

Approved May 3, 2002
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by Chairman Edmonds at 9:00 a.m. on March 12, 2002 in Room 519-S of the Capitol.

All members were present except: Representative Flora, excused
 Representative Mays, excused
 Representative T. Powell, excused

Committee staff present: Chris Courtwright, Legislative Research Department
 April Holman, Legislative Research Department
 Don Hayward, Revisor
 Winnie Crapson, Secretary

Conferrees appearing before the Committee:
 Representative Aurand
 Representative Reardon
 Mark Tallman, Kansas School Board Association
 Charles Stones, Kansas Bankers Association
 Bob Best, Lake Perry Marina
 Marlee Carpenter, Kansas Association of Commerce & Industry
 Brad Smoot, American Insurance Associations
 Karl Peterjohn, Kansas Taxpayers Network
 David A. Hanson, Kansas Insurance Associations
 Mike Beam, Kansas Livestock Association
 Tom Whitaker, Kansas Motor Carriers Association
 Tom Palace, Petroleum Marketers & Convenience Stores
 Ron Hein, R. J. Reynolds

Others Attending: See attached list

Hearing was opened on
HB 2861 - State government financing; revenue enhancements.

Representative Reardon testified in support of **HB 2861** and provided to the Committee a Chart on Options considered in the bill and information on School Finance Plans 2002-2003 School Year (Attachment #1). The Chart details the effects of proposals on inheritance tax, individual income taxes, corporate income taxes, financial institution privilege, sales tax increase with food exemption, repeal of food sales tax rebate, premium tax rates, and cutting the ending balance. Representative Reardon discussed each item in the proposal and responded to questions from committee.

Mark Tallman presented testimony in support of **HB 2861** (Attachment #2). He was representing the Kansas Association of School Boards, the Kansas National Education Association, the United School Administrators, and the Kansas City, Kansas School District. They supported the bill to provide additional state revenue to support education. Mr. Tallman responded to questions about school budgets. In response to questions about the recent Post Audit Report that indicated Kansas schools spent a smaller percentage of their budgets on classroom instruction than surrounding states, he said he believed Kansas had made different choices. He noted that counselors, food service, busing for safety reasons and other things which support classroom instruction were not included in the calculation. He was asked for a specific detailed analysis of such programs and their costs. He said that analysis had not yet been done. In response to questions about new federal legislation he said it sets an obligation for all states to bring all children to certain academic levels in twelve years. He said funding to fulfill that mandate has not yet been passed.

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He said the organizations he is representing would not anticipate that all the cuts would be made in the rest of the budget in order to make enhancements to education and believed there will have to be additional revenue and that given the magnitude of the budget problem they would have to take cuts and if those cuts have to be made, it is important that the people of Kansas and the legislature know where those cuts will be made and the impact that will have on the quality of education.

When asked about high ending balances, Mr. Tallman explained that in some districts they included the proceeds of tax collections waiting for bond payments to be made in the fall. They also contain some money essential to operate programs until the next revenue comes in, such as special education payments when costs are incurred as early as August and state payments are not made until September. When asked about school budgets in view of loss in enrollments, he said that in looking at those issues in this climate, there will probably have to be schools.

Karl Peterjohn presented testimony in opposition to **HB 2861** on behalf of the Kansas Taxpayers Network (Attachment #3). He said his testimony focused on significant differences between the Kansas inheritance tax and the federal inheritance tax. He said the Kansas Taxpayers Network has repeatedly testified in opposition to bills that would raise the taxes that Kansans must pay for state government and that Kansas government is growing faster than our ability to pay for it. He responded to questions from members of the committee. He said that a lot of tax reductions at the state level had been “grabbed” by local units. He referred to companies that had left Kansas and said reports were that the fastest growing states in the last census were states having lower taxes or states with no income tax.

Bob Best, owner of the Lake Perry Marina, presented oral testimony in opposition to **HB 2861**. He described his experience as a small businessman and how his business was adversely affected by taxes. In responding to questions from the committee, he said he thought across-the-board decreases in taxes would be best.

Charles Stones presented testimony on behalf of the Kansas Bankers Association in specific opposition to Section 58 of **HB 2861** increasing the privilege tax on financial institutions (Attachment #4). He said it would result in Kansas banks being taxed higher than in surrounding states and would discourage banking companies from locating or keeping a charter in Kansas and would put banks at a competitive disadvantage with such in-state competitors as Credit Unions and the Farm Credit Banks. Mr. Stones responded to questions from the committee.

Brad Smoot presented testimony in opposition to Section 57 of **HB 2861** on behalf of the American Insurance Association (Attachment #5) and on behalf of Blue Cross Blue Shield of Kansas and Blue Cross Blue Shield of Kansas City (Attachment #6). In response to questions Mr. Smoot provided the history of the litigation because of which taxes were paid under protest preceding at the time legislation was passed in the 1990s with respect to insurance companies. He said the unintended consequence of Kansas tax policy was retaliatory taxes levied by most states to equalize the tax obligations of insurance carriers from other states. He said provision of the tax credit to any insurance company that brought jobs to Kansas. He said the effect of the tax credit had been underestimated and was adjusted last year.

Terry Leatherman presented the testimony of Marlee Carpenter in opposition to **HB 2861** on behalf of the Kansas Association of Commerce and Industry (Attachment #7). The testimony was that several provisions in **HB 2861** caused concern to the Kansas business community. KCCI policy calls for the reduction of the corporate income tax rate.

David A. Hanson presented testimony in opposition to **HB 2861** on behalf of the Kansas Insurance Associations (Attachment #8). His testimony included a table of comparisons of tax bill provisions.

Written testimony was presented by Kathy Damron in opposition to **HB 2861** on behalf of the Prudential Insurance Company (Attachment #9).

Written testimony was presented by Ron Hein in opposition to **HB 2861** on behalf of the Kansas Restaurant and Hospitality Association (Attachment #10).

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Written testimony was presented by Kevin Davis in opposition to **HB 2861** on behalf of American Family Insurance (Attachment #11).

Written testimony was presented by Bruce Witt in opposition to **HB 2861** on behalf of Preferred Health Systems (Attachment #12).

Hearing on **HB 2861** was closed.

Hearing on **HB 2788** was rescheduled for March 13.

Hearing on **HB 2805** was rescheduled for March 13.

Consideration of **HB 2714** - Income tax credit for property tax paid upon commercial and industrial machinery and equipment

Representative Powers moved, seconded by Representative Hutchins, to amend HB 2714 to change provisions to 30% in 2005; 35% in 2006; and 40% in 2007 and thereafter. Motion was adopted.

Representative Powers moved, seconded by Representative Huff, to report HB 2714 favorable for passage as amended.

Representative Tapanelli moved a substitute motion, seconded by Representative Powers, to adjust implementation date so as not to cause a negative effect with the current year. Substitute motion was adopted.

Chris Courtwright responded to a question about the Fiscal Note that he believed the bill would reduce the fiscal note.

Representative Powers moved, seconded by Representative Hutchins, to report HB 2714 favorable for passage as amended. Motion was adopted.

Meeting adjourned at 10:55 a.m. Next meeting is March 13.