

December 1998

## KANSAS TAX FACTS

### 1998 Supplement to the Sixth Edition

Kansas state and local government net tax revenue totaled \$7.332 billion in FY 1998, which equated to \$2,826 per capita and to 11.77 percent of Kansas personal income in CY 1997. Following are the tax levies or collections, combining state and local revenue, in descending order of importance.

### COMBINED STATE AND LOCAL TAX REVENUE (NET)

#### Fiscal Year 1998

Taxes	Amount (Thousands)	Percent of Total	% Increase From FY 1997
Sales and Use	\$2,056,980	28.1%	9.56%
Income and Privilege	2,049,944	28.0%	12.72%
General Property	1,970,437	26.9%	-0.35%
Motor Fuels	320,373	4.4%	6.01%
Motor and Recreational Vehicles	293,816	4.0%	-3.50%
Vehicle Registration	133,370	1.8%	-0.86%
Insurance Premiums	95,584	1.3%	6.67%
Inheritance	88,651	1.2%	16.60%
Severance	67,266	0.9%	-17.38%
Liquor and Beer	65,663	0.9%	4.57%
Cigarette and Tobacco	55,364	0.8%	-1.20%
Unemployment Comp.	43,229	0.6%	10.20%
Mortgage Registration	25,750	0.4%	12.35%
Motor Carrier Property	15,998	0.2%	2.01%
Corporation Franchise	15,351	0.2%	7.40%
Transient Guest	14,352	0.2%	11.84%
Intangibles	4,909	0.1%	5.15%
Parimutuel	4,032	0.1%	-1.41%
Wheat	3,294	0.0%	70.77%
All Other	8,026	0.1%	-2.70%
Total	\$7,332,390	100.0%	6.20%

- a) Includes state, county, and city sales and use taxes.
- b) Total tax levied in CY 1997 less state's share plus actual state receipts in FY 1998.

- c) Total revenue from ten taxes, the largest single amount included in that total being \$2.248 million from the motor vehicle rental excise tax.

This Supplement contains the same numbered tables that appear in the Sixth Edition of *Tax Facts* published in November 1993, except Table VII is on the preceding page and shows the data for FY 1998 and Table XI, at the end of this Supplement, has been added. Also included is a summary of the tax legislation enacted in 1994 through 1998.

The reader is reminded that local tax revenue does not include receipts from city franchise taxes and a couple of relatively minor local taxes, for which there is no annual central reporting or compilation of the total of such taxes.

### **Some Highlights of This Supplement**

- State and local tax revenue in FY 1998 increased by 6.2 percent from FY 1997. Local tax revenue rose by only 0.8 percent, including an increase of 9.0 percent in local sales and use taxes, and decreases of 3.6 percent in motor vehicle taxes and 0.5 percent in general property taxes. State tax revenue was up 9.7 percent.
- State taxes accounted for 62.8 percent of total state and local tax revenue in FY 1998. That year, 86.0 percent of state tax receipts was credited to the State General Fund and 14.0 percent went to other funds.
- Local governments, however, spend most of the state and local tax revenue. In FY 1998, identifiable local government tax revenue was \$2.727 billion and local units received another \$2.284 billion from state taxes allocated to or shared with them. Thus, local units received \$5.011 billion, or 68.3 percent, of total state and local taxes. About 49.6 percent of the state's tax revenue was shared with or allocated to local units, mostly for education.
- General property tax levies accounted for 26.9 percent of state and local tax revenue in FY 1998 (the ratio would be 31.1 by including the motor and recreational vehicle taxes and the motor carrier tax which are levied in lieu of the general property tax). For the first time, the property tax was exceeded by sales and compensating use taxes at 28.1 percent and income and privilege taxes at 29.0 percent. No other tax source produced as much as 5 percent of the total.
- The spread of local sales taxes has contributed significantly to the growth of both sales tax revenue and total tax revenue over the last quarter century. There were no local sales taxes in 1970. As of October 1, 1998, they were imposed by 71 counties and 157 cities at rates ranging from 0.25 percent to 2.0 percent. The highest combined local rate was 3.0 percent. The Department of Revenue collected \$437.7 million for the counties and cities which had sales taxes in effect in FY 1998.

## Summary of 1994 Legislation

### Property Taxes

House Sub. S.B. 157 reduced the property tax assessment level from 30 percent to 12 percent starting in tax year 1994 on taxable real property owned and operated by nonprofit groups or organizations chartered pursuant to subsections 501(c)(3), 501(c)(4), 501(c)(8), and 501(c)(10) of the Internal Revenue Code; taxable real property owned and operated by 501(c)(2) organizations if such property is leased to a 501(c)(8) organization; and certain land owned by 501(c)(7) organizations if such land is actually and regularly used for recreational purposes.

S.B. 459 permitted Wyandotte County to institute and administer, prior to July 1, 1995, a one-time property tax accumulated interest amnesty program. The bill also authorized the county treasurer of any county to accept partial payment of delinquent real property tax, in accordance with payment guidelines established by the county treasurer.

S.B. 462 amended the School District Finance and Quality Performance Act to reenact the mandatory 35-mill uniform school district general fund property tax levy for the 1994-95 and 1995-96 school years. The bill responded to a court decision which construed this levy to be a state property tax which could be imposed for only two years at a time. (See the following Summary of 1996 Legislation, Property Tax.)

S.B. 542 removed the requirement that a physical inspection be performed when a property's value is increased, in favor of a requirement that the record of the latest physical inspection be reviewed, and that documentation exist to support the increase in valuation. Payments of taxes under protest on the basis of valuation or assessment were prohibited in cases where the valuation had been appealed in the spring, unless the property had been sold or a change in value had been rescinded by the Director of Property Valuation (PVD). The Director was granted authority to review changes made by appraisers or hearing officers or panels subsequent to appeals or protests, and to rescind the changes. The Kansas Real Estate Ratio Study Act was amended to define the terms "valid sale," "invalid sale," and "unvalidated sale." The Director was allowed to select random sales samples from the residential subclass and use the samples to establish the residential ratios in certain counties. The filing date for oil and gas personal property renditions was changed from March 15 to April 1. Tangible personal property discovered by appraisers after January 1, 1994 and on or before March 14, 1995 was declared not liable for any taxes prior to tax year 1992, and no penalty was to be added unless the taxpayer had fraudulently omitted or under reported the property and the fraud was proven by clear and convincing evidence.

H.B. 2555 eliminated, starting in 1995, the ability of cities and counties to grant certain property tax exemptions through the issuance of industrial revenue bonds (IRBs) for those retail firms classified under standard industrial classification codes 52 through 59. The bill also required cities and counties to conduct public hearings and conduct cost-benefit analyses prior to the granting of property tax exemptions through the issuance of IRBs. County clerks were mandated to transmit copies of exempt real and personal property appraisal rolls and all property exemption claim forms for IRBs and economic development exemptions (EDXs) to the Director of PVD. The Director was required to prepare an annual report on the amount of valuation exempted by IRBs and EDXs.

H.B. 2557 required Kansas Inc. to adopt a uniform cost-benefit model for purposes of statewide data collection and for evaluating potential industrial revenue bond and economic development property tax exemptions under consideration by cities and counties.

H.B. 2623 allowed boards of county commissioners to waive penalties and interest on personal property which was discovered in 1993 or 1994 to have been omitted from the tax rolls or which was discovered to have had its value under reported. Counties could waive the penalties and interest only when the appropriate total amount of current and back taxes due on the escaped or under reported personal property was paid in 1994. The bill also excluded penalties for the late filing of personal property renditions from consideration by county clerks when computing the final tax levy rate.

H.B. 2624 removed property used exclusively by the state or any political subdivision for right-of-way purposes from the requirements that property tax exemption applications be filed with county appraisers and that the exemptions be approved by the State Board of Tax Appeals.

H.B. 2774, as amended by H.B. 3093, provided a property tax exemption for certain property owned and leased by any municipality or political subdivision or acquired by the municipality or political subdivision pursuant to a lease-purchase agreement when that property was used to provide office space necessary for performance of medical services by persons licensed to practice medicine and surgery by the Board of Healing Arts.

H.B. 3011 provided that when real property or improvements to real property were discovered to have been omitted from the tax rolls and the property had been sold in the same year, the new owners of such property were not to be liable for back years' tax liability if the tax for the tax year in which the property was discovered to have been omitted was paid within 45 days after the issuance of an added or escaped property tax bill. The bill also prohibited persons who own real estate upon which delinquent property taxes or delinquent special assessments are due from purchasing additional real estate at delinquent tax sales.

S.B. 436 expanded an existing law to allow any county to employ attorneys or other persons to assist in the collection of unpaid personal property taxes on a contingent fee basis not to exceed 50 percent of the amount collected. Counties were prohibited, however, from employing persons on a contingent fee basis to audit personal property tax returns for the purpose of discovering undervalued property or property which has escaped taxation. The bill also amended the law dealing with real property tax sales to prohibit the sale to: any person who had a right to redeem the property subject to sale even if the amount included all unpaid amounts; any person who held an interest in the property or any mortgagee or assignee; any parent, grandparent, child, grandchild, spouse, sibling, trustee, or trust beneficiary of any person with an interest in the real estate; or any corporation, current or former stockholder, officer, director, or any person with an interest in the property.

Sub. S.B. 732 authorized any municipality covered by the cash basis law to designate areas within its boundaries as neighborhood revitalization areas and to provide rebates to taxpayers in the amount of the incremental increases in property taxes resulting from improvements made to the property.

S.B. 731 added a new category of licensee for real estate appraisers — state provisionally licensed real property appraiser — and extended from two years to five years the time in which an applicant for licensure or certification has to meet requirements and pass the examination for the classification sought by the applicant.

## Income and Privilege Taxes

S.B. 230, the Kansas Community Services Program Act, authorized income tax, financial institution privilege tax, and domestic insurance company privilege tax credits for contributions by business firms to community service organizations or governmental entities which provide community services, beginning with tax year 1994. The credit granted a contributor could not exceed 50 percent of the amount contributed to a community service organization or 70 percent of the amount contributed to a rural community service organization. The contribution was not to be deductible at the state level. The credits were limited to a total of \$5.0 million per year for all business firms.

S.B. 463 extended the sunset on the income tax credit for research and development expenditures by two years, from tax year 1993 to tax year 1995. (See the following Summary of 1996 Legislation, Income and Privilege Taxes.)

H.B. 2687, as amended by H.B. 3088, expanded income and financial institution privilege tax credits for expenditures to make certain property accessible for persons with a disability, beginning in tax year 1994. The bill also authorized domestic insurance company privilege tax credits for the same purpose.

H.B. 3068 directed the Secretary of Revenue to approve and recommend judicial approval of a settlement agreement to resolve income tax refund claims of military retirees pending in the class action, *Keyton E. Barker, et al. v. State of Kansas, et al.* The bill provided that the settlement, if approved by the Shawnee County District Court, would be an aggregate amount equal to the amount of tax paid by each military retiree on retirement benefits received in tax years 1984 through 1991, plus 5 percent interest through December 31, 1991. Eligible claimants were to receive refund payments in annual installments over a three-year period. Transfers over a three-year period were to be made into the Military Retirees Income Tax Refund Fund (MRITRF) based on an amount certified by the Secretary of Revenue. The FY 1995 transfer (December 20, 1994) was to be made from the State Budget Stabilization Fund, and the FYs 1996 and 1997 transfers (July 1, 1995 and July 1, 1996) were to be made from the State General Fund. The settlement agreement, which had to be submitted to the District Court by June 15, 1994, was required to contain provisions for joint administration under the supervision of the Secretary of Revenue and counsel for the class. The settlement agreement also was required to contain a stipulation that the plaintiffs dismiss, with prejudice, their motion pursuant to 42 U.S.C. § 1988 to have attorney's fees paid by the state. An additional stipulation authorized class counsel to submit applications to District Court for reasonable litigation costs and expenses. If the settlement agreement received judicial approval, the bill stated that the payment of refunds would represent a "final and complete" settlement of all refund claims of all military retired personnel for tax years 1984 through 1991, including any appeal or administrative process perfected pursuant to law. Refunds would not be allowed on claims made after 18 months from judicial approval of the settlement agreement, provided due diligence had been exercised in attempting to locate eligible claimants. Payment of the refunds would be subject to the jurisdiction and supervisory control of the District Court. All administrative appeals were held in abeyance for as long as the judicial process remained active in regard to the settlement agreement. Upon final judicial approval of the settlement agreement, all the administrative appeals were to be deemed dismissed with prejudice to all parties. The MRITRF was to be administered by the Secretary of Revenue in accordance with the provisions of the bill. No expenditures were to be made from such fund unless: (1) the settlement agreement was approved by the District Court; and (2) eligible persons had been afforded "reasonable notice and an opportunity to be heard." Such expenditures were to be made

pursuant to vouchers approved by the Secretary of Revenue in accordance with the settlement agreement. H.B. 3068 also provided that the refunds would be allowed on claims duly made on behalf of estates of the deceased, surviving spouses, or other heirs-at-law. (See the following Summary of 1995 Legislation, Income and Privilege Taxes.)

H.B. 2929, the welfare reform bill, authorized any resident of the state to deposit up to \$2,000 (in the first year) in an individual development account (IDA) for educational purposes, with the income earned on contributions deposited in an IDA exempt from state income taxation. Account holders also were authorized to contribute \$1,000 for each dependent child in such an account. The maximum allowable amount of deposit escalates in each subsequent year based on the previous year's increase in the consumer price index.

## **Sales Taxes**

S.B. 253 exempted from the sales tax fees and charges levied for participation in sports, games, and other recreational activities by not-for-profit youth recreation organizations exclusively providing services to persons 18 years of age or younger. The bill also declared null and void assessments of sales tax liability made against not-for-profit youth recreation organizations.

S.B. 447 exempted utilities consumed in the severing of crude oil.

H.B. 2004 provided a sales tax exemption for entry fees in a special event or tournament sanctioned by a national sporting association if spectators to such events are charged admissions which are taxable under another subsection of the sales tax imposition statute.

H.B. 2622 exempted all sales of propane gas for agricultural use. The bill also authorized the City of Manhattan to levy an additional sales tax of up to 0.75 percent for the financing of economic development initiatives or public infrastructure projects. Such a tax is required to expire no later than five years from the date of imposition. Allen County was authorized to levy a 0.5 percent sales tax for the financing of a solid waste disposal area. The revenue would not have to be shared with cities, and the tax would sunset upon the payment of all costs incurred in the financing of the project. Jefferson County was granted additional rate authority of 1.0 percent for financing a courthouse, jail, law enforcement facility, or other county administrative facility.

## **Severance Tax**

House Sub. S.B. 324 enacted a phased-in expansion in the property tax credit allowed in the severance tax law on natural gas, reducing the effective rate from 7 percent to 4.33 percent. The effective rate on gas was reduced from 7 percent to 6 percent on July 1, 1994; to 5 percent on July 1, 1995; and to 4.33 percent on July 1, 1996.

S.B. 714 exempted from the severance tax for a period of ten years all production of oil or gas from a "three-year inactive well."

