

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on March 14, 2007 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, Office of Revisor of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Others attending:

See attached list.

The Chairman asked Chris Courtwright, to explain the supplemental note on **HB 2264** (Attachment 1). He said the bill, as amended by the House Committee of the Whole, would change the income tax treatment of certain Social Security benefits; would exclude Social Security benefits from the definition of income for purposes of qualifying for the Homestead Property Tax Refund Act; and would expand the state earned income tax credit (EITC) from 15 to 20 percent of the federal credit. He explained the two amendments that were added yesterday and the latest fiscal information available from DOR.

The Chairman noted that a supplemental note on **Substitute for HB 2430** had been distributed (Attachment 2). The Committee was advised that a bill with new language has been completed, and copies would be distributed tomorrow.

The Chairman returned the Committee's attention to **HB 2495** and reminded them that they were discussing the Dillmore amendment, part a, and acknowledged Representative Owens.

Representative Owens withdrew his request to divide the question on the Dillmore amendment and proceed. The Chairman accepted that motion and they went back to the Dillmore motion to amend, that includes four components, previously described.

Representative Holland made a substitute motion to amend Representative Dillmore motion with the exclusion of the part (c) the captive insurance portion of the amendment. Representative Goyle seconded the motion.

After discussion, Representative Holland closed his motion. The motion failed 9 to 13.

They returned to the Dillmore motion to amend.

Discussion followed regarding transactional analysis and Richard Cram agreed to provide clarification on the definitions in the bill to address the confusion on the issue.

Representative Dillmore closed his motion and said the amendment is sound tax policy and provides an additional \$24 million of fuel into the economic engine of Kansas to all businesses doing business in Kansas. The motion failed 9 to 13. The following Representatives requested that their yea vote be noted in the minutes: Representatives Dillmore, Lukert, Rardin, Menghini, Treaster, Holland, Goyle, Miller and Davis.

Representative Carlson made the motion that the Committee pass **HB 2495**, favorable for passage. Representative Whitham seconded the motion. The motion carried unanimously.

The Chairman acknowledged that this bill had been handled in an unusual manner and he explained the rationale behind that deviation. His intent, as always, was to provide a fair and consistent hearing, allowing for any and all discussion on the issue. He advised that there is another bill, containing all four components of the Dillmore amendment, that will be coming to the Committee, granting yet another opportunity for additional dialogue.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on March 14, 2007 in Room 519-S of the Capitol.

The Chairman called attention to a memo containing 15 sales tax exemptions that currently reside in the Committee (Attachment 3). He asked them to study the bills and decide how they would like to proceed with those bills. He explained various options available for the Committee's consideration. Secretary Wagnon will brief the Committee, on Thursday, on Senator Wilson's bill, that sets up the framework eliminating the need to work each bill separately.

The meeting was adjourned at 10:25 a.m. The next meeting is March 15, 2007.

TAXATION COMMITTEE

DATE: MARCH ¹⁴ 13, 2007

NAME	REPRESENTING
Bernie Koch	Wichita Chamber
J. Kent Eckles	O.P. Chamber of Commerce
KEW DANIEL	TIBA
Maxine Carpenter	KS Chamber
Leonore Rowe	LWRK
Christy Caldwell	Topeka Chamber
Ed Macy	LGR
Mark Werthmann	City of Leavenworth
Derck Hein	Hein Law Firm
DAVID HOWEY	FT. LEAVENWORTH
Alan Collins	Hallmark Cards, Inc.
Susie Bering	Cushing Hosp. of U.
Cody Bennett	City of Lansing
J.P. SMALL	KOCH INDUSTRIES, INC
Ben Cleaves	DOB
Bruce Larkin	KDOR
Phillip Cosby	Natl. Coalition for the Protection of Children + Families
David R. Corbin	KDOR
Richard Cron	KDOR

SESSION OF 2007

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2264

As Amended by House Committee of the Whole

Brief*

HB 2264, as amended by the House Committee of the Whole, would change the income tax treatment of certain Social Security benefits; would exclude Social Security benefits from the definition of income for purposes of qualifying for the Homestead Property Tax Refund Act; and would expand the state earned income tax credit (EITC) from 15 to 20 percent of the federal credit.

