is a federal income tax due which is to be paid by the trust. There could also be a state income tax due to be paid by that trust. *Determining which state has a claim to that trust is often a controversial issue. The issue on the table today is what should Kansas' policy be.*

The current Kansas tax policy makes that determination very easy. If the trust is administered in Kansas, then Kansas is entitled to an income tax on those capital gains and accumulated income. But the tax itself is not significant, for two reasons:

1. There is a huge disincentive for a trustee to accumulate the income in a trust today. Trusts pay a very high rate of federal income tax on accumulations in trust, so the vast majority of trust income is paid to the beneficiaries each year. In fact, the federal tax rate balloons to 35% at income levels beginning at \$9,350.
2. Trustees actively manage the amount of capital gains they realize within a trust. They use capital losses in the trust to offset those capital gains just as individual taxpayers do.

Conclusion: Even if the state of Kansas substantially increases, as this bill would, the number of trusts deemed to be resident trusts, the additional tax to be derived would not be significant. This is especially true when compared to the Kansas income tax already being paid on the income Kansas residents receive from trusts.

The Unintended Consequences of This Bill Could Be Significant

Kansas residents who currently pay the highest levels of state income tax are typically working with professionals who advise them on issues such as trust and estate planning. There is a growing awareness among these financial planners as to which states offer the most attractive tax environment. Changing residency is not a difficult process. I am very concerned that the bill you are considering would give these individuals a major reason to consider leaving Kansas.

Like all states, Kansas strives to attract new people to its communities, and wants to welcome people who are interested in investing in Kansas. This bill would ironically discourage both of those objectives.

HOUSE TAXATION

Attachment 12

Date 3-23-04

Anyone who is already a beneficiary of a trust would want to avoid a move to Kansas, since that would immediately subject that trust to a Kansas tax, no matter where the trust was administered. Here again, savvy advisors would warn their clients.

Secondly, if a trust anywhere in the country was interested in investing in Kansas property, this bill would discourage that, since it would automatically subject that trust to a Kansas tax, regardless of where the trust was administered.

Finally, the cost of pursuing a greatly expanded definition of resident trusts will be far in excess of any new revenue generated, in my opinion.

Conclusion: These unintended consequences are serious and significant for the state of Kansas. Furthermore, we do not believe that the additional tax revenue to be gained from passage of this bill would be meaningful. For these reasons it is my hope that you will not adopt House Bill No. 2923.

Thank you for providing me with this opportunity to address your committee.

Legislative Testimony

HB 2923

Tuesday, March 23, 2004

Testimony before the Kansas House Taxation Committee
By Marlee Carpenter, Vice President Government Relations

Chairman Edmonds and members of the committee;

The Kansas Chamber opposes HB 2923 which creates two new upper individual income tax brackets. This change would increase the cost of doing business in Kansas. Many businesses, especially small businesses file individual income taxes. This change comes at a time when all businesses are struggling. Increasing the cost of doing business for a segment of the business community is not the way to re-build the Kansas economy. To grow jobs in Kansas, business costs must be decreased, not increased as proposed in HB 2923.

While the Kansas Chamber does not have a specific position on the resident trust tax proposed in HB 2923, some of our members have concerns about these issues. From an economic development perspective, enacting resident trust provisions would not be good public policy for Kansas.

Again, we need to reduce costs for all businesses so that they can grow and expand. The Kansas legislature should focus on creating ways to grow the Kansas economy so that there are new taxpayers, not new taxes levied upon those already here.

Thank you for your time and I will be happy to answer any questions.

HOUSE TAXATION

Attachment 13

Date 3-23-04

The Kansas Chamber is the statewide business advocacy group, with headquarters in Topeka. It is working to make Kansas more attractive to employers by reducing the costs of doing business in Kansas. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have nearly 7,500 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, large and medium sized employers all across Kansas.



