

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:40 A.M. on February 13, 2008 in Room 519-S of the Capitol.

All members were present except:

Derek Schmidt- excused

Committee staff present:

Gordon Self, Office of Revisor of Statutes

Chris Courtwright, Kansas Legislative Research Department

Scott Wells, Office of Revisor of Statutes

Ryan Hoffman, Kansas Legislative Research Department

Judy Swanson, Committee Assistant

Conferees appearing before the committee:

Richard Cram, Kansas Department of Revenue (KDOR)

Tony Folsom, KDOR, Property Valuation Department

Kevin Solter, KDOR, State Appraiser

Others attending:

See attached list.

Richard Cram, Kansas Department of Revenue (KDOR), presented an update on the recently approved Congressional stimulus package. (Attachment 1) The individual relief portion of the Federal package is \$600 to \$1200 per person/family.

The business provision of the stimulus package provides an additional one-time first-year depreciation deduction of 50% of the asset cost, and for the remaining 50% of the asset cost, the business can take additional depreciation under the MACRS—the federal income tax code depreciation rules. This stimulus package also increases expensing allowance to small businesses from \$128,000 to \$250,000. Because the calculation of Kansas taxable income begins with federal adjusted gross income for individuals and federal taxable income for corporations, the depreciation deductions allowed under the federal income tax laws are already taken into account in determining the businesses' s Kansas taxable income.

Mr. Cram stated the Center on Budget and Policy Priorities estimated the business tax cuts in the stimulus package would cost Kansas approximately \$87 million. (Attachment 2) Senator Donovan brought the Committee's attention to the other side of the issue, noting the offsetting increase in investments to the State was not being considered. When individuals who get "free" money spend it, assuming they spend only half of their rebate, it would bring millions of dollars to the state in sales tax. Mr. Cram said the new revenue might be taken into consideration at the consensus budget meeting. The "free" money will not be taxable income, but rather a rebate from the federal government for tax purposes. Mr. Cram also noted that businesses that invest in more equipment or add more employees as a result of this stimulus package were not considered in the KDOR fiscal note.

In response to Senator Lee, David Corbin, KDOR, said he estimated between 40% and 60% of the last stimulus package taxpayers received from the federal government was reinvested in the economy.

A bill introduced by Senator Francisco to decouple the State of Kansas from the Federal bonus tax schedule for tax year 2008 will be considered by the Committee next week.

Tony Folsom, KDOR, presented a follow-up report on the public utility property valuation, allocation and distribution. (Attachment 3) Public utility property in Kansas is valued on the value the operating business will bring in the business market under open market conditions. It is the value of the operating business that imputes value to the tangible and intangible assets of the company which then form the basis for the ad valorem tax of public utility property in Kansas. Business values are primarily based on the income stream the business can be expected to produce over time. The property that is being valued is appraised as a whole. The determination of the value of an enterprise as a whole is without regard to the value of the individual assets making up the enterprise.

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:40 A.M. on February 13, 2008 in Room 519-S of the Capitol.

The goal of KDOR is to arrive at a single number for the conclusion of value. The income approach is generally considered to be the dominant indicator of value for utility companies. KDOR then allocates the appropriate portion of the unitary value to the state, and apportions or distributes the state's value to taxing subdivisions. For multi-state utilities the goal of allocation is to assign a reasonable portion of the unit value to each state.

Kevin Solter, State Appraiser, said if a company is located in several states, each state determines its own individual valuation by state statute. During discussion about business appraisals in counties, Mr. Solter said counties sometimes find it difficult to get good income information from businesses for the purpose of conducting appraisals.

SB 471—electronic filing of tax returns and reports was re-referred to the Committee. Richard Cram said Secretary of Revenue Joan Wagon had conferred with Senator Wagle and agreed to a suggested amendment which would resolve Senator Wagle's concerns. (Attachment 4)

Senator Lee moved to amend SB 471 as presented by KDOR and to further amend on page 2, line 34, by lowering from 90% to 75%. Senator Hensley seconded the motion, and the motion passed.

Senator Lee moved to recommend SB 471 as amended favorable for passage. Senator Hensley seconded the motion. The motion passed.

Committee discussion was held on **SB 497—creating the Kansas investment credit act and the Kansas jobs credit act**. Senator Lee expressed support for the Opportunity Zone portion of the bill. Senator Bruce commented he would like to have the HPIP portion streamlined. Senator Jordan felt there were still too many concerns about **SB 497** to work the bill. Senator Donovan was concerned about the elimination of retail establishments, and he did not think the bill simplified the programs very much. Chairman Allen requested Committee members see her personally with suggestions on the bill.

Senator Donovan moved to approve the minutes of the February 6 Committee meeting, and to correct the February 7 Committee meeting minutes on page 1 by adding "for the tax year 2008" after "federal bonus tax", then approve them. Senator Hensley seconded the motion, and the motion passed.

Being no further business the meeting adjourned at 11:25 a.m. The next meeting will be February 14.