Approved: January 13, 1994
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:05 a.m. on January 11, 1994 in Room 519-S of the Capitol.

Members present: Senator Langworthy, Senator Tiahrt, Senator Martin, Senator Bond, Senator Corbin, Senator Feleciano Jr., Senator Hardenburger, Senator Lee, Senator Reynolds, Senator Sallee, Senator Wisdom

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

Conferees appearing before the committee: Senator Tim Emert
Mikel Filter, Kansas Inc.
Larry Clark, Kansas County Appraisers Association
Anne Smith, Kansas Association of Counties
Alan Alderson, Kansas Bar Association
Helen Stephens, Kansas Peace Officers Association
Senator Audrey Langworthy
Secretary Nancy Parrish, Dept. of Revenue
Mark Ciardullo, Dept. of Revenue
David Cunningham, Division of Property Valuation

REQUESTS FOR BILL INTRODUCTIONS

Senator Tim Emert appeared to request the introduction of a bill to permit counties to have an election to assess a small sales tax to be used for financing, construction and operation of solid waste management.

Senator Bond moved this bill be introduced. Senator Reynolds seconded the motion. The motion carried.

Dr. Charles Warren, President, Kansas Inc, introduced Mikel Filter, also Kansas Inc., who read from a prepared statement. (Attachment 1) She requested the introduction of four bills. The first bill would extend tax incentives to select service sector firms. Also, she proposed amendments under SB 73 whereby the Department of Commerce & Housing is provided with a procedure for determining firm based on the make-up of the applicant's customer base. If qualified these firms would still be required to meet the same high performance standards currently applied to manufacturing firms. The second amendment would allow Kansas Venture Capital Companies to invest in certain service sector firms, and the third proposed amendment regards the newly reconstructed Enterprise Zone statutes is in regard to export-oriented service sector firms being denied access to Enterprise Zone incentives because of the current wording of the statute. She also requested the Research and Development Tax Credit which expired January 1, 1994 be extended to an additional two years.

Senator Feliciano moved the introduction of these 4 bills. The motion was seconded by Senator Sallee. The motion carried.

Larry Clark, Kansas County Appraisers Association, requested the introduction of bills (1) notifying property owners of the possible change in tax status as a result of valuation changes; (2) to extend the cycle for reinspection of property from the current four years to eight years; (3) to concentrate on those properties that have problems and leave the others to statistical analysis; (4)to eliminate putting on the property assessment roll values which would result in tax bills which would be less than $ 5.00 and (5) finally to urge the adoption of the IAAO standards for the ratio study.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S Statehouse, at 11:05 a.m. on January 11, 1994.

Senator Martin moved to introduce these bills. The motion was seconded by Senator Reynolds. The motion carried.

Anne Smith, Kansas Association of Counties, appeared to request the introduction of a bill to allow taxpayers to pay their county taxes via a credit card.

Senator Feliciano moved to introduce this bill. The motion was seconded by Senator Hardenburger. The motion carried.

Alan Alderson, Kansas Bar Association, requested the introduction of two bills concerning interest on certain delinquent, unpaid, or overpaid taxes and concerning penalties prescribed for certain delinquent returns and unpaid taxes.

Senator Bond moved the introduction of these two bills. The motion was seconded by Senator Corbin. The motion carried.

Helen Stephens, Kansas Peace Officer Association, requested the introduction of a bill to exempt from the tax lid, public safety, public safety defined as law enforcement, fire and emergency services.

Senator Bond moved the introduction of this bill. The motion was seconded by Senator Feliciano. The motion carried.

Senator Audrey Langworthy requested the introduction of a bill to amend the school district finance and quality performance act to extend the rate of 35 mills for the 1994-1995 and 1995-1996 school years.

Senator Lee moved the introduction of this bill. The motion was seconded by Senator Wisdom. The motion carried.

Secretary Nancy Parrish, Department of Revenue, appeared to request the introduction of 6 bills. (Attachment 2) (1) To amend KSA 79-32,110(a) and KSA 79-32,117(c) to reflect certain federal statutory changes; (2) to authorize taxpayers to file business tax returns by electronic means; (3) to authorize the Department of Revenue to accept electronic signatures; (4) to amend KSA 79-3702 to provide that all sales tax provisions are applicable to the compensating use tax, and to repeal KSA 79-3642 which expired January 1, 1989; (5) to allow taxpayers to pay their state taxes via a credit card and (6) to amend the Kansas Administrative Prcedures Act to provide that the Director of Property Valuation shall be deemed the agency head in regard to orders rendered by the Director under Chapter 79, Kansas Statutes Annotated.

Senator Lee moved the introduction of these 6 bills. The motion was seconded by Senator Martin. The motion carried.

TAXATION OF HEATING OIL

Mark Ciardullo, Department of Revenue, appeared to explain and discuss the taxation of heating oil. Heating oil is exempt for home heating. A federal government audit recommended changes to reduce fraud and to assist in oil tracking. There is a permit for $10.00 to allow the exemption of oil for home heating and non-highway use. The committee felt that something different should be done. Secretary Parrish said the Department of Revenue will work with Senator Sallee to come up with a solution for this problem.

VALUATION OF COMMERCIAL AND INDUSTRIAL EQUIPMENT WHEN PURCHASED NEW

David Cunningham, Director of Property Valuation, appeared to discuss the valuation of commercial and industrial equipment when purchased used. (Attachment 3) He stated that the formula for calculation of an estimate of retail cost new was developed by the Institute for Economic and Business Research and Dr. Darwin W. Daicoff, University of Kansas.

Tom Severn, Research Department, asked if for the purpose of estimating an original retail price when new, would you permit the economic life to be greater than 7 years for the purpose of estimating that original price?

Mr. Cunningham replied that from the economic life tables that type of property has a 10 year economic life. Yes, based on that table, but they are going to use 7 years to depreciate it.

Tom Severn, Research Department, asked if the taxpayer does have the original price when new, could that be accepted? Mr. Cunningham replied yes, that could be accepted, if they have it.

PROPERTY TASK FORCE REPORT

David Cunningham, Director of Property Valuation, reported on the Property Task Force Report on Tax Issues. (Attachment 4) He said the Working Group made six recommendations for legislation. They are: (1) Providing direct compensation from the state to county and state appraisal personnel for attaining specified educational levels and/or specified professional appraisal designations; (2) Allow the land and improvement values to be combined on the valuation and tax notices (current law requires that they be listed separately); (3) Transfer of appraisal records from appraiser to clerk electronically; (4) Allow the appraiser to remove governmental right-of-way properties from the appraisal/tax roles without an application to and order from the State Board of Tax Appeals; (5) Abate value associated with five dollar tax bills; (6) Exclude from the tax base penalties added for the untimely filing of the personal property rendition.

Senator Martin moved the introduction of these bills. Motion was seconded by Senator Lee. The motion carried.

Senator Martin renewed his motion of November 23, 1993, to recommend to the Senate the name of Perl M. Bass for appointment to the Board of Tax Appeals. The motion was seconded by Senator Lee. The motion carried.

Senator Wisdom requested the introduction of a bill to authorize counties to establish a delinquent property tax accumulated interest amnesty period every ten years.

