

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 18, 2006 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, Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Secretary Joan Wagnon

Others attending:

See attached list.

The Chairman called for bill introductions.

Representative Brunk made a motion to introduce a bill regarding a capital gain exemption on the sale of used machinery as applied to new machinery. Representative Siegfried seconded the motion. The motion carried.

HB 2619 - Property tax exemption for certain commercial and industrial machinery and equipment, materials and supplies.

The Chairman invited Secretary Wagnon to the podium to brief the Committee on **HB 2619**. She introduced KDOR staff members: Mark Beck, Director of Property Valuation; Tony Folsom, Deputy Director of Property Valuation; and Roger Hamm, who works with county appraisers. She said they would be available to provide detailed information during the briefing, as well as answer Committee members questions at a later date.

Secretary Wagnon said the purpose of the bill was to promote and stimulate economic development and the prosperity of the state of Kansas by assisting existing businesses to grow and prosper, and making Kansas an attractive place for relocating or starting a new business (Attachment 1). She reviewed Section One which exempts from property taxes all commercial and industrial machinery and equipment that is *newly purchased* or leased after January 1, 2007; and Section Two a proposal to raise the de minimus exemption from the current \$400 to \$1000.

In drafting the bill an important component was inadvertently left out, which allows the county to approve an exemption in the same manner as agriculture machinery and household goods, etc. This additional language circumvents the process of going through the Board of Tax Appeals. There will be an amendment offered to address that issue at the appropriate time.

Wagnon explained the following: (1) Charts on statewide machinery and equipment value including IRB and EDX; (2) Taxable value growth; (3) Definition of business machinery and equipment exemptions; (4) Commercial and industrial/machinery and equipment value listed by county and; (5) Statistics reflecting the dollar amount in the event that all commercial and industrial machinery and equipment would be totally exempt.

Responding to various Committee member requests, Secretary Wagnon agreed to provide the following information at the January 19 meeting that would clarify: (1) Current process in the Constitution compared to how it would change if **HB 2619** were passed (diagram form); (2) Definition of leases; (3) Data reflecting what amounts are currently paid on machinery and equipment compared to those that would be paid if **HB 2619** were to pass; (4) Information on Ohio's similar legislation regarding major structural changes in business tax laws, as well as any other state that has undergone similar changes (5) data on the impact on the local option sales tax; (6) Historical data by county for individual Committee members regarding the assessed value of Commercial/Industrial and Machinery/Equipment.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 18, 2006 in Room 519-S of the Capitol.

The Chairman noted that there was an upcoming study, expected as early as next week, that would reflect the benefit of **HB 2619** to Kansas cities and counties.

The Secretary referenced the Governor's announcement of the proposed legislation at the Prosperity Summit, and said that the Governor had also added that she believed that the legislature needed to take the chains off of local government, in terms of their ability to operate as efficiently as possible, which meant allowing local governments to consider consolidation and other efficiency measures, without the interference of state legislature.

The meeting adjourned at 10:30 A.M. The next meeting is January 19, 2006.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: January 18, 2006

NAME	REPRESENTING
Doug Smith	Pueger Smith & Associates
Derck Hein	Hein Law Firm
Kelley May	LCR
Tony A. Scott	KSCPA
T.C. Anderson	KSCPA
Harriet Lang	KAB
Leslie Kaufman	Ks Coop Council
Dana Hoffman	Ks Assoc of Wheat Growers
David Cunningham	Ks Assoc of School Boards
Bernie Koch	Wichita Chamber of Commerce
Madeline Smith	KMHA
Jackie Clark	Hallmark Cards
MARLEE CARPENTER	KS Chamber
Deann Williams	KS Motor Carriers Assoc
Dan Murray	Federico Consulting
Mike Murray	Sprint
Jack Graves	Dubey-P.H. + KM
Jim Muzzey	Spirit derofsystems
Richard S. & ...

