

MINUTES

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

September 16-17, 2010
Room 548-S—Statehouse

Members Present

Representative Richard Carlson, Chairperson
Senator Les Donovan, Vice-chairperson
Senator Terrie Huntington
Senator Dick Kelsey
Senator Janis Lee (Thursday only)
Senator Bob Marshall
Representative Lisa Benlon
Representative Stan Frownfelter (Thursday only)
Representative Jeff King
Representative Marvin Kleeb
Representative Julie Menghini
Representative Don Schroeder
Representative Sharon Schwartz

Staff Present

Chris Courtwright, Kansas Legislative Research Department
Reed Holwegner, Kansas Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Marla Morris, Committee Assistant

Conferees

Representative Arlen Siegfried
Willis Heck, Chairman, Kansas Advisory Council on Intergovernmental Relations
(KACIR)
Joan Wagon, Secretary, Kansas Department of Revenue
Steve Stotts, Kansas Department of Revenue
Senator Dick Kelsey
Randall Allen, Kansas Association of Counties
Daniel Murray, National Federation of Independent Business
John Stephenson, National Taxpayers' Union
Rodney Steven, Genesis Health Clubs
Greg Ferris, Kansas Association of Health and Fitness Clubs

Mark Tallman, Kansas Association of School Boards
Don Moler, League of Kansas Municipalities
Dr. Art Hall, Center for Applied Economics, University of Kansas School of Business
Dave Trabert, Kansas Policy Institute
Joseph R. Crosby, Policy Council on State Taxation
Jonathan Williams, American Legislative Exchange Council
Denise Walsh, Hill's Pet Nutrition, Inc.
Earl Long, Fair Tax KC
Kent Eckles, Kansas Chamber of Commerce

Others Attending

See attached list.

Thursday, September 16 Morning Session

The meeting was called to order by Chairperson Carlson at 10:18 a.m. in Room 548-S, Statehouse.

Chairperson Carlson introduced Senator Les Donovan, Vice-chairperson, and Ranking Minority Member, Representative Julie Menghini. Chairperson Carlson briefed the group on the intended structure of the three-days of Committee meetings.

Chairperson Carlson explained the Legislative Coordinating Council's (LLC's) charge to the Committee to:

- Review the Kansas tax structure and ways it can be improved and simplified;
- Study the overall tax structure and policy of the state and local units of government by reviewing the relationship of the various taxes imposed to each other and to the economy;
- Review ways to identify a fair, simple, and effective tax structure that operates in the best interests of all Kansas citizens;
- Study ways to decrease tax rates by broadening the tax bases, as well as studying the potential effects of a fair and flat consumption tax and a flat and simplified income tax; and
- Review what current taxes could be eliminated if such new tax were to be imposed.

The Chairperson requested all interested parties prepare suggestions for simplifying and improving the state and local tax structure; and for encouraging additional capital investment in the private sector and economic development through significant income or property tax reform, or both.

Vice-chairperson Donovan stated he looked forward to the opportunity to hear the various proposals offering fair tax reforms and suggestions on improving Kansas and ways to bring more jobs to the state. Representative Menghini expressed her interest in listening to the information offered and working to implement methods to create a more broad-based tax system.

Chris Courtwright, Kansas Legislative Research Department (KLRD), presented an overview of the charge presented to the Committee (Attachment 1). He discussed and provided the following documents for consideration by the Committee:

- Legislative Adjustments to Consensus Estimates for FY 2010 and FY 2011 (Attachment 2);
- State General Fund Receipts FY 2010 (Attachment 3);
- Draft State General Fund (SGF) Receipts, July-August FY 2011 (Attachment 4);
- Various tables representing Kansas State and Local Taxes for FY 2008-FY 2010 (Attachment 5);
- Residential Exemption Summary from the Division of Property Valuation presenting data in response to a request from a Committee member concerning a 20 mill levy (Attachment 6);
- Conclusions and Recommendations from 2006 Special Committee on Assessment and Taxation State and Local Tax Policy (Attachment 7); and
- Pages 2-33 from the 2006 Special Committee on Assessment and Taxation State and Local Tax Policy Conclusions and Recommendations—recommended questions to be asked and answered by all parties seeking sales tax exemption legislation (Attachment 8).

