

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Nick Jordan at 8:30 A.M. on February 2, 2006 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department
Helen Pedigo, Revisor of Statutes
Jackie Lunn, Committee Secretary

Conferees appearing before the committee:

Dr. Art Hall-University of Kansas
Secretary Joan Wagnon-Department of Revenue

Others attending:

See attached list.

Chairperson Jordan opened the meeting by introducing Senator Brownlee to make a conceptual introduction of a bill regarding the Bioscience Authority and the Department of Revenue. Senator Brownlee stated there were some questions on what businesses would qualify. Senator Brownlee stated the concept of the bill would be that if there is disagreement as to whether or not a business qualifies then KTEC would make that call. Senator Brownlee made the conceptional motion to introduce. Senator Wysong seconded. Motion carried.

Chairperson Jordan asked the Committee if they were comfortable with working **SB 319**. Senator Wysong made a motion to move the bill out favorably as amended. Seconded by Senator Schodorf. Motion carried.

Chairperson Jordan then called the attention of the Committee to **SB 324**. There was some discussion on amending the bill to remove the word services. A motion was made by Senator Reitz to pass the bill out favorably with the amendment to remove the word "services". Senator Kelly seconded. Motion carried.

Chairperson Jordan introduced Dr. Art Hall-University of Kansas, to complete his presentation on the "Productivity Puzzle." Dr. Hall presented copies of "*Local Government and the Kansas Productivity Puzzle*" (Attachment 1) Dr. Hall gave a brief review of the information in the first part of his presentation which he presented to the Committee on January 12, 2006. In doing so Dr. Hall stated that the Kansas economy lags in productivity and has for the past 20 years. Dr. Hall then began the completion of his presentation by referring to graphs and charts contained in each page of the "*Local Government and the Kansas Productivity*". Many questions were asked and comments made by the Committee during his presentation. Senator Barone asked what impact cattle prices have on productivity. Dr. Hall stated the measure of productivity would fluctuate but that sector of the economy, agriculture, is a very small percentage of the Kansas economy. During his presentation Dr. Hall stated there are parts of the state that are doing very well but parts are doing poorly. The major point he would like to make from a policy perspective is to say that productivity is a front line business phenomenon; the businesses are the only ones that can improve their productivity. It is an experimental process and from a policy perspective, the best you can do is provide is an environment that is going to allow for that type of experimentation.

Dr. Hall wanted to emphasize the spirit in which he is looking at local government structure is really in the spirit of overhead and organization, siting General Motors as a good example. Their front lines are very productive but they are suffering from massive overhead which at some point was needed and now is strangling them. In comparison, is the local government overhead in Kansas weighing the state down? Kansas ranks fourth in terms of local government employees per capita and has been the fourth fastest growing state in local government employees in the country.

State and local government employment has been in the top three fastest growing sectors in the economy in Kansas for the past thirty years. The physical policy that drives local government is property taxation. 46% of the total revenues from local government in the state is property tax. If you look at just tax revenues it is about 78%. It is a huge amount of the local tax fiscal policy. The entire burden is falling on capital one way

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on February 2, 2006 in Room 123-S of the Capitol.

or another whether it is houses, machinery or other types of capital. Not all capital is equal in this regard. The general point is Kansas has a very storied history with the property tax, going back to the post war era and it has continued up to today. The state made some major reforms in the 90's but in order to solve the productivity it is important to go back and look at this.

Dr. Hall stated he is beginning research to look at the distribution of property tax burdens across the state. He also stated that Kansas, Inc. is underwriting the program. He stated, on the average, the trend is the smaller the community the higher the mill levies tend to be. Kansas state and local government spending has been growing faster than the Kansas economy. The more government spends out of the economy the slower the economy tends to grow. Lastly tax policy affects growth but spending policy affects growth much more. And in particular, the larger the government wage bill the less investment there is. Basically the government sector is competing with the private sector bidding up wages for labor; higher wages lead to lower profitability for businesses. Lower profitability leads to less investment. Kansas is soaking up a lot of people into the workforce and the question is when does that become a restraint; when do we need more people and not more jobs? The whole jobs versus people question becomes very important.

Upon the completion of Dr. Hall's presentation Chairperson Jordan introduced Secretary Wagon from the Department of Revenue to give her presentation and update on the re-evaluation on the Kansas economy incentives programs, "*Kansas Tax Credits*". (Attachment 2) Secretary Wagon stated it was a joint effort with the Department of Revenue and the Department of Commerce to obtain the information in the report. Secretary Wagon reviewed the first two pages of the report in detail with the hope that the Committee could review and study the other pages. Upon completion of the review of the "*Kansas Tax Credits*", Secretary Wagon proposed language to require that corporations claiming the Business and Job Development credit or High Performance Incentive Program credit provide additional information needed by the Department of Revenue to make tax incentive effectiveness analysis stated under K.S.A. 74-99b35, as condition for claiming the credits. (Attachment 3) The language change would permit the Department to get the information needed to complete the study on the Kansas tax credits. In closing Secretary Wagon called the Committee's attention to the *Kansas Department of Revenue Office of Policy and Research analysis of Corporate Income Tax 2000-2002 Executive Summary dated October 15, 2004*, (Attachment 4) and the *Kansas Department of Revenue Office of Policy's Update to Analysis of Kansas Corporate Income Tax Dated October 14, 2004 To Reflect Tax Year 2003*. (Attachment 5). A discussion followed with the Committee regarding tax incentive programs and the information needed to tract these programs. Secretary Wagon stated the Department of Revenue and the Department of Commerce would meet and put a work group together to overhaul all of the incentives based on the work done so far and come back with a comprehensive proposal next session on how to modernize these efforts.

Upon completion of Secretary Wagon, Senator Jordan entertained a motion to introduce the language offered by the Department of Commerce to obtain additional information needed to evaluate to programs, moved by Senator Emler . Seconded by Senator Brownlee. Motion Carried.

Chairperson Jordan introduced Dr. Hall again to give a review of the incentive programs. Dr. Hall called the Committee's attention to "*An Economic Evaluation of Two Kansas Tax Credit Programs: High Performance Incentive Program and Business and Job Development Credit*" (Attachment 6) Dr. Hall referred the Committee to Page 4, of the document entitled, **Investment Returns Under HPIP Assumptions** and gave a brief review. In closing, he stated if the goal is not to get tax revenue for the state but to stimulate people into making economic decisions, the HPIP is basically doing that and the Business Job & Development Credit is not.

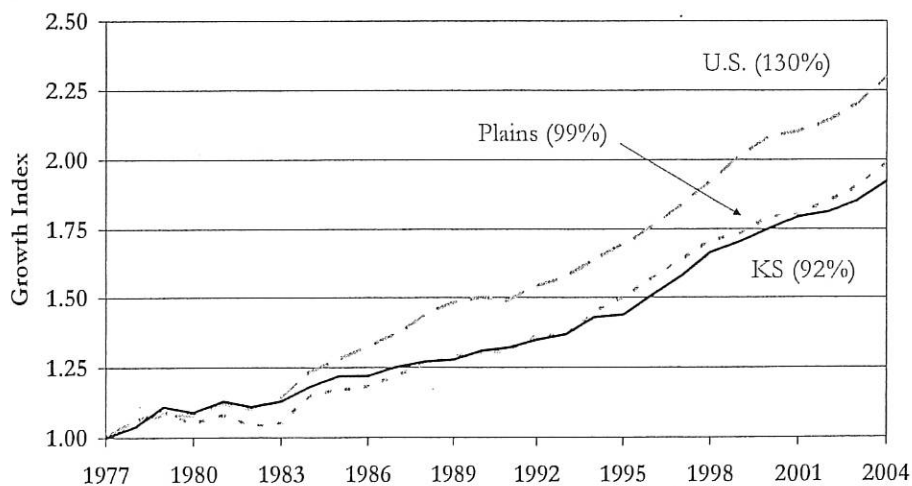
Chairperson Jordan adjourned the meeting at 9:30 a.m. with the next meeting scheduled for February 7, 2006 at 8:30 a.m. in room 123S.

