Approved: ________
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 21, 2007 in Room 519-S of the Capitol.

All members were present except:
Representative Davis
Representative Dillmore

Committee staff present:
Chris Courtwright, Legislative Research Department
Martha Dorsey, 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:
Jonathan Williams, Tax Foundation
Chris Atkins, Tax Foundation

Others attending:
See attached list.

The Chairman called attention to the memorandum "Kansas Tax Credits", prepared by Richard Cram, KDOR, that had been distributed at yesterday's meeting. He suggested that Committee members take the tax credit summary sheet with them for a resource when tax credit bills are debated on the floor, during the next few days.

Jonathan Williams said he was an economist from the Tax Foundation, that was founded in 1937. The Foundation, that is not political in nature, promotes good tax policy and offers data and sound policy analysis at all levels of government. They are making their presentation to the tax committee because Kansas has a golden opportunity to reform the current tax structure, specifically corporate taxes (Attachment 1).

He spoke about the current tax reform programs in Michigan and Georgia and stated that many states are looking at reforming their tax programs from a competitive context. He said that the Foundation did not pick winners or losers among state programs and suggested tax systems should be simple and transparent. He proceeded with a power point presentation entitled, *Kansas Corporate Tax Reform in a Competitive Context* (Attachment 2).

The presentation was divided into the following categories: Presentation Goals; Analyzing a State's Tax System; The Difference between Tax Burden and Tax Structure; and Measuring Tax Burden. He reviewed data on Kansas's Tax Burden with charts on estimates, ranking and changes since 1970.

Chris Atkins, Staff attorney for the Tax Foundation, proceeded with the second part of their presentation that provided data specifically related to Kansas. The data reflected Kansas's high corporate income tax rate compared to the region and in an international context. He reviewed: Corporate and property tax systems; Pros and cons of franchise tax; and States considering tax reforms and tax cuts.

He offered the following recommendations for the Taxation Committee to consider: 1) Eliminate the corporate franchise tax; and 2) Reduce the top corporate income tax rate to 6.25 percent (tied with Missouri) with a long-term goal of reducing the rate all the way to 4 percent. This would give Kansas a flat corporate income tax, below Colorado's 4.63 percent.

In conclusion he stated that if Kansas is to compete with their neighbors for new business investment, lawmakers must seriously consider those tax changes that will truly enhance competitiveness.

The Chairman thanked them for their presentation. The meeting was adjourned at 10:29 a.m. The next meeting is February 28, 2007.

TAXATION COMMITTEE

DATE: FEBRUARY 21, 2007

NAME	REPRESENTING
Dan Murray	Federico Consulting
Bruce Larkin	KDOR
REP. STAN FROWNFELTER	DIST 31
Michelle Peterson	Capitol Strategies
David R. Corbin	KDOR
Donna Freese	Kansas citizen
Peggy Palmer	Senator
Ted Warner	KS GOVT. CONSULTING
Lindsey Douglas	Hein Law Firm

TAX FOUNDATION

February 21, 2007

Corporate Tax Reform Will Enhance Kansas Competitiveness

by Chris Atkins and Jonathan Williams

Fiscal Fact No. 78

I. Introduction

Occasionally, politicians get the big questions right. In no place is that more evident in 2007 than in Kansas, where lawmakers are currently debating a package of corporate tax reform plans.

The Kansas tax burden is ripe for reduction, as Kansas taxpayers face the 18th highest burden of any state in the U.S., and the second highest looking just as Kansas' border states. Reducing corporate tax rates, as Governor Sebelius and legislative leaders are working to do, is also exactly the right way to reduce the burden, as Kansas' corporate franchise and income tax rates are also higher than most other states.

As the old saying goes, however, the devil is in the details. While Kansas lawmakers are correct to focus on corporate tax reform, several of the proposals on the table will not achieve the goal of increasing the competitiveness of the Kansas tax system. How far do lawmakers need to go in reducing corporate taxes to truly become competitive?