## Recreational Vehicle Tax

House Sub. for S.B. 191, as amended by H.B. 3090, established a new tax system starting in 1995 for recreational vehicles, which include those motorized vehicles and trailers “designed primarily as living quarters for recreational, camping, vacation, or travel use.” The bill removed such vehicles from the motor vehicle tax and personal property tax systems and imposed a new tax based on the age and weight of the vehicles. The bill contained an amnesty provision which eliminated back taxes, penalties, and interest for persons who had not paid taxes for any tax year or any registration period commencing prior to January 1, 1995.

## Economic Development Tax Incentives

S.B. 461 provided additional economic development incentives for certain service sector firms by making such firms eligible for incentives under the Tax Incentives for High Performance Firms Law (K.S.A. 74-50,131 *et seq.*), and by expanding the Kansas Certified Venture Capital Company Act (K.S.A. 74-8301 *et seq.*) to allow service sector firm investments to qualify for the credits.

H.B. 2556 required Kansas Inc. to submit an annual report to various legislative committees evaluating the cost effectiveness of various economic development tax incentives, including certain income tax credits and sales tax exemptions.

## Other Tax Measures

S.B. 479 authorized the Director of Taxation or any county treasurer to accept credit cards in payment for any taxes or fees.

S.B. 480 reduced the interest rate on delinquent state taxes from 18 percent to 12 percent, from January 1, 1995, until December 31, 1997. After that time, the rate will be the underpayment rate in effect on the previous July 1, as prescribed by Section 6621 of the federal Internal Revenue Code, plus 1 percent. The rate paid by the state on refunds of overpayment of income tax was reduced from 12 percent to 6 percent from January 1, 1995, until December 31, 1997, and thereafter the rate will be the overpayment rate which is in effect on the previous July 1 as prescribed by Section 6621 of the federal Internal Revenue Code. A new section was enacted permitting taxpayers to make a deposit with the Director of Taxation of all or any part of additional taxes, interest and penalty assessed, and the amount deposited would not be subject to any interest or penalty from the time of the deposit until the liability is finally determined.

S.B. 494 amended the Kansas Inheritance Tax Act to make several technical changes. First, the class of beneficiaries of Qualified Terminable Interest Property (QTIP) for inheritance tax purposes was to be determined by their relationship to the predeceased spouse rather than with respect to the surviving spouse. Also, a fractional QTIP election was authorized. The term “distributee” was expanded to include a QTIP trustee or any other successor in interest. The bill also allowed a trustee to divide trusts into two or more separate trusts or merge two or more trusts into a single trust without a judicial proceeding in order to cause a significant decrease in current or future federal income, gift, estate, or generation-skipping transfer tax liability.

S.B. 503 amended provisions relating to penalties for nonpayment and underpayment of, and interest on late payments of, state income and excise taxes.

The 10 percent penalty for underpayment of state income or excise taxes was applied for six months rather than 60 days. Thereafter, the penalty was to be 25 percent, as under prior law. A penalty of 10 percent was imposed on assessments following an audit, unless it was determined that a taxpayer had failed to make a reasonable attempt at compliance. Under such circumstances, a 25 percent penalty would be assessed. Penalties could be waived and the interest rate could be reduced to the federal underpayment rate for reasonable cause. On valid extensions of time to file, the penalty was to be waived if 90 percent of the tax was paid by the original due date. When a taxpayer voluntarily amended a return, penalties were to be waived unless the taxpayer had been advised at the time of filing that the return was being examined.

S.B. 545 removed the July 1, 1994 sunset of the authority to conduct instant bingo games.

H.B. 2613 changed the distribution of the marijuana and controlled substance taxes and made a number of technical changes in the law. The bill reduced the share of drug tax assessments and penalties deposited in the State General Fund from 50 percent to 25 percent and increased the share distributed to law enforcement agencies from 50 percent to 75 percent. The bill also clarified that the Department of Revenue may assess the tax immediately; codified the previous practice of not selling seized real and personal property until completion of the hearing and appeals process; and provided that the Director of Taxation would not be bound by plea agreements or judicial determinations in criminal cases with respect to the quantity of illegal drugs involved.

H.B. 2809 exempted from special fuel tax the sale or delivery of special fuel dyed according to regulations prescribed under federal law and used only for nonhighway purposes.

H.B. 2726 authorized the Kansas Development Finance Authority to create subsidiary corporations for the purpose of establishing state tax credit equity funds to assist in the development of low-income and middle-income housing and to obtain financing through participation in the low income housing tax credit program pursuant to Section 42 of the Internal Revenue Code.

H.B. 2654 changed the amount of mortgage registration tax collected by the register of deeds from \$0.26 for each \$100 and major fraction thereof to .26 percent of principal debt or obligation secured by a mortgage on real property and exempted from the payment of the mortgage registration fee any mortgage given for the sole purpose of changing the trustee.

## Summary of 1995 Legislation

### Property Taxes

H.B. 2209 extended for one year—from July 1, 1995 to July 1, 1996—the aggregate levy limit (property tax lid) imposed on the amount of dollars levied by cities, counties, townships, community colleges, and municipal universities. (See the following Summary of 1996 Legislation, Property Tax.)

The bill also required local units to publish certain information prior to the issuance of bonds when a protest petition procedure is authorized or an election has been called on the issuance question.

S.B. 165 contained a number of property tax provisions.

The bill exempts, beginning in tax year 1996, any item of machinery, equipment, materials, and supplies with a retail cost when new of \$250 or less which is actually or regularly used exclusively for business purposes. The exemption also applies to similar property used in the conduct of activities by not-for-profit entities. Owners of all property qualifying for this exemption also will be exempt from filing requirements with the State Board of Tax Appeals.

All commercial and industrial machinery and equipment not being used for the production of income is classified as "all other" tangible personal property. This classification allows such property to be assessed and taxed at 30 percent of its fair market value.

Land established as a controlled shooting area pursuant to K.S.A. 32-943 is deemed agricultural land for property taxation purposes.

K.S.A. 1994 Supp. 79-503a was amended to provide that earning capacity, as indicated by absorption or sell-out period (developer's discount methodology), be considered in the determination of fair market value for property taxation purposes.

Owners of delinquent homestead property in Johnson and Wyandotte counties who are seeking to redeem the property and prevent tax foreclosure sales are required to pay off all back taxes, special assessments, and interest at least once every three years.

Mortgage holders are allowed to bid at tax foreclosure sales.

The property tax exemption for certain property owned or being acquired by the state or political subdivisions which is used for governmental purposes or proprietary functions was expanded to include "property which is vacant or lying dormant." Additional language provided that real property leased by a political subdivision to another entity to be used exclusively for an exempt purpose will continue to qualify for the exemption.

Property tax exemption filing requirements with the State Board of Tax Appeals were eliminated for vehicles owned by the state or political subdivisions and used exclusively for governmental purposes.

H.B. 2115 reduced the penalties for oil and gas and other personal property tax renditions filed less than one year late. The bill sets penalties ranging from 5 percent of assessed valuation (for renditions filed up to one month late) to 25 percent of assessed valuation (for renditions filed from five months to one year late). Under prior law, appraisers were required to apply penalties ranging from an additional 10 percent of assessed valuation (for renditions filed less than 16 days late) to an additional 50 percent of assessed valuation (for renditions filed from 61 days to one year late). The bill also reduced from 100 percent to 50 percent the penalty for oil and gas renditions filed more than one year late.

H.B. 2113 reduced the penalty and the number of years for which back taxes are due on taxable tangible personal property which has been underreported or has not been listed and has escaped taxation. The number of prior years for which county appraisers are required to list and

appraise such property was reduced from four years to two years. The amount of penalty required to be added to such property for each year of escaped taxation or appraisal was reduced from 100 percent to 50 percent.

The time period for assessment of back taxes on real property which is discovered to have been omitted from the tax rolls was limited to the prior two years. Prior law required escaped real property to be listed and assessed for as many prior years as the property had been omitted from the tax rolls.

## **Motor Vehicle Tax**

S.B. 150 made a number of changes in the motor vehicle tax beginning in 1996: (1) The assessment rate for vehicles is reduced from 30 to 28.5 percent in 1996; to 26.5 percent in 1997; to 24.5 percent in 1998; to 22.5 percent in 1999; and to 20 percent in 2000. (2) The definition of the "county average tax rate" and the tax distribution formula were amended such that the assumed levy for school district general funds is reduced from 35 mills to 31 mills in 1996, to 24 mills in 1997, to 16 mills in 1998, to 8 mills in 1999, and is eliminated altogether starting in 2000. (3) The minimum tax levels were raised from \$6 to \$12 for motorcycles and from \$12 to \$24 for all other motor vehicles, except that all vehicles currently below the new minimum tax levels will continue to pay taxes as under prior law. All other vehicles will no longer be eligible to qualify for the minimum tax levels based solely on the age of the vehicles. (4) The depreciation rate was decelerated from 16 to 15 percent. (5) The bill also created a new misdemeanor applicable to taxpayers who with fraudulent intent fail to pay tax at the appropriate time and appropriate place. (6) The recreational vehicle tax was amended to provide that the tax on any RV with a model year of 1981 or earlier will be \$30.

## **Income and Privilege Taxes**

S.B. 301 amended the High Performance Incentive Program (HPIP) to remove the 500-employee cap and replace it with a two-tier system of average wage standards. Current qualifications were retained for firms with no more than 500 employees. Also, a taxpayer who would have been eligible to claim job expansion and investment income tax credits if the taxpayer's business facility had been within a designated enterprise zone, is authorized to claim the credits if, at the time of commencing construction of the facility, the taxpayer had a reasonable basis to believe that the city would declare the site to be part of an enterprise zone.

S.B. 354 provided that financial institutions privilege taxes imposed under K.S.A. 79-1107 or 79-1108 are not to be added to federal adjusted gross income in arriving at Kansas adjusted gross income. The effect is that financial institutions will not be required to add back their financial institutions privilege tax from the previous year in determining their income for purposes of calculating that tax. The change is effective for privilege tax year 1995.

H.B. 2234 accelerated to FY 1995 revenue transfers that, under 1994 legislation, were to be made in FYs 1996 and 1997 from the State General Fund to the Military Retirees Income Tax Refund Fund (see the preceding summary of 1994 H.B. 3068 on page 5.)

## Sales Taxes

S.B. 14 repealed the 2.5 percent sales taxes on original construction labor services and on utilities consumed in the production or manufacture

of tangible personal property. The tax on original construction labor services was repealed on April 15, 1995, and the tax on utilities consumed in production was repealed on June 1, 1995. Both taxes were implemented on June 1, 1992.

S.B. 88 made a number of changes in the sales tax statutes and one amendment to the motor fuel tax law. The bill exempted from sales tax: (1) fumigants used in the processing and storing of grains; (2) the treating of by-products or wastes derived from a production process; (3) farm machinery and equipment used in the operation of a nursery; (4) all sales of natural gas, electricity, heat, and water delivered through mains, lines, or pipes to property which is exempt from property taxation pursuant to K.S.A. 79-201b Second through Sixth; (5) sales of motor vehicles subject to taxation pursuant to K.S.A. 79-5101 *et seq.*, between "family members," defined to include lineal ascendants and descendants; and (6) sales of accessories to be attached to motor vehicles to assist disabled persons in leading a normal life.

The bill also exempted from statutory bonded indebtedness limitations certain sales tax backed general obligation bonds issued by Douglas County.

Finally, the bill narrowed the exemption for motor fuel sold or delivered to the United States and its agencies to exclude the sale or delivery of fuel to retail dealers located on Indian reservations when such fuel is sold to nontribal members.

## Local Sales Tax

S.B. 20 granted Crawford, Seward, and Cherokee counties additional local sales tax authority of up to 0.5 percent, provided the money is earmarked for financing the construction or remodeling of a courthouse, jail, law enforcement facility, or other county administrative facility. Any such taxes imposed will be required to sunset once sales tax receipts sufficient to pay all costs of financing the facilities have been collected. The receipts from such a countywide sales tax would be retained exclusively by the county and not shared with the cities. H.B. 2111 granted Ottawa County similar authority of up to 1.0 percent, and its November 8, 1994 election on the question was ratified.

S.B. 20 also gave Cowley County authority to impose such a tax and not share the revenues with its cities, but the county was not granted any additional rate authority.

Dickinson County was given new authority to impose a tax of 0.25 percent to finance the renovation of a community use building owned by the county. The tax is required to sunset after three years, and all receipts from such a tax are to be retained by the county and not shared with cities.

All receipts from the 1.0 percent Montgomery County sales tax which was approved on November 8, 1994, will be retained by the county and expended only for the purpose pledged.

Cities in Ellis and Ellsworth counties were added to a list of cities previously authorized to levy an additional tax of up to 0.75 percent for economic development initiatives or public infrastructure projects. Additional language clarified that such a tax also may be levied to fund "strategic planning" initiatives.

## **Drycleaner Environmental Response Excise Taxes**

H.B. 2256 created the Kansas Drycleaner Environmental Response Act to address contamination resulting from releases of drycleaning solvents and established the Drycleaning Facility Release Trust Fund from which moneys will be expended for the costs of administration and for costs of corrective action.

In order to finance the new fund, as of July 1, 1995, the bill imposed a 2 percent gross receipts tax on laundering and drycleaning businesses and a \$3.50 per gallon fee for the purchase or acquisition of drycleaning solvent. The fee is to increase by \$.25 each successive calendar year until the fee reaches \$5.50 per gallon.

The bill restricts the imposition of taxes and fees on or after the next July 1, if on April 1 of any year the unobligated principal balance of the fund equals or exceeds \$4.0 million and provides for the reimposition of the taxes and fees levied on July 1, if on April 1 of any year after the restriction, the principal balance of the fund equals \$2.0 million or less.

## **Motor Fuels Taxation**

H.B. 2161 granted an income tax credit to any taxpayer who makes expenditures for qualified alternative fuel motor vehicle property, including vehicles, modifications to vehicles, and property for delivery of alternative fuel such as compression equipment, storage tanks, or receptacles. The credit is 50 percent for 1996, 1997, and 1998. After January 1, 1999, the credit drops to 40 percent of the amount expended.

H.B. 2161 also revamped the motor fuel taxation law to address evasion of the motor fuel tax and made it unlawful to operate a motor vehicle with dyed special fuel in the fuel tank. "School buses" are defined, for motor fuel tax purposes, to include leased buses, thereby exempting such buses from motor fuel tax.

## **Unemployment Compensation Tax**

H.B. 2305 established a two-year moratorium on unemployment taxes from positive balance contributing employers. A delinquent employer will be able to become current in order to take advantage of the moratorium. Negative balance employers are not affected. New employers will pay at a rate of 1 percent. If the reserve fund ratio falls too low, the 1994 law will be reinstated. The bill also enacted a .50 percent reduction in Schedule III of the Employment Security Act for most employers at the end of the moratorium. (See the following Summary of 1996 Legislation, Unemployment Compensation Tax.)

