

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 2:00 p.m. on April 25, 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

Conferees appearing before the committee:

None

**Substitute for SB 215 - Homestead Property Tax Refund Act**

The Chairman advised the Committee that although the Governor had signed the franchise tax bill, Secretary Wagon had raised a question regarding the possible misinterpretation of language in the bill that may lead to some confusion regarding the effective date. In order to clarify any misunderstanding, they have the **bill draft 7rs1459** that provides added language that will assure the franchise tax is enacted starting in tax year 2007. The vehicle they would use is **SB 215** (Senate Homestead bill), the contents of which had been addressed in another house bill. They will remove the contents of **SB 215** and insert the balloon that Gordon Self would explain.

Mr. Self distributed the **balloon 7rs1459 (Attachment 1)** and explained that this provides the technical clean-up language they are proposing for the franchise tax legislation they passed in **HB 2264**, earlier in the session. There are two aspects to the balloon. Phase one increased the threshold from a \$100,000 to \$1 million and the second aspect was a four year phase out of the rates. This language makes it clear that FY06 the threshold is \$100,000 and FY 2007, 2008, 2009, and 2010 it is a \$1million until it is phased out.

Representative Carlson moved that the entire contents be removed from **Sub for SB 215** and the contents of **7rs1459**, be inserted as a **Sub. for Sub. for SB 215**. Representative Holland seconded the motion. The motion carried.

Representative Holland moved that the Committee pass out **House Sub 7rs1459 for Sub. for SB 215** favorable for passage. Representative Menghini seconded. The motion carried.

The Chairman said that the Consensus Estimating Group met last week, and the full report is available. He recommended that the Committee members review this important report. Chris Courtwright agreed to provide copies of the report electronically or have hard copies to the floor, if they desired (Attachment 2).

The meeting was adjourned at 2:10 p.m. There are no other meetings scheduled.

## By Committee on Taxation

AN ACT concerning taxation; relating to franchise tax, threshold; amending K.S.A. 2006 Supp. 79-5401, as amended by section 1 of 2007 House Bill No. 2264, and repealing the existing section.

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

Section 1. K.S.A. 2006 Supp. 79-5401, as amended by section 1 of 2007 House Bill No. 2264, is hereby amended to read as follows: 79-5401. (a) (1) Subject to the limitations provided in subsection (g), for any foreign or domestic for profit corporation, or professional corporation or association, duly registered and authorized to do business in Kansas by the secretary of state and which has taxable equity attributable to Kansas for the tax year commencing after December 31, 2005, of \$100,000 or more, and for tax years commencing after December 31, 2006, through December 31, 2009, of \$1,000,000 or more, such entity shall pay an annual franchise tax to the secretary of revenue for tax years commencing after December 31, 2005, and December 31, 2006, at the rate of .125%, for the tax year commencing after December 31, 2007, at the rate of .09375%, for the tax year commencing after December 31, 2008, at the rate of .0625%, and for the tax year commencing after December 31, 2009, at the rate of .03125%, of such entity's taxable equity attributable to Kansas, except that such annual franchise tax for any such entity shall not exceed \$20,000.

(2) Subject to the limitations provided in subsection (g), for any foreign or domestic limited liability company, foreign or domestic limited partnership or foreign or domestic limited liability partnership duly registered and authorized to do business in Kansas by the secretary of state and which has net capital accounts located in or used in this state at the end of the taxable year as required to be reported on the federal partnership return of income for the tax year commencing after December 31, 2005, of \$100,000 or more, and for tax years commencing after December 31, 2006, through December 31, 2009, of \$1,000,000 or more, such entity shall pay an annual franchise tax

to the secretary of revenue for tax years commencing after December 31, 2005, and December 31, 2006, at the rate of .125%, for the tax year commencing after December 31, 2007, at the rate of .09375%, for the tax year commencing after December 31, 2008, at the rate of .0625%, and for the tax year commencing after December 31, 2009, at the rate of .03125%, of the net capital accounts located in or used in this state at the end of the taxable year as required to be reported on the federal partnership return of income, or for a one-member LLC taxed as a sole proprietorship which has net book value of the LLC as calculated on an income tax basis located in or used in this state at the end of the taxable year for the tax year commencing after December 31, 2005, of \$100,000 or more, and for tax years commencing after December 31, 2006, through December 31, 2009, of \$1,000,000 or more, for tax years commencing after December 31, 2005, and December 31, 2006, at the rate of .125%, for the tax year commencing after December 31, 2007, at the rate of .09375%, for the tax year commencing after December 31, 2008, at the rate of .0625%, and for the tax year commencing after December 31, 2009, at the rate of .03125%, of net book value of the LLC as calculated on an income tax basis located in or used in this state at the end of the taxable year, except that such annual franchise tax for any such entity shall not exceed \$20,000.

