

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:30 A.M. on March 1, 2007 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Kansas Legislative Research Department
Martha Dorsey, 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:

Senator Susan Wagle
Ali Devine, Kansas Livestock Association
Derek Sontag, NFIB
Marlee Carpenter, Kansas Chamber
Joan Wagnon, KDOR
Gary Centlivre, KDOR

Others attending:

See attached list.

Hearing on SB 347—Electronic filing of income tax withholding for employers with 100 or more employees

Senator Susan Wagle testified legislation passed by the Legislature last year to require businesses with more than 50 employees file their withholding reports electronically has created problems for employers. (Attachment 1) KDOR software is not electronically compatible with common bookkeeping systems like Quick Books or Peachtree. Although the bill increases the number of employees to 100 before electronic W-2 filing is required, Senator Wagle said she prefers the Kansas threshold be the same as the requirement in the Federal guidelines, which is 250 employees.

Ali Devine, Kansas Livestock Association, said KLA members employ many high turnover employees, which means many of their operations meet the current 50-employee threshold. (Attachment 2) KLA supports electronic filing, but thinks it is best to raise the threshold to assure that midsize operations are not required to go to these systems.

Natalie Bright, Wichita Independent Business Association, testified in favor of **SB 347**. (Attachment 3) There is a population of businesses who are struggling to find the necessary resources to comply with the legislation which was enacted last session.

Written testimony supporting **SB 347** was received from:

Derrick Sontag, NFIB (Attachment 4)
Marlee Carpenter, Kansas Chamber (Attachment 5)

Joan Wagnon, Secretary of Kansas Department of Revenue, testified KDOR does not feel **SB 347** is necessary. (Attachment 6) Since this is the first year for requiring electronic filing of W-2's, KDOR is working with most employers who have indicated they will not be able to comply until next year. Secretary Wagnon suggested an amendment to **SB 347** to grant authority to the Secretary of KDOR, to waive the W-2 electronic filing requirement when it would otherwise be a hardship for the employer to comply. Steve Stotts, KDOR, said the actual W-2's are thrown away after a three-year period. Gary Centlivre, KDOR, said he intends to make available downloadable software for those employers who do not have the means to file their W-2's electronically. Several Senators expressed concern certain software packages, such as Quick Books and Peachtree, would not allow KDOR software to interact with such licensed software. Secretary Wagnon said about 8% of people who are getting paid in Kansas are not filing tax returns. She opposes a higher W-2 electronic filing threshold, because it would narrow KDOR's scope for matching social security numbers for

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:30 A.M. on March 1, 2007 in Room 519-S of the Capitol.

non-filers. Senator Wagle questioned why the state could not buy a scanner, rather than creating new software. The hearing closed.

Chris Courtwright reviewed the Subcommittee Report on Tax Reductions. (Attachment 7) Chairman Allen requested the Committee limit discussion to the franchise tax and the social security tax recommendation portions of the report. During discussion, KDOR said State revenue in February was \$84 million above projected estimates. Senator Jordan said the Senate Commerce Committee is considering additional tax credits and tax incentives. Senator Schmidt said the Committee must consider there are many other tax cuts being considered in the Legislature. Senator Apple expressed concern about the consequences of too many tax reductions being passed. The House Tax Committee passed out a bill completely repealing social security benefits from income tax.

Senator Goodwin moved the Subcommittee recommendations on franchise tax and social security tax be amended into **HB 2031**, and be reported favorably as **Senate Substitute for HB 2031**. Senator Schmidt seconded the motion, and the motion carried.

Being no further business, the meeting adjourned at 11:50 a.m. The next meeting will be March 6.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 03/01/07

NAME	REPRESENTING
Bruce Larkin	KDOR
Richard Cram	"
Ben Cleever	DOR
Alice Deoria	K. Livestock Assoc.
Ted Worner	KS Govt Consulting
Ashley Sherard	Lenexa Chamber
J. Kent Eckles	O.P. Chamber of Commerce
BRAD HARRELSON	KFB

State of Kansas
Senate Chamber



Susan Wagle

Madam Chair

I appear today as a proponent of S.B. 347. I had the bill written and advanced through an exempt committee after my business tax return was kicked back from the Kansas Department of Revenue several weeks ago.

