Approved: March 14, 2006
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 2, 2006 in Room 519-S of the Capitol.

All members were present.

Committee staff present:
- Chris Courtwright, Legislative Research Department
- Martha Dorsey, Legislative Research Department
- Gordon Self, Revisor of Statutes
- Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:
- Representative David Huff
- Don McNeely, KS Auto Dealers Assoc.
- Bob Peterson, private citizen
- Jim Ibach, private citizen
- John Federico, General Motors

Others attending:
- See attached list.

The Chairman called for bill introductions:

Representative Pat Colloton requested a Committee bill that would grant a sales tax exemption to all 501(3)(c)'s that have requested a sales tax exemption within the 2006 session. Representative Wilk moved the motion to introduce the bill and Representative Owens seconded. The motion carried.

Representative O'Malley, on behalf of Representative Terrie Huntington, requested a bill introduction that will make modifications to the way sales tax is determined on the purchase of a new car. Representative Owens seconded the motion. The motion carried.

Representative Huff requested a Committee bill be introduced, on behalf of Representative Sue Storm, extending the deadline for corporate reports. Representative Owens seconded the motion. The motion carried.

Nancy Bryant, Secretary of State's Office, requested a Committee bill introduction regarding a franchise tax. Representative Huff moved to introduce the bill. Representative Wilk seconded the motion. The motion carried.

HB 2640 - No sales taxation of manufacturer rebates to purchasers and lessees of new motor vehicles.

Martha Dorsey said the bill would exempt from sales taxation the amount related to a manufacturer rebate on a motor vehicle, if the rebate is paid directly to the retailer. DOR has advised staff that this bill will not be a problem with respect to the streamlined sales tax program. The bill will be effective July 1,2006 and the fiscal note for FY07 will be $10,930 million.

The Chairman opened the public hearing on **HB 2640**.

PROPONENTS:

Representative Huff, said that the bill dealt with one of the most unfair sales taxes that is imposed on Kansas citizens. He posed a scenario citing the actual price a buyer might pay for the vehicle, followed by an analysis of the tax structure the purchaser must pay. He added that he believed the fiscal note was flawed and questioned the methodology used to gather data. He also questioned why the fiscal note, supposedly prepared to aid the Legislators, was copied to the KS Association of Counties and the KS League of Municipalities (Attachment 1).

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 2, 2006 in Room 519-S of the Capitol.

Don McNeely, KS Auto Dealers Assoc. said that manufacturers' coupons, rebates and incentives have become an integral part of the pricing of new vehicles. Competitive pricing has become an issue since 996, when the Missouri Legislature exempted manufacturers' coupon and other incentives from their sales tax. He urged the Committee to pass out **HB 2640** (Attachment 2).

Bob Peterson related a recent experience when he purchased three GMC pickups to be used in business. He said that paying more than 10% sales tax was exorbitant and asked the Legislators to change the law and give relief to those citizen who pay taxes (Attachment 3).

Jim Ibach, testified that he had recently purchased a new motorcycle in Missouri. He described the experience that took place when he paid the taxes at the Olathe licensing office. He said that if the law is changed to disallow sales tax on all motor vehicle rebate amounts, it would make much more sense as well as have significant positive taxation impact to the citizens of Kansas (Attachment 4)

John Federico, General Motors, spoke to the Committee about General Motors support for the bill. Incentives are important to manufacturers to promote and move inventory. He encouraged the Committee to pass out **HB 2640** (No written testimony).

The Chairman closed the hearing on **HB 2640.**

It was noted that testimony from Dr. Art Hall, Center for Applied Economics, University of Kansas School of Business, regarding "*An Economic Evaluation of Two Kansas Tax Credit Programs; High Performance Incentive Program and Business and Job Development Credit*" had been distributed (Attachment 5).

The Chairman turned the Committee's attention to **HB 2619** and reminded the Committee they would resume discussion on the Siegfreid motion to amend the bill. Chris Courtwright distributed copies of a chart, formatted as the Slider Amendment (Attachment 6) which was based on the fiscal note he had received from DOR. He explained the data and responded to clarifying questions.

Gordon Self explained the Siegfreid amendment (Attachment 7) and stated that this amendment would be added as a completely separate section.

Representative Carlson made a substitute motion to pass out **HB 2619**, as originally submitted, without amendments. It was seconded by Representative Kelly. The motion failed.

Representative Goico made a substitute motion to insert the provisions of **HB 2679**, (sales tax credit for three years), into **HB 2619**, add the utility and railroad amendment, and in the fourth year return to **HB 2619** as currently written. It was seconded by Representative O'Malley.

Richard Cram explained the fiscal note related to a 100% tax credit for years one, two and three, related to Representative Goico's substitute motion. Discussion followed on the pros and cons of the plans.

Representative Goico closed on his substitute motion. The motion failed 3-18. Representative Goico and Carlin requested their yes votes be recorded.

The Chairman noted that they were back on the Siegfreid motion made during the February 1, 2006 committee meeting. Representative Siegfreid made the motion to amend **HB 2619** to include the "Slider" amendment.

Representative Siegfreid closed his motion. The motion carried.

Representative Davis made a motion to amend the bill to state that if there is growth of assessed values that exceeds the loss of assessed values, the state would not be obligated to pay the amount designated under the Siegfreid amendment. Representative Menghini seconded the motion. The motion failed.

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 2, 2006 in Room 519-S of the Capitol.

An Executive Summary of an Analysis of Corporate Income Tax FY 2000-2002 and an update FY 2003, from the Department of Revenue were distributed (Attachment 8).

The Chairman announced that the noon meeting for today had been cancelled. Discussion on **HB 2619** would continue on Monday at 9:00 a.m., with the intention of working the bill at that time. The meeting adjourned at 10:30 A.M. The next meeting is February 6.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: Febuary 2, 2006

NAME	REPRESENTING
Don McNeely	KADA
John Federico	GM
Jim Ibach	Personal
Bob Peterson	Personal.
Derek Hein	Hein Law Firm
Bernie Koch	Wichita Chamber of Commerce
Ronald Richey	ME
Harriet Lange	KAB
Andy Shaw	Kearney + Associates
Christy Caldwell	Topeka Chamber
Jim Maag	Spirit Aerosystems
Martin Hawver	Hawver's Capitol Report
Mike Murray	Sprint
Dan Murray	Federico Consulting
TERRY FORSYTH	KNEA
Melissa Miller	Rep. Hill
David Cunningham	Ks Asso School Bds
Deann Williams	KS MOTOR CARRIERS ASSOC.
Dan Korber	Kansas Inc.

HOUSE TAXATION COMMITTEE GUEST LIST

DATE: February 2. 2006

NAME	REPRESENTING
Hal Hudson	NFIB/KS
Ben Cleeves	DOB
Larry R Baer	LKM
[illegible]	LGR
Stephanie Mickelsen	KSOS
Nancy Bryant	KSOS
KEN DANIEL	KSSMALLBIZ.COM
[illegible]	KDOR
David R. Corbin	KDOR
John H Hughes	KDOR
Roger Hamm	KDOR
TONY A. SCOTT	KSCPA
T.C. ANDERSON	KSCPA

Room 519-S Tax 9:00 - 10:30 a.m.

Chairman Wilk, Vice Chair in training Owen and Ranking member Thull and fellow Committee members.

Last year Mr. Chairman we repealed the Klunker Bill. If the Klunker Bill was a tractor, HB-2640 is surely the trailer. HB-2640 deals with one of the most unfair sales taxes that is imposed on our citizens. We all believe that any individual should pay their full sales taxes on the actual cost of any products, but, like the Klunker Bill we should not force our citizens to pay taxes on an inflated price of a product. HB-2640 deals with the manufacturers rebate on the sales tax of new motor vehicles. Let's say you are buying a car for $20,000 and you are closing the deal with your car dealer. There is a $3,000 rebate which enticed you to buy the car to begin with. Your cost of the car after signing and rebate copy is now $17,000. You will finance or write a check as Chairman Wilk would do, for the $17,000 net cost. But now of course you must add your sales tax on this purchase which you have anticipated to be on the $17,000. But wait a minute the dealer tells you, you must pay sales tax on the $20,000 not the $17,000 you paid for the car. I have talked with car dealers and this is the most contentious part of the sale. You have an irate customer who keeps saying I paid $17,000 for this car and the State of Kansas is saying I paid $20,000 for this car. Fellow Committee members this is wrong. We allow full trade in value on vehicles but not a rebate that the customers actually never see. HB-2640 eliminates the sales tax on manufacturers rebates on this blue sky tax.

Rep. David Huff

January 31, 2006

The Honorable Kenny Wilk, Chairperson
House Committee on Taxation
Statehouse, Room 426-S
Topeka, Kansas 66612

Dear Representative Wilk:

SUBJECT: Fiscal Note for HB 2640 by Representative Huff

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2640 is respectfully submitted to your committee.

HB 2640 would change the definition of "sales or selling price" as used for the calculation of sales tax. The bill would exclude any cash rebate that is extended by a vehicle manufacturer to a purchaser or lessee of a new motor vehicle. This exclusion would apply only if the rebate was paid directly to the retailer as a result of the original sale.

Estimated State Fiscal Effect				
	FY 2006 SGF	FY 2006 All Funds	FY 2007 SGF	FY 2007 All Funds
Revenue	--	--	($9,590,000)	($10,930,000)
Expenditure	--	--	$18,500	$18,500
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2640 would decrease state revenues by $10.9 million in FY 2007. Of that total, the State General Fund is estimated to decrease by $9.6 million, while the State Highway Fund is estimated to decrease by $1.3 million. This bill also is estimated to decrease local revenues by $3.9 million in FY 2007. The decrease in revenues and

1-3

how the November 3, 2005 consensus revenue estimate for FY 2007 would be affected are shown in the following table:

Effect on FY 2007 Consensus Revenue Estimates
(Dollars in Thousands)

Tax Type	Consensus Revenue Estimates (Nov. 3, 2005)	Change in Revenue FY 2007	Proposed Adjusted CRE FY 2007
Motor Carrier	$23,000	$ --	$23,000
Income Taxes			
Individual	2,360,000	--	2,360,000
Corporate	260,000	--	260,000
Financial Institutions	24,000	--	24,000
Estate	52,000	--	52,000
Excise Taxes:			
Retail Sales	1,729,000	(9,590)	1,719,410
Compensating Use	268,000	--	268,000
Cigarette	117,000	--	117,000
Corporate Franchise	46,000	--	46,000
Severance	111,800	--	111,800
All Other Excise Taxes	76,400	--	76,400
Other Taxes	116,300	--	116,300
Total Taxes	$5,183,500	($9,590)	$5,173,910

The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2008	FY 2009	FY 2010	FY 2011
State General Fund	($9,590,000)	($10,270,000)	($10,630,000)	($11,010,000)
State Highway Fund	(1,340,000)	(1,440,000)	(1,490,000)	(1,540,000)
Local Governments	(3,920,000)	(4,200,000)	(4,340,000)	(4,500,000)
	($14,850.000)	($15,910,000)	($16,460,000)	($17,050,000)

To formulate these estimates, the Department of Revenue reviewed data from auto industry sources. New vehicle cash rebates average $3,000 with 60.0 percent of all new car purchases receiving a rebate. It is estimated there are 125,000 new car purchases in Kansas annually. If 60.0 percent of these sales include a $3,000 rebate, the loss in sales tax would be $11.9 million. However, this bill would affect only 11 months of receipts in FY 2007, making the loss of revenue $10.9 million. It should be noted that the offering of rebates fluctuates from year to year. The calculation of the estimate is as follows:

125,000	new car purchases
X 60%	purchases that receive rebate
75,000	new car purchases with rebate
X $3,000	average rebate
$225,000,000	excluded sales
X 5.3%	state sales tax rate
$11,925,000	reduction in state sales tax receipts
X 11/12	months affected in first year
$10,930,000	state sales tax reduction

The Department states that passage of this bill would require revisions to the sales tax publications and a notice of the changes to retailers at an estimated cost of $18,500. This bill would also require modifications to the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with the enactment of HB 2640 is not accounted for in *The FY 2007 Governor's Budget Report.*

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Steve Neske, Revenue
Judy Moler, KS Association of Counties
Kimberly Winn, League of KS Municipalities

KANSAS AUTOMOBILE DEALERS ASSOCIATION

February 2, 2006

To: The Honorable Chairman Kenny Wilk
and the Members of the House Committee on Taxation

From: Don L. McNeely, President

Re: HB 2640 - Support

Good morning, Chairman Wilk and Members of the House Committee on Taxation. My name is Don McNeely and I am the President of the Kansas Automobile Dealers Association, which represents the franchised new car and truck dealers in Kansas. On behalf of KADA, I am pleased to appear today in support of HB 2640, which would exempt manufacturer rebates from the taxable selling price or lease amount of a new motor vehicle.

It is no secret that manufacturers' coupons, rebates and incentives have become an integral part of the pricing of new vehicles. Especially, as manufacturers attempt to improve sales of certain model vehicles or move inventory of current model vehicles prior to the introduction of the new model year. Manufacturer rebates have become quite substantial on many vehicles ranging any where from a low of $500 on a Ford Fusion to a high of $8000 on a Cadillac Escalade, as is exemplified by the attached list of current incentives.

This discussion with the consumer about the taxability of a manufacturer rebate has increased in frequency since 1996 along the state line with Missouri, since the Missouri Legislature exempted manufacturers' coupon, rebates and incentives from Missouri Sales Tax. Yes, it is true if a Kansas consumer purchases a motor vehicle in Missouri, the Kansas County Treasurer in which the vehicle is to be domiciled should collect the sales tax on any manufacturer coupon, rebate or incentive. But, as I had suggested in the previous testimony and as was proven correct by the 2003 Legislative Post Audit Study on Motor Vehicle Sales Tax, this was not always occurring, as the Missouri dealer's bill of sale to a Kansas resident will have the manufacturer's coupon, rebate or incentive subtracted from the taxable selling price of the vehicle, causing the Kansas County Treasurer to re-calculate the taxable selling price.

On behalf of the Kansas Automobile Dealers Association, I thank the Members of the Committee for allowing me to appear before you this morning in support of HB 2640, and I would be happy to answer any questions you may have.

House Taxation
2-2-06
Attachment 2

800 S.W. Jackson, Suite 1110 • Topeka, KS 66612

Telephone (785) 233-6456 • Fax (785) 233-1462

stomer Incentives

entives in this table are a summary of retail programs offered. Programs may vary by region and model.

CHRYSLER GROUP

Expires Jan. 31. In lieu of rebates, financing rates are available.

