Approved On:_______________

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 4, 1988 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

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

Bernie Koch, representing Wichita Area Chamber of Commerce, thanked the committee for passing the sales tax exemption on machinery and equipment as he believes it is an important measure that will make Kansas more competitive. However, he said that there is no bill containing a corporate income tax reduction and he hopes the committee will consider such a measure. (Attachment 1) Mr. Koch also submitted testimony from Donald Glenn, Certified Public Accountant, who testified for the Senate Assessment & Taxation Committee. (Attachment 2)

Jerry Lonergan, Manager of Research, Kansas, Inc., said his firm retained the Institute for Public Policy and Business Research to conduct an analysis of the state's tax structure, its impact on business, and how it compares to five surrounding states. Recommendations are shown on the attached sheets-A, B, C, D, and E. (Attachment 3) Mr. Lonergan then answered questions from committee members.

Ron Gaches, representing Boeing Military Airplane Company, discussed several changes that are currently before the Taxation Committee -- Minimum Alternative Tax, Elimination of Loss Carryback, and Multistate Apportionment Formula. (Attachment 4) He believes that the proposed changes will be of little or no benefit to Kansas manufacturers and asked that the Committee rethink the package of corporate income tax changes. He explained the taxes paid by his Company in 1987 and stated no state income taxes had been paid in several years.

Gerhard Metz, representing KCCI appeared in support of the package proposed by Kansas, Inc.

Gene M. Betts, United Telecom, explained the Apportionment Formula Change contained in section 9. He thought the proposal would yield great economic benefit to the state. In response to questions, he explained the workings of the federal Alternative Minimum Tax to the committee. *(Attachment 5)

The Committee discussed the proper method of comparing various proposals as it relates to tax reform and the windfall. The Chairman stated that for purposes of comparing the effects of changes in the tax base, the committee should focus on the changes which would occur in 1988. For purposes of discussing the windfall issue, the committee should consider changes from 1987 to 1988.

The minutes of February 3, 1988 were approved. There being no further business, the meeting was adjourned.

E C Rolfs

E. C. Rolfs, Chairman

TESTIMONY ON HB 2684
House Taxation Committee
Bernie Koch
Wichita Area Chamber of Commerce
February 4, 1987

Mr. Chairman, members of the committee, I'm Bernie Koch with the Wichita Area Chamber of Commerce.

First of all, I would like to thank you for passing the sales tax exemption on machinery and equipment last week. It's an important measure that will help make Kansas more competitive. It was the number one priority of Kansas Inc. when that organization recently recommended legislative action to increase our ability to retain and attract industry.

I would like to review those recommendations because they are important to our position on the business side of tax reform.

1. Exempt sales tax on productive machinery.
2. Allow a qualifying multi-state firm to elect to have its apportionment for Kansas corporate income tax based on a 50% sales and 50% property factor.
3. Reduce the corporate income tax rate by .5% for both tax levels. The lower rate would be reduced from 4.50% to 4.00%, the surcharge on firms with after-tax income greater than $25,000 would decline from 2.25% to 1.75%.
4. Establish an alternative minimum tax on corporations, parallel to the federal alternative minimum tax.
5. Eliminate the state's loss-carryback provision on corporate taxes.

Attachment 1

Let me quote directly from Kansas Inc.'s conclusions; "The Kansas Inc. board strongly endorses the first three recommendations and considers item 4 as an acceptable vehicle to reduce the net impact on state revenues. Item 4 should be considered only if the revenue loss that occurs as a result of the first three recommendations is projected to damage the state's physical stability.

The loss-carryback provision is recommended only as a last resort to neutralize the revenue impact of the proposed tax reductions."

What's happened so far during this legislative session is that recommendations 1, 2, 4, and 5 have been introduced but there is no bill containing number 3, the corporate income tax reduction. Please consider such a measure in your deliberations.

The Kansas Inc. study showed that our state tends to be high on corporate income taxes when compared with our neighbors, Missouri, Oklahoma, Colorado, Nebraska and Iowa. A reduction would make us more competitive.

Without the corporate income tax reduction, we believe the net effect of this package is a business tax increase in Kansas. The one factor that hasn't been taken into effect in all of this is the effect of federal reform on the corporate income tax. There is a so called "windfall."

As our members work on their corporate taxes this tax season, they are telling us there is a tax increase. It's in the neighborhood of at least 10%. Reducing the corporate income tax would help compensate for that tax increase.

In summary, we believe it's good public policy to follow the Kansas Inc. recommendations, particularly items 1, 2 and 3. We also believe they will help negate the effects of the corporate tax windfall the state will be receiving this year.

Thank you. I'll try to answer any questions you might have.

AGH ALLEN, GIBBS & HOULIK
Certified Public Accountants

Partners:
Paul S. Allen
K. Gary Gibbs
Steven A. Houlik
Donald J. Glenn
Jerome R. Noll
Brent E. Olney
(All formerly partners of KMG Main Hurdman)

January 27, 1988

Senate Assessment and Taxation Committee
State Capitol Building
Topeka, Kansas 66612

Committee Members:

We have learned that most state decision-makers are under the impression that the State of Kansas is not receiving a "windfall" from Kansas Corporations due to changes made by the Tax Reform Act of 1986 (TRA). We feel it is our duty, as independent Certified Public Accountants, to express our concern regarding the increased tax burden placed on Kansas Corporations and to inform decision-makers of this burden.

Numerous provisions contained within the TRA provide an acceleration of income recognition that affect corporations. Since the computation of Kansas tax (with certain exceptions) is based on Federal taxable income, as Federal taxable income increases - so will Kansas taxable income. A simple example illustrates this fact:

> Corporation A's Federal taxable income has increased due to the repeal of the reserve for bad debts on customer accounts receivable. Under Federal law, one-fourth of this $100,000 will be taken into income in each of the next four years (or $25,000 per year). Consequently, Kansas taxable income will also increase by $25,000 per year, resulting in additional Kansas tax (at 6 3/4%) of $1,687.50 each year.

Attached is a copy of a Summary of Estimated Budget Effects of H.R. 3838, as Reported by the Committee on Finance for the Fiscal Years 1986-1991, which we used as a guide in estimating the "windfall" to be received by the State of Kansas from Kansas Corporations. The following are Federal Provisions which also affect Kansas Income Tax paid by corporations, along with the amount of Federal tax increases anticipated by the provisions.

Attachment 2

Provision	Amount
Limitations on deductions for meals, travel and entertainment	$ 6,126,000,000
Depreciation, expensing	(1,562,000,000)
Repeal finance leasing	1,432,000,000
Limitation on use of cash accounting	792,000,000
Require utilities to accrue earned but unbilled income	1,518,000,000
Recognition of gain on pledges of installment obligations	7,032,000,000
Capitalization of inventory, construction and development costs	34,332,000,000
Repeal of reserve for bad debt for nonfinancial institutions	5,852,000,000
Qualified discount coupons	125,000,000
Discharge of indebtedness	293,000,000
Limitation on bad debt reserves for financial institutions	486,000,000
Federal Windfall from above provisions	$56,426,000,000

This additional $56 billion of Federal tax is the result of an estimated $166 billion increase in income (at the maximum 34% Federal tax rate). We have assumed that Kansas Corporations will pay income tax on approximately 1% of this additional income (based on a ratio of 1987 Corporate Income Taxes collected by the State of Kansas to 1987 Corporate Income Taxes collected by the Federal Government, converted to income). Applying the Kansas maximum income tax rate of 6.75%, the resulting benefit to the State of Kansas would be in excess of $103,000,000 over the next five years. This windfall is equivalent to an approximate 11% increase in Kansas Corporate taxes.

