

MINUTES OF THE SENATE COMMERCE COMMITTEE.

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on February 4, 2003 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: April Holman, Legislative Research
Deb Hollon, Legislative Research
Norman Furse, Revisor of Statutes
Mitch Rice, Revisor of Statutes
Jodie Anspaugh, Secretary

Conferees appearing before the committee: Chris Clarke, Legislative Post Audit
Joan Wagnon, Secretary of Revenue
Charlie Ranson, Kansas, Inc.

Others attending: See attached list.

Chairperson Brownlee welcomed Chris Clarke from Legislative Post Audit to the committee. Ms. Clarke testified on the Performance Audit Report. (Attachment 1) The audit is available from Legislative Post Audit. Her presentation reviewed factors that have affected the recent steep drop in corporate income tax receipts. She answered two questions: Why were corporate income tax receipts so much lower in fiscal year 2002 than estimated, and how have the resources and results for reviewing and auditing corporate tax returns changed during the last few years?

First question: the largest factor is the downturn in the economy. The downturn in the economy appears to have been the primary factor affecting the steep drop in corporate income tax receipts. Other contributing factors were: a Supreme Court decision ordering the Department to refund \$25 million in taxes paid, multi-state corporations apportioning less of their income to Kansas, and an increase in the number and amount of income tax credits taken.

Post Audit recommends that the Department of Revenue develop a database for storage, retrieval, and analysis of corporate tax credits, develop quality-control procedures, and that the Department provide staff with adequate training. They also recommend that the Department clean up the current credit spreadsheets, institute a system to identify taxpayers who should file a return but don't, and improve its process for storing, cataloging, and retrieving documents stored off-site. They also recommend the Legislature support US Congress efforts to promote sharing of information and corporate accountability.

Second question: How have the resources and results for reviewing and auditing corporate tax returns changed during the last few years? There has been less scrutiny of corporate tax returns since the implementation of a new computer system in 2001. Before converting to that system, the Department elected to ease up on the review of corporate tax credits claimed on returns. Under the new system, returns receive less overall up-front scrutiny than in the past. As far as conducting a back-end review with audits, recently, the Department has one fewer auditor and has averaged about 7 fewer audits than in previous years. However, the additional dollars the State has received as a result of audits has stayed fairly constant.

Post Audit recommends that the Department of Revenue enter lines 1-19 of the tax return for all corporate taxpayers. They also recommend that the Department allow its staff to review more of the returns, and track whether this is beneficial in terms of identifying non-compliance or additional taxes due the State. Finally, they recommend that the Department hire more corporate auditors, or re-assign existing positions to the corporate audit area.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE at 8:30 a.m. on February 4, 2003 in Room 123-S of the Capitol.

Chairperson Brownlee welcomed Secretary Joan Wagnon, Department of Revenue. (Attachments 2 & 3) Richard Cram of the Department of Revenue also submitted written testimony. (Attachment 4) Secretary Wagnon stressed her commitment to corporate accountability, and professional and fair dealings with all Kansas taxpayers. As she has only taken this position two weeks ago, she is looking for opportunities to make improvements. She has named a new Audit Administrator to direct corporate audits. He will report directly to the Secretary of Revenue.

Chairperson Brownlee welcomed Charles Ranson, President of Kansas, Inc. to the committee. (Attachment 5) All corporate taxpayers filing in Kansas must complete a questionnaire regarding claims for and use of specifically-enumerated income tax credits and sales tax exemptions. However, for quite some time, because access was restricted to taxpayer information deemed confidential elsewhere in the statutes that control the Department of Revenue's release of information, Kansas, Inc. was never able to do more than to guesstimate the revenue forgone by the State resulting from operation of these economic development incentive programs.

The meeting was adjourned at 9:30 a.m.

The next meeting is scheduled for February 5, 2003.

SENATE COMMERCE COMMITTEE

GUEST LIST

DATE: Tuesday, Feb. 4, 2003

NAME	REPRESENTING
Richard Cron	KDOR
Megan Chalfant	Burgess Associates
John Guelso	Johnson County
Amel	J.C.
Ben Hopper	KS Dacey Assoc.
Paul Johnson	PACK
Scott Anglemyer	KDOCFN
John Peterson	Ks Gwendol Consultin
Stephanie Buchanan	DOB
Tina Jurek	BOEING
Kevin Balone	Hein law firm
Ron GACHES	GSBA

**Presentation to Senate Commerce Committee
February 4, 2003**

Chris Clarke, Legislative Post Audit

*Corporate Income Taxes: Reviewing Factors Affecting the Recent Steep Drop in
Those Tax Receipts*

This audit arose out of concerns about the combination of a steep increase in the amount of refunds paid out in the fall and winter of 2001, and corporate income tax receipts coming in lower overall for fiscal year 2002, and much lower than the Consensus Revenue Estimating Group had originally estimated.

For all of fiscal year 2002, net corporate income tax receipts (payments in minus refunds out) totaled \$93 million, down \$102 million from the November estimate, and down \$118 million from fiscal 2001— a drop of 56% in just one year.

First we took a look at broad issues that were likely affecting the decline in corporate income tax receipts.

Question 1: Why Were Corporate Income Tax Receipts So Much Lower in Fiscal Year 2002 Than Estimated? The short answer is that it's a variety of factors, the largest of which seems to be the nationwide downturn in the economy.

The economy began slipping in 2000 and officially went into recession in Spring 2001, negatively affecting corporate income tax receipts nationwide. The effect of this economic downturn manifested itself in several ways.

First, in late summer 2001 corporations started cutting back their estimated tax payments for that year. Corporations are required to submit quarterly estimated tax payments during the tax year if their Kansas tax liability is expected to be \$500 or greater. The chart at the bottom of page 6 shows estimated payments tailing off in the summer of 2001 - the dotted line.

Second, because corporations hadn't reduced their estimated payments in tax year 2000, when the economy was slipping, they were owed large tax refunds when they filed their returns in 2001. Most corporation's returns are due April 15th, but many request a 6 month extension to October 15th. So, many tax year 2000 returns hit the Department in the Fall of 2001, resulting in large refunds paid out during that time period. This is the solid line in the chart on page 6.

Several other factors affecting the recent drop in corporate income tax receipts include:

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The Kansas Supreme Court ruled against the Department in a case involving \$25 million in disputed taxes. The first installment of that refund (\$12 million) was paid in February 2002, and the second in July.

Increased use of tax credits: Kansas currently has 17 different corporate tax credits available which are used to offset tax liability. Department records show that use of those credits basically rose between 1995 and 2000, and then dropped in 2001. However, we found the Department's records to be understated. From just a sample of 53 corporate tax returns we identified almost \$13 million in tax credits the Department had granted, but hadn't been recorded in its reports, over a 3 year period.

That's because the Department has a manual system for entering credit information into spreadsheets. Those spreadsheets were full of errors and the process has few controls to ensure that all credits are entered, and the information is accurate.

Further, there's an additional \$10 million in Business Machinery and Equipment tax credits that is captured elsewhere and isn't part of the spreadsheet process, nor was this amount included when we asked for information about total credits.

The bottom line is, the records are inaccurate, and the exact amount by which the credits are understated can't be determined without going through all corporate tax returns for those years. Detailed information about credits is in Appendix C.