(3) Subject to the limitations provided in subsection (g), for any business trust duly registered and authorized to do business in Kansas by the secretary of state and which has corpus as shown on its balance sheet at the end of the taxable year as required to be reported to the secretary of revenue for the tax year commencing after December 31, 2005, of \$100,000 or more, and for tax years commencing after December 31, 2006, through December 31, 2009, of \$1,000,000 or more, such entity shall pay an annual franchise tax to the secretary of revenue for tax years commencing after December 31, 2005, and December 31, 2006, at the rate of .125%, for the tax year commencing after December 31, 2007, at the rate of .09375%, for the tax year commencing after

December 31, 2008, at the rate of .0625%, and for the tax year commencing after December 31, 2009, at the rate of .03125%, of the corpus as shown on its balance sheet at the end of the taxable year as required to be reported to the secretary of revenue or in the case of a foreign business trust which has a corpus which is located in or which it uses or intends to use in this state as shown on its balance sheet at the end of the taxable year as required to be reported to the secretary of revenue for the tax year commencing after December 31, 2005, of \$100,000 or more, and for tax years commencing after December 31, 2006, through December 31, 2009, of \$1,000,000 or more, for tax years commencing after December 31, 2005, and December 31, 2006, at the rate of .125%, for the tax year commencing after December 31, 2007, at the rate of .09375%, for the tax year commencing after December 31, 2008, at the rate of .0625%, and for the tax year commencing after December 31, 2009, at the rate of .03125%, of that portion of the corpus which is located in or which it uses or intends to use in this state as shown on its balance sheet at the end of the taxable year as required to be reported to the secretary of revenue, except that the annual franchise tax for any such entity shall not exceed \$20,000. Such balance sheet shall be as of the end of the tax period, certified by the trustee, fairly and truly reflecting the trust assets and liabilities and specifically setting out its corpus, and, in the case of a foreign business trust, fairly and truly reflecting an allocation of its moneys and other assets as between those located, used or to be used, in this state and those located, used or to be used elsewhere.

(b) (1) Every corporation or association, business trust, limited liability company, limited partnership or limited liability partnership subject to taxation under this act, regardless of whether such entity has a franchise tax liability, shall make a return, stating specifically such information as may be required by the forms, rules and regulations of the secretary of revenue, which return shall include a balance sheet listing

all assets and liabilities as of the end of the tax year, as reported in the federal income tax return on form 1120 or, if no such federal return is required to be filed, such balance sheet information as otherwise required by the secretary, and such further information showing the allocation or apportionment calculations in computing the amount of the franchise tax. The return of a corporation or association shall be signed by the president, vice-president, treasurer, assistant treasurer, chief accounting officer or any other officer so authorized to act. The fact that an individual's name is signed on a return shall be prima facie evidence that such individual is authorized to sign such return on behalf of such corporation. In cases where receivers, trustees in bankruptcy or assignees are operating the property or business of corporations, such receivers, trustees, or assignees shall make returns for such corporations in the same manner and form as corporations are required to make returns. Any tax due on the basis of such returns shall be collected in the same manner as if collected from the corporation for which the return is made. The returns of a limited liability partnership shall be signed by a partner of the limited liability partnership. The returns of a limited liability company shall be signed by a member of the limited liability company.

(2) All returns shall be filed in the office of the director of taxation on or before the 15th day of the fourth month following the close of the taxable year, except as provided in subsection (b) (3).

(3) The director of taxation may grant a reasonable extension of time for filing returns in accordance with rules and regulations of the secretary of revenue. Whenever any such extension of time to file is requested by a taxpayer and granted by the director, no penalty authorized by K.S.A. 79-3228, and amendments thereto, shall be imposed if 90% of the liability is paid on or before the original due date.

(c) (1) All taxes imposed under the provisions of the Kansas franchise tax act shall be paid on the 15th day of the fourth

month following the close of the taxable year. When the tax as shown to be due on a return is less than \$5, such tax shall be canceled and no payment need be remitted by the taxpayer.

(2) The director of taxation may extend the time for payment of the tax, or any installment thereof, for a reasonable period of time not to exceed six months from the date fixed for payment thereof. Such extension may exceed six months in the case of a taxpayer who is abroad. Interest shall be charged at the rate prescribed by K.S.A. 79-2968, and amendments thereto, for the period of such extension.

(d) The provisions of K.S.A. 79-3226, 79-3228, 79-3228a, 79-3229, 79-3230, 79-3233, 79-3233a, 79-3233b, 79-3233g, 79-3233h, 79-3233i, 79-3234, 79-3235 and 79-3236, and amendments thereto, shall apply to the administration and enforcement of this section.

(e) All taxes paid pursuant to the provisions of this act shall be rounded off to the nearest \$1, and unless other disposition is specifically provided by law, the taxes collected under the provisions of this act and all overpayments which may not be refunded under this section shall be remitted to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury to the credit of the state general fund. The secretary of revenue shall not refund any overpayment of franchise taxes which is equal to \$5 or less, shall not credit any domestic corporation or foreign corporation, association, business trust, limited liability company, limited partnership or limited liability partnership with any amount which may not be refunded under this section, and shall not require reimbursement for any underpayment of franchise taxes which is less than \$5. Franchise tax refunds shall be paid to the claimant from the income tax refund fund upon warrants of the director of accounts and reports pursuant to vouchers approved by the director of taxation, but no warrant issued hereunder shall be drawn in an amount less than

§5. No interest shall be allowed on any payment made to a claimant pursuant to this act.

