

Approved: 3/10/93
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Keith Roe at 9:00 a.m. on March 9, 1993 in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Bill Edds, Revisor of Statutes
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Ann Papay, County Appraiser for Grant, Stanton, Stevens and
Haskell counties
Steve Stotts, General Counsel, Kansas Department of Revenue
Mark Burghart,

Others attending: See attached list

Chairperson Roe opened the hearing on SB 193.

SB 193 Property tax protest procedure; hearings with county appraiser.

Ann Papay, County Appraiser, testified in support of SB 193. She said that in November and December 1992, Grant Stanton, Stevens, Haskell and Morton counties were inundated with tax levy protests which resulted from the statewide school finance levy. This bill would allow taxpayers to appeal directly to the State Board of Tax Appeals (Attachment 1).

Chairperson Roe closed the hearing on SB 193.

The Chair opened the hearing on HB 2520.

HB 2520 Assignment of homestead property tax refund claim to county.

Steve Stotts, Department of Revenue, testified in support of HB 2520, stating that passage of this bill will reduce the assessments that the Department must send to the taxpayer and will ease the accounting problems encountered by the county when a payment is received for the first half of taxes (Attachment 2).

Written testimony in support of HB 2520 was submitted by the Kansas County Treasurers' Association (Attachment 3).

Chairperson Roe closed the hearing on HB 2520.

The Committee turned to discussion and possible action on bills.

SB 74 Time for payment of new tire tax.

Mark Burghart, General Counsel, Department of Revenue, distributed a balloon amendment for SB 74 and said that the proposed change would put tire retailers on the same footing as other Kansas retailers in terms of remittances and reporting requirements to the Department (Attachment 4).

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the Committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on March 9, 1993.

A motion was made by Representative Wagon, seconded by Representative Wiard, to amend SB 74 as shown on the balloon (Attachment 4). The motion carried.

A motion was made by Representative Wiard, seconded by Representative Pottorff, to pass SB 74 favorable as amended. The motion carried.

HB 2520 Assignment of homestead property tax refund claim to county.

A motion was made by Representative Wagon, seconded by Representative McKinney, to pass HB 2520 favorably. The motion carried.

HB 2065 Real estate sales validation questionnaires completed by agent of grantor or grantee.

A motion was made by Representative Wagon, seconded by Representative Welshimer, to table HB 2065. The motion carried.

SB 193 Property tax protest procedure; hearings with county appraiser.

A motion was made by Representative Larkin, seconded by Representative Mollenkamp, to report SB 193 favorable for passage. The motion carried.

SB 230 Kansas community assistance program act.

Tom Severn, Kansas Legislative Research Department, reviewed a staff memorandum which had been presented at the February 24, 1993, Senate Assessment and Taxation Committee meeting. Mr. Severn explained how SB 230 would authorize credits for contributions by business firms to community service organizations for the purpose of conducting approved community assistance, job training, community services, or crime prevention in Kansas (Attachment 5).

SB 203 Economic development promotion; various tax adjustments.

Chris Courtwright, Kansas Legislative Research Department, reviewed the supplemental note on SB 203. During the 1992 Session, the assumptions used during the debate on the school finance bill were that the original construction services tax would raise approximately \$45,162 million in FY 1994. He said that this estimate has recently been lowered to \$25.7 million. In 1992 the FY 1994 estimate for utilities consumed in production tax was projected at \$18.858 million and has recently been lowered to \$16.5 million. Mr. Courtwright explained that this bill would restore two sales tax exemptions and would reduce, over a period of years, the effective severance tax rate on natural gas from 7.0 percent to 4.33 percent, the same rate imposed on oil.

The minutes of March 8, 1993, were approved as printed.

The meeting adjourned at 10:10 a.m.

The next meeting is scheduled for March 10, 1993.

Date:

HOUSE COMMITTEE ON
ASSESSMENT AND TAXATION

[illegible]

**TESTIMONY
OF
ANN PAPAY
COUNTY APPRIASER**

PRESENTED BEFORE

**THE HOUSE
TAXATION
COMMITTEE**

MARCH 9, 1993

RE: SB 193

3/9/93

*House Taxation Cmte
Attachment 1*

Mr.Chairman and Members of the Committee:

I am Ann Papay, County Appraiser for Grant, Stanton, Stevens and Haskell counties.

I appear today on behalf of Grant, Stanton, Stevens, Haskell and Morton counties and in support of Senate Bill 193.

In November and December 1992, these southwest Kansas counties were inundated with tax levy protests which resulted from the statewide school finance levy, which was passed during the 1992 session.

Under K.S.A. 79-2005 a formal hearing is required with the county appraiser. After the hearing, the appraiser must generate a "Notification of Results" to the taxpayer stating the results of the formal hearing. The taxpayer must attach a copy of this notice when filing with the State Board of Tax Appeals.