Local Government and the Kansas Productivity Puzzle

Center for Applied Economics
KU School of Business
www.cae.business.ku.edu

Trends in Economic Growth (GSP)

Kansas Lags the U.S. and the Plains States



Senate Commerce Committee

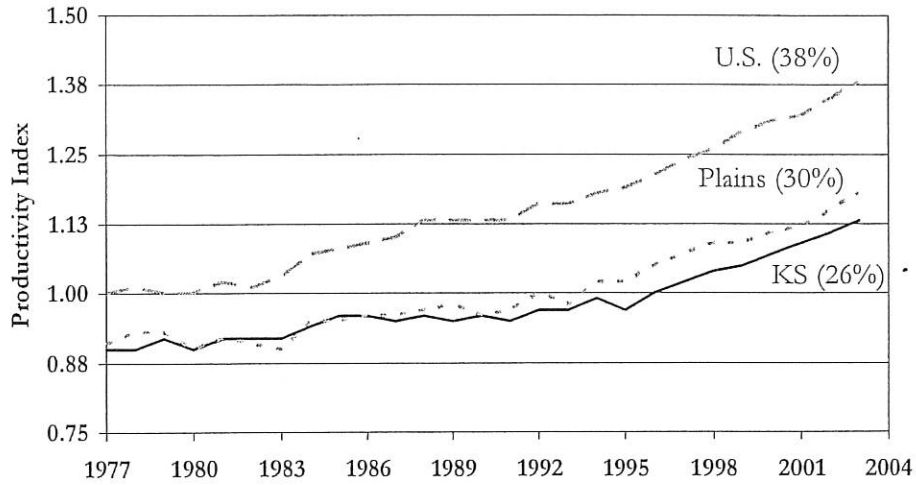
February 2, 2006

Attachment

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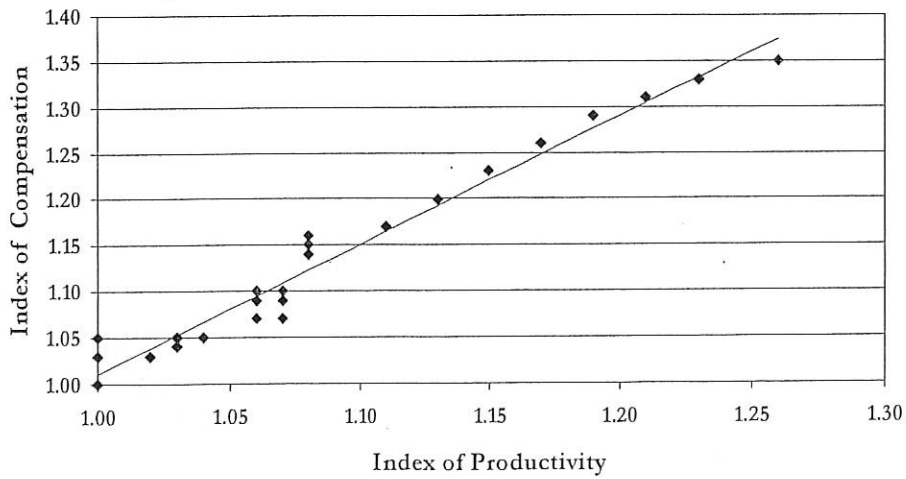
Trends in Labor Productivity