**THE KANSAS
CHAMBER**

The Force for Business

835 SW Topeka Blvd.

Topeka, KS 66612-1671

785-357-6321

Fax: 785-357-4732

E-mail: info@kansaschamber.org

www.kansaschamber.org

KANSAS

Statement by
Hal Hudson, Kansas State Director
National Federation of Independent Business
Before the
House Taxation Committee
Tuesday, March 23, 2004

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to discuss with you House Bill 2923.

As the Kansas economy appears to be moving slowly out of the slump of the past two years, please remember that the majority of new jobs in our state have been created by small business, while many large businesses have been engaged in downsizing and layoffs.

In response to our ballots and surveys, small and independent businesses that are members of NFIB/Kansas have consistently opposed new taxes and tax increases in any form. The majority of the NFIB/Kansas member firms are proprietorships, partnerships, or subchapter "s" corporations. As such, their business income taxes are paid by the owners as individuals.

House Bill 2923 would increase tax rate in each of the brackets for individual income taxes, and would add new brackets on the upper end.

At a time when many small businesses are being stressed by high property taxes, the burden of destination sourcing for collection and payment of sales taxes, and doubled franchise taxes, we urge you not to increase income taxes.

We urge you to report H.B. 2923 unfavorably.

Thank you for your consideration.

HOUSE TAXATION

Attachment 14

Date 3-23-04

KANSAS TAXPAYERS NETWORK
P.O. Box 20050
Wichita, KS 67209

www.kansastaxpayers.com
316-684-0082
FAX 316-684-7527

Testimony Opposing H.B. 2923

H.B. 2923 is flawed at a number of levels. In its current form, if enacted, we will see if Kansas can be as successful driving affluent Kansans who benefit from trusts out-of-state as we have been in removing retailers and retail sales from border areas and into neighboring states. Many Kansas businesses are still suffering since the legislature enacted the western Missouri Retail Development Act of 2002 (also known as the Graves \$300+ million tax hikes) that raised sales, gasoline, business, and a variety of excise taxes in Kansas.

*This bill creates a discriminatory income tax scheme that will create a separate and higher tax structure for trust income taxpayers. *This new maximum rate at 7.75% will be the highest in our five state region (Kansas and neighboring states). It also broadens the definition of beneficiary for tax purposes in an attempt to cover more Kansas trusts.

The bill would take this additional tax revenue and offset it with higher exemption and standard deductions for personal income taxpayers. This bill promotes income redistribution at a time that Kansas needs to be keeping all of the more affluent Kansans that we can keep instead of trying to provide additional incentives for these folks to move to Texas, Florida, Wyoming, South Dakota, Washington, New Hampshire, Tennessee, Alaska, or Nevada. These are all states that do not tax income.

One of the economic problems reported in Kansas concerns the inability of entrepreneurs in this state to locate and utilize venture capital for start ups and other small businesses with big dreams but small resources. This legislature regularly receives a variety of bills trying to get the state involved in picking out the top business prospects whether it is in the biotech area this year or NASCAR racetracks in past years. The state should not be trying to pick economic winners.

*If enacted, H.B. 2923 is unlikely to generate the additional trust income that would allow the increase in personal income tax deductions and exemptions. This bill will provide an additional incentive for affluent folks to move their legal residence out of Kansas. It will also provide a disincentive for the Kansans whose employment involves the creation, management, or fiduciary responsibilities for trusts to see the demand for their services drop as the beneficiaries of these trusts vote with their feet to leave this high tax state.

So Kansas Taxpayers Network's support for the increased deductions and exemptions contained in section 3 and 4 of this bill are totally offset by the first two flawed sections of H.B. 2923. This bill should be rejected by the Kansas legislature in its current form.

HOUSE TAXATION
Attachment 15
Date 3-23-04



The Historic Lackman-Thompson Estate

11180 Lackman Road
Lenexa, KS 66219-1236
913.888.1414
Fax 913.888.3770

TO: Representative John Edmonds, Chairman
Representative David Huff, Vice-Chairman
Members, House Taxation Committee

FROM: Ashley Sherard, Vice-President
Lenexa Chamber of Commerce

DATE: March 23, 2004

RE: **Opposition to HB 2923—New Income Tax Brackets
and Increases in Upper-Level State Income Tax Rates**

The Lenexa Chamber of Commerce would like to express its serious concerns regarding House Bill (HB) 2923, which would include creating two new state income tax brackets and increasing income tax rates at the upper levels.