Since the county appraiser has no authority to adjust the levy, this procedure has caused an unnecessary expense to local governments and further irritation to taxpayers.

Senate Bill 193 would eliminate the formal hearing between the taxpayer and the appraiser on a levy protest, therefore allowing the taxpayer to appeal directly to the State Board of Tax Appeals.

I ask your support on SB 193.

Ann Papay, County Appraiser

DEPARTMENT OF REVENUE

HOUSE BILL 2520

The Homestead Refund Program was created during the 1970 Legislative Session to provide ad valorem tax relief to persons who are 55 years of age or older, who have suffered a total and permanent disability or who are blind or who have one or more dependent children residing with them who are under the age of 18. The claimant must have income not in excess of \$17,200; the maximum refund is \$600.

Senate Bill 657 (1992 Session) allows persons who have received a Homestead refund in the previous year to assign the refund to the county for payment of property taxes. Presently, a certificate of eligibility is filed by the claimant with the county clerk who forwards the certificate to the Department of Revenue who then transfers the Homestead refund to the county.

The Department reviewed approximately 66,000 claims in determining 25,000 homeowners would qualify for the program. A notice of "Verification" letter was sent to each indicating the credit amount allowed and an explanation of the program. The Department has generated 8,144 refunds in response to these letters. As the claimant files for the current years Homestead refund, the assignment to the county is then offset by the amount sent the county. Presently, 2,452 current year refunds have been filed and offset. However, since statewide property taxes have generally fallen and incomes have risen, the Homestead refund claimed in the current year is less than that used to determine the assignment to the county. The result is an assessment against the claimant for the difference between the amount assigned based on last years income and property taxes and the refund allowed in the current year. To date, 1,107 letters have been sent out with 608 responding. Assessing the taxpayer an amount following their submission of a refund form is confusing to the taxpayer. In addition, payment of amounts different from the first half property tax liability presents some accounting problems for the county treasurer.

House Bill 2520 provides that only the first half of the property tax liability can be paid by the claimant assigning their Homestead refund to the county. This action will reduce the assessments that the Department must send to the taxpayer and will ease the accounting problems encountered by the county when a payment is received for the first half of taxes. Table 1 presents an example of the problem.

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House Taxation Comte
Attachment 2

HOUSE BILL 2520

TABLE 1

CURRENT LAW

	<u>1991</u>	<u>1992</u>	<u>One-Half 1992 Taxes</u>	<u>Refund Assigned</u>
Property Taxes	\$500	\$350	\$175	\$300
Homestead Refund	\$300	\$250		

In this example a claimant files a certificate to assign their Homestead refund to the county. The assignment is based on the previous years Homestead refund, in this case \$300. The assignment is then sent to the county treasurer for the payment of the first half of the 1992 property tax liability which is only \$175. This results in a balance of only \$50. The County Treasurer instead of recording the usual first half paid must make a special entry of the lower balance of \$50. The Department upon receiving the 1992 Homestead refund claim, determines that the refund is only \$250. Since \$300 has already been assigned (refunded) to the county, the claimant is sent an assessment for \$50.

PROPOSED LAW

	<u>1991</u>	<u>1992</u>	<u>One-Half 1992 Taxes</u>	<u>Refund Assigned</u>
Property Taxes	\$500	\$350	\$175	\$175
Homestead Refund	\$300	\$250		

Under House Bill 2520 only the amount of the first half of the current years property taxes will be assigned.



KANSAS COUNTY TREASURERS' ASSOCIATION

OFFICE

NANCY HILTON
DOUGLAS COUNTY
President

LOREN L. HIBBS
SUMNER COUNTY
Vice President

JOANN HAMILTON
OSAGE COUNTY
Secretary

KEVIN JONES
OTTAWA COUNTY
Treasurer

March 9, 1993

TO: Keith Roe, Chairman
Taxation Committee

FROM: Nancy Hempen, President
Kansas County Treasurers Association

RE: House Bill 2520

On behalf of the Kansas County Treasurers Association, this letter is to address the proposed changes to K.S.A. 79-4521.

Just having gone through the first year using the homestead property tax credit, we believe these proposed changes will definitely improve the accountability and distribution of the odd amount of tax dollars being collected. The credit amount is currently based on the full years amount of property tax. Many accounts are being handled manually because of the odd dollars on the books until the second half is paid in June.

More importantly, we have numerous concerns from individual taxpayers who did use the credit but are now having to pay additional in to the state because their homestead refund amount had decreased from the prior year. Allowing up to the amount of the first half property taxes due as being the maximum credit amount allowed will dramatically decrease the number of individuals who would pay additional tax dollars to the state.

From the beginning of this program we have worked closely with Pat Compton and Bob Clelland in the Division of Taxation to implement this program and make it run as smoothly as possible with as little undue hardship for the taxpayer.