Another possible factor is many multi-state corporations reported earning less in Kansas in 2000 than in 1998. In Kansas, corporations are only held accountable for that portion of their income that was derived from Kansas. For a sample of 80 large corporations, the percent of their total income apportioned to Kansas dropped 27% between 1998 and 2000. In other words, Kansas is getting a smaller piece of the pie.

There could be legitimate reasons, but a watchdog group called the Multi-State Tax Commission is very concerned that corporations may be under-reporting information on state tax returns nationwide. Because regulations prohibit the IRS from sharing information between states, no one knows whether all corporate income is being accounted for.

Finally we identified several other factors that will or could significantly affect corporate tax revenues this year or in the future.

- The second installment payment of the Supreme Court case (\$13 million) was paid at the beginning of fiscal year 2003.
- Corporations have about \$127 million in unused tax credits they can take in

future years, so even if the economy does turn around we likely won't see an immediate increase in tax receipts.

- A new federal law allows corporations to accelerate depreciation deductions, which, if used, will reduce the amount of State taxes corporations owe in the near term.
- The 2002 Kansas Legislature broadened one credit.
- Recent news articles detailing corporate overstatement of revenues, and the requirement that they expense stock options in the future.
- Finally, the full impact of the September 11, 2001, tragedy likely still is yet to be felt. Again, it's a timing thing. Sept 2001 was in tax year 2001, and those returns are coming into the Department now, but many won't come until October.

We identified several other record-keeping problems within the Department, such as not being able to identify who should file a return, that make it more difficult to know what's happening with corporate income taxes. Those are listed on page 13.

Question 1 Conclusion. The downturn in the economy appears to have been the primary factor affecting the steep drop in corporate income tax net receipts. Other contributing factors were: a Supreme Court decision ordering the Department to refund \$25 million in taxes paid, multi-state corporations apportioning less of their income to Kansas, and an increase in the number and amount of income tax credits taken.

Question 1 Recommendations. We recommended that the Department develop a database for storage, retrieval, and analysis of corporate tax credits, develop quality-control procedures, and that the Department provide staff with adequate training. We also recommended that the Department clean up the current credit spreadsheets, institute a system to identify taxpayers who should file a return but don't, and improve its process for storing, cataloging, and retrieving documents stored off-site. We also recommended the Legislature support US Congress efforts to promote sharing of information & corporate accountability.

Question 2 looks more specifically at changes in the Department's process for reviewing and auditing corporate income tax returns.

Question 2: How Have the Resources and Results for Reviewing and Auditing Corporate Tax Returns Changed During the Last Few Years?

The short answer is that under the new computerized corporate tax processing system, tax returns and credits claimed do receive less scrutiny than in the past.

In the audit area, the Department's effort is down somewhat compared to prior years, but the additional dollars the State has collected because of those audits has stayed fairly constant.

Reviewing Corporate Income Tax Returns as They Come In for Processing

In July 2001, the Department changed over to a new computer system that automated the processing of corporate income taxes to a greater extent.

For several months prior to implementation of the new system, Department employees were directed to process corporations' tax credit claims without question. Almost 80% of the tax credits weren't being reviewed in calendar year 2000- meaning that staff didn't question or check anything, they just went with what the taxpayer submitted.

Also, with the new system, the Department directed staff to place their emphasis on processing returns, not reviewing them. Department staff told us that they don't deny as many tax credits as they used to, nor are tax returns scrutinized as they were in the past. The Department now places less emphasis on front-end review, and relies on catching problems later during the audit period. However, out of 31,000 corporate taxpayers only about 25 got audited.

In addition, beginning in FY 2002, there's no longer any review of the Business Machinery and Equipment Tax credit - one of the largest tax credits corporations use - accounting for about \$14 million in credits claimed in 2001. This credit is basically automatically granted for the amount the taxpayer claims. Not reviewing these credits could result in corporations receiving credits they aren't eligible for.

In the new system, basic tax-return information for certain large corporations isn't entered into the computer for edits and checks, nor are they manually checked. See page 34. Not only is this information not subjected to computer edits, it isn't stored electronically for future access or analysis. In our sample of 80 large corporations, 75% of them had basically blank information for page one of the tax return.

Auditing Corporate Income Tax Returns

The number of desk and field audits conducted each year dropped from 30 in 1997 to 25 in 2002 (top chart page 22). In addition, the amounts assessed in FY 2002 was down fairly significantly compared with the 5 previous years (middle chart 22.) Department officials attribute this to a high turnover rate in staffing.

However, amounts abated or dismissed in fiscal year 2002 also were down significantly from previous years. Therefore, the amount of revenue the State received as a result of the Department's 2002 audits was in line with amounts in most other years, (page 24) - except for the blip in 99, it's been fairly constant.

Corporate tax auditors more than pay for themselves - on average each generated more than \$900,000 in additional revenues for the State. Hiring or assigning more people to audit staff positions could benefit the State financially.

As far as comparing with other states, Kansas does fewer field audits of corporate income tax returns than comparison states do, but Kansas' audits generally have found a larger amount of taxes due.

Question 2 Conclusion. Overall, there's been less scrutiny of corporate tax returns since the implementation of a new computer system in 2001. Before converting to that system, the Department elected to ease up on the review of corporate tax credits claimed on returns. Under the new system, returns receive less overall up-front scrutiny than in the past. As far as conducting a back-end review with audits, recently, the Department has one fewer auditor and has averaged about 7 fewer audits than in previous years. However, the additional dollars the State has received as a result of audits has stayed fairly constant.

Question 2 Recommendations. We recommended that the Department enter lines 1-19 of the tax return for all corporate taxpayers. We recommended that the Department allow its staff to review more of the returns, and track whether this is beneficial in terms of identifying non-compliance or additional taxes due the State. Finally, we recommended that the Department hire more corporate auditors, or re-assign existing positions to the corporate audit area.



K A N S A S

JOAN WAGNON, ACTING SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

Testimony to Senate Commerce Committee
Joan Wagnon
Acting Secretary of Revenue

February 4, 2003

Chairman Brownlee and members of the Committee. Thank you for the opportunity to respond to the audit, *Corporation Income Taxes: Reviewing Factors Affecting the Recent Steep Drop in Those Tax Receipts*.

Having assumed the duties of Secretary of Revenue only two short weeks ago, I can tell you this audit caught my attention immediately. The article in *Governing* magazine, released yesterday, highlights the issue for you. We have been working steadily inside the department to implement the Legislative Post Audit recommendations, however, it will be some time before the results of the changes are apparent. However, I can tell you that this particular issue will continue to be a top priority as long as I serve as the Department's Secretary.

Just last week, I assigned our new Director of Taxation, Steve Stotts, the task of revitalizing and reengineering our procedures for reviewing Corporation Income Tax returns to ensure that all Corporations pay their fair share in accordance with Kansas tax laws. We will be fair, efficient, and professional in our dealings with all Kansas taxpayers. I can assure you that all KDOR managers and associates are strongly committed to these principles. We are now beginning to identify process and organizational changes that will allow us to discern, with greater certainty, which taxpayers are not fulfilling their tax responsibility and to initiate processes that will bring them into compliance with the law.

