

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:40 A.M. on January 24, 2008 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Gordon Self, Office of Revisor of Statutes
Chris Courtwright, Kansas Legislative Research Department
Scott Wells, Office of Revisor of Statutes
Ryan Hoffman, Kansas Legislative Research Department
Judy Swanson, Committee Assistant

Conferees appearing before the committee:

Stuart Little
Senator John Vratil
Rebecca Morrison, Shawnee Mission Education Foundation
Katherine Allen, Blue Valley Education Foundation
April Holman, Kansas Action for Children
Mark Tallman, Kansas Association of School Boards
Paul Welcome, Johnson County Appraiser

Others attending:

See attached list.

Stuart Little, on behalf of The Mirror, Inc., requested introduction of a sales tax exemption bill for The Mirror, Inc. Senator Donovan moved the introduction of the requested bill. Senator Pine seconded the motion, and the motion passed. (Attachment 1)

Senator Lee on behalf of the Kansas Livestock Association moved to request introduction of a bill concerning truck boxes and beds. Senator Pine seconded the motion, and the motion passed.

Senator Apple moved to introduce a sales tax exemption bill for Miami County Fair Association, Franklin County Fair Association, Paola Senior Center and Douglas County Senior Center. Senator Bruce seconded the motion, and the motion passed.

Hearing was opened on **SB 446—Sales tax exemption for educational foundations that support programs and services of elementary and secondary schools.**

State Senator John Vratil testified in favor of **SB 446** and explained the language in the bill would return to K-12 educational foundations the sales tax exemption that was allowed prior to 1998. (Attachment 2) It would enable K-12 educational foundations to again purchase items and materials and sell items, tickets, etc. without paying a sales tax. He provided history of how these entities were inadvertently excluded from the exemption.

Rebecca Morrison, Executive Director of Shawnee Mission Education Foundation (SMEF), testified in favor of **SB 446**. (Attachment 3) She said she didn't believe it was the intention of the Kansas Legislature to direct or dilute the philanthropic intentions of its citizens or lessen educational opportunity. She said there are approximately 150 K-12 foundations throughout the state, and they range from very small to very large organizations that have program support. SMEF has \$1.5 million in assets.

Katherine Allen, Executive Director of Blue Valley Education Foundation (BVEF), testified in support of **SB 446**. (Attachment 4) She testified the mission of BVEF is to enrich educational excellence through community outreach, financial development, and ongoing funding of extraordinary educational programs in Blue Valley Schools. BVEF awarded over \$70,000 in teacher grants last fall.

April Holman, Kansas Association for Children (KAC), testified in opposition to **SB 466**. (Attachment

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:30 A.M. on January 24, 2008 in Room 519-S of the Capitol.

5) Her opposition was not specific to exempting from sales tax purchases and sales of educational foundations, but instead a reflection of KAC's general concern about the erosion of the sales tax base. A better approach would be to modernize the Kansas tax system. In response to Senator Apple, she said her organization was not tax exempt, and she would oppose it becoming tax exempt.

Mark Tallman, representing Kansas Association of School Boards (KASB) and Kansas National Education Association (KNEA), testified in opposition to **SB 466**. (Attachment 6) He said he is not opposed to the concept of the bills, but is concerned about sales tax exemptions of any kind. His concern is with the cumulative impact of all sales tax exemptions. He believes the current direction of Kansas tax policy is unsustainable. In response to Senator Apple, he said KASB is not tax exempt, and hoped his Board of Directors would oppose any measure to make KASB tax exempt. He said he thought Kansas Personal Income (KPI) is a good measure of the cost of education in Kansas.

Chairman Allen distributed the fiscal note on **SB 446**. (Attachment 7)

The hearing was closed.

Hearing was opened on **SB 444—Property tax exemption for certain tangible personal property with purchase price less than \$1,500**.

