

Approved: _____
Date 1/17/1995

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on January 12, 1995 in Room 519--S of the Capitol.

Members present:

Senator Audrey Langworthy, Senator David Corbin, Senator Phil Martin, Senator Richard Bond, Senator Stan Clark, Senator Paul Feleciano, Jr., Senator Janice Hardenburger, Senator Janice Lee, Senator Pat Ranson, Senator Don Sallee and Senator Bill Wisdom.

Committee staff present:

Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Elizabeth Carlson, Secretary to the Committee

Conferees appearing before the committee:

Charles Warren, President, Kansas., Inc.
Mikel Miller, Policy Analyst, Kansas Inc., Inc.

Others attending: See attached list

Senator Langworthy introduced Senator David Corbin as the new Vice-Chairman of the Senate Assessment and Taxation Committee.

REQUESTS FOR BILL INTRODUCTIONS

Senator Don Sallee requested a bill be introduced to refund interest on taxes when paid under protest.

Senator Martin made a motion to introduce this bill. The motion was seconded by Senator Corbin. The motion carried.

Ben Neill, Kansas Bar Association, requested a bill be introduced to restructure the Kansas Board of Tax Appeals.

Senator Bond made a motion to introduce this bill. The motion was seconded by Senator Lee. The motion carried.

ANNUAL REPORT OF KANSAS, INC. ON COST EFFECTIVENESS OF ECONOMIC DEVELOPMENT PROPERTY TAX EXEMPTIONS (REQUIRED BY 1994 HB 2556)

Charles Warren, President, Kansas, Inc., appeared before the committee to explain the work that is underway at Kansas, Inc., to increase the accountability of Kansas business incentive programs. (Attachment 1) He said they would like to give a status report upon the data received to date. He distributed some data on the recent tax system. He did not go over the handouts but stated he thought the committee would find the tables of interest. (Attachments' 2 - 5) He did point out in the handout titled "Comparison of Kansas Tax Rates with Selected States," on Chart 1, in the statewide effective tax rates in the last column, KU has estimated during 1993, the percentage of fair market value on residential is now 1.23%, the effective tax rate on commercial and industrial is 2.69%. The good news is that Kansas has made substantial progress in reducing that effective tax rate back to the 1992 study. It has come down slightly more than 1% on the effective tax rate. Mr. Warren said an interesting point they found from data from the Bureau of Economic Analysis, between 1981 and 1992, state and local taxes increased by 108.25% and personal income increased by 109.31%. (Attachment 3, Figure 9)

Mr. Warren called the attention of the committee to Attachment 5 from Money Magazine, in which Kansas is listed 43rd in the tables of states property tax listings. He said this certainly belies the argument that Kansas is high in taxes. This is an average of taxes all across the state, but it does give a comparison with other states. The burden of property taxes has been reduced since 1991.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:00 a.m. on January 12, 1995.

Mr. Warren recommended that Pat Ostlind, Institute of Public Policy and Business Research, University of Kansas, appear before the committee in February to report on the comparative cost of taxes of doing business in the state of Kansas and how Kansas stands in business competitiveness with the other states. This study has been expanded to include a 10 state study.

Mikel Miller, Kansas, Inc., reported on the work in regard to the valuation of state income tax credits and sales tax exemptions. (Attachments 6) She said information on firms which were granted sales tax exemption certificates was relatively easy to obtain, as the Department of Revenue records this information in a database. More business-specific information must be collected so a questionnaire has been developed to request if the taxpayer has claimed one or eight tax credits. Corporate income taxpayers are required to complete this questionnaire and return it along with their corporate income tax statement. These will be furnished to Kansas, Inc. on a monthly basis.

A preliminary report has been prepared on businesses receiving sales tax exemption certificates during the latest three year period. (Attachment 7) She went through the preliminary report on the Kansas Enterprise Zone Sales Tax Exemptions and gave additional information. On Table 1, the number of businesses applying for sales tax exemptions has gone down; however, the total investment exempted has increased. Chart Group 2, shows investments exempted from sales tax by industry. She pointed out the great difference in manufacturing. In Chart 3, the investments are listed per Region. She pointed out the differences in the years 1992, 1993 and 1994 which shows increases each year.

Mr. Warren announced that Chris McKenzie, League of Kansas Municipalities, is working on a model for Tax Abatement Methodology. This should be ready in March.

Kansas Inc., will survey the businesses and the completed survey results and in-depth analysis of tax credits taken by Kansas business for the most recent tax year will be presented during the 1996 Legislative Session.

The meeting adjourned at 12:00 noon

The next meeting is scheduled for January 17, 1995.

TESTIMONY

Senate Assessment and Taxation Committee

January 12, 1995

Evaluation of State Business Incentive Programs

Charles R. Warren, Ph.D.
President, Kansas, Inc.

Senator Langworthy, members of the committee, I want to thank you for this opportunity to appear today and explain the work that is underway at Kansas, Inc. to increase the accountability of Kansas business incentive programs.

Kansas, Inc. believes strongly that all of our economic development programs, including grants and loans, as well as tax incentives to new and expanding business, should meet the highest standards of accountability. While we would argue that our economic development activities are essential to continued creation of jobs and the growth of our economy, we also believe that these program should be applied within a strategic framework, that decisions to fund specific projects or grant incentives to particular businesses should be subjected to a cost-benefit analysis, and that periodic evaluation and reporting of the results of these activities should be undertaken.

Kansas, Inc. has developed a comprehensive, strategic plan for the economy. It addresses the needs of both rural and urban communities, and it sets the goal of increasing our standard of living through the promotion of higher-wage and higher skilled jobs.

Kansas, Inc. has been charged in its enabling legislation with the responsibility for evaluating economic development programs and tax incentives, reporting its findings to the Governor and the Legislature, and developing recommendations to provide continuous improvement in our activities.

In the 1994 legislative session, our capacity to fulfill this responsibility was increased greatly. On our recommendation, bills were enacted to:

1. Require local governing bodies wishing to grant Industrial Revenue Bond property tax exemptions to follow the same procedures required by statute for constitutional tax

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abatements. These requirements include: a) preparing an analysis of the cost and benefits of each exemption; b) monitoring the compliance of businesses receiving exemptions; and c) conducting a public hearings on the granting of exemptions.

2. Fund the development, testing, and reproduction of a cost-benefit analysis model that can be made available to local governing bodies.
3. Require counties to file an annual report with the Property Valuation Division on tax exemptions and abatements and providing Kansas, Inc. access to such reports for purposes of evaluation.
4. Enabling the Department of Revenue to provide Kansas, Inc. with specific and detailed information on state income tax credits and sales tax exemptions for the purposes of evaluation.
5. Requiring applicants requesting funding from the Kansas Economic Initiatives and Opportunity Fund (KEIOF) to conduct a cost-benefit analyses of the projects submitted.

These actions have provided a framework for evaluation and accountability that we are now implementing. Today, we would like to provide you a status report on the actions we have taken and the results to date.

Mikel Miller will present a report to you on the work we have undertaken with regard to evaluation of state income tax credits and sales tax exemptions. I would like to express our gratitude to the staff at the Department of Revenue for their extensive help and cooperation.

I am distributing to you a written status report on the project underway to develop a cost-benefit model for local property tax abatements and exemptions. We have contracted with the Kansas League of Municipalities to lead this effort. Chris McKenzie, Executive Director, would be pleased to present further information or answer questions at a later time.

Before Mikel makes her remarks, I would like to distribute some recent data on the Kansas tax system. We have prepared a number of tables and charts that I believe you will find interesting. Some of this data is derived from a soon-to-be published report by the Institute of Public Policy and Business Research of the University of Kansas. Pat Oslund will complete our third report comparing taxes and business costs in Kansas with other selected states in February. I hope that we can provide you a briefing on those results during this session.

Thank you.

Status Report

Uniform Cost-Benefit Methodology and Software Local Government Property Tax Abatements

January 10, 1995

Prepared by

**Kansas League of Municipalities
for Kansas, Inc.**

The following is a status report of the activities-to-date of the project to develop a uniform cost-benefit methodology and computer software for property tax abatements granted by Kansas local governments.

Project Overview

The 1994 Kansas Legislature authorized the development of a uniform cost-benefit model for use by local governments in evaluating property tax abatement requests. Under the law prior to January 1, 1995, local governments were required to conduct a cost-benefit analysis before granting a constitutional property tax abatement. House Bill 2555 extended this requirement to exemptions granted for property financed with industrial revenue bonds effective January 1, 1995. HB 2555 also required the cost-benefit analysis to include the effect of the exemption on state revenues. While a cost-benefit analysis is required, the law does not identify the methodology or form of such analysis.

House Bill 2557 of 1994 allocated \$100,000 of Economic Development Initiative Fund moneys to Kansas, Inc. for the development of a cost-benefit model for use by local governments to meet the requirements of HB 2555. HB 2557 provided that the funding be applied to the development, testing, and reproduction of the cost-benefit model and its companion PC-based software. Once completed, the cost-benefit software is to be distributed free-of-charge to Kansas cities and counties.

Providing oversight for the project is the Committee on Tax Abatement Methodology. This committee includes:

- Charles Warren, Kansas, Inc.
- Chris McKenzie, League of Kansas Municipalities
- Richard Carlson, Pottawatomie County
- Gerald Cook, Salina Chamber of Commerce
- David Porter, WI/SE Partnership for Growth
- Larry Powell, City of Pittsburg

The Board of Tax Appeals was invited to participate on the committee, but declined.

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The Role of the League of Kansas Municipalities

Recognizing the benefits of a partnership, Kansas Inc. contracted with the League of Kansas Municipalities to provide contract administration and training services in the development of the cost-benefit software. The amount of the contract with the League is \$40,383. Under its agreement with Kansas Inc., the League is responsible to:

- Coordinate and staff meetings and activities of the Committee on Tax Abatement Methodology;
- Develop and disseminate a Request for Proposals (RFP) for professional services consulting in the development of the cost-benefit model methodology and computer software;
- Review and analyze RFP responses and recommend a consultant to the Committee;
- Provide day-to-day oversight in the development of the model methodology and computer software;
- Coordinate and facilitate testing of the model methodology and computer software;
- Distribute the final computer software to Kansas cities and counties; and
- Provide training to local officials in the use and interpretation of the cost-benefit software.

A consultant has been selected and the cost-benefit model and software are under active development.

Consultant Selected: Impact DataSource

As the result of a nationwide, competitive selection process, Impact DataSource of Austin and Bryan, Texas, was selected by the Committee to develop the cost-benefit model and computer software. This firm specializes in fiscal impact analyses of economic development activities. The amount of the contract with Impact DataSource is \$59,617.

Preliminary Design of Software

It is anticipated that the computer software will be built upon a platform of commercially available spreadsheet and database software. The cost-benefit software will be extremely user-friendly, easily customized by local government users, and flexible in its information reporting.

Schedule to Completion

Begun in August 1994, this project is expected to culminate with the training of local government officials beginning in April 1995. Impact DataSource anticipates completing the development and testing of the cost-benefit software by the end of March 1995. The project to develop a uniform cost-benefit model and computer software for property tax abatements is well under way. The project should be completed by the middle of 1995 and will be on budget.

Assessing Kansas' Tax Burden Among the Fifty States

January, 1995

Kansas, Inc.