## **Intangibles Taxes**

S.B. 132 repealed a special in-lieu property tax of 5 mills imposed on the intangibles of certain entities engaged in the business of lending money, buying and selling bills of exchange, notes, bonds, stocks, or other evidence of indebtedness. The bill makes the money, notes, and other evidence of debt subject to local gross earnings taxes levied by cities, counties, and townships pursuant to K.S.A. 12-1,109.

Personal property of entities which previously had been subject to the 5-mill in-lieu tax is subject to listing and ad valorem taxation for the first time.

## **Summary of 1996 Legislation**

### **Property Tax**

H.B. 2167 required school districts to continue to levy 35 mills for their general fund in tax year 1996, and to levy 33 mills in 1997. The uniform tax rate could not exceed 31 mills in 1998.

H.B. 2038. (1) The property tax lid was extended for one year, to July 1, 1997. (2) County appraisers were required to initiate the production of evidence to demonstrate, by a preponderance of the evidence, the validity and correctness of classifications and appraisals in property tax hearings on residential properties before hearing officers, hearing panels, and the State Board of Tax Appeals. (3) K.S.A. 79-201b *second* was amended to permit an adult care home operated by a not-for-profit subsidiary of a not-for-profit parent corporation to be exempt from property tax. The requirement that the home be operated at the lowest feasible cost was relaxed by allowing expenses of financing acquisition costs, leases, and services provided by a parent corporation at its cost to be taken into consideration. (4) A new fund—the City Tax Increment Financing Revenue Fund—was established for the purpose of holding existing redevelopment districts harmless relative to legislative changes in the school finance formula.

House Sub. for S.B. 541 amended a statute authorizing counties and townships to join with cities in the maintenance of a fire department to allow townships to levy property taxes in any amount in excess of the current 1 mill levy limit, subject to a protest petition and election procedure. Under prior law, townships could levy not to exceed 1 additional mill subject to a protest petition and election procedure.

Senate Sub. for H.B. 2792. The property tax levy for a consolidated fire district created under the provisions of this bill was set initially by the county commissioners and subsequently by the governing body of the district. In either case, the levy could not exceed 11 mills.

H.B. 2794 amended a cemetery district law, K.S.A. 15-1015, to permit a mill levy of not to exceed 3 mills subject to a protest petition and election procedure. Prior law limited the mill levy to not to exceed 1 mill, or, in certain counties, 2 mills, subject to a mandatory election.

## **Wyandotte County Land Bank**

H.B. 2038 authorized the Wyandotte County Commission to establish a land bank. The Bank's board of trustees was authorized to acquire, through purchase, gift, or bequest, any real or personal property, including any property belonging to the county or any city or taxing subdivision within the county. The board could accept or refuse the transfer of any property to the bank. Such transfer would not be subject to any bidding or public sale requirement.

The board was authorized, without competitive bidding, but with notification in an official county paper, to sell any property acquired by the board in any manner so as to ensure the effective reutilization of the property. For purposes of disposing of any property, the board was authorized to consolidate, assemble, or subdivide individual parcels of property acquired by the bank. Neighborhood or city advisory committees are established to advise the board concerning the operations and activities of the bank. The bank was subject to a financial audit, to be included in the bank's annual report, and any moneys derived from the sale of property by the bank could be retained by the bank for its operations.

## **Income and Privilege Taxes**

H.B. 2038. (1) Corporations were allowed to elect, beginning in tax year 1996, to have all income arising from the acquisition, management, use, or disposition of tangible or intangible property treated as "business income." (2) For the corporation income tax, a "distressed area taxpayer" was permitted an election to have its business income apportioned to Kansas on the basis of a single factor—sales—rather than the three factors of payroll, property, and sales. A "distressed area taxpayer" was defined as a corporation located in a county with a population not exceeding 45,000 and which has sustained an adverse economic impact due to the closure of a state hospital, and which corporation has a total annual payroll of \$20.0 million or more within the county. The election could be made only once, for a period of ten years, and the single-factor method pertains only so long as the taxpayer maintains the payroll qualifications. (3) The income tax credit for research and development expenditures within the state was extended for five years, until tax year 2000.

H.B. 3043 enacted new law relating to the allocation and apportionment of income for the purposes of determining Kansas privilege tax liability of those multi-state financial institutions doing business in Kansas and other states. The factors used to apportion net income among the states was property, payroll, and receipts, each computed according to the method of accounting, cash or accrual basis, used by the taxpayer.

If the allocation and apportionment provisions do not fairly represent the extent of a taxpayer's business in Kansas, the taxpayer could petition for, or the Secretary of Revenue could require, any of the following:

1. separate accounting;
2. the exclusion of any one or more of the factors;
3. the inclusion of one or more additional factors that more fairly represent business activity in Kansas; or
4. any other method deemed necessary to effectuate an equitable allocation and apportionment of income.

“Business income” was defined to mean all income to the extent that it could be treated as apportionable business income under the *U.S. Constitution*. “Nonbusiness income” was defined to mean all income which was not business income. If a combined report was utilized to determine the Kansas income attributable to a unitary group of corporations, the financial institutions determined to be in the group would include only those institutions which have a branch or office in Kansas. The definition of “financial institutions” was expanded to include federally chartered savings banks.

A tax was imposed for the privilege of ceasing to do business as a financial institution due to merger, consolidation, combination, dissolution, liquidation, or any other event. The tax was measured by the net income for the tax year in which the taxpayer ceases to do business and was calculated at the same rates as the financial institutions privilege tax.

H.B. 2878 increased the maximum individual income tax credit from \$3,000 to \$9,000 for remodeling facilities to allow access for individuals with disabilities. Also, the use of such credits was allowed for such remodeling of a principal dwelling of the taxpayer’s ancestor or offspring. (Under prior law, the credit applied only to remodeling of the taxpayer’s own principal dwelling.)

Note: Also see Economic Development, below.

## **Sales Tax**

H.B. 2038 exempted sales of materials and services used in the construction of a Korean War Memorial.

H.B. 3069 exempted from the sales tax all calendar year 1996 purchases of tangible personal property and services necessary to construct, reconstruct, repair, or replace fences damaged or destroyed by fires occurring during calendar year 1996, provided such fences were used to enclose land devoted to agricultural use. Refunds could be claimed for taxes previously paid on purchases of such property and services.

## **Economic Development Measures**

S.B. 459 renamed the State of Kansas Investments in Lifelong Learning Act (SKILL) as the Kansas Investments in Major Projects and Comprehensive Training (IMPACT) Act and modifies the program. The bill did not change the maximum amount to be credited for the program, which was an amount equal to a rate of 1 percent of money withheld from the wages of individuals and received by the Department of Revenue under the Kansas Withholding and Declaration of Estimated Tax Act. However, the bill restricted the amount of debt that could be incurred to repay obligations on bonds to finance major project investments. No more than 10 percent of the amount equal to the rate of 1 percent applied to wages withheld in the state could be used for that purpose in any given fiscal year.

House Sub. for S.B. 460 amended various definitions of the Kansas Enterprise Zone Act; changes the terms under which the job expansion and investment credit associated with the Act could be carried forward; and authorized insurance companies and financial institutions to be eligible for job and investment tax credits authorized in Kansas statute.

Taxpayers were permitted to carry forward any portion of the job expansion and investment credit for investments in qualified business facilities in metropolitan and nonmetropolitan regions, if the credit exceeds the taxpayer's income tax liability in a taxable year, until the total amount of the credit was used. This provision applied to all taxable years commencing after December 31, 1995. Under prior law, the use of tax credits was limited to 50 percent of the taxpayer's liability in any given taxable year, although credits could be carried forward until the total amount was used.

The bill allowed insurance companies and financial institutions, which pay a privilege tax, to be eligible for job expansion and investment tax credits, for all taxable years commencing after December 31, 1995. Under prior law, only taxpayers subject to the Kansas income tax were eligible for such credits. Correspondingly, the bill amended the definition of "qualified business facility income," used for the determination of the job credit, to reflect a computation methodology set forth in 1996 H.B. 3043 (summarized above), which was applied to financial institutions.

H.B. 2878 made a number of amendments to the tax increment finance law, including the following relating specifically to taxation: (1) required that increases in ad valorem taxes collected by *all* taxing subdivisions on real property located within any currently existing or subsequently created redevelopment district areas be included in the increment used to retire the bonds (under prior law, the "taxing subdivision" included only the county, the city, and the unified school district, in which the redevelopment district was located); (2) permitted the use of a portion or all of the revenue received by the city from local sales tax to secure special obligation bonds for any redevelopment project; (3) permitted the use of a portion or all of the increased revenue received by the city from retailers' sales tax and from franchise fees collected from utilities and other businesses using public right-of-way within the redevelopment district to secure the special obligation bonds for any redevelopment project; (4) permitted cities to adopt a redevelopment project in which only a specified percentage of the tax increment was pledged to the project; and (5) limited the use of general fund tax levies of school districts to redevelopment districts established prior to July 1, 1996.

H.B. 2878 also amended the Kansas Neighborhood Revitalization Act to allow the use of tax increment financing for a dilapidated structure (defined in the bill), located outside of a designated revitalization area. As a prerequisite for declaring a building to be a dilapidated structure, the governing body would have to: obtain a legal description of the property to be declared dilapidated; determine the assessed value of the property to be declared a dilapidated structure, with separate values established for the land and structure; and determine the owner of record of the structure. The distribution of the property tax rebate to eligible taxpayers was changed to require the municipality to make such payment within 30 days after the next distribution date of taxes under K.S.A. 12-1678a and amendments thereto.

H.B. 3068 reinstated income tax credit authority for investments in seed capital funds that had expired with investments made prior to January 1, 1991. Taxpayers were allowed to claim credits which in aggregate could not exceed \$2.5 million for investments in Sunflower Technology Ventures. The new credits expire January 1, 2000.

## **Unemployment Compensation Tax**

H.B. 2650 amended the employment security law by extending the moratorium on employment security taxes for an additional year, calendar year 1997. The phase-in provision was moved back to 1998. In addition, for rate years 1996 and 1997 all negative account balance

eligible employers was assigned rates and pay contributions in accordance with Schedule IIA and these rates shall apply unless the reserve fund ratio in column A of Schedule III was less than 2 percent (see K.S.A. 44-710a, as amended).

### **Insurance Premiums Tax**

S.B. 441 concerned the Kansas Uninsurable Health Insurance Plan and amended K.S.A. 40-2119 by capping the premium rate charged Plan holders at and K.S.A. 40-2121 to make assessments levied against insurers in the Plan eligible for the 80 percent offset against the insurer's premium tax liability beginning after December 31, 1995 (a year earlier than previously authorized in law).

### **Corporation Franchise Tax**

H.B. 2745 changed the penalty fee for corporations which fail to file an annual report and pay the corporation franchise tax to a \$75 flat fee. Previous law required a \$100 penalty plus a \$5 penalty for each day's failure to file. The bill also removed the discretion of the Secretary of State to waive the penalties.

## **Summary of 1997 Legislation**

### **Property Taxes**

S.B. 7 extended the sunset of the aggregate property tax lid by two years, from July 1, 1997, to July 1, 1999 and created a new exemption for levies for expenses associated with interfacing with the state criminal justice information system. A new requirement was added for ballot explanation language for tax lid charter ordinances and resolutions to be placed on local ballots.

S.B. 22 exempted any building used primarily as an industrial training center for academic or vocational education programs designed for and operated under contract with private industry, and located upon a site owned, leased, or being acquired by or for an area vocational school, an area vocational-technical school, a technical college, or a community college together with the site upon which the building is located.

S.B. 53 clarified that owners of residential property do not have to file with the State Board of Tax Appeals to obtain their \$20,000 appraised valuation exemption from the application of the school finance levy; allowed taxing subdivisions to have their bonded indebtedness limitations computed based upon their 1988 authorized indebtedness divided by their 1989 assessed valuation; allowed community colleges to exceed their bonded indebtedness limitations to the extent that general obligation bonded indebtedness already had been approved by voters prior to the effective date of the bill; provided that trucks weighing between 12,000 and 20,000 pounds would have their tax liability for tax year 1998 computed pursuant to the motor vehicle tax, but that their payment would be made pursuant to the schedule provided for other personal property in K.S.A. 79-2004a; and extended from July 1, 1996, to July 1, 1997, the cut-off date for the

establishment of redevelopment districts by cities which could require the participation of school districts in tax increment finance projects.

S.B. 162 amended the property tax exemption for farm machinery and equipment, to remove the requirement that the use of the machinery or equipment in any farming or ranching operation be exclusive, and to include the operation of a feedlot in the definition of farming or ranching operation.

The bill also clarified that when real property is owned by a religious organization, is to be used exclusively for religious purposes, and is not used for a nonexempt purpose prior to its exclusive use for religious purposes, such property shall be deemed to be actually and regularly used exclusively for religious purposes. If such property were sold prior to its use for religious purposes, and the sale resulted in its use for a nonreligious purpose, all taxes from which the property was exempted would be recouped. Also, a parsonage was permitted to be used predominantly, instead of exclusively, as a residence by a minister or clergyman.

H.B. 2105, as amended by S.B. 53, changed the interest rate for delinquent property taxes from 12 percent to the rate prescribed by K.S.A. 79-2968 plus 2 percent. Property tax refund interest was allowed under certain circumstances at the rate prescribed by K.S.A. 79-2968 minus 2 percent. Refund interest will be paid solely from the county general fund; other taxing subdivisions will not be affected. Interest will not be payable in cases where the tax paid under protest included delinquent taxes. Moreover, if the State Board of Tax Appeals or a court finds that any unreasonable time delay has been attributable to the actions of the taxpayer, all or part of any interest entitlement may be waived.

Beginning in tax year 1998, property tax information forms mailed to each taxpayer were required to contain:

- the assessed valuation of real property for the current and preceding taxable year;
- the mill levies for each taxing unit for the current and preceding taxable year; and
- the percentage change in revenue produced from each taxing unit's mill levy change from one year to the next.

For agricultural land, the information forms were required to indicate the acreage and description of each parcel. The forms were required to indicate separately each parcel of real estate which was separately classified for property tax purposes.

When the appraised valuation of any owner-occupied single family residence increased by 75 percent or more from one year to the next, a portion of the tax attributable to the increase was to be refunded to the taxpayer for each of three tax years, provided the increase was not due to the property's being improved.

Improvements owned by entities other than a city on city-owned land could be assessed to the owners of such improvements, and the taxes could be collected by levy and sale of the interests of such owners the same as in cases of personal property tax collection.

Counties with populations up to 25,000 were authorized to employ part-time county appraisers. (Prior law authorized this option for counties with a population of up to 20,000.)

A person could qualify as a county appraiser in two new ways: (1) by becoming a Registered Mass Appraiser under rules and regulations adopted by the Secretary of Revenue; and (2) by holding a valid Residential Evaluation Specialist or Certified Assessment Evaluation designation from the International Association of Assessing Officers. Persons serving as county appraisers on July 1, 1997 were made eligible for reappointment or original appointment in another county until July 1, 1999, as were persons with at least three years of mass appraisal experience and certified by the PVD Director as an eligible Kansas appraiser. Such persons are eligible for reappointment to a full term if they meet the qualification requirements outlined by K.S.A. 19-430.

