Approved Feb. 1, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION.

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m./p.m. on January 28, 1988 in room 519-S of the Capitol.

All members were present except:
Senator Bud Burke

Committee staff present:

Tom Severn, Research
Don Hayward, Revisor's Office
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Gerhard Metz, Kansas Chamber of Commerce and Industry
Jerry Lonegran, Kansas, Inc.
Bernard Koch, Wichita Chamber of Commerce
Paul Henson, United Telecom
Ron Gashes, Boeing Co.
Don Schnacke, KIOGA

Chairman Kerr called the meeting to order and announced the agenda for the day to be continued hearings on S.B. 490.

Gerhard Metz testified. (Att. 1) He stated that he wished to point out some areas of concern that are included in the bill as it now stands. Personal income taxation. Making the tax climate congenial to the professional and management level employees will encourage business location within the state. Because of this, he asked for consideration of the proposed elimination of deductibility of federal taxes paid from state adjusted gross income. He stated that the issue is one of double taxation. He stated that language stricken on p. 10 of the bill, (amending KSA 79-32, 119) should be restored to re-establish this deduction. Mr. Metz stated that primary concerns regarding the corporate aspects of the bill are in the repeal of the net operating loss carryback, and the imposition of a state alternative minimum tax. He felt that the alternative minimum tax is a further effort to raise state revenues at the expense of the business community. Only four states, California, Iowa, Alaska, and Arkansas currently impose a state alternative minimum tax. He said that he felt that the alternative minimum tax gives a message that Kansas is insensitive to the problems of some industries and does not want their business badly enough to make adjustments in the tax rates. He felt that cancelling the net operating loss carryback and the alternative minimum tax is very burdensome since a reduction in corporate income tax rates is not forthcoming. He said that despite assurances that in return for going along with some unfavorable tax measures, reduction in corporate rates could be expected, they are being short changed.

Jerry Lonegran testified. (Att. 2) He stated that Kansas, Inc. performed a study to evaluate Kansas' competitive position from a business tax structure standpoint. He stated that they attempted to identify taxes that might hurt the state. He stated that the recommendations for changes to the tax structure that were voted on and approved by the Kansas Inc. Board of Directors are included in his attachment. (Att. 2) Four currently being considered by Legislature are: sales tax exemption on productive machinery, change to the corporate income tax apportionment formula, the alternative minimum tax, and the elimination of the loss-carryback provision. He stated that he felt one important recommendation missing is a proposed 5% reduction in the base Corporate Income Tax Rate of 4.5% and an equal reduction in the surcharge from 2.25% to 1.75%.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,

room 519-S, Statehouse, at 11:00 a.m./p.m. on January 28, 1988

Bernard Koch testified. (Att. 3 & 4) He stated that he endorsed the recommendations for increasing the state's competitiveness requested by Kansas, Inc., including the corporate income tax reduction. He felt that without the business income tax changes, the Legislature could be putting the state's business community in a bad competitive situation.

Paul Henson testified. (Att. 5) He stated that he especially wanted to commend the inclusion of Sect. 9, which includes a change in the apportionment factor provisions of the corporate income tax code. It encourages expansion of payroll, thus jobs in the state. He stated that United Telecom continuously monitors the tax situation in every state in which they do business, and they certainly support S.B. 490., even though the sections dealing with the elimination of the net operating loss carryback and the alternative minimum tax are not items that they would endorse if they were presented separately.

Ron Gaches testified. (Att. 6) He stated that Boeing Co. had concerns regarding the proposed corporate income tax changes. He said that minimum alternative tax is not viewed as tax reform by corporate taxpayers, but is a very negative consideration. Also, the proposed elimination of the loss carryback is also opposed. He felt that the adoption of an alternative minimum tax and elimination of the loss carryback can only be viewed as a tax increase. He stated that Boeing would most likely have increased taxes, not reduced. He asked for a proposal that reduces corporate tax rates in recognition of the broader corporate tax base resulting from changes in federal law.

