

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 20, 2007 in Room 519-S of the Capitol.

All members were present except:

Representative Tom Holland - E

Committee staff present:

Chris Courtwright, Legislative Research Department

Gordon Self, Office of Revisor of Statutes

Richard Cram, Department of Revenue

Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Secretary Wagon, KDOR

Representative Lee Tapanelli

Representative Jeff King

Representative Jene Vickrey

Bernie Koch - Wichita Chamber of Commerce

Alan Cobb - Americans for Prosperity

Marlee Carpenter - Kansas chamber of Commerce

April Holman - Dir., of Fiscal Focus at KS Action for Children

Randall Allen - Executive Dir., Kansas Association of Counties

Don Moler - Executive Dir., League of Kansas Municipalities

Mark Desitti - KNEA and Kansas Association of School Boards

Pauline Bellar - Citizen, Howard, KS (written testimony only)

John & Lois Markley - Citizens, Howard, KS (written testimony only)

Patricia Clark - Citizen, Howard, KS (written testimony only)

Mary Wells - Citizen, Howard, KS (written testimony only)

Patsy Van Sickle - Citizen, Howard, KS (written testimony only)

Irene Julian, Wildcat Township (written testimony only)

Karl Peterjohn, Kansas Taxpayers Network (written testimony only)

George Lippencott - AARP Kansas (written testimony only)

Christy Caldwell - Topeka Chamber of Commerce (written testimony only)

Ashley Sherard - Lenexa Chamber of Commerce (written testimony only)

Others attending:

See attached list.

The Chairman called for bill introductions.

Representative Tapanelli requested the introduction of a constitutional amendment to authorize the legislature to enact legislation to provide for a property tax exemption for all or a part of the value of a residence owned and the principal residence of a person 65 years of age or older, or a surviving spouse of a military veteran or a disabled person. Representative Wilk moved the introduction, seconded by Representative Owens. The motion carried.

Representative Tapanelli requested a bill introduction relating to time for notice of acquisition or sale of vessels to county appraisers for computation of value for property tax purposes. Representative Carlson moved the introduction, seconded by Representative Owens. The motion carried.

Representative Tapanelli requested a bill introduction that provided a property tax exemption for certain homes for military veterans who are paraplegics or multiple amputees and their spouses. Representative Owens moved the introduction, seconded by Representative Carlson. The motion carried.

Secretary Wagon requested a bill introduction that would require their licensees to disclose their social security or tax identification numbers to the licensing agency, so that the agency in turn will be required to turn that information over to the Department of Revenue upon request. Representative Wilk moved the introduction, seconded by Representative Carlson. The motion carried.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 20, 2007 in Room 519-S of the Capitol.

It was noted that the minutes from January 26, 30, 31, February 1, and 2, 2007 were sent electronically to the committee on February 12 and, by consensus, approved on February 20, 2007.

HB 2495 - Decrease in the income tax surtax on corporations.

The Chairman invited Secretary Wagon to the podium to brief the Committee on the bill.

Secretary Wagon, KDOR, said **HB 2495** is the portion of the Governor's Tax Plan designed to lower the corporate income tax which has been introduced as a separate bill (Attachment 1). She explained the following five components:

- Corporate Income Tax reduced from 7.25% to 6.75%.
- Change current law to allow full apportionment of business income.
- Change current law to eliminate opportunities for abuse or litigation.
- Eliminate planning opportunities for "captive" insurance companies.
- Change the mathematical weighting of the apportionment factors (sales, property, payroll)

The Chairman opened the public hearing.

Bernie Koch, Wichita Chamber of Commerce, rose in support of the bill (Attachment 2). The Chamber looks at reduction of the corporate tax rate as very positive. He said that the best source of business information is the annual survey of corporate decision-makers by Area Development Magazine. It is a niche publication for expanding economic developers and companies. A copy of the *21st Annual Corporate Survey* was included in his testimony, which confirms the three most important things companies look at when selecting new locations. They are: 1) Labor costs, 2) Highway accessibility, and 3) Corporate tax rate. He urged the Committee to give favorable consideration to **HB 2495**.

Alan Cobb, Americans for Prosperity (AFP), testified in support of the legislation. He added that they also believe in reduction of individual income taxes. Kansas economic growth measures are average to poor and many states are cutting taxes. If Kansas is to remain competitive, they must also cut taxes (Attachment 3).

Marlee Carpenter, Kansas Chamber of Commerce, testified that businesses remain positive about the Kansas economy but are concerned about taxes. A reduction in the corporate income tax rate will stimulate the business community and make Kansas a more attractive place to locate and expand. She called attention to an Executive Summary entitled, *2007 State Business Tax Climate*, dated October 2006, Tax Foundation Publication, attached to her testimony (Attachment 4).

It was noted that written testimony in favor of **HB 2495** was received and distributed from: 1) Christy Caldwell, Topeka Chamber of Commerce, 2) Ashley Sherard, Lenexa Chamber of Commerce, 3) Karl Peterjohn, Kansas Taxpayers Network (Attachment 5).

The Chairman closed the public hearing on **HB 2495**.

HCR 5013 - A Proposition to amend section 1 of article 11 of the constitution of the state of Kansas, relating to property taxation.

Representative Jeff King briefed the Committee on the resolution (Attachment 6). He stressed five points in the House Concurrent Resolution as follows:

1. Kansas voters decide if they want the Legislature to provide property tax relief to seniors through valuation caps.
2. It is the first step towards comprehensive property tax relief.
3. Although the legislation itself is not limited based on income or property values, the enabling legislation will almost certainly contain such limits.
4. The resolution will provide real tax relief and considerable flexibility to the Kansas legislature in crafting the best form of property tax relief for seniors.
5. Gives Kansans a voice on property tax relief and, if passed, would provide peace of mind for fixed

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 20, 2007 in Room 519-S of the Capitol.

income seniors.

Representative Jene Vickrey testified in support of **HCR 5013**. He stated this piece of legislation would keep Kansas competitive, and noted that Kansas is one of only seven states without some form of property tax cap for its retired citizens. He called attention to testimony from Glenna Burton, Paola, attached to his testimony, as well as relevant articles and data. He urged the Committee to take action on the resolution. (Attachment 7).

It was noted that written testimony had been received and distributed in favor of **HCR 5013** from the following Howard, KS citizens: 1) Pauline Bellar, 2) John & Lois Markley, 3) Patricia Clark, 4) Mary Wells, 5) Patsy Van Sickle, and 6) Irene Julian, Wildcat Township (Attachment 8).

April Holman, KS Action for Children, rose in opposition to **HCR 5013**. She stated when property tax dictates that valuation for one group is artificially suppressed, taxes shift to other taxpayers and there are better ways to help those in need of tax relief than to change property taxes. She added that a comprehensive plan should be created for modernizing Kansas taxes (Attachment 9).

Randall Allen, Kansas Association of Counties, testified that limiting the growth in appraised valuation of real estate to a cap established by legislative enactment would not guarantee the precise impact in lowering taxes as is often claimed. He also voiced concern about how this proposal creates inequity by applying the cap to all property of senior citizens, including those with a much greater ability to pay (Attachment 10).

Don Moler, League of Kansas Municipalities, stated that while cities understand the desire to limit the tax burden on their older citizens, this resolution is ill-advised for several reasons. It would further erode the tax base and would create a tax shift to younger families who may be less able to take on additional tax liability. He urged the Committee not to report **HCR 5013** favorable for passage (Attachment 11).

It was noted that written testimony in opposition to **HCR 5013** was received and distributed from George Lippencott, AARP Kansas (Attachment 12).

Mark Desitti, KNEA and Kansas Association of School Boards, said that they are not advocating for either the passage or defeat of the resolution. However, he suggested that they consider some of the consequences if **HCR 5013** passes. Collecting less in property tax from capped property valuations for all seniors, means that the loss must be passed on to other taxpayers. There is no means testing in the resolution, thus tax relief goes to all Kansas seniors not only to those that need such relief. Kansas Association of School Boards and KNEA continues to believe that the legislature should make a comprehensive examination of the entire tax system (Attachment 13).

The Chairman closed the public hearing.

A memorandum from KDOR, regarding Kansas Tax Credits, was distributed to the Committee (Attachment 14).

The meeting was adjourned at 10:30 a.m. The next meeting is February 21, 2007.

TAXATION COMMITTEE

DATE: FEBRUARY 20

NAME	REPRESENTING
Bernie Koch	Wichita Metro Chamber
REP STAN FROWNFELTZ	31 ST DIST
TONY A. SCOTT	KSCPA
J. Kent Eckles	O.P. Chamber of Commerce
Christy Caldwell	Topeka Chamber of Commerce
Pat Lehman	KS FSA
Don Moler	LKM
Antey Owens	KU Intern-Rep. Miller
Jordan Miller	Wabaunsee High School
Garen Gideon	Wabaunsee High School
Bruce Furber	KDOR
Lindylister & Lindsey Wertzberger	Wabaunsee High School
Mark Desetti	KNEA
Ari Holman	Kansas Action for Children
Nike Reese	Hasler Braden
Katelyn Feigh	Wabaunsee High School
Chris Hardman	W / C

Testimony to House Taxation Committee on H2495
February 20, 2007

This is the portion of the Governor's Tax Plan designed to lower the corporate income tax which has been introduced as a separate bill.

- **Corporate Income Tax reduced from 7.25% to 6.75%**

Section 1(c) amends K.S.A. 79-32,110 to 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.

Some of the information which was considered at the time the proposal was developed was the extent to which Kansas was comparable with surrounding states.

Rates of neighboring States:

Missouri	6.25%	Nebraska	7.81%
Colorado	4.63%	Oklahoma	6%
Iowa	6%-12%		

There was an effort to try to get to parity with Missouri at 6.25% since the competition on the Kansas Missouri border is often intense. However, the chart below shows the amount of money required to lower the rates even further is considerable and didn't fit within the Governor's budget.

Corporate Tax Estimate	\$	355,000,000 in FY08		
	Tax Year Cost	Total Rate	(surtax-base)	
	\$ 16,904,762	7.00%	3%	4%
	41,054,422	6.50	2.5	4
	53,129,000	6.25	2.25	4
	65,204,082	6.00	2.0	4
	89,353,742	5.50	1.5	4

(Please note the cost by fiscal year to the General Fund is different from these numbers.)

Fiscal Year	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Corporate Income	\$ (5.8)	\$ (22.2)	\$ (29.0)	\$ (29.0)	\$ (29.0)

Current tax brackets *for married individuals* are 3.5% for income up to \$30,000, and 6.25% for incomes from \$30,000 - \$60,000, and 6.45% for amounts over \$60,000. (Brackets are halved for single individuals, but rates are the same.)

Earlier discussions in this committee, particularly the presentation by the former Revenue Commissioner from New Zealand, have raised the question, “if we broaden the base, can we cut the rate?” The answer for corporate income tax is yes – but it won’t be easy as we found out this fall when the department proposed several things.

The workgroup that considered this proposal initially also considered some base-broadening measures which might have allowed the rate to go lower. But, in the end, we only proposed those things for which there was consensus. Since the committee has shown some interest in base-broadening strategies, we offer the following, but with the caveat that any additional revenue should go towards lowering the rate even further.

- **Change current law to allow full apportionment of business income.**¹ The goal in amending the current business/nonbusiness income treatment is to negate a tax loophole for corporations and subject all corporate income to apportionment to the full extent allowed by federal law (base broadening). Current Kansas law utilizes the “transactional” test for determining what income is subject to Kansas tax. Income from unusual transactions that are not in the ordinary course of a taxpayer’s business is allocated to the state where the transaction occurs and is not included in Kansas apportionable income. Taxpayers adversely affected by this, typically Kansas-based companies or those with a significant Kansas transaction, may elect to apportion all income and pay tax on an apportioned amount of the gain rather than on 100 percent of the gain. There will be a positive fiscal note, maybe as much as \$20 million to use for further rate reductions.
- **Change current law to eliminate opportunities for abuse or litigation** by clarifying the definition of gross receipts to avoid “churning” of income.² The fiscal note is approximately \$2-3 million.

¹ A typical scenario involves an out-of-state company, Company A, doing business in Kansas. Company A’s headquarters buildings are in State A. Throughout the time that Company A does business in Kansas it takes depreciation deductions for its headquarters buildings, thereby reducing its Kansas Tax. Company A sells its headquarters buildings for a large gain. A considerable portion of the gain is attributable to the recapture of the depreciation previously deducted from taxable income. Under the transactional test, none of the gain is subject to Kansas income tax. Under federal law, as adopted by most states, an apportioned amount of the gain would be subject to state income tax. Consider the same transaction occurring within Kansas. Company A would be subject to tax on an apportioned amount of the gain. The net effect is that property of a multi-state business sold outside of Kansas is treated more favorably than property sold in Kansas.

² Companies attempt to inflate the denominator of the sales factors by including extraordinary items such as a large sale of business assets or “churning” of investments. The typical churning scenario occurs when a business takes its available cash at the end of the day and invests it in overnight money market accounts. The business then claims the receipt of principal on the next business day as gross receipts in the denominator of the sales factor. Typically these inflated sales are not included in the numerator of any other state. This issue is the subject of controversy and litigation in several states. Richard Cram has language to prevent this activity.

- **Eliminate planning opportunities for “captive” insurance companies.**
A typical “captive” insurance company is a wholly owned subsidiary formed in a tax haven country or state (i.e. Bahamas, Barbados, Vermont or Nevada) for purposes of insuring some business risk that the business would otherwise likely self-insure such as product liability or workers’ compensation. Business assets such as trademarks or trade names are transferred to the captive insurance company. The business then pays royalties to the captive, deducting the payments as business expenses. The captive receives the royalties as income. For federal income tax purposes, the transaction is a wash as both the insurance company and non-insurance companies file a consolidated return so that the income equals the deduction. However, for state income tax purposes, insurance companies are exempt from income tax. Thus the royalty income of the captive escapes taxation while the royalty payors still receive the tax benefit of the deduction. The fiscal note is approximately \$500,000 to \$1,000,000.

On several occasions, I have testified about “modernizing” the corporate income tax. Some changes that the department will promulgate in rules and regulations include:

- Clarification of combined reporting definitions and rules
- Clarify definition of a unitary business

As part of that modernization in future years, Kansas may want to consider the Multistate Tax Commission’s model statute on Abusive Tax Shelter legislation; add insurance companies to UDITPA, to calculate their income in the apportionment formulas, but not tax their income; change the apportionment of income from services to the destination of where the service is performed³. For all these changes model legislation is being worked on currently and it is advisable to wait at this time.

One final measure the workgroup considered, but did not adopt because of the potential for shifts to occur was:

- **Change the mathematical weighting of the apportionment factors (sales, property, payroll).**
A number of states have placed greater weight on the sales factor for economic development purposes. The greater the weighting of the sales factor, the greater the tax on companies based outside of Kansas. This will cause some shifts in tax with more relief going to manufacturers than retailers; slight increase on some retailers. Any increase will be more than offset by the rate reduction. Purpose is to move toward uniformity with other states and nations. All the manufacturers in our workgroup supported this. Fiscal note is positive, but slight.

³ Kansas uses the original UDITPA rule for apportioning income from sales, other than sales of tangible personal property. The income from services, under this rule, is included in the state where the preponderance of services occurs. This is known as an “all or nothing” rule. If 49 percent of the costs are incurred in Kansas and 51 percent are incurred in Missouri, all of the income from the sale would be included in Missouri’s sales numerator and denominator. Nothing would be included in Kansas’s sales numerator but the entire amount of the sale is in the Kansas denominator.

Goals for Tax Reform

Tax Reform generally should

- Maintain fair and efficient administration of the tax system remain fiscally responsible.
- Produce revenues that are adequate to finance the current level of public services over time, including adequate revenue to sustain services during economic downturns. This means we must preserve elasticity through an appropriate tax mix. The state and local tax system should be balanced and diversified.
- Broaden tax base whenever possible, while lowering rates.
- Position Kansas competitively for economic growth with respect to surrounding states, and in the Midwest.
- Look at the impact of any proposed change on the individual taxpayer (tax incidence)

Specifically, consider ways to:

- Reduce disparity among taxpayers in the corporate income tax.
- Prevent the use of Abusive Tax shelters, promote strategies that reduce underreporting of income and encourage compliance with Kansas tax laws.
- Revise and simplify tax credits and other tax incentives for economic development to be competitive in today's environment and easier for businesses to use. Extend to smaller businesses with growth potential as well as new business attraction and retention.
- Develop tax strategies as incentives for economic growth in depopulating or distressed areas of the state
- Broaden corporate tax base by closing loopholes and highly litigated provisions, but also lower the top rate which is anticompetitive with surrounding states.
- Lessen disparity among taxpayers in various local taxing districts by finding strategies to broaden local tax bases through consolidation or regional bases, etc.
- Close the tax gap – the difference between what is owed and what can be collected – through expanded use of withholding or better reporting of earnings for individuals and businesses.

**Testimony on House Bill 2495
House Taxation Committee
February 20, 2007**



Bernie Koch
VP/Government Relations
Wichita Metro Chamber of Commerce

Chairman Wilk and members of the committee, I'm Bernie Koch, the Vice President for Government Relations at the Wichita Metro Chamber of Commerce. Thank you for the opportunity to appear before you today on House Bill 2495.

Our chamber has over 1,800 members.

Half of our members are small businesses with ten or fewer employees, but we also number among our members some of the largest companies in the state. They tend to be "C" corporations that would be affected by this legislation.

The employees of our members make up approximately 55 percent of the workforce of the four-county Wichita Metropolitan Area, comprised by Sedgwick, Harvey, Butler, and Sumner Counties.

We look at the reduction of the corporate tax rate as a positive. Our professional staff at the Greater Wichita Economic Development Coalition tells me we seem to suddenly be getting a lot of serious contacts from very large companies looking at us as a location for what might be called "back office" operations.

Many large companies are spinning off middle level jobs to a more cost-effective location. The headquarters might be in New York City or Chicago or Los Angeles, where real estate prices are high and other costs of doing business are prohibitive.

The company can save money by spinning some operations off to places where there are lower costs, but a great work force. I'm referring to operations like payroll, customer service, processing, benefits administration, and legal.

I believe a strong factor causing these companies to look at us seriously is our highly educated work force with a great work ethic. Adjusting our corporate tax rates could be very helpful in tipping the balance on a decision.

Those are great jobs that any community would love to have. They pay well. Those kind of well-educated employees buy homes, they shop in your stores, and they support your economy and they support your community.

Other states like Iowa and the Dakotas have been very successful in attracting these kinds of operations because of their quality work force and their corporate tax structure.

How important is the corporate tax rate to large companies looking for sites?

The best source of information I know of is the annual survey of corporate decision-makers by Area Development Magazine. This is a niche publication for economic developers and companies that are expanding. For 21 years, Area Development has done a survey of corporate decision-makers about what's important.

I have attached a complete copy of the latest survey to my testimony.

