SESSION OF 2006

CONFERENCE COMMITTEE REPORT BRIEF
HOUSE BILL NO. 2583

As Agreed to May 5, 2006

Brief*

HB 2583 would make a number of property tax related changes to current law; would expand the Homestead property tax refund program; and would provide for a partial restoration of local ad valorem tax reduction fund (LAVTRF) transfers beginning in FY 2010.

Machinery and Equipment Property Tax Provisions

The bill would provide a property tax exemption for:

- Certain commercial and industrial, railroad, and telecommunications machinery and equipment; acquired by qualified purchase or lease after June 30, 2006 as the result of bona fide transactions not consummated for the purpose of avoiding taxation; and
- Such machinery and equipment transported into the state after June 30, 2006 to expand existing businesses or create new businesses. Taxpayers receiving such exemptions would not be subject to annual filing requirements with the State Board of Tax Appeals (SBOTA) pursuant to KSA 2005 Supp. 79-213.

Additional language would clarify that the exemption would not be applicable to property acquired pursuant to the exchange of stock securities or transfer of assets from one going concern to another due to a merger or consolidation; and would clarify the circumstances under which property involved in bankruptcy proceedings could qualify.

The bill would further expand, effective for tax year 2007, an existing exemption for certain "low-cost" items of machinery, equipment, materials, and supplies by removing from the tax rolls such

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*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at http://www.kslegislature.org/klrd property with a retail cost when new of greater than $400 but equal to or less than $1,500.

The bill also would create two new funds within the state treasury, the Business Machinery and Equipment Tax Reduction Assistance Fund (BMETRAF); and the Telecommunications and Railroad Machinery and Equipment Tax Reduction Assistance Fund (TRMETRAF). These funds would provide a "slider" mechanism whereby taxing subdivisions would be reimbursed beginning in February, 2008 for certain property tax reductions assumed attributable to the exemptions. The Secretary of Revenue would be required to compute for each county an amount equal to the difference in machinery and equipment property taxes levied in tax year 2005 and various future tax years (beginning with tax year 2007). Based upon this computation, county treasurers would receive 90 percent of the difference for tax year 2007; 70 percent for tax year 2008; 50 percent for tax year 2009; 30 percent for tax year 2010; and 10 percent for tax year 2011. (The transfers from the state to counties would be made during FY 2008-2012). County treasurers would be required to apportion the BMETRAF and TRMETRAF funds among taxing subdivisions (including the state) relative to their respective shares of property tax levies. The Secretary also would be required to make an annual report to the standing tax committees on the BMETRAF and TRMETRAF computation methodologies.

Property Tax Credit – Digital TV and Radio

Television broadcasters would be granted a property tax credit equivalent to the amount of property taxes paid on digital television equipment acquired prior to July 1, 2006, times the estimated percentage of non-digital televisions in the United States. The credit would expire after the FCC has ended the broadcast of analog television signals by all full power commercial television stations in Kansas.

Radio broadcasters also would be granted a property tax credit equivalent to the amount of property taxes paid on digital radio equipment acquired prior to January 1, 2006, times the estimated percentage of non-digital radios in the United States. The credit would expire after tax year 2013 or when 50 percent of radios are capable of receiving digital signals, whichever comes first.

Administration of Hay Barn Property Tax Exemption

An additional provision would exempt taxpayers seeking to claim property tax exemptions for newly constructed hay barns from initial filing requirements with the State Board of Tax Appeals, effectively allowing landowners to claim the hay barn exemption at the local level (similar to the methodology utilized for other agricultural related exemptions).

Use of Preliminary Abstract by Regional Libraries

Another section would require that regional public library districts base the certified property tax levies relative to their budgets on the preliminary abstract of property values submitted to the Property Valuation Division (PVD) pursuant to KSA 79-1604.

Homestead Provisions

The bill also would expand the Homestead Property Tax Refund Act by increasing the amount of refunds that all claimants would receive, based on an enhancement to the statutory formula. Under current law, households with incomes of $27,000 or less and with a least one member who is (a) Age 55 or above; (b) A dependent under age 18; (c) Blind; or (d) Otherwise disabled are eligible to receive partial property tax refunds.

LAVTRF Transfers

An additional provision would reinstate LAVTRF transfers from the state to local units in the amounts of $13.5 million in FY 2010; $27.0 million in FY 2011; $40.5 million in FY 2012; and $54.0 million in FY 2013 and thereafter.

Conference Committee Action

The Conference Committee on May 5 agreed to remove the bill’s original provisions, which related to rate caps and other provisions having to do with certain groups in the group in the Kansas Public Employers Retirement System, and insert the omnibus property tax agreement reached by the tax conferees.

Background

Relative to previously approved machinery and equipment property tax provisions, the Conference Committee approved the

Senate version of the exemption and the “de minimus” provision from Sub SB 488; approved a modified version of the “slider” that had been in the House version of SB 365; retained the digital television and radio credits from Sub SB 488; retained the hay barn language from Sub SB 488; retained the regional public library mill levy provisions from Sub SB 488 and HB 2581; decelerated by one year the LAVTRF reinstatement provisions from Sub SB 488; and agreed to expand the Homestead program by $3.5 million in additional refunds (subject matter in House version of SB 365). Other provisions from Sub SB 488 which were removed include a county option sales tax for property tax relief; and proposed expansion of High Performance Incentive Program income tax credits.

Based on the latest information available, the bill would be expected to have the following fiscal impact:

($ In Millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total thru FY 2013
Motor carrier property taxes		-$0.743	-$2.284	-$3.903	-$5.600	-$7.376	-$8.394	-$28.300
Usd local effort (20 mills)		-$9.236	-$16.525	-$22.897	-$27.709	-$31.386	-$34.608	-$142.361
St building funds (1.5 mills)		-$0.692	-$1.239	-$1.717	-$2.078	-$2.353	-$2.595	-$10.674
Homestead exp at $3.5 m	-$3.500	-$3.500	-$3.500	-$3.500	-$3.500	-$3.500	-$3.500	-$24.500
Slider transfer (initial)		-$28.300	-$44.846	-$45.263	-$31.983	-$11.498	$0.000	-$161.889
Slider returned to local effort		$4.445	$7.051	$7.103	$5.011	$1.863	$0.000	$25.473
Slider return to st bldg funds		$0.334	$0.631	$0.533	$0.376	$0.190	$0.000	$2.063
Net state slider impact		-$23.521	-$37.165	-$37.627	-$26.597	-$9.445	$0.000	-$134.354
Reduction in inc tax credit		$10.530	$17.976	$24.239	$28.786	$31.831	$34.228	$147.590
LAVTRF		$0.000	$0.000	-$13.500	-$27.000	-$40.500	-$54.000	-$135.000
Net state impact	**-$3.500**	**-$27.162**	**-$42.737**	**-$58.905**	**-$63.698**	**-$62.729**	**-$68.869**	**-$327.599**