(f) As used in this section: (1) "Act" means the Kansas franchise tax act;

(2) "net book value as calculated on an income tax basis located in or used in this state" means the net book value of a limited liability company multiplied by a percentage which is the average of the following three percentages: (A) The average value of the limited liability company's real and tangible personal property owned or rented and used in this state during the tax period divided by the average total value of the limited liability company's real and tangible personal property owned or rented and used during the tax period; (B) the total amount of compensation paid by the limited liability company in this state during the tax period divided by the total amount of compensation paid everywhere by the limited liability company during the tax period; and (C) the total sales of the limited liability company in this state during the tax period divided by the total sales of the limited liability company everywhere during the tax period. If a limited liability company has no real and tangible property owned or rented and used, compensation paid or sales made for the tax period, then the average percentage shall be determined by using only those percentages for property, compensation and sales which reflect property or activity;

(3) "net capital accounts located in or used in this state" means the net capital accounts of a limited partnership or limited liability partnership as stated on the federal income tax return multiplied by a percentage which is the average of the following three percentages: (A) The average value of such entity's real and tangible personal property owned or rented and used in this state during the tax period divided by the average total value of such entity's real and tangible personal property owned or rented and used during the tax period; (B) the total amount of compensation paid by such entity in this state during the tax period divided by the total amount of compensation paid

everywhere by such entity during the tax period; and (C) the total sales of such entity in this state during the tax period divided by the total sales of such entity everywhere during the tax period. If such entity has no real and tangible personal property owned or rented and used, compensation paid or sales made for the tax period, then the average percentage shall be determined by using only those percentages for property, compensation and sales which reflect property or activity;

(4) "shareholder's equity" means the sum of: (1) Paid-in capital stock, except that paid-in capital stock shall not include any capital stock issued by a corporation and reacquired by such corporation through gift, purchase or otherwise and available for resale or retirement; (2) capital paid in, in excess of par; and (3) retained earnings, all as stated on such corporation's federal income tax return;

(5) "shareholder's equity attributable to Kansas" means the shareholder's equity of a corporation multiplied by a percentage which is the average of the following three percentages: (A) The average value of the corporation's real and tangible personal property owned or rented and used in this state during the tax period divided by the average total value of the corporation's real and tangible personal property owned or rented and used during the tax period; (B) the total amount of compensation paid by the corporation in this state during the tax period divided by the total amount of compensation paid everywhere by the corporation during the tax period; and (C) the total sales of the corporation in this state during the tax period divided by the total sales of the corporation everywhere during the tax period. If a corporation has no real and tangible personal property owned or rented and used, compensation paid or sales made for the tax period, then the average percentage shall be determined by using only those percentages for property, compensation and sales which reflect property or activity; and

(6) "taxable equity attributable to Kansas" means shareholder's equity attributable to Kansas.



(g) The provisions of this section shall apply to all tax years commencing after December 31, 2003, but shall not apply to any tax year commencing after December 31, 2010.

(h) The provisions of this section shall be known and may be cited as the Kansas franchise tax act.

Sec. 2. K.S.A. 2006 Supp. 79-5401, as amended by section 1 of 2007 House Bill No. 2264, is hereby repealed.

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

# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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April 19, 2007

**To:** Governor Kathleen Sebelius and Legislative Budget Committee

**From:** Kansas Legislative Research Department  
Kansas Division of the Budget

**Re:** State General Fund Receipt Revisions for FY 2007 and FY 2008

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. The Consensus Revenue Estimating Group met on April 16, 2007, and decreased the overall estimate for both fiscal years by a combined \$13.5 million relative to the previous estimate made in November. The revised FY 2007 estimate is \$5.732 billion, and the revised FY 2008 estimate is \$5.547 billion. The revised estimates incorporate the fiscal impact of all 2007 legislation previously signed into law or expected to be signed into law on April 16.

For FY 2007, the estimate was increased by \$140.1 million, or 2.5 percent, above the November estimate. The overall revised SGF estimate of \$5.732 billion represents a 6.3 percent growth forecast above final FY 2006 receipts.

The revised estimate for FY 2008 of \$5.547 billion was decreased by \$153.6 million, or 2.7 percent, below the November estimate. The revised FY 2008 estimate is 3.2 percent below the newly revised FY 2007 figure. Factors influencing the FY 2008 growth rate relate to legislation enacted in 2004 for the Comprehensive Transportation Program reducing the amount of sales and use tax receipts deposited directly into the SGF; new legislation increasing net transfers from the SGF by over \$200 million; and \$36 million in various tax cuts.

## **Economic Forecast for Kansas**

The Kansas economy is expected to continue to grow at a relatively strong rate for the balance of FY 2007 and FY 2008. Estimates are that nominal Kansas Personal Income (KPI) growth for 2007 and 2008 will be 5.3 percent and 5.2 percent, respectively. A healthy overall employment picture is expected to continue to cause individual and corporation income tax receipts to grow at relatively robust levels through the end of FY 2007. Although economic growth is expected to continue throughout FY 2008 and beyond, the rate of growth will be declining. Estimates are that Kansas Gross State Product, which grew by 5.6 percent in 2006, will grow by 4.5 percent in 2007. Expectations are that Kansas will not be affected as dramatically as will the national economy by the impact of the weaker housing market. The Consensus estimates contained herein are based on a number of such assumptions that reflect a moderating rate of growth in both the state and national economies. The forecast does not incorporate the effects of a national recession, for which experts are predicting an increasing likelihood.

