

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 1:40 p.m. on May 1, 2001, in Room 519-S of the Capitol.

All members were present except: Senator Haley – Excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: None

Others attending: See attached list.

Chairman Corbin announced that the meeting was called to consider the following two subjects discussed at the April 25 committee meeting: (1) the acceleration of the collection of a one cent motor fuels tax increase and (2) the reduction of the amount of credit against the premium taxes allowed. He noted that, as shown on a handout distributed by Chris Courtwright, Legislative Research Department, acceleration in the collection of the fuel tax increase would result in the collection of a total of \$36.1 million in a five year period. The insurance premium tax proposal would add \$45 million to the State General Fund in a five year period. (Attachment 1) He explained that the contents of **HB 2006** was amended into **SB 332** in a conference committee; therefore, the motor fuels tax could be placed in **Substitute for HB 2006**. With regard to the premium tax proposal, Chairman Corbin explained that **HB 2065**, which dealt with a sales tax exemption for grain storage, was no longer an issue which could be considered this session due to the current shortage of state funds; therefore, the premium tax language could be amended into the shell of that bill.

Chairman Corbin opened the discussion on the fuel tax issue. With regard to the statistics on the handout, Mr. Courtwright explained that the collection of the increased fuel taxes is shown to be greatly reduced after the years 2002 and 2003 because, under current law, the money will already be there in 2004.

Senator Praeger questioned the timeliness of voting on the proposals. She commented that she was not comfortable with voting on either of the proposals before knowing what the final proposed budget looks like. Senator Lee commented that she views the accelerated collection of sales tax on motor fuels as inappropriate given the recent increases in the price of motor fuels.

Chairman Corbin explained that the increased revenue resulting from the premium tax proposal would be directly applied to funding education and would be over and above what is appropriated in the budget for education. He called upon Mr. Courtwright to explain the technicalities of the proposal. In addition, Bill Wolff, Legislative Research Department, explained the proposed premium tax formula. He said the credit against the premium tax would be reduced from the current 30 percent to 15 percent, and there would be a 1 percent cap on affiliates and 1.125 percent cap on nonaffiliates. He noted that he had corrected errors in the statistics on premium taxes submitted at the April 25 meeting.

Mr. Wolff noted that, in 1997, the Legislature put in place the premium tax credits which insurance companies and affiliates could claim, especially companies that had employees in Kansas. In part, this was a reconciliation attempt to bring the overall tax structure on domestic companies into line with foreign companies. After having moved the tax on domestic companies from one percent to two percent, which was already the level for foreign companies, the Legislature was interested in finding a way to offset what was going to be a substantial increase on domestic insurance companies. Therefore, the Legislature put in place a number of credits that all companies could claim against their premium tax. At that time, the fiscal impact

to the state was estimated to be approximately \$8 million per year. That estimate was based on a guess as to how many employees insurance companies had in the state. As a result of the uncertain data, the fiscal note to date has more than doubled what was anticipated by the Legislature. In addition to that, there was a ratcheting up of both the percentage and the cap that companies could claim for the tax years after 1999. Because of the impact of the law, a Legislative Post Audit study was requested. As a result of the audit, a data base was created showing the effect on all companies claiming the credits. The various formulas subsequently circulated have come from those audited 1999 numbers. The particular formula being considered by the Committee (15 percent, 1 percent, and 1.125 percent) also is based on the 1999 audited data.

Chairman Corbin emphasized that the two proposed bills under consideration were important issues in the on going budget process and asked for a motion on the accelerated motor fuel tax proposal. In response, Senator Praeger reiterated that she was not comfortable with moving forward with either of the bills before knowing what the final budget proposal is, and she would not want to enable the passage of a budget with which she does not agree. Senator Jenkins stated that she, too, was not ready to vote on the issues; however, she felt the Committee must do its part to move the process forward by moving the two bills out of Committee to “keep the ball rolling.” She commented that the issues could be discussed further on the Senate floor.

Senator Jenkins moved to introduce the proposed accelerated motor fuel tax through **Substitute for HB 2006**, seconded by Senator Taddiken. After a voice vote, Chairman Corbin called for a division. On a show of hands, the motion failed on a tie vote.

Senator Corbin moved to introduce the premium tax credit proposal by amending it into the shell of **HB 2065**, seconded by Senator Jenkins. On a show of hands, the motion failed.

The minutes of the April 30 meeting and the meeting at the rail on May 1 were approved.

The meeting was adjourned at 2:15 p.m.