

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:40 A.M. on January 11, 2007 in Room 519-S of the Capitol.

All members were present except:

Derek Schmidt- excused

Les Donovan- excused

Committee staff present:

Chris Courtwright, Kansas Legislative Research

Martha Dorsey, Kansas Legislative Research

Gordon Self, Revisor of Statutes Office

Jason Thompson, Revisor of Statutes Office

Judy Swanson, Secretary

Conferees appearing before the committee:

Joan Wagon, Secretary, Kansas Department of Revenue

Others attending:

See attached list.

Joan Wagon, Secretary of Kansas Department of Revenue, requested bill introductions concerning E-file readiness, Social Security numbers on agency license applications, and Streamlined Sales Tax changes. (Attachment 1) She distributed a magazine article concerning percentage of individual Kansas taxpayers who voluntarily e-file. (Attachment 2)

Senator Lee moved for introduction of the bills as requested by Kansas Department of Revenue. Senator Pine seconded the motion, and the motion passed.

Secretary Wagon presented a summary of the Governor's Tax Reform Proposal. (Attachment 3) Rate reduction and simplification of tax incentives were the two highest priorities of the Governor's work group. The recommendations were:

- business tax rate reductions
- business tax incentives/tax credits
- removal of barriers in state laws that discourage consolidation or prevent more efficient use of tax dollars by local governments

Secretary Wagon reviewed each recommendation. She will provide Committee members The Tax Foundation Study at a later date. She presented the Outlook for the State General Fund. (Attachment 4) Committee discussion was held concerning the projections on this report.

The House Taxation Committee will introduce the suggested legislation as requested in the Governor's Tax Reform Proposal.

Senator Jordan moved to approve the Minutes of the January 10 Committee meeting. Senator Lee seconded the motion, and the motion passed.

Being no further business the Committee adjourned at 11:40 a.m. Next meeting will be January 16.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 1/11/07

| NAME | REPRESENTING |
|------------------|------------------------------|
| Joshua Lewis | Sen. Schmidt |
| Bob Vancrum | Greater KC Chamber |
| MARK P. MARZITZ | CONLEE CONSULTING, INC. |
| Michael Hooper | Kearney & Assoc. |
| ROBYN HORTON | KANSAS MOTOR CARRIERS ASSOC. |
| LARRY R BAKER | LKM |
| Marty Boeschling | Sen. Bruce |
| Dede Ham | Ham Law Firm |
| Matt Bryant | Carter Group |
| Derrick Sontag | NFIB |
| Steve Johnson | Kansas Gas Service / ONEOK |
| Bill Brady | Capitol Strategist |
| Mike Reesat | Ashley Brader |
| David Byler | KS Commerce |
| Kathleen Smith | KDOR |
| Ben Cleaves | DOB |
| James Bartle | Dept. of Revenue |
| Bruce Larkin | KDOR |

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 1-11-07

| NAME | REPRESENTING |
|-----------------|--------------|
| David R. Corbin | K DOR |
| Richard Crom | K DOR |
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K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

January 11, 2007

To: Senator Barbara Allen, Chair
Senate Committee on Assessment and Taxation

From: Joan Wagnon

Re: Summary of Department of Revenue Legislative Proposals Requested for Introduction in Senate Committee on Assessment and Taxation

E-file Readiness

Amend K.S.A. 79-3311 to require purchases of cigarette tax stamps to be made by electronic funds transfer. Amend other statutes in the cigarette tax stamp act to delete out-dated terminology referring to "meters," "meter imprints," and "water applied gummed paper" stamps, all of which are no longer in use.

Amend K.S.A. 79-3604 to require that County Treasurers remit to the Department daily by electronic funds transfer their sales and use tax collections, commencing January 1, 2008. County Treasurers will continue to file monthly reports with the Department reconciling the daily transfers.

Require Social Security Numbers on License Applications

Amend K.S.A. 74-139 to require that license applicants provide to state licensing agencies their social security numbers or tax identification numbers. The Department, in turn, obtains this information from the licensing agencies in order to accurately determine the status of tax compliance by license applicants and licensees. This requirement would become effective for license applications submitted after December 31, 2007.

Streamlined Sales Tax Changes

As a result of recent changes to the Streamlined Sales and Use Tax Agreement ("Agreement"), Kansas, being a Member State, must conform its sales tax statutes to those changes. The required amendments are described below.