An initial request for exemption was made effective upon commencement of construction—provided such construction was commenced within 24 months prior to the first exempt use of the property. This provision was retroactive to tax year 1996.

All works, machinery, and fixtures used exclusively by certain entities performing the functions of rural water districts were exempted from property tax.

Real property owned or being acquired pursuant to a lease-purchase agreement by municipalities or political subdivisions was permitted to retain its property tax exemption if it provides office space for optometrists, dentists, or podiatrists.

The portion of the fair market value of real property attributable to the leasing of real property for the purpose of placing a wireless communications tower, antenna, or relay site upon the property was entered on the assessment roll and taxed separately to the owner of such equipment. This provision also stipulate that real property upon which such equipment was located would continue to be exempt from property taxation if it had been exempt previously.

It was clarified that PVD has the authority to publish guides relative to the valuation of personal property.

Counties were authorized to send alternative valuation notices approved by the PVD Director in any year in which the valuation of real property has not changed from the prior year.

A county commission was authorized to request by majority vote (rather than unanimous vote) the State Board of Tax Appeals to order refunds of incorrect property taxes over three years old attributable to clerical errors.

A provision of prior law stating that a variance of 10 percent in any individual appraisal shall not be considered “willful neglect” by a county appraiser was removed.

The deadline for appeals of property tax valuation was changed from April 15 to “within 30 days subsequent to the date of mailing of the valuation notice” by the county.

The language and assessment rates relating to classes of property was conformed to language in the *Kansas Constitution*.

H.B. 2031, as amended by S.B. 41, reduced the uniform school district general fund property tax levy from 33 to 27 mills for the 1997-98 school year and set it at 27 mills for the 1998-

99 school year. For tax years 1997 and 1998, \$20,000 of the appraised valuation of property used as a residence was removed from the application of the uniform school district general fund property tax levy. The homestead property tax relief program was expanded by increasing individual refund amounts and the total household income eligibility ceiling (from \$17,200 to \$25,000). The program was enhanced further for renters by increasing from 15.0 to 20.0 percent the amount of rent assumed equivalent to property taxes paid.

## **Income Tax**

H.B. 2031, as amended by S.B. 41, equalized the individual income tax rates for "all other" filers over a four-year period to the rates imposed on married individuals filing jointly. The bill also provided a nonrefundable state income tax credit for adoption expenses. The credit will be 25.0 percent of the credit allowable pursuant to section 23 of the federal Internal Revenue Code (alternative credits of \$1,500 were provided for adoptions of children with special needs or who are in the custody of SRS).

H.B. 2105, as amended by S.B. 53, made several changes in the income tax law. The penalty for underpayment of estimated income tax was removed when: (1) no return was required to be filed for the prior year; or (2) the liability for the prior year was less than \$200 for an individual or \$500 for a corporation.

"State" in the income tax act was given the meaning ascribed to the term by subsection (h) of K.S.A. 79-3271 and would include foreign countries. However, under no circumstances could the credit claimed under that statute exceed the difference between the tax paid to the foreign country less the federal credit.

The use of federal waivers for state income tax assessment purposes was restricted so that only those issues considered by the Internal Revenue Service could be assessed by the Department under the federal waivers.

## **Sales Tax**

S.B. 184 provided a sales tax exemption for the sale of accessories attached to motor vehicles which function as prosthetic or orthopedic appliances as defined in K.S.A. 1996 Supp. 79-3606(r). (Prior law exempted the sale of such accessories attached to motor vehicles; this provision expands the exemption to allow the value of the accessories to be deducted from the sales price when the vehicle subsequently is sold.)

All purchases by or on behalf of any rural volunteer firefighting organization for use exclusively in the performance of its duties and functions were exempted.

Also exempted were all purchases and all sales by or on behalf of the following 501(c)(3) organizations: the American Heart Association, Kansas Affiliate, Inc; the Kansas Alliance for the Mentally Ill; the Kansas Mental Illness Awareness Council; the American Diabetes Association-Kansas Affiliate, Inc; the American Lung Association of Kansas, Inc; and the Kansas chapter of the Alzheimer's Disease and Related Disorders Association, Inc. All purchases by Habitat for Humanities for the exclusive use of being incorporated into a housing project constructed by such organization also were exempted.

“Accommodations brokers” were subjected to sales and transient guest taxes to the same extent such taxes are applicable to the rental of hotel and motel rooms.

**H.B. 2105, as amended by S.B. 53**, authorized consumers or purchasers to pursue sales tax refunds directly from the Department in cases where:

- they originally had paid the tax directly to the Department;
- the retailer refused or was unavailable to refund the tax;
- the retailer did not act upon the refund request in a timely manner; or
- in certain cases when the Department had audited the consumer or purchaser as a business and it was determined that a vendor had collected tax which was not due. In cases where the Director of Taxation found that a retailer had not acted upon a refund request in a timely manner, he also could extend the statute of limitations for the refund claim beyond three years.

A vendor would be presumed to have accepted an exemption certificate or affidavit in good faith in the absence of evidence to the contrary. A vendor would be presumed to have accepted a certificate in good faith if he had maintained a completed exemption certificate; had ascertained the identity of the person or entity presenting such document; and the Department had not shown by a preponderance of evidence that the vendor had knowledge the presentation of such certificate was improper. The Director of Taxation was required to prescribe the form for exemption certificates. Vendors considering honoring a resale exemption claim could require purchasers to provide copies of their sales tax registration certificates along with the resale certificates. Purchasers seeking to lawfully present resale exemption certificates would have to be engaged in the business of selling property or services of the same kind being purchased, hold a registration certificate, and either have the intent of reselling the property in the regular course of business or be unable to determine whether the property was resold or used for some other purpose. Issuing resale or other exemption certificates to unlawfully avoid payment of tax was made a misdemeanor and subject to increased penalties levied by the Director. Exemption certificates for nonprofit entities were required to contain the name and address of the entity, cite the statutory subsection of K.S.A. 79-3606 under which the exemption was being claimed, and be signed by an officer of the entity. Any person refusing to pay a retailer tax that was lawfully due was guilty of a misdemeanor and subject to penalties prescribed in K.S.A. 1996 Supp. 79-3615 (g).

Political subdivisions (and certain hospitals, schools, educational institutions, and the federal government) were allowed to obtain “agent status” and issue sales tax exemption certificates to their contractors.

The Secretary of Revenue was required to promulgate rules and directives to provide taxpayers the rights to: (1) a copy of all work papers compiled as a result of sales or use tax audits; (2) a personal or telephone exit interview after completion of audit field work and audit desk work; and (3) request that the Department consider taxpayers’ convenience with respect to normal hours of operation and exhaustion of administrative personnel resources.

The filing deadline date for the food sales tax refund program was moved from October 15 to April 15, beginning in 1998, to conform with a similar change made in the filing date for the homestead program in H.B. 2031.

## **Local Sales Taxes**

S.B. 184 defined all cities located in Cowley and Labette Counties as Class D cities, which authorized those cities to impose an additional local retailer's sales tax at an additional rate of .25, .50, or .75 percent for up to five years, for economic development or strategic planning initiatives, or for public infrastructure projects including buildings. Imposition of any such additional tax will require an election.

## **Economic Development**

S.B. 280 amended the Tax Increment Financing (TIF) law to authorize the use of transient guest, sales and use tax proceeds to retire special obligation bonds issued to finance the construction of buildings or other structures to be owned by, or to be leased to, developers. (Special obligation bonds backed by this type of revenue stream are often referred to as STAR bonds.) Also authorized was the use of proceeds of special obligation bonds (which may be backed by various revenue sources, such as property tax increments) for construction of buildings to be owned by, or to be leased to, developers. Such construction projects must occur within redevelopment districts that will include some or all of the land and buildings of Topeka State Hospital and Winfield State Hospital. (The redevelopment districts must be established as a precondition for such financing.)

S.B. 325 expanded the application of tax increment financing, and specifically the use of transient guest, sales and use tax proceeds, to retire special obligation bonds (also referred to as STAR bonds) for redevelopment projects that create a major tourism area. In making the determination that a redevelopment project will create a major tourism area, the Secretary of Commerce and Housing must conclude that: capital improvements costing not less than \$100 million will be built in the state to construct a project for such major tourism area; and the project constructed will be designated within the standard industrial classification code for auto racetrack operations. This method of tax increment financing formerly applied only to a redevelopment project determined by the Secretary of Commerce and Housing to meet the following conditions: capital improvements costing not less than \$300 million will be built; and not less than 1,500 permanent and seasonal employment positions will be created.

## **Insurance Premiums and Privilege Taxes**

Senate Sub. for H.B. 2082 related to the premium taxes paid by domestic and foreign insurance companies; taxation of annuity products; retaliatory taxes; intangible and privilege taxes; and credits against tax obligations.

- Domestic insurance companies were allowed a credit up to 90 percent of their Kansas premium tax liability for retaliatory taxes paid to other states as a result of the Kansas fee assessed and credited to the Insurance Department Service

Regulation Fund (the Fund is the repository for fees collected and from which the Department's regulatory activities are paid).

- The premium tax on annuity products sold on or after January 1, 1997 was repealed.
- The premium tax rate paid by domestic companies was equalized to the rate paid by those companies organized under the laws of another state or of a foreign country at 2 percent, beginning in tax year 1998.
- The firefighters relief tax credit was extended to foreign companies on a phased-in basis at the rate of 10 percent per year, beginning in tax year 1998.
- For taxable years commencing on and after January 1, 1998, fees, charges, and premium taxes are collected in lieu of all other fees and taxes, including income (privilege) taxes and intangible property taxes.
- The investment tax credit against premiums and privilege tax was repealed beginning with tax year 1999.
- The number of taxes, fees, and assessments subject to retaliations was reduced.
- A credit of 25 percent of salaries paid to Kansas employees was allowed as a credit against the premium tax in tax year 1998, but the credit could not reduce the tax by more than 1.0 percent of taxable premiums in that tax year. In tax year 1999 and thereafter, the credit will be 30 percent of such salaries, but the credit may not reduce the tax by more than 1.25 percent of taxable premiums.
- A tax credit for small domestic and foreign insurance companies was allowed. The new employment tax credit described above, and this new small company credit, taken together, could not reduce the tax by more than 1.0 percent of premiums taxable in tax year 1998 or 1.25 percent in subsequent years.
- The domestic insurance company privilege tax was sunsetted effective for net income earned in calendar year 1998.

## **Other Tax Measures**

H.B. 2105, as amended by S.B. 53, equalized the rate of interest for tax overpayments of sales and income taxes with the rate for delinquent or unpaid taxes pursuant to K.S.A. 79-2968—the federal underpayment rate plus 1 percent, effective for all taxable periods commencing after December 31, 1997, and required interest to be paid on all sales tax overpayments from all taxable periods subject to assessment as of January 1, 1998.

The Secretary of Revenue was required on and after January 1, 1998, to make available in a medium “accessible to all taxpayers” all administrative rulings affecting the duties and responsibilities of taxpayers, including revenue notices, revenue rulings, information guides, policy directives, private letter rulings, and Property Valuation Division (PVD) directives. The

Secretary also was required to publish a description in the *Kansas Register* within 30 days of each administrative ruling.

KTEFA amends the statute to eliminated the formal-hearing requirement before the Director of Taxation and replaced it with an "informal" conference which could be conducted by the Secretary or his designee and could review and reconsider all facts and issues that underlie the proposed liability or denial of refund. The informal reconsideration conferences will not be considered adjudicative proceedings under KAPA, will not have the rules of evidence apply, and will not require legal representation. Taxpayers could designate attorneys, certified public accountants, or any other person to represent them or provide information at the conferences. No record would be made of the conferences unless requested by and at the expense of one of the parties. The Secretary or his designee conducting the conference could confer at any time with any staff member with respect to a case under reconsideration. A final determination was required within 270 days, which would constitute final agency action subject to administrative review by SBOTA. If a final determination is not rendered within 270 days, the taxpayer then could appeal directly to SBOTA.

## **Severance Tax**

H.B. 2105, as amended by S.B. 53, permitted the Director of Taxation to determine the value of oil or gas not sold or stored when removed from the lease, based on the cash price paid to one or more producers for the oil or gas, instead of using the first sale price, and codified that severance tax appeals would go through the same appeals process as other excise taxes.

## **Unemployment Compensation Tax**

H.B. 2305 established a two-year moratorium on unemployment taxes from positive balance contributing employers. A delinquent employer was able to become current in order to take advantage of the moratorium. Negative balance employers were not affected. New employers would pay at a rate of 1 percent. If the reserve fund ratio falls too low, the 1994 law would be reinstated. The bill also enacted a .50 percent reduction in Schedule III of the Employment Security Act for most employers at the end of the moratorium. (See the preceding Summary of 1996 Legislation, Unemployment Compensation Tax.)

## **Intangibles Taxes**

S.B. 132 repealed a special in-lieu property tax of 5 mills imposed on the intangibles of certain entities engaged in the business of lending money, buying and selling bills of exchange, notes, bonds, stocks, or other evidence of indebtedness. The bill makes the money, notes, and other evidence of debt subject to local gross earnings taxes levied by cities, counties, and townships pursuant to K.S.A. 12-1,109. Personal property of entities which previously had been subject to the 5-mill in-lieu tax was made subject to listing and ad valorem taxation for the first time.

## Summary of 1998 Legislation

### Motor Fuel Tax

S.B. 418 authorized a one-time credit for motor fuel distributors who receive more than 50,000 gallons of fuel in a month and who file electronically. The credit was \$8,000 if the distributor first files electronically on or before July 1, 1999; \$6,400 if the distributor first files electronically on or before July 1, 2000; and \$4,000 if the distributor first files electronically after July 1, 2000 and before June 30, 2001. The Secretary of Revenue was required to adopt rules and regulations establishing the criteria and procedures for claiming the tax credit.

S.B. 421 made several changes in the motor fuel tax law to clarify that the legal incidence of the motor fuel tax was on motor fuel distributors, and not on retailers or customers. These changes were as follows:

- clarified that only distributors pay tax, penalty, or interest although both retailers and distributors have the duty to file reports;
- clarified that the 2.5 percent shrinkage allowance afforded to distributors was for the physical loss of fuel due to spillage, shrinkage, evaporation, or other causes while handling the fuel and not for any administrative costs incurred by the distributor in remitting the fuel tax;
- clarified that tribal retailers would not be held liable for the inventory tax that is imposed from time to time when fuel tax rates increase;
- allowed the distributor's cost of business as well as the tax paid to be included in the selling price of fuel;
- changed a reference to delinquent distributor, manufacturer, importer, or retailer to "delinquent taxpayer"; and
- repealed a statute which disallowed the tax-free sales of gasoline and special fuels to retail dealers located on an Indian reservation in Kansas, if the fuel was sold and delivered to a nonmember of the reservation.

