

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 16, 2007 in Room 519-S of the Capitol.

All members were present except:

Representative Davis - E

Committee staff present:

Chris Courtwright, Legislative Research Department

Martha Dorsey, Legislative Research Department

Gordon Self, Office of Revisor of Statutes

Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Lynn Jenkins, Kansas State Treasurer

Tony Scott, KS Society of CPA's

Joan Wagnon, Secretary, KDOR

John Pinegar, Pinegar, Smith and Associates

Others attending:

See attached list.

HB 2335 - Deduction from federal adjusted gross income for interest income for Kansas income tax purposes.

Chris Courtwright, Legislative Research Department, said the bill would allow a new subtraction modification from federal adjusted gross income for an amount not to exceed the first \$100 in interest income for single filers or \$200 for joint filers. He reviewed language changes, page 5 and 6 of the bill. The fiscal note FY 2009 is \$4.3 million.

The Chairman opened the public hearing on **HB 2335**.

Treasurers Jenkins, Treasurer of the State of Kansas, testified that this bill simply provides a state tax incentive to Kansans who save for future needs (Attachment 1). She said that financial literacy is her passion, and through cooperative efforts of businesses, legislators and the Treasurer's Department they are making strides in that area. The current generation of students have a better grasp of finances and are more responsible for their finances than perhaps their parents generation.

She said that Kansas and the nation have a serious problem, related to personal savings. She called attention to the chart, in her testimony, by the U.S. Bureau of Economic Analysis, that reflected personal savings rates have been in the negative since early 2005 and has continued into 2007. The last time this happened was in 1932-33, during the great depression. People are spending more than they are bringing home and she added that trend should worry everyone.

She described ongoing education programs, which have been developed and presented by the Treasurer's Department and multiple businesses, for high school and college aged students. She concluded by stating **HB 2335** is proactive and focuses on prevention and planning and will be less expensive in the long run by rewarding Kansas families to save at the front end, rather than deal with all sorts of financial crisis at the back end. She urged passage of the bill.

A committee request was made to see the documentation on a similar program in Oklahoma. Secretary Jenkins agreed to provide any information that Oklahoma was willing to share.

Tony Scott, KS Society of CPA's, testified as a proponent of **HB 2335**. He provided statistics on savings program and credit card debt by young Americans. He described an education program, *Takin' Care of Business*, developed by the Kansas Society of CPA's, which trains teachers on financial literacy issues of finances. Financial illiteracy is a national crisis and the bill is a small, yet meaningful way to encourage Kansans to save. He urged members of the Committee to vote in favor of the bill (Attachment 2).

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 16, 2007 in Room 519-S of the Capitol.

Secretary Wagon - KDOR, rose in opposition to the bill (Attachment 3). She agreed with Treasurer Jenkins that financial illiteracy is a real problem in our society and suggested that all legislators should avail themselves of the existing education programs in order to ensure their constituents are aware of the problems. She suggested the issue is whether or not this particular vehicle will accomplish what has been promised.

She referred to the Kansas Tax Brochure (copy on file at KDOR), presented to Committee members previously. She explained Schedule S in the Kansas Tax Brochure and how the bill would impact the current formula. The most recent federal data shows that 567,000 Kansas taxpayers reported taxable interest of \$1.1 billion in tax year 2004. If those taxpayers take the maximum exclusion allowed under this proposal, the fiscal impact in tax year 2007, using a 5% average rate, would be about \$4.3 million. As policymakers, they need to determine if this program will actually change behavior, or if \$4.3 million could be used more effectively to educate and bring about saving behavior.

The Chairman closed the hearing on HB 2335.

HB 2434 - An act concerning property taxation; relating to growth in assessed valuation; authorizing certain interlocal cooperation agreements, provisions.

Chris Courtwright, Legislative Research Department, said the bill would authorize two or more counties to go together through inter-local agreement to form a multi-jurisdictional economic development entity. Under the bill, counties would enter into a bit of revenue sharing agreement, and he described a scenario in which this would apply.

Representative King made a motion to amend HB 2434, to change the language in Section 1, (b)(4). On page 2, starting on line 14, after the phrase the growth in assessed valuation, strike all the language in that paragraph (lines 15, 16, 17 and 18), and insert the property subject to the interlocal agreement. Starting on line 24, after the phrase increase in assessed valuation, strike all the language in lines 24, 25 through the word facility on line 26, and insert of the property subject to the interlocal agreement. In line 27, after the phrase county on or before, they would strike May 1 and insert June 15. Representative Whitham seconded the motion.