Senator Wisdom moved the introduction of this bill. The motion was seconded by Senator Bond The motion carried.

The next meeting is scheduled for January 12, 1994.

The meeting adjourned at 12:03.

GUEST LIST

SENATE ASSESSMENT AND TAXATION COMMITTEE

DATE: Jan. 11, 1994

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
[illegible]	Topeka	Observer
Dedra Platt	Topeka	KDOR
Mark Ciardullo	Topeka	KDOR
Steve Stotts	"	"
Nancy Parrish	Topeka	KDOR
MARK A. BURGHART	"	"
Barbara Butts	"	Dept of Admin
Art BROWN	— —	KS. CAR DEALERS
Anne Smith	Topeka	Ks. Assoc. of Counties
JANICE MARCUM	Topeka	KDOR
Dena McFarland	Overland Park	OP Chamber
T.C. Anderson	Topeka	KSCPA
Ron Smith	"	"
Don Lindsey	OSAWATOMIE	UTU
Jim Kile	Paola	BLE
Richard Rodewald	LAWRENCE	TAXPAYERS
Tom Bruno	Topeka	Allen & Associates
Bob Gardner	WYANDOTTE County	Wy. Co.
Gary Clark	Johnson County	KCAA
BEV BRADLEY	TOPEKA	KS Assoc. of Counties
Julie Hein	Topeka	Hein, Ebert & Weir

GUEST LIST (continued) DATE: 1/11/94

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
JEFF SONNICH	TOPEKA	KS-NE LEAGUE OF SAVINGS
GERRY RAY	Overland Park	Johnson County City of Overland Pk
Jeff Bottenberg	Lawrence	Bottenberg & Assoc.
Alan Steppat	Topeka	Pete McGill & Assoc.

SENATE COMMITTEE ON ASSESSMENT AND TAXATION
THE KANSAS LEGISLATURE

REQUEST FOR BILL INTRODUCTION ON:

High Performance Firms Incentives Program; amendment to
K.S.A. 74-50,131

Kansas Venture Capital Companies; amendment to
K.S.A. 74-8307

Kansas Enterprise Zone Act; amendment to
K.S.A. 74-50,114

Research & Development Tax Credit; amendment to
K.S.A. 79,32,182 and 182a

TESTIMONY OF:

Mikel Filter
Senior Research Analyst
Kansas Inc.

January 11, 1994

Senate Assess & Tax
Jan 11, 1994
attach 1-1

Thank you for the opportunity to testify before you today concerning four proposed bills, two of which were drafted at the request of this committee as a result of earlier testimony. I will speak to those two first.

On November 23, 1993, Charles Warren and I presented a paper and testimony to this Committee proposing that the state extend tax incentives to select service sector firms, as recommended by the Action Planning Committee on the Kansas Service Sector. Subsequently, upon the request of the Committee, we have drafted amendments to both the High Performance Firms Incentives Program (SB 73) and the Kansas Venture Capital Companies statutes.

Attachment A is the proposed amendment to make certain service sector firms, corporate headquarters, and corporate back-office operations eligible for incentives provided under SB 73. The amendment provides the Department of Commerce & Housing with a procedure for determining firm eligibility based on the make-up of the applicant's customer base. If qualified, these firms would still be required to meet the same high performance standards currently applied to manufacturing firms.

The second amendment would allow Kansas Venture Capital Companies to invest in ertain service sector firms using the same method for determining eligibility as used above for SB 73 (Attachment B).

The third proposed amendment is presented in response to a problem Senator Langworthy brought to our attention regarding the newly reconstructed Enterprise Zone statutes adopted by the 1992 Legislature. Constituents of her's reported that export-oriented service sector firms are being denied access to Enterprise Zone incentives because of the current wording of the statute. According to Revenue Analysts, an engineering firm such as Black and Veatch, or a Federal Express terminal would be classified as a retailer and thus would only be eligible for E-zone incentives if they located in a city of 2,500 or less. Bill Thompson, Director of the Industrial Development Division of the Department of Commerce confirms that the present wording is a serious problem and may have been a major contributor in our recently losing a bid for TransAmerica Insurance Company and its 500 jobs. Kansas Inc. is currently working with the Department of Commerce and Chief Legal Counsel for the Department of Revenue to amend K.S.A. 74-50,114, to ensure these export-oriented service sector firms are covered, as was the original intent of the authors. If the Committee votes to introduce this proposed bill, we will continue to work with the revisors and Committee leadership to come up with a workable bill draft. (Attachment C is the current statute with problem wording highlighted).

The Research and Development Tax Credit expired January 1, 1994. Attachment D is simply an amendment to extend its availability for an additional two years.

I hereby respectfully request that the Committee introduce bills to accomplish these four proposed amendments. Again, thank you for your attention, and I would be happy to answer any questions you may have.

ATTACHMENT A

74-50,131. High Performance Firms Incentives Program. As used in this act:

(a) "Qualified firm"means a for-profit business establishment, subject to state income, sales or property taxes, identified under the manufacturing standard industrial classification codes, major groups 20 through 39 inclusive, ~~and employs no more than 500 full-time equivalent employees. The number of full-time equivalent employees is determined by adding the number of full-time employees to the number of hours worked by part-time employees divided by 40. Additionally, a business establishment must meet one of the following criteria:~~ ***and major groups 40 through 49 inclusive, and major groups 60 through 89 inclusive, or is identified as a corporate headquarters or regional headquarters of a national or multi-nation corporation regardless of SIC code or the back-office operations of a national or multi-national corporation regardless of SIC code. In addition, the business establishment must employ no more than 500 full-time equivalent employees. The number of full-time equivalent employees is determined by adding the number of full-time employees to the number of hours worked by part-time employees and dividing by 40.***

(b) In the case of firms in major groups 40 through 49 inclusive, and major groups 60 through 89 inclusive, the business establishment must also demonstrate the following:

(1) that at least 51% of its gross revenues are a result of sales to commercial customers out-side the State of Kansas, or

(2) that at least 51% of its gross revenues are a result of sales to Kansas manufacturing firms within major groups 20 through 39 inclusive, or

(3) that at least 51% of its gross revenues are a result of a combination of sales described in subparagraph (b)(1) and (b)(2) above.

(c) Additionally, a business establishment having met the criteria as established above in subsection (a) or (b) must meet one of the following criteria:

(1) The establishment provides an average wage that is above the average wage paid by firms located in the same county which employ not more than 500 employees and share the same two-digit standard industrial classification code.

(2) The establishment is the sole firm within its two-digit standard industrial classification code in the county in which it is located. In this case, the wage requirement in subsection (a)(1) shall not apply.

~~(b)~~ *(d)* The secretary of commerce and housing shall certify annually to the secretary of revenue that a firm meets the criteria established under subsection (a)***, (b) and (c)*** for a qualified firm and that the firm is eligible for the benefits and assistance provided under this act. The secretary of commerce and housing shall publish rules and regulations for the implementation of this act. Such rules and regulation shall include but not be limited to:

(1) A definition of "training and education" for the purposes of K.S.A. 1993 Supp. 74-50,132 ***and amendments thereto.***

(2) Establishment of eligibility requirements and application procedures for expenditures from the high performance incentive fund created in K.S.A. 1993 Supp. 74-50,133 ***and amendments thereto.***

(3) Establishment of approval guidelines for private consultants authorized pursuant to K.S.A. 1993 Supp. 74-50,133 **and amendments thereto.**

(4) Establishment of guidelines for prioritizing business assistance programs pursuant

to K.S.A. 1993 Supp. 74-50,133 ***and amendments thereto.***

(5) A definition of "commercial customer" for the purpose of K.S.A. 1993 Supp. 74-50,133 and amendments thereto.

