

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:05 A.M. on January 11, 2007 in Room 519-S of the Capitol.

All members were present except: Representative Anthony Brown
Representative Nile Dillmore
Representative Gary Hayzlett
Representative Arlen Siegfried

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Office of the Revisor of Statutes
Richard Cram, Kansas Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Joan Wagnon, Secretary, Department of Revenue
Richard Cram, Director, Kansas Department of Revenue
Charla Wagner, Auditor, Kansas Department of Revenue

The Chairman called for bill introductions.

Richard Cram, Kansas Department of Revenue, requested the introduction of a bill that would revise the sales tax refund process. Representative Wilk moved the introduction and Representative Whitham seconded. The motion carried.

The Chairman invited Secretary Joan Wagnon, Kansas Department of Revenue (KDOR), to the podium to brief the Committee on the Governor's tax proposals as well as basic tax rules and policies. She introduced staff members in attendance: Richard Cram, Director, Policy and Research Division; David Corbin, Legislative Liaison; Jim Bartel, General Counsel; Charla Wagner, Auditor - Corporate Income Tax; and Kathleen Smith, Policy Analyst. A summary of Department of Revenue Legislative Proposal regarding sales tax refunds was distributed to the committee (Attachment 1).

Secretary Wagnon explained the Governor's tax proposal which encompassed issues on corporate income tax, franchise tax, changes in sales tax, sales tax credits and new credit proposals. *The Summary of Governor's Tax Reform Proposal* was distributed (Attachment 2).

The Secretary reviewed three financial commitments made by the Legislature during the 2006 session.

- Funding Package to schools for the next three years
- Exemption of business machinery and equipment, and also to local governments to mitigate their loss from this exemption
- Programs for children and families for health care and other programs

Secretary Wagnon said that the Governor's approach to meet those commitments will be to systematically improve the business climate long term, with changes in tax policy each year that could further stimulate economy and job grow and investment for Kansas. A background paper - *2007 State Business Tax Climate Index*, indicating Kansas ranks number 31 among the 50 states on a State Business Tax Climate Index was distributed (Attachment 3).

The Secretary explained three recommendations from the Governor's proposal:

1. Business Tax Rate Reductions

- ▶ Eliminate the franchise tax for an additional 16,000 small businesses by raising the net worth exemption from \$100,000 to \$1,000,000 beginning tax year 2007.
- ▶ Reduce the corporate income tax surcharge over two years from 3.35% to 2.75%, beginning in tax year 2008.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on January 9, 2007 in Room 519-S of the Capitol.

2. Business Tax Incentives/Tax Credits

- ▶ The Enterprise Zone incentives, HPIP credit and Business and Job Credit will be replaced by the following new, simplified incentives: Investment Tax Credit; Jobs Credit; Sales Tax Exemptions; Strategic Reserve Fund; and the Opportunity Zones Program.
- ▶ Administrative provisions changed, amended or repealed.

3. Remove barriers in state laws and regulations

Remove any barriers that discourage consolidation or prevent more efficient use of tax dollars by local governments. The state's role will be to provide incentives to local governments to unify or realign themselves, and provide tools to help them make decisions.

- ▶ Request introduction of legislation in 2007 to remove remaining barriers to consolidation.
- ▶ Undertake a study with a university in Kansas and KDOR to study further the issues related to consolidation and to construct a model which can be used by local governments to determine the efficacy of consolidation.
- ▶ Examine the cost-effectiveness of service provided by townships, and provide information about the status of townships statewide.

Secretary Wagon requested the Tax Committee introduce the Governor's tax proposal. Chairman Wilk moved the introduction. Representative Holland seconded. The motion carried.

An outlook for the State General Fund was distributed for years 2004 - 2009 (Attachment 4)

Charla Wagner, Auditor, KDOR, explained the processes, forms, definitions pertaining to Corporate Income Taxes, using examples shown in a booklet on Corporate Partnerships/Corporation privilege and Franchise Taxes (Attachment 5). Discussion followed regarding issues pertaining to corporate income tax.

Richard Cram, KDOR, distributed a memo regarding, *Update to Analysis of Kansas Corporate Income Tax Dated October 14, 2004*. He reviewed: recent history of corporate income tax receipts; Corporate income tax burden; B & J credit data; HPIP data; and updated the conclusions. He explained charts on tax and credits statistics by industry categorizing 414 corporations for tax year 2004. Revised charts on were included in his testimony (Attachment 6).

Secretary Wagon distributed a memo - *SGF Individual/Corporate and Sales Tax for fiscal years 1995-2006* (Attachment 7). The Chairman and Secretary Wagon agreed that of all revenue streams Corporate Income Tax is one of the most volatile tax receipts for the state. Discussion followed regarding the loss in 2002 and 2003.

The meeting was adjourned at 10:25 a.m. The next meeting is January 17, 2007.



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

January 11, 2007

To: Representative Kenny Wilk, Chair
House Taxation Committee

From: Joan Wagnon

Re: Summary of Department of Revenue Legislative Proposal Regarding Sales Tax Refunds Requested for Introduction in House Taxation Committee

1. Clarifies that three-year the statute of limitations for refund claims starts on the due date of the return for the reporting period that includes the transaction on which the refund claim is based. The statute of limitations is not tolled until a complete and fully documented refund claim is filed. The postmark date on the refund claim determines its filing date (or if that date is illegible, the date 3 days prior to the claim being received by the Department is presumed to be the filing date).
2. Clarifies that interest does not start to accrue until a complete and fully documented refund claim is filed, except that no interest accrues if the claim is paid within 120 days after the filing of a complete and fully documented refund claim.
3. Requires that consumers must seek their refunds from the retailer, who in turn will file the refund claim (subject to the documentation requirements) with the Department on an amended return. Limits the filing of consumer-filed refund claims directly with the Department only to situations where the consumer paid the tax directly to the Department or the retailer was no longer in business at the time the consumer sought the refund.
4. Defines the information and documentation requirements that must be met for a refund application to be considered a properly filed refund claim that tolls the statute of limitations and begins the accrual of interest.
5. Provides that a refund application will initially be reviewed for a determination of whether it meets the informational and documentation requirements to be considered a properly filed refund claim. If it does not, the refund application will returned to the claimant, who will be advised of administrative appeals rights that are limited to consideration of whether what was originally filed was a complete refund claim or not. Once a complete, properly documented and timely refund claim is filed, it will be reviewed on its merits for a determination as to whether a refund is due. If a complete and properly filed refund claim is denied, the claimant will be advised of administrative appeal rights for a review of the decision to deny the claim on its merits.
6. Refund claimants submitting claims for sales or use tax not collected or remitted to the Department will be subject to special penalties.

HS TAXATION COMMITTEE

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1-11-2007

ATTACHMENT 1

Summary of Governor's Tax Reform Proposal January 10, 2007

Last year the Kansas Legislature and the Governor made

- serious commitments to schools, with a funding package that will increase each year of the next three;
- serious commitments to business, with the exemption of business machinery and equipment, and also to local governments to mitigate their loss from this exemption;
- serious commitments to children and families, not only in funding schools, but also health care and a host of programs.

The Governor believes the best way to meet these commitments is to continue the economic growth and expansion started in the past few years.

This Fall, the departments of Revenue and Commerce, with the help of business leaders around the state, examined the Kansas business tax structure, comparing Kansas' business climate to surrounding states and studying how to increase competitiveness in our region and nationally. Many strategies were explored, but in the final analysis, rate reduction and simplification of tax incentives were the two highest priorities of the work group. These two strategies positively impacted the greatest number of taxpayers without disadvantaging anyone.

Taxes matter to business. They affect business decisions, job creation and retention, plant location, competitiveness and the long-term health of the economy. Although some things are outside our control in creating an attractive business climate, Kansas can control its tax policy.

The Governor's approach will be to systematically improve the business climate long term, with changes in tax policy each year that could further stimulate the economy and grow jobs and investment for Kansas. The following is her multi-year strategy to improve the business climate. If the Kansas economy continues to improve after these rate reductions and new incentives are in place, then the tax cuts can be extended even further in the out years.

Recommendation #1: Business Tax Rate Reductions:

- **Eliminate the Franchise Tax for an additional 16,000 small businesses by raising the net worth exemption from \$100,000 to \$1,000,000 beginning tax year 2007.** The fiscal impact of this is approximately \$7-8 million annually. The removal of the administrative burden for these small businesses is significant. The rate and cap will remain unchanged.¹

¹ Currently 79,000 small businesses are exempt because of the \$100,000 threshold. Raising the threshold to \$1,000,000 adds an additional 16,000 businesses, leaving only 5,000 paying franchise tax.

- **Reduce the corporate income tax surcharge over 2 years from 3.35% to 2.75%, beginning in tax year 2008.** The base rate of 4% would remain unchanged. The rate in Tax Year 2008 would be 6.95% and in TY 2009, 6.75%. This is an 18% reduction in the surcharge and about an 8% reduction overall in corporate income taxes when fully implemented.

| | Fiscal Year | | | | |
|------------------|------------------------|------------------|------------------|------------------|------------------|
| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| Franchise Tax | \$ (7.0) | \$ (7.3) | \$ (7.6) | \$ (7.9) | \$ (8.2) |
| Corporate Income | \$ (5.8) | \$ (22.2) | \$ (29.0) | \$ (29.0) | \$ (29.0) |
| Total | \$ (12.8) | \$ (29.5) | \$ (36.6) | \$ (36.9) | \$ (37.2) |

These rate reductions for business taxes are in addition to the proposed \$80 million reduction in the Unemployment Insurance rate which takes place immediately.

Recommendation #2: Business Tax Incentives/Tax Credits

(The Enterprise Zone incentives, HPIP credit and Business and Job Credit will be replaced by the following new, simplified incentives. Businesses with existing credits to carry forward will retain those credits until used. Proposed drafts of the new credits are attached. Please note there is a 5 year sunset on these credits which will go into effect for all taxable years commencing after December 31, 2006.)

A. Investment Tax Credit

- Business must apply for the credit initially with the Department of Commerce. Certification of eligibility by Commerce is required in order to obtain the credit.
- Commerce determines eligibility and refers applicant to KDOR; a preliminary estimate of the credit is done with KDOR staff and signed by the department and the taxpayer; when investment is made, the form is completed and returned to KDOR to claim the credit. (form attached)
- To be eligible a company must
 - Be a for profit business
 - Invest at least \$1,000,000 at a company's qualified business facility. Investments less than that amount (except in Opportunity Zones) will not qualify. If the investment occurs over a multi-year period, as long as it is the same project, it will qualify.
 - Pay a higher than average wage
 - Company's facility must be classified under specified NAICS codes or be identified as a headquarters or ancillary support operation.
- Credit amount is 10 percent for all the investment actually made, not just the amount above the eligibility threshold.
- Credit is claimed in the year the investment is placed in service

- Unused credits may be carried-forward for 10 years and will require taxpayer to provide a self-certification statement that it is still paying a higher than average wage and still doing business in Kansas.
- An eligible company also qualifies for a sales tax exemption for use in conjunction with the company's eligible capital investment at its business facility.
- Credits may be used to pay corporate, individual or premium taxes.
- A taxpayer shall elect to claim the investment credit on the original return for the tax year in which the qualified investment was placed into service.

These items from the HPIP have been simplified or eliminated:

- Simplified calculation of credit and application process, such as removal of calculations of monthly averages, etc.
- Eliminate the 50% sales outside the state requirement and training credit.
- Eliminate recertification for carry-forward.

B. Jobs Credit

Requirements include:

- Any businesses creating at least 20 net new jobs in Kansas, as determined by the net gain in employees on the payroll at year end, is eligible for a credit of \$1,500 for each new employee.
- Claim the credit on the tax return; no pre-certification requirement.
- An eligible company may be issued a two year sales tax exemption certificate for facility construction in conjunction with the company's capital investment at its business facility. (See C. Sales Tax Exemptions.)
- Does not apply to retention of existing jobs.
- No restriction on the kind of business in Opportunity Zone; retail excluded in MSA's.
- Enhanced credit and lower job hiring requirement is available in the Opportunity Zone.
- Credit is non-refundable, but may be carried forward.
- Websites at both Commerce and Revenue include a benefits calculator for this credit.
- A taxpayer shall elect to claim the job credit on the original return for the tax year in which the employees were hired.

C. Sales Tax Exemptions

- Available to any certified investment credit or eligible job credit
- Project based, but requires project exemption certificate. The 2 year period of issuance can be extended if needed by KDOR.
- Lessor leasing to a qualified business shall also qualify for a sales tax exemption for the construction, reconstruction of a facility if there is a 5 year lease between the two entities.

D. Strategic Reserve Fund

Utilize the Impact program for grants for New Business Attraction. This fund is administered by Commerce. These cash incentives may be used in conjunction with tax credits and other incentives, or alone as negotiated with Commerce.

E. Opportunity Zones Program

Commerce will establish this program by rule and regulation, setting out the areas eligible to participate and program parameters. The eligible areas will be evaluated and reviewed every 3 years. The incentives for Opportunity Zones, however will be set out in statute. Incentives available in the O-Zones are:

- Allow a \$3,500 Job Credit per new employee for each business creating at least 5 jobs in an Opportunity Zone. All other rules apply.
- Allow an Investment Credit to qualify with a minimum of \$100,000 in investment in an O-Zone. All other rules apply.
- Both these credits create eligibility for the sales tax exemption as well.

F. Administrative provisions to include in the legislation:

- Delinquent taxes must be paid before credits or sales tax exemption is granted.
Prior to authorization of a tax credit or the sales tax exemption allowed under K.S.A. 79-3606(cc), KDOR will verify that the applicant does not owe any delinquent income, sales, use or premium taxes or interest or penalties on such taxes. If a delinquency exists, no credit or exemption can be issued until all delinquencies are satisfied. Department of Insurance will verify delinquent premium taxes.
- Amend 3rd party refund statute to add penalty for submitting a refund request when no tax was paid.
- Repeal these unused credits:
 - Plugging abandoned oil/gas wells
 - Swine Facility Improvement Credit
 - Temporary Assistance to Families Contribution credit
 - Ag loan interest reduction
 - Habitat management (expired)

Recommendation #3 Remove barriers in state laws and regulations that discourage consolidation or prevent more efficient use of tax dollars by local governments. The state's role will be to provide incentives to local governments to unify or realign themselves, and provide tools to help them make decisions.

The Kansas Advisory Council on Intergovernmental Relations has developed several strategies to implement this particular recommendation. The interim tax committee also made a series of recommendations in this area. These include:

- Requesting introduction of legislation in 2007 to remove the remaining barriers to consolidation, particularly city-county consolidation and provide incentives to consolidate².
- Undertaking a study with a university in Kansas and the Department of Revenue to study further the issues related to consolidation and to construct a model which can be used by local governments to determine the efficacy of consolidation. Such issues include:
 - How to Budget, consider general budgeting needs or needs specific to one or more entities that merge.
 - How to apply and distribute levies.
 - How to handle some of the questions that arise when two jurisdictions are discussing combining: for example, what happens to the elected officials? What is reasonable to expect in staff reductions or salary issues?
 - A model statute to allow for the consolidation of city-county law enforcement and provide a customized model for how it should be done. The only consolidated city-county law enforcement now is Riley County. Other jurisdictions may have utilized interlocal agreements to affect a similar result, but the only true consolidation is Riley County.
- Examining the cost-effectiveness of services provided by townships, and provide information about the status of townships statewide. (Much of this information can be obtained from Division of Property Valuation.)

In addition the Opportunity Zone program will include opportunities and incentives for consolidation – yet to be determined.

Investment Credit Process

Taxpayer identifies anticipated investment to Commerce before any commitments are made. Taxpayer will give their NAICS (or information providing that the worksite is a headquarters or ancillary support operation), investment amount by categories and description of project, indicate whether they have been or will be paying higher than average wages, and time period for investment project.

² The 2006 Special Committee on Assessment and Taxation recommended that the Secretary of Revenue, in conjunction with the League of Kansas Municipalities and Kansas Association of Counties, compile an exhaustive list of statutory impediments and submit it to the Special Committee on Assessment and Taxation and Local Government Committees during the first week of the 2007 Legislative Session. These impediments should be addressed in the legislation.

Commerce reviews and signs off on the anticipated investment as long as the taxpayer fits in NAICS or is a headquarters or ancillary support operation, has a project over \$1,000,000 and will pay or has paid higher than average wages. Upon review by Commerce, Revenue also reviews the anticipated investment and signs off on the investment commitment giving a proposed credit amount based on the estimate provided by the taxpayer with the assumption that the taxpayer will meet all of the requirements. Revenue will explain to the taxpayer in written form what investment qualifies and provisions for requesting a project exemption certificate.

When the investment has been made and placed into service, the taxpayer will complete a schedule indicating the actual investment made and submit to Revenue with appropriate documentation. Revenue will verify investment and issue a formal letter of offering representing the investment credit available and to be claimed on the taxpayer's income tax, privilege tax or premium tax return. (There will be no documentation or credit schedule attached to income tax return. We will already have the completed schedule from the taxpayer, any adjustments made by us and a copy of the formal letter of offering, so taxpayer should be good to go by inserting the amount of the credit earned on the income tax return.) Wages will be verified by Commerce. For investment occurring at a Kansas business facility that will operate with an existing workforce, the average wage will be determined based on the four calendar quarters ending prior to the start of the investment spending. For investment occurring at a Kansas business facility that will begin operations with a new workforce, the average wage will be determined based on the four calendar quarters of operation.

NOTES:

The anticipated investment schedule will include the pre-identification of capital expenditures to be undertaken. This schedule will also encompass the actual expenditures made and when the project is placed into service. So the taxpayer will have one form to estimate the investment and claim the investment.

Investment credit will be claimed when project is completed and investment is placed into service. Taxpayer may separate project into stages and claim as stage is placed into service as long as that stage is at least \$1,000,000 in investment. If the stage does not have \$1,000,000 in expenditures, the taxpayer can roll this stage to the next stage to claim the credit, again as long as the two stages now are at least \$1M.

A new schedule of anticipated investment will be required for each new project or for any material change in the scope of a project originally applied for.

Investment Credit

Commerce | **Revenue**

Planned Project: _____ Completed Project: _____

Name: _____

FEIN: _____

Address of Facility _____

Project Number: _____

Project Name: _____

Project Description: _____

Project Duration: beginning and ending dates _____

NAICS of facility _____

Description of NAICS _____

Headquarters operation
Ancillary support operation

Average wage per NAICS Code \$0.00 \$0.00

Average wage at facility \$0.00 \$0.00

Difference: \$0.00 \$0.00

Dates: _____

Tax Period: beginning and ending _____

Project investment estimate: _____

Date placed in service: _____

Depreciable asset categories: Acct Number: Acct Number:

Building \$0.00 \$0.00

Furniture and fixtures \$0.00 \$0.00

Machinery and equipment \$0.00 \$0.00

Leasehold improvements \$0.00 \$0.00

Land \$0.00 \$0.00

Other: specify \$0.00 \$0.00

Rents: specify \$0.00 \$0.00

\$0.00 \$0.00

Total investment: \$0.00 \$0.00

\$100,000 or \$1,000,000 minimum investment

If greater than minimum investment: _____

Credit @ 10% \$0.00 \$0.00

(Investment excludes property that leaves the facility.)

Signature of taxpayer _____

Date _____

Commerce signature _____

Date _____

Signature _____

Date _____

(DRAFT)

Revenue signature _____
Date _____

Revenue signature _____
Date _____

BACKGROUND PAPER

October 2006, Number 52

2007 State Business Tax Climate Index An Executive Summary

By

Curtis S. Dubay and Chris Atkins

Introduction

The Tax Foundation presents the 2007 version of the State Business Tax Climate Index (SBTCI) as a tool for lawmakers, the media, and individuals alike to gauge how their states' tax systems compare. Policymakers can then use the SBTCI to pinpoint changes to their tax system that will explicitly improve their state's standing in relation to competing states.

How much states collect in taxes is critical, but how they take it is also important. In other words, quite apart from whether a state's total tax burden is higher than in other states, it can enact (and many states do) a set-of tax laws that cause great damage to the economy.

The modern market is characterized by mobile capital and labor. Therefore, companies will locate where they have the greatest competitive advantage. States with the best tax systems will be most competitive in attracting new businesses and be the most effective at generating economic and employment growth.

Although the market is now global, the Department of Labor reports that most mass job relocations are from one U.S. state to another rather than to an overseas location.¹ This means that state lawmakers must be aware of how their state's business climate stacks up to others in their region and nationwide.

State lawmakers are always tempted to lure business with lucrative tax incentives and subsi-

dies. This can be a dangerous proposition, as a case in Florida illustrates. In July of 2004 Florida lawmakers cried foul because a major credit card company announced it would close its Tampa call center, lay off 1,110 workers, and outsource those jobs to another company. The reason for the lawmakers' ire was that the company had been lured to Florida with a generous tax incentive package and had enjoyed nearly \$3 million worth of tax breaks during the previous nine years.²

Lawmakers create these deals under the banner of job creation and economic development, but the truth is that if a state needs to offer such packages, it is most likely covering for a woeful business climate plagued by bad tax policy. A far more effective approach is to systematically improve the business tax climate for the long-term. When assessing which changes to make, lawmakers need to remember these two rules:

1. Taxes matter to business. Taxes affect business decisions, job creation and retention, plant location, competitiveness, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value).

¹ U.S. Department of Labor, "Extended Mass Layoffs in the First Quarter of 2006," May 11, 2006, located at <http://www.bls.gov/news.release/mslo.nr0.htm>.

² Dave Wasson, "Florida Lawmakers Slam Capital One's Layoff After Years of Tax Breaks," *Tax Analysts*, July 27, 2004.

Curtis Dubay is an economist at the Tax Foundation, and Chris Atkins is the foundation's staff attorney. They would like to thank the co-authors of previous editions, J. Scott Moody, Wendy P. Warcholik and Scott A. Hodge.

Thus a state with lower tax costs will be more attractive to business investment.

- States do not enact tax changes (increases or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

Clearly, there are many non-tax factors that affect a state's business climate: its proximity to raw materials or transportation centers, its regulatory or legal structures, the quality of its education system and the skill of its workforce, not to mention the intangible perception of a state's "quality of life."³ Some of these factors are, of course, outside of the control of elected officials. Montana lawmakers cannot

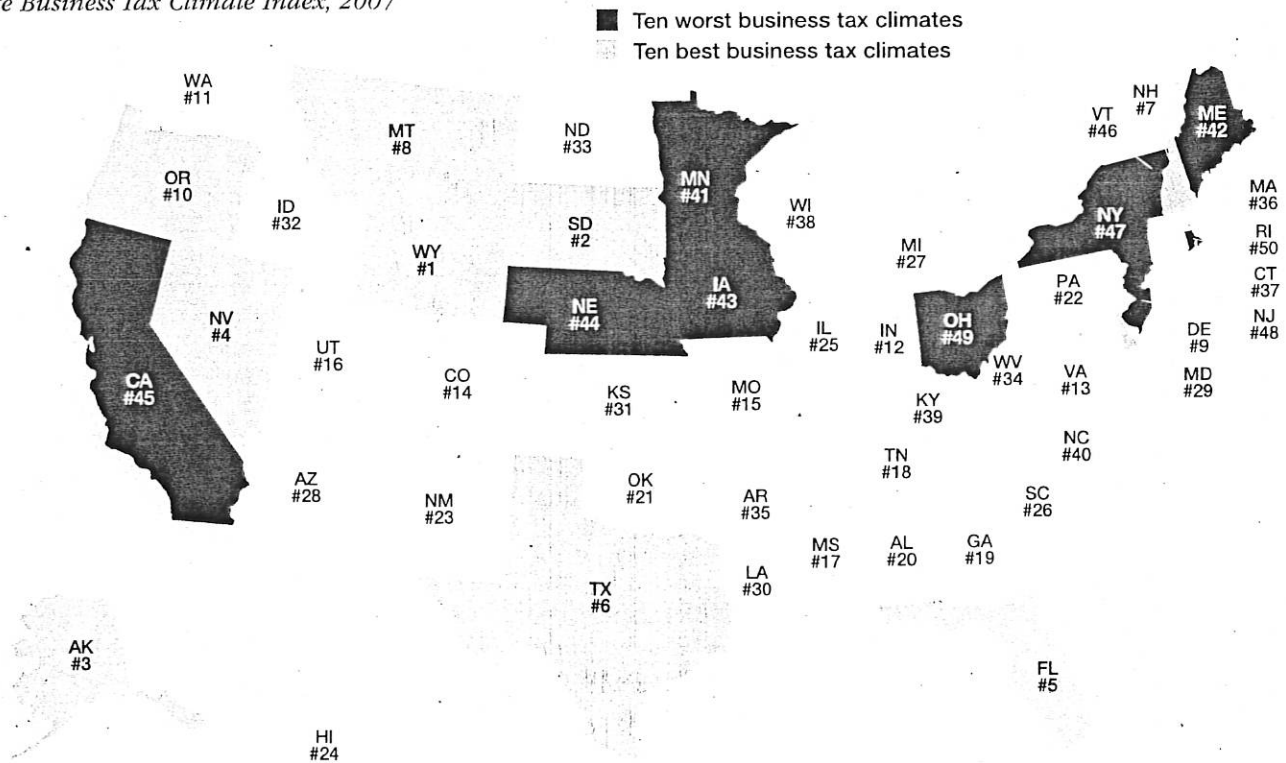
change the fact that Montana's businesses have no immediate access to deepwater ports. Lawmakers do, however, have direct control over how friendly their tax system is to business.

Purpose

The SBTCI is designed to measure the competitiveness of each state's tax system so lawmakers, the media and the public alike can gauge how their state compares to other states. They can also use the SBTCI to pinpoint specific changes that will increase the competitive standing of their state.

Good state tax systems levy low, flat rates on the broadest bases possible, and they treat all taxpayers the same. Variation in the tax treatment of different industries favors one economic activity or decision over another. The more riddled a tax system is with these politically motivated preferences the less likely it is that business decisions will be made in response

Figure 1
State Business Tax Climate Index, 2007



³ A trend in tax literature throughout the 1990s has been the increasing use of indexes to measure a state's general business climate. These include the Center for Policy and Legal Studies' "Economic Freedom in America's 50 States: A 1999 Analysis" and the Beacon Hill Institute's "State Competitiveness Report 2001." Such indexes even exist on the international level, including the Heritage Foundation and Wall Street Journal's "2004 Index of Economic Freedom." Plaut and Pluta (1983) examined the use of business climate indexes as explanatory variables for business location movements. They found that such general indexes do have a significant explanatory power helping to explain, for example, why businesses have moved from the Northeast and Midwest towards the South and Southwest. In turn, they also found that high taxes have a negative effect on employment growth.

to market forces. The SBTICI rewards those states that apply these principles in five important areas of taxation: individual income taxes, major business taxes, sales taxes, unemployment insurance taxes, and taxes on wealth or assets such as property.

How the State Business Tax Climate Index is Calculated

The SBTICI places 113 variables into five component indexes that each measure a different sector of a state's business tax climate. The five component indexes are the Corporate Tax Index, Individual Income Tax Index, Sales Tax Index, Unemployment Tax Index and Property Tax Index. The total score for each state is calculated based on the scores on each of the five component indexes.

Using the economic literature as our guide, we designed these five component indexes to score each state's business tax climate on a scale of zero (worst) to 10 (best). Each component index is devoted to a major area of state taxation and each has two equally weighted sub-indexes, some of which include several categories and variables under them. Overall, there are 10 sub-indexes and 113 variables. The ranking of the states on each of the five major component indexes is presented in Table 2 on page 4.

Results of the 2007 State Business Tax Climate Index

The ten best states in the Tax Foundation's 2007 State Business Tax Climate Index are as follows:

- | | |
|-----------------|------------------|
| 1. Wyoming | 6. Texas |
| 2. South Dakota | 7. New Hampshire |
| 3. Alaska | 8. Montana |
| 4. Nevada | 9. Delaware |
| 5. Florida | 10. Oregon |

The ten worst states are:

- | | |
|----------------|------------------|
| 41. Minnesota | 46. Vermont |
| 42. Maine | 47. New York |
| 43. Iowa | 48. New Jersey |
| 44. Nebraska | 49. Ohio |
| 45. California | 50. Rhode Island |

Table 1
State Business Tax Climate Index, 2006 and 2007

| State | FY 2007 State Business Tax Climate Index | | FY 2006 State Business Tax Climate Index | | Change from 2006 to 2007 | |
|----------------------|--|------|--|------|--------------------------|------|
| | Score | Rank | Score | Rank | Score | Rank |
| U.S. | 5.00 | - | 5.00 | - | | |
| Alabama | 5.47 | 20 | 5.60 | 16 | -0.13 | -4 |
| Alaska | 7.23 | 3 | 7.29 | 3 | -0.06 | 0 |
| Arizona | 5.14 | 28 | 5.13 | 29 | 0.01 | 1 |
| Arkansas | 4.88 | 35 | 4.87 | 35 | 0.02 | 0 |
| California | 4.51 | 45 | 4.64 | 42 | -0.13 | -3 |
| Colorado | 5.67 | 14 | 5.70 | 13 | -0.03 | -1 |
| Connecticut | 4.83 | 37 | 4.66 | 41 | 0.17 | 4 |
| Delaware | 6.08 | 9 | 6.10 | 9 | -0.02 | 0 |
| Florida | 6.86 | 5 | 6.85 | 5 | 0.01 | 0 |
| Georgia | 5.48 | 19 | 5.52 | 20 | -0.04 | 1 |
| Hawaii | 5.24 | 24 | 5.28 | 24 | -0.04 | 0 |
| Idaho | 5.03 | 32 | 5.08 | 30 | -0.05 | -2 |
| Illinois | 5.23 | 25 | 5.22 | 26 | 0.01 | 1 |
| Indiana | 5.79 | 12 | 5.86 | 12 | -0.07 | 0 |
| Iowa | 4.56 | 43 | 4.62 | 44 | -0.07 | 1 |
| Kansas | 5.04 | 31 | 4.99 | 33 | 0.05 | 2 |
| Kentucky | 4.76 | 39 | 4.75 | 38 | 0.01 | -1 |
| Louisiana | 5.04 | 30 | 5.05 | 32 | -0.01 | 2 |
| Maine | 4.67 | 42 | 4.64 | 43 | 0.03 | 1 |
| Maryland | 5.13 | 29 | 5.23 | 25 | -0.11 | -4 |
| Massachusetts | 4.88 | 36 | 4.87 | 36 | 0.01 | 0 |
| Michigan | 5.15 | 27 | 5.20 | 28 | -0.06 | 1 |
| Minnesota | 4.68 | 41 | 4.71 | 39 | -0.03 | -2 |
| Mississippi | 5.57 | 17 | 5.57 | 19 | 0.00 | 2 |
| Missouri | 5.65 | 15 | 5.68 | 14 | -0.03 | -1 |
| Montana | 6.20 | 8 | 6.16 | 8 | 0.04 | 0 |
| Nebraska | 4.53 | 44 | 4.59 | 45 | -0.06 | 1 |
| Nevada | 7.12 | 4 | 7.07 | 4 | 0.05 | 0 |
| New Hampshire | 6.21 | 7 | 6.45 | 6 | -0.23 | -1 |
| New Jersey | 3.92 | 48 | 3.63 | 48 | 0.29 | 0 |
| New Mexico | 5.31 | 23 | 5.30 | 23 | 0.01 | 0 |
| New York | 4.16 | 47 | 3.60 | 49 | 0.55 | 2 |
| North Carolina | 4.72 | 40 | 4.70 | 40 | 0.02 | 0 |
| North Dakota | 4.98 | 33 | 5.06 | 31 | -0.08 | -2 |
| Ohio | 3.82 | 49 | 3.82 | 47 | 0.00 | -2 |
| Oklahoma | 5.45 | 21 | 5.41 | 21 | 0.04 | 0 |
| Oregon | 6.04 | 10 | 6.02 | 10 | 0.01 | 0 |
| Pennsylvania | 5.36 | 22 | 5.31 | 22 | 0.05 | 0 |
| Rhode Island | 3.47 | 50 | 3.47 | 50 | 0.00 | 0 |
| South Carolina | 5.22 | 26 | 5.21 | 27 | 0.01 | 1 |
| South Dakota | 7.57 | 2 | 7.56 | 2 | 0.01 | 0 |
| Tennessee | 5.49 | 18 | 5.58 | 18 | -0.09 | 0 |
| Texas | 6.45 | 6 | 6.41 | 7 | -0.04 | 1 |
| Utah | 5.63 | 16 | 5.67 | 15 | -0.03 | -1 |
| Vermont | 4.42 | 46 | 4.57 | 46 | -0.14 | 0 |
| Virginia | 5.68 | 13 | 5.58 | 17 | 0.10 | 4 |
| Washington | 5.95 | 11 | 5.93 | 11 | 0.02 | 0 |
| West Virginia | 4.92 | 34 | 4.93 | 34 | -0.01 | 0 |
| Wisconsin | 4.78 | 38 | 4.77 | 37 | 0.01 | -1 |
| Wyoming | 7.66 | 1 | 7.64 | 1 | 0.02 | 0 |
| District of Columbia | 4.06 | - | 4.41 | - | -0.35 | - |

Note: The higher the score the better, the more favorable a state's tax system is for business.
Source: Tax Foundation

Tax competition is an unpleasant reality for state revenue and budget officials, but it is probably the most effective restraint on state and local taxes. When a state imposes higher taxes than a neighboring state, business will cross the border to some extent. Therefore states with more competitive tax systems score well in the SBTICI because they are best suited to generate economic growth.