In response to a Committee question regarding support from the counties of this amendment, John Pinegar, Pinegar, Smith and Associates, clarified the intent of the amendment, stating it was a friendly amendment in which the counties are supportive.

Representative King closed on his motion to amend. The motion carried.

Representative Owens made the motion that they move HB 2434, as amended, favorable for passage. Representative Whitham seconded the motion.

After discussion, Representative Owens closed his motion. The motion carried.

The Chairman adjourned the meeting at 11:00 a.m. The next meeting is February 20, 2007.

TAXATION COMMITTEE

DATE: FEBRUARY 16

NAME	REPRESENTING
TONY SCOTT	KSCPA
Richard Crum	KDOR
David R. Corbin	KDOR
Bruce Lankin	KDOR
Jock Weyher	KDOR



STATE OF KANSAS

Lynn Jenkins, CPA
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House Committee on Taxation, February 16, 2007
Testimony on H.B. 2335 by Lynn Jenkins, Kansas State Treasurer

Chairman Wilk and honorable members of the House Taxation Committee, thank you for allowing me to appear today in support of H.B. 2335

The measure before you would exempt from state tax the first \$100 in interest income for single filers or \$200 for joint filers.

You may know that financial education and fiscal responsibility is a passion of mine. Over the past four years, I have created multiple financial literacy initiatives in an effort to help Kansans ensure a financially secure future. These include online resources for kids (Kids Zone) and adults (Tomorrow's Money), and a free monthly financial newsletter (MoneyWi\$e). Other activities include free financial seminars for seniors and women, a credit card education program for high school and college-aged students, a Save@School program, and Money\$mart Financial Management Camp. In addition, my office administers Learning Quest, the Kansas 529 Education Savings program that now has over 97,000 accounts and over \$1.7 billion in assets.

Of the thousands of individuals to which I have spoken, many are not saving for college or are not saving money for themselves – especially for their retirement years. This bill simply provides a state tax incentive to Kansans who will save for future needs.

Many financial planners advise that we should save approximately 10 percent of our gross income each paycheck. Sadly, this goal is not being met. In fact, most Americans save little at all.

