Approved: March 14, 2006
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 1:00 P.M. on February 13, 2006 in Room 241-N of the Capitol.

All members were present except:
Representative Nancy Kirk - excused
Representative Tim Owens - excused

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

The Chairman stated the intent of the meeting was to review the background of amendments that were added to the bills before the Committee passed them out favorably. They would review the proposed amendments that would be offered by Representative Siegfreid and Brunk during debate on the floor in tomorrow's session.

He explained that there had been a meeting of Representatives Wilk, Siegfreid, Brunk, Secretary Wagnon, and Revenue, Budget and Research staff members on February 10 to review the impact made by the changes on February 6 when they worked the bill. It was determined that the combination of amendments added $100 plus million to the fiscal note. After lengthy discussion, it was a consensus of the group to offer floor amendments on February 14 that would address concerns over the fiscal note. The bills would be explained to their fellow legislators in calendar review on Tuesday morning.

The Chairman commended Chris Courtwright for his exceptional efforts in working on the fiscal note associated with all the changes to the bill. He asked Chris Courtwright to explain the amendments for **HB 2619** and its partner bill **HB 2525**. Copies of the amendments were distributed (Attachment 1). Chris Courtwright described changes to the dates, and the new inserts #1 and 2.

The Chairman thanked the Committee for their attendance, in light of the short notice. The meeting was adjourned at 1:30 P.M. The next meeting is February 14, 2006 at 9:15 A.M.

Potentially

SESSION OF 2006

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2619

As Amended by House Committee of the Whole
~~on Taxation~~

Brief*

HB 2619, as amended, would provide a property tax exemption for commercial and industrial machinery and equipment acquired by qualified purchase or lease after June 30, 2006 as the result of bona fide transactions not consummated for the purpose of avoiding taxation; and commercial and industrial machinery and equipment transported into the state after June 30, 2006 to expand existing businesses or create new businesses. Taxpayers receiving such exemptions would not be subject to annual filing requirements with the State Board of Tax Appeals (SBOTA) pursuant to KSA 2005 Supp. 79-213.

The bill would further expand, effective for tax year 2007, an existing exemption for certain "low-cost" items of machinery, equipment, materials, and supplies by removing from the tax rolls such property with a retail cost when new of greater than $400 but equal to or less than $1,000.

The bill also creates a new fund within the state treasury, the Business Machinery and Equipment Tax Reduction Assistance Fund (BMETRAF). The BMETRAF would provide a mechanism whereby taxing subdivisions would be reimbursed beginning in February, 2008 for certain property tax reductions assumed attributable to the exemptions. The Secretary of Revenue would be required to compute for each county an amount equal to the difference in business machinery and equipment property tax receipts in tax year 2005 and various future tax years (beginning with tax year 2007). Based upon this computation, county treasurers would receive 100 percent of the difference for tax year 2007; ~~100 percent for tax year 2008;~~ 80 percent for tax year 2009 8; 60 percent for tax year ~~2010~~ 2009; 40 percent for tax year ~~2011~~ 2010; and 20 percent for tax year ~~2012~~ 2011. (The transfers from the state to counties would be made during FY 2008-2013 2). County treasurers would be required to apportion the BMETRAF funds among taxing

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

House Taxation
2-13-06
Attachment 1

subdivisions (including the state) relative to their respective shares of property tax levies. The Secretary also would be required to make an annual report to the standing tax committees on the BMETRAF computation methodology.

Background

The original bill would have provided that the exemptions for newly acquired property and property transported into the state not be effective until tax year 2008. The House Tax Committee amended the bill to make those exemptions applicable for property acquired or transported into the state after June 30, 2006, effectively creating a tax year 2007 impact; to authorize the adoption of rules and regulations by the Secretary of Revenue; to add the exemption from annual filing requirements at SBOTA; to add the provisions relating to the BMETRAF, which came to be characterized during discussion as the "slider" amendment; and to clarify that the exemption would not be applicable to property involved in certain transactions consummated for the purpose of avoiding taxation (as opposed to transactions consummated solely for the purpose of avoiding taxation).