I submit all end of year payroll taxes earlier than most businesses. I complete them the first week of January before coming to Topeka so I can concentrate on legislative business. The Kansas Withholding tax that this bill deals with is not due for submission to the State until February 28th. I recently received a letter which I have attached from the Department of Revenue stating that they would not accept my return because it needed to be submitted electronically. I would submit to you that many more letters are about to go out to small businesses in your district.

We passed a new requirement last year for businesses who employ 50 or more employees to submit their Withholding electronically. In talking with other small businesses, accountants, CPA's and the Secretary of Revenue, I found out that our Department of Revenue is not electronically compatible with common bookkeeping systems like Quick Books or Peachtree. As it has turned out, any small business trying to comply with this law would have to have their accounting computer connected to the internet and they would have to purchase software to convert their data to send it to the Department of Revenue.

I chose several years ago to NOT connect my bookkeeping computer to the internet. The expense of internet service for a small business is at least twice the cost of personal connection, and one also has to also purchase a fire wall to make sure that no one can tap into your highly sensitive personnel data that has names, ages, social security numbers, addresses, etc on each employee. I made the conscientious decision to not purchase internet service because I didn't want anyone tapping into that information and quite frankly, I also didn't want internet spam messing up my books or crashing my computer.

After talking with the Secretary of Revenue, and after she learned that three weeks ago they had already kicked back 278 returns, she made the executive decision to not implement this new law until next year. She told me she was going to send out a new letter informing small business in Kansas that the Department will now accept paper returns.

However, this bill still needs to be passed. We need to make Kansas law compatible with Federal Law for ease of filing returns in Kansas. The Feds do not require electronic submissions until one has 250 employees. So, I am here today asking you to make Kansas law compatible with Federal law and only require electronic submissions when a business has over 250 employees.

Requiring electronic reporting for small businesses is too onerous an expense and will be too complicated to enact, as we have already seen, if the requirement is only applicable to State returns.

I ask you today to make Kansas mirror Federal law by amending this bill to the threshold of Federal requirements and prevent another problem next year.

REPRESENTATIVE, 30TH DISTRICT
SEDGWICK COUNTY
14 SANDALWOOD
WICHITA, KANSAS 67230

Assessment & Taxation ROOM 128-S
Date 3-1-07 STATE CAPITOL
Attachment # 1 TOPEKA, KS 66612-1504
(785) 296-7386



STATE OF KANSAS
DEPARTMENT OF REVENUE
Electronic Services
915 SW Harrison St.
Topeka KS 66612-1588

Toll Free: 800-525-3901
Local: 785-296-6993
FAX: 785-296-0153
TTY: 785-296-6461
Internet: www.webtax.org

February 1, 2007

WICHITA BUSINESSES INC
PO BOX 781090
WICHITA, KS 67278

RE: Mandated Electronic Filing Requirement for Withholding

Dear Withholding Filer,

In September, a notice was mailed to Kansas businesses regarding a mandated electronic filing requirement effective January 1, 2007. Employers, payers and organizations filing statements which report withholding information for 51 or more employees or payees are affected by this mandate. Entities having more than 51 reports are required to file their 2006 withholding reports electronically.

The Kansas Department of Revenue recently received 51 paper copies of withholding reports combined with a KW-3 Annual Withholding Tax Return from your organization. While we have accepted your withholding reports, we are unable to import the data into our tax system. You are encouraged to file your 2006 withholding reports as an amended return on-line before the filing deadline of February 28, 2007.

In an effort to remain consistent with Federal reporting record formats while remaining flexible, the Kansas Department of Revenue (KDOR) has developed several approaches for entities to submit withholding information. The Department has created a web site where filers can input W-2s directly into an online form, or upload W-2 and 1099 information in defined fixed-width and comma separated value (CSV) formats. Withholding information for electronic filing information, along with appropriate file formats, is available at <http://www.ksrevenue.org/eservw2.htm>. Please visit our web site to determine how best to file your reports electronically.