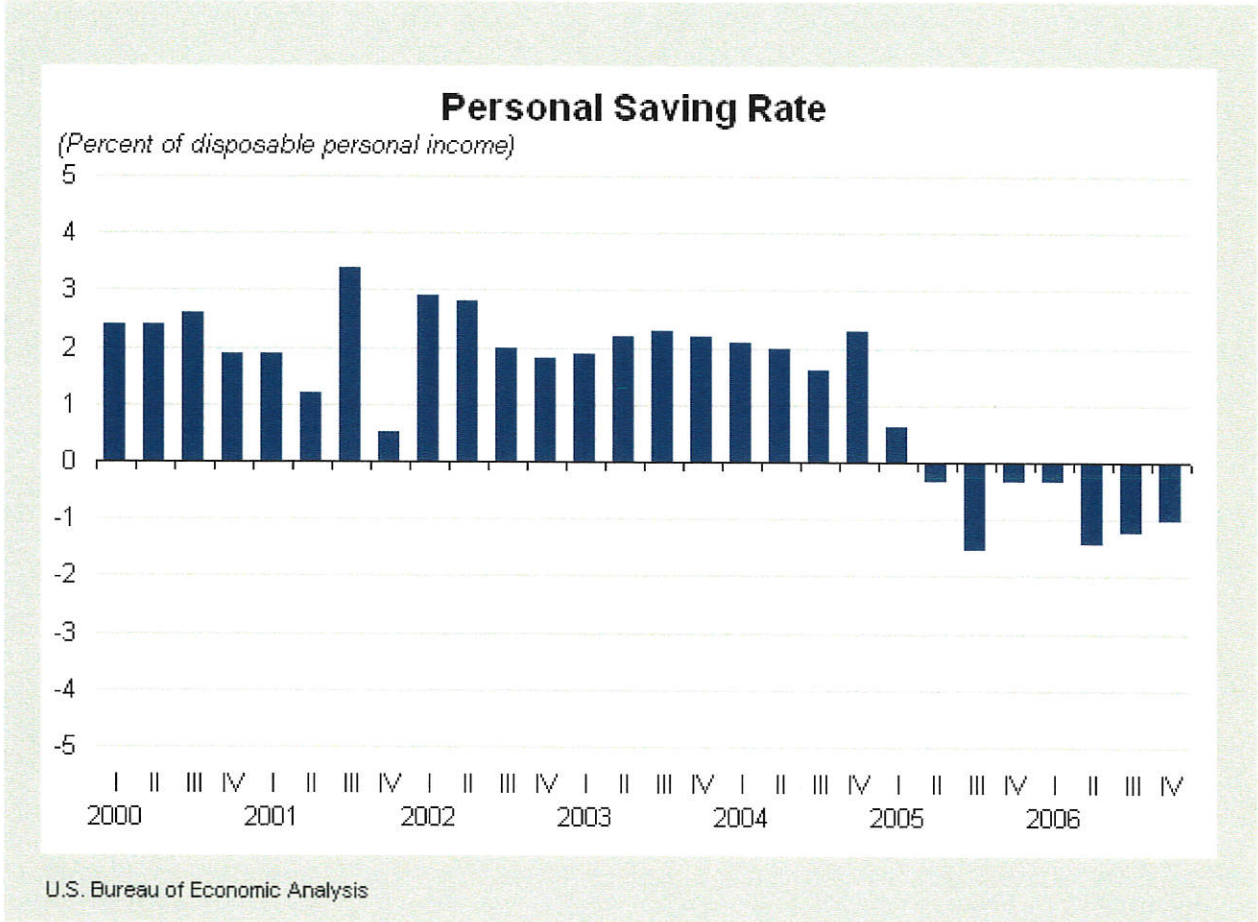
In my research, I was saddened to learn that since March of 2005, Americans actually have a negative savings rate, meaning we are spending more than we are saving. In other words, beginning back in 2005, for the first time since the Great Depression, Americans spent about \$100.60 for each \$100 in take home pay. This savings rate compares after tax income to the money spent on a wide range of items. It turns negative when people take on additional debt such as home equity loans, other credit, or sell assets, spending more than their take home pay.

This is a trend that should worry us all.

HS TAXATION COMMITTEE
2-16-2007
ATTACHMENT 1

This legislation is an incentive for Kansans to save more of their income. I am particularly worried about the so called baby-boomers who are now starting to retire. Any incentive to encourage them to save will help as they move out of the workforce and into retirement.

Mr. Chair and members of the committee, thanks again for allowing me to discuss this most important issue with you today. I ask that you join me in helping Kansas families put a renewed emphasis on savings, and support H.B. 2335. I am happy to try to answer any questions you may have.



Source: U.S. Bureau of Economic Analysis (An agency of the U.S. Department of Commerce)



Kansas Society of Certified Public Accountants

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TESTIMONY – HB 2335

To: The Honorable Kenny Wilk, Chairman
Members, House Committee on Taxation

Date: February 16, 2007

Ladies and Gentlemen of the House Committee on Taxation:

Approximately 2,600 members strong, the Kansas Society of Certified Public Accountants (KSCPA) is the statewide professional association of CPAs dedicated to implementing strategies that enhance the well-being of our members, the accounting profession and the general public we serve. My name is Tony Scott and I am Executive Director of the KSCPA. **Today I am testifying as a proponent of HB 2335.**

Americans today spend \$1.22 for every \$1.00 they earn, according to the Securities and Exchange Commission. One national survey reports the average American household with at least one credit card carried a balance of \$7,942 in 2000, and most of us understand that credit card debt continues to rise.

Statistics for young Americans (ages 24-35) are equally staggering. One non-partisan public policy research and advocacy organization reports that among young adult households with incomes below \$50,000, one in 5 with credit card debt is in debt hardship – spending over 40% of their income servicing debt including mortgages and student loans. Young Americans now have the second highest rate of bankruptcy, just after those aged 35 to 44.

The average credit card indebted young adult household spends nearly 24% of its income on debt payments, four percentage points more, on average, than in 1992. The average college student with student loans graduates \$20,000 in debt with about \$2,000 in additional credit card debt. Between 1983 and 2001, credit card debt for 25-34 year-olds nearly tripled from \$3,989 to \$12,000, according to the Federal Reserve.