Your consideration of HB 2520 will allow this program to proceed with more positive views.

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House Taxation Comte
Attachment 3

SENATE BILL No. 74

By Committee on Energy and Natural Resources

1-22

9 AN ACT concerning the time of remittance of the tax imposed upon
10 the sale of new tires; amending K.S.A. 65-3424d and repealing
11 the existing section.

12
13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 65-3424d is hereby amended to read as follows:
15 65-3424d. (a) In addition to any other tax imposed upon the retail
16 sale of new tires, there is hereby imposed an excise tax on retail
17 sales of new tires at the rate of \$.50 per tire sold including new
18 tires mounted on a vehicle sold at retail for the first time. Such tax
19 shall be paid by the purchaser of such tires and collected by the
20 retailer thereof.

21 (b) The tax imposed by this section collected by the retailer shall
22 become due and payable ~~monthly, or on or before the 25th day of~~
23 ~~the month immediately succeeding the month in which the tire is~~
24 ~~sold, but any person filing an annual or quarterly return under the~~
25 ~~Kansas retailers' sales tax act, as prescribed in K.S.A. 79-3607 and~~
26 ~~amendments thereto, shall, upon such conditions as the secretary of~~
27 ~~revenue may prescribe, pay the tax imposed by this act on the same~~
28 ~~basis and at the same time the person pays such retailers' sales tax.~~
29 Each person collecting the tax imposed pursuant to this section shall
30 make a true report to the department of revenue, on a form pre-
31 scribed by the secretary of revenue, providing such information as
32 may be necessary to determine the amounts of taxes due and payable
33 hereunder for the applicable month or months, which report shall
34 be accompanied by the tax disclosed thereby. ~~Notwithstanding the~~
35 ~~foregoing provisions of this subsection, in any case where the ag-~~
36 ~~gregate amount of the tax collected by a retailer is \$25 \$100 or less~~
37 ~~during the retailer's reporting period, such retailer may file the~~
38 ~~required report accompanied by the tax collected on or before the~~
39 ~~25th day of the month immediately succeeding the month in which~~
40 ~~such aggregate amount exceeds \$25 \$100, except that in no case~~
41 ~~shall such report accompanied by the tax collected be submitted less~~
42 ~~frequently than annually.~~ Records of sales of new tires shall be kept
43 separate and apart from the records of other retail sales made by

as follows: When the total tax for which any retailer is liable under this act, does not exceed the sum of \$80 in any calendar year, the retailer shall file an annual return on or before January 25 of the following year. When the total tax liability does not exceed \$1,600 in any calendar year, the retailer shall file returns quarterly on or before the 25th day of the month following the end of each calendar quarter. When the total tax liability exceeds \$1,600 in any calendar year, the retailer shall file a return for each month on or before the 25th day of the following month. When the total tax liability exceeds \$32,000 in any calendar year, the retailer shall be required to pay the sales tax liability for the first 15 days of each month to the director on or before the 25th day of that month.

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House Taperation Cmte
Attachment 4

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

**300 S.W. 10th Avenue
Room 545-N -- Statehouse**

Phone 296-3181

February 24, 1993

TO: Senator Audrey Langworthy

Office No. 143-N

RE: S.B. 230 -- Community Improvement Grants

This memorandum is in response to your request for an explanation of S.B. 230. The bill would authorize credits for contributions by business firms to community service organizations for the purpose of conducting approved community assistance, job training, community services, or crime prevention in Kansas.

Community Service Organizations. S.B. 230 defines a community service organization as an organization performing community services in Kansas that meets any of these conditions:

1. exempt under 501(c)(3);
2. chartered as a nonstock, nonprofit corporation;
3. designated as such by the federal government; or
4. chartered by the U.S. Congress.

Community Services. Community services is defined by the bill to mean activity which meets a demonstrated community need and which improve the physical, mental, social, cultural, or spiritual welfare of others or the relief, comfort or assistance of persons in distress or any combination of these. Examples include health and recreation services, childcare, individual and family counseling, employment and training programs for handicapped persons, and meals or feeding programs.

Approval of Programs. The Director of the Division of Community Development would approve programs, but to be approved programs would need the endorsement of an agency of local government that has adopted an overall community or neighborhood development plan.

Charitable Contributions -- Current Law. Contributions to organizations qualifying under Section 501(c)(3) are deductible in arriving at taxable income. For corporations, charitable

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House Taxation Cmte
Attachment 5*

contributions are subject to a limitation of 10 percent of taxable income, computed without regard to the contributions, preferred stock dividends of utilities, and loss carrybacks. Excess contributions may not be claimed in the current year but may be carried forward for up to five years, although each year is subject to the 10 percent limitation.