Don Schnacke testified. (Att. 7) He stated that there are many reasons why Kansas businesses, and the oil industry in particular are concerned by the proposed alternative minimum tax. He stated that the economic development situation applying to the Kansas oil and gas industry is very uneven and greatly leans to nearby energy states. The imposition of a state alternative minimum tax would only aggravate this problem and make it more difficult to attract risk capital to Kansas. KIOGA opposes the tax.

Secretary Harley Duncan submitted information requested by the committee. (Att. 8)

Senator Hayden made the motion to adopt the minutes of the January 27 meeting. Senator Thiessen seconded. Motion carried. Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
1-28-88	MARK BURGHART	TOPEKA	REVENUE
1/28/88	JERRY LONERGAN	TOPEKA	KANSAS INC
1-28-88	Bernie Koch	Wichita	Wichita Chamber
1-28-88	Janis Lee	Kensington	
1-28-88	Jim McBride	Topeka	Observer
"	BUD GRANT	"	KCCI
"	GERHARD METZ	"	KCCI
	RON GACHES	WICHITA	Boeing

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the Kansas State Chamber of Commerce, Associated Industries of Kansas, Kansas Retail Council

SB 490

January 27, 1988

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Taxation Committee

by

Gerhard Metz
Director of Taxation

Mr. Chairman and members of the committee, I am Gerhard Metz, representing the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to testify today concerning SB 490.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

I would like to begin by commending the Committee for the adoption of several key measures that would effect meaningful tax reform, with the result of making Kansas a

A & T 1/28/88
ATTACHMENT 1

more attractive place to live and to do business. There are significant steps on both the individual and corporate sides of tax policy which this legislation addresses positively, ranging from individual rate reductions to the modification of the formula used to calculate Kansas taxable income for multistate entities. Your attention to these areas has been appreciated. There are, however, several areas of concern that remain in the bill as it now stands.

First, in the area of personal income taxation, we in the business community know that individual taxpayers and their economic situations play an important part in business decisions. The more a business contributes to the economy, the more likely it is that professional and management level employees will be involved in that contribution. Making the tax climate congenial to these taxpayers will encourage business location within the state, and encourage those taxpayers living near state borders to remain instate for tax purposes. Bearing this in mind, we ask you carefully to consider the proposed elimination of deductibility of federal taxes paid from state adjusted gross income. The issue is essentially one of double taxation. Language currently stricken on page 10 of the bill (amending KSA 79-32, 119) should be restored, so as to re-establish this deduction. Similarly, from the standpoint of equity, if the standard deduction is to match the 1988 federal standard, we believe that the language tying the deduction to the federal standard should not be limited to the 1988 tax year, but allowed to rise or fall with the federal standard, in order to promote conformity and obviate future discrepancies such as the one which this bill seeks to address. We can already anticipate that the federal levels will increase with cost-of-living adjustments.

Our primary concerns as to the corporate aspects of this bill are in the repeal of the net operating loss carryback, and in the imposition of a state alternative minimum tax. Both of the provisions proceed from laudable premises, but are flawed in their execution.

The Secretary of Revenue has indicated that the elimination of the net operating loss carryback would stabilize the volatility in state revenues by eliminating the need to refund taxes once collected. This may, in fact, be an outgrowth of such a change in procedure; what is certainly a result in the availability of interest-free loans to the state general funds. This, combined with the one-year infusion of extra cash by enabling the state to keep monies it otherwise would not have results in a heavy burden on corporation in this state. It is particularly hard on businesses just starting up, which may experience a year or more of initial losses before turning a profit. At a time when the avowed policy of state government is to make Kansas more attractive to businesses and investors, we should encourage such new businesses by a tax structure amenable to economic reality.

The Alternative Minimum Tax is a further effort to raise state revenues at the expense of the business community. Only four states--California, Iowa, Alaska and Arkansas, currently impose a state alternative minimum tax. One of the purported aims of this tax is to make the tax structure apply more evenly to business taxpayers--seen in this instance as eliminating certain "preferential" treatment given to some businesses. This argument ignores the very legislative policy behind tax incentives to certain businesses--because of high-risk investments and sometimes long periods of return on investment, it is considered that some kind of special tax treatment must be afforded if these businesses are to continue operating in the state. The imposition of an alternative minimum tax sends the message that this state is insensitive to the particular problems of some industries, and does not want their business enough to make adjustments in the tax rates. The result of such policy is that potential tax dollars are actually lost, rather than gained, and all for the sake of making a theoretical statement.

