



Legislative Post Audit Performance Audit Report Highlights

Kansas Tax Revenues, Part III: Reviewing Property Tax Exemptions

Report Highlights

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Audit Concern

Legislators have expressed an interest in knowing whether some property tax exemptions should be considered for elimination.

Other Relevant Facts

All property is placed into two classes—real property (land and buildings) or personal property (e.g. boats, cars, household belongings).

The Kansas Constitution requires certain property to be exempt from taxation, and allows the Legislature and local government to exempt additional property.

The number of property tax exemptions in Kansas has increased from 42 in 1985 to 100 exemptions currently.

Many property tax exemptions were created or expanded in recent years, including seven in 1992, five in 2001, and 21 exemptions between 2005 and 2007, many of which are business-related.

A rise in the number of property exemptions can shift the tax burden to a smaller group of taxpayers. Tax revenues based on residential real estate have grown faster than any of the other major property category. In 2008, tax revenues

AUDIT QUESTION: *Does Kansas have property tax exemptions that potentially should be considered for elimination?*

AUDIT ANSWER and KEY FINDINGS:

- More than half of Kansas' 100 statutory property tax exemptions relate to those that are specified in the Kansas Constitution. The rest are based on policy choices made by the Legislature.
- Kansas lacks good information about the financial impact property tax exemptions have on the State and local governments.
- We identified a number of property tax exemptions the Legislature may want to re-evaluate:
 - Six property tax exemptions are broader than the Constitution requires:
 - Household goods and personal effects
 - Parsonages
 - Non-profit community housing development organizations
 - Non-profit community service organizations
 - Certain buildings owned by private non-profit universities or colleges
 - Property used by alumni organizations
 - Four property tax exemptions aren't in-line with good tax policy because they provide unequal treatment for similar types of taxpayers:
 - an exemption for farm structures used to store hay, but not for other structures used to store inventory, products, and other goods
 - an exemption for aircraft that are used to generate income, but not for other forms of transportation used to create income such as taxi cabs or delivery trucks
 - an exemption for antique aircraft, but not other antique property such as cars
 - an exemption for low oil production implemented in 1992, to subsidize those businesses when oil prices were at a record low
- Several property tax exemptions for machinery and equipment that were enacted in 2006 have significantly eroded the local tax base. These exemptions were expected to cost counties more than \$400 million in property taxes over the first five years. We estimated that these exemptions cost the State \$5 million in property tax revenues in fiscal year 2008; and those losses are estimated to increase to almost \$19 million by 2012.

We Recommended

- We recommended that the Legislature review the property tax exemptions noted on the front page to determine what changes, if any, should be made. We also recommended that the Legislature consider establishing a broad property tax policy outlining the types of property it wants to exempt and developing criteria regarding what fits within that broad policy.

Agency Response: The Department of Revenue had no issues with the report's findings and recommendations.

Other Relevant Facts

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from residences made up 47% of all property tax revenues (up from 38% in 1994).

According to the U.S. Census Bureau data, local governments in Kansas derive roughly 76% of their tax revenues from property taxes.

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