Approved: March 7, 2003
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson John Edmonds at 9:00 a.m. on February 18, 2003 in Room 519-S of the Capitol.

All members were present except:	Representative Flora Representative Sawyer
Committee staff present:	Chris Courtwright, Legislative Research Department April Holman, Legislative Research Department Gordon Self, Office of the Revisor Carol Doel, Committee Secretary
Conferees appearing before the committee:	Dr. Bartley Hildreth, Chair Regents Distinguished Professor of Public Finance and Director of Public Finance Center, Wichita, State University Mr. Charles Ranson, President Kansas Inc.
Others attending:	See Attached Sheet

Chairman Edmonds opened the meeting for introduction of bills.

Representative Larkin requested the introduction of a constitutional amendment that would reduce the assessment rate of business machinery and equipment from 25 percent to 15 percent.

Without objection, Chairman Edmonds accepted that introduction.

Next recognized with a bill introduction, was Representative Faber who requested a bill that would make it illegal for cities and counties to raise sales tax to fund school districts.

Hearing no objections, Chairman Edmonds accepted the bill.

Chairman Edmonds requested the introduction of establishing the individual development account reserve fund as proposed by Senator Haley.

With no objections this proposal, will be accepted.

Also requested by Chairman Edmonds, was a resolution thanking Don Hayward for his years of service as revisor for the Taxation Committee.

Hearing no objections, this resolution was accepted.

With no other bill introductions, Chairman Edmonds called to the attention to the copy of the fiscal note regarding **HB 2066** which has been assigned to the Taxation Committee.

Chairman Edmonds introduced Dr. Bartley Hildreth, Chair, Regents Distinguished Professor of Public Finance and Director, Kansas Public Finance Center, Wichita State University who presented an overview of the State of Kansas Report of the Governor's Tax Review Committee of December 1998. There was a committee of seven asked to assess the current and future status of the state tax system given the major changes that have taken place since the Governor's Tax Equity Task Force issued its' report three years previously. This was done in five public meetings held at the State Capitol and involved 25 hours of informative and probing discussions. Dr. Hildreth related that the main focus of the committee was to create a road map for state tax policy. (Attachment 1)

Dr. Bartley stood for questions from the committee.

Also appearing before the committee, was Mr. Charles Ranson, President of Kansas, Inc. relating that **K.S.A.**

74-8017 requires that all corporate tax payers filing with the Kansas Department of Revenue complete a questionnaire regarding claims for and use of specifically enumerated income tax credits and sales tax exemptions. This information is then transmitted to Kansas Inc. for its use in developing the legislatively mandated study of the cost-effectiveness of these credits. (Attachment 2)

Mr. Ranson also distributed, for committee review, a copy of the questionnaire that was developed, and which is now part of the corporate booklet distributed to all corporate taxpayers. (Attachment 3)

Mr. Ranson stood for questions following his presentation.

With no further business before the committee, Chairman Edmonds adjourned the meeting at 10:30 a.m.

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE February 18, 2003

NAME	REPRESENTING
George Peterson	KTN
Diane Gjerstad	Wichita Public Schools
John Frederick	Boeing
Scott Anglemyer	KDOC&H
W. Mahlstedt	Wichita State Univ.
Joe Armenta	Kansas Week
Harriet Lange	KAB
Keith VanSkike	KSU-Norton Co. Extension - Norton Leadership

House Taxation
Attachment 1
Date 2-18-03

State of Kansas

Report of the

Governor's Tax Review Committee

December 1998

Governor's Tax Review Committee

Mr. Daniel Hermes
Director, Governmental Affairs
Governor's Office

Dr. W. Bartley Hildreth, Chair
Regents Distinguished Professor of Public Finance
Director, Kansas Public Finance Center
Wichita State University

Representative Phill Kline
House Tax Committee, Chair
Shawnee Mission, Kansas

Mr. Charles Ranson
President
Kansas, Inc.

Dr. Anthony Redwood
Professor of Business
University of Kansas

Senator Audrey Langworthy
Senate Tax Committee, Chair
Shawnee Mission, Kansas

Dr. Edwin Olson
Professor of Economics
Kansas State University

Staff

Aaron Dunkel, George Van Riper Fellow, Kansas Public Finance Center, Hugo Wall School of Urban and Public Affairs, Wichita State University

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State of Kansas

Governor's Tax Review Committee

Governor Bill Graves;

It is a great pleasure to give you the final report from the Governor's Tax Review Committee. On July 16, 1998, you asked the seven of us to assess the current and future status of the state tax system given the major changes that have taken place since the Governor's Tax Equity Task Force issued its report to you three years ago.

