

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:15 a.m. on March 16, 2000, in Room 519-S of the Capitol.

All members were present except: Senator Greta Goodwin – Excused

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

Conferees appearing before the committee: Kathleen Sebelius, Insurance Commissioner
Bill Sneed, Attorney at Law

Others attending: See attached list.

Briefing on the decline in insurance premium tax receipts

Senator Langworthy reminded the Committee that substantial changes were made in the premium tax law during the 1997 Legislative Session. She called upon the Insurance Commissioner, Kathleen Sebelius, to present an update on the premium tax issue.

Commissioner Sebelius called attention to a handout prepared to accompany her slide presentation. She began by explaining that in 1985 the U.S. Supreme Court ruled that a differential in premium tax is unconstitutional, which basically meant foreign companies could not be charged a different rate than domestic companies. Kansas had a law in place that charged foreign companies two percent and domestic companies one percent. Between 1985 and 1995, that law was not changed in Kansas. Ten states had been sued under this Supreme Court ruling during that period of time, and all had lost. After the Kansas Insurance Department began investigating the issue in 1995, the Department estimated that the liability for the foreign insurance companies was approximately \$500 million. The issue was addressed by the Legislature in 1997 in **HB 2082**. Due to tax reductions resulting from **HB 2082**, premium tax receipts were lower in fiscal year 1999. The Commissioner explained that the primary reason for a \$20 million dip in premium tax receipts is attributable to a job credit available to insurance companies that employ Kansas residents. She discussed five options that either the 2000 or 2001 Legislature could consider to mitigate further premium tax revenue loss. In this regard, she called attention to a copy of a memorandum to the Director of the Budget dated December 23, 1999, which outlines options to existing premium tax provisions. Also included in her testimony packet is a copy of a memorandum on the same subject to the Chairman of the Senate Committee on Financial Institutions and Insurance dated February 8, 2000. Included with that memorandum is information regarding tax estimates for fiscal years 2000 and 2001 and information on companies claiming salary credit for tax year 1999. Should the Legislature choose to make any changes in the law, she strongly urged that the effective date be tax year 2000 because insurers have already calculated and prepaid tax year 1999 changes. (Attachment 1)

Bill Sneed, an attorney who represents numerous insurance companies, called attention to copies of his written testimony which includes the historical background previously presented by Commissioner Sebelius. He explained that, after the Commissioner made her presentation to the Senate Financial Institutions and Insurance Committee, the Chairman requested that representatives of the insurance industry review the issue. He called attention to page three of his written testimony where the analysis of the effect of **HB 2082** begins. Attached to his testimony is a comparison table used by the conference committee in 1997 in the process of approving **HB 2082**. He explained that some of the numbers used in 1997 simply were incorrect. As such, the shortfall was larger than anticipated. Mr. Sneed then discussed the perspective which resulted from the working group's review of the situation as is outlined in his written testimony. (Attachment 2)

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Senator Langworthy began a brief discussion on a previously heard bill, **Substitute for HB 2702**, concerning a property tax exemption for greenhouse machinery and equipment. She recalled that the bill was amended with regard to an exemption for windmills and solar power as suggested by Mark Beck, Director of the Property Valuation Division.

Senator Praeger moved to recommend **Substitute for HB 2702** as amended favorable for passage, seconded by Senator Lee. The motion carried.

The meeting was adjourned at 12:03 p.m.

The next meeting is scheduled for March 20, 2000.

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