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: 1-18-06

NAME	REPRESENTING
Larry R Baer	LKPA
Woody Moses	KAPA



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

MACHINERY AND EQUIPMENT POLICY STATEMENT

One of the issues the business community has repeatedly raised is the obstacle they face in making the needed investment in new equipment and technology to enhance business opportunities and thus contribute to economic recovery in Kansas. Governor Sebelius recognizes that one barrier to making those investments is the machinery and equipment personal property tax. Because of the substantial capital outlay required to purchase state of the art technology and manufacturing equipment, the personal property tax burden becomes a significant financial deterrent to establishing a new business or growing an existing one.

+ In order to promote and stimulate economic development and the prosperity of the state of Kansas by assisting existing businesses to grow and prosper, and making Kansas an attractive place for relocating or starting a new business, the Governor will introduce legislation containing two related elements. The first part exempts from property taxes all commercial and industrial machinery and equipment that is newly purchased or leased after January 1, 2007. Also included is a proposal to raise the de minimus exemption from the current \$400 to \$1000. *per item*

This plan is a fiscally responsible way to begin to address one of the most commonly criticized aspects of Kansas tax policy while enhancing opportunity for economic revitalization. While it will be a major incentive for businesses to invest in Kansas, it does so without causing great harm to property taxpayers or local governments. This plan will not cause an immediate substantial shift in property taxes to homeowners and farmers and ranchers, or a large tax loss to cities and counties because large amounts of currently taxed property will not be removed from the tax rolls. The proposal simply provides that any new investment in personal property will not be placed on the tax rolls and relatively inexpensive items will not be taxed at all. New business investment and reduced compliance costs brings the potential for new economic benefits for all Kansas communities, large and small.

MACHINERY AND EQUIPMENT POLICY STATEMENT Cont.

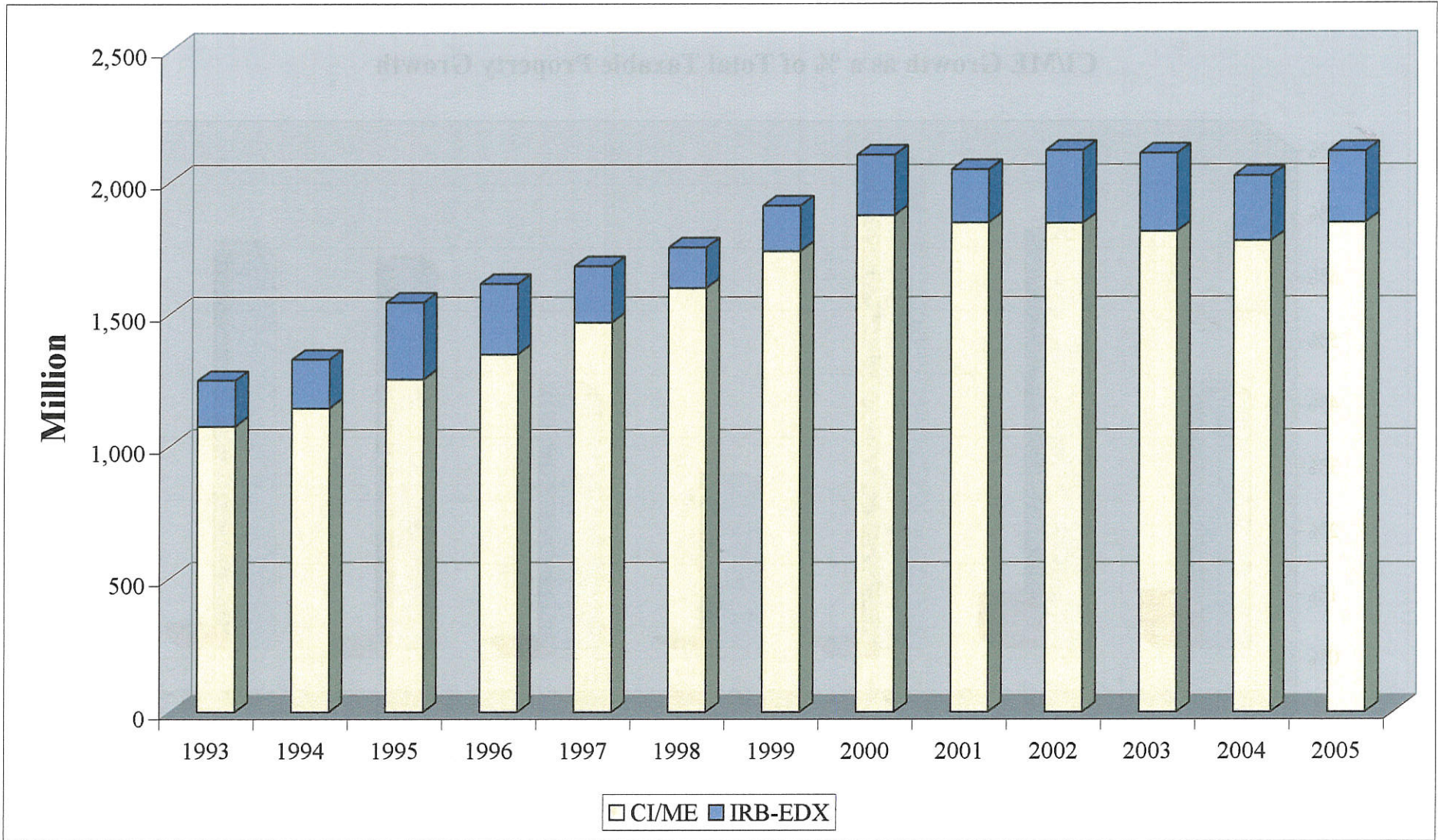
The idea the Governor is offering provides another very significant tool to add to the package created to make Kansas an attractive place to do business. This plan will provide a new incentive for businesses to start up or relocate in Kansas. It will help to provide an opportunity for existing businesses to expand and diversify and will enhance their competitive edge in the global marketplace by assisting them in acquiring state of the art technology and equipment.