The burden of cancelling the Net Operating Loss Carryback and the imposition of an Alternative Minimum Tax is particularly onerous in light of the fact that a reduction in corporate income tax rates is not forthcoming. Despite the earlier assurances that in return for going along with some unfavorable tax measures, the business community could expect a reduction in corporate rates, we are seeing this "carrot" withdrawn, while the "sticks" remain. A reduction in corporate tax rates was, in fact, part of the original Kansas, Inc. package. KCCI urges this committee to give serious thought to the areas in SB 490 which we have brought to your attention. The general direction is good, but we feel that there are still some important things to be worked on. Thank you once again for the opportunity to speak with you this morning. I will gladly stand for questions.

TESTIMONY ON KANSAS INC.'S

RECOMMENDATIONS FOR CHANGES TO THE STATE'S

BUSINESS TAX STRUCTURE

SENATE BILL 490

presented to the

Senate Committee on Assessment and Taxation

presented by

Jerry Lonergan
Manager of Research
Kansas Inc.

January 28, 1988

Thank you Mr. Chairman, members of the Committee, My name is Jerry Lonergan, I am the Manager of Research for Kansas Inc. With me today is Ms. Patricia Oslund of the Kansas University, Institute for Public Policy and Business Research.

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.

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 shows that Kansas overall ranked third among the 6 states and the total taxes paid by the firms in the nine states. 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.

The purpose of the study was to evaluate Kansas' competitive position from a business tax structure standpoint. We attempted to identify taxes that might hurt the state in a business' location or expansion decision process. The attempt was to neutralize Kansas taxes within the region in regard to business decision making.

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

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

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	4	6	3	1	2	5
204	4	3	5	1	6	2
307	3	4	5	1	6	2
344	3	6	4	1	2	5
353	2	4	5	1	6	3
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	3.4	3.9	4.8	1.0	4.7	3.2
OVERALL RANK	3	4	6	1	5	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 Industrv</u>

ATTACHMENT 3

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

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

State Income Tax Liability by Industry
Under New Firm Assumption

	Kansas	Colorado	Iowa	Missouri	Nebraska	Oklahoma
Grain Mill (204)	429,480	304,674	507,791	43,285	369,246	360,144
Plastic (307)	72,571	66,067	118,965	2,266	86,586	81,094
Struct.Metal (344)	32,476	23,361	30,123	(5,453)	26,806	35,209
Constr.Equip (353)	70,577	58,238	98,096	(2,349)	75,190	74,286
Elect.Compon. (367)	43,161	22,678	54,585	(9,146)	39,069	40,889
Motor Vehicles Parts & Equip (371)	131,426	94,151	155,852	3,096	124,638	128,786
Telecomm (481)	260,454	266,277	488,931	(25,989)	402,542	341,138
Computer Ser (737)	109,715	94,950	145,310	15,146	122,909	106,491

TESTIMONY OF BERNIE KOCH

TO

SENATE COMMITTEE ON ASSESSMENT AND TAXATION

January 27, 1988

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

I ask you to seriously consider introducing Kansas Inc.'s recommendations for increasing the state's competitiveness in business and industry.

As you're already aware, the corporate income taxes imposed in Kansas tend toward the high end, when compared with corporate income taxes in surrounding states.

I refer you to attachment number one on this testimony. It's a summary of Kansas Inc.'s recommendations to increase the state's competitiveness.

Let's review them briefly.

1. Exempt sales tax on productive machinery. The House Taxation Committee held hearings on that last week.
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.
3. Reduce the corporate income tax rate by .5 percent for both tax levels.
4. Extablish an alternative minimum tax on corporations, parallel to the Federal Alternative Minimum Tax.
5. Finally, eliminate the state's loss-carryback provision on corporate taxes.