	Cash rebate	Finance rate
2006 models		
Chrysler Pacifica, Town & Country	$3,000	4.9%
Sebring	$1,500	4.9%
PT Cruiser	$1,000	4.9%
Crossfire	–	4.9%
Dodge Caravan, Durango, Grand Caravan, Ram 1500 (excl. SRT-10/Mega Cab)	$3,000	4.9%
Dakota, Ram 2500/3500 (excl. Mega Cab)	$2,500	4.9%
Ram Mega Cab	$2,000	4.9%
Stratus sedan	$1,500	4.9%
Jeep Grand Cherokee, Liberty (excl. diesel)	$2,500	4.9%
Liberty diesel	$1,500	4.9%
Commander	$1,000	4.9%
Wrangler	$500	4.9%
2005 models		
Dodge Neon	$2,000	–

FORD MOTOR CO.

Ford Division expires Jan. 31. Lincoln and Mercury expire April 3. In lieu of rebates, cut-rate financing is available.

	Cash rebate	Finance rate
2006 models		
Ford Expedition	$4,000	0-6.9%
Freestar	$3,000	0-6.9%
F-150 (excl. SuperCrew)	$2,500	0-6.9%
Explorer, Crown Victoria, F-150 SuperCrew, Focus, Ranger	$2,000	0-6.9%
Escape	$1,500	0-6.9%
E series, Five Hundred, Freestyle	$1,000	0-6.9%
Fusion	$500	3.9-7.9%
Taurus	$500	–
Lincoln LS, Mark LT	$3,000	0-6.9%
Navigator	$2,500	0-2.9%
Zephyr	$500	3.9-7.9%
Mercury Grand Marquis, Monterey	$3,000	0-6.9%
Mariner (excl. hybrid)	$1,500	0-6.9%
Milan	$500	3.9-7.9%
2005 models		
Ford Explorer, Expedition	$5,000	0-4.9%
F-150	$4,000	0-4.9%
Crown Victoria, E series	$3,500	0-4.9%
Excursion, F-Super Duty 6.0L (excl. Harley Davidson), Ranger	$3,000	0-4.9%
Five Hundred, Freestyle	$2,000	0-4.9%
F-Super Duty Harley Davidson	–	0-4.9%
Lincoln Aviator, Navigator	$5,000	0-4.9%
Town Car	$4,500	0.9-4.9%
Mercury Mountaineer	$5,000	0-4.9%
Grand Marquis	$4,000	0-4.9%
Montego	$2,000	0-4.9%

GENERAL MOTORS

Expires Jan. 31. In lieu of rebates, cut-rate financing is available.

	Cash rebate	Finance rate
2006 models		
Buick Rainier, Rendezvous	$1,000	4.9-7.9%
Terraza	$1,000	3.9-6.9%
LaCrosse	$500	1.9-5.9%
Lucerne	–	2.9-6.9%
Cadillac Escalade	$6,000	0-1.9%
CTS, STS	–	2.9-4.9%
SRX	–	4.5-6.5%
DTS	–	6.3%
Chevrolet Suburban, Tahoe	$5,500	0%
Avalanche	$4,000	1.9-4.9%
Silverado 1500	$2,500	2.9-5.9%
Silverado 2500/3500 (excl. LBZ)	$1,500	2.9-5.9%
Colorado, TrailBlazer	$1,000	4.9-7.9%
Uplander	$1,000	3.9-6.9%
Aveo	$500	1.9-5.9%
Express, Silverado 2500/3500 (w/LBZ)	$500	2.9-5.9%
Malibu	$500	2.9-6.9%
HHR	–	1.9-5.9%
Impala, Monte Carlo	–	2.9-6.9%
Equinox	–	3.9-6.9%
Cobalt	–	5.5-8.5%
GMC Yukon, Yukon Denali, Yukon XL, Yukon XL Denali	$5,500	0%
Sierra 1500	$2,500	2.9-5.9%
Sierra 2500/3500 (excl. LBZ)	$1,500	2.9-5.9%
Canyon, Envoy, Envoy XL, Envoy Denali, Envoy XL Denali	$1,000	4.9-7.9%
Savana, Sierra 2500/3500 (w/LBZ)	$500	2.9-5.9%
Hummer H3 SUT	–	5.9%
Pontiac Montana SV6	$1,000	3.9-6.9%
G6	$500	2.9-6.9%
GTO	$500	4.9-6.9%
Vibe	–	1.9-5.9%
Grand Prix	–	2.9-6.9%
Torrent	–	3.9-6.9%
Saab 9-2X	$3,000	1.9-4.9%
9-3, 9-5, 9-7X	–	1.9-4.9%
Saturn Ion-2, Vue	–	0-5.9%
Ion	–	1.9-5.9%
Relay	–	2.9-6.9%
2005 models		
Buick Terraza	$3,500	0%
Cadillac Escalade, Escalade ESV	$8,000	0%
Escalade EXT	$7,000	0%
Chevrolet Suburban, Tahoe	$8,000	0%
Avalanche, SSR	$5,000	0-3.9%
Uplander	$3,500	0%
GMC Yukon, Yukon Denali, Yukon XL, Yukon XL Denali	$8,000	0%
Hummer H2 SUT, SUV	–	6.8%
Pontiac Montana SV6	$3,500	0%
GTO	$2,000	1.9-4.9%
Saturn Relay	$3,500	0%

HYUNDAI

Expires Jan. 31.

	Cash rebate	Finance rate
2006 models		
Elantra, Sonata V-6	$1,000	–
Santa Fe, Sonata 4 cyl., Tucson	$500	–
2005 models		
XG350	$3,000	–
Santa Fe	$2,000	–
Elantra	$1,500	–
Tiburon, Tucson	$1,000	–

JAGUAR

Expires April 4.

	Cash rebate	Finance rate
2006 models		
S-Type, XJ series, X-Type	–	4.9%
2005 models		
S-Type, X-Type	–	3.9%
XJ series	–	4.9%

KIA

Expires Feb. 28. In lieu of rebates, financing rates are available.

	Cash rebate	Finance rate
2006 models		
Optima	–	0-3.9%
Sorento	–	0-4.9%
Amanti	–	1.9-5.9%
Spectra	–	2.9-6.9%
2005 models		
Amanti	$2,000	0-4.9%
Rio	$750	0-4.9%
Sedona	–	0-0.9%
Optima	–	0-2.9%
Sorento	–	0-3.9%
Spectra	–	0-5.9%

LAND ROVER

Expires April 4.

	Cash rebate	Finance rate
2006 models		
LR3	–	5.9%
2005 models		
LR3	–	3.9%

MAZDA

Expires Jan. 31.

	Cash rebate	Finance rate
2006 models		
Mazda6, MPV	$1,500	–
2005 models		
MPV	$3,000	–
Mazda6	$2,500	–

MERCEDES-BENZ

Expires Jan. 31.

	Cash rebate	Finance rate
2006 models		
E350, CLK, S500	–	1.9-4.9%

MINI

Expires Jan. 31.

	Cash rebate	Finance rate
2005 and 2006 models		
Cooper	–	6.2-6.75%

MITSUBISHI

Expires Feb. 28. In lieu of rebates, cut-rate financing is available.

	Cash rebate	Finance rate
2006 models		
Raider	$1,500-$3,000	3.9-5.9%
Montero	$2,500	3.9-5.9%
Endeavor	$1,500	3.9-5.9%
Galant	$1,000-$1,500	3.9-5.9%
Lancer	$1,000	3.9-5.9%
Eclipse GT, Outlander	$500	3.9-5.9%
2005 models		
Endeavor, Montero	$3,000	1.9-3.9%
Galant	$2,500	–
Outlander	$2,000	–
Eclipse, Lancer, Lancer Evolution	$1,500	–

NISSAN NORTH AMERICA

Expires Jan. 31.

	Cash rebate	Finance rate
2006 models		
Nissan Sentra	$2,500	1.0-2.0%
Armada, Titan	$2,000-$2,500	2.0-3.0%
Maxima, Quest	$1,500	3.0-4.0%
Altima	$1,000-$1,500	3.0-4.0%
Frontier	$1,000	3.0-4.0%
Pathfinder, Xterra	$500	–
2005 models		
Infiniti FX35, FX45	–	1.99-3.99%
Nissan Sentra	$2,500	1.0-2.0%
Armada	$2,500	2.0-3.0%
Titan	$2,250-$3,000	2.0-3.0%
Quest	$2,000-$2,500	1.0-2.0%
Xterra	$2,000	3.0-4.0%
Maxima	$1,750	2.0-3.0%
Altima	$1,500	2.0-3.0%
Frontier	$1,500	3.0-4.0%
Murano	$1,000	3.0-4.0%
350Z	$1,000	–
Pathfinder	$500-$1,000	3.0-4.0%

SUBARU

Expires Jan. 31.

	Cash rebate	Finance rate
2006 models		
B9 Tribeca, Baja, Forester, Impreza, Legacy, Outback	–	1.9-4.9%

SUZUKI

Expires Feb . 28. In lieu of rebates, cut-rate financing is available.

	Cash rebate	Finance rate
2006 models		
Forenza, Reno	$1,000	–
Aerio, XL-7	$750	–
Grand Vitara, Verona	$500	–
2005 models		
XL-7	$1,750	2.9%
Forenza, Grand Vitara, Reno, Verona	$1,500	2.9%
Aerio	$1,250	2.9%

VOLKSWAGEN OF AMERICA

Expires Feb. 28.

	Cash rebate	Finance rate
2006 models		
Audi A3	–	4.9%
Volkswagen Jetta	–	2.9-4.9%
Golf, Phaeton, Touareg	–	2.9-3.9%
GTI, Passat	[illegible]	[illegible]

Dealer Incentives

Incentives in this table are a summary of dealer programs offered. Programs may vary by region and model.

BMW

Expires Jan. 31.

2005 models	
Z4	$3,000-$5,000

CHRYSLER GROUP

Expires Jan. 31.

2005 models	
Chrysler Crossfire	$5,000
Pacifica, Town & Country	$4,000
Sebring	$3,000-$4,000
PT Cruiser	$2,000-$3,500
300	$1,000
Dodge Durango	$7,000
Ram 1500 pickup (excl. SRT-10)	$6,000
Ram 2500/3500 pickup (excl. diesel)	$4,500
Grand Caravan	$4,000
Ram 2500/3500 pickup diesel	$3,500
Stratus	$3,000-$3,500
Magnum	$3,000
Neon, Ram pickup 1500 SRT-10, Viper	$1,000
Jeep Grand Cherokee	$4,500-$5,500
Liberty (excl. diesel)	$4,000
Liberty diesel	$3,000
Wrangler	$2,000

FORD MOTOR CO.

Expires April 3.

2006 models	
Lincoln LS	$5,000
2005 models	
Lincoln LS	$8,000
Aviator	$3,000
Town Car	$1,000
Mercury Grand Marquis	$1,000

GENERAL MOTORS

Expires Jan. 31.

2006 models	
Cadillac STS	$1,000
Chevrolet SSR	$1,000
GMC Canyon, Envoy, Savana, Sierra, Yukon	$500
Hummer H2 SUT/SUV	$2,000
Saturn Ion, Relay, Vue	$250
2005 models	
Hummer H2 SUT/SUV	$5,500

AMERICAN HONDA MOTOR CO.

Expires Feb. 28.

2006 models	
Honda Ridgeline	$1,000
2005 models	
Acura NSX	$7,500

ISUZU

Expires Jan. 31.

2006 models	
Ascender	$3,500
i-series	$2,000
2005 models	
Ascender	$5,000

JAGUAR

Expires April 4.

2006 models	
XK series	$7,500
X-Type	$1,500
2005 models	
XK series	$15,000
XJ series	$5,000-$7,000
X-Type	$3,500-$6,000
S-Type	$4,000-$6,000

MITSUBISHI

Expires Feb. 28.

2006 models	
Eclipse GT, Endeavor, Galant, Lancer, Montero, Outlander	$500
2005 models	
Eclipse, Endeavor, Galant, Lancer, Lancer Evolution, Montero, Outlander	$500

Source: Automotive News, Edmunds.com and JATO Dynamics Ltd.

2-2

COMMITTEE ON TAXATION
TESTIMONY
February 2, 2006

Robert A. Peterson
2338 Merriam Ln
Kansas City, KS 66106

Re: Taxation of Rebates

In October 2004, I purchased three GMC pickups that were subsequently leased to my wife's mechanical contracting company. The purchase price for the three was $48,860 after rebates of $16,500. MSRP for the three was $70,750 and I felt pretty good about the deal I had struck...until I found out that I had to pay sales tax on the rebates.

The sales tax I paid included the rebates or $1,241 more than if I had paid tax on just the purchase price. I questioned the amount at the time as it was 10.1% of the purchase price and was told that it was calculated properly.

It is my understanding that in other purchases, discounts are not included. If I purchased a saw at the hardware store for $150 marked down from $200, I would pay sales tax on the purchase price of $150.

I think that paying more than 10% sales tax is exorbitant. I suspect that the lawmakers who created this tax did not contemplate such a tax being applied in this manner. If the lawmakers today disagree with this application, please change it and give some relief to those of us who paid too much.

TAXATION COMMITTEE
TESTIMONY
February 1, 2006

Robert A. Peterson
L. R. Cloverleaf, Inc.
2338 Merriam Lane
Kansas City, KS 66106
913.432.4323
Bob@LRCloverleaf.com

Re: Sales Tax charged on new vehicles with rebates

My wife, Linda E. Peterson, owns L. R. Cloverleaf, a Minority-owned Business Enterprise. I own National Business Brokers Company and she lets me use an office in return for certain tasks such as personally buying, licensing and repairing the service trucks that are then leased to her company.

In October 2004, I executed a transaction in which I purchased three GMC Sierra work trucks from Galen Boyer GMC, Independence, MO.

Vehicle One:

MSRP		$23,515.00
Dealer Discount	($1,915.00)	
Total Price		$21,600.00
Admin Fee	$ 80.00	
Rebate	($3,500.00)	
Bonus Cash	($1,500.00)	
Instant Value Certificate	($ 500.00)	
Balance		$16,180.00

From the MSRP, my total price paid was negotiated down by $7,335.00.

I paid a total of $16,180. The sales tax was calculated on something higher. The sales tax was $1,632.21 or 10.1%. Other fees, registration, plate, title, property tax were in addition to that.

Vehicle Two:

MSRP	$23,720.00
Purchase Price	$16,500.00
Sales tax	$ 1,662.31
On my purchase price	10.1%

Vehicle Three: Same as Vehicle One

I paid sales tax of $4,926.73 for these three vehicles. I paid sales tax on approximately $5,500 for each vehicle that I did not actually pay. The sales tax was calculated on a price 34% more ($21,684 versus $16,180) than I paid. This amounts to excess of $1,250.