Reed Holwegner, KLRD, briefed the Committee on the potential agenda items for the November 12, 2010, meeting of the Special Committee on Assessment and Taxation. He directed the Committee members' attention to the following documents that could be presented at the November meeting by staff from the Legislative Division of Post Audit:

- February 2010 Legislative Division of Post Audit Performance Audit Report—Kansas Tax Revenues, Part II: Reviewing Sales Tax Exemptions (available from the Kansas Division of Post Audit); and
- Highlights—February 2010 Legislative Division of Post Audit Performance Audit Report Highlights (Attachment 9).

Chairperson Carlson called a recess at 11:55 a.m.

Afternoon Session

Chairperson Carlson called the meeting to order at 1:35 p.m.

Representative Arlen Siegfroid testified in support of the Simplified State Tax Structure Committee ([Attachment 10](#)). He authored and presented the proposal which passed the House during the 2010 Legislative Session. "HB 2463 - Establishing the Simplified State Tax Structure" aimed to assemble members of the House and Senate Tax Committees to accomplish three goals:

- Review the current tax structure to recognize inefficiencies and redundancies;
- Submit recognition on how to streamline our tax structures; and
- Develop a strategy to broaden and flatten the tax base while investigating the consequences to all citizens.

Representative Siegfroid encouraged the Committee to take the initial step and support the proposal.

Willis Heck, Chairman, Kansas Advisory Council on Intergovernmental Relations (KACIR), and Mayor of Newton, Kansas, presented KACIR's recommendations to address the erosion of the tax base and the imbalance in the state's three major funding sources: property tax, sales tax, and income tax ([Attachment 11](#)). KACIR presented its *Tax-Base Policy Evaluation Guide* to the Committee members to provide them a means for accessing tax exemptions and credits. A copy of the guide is available through KACIR.

Joan Wagon, Secretary, Kansas Department of Revenue (KDOR), presented testimony supporting a review of the current tax policies ([Attachment 12](#)). She recommended eliminating all sales tax exemptions, with exception to the sales tax on lottery tickets and food stamps, which are required by law.

She provided the following documents to assist in the study of current tax policy:

- 1995 Report of the Governor's Tax Equity Task Force ([Attachment 13](#));
- Kansas Tax Credits-Tax year 2007 ([Attachment 14](#));
- List of State Sales Tax Exemptions—Listed by Group ([Attachment 15](#));
- State Sales Tax Exemption Fiscal Impact Estimate—All Funds ([Attachment 16](#));
- and
- State Sales Tax Exemption Summary—Listed by Statute Cite ([Attachment 17](#)).

Steve Stotts, KDOR, presented information on a flat tax comparison ([Attachment 18](#)).

Mr. Stotts provided the following information on broad-based sales tax, also known as a fair tax or consumption tax, for comparison and consideration:

- A copy of the State of Missouri Senate Committee Substitute Senate Joint Resolution No. 29 from the 95th General Assembly ([Attachment 19](#));
- Committee on Legislative Research Oversight Division, Fiscal Note, State of Missouri ([Attachment 20](#)); and
- Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System—Report on the President's Advisory Panel on Federal Tax Reform, November 2005 ([Attachment 21](#)).

Senator Dick Kelsey presented a comprehensive proposal, put together in coordination with Chris Courtwright, KLRD, that would make major changes in the state tax structure (Attachment 22).

The proposal included:

- Eliminating sales tax on food, but not to include food served at restaurants;
- Eliminating corporate income tax;
- Reducing individual income tax; and
- Reducing state sales tax by 1.0 percent.

Senator Kelsey asked Secretary Wagon to share her comments and stand with him for questions, as she worked closely with him on this proposal. She stated his numbers are accurate and the approach is acceptable. Senator Kelsey, Secretary Wagon, Chris Courtwright, and Steve Stotts stood for questions.