Clearly, there is a substantial "windfall" to the State of Kansas. Recognizing the tremendous increase in taxable income that was being created, the U. S. Congress reduced the maximum Federal rate on corporations to 34% from 46%. We believe that the State of Kansas should also recognize the enormity of the potential tax increase and take action to reduce corporate income tax rates.

Very truly yours,

Donald J. Glenn

Donald J. Glenn
Partner

DJG/GFT:jcb
(3679X)

Table III-1.—Summary of Estimated Budget Effects of H.R. 3838, as Reported by the Committee on Finance, Fiscal Years 1986-1991—Continued

[Millions of dollars]

Title of Bill	1986	1987	1988	1989	1990	1991	1986-91
XVIII. Technical Corrections							
Individual		−180	−24	−25	−27	−31	−287
Corporate		−206	−99	34	34	28	−209
Total		−386	−123	9	7	−3	−496
Totals:							
Individual	815	561	−35,636	−33,750	−17,712	−14,295	−100,007
Corporate	5,580	23,066	15,214	12,776	17,300	25,448	100,384
Excise		−6	−62	109	116	124	405
Employment		−706	−356	−203	−115	−243	−1,623
Estate and Gift		−101	−225	4	4	4	111
Customs		(4)	(4)	(4)	(4)	(4)	(3)
Grand Total	7,395	22,814	−20,738	−21,064	−407	11,048	−952

[1] The effects of changes relating to capital gains are included with rate changes in Title I.
[2] Loss of less than $5 million.
[3] Amounts have not been assigned to footnotes for summation purposes. Therefore, totals do not include estimates represented by footnotes.
[4] Gain of less than $5 million.

Table III-2.—Estimated Budget Effects of H.R. 3838, as Reported by the Committee on Finance, Fiscal Years 1986-1991

[Millions of dollars]

Title and Provision	1986	1987	1988	1989	1990	1991	1986-91
I—Individual Income Tax Provisions							
Rate reductions [1]		−2,511	−52,885	−47,748	−36,715	−35,971	−175,825
Increase in standard deduction		−1,104	−5,869	−7,971	−8,731	−9,565	−33,240
Personal exemption increase		−18,127	−26,170	−27,088	−29,146	−31,332	−126,858
Repeal second earner deduction		1,428	6,108	5,848	6,217	6,609	26,210
Increase the earned income tax credit [2]		−58	−1,576	−3,942	−4,490	−5,062	−15,128
Repeal income averaging		486	1,855	2,017	2,170	2,333	8,811
Taxation of unemployment compensation		295	775	749	728	701	3,188
Taxation of prizes and awards		−19	−52	−55	−58	−61	−245
Repeal sales tax deduction		714	4,621	3,867	4,045	4,232	17,479
Increase medical expense deduction floor		350	2,318	2,225	2,305	2,383	9,581
Housing allowances for clergy and military personnel		(3)	(3)	(3)	(3)	(3)	(4)
Limitations on deductions for meals, travel, and entertainment							
Individual		556	984	1,054	1,231	1,359	5,184
Corporate		652	1,109	1,263	1,474	1,628	6,126
Miscellaneous itemized deductions; employee business expense		853	5,578	5,040	5,468	5,932	22,871
Repeal political contributions tax credit			827	841	854	368	1,890
Subtotal, Individual Income Tax							
Individual		−12,242	−64,041	−65,653	−56,627	−58,069	−256,632
Corporate		652	1,109	1,263	1,474	1,628	6,126
Total		−11,590	−62,932	−64,390	−55,153	−56,441	−250,506
II—ACRS and ITC							
Depreciation, expensing							
Individual		−153	−404	−278	337	1,557	1,064
Corporate		−879	−2,811	−2,231	−158	4,017	−1,562
Investment tax credit							
Individual	856	4,468	3,616	4,541	5,576	6,467	25,524

Table III-2.—Estimated Budget Effects of H.R. 3838, as Reported by the Committee on Finance, Fiscal Years 1986-1991—Continued

[Millions of dollars]

Title and Provision	1986	1987	1988	1989	1990	1991	1986-91
N/A Corporate	7,398	19,256	19,195	24,840	28,407	32,281	130,877
Repeal finance leasing							
Corporate			133	355	475	469	1,432
Subtotal, ACRS and ITC							
Individual	856	4,315	3,212	4,268	5,913	8,024	26,588
Corporate	7,398	18,377	17,017	22,464	28,724	36,767	130,747
Total	8,254	22,692	20,229	26,732	34,637	44,797	157,335
III—Accounting Provisions							
Limitation on the use of cash accounting							
Individual			−10				−10
Corporate		79	166	177	181	189	792
Require utilities to accrue earned but unbilled income							
Corporate		191	356	384	387	200	1,518
Recognition of gain on pledges of installment obligations							
Individual		19	50	36	36	37	178
Corporate		1,272	1,668	1,845	1,358	1,895	7,032
Capitalization of inventory, construction, and development costs							
Individual		178	473	576	607	610	2,444
Corporate		4,785	7,593	7,690	7,239	7,025	34,332
Repeal of reserve for bad debt for nonfinancial institutions							
Individual		81	39	82	83	83	368
Corporate		842	1,291	1,232	1,243	1,244	5,852
Qualified discount coupons							
Corporate		18	25	28	29	30	125
Discharge of indebtedness							
Individual		2	4	3	3	2	14
Corporate		57	79	62	52	48	298
Partnership, Sub S, and personal service tax year conformity							
Individual		70	200	200	165	90	725
Subtotal, Accounting							
Individual		300	806	897	894	822	3,719
Corporate		7,288	11,178	10,918	10,489	10,126	49,959
Total		7,588	11,984	11,815	11,383	10,948	53,673
IV—Capital Gains and Losses							
Capital gains							
Individual		(1)	(1)	(1)	(1)	(1)	(1)
Incentive stock options							
Individual		(5)	(5)	(5)	(5)	(5)	(4)
Tax straddles							
Individual		(5)	(5)	(5)	(5)	(5)	(4)
Subtotal, Captial Gains							
Individual		(4)	(4)	(4)	(4)	(4)	(4)
V—Compliance and Tax Administration [6]							
Penalty provisions and voluntary disclosure							
Individual		447	319	336	341	346	1,789
N/A Corporate		61	117	140	188	187	593
Estate and gift		4	4	4	4	4	20
Excise		4	4	4	4	4	20
Interest provisions [7]							
Individual		95	108	164	168	210	825
N/A Corporate		202	311	204	202	344	1,323
Information reporting provisions							
Individual		68	317	488	623	648	2,144
N/A Corporate		(5)	70	5	5	(5)	80
Tax shelter provisions							
Individual		15	88	54	(5)	(5)	157
Revised estimated tax rules							
Individual		1,385	75	44	104	80	1,688
IRS Trust Fund [6]							
Individual		908	1,840	1,778	1,027	1,910	7,0[illegible]
N/A Corporate		554	1,491	2,401	[illegible]	[illegible]	[illegible]

Table III-2.—Estimated Budget Effects of H.R. 3838, as Reported by the Committee on Finance, Fiscal Years 1986-1991—Continued

[Millions of dollars]