For more information about electronic filing, visit the KDOR website at www.webtax.org. Additional questions about electronic filing should be directed to Electronic Services at 1-800-525-3901 or eservices@kdor.state.ks.us.

Electronic Services
Kansas Department of Revenue

Assessment & Taxation
Date 3-1-07
Attachment # 1-2



Since 1894

TESTIMONY

To: Senate Committee on Assessment and Taxation
Senator Allen, Chair

From: Allie Devine
Vice President and General Counsel

Date: March 1, 2007

Re: SB 347

Good morning, my name is Allie Devine. I am here representing the Kansas Livestock Association.

KLA represents nearly a hundred commercial cattle feeding operations. These commercial cattle feeders employ anywhere from a few to over a hundred employees. Unfortunately, in the cattle feeding business, there is a high turnover rate among cowboys or "pen riders," "cattle processors (persons who treat animals for diseases)", and general laborers. This means that are many different persons who may fill those jobs. This results in several filings and would mean these operations would meet the current 50 employee threshold.

We support electronic filing, but think it is best to raise the threshold to assure that midsize operations (30,000 to 50,000 head capacity) are not required to go to these systems.

We appreciate the opportunity to testify on this issue. Thank you.

Assessment & Taxation
Date 3-1-07
Attachment # 2



Wichita Independent Business Association

THE VOICE OF INDEPENDENT BUSINESS

**Kansas Senate Assessment and Taxation Committee
Testimony in support of: Senate Bill 347**

**By: Natalie Bright
Wichita Independent Business Association
Kansas Independent Business Coalition**

**445 N Waco, Wichita, KS 67202
Phone 316 267 8987 – Fax 316 267 8964**

Chairman Allen and Honorable Committee members:

Thank you for the opportunity to appear before you in favor of SB 347, which proposes amendments to the requirement of mandated electronic filing with the Kansas Department of Revenue. My name is Natalie Bright and I am appearing on behalf of the over 1,300 members of the Wichita Independent Business Association (WIBA) and the Kansas Independent Business Coalition (KIBC).

Last year, legislation passed that authorized the Kansas Department of Revenue (KDOR) to require electronic filings for annual withholding statements from employers who have 51 or more employees. Though many of our members have easily, and willingly, converted their reporting to meet the state's mandate, there is a population of businesses who are struggling to find the necessary resources to do so. As such, we believe the imposition of this mandate unfairly and unnecessarily burdens those small employers in the state who do not have the means nor the manpower to invest or create the electronic system necessary to comply with the state filing mandate.

Furthermore, we have heard from practitioners in the state who express concern as to whether the KDOR is adequately prepared for the electronic filings they request be mandated. The following is an excerpt from a member who responded to our inquiry in regards to SB 347:

"In my opinion the State of Kansas, the legislature in particular, is really out of touch with the Department of Revenue's ability to successfully implement legislative change. I don't know if the DOR is requesting these changes and underestimating their ability to implement, or if the Legislature is passing new reporting laws without consulting with the DOR...the change for "destination based" sales tax resulted in similar confusion and delay. My fear is this pattern will cause businesses to wait until the last minute to adopt new changes, because they will wait and see if the State really intends to follow through, or will they back off at the last minute. I suppose it would be asking too much to add 1 year to future (major) changes to business reporting requirements, giving everyone more time to get their arms around the issue and make the necessary changes."

While we do not want to discourage progress and efficiency in state government, we respectfully ask that the Kansas Legislature require the KDOR to provide adequate assurances that they are capable of providing the infrastructure necessary for Kansas businesses to comply with each mandate passed.

In conclusion, the members of WIBA/KIBC applaud the KDOR's effort to make the tax collection process more efficient. However, we respectfully ask you support SB 347 in an effort to provide relief to those businesses not able to comply with the mandate within their current resources and demand from the KDOR that they have in place the infrastructure necessary for all Kansas businesses to comply with the mandates they request.

Assessment & Taxation
Date 3-1-07
Attachment # 3



The Voice of Small Business®

Legislative Testimony
Derrick Sontag, NFIB State Director
Senate Bill 347
March 1, 2007

Madam Chair and members of the committee:

Thank you for the opportunity to provide written testimony in support of Senate Bill 347.