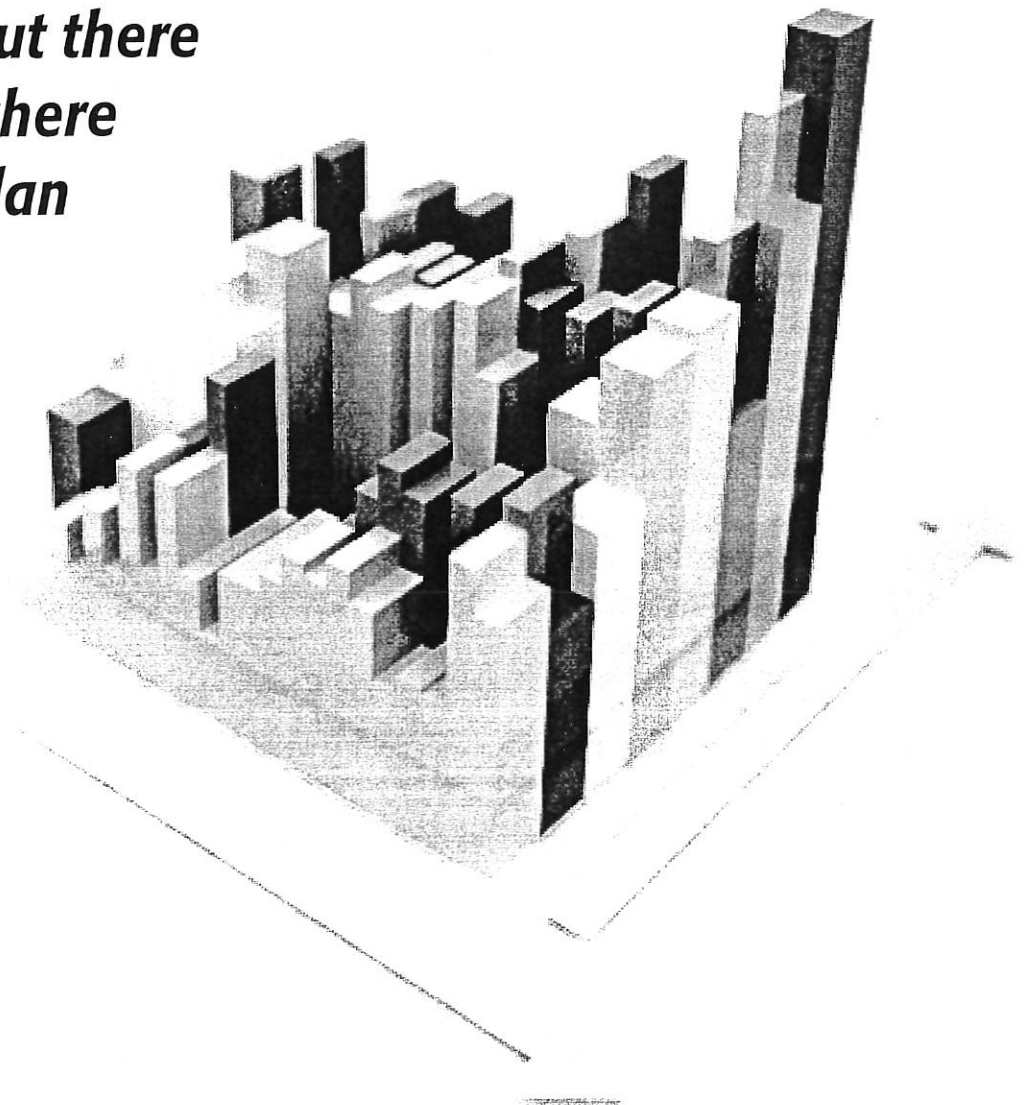
Done in 2006, it indicates that labor costs are first, highway accessibility second, and corporate tax rate is ranked the third most important site selection factor. The survey indicates that 90.8 percent of these decision-makers believe corporate tax rate is either very important or important in their choice of where to locate a facility. Also of interest, state and local incentives are ranked fourth at 88.6 percent.

I urge you to give favorable consideration to House Bill 2495. The corporate tax rate is a topic that's not discussed very often when we discuss economic development issues in this building, but according to over 90 percent of the people making the decisions, it's either important or very important.

21ST ANNUAL CORPORATE SURVEY

by Geraldine Gambale

This year's results show little change in priorities – but there is a shift in where companies plan to put their facilities.



2006

2007 ANNUAL CORPORATE SURVEY

As 2006 winds down, so has the economy. According to advance estimates released by the Bureau of Economic Analysis at the end of October, real GDP — the output of goods and services produced in the United States — only increased by an annual rate of 1.6 percent in the third quarter of 2006. GDP had increased by 5.6 percent in the year's first quarter, slowing to 2.6 per-

cent in the April–June period, and now slowing even further, apparently, over the summer months.

Economists as well as the National Association of Manufacturers (NAM) attribute this moderating growth primarily to the downturn in the housing market. In fact, NAM representatives note that if residential investment is excluded, the economy actually grew by 2.7 percent in the third quarter, nearly identical to second quarter growth. NAM further notes that over the last four quarters, business investment has increased 8 percent and merchandise exports have risen 11 percent. Notably, manufacturers account for nearly two-thirds of exports, and this is one reason why manufacturing output has risen 6.2 percent over the past year — more than double the percent pace of the overall economy. In fact, NAM notes that manufacturing sectors that are closely connected with exports and business investment, e.g., machinery and electronics, have gained more than 170,000 jobs over that period.

Notwithstanding NAM's optimism, the Conference Board recently presented a more pessimistic outlook. The business research group said that CEO confidence had fallen to 44 in the third quarter, as compared to 50 in the second quarter; this was the first time the index had fallen below 50 in nearly five years (it was at 40 post-9/11/2001). A rating below 50 signifies more negative than positive responses.

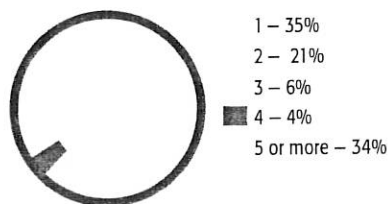
According to Lynn Franco, a Conference Board research director, "The lack of confidence expressed by CEOs is a result of [not only] the recent slowdown...[but

Current operations of respondent companies:

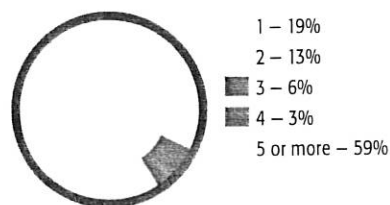


Number of facilities currently operated by respondents worldwide:

Domestic



Foreign



also] expectations that this lackluster pace of growth will carry over into the beginning months of 2007." The board's survey found that only 16 percent of chief executives expect economic conditions to improve in the coming months — down from 21 percent that felt that

way in the second quarter of 2006. Additionally, fewer than half of the 60 senior manufacturing executives recently interviewed by PricewaterhouseCoopers are optimistic about the state of the U.S. economy over the next 12 months — down from 76 percent who were optimistic just six months prior.

So which prognosticators are correct? In order to find out — as we have done for the past 20 years — *Area Development's* editors surveyed the magazine's corporate readership this past August to find out about their plans to open up new facilities at home and abroad, expand existing facilities, and/or relocate. We also asked about their site selection priorities so that we could gauge how they had changed over the last year. The results of our 2006 Corporate Survey are presented in this report.

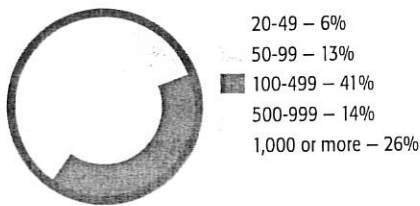
Who Are They?

As in years past, more than four-fifths of the respondents to our survey are with manufacturing companies. Only 5 percent said they represented warehousing/distribution firms (Figure 1).

Thirty-five percent of the respondent companies operate just one domestic facility, about a fifth operate two, while more than a third have five or more facilities in operation. When it comes to foreign operations, however, 59 percent of the respondents that operate foreign facilities have five or more, with about a fifth having just one (Figure 2).

For the most part, the respondent companies are

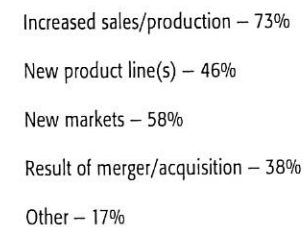
Number of employees (all facilities):



Change in the number of facilities during the past 12 months:



Primary reasons for increasing number of facilities:

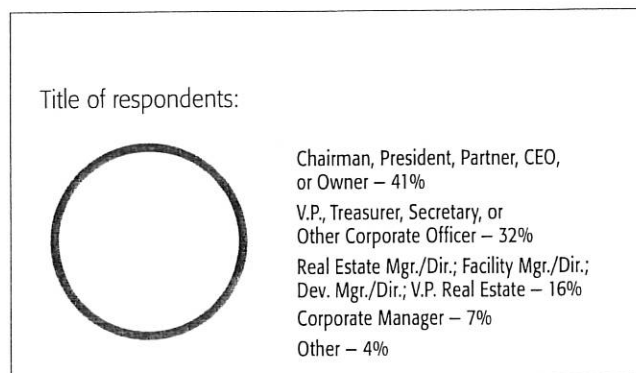
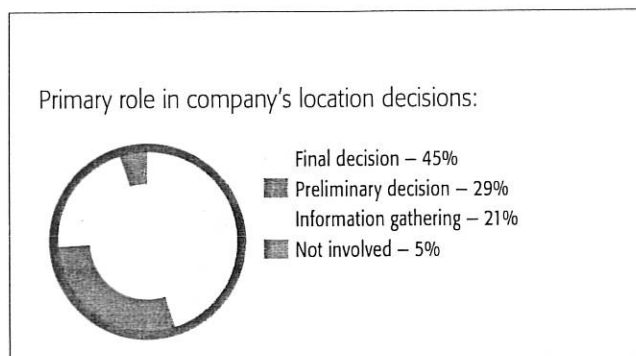
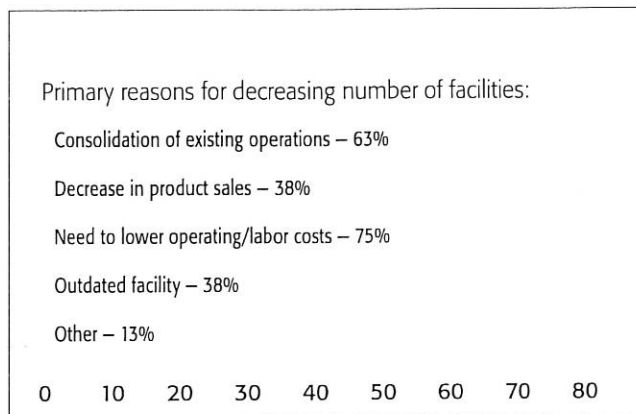


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24th ANNUAL CORPORATE SURVEY

mid-size or large in terms of employment. More than 40 percent employ 100–499 people at all facilities, 14 percent have 500–999 employees, and more than a quarter employ 1,000 or more (Figure 3).

There has been a decline in the number of respon-



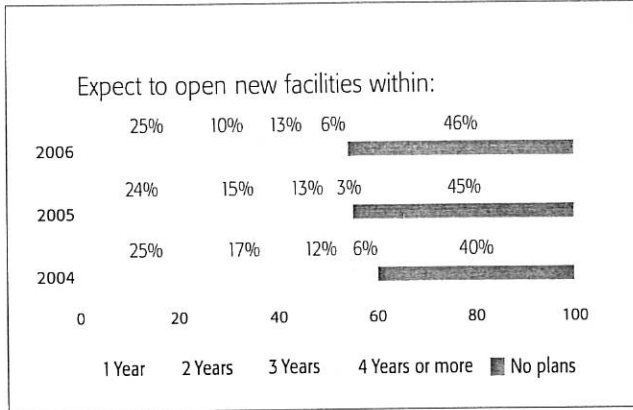
dent firms increasing their number of facilities. This year, 25 percent said they had increased their number of facilities over the past 12 months, as compared with 29 percent citing an increase in facilities in the 2004 and 2005 surveys. However, only 10 percent of this year's respondents reported a decrease in their number of facilities over the past 12 months — fewer than the 13 percent in 2005 and 17 percent in 2004 making such a claim (Figure 4).

Nearly three-quarters of the respondents reporting an increase in their number of facilities said it was due to increased sales/production. More than half said they were serving new markets, and nearly half had new product lines (Figure 5).

Of those who said they had decreased their number of facilities, nearly two thirds said this was in response to a consolidation of existing operations. Importantly, a full three quarters said they needed to lower operating and labor costs (Figure 6).

Forty-five percent of the respondents to our 2006 Corporate Survey are involved in their companies' final location decision. And another 50 percent are either involved in the preliminary location decision or information gathering (Figure 7). These respondents are at high levels within their firms: 41 percent are the chairpersons, CEOs, or owners; and a third are corporate officers (Figure 8). Knowing the respondents' level of involvement in the site selection process makes their facilities projections for the coming years — which follow below — quite credible.

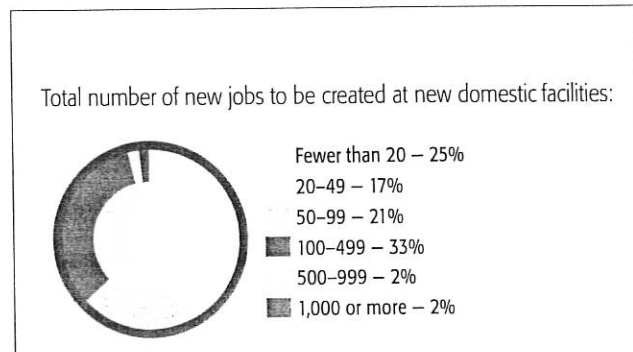
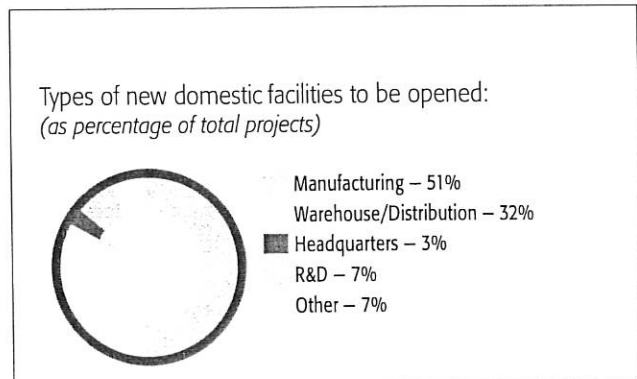
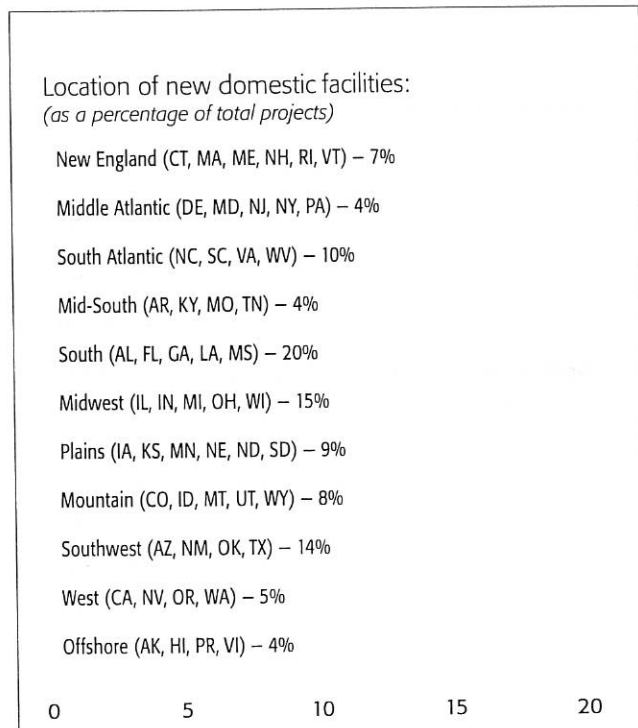
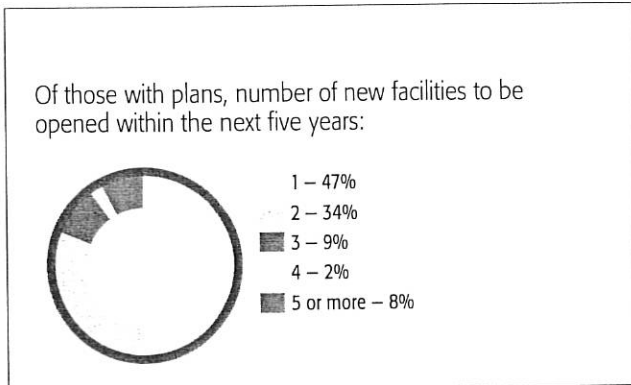
24th ANNUAL CORPORATE SURVEY

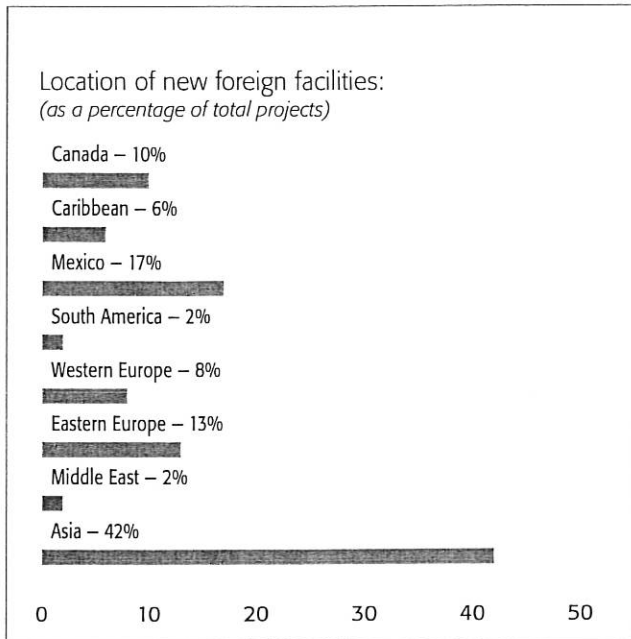


What Are Their New Facilities Plans?

This year's survey respondents' plans for new facilities are comparable to those of last year's survey respondents' (Figure 9). A quarter of the 2006 Corporate Survey respondents expect to open up new facilities within one year; another 23 percent expect to do so within two to three years; and 6 percent within four years or more. Of those with plans, about half will open just one facility, and another third will open two (Figure 10).

The South (Alabama, Florida, Georgia, Louisiana, Mississippi) is the leading choice for their new domestic facilities — 20 percent of the survey respondents' new facilities are headed to this region, as compared with





just 10 percent headed there according to last year's survey respondents. The second location of choice for new facilities is the Midwest (Illinois, Indiana, Michigan, Ohio, Wisconsin), which will garner 15 percent of the projects. Closely following at 14 percent is the Southwest (Arizona, New Mexico, Oklahoma, Texas) — a region that was last year's survey respondents' top pick, expected to receive 16 percent of their new facilities. The West (California, Nevada, Oregon, Washington), which was in the number-two spot last year (expected to garner 13 percent of the projected new facilities) has dropped considerably in favor, with only 5 percent of the 2006 survey respondents' planned new facilities slated for this region (Figure 11).

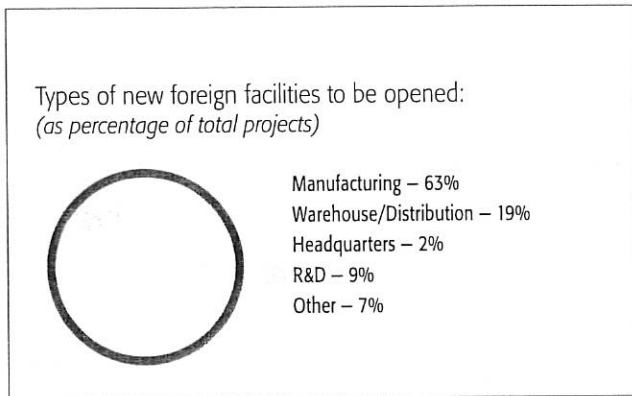
About half of the new domestic facilities will be manufacturing plants, and nearly a third will serve as warehouse/distribution centers (Figure 12). Unfortunately, our 2006 survey respondents' new domestic facilities

will not be huge job creators. More than 60 percent of the respondents will create fewer than a total of 100 jobs at the projected new domestic facilities. Only a third will create 100–499 jobs, and a mere 4 percent expect to add 500+ jobs to their U.S. work forces via these new facilities (Figure 13).

Asia is once again far and away the leading recipient of our respondents' planned new foreign facilities. It will receive 42 percent of the projects (up from 34 percent last year). And our 2006 Corporate Survey respondents are also making plans for new facilities in Mexico — which is expected to garner 17 percent of the new foreign facilities, down from 19 percent last year — and Eastern Europe, which will receive 13 percent of the projects, compared with just 10 percent last year. Interest in Canada (10 percent of the new facilities) and Western Europe (8 percent) is fairly consistent with last year's survey responses (Figure 14).