Exemption Administration

Recent changes to the Agreement provide greater liability protection to sellers obtaining exemption certificates from their purchasers. The following statutes need to be amended:

Repeal K.S.A. 79-3691, which prohibits an out-of-state retailer from claiming the resale exemption when purchasing merchandise from a business that "drop ships" the items to Kansas

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customers, unless the out-of-state retailer is registered as a Kansas retailer and provides the registration number to the drop shipper.

Amend K.S.A. 79-3609 to give retailers 90 days from the date of sale to obtain an exemption certificate from the purchaser. Retailer will have 120 days from the date of the Department's auditor's request for exemption certificates to prove the transaction in question was exempt or to provide completed exemption certificates. Currently, retailers are required to produce exemption certificates to the Department's auditor within 60 days of the request.

Amend K.S.A. 79-3651 to relieve retailer from liability for not collecting sales tax on a transaction when obtaining a completed exemption certificate from the purchaser, except in limited circumstances. Provide that a drop shipper can accept a resale exemption certificate from the retailer, whether the retailer is registered as a Kansas retailer or not. Allow for use of a blanket exemption certificate when there is a recurring business relationship between the buyer and seller.

Bundled Transactions

A "bundled" transaction involves the sale of two or products for one non-itemized price and only some items in the "bundle" are taxable. As a general rule when that occurs, the entire transaction is deemed taxable. Only if the taxable and non-taxable portions of the price are broken out or itemized separately, would the tax be limited to the sale of the taxable items contained in the bundle. A bundled transaction could consist of two types of tangible personal property, one item taxable and the other exempt, or an item of taxable tangible personal property and a non-taxable service, sold for one price. In an effort to achieve uniformity and minimize the circumstances when the total price of a bundle of taxable and non-taxable products would be fully taxed, the Agreement now requires Member States to adopt the Streamlined definition of "bundled transaction" and use it in determining the tax treatment of such transactions. The definition of "sales or selling price" in K.S.A. 79-3602 will be amended to be consistent with the new "bundled transaction" section. Also, uniform rules for how various types of discounts and coupons affect the sales price will be added to the "sales or selling price" definition.

Durable Medical Equipment

Kansas exempts prescribed prosthetic devices. The adoption of the Streamlined Sales Tax definition of "prosthetic device" in 2003 imposed a new requirement on equipment qualifying as a "prosthetic device" to be "worn in or on the body." Three items that previously would have been considered exempt as prosthetic devices under the prior Kansas definition are: oxygen delivery equipment, kidney dialysis machines, and enteral feeding systems. These items more properly fit within the Streamlined Sales Tax definition of "durable medical equipment," which is found at K.S.A. 79-3606(hh). The Agreement now allows states to enact separate sales tax exemptions for oxygen delivery equipment, kidney dialysis machines, and enteral feeding systems and exclude them from the definition of "durable medical equipment." K.S.A. 79-3606(r) and (hh) will be amended to accomplish that result.

Direct Mail Delivery Charges Exclusion

Delivery charges are part of the sales tax base and are defined at K.S.A. 79-3602(i). The Agreement now permits Member States to exclude from the definition of "delivery charges" those charges for delivery of direct mail if those charges are separately stated. This definition would be so amended, excluding postage for delivery of direct mail from the sales tax base. Direct mail includes printed material delivered by U.S. mail to a mass audience or to addresses

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on a mailing list provided by the purchaser when the cost of the items are not billed to the recipients.

Liability Relief for CSP's (certified service provider), Sellers and Purchasers

Liability relief will be provided to purchasers for tax, interest and penalties for failure to pay the correct amount of sales or use tax resulting from reliance on erroneous data provided by the Department on tax rates, taxing jurisdiction boundaries, or in the taxability matrix to the purchaser's seller or CSP, or directly to the purchaser.

Liability relief will be provided to a CSP or model 2 seller for not collecting the correct tax if the secretary has certified the CSP's software program as adequately classifying product-based exemptions, and the CSP, as a certified automated system (CAS), or model 2 seller relied on that certification in making the error. The liability protection afforded sellers taking exemption certificates from their purchasers under K.S.A. 79-3609 and 79-3651, will also be extended to CSP's.