Senate Bill 347 would require businesses of 100 employees or more to electronically file a statement with the Department of Revenue, listing the total amount of tax withheld from wages from each employee.

This is a change from current law in that presently, businesses with 51 or more employees must electronically file the required statement.

The requirement of small businesses to electronically file these statements can be burdensome and expensive. Many of our smaller businesses only use the internet for standard operating procedures that require only minimal safeguards for privacy and protection.

The electronic filing of sensitive tax information poses a problem for many of our businesses, in that they are forced to invest in expensive safeguards such as firewalls, in order to maximize protection of the transmitted information. This results in government imposing an expensive mandate on small businesses solely for the purpose of making things more convenient.

The current requirement of 51 employees or more is helpful in that it eliminates this mandate for many of our members. However, after learning of SB 347, many of our members who employ more than 51 employees expressed the same concerns as it relates to the electronic filing requirement.

I would encourage the committee to lessen the burden on these businesses by passing SB 347.

Thank you for your time and consideration of this important matter.

Derrick Sontag, Kansas State Director
National Federation of Independent Business
785-213-9769
Derrick.sontag@nfib.org

Legislative Testimony

SB 347

March 1, 2007

**Testimony before the Senate Assessment and Taxation
Committee
by Marlee Carpenter, Vice President of Government Affairs**

Chairman Allen and members of the committee:

I am Marlee Carpenter with the Kansas Chamber. We represent over 10,000 members, small, medium and large businesses from all corners of the state. The Kansas Chamber supports SB 347. This bill will provide relief for small businesses that now have to file electronically with the Kansas Department of Revenue.

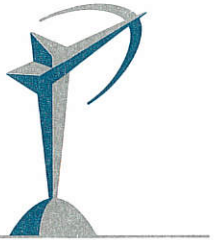
Accounting software that many small businesses use cannot comply with the electronic filing requirements. These companies are forced to purchase different software so that they can remit payment to the Department of Revenue. This is an added expense and burden to the business owner.

In addition, federal law only requires an employer to electronically file if they have over 250 employees. Many small businesses do not electronically file with the federal government but must follow a different process for state filing.

The Kansas Chamber urges the committee to approve SB 347.

The Kansas Chamber, with headquarters in Topeka, is the statewide business advocacy group moving Kansas towards becoming the best state in America to do business. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have more than 10,000 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, medium and large employers all across Kansas.

Assessment & Taxation
Date 3-1-07
Attachment # 5



**THE KANSAS
CHAMBER**

The Force for Business

835 SW Topeka Blvd.

Topeka, KS 66612-1671

785-357-6321

Fax: 785-357-4732

E-mail: info@kansaschamber.org

www.kansaschamber.org

Testimony to the Senate Committee on Assessment and Taxation

JOAN WAGNON
Gary Centlivre

March 1, 2007

Department Concerns with Senate Bill 347

Senator Allen, Chair, and Members of the Committee:

Senate Bill 347 would undo the legislation that passed last year, 2006 Senate Bill 432, Section 7, requiring employers with 51 or more employees to electronically filing W-2's with the department. As explained below, we do not believe this bill is necessary.

Electronic access to W-2 information provides a vital role in our tax discovery program. Recent experience shows that about 8% of SSN's that are matched are in some way out of compliance with Kansas income tax requirements. The department has assessed nearly \$10.0 million in tax, penalty and interest for those taxpayers discovered to be either nonfiled or noncompliant. The department expects to receive over 1.5 million W-2's electronically this year. We cannot data-match paper W-2's. When we match the SSN's to determine if an income tax return has been filed, if only 1% have not filed a return, or 15,000, and the average amount due for all nonfiled periods is \$1,000, the amount of additional income tax collections could be \$15.0 million.

The filing deadline with the department for 2006 W-2's is February 28, 2007, so the information below is not complete. As of February 27, 2007, 6,346 employers have filed 1,073,755 W-2's with the department. The table below shows the number of employers, by range of employees, that have filed electronically and those that have filed by paper, as of that date. On February 28, 2007, we received an additional 75,589 W-2's electronically. We will not have a full count of all W-2 filings (including paper) by the February 28 due date until early next week, and will provide that information as soon as it is available.