At the bottom of that page, I've quoted directly from the Kansas Inc. report:

> "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."

What's happened, of course, is that the Administration is recommending all of those measures except number three, the corporate income tax reduction.

We believe the corporate income tax reduction should be included for two major reasons. It's the right thing to do to help keep the business we have and attract new business to the state. It's also needed to prevent a tax increase on business.

To explain that, let me refer you to Attachment Number Two of my testimony. It's titled Governor's Corporate Tax Reform Proposals.

At the top, we have the four changes that have been recommended by the Governor and introduced. The sales tax exemption on machinery lowers business taxes statewide by 16 million dollars. The change in the multi-state formula lowers them half a million.

The alternative minimum tax increases business taxes by six million dollars, and eliminating the loss carryback is a 14 million dollar tax increase for business.

Together, these four measures result in a 3.5 million dollar tax increase for business, but there's another element that must be included, the corporate tax windfall the state will realize from federal tax reform. You heard last week that the U.S. Treasury estimates it to be from 5 to 7 percent.

I've figured it in at 7 percent on Attachment Number Two. Based on corporate income tax revenues of 135 million dollars to the state in 1986, that comes to a nearly nine and a half million dollar windfall on business, or a business tax increase of almost 13 million dollars in this package.

However, our members tell us that as they work on their 1987 corporate taxes, they are finding it is more.

Again on Attachment Number Two, if the windfall is ten percent, that's 13 and a half million dollars, or a total business tax increase of

17 million dollars.

Finally, let's figure in the corporate income tax reduction recommended by Kansas Inc.

It's estimated at about 17.7 million dollars yearly. Assuming a ten percent corporate tax windfall, that results in a 700 thousand dollar tax break for business, not very much.

Now, these figures are just estimates, but I think they make the point. I urge you to be very careful in your deliberations on Kansas corporate tax reform.

Please consider the Kansas Inc. recommendations, including the corporate income tax reduction. They were meant to be considered as a package.

Without the business income tax changes, the Legislature could be putting the state's business community in a bad competitive situation.

Even if there's some doubt in your mind, please consider introducing a corporation income tax reduction measure, either as a separate bill or as part of Senate Bill 490.

It deserves consideration.

Thank you for the opportunity to testify.

Attachment Number One
January 27, 1988

Kansas Inc.'s Recommendations to Increase the State's Competitiveness

Adopted November 18, 1987

1. Exempt sales tax on productive machinery for qualifying firms.

   *Estimated impact = $16 million revenue reduction

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.

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 than $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

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.

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

"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."

Attachment Number Two
January 27, 1988

Governor's Corporate Tax Reform Proposals

Sales Tax Exemption	- $16 million
Multi-State Formula	- $.5 million
Alternative Minimum Tax	+ $6 million
Eliminate Loss Carryback	+ $14 million
	$3.5 million tax increase for business
Corporate Tax Windfall (at 7 percent)	+ $9.45 million
	$12.95 million tax increase for business
Corporate Tax Windfall (at 10 percent)	+ $13.5 million
	$17 million tax increase for business
Corporate Tax Reduction (Recommended by Kansas Inc.)	- $17.7 million
	$.7 million tax break for business

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.

