

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on January 27, 2005 in Room 123-S of the Capitol.

All members were present except:

Jim Barone- excused

Committee staff present:

Susan Kannarr, Kansas Legislative Research Department

Kathie Sparks, Kansas Legislative Research Department

Helen Pedigo, Revisor of Statutes

Jackie Lunn, Committee Secretary

Conferees appearing before the committee:

Secretary Joan Wagon, Department of Revenue

Others attending:

See attached list.

Chairperson Brownlee opened the meeting by recognizing Senator Jordan. Senator Jordan introduced two bills to the Committee. One was a science and math bill and the other was to start an academy of math and science in the state of Kansas. Senator Emler moved to introduce the bills. Senator Reitz seconded. Motion carried.

Chairperson Brownlee opened a discussion with the Committee on the new mission statement for the Senate Commerce Committee 2005 session. (Attachment 1) Chairperson Brownlee read the mission statement. "Create a vision and environment to grow all aspects of the Kansas Economy through: job creation, support of existing business and support of new business and entrepreneurship, with effective policy, and with oversight and evaluation of implementation. The Committee also discussed the goals.

Chairperson Brownlee introduced Secretary Joan Wagon of the Department of Revenue. Secretary Wagon introduced some of her staff that was attending the meeting. Secretary Wagon stated there was a need to develop better tools to track tax incentives. Secretary Wagon offered a report entitled "Kansas Department of Revenue , Analysis of Corporate Income Tax 2-000-02 Executive Summary". (Attachment 2) and a letter from the Kansas Department dated October 13, 2004. (Attachment 3) She also offered the "Tax Expenditure Report Calendar Year 2003" (Attachment 4) and "Tax Year 2002 Kansas Department of Revenue Tax Credits". (Attachment 5) Secretary Wagon reviewed the "Analysis of Corporate Income Tax 2000-2002 Executive Summary with the Committee". There was discussion on the "Tax Year 2002 Kansas Department of Revenue Tax Credits" this report is process years. Discussion continued with the comparison of the charts in the Analysis of Corporate Income Tax 2000-2002 versus the information on the Tax Year 2002 Kansas Department of Revenue Tax "Credits". Secretary Wagon stated **SB 13** would allow the exchange of information for more accurate reports. The discussion continued on tax credits and corporate income tax. Secretary Wagon continued her review of the reports with the Committee. There was more discussion on the tax credits. Secretary Wagon stated with the Department of Revenue and Department of Commerce working together will be to everyone's benefit. More discussion continued on the information needed by the Legislature to get a clear and factual picture of the Kansas economy. Secretary Wagon stated if they could get a clear picture of what reports the Legislature needed the Department of Commerce and Department of Revenue will strive to work together to produce the reports.

Chairperson Brownlee adjourned the meeting at 9:32 a.m. with the next meeting scheduled for Friday, January 28, 2005 at 8:30 a.m. in room 123S.



Synopsis and Report

Mission Statement and Goal Development Session
Kansas Senate Commerce Committee
January 20-21, 2005

Presented to:

Hon. Karin Brownlee, Co-Chair

Hon. Nick Jordan, Co-Chair

Hon. Laura Kelly

Hon. Jim Barone

Hon. Jay Scott Emler

Hon. Susan Wagle

Hon. David Wysong

Hon. Jean Kurtis Schodorf

Hon. Roger Reitz

Submitted by:
Michael Ashcraft
Jim Brown

Senate Commerce Committee

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Attachment 1-1

Page 2.

Dear Senators:

We enjoyed the opportunity to work with the Commerce Committee, and we applaud your efforts to set a positive and strategic course for your committee. Your stewardship is appreciated.

The attached report provides the transcription of your efforts, our effort to capture your thoughts on a mission statement, and the results of the goal setting exercise.

It has been our privilege to work with you, and please feel free to let us know if we can answer any questions or be of further assistance.

Sincerely,
Michael Ashcraft
Master Facilitator

Jim Brown
Master Facilitator

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Attachment 1-d

Original Mission Statement Synopsis

Grow (Create an environment to grow) all aspects (rural, urban, business, workforce/labor) of the Kansas economy through

- *Job creation*
- *Supporting existing businesses*
- *Supporting new businesses*

and with effective policy, oversight, evaluation and (implementation).

Revised Mission Statement Synopsis

Create a vision and environment to grow all aspects of the Kansas economy through:

- **job creation,**
 - **support of existing business, and**
 - **support of new business and entrepreneurship,**
- with effective policy, and with oversight and evaluation of implementation.**

Goal Setting Brainstorm Ideas—before polling
1/21/05

- A) Create a climate for supporting military development for bases in Kansas
- B) Continue to support initiatives set forth which include the Kansas Economic Growth Act
- C) Evaluate programs in place
- D) Understand how tax policy impacts the economy and job growth
- E) Support recreation and tourism of state
- F) Focus on rural economic development
- G) Fishing/lake development
- H) Responsive to work environment needs—(prompt pay bill, workers comp)
- I) Unemployment
- J) Better understanding of Kansas economy and trends
- K) IKE—Indicators of Kansas Economy (Federal Reserve)
- L) Make it easier form a state level for businesses to succeed (one stop shop)
- M) Facilitate health care affordability
- N) Need more money coming into state coffers. What do we do to make this happen? (New money into Kansas)
- O) Maintain Kansas' reputation as business friendly and enhance
- P) Stop the brain drain—keep talent in Kansas—bring others in
- Q) Better understanding of agriculture economy
- R) Ways to obtain discretionary money within the state
- S) Cooperate/coordinate with tax committee
- T) Jobs with meaningful wages and health care
- U) Partner with universities—“think tank”

Individual Polling Transcription

- 1) D,N
- 2) P,K
- 3) H,A

- 1) C,B
- 2) A,U
- 3) E,O

- 1) A,R
- 2) N,B
- 3) P,E

- 1) B,O
- 2) C,J (incl, K)
- 3) F,H

- 1) O,D/J (same)
- 2) B,U
- 3) T,P

Using these polling results, the top two from each transcript were used to tabulate the results. Please see below:

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Attachment 1-5

Brain Storming Ideas—Polled and Weighted

- 1) Green First Priority 3 weight
- 2) Orange Second Priority 2 weight
- 3) Red Third Priority 1 weight

Score	Green	Orange	Red	Idea
10	2	2	0	B. Continue to support initiatives set forth which include KEGA
7	2	0	1	O. Maintain Kansas' reputation as business friendly and enhance
6	1	1	1	A. Create a climate for supporting military development for bases in Kansas
6	2	0	0	D. Understand how tax policy impacts the economy and job growth
5	1	1	0	C. Evaluate programs in place
5	1	1	0	N. Need more money coming into state coffers. What do we do to make this happen? (New money into Kansas)
4	0	1	2	P. Stop the brain drain—keep talent in Kansas—bring others in
4	0	2	0	U. Partner with universities – “think tank”
3	1	0	0	R. Ways to obtain discretionary money within state
2	0	0	2	E. Support recreation and tourism of state
2	0	0	2	H. Responsive to work environment needs—(prompt pay bill, workers comp)
2	0	1	0	J. Better understanding of Kansas Economy and Trends
2	0	1	0	K. IKE—Indicators of Kansas Economy (Federal Reserve)
1	0	0	1	F. Focus on rural economic development
1	0	0	1	T. Jobs with meaningful wages and health care
0	0	0	0	G. Fishing/lake development
0	0	0	0	I. Unemployment
0	0	0	0	L. Make it easier from a state level for businesses to succeed (one stop shop)
0	0	0	0	M. Facilitate health care affordability
0	0	0	0	Q. Better understanding of agriculture economy
0	0	0	0	S. Cooperate/coordinate with Tax Committee

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Attachment 1-6

**Commerce Committee
Mission Exercise Transcription
January 20, 2005**

Value of a Mission:

- A. Focus on how to improve things in certain in rural Kansas
- B. It will help focus on what Commerce does and learn more about what committee has done in past
- C. We all come from different districts and represent different districts.
- D. Focus and setting priorities
- E. Look in past...don't forget about the past...don't loose sight of that
- F. Emphasis economy...broaden scope
- G. Be responsive to constituency and citizens...things will arise that they don't anticipate
- H. Focus big picture, mission

What is this passage saying?

- A. Agrees with what they said, but they don't message environment
- B. Environment means business environment
- C. Environment means environment
- D. Committee will not have time to address environmental issues
- E. Those issues are given by leadership, and don't come to this committee
- F. Help Kansans make more money
- G. Encourage new ideas and industry
- H. Encourage new industry/new business in areas of need (underperforming areas)
- I. Diversify
- J. Help large and small industries

What doesn't make sense to you?

- A. Environmental reference

What is missing?

- A. Not perfect, it has environment in it
- B. Safety should be in there (work safety)
- C. Doesn't address workforce development
- D. So much emphasis on entrepreneurship
- E. In sentence

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What is your mission?

- A. To grow the economy through creating a business environment that allows start-up and current businesses to grow
- B. To work toward increasing economic opportunities in the state
- C. Create more jobs, more job choice
- D. Develop better word than create
- E. Balanced approach to business components
- F. Vibrant business climate, growing personal wealth and business wealth
- G. Include vision...not what is, but what could be...short-term/long-term approach
- H. Improve what's been done. Continue to develop existing initiatives
- I. Evaluation/oversight
- J. Implement policies

Themes:

Promotes growth

Growing the economy

Facilitate the economy

Do it through policy

Improve and support what we've done...oversight/evaluation

Past future

Jordan: Growing creating growth, jobs, policy, evaluation, policy

Growing the Kansas Economy through creating opportunities for business and jobs, rural and urban,

Growing entire Kansas economy...what we have...what we could have

Grow (Create an environment to grow) all aspects (rural, urban, business, workforce/labor) of the Kansas economy through job creation, through supporting existing business, through supporting new business, with effective policy, oversight, evaluation and (implementation)

Creating a vision for new initiatives including

Supporting new business and entrepreneurship

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Attachment 1-8



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
POLICY AND RESEARCH

KATHLEEN SEBELIUS, GOVERNOR

October 15, 2004

Analysis of Kansas Corporate Income Tax 2000-2002

This Analysis focused on the Kansas corporate income tax during tax years 2000, 2001 and 2002 and the impact of the 4 largest business income tax credit incentive programs on corporate income tax receipts, in an effort to determine how the corporate income tax burden falls within various industry sectors. It also examined employment data concerning the largest tax credit claimants, in order to determine whether any correlation exists between improved employment performance and tax credits, in comparison to employment data for the Kansas economy as a whole during 2000 to 2003. The 2001 recession and aftermath of 9/11 dominated this time period. The Analysis did not consider other taxes, such as individual income, sales or property tax, or other business tax incentive programs, such as STAR bonds, local property tax exemptions, or the enterprise zone sales tax exemption.

Historical Background

The Kansas corporate income tax has been in place since 1933, initially at a rate of 2% of Kansas taxable income. The rate has been increased several times over the years, and was last raised in 1992, when the current rate structure was adopted: the 4% rate on Kansas taxable income, with a surtax of 3.35% on Kansas taxable income above \$50,000. This 7.35% marginal rate on Kansas taxable income above \$50,000 is typical of rates in many states, but higher than the corporate income tax rates in three neighboring states, including: Colorado (4.63%); Missouri (6.25%); and Oklahoma (6%). It is lower than the corporate income tax rate in Nebraska (5.58% on first \$50,000; 7.81% marginal on income above \$50,000).

Most states impose some type of corporate income tax. Only Nevada, South Dakota, Washington, and Wyoming do not (although Washington imposes a "business and occupations" tax).

Recent History of Corporate Income Tax Receipts

Annual Kansas corporate income tax receipts (by fiscal year) since 1981 are shown below:

Fiscal Year	Amount Collected	Percent Change
1981	\$161,967,709	
1982	\$146,823,052	-9.4%
1983	\$122,831,287	-16.3%
1984	\$120,993,044	-1.5%

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Attachment 2-1

1985	\$141,957,298	17.3%
1986	\$135,818,461	-4.3%
1987	\$104,632,665	-23.0%
1988	\$171,437,706	63.8%
1989	\$172,927,488	0.9%
1990	\$167,600,876	-3.1%
1991	\$185,319,680	10.6%
1992	\$169,118,247	-8.7%
1993	\$169,118,153	0.0%
1994	\$211,953,103	25.3%
1995	\$229,421,376	8.2%
1996	\$218,586,552	-4.7%
1997	\$263,573,332	20.6%
1998	\$281,651,300	6.9%
1999	\$227,369,923	-19.3%
2000	\$250,122,826	10.0%
2001	\$211,906,919	-15.3%
2002	\$93,958,484	-55.7%
2003	\$105,222,316	12.0%
2004	\$141,173,000	34.2%

Although the bottom fell out of corporate income tax receipts in FY 2002, the recent trend is encouraging. FY 2004 corporate income tax receipts exceeded the April 2004 Consensus Revenue Estimate (\$125 million) by 12.9% and were 34.2% above the prior year's receipts. Thus far in FY 2005, corporate income tax receipts of \$52.9 million through the end of September are 62.8% above the April 2004 Consensus Revenue Estimate and 45.9% above actual corporate income tax receipts for this same time period last year.

Despite the recent upturn, the long term trend for corporate income tax receipts reflects significant shrinkage of the tax base—even though tax rates have remained unchanged since 1992. Receipts for FY 2004 are below receipts for FY 1981 and are barely half of the receipts for the peak year, FY 1998.

Corporate income tax receipts account for a much smaller portion of total state taxes collected by the department and deposited in the state general fund than they did even a decade ago. For FY 1991, corporate income tax receipts accounted for 8.4% of the total state taxes collected by the department and deposited in the state general fund. For FY 2003, corporate income tax receipts accounted for only 2.6% of total state taxes collected by the department and deposited in the state general fund.

The pie graphs at Chart 1 (attached) (comparing state and local tax revenue by source for FY 1998 to the same for FY 2003) show that income (individual and corporate) and privilege taxes have become a smaller portion of total state and local tax base in recent years. For FY 2003, property and vehicle taxes accounted for 34.7 percent of state and local tax revenues; sales and use taxes, 27.8 percent, and income and privilege taxes, 21.8 percent. As noted in 2003 Supplement to Kansas Tax Facts:

The relative balance in the big three sources of state and local tax revenue—sales, income, and property—that Kansas had achieved for a number of years after the 1992 school finance law appears to be eroding. . . . As recently as

FY 1998, the figures were much more closely balanced: 30.9 percent for property and vehicles; 28.1 percent for sales and use; and 28.0 percent for income and privilege.