There is no doubt that this administration's past efforts have helped put our economy on the road to recovery. But Governor Sebelius believes we need do more to encourage business improvements without jeopardizing state and local investments in schools, roads and safety. This proposal provides us with the ability to build and grow our economy and promotes long term economic stability by providing the potential for more jobs and a more diversified economic base.

Statewide Machinery and Equipment Value including IRB and EDX
(Assessed Value)

1-3

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
IRB-EDX	172,466,941	184,711,169	292,113,442	266,490,875	214,630,094	153,582,854	172,583,722	226,857,071	201,362,945	275,191,320	295,666,797	245,811,709	269,077,120
CI/ME	1,076,534,383	1,144,116,552	1,252,939,660	1,348,312,662	1,468,251,679	1,598,846,928	1,737,482,910	1,873,908,043	1,844,646,453	1,843,323,655	1,811,766,670	1,775,723,575	1,844,997,342
Total	1,249,001,324	1,328,827,721	1,545,053,102	1,614,803,537	1,682,881,773	1,752,429,782	1,910,066,632	2,100,765,114	2,046,009,398	2,118,514,975	2,107,433,467	2,021,535,284	2,114,074,462
Growth		6.39%	16.27%	4.51%	4.22%	4.13%	9.00%	9.98%	-2.61%	3.54%	-0.52%	-4.08%	4.58%

