

*REVISED*  
*SESSION OF 2006*

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2619**

As Amended by House Committee of the Whole

**Brief\***

HB 2619, as amended, would provide a property tax exemption for commercial and industrial machinery and equipment acquired by qualified purchase or lease after June 30, 2006 as the result of bona fide transactions not consummated for the purpose of avoiding taxation; and commercial and industrial machinery and equipment transported into the state after June 30, 2006 to expand existing businesses or create new businesses. Taxpayers receiving such exemptions would not be subject to annual filing requirements with the State Board of Tax Appeals (SBOTA) pursuant to KSA 2005 Supp. 79-213.

The bill would further expand, effective for tax year 2007, an existing exemption for certain "low-cost" items of machinery, equipment, materials, and supplies by removing from the tax rolls such property with a retail cost when new of greater than \$400 but equal to or less than \$1,000.

The bill also would create a new fund within the state treasury, the Business Machinery and Equipment Tax Reduction Assistance Fund (BMETRAF). The BMETRAF would provide a mechanism whereby taxing subdivisions would be reimbursed beginning in February, 2008 for certain property tax reductions assumed attributable to the exemptions. The Secretary of Revenue would be required to compute for each county an amount equal to the difference in business machinery and equipment property taxes levied in tax year 2005 and various future tax years (beginning with tax year 2007). Based upon this computation, county treasurers would receive 100 percent of the difference for tax year 2007; 80 percent for tax year 2008; 60 percent for tax year 2009; 40 percent for tax year 2010; and 20 percent for tax year 2011. (The transfers from the state to counties would be made during FY 2008-2012). County treasurers would be required to apportion the BMETRAF funds among taxing subdivisions

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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.kslegislature.org>

(including the state) relative to their respective shares of property tax levies. The Secretary also would be required to make an annual report to the standing tax committees on the BMETRAF computation methodology.

The bill also would expand the Homestead Property Tax Refund Act by increasing the income eligibility threshold for claimants age 65 and above from \$27,000 to \$50,000; and by increasing the amount of refunds such persons would receive who are eligible for the program under current law.

The bill further would expand the residential "homestead" property tax exemption relative to the mandatory school district general fund property tax levy from \$20,000 to \$30,000.

## **Background**

The original bill would have provided that the exemptions for newly acquired property and property transported into the state not be effective until tax year 2008. The House Tax Committee amended the bill to make those exemptions applicable for property acquired or transported into the state after June 30, 2006, effectively creating a tax year 2007 impact; to authorize the adoption of rules and regulations by the Secretary of Revenue; to add the exemption from annual filing requirements at SBOTA; to add the provisions relating to the BMETRAF, which came to be characterized during discussion as the "slider" amendment; and to clarify that the exemption would not be applicable to property involved in certain transactions consummated for the purpose of avoiding taxation (as opposed to transactions consummated solely for the purpose of avoiding taxation).

The bill would have an impact on the state attributable to a reduction in motor carrier property tax receipts to the SGF. The reduction in assessed valuation attributable to the two new exemptions and the expanded "low-cost" exemption also would cause state property tax receipts to decline relative to the fixed levies associated with state building funds (1.5 mills) and the mandatory school district general fund property tax levy (20 mills). The state also would be responsible for new expenditures associated with funding the BMETRAF transfers. A portion of the BMETRAF transfers subsequently would be offset when county treasurers returned certain funds to the state relative to the state property tax levies. Finally, an income tax credit currently available to offset a portion of property taxes timely paid on business machinery and equipment would be

expected to decrease over time relative to current law.

The House Committee of the Whole amended the bill to adjust the slider provisions such that the mitigation funds to taxing subdivisions would be reduced from six to five years and from a total of \$278.581 million to \$187.275 million.

The House Committee of the Whole also amended the bill to incorporate the provisions of HB 2857 relating to the expansion of the Homestead Property Tax Refund Act; to increase the school finance residential "homestead" exemption from \$20,000 to \$30,000; and to make certain technical amendments to the slider provisions.

The Department of Revenue on March 27 substantially increased the fiscal note attributable to the Homestead Property Tax Refund Act amendment.

Based on the latest information available, the bill would be expected to have the following fiscal impact:

**Fiscal Impact of HB 2619**  
**As Amended by House Committee of the Whole**  
**(Dollars in Millions)**

	FY 2007	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	Total Thru <u>FY 2013</u>
Motor Carrier Property Taxes	-	\$ -0.743	\$ -2.284	\$ -3.903	\$ -5.600	\$ -7.376	\$ -8.394	\$ -28.300
USD Local Effort (20 mills)	-	\$ -8.000	\$ -14.946	\$ -20.691	\$ -25.031	\$ -28.283	\$ -31.112	\$ -128.063
St. Bldg. Funds (1.5 mills)	-	0.600	1.121	1.552	1.877	2.121	2.333	9.605
Slider Transfer (Initial)	-	\$ -28.238	\$ -48.198	\$ -50.446	\$ -39.357	\$ -21.036	\$ 0.000	\$ -187.275
Slider Returned to Local Effort	-	4.450	7.595	7.948	6.202	3.315	0.000	29.510
Slider Return to St. Bldg. Funds	-	0.334	0.570	0.596	0.465	0.249	0.000	2.214
Net State Slider Impact	-	\$ -23.454	\$ -40.033	\$ -41.902	\$ -32.690	\$ -17.472	\$ 0.000	\$ -155.551
Reduction in Inc. Tax Credit	-	\$ 10.530	\$ 17.976	\$ 24.239	\$ 28.786	\$ 31.831	\$ 34.228	\$ 147.590
USD Local Effort (30K)	-	\$ -18.818	\$ -19.206	\$ -19.402	\$ -19.598	\$ -19.794	\$ -19.990	\$ -116.808
Additional Homestead to 65+	\$-15.800	\$ -16.300	\$ -16.800	\$ -17.300	\$ -17.800	\$ -18.300	\$ -18.800	\$ -121.100
<b>Total Net State Impact</b>	<b>\$-15.800</b>	<b><u>\$ -57.385</u></b>	<b><u>\$ -76.413</u></b>	<b><u>\$ -80.511</u></b>	<b><u>\$ -73.811</u></b>	<b><u>\$ -61.515</u></b>	<b><u>\$ -46.401</u></b>	<b><u>\$ -411.837</u></b>