Nearly two-thirds of these new foreign facilities will be manufacturing operations, and about a fifth will house warehouse/distribution operations (Figure 15). Nearly 60 percent of the survey respondents say their new foreign facilities will create fewer than 100 jobs in total; another 35 percent, however, claim they will create 100–499 jobs at these new foreign facilities, and 7 percent expect to add more than 500 positions all told (Figure 16). Nearly half of these offshore jobs will require lower manufacturing skills, with another 36 percent expected to require higher manufacturing skill levels (Figure 17).

Last year, the respondents to our Corporate Survey said they were placing 48 percent of the facilities they

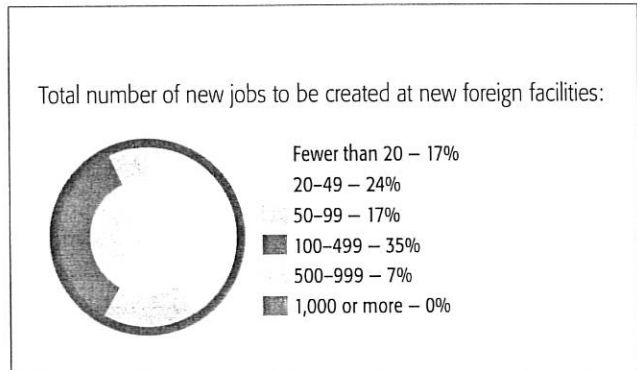


planned for Asia in China (PRC). That number is up to 59 percent. Another fifth of the Asian facilities slated by the 2006 Corporate Survey respondents will go to India, and another 22 percent to other Asian nations, including Japan, Malaysia, South Korea, Thailand, and Vietnam (Figure 18).

Unfortunately, operating in Asia has not gotten any easier for those planning new facilities in that part of the world. More than half of the respondents who expect to open up new Asian facilities say they have already encountered or anticipate problems operating in the Asian social/culture milieu. Nearly half say they also expect to grapple with regulatory problems. A fifth also believe they will face skilled labor shortages and problems with the transportation infrastructure (Figure 19).

Are They Expanding and/or Relocating?

The percentage of corporate survey respondents planning an expansion within one year is the same this



year as last — 22 percent. Long-range expansion plans have also remained consistent at 32 percent (Figure 20).

Nearly 80 percent of the 2006 Corporate Survey respondents said their companies' expansions would create fewer than 100 jobs; and fewer than one-fifth of the respondents said the expansions are expected to be mid-size in terms of employment, creating 100-499 jobs in total (Figure 21).

Relocation activity, however, is showing an uptick: 22 percent of the 2006 Corporate Survey respondents expect to relocate a domestic facility within two years, as compared with only 16 percent making such projections last year. And twice as many — 14 percent — have three-year relocation plans this year as last (Figure 22).

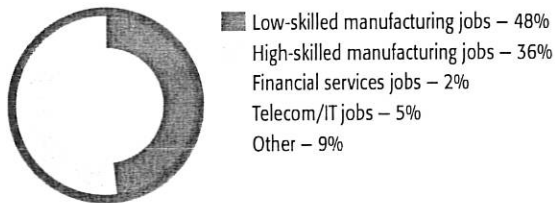
Nearly 30 percent of those planning relocations will do so to be in closer proximity to suppliers and/or markets served; a fifth need to reduce labor costs; and nearly 20 percent also need to reduce operating/occupancy costs (Figure 23).

What Are Their Priorities?

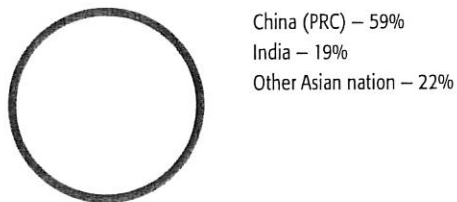
In order to find out how our corporate executive readers make their location decisions, each year the editors of *Area Development* ask our survey-takers to rate a series of site selection factors as either "very impor-

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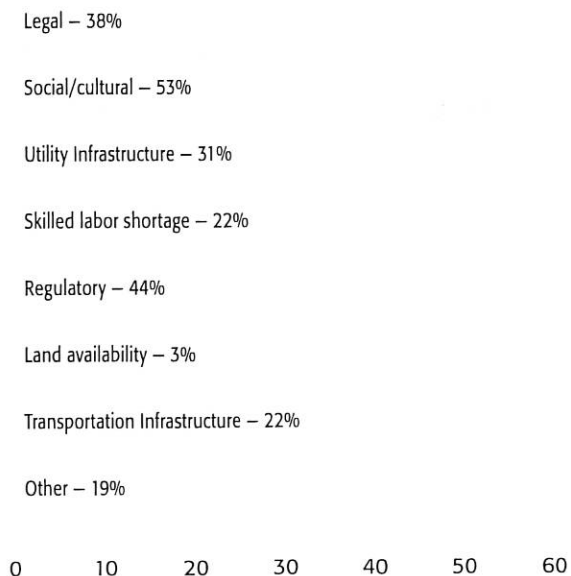
Types of jobs at new foreign facilities:
(as percentage of total jobs)



Where new facilities are planned for Asia:



Problems encountered/anticipated when operating in Asia:



tant," "important," "minor consideration," or "of no importance" (Figure 24). We then add the percentage of respondents rating a factor as either "very important" or "important" in order to rank the factors in order of importance to the location decision. Quality-of-life factors are ranked separately from the other site selection factors. This year's rankings appear in Figure 25.

Invariably, *labor costs* and *highway accessibility* are ranked by our corporate survey-takers as the two most important factors in the location decision, and this year is no exception. *Labor costs* is ranked as the number-one factor, considered "very important" or "important" by 95 percent of the survey respondents. *Highway accessibility* is ranked second, considered "very important" or "important" by 90.9 percent of the survey respondents.

Although *labor costs* gained 7.1 percentage points over last year's rating, it only moved up one place in the rankings from second to first place. And *highway accessibility*, which lost a half of a percentage point in the ratings, slipped down one spot from first to second place in the rankings. In other words, regardless of percentage, these two factors are still ranked higher than all the others.

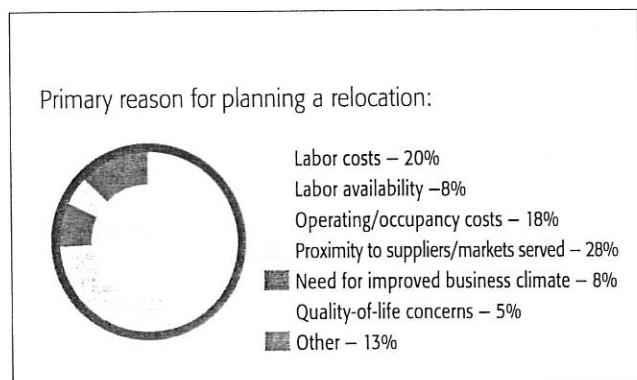
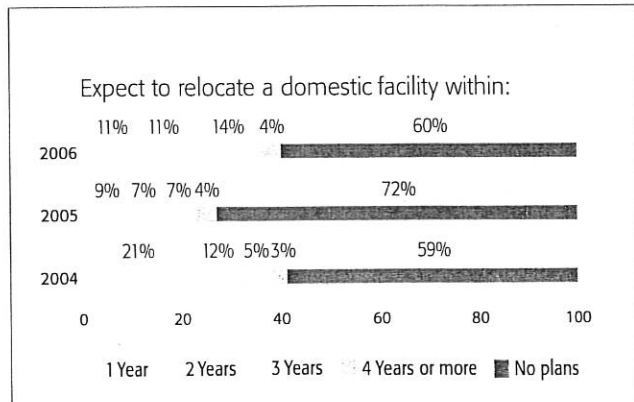
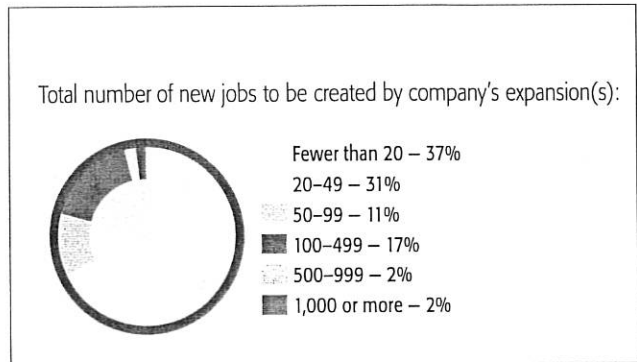
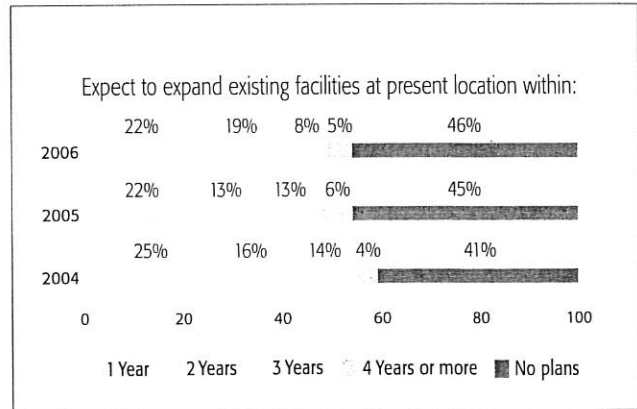
More significant is the movement of the *corporate tax rate* factor, which received a 90.8 rating this year — up 5.8 percentage points over last year — and moved from sixth to third place in rankings. Site selectors look very carefully at *corporate tax rate* when comparing locations in the United States or in deciding whether to

move offshore. In fact, in November 2005, The Tax Foundation released a study showing that the United States had the highest overall corporate income tax rate (39.4 percent combined federal and sub-federal) of all countries in the Organization for Economic Cooperation and Development (OECD).

This may explain why *state and local incentives* held its fourth-place ranking this year, receiving an 88.6 percent rating in importance from our survey respondents, actually up from 86 percent last year. And, *tax exemptions* jumped up two places in the rankings to sixth place this year, with an 86.7 percent rating, up from 83.6 percent in 2005.

Some 47 percent of the corporate survey respondents consider tax incentives the most important type of incentive when making a location decision; 29 percent of the respondents look for financial incentives like grants and loans; and about a quarter consider other incentives like free land, infrastructure support, and training as most important (Figure 26).

In fifth place in the rankings is *availability of telecommunications services*, receiving an 88.3 percent rating. This factor was in 11th place last year but gained 8.5 percentage points and six places in the rankings. However, *availability of high-speed Internet access* dropped from its fifth place position in 2005, with an 85.7 rating, to 10th place this year, with 82.1 percent of the survey respondents rating this factor as either "very important" or "important." This year's respondents seem to have rated Internet access as a sub-factor of telecommunica-



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FIGURE 24

5.14. SUSTAINABILITY FACTORS

	Very Important %	Important %	Minor Consideration %	Of No Importance %
Labor				
Availability of skilled labor	46.3	38.8	13.8	1.2
Availability of unskilled labor	29.3	36.0	26.7	8.0
Training programs	9.3	46.7	36.0	8.0
Labor costs	52.5	42.5	3.8	1.2
Low union profile	51.4	27.0	14.9	6.8
Right-to-work state	37.1	30.0	22.9	10.0
Transportation/Telecommunications				
Highway accessibility	40.3	50.6	7.8	1.3
Railroad service	6.9	13.9	38.9	40.3
Accessibility to major airport	10.7	50.7	21.3	17.3
Waterway or oceanport accessibility	8.5	8.5	32.4	50.7
Availability of telecommunications services	28.6	59.7	10.4	1.3
Availability of high-speed Internet access	44.8	37.3	13.4	4.5
Finance				
Availability of long-term financing	30.8	33.3	21.8	14.1
Corporate tax rate	40.8	50.0	6.6	2.6
Tax exemptions	42.7	44.0	9.3	4.0
State and local incentives	45.7	42.9	8.6	2.9
Other				
Proximity to major markets	39.7	37.2	19.2	3.8
Cost of land	24.7	54.5	18.2	2.6
Availability of land	17.3	56.0	22.7	4.0
Occupancy or construction costs	26.3	59.2	13.2	1.3
Raw materials availability	28.2	35.9	24.4	11.5
Energy availability and costs	40.5	41.9	13.5	4.1
Environmental regulations	27.3	41.6	27.3	3.9
Proximity to suppliers	15.1	34.2	42.5	8.2
Proximity to technical university	5.7	24.3	41.4	28.6
Community/Quality of Life Factors				
Climate	11.1	37.5	36.1	15.3
Housing availability	17.6	36.8	35.3	10.3
Housing costs	20.8	43.1	26.4	9.7
Health facilities	18.8	42.0	27.5	11.6
Ratings of public schools	11.0	53.4	24.7	11.0
Cultural opportunities	7.1	34.3	48.6	10.0
Recreational opportunities	9.9	33.8	43.7	12.7
Colleges and universities in area	13.5	31.1	39.2	16.2
Low crime rate	23.6	47.2	18.1	11.1

*All figures are percentages and are rounded to the nearest tenth of a percent.

FIGURE 25**Combined Ratings* of 2006 Factors**

2006 RANKING OF FACTORS		2005	2006
Ranking			
1.	Labor costs	87.9	95.0
2.	Highway accessibility	91.4	90.9
3.	Corporate tax rate	85.0	90.8
4.	State and local incentives	86.0	88.6
5.	Availability of telecommunications services	79.8	88.3
6.	Tax exemptions	83.6	86.7
7.	Occupancy or construction costs	83.7	85.5
8.	Availability of skilled labor	87.2	85.1
9.	Energy availability and costs	82.8	82.4
10.	Availability of high-speed Internet access	85.7	82.1
11.	Cost of land	79.1	79.2
12.	Low union profile	77.0	78.4
13.	Proximity to major markets	83.2	76.9
14.	Availability of land	75.0	73.3
15.	Environmental regulations	71.1	68.9
16.	Right-to-work state	69.7	67.1
17.	Availability of unskilled labor	50.6	65.3
18.	Raw materials availability	62.3	64.1
18T.	Availability of long-term financing	56.5	64.1
19.	Accessibility to major airport	50.0	61.4
20.	Training programs	59.6	56.0
21.	Proximity to suppliers	66.7	49.3
22.	Proximity to technical university	30.2	30.0
23.	Railroad service	28.9	20.8
24.	Waterway or oceanport accessibility	20.2	17.0

2006 RANKING OF QUALITY FACTORS

2006 RANKING OF QUALITY FACTORS		2005	2006
Ranking			
1.	Low crime rate	67.8	70.8
2.	Ratings of public schools	56.8	64.4
3.	Housing costs	60.0	63.9
4.	Health facilities	62.1	60.8
5.	Housing availability	59.3	54.4
6.	Climate	46.5	48.6
7.	Colleges and universities in area	46.0	44.6
8.	Recreational opportunities	44.8	43.7
9.	Cultural opportunities	48.8	41.4

*All figures are percentages and are the total of "very important" and "important" ratings of the Area Development Corporate Survey and are rounded to the nearest tenth of a percent.

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tions services in general, and this may account for the “swap” in the rankings of these two factors.

Occupancy and construction costs remained in seventh place in the rankings but actually gained 1.8 percentage points in the ratings, with an 85.5 percent combined rating. This factor is traditionally given an upper-middle position, perhaps because its importance is variable depending on the type of project being considered — e.g., assembly line or specialized manufacturing process, warehouse/distribution center, offices, etc. — as well as the region being looked at. Construction costs can vary widely across the nation.

Interestingly, the *availability of skilled labor* factor fell from third to eighth place in the 2006 rankings. Last year it received an 87.2 percent rating in importance, as compared with 85.1 percent this year. According to site location consultants, labor skills are carefully evaluated once a community gets short-listed and then they can become an overriding factor in the location decision.

More interesting is the fact that *availability of*

unskilled labor had the second-highest gain — advancing 14.7 percentage points to 65.3 percent in importance — and moving up in the rankings from 21st to 17th place. This may be a reflection in the rise of the number of college graduates in the United States. Skilled workers are defined as those having a college degree or greater. Meanwhile, unskilled workers are those with just a high school diploma who are willing to take that hourly, entry-level job. Even these unskilled workers, however, must have good reading, math, and communication skills and an aptitude to learn. Perhaps it is this group of “unskilled” individuals whom the respondents are having a hard time finding.

Moving up just one spot in the rankings to ninth place is *energy availability and costs*, which was rated as “very important” or “important” by 82.4 percent of the survey respondents. Energy costs have remained high over the last year and so has the importance of this factor.

If we look at the factors that did not make the top 10, those showing significant changes involve market and supplier proximity and the means of reaching both. *Proximity to major markets* lost 6.3 percentage points in importance and ranked 13th this year with a 76.9 percent combined rating, as compared to ninth last year. *Proximity to suppliers* exhibited the largest change among all the factors, dropping 17.4 percentage points. This year only 49.3 percent of the survey respondents rated proximity to suppliers as either “very important” or “important” and it dropped from 17th to 21st in the

Type of incentives considered most important when making a location decision:

Tax incentives – 47%

Financial incentives – 29%

Other incentives – 24%

0 10 20 30 40 50

rankings. And *railroad service* and *waterway or oceanport accessibility* took the last two spots among the factors — just as they did in 2005. However, they both decreased in importance. *Railroad service* lost 8.1 percentage points and *waterway or oceanport accessibility* lost 3.2 percentage points. *Accessibility to major airport*, on the other hand, gained 11.4 percentage points, with 61.4 percent of the 2006 Corporate Survey respon-

Analysis of the 2006 Corporate Survey

In comparing this year's survey to those from past years, at a macro level, not much has changed. Simply stated, over the past five years:

- the top-three ranked factors have always been in the top-four rankings (except for 2005);
- the bottom-three factors have always been in the bottom-three rankings;
- 15 of the top-15 ranked factors have not changed;
- eight of the top-10 factors have always been the same; and
- the factors rarely change more than 3–4 percentage points from the previous year's selections.

Although the order of the ranking has not changed much, the 2006 results have seen several factors change in the percentage of respondents indicating "very important" or "important" in their weighting selections. Specifically, *labor costs* increased seven percentage points, *corporate tax rate* increased about six percentage points, and *availability of telecommunications services* increased 8.5 points. Again, it is fairly typical to see a 3–5 percent fluctuation; therefore, there is obviously a serious focus on these issues. The focus on low operating costs — criteria ratings as well as reasons for decreasing facilities — and the dramatic jump in importance of *availability of unskilled labor* (50 percent up to 65 percent) especially in China points to the current economic climate of the continuing importance of product cost margins.

This survey is dominated by the manufacturing, warehouse, and distribution sectors (combined 88 percent of

respondents rating this factor as "very important" or "important" as compared to only 50 percent of the 2005 survey respondents giving it a similar rating.

It is quite surprising that this year's survey respondents did not place more importance on the supplier and market proximity factors as well as the factors related to rail and water transport, considering the increasing importance of international trade. Perhaps those

By Les J. Cranmer, Senior Managing Director, and
Art M. Wegfahrt, Corporate Managing Director,
Studley, Inc.

respondents) and, therefore, overwhelmingly reports the current preferences of American manufacturers involving the business of making and/or moving goods. Based on this consideration, it is curious (if not surprising) that more change is not being reported relative to the importance of proximity to deepwater ports and rail service (these two factors are always ranked last and next to last). The dramatic growth of international trade is certainly causing significant modifications to supply-chain thinking — including significant volume increase in port and rail service.

If one were to contrast these manufacturing/distribution-sector-oriented results to the methods and factors commonly utilized on service-sector site selection projects, one key consideration stands out as being drastically different. The fact that the majority of all respondents indicate that they do not place much importance on the fact that similar employers (or jobs) may be in the target area (53 percent said they do not even consider this piece of data) suggests that interviews with competing local employers are not a method used during due diligence. This technique is a critical component of the service-sector location consideration — in order to collect real time current compensation, union election activity, and recruiting practices to calculate comparative operating costs.