House Taxation Committee  
April 25, 2007  
Attachment 2

## **Kansas Personal Income**

Kansas Personal Income (KPI) in 2006 grew by 6.3 percent over the 2005 level. The growth rate for KPI is expected to decelerate throughout the forecast period, with the estimates now set at 5.3 percent for 2007 and 5.2 percent for 2008. These estimates for 2007 and 2008 are unchanged since the November Consensus forecast. Current estimates are that overall US Personal Income growth – 5.2 percent for both 2007 and 2008 – will closely track KPI growth.

## **Employment**

The employment outlook for Kansas remains healthy. The overall Kansas unemployment rate, which was 4.5 percent in 2006, is expected to be 4.6 percent in 2007 and 4.8 percent in 2008. The unemployment rate had been as high as 5.7 percent as recently as FY 2004 in the wake of the recession. Total Kansas private (non-farm) employment grew by 1.6 percent in 2006, compared to 1.4 percent growth in government employment. Because of rapid employment growth in the second half of 2006, the most recent monthly data indicate that total private non-farm employment from February 2006 to February 2007 had grown by 2.5 percent; and government employment by 1.5 percent. The average annual number of Kansans employed in 2006 exceeded 1.4 million for the first time in state history.

## **Agriculture**

Net farm income in 2007 had been expected to be considerably higher than 2006, due primarily to higher grain prices and improved soil moisture conditions. But the full extent of the damage to the winter wheat crop as a result of early April freezes was unknown and of significant concern on April 16. Ethanol mandates and subsidies are expected to continue to boost demand and prices for corn, a development which could have negative long-term implications for cattle-feeding operations in Kansas. The All Farm Products Index of Prices received by Kansas farmers was 128 in March, up from 110 a year earlier. The latest prospective plantings report indicates farmers expect to plant 19.2 million acres of the four major grain crops in 2007, up 1 percent from 2006. Relatively high energy costs remain a major concern for the agricultural sector.

## **Oil and Gas**

The average price per taxable barrel of Kansas crude oil is now estimated to be \$55.00 for FY 2007 and \$57.00 for FY 2008. Significant political tensions in the Middle East and elsewhere have recently led to increased volatility in oil prices and added to the uncertainty about forecasting the price of this commodity. Gross oil production in Kansas, which generally had been declining steadily for more than a decade until FY 2000, has stabilized since that time and is currently forecast at 34.5 million barrels for both FY 2007 and FY 2008. More than half of all Kansas oil produced is not subject to severance taxation because of various exemptions in that law.

The price of natural gas, which had been at historically high levels in FY 2006 (\$6.81 per mcf) because of hurricanes and other market forces, is expected to average \$5.15 per mcf for FY 2007 before increasing to \$6.25 per mcf for FY 2008, based on an industry source's analysis of futures markets. Concerns about extreme weather conditions and continued high oil prices are expected to contribute to the price increase in FY 2008. Kansas natural gas production in FY 2006 of 374 million cubic feet represented a continuing decrease from the modern era peak of 730 million cubic feet in FY 1996. Production is expected to continue to decline for the foreseeable future as natural

gas reserves, especially those in the Hugoton field, are depleted. The current forecast is for 365 million cubic feet for FY 2007 and 350 million cubic feet for FY 2008.

### Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) increased by 3.2 percent in 2006, slightly lower than the November forecast of 3.4 percent. The current national forecasts for both 2007 and 2008 are for inflation to continue at moderate levels, 2.4 percent and 2.3 percent, respectively. But a number of factors could cause higher levels of inflation, including the extent to which wage increases continue to exceed productivity increases.

### Interest Rates

The Pooled Money Investment Board is authorized to make investments in US Treasury and Agency securities, highly rated commercial paper, repurchase agreements and certificates of deposit in Kansas banks. In FY 2006, the state earned 4.25 percent on its SGF portfolio. The average rate of return forecasted for FY 2007 is 5.27 percent. For FY 2008, the forecasted rate is 5.00 percent.

#### Economic Forecasts

	<u>CY 06</u>	<u>CY 07*</u>	<u>CY 08*</u>
KPI Growth	6.3%	5.3%	5.2%
Inflation (CPI-U)	3.2%	2.4%	2.3%
	<u>FY 06</u>	<u>FY 07*</u>	<u>FY 08*</u>
SGF Interest	4.25%	5.27%	5.00%
Oil and Gas			
Oil Price per bbl	\$57.61	\$55.00	\$57.00
Gross Prod. (000)	34,380	34,500	34,500
Gas Price per mcf	\$6.81	\$5.15	\$6.25
Gas Taxable Value	2,367,268	1,719,971	2,023,438

\* Estimated

## Attached Tables

Table 1 compares the new FY 2007 and FY 2008 estimates by source with actual receipts from FY 2006. Tables 2 and 3 show the changes in the estimates by source for each fiscal year.