We do not expect these improvements to result in the return of Corporate tax revenues to levels experienced several years ago unless the economy recovers. As pointed out in the audit report, Kansas has experienced a sharp decline in Corporation Income Tax revenues similar to that being experienced by all states. This shortfall is attributed primarily to the current nationwide economic downturn. Changes in the Corporation Income Tax laws, enacted over the last few years, coupled with some corporate tax planning have also contributed to the decline.

Even if the long-anticipated economic recovery begins to flourish sometime in 2003, corporate income tax receipts are likely to remain at modest levels because of tax changes and carry-forward credits and losses.

KDOR began its transition to the Corporation Income Tax component of the Automated Tax Processing system in July 2001. This system permits us to provide better service to our

corporate customers. Customer representatives, now aligned by business segments, provide immediate answers to taxpayer questions through on-line access to account information. We are pleased with the LPA auditors' assessment that this system is working smoothly and accurately maintaining taxpayer account information.

Having successfully implemented the new system, we are now working on several parts of our operation where we recognize the opportunity for improvement. As recommended by LPA, we have made substantive progress on upgrading our system for accounting for Corporation Income Tax credits. Completing this project this spring will improve our ability to extract accurate information for reports to the legislature and for augmenting our compliance efforts. We have moved e-filing of corporate returns up to a top priority for computer programming enhancements – a necessary prelude to implementing such filings.

With regard to identifying non-filers, we agree with the intent of the recommendation. The department currently has one project under development to address this complex issue. In cooperation with the IRS, Taxation will implement the business non-filer initiative this year. Through data sharing this initiative will allow us to compare corporate tax accounts that filed one year and didn't file the next year

In Chapter 2 of the report, the auditors call into question KDOR operations for determining the accuracy of Corporation Income tax returns. Let's be clear that the vast majority of Kansas corporate tax returns are filed accurately.

We employ a risk-based approach to identify returns filed each year that merit further attention. This is multi-step process that includes capturing information from the returns, reviewing returns for possible misstatements, completing a comprehensive file analysis and conducting comprehensive field audits, where warranted. Our new emphasis on compliance activities will closely examine these procedures and redouble compliance efforts. I will reassign staff to ensure that sufficient resources are available to provide greater assurance of accurate corporation tax filings.

KDOR's Audit Services function plays a vital role in validating taxpayer credit claims and reviewing returns for accuracy. In the past three years, KDOR's auditors have completed a comprehensive file analysis on over 150 corporations. For about half of these, a formal audit was deemed unnecessary. For those audited, \$11 million in credits claimed were denied.

However, we are taking steps to improve our performance in years to come. I have recruited Nick Kramer to serve as Audit Administrator to direct the audit function. To insure progress and accountability, the Audit Administrator will report directly to the Secretary of Revenue. Recognizing the return on investment in qualified tax auditors, we intend to increase staffing our of our audit function. Training of the staff presents additional challenges.

I congratulate Legislative Post Audit for completing a difficult assignment that entailed a great deal of effort for their staff as well as our own. Although the audit confirmed that the decline in corporate income tax revenue is not attributable to department processes, the report provides sound advice for making key improvements in our administration of the Corporation Income Tax.

Last year, with personal income tax receipts down by 8 percent from 2001, and corporate income tax revenues sliced in half, Kansas lawmakers confronted a budget gap of close to \$300 million. Their first step was to turn to a variety of one-time revenue sources, including a transfer of transportation money into the general fund and a temporary decrease in the required year-end budget balance, from 7.5 percent to 5 percent.

But these sources weren't enough. The legislature ultimately raised taxes by some \$252 million, primarily through a temporary hike in the sales tax rate from 4.9 percent to 5.3 percent (scheduled to go back to 5 percent in 2005) and a 55-cent jump in cigarette taxes.

It was no surprise, in the aftermath of September 11 terrorism, that Kansas was going to have to do something to raise revenues, whether the money came from new or old sources. The state's aviation companies—Boeing, Cessna and Raytheon among them—have eliminated some 10,000 jobs in the months since the terrorist attacks. Add in the disastrous effects of last year's drought on state agriculture, and the overall manufacturing recession, and tax increases were as clear as an F5-level tornado on the flat Kansas plains.

Although political pressures made even modest tax increases difficult, in hindsight it would have been smart for the legislature to push a little further. Receipts have continued to lag in recent months, and revenue forecasts have had to be revised downward by another \$218 million.

Now, Kansas leaders have to fill that gap, and it's not going to be easy. "Everybody in the building knew they needed to raise taxes \$500 million to \$600 million," says one high-level government adviser. "The political heavens align to raise taxes once a decade. If they knew they had to

vote for a tax increase, why didn't they go for what they needed?" Republican Senate President Dave Kerr answers that question by pointing out that the increase approved last year came to about 5.1 percent of total taxes and arguing that there was no way the votes could be found to do more—then, or now.

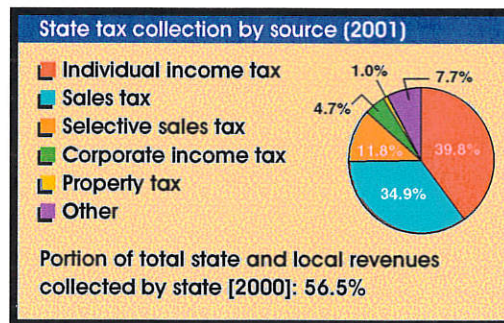
In any event, Kathleen Sebelius, the state's new Democratic governor, is on her own "top-to-bottom" hunt for funds to fill the coffers. Part of the examination will include a review of the state's laundry list of exemptions and credits, although it's unlikely that any of the really expensive or popular ones, such as the tax credits for business equipment and machinery or the partial rebate for the

state Supreme Court ruled against the Department of Revenue last year in a case challenging the department's threshold for combined reporting—the means by which a company and all of its subsidiaries are required to file a return in one state. The court held that Kansas authorities did not sufficiently communicate their rules to businesses. This cost the treasury \$25 million in refunds and interest to one company alone and may force reconsideration of the entire combined-reporting test. The only silver lining is that, in the long run, the dispute could lead to a stiffer set of combined-reporting regulations and make it harder for corporations to divert income to subsidiaries located in other states or countries.

The Post-Audit Division recently made several recommendations to improve corporate tax collection, including stepping up the audit process. Back in the early 1990s, Kansas developed a reputation for overly aggressive audits; in subsequent years, they were scaled back. As a result, collection of additional revenue through audits fell from \$20.7 million in 1995 to a low of \$5.9 million in 2000, according to the Legislative Research Department. "It's been an honor-system tax," says an analyst in that department.

The Revenue Department acknowledges that the number of audits dropped as resources were diverted to a new computer system in the late 1990s but says they've increased back to "business as usual." Some corporate officials say the expanded audits aren't unwelcome. "Most companies would rather have everybody audited than have their taxes raised," says Mark Beshears, a telecommunications executive and former state revenue secretary.

To its credit, Kansas was one of the few states in the country to increase resources for its Revenue Department in the past two years. In FY2001, the department received \$3.5 million to hire 72 new collection agents; thanks to the implementation of new compliance programs, they collected about \$103 million. Auditing will soon receive some help from a new data warehouse, put in as part of the Revenue Department's integrated tax information system. **G**



sales tax on food, will be eliminated.