Income Taxation of Social Security Benefits

The bill would provide a subtraction modification from federal adjusted gross income (FAGI) prior to the determination of Kansas adjusted gross income of the amount of any Social Security benefits included in FAGI. The subtraction modification would have the effect of exempting all Social Security benefits from the Kansas income tax.

Expansion of Homestead Program

The bill also would allow taxpayers to exclude Social Security benefits from the definition of income for the purposes of qualifying for the Homestead program. (Under current law, only Social Security disability benefits are excluded from income.)

Expansion of EITC

The Kansas EITC would be expanded, effective for tax year 2007, from 15 to 20 percent of the federal credit.

*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>

COPY

HS TAXATION COMMITTEE
3-14-2007
ATTACHMENT 1

Background

Based on the latest fiscal information available from the Department of Revenue, the bill would be expected to reduce income tax receipts by the following amounts:

(\$ in millions)

	Income Exemption for Social Security	Homestead Exclusion for Social Security	EITC from 15% to 20%	Total
FY 2008	(\$18.9)	(\$16.0)	(\$18.7)	(\$53.6)
FY 2009	(\$20.8)	(\$16.5)	(\$19.9)	(\$57.2)
FY 2010	(\$22.9)	(\$17.0)	(\$21.1)	(\$60.9)
FY 2011	(\$25.2)	(\$17.5)	(\$22.4)	(\$65.0)
FY 2012	(\$27.7)	(\$18.0)	(\$23.7)	(\$69.4)
5-year total	(\$115.4)	(\$84.9)	(\$105.8)	(\$306.1)

Federal data indicate that about 115,000 Kansas filers had some portion of their Social Security benefits included in FAGI. Based on that number and the \$18.9 million fiscal note for FY 2008, the average tax cut for each affected taxpayer would be about \$164. About 8.7 percent of all individual income tax returns filed currently have some taxable Social Security benefits.

Since the mid 1980s, a portion of Social Security benefits has been subject to the federal and state income tax under certain limited circumstances. Social Security benefits subject to tax include monthly survivor and disability benefits. (They do not include supplemental security income payments, which are not taxable.) Under current law, a portion of Social Security benefits becomes taxable for single filers once certain "provisional" income is determined to be in excess of \$25,000; and for joint filers once provisional income is determined to be in excess of \$32,000.

The original bill dealt only with the income tax exemption for Social Security benefits. The House Committee of the Whole on March 13 added the provisions relating to the exclusion of such benefits from the definition of income for purposes of the Homestead program; and the expansion of the EITC.

3-2264

SESSION OF 2007

**SUPPLEMENTAL NOTE ON
SUBSTITUTE FOR HOUSE BILL NO. 2430**

As Recommended by House Committee on
Taxation

Brief*

Sub. for HB 2430 would make a number of changes in the Homestead Property Tax Refund Act, effective for tax year 2007.

The maximum refund available under the program would be increased from the current \$600 to \$750.

The statutory assumption that renters' effective property tax burden is equivalent to 20 percent of their total rent also would be reduced to 15 percent. Additional language would require the Department of Revenue to deny claims from renters reporting household income of 150 percent or less of the homestead rental amount who also fail to provide certain supporting information.

All Social Security benefits would be excluded from the definition of income for the purposes of qualifying for the program. (Under current law, only Social Security disability benefits are excluded from income.)

A new residential valuation ceiling also would prohibit any homeowner with a residence valued at \$350,000 or more from participating in the program.