Paul Welcome, Johnson County Appraiser, explained to the Committee how a tax bill of less than \$5 is not collected, but the Appraiser's Office, the County Clerk's Office and the County Treasurer's Office all have to do the paperwork before the decision is made. (Attachment 8) With the passage of this bill, properties that comprise most of the low-valued properties, including older watercraft, mopeds, canoes, etc., would be exempt with a \$1,500 threshold. He said the \$1,500 threshold was a starting point to consider, and he was open to a lower amount being used instead. Johnson County has approximately 1,642 accounts that become exempt after the County Appraiser values the property, and the County Treasurer issues a tax bill. The net loss generated as a result of negated income on work performed due to exemptions after the fact is approximately \$5,169.40. Low valued properties should be exempted to cancel the county's negative return on investment. Mr. Welcome said the entire Johnson County mill levy for all taxing jurisdictions is approximately 120 mills. Senator Lee asked for an explanation of the fiscal note (Attachment 9) as to how the statewide loss of \$300,000 would affect local government. Richard Cram, Kansas Department of Revenue, will provide that information. Senator Donovan thought if the \$1,500 figure were changed to \$800 or \$1,200, it might not impact the state at all.

The hearing closed.

Senator Donovan moved to approve the Minutes of the January 17 Committee meeting. Senator Jordan seconded the motion, and the motion carried.

Being no further business, the meeting adjourned at 11:15 a.m. The next meeting is scheduled for January 29

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: _____

1-24-08

NAME	REPRESENTING
Jeff Longbine	City of Emporia
Blaise Plummer	City of Emporia
Sharon Stafford	KS Grain + Feed Assn.
Austin Hayden	Hein Law Firm
April Holman	Kansas Action for Children
Mark Deseth	KNET
Mark Tallman	KASB
Justin Moyer	Pinney Smith
James Carbon	Cap Journal

The Mirror Inc.

Stuart Little

Sample Sales Tax Exemption Language

KSA 79-3606

(uuu) all sales of tangible personal property and services purchased by Kansas children's service league, hereinafter referred to as KCSL, which is exempt from federal income taxation pursuant to section 501(c)(3) of the federal internal revenue code of 1986, and which such property and services are used for the purpose of providing for the prevention and treatment of child abuse and maltreatment as well as meeting additional critical needs for children, juveniles and family, and all sales of any such property by or on behalf of KCSL for any such purpose; and all sales of tangible personal property or services purchased by a contractor for the purpose of constructing, maintaining, repairing, enlarging, furnishing or remodeling facilities for the operation of services for KCSL for any such purpose which would be exempt from taxation under the provisions of this section if purchased directly by KCSL. Nothing in this subsection shall be deemed to exempt the purchase of any construction machinery, equipment or tools used in the constructing, maintaining, repairing, enlarging, furnishing or remodeling such facilities for KCSL. When KCSL contracts for the purpose of constructing, maintaining, repairing, enlarging, furnishing or remodeling such facilities, it shall obtain from the state and furnish to the contractor an exemption certificate for the project involved, and the contractor may purchase materials for incorporation in such project. The contractor shall furnish the number of such certificate to all suppliers from whom such purchases are made, and such suppliers shall execute invoices covering the same bearing the number of such certificate. Upon completion of the project the contractor shall furnish to KCSL a sworn statement, on a form to be provided by the director of taxation, that all purchases so made were entitled to exemption under this subsection. All invoices shall be held by the contractor for a period of five years and shall be subject to audit by the director of taxation. If any materials purchased under such a certificate are found not to have been incorporated in the building or other project or not to have been returned for credit or the sales or compensating tax otherwise imposed upon such materials which will not be so incorporated in the building or other project reported and paid by such contractor to the director of taxation not later than the 20th day of the month following the close of the month in which it shall be determined that such materials will not be used for the purpose for which such certificate was issued, KCSL shall be liable for tax on all materials purchased for the project, and upon payment thereof it may recover the same from the contractor together with reasonable attorney fees. Any contractor or any agent, employee or subcontractor thereof, who shall use or otherwise dispose of any materials purchased under such a certificate for any purpose other than that for which such a certificate is issued without the payment of the sales or compensating tax otherwise imposed upon such materials, shall be guilty of a misdemeanor and, upon conviction therefor, shall be subject to the penalties provided for in subsection (g) of K.S.A. 79-3615, and amendments thereto.