## State General Fund Receipt Estimates

**FY 2007.** The revised estimate of SGF receipts for FY 2007 is \$5.732 billion, an increase of \$140.1 million from the previous estimate made in November. Total SGF receipts through March were running \$79.1 million ahead of the previous estimate. The revised estimate is \$338.0 million or 6.3 percent, above actual FY 2006 receipts. Details of the revised estimate are reflected in Table 2.

Each individual SGF source was reevaluated independently and consideration was given to revised and updated economic forecasts, collection information from the Departments of Revenue and Insurance, and year-to-date receipts.

The estimate of total taxes was increased by \$99.9 million, while the estimate of "other revenue" was increased by \$40.2 million. Two tax sources – individual income and corporation income – accounted for \$110 million of the increase.

The estimate for individual income taxes was increased by \$65 million. KPI growth for calendar year 2006 ended up at a healthy 6.3 percent, and the strong employment growth during the final months of 2006 also contributed to the upward revision in the estimate. Stock market growth throughout 2006 also likely resulted in greater capital gains relative to tax year 2006 liability. Receipts through March were running \$53.3 million ahead of the prior fiscal-year-to-date estimate, and data from the Department of Revenue through mid-April confirm faster growth in withholding and balance-due remittances than had been anticipated. The revised FY 2007 estimate now calls for growth of \$278.7 million, or 11.8 percent, in this source over FY 2006 receipts.

The estimate for corporation income taxes, which had been running almost \$44.6 million ahead of the prior fiscal-year-to-date estimate through March, was increased by \$45 million. Strong corporate profits for calendar year 2006, coupled with significant growth in estimated payments, are among the factors contributing to the recovery in receipts from this source – now estimated to be \$420 million for FY 2007. Corporation income tax receipts were less than \$94 million as recently as FY 2002.

Estimates for the financial institutions privilege tax, gas severance tax, motor carrier property tax, insurance premiums tax, and liquor enforcement tax also were increased by a combined \$6.3 million relative to the November estimate.

The overall severance tax estimate was increased by \$0.2 million but would have been reduced except for information received from the Department of Revenue that \$4.6 million of additional gas receipts are expected to be deposited in the SGF by the end of the fiscal year attributable to a reconciliation of prior years' liability for certain taxpayers. Severance tax receipts had been running \$3.2 million below the previous estimate through March.

The estimate for net transfers to the SGF was increased by \$33.1 million, largely as a result of the enactment of legislation transferring \$30 million from the State Highway Fund to the SGF for the Highway Patrol. The estimate for interest earnings to the SGF also was increased by \$2.2 million. The forecast for agency earnings was increased by over \$4.9 million as a result of greater-than-expected receipts from unclaimed property.

On the negative side, the sales and use tax estimates were decreased by \$8 million and \$4 million, respectively, based largely on fiscal-year-to-date receipts through March and a \$3.8 million use tax refund paid in mid-April. The Department of Revenue reports that 1,029 retailers have voluntarily registered to collect use taxes as a result of Kansas' participation in the multi-state Streamlined Sales and Use Tax Agreement. Sales tax receipts may have been somewhat suppressed because of higher energy price increases and the fact that purchases of motor fuel and residential utility services are exempt from the state tax. Nationwide consumption expenditures on energy goods and services grew from 5.0 percent in FY 2004 to 6.0 percent in FY 2006. Overall consumption in Kansas is expected to follow the national trend of a slightly decelerating growth rate throughout the forecast period.

The cigarette tax estimate was decreased by \$3.0 million. Receipts from this source were running \$2.3 million below the previous estimate through March.

**FY 2008.** SGF receipts are estimated to be \$5.547 billion in FY 2008, a decrease of \$153.6 million relative to the November estimate. The new FY 2008 figure is \$185.6 million, or 3.2 percent, below the newly revised FY 2007 estimate. FY 2008 receipts would have been \$174 million more if not for legislation enacted in 2004 that reduced the share of sales and use taxes earmarked for the SGF. Also factored into the FY 2008 revisions was an estimated \$36.0 million in tax reductions attributable to legislation signed into law or expected to be signed into law as of April 16 (\$24.0 million in individual income taxes; \$7.0 million in corporation franchise taxes; and \$5.0 million in sales taxes).

The most significant revision to the FY 2008 estimate relates to an increase of almost \$200 million in net transfers from the SGF. New legislation setting aside \$122.7 million for the school finance "lock-box" and \$80 million for statewide maintenance and disaster relief is primarily responsible for the large adjustment to this source.

The individual income tax forecast also takes into consideration more modest growth in the economy, KPI, and the stock market. Although corporation income tax receipts are expected to remain at historically high levels, the 2007 corporate profits forecast is significantly weaker than the same 2006 figure, and the rate of growth in corporate estimated payments likely will be decelerating from FY 2007. Details of the FY 2008 revisions are shown in Table 3.

Of the \$43.8 million overall increase in the FY 2008 estimate for taxes only, individual (\$35 million) and corporation (\$20 million) income taxes accounted for \$55 million. The estimate for all other tax sources was decreased by \$11.2 million.

