Minutes of the House Committee on Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 1, 1988 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Crowell, Aylward, Gatlin, Groteweil

Committee staff present:

Tom Severn, Legislative Research
Chris Courtright, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Discussion on proposed amendment to HB-2651 - AN ACT relating to property taxation; exempting property used by community service organizations for the provision of humanitarian services. (Attachment 1) Representative Wunsch presented the subcommittee report and recommended language changes. Representative Wunsch moved, second by Representative Pottorff that the subcommittee report be adopted and the bill be amended. Motion carried. Chairman Rolfs presented an amendment which would exempt convents from the property tax. Representative Adam moved, second by Representative Reardon, that the language in the proposed amendment be adopted. The motion carried.

Representative Wunsch moved, second by Representative Pottorff, that HB-2651 as amended be approved for passage. The motion carried.

Secretary Harley Duncan, Department of Revenue, discussed HB-2684 -- AN ACT amending and supplementing the Kansas income tax act; concerning the filing requirements, determination of income, standard and itemized deductions, personal exemptions and liability of an individual thereunder; concerning the net operating loss and apportionment of business income of corporations; imposing an alternative minimum tax upon corporations.

Secretary Duncan distributed information outlining THE TAX REFORM PROPOSALS OF GOVERNOR MIKE HAYDEN. (Attachment 2) He then explained the information therein and answered questions from committee members.

Committee members were particularly concerned about the method of arriving at the comparative figures shown in the various schedules and whether the suggested changes might inflict an additional burden on the middle income group of taxpayers. In answer to questions, Secretary Duncan explained the Summary of Social Security, Tax Payments, and Deductions of Federal Income Taxes by states and comparison of the Top Tax Rate and Top Taxable Income Bracket by states.

Secretary Duncan agreed to provide the committee with additional data requested by the committee to demonstrate changes different taxpayers would experience under the proposal.

The minutes of the meeting January 29, 1988 were approved.

There being no further business, the meeting was adjourned.

E. C. Rolfs, Chairman

Proposed amendment to HB 2651

On page 4, after line 142, by inserting the following:

"The provisions of this paragraph shall apply to all taxable years commencing after December 31, 1985.

Tenth. Any building, and the land upon which such building is located to the extent necessary for the accommodation of such building, owned by a church or nonprofit religious society or order which is exempt from federal income taxation pursuant to section 501(c)(3) of the federal internal revenue code of 1986, and actually and regularly occupied and used exclusively for residential and religious purposes by a community of persons who are bound by vows to a religious life and who conduct or assist in the conduct of religious services and actually and regularly engage in religious, benevolent, charitable and educational ministrations.";

Also, on page 4, in line 143, after "section" by inserting ", except as otherwise more specifically provided,"; in line 144, by striking "1985" and inserting "1987";

In the title, in line 18, before the semicolon by inserting "and certain property used for religious purposes"

Attachment 1

Proposed Amendment to HB 2651

On page 4, in line 139, after "distress" by inserting "or any combination thereof"

THE TAX REFORM PROPOSALS

OF

GOVERNOR MIKE HAYDEN

PREPARED FOR

THE HOUSE COMMITTEE ON TAXATION

BY

HARLEY T. DUNCAN
SECRETARY OF REVENUE

FEBRUARY 1, 1988

Attachment 2

FOREWORD

The following is a synopsis of the tax reform recommendations made to the 1988 Session of the Kansas Legislature by Governor Mike Hayden. The Governor's recommendations are based in large part on proposals made by the Task Force on Tax Reform created by Governor Hayden in December 1986. The Task Force recommendations are detailed in **Kansas Tax Reform, Report and Recommendations of the Governor's Task Force on Tax Reform**, issued in January 1988. Members of the Task Force included:

Harley T. Duncan, Chairman
Secretary of Revenue
Topeka, Kansas

Robert F. Bennett
Former Governor
Prairie Village, Kansas

Rochelle B. Chronister
State Representative
Neodesha, Kansas

Glenn W. Fisher
Wichita State University
Wichita, Kansas

H. Edward Flentje
Secretary of Administration
Topeka, Kansas

Gerald Karr
State Senator
Emporia, Kansas

Fred A. Kerr
State Senator
Pratt, Kansas

Michael O'Keefe
Director of the Budget
Topeka, Kansas

Marlin Rein
Kansas Univ. Medical Center
Kansas City, Kansas

Ed C. Rolfs
State Representative
Junction City, Kansas

Shelby W. Smith
Former Lt. Governor
Wichita, Kansas

Tim Witsman
President, Kansas Inc.
Topeka, Kansas

Philip B. Wolfe
Attorney
opeka, Kansas

Joan Wagnon
State Representative
Topeka, Kansas

INDIVIDUAL INCOME TAX

PRINCIPLES

The Governor's proposals are based on several basic principles of tax reform and tax policy.

- Tax reform should **simplify** our tax code significantly. Tax laws must be understandable to our citizens, minimize the costs of compliance, and facilitate fair, efficient enforcement.

- Tax reform should improve the **equity** of our system. Steps should be taken to insure that taxpayers in similar economic circumstances are treated equally and that low-income households are protected from excessive income tax burdens.

- Tax reform should promote the **economic development** of our state by reducing tax rates, minimizing economic distortions, and making our structure more competitive with other states.

These principles can be pursued through a variety of avenues. They are best achieved, however, by adopting a tax base that is broadly and comprehensively defined, contains few provisions for special treatment of certain income or expenses, and has marginal tax rates that, while graduated, are as low as possible.