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responding to our 2006 Corporate Survey are primarily manufacturers of high-value added products, with parts and finished goods being shipped by air as opposed to other means. This is one possible explanation for the

Analysis of the 2006 Corporate Survey

In reviewing the 2006 Corporate Survey results against the 2005 results, one immediately noticeable observation was that nine of the top-10 factors for 2005 were also included in the top-10 factors for 2006. While the rank order changed to some degree, the only top-10 factor from 2005 not included in the top-10 for 2006 was *proximity to major markets*, and it was replaced with *availability of telecommunications services*.

In fact, if one examines the Annual Corporate Survey results back to the year 2000, a significant trend is evident. There are four factors that are included in the top-five rankings every year except for 2001 and 2006. Those four factors are *labor costs*, *highway accessibility*, *state and local incentives*, and *availability of skilled labor*. Interestingly, each of these four factors has been ranked first at least once since the 2000 survey.

A further examination of results back to the 2000 survey reveals another significant trend. There are four additional factors that are consistently included in the second half of the top 10. These additional factors are *tax exemptions*, *occupancy or construction costs*, *energy availability and costs*, and *corporate tax rate*. The other factors that have moved in and out of the top 10 since 2000 are *cost of land*, *proximity to major markets*, *availability of telecommunications services*, *availability of high-speed Internet access*, and *environmental regulations*. These findings provide strong evidence that while the rating of factors may vary slightly from year to year, the overriding factors driving site location decisions have remained fairly constant.

Other findings of significance from the survey include the following:

results.

Finally, with interest rates having risen over the last year, our corporate survey respondents are concerned with the *availability of long-term financing*. This factor

By Buzz Canup, President, Site Selection Services, Angelou Economics

- 63 percent of companies decreasing their number of facilities have done so due to consolidation, and 75 percent have done so to lower operating and labor costs. A large number of companies are pursuing similar strategies in an attempt to reduce real estate costs within their portfolios.
- 48 percent of companies indicate they will open a new facility within the next three years, an indication of the continuing strength and growth of the economy, both domestic and international.
- Foreign investment by U.S. and multinational corporations continues to flow more heavily to Asia, India, and Mexico. The percentage of companies planning to invest in China increased from 48 percent last year to 59 percent this year, a very significant shift. However, companies continue to acknowledge the challenges of social and cultural differences (53 percent), regulatory problems (44 percent), and potential legal issues (38 percent) in locating operations in Asia.
- A significant number of companies continue to initiate their site location studies looking for existing buildings (78 percent this year compared to 73 percent last year). The speed with which companies want to conduct their site location study and initiate operations is driving the preference for existing facilities.

All in all, there were not any surprises in this year's annual survey. The survey did, however, reinforce the continuing importance of certain site location factors identified in the top-10 factors as described above. These findings are very much in line with the factors and priorities set by our clients in performing site location studies.

gained 7.6 percentage points and was rated 64.1 percent in importance, moving it up two spots in the rankings to 18th place this year.

When it comes to quality-of-life factors, *low crime rate* is the top-rated factor, as it has been over the 21-year course of our survey. After dipping to fifth place in the rankings in 2005, *ratings of public schools* gained the number-two spot this year, followed by *housing costs*, *health facilities*, and *housing availability*, which were also top-rated quality-of-life factors in 2005. Obviously, these five quality-of-life factors are more important than *climate* or *cultural and recreational opportunities*.

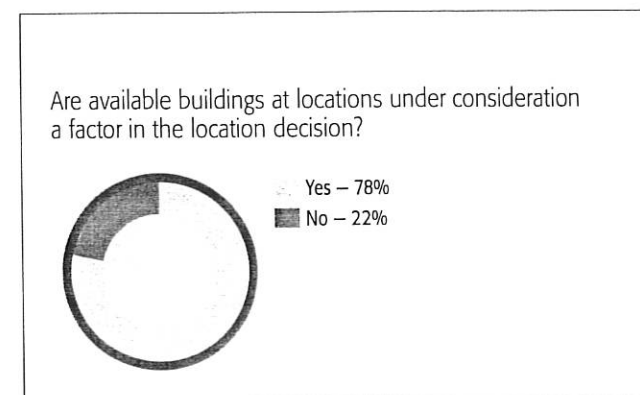
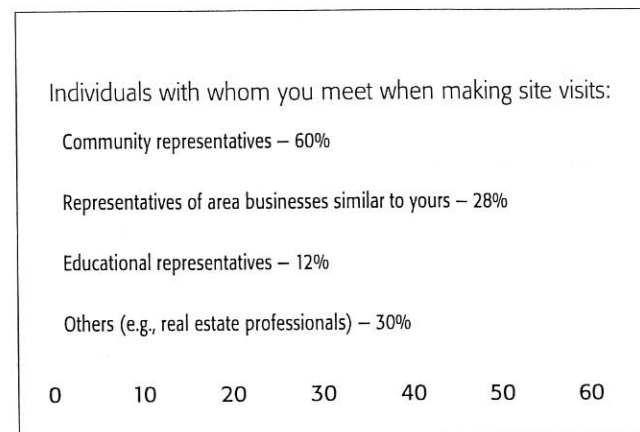
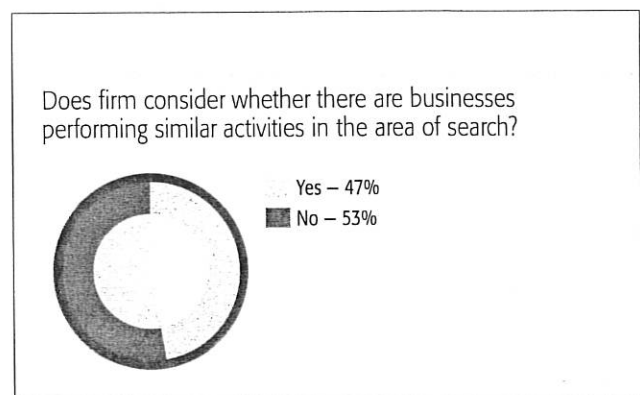
There are a few other considerations that companies have when site selecting. First, are they looking to be in proximity to businesses performing similar activities to their own? More than half of the Corporate Survey respondents (53 percent) said this was not a factor (Figure 27). However, 28 percent claim to meet with representatives of area businesses similar to theirs when making site visits — less than half the percentage that meet with community representatives (Figure 28).

Meanwhile, more than three-quarters of the respondents do consider whether there are available buildings at the locations under scrutiny (Figure 29). Of these, 68 percent say this factor is more or equally important to other site selection factors (Figure 30).

Where Do They Get Their Information?

The Internet is still our survey-takers' prime source of

site selection information (used by 59 percent of the respondents). However, this is closely rivaled by site magazines: 57 percent of the respondents say they rely



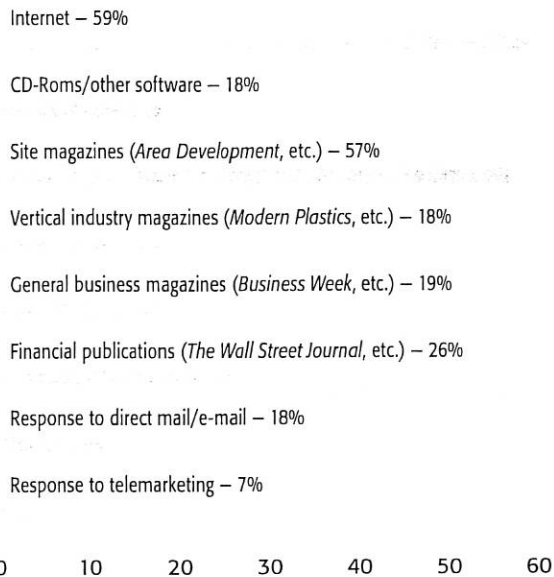
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Importance of an available building in the location decision:

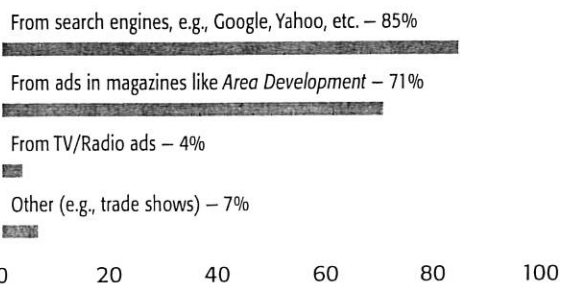


More important in your decision than other factors – 28%
 Less important than other factors – 32%
 Equally important – 40%

Sources of site selection information used during the past year:



Of those who use the Internet to make site and facility planning decisions, sources of website addresses:



on magazines like *Area Development* for information when making location decisions (Figure 31).

Of those who use the Internet, 85 percent obtain website addresses of the locations they are considering from search engines like Google or Yahoo. It follows that more than 70 percent get the addresses from magazines like ours (Figure 32).

Nearly 70 percent of the survey respondents find economic development websites to be most useful; nearly 60 percent also find site magazines like *Area Development* most useful; and 45 percent rely on real estate or location directories as well (Figure 33).

Importantly, two-thirds of the 2006 Corporate Survey respondents do not use outside consultants when site selecting (Figure 34). When we look at the results of our Third Annual Consultants Survey that follow, this will help to explain the incongruities between the consultants' responses and those of our corporate survey-takers.

Where Do We Go From Here?

The 2006 Corporate Survey respondents' plans and concerns seem to reflect the moderating growth of the U.S. economy. As previously stated, the softening in the housing market and rising energy prices have led to a blip in general business confidence.

One bright spot on the horizon, however, is interest rate stabilization. Increases in the prime rate had put a damper on borrowing, but if the Fed begins to lower interest rates — now that concerns about inflation have abated — there may be a rise in business confidence

Analysis of the 2006 Corporate Survey

First, I see that 83 percent of the respondents are in manufacturing, more than half of the respondents have two or fewer domestic facilities (though nearly 60 percent of the respondents have five or more foreign facilities), and only 25 percent of them have actually put in a new location in the last year — this will naturally skew the answers and affect the ranking in importance of some of the factors.

It's no surprise to see *labor costs* as the top factor. It is the top variable cost for most companies and drives so many projects, especially those going offshore. With ever-increasing pressure on manufacturers to lower prices, it is only natural that they will continue to seek lower labor costs. However, we do not see this pattern as much in very high-tech or capital-intensive projects where availability and quality of skills, market access, and taxes are key drivers.

Incentives are sort of double counted, with both *state and local incentives* and *tax exemptions* listed. Nonetheless, this tracks with what many clients say but, in the end, we find other issues are the true drivers and incentives are the differentiators among closely competitive candidates in the final phases. Industries where incentives and overall tax rates truly are the key drivers are those that throw off tremendous profit and/or have huge capital expenditures, such as bio-pharma and semiconductors.

I'm surprised that the *availability of telecommunications services* and *high-speed Internet access* were ranked so high, as these are rather ubiquitous — at least in the Western world. Telecom is a "must have," but nearly every location has it so it is rarely a differentiator or even a factor of consequence in my experience.

It's the same with *highway accessibility*. I agree that it is critical in the first phases of location screening, but it tends to act more as a check-off factor to narrow the field to a long list and isn't a factor in determining the short-list or final candidates as so many locations have good to excellent access. We find that customer access (i.e., time/cost to get product to customers) is the real driver, and highways are the facilitators within the defined zone. Those that don't have the access will, of course, be eliminated. However, *proximity to suppliers/markets* is the highest-rated reason for relocation at 28 percent versus 20 percent for second-place finisher, *labor costs* (Figure 23). That tracks with our experience, where those are the number-one and two issues, in that order.

Availability of skilled labor is, however, a big issue and has been for a long time. I am surprised it isn't rated even higher. It is disheartening to see *proximity to technical universities, training programs, and ratings of public schools* ranked relatively low, as these factors are key in providing skilled manufactur-

By Phil Schneider, Partner,
Deloitte Consulting, Practice Lead for Global
Expansion Optimization (GEO)

ing and other talent within a market. This has become a serious Achilles heal for the United States and one that must be addressed if we have any hope of maintaining our manufacturing and process prowess.

I strongly suspect *energy availability and costs* are going to rise in importance in the next year. Already our clients are pushing this issue to the front, and it is even driving relocations for manufacturers escaping areas with rapidly escalating power costs. Along those lines, I wonder whether *railroad service* will gain more importance in the future as fuel costs continue to rise.

I'm surprised that *accessibility to a major airport* is ranked so low, as so many clients put that very high on the list as an early screen — just like *highway accessibility*. Often they want to be within two hours of a medium to large airport, or close to a smaller one with excellent connections to a large hub. It's more of a check-off factor or first-level screen. If the sample had fewer mid-sized manufacturers and more service providers and large global manufacturers, I suspect this factor would rise in importance.

I'm not surprised that *right-to-work state* continues to decline in importance; it's not nearly the issue it was 15–20 years ago.

Finally, I agree that quality-of-life factors such as *colleges in area* and *recreational and cultural opportunities* are low priorities for mid-scale manufacturers, but they rise in importance significantly for higher technologies, service operations, R&D, and headquarters operations.

The location choices offshore track pretty well with what we are seeing with our clients, i.e., a very heavy Asia focus, dominated by China, with interest in India on the rise, and some Southeast Asian countries now competing more strongly with China, such as Vietnam (and Singapore continues to do very well with semiconductors and bio-pharma), followed by Mexico (which has seen an up tick), and Eastern Europe. We have seen some new interest in the UAE given the relative safety for the region and very low energy costs, plus government inducements to attract manufacturing projects.

Notice that the percentage of high-skilled jobs going to offshore facilities is pretty high (36 percent) — low-skilled is still higher (48 percent), but high-skilled is definitely increasing all the time. More and more companies are going offshore to find these high skills at competitive rates, and this should really concern us as even our high-skilled base is quickly being hollowed out.

24th ANNUAL CORPORATE SURVEY

and all businesses may begin to invest more. Additionally, if energy prices decline, this will further boost business confidence and investment.

A third-quarter survey by another business group, the National Association for Business Economics, shows a rebound in capital spending plans for 2007. Let's hope that this is the case and plans for new facilities and expansions come to fruition. If this holds true, manufacturers may enjoy a smooth — albeit not necessarily accelerating — ride.

Of those who use the Internet to make site and facility planning decisions, online sites found most useful:

- Economic development websites – 69%
- Site magazines (e.g., Area Development Online) – 58%
- Property databases (e.g., FastFacility.com) – 31%
- Real estate/location directories – 45%
- Others – 5%

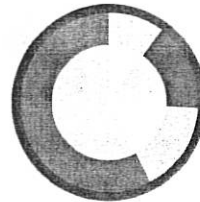
0 10 20 30 40 50 60 70 80

Does your company use outside consultants when site selecting:



- Yes – 33%
- No – 67%

For how many years have you been reading *Area Development*?



- Less than one year – 10%
- One to two years – 16%
- Three to four years – 16%
- More than four years – 58%

Have you recently used *Area Development* magazine for projects concerning site selection or facility planning?

- Yes, within the last six months – 9%
- Yes, within the last year – 13%
- Yes, within the last two years or more – 17%

0 5 10 15 20

Which of the following websites have you visited?

- www.areadevelopment.com – 45%
- www.locationcanada.com – 5%
- www.locationmexico.com – 13%
- www.southerntechsites.com – 13%
- www.fastfacility.com – 15%

0 10 20 30 40 50

How often do you visit these sites?

- Once a month – 47%
- Twice a month – 4%
- Three or more times a month – 4%

0 10 20 30 40 50



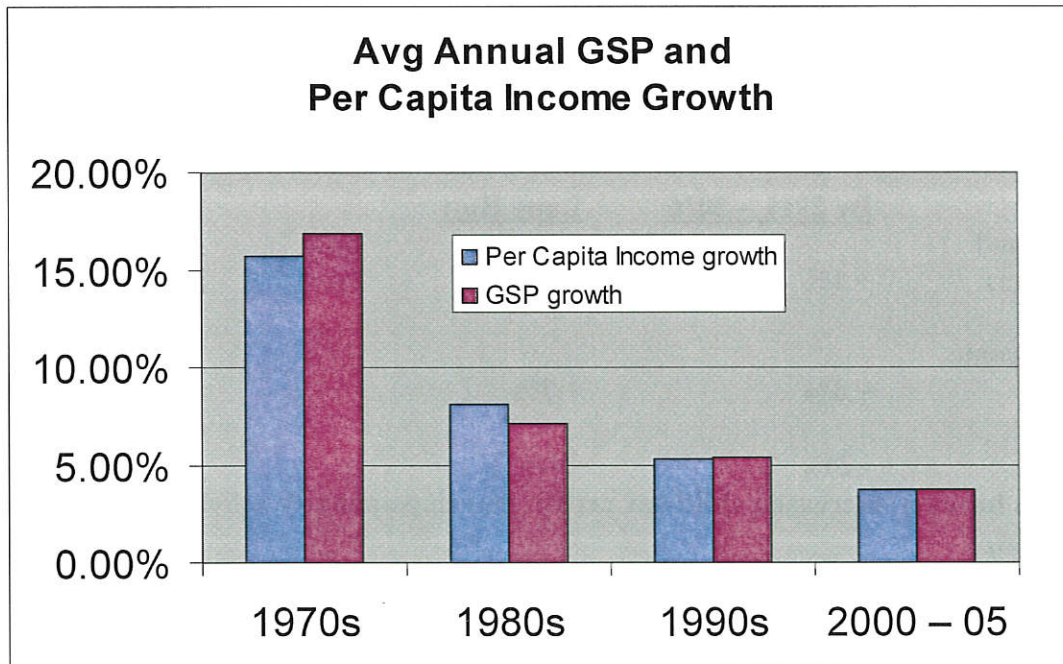
AMERICANS FOR PROSPERITY K A N S A S

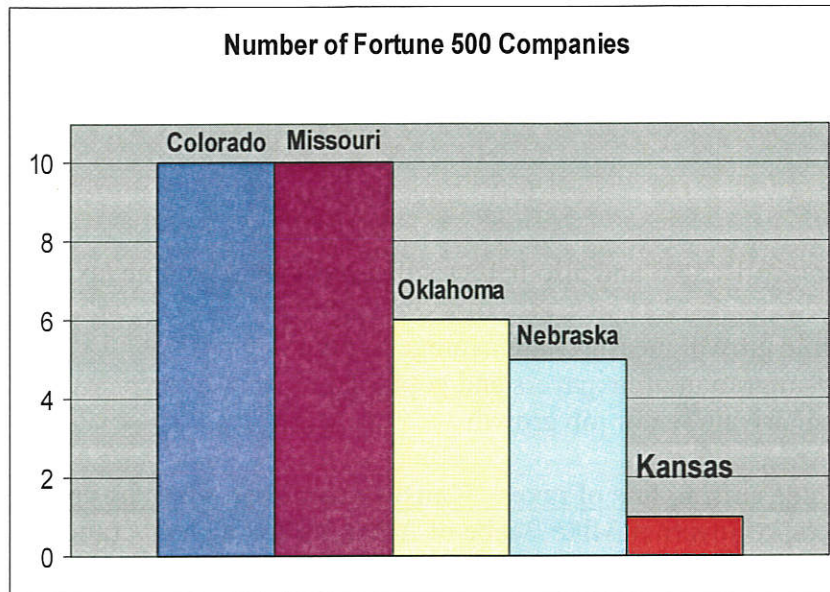
February 20, 2007

AFP-Kansas supports HB 2495 and also believes that individual income taxes should be reduced.