This study answers that question by presenting data on the Kansas tax burden, Kansas' business tax structure, and examining the Kansas corporate franchise and income taxes in detail. It concludes, based on the data, that Kansas needs to eliminate the franchise tax and reduce the corporate tax rate to at least 6.25 percent. Stopping short of these goals would not significantly enhance the competitiveness of the Kansas tax system and may, in the case of a failure to eliminate the franchise tax, actually lead to a decrease in competitiveness since Kansas' neighboring states are ripe to repeal or reduce franchise taxes as well.

II. Kansas' Tax Burden

In both real and comparative terms, Kansas' state and local tax burden has increased since 1970. By "burden" we mean the fraction of state income taken by taxes of any kind. Kansas' 2006 tax burden of 10.7 percent of income is average and ranks 18th highest nationally. However, when compared regionally, taxpayers pay the second highest tax burden among bordering states; - only residents of Nebraska pay more at 11.6 percent (see Table 1).

Table 1. Kansas' State-Local Tax Burden Has Increased Since 1970

State	2006 Burden	2006 Rank (1 is highest)	1970 burden	1970 rank (1 is highest)
Colorado	9.80%	38	10.00%	25
Kansas	10.70%	18	10.00%	24
Missouri	9.90%	34	8.70%	39
Nebraska	11.60%	6	10.30%	17
Oklahoma	9.60%	40	8.00%	48

Source: Tax Foundation

In 1970, Kansas' tax burden was in the middle of the pack nationally and second highest in its region. In 2006, the Kansas tax burden has crept into the top 20 nationally, but is still second-highest in the region behind Nebraska, which now has the 6th highest tax burden in the U.S. It should be noted, however, that Colorado, which in 1970 was third highest in the region with a tax burden almost as high as Kansas, dropped to 38th highest in 2006. Missouri now occupies the third spot in the region, though its tax burden (34th highest) is well below the state average.

Table 2. Kansas Tax Rankings at a Glance

From the Tax Foundation (2006)		
Tax Freedom Day 2006	April 22nd	(26th latest)
Federal Tax Burden	19.7%	(29th highest)
State and Local Tax Burden	10.7%	(18th highest)
From the Census Bureau (2004)		
Personal Income Tax Collections Per Capita	$701	22nd highest
Corporate Income Tax Collections Per Capita	$61	36th highest
Sales Tax Collections Per Capita	$908	15th highest
Property Tax Collections Per Capita	$1187	14th highest

Source: Tax Foundation

III. Kansas' Tax Structure

Policymakers often concentrate a large portion of their attention on their state's tax burden, which is the percentage of income that individuals pay in taxes. Because state tax systems diverge so widely tax burden data does indeed provide a valuable basis for comparison. However, tax burden data does not offer policymakers specific guidance about which taxes should be reduced if the tax burden is deemed to be too high.

Therefore, when seeking to create sound tax policy at the state level, analyzing tax burdens exclusively is not sufficient. Evaluating state tax structures is also a fundamental tool to produce good public policy.

Table 3. Major Tax Rates in Kansas and Surrounding States

State	Corporate Income Tax	Franchise Tax Rate	Individual Income Tax	Sales and Use Tax	Weighted Average of Local Sales Tax Rates
Colorado	4.63%	n/a	4.63%	2.90%	1.61%
Kansas	7.35%	.125%	6.45%	5.30%	1.52%
Missouri	6.25%	.033%	6.00%	4.225%	1.80%
Nebraska	7.81%	.025%	6.84%	5.50%	0.85%
Oklahoma	6.00%	.125%	6.25%	4.50%	2.38%

Source: Tax Foundation

The 2007 *State Business Tax Climate Index* is a helpful tool for policymakers to use when analyzing state tax structures. The *Index* compares the states in five areas that impact business: individual income taxes; sales taxes; unemployment insurance taxes; and taxes on property, including residential and commercial property. Each year the Tax Foundation publishes this comprehensive study of the 50 state tax systems as a guide to lawmakers who wish to make their state's business tax climate more competitive in the regional, national and international marketplace.