P.O. Box 49170
Wichita, Kansas 67201
(316) 267-7231

A & T 1/28/88
Attachment 4

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	17,800	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		−13,127	−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	−15,123
Repeal income averaging		486	1,855	2,017	2,170	2,333	8,811
Taxation of unemployment compensation		235	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		850	2,318	2,225	2,305	2,388	9,581
Housing allowances for clergy and military personnel		(5)	(5)	(5)	(5)	(5)	(4)
Limitations on deductions for meals, travel, and entertainment							
Individual		556	934	1,054	1,281	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	868	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		−158	−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	6,487	[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
N/A Corporate	7,398	19,256	19,195	24,340	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	1,345	1,358	1,395	7,038
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		31	89	82	83	83	368
Corporate		842	1,291	1,232	1,243	1,244	5,852
Qualified discount coupons							
Corporate		13	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		7,238	11,178	10,918	10,489	10,126	49,959
Total		7,538	11,984	11,815	11,388	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 [5]							
Penalty provisions and voluntary disclosure							
Individual		447	319	336	341	346	1,789
N/A Corporate		61	117	140	138	137	593
Estate and gift		4	4	4	4	4	20
Excise		4	4	4	4	4	20
Interest provisions [7]							
Individual		95	193	164	163	210	825
N/A Corporate		202	311	204	262	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	[illegible]
N/A Corporate		[illegible]	1,401	[illegible]	[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	(3)	(3)	(3)	(3)	(3)	(3)	(4)
Customs		(3)	(3)	(3)	(3)	(3)	(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	(3)	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		(3)	(3)	(3)	(3)	(3)	(4)
Transportation income							
Corporate		8	16	18	25	30	97
Allocation of interest and other expenses							
Corporate		61	130	185	231	279	886
Source rule for space and certain ocean activities							
Corporate		(3)	(3)	(3)	(3)	(3)	(4)
Tax haven (subpart F) income							
Corporate		25	41	41	44	49	200
Threshold for imposition of current tax under subpart F							
Corporate		(3)	(3)	(3)	(3)	(3)	(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	53	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		(3)	(3)	(3)	(3)	(3)	(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		(3)	(3)	(3)	(3)	(3)	(4)

REMARKS BEFORE

THE ASSESSMENT AND TAXATION COMMITTEE

BY

PAUL H. HENSON

CHAIRMAN, UNITED TELECOM

11 A.M., THURSDAY, JANUARY 28, 1988

A & T 1/28/88

ATTACHMENT 5

GOOD MORNING, CHAIRMAN KERR AND MEMBERS OF THE COMMITTEE.

I AM PAUL HENSON, CHAIRMAN OF THE BOARD OF UNITED TELECOM, WHICH IS HEADQUARTERED IN WESTWOOD, KANSAS. I AM PLEASED TO HAVE THIS OPPORTUNITY TO TESTIFY ON SENATE BILL 490.

I'VE INCLUDED WITH MY REMARKS FOR TODAY'S TESTIMONY A COPY OF MY REMARKS BEFORE THE INTERIM TAX COMMITTEE THIS PAST SUMMER.

AT THAT TIME, I ADVOCATED CHANGES IN THE KANSAS CORPORATE TAX STRUCTURE.

I'M HERE TODAY IN SUPPORT OF THE CHANGES EMBODIED IN SENATE BILL 490. ON BALANCE, I FEEL THIS BILL REPRESENTS A POSITIVE CHANGE IN THE KANSAS CORPORATE TAX STRUCTURE.

I SPECIFICALLY WANT TO COMMEND THE INCLUSION OF SEC. 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 -- OR RETAIN -- HEADQUARTERS' OPERATIONS IN KANSAS.

THERE ARE MANY BENEFITS OF ENCOURAGING THE GROWTH OR 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 THE COMMUNITY. FREQUENTLY, DECISIONS ABOUT CORPORATE CONTRIBUTIONS ARE MADE AT THE HEADQUARTERS' LOCATION. WE COULD GO ON. BUT EVEN MORE IMPORTANT, I CAN'T THINK OF 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. I ASSURE YOU THAT, AS UNITED TELECOM CONTINUES TO GROW, THE TAX SITUATION IN THE VARIOUS STATES IN WHICH WE DO BUSINESS WILL BE A FACTOR IN OUR DECISIONS. WE'RE CONTINUOUSLY MONITORING THE TAX SITUATION IN EVERY STATE IN WHICH WE DO BUSINESS.

WE'VE CERTAINLY TAKEN A HARD LOOK AT SENATE BILL 490. AS YOU KNOW, THIS BILL REFLECTS HOURS OF CAREFUL STUDY AND THE CONSIDERED RECOMMENDATIONS OF BOTH KANSAS INC. AND THE GOVERNORS TAX POLICY TASK FORCE.

UNITED TELECOM SUPPORTS SENATE BILL 490. 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.

