Date

### MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on March 26, 2008 in Room 519-S of the Capitol.

All members were present except: Representative Davis

## Committee staff present:

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

## Conferees appearing before the committee:

Aubrey Abbott Patterson

Denise Unruh, President, South-central Community Foundation; Tom Fryer, Board President, Manhattan Community Foundation; and Ann Gallagher, Senior Research Associate, Center for Economic Development and Business Research at Wichita State University.

## Others attending:

See attached list.

## HB 2500 - Property tax exemption for certain housing for certain low income mothers.

Gordon Self, Office of the Revisor of Statures, explained that the original <u>HB 2500</u> would add a property tax exemption for all real property and tangible personal property actually and regularly used exclusively for housing for limited or low income, single-parent mothers in need of financial assistance. The original bill has been amended and the language on page 4, lines 31-39, has been struck. The Department of Revenue estimates that the loss of revenue from the passage of <u>HB 2500</u> would be insignificant.

Gordon Self distributed a balloon amendment on <u>HB 2500</u> (<u>Attachment 1</u>). He explained the history of the BOTA decision that denied the exemption for the temporary housing for limited or low income single-parent families in need of financial assistance, which is operated by a charitable or religious organization. He explained the need to separate *housing for the elderly and handicapped persons* from the *temporary housing for limited or low income single-parent families*. To do so the following changes were made:

- Page 3, line 7, housing is struck, and :(a) Housing is inserted
- Page 3, line 14, after corporation the following language should be inserted :and (b) temporary housing for limited or low income single-parent families in need of financial assistance
- Gordon said they need to weave an effective date into the language, and Chairman Wilk suggested they use 2007, the date in the original bill.

Gordon Self answered committee questions regarding: number of other organizations that may fall in this category; need of additional language in the bill and definition of "temporary," that is not defined in the bill.

Representative Siegfreid made a motion to amend the balloon amendment, listed on page 3, of **HB 2500** into **SB 444**, as well as change the effective date to 2007. Representative Carlson seconded. The motion passed.

Representative Worley made a motion that 24 months or less be inserted following "temporary housing", on page 3, line 15. Representative Treaster seconded. The motion carried.

Representative Brown made the motion to reinsert "who are enrolled in a program to receive life training skills", after the word assistance, on second balloon on page 3. Representative Kinzer seconded the motion. The motion carried.

Representative Siegfried made the motion to move SB 444, as amended, favorable for passage.

## CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on March 26, 2008 in Room 519-S of the Capitol.

Representative Brown seconded the motion. The motion carried.

The Chairman advised the Committee that he first heard about this subject - **Transfer of Wealth**, during a meeting of an advisory group last summer, and said that it was quite fascinating and a issue that they should all pay attention to in the years to come. He introduced Aubrey Abbott Patterson, President, Hutchinson Community Foundation, who thanked the Chairman for the opportunity to present information on the subject.

She introduced members of the Kansas Association of Community Foundations, who participated in the power point presentation: Denise Unruh, President, South-Central Community Foundation; Tom Fryer, Board President, Manhattan Community Foundation; and Ann Gallagher, Senior Research Associate, Center for Economic Development and Business Research at Wichita State University.

Ms. Patterson said there are sixty Community Associations in Kansas and it was their hope that the information presented today will make excellent rationale for a new tax credit for Community Foundations in Kansas. She presented a Power Point presentation (<u>Attachment 2</u>) that explained what *Transfer of Wealth*" is and why Legislators should care about it. Keys points of the presentation included:

- The largest mass of wealth in history will transfer in the next 50 years.
- \$41 trillion is the conservative estimate of the wealth transfer in the U.S.
- Urgency of capturing a portion of this transfer to benefit Kansas

Ms. Gallagher explained the Transfer of Wealth Estimation Process that was conducted by the Center for Economic Development and Business Research, Wichita State University. They used the Boston college model of *Wealth Analysis*, to determine an estimated \$545 billion in net worth across the state as of 2004, which was then allocated to all 105 counties as a starting point. Those figures were adjusted, according to things they know affect the new worth of a family. They used data, such as: population, variables, demographic measures, property valuation and developed another six measures that provided a balanced picture of the wealth holdings of each county. The county-by-county report is due April 30, and they agreed to provide copies to the Legislature.