Table 4. Kansas' Rankings in the 2007 *State Business Tax Climate Index* (1 is best, 50 worst)

State	Overall Business Tax Climate Ranking	Component Indices				
		Corporate Tax Index	Individual Income Tax Index	Sales Tax Index	Unemployment Insurance Tax Index	Property Tax Index
Colorado	14	15	14	28	23	18
Kansas	31	38	23	25	12	34
Missouri	15	10	24	12	7	10
Nebraska	44	34	32	44	26	45
Oklahoma	21	13	25	34	1	20

Source: Tax Foundation's *2007 State Business Tax Climate Index*

The 2007 *Index* gives Kansas' tax structure a below-average score, placing it 31st nationally. However, regionally speaking, Kansas' tax system is much less competitive. Once again, only Nebraska has a worse ranking among bordering states (see Table 4).

Kansas received average marks for its individual income tax system and its sales tax, while receiving less competitive marks for its corporate income tax and taxes on wealth.

The 2007 *Index* provides valuable insight for states that wish to improve their tax structures. Considering Kansas' uncompetitive regional ranking, lawmakers should certainly be looking at ways to improve the state's business tax climate for the future. Kansas has several neighbors that perennially have more competitive business tax structures. Colorado enjoys this competitive advantage even though it has all major taxes and is considered a model for states that do not wish to eliminate a major tax. Colorado can accomplish this because it levies taxes on broad bases with low rates.

The *2007 Index* also gives Kansas lawmakers an idea of which taxes they should be looking to reduce in order to decrease their tax burden. Kansas' worst rankings are in the area of corporate taxes (38^{th} best) and property taxes (34^{th} best). This means that cuts or eliminations of the corporate income and franchise taxes would be most advisable.

IV. Kansas' Corporate Tax System

The current debate in Kansas is centered on reductions in corporate franchise and income taxation, which is exactly the taxes we would recommend that Kansas eliminate or reduce considering the corporate tax rankings in the 2007 *Index*. This section will explore Kansas' corporate franchise and income taxes in more detail and respond to some of the current debate over their reduction or elimination.

Kansas' Corporate Franchise Tax

Kansas levies a corporate franchise tax on business entities organized in Kansas, exempting financial and insurance companies. The tax is levied on the value of a business' shareholder equity - the portion that is attributable to Kansas.

All but one of Kansas' border states have a franchise tax measured by net worth or capital stock (see Table 5), though Kansas is tied with Oklahoma for the highest rate (.125 percent). Nebraska's and Missouri's rates are much lower (.033 and .025 percent, respectively).

Table 5: Kansas Has the Highest Corporate Franchise Tax Rate in the Region

State	Corporate Franchise Tax Rate	Maximum Annual Payment
Kansas	**.125%**	**$20,000**
Oklahoma	.125%	$20,000
Missouri	.033%	Unlimited
Nebraska	.025%	Unlimited
Colorado	n/a	n/a
Average	*.062%*	

Source: Tax Foundation

Many states that use capital stock taxes put a cap on the annual payment. Kansas and Oklahoma set that cap at $20,000 while Nebraska and Missouri set no limit. The maximum in Kansas is so high that few firms would benefit from the cap - only those with more than $16 million in Kansas net worth.

This franchise tax based on capital stock stands out as a barrier to economic growth in Kansas. Tax reformers should not be deterred from repeal by the fact that Oklahoma's is equally bad. Kansas' franchise tax is disproportionately damaging to the state's economy and should be considered low-lying fruit for tax reformers. It is not even clear why the tax is necessary, from a policy perspective, when the state also levies a tax on business income through the corporate and individual income taxes. The tax also generates little revenue: $46.9 million in FY 2006, less than .5 percent of all tax collections.[1]

For these reasons, franchise tax repeal is a growing trend in the region. Lawmakers in the Kansas House of Representatives voted last year to repeal the corporate franchise tax entirely[2] and did so again last week.[3] A similar move was made last year by lawmakers in the Missouri House of Representatives.[4] In the past two years, the Oklahoma House of Representatives passed partial phase-outs of their franchise tax.[5]

In 2007, there is bipartisan agreement in Kansas that franchise taxes should be reduced, but some (including Governor Sebelius) do not believe that the tax should be eliminated. Sebelius instead proposes exempting companies with $1 million in assets from the tax altogether.[6]

Considering the fact that Missouri is looking once again to eliminate the franchise tax[7] and Oklahoma is looking to reduce the number of franchise tax filers[8] or repeal the tax entirely,[9] a mere reduction in Kansas' franchise tax would not change the status quo in the region. In fact, if Kansas does not eliminate its tax in 2007 it may soon be the only state in the region (other than Nebraska) with such a tax.