OFFICE OF POLICY AND RESEARCH

DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA, KS 66612-1588
Voice 785-296-3081 Fax 785-296-7928 <http://www.ksrevenue.org/>

Assessment & Taxation
Date 3-1-07
Attachment # 6

Employee Range (% compliant)	Electronically	Paper	Total Filers
1 - 50	2,749		
51 - 100	1,209	321	1,530
79%			
101 - 249	1,073	183	1,256
85.4%			
250 and over	776	35	811
95.7%			
Employers Required to File Electronically*	3,058	539	3,597
85%			
Total W-2's Filed*	987,297	86,458	1,073,755
91.9%			

*The information above does not include W-2 information provided by the major payroll services.

The department recently sent letters to 164 employers required to file electronically who instead filed by paper, encouraging them to amend and file electronically. We received 90 calls from these employers and 50 have now filed electronically. We advised the 45 that did not amend and file electronically that their paper W-2's were accepted, and 44 of them replied that they would be prepared to file electronically next year. On February 20, 2007, the department sent a letter (copy attached) to the remaining employers that have filed paper W-2's indicating that their paper filing will be accepted. We are calling those employers with over 250 employees that filed by paper and requesting electronic copies.

This is the first year for requiring electronic filing of W-2's. Most employers who filed by paper have indicated they will be able to file electronically next year. By next year's W-2 filing season, we intend to make available free of charge downloadable software for those employers that otherwise do not have the means of filing their W-2's electronically.

Attached is a timeline describing the department's efforts to timely inform employers of the electronic filing requirement and work with them to implement this change.

Suggested Amendment

We do not believe this bill is necessary, but if the Committee does consider it, attached is our suggested balloon amendment to Senate Bill 347 granting authority to the Secretary to waive the W-2 electronic filing requirement when it would otherwise be a hardship for the employer to comply.

Assessment & Taxation
Date 3-1-07
Attachment # 6-2



STATE OF KANSAS
DEPARTMENT OF REVENUE
Electronic Services
915 SW Harrison St.
Topeka KS 66612-1588

Toll Free: 800-525-3901
Local: 785-296-6993
FAX: 785-296-0153
TTY: 785-296-6461
Internet: www.webtax.org

February 23, 2007

Business Name
Address
City, KS #####

Acct: #####

RE: Mandated Electronic Filing Requirement for Withholding

Dear Withholding Filer,

In September, a notice was mailed to Kansas businesses regarding a mandated electronic filing requirement effective January 1, 2007. According to Kansas law, employers, payers and organizations filing statements which report withholding information for 51 or more employees or payees are required to file their 2006 reports electronically.

In an effort to remain consistent with Federal reporting record formats while remaining flexible, the Kansas Department of Revenue (KDOR) has developed several approaches for entities to submit withholding information. The Department has created a web site where filers can input W-2s directly into an online form, or upload W-2 and 1099 information in defined fixed-width and comma separated value (CSV) formats. Withholding information for electronic filing information, along with appropriate file formats, is available at <http://www.ksrevenue.org/eservw2.htm>.

The Kansas Department of Revenue recently received **00** paper copies of withholding reports combined with a KW-3 Annual Withholding Tax Return from your organization. We have accepted your withholding reports for tax year 2006. If you exceed the threshold for filing withholding returns on paper for tax year 2007, you will be required to file your returns electronically to comply with the mandate.

For more information about electronic filing, visit the KDOR website at www.webtax.org. Additional questions about electronic filing should be directed to Electronic Services at 1-800-525-3901 or eservices@kdor.state.ks.us.

Electronic Services
Kansas Department of Revenue

Assessment & Taxation
Date 3-1-07
Attachment # 6-3

Communication of Senate Bill 432, Section 7 to Withholding Taxpayers Timeline

August 2006

- Information letter mailed to all Withholding taxpayers informing them of Senate Bill 432, Section 7, with pertinent information on what it means to them and how they are affected. The letter also provided a toll free number for them to call if they have any questions. In addition, the KDOR website was included to inform of all formatting and development updates they would need.
- Email communication sent to the Kansas Society of Certified Public Accountants (KSCPA) Executive Director with the same communication note above being mailed included. The KSCPA responded they would put the information in the KSCPA Newsletter for all its membership.
- Email communication sent to the Public Accountants Association of Kansas (PAAK) with the same communication note above being mailed included.
- Email communication sent to the Wichita Independent Business Association (WIBA) President Cliff Sones, with the same communication note above being mailed included.
- KDOR Website updated to include the new withholding information.