Title and Provision	1986	1987	1988	1989	1990	1991	1986-91
Corporate	-152	-216	-71	26	38	27	-348
Employment		-15	-21	-24	-27	-29	-116
Excise	(5)	(5)	(5)	(5)	(5)	(5)	(4)
Customs		(5)	(5)	(5)	(5)	(5)	(4)
Total	-152	-221	-58	16	24	14	-377
VIII—Financial Institutions							
Limitation on bad debt reserves							
Corporate		55	90	98	118	130	486
Special carryover NOL carryover rules for depository institutions							
N/A Corporate			-62	-98	-97	-81	-338
Treatment of losses on deposits in insolvent financial institutions							
Individual		-3	-1	-1	-1	-1	-7
Subtotal, Financial Institutions							
Individual		-3	-1	-1	-1	-1	-7
Corporate		55	28	(5)	16	49	148
Total		52	27	-1	15	48	141
IX—Foreign Tax Provisions							
Separate limitation for passive income							
Corporate		259	422	410	437	467	1,995
Separate limitation for high taxed interest income							
Corporate		85	152	149	149	148	683
Deemed-paid credit							
Corporate		6	20	60	86	97	269
Limitation on special treatment of 80-20 corporations							
Corporate		(5)	(5)	(5)	(5)	(5)	(4)
Transportation income							
Corporate		8	16	18	25	30	97
Allocation of interest and other expenses							
Corporate		61	180	185	231	279	936
Source rule for space and certain ocean activities							
Corporate		(5)	(5)	(5)	(5)	(5)	(4)
Tax haven (subpart F) income							
Corporate		25	41	41	44	49	200
Threshold for imposition of current tax under subpart F							
Corporate		(5)	(5)	(5)	(5)	(5)	(4)
De minimis tax haven income rule							
Corporate		12	22	24	26	29	113
Possessions tax credit							
Corporate		27	45	45	50	54	221
Reduce foreign earned income (sec. 911) exclusion							
Individual		24	34	45	56	61	220
Foreign investment companies							
Corporate		10	17	16	18	20	81
Branch profits tax							
Corporate		13	20	23	26	28	110
Income of foreign governments							
Corporate		23	43	48	58	58	225
Dual resident companies							
Corporate		24	41	43	46	49	203
Interest paid to related tax-exempt parties							
Corporate		12	26	27	29	33	127
Foreign investment in U.S. business assets							
Corporate		-134	-236	-248	-263	-273	-1,154
Foreign currency gain or loss							
Corporate		(5)	(5)	(5)	(5)	(5)	(4)
Subtotal, Foreign Tax Provisions							
Individual		24	34	45	56	61	220
Corporate		431	759	841	957	1,068	4,056
Total		455	793	886	1,013	1,129	4,276
X—Insurance Products and Companies							
Insurance policy holders							
Individual		(5)	(5)	(5)	(5)	(5)	(4)

KANSAS INC.

Governor Mike Hayden, Co-Chairman
Frank J. Becker, Co-Chairman

Forest Tim Witsman, President

CAPITOL TOWER, SUITE 113 • 400 S.W. 8TH • TOPEKA, KANSAS 66603-3957 • TELEPHONE 913-296-1460

TESTIMONY ON KANSAS INC.'S RECOMMENDATIONS FOR CHANGES TO THE STATE'S BUSINESS TAX STRUCTURE HOUSE BILL 2684

presented to the

House Committee on Taxation

presented by

Jerry Lonergan
Manager of Research
Kansas Inc.

February 4, 1988

Attachment 3

Thank you Mr. Chairman, members of the Committee, My name is Jerry Lonergan, I am the Manager of Research for Kansas Inc.

This summer, Kansas Inc. retained the Institute for Public Policy and Business Research to conduct an analysis of the state's tax structure, its impact on business and how it compares to five surrounding states. The comparison states were: Colorado, Iowa, Missouri, Nebraska, and Oklahoma. After a review of the tax structure, the Institute conducted an analysis of the tax liability faced by hypothetical firms in nine industries in Kansas. Attachment 1 contains a listing of the industries by Standard Industrial Classification number, and a partial list of type of firms that would be included in each group.

The analysis of firms was to gain an understanding of the status of Kansas' tax structure when compared to our chief competitors for economic growth, surrounding states. These firms were selected as representing a broad base of the Kansas economy, total employment in the manufacturing firms, SIC 200-300 in 1985 was over 78,000 representing 42.5 percent of all manufacturing jobs. For the purposes of the study, the Institute assumed national industry averages for the hypothetical firms. For example, SIC 204, Grain Mill Products, the firm employees 19 people, the industry average in Kansas was 33 employees per firm.

The analysis of nine hypothetical firms centered on the assumption that these were nine new firms capable of taking advantage of all tax incentives and credits. Attachment 2 displays the results of the nine firm analysis and the total taxes paid by the firms in the nine states. Overall, Kansas ranked third among the six states in no instances being the highest taxing state or the lowest taxing state. In addition, an analysis was conducted of three hypothetical firms that were assumed to be already in existence in the six states. For the exisiting firms'analysis Kansas' status as an average state suffers as the Grain Mill Products industry drops from fourth to six and Fabricated Structural Products fall one spot to fourth (Attachment 3). The Telecommunications industry group retains its ranking of fifth among the six states, and Kansas overall becomes the highest taxing state.

While there maybe some comfort in being an average tax state, our feeling was that some concern was merited for reasons that included: Missouri, with its location bordering the state's fastest growing area, ranked as the lowest tax state in all instances, and the increased presence of Nebraska in aggressively changing its taxes to improve its business climate could impact Kansas' ability to grow. We have not suggested and would vigorously oppose any attempt to make Kansas the lowest taxing state.

The recommendations for changes to the tax structure that were voted on and approved by the Kansas Inc. Board of Directors and presented by Tim Witsman before the Governor's Tax Reform Task Force are presented in Attachment 4. Four of those recommendations, with some modifications, are a part of legislative actions being considered during this Legislative Session. These are: sales tax exemption on productive machinery, the change to the corporate income tax apportionment formula, the alternative minimum tax, and the elimination of the loss-carry back provision. One recommendation missing and one we feel is important to improving the competitiveness of the state's tax package is a proposed .5 percent reduction in the base Corporate Income Tax Rate of 4.5 percent and an equal reduction in the surcharge from 2.25 percent to 1.75 percent.

Attachment 5 presents how Kansas ranks in the six-state region for each individual business tax within the nine industries and their total state income tax liability. The state's corporate income tax rate overall ranks Kansas between fourth and fifth. Iowa is the only state that has an overall higher rate then Kansas, however Iowa's effective rate on firms is reduced by its provision to allow firms to deduct their federal income taxes from their state return.

The fiscal impact, estimated by the Department of Revenue, is a reduction in state revenue by $13.3 million the first year increasing after the first year to $17.7 million annually. The total revenue impact of the five Kansas Inc. recommendations are approximately $10 million the first year when the loss carry-back is included and just under $28 million annually after the first year.

We admit that it is not an inexpensive proposal, but we hope you will give it serious consideration. The Kansas Inc. Board, comprised of recognized leaders from the private sector and leaders from the legislature, in voting on staff's proposed tax package felt the recommendations needed further clarification and strongly supported that the tax changes be given the following priority:

* the sales tax exemption,
* changing the apportionment formula,
* lowering the corporate income tax rate,

* only if the revenue loss is projected to damage the states fiscal stability should the minimum tax be implemented,

* only as a last resort to neutralize the fiscal impact of these recommendations should the loss carry back provision be implemented.

The recommendations are the result of a significant amount of research attempting to evaluate Kansas' competitive position in the region. Given the changes that have been made to the federal tax structure, this may be the only opportunity the state has to make changes to the business tax structure that will improve our competitiveness. Besides strongly endorsing the changes already proposed, we hope you will give further consideration to the reduction in the corporate tax rate.

In the past, taxes were discounted as a significant contributor to a business owner's decision to locate or remain in an area. The argument held that a firm's primary concern was either locations central to a product's market or near raw materials necessary for production. The recent shift to a realization that the tax climate influences business decision is based on an assessment that once an area is targeted as a possible location, we are competing within a region. While a state's tax structure will not lure a firm, a tax structure out of line with neighboring states will quickly eliminate a state from consideration.

The goal of our tax analysis and proposal is to make sure that the positive features of Kansas, our quality of life and work ethic are the focus of a firms decision to locate or remain in the state. We feel the entire proposal, which includes the income tax reduction, accomplishes this goal.