Economists generally believe that with a diversified revenue portfolio not relying too heavily on a single source, Kansas state and local governments are better able to withstand economic downturns.

Distribution of Corporate Income Taxpayers

The department receives approximately 25,000 to 30,000 corporate income tax returns per year. Most of those returns reflect zero tax liability. The largest 200 corporations account for almost three-fourths of the corporate income tax revenue, as shown below (statistics taken from the department's Annual Reports for FY 2001, FY 2002 and 2003). As shown below, this distribution pattern has remained fairly consistent over many years.

Corporate Income Tax Liability By Taxable Income Bracket

Tax Year 2001 Returns Filed In Calendar Year 2002				
Taxable Income Brackets	Number Returns	Percent of Total Returns	Tax Liability	Percent of Total Liability
No Taxable Income	13,975	60.3%	\$ 0	0.0%
\$0 - \$75,000	7,834	33.8%	\$ 6,051,308	8.7%
\$75,000.01 - \$100,000	371	1.6%	\$ 1,704,346	2.4%
\$100,000.01 - \$500,000	743	3.2%	\$ 9,917,859	14.3%
\$500,000.01 - \$1,000,000	112	0.5%	\$ 5,475,153	7.9%
\$1,000,000.01 - Over	<u>125</u>	<u>0.5%</u>	<u>\$46,438,219</u>	<u>66.7%</u>
Total	23,160	100.0%	\$69,586,885	100.0%

Tax Year 2000 Returns Filed In Calendar Year 2001				
Taxable Income Brackets	Number Returns	Percent of Total Returns	Tax Liability	Percent of Total Liability
No Taxable Income	18,025	60.4%	\$ 0	0.0%
\$0 - \$75,000	9,550	32.0%	\$ 7,437,981	4.3%
\$75,000.01 - \$100,000	466	1.6%	\$ 2,162,361	1.2%
\$100,000.01 - \$500,000	1,226	4.1%	\$ 17,989,315	10.3%
\$500,000.01 - \$1,000,000	230	0.8%	\$ 11,676,780	6.7%
\$1,000,000.01 - Over	<u>329</u>	<u>1.1%</u>	<u>\$135,700,416</u>	<u>77.6%</u>
Total	29,826	100.0%	\$174,700,416	100.0%

Tax Year 1989 Returns Filed in Calendar Year 1990				
Taxable Income Brackets	Number Returns	Percent of Total Returns	Tax Liability	Percent of Total Liability
No Taxable Income	20,022	58.3%	\$ 0	0.0%
\$0 - \$25,000	8,219	25.2%	\$ 2,775,067	2.2%
\$25,000.01 - \$50,000	2,036	6.3%	\$ 3,834,025	3.1%
\$50,000.01 - \$75,000	1,097	3.1%	\$ 3,880,877	2.9%
\$75,000.01 - \$100,000	561	1.7%	\$ 2,929,035	2.4%
\$100,000.01 - \$500,000	1,178	3.8%	\$ 16,367,577	13.6%
\$500,000.01 - Over	<u>468</u>	<u>1.5%</u>	<u>\$ 93,003,841</u>	<u>75.8%</u>
Total	33,581	100.0%	\$ 122,790,422	100.0%

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Corporate Income Tax Credits

"Both tax exemptions and tax-deductibility are a form of subsidy that is administered through the tax system. A tax exemption has much the same effect as a cash grant to the organization of the amount of tax it would have to pay on its income. Deductible contributions are similar to cash grants of the amount of a portion of the individual's contributions." *Regan v. Taxation With Representation of Washington*, 461 U.S. 540, 544 (1983). Tax credits, like exemptions and deductions, are also a form of subsidy. During the 1990's, several business-oriented tax credit programs were either expanded or created, the most significant in size being the business and job development (B&J) credit, high performance incentive program (HPIP) credit, research and development (R&D) credit, and business machinery and equipment property tax (B M&E) credit. The first three tax credits listed are non-refundable (i.e., the taxpayer must have sufficient tax liability to offset the credit claim), and the last, the business machinery and equipment property tax credit, is refundable—even when there is no tax liability. Non-refundable credits exceeding the taxpayer's liability can be carried forward and claimed in future years, subject to certain constraints and time limits. The tax credit programs are described in Appendix A.

These credit programs were designed to favor capital-intensive, higher wage-paying businesses, such as manufacturers. Corporations availing themselves of these credits must make significant capital investments, hire additional employees, pay higher wages, or all of the above.

Table 1 shows that total corporate credit claims for the largest 4 tax credit programs have increased dramatically in recent years. It provides data on the amount of and number of corporate taxpayers claiming the B&J credit, HPIP credit, R&D credit, and B M&E credit claimed from process year (calendar year during which the return was processed, which is generally the calendar year following the tax year of the return) 1994 through process year 2002. The total credits allowed increased from \$18.5 million in process year 1997 to \$54.1 million in process year 2002. Corporate income tax receipts declined significantly during much of this time period.

Table 1

HPIP TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS		
HPIP	Filers	Credit Allowed
PY 1994	*confidential	
PY 1995	5	\$163,733
PY 1996	6	\$345,755
PY 1997	12	\$884,455
PY 1998	13	\$2,919,924
PY 1999	20	\$4,814,076
PY 2000	29	\$11,019,194
PY 2001	33	\$10,770,156
PY 2002	39	\$20,297,734
Total	157	\$51,215,027

BUSINESS & JOB DEVELOPMENT TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS		
B&J	Filers	Credit Allowed
PY 1994	392	\$9,737,422
PY 1995	515	\$9,972,855
PY 1996	619	\$11,910,471
PY 1997	633	\$16,384,465
PY 1998	630	\$24,981,586
PY 1999	508	\$14,757,102
PY 2000	404	\$11,261,171
PY 2001	392	\$13,286,971
PY 2002	329	\$14,076,006
Total	4,422	\$126,368,049

BUSINESS MACHINERY & EQUIPMENT TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS		
M&E	Filers	Credit Allowed
PY 1994		
PY 1995		
PY 1996		
PY 1997		
PY 1998		
PY 1999	2,509	\$3,784,307
PY 2000	3,486	\$10,453,217
PY 2001	4,156	\$14,464,830
PY 2002	4,450	\$18,771,538
Total	14,601	\$47,473,892

RESEARCH & DEVELOPMENT TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS		
R&D	Filers	Credit Allowed
PY 1994	61	\$3,199,219
PY 1995	68	\$704,701
PY 1996	58	\$846,025
PY 1997	57	\$1,243,004
PY 1998	58	\$2,428,084
PY 1999	52	\$1,354,640
PY 2000	48	\$1,061,975
PY 2001	47	\$3,597,764
PY 2002	59	\$997,203
Total	508	\$15,432,615

TOTAL CREDIT ALLOWED - CORPORATE INCOME TAX FILERS

	HPIP	B&J	M&E	R&D	Total
PY 1994	*confidential	\$9,737,422		\$3,199,219	12,936,641
PY 1995	\$163,733	\$9,972,855		\$704,701	10,841,289
PY 1996	\$345,755	\$11,910,471		\$846,025	13,102,251
PY 1997	\$884,455	\$16,384,465		\$1,243,004	18,511,924
PY 1998	\$2,919,924	\$24,981,586		\$2,428,084	30,329,594
PY 1999	\$4,814,076	\$14,757,102	\$3,784,307	\$1,354,640	24,710,125
PY 2000	\$11,019,194	\$11,261,171	\$10,453,217	\$1,061,975	33,795,557
PY 2001	\$10,770,156	\$13,286,971	\$14,464,830	\$3,597,764	42,119,721
PY 2002	\$20,297,734	\$14,076,006	\$18,771,538	\$997,203	54,142,481
Total	51,215,027	\$126,368,049	47,473,892	\$15,432,615	240,489,583

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The B M&E credit, the only refundable credit of the 4 credit programs, has a large number of corporate claimants: 4,450 corporate claimants in process year 2002, with \$18.8 million in B M&E credits allowed during process year 2002. The B M&E credit is not the largest corporate tax credit program. In process year 2002, \$20.3 million in HPIP credits were allowed to 39 corporations. Of the 4 credit programs, HPIP, the largest monetarily, was claimed by the smallest number of corporate taxpayers. The B&J credit was claimed by 329 corporations, and the R&D credit was claimed by 59 corporations in process year 2002. Depending on the circumstances, a corporation may claim several, if not all 4 of these credits in one tax year.

Corporate Income Tax Burden

In order to determine how much impact these tax credit programs have on the corporate income tax burden, the department reviewed corporate income tax returns for tax years 2000, 2001 and 2002 and developed a sample database containing taxpayer information extracted from actual returns of corporations. Corporations in the top 100 in Kansas income tax liability (measured before credits are applied) in each of those three tax years were included. Based on information received from the Department of Commerce, corporations among the top 100 employers in Kansas (based on number of employees) were also included in the database. The total amount of companies included in the sample was 250. These large corporations account for approximately three-fourths of the corporate income tax base. The North American Industry Classification System (NAICS) code, Kansas taxable income, Kansas corporate income tax liability before credits, credits claimed, and the net tax receipts after credits for tax years 2000, 2001 and 2002 for each of these corporations were captured in the database.

Table 2 summarizes the results by NAICS code categories (using the first 2 digits of the NAICS code). The number of corporations included in each NAICS code category is shown in parenthesis in the first column. According to NAICS, the manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances or components into new products. The retail trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.

Table 2. Tax and credits Statistics by Industry from a Sample of Top 200 Corporations from Tax Year 2000 to Tax Year 2002.

Industry (# of corporations)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	Property Tax Refund	Total Other Ref Credits	Net Receipts	Payment Percentage
Mining (8)	\$18,112,767	\$11,000	\$0	\$0	\$0	\$132,917	\$0	\$17,968,850	99.21%
Utilities (5)	\$11,067,425	\$287,225	\$0	\$0	\$231,725	\$12,588	\$46,024	\$10,721,588	96.88%
Manufacturing (58)	\$106,017,045	\$43,477,139	\$15,534,381	\$6,426,435	\$22,151,467	\$13,460,663	\$732,800	\$48,346,443	45.60%
Wholesale Trade (44)	\$42,696,065	\$5,275,178	\$4,279,126	\$627,929	\$265,623	\$2,152,127	\$76,065	\$35,192,695	82.43%
Retail Trade (40)	\$67,150,276	\$9,121,169	\$5,076,413	\$0	\$1,334,017	\$2,513,120	\$189,306	\$55,326,681	82.39%
Transportation and Warehousing (7)	\$16,799,674	\$1,102,070	\$841,938	\$0	\$224,632	\$1,551,930	\$81,250	\$14,064,423	83.72%
Information (16)	\$30,981,962	\$1,117,749	\$545,699	\$61,548	\$500,502	\$5,339,965	\$1,228,587	\$23,295,661	75.19%
Finance and Insurance (16)	\$18,601,663	\$1,339,593	\$32,000	\$0	\$0	\$45,545	\$1,250	\$17,215,275	92.55%
Professional and Technical Services (11)	\$6,764,612	\$49,281	\$48,970	\$311	\$0	\$118,724	\$0	\$6,596,607	97.52%
Management of Companies and Enterprises (10)	\$17,947,926	\$480,650	\$242,550	\$0	\$0	\$361,265	\$0	\$17,106,011	95.31%
Accommodation and Food Services (6)	\$6,076,907	\$432,019	\$88,280	\$0	\$0	\$97,752	\$14,279	\$5,532,857	91.05%
Others (29)	\$15,320,818	\$3,218,822	\$1,465,082	\$0	\$1,280,577	\$878,537	\$700	\$11,222,759	73.25%
Total (250)	\$357,537,139	\$65,911,895	\$28,154,439	\$7,116,223	\$25,988,543	\$26,665,133	\$2,370,261	\$262,589,850	73.44%

Table 2 shows wide disparity between the various industry sectors in net tax receipts (after credits are taken) vs. tax liability measured before credits are taken (directly proportional to Kansas taxable income). The "payment percentage" column shown above reflects the percent of tax liability (measured before credits are taken) actually paid after credits were applied to reduce tax liability. Manufacturers have by far the lowest tax payment percentage rate at 45.60%.

Charts 2 and 3 (attached) show that although manufacturers represent the largest portion of Kansas tax liability before credits (and Kansas taxable income) in the sample, retail trade represents the largest portion of net taxes paid after credits are taken. Manufacturers are clearly best situated to take advantage of the largest tax credit programs. Charts 2 and 3 graphically display the information in Table 2. Chart 2 shows the percentage of total Kansas income tax liability (measured before credits are taken) attributable to each industry sector in the sample. Chart 3 shows the percentage of total net tax receipts (taxes paid after credits were taken) attributable to each industry sector in the sample.

Within this sample of 250, the Analysis looked at the group of top 20 corporations that claimed the most B&J credits during tax years 2000, 2001 and 2002. Some corporations appeared in the group of top 20 B&J credit claimants in more than 1 tax year. This group totalled 58 corporations. These corporations also claimed large portions of the other credits, but the ranking was based on the B&J credits claimed. The corporations in this group were divided into 2 broad categories by NAICS code: manufacturing/transportation/warehousing and retail/wholesale/other. The effective tax rate for each corporation was computed, as well as the average effective tax rate for each of the two categories. The results are shown below.