October 2006

- Withholding Coupon Booklets start being mailed to taxpayers. On every coupon booklet, in red letters on the front and back of the booklet, it states, "*More than 50 Payees? NEW LAW! Mandated electronic filing ... see page 4*".
- Presentation to the National Association of Tax Professionals Annual Conference October 23, 2006 in Wichita, Kansas.

November 2006

- Presentation to the National Association of Tax Professionals November 20, 2006 in Overland Park, Kansas.
- Mailed Instructions for form KW-3E, which is the withholding electronic submission annual reconciliation form for all filed KW-5 forms to all Electronic Funds Transfer filers.
- The KW-100 withholding tax guide was published on the KDOR website. On page 19 of the instructional guide concerning W-2s it states "*... employers submitting more than 50 W-2 records must file electronically using the Department's online business tax system at www.webtax.org. Employers reporting less than 51 records can file on paper but are encouraged to use WebTax to submit their W-2s as well as manage various business accounts.*"

SENATE BILL No. 347

By Committee on Federal and State Affairs

2-14

9 AN ACT concerning income tax; relating to withholding; annual state-
10 ment, electronic filing; amending K.S.A. 2006 Supp. 79-3299 and re-
11 pealing the existing section.
12

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

14 Section 1. K.S.A. 2006 Supp. 79-3299 is hereby amended to read as
15 follows: 79-3299. (a) Every employer, payer, person or organization de-
16 ducting and withholding tax, on or before January 31 of each year, shall
17 prepare a statement for each employee or payee on a form prescribed by
18 the director stating the amount of wages or payments other than wages
19 subject to Kansas income tax paid during the preceding year, the total
20 amount of tax withheld, if any, from such wages or payments other than
21 wages by the employer, payer, person or organization pursuant to this act
22 and such other information as may be prescribed by the director. One
23 copy of such statement shall be filed by the employer, payer, person or
24 organization with the division of taxation on or before the last day of
25 February of each year. If the employer, payer, person or organization files
26 statements which report such withholding information for ~~51~~ 100 or more
27 employees or payees, the statements shall be filed by electronic means.

28 ~~With regard to the filing of statements required to be filed pursuant to~~
29 ~~this section for such wages paid and amount of tax withheld during cal-~~
30 ~~endar year 2006, any employer, payer, person or organization that files~~
31 ~~statements which report such wages paid and withholding information~~
32 ~~for at least 51 employees or payees but less than 100 employees or payees~~
33 ~~with the division of taxation on or before February 28, 2007, by means~~
34 ~~other than electronic means, shall be deemed to be in compliance with the~~
35 ~~provisions of this section as it existed prior to the effective date of this act,~~
36 ~~and no penalties shall be imposed against such employer, payer, person~~
37 ~~or organization.~~ Two copies of such statement shall be given to the em-
38 ployee or payee concerned, one of which will be filed by the employee
39 or payee with the tax return required by this chapter.

40 (b) In the case of an employee whose employment is terminated be-
41 fore the end of a calendar year, the statement required by subsection (a)
42 may be mailed at the time provided in that subsection to the last known
43 address of the employee, or issued at the time of the last payment to the

51

If filing such statements by electronic means would be a hardship for any such employer, payer, person or organization, the secretary may allow such statements to be filed other than electronically.

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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Topeka, Kansas 66612-1504
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<http://www.kslegislature.org/kldr>

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.

Assessment & Taxation
Date
Attachment #

Assessment & Taxation
Date 3-1-07
Attachment # 7

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 Wagon 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.

xxxxx-(2/19/07[9:31AM])

	<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

nc016x67 & 109m22922A
Attachment #

Assessment & Taxation
Date 3-7-07
Attachment # 1-2