We did our work in five public meetings held at the State Capitol that involved about 25 hours of informative and probing discussions. In addition to briefings from the Revenue Department, Legislative Research, and university researchers, we issued an open call for testimony that resulted in several presentations.

Our report is brief, and to the point. We present guiding principles and criteria for Kansas tax policy. This permits us to recommend particular tax results to achieve by Fiscal Year 2002, as conditions permit. Furthermore, we think the state should enhance its tax analysis reporting in ways that will benchmark yearly results to the guiding principles and that will clarify the tax burdens placed on Kansas households and businesses.

While these recommendations only reflect our personal views, they convey our shared desire to help make tax policy beneficial to all Kansans.

Respectfully submitted,

W. Bartley Hildreth
Chair of the Committee

KANSAS TAX POLICY
should be

GROWTH ENHANCING	Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans.
EFFICIENT	Tax structures should minimize distortions of both household economic decisions and capital and labor allocations by business.
ECONOMICAL	Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time.
CLEAR	Tax structures should be simple, understandable and predictable.
FAIR	The tax burden should be equitable in impact on all Kansans.

GUIDING PRINCIPLES AND CRITERIA
OF KANSAS TAX POLICY

Taxes are necessary to help fund economical governmental services, but tax policy must be fair and clear to all taxpayers and respect private economic decisions in order for everyone to benefit from economic growth. State and local tax policy requires tradeoffs since there is no perfect tax or perfect tax system. Therefore, all tax legislation has to balance competing principles and criteria.

Tax policy requires continuous review based upon:

GUIDING PRINCIPLES	foundations for policy
CRITERIA	implementation guides
BENCHMARKING	measurement scales and indicators
BENCHMARK GOALS	desired ranks or results by a specified year

Guiding Principles, Criteria, and

Sample Benchmark Indicators

I. **Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans. For this to occur:**

A. **Tax policy should foster an economic development strategy benefitting households and businesses.**

Sample benchmarks include:
1. *Gross state product growth rate, by state*
2. *State personal income growth rate, by state*
3. *Annual earnings per job, by state*
4. *Business formations, by state*
5. *Unemployment rate, by state*

B. **The tax base should be broad with a clearly articulated rationale for any tax preference or imposition on any particular group or sector of the economy.**

1. *Relationship of tangible goods subject to the sales tax in comparison to services*
2. *Amounts and types of sales tax deviations from uniform base*
3. *Amounts and types of property tax deviations from uniform base*
4. *Amounts and types of income tax deviations from uniform base*

C. **Tax policy should focus on the long run and not overreact to short-run immediate concerns for any particular firm or market condition.**

1. *Cost of tax incentives compared to induced direct business activity*

D. **Government services, as well as taxes, should be competitive with other states.**

1. *Education attainment, by state*
2. *Infrastructure condition, by state*
3. *Measures of public goods providing quality of life (e.g., parks & recreation), by state*
4. *State and local expenditure growth rate, by state*
5. *State and local taxes per capita and per $1,000 of state personal income, by state*

II. **Tax structures should minimize distortions of both household economic choices and capital and labor allocations by business. For this to occur:**

A. **Tax structures and levels should minimize interference with private economic decisions.**

Sample benchmarks include:

1. *Effective tax rates on capital-intensive business, by state*
2. *Effective tax rates on representative households and business segments, by state*

B. **The state and local tax structure should have a diversification of revenue sources over broad bases instead of high tax rates on limited tax bases.**

1. *Percentage of reliance on major tax sources by type of Kansas government, in comparison to other states*

C. **The marginal rate should be as low as possible.**

1. *Comparison of marginal tax rates by source, by state*

III. **Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time. For this to occur:**

A. **Revenues generated should be lower than, and not exceed, long run changes in Kansas personal income.**

Sample benchmarks include:

1. *Comparative state and local revenue growth rates*
2. *Combined income elasticities of state and local tax sources that approximately equal 1.0 over the long run*

B. **Over the business cycle, there should be stability of (inflation adjusted) real revenue without rate changes.**

1. *Inflation adjusted revenues compared to actual collections*
2. *Inflation adjusted expenditures compared to actual expenditures*

C. **Adequate budget balances should be used to ensure balanced budgets over time thereby avoiding frequent or short-term tax and spending changes.**

1. *Size of fund balance relative to general fund revenues and expenditures*
2. *Comparison to policies in other states*

D. **State tax policies should not unduly restrain local initiatives in meeting local obligations.**

1. *Percentage of state taxes to total state and local taxes*
2. *Percentage of locally raised revenues to total local revenues*

E. **The costs and effectiveness of government services should be justified periodically.**

1. *Estimates of the costs and effectiveness of governmental services*
2. *Per capita revenues by source, and per capita expenditures by function*

IV. Tax structures should be simple, understandable, predictable, and efficient. For this to occur:

A. Each tax or revenue structure should be as simple as possible to increase voluntary compliance while lowering compliance and administrative costs.