Kansas Lags the U.S. and the Plains States



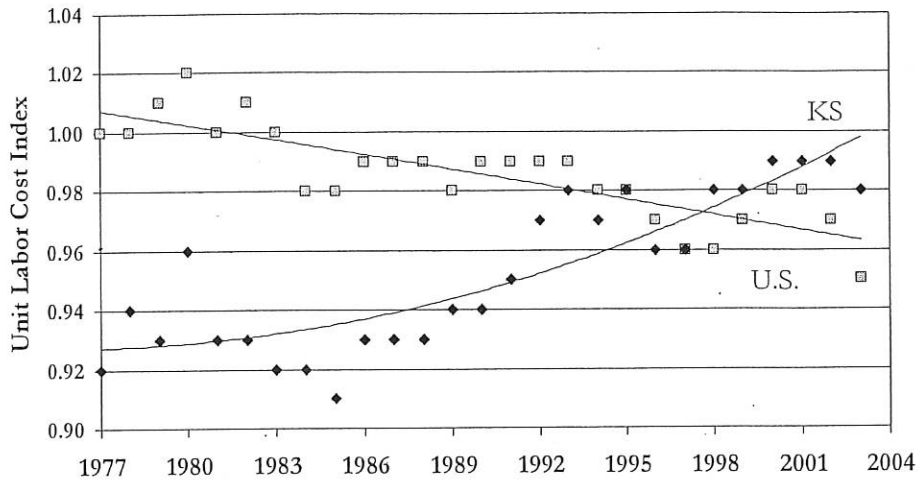
Productivity Drives Wages

98% Correlation in KS: 1977 to 2003



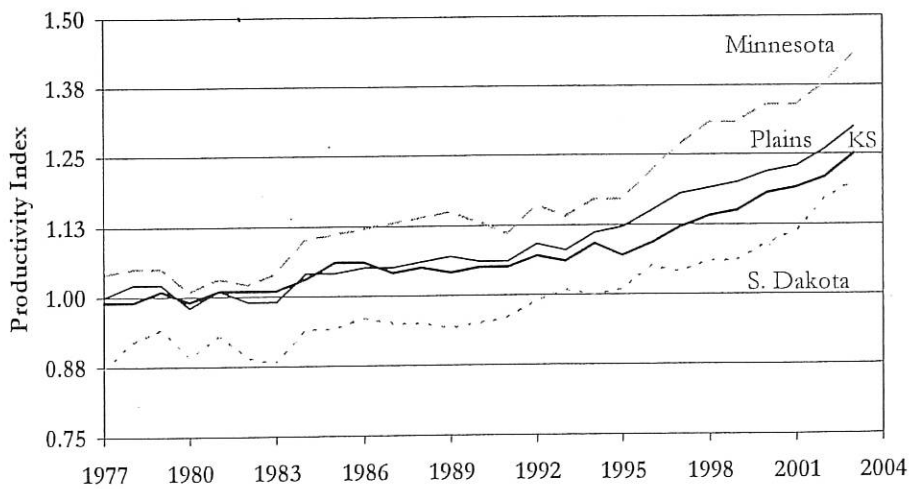
Kansas Has Lost Its Cost Advantage

Unit Labor Cost = Compensation/Productivity



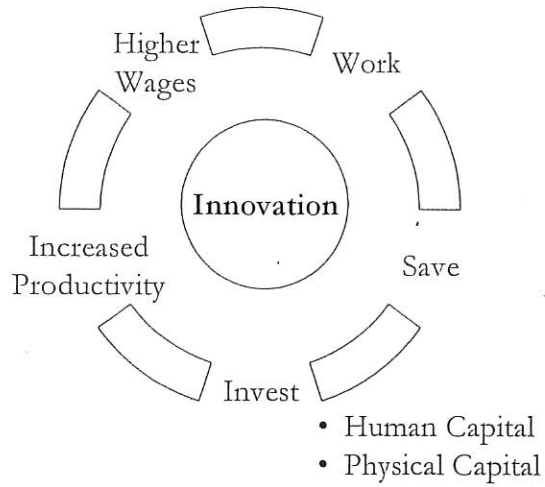
Productivity in the Plains

Convergence and Divergence



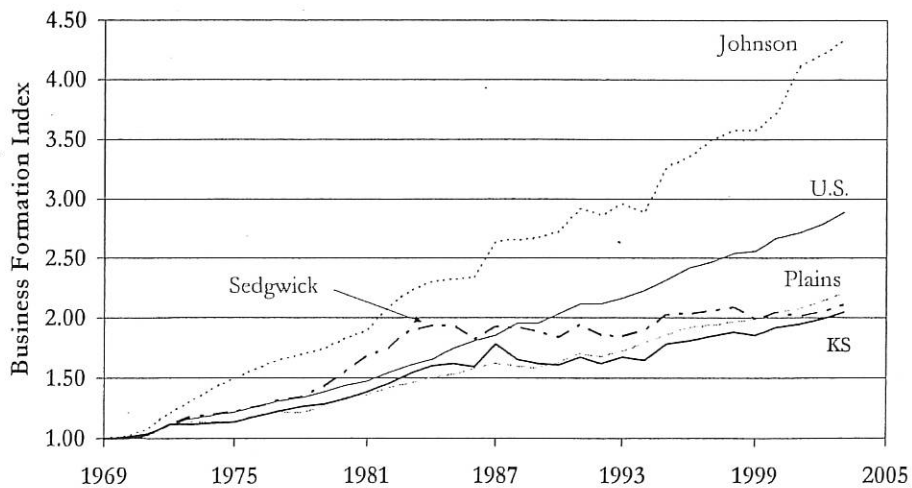
Why Does KS Have Low Productivity?

The Economic Growth Process



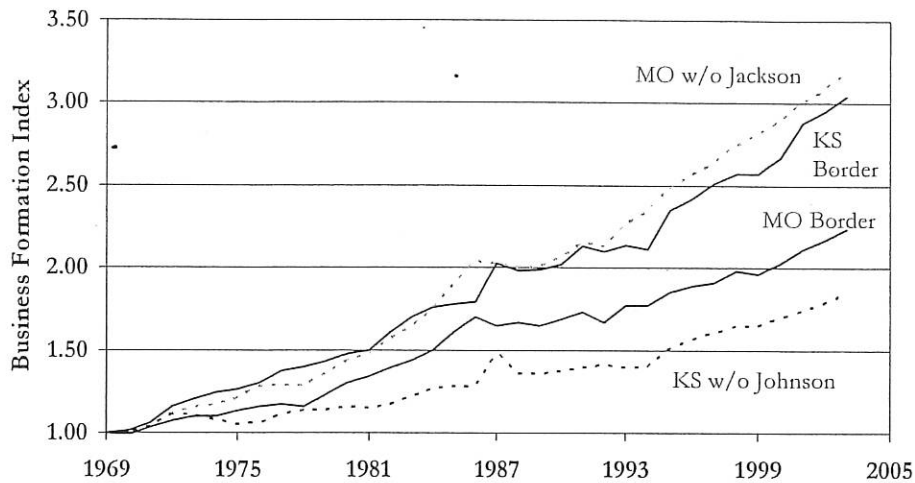
Rate of New Business Formation

Does Kansas Have a Poor Investment Climate?



New Businesses Along the KS-MO Border

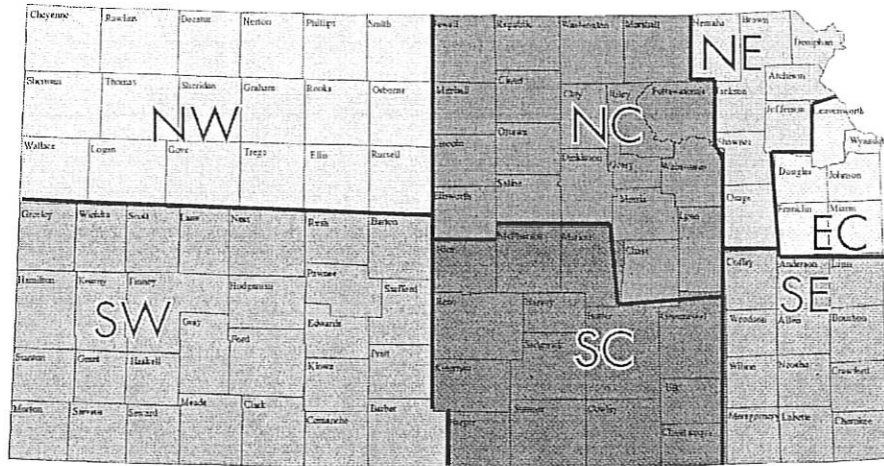
Does Kansas Have a Poor Investment Climate?



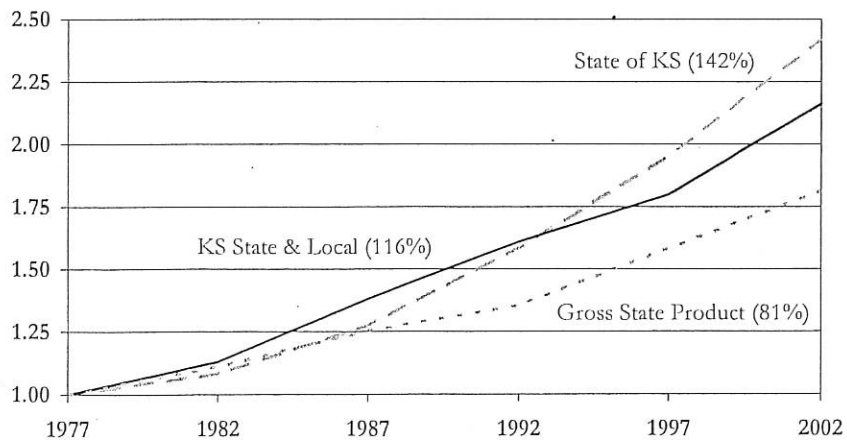
Important Considerations

- Productivity growth is a **process** that requires continual trial and error on the part of individual businesses.
- State leaders should focus on creating a policy environment that allows for maximum business experimentation at the least possible cost.
- More investigation is required to determine if the overall policy mix in Kansas deters capital investment and new business starts.