Other significant adjustments of note include decreases in the sales, cigarette, and franchise tax estimates of \$13.0 million, \$4.0 million, and \$7.0 million, respectively; and increases in the severance and financial institutions privilege tax estimates of \$6.8 million and \$4.0 million, respectively.

**FY 2009 and thereafter.** Although the Consensus Group will not make its initial estimate for FY 2009 until next fall, worthy of note is the fact that a number of provisions in legislation that has been enacted or passed by the Legislature and presented to the Governor will further reduce SGF receipts beginning in FY 2009:

- Legislation enacted in 2006 that decoupled the Kansas estate tax from the federal law beginning in 2007 and eliminates the Kansas tax altogether in 2010 will reduce receipts relative to the prior law by an estimated \$9 million in FY 2008; \$20 million in FY 2009; \$37 million in FY 2010; \$47 million in FY 2011; and \$52 million in FY 2012.

- Legislation passed in 2007 and presented to the Governor that phases out the franchise tax will reduce receipts relative to the prior law by an estimated \$7 million in FY 2008; \$16.5 million in FY 2009; \$26.5 million in FY 2010; \$37.0 million in FY 2011; and \$48.0 million in FY 2012.
- Legislation passed in 2007 and presented to the Governor that increases the number of taxpayers who will be entitled to a state income tax exemption for Social Security benefits beginning in tax year 2008 will increase the fiscal note attributable to this provision by an additional \$5.7 million in FY 2009 (the estimated impact for FY 2008 was \$5.4 million, and it will increase to \$11.1 million for FY 2009).
- Legislation enacted in 2006 established a new state transfer to help taxing subdivisions alleviate property tax shifts associated with the machinery and equipment exemption. These "slider" transfers, estimated at \$28.3 million in FY 2008, are expected to be \$44.8 million in FY 2009; \$45.3 million in FY 2010; \$32.0 million in FY 2011; and \$11.5 million in FY 2012. The legislation also provides for a partial restoration of Local Ad Valorem Tax Reduction Fund (LAVTRF) transfers beginning in FY 2010. The LAVTRF transfers will be \$13.5 million in FY 2010; \$27.0 million in FY 2011; \$40.5 million in FY 2012; and \$54.0 million in FY 2013 and all future years.
- That same 2006 legislation also will reduce motor carrier property tax receipts to the SGF by \$0.8 million in FY 2008; \$2.3 million in FY 2009; \$3.9 million in FY 2010; \$5.6 million in FY 2011; \$7.4 million in FY 2012; and \$8.4 million in FY 2013.
- Additional legislation enacted in 2005 will reduce severance tax receipts to the SGF by \$6.1 million in FY 2009; \$8.7 million in FY 2010; \$11.2 million in FY 2011; and \$13.6 million in FY 2012.

### **Accuracy of Consensus Revenue Estimates**

For 32 years, SGF revenue estimates for Kansas have been developed using the consensus revenue estimating process. Besides the three state agencies identified on the first page, the economists currently involved in the process are Joe Sicilian from the University of Kansas, Ed Olson from Kansas State University, and John Wong from Wichita State University. Each of the entities and individuals involved in the process prepared independent estimates and met on April 16, 2007, to discuss estimates and come to a consensus for each fiscal year.

**STATE GENERAL FUND ESTIMATES**

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from Original Estimate*		Difference from Final Estimate**	
				Amount	Percent	Amount	Percent
1975	--	\$614.9	\$627.6	--	--	\$12.7	2.1%
1976	\$676.3	699.7	701.2	\$24.9	3.7%	1.4	0.2
1977	760.2	760.7	776.5	16.3	2.1	15.8	2.1
1978	830.1	861.2	854.6	24.5	3.0	(6.5)	(0.8)
1979	945.2	1,019.3	1,006.8	61.6	6.5	(12.5)	(1.2)
1980	1,019.3	1,095.9	1,097.8	78.5	7.7	1.9	0.2
1981	1,197.1	1,226.4	1,226.5	29.4	2.5	0.1	0.0
1982	1,351.3	1,320.0	1,273.0	(78.3)	(5.8)	(47.0)	(3.6)
1983	1,599.2	1,366.9	1,363.6	(235.6)	(14.7)	(3.2)	(0.2)
1984	1,596.7	1,539.0	1,546.9	(49.8)	(3.1)	7.9	0.5
1985	1,697.7	1,679.7	1,658.5	(39.2)	(2.3)	(21.3)	(1.3)
1986	1,731.2	1,666.4	1,641.4	(89.8)	(5.2)	(25.0)	(1.5)
1987	1,903.1	1,764.7	1,778.5	(124.6)	(6.5)	13.8	0.8
1988	1,960.0	2,031.5	2,113.1	153.1	7.8	81.6	4.0
1989	2,007.8	2,206.9	2,228.3	220.5	11.0	21.4	1.0
1990	2,241.2	2,283.3	2,300.5	59.3	2.6	17.2	0.8
1991	2,338.8	2,360.6	2,382.3	43.5	1.9	21.7	0.9
1992	2,478.7	2,454.5	2,465.8	(12.9)	(0.5)	11.3	0.5
1993	2,913.4	2,929.6	2,932.0	18.6	0.6	2.4	0.1
1994	3,040.1	3,126.8	3,175.7	135.6	4.5	48.9	1.6
1995	3,174.4	3,243.9	3,218.8	44.4	1.4	(25.1)	(0.8)
1996	3,428.0	3,409.2	3,448.3	20.3	0.6	39.0	1.1
1997	3,524.8	3,642.4	3,683.8	159.0	4.5	41.4	1.1
1998	3,714.4	3,971.0	4,023.7	309.3	8.3	52.7	1.3
1999	3,844.7	4,051.9	3,978.4	133.7	3.5	(73.4)	(1.8)
2000	4,204.1	4,161.0	4,203.1	(1.0)	0.0	42.1	1.0
2001	4,420.7	4,408.7	4,415.0	(5.7)	(0.1)	6.4	0.1
2002	4,674.5	4,320.6	4,108.9	(565.6)	(12.1)	(211.7)	(4.9)
2003	4,641.0	4,235.6	4,245.6	(395.4)	(9.3)	9.9	0.2
2004	4,605.5	4,450.5	4,518.7	(86.8)	(1.9)	68.2	1.5
2005	4,490.5	4,793.8	4,841.3	350.8	7.8	47.5	1.0
2006	4,834.0	5,308.7	5,394.4	560.4	11.6	85.7	1.6