Small businesses are a critical part of the Kansas economy. According to the U.S. Small Business Administration's most recent data, small businesses not only employ more than half of the state's non-farm sector workers, but they also create most of the job growth in Kansas. The income earned by these businesses generates millions of dollars in taxes and other investments.

HB 2923 would be very detrimental to small businesses in Kansas. **Many small businesses pay their income taxes at the upper levels of the individual income tax system. The income tax increases that would be caused by enacting HB 2923 would add to the heavy burden on small business employers at a time when the economy has only recently begun to recover, further discouraging growth and hiring. HB 2923 would also cause Kansas small businesses to be less competitive, particularly in the border regions, and substantially harm the state's long-term ability to attract and retain small businesses.**

In addition, there is also concern about the long-term impact of the provisions in HB 2923 regarding resident trusts.

Because we believe HB 2923 would be detrimental to the state's economic recovery and its ability to attract and retain small businesses, the Lenexa Chamber of Commerce strongly urges the committee not to recommend HB 2923 for passage. Thank you for your time and attention to this issue.

HOUSE TAXATION

Attachment 16

Date 3-23-04



TO: Representative John Edmonds, Chair
Members, House Taxation Committee

FROM: Wes Ashton, Director of Government Relations
Overland Park Chamber of Commerce

DATE: March 22, 2004

RE: **HB 2923- Taxation relating to resident trusts; imposition of taxes;
classes of taxpayers; standard deductions; personal exemptions.**

The Overland Park Chamber of Commerce would like to express its opposition to HB 2923, which would require the creation of a new resident trust tax and new income tax brackets for personal income. The Chamber believes that this is crucial legislation that could have a severe impact on the citizens and businesses of Kansas.

The chamber is primarily concerned with the creation of additional income tax brackets contained in this bill. This policy is strongly opposed because of its detriment to the citizens and businesses of Kansas. Any economic recovery would be hindered or delayed by creating an increase of this magnitude. Further, this would likely be harmful to small business owners that would be classified under these new brackets.

Although the chamber has not taken a position on the resident trust tax, there are some members that would likely oppose passage of this policy. The members involved in the area of economic development would likely view the resident trust tax as poor public policy for Kansas as considered by current or potential residents to the state. With such a close proximity to the state line, this policy could be of further detriment to the state when in comparison to our neighboring states.

For all the foregoing reasons, the Overland Park Chamber of Commerce strongly opposes HB 2923 for passage. Thank you for your time and attention to this issue.

For any further information, please contact the Chamber at 913-491-3600 or washton@opks.org.

HOUSE TAXATION
Attachment 17
Date 3-23-04

Testimony for the House Taxation Committee
 March 23, 2004
 By Christy Caldwell, Vice President Government Relations
 Greater Topeka Chamber of Commerce

P.785.234.2644 F.785.234 8656
 www.topekachamber.org
 topekainfo@topekachamber.org

The Greater Topeka Chamber of Commerce would like to express our opposition to HB 2923 regarding the creation of new upper income tax rates.

Last May the Department of Revenue and the Kansas Chamber of Commerce and Industry held a joint tax conference here in Topeka. One chart provided compared Kansas with its surrounding states concerning "Total Taxes Per Capita, 2001", I have attached the chart. One of the interesting points made was that Kansas taxes per capita are the highest in the region; and that Kansas ranks 25th within the nation as a whole. When looking specifically at "Individual Income Tax as a Percent of State Revenue, 2001", Kansas collects a larger share of total state revenue from income taxes than the US average; the share of income tax collected has risen from 37.5% in 1998 to 39.8% in 2001.