632 S.W. Van Buren, Suite 100 • Topeka, Kansas 66603 • 913-296-1460

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Assessing Kansas' Tax Burden Among the Fifty States

- 1) Kansas ranked 31st in total state and local taxes collected in FY 1992, with revenues totaling \$4.939 billion. (Table 1)
- 2) Kansas state and local taxes increased 31.3% from 1981 to 1992, after adjustments for inflation. This increase ranked 35th nationwide. (Figure 1)
- 3) Kansas state and local taxes per capita totaled \$1,964.11, ranking 28th nationwide. (Figure 2)
- 4) Local tax revenues were greater in Kansas than in Iowa, Missouri, Nebraska, and Oklahoma. (Figure 3, IPPBR)
- 5) Kansas taxes per capita remain substantially lower than the rest of the nation, but higher than the region. Taxes per capita declined in Kansas from 1991 to 1992. (Figure 4, IPPBR)
- 6) Kansas was less dependent on *individual income taxes* than were other states in the region and the U.S. However, Kansas relied more upon *corporate income taxes* than did all other states in the region. (Figure 5, IPPBR)
- 7) Kansas local governments received more revenue from *property taxes* than the regional and national averages. Local *sales tax* revenues were less than the regional average and were comparable to the national average. (Figure 6, IPPBR)
- 8) Total state and local taxes were 10.13% of Kansas' total personal income for FY 1992. Kansas ranked 32nd in the nation in state and local taxes as a percent of total personal income. (Figure 7)
- 9) Per capita state and local taxes grew by 13.26% in Kansas between the years 1981 and 1992, after adjustments for inflation. Kansas ranked 31st nationwide in percentage tax growth per capita. (Figure 8)
- 10) *Total personal income* increased slightly more than *state and local taxes* between the years 1981 and 1992. Total state and local tax revenues grew by 108.25%, while total personal income for the same years grew by 109.31%. (Figure 9)

Table 1

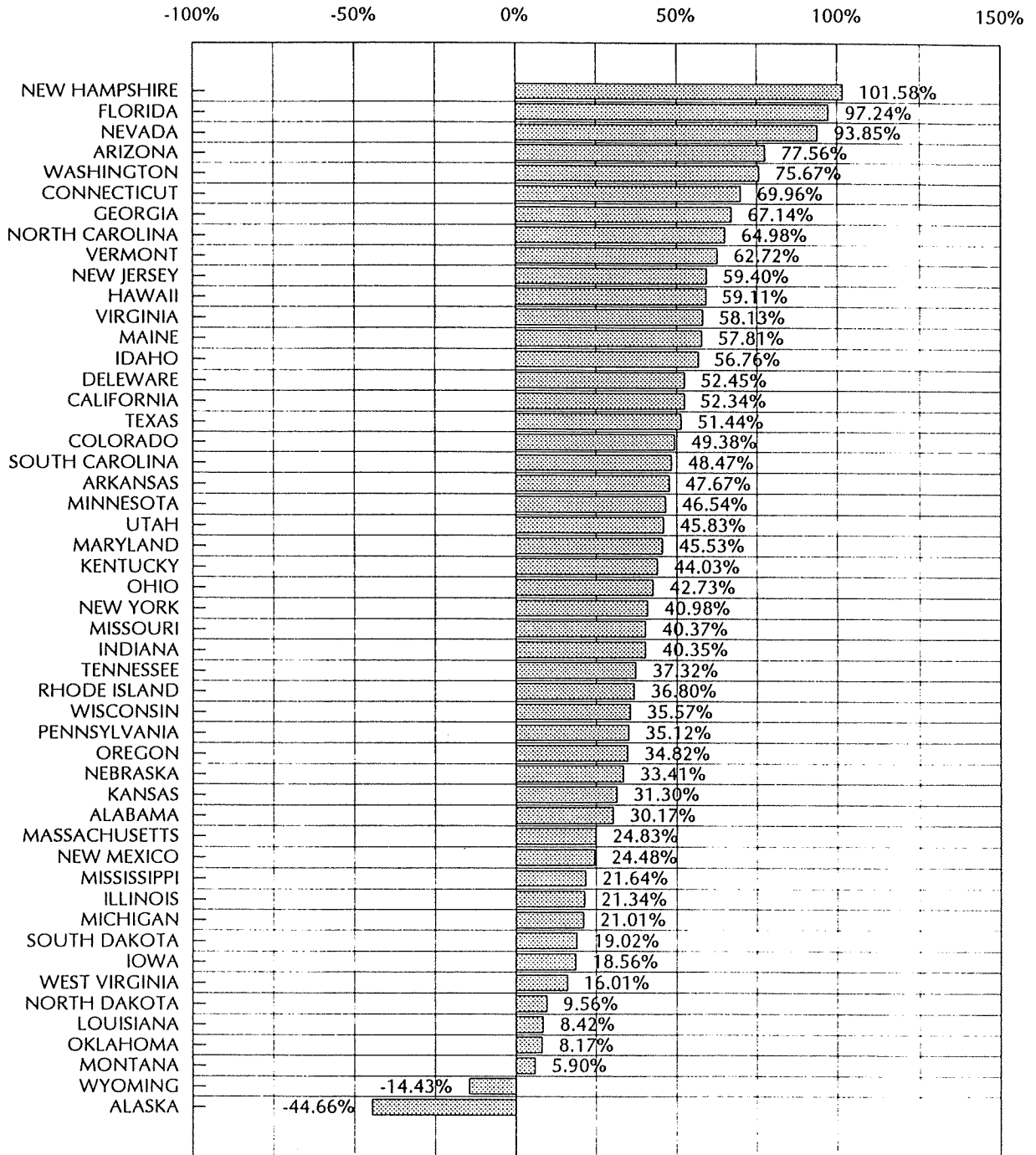
Total State & Local Taxes

	Total State & Local Taxes FY 1981	Total State & Local Taxes FY 1992	Rank
CALIFORNIA	\$29,828,300,000	\$72,073,742,000	1
NEW YORK	\$28,618,300,000	\$63,993,572,000	2
TEXAS	\$13,671,000,000	\$32,838,328,000	3
PENNSYLVANIA	\$12,257,200,000	\$26,268,472,000	4
FLORIDA	\$8,284,900,000	\$25,919,228,000	5
ILLINOIS	\$13,306,000,000	\$25,609,314,000	6
NEW JERSEY	\$9,050,800,000	\$22,882,217,000	7
OHIO	\$9,424,800,000	\$21,336,525,000	8
MICHIGAN	\$10,682,100,000	\$20,503,351,000	9
MASSACHUSETTS	\$7,731,800,000	\$15,309,017,000	10
VIRGINIA	\$5,057,100,000	\$12,684,150,000	11
NORTH CAROLINA	\$4,737,700,000	\$12,397,236,000	12
GEORGIA	\$4,666,000,000	\$12,369,401,000	13
WASHINGTON	\$4,286,800,000	\$11,944,237,000	14
WISCONSIN	\$5,399,000,000	\$11,609,642,000	15
MARYLAND	\$4,967,900,000	\$11,467,141,000	16
MINNESOTA	\$4,767,400,000	\$11,081,160,000	17
INDIANA	\$4,540,100,000	\$10,106,757,000	18
CONNECTICUT	\$3,722,900,000	\$10,036,231,000	19
MISSOURI	\$3,883,400,000	\$8,646,070,000	20
ARIZONA	\$2,750,900,000	\$7,747,332,000	21
TENNESSEE	\$3,394,700,000	\$7,393,684,000	22
LOUISIANA	\$4,115,100,000	\$7,076,326,000	23
COLORADO	\$2,960,200,000	\$7,013,534,000	24
KENTUCKY	\$2,884,000,000	\$6,588,521,000	25
OREGON	\$2,913,000,000	\$6,229,106,000	26
ALABAMA	\$2,875,800,000	\$5,937,421,000	27
SOUTH CAROLINA	\$2,423,400,000	\$5,706,939,000	28
IOWA	\$3,028,400,000	\$5,694,685,000	29
OKLAHOMA	\$3,054,600,000	\$5,240,594,000	30
KANSAS	\$2,372,000,000	\$4,939,746,000	31
ARKANSAS	\$1,551,200,000	\$3,633,180,000	32
MISSISSIPPI	\$1,792,600,000	\$3,458,601,000	33
HAWAII	\$1,344,200,000	\$3,392,340,000	34
NEBRASKA	\$1,528,900,000	\$3,235,101,000	35
UTAH	\$1,331,900,000	\$3,080,795,000	36
WEST VIRGINIA	\$1,632,100,000	\$3,003,188,000	37
NEW MEXICO	\$1,432,700,000	\$2,828,753,000	38
NEVADA	\$882,300,000	\$2,712,857,000	39
MAINE	\$1,062,600,000	\$2,659,775,000	40
NEW HAMPSHIRE	\$731,500,000	\$2,338,839,000	41
ALASKA	\$2,569,000,000	\$2,254,758,000	42
RHODE ISLAND	\$1,034,600,000	\$2,244,870,000	43
IDAHO	\$763,200,000	\$1,897,659,000	44
DELEWARE	\$669,100,000	\$1,617,873,000	45
MONTANA	\$866,300,000	\$1,455,181,000	46
VERMONT	\$505,000,000	\$1,303,398,000	47
NORTH DAKOTA	\$643,300,000	\$1,117,937,000	48
SOUTH DAKOTA	\$587,000,000	\$1,108,157,000	49
WYOMING	\$800,000,000	\$1,085,772,000	50

Source: Government Finances, FY 1981, FY 1992

Figure 1

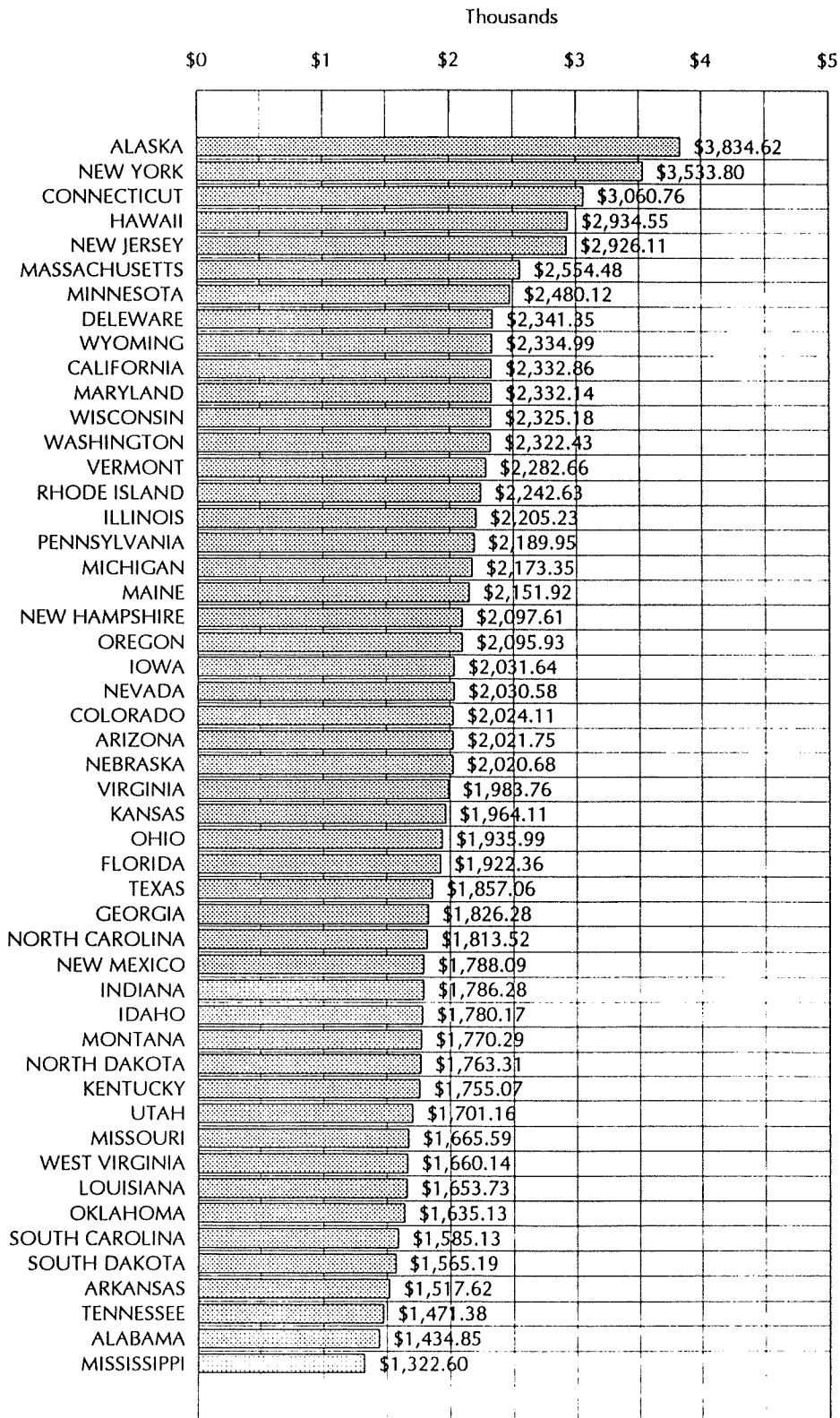
Percent Increase in State & Local Taxes, FY 1981 - 1992 1987 Dollars