February 2, 2006

REBATE TESTIMONY

My name is James (Jim) M. Ibach. I reside at 1400 E. Sleep Hollow Dr. in Olathe, Kansas.

I want to thank you for the opportunity to testify to your committee on what I believe to be the current unfair taxation on motor vehicle sales rebate amounts by the State of Kansas

In August of 2004 I was shopping to purchase a newer model motor cycle than the 1999 Honda Shadow Aero I owned at the time. My search took me to Northwest Missouri Recreational Vehicles in Cameron, Missouri.

I was originally thinking of purchasing a 2005 Model cycle. However, this dealership had in it's inventory, a "new" **untitled** 2002 Honda VTX 1800.

Due to the fact the dealer wanted to move this cycle from his inventory and Honda Motor Company had a country wide rebate for the VTX 1800 I chose to purchase this "holdover" 2002 Honda VTX 1800 over a smaller and newer model, due to the considerable savings afforded.

The Honda rebate program on at the time allowed **$2000** immediate rebate to the purchaser of any "new" 2003 or prior model VTX 1800. (I enclose a copy of the specific rebate, dated 8-18-04) This rebate program expired on August 31, 2004 which helped influence the dealer to sell this cycle at, what I perceived to be, a very reasonable price after accepting my 1999 cycle as trade in.

Since this was a Missouri dealership and I a Kansas resident, no sales tax was collected and I fully expected to pay the sales tax at the Olathe Licensing Office. However, I had loosely calculated I would only have to pay .07+ rate on the $4000 difference I paid to the dealer after trade in and application of the $2000 rebate to the sale. (I apologize that I did not keep a copy of the sales invoice. However, I do include a copy of the "Title and Registration Receipt".) The sales invoice showed an amount owed of $6000 after trade in and **$4000 net, after applying the rebate amount to the purchase.** I have checked my Quicken Register and confirmed I wrote a check to the dealer for the $4000 amount.

Admittedly, I was surprised when the clerk at the Licensing office advised me of the amount I owed to title, register, transfer the tag, as well as pay the added property tax and ***sales tax*** ($452) was considerably higher than I had anticipated.

When I questioned her about the amount, as I only paid $4000, she informed me I had paid $6000. When I tried to point out she must have overlooked the rebate amount she (with about as much tact and diplomacy as a grizzly bear) advised me "**Kansas does not**

recognize rebate amounts as far as sales tax is concerned") Thinking she did not have a true grasp of the situation I tried to explain I only wrote a check to the dealer for $4000 so how could the "SALE" be $6000?? I was then informed "Kansas wrote the law and if I wanted to tag and title the cycle I would have to pay the $452 sales tax amount" From a citizen's perspective this interpretation of "rebates & sales tax" came across as one of several "creative measures" at the time by the State to help the slipping revenues due to recession in the economy.

I assumed this rebate interpretation apparently occurred at about the same time as the State of Kansas changed their method of taxing based on "book value" of clunker cars rather on the "actual market value" of the vehicle. Smarting from the unfairness of my recent rebate incident, I presumed it was all part of the one law covering the perceived "loophole" in collecting taxes on privately sold vehicles in the state.

I wrote a letter to Mr. Jim Sullinger of the Kansas City Star who was covering the "clunker car" tax issue. I have since found out the "rebate" law is separate **but no less unfair** than the law was on "clunker" vehicles. Apparently, Mr. Sullinger has now brought the "rebate issue" to the attention of Representative David Huff. It is my understanding Mr. Sullinger and Representative Huff agree with my opinion this rebate issue is unfair and really makes little sense. All of this, in turn, brings me to testify before your committee. If the law is changed to disallow sales tax on all motor vehicle rebate amounts, it will make much more sense as well as have significant positive taxation impact to the citizens of Kansas

I believe in paying my "fair share" of taxes. One wants to be thankful, bottom line, they have enough income to share with all the levels of government and bureaucracy. I consider myself to be a "middle class retired person". However, when I calculate all the taxes being taken out of my "income" and then include all the various taxes that comes out of "what's left" of the income, it boils down to me sharing about 50-50, if not more, with "the system"!

I do not know if this is "paying too much taxes"?. I am not sure anyone knows what level "too much tax" is under today's government systems. However, when the law says you have to pay "SALES TAX" on monies **you did not spend** it seems it cannot be "SALES TAX" Given enough time and creative thinking, I am sure a new name could be created it to help justify it's collection. However, based on what I now understand of the sales tax laws, it does not make sense or seem fair to have "overcollected" $151 from me in 2004. (6000 x .07525 = 451.50> $452.00 versus 4000 x .07525 = $301.00 or the $151 "overcharge")

I have been told of at least one other such unfair collection, based on a $16,500 rebate which makes my amount of overcharge seem pale in comparison. However, I would appreciate the committee do what ever necessary to change this unfair tax legislation and return my overcharge.

I want to thank you again for the opportunity to address the committee on this issue.

VTX

1	0	5	5	1	4

Dealer Number

$2000
BONUS BUCKS!

Customer Name: JAMES IBACH

Address: 1400 E. SLEEPY HOLLOW DR.

City, State, Zip: OLATHE, KANSAS 66062

Unit V. I. N. LHESC49372A001802

Northwest Mo. Honda
Dealer Name

Dealer Signature

8-18-04
Date

By signing this certificate, I certify that I have purchased and taken delivery of a qualified 2003 or prior model year VTX1800C/R/S between 6/10/04 and 8/31/04, and I have applied this certificate to my purchase as indicated:

SELECT ONE: ☐ Accessories ☐ Riding Gear ☒ Other

Customer Signature

8-18-04
Date

TERMS AND CONDITIONS: $2000 in-store credit applies with the purchase of any new and unregistered 2003 or prior model year VTX1800C/R/S and can only be used for purchases at the dealership and must be redeemed on the date of purchase. Offer has no cash value and is not transferable. $2000 in-store credit offer good 6/10/04 - 8/31/04. Limit (1) one certificate per unit purchase. American Honda reserves the right to amend, cancel or revoke this program at any time without prior notice. In all matters pertaining to the interpretation and application of any phase of the program, the decision of American Honda shall be final. Restrictions apply. Offer applies only to U.S. models sold in the United States.

White-Customer Yellow-Dealer Pink-AHM

4-3

KANSAS

Department of Revenue
Division of Vehicles
Topeka, KS 66626-0001

PLATE NO. PKE35

TITLE AND REGISTRATION RECEIPT

TRANSACTION
TYPE OTMCST DESCRIPTION
TITLE & REG W/TRANSFER 04620020040819-0382 0381 PAY
DATE 08-19-2004

OWNERS NAME
IBACH JAMES M AND/OR
IBACH CAROLYN

1400 E SLEEPY HOLLOW DR OLATHE KS 66062-

VEHICLE ID NUMBER 1HFSC49372A001802
VEHICLE TYPE MOTORCYCLE
REGISTRATION TYPE STANDARD
PLATE NO. PKE35
DECAL NO. MC0529166

MAKE	MODEL	YEAR	STYLE	TRUCK CLASS
HOND		2002	MC	

REGISTRATION EXPIRES: 06-30-2005

DISPOSED VEHICLE
1HFSC3918XA100368 MC 1999 HOND

MILEAGE	PUR/TO KS DATE	EMPTY WT.	GROSS WT.
0000001 A	08-18-2004		

Complete When Applying for Duplicate Title I certify that I am the lawful owner of the vehicle described above and a Kansas Certificate of Title was issued to me, and that my original certificate of title has been: (Check one.) lost [ ], mutilated *[ ], or has become illegible *[ ].
*Attach title to application.

LIENS

TOD

FEE SUMMARY

TYPE	AMOUNT
RGSTRN/SRVC FEE	$3.00
TRANSFER FEE	$1.50
TITLE FEE	$10.00
PRPRTY TAX	$57.60
SLS TX/FEE COMP	$452.00

INSURANCE POLICY NUMBER 0326640163
COMPANY STATE FARM MUTUAL AUTOMOBILE IN 20050404

I hereby certify that I am a resident or have a bona fide place of business in this county and that I am an owner of and have in effect financial security for the above mentioned vehicle as required by law. I certify that all liens and/or encumbrances, if any, are listed and the information on this application is true and correct to the best of my knowledge.
FALSE CERTIFICATION CAN RESULT IN CRIMINAL PROSECUTION.

TOTAL AMOUNT $524.10

OWNER'S SIGNATURE(S) ______________________
Please review all information for accuracy before signing.

SOLD TO/REPOSSESSED BY: TRADE IN

					PROPERTY TAX STATEMENT	PRIOR YEAR TAX
LOCAL BASE POINT		CLASS	014	TAX	$105.47	$0.00
SITUS	JO	PREV TAX VALUE	$754.29	PENALTY		
TAX UNIT		NEW TAX VALUE	$1,661.75	CRDT TOTAL	$47.87	
				TOTAL	$57.60	$0.00

IBACH JAMES M
IBACH CAROLYN
1400 E SLEEPY HOLLOW DR
OLATHE KS 66062

AMOUNT RECEIVED $524.10
CHANGE DUE $0.00

TR-200 (Rev. 10/99)

F090025510 4-4

An Economic Evaluation of Two Kansas Tax Credit Programs: High Performance Incentive Program and Business and Job Development Credit

Arthur P. Hall
Center for Applied Economics
University of Kansas School of Business

Summary

- Regarding State of Kansas income tax credit programs, data limitations prevent the calculation of an authentic return on investment (ROI) from the perspective of the State.
- The investment tax credit component of the High Performance Incentive Program has substantial economic value to Kansas' taxpayers, and thereby has the potential to offer the State of Kansas a meaningful ROI.
- The Business and Job Development Credit has minimal economic value to Kansas' taxpayers, and thereby has little potential to offer the State of Kansas a meaningful ROI.

Calculating the Return on Investment from Tax Credits

Policy makers in Kansas want to know if the policy programs they implement have a positive payoff from the perspective of the State. Tax credits represent a set of policy programs enacted to promote specific economic activities—namely, in the context of this evaluation, business investment, job creation, and worker training.

On approach for evaluating the effectiveness of the tax credit programs is to calculate a return on investment from the perspective of the State of Kansas. The calculation of a return on investment has two components: (1) an investment outlay and (2) a specified time period of "free cash flows" resulting from the investment outlay. (Calculation of a "required" return has a third component—a specified time value of money.) Conceptually, the return on investment calculation from a tax credit should view the credit (sometimes referred to as a tax expenditure) as the investment outlay and it should view the tax revenue generated explicitly from a taxpayer's use of the credit as the free cash flow resulting from the investment outlay. If the tax credit generates enough incremental tax revenue to result in an "acceptable" rate of return, then policy makers can infer that the instrument is meeting its policy goal(s).

Unfortunately, data limitations prevent the calculation of an authentic return on investment on Kansas' tax credit programs. The data that firms report to either the Kansas Department of Revenue or the Kansas Department of Commerce do not present the detail needed to isolate the relevant cash flows. Firms report the dollar amount of an investment (and thus the tax credit allowed) and the jobs created, but they do not report the explicit taxable income streams that result from the specific investment. The most significant practical challenge—from the perspective of the firm and the State—is

House Taxation
2-2-06
Attachment 5

matching the use of a tax credit with the explicit economic activity (and commensurate income streams) that results from the credit(s).

Despite the important data limitations, one can gain insight into the value of tax credit programs from the perspective of the State by observing the value of the credits from the perspective of the taxpayer. Arguably, the goal of the Kansas tax credit programs is the economic development that the credits promote, not the incremental tax revenue per se. If the economic value of a tax credit program from the taxpayer's perspective does not improve the value of the credited economic activity enough to alter an economic decision, then one cannot make a credible argument that the credit is achieving its goals from the perspective of the State.

High Performance Incentive Program Credits

The High Performance Incentive Program (HPIP), enacted in 1993, currently has two components, a Training and Education Tax Credit and an Investment Tax Credit (ITC). The Kansas Secretary of Commerce must certify businesses seeking to use the HPIP provisions. The certification specifies a time period for eligible training and investment expenditures.

- Calculation of the Training and Education Credit. The lesser of: $50,000 or (Payroll x 2%) minus Qualified Training Expenditures

- Calculation of Investment Tax Credit. Unused amounts may be carried forward for up to 10 years.
  (Qualifying Investment Expenditure minus $50,000) times 10%

For two reasons, the following analysis focuses on the HPIP ITC only. First, the ITC is significantly more valuable to the taxpayer and, consequently, represents a significantly larger "tax expenditure" for the State of Kansas. Second, there is no straightforward way to generalize the investment value to a firm of worker-training expenditures.

The chart below provides a distribution of the investment amounts certified for the HPIP ITC in the 2003 tax year. Policy makers might care to investigate why such a small percentage of Kansas firms are seeking (or being certified for) a valuable credit. Note that the chart includes only the 44 firms that applied for the ITC; it omits the 20 firms that applied for the HPIP Training and Education credit only.

Dollar Amount of Investment (2003)	Number of Firms
Under $500,000	17
$500,000 - $1 Million	7
$1 Million - $5 Million	11
Over $5 Million	9
TOTAL	44

Tables 1-4, which follow, demonstrate the influence of the HPIP ITC on hypothetical investment returns, given different investment amounts and tax credit carry-forward assumptions. The different investment sizes matter because the HPIP ITC specifies a $50,000 minimum investment threshold. The larger the investment, the less influence the threshold amount has on the rate of return, and vice versa. Each table compares rates of return for five taxpayer situations: no tax credit, one year credit depletion, three year credit depletion, five year credit depletion, and ten year credit depletion. In the multi-year situations, the analysis assumes that the taxpayer uses the HPIP credit in equal amounts each year. For example, in the five-year scenario, one-fifth of the HPIP credit is used in each of five tax years. In each case, the investment rate of return is generated from 10 years of net income.

Tables 1-4 show that the HPIP ITC offers measurable value to taxpayers. It substantially improves investment returns compared to the No Credit case. As is typical in investment analysis, the ITC has more investment value the sooner the taxpayer can use it.

From a policy perspective (and the State's perspective of ROI), the tables illustrate two noteworthy pieces of information:

1. As mentioned above, the ITC has more value to taxpayers that have the ability to make larger capital investments. The far right-hand column of each table shows the annual net income as a percent of the initial investment. This metric allows for simple comparison across tables. Notice that at the 10 percent of net income level, each level of investment earns a zero rate of return under the No Credit scenario—and each level of investment earns a different rate of return under the one-year scenario. For example, the introduction of the ITC shifts the investment return for a $5 million investment from zero to 1.9 percent; for a $75,000 investment, the return increases from zero to 0.62 percent. The difference in rates of return is the most straightforward measure of the fact that the HPIP's $50,000 minimum threshold materially influences the economic impact of the credit.

