

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on March 14, 2006 in Room 519-S of the Capitol.

All members were present except:

Representative Steve Brunk- excused
Representative Lana Gordon- excused

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Proponents:

Ron Thornburg, Secretary of State
Martin Dickinson, Kansas Citizen
Marlee Carpenter, Kansas Chamber of Commerce
Brad Harrelson, Kansas Farm Bureau
Brent Haden, Kansas Livestock Association
Leslie Kaufman, Kansas Cooperative Council

Opponent:

Secretary Joan Wagnon, Kansas Department of Revenue
Steve Stotts, Kansas Department of Revenue

Others attending:

See attached list.

The minutes from the February 2, 7, 9, 13, 14, 15, 17 and 21, 2006 Taxation Committee Meetings were approved by consensus of the Committee.

Representative Peck, on behalf of Representative Schwab, made a motion to introduce a resolution to the Congressional delegation regarding making the Bush tax cut permanent.

HB 2948 - Elimination annual report fee and modifications to annual report requirements

The Chairman invited Secretary Thornburg to brief the Committee on the bill.

Secretary Thornburg said the bill could simply be described as a business simplification act and would eliminate double taxation of Kansas businesses. The bill eliminates the annual report fee, which is paid by business entities at the time of filing the annual report with the Secretary of State. The bill also contains some cleanup provisions (Attachment 1).

Secretary Thornburg also requested that the Committee amend Section 26 of the bill to move its effective date to January 1, 2007, to facilitate a timely transition for business entities. **HB 2948** creates a favorable climate in Kansas by saving businesses \$4.6 million a year and simplifying annual reports and reinstatements.

Discussion followed regarding the fairness of passing one tax bill over another.

There being no opponents to the bill, the Chairman closed the public hearing on **HB 2948**.

SB 365 - Enacting the Kansas estate tax act.

Chris Courtwright said that **SB 365**, as amended, would create a stand-alone Kansas estate tax no longer tied directly to federal law, effective for the estates of decedents dying on and after January 1, 2007. A set of brackets designed to be revenue-neutral relative to current law would be provided for tax years 2007-2009, with estates valued at \$1 million and below exempt from the tax. For tax year 2008, rates would range from 1 to 7 percent. For tax year 2009, rates would

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range from 0.5 to 3 percent. The tax would sunset, effective for the estates of decedents who die on and after January 1, 2010.

The Chairman opened the public hearing on **SB 365**.

The Chairman welcomed Mr. Dickinson to the Taxation Committee and commended him on his article "The Kansas Estate Tax Problem," which appeared in the November-December 2005 Journal of the Kansas Bar Association.

Martin Dickinson, testifying as a private citizen, said that the existing Kansas Estate Tax has significant problems, and the defects will become severe in 2007. He explained five areas that raised concerns. He reviewed ten points of the new **SB 365** that warrant consideration. He concluded by saying "I do not mean to express any opinion as to whether Kansas should have an estate tax or, if so, what the tax rates should be. But if Kansas does continue to impose an estate tax, it should be fair and workable. That is the purpose of replacing the current law with **SB 365**." (Attachment 2).

The Chairman asked Mr. Dickinson if he had any other suggestions or amendments for **SB 365**. He replied that any suggestions he had would be sent to the Chairman as soon as possible.

Following his testimony, Committee members asked questions regarding the status of the Federal Estate Tax, linkage to the Federal program and ramifications for Kansas' State Estate laws.

Marlee Carpenter, Kansas Chamber of Commerce, said that Kansas is at a competitive disadvantage because of the current Kansas estate tax. The federal government has made significant strides in alleviating the burden of this tax, however, Kansas law does not comply with the federal law. To encourage business growth by allowing businesses to be passed down to future generations, without the burden of estate taxes, she urged passage of **SB 365** (Attachment 3).

Brad Harrelson, Kansas Farm Bureau, said that Farm Bureau policy, on both the state and national levels, has long opposed any form of "death tax" and permanent repeal is a top priority. Aside from the issue of fundamental fairness, there are a host of economic and tax policy reasons why the Legislature should act now to permanently repeal the Kansas estate tax (Attachment 4).

Brent Haden, Kansas Livestock Association (KLA) testified that KLA has repeatedly supported the repeal of estate and inheritance taxes in Kansas. He explained three reasons the estate tax should be repealed: 1) The tax disrupts businesses; 2) The estate tax reduces incentives to save and invest; 3) The estate tax is complicated, and difficult to administer (Attachment 5).

Leslie Kaufman, Kansas Cooperative Council, provided written testimony, in support of **SB 365** (Attachment 6).

Secretary Joan Wagon, Kansas Department of Revenue, testified as an opponent to the bill. She said that two years ago, **SB 148** was a stand-alone estate tax proposal that DOR strongly supported. Unfortunately, it did not move forward.

She expressed concern over the current estate tax, which is tied to the April 1997 version of the internal revenue proposal. She said that it is difficult for estate planning and for practitioners and that DOR was pleased to see **SB 148** introduced.

She invited Steve Stotts, Director of Taxation, Kansas Department of Revenue, to review data on who's paying the estate tax (Attachment 7).

Three charts were distributed that reflected data on: 1) Taxable Estate Brackets; 2) Number of Returns, Taxable Estate; 3) Estate Tax on that amount; and Effective rate, for Calendar year 2004. The same data was used to project the comparative numbers for 2007, 2008, 2009. Discussion continued regarding the rationale of the estate tax, and the fiscal impact of the changes.

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The Chairman closed the hearing on **SB 365**.

The meeting was adjourned at 10:30 A.M. The next meeting is March 15, 2006.