Source: Government Finances, FY 1981, 1992

Figure 2

State & Local Taxes Per Capita
FY 1992



Source: Government Finances, U.S. Census Bureau

Figure 3

State and Local Tax Revenue 1992 Per Capita

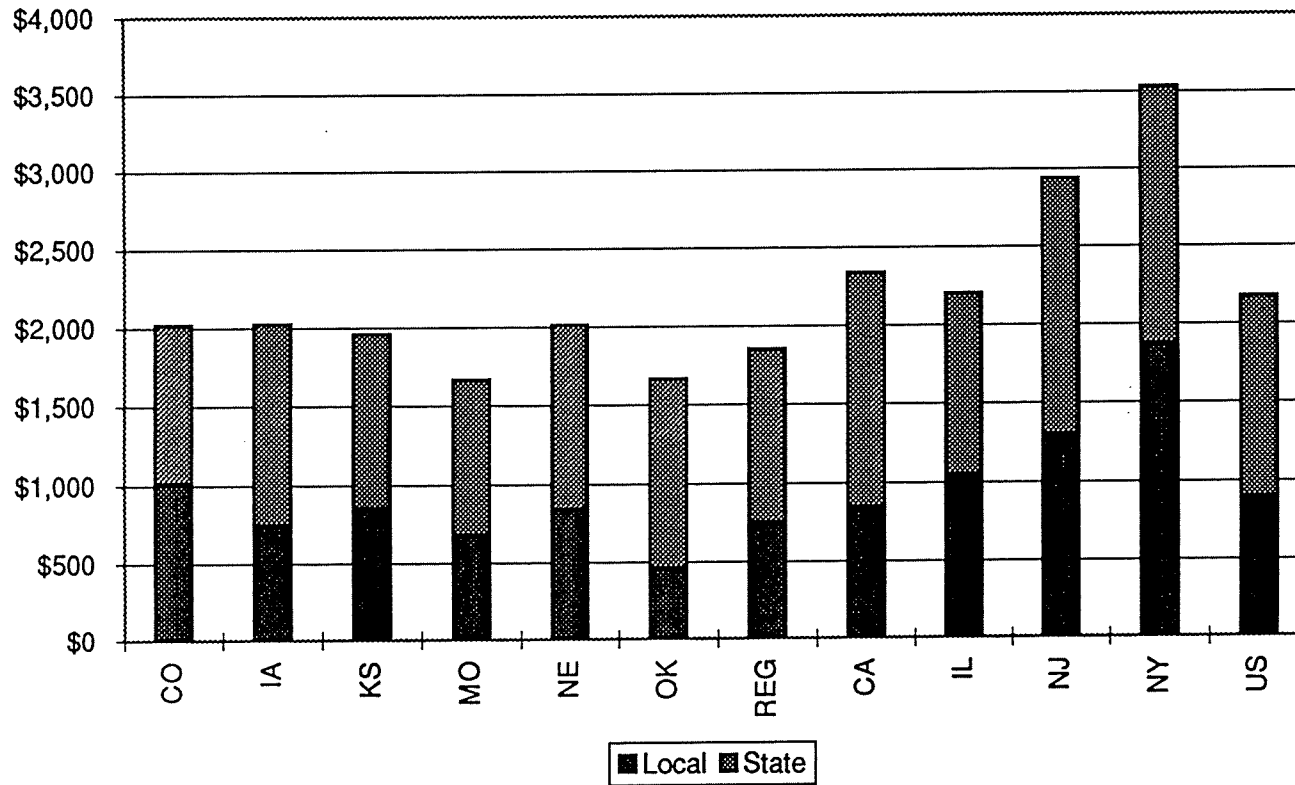
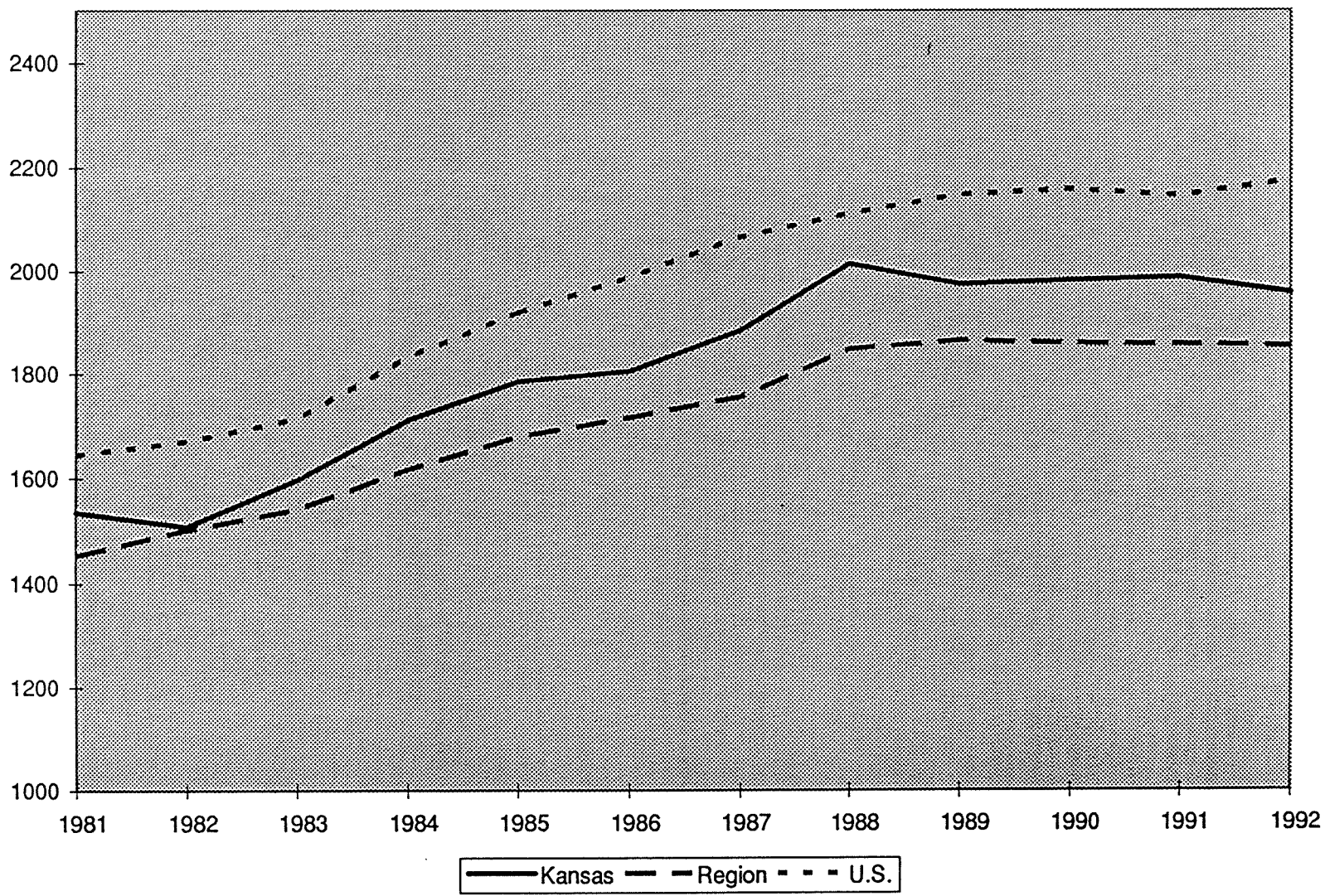


Figure 4

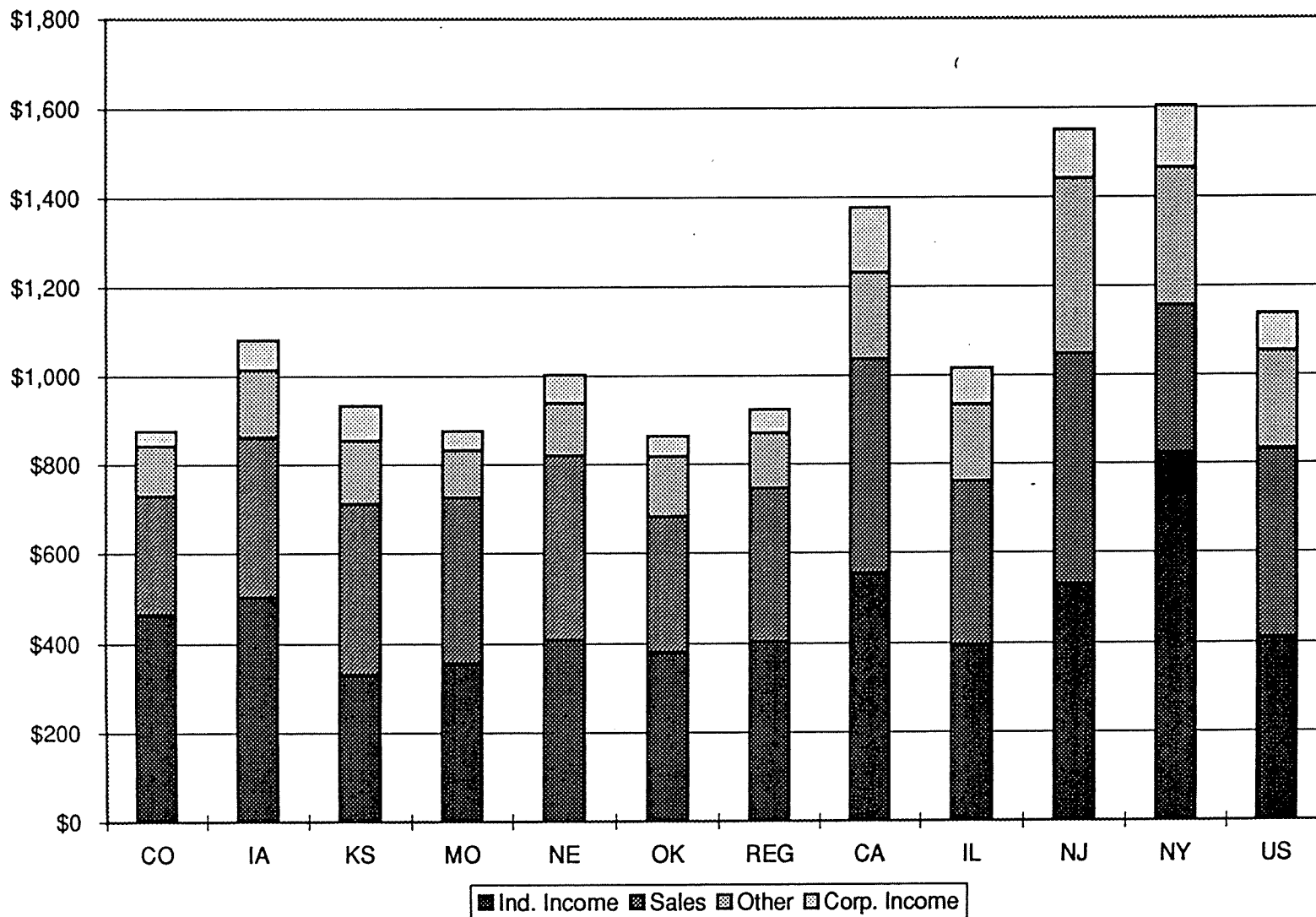
Trends in Real Total State and Local Taxes Per Capita (1992 Dollars)



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Figure 5

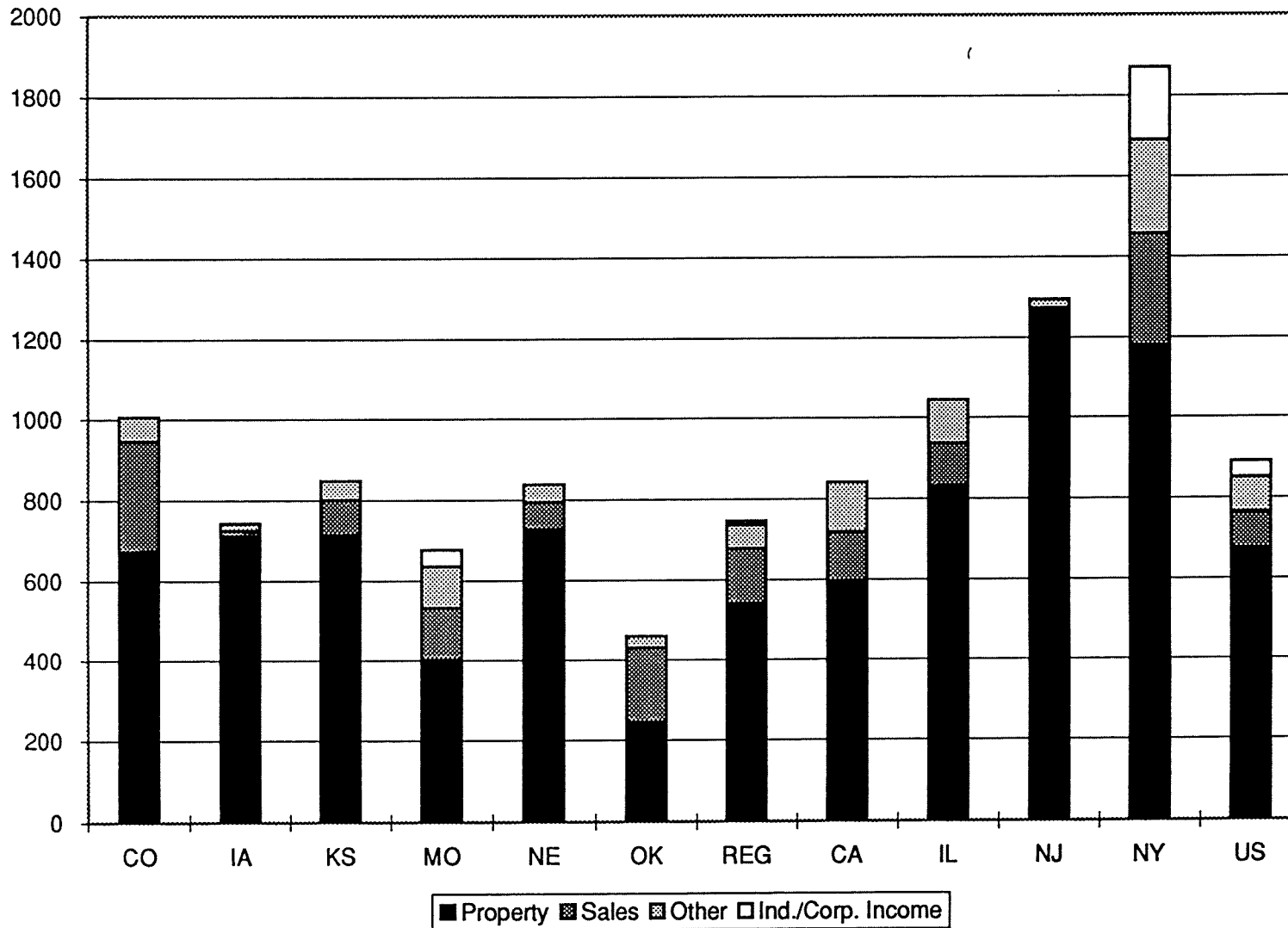
State Tax Revenue Sources 1992 Per Capita