Assessment & Taxation
Date 1-24-08
Attachment # 1

State of Kansas

JOHN VRATIL
SENATOR, ELEVENTH DISTRICT
JOHNSON COUNTY
LEGISLATIVE HOTLINE
1-800-432-3924



COMMITTEE ASSIGNMENTS
CHAIR: JUDICIARY
VICE CHAIR: EDUCATION
MEMBER: FEDERAL AND STATE AFFAIRS
ORGANIZATION, CALENDAR
AND RULES
SENTENCING COMMISSION
INTERSTATE COOPERATION

Vice President Kansas Senate

Testimony Presented to
The Senate Assessment & Taxation Committee
By Senator John Vratil
February 24, 2008
Concerning Senate Bill 426

Good morning. Thank you for the opportunity to appear before the Senate Assessment and Taxation Committee in support of Senate Bill (SB) 446. The language in SB 446 would return to K-12 educational foundations the sales tax exemption that was allowed prior to 1998. SB 466 would enable K-12 educational foundations to again purchase items and materials and sell items, tickets, etc. without paying a sales tax. Recently, we were informed that the Kansas Department of Revenue notified K-12 educational foundations that they are to pay sales tax on all purchases and collect and remit sales tax on all sales.

Let me first provide a history of the K-12 educational foundations as they fit into the sales tax process. Pursuant to K.S.A. 2007 Supp. 79-3606(c), educational institutions are exempted from taxes imposed by the Kansas retailers' sales tax act.¹ The exemption has remain largely unchanged since its enactment in 1970.² Prior to 1998, the term "educational institution" was not defined. At that time, there were concerns that some groups exploited the broad term "educational institution" to gain a sales tax exemption that they otherwise would not qualify for and; therefore, a definition was created and amended into K.S.A. 79-3602. Educational institutions are defined as:

Any nonprofit school, college and university that offers education **at a level above the twelfth grade**, and conducts regular classes and courses of study required for accreditation by, or membership in, the North Central Association of Colleges and

¹ K.S.A. 2007 Supp. 79-3606(c) reads: All sales of tangible personal property or services, including the renting and leasing of tangible personal property, purchased directly by a public or private elementary or secondary school or public or private nonprofit educational institution and used primarily by such school or institution for nonsectarian programs and activities provided or sponsored by such school or institution or erection, repair or enlargement of buildings to be used for such purposes. The exemption herein provided shall not apply to erection, construction, repair, enlargement or equipment of buildings used primarily for human habitation.

² See 1970 Session Laws, chapter 389, section 4.

HOME
9534 LEE BLVD.
LEAWOOD, KS 66206
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jvratil@lathropgag.com

DISTRICT OFFICE
10851 MASTIN BLVD.
SUITE 1000
OVERLAND PARK, KS 66210-2007
(913) 451-5100
FAX (913) 451-0875

STATE OFFICE
STATE CAPITOL, ROOM 281-E
TOPEKA, KANSAS 66612
(785) 296-7361
FAX (785) 296-6718
vratil@senate.state.ks.us

Assessment & Taxation
Date 1-24-08
Attachment # 2

Schools, the state board of education, or that otherwise qualify as an "educational institution," as defined by K.S.A. 74-50,103, and amendments thereto. Such phrase shall include: (1) A group of educational institutions that operates exclusively for an educational purpose; (2) nonprofit endowment associations and foundations organized and operated exclusively to receive, hold, invest and administer moneys and property as a permanent fund for the support and sole benefit of an educational institution; (3) nonprofit trusts, foundations and other entities organized and operated principally to hold and own receipts from intercollegiate sporting events and to disburse such receipts, as well as grants and gifts, in the interest of collegiate and intercollegiate athletic programs for the support and sole benefit of an educational institution; and (4) nonprofit trusts, foundations and other entities organized and operated for the primary purpose of encouraging, fostering and conducting scholarly investigations and industrial and other types of research for the support and sole benefit of an educational institution. (Emphasis added by author)

While enacted to promote a different policy goal, this definition of "educational institutions" expressly excludes educational foundations which support programs and services relating to K-12 students and schools.

In 2004, the legislature enacted K.S.A. 79-3692 which requires organizations seeking tax exemptions (including exemptions under K.S.A. 79-3606(c)) to obtain an exempt organization identification number from the secretary of revenue. It appears that because these K-12 educational foundations are now excluded from the exemption provided by K.S.A. 79-3606(c), their applications for exempt organization identification numbers were denied and their exemption was effectively terminated.