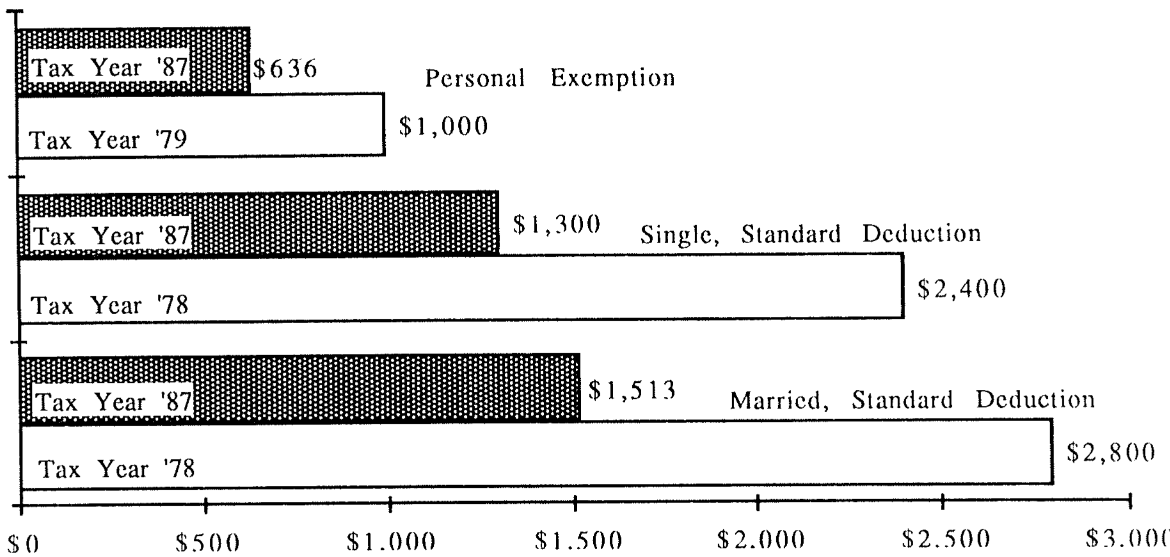
FINDINGS

1. The combination of Kansas itemized deductions and the deduction for federal taxes paid makes the Kansas income tax base among the most narrow of any state with a broad-based income tax. Only three other states allow a deduction for Social Security taxes paid, and only eight states allow a deduction for all federal taxes paid. Moreover, the current tax base is proportional across income groups; Kansas taxable income is about 55-58 percent of adjusted gross income for most income groups. This combination causes Kansas tax rates to be higher than would otherwise be necessary to achieve any given revenue level or any given degree of progressivity in the tax. Kansas tax rates are higher than many other states. Only six states have a top tax rate bracket in excess of 9.0 percent; two others are at nine. (See Attachment A.)

2. The complexity of the Kansas income tax is increased significantly by the Tax Reform Act of 1986. This is particularly true for itemized deductions where there are now 11 areas of difference between the state and federal taxes. Substantial differences between the state and federal tax code will add complexity for the taxpayer and increase compliance difficulties for the State.

3. The value of personal exemptions and standard deductions allowed Kansas taxpayers has been eroded significantly since they were last changed by the Legislature in 1978-79. In inflation-adjusted terms, the value of these items has declined by 35-45 percent since they were last adjusted. (See chart below.) Further, the increased personal exemption and standard deduction contained in the federal Tax Reform Act of 1986 will mean that a large number of low-income Kansans will be subject to state income tax, but not federal.

Kansas Standard Deduction and Personal Exemptions
Real 1979 Dollars



RECOMMENDATIONS

The Kansas individual income tax should be amended to conform the definition of Kansas taxable income to federal taxable income in most regards. Further, the current tax rate structure should be replaced by one with two marginal rate brackets, and tax rates should be reduced substantially. The specific changes follow:

Kansas Adjusted Gross Income. The adjustments made to federal adjusted gross income in arriving at Kansas adjusted gross income are changed as follows:

- New exemption for interest on general obligation bonds issued by Kansas local governments.
- Conform to federal treatment of state employee payments for group health insurance.
- Eliminate the adjustment for certain insulation expenditures.

Kansas Standard Deductions: The Kansas standard deduction is increased to the 1988 federal level, including the additional standard deduction amounts for elderly and blind taxpayers, as shown below:

	Current*	Proposed Basic	Proposed Additional**
Married	$2,100 - $2,800	$5,000	$600
Single	$1,700 - $2,400	$3,000	$750
Head of Household	$1,700 - $2,400	$4,400	$750
Married Filing Separate	$1,050 - $1,400	$2,500	$600

* The current Kansas standard deduction is 16 percent of Kansas adjusted gross income, but not less than nor more than the above stated minimums and maximums.

** Taxpayers who are over age 65 and/or blind receive an additional standard deduction amount equal to that shown depending on their filing status. For example, a married couple, both over age 65, would receive a standard deduction of $6,200 ($5,000 plus $600 for each person).

Kansas Personal Exemption. The personal exemption is increased from $1,000 to the 1988 federal level of $1,950 per allowance. It will also be increased to $2,000 in 1989, as will be done at the federal level.

Federal Income Tax Deduction. The deduction for federal income taxes paid is eliminated. Repeal of the deduction will increase the elasticity and stability of the tax, and its effect can be offset by reductions in tax rates. Repeal will also improve the simplicity of the tax and its equity.

Kansas Itemized Deductions: The Kansas itemized deductions are made to conform fully to federal itemized deductions for tax year 1988, as defined in the Tax Reform Act of 1986, except the deduction for state and local income taxes is not allowed. This eliminates 11 areas of non-conformity between Kansas and federal deductions.

1. Medical and dental expenses
2. Social security and related employment taxes
3. State and local sales taxes
4. State gasoline taxes
5. Non-mortgage interest
6. Miscellaneous deductions
7. Casualty and theft losses
8. Unreimbursed employee business expenses
9. Political contributions deduction
10. Works of art contributed to a gallery or museum
11. Moving expenses

Tax Rates. The current structure of eight tax rate brackets graduated from 2 percent to 9 percent is replaced by a system employing only two tax rates.

Single:	$0 - $25,000 4.80%	Married:	$0 - $37,500 4.15%
	Over $25,000 6.20%		Over $37,500 5.40%

Tax Credits. The Kansas credit for child and dependent care expenses is expanded to allow all taxpayers claiming the counterpart federal credit to claim a Kansas credit equal to 25 percent of the federal credit.

