

SESSION OF 2003

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2287

As Amended by Senate Committee of the Whole

Brief*

HB 2287 would:

1. Provide a property tax exemption effective for tax year 2003 for the household goods and personal effects of "bed and breakfast homes" and would provide that the real estate be assessed at 11.5 percent of fair market value.

"Bed and breakfast home" would be defined as an owner-occupied residence with seven or fewer rooms available for overnight guests who stay for not more than 28 consecutive days and for which there is compliance with all zoning or other applicable ordinances or laws pertaining to facilities which lodge and feed guests.

2. Exempt from sales taxation certain transactions involving the sale of computer software customization services, effective July 1, 2004.
3. Require contractors bidding to provide goods and services to the state or municipalities to register with the Department of Revenue and pay applicable state sales taxes as a condition of being awarded the successful bids.
4. Prospectively decouple the Kansas income tax from any future federal exclusion of dividend income. Specifically, any amount of dividend income excluded from federal adjusted gross income pursuant to any amendments to the federal Internal Revenue Code enacted after December 31, 2002, would be required to be added

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org/klrd>

back as part of the computation to arrive at Kansas adjusted gross income.

5. Reduce the time to claim sales tax refunds or credits from 3 years to 1 year after the payment of the tax.
6. Change a number of income tax credits which under current law are refundable and instead allow any unused credit to be carried forward against the liability of future tax years. Credits affected would include the business and machinery credit to offset a portion of property taxes paid; the telecommunications assessment rate reduction credit; the disabled accessibility credit; the child day care assistance credit; the community service contribution credit; and the small employer health insurance credit.
7. Reduce the rate of franchise taxes from \$2 for every \$1,000 of net worth to \$1, effectively reversing a large portion of the policy change made in 2002 SB 39. The minimum and maximum tax thresholds established by that 2002 legislation would remain unchanged – \$40 and \$5,000, respectively.
8. Change current law such that the 5.3 percent sales and compensating use tax rate would be maintained until July 1, 2006, at which point the rate would be reduced to 5.0 percent. Under current law, the 5.3 percent rate is scheduled to be reduced to 5.2 percent on July 1, 2004; and to 5.0 percent on July 1, 2005.

Background

The original bill would have dealt with the bed and breakfast issue.

The Senate Assessment and Taxation Committee amended the bill to change the definition of "bed and breakfast home" to certain qualifying facilities with seven or fewer rooms (as opposed to five or fewer rooms under the original bill); to add the sales tax exemption for computer software customization services (HB 2322); and to add the provisions requiring bidders on state and local governmental contracts to be registered as retailers for sales tax purposes (HB 2411).

The Senate Committee of the Whole changed the effective date of the computer software related exemption and added the other provisions hereinbefore described.

The latest estimate with respect to the fiscal impact is as follows:

SGF Fiscal Impact (\$ in millions)

	<u>FY 2004</u>	<u>FY 2005</u>
HB 2449	\$9.000	\$5.000
Sales Refunds 1 year	\$9.300	\$7.800
Computer Software	--	(\$17.837)
Franchise Tax	(\$13.000)	(\$13.000)
Sales Rate at 5.3%	--	\$34.679
TOTAL	\$5.300	\$16.642

Note: State Highway Fund receipts also would be reduced by \$0.883 million in FY 2005.