I ask that you support SB 446. Excluding K-12 educational foundations from the definition of "educational institutions" constrains the ability of these educational foundations to support our schools and school districts. It works against the interests of Kansas and Kansans because it reduces access to financial resources that the schools and school districts desperately need. It is counterproductive.

Sen. John Vratek

State of Kansas
Senate Committee on Assessment and Taxation
Testimony in support of SB 446
January 24, 2008

Rebecca A. Morrison, Executive Director
Shawnee Mission Education Foundation

On behalf of the Board of Directors of the Shawnee Mission Education Foundation, I am pleased to testify today in support of Senate Bill 446, relative to the proposed sales tax exemption of K-12 education foundations.

Established in 1989, the Shawnee Mission Education Foundation (SMEF) is a self-supporting charitable organization that specifically promotes innovative teaching and learning in the Shawnee Mission School District. The governance and financial structure of the Education Foundation is separate and apart from the district, with its revenue solely reliant on charitable gifts, grants and sponsorships from a supportive and philanthropic community. The SMEF is exempt from federal income taxation pursuant to section 501(c) 3 of the federal internal revenue code of 1986.

The beneficiaries of the SMEF are easily identified: the teachers and students who receive classroom grants and scholarships, as well as the district-wide programs and needs that are addressed through the generosity of our donors. The SMEF is not engaged in keeping inventory or retail operations, nor are we typically seen as an economic development tool or significant tax revenue producer. But we do see our mission as economically beneficial for the state, encouraging a well-educated and prepared workforce that is appealing to current and prospective employers.

I would not presume to speak on behalf of other Kansas K-12 education foundations; however, I would suggest that sales tax on purchases and proceeds of all our efforts dilutes the charitable intent of the donor and, more importantly, significantly lessens the beneficial impact on educational opportunities.

As previous testimony of an individual education foundation resulted in exemption (Frontenac Education Foundation, 2007), we would request the thoughtful consideration for similar allowance as defined in SB 446. We also seek that consideration in light of the exemption afforded the education foundations of Kansas colleges and universities, whose activities and purpose are approximate to ours.

We don't believe it is the intention of any Kansas legislative body to direct or dilute the philanthropic intentions of its citizens or lessen educational opportunity, and we sincerely and gratefully request passage of Senate Bill 446. Thank you for the opportunity to testify.



2007-2008
Board of Directors

President:
Tom Mitchell
President-Elect:
Tammy Edwards
Secretary:
Dr. Al Hanna
Treasurer:
Todd Louis

Members:
Connie Aversman
Judie Becker
Rudy Beese
Mark Cosby
K.R. David
Mark Ferguson
Deborah Grimes
Calvin Kleinmann
Peter McGee
Gary Nevius
Krista Salter
Phil Spencer
Steve Wilkinson

Ex-Officio Members:
Superintendent:
Dr. Tom Trigg
Blue Valley NEA
President:
Bill Land
Board of Education
Liaisons:
Dan French
Clint Robinson

Executive Director:
Katherine B. Allen

State of Kansas
Senate Committee on Assessment and Taxation
Testimony in support of SB 446
January 24, 2008

Katherine B. Allen, Executive Director
Blue Valley Educational Foundation

I, Katherine B. Allen, Executive Director of the Blue Valley Educational Foundation, testify in support of Senate Bill 446 to provide sales tax exemption status to K-12 education foundations.


Established in 1990, the Blue Valley Educational Foundation (BVEF) is a 501(c)3 organization independent from the Blue Valley School District. We are governed by our own Board of Directors and generate our own annual budget from community donations.

The mission of BVEF is to enrich educational excellence through community outreach, financial development, and ongoing funding of extraordinary educational programs in Blue Valley Schools. Since our inception, BVEF has donated over \$1.5 million dollars back into our district to fund teacher grants, district-wide projects, and student scholarships.

