

SESSION OF 2024

SUPPLEMENTAL NOTE ON SENATE BILL NO. 311

As Amended by Senate Committee on
Assessment and Taxation

Brief*

SB 311, as amended, would prohibit the sale price at which a property sells in an Internal Revenue Code Section 1031 exchange (1031 exchange), build-to-suit transaction, or a sale/leaseback arrangement from being considered an indicator of fair market value or used in arriving at fair market value for property tax purposes. The bill would exclude such exchanges, transactions, and arrangements from being considered valid sales for purposes of the sales ratio study used for measuring tax appraisal accuracy.

[*Note:* A 1031 exchange allows a person to postpone paying tax on the gain the person receives from selling a property if they reinvest the proceeds in similar property as part of a qualifying like-kind exchange.]

Background

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing on March 23, 2023, **proponent** testimony was provided by a private citizen, who generally stated the federal income tax consequences of the

*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>

sale and lease terms of a property result in the sale price not reflecting fair market value of the property.

The Secretary of Revenue responded to questions concerning 1031 exchanges.

No other testimony was provided.

On January 9, 2024, the bill was withdrawn from the Senate Calendar and re-referred to the Senate Committee on Assessment and Taxation.

Following discussion on March 13, 2024, the Senate Committee amended the bill to include build-to-suit transactions and sale/leaseback arrangements.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, the Department of Revenue indicates the bill would have no fiscal effect. Any fiscal effect associated with the bill is not reflected in *The FY 2025 Governor's Budget Report*.

The Kansas Association of Counties indicates the bill could reduce assessed valuation of properties by an indeterminate amount.

Taxation; property tax; 1031 exchanges; build-to-suit