The first two editions of the SBTICI covered each state's tax climate as it existed in the calendar year starting January 1. For example, the 2004 SBTICI ranked each state as it entered calendar year 2004. Starting with the 2006 edition, the SBTICI has measured each state's business tax climate as it stands at the beginning of the standard state fiscal year, July 1. Therefore, this edition is the 2007 SBTICI and represents

the tax climate of each state as of July 1, 2006, the first day of fiscal year 2007 for most states. Previous years' scores are revised in this report because we have changed our methodology; therefore, printed copies of earlier editions are obsolete. Please view the full study on our website at www.taxfoundation.org/files/bp52.pdf, or, alternatively, call or write us for a free copy.

Table 2
Major Components of the State Business Tax Climate Index, 2007

| State | Overall Rank | Corporate Tax Index Rank | Individual Income Tax Index Rank | Sales Tax Index Rank | Unemployment Insurance Tax Index Rank | Property Index Rank |
|----------------|--------------|--------------------------|----------------------------------|----------------------|---------------------------------------|---------------------|
| Alabama | 20 | 21 | 20 | 21 | 8 | 15 |
| Alaska | 3 | 27 | 6 | 3 | 45 | 17 |
| Arizona | 28 | 24 | 29 | 43 | 10 | 12 |
| Arkansas | 35 | 36 | 30 | 38 | 35 | 9 |
| California | 45 | 40 | 46 | 39 | 18 | 16 |
| Colorado | 14 | 15 | 14 | 28 | 23 | 18 |
| Connecticut | 37 | 28 | 19 | 33 | 16 | 49 |
| Delaware | 9 | 48 | 33 | 2 | 9 | 5 |
| Florida | 5 | 14 | 1 | 17 | 3 | 31 |
| Georgia | 19 | 6 | 22 | 7 | 32 | 23 |
| Hawaii | 24 | 9 | 40 | 26 | 24 | 6 |
| Idaho | 32 | 19 | 31 | 36 | 47 | 3 |
| Illinois | 25 | 30 | 13 | 32 | 36 | 40 |
| Indiana | 12 | 22 | 11 | 13 | 17 | 29 |
| Iowa | 43 | 46 | 45 | 19 | 27 | 33 |
| Kansas | 31 | 38 | 23 | 25 | 12 | 34 |
| Kentucky | 39 | 43 | 39 | 11 | 48 | 11 |
| Louisiana | 30 | 18 | 27 | 45 | 11 | 25 |
| Maine | 42 | 44 | 36 | 14 | 42 | 39 |
| Maryland | 29 | 7 | 35 | 8 | 30 | 41 |
| Massachusetts | 36 | 47 | 15 | 10 | 49 | 43 |
| Michigan | 27 | 50 | 12 | 15 | 41 | 35 |
| Minnesota | 41 | 45 | 37 | 40 | 39 | 14 |
| Mississippi | 17 | 8 | 16 | 37 | 2 | 21 |
| Missouri | 15 | 10 | 24 | 12 | 7 | 10 |
| Montana | 8 | 16 | 21 | 5 | 21 | 24 |
| Nebraska | 44 | 34 | 32 | 44 | 26 | 45 |
| Nevada | 4 | 1 | 1 | 47 | 40 | 13 |
| New Hampshire | 7 | 49 | 9 | 1 | 44 | 32 |
| New Jersey | 48 | 41 | 50 | 29 | 25 | 46 |
| New Mexico | 23 | 37 | 18 | 46 | 15 | 1 |
| New York | 47 | 23 | 38 | 49 | 46 | 42 |
| North Carolina | 40 | 25 | 43 | 42 | 4 | 38 |
| North Dakota | 33 | 29 | 44 | 22 | 38 | 4 |
| Ohio | 49 | 39 | 49 | 41 | 19 | 47 |
| Oklahoma | 21 | 13 | 25 | 34 | 1 | 20 |
| Oregon | 10 | 20 | 34 | 4 | 29 | 8 |
| Pennsylvania | 22 | 42 | 10 | 23 | 13 | 44 |
| Rhode Island | 50 | 35 | 48 | 35 | 50 | 50 |
| South Carolina | 26 | 11 | 26 | 9 | 43 | 28 |
| South Dakota | 2 | 1 | 1 | 30 | 31 | 7 |
| Tennessee | 18 | 12 | 8 | 48 | 33 | 37 |
| Texas | 6 | 17 | 7 | 31 | 6 | 36 |
| Utah | 16 | 4 | 28 | 24 | 20 | 2 |
| Vermont | 46 | 31 | 47 | 16 | 5 | 48 |
| Virginia | 13 | 5 | 17 | 6 | 22 | 26 |
| Washington | 11 | 33 | 1 | 50 | 37 | 27 |
| West Virginia | 34 | 26 | 41 | 20 | 34 | 19 |
| Wisconsin | 38 | 32 | 42 | 27 | 28 | 30 |
| Wyoming | 1 | 1 | 1 | 18 | 14 | 22 |

Note: Rankings do not average across to total. States without a given tax rank equally as number 1.

Source: Tax Foundation



BACKGROUND PAPER
(ISSN 1527-0408) is published approximately four times a year. Each study explores an economic issue in depth, written by Foundation economists and guest scholars.

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Outlook for the State General Fund

(Dollars in Millions)

| | FY 2004 <u>Actual</u> | FY 2005 <u>Actual</u> | FY 2006 <u>Actual</u> | FY 2007 <u>Gov. Est.</u> | FY 2008 <u>Gov. Rec.</u> | FY 2009 <u>Projected</u> |
|--------------------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|
| Beginning Balance | \$ 122.7 | \$ 327.5 | \$ 478.7 | \$ 733.6 | \$ 779.1 | \$ 451.2 |
| Released Encumbrances | 2.4 | -- | -- | -- | -- | -- |
| Revenue from Taxes | 4,387.1 | 4,718.5 | 5,325.3 | 5,604.8 | 5,715.7 | 5,944.3 |
| Governor's Tax Package | -- | -- | -- | -- | (12.8) | (16.7) |
| Interest | 13.9 | 23.3 | 54.3 | 89.0 | 104.0 | 106.1 |
| Agency Earnings | 55.3 | 75.9 | 57.0 | 60.6 | 64.0 | 65.3 |
| Federal Flexible Grant | 45.7 | -- | -- | -- | -- | -- |
| Transfers: | | | | | | |
| Special County/City Highway Fund | -- | (10.1) | (10.1) | (10.1) | (10.1) | (10.1) |
| School Capital Improvement Aid | (49.9) | (53.0) | (57.5) | (62.6) | (67.0) | (71.0) |
| Water Plan Fund | (3.8) | (3.7) | (6.0) | (6.0) | (6.0) | (6.0) |
| State Fair | -- | -- | (0.3) | (0.0) | (0.3) | (0.3) |
| Regents Faculty of Distinction | (0.3) | (0.3) | (0.9) | (2.5) | (2.0) | (2.0) |
| Regents Research Corp Debt Service | -- | (3.1) | (0.2) | (9.6) | (9.6) | (9.6) |
| Biosciences Initiative | -- | -- | (20.0) | (20.0) | (25.0) | (25.0) |
| Spirit/Innovia/Goodyear Incentives | -- | -- | (5.7) | (9.0) | (8.0) | (8.0) |
| Property Tax Slider--2006 HB 2583 | -- | -- | -- | -- | (28.3) | (44.8) |
| Highway Patrol-Wichita Fair Airfare | 28.9 | 30.7 | 32.3 | 30.0 | 30.3 | 32.3 |
| KEY Fund | 9.9 | 1.7 | 0.4 | -- | -- | -- |
| KDOT Loan Repayment | -- | -- | -- | (32.5) | (30.9) | (30.9) |
| Colorado Water Litigation Settlement | -- | 19.4 | -- | -- | -- | -- |
| 27th Paycheck | -- | -- | 32.7 | -- | -- | -- |
| All Other Transfers | <u>32.1</u> | <u>42.1</u> | <u>(7.1)</u> | <u>(0.4)</u> | <u>(26.8)</u> | <u>(26.8)</u> |
| Total Available | \$ 4,644.0 | \$ 5,168.8 | \$ 5,873.1 | \$ 6,365.2 | \$ 6,466.3 | \$ 6,348.0 |
| Expenditures | | | | | | |
| Aid to K-12 Schools | 2,165.7 | 2,314.9 | 2,583.9 | 2,822.7 | 3,023.9 | 3,146.6 |
| Higher Education | 673.6 | 706.1 | 747.1 | 785.2 | 830.7 | 830.7 |
| SRS, KHPA, Aging Caseloads | 527.8 | 659.2 | 698.2 | 738.7 | 798.9 | 848.9 |
| All Other Expenditures | 949.3 | 1,009.9 | 1,110.2 | 1,239.5 | 1,361.6 | 1,361.6 |
| Increased KPERS Contribution | -- | -- | -- | -- | -- | <u>35.0</u> |
| Total Expenditures | \$ 4,316.5 | \$ 4,690.1 | \$ 5,139.4 | \$ 5,586.1 | \$ 6,015.1 | \$ 6,222.8 |
| Ending Balance | \$ 327.5 | \$ 478.7 | \$ 733.6 | \$ 779.1 | \$ 451.2 | \$ 125.2 |
| <i>As Percentage of Expenditures</i> | 7.6% | 10.2% | 14.3% | 13.9% | 7.5% | 2.0% |

Totals may not add because of rounding.

Revenues for FY 2007 and FY 2008 reflect CRE of November 3, 2006, with Governor's revenue adjustments.

Revenues for FY 2009 assume a 4.0% rate of growth for taxes.

**CORPORATE
PARTNERSHIP / S CORPORATION
PRIVILEGE
AND
FRANCHISE TAXES**

What's New...

The following changes are effective for the 2006 tax year:

- ◆ **NEW CREDIT - ASSISTIVE TECHNOLOGY CONTRIBUTION CREDIT.** A 25% credit is available for amounts contributed to KATCO (Kansas Assistive Technology Cooperative). The amounts contributed are used to purchase equipment that will increase, maintain or improve functional capabilities of individuals with disabilities. See Schedule K-42.
- ◆ **NEW CREDIT - KANSAS LAW ENFORCEMENT TRAINING CENTER CREDIT.** A 50% credit is available for amounts contributed to KLETC (Kansas Law Enforcement Training Center). The amounts contributed will be used by the center to provide continuing education for full-time law enforcement officers. See Schedule K-72.
- ◆ **NEW CREDIT - KANSAS CENTER FOR ENTREPRENEURSHIP CREDIT.** A 75% credit is available for amounts contributed to KCE (Kansas Center for Entrepreneurship). The center uses the contributions to seed qualified entrepreneurs in distressed and rural communities. See Schedule K-31.
- ◆ **NEW CREDIT - KANSAS NATIONAL GUARD/UNITED STATES RESERVE CREDIT.** A 25% credit is available for the wages paid by an employer of a previously unemployed National Guard or United States Reserve member. See Schedule K-74.
- ◆ **ENHANCED CREDIT - REGIONAL FOUNDATION CREDIT.** A 75% credit is available for amounts contributed to a Regional Foundation. Regional Foundations provide economic assistance to business located within their designated region. See Schedule K-32.
- ◆ **LEARNING QUEST.** Effective July 1, 2006, immediate withdrawals of funds from the Learning Quest program used to pay post-secondary education expenses are allowed - no add-back required.
- ◆ **LONG-TERM CARE INSURANCE CONTRACTS.** A subtraction modification may be taken for an amount not exceeding \$600 per contract, per taxpayer, of the premium costs paid for qualified long-term care insurance contracts.
- ◆ **INTEREST RATE CHANGE.** For calendar year 2007, interest will be assessed at 9% per annum (.75% per month or fraction thereof). Penalty for late payment of income tax remains at 1% per month or fraction thereof - capped at 24%.

WHAT'S IN THIS TAX BOOKLET?

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TIPS TO IMPROVE THE PROCESSING OF YOUR PAPER RETURN

Your Kansas return will be *imaged* on our computers, enabling us to process your return faster and with fewer errors. For our system to work, it is important that you use care in completing your return. The following tips will aid in more efficient processing of your return.

- **Do not staple or otherwise attach** pages of the return, payment voucher or check together. You may use a binder clip if that is your preference.
- Use only black or dark blue ink and write legibly. Send only the original copy to KDOR (Kansas Department of Revenue) – **do not send a photocopy.**
- If you are sending a payment with your return, complete Form K-120V, Kansas Corporate Income Tax Payment Voucher, included in this booklet.
- KDOR uses your Employer Identification Number (EIN) as part of your tax account number. To ensure that your account information is credited properly, include your EIN on your return.
- If you use a software package to produce your return, be sure it is approved by KDOR. Visit our web site at www.ksrevenue.org for a list of approved software vendors.
- If you are **reproducing your own forms**, contact KDOR for information on the approval process.
- Only certain pages of your federal return are required to be enclosed with your Kansas return. See *Copy of Federal Return*, page 5.

Electronic Filing & Payment Options

KS WebTax

Taxpayers can pay their Kansas Corporate Income Tax and estimate tax through our online business center, KS WebTax, at www.webtax.org.

KS WebTax is a secure, easy and convenient way to manage your business accounts. Businesses can make electronic payments; file sales tax, use tax, or franchise tax returns; and view online activity. KS WebTax simplifies your accounting process by having everything available in one easy-to-access location.

Visit the KDOR's online business center to create an ID and password, then call 1-800-525-3901 for tax account PIN numbers.

IRS e-File

IRS e-File is a way to file your return electronically to the IRS and KDOR using an authorized IRS e-File provider. You can also e-File using KDOR approved commercial tax filing web sites or software products. Electronic filing is quick and easy and you will receive confirmation that KDOR has accepted your return within 48 hours of your transmission. Visit www.webtax.org for a list of authorized IRS e-File providers and software products.

Taxpayers who owe Kansas Corporate Income Tax and who file using IRS e-File can pay their balance due at the time of electronic filing. Simply follow the instructions provided by the approved tax filing web site or software package. If you choose not to pay at the time of filing, you can pay electronically through KS Web Tax or one of the credit card payment centers.

Direct Payments

Direct payments can be made through our online business center, KS WebTax, using Electronic Funds Transfer (EFT). EFT payments are processed using the

Automated Clearing House (ACH) Debit method for transfer. For more information about filing taxes online, see *KS WebTax*, on this page.

Direct payments can also be made by telephone. An EF-101 form must be completed and submitted to take advantage of this service. It can be obtained online at www.webtax.org or by calling our electronic services staff at 1-800-525-3901. After you receive confirmation notice that the EF-101 has been processed, call the EFT Payment System at 1-877-600-5640 to make a payment.

Credit Card Payments

Taxpayers also have the option



to pay by credit card. This service is available on the Internet through two payment centers, Official Payments Corporation (OPC) and Link2Gov. Both payment centers charge a convenience fee to accept MasterCard, VISA, Discover and American Express. In addition to online credit card payments, OPC and Link2Gov offer the option of paying tax liabilities by telephone. Visit the OPC web site at www.officialpayments.com, or the Link2Gov web site at www.kstaxpayment.com for rules regarding transactions and how to pay by credit card.

WebTax.org
Kansas Department of Revenue

Please visit us at
www.webtax.org for
the most up-to-date
electronic information.

GENERAL INFORMATION

If any due date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday.

Who Must File a Return

A Kansas Corporation Income Tax return must be filed by all corporations doing business within or deriving income from sources within Kansas who are required to file a Federal Income Tax return, whether or not a tax is due.

Unitary Groups (for taxable years after December 31, 1990): If any member of a unitary group has activity in Kansas exceeding that protected by 15 U.S.C. Section 381, all unitary group members having Kansas property, payroll, or sales must file Kansas returns and pay the tax due.

Corporations which elect under subchapter S of the Internal Revenue Code not to be taxed as a corporation must file a Kansas Partnership or S Corporation return (Form K-120S). All other corporations must file on Form K-120.

Exempt Organizations: Any corporation exempt from federal income tax under the provisions of the Internal Revenue Code, and who files Form 990 or Form 990EZ, is exempt for Kansas income tax purposes in each year in which such corporation satisfies the Internal Revenue Code requirement for exemption. However, a corporation that is subject to the tax on unrelated business income by the Internal Revenue Code, who files a Form 990T, is also subject to the tax on unrelated business income for Kansas purposes and must file on Kansas Form K-120.

In addition to the corporations exempt from federal income tax, there shall also be exempt for Kansas income tax purposes, insurance companies, banks, trust companies, savings and loan associations, and any other organizations specifically exempt under the laws of the State of Kansas. (National bank associations, banks, trust companies, and savings and loan associations are required to file a Privilege Tax return, Form K-130, and to pay a privilege tax. Insurance companies are subject to a Premium Tax.)

When to File

Calendar Year: If your return is based on a calendar year, it must be filed no later than April 15, 2007.

Fiscal Year: If your return is based on a tax year other than a calendar year, it must be filed no later than the 15th day of the fourth month following the end of your tax year.

Conformity to Federal Due Dates: Kansas returns are due one (1) month after the federal due date. If the original federal due date is not the 15th day of the third month after the close of a taxable year, the corporation is required to complete item "I" in the taxpayer information section of Form K-120 and enclose a letter indicating the authorizing federal statute. Do not enter your extended due date.

Amended Returns: In general, amended returns must be filed with the Department of Revenue within three (3) years of when the original return was filed. If the amended return will result in a refund, the amended return must be filed within three (3) years of when the original return was filed, or within two (2) years from the date the tax was paid, whichever is later.

Where to File

Use the preaddressed envelope in this tax booklet to mail your tax return. This envelope is designed for use in our automated mail-opening equipment and will expedite the processing of your return. If you are expecting a refund, place an "X" in the box on the front of the envelope. If your envelope has been misplaced, mail your return to the following address:

KANSAS CORPORATE TAX
KANSAS DEPARTMENT OF REVENUE
915 SW HARRISON ST
TOPEKA, KS 66699-4000

If You Need Forms

Kansas tax forms are available from our Taxpayer Assistance Center, by calling our voice mail forms request line at (785) 296-4937, or from our web site at www.ksrevenue.org.

IMPORTANT: Due to the sensitivity of the Department's imaging equipment for tax return processing, only an original preprinted form or an approved computer-generated version should be filed.

Extension of Time to File

If you are unable to complete your Corporate Income Tax return by the filing deadline, you may request an extension of time to file. If you filed federal form 7004 with the Internal Revenue Service for an extension of time, enclose a copy of that form with your completed K-120 return *to automatically receive a six-month extension to file your Kansas return*. Kansas does not have a separate extension request form. If you are entitled to a refund, an extension is not required to file the return after the original due date.

Important: An extension of time to file is NOT an extension to pay. If you do not pay the tax amount due (may be estimated) by the original due date, you will owe interest and may also be charged a penalty on any balance due.

To pay the balance due for an extension, use the Kansas payment voucher (K-120V) located in this booklet and check the box indicating an extension payment.

Copy of Federal Return

You must enclose with Form K-120 a copy of the following federal return pages as filed with the Internal Revenue Service:

- Pages 1 through 4 of the federal return or consolidated federal return, whichever is applicable, as filed with the Internal Revenue Service. If the return is a consolidated return, you must enclose a company-by-company spreadsheet of income and expense to total the consolidated federal taxable income and a company-by-company spreadsheet of the consolidated balance sheet including Schedules M-1 and M-2.
- **Federal schedules to support any Kansas modifications claimed on page 1, Form K-120.**
- Federal Forms 851, 1118, and 5471, as applicable.

Do not enclose copies of proforma returns. The Kansas Department of Revenue reserves the right to request additional information as necessary.

Completing Your Return

All applicable lines on Form K-120 and on Form K-120AS must be completed. Be certain to complete all boxes in the Taxpayer Information section of the return.

All corporations filing a combined return (single or multiple), or authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-121.

Nonbusiness Income Claimed: Any taxpayer that claims nonbusiness income on the Kansas return is required to clearly demonstrate that the transaction or activity which gave rise to the income was unusual in nature and infrequent in occurrence or that the income was earned in the course of activities unrelated to the taxpayer's business operations in Kansas. The taxpayer must also submit a schedule as required by line 12 of the *Specific Line Instructions for Form K-120*. If the taxpayer does not demonstrate that the income is nonbusiness and does not submit the required schedules, the income will be considered to be business income by the Department of Revenue and the department will apportion that income as business income.

Accounting Period

The taxpayer's taxable year is the same as the taxable year for federal income tax purposes. If a taxpayer's taxable year is changed, or the method of accounting is changed for federal income tax purposes, then the taxable year and method of accounting shall be similarly changed for Kansas income tax purposes.

Estimated Tax

Every corporation shall pay estimated tax for the taxable year if its Kansas income tax liability can reasonably be expected to exceed \$500. Any corporation which began business in Kansas during this tax year is not required to pay estimated tax and no underpayment of estimated tax penalty will be imposed for this initial year. NOTE: Current year estimated payments can not be used to off-set prior year tax liabilities - see K.A.R. 92-11-22(c).

See the back cover of this booklet for information on obtaining forms and instructions for Corporate Estimated Tax (Form K-120ES). **Tired of paper and postage? Use EFT, see page 3 for details.**

Business Income Election

For taxable years beginning after December 31, 1995, a taxpayer may elect to have all income derived from the acquisition, management, use, or disposition of tangible and intangible property treated as business income. The election is effective and irrevocable for the taxable year of the election and the following nine taxable years. The election is binding on all members of a unitary group of corporations.

To make this election, a corporation must file Form K-120EL with the department within the time limits established by law.

- A corporation not previously doing business in Kansas that intends to make this election for its initial year of business must file Form K-120EL within 60 days after filing the articles of incorporation or application for authority to engage in business with the Kansas Secretary of State.
- For corporations currently doing business in Kansas, the election must be filed on or before the last day of the tax year immediately preceding the tax year for which the election is made.

Form K-120EL must be sent separately from the Corporate Income Tax return.

Amending Your Return

You must file an amended Kansas return when: 1) an error was made on your Kansas return, 2) there is a change on another state's return (error or adjustment), 3) there is a change on your federal return (error or adjustment). **Check the AMENDED box in the Taxpayer Information section of Form K-120 if you are amending your 2006 Kansas return.** Be sure to enclose any applicable supporting documents, such as a copy of the other state's amended return or a copy of the IRS amended return or Revenue Agent's Report or adjustment letter showing and explaining the adjustments. If additional tax is due, complete and enclose Form K-120V, marking an "X" in the "Amended Payment" box.

AMENDED FEDERAL RETURN: If you are filing an amended federal income tax return, for the same taxable year as your Kansas amended return, you must enclose a complete copy of the amended federal return and full explanations of all changes made on your amended Kansas return. If your amended federal return is adjusted or disallowed, you must provide the Kansas Department of Revenue with a copy of the adjustment or denial letter.

Pay the full amount of tax and interest due on an amended return and no penalty will be assessed. Consult the department's web site for annual interest rates.

If you did not file a Kansas return when you filed your original federal return, and the federal return has since been amended or adjusted, use the information on the amended or adjusted federal return to complete your original Kansas return. A copy of both the original and amended federal returns should be enclosed with the Kansas return along with an explanation of the changes.

FEDERAL AUDIT: Any taxpayer whose income has been adjusted by the Internal Revenue Service must file an amended return with Kansas and include a copy of the Revenue Agent's Report or adjustment letter showing and explaining the adjustments. These adjustments must be submitted within 180 days of the date the federal adjustments are paid, agreed to, or become final, whichever is earlier. Failure to notify the Department within the 180 day period will cause the statute of limitations to remain open (the Department of Revenue can make adjustments for as many years back as necessary and interest and penalty computations will continue to increase).

Confidential Information

Income tax information disclosed to the Kansas Department of Revenue, either on returns or through department investigation, is held in strict confidence by law. The Department of Revenue, Internal Revenue Service and the Multi-state Tax Commission and several other states have an agreement under which some tax information is exchanged. This is to verify the accuracy and consistency of information reported on federal and Kansas tax returns.

Definitions

Unitary Business

A multistate business is unitary when the operations conducted in one state benefit or are benefited by the operations conducted in another state or states. The essential test to be applied is whether or not the operation of the portion of the business within the state is dependent upon or contributory to the operation of the business outside the state. If there is such a relationship, the business is unitary. Stated another way, the test is whether a business' various parts are interdependent and of mutual benefit so as to form one business rather than several business entities and not whether the operating experience of the parts are the same at all places.

Activity Wholly Within Kansas—Single Entity

If a particular trade or business is carried on exclusively within Kansas or if the activities outside of Kansas are such that federal Public Law 86-272 prohibits another state from imposing a tax, then the entire net income is subject to the Kansas income tax.

Activity Wholly Within Kansas—Consolidated

If two or more corporations file a Federal Income Tax return on a consolidated basis, and if each of such corporations derive all of their income and expenses from sources within Kansas, they must file a consolidated return for Kansas income tax purposes.

Single Entity Apportionment Method

Any taxpayer having income from business activity which is taxable both within and without this state, other than activity as a financial organization or the rendering of purely personal services by an individual, shall allocate and apportion net income as provided in the Uniform Division of Income for Tax Purposes Act.

Combined Income Method—Single Corporate Filing

When a group of corporations conduct a unitary business both within and outside of Kansas, the source of income shall be determined by the combined income approach. The combined income approach is the computation by formula apportionment of the business income of a unitary trade or business properly reportable to Kansas by members of a unitary group. The property, payroll, or sales factor for each member of a unitary business shall be determined by dividing the property, payroll, or sales figure for Kansas by the total property, payroll, or sales figure of the entire group. The average is multiplied by the income of the unitary group to determine the income of the company derived from sources in Kansas.

The Kansas Corporate Income Tax return filed on the combined income approach must include Schedule K-121.

Any corporation which files a consolidated return for federal purposes and a combined report for Kansas purposes must submit a copy of the consolidated federal Form 1120 and all other schedules and statements necessary to support the taxable income reported on the Kansas return. Schedule K-121 must be used to determine income of the corporation. Schedule K-121 single entity Kansas taxable income is then shown on line 19, Form K-120. The single entity tax from Schedule K-121 is entered on line 23, Form K-120. All corporations filing a combined return (single or multiple) must complete lines 1 through 18 of Form K-120 using the total combined income column from Schedule K-121.

Combined Income Method—Multiple Corporation Filing

This method is the same as 'Combined Income Method—Single Corporation Filing' except that any corporation filing using the combined income method with more than one entity doing business in Kansas may file one Kansas return reporting the total combined income on that return and computing and paying the tax due on that return. Schedule K-121 must be used to determine the Kansas taxable income of each separate corporation. Schedule K-121 combined Kansas taxable income is then entered on line 19, Form K-120. The tax rate is then applied to the Kansas taxable income of each corporation with one surtax exemption allowed for each corporate taxpayer. The total tax due for all corporations is then shown on line 23, Form K-120. All corporations filing a

Definitions (continued)

combined return (single or multiple) must complete lines 1 through 18 of Form K-120 using the total combined income column from Schedule K-121.

Qualified Elective Two-Factor Method

This method may be used by any taxpayer who qualifies and elects to utilize the two-factor formula of property and sales. A qualified taxpayer is any taxpayer whose payroll factor for a taxable year exceeds 200% of the average of the property factor and the sales factor. An election must be made by including a statement with the original tax return indicating that the taxpayer elects to utilize this apportionment method. The election will be effective and irrevocable for the taxable year of the election and the following nine taxable years. The election will be binding on all members of a unitary group of corporations.

Common Carrier Method

All business income of railroads and interstate motor carriers of persons or property for-hire shall be apportioned to this state on the basis of mileage. For railroads, multiply the business income by a fraction, the numerator of which is the freight car miles in this state and the denominator of which is the freight car miles everywhere. For interstate motor carriers, multiply the business income by a fraction, the numerator of which is the total number of miles operated in this state and the denominator of which is the total number of miles operated everywhere.

Alternative Accounting Method

If the uniform allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Secretary of Revenue may require, in respect to all or any part of the taxpayer's business activity, if reasonable: (a) Separate accounting; (b) the exclusion of one or more of the factors; (c) the inclusion of one or more additional factors; or (d) the employment of any other method to effect an equitable allocation and apportionment of the taxpayer's income. A copy of the letter from the Kansas Department of Revenue granting the use of an alternative method must be enclosed with the return when filed. Enter the amount determined on your separate schedule on line 19, Form K-120. All corporations filing a combined return (single or multiple), or authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-121.

Separate Accounting Method

The separate method of reporting income to Kansas is allowable only in unusual circumstances and with the permission of the Department of Revenue where the use of the three-factor formula does not fairly represent the taxpayer's business activity. Before a taxpayer engaged in a multistate business may use the separate accounting method, the following requirements must be satisfied:

- The books and records are kept by recognized accounting standards to reflect accurately the amount of income of the multistate business which was realized in Kansas during the taxable period;
- The management functions of the business operations within Kansas are separate and distinct so that in conducting the Kansas business operations the management within Kansas did not utilize or incur centralized management services consisting of operational supervision, advertising, accounting, insurance, financing, personnel, physical facilities, technical and research, sales and servicing or purchasing during the taxable period;
- The business operations within Kansas are separate and distinct and do not contribute to or depend upon the overall operations of the company, and there are no interstate, intercompany, or interdivisional purchases, sales or transfers during the taxable period.

If all three requirements are not satisfied, the taxpayer shall determine Kansas taxable income by use of the apportionment formula.

Enter the amount determined on your separate schedule on line 19, Form K-120. All corporations filing a combined return (single or multiple), or are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-121.

SPECIFIC LINE INSTRUCTIONS FOR FORM K-120, PAGES 1 AND 2

TAXPAYER INFORMATION

If any "Taxpayer Information" has changed from the last original return you filed, please check the change box "J".