Randall Allen, Executive Director, Kansas Association of Counties, offered comments on the state and local tax structure on behalf of the 102 member counties he represents (Attachment 23).

Daniel Murray, National Federation of Independent Business (NFIB), presented testimony on behalf of small business owners throughout Kansas (Attachment 24). He urged the Committee to keep in mind the unique challenges that face small businesses when considering the Kansas tax structure.

John Stephenson, National Taxpayers Union (NTU), proposed the following three reforms for the Committee to consider (Attachment 25):

- Lower tax rates or eliminate certain taxes;
- Implement property caps; and
- Index income taxes to inflation.

His testimony provided statistics relating to where Kansas ranks on a national level.

Rodney Steven II, President, Genesis Health Club, asked the Committee to establish fairness in the tax treatment of health clubs (Attachment 26). He referred to the exempt status of the Wichita YMCA as a basis for his request.

Greg Ferris, Kansas Health and Fitness Association, representing taxpaying clubs in cities from Kansas City to Garden City, testified to the inequity in the tax exempt status of certain clubs (Attachment 27).

Chairperson Carlson adjourned the meeting at 4:50 p.m.

Friday, September 17 Morning Session

Chairperson Carlson called the meeting to order at 9:15 a.m. Representative Lukert was appointed by House Minority Leader Paul Davis, to serve on the Special Committee on Assessment and Taxation in the absence of Representative Stan Frownfelter.

Mark Tallman, Kansas Association of School Boards (KASB), presented the views of the KASB pertaining to improving the state's tax system for the benefit of all Kansans. Mr. Tallman's testimony offered recommendations and observations from the perspective of tax policy regarding public education (Attachment 28).

Don Moler, League of Kansas Municipalities (LKM), testified on behalf of the LKM member cities concerning state and local tax policy and the erosion of the sales and property tax bases (Attachment 29).

Dr. Art Hall, Executive Director, Center for Applied Economics, University of Kansas School of Business, provided an informational handout (Attachment 30) concerning "expensing," or permitting all businesses to take an immediate income tax writeoff for new investments made in Kansas. His testimony addressed his research report, *Embracing Dynamism: The Next Phase in Kansas Economic Development Policy* (Attachment 31).

Dave Trabert, President, Kansas Policy Institute, presented input for the promotion of economic growth and exploring how Kansas' tax policy can be optimized to create jobs and spur economic development (Attachment 32).

Joseph R. Crosby, Chief Operating Officer and Senior Director, Policy Council on State Taxation (COST), presented testimony on COST's view of the Kansas tax system (Attachment 33). COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional entities.

Chairperson Carlson called a recess at 11:50 a.m.

Afternoon Session

Chairperson Carlson reconvened the meeting at 1:20 p.m.

Jonathan Williams, Director, Tax and Fiscal Policy Task Force, American Legislative Exchange Council (ALEC), presented a summary of ALEC's guiding principles of tax reform (Attachment 34). He offered data presented in the book *Rich States, Poor States*, published by ALEC. (A copy of the book is available through Kansas Legislative Research Department).

Denise Walsh, Director of Corporate Taxes, Hill's Pet Nutrition, Inc., presented comments and suggestions on how to encourage additional capital investment in the private sector and economic development through tax reform (Attachment 35).

Earl Long, Fair Tax KC, presented a proposal of a simple tax system for consideration (Attachment 36). The system he recommends is called The ONE TAX Plan. Included with his written testimony is a copy of Dr. Art Hall's paper "A Comprehensive Retail Sales Tax for the State of Kansas" (Attachment 37).

Kent Eckles, Vice-president of Government Affairs, Kansas Chamber of Commerce, testified in favor of the reform of the state's tax structure to spur economic growth in Kansas (Attachment 38).

Chairperson Carlson asked the members to carefully consider the information received for the purpose of coming to a consensus and moving forward with a new tax policy.

The Committee will meet next on Friday, November 12, 2010, in Room 548-S, Statehouse. The meeting adjourned at 2:45 p.m.

Prepared by Marla Morris
Edited by Reed Holwegner

Approved by Committee on:

November 12, 2010

(Date)