Sample benchmarks include:

1. *Costs for taxpayers to comply with particular taxes*
2. *Costs to administer particular taxes, including delinquencies and appeals*
3. *Utilization rates of tax preferences*

B. Taxpayers should understand how their tax is determined.

1. *Readability of tax materials*
2. *Accessibility of tax information*
3. *Complaints on handling and resolution procedures*
4. *Taxpayers' views*

C. The tax structure should be relatively stable and predictable to avoid disrupting business and individual tax planning and to reflect the full economic and competitive effects of past actions.

1. *Minimized frequency of tax rate changes*
2. *Estimated versus actual economic effects of past tax changes*

D. Taxpayers should know which government is responsible for each tax and spending component, and the services funded by the tax.

1. *Taxpayers' views*
2. *Adherence to publication and disclosure standards*

E. To foster informed public debate, taxpayers should have access to non-confidential tax data for modeling taxpaying behavior under alternative tax policies.

1. *Frequency and ease of access*

V. **The tax burden should be equitable in impact on all Kansans. For this to occur:**

A. **Tax burdens should recognize the ability to pay.**

B. **A comprehensive measure of ability to pay should include income, consumption, and wealth.**

C. **General business taxation should be structured to recover the costs of governmental services rendered to the business community.**

D. **Taxpayers with similar levels of income, consumption, or wealth, in a particular taxing jurisdiction, should pay approximately the same amount of tax.**

E. **Competing businesses should be handled similarly for tax purposes.**

F. **Tax equity should be measured not only by effective tax rates but also by the distribution of family income by income group.**

G. **The State should estimate the economic burden of who pays Kansas taxes and promote the public's use of the tax burden distributions in assessing tax legislation.**

Sample benchmarks include:

1. *Effective tax rates for taxpayers at different income levels and characteristics*
2. *Net spendable income and implicit tax rates on low income Kansans*
3. *Economic incidence of tax burdens on households in Kansas and comparison states*
4. *Economic incidence of tax burdens on business sectors in Kansas and comparison states*
5. *Ratio of state and local business taxes to related public expenditures*
6. *Comparison of the shares of total income earned by families ranked from the poorest one-fifth to the highest one-fifth*
7. *Frequency of use by the public of the tax burden distribution models for "what if" analysis.*

BENCHMARK GOALS
To be Achieved by Fiscal Year 2002

Kansans expect a fair, efficient and understandable tax system that is capable of generating sufficient revenues to support economical governmental services in a growing economy. Accordingly, the Governor's Tax Review Committee finds that by no later than Fiscal Year 2002, as revenues permit, the State of Kansas should have permanently established frequent analyses of its tax system, but more importantly, achieved specific tax results.

SPECIFIC NON-PRIORITIZED TAX RESULTS TO BE ACHIEVED BY FISCAL YEAR 2002:

The overall tax burden on Kansans is about average for the region.

The tax burden on households is about average for the region.

The business tax burden is about average for the region and for similar industries.

Kansans at or below the poverty level bear a tax burden as low as possible.

The top marginal tax rate for the personal income tax is removed and the progressive rate structure is narrowed.

The tax on business machinery and equipment is at or below the regional average.

The sales tax base includes a broader definition of consumption.

In years of a prosperous state economy, tax receipts are managed to create a fund balance for years of weak economies.

The combined state and local tax structure is balanced in reliance on income, sales and property taxes.

The tax burden on the oil and gas industry is reduced* consistent with the characteristics of the Kansas industry.

TAX ANALYSES TO BE ESTABLISHED BY FISCAL YEAR 2002:

The State reports biennially on who pays Kansas taxes based on tax burden analyses of households and business. The report presents information on (1) the overall tax incidence and (2) the distribution by income classes (at least by quintiles) and other taxpayer characteristics.

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*which may mean repeal (according to some committee members).

