

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 26, 2005 in Room 519-S of the Capitol.

Committee members absent: Representative Gordon - excused
Representative Goico - excused
Representative Larkin - excused

Committee staff present: Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Representative Bob Bethall, Legislator
Representative O'Malley, Legislator
Senator Dennis Wilson, Legislator
Richard Cram, Director of Policy & Research, Department of Revenue
Carmen Alldritt, Director of Motor Vehicles
Roger Hamm, Technical Support, Personal Property
April Holman, Kansas Action For Children

Others attending:
See attached list.

The Chairman opened the floor for bill introductions.

Representative O'Malley moved that a bill be introduced relating to a sales tax exemption for the Skills USA Education Resource Organization. Representative Owens seconded the motion. The motion carried.

Representative O'Malley moved that a bill be introduced to create an individual development account program for low income Kansans. Representative Owens seconded the motion. The motion carried.

April Holman, Kansas Action For Children, requested the following three bills, designed to provide more transparency in Kansas Tax System, be introduced as Committee bills:

1 The Department of Revenue would be required to do a tax expenditure report annually 2 The Department of Revenue would be required to do a tax incidence analysis every three years 3 In special circumstances where an entity received \$20 million or more in tax incentives in one year they would be required to make tax payers specific information public. Representative Kirk moved that all three requests be introduced. Representative Carlin seconded the motion. The motion carried.

Representative Brunk moved that a bill be introduced relating to franchise taxes. Representative Siegfried seconded the motion. The motion carried.

HB 2057 - Amends K.S.A. 79-5105 relating to the valuation of rebuilt salvage or formerly nonhighway titled vehicles for personal property taxation.

Mr. Courtwright stated the bill would amend the motor vehicle tax valuation statute, to provide a reduction of 25% in the original midpoint class valuation amounts for certain vehicles with rebuilt salvage titles, or which formerly had nonhighway titles. The Department of Revenue (DOR) fiscal note indicated the bill could reduce motor vehicle taxes by \$2,500,000 for the first year and could grow by that amount for all subsequent years. He reviewed history of a similar bill last year.

The Chairman opened the public hearing on **HB 2057**.

Representative Bethall, sponsor of **HB 2057**, stated a vehicle that has a salvage title does not command the price or the valuation that DOR places on it (Attachment 1). The bill would reduce the value of the vehicle to 75% of the undamaged vehicle and consequently reduce the personal property tax. A scenario was given using current law verses changes under the new law.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 26, 2005 in Room 519-S of the Capitol.

Senator Dennis Wilson appeared before the Committee as an opponent to **HB 2057**. (No written testimony) He holds the position of Johnson County Treasurer and appeared today on their behalf. He stated that although the intent of the bill is well-meaning, it could have unintended consequences at the county level. He yielded his time to Carmen Alldritt, Director of Motor Vehicles, who in turn invited Richard Cram to brief the Committee on the bill.

Richard Cram, introduced Roger Hamm, who was familiar with the mass appraisal system that is used to determine the personal property tax on motor vehicles. Mr. Cram reviewed current law and ramifications to the state and counties if **HB 2057** passed (Attachment 2). There was no fiscal impact to the state, however there would be significant impact on the counties for county property tax. Numerous questions were raised on *salvage* and to that end Mr. Cram stated that he would provide a memo that listed criteria for *salvage vehicle titles*.

Mr. Cram offered a balloon amendment, listed on page 5 and 6 of his testimony. This amendment would avoid the need to completely reprogram VIPS (vehicle information processing system), a software system that connects all the county treasurers to the PVD department and motor vehicles. As the bill is drafted PVD would be unable to implement the process by July 1, 2005, however with their suggested amendment they could comply.

Staff explained various problems that would occur at the county level, such as periodic failure of the VIPS system on an on-going basis. Discussion followed regarding various classifications of vehicles, problems of reprogramming VIPS, and possible solutions or compromises for compliance. Mr. Cram agreed to supply additional information from Information Services on the issue. In response to the Chairman's question regarding the Department's support of the bill, Mr. Cram suggested the important policy question was whether they wanted to move away from a mass appraisal system, that has been in place since the 80's. There is no official proposal to replace the VIPS at this time. In response to questions on classifications of off-road and rebuilt salvage vehicles, Mr. Cram agreed to supply additional information to the Committee.

The Chairman closed the public hearing on **HB 2057**.

Representative Thull moved to recommend **HB 2040** favorable for passage and, because the bill is of a noncontroversial nature, be placed on the consent calendar. Seconded by Representative Huff. The motion carried.

Representative Huff moved that **HB 2031** be passed out favorably. Representative Owens seconded the motion. The motion carried.

Representative Dillmore moved that the minutes from January 18, 19 & 20th be approved. Representative Brunk seconded the motion and the motion carried.