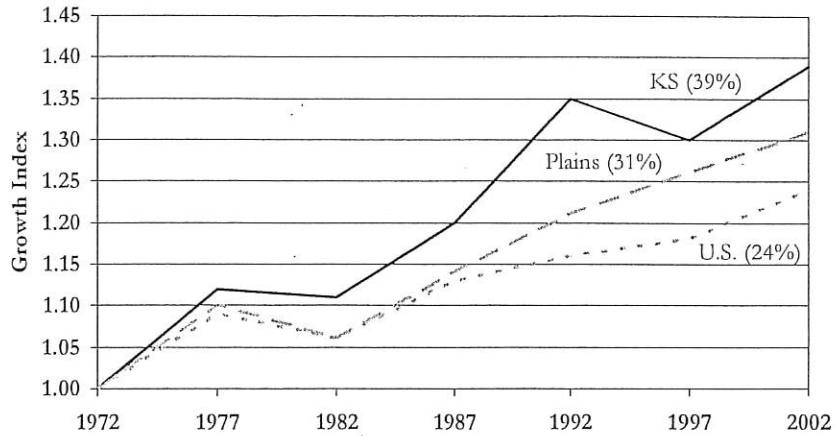
Kansas Department of Commerce Economic Development Regions



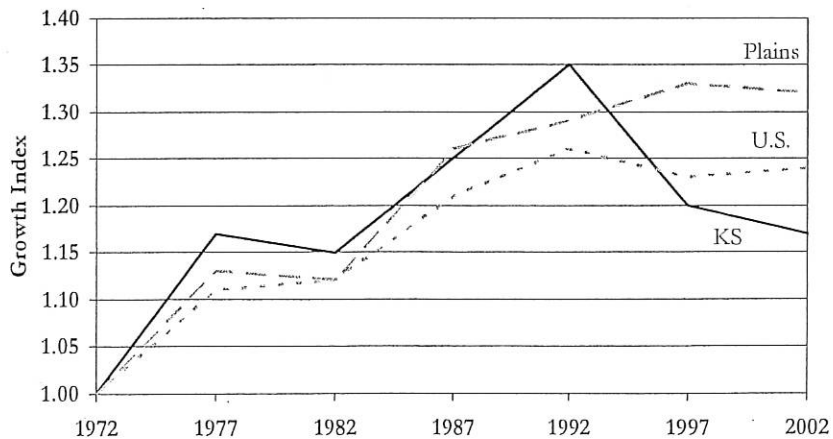
Real KS Government Spending (Federal Funds Omitted)



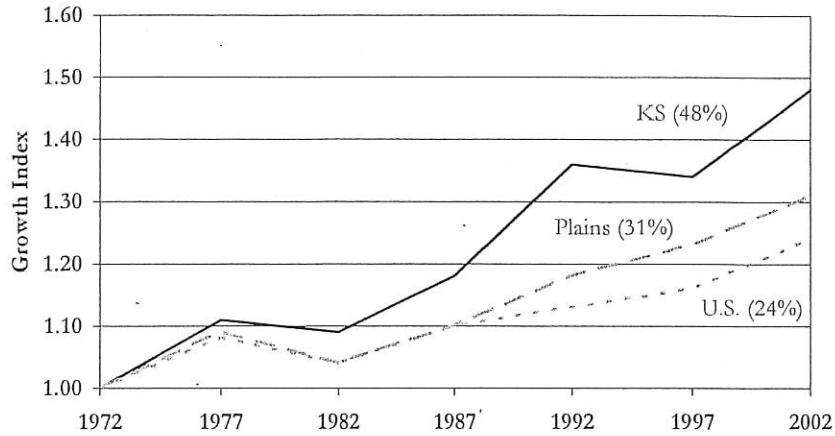
S-L Government Growth Trends: FTEs as a Share of Population



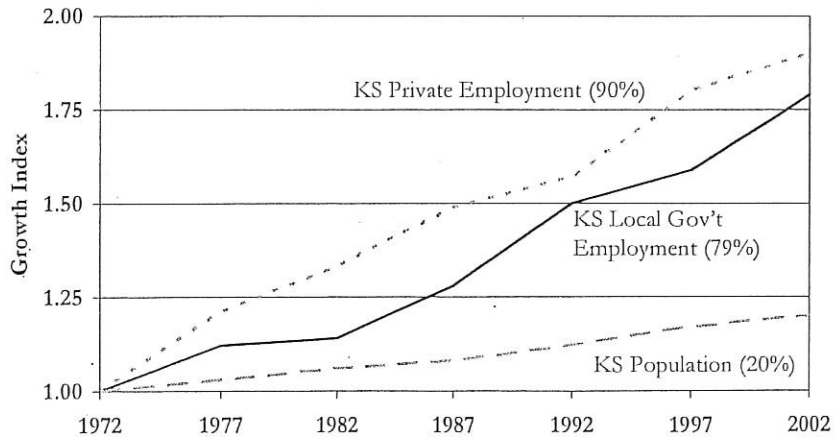
State Government Growth Trends: FTEs as a Share of Population



Local Government Growth Trends: FTEs as a Share of Population



Private vs Local Gov't Employment



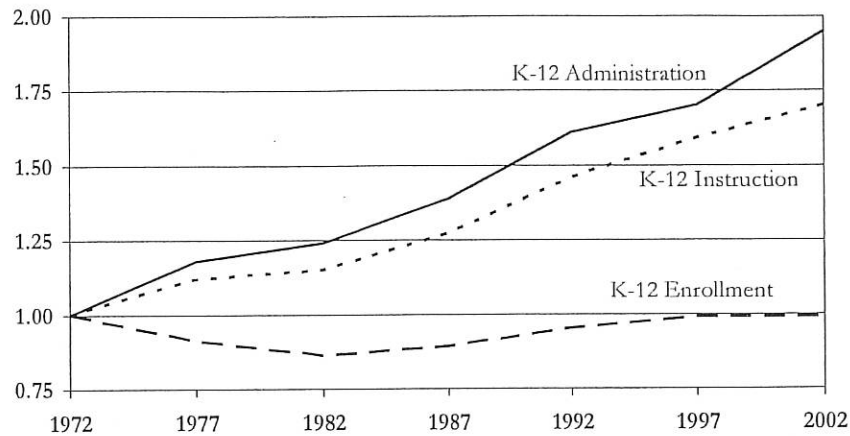
**30-Year Growth (72-02) of:
Local FTEs, Private Employment, Population**

Region	Local Gov't FTEs	Private Employment	Population
Kansas	79%	90%	20%
East Central	112	184	52
North Central	62	59	0
North East	75	56	7
North West	37	43	- 17
South Central	56	73	25
South East	59	34	- 5
South West	68	53	12

Allocation of KS Local Gov't FTEs

Function	1972	2002
K-12 Instruction	39%	39%
K-12 Administration	15	18
Transportation	7	5
Public Safety	9	11
Health	7	8
General Administration	10	6
Other	12	14

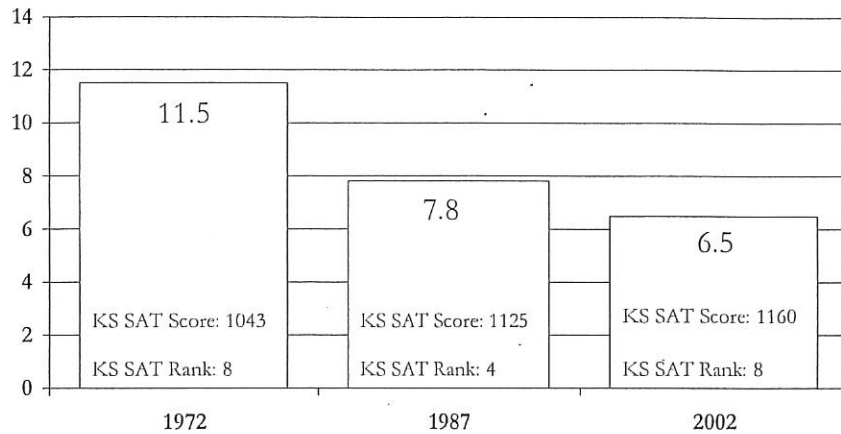
Kansas K-12 FTEs and Enrollment



30-Year Growth (72-02) of: K-12 FTEs and Enrollment

Region	K-12 FTEs Instruction	K-12 FTEs Administration	K-12 Enrollment
Kansas	70%	95%	- 1%
East Central	102	127	19
North Central	61	89	- 16
North East	58	114	- 14
North West	28	46	- 37
South Central	69	72	- 1
South East	51	109	- 6
South West	61	87	7