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Figure 6

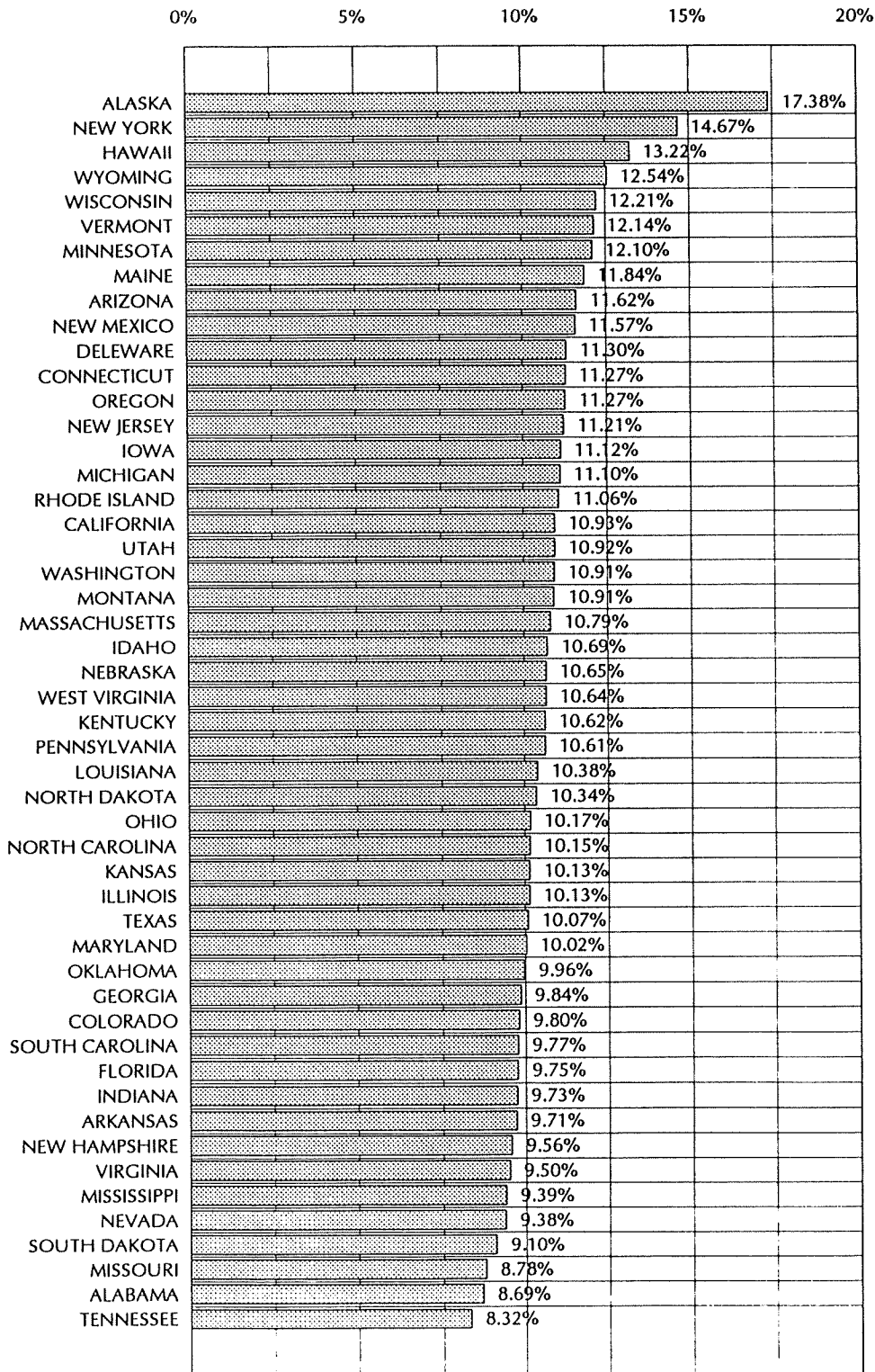
Local Tax Revenue Sources 1992 Per Capita



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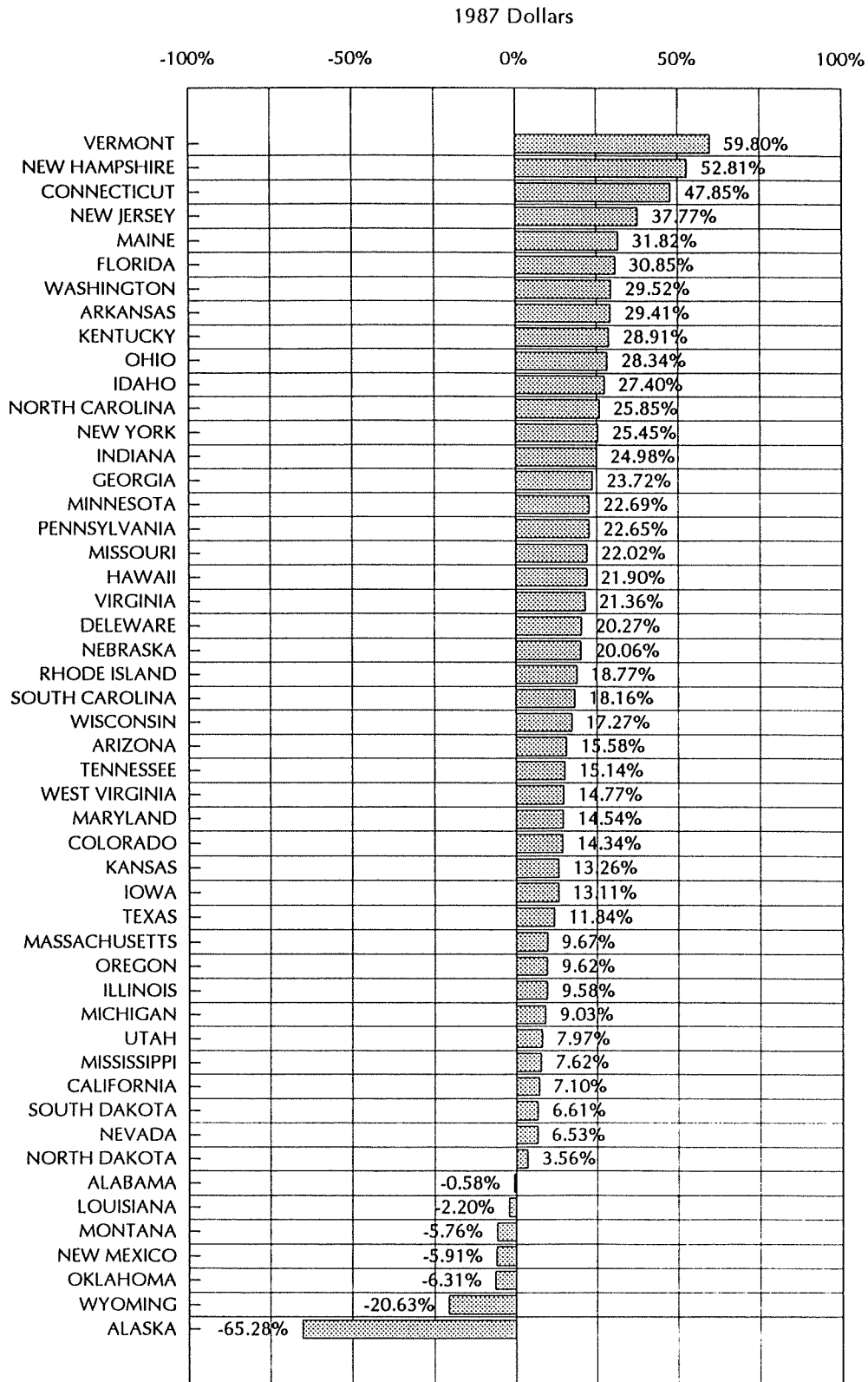
Figure 7

State & Local Taxes as Percent
of Total Personal Income, FY 1992



Source: Government Finances, U.S. Dept. of Commerce, Bureau of the Census

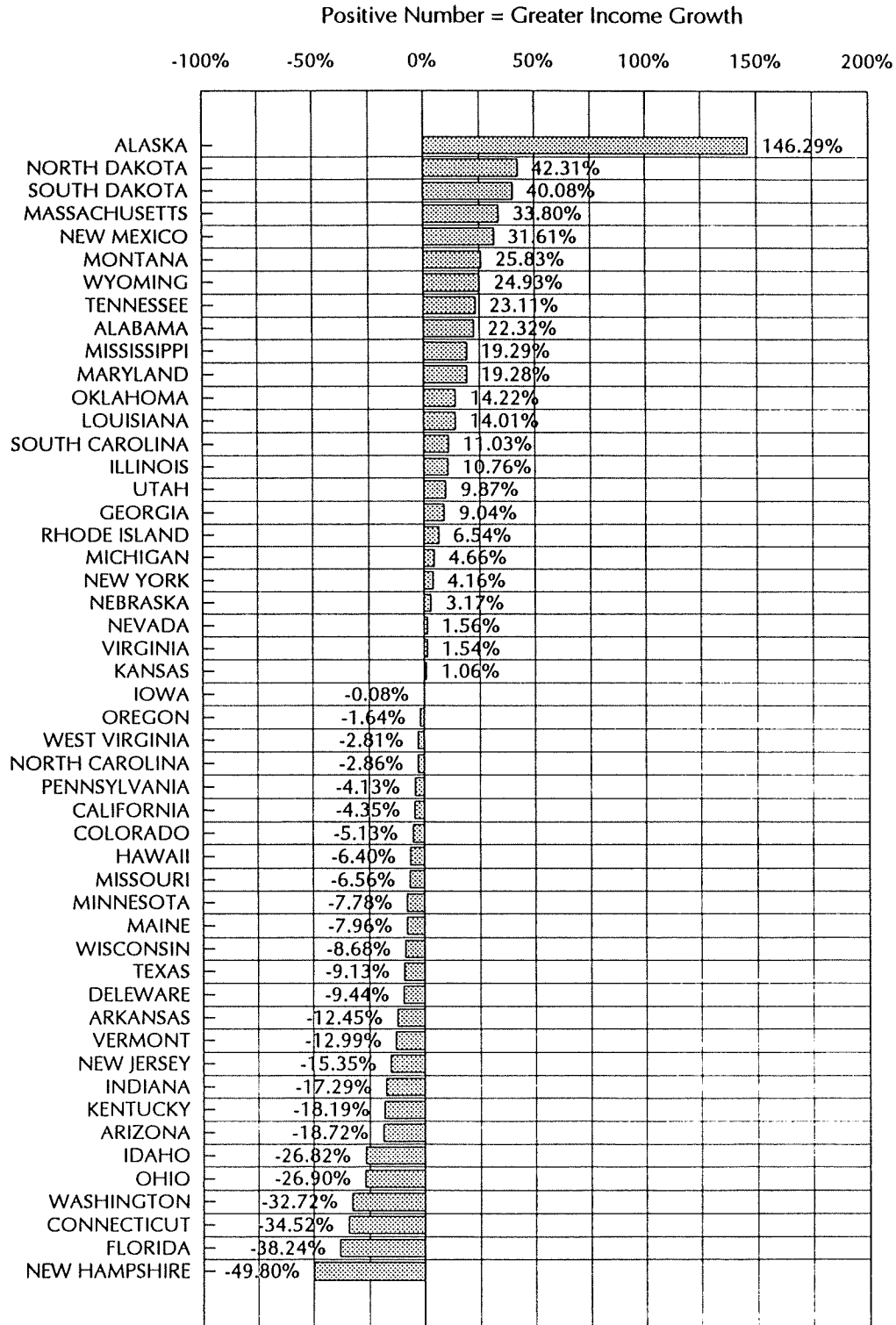
Figure 8
 Percent Growth in Per Capita State & Local Taxes
 FY 1981 - 1992



Source: Government Finances, U.S. Dept. of Commerce, Bureau of the Census

Figure 9

Total Personal Income Growth v.
State & Local Tax Growth, FY 1981 - 1992



Source: Government Finances, FY 1981, 1992
Regional Economic Information System, Bureau of Economic Analysis

Comparison of Kansas Tax Rates With Selected States

Prepared by the
Institute for Public Policy
And Business Research

University of Kansas
Lawrence, Kansas

January, 1995

Kansas, Inc.