Thank you.

ATTACHMENT 1

A

EXAMPLES OF INDUSTRIES WITHIN STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES SELECTED FOR INDIVIDUAL FIRM REVIEW

SIC 201 - MEAT PRODUCTS:
meat packing plants; sausage and other prepared meats

SIC 204 - GRAIN MILL PRODUCTS:
flour and other grain mill products; cereal breakfast food

SIC 307 - MISCELLANEOUS PLASTIC PRODUCTS:

SIC 344 - FABRICATED STRUCTURAL METAL PRODUCTS:
metal doors, sash, and trim; sheet metal work

SIC 353 - CONSTRUCTION AND RELATED MACHINERY:
construction machinery; oil and gas field machinery

SIC 367 - ELECTRONIC COMPONENTS AND ACCESSORIES:
electron tubes; printed circuit boards; electronic components

SIC 371 - MOTOR VEHICLES AND EQUIPMENT:
motor homes; truck trailers; motor vehicles and car bodies

SIC 481 - TELEPHONE COMMUNICATIONS:
radio telephone communications; telephone communications

SIC 737 - COMPUTER AND DATA PROCESSING SERVICES:
computer programing services; prepackaged software

ATTACHMENT 2 B

Nine Firms Assumed to be Locating in a State

Ranking of Individual States for Each Industry Group

By Total Tax Liability

(1 = lowest tax liability)

SIC	KS	CO	IA	MO	NE	OK
201	2	6	3	1	4	5
204	4	3	5	1	6	2
307	3	4	5	1	6	2
344	2	6	4	1	3	5
353	3	4	5	1	6	2
367	4	2	5	1	6	3
371	2	6	4	1	5	3
481	5	2	6	1	4	3
737	4	2	6	1	5	3
AVERAGE	3.2	3.9	4.8	1.0	5.0	3.1
OVERALL RANK	3	4	5	1	6	2

Source: Institute for Public Policy and Business Research

Table 2

Total Taxes by State and Industry and Total Taxes Per Employee

	KANSAS	COLORADO	IOWA	MISSOURI	NEBRASKA	OKLAHOMA
<u>Total Taxes by State and by Industry</u>						
201: MEAT PRODUCTS	$110,329	$115,534	$111,301	$106,352	$111,312	$113,542
204: GRAIN MILL PRODUCTS	$398,923	$393,778	$402,254	$367,853	$410,245	$392,328
307: MISC. PLASTIC PRODUCTS	$97,550	$97,908	$101,996	$91,851	$104,120	$97,542
344: FAB. STRUCT. METAL PROD.	$49,532	$56,969	$51,048	$46,648	$49,969	$54,660
353: CONSTRUCT. AND RELATED MACH.	$102,621	$104,273	$106,380	$96,305	$109,980	$104,024
367: ELECT. COMPONENTS	$60,666	$60,217	$61,899	$55,554	$67,696	$60,268
371: MOTOR VEHICLES AND EQUIP.	$177,034	$192,953	$183,142	$164,997	$185,356	$179,093
481: TELECOMMUNICATIONS	$918,840	$831,198	$984,422	$755,371	$912,423	$884,902
737: COMPUTER SERV., DATA PROC.	$99,480	$97,846	$102,953	$90,970	$101,631	$99,057

<u>Total Taxes per Employee by State and by Industry</u>

ATTACHMENT 3 C

Three Firms Assumed to Be in Existence

Ranking of Individual States for Each Industry Group

By Total Tax Liability

(1 = lowest tax liability)

SIC	KS	CO	IA	MO	NE	OK
204	6	3	5	1	4	2
344	4	6	3	2	1	5
481	5	2	6	1	4	3
AVERAGE	5.0	3.6	4.7	1.3	3.0	3.3
OVERALL RANK	6	4	5	1	2	3

Source: Institute for Public Policy and Business Research

ATTACHMENT 4 D

Kansas Inc. Recommendations to Change the Business Tax Structure

RECOMMENDATIONS

Kansas has a broad array of taxes which affect the profit margin of business. The following recommendations are to be viewed as a tax package. Changes in these taxes affect different types and sizes of firms in different manners. These recommendations arise from two principles.

First, recommendations focus on fiscal stability through changes which should be lasting. Careful attention was paid to stabilizing the tax base so as not to diminish the level of services. A sizeable decrease in the tax base would only hurt in the long term. In addition, one of business' biggest concerns is that of uncertainty. Firms want to know what their tax liability is and know that the structure is lasting.

Second, recommendations center on creating a competitive business climate in Kansas. The following broad concepts guided our efforts to enhance the business climate:

* Encourage growth in basic industries where real economic growth will occur. Expansion in these industries has a spill-over affect into other areas of the economy. Recommendations are made to encourage growth in these industries.

* Create a hospitable tax climate for firm headquarters. Kansas has come under criticism for its corporate income tax rates and the apportionment formula used for multi-state firms. Recommendations are made which will help attract corporate headquarters into Kansas.

* Recognize discrepancies in the tax structure as it applies to existing firms. With more than 80% of business growth occurring in existing firms, attention was given to the tax liability of existing firms. This tax liability of existing Kansas firms raises some serious questions. The growth of existing business must be a major component of a state's economic development policy. Recommendations for taxation focus on providing a healthy business climate for those existing firms so that they are able to expand and grow. Through growth in these firms, increased investment in the state will follow.

At the November 18, 1987 Kansas Inc. Board of Directors' meeting, the Board voted and approved a tax package that ranked five changes in tax policy. The recommendations, presented in order of priority, are:

1. **Exempt sales tax on productive machinery for firms qualifying under the basic industry definition (attachment A).**

   * Estimated Impact = $16 million revenue reduction

This exemption will be restricted to a firm's purchase of productive equipment. In addition, the firm must qualify under the definition of a "basic industry" to be able to qualify for the exemption. Basic industries are job creating firms that because of their ability to export their product, will expand the base of a local economy generating demand for retail and other business/personal services.

The reduction in state revenues as a result of allowing this deduction is muted by the already available deduction in Enterprise Zones which exist throughout the state.

2. **Allow a qualifying multi-state firm to elect to have its apportionment for Kansas corporate income tax based on a 50 percent sales and 50 percent property factor.**

   * Estimated Impact = $.5 million revenue reduction

Currently a corporation that conducts operations entirely within Kansas, pays state taxes on 100% of the firm's income. A multi-state firm's taxes are based on the portion of the income attributable to the firm's Kansas operation. Under current apportionment income attributable to operations in Kansas is determined by a three-factor formula based on:

property (33%), payroll (33%), sales (33%)

Kansas' use of the three factor formula is reasonable but increasingly at variance with surrounding states. A policy dilemma is generated by the objectives of being competitive, particularly for corporate headquarters, while maintaining a broad corporate tax base. It is our judgment that embracing either horn of the dilemma is unrealistic. Therefore, Kansas Inc. proposes a modification to the apportionment formula.

The apportionment modification will place Kansas in a more competitive position to attract and retain corporate headquarters. A corporate headquarter will in all probability operate in more than one state, and have the majority of its home state investment in personnel. Under the recommended proposal, a firm would qualify if its payroll factor exceeded 250 percent of its average property and sales factor. A firm that does not qualify under the guidelines will pay according to the current three-factor formula, equally weighing payroll, property and sales.

3. **Reduce the corporate income tax rate by .5 percent for both tax levels. The lower rate would be reduced from 4.50 percent to 4.00 percent, the surcharge on firms with after-tax income greater then $25,000 would decline from 2.25 percent to 1.75 percent.**

   * Estimated Impact = $13.3 million revenue reduction for first year

   * Estimated Impact = $17.7 million revenue reduction annually after first year

The corporate income tax rate assessed in Kansas totals 6.75 percent for a firm with after tax profit of $25,000. This upper rate places Kansas behind only Iowa for the highest tax on corporate income. Iowa, along with Missouri, permits firms to deduct their federal income tax on the state return. This deduction is available in only six states nationally and is a significant factor in the competition for economic development among the study's six states.