\* The adjusted original estimate is the estimate made in November or December prior to the start of the next fiscal year in July and adjusted to account for legislation enacted, if any, which affected receipts to the SGF.

\*\* The final estimate made in March, April, or June is the adjusted original estimate plus or minus changes subsequently made by the Consensus Estimating Group. It also includes the estimated impact of legislation on receipts.



The table (above) presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. First, the adjusted original estimate is compared to actual collections and then the final estimate is compared to actual receipts.

As might be expected, there has usually been a smaller difference between actual receipts and the final estimate because only three months remained in the fiscal year when the final estimate was made. In the last 16 fiscal years, the most significant shortfall in receipts relative to the final estimate was FY 2002 (4.9 percent); while the largest percentage underestimate occurred in FY 1994 and FY 2006 (1.6 percent).

### **Concluding Comments**

Consensus revenue estimates are based on current federal and state laws and their current interpretation. These estimates will be adjusted at the conclusion of the 2007 Legislative Session to reflect all legislation enacted between mid-April and *sine die* adjournment which affects SGF receipts.

**Table 1**  
**Consensus Revenue Estimate for Fiscal Years 2007 and 2008**  
**and FY 2006 Actual Receipts**  
*(Dollars in Thousands)*

	FY 2006 (Actual)		FY 2007 (Revised)		FY 2008 (Revised)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$22,056	7.8 %	\$25,000	13.3 %	\$25,500	2.0 %
Income Taxes:						
Individual	\$2,371,253	15.6 %	\$2,650,000	11.8 %	\$2,785,000	5.1 %
Corporation	350,201	54.9	420,000	19.9	375,000	(10.7)
Financial Inst.	31,058	40.8	33,000	6.3	35,000	6.1
Total	\$2,752,511	19.7 %	\$3,103,000	12.7 %	\$3,195,000	3.0 %
Estate Tax	\$51,806	(0.1) %	\$55,000	6.2 %	\$46,000	(16.4) %
Excise Taxes:						
Retail Sales*	\$1,736,048	5.4 %	\$1,767,000	1.8 %	\$1,732,000	(2.0) %
Compensating Use*	269,250	10.0	286,000	6.2	290,000	1.4
Cigarette	117,899	(0.9)	112,000	(5.0)	111,000	(0.9)
Tobacco Products	5,093	1.1	5,200	2.1	5,400	3.8
Cereal Malt Bev.	2,090	0.6	2,000	(4.3)	2,100	5.0
Liquor Gallonage	16,676	6.0	17,000	1.9	17,500	2.9
Liquor Enforcement	44,234	5.6	46,700	5.6	48,000	2.8
Liquor Drink	8,009	7.6	8,500	6.1	8,700	2.4
Corp. Franchise	46,898	(0.4)	47,000	0.2	41,000	(12.8)
Severance	133,432	29.1	111,300	(16.6)	120,300	8.1
Gas	96,539	28.0	73,900	(23.5)	81,500	10.3
Oil	36,893	31.9	37,400	1.4	38,800	3.7
Total	\$2,379,629	6.5 %	\$2,402,700	1.0 %	\$2,376,000	(1.1) %
Other Taxes:						
Insurance Prem.	\$112,207	5.0 %	\$114,000	1.6 %	\$115,000	0.9 %
Miscellaneous	7,048	64.3	5,000	(29.1)	2,000	(60.0)
Total	\$119,255	7.3 %	\$119,000	(0.2) %	\$117,000	(1.7) %
Total Taxes	\$5,325,257	12.9 %	\$5,704,700	7.1 %	\$5,759,500	1.0 %
Other Revenues:						
Interest	\$54,335	133.6 %	\$91,200	67.8 %	\$104,000	14.0 %
Net Transfers	(42,243)	(279.3)	(128,000)	203.0	(380,700)	197.4
Agency Earnings	57,018	(24.9)	64,500	13.1	64,000	(0.8)
Total	\$69,110	(47.9) %	\$27,700	(59.9) %	(\$212,700)	(867.9) %
Total Receipts	<u>\$5,394,367</u>	<u>11.3 %</u>	<u>\$5,732,400</u>	<u>6.3 %</u>	<u>\$5,546,800</u>	<u>(3.2) %</u>