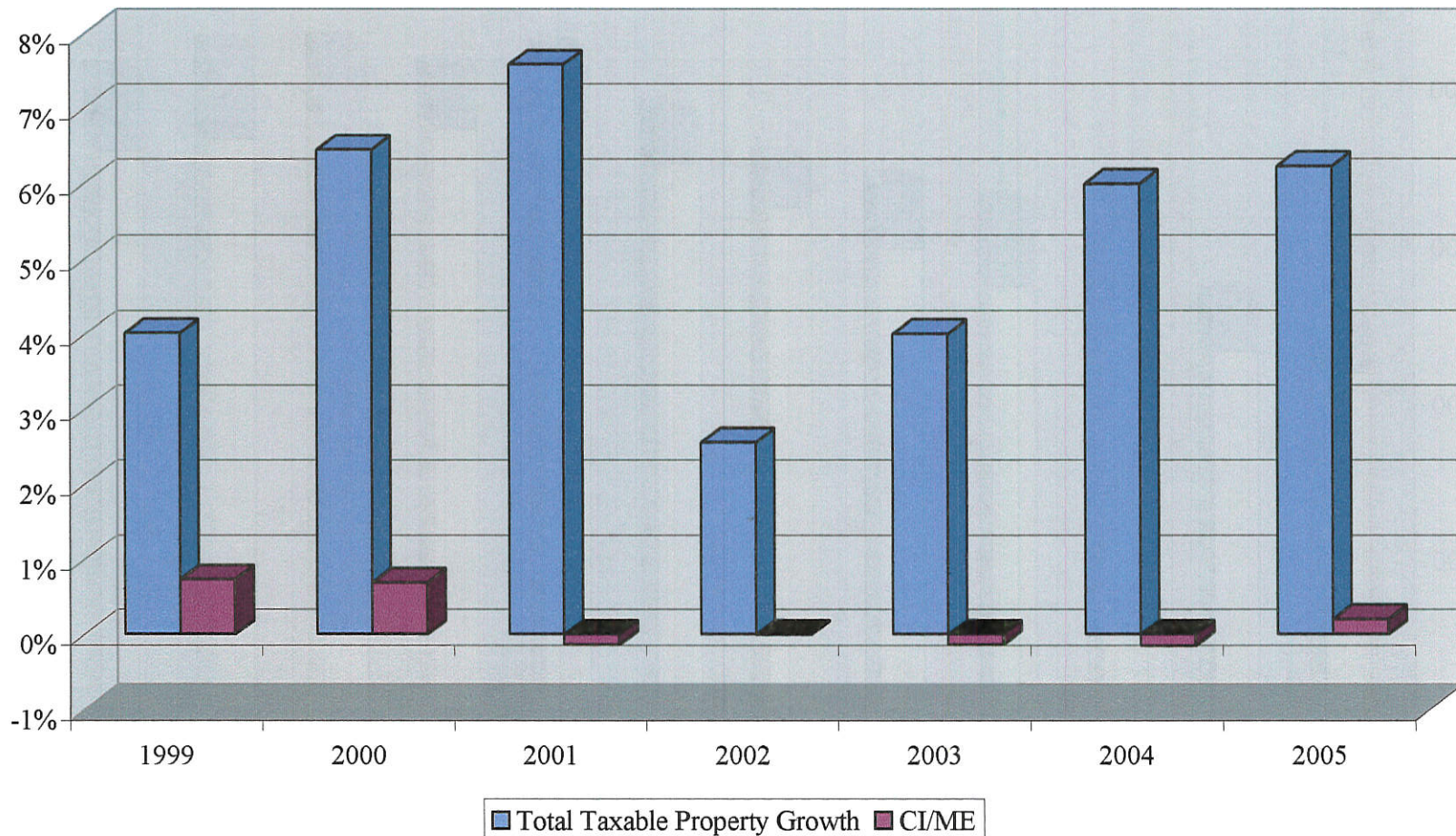


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7-1

Taxable Value Growth Statewide

	1998	1999	2000	2001	2002	2003	2004	2005
Total Taxable Value	18,849,314,965	19,608,421,719	20,874,510,721	22,458,551,515	23,034,628,287	23,960,004,861	25,398,439,083	27,019,361,810
% Growth		4.03%	6.46%	7.59%	2.57%	4.02%	6.00%	6.38%
CI/ME Value	1,598,846,928	1,737,482,910	1,873,908,043	1,844,646,453	1,843,323,655	1,811,766,670	1,775,723,575	1,844,997,342
Growth as a % of Total		0.74%	0.70%	-0.14%	-0.01%	-0.14%	-0.15%	0.27%

CI/ME Growth as a % of Total Taxable Property Growth





K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

BUSINESS MACHINERY & EQUIPMENT EXEMPTION

Exemption for all business personal property newly purchased or leased after January 1, 2007:

Equipment may be new or used.