Our structure and mission are similar to both Parent Teacher Associations and the education foundations of colleges and universities in our state. Currently, these entities are sales tax exempt. On behalf of the BVEF Board of Directors, I request consideration for similar allowance as defined in SB 446 so that educational foundations may provide additional support to public schools.

Thank you for the opportunity to testify and for your consideration of support.

FISCAL FOCUS

Budget and Tax Policy in  Perspective

April Holman
Legislative Testimony
Senate Bill 446
Senate Committee on Assessment and Taxation
January 24, 2008

Good morning Madam Chair and members of the Committee. On behalf of Kansas Action for Children (KAC), I would like to thank you for this opportunity to testify.

KAC is a not-for-profit child advocacy organization that has been in existence since 1979. KAC promotes policies that aid family economic stability because instability creates stress and the potential for harm to children through less consistent medical care, fewer opportunities for early learning and the potential for lower performance in school.

Our opposition to Senate Bill 446 is not specific to purchases and sales of educational foundations, but is instead a reflection of our general concern about the erosion of the sales tax base. The sales tax is a key source of revenue to the State General Fund (SGF), which is in turn a key source of funding for state government and for programs and services vital to children and families. The number of sales tax exemptions in Kansas has more than doubled in the past 15 years, resulting in a significant reduction in possible SGF revenues.

We believe that instead of adopting more exemptions to the sales tax, a comprehensive modernization of the Kansas tax system is needed. Recent reports from the Kansas Department of Revenue show that Kansas taxes disproportionately impact the poor and that both the sales tax and property tax bases have been eroded significantly in recent years. This has resulted in tax shifts as well as revenue shortfalls and the need in some years to increase tax rates. In order to address these issues as well as the changing nature of the Kansas economy, we believe that a comprehensive plan should be created for modernizing Kansas taxes. If we can update and improve the efficiency of our tax system the need for exemptions will not longer be an issue. To this end, we respectfully oppose the passage of additional sales tax exemptions and request that the committee consider a broader solution to problems with the Kansas tax system.

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony on **SB 444** and **SB 446**
before the
Senate Committee on Assessment and Taxation

by

Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards
Also representing: Kansas National Education Association

January 24, 2008

Madam Chair, Members of the Committee:

Both of the bills scheduled for hearings today deal with tax exemptions – **SB 444** with property tax exemptions and **SB 446** with sales tax exemptions. Neither KASB nor KNEA has taken a position on the specific merits of these proposals. Quite likely, there is a rationale to support both of these bills. Every tax exemption that passes has a group of supporters behind it. Our concern is with the cumulative impact of both of these exemptions. We have previously expressed our concerns about the impact of continuing to reduce the tax base through exemptions. Over the interim, research on this issue has only raised our concerns.

This summer, we decided to investigate further both the cost and benefits of public education. We used information from the Kansas State Department of Education to compare school district operating budgets (general funding, local option budgets, and major categorical programs like special education, transportation, etc.) to Kansas personal income since 1973. We believe this is the best way to measure the “tax burden” of supporting public education on a statewide basis.

As the chart on page two shows, what we found is school district operating budgets now are almost exactly where they were 35 years ago, and are almost exactly at the 35 year average – 3.6 percent of KPI. The hundreds of million of dollars provided as a result of the Supreme Court school finance decision didn’t result in a major increase in spending relative to taxpayer income – it simply restored the ratio to its long-term average. Moreover, since 1992 that spending level has been maintained primarily as a result of continued increases in the local option budget.

As a result, it is clear the cost of public education should not be imposing a higher burden on Kansas taxpayers. But this information doesn’t tell the whole story. As the Legislature has dramatically increased the number of tax exemptions over the past 35 years, some taxpayers have seen reductions in their tax bill, including what they pay for public schools. But, that means other taxpayers have had to pick up the difference. For every constituent who complains to you his taxes have gone up, someone else has enjoyed a reduction.

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Over the same 35 years, the "outcomes" of our public education system have improved dramatically. Educational attainment has increased every decade. New opportunities have been opened for minorities and the disabled. Higher education has been rewarded by higher incomes. Clearly, the entire state has benefited from our education system. It is also clear those who have been most directly affected by the education system through completing high school and attaining additional educational credentials have received the greatest economic rewards. But this creates several issues.