\* 2004 legislation reduces FY 2008 anticipated receipts

**Table 2**  
**State General Fund Receipts**  
**FY 2007 Revised**  
**Comparison of November 2006 Estimate to April 2007 Estimate**  
*(Dollars in Thousands)*

	FY 2007 CRE Est.	FY 2007 CRE Est.	Difference	
	Revised 11/03/06	Revised 04/16/07	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$23,500	\$25,000	\$1,500	6.4 %
Income Taxes:				
Individual	\$2,585,000	\$2,650,000	65,000	2.5 %
Corporation	375,000	\$420,000	45,000	12.0
Financial Inst.	31,000	\$33,000	2,000	6.5
Total	2,991,000	\$3,103,000	112,000	3.7 %
Estate Tax	\$55,000	\$55,000	--	-- %
Excise Taxes:				
Retail Sales	\$1,775,000	\$1,767,000	(\$8,000)	(0.5) %
Compensating Use	290,000	\$286,000	(4,000)	(1.4)
Cigarette	115,000	\$112,000	(3,000)	(2.6)
Tobacco Product	5,200	\$5,200	--	--
Cereal Malt Beverage	2,000	\$2,000	--	--
Liquor Gallonage	17,000	\$17,000	--	--
Liquor Enforcement	46,500	\$46,700	200	0.4
Liquor Drink	8,500	\$8,500	--	--
Corporate Franchise	47,000	\$47,000	--	--
Severance	111,100	\$111,300	200	0.2
Gas	72,300	\$73,900	1,600	2.2
Oil	38,800	\$37,400	(1,400)	(3.6)
Total	\$2,417,300	\$2,402,700	(\$14,600)	(0.6) %
Other Taxes:				
Insurance Premiums	\$113,000	\$114,000	1,000	0.9 %
Miscellaneous	5,000	\$5,000	--	--
Total	\$118,000	\$119,000	1,000	0.8 %
Total Taxes	\$5,604,800	\$5,704,700	\$99,900	1.8 %
Other Revenues:				
Interest	\$89,000	\$91,200	\$2,200	2.5 %
Net Transfers	(161,096)	(\$128,000)	33,096	(20.5)
Agency Earnings	59,554	\$64,500	4,946	8.3
Total Other Revenue	(\$12,542)	\$27,700	\$40,242	(320.9) %
Total Receipts	\$5,592,258	\$5,732,400	\$140,142	2.5 %

**Table 3**  
**State General Fund Receipts**  
**FY 2008 Revised**  
**Comparison of November 2006 Estimate to April 2007 Estimate**  
*(Dollars in Thousands)*

	FY 2008 CRE Est.	FY 2008 CRE Est.	Difference	
	Revised 11/03/06	Revised 04/16/07	Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$24,000	\$25,500	\$1,500	6.3 %
Income Taxes:				
Individual	\$2,750,000	\$2,785,000	35,000	1.3 %
Corporation	355,000	\$375,000	20,000	5.6
Financial Inst.	31,000	\$35,000	4,000	12.9
Total	3,136,000	\$3,195,000	59,000	1.9 %
Estate Tax	\$46,000	\$46,000	--	-- %
Excise Taxes:				
Retail Sales	\$1,745,000	\$1,732,000	(\$13,000)	(0.7) %
Compensating Use	290,000	\$290,000	--	--
Cigarette	115,000	\$111,000	(4,000)	(3.5)
Tobacco Product	5,400	\$5,400	--	--
Cereal Malt Beverage	2,100	\$2,100	--	--
Liquor Gallonage	17,500	\$17,500	--	--
Liquor Enforcement	47,500	\$48,000	500	1.1
Liquor Drink	8,700	\$8,700	--	0.0
Corporate Franchise	48,000	\$41,000	(7,000)	(14.6)
Severance	113,500	\$120,300	6,800	6.0
Gas	74,700	\$81,500	6,800	9.1
Oil	38,800	\$38,800	--	--
Total	\$2,392,700	\$2,376,000	(\$16,700)	(0.7) %
Other Taxes:				
Insurance Premiums	\$115,000	\$115,000	--	-- %
Miscellaneous	2,000	\$2,000	--	--
Total	\$117,000	\$117,000	--	-- %
Total Taxes	\$5,715,700	\$5,759,500	\$43,800	0.8 %
Other Revenues:				
Interest	\$104,000	\$104,000	--	-- %
Net Transfers	(181,308)	(\$380,700)	(199,392)	110.0
Agency Earnings	62,000	\$64,000	2,000	3.2
Total Other Revenue	(\$15,308)	(\$212,700)	(\$197,392)	1,289.5 %
Total Receipts	\$5,700,392	\$5,546,800	(\$153,592)	(2.7) %