Rather than lower only the 2.25 percent surcharge rate or the 4.5 percent lower rate, Kansas Inc. recommends a lowering of each rate by 0.5 percent. This will help Kansas in competing against the federal deduction allowed by both Missouri and Iowa. By spreading the reduction at two levels, this will minimize the revenue impact on the state.

4. **Establish an alternative minimum tax on corporations, parallel to the Federal Alternative Minimum Tax.**

   * Estimated Impact = $6 million revenue increase

An alternative minimum tax increases tax revenues and prevents firms from resorting to creative accounting to avoid tax liability and makes neutral Federal deductions/income preferences that would eliminate a corporation from state tax obligations.

The methods of capturing this tax range from Alaska's adding 18 percent of the Federal minimum tax, to California's complicated formula requiring its own set of calculations. The Kansas Inc. recommendation is for the state to "piggyback" on to the Federal Alternative Minimum Tax for ease of compliance.

5. **Eliminate the state's loss-carryback provision on corporate taxes.**

   * Estimated Impact = $14 million revenue increase (will occur only once)

A major goal of these recommendations is to provide business owners with assurances that these changes will result in a stable tax structure which will assist future business decisions. In a similar fashion, stability in state revenues and projection can be greatly assisted by the elimination of the loss carryback provision of the state tax system. This provision allows a firm to take losses from a previous year and credit its tax obligation in a profitable year. These credits adversely impact state revenue estimating.

This proposal will not affect a firm's ability to carry forward business losses into future years. The elimination of the carry back option will introduce additional stability in state revenue planning. To allow firms the opportunity to adjust to this very significant change in the tax structure, it is suggested this recommendation not be implemented until calendar year 1990.

Conclusion

The Kansas Inc. Board strongly endorses the first three recommendations and considers item 4 as an acceptable vehicle to reduce the net impact on state revenues. Item 4 should be considered only if the revenue loss that occurs as a result of the first three recommendations is projected to damage the state's fiscal stability.

The loss-carryback provision is recommended only as a last resort to neutralize the revenue impact of the proposed tax reductions. Any consideration of eliminating the loss-carryback should assess the impacts on business decision-making and state economic development. In addition, if the loss-carryback provision would be implemented, the tax change should not take effect until one to two years after legislative introduction.

ATTACHMENT 5

Ranking of Kansas By Industry Group and by Tax
Within the Six-State Region

(1 = lowest tax liability)

SIC	INCOME	UNEMP.	PRPTY	FRANCH	SALES	TOTAL
201	5	2	1	4	5	3
204	5	4	1	4	5	4
307	3	6	1	4	5	2
344	5	3	1	4	5	3
353	3	3	1	4	5	2
367	5	3	1	4	5	3
371	5	3	1	4	5	2
481	2	3	5	4	1	5
737	4	4	5	4	2	4
AVERAGE	4.1	3.4	1.9	4.0	4.2	3.1

Source: Institute for Public Policy and Business Research

February 4, 1988

Testimony Before the

House Taxation Committee

Regarding Corporate Income Tax Proposals

Presented by

Ron Gaches
Boeing Military Airplane Company

Thank you Chairman Rolfs for this opportunity to share with you our concerns regarding the proposed corporate income tax changes currently before your committee.

Minimum Alternative Tax. Imposition of a minimum alternative income tax is not viewed as tax reform by corporate tax payers. As we struggle forward with our economic development initiatives, in an effort to produce more good paying jobs for Kansans, this new tax can only be viewed as a negative to the state's business climate. How does it make sense to impose a new tax when the recommendations of our own economic development agencies are directed at lowering the cost of doing business in Kansas?

If the purpose of this change is simply to assure that more Kansas corporations pay income taxes, then the bill is not necessary. Federal tax reform has already assured you of that. Just as federal tax changes have broadened the tax base and reduced the deductions for individual taxpayers, the corporate tax base has been broadened and several preferential provisions have been eliminated as well.

Kansas will receive a corporate income tax windfall as a result. The only apparent question is "how much?" This windfall occurs without a minimum alternative tax.

Elimination of loss carryback. The proposed elimination of the loss carryback is also opposed. No one from the business community has denied the importance of the

Attachment 4

loss carryback as an effective tax management tool. With the loss carryback an expanding small business can effectively income average when it experiences changes in it's profitability from year to year. But the benefits are not limited to small start up firms. All Kansas corporations can benefit from the moderating influence the loss carryback has on our comparatively high corporate income tax rates.

As I see it, the primary reason for wanting to eliminate the loss carryback is to ease the difficulty in projecting corporate income tax revenues. The Department of Revenue would like to provide greater accuracy in forecasting these revenues. This difficulty only became a problem when a depressed regional economy resulted in an unexpected shortfall in general fund revenue.

Let's not restrict one of the few preferential provisions of the Kansas corporate income tax law just because we experienced difficulty in projecting revenues and we happened to get caught when our general fund balances were low. It seems a more reasonable course to acknowledge the difficulty in forecasting corporate income tax revenue and keep the loss carryback as a moderating factor to the cost of doing business in Kansas. Recent efforts to increase general fund balances largely mitigate any necessity for taking this step.

Taken together, adoption of an alternative minimum tax and elimination of the loss carryback can only be viewed as a tax increase. Unless offset by some modest reduction in the corporate tax rates, these changes will result in higher corporate tax liability.

Multistate Apportionment Formula. The proposed change in the multistate apportionment formula recognizes the significant contribution major corporate citizens can make to the state. This change is modest at best. If the fiscal note is correct, this provision may warrant broadening for it to become significant to firms looking at locating in Kansas.

You should also note that the proposed change will be of little or no benefit to Kansas manufacturers. Because of the high capital investment associated with manufacturing it's unlikely that the necessary criteria for application of the two-factor formula can be met by Kansas manufacturers. A more competitive position for Kansas would be to permit taxpayer election of filing under either the three or two factor formula.

We ask that you rethink this package of corporate income tax changes and submit a proposal that reduces corporate tax rates in recognition of the broader corporate tax base resulting from changes in federal law. It is fair to say that tax reform is in the eye of the beholder. From our perspective this is not a tax reform package.

REMARKS BEFORE

THE HOUSE COMMITTEE ON TAXATION

BY

GENE M. BETTS

CORPORATE TAX OFFICER

UNITED TELECOM

9 A.M., THURSDAY, FEBRUARY 4, 1988

Attachment 5

Good morning, Mr. Chairman and members of the Committee.

I am Gene Betts, assistant vice president of United Telecom, which is headquartered in Westwood, Kansas. I am the corporate officer responsible for all United Telecom tax matters. Thank you for the opportunity to testify on House Bill 2684.

I've included with my remarks for today's testimony a copy of the remarks made by Paul Henson, chairman of United Telecom, before the Interim Tax Committee this past summer.

At that time, he advocated changes which United Telecom believes are necessary in the Kansas corporate tax structure. United Telecom is pleased to see that Kansas corporate income tax law is presently the subject of legislative consideration. Last week, Mr. Henson spoke to members of the Senate Assessment and Taxation Committee in support of Senate Bill 490. Mr. Henson feels it's equally important to express United Telecom's position on House Bill 2684, and he regrets that a scheduling conflict prevents him from being with you today.

He has asked that I talk with you about United Telecom's support for House Bill 2684. On balance, we feel this bill represents a positive change in the Kansas corporate tax structure.