The bill would have an impact on the state attributable to a reduction in motor carrier property tax receipts to the SGF. The reduction in assessed valuation attributable to the two new exemptions and the expanded "low-cost" exemption also would cause state property tax receipts to decline relative to the fixed levies associated with state building funds (1.5 mills) and the mandatory school district general fund property tax levy (20 mills). The state also would be responsible for new expenditures associated with funding the BMETRAF transfers. A portion of the BMETRAF transfers subsequently would be offset when county treasurers returned certain funds to the state relative to the state property tax levies. Finally, an income tax credit currently available to offset a portion of property taxes timely paid on business machinery and equipment would be expected to decrease over time relative to current law.

INSERT 1

Based on the latest information available, the bill would be expected to have the following fiscal impact:

INSERT 1

The House COW amended the bill to adjust the slider provisions such that the mitigation funds to taxing subdivisions would be reduced from six to five years and from a total of $278.581 million to $187.275 million. The House COW amendment also would reduce the net impact to the state thru FY 2013 from -$249.765 million to -$173.929 million.

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3-2619

Fiscal Impact of HB 2619
(Dollars in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total Thru FY 2013
Motor Carrier Property Taxes	$ (0.743)	$ (2.284)	$ (3.903)	$ (5.600)	$ (7.376)	$ (8.394)	$ (28.300)
USD Local Effort (20 mills)	$ (8.000)	$ (14.946)	$ (20.691)	$ (25.031)	$ (28.283)	$ (31.112)	$ (128.063)
St. Bldg. Funds (1.5 mills)	(0.600)	(1.121)	(1.552)	(1.877)	(2.121)	(2.333)	(9.605)
Slider Transfer (Initial)	$ (28.238)	$ (60.247)	$ (67.262)	$ (59.035)	$ (42.072)	$ (21.727)	$ (278.581)
Slider Returned to Local Effort	4.450	9.494	10.600	9.303	6.630	3.424	43.901
Slider Return to St. Bldg. Funds	0.334	0.712	0.795	0.698	0.497	0.257	3.293
Net State Slider Impact	$ (23.454)	$ (50.041)	$ (55.867)	$ (49.034)	$ (34.945)	$ (18.046)	$ (231.387)
Reduction in Inc. Tax Credit	$ 10.530	$ 17.976	$ 24.239	$ 28.786	$ 31.831	$ 34.228	$ 147.590
Total Net State Impact	**$ (22.267)**	**$ (50.415)**	**$ (57.775)**	**$ (52.757)**	**$ (40.894)**	**$ (25.658)**	**$ (249.765)**

INSERT 2

INSERT 2

HB 2619
($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total thru fy 2013
motor carrier property taxes	-$0.743	-$2.284	-$3.903	-$5.600	-$7.376	-$8.394	-$28.300
usd local effort (20 mills)	-$8.000	-$14.946	-$20.691	-$25.031	-$28.283	-$31.112	-$128.063
st building funds (1.5 mills)	-$0.600	-$1.121	-$1.552	-$1.877	-$2.121	-$2.333	-$9.605
slider transfer (initial)	-$28.238	***-$48.198***	***-$50.446***	***-$39.357***	***-$21.036***	***$0.000***	***-$187.275***
slider returned to local effort	$4.450	***$7.595***	***$7.948***	***$6.202***	***$3.315***	***$0.000***	***$29.510***
slider return to st bldg funds	$0.334	***$0.570***	***$0.596***	***$0.465***	***$0.249***	***$0.000***	***$2.214***
net state slider impact	-$23.454	***-$40.033***	***-$41.902***	***-$32.690***	***-$17.472***	***$0.000***	***-$155.551***
reduction in inc tax credit	$10.530	$17.976	$24.239	$28.786	$31.831	$34.228	$147.590
net state impact	-$22.267	***-$40.407***	***-$43.809***	***-$36.413***	***-$23.421***	***-$7.611***	***-$173.929***

Floor amendment reduces mitigation funds to taxing subdividisions from six years to five years and from a total of $278.581 million to $187.275 million.

Floor amendment also reduces net impact to state thru FY 2013 from -$249.765 million to -$173.929 million.