The State reports annually on the progress in meeting the Guiding Principles. The report is available to the public before the start of the regular legislative session, and includes the following information:

1. Summary of economic and fiscal trends related to tax policy;
2. Data for each relevant benchmark indicator;
3. Details on who pays Kansas taxes based on the household and business tax burden models, with information on the overall tax incidence and the distribution by income classes (at least by quintiles) and other taxpayer characteristics.;
4. Summary of "tax expenditures" for each major tax structure;
5. Comparison of existing tax policy to the state's economic development strategy;
6. Strengths and weaknesses of existing tax structures,
    a. Identify any tax sources that are out of step with modern realities of the economy and with generally accepted taxing practices;
    b. Review the economic and competitive effects of past tax changes;
7. Policy questions relevant for priority attention by the governor and the legislature.

Household and business tax burden models are available to permit the public to construct alternative tax structures and to make "what if" changes to the existing structure.

House Taxation Committee
Testimony of Charles Ranson, President
Kansas, Inc.
18 February 2003

K.S.A. 74-8017 requires that all corporate taxpayers filing with the Kansas Department of Revenue complete a questionnaire regarding claims for and use of specifically-enumerated income tax credits and sales tax exemptions. The information provided to KDOR is then transmitted to Kansas, Inc. for its use in developing the legislatively-mandated study of the cost-effectiveness of these credits. The enumerated income tax credits are:

1.) Job Expansion and Investment Credit Act and Kansas Enterprise Zone Act, KSA 79-32, 153; KSA 79-32, 160a
2.) Research and Development Credit, KSA 79-32, 182
3.) Kansas Venture Capital and Seed Capital Credits, KSA 74-8205, 74-8206, 74-8304, 74-8304a, 74-8401
4.) High Performance Incentive Program (HPIP), Workforce Training and Investment Credit, KSA 74-50, 132, 79-32, 160 a(e)

and the sales tax exemptions are:

1.) Kansas Enterprise Zone Act Sales Tax Exemption, KSA 79-3606(cc)
2.) Manufacturing Machinery and Equipment Sales Tax Exemption, KSA 79-3606(kk)

While this study has been required of Kansas, Inc. for quite some time, because the agency was not allowed access to taxpayer information deemed confidential elsewhere in the statutes that control KDOR's release of information, Kansas, Inc. was never able to do more than to guestimate the revenue forgone by the State resulting from operation of these economic development incentive programs.

After several years effort, in the 2002 Session, the passage of SB 129 authorized corrective action necessary to allow KDOR and Kansas, Inc. to collaborate in the collection and sharing of data that will enable Kansas, Inc. more meaningfully to evaluate the effectiveness of the enumerated incentives.

I have distributed a copy of the questionnaire that the two agencies have developed, and which is now part of the corporate booklet distributed to all corporate taxpayers. We anticipate, subject of availability of legislatively-appropriated funds, to produce the first updated report in calendar year 2003.

While progress has been made by passage of SB 129 and through the cooperative working relationship between the two agencies, what will be produced falls far short of the statistically verifiable cost-benefit analysis of all economic development incentives that we began to discuss in 2002. Kansas, Inc. has requested appropriation of funds for this purpose, and we are appealing the Division of Budget's decision to zero-out that request.

House Taxation
Attachment 2
Date 2-18-03

STATE OF KANSAS ECONOMIC DEVELOPMENT INCENTIVE QUESTIONNAIRE

All Kansas corporate income taxpayers are required, pursuant to K.S.A. 74-8017, to complete the following questionnaire regarding economic development income tax credits and sales tax exemptions. The information requested by the questionnaire is required to evaluate the utilization and effectiveness of these economic development and business tax credits and incentives provided by the state of Kansas.

The information you provide in this questionnaire will be supplied to Kansas, Inc. by the Kansas Department of Revenue (KDOR). Kansas, Inc. is subject to the same confidentiality requirements as the Department of Revenue with respect to this information. Your responses will be kept in the strictest of confidence and will only be reported to Kansas, Inc. for use in preparing the reports required by K.S.A. 74-8017. If you have any questions, call the Department of Revenue at 1-877-526-7738, press 1 for a touch-tone phone (listen briefly), press 5 for Business Taxes (listen briefly), then press 3 for Corporate Taxes.

INCOME TAX CREDITS

- Job Expansion and Investment Credit Act and Kansas Enterprise Zone Act, K.S.A. 79-32,153, K.S.A. 79-32,160a
- Research and Development Credit, K.S.A. 79-32,182
- Kansas Venture Capital and Seed Capital Credits, K.S.A. 74-8205, 74-8206, 74-8304, 74-8304a, 74-8401
- High Performance Incentive Program (HPIP): Workforce Training and Investment Credit, K.S.A. 74-50,132, 79-32,160a(e)

SALES TAX EXEMPTIONS

- Kansas Enterprise Zone Act Sales Tax Exemption, K.S.A. 79-3606(cc)
- Integrated Production Machinery & Equipment Sales Tax Exemption, K.S.A. 79-3606(kk)

CONTACT INFORMATION

The Kansas Department of Revenue will retain the contact information in strict confidentiality. However, granting the incentive requires the firm or individual to cooperate with Kansas, Inc., who may conduct a follow-up interview of a sample of all recipients in order to study how important the incentive was to the investment/location decision.