### Inheritance and Estate Tax

S.B. 493 repealed the Kansas Inheritance Tax Act and replaced it with the Kansas Estate Tax Act, effective for the estates of all decedents dying after June 30, 1998. The "pick up" estate tax is an amount equal to the maximum credit allowed by Section 2011 of the Internal Revenue Code against the tax that otherwise was imposed on the transfer of the taxable estate of the decedent, multiplied by a fraction, the numerator of which was the Kansas gross estate value and the denominator of which was the total gross estate value.

## Income Tax

S.B. 493 accelerated the individual income tax reductions enacted in 1997 for single filers so that the fully phased-in rates scheduled to apply in tax year 2000 will apply in tax year 1998. A Kansas earned income tax credit (EITC) for individual income taxpayers equivalent to 10 percent of amounts claimed under the federal EITC also was enacted. The personal exemption was increased from \$2,000 to \$2,250, beginning with tax year 1998. Kansas standard deductions for individual income taxpayers were increased beginning in tax year 1998. The increases were as follows:

<u>Filing Status</u>	<u>Prior Law</u>	<u>S.B. 493</u>
Joint	\$ 5,000	\$ 6,000
Single	3,000	3,000
Head of Household	4,400	4,500
Elderly/Blind Joint	600	700
Elderly/Blind Single	750	850

H.B. 2419 allowed a nonrefundable income tax credit for any taxable year commencing after December 31, 1997, for expenditures made for the purpose of plugging any abandoned oil or gas well. The plugging must be in accordance with rules and regulations of the State Corporation Commission and the well must have been drilled prior to January 1, 1970. The credit may not exceed 50 percent of the expenditure for plugging, and may be carried forward indefinitely if it is not completely used in one tax year. The total amount of the credit allowed statewide may not exceed \$250,000 in any fiscal year and will be allowed to those who first apply for the credit. The tax credit will expire July 1, 2000.

H.B. 2584 required income taxpayers to report adjustments to income made by other state tax agencies. (Prior law required such adjustments to be reported only when made by the IRS.)

Sub. for H.B. 2950 authorized an income tax credit equal to not more than 50 percent of the costs incurred by the taxpayer for "required improvements to a qualified swine facility," as defined in the bill

A taxpayer may not claim the tax credit and also deduct the expenses in computing taxable income.

H.B. 3016 amended K.S.A. 79-32,111 to clarify that taxpayers will not have to file amended returns to adjust credits for income taxes paid to other state as a result of the operation of Section 18 of Article 10 of the *Missouri Constitution* (the "Hancock Amendment"). For tax year 1998, the foreign state tax credit was reduced to offset the impact of Hancock Amendment refunds on the liability of all prior taxable years. For tax year 1999 and thereafter, the foreign state tax credit was similarly reduced to offset the impact of any Hancock refunds in the prior year.

## Other Tax Measures

S.B. 493 provided, beginning in tax year 1998, refundable income, premium, and privilege tax credits equivalent to 15 percent of property taxes timely paid on commercial and industrial machinery and equipment (including such property owned by not-for-profit entities) and machinery and equipment assessed under the mineral leasehold interest subclass. The credit was applicable beginning with property tax year 1998 liability.

## Property Tax

S.B. 373, which created the University of Kansas Hospital Authority and placed the University of Kansas Hospital under the governance of the Authority, exempted from property tax any property acquired by the Authority and used for its public purposes.

S.B. 493 reduced the mandatory school district general fund property tax levy for the 1998-99 and the 1999-2000 school years from 27 to 20 mills. The \$20,000 exemption from the levy for residential property was extended through tax year 1999. The bill also expanded a property tax exemption for oil leases (other than royalty interests) wells with a completion depth of less than 2,000 feet and an average daily production of three barrels or less (up from two barrels per day under prior law), and wells with a completion depth of 2,000 feet or more and an average daily production of five barrels or less (up from three barrels per day under prior law). Tax liens, if execution has not occurred within ten years, will become dormant.

The requirement that business machinery with a retail cost when new of \$250 or less and equipment with a retail cost when new of \$250 or less be actually and regularly used "exclusively" for business purposes in order to qualify for an exemption was relaxed such that the equipment would only have to be used in the conduct of the owner's business.

Filing requirements at the State Board of Tax Appeals was amended to exempt: (1) owners of motor vehicles exempt from taxation because they are absent from the state due to military service; and (2) vehicles owned by certain organizations providing transit services to elderly and disabled persons.

H.B. 2584 changed the way that delinquent personal property taxes are collected. County treasurers were authorized to mail delinquent personal property tax notices earlier than under current law; by January 1 rather than February 16 for taxes not paid by December 20, and by July 10 rather than between July 10 and 15 for payments due June 20. Delinquent personal property tax warrants were required to be issued 14 days after mailing the notices, rather than 30 days as under prior law with address information for the warrants to be taken from the county treasurer's records. The costs of executing the warrant were to be added to the amount of the warrant. For oil and gas properties, the sheriff would not be required to return the warrants prior to 24 months after issuance. The county treasurer was authorized to mail delinquent tax notices to purchasers of oil and gas from leases with delinquent taxes instead of the sheriff. Also, K.S.A. 19-101a was amended to prohibit counties from making charter amendments to K.S.A. 79-2017 or 79-2101. Charter resolutions which already have been adopted to amend these statutes were voided.

Sub. for H.B. 2950 required county or district appraisers to identify and map riparian buffers (as defined by the bill) consisting of at least one contiguous acre per parcel of real property. The riparian buffers will be valued by the county or district appraiser as tame grass land, native grass land, or waste land, as appropriate.

## Sales Tax

S.B. 493 provided a number of additional sales tax exemptions:

- all purchases of 501 (c)(3) religious organizations, provided the tangible personal property and services are used exclusively for religious purposes;
- sales of aircraft used “directly or through an authorized agent” as certified or licensed carriers in interstate commerce;
- all sales of machinery and equipment used directly and primarily for producing broadcast signals or the failure of which would cause broadcasting signals to cease, as well as sales of electricity essential or necessary for the purpose of producing a broadcast signal or the failure of which would cause broadcasting to cease;
- all sales by or on behalf of not-for-profit organizations providing nonsectarian comprehensive multi-discipline youth development programs;
- all purchases and sales by or on behalf of parent-teacher associations or organizations;
- fees charged by certain humanitarian organizations exempt from property taxation pursuant to K.S.A. 79-201 Ninth to allow participation by persons 18 years or younger in sports, games, or other recreational activities, as well as all dues charged by such organizations;
- direct and indirect purchases of nonprofit zoos and nonprofit entities contracting to operate zoos;
- sales of food for human consumption by a 501(c)(3) food distribution program which offers such food at a price below cost in exchange for the performance of community service;
- dues charged by certain veterans' organizations; and
- labor services associated with the reconstruction, remodeling, repair, or replacement of a residence.

"Educational institution" was defined to include nonprofit schools, colleges, and universities that offer accredited postsecondary education, including a group of educational institutions that operates exclusively for an educational purpose, endowment associations and foundations, nonprofit athletic trusts and foundations, and nonprofit research trust funds and foundations.

The food sales tax rebate program was expanded substantially and changed in a number of ways. The limitation of “total household income” of \$13,000 was replaced for 1998 with a new limitation of “Kansas adjusted gross income” (KAGI) of \$25,000. Taxpayers were permitted to claim the rebates on individual income tax forms as refundable credits or to continue to claim the

rebates by filing separately as provided under prior law. The amount of the rebates was changed to \$60 for every member of a qualifying household with KAGI of \$12,500 or less, and \$30 for members of a qualifying household with KAGI from \$12,501 to \$25,000.

It was clarified that business machinery and equipment may qualify for the sales tax exemption regardless of how it was treated for federal income tax purposes.

The Secretary of Revenue was authorized to adopt rules and regulations to provide for the issuance to certain businesses of permits which grant direct payment authority to allow certain purchases to be made without paying sales or use tax to the vendor or service provider, but requires the permit holder to self-accrue state and local taxes and pay those taxes directly to the Department of Revenue.

H.B. 2584 exempted components of certain machines contributing to the manufacturing process, regardless of whether such components are "major" or not, from the sales tax. The existing exemption for manufacturing machinery and equipment was further expanded by including repair and replacement parts and accessories.

H.B. 3016 amended the sales tax law to clarify the tax treatment of prepaid telephone calling cards and prepaid authorization numbers with the value measured in minutes or other time units. Under prior law, the Department of Revenue had determined administratively that sales tax did not apply at the point of sale of such cards and numbers but did apply when such cards and numbers were used to purchase telephone, telegraph, or telecommunications services. The bill changed that tax treatment to apply sales tax at the point of sale of the cards and numbers and exempt the purchase of services.

## **Severance Tax**

S.B. 493 expanded oil severance tax exemptions for low-producing wells by applying the exemption to wells of all depths, including those using tertiary-recovery and water-flood processes. The low-production exemption threshold for gas wells was raised from \$81 to \$87 per day. The incremental production of both oil and gas resulting from production enhancement projects was exempted for seven years.

H.B. 2584 prohibited counties from levying a severance tax and nullified any resolution imposing such a tax already adopted by a county.

## **Local Sales Tax**

H.B. 2707 expanded the local sales rate authority of Atchison County by allowing the imposition of an additional 0.5 or 0.75 percent to finance the construction or remodeling of a jail, courthouse, law enforcement center, or other county administrative facility. Such tax would expire when sales tax, sufficient to pay all of the financing costs, has been collected.

The normal sales tax distribution formula for countywide sales taxes requiring counties to share revenues with cities also was amended to allow Atchison County to retain all of the revenue from the specially earmarked new tax.

H.B. 2584 made a number of changes in local sales tax provisions. A special distribution formula applicable to the Geary County sales tax was eliminated. Sherman County was authorized to levy an additional county sales tax at the rate of 0.25, 0.50, or 0.75 percent, for the purpose of reconstructing and improving County Roads 64 and 65. The tax would expire upon payment of all such costs. Dickinson County was authorized to levy an additional 0.5 percent for five years for roadway construction and improvement. Any city in Johnson County was authorized to levy an additional 0.125 percent for public infrastructure projects. A new class of city was created, consisting of cities which have imposed a tax for health care. Ford County was authorized to levy an additional 0.5 percent for construction or remodeling of a jail, law enforcement center facility, or other county administrative facility. The tax would expire when sales tax sufficient to pay all the costs has been collected.

### **State Board of Tax Appeals Reform**

H.B. 2684 made a number of changes relating to the Kansas State Board of Tax Appeals (SBOTA). After January 15, 1999, three of the five members was required to have been "actively practicing" law in Kansas for at least five years. (Prior law required members to be selected with special reference to training and experience for duties imposed by the SBOTA statutes.) All members was made subject to the Supreme Court Rules of Judicial Conduct applicable to all district court judges. SBOTA was bound by the doctrine of *stare decisis* to adhere to published decisions of the appellate courts other than district courts. Decisions of SBOTA deemed to be of sufficient importance also were required to be published. Members were required to complete various courses to assure familiarity with property appraisal theory.

SBOTA will appoint an executive director, subject to approval by the Governor. The executive director will be required to have familiarity with the tax appeals process and will perform such duties as directed by SBOTA.

All appeals of final actions of SBOTA on property tax exemption cases would move directly to the Court of Appeals. Under prior law, all property tax cases not involving state-assessed valuation issues were appealed to district court.

The Department of Commerce and Housing was required to provide property owners information and assistance sufficient to allow the preparation of proper requests for exemption.

The Small Claims Division (SCD) was established within SBOTA as of January 1, 1999. Hearing officers appointed by the executive director would have authority to hear and decide SCD cases. Taxpayers could elect to appeal decisions, findings, orders, or rulings of the Kansas Director of Taxation to the SCD when the amount of tax in controversy does not exceed \$15,000, or, in the case of property tax valuation disputes, when the property in question was single-family residential property or the appraised valuation of the property in question was less than \$2,000,000, except that no cases involving agricultural use value could be considered in the SCD. Taxpayers could elect to skip the local hearing officer step in the appeals process and move directly to the SCD. SCD hearings was required to be conducted within 60 days after appeals are filed, and hearing officers was required to render decisions within 30 days of the hearings. Such hearings also was required to be held in the counties where the property was located or in adjacent counties. Documents provided by taxpayers and county or district attorneys for SCD hearings must be returned and was considered confidential. Taxpayers appealing to the SCD are not be precluded from appealing subsequently to SBOTA, and all such appeals was *de novo*. The requirement under prior law that counties with 10,000 or more parcels of real estate appoint

local hearing officers also was repealed. A current requirement that county appraisers during SBOTA hearings are responsible for initiating the production of evidence and demonstrating by a preponderance of evidence the validity of appraisals for certain kinds of property also was extended to hearings within the SCD.

All locally-granted IRB and EDX property tax exemptions will be deemed approved unless a hearing is scheduled by SBOTA within 30 days, and any such hearing was required to be held within 90 days. Parties seeking exemption were allowed 30 days (rather than 15) to file motions for reconsideration. Cities and counties seeking to grant EDXs were mandated to adopt resolutions or ordinances stipulating that:

- the property was to be used exclusively for one of the purposes outlined in Section 13 of Article 11 of the *Kansas Constitution*; and
- if the business was relocating from elsewhere within Kansas, the Secretary of Commerce and Housing has approved the exemption based upon a finding that such relocation was necessary to prevent the business from leaving the state. (A prior statute prohibiting EDXs being granted for personal property absent a determination that jobs are retained in Kansas was repealed.)

## **Economic Development Measures**

S.B. 416 allowed insurance companies (Kansas and out-of-state), beginning in tax year 1998, to claim tax credits under the High Performance Incentive Program, the Kansas Enterprise Zone Act, and the Kansas Community Services Program Act, and credits for making buildings or facilities more accessible to persons with disabilities against the premium tax and privilege fees. Prior law allowed only Kansas companies to claim tax credits against the privilege tax.

In addition, eligible insurance companies and financial institutions were authorized to claim a tax credit for investments in employee training and education under the High Performance Incentive Program. Prior law allowed only eligible companies with corporate income tax liability to qualify for these credits.

Finally, the bill deleted reference to the *Blueprint for Investment in Kansas Children and Families* in the definition of "community services" in the Kansas Community Services Program Act. The bill authorized any insurance company which makes community service contributions during the first six months of 1998 to claim a tax credit against its 1997 tax liability, provided that no more than one credit was claimed for the same contribution.

S.B. 487 reauthorized tax credits for investments in Kansas Venture Capital, Inc. (KVC) by reinstating tax credits which had been reserved for investments in KVC, but which had not been utilized prior to the expiration date of January 1, 1998, and also committed a portion of the tax credits originally intended for Sunflower Technology Ventures which never became operational. (The combined allowable tax credits from these two sources was \$1,503,086.) No time limit was imposed on the tax credits which could be claimed for any new investments made in KVC after December 31, 1997.

S.B. 554 authorized any taxpayer who purchases the Kansas Technology Enterprise Corporation's entire interest in the Ad Astra Funds to receive a 25 percent income tax credit for

subsequent investments in certified Kansas venture capital companies. Tax credits were expressly prohibited for the actual purchase of KTEC's interest in the Funds and the total tax credits that could be claimed for subsequent investments were limited to slightly over \$1.5 million.