The truth is that not all of the financial trouble can be blamed on the poor economy; some of the lost revenue can be traced back to the state's own corporate tax policies. There are no fewer than 17 corporate tax subsidies in the Kansas revenue code, and in recent years, companies have become extremely aggressive about cashing in on them. According to a study conducted last year by the state Legislative Division of Post Audit, the number of corporations claiming income tax credits increased from about 700 in 1995 to nearly 5,000 in 2001.

To complicate the problem further, the

FAST FACTS

Gross state tax revenues (rank)	\$5 billion (31)
State tax revenues per capita (rank)	\$1,853 (25)
State tax revenues as % of personal income (rank)	6.7% (28)
State and local tax revenues as % of personal income (rank)	10.9% (31)

Standout characteristics: One of five states that raised taxes by more than 5 percent in FY2002; among states that suffered greatest revenue losses from drought of 2002.

Senate Commerce Committee



K A N S A S

JOAN WAGNON, ACTING SECRETARY

DEPARTMENT OF REVENUE
POLICY AND RESEARCH

KATHLEEN SEBELIUS, GOVERNOR

To: Senator Karin Brownlee, Chairperson
Senate Commerce Committee

From: Richard L. Cram

Date: February 4, 2003

Re: Issues Concerning Taxpayer Information Provided to Kansas Inc.

Taxpayer Information Confidentiality Restrictions

Kansas has long maintained a policy of strict confidentiality and privacy protection concerning the information that taxpayers must disclose when they file their tax returns with the Department of Revenue. A number of statutes place serious restrictions on the disclosure of this information. K.S.A. 2002 Supp. 79-3234 bars current and former Department employees from disclosing to anyone "the amount of income or any particulars set forth or disclosed in any [income tax] return," subject to certain narrow exceptions. K.S.A. 79-3614 similarly bars disclosure of information from sales tax returns. Violation of these statutes is a class B misdemeanor and will result in dismissal, if the violator is a state employee or officer.

Exception for Kansas Inc.

One of the narrow exceptions to disclosure in both of the above statutes concerns Kansas Inc. Under K.S.A. 2002 Supp. 74-8017 (copy attached), Kansas Inc. has the duty to prepare for the Legislature an annual report evaluating the cost effectiveness of various income tax credits and sales tax exemptions related to economic development. Pursuant to that statute, a corporate income taxpayer is required to fill out a questionnaire and file it with the income tax return, indicating utilization of the various tax incentive programs enacted to encourage economic development within the state. The questionnaire is included in the instruction booklet for the corporate income tax return, and it is also available on our website. A copy of the questionnaire is attached. The Department collects these questionnaires when the returns are processed and forwards them to Kansas Inc.

Last year, the Department worked with Kansas Inc. to revise the questionnaire, so that it would provide Kansas Inc. the specific information needed from each corporate taxpayer completing the questionnaire, showing the specific amounts of tax credits or sales tax exemptions claimed, amounts invested, wages and jobs created and business decisions made as a result of the incentives. The questionnaire also requests that the corporate taxpayer identify a contact person and provide a telephone phone number, so that Kansas Inc. can follow up with the taxpayer directly, if desired. However, there is no penalty for failing to complete the questionnaire. We have not experienced a full tax year with the revised questionnaire, so we do

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not know yet how effective the new questionnaire will be in obtaining the information needed by Kansas Inc.

The earlier version of the questionnaire (used for tax years 2000 and earlier) did not request from the taxpayer the specific amount of tax credits or sales tax exemptions claimed, amounts invested, and wages and jobs created as a result of the incentive programs.

The Department annually provides to Kansas Inc. a summary report showing the amount of various tax credits claimed and the number of taxpayers claiming them per tax year. The Department also provides the amount of enterprise zone sales tax exemptions claimed. A copy of the most current summary report is attached. However, as discussed above, current law prevents the Department from providing to Kansas Inc. specific information directly from tax returns showing the amounts of tax credits or sales tax exemptions claimed by specific taxpayers.



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[Home](#) > [Kansas Statutes](#) > Kansas Statute No. 74-8017

74-8017
Chapter 74.--STATE BOARDS, COMMISSIONS AND AUTHORITIES
Article 80.--KANSAS, INC.

74-8017. Annual report evaluating cost effectiveness of tax credits and exemptions; submission to legislature; questionnaires; procedures for disclosure of taxpayer information. On and after January 1, 2003, it shall be the duty of Kansas, Inc. 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 this state and submit the same to the standing committees on taxation and economic development of the house and assessment and taxation and commerce of the senate at the beginning of each regular session of the legislature. The secretary of revenue, in consultation with the president of Kansas, Inc., shall develop a questionnaire on the utilization of state income tax credits and sales tax exemptions that shall be completed by all corporate taxpayers subject to state income tax that shall be submitted to the department of revenue concurrently with the filing of an annual corporate income tax return. The secretary shall provide the completed questionnaires to Kansas, Inc. for use in the preparation of such annual report. The questionnaire shall require respondents to indicate utilization of the following credits and exemptions:

- (a) Income tax credits authorized under the provisions of the job expansion and investment credit act of 1976 and acts amendatory thereof and supplemental thereto;
- (b) income tax credits for expenditures in research and development activities authorized by K.S.A. 79-32,182, and amendments thereto;
- (c) income and financial institutions privilege tax credits for cash investment in stock of Kansas Venture Capital, Inc. authorized by K.S.A. 74-8205 and 74-8206, and amendments thereto;
- (d) income tax credits for cash investment in certified Kansas venture capital companies authorized by K.S.A. 74-8304, and amendments thereto;
- (e) income tax credits for cash investment in certified local seed capital pools authorized by K.S.A. 74-8401, and amendments thereto;
- (f) income tax credits for investment in the training and education of qualified firms' employees authorized by K.S.A. 74-50,132, and amendments thereto;

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(g) sales tax exemptions for property or services purchased for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling a business, or retail business meeting the requirements of K.S.A. 74-50,115, and amendments thereto, and machinery and equipment for installation at such business or retail business authorized by subsection (cc) of K.S.A. 79-3606, and amendments thereto; and

(h) sales tax exemptions for machinery and equipment used directly and primarily for the purposes of manufacturing, assembling, processing, finishing, storing, warehousing or distributing articles of tangible personal property in this state intended for resale by a manufacturing or processing plant or facility or a storage, warehousing or distribution facility. The secretary of revenue shall provide the completed questionnaires and copies of sales tax exemption certificates to Kansas, Inc. for the preparation of such report.

History: L. 1994, ch. 188, § 1; L. 2001, ch. 164, § 1; L. 2002, ch. 99, § 1; July 1.

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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) _____

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.)
- | | |
|---|---|
| <input type="checkbox"/> Job Expansion and Investment Credit Act – Tax Credit
<input type="checkbox"/> Research and Development Credit
<input type="checkbox"/> HPIP Workforce Training and Education Tax Credit
<input type="checkbox"/> Kansas Enterprise Zone Act – Sales Tax Exemption | <input type="checkbox"/> Kansas Enterprise Zone Act – Tax Credit
<input type="checkbox"/> Kansas Venture Capital and Seed Capital Credits
<input type="checkbox"/> HPIP Investment Credit
<input type="checkbox"/> 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

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.