Name and Address: PRINT or TYPE the corporate name and address in the spaces provided.

Beginning and Ending Dates: Enter the beginning and ending dates of the corporation's tax year, even if your tax year is a calendar year.

Final Return: If a final return is being filed and the corporation is being liquidated, enter the discontinuation date in box "D" and enclose a copy of the federal form that states the federal code section the corporation was liquidated under.

Information Requested in Boxes A through J: Complete all requested information. For item A, refer to pages 7 and 8. For Item B, input the NAICS code. For items E and F, use the standard two-letter state abbreviation.

INCOME

LINE 1—FEDERAL TAXABLE INCOME: Enter federal taxable income after net operating loss and special deductions. All corporations filing a combined return (single or multiple), or are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-121.

A copy of certain pages of the federal return must be enclosed in all cases. See instructions on page 5.

LINE 2—TOTAL STATE AND MUNICIPAL INTEREST: Enter interest income received, credited, or earned by you during the taxable year from any state or municipal obligations such as bonds and mutual funds. Reduce the income amount by any related expenses (such as management or trustee fees) directly incurred in purchasing these state or political subdivision obligations.

DO NOT include interest income or obligations of the state of Kansas or any Kansas political subdivision issued after December 31, 1987, or the following bonds exempted by Kansas law:

- Board of Regents Bonds for Kansas Colleges and Universities
- Electrical Generation Revenue Bonds
- Industrial Revenue Bonds
- Kansas Highway Bonds
- Kansas Turnpike Authority Bonds
- Urban Renewal Bonds

If you are a shareholder in a fund that invests in both Kansas and other states' bonds, only the Kansas bonds are exempt. Use the information provided by your fund administrator to determine the amount of taxable (non-Kansas) bond interest to enter here.

LINE 3—TAXES ON OR MEASURED BY INCOME OR FEES OR PAYMENTS IN LIEU OF INCOME TAXES: Enter the taxes on or measured by income or fees or payments in lieu of income taxes which you deducted on your federal return in arriving at your federal taxable income. Federal environmental tax must be added back to federal taxable income to the extent it is used as a deduction in arriving at federal taxable income. **You must complete Part IV - Schedule of Taxes.**

LINE 4—FEDERAL NET OPERATING LOSS DEDUCTION: Enter the federal net operating loss deduction that was claimed on the Federal Income Tax return for the taxable year.

LINE 5—OTHER ADDITIONS TO FEDERAL TAXABLE INCOME: Enter on line 5 the following additions to your federal taxable income:

- **Learning Quest Education Savings Program:** Enter the amount of any "nonqualified withdrawal" from the Learning Quest Savings Program.

Note: A tax credit for the additions below may be claimed on Part I of Form K-120 (schedule required).

- **Disabled Access Credit Modification:** The amount of any depreciation deduction or business expense deduction claimed on your federal return that was used to determine the Disabled Access Credit on Schedule K-37.
- **Small Employer Healthcare Credit:** Reduce the amount of expense deduction that is included in federal taxable income by the dollar amount of the credit claimed. Complete Schedule K-57 and enclose it with your Kansas return.
- **Community Service Contribution Credit:** The amount of any charitable contribution claimed on your federal return used to compute the Community Service Contribution Credit on Schedule K-60.
- **Swine Facility Improvement Credit:** The amount of any costs claimed on your federal return and used as the basis for this credit on Schedule K-38.
- **Regional Foundation Credit:** The amount of any charitable contribution claimed on your federal return used to compute the Regional Foundation Credit on Schedule K-32.
- **Individual Development Account.** Enter the amount of the contribution claimed to the extent the same is the basis for claiming the Individual Development Account Credit on Schedule K-68.
- **Expenditures - Energy Credits.** Enter the amount of any expenditures claimed to the extent the same is claimed as the basis for any credit allowed on Credit Schedule K-73, K-77, K-78, K-79 or K-80.

- **Amortization - Energy Credits.** Enter the amount of any amortization deduction claimed, to the extent the same is claimed on the federal income tax form for deduction, with regard to Credit Schedule K-73, K-77, K-78 or K-79.

LINE 6—TOTAL ADDITIONS TO FEDERAL TAXABLE INCOME: Add lines 2 through 5 and enter the result on line 6.

LINE 7—INTEREST ON U.S. GOVERNMENT OBLIGATIONS: Enter any interest or dividend income received from obligations or securities of any authority, commission or instrumentality of the United States and its possessions that was included in your federal taxable income. This includes U.S. Savings Bonds, U.S. Treasury Bills, and the Federal Land Bank. You must reduce the interest amount by any related expenses (such as management or trustee fees) directly incurred in the purchase of these securities.

If you are a shareholder in a mutual fund that invests in both exempt and taxable federal obligations, only that portion of the distribution attributable to the exempt federal obligations may be subtracted here.

Enclose a schedule showing the name of each U.S. Government obligation interest deduction claimed.

Interest from the following are taxable to Kansas and may NOT be entered on this line:

- Federal National Mortgage Association (FNMA)
- Government National Mortgage Association (GNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)

LINE 8—IRC SECTION 78 AND 80% OF FOREIGN DIVIDENDS: Enter the amount included in federal taxable income pursuant to the provisions of Section 78 of the Internal Revenue Code and 80% of dividends from corporations incorporated outside of the United States or the District of Columbia which are included in federal taxable income. Enclose a schedule to support the amount shown.

LINE 9—OTHER SUBTRACTIONS FROM FEDERAL TAXABLE INCOME: Enter on line 9, a total of the following subtractions from your federal taxable income (schedule required):

- **Refunds or Credits:** Any refund or credit for overpayment of taxes on or measured by income or fees or payments in lieu of income taxes imposed by this state, or any taxing jurisdiction, to the extent included in federal taxable income.
- **Jobs and WIN Tax Credit:** The amount of federal targeted jobs and WIN credit.
- **Kansas Venture Capital, Inc. Dividends:** Dividend income received as a result of investing in stock issued by Kansas Venture Capital, Inc.
- **Electrical Generation Revenue Bonds:** Enter the gain from the sale of Electrical Generation Revenue Bonds that was included in your federal taxable income.

- **Learning Quest Education Savings Program:** Enter the amount of contributions deposited in the Learning Quest Education Savings Program, up to a maximum of \$3,000 per student (beneficiary).
- **Sale of Kansas Turnpike Bonds:** Enter the gain from the sale of Kansas Turnpike Bonds that was included in your federal taxable income.
- **Qualified Long-Term Care Insurance Contracts:** Enter an amount not exceeding \$500 per contract, per taxpayer, of the premium costs paid for qualified long-term care insurance contracts as defined by Public Law 104-191, section 7702B paragraph (b).
- **Amortization - Energy Credits:** The amount of amortization deduction allowed relating to Credit Schedule K-73, K-77, K-78 or K-79. (55% of the amortization costs may be subtracted in the first year and 5% may be subtracted for each of the succeeding 9 years.)

LINE 10—TOTAL SUBTRACTIONS FROM FEDERAL TAXABLE INCOME: Add lines 7 through 9 and enter the result on line 10.

LINE 11—NET INCOME BEFORE APPORTIONMENT: Add line 1 to line 6 and subtract line 10 and enter the result on line 11.

APPORTIONMENT AND ALLOCATION

LINE 12—NONBUSINESS INCOME—TOTAL COMPANY: Enter on line 12 the total amount of nonbusiness net income everywhere that is to be directly allocated.

Any taxpayer that claims nonbusiness income on the Kansas return is required to clearly demonstrate that the transaction or activity which gave rise to the income was unusual in nature and infrequent in occurrence. The taxpayer must also submit a schedule as required below. If the taxpayer does not demonstrate that the income is nonbusiness and does not submit the required schedule(s), the income will be considered to be business income by the Department of Revenue and the Department will apportion that income as business income.

From the items of income directly allocated, there shall be deducted the expenses related thereto. The term "expenses related thereto", as used in this paragraph, means any allowable deduction or portion thereof attributable to such income and a ratable part of any other allowable deductions which cannot definitely be allocated to some item or class of income.

A schedule must be submitted with the return showing: (1) the gross income from each class of income being specifically allocated, (2) the amount of each class of related expenses together with an explanation or computations showing how amounts were arrived at, (3) the total amount of the related expense for each income class, and (4) the net income for each income class. The schedules should provide appropriate columns as set forth above for items specifically assigned to Kansas and for nonbusiness items

specifically assigned outside Kansas. An explanation must also be enclosed to explain specifically why each item of income arose from unusual and infrequent transactions outside of the regular course of the corporation's trade or business.

LINE 13—APPORTIONABLE BUSINESS INCOME: Subtract line 12 from line 11 and enter the result on line 13.

LINE 14—AVERAGE PERCENT TO KANSAS: Enter the applicable percentages in spaces A, B & C. If you are qualified and utilizing the elective two-factor formula, do not enter a percentage figure in space B. Enter on line 14 the average percent from Form K-120AS, Part VI, line E or K-121, Part II, line 5. **NOTE:** Round percentage to the fourth decimal point only. **If your business is wholly within Kansas enter 100.0000.**

LINE 15—AMOUNT TO KANSAS: Multiply line 13 by line 14 and enter the result on line 15.

LINE 16—NONBUSINESS INCOME—KANSAS: Enter on line 16 the total amount of nonbusiness net income directly allocated to Kansas. Submit a schedule to support the amount shown.

NET INCOME

LINE 17—KANSAS NET INCOME BEFORE NOL DEDUCTION: Add lines 15 and 16 and enter the result on line 17.

LINE 18—KANSAS NET OPERATING LOSS DEDUCTION: Enter on line 18 the amount of any Kansas net operating loss carry forward to which you are entitled. This amount cannot exceed the amount on line 17. Submit a separate schedule to support the amount shown and any remaining carryover available.

LINE 19—COMBINED REPORT OR ALTERNATIVE/SEPARATE ACCOUNTING INCOME: If you are filing a combined report (Schedule K-121) or you are authorized to file using the alternative or separate accounting method, enter on line 19 the:

- Kansas taxable income from line 19 of Schedule K-121; OR,
- Kansas taxable income from a separate schedule prepared by you (Separate/Alternative Method of Reporting).

TAXABLE INCOME

LINE 20—KANSAS TAXABLE INCOME: Subtract line 18 from line 17 or enter line 19, as applicable and enter the result on line 20.

TAX

If filing Form K-121, skip lines 21 and 22 and proceed to line 23.

LINE 21—NORMAL TAX: Multiply the amount shown on line 20 by 4% and enter the result on line 21.

LINE 22—SURTAX: Multiply the amount shown on line 20 in excess of \$50,000 by 3.35% and enter the result on line 22.

LINE 23—TOTAL TAX: Add lines 21 and 22. Enter the result on line 23. If Schedule K-121 was used to determine income, enter the tax computed on Schedule K-121, line 22.

LINE 24—TOTAL NONREFUNDABLE CREDITS: Enter the total nonrefundable credits from line 26, Part I (Schedule of Nonrefundable Credits). This amount cannot exceed the amount on line 23 of K-120.

LINE 25—BALANCE: Subtract line 24 from line 23 and enter the result on line 25. This amount cannot be less than zero.

LINE 26—ESTIMATED TAX PAID AND AMOUNT CREDITED FORWARD: Enter the total of your 2006 estimated tax payments plus any 2005 overpayment you had credited forward to 2006.

LINE 27—OTHER TAX PAYMENTS: Enter the amount paid with your extension of time to file and any withholding amounts reported on Form K-19. Enclose Form(s) K-19.

LINE 28—BUSINESS MACHINERY & EQUIPMENT PROPERTY TAX CREDIT: Enter the amount of the Business Machinery and Equipment Property Tax Credit from Form K-64 (page 25) and enclose it with Form K-120.

LINE 29—TOTAL OF ALL OTHER REFUNDABLE CREDITS: Enter the total of all other refundable credits from line 35, Part I, Schedule of Refundable Credits. Do not include the Business Machinery and Equipment Property Tax Credit here.

LINE 30—PAYMENT REMITTED ON ORIGINAL RETURN: Use this line ONLY if you are filing an amended Income Tax return for the 2006 tax year. Enter the amount of money you remitted to the Department of Revenue with your original 2006 return or any payment remitted with a previously filed 2006 amended, including penalty and interest.

LINE 31—OVERPAYMENT FROM ORIGINAL RETURN: Use this line ONLY if you are filing an amended Income Tax return for the 2006 tax year. Enter the amount of overpayment shown on your original return. Since you were refunded this amount or it was credited forward, this amount is a subtraction entry.

LINE 32—TOTAL PREPAID CREDITS: Add lines 26 through 30 and subtract line 31. Enter the result on line 32.

BALANCE DUE

LINE 33—BALANCE DUE: If line 25 is greater than line 32, subtract line 32 from line 25 and enter the result on line 33.

Late Charges

If the amount on line 33 is not paid by the due date, or if a balance due return is filed after the due date, penalty and

interest are added according to the rules outlined in lines 34 and 35.

Extension of Time to File Your Return: Interest is due on any delinquent tax balance, even if you have been granted an extension of time to file the return. If **90%** of your tax liability is paid on or before the original due date of your return, an automatic extension is applied and no penalty is assessed.

LINE 34—INTEREST: Effective for calendar year 2007 – if you filed your Kansas return after the original due date, compute interest at the rate of .75% per month (or fraction thereof) on the balance due amount and enter the result on line 34. Interest is to be computed in whole months.

LINE 35—PENALTY: If you filed your Kansas return after the original due date, compute the penalty at 1% for each month (or portion thereof) the return is late or the tax is unpaid on the balance due amount, up to a maximum of 24%. Enter this amount on line 35.

LINE 36—ESTIMATED TAX PENALTY: If underpayment of estimated tax penalty is due, enter the amount from your Schedule K-220 on line 36 and enclose Schedule K-220 with the return. If you are annualizing to compute the penalty, check the box on line 36. Any corporation which began business in Kansas during this period is not required to file a declaration, and no underpayment of estimate tax penalty will be imposed.

LINE 37—TOTAL TAX, INTEREST, AND PENALTY DUE: Add lines 33, 34, 35 and 36 and enter the result on line 37. **Complete Form K-120V, Corporate Payment Voucher, and enclose it with your return and payment.** Form K-120V can be found in this tax booklet. A balance due less

than \$5.00 does not need to be paid. Make check or money order payable to "Kansas Corporation Tax" and enclose it with your return and voucher. **Do not staple** your payment to the voucher.

Returned check charge: A fee of \$30.00, plus costs for a registered letter (currently \$8.34), is charged on all returned checks.

OVERPAYMENT

LINE 38—OVERPAYMENT: If line 32 is greater than the sum of line 25 and line 36, subtract the sum of line 25 and line 36 from line 32 and enter the result on line 38.

LINE 39—REFUND: Enter on line 39 that part of line 38 you wish to be refunded. No refund will be made for amounts less than \$5.00. Before mailing, mark an "X" in the refund box on the front of the envelope.

LINE 40—CREDIT FORWARD: Enter the portion of line 38 you wish to have applied to your 2007 Kansas estimated tax (must be \$1 or more). If the amount on line 38 is less than \$5, you may carry it forward to 2007 as an additional credit even if you don't make estimated tax payments (remember to claim it on next year's return). The amount on this line cannot exceed the total of lines 26 and 27.

SIGNATURE AND VERIFICATION

The return must be signed and sworn to by the president, vice-president, or other principal officer. If the return is prepared by a firm or corporation, the return should be signed in the name of the firm or corporation. Any person or persons who prepares the return for compensation must sign the return.

SPECIFIC LINE INSTRUCTIONS FOR FORM K-120, PARTS I THROUGH V

PART I—NONREFUNDABLE & REFUNDABLE CREDITS

Every corporation must complete this section when claiming a Kansas tax credit. The appropriate schedules provide specific instructions for these credits. See the back cover of this booklet for information on obtaining these schedules and instructions.

If you are eligible to claim any tax credits, complete the appropriate schedule and enclose it with your Kansas Income Tax return.



If you are claiming the refundable Business Machinery & Equipment Credit on Schedule K-64, enter the amount of your credit on line 28 of Form K-120. DO NOT enter any portion of the credit computed on Schedule K-64 in Part I.

SCHEDULE OF NONREFUNDABLE CREDITS

Lines 1 through 25: Enter on lines 1 through 25 any *nonrefundable* tax credits for which you are eligible. You must complete and enclose with your Form K-120 the applicable credit schedule (see list of eligible nonrefundable credits in Part I, Form K-120).

Line 26 – Total Nonrefundable Credits: Add lines 1 through 25 and enter the total on line 26. Enter this amount on line 24 of Form K-120. Total nonrefundable credits cannot exceed your total tax on line 23 of the Form K-120.



If filing a combined return (Form K-121), the amount of nonrefundable credits for each separate entity cannot exceed that entity's tax liability.

SCHEDULE OF REFUNDABLE CREDITS

Lines 27 through 34: Enter on lines 27 through 34 any *refundable* tax credits for which you are eligible. You must complete and enclose with your Form K-120 the applicable credit schedule (see list of eligible nonrefundable credits in Part I, Form K-120).

Line 35 – Total Refundable Credits: Add lines 27 through 34 and enter the total on line 35. Enter this amount on line 29 of Form K-120.

PART II—ADDITIONAL INFORMATION

All corporations must answer all questions in Part II.

PART III—AFFILIATED CORPORATIONS DOING BUSINESS IN KANSAS

Every corporation must complete the information required in this section for every affiliated corporation which is doing business in Kansas. If additional space is needed, please enclose a schedule with your return.

PART IV—SCHEDULE OF TAXES

Every corporation must complete this section in order for the Department of Revenue to verify the amount of taxes to be added back on line 3 of the return. If taxes are included elsewhere in the federal return, you must complete a schedule and enclose it with the Kansas return.

PART V—SCHEDULE OF INTEREST INCOME

Every corporation must complete this section if they are claiming a modification for interest income on United States obligations on line 7, page 1 of Form K-120.

SPECIFIC INSTRUCTIONS FOR FORM K-120AS

You must complete and enclose Parts VI, VII, & VIII, of Form K-120AS with your Kansas return if the corporation is doing business within and outside of Kansas and utilizing the apportionment formula to determine Kansas income.

PART VI—APPORTIONMENT FORMULA

Part VI is to be used by corporations which derive income from sources both within and without Kansas for the purpose of allocating and apportioning income. All business income is apportionable to Kansas by one of the following methods:

- The majority of corporations will multiply business income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three.
- Railroads will multiply business income by a fraction, the numerator of which is the freight car miles in this state and the denominator of which is the freight car miles everywhere.
- Interstate motor carriers will multiply business income by a fraction, the numerator of which is the total number of miles operated in this state and the denominator of which is the total number of miles operated everywhere.
- A qualifying taxpayer may elect to multiply business income by a fraction, the numerator of which is the property factor plus the sales factor, and the denominator of which is two. A qualifying taxpayer is any taxpayer whose payroll factor for a taxable year exceeds 200% of the average of the property factor and the sales factor. For additional information relating to this method and to determine if you are qualified, you may review K.S.A. 79-3279. If you qualify to use this method you are required to complete, for the first year, the payroll information on Form K-120AS, Part VI, line B **or** Form K-121, Part II, Section 2.
- Single Factor Apportionment – all years beginning after 12/31/01, and at the election of the taxpayer made at the time of filing of the original return, the qualifying business income of any investment funds service corporation organized as a corporation or S corporation which maintains its primary headquarters and operations or is a branch facility that employs at least 100 individuals on a full-time equivalent basis in this state and has any investment company fund shareholders resided in this state shall be apportioned to this state as provided in this subsection, as follows:

By multiplying the investment funds service corporation's qualifying business income from administration, distribution and management services provided to each investment company by a fraction, the numerator of which shall be the average of the number of shares owned by the investment company's fund shareholders resided in this state at the beginning of and at the end of the investment company's taxable year that ends with or within the investment funds service

corporation's taxable year, and the denominator of which shall be the average of the number of shares owned by the investment company's fund shareholders everywhere at the beginning of and at the end of the investment company's taxable year that ends with or within the investment funds service corporation's taxable year.

Descriptions of each of the factors in the three-factor formula follow. The laws applicable to these factors are contained in K.S.A. 79-3280 through 79-3287. The applicable regulations are contained in K.A.R. 92-12-84 through 92-12-103. You may access these laws and regulations in the Kansas Department of Revenue's Policy Information Library at: www.ksrevenue.org

LINE A—Property Factor. The property factor shall include all real and tangible personal property owned or rented and used during the income year to produce business income. Property used in connection with the production of nonbusiness income shall be excluded from the factor. Property shall be included in the property factor if it is actually used or is available for or capable of being used during the income year for the production of business income. Property used in the production of business income shall remain in the property factor until its permanent withdrawal is established by an identifiable event such as its sale or conversion to the production of nonbusiness income.

The numerator of the property factor shall include the average value of the taxpayer's real and tangible personal property owned and used in Kansas during the income year for the production of income, plus the value of rented real and tangible personal property so used. Property owned by the taxpayer in transit between locations of the taxpayer shall be considered to be at the destination for purposes of the property factor. Property in transit between a buyer and seller which is included by a taxpayer in the denominator of its property factor in accordance with its regular accounting practices shall be included in the numerator according to the state of destination. The value of mobile or movable property, such as construction equipment, trucks and/or leased electronic equipment which are located within and without Kansas during the income year, shall be determined for purposes of the numerator of the factor on the basis of total time within Kansas during the income year. Property owned by the taxpayer shall be valued at its original cost. As a general rule, "original cost" is deemed to be the basis of the property for federal income tax purposes at the time of acquisition by the taxpayer and adjusted by subsequent capital additions or improvements thereto and partial disposition thereof, by reason of sale, exchange, abandonment, etc. Property rented by the taxpayer is valued at eight times the net annual rental rate. As a general rule, the average value of property owned by the taxpayer shall be determined by averaging the values at the beginning and ending of the income year. However, the Director of Taxation may require or allow averaging by monthly values if such method of averaging is required to properly reflect the average value of the taxpayer's property for the income year.

LINE B—Payroll Factor. The payroll factor shall include the total amount paid by the taxpayer for compensation during the tax period. The total amount “paid” to the employees is determined upon the basis of the taxpayer’s accounting method. If the taxpayer has adopted the accrual method of accounting, all compensation properly accrued shall be deemed to have been paid. Notwithstanding the taxpayer’s method of accounting, at the election of the taxpayer, compensation paid to employees may be included in the payroll factor by use of the cash method if the taxpayer is required to report such compensation under such method for unemployment compensation purposes. The term “compensation” means wages, salaries, commissions and any other form of remuneration paid to employees for personal services. Payments made to an independent contractor or any other person not properly classifiable as an employee are excluded. Only amounts paid directly to employees are included in the payroll factor. The compensation of any employee on account of activities which are connected with the production of nonbusiness income shall be excluded from the factor. The denominator of the payroll factor is the total compensation paid everywhere during the income year.

The numerator of the payroll factor is the total amount paid in Kansas during the income year by the taxpayer for compensation. Compensation is paid in Kansas if any one of the following tests, applied consecutively, are met: (a) The employee’s service is performed entirely within Kansas; (b) The employee’s service is performed both inside and outside of Kansas, but the service performed without this State is “incidental” to the employee’s service in Kansas (the word “incidental” means any service which is temporary or transitory in nature, or which is rendered in connection with an isolated transaction); (c) If the employee’s services are performed both inside and outside of Kansas, the employee’s compensation will be attributed to Kansas if: (1) the employee’s base of operations is in Kansas; or (2) there is no base of operations in any state in which some part of the service is performed, but the place from which the service is directed or controlled is in Kansas; or (3) the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the employee’s residence is in Kansas. The term “base of operation” is the place from where employees begin work and to which they customarily return in order to receive instructions from the taxpayer or communications from his customers or other persons, or to replenish stock or other materials, repair equipment, or perform any other functions necessary to the exercise of their trade or profession at some other point or points.

LINE C—Sales Factor. For purposes of the sales factor of the apportionment formula, the term “sales” means all gross receipts derived by the taxpayer from transactions and activity in the regular course of such trade or business. The following are rules for determining “sales” in various situations:

- In the case of a taxpayer engaged in manufacturing and selling or purchasing and reselling goods or products, “sales” includes all gross receipts from the sales of such goods or products (or other property of a kind which

would properly be included in the inventory of the taxpayer if on hand at the close of the income year) held by the taxpayer primarily for sale to customers in the ordinary course of its trade or business. “Gross receipts” for this purpose means gross sales, less returns and allowances, and includes all interest income, service charges, carrying charges, or time-price differential charges incidental to such sales. Federal and state excise taxes (including sales taxes) shall be included as part of such receipts if such taxes are passed on to the buyer or included as part of the selling price of the product.

- In the case of cost plus fixed fee contracts, such as the operation of a government-owned plant for a fee, “sale” includes the entire reimbursed cost, plus the fee.
- In the case of a taxpayer engaged in providing services, such as the operation of an advertising agency, or the performance of equipment service contracts, or research and development contracts, “sales” includes the gross receipts from the performance of such services, including fees, commissions, and similar items.
- In the case of a taxpayer engaged in renting real or tangible property, “sales” includes the gross receipts from the rental, lease, or licensing the use of the property.
- In the case of a taxpayer engaged in the disposition of non-inventory assets and property used or purchased in the regular course of business, “sales” includes the capital gain or ordinary gain realized from such disposition. The term “sales” does not include the return of capital or recovery of basis with respect to non-inventory capital assets.
- In the case of a taxpayer engaged in the sale or redemption of investment securities, “sales” includes the interest or other income from such transactions. The term “sales” does not include the return of capital or the recovery of principal utilized to make such investments.

The numerator of the sales factor shall include gross receipts attributable to Kansas and derived by the taxpayer from transactions and activity in the regular course of its trade or business. All interest income, service charges, carrying charges, or time-priced differential charges incidental to such gross receipts shall be included regardless of the place where the accounting records are maintained or the location of the contract or other evidence of indebtedness.

Sale of Tangible Personal Property in this State

- Gross receipts from sales of tangible personal property (except sales to the United States Government) are in this state if:
 - the property is delivered or shipped to a purchaser within this state regardless of the f.o.b. point or other conditions of sale;
 - the property is shipped from an office, store, warehouse, factory, or other place of storage in this state and the taxpayer is not taxable in the state of the purchaser.

- Property shall be deemed to be delivered or shipped to a purchaser within this state if the recipient is located in this state, even though the property is ordered from outside this state.
- Property is delivered or shipped to a purchaser within this state if the shipment terminates in this state, even though the property is subsequently transferred by the purchaser to another state.
- The term "purchaser within this state" shall include the ultimate recipient of the property if the taxpayer in this state, at the designation of the purchaser, delivers to or has the property shipped to the ultimate recipient within this state.
- When property being shipped by a seller from the state of origin to a consignee in another state is diverted while enroute to a purchaser in this state, the sales are in this state.
- If a taxpayer whose salesman operates from an office located in this state makes a sale to a purchaser in another state in which the taxpayer is not taxable and the property is shipped directly by a third party to the purchaser, the following rules apply:
 - if the taxpayer is taxable in the state from which the third party ships the property, then the sale is in such state;
 - if the taxpayer is not taxable in the state from which the property is shipped, then the sale is in this state.

Sales to the United States Government: Gross receipts from the sales of tangible personal property to the United States Government are to be included in Kansas if the property is shipped from an office, store, warehouse, factory, or other place of storage in this state. Only sales for which the United States Government makes direct payment to the seller pursuant to the terms of its contract constitute sales to the United States Government. Thus, as a general rule, sales by a subcontractor to the prime contractor, the party to the contract with the United States Government, does not constitute sales to the United States Government.

Sales Other Than Sales of Tangible Personal Property: K.S.A. 79-3287 provides for the inclusion in the numerator of the sales factor of gross receipts from transactions other than sales of tangible personal property (including transactions with the United States Government). Under this section gross receipts are attributed to Kansas if the income-producing activity which gave rise to the receipts is performed within Kansas or if property producing the receipts is located within Kansas.

Gross receipts are attributed to Kansas if, with respect to a single item of income, the income-producing activity is performed within and without Kansas but the greater proportion of the income-producing activity is performed in Kansas, based on costs of performance. In cases where services are performed partly within and partly without Kansas, the services performed in each state will usually constitute a separate income-producing activity; in such case, the gross receipts for the performance of services attributable to Kansas shall be measured by the ratio which

the time spent in performing such services in this state bears to the total time spent in performing such services everywhere. Time spent in performing services includes the amount of time expended in the performance of a contract or other obligation which gives rise to such gross receipts. Personal service not directly connected with the performance of the contract or other obligation, such as time expended in negotiating the contract, is excluded from the computation.

LINE D(1)—TOTAL PERCENT. If you are utilizing the three-factor formula to apportion income to Kansas, add lines A, B and C.

LINE D(2)—TOTAL PERCENT. If you are qualified and are utilizing the elective two-factor formula to apportion income to Kansas, add lines A and C.

LINE E—AVERAGE PERCENT. Divide line D(1) or D(2), whichever is applicable, by the number of factors used in the formula. For instance, if you are using the three-factor formula and the corporation does not have payroll anywhere, divide by 2.

Consistency in Reporting

In completing Form K-120, K-120AS and K-121, if, with respect to prior tax years and to filing other states' tax returns, the taxpayer departs from or modifies the manner in which income has been classified as business income from nonbusiness income, in valuing property or of excluding or including property in the property factor, in the treatment of compensation paid in the payroll factor, or in excluding or including gross receipts in the sales factor, the taxpayer shall disclose by separate enclosed schedule the nature and extent of the variance or modification. Only inconsistencies in the denominators of the property, payroll, and sales factors which materially affect the amount of business income apportioned to Kansas need to be disclosed. Inconsistencies in the determination of nonbusiness income and in the denominators of the factors due to a difference in state laws or regulations must be identified by that state's statute or regulation section number and shown on the separate schedule. The amount of each inconsistency by state is to be shown.

When a taxpayer makes sales of tangible personal property which are shipped from Kansas and assigned to a state in which the taxpayer does not file a return or report, the taxpayer shall identify the state to which the property is shipped, report the total amount of sales assigned to such state, and furnish the facts upon which the taxpayer relies as establishing jurisdiction to tax by such state.

PART VII—ADDITIONAL INFORMATION

All corporations must answer all questions.

PART VIII—AFFILIATED CORPORATION INFORMATION

All corporations must complete this section and indicate which of the affiliated corporations have property or payroll or sales in either the "total company" factors or the "within Kansas" factors of the apportionment formula on Part VI of the return.