   Policy makers should consider whether or not HPIP's arbitrary minimum investment threshold limits the ROI of the program from the State's perspective. ROI from the State's perspective depends on economic growth and economic development, both of which represent a complex mixture of business growth, job growth, and income growth. The framework of the question revolves around big investments versus small investments and big business versus small business. First, generally speaking, bigger businesses will have both a business case and the financial capacity to make larger-dollar investments. However, there are fewer bigger businesses than there are smaller businesses. It is an open question whether a fewer amount of larger-dollar investments will generate more economic growth than a more numerous amount of smaller-dollar investments. Second, regardless of the size of a business, there is no reason to assume that a larger-dollar investment will have a greater impact on business productivity than a smaller-dollar investment.

Investment Returns Under Different HPIP Assumptions

Table 1: $5 Million Investment

Annual Net Income from Investment	No Credit	Years to Deplete HPIP Credit: 1	3	5	10	Net Income as % of Investment
450,000	-1.87%	-0.02%	-0.02%	-0.02%	-0.02%	9.0%
475,000	-0.92%	0.96%	0.94%	0.92%	0.88%	9.5%
500,000	0.00%	1.90%	1.87%	1.83%	1.75%	10.0%
525,000	0.90%	2.83%	2.77%	2.72%	2.61%	10.5%
550,000	1.77%	3.72%	3.65%	3.59%	3.44%	11.0%
575,000	2.63%	4.60%	4.51%	4.43%	4.26%	11.5%
600,000	3.46%	5.46%	5.36%	5.26%	5.06%	12.0%
625,000	4.28%	6.30%	6.18%	6.07%	5.85%	12.5%
650,000	5.08%	7.13%	6.99%	6.87%	6.62%	13.0%
675,000	5.86%	7.94%	7.79%	7.65%	7.38%	13.5%
700,000	6.64%	8.74%	8.57%	8.42%	8.13%	14.0%
725,000	7.40%	9.52%	9.34%	9.18%	8.87%	14.5%
750,000	8.14%	10.29%	10.09%	9.92%	9.59%	15.0%
775,000	8.88%	11.05%	10.84%	10.66%	10.31%	15.5%
800,000	9.61%	11.80%	11.57%	11.38%	11.01%	16.0%
825,000	10.32%	12.54%	12.29%	12.09%	11.71%	16.5%
850,000	11.03%	13.27%	13.01%	12.80%	12.40%	17.0%
875,000	11.73%	13.99%	13.72%	13.49%	13.08%	17.5%
900,000	12.41%	14.70%	14.41%	14.18%	13.76%	18.0%

Table 2: $1 Million Investment

Annual Net Income from Investment	No Credit	Years to Deplete HPIP Credit: 1	3	5	10	Net Income as % of Investment
95,000	-0.92%	0.88%	0.86%	0.84%	0.81%	9.5%
100,000	0.00%	1.82%	1.79%	1.76%	1.69%	10.0%
105,000	0.90%	2.74%	2.69%	2.65%	2.54%	10.5%
110,000	1.77%	3.64%	3.57%	3.51%	3.38%	11.0%
115,000	2.63%	4.52%	4.44%	4.36%	4.20%	11.5%
120,000	3.46%	5.38%	5.28%	5.19%	5.00%	12.0%
125,000	4.28%	6.22%	6.10%	6.00%	5.79%	12.5%
130,000	5.08%	7.04%	6.91%	6.80%	6.56%	13.0%
135,000	5.86%	7.85%	7.71%	7.58%	7.32%	13.5%
140,000	6.64%	8.65%	8.49%	8.35%	8.07%	14.0%
145,000	7.40%	9.43%	9.26%	9.10%	8.81%	14.5%
150,000	8.14%	10.20%	10.01%	9.85%	9.53%	15.0%
155,000	8.88%	10.96%	10.76%	10.58%	10.25%	15.5%
160,000	9.61%	11.71%	11.49%	11.31%	10.96%	16.0%
165,000	10.32%	12.45%	12.21%	12.02%	11.66%	16.5%
170,000	11.03%	13.17%	12.93%	12.72%	12.35%	17.0%

Investment Returns Under Different HPIP Assumptions

Table 3: $100,000 Investment

Annual Net Income from Investment	No Credit	Years to Deplete HPIP Credit: 1	3	5	10	Net Income as % of Investment
9,000	-1.87%	-0.96%	-0.95%	-0.94%	-0.92%	9.0%
9,500	-0.92%	0.00%	0.00%	0.00%	0.00%	9.5%
10,000	0.00%	0.93%	0.93%	0.92%	0.90%	10.0%
10,500	0.90%	1.84%	1.83%	1.81%	1.77%	10.5%
11,000	1.77%	2.73%	2.71%	2.68%	2.63%	11.0%
11,500	2.63%	3.60%	3.56%	3.53%	3.46%	11.5%
12,000	3.46%	4.44%	4.40%	4.36%	4.28%	12.0%
12,500	4.28%	5.27%	5.22%	5.18%	5.08%	12.5%
13,000	5.08%	6.09%	6.03%	5.98%	5.86%	13.0%
13,500	5.86%	6.89%	6.82%	6.76%	6.64%	13.5%
14,000	6.64%	7.67%	7.60%	7.53%	7.40%	14.0%
14,500	7.40%	8.44%	8.36%	8.29%	8.14%	14.5%
15,000	8.14%	9.20%	9.11%	9.04%	8.88%	15.0%
15,500	8.88%	9.95%	9.85%	9.77%	9.61%	15.5%
16,000	9.61%	10.69%	10.58%	10.50%	10.32%	16.0%
16,500	10.32%	11.41%	11.30%	11.21%	11.03%	16.5%

Table 4: $75,000 Investment

Annual Net Income from Investment	No Credit	Years to Deplete HPIP Credit: 1	3	5	10	Net Income as % of Investment
7,250	-0.61%	0.00%	0.00%	0.00%	0.00%	9.7%
7,500	0.00%	0.62%	0.61%	0.61%	0.60%	10.0%
7,750	0.60%	1.22%	1.22%	1.21%	1.19%	10.3%
8,000	1.19%	1.82%	1.81%	1.80%	1.77%	10.7%
8,250	1.77%	2.41%	2.39%	2.38%	2.34%	11.0%
8,500	2.34%	2.98%	2.96%	2.95%	2.91%	11.3%
8,750	2.91%	3.55%	3.53%	3.51%	3.46%	11.7%
9,000	3.46%	4.11%	4.08%	4.06%	4.01%	12.0%
9,250	4.01%	4.66%	4.63%	4.61%	4.55%	12.3%
9,500	4.55%	5.21%	5.17%	5.14%	5.08%	12.7%
9,750	5.08%	5.75%	5.71%	5.68%	5.60%	13.0%
10,000	5.60%	6.28%	6.24%	6.20%	6.12%	13.3%
10,250	6.12%	6.80%	6.76%	6.72%	6.64%	13.7%
10,500	6.64%	7.32%	7.27%	7.23%	7.15%	14.0%
10,750	7.15%	7.83%	7.78%	7.74%	7.65%	14.3%
11,000	7.65%	8.34%	8.29%	8.24%	8.14%	14.7%
11,250	8.14%	8.84%	8.79%	8.74%	8.64%	15.0%
11,500	8.64%	9.34%	9.28%	9.23%	9.12%	15.3%
12,000	9.61%	10.32%	10.25%	10.20%	10.08%	16.0%

2. Economy-wide, the average return on invested capital tends to be about eight percent. One can use this data point to gain some insight into the influence the HPIP ITC might have over actual investment decisions in the Kansas economy. Using Table 1 as a case study, observe that the ITC expands the range of net income possibilities that meet an eight percent "hurdle rate" needed to make the investment viable. Relative to the No Credit scenario, the ITC allows a $5 million investment to earn an annual net income that is as much as $75,000 less, depending on the capacity of the taxpayer to use the ITC to offset income tax liability. More generally, the ITC allows the required annual net income to decrease from 15 percent to 13.5 percent of investment. This drop would generalize to all investments in the absence of HPIP's minimum investment threshold of $50,000.

   There is no easy way to know how many investments have become viable solely because of the HPIP ITC, but it is clear that the policy offers that potential, and thereby offers the potential for positive ROI from the State's perspective. Furthermore, even if the HPIP ITC does not push an investment decision "over the hurdle," it unambiguously improves the investment returns of qualifying investments in a substantial manner. That fact indicates that the ITC improves the Kansas business environment, which implies a benefit to both the Kansas business community and a potential ROI of some measure to the State from that improved business environment.

Business and Job Development Credit

The Business and Job Development Credit (BJDC), enacted in 1976, has an investment component and an employment component. Calculation of the credit proceeds as follows:

(Investment x 1%) + (Number of qualifying employees x credit per employee)

Taxpayer eligibility for the credit carries several stipulations. The major stipulations are:

- Manufacturing firms and retail stores/outlets must hire at least two (2) employees as a **direct** result of the investment.
- Non-manufacturing (non-retail) firms must hire at least five (5) employees as a **direct** result of the investment.
- Retail-related corporate headquarters (or ancillary support facilities) must hire at least 20 employees as a **direct** result of the investment.
- Firms located in Douglas, Johnson, Leavenworth, Sedgwick, Shawnee, or Wyandotte counties can receive a $1,500 credit per qualifying employee.
- Firms in other "non-metropolitan" counties (as specified by the Department of Commerce) can receive a $2,500 credit per qualifying employee.
- Retail stores/outlets can receive a $100 credit per qualifying employee and an investment credit of 0.1 percent.

The chart below categorizes manufacturing and non-manufacturing (non-retail) firms according to investment amounts and (for credit program compliance purposes) matching job figures for 2003. Note that data on retail firms are withheld from the analysis, because the value of the BJDC is significantly less valuable to retail firms. As a result, the chart reports only 143 firms rather than the 484 total reported by the Kansas Department of Revenue.

Dollar Amount of Investment (2003)	Number of Firms	Number of Jobs
Under $500,000	85	726
$500,000 - $1 Million	20	239
$1 Million - $5 Million	21	395
Over $5 Million	17	600
TOTAL	143	1,960

Tables 5 and 6 illustrate that the BJDC is unlikely to have a marginal impact on a firm's investment decision; for that reason, it is also unlikely to have a programmatic ROI from the State's perspective. Responsible tax prepares will make an effort to secure the money available from the BJDC program, but the overall program has little value from the taxpayer's perspective. The one percent investment tax credit has a uniform value for each taxpayer. However, the employee requirement generates significant disparities in the economic value of the credit. (The employment requirement of the BJDC program influences the value of the credit in ways similar to the $50,000 minimum investment associated with the HPIP ITC. All else equal, the credit will have less relative value for smaller investments and relatively more value for larger investments.)

Table 5 shows hypothetical investment returns, for a $1 million investment, for urban and non-urban manufacturers. The mechanics of the analysis are identical to those described for the HPIP analysis. However, since the BJDC has an employment requirement, expected after-tax labor costs are incorporated into the rate of return scenarios. (Employee compensation costs are based on 2003 Kansas averages for manufacturing workers inside and outside of the metropolitan counties stipulated by the BJDC program.) Table 5 illustrates two noteworthy points:

1. The expected employee compensation differential among urban and non-urban areas completely overwhelms the value of the BJDC. The extra, one-time $1,000 per employee difference for non-urban manufacturers are trivial compared to the wage differentials, and is therefore unlikely to alter an investment/employment decision. Notice that, relative to the non-urban manufacturer, the urban manufacturer requires about $25,000 more annual net income from the investment before it will earn a positive return.

2. The value of the BJDC is small relative to the HPIP ITC. The latter would allow a firm to realize a positive return from its investment with a net income equal to about

10.5 percent of investment. The BJDC requires the urban manufacturer to have a net income equal to 18.5 percent of the investment; the non-urban manufacturer, because of lower labor costs, requires a net income equal to 16 percent of the investment. Furthermore, assuming an investment "hurdle" rate of return equal to eight percent, the BJDC is unlikely to factor into the investment decision, unlike the HPIP ITC. At best, the BJDC changes the taxpayer's expected investment returns by about 0.25 percentage points for urban manufacturers and 0.3 percent for non-urban manufacturers.

Table 6 illustrates similar lessons for urban and non-urban non-manufacturing (non-retail) firms. The higher level of required employment for such firms makes the value of the BJDC much less valuable for non-manufacturers, even though the expected per-employee compensation levels are less. (Employee compensation costs are based on 2003 Kansas averages for non-manufacturing, non-retail, labor costs inside and outside of the metropolitan counties stipulated by the BJDC program.) Urban non-manufacturers must realize an annual net income (before labor costs) equal to 22 percent of the investment before they can realize a positive investment return; non-urban firms must realize a net income equal to 17 percent of the investment. Those percentages increase to 26.5 percent and 21.5 percent, respectively, if one assumes an investment hurdle rate of return equal to eight percent. At best, the BJDC improves the investment return by 0.36 percentage points for the urban non-manufacturers by 0.36 percentage points and 0.52 percentage points for the non-urban non-manufacturer.