Top 20 B & J Credit Claimants

Tax Year 2000

5 in Manufacturing/Transportation/Warehousing
 Total Taxable Income: \$208.8 million
 Total Net Tax: \$4.375 million
 Ave. Effective Tax Rate: 2.1%
 Range: .88% to 5.44%

15 in Retail/Wholesale/Other
 Total Taxable Income: \$436 million
 Total Net Tax: \$24.4 million
 Ave. Effective Tax Rate: 5.6%
 Range: .27% to 7.07%

Tax Year 2001

10 in Manufacturing/Transportation/Warehousing
 Total Taxable Income: \$257 million
 Total Net Tax: \$3.19 million
 Ave. Effective Tax Rate: 1.2%
 Range: -1.3% to 5.16%
 (5 with refunds or zero taxes)

10 in Retail/Wholesale/Other
 Total Taxable Income: \$281 million
 Total Net Tax: \$17 million
 Ave. Effective Tax Rate: 6%
 Range: -1.9% to 7%
 (1 with refund)

Tax Year 2002

9 in Manufacturing/Transportation/Warehousing
 Total Taxable Income: \$169 million
 Total Net Tax: \$4.37 million
 Ave. Effective Tax Rate: 2.59%
 Range: -1.8% to 6.34%
 (4 with refunds or zero taxes)

11 in Retail/Wholesale/Other
 Total Taxable Income: \$82 million
 Total Net Tax: \$3.385 million
 Ave. Effective Tax Rate: 4.14%
 Range: .02% to 6.13%

The results show a wide disparity between the average effective tax rate paid by the manufacturing/transportation/warehousing category vs. the retail/wholesale/other category. There is also wide disparity in effective tax rates paid by individual corporations within each category. For example, in tax year 2002, the 9 corporations in the manufacturing/transportation/warehousing category had an average effective tax rate of 2.59%, although within that category, the effective tax rate ranged from -1.8% to 6.34%, with 4 either receiving refunds or with zero net tax liability. Of the 11 corporations in the retail/wholesale/other category in tax year 2002, the average effective tax rate was 4.14%, although within that category, the effective tax rate ranged from .02% to 6.13%.

Table 3 compares the manufacturing firms and retail firms within this group of 58 corporations included in the "top 20" in B & J credit claimants for tax years 2000, 2001 and 2002. The amount of tax liability (measured before credits are taken), credits and net receipts for all three tax years for manufacturing and retail firms in the group are listed. Of the 58 corporations in the group, 13 were manufacturing corporations and 9 were retail trade corporations. The "total" row at the bottom sums the information not only for these 13 manufacturers and 9 retailers, but also the rest of the 58 corporations in the group.

Table 3. Summary information for the Corporations that claimed most B&J Credits in TY 2000, 2001 and 2002

Sector (# of sample)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	B M & E	Total Ref. Credits	Net Receipts	Percent- age*
Manufacture (13)	\$43,405,188	\$29,235,951	\$14,965,331	\$5,990,066	\$8,192,460	\$3,567,459	\$298,675	\$10,303,103	23.74%
Retail Trade (9)	\$25,096,141	\$4,684,763	\$4,684,763	\$0	\$0	\$388,165	\$0	\$20,023,213	79.79%
Total (58)	\$103,582,994	\$42,709,553	\$26,977,254	\$6,543,973	\$8,990,232	\$5,347,514	\$359,019	\$55,166,908	53.26%

*Percentage = (Net Receipts/Total Tax Liability).

Table 3 shows that manufacturing firms succeeded in offsetting much of their tax liability with credits, owing only 24% of the amount of their tax liability measured before credits were applied, while retailers offset a much smaller portion of their tax liability, still owing about 80% of the amount their tax liability measured before credits. The average payment percentage for all 58 corporations in this group of largest B&J credit claimants is about 53%. The manufacturing corporations in the group also claimed the largest amounts of refundable and non-refundable credits from the other tax credit programs.

The Kansas Economy—Retail Sector Compared to Manufacturing Sector

As discussed above, based on the sample database of large corporations, the manufacturing sector enjoys a lower effective tax rate than other sectors of the economy, as a result of tax credits. In the last decade, and in particular since the 2001 recession and 9/11, the United States manufacturing sector has been shrinking. Kansas is no exception. The two charts below provide historical employment information for various sectors of the Kansas economy.

Chart 4 compares the Kansas civilian labor force to aggregate employment and private sector employment from 1990 through 2003. The civilian labor force represents persons either in the workforce or actively looking for work. The difference between the civilian labor force line and the aggregate employment line represents unemployment. The difference between the aggregate employment line and the private sector line reflects public sector employment. After steadily increasing during the 1990's and into 2000, the civilian labor force and aggregate employment experienced significant drop-offs beginning in late 2000 through early 2002 and

Senate Commerce Committee

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then steadily increased. Private sector employment also steadily increased during the 1990's, but reached a plateau in 2000 and then declined through 2003.

Chart 4. Kansas Civilian Labor Force, Total Employment and Employment in Private Sector, 1990-2003

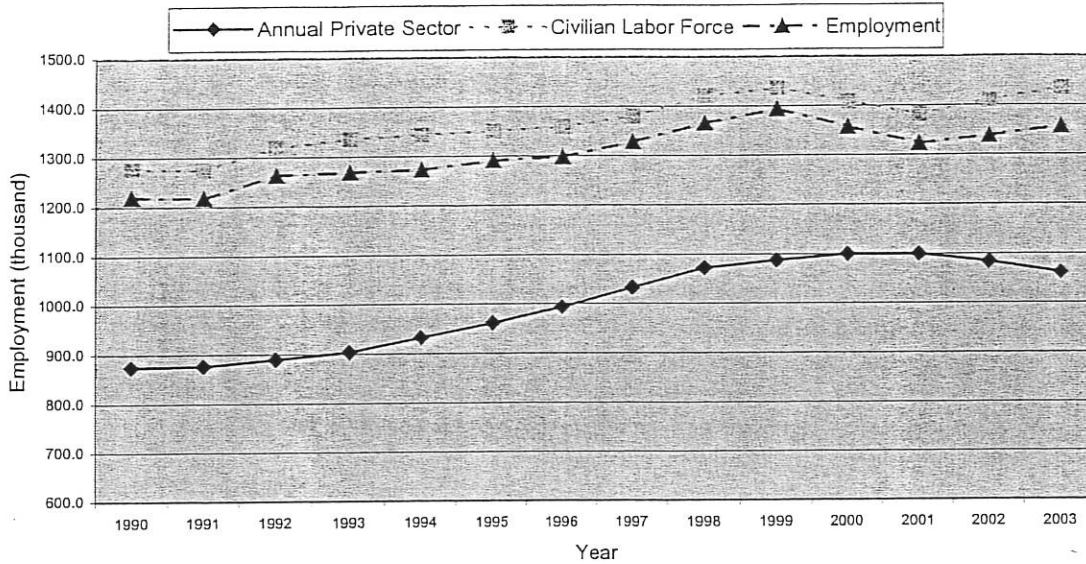


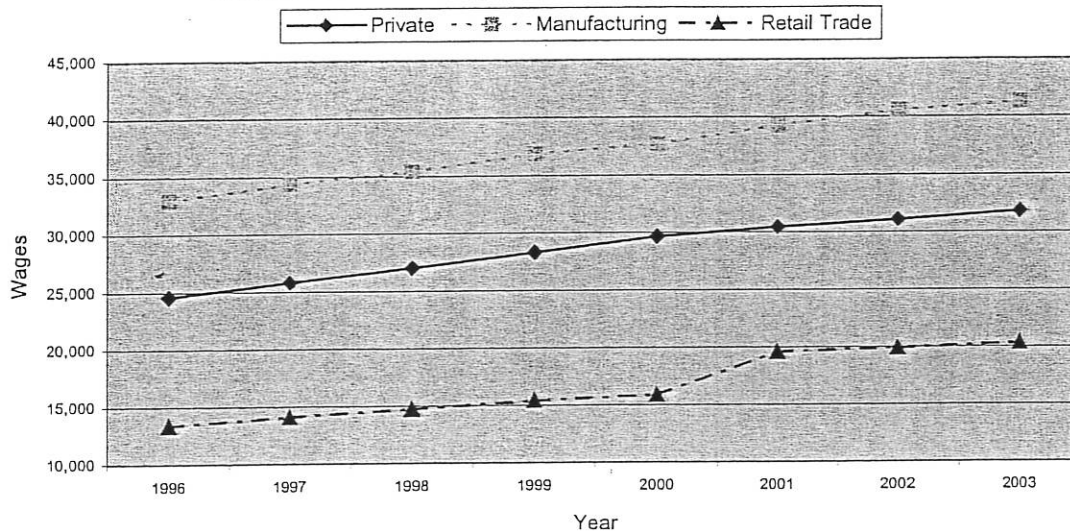
Chart 5 compares Kansas manufacturing employment and retail trade employment from 1990 through 2003. During most of the 1990's, both manufacturing and retail trade experienced steady growth, with dramatic growth in manufacturing in the late 1990's. Manufacturing sector employment was significantly larger than the retail sector throughout the 1990's, ranging from 40,000 to 60,000 employees higher. Since 1999, manufacturing sector employment has sharply declined. Retail sector employment experienced only modest decline during 2001 to 2003. The gap between retail sector employment and manufacturing sector employment has significantly narrowed: manufacturing sector employment exceeded retail sector employment by only 20,000 jobs in 2003.

Chart 5. Comparing Kansas Manufacturing and Retail Trade Sectors Employment: 1990-2003



Chart 6 compares the average annual wages for the Kansas private sector, manufacturing sector and retail sector from 1996 through 2003. Manufacturing sector wages are higher than private sector wages, and retail wages are lower than private sector wages. Despite the 2001 recession, wage levels have increased throughout the time period shown.

Chart 6. Kansas Average Annual Wages in Different Sectors



As the charts above show, the Kansas economy experienced a serious recession during 2001, and with the added impact of 9/11, experienced higher unemployment rates in many sectors for an extended time period.

Employment Data on Top 20 Business and Job Development Credit Claimants

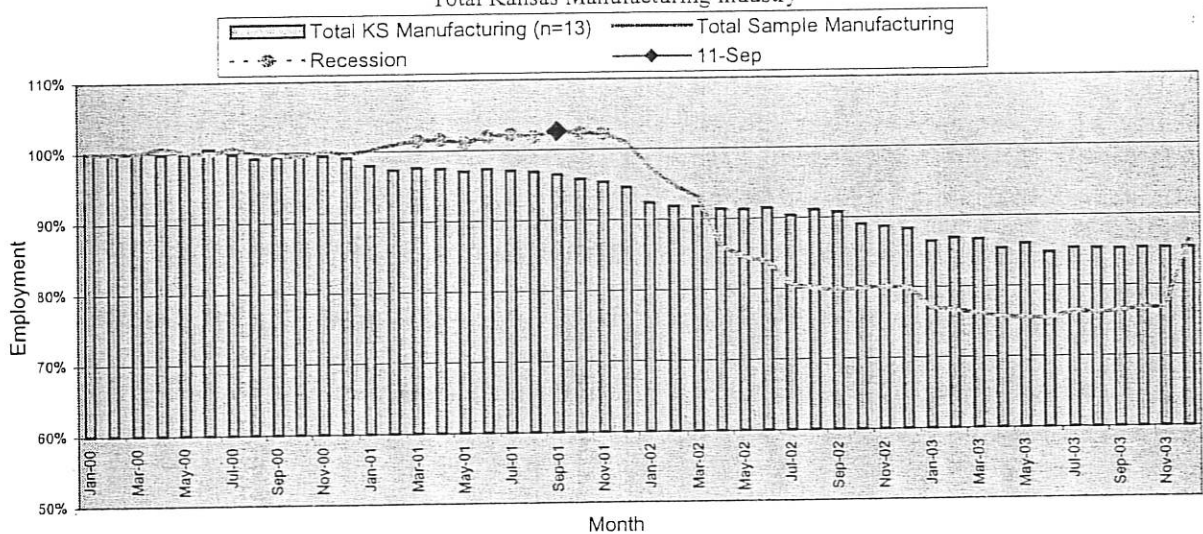
The B & J tax credit program provides tax credits based on the number of net new employees and the amount of qualified capital investment. Corporations claiming large amounts of these credits could be expected to have a higher job growth than their industrial average. Employment data was obtained from the Department of Labor on the corporations included in the group of top 20 claimants of the B&J tax credit during tax years 2000, 2001 and 2002, in order to determine how well changes in the employment levels in these corporations compared with changes in employment levels in the Kansas economy.

Chart 7 compares the performance of employment levels of manufacturers (13 corporations) included in the group of largest B&J tax credit claimants with that of the entire Kansas manufacturing sector. The percentage rate of change in the employment levels of manufacturers among the largest B&J tax credit claimants are compared to similar data for the entire Kansas manufacturing sector from 2000 through 2003. Employment levels of manufacturers claiming the largest B&J credits performed worse than employment levels of the Kansas manufacturing sector during much of this time period. Chart 7 graphically notes the 2001 recession (March 2001 to November 2001, according to the National Bureau of Economic Research) and 9/11 on the time line for the group of largest B&J tax credit claimants. These events dominated this time period and severely affected the Kansas manufacturing sector.

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Chart 7. Comparison of Employment Level Between the Sample Manufacturers (n=13) and the Total Kansas Manufacturing Industry



The Department of Labor employment information provides no correlation between the tax credit programs and improved employment performance for manufacturers claiming the largest amounts of those credits, during the aftermath of the 2001 recession and 9/11.

Chart 8 compares the performance of employment levels of retailers included in the sample (9) of largest B&J claimants with that of the entire Kansas retail sector. The percentage rate of change in the employment levels of retailers among the largest B&J tax credit claimants are compared to similar data for the entire Kansas retail sector from 2000 through 2003. Employment levels of retailers claiming the largest B&J credits performed somewhat better than employment levels of the Kansas manufacturing sector during much of this time period, although retailers claim a much smaller portion of the credits than manufacturers. The 2001 recession and 9/11 are noted graphically.