Kansas Inc. in their "Business Taxes and Costs: A Cross State Comparison 2003 Update" provide the following chart:

**Table 2 -1:
 State Individual Income Tax Rates, Tax Year 2003**

State	Marginal tax rates:		Number of Brackets	Highest marginal tax rate begins at:			Head of HH Bracket
	Lowest Tax Rate	Highest Tax Rate		Single Bracket	Married Joint Bracket	Married Separate Bracket	
Colorado	4.63%	4.63%	Flat Rate	-0-	-0-	-0-	-0-
Iowa*	0.36%	8.98%	9	\$55,080	\$55,080	\$55,080	\$55,080
Kansas	3.50%	6.45%	3	\$30,000	\$60,000	\$30,000	\$30,000
Missouri ¹	1.50%	6.00%	10	\$9,000	\$18,000	\$9,000	\$9,000
Nebraska**	2.56%	6.84%	4	\$26,500	\$46,750	\$23,375	\$35,000
Oklahoma (with or without the optional deduction for federal tax):							
with	0.50%	10.00%	11	\$16,000	\$24,000	\$16,000	\$24,000
without***	0.50%	7.00%	8	\$10,000	\$21,000	\$10,000	\$21,000
compare:							
federal****	10.0%	35.0%	6	\$311,950	\$311,950	\$155,975	\$311,950

¹The cities of Kansas City and St. Louis, Missouri impose an additional tax of 1% of earnings.

*Iowa brackets have moved upwards since 2001 as a result of indexation.

**Nebraska rates have increased somewhat since 2001.

***Oklahoma tax rates have increased slightly since 2001, but only when not claiming the federal tax deduction.

****Federal brackets have moved upward since 2001 and marginal rates have been reduced.

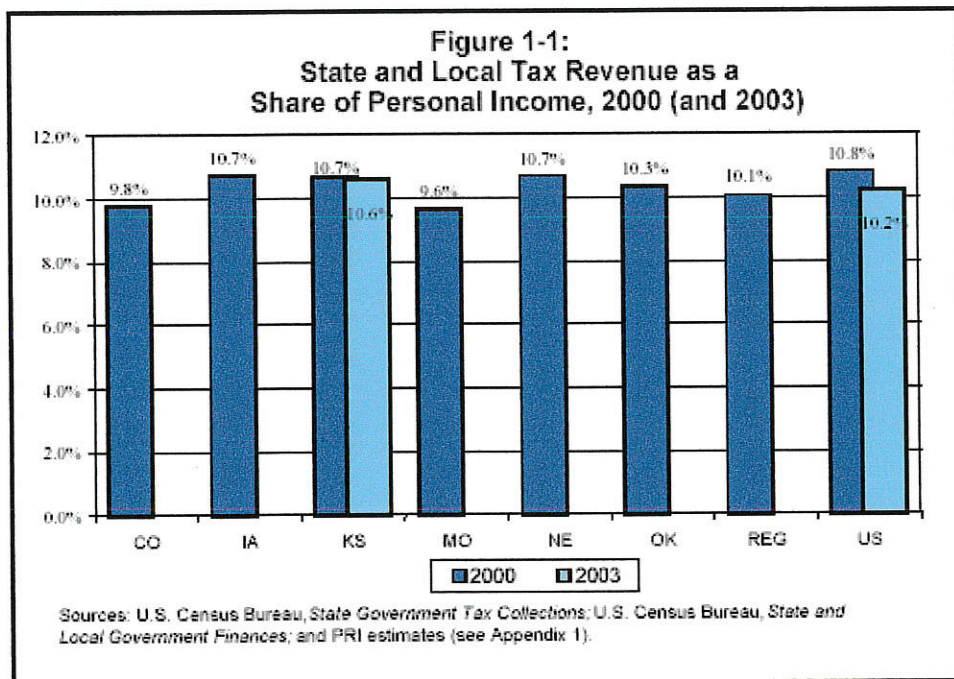
SOURCES: Information provided by state departments of revenue and finance (2002 personal income tax forms, instructions, and tax tables, 2003 estimated tax forms), state statutes, Russell [2001]