Cities and counties seeking to grant economic development property tax exemptions (EDXs) also were required by H.B. 2684 to adopt resolutions containing specific factual findings that the property was being used for manufacturing, research and development, or warehousing purposes. A property tax exemption for property owned by local units of government (or being acquired by local units pursuant to lease-purchase agreements) and utilized to provide office space for certain health care providers was expanded. Licensed psychologists were added to the list of providers, which already included persons licensed to practice medicine and surgery or osteopathic medicine; persons licensed to practice dentistry; persons licensed to practice optometry; and persons licensed to practice podiatry.

Sub. for S.B. 675 imposed, for purposes of redevelopment projects in federal enclaves (Johnson County or Labette County), the following taxes within the redevelopment district to repay the bonds issued by the KDFA for a project of statewide as well as local importance:

- state sales and use tax at the rate of 5.9 percent (the 1.0 percent increase over the existing state sales tax rate corresponds to the 1.0 percent city sales tax rate that was captured if the Oz project were located in Kansas City);
- transient guest tax at the rate of 5.0 percent; and
- countywide sales tax at the rate of 0.5 percent, and an additional county sales tax at a rate of 0.5 percent only within the redevelopment district.

The revenues could only be levied or collected for the duration of the bond repayment but could not exceed 20 years after establishment of the redevelopment district (whichever occurs earlier).

### **Financial Institution Privilege Tax**

S.B. 6 enacted a new law under which Financial Institution Privilege Tax taxpayers were required to file consolidated returns or combined reports with any subsidiaries which own, hold, or manage all or part of the taxpayers' securities portfolios. The consolidated returns will be determined without regard to transactions between the companies involving securities income, but will include as income all earnings on the securities held by the subsidiaries.

The Secretary of Revenue was authorized to allocate or distribute gross income, deductions, credits, or allowances when necessary to prevent the evasion of taxes or to clearly reflect the income of the taxpayer.

The base rate for banks was reduced from 4.25 to 2.25 percent, and the base rate for savings and loan associations was reduced from 4.50 to 2.25 percent.

These new provisions will apply to all taxable years commencing after December 31, 1997.

TABLE I—CHRONOLOGY OF STATE-IMPOSED TAXES

Tax	Year Enacted	Type of Tax by Major Categories*				
		Property	Income, Privilege and Inheritance	Sales, Use, and Excise	Gross Receipts	Payroll
Poll <sup>(a)</sup>	1861			X		
General Purpose Levy <sup>(a)</sup>	1861	X				
Corporation Franchise	1866			X		
Insurance Premiums						
Foreign Companies	1871					X
Firemen's Relief	1895					X
Express Companies <sup>(a)</sup>	1907					X
Inheritance/Estate	1909/1915		X			
Private Car Companies	1911					X
Insurance Premiums						
Fire Marshal	1913					X
Motor Vehicle Registration	1913			X		
Dog <sup>(a)</sup>	1913	X				
Mortgage Registration	1915/1925	X				
Soldier's Bonus <sup>(a)</sup>	1923	X				
Intangibles <sup>(a),(b)</sup>	1925/1931	X				
Gasoline	1925			X		
Cigarette	1927			X		
Motor Carrier	1929	X				
Finance Companies	1930	X				
Ton - Mile <sup>(a)</sup>	1931			X		
Income - Individual	1933		X			
Income - Corporation	1933		X			
Oleomargarine <sup>(a)</sup>	1933			X		
Retail Sales	1937			X		
Use - Consumers	1937			X		
Cereal Malt Beverage	1937			X		
Unemployment Comp.	1937					X
Music - Dramatic Composition	1939				X	
Special Fuels and LP Gas	1941			X		
Grain <sup>(a)</sup>	1941	X				
Educational Buildings	1941	X				
Use - Retailers	1945			X		
Liquor Gallonage	1949			X		
Liquor Enforcement (Sales)	1949			X		
State Institutions Buildings	1953	X				
Wheat	1957			X		
Severance	1957/1983			X		
Boat Registration	1959			X		
Financial Institutions	1963		X			
Tobacco Products	1969/1972			X		
Insurance Companies — Domestic	1970		X			
Insurance Premiums — Domestic Cos.	1970					X
Bingo Enforcement — Call Bingo	1975					X
Correctional Institution Buildings <sup>(a)</sup>	1976	X				
Motor Vehicle Dealers <sup>(a)</sup>	1978			X		
Motor Vehicle	1979	X				
Private Clubs/Liquor Drinking Places	1979/1987			X		
Parimutuel Wagering	1987					X
Parimutuel Admissions	1987			X		
Marijuana and Controlled Substances	1987			X		
New Tires	1990			X		
Motor Vehicle Rental Excise	1991			X		
School District General Fund Levy <sup>(c)</sup>	1992	X				
Bingo — Instant	1993					X
Recreational Vehicle	1994			X		
Drycleaning and Laundering	1995			X		

\* Based on classifications adopted by the Division of Accounts and Reports of the Department of Administration for state accounting and budgetary purposes or on the type of tax based on the statute imposing the tax.

- a) Tax no longer levied or imposed.
- b) In 1982, the Legislature repealed the statewide intangibles tax statutes, exempted intangibles from the property tax, and authorized counties, cities, and townships to impose a gross earnings tax on intangibles on a local option basis.
- c) In 1993, this levy was ruled by a Kansas district court judge to be a state-imposed tax.

Note: In 1976 and 1977, respectively, state property tax levies of 0.25 mill and 0.1 mill were made for the Correctional Institutions Building Fund and the tax levy for the State Institutions Building Fund was reduced correspondingly in those two years. In 1986, 1987, and 1990, a levy of 0.25 mill was made for the Correctional Institutions Building Fund and the levy for the State Institutions Building Fund was reduced correspondingly.

**TABLE II—STATE TAX REVENUE, NET OF REFUNDS**  
In Thousands

	FISCAL YEAR				
	1994	1995	1996	1997	1998
<b>Property</b>					
Educational Bldg. <sup>(1)</sup>	\$14,912	\$15,541	\$16,236	\$16,729	\$18,169
Institutional Bldg. <sup>(1)</sup>	7,456	7,770	8,118	8,364	9,084
Intangibles <sup>(1)(2)</sup>	17	21	0	0	0
Mortgage Registration <sup>(3)</sup>	611	473	596	599	729
Motor Carrier	10,389	11,722	14,008	15,683	15,998
Mtr. & Rec. Vehicles <sup>(4)</sup>	3,361	3,521	3,672	3,761	3,858
Total	36,745	39,049	42,630	45,136	47,839
<b>Income and Privilege</b>					
Individual	\$1,194,328	\$1,247,314	\$1,391,829	\$1,527,516	\$1,744,030
Corporation	211,953	229,421	218,587	263,573	281,651
Financial Inst.	41,991	30,438	35,262	26,506	22,150
Domestic Ins. Co.	948	1,549	1,025	1,001	2,113
Total	1,449,220	1,508,722	1,646,702	1,818,597	2,049,944
Inheritance/Estate	\$87,592	\$56,691	\$98,704	\$76,029	\$88,651
<b>Sales, Use, and Excise</b>					
Retail Sales	\$1,163,270	\$1,223,090	\$1,243,081	\$1,301,355	\$1,424,215
Compensating Use	139,446	155,979	157,941	174,499	195,031
Subtotal	1,302,716	1,379,069	1,401,023	1,475,854	1,619,246
Motor Fuels	283,535	284,832	295,441	302,216	320,373
Vehicle Registration <sup>(5)</sup>	108,610	117,941	119,048	123,456	121,253
Cereal Malt Beverage	2,717	2,694	2,533	2,460	2,439
Liquor Gallonage	12,989	13,142	13,049	13,437	13,857
Liquor Enforcement	24,512	24,789	26,205	27,446	28,549
Liquor Drink	17,829	18,401	19,024	19,449	20,818
Cigarette	51,556	52,272	52,359	52,931	52,095
Tobacco Prod.	2,541	2,680	2,925	3,103	3,269
Corporation Franchise	11,638	12,025	13,140	14,293	15,351
Wheat	2,016	2,238	1,587	1,929	3,294
Boat Registration	579	614	618	597	620
Severance	101,255	77,137	68,366	81,412	67,266
New Tires	1,137	1,206	1,259	1,291	1,315
Motor Vehicle Rental	1,582	1,752	1,882	2,098	2,248
Drycleaning & Laundry	0	0	901	1,005	969
Total	1,925,213	1,990,793	2,019,360	2,122,976	2,272,963
<b>Gross Receipts</b>					
<b>Insurance Premiums</b>					
Foreign Cos.	\$80,106	\$79,952	\$80,720	\$71,560	\$77,632
Domestic Cos.	8,838	8,850	9,100	9,910	10,425
Firefighters Relief	3,720	4,372	4,630	5,057	5,149
Fire Marshal	2,955	2,645	2,953	3,079	2,378
Subtotal	95,619	95,819	97,403	89,605	95,584

	FISCAL YEAR				
	1994	1995	1996	1997	1998
Private Car Cos.	\$820	\$872	\$866	\$900	\$873
Music-Daramatic Tax	28	28	25	25	20
Bingo Enforcement	1,077	1,075	1,053	1,055	958
Transient Guest <sup>6</sup>	214	230	245	257	287
Parimutuel	8,299	6,403	5,232	4,090	4,032
Illegal Drugs	901	832	938	1,278	1,023
Total	106,958	105,259	105,761	97,209	102,777
Unemployment Comp.	\$182,662	\$114,905	\$41,031	\$39,229	\$43,229
<b>TOTAL STATE TAXES</b>	<b>\$3,788,390</b>	<b>\$3,815,419</b>	<b>\$3,954,189</b>	<b>\$4,199,176</b>	<b>\$4,605,403</b>

**SOURCES:** Financial reports of the Division of Accounts and Reports and records of tax-collecting agencies. Details might not add to totals due to rounding.

1. Taxes levied for collection in the fiscal year as reported by the Department of Revenue, including the state's small share (if any) of certain in-lieu tax levies.
2. The state gave up its one-sixth share of the intangibles tax when the privilege tax on financial institutions was enacted in 1963. Any receipts since then were delinquent taxes or the state's share of the 5-mill tax on finance companies.
3. The state's 1/26 share of the tax.
4. Amount received by the state from the motor vehicle tax levied under the "tax and tags law" which took effect on January 1, 1981.
5. State receipts only, excluding amounts retained by county treasurers.
6. State's 2 percent share of the tax.

**TABLE III—TOTAL STATE TAX REVENUE (NET OF REFUNDS)  
AND ALLOCATION TO FUNDS**

**FY 1998; In Thousands**

	Amount	Percent of Total	Cumulative Percent	Revenue Credited to:	
				State General Fund	Other Fund or Funds
Ind. Income Tax	\$1,744,030	37.87%	37.87%	\$1,742,284	\$1,746 <sup>(a)</sup>
Retail Sales Tax	1,424,215	30.92	68.79	1,351,591	72,624
Motor Fuels Tax	320,373	6.96	75.75	0	320,373
Corp. Income Tax	281,651	6.12	81.87	281,651	(0)
Comp. Use Tax	195,031	4.23	86.10	185,088	9,943
Motor Vehicle Registration Tax	121,253	2.63	88.73	0	121,253
Insurance Prem. Tax	95,584	2.08	90.81	88,106	7,478
Inheritance Tax	88,651	1.92	92.73	88,651	(0)
Liquor and Beer Taxes	65,663	1.43	94.16	49,376	16,288
Cigarette and Tobacco Taxes	55,364	1.20	95.36	55,364	(0)
Gas Severance Tax	51,690	1.12	96.48	48,072	3,618
Unemployment Comp. Tax	43,229	0.94	97.42	0	43,229
State Property Tax	27,253	0.59	98.01	0	27,253
Fin. Inst. Privilege Tax	22,150	0.48	98.49	22,150	0
Motor Carrier Prop. Tax	15,998	0.35	98.84	15,998	0
Oil Severance Tax	15,577	0.34	99.18	14,486	1,090
Corp. Franchise Tax	15,351	0.33	99.51	15,351	(0)
Parimutuel Tax	4,032	0.09	99.60	0	4,032
Recreational Vehicle Tax	3,858	0.08	99.68	0	3,858
Wheat Tax	3,294	0.07	99.75	36	3,258
Motor Vehicle Rental Excise Tax	2,248	0.05	99.80	0	2,248
Dom. Ins. Cos. Priv. Tax	2,113	0.05	99.85	2,113	0
New Tires Tax	1,315	0.03	99.88	0	1,315
Other Taxes	5,479	0.12	100.00	1,755	3,723
Total	\$4,605,403	100.00%		3,962,072 <sup>(b)</sup>	643,331
				86.0%	14.0%

a) Credited to the SKILL (changed to IMPACT by 1996 legislation) program from income tax withholding receipts as provided by K.S.A. 74-50,107, as amended.

b) Does not include nontax revenue credited to the General Fund, *i.e.*, \$61.6 million from interest earnings, net revenue transfers, and agency earnings and miscellaneous revenue.

**Source:** With a few exceptions, the data in this table are from the Division of Accounts and Reports. Details may not add to total due to rounding.

**TABLE IV**  
**DISPOSITION OF STATE TAX REVENUE**  
(After Refunds)

Tax	Distribution
State Property Taxes	
Educational Buildings (1 mill)	All to Educational Building Fund. <sup>(1)</sup>
State Institutions Buildings (0.5 mill)	All to State Institutions Building Fund. <sup>(1)</sup>
Motor Carrier	All to State General Fund (amount equal to the tax revenue is transferred to Special City and County Highway Fund). <sup>(2/7)</sup>
Motor and Recreational Vehicles (state's share)	Two-thirds to Educational Building Fund and one-third to State Institutions Building Fund. <sup>(1)</sup>
Mortgage Registration	All of state's 1/26 share to Heritage Trust Fund.
Income and Privilege Taxes	All to State General Fund except, beginning in FY 1992, not to exceed 1.0 percent of receipts from individual income tax withholding may be diverted to the IMPACT (formerly the SKILL) program as provided under K.S.A. 74-50,107, as amended. (Beginning in FY 1993, all revenue attributable to the individual and corporation income tax increases enacted in 1992 was earmarked for transfer from the General Fund to the School District Finance Fund, but that earmarking was eliminated by 1993 legislation after two of the three scheduled transfers were made. From FY 1974 through FY 1992, various percentages of resident individual income tax liability were earmarked for transfer to the School District Income Tax Fund, which was abolished by 1992 legislation.) <sup>(2)</sup>
Inheritance and Estate Tax	All to State General Fund (5 percent was earmarked for transfer to County Inheritance Tax Fund prior to January 1, 1988).
Sales and Use Taxes	Currently, 5.102 percent to State Highway Fund and 94.898 percent to State General Fund. Of the General Fund amount, 3.63 percent of receipts in CY 1993 and thereafter are earmarked for transfer from the General Fund to the Local Ad Valorem Tax Reduction Fund (LAVTRF); 2.823 percent of receipts in CY 1993 and thereafter are earmarked for transfer to the County-City Revenue Sharing Fund (CCRSF); for sales tax receipts only, 7.628 percent in all quarters starting on July 1, 1993 are earmarked for transfer to State Highway Fund (SHF); and for part of FY 1993 all sales and use tax receipts attributable to the rate and base changes enacted in the 1992 school finance legislation were earmarked for transfer to the School District Finance Fund, but that earmarking was eliminated by 1993 legislation after two of the three scheduled transfers were made.) <sup>(2/7)</sup>
Motor Vehicle Rental Excise Tax	All to Rental Motor Vehicle Excise Tax Fund for distribution to treasurer of the county where taxable transactions took place.
Drycleaning and Laundering Tax and Fee	All to Drycleaning Facility Release Trust Fund.

