

SESSION OF 1998

**EXPLANATORY NOTE ON SENATE BILL NO. 493**

Conference Committee Report

**Brief\***

S.B. 493, the Kansas Tax Reduction and Reform Act of 1998, would enact a number of inheritance, property, sales, income, severance, premium, and privilege tax cuts.

***Inheritance Tax Repealed***

The Kansas Inheritance Tax Act would be repealed and replaced with the Kansas Estate Tax Act, effective for the estates of all decedents dying after June 30, 1998. The "pick up" estate tax would be an amount equal to the maximum credit allowed by Section 2011 of the Internal Revenue Code against the tax that otherwise would be imposed on the transfer of the taxable estate of the decedent, multiplied by a fraction, the numerator of which is the Kansas gross estate value and the denominator of which is the total gross estate value.

Under such a pick-up estate tax which would piggyback on the federal estate tax, estates with a value of \$625,000 during the second half of 1998 would incur no liability (with this amount increasing to \$1 million in 2006 pursuant to the 1997 federal law change). An additional provision enacted in 1997 allows family-owned farms and businesses an exclusion of \$1.3 million (an additional \$675,000 in 1998, for example) if the farm or business is at least 50 percent of the estate and the heirs materially participate in the business for at least ten years after the decedent's death.

Under current law, Kansas computes both the pick-up tax and the inheritance tax and levies whichever liability is greater. The inheritance tax totally exempts surviving spouses, gives Class A distributees (generally lineal ascendants and descendants) a

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.ink.org/public/legislative/fulltext-bill.html>.

\$30,000 exemption, and gives Class B distributees (brothers and sisters) a \$5,000 exemption.

### ***Singles' Income Tax Cuts***

Individual income tax reductions enacted in 1997 for single filers would be accelerated such that the fully phased-in rates currently scheduled to apply in tax year 2000 would be applicable in tax year 1998. The effect of this acceleration would be tax cuts in both tax years 1998 and 1999 relative to current law.

### ***Personal Exemption Increases***

The individual income tax personal exemptions would be increased from \$2,000 to \$2,250 for all tax years beginning in tax year 1998. The current \$2,000 level is tied to what the federal personal exemption amount was in the late 1980s. Pursuant to indexation, the current federal personal exemption amount for tax year 1998 will be \$2,700.

### ***Tax Credits for Machinery and Equipment Property Taxes Paid***

Another section of the bill would provide, beginning in tax year 1998, refundable income, premium, and privilege tax credits equivalent to 15 percent of timely property taxes paid on commercial and industrial machinery and equipment (including such property owned by not-for-profit entities) and machinery and equipment assessed under the mineral leasehold interest subclass. One amendment to this section would clarify that the credit would be applicable to taxpayers filing under subchapter S status, partnerships, and limited liability companies. The credit would be applicable beginning with property tax year 1998 liability.

### ***School Finance Property Tax Provisions***

The bill would reduce the mandatory school district general fund property tax levy for the 1998-99 and the 1999-2000 school years from 27 to 20 mills. The \$20,000 exemption from the levy for residential property also would be extended through tax year 1999.

### ***Property Tax Exemption for Oil Leases***

The property tax exemption in K.S.A. 79-201t for oil leases (other than royalty interests) would be expanded such that wells with a completion depth of less than 2,000 feet and an average daily production of three barrels or less would be exempt (up from two barrels per day under current law), and wells with a completion depth of 2,000 feet or more and an average daily production of five barrels or less would be exempt (up from three barrels per day under current law).

### ***Severance Tax Exemptions Expanded***

The average daily production below which oil severance tax exemptions apply would be expanded to include wells of all depths, including those using tertiary-recovery and water-flood processes. The low-production exemption threshold for gas wells also would be raised from \$81 to \$87 per day.

Additional language (originally contained in S.B. 603) would be provided for both oil and gas which would exempt for seven years incremental production resulting from production enhancement projects.

### ***Tax Lien Provisions***

K.S.A. 79-3235 and 79-3617 would be amended with respect to tax liens to provide that if execution has not occurred within ten years, the warrants would become dormant.

### ***Low-Cost Machinery and Equipment Exemption***

Current law exempts all such items with a retail cost when new of \$250 or less. The requirement that business machinery and equipment be actually and regularly used "exclusively" for business purposes in order to qualify for the exemption would be relaxed such that it would only have to be used in the conduct of the owner's business.