A long-standing prohibition against persons with delinquent homestead property taxes participating in the program would be repealed and would be replaced with language that would automatically pay any refunds for such

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persons to county treasurers for application first to any such delinquent taxes; and subsequently to any other homestead taxes currently due.

All claimants in the future would be required to submit a copy of their property tax statements only when requested to do so by the Division of Taxation.

Finally, the entire program would sunset on June 30, 2012.

Background

The latest fiscal information available from the Department of Revenue indicated that these changes would combine to expand the program by an additional \$22.1 million for tax year 2007.

The current Kansas program requires participants to meet both an income and a demographic test to be eligible for property tax refunds. The former test requires that household income be not more than \$28,000; the latter requires that at least one person in the household be: (1) age 55 or above; (2) a dependent under age 18; (3) blind; or (4) otherwise disabled.

The program was recently expanded in 2006 HB 2583, a bill which also provided a property tax exemption for most new acquisitions of commercial and industrial machinery and equipment. The Department of Revenue reports that during calendar year 2005, it processed and paid 76,097 Homestead claims totaling \$17.119 million, or an average of about \$225 per refund. The 2006 amendments expanding the program were anticipated to increase its size by \$3.5 million, to about \$20.6 million per year. HB 2430 would be expected to increase the total size of the program to about \$42.7 million.

The original bill would have expanded the Homestead program based on a series of recommendations suggested by AARP, including increasing the maximum refund amount to \$800.

The House Committee recommended that the bill's original provisions be removed and that a substitute bill be created; that certain provisions of SB 26 and SB 27, which were recommended by the Special Committee on Assessment and Taxation as part of an interim study, be inserted; that the maximum refund amount be set at \$750; that Social Security benefits be excluded from the definition of income; that the residential valuation ceiling be included; that the sunset provision be included; and that the relaxation in the delinquency prohibition be included.

HOUSE TAXATION SALES TAX EXEMPTIONS

Date Assign to Comm.	Sponsor	Bill #	Subject	Date Heard	HS Comm Action	HS Action	Senate Comm Action	Senate Action	Conferenc Actior
1/23/07	Bill by Colloton	HB 2154	Sales tax exemption for the American Cancer Society, Inc.	2-2					
1/23/07	Bill by Olson and George	HB 2155	Sales tax exemption for purchase of replacement motor vehicle in certain circumstances.	2-2					
1-29	Bill by Treaster	HB 2256	Sales tax exemption for First Call for Help, Inc.	2-9					
1-31	Bill by Reps. Holland, Goyle, Lukert, Ruff and Williams	HB 2296	Sales tax exemption for International Association of Lions Clubs.						
2-2	Bill by Powers	HB 2336	Sales tax exemption for certain sales of coins, bullion and currency.						
2-7	Bill by Gordon	HB 2404	Sales tax exemption for nonprofit area agencies on aging.						
2-8	Bill by Colloton & Proehl	HB 2435	Sales tax exemption for certain purchases by 501(c)(3) organizations.						
2-13	Bill by Goico	HB 2501	Sales tax exemption for certain purchases of school supplies, computers and clothing during limited period.						

2-14	Bill by Colloton	HB 2513	Sales tax exemption for delivery charges of direct mail in certain circumstances.						
2-14	Ian Staples KU Student Senate	HB 2517	Sales tax exemption for certain purchases of books and electronic or print instructional material for college course work.						
2-14	Bill by Rep. Wolf	HB 2518	Sales tax exemption for the Golden Belt Community Concert Association.						
2-15	Bill by Sloan	HB 2524	Sales tax exemption for the Kansas herpetological society.						
2-15	Bill by Sloan	HB 2525	Sales tax exemption for the center for North American herpetology.						
2-19	Bill by Holland	HB 2538	Sales tax exemption for oxygen delivery equipment.						
3-2	Bill by Tafanelli	HB 2560	Property tax exemption for certain homes provided for veterans who are paraplegics or multiple amputees and their spouses.						