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Local Property Tax Rates and Ratios Kansas and Nearby States

State	Average Mill Levies		Statutory Assessment Ratios (%) ¹		Estimated Actual Assessment Ratios (%) ²		Statewide Effective Tax Rates (%) ³	
Colorado (1993)	Statewide	84.21	Residential	12.86	Residential	12.86	Residential	1.08
	Metro	90.98	Commercial/Ind.	29.00	Commercial/Ind.	29.00	Commercial/Ind.	2.44
	Nonmetro	66.46	Mach./Equip.	29.00	Mach./Equip.	29.00	Mach./Equip.	2.44
			Inventories	0	Inventories	0	Inventories	0
Iowa (1993)	Statewide	30.24	Residential	68.04	Residential	68.04	Residential	2.06
	Metro	34.75	Commercial/Ind.	100.00	Commercial/Ind.	100.00	Commercial/Ind.	3.02
	Nonmetro	27.24	Mach./Equip. ⁴	30.00	Mach./Equip.	30.00	Mach./Equip.	.90
			Inventories	0	Inventories	0	Inventories	0
Kansas (1993)	Statewide	114.08	Residential	11.50	Residential	10.75	Residential	1.23
	Metro	123.78	Commercial/Ind.	25.00	Commercial/Ind.	23.58	Commercial/Ind.	2.69
	Nonmetro	104.91	Mach./Equip.	25.00	Mach./Equip.	25.00	Mach./Equip.	2.85
			Inventories	0	Inventories	0	Inventories	0
Missouri (1993)	Statewide	55.88	Residential	19.00	Residential	20.14	Residential	1.13
	Metro	61.33	Commercial/Ind.	32.00	Commercial/Ind.	33.60	Commercial/Ind.	2.22
	Nonmetro	41.67	Mach./Equip.	33.33	Mach./Equip.	33.33	Mach./Equip.	1.86
	Surtax ⁴	10.26	Inventories	0	Inventories	0	Inventories	0
Oklahoma (1993)	Statewide	85.25	Residential	11.34	Residential	11.33	Residential	0.97
	Metro	92.25	Commercial/Ind.	11.34	Commercial/Ind.	11.59	Commercial/Ind.	0.99
	Nonmetro	72.34	Mach./Equip.	12.60	Mach./Equip.	12.60	Mach./Equip.	1.07
			Inventories	12.60	Inventories	12.60	Inventories	1.07
Nebraska (1993)	Statewide	24.44	Residential	100.00	Residential	90.00	Residential	2.20
	Metro	27.87	Commercial/Ind.	100.00	Commercial/Ind.	92.00	Commercial/Ind.	2.25
	Nonmetro	21.96	Mach./Equip.	100.00	Mach./Equip.	100.00	Mach./Equip.	2.44
			Inventories	0	Inventories	0	Inventories	0

¹ Colorado adjusts the residential assessment ratio so that residential property forms a fixed percentage of the property tax base. Iowa adjusts the residential assessment ratio yearly. Oklahoma assessment ratios are determined locally with the range of 9% to 15% (statewide averages shown).

² Actual assessment ratios are based on information from statewide sales/assessed value studies where available (KS, MO, OK, NE).

³ The effective property tax rate is defined as the amount of taxes per \$100 actual market value of property. In terms of this table, the effective tax rate is estimated by [statewide average mill levy/1000 * estimated actual assessment ratio]

⁴ Industrial machinery and equipment are assessed at 30% of acquisition cost. Other personal property exempt.

⁵ The surtax applies to commercial and industrial real estate only.

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State and Local Sales Taxes 1994

State	State Sales Tax	Local Sales Tax
Colorado	3%	combined city and county rates range from 0.1% to 5.0%.
Iowa	5%	up to 1%
Kansas	4.9%	May be levied up to 1% county, 1% city for general use. Additional 1% county or city may be used for health care services.
Missouri	4.225%	city and county up to 2% each.
Nebraska	5%	up to 1.5%
Oklahoma	4.5%	cities up to 2% plus counties up to 4%
California	6%	1.25% base. Up to 1.25% additional in some communities.
Illinois	6.25% [current rates up to 2.75%
New Jersey	6%	0%
New York	4%	4.25% in NYC. Other communities impose up to 4.5%.

Individual Income Tax

State	Rate	Federal Deductibility	Comparison Rate ¹
Colorado	5% flat rate on taxable income.	No	3.21%
Iowa	Graduated in 9 stepped increments from 0.4% to 9.98%. Highest bracket effective at \$47,700.	Yes	5.27%
Kansas	Graduated with three brackets each for married and single taxpayers. Marginal rates for married filers begin at 3.5% for incomes below \$30,000 and end at 6.45% for incomes over \$60,000. Rates for single filers begin at 4.4% for incomes below \$20,000 and end at 7.75% for incomes over \$30,000.	No	2.62%
Missouri	Graduated in 10 stepped increments from 1.5% to 6%. Highest bracket effective at \$9000. ²	Partial ³	3.65%
Nebraska	Rates for married couples filing jointly range between 2.62% of the first \$4,000 of taxable income and 6.99% of taxable income over \$46,750. Rates for single individuals range between 2.62% of the first \$2,400 and 6.99% of taxable income over \$26,500.	No	2.77%
Oklahoma	Choice of two options. If federal income taxes are deducted, eight increments graduated from 0.5% to 7%. Top bracket effective at \$21,000 for married persons filing jointly, and \$10,000 for all others. If federal income taxes are not deducted, 11 increments graduated from 0.5% to 10%. Top bracket effective at \$24,000 for married persons filing jointly, and \$16,000 for others.	Option	4.48%
California	Graduated in 8 stepped increments from 1% to 11%. For single and for married filing separately, top bracket effective at \$212,381. For married joint taxpayers and surviving spouses with dependents, top bracket effective at \$424,761. For unmarried heads of households, top bracket effective at \$289,082.	No	2.08%
Illinois	3% flat rate on federal adjusted gross income	No	2.73%
New Jersey	Rates range from 2% to 7%. Top bracket effective at \$75,000 for married individuals filing separately and singles and at \$150,000 for married individuals filing jointly, heads of households and surviving spouses. After 1994, rates reduced to 1.7% to 6.58%.	No	2.00%
New York	Rates range from 4% to 7.875%. Top bracket effective at \$26,000 for married individuals filing jointly and surviving spouses, at \$17,000 for heads of households, and at \$13,000 for singles and married individuals filing separately. ⁴	No	4.26%

¹ Comparison rate is for a married couple with two dependents, filing jointly, with federal adjusted gross income of \$45,000. The state tax liability (1993) was calculated using each state's tax tables and forms. Comparison rate = (state taxes / federal AGI).

² The cities of Kansas City and St. Louis, Missouri, impose a tax of 1% of earnings.

³ First \$5,000 of federal income tax for single filers and first \$10,000 for joint filers is deductible.

⁴ New York City imposes additional income tax with rates from 2.51% to 4.46%. Yonkers imposes tax equal to 15% of NY state income taxes.

SOURCES: Information provided by individual state departments of revenue, State Tax Review, Commerce Clearing House, Inc., 1994, State Tax Guide, Commerce Clearing House, Inc., 1994, and All States tax Guide, RIA Inc., 1994.

**State Corporate Income Tax Rates,
Federal Deductibility, and Effective Tax Rates**

State	Rate	Adjusted Rate ¹	Federal Deductibility
California	Flat 9.3%	9.3%	No
Colorado	Flat 5%	5.0%	No
Illinois	Flat 4.8%	4.8%	No
Iowa	First \$25,000 -- 6% Next \$75,000 -- 8% Next \$150,000 -- 10% Over \$250,000 -- 12%	5.0% 6.6% 8.3% 10.0%	50% of federal income tax is deductible
Kansas	First \$50,000 -- 4.0% Over \$50,000 -- 7.35%	4.0% 7.35%	No
Missouri	Flat 5% ²	3.3%	100% of federal income tax is deductible
Nebraska	First \$50,000 -- 5.58% Over \$50,000 -- 7.81%	5.58% 7.81%	No
New Jersey	Flat 9%	9.0%	No
New York	Flat 9%	9.0%	No
Oklahoma	Flat 6%	6.0%	No

¹ The calculation assumes a marginal federal tax rate of 34%.
MARGINAL ADJUSTED RATE = STATUTORY RATE x (1 - .34 x deductibility fraction).

² Missouri also has a local corporate income tax in the cities of Kansas City and St. Louis. This earnings tax is equal to 1% of net profits from activities in the city.

SOURCES: Information provided by individual state departments of revenue, state statutes, and *State Tax Guide*, Commerce Clearing House, Inc., 1994.

Table 4
Allocation Methods for Income of Multi-State Firms

California	Three factor formula using property, payroll, twice sales over 4. Companies can use once sales over three if over 50% are from extractive or agricultural business.
Colorado	Choice of two factor formula (1/2 sales, 1/2 property), or three factor formula (1/3 each sales, property, payroll). For companies with no other Colorado activity except sales, with no owned or rented real estate in Colorado, and with gross sales under \$100,000, an alternative is to pay 0.5% of gross receipts on sales in Colorado.
Illinois	Three factor formula based on 1/3 each property, payroll, and sales.
Iowa	Single factor formula based on sales only. Sales in Iowa defined as shipped to or delivered to Iowa destinations.
Kansas	Three factor formula (1/3 each sales, property, payroll). For firms with a payroll factor exceeding 200% of the average of the property factor and the sales factor, a two factor formula based 50% on sales and 50% on property is an option.
Missouri	Choice of single factor formula based on sales only or a three factor formula (1/3 each sales, property, payroll). When the sales only formula is used, sales considered to be in Missouri include all sales with destinations and origins in Missouri, plus 50% of sales with destinations in Missouri and origins outside Missouri, plus 50% of sales with origins in Missouri and destinations outside Missouri.
Nebraska	A single factor formula based on sales only was phased in between 1988 and 1992. Nebraska sales are sales shipped to or delivered to Nebraska destinations.
New Jersey	Three factor formula using local/ total ratios of tangible property, receipts, payroll.
New York	Three factor formula (property, twice receipts, payroll)
Oklahoma	Three factor formula (1/3 each sales, property, payroll).

SOURCES: Information provided by individual state departments of revenue, state statutes, and *State Tax Guide*, Commerce Clearing House, 1994.

Money Magazine's Property Tax Listings for Hypothetical Family, January, 1995

Rank	State	Property Tax
1	New Hampshire	\$5,091.00
2	New Jersey	\$4,710.00
3	Rhode Island	\$4,319.00
4	Connecticut	\$4,317.00
5	Maine	\$3,504.00
6	Wisconsin	\$3,339.00
7	South Dakota	\$3,269.00
8	Michigan	\$3,183.00
9	Massachusetts	\$3,049.00
10	Maryland	\$3,035.00
11	Vermont	\$2,802.00
12	Texas	\$2,730.00
13	Oregon	\$2,728.00
14	Nebraska	\$2,706.00
15	North Dakota	\$2,694.00
16	Illinois	\$2,669.00
17	New York	\$2,610.00
18	Washington	\$2,537.00
19	Pennsylvania	\$2,480.00
20	Florida	\$2,475.00
21	Arizona	\$2,423.00
22	California	\$2,302.00
23	Georgia	\$2,215.00
24	New Mexico	\$2,165.00
25	Montana	\$2,134.00
26	Alaska	\$2,132.00
27	Ohio	\$2,033.00
28	South Carolina	\$2,032.00
29	Iowa	\$1,986.00
30	Minnesota	\$1,921.00
31	Mississippi	\$1,901.00
32	Virginia	\$1,882.00
33	Tennessee	\$1,844.00
34	Colorado	\$1,736.00
35	North Carolina	\$1,729.00
36	Indiana	\$1,699.00
37	Nevada	\$1,686.00
38	Kentucky	\$1,676.00
39	Idaho	\$1,666.00
40	Louisiana	\$1,659.00
41	Arkansas	\$1,656.00
42	Utah	\$1,563.00
43	Kansas	\$1,509.00
44	Missouri	\$1,478.00
45	West Virginia	\$1,477.00
46	D.C.	\$1,473.00
47	Hawaii	\$1,469.00
48	Delaware	\$1,408.00
49	Oklahoma	\$1,171.00
50	Wyoming	\$1,129.00
51	Alabama	\$836.00

Sen Assess + Tax
Jan 12, 1995
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**Senate Committee on
Assessment and Taxation**

The Kansas Legislature

STATUS REPORT

EVALUATION OF STATE TAX INCENTIVES

Testimony of:

**Mikel Miller
Policy Analyst**

KANSAS, INC.

