*SESSION OF 2006*

# SUPPLEMENTAL NOTE ON SUBSTITUTE FOR HOUSE BILL NO. 2525

As Amended by House Committee of the Whole

## Brief*

Sub. for HB 2525 would provide a property tax exemption for telecommunications machinery and equipment and railroad 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 telecommunications machinery and equipment and railroad 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.

The bill also would create a new fund within the state treasury, the Telecommunications and Railroad Machinery and Equipment Tax Reduction Assistance Fund (TRMETRAF). The TRMETRAF would provide a 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 telecommunications and railroad machinery and equipment property tax levied in tax year 2005 and various future tax years (beginning with tax year 2007). Based upon this computation, county treasurers would receive 100 percent of the difference for tax year 2007; 80 percent for tax year 2008; 60 percent for tax year 2009; 40 percent for tax year 2010; and 20 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 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 TRMETRAF computation methodology.

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*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

## Background

The original bill contained provisions dealing with sales tax authority for Neosho County which were enacted in another bill in 2005. The House Tax Committee in 2006 voted to recommend the substitute bill, which contains provisions for railroad and telecommunications machinery and equipment property taxes largely similar to provisions in HB 2619 relating to property taxes for commercial and industrial machinery and equipment.

The bill would have an impact on the state because of the reduction in assessed valuation attributable to the two new exemptions, which therefore would cause state property tax receipts to decline relative to the fixed levies associated with state building funds (1.5 mills) and the mandatory school district general fund property tax levy (20 mills). The state also would be responsible for new expenditures associated with funding the TRMETRAF transfers. A portion of the TRMETRAF transfers subsequently would be offset when county treasurers returned certain funds to the state relative to the state property tax levies. Finally, certain income tax credits currently available would be expected to decrease over time relative to current law.

The House Committee of the Whole amended the bill to adjust the slider provisions such that the mitigation funds to taxing subdivisions would be reduced from six to five years and from a total of $23.289 million to $15.376 million.

The House Committee of the Whole also amended the bill to make certain technical amendments to the slider provisions.

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

**Fiscal Impact of Substitute for HB 2525**
**As Amended by House Committee of the Whole**
**(Dollars in Millions)**

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | Total Thru FY 2013 |
|---|---|---|---|---|---|---|---|
| TELECOMMUNICATIONS | | | | | | | |
| USD Local Effort (20 mills) | $ (0.203) | $ (0.404) | $ (0.791) | $ (1.160) | $ (1.514) | $ (1.851) | $ (5.923) |
| St. Bldg. Funds (1.5 mills) | (0.015) | (0.030) | (0.059) | (0.087) | (0.113) | (0.139) | (0.443) |
| Slider Transfer (Initial) | $ (1.782) | $ (1.244) | $ (1.620) | $ (1.540) | $ (1.002) | $ 0.000 | $ (7.188) |
| Slider Returned to Local Effort | 0.265 | 0.180 | 0.227 | 0.210 | 0.265 | 0.000 | 1.147 |
| Slider Return to St. Bldg. Funds | 0.020 | 0.130 | 0.017 | 0.016 | 0.020 | 0.000 | 0.203 |
| Net State Slider Impact | $ (1.497) | $ (0.934) | $ (1.376) | $ (1.314) | $ (0.717) | $ 0.000 | $ (5.838) |
| Reduction in Inc. Tax Credit | $ 0.423 | $ 0.858 | $ 1.715 | $ 2.571 | $ 3.426 | $ 4.283 | $ 13.276 |
| Net State Impact Telecom | $ (1.292) | $ (0.510) | $ (0.511) | $ (0.010) | $ 1.082 | $ 2.293 | $ (1.072) |
| RAILROADS | | | | | | | |
| USD Local Effort (20 mills) | $ (0.246) | $ (0.388) | $ (0.628) | $ (0.731) | $ (0.802) | $ (0.858) | $ (3.653) |
| St. Bldg. Funds (1.5 mills) | (0.018) | (0.029) | (0.047) | (0.055) | (0.060) | (0.064) | (0.273) |
| slider transfer (initial) | $ (1.424) | $ (1.811) | $ (2.249) | $ (1.747) | $ (0.957) | $ 0.000 | $ (8.188) |
| Slider Returned to Local Effort | 0.224 | 0.283 | 0.349 | 0.269 | 0.146 | 0.000 | 1.271 |
| Slider Return to St. Bldg. Funds | 0.017 | 0.021 | 0.026 | 0.020 | 0.110 | 0.000 | 0.194 |
| Net State Slider Impact | $ (1.183) | $ (1.507) | $ (1.874) | $ (1.458) | $ (0.701) | $ 0.000 | $ (6.723) |
| Reduction in Inc. Tax Credit | $ 0.390 | $ 0.621 | $ 1.012 | $ 1.188 | $ 1.313 | $ 1.417 | $ 5.941 |
| Net State Impact Railroads | $ (1.057) | $ (1.303) | $ (1.537) | $ (1.056) | $ (0.250) | $ (0.495) | $ (4.708) |
| **Total Net State Impact** | **$ (2.349)** | **$ (1.813)** | **$ (2.048)** | **$ (1.046)** | **$ (0.832)** | **$ 2.788** | **$ (3.636)** |