K-12 Students per K-12 FTE



Cost to KS Taxpayers of K-12 Student-to-FTE Ratio

Region	K-12 Students per K-12 FTEs	Dollar Cost of KS Difference*
Kansas (2002)	6.46	n/a
United States	7.70	\$363 Million
Plains States	6.92	\$151 Million
Contiguous States	7.40	\$286 Million
Kansas in 1987	7.82	\$391 Million
Kansas in 1972	11.51	\$985 Million

* Estimated 2002 cash compensation for K-12 FTE in KS was \$30,801.

Cost to KS Taxpayers of Non K-12 FTE-to-Population Ratio

Region	Non K-12 FTEs per 100 People	Dollar Cost of KS Difference*
Kansas (2002)	2.08	n/a
United States	1.74	\$303 Million
Plains States	1.36	\$641 Million
Contiguous States	1.37	\$753 Million
Kansas in 1987	1.73	\$316 Million
Kansas in 1972	1.52	\$504 Million

* Estimated 2002 cash compensation per Non FTE in KS was \$32,645.

Cost to KS Taxpayers of Local Gov't FTE-to-Population Ratio

Region	Local Gov't FTEs per 100 People	Dollar Cost of KS Difference*
Kansas (2002)	4.77	n/a
United States	3.96	\$693 Million
Plains States	4.15	\$537 Million
Contiguous States	3.16	\$1,386 Million
Kansas in 1987	3.94	\$712 Million
Kansas in 1972	3.34	\$1,228 Million

* Estimated 2002 cash compensation per FTE in KS was \$31,606.

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 facility 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				

Senate Commerce Committee

February 2, 2006

Attachment 2-1

Kansas Tax Credits
Tax Year 2003

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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 be 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 expenditures 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	<p>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.</p> <p>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.</p>		
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.		
			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.		
			20	\$47,799
			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.		
			1,298	\$2,671,448
			35	\$480,040
Total Community Service Contribution Credit			1,333	\$3,151,488

Kansas Tax Credits
Tax Year 2003

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	

Kansas Tax Credits
Tax Year 2003

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

Kansas Tax Credits
Tax Year 2003

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.				

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.

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.

2
Proposed language to require that corporations claiming the Business & Job Development credit or High Performance Incentive Program credit provide additional information needed by the Department of Revenue to make tax incentive effectiveness analysis stated under K.S.A. 74-99b35, as a condition for claiming the credits:

Any taxpayer claiming credits pursuant to K.S.A. 74-50,132, 79-32,153, 79-32,160a, or 79-32,160a(e), shall, as a condition for claiming and qualifying for such credits, provide the following information as part of the return in which such credits are claimed, which shall be used by the department in evaluating the effectiveness of such tax credit programs, pursuant to K.S.A. 74-99b35: actual jobs created as a direct result of the expenditures on which such credit claim is based; additional payroll generated as a direct result of the expenditures on which such credit claim is based; actual jobs retained as a direct result of the expenditures on which such credit claim is based; additional revenue generated as a direct result of the expenditures on which such credit claim is based; additional sales generated as a direct result of the expenditures on which such credit claim is based; total employment and payroll at the end of the tax year in which the credits are claimed.

Senate Commerce Committee

February 2, 2006

Attachment

3-1



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF POLICY AND RESEARCH

KATHLEEN SEBELIUS, GOVERNOR

Analysis of Corporate Income Tax 2000-2002

Executive Summary

October 15, 2004

Purpose of Study

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

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

Recent History of Corporate Income Tax Receipts

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

Distribution of Corporate Income Taxpayers

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

Corporate Income Tax Credits

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

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

Corporate Income Tax Burden

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

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

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

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

The Kansas Economy—Retail Sector Compared to Manufacturing Sector

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

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

Employment Data on Top 20 Business and Job Development Credit Claimants

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

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

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

Conclusions

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

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

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

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

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

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



KANSAS

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

DEPARTMENT OF REVENUE
POLICY AND RESEARCH

October 15, 2004

Analysis of Kansas Corporate Income Tax 2000-2002

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

Historical Background

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

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

Recent History of Corporate Income Tax Receipts

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

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

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

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

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

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

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

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

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

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

Distribution of Corporate Income Taxpayers

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

Corporate Income Tax Liability By Taxable Income Bracket

Tax Year 2001 Returns Filed In Calendar Year 2002

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

Tax Year 2000 Returns Filed In Calendar Year 2001

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

Tax Year 1989 Returns Filed in Calendar Year 1990

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

Corporate Income Tax Credits

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

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

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

Table 1

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

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

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

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

TOTAL CREDIT ALLOWED - CORPORATE INCOME TAX FILERS

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

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	15 in Retail/Wholesale/Other
Total Taxable Income: \$208.8 million	Total Taxable Income: \$436 million
Total Net Tax: \$4.375 million	Total Net Tax: \$24.4 million
Ave. Effective Tax Rate: 2.1%	Ave. Effective Tax Rate: 5.6%
Range: .88% to 5.44%	Range: .27% to 7.07%

Tax Year 2001

10 in Manufacturing/Transportation/Warehousing	10 in Retail/Wholesale/Other
Total Taxable Income: \$257 million	Total Taxable Income: \$281 million
Total Net Tax: \$3.19 million	Total Net Tax: \$17 million
Ave. Effective Tax Rate: 1.2%	Ave. Effective Tax Rate: 6%
Range: -1.3% to 5.16%	Range: -1.9% to 7%
(5 with refunds or zero taxes)	(1 with refund)

Tax Year 2002

9 in Manufacturing/Transportation/Warehousing	11 in Retail/Wholesale/Other
Total Taxable Income: \$169 million	Total Taxable Income: \$82 million
Total Net Tax: \$4.37 million	Total Net Tax: \$3.385 million
Ave. Effective Tax Rate: 2.59%	Ave. Effective Tax Rate: 4.14%
Range: -1.8% to 6.34%	Range: .02% to 6.13%
(4 with refunds or zero taxes)	