Includes equipment moved into the state for business expansion or creation

Includes spare parts, supplies and materials.

Includes semi-trailers and truck bodies whether state or locally assessed

Qualifying equipment is that which would currently be valued at retail cost less depreciation.
(classified in subclass 5 of class 2 section 1 article 11)

Exemption would apply to furniture and equipment of:

- Manufacturing
- Construction
- Professional services
- Retail and wholesale trade
- Transportation and warehousing
- Restaurant and bar
- Business offices
- Home/auto etc. repair service industry

The exemption will not apply to:

- Motor vehicles.
- Oil and gas leases including the prescribed personal property.
- Oil and gas itemized personal property such as drilling equipment and rigs, pipe, casing, etc. (Has been historically valued at market value)
- Public utility personal property.

BUSINESS MACHINERY & EQUIPMENT EXEMPTION Cont.

NOTES:

Language will be included to specify that purchases of property must be arms-length bona fide sales not consummated solely to escape taxation.

Will result in some personal property coming off the tax rolls when existing machinery and equipment is replaced with newly purchased property.

There is machinery and equipment that depending on who owns it and how it is used will determine whether it qualifies for the exemption. As an example, trailers, golf carts and boats owned and used by an individual will be taxable, but the identical equipment owned and used in a business would be exempt.

Property acquired under a true lease prior to January 1, 2007 will not qualify. However, if purchased at market value at the end of the lease it would become exempt.

Commercial and Industrial /Machinery and Equipment Value
(Percent of Assessed Value)

County Name	Total Assessed Value	Total Assessed CI/ME	% of Total
Allen	79,488,947	10,305,173	12.96%
Anderson	67,034,996	1,332,858	1.99%
Atchison	113,923,684	10,353,362	9.09%
Barber	73,225,639	3,207,270	4.38%
Barton	196,623,885	14,764,516	7.51%
Bourbon	84,953,824	7,388,001	8.70%
Brown	82,094,070	4,305,836	5.25%
Butler	441,998,615	21,356,020	4.83%
Chase	38,675,768	826,303	2.14%
Chautauqua	23,937,357	837,393	3.50%
Cherokee	131,174,257	11,207,823	8.54%
Cheyenne	40,501,431	786,472	1.94%
Clark	37,917,371	637,520	1.68%
Clay	62,171,778	1,933,364	3.11%
Cloud	68,626,116	2,877,952	4.19%
Coffey	455,842,283	2,672,619	0.59%
Comanche	42,159,476	415,111	0.98%
Cowley	204,004,662	22,949,708	11.25%
Crawford	219,819,386	22,902,875	10.42%
Decatur	31,715,450	791,265	2.49%
Dickinson	134,700,485	5,720,569	4.25%
Doniphan	65,515,538	5,009,169	7.65%
Douglas	1,038,091,400	60,909,205	5.87%
Edwards	43,639,549	1,871,969	4.29%
Elk	22,581,705	1,050,894	4.65%
Ellis	270,807,578	12,971,587	4.79%
Ellsworth	54,913,571	2,161,032	3.94%
Finney	470,512,179	20,329,781	4.32%
Ford	219,946,113	22,445,861	10.21%
Franklin	177,650,848	7,312,314	4.12%
Geary	133,854,235	10,419,568	7.78%
Gove	38,979,781	1,045,051	2.68%
Graham	42,259,364	559,464	1.32%
Grant	345,416,263	3,308,296	0.96%
Gray	64,041,925	1,628,129	2.54%
Greeley	35,431,811	405,050	1.14%
Greenwood	57,515,527	1,737,616	3.02%
Hamilton	72,648,427	672,703	0.93%
Harper	60,443,860	2,142,788	3.55%
Harvey	219,244,111	14,245,316	6.50%
Haskell	212,379,658	1,478,147	0.70%
Hodgeman	33,440,623	403,859	1.21%
Jackson	77,998,743	3,765,506	4.83%
Jefferson	131,678,865	4,788,301	3.64%
Jewell	35,882,835	460,581	1.28%
Johnson	7,171,851,084	476,361,443	6.64%
Kearny	286,362,195	1,577,850	0.55%
Kingman	97,822,789	3,295,786	3.37%
Kiowa	64,410,702	771,235	1.20%
Labette	111,921,096	8,984,418	8.03%
Lane	32,801,724	627,316	1.91%
Leavenworth	491,118,236	21,316,537	4.34%
Lincoln	34,888,396	1,180,593	3.38%
Linn	161,787,466	3,150,372	1.95%
Logan	40,499,541	744,955	1.84%