- Kansas economic growth measures are average to poor.
 - Net out-migration of taxpayers and population
 - Sluggish private sector job growth

- **Lots of states are cutting lots of taxes. Kansas must keep up to be competitive.**
 - Democratic Governor Mike Beebe of Arkansas and a Democratic controlled legislature cut \$319 million package of individual and business tax cuts.
 - The Republican Governor of Nebraska is pushing for over \$240 million in across the board income tax cuts and an end to state death taxes to make Nebraska more competitive.
 - This follows the large income tax cut and death tax abolition enacted last year by Oklahoma's Democratic Governor and Republican legislative leadership in
 - Last year Texas with Republican Governor Perry and that state's GOP controlled legislature passed over \$11 billion in mainly property tax cuts.
 - **Sales Taxes.** Six states enacted net sales tax increases while 15 states enacted decreases in their fiscal 2007 budgets.
 - **Personal Income Taxes.** Decreases in personal income taxes make up the largest portion of enacted changes for fiscal 2007, totaling \$2.3 billion. Eighteen states enacted decreases in personal income taxes, while only two enacted increases.
 - **Corporate Income Taxes.** Twelve states reduced the corporate income taxes by a total of \$239 MM. Four states increased corporate income tax.





Corporate Income Tax Rates

	1950	2005	Change
Colorado	5	4.63	-7.4%
Texas	0	0	0%
Oklahoma	4	6	+50%
Missouri	2	6.25	+213%
KANSAS	2	7.35	+ 268%
Nebraska	0	7.81	N/A

*For businesses with income over \$50,000
Source: Book of the States*

Wall Street Journal

Pluses and Minus (November 27, 2006, page A2)

Treasury's estimated incremental contribution to annual gross domestic product of the 2001 and 2003 tax cuts

	<u>By 2011 – 2016</u>	<u>Long Run</u>
Dividends and Capital Gains	+0.1%	+0.4%
Four top income tax rates	+0.6%	+0.7%
Other*	-0.2%	-0.4%

*New 10% bracket, increased child-tax credit, marriage-penalty relief (Source: Treasury Department)

State Corporate Income Tax Rates, As of July 1, 2006

State	Tax Rates and Brackets		
Arkansas	1%	>	\$0
	2%	>	\$3K
	3%	>	\$6K
	5%	>	\$11K
	6%	>	\$25K
	6.50%	>	\$100K
Colorado	4.63%	>	0
Iowa	6.00%	>	\$0
	8%	>	\$25K
	10%	>	\$100K
	12.00%	>	\$250K
Kansas	4.00%	>	\$0
	7.35%	>	\$50K
Missouri	6.25%	>	0
Nebraska	5.58%	>	\$0
	7.81%	>	\$50K
New Mexico	4.80%	>	\$0
	6.40%	>	\$500K
	7.60%	>	\$1,000K
North Dakota	2.60%	>	\$0
	4.10%	>	\$3K
	5.60%	>	\$8K
	6.40%	>	\$20K
	7.00%	>	\$30K
Oklahoma	6.00%	>	0
South Dakota	None		
Texas	None		
Wyoming	None		

State	Top Rate	at income of
Arkansas	6.50%	\$100,000
Colorado	4.63%	\$0
Iowa	12.00%	\$250,000
Kansas	7.35%	\$50,000
Missouri	6.25%	\$0
Nebraska	7.81%	\$50,000
New Mexico	7.60%	\$1,000,000
North Dakota	7.00%	\$30,000
Oklahoma	6.00%	\$0
South Dakota	0.00%	
Texas	0.00%	
Wyoming	0.00%	

State	Inc Tax Rate at \$50,000
Arkansas	6.00%
Colorado	4.63%
Iowa	8.00%
Kansas	7.35%
Missouri	6.25%
Nebraska	7.81%
New Mexico	4.80%
North Dakota	7.00%
Oklahoma	6.00%
South Dakota	0.00%
Texas	0.00%
Wyoming	0.00%

Sources: Tax Foundation; Each state's tax forms and instructions; Commerce Clearing House; Federation of Tax Administrators.

(a) Includes 20% surtax for 2006.

(b) Massachusetts has a two-part corporate tax. The corporate income tax on profits has a rate of 9.5 percent (including a 14 percent surtax), and the 0.26% corporate franchise tax is levied on taxable Massachusetts property or net worth.

(c) New Hampshire has a dual corporate income tax. The business profit tax (BPT) has a rate of 8.5 percent if gross income is over \$50,000 and the business enterprise tax (BET) has a rate of 0.75 percent if gross income is over \$150,000 or base (total com

(d) Includes 4% surtax for 2006.

Legislative Testimony

HB 2495

February 20, 2007

**Testimony before the Kansas House Taxation Committee
By Marlee Carpenter, Vice President of Government Affairs**

Chairman Wilk and members of the committee:

I am Marlee Carpenter with the Kansas Chamber. We represent over 10,000 members, small, medium and large businesses from all corners of the state. The Kansas Chamber supports HB 2495. The phase down of the corporate income tax is one of three tax items on our 2007 Job's First Agenda.

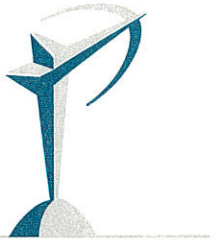
Reduction of the corporate income tax is important as we compete daily for jobs and investment in the state. Kansas' corporate income tax rate does not compare well nationally—ranking 38th lowest among state. The Tax Foundation study also notes in the same study that taxes do matter. The study states that, "They affect business decision, job creation and retention, plant location, competitiveness, and the long-term health of a state's economy."

Businesses remain positive about the Kansas economy but are still concerned about taxes. In our recent Business Owners and Operators Poll, taxes remain their primary concern. Thirty-one percent of businesses polled stated that taxes are the most important issue facing Kansas business. A reduction in the corporate income tax will, with a doubt, create additional positive momentum for the business community.

In the last few months corporate tax receipts have come in well above expectations. A reduction in the corporate income tax rate will stimulate the business community and make Kansas a more attractive place to locate and expand. More investment and job growth in Kansas will translate into additional growth in revenues for the State of Kansas.

The enactment of HB 2495 will help boost the Kansas economy. This bill coupled with the repeal of the franchise tax and the business machinery and equipment property tax repeal passed last year will increase businesses activity in Kansas. Increased business activity, job growth and investment is good for all Kansans, especially working Kansans because with these changes, there will be more plentiful and stable jobs in the state.

The Kansas Chamber urges your favorable action on HB 2495.



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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.

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

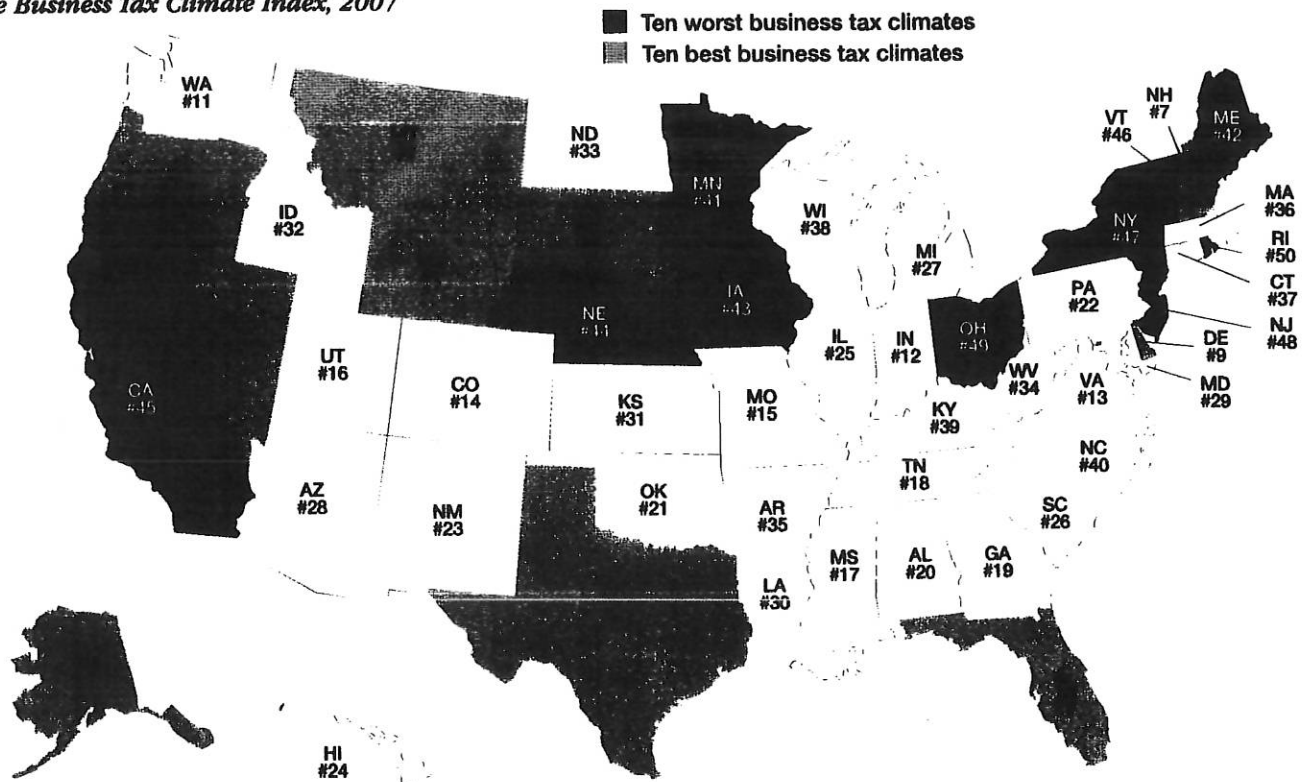
change the fact that Montana's businesses have no immediate access to deepwater ports. Lawmakers do, however, have direct control over how friendly their tax system is to business.

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	5.80	18	-0.13	-4
Alaska	7.23	3	7.29	3	-0.08	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	4.84	42	-0.13	-3
Colorado	5.67	14	5.70	13	-0.03	-1
Connecticut	4.83	37	4.86	41	0.17	4
Delaware	6.08	9	6.10	9	-0.02	0
Florida	6.88	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	5.88	12	-0.07	0
Iowa	4.56	43	4.82	44	-0.07	1
Kansas	5.04	31	4.99	33	0.05	2
Kentucky	4.76	39	4.76	38	0.01	-1
Louisiana	5.04	30	5.05	32	-0.01	2
Maine	4.87	42	4.84	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	6.18	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	5.08	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	7.58	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	7.68	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.

4-4

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	28	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 MATTER
ISSN 1527-0008 is published approximately four times a year. Each study explores an economic issue in depth, with a focus on how it affects business and industry.

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A Survey of 300 Business Owners/Executives in Kansas

Margin of error: +/- 5.6%

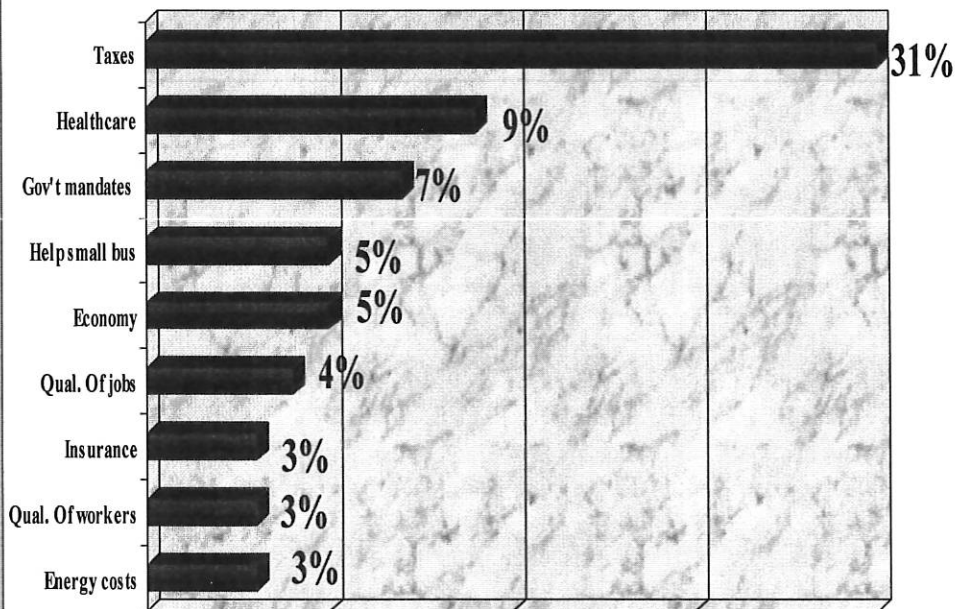
Surveys Conducted November 27-30, 2006



*Cole Hargrave
Snodgrass & Associates*

Most Important Issue Facing KS Business

Despite the optimism about the overall economy, almost a third of business owners/leaders say that the high level of taxation is the most important issue facing Kansas business. This is up sharply from past years.



9% of respondents gave various miscellaneous responses while another 11% were not sure.

Written Testimony: HB 2495
House Taxation Committee
February 20, 2007
By: Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce
ccaldwell@topekachamber.org

Chairman Wilk and members of the Committee:

The Greater Topeka Chamber of Commerce would like to express its support for HB 2495, which reduces the surcharge rate on corporate income taxes over a two year period.

This change in tax policy will continue to transform the Kansas tax climate to one that is positive for business growth and development. The state's commitment to grow the Kansas economy last year with the elimination of personal property tax on business machinery purchased after July 1, 2006 was a great step in making Kansas a business-friendly state that is serious about assisting businesses in creating capital investment and jobs. A reduction in the corporate income tax rate is another step that will bring our state closer to becoming one of the states serious about economic growth. The Governor and Legislature are to be commended for proposing this change in corporate tax policy.

Our economic development specialists in our community who meet with site locaters and company representatives who are considering expansions or relocations in Kansas report to us that our corporate income tax rate and the methods used to figure income taxes can be a real hindrance to investment and jobs locating in our state. *Area Development* magazine a publication that is geared to company presidents and representatives making location decisions for increased investment in companies and additional jobs has recently completed a study of factors that are important in the decision making process – 'income tax rates' is one of the top three issues that are considered when making those decisions. Corporate income tax rates can help drive an economy or can deter growth in an economy. HB 2495 will position Kansas in a more favorable light for new investment and jobs from corporations.

The Greater Topeka Chamber of Commerce urges your positive support of HB 2495, to reduce the corporate income tax rates.



The Historic Lackman-Thompson Estate
11180 Lackman Road
Lenexa, KS 66219-1236
913.888.1414
Fax 913.888.3770

TO: Representative Kenny Wilk, Chairman
Members, House Taxation Committee

FROM: Ashley Sherard, Vice-President
Lenexa Chamber of Commerce

DATE: February 20, 2007

RE: **HB 2495—Reduction in Corporate Income Tax
Surcharge**

The Lenexa Chamber of Commerce appreciates the opportunity to express its support for House Bill (HB) 2495, which would phase down the current 3.35% corporate income tax surcharge to 2.75% in tax year 2009 and thereafter.

While Kansas has made meaningful strides in significantly improving its business climate, the corporate income tax burden remains one area in which our state is noticeably uncompetitive both regionally and nationally. Although usually not the sole factor in decisionmaking, taxes are important to business. They divert resources that could otherwise be invested in economic growth. Further, in our experience assisting companies with their relocation and expansion plans, Kansas is less competitive when corporate income taxes are part of the equation. Sometimes we are able to overcome that hurdle with other considerations. Sometimes we are not and the company takes its jobs and capital investment elsewhere.

Accordingly, we strongly support the business-friendly proposal represented in HB 2495. Reduction of the corporate income tax burden would provide existing companies additional resources to reinvest in their operations and workforce as well as substantially increase the state's competitiveness in attracting and retaining businesses. Both of these outcomes would play a critical role in helping to foster a healthy and growing statewide economy.

For these reasons, the Lenexa Chamber of Commerce strongly urges the committee to recommend HB 2495 favorable for passage. Thank you for your time and attention to this important business issue.

KANSAS TAXPAYERS NETWORK

Web: www.kansastaxpayers.com

P.O. Box 20050
Wichita, KS 67208
February 20, 2007

316-684-0082
Fax 316-684-7527

Testimony Supporting HB 2495 By Karl Peterjohn, Executive Director

HB 2495 would lower the corporate income tax surcharge for Kansas corporations over two years. The reduction would be a little over 5 percent next year and 3 percent in 2009.

Kansas is facing major and serious economic challenges. Last year the Small Business and Entrepreneurship Council (www.sbecouncil.org) (SBEC) ranked the public policy environment for all 50 states. Kansas was in the bottom half of the 50 states in this overall survey in 35th place.

One of the criteria the SBEC used was the corporate income tax rates for all 50 states. Kansas' top tax rate was above all of our neighboring states except Nebraska. If HB 2495 is enacted in its current form, Kansas corporate income tax rates will still be the second highest in our five state region too. Kansas would need to reduce their maximum surcharge to 1.99 percent to move into third place in our region. Colorado's 4.63 percent rate is the lowest in our five state region today.

High taxes and high tax rates are a significant factor for business. Recently, the United States enacted a free trade agreement with Singapore. Singapore is a country smaller than Sedgwick County in square miles but is working hard to position themselves as a competitor for the geographic economic leadership with Hong Kong. Singapore's population is much larger than Kansas at 4.3 million people. I mention this because Singapore recently enacted a reduction in their corporate income tax rate from 20 percent down to 18 percent.

At 18 percent, Singapore's corporate tax rate will be barely half of just the federal corporate income tax in this country. In addition, when you add Kansas' current maximum rate income tax of 7.35 percent to the U.S. federal rate you will see another reason for businesses that are geographically flexible to look overseas. This is a public policy challenge for not only the state but also for the federal government. As communication and transportation barriers have diminished the geographic flexibility of major business has grown and countries like Singapore are positioning themselves to be at the forefront of world economic growth in the near future.

This committee will hear from opponents of HB 2495 who will claim that we cannot afford this tax cut. If Kansas cannot become more fiscally competitive with the other 49 states as well as the nations we have free trade agreements with at the national level, the future prospects for Kansas will be poor. Kansas cannot afford not to make themselves economically and fiscally competitive. HB 2495 is a small but significant step in the right direction. A bigger step is needed but one must walk before they try to run. This is especially true now that our neighboring state Nebraska, as well as nearby Arkansas are both in the process of reforming and improving their tax structures with tax cuts as large as \$319 million.

JEFF KING

REPRESENTATIVE, 12TH DISTRICT

Home Address: 1212 N. SECOND ST.
INDEPENDENCE, KANSAS 67301
(620) 331-9888

Office: STATE CAPITOL BUILDING
TOPEKA, KANSAS 66612
(785) 296-7663
1-800-432-3924



TOPEKA

HOUSE OF
REPRESENTATIVES

TO: House Taxation Committee

FROM: Jeff King, Representative, 12th District

SUBJECT: Testimony In Support of HCR 5013

DATE: February 20, 2007

Thank you Chairman Wilk and fellow members of the House Taxation Committee for the opportunity to appear before you today in support of HCR 5013. This proposed amendment addresses the issue that was high on voters' minds during last election, the rising burden of property taxes on fixed income Kansans, especially on many Kansas seniors.

I. HCR 5013 Lets Kansas Voters Decide if They Want the Legislature to Provide Property Tax Relief to Seniors through Valuation Caps.

At the outset, it is important to note what HCR 5013 if passed will and will not accomplish. As this Committee knows, the Kansas Constitution expressly prohibits the Legislature from providing property tax relief through property valuation limits. HCR 5013 gives Kansas voters a voice on this issue, letting them decide if they want to empower the Legislature to lessen the onerous property tax burden on Kansas seniors (especially those on a fixed income) through valuation caps.

HCR 5013 does not, however, cap the increases in property valuation for seniors by itself. Instead, if passed by the Legislature with a 2/3 majority and approved by Kansas voters, HCR 5013 merely authorizes the Legislature to provide valuation caps for seniors in the manner that it desires. Even if approved by the Legislature and Kansas voters, HCR 5013 would leave the specific policy details to later enabling legislation. In short, therefore, HCR 5013 would require the following three steps to provide property tax relief for seniors:

1. Passage of HCR 5013 by a 2/3 majority of the Kansas House and Senate.

2. Approval of the Kansas voters (likely in August or November 2008).
3. Passage of specific enabling legislation by the Kansas Legislature.