THESE CHANGES PRESENT A REAL OPPORTUNITY TO PLACE KANSAS IN A MORE ATTRACTIVE POSITION AS A STATE IN WHICH TO EXPAND EXISTING BUSINESS OR LOCATE NEW BUSINESS.

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

I ENCOURAGE YOUR FAVORABLE CONSIDERATION OF SENATE BILL 490. 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. I'VE BROUGHT GENE BETTS OF OUR TAX DEPARTMENT WITH ME TO HELP OUT IF YOU HAVE QUESTIONS OF A TECHNICAL NATURE.

United Telecom
Summary of Kansas and Missouri Operations - 1987

	Kansas	Missouri
Companies with operations within the state.	United Telecom United Data Services Midwest Group & UTC of Kansas DirectoriesAmerica Information Line United TeleSentinel United TeleSpectrum North Supply ISA Market Information US Sprint	UTC-Missouri United TeleSpectrum US Sprint
No. of business locations	7	5
No. of employees	3,395	1,060
Annual payroll	$ 95,300,000	$ 27,700,000
Total assets	$517,000,000	$224,000,000
Gross sales	$180,000,000	$ 84,000,000

January 28, 1988

Testimony Before the

Senate Assessment and Taxation

Regarding Corporate Income Tax Proposals

Presented by

Ron Gaches
Boeing Military Airplane Company

Thank you Chairman Kerr 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.

Kansas will receive a corporate income tax windfall as a result. The only apparent question is "how much?"

Elimination of loss carryback. The proposed elimination of the loss carryback is also opposed. No one has denied the importance of the loss carryback as an effective

A & T

1/28/88

ATTACHMENT 6

tax management tool. With the loss carryback an expanding small business can effectively income average when it is experiencing changes in it 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 a 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 corporate tax increase. Dress it up how ever you please and attach it to the essential individual income tax proposal if you wish, it is plain and simple a corporate tax increase. We urge you opposition to this effort.

Alternatively: 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 Kansas.

You should also note that the proposed change will be of little 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 will be met by Kansas manufacturers. A more competitive position would be to permit taxpayer election of filing under either the three or two factor formula.

Taken as a package we must rise in opposition to this alleged corporate tax reform. For Boeing there are no benefits. It's more likely that income taxes would be increased, not reduced.

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.

KIOGA

KANSAS INDEPENDENT OIL & GAS ASSOCIATION

500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

January 28, 1988

TO: Senate Committee on Assessment & Taxation

RE: SB 490

We are still circulating the proposed income tax bills for comments, but we wish to comment on the published proposal to impose an alternative minimum tax which would be equal to twenty percent of the federal minimum tax on Kansas corporations.

We are appearing in opposition to imposing this proposed new tax.

When we became aware of this proposal, I asked our State and Federal Tax Committee Chairman, Will G. Price, III, managing partner of Peat Marwick Main & Company, Wichita, to reflect on the proposal.

Our research found only four states that presently have a separate state alternative minimum tax on so-called "preference items". They are Alaska, California, Iowa and Maine. Only Iowa would be at a higher rate than that proposed in Kansas, but in the case of Iowa, they exclude depletion and tax exempt interest as preferences. Alaska is at 18%, California is 12.5%, and Maine is 11%. These percentages are approximate percentages of their state alternative minimum tax compared to the federal alternative minimum tax and would be compared to the 20% proposed in Kansas.

There are a number of reasons for Kansas business and industry in general, and the oil industry in particular, to be concerned by the proposed alternative minimum tax, including the following:

1. Such a tax would put Kansas corporations at a competitive disadvantage with our neighbor states, none of which have such a tax. In fact, Kansas would become only one of a handful of states nationwide with such a tax and might be perceived as furthering an "anti-business" attitude.

2. A Kansas alternative minimum tax would add substantially to the complexity of the current taxation system and the burdens of taxpayers to comply therewith.

3. The State of Kansas already enjoys a substantial non-legislative tax increase ("windfall") as a result of retaining substantial Kansas tax revenue increases caused by the 1986 federal tax reform.