K-120

(Rev. 7/06)

2006 KANSAS CORPORATION INCOME TAX

150006

DO NOT STAPLE

For the taxable year beginning ____ / ____ / 2 0 0 6 ; ending ____ / ____ / ____

| | | | | |
|-----------------------------|---|--|--|-----------------------|
| TAXPAYER INFORMATION | Name | B. Business Activity Code (NAICS) | Employer's Identification Numbers (EINs) (Enter both if applicable) | |
| | Number and Street of Principal Office | C. Date Business Began in KS (mm/dd/yyyy) | EIN this entity: | |
| | City State Zip Code | D. Date Business Discontinued in KS (mm/dd/yyyy) | EIN Federal Consolidated Parent: | |
| | A. Method Used to Determine Income of Corporation in Kansas ___ 1. Activity wholly within Kansas - Single entity ___ 2. Activity wholly within Kansas - Consolidated ___ 3. Single entity apportionment method (K-120AS) ___ 4. Combined income method - Single corporation filing (Sch. K-121) ___ 5. Combined income method - Multiple corporation filing (Sch. K-121) ___ 6. Qualified elective two-factor (K-120AS) Year qualified: _____ ___ 7. Common carrier mileage (Enclose mileage apportionment schedule) ___ 8. Alternative or separate accounting (Enclose letter of authorization & schedule) | E. State and Month/Year of Incorporation (mm/yyyy) | I. Enter your original federal due date if other than the 15th day of the 3rd month after the end of the tax year. | |
| | | F. State of Commercial Domicile | | _____ / _____ / _____ |
| | | G. Type of Federal Return Filed ___ 1. Separate ___ 2. Consolidated | J. If any taxpayer information has changed since the last return was filed, please check this box. | |
| | H. Check the box if you have submitted a Kansas Form K-120EL? <input type="checkbox"/> | | <input type="checkbox"/> | |
| | <input type="checkbox"/> Mark this box if you are filing this as an AMENDED 2006 Kansas return. <small>NOTE: This form cannot be used for tax years prior to 2006.</small> | | Reason for amending your 2006 Kansas return: | |
| | | <input type="checkbox"/> Amended affects Kansas only | <input type="checkbox"/> Adjustment by the IRS | |
| | | <input type="checkbox"/> Amended federal tax return | | |

| | | | |
|--|-------------------------|----|--|
| 1. Federal taxable income | | 1 | |
| 2. Total state and municipal interest | 2 | | |
| 3. Taxes on or measured by income or fees or payments in lieu of income taxes (Part IV, line 2) | 3 | | |
| 4. Federal net operating loss deduction | 4 | | |
| 5. Other additions to federal taxable income (Schedule required) | 5 | | |
| 6. Total additions to federal taxable income (Add lines 2, 3, 4 & 5) | 6 | | |
| 7. Interest on U.S. government obligations (Part V, line 2) | 7 | | |
| 8. IRC Section 78 and 80% of foreign dividends (Schedule required) | 8 | | |
| 9. Other subtractions from federal taxable income (Schedule required) | 9 | | |
| 10. Total subtractions from federal taxable income (Add lines 7, 8 & 9) | 10 | | |
| 11. Net income before apportionment (Add line 1 to line 6 and subtract line 10) | 11 | | |
| 12. Nonbusiness income -- Total company (Schedule required) | 12 | | |
| 13. Apportionable business income (Subtract line 12 from line 11) | 13 | | |
| 14. Average percent to Kansas (Part VI, lines A, B, C, & E; if 100% enter 100.0000) | A _____ B _____ C _____ | 14 | |
| 15. Amount to Kansas (Multiply line 13 by line 14) | 15 | | |
| 16. Nonbusiness income - Kansas (Schedule required) | 16 | | |
| 17. Kansas net income before NOL deduction (Add lines 15 & 16) | 17 | | |
| 18. Kansas net operating loss deduction (Schedule required) | 18 | | |
| 19. Combined report (Schedule K-121) or alternative/separate accounting income (Separate schedule) | 19 | | |

DO NOT SUBMIT PHOTOCOPIES OF THIS FORM

| | | | |
|--|------|--|--|
| 20. Kansas taxable income (Subtract line 18 from line 17 or enter line 19, as applicable) | 20 | | |
| 21. Normal tax (4% of line 20) | 21 | | If this is your ORIGINAL Kansas return, skip lines 30 and 31 and continue to line 32. If this is your AMENDED Kansas return, complete lines 30 and 31 before continuing to line 32. |
| 22. Surtax (3.35% of line 20 in excess of \$50,000) | 22 | | |
| 23. Total tax (Add lines 21 and 22. If filing combined, use line 22 of K-121.) | 23 | | |
| 24. Total nonrefundable credits (Part I, line 26; cannot exceed amount on line 23) | 24 | | |
| 25. Balance (Subtract line 24 from line 23; cannot be less than zero) | 25 | | |
| 26. Estimated tax paid and amount credited forward (Part II, line 4) | 26 | | |
| 27. Other tax payments (Enclose separate schedule and any applicable K-19 forms) | 27 | | |
| 28. Business machinery & equipment property tax credit; see instructions | 28 | | |
| 29. Total of all other refundable credits (Part I, line 35. Do not include the business machinery & equipment property tax credit amount) | 29 | | |
| 30. Payment remitted with original return; see instructions) | 30 | | |
| 31. Overpayment from original return (This figure is a subtraction; see instructions) | - 31 | | |
| 32. Total prepaid credits (Add lines 26 through 30 and subtract line 31) | 32 | | |
| 33. Balance due (If line 25 exceeds line 32) | 33 | | |
| 34. Interest | 34 | | |
| 35. Penalty | 35 | | |
| 36. Estimated tax penalty If annualizing to compute penalty, check this box <input type="checkbox"/> | 36 | | |
| 37. Total tax, interest & penalty due (Add lines 33 through 36). Complete Form K-120V and enclose it with your payment. | 37 | | |
| 38. Overpayment (If line 25 plus line 36 is less than line 32) | 38 | | |
| 39. Refund. Enter the amount of line 38 you wish to be refunded. | 39 | | |
| 40. Credit Forward. Enter the amount of line 38 (original return only) you wish to be applied to 2007 estimated tax. (Line 40 cannot exceed the total of lines 26 & 27). | 40 | | |

I authorize the Director of Taxation or the Director's designee to discuss my return and enclosures with my preparer.

I declare under the penalties of perjury that to the best of my knowledge this is a true, correct, and complete return.

sign here

| | | |
|---|-----------------------------------|---------------|
| _____ Signature of officer | _____ Title | _____ Date |
| _____ Individual or firm signature of preparer | _____ Address and Phone Number | _____ Date |

NOTE: You are not required to send a copy of your entire federal return. See instructions for the list of federal forms required to accompany the state return.

Mail to: Kansas Corporate Tax
Kansas Department of Revenue
915 SW Harrison Street
Topeka, KS 66699-4000

PART I - NONREFUNDABLE AND REFUNDABLE CREDITS

SCHEDULE OF NONREFUNDABLE CREDITS

| | |
|--|---|
| 1. Angel Investor Credit (Enclose Schedule K-30; see instructions) | . |
| 2. Center for Entrepreneurship Credit (Enclose Schedule K-31; see instructions) | . |
| 3. Agritourism Liability Insurance Credit (Enclose Schedule K-33; see instructions) | . |
| 4. Business and Job Development Credit (Enclose Schedule K-34; see instructions) | . |
| 5. Historic Preservation Credit (Enclose Schedule K-35; see instructions) | . |
| 6. Disabled Access Credit (Enclose Schedule K-37; see instructions) | . |
| 7. Swine Facility Improvement Credit (Enclose Schedule K-38; see instructions) | . |
| 8. Oil and Gas Well Plugging Credit (Enclose Schedule K-39; see instructions) | . |
| 9. Assistive Technology Contribution Credit (Enclose Schedule K-42; see instructions) | . |
| 10. Agricultural Loan Interest Reduction Credit (Enclose Schedule K-51 and K-52; see instructions) | . |
| 11. Research and Development Credit (Enclose Schedule K-53; see instructions) | . |
| 12. Venture Capital Credit (Enclose Schedule K-55; see instructions) | . |
| 13. Seed Capital Credit (Enclose Schedule K-55; see instructions) | . |
| 14. High Performance Incentive Program Credit (Enclose Schedule K-59; see instructions) | . |
| 15. Community Service Contribution Credit (Enclose Schedule K-60; see instructions) | . |
| 16. Alternative-Fuel Motor Vehicle Property Credit (Enclose Schedule K-62; see instructions) | . |
| 17. Mathematics and Science Teacher Employment Credit (Enclose Schedule K-71; see instructions) | . |
| 18. Law Enforcement Training Center Credit (Enclose Schedule K-72; see instructions) | . |
| 19. Petroleum Refinery Credit (Enclose Schedule K-73; see instructions) | . |
| 20. Kansas National Guard and Reserve Employer Credit (Enclose Schedule K-74; see instructions) | . |
| 21. Qualifying Pipeline Credit (Enclose Schedule K-77; see instructions) | . |
| 22. Coal or Coke Gasification Nitrogen Fertilizer Plant Credit (Enclose Schedule K-78; see instructions) | . |
| 23. Cellulosic Plant Credit (Enclose Schedule K-79; see instructions) | . |
| 24. Integrated Coal Gasification Power Plant Credit (Enclose Schedule K-80; see instructions) | . |
| 25. Farm Net Operating Loss (Enclose Schedule K-139F; see instructions) | . |
| 26. Total nonrefundable credits (Enter on line 24, page 2). | . |

SCHEDULE OF REFUNDABLE CREDITS

| | |
|---|---|
| 27. Regional Foundation Contribution Credit (Enclose Schedule K-32; see instructions) | . |
| 28. Telecommunications Credit (Enclose Schedule K-36; see instructions) | . |
| 29. Child Day Care Assistance Credit (Enclose Schedule K-56; see instructions) | . |
| 30. Small Employer Healthcare Credit (Enclose Schedule K-57; see instructions) | . |
| 31. Community Service Contribution Credit (Enclose Schedule K-60; see instructions) | . |
| 32. Individual Development Account Credit (Enclose Schedule K-68; see instructions) | . |
| 33. Single City Port Authority Credit (Enclose Schedule K-76; see instructions) | . |
| 34. Farm Net Operating Loss (Enclose Schedule K-139F; see instructions) | . |
| 35. Total refundable credits (Enter on line 29, page 2) | . |

PART II - ADDITIONAL INFORMATION

1. Did the corporation file a **Kansas** Income Tax return under the same name for the preceding year? Yes No
If "no", enter previous name and EIN.

2. Enter the address of the corporation's principal location in Kansas.

3. The corporation's books are in care of:

Name _____

Address _____

Telephone _____

4. List **each** estimated tax payment and credit forward amount claimed on this return.

| Date | Amount | Date | Amount |
|------|--------|------|--------|
| | | | |
| | | | |
| | | | |

5. Has your corporation been involved in any reorganization during the period covered by this return? Yes No
If "yes", enclose a detailed explanation.

6. If this is a final return for Kansas, state the reason. If the corporation was liquidated or dissolved, state the IRC section under which the corporation was liquidated.

7. If your federal taxable income has been redetermined for any prior years that have not previously been reported to Kansas, check the applicable box(es) below and state the calendar, fiscal, or short period year ending date. You are required to submit, **under separate cover**, the federal Forms 1139, 1120X, or Revenue Agent's Report along with the Kansas Form K-139 or amended return (K-120 or K-120X, whichever is applicable).

- Revenue Agent's Report Net Operating Loss
- Amended Return

Years ended _____

8. If you are registered with the Kansas Department of Revenue under any other Kansas tax act, enter all registration or license numbers on the applicable line.

- a. Sales Tax _____
- b. Compensating Use Tax _____
- c. Withholding Tax _____
- d. Other (specify) _____
- _____
- _____

PART III - AFFILIATED CORPORATIONS DOING BUSINESS IN KANSAS

| Name of Corporation | Employer ID Number |
|---------------------|--------------------|
| | |
| | |
| | |

(Enclose a separate sheet for additional corporations)

PART IV - SCHEDULE OF TAXES

(Include those taxes deducted on line 17 of the federal return. See instructions.)

1. Taxes on or measured by income or fees or payments in lieu of income taxes (include federal environmental tax; itemize).

| | |
|---|--|
| _____ | |
| _____ | |
| _____ | |
| _____ | |
| 2. Total (Enter on line 3, page 1) | |
| 3. Total other taxes | |
| 4. Total taxes (Must equal line 17 of the federal return) | |

PART V - SCHEDULE OF INTEREST INCOME

(Include the interest from line 5 of the federal return)

1. U.S. interest income (describe type):

| | |
|--|--|
| _____ | |
| _____ | |
| _____ | |
| 2. Total (Enter on line 7, page 1) | |
| 3. Total other interest income | |
| 4. Total interest income (Must equal line 5 of the federal return) | |

K-120AS

KANSAS Corporation Apportionment Schedule

FOR USE BY CORPORATIONS APPORTIONING INCOME
(Corporations using the combined income method must use Schedule K-121)

For the taxable year beginning ____ / ____ / 2 0 0 6 ; ending ____ / ____ / ____

Name as shown on Form K-120

Employer Identification Number (EIN)

PART VI - APPORTIONMENT FORMULA

| A. Property | WITHIN KANSAS | | TOTAL COMPANY | | PERCENT WITHIN KANSAS |
|---|-------------------|-------------|-------------------|---------------|-----------------------|
| | Beginning of Year | End of Year | Beginning of Year | End of Year | |
| (1) Value of owned real and tangible personal property used in the business at original cost | | | | | |
| Inventory | | | | | |
| Depreciable assets | | | | | |
| Land | | | | | |
| Other tangible assets (Enclose schedule) | | | | | |
| Less: Construction in progress | | | | | |
| Total property to be averaged | | | | | |
| Average owned property (Beg. + End ÷ 2) | | | | | |
| (2) Net annual rented property. Multiplied by 8 | | | | | |
| TOTAL PROPERTY (Enter on line 14, Block A, page 1) | | | | | |
| B. Payroll (Those corporations qualified and utilizing the elective two-factor formula must complete this area only during the first year of qualifying) | | | Within Kansas | Total Company | |
| (1) Compensation of officers | | | | | |
| (2) Wages, salaries and commissions | | | | | |
| (3) Payroll expense included in cost of goods sold | | | | | |
| (4) Payroll expense included in repairs | | | | | |
| (5) Other wages and salaries | | | | | |
| TOTAL PAYROLL (Enter on line 14, Block B, page 1) (If qualified and utilizing the elective two-factor formula, do not carry this percentage to page 1) | | | | | B % |
| C. Sales (Gross receipts, less returns and allowances) | | | | | |
| (1) Sales delivered or shipped to purchasers in Kansas: | | | | | |
| (a) Shipped from outside Kansas | | | | | |
| (b) Shipped from within Kansas | | | | | |
| (2) Sales shipped from Kansas to: | | | | | |
| (a) The United States Government | | | | | |
| (b) Purchasers in a state where the taxpayer would not be taxable (e.g., under federal Public Law 86-272) | | | | | |
| (3) Dividends | | | | | |
| Interest | | | | | |
| Rents | | | | | |
| Royalties | | | | | |
| Gains/losses from intangible asset sales | | | | | |
| Gross proceeds from tangible asset sales | | | | | |
| Other income (Enclose schedule) | | | | | |
| TOTAL SALES (Enter on line 14, Block C, page 1) | | | | | C % |
| D(1). Total percent (Sum of lines A, B & C if qualified and utilizing three-factor formula) | | | | | D(1) % |
| D(2). Total percent (Sum of lines A & C if qualified and utilizing two-factor formula) | | | | | D(2) % |
| E. Average percent of either D(1) or D(2), whichever is applicable (Enter on line 14, page 1) | | | | | E % |

K-120V

(Rev. 7/06)

| | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| FOR OFFICE USE ONLY | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2006 KANSAS CORPORATE INCOME TAX VOUCHER

For the taxable year beginning ___/___/___ ending ___/___/___

| | | | | | | | | | | | |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Employer Identification Number | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

| | | | | |
|----------------------------|-------|----------|---|--|
| Corporation Name | | | | |
| Corporation Address | | | | |
| City, Town, or Post Office | State | Zip Code | Name or Address Change <input type="checkbox"/> | |
| Name of Contact Person | | | Phone Number | |

| | | | |
|-----------------|--------------------------|-------------------|--------------------------|
| Amended Payment | <input type="checkbox"/> | Extension Payment | <input type="checkbox"/> |
|-----------------|--------------------------|-------------------|--------------------------|

| | | | | | | | | | |
|-------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| PAYMENT AMOUNT \$ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|-------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

Make check or money order payable to: Kansas Corporate Income Tax

DO NOT SUBMIT PHOTOCOPIES OF THIS FORM

159106

5-23

PART II
(Form K-121)

APPORTIONMENT FORMULA

| | Corporation A Within Kansas | | Corporation B Within Kansas | | Total Company | | Percent Within Kansas |
|--|--------------------------------|-------------|--------------------------------|-------------|------------------|-------------|-----------------------------|
| | Beg. of Year | End of Year | Beg. of Year | End of Year | Beg. of Year | End of Year | |
| 1a. Value of owned real and tangible personal property used in the business at original cost. | | | | | | | |
| Inventory | | | | | | | |
| Depreciable Assets | | | | | | | |
| Land | | | | | | | |
| Other Tangible Assets (Enclose schedule) | | | | | | | |
| Less: Construction in Progress | | | | | | | |
| Total Property to be Averaged | | | | | | | |
| 1b Average Owned Property (Beg. + End ÷ 2) | | | | | | | |
| . Net annual rental property. Multiplied by 8 | | | | | | | |
| TOTAL PROPERTY | | | | | | | |
| Percentage: Corporation A (Divide Corp. A by Total Co.) | | | | | | | 1A |
| Percentage: Corporation B (Divide Corp. B by Total Co.) | | | | | | | 1B |
| 2. Wages, salaries, commissions and other compensation of employees related to business income included in return. | | | | | | | |
| TOTAL PAYROLL | | | | | | | |
| Percentage: Corporation A (Divide Corp. A by Total Co.) | | | | | | | 2A |
| Percentage: Corporation B (Divide Corp. B by Total Co.) | | | | | | | 2B |
| 3. Sales (Gross receipts, less returns and allowances) | | | | | | | |
| a. Sales delivered or shipped to purchasers in Kansas: | | | | | | | |
| (1) Shipped from outside Kansas | | | | | | | |
| (2) Shipped from within Kansas | | | | | | | |
| b. Sales shipped from Kansas to: | | | | | | | |
| (1) The United States Government | | | | | | | |
| (2) Purchasers in a state where the taxpayer would not be taxable (e.g., under Public Law 86-272) | | | | | | | |
| c. Dividends | | | | | | | |
| Interest | | | | | | | |
| Rents | | | | | | | |
| Royalties | | | | | | | |
| Gains/losses from intangible asset sales | | | | | | | |
| Gross proceeds from tangible asset sales | | | | | | | |
| Other income (Attach schedule) | | | | | | | |
| TOTAL SALES | | | | | | | |
| Percentage: Corporation A (Divide Corp. A by Total Co.) | | | | | | | 3A |
| Percentage: Corporation B (Divide Corp. B by Total Co.) | | | | | | | 3B |
| 4. Total Percent: Corporation A (Add lines 1A, 2A, & 3A) | | | | | | | 4A |
| Corporation B (Add lines 1B, 2B, & 3B) If utilizing three factor formula | | | | | | | 4B |
| 5. Total Percent: Corporation A (Add lines 1A & 3A) | | | | | | | 5A |
| Corporation B (Add lines 1B & 3B) If qualified and utilizing two factor formula | | | | | | | 5B |
| 6. Average Percent: Corporation A (To Line 14, Part I, Page 1) | | | | | | | 6A |
| Corporation B (To Line 14, Part I, Page 1) Average percent of line 4 or 5, whichever is applicable | | | | | | | 6B |

Partnership or S Corporation Instructions

What's New...

IRS e-FILE. Form K-120S for small business corporations AND partnerships can be filed electronically. With IRS e-File the return is electronically submitted to the IRS and KDOR using an authorized IRS e-File provider. Form K-120S can also be electronically filed by using KDOR approved commercial tax filing web sites or software products. Visit our web site at www.webtax.org for a list of authorized IRS e-File providers and software products.

Electronic filing is quick and easy and confirmation that KDOR has accepted the return is received within 48 hours of the transmission.

WHAT'S IN THIS TAX BOOKLET?

| | |
|---|------------|
| What's New | 2 |
| Tips to Improve the Processing of Your Return | 2 |
| General Information | 2 |
| Specific Line Instructions | 6 |
| Form K-120S | 7, 9 |
| Form K-121S | 11 |
| Taxpayer Assistance | Back Cover |

TIPS TO IMPROVE THE PROCESSING OF YOUR RETURN

- **Do not staple or otherwise attach** pages of the return, payment voucher or check together. You may use a binder clip if that is your preference.
- Use only black or dark blue ink and write legibly and send the original return to the Kansas Department of Revenue – do not send a photocopy.
- Your Employer Identification Number (EIN) is part of your Kansas tax account number for processing purposes. To ensure that your account information is credited properly, include your EIN on your return.

GENERAL INFORMATION

If any due date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday.

Who Must File a Return

A Kansas corporation return must be filed by all corporations doing business within or deriving income from sources within Kansas who are required to file a Federal Income Tax return, whether or not a tax is due. Corporations which elect under subchapter S of the Internal Revenue Code not to be taxed as a corporation must file a Kansas Partnership or S Corporation Return (Form K-120S). All other corporations must file on Form K-120.

Banks and savings and loan associations allowed to file as small business corporations at the federal level are **not** allowed to file as small business corporations at the Kansas level. Those entities are required to file a Privilege Tax return (K-130) to report any income or loss. The federal level shareholders income or loss which is included in their individual federal income tax return is to be subtracted from federal adjusted gross income so as to not allow that income.

A partnership return (Form K-120S) must be completed by any business partnership, syndicate, pool, joint venture or other such joint enterprise to report income from operations. The Kansas partnership return must be completed by every enterprise that has income or loss derived from Kansas sources regardless of the amount of income or loss. Income or loss derived from Kansas sources includes income or loss attributed to:

- a. Any ownership interest in real property or tangible personal property located in Kansas and intangible property to the extent it is used in a trade, business, profession or occupation carried on in Kansas; and,
- b. A trade, business, profession or occupation carried on in Kansas.

Any partnership, joint venture, syndicate, etc., which is required to file a partnership return of income for federal purposes is required to file a Kansas partnership return if such enterprise receives income or loss from Kansas sources.

When to File

Calendar Year: If your return is based on a calendar year, it must be filed no later than April 15, 2007.

Fiscal Year: If your return is based on a tax year other than a calendar year, it must be filed no later than the 15th day of the fourth month following the end of your tax year.

Conformity to Federal Due Dates: Kansas small business returns are due one (1) month after the federal due date. Partnership returns are due March 15. If the federal original due date is not the 15th day of the third month after the close of a taxable year, the corporation or partnership is required to complete item "J" on the front of Form K-120S, and enclose a letter indicating the authorizing federal statute. Do not enter your extended due date.

Amended Returns: In general, amended returns must be filed with the Department of Revenue within three (3) years of when the original return was filed. If the amended return will result in a refund, then it must be filed within three (3) years of when the original return was filed, or within two (2) years from the date the tax was paid, whichever is less.

Where to File

Use the preaddressed envelope in this tax booklet to mail your return. If you are expecting a refund, place an "X" in the box on the front of the envelope. If your envelope has been misplaced, mail your return to the address shown at the bottom of Form K-120S.

If You Need Forms

A tax booklet is mailed each year to the address on the previous year's tax return. Kansas tax forms are available from our Taxpayer Assistance Center or by calling our voice mail forms request line at (785) 296-4937 and from our web site at: www.ksrevenue.org.

Extension of Time to File

If you are unable to complete your return by the filing deadline, you may request an extension of time to file. If you filed federal form 7004 with the Internal Revenue Service for an extension of time, enclose a copy of that form with your completed K-120S to automatically receive a six-month extension to file your Kansas return. Kansas does not have a separate extension request form. If you are entitled to a refund, an extension is not required in order to file the return after the original due date.

Important: An extension of time to file is NOT an extension to pay. If you do not pay the tax amount due (may be estimated) by the original due date, you will owe interest and may also be charged a penalty on any balance due. Additionally, an extension of time to file Form K-120S does not extend the time for filing a partner's or shareholder's Kansas Individual Income Tax return (Form K-40).

Federal Return and Other Enclosures

Enclose with Form K-120S any necessary **credit schedules** and a copy of the following **federal return** pages as filed with the Internal Revenue Service:

- Pages 1 through 4 of the federal return.
- Federal schedules to support any Kansas modifications claimed on page 1, Form K-120S.

The Kansas Department of Revenue reserves the right to request additional information as necessary.

Completing Your Return

All appropriate lines on Form K-120S must be completed as applicable. Be certain to complete all boxes in the "Taxpayer Information" section of the return.

Nonbusiness Income Claimed: Any taxpayer that claims nonbusiness income on the Kansas return is required to clearly demonstrate that the transaction or activity which gave rise to the income was unusual in nature and infrequent in occurrence or that the income was earned in the course of activities unrelated to the taxpayer's business operations in Kansas. The taxpayer must also submit a schedule as required by line 13 of the Specific Line Instructions for Form K-120S. If the taxpayer does not demonstrate that the income is nonbusiness and does not submit the required schedules, the income will be considered to be business income by the Department of Revenue and the department will apportion that income as business income.

Accounting Period

A taxpayer's taxable year is the same as the taxable year for federal tax purposes. If a taxpayer's taxable year is changed, or the method of accounting is changed for federal tax purposes, then the taxable year and method of accounting shall be similarly changed for Kansas tax purposes.

Business Income Election

For S Corporations with taxable years beginning after December 31, 1995, taxpayers may elect to have all income derived from the acquisition, management, use, or disposition of tangible and intangible property treated as business income. The election is effective and irrevocable for the taxable year of the election and the following nine taxable years. The election is binding on all members of a unitary group of corporations. To make this election, an entity must file Form K-120EL with the Department within the time limits established by law for its filing situation.

- An entity not previously doing business in Kansas that intends to make this election for its initial year of business must file Form K-120EL within 60 days after filing the articles of incorporation or application for authority to engage in business with the Kansas Secretary of State.
- For an entity currently doing business in Kansas, the election must be filed on or before the last day of the tax year immediately preceding the tax year for which the election is made.

Form K-120EL must be sent separately from the K-120S return.

Amending Your Return

You must file an amended Kansas return when: 1) an error was made on your Kansas return, 2) there is a change on another state's return (error or adjustment), 3) there is a change on your federal return (error or adjustment).

To amend your Kansas Partnership or S Corporation return, you must mark the "Amended Return" checkbox on the front of the K-120S and insert the changes on the return. You must also include a copy of the other state's amended return or a copy of the IRS amended return or Revenue Agent's Report or adjustment letter showing and explaining the adjustments. **NOTE:** If you need to amend a partnership return prior to 2005, you must obtain a Form K-65 for the year you are amending and mark it "Amended." See *If You Need Forms* above.

AMENDED FEDERAL RETURN: If you are filing an amended federal income tax return, for the same taxable year as your Kansas amended return, you must enclose a complete copy of the amended federal return and full explanations of all changes made on your amended Kansas return. If your amended federal return is adjusted or disallowed, you must provide the Department of Revenue with a copy of the adjustment or denial letter.

Amending Your Return (continued)

If you did not file a Kansas return when you filed your original federal return, and the federal return has since been amended or adjusted, use the information on the amended or adjusted federal return to complete your original Kansas return. A copy of both the original and amended federal returns should be enclosed with the Kansas return along with an explanation of the changes.

FEDERAL AUDIT: Any taxpayer whose income has been adjusted by the Internal Revenue Service must file an amended return with Kansas and include a copy of the Revenue Agent's Report or adjustment letter showing and explaining the adjustments. These adjustments must be submitted within 180 days of the date the federal adjustments are paid, agreed to, or become final, whichever is earlier. Failure to notify the Department within the 180 day period will cause the statute of limitations to remain open (the Department of Revenue can make adjustments for as many years back as necessary and interest and penalty computations will continue to increase).

Confidential Information

Income tax information disclosed to the Kansas Department of Revenue, either on returns or through department investigation, is held in strict confidence by law. The Department of Revenue, Internal Revenue Service and the Multi-state Tax Commission and several other states have an agreement under which some tax information is exchanged. This is to verify accuracy and consistency of information reported on federal and Kansas tax returns.

Partnership Adjustments

Kansas income tax law provides that partners receiving income from a partnership or corporation may be required to make certain adjustments to their share of the entity's income included in their individual federal income tax return in order to properly determine their individual Kansas adjusted gross income. This modification can only be made from information available to the partnership, thus it is necessary that each partnership notify each partner of his share of the adjustments. In addition to the adjustments explained above, information regarding income not included in ordinary partnership income must be given to each partner.

NOTE: Each partner or shareholder should be notified of the gross of such income received by the partnership or corporation, each partner's or shareholder's share of such income, the total adjustments applicable and each partner's or shareholder's share of such adjustment.

Capital Gains

Any adjustment, provided by Kansas law, which applies to a capital gain received by the partnership or corporation and reported by the individual partners or shareholders on their individual federal income tax return, is to be made by each partner or shareholder on his Kansas individual income tax return.

If, during the taxable year, the partnership or corporation received a gain from the sale of property or other capital assets for which the tax basis for Kansas is higher than the tax basis for federal, each partner or shareholder must be notified of his share of the difference in basis and whether the gain qualified as a long or short term capital gain.

Any partnership or corporation which has a partner or shareholder who is a nonresident of Kansas must advise such partner of those capital gains and losses incurred from assets located in Kansas because the nonresident partner or shareholder is subject to tax on gains realized from the sale or exchange of property located in Kansas.

If such computations result in a net capital loss to Kansas, the loss is limited to \$3,000 (\$1,500 for married individuals filing separate returns) on the partner's or shareholder's Kansas individual income tax return.

Capital transactions from Kansas sources to which the above instructions apply include:

- a. Capital gains or losses derived from real or personal property having an actual situs within Kansas whether or not connected with the trade or business.
- b. Capital gains or losses from stocks, bonds and other intangible property used in or connected with a business, trade or occupation that is carried on within Kansas.
- c. Respective portion of the partnership or corporate capital gain or loss from a partnership or corporation of which the partnership or shareholder is a member, partner or shareholder, or an estate or trust of which the partnership or corporation is a beneficiary.

Nonresident Owner Withholding

For all tax years ending after December 31, 2002, partnerships, S corporations and limited liability companies with nonresident owners are required to withhold Kansas income tax at the rate of 6.45% on the Kansas taxable income (whether distributed or undistributed) of their nonresident partners, members or shareholders. Pass-through entities with nonresident owners must complete Form KW-7S and pay the withheld funds on Form KW-7 on or before the due date of the income tax return for the pass-through entity, including extensions. These forms, and additional information about this requirement, are available from our web site at www.ksrevenue.org.

Definitions

Unitary Business: A multistate business is unitary when the operations conducted in one state benefit or are benefited by the operations conducted in another state or states. The essential test to be applied is whether or not the operation of the portion of the business within the state is dependent upon or contributory to the operation of the business outside the state. If there is such a relationship, the business is unitary. Stated another way, the test is whether various parts of a business are interdependent and of mutual benefit so as to form one business rather than several business entities and not whether the operating experience of the parts are the same at all places.

Activity Wholly Within Kansas: If a particular trade or business is carried on exclusively within Kansas or if the activities outside of Kansas are such that federal Public Law 86-272 prohibits another state from imposing a tax,

Definitions (continued)

then the entire net income is subject to the Kansas Income Tax. If two or more corporations file Federal Income Tax returns on a consolidated basis, and if each of such corporations derive all of their income and expenses from sources within Kansas, they must file a consolidated return for Kansas Income Tax purposes.

Single Entity Apportionment Method: Any taxpayer having income from business activity which is taxable both within and without this state, other than activity as a financial organization or the rendering of purely personal services by an individual, shall allocate and apportion net income as provided in the Uniform Division of Income for Tax Purposes Act.

Combined Income Method—Single Corporate Filing: When a group of corporations conduct a unitary business both within and outside of Kansas, the source of income shall be determined by the combined income approach. The combined income approach is the computation by formula apportionment of the business income of a unitary trade or business properly reportable to Kansas by members of a unitary group. The property, payroll, or sales factor for each member of a unitary business shall be determined by dividing the property, payroll, or sales figure for Kansas by the total property, payroll, or sales figure of the entire group. The average is multiplied by the income of the unitary group to determine the income of the company derived from sources in Kansas.