WE SPECIFICALLY WANT TO COMMEND THE INCLUSION OF SECTION 9. THIS SECTION INCLUDES A CHANGE IN THE APPORTIONMENT FACTOR PROVISIONS OF THE CORPORATE INCOME TAX CODE. IT ENCOURAGES ESTABLISHMENT OF OR EXPANSION OF PAYROLL -- AND THUS JOBS -- IN OUR STATE. IF WE HAVE THAT CHANGE, ITS NET EFFECT WILL BE TO ENCOURAGE COMPANIES TO LOCATE, RETAIN, OR EXPAND HEADQUARTERS' OPERATIONS IN KANSAS.

THERE ARE MANY BENEFITS OF ENCOURAGING THE GROWTH AND RETENTION OF HEADQUARTERS IN OUR STATE. LET ME MENTION JUST A FEW OF THOSE BENEFITS. A HEADQUARTERS' OPERATION IS LIKELY TO INCLUDE WELL-EDUCATED AND WELL-PAID EMPLOYEES. OFTEN HEADQUARTERS ARE MORE SUPPORTIVE OF THE COMMUNITIES IN WHICH THEY ARE LOCATED. THEY TYPICALLY ENCOURAGE EMPLOYEES TO TAKE AN ACTIVE ROLE IN THESE COMMUNITIES. FREQUENTLY, DECISIONS ABOUT CORPORATE CONTRIBUTIONS ARE MADE AT THE HEADQUARTERS' LOCATION. WE COULD GO ON. BUT EVEN MORE IMPORTANT, IT'S DIFFICULT TO IMAGINE A SINGLE DISADVANTAGE TO HAVING A CORPORATE HEADQUARTERS LOCATED IN OUR STATE.

DECISIONS ABOUT LOCATING BUSINESS AND EXPANDING IT ARE MADE BY PEOPLE WHO MUST BE GOOD STEWARDS OF CORPORATE RESOURCES. THEY MUST MAKE DECISIONS BASED ON SOLID ECONOMIC INFORMATION.

THAT'S TRUE AT UNITED TELECOM ALSO. WE HAVE A RESPONSIBILITY TO OUR SHAREHOLDERS WHO WOULD -- AND RIGHTFULLY SHOULD -- QUESTION OUR JUDGMENT IF WE WERE TO IGNORE TAX COSTS IN MAKING LOCATION

AND EXPANSION DECISIONS. AS UNITED TELECOM CONTINUES TO GROW, MY DEPARTMENT CONTINUOUSLY MONITORS THE TAX SITUATION IN EVERY STATE IN WHICH WE DO BUSINESS.

WE'VE CERTAINLY TAKEN A HARD LOOK AT HOUSE BILL 2684. AS YOU KNOW, THIS BILL REFLECTS HOURS OF CAREFUL STUDY AND THE CONSIDERED RECOMMENDATIONS OF BOTH KANSAS INC. AND THE GOVERNOR'S TASK FORCE ON TAX POLICY.

UNITED TELECOM SUPPORTS HOUSE BILL 2684. BECAUSE WE FEEL THAT THE APPORTIONMENT FACTOR CHANGE IS SO IMPORTANT, WE SUPPORT THIS BILL EVEN THOUGH THE OTHER SECTIONS -- THE ONES DEALING WITH THE ELIMINATION OF THE NET OPERATING LOSS CARRYBACK AND THE ALTERNATIVE MINIMUM TAX -- ARE NOT ITEMS THAT WE WOULD ENDORSE IF THEY WERE PRESENTED SEPARATELY.

WE BELIEVE THE APPORTIONMENT FACTOR PROVISION IS A WIN/WIN PROPOSITION FOR THE STATE AND HEADQUARTERS' COMPANIES. IN ORDER TO QUALIFY, A CORPORATION MUST EMPLOY SUBSTANTIAL NUMBERS OF EMPLOYEES IN KANSAS. FOR THE STATE, THIS WOULD MEAN ADDITIONAL INDIVIDUAL TAX REVENUES, PROPERTY TAXES, SALES TAXES, AND POPULATION GROWTH. FOR THE HEADQUARTERS' COMPANY, IT WOULD PROVIDE AN INCENTIVE FOR INCREASING CORPORATE PRESENCE WITHIN KANSAS.

THE CHANGES OFFERED IN HOUSE BILL 2684 PRESENT A REAL OPPORTUNITY TO PLACE KANSAS IN A MORE ATTRACTIVE POSITION AS A STATE IN WHICH TO DO BUSINESS. UNITED TELECOM IS NOT SUPPORTING THIS LEGISLATION JUST BECAUSE IT IS IN OUR OWN SELF-INTEREST TO DO SO. THOUGH IT CERTAINLY WILL BENEFIT US, OUR CONCERN IS THE LONGER-TERM. WITHOUT ATTRACTING MORE HEADQUARTERS' BUSINESS TO OUR STATE -- OR IF WE SCARE IT AWAY -- WE WILL EVENTUALLY FIND THAT THE INDIVIDUALS AND BUSINESSES WHO DO REMAIN WILL HAVE TO PAY MORE AND MORE TO SUPPORT THE SAME LEVEL OF GOVERNMENT SERVICES. BUSINESSES HAVE OFTEN BEEN ACCUSED OF FOCUSING ON THE SHORT TERM. WE BELIEVE THAT IT IS IN THE BEST LONG-TERM INTEREST OF KANSAS TO DO EVERYTHING POSSIBLE TO ENCOURAGE BUSINESS DEVELOPMENT IN OUR STATE.

KANSAS STANDS AT THE CROSSROADS. YOU HAVE A CHOICE. WE CAN EITHER GO FORWARD OR STAND STILL. AND STANDING STILL IS FALLING BEHIND.

UNITED TELECOM ENCOURAGES YOUR FAVORABLE CONSIDERATION OF HOUSE BILL 2684. THIS LEGISLATION WILL IMPROVE THE KANSAS CLIMATE FOR BUSINESS.

AND NOW, IF YOU ON THE COMMITTEE OR YOUR STAFF HAVE ANY QUESTIONS, I'D BE HAPPY TO RESPOND.

United Telecom

A diversified telecommunications corporation, United Telecom offers advanced telecommunications products and services for the Information Age. Its companies provide local and long distance telephone service — and a variety of related products and services.

United Telephone System companies serve 3,000 communities across America. Specialized ventures seek new ways to use the UTS network effectively and expand the System's products and services.

North Supply distributes and markets telecommunications equipment.

United Telecom's complementary businesses market security and monitoring services, provide paging and mobile telephone service, and develop computer software.

And US Sprint, owned jointly and equally by United Telecom and GTE, provides long distance voice, data and videoconferencing services in the United States and overseas. US Sprint is constructing the nation's first all-digital, fiber-optic communications network. The network will extend 23,000 miles when completed.

United Telecom is one of America's major corporations, with annual revenues of more than $3 billion and assets of more than $6 billion.

The United Telecom

TELEPHONE OPERATIONS

The eight operating groups of the United Telephone System provide local network services and related products and services for customers in 19 states.

Carolina Telephone and Telegraph Company
720 Western Blvd.
Tarboro, NC 27886
919/823-9900

United Telephone Company of Florida
555 Lake Border Drive
Apopka, FL 32703
305/889-6000

United Telephone Company of Indiana
U.S. 30 East
Warsaw, IN 46580
219/267-6161

United Telephone Company of the Northwest
601 State St.
Hood River, OR 97031
503/386-2211

United Telephone Company of Ohio
665 Lexington Ave.
Mansfield, OH 44907
419/755-8011

United Telephone System-Eastern Group
1170 Harrisburg Pike
Carlisle, PA 17013
717/245-6312

United Telephone System-Midwest Group
6666 West 110th St.
Overland Park, KS 66211
913/345-7600

United Telephone System-Southeast Group
112 Sixth St.
Bristol, TN 37620
615/968-8121

OTHER OPERATIONS

DirectoriesAmerica publishes telephone directories in United Telephone System franchised areas. Through **Community Telephone Directories** and **National Suburban Directories**, the company also produces directories in the Greater Chicago area.

