

Testimony of Paul Finney

Before the Senate Committee on Assessment and Taxation

February 8, 2018

oral/support

Madam Chairman, Mr. Vice Chairman, members of the committee, I am Paul Finney of Humboldt.

I made an error in filing my income taxes for the year 2004, which resulted in my over paying my income tax.

I had sold farm land that had been in my family for 3 generations. For the capital gains tax bases, instead of using the value of the land on my mother's death in 1994, I used the value at the time of my grandfather's death in 1931. That's a difference between about \$5 per acre and \$1,000 per acre. Had I used the 1994 values instead of the 1931 values, there would have been no capital gains taxes due.

In my thinking at the time, I thought I should use the 1931 value, as my mother never really owned the farms. Mr. Mark Beshears of the Kansas Revenue Department confirmed to me yesterday via telephone that indeed the capital gains tax basis of property in a generation-skipping trust is stepped up upon the death of the person who was "skipped."

Let me tell you how this all came about. In 1995, I purchased the only building in downtown Humboldt still standing that had ever been a hotel. In an effort to re-vitalize the downtown, I restored the hotel to its turn-of-the-century splendor, borrowing money from a bank and pledging farms I had inherited from my grandfather's generation-skipping trust as collateral.

A few years later, though I was not in arrears, the bank called my loan. The hotel had not been a success, unfortunately. I had had the hotel on the market, but there was little interest from prospective buyers.

So I had to sell farms to satisfy my note at the bank. As I used the value of the farms in 1931 as the capital-gains tax basis, I had a Kansas tax liability of about \$27,842 including penalty.

The following year, 2005, the hotel sold at a loss large enough that on my federal return, I was able to carry the loss back to the previous year which offset the gains on the farms and allowed for a full refund of the federal capital-gains tax paid.

I could not do this on my Kansas return, as it was not allowed. The legislature some years before had repealed the provision of Kansas law allowing tax losses to be carried backward. Instead, it allowed the loss to be carried forward ten years. If the loss were not offset by taxes owed during the ten-year period, a refund would be issued.

I was waiting for the ten years to pass so I could get a refund, But then the 2012 tax bill repealed the provision that provided for a ten-years-later refund.

If my hotel had sold in 2004 instead of 2006, this would never had become a tax problem for me, as the loss from the hotel would have more than offset the gain on the land, even using 1931 values.

An often overlooked rational for the stepping up of tax bases on a death is that it gives some relief from being taxed on inflation. \$ 27, 842 was nothing more than a tax on inflation. It was the same land as 100 years ago with no improvements whatsoever.

Also, I repeat that if I had used the value of the farms at the time of my mother's death, there would have been no taxes due.

I hope you will please pass SB 236 which will resolve this problem. Thank you.



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With help, Humboldt's downtown revitalized

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HUMBOLDT - An ongoing project to renovate and restore commercial buildings surrounding Humboldt's downtown square has completely changed the morale of the community, organizers say.

"We are now a flourishing town," said Paul Finney, chairman of the Humboldt Downtown Action Team.

Downtown had been a problem that lowered overall morale, he said. Now the revitalization effort that began in 2010 has attracted attention on national television news.

Last week, volunteers with Humanity House of Iowa installed Christmas decorations in the town square. Local manufacturer B & W Trailer Hitches engineered the snowman in the display.

Finney, a downtown acupuncturist, was involved in restoration of the Bailey Hotel in 1997. In 2010, the Action Team organized and began a four-year fundraising effort.

Finney said they raised \$83,000 through support of Humboldt High School graduates. "We had lots of envelope-licking parties," he said.

So far, residents have restored 13 to 14 buildings around the square and two blocks of Bridge Street to the west. The Action Team is in the middle of a five-year project to install retro-style acorn street lights.

Humboldt businessman Joe Works, owner of B & W, is one of the downtown property owners involved, with two of four buildings he purchased in 2015 currently under renovation. His involvement in the project was the focus of a segment on the Nov. 16 NBC "Nightly News." The segment is viewable online at <https://www.nbcnews.com/video/meet-the-man-behind-this-kansas-town-s-revival-1097734211765>

Finney said plans call for a turn-key

restaurant, ready to open for an operator.