5-9

Table 5: Business and Job Development Credit--$1 Million Investment

Urban Manufacturer

Assumptions:	
2 Employees	
Annual Compensation per employee	$ 64,000
After-tax cost of employees	84,480
Value of B&J Credit	13,000

Non-Urban Manufacturer

Assumptions:	
2 Employees	
Annual Compensation per employee	$ 42,000
After-tax cost of employees	55,440
Value of B&J Credit	15,000

Net Income from Investment before Employees	Urban: No Credit	Urban: Years to Deplete B&J Credit 1	3	5	10	Non-Urban: No Credit	Non-Urban: Years to Deplete B&J Credit 1	3	5	10	Net Income as % of Investment
155,000	-5.89%	-5.68%	-5.66%	-5.65%	-5.61%	-0.08%	0.19%	0.19%	0.19%	0.19%	15.5%
160,000	-4.80%	-4.58%	-4.57%	-4.56%	-4.53%	0.82%	1.10%	1.09%	1.09%	1.08%	16.0%
165,000	-3.76%	-3.53%	-3.52%	-3.51%	-3.49%	1.70%	1.98%	1.97%	1.97%	1.95%	16.5%
170,000	-2.75%	-2.52%	-2.51%	-2.51%	-2.49%	2.55%	2.84%	2.83%	2.82%	2.80%	17.0%
175,000	-1.77%	-1.54%	-1.54%	-1.53%	-1.52%	3.39%	3.68%	3.67%	3.66%	3.63%	17.5%
180,000	-0.82%	-0.59%	-0.59%	-0.59%	-0.58%	4.21%	4.50%	4.49%	4.47%	4.45%	18.0%
185,000	0.09%	0.33%	0.33%	0.33%	0.33%	5.01%	5.31%	5.29%	5.28%	5.25%	18.5%
190,000	0.99%	1.23%	1.23%	1.22%	1.22%	5.80%	6.10%	6.08%	6.06%	6.03%	19.0%
195,000	1.86%	2.11%	2.10%	2.10%	2.08%	6.57%	6.87%	6.85%	6.84%	6.80%	19.5%
200,000	2.71%	2.96%	2.95%	2.95%	2.93%	7.33%	7.64%	7.62%	7.60%	7.56%	20.0%
205,000	3.55%	3.80%	3.79%	3.78%	3.76%	8.08%	8.39%	8.37%	8.34%	8.30%	20.5%
210,000	4.36%	4.62%	4.60%	4.59%	4.57%	8.82%	9.13%	9.10%	9.08%	9.03%	21.0%
215,000	5.16%	5.42%	5.41%	5.39%	5.37%	9.54%	9.86%	9.83%	9.81%	9.76%	21.5%
220,000	5.95%	6.21%	6.19%	6.18%	6.15%	10.26%	10.58%	10.55%	10.52%	10.47%	22.0%
225,000	6.72%	6.98%	6.96%	6.95%	6.92%	10.97%	11.29%	11.26%	11.23%	11.18%	22.5%
230,000	7.48%	7.74%	7.72%	7.71%	7.67%	11.66%	11.99%	11.96%	11.93%	11.87%	23.0%
235,000	8.22%	8.49%	8.47%	8.45%	8.41%	12.35%	12.69%	12.65%	12.62%	12.56%	23.5%
240,000	8.96%	9.23%	9.21%	9.19%	9.15%	13.04%	13.37%	13.33%	13.30%	13.24%	24.0%
245,000	9.68%	9.96%	9.93%	9.91%	9.87%	13.71%	14.05%	14.01%	13.98%	13.91%	24.5%
250,000	10.40%	10.67%	10.65%	10.63%	10.58%	14.38%	14.72%	14.68%	14.64%	14.58%	25.0%

5-10

Table 6: Business and Job Development Credit--$1 Million Investment

Urban Non-Manufacturer

Assumptions:

5 Employees	
Annual Compensation per employee	$ 35,000
After-tax cost of employees	115,500
Value of B&J Credit	17,500

Non-Urban Non-Manufacturer

Assumptions:

5 Employees	
Annual Compensation per employee	$ 20,000
After-tax cost of employees	66,000
Value of B&J Credit	22,500

Net Income from Investment before Employees	Urban: No Credit	Urban: Years to Deplete B&J Credit 1	3	5	10	Non-Urban: No Credit	Non-Urban: Years to Deplete B&J Credit 1	3	5	10	Net Income as % of Investment
165,000	-11.09%	-10.82%	-10.79%	-10.75%	-10.61%	-0.18%	0.23%	0.23%	0.23%	0.23%	16.5%
170,000	-9.75%	-9.47%	-9.44%	-9.40%	-9.29%	0.72%	1.14%	1.13%	1.13%	1.12%	17.0%
175,000	-8.47%	-8.19%	-8.16%	-8.14%	-8.05%	1.60%	2.02%	2.01%	2.01%	1.99%	17.5%
180,000	-7.27%	-6.98%	-6.96%	-6.93%	-6.86%	2.46%	2.89%	2.87%	2.86%	2.84%	18.0%
185,000	-6.12%	-5.83%	-5.81%	-5.79%	-5.73%	3.29%	3.73%	3.71%	3.70%	3.67%	18.5%
190,000	-5.02%	-4.72%	-4.71%	-4.69%	-4.65%	4.12%	4.56%	4.54%	4.52%	4.48%	19.0%
195,000	-3.97%	-3.66%	-3.65%	-3.64%	-3.61%	4.92%	5.37%	5.34%	5.32%	5.28%	19.5%
200,000	-2.95%	-2.64%	-2.63%	-2.63%	-2.60%	5.71%	6.16%	6.13%	6.11%	6.06%	20.0%
205,000	-1.97%	-1.66%	-1.65%	-1.65%	-1.63%	6.48%	6.94%	6.91%	6.88%	6.83%	20.5%
210,000	-1.02%	-0.70%	-0.70%	-0.69%	-0.69%	7.25%	7.71%	7.68%	7.65%	7.58%	21.0%
215,000	-0.09%	0.23%	0.23%	0.23%	0.23%	8.00%	8.46%	8.43%	8.40%	8.33%	21.5%
220,000	0.81%	1.13%	1.13%	1.13%	1.12%	8.73%	9.21%	9.17%	9.13%	9.06%	22.0%
225,000	1.69%	2.01%	2.01%	2.00%	1.99%	9.46%	9.94%	9.90%	9.86%	9.79%	22.5%
230,000	2.54%	2.87%	2.87%	2.86%	2.84%	10.18%	10.66%	10.62%	10.58%	10.50%	23.0%
235,000	3.38%	3.72%	3.70%	3.69%	3.67%	10.89%	11.38%	11.33%	11.29%	11.20%	23.5%
240,000	4.20%	4.54%	4.52%	4.51%	4.48%	11.59%	12.08%	12.03%	11.98%	11.90%	24.0%
245,000	5.00%	5.35%	5.33%	5.31%	5.28%	12.28%	12.78%	12.72%	12.67%	12.59%	24.5%
250,000	5.79%	6.14%	6.12%	6.10%	6.06%	12.96%	13.46%	13.41%	13.36%	13.27%	25.0%
255,000	6.56%	6.92%	6.89%	6.87%	6.83%	13.64%	14.15%	14.08%	14.03%	13.94%	25.5%
260,000	7.32%	7.68%	7.66%	7.63%	7.58%	14.30%	14.82%	14.75%	14.70%	14.60%	26.0%
265,000	8.07%	8.43%	8.41%	8.38%	8.33%	14.97%	15.49%	15.42%	15.36%	15.26%	26.5%
270,000	8.81%	9.17%	9.14%	9.12%	9.06%	15.62%	16.15%	16.08%	16.02%	15.92%	27.0%
275,000	9.53%	9.90%	9.87%	9.84%	9.79%	16.27%	16.80%	16.73%	16.67%	16.56%	27.5%
280,000	10.25%	10.63%	10.59%	10.56%	10.50%	16.92%	17.45%	17.37%	17.31%	17.20%	28.0%

5-10

House Taxation
2-2-06
Attachment 6

Fiscal Note on Slider Amendment

Assume total collections would continue at $234 million in commercial and industrial m and e property taxes.

	M and E Prop Tax Collections	Slider description	Slider	Total Prop Tax + Slider	Potential Tax Shift	Tax Shift Absent Mitigation
2005	$234,154,821			$234,154,821		
2008	$205,498,273	100% 05 minus 08	$28,656,548	$234,154,821	$0	$28,656,548
2009	$181,702,663	80% 05 minus 09	$41,961,726	$223,664,389	$10,490,432	$52,452,158
2010	$166,416,404	60% 05 minus 10	$40,643,050	$207,059,454	$27,095,367	$67,738,417
2011	$159,639,496	40% 05 minus 11	$29,806,130	$189,445,626	$44,709,195	$74,515,325
2012	$151,657,521	20% 05 minus 12	$16,499,460	$168,156,981	$65,997,840	$82,497,300
2013	$144,074,645		$0	$144,074,645	$90,080,176	$90,080,176
Total			$157,566,915			

2006

New Sec. 2. (a) There is hereby established in the state treasury the business machinery and equipment tax reduction assistance fund which shall be administered by the state treasurer. All expenditures from the business machinery and equipment tax reduction assistance fund shall be for the payments to counties for distribution to taxing subdivisions levying ad valorem taxes within the county in accordance with this section.

(b) The secretary of revenue shall adopt a policy using the most current information that is available, and that is determined to be practicable by the secretary for this purpose and shall calculate the following:

(1) On January 31, 2009, the secretary shall calculate for each county an amount equal to the difference in total ad valorem tax receipts for ad valorem taxes imposed and collected by the county for all taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for tax year 2005, and the total of such ad valorem tax receipts for ad valorem taxes imposed for tax year 2008. On or before February 15, 2009, subject to the provisions of subsection (c), the state treasurer shall pay to the county treasurer of each county an amount equal to 100% of such difference for distribution to the taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for apportionment as provided in subsection (d).

(2) On January 31, 2010, the secretary shall calculate for each county an amount equal to the difference in total ad valorem taxes receipts for ad valorem tax imposed and collected by the county for all taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for tax year 2005, and the total of such ad valorem tax receipts for tax year 2009. On or before February 15, 2010, subject to the provisions of subsection (c), the state treasurer shall pay to the county treasurer of each county an amount equal to 80% of such difference for distribution to the taxing

House Taxation
2-2-06
Attachment 7

subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for apportionment as provided in subsection (d).

(3) On January 31, 2011, the secretary shall calculate for each county an amount equal to the difference in total ad valorem taxes receipts for ad valorem tax imposed and collected by the county for all taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for tax year 2005, and the total of such ad valorem tax receipts for tax year 2010. On or before February 15, 2011, subject to the provisions of subsection (c), the state treasurer shall pay to the county treasurer of each county an amount equal to 60% of such difference for distribution to the taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for apportionment as provided in subsection (d).

(4) On January 31, 2012, the secretary shall calculate for each county an amount equal to the difference in total ad valorem taxes receipts for ad valorem tax imposed and collected by the county for all taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for tax year 2005, and the total of such ad valorem tax receipts for tax year 2011. On or before February 15, 2012, subject to the provisions of subsection (c), the state treasurer shall pay to the county treasurer of each county an amount equal to 40% of such difference for distribution to the taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for apportionment as provided in subsection (d).

(5) On January 31, 2013, the secretary shall calculate for each county an amount equal to the difference in total ad valorem taxes receipts for ad valorem tax imposed and collected by the county for all taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for tax year 2005, and the total of such ad valorem tax

receipts for tax year 2012. On or before February 15, 2013, subject to the provisions of subsection (c), the state treasurer shall pay to the county treasurer of each county an amount equal to 20% of such difference for distribution to the taxing subdivisions within the county imposing ad valorem taxes on commercial and industrial machinery and equipment for apportionment as provided in subsection (d).

(6) There shall be no payments made pursuant to this section after the payments made by the state treasurer on or before February 1, 2013, and the provisions of this section shall expire at such time.

(c) If the amount calculated for the difference in subsections (b)(1) through (b)(5) is negative, the amount calculated for such county for such year shall be deemed to be zero and no amount shall be paid to the county treasurer of such county as otherwise provided in subsection (b). Nothing in this section shall be construed to require the county to make any payments to the state in such event that the amount calculated for the difference is negative for the county for such year.

(d) (1) On January 31 of each year specified in this section, the secretary of revenue shall certify to the director of accounts and reports the aggregate of all amounts determined for counties pursuant to subsection (b). Upon receipt of such certification, the director of accounts and reports shall transfer the amount certified from the state general fund to the business machinery and equipment tax reduction assistance fund.

(2) The state treasurer shall apportion and distribute the moneys credited to the business machinery and equipment tax reduction assistance fund to the county treasurers in accordance with subsection (b). Upon receipt of each such amount, each county treasurer shall apportion such amount among the ad valorem taxing subdivisions of the county in the same proportion that the amount of the total mill levy of each individual taxing subdivision for the preceding tax year bears to the aggregate of such levies of all the taxing subdivisions among which the

apportionment is to be made. The county treasurer shall pay such amounts to the taxing subdivisions at the same time or times as their regular operating tax rate mill levy is paid to them.

(e) Before January 31 of 2007 through 2013, the secretary of revenue shall make a detailed report of amounts calculated as required pursuant to subsection (b) for each individual county and in aggregate for all the counties for the current year along with any projections for future years, amounts distributed to the counties pursuant to this section, and all other relevant information related to the provisions of this section, and shall present such report before such date to the house committee on taxation of the house of representatives and the senate committee on assessment and taxation of the senate for consideration by the legislature in making any appropriate adjustments to the provisions of this section.

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)

8-2

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

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POLICY AND RESEARCH

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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%

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.

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	125	0.5%	$46,438,219	66.7%
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	329	1.1%	$135,700,416	77.6%
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	468	1.5%	$ 93,003,841	75.8%
Total	33,581	100.0%	$ 122,790,422	100.0%

88

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.

8-9

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**

8-16

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

8-13

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

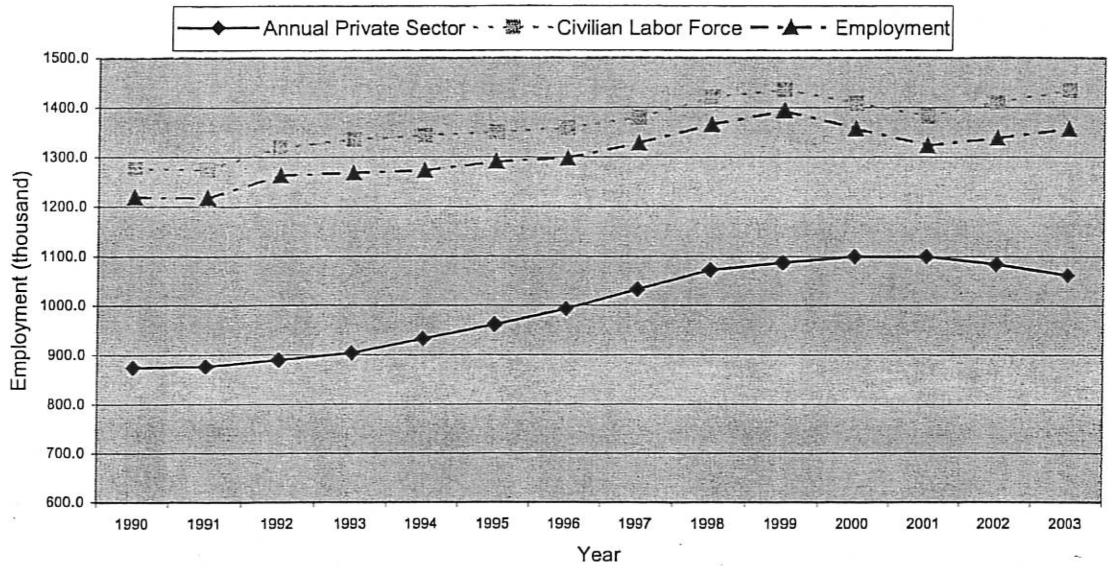


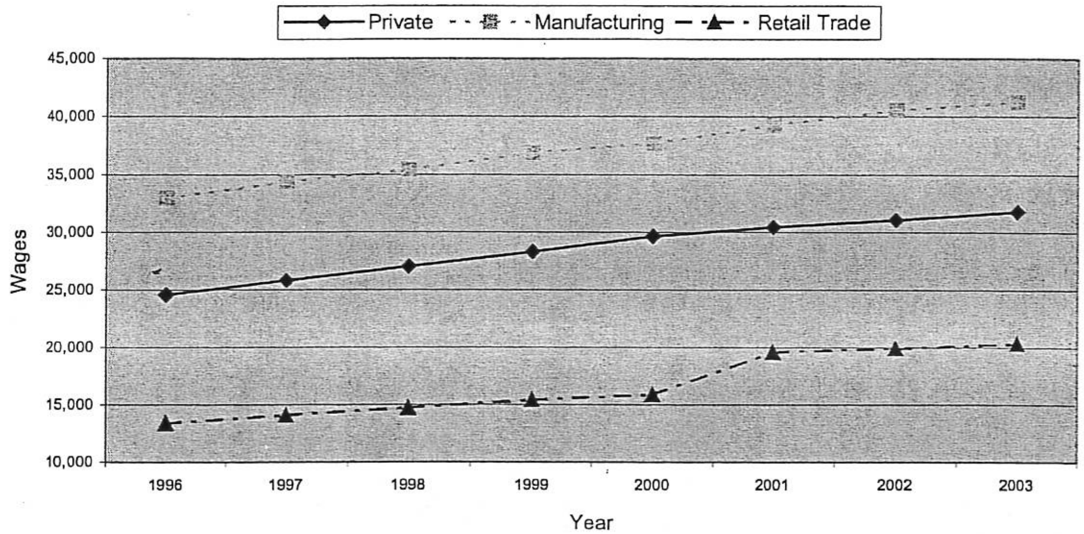
Chart 5 compares Kansas manufacturing employment and retail trade employment from 1990 through 2003. During most of the 1990's, both manufacturing and retail trade experienced steady growth, with dramatic growth in manufacturing in the late 1990's. Manufacturing sector employment was significantly larger 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