Rates and Boundaries Database

K.S.A. 79-3668 will be amended to provide that once the Department has developed an address-based system for assigning taxing jurisdictions, certified service providers and sellers are required to use that system, instead of the zip code database. If in using that address-based system the CSP or seller cannot determine the proper rate and taxing jurisdiction, after exercising due diligence, then the CSP or seller can use the taxing rate and jurisdiction assigned using the nine-digit zip code. It is presumed that the CSP or seller has used due diligence if they used software approved by the Department that assigns the rate and taxing jurisdiction based on the address and zip code provided. The Department can also certify a vendor-provided database, which a seller or CSP can use in place of the Department's database. Any database that the Department provides must be free of charge.

K.S.A. 79-3667 provides liability protection to CSP's and sellers for collecting incorrect sales and use tax amounts resulting from reliance on erroneous data provided by the Department concerning rates and taxing jurisdiction boundaries. However, if the Department provides an address-based system for assigning taxing jurisdictions, CSP's and sellers are not given liability relief for errors resulting in reliance on the five-and nine-digit zip code database.

Telecommunications Services

To obtain uniformity, the telecommunications industry developed definitions of terms to be used by states in sales tax imposition or exemption statutes concerning telecommunications services. These definitions are now in the Agreement and are required to be adopted. A "telecommunications services" definition is provided for states to use when imposing sales tax on telecommunications. That term is carefully defined to clearly identify the types of services included in and excluded from the definition. If a state taxes some or all of the other types of services expressly excluded from the definition of "telecommunications services," then definitions for those types of services are provided. For example, states that tax "ancillary services" as well as "telecommunications services," need to adopt both definitions and expressly impose sales tax on those items. The tax imposition statute for telecommunications services, K.S.A. 79-3603(b), is to be amended to tax those types of telecommunications services and ancillary services that Kansas is currently taxing, and exempt those types of services that Kansas is currently exempting, using the new telecommunications definitions required by the Agreement.

The Agreement also contains a special rule for dealing with "bundled" transactions that include any telecommunication service, ancillary service, internet access, or audio or video programming service. Under the Agreement, when the "bundle" includes any one of the above services, and the non-itemized price includes products that are taxable and nontaxable, the portion of the price attributed to the nontaxable products is taxable unless the provider can identify that portion of the price from its books and records kept in the normal course. This will be adopted in place of the old telecommunications "bundling" rule in K.S.A. 79-3603(b).

Multiple Points of Use

The Seattle meeting of the Governing Board held in December 2006 voted to repeal Section 312 of the Agreement, which dealt with sourcing of transactions consisting of purchases of computer software delivered electronically, when the purchaser knows at the time of purchase that the software was to be concurrently available for use in multiple locations. Section 312 provided that the purchaser should provide a "multiple points of use" exemption certificate to the seller, and the purchaser would assume the responsibility to remit sales tax on the purchase to the appropriate jurisdictions, based on a reasonable apportionment method. Kansas adopted the Agreement "multiple points use" provisions at K.S.A. 79-3671. States and the business community participating in the Streamlined Sales Tax Project have not yet found a satisfactory way to implement these provisions. For that reason, they were recently repealed. K.S.A. 79-3671 also needs to be repealed.

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Secretary of Revenue Stresses Goal to Increase Voluntary e-file Percentage

Representatives from the KSCPA Tax Cabinet recently met with Secretary Joan Wagon, Kansas Department of Revenue, and Steve Stotts, Director of Taxation, to discuss e-filing individual income tax returns. Other Department staff also joined the meeting by telephone conference.

During the meeting, Secretary Wagon agreed to forego pursuit of mandatory e-file legislation during the 2007 legislative session in exchange for the KSCPA's commitment to promote increased voluntary e-filing percentages.

The Secretary's target rate for e-filing individual income tax returns is 65%. In order to meet the 65% target rate, all tax practitioners need to e-file a larger number of returns. In tax year 2005, when approximately 54% of all individual tax returns were e-filed, paid preparers submitted approximately 60% of their returns electronically.

During the 2006 filing season the Department of Revenue ran two different television advertisements promoting e-filing. One ad showed a mature woman filing her own return, at the Department's website, using her own computer. The other showed a taxpayer discussing the benefits of e-filing with his CPA in the CPA's office. The Department plans to again run e-file promotional ads during the 2007 filing season.

