

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:05 A.M. on January 11, 2007 in Room 519-S of the Capitol.

All members were present except: Representative Anthony Brown
Representative Nile Dillmore
Representative Gary Hayzlett
Representative Arlen Siegfried

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Richard Cram, Kansas Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Joan Wagon, Secretary, Department of Revenue
Richard Cram, Director, Kansas Department of Revenue
Charla Wagner, Auditor, Kansas Department of Revenue

The Chairman called for bill introductions.

Richard Cram, Kansas Department of Revenue, requested the introduction of a bill that would revise the sales tax refund process. Representative Wilk moved the introduction and Representative Whitham seconded. The motion carried.

The Chairman invited Secretary Joan Wagon, Kansas Department of Revenue (KDOR), to the podium to brief the Committee on the Governor's tax proposals as well as basic tax rules and policies. She introduced staff members in attendance: Richard Cram, Director, Policy and Research Division; David Corbin, Legislative Liaison; Jim Bartel, General Counsel; Charla Wagner, Auditor - Corporate Income Tax; and Kathleen Smith, Policy Analyst. A summary of Department of Revenue Legislative Proposal regarding sales tax refunds was distributed to the committee (Attachment 1).

Secretary Wagon explained the Governor's tax proposal which encompassed issues on corporate income tax, franchise tax, changes in sales tax, sales tax credits and new credit proposals. *The Summary of Governor's Tax Reform Proposal* was distributed (Attachment 2).

The Secretary reviewed three financial commitments made by the Legislature during the 2006 session.

- Funding Package to schools for the next three years
- Exemption of business machinery and equipment, and also to local governments to mitigate their loss from this exemption
- Programs for children and families for health care and other programs

Secretary Wagon said that the Governor's approach to meet those commitments will be to systematically improve the business climate long term, with changes in tax policy each year that could further stimulate economy and job growth and investment for Kansas. A background paper - *2007 State Business Tax Climate Index*, indicating Kansas ranks number 31 among the 50 states on a State Business Tax Climate Index was distributed (Attachment 3).

The Secretary explained three recommendations from the Governor's proposal:

1. **Business Tax Rate Reductions**

- ▶ Eliminate the franchise tax for an additional 16,000 small businesses by raising the net worth exemption from \$100,000 to \$1,000,000 beginning tax year 2007.
- ▶ Reduce the corporate income tax surcharge over two years from 3.35% to 2.75%, beginning in tax year 2008.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 9, 2007 in Room 519-S of the Capitol.

2. Business Tax Incentives/Tax Credits

- ▶ The Enterprise Zone incentives, HPIP credit and Business and Job Credit will be replaced by the following new, simplified incentives: Investment Tax Credit; Jobs Credit; Sales Tax Exemptions; Strategic Reserve Fund; and the Opportunity Zones Program.
- ▶ Administrative provisions changed, amended or repealed.

3. Remove barriers in state laws and regulations

Remove any barriers that discourage consolidation or prevent more efficient use of tax dollars by local governments. The state's role will be to provide incentives to local governments to unify or realign themselves, and provide tools to help them make decisions.

- ▶ Request introduction of legislation in 2007 to remove remaining barriers to consolidation.
- ▶ Undertake a study with a university in Kansas and KDOR to study further the issues related to consolidation and to construct a model which can be used by local governments to determine the efficacy of consolidation.
- ▶ Examine the cost-effectiveness of service provided by townships, and provide information about the status of townships statewide.

Secretary Wagnon requested the Tax Committee introduce the Governor's tax proposal. Chairman Wilk moved the introduction. Representative Holland seconded. The motion carried.

An outlook for the State General Fund was distributed for years 2004 - 2009 (Attachment 4)

Charla Wagner, Auditor, KDOR, explained the processes, forms, definitions pertaining to Corporate Income Taxes, using examples shown in a booklet on Corporate Partnerships/Corporation privilege and Franchise Taxes (Attachment 5). Discussion followed regarding issues pertaining to corporate income tax.

Richard Cram, KDOR, distributed a memo regarding, *Update to Analysis of Kansas Corporate Income Tax Dated October 14, 2004*. He reviewed: recent history of corporate income tax receipts; Corporate income tax burden; B & J credit data; HPIP data; and updated the conclusions. He explained charts on tax and credits statistics by industry categorizing 414 corporations for tax year 2004. Revised charts on were included in his testimony (Attachment 6).

Secretary Wagnon distributed a memo - *SGF Individual/Corporate and Sales Tax for fiscal years 1995-2006* (Attachment 7). The Chairman and Secretary Wagnon agreed that of all revenue streams Corporate Income Tax is one of the most volatile tax receipts for the state. Discussion followed regarding the loss in 2002 and 2003.

The meeting was adjourned at 10:25 a.m. The next meeting is January 17, 2007.