

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:53 A.M. on February 20, 2007 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Kansas Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Jason Thompson, Office of Revisor of Statutes
Judy Swanson, Committee Assistant

Conferees appearing before the committee:

Others attending:

See attached list.

SCR 1602--Constitutional amendment prohibiting valuation increases for certain residential property owned by a person 65 years of age or older for property tax purposes

Chris Courtwright reviewed a memo he wrote to Senator Apple concerning the fiscal note on **SCR 1602**. (Attachment 1) Property taxes would tend to shift to other classes of property and to residential parcels not subject to the valuation freeze as a result of slightly higher mill levies necessary to produce the same amount of revenue on the lower assessed valuation base. Senator Apple said **SCR 1602** effectively takes the ability to freeze property taxes from the Constitution and gives it to the Legislature. Senator Apple wants to target seniors who have contributed to society, and who want to remain in the community and live with peace of mind their property valuation will not be increased. Chairman Allen expressed concern the Legislature cannot force future legislators to take action on bills. The property affected by **SCR 1602** must be owned and be the principal residence of the person receiving the tax benefit. Senator Lee said it appears the purpose of this bill is to lower property tax for senior citizens, and there is no guarantee that will happen. In fact, Senator Lee said it would give false hope to seniors in her county. It could cause a shift for school mill levies, and conceivably be of benefit to the poor counties because property valuation would be decreased. Senator Bruce said the intent of the bill is not to lower seniors' property taxes, but to limit the amount of property tax increase. It may result in a property tax shift to those who are younger.

Senator Bruce moved to amend **SCR 1602** on page 1, line 27 by changing the word "shall" to "may" and by changing the word "prohibit" to "limit" and make the appropriate language changes as needed in other places in the bill. Senator Apple seconded the motion, and the motion carried.

Senator Schmidt said **SCR 1602** appears to protect seniors from the county appraiser, but not from the county commissioners. Senator Lee expressed concern this is an equal protection issue. She said it discriminates against renters.

Senator Apple made a motion to recommend **SCR 1602**, as amended, favorably for passage. Senator Bruce seconded the motion. The motion carried with Senator Lee voting No.

Richard Cram, KDOR, said the current fiscal note on **SB 240** is not accurate, and a new fiscal note would be prepared.

Chris Courtwright reviewed the Subcommittee Report on Tax Reductions. (Attachment 2) He presented a multi-year profile summary of fiscal notes on various tax exemption bills currently in Senate Tax Committee. (Attachment 3) If all these tax bills were passed, there would be a fiscal note of \$187 million in FY 2008.

SB 278--Sales tax exemption for precision farming equipment

Senator Pine questioned the \$5 million fiscal note on **SB 278**. Richard Cram testified it was because ATVs

CONTINUATION SHEET

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were included in the bill. If the ATV portion of the bill was taken out, it would probably be reduced to a \$2 million fiscal note. Senator Pine said ATVs should be removed from the bill, as it was never his intent to include them. Mr. Cram will bring a balloon amendment to the next Committee meeting reflecting these changes.

SB 298--Property tax exemption for storage structures used for the storage of cellulose matter

Senator Pine made a motion to report SB 298 favorably for passage. Senator Donovan seconded the motion, and the motion passed.

SB 115--Revocation of retailer's sales tax registration certificate in certain circumstances and prescribing certain unlawful acts related thereto

Gordon Self reviewed balloon amendments to **SB 115**. (Attachment 4) Under current law, selling without a sales tax registration certificate is an unclassified misdemeanor; the penalty is described in KSA 79-3615. The KDOR wants the same penalty provisions to apply to persons who have a sales tax certificate which has been revoked or suspended, who continue to sell illegally.

Senator Donovan made a motion to amend SB 115 per the balloon proposal and to further amend SB 115 by striking lines 15 and 16. Senator Bruce seconded the motion, and the motion carried.

Senator Schmidt moved to report SB 115, as amended, favorably for passage. Senator Bruce seconded the motion, and the motion carried.

Senator Bruce moved to approve the minutes of the February 8, February 13 and February 14 Committee meetings. Senator Jordan seconded the motion, and the motion carried.