8-14

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



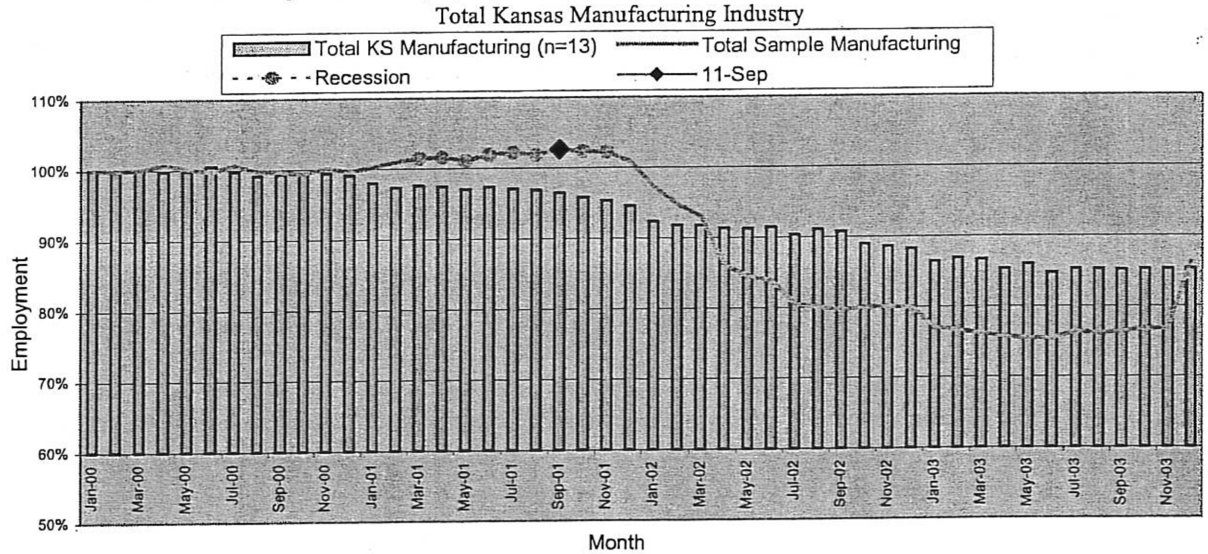
As the charts above show, the Kansas economy experienced a serious recession during 2001, and with the added impact of 9/11, experienced higher unemployment rates in many sectors for an extended time period.

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.

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

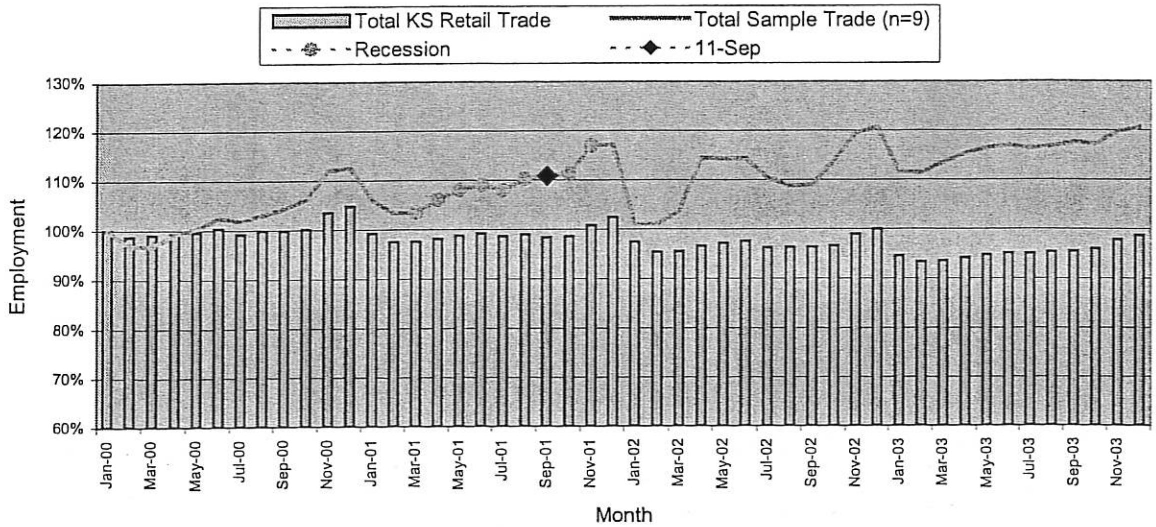
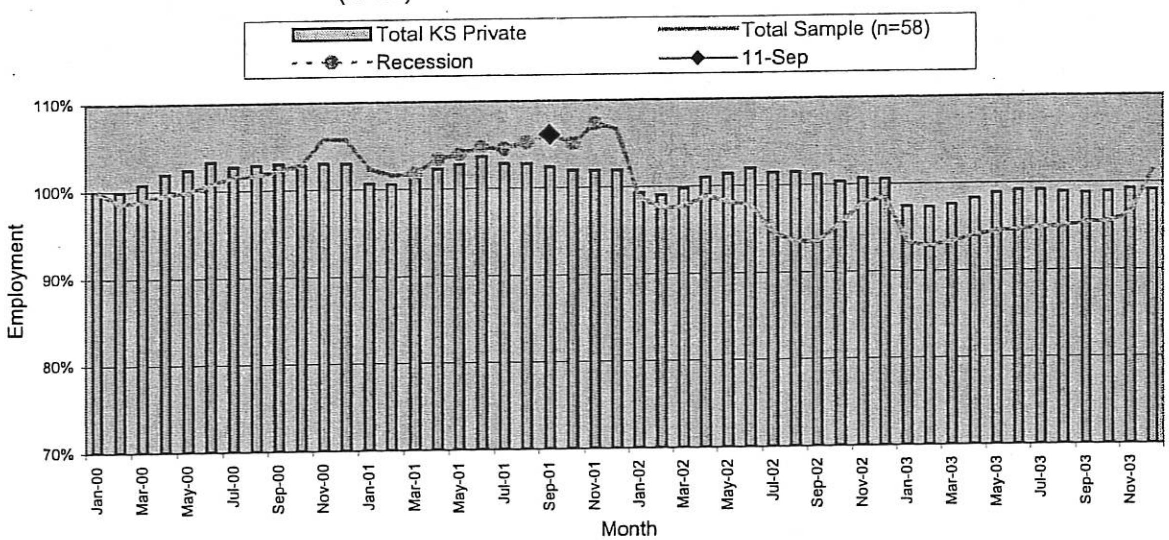


Chart 9 tracks the percentage rate of change in the aggregate employment level of corporations included in the group of top 20 B&J credit claimants from January 2000 through the end of 2003 and compares that to the percentage rate of change in the aggregate employment level of the Kansas private sector 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.

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 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

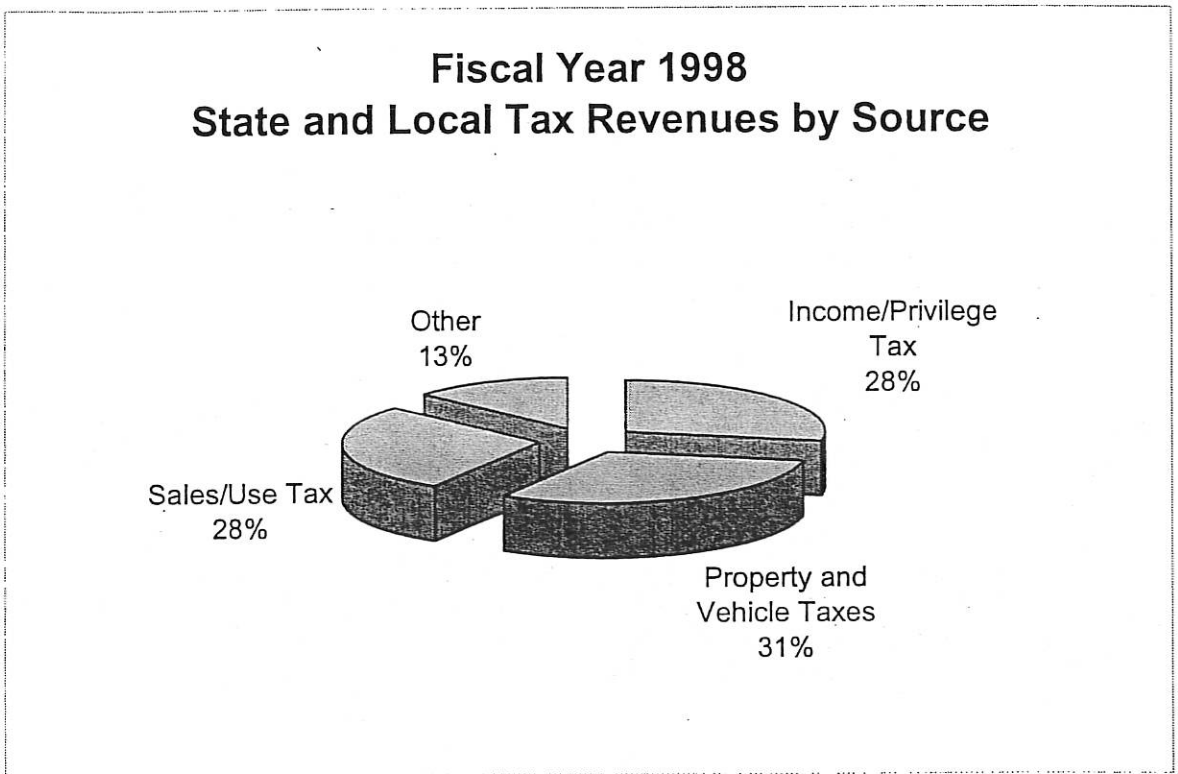
A credit is available for those qualified firms that make an investment in a qualified business facility. the investment tax credit is 10% of the qualified business facility investment that exceeds $50,000.

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

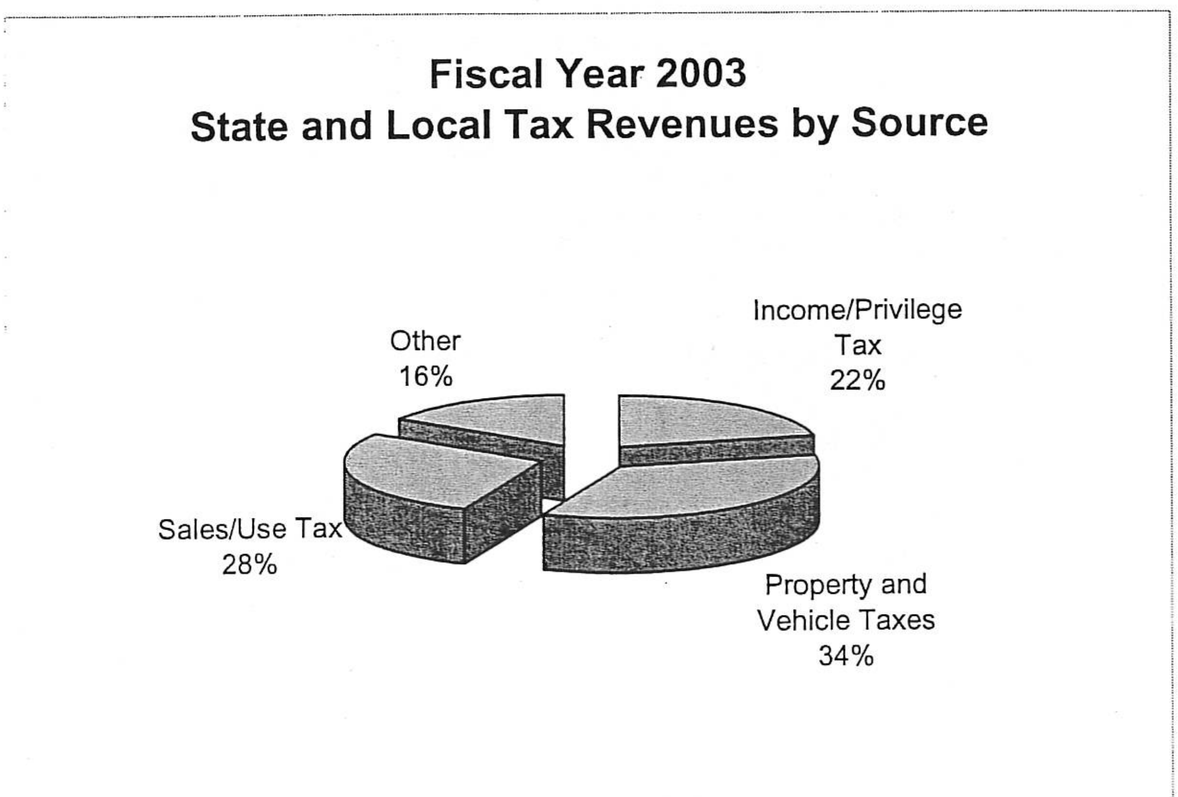
A credit may be allowed in an amount equal to 15% of the personal property tax levied and paid on commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas Constitution in subclass (5) or (6) of class 2 and machinery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