KANSAS DEPARTMENT OF REVENUE

Credit Summary Report as of December 31, 2002

As required by Kansas law (K.S.A. 74-8017), this annual report is submitted to Kansas, Inc. for their use in preparing an annual report evaluating the cost effectiveness of the various income tax credits enacted to encourage economic development within this state.

4-7

Business and Job Development Credit - K.S.A. 79-32,153, 79-32,160a

I - K.S.A. 79-32,153

Two Enterprise Zone - K.S.A. 79-32,153

Income Taxpayers - Effective for all taxable years commencing after December 31, 1976
 Privilege Taxpayers - Effective for all taxable years commencing after December 31, 1995

Investment Tax Credit

A taxpayer who invests in a qualified business facility and hires at least two employees as a result of that investment may be eligible for an investment tax credit of \$100 for every \$100,000 of investment.
 (*Prior to January 1, 1982, the credit was \$50 for every \$100,000 of investment.)

Job Creation Credit

A taxpayer who invests in a qualified business facility and hires at least two employees as a result of that investment may be eligible for a job creation tax credit of \$100 for every qualified business employee.
 (*Prior to January 1, 1982, the credit was \$50 for every employee.)

Process Calendar Year	Number of Individual Filers	Number of Individual Claims	Total Dollar Amount of Credit Claimed Individual Filers	Total Dollar Amount of Credit Allowed This Year
1977				
1978				
1979				
1980				
1981				
1982				
1983				
1984				
1985				
1986				
1987				
1988				
1989				
1990				
1991	7	7	\$ 16,669	\$ 16,669
1992	623	660	\$ 1,333,094	\$ 1,294,440
1993	666	798	\$ 2,506,710	\$ 2,503,882
1994	672	743	\$ 2,618,722	\$ 2,533,956
1995	755	801	\$ 3,399,770	\$ 3,388,196
1996	817	912	\$ 4,556,558	\$ 4,467,268
1997	278	353	\$ 3,377,789	\$ 3,359,797
1998	212	240	\$ 1,711,748	\$ 1,745,711
1999	57	111	\$ 654,908	\$ 659,023
2000	240	338	\$ 1,641,950	\$ 1,681,584
2001	318	474	\$ 1,220,083	\$ 1,077,971
2002	192	280	\$ 603,534	\$ 558,105
TOTAL	4,837	5,717	\$ 23,641,535	\$ 23,286,602

Prepared by the Office of Policy and Research, Kansas Department of Revenue
 Rvp2kxstax/Team/PolicyAndResearch/Economic_Development/Tax_Credits/Credit Summary Report

Enterprise Zone - K.S.A. 79-32,153

Income Taxpayers - Effective for all taxable years commencing after December 31, 1981 and prior to January 1, 1993.

Investment Tax Credit

A taxpayer who invests in a qualified business facility and hires at least two employees as a result of that investment may be eligible for an investment tax credit of \$350 for every \$100,000 of investment.

Job Creation Credit

A taxpayer who invests in a qualified business facility and hires at least two employees as a result of that investment may be eligible for a job creation tax credit of \$350 for every qualified business employee.
 (*\$500 for every qualified business employee if the employee enrolls the employer to a federal targeted jobs tax credit.)

Process Calendar Year	Number of Privilege Filers	Number of Privilege Claims	Total Dollar Amount of Credit Claimed Privilege Filers	Total Dollar Amount of Credit Allowed This Year
1977				
1978				
1979				
1980				
1981				
1982				
1983				
1984				
1985				
1986				
1987				
1988				
1989				
1990				
1991				
1992				
1993				
1994				
1995				
1996				
1997	7	10	\$ 11,600	\$ 11,600
1998	7	18	\$ 25,883	\$ 25,883
1999	6	16	\$ 12,849	\$ 18,649
2000	5	78	\$ 93,614	\$ 93,614
2001	15	54	\$ 75,864	\$ 74,406
2002	17	26	\$ 43,605	\$ 43,605
TOTAL	57	202	\$ 263,415	\$ 267,757

Process Calendar Year	Number of All Filers	Number of All Claims	Total Dollar Amount of Credit Claimed All Filers	Total Dollar Amount of Credit Allowed This Year
1977	11	11	\$ 16,741	\$ 32,182
1978	27	41	\$ 113,842	\$ 111,304
1979	48	77	\$ 367,747	\$ 288,289
1980	99	162	\$ 672,667	\$ 619,134
1981	107	227	\$ 1,052,672	\$ 1,218,860
1982	85	223	\$ 1,126,672	\$ 711,487
1983	52	198	\$ 1,048,973	\$ 1,215,628
1984	61	203	\$ 1,212,238	\$ 758,912
1985	78	259	\$ 1,326,303	\$ 1,028,489
1986	71	246	\$ 1,904,855	\$ 1,618,901
1987	81	274	\$ 2,117,688	\$ 1,459,585
1988	85	260	\$ 4,048,121	\$ 1,073,801
1989	108	322	\$ 5,840,490	\$ 679,312
1990	78	320	\$ 3,452,540	\$ 878,137
1991	66	284	\$ 2,721,028	\$ 805,776
1992	42	182	\$ 1,110,294	\$ 281,469
1993	75	268	\$ 6,842,911	\$ 897,563
1994	81	373	\$ 10,859,634	\$ 8,692,391
1995	62	368	\$ 8,913,696	\$ 7,310,801
1996	68	640	\$ 6,839,428	\$ 6,171,617
1997	54	576	\$ 6,030,803	\$ 6,020,481
1998	91	550	\$ 5,404,452	\$ 5,328,298
1999	93	521	\$ 445,738	\$ 4,364,812
2000	71	404	\$ 5,037,282	\$ 5,310,266
2001	120	415	\$ 7,846,668	\$ 7,867,143
2002	101	391	\$ 3,579,290	\$ 3,552,354
TOTAL	1,915	7,795	\$ 89,932,773	\$ 68,296,992

8-1

Business and Job Development Credit - K.S.A. 79-32,153, 79-32,160a

A. 79-32,160a

Income Taxpayers - Effective for all taxable years commencing after December 31, 1992
 Privilege Taxpayers - Effective for all taxable years commencing after December 31, 1995

Investment Tax Credit

A taxpayer who invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be eligible for an investment tax credit of at least \$1,000 for every \$100,000 of investment.

Job Creation Credit

A taxpayer who invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be eligible for a job creation tax credit of *\$1,000 for every qualified business employee.
 (*\$2,500 if located in a nonmetropolitan region.)