The meeting was adjourned at 10:10 a.m. The next meeting is January 27, 2005.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: Jan. 26, 2005

NAME	REPRESENTING
Carmen Allaritt	KDOR - Vehicles
Diane Albert	" "
Ann Surkes	DOR
Koop & Lott	Ks taxpayers Network
Roger Hamm	B KDOR/PVD
Adam Azeltine	Intern - Kelley
John A. Dunley	KS Livestock Assoc.
April Holman	Kansas Action for Children
Deann Williams	KS MOTOR CARRIERS ASSOC.
Judy Shaw	KARA
MAT HANSON	Sen Dennis Wilson
Dennis Gels	Sen
Bob Hinton	Post Audit
David R. Corbin	KDOR
Tom PALACE	PMCA OF KANSAS
Mike Rea et	Saches Braden
Marie Carpenter	Kansas Chamber

BOB BETHELL
STATE REPRESENTATIVE, 113TH DISTRICT
104 E. THIRD, P.O. BOX 186
ALDEN, KS 67512
(316) 534-3085
FAX 316-534-3086



COMMITTEE ASSIGNMENTS
MEMBER: EDUCATION
HEALTH & HUMAN SERVICES
SOCIAL SERVICES BUDGET COMMITTEE
STATE CAPITOL—ROOM 175-W
TOPEKA, KS 66612-1504
785-296-7667

TOPEKA

Testimony for HB 2057

Good morning Mr. Chairman and members of the House Taxation Committee. I am Bob Bethell representative of the 113th District of Kansas.

I am here this morning to support the hearing and passage of HB 2057. This bill deals with a subject that has for sometime been a problem for many of the citizens of Kansas, if a vehicle has been “totaled” by an insurance company a “salvage” title is issued for that vehicle by the State. In some instances the vehicle is not beyond repair it is determined by the insurance company to be more costly than they wish to invest.

This totaling may be for many reasons, what is thought to be excessive miles, labor, explosion of air bags to name a few. In some of these cases the vehicle may be purchased and repaired by a competent individual or business and returned to the highways as safe as or safer than when it was originally manufactured.

The problem is once the vehicle has a “Salvage” title it will always have a “Salvage” title, and the value of the vehicle is reduced. However the State continues to access the same taxes as if it had a clean title. HB 2057 will reduce the value of the vehicle to 75% of the undamaged vehicle and consequently reduce the personal property tax as well.

Mr. Chairman, I will stand for any questions. Thank you for allowing me this time.



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
POLICY AND RESEARCH

KATHLEEN SEBELIUS, GOVERNOR

January 26, 2005

Testimony to House Taxation Committee on House Bill 2057

Richard Cram
Carmen Alldritt

House Bill 2057 would provide for a 25% reduction in the mid-point values for vehicles titled as rebuilt salvage or formerly titled as "nonhighway" for personal property tax purposes. Attached is a copy of the Department's fiscal note, as well as a suggested balloon amendment, if the Committee considers this bill.

As the fiscal note indicates, although House Bill 2057 has no fiscal impact on state revenues, it cause an estimated \$2.5 million reduction in revenues at the county level in the first full fiscal year after implementation. It also presents several administrative problems for the Department and County Treasurers, as described more fully in the "Administrative Problems and Comments" portion of the fiscal note. As a practical matter, due to the amount of re-programming and testing needed to modify the VIPS (the vehicle information processing system, which is accessible by all County Treasurers) to accommodate this proposal, it cannot be implemented by the effective date, July 1, 2005.

Programming and implementation costs could be reduced by at least 75% and the bill could be implemented by the July 1, 2005 effective date, if the bill were modified (as suggested in the attached balloon amendment) to call for a 25% reduction in the property tax on a rebuilt salvage or formerly nonhighway vehicle, instead of calling for a 25% reduction in the mid-point value.

Even with this modification, implementation of the bill will present administrative problems at County Treasurer offices. If VIPS is down, County Treasurers will have difficulty in determining the correct amount of property tax for affected motor vehicles at the time of registration. It will also be impossible to determine the existing title brand of the vehicle. Generation of accurate renewal notices for these vehicles will not be possible. Online renewals for these vehicles will not process.

Hs Taxation Committee

DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA, January 26, 2005

Voice 785-296-3081 Fax 785-296-7928

<http://www.ksrevenue.gov> Attachment 2

MEMORANDUM

To: Mr. Duane Goossen, Director
Division of Budget

From: Kansas Department of Revenue

Date: 01/24/2005

Subject: House Bill 2057
Introduced as a House Bill

Brief of Bill

House Bill 2057, as introduced, amends K.S.A. 79-5105 relating to the valuation of rebuilt salvage or formerly nonhighway titled vehicles for personal property taxation purposes.

The statute is amended to provide for a reduction of the mid-point value by 25% for vehicles titled as rebuilt salvage or as formerly nonhighway due to wrecked or damaged, or flood or fire.