In looking at the above chart at the Highest Marginal Tax Rate for Married Joint Bracket, if Kansas should impose higher rates of 7.50% and 7.75%, we will have the highest tax rates in the region, with the exception of Iowa and in some cases Oklahoma. Kansas, Inc. reports:

State and local individual income taxes affect business in two ways. First, many businesses are organized as partnerships or sole proprietorships, and hence pay taxes at individual rather than corporate rates. Second, income taxes affect the business location decisions of corporate planners who are considering expansions or relocations, as those taxes affect the cost of living for employees and managers. Individuals with high incomes may be reluctant to relocate to a high tax area unless compensation increases. Because of these links between economic development and individual taxes, we discuss them in this chapter. However, these taxes are not part of the cost of business as usually defined and are not included in cost of business estimates in Chapter 9.

In recent years, individual income taxes have provided around a quarter of state plus local tax revenue in Kansas. The same is true in all five nearby states and in all states of the U.S. as a whole (Figure 2-1). However, the share in both Kansas and the U.S. dropped abruptly by around 3 percentage points between 2000 and 2003. As discussed in Boyd [2000] and Sjoquist and Wallace [2003], a major cause for this drop was the drastic decline in capital gains income that occurred after the stock market crash.

Kansas Inc. recommends in this report that to insure the ongoing competitiveness in the region, *no major overhaul* is required of the tax system of Kansas. Kansas tax collections amounted to \$3,068 per capita, which is higher than the regional average of \$2,914.



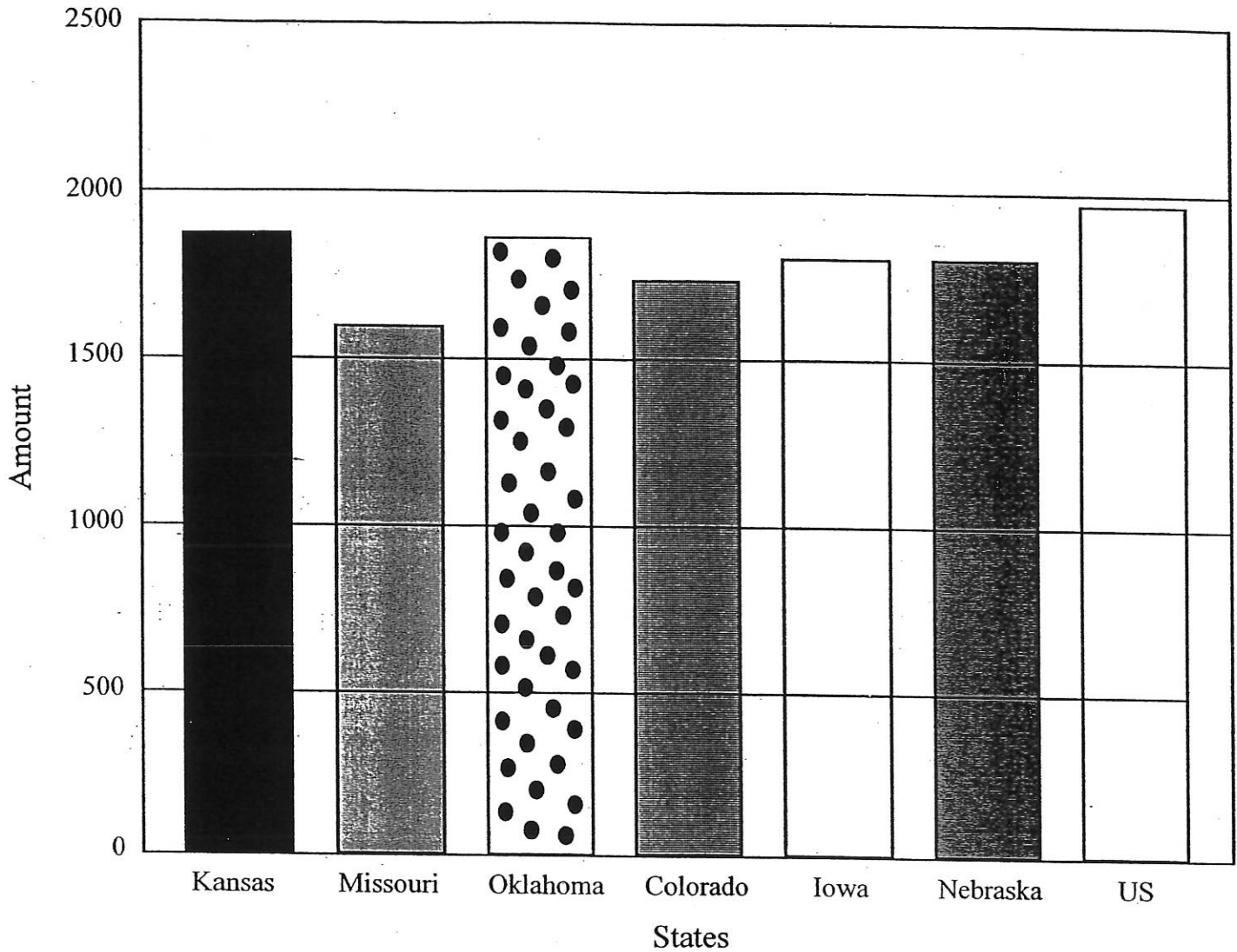
If you look at the chart above, Kansas 10.6% of tax revenue as a share of personal income is higher than Colorado, Missouri, Oklahoma, and the 2003 US average.