The Kansas S Corporation return filed on the combined income approach must include Schedule K-121S, which can be found in this booklet.

Any small business corporation which files a consolidated return for federal purposes and a combined report for Kansas purposes must submit a copy of the consolidated federal Form 1120S and all other schedules and statements necessary to support the federal ordinary income reported on the Kansas return. Schedule K-121S must be used to determine income of the small business corporation. Schedule K-121S single entity Kansas income is then shown on line 18, Form K-120S. All corporations filing a combined return (single or multiple) must complete lines 1 through 18 of Form K-120S using the total combined income column from Schedule K-121S.

Combined Income Method—Multiple Corporation Filing: This method is the same as 'Combined Income Method—Single Corporation Filing' except that any corporation filing using the combined income method with more than one entity doing business in Kansas may file the Kansas return reporting the total combined income on that return. Schedule K-121S must be used to determine the Kansas taxable income of each separate corporation. Schedule K-121S combined Kansas income is then entered on line 18 of Form K-120S. All small business corporations filing a combined return (single or multiple) must complete lines 1 through 18 of Form K-120S using the total combined income column from Schedule K-121S.

Qualified Elective Two-Factor Method: This method may be used by any taxpayer who qualifies and elects to utilize the two-factor formula of property and sales. A qualified taxpayer is any taxpayer whose payroll factor for a taxable year exceeds 200% of the average of the property factor and the sales factor. An election must be made by including a statement with the original tax return indicating that the taxpayer elects to utilize this apportionment method. The election will be effective and irrevocable for the taxable year of the election and the following nine taxable years.

Common Carrier Method: All business income of railroads and interstate motor carriers of persons or property for-hire shall be apportioned to this state on the basis of mileage. For railroads, multiply the business income by a fraction, the numerator of which is the freight car miles in this state and the denominator of which is the freight car miles everywhere. For interstate motor carriers, multiply the business income by a fraction, the numerator of which is the total number of miles operated in this state and the denominator of which is the total number of miles operated everywhere.

Alternative Accounting Method: If the uniform allocation and apportionment provisions do not represent fairly the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Secretary of Revenue may require, in respect to all or any part of the taxpayer's business activity, if reasonable: (a) Separate accounting; (b) the exclusion of one or more of the factors; (c) the inclusion of one or more additional factors; or (d) the employment of any other method to effect an equitable allocation and apportionment of the taxpayer's income. A copy of the letter from the Kansas Department of Revenue granting the use of an alternative method must be enclosed with the return when filed. Enter the amount determined on your separate schedule on line 18, Form K-120S.

Separate Accounting Method: The separate method of reporting income to Kansas is allowable only in unusual circumstances and with the permission of the Department of Revenue where the use of the three-factor formula does not fairly represent the taxpayer's business activity. Before a taxpayer engaged in a multistate business may use the separate accounting method, the following requirements shall be satisfied:

- The books and records are kept by recognized accounting standards to reflect accurately the amount of income of the multistate business which was realized in Kansas during the taxable period;
- The management functions of the business operations within Kansas are separate and distinct so that in conducting the Kansas business operations the management within Kansas did not utilize or incur centralized management services consisting of operational supervision, advertising, accounting, insurance, financing, personnel, physical facilities, technical and research, sales and servicing or purchasing during the taxable period;
- The business operations within Kansas are separate and distinct and do not contribute to or depend upon the overall operations of the company, and there are no interstate, intercompany, or interdivisional purchases, sales or transfers during the taxable period.

If all three requirements are not satisfied, the taxpayer shall determine Kansas taxable income by use of the apportionment formula. Enter the amount determined on your separate schedule on line 18, Form K-120S.

SPECIFIC LINE INSTRUCTIONS FOR FORM K-120S, PAGE 1

TAXPAYER INFORMATION

If any taxpayer information changed from the last original return filed by you, please check the change box "K".

Label: If you have a preaddressed label (located on the back cover of this booklet) and the name and address information is correct, place it on Form K-120S in the space provided **after** you have completed your return.

Name and Address: If you do not have a preaddressed label, or if the information on the label is incorrect, PRINT or TYPE the corporate or partnership name and address in the spaces provided.

Beginning and Ending Dates: Enter beginning and ending dates of the partnership's or corporation's tax year, even if your tax year is a calendar year.

Final Return: If a final return is being filed for a corporation that is being liquidated, record the date the business was discontinued in item E and enclose a copy of the federal form that states the federal code section the corporation was liquidated under.

Information for Items A through K: Complete all requested information. For item A, indicate whether the return is for a partnership or a S corporation. For item B, refer to page 4. For Item C, enter the NAICS code from Publication KS-1500, available from our web site. For items F and G, use the two-letter state abbreviation.

INCOME

LINE 1—FEDERAL ORDINARY INCOME: Enter the federal ordinary income from federal Schedule K. A copy of certain pages of the federal return must be enclosed in all cases. See instructions on page 3.

LINE 2a—TOTAL OTHER INCOME FROM FEDERAL SCHEDULE K: Enter the total of all other income listed on federal Schedule K. For partners, this is the total of the amounts entered on lines 2, 3c, 4, 5, 6a, 7, 8, 9a, 10, and 11 of federal Schedule K. For S corporations it is the total of amounts entered on lines 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10 of federal Schedule K. Also include any gain from the sale of assets subject to section 179 that is not reported on Schedule K.

LINE 2b—TOTAL DEDUCTIONS FROM SCHEDULE K: Enter the allowable deductions listed on federal Schedule K. For partnerships, this is the total of lines 12, 13b, 13c(2), and 13d of federal Schedule K. For S corporations, this is the total of lines 11, 12b, 12c(2), and 12d of federal Schedule K.

Contributions from Schedule K (Partnership, line 13a; or S Corporation, line 12a) may be deducted on line 2b unless the partner or shareholder is an individual. If the partner or shareholder is an individual, and if they are itemizing deductions at the federal level, the contribution deductions

should already be in their federal itemized deductions and no adjustment is necessary on the Kansas individual return. If the partner or shareholder is included in a composite return for Kansas (Schedule K-40C), they are required to use a standard deduction and not entitled to their share of the partnership or S corporation contribution deduction or their credits.

LINE 3—TOTAL: Add line 1 to line 2a and subtract line 2b. Enter the result on line 3.

LINE 4—TOTAL STATE AND MUNICIPAL INTEREST: Enter interest income received, credited, or earned by you during the taxable year from any state or municipal obligations such as bonds and mutual funds. Reduce the income amount by any related expenses (such as management or trustee fees) directly incurred in purchasing these state or political subdivision obligations.

DO NOT include interest income or obligations of the state of Kansas or any Kansas political subdivision issued after December 31, 1987, or the following bonds exempted by Kansas law: Board of Regents Bonds for Kansas Colleges and Universities, Electrical Generation Revenue Bonds, Industrial Revenue Bonds, Kansas Highway Bonds, Kansas Turnpike Authority Bonds and Urban Renewal Bonds.

If you are a partner or shareholder in a fund that invests in both Kansas and other states' bonds, only the Kansas bonds are exempt. Use the information provided by your fund administrator to determine the amount of taxable (non-Kansas) bond interest to enter here.

LINE 5—TAXES ON OR MEASURED BY INCOME OR FEES OR PAYMENTS IN LIEU OF INCOME TAXES: Enter the taxes on or measured by income or fees or payments in lieu of income taxes which you deducted on your federal return in arriving at your federal ordinary income. IRC Section 59A federal environmental tax must be added back to federal ordinary income to the extent it is used as a deduction in arriving at federal ordinary income.

LINE 6—OTHER ADDITIONS TO FEDERAL INCOME: Enter on line 6 the following additions to your federal ordinary income:

- **Learning Quest Education Savings Program:** Enter the amount of any "nonqualified withdrawal" from the Learning Quest Savings Program.

A tax credit for the additions below may be claimed on your tax return (schedule required):

- **Community Service Contribution Credit:** The amount of any charitable contribution claimed on your federal return used to compute this credit on Schedule K-60.
- **Disabled Access Credit:** The amount of any depreciation deduction or business expense deduction claimed on your federal return that was used to determine this credit on Schedule K-37.

- **Regional Foundation Contribution Credit:** The amount of any contribution claimed on your federal return used to compute this credit on Schedule K-32.
- **Small Employer Healthcare Credit:** Reduce the amount of expense deduction that is included in federal ordinary income by the dollar amount of the credit claimed on Schedule K-57.
- **Swine Facility Improvement Credit:** The amount of any costs claimed on your federal return and used as the basis for this credit on Schedule K-38.
- **Expenditures - Energy Credits.** Enter the amount of any expenditures claimed to the extent the same is claimed as the basis for any credit allowed on Credit Schedule K-73, K-77, K-78, K-79 or K-80.
- **Amortization - Energy Credits.** Enter the amount of any amortization deduction claimed on the federal income tax return to the extent the same is claimed for deduction with regard to Credit Schedule K-73, K-77, K-78 or K-79.

LINE 7 — TOTAL ADDITIONS TO FEDERAL INCOME: Add lines 4 through 6 and enter the result on line 7.

LINE 8 — INTEREST ON U.S. GOVERNMENT OBLIGATIONS: Enter any interest or dividend income received from obligations or securities of any authority, commission or instrumentality of the United States and/or its possessions that was included in your federal ordinary income. This includes U.S. Savings Bonds, U.S. Treasury Bills, and the Federal Land Bank. You must reduce the interest amount by any related expenses (such as management or trustee fees) directly incurred in the purchase of these securities.

If you are a shareholder in a mutual fund that invests in both exempt and taxable federal obligations, only that portion of the distribution attributable to the exempt federal obligations may be subtracted here. Enclose a schedule showing the name of each U.S. Government obligation interest deduction claimed.

Interest from the following are taxable to Kansas and may NOT be entered on this line:

- Federal National Mortgage Association (FNMA)
- Government National Mortgage Association (GNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)

LINE 9—IRC SECTION 78 AND 80% OF FOREIGN DIVIDENDS: Enter the amount included in federal ordinary income pursuant to the provisions of Section 78 of the Internal Revenue Code and 80% of dividends from corporations incorporated outside of the United States or the District of Columbia which are included in federal ordinary income.

LINE 10—OTHER SUBTRACTIONS FROM FEDERAL INCOME: Enter on line 10, a total of the following subtractions from your federal ordinary income (schedule required):

- **Refunds or Credits:** Any refund or credit for overpayment of taxes on or measured by income or fees or payments in lieu of income taxes imposed by this state, or any taxing jurisdiction, to the extent included in federal ordinary income.
- **Jobs and WIN Tax Credit:** The amount of federal targeted jobs and WIN credit.

- **Kansas Venture Capital, Inc. Dividends:** Dividend income received as a result of investing in stock issued by Kansas Venture Capital, Inc.
- **Electrical Generation Revenue Bonds:** Enter the gain from the sale of Electrical Generation Revenue Bonds that was included in your federal ordinary income.
- **Learning Quest Education Savings Program:** Enter the amount of contributions deposited in the Learning Quest Education Savings Program, up to a maximum of \$3,000 per student (beneficiary).
- **Sale of Kansas Turnpike Bonds:** Enter the gain from the sale of Kansas Turnpike Bonds that was included in your federal ordinary income.
- **Amortization - Energy Credits:** The amount of amortization deduction allowed relating to Credit Schedule K-73, K-77, K-78 or K-79 (55% of the amortizable costs may be subtracted in the first year and 5% may be subtracted each of the succeeding 9 years).

LINE 11—TOTAL SUBTRACTIONS FROM FEDERAL INCOME: Add lines 8 through 10, and enter the result on line 11.

LINE 12—NET INCOME BEFORE APPORTIONMENT: Add line 3 to line 7 and subtract line 11, and enter the result on line 12.

APPORTIONMENT AND ALLOCATION

LINE 13—NONBUSINESS INCOME - TOTAL COMPANY: Enter on line 13 the total amount of nonbusiness net income everywhere that is to be directly allocated.

Any taxpayer that claims nonbusiness income on the Kansas return is required to clearly demonstrate that the transaction or activity which gave rise to the income was unusual in nature and infrequent in occurrence. The taxpayer must also submit a schedule as required below. If the taxpayer does not demonstrate that the income is nonbusiness and does not submit the required schedule(s), the income will be considered to be business income by the Department of Revenue and the Department will apportion that income as business income.

From the items of income directly allocated, there shall be deducted the expenses related thereto. As used in this paragraph, "expenses related thereto," means any allowable deduction or portion thereof attributable to such income and a ratable part of any other allowable deductions which cannot definitely be allocated to some item or class of income.

A schedule must be submitted with the return showing: (1) the gross income from each class of income being specifically allocated, (2) the amount of each class of related expenses together with an explanation or computations showing how amounts were arrived at, (3) the total amount of the related expense for each income class, and (4) the net income for each income class. The schedules should provide appropriate columns as set forth above for items specifically assigned to Kansas and for nonbusiness items specifically assigned outside Kansas. An explanation must also be enclosed to explain specifically why each item of income arose from unusual and infrequent transactions outside of the regular course of the partnership or corporation's trade or business.

LINE 14—APPORTIONABLE BUSINESS INCOME: Subtract line 13 from line 12 and enter the result on line 14.

LINE 15—AVERAGE PERCENT TO KANSAS: Enter the applicable percentages in spaces A, B, and C. If you are qualified and utilizing the elective two-factor formula, do not enter a percentage figure in space B. Enter on line 15 the average percent from Form K-120S, Part I, line 3. **Note:** Round the percentage to the fourth decimal point only. If your business is wholly within Kansas enter 100.0000.

LINE 16—AMOUNT TO KANSAS: Multiply line 14 by line 15 and enter the result on line 16.

LINE 17—NONBUSINESS INCOME-KANSAS: Enter the total amount of nonbusiness net income directly allocated to Kansas. Submit a schedule to support the amount shown.

LINE 18—TOTAL KANSAS INCOME: If you are filing a combined report (Schedule K-121S) or you are authorized to file using the alternative or separate accounting method, enter on line 18 the: 1) Kansas income from line 18 of Schedule K-121S; or, 2) Kansas income from a separate

schedule prepared by you (Separate/Alternative Method of Reporting).

LINE 19—ESTIMATED TAX PAID AND AMOUNT CREDITED FORWARD: Enter the total of your 2006 estimated tax payments plus any 2005 overpayment you had credited forward to 2006.

LINE 20—OTHER TAX PAYMENTS: Enter on line 20 any amount of prepaid tax not entered above.

LINE 21—REFUND: Add lines 19 and 20 and enter the result on line 21. Amounts less than \$5.00 will not be refunded. Before mailing, mark an "X" in the refund box on the front of the envelope.

SIGNATURE AND VERIFICATION: The return must be signed and sworn to by a member, partner, president, vice-president, or other principal officer. If the return is prepared by a firm or corporation, the return should be signed in the name of the firm or corporation. Any person or persons who prepare the return for compensation must also sign the return.

SPECIFIC LINE INSTRUCTIONS FOR FORM K-120S, PAGE 2

PART I – APPORTIONMENT SCHEDULE

Part I is to be used by partnerships or corporations with nonresident partners or shareholders which derive income from sources both within and without Kansas for the purpose of allocating and apportioning income. All business income is apportionable to Kansas by one of the following methods:

- The majority of taxpayers will multiply business income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three.
- Railroads will multiply business income by a fraction, the numerator of which is the freight car miles in this state and the denominator of which is the freight car miles everywhere.
- Interstate motor carriers will multiply business income by a fraction, the numerator of which is the total number of miles operated in this state and the denominator of which is the total number of miles operated everywhere.
- A qualifying taxpayer may elect to multiply business income by a fraction, the numerator of which is the property factor plus the sales factor, and the denominator of which is two. A qualifying taxpayer is any taxpayer whose payroll factor for a taxable year exceeds 200% of the average of the property factor and the sales factor. For additional information relating to this method and to determine if you are qualified, you may review K.S.A. 79-3279. If you are qualified to use this method, you are still required to complete the payroll information in PART I, line 1b for the first year only.

The laws applicable to these factors are contained in K.S.A. 79-3280 through 79-3287. The applicable regulations are contained in K.A.R. 92-12-84 through 92-12-103. You may access these laws and regulations through the our Policy Library on our web site at: www.ksrevenue.org

LINE 1a, 1b, and 1c—ALLOCATION FRACTION: Compute the property, payroll, and sales to determine the percentage of each in Kansas.

LINE 2a—TOTAL PERCENT: If you are qualified and are utilizing the three-factor formula to apportion income to Kansas, add lines 1a, 1b, and 1c, (percent within Kansas).

LINE 2b—TOTAL PERCENT: If you are qualified and are utilizing the elective two-factor formula to apportion income to Kansas, add lines 1a and 1c, (percent within Kansas).

LINE 3—AVERAGE PERCENT: Divide line 2a or 2b, (whichever is applicable) by the number of factors used in the formula. For example, if you are using the three-factor formula and the corporation does not have payroll anywhere, divide by 2.

PART II – PARTNER'S OR SHAREHOLDER'S DISTRIBUTION OF INCOME

Part II must be completed for all partners or shareholders.

COLUMN 1—Name and address of partner or shareholder. List the name and permanent address of each person who was a partner of the partnership or shareholder of the corporation during the taxable year. Check box on right side of column 1 if the respective partner or shareholder was a nonresident of Kansas during the year.

COLUMN 2—Social Security Number or Employer Identification Number (EIN). Enter in column 2 the Social Security or Employer Identification Number of each partner or shareholder listed.

COLUMN 3—Partner's or Shareholder's Percent of Ownership. Enter in column 3 the partner's or shareholder's percent of ownership in the partnership or corporation.

COLUMN 4—Partner's Profit Percent or Shareholder's Applicable Percentage. Enter in column 4 the partner's profit percentage or shareholder's applicable percentage.

COLUMN 5—Income from Kansas sources. *Kansas Resident Individuals:* Multiply column 4 by line 12, page 1. *Nonresidents Individuals:* If income is earned only from Kansas sources multiply column 4 by line 12, page 1. If income is earned from inside and outside of Kansas, multiply column 4 by line 18, page 1. *All Other Partners or Shareholders:* Multiply column 4 by line 18, page 1.

Enclose a schedule showing adjustments due to any guaranteed payments.

COLUMN 6—Partner's or Shareholder's portion of federal ordinary and other income (losses) and deductions. Multiply the partner's profit percent or applicable shareholder's percentage in column 4 by line 3, page 1.

COLUMN 7—Partner's or Shareholder's portion of total Kansas income. Multiply the partner's or shareholder's percentage in column 4 by line 12, page 1.

COLUMN 8—Partners or Shareholder's modification. Subtract column 7 from column 6 and enter the result in column 8. This is the Kansas adjustment to be entered on

Schedule S of the Kansas Individual Income Tax return, Form K-40, as a partnership or S corporation adjustment. If the amount in column 7 is greater than column 6, the amount in column 8 should be shown as an addition modification and entered on line A5 of Schedule S. If the amount in column 7 is less than column 6, the amount in column 8 should be shown as a subtraction modification and entered on line A15 of Schedule S.

Nonresident Partner's or Shareholders' Computation

Nonresident partners or shareholders must use the following method to determine the amounts that will be entered in Part B of Supplemental Schedule S, Form K-40.

The taxpayer's share of income to be entered on line B10 (Amount from Kansas Sources) is determined by multiplying column 4, Part II, page 2, Form K-120S by line 12, page 1, Form K-120S, if income is derived totally within Kansas; or line 18, if income is derived within and outside of Kansas.

Since modifications for nonresident income are included in line 18, Form K-120S, a modification relative to the S corporation or partnership income is **not** to be entered on line B20, Part B of Schedule S, Form K-40.

NOTE—Any difference in the basis of property sold which has a higher basis for Kansas income tax purposes than for federal income tax purposes and which is reported as a long-term capital gain for Kansas purposes, should be computed and reported to the respective shareholder or partner for adjustment of this item on the individual income tax return. If the basis of property sold has a lower basis for Kansas income tax purposes than for federal income tax purposes, no adjustment is necessary.

DO NOT STAPLE

2006 KANSAS PARTNERSHIP or S CORPORATION INCOME TAX RETURN

For the taxable year beginning ___/___/2006; ending ___/___/___

TAXPAYER INFORMATION section containing fields for Name, Business Activity Code, EIN, Date Business Began, Date Business Discontinued, State and Month/Year of Incorporation, Method Used to Determine Income, and Type of Federal Return Filed.

IF THIS IS AN AMENDED RETURN, MARK THIS BOX []

Table with 21 rows for income calculation, including lines for Ordinary income, Total of all other income, Total federal income, Total additions to federal income, Total subtractions from federal income, Net income before apportionment, and Total Kansas income.

[] I authorize the Director of Taxation or the Director's designee to discuss my return and enclosures with my preparer.

I declare under the penalties of perjury that to the best of my knowledge this is a true, correct, and complete return.

Signature of Officer, Title, Date, Individual or Firm Signature of Preparer, Address and Phone Number, Date

Enclose a copy of your federal return, pages 1 through 4 Schedules M-1 & M-2. Also include any federal schedules to support any Kansas modifications.

Mail this return to: Kansas S Corporation Tax, Kansas Department of Revenue, 915 SW Harrison Street, Topeka, KS 66699-4000

5-34

PART I - APPORTIONMENT SCHEDULE

This schedule is to be used only by partnerships and S Corporations that derive income from sources inside and outside of Kansas.

| 1. Allocation fraction - Enclose Schedule of Computation: | | WITHIN KANSAS | TOTAL COMPANY | PERCENT WITHIN KANSAS |
|---|--|---------------|---------------|-----------------------|
| a. | Average cost of real and tangible personal property owned at beginning and end of year plus 8 times the net annual rent. (Exclude property not connected with the business and construction in progress.) Enter % on line 15, block A, page 1..... | 1a | | % |
| b. | Payroll. Enter % on line 15, block B, page 1..... | 1b | | % |
| c. | Gross sales or revenue. Enter % on line 15, block C, page 1..... | 1c | | % |
| 2. a. Total percent (Add lines 1a, 1b, and 1c if utilizing three factors) | | 2a | | % |
| b. Total percent (Add lines 1a and 1c if qualified and utilizing the elective two-factor formula) | | 2b | | % |
| 3. Average percent of either 2a or 2b, whichever is applicable (To line 15, page 1) | | 3 | | % |

PART II - PARTNER'S OR SHAREHOLDER'S DISTRIBUTION OF INCOME

This schedule is to be completed for all partners or shareholders. If you have nonresident partners or shareholders, complete Form KW-7S. If there are more than 14 partners or shareholders, you must complete a schedule similar to the schedule below and submit it with your return. Individual partners or shareholders complete columns 1 through 8. All other partners and shareholders complete columns 1 through 5.

| (1) Name and address of partner or shareholder | Check box if nonresident | (2) Social Security Number OR Employer Identification Number (EIN) | (3) Partner's or shareholder's percent of ownership | (4) Partner's profit percent or shareholder's applicable percentage |
|--|-----------------------------|--|--|---|
| (a) _____ | <input type="checkbox"/> | | | |
| (b) _____ | <input type="checkbox"/> | | | |
| (c) _____ | <input type="checkbox"/> | | | |
| (d) _____ | <input type="checkbox"/> | | | |
| (e) _____ | <input type="checkbox"/> | | | |
| (f) _____ | <input type="checkbox"/> | | | |
| (g) _____ | <input type="checkbox"/> | | | |
| (h) _____ | <input type="checkbox"/> | | | |
| (i) _____ | <input type="checkbox"/> | | | |
| (j) _____ | <input type="checkbox"/> | | | |
| (k) _____ | <input type="checkbox"/> | | | |
| (l) _____ | <input type="checkbox"/> | | | |
| (m) _____ | <input type="checkbox"/> | | | |
| (n) _____ | <input type="checkbox"/> | | | |

Continuation of PART II (See instructions for Nonresident Partner's or Shareholder's Computation of Columns 6, 7 and 8.)

| (5) Income from Kansas sources. Kansas resident individuals: Multiply column 4 by line 12, page 1. Nonresident individuals: If income is earned only from Kansas sources multiply column 4 by line 12, page 1. If income is earned from inside and outside of Kansas, multiply column 4 by line 18, page 1. All other partners or shareholders: Multiply column 4 by line 18. | (6) Partner's or shareholder's portion of federal ordinary and other income (losses) and deductions. Multiply the percentage in column 4 by line 3, page 1. | (7) Partner's or shareholder's portion of total Kansas income. Multiply the percentage in column 4 by line 12, page 1. | (8) Partner's or shareholder's modification. See instructions. Enter on Part A of Schedule S, Form K-40. |
|--|--|---|--|
| (a) _____ | | | |
| (b) _____ | | | |
| (c) _____ | | | |
| (d) _____ | | | |
| (e) _____ | | | |
| (f) _____ | | | |
| (g) _____ | | | |
| (h) _____ | | | |
| (i) _____ | | | |
| (j) _____ | | | |
| (k) _____ | | | |
| (l) _____ | | | |
| (m) _____ | | | |
| (n) _____ | | | |

K-121S

(8/06)

KANSAS COMBINED INCOME METHOD OF REPORTING

For the taxable year beginning _____, 20____, ending _____, 20____

Name As Shown on Form K-120S

Employer Identification Number (EIN)

PART I

KANSAS COMBINED NET INCOME

| Enter separate corporate names and federal identification numbers | Corporation A | Corporation B | Eliminations (Explain Below) | Combined Income |
|---|---------------|---------------|------------------------------|-----------------|
| 1. Federal ordinary income | | | | |
| 2. Total other income (loss) and deductions from federal Schedule K ... | | | | |
| 3. Total (Add lines 1 and 2) | | | | |
| 4. Total state and municipal interest | | | | |
| 5. Taxes on or measured by income or fees or payments in lieu of income taxes | | | | |
| 6. Other additions to federal taxable income (Enclose schedule) | | | | |
| 7. Total (Add lines 3 through 6) | | | | |
| 8. Interest on U.S. government obligations | | | | |
| 9. IRC Section 78 and 80% of foreign dividends (Enclose schedule) | | | | |
| 10. Other subtractions from federal taxable income (Enclose schedule) | | | | |
| 11. Total subtractions (Add lines 8, 9, & 10) | | | | |
| 12. Net income before apportionment (Subtract line 11 from line 7) | | | | |
| 13. Nonbusiness income—Total company (Enclose schedule) | | | | |
| 14. Apportionable business income (Subtract line 13 from line 12) | | | | |
| 15. Percent to Kansas (From line 6, Part II) | | | | |
| 16. Amount to Kansas (Line 15, Corp. A & B multiplied by line 14 combined income) | | | | |
| 17. Nonbusiness income—Kansas (Enclose schedule) | | | | |
| 18. Combined report income (Add lines 16 and 17 and enter the result on line 18, page 1, Form K-120S) | | | | |

EXPLANATION OF ELIMINATIONS:

(Any corporation filing using the combined income method with more than one entity doing business in Kansas may file one Kansas return reporting the total Kansas combined income on that return.)

PART II

APPORTIONMENT FORMULA

(Form K-121S)

| | Corporation A Within Kansas | | Corporation B Within Kansas | | Total Company | | Percent Within Kansas |
|--|--------------------------------|-------------|--------------------------------|-------------|------------------|-------------|-----------------------------|
| | Beg. of Year | End of Year | Beg. of Year | End of Year | Beg. of Year | End of Year | |
| 1a. Value of owned real and tangible personal property used in the business at original cost. | | | | | | | |
| Inventory | | | | | | | |
| Depreciable Assets | | | | | | | |
| Land | | | | | | | |
| Other Tangible Assets (Enclose schedule) | | | | | | | |
| Less: Construction in Progress | | | | | | | |
| Total Property to be Averaged | | | | | | | |
| Average Owned Property (Beg. + End ÷ 2) | | | | | | | |
| 1b. Net annual rental property. Multiplied by 8 | | | | | | | |
| TOTAL PROPERTY | | | | | | | |
| Percentage: Corporation A (Divide Corp. A by Total Co.) | | | | | | | 1A |
| Percentage: Corporation B (Divide Corp. B by Total Co.) | | | | | | | 1B |
| 2. Wages, salaries, commissions and other compensation of employees related to business income included in return. | | | | | | | |
| TOTAL PAYROLL | | | | | | | |
| Percentage: Corporation A (Divide Corp. A by Total Co.) | | | | | | | |
| Percentage: Corporation B (Divide Corp. B by Total Co.) | | | | | | | 2B |
| 3. Sales (Gross receipts, less returns and allowances) | | | | | | | |
| a. Sales delivered or shipped to purchasers in Kansas: | | | | | | | |
| (1) Shipped from outside Kansas | | | | | | | |
| (2) Shipped from within Kansas | | | | | | | |
| b. Sales shipped from Kansas to: | | | | | | | |
| (1) The United States Government | | | | | | | |
| (2) Purchasers in a state where the taxpayer would not be taxable (e.g., under Public Law 86-272) | | | | | | | |
| c. Dividends | | | | | | | |
| Interest | | | | | | | |
| Rents | | | | | | | |
| Royalties | | | | | | | |
| Gains/losses from intangible asset sales | | | | | | | |
| Gross proceeds from tangible asset sales | | | | | | | |
| Other income (Attach schedule) | | | | | | | |
| TOTAL SALES | | | | | | | |
| Percentage: Corporation A (Divide Corp. A by Total Co.) | | | | | | | 3A |
| Percentage: Corporation B (Divide Corp. B by Total Co.) | | | | | | | 3B |
| 4. Total Percent: Corporation A (Add lines 1A, 2A, & 3A) | | | | | | | 4A |
| Corporation B (Add lines 1B, 2B, & 3B) If utilizing three factor formula | | | | | | | 4B |
| 5. Total Percent: Corporation A (Add lines 1A & 3A) | | | | | | | 5A |
| Corporation B (Add lines 1B & 3B) If qualified and utilizing two factor formula | | | | | | | 5B |
| 6. Average Percent: Corporation A (To Part I, Line 15, Form K-121S) | | | | | | | 6A |
| Corporation B (To Part I, Line 15, Form K-121S) Average percent of line 4 or 5, whichever is applicable | | | | | | | 6B |

Privilege Tax Instructions

TIPS TO IMPROVE THE PROCESSING OF YOUR RETURN

Your Kansas return is **imaged** on our computers, enabling us to process your return faster and with fewer errors. In order for our system to work, it is important that you use care in completing your return. The following tips will aid in more efficient processing of your return.

- Do not **staple** or otherwise **attach** pages of the return, payment voucher, or check together. Enclose them loosely in the envelope.
- Use only black or dark blue ink and write legibly.
- The Kansas Department of Revenue (KDOR) uses your Employer Identification Number (EIN) as part of your tax account number. To ensure that your account information is credited properly, include your EIN on your return.
- Do not send photocopies of the return, send only the original.
- If you use a software package to produce your return, be sure it is approved by KDOR. Visit our web site at www.ksrevenue.org for a list of approved software vendors.
- If you are **reproducing your own forms**, contact KDOR for information on the approval process.

WHAT'S IN THIS BOOKLET?

| | |
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| Tips to Improve Processing | 2 |
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GENERAL INFORMATION

If any due date falls on a Saturday, Sunday, or legal holiday, substitute the next regular work day.

Who Must File a Return

Every national banking association, bank, trust company, federally chartered savings bank, and savings and loan association subject to taxation under K.S.A. 79-1106 *et seq.* must file a Kansas privilege tax return.