4-9

Process Calendar Year	Number of Individual Filers	Number of Individual Claims	Total Dollar Amount of Credit Available Individual Filers	Total Dollar Amount of Credit Allowed This Year
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Process Calendar Year	Number of Corporate Filers	Number of Corporate Claims	Total Dollar Amount of Credit Available Corporate Filers	Total Dollar Amount of Credit Allowed This Year
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Process Calendar Year	Number of Privilege Filers	Number of Privilege Claims	Total Dollar Amount of Credit Available Privilege Filers	Total Dollar Amount of Credit Allowed This Year
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Process Calendar Year	Number of All Filers	Number of All Claims	Total Dollar Amount of Credit Claimed All Filers	Total Dollar Amount of Credit Allowed This Year
-----------------------	----------------------	----------------------	--	---

1993				
1994	*CONFIDENTIAL			
1995	*CONFIDENTIAL			
1996	*CONFIDENTIAL			
1997	6	15	\$ 264,733	\$ 219,804
1998	8	22	\$ 520,203	\$ 191,556
1999	17	39	\$ 1,342,661	\$ 1,191,973
2000	70	107	\$ 2,090,584	\$ 1,744,275
2001	173	195	\$ 3,995,439	\$ 2,482,076
2002	78	102	\$ 1,250,877	\$ 583,746
TOTAL	352	480	\$ 9,464,497	\$ 6,413,430

1993	*CONFIDENTIAL			
1994	8	58	\$ 3,884,803	\$ 777,454
1995	21	174	\$ 7,058,018	\$ 2,494,560
1996	54	307	\$ 13,871,241	\$ 6,464,213
1997	90	421	\$ 23,269,286	\$ 10,701,816
1998	160	462	\$ 30,402,350	\$ 16,524,833
1999	111	401	\$ 17,815,910	\$ 9,976,855
2000	119	336	\$ 8,615,593	\$ 6,141,504
2001	174	261	\$ 12,290,525	\$ 8,789,253
2002	138	176	\$ 11,408,666	\$ 3,514,203
TOTAL	875	2596	\$ 128,616,392	\$ 63,364,691

1993				
1994				
1995				
1996				
1997	*CONFIDENTIAL			
1998	*CONFIDENTIAL			
1999	*CONFIDENTIAL			
2000	*CONFIDENTIAL			
2001	*CONFIDENTIAL			
2002	*CONFIDENTIAL			
TOTAL				

1993				
1994	8	58	\$ 3,884,803	\$ 777,454
1995	21	174	\$ 7,058,018	\$ 2,494,560
1996	54	307	\$ 13,871,241	\$ 6,464,213
1997	96	436	\$ 23,534,019	\$ 10,921,620
1998	168	484	\$ 30,922,553	\$ 16,716,389
1999	128	440	\$ 19,158,571	\$ 11,168,828
2000	189	443	\$ 10,706,177	\$ 7,885,779
2001	347	456	\$ 16,285,964	\$ 9,251,329
2002	216	278	\$ 12,659,543	\$ 4,097,949
TOTAL	1227	3076	\$ 136,080,889	\$ 69,778,121

*CONFIDENTIAL - This information is confidential as there are less than 5 filers. This information is not included in the total.

h Performance Incentive Program - K.S.A. 74-50,132, 79-32,160a(e)

al - K.S.A. 74-50,132 and 79-32,160a(e)

Training and Education Tax Credit - K.S.A. 74-50,132

Corporate Income Taxpayers - Effective for all taxable years commencing after December 31, 1992
 Income Taxpayers - Effective for all taxable years commencing after December 31, 1997
 Privilege Taxpayers - Effective for all taxable years commencing after December 31, 1997

A qualified firm making a cash investment in the training and education of its employees can receive a credit equal to the portion of the investment in the training and education that exceeds 2% of the businesses total payroll costs.

Investment Tax Credit - K.S.A. 79-32,160a(e)

Income Taxpayers - Effective for all taxable years commencing after December 31, 1992
 Privilege Taxpayers - Effective for all taxable years commencing after December 31, 1992

A credit is available for those qualified firms which make an investment in a qualified business facility. The investment tax credit is 10% of the qualified business facility investment which exceeds \$50,000.

Process Calendar Year	Number of Individual Filers	Number of Individual Claims	Total Dollar Amount of Credit Claimed Individual Filers	Total Dollar Amount of Credit Allowed This Year
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Process Calendar Year	Number of Corporate Filers	Number of Corporate Claims	Total Dollar Amount of Credit Claimed Corporate Filers	Total Dollar Amount of Credit Allowed This Year
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Process Calendar Year	Number of Privilege Filers	Number of Privilege Claims	Total Dollar Amount of Credit Claimed Privilege Filers	Total Dollar Amount of Credit Allowed This Year
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Process Calendar Year	Number of All Filers	Number of All Claims	Total Dollar Amount of Credit Claimed All Filers	Total Dollar Amount of Credit Allowed This Year
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1993				
1994	*CONFIDENTIAL			
1995	6	6	\$ 25,852	\$ 25,852
1996	14	21	\$ 368,197	\$ 352,629
1997	5	12	\$ 470,227	\$ 267,656
1998	*CONFIDENTIAL			
1999	5	28	\$ 1,712,081	\$ 463,631
2000	20	45	\$ 2,179,541	\$ 1,491,236
2001	42	61	\$ 1,831,197	\$ 1,543,959
2002	68	85	\$ 1,911,687	\$ 1,241,651
TOTAL	160	258	\$ 8,498,782	\$ 5,386,614

1993				
1994	*CONFIDENTIAL			
1995	*CONFIDENTIAL			
1996	5	5	\$ 788,050	\$ 345,755
1997	6	10	\$ 688,235	\$ 687,013
1998	5	12	\$ 10,958,357	\$ 1,541,934
1999	7	21	\$ 10,191,732	\$ 3,199,450
2000	12	27	\$ 23,018,662	\$ 8,591,094
2001	23	29	\$ 12,507,999	\$ 8,228,837
2002	27	36	\$ 46,192,314	\$ 30,431,257
TOTAL	85	140	\$ 104,345,349	\$ 53,025,340

1993				
1994				
1995				
1996				
1997				
1998				
1999				
2000				
2001				
2002				
TOTAL				

1993				
1994				
1995	6	6	\$ 25,852	\$ 25,852
1996	19	26	\$ 1,156,247	\$ 698,384
1997	11	22	\$ 1,158,462	\$ 954,669
1998	5	12	\$ 10,958,357	\$ 1,541,934
1999	12	49	\$ 11,903,813	\$ 3,663,081
2000	32	72	\$ 25,198,203	\$ 10,082,330
2001	65	90	\$ 14,339,196	\$ 9,772,796
2002	95	121	\$ 48,104,001	\$ 31,672,908
TOTAL	245	398	\$ 112,844,131	\$ 58,411,954

*CONFIDENTIAL - This information is confidential as there are less than 5 filers. This information is not included in the total.

4-17

Research and Development Credit - K.S.A. 79-32,182

Taxpayers - Effective for all taxable years commencing after December 31, 1986 and prior to January 1, 2001

A taxpayer with qualifying expenditures in research and development activities conducted within Kansas may be eligible to receive a credit of 61/2% of the amount expended for the research.