Being no further business, the meeting adjourned at 11:54 a.m. The next meeting will be February 21.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: Feb. 20, 2007

NAME	REPRESENTING
Randall Allen	Ks. Assn. of Counties
LARRY R BAER	CKW
Joshua Lewis	Sen. Schmidt
Bob Anderson	Casey's General Stores
Ken Peterson	KS Petroleum Council
Sandy Braden	Alliance for Auto Movers
Paul Jackson	Orion Ethanol
Self Wagaman	Treasurer's office
KE MUDY	66A
John Carr	Sen. Schmidt
David R. Corbin	KDOR
MARK BUCK	KDOR
Ben Cleaves	DOR
Pat Lehman	KFSA
Mary Jane Stankiewicz	KARA
April Holma	Kansas Action for Children
Robyn [unclear]	KMEA
[unclear]	for Dental Assoc

MEMORANDUM

February 13, 2007

To: Senator Pat Apple
From: Chris W. Courtwright, Principal Economist
Re: Fiscal Note on SCR 1602

This memorandum is in response to your request for information on the potential fiscal impact of SCR 1602. As you know, the Budget Division and Property Valuation Division have been unable thus far to provide a fiscal note on this proposed constitutional amendment.

SCR 1602 would, if adopted by voters in November, 2008, amend the Kansas Constitution to require the Legislature to prohibit valuation increases for single-family residential parcels which are owned by and the principal place of residence for Kansas residents age 65 and above. The amendment also would grant the Legislature the authority to limit application of the valuation-increase prohibition; as well as enact other legislation necessary to administer the new constitutional provision.

So if voters were to adopt SCR 1602, the 2009 Legislature would be mandated to pass a law to implement its provisions. Presumably, the first year for which certain valuations could not increase would be tax year 2009, assuming fairly quick action by the 2009 Legislature (though it is certainly possible that the Legislature could view the requirement as prospective and not implement it until tax year 2010). The tax bills associated with tax year 2009 values generally would go out in November of that year, with the first half of the tax year 2009 liability due on December 20, 2009; and the second half due on May 10, 2010.

To the extent that overall assessed valuation growth would be less than under current law, there are two issues relative to its impact. For all but the state portion of the levy, there really is no fiscal note (for local units of government). Property taxes would tend to shift to other classes of property and to residential parcels not subject to the valuation freeze as a result of slightly higher mill levies (necessary to produce the same amount of revenue on the lower assessed valuation base). Relative to the state levies of 21.5 mills (which do not have the flexibility to increase automatically to offset the slight loss in valuation), slightly less revenue would be produced. But it is impossible at this juncture to estimate that amount. Obviously, the fiscal note to the state would be far less than under broader versions of this proposal (which would apply to all residential parcels). Also, no fiscal note would occur until at least FY 2010. By that point in time, PVD presumably could have spent more time working with county appraisers and/or census data to get a better handle on the estimated impact in each county. Another unknown is the extent to which the Legislature might choose to avail itself of its new-found constitutional prerogative and somehow limit application of the valuation freeze (by imposing some sort of asset test or deciding that the valuation freeze was only appropriate under certain narrow circumstances).

About the only thing we can intelligently say at this point in time is that the fiscal note technically is zero, since we cannot really assume in advance what the voters would do with SCR 1602 on election day, 2008. If you do assume they would approve it, we would have a modest fiscal note to deal with beginning in FY 2010 (or perhaps FY 2011) relative to school finance and state building funds.

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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February 7, 2007

To: Senate Assessment and Taxation Committee
From: Chris W. Courtwright, Principal Economist
Re: Subcommittee Report on Tax Reductions (SB 29, SB 50, SB 213)

This memorandum reflects the actions of the subcommittee established last week to review a number of the tax reduction policy options before the 2007 Legislature, especially those embodied in SB 29, SB 50, and SB 213. Generally, the main areas of tax relief proposed in those bills relate to the individual income tax (potential exemption for Social Security benefits in SB 29); corporation franchise tax (SB 50 and SB 213); corporation income tax (SB 213); and tax credit and tax incentive restructuring (SB 213).

FY 2008 Target: \$15 Million in Tax Relief

The subcommittee makes a finding that, based on the current status of the state's revenue and expenditure forecasts, \$15 million in tax relief is close to the maximum amount of tax relief that the Legislature should consider for FY 2008. The subcommittee notes that if the revenue picture appears to brighten in the foreseeable future, any additional resources should be earmarked for enhancing the tax relief package. The subcommittee also asks that the full Committee review policy options associated with phasing in future tax cuts for FY 2009 and thereafter, depending on multi-year SGF profiles and what they show relating to the projected ending balance under certain scenarios.

Franchise Tax Relief

The subcommittee believes that providing some form of franchise tax relief should be one of the highest priorities of the 2007 Legislature. The subcommittee also believes that the tax "cliff" issue should be addressed. The tax "cliff" problem would be resolved if the structure of the franchise tax is changed to authorize computation of the tax to start with only the amount of net worth in excess of the exemption threshold level (as opposed to the total amount of net worth). As such, the subcommittee recommends that the exemption threshold be raised from \$100,000 to \$500,000; and that the tax cliff be eliminated. This proposal would provide a tax benefit to an estimated 22,000 entities, as opposed to the 16,000 entities which would have received tax relief under the Governor's franchise tax proposal.