Potentially Amended

SESSION OF 2006

SUPPLEMENTAL NOTE ON SUB. FOR HOUSE BILL NO. 2525

As ~~Recommended~~ by House Committee of the Whole ~~on Taxation~~

Brief*

Sub. for HB 2525 would provide a property tax exemption for telecommunications machinery and equipment and railroad machinery and equipment acquired by qualified purchase or lease after June 30, 2006 as the result of bona fide transactions not consummated for the purpose of avoiding taxation; and telecommunications machinery and equipment and railroad machinery and equipment transported into the state after June 30, 2006 to expand existing businesses or create new businesses. Taxpayers receiving such exemptions would not be subject to annual filing requirements with the State Board of Tax Appeals (SBOTA) pursuant to KSA 2005 Supp. 79-213.

The bill also creates a new fund within the state treasury, the Telecommunications and Railroad Machinery and Equipment Tax Reduction Assistance Fund (TRMETRAF). The TRMETRAF would provide a mechanism whereby taxing subdivisions would be reimbursed beginning in February, 2008 for certain property tax reductions assumed attributable to the exemptions. The Secretary of Revenue would be required to compute for each county an amount equal to the difference in telecommunications and railroad machinery and equipment property tax receipts in tax year 2005 and various future tax years (beginning with tax year 2007). Based upon this computation, county treasurers would receive 100 percent of the difference for tax year 2007; ~~100 percent for tax year 2008~~; 80 percent for tax year ~~2009~~ 8; 60 percent for tax year ~~2010~~ 2009; 40 percent for tax year ~~2011~~ 2010; and 20 percent for tax year ~~2012~~ 2011. (The transfers from the state to counties would be made during FY 2008-201~~3~~ 2). County treasurers would be required to apportion the TRMETRAF funds among taxing subdivisions (including the state) relative to their respective shares of property tax levies. The Secretary also would be required to make an annual report to the standing tax committees on the TRMETRAF computation methodology.

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

Background

The original bill contained provisions dealing with sales tax authority for Neosho County which were enacted in another bill in 2005. The House Tax Committee in 2006 voted to recommend the substitute bill, which contains provisions for railroad and telecommunications machinery and equipment property taxes largely similar to provisions in HB 2619 relating to property taxes for commercial and industrial machinery and equipment.

The bill would have an impact on the state because of the reduction in assessed valuation attributable to the two new exemptions, which therefore would cause state property tax receipts to decline relative to the fixed levies associated with state building funds (1.5 mills) and the mandatory school district general fund property tax levy (20 mills). The state also would be responsible for new expenditures associated with funding the TRMETRAF transfers. A portion of the TRMETRAF transfers subsequently would be offset when county treasurers returned certain funds to the state relative to the state property tax levies. Finally, certain income tax credits currently available would be expected to decrease over time relative to current law.

INSERT 1

Based on the latest information available, the bill would be expected to have the following fiscal impact:

INSERT 1

The House COW amended the bill to adjust the slider provisions such that the mitigation funds to taxing subdivisions would be reduced from six to five years and from a total of $23.289 million to $15.376 million. The House COW amendment also would reduce the net impact to the state thru FY 2013 from -$10.680 million to -$3.636 million.