A & T 1/28/88

ATTACHMENT 7

Senate Committee on Assessment & Taxation
RE: SB 490 - Alternative Minimum Tax
Hearing Date: January 28, 1988

We are certain that members of the legislature must know that the combination of the Kansas severance tax and the Kansas ad valorem tax on oil and gas averages at least 10% on oil and, in some cases, in excess of 20% on natural gas, both being the highest in the nation. When you consider the Kansas rates with our neighboring energy states - Oklahoma at 7%; Arkansas at 5%; Texas at 5%; New Mexico at 4%; Nebraska at 3% - you can see that if you have money to spend on exploring and drilling for oil and gas, Kansas is not even close to competing. None of these energy producing states nearby have an alternative minimum tax as is proposed here in Kansas.

We have been observing Kansas, Inc. and this legislature attempting to make a level economic development playing field with the sales tax on certain industrial and manufacturing equipment. We understand and appreciate that effort, even though there is nothing in that proposal that would help the oil and gas industry.

The economic development playing field as it applies to the Kansas oil and gas industry is very uneven and greatly tilts to nearby energy states. The imposition of a state alternative minimum tax would only agitate this problem and make it more difficult to attract risk capital into Kansas to support the oil and industry. We recommend you not enact such a tax.

Donald P. Schnacke

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan HTD
Secretary of Revenue

RE: Information Requested by the Committee

DATE: January 27, 1988

Enclosed is the information requested by your Committee during my discussion last Friday of Senate Bill 490. Included is a table displaying the maximum corporation income tax rate, the income level at which it applies, and the treatment of net operating losses in those states with a corporation income tax. Also included is a table prepared by Kansas Inc. displaying the effect of their recommendations on the ranking of Kansas among the surrounding states for various industry groups.

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A & T
ATTACHMENT 8 1/28/88

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.

State Rankings Before and After Kansas Inc.'s Proposed Tax Changes
Total Tax Liability

GRAIN MILL PRODUCTS (SIC - 204)

	Kansas	Colorado	Iowa	Missouri	Nebraska	Oklahoma
New Firm						
Before	3,337,668(4)	3,294,621(3)	3,365,529(5)	3,077,716(1)	3,391,372(6)	3,282,486(2)
*After	3,264,314(2)	(4)	(5)	(1)	(6)	(3)
Existing Firm						
Before	3,594,437(6)	3,471,572(3)	3,574,580(5)	3,405,140(1)	3,518,703(4)	3,469,693(2)
*After	3,525,216(5)	(3)	(6)	(1)	(4)	(2)

STRUCTURAL METAL PRODUCTS (SIC - 344)

	Kansas	Colorado	Iowa	Missouri	Nebraska	Oklahoma
New Firm						
Before	414,419(3)	476,644(6)	427,104(4)	390,287(1)	413,077(2)	457,321(5)
*After	407,676(2)	(6)	(4)	(1)	(3)	(5)
Existing Firm						
Before	487,622(4)	528,161(6)	475,543(3)	460,465(2)	454,221(1)	505,834(5)
*After	478,655(4)	(6)	(3)	(2)	(1)	(5)

TELECOMMUNICATIONS (SIC – 481)

	Kansas	Colorado	Iowa	Missouri	Nebraska	Oklahoma
New Firm						
Before	8,891,756(5)	7,822,948(2)	8,914,786(6)	7,666,985(1)	8,380,739(4)	8,275,985(3)
*After	8,867,788(5)	(2)	(6)	(1)	(4)	(3)
Existing Firm						
Before	10,737,947(5)	9,765,796(2)	10,875,409(6)	9,524,447(1)	10,213,745(4)	10,115,041(3)
*After	10,690,198(5)	(2)	(6)	(1)	(4)	(3)

* After column reflects Kansas Inc.'s five recommended changes for business taxes. Briefly the changes are:

1. Exempt sales tax on productive machinery for firms qualifying under the basic industry definition.
2. Allow 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.
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 than $25,000 would decline from 2.25 percent to 1.75 percent.
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.