(6) A definition of "headquarters" for the purpose of K.S.A. 1993 Supp. 74-50,133 and amendments thereto.

(7) A definition of "back-office operations" for the purpose of K.S.A. 1993 Supp 74-50,133 and amendments thereto.

Section 2: A qualified firm shall be entitled to a credit toward its corporate income tax liability in an amount equal to the portion of the qualified business facility cash investment in the training and education of the firm's employees that exceeds 2% of the firm's total payroll costs. The maximum amount of the credit that may be claimed by a single corporate taxpayer in any single tax year under this section shall not exceed $50,000. Tax credits earned by a qualified business under this section must be claimed in their entirety in the tax year eligible.

Section 3: Amendment to K.S.A. 74-50,115

Section 4: Amendment to K.S.A. 79-32,160a

Section 5: There is hereby created within the department of commerce and housing the "high performance incentive fund" to provide matching funds for business assistance and consulting services to qualified firms under the provisions of section 1 that are entitled to a workforce training tax credit under the provisions of section or have received written approval for and are participating, at the time the funds are sought, in the Kansas industrial training, Kansas industrial retraining or state of Kansas investments in lifelong learning program subject to appropriation of funds and program criteria, as hereinafter provided. The department of commerce and housing may provide funds to qualified firms, on a matching basis, to pay up to 50% of such firm's costs of acquiring consulting services provided by the mid-America manufacturing technology center, or approved private consultants to assist in improving the firm's management, production processes or product or service quality. Qualified firms also shall receive priority consideration for any other business assistance programs administered by the department of commerce and housing, the Kansas technology enterprise corporation, and the mid-America manufacturing technology center.

Section 6. During fiscal year 1997, Kansas Inc. shall commission an analysis of this program's impact on job training and retraining. The analysis shall include a recommendation for continuation, discontinuation or alteration of the program. The analysis shall be reported to the joint committee on economic development.

Section 7: The provisions of section 2 to 4, inclusive, or this action shall be effective for taxable years commencing after December 31, 1992.

Transportation/Communications/Utilities (SIC 40-49)
Finance/Insurance/Real Estate (SIC 60-67)
Services (SIC 70-89)

EMPLOYS LESS THAN 500 FTE

And is either a **HEADQUARTERS or BACK OFFICE OPERATIONS** of a national or multi-national corporation, regardless of SIC code

or

at least 51% of total gross revenues are a result of sales to **COMMERCIAL CUSTOMERS OUT-SIDE THE STATE**

or

at least 51% of total gross revenues are a results of sales to **KANSAS MANUFACTURERS**

or

at least 51% of toal gross revenues are a result of sales to a combination of both above.

and either

PAYS HIGHER THAN AVERAGE WAGES

or

IS SOLE TWO DIGIT SIC IN COUNTY

and either

SPENDS AT LEAST 2% OF TOTAL PAYROLL ON WORKER TRAINING

or

PARTCIPATES IN KDOC&H'S KIT/KIR OR SKILL PROGRAMS

1-5

ATTACHMENT B

74-8307. Same; requirements to continue certification; confidentiality and security of documents submitted therefor; limitation on ownership of majority equity interest in business in which funds invested. (a) To continue in certification, a Kansas venture capital company must:

(1) Invest at least 30% of its original capitalization at the end of the initial three years in such a manner as to acquire equity in the ventures in which the investments are made;

(2) have invested at least 50% in the same manner at the end of five years; and

(3) have invested at least 75% in the same manner at the end of seven years.

(b) Invest at least 60% of the total investment of the Kansas venture capital company, except for Kansas Venture Capital, Inc. must be in Kansas businesses in which the funds so invested were to be used solely for the purpose of enhancing their productive capacity within the state, or to add value to goods or services produced or processed within the state.

(c) Funds invested by Kansas Venture Capital, Inc. shall be invested at 100% in Kansas businesses or in Kansas venture capital companies which invest 100% of the funds invested in such companies by Kansas Venture Capital, Inc. in Kansas businesses in which the funds so invested were to be used solely for the purpose of enhancing their productive capacity within the state, or to add value to goods or services produced or processed within the state.

(d) No more than 20% of the assets of a Kansas venture capital company may be invested in the equity of a single business at any one time, unless the Kansas venture capital company can reasonably demonstrate that a greater percentage of a single company at any one time is the result of losses suffered by the Kansas venture capital company in other investments.

(e) The use of invested funds by a Kansas business for oil and gas exploration and development, for real estate development or appreciation, for banking or lending operations, ~~or service~~ or retail are not acceptable investments to qualify for the tax credit provided in this act. Any investments by Kansas venture capital companies in any of these sectors shall not be counted as equity investments for the purpose of continuing certification under this section.

(f) For a service sector firm to be considered as an eligible investment under the provisions of this act, the firm must fall within standard industrial classification codes major service sector groups 70 through 89 inclusive, and must also demonstrate one of the following:

(1) That at least 51% of its gross revenues are a result of sales to commercial customers out-side the state of Kansas, or

(2) that at least 51% of its gross revenues are a result of sales to Kansas manufacturing firms within major groups 20 through 39 inclusive, or

(3) that at least 51% of its gross revenues are a result of a combination of sales described in subparagraph (f)(1) and (f)(2) above.

~~(f)~~ ***(g)*** Documents and other materials submitted by Kansas venture capital companies or by Kansas businesses for purposes of the continuance and certification shall not be public records if such records are determined by the secretary to be trade or business secrets under the uniform trade secrets act (K.S.A. 60-3320 to 60-3330), inclusive, and amendments thereto, and shall be maintained in a secured environment by the secretary.

~~(g)~~*(h)* At the time of an initial investment by a certified Kansas venture capital company, no investors in that certified Kansas venture capital company shall own a majority equity interest in a business in which the venture capital company is investing.

History, L. 1986, Ch 285, Section 7
L. 1987, Ch 319, Section 3
L. 1990, Ch 291, Section 179-32,182.

ATTACHMENT C

74-50,113. Kansas enterprise zone act. The provisions of K.S.A. 74-50,113 through 74-50,120 and K.S.A. 1992 Supp. 79-32,160a through 79-32,160c and amendments thereto shall be known and may be cited as the Kansas enterprise zone act.

History: L. 1992, Ch 202 Section 1; July 1

74-50,114. Same; definitions. As used in K.S.A. 74-50,113 through 74-50,117 and amendments thereto:

(a) "Business" means any manufacturing business or nonmanufacturing business.