FISCAL IMPACT

1. The recommendation is estimated to reduce tax liability under current law by approximately $21.3 million or 2.3 percent in 1988. Most major taxpayer groups experience some reduction, on average, but the greatest relative (percentage) reductions accrue to low-income households. Two-thirds of all taxpayers will see their taxes reduced or remain the same under the recommendation. The distribution of the tax reductions for tax year 1988 for resident taxpayers is shown below. Greater detail on the fiscal impact by income bracket is shown in Attachment B. The number and proportion of taxpayers, by income bracket, who receive a tax decrease, tax increase or no change is displayed in Attachment C.

Percentage Change in Income Tax Liability
Governor's Proposal Compared to Current Law
Tax Year 1988

	Married	Single	All Residents
$0 - $5,000	-95.8%	-95.9%	-95.9%
$5,000 - $15,000	-55.7	-4.5	-14.7
$15,000 - $25,000	-6.4	-1.3	-3.2
$25,000 - $35,000	-1.8	-1.6	-1.7
$35,000 - $50,000	-1.8	0.4	-1.4
$50,000 - $100,000	-1.8	3.3	-1.2
$100,000 - Over	-0.2	0.3	-0.2
All Resident Taxpayers	-2.5%	-1.7%	-2.3%

2. Questions have been raised as to whether the results of the Department of Revenue simulation model which produced the above results are reliable and whether the averages shown cloak different impacts which might occur in the "real world." Presented below is a comparison of the tax liability for various hypothetical taxpayers under current law in 1988 and under the Governor's proposal in 1988.

Comparison of 1988 Kansas Tax Liability
For Various Hypothetical Taxpayers
Current Law vs. Governor's Proposal

Taxpayer	AGI	Current Law	Governor's Proposal	Dollar Change
Single, SD, 1 Ex	$ 7,000	$ 105	$ 98	$ (7)
Single, SD, 1 Ex	17,500	616	602	(14)
Single, ID, 1Ex	35,000	1,232	1,315	83
Head of Household, SD, 2 Ex	15,000	326	322	(4)
with Child Credit @ $120		326	202	(124)

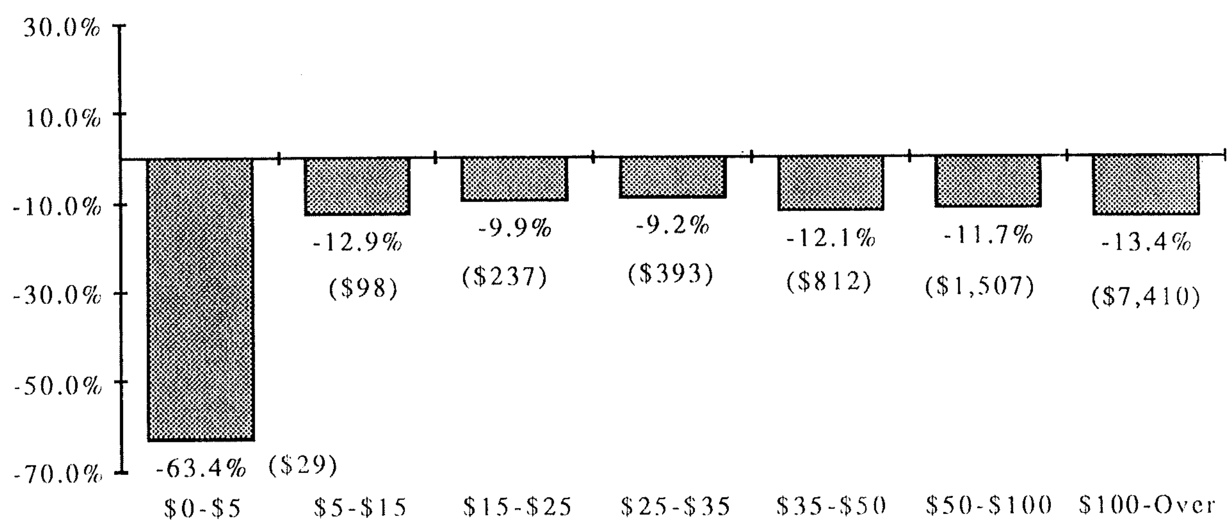
Taxpayer	AGI	Current Law	Governor's Proposal	Dollar Change
Married, SD, 2 Ex, Both over 65	15,000	305	203	(102)
Married, SD, 4 Ex	25,000	664	506	(158)
with Child Credit @ $120		664	386	(278)
Married, ID, 2 Ex	35,000	941	1,034	93
Married, ID, 4 Ex	60,000	1,923	1,825	(98)
with Child Credit @ $120		1,923	1,705	(218)
Married, ID, 4 Ex	100,000	3,673	3,619	(54)
with Child Credit @ $120		3,673	3,499	(174)

SD = Standard Deduction; ID = Itemized Deductions; Ex = Exemptions

3. Some of the confusion regarding taxpayer comparisons stems from the years which are being compared. The appropriate comparison is current state and federal law in 1988 compared to the Governor's proposal in 1988. Comparisons to 1986 ignore the effects of the federal base broadening. Also, comparisons to 1987 ignore the fact that the scheduled federal tax reductions will cause current law tax liability to increase in 1988 regardless of the outcome of the Governor's proposal.

4. We have not denied that the Governor's proposal does not offset the effects of federal tax reform on most taxpayers. That is, 1988 state liabilities are likely to be higher for most taxpayers than in 1986 because of the broader tax base and the federal tax reductions. The same is true if the Governor's proposal is not passed. It is important to note, however, that the combined state and federal income tax liability for all taxpayers groups will be less in 1988 than it was in 1986 according to our estimates. (See chart below.)

