

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 17, 2007 in Room 519-S of the Capitol.

All members were present except:

Representative Gary Hayzlett
Representative Lance Kinzer
Representative Julie Menghini
Representative Melody Miller
Representative Virgil Peck
Representative Gene Rardin
Representative Ron Worley

Committee staff present:

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

Conferees appearing before the committee:

Representative Mario Goico
Representative Jerry Williams
Representative Sloan
Representative Treaster
Joan Wagon - Secretary, Department of Revenue
Richard Cram, Department of Revenue
David Corbin - Legislative Liaison, KDOR

Others attending:

See attached list.

The Chairman requested bill introductions.

Representative Mario Goico requested a bill be introduced that would change the county appraiser to an elected position. Representative Siegfried moved the introduction, seconded by Representative Owens. The motion carried.

Representative Mario Goico requested a bill be introduced that would eliminate the franchise tax over a 3 year period. Representative Wilk moved the introduction, seconded by Representative Siegfried. The motion carried.

Representative Mario Goico requested a bill be introduced that would expand the Homestead program. Representative Wilk moved the introduction, seconded by Representative Owen. The motion carried.

Representative Mario Goico requested a proposal be drafted for a Tax Holiday. Representative Brown moved the introduction. Representative Siegfried seconded the motion. The motion carried.

Representative Mario Goico requested a bill be introduced that would exempt government bonds from Kansas income taxes. Representative Wilk moved the introduction, seconded by Representative Owens. The motion carried.

Representative Mario Goico requested a bill be introduced that would match federal estate tax exemptions. Representative Wilk moved the introduction, seconded by Representative Owens. The motion carried.

Representative Jerry Williams requested that a bill be introduced concerning property tax related to delinquent taxes. Representative Wilk moved the introduction, seconded by Representative Owens. The motion carried.

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Representative Sloan requested a bill be introduced concerning income taxation; relating to credits; contributions of professional time by certain health care professionals. Representative Wilk moved the introduction, seconded by Representative Owens. The motion carried.

Representative Sloan requested a bill be introduced concerning income taxation; relating to credits; service by certain volunteer firefighters and EMS providers. Representative Wilk moved the introduction, seconded by Representative Owens. The motion carried.

Representative Treaster requested a bill be introduced that would grant sales tax exemption for a non-profit organization, *First Call For Help*. Representative Holland seconded the motion. The motion carried.

Secretary Wagon, KDOR, returned to the podium to continue the briefing on Kansas taxes. She reviewed a "Tax Facts" memorandum, comprised of information published from a variety of sources, as well as the opinions and recommendations of the Department of Revenue regarding what constitutes good tax policy. Topics included: 1) Tax mix; 2) Changes and trends in the tax base and rates; 3) Elasticity of tax receipts; 4) Erosion of the tax base; and 5) serious threats to future tax revenues exists (Attachment 1).

A pamphlet - *Tax Expenditure Report - Calendar Year 2005*, a reference document, was distributed (Attachment 2). Secretary Wagon briefly reviewed the individual and corporate report adding that it indicates the fiscal impact of exemptions, credits, deductions, modifications, and exclusions of seven taxes and programs: 1) Individual, Fiduciary and Corporate Income, and Privilege Taxes; 2) Retailers' Sales Tax Exemptions; 3) Mineral Taxes; 4) Motor Fuel Taxes; 5) Homestead; 6) Food Sales Tax Refund; and 7) Kansas IMPACT. A copy of the *2006 Kansas Individual Income Tax and Food Sales Refund* was distributed. (Copy in Kansas Department of Revenue).

Richard Cram, KDOR, provided a brief history of the sales tax, which accounts for approximately one-third of the state collection revenue. He described the use tax, a companion part of the sales tax; its purpose and how it works at the city and county levels. He explained; 1) Sales tax exemptions; 2) Nexus; and 3) Taxation of remote sales (Attachment 3). Discussion followed regarding the rules of Nexus for states and the Internet Tax Freedom Act.

Mr. Cram said that sales tax treatment for nonprofit entities has evolved over the years and distributed a memo - *Sales tax treatment for Not-For-Profit Entities*, that provided a summary of the current exempt status of nonprofit entities, fiscal and administrative impacts and treatment of nonprofit entities by neighboring states (Attachment 4).

Sales Tax Erosion in Kansas, a report by Dr. John D. Wong, Principal Investigator and Professor of Public Administration, Kansas Public Finance Center, Hugo Wall School of Urban and Public Affairs, Wichita State University, dated 2006, was distributed (Attachment 5). Dr. Wong had presented the report to the 2006 Interim committee. Mr. Cram described the highlights of the report.

An excerpt from the KDOR annual report - *State Retailers' Sales and Compensating Use Taxes Amount to State General Fund* was distributed. It contained recent history of the amount of sales and use tax revenue at the state and county levels and the total states sales tax collection by the North American Industrial Classification (NAICS) (Attachment 6). The annual report is posted on their website; ksrevenue.org. He referred to a spread sheet, part of the Tax Expenditure Report, that provides a breakout by sales tax exemption of what the foregone sales tax revenue would be that is attributable to each sales tax exemption (Copies will be distributed at a later date).

Secretary Wagon explained Streamlined Sales Tax (SST) and distributed a fiscal note which summarized the revenues for FY 2005 and 2006 (Attachment 7). She explained the genesis of SST, how it works and its current status. Discussion followed regarding the pros and cons of the tax. David Corbin - Legislative Liaison, KDOR, joined the Secretary to explain the issue of state sovereignty as it relates to SST.

The Chairman said that they would return to the topic of Income Tax at a later date and adjourned the meeting at 10:25 a.m. The next meeting is January 18, 2007.

CONTINUATION SHEET

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