Chart 1

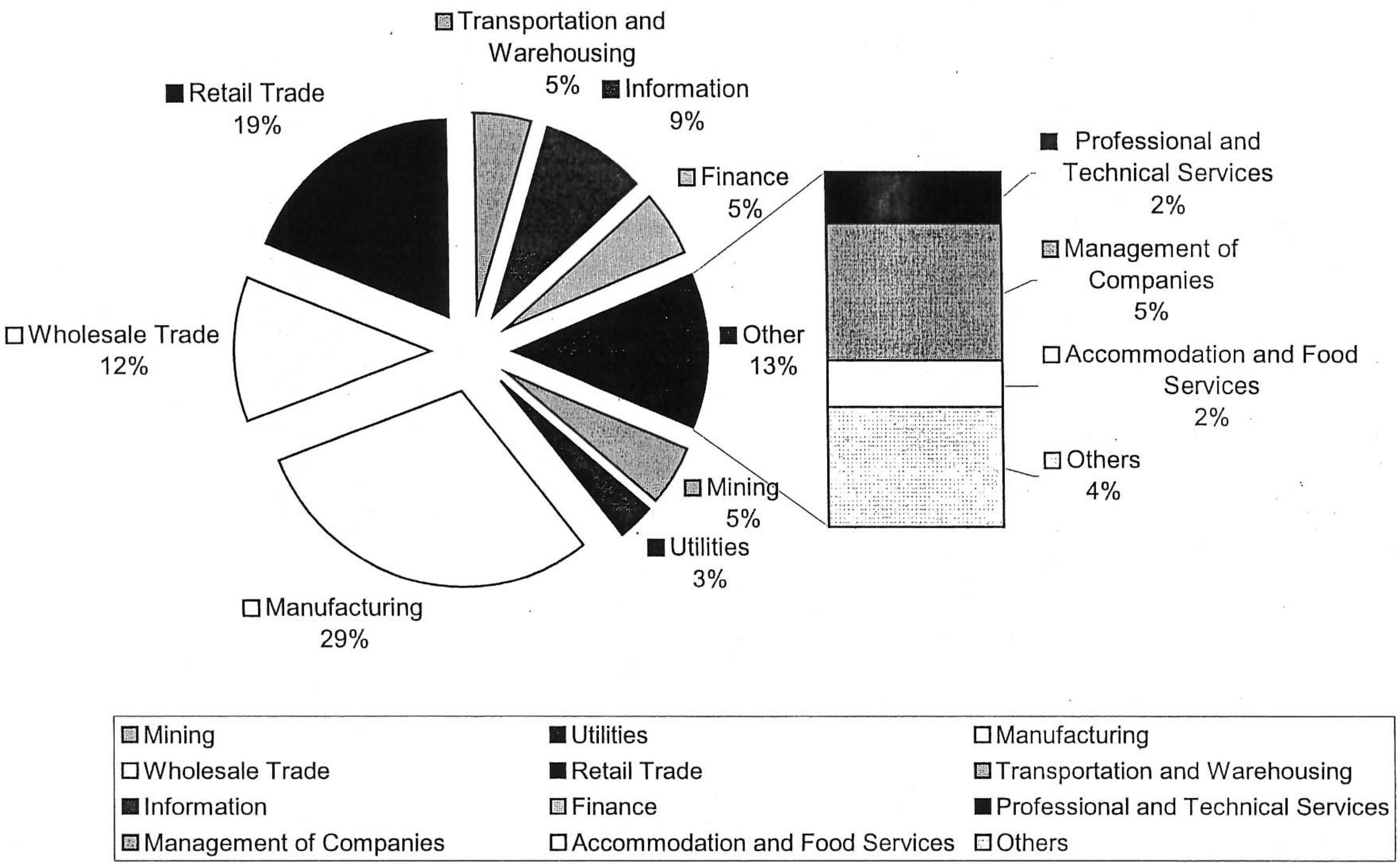


Fiscal Year 1998
State and Local Tax Revenues by Source
Other
13%
Income/Privilege
Tax
28%
Sales/Use Tax
28%
Property and
Vehicle Taxes
31%



Fiscal Year 2003
State and Local Tax Revenues by Source
Other
16%
Income/Privilege
Tax
22%
Sales/Use Tax
28%
Property and
Vehicle Taxes
34%

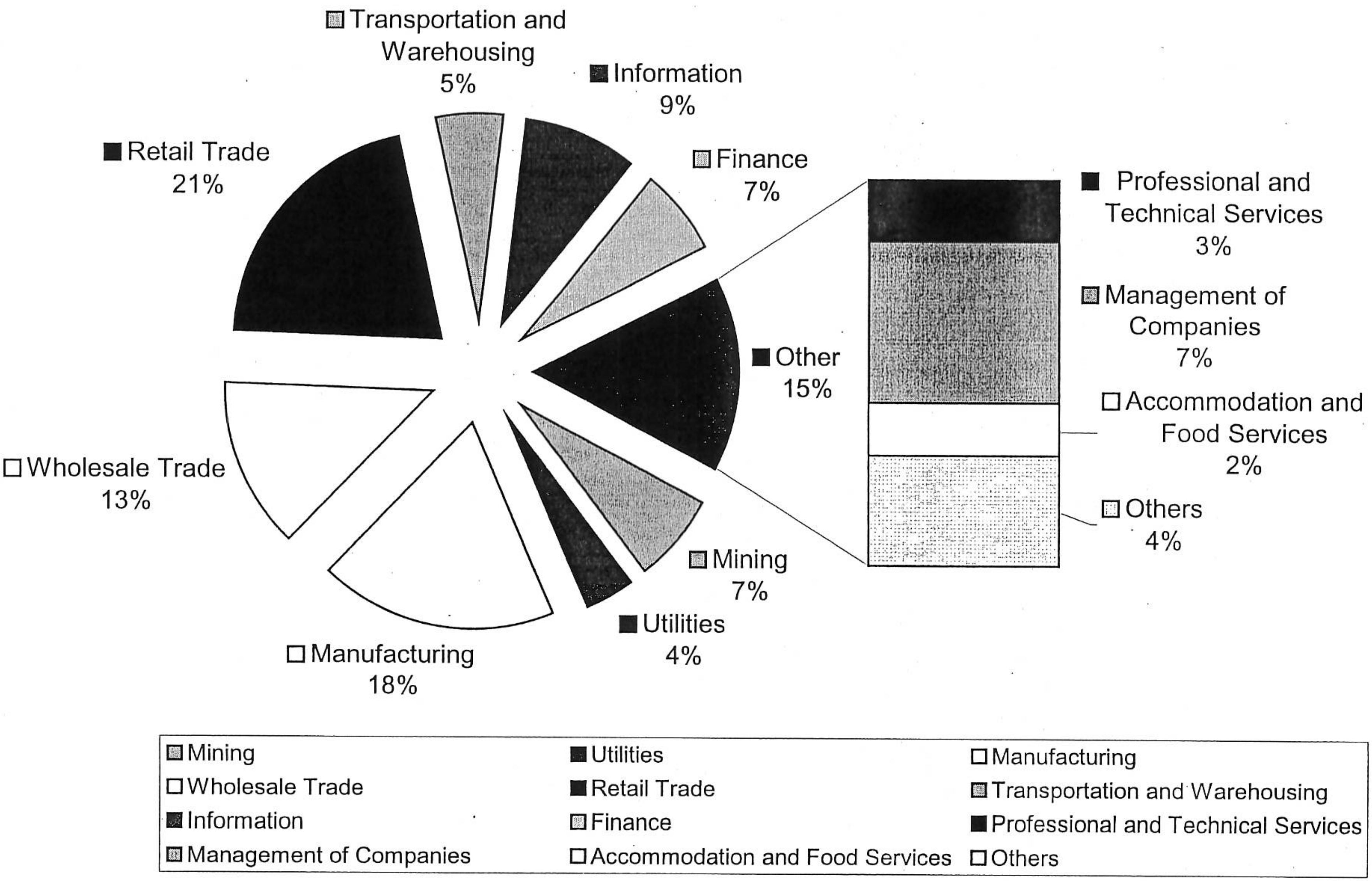
Chart 2
Total Corporate Income Tax Liability by Sector Before Credits Are Taken
Tax year 2000, 2001 and 2002



8-22

8-23

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



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
POLICY AND RESEARCH

KATHLEEN SEBELIUS, GOVERNOR

February 2, 2006

**Update to Analysis of Kansas Corporate Income Tax Dated October 14, 2004
To Reflect Tax Year 2003**

The Analysis dated October 14, 2004 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. Provided below are updates to Tables 2 and 3 of the Analysis, to reflect the addition of tax year 2003 data. Also, the discussion of the Top 20 claimants of the Business and Job Development income tax credit is updated for tax year 2003 data.

Corporate Income Tax Burden

In updating the Analysis dated October 14, 2004, tax returns from a sample of the largest 244 corporate taxpayers for tax year 2003 were reviewed in order to determine how much impact the business tax credit programs (Business & Job Development, High Performance Incentive Program, Research & Development, Business Machinery & Equipment) have on the corporate income tax burden. These corporations accounted for approximately 82% of the corporate income tax base for tax year 2003. 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 year 2003 for each of these corporations were captured in the database.

The update to Table 2 (attached) summarizes the results by NAICS code categories (using the first 2 digits of the NAICS code) for tax year 2003. The number of corporations included in each NAICS code category is shown in parenthesis in the first column.

Consistent with the Table 2 in the prior Analysis, the Update to Table 2 continues to show wide disparity between the various industry sectors in the proportion of tax liability that is reduced or eliminated by tax credits from participation in business incentive tax credit programs. The "payment percentage" column shown on the attached Update to Table 2 reflects the percent of tax liability (measured before credits are taken) actually paid after credits were applied to reduce tax liability. Manufacturers continue to experience a low tax payment percentage rate, 54.35% for tax year 2003, although higher than the 45.60% tax payment percentage rate for tax years 2000 through 2002. The retail trade sector, now by far the largest in generating total tax liability before credits, as well as in the amount of net taxes paid (tax paid after credits are taken), had a much higher tax payment percentage rate of 87.21% for tax year 2003, and the wholesale trade sector an even higher percentage, 94.61%.

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While the Analysis dated October 14, 2004 (see Charts 2 and 3 of that document) indicated that manufacturers represented the largest portion of Kansas tax liability before credits (and Kansas taxable income) in the sample during tax years 2000 through 2002, the tax year 2003 data shows that retail trade represents the largest portion of Kansas taxable income, Kansas income tax liability generated before credits are taken, and net taxes paid after credits are taken.

Within the sample of 244 corporations, the group of top 20 corporations that claimed the most B&J credits during tax year 2003 were identified. 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 2003

6 in Manufacturing/Transportation/Warehousing	14 in Retail/Wholesale/Other
Total Taxable Income: $40.96 million	Total Taxable Income: $247.77 million
Total Net Tax: $1.742 million	Total Net Tax: $15.69 million
Ave. Effective Tax Rate: 4.2%	Ave. Effective Tax Rate: 6.3%
Range: -.58% to 7.78%	Range: 3.51% to 6.59%

The results continue to show a significant 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 the manufacturing/transportation/warehousing category. For example, in tax year 2003, the 6 corporations in the manufacturing/transportation/warehousing category had an average effective tax rate of 4.2% (compared to a lower effective tax rate of 2.1% for tax years 2000 through 2002), although within that category, the effective tax rate ranged from –.58% to 7.78%. Of the corporations in the retail/wholesale/other category in tax year 2003, the average effective tax rate was 6.3%, although within that category, the effective tax rate ranged from 3.51% to 6.59%, a much smaller variance.

The Update to Table 3 (attached) compares the manufacturing firms and retail firms within the group of corporations included in the "top 20" in B & J credit claimants during tax years 2000 through 2003 (a sample size of 78 corporations). The amount of tax liability (measured before credits are taken), credits and net receipts (tax paid after credits were taken) for all four tax years for manufacturing and retail firms in the group are listed. Of the 78 corporations in the group, 17 were manufacturing corporations and 18 were retail trade corporations. The "total" row at the bottom sums the information not only for these 17 manufacturers and 18 retailers, but also the rest of the 78 corporations in the group.

The Update toTable 3 shows that manufacturing firms continue to succeed 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 81% of the amount their tax liability measured before credits. The average payment percentage for all 78 corporations in this group of largest B&J credit claimants is about 57%.

Updated Conclusions

Many of the conclusions in the Analysis dated October 14, 2004 remain valid for the tax year 2003 corporate income tax data sample: manufacturers continue to utilize the business tax credit incentive programs heavily and have claimed the largest amounts of the credits. Because tax credits are used to lower tax burden, the effective tax rates continue to vary 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 year 2003 data sample reveals one important change: the retail sector has now become the most dominant portion of the corporate income tax base, generating the largest amount of Kansas taxable income and contributing the largest portion of the corporate income tax receipts. In tax years 2000, 2001 and 2002, the manufacturing sector generated the largest amount of Kansas taxable income (but not corporate income tax receipts). The retail sector has benefited less than the manufacturing sector from the tax credit programs. The retail sector typically bears a higher share of the corporate income tax burden, and pays higher effective tax rates.

8-27

Update to Table 2: Tax and Credits Statistics by Industry from a sample of 244 Corporations for Tax year 2003.