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Social Security Tax Relief

The subcommittee believes that providing a tax exemption for Social Security benefits (as do most states) should be a priority. The subcommittee therefore recommends that an initial step be taken towards elimination of the Kansas tax on benefits by exempting from the income tax altogether benefits received by both single and joint filers with federal adjusted gross income of \$50,000 and below.

Fiscal Impact: Franchise and Social Security

The subcommittee's recommendations regarding the aforementioned provisions would have a fiscal impact in FY 2008 of \$15.9 million -- \$10.5 million attributable to the franchise tax cut; and \$5.4 million attributable to the social security tax cut.

Tax Credit and Incentive Restructuring

Recalling that the tax credit and tax incentive restructuring recommendations of the Governor embodied in SB 213 were designed to be revenue-neutral, the subcommittee finds that some additional changes (which will involve some slightly negative fiscal impact) may be necessary to allow small and medium-sized businesses to continue to participate in the programs. The subcommittee notes that Secretary Wagnon is continuing to work with business community on a revised proposal that would reduce certain thresholds for the investment tax credit, job credit, and opportunity zone programs, as well as reinstating the high performance incentive program training and education tax credits. One policy option reviewed in the subcommittee relating to all these issues would have a fiscal impact in FY 2008 of \$4.5 million.

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	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>3 yr-total</u>
Franchise	-\$10.5	-\$10.7	-\$11.0	-\$32.2
Social Security	-\$5.4	-\$5.9	-\$6.5	-\$17.9
Tax Credit Restruc	-\$4.5	-\$4.5	-\$4.5	-\$13.5
Total Subcommittee	-\$20.4	-\$21.1	-\$22.0	-\$63.6

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F Notes for Various Tax Bills

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			FY 2008	FY 2009	FY 2010	3-yr total
SB 26	Homestead Expansion	sen floor	-\$2.000	-\$2.000	-\$2.000	-\$6.000
SB 28	Homestead Valuation Ceiling	sen floor	\$0.250	\$0.250	\$0.250	\$0.750
SB 29	Soc Sec Exemption		-\$18.900	-\$20.790	-\$22.869	-\$62.559
SB 50	Franchise Repeal		-\$44.000	-\$45.000	-\$46.000	-\$135.000
SB 59	Tuition Credits		-\$12.100	-\$24.100	-\$25.546	-\$61.746
SB 92	Sales/use accelerator	killed sen floor				
SB 98	Sales Exemption Dream Factory		-\$0.025	-\$0.028	-\$0.029	-\$0.083
SB 140	Credit for Hybrid Vehicles		-\$3.400	-\$3.604	-\$3.820	-\$10.824
SB 172	Credit for USD Book Fees		-\$17.000	-\$18.020	-\$19.101	-\$54.121
SB 199	Sales Exemption Jazz in Woods		-\$0.010	-\$0.011	-\$0.012	-\$0.033
SB 200	Sales Exemption Ottawa Suzuki Strings		\$0.003	\$0.003	\$0.004	\$0.010
SB 213	Gov's Tax Bill		-\$12.800	-\$29.500	-\$36.600	-\$78.900
SB 215	Credit for Comm Coll Cap Improvements		-\$7.900	-\$7.900	-\$7.900	-\$23.700
SB 227	Sales Exemption Lions Clubs		\$0.500	\$0.567	\$0.590	\$1.657
SB 228	Sales Exemption Commercial Remodeling		not available as of Feb 19			\$0.000
SB 240	Apportionment Net Income		\$0.000	\$0.000	\$0.000	\$0.000
SB 241	Sales Exemption Jo Co Young Matrons		-\$0.010	-\$0.011	-\$0.012	-\$0.033
SB 256	Sales Exemption Frontenac Educ Fndtn		\$0.002	\$0.002	\$0.002	\$0.007
SB 261	Sales Exemption Booth Theatre Fndtn		-\$0.030	-\$0.034	-\$0.035	-\$0.099
SB 278	Sales Exemption Precision Farm Equip		-\$5.000	-\$5.673	-\$5.900	-\$16.572
SB 289	Sales Exemption 501c3 purchases only		-\$25.000	-\$28.364	-\$29.498	-\$82.862
SB 290	Sales Exemption TLC Charities		-\$0.001	-\$0.001	-\$0.001	-\$0.003
SB 291	Excise Tax on Sexually Explicit Bus		not available as of Feb 19			\$0.000
SB 312	Expand EITC		not available as of Feb 19			\$0.000
SB 327	Credit for Renewable Fuels		not available as of Feb 19			\$0.000
SB 331	Expand Credit for Historic Preservation		not available as of Feb 19			\$0.000
SB 336	Increase, Index Homestead Max Refund		-\$16.400	-\$16.800	-\$17.200	-\$50.400
SB 340	Changes in Car Tax Formula (est)		positive - needs to be reworked			\$0.000
SB 341	Franchise Tax and Fee Reduction		not available as of Feb 19			\$0.000
SB 344	Section 529 Credit Expansion		-\$3.100	-\$3.286	-\$3.483	-\$9.869
HB 2031	Franchise Tax Phased Out		-\$15.000	-\$30.000	-\$46.000	-\$91.000
HB 2037	Energy Efficiency Tax Credits		-\$2.500	-\$2.500	-\$2.500	-\$7.500
HB 2038	Prop Tax Exemption for Expanded Nuclear		unknown impact on 21.5 mills			
HB 2240	Sales Exemption Rebuilding Public Utilities		-\$3.000	-\$3.404	-\$3.540	-\$9.943
Total These Bills			-\$187.421	-\$240.203	-\$271.201	-\$698.825