JANUARY 12, 1994

Senate Assess + Tax

Jan 12, 1995

6-1

Background

In 1994, the Kansas Legislature passed H.B. 2556 which gave Kansas, Inc. the responsibility to prepare an annual report evaluating the cost effectiveness of the various income tax credits and sales tax exemptions enacted to encourage economic development within the state. To make that evaluation possible, H.B. 2556 also gave the Department of Revenue authorization to provide Kansas, Inc. access to information on the firms that have taken advantage of state income tax credits and sales tax exemptions.

Progress toward Fruition

Upon passage of H.B. 2556, staff at Kansas, Inc. began coordinating with the Kansas Department of Revenue to acquire the information necessary to conduct the required analysis. Information on firms which were granted sales tax exemption certificates in connection with the Kansas Enterprise Zone Act was relatively easy to obtain, as the Department of Revenue routinely records this information in a database. The Department furnished Kansas, Inc. a copy of that database in September of 1994. That database contains information on all sales tax exemption certificates issued since January 1992. The Department regularly forwards copies of all exemptions certificates issued to Kansas, Inc. on a monthly basis.

Information on income tax credits claimed by companies is more difficult to collect. The Department of Revenue keeps aggregate statistics on tax credits claimed, but for our purposes, more business-specific information must be collected.

To that end, several meetings between the Department of Revenue and Kansas, Inc. were held to develop a questionnaire that is filed with a taxpayer's corporate tax return to report whether that taxpayer has claimed one of eight tax credits. No confidential financial or sales information is requested by the questionnaire. Its objective is simply to build a comprehensive list of businesses having claimed tax credits. From that list a sample population will be surveyed.

Corporate income taxpayers and/or their tax preparers are required, pursuant to H.B. 2556 (1994), to complete this questionnaire and return it along with their corporate income tax statement. The Department of Revenue will collect these questionnaires and forward them to Kansas, Inc. on a monthly basis.

Evaluation Timetable

Enterprise Zone Incentives

As stated above, Kansas, Inc. has data on businesses having received sales tax exemption certificates during the latest three year period. A preliminary report containing analysis of information contained in that database has been prepared and will be presented later in this discussion.

To fulfill that requirements of H.B. 2556, Kansas, Inc. will survey businesses issued exemptions certificates under the new or revamped version of the Kansas Enterprise Zone. As you will remember, the 1992 Legislature enacted a new Kansas Enterprise Zone Act which reconfigured the original program. The new version links sales tax exemptions and related tax credits to the type of business. In addition, Enterprise Zones established in the earlier program were eliminated and E-Zone benefits were extended state-wide with enhanced levels of benefits being made available in certain non-metropolitan areas.

These businesses (or a statistically correct sampling) will be surveyed early in 1995 to determine whether the sales tax exemption they received achieved the intended purpose. The survey will also collect information necessary to evaluate the value of the Job Creation Tax Credit and the Investment Tax Credit, also allowed for under the Kansas Enterprise Zone Act. (Businesses must qualify for the Job Creation Tax Credit in order to receive the Sales Tax Exemption or the Investment Tax Credit.)

Kansas, Inc. is committed to presenting an insightful analysis of the present Enterprise Zone incentives as they are written today during the 1996 Legislative Session.

Other Incentives

The Department of Revenue will mail 35,000 corporate income tax packages beginning in December 1994. The Department of Revenue expects to receive the first returns and completed questionnaires during February, 1995, with those remaining coming in steadily throughout the following 11 to 12 month period. (Corporate tax years, unlike individual income tax years, may or may not follow the standard calendar year.)

The businesses having indicated by questionnaire that they took advantage of income tax credits will be surveyed as soon as a sufficient number have been identified. The surveys will ask questions necessary to determine whether the income tax credit they received actually achieved the intended purpose. The income tax credits to be analyzed and reported on are the Job Creation and Investment Tax Credit, the Research and Development Tax Credit, the income and privilege tax credit for Certified Kansas Venture Capital Companies and Seed Capital Pools, the credit for Workforce Training and Education and Investment Tax Credit (HPIP), and the Community Service Tax Credit (SB 230).

Kansas, Inc. anticipates survey results and in-depth analysis of tax credits taken by Kansas business for the most recent tax year will be presented to the House Taxation and Senate Assessment and Taxation Committee during the 1996 Legislative Session.

Preliminary Report on:
Kansas Enterprise Zone
Sales Tax Exemptions
1992 through 1994

Presented to:

Senate Committee on
Assessment and Taxation

The Kansas Legislature

Kansas, Inc.

January 12, 1994

Sen Assess + Tax
Jan 12, 1995
7-1

TABLE 1

- Numbers of projects have decreased each year.
- Investment exempted from tax has increased each year, particularly during 1994, with a 72% increase over 1993.
- The fact that the number of projects went down while investment went up, indicates manufacturing capital investment is rising.
- During the period between Nov 93 and Nov 94, the Manufacturing Sector of the Kansas economy saw a 1.17% growth in employment.
(3 previous periods showed either no growth or declines in employment in Manufacturing)
- Using Revenue's assumptions, total foregone Sales Tax revenues in 1994 was \$34.1 million.

CHART GROUP 1

- 71% of the exempt investment has been made in manufacturing industries.
- The spike in Retail in 94 was due to one very large single retail investment in one rural community.

CHART GROUP 2

- Shows dollar values of investment by industry.

CHART GROUP 3

- The NE Region of the state saw more exempt investment than the other regions for the first time in 1994.
- That advance was attributable mostly to a surge in Manufacturing investment in the NE.

CHART GROUP 4

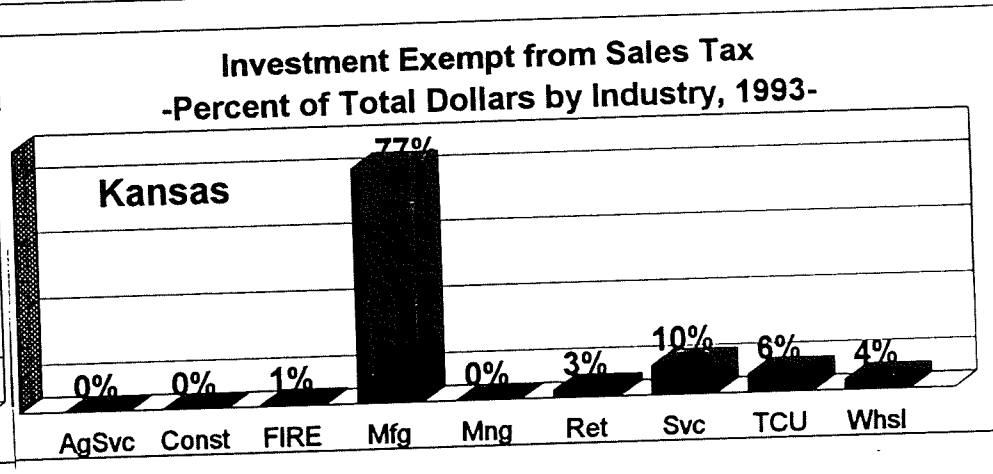
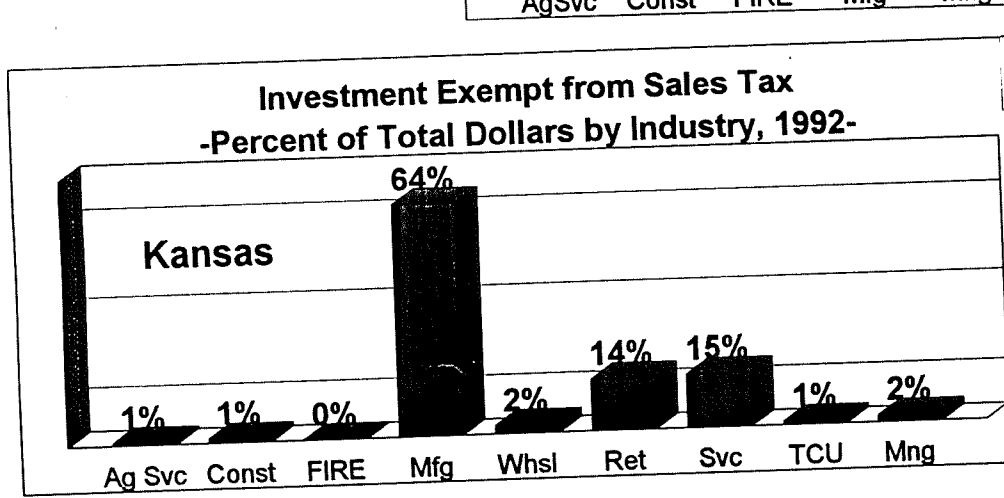
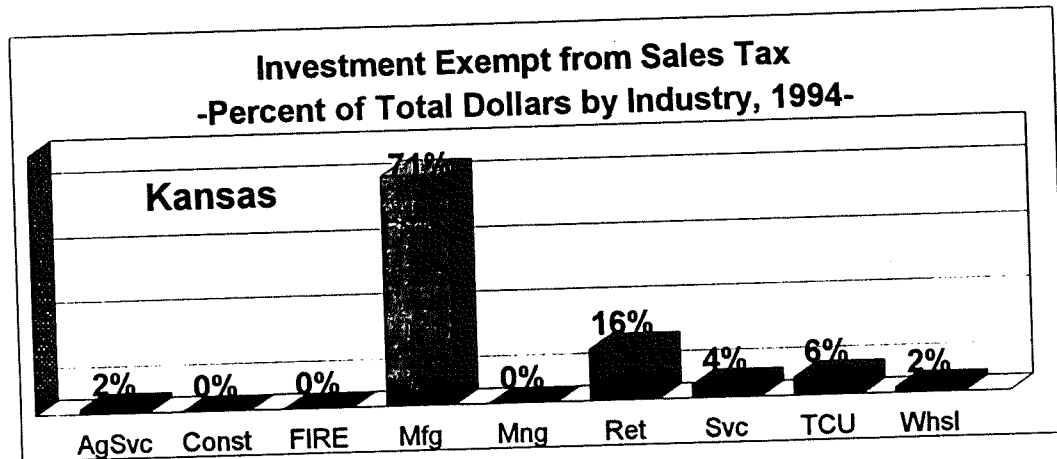
- In evidence of the success of the 1992 rewrite of the Enterprise Zone Act, exemptions granted in connection with Retail and other "market tied" businesses was drastically reduced in the two Metropolitan Regions of the state between 1992 and 1994.

During this period, businesses had the option of applying for sales tax exemption under the old law or the revised law.

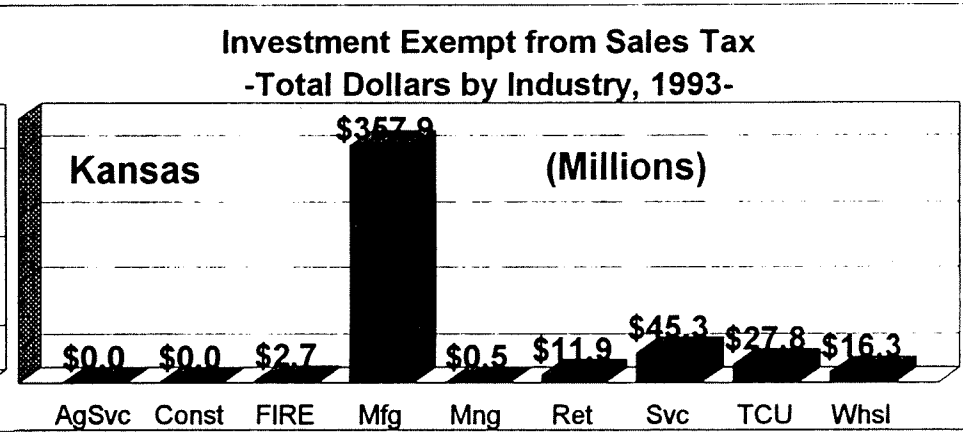
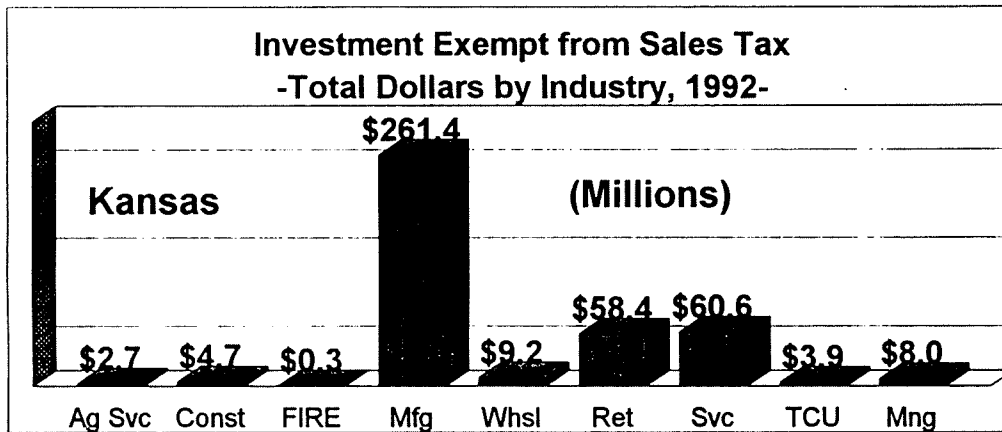
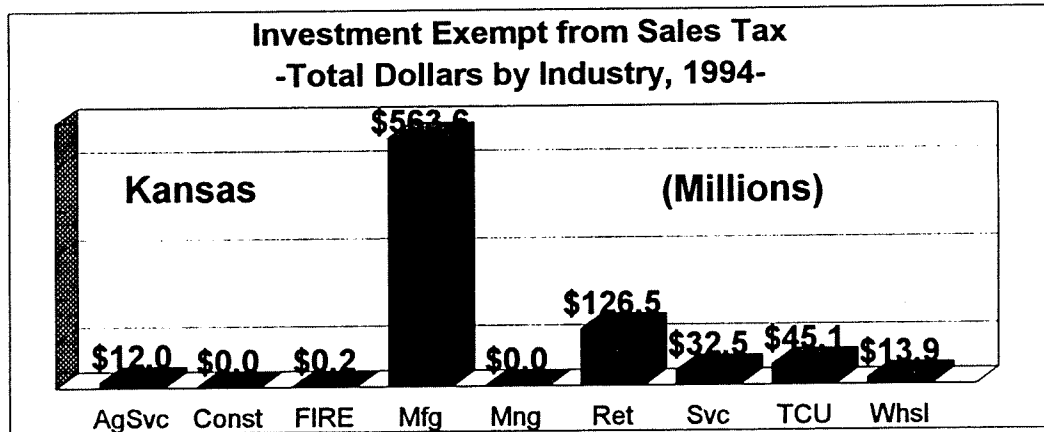
All exemption certificates issued during 1994 were issued under the revised E-Zone statute.