Company Name ____________________

Contact Person ____________________
Name E-mail Address Phone Number

Company Mailing Address ____________________

City ____________________ State __________ Zip Code __________

Federal Employer Identification Number (EIN) ____________________

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1. Did you claim any of the income tax credits or sales tax exemptions shown above during tax year 2002?

☐ No (If no, this completes the questionnaire. Please enclose this questionnaire with the corporate tax return filed with KDOR.)

☐ Yes (If yes, check any and all of the income tax credits and sales tax exemptions claimed, then proceed to question 2.)

☐ Job Expansion and Investment Credit Act – Tax Credit
☐ Kansas Enterprise Zone Act – Tax Credit
☐ Research and Development Credit
☐ Kansas Venture Capital and Seed Capital Credits
☐ HPIP Workforce Training and Education Tax Credit
☐ HPIP Investment Credit
☐ Kansas Enterprise Zone Act – Sales Tax Exemption
☐ Integrated Production Machinery & Equipment Sales Tax Exemption

2. Did you utilize any of the income tax credits or sales tax exemptions shown above in tax year 2002?

☐ Yes (Proceed to question 2a.) ☐ No (Proceed to question 3.)

2a. What are the total dollars in income tax credits utilized in tax year 2002? $ __________

2b. What are the total dollars in sales tax exemptions utilized in tax year 2002? $ __________

If the responses to both 2a and 2b are zero, then proceed to question 3 on the back of this form.

2c. What is the total dollar level of investment in association with the above incentives? $ __________

2d. What are the total wages created in association with the above incentives? $ __________

2e. What is the total number of jobs created in association with the above incentives? __________

2f. Are the investments, wages and jobs associated with the income tax credits generally the same items as those associated with the sales tax exemptions?

☐ Generally the same items (Proceed to question 3.) ☐ Some items are distinct

House Taxation
Attachment 3
Date 2-18-03

2g. Please allocate the items by the incentives with which they were associated. Percent associated with:

	Income tax credits:	Sales tax credits:	Both:	Total:
Investment	______ %	______ %	______ %	100%
Wages	______ %	______ %	______ %	100%
Jobs	______ %	______ %	______ %	100%

3. Please check the appropriate box that best describes the project for which the economic development program was used.
   - ☐ Start-up of a new business. (Proceed to question 4.)
   - ☐ Expansion of an existing Kansas firm. (Proceed to question 4.)
   - ☐ Relocation to another city from an existing Kansas location. (Proceed to question 4.)
   - ☐ Expansion into Kansas by an out-of-state firm. (Skip question 4 and proceed to question 5.)
   - ☐ Relocation to Kansas from an out-of-state location. (Skip question 4 and proceed to question 5.)

4. Did your company seriously consider undertaking this project in another state?

   ☐ Yes ☐ No

5. What were the three (3) most important reasons for your firm's ultimate decision to undertake the project in Kansas?
   - ☐ Aggressive recruitment efforts.
   - ☐ State and/or local tax incentives.
   - ☐ State and/or local financial incentives (i.e., grants, HPIP program, training dollars, etc.). Please specify: ______________________
   - ☐ Well-trained skilled labor force.
   - ☐ Cost of labor less expensive.
   - ☐ Cost and availability of energy, water, or other inputs.
   - ☐ Proximity to markets.
   - ☐ Transportation infrastructure.
   - ☐ Availability of educational/training facilities.
   - ☐ Competitive tax structure.
   - ☐ Quality of life in Kansas (i.e., education, housing, cost of living).
   - ☐ Owner's place of residence.
   - ☐ Other: ______________________

6. To what extent was the economic development program for this project a factor in your company's decision to go ahead with this project in Kansas?
   - ☐ Contributed significantly.
   - ☐ Contributed somewhat.
   - ☐ Contributed only slightly.
   - ☐ Did not contribute.

7. If the economic development program had not been available for your company, what would have been the effect on this project?
   - ☐ Proceeded with the project as planned.
   - ☐ Proceeded on a smaller scale.
   - ☐ Canceled the project.
   - ☐ Proceeded at an out-of-state location.

8. How many full-time employees does your company employ? Total ____________ In Kansas ____________

Please enclose this completed questionnaire with the income tax return you file with the Kansas Department of Revenue.

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