Charitable Contributions for State Income Taxes. For both Missouri and Kansas the tax computation begins with federal taxable income, and no modification is made for ordinary charitable contributions. Thus, the federal treatment carries over to the state level.

Credit. The credit granted a contributor could not exceed 50 percent of the amount contributed to the community service organization, or 70 percent of the amount contributed to a rural community service organization. The contribution would be deductible at the federal level, but not at the state level. This treatment is accomplished by adding the amount of the contribution to federal taxable income in computing Kansas taxable income for corporations, or adding the amount of the contribution to federal adjusted gross income in computing Kansas adjusted gross income for individuals.

Missouri Law. Under Missouri law, the amount of the contribution is not added back; thus, the taxpayer is allowed both a credit and a deduction for the same contribution.

Hypothetical Example. The attached tables compare the tax treatment a hypothetical taxpayer in Missouri and Kansas who makes no contribution, an ordinary contribution, and a contribution under S.B. 230 or Missouri's Neighborhood Assistance Program. For each, the federal income tax and state income tax is calculated. A simplifying assumption is that the firm knows and prepays its state tax liability and thus deducts the same amount for federal income tax purposes that it subsequently calculates on the state return. This assumption avoids questions about the timing of the deduction taken for state and federal income taxes and permits us to concentrate on the effect of the contribution. The example assumes a 50 percent credit. The corporation has income of \$1,000,000 before taxes and before a contribution of \$10,000. An ordinary contribution costs the firm \$6,115 in Kansas and \$6,379 in Missouri. A contribution under S.B. 230 or the NAP would cost the firm \$3,300 in Kansas and \$3,021 in Missouri.

I hope this information is useful to you. If you have further questions please contact me.



Tom Severn
Principal Analyst

Attachments

Kansas Sample Computation (1992 Rates)

Facts	No Contribution	Normal Charitable Contribution	NAP Contribution
Taxable Income before Contribution	\$1,000,000	\$1,000,000	\$1,000,000
Contribution	0	10,000	10,000
Federal Income Tax			
Gross Taxable Income	\$1,000,000	\$1,000,000	\$1,000,000
less: Contribution Deduction	0	10,000	10,000
less: Kansas Income Tax	71,825	71,090	66,825
Federal Taxable Income	\$928,175	\$918,910	\$923,175
Federal Income Tax	\$315,580	\$312,429	\$313,880
Kansas Income Tax			
Federal Taxable Income	\$928,175	\$918,910	\$923,175
add: Contribution Deduction	---	---	10,000
add: Kansas Income Tax	71,825	71,090	66,825
Kansas Taxable Income	\$1,000,000	\$990,000	\$1,000,000
Kansas Corporate Tax	\$71,825	\$71,090	\$71,825
NAP Credit per SB230	0	0	5,000
Net Kansas Income Tax	\$71,825	\$71,090	\$66,825
Cash Requirements			
Contributions	none	\$10,000	\$10,000
Federal Income Tax	\$315,580	312,429	313,880
Kansas Income Tax	71,825	71,090	66,825
Total	\$387,405	\$393,519	\$390,705
Cost of Contribution			
Kansas Tax Benefit	NA	\$735	\$5,000
Federal Tax Benefit	NA	3,150	1,700
After-Tax Cost	NA	6,115	3,300
Total	NA	\$10,000	\$10,000

Missouri Sample Computation (1992 Rates)

Facts	No Contribution	Normal Charitable Contribution	NAP Contribution
Taxable Income before Contribution	\$1,000,000	\$1,000,000	\$1,000,000
Contribution	0	10,000	10,000
Federal Income Tax			
Gross Taxable Income	\$1,000,000	\$1,000,000	\$1,000,000
Contribution Deduction	0	10,000	10,000
Missouri Income Tax	33,571	33,235	28,149
Federal Taxable Income	\$966,429	\$956,765	\$961,851
Federal Income Tax	\$328,586	\$325,300	\$327,029
Missouri Income Tax			
Federal Taxable Income	\$966,429	\$956,765	\$961,851
less: Federal Income Tax	328,586	325,300	327,029
add: Missouri Income Tax	33,571	33,235	28,149
Missouri Taxable Income	671,414	664,700	662,971
Missouri Corporate Tax	\$33,571	\$33,235	\$33,149
NAP Credit	0	0	5,000
Net Missouri Tax	\$33,571	\$33,235	\$28,149
Cash Requirements			
Contributions	none	\$10,000	\$10,000
Federal Tax	\$328,586	325,300	327,029
Missouri Tax	33,571	33,235	28,149
Total	\$362,157	\$368,535	\$365,178
Cost of Contribution			
Missouri Tax Benefit	NA	336	5,422
Federal Tax Benefit	NA	3,286	1,557
After-Tax Cost	NA	6,379	3,021
Total	NA	\$10,000	\$10,000