(b) "Full-time employee" means a person who is employed by a business or retail business to perform duties in connection with the operation of the business or retail business on:

(1) A regular, full-time basis;

(2) a part-time basis, provided such person is customarily performing such duties at least 20 hours per week throughout the taxable year; or

(3) a seasonal basis, provided such person performs such duties for substantially all of the season customary for the position in which such person is employed. The number of full-time employees during any taxable year shall be determined by dividing by 12 the sum of the number of full-time employees on the last business day of each month of such taxable year. if the business or retail business is in operation for less than the entire taxable year, the number of full-time employees shall be determined by dividing the sum of the number of full-time employees on the last business day of each full calendar month during the portion of such taxable year during which the business was in operation by the number of full calendar months during such period.

(c) "Manufacturing business" means all commercial enterprises identified under the manufacturing standard industrial classification codes, major group 20 through 39.

(d) "Metropolitan county" means the county of Douglas, Johnson, Leavenworth, Sedgwick, Shawnee or Wyandotte.

(e) "Nonmanufacturing business" means any commercial enterprise other than a manufacturing business or a retail business.

(f) "Nonmetropolitan region" means a region established under K.S.A. 74-50,116 and is comprised of any county or counties which are not metropolitan counties.

(g) "Retail business" means any commercial enterprise primarily engaged in the sale at retail of goods or services, or both.

(h) "Secretary" means the secretary of the Kansas department of commerce.

(i) "Standard industrial classification code" means a standard industrial classification code published in the Standard Industrial Classification manual, 1987, as prepared by the statistical policy division of the office of management and budget of the office of the president of the United States of America.

History: L. 1992, Ch 202, Section 2, July 1

ATTACHMENT D

Credit against tax for certain research and development activity expenditures; amount; limitation. (a) For any taxable year commencing after December 31, 1986, and before January 1, 1988, a credit shall be allowed against the tax imposed by the Kansas income tax act on the Kansas taxable income of a taxpayer for expenditures in research and development activities conducted within this state in an amount equal to 6½% of the amount by which the amount expended for such activities in the taxable year of the taxpayer exceeds the taxpayer's average of the actual expenditures for such purposes made in such taxable year and the next preceding taxable year.

(b) For any taxable year commencing after December 31, 1987, and before ~~January 1, 1994~~ **January 1, 1996**, a credit shall be allowed against the tax imposed by the Kansas income tax act on the Kansas taxable income of a taxpayer for expenditures in research and development activities conducted within this state in an amount equal to 6½% of the amount by which the amount expended for such activities in the taxable year of the taxpayer exceeds the taxpayer's average of the actual expenditures for such purposes made in such taxable year and the next preceding two taxable years.

(c) In any one taxable year, the amount of such credit allowable for deduction from the taxpayer's tax liability shall not exceed 25% of the total amount of such credit plus any applicable carry forward amount. The amount by which that portion of the credit allowed by subsections (a) and (b) to be claimed in any one taxable year exceeds the taxpayer's tax liability in such year may be carried forward until the total amount of the credit is used.

(d) As used in this section, the term "expenditures in research and development activities" means expenditures made for such purposes, other than expenditures of moneys made available to the taxpayer pursuant to federal or state law, which are treated as expenses allowable for deduction under the provisions of the federal internal revenue code of 1986, and amendments thereto.

History: L. 1986, Ch. 366, Section 1
L. 1987, Ch. 387, Section 1

79-32,182a. Credit against tax for certain research and development activity expenditures; amount; limitation. (a) For any taxable year commencing after December 31, 1986, and before January 1, 1988, a credit shall be allowed against the tax imposed by the Kansas income tax act on the Kansas taxable income of a taxpayer for expenditures in research and development activities conducted within this state in an amount equal to 6½% of the amount by which the amount invested in such activities in the taxable year of the taxpayer exceeds the taxpayer's average of the actual expenditures for such purposes made in such taxable year and the next preceding taxable year.

(b) For any taxable year commencing after December 31, 1987, and before ~~January 1, 1994~~ **January 1, 1996**, a credit shall be allowed against the tax imposed by the Kansas income tax act on the Kansas taxable income of a taxpayer for expenditures in research and development activities conducted within this state in an amount equal to 6½% of the amount by which the amount invested in such activities in the taxable year of the taxpayer exceeds the taxpayer's average of the actual expenditures for such purposes made in such taxable year and the next preceding two taxable years.

(c) In any one taxable year, the amount of such credit allowable for deduction from the taxpayer's tax liability shall not exceed 25% of the total amount of such credit, and, in no case may such amount exceed 25% of the taxpayer's tax liability in such year. The amount of any remaining unused credit may be carried forward until the total amount of the credit is used. The amount by which that portion of the credit allowed by subsections (a) and (b) to be claimed in any one taxable year exceeds 25% of the taxpayer's tax liability in such year may be carried back for not more than three years or carried forward until the total amount of the credit is used.

(d) As used in this section, the term "expenditures in research and development activities" means expenditures made for such purposes, other than expenditures of moneys made available to the taxpayer pursuant to federal or state law, which are treated as expenses allowable for deduction under the provisions of the federal internal revenue code.

History: L. 1986, Ch. 266, Section 1
L. 1987, Ch. 385, Section 4

STATE OF KANSAS

Nancy Parrish, Secretary of Revenue
Robert B. Docking State Office Building
915 S.W. Harrison St.
Topeka, Kansas 66612-1588

(913) 296-3041
FAX (913) 296-7928
Information (913) 296-3909

Department of Revenue
Office of the Secretary

MEMORANDUM

To: The Honorable Audrey Langworthy, Chairperson
Senate Committee on Assessment and Taxation

From: Nancy Parrish, Secretary
Kansas Department of Revenue

Date: January 11, 1994

RE: Proposed Legislation

The Department of Revenue's proposed legislative package for taxation issues consists of six bills. Bill drafts have previously been provided to the Office of the Revisor of Statutes. We respectfully request that the bills be introduced and given favorable consideration by your committee. A brief synopsis of each of the proposed bills is provided below:

Proposed Bill No. 1 -- Amends K.S.A. 79-32,110a (tax on lump sum distributions) and K.S.A. 79-32,117(c)(vii) (railroad retirement annuities) to reflect certain federal statutory changes. These amendments are viewed as technical corrections.

Proposed Bill No. 2 -- Authorizes taxpayers to file business tax returns by electronic means. Electronic returns are currently limited to income taxes.

Proposed Bill No. 3 -- Authorizes the Department to accept electronic signatures.

Proposed Bill No. 4 -- (1) Amends K.S.A. 79-3702 to provide that all sales tax provisions are applicable to the compensating use tax; and (2) repeals K.S.A. 79-3642 (credit for certain machinery and equipment) which expired January 1, 1989. This is viewed as a technical corrections bill.

Proposed Bill No. 5 -- New legislation which allows taxpayers to pay their state taxes via a credit card.

Senate Assessment + Tax
Jan 11, 1994
attach 2-1

Proposed Bill No. 6 -- Amends the Kansas Administrative Procedures Act to provide that the Director of Property Valuation shall be deemed the agency head in regard to orders rendered by the Director under Chapter 79, Kansas Statutes Annotated.

I would be happy to respond to any questions you might have.