Furthermore, one of the hallmark principles of tax policy is neutrality: taxes should aim to raise revenue with a minimum of economic distortion, and should not attempt to micromanage the economy. Sebelius' proposal, while well intentioned, would narrow the base of the franchise tax and foster more of the burden onto fewer businesses-creating a less neutral tax system. It would also create incentives for businesses to organize in such a way that they avoid the tax altogether (as, for example, shifting their assets to subsidiaries in an attempt to minimize their net worth). Thus, if elimination is not an option a better approach would be a reduction in the franchise tax rate that would give relief to all businesses without adding compliance costs.

Kansas' Corporate Income Tax

In addition to its corporate franchise tax, Kansas levies a progressive corporate income tax using federal corporate adjusted gross income as the starting base. The bottom rate of 4 percent is levied on income up to $50,000. On all income above that level, the tax rate is 7.35 percent.[10]

Kansas' 7.35 percent rate is the second highest top corporate tax rate in its region (see Table 6). Only Nebraska has a higher rate while Colorado, Missouri, and Oklahoma have lower rates. The average rate in the region is 6.41 percent.

Table 6: Kansas Has the Second Highest Corporate Income Tax Rate in Region

State	Top Rate on Corporate Income	Amount of Taxable Income Where Top Rate Applies
Nebraska	7.81%	> $50,000
Kansas	**7.35%**	**> $50,000**
Missouri	6.25%	> $0
Oklahoma	6%	>$0
Colorado	4.63%	> $0
Average	*6.41%*	

Source: Tax Foundation

In deciding the proper rate at which to tax corporate income, state lawmakers must even take international competitiveness into consideration (see Table 7). At 35 percent, the U.S. federal corporate income tax rate is one of the highest in the developed world, leaving precious little in additional tax that a state can add without driving away international business. Kansas adds a top rate of 7.35 percent, so that new investment in Kansas faces a combined federal-state rate of 39.8 percent (state taxes deductible on federal return)-higher than the rates anywhere else in the developed world, including Canada, France and Sweden.

Table 7: **Kansas Corporate Rate Plus Federal = 40 percent**

State	Top Rate on Corporate Income	Federal Rate	Combined Rate Facing New Investment
Nebraska	7.81%	35%	40.1%
Kansas	**7.35%**	**35%**	**39.8%**
Missouri	6.25%	35%	39.1%
Oklahoma	6%	35%	38.9%
Colorado	4.63%	35%	38.0%
Average	*6.41%*	*35%*	39.2%

Source: Tax Foundation

Since Kansas' corporate tax rate is uncompetitive, Governor Sebelius has recommended reducing the top bracket from 7.35 percent to 6.95 percent in tax year 2008 and to 6.75 percent in tax year 2009. This is a sound general recommendation by the Governor. On competitiveness grounds, however, Kansas will probably have to go further. A top rate of 6.25 percent will be necessary just to equal Missouri.[awa1]

V. Recommended Changes

In the short term, a realistic goal for Kansas lawmakers is to reduce its tax burden through competitive changes to its corporate tax system, which ranks most unfavorably on the 2007 *State Business Tax Climate Index*. The following changes represent sound incremental steps that Kansas can take to accomplish this:

- Eliminate the corporate franchise tax; and
- Reduce the top corporate income tax rate to 6.25 percent (tied with Missouri) with a long-term goal of reducing the rate all the way to 4 percent, which would give Kansas a flat corporate income tax, below even Colorado's 4.63 percent.