Chart 8. Comparison of Employment Level Between the Sample Retailers (n=9) and the Total Kansas Retail Trade Industry

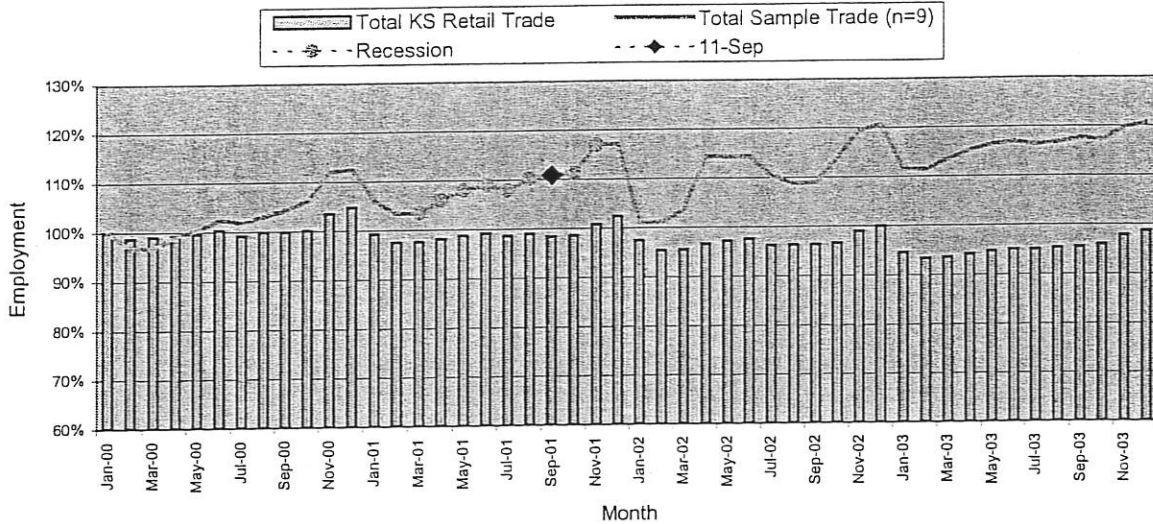


Chart 9 tracks the percentage rate of change in the aggregate employment level of corporations included in the group of top 20 B&J credit claimants from January 2000 through the end of 2003 and compares that to the percentage rate of change in the aggregate employment level of the Kansas private sector during the same time period. During most of this time period the rate of change in employment level of the corporations in the group claiming the largest B&J credits was worse than in the private sector as a whole in Kansas. The 2001 recession and 9/11 are also noted graphically.

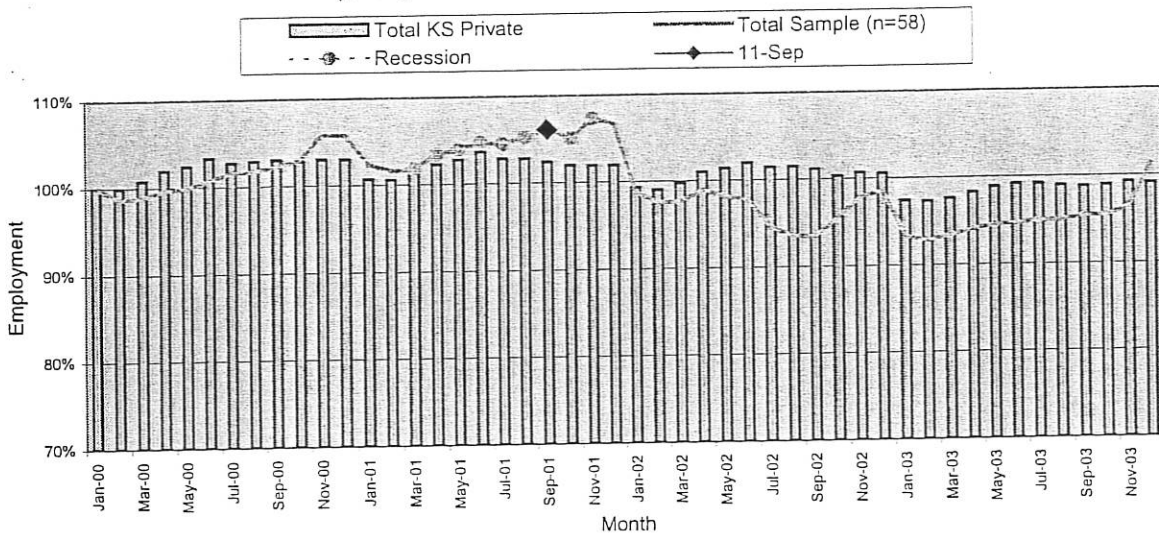
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Chart 9. Comparison of Employment Level Between the Sample Corporations (n=58) and the Total Kansas Private Industries



Conclusions

Manufacturers have utilized the business tax credit incentive programs and have claimed the largest amounts of the credits. This result is consistent with state economic development policy that has been in effect for 10 years. Some larger claimants have used the credits to eliminate their corporate income tax liability entirely—even obtaining refunds.

Because tax credits are used to lower tax burden, the effective tax rate varies greatly within industry groups of all types.

Generally, the manufacturing sector bears a smaller share of the corporate income tax burden than other sectors of the economy, compared to the taxable income generated by those sectors. The tax credit programs do not appear to have shielded manufacturers claiming the

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Attachment 2-13

largest amounts of B&J credits from the economic downturn experienced by the Kansas economy in the 2001 recession, and in the aftermath of 9/11.

The retail sector contributes the largest portion of the corporate income tax receipts, although the manufacturing sector generated the largest amount of Kansas taxable income in tax years 2000, 2001 and 2002. The retail sector is less able than the manufacturing sector to benefit from the tax credit programs, typically bears a higher share of the corporate income tax burden, and pays higher effective tax rates. Retailers in the group of top 20 B&J credit claimants showed stronger employment performance in the aftermath of the 2001 recession and 9/11 than the Kansas retail sector as a whole.

In general, corporations claiming the most tax credits did not show employment performance matching that of the Kansas private sector economy during most of the 2000-2003 time period. This result should be tracked and measured over a longer period of time before conclusions are reached because of the recession during the sample years.

Appendix A

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

K.S.A. 79-32,153

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

K.S.A. 79-32,160a

A taxpayer that invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be eligible for the enhanced tax credit of at least \$1,500 for every new qualified business facility employee and \$1,000 for every \$100,000 of investment made. To qualify for the enhanced credit, a manufacturing business must hire at least 2 qualified business facility employees as a direct result of the investment, a non-manufacturing business must hire at least 5 qualified business facility employees as a direct result of the investment, and a retail business must be considered a business headquarters, ancillary support operation (such as a warehouse), catalog house or prepackaged software operation and hire at least 20 qualified business facility employees as a direct result of the investment.

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

Businesses must be certified in advance by Department of Commerce, in order to qualify for HPIP. The program applies only to businesses within certain specified NCAIS codes that pay wages higher than the prevailing wage within that industry.

Training and Education Tax Credit

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

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

Business Machinery and Equipment Credit - K.S.A. 79-32,206

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A credit may be allowed in an amount equal to 15% of the personal property tax levied and paid on commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas Constitution in subclass (5) or (6) of class 2 and machinery and equipment classified for such purposes in subclass (2) of class 2. The credit amount will increase to 20% of the property tax levied for property tax years 2005 and 2006, and 25% of the property tax levied for property tax years 2007 and after. This credit is refundable.

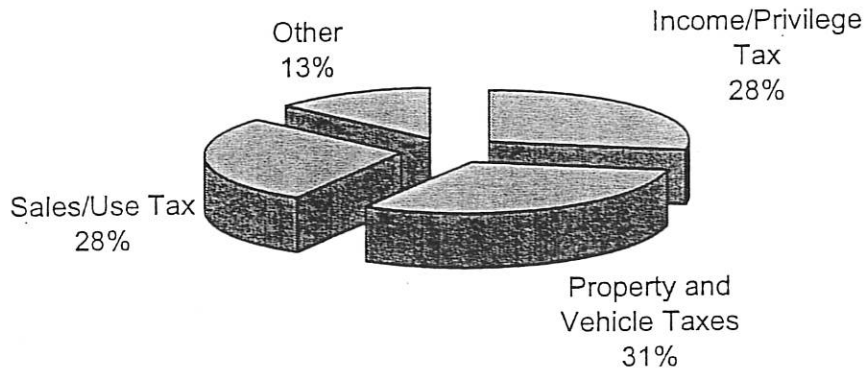
Research and Development Tax Credit - K.S.A. 79-32,182a

A taxpayer with qualifying expenditures in research and development activities conducted within Kansas may be eligible to receive a credit of 6 1/2% of the amount expended for the research.

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Fiscal Year 1998 State and Local Tax Revenues by Source



Fiscal Year 2003 State and Local Tax Revenues by Source

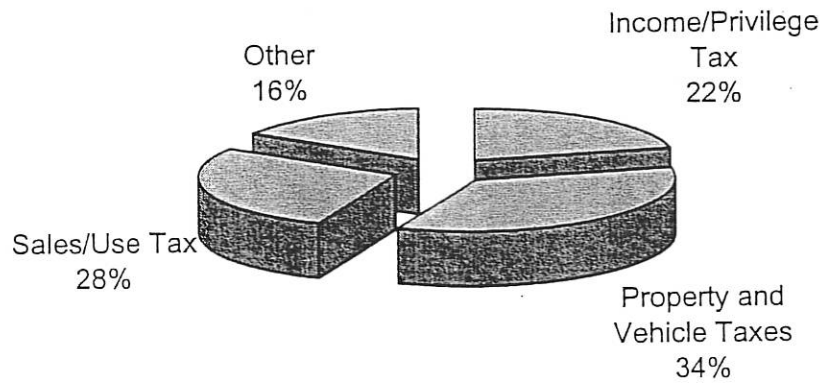
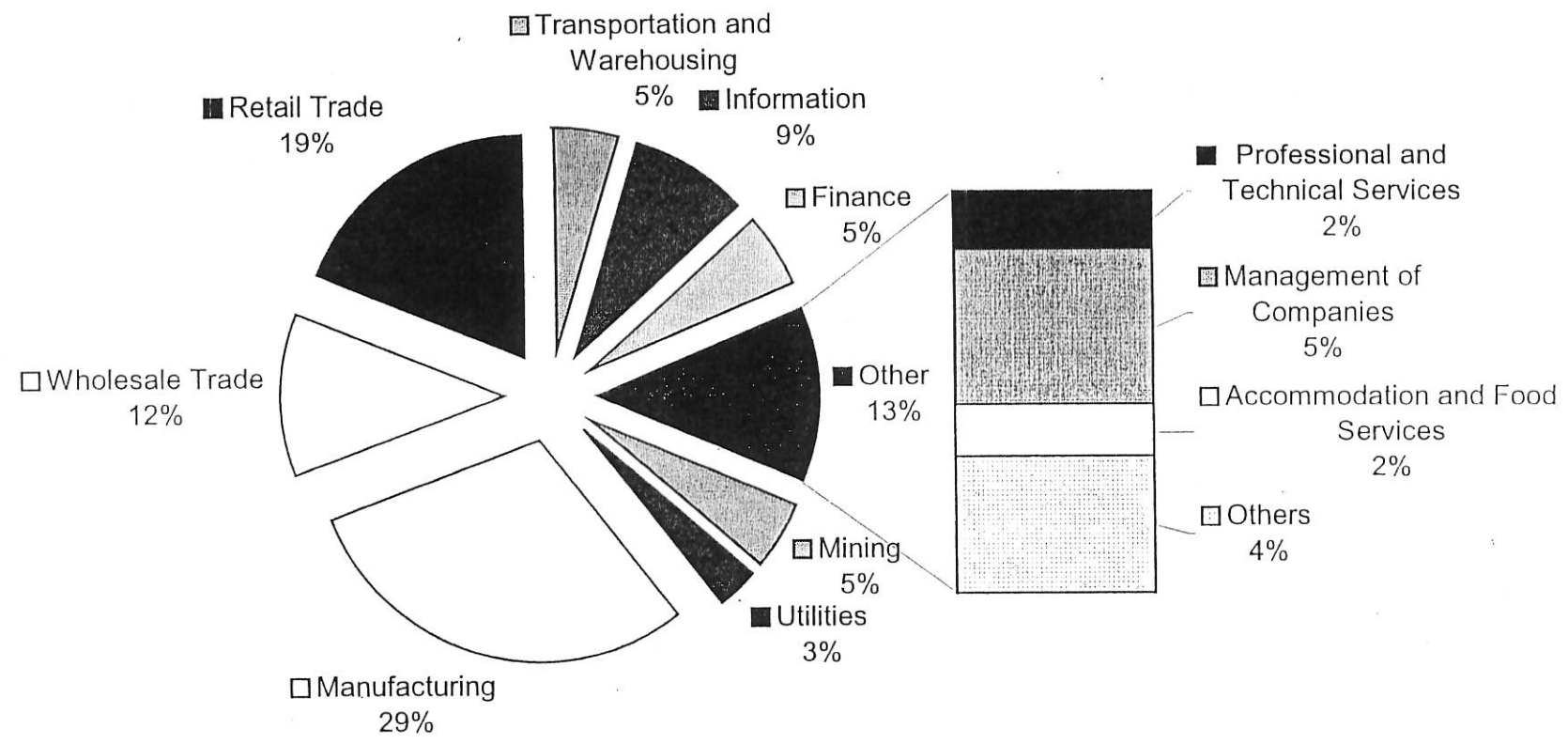
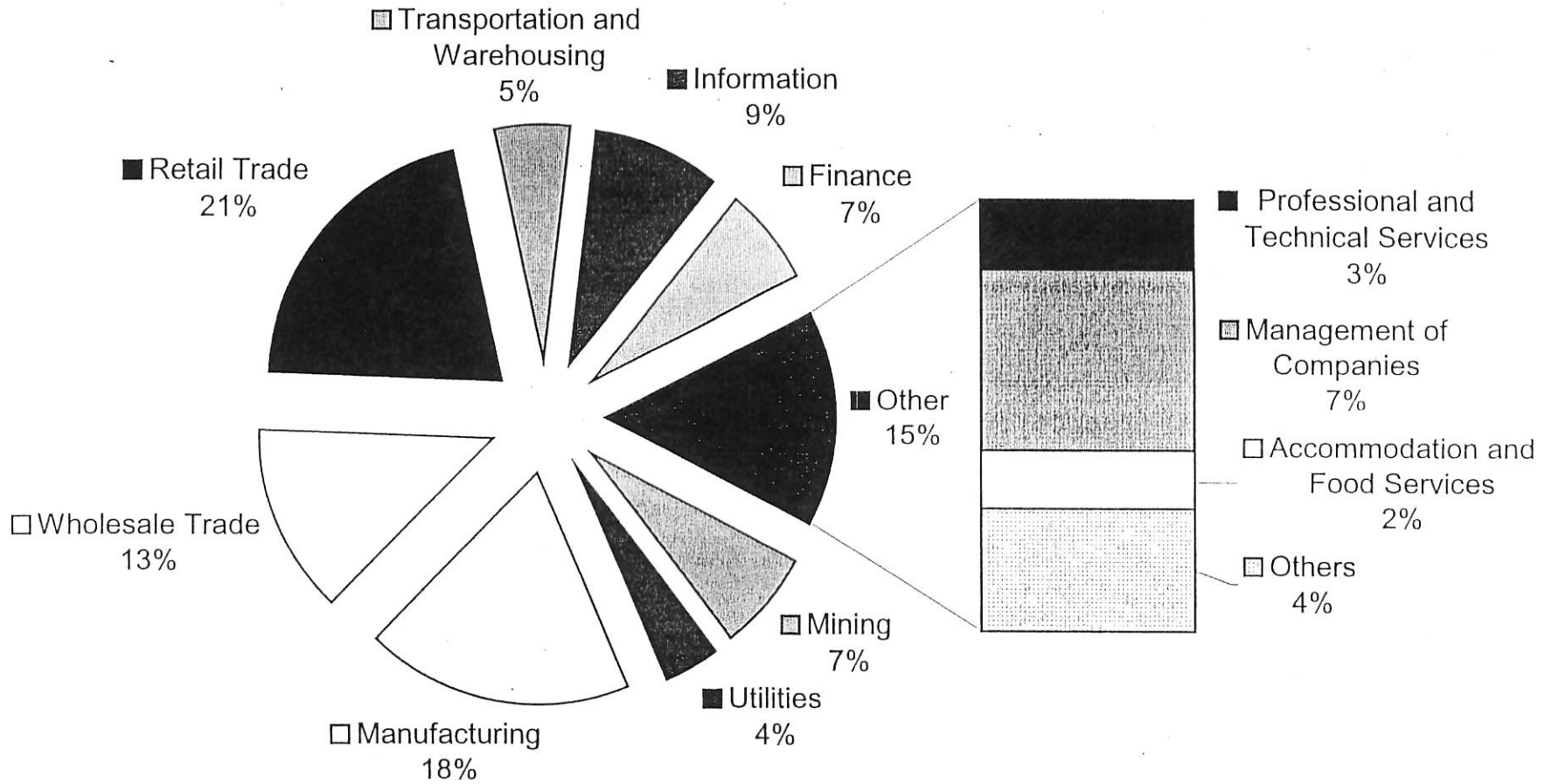