NOTE: Any taxpayer who owns, capitalizes or utilizes an affiliate with one of the affiliate's purposes being to make, hold or manage for, or on behalf of, the taxpayer, investments in securities which the taxpayer would be permitted to make for its own account may be required to file consolidated returns or combined reports for purposes of determining the tax liability under article 11 of chapter 79 of the Kansas Statutes Annotated as if such taxpayer and affiliate were one entity.

When to File

Calendar year: If your return is based on a calendar year, it must be filed no later than April 15, 2007.

Fiscal year: If your return is based on a tax year other than a calendar year, it must be filed no later than the 15th day of the fourth month following the end of the tax year.

Conformity to federal due dates: Kansas returns are due one (1) month after the federal due date. If the original federal due date is not the 15th day of the third month after the close of a taxable year, the financial institution is required to complete box "H" in the header and enclose a letter indicating the authorizing federal statute. Do not enter your extended due date.

Cessation of doing business: Kansas Privilege Tax returns are due within six (6) months of the date on which the taxpayer ceases to do business in Kansas.

Amended Returns: In general, amended returns must be filed with the Kansas Department of Revenue within three (3) years of when the original return was filed. If the amended return will result in a refund, the amended return must be filed within three (3) years of when the original return was filed, or within two (2) years from the date the tax was paid, whichever is later.

Where to File

Use the preaddressed envelope in this tax booklet to mail your tax return. This envelope is designed for use in our automated mail-opening equipment and will expedite the processing of your return. If you are expecting a refund, place an "X" in the box on the front of the envelope. If your envelope has been misplaced, mail your return to: **KANSAS PRIVILEGE TAX, KANSAS DEPARTMENT OF REVENUE, 915 SW HARRISON ST., TOPEKA, KS 66699-4000.**

If You Need Forms

See the back cover of this booklet for tax form information. Due to the sensitivity of the Department's imaging equipment for tax return processing, only an original preprinted form or an approved computer generated version should be filed.

Accounting Period

The taxpayer's taxable year is the same as the taxable year for federal income tax purposes. If a taxpayer's taxable year is changed, or the method of accounting is changed for federal income tax purposes, then the taxable year and method of accounting shall be similarly changed for Kansas privilege tax purposes.

Extension of Time to File

If you are unable to complete your Privilege Tax return by the filing deadline, you may request an extension of time to file. If you filed federal Form 7004 with the Internal Revenue Service for an extension of time, enclose a copy of that form with your completed K-130 return to automatically give you a six-month extension of time. Kansas does not have a separate extension request form.

If you are entitled to a refund, an extension is not required to file the return after the original due date.

Important: An extension of time to file is **NOT** an extension to pay. If you do not pay the tax amount due (may be estimated) by the original due date, you will owe interest and may also be charged a penalty on the balance due. To pay the balance due for an extension, use the Kansas payment voucher, Form K-130V, in this book and check the box indicating an extension payment.

Copy of Federal Return

You must enclose with Form K-130 copies of these federal return pages as filed with the IRS:

- Pages 1 through 4 of the federal return or consolidated federal return whichever is applicable, as filed with the Internal Revenue Service. If the return is a consolidated return, you must enclose a company-by-company spreadsheet of income and expense to total the consolidated federal taxable income and a company-by-company spreadsheet of the consolidated balance sheet including Schedules M-1 and M-2.
- **Federal schedules to support any Kansas modifications claimed on page 1, Form K-130.**
- Federal Forms 851, 1118, and 5471, as applicable.

Do not enclose copies of proforma returns. The Kansas Department of Revenue reserves the right to request additional information as necessary.

Completing Your Return

All applicable lines on Form K-130 and Form K-130AS must be completed. Complete all boxes in the "Taxpayer Information" section of the return.

All taxpayers filing a combined return (single or multiple), or who are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-131.

Cessation of Business: A tax is imposed for the privilege of engaging in transaction or activity incidental or related to the cessation of doing business in Kansas, including cessation due to merger, consolidation, dissolution, liquidation or any other event. The tax will be measured by the net income for the tax year in which the taxpayer ceases to do business and will be computed using the same applicable rates as other privilege taxpayers. The tax will be due and owing within six months of the date on which the taxpayer ceases to do business in Kansas.

Estimated Tax

Every national banking association, bank, trust company, and savings and loan association shall pay estimated tax (Form K-130ES) if its Kansas Privilege tax liability can reasonably be expected to exceed \$500.

Any financial institution which began business in Kansas during this tax year is not required to pay estimated tax and no underpayment of estimated tax penalty will be imposed for this initial year.

ELECTRONIC PAYMENT OPTIONS: For information on how to pay using Electronic Funds Transfer (EFT), visit our electronic services web site at www.webtax.org, or call toll-free 1-800-525-3901 (in Topeka call 296-6993).

Amending Your Return

You must file an amended Kansas return when 1) an error was made on your Kansas return, 2) there is a change on another state's return (error or adjustment), 3) there is a change on your federal return (error or adjustment). **Check the AMENDED box in the Taxpayer Information section of the K-130 if you are amending your 2007 Kansas return.** Be sure to enclose any applicable supporting documents, such as a copy of the other state's amended return or a copy of the IRS amended return or Revenue Agent's Report or adjustment letter showing and explaining the adjustments.

Amended Federal Return: If you are filing an amended federal income tax return, for the same taxable year as your Kansas amended return, you must enclose a complete copy of the amended federal return and full explanations of all changes made on your amended Kansas return. If your amended federal return is adjusted or disallowed, it is necessary to provide the Kansas Department of Revenue with a copy of the adjustment or denial letter.

If you did not file a Kansas return when you filed your original federal return, and the federal return has since been amended or adjusted, use the information on the amended or adjusted federal return to complete your original Kansas return. A copy of both the original and amended federal returns should be enclosed with the Kansas return along with an explanation of the changes.

Federal Audit: Any taxpayer whose income has been adjusted by the Internal Revenue Service must file an amended return with Kansas and include a copy of the Revenue Agent's Report or adjustment letter showing and explaining the adjustments. These adjustments must be submitted within 180 days of the date of the federal adjustments are paid, agreed to, or become final, whichever is earlier. Failure to notify the department within the 180 day period will cause the statute of limitations to remain open (the Department of Revenue can make adjustments for as many years back as necessary and interest and penalty computations will continue to increase).

Confidential Information

Income tax information disclosed to the Kansas Department of Revenue, either on returns or through department investigation, is held in strict confidence by law. The Department of Revenue, Internal Revenue Service, the Multi-State Tax Commission and several other states have an agreement under which some tax information is exchanged. This is to verify the accuracy and consistency of information reported on federal and Kansas tax returns.

Definitions

Unitary Business: A multistate business is unitary when the operations conducted in one state benefit or are benefited by the operations conducted in another state or states. The essential test to be applied is whether or not the operation of the portion of the business within the state is dependent upon or contributory to the operations of the business outside of the state. If there is such a relationship, the business is unitary. Stated in another way, the test is whether a business' various parts are interdependent and of mutual benefit so as to form one business rather than several business entities and not whether the operating experience of the parts are the same at all places.

Activity Wholly Within Kansas—Single Entity: If a financial institution's activity is carried on exclusively within Kansas the entire net income is subject to the Kansas Privilege Tax.

Activity Wholly Within Kansas--Consolidated: If two or more financial institutions file federal income tax returns on a consolidated basis, and if each of such financial institutions derive all their income and expenses from sources within Kansas, they must file a consolidated return for Kansas Privilege tax purposes.

Single Entity Apportionment Method: Any taxpayer having income from business activity which is taxable both within and without this state shall allocate and apportion net income.

Combined Income Method—Single Corporation Filing: When a group of financial institutions conduct a unitary business both within and without Kansas, the source of income shall be determined by the combined income of only those financial institutions which have a branch or office in Kansas.

The Kansas combined privilege tax method of reporting shall include the Schedule K-131.

Any financial institution which files a combined report for Kansas purposes must submit a copy of the consolidated Federal Form 1120, and all other schedules and statements necessary to support the taxable income reported on the Kansas return. Schedule K-131 must be used to determine income of the financial institution. All financial institutions filing a combined return (single or multiple), or are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-131.

Combined Income Method—Multiple Corporation Filing: This method is the same as Combined Income Method—Single Corporation Filing except that any financial institution using the combined income method with more than one entity doing business in Kansas may file one Kansas return reporting the total combined income on that return and computing and paying the tax due on that return. Schedule K-131 must be used to determine the Kansas taxable income of each separate corporation. Schedule K-131 Combined Kansas taxable income is then entered on line 18, K-130. The tax rate is then applied to the Kansas taxable income of each financial institution with one surtax exemption allowed for each privilege taxpayer. The total tax due for all corporations is then shown on line 22, Schedule K-131. All financial institutions filing a combined return (single or multiple), or are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-131.

Alternative Accounting Method: If the uniform allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in this state the taxpayer may petition for or the Secretary of Revenue may require, in respect to all or any part of the taxpayer's business activity, if reasonable: (a) Separate accounting; (b) the exclusion of one or more of the factors; (c) the inclusion of one or more additional factors; or (d) the employment of any other method to effect an equitable allocation and apportionment of the taxpayer's income. A copy of the letter from the Kansas Department of Revenue granting the use of an alternative method must be attached to the return when filed. Enter the amount determined from your separate schedule on line 18, Form K-130. All financial institutions filing a combined return (single or multiple), or are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-131.

Separate Accounting Method: The separate method of reporting income to Kansas is allowable only in unusual circumstances and with the permission of the Department of Revenue where the use of the three-factor formula does not fairly represent the taxpayer's business activity.

Before a taxpayer, engaged in a multistate business, may separately account taxable income to Kansas, the following requirements shall be satisfied:

- The books and records are kept by recognized accounting standards to accurately reflect the amount of income of the multistate business which was realized in Kansas during the taxable period;
- The management functions of the business operations within Kansas are separate and distinct so that in conducting Kansas business operations the management within Kansas did not utilize or incur centralized management services consisting of operational supervision, advertising, accounting, insurance, financing, personnel, physical facilities, technical and research, sale and servicing or purchasing during the taxable period.
- The business operations within Kansas are separate and distinct and do not contribute to or depend upon the overall operations of the company, and there are no interstate, intercompany, or interdivisional purchases, sales or transfers during the taxable period.

If all three requirements are not satisfied, the taxpayer shall determine Kansas taxable income by use of the apportionment formula. Enter the amount determined from your separate schedule on line 18, Form K-130. All financial institutions filing a combined return (single or multiple), or are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-131.

SPECIFIC LINE INSTRUCTIONS FOR FORM K-130, PAGES 1 AND 2

TAXPAYER INFORMATION

Information for Items A through I: Complete all requested information. For Item A, refer to page 4.

If any "Taxpayer Information" has changed from the last original return filed by you, check the change box "I".

Beginning and Ending Dates: Enter the beginning and ending dates for the financial institution's tax year even if your tax year is a calendar year.

Name and Address: Please PRINT or TYPE your name and address.

Final Return: If a final return is being filed and the corporation is being liquidated, enclose a copy of the federal form that states the federal code section the corporation was liquidated under.

INCOME

LINE 1—FEDERAL TAXABLE INCOME FOR KANSAS PRIVILEGE TAX PURPOSES: This line must only include income and expense of national banking associations, federally chartered savings banks or trust companies.

All financial institutions filing a combined return (single or multiple), or are authorized to file using the alternative or separate accounting method, must complete lines 1 through 18 using the total combined income column from Schedule K-131. You are to complete lines 18 through 41 of the return, as applicable. If filing as a S corporation for federal purposes, enter the amount from Part IV, line 30. A copy of certain pages of the federal return must be enclosed in all cases. See instructions on page 3.

LINE 2—STATE AND MUNICIPAL INTEREST: Enter the total amount that was claimed as exempt income on the federal income tax return for the taxable year, less any related expenses directly incurred in the purchase of state or political subdivision obligations. If the bank has changed the method of accounting from cash to accrual, include the Section 481 adjustment on municipal interest using the same number of year spread allowed at the federal level.

LINE 3—FEDERAL NET OPERATING LOSS DEDUCTION: Enter the federal net operating loss deduction that was claimed on the federal income tax return for the taxable year.

LINE 4—SAVINGS AND LOAN ASSOCIATION BAD DEBT DEDUCTION: Enter the amount of bad debts allowable for federal income tax purposes. Use line 17 for the allowable Kansas bad debt deduction.

LINE 5—OTHER ADDITIONS TO FEDERAL TAXABLE INCOME: Enter the total of these additions to your federal taxable income (schedule required):

- **Disabled Access Credit Modification:** Enter the amount of any depreciation deduction or business expense deduction claimed on your federal return that was used to determine the Disabled Access Credit on Schedule K-37.

- **Community Service Contribution Credit:** Enter the amount of any charitable contributions claimed on your federal return used to compute the Community Service Contribution Credit on Schedule K-60.
- **Regional Foundation Contribution Credit:** Enter the amount of any charitable contributions claimed on your federal return used to compute the Regional Foundation Contribution Credit on Schedule K-32.

LINE 6—ADDITIONS TO FEDERAL TAXABLE INCOME: Add lines 2 through 5 and enter the result on line 6.

LINE 7—SUBTRACTIONS FROM FEDERAL TAXABLE INCOME: Enter on line 7 a total of these subtractions from your federal taxable income (schedule required):

- **Jobs and WIN Tax Credit:** The amount of federal targeted jobs and WIN credit.
- **Kansas Venture Capital, Inc. Dividends:** Dividend income received as a result of investing in stock issued by Kansas Venture Capital, Inc.

LINE 8—NET INCOME BEFORE APPORTIONMENT: Add line 1 to line 6 and subtract line 7 and enter the result in line 8.

APPORTIONMENT AND ALLOCATION

LINE 9—NONBUSINESS INCOME-TOTAL COMPANY: Enter the total amount of nonbusiness net income everywhere that is to be directly allocated. Business income is defined in privilege tax law as all income to the extent that it may be treated as apportionable business income under the constitution of the United States.

Any taxpayer that claims nonbusiness income on the Kansas return is required to clearly demonstrate that the asset which generated the income is not used in the general operations of the company and is not managed or controlled by the same people who control the operations of the company. The taxpayer must also submit a schedule as required below. If the taxpayer does not demonstrate that the income is nonbusiness and does not submit the required schedule(s), the income will be considered to be business income by the Kansas Department of Revenue and the department will apportion that income as business income.

From the terms of income directly allocated, there shall be deducted the expenses related thereto. The term "Expenses related thereto" as used in this paragraph, mean any allowable deduction or portion thereof directly attributable to such income and a ratable part of any other allowable deductions which cannot definitely be allocated to some item or a class of income.

A schedule must be submitted with the return showing (1) the gross income from each class of income being specifically allocated, (2) the amount of each class of related expenses together with an explanation or computations showing how amounts were computed, (3) the total amount of the related expenses for each income class, and (4) the net income for each income class. The schedules should provide

appropriate columns as set forth above for items specifically assigned to Kansas and also for times specifically assigned outside Kansas. An explanation must also be attached to explain specifically why each item of income does not arise from transactions and activity in the regular course of the financial institution's trade or business.

LINE 10—APPORTIONABLE BUSINESS INCOME: Subtract line 9 from line 8 and enter the result on line 10.

LINE 11—AVERAGE PERCENT TO KANSAS: Enter the applicable percentages in spaces A, B & C. Enter on line 11 the average percent from Form K-130AS, Part V, line E or Form K-131, Part II, line 5. **Note:** Round percentage to the fourth decimal point only. If your business is wholly within Kansas enter 100.0000.

LINE 12—AMOUNT TO KANSAS: Multiply line 10 by line 11 and enter the result on line 12.

LINE 13—NONBUSINESS INCOME—KANSAS: Enter on line 13 the total amount of nonbusiness net income directly allocated to Kansas. Submit a schedule to support the amount shown.

NET INCOME

LINE 14—KANSAS NET INCOME BEFORE NOL DEDUCTION: Add lines 12 and 13 and enter the result on line 14.

LINE 15—KANSAS NET OPERATING LOSS DEDUCTION: Enter the amount of your Kansas net operating loss carry forward. This amount cannot exceed the amount on line 14. (Schedule required.)

LINE 16—KANSAS NET INCOME BEFORE BAD DEBTS: Subtract line 15 from line 14, enter result in line 16. This amount is to be used by savings and loan associations to compute their Kansas bad debt deduction.

LINE 17—SAVINGS AND LOAN BAD DEBT DEDUCTION FOR KANSAS: Savings and loan associations are allowed, as a deduction from net income, a reserve established for the sole purpose of meeting or absorbing losses.

If all of your activity is **wholly within Kansas:**

- Multiply the amount shown on line 16 by 5% and enter the result on line 17; OR,
- Enter on line 17 the actual amount of bad debt; OR,
- Enter on line 17 a reasonable addition to the Kansas reserve based on past experience.

If you use the **single entity apportionment method** (K-130AS) to determine income from Kansas sources:

- Multiply the amount shown on line 16 by 5% and enter the result on line 17; OR,
- Enter on line 17 the actual amount of Kansas bad debt. If you use this method, multiply the apportionment percentage (line 11, Form K-130) times the total corporation actual bad debt and enter the result on line 17, Form K-130; OR,
- Enter on line 17 a reasonable addition to the Kansas reserve based on past experience. If you use this

method you must determine the addition to reserve based upon total company. Then multiply the apportionment percentage (line 11, Form K-130) times the total company amount and enter the result on line 17, Form K-130.

If you use the **combined income method** (K-131) to determine income from Kansas sources:

- Multiply each individual corporation's *Kansas net income before bad debt deduction* (line 17, Schedule K-131) by 5% and enter each corporation's result on line 18, Schedule K-131 (Combined Income Method of Reporting); OR,
- Enter on line 18 the actual amount of Kansas bad debt. If you use this method you must determine the actual bad debt of all entities included in the combined group prior to apportionment. Then multiply the apportionment percentage for each combined entity (line 12, Schedule K-131) times the total bad debt of all entities and enter the result on line 18, Schedule K-131; OR,
- Enter on line 18 a reasonable addition to reserve based on past experience. If you use this method you must determine the addition to reserve of all entities included in the combined group prior to apportionment. Then multiply the apportionment percentage for each combined entity (line 12, Schedule K-131) times the total addition to reserve and enter the result on line 18, Schedule K-131.

Financial institutions are reminded that if they are required to file a combined income method return in Kansas, all financial institutions in the group are required to use the same method to determine Kansas bad debt deductions.

LINE 18—COMBINED REPORT OR ALTERNATIVE/SEPARATE ACCOUNTING INCOME: If you are filing a combined report (Schedule K-131) or you are authorized to file using the alternative or separate accounting method, enter on line 18 the:

- Kansas taxable income from line 19 of Schedule K-131; OR,
- Kansas taxable income from a separate schedule prepared by you (Separate/Alternative Method of Reporting).

LINE 19—KANSAS TAXABLE INCOME: Subtract line 17 from line 16 or enter line 18, as applicable; enter the result on line 19.

LINE 20—NORMAL TAX: Multiply the amount shown on line 19 by 2.25% (.0225) and enter the result on line 20.

LINE 21—SURTAX: **A. Banks**—Multiply the amount shown on line 19 in excess of \$25,000 by 2.125% (.02125). Enter result on line 21A. **B. Savings and loans, trust companies and federally chartered savings banks**—Multiply the amount shown on line 19 in excess of \$25,000 by 2.25% (.0225). Enter the result on line 21B.

LINE 22—TOTAL TAX: Add line 20 and line 21A or line 21B and enter the result on line 22. If Schedule K-131 was used to determine income, enter the tax computed on Schedule K-131, line 22.

LINE 23—TOTAL NONREFUNDABLE CREDITS: Enter on line 23 the total nonrefundable credits from Part III, line 8. This amount cannot exceed the amount on line 22.

LINE 24—BALANCE: Subtract line 23 from line 22 and enter the result on line 24. This amount cannot be less than zero.

LINE 25—ESTIMATED TAX PAID AND AMOUNT CREDITED FORWARD: Enter the total of your 2007 privilege year estimated tax payments plus any 2006 privilege year overpayment you had credited forward to 2007.

You could be liable for penalty due to underpayment of estimated tax. See instructions for Estimated Tax on page 3 of this booklet.

LINE 26—OTHER TAX PAYMENTS: Enter the amount paid with your request for an extension of time to file and any withholding amount from Form K-19. Enclose Form(s) K-19.

LINE 27—BUSINESS MACHINERY & EQUIPMENT PROPERTY TAX CREDIT: Enter the amount of Business Machinery & Equipment Property Tax Credit from Schedule K-64 and enclose it with Form K-130.

LINE 28—CHILD DAY CARE ASSISTANCE CREDIT: Enter the amount of Child Day Care Assistance Credit from Schedule K-56 and enclose it with Form K-130.

LINE 29—REGIONAL FOUNDATION CONTRIBUTION CREDIT: Enter the amount of Regional Foundation Community Contribution Credit from Schedule K-32.

LINE 30—COMMUNITY SERVICE CONTRIBUTION CREDIT REFUND: Enter the amount of Community Service Contribution Credit from Schedule K-60 that was not used on line 23 and enclose it with Form K-130.

LINE 31—PAYMENT REMITTED ON ORIGINAL RETURN: Use this line ONLY if you are filing an amended Income Tax return for the 2007 tax year. Enter the amount of money you remitted to the Department of Revenue with your original 2007 return or any payment remitted with a previously filed 2007 amended, including penalty and interest.

LINE 32—OVERPAYMENT FROM ORIGINAL RETURN: Use this line ONLY if you are filing an amended Income Tax return for the 2007 tax year. Enter the amount of overpayment shown on your original return. Since you were refunded this amount or it was credited forward, this amount is a subtraction entry.

LINE 33—TOTAL PREPAID CREDITS: Add lines 25 through 31 and subtract line 32. Enter the result on line 33.

BALANCE DUE

LINE 34—BALANCE DUE: If line 24 is greater than line 33, subtract line 33 from line 24 and enter the result on line 34.

Late Charges: If the amount on line 34 is not paid by the due date, or if a balance due return is filed after the due date, penalty and interest are added according to the rules outlined in lines 35 and 36.

Extension of Time to File Your Return: Interest is due on any delinquent tax balance, even if you have been granted an extension of time to file the return. If 90% of your tax liability is paid on or before the original due date of your return, an automatic extension is applied and no penalty is assessed.

LINE 35—INTEREST: Effective for calendar year 2007, if you filed your Kansas return after the original due date, compute interest at the rate of .75% per month or 9% per annum (or portion thereof) on the balance due and enter the result on line 35. Interest is to be computed in whole months.

LINE 36—PENALTY: If you filed your Kansas return after the due date, compute the penalty at 1% for each month (or fraction thereof) the return is late or the tax is unpaid on the balance due, up to a maximum of 24%.

LINE 37—ESTIMATED TAX PENALTY: If underpayment of estimated tax penalty is due, enter the amount from your Schedule K-230 on line 37 and enclose Schedule K-230 with the return. If you are annualizing to compute the penalty, and meet an exception, check the box on line 37. Any financial institution which began a business in Kansas during this period is not required to file a declaration, and no underpayment of estimate tax penalty will be imposed.

LINE 38—TOTAL TAX, INTEREST, AND PENALTY DUE: Add lines 34, 35, 36, and 37 and enter the result on line 38. Complete Form K-130V, Privilege Tax Payment Voucher, and enclose it with your return and payment. Do not staple the voucher to your payment. Make your check or money order payable to "Kansas Privilege Tax." A balance due less than \$5 does not need to be paid.

OVERPAYMENT

LINE 39—OVERPAYMENT: If line 33 is greater than the sum of line 24 and line 37, subtract the sum of line 24 and line 37 from line 33 and enter the result on line 39.

LINE 40—REFUND: Enter the amount of line 39 you wish to be refunded. No refund will be made for amounts less than \$5.

LINE 41—CREDIT FORWARD: Enter the portion of line 39 you wish to have applied to your 2008 Kansas estimated tax (must be \$1 or more). If the amount on line 39 is less than \$5, you may carry it forward to 2008 as an additional credit even if you don't make estimated tax payments. The amount on this line cannot exceed the total of line 25 and 26.

SIGNATURE AND VERIFICATION

The return must be signed and sworn to by the president, vice-president, or other principal officer. If the return is prepared by a firm or corporation, the return should be signed in the name of the firm or corporation. Any person or persons who prepares the return for compensation must sign the return.

SPECIFIC LINE INSTRUCTIONS FOR FORM K-130, PAGES 3 AND 4

PART I—ADDITIONAL INFORMATION

All corporations must answer all questions in Part I.

PART II—AFFILIATED CORPORATIONS DOING BUSINESS IN KANSAS

Every corporation must complete the information required in this section for every affiliated corporation which is doing business in Kansas. If additional space is needed, please attach a schedule to your return.

PART III—SCHEDULE OF NONREFUNDABLE CREDITS

Every corporation must complete this section when claiming a Kansas nonrefundable tax credit. If you are eligible to claim any of the credits listed below, complete the appropriate schedule and enclose it with your Kansas Privilege Tax return. Credit schedules and instructions are available from our office or web site (see back cover).

IMPORTANT: If you are claiming the refundable Business Machinery & Equipment Credit on Schedule K-64, enter the total amount of your credit on line 27 of Form K-130. If you are claiming the refundable Child Day Care Assistance Credit, Schedule K-56, enter the total amount of your credit on line 28 of Form K-130. DO NOT enter any portion of the credit(s) computed on Schedules K-64 or K-56 in the nonrefundable credit section. If you are claiming a refundable Community Service Contribution Credit, Schedule

K-60, enter the total amount of your credit on line 30, Form K-130. Taxpayers claiming a Community Service Contribution Credit not eligible for refund (see instructions on Schedule K-60) will enter the credit in Part III, line 7.

Lines 1 through 7: Enter on lines 1 through 7 any nonrefundable tax credits for which you are eligible. To claim a tax credit you must complete and enclose with Form K-130 the appropriate credit schedule.

| Credit | Schedule Required |
|---|-------------------|
| Business and Job Development Credit | K-34 |
| Historic Preservation Credit | K-35 |
| Disabled Access Credit | K-37 |
| Agricultural Loan Interest Reduction Credit | K-51 and K-52 |
| Venture Capital Credit | K-55 |
| High Performance Incentive Program Credit | K-59 |
| Community Service Contribution Credit | K-60 |

Line 8: Add lines 1 through 7 and enter the total on line 8. Enter this amount on line 23, page 2 of Form K-130.

PART IV—COMPUTATION OF FEDERAL TAXABLE INCOME FOR S CORPORATIONS

Complete this computation if you are reporting income as a S corporation for federal purposes. Kansas will begin with federal taxable income rather than ordinary income for computation of privilege tax.

SPECIFIC LINE INSTRUCTIONS FOR FORM K-130AS

You must complete and enclose Parts V, VI, and VII, of Form K-130AS with your Kansas return if the financial institution is doing business inside and outside of Kansas and utilizing the apportionment formula to determine Kansas income.

PART V—APPORTIONMENT FORMULA

Part V is to be used by corporations with income derived from sources both within and without Kansas for the purpose of allocating and apportioning income. All business income is multiplied by a fraction, the numerator of which is the property factor plus the payroll factor plus the receipts factor, and the denominator of which is three (3). Descriptions of each of the factors in the three-factor formula follow. The laws applicable to these factors are contained in K.S.A. 79-1130 through 79-1132. You may access these laws in the Kansas Department of Revenue's Policy Library at: www.ksrevenue.org.

Line A—Property Factor: The property factor shall include all real and tangible personal property owned or rented and used during the income year and the average value of the taxpayer's loan and credit card receivables. Property used in connection with the production of nonbusiness income

shall be excluded from the factor. Property shall be included in the property factor if it is actually used or is available for or capable of being used during the income year for the production of business income. Property used in the production of business income shall remain in the property factor until its permanent withdrawal is established by an identifiable event such as its sale or conversion to the production of nonbusiness income.

The numerator of the property factor shall include the average value of the taxpayer's real and tangible personal property owned and located or used in this state during the income year plus the value of rented real and tangible personal property so used. Property owned by the taxpayer in transit between locations of the taxpayer shall be considered to be at the destination for purposes of the property factor. Property in transit between a buyer and seller which is included by a taxpayer in the denominator of its property factor in accordance with its regular accounting practices shall be included in the numerator according to the state of destination. Transportation property is included in the numerator to the extent the property is used in this state. If the extent of the use of any transportation property within this state cannot be determined, then the property will be deemed to be used

wholly in the state in which the property has its principle base of operations. A motor vehicle will be deemed to be used wholly in the state in which it is registered.

Property owned by the taxpayer shall be valued at its original cost or other basis of such property for federal income tax purposes without regard to depletion, depreciation or amortization. Property rented by the taxpayer is valued at eight times the gross annual rental rate. As a general rule the average value of property owned by the taxpayer shall be determined by averaging the values at the beginning and ending of the income year. However, the Director of Taxation may require or allow averaging by monthly values if such method of averaging is required to properly reflect the average value of the taxpayer's property for the income year.

Loans are valued at their outstanding principal balance, without regard to any reserve for bad debts. If a loan is charged off in whole or in part for federal income tax purposes, the portion of the loan charged off is not outstanding. Loans are considered to be located within this state if it is properly assigned to a regular place of business of the taxpayer within this state at the time the loan was made; or, in the case of a loan which is assigned by the taxpayer to a place without this state which is not a regular place of business, it shall be presumed, subject to rebuttal by the taxpayer on a showing supported by a preponderance of the evidence, that substantive contacts regarding the loan occurred within this state if, at the time the loan was made the taxpayers commercial domicile was within this state.

Credit card receivables are valued at their outstanding principal balance, without regard to any reserve for bad debts. If a credit card receivable is charged off in whole or in part for federal income tax purposes, the portion of the receivable charged off is not outstanding. In determining the location of credit card receivables, credit card receivables are treated as loans and shall be subject to the same rules outlined above.

Line B—Payroll Factor: The payroll factor shall include the total amount paid by the taxpayer for compensation during the tax period. The total amount "paid" to the employees is determined upon the basis of the taxpayer's accounting method. If the taxpayer has adopted the accrual method of accounting, all compensation properly accrued shall be deemed to have been paid. Notwithstanding the taxpayer's method of accounting, at the election of the taxpayer, compensation paid to employees may be included in the payroll factor by use of the cash method if the taxpayer is required to report such compensation under such method for unemployment compensation purposes. The term "compensation" means wages, salaries, commissions and any other form of remuneration paid to employees for personal services. Payments made to an independent contractor are excluded. Only amounts paid directly to employees are included in the payroll factor. The compensation of any employee on account of activities which are connected with the production of nonbusiness income shall be excluded from the factor. The denominator of the payroll factor is the total compensation paid everywhere during the income year.

The numerator of the payroll factor is the total amount paid in Kansas during the income year by the taxpayer for

compensation. Compensation is paid in Kansas if any one of the following tests, applied consecutively, are met: (a) The employee's service is performed entirely within Kansas; (b) The employee's service is performed both inside and outside Kansas, but the service performed outside Kansas is "incidental" to the employee's service inside Kansas (the word incidental means any service which is temporary or transitory in nature, or which is rendered in connection with an isolated transaction); (c) If the employee's services are performed both inside and outside Kansas, the employee's compensation will be attributed to Kansas: (i) if the employee's principal base of operations is in Kansas; or (ii) if there is no base of operations in any state in which some part of the service is performed, but the place from which the service is directed or controlled is in Kansas; or (iii) if the base of operations and the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the employee's residence is in Kansas. The term "base of operation" is the place from which the employee starts his work and to which he customarily returns in order to receive instructions from the taxpayer or communications from his customers or other persons, or to replenish stock or other materials, repair equipment, or perform any other functions necessary to the exercise of his trade or profession at some other point or points.