Percent Change Total Federal and State Tax Burden
After Federal and State Tax Reform
1986 - 1988



BENEFITS OF THE PROPOSAL

The recommendations establish a simple, broad-based and fair tax system. They go far in meeting the principles outlined above -- tax simplification, tax equity and promoting economic development -- and should provide real benefits to Kansas taxpayers. Some of the principal benefits are:

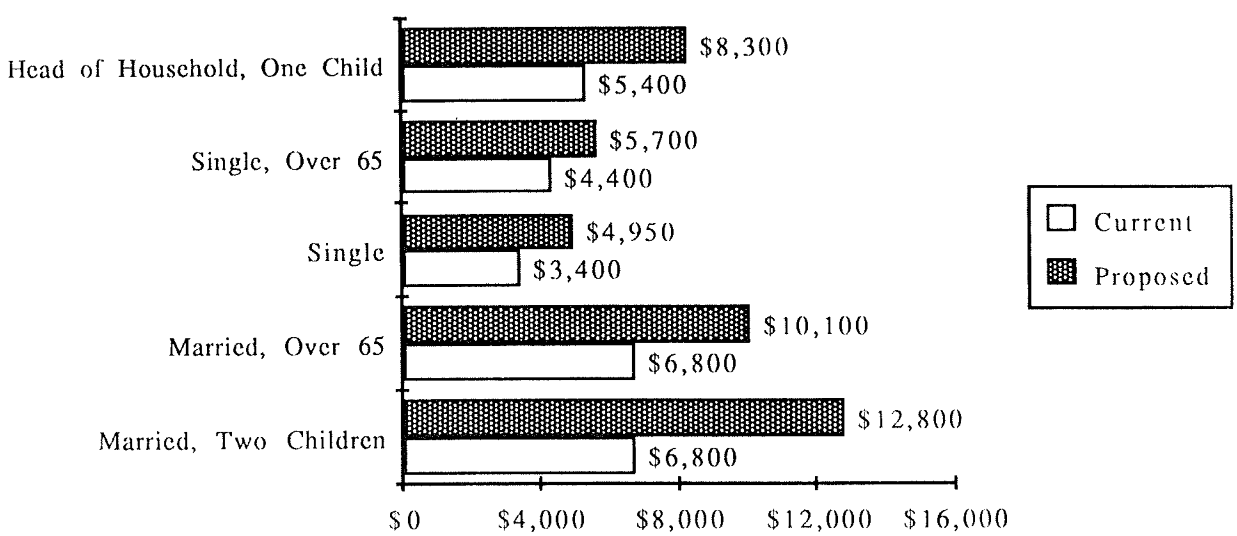
- Approximately 500,000-600,000 taxpayers will be able to file on a "short" tax form that can be reduced to as few as nine lines compared to a minimum of 27 lines now required. (See Attachment D for prototype.)

- Tax returns for those not filing on the short form will also be simplified significantly. The "normal" income tax return can be shortened to 66 lines compared to the 74 lines plus a 38-line schedule required currently.

- The recommendation provides $21 million in tax relief to Kansans, with most income groups receiving some tax reduction, on average. The tax burden for two-thirds of all Kansans will be reduced or stay the same, and the greatest relief is directed to low-income households.

- The state income tax liability for 105,000 households below the poverty level is eliminated because of increased standard deductions and personal exemptions. A display of the increased tax-free threshold (combination of standard deduction and personal exemptions) for various filing categories is presented below.

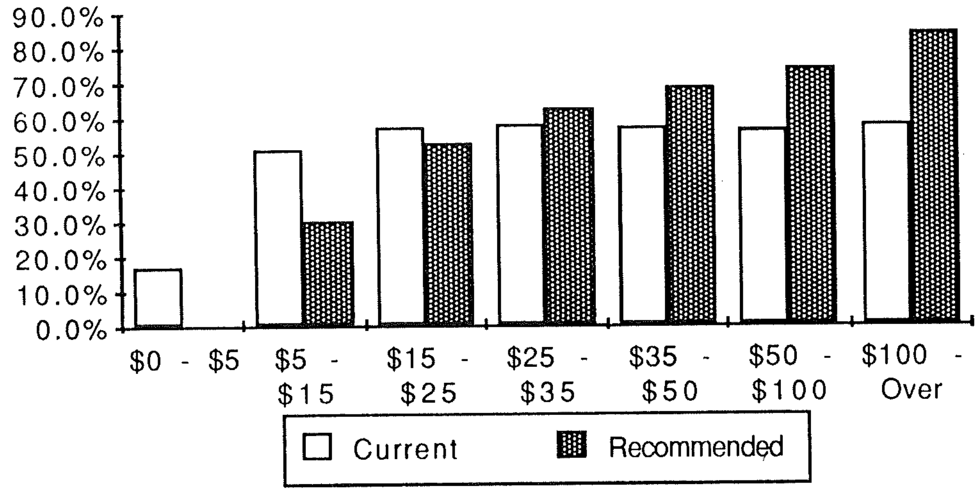
Comparison of Tax Free Income Levels
Current Law and Governor's Proposal



- The availability of tax credit for child care expenses is expanded to all households claiming the federal credit. It is set at 25 percent of the federal credit.

- The tax base is more broadly defined and is progressive with respect to income. This allows tax rates to be reduced significantly and will help insure that persons in similar economic circumstances are treated equally. (See chart below.)

Taxable Income as Percent of AGI
Current Law vs. Recommended Proposal



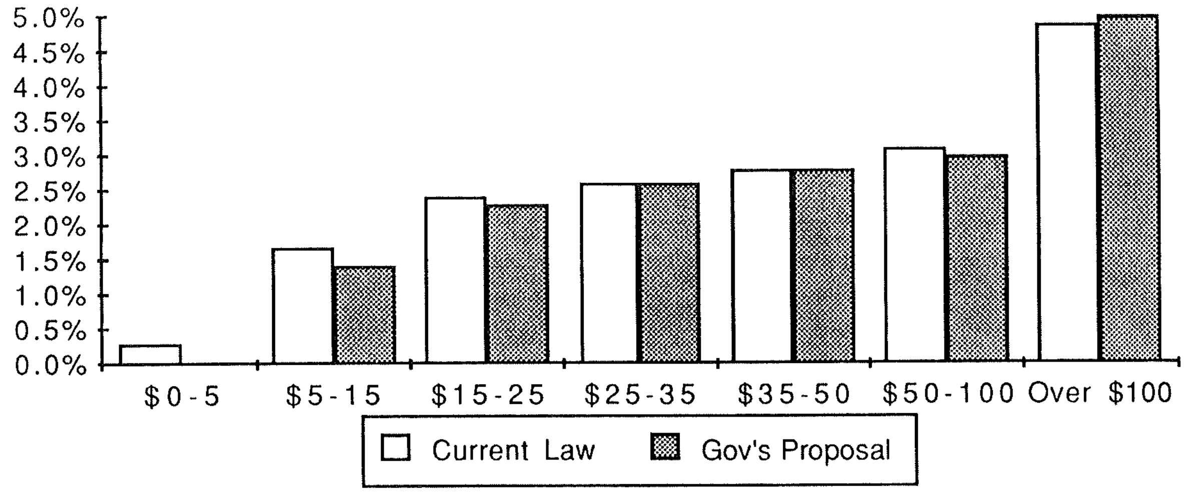
- The repeal of various deductions and exclusions will eliminate instances in which persons of similar incomes have very different tax liabilities. Examples of the differences eliminated or minimized include those between itemizers and non-itemizers in the same bracket, between wage earners and non-wage earners, between employees and self-employed, and between persons of the same income with very different federal liabilities.