Chart 2
Total Corporate Income Tax Liability by Sector Before Credits Are Taken
Tax year 2000, 2001 and 2002



■ Mining	■ Utilities	□ Manufacturing
□ Wholesale Trade	■ Retail Trade	■ Transportation and Warehousing
■ Information	■ Finance	■ Professional and Technical Services
■ Management of Companies	□ Accommodation and Food Services	□ Others

Chart 3
Total Corporate Income Tax Liability by Sector After Credits Are Taken
Tax Year 2000, 2001 and 2002.



■ Mining	■ Utilities	□ Manufacturing
□ Wholesale Trade	■ Retail Trade	■ Transportation and Warehousing
■ Information	■ Finance	■ Professional and Technical Services
■ Management of Companies	□ Accommodation and Food Services	□ Others



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF POLICY AND RESEARCH

KATHLEEN SEBELIUS, GOVERNOR

Analysis of Corporate Income Tax 2000-2002

Executive Summary

October 15, 2004

Purpose of Study

The Kansas Department of Revenue recently completed an "Analysis of Corporate Income Tax 2000-2002." The purpose of the study was to provide historical information concerning the corporate income tax and the 4 largest business incentive tax credit programs (business and job development, high performance incentive program, research and development, and business machinery and equipment property tax credit). The study also examined where the corporate income tax burden falls by industry sector, and made limited comparisons of the employment performance of corporations claiming the largest amounts of tax credits to the employment performance of similar sectors of the Kansas economy as a whole in recent years.

The analysis focused specifically on tax years 2000, 2001 and 2002, which included the 2001 recession and the aftermath of 9/11. Unfortunately, these were the only years where data was readily available. The downturn in the economy following the events of 9/11 is clearly evident. This study should provide tax policy makers information for future decision-making. However, its scope did not encompass other taxes, such as individual income, sales, or property tax, nor did the scope include other business tax incentive programs, such as the enterprise zone sales tax exemption, STAR bonds, or local property tax exemptions. KDOR will update this document on an annual basis and continue to expand the study as more tax years are included, making it more useful to policy makers to see longer term trends.

Recent History of Corporate Income Tax Receipts

Despite a recent upturn, the long-term trend for corporate income tax receipts reflects significant shrinkage. Receipts for FY 2004 (\$141 million) are below receipts for FY 1981 (\$162 million) and half of the receipts for the peak year, FY 1998 (\$281 million). Corporate income tax receipts are a smaller portion of total state taxes collected by the department and deposited in the state general fund than they were a decade ago. For FY 1991, corporate income tax receipts accounted for 8.4% of the total state taxes collected by the department and deposited in the state general fund. For FY 2003, corporate income tax receipts accounted for only 2.6% of total state taxes collected by the department and deposited in the state general fund. (Pages 1-2)

Distribution of Corporate Income Taxpayers

The largest 200 corporations account for almost three-fourths of the corporate income tax revenue. Most of the 25,000 to 30,000 corporate income tax returns received reflect zero tax liability. (Page 3)

Corporate Income Tax Credits

Rapidly expanding tax credit programs have decreased corporate income tax receipts. The most significant business income tax credit incentive programs in size are the business and job development (B&J) credit, high performance incentive program (HPIP) credit, research and development (R&D) credit, and business machinery and equipment property tax (B M&E) credit.

These credit programs favor capital-intensive, higher wage-paying businesses, such as manufacturers, as they were designed to do. The total credits allowed under these programs increased from \$18.5 million in process year 1997 to \$54.1 million in process year 2002, while corporate income tax receipts have declined. A relatively small number of corporations claim most of these credits. The B M&E credit, the only refundable credit of the 4 credit programs, had 4,450 corporate claimants in process year 2002, and \$18.8 million in B M&E credits allowed. Of the 4 credit programs, HPIP, the largest in terms of fiscal impact, was claimed by the smallest number of corporate taxpayers. In process year 2002, \$20.3 million in HPIP credits were allowed to 39 corporations. The B&J credit was claimed by 329 corporations, and the R&D credit was claimed by 59 corporations in process year 2002. (Table 1, Page 5)

Corporate Income Tax Burden

The study sample of 250 corporations included the largest 100 companies with Kansas corporate income tax liability in each of the three sample years (before credits) and the largest 100 Kansas employers in tax years 2000, 2001 and 2002. In this sample the manufacturing sector, as expected, reduced its income tax liability the most with tax credits. The whole sample averaged 27% reduction of Kansas income tax liability with tax credits. Manufacturers in the sample averaged 54% reduction of Kansas income tax liability with tax credits. (Table 2, Page 6)

Manufacturers also accounted for the largest portion (29%) of Kansas corporate income tax liability (and Kansas taxable income) during tax years 2000, 2001, and 2002 (liability measured before credits were taken) of any industry sector. The retail trade sector accounted for the largest portion (21%) of income tax receipts (measured after credits are taken). (Attached Charts 2 and 3)

Based on a group of 58 corporations included in the top 20 corporations claiming the most B&J credits during tax years 2000, 2001 and 2002, wide disparity exists between the average effective tax rate paid by those in the manufacturing/transportation/warehousing category vs. the retail/wholesale/other category. Wide disparity also exists in effective tax rates paid by individual corporations within each category. In tax year 2002, the 9 corporations in the manufacturing/transportation/warehousing category had an average effective tax rate of 2.59%, although within that category, the effective tax rates ranged from -1.8% to 6.34%, with 4 either receiving refunds or with zero net tax liability. Of the 11 corporations in the retail/wholesale/other category in tax year 2002, the average effective tax rate was 4.14%, although within that category, the effective tax rates ranged from .02% to 6.13%. (Page 7)

The study compared the manufacturing firms (13) and retail firms (9) within the group of 58 corporations included in the "top 20" in B & J credit claimants for tax years 2000, 2001 and 2002. Manufacturing firms offset 76% of their Kansas income tax liability with credits, while retailers in this group offset only 20% of their income tax liability with credits. The manufacturing corporations in the group also claimed the largest amounts of refundable and non-refundable credits from the other tax credit programs. (Table 3, Page 8)

The Kansas Economy—Retail Sector Compared to Manufacturing Sector

Since 1998 and in particular since the 2001 recession and 9/11, Kansas manufacturing sector employment has significantly declined. Retail sector employment experienced only modest decline during 2001 to 2003. The gap between retail sector employment and

manufacturing sector employment has narrowed: manufacturing sector employment exceeded retail sector employment by only 20,000 jobs in 2003. (Chart 5, Page 9)

Employment Data on Top 20 Business and Job Development Credit Claimants

Comparison of the percentage rate of change in the employment levels of manufacturers among the top 20 B&J tax credit claimants during tax years 2000, 2001 and 2002 to similar data for the entire Kansas manufacturing sector from 2000 through 2003 shows that employment levels of manufacturers claiming the largest B&J credits performed worse than employment levels of the Kansas manufacturing sector as a whole during much of this time period. No correlation could be found between the tax credit programs and improved employment performance for manufacturers claiming the largest amounts of those credits when compared to the employment performance for the Kansas manufacturing sector as a whole. (Chart 7, Page 11) Caution in drawing conclusions must be exercised because of the severe dislocation in the aircraft industry in the aftermath of the 2001 recession and the 9/11 attacks, which dominated the sample period.

Employment performance of retailers claiming the largest B&J credits in tax years 2000, 2001 and 2002 was somewhat better than employment performance of the Kansas retail sector as a whole during much of this time period, although retailers claimed a much smaller portion of the credits than manufacturers. (Chart 8, Page 11)

The aggregate employment level of corporations included in the group of top 20 B&J credit claimants in tax years 2000, 2001 and 2002 performed worse than the aggregate employment level in the private sector as a whole in Kansas during most of this time period. (Chart 9, Page 12)

Conclusions

Manufacturers have utilized the business tax credit incentive programs and have claimed the largest amounts of the credits. This result is consistent with state economic development policy that has been in effect for 10 years. Some larger claimants have used the credits to eliminate their corporate income tax liability entirely—even obtaining refunds.

Because tax credits are used to lower tax burden, the effective tax rate varies greatly within industry groups of all types.

Generally, the manufacturing sector bears a smaller share of the corporate income tax burden than other sectors of the economy, compared to the taxable income generated by those sectors. The tax credit programs do not appear to have shielded manufacturers claiming the

largest amounts of B&J credits from the economic downturn experienced by the Kansas economy in the 2001 recession, and in the aftermath of 9/11.

The retail sector contributes the largest portion of the corporate income tax receipts, although the manufacturing sector generated the largest amount of Kansas taxable income in tax years 2000, 2001 and 2002. The retail sector is less able than the manufacturing sector to benefit from the tax credit programs, typically bears a higher share of the corporate income tax burden, and pays higher effective tax rates. Retailers in the group of top 20 B&J credit claimants showed stronger employment performance in the aftermath of the 2001 recession and 9/11 than the Kansas retail sector as a whole.

In general, corporations claiming the most tax credits did not show employment performance matching that of the Kansas private sector economy during most of the 2000-2003 time period. This result should be tracked and measured over a longer period of time before conclusions are reached because of the recession during the sample years.

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K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

October 13, 2004

Name and Address
Address
City

Dear :

Thank you for giving me a day of your valuable time to talk about the corporate income tax last month. Revenue staff and I have been busy finalizing the report we promised to the Interim Taxation Committee, and to other interested groups. I wanted you to have one of the first copies.

Although my initial goal of eliminating the corporate income tax seems unattainable now because of the problems with replacing the revenue, our discussion produced some good ideas and direction. The government attendees at that meeting have already met to try to explore further some of the ideas which were put forward. Those included:

- Simplify Credits -- clarify rules, similar to SB 504 from 1994 Session
- Tax Credit rules need to be known on front end
- Reduce corporate tax rate over time as fiscal conditions allow without substitute revenue
- Leave current sales tax exemptions alone -- they are important to various industries and the risk of changing is too great!
- Develop a Cost Benefit Model to evaluate future tax options/awards

It was quite clear from the discussion that the biggest economic deterrent is high property tax -- 95% of attendees thought reducing property taxes, particularly on business machinery and equipment would be the biggest incentive to economic growth in Kansas. We are beginning to look at that issue.

So -- I am dropping my efforts to eliminate the corporate income tax, because it is obvious that it won't work. Commerce and Revenue are continuing to work on ways to streamline the tax credit process as Mark Beshears and others had suggested in our meeting. Kansas Inc. may be working on a cost benefit model in the future. And all of us are looking for ways to make Kansas grow. Thank you for your time and your hard work. We'll let you know what comes of this discussion.

Sincerely,

Joan Wagnon
Enclosures

DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA, KS 66612
Voice 785-296-3041 Fax 785-296-7928 <http://www.ksrevenue.gov>

Senate Commerce Committee

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Attachment 3-1

TAX EXPENDITURE REPORT

Calendar Year 2003

Prepared by
Kansas Department of Revenue
Joan Wagnon, Secretary of Revenue

Senate Commerce Committee

1-27-05

Attachment 4-1

Introduction

The Kansas Department of Revenue has compiled this report to indicate the fiscal impact of exemptions, credits, deductions, modifications, and exclusions relating to the following taxes and programs:

- Individual, Fiduciary and Corporate Income, Privilege Taxes;
- Retailers' Sales Tax Exemptions;
- Mineral Taxes;
- Motor Fuel Taxes;
- Homestead;
- Food Sales Tax Refund; and
- Kansas IMPACT.

This report shall be a working document. It is our hope and intention that this report will continue to develop and provide information to the Governor, Kansas Legislature and the citizens of the state of Kansas to allow for the making of informative analysis and decisions.

This report covers expenditures for the calendar year of 2003.