Line C—Receipts Factor: The receipts factor is defined as a fraction, the numerator of which is the receipts of the taxpayer in this state during the taxable year and the denominator of which is the receipts of the taxpayer within and without this state during the taxable year. The receipts factor shall include only those receipts which constitute business income and are included in the computation of the apportionable income base for the taxable year. The method of calculating receipts for purposes of the denominator is the same as the method used in determining receipts for purposes of the numerator. The following are rules for determining numerator "receipts" of various activities:

(1) Receipts from the lease of real property—The numerator shall include receipts from the lease or rental of real property owned by the taxpayer if the property is located in Kansas or receipts from the sublease of real property if the property is located in Kansas.

(2) Receipts from the lease of tangible personal property—The numerator shall include receipts from the lease or rental of tangible personal property owned by the taxpayer if the property is located in Kansas when first placed in service by the lessee. Receipts from the lease or rental of transportation property owned by the taxpayer are included in the numerator to the extent that the property is used in this state. If the extent of the use of any transportation property within Kansas cannot be determined, then the property will be deemed to be used wholly in the state in which the property has its principal base of operations. A motor vehicle will be deemed to be used wholly in the state in which it is registered.

(3) Receipts from credit card receivables—The numerator shall include interest and fees or penalties in the nature of interest from credit card receivables and receipts from fees charged to card holders, such as annual fees, if the billing address of the card holder is in Kansas.

(4) Receipts from merchants discount—The numerator includes receipts from the merchants discount if the commercial domicile of the merchant is in Kansas. Such receipts shall be computed net of any card holder charge backs, but shall not be reduced by any interchange transaction fees or by any issuer's reimbursement fees paid to another for charges made by its card holder.

(5) Receipts from services not otherwise apportioned shall be included in the numerator if the service is performed in Kansas. If the service is performed in and out of state, the numerator includes receipts from services not otherwise apportioned under this section, if a greater proportion of the income-producing activity is performed in Kansas based on cost of performance.

(6) Receipts from investment assets and activities and trading assets and activities—The numerator shall include those amounts attributable to Kansas.

(a) Interest, dividends, net gains, but not less than zero, and other income from investment assets and activities and from trading assets and activities shall be included in the receipts factor. Investment assets and activities and trading assets and activities include but are not limited to: Investment securities; trading account assets; federal funds; securities purchased and sold under agreements to resell or repurchase; options; futures contracts; forward contracts; notional principal contracts such as swaps; equities; and foreign currency transactions. With respect to the investment and trading assets and activities described in subparagraphs (A) and (B) of this paragraph, the receipts factor shall include the amounts described in such subparagraphs.

(A) The receipts factor shall include the amount by which interest from federal funds sold and securities purchased under resale agreements exceeds interest expense on federal funds purchased and securities sold under repurchase agreements.

(B) The receipts factor shall include the amount by which interest, dividends, gains and other income from trading assets and activities, including but not limited to assets and activities in the matched book, in the arbitrage book, and foreign currency transactions, exceed amounts paid in lieu of interest, amounts paid in lieu of dividends, and losses from such assets and activities.

(b) The numerator of the receipts factor includes interest, dividends, net gains, but not less than zero, and other income from investment assets and activities and from trading assets and activities described in paragraph (a) of this subsection that are attributable to this state.

(A) The amount of interest, dividends, net gains, but not less than zero, and other income from investment assets and activities in the investment account to be attributed to this state and included in the numerator is determined by multiplying all such income from such assets and activities by a fraction, the numerator of which is the average value of such assets which are properly assigned to a regular place of business of the taxpayer within this state and the denominator of which is the average value of all such assets.

(B) The amount of interest from federal funds sold and purchased and from securities purchased under resale agreements and securities sold under repurchase agreements attributable to this state and included in the numerator is

determined by multiplying the amount described in subparagraph (A) of paragraph (a) of this subsection from such funds and such securities by a fraction, the numerator of which is the average value of federal funds sold and securities purchased under agreements to resell which are properly assigned to a regular place of business of the taxpayer within this state and the denominator of which is the average value of all such funds and such securities.

(C) The amount of interest, dividends, gains and other income from trading assets and activities, including but not limited to assets and activities in the matched book, in the arbitrage book and foreign currency transactions, but excluding amounts described in subparagraphs (A) or (B) of this paragraph, attributable to this state and included in the numerator is determined by multiplying the amount described in subparagraph (B) of paragraph (a) of this subsection by a fraction, the numerator of which is the average value of such trading assets which are properly assigned to a regular place of business of the taxpayer within this state and the denominator of which is the average value of all such assets.

(D) For purposes of this paragraph, average value shall be determined using the rules for determining the average value of tangible personal property.

(c) In lieu of using the method set forth in paragraph (b) of this subsection, the secretary of revenue may permit or require in order to fairly represent the business activity of the taxpayer in this state, the use of the method set forth in this paragraph.

(A) The amount of interest, dividends, net gain, but not less than zero, and other income from investment assets and activities in the investment account to be attributed to this state and included in the numerator is determined by multiplying all such income from such assets and activities by a fraction, the numerator of which is the gross income from such assets and activities which are properly assigned to a regular place of business of the taxpayer within this state and the denominator of which is the gross income from all such assets and activities.

(B) The amount of interest from federal funds sold and purchased and from securities purchased under resale agreements and securities sold under repurchase agreements attributable to this state and included in the numerator is determined by multiplying the amount described in subparagraph (A) of paragraph (a) of this subsection from such funds and such securities by a fraction, the numerator of which is the gross income from such funds and such securities which are properly assigned to a regular place of business of the taxpayer within this state and the denominator of which is the gross income from all such funds and such securities.

(C) The amount of interest, dividends, gains and other income from trading assets and activities, including but not limited to assets and activities in the matched book, in the arbitrage book and foreign currency transactions, but excluding amounts described in subparagraphs (A) or (B) of this paragraph, attributable to this state and included in the numerator is determined by multiplying the amount described in subparagraph (B) of paragraph (a) of this subsection by a fraction, the numerator of which is the gross income from such trading assets and activities which are properly assigned to a regular place of business of the taxpayer within this

state and the denominator of which is the gross income from all such assets and activities.

(d) If the taxpayer elects or is required by the secretary of revenue to use the method set forth in paragraph (c) of this subsection, it shall use this method on all subsequent returns unless the taxpayer receives prior permission from the secretary of revenue to use, or the secretary of revenue requires, a different method.

(e) The taxpayer shall have the burden of proving that an investment asset or activity or trading asset or activity was properly assigned to a regular place of business outside of this state by demonstrating that the day-to-day decisions regarding the asset or activity occurred at a regular place of business outside this state. Where the day-to-day decisions regarding an investment asset or activity or trading asset or activity occur at more than one regular place of business and one such regular place of business is in this state and one such regular place of business is outside this state, such asset or activity shall be considered to be located at the regular place of business of the taxpayer where the investment or trading policies or guidelines with respect to the asset or activity are established. Unless the taxpayer demonstrates to the contrary, such policies and guidelines shall be presumed to be established at the commercial domicile of the taxpayer.

(7) Other Receipts, if applicable—The numerator of the receipts factor includes other receipts pursuant to the rules set forth in K.S.A. 79-3286, 79-3287 and 79-3288, and amendments thereto.

(8) Interest from loans secured by real property—The numerator shall include interest and fees or penalties in the nature of interest from loans secured by real property if the property is located within the state. If the property is located both within this state and one or more states, it shall be included in the numerator if more than 50% of the fair market value of the real property is located within the state. If more than 50% of the fair market value of the real property is not located in any one state, the receipts shall be included in the numerator of the receipts factor if the borrower is located in Kansas.

(9) Interest from loans not secured by real property—The numerator shall include interest and fees or penalties in the nature located in Kansas.

(10) Net gains from the sale of loans—The numerator shall include net gains from the sale of loans. Net gains are determined by a fraction, the numerator includes the interest and fees or penalties in the nature of interest from loans in this state and the denominator is the total amount of interest and fees or penalties in the nature of interest from loans.

(11) Net gains from the sale of credit card receivables—The numerator shall include net gains from the sales of credit card receivables multiplied by a fraction, the numerator of which is the amount included in the numerator of the receipts factor of credit card receivables and the denominator of which is the taxpayers total amount of interest and fees or penalties in the nature of interest from credit card receivables and fees charged to card holders.

(12) Loan servicing fees—The numerator shall include loan servicing fees derived from loans secured by real property multiplied by a fraction, the numerator of which is

the amount included in the numerator of the receipts factor of interest from loans secured by real property, and the denominator is the total amount of interest and fees or penalties in the nature of interest from loans secured by real property; loan servicing fees from loans not secured by real property are also multiplied by a fraction of interest and fees or penalties for loans not secured by real property. If the taxpayer receives loan servicing fees for servicing secured or unsecured loans, the numerator shall include the fees if the borrower is located in Kansas.

(13) Credit card issuer's reimbursement fees—The numerator shall include all credit card issuer's reimbursement fees multiplied by a fraction, the numerator of which is the amount included in the numerator of the receipts factor of credit card receivables and the denominator is the taxpayer's total amount of interest and fees or penalties in the nature of interest from credit card receivables and fees charged to card holders.

(14) All receipts which would be assigned to another state in which the taxpayer is not taxable shall be included in the numerator of the receipts factor, if the taxpayer's commercial domicile is in Kansas.

Line D—Total Percent: If you are utilizing the three-factor formula to apportion income to Kansas; add lines A, B, & C.

Line E—Average Percent: Divide line D by the number of factors used in the formula. For instance, if the corporation does not have payroll anywhere, divide by 2.

CONSISTENCY IN REPORTING

In completing Forms K-130 and K-130AS, if, with respect to prior tax years and to filing other states' tax returns, the taxpayer departs from or modifies the manner in which income has been classified as business income from nonbusiness income, in valuing property or of excluding or including property in the property factor, in the treatment of compensation paid in the payroll factor, or in excluding or including gross receipts in the receipt factor, the taxpayer shall disclose by separate attached schedule the nature and extent of the variance or modification. Only inconsistencies in the denominators of the property, payroll, and receipts factors which materially affect the amount of business income apportioned to Kansas need be disclosed. Inconsistencies in the determination of nonbusiness income and in the denominators of the factors due to a difference in state laws or regulations must be identified by that state's statute or regulation section number and shown on the separate schedule. The amount of each inconsistency by state is to be shown.

PART VI—ADDITIONAL INFORMATION

All financial institutions must answer all questions.

PART VII—AFFILIATED CORPORATION INFORMATION

All financial institutions must complete this section and indicate which of the affiliated corporations have property or payroll or receipts in either the "total company" factors or the "within Kansas" factors of the apportionment formula on page 1 of Form K-130AS.

K-130

(Rev. 7/06)

2007 KANSAS PRIVILEGE TAX

170006

DO NOT STAPLE

For the taxable year beginning ____ / ____ / **2 0 0 6** ; ending ____ / ____ / ____

TAXPAYER INFORMATION

| | | |
|---|--|--|
| Name | B. Business Activity Code (NAICS): _____ | Employer Identification Numbers (EINs) (Enter both if applicable) |
| Number and Street of Principal Office | C. Date Business Began in KS (mm/dd/yyyy) ____/____/____ | EIN this entity: _____ |
| City State Zip Code | D. Date Business Discontinued in KS (mm/dd/yyyy) ____/____/____ | EIN Federal Consolidated Parent: _____ |
| A. Method Used to Determine Income of Corporation in Kansas ___ 1. Activity wholly within Kansas - Single entity ___ 2. Activity wholly within Kansas - Consolidated ___ 3. Single entity apportionment method (K-130AS, Part V) ___ 4. Combined income method - Single corporation filing (Sch. K-131) ___ 5. Combined income method - Multiple corporation filing (Sch. K-131) ___ 6. Alternative or separate accounting (Enclose letter of authorization & schedule) | E. State and Month/Year of Incorporation (mm/yyyy) ____/____/____ | H. Enter your original federal due date if other than the 15th day of the 3rd month after the end of the tax year. ____/____/____ |
| | F. State of Commercial Domicile _____ | |
| | G. Type of Federal Return Filed ___ 1. Separate ___ 2. Consolidated | I. If any taxpayer information has changed since the last return was filed, please check this box. <input type="checkbox"/> |

Mark this box if you are filing this as an AMENDED 2007 Kansas return.

NOTE: This form cannot be used for tax years prior to 2007.

Reason for amending your 2007 Kansas return:

Amended affects Kansas only Adjustment by the IRS Amended federal tax return

| | | |
|--|----|-------------------------|
| 1. Federal taxable income for Kansas privilege tax purposes | 1 | |
| 2. Total state and municipal interest income | 2 | |
| 3. Federal net operating loss deduction | 3 | |
| 4. Savings & loan bad debt deduction included in federal deductions | 4 | |
| 5. Other additions to federal taxable income (Schedule required) | 5 | |
| 6. Total additions to federal taxable income (Add lines 2, 3, 4 & 5) | 6 | |
| 7. Subtractions from federal taxable income (Schedule required) | 7 | |
| 8. Net income before apportionment (Add line 1 to line 6 and subtract line 7) | 8 | |
| 9. Nonbusiness income - Total company (Schedule required) | 9 | |
| 10. Apportionable business income (Subtract line 9 from line 8) | 10 | |
| 11. Average percent to Kansas (Part V, lines A, B, C & E; if 100% enter 100.0000) | 11 | A _____ B _____ C _____ |
| 12. Amount to Kansas (Multiply line 10 by line 11) | 12 | |
| 13. Nonbusiness income - Kansas (Schedule required) | 13 | |
| 14. Kansas net income before NOL deduction (Add lines 12 and 13) | 14 | |
| 15. Kansas net operating loss deduction (Schedule required) | 15 | |
| 16. Kansas net income before bad debts (Subtract line 15 from line 14) | 16 | |
| 17. Savings & loan bad debt deduction for Kansas (Schedule required) | 17 | |
| 18. Combined report (Sch. K-131) or alternative/separate accounting income (Separate schedule) | 18 | |

5-48

| | | |
|--|------|---|
| 19. Kansas taxable income (Subtract line 17 from line 16 or enter line 18, as applicable) | 19 | . |
| 20. Normal tax - Banks & savings and loans (2.25% of line 19) | 20 | . |
| 21a. Surtax - Banks (2.125% of line 19 in excess of \$25,000) | 21a | . |
| 21b. Surtax - Savings & loans and trust companies (2.25% of line 19 in excess of \$25,000) | 21b | . |
| 22. Total tax (Add lines 20 & 21a or 21b. If filing combined, use line 22 of K-131.) | 22 | . |
| 23. Total nonrefundable credits (Part III, line 8; cannot exceed amount on line 22) | 23 | . |
| 24. Balance (Subtract line 23 from line 22; cannot be less than zero) | 24 | . |
| 25. Estimated tax paid and amount credited forward (Part I, line 4) | 25 | . |
| 26. Other tax payments (Enclose separate schedule and any applicable K-19 forms) | 26 | . |
| 27. Business machinery and equipment property tax credit (See instructions) | 27 | . |
| 28. Child day care assistance credit (Enclose Schedule K-56) | 28 | . |
| 29. Regional foundation contribution credit (Enclose Schedule K-32) | 29 | . |
| 30. Community service contribution credit refund (Enclose Schedule K-60) | 30 | . |
| 31. Payment remitted with original return (See instructions) | 31 | . |
| 32. Overpayment from original return (This figure is a subtraction; see instructions) | - 32 | . |
| 33. Total prepaid credits (Add lines 25 through 31 and subtract line 32) | 33 | . |
| 34. Balance due (If line 24 exceeds line 33) | 34 | . |
| 35. Interest | 35 | . |
| 36. Penalty | 36 | . |
| 37. Estimated tax penalty If annualizing to compute penalty, check this box <input type="checkbox"/> | 37 | . |
| 38. Total tax, interest & penalty due (Add lines 34 through 37) Complete Form K-130V and enclose it with your payment. | 38 | . |
| 39. Overpayment (If line 24 plus line 37 is less than line 33) | 39 | . |
| 40. Refund. Enter the amount of line 39 you wish to be refunded | 40 | . |
| 41. Credit Forward. Enter the amount of line 39 (original return only) you wish to be applied to 2008 estimated tax. (Line 41 cannot exceed the total of lines 25 & 26) | 41 | . |

If this is your ORIGINAL Kansas return, skip lines 31 and 32 and continue to line 33.

If this is your AMENDED Kansas return, complete lines 31 and 32 before continuing to line 33.

I authorize the Director of Taxation or the Director's designee to discuss my return and enclosures with my preparer.

I declare under the penalties of perjury that to the best of my knowledge this is a true, correct, and complete return.

sign here

| | | |
|--|--------------------------|-------|
| _____ | _____ | _____ |
| Signature of officer | Title | Date |
| _____ | _____ | _____ |
| Individual or firm signature of preparer | Address and Phone Number | Date |

ENCLOSE ALL REQUIRED FEDERAL FORMS AND SCHEDULES

Mail to: Kansas Privilege Tax
Kansas Department of Revenue
915 SW Harrison Street
Topeka, KS 66699-4000

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PART I - ADDITIONAL INFORMATION

1. Did the corporation file a **Kansas** privilege tax return under the same name for the preceding year?
 _____ Yes _____ No. If no, enter previous name and EIN.

2. Enter the address of the corporation's principal location in Kansas.

 Telephone _____

3. The corporation's books are in care of:
 Name _____
 Address _____
 Telephone _____

4. List **each** estimated tax payment and credit forward amount claimed on this return.

| Date | Amount |
|--|--------|
| | |
| | |
| | |
| | |
| | |
| | |
| TOTAL (Enter on line 25, Form K-130) | |

5. Has your corporation been involved in any reorganization during the period covered by this return?
 _____ Yes _____ No. If yes, enclose a detailed explanation.

6. If this is a final return for Kansas, please state the reason. If the corporation was liquidated or dissolved, state the IRC section under which the corporation was liquidated.

7. If your federal taxable income has been redetermined for any prior years that have not previously been reported to Kansas, check the applicable box(es) below and state the calendar, fiscal, or short period year ending date. You are required to submit, **under separate cover**, the federal Forms 1139, 1120X, or Revenue Agent's Report along with the Kansas amended return (Form K-130 or K-130X, whichever is applicable).

Revenue Agent's Report Other State's Adjustment

Amended Return

Net Operating Loss

Years ended _____

8. If you are registered with the Kansas Department of Revenue under any other Kansas tax act, enter all registration or license numbers on the applicable line:

a. Sales Tax _____

b. Compensating Use Tax _____

c. Withholding Tax _____

d. Other (specify) _____

PART II - AFFILIATED FINANCIAL INSTITUTIONS OR CORPORATIONS DOING BUSINESS IN KANSAS

| Name of Corporation or Financial Institution | Employer Identification Number |
|--|--------------------------------|
| | |
| | |
| | |

(Enclose separate sheet for additional corporations)

PART III - SCHEDULE OF NONREFUNDABLE CREDITS (See Instructions)

| | |
|---|---|
| 1. Business and job development credit (Enclose Schedule K-34)..... | . |
| 2. Historic preservation credit (Enclose Schedule K-35)..... | . |
| 3. Disabled access credit (Enclose Schedule K-37) | . |
| 4. Agricultural loan interest reduction credit (Enclose Schedule K-51 and K-52) | . |
| 5. Venture capital credit (Enclose Schedule K-55)..... | . |
| 6. High performance incentive program credit (Enclose Schedule K-59)..... | . |
| 7. Community service contribution credit (Enclose Schedule K-60) | . |
| 8. Total nonrefundable credits (Enter on line 23, page 2) | . |

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PART IV - COMPUTATION OF FEDERAL TAXABLE INCOME FOR S CORPORATION

| | | |
|--|------|--|
| 1. (a) Gross receipts/sales _____ (b) Less: Returns and allowances _____ Balance | 1(c) | |
| 2. Less: Cost of goods sold and/or operations | 2 | |
| 3. Gross profit | 3 | |
| 4. Dividends | 4 | |
| 5. Interest | 5 | |
| 6. Gross rents | 6 | |
| 7. Gross royalties | 7 | |
| 8. Capital gain net income | 8 | |
| 9. Net gain or (loss) from Form 4797, Part III | 9 | |
| 10. Other income | 10 | |
| 11. Total income - Add lines 3 through 10 | 11 | |

DEDUCTIONS

| | | |
|--|-------|-------|
| 12. Compensation of officers | 12 | |
| 13. (a) Salaries and wages _____ (b) Less empl. credit _____ Balance | 13 | |
| 14. Repairs and maintenance | 14 | |
| 15. Bad debts | 15 | |
| 16. Rents | 16 | |
| 17. Taxes and licenses | 17 | |
| 18. Interest | 18 | |
| 19. Charitable contributions (not over 10% of taxable income as adjusted) | 19 | |
| 20. Depreciation | 20 | |
| 21. Less depreciation claimed elsewhere on return | 21(a) | 21(b) |
| 22. Depletion | 22 | |
| 23. Advertising | 23 | |
| 24. Pension, profit-sharing, etc. plans | 24 | |
| 25. Employee benefit programs | 25 | |
| 26. Other deductions | 26 | |
| 27. Total deductions - Add lines 12 through 26 | 27 | |
| 28. Taxable income before net operating loss deduction and special deductions (subtract line 27 from line 11) | 28 | |
| 29. Less: a. Net operating loss deduction | 29(a) | 29(c) |
| b. Special Deductions | 29(b) | |
| 30. Taxable income - Subtract line 29c from line 28 | 30 | |

K-130AS

KANSAS Financial Institution Apportionment Schedule

FOR USE BY FINANCIAL INSTITUTIONS APPORTIONING INCOME
(Financial Institutions using the combined income method must use Schedule K-131)

For the taxable year beginning ____ / ____ / 2 0 0 6 ; ending ____ / ____ / ____

| | |
|-----------------------------|--------------------------------------|
| Name as shown on Form K-130 | Employer Identification Number (EIN) |
|-----------------------------|--------------------------------------|

PART V - APPORTIONMENT FORMULA

| A. Property | WITHIN KANSAS | | TOTAL COMPANY | | PERCENT WITHIN KANSAS |
|--|-------------------|-------------|-------------------|-------------|-----------------------|
| | Beginning of Year | End of Year | Beginning of Year | End of Year | |
| (1) Value of owned real and tangible personal property used in the business at original cost | | | | | |
| Value of taxpayer's loans and credit card receivables | | | | | |
| Depreciable assets | | | | | |
| Land | | | | | |
| Other tangible assets (Enclose schedule) | | | | | |
| Less: Construction in progress | | | | | |
| Total property to be averaged | | | | | |
| Average owned property (Beg. + End ÷ 2) | | | | | |
| (2) Gross annual rented property. Multiplied by 8 | | | | | |
| TOTAL PROPERTY (Enter on line 11, Block A, Page 1) | | | | | |

| B. Payroll | Within Kansas | Total Company | PERCENT WITHIN KANSAS |
|--|---------------|---------------|-----------------------|
| (1) Compensation of officers | | | |
| (2) Wages, salaries and commissions | | | |
| (3) Payroll expense included in cost of goods sold | | | |
| (4) Payroll expense included in repairs | | | |
| (5) Other wages and salaries | | | |
| TOTAL PAYROLL (Enter on line 11, Block B, Page 1) | | | |

| | | | |
|--|--|--|-----|
| C. Receipts | | | |
| (1) Receipts from: | | | |
| (a) Lease of real property | | | |
| (b) Lease of tangible personal property | | | |
| (c) Credit card receivables | | | |
| (d) Merchants discount | | | |
| (e) Services | | | |
| (f) Investment and trading assets and activities | | | |
| (g) Other | | | |
| (2) Interest from loans: | | | |
| (a) Secured by real property | | | |
| (b) Not secured by real property | | | |
| (3) Net gains from sale of: | | | |
| (a) Loans | | | |
| (b) Credit cards receivable | | | |
| (4) Fees: | | | |
| (a) Loan servicing | | | |
| (b) Credit card issuers reimbursement | | | |
| (5) Attribution of certain receipts to commercial domicile | | | |
| TOTAL RECEIPTS (Enter on line 11, Block C, Page 1) | | | C % |

| | | |
|--|---|---|
| D. Total percent (Sum of lines A, B & C) | D | % |
| E. Average percent of D (Enter on line 11, page 1) | E | % |

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K-130V

(Rev. 7/06)

| | | | | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| FOR OFFICE USE ONLY | | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2007 KANSAS PRIVILEGE TAX PAYMENT VOUCHER

For the taxable year beginning ___/___/___ ending ___/___/___

| | | | |
|----------------------------|-------|--------------|---|
| Corporation Name | | | |
| Corporation Address | | | |
| City, Town, or Post Office | State | Zip Code | Name or Address Change <input type="checkbox"/> |
| Name of Contact Person | | Phone Number | |

Employer Identification Number

Amended Payment

Extension Payment

PAYMENT AMOUNT \$

Please make check or money order payable to: Kansas Privilege Tax
DO NOT SUBMIT PHOTOCOPIES OF THIS FORM

179106

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K-131

(Rev. 8/06)

KANSAS FINANCIAL INSTITUTION COMBINED INCOME METHOD OF REPORTING

For the taxable year beginning 20, ending 20

Name As Shown on Form K-130

Employer Identification Number (EIN)

PART I KANSAS COMBINED NET INCOME

Table with 5 columns: Corporation A, Corporation B, Eliminations (Explain Below), and Combined Income. Rows include federal taxable income, state interest, deductions, and various taxes.

EXPLANATION OF ELIMINATIONS:

ENCLOSE A COPY OF FEDERAL FORM 851 TO THIS SCHEDULE

(Any corporation filing using the combined income method with more than one entity doing business in Kansas may file one Kansas return reporting the total Kansas combined income and tax on that return.)

Form K-131 Part II

APPORTIONMENT FORMULA

| | Corporation A Within Kansas | | Corporation B Within Kansas | | Total Company | | Percent Within Kansas | |
|---|--------------------------------|-------------|--------------------------------|-------------|------------------|-------------|-----------------------------|----|
| | Beg. of Year | End of Year | Beg. of Year | End of Year | Beg. of Year | End of Year | | |
| 1a. Value of owned real and tangible personal property used in the business at original cost. Value of taxpayers loans and credit card receivables | | | | | | | | |
| Depreciable Assets | | | | | | | | |
| Land | | | | | | | | |
| Other Tangible Assets (Enclose schedule) | | | | | | | | |
| Less: Construction in Progress | | | | | | | | |
| Total Property to be Averaged | | | | | | | | |
| Average Owned Property (Beg. + End ÷ 2) | | | | | | | | |
| 1b. Gross annual rental property. Multiplied by 8 | | | | | | | | |
| TOTAL PROPERTY | | | | | | | | |
| Percentage: Corporation A (Divide Corp A by Total Company) | | | | | | | | 1A |
| Percentage: Corporation B (Divide Corp B by Total Company) | | | | | | | 1B | |
| 2. Wages, salaries, commissions and other compensation of employees related to business income included in return. | | | | | | | | |
| TOTAL PAYROLL | | | | | | | | |
| Percentage: Corporation A (Divide Corp A by Total Company) | | | | | | | | 2A |
| Percentage: Corporation B (Divide Corp B by Total Company) | | | | | | | 2B | |
| 3. Receipts | | | | | | | | |
| (a) Receipts from: | | | | | | | | |
| (1) Lease of real property | | | | | | | | |
| (2) Lease of tangible personal property | | | | | | | | |
| (3) Credit card receivables | | | | | | | | |
| (4) Merchants discount | | | | | | | | |
| (5) Services | | | | | | | | |
| (6) Investment and trading assets and activities | | | | | | | | |
| (7) Other | | | | | | | | |
| (b) Interest from loans: | | | | | | | | |
| (1) Secured by real property | | | | | | | | |
| (2) Not secured by real property | | | | | | | | |
| (c) Net gains from sale of: | | | | | | | | |
| (1) Loans | | | | | | | | |
| (2) Credit cards receivable | | | | | | | | |
| (d) Fees: | | | | | | | | |
| (1) Loan servicing | | | | | | | | |
| (2) Credit card issuers reimbursement | | | | | | | | |
| (e) Attribution of certain receipts to commercial domicile | | | | | | | | |
| TOTAL RECEIPTS | | | | | | | | |
| Percentage: Corporation A (Divide Corp A by Total Company) | | | | | | | 3A | |
| Percentage: Corporation B (Divide Corp B by Total Company) | | | | | | | 3B | |
| Total Percent: Corporation A (Add lines 1A, 2A, & 3A) | | | | | | | 4A | |
| Corporation B (Add lines 1B, 2B, & 3B) | | | | | | | 4B | |
| Average Percent: Corporation A (To Line 12, Part I, Page 1) | | | | | | | 5A | |
| Corporation B (To Line 12, Part I, Page 1) | | | | | | | 5B | |

Electronic Filing & Payment Options

Using the Online Filing & Payment Option

The easiest way to file and pay Kansas Franchise Tax is by using our KS WebTax system at www.webtax.org. The first time you use KS WebTax, you will need to create a business profile by selecting a user name and password. You may then add the Kansas Franchise Tax type by entering your nine-digit federal Employer's Identification Number (EIN) and seven-digit Personal Identification Number (PIN). Please call our Electronic Services staff at 1-800-525-3901 for your PIN assignment. Your Franchise Tax return can then be filed and tax paid in one simple process.

Alternative electronic payment methods will require you to submit Form EF-101, Authorization for Electronic Funds Transfer. We will need this form if you decide to pay electronically as an ACH Credit, or if you choose to initiate your payment through our touch-tone telephone service. Form EF-101 is available on our website or you can request it from our office by calling the number above.

More Online Options

KS WebTax simplifies your Kansas business tax filings and payments by having all of your tax accounts available in one "easy to access" location at www.webtax.org. You may use this system to file and/or pay most other business tax types such as, Corporate Income Tax, Corporate Estimated Tax, Privilege Tax, Retailers' Sales and Use Tax, Consumers' Use Tax, and Withholding Tax.

We encourage you to use our **secure, fast** and **free** KS WebTax system to manage all your Kansas business accounts!



Visit us at www.webtax.org for the most up-to-date electronic information.

WHAT'S IN THIS BOOKLET?

| | |
|---------------------------------------|------------|
| Tips to Improve Processing | 2 |
| Electronic Filing and Payment Options | 2 |
| General Instructions | 3 |
| Specific Line Instructions for K-150 | 4 |
| Form K-150 | 5 |
| Taxpayer Assistance | Back Cover |

TIPS TO IMPROVE THE PROCESSING OF YOUR RETURN

Your Kansas return is **imaged** on our computers, enabling us to process your return faster and with fewer errors. For our system to work, it is important that you use care in completing your return. The following tips will aid in more efficient processing of your return.

- **Do not staple or otherwise attach** pages of the return, payment voucher, or check together. Enclose them loosely in the envelope.
- Use only black or dark blue ink and write legibly.
- The Kansas Department of Revenue uses your Employer Identification Number (EIN) as part of your tax account number. To ensure that your account information is credited properly, include your EIN on your return.
- Do not send photocopies of the return, send only the original.
- If you use a software package to produce your return, be sure it is approved by the Kansas Department of Revenue. Visit our web site at www.ksrevenue.org for a list of approved software vendors.

GENERAL INSTRUCTIONS

If any due date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday.