STATE OF KANSAS

David C. Cunningham, Director
Robert B. Docking State Office Building
915 S.W. Harrison St.
Topeka, Kansas 66612-1585

(913) 296-23
FAX (913) 296-23

Department of Revenue
Division of Property Valuation

TO: Senator Audrey Langworthy, Chair
Senate Assessment & Taxation Committee

FROM: David C. Cunningham, Director
Division of Property Valuation

DATE: January 11, 1994

RE: Valuation of Commercial and Industrial Equipment
When Purchased Used

Since there are no provisions in the constitution directing how one should estimate the retail cost new of an item purchased by a taxpayer when it was obtained used, PVD was required to developed a methodology. A memo dated December 1, 1988 from the Director of Property Valuation, Terry D. Hamblin, provided county appraisers with a formula for the calculation of an estimate of retail cost new. That memo is attached. The formula was developed by the Institute for Economic and Business Research and Dr. Darwin W. Daicoff at the University of Kansas.

The value of commercial and industrial personal property is calculated by determining the retail cost when new and depreciating that cost over a seven year life or less based on the equipment's economic life. When a taxpayer purchases commercial personal property **used** and does not know the retail cost when new, a "used factor" is applied to determine an estimate of retail cost when new to conform with the constitutional requirement to use retail cost new.

Senate Assess + Tax
Jan 11, 1994
3-1

The taxpayer provides the county certain information about each item of personal property used in his or her commercial or industrial enterprise. When the county appraiser's office receives this rendition, it researches the economic lives of the items listed, the used factor for each item of used property, and the proper tax factor for each item. Then the math is performed to develop the appraised value.

The definition of certain terms is important. They are:

> Economic Life - the estimated period within which an asset may be used profitably.
>
> Used Factor - a numerical factor to convert purchase price used to a retail cost when new.
>
> Tax Factor - the depreciation factor applied to original cost when new to arrive at the current appraised value.

The following step by step procedure is used to determine the valuation for commercial and industrial machinery and equipment. The taxpayer provides information to the County Appraiser on the rendition form, Schedule 5: Class 2E. An example of the rendition form is included.

<u>TAXPAYER COLUMNS</u>

(1) Insert name of property.

(2) Insert year of purchase by present owner.

(3) Insert "new" if new when purchased or "used" if used when purchased.

(4) Insert property's age in years at purchase.

(5) Insert the property's current age in years.

(7) Insert purchase price: retail price + freight charges & installation costs.

COUNTY APPRAISER COLUMNS

(6) Insert economic life of the property as listed in "Commercial & Industrial Property Economic Lives by Type," IRS publications, pre-1989 PVD trending factor materials, or Marshall Valuation Service.

(8) Insert the used factor from Table II "Used Factor." It is at the intersection of the proper Age at Purchase row and Economic Life column. (If the property was purchased new by the taxpayer, insert "NA" in this column.)

(9) If the property was **purchased new**, insert the tax factor from "1994 Taxable Value Factor" table. It is the intersection of the proper Year of Purchase Row and the Economic Life in Years Column. If the property were **purchased used**, insert the tax factor from "1994 Taxable Value Factor Table. It is the intersection of the proper Current Age Row and the Economic Life Column.

(10) A. If purchased new, multiply Column (7) purchase price by Column(9) tax factor.

B. If purchased used, multiply Column (7) purchase price by Column (8) used factor and by Column (9) tax factor.

The product is the 100% appraised value.

A specific example of how an item of personal property is valued follows:

1. A taxpayer purchased five used file cabinets in 1990 for $500.
2. The cabinets were five years old at the time of purchase and are currently nine years old. The economic life is ten years on office furniture taken from the list of "Economic Lives by Type."
3. The "used factor" from Table II is 2.00.
4. The used factor of 2.00 is taken times the purchase price of $500 to arrive at an estimate of retail cost when new of $1000.
5. The $1000 figure is taken times the Tax Factor for an item that is over seven years of age which in this case is .200.
6. The resulting total is the 100% appraised value of the item: $200.

Refer to the copy of Schedule 5 included for examples of how other personal property is valued when purchased used and an item that was purchased new.

IEDULE 5: C 2E: COMMERCIAL/INDUSTRIAL MACHINERY ANI JIPMENT

ALL BE FILED WITH COUNTY APPRAISER BY MARCH 15TH

Name: ______________________________

Address: ______________________________ Parcel or ID Number: ______________

NOTE: If additional lines are needed, attach supplemental schedules or computer printout with same format.

NOTE: Taxpayer complete columns 1 to 5 and 7. County Appraiser complete columns 6 and 8 to 10.

Item (1)	Purchase Date (2)	Purchased New/Used (3)	Age at Purchase (4)	Current Age (5)	Econ. Life (6)	Purchase Price (7)	X Used Factor (8)	X Tax Factor (9)	= Appraised Value (10)
1. (5) File cabinets	1990	U	5	9	10	$500	2.00	.2	$200.00
2. Office desk	1990	U	8	12	10	$500	5.00	.2	$500.00
3. Office desk	1990	N	0	4	10	$500	NA	.429	$214.50
4. Office Furniture	1992	U	6	8	10	$5,000	2.5	.2	$2,500.00
5. Copier	1993	U	2	3	5	$1,500	1.667	.4	$1,000
6									
7.									
8.									
9.									
10.									
11.									
12.									
13.									
14.									
15.									
16.									
17.									
18.									
19.									
20.									
21.									
22.									
23.									
24.									
25.									
26.									
27.									
28.									
29.									
30.									
31.									
32.									
33.									
34.									
35.									
36.									
37.									
38.									
Transfer to Summary: Schedule 5							TOTAL		

Commercial & Industrial Property
Economic Lives by Type

Property Type	Econ. Life
Agricultural M & E	10
Aircraft	6
Aircraft Manufacturing M & E	8
Animals. Breeding	
Goats & Sheep	5
Hogs	3
Bank Vaults	
Barges	18
Beverage Production M & E	
Brewery	12
Special Non-Brewery Handling Devices	4
Billboards	20
Billiard & Pool Equipment	10
Boat & Ship Building Special Tools	4
Bookbinder	
Bowling Alley Equipment	10
Broadcasting Equipment, Radio & TV	6
Carpet, Carpet & Pad, Indoor-Outdoor	5
Commercial Laundromat Equipment	5
Commercial Trailers & Trailer-Mounted Containers	10
Computer - Assisted M & E	7
Computer & Computer Terminals	5
Construction Equipment, Non-Marine	5
Controls, Plumbing	4
Coolers, Evaporative	6
Data Processing Equipment, Non-Computer, Non-Terminal	6
Devices, Special Handling for Food & Beverage	4
Dies	5
Distilling Equipment	12
Decks, Piers, & Wharfs	20
Drapes	8
Drilling Equipment, Petroleum & Natural Gas	6
Electric Office Machines	5
Electronic Equipment, Manufacturing	6
Electronic Instrumentation	5
Electronic Office Machines	5
Electrotyping Machines	11
Emergency Generators	25
Engraver	15
Evaporative Coolers	6
Exhaust Fans	9