Eliminating the corporate franchise tax would reduce the tax code's complexity and reduce the penalties associated with owning and operating a Kansas-based business. A 6.25 percent rate on corporate income would make Kansas more attractive compared to its neighbors and move the state closer to a true flat tax on corporate income.[11]

VI. Conclusion

If Kansas is to compete with the likes of Oklahoma, Colorado and Missouri for new business investment, lawmakers must seriously consider those tax changes that will truly enhance competitiveness. While bipartisan agreement on the need for corporate tax reform is truly a blessing, any compromise that fails to eliminate the franchise tax and reduce the corporate tax rate to at least 6.25 percent will not significantly enhance the competitiveness of the Kansas tax system or provide meaningful relief from the relatively high Kansas tax burden.

Footnotes:

[1] *See* Kansas Tax Facts, Table 1, located at http://skyways.lib.ks.us/ksleg/KLRD/Publications/TaxFactsSupp_2006.pdf.

[2] KS H.B. 2548 (2006 Sess.).

[3] KS H.B. 2031 (2007 Sess.). A brief description of the Kansas franchise tax and the repeal bill can be found here: http://www.kslegislature.org/supplemental/2008/SN2031.pdf.

[4] MO H.B. 1619 (2006 Sess.).

[5] *See* Nicola Moore, *Franchise Tax Repeal: A No-Brainer for Oklahoma,* Oklahoma Council of Public Affairs (1/1/2007), located at http://www.ocpathink.org/ViewPerspectiveStory.asp?ID=762.

[6] *See* Dan Voorhis, *House to Debate Elimination of the Franchise Tax*, Wichita Eagle (2/10/2007), located at http://www.kansas.com/mld/kansas/news/legislature/16666884.htm.

[7] *See* MO H.B. 458 (2007 Sess.); MO H.B. 219 (2007 Sess.).

[8] *See* OK H.B. 1695 (2007 Sess.) and OK S.B. 636 (2007 Sess.).

[9] *See* OK H.B. 1808 (2007 Sess.).

[10] Kansas law lists the 4 percent rate as its only tax rate and refers to the extra 3.35 percent as a surtax. However, a surtax is commonly understood as a rate levied on either tax liability or the top statutory rate. This Kansas "surtax" is levied as a percentage of taxable income, just like the 4 percent rate, so it is better understood as simply another rate in a progressive system.

[11] Note that Kansas currently has a top rate of 6.45 percent on individual income. A reduction in the corporate rate to 6.25 percent would necessitate a plan to reduce the individual income tax rate as well, since many S-Corps and LLCs that pay the individual income tax would be likely to reorganize as C-Corps to pay the lower tax rate.

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Kansas Corporate Tax Reform in a Competitive Context

Prepared by
Chris Atkins (Staff Attorney) and Jonathan Williams (Staff Economist)
Tax Foundation

House Taxation Committee
February 21, 2007

TAX FOUNDATION

Presentation Goals

- Comparing State Tax Systems
- How does Kansas compare?
- A Closer Look at the Corporate Tax System
- Recommendations

Analyzing a State's Tax System

Benchmarks	Evaluating a state tax system is tricky No truly "ideal" mix of taxes Look to policy and other states
Tax Policy Principles	Neutrality Simplicity Transparency Pro-growth
Other States	Higher v. lower rates Broader v. narrower tax base Presence or absence of specific taxes
Tax Foundation's Two-Tiered Analysis	Tax burden Tax structure

Why are tax burden and tax structure both important?

HS Taxation Committee
2-21-2007
Attachment 2

The Difference between Tax Burden and Tax Structure

State A	State B
Business income = $1,000,000	Business income = $1,000,000
Business tax rate = 6.75%	Business tax rate = 8%
Tax liability = $67,500	Tentative tax liability = $77,500
	Investment tax credit = 12.5% of new capital spending
	New capital spending = $100,000
	Investment tax credit value = $12,500
	Tax liability = $67,500

Which state's tax system is more business friendly?

Measuring Tax Burden: The Tax Foundation's State and Local Tax Burden Estimates

What the Estimates Are

- **An estimate of the total state and local tax burden in a state as a percentage of income**
- **Local taxes are vital**
- **Percentage of income allows for comparisons**

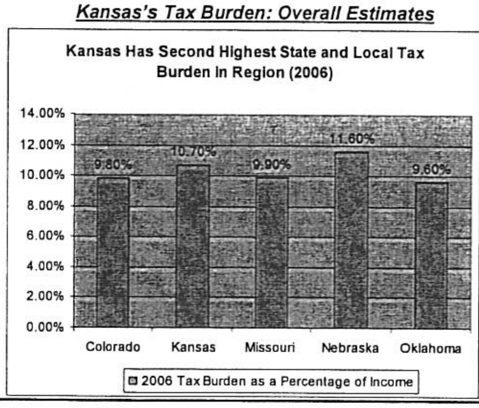
Why Tax Foundation Estimates Are Different (and better!)