Tax	Distribution
Motor and Special Fuels and LP-Gas Taxes	Except for the \$625,000 per quarter gasohol subsidy in effect from 10/1/87 to 7/1/97, 59.5 percent to State Highway Fund and 40.5 percent to Special City and County Highway Fund from which \$2.5 million is transferred annually to the County Equalization and Adjustment Fund.
Vehicle Registration Tax	All to State Highway Fund, after part of collections retained by counties. <sup>(3)</sup>
Boat Registration Tax	All to Boating Fee Fund.
Cereal Malt Beverages Tax	All to State General Fund.
Liquor Gallonage Tax	All to State General Fund, except 10 percent of the tax on alcohol and spirits which is credited to the Community Alcoholism and Intoxication Programs Fund.
Liquor Enforcement Tax	All to State General Fund.
Private Club and Liquor Drinking Places Tax	25 percent to State General Fund; <sup>(4)</sup> 70 percent to Local Alcoholic Liquor Fund; 5 percent to Community Alcoholism and Intoxication Programs Fund.
Cigarette Tax	All to State General Fund.
Tobacco Products Tax	All to State General Fund.
Corporation Franchise Tax	All to State General Fund.
Wheat Tax	20 percent to State General Fund, subject to limitation; <sup>(5)</sup> remainder to Wheat Commission.
Severance Tax	93 percent to State General Fund; 7 percent to County Mineral Production Tax Fund.
Marijuana and Controlled Substances Taxes	All to State General Fund (except 75 percent of assessments and penalties to law enforcement agencies conducting the investigations).
New Tires Tax	All to Waste Tire Management Fund from which are paid grants to counties, cities, and private companies and administrative and abatement expenses.
Parimutuel Taxes	
Wagering Tax	All to State Racing Fund (excess over amount appropriated for operations and promotion transferred to Gaming Revenues Fund).
General Admissions Tax	Same.
Admissions Tax at Tracks Exempt from Property Tax	All to Local Racing Admissions Tax Fund.
Insurance Premium Taxes	
Domestic and Foreign	All to State General Fund less amounts diverted to a special revenue

Tax	Distribution
Companies	fund to help finance the Insurance Department. <sup>6</sup>
Fire Marshal	20 percent to State General Fund (not to exceed \$200,000); remainder to Fire Marshal Fee Fund.
Firefighters Relief	All to State Firefighters Relief Fund, from which: <ul style="list-style-type: none"><li>a) amount determined by legislative appropriations for administrative costs;</li><li>b) 3 percent to State Firefighters Ass'n. for fire prevention education and study;</li><li>c) 5 percent to State Firefighters Ass'n. for a death benefit fund (not more than the lesser of \$100,000 or the difference between the balance in such fund and \$100,000); and</li><li>d) balance to local firefighters relief associations.</li></ul>
Private Car Companies Tax	All to State General Fund.
Music-Dramatic Composition Tax	All to State General Fund.
Bingo Enforcement Tax (Call and Instant Bingo)	One-third to State General Fund, 1/3 to County and City Bingo Tax Fund, and 1/3 to the Bingo Regulation Fund.
Unemployment Compensation Tax	All to Unemployment Trust Fund.
	<ol style="list-style-type: none"><li>1) For 1986, 1987, and 1990 only, the levy for the State Institutions Building Fund was reduced to 0.25 mill and a levy at that rate was made for the Correctional Institutions Building Fund; and for FY 1987, FY 1988, and FY 1991 only, one-sixth of the state's share of the motor vehicle tax was allocated to each of those two funds. For 1983 only, the tax levy for the State Educational Building Fund was 1.1 mill and for the Institutions Building Fund was 0.4 mill. The levy for the State Institutions Building Fund was reduced from 0.5 mill to 0.25 mill in 1976 and to 0.4 mill in 1977 and levies of 0.25 mill and 0.1 mill were made in 1976 and 1977, respectively, for the Correctional Institutions Building Fund.</li><li>2) Transfers to the LAVTRF and CCRSF were reduced by 3.8 percent in CYs 1988 and 1989. Dollar transfers to those two funds and to the School District Income Tax Fund, State Highway Fund, and Special City-County Highway Fund were reduced by 1 percent in FY 1992. A 3.0 percent reduction applied to the LAVTRF, CCRSF, State Highway Fund, and Special City-County Highway Fund in FY 1993, and a 4.0 percent reduction was applicable in FY 1994. For FY 1995, transfers to the State Highway Fund and the City-County Highway Fund were capped at a 3.0 percent increase above actual transfers in FY 1994. For FY 1996, transfers to the State Highway Fund, City-County Highway Fund, LAVTRF, and CCRSF were limited to a 3.7 percent increase over FY 1995 transfers, and the transfer to the State Highway Fund was further reduced by 1.5 percent. For FY 1997, all four transfers were capped at a 1.4 percent increase. For FY 1998, the CCRSF, State Highway Fund and City-County Highway Fund transfers are capped at a 2.4 percent increase.</li><li>3) County treasurers retain 75 cents of license and tag transfer application fees (K.S.A. 8-145). County treasurers also retain the \$5 fee required for registration of antique vehicles for the purpose of taxation (K.S.A. 8-167(b)).</li><li>4) If total amount distributed to counties and cities in any calendar year is less than the amount distributed in CY 1981, an amount equal to the difference must be transferred from the General Fund for distribution to counties and cities on the next March 15. At present tax revenue levels, this provision is moot.</li><li>5) Total amount credited to General Fund from wheat tax and assessments (marketing fees) on corn, sorghum, and soybeans cannot exceed \$100,000.</li></ol>

- 6) In addition, revolving funds not to exceed \$68,000 may be established for the Insurance Company Annual Statement Examination Fund established under K.S.A. 40-223a and the Insurance Company Examiner Training Fund created by K.S.A. 40-223e.
- 7) For FY 1991, the dollar amount of the transfer to the Special City-County Highway Fund and the State Highway Fund was reduced by 1.75 percent, for FY 1992 there was a reduction of 1.0 percent, for FY 1993 there was a reduction of 3.0 percent, and for FY 1994 there was a reduction of 4.0 percent. For FY 1995, such transfers were capped at a 3.0 percent increase over actual transfers in FY 1994, and for FY 1996 were limited to an increase of 3.7 percent over FY 1995 transfers (the State Highway Fund transfer was further reduced by 1.5 percent). For FY 1997, both transfers were capped at a 1.4 percent increase.

Note: The State General Fund receives 2 percent of transient guest taxes which may be imposed by counties and cities but are collected by the state for them.

TABLE V

FORMULAS FOR DISTRIBUTION TO LOCAL GOVERNMENTS OF STATE-SHARED TAXES REFERRED TO IN TABLE IV\*

Tax Source	Fund	Distribution Formula
Sales and Use	Local Ad Valorem Tax Reduction Fund (K.S.A. 79-2959, 79-2961)	Distributed on January 15 and July 15 proportionately among all counties, 65 percent on the basis of population <sup>(1)</sup> and 35 percent on the basis of assessed tangible valuation. Within each county, to each property tax levying subdivision (including the county but excluding unified school districts) proportionately based on taxes levied in the preceding year. Each subdivision's share must be credited to one or more tax levy funds of general application, except bond and interest funds. <sup>(2)</sup>
	County and City Revenue Sharing Fund (K.S.A. 79-2964 through 79-2966)	Allocated among counties 65 percent on the basis of population and 35 percent on the basis of assessed tangible valuation, with distributions on July 15 and December 10. Counties retain 50 percent and cities receive 50 percent in proportion to their populations. <sup>(2)</sup>
Motor Vehicle Rental Excise	Rental Motor Vehicle Excise Tax Fund (K.S.A. 79-5117)	Distributed on June 30 and November 30 to counties where a taxable transaction took place. Then allocated among tax levy units in the same manner as the motor vehicle (property) tax is allocated.
Motor and Special Fuels and LP-Gas	Special City and County Highway Fund (K.S.A. 79-3425c)	Quarterly distributions in January, April, July, and October, net of the \$2.5 million annual transfer to the County Equalization and Adjustment Fund. Cities receive directly 43 percent on the basis of city population. Counties receive 57 percent, as follows: \$5,000 to each county; the balance from revenue produced by tax rates in effect prior to July 1, 1989 is distributed 50 percent on the basis of motor vehicle registration fees collected in each county and 50 percent on the basis of average daily vehicle miles traveled in each county, excluding travel on interstate highways. The balance from additional revenue produced by tax rates taking effect on and after July 1, 1989 is distributed 1/3 on the basis of registration fees, 1/3 on the basis of average daily vehicle miles traveled, and 1/3 on the basis of total road miles in the county. Amount received by county is allocated 50 percent to county and 50 percent to cities on basis of city population in Sedgwick and Shawnee counties; 10 percent to the

\* This table pertains only to specific state imposed and collected taxes part or all of the revenue from which is earmarked by law for distribution to local units. In addition to such distributions, various state aid or grant programs are financed by appropriations from the State General Fund and other funds. Statutory citations under "Fund" include any amendments that will appear in the 1996 Supplements to K.S.A.

		<p>county and 90 percent to cities in Wyandotte County; 90 percent to county and 10 percent to cities in Butler, Cowley, Crawford, Douglas, Leavenworth, Lyon, Montgomery, Reno, Riley, and Saline counties; and 100 percent to county in all other counties. Townships share in the amount retained by counties which have not adopted the county-unit road system.<sup>2</sup></p>
Motor and Special Fuels and LP-Gas	County Equalization and Adjustment Fund (K.S.A. 79-3425c)	<p>A total of \$2.5 million is transferred annually from the Special City and County Highway Fund to assure that no county will receive less than it and the cities therein received from the Special City and County Highway Fund and three state aid funds abolished in 1970 when compared with the amount the county and cities therein currently receive from the Special City and County Highway Fund.<sup>3</sup> The balance remaining after such "equalization" payments, if any, is distributed to counties, cities, and townships to the same extent they share in the counties' portion of the Special City and County Highway Fund, with the initial payment to counties being made on the basis of motor vehicle registration fees (50%) and average daily vehicle miles traveled in the county (50%).</p>
Private Club and Liquor Drinking Places Tax	Local Alcoholic Liquor Fund (K.S.A. 79-41a04)	<p>Distributed March 15, June 15, September 15, and December 15 to the city or county based on the amount collected from each city or county from clubs or establishments located therein. The city or county is required to credit the moneys received as follows: (1) 1/3 to the general fund; (2) 1/3 to a special parks and recreation fund; and (3) 1/3 to a special alcohol and drug programs fund (this share goes to the county in the case of cities with 6,000 population or less).</p>
Severance Tax	County Mineral Production Tax Fund (K.S.A. 79-4227)	<p>Distributed March 1, June 1, September 1, and December 1 to counties in proportion to severance taxes imposed on production in each county. Within each county, 50 percent to county general fund and 50 percent to school districts on the basis of the assessed valuation of oil, gas, and coal properties in such districts.</p>
Admissions Tax at Race Meetings (Parimutuel) Exempt from Property Tax	Local Racing Admissions Tax Fund (K.S.A. 74-8824)	<p>Distributed at least quarterly, 50 percent to the city where the racing facility is located and 50 percent to the county; 100 percent to county if facility not located in a city.</p>
Firefighters Relief Insurance Premium Tax	Firefighters Relief Fund (K.S.A. 40-1706 and 40-1707)	<p>Annually, \$1,000 to each firefighters relief association and remainder distributed to each association in proportion to the amount it received in FY 1984 from taxes collected for CY 1983, subject to various adjustments.</p>

Bingo Enforcement (Call and Instant Bingo)	County and City Bingo Tax Fund (K.S.A. 79- 4710)	Revenue remitted not less than annually to city in which registered premises are located, or to county if such premises are located in unincorporated area, to be used to assist in bingo enforcement.
Marijuana and Controlled Substances	County Drug Tax Fund (K.S.A. 79-5211)	To treasurer of city or county whose law enforcement agency conducted or was involved in the investigation, to be used solely for law enforcement. The distribution is to be made equally to city, county, and state agencies when more than one agency has been involved in the investigation, except that an alternative distribution may be mutually agreed upon and submitted to the state Director of Taxation. Time of distribution not specified by law.
New Tires Tax	Waste Tire Management Fund (K.S.A. 65-3424f and 65-3424g)	To counties and cities which, individually or collectively, submit applications for grants to the Secretary of the Department of Health and Environment under plans approved by the Secretary. (Grants also may be made to private companies.)
Mortgage Registration	Heritage Trust Fund (K.S.A. 75-2729 and 79-3107b)	To local units (among others) whose grants have been approved by the State Historical Society.

- 1) K.S.A. 19-2694 establishes a formula designed to prevent counties from receiving less money distributed on the basis of population from the LAVTRF due to changing from state census data to federal census data, effective July 1, 1979.
- 2) Legislation enacted in 1982 provides that persons residing within Ft. Riley shall not be included in determining the population of any city located in Geary or Riley counties and that the population of any military reservation which was annexed to a city after December 31, 1981, shall not be included in the population of such city for the purpose of allocating the cities' 43 percent share of the Special City and County Highway Fund.
- 3) In FY 1985, only two counties received "equalization" payments, totaling \$7,388. In FYs 1986-1998, there were no such payments.