- The top tax rate is cut from 9 percent to 5.4 percent for married taxpayers and to 6.2 percent for single taxpayers. The number of brackets is reduced from eight to two. Arbitrary distinctions between relatively small amounts of income, as is now present in the rate structure, are no longer required.

- Interest on Kansas general obligation bonds is exempted from income tax in the interest of equity and reducing local government borrowing costs.

- The combination of a broader tax base and lower tax rates serves to preserve to a large degree the existing distribution of the tax burden across income groups. Similarly, the progressivity of the current tax system (as measured by effective tax rates) is not disturbed despite the lower tax rates. (See chart below.)

Effective Tax Rates (Tax Liability/AGI)
Current Law v. Governor's Proposal
Tax Year 1988



BUSINESS TAXES

FINDINGS

1. The state corporation income tax, the primary state business tax, is an extremely volatile revenue source due to certain features of Kansas law and the concentration of liability in a relatively few large corporations. This complicates revenue estimating and budgetary planning. The first table below presents the degree of annual change in the various components of the corporation income tax over the past five years. The second presents data on the concentration of the income tax among a relatively few taxpayers.

Components of Corporation Income Tax Collections
Annual Percent Change

	1987	1986	1985	1984	1983
Regular	-2.6%	12.4%	-6.6%	9.2%	-10.4%
Estimated	-1.7	-17.2	6.3	14.2	16.7
Assessments	-43.2	-12.7	59.5	69.6	56.9
Gross Collections	-7.9%	-8.4%	7.6%	16.3%	-11.7%
Less: Refunds	48.8	-19.4	-15.8	104.4	21.6
Net to General Fund	-22.4%	-5.1%	17.4%	-1.5%	-16.3%
Total ($ Millions)	$104.6	$134.8	$142.0	$121.0	$122.8

Kansas Corporation Income Tax
Returns Processed in 1986

	Number of Returns	Percent of Returns	Liability ($ Millions)	Percent of Liability
No Taxable Income	20,518	55.9%	$0.0	0.0%
$0 - $50,000	12,383	33.7%	$8.5	7.0%
$50,000 - $100,000	1,868	5.1%	$7.7	6.3%
$100,000 - $500,000	1,449	3.9%	$19.9	16.3%
$500,000 - $1 million	208	0.6%	$9.5	7.8%
Over $1 million	265	0.7%	$76.3	62.6%
TOTAL	36,691	100.0%	$121.9	100.0%

2. The total tax burden faced by businesses in Kansas is about the median of the surrounding states. The sales and corporation income taxes imposed in Kansas tend toward the high end of the surrounding states. These conclusions are drawn from research sponsored by Kansas Inc. This research estimated the total federal, state and local tax burden a new or expanding firm would face over a 15-year period in Kansas, Colorado, Iowa, Missouri, Nebraska, and Oklahoma. The estimates were made for firms in each of nine industry groups. The taxes estimated were federal income, state income, sales, unemployment and workers' compensation, real and personal property, and franchise taxes. The structure, asset mix, and employment were based on industry-wide averages, and the study assumed a new or expanding firm would take advantage of all available incentives. The table below presents the ranking of each state for each industry based on the total estimated tax liability for all federal, state and local taxes.

Total Tax Liability of Hypothetical New and Expanding Firms
Ranking of States by Industry

Industry	Kansas	Colo.	Iowa	Mo.	Nebr.	Okla.
Meat Products	4	6	3	1	2	5
Grain Mill Products	4	3	5	1	6	2
Misc. Plastic Products	3	4	5	1	6	2
Fabricated Structured Metal	3	6	4	1	2	5
Construction and Rel. Machinery	2	4	5	1	6	3
Electronic Components and Acc.	4	2	5	1	6	3
Motor Vehicles and Acc.	2	6	4	1	5	3
Telecommunications	5	2	6	1	4	3
Data Processing and Computer Ser.	4	2	6	1	5	3
Average	3.44	3.89	4.78	1.00	4.67	3.22
Overall Rank (Based on Average)	3	4	6	1	5	2

SOURCE: Darwin Daicoff and Patricia Oslund, **Tax Structure of Kansas and Nearby States,** Part 2, Hypothetical Firm Study. Final Report to Kansas, Inc., Report No. 131, October, 1987, Institute for Public Policy and Business Research, University of Kansas, Lawrence, KS.

The Kansas Inc. study found that Kansas tended to rank higher in the corporation income tax and the sales tax than for other taxes. As shown below, with some exceptions, the Kansas rank for sales and corporation income tax was generally fifth highest among the six states analyzed. This is generally consistent across all industry groups.

Ranking of Kansas by Industry and by Tax
Tax Liability of Hypothetical New and Expanding Firms

Industry	Income	Unemp.	Ppty.	Franch.	Sales	Total
Meat Products	5	2	1	4	5	3
Grain Mill Products	5	4	1	4	5	4
Misc. Plastic Products	3	6	1	4	5	2
Fabricated Structured Metal	5	3	1	4	5	3
Construction and Rel. Machinery	3	3	1	4	5	2
Electronic Components and Acc.	5	3	1	4	5	3
Motor Vehicles and Acc.	5	3	1	4	5	2
Telecommunications	2	3	5	4	1	5
Data Processing and Computer Ser.	4	4	5	4	2	4
Average	4.11	3.44	1.89	4.00	4.22	3.11

SOURCE: Darwin Daicoff and Patricia Oslund, **Tax Structure of Kansas and Nearby States,** Part 2, Hypothetical Firm Study. Final Report to Kansas, Inc., Report No. 131, October, 1987, Institute for Public Policy and Business Research, University of Kansas, Lawrence, KS.