- **Census numbers reflect the amount of tax collected by each state**
- **But collections don't paint an accurate economic picture (Wyoming example)**
- **Tax Foundation estimates perform economic incidence analysis to measure true economic burden**

How Does Kansas Compare?

- **Overall: 18th highest**
- **Regional: 2nd highest**
- **Upward movement in period 1970-2006**
- **Tax Freedom Day: April 22nd**

Kansas's Tax Burden: Overall Estimates



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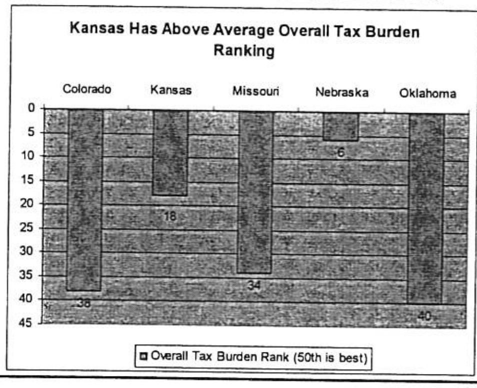
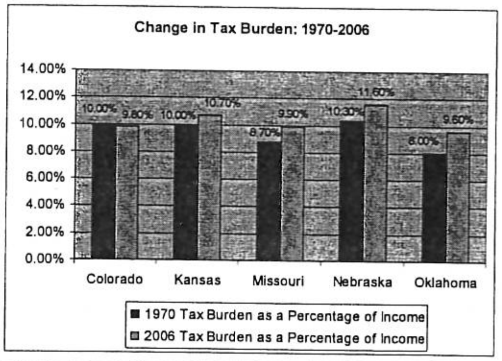
Kansas's Tax Burden: Overall Ranking (50th is best)



Kansas's Tax Burden: Change Since 1970



Measuring Tax Structure: The Tax Foundation's State Business Tax Climate Index

Theoretical Foundations of the Index

- Taxes matter to business
- Taxes are important for growth
- Tax changes are not enacted in a vacuum
- Tax base is important too

What taxes are important to business?

- Business taxes (direct taxes on corporations)
- Individual income taxes
- Sales taxes
- Unemployment insurance taxes
- Property taxes

Factors in Business Investment Decisions

- Taxes
- Roads
- Schools
- Legal system

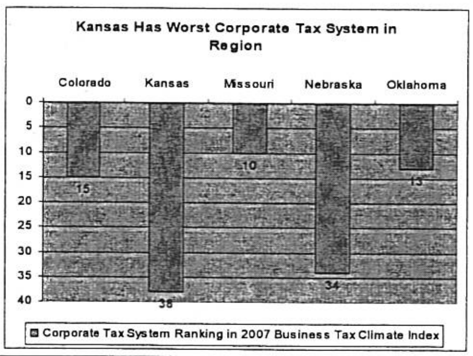
Taxes are one of the few components of business development that lawmakers can immediately change

Kansas's Overall Rankings in the 2007 State Business Tax Climate Index

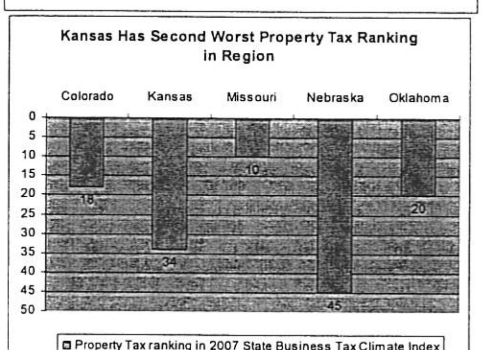
Overall Index Ranking	Overall: 31st (out of 50—1st is best))	Key feature: below average corporate, property tax systems
Corporate Taxes	Overall: 38th (out of 50)	Dual rate structure High top rate Throwback rule
Individual Income Taxes	Overall: 23rd (out of 50)	Three brackets No indexation
Sales Taxes	Overall: 25th (out of 50)	Fairly high rate (with local add-ons) Many B2B taxable
Property Taxes	Overall: 34th (out of 50)	High property tax collections Franchise tax