**TABLE VI—LOCAL GOVERNMENT TAX REVENUE**

	In Thousands				
	1998	1997	1996	1995	1994
<b>Counties</b>					
Tangible Property	\$ 541,849	\$ 505,298	\$ 489,264	\$ 473,953	\$ 455,544
Intangibles	2,022	2,005	1,699	2,022	2,414
Mortgage Registration	25,021	22,321	17,710	18,657	21,583
Motor Vehicle Registration	12,117	11,064	11,648	10,048	9,875
Transient Guest	960	885	818	749	636
Motor Vehicle	76,314	75,402	74,539	66,106	58,638
<b>Cities</b>					
Tangible Property	\$ 327,037	\$ 315,244	\$ 305,296	\$ 298,349	\$ 287,218
Intangibles	1,554	1,441	1,244	1,742	2,259
Transient Guest	13,105	11,691	11,175	10,497	9,837
Motor Vehicle	62,466	63,118	62,612	56,819	51,249
<b>Schools</b>					
Tangible Property	\$ 949,129	\$ 1,017,723	\$ 1,001,616	\$ 935,563	\$ 838,494
Intangibles	0	0	0	956	669
Motor Vehicle	136,473	147,766	141,072	132,987	167,789
<b>Townships</b>					
Tangible Property	\$ 31,646	\$ 29,775	\$ 29,027	\$ 27,656	\$ 26,472
Intangibles	1,333	1,223	1,098	1,305	1,772
Motor Vehicle	3,894	3,763	3,587	3,239	2,851
<b>Special Districts</b>					
Tangible Property	\$ 93,523	\$ 84,275	\$ 82,289	\$ 77,224	\$ 72,350
Motor Vehicle	10,810	10,652	10,020	8,785	7,872
Intangibles	0	0	0	107	84
<b>Taxes Not Allocated</b>					
County & City Sales & Use	\$ 437,735	\$ 401,590	\$ 380,113	\$ 345,578	\$ 307,924
<b>TOTAL LOCAL TAXES</b>	<b>\$ 2,726,987</b>	<b>\$ 2,705,232</b>	<b>\$ 2,624,827</b>	<b>\$ 2,472,342</b>	<b>\$ 2,325,531</b>
<b>Exhibit:</b>					
Tangible Property	\$ 1,943,184	\$ 1,952,315	\$ 1,907,492	\$ 1,812,746	\$ 1,680,078
Motor Vehicle	289,958	300,700	291,830	267,935	288,400
Total	\$ 2,233,141	\$ 2,253,015	\$ 2,199,322	\$ 2,080,681	\$ 1,968,477

**Sources:** Reports and records of the Department of Revenue.

1. Taxes levied for collection in the fiscal year. Includes certain in-lieu taxes, e.g., on industrial revenue bond property.
2. Taxes levied for collection in the fiscal year.
3. Calendar year revenue, e.g., the figure in the FY 1996 column is for CY 1995.
4. Tax levied under the 1979 "tax and tags law" which took effect on January 1, 1981 and which replaced the tangible property tax levied on vehicles covered by the 1979 law. Also includes recreation vehicle tax collections.
5. School districts, community colleges, and municipal universities, including out-district tuition tax levies made by counties and townships.
6. Collections by the Department of Revenue for counties and cities which impose a sales tax, as reported by the Division of Accounts and Reports.

**Special Note**

This table does not include revenue from certain taxes for which annual data are not compiled, e.g., city occupation and franchise taxes.

**TABLE VIII—PERCENTAGE OF COMBINED STATE AND LOCAL TAX REVENUE**

**Ranked on the Basis of FY 1998**

	FY 1998	FY 1997	FY 1996	FY 1995	FY 1994	FY 1993	FY 1990	FY 1980	FY 1970	FY 1960	FY 1950	FY 1940	FY 1930
General Property	28.64%	26.87%	29.36%	29.20%	27.85%	28.35%	32.34%	39.19%	53.06%	56.44%	52.19%	62.95%	82.02%
Sales and Use	27.19%	28.05%	27.07	27.43	26.34	25.67	22.55	19.75	15.74	15.34	15.76	9.94	—
Income and Privilege	26.34%	27.96%	25.03	23.99	23.70	23.99	21.87	21.42	10.57	6.73	4.95	2.04	—
Mtr. & Rec. Vehicles	4.41%	4.01%	4.49	4.32 <sup>a</sup>	4.77 <sup>a</sup>	4.56 <sup>a</sup>	5.66 <sup>a</sup>	—	—	—	—	—	—
Motor Fuels	4.38%	4.37%	4.49	4.53	4.64	4.71	4.61	5.24	8.81	8.26	11.00	9.92	8.18
Vehicle Registration	1.95%	1.82%	1.99	2.04	1.94	2.08	2.02	3.03	3.50	4.39	4.35	3.99	5.69
Inheritance	1.10%	1.21%	1.50	0.90	1.43	1.00	0.89	1.19	0.82	0.82	0.48	0.39	0.67
Insurance Premiums	1.30%	1.30%	1.48	1.52	1.56	1.58	1.44	1.54	1.22	1.31	1.22	0.99	1.05
Severance	1.18%	0.92%	1.04	1.23	1.66	1.74	1.71	—	—	—	—	—	—
Liquor and Beer	0.91%	0.90%	0.93	0.94	0.95	1.01	1.03	1.30	1.08	1.09	2.24	0.49	—
Cig. and Tobacco	0.81%	0.76%	0.84	0.87	0.88	0.94	1.15	1.44	2.20	1.83	2.08	1.27	0.63
Unemp. Comp.	0.57%	0.59%	0.62	1.83	2.99	3.09	3.49	3.86	1.77	2.21	2.51	4.85	—
Mortgage Regis.	0.33%	0.35%	0.28	0.30	0.36	0.34	0.25	0.38	0.20	0.28	0.39	0.30	0.30
Mtr. Car. Prop.	0.23%	0.22%	0.21	0.19	0.17	0.17	0.20	0.19	0.15	0.16	0.09	0.03	<sup>b</sup>
Corp. Franchise	0.21%	0.21%	0.20	0.19	0.19	0.19	0.19	0.25	0.09	0.13	0.17	0.31	0.34
Transient Guest	0.19%	0.20%	0.19	0.18	0.18	0.17	0.15	0.04	—	—	—	—	—
Parimutuel	0.06%	0.06%	0.08	0.10	0.14	0.14	0.16	—	—	—	—	—	—
Intangibles	0.07%	0.07%	0.06	0.10	0.12	0.15	0.23	0.98	0.64	0.70	1.09	0.93	0.72
Wheat	0.03%	0.04%											
All Other	0.12%	0.11%	0.14	0.14	0.13	0.11	0.06	0.20	0.15	0.31	1.48	1.60	0.40
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

- 1) Taxes levied for collection in the fiscal year.
- 2) Includes city and county sales taxes, fiscal years 1996, 1995, 1994, 1993, 1990, and 1980.
  - a) Based on the total tax levied less the state's share plus actual state receipts in the fiscal year. This tax replaced the general property tax on vehicles now subject to the "tax and tags law." For FYs 1995 and 1996, includes state's share of the recreational vehicle tax.
  - b) Included in the general property tax until the law was changed in 1935.

**TABLE IX—STATE COLLECTED TAXES ALLOCATED TO OR SHARED WITH LOCAL UNITS OF GOVERNMENT FROM TAXES LISTED IN TABLE II**

**In Thousands**

	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
Highway-User Taxes to Counties, Cities, and Townships <sup>1</sup>	\$ 125,266	\$ 126,822	\$ 130,671	\$ 135,975	\$ 139,061
Firemen's Relief Tax to Local Firemen's Relief Associations <sup>2</sup>	4,024	4,101	4,359	4,749	5,072
Bingo Enforce. Tax to County or City Based on Licensed Premises	310	318	414	349	337
Liquor Drink Tax to County or City Based on Collections From Licensees Therein	12,429	12,853	13,259	13,546	14,604
Severance Tax to Counties and School Districts <sup>3</sup>	6,963	6,014	4,586	5,364	5,240
Racing Admissions Tax to City and/or County Where Racing Facility Located	1	3	2		
Illegal Drug Taxes to Counties	229	683	672	2	3
Mortgage Registration Tax to Qualifying Local Units <sup>4</sup>	120	74	173	751	817
Motor Vehicle Rental Excise Tax to Property Tax Levy Units	1,582	1,752	1,882	45	94
New Tires Tax to Qualifying Cities or Counties	661	1,703	837	2,098	2,248
From State General Fund <sup>5</sup> for Education <sup>6</sup>	1,600,882	1,672,851	1,729,379	614	0
for Property Tax Reduction <sup>7</sup> to Counties and Cities (Revenue Sharing) <sup>7</sup>	40,293	44,649	46,301	1,754,473	1,934,003
Other <sup>6</sup>	30,629	33,375	34,610	46,949	47,771
	69,503	77,404	73,020	83,190	98,605
Total, General Fund	\$ 1,741,307	\$ 1,828,279	\$ 1,883,310	\$ 1,919,707	\$ 2,116,088
<b>GRAND TOTAL</b>	<b>\$ 1,892,892</b>	<b>\$ 1,982,602</b>	<b>\$ 2,040,165</b>	<b>\$ 2,083,201</b>	<b>\$ 2,283,564</b>

**SOURCES:** Records of the Division of Accounts and Reports and state budget documents.

- 1) Includes city maintenance payments, Special City and County Highway Fund, County Equalization and Adjustment Fund, County Treasurer's Licensing Fee Fund, aid for elderly and handicapped transportation, and an amount equal to annual receipts from the motor carrier tax credited to the State General Fund which is earmarked for transfer to the Special City and County Highway Fund.
- 2) Excludes payments to the State Firefighters Association and any amount of the tax used for administration.
- 3) Seven percent of the tax is returned to producing areas.
- 4) Amount distributed from the Heritage Trust Fund.
- 5) Taxes accounted for 97 percent of General Fund receipts in FY 1994, for 98 percent in FY 1995, and for 97 percent in FY 1996. The "Other" category does not include the motor carrier tax transfer to the Special City and County Highway Fund (\$9.743 million in FY 1994, \$10.036 million in FY 1995, and \$10.407 million in FY 1996) because those amounts are included in "Highway-User Taxes."
- 6) This category includes aid to school districts, community colleges, Washburn University (including Public TV), local libraries, area vocational schools and technical institutes, and the state's contribution for school employees retirement (KPERs-School). Aid to school districts does not include \$26.309 million in FY 1994, \$35.422 million in FY 1995, and \$34.976 million in FY 1996 distributed from "excess" local effort remitted to the state by certain districts with exceptionally high assessed valuations; these amounts were included in the tax levies of those districts.
- 7) By law, fixed percentages of state sales and use taxes credited to the General Fund are transferred to the Local Ad Valorem Tax Reduction Fund and the County-City Revenue Sharing Fund, unless the Legislature limits the transfers by separate legislation.
- 8) The principal aids included in "Other" were for community corrections and community conservation camps, local public health, community mental health and retardation and associated community assistance grants, Aging Department programs, and the juvenile intake and assessment program (FYs 1995 and 1996).

**TABLE X—STATE AND LOCAL GOVERNMENT TAXES IN RELATION TO POPULATION AND PERSONAL INCOME**

	1998	1997	1996	1995	1994	1993	1990	1980	1970	1960	1950	1940	1930
State Taxes (\$000)	4,605,403	4,199,176	3,954,189	3,815,419	3,788,390	3,525,200	2,780,807	1,328,404	432,839	210,559	115,750	41,302	25,551
Local Taxes (\$000)	2,726,987	2,705,232	2,624,924	2,472,342	2,325,530	2,161,895	2,087,623	941,358	490,852	267,631	121,723	60,064	82,389
Total (\$000)	7,332,390	6,904,409	6,579,114	6,287,761	6,113,922	5,687,095	4,868,430	2,269,762	923,691	478,190	237,473	101,366	107,940
State Population (000) <sup>1</sup>	2,595	2,579	2,570	2,554	2,535	2,516	2,478	2,364	2,249	2,179	1,905	1,801	1,881
Personal Income —Kansas (millions) <sup>1</sup>	62,312.0	58,793.1	55,367.9	52,793.9	50,882.9	48,966.7	41,549.1	21,490.8	7,913.3	4,633.1	2,514.0	694.5	992.8
Per Capita Income <sup>1</sup>	24,014	22,796	21,547	20,672	20,075	19,464	16,802	9,155	3,539	2,145	1,306	381	532
Per Capita Taxes													
State	1,775	1,628	1,539	1,494	1,495	1,401	1,122	562	192	97	61	23	14
Local	1,051	1,049	1,022	968	917	859	842	398	218	123	64	33	44
Total	2,826	2,677	2,560	2,462	2,412	2,261	1,965	960	411	219	125	56	57
Ratio of Taxes to Personal Income													
State	7.39%	7.14%	7.14%	7.23%	7.45%	7.20%	6.69%	6.18%	5.47%	4.54%	4.60%	5.95%	2.57%
Local	4.38%	4.60%	4.74%	4.68%	4.57%	4.42%	5.02%	4.38%	6.20%	5.78%	4.84%	8.65%	8.30%
Total	11.77%	11.74%	11.88%	11.91%	12.02%	11.61%	11.72%	10.56%	11.67%	10.32%	9.45%	14.59%	10.87%

1) Estimates of the U.S. Department of Commerce, as reported September 1998. The income figure in each column is for the calendar year in which the fiscal year began.

**TABLE XI — KANSAS PERSONAL INCOME AND STATE AND LOCAL TAX REVENUE**

Personal Income <sup>(1)</sup>		Tax Revenue <sup>(2)</sup>		
Calendar Year	Amount (Thousands)	Fiscal Year	Amount (Thousands)	Percent of Income
1997	62,311,969	1998	7,332,390	11.77%
1996	58,793,075	1997	6,904,409	11.74
1995	55,367,943	1996	6,579,114	11.88
1994	52,793,860	1995	6,287,761	11.91
1993	50,882,918	1994	6,113,922	12.02
1992	48,966,659	1993	5,687,095	11.61
1991	46,112,355	1992	5,367,179	11.64
1990	44,502,919	1991	5,125,020	11.52
1989	41,549,086	1990	4,868,430	11.72
1988	39,490,837	1989	4,561,895	11.55
1987	37,480,663	1988	4,378,365	11.68
1986	35,766,842	1987	3,898,446	10.90
1985	34,276,974	1986	3,642,877	10.63
1984	32,533,845	1985	3,515,739	10.81
1983	29,644,743	1984	3,304,605	11.15
1982	28,580,598	1983	2,924,805	10.23
1981	26,653,147	1982	2,692,245	10.10
1980	23,571,100	1981	2,408,110	10.22
1979	21,490,824	1980	2,269,762	10.56
1978	18,671,605	1979	2,141,722	11.47
1977	16,767,811	1978	1,948,088	11.62
1976	15,341,555	1977	1,762,803	11.49
1975	13,999,756	1976	1,570,746	11.22
1974	12,855,343	1975	1,421,822	11.06
1973	11,857,756	1974	1,272,285	10.73
1972	10,342,820	1973	1,191,929	11.52
1971	9,254,258	1972	1,084,188	11.72
1970	8,531,957	1971	972,666	11.40
1969	7,913,260	1970	923,691	11.67
1968	7,284,590	1969	855,993	11.75
1967	6,722,268	1968	776,486	11.55
1966	6,412,123	1967	730,469	11.39
1965	5,980,776	1966	686,860	11.48
1964	5,600,683	1965	613,331	10.95
1963	5,335,740	1964	583,086	10.93
1962	5,200,812	1963	550,882	10.59
1961	5,003,893	1962	526,983	10.53
1960	4,801,857	1961	495,555	10.32
1959	4,633,067	1960	478,190	10.32
1954	3,702,814	1955	331,280	8.95
1949	2,513,985	1950	237,473	9.45
1944	2,061,114	1945	116,110	5.63
1939	694,543	1940	101,366	14.59
1934	534,985	1935	77,913	14.56
1929	992,793	1930	107,940	10.87

1. Estimates of the U.S. Department of Commerce, September 1998.
2. From various editions of and supplements to *Kansas Tax Facts*, prepared by the Legislative Research Department. Includes all state taxes and all local taxes for which annual data have been compiled.