4-12

Process Calendar Year	Number of Individual Filers	Number of Individual Claims	Total Dollar Amount of Credit Claimed Individual Filers	Total Dollar Amount of Credit Allowed this Year
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Process Calendar Year	Number of Corporate Filers	Number of Corporate Claims	Total Dollar Amount of Credit Claimed Corporate Filers	Total Dollar Amount of Credit Allowed this Year
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Process Calendar Year	Number of Privilege Filers	Number of Privilege Claims	Total Dollar Amount of Credit Claimed Privilege Filers	Total Dollar Amount of Credit Allowed this Year
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Process Calendar Year	Number of All Filers	Number of All Claims	Total Dollar Amount of Credit Claimed All Filers	Total Dollar Amount of Credit Allowed this Year
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1987				
1988				
1989				
1990				
1991				
1992	8	19	\$ 11,413	\$ 11,413
1993	5	27	\$ 21,909	\$ 18,487
1994	8	26	\$ 19,853	\$ 19,853
1995	8	29	\$ 31,747	\$ 28,973
1996	20	30	\$ 44,184	\$ 39,068
1997	*CONFIDENTIAL			
1998	*CONFIDENTIAL			
1999	*CONFIDENTIAL			
2000	8	30	\$ 40,092	\$ 46,510
2001	31	49	\$ 52,639	\$ 69,610
2002	51	55	\$ 37,609	\$ 48,192
TOTAL	139	265	\$ 259,446	\$ 282,106

1987				
1988	*CONFIDENTIAL			
1989	5	24	\$ 390,577	\$ 407,807
1990	11	44	\$ 585,113	\$ 249,737
1991	7	61	\$ 453,879	\$ 440,008
1992	*CONFIDENTIAL			
1993	5	51	\$ 5,960,924	\$ 1,737,379
1994	9	67	\$ 4,742,990	\$ 3,199,219
1995	16	71	\$ 1,099,569	\$ 703,877
1996	13	67	\$ 1,178,337	\$ 846,025
1997	9	61	\$ 2,142,772	\$ 1,243,004
1998	20	65	\$ 3,236,223	\$ 2,428,373
1999	22	66	\$ 3,283,468	\$ 1,354,929
2000	22	54	\$ 26,821,751	\$ 1,061,421
2001	25	54	\$ 8,970,769	\$ 3,538,459
2002	43	53	\$ 11,752,255	\$ 646,085
TOTAL	207	738	\$ 70,618,627	\$ 17,856,323

1987				
1988				
1989				
1990				
1991				
1992				
1993				
1994				
1995				
1996				
1997				
1998				
1999				
2000				
2001				
2002				
TOTAL				

1987				
1988				
1989	5	24	\$ 390,577	\$ 407,807
1990	11	44	\$ 585,113	\$ 249,737
1991	7	61	\$ 453,879	\$ 440,008
1992	8	19	\$ 11,413	\$ 11,413
1993	10	78	\$ 5,982,833	\$ 1,755,866
1994	17	93	\$ 4,762,843	\$ 3,219,072
1995	24	100	\$ 1,131,316	\$ 732,850
1996	33	97	\$ 1,222,521	\$ 885,093
1997	9	61	\$ 2,142,772	\$ 1,243,004
1998	20	65	\$ 3,236,223	\$ 2,428,373
1999	22	66	\$ 3,283,468	\$ 1,354,929
2000	30	84	\$ 26,861,843	\$ 1,107,931
2001	56	103	\$ 9,023,408	\$ 3,608,069
2002	94	108	\$ 11,789,864	\$ 694,277
TOTAL	346	1003	\$ 70,878,073	\$ 18,138,429

*CONFIDENTIAL - This information is confidential as there are less than 5 filers. This information is not included in the total.

ure Captial Credit - K.S.A. 74-8205, 74-8206, 74-8304, 74-8316

I - K.S.A. 74-8205, 74-8206, 74-8316

Kansas Venture Captial, Inc. - K.S.A. 74-8205, 74-8206

Income Taxpayers - Effective for all taxable years commencing after December 31, 1985 and prior to January 1, 1998

Privilege Taxpayers - Effective for all taxable years commencing after December 31, 1985 and prior to January 1, 1998

Change made during the 1998 session to allow a credit for both income and privilege taxpayers for all taxable years commencing after December 31, 1997 until all allowed credits are exhausted.

A 25% income tax credit is allowed for those taxpayers who invest in stock issued by Kansas Venture Captial, Inc.

Certified Kansas Venture Captial Company - K.S.A. 74-8304

Income Taxpayers - Effective for all taxable years commencing after December 31, 1985 and prior to January 1, 1998

A 25% income tax credit is allowed for those taxpayers who invest in stock issued by a certified Kansas venture capital company.

Sunflower Technology Venture LP - K.S.A. 74-8316

Income Taxpayers - Effective for all taxable years commencing after December 31, 1995 and prior to January 1, 2000

A 25% income tax credit is allowed for those taxpayers who make a cash investment in the technology based venture capital company, Sunflower Technology Venture LP.

Process Calendar Year	Number of Individual Filers	Number of Individual Claims	Total Dollar Amount of Credit Claimed Individual Filers	Total Dollar Amount of Credit Allowed this Year
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Process Calendar Year	Number of Corporate Filers	Number of Corporate Claims	Total Dollar Amount of Credit Claimed Corporate Filers	Total Dollar Amount of Credit Allowed this Year
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Process Calendar Year	Number of Privilege Filers	Number of Privilege Claims	Total Dollar Amount of Credit Claimed Privilege Filers	Total Dollar Amount of Credit Allowed this Year
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Process Calendar Year	Number of All Filers	Number of All Claims	Total Dollar Amount of Credit Claimed All Filers	Total Dollar Amount of Credit Allowed this Year
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1986	7	7	\$ 6,846	\$ 6,846
1987	9	15	\$ 22,448	\$ 22,448
1988	30	46	\$ 156,302	\$ 156,302
1989	25	67	\$ 2,249,475	\$ 2,249,475
1990	5	22	\$ 380,712	\$ 380,712
1991	15	15	\$ 106,236	\$ 106,236
1992	7	11	\$ 29,799	\$ 29,799
1993	*CONFIDENTIAL			
1994	*CONFIDENTIAL			
1995	6	9	\$ 128,749	\$ 128,749
1996	5	6	\$ 107,739	\$ 107,739
1997	*CONFIDENTIAL			
1998	*CONFIDENTIAL			
1999	*CONFIDENTIAL			
2000	*CONFIDENTIAL			
2001	18	20	\$ 286,328	\$ 285,749
2002	6	7	\$ 17,082	\$ 31,261
TOTAL	133	225	\$ 3,491,716	\$ 3,505,316

1986				
1987	*CONFIDENTIAL			
1988	*CONFIDENTIAL			
1989	*CONFIDENTIAL			
1990	*CONFIDENTIAL			
1991	*CONFIDENTIAL			
1992	*CONFIDENTIAL			
1993	*CONFIDENTIAL			
1994	*CONFIDENTIAL			
1995	*CONFIDENTIAL			
1996	*CONFIDENTIAL			
1997	*CONFIDENTIAL			
1998	*CONFIDENTIAL			
1999	*CONFIDENTIAL			
2000	*CONFIDENTIAL			
2001	*CONFIDENTIAL			
2002	*CONFIDENTIAL			
TOTAL				