Ms. Patterson explained in the next 50-year (2060), \$598 Billion will change hands through the Transfer of Wealth in Kansas. In the next 12-years, (2020), \$66 Billion will change hands. They have determined that the peak for transfers in Kansas is 12 years, so that means the planning for those estates is being or has been made. Therefore the urgency to start this new *EndowKansas*, through education and conversations regarding how to secure the future of Kansas. Their objective is to capture 5% of the \$3.3 billion transfer of wealth across the state for the endowment funds. The principal would not be touched, so it will continue to grow, paying out 5% to the local communities on a annual basis. That payout would result in \$165 million annually for community foundations.

Denise Unruh said the Kansas endowment proposal before them is an effective model in developing an estate endowment campaign. They project the results will be dramatic and described positive results from utilizing endowment funds in Michigan, Iowa, Montana, and Nebraska. *EndowKansas* is a proposal in which the Legislature would provide an incentive, through a 70% tax credit to a donor, who has chosen to participate in a charitable gift annuity, one of many trusts, or one of the irrevocable many estate planning tools that is charitable. It would include a \$100,000 cap per year, per donor for the tax credit, which may be taken over a five year period. They believe there is a great opportunity, that has been successful in other states, and she concluded by asking them to consider the difference they can make for Kansans.

A period of questions and answers followed. Chairman Wilk requested that in addition to the county-by-county report, a map be included listing the names and locations of the sixty Community Foundations. Additional requests: List of qualifications for Community Foundations and which foundations would and would not qualify and Data on whether tax credits are refundable in the other states program.

The Chairman thanked Ms. Patterson and her colleagues for the presentation. The meeting adjourned at 10:25 A.M. No further meetings were scheduled.

## HOUSE TAXATION COMMITTEE

DATE: March 24, 2008

NAME	REPRESENTING
Mehille Peterson	Capital Strategies
Lynn Hellebust	
Isage Ferguson Sandy Braden	Kansas Chamber of Commerce 6BBA
Sandy Braden	6BBA
Jim Many	Spirit Aero Systems
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Session of 2007

## **HOUSE BILL No. 2500**

By Committee on Taxation

2 - 12

AN ACT concerning property taxation; relating to exemptions; certain housing; amending K.S.A. 2006 Supp. 79-201b and repealing the existing section.

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Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2006 Supp. 79-201b is hereby amended to read as follows: 79-201b. The following described property, to the extent herein specified, shall be and is hereby exempt from all property or ad valorem taxes levied under the laws of the state of Kansas:

First. All real property, and tangible personal property, actually and regularly used exclusively for hospital purposes by a hospital as the same is defined by K.S.A. 65-425, and amendments thereto, or a psychiatric hospital as the same was defined by K.S.A. 59-2902, and amendments thereto, as in effect on January 1, 1976, which hospital or psychiatric hospital is operated by a corporation organized not for profit under the laws of the state of Kansas or by a corporation organized not for profit under the laws of another state and duly admitted to engage in business in this state as a foreign, not-for-profit corporation, or a public hospital authority; and all intangible property including moneys, notes and other evidences of debt, and the income therefrom, belonging exclusively to such a corporation and used exclusively for hospital, psychiatric hospital or public hospital authority purposes. This exemption shall not be deemed inapplicable to property which would otherwise be exempt pursuant to this paragraph because any such hospital, psychiatric hospital or public hospital authority: (a) Uses such property for a nonexempt purpose which is minimal in scope and insubstantial in nature if such use is incidental to the exempt purpose enumerated in this paragraph; or (b) is reimbursed for the actual expense of using such property for the exempt purposes enumerated in this paragraph or paragraph second of K.S.A. 79-201, and amendments thereto; or (c) permits the use of such property for the exempt purposes enumerated in this paragraph or paragraph second of K.S.A. 79-201, and amendments thereto, by more than one agency or organization for one or more of such purposes.

*Second*. All real property, and tangible personal property, actually and regularly used exclusively for adult care home purposes by an adult care

HS Taxation 3-26-08 Attachment 1

Proposed Amendments to
House Bill No. 2500
(To be amended into Senate Bill No. 444)