II. HCR 5013 Is the First Step towards Comprehensive Property Tax Relief.

As members of this Committee have said in prior testimony, comprehensive property tax relief is needed to address the onerous property tax burden faced by Kansans. The perfect, however, should not be the enemy of the necessary. Barring such comprehensive property tax relief, which seems highly unlikely this session, the Kansas Legislature should take efforts now to address those Kansans who are: (a) worst affected by the current property tax system and (b) most likely to leave Kansas because of it.

It seems clear that retired Kansans on fixed incomes are harmed the most by our current property taxes. During this Committee's debate on the franchise tax, many of us described the franchise tax as an unfair tax because it is not based on a company's profits or their ability to pay. The same logic applies to property taxes, especially for fixed income seniors. As seniors retire, often decreasing their income to a lower fixed level, their property tax burdens actually increase due to valuation increases. Not only does this heavy burden threaten the general welfare of our fixed income seniors, but it is spurring a substantial number of seniors to leave the state altogether in search of lower and more stable property taxes. Thus, by targeting fixed income seniors, this proposed amendment will help ease this difficult tax burden, provide peace of mind to Kansas seniors, and help stem the tide of Kansas retirees relocating to other states.

III. Although the HCR 5013 Itself Is not Limited Based on Income or Property Values, the Enabling Legislation Will Almost Certainly Contain Such Limits.

HCR 5013 recognizes the dangers that often arise when technical details are placed in a constitutional amendment. In that vein, HCR 5013 does not itself contain a means test or limit applicability of this provision to homes below a certain appraised value. This is because: (a) whatever limitations were contained in HCR 5013 would likely be made obsolete by the passage of time and (b) technical corrections can occur efficiently through legislation but are extremely difficult in a constitutional amendment.

Instead, the last line of HCR 5013 addresses the issue of a means test or any other limits that the Legislature wishes to place on valuation caps for seniors. This line specifically authorizes the Legislature to place any limitations, such as restricting the caps to persons under a certain income or property value level.

Having spoken personally with over half of the Kansas House and many in the Kansas Senate on this issue, the overwhelming majority of our colleagues wanted to limit the application of any valuation cap to homes below a certain appraised value. Thus, HCR 5013 specifically authorizes limits on the applicability of valuation caps, a power that the Legislature will almost certainly exercise in any enabling legislation on this issue.

IV. HCR 5013 Provides Real Tax Relief and Considerable Flexibility to the Kansas Legislature in Crafting the Best Form of Property Tax Relief for Seniors.

HCR 5013 would provide real property tax relief to fixed income Kansas seniors. The amount of this relief (and the extent or existence of any property tax shift) would depend on the specifics of the enabling legislation. As this Committee knows, property tax shifts result from government increases in the mill levy to compensate for any lost property tax revenue. The state tax levy is fixed, however, at 21.5 mills. Thus, concerning the 21.5 mills of state property tax, the proposed amendment would provide real property tax relief without any tax shift.

For local property taxes, the effect depends entirely on the details of the enabling legislation. For instance, if the enabling legislation excluded valuation caps for local property taxes or if it authorized the use of state funds to compensate local units of government for taxes lost due to a valuation cap, no property tax shift would occur and real tax savings would result.

V. HCR 5013 Gives Kansans a Voice on Property Tax Relief and, if Passed, Would Provide Peace of Mind for Fixed Income Seniors.

As this Committee knows, property tax relief (especially for fixed-income seniors) is an issue of vital importance in Kansas. Kansas is one of only seven states that does not have a partial or full cap on how much state or local property taxes can increase in a given year for seniors. While HCR 5013 is not the final solution to our growing property tax crisis, through adoption of HCR 5013 and the subsequent enabling legislation, Kansas can join 43 other states in recognizing that property valuation caps for fixed-income seniors provides a valuable tool in keeping retirees in their homes and in our state.

Thank you for your time and your consideration of HCR 5013.

A handwritten signature in black ink, consisting of stylized, overlapping loops and lines, positioned in the lower right quadrant of the page.

STATE OF KANSAS
HOUSE OF REPRESENTATIVES

MIAMI COUNTY
502 S. COUNTRYSIDE DR.
LOUISBURG, KANSAS 66053
(913) 837.2585

STATEHOUSE-ROOM 115-S
TOPEKA, KANSAS 66612
(785) 296.6014
EMAIL: Vickrey@house.state.ks.us



JENE VICKREY
6TH DISTRICT
ASSISTANT MAJORITY LEADER

VICE CHAIRMAN – HOUSE COMMITTEE
ON LEGISLATIVE BUDGET

COMMITTEE ASSIGNMENTS
CALENDAR & PRINTING
ELECTIONS & GOVERNMENTAL ORGANIZATION
INTERSTATE COOPERATION
TRANSPORTATION

House Committee on Taxation
Testimony – Rep. Jene Vickrey
HCR 5013

1. HCR 5013 will keep our state competitive. Not only are our young people leaving our state, so are our retired citizens. Kansas is one of only seven states without some form of Property Tax Cap for its retired citizens.

HCR 5013 will change our image and will give our citizens confidence they can afford to stay in Kansas as they plan for retirement.

2. People will vote. This is not just our idea in the capitol. It will require two-thirds majority of the next electorate.
3. Affordable. If you calculate the percentage of the tax base that is Senior Citizen owned or occupied of the 40% of the Tax Base that is residential. With that calculation you would be under 4% of the category of those living in the home they own.
4. Flexible. The Legislature would always have the ability to change and design the way the appraisal cap works.

PAOLA SENIOR CENTER INC.
121 WEA ST.
PAOLA, KS. 66071

1-913-294-4630
FAX_ 1- 913- 294-4630

TO Mary Jane at Gene Vickrey's Office
FAX# 785-368-6365

FROM: Glenna Burton Director

SUBJECT: Placing a Cap on Appraisals for Elderly Taxes

MESSAGE: Enclosed is my personal story
It's true & I give permission to
use my story please omit names if
possible (if needed I say yes)

Glenna Burton

TOTAL PAGES 2

DATE: 2-16-07

Attention: Gene Vickrey

TO WHOM IT MAY CONCERN

We at the Paola Senior Center feel that it is very important (especially at this time) for a cap to be placed on the rising appraisals of the elderly on their property.

MY NAME IS GLENNA BURTON AND THE FOLLOWING IS MY STORY.....

The cost of insurance is raising, taxes are also rising as well as the cost of propane (which runs at least \$600.00 a fill up 3 times a year and we don't heat the whole house).

The prescription drug is a wonderful happening.

My husband was employed at one place over 10 years and at the age of 68 his job was eliminated. He has on coming Alzheimer at the age of 71 -cannot tell time. I work to pay the insurance/taxes. We own 9 1/2 A. Our house is native rock and is over 125 years old. The insurance Co. will not insure it for less than \$1,500.00 a year. We cannot pay once a year so it costs more monthly.

Our taxes have to be saved from my checks. I am not healthy at the age of 67 and stress is great. I leave my husband alone thru day (with no one close) with no vehicle, as he cannot drive any longer. The taxes & insurance will eventually take us under due to his health he will have to be placed in a nursing home and our place will eventually go to the county at this rate.

What a future we have to look forward to the way things are going.

My husband has worked since he was 11 years old and has never been sick. He has been a supervisor of construction and rebuilt our house of stone. All the wood had to be replaced, we always looked for bargain items and did most all of the work ourselves. When we had dirt floors in it and it was unlivable the county taxed it at an unbelievable rate. Our three boys and their family's helped over a three year before we could move in. We have lived in our dream home now for 8 1/2 years.

Our home is valued at \$184,000 along with 9 1/2 A. of cedars and rock.

Kansas Property Tax Facts

- Residential property accounts for 40.2% of all Kansas ad valorem tax based sources

Source: Kansas Department of Revenue
Fisher, Glenn W. "Erosion of the Kansas Property Tax Base." Dec. 2006.

- 10.2% of Kansas households have a householder of 65 years and older
and
23.3% of Kansas households have at least one individual 65 years and older

Source: U.S. Census Bureau

- Residential property, excluding new construction, has increased statewide an average of 4.8075% per year from 1997-2006

Source: Kansas Department of Revenue

Supporting Data

- in a survey of adults 65 and older:
 - 34% are not confident their housing will remain affordable as they age
 - 31% have housing expenses exceeding 30% of their income
 - 15% have housing expenses exceeding 50% of their income
- homes account for 79% of median wealth for people 65 and older, but costs associated are a large burden

Source: <http://www.subnet.nga.org/ci/assets/3-Independence.pdf>

- coverage from retiree health benefits from former employers appears to be slowly disappearing (b/c of cuts in benefits & increase in premium contributions)
- social security is scheduled to replace a smaller share of pre-retirement earnings for future retirees as retirement age for full benefits rises
- rising health care costs will force future generations of retirees to devote ever increasing shares of their income to health care

Source: http://www.bc.edu/centers/crr/wob_7.shtml

- KS ranks 11 among states of persons 65 and older (KS:13.8%;US:12.5%)
- KS ranks 5 among states of persons 85 and older
- by 2010, the Census Bureau projects 15.3% of Kansans will be 65 and older, and KS will be the 10th most “aged” state in the U.S.

Source: <http://www2.kumc.edu/coa/>

- Demographic Stats

- 10.2% of KS householders are 65 or older
- 23.3% of KS households have at least one member 65 or older
- 41.5% of KS population 65 and older, also have a disability
- 81.3% of KS population 65 and older, that has moved between 1995 and 2000, moved to a different residence in the same geographic area

Source: U.S. Census Bureau

- the general public spends about 4.8% of household income on health care costs, while older persons spend more than twice that, 10.5%

Source: <http://stats.bls.gov>

- CPI (Consumer Price Index) includes such items as food, energy, housing, and electronic equipment. CPI for seniors is increasing as older people aren't seeing benefit of dropping prices in such areas as electronics.

Source: <http://www.tscl.org>

Other States

- 42 states and the District of Columbia alleviate or shift property tax burdens through freezing or limiting assessed property values, property tax rates, or property taxes

Source: <http://www.aarp.org/ppi>

- Oklahoma, 2003 (Senate Joint Resolution 30)
 - home's assessed valuation for property tax purposes cannot be increased if homeowner is 65 or older and has household income of less than \$25,000

More Supporting Data

- Kansas property tax is evolving into a real estate tax & residential real estate is becoming a more important part of taxable real estate
 - residential real estate, in 1988, made up 22% of total ad valorem base
(2005, 40%)
- Figure 4 (on page 5) shows that the assessed value of residential property rose more rapidly than any other subclass of real estate

Source: Kansas Department of Revenue
Fisher, Glenn W. "Erosion of the Kansas Property Tax Base." Dec. 2006.

Table 2
Kansas Ad Valorem Tax Base, 2005

	Assessment Rate	Assessed Value (in Millions)	Percent of Total
<u>Real Estate</u>			
Residential*	11.5%	\$ 12,207	40.2%
Agricultural Land (Use Value)	30	1,593	8.8
Vacant Lots	12	184	1.0
Not-for-Profit	12	52	0.3
Commercial/Industrial	25	5,560	30.6
Agricultural Improvement	25	182	1.0
All Other	30	28	0.2
TOTAL REAL ESTATE		7,599	41.9
<u>Personal Property</u>			
Residential Mobile Homes	11.5	69	0.4
Mineral Leaseholds	25/30	1,888	10.4
Motor Vehicles (Locally assessed)	30	147	0.8
Commercial/Industrial Mach./Equip.**	25	1,845	10.2
Boats/Marine/Trailers	30	84	0.5
All Other	30	63	0.3
TOTAL PERSONAL***		4,096	22.6
<u>State Assessed Public Utility****</u>	33	3,117	17.2
<u>Motor Vehicles</u>			
Motor Vehicles, Taxed When Tagged	20	3,055	16.8
16/20M Vehicles	20	68	0.4
State Assessed Vehicles	30/25	217	1.2
TOTAL MOTOR VEHICLES		3,340	18.4
TOTAL AD VALOREM		18,152	100.0

* Includes Farm Homesteads

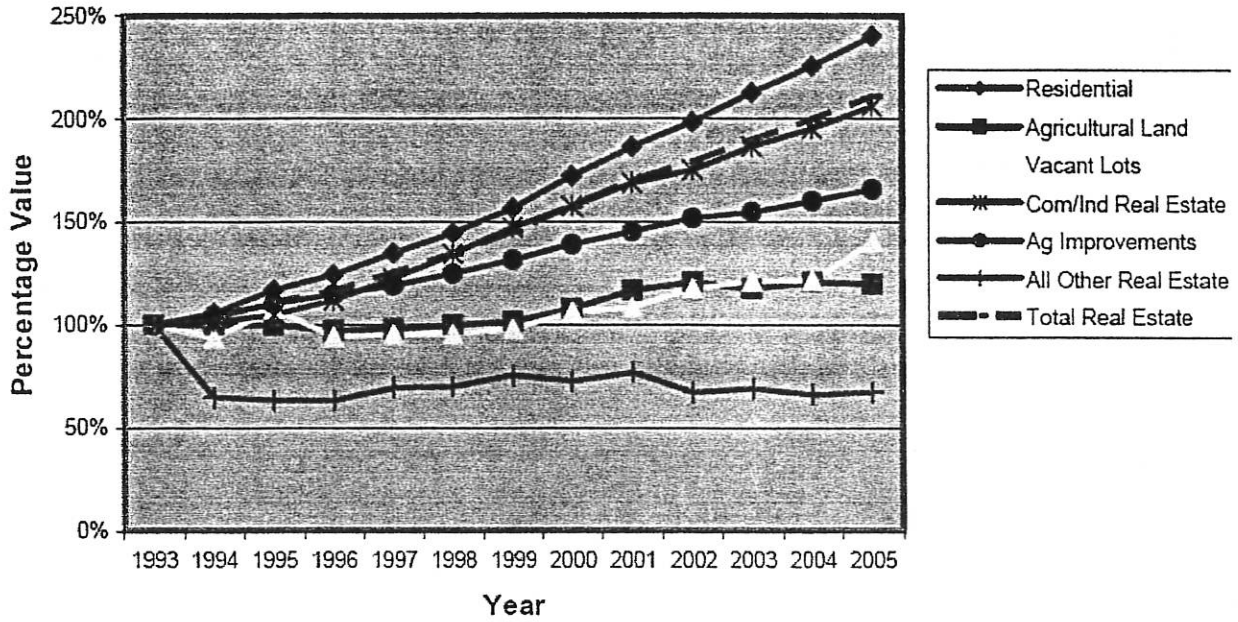
** Retail Cost New, Less Depreciation

*** Excludes penalty of \$45.6 million

**** Railroads are assessed at the same rate as other commercial and industrial property.

Source: Kansas Property Valuation Division, *Statistical Report of Property Assessment and Valuation, 2005*

Figure 4
 1993-2005 Assessed Value of Real Property, by Subclass
 (Percent of 1993 Assessed Value)



Source: Kansas Department of Revenue
 Fisher, Glenn W. "Erosion of the Kansas Property Tax Base." Dec. 2006.

ResNC%


	A	B	C	D	E	F
1	County	Residential	Percent Change (total residential)	Percent Change (excluding new construction)	New Construction	Percent New Construction
2	Geary	30,220,534	27.602%	24.720%	678,984	2.247%
3	Pottawatomie	26,387,628	22.728%	16.598%	410,326	1.555%
4	Riley	53,597,037	18.564%	16.141%	1,217,424	2.271%
5	Dickinson	10,095,042	12.023%	10.557%	202,701	2.008%
6	Saline	71,701,533	8.831%	7.532%	786,533	1.097%
7	Leavenworth	39,964,787	11.872%	7.493%	826,038	2.067%
8	Jewell	27,045,798	8.978%	7.310%	388,798	1.438%
9	Atchison	267,688,050	9.601%	7.111%	6,227,861	2.327%
10	Wyandotte	8,524,173	9.335%	7.091%	98,761	1.159%
11	Clay	6,904,696	9.190%	7.016%	185,556	2.687%
12	Chautauqua	54,050,430	9.743%	6.793%	695,899	1.287%
13	Lyon	7,819,361	7.637%	6.506%	65,236	0.834%
14	Seward	4,334,747	6.861%	6.189%	21,649	0.499%
15	Ellis	24,583,175	7.715%	6.180%	489,586	1.992%
16	Wabaunsee	21,269,457	8.840%	5.759%	265,791	1.250%
17	Osage	30,014,388	8.232%	5.705%	892,722	2.974%
18	Bourbon	2,995,294	7.867%	5.638%	17,435	0.582%
19	Jackson	95,554,848	8.522%	5.582%	1,320,974	1.382%
20	Douglas	111,644,974	7.974%	5.570%	2,337,621	2.094%
21	Crawford	7,519,932	7.622%	5.368%	36,955	0.491%
22	Pawnee	64,304,807	6.742%	5.277%	841,323	1.308%
23	Franklin	20,588,258	8.854%	5.223%	381,737	1.854%
24	Butler	671,608,295	7.670%	5.165%	14,952,285	2.226%
25	Labette	6,090,918	6.286%	5.159%	15,229	0.250%
26	Nemaha	5,432,610	7.578%	5.129%	75,290	1.386%
27	Barber	126,014,681	7.205%	5.052%	1,796,094	1.425%
28	Ellsworth	15,388,454	7.242%	4.987%	323,710	2.104%
29	Washington	105,191,842	7.803%	4.941%	723,814	0.688%
30	Marshall	79,858,604	7.505%	4.788%	468,784	0.587%
31	Anderson	101,264,967	6.362%	4.708%	3,377,868	3.336%
32	Sumner	83,744,272	6.090%	4.675%	1,891,539	2.259%
33	Miami	6,013,187	8.346%	4.542%	23,819	0.396%
34	Doniphan	5,624,132	6.151%	4.183%	269,270	4.788%
35	Sedgwick	19,303,838	6.834%	4.019%	56,505	0.293%
36	Jefferson	17,910,538	6.767%	3.993%	187,163	1.045%
37	Pratt	3,227,288	5.683%	3.921%	20,055	0.621%
38	Shawnee	16,775,086	5.986%	3.859%	415,950	2.480%
39	Johnson	5,228,742	6.745%	3.798%	335,296	6.413%
40	Allen	13,131,051	6.125%	3.741%	237,404	1.808%
41	McPherson	123,705,854	5.758%	3.703%	2,297,893	1.858%
42	Stafford	9,747,696	3.974%	3.100%	110,785	1.137%
43	Brown	4,134,484	4.571%	3.068%	24,463	0.592%
44	Rush	44,763,855	3.376%	3.063%	1,212,424	2.708%