Commercial and Industrial /Machinery and Equipment Value
(Percent of Assessed Value)

County Name	Total Assessed Value	Total Assessed CI/ME	% of Total
Lyon	218,162,708	17,343,680	7.95%
Marion	97,646,856	3,349,155	3.43%
Marshall	86,109,471	6,710,553	7.79%
McPherson	290,455,618	35,708,175	12.29%
Meade	106,413,866	716,390	0.67%
Miami	313,307,824	9,341,510	2.98%
Mitchell	54,093,702	3,143,979	5.81%
Montgomery	205,706,380	29,195,391	14.19%
Morris	56,391,783	1,790,960	3.18%
Morton	160,018,126	1,616,023	1.01%
Nemaha	77,114,259	5,584,637	7.24%
Neosho	89,926,383	9,711,305	10.80%
Ness	53,189,491	666,659	1.25%
Norton	39,807,488	1,945,883	4.89%
Osage	118,232,763	3,857,519	3.26%
Osborne	35,609,420	1,244,317	3.49%
Ottawa	56,636,207	1,132,810	2.00%
Pawnee	54,110,624	1,248,728	2.31%
Phillips	47,865,995	2,411,006	5.04%
Pottawatomie	368,842,391	11,278,498	3.06%
Pratt	99,483,573	4,118,728	4.14%
Rawlins	31,123,637	477,371	1.53%
Reno	462,334,743	38,567,727	8.34%
Republic	48,059,471	1,252,717	2.61%
Rice	100,041,673	4,215,917	4.21%
Riley	368,396,042	18,101,602	4.91%
Rooks	60,887,283	1,217,220	2.00%
Rush	35,386,001	2,145,084	6.06%
Russell	69,707,062	2,563,072	3.68%
Saline	470,197,690	51,926,310	11.04%
Scott	71,727,927	1,204,465	1.68%
Sedgwick	3,608,117,774	367,524,139	10.19%
Seward	267,620,682	10,298,407	3.85%
Shawnee	1,427,520,824	128,512,317	9.00%
Sheridan	33,509,739	608,113	1.81%
Sherman	62,001,706	3,097,984	5.00%
Smith	35,998,758	778,510	2.16%
Stafford	64,285,561	880,479	1.37%
Stanton	102,902,175	685,289	0.67%
Stevens	354,980,725	2,630,783	0.74%
Sumner	161,163,972	10,207,979	6.33%
Thomas	78,959,399	4,420,127	5.60%
Trego	37,527,059	801,488	2.14%
Wabaunsee	62,587,452	2,752,412	4.40%
Wallace	28,650,993	321,875	1.12%
Washington	56,394,616	1,019,488	1.81%
Wichita	32,157,702	1,331,035	4.14%
Wilson	69,865,679	6,693,062	9.58%
Woodson	28,210,937	828,141	2.94%
Wyandotte	1,110,992,382	181,113,621	16.30%
Totals	27,019,361,810	1,844,997,342	6.83%

Commercial and Industrial /Machinery and Equipment Value
(Percent of Assessed Value)