The effective date of this bill would be July 1, 2005.

Fiscal Impact

The Division of Vehicles reports that approximately 50,000 were titled during calendar year 2004 which would meet the qualifications contained in this bill. It is estimated that, if the average property tax on these vehicles would be \$200 under current law, that average tax would fall to \$150 per vehicle under the proposal contained in this bill. This would result in a fiscal impact approaching \$2.5 million in the first full year (50,000 x \$200 x .25). With the July 1st implementation, assuming the Department could meet that date (not possible according to the Division of Vehicles), the calendar year 2005 impact would be approximately \$1.25 million.

It should be noted that this reduction in motor vehicle property tax collections will be at the county level and will not significantly affect State tax revenues. It should also be mentioned that, if current trends hold true, in each subsequent calendar year an additional 50,000 vehicles could qualify for reduced property taxes.

Administrative Impact

The estimated IS resources necessary to implement this bill are 1,000 hours/days of in-house APA time. If the combined impact of implementing all changes from enacted legislation affecting the Department of Revenue exceeds the Department's programming resources, or if the time period for implementing such changes is sufficiently short, expenditures for contract

programmer services, which are beyond the Department's budget, may be required.

The Division of Vehicles Title & Registration Bureau reports it would need 2 Administrative Specialists for 40 days each to test the rewritten VIPS programs (\$12,080); 10 days of travel each for 2 Administrative Specialists to travel across the State to train county treasurer personnel (\$3,020); and a 6-week rental of a vehicle @ \$174.00 per week (\$1,040).

Administrative Problems and Comments

House Bill 2057 has an implementation date of July 1, 2005. This creates two problems: 1) the department cannot complete the new programming and testing by this date, and; 2) this will create two different tax structures for the same property within the same registration cycle. Owner's of rebuilt salvage vehicles will pay 25% less property tax in the last half of the 2006 registration period than owner's of the same year, make and model rebuilt salvage vehicle paid in the first half of the 2006 registration period.

The Division is currently converting nonhighway and formerly nonhighway titles due to wrecked or damaged, fire or flood to salvage or rebuilt salvage with the same reason.

It should be noted that Article 1 of chapter 8 does not have a definition of the term "formerly nonhighway".

The bill does not address when the new rate is to be applied. If a vehicle was titled on a clear title at the time the registration renewal was submitted then sometime during the registration period (6 months later for example), the vehicle was retitled as salvage, repaired and retitled as rebuilt salvage, would the tax have to be recomputed to take into account the new rebuilt salvage title or is the tax to be applied to the title type at the time of application for original title and registration and/or registration renewal?

If a rebuilt salvage vehicle is designated as salvage again after having the mid-point changed does the 25% reduction still apply or does it return to the value it had previously?

The bill, as written, will require a great deal of programming changes and testing. If the verbiage were changed to require that the amount of property tax calculated for a vehicle were to be reduced by 25% when a vehicle is titled as rebuilt salvage or nonhighway with the stated reasons, then the programming would only have to reduce the final total, not create two new separate programs.

The county treasurers will have a difficult time calculating property tax if the VIPS system is down and they cannot determine if a vehicle is titled as rebuilt salvage or nonhighway with the proper reason.

This change may result in problems with the registration renewal notice property tax calculations providing customers with inaccurate figures on the renewal notice.

Taxpayer/Customer Impact

House Bill 2057 will be a benefit for owners of rebuilt salvage and formerly nonhighway vehicles by reducing their property tax amount by approximately the same amount as the retail

price of a vehicle is reduced due to the brand. There could be a slight increase in this type of branded vehicle because of the long-term tax savings.

Without a clear indication of when the tax is to be reduced, a customer would want to take advantage of the reduced tax and request a refund in the middle of the registration period.

The renewal notice calculations would be providing the customers with inaccurate figures on the renewal notice if the vehicle's salvage status changed between renewal notice and date of title application.

Legal Impact

Approved By:

A handwritten signature in black ink that reads "Joan Wagnon". The signature is written in a cursive, flowing style with a large initial 'J'.