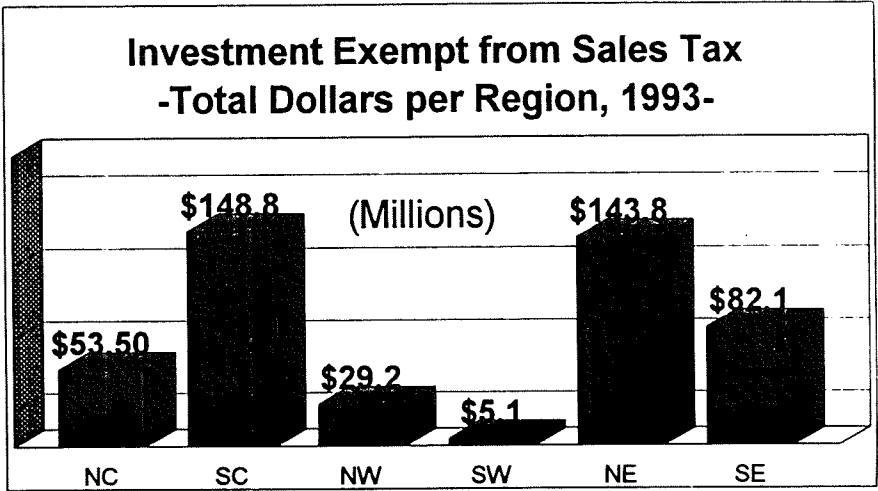
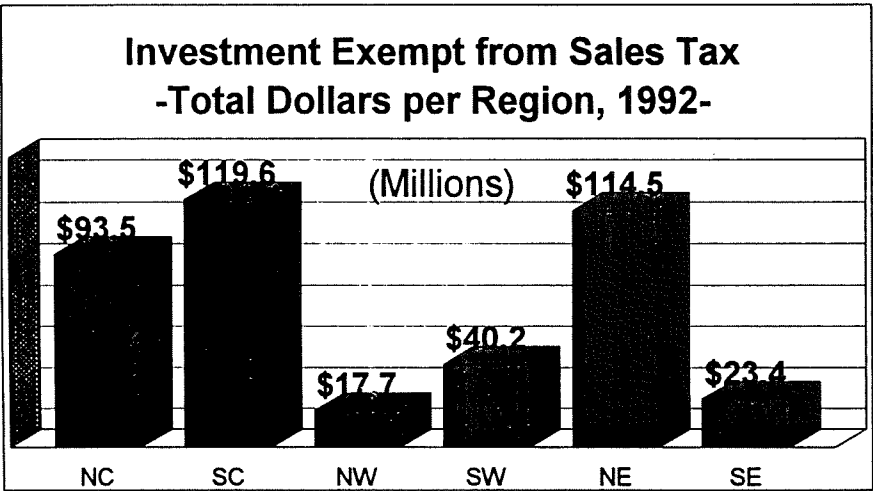
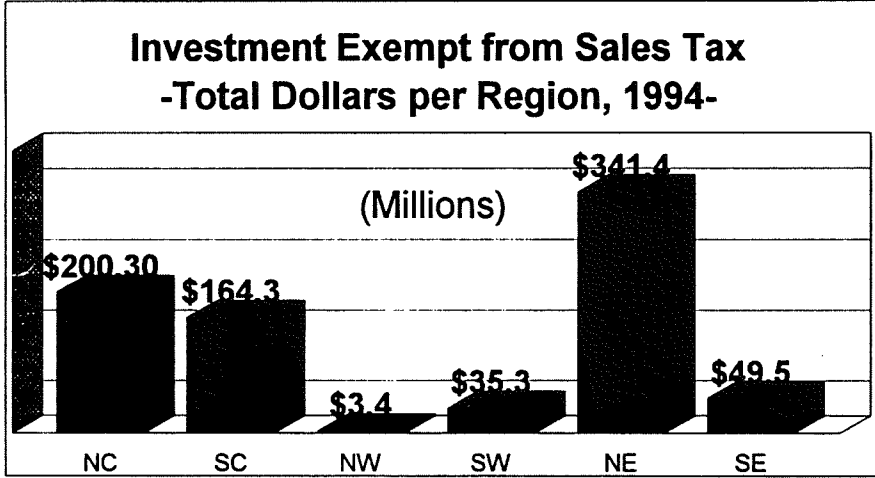
	1992	1993	1994	Chg 92-93	Chg 93-94
Total Projects	318	293	250	-7.9%	-14.7%
Total Investment Exempted	\$409,196,879	\$462,361,295	\$793,847,458	13.0%	71.7%
Estimated State Sales Tax Foregone					
Materials	\$10,025,324	\$11,327,852	\$19,449,263		
Labor	\$7,570,142	\$8,553,684	\$14,686,178		
Total Foregone Tax	\$17,595,466	\$19,881,536	\$34,135,441	13.0%	71.7%
<p>Assumptions: Revenue estimates 1/2 of investment is made in materials and 1/2 is made in labor costs.</p> <p>Tax on Material/Equipment 4.9% Tax on Labor on Original Construction 2.5% Tax on Labor on Remodeling 4.9%</p>					

TABLE 1



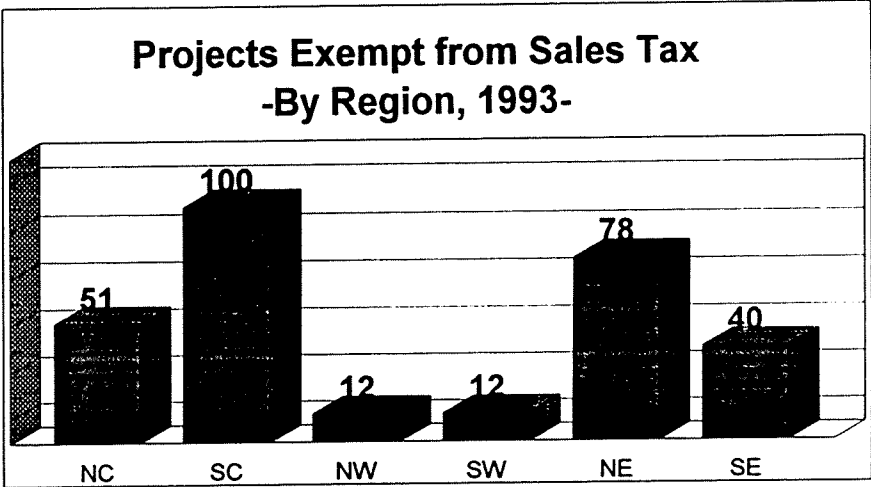
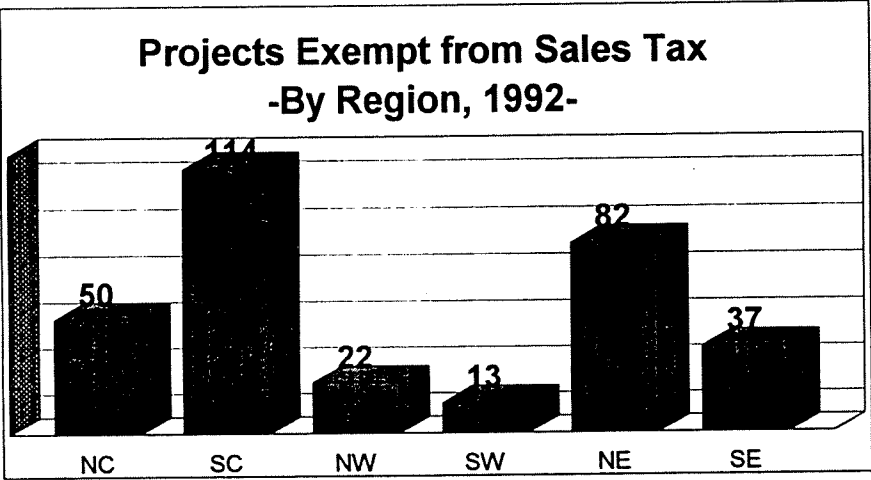
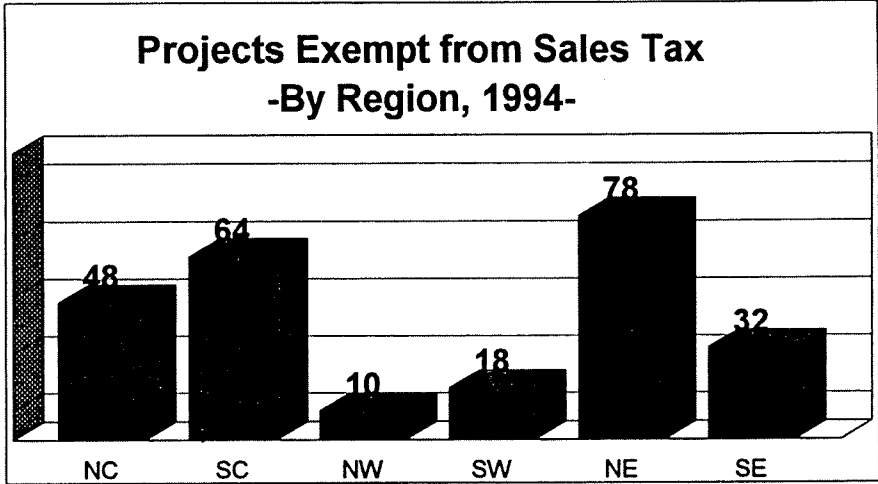
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CHART GROUP 3