5454 West 110th St.
Overland Park, KS 66211
913/541-4400

North Supply distributes equipment and supplies to the telecommunications, alarm and electrical industries. Its **Premier Telecom Products Inc.** subsidiary provides electronic telephone systems, modular hardware and other communications equipment.

600 Industrial Parkway
Industrial Airport, KS 66031
913/791-7000

Vista United Telecommunications, owned jointly with the Walt Disney Co., provides local telephone service at Walt Disney World in Florida and other related services at Disney headquarters in California.

3100 Bonnet Creek Rd.
Lake Buena Vista, FL 32830
305/828-9000

Companies

COMPLEMENTARY BUSINESSES

Information Line offers an advertiser-supported electronic yellow pages service in the Kansas City and Atlanta markets.

10975 Grandview, Suite 200
Overland Park, KS 66210
913/661-4615

Information Systems of America develops software systems for the financial services industry.

500 Northridge Rd.
Atlanta, GA 30338
404/587-6800

Megatek produces and manufactures interactive graphics systems.

9645 Scranton Rd.
San Diego, CA 92121
619/455-5590

Template Graphics Software supplies high-technology software graphics standards targeted at the engineering and scientific marketplace.

9685 Scranton Rd.
San Diego, CA 92121
619/457-5359

United TeleSentinel markets security management products and monitoring services to commercial and residential users. The company serves customers in selected markets in North Carolina, Florida and Pennsylvania. TeleSentinel's **Commercial Depository** provides records and data storage services.

United TeleSentinel
2330 Shawnee Mission Pkwy.
Westwood, KS 66205
913/676-6500

Commercial Depository
5195 NW 77th Ave.
Miami, FL 33166
305/591-7259

United TeleSpectrum provides cellular mobile telephone and paging products and services. The company operates cellular systems in 16 markets in Pennsylvania, Ohio, North and South Carolina, Tennessee, Virginia, and Indiana. It has minority interests in 14 cellular markets. TeleSpectrum also serves 28 markets with paging products.

2546 Broadway
Kansas City, MO 64108
816/221-0500

US SPRINT

US Sprint Communications Company is owned jointly and equally by United Telecom and GTE. It provides long distance voice, data and videoconferencing services in the United States and overseas.

US Sprint provides telecommunications services ranging from residential long distance to US Sprint Virtual Private Network (VPN) for major corporations. The company operates through seven regional divisions, Telenet and a national accounts division.

Through **Telenet**, US Sprint offers enhanced public and private data communications networks and electronic mail services to corporate customers.

US Sprint Place
8140 Ward Pkwy.
Kansas City, MO 64131
816/276-6000

United Telecom

Corporate Offices
2330 Shawnee Mission Parkway
Westwood, KS 66205
913/676-3000

Data operations
5454 West 110th St.
Overland Park, KS 66211
913/345-6000

October 1987

United Telecom
Summary of Kansas Operations - 1988

United Telecom Companies Headquartered in Kansas:
United Telecom Corporate Headquarters

United Data Services, with regional data center operations in Bristol, Tennessee; Altamonte Springs, Florida; and Mansfield Ohio.

United Telephone System - Midwest Group headquarters (for operations in Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska,Texas,and Wyoming).

United Telephone Company of Kansas headquarters in Junction City

DirectoriesAmerica headquarters

Information Line headquarters

United TeleSentinel headquarters

North Supply headquarters

United Telecom Companies With Operations in Kansas
United TeleSpectrum

Information Systems of America

US Sprint

Number of Employees in Kansas: 3,395

Annual Payroll: $95,300,000

Assets in Kansas: $517,000,000

Gross Sales in Kansas: $180,000,000.

REMARKS BEFORE
THE INTERIM TAX COMMITTEE
BY
PAUL H. HENSON,
CHAIRMAN, UNITED TELECOM

SEPTEMBER 17, 1987

GOOD AFTERNOON.

I AM PLEASED TO BE ABLE TO VISIT WITH YOU ABOUT CORPORATE TAXATION AND HOW IT AFFECTS ECONOMIC DEVELOPMENT WITHIN OUR STATE.

UNITED TELECOM'S ROOTS ARE IN KANSAS. WE'RE KANSAS BORN AND BRED. OUR HISTORY AS A CORPORATION BEGAN BEFORE THE TURN-OF-THE-CENTURY IN ABILENE WHERE CLEYSON BROWN FIRST STARTED AN ELECTRIC SYSTEM AND THEN A TELEPHONE COMPANY. HE WAS QUITE AN ENTREPRENEUR. BY THE TWENTIES, HIS EMPIRE HAD GROWN TO INCLUDE 84 COMPANIES. AFTER HIS DEATH, THE TELEPHONE COMPANIES IN KANSAS, MISSOURI, ARKANSAS, INDIANA, OHIO, PENNSYLVANIA AND NEW JERSEY -- ALONG WITH AN ELECTRIC UTILITY IN KANSAS -- WERE RENAMED UNITED UTILITIES.

IN THE FIFTIES AND SIXTIES, UNITED ADDED TELEPHONE COMPANIES ACROSS THE NATION AND BECAME THE NATION'S SECOND LARGEST NON-

BELL TELEPHONE COMPANY. UNITED ALSO BEGAN TO DIVERSIFY INTO RELATED BUSINESSES.

WE CHANGED OUR NAME TO UNITED TELECOMMUNICATIONS IN 1972 TO REFLECT A NEW FOCUS ON OPPORTUNITIES IN THE INFORMATION INDUSTRY. TODAY, OUR COMPANIES PROVIDE LOCAL AND LONG DISTANCE TELEPHONE SERVICE AND A VARIETY OF INFORMATION-RELATED PRODUCTS AND SERVICES. WE'RE GAINING RECOGNITION AS A NATIONWIDE LEADER IN TELECOMMUNICATIONS.

TODAY, UNITED TELECOM HAS $6.2 BILLION IN ASSETS, AND $3 BILLION IN REVENUES AND SALES. THE CORPORATION EMPLOYS MORE THAN 23,000 PEOPLE NATIONWIDE, WITH AN ANNUAL PAYROLL IN EXCESS OF $700 MILLION. IN ADDITION, US SPRINT, WHICH UNITED TELECOM OWNS JOINTLY WITH GTE, HAS ANNUAL REVENUES OF $2.3 BILLION AND NEARLY 11,000 EMPLOYEES NATIONWIDE.

WE ARE THE LARGEST PUBLICLY HELD CORPORATION HEADQUARTERED IN THE STATE OF KANSAS. OUR CORPORATE OFFICES ARE IN WESTWOOD, KS, AND OUR AFFILIATED COMPANIES CONDUCT CONSIDERABLE BUSINESS IN THE STATE. IN 1986, WE HAD REVENUES AND SALES IN KANSAS OF $180 MILLION. OUR TOTAL KANSAS PAYROLL IS MORE THAN $95 MILLION; AND OUR REAL AND PERSONAL PROPERTY IN KANSAS IS VALUED AT MORE THAN $517 MILLION.

ANY CITY, METROPOLITAN AREA, COUNTY OR STATE BENEFITS FROM A CORPORATE HEADQUARTERS LOCATED WITHIN ITS BOUNDARIES. I BELIEVE

THAT UNITED TELECOM CONTRIBUTES IN A VERY POSITIVE WAY AT ALL THESE LEVELS.

THE INFORMATION BUSINESS APPEARS ON EVERYBODY'S LIST OF "BUSINESSES OF THE FUTURE." IT'S A BUSINESS THAT'S GOING TO GROW, NOT DECLINE.