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home as the same is defined by K.S.A. 39-923, and amendments thereto, which is operated by a corporation organized not for profit under the laws of the state of Kansas or by a corporation organized not for profit under the laws of another state and duly admitted to engage in business in this state as a foreign, not-for-profit corporation, charges to residents for services of which produce an amount which in the aggregate is less than the actual cost of operation of the home or the services of which are provided to residents at the lowest feasible cost, taking into consideration such items as reasonable depreciation, interest on indebtedness, acquisition costs, interest and other expenses of financing acquisition costs, lease expenses and costs of services provided by a parent corporation at its costs and contributions to which are deductible under the Kansas income tax act; and all intangible property including moneys, notes and other evidences of debt, and the income therefrom, belonging exclusively to such corporation and used exclusively for adult care home purposes. For purposes of this paragraph and for all taxable years commencing after December 31, 1976, an adult care home which uses its property in a manner which is consistent with the federal internal revenue service ruling 72-124 issued pursuant to section 501(c)(3) of the federal internal revenue code, shall be deemed to be operating at the lowest feasible cost. The fact that real property or real or tangible personal property may be leased from a not-for-profit corporation, which is exempt from federal income taxation pursuant to section 501(c)(3) of the internal revenue code of 1986, and amendments thereto, and which is the parent corporation to the not-for-profit operator of an adult care home, shall not be grounds to deny exemption or deny that such property is actually and regularly used exclusively for adult care home purposes by an adult care home, nor shall the terms of any such lease be grounds for any such denial. For all taxable years commencing after December 31, 1995, such property shall be deemed to be used exclusively for adult care home purposes when used as a not-for-profit day care center for children which is licensed pursuant to K.S.A. 65-501 et seq., and amendments thereto.

Third. All real property, and tangible personal property, actually and regularly used exclusively for private children's home purposes by a private children's home as the same is defined by K.S.A. 75-3329, and amendments thereto, which is operated by a corporation organized not for profit under the laws of the state of Kansas or by a corporation organized not for profit under the laws of another state and duly admitted to engage in business in this state as a foreign, not-for-profit corporation, charges to residents for services of which produce an amount which in the aggregate is less than the actual cost of operation of the home or the services of which are provided to residents at the lowest feasible cost, taking into consideration such items as reasonable depreciation and in-

terest on indebtedness, and contributions to which are deductible under the Kansas income tax act; and all intangible property including moneys, notes and other evidences of debt, and the income therefrom, belonging exclusively to such a corporation and used exclusively for children's home purposes.

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Fourth. All real property and tangible personal property, actually and regularly used exclusively for housing for elderly and handicapped persons having a limited or lower income, or used exclusively for cooperative housing for persons having a limited or low income, assistance for the financing of which was received under 12 U.S.C.A. 1701 et seq., or under 42 U.S.C.A. 1437 et seq., which is operated by a corporation organized not for profit under the laws of the state of Kansas or by a corporation organized not for profit under the laws of another state and duly admitted to engage in business in this state as a foreign, not-for-profit corporation, and all intangible property including moneys, notes and other evidences of debt, and the income therefrom, belonging exclusively to such a corporation and used exclusively for the purposes of such housing. For the purposes of this subsection, cooperative housing means those not-forprofit cooperative housing projects operating or established pursuant to sections 236 or 221(d)(3), or both, of the national housing act and which have been approved as a cooperative housing project pursuant to applicable federal housing administration and U.S. Department of Housing and Urban Development statutes, and rules and regulations, during such time as the use of such properties are: (1) Restricted pursuant to such act, or rules and regulations thereof; or (2) subject to affordability financing standards established pursuant to the national housing act during such time that such not-for-profit corporation has adopted articles of incorporation or by-laws, or both, requiring such corporation to continue to operate in compliance with the United States department of housing and urban development affordability income guidelines established pursuant to sections 236 or 221(d)(3) of the national housing act or rules and regulations thereof.

Fifth. All real property and tangible personal property, actually and regularly used exclusively for housing for elderly persons, which is operated by a corporation organized not for profit under the laws of the state of Kansas or by a corporation organized not for profit under the laws of another state and duly admitted to engage in business in this state as a foreign, not-for-profit corporation, in which charges to residents produce an amount which in the aggregate is less than the actual cost of operation of the housing facility or the services of which are provided to residents at the lowest feasible cost, taking into consideration such items as reasonable depreciation and interest on indebtedness and contributions to which are deductible under the Kansas income tax act; and all intangible

(a) Housing

and (b) temporary housing for limited or low income singleparent families in need of financial assistance, which is operated by a charitable or religious organization

property including moneys, notes and other evidences of debt, and the income therefrom, belonging exclusively to such corporation and used exclusively for the purpose of such housing. For purposes of this paragraph and for all taxable years commencing after December 31, 1976, an adult care home which uses its property in a manner which is consistent with the federal internal revenue service ruling 72-124 issued pursuant to section 501(c)(3) of the federal internal revenue code, shall be deemed to be operating at the lowest feasible cost. For all taxable years commencing after December 31, 1995, such property shall be deemed to be used exclusively for housing for elderly persons purposes when used as a not-for-profit day care center for children which is licensed pursuant to K.S.A. 65-501 et seq., and amendments thereto.