Fabricated Metal Products, Special Tools	3
Fishing Equipment (Except Boats & Barges)	4
Food Production, Special Handling Devices	4
Forms, Production Fabrication	5
Fuel Dispenser Pumps	10
Fuel Tanks	15
Furniture, Motel & Hotel	10
Furniture, Outdoors	5
General Manufacturing M&E	
(Except Dies, Forms, Hand Tools, & Jigs)	10
Golf Equipment	10
Hand Tools*	5
Handling Devices, Special for Food & Beverage	4
Heat & Smoke Detectors	15
Hoists, Large 15	
Indoor-Outdoor Carpet	5
Information Systems (Peripheral to Computers)	6
Instrumentation, Electronic	5
Instruments, Professional & Scientific	10
Intercom/Paging Equipment	15
Jigs, Production (Fabrication & Assembly)	5
Laundromat Equipment, Commercial	5
Laundry Equipment	10
Letterpresses 15	
Lifts, Large Hydraulic & Pneumatic	15
Lithography Equipment	15
Logging (Timber Cutting)	6
Machines, Office, Electric & Electronic	5
Mechanical Equipment for Swimming Pool	5
Miniature Golf Equipment	10
Molds, Production (Fabrication)	5
Motor Vehicle Special Tools	3
Motors, Plumbing	4
Natural Gas & Petroleum Drilling Equipment	6
Nets, Tennis 2	
Nuclear Fuel Assemblies	5
Numerical Control Machinery	7
Office Equipment (Except Electric & Electronic)	10
Office Equipment (Electric & Electronic)	5
Office Furniture	10
Outdoor Furniture	5
Paging/Intercom Equipment	15
Patterns, Production (Fabrication & Assembly)	5
Petroleum & Natural Gas Drilling Equipment	6

Photo Engraving Equipment	11
Piers, Docks, & Wharfs	20
Plastic Parts Special Tools	3
Plumbing Pumps	4
Pncumatic Tube Conveyor Systems	13
Pool & Billard Equipment	10
Portable Sawmills	6
Primary Metals Production, Special Tools	6
Professional & Scientific Instruments	10
Pumps, Plumbing	4
Radio & TV Broadcasting Equipment	6
Railroad Cars & Locomotives	15
Ranges, Refrigerators, & Other Major residential Appliance	12
Recreational Equipment	10
Refrigerated Window Coolers	9
Refrigerated Display/Storage Equipment	10
Rubber Product Production Special Tools	4
Sawmills	10
Sawmill, Portable	6
Scientific & Professional Instruments	10
Ship & Boat Building Special Tools	4
Smoke & Heat Detectors	15
Special Handling Devices, Food & Beverage Production	4
Swimming Pool Mechanical Equipment	5
Tape-Driven M&E	7
Tapes, Video	2
Telephone Control Office Equipment	10
Telephone Systems within a Business	10
Television & Radio Broadcasting Equipment	6
Tennis Nets	2
Terminals, Computer	5
Theatre Equipment	10
Timber-Cutting Logging Equipment	6
Tools, Hand*	5
Trailer-Mounted Container, Commercial	10
Trailers, Commercial	10
Tug Boats	18
Typesetting Equipment	11
Vacuum Sweeper	10
Ventilating Fans	9
Vessels, Barges & Tugs	18
Video Tapes	2
Wharfs, Docks, & Piers	20

*Hand Tools, such as simple tools, electronic diagnostic & testing larger hand tools, electric hand tools, air-powered hand tools, etc.

TABLE II
"USED FACTOR"
(COLUMN 8)

AGE AT PURCHASE \ ECONOMIC LIFE	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1	2.000	1.500	1.333	1.250	1.200	1.167	1.143	1.125	1.111	1.100	1.091	1.083	1.077	1.071	1.067	1.063	1.059	1.056	1.053	1.050	1.048	1.045	1.043	1.042
2	5.000	3.000	2.000	1.667	1.500	1.400	1.333	1.286	1.250	1.222	1.200	1.182	1.167	1.154	1.143	1.133	1.125	1.118	1.111	1.105	1.100	1.095	1.091	1.087
3		5.000	4.000	2.500	2.000	1.750	1.600	1.500	1.429	1.375	1.333	1.300	1.273	1.250	1.231	1.214	1.200	1.188	1.176	1.167	1.158	1.150	1.143	1.136
4			5.000	5.000	3.000	2.333	2.000	1.800	1.667	1.571	1.500	1.444	1.400	1.364	1.333	1.308	1.286	1.267	1.250	1.235	1.222	1.211	1.200	1.190
5					5.000	3.500	2.667	2.250	2.000	1.833	1.714	1.625	1.556	1.500	1.455	1.417	1.385	1.357	1.333	1.313	1.294	1.278	1.263	1.250
6						5.000	4.000	3.000	2.500	2.200	2.000	1.857	1.750	1.667	1.600	1.545	1.500	1.462	1.429	1.400	1.375	1.353	1.333	1.316
7							5.000	4.500	3.333	2.750	2.400	2.167	2.000	1.875	1.778	1.700	1.636	1.583	1.538	1.500	1.467	1.438	1.412	1.389
8								5.000	5.000	3.667	3.000	2.600	2.333	2.143	2.000	1.889	1.800	1.727	1.667	1.615	1.571	1.533	1.500	1.471
9										5.000	4.000	3.250	2.800	2.500	2.286	2.125	2.000	1.900	1.818	1.750	1.692	1.643	1.600	1.563
10											5.000	4.333	3.500	3.000	2.667	2.429	2.250	2.111	2.000	1.909	1.833	1.769	1.714	1.667
11												5.000	4.667	3.750	3.200	2.833	2.571	2.375	2.222	2.100	2.000	1.917	1.846	1.786
12													5.000	5.000	4.000	3.400	3.000	2.714	2.500	2.333	2.200	2.091	2.000	1.923
13															5.000	4.250	3.600	3.167	2.857	2.625	2.444	2.300	2.182	2.083
14																5.000	4.500	3.800	3.333	3.000	2.750	2.556	2.400	2.273
15																	5.000	4.750	4.000	3.500	3.143	2.875	2.667	2.500
16																		5.000	5.000	4.200	3.667	3.286	3.000	2.778
17																				5.000	4.400	3.833	3.429	3.125
18																					5.000	4.600	4.000	3.571
19																						5.000	4.800	4.167
20																							5.000	5.000

Used Factor is required to convert purchase price of equipment purchased used to a "Retail Cost when New" base before applying Valuation Factor (Column 9- Schedule 5- Class 2E property).

$$\text{Used Factor} = \frac{\text{Economic Life (Actual)}}{\text{Economic Life} - \text{Age at Purchase}}$$

3-8

1994 TAXABLE VALUE FACTORS

Purchase NEW Year of Purchase	Purchase USED Current Age	Economic Life In Years: 2	3	4	5	6	7 or more
1994	0	1.000	1.000	1.000	1.000	1.000	1.000
1993	1	.500	.667	.750	.800	.833	.857
1992	2	.200	.333	.500	.600	.667	.714
1991	3	.200	.200	.250	.400	.500	.571
1990	4	.200	.200	.200	.200	.333	.429
1989	5	.200	.200	.200	.200	.200	.286
1988	6	.200	.200	.200	.200	.200	.200
1987 & BEFORE	7 years or older	.200	.200	.200	.200	.200	.200

KANSAS DEPARTMENT OF REV UE
Division of Property Valuatio.
Robert B. Docking State Office Building
Topeka, Kansas 66612-1585