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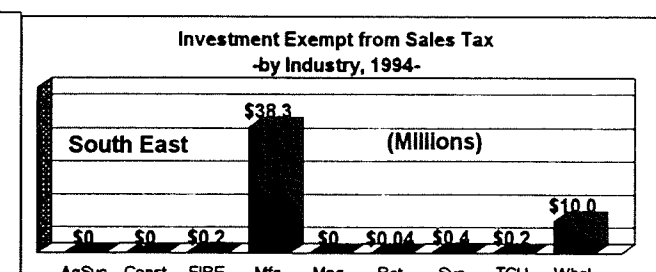
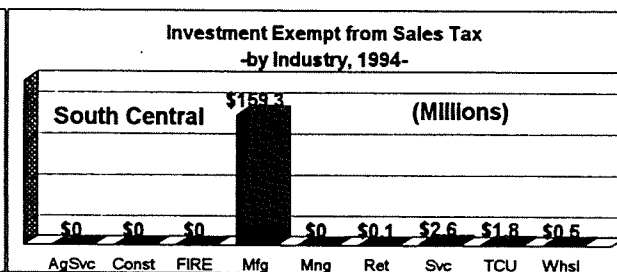
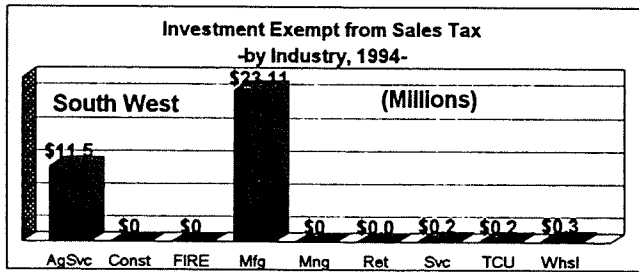
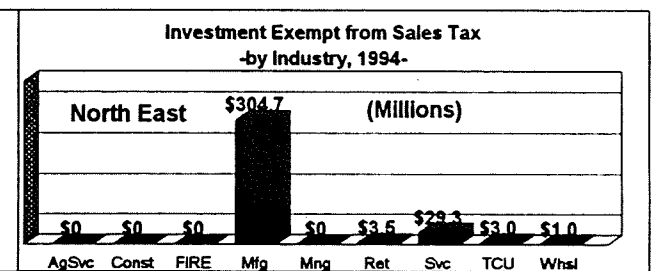
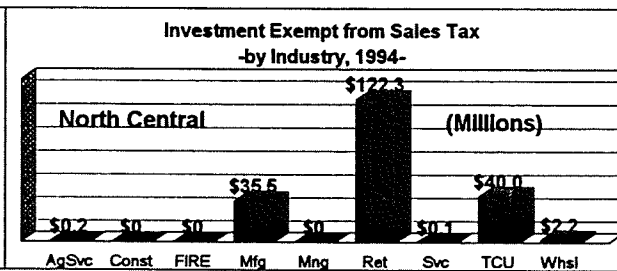
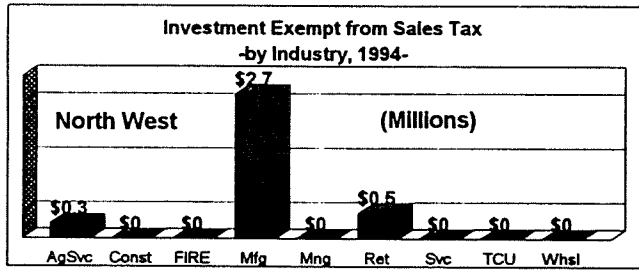
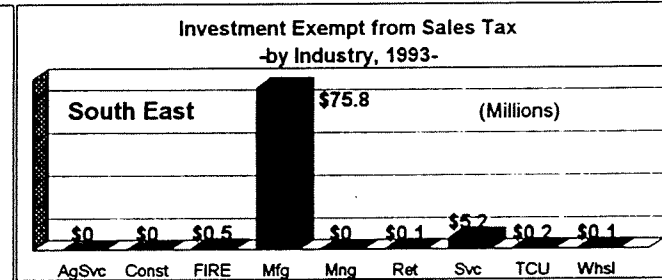
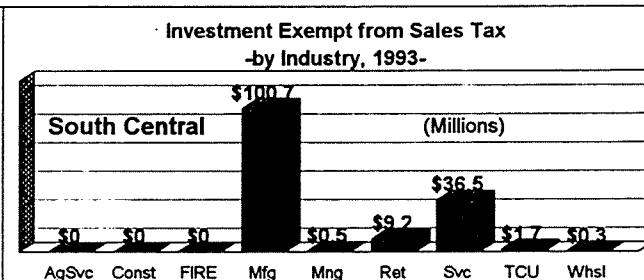
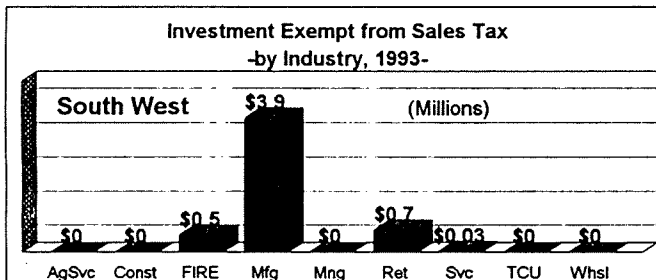
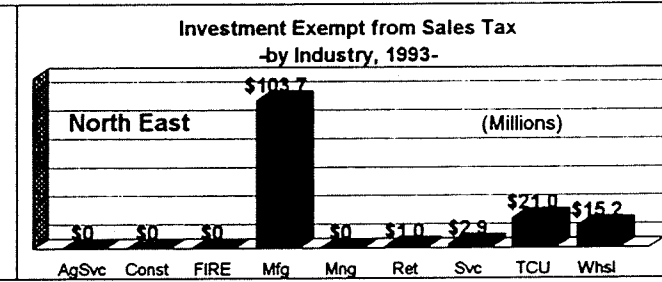
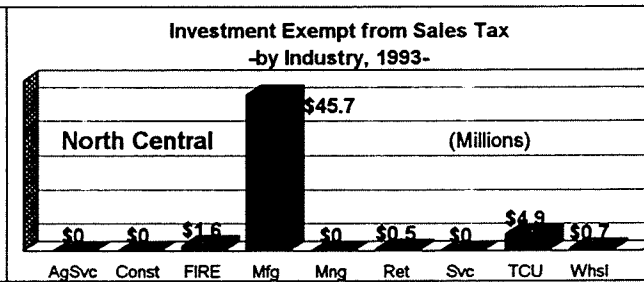
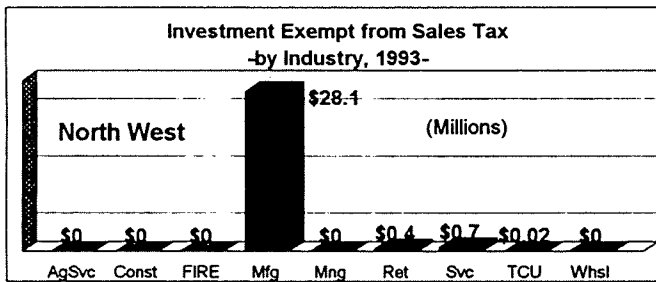


CHART GROUP 4



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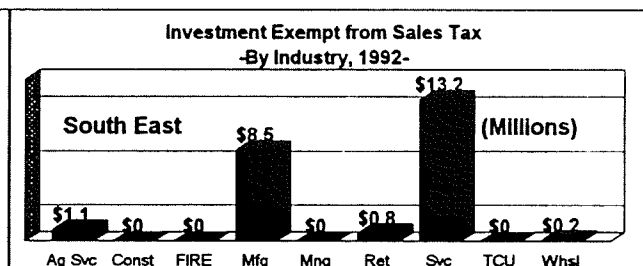
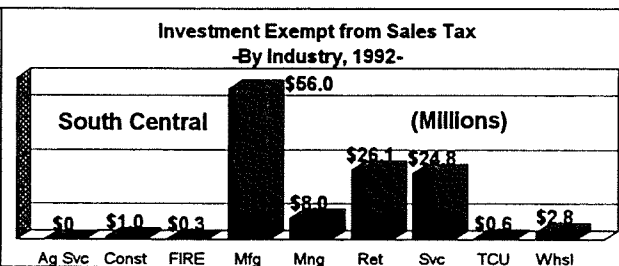
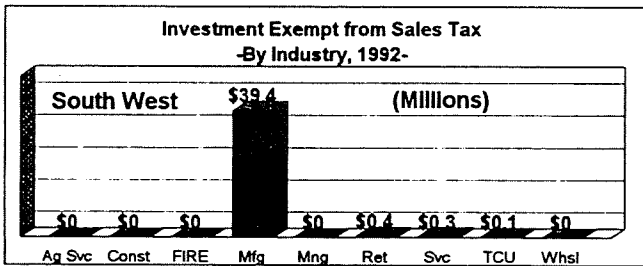
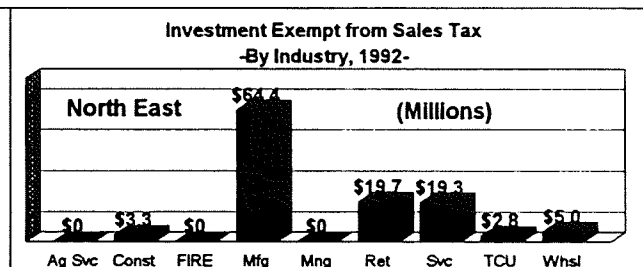
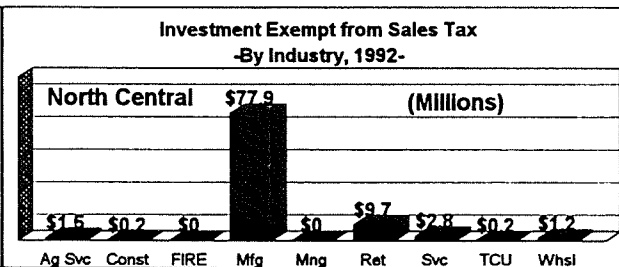
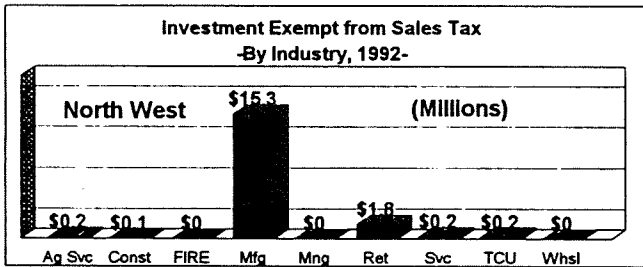
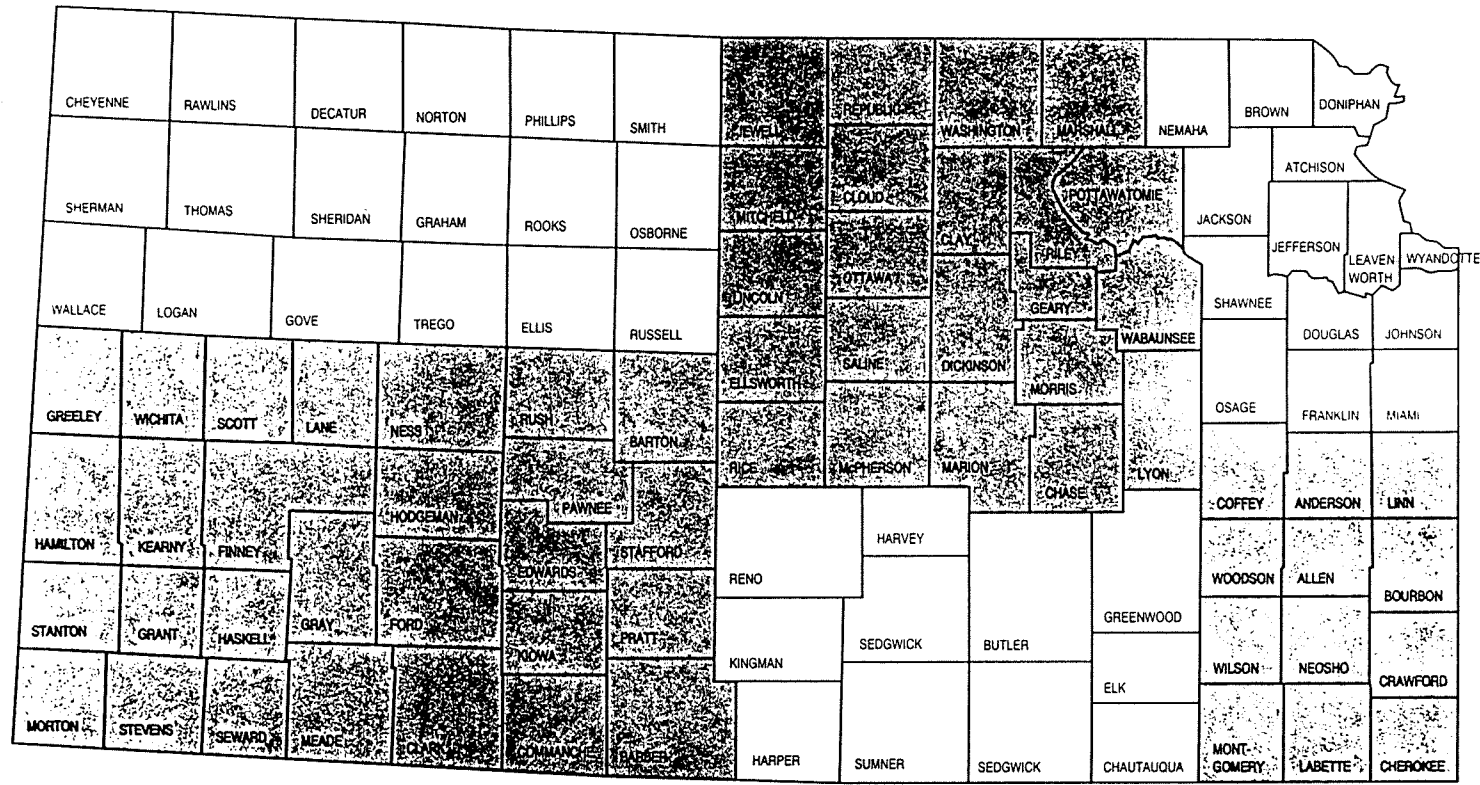


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The Regions of Kansas



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