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Attachment 4-2

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Attachment

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**TAX EXPENDITURE REPORT
SUMMARY**

PROGRAM	TAX EXPENDITURE
Kansas Addition/Subtraction Modifications (PY 2003-Income & Privilege)	\$6,309,000
Kansas Tax Deductions (PY 2003-Income & Privilege)	(\$875,372,000)
Kansas Tax Credits (PY 2003 Income & Privilege)	(\$302,824,000)
Kansas Sales Tax Exemptions (FY 2004)	(\$3,453,043,000)
Mineral Tax (FY 2004)	(\$34,801,000)
Motor Fuel Tax (CY 2003-Diesel, Gas, Gasohol)	(\$321,000,000)
Homestead Refund Program (FY 2004)	(\$13,004,000)
Food Sales Tax Refund Program (PY 2003)	(\$32,212,000)
IMPACT (FY 2004)	(\$10,904,000)
	(\$5,036,851,000)

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

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Attachment 4-4

INDIVIDUAL INCOME TAX

Year Enacted: 1933
Statutory Citation: K.S.A. Chapter 79, Article 32

A Kansas resident is required to file an individual income tax return if:

- They are required to file a federal income tax return, or
- Their Kansas adjusted gross income is more than the total of their Kansas standard deduction and exemption allowance.

The Kansas income tax is imposed on the entire income of every resident individual. Nonresidents of Kansas are taxed on income derived from Kansas sources.

Kansas begins its individual income tax calculation with federal adjusted gross income. This connection to the federal tax code adopts many of the tax expenditures that exist at the federal level. Any special provisions allowed by the federal government that reduce adjusted gross income will flow through to the Kansas tax return, thereby resulting in lower Kansas tax collections. The majority of these special provisions at the federal level are not specifically enumerated in this report. This report will provide the cost of several addition/subtraction modifications to federal adjusted gross income. Kansas law allows a taxpayer to claim a standard deduction or itemized deductions and allows for a personal exemption deduction.

For process year 2003, tax year 2002, Kansas income tax was imposed as follows:

Schedule I-Married Filing Joint

If Kansas taxable income is:

Over	But Not Over	The Tax is:
\$0	\$30,000	3.50% of Kansas taxable income
\$30,000	\$60,000	\$1,050 + 6.25% of excess over \$30,000
\$60,000		\$2,925 + 6.45% of excess over \$60,000

Schedule II-Single, Head of Household, or Married Filing Separate

If Kansas taxable income is:

Over	But Not Over	The Tax is:
\$0	\$15,000	3.50% of Kansas taxable income
\$15,000	\$30,000	\$525 + 6.25% of excess over \$15,000
\$30,000		\$1,462.50 + 6.45% of excess over \$30,000

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Modifications and deductions have been separately stated according to resident filers and nonresident filers. Nonresident filers of Kansas in many cases have a small percentage of income from Kansas sources. As a nonresident, a taxpayer must apply a nonresident percentage to come up with an actual Kansas tax liability. The tax expenditures presented for nonresident filers apply this percentage in order to provide the reader with truer cost of expenditures associated with these filers.

FIDUCIARY INCOME TAX

The fiduciary of a resident estate or trust must file a Kansas fiduciary income tax return if the estate or trust had any taxable income and/or there is withholding tax due for the nonresident beneficiaries. The fiduciary of a nonresident estate must file a Kansas fiduciary income tax return if the estate or trust had taxable income or gain derived from Kansas source.

Kansas begins its fiduciary income tax calculation with federal taxable income and allows for several addition/subtraction modifications.

For process year 2003, tax year 2002, Kansas fiduciary income tax was imposed as follows:

If Kansas taxable income is:

Over	But Not Over	The Tax is:
\$0	\$15,000	3.50% of Kansas taxable income
\$15,000	\$30,000	\$525 + 6.25% of excess over \$15,000
\$30,000		\$1,462.50 + 6.45% of excess over \$30,000

Senate Commerce Committee

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Attachment 4-6

**INDIVIDUAL AND FIDUCIARY INCOME TAX
RESIDENT TAX FILERS
PROCESS YEAR 2003**

ADDITION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,117(b)(i)	State and municipal bond interest not specifically exempt from Kansas income tax.	24,166	\$6,142,000
K.S.A. 79-32,117(b)(iv)	Contributions to all Kansas public employee's retirement systems	116,937	\$8,834,000
K.S.A. 79-32,143	Federal net operating loss carry forward	7,585	\$18,385,000
Various	Other additions to federal adjusted gross income	7,151	\$1,465,000

*Tax expenditure computed using average tax rate of .05

SUBTRACTION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,117(c)(i)	Interest on US Government obligations	69,606	(\$8,625,000)
K.S.A. 79-32,117(c)(v)	State income tax refund	202,911	(\$8,852,000)
K.S.A. 79-32,143	Kansas net operating loss carry forward	5,558	(\$18,978,000)
Various	Retirement benefits specifically exempt from Kansas income tax	80,098	(\$66,469,000)
Various	Other subtractions from federal adjusted gross income	14,478	(\$11,334,000)

*Tax expenditure computed using average tax rate of .05

DEDUCTIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,119; K.S.A. 79-32,120	Standard deduction or Itemized deductions	1,206,776	(\$449,870,000)
K.S.A. 79-32,121	Exemption allowance	1,124,173	(\$294,205,000)

*Tax expenditure computed using average tax rate of .05

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

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Attachment 4-7

**INDIVIDUAL AND FIDUCIARY INCOME TAX
NONRESIDENT TAX FILERS
PROCESS YEAR 2003**

ADDITION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,117(b)(i)	State and municipal bond interest not specifically exempt from Kansas income tax.	6,109	\$2,434,000
K.S.A. 79-32,117(b)(iv)	Contributions to all Kansas public employee's retirement systems	5,088	\$62,000
K.S.A. 79-32,143	Federal net operating loss carry forward	1,000	\$2,140,000
Various	Other additions to federal adjusted gross income	2,480	\$475,000

*Tax expenditure computed using average tax rate of .05

SUBTRACTION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,117(c)(i)	Interest on US Government obligations	12,309	(\$1,496,000)
K.S.A. 79-32,117(c)(v)	State income tax refund	64,667	(\$1,629,000)
K.S.A. 79-32,143	Kansas net operating loss carry forward	705	(\$1,209,000)
Various	Retirement benefits specifically exempt from Kansas income tax	3,350	(\$523,000)
Various	Other subtractions from federal adjusted gross income	1,728	(\$706,000)

*Tax expenditure computed using average tax rate of .05

DEDUCTIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,119; K.S.A. 79-32,120	Standard deduction or Itemized deductions	208,870	(\$24,736,000)
K.S.A. 79-32,121	Exemption allowance	200,692	(\$8,544,000)

*Tax expenditure computed using average tax rate of .05

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

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**INDIVIDUAL AND FIDUCIARY INCOME TAX
RESIDENT AND NONRESIDENT TAX FILERS
PROCESS YEAR 2003**

TAX CREDITS

Statutory Reference	Description	Number of Filers	Expenditure
K.S.A. 79-32,111	Credit for taxes paid to other states	116,639	(\$211,688,000)
K.S.A. 79-32,111a	Credit for child and dependent care expenses	63,617	(\$ 7,136,000)
K.S.A. 79-32,202	Adoption credit	283	(\$304,000)
K.S.A. 79-32,181a	Agricultural loan interest reduction credit	0	(\$0)
K.S.A. 79-32,201	Alternative-fuel tax credit	10	(\$9,000)
K.S.A. 79-32,153	Business and job development tax credit	124	(\$110,000)
K.S.A. 79-32,160a	Business and job development tax credit	221	(\$2,005,000)
K.S.A. 79-32,206	Business machinery and equipment tax credit	9,525	(\$3,274,000)
K.S.A. 79-32,190	Child day care assistance credit	8	(\$14,000)
K.S.A. 79-32,197	Community service contribution credit	931	(\$2,422,000)
K.S.A. 79-32,176	Disabled access credit	115	(\$208,000)
K.S.A. 79-32,205	Earned income credit	163,711	(\$40,813,000)
K.S.A. 79-32,203	Habitat management credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,160a(e); K.S.A. 74-50,132	High performance incentive program credit	118	(\$4,020,000)
K.S.A. 79-32,211	Historic preservation tax credit	32	(\$588,000)
K.S.A. 79-32,207	Plugging an abandoned oil or gas well credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,182b	Research and development credit	67	(\$58,000)
K.S.A. 79-32,212	Single city port authority credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 40-2246	Small employer health insurance contribution credit	58	(\$71,000)
K.S.A. 79-32,204	Swine facility improvement credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,210	Telecommunications credit	64	(\$21,000)
K.S.A. 79-32,200	Temporary assistance to families contribution credit	0	(\$0)
K.S.A. 74-8205; 74-8206; 74-8304; 74-8316	Venture and local seed capital credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,143	Farm Net Operating Loss	50	(\$75,000)

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

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

Senate Commerce Committee

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CORPORATE INCOME TAX

Year Enacted: 1933
Statutory Citation: K.S.A. Chapter 79, Article 32

All corporations doing business within or deriving income from sources within Kansas that are required to file a federal income tax return, shall also be required to file a Kansas corporate income tax return

Kansas begins its corporate income tax calculation with federal taxable income. This connection to the federal tax code adopts many of the tax expenditures that exist at the federal level. Any special provisions allowed by the federal government that reduce taxable income will flow through to the Kansas tax return, thereby resulting in lower Kansas tax collections. The majority of these special provisions at the federal level are not specifically enumerated in this report. This report will provide the cost of several addition/subtraction modifications to federal taxable income. Kansas law allows certain deductions in arriving at Kansas taxable income.

Corporations not based in Kansas in many cases have a small percentage of income from Kansas sources and use a three factor formula of payroll, sales and property to determine the amount of income apportioned to Kansas. The tax expenditures presented for corporations not based in Kansas have had the apportionment percentage applied in order to provide the reader with truer cost of expenditures associated with these filers.

For process year 2003, tax year 2002, the normal tax for Kansas corporate income tax is imposed at the rate of 4% and a surtax at the rate of 3.35% is imposed on those corporations where the Kansas taxable income is in excess of \$50,000

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**CORPORATE INCOME TAX
RESIDENT TAX FILERS
PROCESS YEAR 2003**

ADDITION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,138(b)(i) K.S.A. 79-32,117(b)(i)	State and municipal bond interest not specifically exempt from Kansas income tax.	250	\$4,821,000
K.S.A. 79-32,117(b)(iii)	Federal net operating loss deduction	4,001	\$31,125,000
K.S.A. 79-32,117(b)(ii)	Taxes on or measured by income or fees or payments in lieu of income taxes	6,061	\$8,412,000
Various	Other additions to federal adjusted gross income	202	\$1,338,000

*Tax expenditure computed using average tax rate of .065

SUBTRACTION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,138(c)(i) K.S.A. 79-32,117(c)(i)	Interest on US Government obligations	323	(\$321,000)
Various	Other subtractions from federal adjusted gross income	1,539	(\$4,739,000)

*Tax expenditure computed using average tax rate of .065

DEDUCTIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,143	Kansas Net Operating Loss	6,879	(\$71,585,000)

*Tax expenditure computed using average tax rate of .065

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

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**CORPORATE INCOME TAX
NONRESIDENT TAX FILERS
PROCESS YEAR 2003**

ADDITION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,138(b)(i) K.S.A. 79-32,117(b)(i)	State and municipal bond interest not specifically exempt from Kansas income tax.	341	\$263,000
K.S.A. 79-32,117(b)(iii)	Federal net operating loss deduction	1,125	\$11,714,000
K.S.A. 79-32,117(b)(ii)	Taxes on or measured by income or fees or payments in lieu of income taxes	4,432	\$2,174,000
Various	Other additions to federal adjusted gross income	209	\$550,000

*Tax expenditure computed using average tax rate of .065

SUBTRACTION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,138(c)(i) K.S.A. 79-32,117(c)(i)	Interest on US Government obligations	368	(\$585,000)
Various	Other subtractions from federal adjusted gross income	725	(\$3,161,000)

*Tax expenditure computed using average tax rate of .065

DEDUCTIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,143	Kansas Net Operating Loss	1,973	(\$538,000)

*Tax expenditure computed using average tax rate of .065

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

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**CORPORATE INCOME TAX
RESIDENT AND NONRESIDENT TAX FILERS
PROCESS YEAR 2003**

TAX CREDITS

Statutory Reference	Description	Number of Filers	Tax Expenditure
K.S.A. 79-32,181a	Agricultural loan interest reduction credit	0	(\$0)
K.S.A. 79-32,201	Alternative-fuel tax credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,153	Business and job development tax credit	69	(\$1,322,000)
K.S.A. 79-32,160a	Business and job development tax credit	125	(\$3,068,000)
K.S.A. 79-32,206	Business machinery and equipment tax credit	4,638	(\$16,663,000)
K.S.A. 79-32,190	Child day care assistance credit	10	(\$126,000)
K.S.A. 79-32,197	Community service contribution credit	63	(\$319,000)
K.S.A. 79-32,177	Disabled access credit	17	(\$16,000)
K.S.A. 79-32,203	Habitat management credit	0	(\$0)
K.S.A. 79-32,160a(e); K.S.A. 74-50,132	High performance incentive program credit	28	(\$6,462,000)
K.S.A. 79-32,211	Historic preservation tax credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,207	Plugging an abandoned oil or gas well credit	0	0
K.S.A. 79-32,182b	Research and development credit	47	(\$564,000)
K.S.A. 79-32,212	Single city port authority credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 40-2246	Small employer health insurance contribution credit	11	(\$37,000)
K.S.A. 79-32,204	Swine facility improvement credit	0	(\$0)
K.S.A. 79-32,210	Telecommunications credit	23	(\$178,000)
K.S.A. 79-32,200	Temporary assistance to families contribution credit	0	(\$0)
K.S.A. 74-8205; 74-8206; 74-8304; 74-8316	Venture and local seed capital credit	0	(\$0)
K.S.A. 79-32,143	Farm Net Operating Loss	16	(\$67,000)

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

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

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PRIVILEGE TAX

Year Enacted: 1963
Statutory Citation: K.S.A. Chapter 79, Article 11

Every national banking association, bank, trust company, federally chartered savings bank, and savings and loan association located or doing business within the state shall be required to file a privilege tax return and pay a tax according to or measured by its net income for the next preceding taxable year.