MEMORANDUM

TO: COUNTY APPRAISERS

FROM: TERRY D. HAMBLIN, DIRECTOR TH

DATE: DECEMBER 1, 1988

SUBJECT: CLASS 2E PROPERTY PER ARTICLE 11 - FINANCE & TAXATION, PARAGRAPH b, KANSAS CONSTITUTIONAL AMENDMENT, 1985, AS IMPLEMENTED PER K.S.A. 79-1439, 1988 SESSION LAWS OF KANSAS, CHAPTER 375: VALUATION FACTORS

TABLE I
1989 VALUATION TAX FACTORS

PURCHASE YEAR	CURRENT AGE	ECONOMIC LIFE IN YEARS					
		2	3	4	5	6	7 or more
		VALUATION FACTORS					
1989	0	1.000	1.000	1.000	1.000	1.000	1.000
1988	1	.500	.667	.750	.800	.833	.857
1987	2	.200	.333	.500	.600	.667	.714
1986	3	.200	.200	.250	.400	.500	.571
1985	4	.200	.200	.200	.200	.333	.429
1984	5	.200	.200	.200	.200	.200	.286
1983	6	.200	.200	.200	.200	.200	.200
1982	7	.200	.200	.200	.200	.200	.200

EXAMPLE

Machinery purchased new in 1986 for a "retail cost" of $14,194; economic life category is 12 years.

SCHEDULE 5: CLASS 2E: COMMERCIAL/INDUSTRIAL MACHINERY AND EQUIPMENT

Name: xxxxxx

Address: xxxxx Parcel or ID Number: xxxxx

NOTE: If additional lines are needed, attach supplemental schedules or computer printout with same format.

NOTE: Taxpayer Complete Columns 1 to 5 and 7. County Appraiser Complete Columns 6 and 8 to 10.

Item (1)	Purchase Date (2)	Purchased New/Used (3)	Age at Purchase (4)	Current Age (5)	Economic Life (6)	Purchase Price (7)	X	Used Factor (8)	X	Tax Factor (9)	=	Value (10)
1. Machine	3/86	N	0	3	12	14194	x	1.00	x	.571	=	8105
2.												
3.												
4.												

Phone (913) 296-2365

NOTES-TABLE I

1) The minimum valuation factor for any economic life property is .200.

2) Economic lifes of seven years or greater, automatically used seven year column of Table I.

3) Table I may be computerized using the equation: $VF = \frac{A - B}{A}$

Where VF = Valuation Factor (Column 9 Factor)
A = Economic life (1-7 years)
B = Current tax year age.

Using the prior example:

A = 7 (actual economic life is 12, maximum economic life is 7)
B = 3 (1989 current tax year - 1986 year new)

Then: $VF = \frac{A - B}{A} = \frac{7 - 3}{7} = \frac{4}{7} = .571$

4) "Retail Cost When New" is defined as the historical cost (original cost) to the first purchaser, i.e., the actual money cost of (or the current money value of any consideration other than money exchanged for) property at the time it was first purchased new including costs of freight and installation.

TABLE II

For property purchased used, a "Used Factor" (Column 8) must be calculated and applied to the "used" purchase price before applying the Valuation Tax Factor (Column 9). This is done by using the equation:

$$\text{Used Factor} = \frac{\text{Economic Life}}{\text{Economic Life} - \text{Age at Purchase}}$$

or

$$UF = \frac{EL}{EL - AP}$$

Where. EL = Economic Life (1 to 50 Years)
AP = Age at Purchase

Then: using as an example: equipment purchased used for $7,250 in 1985 having an actual economic life of 12 years and an age at purchase of 7 years: $UF = \frac{EL}{EL - AP}$

$$UF = \frac{12}{12 - 7} = \frac{12}{5}$$

$$UF = 2.40$$

SCHEDULE 5: CLASS 2E: COMMERCIAL/INDUSTRIAL MACHINERY AND EQUIPMENT

Name: xxx

Address: xxxxx x   Parcol or ID Number: xxx

NOTE: If additional lines are needed, attach supplemental schedules or computer printout with same format.

NOTE: Taxpayer Complete Columns 1 to 5 and 7. County Appraiser Complete Columns 6 and 8 to 10.

Item (1)	Purchase Date (2)	Purchased New/Used (3)	Age at Purchase (4)	Current Age (5)	Economic Life (6)	Purchase Price (7)	X	Used Factor (8)	X	Tax Factor (9)	=	Value (10)
1. MACHINERY	2/85	U	7	11	12	7250	x	2.40	x	.200		3480
2.												
3.												
4.												

NOTES - TABLE II

1) Maximum Used Factor is 5.

2) Determine Used Factor based on actual economic life (1 to 50 years).

3) Determine Column 9 Valuation Tax Factor based on 7 year economic life schedule for properties having 7 year or greater economic life.

TDH:bkh

TABLE II
"USED FACTOR"
(COLUMN 8)
ECONOMIC LIFE

AGE AT PURCHASE	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	2.	25
1	2.000	1.500	1.333	1.250	1.200	1.167	1.143	1.125	1.111	1.100	1.091	1.083	1.077	1.071	1.067	1.063	1.059	1.056	1.053	1.050	1.048	1.045	1.043	1.042
2	5.000	3.000	2.000	1.667	1.500	1.400	1.333	1.286	1.250	1.222	1.200	1.182	1.167	1.154	1.143	1.133	1.125	1.118	1.111	1.105	1.100	1.095	1.091	1.087
3		5.000	4.000	2.500	2.000	1.750	1.600	1.500	1.429	1.375	1.333	1.300	1.273	1.250	1.231	1.214	1.200	1.188	1.176	1.167	1.158	1.150	1.143	1.136
4			5.000	5.000	3.000	2.333	2.000	1.800	1.667	1.571	1.500	1.444	1.400	1.364	1.333	1.308	1.286	1.267	1.250	1.235	1.222	1.211	1.200	1.190
5					5.000	3.500	2.667	2.250	2.000	1.833	1.714	1.625	1.556	1.500	1.455	1.417	1.385	1.357	1.333	1.313	1.294	1.278	1.263	1.250
6						5.000	4.000	3.000	2.500	2.200	2.000	1.857	1.750	1.667	1.600	1.545	1.500	1.462	1.429	1.400	1.375	1.353	1.333	1.316
7							5.000	4.500	3.333	2.750	2.400	2.167	2.000	1.875	1.778	1.700	1.636	1.583	1.538	1.500	1.467	1.438	1.412	1.389
8								5.000	5.000	3.667	3.000	2.600	2.333	2.143	2.000	1.889	1.800	1.727	1.667	1.615	1.571	1.533	1.500	1.471
9										5.000	4.000	3.250	2.800	2.500	2.286	2.125	2.000	1.900	1.818	1.750	1.692	1.643	1.600	1.563
10											5.000	4.333	3.500	3.000	2.667	2.429	2.250	2.111	2.000	1.909	1.833	1.769	1.714	1.667
11												5.000	4.667	3.750	3.200	2.833	2.571	2.375	2.222	2.100	2.000	1.917	1.846	1.786
12													5.000	5.000	4.000	3.400	3.000	2.714	2.500	2.333	2.200	2.091	2.000	1.923
13															5.000	4.250	3.600	3.167	2.857	2.625	2.444	2.300	2.182	2.083
14																5.000	4.500	3.800	3.333	3.000	2.750	2.556	2.400	2.273
15																	5.000	4.750	4.000	3.500	3.143	2.875	2.667	2.500
16																		5.000	5.000	4.200	3.667	3.286	3.000	2.778
17																				5.000	4.400	3.833	3.429	3.125
18																					5.000	4.600	4.000	3.571
19																						5.000	4.800	4.167
20																							5.000	5.000