### ***Earned Income Tax Credit***

A Kansas earned income tax credit (EITC) for individual income taxpayers would be enacted equivalent to 10 percent of amounts claimed under the federal EITC.

### ***Sales Tax Exemptions***

A number of additional sales tax exemptions would be provided:

1. all purchases of 501 (c)(3) religious organizations, provided the tangible personal property and services are used exclusively for religious purposes;
2. sales of aircraft used “directly or through an authorized agent” as certified or licensed carriers in interstate commerce;
3. all sales of machinery and equipment used directly and primarily for producing broadcast signals or the failure of which would cause broadcasting signals to cease, as well as sales of electricity essential or necessary for the purpose of producing a broadcast signal or the failure of which would cause broadcasting to cease;
4. all sales by or on behalf of not-for-profit organizations providing nonsectarian comprehensive multi-discipline youth development programs;
5. all purchases and sales by or on behalf of parent-teacher associations or organizations;
6. fees charged by certain humanitarian organizations exempt from property taxation pursuant to K.S.A. 79-201 Ninth to allow participation by persons 18 years or younger in sports, games, or other recreational activities, as well as all dues charged by such organizations;
7. direct and indirect purchases of nonprofit zoos and nonprofit entities contracting to operate zoos;
8. sales of food for human consumption by a 501(c)(3) food distribution program which offers such food at a price below cost in exchange for the performance of community service;

9. dues charged by certain veterans' organizations; and
10. labor services associated with the reconstruction, remodeling, repair, or replacement of a residence.

#### ***Sales Tax Definition of Educational Institutions***

"Educational institution" would be defined to include nonprofit schools, colleges, and universities that offer accredited postsecondary education, including a group of educational institutions that operates exclusively for an educational purpose, endowment associations and foundations, nonprofit athletic trusts and foundations, and nonprofit research trust funds and foundations.

#### ***Food Sales Tax Rebates***

The food sales tax rebate program would be expanded substantially and changed in a number of ways. The limitation of "total household income" of \$13,000 would be replaced for 1998 with a new limitation of "Kansas adjusted gross income" (KAGI) of \$25,000. Taxpayers could claim the rebates on individual income tax forms as refundable credits or continue to claim the rebates by filing separately as provided under current law. The amount of the rebates would be changed such that \$60 would be provided for every member of a qualifying household with KAGI of \$12,500 or less, and \$30 would be provided for members of a qualifying household with income from \$12,501 to \$25,000.

#### ***Standard Deduction Amounts Increased***

The Kansas standard deductions for individual income taxpayers would be increased beginning in tax year 1998. The increases would be as follows:

| <u>Filing Status</u> | <u>Current Law</u> | <u>S.B. 493</u> |
|----------------------|--------------------|-----------------|
| Joint                | \$ 5,000           | \$ 6,000        |
| Single               | 3,000              | 3,000           |
| Head of Household    | 4,400              | 4,500           |
| Elderly/Blind Joint  | 600                | 700             |
| Elderly/Blind Single | 750                | 850             |

### ***Property Tax Exemption Filing Requirements***

K.S.A. 79-213 would be amended to exempt from filing requirements at the State Board of Tax Appeals: (1) owners of motor vehicles exempt from taxation because they are absent from the state due to military service; and (2) vehicles owned by certain organizations providing transit services to elderly and disabled persons.

### ***Sales Tax Exemption Clarification***

The sales tax law would be amended to clarify that business machinery and equipment would qualify for the exemption regardless of how it is treated for federal income tax purposes. (This would address the *Alsop Sand* decision.)

### ***Tax Lien Provisions***

K.S.A. 79-3235 and 79-3617 would be amended with respect to tax liens to provide that if execution has not occurred within ten years, the warrants would become dormant.

### ***Sales Tax Exemption Permit Authority***

K.S.A. 79-3619 would be amended to authorize the Secretary of Revenue to adopt rules and regulations to provide for the issuance of permits to certain businesses which grant direct payment authority that allows certain purchases to be made without the payment of sales or use tax to the vendor or service provider and requires the permit holder to self-accrue state and

local taxes and pay such taxes directly to the Department of Revenue.

### **Background**

The attached table provides information for the bill's provisions which have an identifiable fiscal note.