Industry (# of corporations)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	CIME Credit	Total Ref. Credits	Net Receipts	Payment Percentage
Agriculture, Mining and Utilities (10)	$12,487,012	$544,410	$0	$0	$544,410	$219,237	$0	$11,723,364	93.88%
Construction (6)	$666,750	$0	$0	$0	$0	$15,329	$16,256	$635,165	95.26%
Manufacturing (39)	$20,412,158	$7,894,827	$613,466	$283,740	$6,897,871	$1,378,092	$46,100	$11,093,139	54.35%
Wholesale Trade (51)	$16,840,931	$135,443	$96,000	$39,443	$0	$771,757	$0	$15,933,731	94.61%
Retail Trade (44)	$30,064,738	$3,170,582	$2,493,213	$12,165	$665,204	$673,794	$0	$26,220,362	87.21%
Information (12)	$7,102,178	$243,117	$900	$0	$0	$390,130	$19,952	$6,448,979	90.80%
Finance and Insurance (24)	$6,874,239	$0	$0	$0	$0	$17,780	$0	$6,856,459	99.74%
Real Estate and Rental and Leasing (5)	$979,887	$0	$0	$0	$0	$1,194	$0	$978,693	99.88%
Professional and Technical Services (17)	$4,715,392	$124,700	$99,700	$0	$0	$59,258	$0	$4,531,434	96.10%
Management of Companies and Enterprises (11)	$6,246,353	$0	$0	$0	$0	$234,429	$0	$6,011,924	96.25%
Health Care and Social Assistance (6)	$1,372,700	$0	$0	$0	$0	$19,756	$0	$1,352,944	98.56%
Accommodation and Food Services (7)	$2,086,084	$295,116	$222,956	$0	$0	$67,261	$0	$1,723,707	82.63%
Other Services (12)	$6,099,645	$590,426	$379,484	$0	$188,946	$287,194	$0	$5,222,025	85.61%
Total All Industries (244)	$115,948,066	$12,998,621	$3,905,719	$335,348	$8,296,431	$4,135,211	$82,308	$98,731,927	85.15%

Other services includes: Administrative and Waste Service, Educational Services, Arts, Entertainment and Recreation, Transportation and Warehousing, and other service sectors not specified by the current codes

8-78

Update to Table 3. Summary information for the corporations that claimed most B&J Credits from TY 2000 to 2003

Sector (# of sample)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	BM&E	Total Ref. Credits	Net Receipts	Payment Percentage
Manufacturing (17)	$45,169,004	$30,137,026	$15,507,797	$6,140,317	$8,400,818	$3,830,802	$298,675	$10,902,501	24.14%
retail Trade (18)	$41,517,023	$7,125,540	$7,125,540	$0	$0	$605,059	$0	$33,786,424	81.38%
Total (78)	$125,095,156	$46,969,073	$30,689,223	$6,694,224	$9,387,536	$5,917,080	$359,019	$71,242,175	56.95%

8-29

Kansas Tax Credits
Tax Year 2003

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	Projected Jobs Created	Actual Jobs Created	Projected Jobs Retained	Actual Jobs Retained	Projected Capital Investment Generated	Actual Capital Investment Generated	Projected Revenue/Sales Generated	Actual Revenue/Sales Generated	Projected Payroll Generated	Actual Payroll Generated
High Performance Incentive Program	K.S.A. 74-50,132	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.												
	K.S.A. 79-32,160a(e)	A credit is available for those qualified firms that make an investment in a qualified business facility. The investment credit is 10% of the qualified business facilty investment which exceeds $50,000.												
Income and Privilege Taxpayers		Sector 31-33-Manufacturing	39	$8,833,173	228				$113,800,755	$160,696,492				
		Sector 42-Wholesale and Sector 44-45-Retail Trade	7	$1,113,187	119				$6,592,753	$8,474,338				
		Sector 51-Information	5	$296,968	0				$29,973,000	$14,816,731				
		Sector 52-Finance and Insurance, Sector 53-Real Estate and Rental and Leasing, Sector 55-Management of Companies and Enterprises, and Sector 56-Administrative and Support and Waste Management	7	$150,611	28				$5,374,628	$4,452,649				
		Sector 54-Professional, Scientific, and Technical Services	6	$1,637,191	23				$1,898,848	$1,646,961				
Total High Performance Incentive Program Credits			**64**	**$12,031,130**	**398**				**$157,639,984**	**$190,087,171**				

8-30

Kansas Tax Credits
Tax Year 2003

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	Projected Jobs Created	Actual Jobs Created	Projected Jobs Retained	Actual Jobs Retained	Projected Capital Investment Generated	Actual Capital Investment Generated	Projected Revenue/Sales Generated	Actual Revenue/Sales Generated	Projected Payroll Generated	Actual Payroll Generated
Business and Job Development Credit	K.S.A. 79-32,153	Any taxpayer that invests in a qualified business facility and hires at least two employees as a result of that investment may b eligible for an investment tax credit of $100 for every $100,000 of investment made and a job creation tax credit of $100 for every qualified business facility employee.												
	K.S.A. 79-32,160a	Any taxpayer that meets the definition of business in K.S.A. 74-50,114(b), that invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be eligible for an investment tax credit of $1,000 for every $100,000 of investment made and a job creation tax credit of at least $1,500 for every qualified business facility employee.												
Income Taxpayers		Sector 11-Agriculture, Forestry, Fishing and Hunting and Sector 21-Mining	16	$56,016		89				$15,812,349				
		Sector 23-Construction	36	$317,436		190				$7,367,506				
		Sector 31-33-Manufacturing	163	$2,081,386		1,390				$52,889,544				
		Sector 42-Wholesale Trade	20	$255,624		174				$13,545,331				
		Sector 44-45-Retail Trade	105	$1,665,832		10,258				$746,153,936				
		Sector 48-49-Transportation and Warehousing	10	$462,952		135				$24,385,434				
		Sector 52-Finance and Insurance	7	$37,306		101				$7,771,651				
		Sector 54-Professional, Scientific, and Technical Services	78	$997,362		730				$81,639,937				
Privilege Taxpayers		Sector 52-Finance and Insurance	49	$118,034		651				$70,963,648				
Total Business and Job Development Credits			**484**	**$5,991,948**		**13,718**				**$1,020,529,336**				

Kansas Tax Credits
Tax Year 2003

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	
Research and Development Credit	K.S.A. 79-32,182b	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 research.			
Income Taxpayers		Sector 31-33-Manufacturing and Sector 48-49-Transportation and Warehousing	37	$187,086	
		Sector 42-Wholesale Trade	18	$175,382	
		Sector 44-45-Retail Trade	5	$11,357	
		Sector 51-Information	6	$36,808	
		Sector 52-Finance and Insurance, Sector 54-Professional, Scientific, and Technical Services, and Sector 55-Management of Companies and Enterprises	6	$17,954	
		Sector 61-Educational Services and Other	5	$37,474	
Total Research and Development Credit			**77**	**$466,061**	
Business Machinery and Equipment Credit	K.S.A. 79-32,206	A credit may be allowed based on a percentage 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.			
Income Taxpayers			14,715	$18,450,047	
Privilege Taxpayers			343	$519,765	
Total Business Machinery and Equipment Credit			**15,058**	**$18,969,812**	

Kansas Tax Credits
Tax Year 2003

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	
Abandoned Well Plugging Credit	K.S.A. 79-32,207	A taxpayer that makes ependitures to plug an abandoned oil or gas well on their land may be eligible for a credit of 50% of the amount expended.			
Income Taxpayers			*CONFIDENTIAL		
Total Abandoned Well Plugging Credit			***CONFIDENTIAL**		
Adoption Credit	K.S.A. 79-32,202	**General Adoption Credit** 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. **Special Needs/SRS Custody Adoption Credit** A $1,500 credit is available for those Kansas residents that adopt a special needs child or a child in the custody of the secretary of Social and Rehabilitation Services.			
Income Taxpayers			374	$391,187	
Total Adoption Credit			**374**	**$391,187**	
Agricultural Loan Interest Reduction Credit	K.S.A. 79-32,181a K.S.A. 79-1126a	A taxpayer which extends or renews an agricultural production loan at least one whole percentage point less than the prime interest rate on loans with equivalent collateral can receive a credit against their tax liability.			
Income Taxpayers			0	$0	
Privilege Taxpayers			*CONFIDENTIAL		
Total Agricultural Loan Interest Reduction Credit			**0**	$0	

Kansas Tax Credits
Tax Year 2003

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	
Alternative Fuel Tax Credit	K.S.A. 79-32,201	A credit is allowed for any individual, association, partnership, limited liability company, limited partnership, or corporation that makes expenditures for a qualified alternative-fueled motor vehicle licensed in the state of Kansas or that makes expenditures for a qualified alternative-fuel fueling station.			
Income Taxpayers			16	$12,666	
Total Alternative Fuel Tax Credit			**16**	**$12,666**	
Child Day Care Assistance Credit	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 children, locate child day care services for the employees children, or provide facilities and necessary equipment for child day care services for its employees children.			
Income Taxpayers			20	$47,799	
Privilege Taxpayers			0	$0	
Total Child Day Care Assistance Credit			**20**	**$47,799**	
Community Service Contribution Credit	K.S.A. 79-32,197	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.			
Income Taxpayers			1,298	$2,671,448	
Privilege Taxpayers			35	$480,040	
Total Community Service Contribution Credit			**1,333**	**$3,151,488**	

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	
Disabled Access Credit	K.S.A. 79-32,175 K.S.A. 79-1117	Individual and business taxpayers that incur certain expenditures to make their property accessible to the disabled may be eligible to receive a credit.			
Income Taxpayers			130	$159,868	
Privilege Taxpayers			*CONFIDENTIAL		
Total Disabled Access Credit			**130**	**$159,868**	
Habitat Management Credit	K.S.A. 79-32,203	An income tax credit is allowed for a property owner that pays property taxes and assessments on property designated as a critical habitat.			
Income Taxpayers			*CONFIDENTIAL		
Total Habitat Management Credit			***CONFIDENTIAL**		
Historic Preservation Credit	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.			
Income Taxpayers			77	$1,547,705	
Privilege Taxpayers			8	$891,000	
Total Historic Preservation Credit			**85**	**$2,438,705**	
Single City Port Authority Credit	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.			
Income Taxpayers			*CONFIDENTIAL		
Total Single City Port Authority Credit			***CONFIDENTIAL**		

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	
Small Employer Health Benefit Plan Credit	K.S.A. 40-2246	An income tax credit is allowed for any small employer establishing a small employer health benefit plan for the purpose of providing a health benefit plan.			
Income Taxpayers			87	$130,491	
Total Small Employer Health Benefit Plan Credit			**87**	**$130,491**	
Swine Facility Improvement Credit	K.S.A. 79-32,204	An income tax credit of 50% of the cost incurred is allowed for a taxpayer making required improvements to a qualified swine facility.			
Income Taxpayers			0	$0	
Total Swine Facility Improvement Credit			**0**	**$0**	
Telecommunications Credit	K.S.A. 79-32,210	A credit for property tax paid by telecommunications companies is allowed on property initially acquired and first placed in service after January 1, 2001 that has an assessment rate of 33%. The credit is equal to the amount of property taxes timely paid for the difference between an assessment level of 25% and the actual assessment of 33%.			
Income Taxpayers			146	$444,837	
Total Telecommunications Credit			**146**	**$444,837**	
Temporary Assistance to Families Contribution Credit	K.S.A. 79-32,200 K.S.A. 39-7,132	Any individual, corporation, partnership, trust, estate and other legal entity 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 of 70% of the amount of financial assistance given.			
Income Taxpayers			0	$0	
Total Temporary Assistance to Families Contribution Credit			**0**	**$0**	

Program Name	Statutory Reference	Description	Number of Filers	Tax Expenditure	
Venture Capital Credits and Local Seed Capital Credits	K.S.A. 74-8205 K.S.A. 74-8304 K.S.A. 74-8401 K.S.A. 74-8316	A 25% tax credit shall be allowed for those taxpayers that invest in stock issued by Kansas Venture Capital, Inc., certified Kansas venture capital companies, certified local seed capital pools, or Sunflower Technology Venture, LP.			
Income Taxpayers			5	$26,863	
Privilege Taxpayers			0	$0	
Total Venture Capital Credits and Local Seed Capital Credits			**5**	**$26,863**	

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

8-37

NAICS Titles and Descriptions of Industries

Sector	Title	Description
Sector 11	Agriculture, Forestry, Fishing and Hunting	Establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from a farm, ranch or their natural habitats.
Sector 21	Mining	Establishments that extract naturally occurring mineral solids, such as coal and ores; liquid minerals, such as crude petroleum; and gases, such as natural gas. The term mining is used in the broad sense to include quarrying, well operations, beneficiating (e.g., crushing, screening, washing, and flotation), and other preparation customarily performed at the mine site, or as a part of mining activity.
Sector 22	Utilities	Establishments engaged in the provision of the following utility services: electric power, natural gas, steam supply, water supply, and sewage removal.
Sector 23	Construction	Establishments primarily engaged in the construction of buildings or engineering projects (e.g., highways and utility systems). Establishments primarily engaged in the preparation of sites for new construction and establishments primarily engaged in subdividing land for sale as building sites also are included in this sector.
Sector 31-33	Manufacturing	Establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products.
Sector 42	Wholesale Trade	Establishments engaged in wholesaling merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.
Sector 44-45	Retail Trade	Establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.
Sector 48-49	Transportation and Warehousing	Industries providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to modes of transportation.
Sector 51	Information	Establishments engaged in the following processes: (a) producing and distributing information and cultural products, (b) providing the means to transmit or distribute these products as well as data or communications, and (c) processing data.
Sector 52	Finance and Insurance	Establishments primarily engaged in financial transactions (transactions involving the creation, liquidation, or change in ownership of financial assets) and/or in facilitating financial transactions.
Sector 53	Real Estate and Rental and Leasing	Establishments primarily engaged in renting, leasing, or otherwise allowing the use of tangible or intangible assets, and establishments providing related services.
Sector 54	Professional, Scientific, and Technical Services	Establishments that specialize in performing professional, scientific, and technical activities for others. Activities performed include: legal advice and representation; accounting, bookkeeping, and payroll services; architectural, engineering, and specialized design services; computer services; consulting services; research services; advertising services; photographic services, translation and interpretation services; veterinary services; and other professional, scientific, and technical services.

8-38

NAICS Titles and Descriptions of Industries

Sector	Title	Description
Sector 55	Management of Companies and Enterprises	Comprises (1) establishments that hold the securities of (or other equity interests in) companies and enterprises for the purpose of owning a controlling interest or influencing management decisions or (2) establishments (except government establishments) that administer, oversee, and manage establishments of the company or enterprise and that normally undertake the strategic or organizational planning and decisionmaking role of the company or enterprise.
Sector 56	Administrative and Support and Waste Management and Remediation Services	Establishments performing routine support activities for the day-to-day operations of other organizations. Activities performed include: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.
Sector 61	Educational Services	Establishments that provide instruction and training in a wide variety of subjects.
Sector 62	Health Care and Social Assistance	Establishments providing health care and social assistance for individuals.
Sector 71	Arts, Entertainment, and Recreation	Establishments that operate facilities or provide services to meet varied cultural, entertainment, and recreational interests of their patrons. This sector comprises (1) establishments that are involved in producing, promoting, or participating in live performances, events, or exhibits intended for public viewing; (2) establishments that preserve and exhibit objects and sites of historical, cultural, or educational interest; and (3) establishments that operate facilities or provide services that enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure time interests.
Sector 72	Accommodation and Food Services	Establishments providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption.
Sector 81	Other Services (except Public Administration)	Establishments engaged in providing services not specifically provided for elsewhere in the classification system. Establishments in this sector are primarily engaged in activities, such as equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, and providing dry-cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.
Sector 92	Public Administration	Establishments of federal, state, and local government agencies that administer, oversee, and manage public programs and have executive, legislative, or judicial authority over other institutions within a given area.