

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 9:00 a.m. on February 3, 2009, in Room 535-N of the Capitol.

All members were present.

Committee staff present:

Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Hank Avila, Kansas Legislative Research Department
Chris Courtwright, Kansas Legislative Research Department
Kathy Beavers, Committee Assistant

Conferees appearing before the committee:

Joan Wagon, Secretary, Department of Revenue
April Holman, Kansas Action for Children

Others attending:

See attached list.

Representative Peck made a motion to introduce a committee bill to establish a Back-to-School Sales Tax Holiday the first week in August. Representative Goico seconded the motion. The motion carried.

Representative Goyle made a motion to introduce a bill concerning the expanded use of compressed natural gas and to create incentives for construction of C & G filing stations. Representative Menghini seconded the motion. The motion carried.

Representative Goico made a motion to introduce a conceptual bill concerning a streamlined sales tax. Representative Rhoades seconded the motion. The motion carried.

Representative Menghini made a motion to introduce a bill clarifying property exempt status for developmentally challenged and elderly low-income projects. Representative Benlon seconded the motion. The motion carried.

Representative Frownfelter made a motion to introduce two committee bills. They are:

1. Rehabilitation of abandoned house law
2. Nuisance actions for city code violations law

The motion was seconded by Representative Schwartz. The motion carried.

Representative George made a motion to introduce a bill concerning tax of Horsethief Reservoir. Representative Powell seconded the motion. The motion carried.

Representative King made a motion to propose a committee amendment to correct the 1992 constitutional amendment defining public utility. Representative Hayzlett seconded the motion. The motion carried.

There being no other bill introductions, the chairman opened the hearing on **HB 2070**.

HB 2070 - Repeal of the income tax credit under the Kansas community services program act.

Staff member Chris Courtwright gave a brief overview and history of **HB 2070** which would repeal the community service programs sales tax credit. He stood for questions.

Joan Wagon, Secretary, Department of Revenue, testified in support of **HB 2070** (Attachment 1). She gave a history of the original bill which was enacted in 1994. She stated that many associations in Kansas will be affected by the repeal of this bill. The repeal of this bill would have a positive fiscal impact of \$4.1 million. The Department of Commerce reviews and updates data on the utilization of the credits throughout Kansas. She stood for questions.

CONTINUATION SHEET

Minutes of the House Taxation Committee at 9:00 a.m. on February 3, 2009, in Room 535-N of the Capitol.

Representative Brown asked if the bill could be suspended instead of repealed so that when the economy recovers the bill can be reinstated to benefit those that qualify for the credit. Secretary Wagnon stated that the bill could be suspended. Discussion ensued.

At the request of Representative Carlson, April Holman, Kansas Action for Children (KAC) stood for questions on her written testimony (Attachment 2). She stated that while this bill is a good bill, KAC understood the need for budget cuts. By supporting the Governor's budget proposals it may protect against further cuts to important programs for children and families in Kansas.

There being no further conferees, the chairman closed the hearing on **HB 2070**.

Representative Carlson requested that the committee members review the minutes of the January 20, 21 and 22, 2009. If there are no corrections to the minutes they will be accepted as approved on Thursday, February 5, 2009.

The next meeting is scheduled for February 4, 2009.

The meeting was adjourned at 9:45 a.m.

Testimony to the House Taxation Committee

Joan Wagnon

February 3, 2009

Testimony in Support of House Bill 2070

Representative Richard Carlson, Chair, and Members of the Committee:

House Bill 2070 would repeal the community services contribution income and privilege tax credit, K.S.A. 79-32,194 et. seq., effective for Tax Year 2009 and going forward. Repeal of this tax credit would have a positive fiscal impact on FY 2010 revenues of \$4.1 million, with that same amount of positive impact per year going forward.

The community services contribution tax credit was first enacted in 1994. Under current law, individuals and businesses (including banks) making contributions to certain approved community service organizations or governmental entities providing community services under approved programs are entitled to a refundable tax credit for a percentage of the contributions. For individuals, businesses, community service organizations or governmental entities located in rural communities (defined at K.S.A. 2008 Supp. 79-32,195(g) as a city with a population less than 15,000 and not included in a standard metropolitan statistical area, subject to certain exceptions), the tax credit is 70% of the contribution amount. For those in non-rural communities, the tax credit is 50% of the contribution amount. As previously mentioned, the credit is refundable, and is also assignable pursuant to K.S.A. 2008 Supp. 79-32,197.

The community services contribution tax credit is capped at \$4.13 million per fiscal year.

Pursuant to K.S.A. 2008 Supp. 79-32,198, the Department of Commerce annually reviews and approves the community service providers and allocates the maximum amount of tax credits that can be generated from contributions to each provider.

For Tax Year 2006 (the Department's most current complete data), 856 filers claimed the community services contribution tax credit. Credit usage generally reaches the statutory cap of \$4.13 each fiscal year.

FISCAL FOCUS

Budget and Tax Policy in  Perspective

April Holman, Director of Economic Policy
Kansas Action for Children
House Taxation Committee
February 3, 2009
WRITTEN TESTIMONY ONLY - HB 2070
- Proposed Amendment -

Thank you, Chairman Carlson and members of the committee for this opportunity to submit written testimony in favor of HB 2070.

KAC is a not-for-profit child advocacy organization that has been in existence since 1979. We work to promote policies that improve child well-being in the areas of health, education and family economic success. Several years ago KAC developed Fiscal Focus as part of this work to improve the economic security of Kansas children and their families, and ensure a balanced and fair tax system and budget process that promotes both the well-being of children and families and provides a stable system of state revenues.

We support HB 2070 and the elimination of the Community Services Tax Credit as an acknowledgement of the extremely difficult fiscal situation in our state. In order to pass a balanced budget for fiscal year 2009 and 2010 state expenditures must be cut or revenues must be found to meet spending needs. However, we would ask the committee to amend the bill to keep the structure of the Community Services Tax Credit in place and accomplish the same savings by simply not funding the credit for the amount of time that the Committee finds necessary.

The budget shortfall that we face is not entirely a function of a struggling economy. We know that our state's current tax structure is no longer keeping pace with public infrastructure costs. Although major components of the Kansas tax structure have been in place for quite some time, the strength of our tax policy has eroded little by little through legislative action each year. In the past four years alone, tax cuts including the elimination of the estate tax and the franchise tax have resulted in a State General Fund revenue reduction of almost \$150 million in this fiscal year alone. This cut in the tax base grows to \$180 million dollars in fiscal year 2010.

At the heart of this process is an analysis of the priorities of our state. In this year of extremely difficult decisions, we believe that adequate funding for education, healthcare and other important programs for children and families is more important to the people of Kansas than tax cuts. The resources we dedicate to our next generation this Session will determine whether Kansas has a short-term economic problem or a long-term crisis.

While we would not normally support the repeal of the Community Services Tax Credit, we find ourselves supporting HB 2070 in this very difficult year. We ask that you support the revenue proposals in the Governor's budget as a way of protecting against further cuts to important programs for children and families.