Fifty-five percent (55%) of American workers have no idea how much they need to save to make retirement dreams a reality. Social Security only covers approximately 40% of the average American's retirement expenses.

Financial illiteracy is a national crisis. We join the American Institute of CPAs in promoting financial literacy throughout the country and throughout Kansas. For information about the "360 Degrees of Financial Literacy" Campaign visit www.360financialliteracy.org. For additional information about the recently implemented "Feed the Pig"TM public service campaign, visit www.feedthepig.org.

Today we stand in favor of HB 2335 as a small, yet meaningful, way to encourage Kansans to save. We also urge members of the Committee to vote in favor of the bill.

It is my honor and privilege to appear before you today. I will be pleased to stand for questions.

Respectfully submitted,

Tony A. Scott

HS TAXATION COMMITTEE
2-16-2007
ATTACHMENT 2

**SAVE YOUR
MONEY
AND ONE
DAY IT'LL
RETURN
THE FAVOR.**



FEEDTHEPIG.ORG



FIND THE BENEFITS OF SAVING FOR EVERY STAGE OF LIFE.

Testimony to the House Taxation Committee

Richard Cram

February 16, 2007

Department Concerns with House Bill 2335

Representative Wilk, Chair, and Members of the Committee:

House Bill 2335 amends K.S.A. 79-32,117 to allow a new subtraction modification from federal adjusted gross income for an amount not to exceed \$100 for individuals and \$200 for a married couple of interest income, effective beginning in tax year 2008. It will have a negative fiscal impact of \$4.3 million against the State General Fund, beginning in fiscal year 2009, with administrative costs of \$208,825 in fiscal year 2008, primarily for reprogramming and testing costs associated with creating a new subtraction modification. Our fiscal note is attached.

Individual income tax receipts for fiscal year 2006 were \$2.371 billion, and the November 2006 consensus revenue estimate projected fiscal year 2007 individual income tax receipts to increase 15.6% to \$2.585 billion. This strong revenue growth in our individual income tax receipts is crucial to funding the ever-increasing obligations the State must meet in providing essential services to its citizens: education, social services, infrastructure, and others.

The determination of Kansas taxable income begins with federal adjusted gross income. Any federal income tax reductions applied at the federal adjusted gross income level already flow through to decrease Kansas taxable income. Exempting from Kansas individual income tax interest income, which is passive income, causes a permanent shrinkage of the tax base and opens the door to additional or increased exemptions and further reductions of the tax base in the future. If \$100 of interest income per taxpayer (\$200 for married filing jointly) is exempt this year, will that be increased to \$200 next year? Should dividends also be exempted? Capital gains (which already receive favorable tax treatment at the federal level) also?

The State's revenue stream is not unlimited. For a married filing jointly taxpayer with sufficient interest income to use the maximum \$200 subtraction modification, the tax reduction would be \$12.90—individually a negligible amount of savings incentive, but with the potential for a significant fiscal impact on the State.

MEMORANDUM

To: Mr. Duane Goossen, Director
Division of Budget

From: Kansas Department of Revenue

Date: 02/08/2007

Subject: House Bill 2335
Introduced as a House Bill

Brief of Bill

House Bill 2335, as introduced, amends K.S.A. 79-32,117 to allow a subtraction modification from federal adjusted gross income an amount not to exceed \$100 for individuals and \$200 for a married couple of interest income.

The effective date of this bill is on publication in the statute book for tax years beginning after December 31, 2007.

Fiscal Impact

Passage of this bill would reduce state general fund revenues by \$4.3 million fiscal year 2009.

The most recent federal data shows that 567,000 Kansas taxpayers reported taxable interest of \$1.1 billion in tax year 2004.

If these taxpayers take the maximum exclusion allowed under this proposal, the fiscal impact in tax year 2007, using a 5% average rate, would be about \$4.3 million.

Administrative Impact

The estimated costs necessary to implement this bill are \$208,825 in fiscal year 2008. Those costs include about \$69,920, or 874 hours, of contract APA programming time. The estimated user testing resources necessary to implement the bill are \$16,971, or 560 hours, for testing the new programs.

Administrative Problems and Comments

Taxpayer/Customer Impact