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3-2525

Fiscal Impact of HB 2525
(Dollars in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total Thru FY 2013
TELECOMMUNICATIONS							
USD Local Effort (20 mills)	$ (0.203)	$ (0.404)	$ (0.791)	$ (1.160)	$ (1.514)	$ (1.851)	$ (5.923)
St. Bldg. Funds (1.5 mills)	(0.015)	(0.030)	(0.059)	(0.087)	(0.113)	(0.139)	(0.443)
Slider Transfer (Initial)	$ (1.782)	$ (1.555)	$ (2.160)	$ (2.310)	$ (2.004)	$ (1.235)	$ (11.046)
Slider Returned to Local Effort	0.265	0.225	0.303	0.315	0.265	0.159	1.532
Slider Return to St. Bldg. Funds	0.020	0.017	0.023	0.024	0.020	0.012	0.116
Net State Slider Impact	$ (1.497)	$ (1.313)	$ (1.834)	$ (1.971)	$ (1.719)	$ (1.064)	$ (9.398)
Reduction in Inc. Tax Credit	$ 0.423	$ 0.858	$ 1.715	$ 2.571	$ 3.426	$ 4.283	$ 13.276
Net State Impact Telecom	$ (1.292)	$ (0.889)	$ (0.969)	$ (0.647)	$ 0.080	$ 1.229	$ (2.488)
RAILROADS							
USD Local Effort (20 mills)	$ (0.246)	$ (0.388)	$ (0.628)	$ (0.731)	$ (0.802)	$ (0.858)	$ (3.653)
St. Bldg. Funds (1.5 mills)	(0.018)	(0.029)	(0.047)	(0.055)	(0.060)	(0.064)	(0.273)
slider transfer (initial)	$ (1.424)	$ (2.264)	$ (2.999)	$ (2.620)	$ (1.913)	$ (1.023)	$ (12.243)
Slider Returned to Local Effort	0.224	0.354	0.465	0.403	0.292	0.155	1.893
Slider Return to St. Bldg. Funds	0.017	0.027	0.035	0.030	0.022	0.012	0.143
Net State Slider Impact	$ (1.183)	$ (1.883)	$ (2.499)	$ (2.187)	$ (1.599)	$ (0.856)	$ (10.207)
Reduction in Inc. Tax Credit	$ 0.390	$ 0.621	$ 1.012	$ 1.188	$ 1.313	$ 1.417	$ 5.941
Net State Impact Railroads	$ (1.057)	$ (1.679)	$ (2.162)	$ (1.785)	$ (1.148)	$ (0.361)	$ (8.192)
Total Net State Impact	**$ (2.349)**	**$ (2.568)**	**$ (3.131)**	**$ (2.432)**	**$ (1.068)**	**$ 0.868**	**$ (10.680)**

INSERT 2

INSERT 2

Sub HB 2525
($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total thru fy 2013
<u>telecommunications</u>							
usd local effort (20 mills)	-$0.203	-$0.404	-$0.791	-$1.160	-$1.514	-$1.851	-$5.923
st building funds (1.5 mills)	-$0.015	-$0.030	-$0.059	-$0.087	-$0.113	-$0.139	-$0.443
slider transfer (initial)	-$1.782	***-$1.244***	***-$1.620***	***-$1.540***	***-$1.002***	***$0.000***	***-$7.188***
slider returned to local effort	$0.265	***$0.180***	***$0.227***	***$0.210***	***$0.265***	***$0.000***	***$1.147***
slider return to st bldg funds	$0.020	***$0.130***	***$0.017***	***$0.016***	***$0.020***	***$0.000***	***$0.203***
net state slider impact	-$1.497	***-$0.934***	***-$1.376***	***-$1.314***	***-$0.717***	***$0.000***	***-$5.838***
reduction in inc tax credit	$0.423	$0.858	$1.715	$2.571	$3.426	$4.283	$13.276
net state impact telecom	-$1.292	***-$0.510***	***-$0.511***	***$0.010***	***$1.082***	***$2.293***	***$1.072***
<u>railroads</u>							
usd local effort (20 mills)	-$0.246	-$0.388	-$0.628	-$0.731	-$0.802	-$0.858	-$3.653
st building funds (1.5 mills)	-$0.018	-$0.029	-$0.047	-$0.055	-$0.060	-$0.064	-$0.273
slider transfer (initial)	-$1.424	***-$1.811***	***-$2.249***	***-$1.747***	***-$0.957***	***$0.000***	***-$8.188***
slider returned to local effort	$0.224	***$0.283***	***$0.349***	***$0.269***	***$0.146***	***$0.000***	***$1.271***
slider return to st bldg funds	$0.017	***$0.021***	***$0.026***	***$0.020***	***$0.110***	***$0.000***	***$0.194***
net state slider impact	-$1.183	***-$1.507***	***-$1.874***	***-$1.458***	***-$0.701***	***$0.000***	***-$6.723***
reduction in inc tax credit	$0.390	$0.621	$1.012	$1.188	$1.313	$1.417	$5.941
net state impact railroads	-$1.057	***-$1.303***	***-$1.537***	***-$1.056***	***-$0.250***	***$0.495***	***-$4.708***
total net state impact	-$2.349	***-$1.813***	***-$2.048***	***-$1.046***	***$0.832***	***$2.788***	***-$3.636***

Floor amendment reduces mitigation funds to taxing subdividisions from six years to five years and from a total of $23.289 million to $15.376 million.

Floor amendment also reduces net impact to state thru FY 2013 from -$10.680 million to -$3.636 million.