45	Morris	87,298,433	5.063%	3.035%	2,268,578	2.599%
46	Linn	4,346,554	5.211%	2.990%	66,554	1.531%
47	Neosho	4,597,184,145	4.230%	2.905%	126,925,143	2.761%
48	Grant	9,964,275	3.147%	2.846%	80,349	0.806%
49	Chase	23,984,482	4.030%	2.825%	316,084	1.318%
50	Montgomery	5,759,025	3.612%	2.816%	351,258	6.099%
51	Edwards	51,347,074	2.965%	2.707%	544,477	1.060%
52	Osborne	3,718,372	2.782%	2.602%	17,907	0.482%
53	Wilson	376,085,606	3.642%	2.592%	14,720,114	3.914%
54	Barton	7,990,537	3.549%	2.413%	68,202	0.854%
55	Mitchell	37,085,977	3.213%	2.374%	782,807	2.111%
56	Coffey	7,793,419	5.504%	2.366%	77,080	0.989%
57	Harvey	111,262,181	4.297%	2.360%	1,169,758	1.051%
58	Finney	36,974,209	3.049%	2.340%	292,550	0.791%
59	Lincoln	25,425,585	3.170%	2.290%	642,601	2.527%
60	Logan	123,134,535	3.240%	2.219%	2,392,588	1.943%
61	Kearny	9,339,700	2.872%	2.043%	29,739	0.318%
62	Russell	212,645,368	3.585%	2.003%	7,466,636	3.511%
63	Woodson	18,935,999	4.366%	1.937%	154,016	0.813%
64	Rooks	87,485,145	4.529%	1.916%	672,249	0.768%
65	Stevens	20,625,146	2.983%	1.907%	398,009	1.930%
66	Morton	7,228,259	2.753%	1.859%	62,844	0.869%
67	Cowley	29,522,140	3.274%	1.846%	672,236	2.277%
68	Comanche	38,824,199	2.427%	1.831%	493,476	1.271%
69	Kingman	5,916,086	3.125%	1.766%	105,439	1.782%
70	Greeley	11,031,376	2.369%	1.733%	95,127	0.862%
71	Cherokee	67,007,677	3.059%	1.732%	1,564,440	2.335%
72	Thomas	6,164,853	2.828%	1.726%	10,834	0.176%
73	Cloud	19,915,797	2.957%	1.671%	468,538	2.353%
74	Gove	14,724,109	2.056%	1.651%	202,059	1.372%
75	Marion	10,563,082	2.427%	1.617%	45,581	0.432%
76	Wichita	89,139,284	2.959%	1.611%	4,452,282	4.995%
77	Reno	26,644,447	2.974%	1.573%	444,243	1.667%
78	Rice	5,435,074	2.470%	1.562%	30,126	0.554%
79	Greenwood	213,035,764	4.065%	1.484%	2,899,382	1.361%
80	Hodgeman	11,283,732	2.080%	1.476%	57,532	0.510%
81	Stanton	21,952,204	2.309%	1.348%	194,472	0.886%
82	Graham	275,172,978	6.441%	1.345%	5,623,466	2.044%
83	Haskell	10,279,720	2.379%	1.215%	257,004	2.500%
84	Wallace	6,844,428	1.842%	1.189%	20,755	0.303%
85	Republic	18,476,855	1.564%	1.046%	282,115	1.527%
86	Elk	249,979,763	2.462%	1.042%	2,983,947	1.194%
87	Meade	15,237,630	1.349%	1.026%	77,229	0.507%
88	Phillips	1,993,573,432	1.420%	0.982%	52,536,573	2.635%
89	Harper	51,656,395	2.839%	0.979%	324,820	0.629%
90	Ford	797,912,847	1.433%	0.838%	16,008,309	2.006%
91	Smith	6,682,635	1.711%	0.834%	84,086	1.258%
92	Clark	16,972,025	1.110%	0.605%	132,422	0.780%

93	Norton	7,192,579	1.456%	0.582%	62,022	0.862%
94	Trego	8,802,930	1.105%	0.555%	74,017	0.841%
95	Cheyenne	4,705,470	1.398%	0.552%	44,185	0.939%
96	Sherman	13,499,372	1.299%	0.508%	141,022	1.045%
97	Scott	74,048,561	0.855%	0.343%	988,244	1.335%
98	Ottawa	24,678,572	2.667%	0.252%	264,448	1.072%
99	Sheridan	7,361,389	1.370%	0.095%	40,062	0.544%
100	Rawlins	28,898,100	0.638%	0.081%	818,168	2.831%
101	Decatur	3,373,103	0.143%	-0.349%	21,630	0.641%
102	Ness	10,645,203	0.726%	-1.069%	282,702	2.656%
103	Gray	5,671,759	-0.251%	-1.293%	74,260	1.309%
104	Lane	21,567,244	-1.094%	-1.570%	218,435	1.013%
105	Hamilton	7,598,850	2.389%	-4.176%	176,858	2.327%
106	Kiowa	534,066,677	1.229%	-4.945%	10,961,429	2.052%
107	State Totals	13,082,641,710	7.176%	4.628%	310,939,068	2.377%
108						
109	2005.0		6.455%	3.943%		2.360%
110	2004.0		5.963%	3.476%		2.347%
111	2003.0		7.228%	4.641%		2.412%
112	2002.0		6.371%	3.849%		2.371%
113	2001.0		8.229%	5.392%		2.621%
114	2000.0		9.929%	6.828%		2.821%
115	1999.0		8.274%	5.321%		2.727%
116	1998.0		7.302%	4.457%		2.652%
117	1997.0		8.420%	5.540%		2.655%

Source: Kansas Department of Revenue

FISCAL FOCUS

Budget and Tax Policy in  Perspective

April Holman
Legislative Testimony
House Concurrent Resolution 5013
House Taxation Committee
February 20, 2007

Good morning Chairman Wilk and members of the Committee. On behalf of Kansas Action for Children (KAC), I would like to thank you for this opportunity to testify on HCR 5013.

KAC is a not-for-profit child advocacy organization that has been in existence since 1979. KAC promotes policies that aid family economic stability because instability creates stress and the potential for harm to children through less consistent medical care, fewer opportunities for early learning and the potential for lower performance in school.

As child advocates, we are concerned by the tax shifts that would result from HCR 5013 and the potential negative impact this would have on low- and middle-income families with children.

Tax Shifts

The nature of the property tax dictates that when valuation for one group is artificially suppressed, taxes shift to other taxpayers. In the case of HCR 5013, this shift would be from property that is owned by people age 65 and older to all other property owners. It is important to keep in mind that this proposal would suppress property values for all seniors, including the very wealthy. At the same time it would result in property tax increases for everyone else, including those who are least likely to afford it such as low- and middle-income families with children.

Better Ways to Help Those in Need of Property Tax Assistance

If the goal is to provide assistance to taxpayers struggling to pay their property taxes, targeted tax assistance is more effective. One way to accomplish this may be to enhance the homestead property tax program. This program is specifically targeted to help seniors, disabled taxpayers, and households with young children.

Modernizing the Kansas Tax Structure

If the goal is to address increasing property taxes in Kansas and the effectiveness of the Kansas property tax system, we believe this should be done in the context of a comprehensive modernization of the Kansas tax system. Recent reports from the Kansas Department of Revenue show that Kansas taxes disproportionately impact the poor and that both the sales tax and property tax bases have been eroded significantly in recent years. This has resulted in tax shifts as well as revenue shortfalls and the need in some years to increase tax rates. In order to address these issues as well as the changing nature of the Kansas economy a comprehensive plan should be created for modernizing Kansas taxes. Only after this comprehensive plan is created should major tax policy changes be undertaken.



KANSAS
ASSOCIATION OF
COUNTIES

Testimony concerning HCR No. 5013
Senate Assessment and Taxation Committee
February 20, 2007
Presented by Randall Allen, Executive Director
Kansas Association of Counties

Chairman Wilk and members of the committee, my name is Randall Allen, Executive Director of the Kansas Association of Counties. Thank you for the opportunity to present testimony on House Concurrent Resolution 5013, which directs the Legislature to prohibit valuation increases on residential property which is owned by and the principal place of residence of a Kansas resident who is 65 years of age as of January 1 of the tax year.

On behalf of our 99 member counties who unanimously approved our 2007 Legislative Policy Statement at our annual conference last November, the Kansas Association of Counties expresses its opposition to this (and any other similar constitutional amendment proposal) which precludes residential property valuation increases above some artificial level. We object to this proposal for the following reasons:

1) Limiting the growth in appraised valuation of real estate to a cap established by legislative enactment would not guarantee the precise impact in lowering taxes as is often claimed. The **amount of taxes owed** on any single property is a product of the **tax rate**, expressed in mills times (**X**) the **assessed valuation** of the property, expressed in dollars. If values of a certain group of properties are suppressed which are otherwise increasing in value above and beyond some artificial limit, then the mill levy rate (set by county clerks) to generate the dollars needed to finance certain school district, county, city, and special district budgets will increase to the extent necessary to produce the same amount of revenue. As such, the increased mill levy rate would apply to **all** properties – whether they are owned by senior citizens or non-senior citizens. The rate would also apply to commercial properties which are classified at a higher rate of assessment.

2) Our second concern about this proposal is the inequity that is created by applying the cap to **all** properties of senior citizens, including those with a much greater ability to pay than others. There is no means test in this constitutional amendment proposal and so elderly Kansans with substantial means would receive a tax break just like Kansans with less means to support themselves. Being 65 and older does not automatically equate to being poor or less able to pay; in fact, **some** of our senior citizens are **most** able to pay taxes, especially when contrasted with young families with children or families with disabled family members who are trying to eke out a living working multiple jobs, with child care expenses, health care bills, *et. al.* If there is a desire to assist senior citizens in need of assistance, why would we not expand the homestead property tax refund program through a simpler statutory change, which has a long history of providing tax relief to not only senior citizens, but households with disabled persons? A statutory change to the homestead property tax refund program would be a much more targeted, strategic way of directing property tax relief to senior citizens than amending the Constitution in some way.

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HS TAXATION MINUTES
2-20-2007
Attachment 10

After experiencing years of neglect in our property tax administration system in the 1960s, 1970s, and 1980s, county commissioners and state officials expended the fiscal and political capital to make our system better. It is not perfect, but it is infinitely better than it was before property values were revisited on an annual basis. We urge the committee to refrain from presenting this proposed constitutional amendment to the voters. Thank you.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randall Allen or Judy Moler by calling (785) 272-2585.



League of Kansas Municipalities

To: House Taxation Committee
From: Don Moler, Executive Director
Date: February 20, 2007
Re: Opposition to HCR 5013

On behalf of the League of Kansas Municipalities I want to thank the committee for the opportunity to appear before you today in opposition to HCR 5013. This concurrent resolution proposes to amend the Kansas Constitution, Article 11, Section 1, to prohibit valuation increases on single-family residential real property owned by and the principal place of residence of a Kansas resident 65 years of age or older. While cities understand the desire to limit the tax burden on our older citizens, this resolution is ill-advised for several reasons.

First, because a prohibition on valuation increases logically results in less tax revenue being collected from one population, such a loss must be made up from other areas. Thus, any tax relief provided to one group creates a shift of the tax burden to other groups. Without regard to individuals' ability to sustain the valuation increase and resulting tax liability, the over 65 population will, across the board, see a decrease in real property taxes. Demographically, many of the wealthiest citizens in Kansas will have the valuation on their high dollar homes frozen, thus achieving an incredible tax windfall. The supposition that all or even most citizens over age 65 need assistance from the state in order to continue to live in their homes is simply not supportable. On the other hand, even if taxing subdivisions keep the amount their levies raise in tax dollars flat, younger families who may be less able to take on additional tax liability will be forced to pay more. It is an inescapable fact that this amendment would create a tax shift.

Second, this amendment, if adopted would further erode the tax base. At a time when the state is struggling to fund necessary services, such as education, and cities are trying to fund services essential for all citizens who live in our communities, further loss of tax revenue is simply exacerbating the problem. After the loss of demand transfers several years ago, cities have been left dependent on the property tax and sales tax as the two primary sources of revenue. For cities that have few or no retailers in their communities, the property tax is left as the source for funding city services. A tax policy issue that must be faced in the coming years is how to fund local government in the face of an eroding tax base, with no other sources of revenue upon which to draw.

Finally, the adoption of this amendment would take the state back to the days of tax inequity where two houses sitting side-by-side would have different values simply because of who owns the property. It took reappraisal, and many years of refining the state's appraisal system, to finally bring an end to most of the unfair and inequitable treatment of values in the years leading up to reappraisal. This amendment would create a valuation system that results in fictional and unequal values.

The League understands the problems faced by our older citizens in trying to remain in homes that increase in value and cost more in property taxes. This amendment, however, is simply the wrong means to achieve the goal. The League of Kansas Municipalities urges the committee not to report HCR 5013 favorable for passage.



February 20, 2007

Representative Kenny Wilk
Chair, Taxation Committee

Good Morning Chairman Wilk and members of the House Committee on Assessment and Taxation. My name is George Lippencott and I am Volunteer Coordinator for Economic Security with AARP Kansas. AARP represents the views of nearly 360,000 members in the state of Kansas and we thank you for this opportunity to address HCR 5013. We oppose this resolution on principle.

Introduction

AARP is well aware of the pressures many of our seniors are feeling as rising home valuations have caused escalating property taxes in some locations in Kansas. Scarcely a day goes by when we do not hear from our members concerning property tax growth. We suspect that an expression of this concern is not limited to us. Current property tax levels have caused many lower-income seniors to fear for their ability to remain in their own homes while servicing their property tax responsibilities. For our more affluent seniors current property tax levels have created a different and unique challenge; homeowners with significant equity in their properties are experiencing serious cash flow problems trying to service the property tax burden.

In response to these rapidly rising property values, AARP testified before the Interim Committee on Assessment and Taxation this past fall. In our testimony we addressed both short and long term goals for taxation policy in Kansas. We believe, and many experts agree, that long term property tax relief requires a rebalancing of the sources and sums of revenue available to our state and to our local jurisdictions.

In the short term we believe that limited and targeted tax relief is appropriate and necessary. We believe that the tax burden should be distributed according to people's ability to pay and should, to the extent possible, be as neutral as possible in its treatment of economic activity. We are also concerned that the more tax relief we offer to some the greater the tax burden on others.

Tax Policy

AARP has done significant research concerning taxation. The results are encapsulated in a document on AARP policies titled "AARP Policy 2006". It is available to all AARP membership, in fact the world, on our AARP web site, www.aarp.org. This document is the result of an ongoing multi-year interchange between our members and the

professional staff. The ideas included are main-stream and widely accepted. We have made available a copy of the document to the committee staff. We have additional copies available for committee members if they desire one.

Today, we would like to restate selected ideas from that document that might be useful as the committee considers the blunt insertion of the state legislature into local taxation policy. AARP has six basic principals that we believe are paramount in examining any revenue-raising methodology:

Equity—Tax revenue sources should distribute the tax burden according to people's ability to pay and should, to the extent possible, achieve vertical and horizontal equity. Vertical equity means that tax burdens—the percentage of income paid in taxes—should increase with a measure of ability to pay, usually income. Horizontal equity holds that those with equal resources should be taxed equally.

Economic neutrality—Taxes should be as neutral as possible in their treatment of economic activity and should not unduly encourage behavior undertaken simply to avoid taxation. In addition, taxes should not unduly hinder economic growth, induce inflation or discourage savings.

Administrative efficiency—Taxes should be as easy to collect and administer as possible, consistent with protection of individual liberties and privacy.

Revenue potential—Stable and reliable public policies and programs require adequate and consistent sources of revenues.

Impact on the budget—all tax measures should be weighed carefully against their impact on budgets and their potential to achieve desired goals.

Social and economic goals—a balance must be struck between relying on the tax system to address social and economic needs (through such measures as tax expenditures or earmarking revenue) and keeping the system free from tax expenditures that undermine equity.

Tax Methodologies

After that short bit on philosophy, let's move along to some hard data. For states and localities, the largest source of tax revenue is the property tax. The second largest source of tax revenue is the general sales tax, which is now used in 45 states. The individual income tax is the third largest source. State fiscal experts advocate a balance among these "big three" revenue sources as a way of avoiding the severe revenue fluctuations of business cycles and limiting competition between neighboring states with disparate tax

rates. Since each of the three methodologies impacts our communities differently, a balance among them can also avoid an inequitable tax burden on a single element of the society.

Exhibit 1 below, drawn from the article “Fiscal Trends in Kansas: Taxing, Spending and Borrowing” from the spring 2006 edition of the Kansas Policy Review published by the University of Kansas, shows the variation with time of state and local tax revenues as a percent of personal income. Back in 1998, Kansas had achieved more or less the desired balance among three tax methodologies.

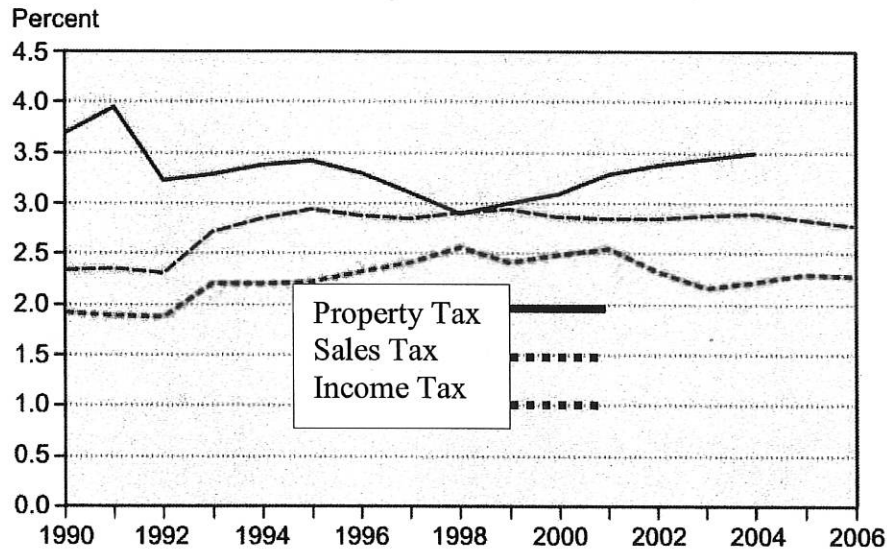


Exhibit 1: State and Local Tax Revenue as a Percent of Personal Income, 1990 - 2006

This graphic reflects the reality of tax policy in Kansas. As we have moved away from the use of the income tax as a revenue source, we have increased significantly our dependency on property taxes. Revisiting the experts, we find that they suggest that undue reliance on any of these three major sources of revenue is not in the long term interest of our state! Perhaps it is time that some appropriate group is established to examine the way our tax policy is trending and to provide recommendations back to the legislature – perhaps to an interim committee next fall.

Real Property Taxation

The mainstay of local taxation is the property tax, which pays for most local services such as fire and police. The property tax is the single most burdensome tax for many low-income and older people. It affects older people directly as homeowners but also indirectly as renters, because landlords may pass on at least part of any property tax increases in higher rents. In the last six years property taxes here in Kansas, on average, have increased by almost 33% as shown in Exhibit 2 below.

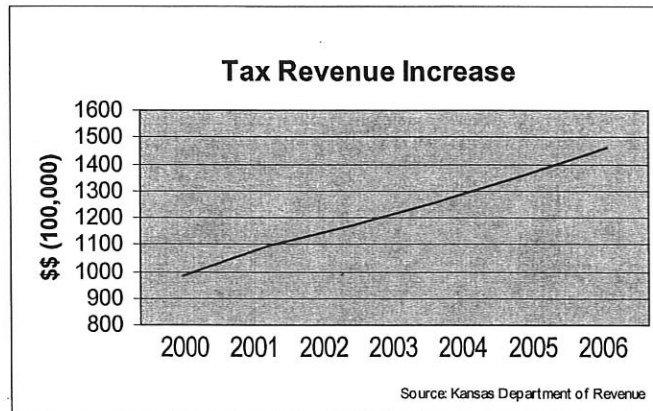


Exhibit 2

Why have some of our local jurisdictions not reduced the property tax rate as the real property valuations have increased? First, not all jurisdictions have seen rapidly escalating property valuations. Second, a major factor contributing to the need for the added revenues from property taxes is that the federal government has been withdrawing funding from various programs designed to assist local jurisdictions to provide the full scope of services desired by the local electorate. In some jurisdictions this has strained local resources to just keep up with established expectations, and the result has been the full utilization of the revenue obtained as the result of the valuation increases.

As we are all aware, residential real estate valuations have begun to stabilize or, in some cases, retreat across many jurisdictions in our country. Kansas is no exception. Some of our local jurisdictions, such as Douglas County, that have experienced rapid growth over the last six years are now reporting that valuation increases in 2007 will be much smaller than in the past, with many properties actually dropping in value. This circumstance suggests that we may no longer expect rapid growth in property valuations in the future.

HCR 5013

In response to rapidly rising property values in many other parts of the country, property tax or valuation caps are being proposed to limit homeowners' increasing tax burdens. These caps are typically offered in such a way as to make it easy for backers to promise tax relief without identifying the possible downside. Over time these caps can be extremely damaging because they will erode local governments' revenue and may reduce essential police, ambulance and fire protection services.