County Name	Total Assessed Value	Total Assessed CI/ME	% of Total
Wyandotte	1,110,992,382	181,113,621	16.30%
Montgomery	205,706,380	29,195,391	14.19%
Allen	79,488,947	10,305,173	12.96%
McPherson	290,455,618	35,708,175	12.29%
Cowley	204,004,662	22,949,708	11.25%
Saline	470,197,690	51,926,310	11.04%
Neosho	89,926,383	9,711,305	10.80%
Crawford	219,819,386	22,902,875	10.42%
Ford	219,946,113	22,445,861	10.21%
Sedgwick	3,608,117,774	367,524,139	10.19%
Wilson	69,865,679	6,693,062	9.58%
Atchison	113,923,684	10,353,362	9.09%
Shawnee	1,427,520,824	128,512,317	9.00%
Bourbon	84,953,824	7,388,001	8.70%
Cherokee	131,174,257	11,207,823	8.54%
Reno	462,334,743	38,567,727	8.34%
Labette	111,921,096	8,984,418	8.03%
Lyon	218,162,708	17,343,680	7.95%
Marshall	86,109,471	6,710,553	7.79%
Geary	133,854,235	10,419,568	7.78%
Doniphan	65,515,538	5,009,169	7.65%
Barton	196,623,885	14,764,516	7.51%
Nemaha	77,114,259	5,584,637	7.24%
Johnson	7,171,851,084	476,361,443	6.64%
Harvey	219,244,111	14,245,316	6.50%
Sumner	161,163,972	10,207,979	6.33%
Rush	35,386,001	2,145,084	6.06%
Douglas	1,038,091,400	60,909,205	5.87%
Mitchell	54,093,702	3,143,979	5.81%
Thomas	78,959,399	4,420,127	5.60%
Brown	82,094,070	4,305,836	5.25%
Phillips	47,865,995	2,411,006	5.04%
Sherman	62,001,706	3,097,984	5.00%
Riley	368,396,042	18,101,602	4.91%
Norton	39,807,488	1,945,883	4.89%
Butler	441,998,615	21,356,020	4.83%
Jackson	77,998,743	3,765,506	4.83%
Ellis	270,807,578	12,971,587	4.79%
Elk	22,581,705	1,050,894	4.65%
Wabaunsee	62,587,452	2,752,412	4.40%
Barber	73,225,639	3,207,270	4.38%
Leavenworth	491,118,236	21,316,537	4.34%
Finney	470,512,179	20,329,781	4.32%
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Rice	100,041,673	4,215,917	4.21%
Cloud	68,626,116	2,877,952	4.19%
Pratt	99,483,573	4,118,728	4.14%
Wichita	32,157,702	1,331,035	4.14%
Franklin	177,650,848	7,312,314	4.12%
Ellsworth	54,913,571	2,161,032	3.94%
Seward	267,620,682	10,298,407	3.85%
Russell	69,707,062	2,563,072	3.68%
Jefferson	131,678,865	4,788,301	3.64%
Harper	60,443,860	2,142,788	3.55%

Commercial and Industrial /Machinery and Equipment Value
(Percent of Assessed Value)