Sixth. All real property and tangible personal property actually and regularly used exclusively for the purpose of group housing of mentally ill or retarded and other handicapped persons which is operated by a corporation organized not for profit under the laws of the state of Kansas or by a corporation organized not for profit under the laws of another state and duly admitted to engage in business in this state as a foreign, not-for-profit corporation, in which charges to residents produce an amount which in the aggregate is less than the actual cost of operation of the housing facility or the services of which are provided to residents at the lowest feasible cost, taking into consideration such items as reasonable depreciation and interest on indebtedness and contributions to which are deductible under the Kansas income tax act, and which is licensed as a facility for the housing of mentally ill or retarded and other handicapped persons under the provisions of K.S.A. 75-3307b, and amendments thereto, or as a rooming or boarding house used as a facility for the housing of mentally retarded and other handicapped persons which is licensed as a lodging establishment under the provisions of K.S.A. 36-501 et seq., and amendments thereto.

Seventh. For all taxable years commencing after December 31, 2006, all real property and tangible personal property, actually and regularly used exclusively for housing for limited or low income, single parent family mothers in need of financial assistance who are enrolled in a program to receive life training skills, which is operated by a charitable or religious organization; and all intangible property including moneys, notes and other evidences of debt, and the income derived therefrom, belonging exclusively to such organization and used exclusively for the purposes of such housing.

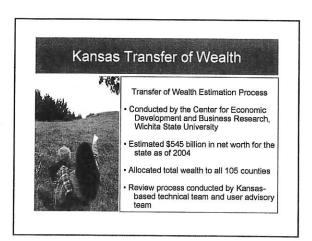
The provisions of this section, except as otherwise specifically provided, shall apply to all taxable years commencing after December 31, 1998.

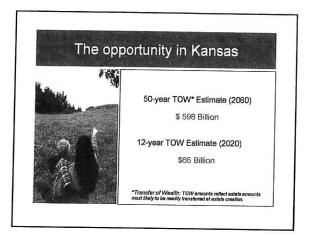
Sec. 2. K.S.A. 2006 Supp. 79-201b is hereby repealed.

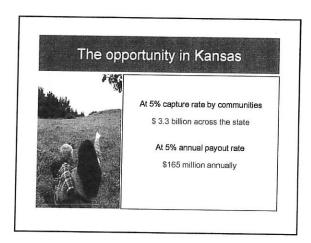
- Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

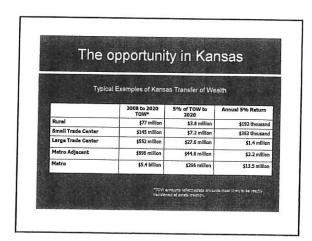
## Kansas Transfer of Wealth Presentation to Kansas State Legislators March 2008

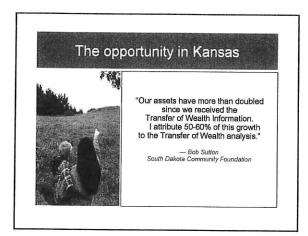
## Transfer of Wealth Largest mass of wealth in history will transfer in the next 50 years \$41 trillion is the conservative estimate of the wealth transfer in the U.S. Urgency of capturing a portion of this transfer to benefit Kansas





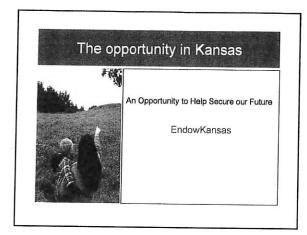




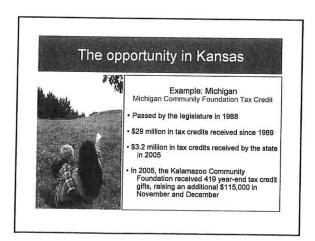


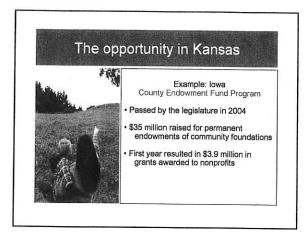






## The opportunity in Kansas Community Foundation Tax Credits Michigan Iowa Montana Nebraska





# Example: Montana Montana Endowment Qualified Tax Credit Passed by the legislature in 1997 Renewed for Five years in 2002, 2007 \$74 million added to Montana Nonprofit Endowments in the first five years (including community foundations) More than in the previous 100 years