Who Must File a Return

A Kansas Franchise Tax return must be filed by any of the following entities that are duly registered and authorized to do business in Kansas by the Secretary of State, regardless of whether such entity has a franchise tax liability.

- Foreign or domestic for profit corporation which has taxable equity attributable to Kansas of \$100,000 or more.
- Foreign or domestic professional corporation or association which has taxable equity attributable to Kansas of \$100,000 or more.
- Foreign or domestic limited liability company which has net capital accounts located or used in Kansas at the end of the preceding taxable year as required to be reported on the federal partnership return of income of \$100,000 or more.
- Foreign or domestic limited partnership which has net capital accounts located or used in Kansas at the end of the preceding taxable year as required to be reported on the federal partnership return of income of \$100,000 or more.
- Foreign or domestic limited liability partnership which has net capital accounts located or used in Kansas at the end of the preceding taxable year as required to be reported on the federal partnership return of income of \$100,000 or more.
- Foreign or domestic one-member limited liability company taxed as a sole proprietorship which has net book value of the limited liability company as calculated on an income tax basis located or used in Kansas at the end of the preceding taxable year of \$100,000 or more.
- Domestic business trust which has corpus as shown on its balance sheet at the end of the preceding taxable year as required to be reported to the Secretary of Revenue of \$100,000 or more.
- Foreign business trust which has a corpus which is located in or which it uses or intends to use in Kansas as shown on its balance sheet at the end of the preceding taxable year as required to be reported to the Secretary of Revenue of \$100,000 or more.

When to File

Calendar Year: If your return is based on a calendar year it must be filed no later than April 15.

Fiscal Year: If your return is based on a tax year other than a calendar year it must be filed no later than the 15th day of the fourth month following the end of your tax year.

Amended Returns: In general, amended returns must be filed with the Department of Revenue within three (3) years of when the original return was filed. If the amended return will result in a refund the amended return must be filed within three (3) years of when the original return was filed, or within two (2) years from the date the tax was paid, whichever is later.

Where to File

Use the preaddressed envelope in this tax booklet to mail your tax return. This envelope is designed for use in our automated mail-opening equipment and will expedite the processing of your return. If you are expecting a refund place an "X" in the box on the front of the envelope. If your envelope has been misplaced, mail your return to the address shown at the bottom of Form K-150.

If You Need Forms

Kansas tax forms are available from our Taxpayer Assistance Center or by calling our voice mail forms request line at (785) 296-4937 and from our web site at www.ksrevenue.org.

Important: Due to the sensitivity of the Department's imaging equipment for tax return processing only an original preprinted form or an approved computer-generated version should be filed.

Extension of Time to File

If you are unable to complete your Franchise Tax return by the filing deadline you may request an extension of time to file. If you filed federal form 7004 with the Internal Revenue Service for an extension of time, enclose a copy of that form with your completed K-150 return to *automatically receive a six-month extension to file your Franchise return*. If you did not file a federal 7004, you may submit a written explanation with the filing of the completed K-150 return to receive a six-month extension.

An extension of time to file is not an extension of time to pay. However, if an extension of time to file is granted, no penalty will be imposed if 90% of the tax liability is paid on or before the original due date.

To pay the tax balance due for an extension, use the Kansas Franchise Tax Payment Voucher (K-150V) located in this booklet. Check the box indicating extension payment.

Payment of Tax

Calendar Year: If your return is based on a calendar year the tax must be paid no later than April 15.

Fiscal Year: If your return is based on a tax year other than a calendar year the tax must be paid no later than the 15th day of the fourth month following the end of your tax year.

Extension of Time to Pay

If you are unable to pay your Franchise Tax when it is due, you may request, in writing, an extension of time for the payment of tax for a reasonable period not to exceed six months. Any extension may exceed six months in the case of a taxpayer who is abroad. Interest accrues at the rate prescribed by K.S.A. 79-2968 during the extension period.

Completing Your Return

All applicable lines of Form K-150 must be completed. Be certain to complete all boxes in the Taxpayer Information section of the return.

The Form K-150 must be accompanied by a balance sheet listing all assets and liabilities as of the end of the tax year. **Use either a federal balance sheet or the Kansas Balance Sheet on the back of Form K-150.** (Business entities filing a federal income tax return on Form 1120 must use a copy of that balance sheet on Form K-150. If the balance sheet is modified to more fairly and accurately reflect shareholder's equity as defined for Kansas franchise tax purposes, you must provide an explanation of the adjustment and include all information used to calculate the adjustment). In the case of a business trust the balance sheet shall be as of the end of the tax period, certified by the trustee, fairly and truly reflecting the trust assets and liabilities and specifically setting out its corpus. In the case of a foreign business trust the balance sheet shall also fairly and truly reflect an allocation of its moneys and other assets as between those located, used or to be used in Kansas and those located, used or to be used elsewhere.

In addition, Form K-150 must be accompanied by sufficient information to show the allocation and apportionment calculations used in computing the amount of the tax.

Amending Your Return

If you are filing Form K-150 as an amended return, be sure to print the word "Amended" across the top of the form and include your amended balance sheet.

SPECIFIC LINE INSTRUCTIONS

TAXPAYER INFORMATION

Beginning and Ending Dates: Enter the beginning and ending dates of the tax year for the corporation or entity, even if your tax year is a calendar year. Enter the dates as mm/dd/yyyy.

Name and Address: Please PRINT or TYPE the entity's name and address. If either the name or address changed since last year, mark an "X" in the name/address change box.

Additional Information: Complete all the requested information. Be sure to indicate the type of ownership or form of entity for which you are filing a return.

Federal Tax Type Used: Place an "X" on the appropriate line that represents the type of federal tax form used by this entity. If not listed, place an "X" by "Other" and indicate form type. For example, a single entity LLC would indicate "Other" and enter "1040".

tax period. Enter the average total value of the corporation's or entity's real and tangible personal property owned or rented everywhere and used during the preceding tax period. Divide the average value of the corporation's or entity's real and tangible personal property owned or rented in Kansas during the preceding tax period by the average total value of the corporation's or entity's real and tangible personal property owned or rented everywhere and used during the preceding tax period.

LINE 2 – TOTAL PAYROLL: Enter the total amount of payroll paid by the corporation or entity in Kansas during the preceding tax period. Enter the total amount of payroll paid everywhere by the corporation or entity during the preceding tax period. Divide the total amount of payroll paid by the corporation or entity in Kansas during the preceding tax period by the total amount of compensation paid everywhere by the corporation or entity during the preceding tax period.

KANSAS PERCENTAGE



Enter all percentages rounded to the fourth decimal point.

LINE 3 – SALES: Enter the total sales of the corporation or entity in Kansas during the preceding tax period. Enter the total sales of the corporation or entity everywhere during the preceding tax period. Divide the total sales of the corporation or entity in Kansas during the preceding tax period by the total sales of the corporation or entity everywhere during the preceding tax period.

LINE 1 – AVERAGE VALUE OF REAL AND TANGIBLE PERSONAL PROPERTY OWNED OR RENTED DURING THE TAXABLE YEAR: Enter the average value of the corporation's or entity's real and tangible personal property owned or rented in Kansas during the preceding

LINE 4 – AVERAGE PERCENT TO KANSAS: Add the percentages on lines 1 through 3 and divide by the number of factors used.

TAX COMPUTATION

LINE 5 – NET WORTH (TOTAL SHAREHOLDERS EQUITY): For a corporation, enter the total amount of shareholder's equity. "Shareholder's equity" means the sum of: (1) paid-in capital stock, except that paid-in capital stock does not include any capital stock issued by a corporation and reacquired by such corporation through gift, purchase or otherwise and available for resale or retirement; (2) capital paid in, in excess of par; and (3) retained earnings. This same information should be listed on the corporation's federal income tax return.

For a limited liability company, enter the net book value as calculated on an income tax basis.

For a limited partnership or limited liability partnership, enter the net capital accounts as stated on the federal income tax return.

LINE 6 – AVERAGE PERCENTAGE: Enter the average percentage shown on line 4.

LINE 7 – KANSAS NET WORTH (SHAREHOLDER'S EQUITY ATTRIBUTABLE TO KANSAS): Multiply line 5 by line 6. Enter the result on line 7.

LINE 8 – TOTAL KANSAS FRANCHISE TAX: Multiply line 7 by .125% (.00125). If the result is \$20,000 or less, enter the result on line 8. If the result is more than \$20,000, enter \$20,000 on line 8.

LINE 9 – AMOUNT PAID WITH EXTENSION: Enter the amount paid with your extension of time to file.

LINE 10 – REFUND: If the amount on line 9 is greater than the total Kansas franchise tax on line 8, subtract line 8 from line 9 and enter the result on line 10. No refund will be made for amounts less than \$5.00. Before mailing, mark an "X" in the refund box on the front of the envelope.

LINE 11 – TAX DUE: If the amount on line 8 is greater than the amount paid with extension on line 9, subtract line 9 from line 8 and enter the result on line 11.

LINE 12 – INTEREST: Effective for calendar year 2007 - if you paid your Kansas tax after the original due date, compute interest at the rate of .75% per month (or fraction thereof) on the amount on line 11. Enter the result on line 12. Interest is to be computed in whole months.

LINE 13 – PENALTY: If you paid your Kansas tax after the original due date, compute penalty at 1% for each month (or fraction thereof) the tax is unpaid on the amount on line 11, up to a maximum of 24%. Enter this amount on line 13.

LINE 14 – TOTAL TAX, INTEREST AND PENALTY DUE: Add lines 11, 12 and 13. Enter the result on line 14.

The Department of Revenue offers two different options to pay your Kansas Franchise Tax:

Direct Payment. This payment option is available if you WebFile. It is not available if you file a paper Form K-150 return. When you select Direct Payment and provide your bank routing number and bank account number, you are authorizing the Department to initiate an electronic payment from your bank account for payment of your balance due. Direct Payment allows you to "file now, pay later". For example, if you file your return on February 20 and elect Direct Payment for a return due April 15th, our automated debit request will not occur until the April 15th due date.

With Direct Payment you are also assured that your payment is made on time. Direct Payment authorizations on returns filed by midnight of their due date are considered to be timely paid.

Direct payment saves time since there is no check to write and no K-150V voucher to complete and mail. If you need to revoke your election of this payment authorization you must notify the Department at 1-800-525-3901 by 4:00 PM two business days before the scheduled payment date.

Before deciding to use Direct Payment please check with your financial institution to be sure they allow an electronic debit (withdrawal) from your bank account.

Check or Money Order. If you chose this payment option you must complete Form K-150V, Franchise Tax Voucher, and enclose it with your return and payment. Write your EIN number on your check or money order and make it payable to "Kansas Franchise Tax". DO NOT send cash. DO NOT staple or tape your payment to the Form K-150 or K-150V. Instead, enclose it loosely with your return. A balance due of less than \$5.00 does not need to be paid.

Returned check charge: A fee of \$30.00, plus costs for a registered letter (currently \$8.34), is charged on all returned checks.

SIGNATURE AND VERIFICATION

The return filed for a corporation must be signed and sworn to by the president, vice president, or other principal officer of the corporation. The return filed for a limited liability partnership must be signed by a partner of the limited liability partnership. The return filed for a limited liability company must be signed by a member of the limited liability company.

Any person or persons who prepares the return for compensation must sign the return.

DO NOT STAPLE

For the taxable year beginning ____/____/2006; ending ____/____/____

| | | | |
|--|--|--|---|
| TAXPAYER INFORMATION | Name | Business Activity Code (NAICS): _____ | Employer ID Numbers (EINs) (Enter both if applicable) _____ |
| | Number and Street of Principal Office | Date Business Began in KS (mm/dd/yyyy): ____/____/____ | EIN this entity: _____ |
| | City State Zip Code | Date Business Discontinued in KS (mm/dd/yyyy): ____/____/____ | EIN Federal Consolidated Parent: _____ |
| | <input type="checkbox"/> If your name or address has changed since last year, mark an "X" in this box. | State of Commercial Domicile: _____ | _____ |
| Federal Form Type Used: | | | |
| <input type="checkbox"/> Corporate (1120) <input type="checkbox"/> Corporate Short Form (1120A) <input type="checkbox"/> Business Trust (1120) <input type="checkbox"/> Other: _____ <input type="checkbox"/> Co-op (1120) <input type="checkbox"/> Small Business (1120S) <input type="checkbox"/> Partnership (1065) _____ | | | |

| | | | | |
|--------------------------|---|-----------------|------------------|-------------------|
| KANSAS PERCENTAGE | NOTE: This form must be accompanied by a balance sheet listing all assets and liabilities as of the end of the tax year. | TOTAL IN KANSAS | TOTAL EVERYWHERE | PERCENT TO KANSAS |
| | 1. Average value of real and tangible personal property owned or rented during the taxable year .. \$ _____ divided by \$ _____ = | | | 1 _____ % |
| | 2. Total payroll \$ _____ divided by \$ _____ = | | | 2 _____ % |
| | 3. Sales \$ _____ divided by \$ _____ = | | | 3 _____ % |
| | 4. Average percent to Kansas (Add percentages on lines 1 through 3 and divide by the number of factors used) | | | 4 _____ % |

| | | | |
|------------------------|--|----|-------|
| TAX COMPUTATION | 5. Net worth (Total shareholders equity) | 5 | _____ |
| | 6. Average percent (Enter percentage from line 4) | 6 | _____ |
| | 7. Kansas net worth (Multiply line 5 by line 6) | 7 | _____ |
| | 8. Total Kansas franchise tax (Multiply line 7 by .00125; cannot be more than \$20,000) | 8 | _____ |
| | 9. Amount paid with extension | 9 | _____ |
| | 10. Refund (If line 9 exceeds line 8) | 10 | _____ |
| | 11. Tax due (If line 8 exceeds line 9) | 11 | _____ |
| | 12. Interest (See instructions) | 12 | _____ |
| | 13. Penalty (See instructions) | 13 | _____ |
| | 14. Total tax, interest and penalty due (Add lines 11, 12 and 13) (Complete Form K-150V) | 14 | _____ |

I authorize the Director of Taxation or the Director's designee to discuss my return and enclosures with my preparer.

I declare under the penalties of perjury that to the best of my knowledge this is a true, correct, and complete return.

| | | | | |
|-------------------|-----------|--|--------------------------|------|
| SIGNATURES | sign here | Signature of officer | Title | Date |
| | | Individual or firm signature of preparer | Address and Phone Number | Date |

Mall to: Kansas Franchise Tax
Kansas Department of Revenue
915 SW Harrison Street
Topeka, KS 66699-5000

| | | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

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KANSAS BALANCE SHEET

A balance sheet listing all assets and liabilities as of the end of the tax year must be included with Form K-150. A federal balance sheet may be submitted, or you may use the following Kansas Balance Sheet.

| Assets | Beginning of tax year | | End of tax year | |
|---|-----------------------|----------------|-----------------|----------------|
| | (a) | (b) | (c) | (d) |
| 1 Cash | | | | |
| 2a Trade notes and accounts receivable | | | | |
| b Less allowance for bad debts | | | | |
| 3 Inventories | | | | |
| 4 U.S. government obligations | | | | |
| 5 Tax-exempt securities | | | | |
| 6 Other current assets | | | | |
| 7 Loans to shareholders | | | | |
| 8 Mortgage and real estate loans | | | | |
| 9 Other investments | | | | |
| 10a Buildings and other depreciable assets | | | | |
| b Less accumulated depreciation | | | | |
| 11a Depletable assets | | | | |
| b Less accumulated depletion | | | | |
| 12 Land (net of any amortization) | | | | |
| 13a Intangible assets (amortizable only) | | | | |
| b Less accumulated amortization | | | | |
| 14 Other assets | | | | |
| 15 Total assets | | | | |
| Liabilities | | | | |
| 16 Accounts payable | | | | |
| 17 Mortgages, notes, bonds payable in less than 1 year | | | | |
| 18 Other current liabilities | | | | |
| 19 Loans from shareholders | | | | |
| 20 All nonrecourse loans | | | | |
| 21 Mortgages, notes, bonds payable in 1 year or more | | | | |
| 22 Other liabilities | | | | |
| 23 Capital stock (preferred and common) | | | | |
| 24 Additional paid-in capital | | | | |
| 25 Retained earnings (appropriated and unappropriated) | | | | |
| 26 Adjustments to shareholders' equity (place negative numbers in brackets) | | | | |
| 27 Less cost of treasury stock | | () | | () |
| 28 Partners' capital accounts | | | | |
| 29 Total liabilities and shareholders' equity | | | | |

K-150V

(Rev 7/06)

| | | | | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| FOR OFFICE USE ONLY | | | | | | | | | |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

2006 KANSAS FRANCHISE TAX VOUCHER

For taxable year beginning _____, 20____; ending _____, 20____

| | | |
|---------------------------------------|-------|--------------|
| Name | | |
| Number and Street or Principal Office | | |
| City, Town, or Post Office | State | Zip Code |
| Name of Contact Person | | Phone Number |

Employer
Identification
Number

| | | | | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

Name or
Address
Change

Extension
Payment

Make check or money order payable to: Kansas Franchise Tax
DO NOT SUBMIT PHOTOCOPIES OF THIS FORM

PAYMENT
AMOUNT \$

| | | | | | | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

680206

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K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
POLICY AND RESEARCH

KATHLEEN SEBELIUS, GOVERNOR

November 1, 2006

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

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. Attached are updates to Tables 2 and 3 of the Analysis, to reflect the addition of tax year 2004 data. The discussion of the Top 20 claimants of the Business and Job Development (B&J) income tax credit is updated for tax year 2004 data. For comparison purposes, also attached are Analysis Tables 2 and 3, updated to include tax year 2003 data. Data on the Top 12 claimants of the High Performance Incentive Program (HPIP) tax credits for tax year 2004 is also discussed.

Recent History of Corporate Income Tax Receipts

Annual Kansas corporate income tax receipts (by fiscal year) since 1995 are shown below:

| Fiscal Year | Amount Collected | Percent Change |
|-------------|------------------|----------------|
| 1995 | \$229,421,376 | |
| 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% |
| 2005 | \$226,071,634 | 60.1% |
| 2006 | \$350,201,000 | 55.0% |

Although the bottom fell out of corporate income tax receipts in FY 2002, the recent trend is very encouraging. Fiscal Year 2006 receipts set a new record. Thus far in FY 2007, corporate income tax receipts of \$135 million through the end of October are 55% above the April 2006 Consensus Revenue Estimate of \$306 million for FY 2007 and 50% above actual corporate income tax receipts for this same time period last year.

HS TAXATION COMMITTEE

DOCKING STATE OFFICE BUILDING, 915 SW HARRISON ST., TOPEKA **1-11-2007**

Voice 785-296-3081 Fax 785-296-7928 <http://www.ksreve> **ATTACHMENT 6**

Corporate Income Tax Burden

In updating the Analysis dated October 14, 2004, tax returns from a sample of the largest 414 corporate taxpayers for tax year 2004 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 60% of the corporate income tax base for tax year 2004. 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 2004 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 2004. 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 for tax year 2004 continues to show 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, 59.9% for tax year 2004, although higher than the 54.35% payment percentage rate for tax year 2003, and 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 higher tax payment percentage rate of 88.01% for tax year 2004, compared to 87.21% for tax year 2003, and the wholesale trade sector an even higher tax payment percentage rate than retail, 91.29%, although slightly lower than for tax year 2003, which was 94.61%.

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 (see Update to Table 2 for tax year 2003) 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. The 2004 tax year data continues that trend. As Update to Table 2 for tax year 2004 indicates, the retail sector's total corporate income tax liability before credits was \$35.6 million and tax payments after credits (see "net receipts" column) were \$31.3 million, while the manufacturing sector's total corporate income tax liability before credits was \$31.2 million and tax payments after credits were \$18.7 million.

B&J Credit Data

Within the sample of 414 corporations, the group of top 20 corporations that claimed the most B&J credits during tax year 2004 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 2004

Tax Year 2004

| | |
|---|--|
| 5 in Manufacturing/Transportation/Warehousing | 15 in Retail/Wholesale/Other |
| Total Taxable Income: \$99.9 million | Total Taxable Income: \$323.14 million |
| Total Net Tax: \$6.32 million | Total Net Tax: \$19.45 million |
| Ave. Effective Tax Rate: 6.33% | Ave. Effective Tax Rate: 6.02% |
| Range: .69% to 6.78% | Range: -2.23% to 6.47% |

This compares to the data for tax year 2003, shown below.

Top 20 B & J Credit Claimants Tax Year 2003

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 tax year 2004 results show rough parity between the manufacturing/transportation/warehousing category and the retail/wholesale/other category in terms of effective tax rates. In fact, the manufacturing/transportation/warehousing category averaged a higher effective tax rate (6.33%) than the retail/wholesale/other category (6.02%), and the range of effective tax rates within the manufacturing/transportation/warehousing category is narrower than for the retail/wholesale/other sector. This contrasts with the tax year 2003 results, which continued to show a significant disparity between the average effective tax rate paid by the manufacturing/transportation/warehousing category vs. the retail/wholesale/other category and 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 for tax years 2000 through 2004 (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 2004 (a sample size of 114 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 114 corporations in the group, 34 were manufacturing corporations and 30 were retail trade corporations. The "total" row at the bottom sums the information not only for these 34 manufacturers and 30 retailers, but also the rest of the 114 corporations in the group.

The Update to Table 3 for tax years 2000 through 2004 shows that manufacturing firms that are large B & J credit claimants continue to succeed in offsetting significant tax liability with tax credits, owing only 32.75% of the amount of their tax liability measured before credits were applied, while retailers offset a much smaller portion of their tax liability, owing 81.52% of the

amount their tax liability measured before credits. The average payment percentage for all 114 corporations in this group of largest B&J credit claimants is 61.23%. Comparing this table to Update to Table 3 for tax years 2000 through 2003, manufacturers owed only 24.14% of their tax liability measured before credits were applied, while retailers owed 81.38% of their tax liability measured before credits. The average payment percentage for all 78 corporations in this group of largest B&J credit claimants for tax years 2000 through 2003 was 56.95%.

HPIP Data

Within the sample of 414 corporations, the top 12 corporations claiming the most HPIP credits during tax year 2004 were identified. Corporations in this group were divided into 2 broad categories by NAICS code: manufacturing and 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 12 HPIP Credit Claimants Tax Year 2004

Tax Year 2004

7 in Manufacturing

Total Taxable Income: \$146.4 million

Total Net Tax: \$2.548 million

Ave. Effective Tax Rate: 1.74%

Range: -1.35% to 4.07%

5 in Other

Total Taxable Income: \$50.6 million

Total Net Tax: \$2.423 million

Ave. Effective Tax Rate: 4.79%

Range: -2.23% to 6.6%

The tax year 2004 data indicates that manufacturers benefited the most from the HPIP program, with over half (7) of the "top 12" claimants being manufacturers, paying a low average effective tax rate of 1.74%. Some participants had negative effective tax rates, eliminating their corporate income tax liability entirely with credit offsets. The 5 non-manufacturer HPIP claimants in the "top 12" group succeeded in offsetting significant tax liability with tax credits, maintaining a low effective tax rate of 4.79% (although not as low as for manufacturers in HPIP), with some of these participants also eliminating their tax liability entirely. This data shows that large-scale participants in HPIP are able to offset most, if not all, of their corporate income tax liability with tax credits, the majority of large claimants being manufacturers.

Updated Conclusions

Many of the conclusions in the Analysis dated October 14, 2004 remain valid for the tax year 2004 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 within industry groups of all types, although that disparity narrowed in tax year 2004, a year for strong corporate income tax receipts, and manufacturers were able to offset a lower percentage of their tax liability with credits than in prior years. 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. However, the tax year 2004 data indicates that the average tax payment percentage for manufacturers increased from 54.35% for tax year 2003 to 59.9% for tax year 2004, while the average tax payment percentage for all corporations in the sample decreased from 85.15% for tax year 2003 to 78.44% for tax year 2004. Also, among the top 20 B&J credit claimants for tax year 2004, the manufacturing/transportation/warehousing category average effective tax rate (6.33%) actually exceeded the average effective tax rate for

the retail/wholesale/other category (6.02%). During years when the economy and tax receipts are strong (such as 2004), even manufacturers have a higher average tax payment percentage.

The tax year 2004 data, as did the 2003 data, continues to show that the retail sector is 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 somewhat 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, although that disparity did narrow in tax year 2004.

Update to Table 2: Tax and Credits Statistics by Industry from a sample of 414 Corporations for Tax year 2004.

| Industry (# of corporations) | Total Tax Liability | Total NR Credits | B&J | R&D | HPIP | CIME Credit | Total Ref. Credits | Net Receipts | Payment Percentage |
|---|----------------------|---------------------|--------------------|------------------|---------------------|--------------------|--------------------|----------------------|--------------------|
| Mining (10) | \$10,164,775 | \$5,337,022 | \$0 | \$0 | \$0 | \$84,965 | \$0 | \$4,742,788 | 46.66% |
| Utilities (8) | \$2,617,772 | \$0 | \$0 | \$0 | \$0 | \$4,814 | \$8,362 | \$2,604,596 | 99.50% |
| Construction (10) | \$1,062,113 | \$436,967 | \$0 | \$0 | \$436,967 | \$25,456 | \$0 | \$599,690 | 56.46% |
| Manufacturing (75) | \$31,200,763 | \$8,711,141 | \$764,439 | \$112,185 | \$7,380,319 | \$3,771,681 | \$30,000 | \$18,687,941 | 59.90% |
| Wholesale Trade (84) | \$20,218,220 | \$597,101 | \$18,000 | \$216,734 | \$416,225 | \$1,133,930 | \$30,324 | \$18,456,864 | 91.29% |
| Retail Trade (59) | \$35,563,751 | \$3,325,521 | \$3,326,251 | \$3,718 | \$2,599,171 | \$940,131 | \$0 | \$31,298,099 | 88.01% |
| Transportation and Warehousing (10) | \$10,628,394 | \$519,233 | \$210,113 | \$0 | \$0 | \$313,500 | \$0 | \$9,795,661 | 92.17% |
| Information (25) | \$8,717,709 | \$1,055,292 | \$23,800 | \$0 | \$1,028,986 | \$2,234,716 | \$2,502,520 | \$2,925,181 | 33.55% |
| Finance and Insurance (41) | \$11,617,309 | \$1,123,859 | \$473,727 | \$0 | \$27,715 | \$79,849 | \$0 | \$10,413,601 | 89.64% |
| Real Estate and Rental and Leasing (8) | \$842,259 | \$0 | \$0 | \$0 | \$0 | \$87,435 | \$0 | \$754,824 | 89.62% |
| Professional, Scientific, and Technical Se (21) | \$5,509,049 | \$208,037 | \$15,760 | \$0 | \$0 | \$63,188 | \$0 | \$5,237,824 | 95.08% |
| Management of Companies and Enterprises (16) | \$9,850,735 | \$179,062 | \$179,062 | \$0 | \$0 | \$206,854 | \$0 | \$9,464,819 | 96.08% |
| Administrative and Support and Waste Manag (1) | \$862,623 | \$24,000 | \$24,000 | \$0 | \$0 | \$47,204 | \$0 | \$791,419 | 91.75% |
| Health Care and Social Assistance (15) | 1670376 | 0 | 0 | 0 | 0 | 1102 | 0 | \$1,669,274 | 99.93% |
| Accommodation and Food Services (10) | \$2,140,856 | \$370,973 | \$365,477 | \$0 | \$0 | \$65,054 | \$0 | \$1,704,829 | 79.63% |
| Other Industries (12) | 4826240.77 | 175608 | 175608 | 0 | 0 | 266212 | 0 | \$4,384,421 | 90.85% |
| Total All Industries (415) | \$157,492,944 | \$22,063,816 | \$5,576,237 | \$332,637 | \$11,889,383 | \$9,326,091 | \$2,571,206 | \$123,531,830 | 78.44% |

Other industries includes: Agriculture, Forestry, Fishing and Hunting, Educational Services, Arts, Entertainment and Recreation, and other service sectors not specified by the current codes

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) Management of Companies and Enterprises (11) | \$4,715,392 | \$124,700 | \$99,700 | \$0 | \$0 | \$59,258 | \$0 | \$4,531,434 | 96.10% |
| 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% |

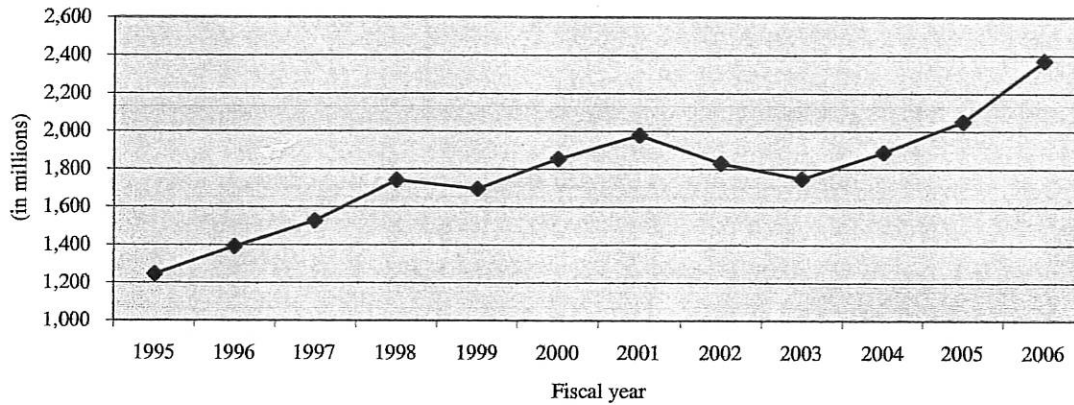
Other services includes: Administrative and Waste Service, Educational Services, Arts, Entertainment and Recreation, Transportation and Warehousing, and other service sectors not specified by the current codes

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

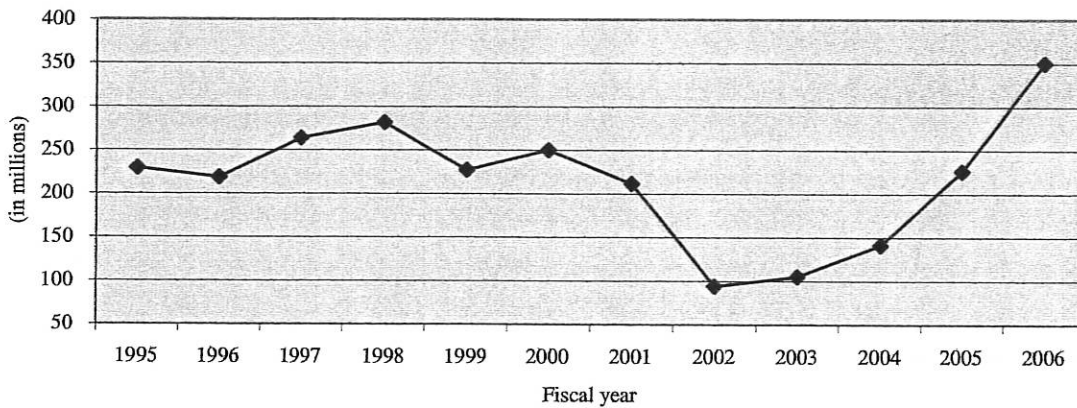
| Sector (# of sample) | Total Tax Liability | Total NR Credits | B&J | R&D | HPIP | BM&E | Total Ref. Credits | Net Receipts | Payment Percentage |
|----------------------|----------------------|---------------------|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|------------------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

8-9

**Individual Income Tax - State General Fund
Fiscal Years 1995-2006**



**Corporate Income Tax - State General Fund
Fiscal Years 1995-2006**



**Sales Tax - State General Fund
Fiscal Years 1995-2006**