CPAs know the many advantages of e-filing but sometimes have difficulty convincing their clients that e-filing is a good idea. Meeting the Secretary's established e-file goal of 65% will require a serious grassroots effort to convince ALL Kansans that e-filing is secure, saves administrative time for preparers and the Department, and saves time and money for the taxpayer (not to mention saving a forest full of



Cheryl Hayward and Joan Wagon, Secretary of Revenue, Discuss e-file Information.

trees). The direct deposit of a client's speedy refund is another added benefit of e-filing.

CPAs are well-positioned to enhance public awareness of e-filing. In addition to advising our clients to e-file, we also have contact with non-client taxpayers and can spread the word to them as well. Often asked to give tax-related presentations to local civic and charitable groups, CPAs can use these community-based presentations to promote e-filing. Another easy way to promote e-filing is to slip an e-file reminder in with W-2s you prepare for clients.

Using off-the-shelf software, CPAs in business and industry often prepare their own individual tax returns and returns for their family members. If you are one of those preparers and choose not to e-file from a home computer, use the software to prepare the Kansas return then enter the information on the KDOR website...it's easy and FREE!

If you are not set-up to e-file and want information about how to get started, contact Terry Hunt at the Kansas Department of Revenue. Terry can be reached by telephone at (785) 296-4066. Free e-file promotional materials are also available from the IRS at www.irs.gov/efile or by calling the toll-free number, (800) 691-1894.

Through a concentrated effort by CPAs across Kansas, we can meet the 65% target rate for voluntary e-file!

Cheryl Hayward, CPA
Chairperson, KSCPA Tax Cabinet

Editor's Note: Cheryl Hayward is a Tax Manager in the Topeka firm of Berberich Trahan & Co., P.A. An active member of the KSCPA Tax Cabinet since 2001, she has also been active in planning the Annual Kansas Tax Conference and the state-focused Conference on Kansas Taxes. In November 2006 Cheryl also completed a 3-year term on the KSCPA Board of Directors.

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

Last year the Kansas Legislature and the Governor made

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

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

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

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

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

Recommendation #1: Business Tax Rate Reductions:

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

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

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

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

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

Recommendation #2: Business Tax Incentives/Tax Credits

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

A. Investment Tax Credit

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

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

These items from the HPIP have been simplified or eliminated:

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

B. Jobs Credit

Requirements include:

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

C. Sales Tax Exemptions

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

D. Strategic Reserve Fund

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

E. Opportunity Zones Program

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

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

F. Administrative provisions to include in the legislation:

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

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

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

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

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

Investment Credit Process

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

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

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

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

NOTES:

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

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

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

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Investment Credit

Commerce

Revenue

Planned Project:

Completed Project:

Name: _____

FEIN: _____

Address of Facility _____

Project Number: _____

Project Name: _____

Project Description: _____

Project Duration: beginning and ending dates _____

NAICS of facility _____

Description of NAICS _____

Headquarters operation _____

Ancillary support operation _____

Average wage per NAICS Code \$0.00

\$0.00

Average wage at facility \$0.00

\$0.00

Difference: \$0.00

\$0.00

Dates: _____

Tax Period: beginning and ending _____

Project investment estimate: _____

Date placed in service: _____

Acct

Acct

Depreciable asset categories:

Number:

Number:

Building \$0.00

\$0.00

Furniture and fixtures \$0.00

\$0.00

Machinery and equipment \$0.00

\$0.00

Leasehold improvements \$0.00

\$0.00

Land \$0.00

\$0.00

Other: specify \$0.00

\$0.00

Rents: specify \$0.00

\$0.00

\$0.00

\$0.00

Total investment: \$0.00

\$0.00

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

If greater than minimum investment:

Credit @ 10% \$0.00

\$0.00

(Investment excludes property that leaves the facility.)

Signature of taxpayer _____

Date _____

Signature _____

Date _____

Commerce signature _____

Date _____

Revenue signature _____

Date _____

Revenue signature _____

Date _____

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Attachment # 3-7

Outlook for the State General Fund

(Dollars in Millions)

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

Totals may not add because of rounding.

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

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

Assessment & Taxation
Date 1-11-07
Attachment # 4

Outlook for the State General Fund

(Dollars in Millions)

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

Totals may not add because of rounding.

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

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

Assessment & Taxation
Date 1-11-07
Attachment # 4-2