IT HAS NO NEGATIVE IMPACT ON THE ENVIRONMENT. IT'S CLEAN. ITS BUILDINGS ARE ASSETS TO THE COMMUNITY, AND NOBODY MINDS A TELEPHONE COMPANY FACILITY NEXT DOOR.

ITS EMPLOYEES ARE HIGHLY EDUCATED AND ARE ENCOURAGED TO CONTRIBUTE TO AND TAKE AN ACTIVE ROLE IN THEIR COMMUNITIES.

IN SHORT, COMMUNITIES AND STATES CONSIDER TELECOMMUNICATIONS BUSINESSES EXTREMELY DESIRABLE, A GOOD NEIGHBOR AND AN ASSET TO THE AREA.

FREQUENTLY, DECISIONS REGARDING CORPORATE CONTRIBUTIONS AND SUPPORT ARE MADE AT THE CORPORATE HEADQUARTERS LEVEL. AND FREQUENTLY, THESE DECISIONS FAVOR THE HOMETOWN AND HOME STATE. REGIONAL OR BRANCH OFFICES IN A STATE OFTEN MUST SEEK PERMISSION FROM THEIR HEADQUARTERS TO SUPPORT LOCAL ACTIVITIES. USUALLY, THEY DON'T GET AS MUCH MONEY FOR CONTRIBUTIONS AS THE CORPORATION'S HOMETOWN OR HOME STATE DOES. ALSO, AT A CORPORATE HEADQUARTERS, THERE'S USUALLY GREATER SUPPORT FOR AND ENCOURAGEMENT OF EXECUTIVE PARTICIPATION IN THE COMMUNITY.

UNITED TELECOM INTENDS TO GROW. ONE OF OUR STRATEGIES INVOLVES CREATING NEW BUSINESSES WITHIN THE TELECOMMUNICATIONS FRAMEWORK. WE'VE LAUNCHED SEVERAL IN KANSAS IN RECENT YEARS:

•INFORMATION LINE IS OUR ELECTRONIC YELLOW PAGES SERVICE. AFTER LAUNCHING THE BUISNESS IN KANSAS, WE OPENED OUR ATLANTA INFORMATION LINE THIS MONTH.

•DIRECTORIESAMERICA IS OUR NATIONWIDE TELEPHONE DIRECTORY BUSINESS AND PUBLISHES MORE THAN 230 DIRECTORIES. WE JUST ACQUIRED TWO MORE COMPANIES WHOSE DIRECTORIES SERVE SUBURBAN CHICAGO.

•AND TELESPECTRUM OFFERS CELLULAR MOBILE TELEPHONE AND PAGING SERVICES WITH OPERATIONS THROUGHOUT THE COUNTRY.

CURRENTLY, WE'RE EXPLORING OUR OPTIONS FOR A THIRD "CORE" BUSINESS TO AUGMENT OUR LOCAL AND LONG DISTANCE TELEPHONE BUSINESSES AND OUR COMPLEMENTARY BUSINESSES.

WHEN WE LAUNCH NEW COMPANIES, IT MEANS TWO THINGS:

- •HIGHEST QUALITY AND THE LATEST TECHNOLOGY FOR THE HOMETOWN OR HOMESTATE CUSTOMERS; AND
- •EXPANDING ASSETS, PAYROLL, AND NUMBER OF EMPLOYEES IN THAT LOCATION.

UNITED, LOCATED NEARLY ASTRIDE THE STATE LINE IN KANSAS CITY, HAS A CHOICE ABOUT WHICH STATE TO LOCATE BUSINESSES IN -- KANSAS OR MISSOURI. AS FOND AS WE ARE OF KANSAS -- AND WE DO TAKE

GREAT PRIDE IN OUR KANSAS HERITAGE -- WE WOULD BE LESS THAN PRUDENT IF WE DID NOT CONSIDER CAREFULLY THE ECONOMIC IMPLICATIONS OF OUR CHOICE OF LOCATION. OUR STOCKHOLDERS EXPECT US TO MAKE DECISIONS BASED ON GOOD SENSE AND NOT SENTIMENT.

THE DECISIONS ABOUT WHERE TO LOCATE THE US SPRINT HEADQUARTERS IS A CASE IN POINT. WITH THE CURRENT TAX LAWS AND RELATED UNCERTAINTIES, WE COULD NOT JUSTIFY COMMITTING ADDITIONAL RESOURCES AND ASSETS IN KANSAS. I BELIEVE THAT WE MADE A SOUND ECONOMIC DECISION TO LOCATE THAT BUSINESS IN MISSOURI.

OUR BUSINESS IS CHANGING. IN TELECOMMUNICATIONS, WE ARE ENTERING A MORE COMPETITIVE ERA. ANY BUSINESS IN AN INCREASINGLY COMPETITIVE MARKET ENVIRONMENT IS GOING TO INCREASE ITS VIGILANCE OVER THE COSTS OF DOING BUSINESS.

GIVEN THE FACT THAT WE HAVE EXACTLY THE SAME WORKFORCE TO CHOOSE FROM AND A SIMILAR QUALITY OF LIFE TO ENJOY ON EITHER SIDE OF THAT STATE LINE, THE TAX SITUATION IS HAVING, AND WILL CONTINUE TO HAVE, AN IMPACT ON HOW WE DECIDE TO LOCATE OUR FACILITIES. IN FACT, THE TAX SITUATION MAY WELL BE PIVOTAL IN THOSE DECISIONS.

WE APPLAUD THE RECENT TAX CHANGE IN REGARD TO THE TAXATION OF FOREIGN INCOME. IT GETS KANSAS OUT OF DEAD LAST PLACE IN THE RANKING OF THE STATES ON THE BASIS OF TAX TREATMENT OF LARGE CORPORATIONS. IT MOVES KANSAS TOWARD A MORE FAVORABLE CLIMATE

FOR BUSINESS IN THE STATE. HOWEVER, KANSAS STILL RANKS NEAR THE BOTTOM IN TERMS OF A TAX STRUCTURE THAT ENCOURAGES CORPORATIONS TO REMAIN LOCATED WITHIN ITS BOUNDARIES AND THAT CREATES FAVORABLE CONDITIONS FOR ECONOMIC DEVELOPMENT AND THE ATTRACTION OF NEW BUSINESSES TO THE STATE.

SOME COMPANIES -- AND I'D PUT UNITED TELECOM ON THAT LIST -- ARE ACTUALLY PENALIZED BY HAVING THEIR CORPORATE HEADQUARTERS IN KANSAS. THIS SITUATION IS ESPECIALLY ONEROUS WHEN A COMPANY -- LIKE OURS -- IS LOCATED ONLY A COUPLE OF BLOCKS FROM THE MISSOURI STATE LINE. STATES ON THE OTHER THREE BORDERS OF KANSAS ARE ALSO MORE HOSPITABLE TO CORPORATIONS. THIS SITUATION HAS INFLUENCED -- AND WILL CONTINUE TO INFLUENCE -- CORPORATIONS THAT ARE SEEKING LOCATIONS IN THIS AREA TO CHOOSE STATES OTHER THAN KANSAS.

KANSAS CANNOT AFFORD TO BE A STATE WITH ONE OF THE WORST TAX CLIMATES FOR BUSINESS. YOU HAVE BEFORE YOU A PROPOSAL THAT UNITED TELECOM BELIEVES WILL ENCOURAGE GROWTH OF BUSINESS IN KANSAS AND WILL ENCOURAGE ECONOMIC PROSPERITY.

UNITED TELECOM REMAINS COMMITTED TO WORKING WITH THE KANSAS LEGISLATURE TO HELP ACHIEVE GREATER ECONOMIC PROSPERITY IN OUR STATE. THANK YOU FOR YOUR TIME. I'D BE HAPPY TO ANSWER ANY QUESTIONS.