We believe it is not advisable for the state to consider raising income tax rates and brackets. We continue to have businesses closing their doors in Topeka as many of you have seen happen elsewhere in the state. We believe the state should be making every attempt to make Kansas an attractive state for businesses to thrive and grow, and for new business to want to locate. The legislature appears to be on the verge of creating incentives for the bioscience industry, we have all heard about the need to position the state well to attract scientists to Kansas. Creating higher income tax rates, in our mind, will not make our state more attractive.

It is also very important to keep in mind that many of our Kansas small businesses pay personal income taxes rather than corporate income taxes; in this time of “hoped-for” economic recovery, increasing the tax burden for small business is not advisable.

Mr. Chairman and Committee, we ask that you not advance HB 2923. Thank you.

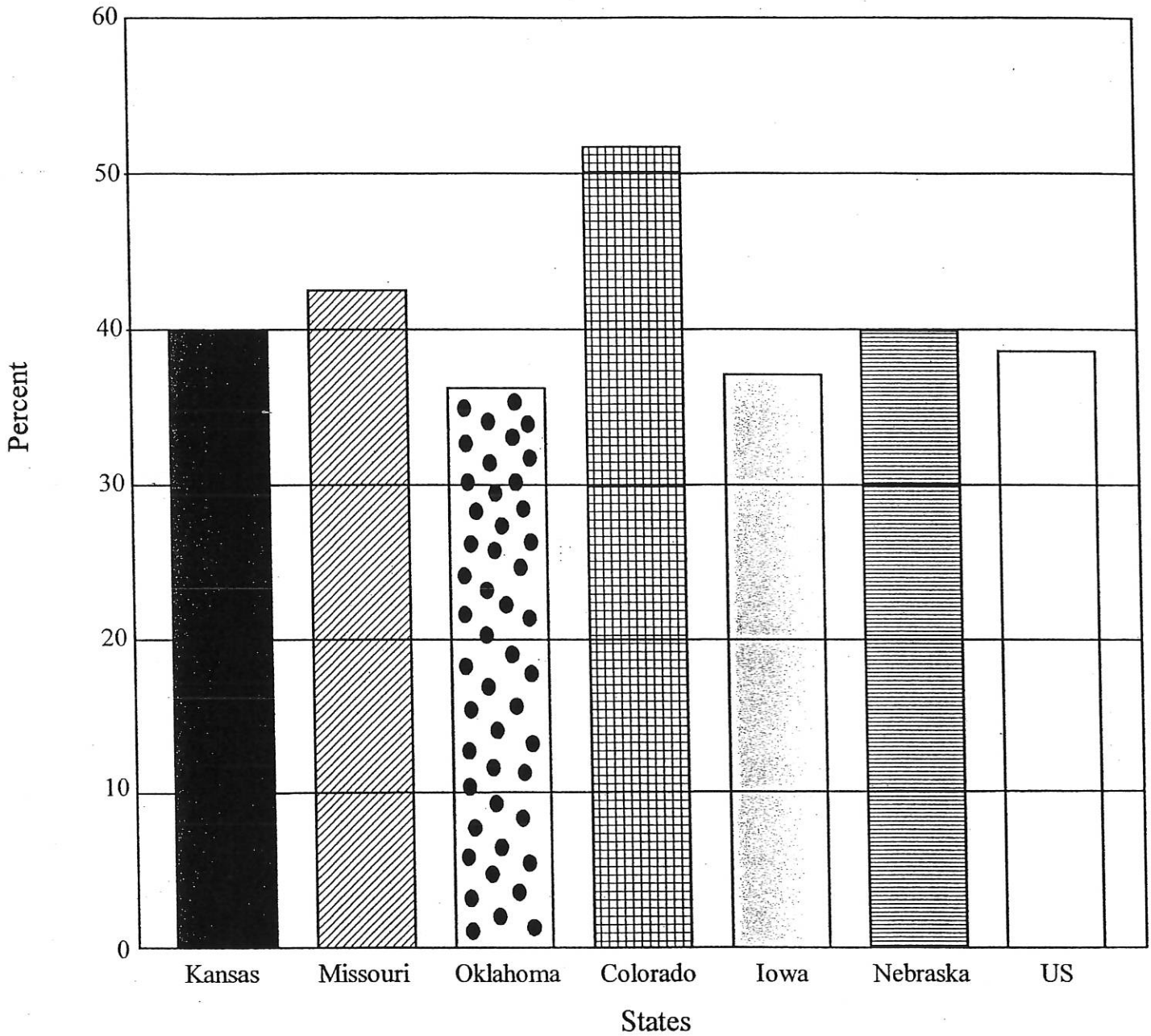
Total Taxes Per Capita, 2001



Source: US Census Bureau, States Ranked by Total Taxes and Per Capita Amount, 2001

- Kansas' taxes per capita are the highest in the region. These figures were calculated before the tax increase passed during the 2002 Legislative Session.
- Within the nation as a whole, Kansas ranks 25th, slightly lower than the average for all states.

Individual Income Taxes as a Percent of State Revenue, 2001



Source: Federation of Tax Administrators, 2001 State Tax Collection by Source

- Kansas collects a larger share of total state revenue from income taxes than the US average.
