

Approved: 1-30-2008
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 16, 2008 in Room 519-S of the Capitol.

All members were present except: Representative Dillmore

Committee staff present:

Chris Courtwright, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Ryan Hoffman, Legislative Research Department
Scott Wells, Office of the Revisors of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Others attending:

See attached list.

The Chairman welcomed members to the first meeting of the 2008 Taxation Committee. New staff members were introduced Ryan Hoffman, Legislative Research Department, and Scott Wells, Office of the Revisors.

Richard Cram requested bill introductions concerning: 1) Legislation for electronic filing and payment initiative and 2) KDOR is requesting an amendment to the M & E exemption to include research and development equipment, as part of the Governor's initiative for economic development. Representative Wilk moved to introduce the bills, seconded by Representative Whitham. The motion carried.

Representative Wilk made a motion to introduce a reciprocity bill that would clarify the issue of respecting individual state tax laws. It is specifically directed to address property tax calculation in Missouri. It was seconded by Representative Worley. The motion passed.

Chris Courtwright reviewed the Report of the Special Committee on Assessment and Taxation to the 2008 Kansas Legislature (Attachment 1).

He provided the background and described the activities of the Special Committee on nine study topics. Listed below are the conclusions and recommendations on the following study topics:

- **Corporate Income Tax Shelters:** The Committee recommends the introduction of legislation that would clarify the definition of business income to add the functional test; clarify the definition of gross receipts to prevent churning; and reduce the surtax such that the overall corporation income tax remains revenue neutral. *Proposed Legislation:* The Committee recommends the introduction of one bill on this topic.
- **Sales Tax Exemptions:** The Committee strongly recommends the Legislature consider establishing objective standards for granting sales tax exemptions in the future. The Committee expresses its strong support for making this a high priority. To assist the Legislature in its effort, the Committee recommends that the working group established by the Committee continue to meet and develop a scope statement for an in-depth review of the issue by the Legislature Division of Post Audit. *Proposed Legislation:* None
- **Property Tax Payment Date:** The Committee makes no recommendations regarding this proposal. *Proposed Legislation:* None
- **Property Tax Deferral:** The Committee recommends the introduction of new property tax deferral legislation in 2008 that will contain a number of amendments developed by a working group relative to the original proposal. *Proposed Legislation:* The Committee recommends the introduction of one

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bill on this topic.

- **Income Tax Withholding:** The Committee strongly encourages the Department of Revenue to publicize the information that taxpayers have the option of adjusting their state income tax withholding amount to better approximate final liability. *Proposed Legislation:* None
- **Local Sales Tax Authority:** The Committee recommends no action be taken. *Proposed Legislation:* None.
- **Tax Relief for Storm-Damaged Property:** The Committee recommends referring the White Paper received from the local government working group to the Chairman and members of the Disaster Relief and Recovery Special Committee. The Committee believes consideration needs to be given in 2008 regarding legislation that would provide for residential property tax relief for storm-damaged property. Any such legislation should be in the form of refundable income tax credits or some other form of rebate so as to address possible constitutional concerns related to the re-valuation of property. The Legislature also should consider increasing revenue sharing to assist local units of government when property and sales tax bases are reduced as a result of a storm disaster. *Proposed Legislation:* None.
- **Corporation Income Tax Credits:** The Committee makes no recommendation relative to legislation that would allow High Performance Incentive Program (HPIP) credits to be shared between and among companies in a unitary group. The Committee recommends that the standing tax committees introduce legislation in 2008 specific to Huhtamaki that would authorize a portion of extant HPIP credits to be redeemed monetarily. The Committee further recommends that this legislation be heard and worked early in the 2008 Session. *Proposed Legislation:* None

Discussion followed regarding the unused \$400 million HPIP tax credits currently on the ledger. There was a request to see data on the number of companies that took HPIP tax credits in 2007 and where the \$400 HPIP credits are in their lifespan. Mr. Cram agreed to provide: 1) available data for 2007 and 2) 2005 annual report to the Commerce Committees concerning HPIP credits.

- **Property Taxes on Newly Constructed Residential:** The Committee embraces the concepts embodied in 2007 **HB 2543** and encourages proponents to keep working on the legislation and reintroduce it in 2008 with any necessary amendments. *Proposed Legislation:* None

Chris Courtwright reviewed the State General Fund Receipts for FY 2008 (Revised) and FY 2009 (Attachment 2). FY 2008, the estimate was increased by \$160.5 million above the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto and *sine die* sessions). The revised estimate of \$5.717 billion represents a 1.6 percent reduction below final FY 2007 receipts.

The initial estimate for FY 2009 is \$6.170 billion, which is \$452.8 million, or 7.9 percent, above the newly revised FY 2008 figure. One factor influencing the FY 2009 growth rate relates to several pieces of legislation enacted in 2005-07 that will reduce relative to prior law the amount of severance, income, estate, corporation franchise, and motor carrier property tax receipts deposited into the SGF.

Regarding the economic forecast for the state he said that although the Kansas economy has been growing at a relatively healthy rate during 2007, indications are that the rate of growth is slowing substantially during the final quarter of the calendar year. Moreover, the level of uncertainty for 2008 appears to be much higher than it has in the past, due to high energy prices and tight housing and credit markets. In the short term, a generally healthy overall employment picture and continued recovery in the aviation manufacturing sector are expected to continue to cause income tax receipts to grow at a strong pace throughout 2008.

He explained the Consensus estimates in the report, stating they were based on a number of such assumptions regarding a moderating rate of growth in the national and state economies. He continued with a review of the State General Fund (SGF) receipts (Attachment 3). He explained the consensus report is divided into twelve months and this report provides data from July through December, FY 2008. He

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suggested there were at least four possible scenarios which would explain the discrepancy between estimates and actual amounts.

The Chairman advised that there will be a presentation on the perspective of Kansas, Inc. that will help members understand the macro numbers they have been studying as well as the importance of the gross state product and personal income numbers.

The meeting was adjourned at 10:20 a.m. The next meeting is January 17th.