Corporate and Property tax systems are ripe for change

Kansas's Corporate Tax Rankings in the 2007 State Business Tax Climate Index



Kansas's Property Tax Rankings in the 2007 State Business Tax Climate Index



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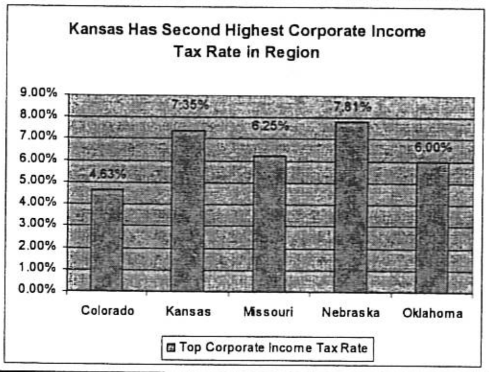
A Closer Look at the Kansas Corporate and Property Tax Systems

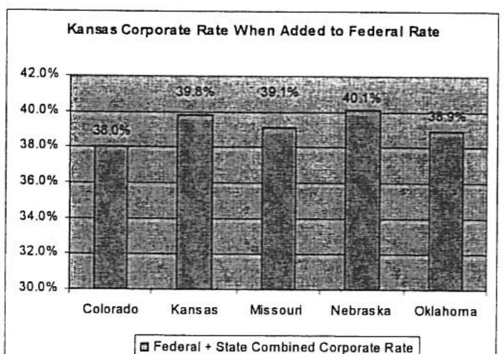
Corporate Taxes

- High top rate (7.35 percent)
- Two corporate income tax brackets (top rate applies above $50,000)
- Brackets not indexed for inflation (CO, MO, OK all index)
- Narrow base
- No NOL carry-back and only 10 year carry-forward
- Throwback rule (NE only regional state without)
- No foreign tax deductibility (MO, NE allow)

Kansas's Corporate Tax Rate in Regional Context



Corporate Tax Rates in Kansas's Region in International Context



Slide 13

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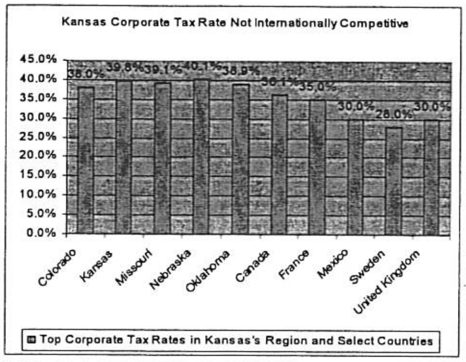
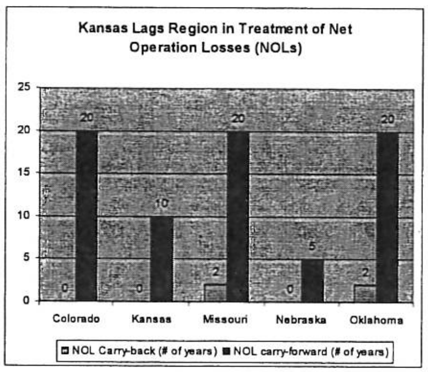
Administrator, 2/20/2007