Joan Wagnon
Secretary of Revenue

HOUSE BILL No. 2057

By Committee on Taxation

1-13

9 AN ACT concerning personal property taxation; relating to valuation of
10 rebuilt motor vehicles; amending K.S.A. 79-5105 and repealing the
11 existing section.
12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 79-5105 is hereby amended to read as follows: 79-
15 5105. (a) A tax is hereby levied upon every motor vehicle, as the same is
16 defined by K.S.A. 79-5101, and amendments thereto, in an amount which
17 shall be determined in the manner hereinafter prescribed, except that:
18 (1) (A) For 1995, the tax on any motorcycle shall not be less than \$6 and
19 the tax on any other motor vehicle shall not be less than \$12; and (B) the
20 tax on each motor vehicle the age of which is 15 years or older shall not
21 be more than \$12; and (2) for 1996, and each year thereafter: (A) The
22 tax on any motorcycle shall not be less than \$12 and the tax on any other
23 motor vehicle shall not be less than \$24, except as otherwise provided by
24 clause (B) and (C); (B) the tax on any motorcycle the model year of which
25 is 1980 or earlier shall be \$6 and the tax on any other motor vehicle the
26 model year of which is 1980 or earlier shall be \$12; and (C) if the tax on
27 any motorcycle in 1995 was more than \$6 but less than \$12, the tax shall
28 be determined for 1996 and each year thereafter in the manner herein-
29 after prescribed but shall not be less than \$6, and if the tax on any other
30 motor vehicle in 1995 was more than \$12 but less than \$24, the tax shall
31 be determined for 1996 and each year thereafter in the manner herein-
32 after prescribed but shall not be less than \$12.

33 (b) The amount of such tax on a motor vehicle shall be computed
34 by: (1) Determining the amount representing the midpoint of the values
35 included within the class in which such motor vehicle is classified under
36 K.S.A. 79-5102 or 79-5103, and amendments thereto, except that: (A)
37 The midpoint of class 20 shall be \$21,000 plus \$2,000 for each \$2,000 or
38 portion thereof by which the trade-in value of the vehicle exceeds
39 \$22,000; and (B) in tax year 2006 and thereafter, a motor vehicle for
40 which a rebuilt salvage title, as defined in K.S.A. 8-197, and amendments
41 thereto, or a formerly nonhighway title, branded as wrecked or damaged,
42 flood or fire, has been issued, the midpoint amount shall be reduced by
43 an amount equal to 25%; (2) if the model year of the motor vehicle is a

delete

1 year other than the year for which the tax is levied, by reducing such
 2 midpoint amount by an amount equal to 16% in 1995, and all years prior
 3 thereto, and 15% in 1996, and all years thereafter, of the remaining bal-
 4 ance for each year of difference between the model year of the motor
 5 vehicle and the year for which the tax is levied if the model year of the
 6 motor vehicle is 1981 or a later year or (B) the remaining balance for
 7 each year of difference between the year 1980 and the year for which the
 8 tax is levied if the model year of the motor vehicle is 1980 or any year
 9 prior thereto; (3) by multiplying the amount determined after application
 10 of clause (2) above by 30% during calendar year 1995, 28.5% during the
 11 calendar year 1996, 26.5% during the calendar year 1997, 24.5% during
 12 the calendar year 1998, 22.5% during the calendar year 1999, and 20%
 13 during all calendar years thereafter, which shall constitute the taxable
 14 value of the motor vehicle; and (4) by multiplying the taxable value of the
 15 motor vehicle produced under clause (3) above by the county average tax
 16 rate.

17 (c) The "county average tax rate" means the total amount of general
 18 property taxes levied within the county by the state, county and all other
 19 taxing subdivisions levying such taxes within such county in the second
 20 calendar year before the calendar year in which the owner's full registra-
 21 tion year begins divided by the total assessed tangible valuation of prop-
 22 erty within such county as of November 1 of such second calendar year
 23 before the calendar year in which the owner's full registration year begins
 24 as certified by the secretary of revenue, except that: (1) As of November
 25 1, 1994, such rate shall be computed without regard to 11.429% of the
 26 general property taxes levied by school districts pursuant to K.S.A. 72-
 27 6431, and amendments thereto; (2) as of November 1, 1995, such rate
 28 shall be computed without regard to 31.429% of the general property
 29 taxes levied by school districts pursuant to K.S.A. 72-6431, and amend-
 30 ments thereto; (3) as of November 1, 1996, such rate shall be computed
 31 without regard to 54.286% of the general property taxes levied by school
 32 districts pursuant to K.S.A. 72-6431, and amendments thereto; (4) as of
 33 November 1, 1997, such rate shall be computed without regard to 70.36%
 34 of the general property taxes levied by school districts pursuant to K.S.A.
 35 72-6431, and amendments thereto; and (5) as of November 1, 1998, and
 36 such date in all years thereafter, such rate shall be computed without
 37 regard to the general property taxes levied by school districts pursuant to
 38 K.S.A. 72-6431, and amendments thereto.

39 Sec. 2. K.S.A. 79-5105 is hereby repealed.

40 Sec. 3. This act shall take effect and be in force from and after its
 41 publication in the statute book.

j (5) in tax year 2006 and thereafter, a motor vehicle for
 which a rebuilt salvage title, as defined in K.S.A. 8-197,
 and amendments thereto, or a formerly nonhighway title,
 branded as wrecked or damaged, flood or fire, has been
 issued, the personal property tax levied upon such motor
 vehicle pursuant to this subsection shall be
 reduced by 25%.