(\$ in millions)

|   | FY 99    | FY 2000   | FY 2001   | FY 2002   | FY 2003   |
|---|----------|-----------|-----------|-----------|-----------|
| Standard Deductions                           | \$18.400 | \$14.400  | \$14.600  | \$15.000  | \$15.200  |
| Pers Exemptions \$2,250 non-indexed           | \$36.300 | \$28.800  | \$29.700  | \$30.700  | \$31.600  |
| Mill levy cut 27 to 20 mills (local effort)   | \$70.500 | \$120.600 | \$125.800 | \$130.500 | \$135.500 |
| Bus machinery and equipment income tax credit | \$16.000 | \$25.800  | \$28.400  | \$31.200  | \$34.300  |
| EITC  | \$12.600 | \$13.400  | \$14.000  | \$14.300  | \$14.600  |
| Food Sales Tax Rebates (\$30 and \$60)        | \$13.400 | \$13.400  | \$13.400  | \$13.400  | \$13.400  |
| Pick-up estate tax                            | \$30.500 | \$63.300  | \$66.400  | \$69.800  | \$73.300  |
| Singles' Accelerator                          | \$23.000 | \$7.900   | ---       | ---       | ---       |
| Severance S603 SGF                            | \$1.162  | \$3.078   | \$3.078   | \$3.078   | \$3.078   |
| Severance S603 Local Effort                   | \$0.044  | \$0.116   | \$0.116   | \$0.116   | \$0.116   |
| Oil severance tax exemptions SGF              | \$1.198  | \$1.198   | \$1.198   | \$1.198   | \$1.198   |
| Oil severance tax exemptions (local effort)   | \$0.045  | \$0.045   | \$0.045   | \$0.045   | \$0.045   |
| Gas severance tax exemptions SGF              | \$0.288  | \$0.288   | \$0.288   | \$0.288   | \$0.288   |
| Gas severance tax exemptions (local effort)   | \$0.011  | \$0.011   | \$0.011   | \$0.011   | \$0.011   |
| Oil property tax exemptions (local effort)    | \$0.197  | \$0.327   | \$0.327   | \$0.327   | \$0.327   |
| Residential Remodeling SGF                    | \$14.667 | \$16.640  | \$17.306  | \$17.998  | \$18.718  |
| Religious SGF                                 | \$4.182  | \$4.745   | \$4.934   | \$5.132   | \$5.337   |
| SB 250 Educational Institutions SGF           | \$0.400  | \$0.455   | \$0.473   | \$0.492   | \$0.512   |
| Zoos SGF                                      | \$0.437  | \$0.495   | \$0.515   | \$0.536   | \$0.557   |

|  | <u>FY 99</u> | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>FY 2003</u> |
|--|--------------|----------------|----------------|----------------|----------------|
| Youth Groups SGF                         | \$1.281      | \$1.453        | \$1.512        | \$1.572        | \$1.635        |
| PTAs/PTOs SGF                            | \$0.326      | \$0.370        | \$0.384        | \$0.400        | \$0.416        |
| Broadcast Machinery and Equipment SGF    | \$0.543      | \$0.616        | \$0.640        | \$0.666        | \$0.693        |
| Humanitarian Dues SGF                    | \$0.339      | \$0.385        | \$0.400        | \$0.416        | \$0.433        |
| Veterans' Dues SGF                       | \$0.071      | \$0.081        | \$0.084        | \$0.087        | \$0.091        |
| SGF Receipts                             | \$175.094    | \$196.804      | \$197.314      | \$206.263      | \$215.356      |
| Local Effort Reduction—Mill Levy         | \$70.500     | \$120.600      | \$125.800      | \$130.500      | \$135.500      |
| Local Effort Reduction—Oil Property Tax  | \$0.197      | \$0.327        | \$0.327        | \$0.327        | \$0.327        |
| Local Effort Reduction—Oil Severance Tax | \$0.045      | \$0.045        | \$0.045        | \$0.045        | \$0.045        |
| Local Effort Reduction—Gas Severance Tax | \$0.011      | \$0.011        | \$0.011        | \$0.011        | \$0.011        |
| Local Effort Reduction—SB 603 Sev. Tax.  | \$0.044      | \$0.116        | \$0.116        | \$0.116        | \$0.116        |
| TOTAL SGF IMPLICATIONS                   | \$245.891    | \$317.903      | \$323.613      | \$337.262      | \$351.355      |
| SHF Receipts                             | \$1.182      | \$1.341        | \$1.395        | \$1.450        | \$1.508        |
| CMPTF Receipts (Counties Only)           | \$0.100      | \$0.172        | \$0.172        | \$0.172        | \$0.172        |
| TOTAL REVENUE IMPLICATIONS               | \$247.172    | \$319.416      | \$325.179      | \$338.884      | \$353.035      |