

**THIRD CONFERENCE COMMITTEE REPORT BRIEF
HOUSE BILL NO. 2096**

As Agreed to April 30, 2024

Brief*

HB 2096 would enact the Veterans' Valor Property Tax Relief Act, make changes to the Homeowners' Property Tax Freeze Program, provide for property tax rebates for certain businesses subject to government competition, create a property tax exemption for certain personal property, limit transactions that can be considered valid sales for property tax purposes, modify law related to property valuation notices and appeals, and increase the tax credit for household and dependent care expenses.

Veterans' Valor Property Tax Relief Act

The bill would enact the Veterans' Valor Property Tax Relief Act, creating a refundable income tax credit, effective beginning in tax year 2024, for taxpayers who have been deemed permanently and totally disabled or unemployable under federal disabled veterans provisions for 75 percent of the property and ad valorem taxes actually and timely paid on the residential property of the taxpayer.

Taxpayers receiving the credit would be prohibited from receiving a credit pursuant to the Homestead Property Tax Refund Act or the Selective Assistance for Effective Senior Relief program.

The credit would be supplemental to the Homestead Property Tax Refund Act, but the income and appraised value limitations provided in the Homestead Property Tax Refund Act would not apply to the credit.

The Secretary of Revenue would be required to adopt rules and regulations regarding documentation to support such credits.

Homeowners' Property Tax Freeze Program Changes

The bill would make changes to the refund option providing for a refund of the amount of tax in excess of the base year amount under the Homestead Property Tax Refund Act, which it would rename the Homeowners' Property Tax Freeze Program.

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kIRD>

[*Note:* The Homestead Property Tax Refund Act includes three different refund options. The other two refund options would not be impacted by the bill.]

The bill would, for purposes of only this refund option, define income to be the Kansas Adjusted Gross Income, excluding any Social Security benefits, of all members of the household.

The bill would increase the maximum amount of income for which taxpayers would be eligible for this refund option from \$50,000 to \$80,000.

The bill would increase the maximum appraised value of an eligible claimant's home in the base year from \$350,000 to \$500,000.

The changes to the refund option would be retroactive to tax year 2022, and the deadline to file claims for tax years 2022 and 2023 would be extended from April 15, 2023, to April 15, 2025.

Government Competition Property Tax Rebates

The bill would create, beginning in tax year 2025, a program authorizing rebates of property taxes to certain businesses owning property within a city or county when the property is operated as a business against which a facility owned or operated by the city or county and exempt from property taxes competes.

Rebates would only be allowed for businesses operating as child care centers, health clubs, or restaurants that were in operation on the property prior to the city or county beginning the competing activity.

The rebate amount would be the amount of property tax levied by the competing city or county. In order to be eligible for a rebate, the business would be required to be in compliance with state and local laws and current in payment of state and local taxes. Rebates would be required to be requested by December 20 of the year following the tax year at issue and would be required to be paid out of the general fund of the city or county.

If the governing body of the city or county determines the business is not eligible for a rebate, it would be required to provide a written final decision to the owner, which could be appealed to the State Board of Tax Appeals within 30 days of service of the decision.

"Competing against the business" would be defined to mean offering the same or substantially the same goods or services to the public and receiving any payment for the goods or services at least one half the number of days per year of the tax year as the business seeking the rebate and the facility owned or operated by the city or county is located within the same city as or within 5 miles of the property owned and operated by the business. Such competition would not include the provision of goods and services without receiving payment, providing such services to its own employees, or restaurants used for educational purposes.

Ballot propositions to finance facilities owned or operated by governmental entities would be required to include language indicating that such facility may compete against private business and cause private businesses to receive rebates.

Tangible Personal Property Tax Exemptions

The bill would exempt, beginning in tax year 2025, certain personal property from all property or ad valorem taxes levied under Kansas law.

The bill would exempt the following personal property from all property or ad valorem taxes:

- Any snowmobile, all-terrain vehicle, recreational off-highway vehicle, golf cart, or motorcycle manufactured for off-road use only and used exclusively off roads and highways, that is not operated upon any highway;
- Any motorized bicycle, electric-assisted bicycle, electric-assisted scooter, electric personal assistive mobility device, and motorized wheelchair, as those terms are defined in law;
- Any trailer having a gross weight of 15,000 pounds or less that is used exclusively for personal use and not for the production of income;
- Any watercraft; and
- For each such watercraft, one trailer designed to launch, retrieve, transport, and store such watercraft, and any watercraft motor designed to operate such watercraft on the water.

Section 1031 Exchange Exclusion from Valid Sales

The bill would prohibit the sale price at which a property sells in an Internal Revenue Code Section 1031 exchange (1031 exchange) from being considered an indicator of fair market value or used in arriving at fair market value for property tax purposes. The bill would exclude such sales from being considered valid sales for purposes of the sales ratio study used for measuring tax appraisal accuracy.

[*Note:* A 1031 exchange allows a person to postpone paying tax on the gain the person receives from selling a property if they reinvest the proceeds in similar property as part of a qualifying like-kind exchange.]

Property Valuation Notices

The bill would require annual property valuation notices provided by county appraisers to include a valuation history of the parcel showing, at a minimum, a statement or display of the total appraised values for the parcel for the current year and the previous four years.

Payment-Under-Protest Prohibition Exceptions

The bill would create exceptions to the provision prohibiting a taxpayer from appealing the valuation of their property using the payment-under-protest appeal procedure if they have already appealed their valuation pursuant to the equalization appeal and informal meeting

procedures for situations where the taxpayer withdrew the initial appeal or the taxpayer wishes to present new evidence relating to the valuation or assessment of the property.

Tax Credit for Household and Dependent Care Expenses

The bill would increase the tax credit for household and dependent care expenses from 25 percent to 100 percent of the federally allowed amount, effective tax year 2024.