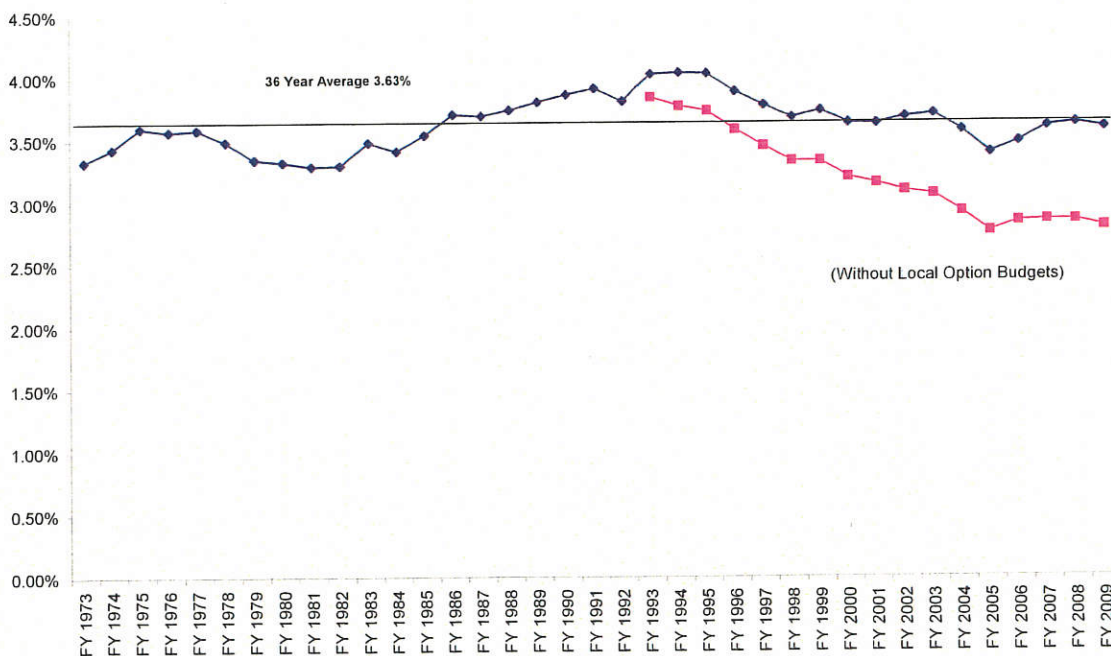
First, when the Legislature provides a tax exemption, the taxpayer who receives it is allowed to receive the benefits of public services while contributing less to their cost, while someone else is paying more. The question is: Is the cost of public services fairly distributed among the beneficiaries?

Second, when the cost of public services like education rises at approximately the same rate as personal income, the only way to make up for revenue lost through exemptions is raise rates on the remaining tax base. The question is: how do we sustain the level of public services as the cost of exemptions continues to rise if legislators believe raising rates is political suicide.

We submit the single greatest factor in individual, state and national economic vitality in the 21st century is educational attainment. Continuing to improve our educational performance will require a continued public investment. As a result, we believe the current direction of Kansas tax policy is unsustainable. As we have done in the past, we urge the Legislature to pursue a comprehensive review and revision to our state and local tax policy.

Thank you for your consideration.

School District Operating Budgets as Percent of Kansas Personal Income



Assessment & Investment
 Date
 Assessment

6-2

January 23, 2008

The Honorable Barbara Allen, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 122-E
Topeka, Kansas 66612

Dear Senator Allen:

SUBJECT: Fiscal Note for SB 446 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 446 is respectfully submitted to your committee.

SB 446 would expand state sales tax exemptions to include educational foundations. The bill would exempt from sales tax all sales and purchases by or on behalf of the educational foundation. In order to qualify for the exemption, the educational foundation must be classified as a section 501(c)(3) charity under the federal *Internal Revenue Code*, and it must be for the purpose of providing support for educational programs and services offered by a public or private elementary or secondary school.