Limiting such a cap to seniors, as HCR 5013 does, would have a significant impact on other taxpayers as they would inevitably be challenged to absorb the taxes not paid by the seniors. This would also create inequities between existing and new property owners based on age and not property value. More importantly, many of our seniors are just as capable of paying their appropriate tax as anyone, as they have considerable income or significant assets.

As we interpret HCR 5013 it will, in reality, establish property tax caps on local jurisdictions here in Kansas by forcing only a portion of the electorate to be impacted when property valuations increase. This will in all likelihood lead to no or artificially limited increases in taxes as local officials try to balance the impact on the whole of their electorate. This raises some interesting policy questions:

- Exactly what aspect of the increase in local property taxes is inappropriate – what should be cut?
- Why establish this level of state legislative control over the tax policy of our local jurisdictions – our local officials stand for election?
- Why do this now after real property valuations have begun to stabilize?

If voters in one part of the state wish to tax themselves to provide a specific service (for example additional police protection to address a rash of drug related crimes unique to their jurisdiction) should the costs be focused on only a portion of the voters therein (those younger than 65)? Is this not a local matter, to be addressed locally? For those so supportive of this resolution, would they be willing to identify what local public services should be cut in order to justify a need for this action? Local taxes are driven by local needs and should not be subject to outside restraint.

One can scarcely imagine a situation where responsibility for the governance of our local jurisdictions could be made more confusing than would result from passage of HCR 5013. Local officials would remain responsible to local voters for the delivery of services and the resulting quality of life in that local jurisdiction. State law would, however, limit revenue to those local officials, thus potentially rendering them incapable of meeting the needs and demands of their local constituents. Who would be held accountable? How does a voter in Montgomery county address limitations imposed by, for example, a legislator from Sherman County? This is simply not good public policy.

If real property tax valuations are stabilizing is it not too late to react with some form of valuation cap? The taxes have already been levied. Historically, as reflected in exhibit 1 above, until the last six years property tax revenues had been declining as a percent of income. Do the supporters of this resolution have some unique insight into the future actions of our many local jurisdictions that they see a need to address future tax growth? Why do we need the state legislature to help with this matter at this time?

The imposition of a property valuation cap through constitutional amendment suggests the old adage of hunting for squirrels with an elephant gun. We must remember that property tax increases do not happen by chance. Elected officials accountable to the electorate are responsible for these increases. If the majority of our citizens are unhappy with their property tax bills, relief is only as far away as the ballot box. If property tax levies are essentially a local matter – and they are – what is the real role of the state? Well, we can help by providing selective targeted tax relief to those who really deserve it.

Real Solutions

We believe and have so testified that there are much better and more legitimate ways to address the short term property tax concerns of some of our citizens. These solutions include homestead exemptions and credits, circuit breakers, and property tax deferrals.

Homestead exemptions and credits—Homestead exemptions reduce the amount of assessed property value subject to taxation. The exempt amount is generally the same for all owners regardless of age or other circumstance and applies only to homeowners. Thirty-nine states and the District of Columbia provide homestead exemptions. In general, homestead exemptions reduce revenues to local governments since they shrink the property tax base. Kansas employs this approach.

Circuit breakers—Circuit breakers usually ease the property tax burden of residents with low and low-middle incomes by setting a threshold (usually some percentage of income) below which residents will receive a property tax rebate – in our case from the state. AARP favors limited use of this option and we will offer some thoughts on the Kansas program later this morning.

Property tax deferrals—Twenty-five states and the District of Columbia offer property tax deferrals, based on a wide variety of eligibility criteria in exchange for some arrangement for the deferred taxes to be paid upon some event, such as the owner's death. Kansas does not defer property taxes. This approach has the attraction of not reducing revenues to state and local governments while protecting home owners from taxes that may outstrip their ability to pay without serious consequences. It should be noted that this approach is not widely used in localities that offer it.

We note that this committee has introduced House Bill 2430, which restores the value of Kansas's long term circuit breaker program for certain citizens of limited means. This is our priority approach to property tax relief as it addresses the most vulnerable among us in a targeted and balanced way with limited impact on the rest of the state's taxpayers. We hope the committee will soon hold hearings on this bill and report it favorably to the full House

We further note that this committee recently held hearings on property tax relief through property tax deferral such as offered in House Bill 2298. Twenty-five states and the District of Columbia offer property tax deferrals. Such a property tax deferral program here in Kansas will address the second group of seniors mentioned above, the more affluent seniors who may not qualify for an exemption but who may be experiencing serious impacts to their quality of life because of property tax increases that are stressing their ability to pay. Selected and tailored property tax

deferral is our second priority for addressing the concerns of seniors with respect to property taxes. We hope the committee will favorably report this bill to the full House.

We believe that through the selective, targeted measures encompassed in these two bills the current legitimate taxpayer pressure for property tax relief can be substantially ameliorated.

Conclusions

We believe that the legislature needs to provide immediate property tax relief for the most needy among us. Quick committee action to favorably report HB 2430 and HB 2298 to the full house will show a real concern for those actually impacted the most by the raise in property tax levies in some of our jurisdictions. Committee member support to attain early passage of these bills by the full House is a necessary subsequent step.

We believe that the legislature should address the long term need for better balance in how Kansas raises revenue. The creation of a group to report to an interim committee next fall with possible recommendations on changes in Kansas' tax policy is desirable. Changes to be examined should include (among other things) reduced dependency on property taxes at all levels and identification of what additional revenue sources may be required by local jurisdictions to mitigate undue reliance on the property tax.

We believe in the ability of the democratic process to resolve any residual property tax issues at the local level. We do not believe that the state legislature needs to participate in the day-to-day tax matters of our local jurisdictions. We believe that it is very important to keep responsibility for local issues and state issues clearly separated.

We do not believe that special tax considerations need to be extended to all Kansas' seniors. Seniors, as all other members of the society, should be treated justly. They should be required to pay based on their ability and not their age. Where warranted, seniors should be provided tax relief consistent with others of equivalent means and, again, not based solely on age.

Recommendation

AARP respectfully requests the Committee to reject HCR 5013

We thank the committee for providing this opportunity to provide written testimony on HCR 5013.



**Mark Desetti, Written Testimony
House Taxation Committee
February 20, 2007**

House Concurrent Resolution 5013

Also representing the Kansas Association of School Boards

Mr. Chairman, members of the committee, thank you for the opportunity to appear before you today to share our thoughts on **HCR 5013**. I would like to note that I am speaking today for both KNEA and the Kansas Association of School Boards.

We are not advocating for either the passage or defeat of this measure. We would like to simply point out what we see as some of the consequences.

The tax system is like a balloon. When you squeeze one end of the balloon, the other end expands. Local units of government depend to a large extent on local property taxes to fund services to the community. This limitation on property valuations does not reduce the needs of local units of government for funding to provide those services.

If you collect less in property tax because you cap property valuations for all seniors, you have to make up for that loss somewhere else in your system. If property valuations are capped for those over 65 and they benefit from the limit, will you force an increase in property taxes for those under 65 years of age? Or will local units of government simply have to raise their mill levies to make up the difference thereby nullifying much of the benefit to seniors and definitely increasing the burden on others?

A second concern we have is that it treats all seniors, regardless of wealth, the same. We would suggest that not all seniors are struggling with their property tax payments. As written, the tax relief goes to all Kansas seniors not only to those who need such relief.

We would suggest that a better way to do this is to provide for some "circuit breaker" under which the limitation would kick in. For example, if the valuation increase would result in a property tax bill that exceeds a certain percentage of income, then the relief would kick in. In this way, the tax benefit is targeted to those who need it and minimizes the shift to other property owners.

As a final note, we continue to believe that the legislature should make a comprehensive examination of the entire tax system to ensure that our many provisions result in a system that will provide stable funding for all state services and that is fair to both citizens and business.

Kansas Tax Credits

Program Name	Description	Nonrefundable or Refundable Credit	Fiscal Year Limitation	Transferability	Sunset	TY 2004 # of filers	TY 2004 Credit Allowed
Abandoned Well Plugging Credit-K.S.A. 79-32,207	A taxpayer that makes expenditures to plug an abandoned oil or gas well on their land may be eligible for a credit of 50% of the amount expended.	Nonrefundable	\$250,000 for any one fiscal year First come, first served	No	None	7	\$23,46
Adoption Credit-K.S.A. 79-32,202	General Adoption Credit Residents of Kansas who adopt a child can receive a credit of 25% of the adoption credit allowed against the federal income tax liability on the federal return. An additional 25% shall be allowed for those adopting a child that is a Kansas resident and an 25% for those adopting a child with special needs. Special Needs/SRS Custody Adoption Credit A \$1,500 credit is available for those Kansas residents that adopt a special needs child or a child in the custody of the secretary of Social and Rehabilitation Services.	Nonrefundable	None	No	None	543	\$556,154
Agricultural Loan Interest Reduction Credit-K.S.A. 79-32,181a and K.S.A. 79-1126a	A taxpayer which extends or renews an agricultural production loan at least one whole percentage point less than the prime interest rate on loans with equivalent collateral can receive a credit against their tax liability.	Nonrefundable	None	No	Prior to July 1, 2004	*CONFIDENTIAL	*CONFIDENTIAL
Agritourism Liability Insurance Credit-K.S.A. 74-50,173	An income tax credit shall be allowed in an amount equal to 20% of the cost of liability insurance paid by a registered agritourism operator that operates an agritourism activity.	Nonrefundable	None	No	Prior to January 1, 2008	25	\$6,783
Alternative Fuel Tax Credit-K.S.A. 79-32,201	A credit is allowed for any individual, association, partnership, limited liability company, limited partnership, or corporation that makes expenditures for a qualified alternative-fueled motor vehicle licensed in the state of Kansas or that makes expenditures for a qualified alternative-fuel fueling station.	Nonrefundable	None	No	None	26	\$115,530
Angel Investor Credit-K.S.A. 74-8133	A 50% income tax credit shall be allowed to any angel investor that makes a cash investment in the qualified securities of a qualified Kansas business.	Nonrefundable	\$2,000,000 for any one fiscal year. KTEC allocates no more than \$2M per year.	Yes	Prior to January 1, 2017		
Assistive Technology Contribution Credit-K.S.A. 65-7	An 25% income tax credit shall be allowed to any person or entity who makes a contribution to an individual development account reserve fund to be used to purchase assistive technology	Any credit amount that exceeds the tax liability shall be lost.	\$6,250 in any one fiscal year. KATCO allocates no more than \$6,250 per year	No	None		

Kansas Tax Credits

14-2

Program Name	Description	Nonrefundable or Refundable Credit	Fiscal Year Limitation	Transferability	Sunset	TY 2004 # of filers	TY 2004 Credit Allowed
Business and Job Development Credit-K.S.A. 79-32,153 and K.S.A. 79-32,160a	Any taxpayer that invests in a qualified business facility and hires at least two employees as a result of that investment may be eligible for an investment tax credit of \$100 for every \$100,000 of investment made and a job creation tax credit of \$100 for every qualified business facility employee. Any taxpayer that meets the definition of business in K.S.A. 74-50,114(b), that invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be eligible for an investment tax credit of \$1,000 for every \$100,000 of investment made and a job creation tax credit of at least \$1,500 for every qualified business facility employee.	Nonrefundable	None	No (except for certain transfers between related taxpayers)	None	698	\$11,504,909
Business Machinery and Equipment Credit-K.S.A. 79-32,206	A credit may be allowed based on a percentage of the personal property tax levied and paid on commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas Constitution in subclass (5) or (6) of class 2, and machinery and equipment classified for such purposes in subclass (2) of class 2.	Refundable	None	No	None	15,115	\$20,912,346
Cellulosic Alcohol Plant Credit-2006 SB 303	A taxpayer that makes a qualified investment in a refinery shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.	Nonrefundable	None	No	None		
Center for Entrepreneurship Credit-K.S.A. 74-99c09	A tax credit shall be allowed for a contributor making a contribution to the Kansas Center for Entrepreneurship. The credit is 75% of the total amount of cash donated.	Nonrefundable	\$2,000,000 for any one fiscal year. Commerce allocates no more than \$2M per year.	No	None		
Child Day Care Assistance Credit-K.S.A. 79-32,190	A taxpayer may be eligible for a credit if they pay for child day care services for its employees children, locate child day care services for the employees children, or provide facilities and necessary equipment for child day care services for its employees children.	Refundable	\$3,000,000 for any one fiscal year. First come, first served.	No	None	19	\$34,114
Community Service Contribution Credit-K.S.A. 79-32,197	Any business firm which contributes to an approved community service organization engaged in providing community services may be eligible to receive a tax credit of at least 50% of the total contribution made.	Refundable	\$4,130,000 for any one fiscal year. Commerce allocates no more than \$4.13M per year.	Yes	None	1,260	\$3,803,000

14-2

Kansas Tax Credits

14-3

Program Name	Description	Nonrefundable or Refundable Credit	Fiscal Year Limitation	Transferability	Sunset	TY 2004 # of filers	TY 2004 Credit Allowed
Disabled Access Credit-K.S.A. 79-32,175 and K.S.A. 79-1117	Individual and business taxpayers that incur certain expenditures to make their property accessible to the disabled may be eligible to receive a credit.	Nonrefundable Refundable for individuals that have a liability of less than \$2,250	None	No	None	142	\$188,381
Habitat Management Credit-K.S.A. 79-32,203	An income tax credit is allowed for a property owner that pays property taxes and assessments on property designated as a critical habitat.	Nonrefundable	None	No	Prior to January 1, 2003	*CONFIDENTIAL	*CONFIDENTIAL
High Performance Incentive Program-K.S.A. 74-50,132 K.S.A. 79-32,160a(e)	A qualified firm making a cash investment in the training and education of its employees can receive a credit equal to the portion of the investment in the training and education that exceeds 2% of the businesses total payroll costs. A credit is available for those qualified firms that make an investment in a qualified business facility. The investment credit is 10% of the qualified business facility investment which exceeds \$50,000.	Nonrefundable- Investment Credit Any credit amount that exceeds the tax liability shall be lost-Training and Education Credit	None	No (except for certain transfers between related taxpayers)	None	91	\$15,469,051
Historic Preservation Credit-K.S.A. 79-32,211	An income tax credit is allowed for expenditures incurred in the restoration and preservation of a qualified historic structure.	Nonrefundable	None	Yes	None	125	\$3,438,572
Individual Development Account Credit-K.S.A. 74-50,208	A 50% tax credit shall be allowed for any program contributor that contributes to an individual development account reserve fund.	Refundable	\$500,000 in any one fiscal year. Commerce allocates no more than \$500K per year.	No	None		
Integrated Coal Gasification Power Plant Credit-2006 SB 303	A taxpayer that makes a qualified investment in a refinery shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.	Nonrefundable	None	No	None		
Law Enforcement Training Center Credit-2006 HB 2122	A 50% tax credit shall be allowed for a business firm that contributes cash to the Kansas Law Enforcement Training Center.	Nonrefundable	None	No	None		
Mathematics and Science Teacher Employment Credit-K.S.A. 79-32,215	An income tax credit shall be allowed to any business firm which has entered into a partnership agreement to employ a Kansas mathematics or science teacher during times that school is not in session. The credit is 25% or 30% if the teacher is teaching in a school district located in a rural community, underserved area or underperforming urban area.	Any credit amount that exceeds the tax liability shall be lost.	\$500,000 for any one fiscal year and no more than \$125,000 in any one congressional district per fiscal year. First come, first served.	No	Prior to January 1, 2008		

Kansas Tax Credits

7-41

Program Name	Description	Nonrefundable or Refundable Credit	Fiscal Year Limitation	Transferability	Sunset	TY 2004 # of filers	TY 2004 Credit Allowed
National Guard & Reserve Employer Credit-2006 SB 432	An income tax credit shall be allowed for employing a member of the Kansas army and air national guard or a member of a Kansas unit of the reserved forces of the United States who was federally activated and deployed on or after August 7, 1990. The credit is 25% of the amount paid as salary or compensation, not to exceed \$7,000 for each member employed.	Nonrefundable	None	No	Prior to January 1, 2009		
Nitrogen Fertilizer Plant Credit-2006 SB 303	A taxpayer that makes a qualified investment in a refinery shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.	Nonrefundable	None	No	None		
Petroleum Refinery Credit-2006 SB 303	A taxpayer that makes a qualified investment in a refinery shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.	Nonrefundable	None	No	None		
Qualifying Pipeline Credit-2006 SB 303	A taxpayer that makes a qualified investment in a refinery shall be allowed a credit equal to 10% of the taxpayer's qualified investment on the first \$250,000,000 invested and 5% of the taxpayer's qualified investment that exceeds \$250,000,000.	Nonrefundable	None	No	None		
Regional Foundation Credit-K.S.A. 74-50,154	Any taxpayer that contributes to an organization designated as a regional foundation may be eligible to receive a tax credit of 75% of the total amount contributed.	Refundable	FY 2005-\$2,500,000 FY 2006-\$2,500,000 FY 2007-\$2,000,000 Commerce allocates no more than fiscal limitation per year.	Yes	Prior to January 1, 2008	*CONFIDENTIAL	*CONFIDENTIAL
Research and Development Credit-K.S.A. 79-32,182b	A taxpayer with qualifying expenditures in research and development activities conducted within Kansas may be eligible to receive a credit of 6 1/2% of the amount expended for research.	Nonrefundable	None	No	None	111	\$574,884
Single City Port Authority Credit-K.S.A. 79-32,212	An income tax credit is allowed equal to 100% of the amount attributable to the retirement of indebtedness authorized by a single city port authority established before January 1, 2002.	Any credit amount that exceeds the tax liability shall be lost.	\$500,000 for any one fiscal year. First come, first served.	No	Prior to January 1, 2022	*CONFIDENTIAL	*CONFIDENTIAL
Small Employer Health Benefit Plan Credit-K.S.A. 40-2246	An income tax credit is allowed for any small employer establishing a small employer health benefit plan for the purpose of providing a health benefit plan.	Refundable	None	No	None	104	\$117,657
Swine Facility Improvement Credit-K.S.A. 79-32,204	An income tax credit of 50% of the cost incurred is allowed for a taxpayer making required improvements to a qualified swine facility.	Nonrefundable	None	No	None	0	

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Kansas Tax Credits

14-5

Program Name	Description	Nonrefundable or Refundable Credit	Fiscal Year Limitation	Transferability	Sunset	TY 2004 # of filers	TY 2004 Credit Allowed
Telecommunications & Railroad Credit-K.S.A. 79-32,210 and K.S.A. 79-32,206	<p>A credit for property tax paid by telecommunications companies is allowed on property initially acquired and first placed in service after January 1, 2001 that has an assessment rate of 33%. The credit is equal to the amount of property taxes timely paid for the difference between an assessment level of 25% and the actual assessment of 33%.</p> <p>A credit shall be allowed in an amount equal to 20% of the property tax levied for property tax year 2005 and 2006 and 25% for property tax year 2007 upon railroad machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas constitution in subclass (3) of class 2.</p>	Refundable	None	No	None	143	\$972,486
Temporary Assistance to Families Contribution Credit-K.S.A. 79-32,200 K.S.A. 39-7,132	Any individual, corporation, partnership, trust, estate and other legal entity who enters into an agreement with the Secretary of Social and Rehabilitation Services to provide financial support to a person who receives Temporary Assistance for Families (TAF) is allowed a credit of 70% of the amount of financial assistance given.	Any credit amount that exceeds the tax liability shall be lost.	None	No	None	0	\$0
Venture Capital Credits and Local Seed Capital Credits-K.S.A. 74-8205 K.S.A. 74-8304 K.S.A. 74-8401 K.S.A. 74-8316	A 25% tax credit shall be allowed for those taxpayers that invest in stock issued by Kansas Venture Capital, Inc., certified Kansas venture capital companies, certified local seed capital pools, or Sunflower Technology Venture, LP.	Nonrefundable	No funds available.	No	None	*CONFIDENTIAL	*CONFIDENTIAL
						18,409	\$57,717,413
*CONFIDENTIAL-This information is confidential as there are less than 5 filers. This information is not included in the total.							