

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairperson David Corbin at 10:45 a.m. on February 24, 2003, in Room 519-S of the Capitol.

All members were present except: Senator Donovan

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Gordon Self, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Joan Wagon, Acting Secretary, Department of Revenue
Mark Tallman, Kansas Association of School Boards
Richard Cram, Kansas Department of Revenue

Others attending: See attached list.

SB 146—Including certain dividend income excluded by federal government for Kansas income tax purposes

Joan Wagon, Acting Secretary, Kansas Department of Revenue, testified in support of **SB 146**. At the outset, she called the Committee's attention to a one page summary of the fiscal impact of President Bush's tax stimulus proposal. She pointed out that the projected revenue loss to Kansas from individual income tax receipts is \$51 million per year for the dividend exclusion proposal. (Attachment 1) She went on to explain that **SB 146** simply "decouples" from any proposed dividend income exclusion that may be enacted at the federal level. She noted that, if Congress does enact some form of dividend income exclusion this year, the negative fiscal impact of that change will directly affect Kansas because calculation of Kansas taxable income begins with federal adjusted gross income. She explained that, should Congress not enact a dividend income exclusion, the bill will have no effect because it does not address decoupling from other aspects of the President's proposal. (Attachment 2)

Mark Tallman, Kansas Association of School Boards, testified in support of **SB 146** or, alternatively, the passage of replacement revenue sources. He noted that it is highly probable that state revenues will not meet the requirements of the current fiscal year, and lost revenues from dividend income would make the situation worse. (Attachment 3)

There being no others wishing to testify, the hearing on **SB 146** was closed.

Senator Corbin opened a discussion on a previously heard bill, **SB 94** which would repeal retroactively the inheritance or succession tax enacted last year. He noted that the Committee has the option to choose **SB 94** or a similar bill, **SB 148**. Noting that both have the same cost, he expressed his preference for **SB 94**.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on February 24, 2003, in Room 519-S of the Capitol.

Senator Clark moved to report **SB 94** as favorable for passage, seconded by Senator Taddiken. The motion carried.

Senator Corbin called the Committee's attention to another previously heard bill, **SB 192** concerning the Streamlined Sales and Use Tax Agreement Conformity Act. Richard Cram, Kansas Department of Revenue, discussed suggested amendments to the bill with special attention to the proposed amendment on page 23, lines 29 through 39, calling for a repeal of the current exemption for residential and agricultural utilities. As the bill is written, the repeal would become effective July 1, 2004. However, the Streamlined Sales Tax Act does not require that the sales tax dates be uniform until January 1, 2006. Mr. Cram explained that the proposed amendments to Sections 29 through 41 deal with the transportation district excise tax. The intent is to make the tax state administered so that there is not an issue with the Streamlined Sales Tax Agreement. The amendment designates the tax as a local sales tax instead of the transportation district excise tax. The repeal of the transportation district excise tax act found on page 59, line 41, will be effective July 1, 2003. Mr. Cram noted that all other changes are technical in nature. (Attachment 4)

With regard to the utilities issue, Mr. Cram confirmed for Senator Allen that the amendments on page 23 would impose a tax on water at the state level, effective calendar year 2006. He also reported that, if a state sales tax is imposed on all utilities for residential and agriculture use, the fiscal note would be an increase of approximately \$71 million a year in state revenue. Of that, approximately \$9 million is attributable to water. In response to further Committee questions, he explained that agricultural water usage which becomes an ingredient or component part of a crop or which is consumed in the production of crops and livestock will continue to be exempt under the consumed in production exemption. Only water consumed for home purposes will be subject to sales tax. He acknowledged that, effective 2006, the sales tax base would be broadened. Senator Allen commented that, in effect, the amendment would make a policy decision to place a new tax on water at the state level rather than exempting water at the local level. Following further discussion, Senator Corbin continued the discussion on **SB 161** to the February 25 meeting when more information on the issue would be available.

Senator Corbin returned the Committee's attention to **SB 146**, noting that, if Congress does not pass the dividend exclusion, the bill will have no effect.

Senator Lee moved to report **SB 146** as favorable for passage, seconded by Senator Oleen. The motion carried.

Senator Cobin opened a discussion of a previously heard bill, **SB 85**, which would eliminate the property tax exemption for wind energy resources. He noted that the issue centers on payment in-lieu-of taxes by wind production companies. Currently, there is no statutory requirement for a set amount or that the companies must pay after the first year's agreement with the county. He called upon Gordon Self, Revisor of Statutes Office, for a review of a proposed amendment. Mr. Self explained that the new language requires that an agreement for in-lieu-of taxes be in place before the exemption is granted and also provides that, if the agreement is not kept, the tax exemption is lost. (Attachment 5)

The meeting was adjourned at 11:15 a.m.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on February 24, 2003, in Room 519-S of the Capitol.

The next meeting is scheduled for February 25, 2003.