<u>Used</u> <u>Factor</u> is required to convert purchase price of equipment purchased used to a "retail cost when new" base before applying Valuation Factor (Column 9- Schedule 5 - Class 2E property).

$$\text{Used Factor} = \frac{\text{Economic Life (Actual)}}{\text{Economic Life - Age at Purchase}}$$

STATE OF KANSAS

David C. Cunningham, Director
Robert B. Docking State Office Building
915 S.W. Harrison St.
Topeka, Kansas 66612-1585

(913) 296-2365
FAX (913) 296-2320

Department of Revenue
Division of Property Valuation

MEMORANDUM

To: Senator Audrey Langworthy, Chair
Senate Assessment and Taxation Committee

From: David C. Cunningham, Director DCC
Division of Property Valuation

Date: January 11, 1994

Subject: Representative Roe's Working Group Recommendations

Thank you for the opportunity to appear today and discuss the recommendations for Representative Roe's Working Group. This was a productive series of meetings covering a wide range of topics. I appreciated the opportunity to meet with legislators and county officials to discuss common issues. I am convinced that meetings which include all levels of government and the private sector are necessary if we are to continue resolving property tax issues.

I have attached copies of my December 9, 1993 memo summarizing the Working Group's recommendations and my January 10, 1994 memo concerning specific changes recommended by the Kansas County Appraisers' Association which were endorsed and recommended by the Working Group. I will discuss each of the recommendations and answer any questions you may have.

Senate Assess + Tax
Jan 11, 1994
att 4-1

STATE OF KANSAS

David C. Cunningham, Director
Robert B. Docking State Office Building
915 S.W. Harrison St.
Topeka, Kansas 66612-1585

(913) 296-23(
FAX (913) 296-23:

Department of Revenue
Division of Property Valuation

MEMORANDUM

To: Representative Keith Roe, Chair
House Taxation Committee

Senator Audrey Langworthy, Chair
Senate Assessment and Taxation Committee

From: David C. Cunningham, Director,
Division of Property Valuation

Date: December 9, 1993

Subject: Representative Roe's Ad Hoc Working Group on Property Tax Issues

The Working Group met on October 11 and 26 and November 9 and 23, 1993. Membership consisted of House Taxation and Senate Assessment and Taxation Members; Secretary Parrish; Director Cunningham; Legislative Committee Members, Kansas County Appraisers Association; Presidents of County Clerks, Commissioners, Treasurers, and Register of Deeds Associations; Chairman Shriver, State Board of Tax Appeals; Bev Bradley, Kansas Association of Counties; and, Tom Severn and Chris Courtwright, Legislative Research. The Group made specific recommendations for legislation that are summarized herein and attached as exhibits. I have also included copies of the minutes for your records.

The agenda was, in part, set by Representative Roe and the legislators who discussed forming this group. The initial agenda items centered around the Post Audit report while other items were added as time permitted. In all, approximately 13 issues were discussed.

They include:

1. Enacting certain minimum appraisal qualifications for members of SBOTA;

2. Enacting "recapture" legislation of other provisions designed to eliminate the ability of owners of undeveloped lots to have their land use-valued by planting crops;

3. Restricting the number of times a property owner can go through the appeals process for a given tax year;

4. Allowing county appraisers to conduct final reviews of only those properties for which the value has changed by more than a certain percentage;

5. Allowing a two-year appraisal cycle;

6. State compensation for education levels and/or designations;

7. Land improvement/value split;

8. Ratio study;

9. Electronic transfer bill (transfer of appraisal records to clerk electronically);

10. Exemption of governmental right-of-way without SBOTA application and order;

11. Abatement of value associated with five dollar tax bill;

12. Exclusion of penalty for late filing as part of tax base; and,

13. Mineral valuation issues.

Unfortunately, there was not adequate time to fully discuss the broader issues regarding the "regressivity" of the property tax system or assessment levels on not-for-profit organizations.

The Working Group made six recommendations for legislation. They are:

1. *Providing direct compensation from the state to county and state appraisal personnel for attaining specified educational levels and/or specified professional appraisal designations.* County and state appraisal staff have very little incentive to invest time and personal funds in attaining higher levels of education or professional appraisal designations because salary levels are not comparable to the private sector. Some counties have paid for staff education only to have those individuals leave government service because the financial opportunities were better elsewhere. It is equally important that staffs' level of professionalism be enhanced to more effectively handle the complexities of appraisal. Additional training is critical and this provides an excellent incentive.

2. *Allow the land and improvement values to be combined on the valuation and tax notices (current law requires that they be listed separately).* County appraisers continually deal with taxpayers who do not understand valuation concepts. When a valuation notice or tax bill is received with separate values for both the land and improvements, the separate values are challenged when the appraiser is really looking at the sum of these two parts rather than the individual values. For example, if a home is purchased the contract does not specify what portion of the selling price is for land or for improvements, it reflects the total price. This suggested change would merely follow accepted practice and allow the appraiser and taxpayer to focus on the value of the "whole" property rather than to quibble over the land component where a change in the land value would have no affect on the property's overall value.

3. *Transfer of appraisal records from appraiser to clerk electronically.* This suggested change allows county officials to take advantage of existing computer capabilities. There is no need to transfer appraisal records in hard copy or paper form which requires the data to be re-entered in the computer when it can be quickly, simply and more accurately transferred electronically.

4. *Allow the appraiser to remove governmental right-of-way properties from the appraisal/tax roles without an application to and order from the State Board of Tax Appeals.* This type of legislation has been adopted for properties acquired by the Kansas Department of Transportation; however, local units of government were not addressed. This change will save both the counties and the state board time and money.

5. *Abate value associated with five dollar tax bills.* It is not economically feasible to send and collect tax bills for five dollars or less; however, under current law the value generating the tax is left on the books when the taxes are abated. This does not allow the county clerk to balance the appraisal role with the tax roll. A more appropriate solution is to abate the value associated with the five dollar or less tax bill thereby eliminating the record keeping problem.

6. *Exclude from the tax base penalties added for the untimely filing of the personal property rendition.* Taxpayers who file their personal property renditions late are assessed a penalty which currently becomes part of the counties' tax base. The taxpayer may petition the State Board of Tax Appeals to have all or a portion of the penalty abated. Currently, the county has no ability to adjust the tax base for this change and that results in a potential shortfall of revenue because budgets are calculated on the base including the penalty that has been abated in some amount.

The other topics were discussed at length; however, no consensus was reached as to any recommended legislation. Finally, I have included bill drafts (of varying types) for some proposals and plan to complete the remaining drafts and revise the current drafts for consistency next week.

I would like to thank you and your legislative colleagues for the opportunity to participate in this working group. I believe this type of exchange is extremely beneficial and necessary if the myriad of property tax issues are to be effectively addressed. If I can be of further assistance, please let me know.