Estimated State Fiscal Effect				
	FY 2008 SGF	FY 2008 All Funds	FY 2009 SGF	FY 2009 All Funds
Revenue	--	--	(\$21,925)	(\$25,000)
Expenditure	--	--	\$26,300	\$26,300
FTE Pos.	--	--	--	--

SB 446 would decrease revenues by \$25,000 in FY 2009. Of that total, the State General Fund is estimated to decrease by \$21,925, while the State Highway Fund is estimated to decrease by \$3,075 in FY 2009. This bill also is estimated to decrease local revenues by \$6,250 in FY 2009. The fiscal effect to state revenues during subsequent years would be as follows:

The Honorable Barbara Allen, Chairperson
January 23, 2008
Page 2—446

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
State General Fund	(\$22,364)	(\$22,811)	(\$23,267)	(\$23,732)
State Highway Fund	(3,137)	(3,199)	(3,263)	(3,328)
Local Governments	<u>(6,375)</u>	<u>(6,503)</u>	<u>(6,633)</u>	<u>(6,765)</u>
	(\$31,876)	(\$32,513)	(\$33,163)	(\$33,825)

According to the Department of Revenue, reissuing sales tax publications would cost \$26,300 regardless of the number of changes made to current law. The bill also would require modifications to the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with SB 446 is not reflected in *The FY 2009 Governor's Budget Report*.

Sincerely,



Duane A. Goossen
Director of the Budget

cc: Steve Neske, Department of Revenue

7-2



JOHNSON COUNTY APPRAISER'S OFFICE

11811 S. SUNSET DR, SUITE 2100 OLATHE, KS 66061
| 913.715.9000 FAX 913.715.0010 HTTP://APPRAISER.JOCOGOV.ORG |
WWW.JOCOCAR.COM

TO: Senate Assessment and Taxation

FROM: Paul A. Welcome, CAE, ASA, RMA County Appraiser

Date: January 18, 2008

RE: Senate Bill No. 444

Senate Bill No. 444 is set forth to exempt individual personal property valued less than \$1,500 and reduce or eliminate work effort expended without receiving tax revenue. The current process established in 1992 is not specific in low valued property amounts and results in exemptions after work is performed by the property owner, county appraiser staff, county clerk staff, and finally, county treasurer staff.

79-344

Chapter 79.--TAXATION

Article 3.--LISTING PROPERTY FOR TAXATION

79-344. Cancellation of personal property tax, when. (a) Whenever the aggregate amount of tax owed upon tangible personal property by any taxpayer is less than \$5, such tax shall be cancelled and no personal property tax statement shall be issued.

(b) The provisions of this section shall apply to all taxable years commencing after December 31, 1991.

History: L. 1992, ch. 282, § 16; May 28.

Recent changes in exemptions of commercial personal property and commercial and machinery equipment property warrant changes in individual personal property exemptions. Currently, counties personal property appraisers value property as indicated above in Article 3 -- LISTING PROPERTY FOR TAXATION. Work effort is being expended and county expense is incurred. However, revenue is not generated on these low valued properties when the entire work effort is conducted with the intent to generate jurisdiction revenue.

Issues raised by using this rather dated tax law include the following:

- 1) County expense is incurred for work effort without income generation.
 - a. The Appraiser's Office
 - b. The County Clerk's Office
 - c. The County Treasurer's Office
- 2) Tax rate calculations are distorted because jurisdictions are unable to collect from part of the tax base.
- 3) The old tax law does not appear to be cost effective.
- 4) The property owner must continue to render property that will be exempted.

There must be a better solution. Hence, this legislative proposal, the basis of which is to eliminate the need for: a) the property owner to render the property, b) the county appraiser to value and send a Notice of Appraised Value, and c) the treasurer to generate a tax bill, to have the entire process generate a negative return on county investment due to exemptions imposed by current legislation.

Johnson County has approximately 1,642 accounts that become exempt after the county appraiser values the property and the county treasurer issues a tax bill. The net loss generated as a result of negated income on work performed due to exemptions after the fact is approximately \$5,169.40. Low valued properties should be exempted to cancel the counties negative return on investment.