Kansas begins its privilege tax calculation with federal taxable income. This connection to the federal tax code adopts many of the tax expenditures that exist at the federal level. Any special provisions allowed by the federal government that reduce taxable income will flow through to the Kansas tax return, thereby resulting in lower Kansas tax collections. The majority of these special provisions at the federal level are not specifically enumerated in this report. This report will provide the cost of several addition/subtraction modifications to federal taxable income. Kansas law allows certain deductions in arriving at Kansas taxable income.

For process year 2003, tax year 2002, a tax consisting of a normal tax and a surtax shall be imposed for privilege tax filers. The normal tax shall be an amount equal to 2.25% of Kansas taxable income and a surtax in an amount equal to 2.125% of Kansas taxable income that is in excess of \$25,000 for banks and 2.25% of Kansas taxable income that is in excess of \$25,000 for savings & loans and trust companies.

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**PRIVILEGE TAX
PROCESS YEAR 2003
(418 PRIVILEGE TAX FILERS)**

ADDITION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-1109	State and municipal bond interest not specifically exempt from Kansas income tax.	331	\$17,395,000
K.S.A. 79-1109 K.S.A. 79-32,138(b) K.S.A. 79-32,117(b)(iii)	Federal net operating loss deduction	31	\$8,705,000
K.S.A. 79-1109	Savings & Loan Bad Debt Deduction included in federal deductions	14	\$9,282,000
Various	Other additions to federal taxable income	90	\$1,398,000

*Tax expenditure computed using average rate of 4%

SUBTRACTION MODIFICATIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
Various	Subtractions from federal taxable income	261	(\$2,178,000)

*Tax expenditure computed using average rate of 4%

DEDUCTIONS

Statutory Reference	Description	Number of Filers	*Tax Expenditure
K.S.A. 79-32,143	Kansas Net Operating Loss	41	(\$25,174,000)
K.S.A. 79-1109	Savings and Loan Bad Debt Deduction	21	(\$720,000)

*Tax expenditure computed using average rate of 4%

TAX CREDITS

Statutory Reference	Description	Number of Filers	Tax Expenditure
K.S.A. 79-1126a	Agricultural loan interest reduction credit	0	(\$0)
K.S.A. 79-32,153	Business and job development tax credit	41	(\$148,000)
K.S.A. 79-32,160a	Business and job development tax credit	0	(\$0)
K.S.A. 79-32,206	Business machinery and equipment tax credit	371	(\$776,000)
K.S.A. 79-32,190	Child day care assistance credit	0	(\$0)
K.S.A. 79-32,197	Community service contribution credit	32	(\$262,000)
K.S.A. 79-1117	Disabled access credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,160a(e); K.S.A. 74-50,132	High performance incentive program credit	*CONFIDENTIAL	*CONFIDENTIAL
K.S.A. 79-32,211	Historic preservation tax credit	0	(\$0)
K.S.A. 74-8205; 74-8206; 74-8304; 74-8316	Venture and local seed capital credit	0	(\$0)

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

A positive number in the tax expenditure column represents enhanced state tax revenues. A negative number in the tax expenditure column represents foregone revenue.

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KANSAS RETAILERS' SALES TAX

Year Enacted: 1937

Statutory Citation: K.S.A. Chapter 79, Article 36

Kansas imposes a state retailers' sales tax of 5.3%, plus local sales taxes on the following:

- Retail sale, rental or lease of tangible personal property;
- Labor services to install, apply, repair, service, alter, or maintain tangible personal property; and
- Admissions to places providing entertainment, amusement, or recreation in Kansas.

Kansas law allows many exemptions from the imposition of sales tax.

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State Sales Tax Exemptions Summary

Statute	Description of Exemption or Exclusion	Recent Revision	FY2004 (\$ in Millions)
Tax Rate			5.3%
Annual Rate of Increase			
3602 (e)	Definition of retail sales, exempting wholesale sales and sales for resale		\$ -
3603 (b)	Taxes telephone and telegraph services except creation WATS and private data lines. Bundling of services added in 2001. Modified pre-paid calling cards - revolved phrase dealing with sold in minutes (no fiscal impact).	Rev 2001 SB 1 Rev 2002 SB 39	\$ 1.217
3603 (e)	Admission to any cultural and historical event which occurs triennially	Revised 1994	Minimal
3603 (f)	Coin operated Laundry Services		\$ 0.309
3603 (g)	Service of renting of rooms by holds or accommodation brokers to federal government or any federal employee in performance of official government duties.	2002 SB39	\$ 0.100
3603 (h)	Service of leasing or renting machinery and equipment owned by city purchased with industrial revenue bonds prior to July 1, 1973		\$ -
3603 (m)	Fees and charges by any political subdivision, youth recreation organization exclusively providing services to persons 18 or younger organized as a 501(c)(3) for sports, games and other recreational activities and entry fees and charges for participation.	Revised 1994 1998 SB493	\$ 0.762
3603 (n)	Dues charged by any organization pursuant to paragraph 8 and 9 of 79-201 (veteran & humanitarian organizations) and zoos	1998 SB493	\$ 0.281
3603 (n)	Attributable to veterans	1998 SB493	\$ 0.104
3603 (n)	Attributable to humanitarians	1998 SB493	\$ 0.050
3603 (n)	Attributable to nonprofit zoo.	1998 SB493	\$ 0.127
3603 (o)	Motor vehicles exchanged for corporate stock, corporate transfer to itself and immediate family member sales.		\$ 0.176
3603 (o)	In 2004, changed the way sales tax computed on isolated and occasional sales of vehicles. Estimated to generate \$2 million annually	2004 SB 147	
3603 (p)	Labor services of installing or applying property in original construction of a building or facility or the construction reconstruction, restoration, replacement or repair of a residence, bridge or highway	1998 SB493	\$ 76.539
3603 (q)	Exemption for Service of repairing, servicing, maintaining custom computer software as described in section 3603 (s)	1988 Amended 2002 SB39	\$ -
3603 (s)	Customized computer software and services for modifying software for single end use and billed as a separate invoiced item. In 2004, amended to tax only prewritten software. Custom software is exempt	1988 Amended 2002 SB39, 2004SB 147	\$ 19.229
3603 (v)	Sales of bingo cards, bingo faces and instant bingo tickets. Tax rate 2.5 on July 1, 2001 to June 30, 2002; exempt on July 1, 2002	2000 HB 2013	\$ 2.301
3606 (a)	Motor fuels and items taxed by sales or excise tax	1999	\$ 195.777
3606 (b)	Property or services purchases by State of Kansas, political subdivision, nonprofit hospital or blood /donor bank. In 2001, deleted sales of water to make purchases for water suppliers exempt.(Neutral FN due to Clean Water Fee)	2001 SB 332	\$ 278.597
3606 (c)	Property or services purchased and leasing by elementary or secondary schools and educational institutions		\$ 49.232
3606 (d)	Property or services purchased by contractor for building or repair of buildings for nonprofit hospital, elementary or secondary schools or nonprofit educational institutions		\$ 100.155
3606 (e)	Property or services purchases by federal government, its agencies or instrumentality's		\$ 4.661
3606 (f)	Property purchased by railroad or public utility for use in the movement of interstate commerce		\$ 13.078
3606 (g)	Sales, repair or modification of aircraft sold for interstate commerce directly through an authorized agent. IN 2004, expanded aircraft exemption for repair, modification plus parts and labor	1998 SB493, 2004 SB 147	\$ 5.467
3606 (h)	Rental of nonsectarian textbooks by elementary or secondary schools		\$ 0.805
3606 (i)	Lease or rental of films, records, tapes, etc. by motion picture exhibitors		\$ 1.438
3606 (j)	Meals served without charge to employees if duties include furnishing or sale of such meals or drinks		\$ 3.186
3606 (k)	Vehicles, trailers or aircraft purchased and delivered out of state to a nonresident		\$ 12.998
3606 (l)	Isolated or occasional sales, except motor vehicles		\$ -
3606 (m)	Property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail		\$ 1,892.846
3606 (n)	Property consumed in the production, manufacturing, processing, mining, drilling, refining or compounding of property; or irrigation of crops for ultimate sale at retail. In 2000, added provision to eliminate refunds from the Johnson County Water case sav		\$ 248.350
3606 (o)	Sales of animals, fowl, aquatic plants, and animals used in agriculture or aquaculture, for production of food for human consumption, the production of animal, dairy, poultry, or aquatic products, fiber or fur or the production of offspring.		\$ 139.782
3606 (p)	Sales for prescription drugs	1999 SB 45	\$ 59.239
3606 (q)	Sales of insulin dispensed by pharmacist for treatment of diabetes		\$ 0.457
3606 (r)	Sales of prosthetic or orthopedic appliances prescribed by a doctor. IN 2004, exempted all hearing aids, prats and batteries by licensed providers	Amended 1997, 2004 SB 147	\$ 6.890
3606 (s)	Sales of property or services purchased by a groundwater management district		\$ 0.035
3606 (t)	Sales of farm or aquaculture machinery and equipment, parts and services for repair and replacement		\$ 40.300
3606 (u)	Leases or rentals of property used as a dwelling for more than 28 consecutive days.		\$ 0.614
3606 (v)	Sales of food products purchased by contractor for use in preparing meals for delivery to homebound elderly persons. In 2004, expanded exemption to all personal property purchased by contractor and sales of food products by or on behalf of contractor or organization	2004 SB 147	\$ 0.699
3606 (w)	Sales of natural gas, electricity, heat, & water delivered through mains, lines or pipes to residential premises for noncommercial use, for agricultural use (to include propane gas),for use in severing oil and any property exempt from property taxation		\$ 72.178
3606 (x)	Sales of propane, gas, LP-gas, coal, wood, and other fuel sources for the production of heat or lighting for noncommercial use in a residential premise		\$ 13.748
3606 (y)	Sales of materials and services used in repairing, maintaining, etc., of railroad rolling stock used in interstate commerce		\$ 0.788
3606 (z)	Property and services purchased directly by a port authority or a contractor therefor.		Minimal

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State Sales Tax Exemptions Summary

Statute	Description of Exemption or Exclusion	Recent Revision	FY2004 (\$ in Millions)
Tax Rate			5.3%
Annual Rate of Increase			
3606 (aa)	Materials and services brought into Kansas for usage outside of Kansas for repair, services, alteration, maintenance, etc. used for the transmission of liquids or national gas by a pipeline in interstate commerce		Minimal
3606 (bb)	Used mobile and manufactured homes		\$ 3.733
3606 (cc)	Property or services purchased for constructing, reconstructing, enlarging or remodeling a business; sale and installation of machinery and equipment purchased for installation in such business. (Enterprise Zone Exemption)		\$ 55.213
3606 (dd)	Property purchased with food stamps issued by US Department of Agriculture		\$ 6.384
3606 (ee)	Lottery tickets and shares made as part of a lottery operated by the State of Kansas		\$ 10.495
3606 (ff)	New mobile or manufactured homes to the extent of 40% of the gross receipts		\$ 2.737
3606 (gg)	Property purchased with vouchers issued pursuant to the federal special supplemental food program for women, infants and children		n/a
3606 (hh)	Medical supplies and equipment purchased by nonprofit skilled nursing home or intermediate nursing care home for providing medical services to residents		\$ 0.877
3606 (ii)	Property purchased by nonprofit organization for nonsectarian comprehensive multidiscipline youth development programs and activities and sales of property by or on behalf of such organization	1998 SB493	\$ 2.212
3606 (jj)	Property and services, includes leasing of property, purchased for community-based mental retardation facility or mental health center.	2004 SB 147	\$ 2.031
3606(kk)	Machinery and equipment used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of property for resale by the plant or facility. In 2004, added exemption for building new facility in Riverton Ks (minimal impact)	1998 HB2584	\$ 97.508
3606(kk)	This is the impact from the changes made in 1998		\$ 2.031
3606 (ll)	Educational materials purchased for distribution to the public at no charge by a nonprofit public health corporation		\$ 0.068
3606 (mm)	Seeds, tree seedlings, fertilizers, insecticides, etc., and services purchased and used for producing plants to prevent soil erosion on land devoted to agricultural use.	1988 HB2626	\$ 0.805
3606 (nn)	Services rendered by advertising agency or broadcast station		\$ 3.566
3606 (oo)	Property purchased by a community action group or agency to repair or weathenize housing occupied by low income individuals.		Minimal
3606 (pp)	Drill bits and explosives used in the exploration and production of oil or gas		\$ 0.339
3606 (qq)	Property and services purchased by a nonprofit museum or historical society which is organized under the federal income taxation code as a 501 (c)(3)		\$ 0.332
3606 (rr)	Property which will admit purchases to an annual event sponsored by a nonprofit organization organized under the federal income taxation code as a 501 (c)(3)		\$ 0.028
3606 (ss)	Property and services purchased by a public broadcasting station licensed by FCC as a noncommercial educational television or radio station.		Minimal
3606 (tt)	Property and services purchased by not-for-profit corporation for the sole purpose of constructing a Kansas Korean War memorial and is organized under the federal income taxation code as a 501 (c)(3)	1996 HB2656	\$ -
3606 (uu)	Property and services purchased by rural fire fighting organization	1997 SB184	Minimal
3606 (vv)	Property purchased by the following organizations who are organized under the federal income taxation code as a 501 (c)(3): American Heart Association, Kansas Affiliate; Kansas Alliance for the Mentally Ill, Inc.; Kansas Mental Illness Awareness Council; in 2004 added: Heartstrings Community Foundation, Cystic Fibrosis , Spina Bifida Assn,	1997 SB184, 2001 HB 2029, 2004 SB 147	\$ 0.079
3606 (ww)	Property purchased by the Habitat for Humanity for use within a housing project	1997 SB184	\$ 0.097
3606 (xx)	Property and services purchases by nonprofit zoo or on behalf of a zoo by an entity that is a 501(c)(3)	1998 SB493	\$ 0.508
3606 (yy)	Property and services purchased by a parent-teach association or organizations and all sales of tangible personal property by or on behalf of such association	1998 SB493	\$ 0.477
3606 (zz)	Machinery and equipment purchased by over-the-air free access radio or television station used directly and primarily for producing signal or the electricity essential for producing the signal.	1998 SB493	\$ 0.801
3606(aaa)	Property and services purchased by religious organizations and used exclusively for religious purposes	1998 SB493	\$ 14.609
3606 (bbb)	Sales of food for human consumption by organizations exempt by 501(c)(3) pursuant to food distribution programs which offers such food at a price below cost in exchange for the performance of community service by the purchaser.	1998 SB493	Minimal
3606 (ccc)	Property and services purchases by health care centers and clinics who are serving the medically underserved.	1999 SB 45	\$ 0.318
3606 (ddd)	Property and services purchases by any class II or III railroad (shortline) for track and facilities used directly in interstate commerce. Only for calendar year 1999.	1999 SB 45	n/a
3606 (eee)	Property and services purchases for reconstruction, reconstruction, renovation, repair of grain storage facilities or railroad sidings. Only for calendar year 1999 and 2000.	1999 SB 45, 2000 SB 59	n/a
3606 (fff)	Material handling equipment, racking systems & other related machinery & equipment used for the handling, movement or storage of tangible personal property in a warehouse or distribution facility; installation, repair, maintenance services, and replacement parts.	2000 HB 2011	\$ 5.280
3606 (ggg)	Property and services purchased by or on behalf of the Kansas Academy of Science.	2000 SB 59	Minimal
3606 (hhh)	Property and services purchased by or on behalf of Domestic Violence Shelters as members of the Kansas coalition against Sexual and Domestic Violence	2004 SB 147	
	Total		\$ 3,453.043

Updated through 2004 Legislative changes.