Works was also involved in renovating a building that was damaged in a 2016 storm. It has now opened as the Humboldt location of Opie's restaurant.

Monarch Cement is also involved in the project. Finney said it is unusual to have two local industries with owners whose hearts are very much into the project.

"It's an improbable scenario," he said. "We're most fortunate."

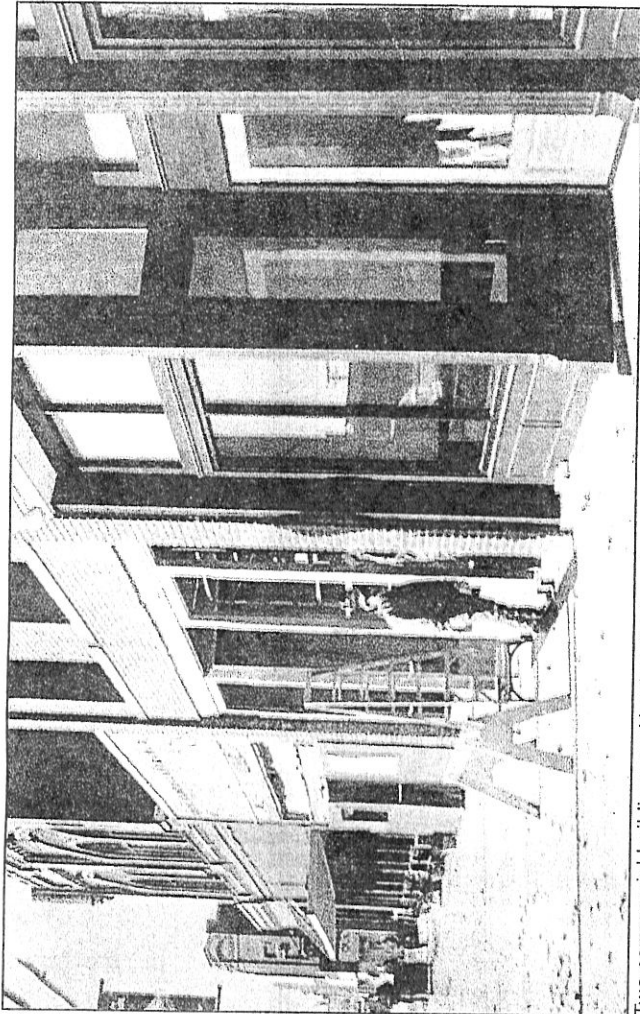
The Humboldt Historic Preservation Alliance, founded in 1993, restored the Oddfellow's Hall built in 1886.

Finney also credited Wayne Smith, who restored the 1905 Fussman Building, and Mike Hofer, who restored office buildings at 109 and 111 Main Street. Delores "Dodie" Wulif Copley restored three buildings on the east side of the square, where a bicycle stand by Thrive Allen County provides loaner bikes.

Josh Works, who operates a framing business downtown, opened the Frost Bite Shaved Ice business during the summer and said he now plans a cafe for the colder months.

The Action Team also spent \$13,000 to restore the bandstand in the center of the town square in 2014. Employees of B & W and Monarch rewired lighting and installed new ceilings in the two-story, covered bandstand built in 1907. Finney said the restoration is possible because the late state representative Ed Bideau, Chanute, and state senator Caryn Tyson, Parker, helped repeal a rule that set restrictions on renovation within 500 feet of structures, like the bandstand, listed on the National Register of Historic Places.

In April 2015, Monarch and B & W agreed to install streetlights at a rate of one block each per year. The city provided \$25,000 and the two companies provided \$35,000 for the 60 lamp posts. The project has three years to go. Other than that, Finney said the action team has made no solid decisions on future plans.



Two commercial buildings on Humboldt's downtown square are being renovated in a project that has improved more than 13 structures and gained national attention. The two, owned by B & W's Joe Works, are among four adjacent buildings set for renovation. Below left is the newly-opened Opie's.