For Johnson County, the properties that comprise most of the low valued properties include older:

- Watercraft (boats, motors & trailers)
- Non-highway vehicles
- Mopeds (old & new)
- Flatbed trailers
- Canoes, Rowboats, Dinghies, and Kayaks
- Camping trailers (not registered as RV's)
- Truck campers (old & new)
- Smaller trailers (old & new)
- ATV's
- Golf cars (old & new)

We recommend the consideration of a \$1,500 value threshold similar to the recently passed CIME bill to exempt those properties. If this is not acceptable, the personal property types could be exempted by specific property type (i.e. pickup truck shells) as found in 79-201c *Second*.

79-201c

Chapter 79.--TAXATION

Article 2.--PROPERTY EXEMPT FROM TAXATION

79-201c. Same; wearing apparel; household goods and personal effects; graveyards. The following described property, to the extent herein specified, shall be and is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

First. The wearing apparel of every person.

Second. All household goods and personal effects not used for the production of income. The terms household goods and personal effects when used in this act, except as otherwise specifically provided, shall include all items of furniture, cooking utensils, refrigerators, deep freezers, washing and drying machines, dishwashers, stoves, ranges, ironers, vacuum cleaners, sewing machines, radios, record players, television sets, shop and hobby equipment used in or about the home, fishing equipment (not including boats), bicycles, yard and garden equipment, firearms, golf clubs, photographic equipment, jewelry, luggage, musical instruments, air conditioners if not a part of the central heating and air conditioning system, sailboards and pick-up truck shells. For the purposes of this paragraph, household goods and personal effects shall not be deemed to be used for the production of income when used in the home for day care home purposes if such home has been registered or licensed pursuant to K.S.A. 65-501 *et seq.*, and amendments thereto, or when used in the home for bed and breakfast home purposes as defined in K.S.A. 79-1439, and amendments thereto.

Third. All lands used exclusively as graveyards.

The provisions of this section shall apply to all taxable years commencing after December 31, 2003.

History: L. 1975, ch. 495, § 4; L. 1977, ch. 325, § 1; L. 1988, ch. 374, § 4; L. 1999, ch. 123, § 1; L. 2004, ch. 173, § 7; July 1.

Finally, K.S.A. 79-213(l) would require an amendment referencing the new exemptions and empowering county appraisers to remove such property from the tax rolls without a BOTA order.

Please consider this proposed legislation.

Paul A. Welcome

January 24, 2008

The Honorable Barbara Allen, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 122-E
Topeka, Kansas 66612

Dear Senator Allen:

SUBJECT: Fiscal Note for SB 444 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 444 is respectfully submitted to your committee.

SB 444 would exempt from all property or ad valorem taxes any property with a purchase price of \$1,500 or less and which is classified under the *Kansas Constitution* as "other tangible personal property not otherwise specifically classified."

Estimated State Fiscal Effect				
	FY 2008 SGF	FY 2008 All Funds	FY 2009 SGF	FY 2009 All Funds
Revenue	--	--	--	(\$23,000)
Expenditure	--	--	\$300,000	\$300,000
FTE Pos.	--	--	--	--


Passage of SB 444 would decrease property tax revenues by creating a new tax exemption. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates this bill would decrease revenues to these two funds by \$23,000 in FY 2009, with \$15,400 from the EBF and \$7,600 from the SIBF. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts receive less property tax revenue through the state's uniform mill levy, the state provides more state aid through the school finance formula. The Department of Revenue estimates the increased state expenditures for aid to schools to be \$300,000 in FY 2009. The bill would also decrease revenues to any local government that levies a property tax.

The Honorable Barbara Allen, Chairperson
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To develop these estimates, the Department examined tax year 2006 data. The total assessed value for property in 2006 classified as “other tangible personal property not otherwise specifically classified” is approximately \$60.8 million. The Department assumes 25.0 percent of this property would have a purchase price of \$1,500 or less and would be exempt under this bill. Using this assumption, the assessed value for the exempt property would total \$15.2 million if this bill were implemented.

The Department of Revenue indicates that any additional expenditures associated with the implementation of SB 444 would be handled within existing resources. Any fiscal effect associated with SB 444 is not reflected in *The FY 2009 Governor's Budget Report*.

Sincerely,



Duane A. Goossen
Director of the Budget

cc: Steve Neske, Department of Revenue
Larry Baer, League of Kansas Municipalities
Judy Moler, Kansas Association of Counties