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KANSAS MINERAL TAX

Year Enacted: 1983

Statutory Citation: K.S.A. Chapter 79, Article 42

Gas and oil are taxed on the gross value at the time of removal from the earth or water. The tax rate is 8% less property tax credits equal to 3.67%, making the tax rate 4.33% after the credit.

Tax exemptions for oil are based on the average price per barrel, average daily productions, depth of the well, new pools and inactive wells.

Tax exemptions for gas wells are for wells with an average daily production valued at \$87 or less, as used for domestic or agricultural purposes on the production unit, and gas from any new pool.

The state general fund receives 93% of the total collection and counties receive the remaining 7%.

Description	Number of Filers	*Tax Expenditure
Oil	60	(\$22,963,000)
Gas	209	(\$5,467,000)
Special Co. Mineral Production Fund	269	(\$6,371,000)

*Tax expenditure computed using a rate of 4.33%

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MOTOR FUEL TAXES

Year Enacted: 1925 – gasoline tax
 1941 – special fuels tax
 1959 – LP gas tax
 1979 – gasohol tax

Statutory Citation: K.S.A. Chapter 79, Article 34

A tax is imposed on the use, sale or delivery of all motor vehicle fuels or special fuels that are used, sold or delivered in this state. Distributors are allowed to deduct a 2.5 percent handling allowance on gasoline and special fuels received. No allowances are made on gasoline and special fuels exported from the state or sold to the federal government or its agencies; nor are allowances made on gasoline or special fuels sold or disposed of to consumers in tank cars, transport, or pipeline lots.

Kansas law provides that, unless specifically exempt from sales tax, sale of motor fuels will be subject to the Kansas sales tax if no Kansas excise tax has been imposed. No motor fuel tax is imposed on gasoline or special fuel for the following transactions:

- export from the state to any other state or territory;

	Gallons	Tax Rate	Tax Expenditure
CY03 Gasoline/Gasohol	315,850,384	\$0.23	(\$72,600,000)
	360,380,996	\$0.24	(\$86,500,000)
CY03 Diesel	103,165,960	\$0.25	(\$25,800,000)
	104,188,162	\$0.26	(\$27,100,000)

- sale to the federal government or its agencies; (combined below)
- sale to a contractor who performs work for the federal government or its agencies;

	Gallons	Tax Rate	Tax Expenditure
CY03 Gasoline/Gasohol	1,172,283	\$0.23	(\$269,625)
	1,402,953	\$0.24	(\$336,709)
CY03 Diesel	889,637	\$0.25	(\$222,409)
	654,110	\$0.26	(\$170,069)

- sale which is aviation fuel;

	Gallons	Tax Rate	Tax Expenditure
CY03 Gasoline/Gasohol	3,867,002	\$0.23	(\$889,410)
	4,110,350	\$0.24	(\$986,484)
CY03 Diesel	25,574,863	\$0.25	(\$6,400,000)
	29,498,520	\$0.26	(\$7,700,000)

- first sale or delivery to a duly licensed distributor who resells to another duly licensed distributor, (No numbers available. This exemption merely insures that double taxation does not occur.);

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- sale of indelibly dyed special fuel to be used for nonhighway purposes, and

	Gallons	Tax Rate	Tax Expenditure
CY03 Dyed Diesel	153,054,660	\$0.25	(\$38,300,000)
	168,411,672	\$0.26	(\$43,800,000)

- shrinkage allowance @ 2.5%.

	Gallons	Tax Rate	Tax Expenditure
CY03 Gasoline/Gasohol	16,466,054	\$0.23	(\$3,800,000)
	17,029,344	\$0.24	(\$4,100,000)
CY03 Diesel	4,141,614	\$0.25	(\$1,000,000)
	4,948,368	\$0.26	(\$1,300,000)

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KANSAS HOMESTEAD REFUND PROGRAM

Year Enacted: 1970
Statutory Citation: K.S.A. Chapter 79, Article 45

The homestead refund program is a rebate of a portion of the property taxes paid on a Kansas resident's homestead. The refund percentage is based on the total household income. If an individual owns their home, the refund is a percentage of the general property tax. If the individual rents their home, 20% of the rent paid for occupancy is used as the property tax amount. The maximum refund is \$600. As a Kansas resident the entire year, an individual is eligible if the total household income is \$25,000 or less and the individual:

- Was born prior to January 1, 1947, OR
- was blind or totally and permanently disabled all of 2002, OR
- had a dependent child who lived with the individual the entire year and that child was born before January 1, 2002, and was under the age of 18 all of 2002.

In fiscal year 2004, the Kansas Department of Revenue issued \$13,004,000 in homestead refunds to 73,501 homeowners and renters.

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KANSAS FOOD SALES TAX REFUND PROGRAM

Year Enacted: 1978

Statutory Citation: K.S.A. Chapter 79, Article 36

The food sales tax refund program offers a refund of the sales tax paid on food. To qualify for the program an individual must have lived in Kansas for the entire year and:

- Was born prior to January 1, 1948, OR
- was blind or totally and permanently disabled all of 2002, OR
- had a dependent child who lived with the individual the entire year and that child was born before January 1, 2002, and was under the age of 18 all of 2002.

The food sales tax refund is computed as follows:

If the qualifying income is:	The refund is:
\$0 to \$12,900	\$72 multiplied by the number of Kansas exemptions.
\$12,901 to \$25,800	\$36 multiplied by the number of Kansas exemptions.
\$25,801 or greater	No refund

In process year 2003, the Kansas Department of Revenue issued \$32,212,000 in food sales tax refunds to 270,000 eligible filers.

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KANSAS IMPACT PROGRAM

Year Enacted: 1991
Statutory Citation: K.S.A. Chapter 74, Article 50

The IMPACT act provides for major project investment to provide financial assistance to defray business costs. IMPACT also provides financial assistance for new job training.

The IMPACT act uses withholding revenue for funding projects. In fiscal year 2005, the limit is 1.5% of total withholding receipts and in fiscal year 2006 and after the percentage is 2%.

In fiscal year 2004, the Kansas IMPACT program expended \$10,904,000.

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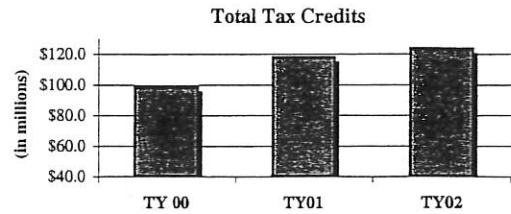
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Tax Year 2002 Kansas Department of Revenue Tax Credits

Tax Credits Allowed on Returns in Tax Years

	TY 2000	TY 2001	TY 2002
Corporate Income Tax	\$ 35,757,489	\$ 52,473,608	\$ 29,287,728
Individual Income Tax	\$ 61,914,436	\$ 64,899,438	\$ 93,774,147
Privilege Tax	\$ 1,002,553	\$ 762,560	\$ 701,989
Total Tax Credits	\$ 98,674,478	\$ 118,135,606	\$ 123,763,864



Adoption Credit - \$303,519

K.S.A. 79-32,202

Residents of Kansas who adopt a child can receive a credit of 25% of the adoption credit allowed against the federal income tax liability on the federal return.

Agricultural Loan Interest Reduction Credit - Amount withheld for confidentiality.

K.S.A. 79-32,181a; 79-1126a

A state bank, national banking association, production credit association, or agricultural credit association chartered by the Farm Credit Administration which extends or renews an agricultural production loan to an eligible agricultural production borrower at an interest rate which is at least one whole percentage point (1%) less than the lowest interest rate made on loans with equivalent collateral or which reduces the rate of interest being charged on any outstanding agricultural production loan to an eligible agricultural borrower by at least one whole percentage point (1%) shall receive a credit against their tax liability.

Alternative-Fuel Tax Credit - \$78,722

K.S.A. 79-32,201

A credit is allowed for any person, association, partnership, limited liability company, limited partnership, or corporation who makes expenditures for a qualified alternative-fuel fueling station or who makes expenditures for a qualified alternative-fueled motor vehicle licensed in the state of Kansas.

Business and Job Development Credit (carryover) - \$5,148,903

K.S.A. 79-32,160a

Any manufacturing or nonmanufacturing business which invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be entitled to a tax credit.

Business and Job Development Credit (noncarryover) - \$1,632,833

K.S.A. 79-32,153

A taxpayer who invests in a qualified business facility and hires at least two employees as a result of the investment may be eligible for a credit.

Business Machinery and Equipment Credit - \$20,054,069

K.S.A. 79-32, 206

A taxpayer may be allowed a credit in an amount equal to 15% of the personal property tax levied and timely paid on commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas Constitution in subclass (5) or (6) of class 2 and machinery and equipment classified for such purposes in subclass (2) of class 2.

Child Day Care Assistance Credit - \$139,636

K.S.A. 79-32,190

A taxpayer may be eligible for a credit if they pay for child day care services for its employees, located child day care services for its employees, or provide facilities and necessary equipment for child day care services to its employees.

Child Dependent Care Credit - \$6,785,125

K.S.A. 79-32,111a

This credit is available only to residents and part-year residents filing as residents. The credit is equal to 25% of the federal credit allowed.

Community Service Credit - \$3,006,908

Any business firm which contributes to an approved community service organization engaged in providing community services may be eligible to receive a tax credit of at least 50% of the total contribution made.

Disabled Access Credit - \$224,828

Individual and business taxpayers who incur certain expenditures to make their property accessible to the disabled; or to employ individuals with a disability may be eligible to receive a tax credit.

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Earned Income Credit - \$41,141,000

K.S.A. 79-32, 205

The credit is available to resident taxpayers in an amount equal to 10% of the earned income tax credit allowed against the taxpayer's federal income tax liability.

Food Sales Tax Refund - \$32,212,000

K.S.A. 79-3635

The credit is for sales tax paid on food. There is a \$60 credit per exemption claim for a Kansas Adjusted Gross Income of \$0 to \$25,000; and a \$30 credit per exemption claim for a Kansas Adjusted Gross Income of \$12,500 to \$25,000.

Habitat Management Credit- Amount withheld for confidentiality.

K.S.A. 79-32,203

An income tax credit is allowed for a property owner who pays property tax on property designated as a critical habitat or who incurs expenditures for managing a habitat.

High Performance Incentive Program - \$10,707,484

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

A qualified firm making a cash investment in the training and education of its employees may be eligible to receive a tax credit. A credit may also be available for those qualified firms that make an investment in a qualified business facility.

Historic Preservation Credit - \$912,135

K.S.A. 79-32, 211

An income tax credit is allowed for expenditures incurred in the restoration and preservation of a qualified historic structure.

Plugging of an Abandoned Oil or Gas Well Credit - Amount withheld for confidentiality.

K.S.A. 79-32, 207

Taxpayers who make expenditures during the tax year to plug an abandoned oil or gas well on their land in accordance with the rules and regulations of the Kansas Corporation Commission shall be allowed a credit in the amount of 50% of the expenditures made for taxable years beginning after 12/31/97 and before 1/1/01.

Research & Development Credit - \$621,265

K.S.A. 79-32,182; K.S.A. 79-32,182a

A taxpayer with qualifying expenditures in research and development activities conducted within Kansas may be eligible to receive a credit of 6 1/2% of the amount expended for the research.

Single City Port Authority Credit - \$428,473

K.S.A. 79-32,212

An income tax credit is allowed equal to 100% of the amount attributable to the retirement of indebtedness authorized by a single city port authority established before January 1, 2002.

Small Employer Health Insurance Credit - \$117,358

K.S.A. 40-2246

An income tax credit is allowed for any two or more employers who establish a small employer health benefit plan for the purpose of providing a health benefit.

Swine Facility Improvement Credit - Amount withheld for confidentiality.

K.S.A. 79-32,204

A credit is allowed for the costs incurred to make required improvements to a qualified swine facility.

TAF Family Contribution Credit - Amount withheld for confidentiality.

K.S.A. 79-32,200

Any individual, corporation, partnership, trust, estate and other legal entity required to pay income tax under the Kansas Income Tax Act who enters into an agreement with the Secretary of Social and Rehabilitation Services to provide financial support to a person who receives Temporary Assistance for Families (TAF) is allowed a credit against their Kansas tax liability.

Telecommunications Credit - \$198,437

K.S.A. 79-32,210

A credit is allowed for property tax paid by telecommunications companies on property initially acquired and first placed into service after January 1, 2001 that has an assessment rate of 33%.

Venture and Local Seed Capital Credits - Amount withheld for confidentiality.

K.S.A. 74-8205, -8206, -8304, -8316, and -8401

A credit may be deducted from a taxpayer's income or privilege tax liability if the taxpayer invests in stock issued by Kansas Venture Capital, Inc.; and a credit may be deducted from a taxpayer's income tax liability if the taxpayer invests in a certified Kansas venture capital company; and a credit may also be deducted from a taxpayer's income tax liability if the taxpayer invests in a certified local seed capital pool. The amount of credit will be 25% of the total amount of cash investment in such stock.

Amounts are withheld for confidentiality if there are four or fewer filers within any given tax area of a credit.

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