- The share of income tax collected has risen from 37.5% in 1998 to 39.8% in 2001. Kansas no longer collects the lowest share of state revenue from income tax as compared with the region.



Wichita Independent Business Association

THE VOICE OF INDEPENDENT BUSINESS

Written Testimony on HB 2923
House Taxation Committee
March 22, 2004

Chairman Edmonds and Honorable Committee Members,

I am Natalie Bright and I am appearing on behalf of the members of the Wichita Independent Business Association (WIBA) in opposition to HB 2923.

As all of you know, the economic recovery in Wichita remains slow and many of the WIBA businesses have suffered significant economic losses over the last few years. Though we are hopeful the economic downturn is over, we are concerned additional taxes will slow the economic recovery.

In December, the members of WIBA were asked what the Kansas Legislature could do to help them grow their businesses. Overwhelmingly, the number one response was to reduce the tax and regulatory burden. As such, I am here to oppose the individual income tax increases set out in HB 2923. Such increases in personal income tax will disproportionately hurt small business who frequently pay at the individual rate. Many of our members are running on very thin profit margins and even the slightest increase in business expenses will force them to close their business. Though the economy in Wichita is beginning to rebound, additional taxes will only make it tougher for them to hire new or retain employees, pay a competitive wages, or continue to provide benefits such as health care or for some even keep their doors open.

Thank you for the opportunity to submit testimony to you today.

HOUSE TAXATION

Attachment 19

Date 3-23-04