County Name	Total Assessed Value	Total Assessed CI/ME	% of Total
Chautauqua	23,937,357	837,393	3.50%
Osborne	35,609,420	1,244,317	3.49%
Marion	97,646,856	3,349,155	3.43%
Lincoln	34,888,396	1,180,593	3.38%
Kingman	97,822,789	3,295,786	3.37%
Osage	118,232,763	3,857,519	3.26%
Morris	56,391,783	1,790,960	3.18%
Clay	62,171,778	1,933,364	3.11%
Pottawatomie	368,842,391	11,278,498	3.06%
Greenwood	57,515,527	1,737,616	3.02%
Miami	313,307,824	9,341,510	2.98%
Woodson	28,210,937	828,141	2.94%
Gove	38,979,781	1,045,051	2.68%
Republic	48,059,471	1,252,717	2.61%
Gray	64,041,925	1,628,129	2.54%
Decatur	31,715,450	791,265	2.49%
Pawnee	54,110,624	1,248,728	2.31%
Smith	35,998,758	778,510	2.16%
Chase	38,675,768	826,303	2.14%
Trego	37,527,059	801,488	2.14%
Ottawa	56,636,207	1,132,810	2.00%
Rooks	60,887,283	1,217,220	2.00%
Anderson	67,034,996	1,332,858	1.99%
Linn	161,787,466	3,150,372	1.95%
Cheyenne	40,501,431	786,472	1.94%
Lane	32,801,724	627,316	1.91%
Logan	40,499,541	744,955	1.84%
Sheridan	33,509,739	608,113	1.81%
Washington	56,394,616	1,019,488	1.81%
Clark	37,917,371	637,520	1.68%
Scott	71,727,927	1,204,465	1.68%
Rawlins	31,123,637	477,371	1.53%
Stafford	64,285,561	880,479	1.37%
Graham	42,259,364	559,464	1.32%
Jewell	35,882,835	460,581	1.28%
Ness	53,189,491	666,659	1.25%
Hodgeman	33,440,623	403,859	1.21%
Kiowa	64,410,702	771,235	1.20%
Greeley	35,431,811	405,050	1.14%
Wallace	28,650,993	321,875	1.12%
Morton	160,018,126	1,616,023	1.01%
Comanche	42,159,476	415,111	0.98%
Grant	345,416,263	3,308,296	0.96%
Hamilton	72,648,427	672,703	0.93%
Stevens	354,980,725	2,630,783	0.74%
Haskell	212,379,658	1,478,147	0.70%
Meade	106,413,866	716,390	0.67%
Stanton	102,902,175	685,289	0.67%
Coffey	455,842,283	2,672,619	0.59%
Kearny	286,362,195	1,577,850	0.55%
Totals	27,019,361,810	1,844,997,342	6.83%

Commercial and Industrial Machinery and Equipment Total Exemption

What impact would be seen if **all** Commercial and Industrial Machinery and Equipment (CI/ME) were exempt?

The following chart is a summary of the impact on the state as a whole.

	Assessed Value		Tax Dollars
CI/ME	1,854,664,912		
USD 20 Mill		>	\$37,093,298
Institution Building 1.5 Mill		>	\$2,781,997
Total Local Tax		>	\$176,530,716
Total Tax		>	\$216,406,011
Statewide Avg Levy Increase		>	7.0

Additional Notes:

Tax from Motor Carrier	>	\$7,865,427
Total Property Tax	>	\$224,271,438

As a result of the federal 4R Act, an additional tax loss will be incurred due to a reduction in state assessed railroad value. The amount of the loss cannot be determined at this time.

Commercial and Industrial Machinery and Equipment 20% Residual Exemption

What impact would be seen if CI/ME that has reached the 20% minimum (residual) value were exempt?

The following chart is a summary of the impact on the state as a whole. An estimate is being made that 48% of the CI/ME value has reached 20% of it's retail cost when new value. This estimate is based on a sampling of counties that represent over 80% of the total CI/ME value.

Summary from county sampling		
Total CI/ME from sample	CI/ME at 20% residual from sample	CI/ME that has reached the 20% residual value.
5,801,734,125	2,794,427,914	48%

Estimated results from exemption			
	Assessed Value		
CI/ME	1,854,664,912		
CI/ME at 20% residual	48%		
Exempt CI/ME at 20% residual	893,306,603		
USD 20 Mill		>	\$17,866,132
Institution Building 1.5 Mill		>	\$1,339,960
Total Local Tax		>	\$85,026,709
Total Tax		>	\$104,232,801
Statewide Avg Levy Increase		>	3.3

Additional Notes:

Estimated Tax from Motor Carrier	>	\$3,932,714
Total Property Tax	>	\$108,165,515

As a result of the federal 4R Act, an additional tax loss will be incurred due to a reduction in state assessed railroad value. The amount of the loss cannot be determined at this time.