RECOMMENDATIONS

Manufacturing Machinery and Equipment. The purchase of certain machinery and equipment should be exempted from the state and local retail sales and compensating use taxes. The exemption would be limited to purchases of productive machinery and equipment used directly in the manufacturing and distribution processes in primary job creation industries with a significant value-added or export component to them. The estimated fiscal impact is $16 million annually. The exemption is to become effective January 1, 1989.

The recommended exemption will reduce directly the cost of capital investment in productive assets in Kansas. It will also improve our competitive posture among all states, most of which already provide such an exemption. The primary benefits of the exemption will flow to existing firms which are engaged in normal replacement activity or expansion of productive capacity. Such firms are responsible for the creation of 80 percent of new jobs and the exemption should prove valuable in retaining existing jobs.

Alternative Minimum Tax. A state alternative minimum tax for corporations should be enacted. The tax will conform to and "piggy-back" on the federal alternative minimum tax with the apportionment to Kansas for multistate firms being based on the formula used to apportion regular taxable income to Kansas. The state alternative minimum tax rate is to be equal to 20 percent of the federal alternative minimum tax (i.e., 4 percent of state alternative minimum taxable income.) The estimated fiscal impact is $6 million. The tax would become effective for tax year 1988.

As a result of the federal Tax Reform Act of 1986, the current federal corporate AMT is an income tax that is parallel to the regular corporate tax, rather than a surtax, as it had been. The starting point for the corporate AMT is regular taxable income, to which a set of adjustments are made, followed by the addition of a a set of tax preference items:

Adjustments: (* indicates new in 1987)

a. Accelerated depreciation on new property*
b. Mining exploration and development costs
c. Long-term contracts*
d. Pollution control facilities
e. Installment sales*
f. Circulation expenses (personal holding companies only)
g. Merchant marine fund*
h. Book income adjustment*
i. Net operating losses*

Tax Preferences: (* indicates new in 1987)

a. Accelerated depreciation on depreciable real property and depreciable leased personal property placed in service before 1987 (pre-ACRS and pre-MACRS property)
b. Depletion
c. Intangible drilling costs
d. Tax-exempt interest on certain activity bonds*
e. Appreciated property charitable deduction*
f. Reserves for losses on bad debts of financial institutions

An alternative minimum tax will improve the fairness of the Kansas tax system by eliminating possible avoidance of state taxes through the excessive use of tax preferences. It will also improve the stability of the corporation income tax and enhance the ability of state government to forecast and plan revenues and expenditures. By basing the state AMT directly on the federal tax, Kansas will gain the equity benefits of the federal AMT, but will not increase significantly the compliance costs of corporations. All state calculations will be based on figures derived for federal or other state income tax purposes.

Five other states -- Alaska, California, Iowa, Maine, and Pennsylvania -- have adopted similar alternative minimum taxes. Minnesota also has an alternative minimum tax based on the property, payroll and sales factors of companies doing business in that state.

Income Apportionment Formula. The statutory formula for apportioning the income of multistate businesses to Kansas should be amended to allow a taxpayer whose payroll factor is 200 percent of its average property and sales factor to elect an apportionment formula utilizing only property and sales factors on an equally weighted basis. The change will reduce receipts by less than $1 million annually and is effective for tax year 1988.

Constitutional taxation of multistate businesses requires that the portion of income taxed by a state be reasonably related to the activities of the business in the state and that the factors on which the apportionment is made be reasonably related to the manner in which income is generated. Kansas currently apportions income on the basis of the standard three factor formula used by most states. It gives equal weight to the property, payroll and sales factors of the business and is expressed in the following formula.

$$\frac{\text{Kansas Property}}{\text{All Property}} + \frac{\text{Kansas Payroll}}{\text{All Payroll}} + \frac{\text{Kansas Sales}}{\text{All Sales}} \quad \text{divided by 3} = \text{Apportionment Percentage}$$

The effect of the formula is to say that if a multistate business has 10 percent each of its property, payroll and sales in Kansas, then 10 percent of its income is taxable to Kansas. If it has 10 percent of its property, 20 percent of its payroll and 30 percent of its sales in Kansas, 20 percent of its income (60 percent divided by 3) would be taxable to Kansas.

The Governor's recommendation will make Kansas a more attractive environment for the location of company headquarters or other large, payroll-intensive installations by eliminating the influence of the payroll factor in a selected instances. This is felt to be a preferable situation to the pattern used in some other states of placing greater weight on the sales factor. In other states such changes have generally served to broaden the tax base and export the income tax. In Kansas, however, increasing the weight on the sales factor would reduce the tax base and could affect revenues significantly. The Governor also was concerned with the effect of such changes on the uniformity of tax practices among the states. The targeted approach recommended is directed at a highly desirable type of activity and is not disruptive of either revenues or uniformity.

Net Operating Loss Carrybacks. Current law allowing the carryback of net operating losses for three years should be repealed and replaced with an extension of the carryforward period from seven years to ten years. The estimated fiscal impact is a one-time $15 million revenue increase. The repeal would be effective for tax year 1988.

Current law allows net operating losses to be carried back and used to obtain a refund of taxes for the prior three years. Unused losses may be carried forward for a seven-year period. In the 18-month period from January 1986 - June 1987, the Department of Revenue processed 4,208 net operating loss applications and refunded approximately $21 million in tax and interest. The average refund was $4,975. The Department currently devotes about 2.0 FTE positions to processing loss carrybacks. Each return is subjected to office audit and recomputation. Significant difficulty is experienced when a year to which a loss is carried is later adjusted by a subsequent state or federal audit.