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

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

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

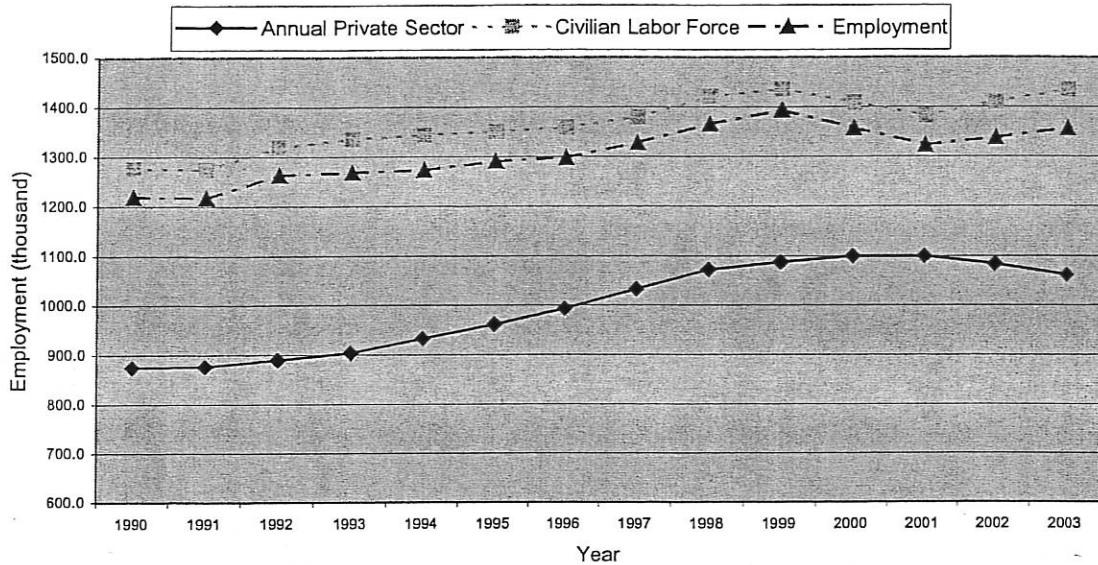


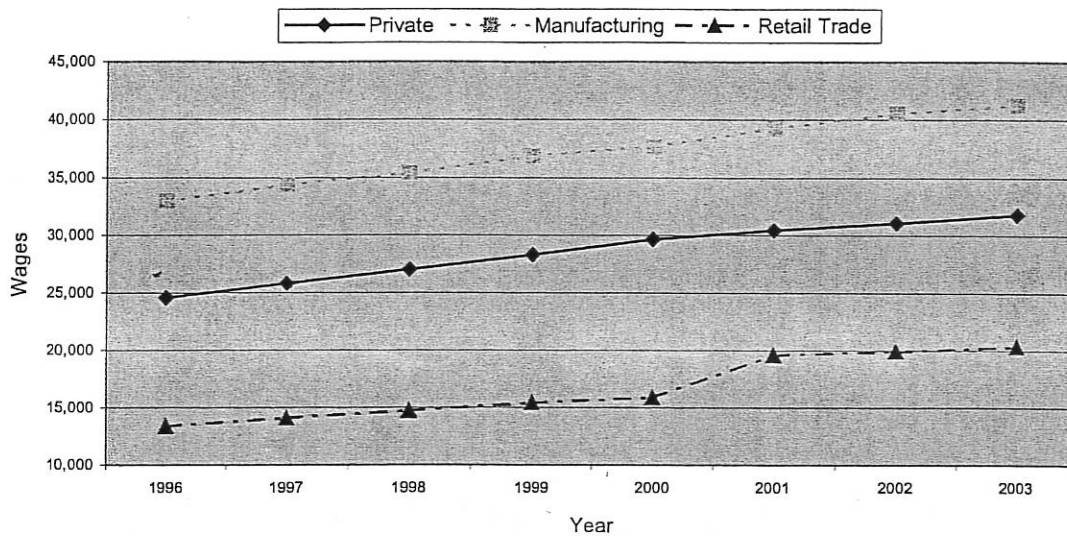
Chart 5 compares Kansas manufacturing employment and retail trade employment from 1990 through 2003. During most of the 1990's, both manufacturing and retail trade experienced steady growth, with dramatic growth in manufacturing in the late 1990's. Manufacturing sector employment was significantly larger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

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



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

Chart 6. Kansas Average Annual Wages in Different Sectors



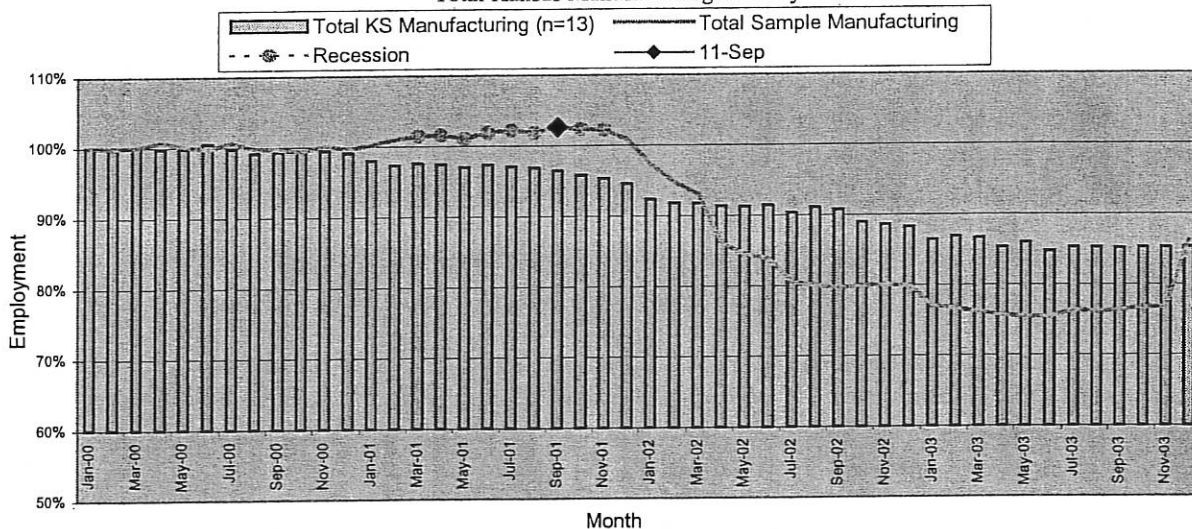
As the charts above show, the Kansas economy experienced a serious recession during 2001, and with the added impact of 9/11, experienced higher unemployment rates in many sectors for an extended time period.