1986				
1987	*CONFIDENTIAL			
1988	9	135	\$ 500,325	\$ 292,451
1989	60	143	\$ 155,607	\$ 296,628
1990	64	69	\$ 145,948	\$ 150,418
1991	34	34	\$ 165,775	\$ 164,013
1992	*CONFIDENTIAL			
1993	*CONFIDENTIAL			
1994	*CONFIDENTIAL			
1995	*CONFIDENTIAL			
1996	*CONFIDENTIAL			
1997	*CONFIDENTIAL			
1998	*CONFIDENTIAL			
1999	*CONFIDENTIAL			
2000	*CONFIDENTIAL			
2001	*CONFIDENTIAL			
2002	*CONFIDENTIAL			
TOTAL	167	381	\$ 967,655	\$ 903,510

1986	7	7	\$ 6,846	\$ 6,846
1987	9	15	\$ 22,448	\$ 22,448
1988	39	181	\$ 656,627	\$ 448,753
1989	85	210	\$ 2,405,082	\$ 2,546,103
1990	69	91	\$ 526,660	\$ 531,130
1991	49	49	\$ 272,011	\$ 270,249
1992	7	11	\$ 29,799	\$ 29,799
1993	*CONFIDENTIAL			
1994	*CONFIDENTIAL			
1995	6	9	\$ 128,749	\$ 128,749
1996	5	6	\$ 107,739	\$ 107,739
1997	*CONFIDENTIAL			
1998	*CONFIDENTIAL			
1999	*CONFIDENTIAL			
2000	*CONFIDENTIAL			
2001	18	20	\$ 286,328	\$ 285,749
2002	6	7	\$ 17,082	\$ 31,261
TOTAL	300	606	\$ 4,459,371	\$ 4,408,826

*CONFIDENTIAL - This information is confidential as there are less than 5 filers. This information is not included in the total.

4-13

2002 EZ LIST BY TYPE OF BUSINESS

4-14

Exemption Certificate Number	County Code	Business Type	SIC	Type of Business	Type of Project	Project Code	Exemption Factor	Construction Costs	Machinery Costs	Total Project Costs	EST Tax Proj Cost	Estimated Tax	County	County Count	Region
											Cost*Factor	4.9% - 5.3%			
				TOTAL HPIP CERTIFIED				\$35,930,102.72	\$92,390,871.00	\$128,798,331.72	\$116,803,649.83	\$5,855,735.08		36	
				TOTAL LESSOR/LESSEE				\$141,475,000.57	\$16,100,000.00	\$208,287,760.57	\$190,069,376.34	\$9,419,483.44		37	
				TOTAL MANUFACTURING				\$105,371,691.59	\$224,545,400.00	\$340,697,947.00	\$241,245,959.00	\$12,581,118.65		114	
				TOTAL NONMANUFACTURING				\$205,515,087.00	\$167,210,415.00	\$319,192,140.00	\$204,669,533.20	\$10,359,794.59		63	
				TOTAL RETAIL				\$15,726,423.00	\$4,173,220.00	\$20,875,741.00	\$13,483,951.00	\$679,473.72		58	
				GRAND TOTAL				\$504,018,304.88	\$504,419,906.00	\$1,017,851,920.29	\$766,272,469.37	\$38,895,605.49		308	
				MANUFACTURING				\$140,981,984.16	\$275,628,668.00	\$429,998,498.57	\$319,739,905.94	\$16,563,643.63		149	
				NONMANUFACTURING				\$327,497,313.96	\$217,307,739.00	\$543,309,819.96	\$418,646,548.38	\$20,901,323.52		88	
				RETAIL				\$35,539,006.76	\$11,483,499.00	\$44,543,601.76	\$27,886,015.06	\$1,430,638.34		71	
				GRAND TOTAL				\$504,018,304.88	\$504,419,906.00	\$1,017,851,920.29	\$766,272,469.37	\$38,895,605.49		308	

2002 EZ LIST BY COUNTY

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Exemption Certificate Number	County Code	Business Type	SIC	Type of Business	Type of Project	Project Code	Exemption Factor	Construction Costs	Machinery Costs	Total Project Costs	EST Tax Proj Cost	Estimated Tax	County	County Count	Region
													4.9% - 5.3%		
Counties with 5 or more filers															
								\$852,462.00	\$591,583.00	\$1,444,045.00	\$1,149,699.00	\$58,472.80	Barton	6	
								\$1,340,000.00	\$522,000.00	\$1,862,000.00	\$1,206,000.00	\$61,122.00	Butler	6	
								\$3,744,000.00	\$17,162,488.00	\$20,956,488.00	\$13,575,688.00	\$707,975.11	Crawford	12	
								\$20,044,792.00	\$16,902,334.00	\$40,945,750.00	\$25,902,550.00	\$1,370,044.15	Douglas	7	
								\$488,000.00	\$512,000.00	\$1,000,000.00	\$818,000.00	\$41,970.00	Harvey	5	
								\$87,410,564.72	\$99,689,383.00	\$127,094,218.72	\$95,621,570.43	\$4,922,447.47	Johnson	57	
								\$466,200.00	\$589,800.00	\$1,311,000.00	\$837,000.00	\$44,361.00	Lynn	5	
								\$1,390,455.00	\$18,309,131.00	\$22,294,586.00	\$21,610,164.00	\$1,120,445.18	Montgomery	9	
								\$14,583,000.00	\$6,582,000.00	\$15,665,000.00	\$9,855,000.00	\$507,455.00	Osborne	6	
								\$1,864,625.00	\$751,600.00	\$2,616,225.00	\$2,116,225.00	\$106,955.93	Reno	7	
								\$207,151,916.59	\$71,361,375.00	\$322,854,230.00	\$266,499,430.00	\$13,104,424.07	Sedgwick	33	
								\$58,527,000.00	\$97,167,897.00	\$162,074,397.00	\$119,827,997.00	\$6,169,490.25	Shawnee	16	
								\$1,527,000.00	\$772,000.00	\$2,299,000.00	\$1,505,400.00	\$78,864.60	Sheridan	6	
								\$12,103,100.00	\$18,980,491.00	\$33,396,491.00	\$26,596,491.00	\$1,345,611.53	Wyandotte	15	
Total								\$411,493,115.31	\$349,894,082.00	\$755,813,430.72	\$587,121,214.43	\$29,639,639.08		190	
Counties with less than 5 filers															
								\$92,525,189.57	\$154,525,824.00	\$262,038,489.57	\$179,151,254.94	\$9,255,966.41			\$118.00
GRAND TOTAL								\$504,018,304.88	\$504,419,906.00	\$1,017,851,920.29	\$766,272,469.37	\$38,895,605.49		\$308.00	

Senate Commerce Committee
Testimony of Charles Ranson, President
Kansas, Inc.
4 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 guesstimate 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.

Senate Commerce Committee

2-4-03
Attachment 5-1

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) _____

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.)
- | | |
|---|--|
| <input type="checkbox"/> Job Expansion and Investment Credit Act – Tax Credit | <input type="checkbox"/> Kansas Enterprise Zone Act – Tax Credit |
| <input type="checkbox"/> Research and Development Credit | <input type="checkbox"/> Kansas Venture Capital and Seed Capital Credits |
| <input type="checkbox"/> HPIP Workforce Training and Education Tax Credit | <input type="checkbox"/> HPIP Investment Credit |
| <input type="checkbox"/> Kansas Enterprise Zone Act – Sales Tax Exemption | <input type="checkbox"/> 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

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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.