The recommendation will reduce the volatility of the corporation income tax and improve the ability of the State to plan its revenue and expenditure needs. It will also reduce administrative burdens experienced by the Department of Revenue. Seventeen states currently allow only the carryforward of operating losses. Nineteen states allow a carryback/carryforward as does Kansas, but the trend among the states is toward carryforwards only.

Attachment A

Summary of Social Security Tax Payments
and Deductibility of Federal Income Taxes by State

Comparison of The Top Tax Rate and Top Taxable
Income Bracket by State

Tax Year 1987

	Federal Tax Deduction	Social Security Deduction	Top Rate	Top Taxable Income Bracket	
Alabama	Yes	Yes	5.0%	$3,000	*
Arizona	Yes	Yes	8.0%	$7,100	*
Arkansas	No	No	7.0%	$25,000	
California	No	No	9.3%	$23,800	*
Colorado	No	No	5.0%	Flat Rate	
Delaware	No	No	8.8%	$40,000	
Georgia	No	No	6.0%	$7,000	*
Hawaii	No	No	10.0%	$20,000	*
Idaho	No	No	8.2%	$20,000	
Illinois	No	No	2.5%	Flat Rate	
Indiana	No	No	3.4%	Flat Rate	
Iowa	Yes	No	13.0%	$76,725	
Kansas	**Yes**	**Yes**	**9.0%**	**$25,000**	*
Kentucky	Yes	No	6.0%	$8,000	
Louisiana	Yes	No	6.0%	$50,000	
Maine	No	No	10.0%	$25,000	*
Maryland	No	No	5.0%	$3,000	
Massachusetts	No	Limited	5.0%	Flat Rate	
Michigan	No	No	4.6%	Flat Rate	
Minnesota	No	No	9.0%	$16,000	*
Mississippi	No	No	5.0%	$10,000	
Missouri	Yes	Yes	6.0%	$9,000	
Montana	Yes/Item. Only	No	11.0%	$48,100	
Nebraska	No	No	5.9%	$45,000	*
New Jersey	No	No	3.5%	$50,000	
New Mexico	No	No	8.5%	$41,600	*
New York	No	No	8.8%	$14,000	*
North Carolina	No	No	7.0%	$10,000	
North Dakota	Yes	No	12.0%	$50,000	
Ohio	No	No	6.9%	$100,000	
Oklahoma	Yes	No	6.0%	$7,500	*
Oregon	Yes/Limited-$7,000	No	9.0%	$5,000	*
Pennsylvania	No	No	2.1%	Flat Rate	
Rhode Island	No	No	23.5%	% of Federal	
South Carolina	No	No	7.0%	$10,000	
Utah	Yes	No	7.8%	$3,750	
Vermont	No	No	25.8%	% of Federal	
Virgina	No	No	5.8%	$14,000	
West Virginia	No	No	6.5%	$60,000	*
Wisconsin	No	No	6.9%	$15,000	*

* = Brackets are for single taxpayers, brackets are generally doubled for married filing joint taxpayers.
Source: Advisory Commission on Intergovernmental Relations:

SIMULATION TAX YEAR 1988

Governor's Proposal

Single Rates	$0-$25,000	4.80%
	$25,000-Over	6.20%
Married Rates	$0-$37,500	4.15%
	$37,500-Over	5.40%

Kansas Department of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

Governor's Tax Reform Proposal

Liability Dollars are in Millions

Married

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%
$0 - $5	16,947	-95.8%	($0.02)	($1.42)	0.0%
$5 - $15	72,105	-55.7%	($4.40)	($61.00)	0.5%
$15 - $25	93,368	-6.4%	($2.13)	($22.85)	1.7%
$25 - $35	97,474	-1.8%	($1.22)	($12.53)	2.3%
$35 - $50	112,211	-1.8%	($2.28)	($20.31)	2.6%
$50 - $100	93,263	-1.8%	($3.11)	($33.33)	2.9%
$100 - Over	13,895	-0.2%	($0.25)	($18.12)	4.9%
Total	508,947	-2.5%	($13.42)	($26.36)	2.8%
Fiscal Impact:			($13.42)		
All Taxpayers:			($21.29)		

Single

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	4,526	0.0%	$0.00	$0.00	0.0%
$0 - $5	110,421	-95.9%	($1.16)	($10.49)	0.0%
$5 - $15	168,316	-4.5%	($1.45)	($8.59)	1.9%
$15 - $25	95,474	-1.3%	($0.74)	($7.75)	3.0%
$25 - $35	37,789	-1.6%	($0.62)	($16.53)	3.4%
$35 - $50	19,684	0.4%	$0.12	$6.10	3.7%
$50 - $100	7,368	3.3%	$0.67	$90.66	4.4%
$100 - Over	1,158	0.3%	$0.04	$34.73	5.3%
Total	444,737	-1.7%	($3.14)	($7.06)	2.9%
Fiscal Impact:			($3.14)		
Non-Resident:			($4.74)		

Total Residents

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	14,211	0.0%	$0.00	$0.00	0.0%
$0 - $5	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 - $15	240,421	-14.7%	($5.84)	($24.31)	1.4%
$15 - $25	188,842	-3.2%	($2.87)	($15.21)	2.3%
$25 - $35	135,263	-1.7%	($1.85)	($13.65)	2.6%
$35 - $50	131,895	-1.4%	($2.16)	($16.37)	2.8%
$50 - $100	100,632	-1.2%	($2.44)	($24.25)	3.0%
$100 - Over	15,053	-0.2%	($0.21)	($14.06)	5.0%
Total	953,684	-2.3%	($16.56)	($17.36)	2.8%
Fiscal Impact:			($16.56)		

Attachment B

Attachment C

Kansas Department of Revenue
Governor's Proposal
Simulation 7177

Compared to Current Law
Taxpayers by Bracket with Liabilities
Increasing, Decreasing, or Staying the Same