Conference Committee Action

The third Conference Committee agreed to remove the contents of HB 2098 and insert:

- The Veterans' Valor Property Tax Relief Act;
- Changes to the Homeowner's Property Tax Freeze Program, as amended by the Conference Committee to define income as Kansas Adjusted Gross Income;
- The contents of SB 252, as amended by the Senate Committee of the Whole, and as further amended by the Conference Committee, to provide for a property tax rebate program;
- The contents of SB 484 creating personal property tax exemptions;
- The contents of SB 311 related to sales validation, as amended by the Conference Committee eliminating references to build-to-suit transactions and sale/leaseback arrangements;
- Changes to required property valuation notices;
- New exceptions to the prohibition from certain payments under protest; and
- The increase to the tax credit for household and dependent care expenses.

Background

The third Conference Committee removed the contents of HB 2096 and inserted provisions from SB 252, SB 484, and SB 311, in addition to other provisions. HB 2096 would have made changes to insurance premiums tax payments by certain group-funded insurance pools. Its provisions are contained in the Conference Committee Report for HB 2093. The background information for SB 252, SB 484, and SB 311 is provided below.

SB 252 (Government Competition Property Tax Rebate)

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Peck.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by Senator Masterson and a representative of the Kansas Chamber of Commerce. The proponents generally stated the bill would discourage government entities from engaging in conduct in competition with private sector business enterprises.

Written-only proponent testimony was provided by a representative of Americans for Prosperity-Kansas.

Opponent testimony was provided by representatives of the Kansas Association of Counties, Kansas County Commissioners Association, Kansas Emergency Medical Services Association, and League of Kansas Municipalities. The opponents generally stated the bill would shift the tax burden to residential property owners and would not clearly define what constitutes government competition against private businesses.

Written-only opponent testimony was provided by representatives of the cities of Concordia, Manhattan, McLouth, Merriam, Mission, Overland Park, Prairie Village, Topeka, and Westwood Hills; Ford and Miami counties; Johnson County Board of County Commissioners; Kansas Legislative Policy Group; and Sedgwick County Board of County Commissioners.

The Senate Committee amended the bill to:

- Eliminate ambulance services as businesses qualifying for the exemptions;
- Limit the geographic qualification for the exemptions from counties to cities;
- Eliminate facilities receiving funds from property taxes levied by a taxing subdivision as triggering eligibility for the exemptions; and
- Require that the competing activity began after the business was active in order to qualify for the exemptions.

Senate Committee of the Whole

The Senate Committee of the Whole amended the bill to exclude sales of goods and services at facilities financed as a result of an election providing for the imposition of a tax or the sale of bonds from the definition of “competing against the business.”

[*Note:* The Conference Committee modified the contents of the bill as amended by the Senate Committee of the Whole.]

SB 484 (Personal Property Tax Exemptions)

The bill was introduced by the Senate Committee on Ways and Means at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by a representative of the Kansas County Appraisers Association. The proponent generally stated the bill would tax the same type of property equally, provide clarity on taxation of other property, and provide savings greater than the revenue lost.

Neutral testimony was provided by a representative of the Division of Property Valuation, Department of Revenue. The testimony generally provided background information and fiscal estimates on the various property types in the bill.

No other testimony was provided.

The Senate Committee amended the bill to increase the trailer weight limit from 2,000 pounds to 12,000 pounds. [*Note:* The third Conference Committee retained a modified version of this amendment.]

Senate Committee of the Whole

The Senate Committee of the Whole amended the bill to increase the trailer weight limit from 12,000 pounds to 15,000 pounds. [*Note:* The third Conference Committee retained this amendment.]

SB 311 (Sales Validation)

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing on March 23, 2023, **proponent** testimony was provided by a private citizen, who generally stated the federal income tax consequences of the sale and lease terms of a property result in the sale price not reflecting fair market value of the property.

The Secretary of Revenue responded to questions concerning 1031 exchanges.

No other testimony was provided.

On January 9, 2024, the bill was withdrawn from the Senate Calendar and rereferred to the Senate Committee on Assessment and Taxation.

Following discussion on March 13, 2024, the Senate Committee amended the bill to include build-to-suit transactions and sale/leaseback arrangements. [*Note:* The third Conference Committee did not retain these amendments.]

Fiscal Information

According to the Department of Revenue, the property tax exemption for certain personal property would reduce state receipts by approximately \$2.8 million per year beginning in FY 2026.

The changes to the Homeowners' Property Tax Freeze Program would reduce state receipts by \$54.8 million in FY 2025, by \$39.6 million in FY 2026, and by \$49.9 million in FY 2027.

The enactment of the Veterans' Valor Property Tax Relief Act would reduce state receipts by \$7.6 million in FY 2025, by \$8.0 million in FY 2026, and by \$8.4 million in FY 2027.

The increased household and dependent care expenses tax credit would reduce state receipts by \$18.0 million per year beginning in FY 2025.

The following provisions of the bill would have either an indeterminate fiscal effect, a negligible fiscal effect, or no state fiscal effect:

- The provision excluding Section 1031 exchange transactions from valid sales would have an indeterminate fiscal effect on state and local property taxes;
- The property tax rebate program related to government competition would have an indeterminate fiscal effect on local government expenditures;
- The provision requiring valuation history on property valuation notices would have no fiscal effect; and
- The provision adding exceptions to the payment-under-protest prohibition would have no fiscal effect.

Any fiscal effect associated with enactment of the bill is not reflected in *The FY 2025 Governor's Budget Report*.

Taxation; property tax; property tax freeze; personal property tax exemption; valid sales; government competition; valuation notices; payment under protest; disabled veterans; Veterans' Valor Property Tax Relief Act; child and dependent care tax credit

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