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SENATE BILL No. 115

By Legislative Budget Committee

Proposed Amendments to Senate Bill No. 115
Balloon #2

1-17

9 AN ACT concerning sales taxation; relating to registration certificates;
10 prescribing certain unlawful acts and providing penalties therefor;
11 amending K.S.A. 2006 Supp. 79-3608 and repealing the existing
12 section.
13

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

15 Section 1. K.S.A. 2006 Supp. 79-3608 is hereby amended to read as
16 follows: 79-3608. (a) Except as otherwise provided, it shall be unlawful
17 for any person to engage in the business of selling tangible personal prop-
18 erty at retail or furnishing taxable services in this state without a registra-
19 tion certificate from the director of taxation. Application for such certif-
20 icate shall be made to the director upon forms furnished by the director,
21 and shall state the name of the applicant, the address or addresses at
22 which the applicant proposes to engage in such business, and the char-
23 acter of such business. Utilities taxable under this act shall not be required
24 to register but shall comply with all other provisions of this act. The
25 taxpayer may be registered by an agent. Such appointment of the agent
26 by the taxpayer shall be in writing and submitted to the director. The
27 taxpayer shall be issued a registration certificate to engage in the business
28 for which application is made unless the applicant at the time of making
29 such application owes any sales tax, penalty or interest, and in such case,
30 before a registration certificate is issued, the director of taxation shall
31 require the applicant to pay the amount owed.

32 (b) A separate registration certificate shall be issued for each place
33 of business, and shall be conspicuously displayed therein.

34 (c) A seller registering under the agreement is considered registered
35 in this state and shall not be required to pay any registration fees or other
36 charges to register in this state if the seller has no legal requirement to
37 register. A written signature from the seller registering under the agree-
38 ment is not required. An agent may register a seller under uniform pro-
cedures determined by the secretary. A seller may cancel its registration
under the system at any time under uniform procedures determined by
the secretary. Cancellation does not relieve the seller of its liability for
remitting to this state any taxes collected.

(d) *The secretary may suspend or revoke the registration certificate*

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1 of any taxpayer found in default for a period of at least 60 days in the
2 payment of any retailer's sales tax or in the filing of any return after
3 having given the taxpayer 10 days' notice of the time and place of a hear-
4 ing to show cause why such registration certificate should not be sus-
5 pending or revoked. A suspended or revoked registration certificate shall
6 not be reinstated until all outstanding tax, penalty and interest liabilities
7 are satisfied. A suspension or revocation pursuant to this subsection shall
8 be applicable to any individual who is a responsible party for the collec-
9 tion or payment of retailer's sales tax as provided by subsection (a) of
10 K.S.A. 79-3643, and amendments thereto.

11 (e) It shall be unlawful for any person to engage in the business of
12 selling tangible personal property at retail or furnishing taxable services
13 in this state after such person's registration certificate has been suspended
14 or revoked.

15 (f) Violation of the provisions of subsection (e) is a class A, nonperson
16 misdemeanor.

17 Sec. 2. K.S.A. 2006 Supp. 79-3608 is hereby repealed.

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

. Prior to taking any such action, the secretary shall provide the taxpayer 30

to be conducted pursuant to the Kansas administrative procedures act

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