	No Change	Increase	Decrease	Total
No K.A.G.I.	15,053	0	0	15,053
$0 - $5,000	83,053	737	50,421	134,211
$5,000 - $15,000	42,737	77,789	145,368	265,895
$15,000 - $25,000	14,000	70,632	132,000	216,632
$25,000 - $35,000	4,421	75,263	80,421	160,105
$35,000 - $50,000	5,895	81,368	70,421	157,684
$50,000 - $100,000	6,526	61,895	60,316	128,737
$100,000 - Over	2,000	6,105	13,474	21,579
Total	173,684	373,789	552,421	1,099,895

Simulation 7177

Compared to Current Law
Taxpayers by Bracket with Liabilities
Increasing, Decreasing, or Staying the Same

	No Change	Increase	Decrease	Total
No K.A.G.I.	100.00%	0.00%	0.00%	100.00%
$0 - $5,000	61.88%	0.55%	37.57%	100.00%
$5,000 - $15,000	16.07%	29.26%	54.67%	100.00%
$15,000 - $25,000	6.46%	32.60%	60.93%	100.00%
$25,000 - $35,000	2.76%	47.01%	50.23%	100.00%
$35,000 - $50,000	3.74%	51.60%	44.66%	100.00%
$50,000 - $100,000	5.07%	48.08%	46.85%	100.00%
$100,000 - Over	9.27%	28.29%	62.44%	100.00%
Total	15.79%	33.98%	50.22%	100.00%

Form
K 40S KANSAS RESIDENT SHORT FORM 1988

For the year January 1-December 31, 1988

Last Name	First Name(s) and Initial(s)	Your Social Security Number	For Office Use Only
SAMPLE			Attachment D
Home Address (Number and Street or Rural Route)		Spouse's Social Security Number	
City, Town or Post Office, and State	Zip Code	School District No. / County Abbreviation	
YOUR TELEPHONE NUMBER ______	TELEPHONE NUMBER—The number you furnish will be confidential and should be the one at which you can be reached during our office hours.	For Office Use Only	

USE KANSAS LABEL Otherwise Print or Type

Filing Status (Check ONE)

(S) [ ] Single

(F) [ ] Married filing joint return (Even if only one had income)

(M) [ ] Married filing separately. Give spouse's name and social security number ______

1. Federal taxable income (Kansas taxable income) 1______

2. Tax 2______

3. Credit for child & dependent care expenses 3______

4. Balance (Subtract line 3 from line 2) 4______

5. Kansas income tax withheld (Attach Kansas copies, form W-2) 5______

6. BALANCE DUE (If line 4 is greater than line 5)
Interest ______ Penalty ______
Penalty-Estimated Tax ______ 6______

Write your Social Security Number on check or money order and make payable to Kansas Income Tax

7. OVERPAYMENT (If line 5 is greater than line 4) 7______

8. CHICKADEE CHECKOFF (Kansas nongame wildlife improvement program): If you wish to donate to this program, enter the amount you want to be donated. This donation will reduce your refund or increase the amount you owe. 8______

9. REFUND (Enter the amount of line 7 you wish to be refunded to you) 9______

Attach State Copy of W-2(s) here

I declare under the penalties of perjury that to the best of my knowledge and belief this is a true, correct, and complete return.

sign here

______ Signature of taxpayer ______ Date ______ Signature of preparer other than taxpayer

______ If joint return, BOTH husband and wife must sign even if only one had income. ______ Date ______ Address

DO YOU WISH TO RECEIVE AN INCOME TAX BOOKLET NEXT YEAR? (SEE INSTRUCTIONS) [ ] Yes [ ] No

MAIL THIS RETURN TO: KANSAS INCOME TAX, TOPEKA, KANSAS 66699

Attachment
E

Kansas Department of Revenue
All States' 1987 Corporate Rates

State	Top Rate	Income Level	Federal Income Tax Deductable	Carry Back and Carry Forwards: None	Both	Forward Only
Alabama	5.00%	All	YES			X
Alaska	9.40%	$90,000	NO		X	
Arizona	10.50%	$6,000	YES			X
Arkansas	6.00%	$25,000	NO			X
California	9,60%	All	NO			X
Colorado	6.00%	$50,000	NO			X
Connecticut	11.50%	All	NO			X
Delaware	8.70%	All	NO		X	
D.C.	15.00%	All	NO	X		
Florida	7.70%	All	NO			X
Georgia	6.00%	All	NO		X	
Hawaii	6.40%	$100,000	NO		X	
Idaho	8.00%	All	NO		X	
Illinois	6.50%	All	NO		X	
Indiana	9.70%	All	NO		X	
Iowa	12.00%	$250,000	YES		X	
Kansas	6.75%	$25,000	NO		X	
Kentucky	7.25%	$250,000	NO		X	
Louisiana	8.00%	$200,000	YES		X	
Maine	8.93%	$250,000	NO		X	
Maryland	7.00%	All	NO		X	
Massachusetts	9.50%	All	NO			X
Michigan	2.35%	All	NO			X
Minnesota	9.50%	All	NO			X
Mississippi	5.00%	$10,000	NO			X
Missouri	5.00%	All	YES		X	
Montana	6.75%	All	NO		X	
Nebraska	6.65%	$50,000	NO		X	
New Hampshire	8.25%	All	NO	X		
New Jersey	9.00%	All	NO			X
New Mexico	7.60%	$1,000,000	NO		X	
New York	9.00%	All	NO		X	
North Carolina	7.00%	All	NO			X
North Dakota	10.50%	$50,000	YES		X	
Ohio	9.20%	$25,000	NO			X
Oklahoma	5.00%	All	NO		X	
Oregon	6.60%	All	NO			X
Pennsylvania	8.50%	All	NO			X
Rhode Island	8.00%	All	NO		X	
South Carolina	6.00%	All	NO			X
Tennessee	6.00%	All	NO			X
Utah	5.00%	All	NO		X	
Vermont	9.00%	$250,000	NO		X	
Virginia	6.00%	All	NO		X	
West Virginia	9.75%	All	NO		X	
Wisconsin	7.90%	All	NO			X
Total with Tax	46		YES = 6 NO = 40	2	25	19
States with rates above Kansas			28			
States with rates below Kansas			16			
States with same rate as Kansas			1			
Total Other States			45			

SOURCE: CCH, State Tax Review, Vol 48, No 50, pps 2, 8-19, December 15, 1987.