Employment Data on Top 20 Business and Job Development Credit Claimants

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

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

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

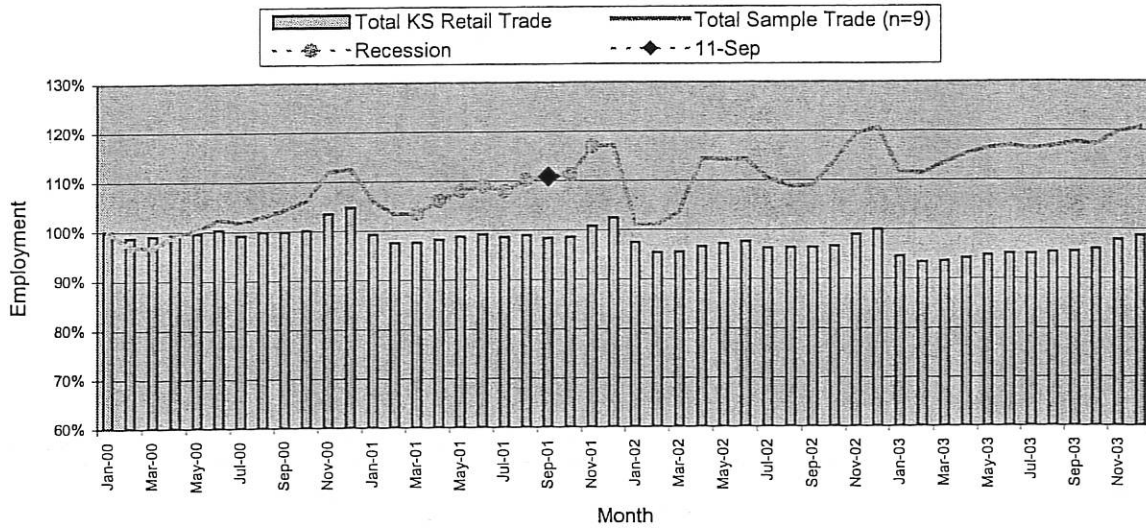
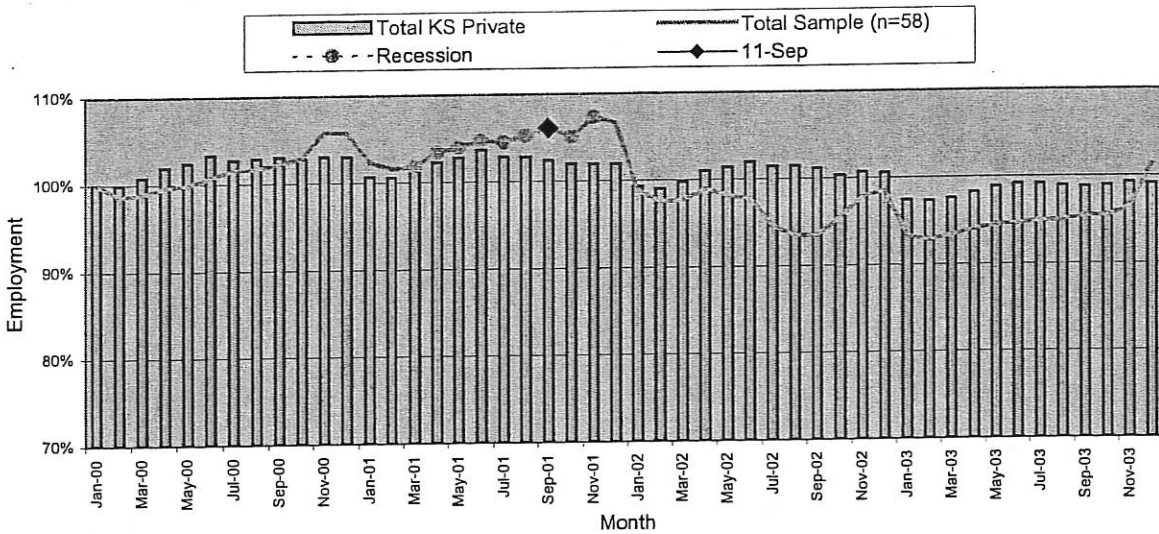


Chart 9 tracks the percentage rate of change in the aggregate employment level of corporations included in the group of top 20 B&J credit claimants from January 2000 through the end of 2003 and compares that to the percentage rate of change in the aggregate employment level of the Kansas private sector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

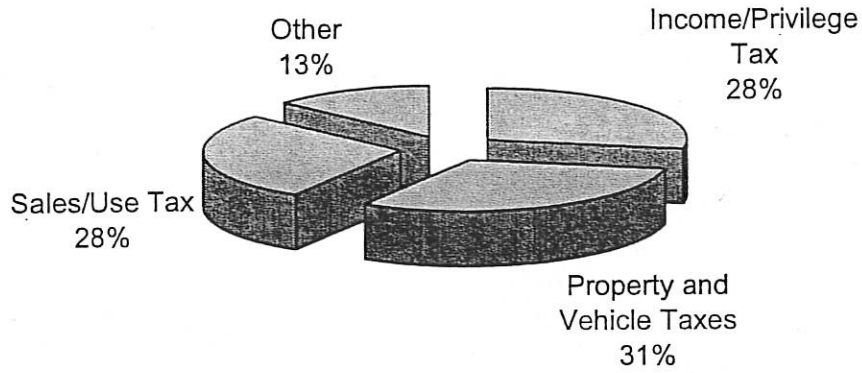
A credit may be allowed in an amount equal to 15% of the personal property tax levied and paid on commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas Constitution in subclass (5) or (6) of class 2 and machinery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

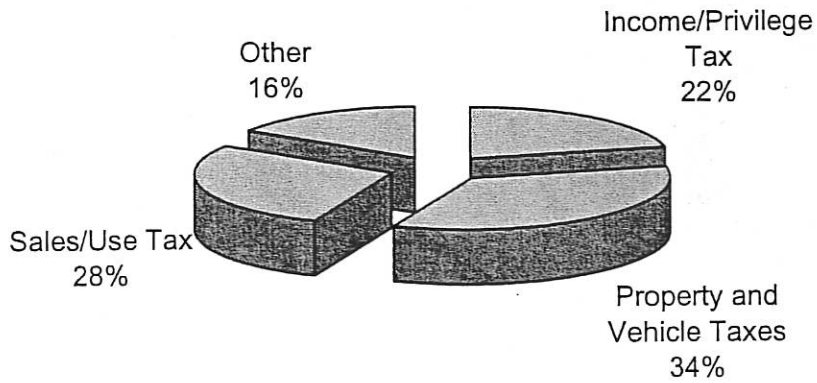
A taxpayer with qualifying expenditures in research and development activities conducted within Kansas may be eligible to receive a credit of 6 1/2% of the amount expended for the research.