Corporate Tax Rates in Kansas's Region in International Context



Treatment of Net Operating Losses (NOLs) in Kansas's Region



A Closer Look at the Kansas Corporate and Property Tax Systems

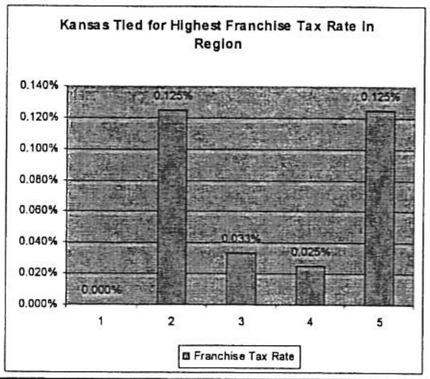
Corporate Taxes

- High top rate (7.35 percent)
- Two corporate income tax brackets (top rate applies above $50,000)
- Brackets not indexed for inflation
- Narrow base
- No NOL carry-back and only 10 year carry-forward
- Throwback rule
- No foreign tax deductibility

Property Taxes

- Per capita collections: $1,229 (highest in region)
- Property tax burden: 3.57% (highest in region)
- Franchise tax
- No estate tax
- No inheritance tax
- Real-estate, generation-skip transfer tax

Kansas's Franchise Tax in Regional Context



Franchise Tax: Reduce or Repeal?

Is the tax necessary?
- Businesses already pay income tax, property tax, sales tax on some purchases
- Little economic rationale for taxing net worth
- Taxes were designed for an earlier economic era

Little revenue impact
- Raises less than $50 million
- Will not reduce revenues by full amount
- Rarely get a chance to eliminate a tax for less than $50 million

Eliminating reduces complexity
- Eliminating the tax also eliminates the burden of compliance, shifting resources to more productive uses
- Reducing it by exemptions increases complexity

Other states are moving
- OK, MO looking at repeal or reduction of their franchise tax
- Mere reduction might not improve Kansas's standing
- Other states looking at major tax reform

States Considering Tax Reform/Tax Cuts

- Arkansas: sales tax
- Georgia: eliminate income tax, franchise tax, inventory tax
- Idaho: sales tax
- Indiana: property tax relief
- Kentucky: alternative business gross receipts tax
- Michigan: new business tax system
- Missouri: eliminate income, franchise taxes
- Nebraska: individual income taxes
- Oklahoma: franchise tax reduction/elimination
- South Carolina: individual income tax reduction/elimination
- Texas: business tax reductions
- Utah: more flat tax reform
- West Virginia: more business tax reform

Franchise Tax: Reduce or Repeal?

Is the tax necessary?	• Businesses already pay income tax, property tax, sales tax on some purchases • Little economic rationale for taxing net worth • Taxes were designed for an earlier economic era
Little revenue impact	• Raises less than $50 million • Will not reduce revenues by full amount • Rarely get a chance to eliminate a tax for less than $50 million
Eliminating reduces complexity	• Eliminating the tax also eliminates the burden of compliance, shifting resources to more productive uses • Reducing it by exemptions increases complexity
Other states are moving	• OK, MO looking at repeal or reduction of their franchise tax • Mere reduction might not improve Kansas's standing • Other states looking at major tax reform
Eliminating enhances transparency	• Individuals pay all taxes (including those levied on businesses • Eliminating the tax would align economic incidence with legal incidence

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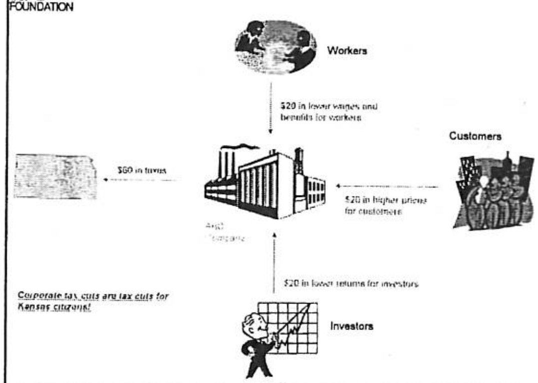
Why Individuals Pay All Taxes—Even Those Levied on Business



Corporate tax cuts are tax cuts for Kansas citizens!

Recommendations/Conclusion

Franchise Tax	• Eliminate • Mere reduction unlikely to improve competitiveness in region • Reduction should focus on rate not exemptions
Corporate Income Tax	• Reduce to 6.25% (OK rate) • Broaden base if revenue neutrality required
Conclusion	• Good opportunity for reform • Other states are moving • Sound policy reform can enhance economic growth, increase jobs, and provide stability

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