Chart 1

Fiscal Year 1998 State and Local Tax Revenues by Source

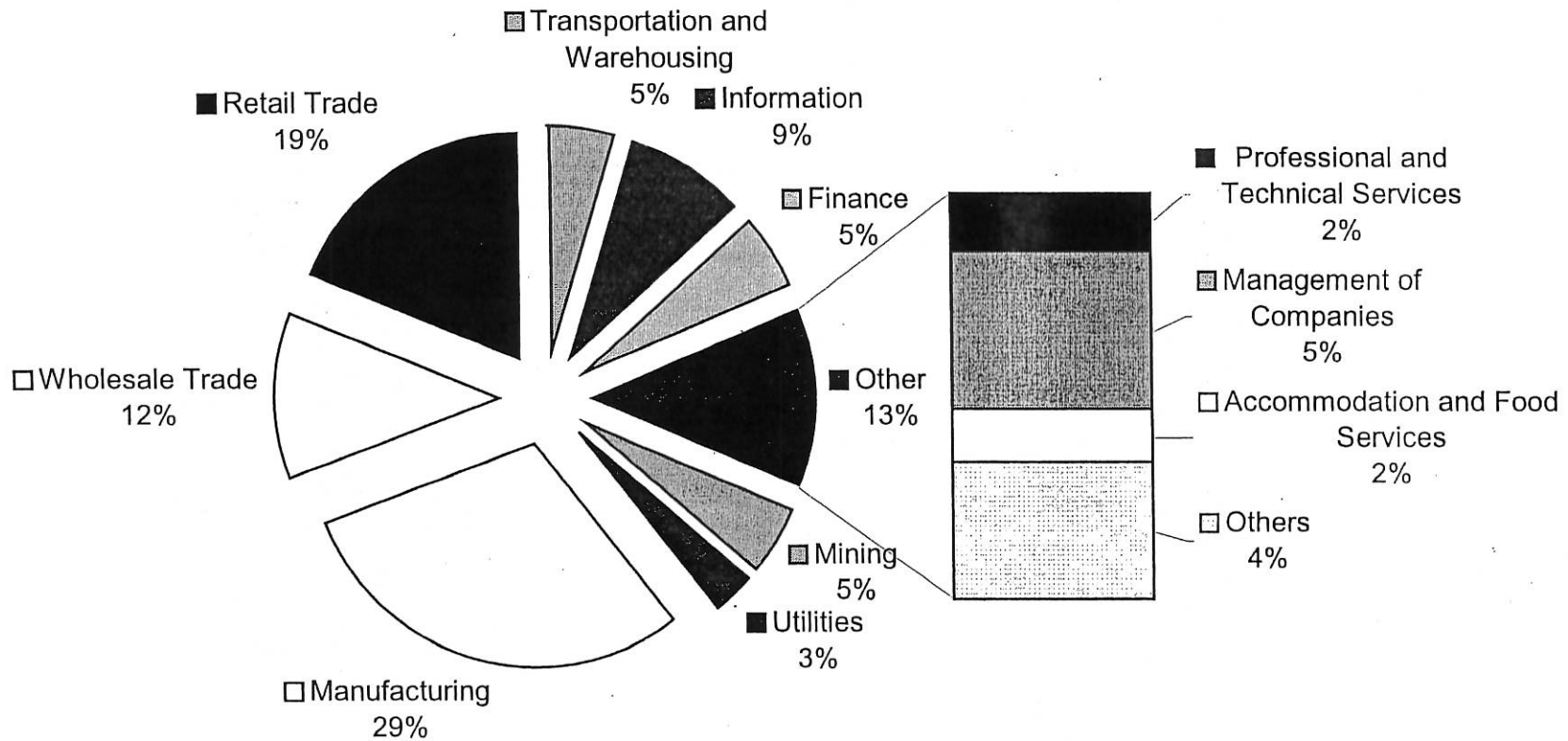


Fiscal Year 2003 State and Local Tax Revenues by Source



4-22
4-22

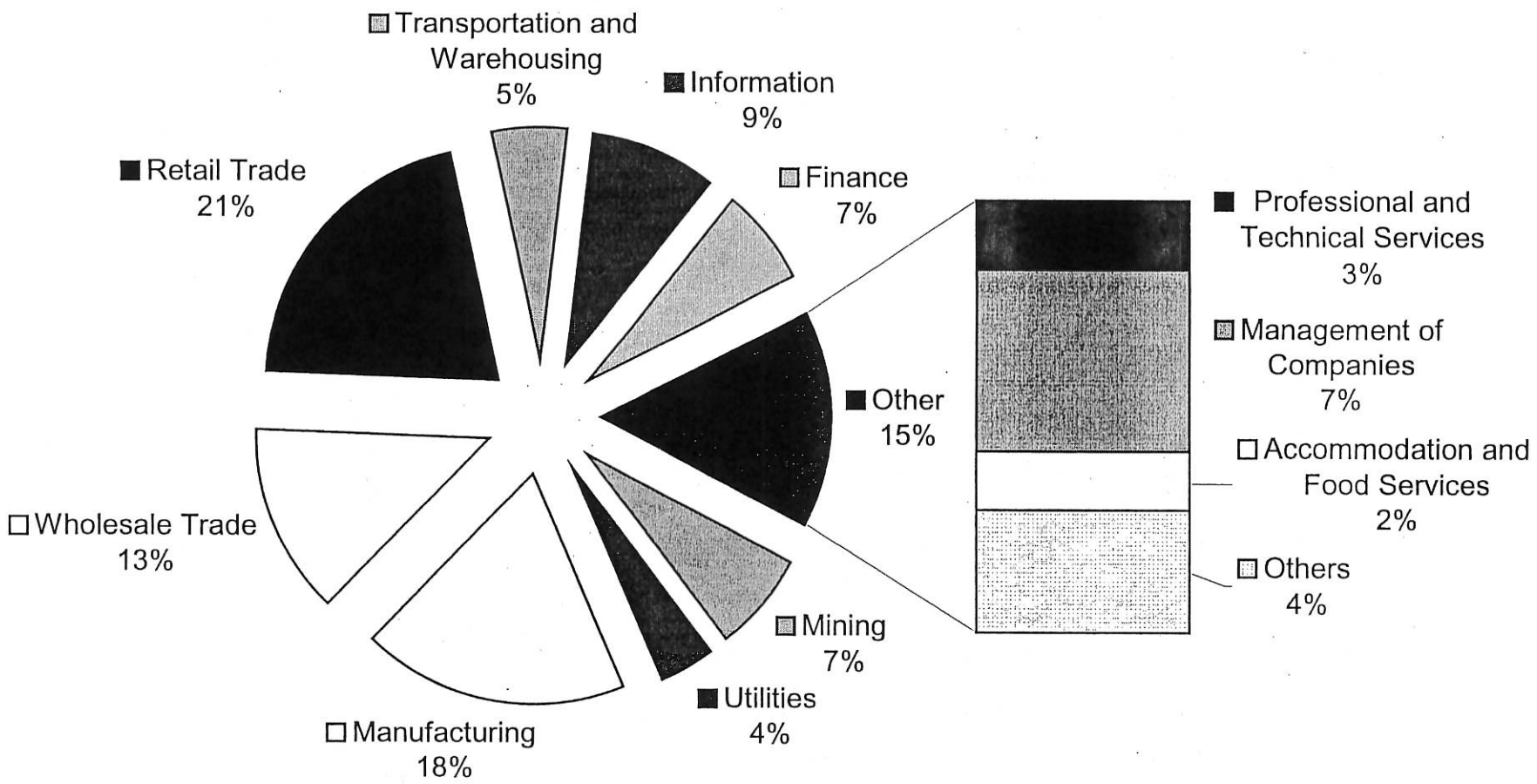
Chart 2
Total Corporate Income Tax Liability by Sector Before Credits Are Taken
Tax year 2000, 2001 and 2002



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

4-22

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



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



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
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 to Table 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.

5-4

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

5-4

5-5

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%

5-5

**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.

One 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

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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.

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Investment Returns Under Different HPIP Assumptions

Table 1: \$5 Million Investment

Annual Net Income from Investment	Years to Deplete HPIP Credit					Net Income as % of Investment
	No Credit	1	3	5	10	
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	Years to Deplete HPIP Credit					Net Income as % of Investment
	No Credit	1	3	5	10	
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%

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Investment Returns Under Different HPIP Assumptions

Table 3: \$100,000 Investment

Annual Net Income from Investment	Years to Deplete HPIP Credit					Net Income as % of Investment
	No Credit	1	3	5	10	
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	Years to Deplete HPIP Credit					Net Income as % of Investment
	No Credit	1	3	5	10	
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:

$$(\text{Investment} \times 1\%) + (\text{Number of qualifying employees} \times \text{credit per employee})$$

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.

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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 preparers 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.

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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 Manufacturer					Non-Urban Manufacturer					Net Income as % of Investment
	No Credit	Years to Deplete B&J Credit				No Credit	Years to Deplete B&J Credit				
		1	3	5	10		1	3	5	10	
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%

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

Net Income from Investment before Employees	Urban Non-Manufacturer					Non-Urban Non-Manufacturer					Net Income as % of Investment
	Assumptions:					Assumptions:					
	5 Employees					5 Employees					
	Annual Compensation per employee \$ 35,000					Annual Compensation per employee \$ 20,000					
	After-tax cost of employees 115,500					After-tax cost of employees 66,000					
	Value of B&J Credit 17,500					Value of B&J Credit 22,500					
	Years to Deplete B&J Credit					Years to Deplete B&J Credit					
	No Credit	1	3	5	10	No Credit	1	3	5	10	
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%

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