February 26, 2025

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Kansas Action for Children
Written-only Testimony in Opposition to HB 2336
House Committee on Taxation

Chairman Smith and members of the Committee:

Thank you for the opportunity to testify in opposition to HB 2336, which would change the corporate income tax calculation from an equal-weight, three-factor formula to a single-sales factor and formulaically reduce corporate income tax rates.

We oppose this bill because it would reduce state revenue and make the tax code less fair while bringing little to no economic benefit. Changing to a single sales factor would decouple tax liability from public services rendered to many corporations in Kansas, leaving small businesses and residents to foot the bill. Reducing corporate tax rates will drive revenues lower and further shift burdens onto other taxpayers.

Corporations receive many benefits from the states they operate in – a workforce, a consumer base, infrastructure, and legal protection to name a few – and they should pay for those benefits. However, HB 2336 would ensure corporate benefits are subsidized by taxpayers across the state.

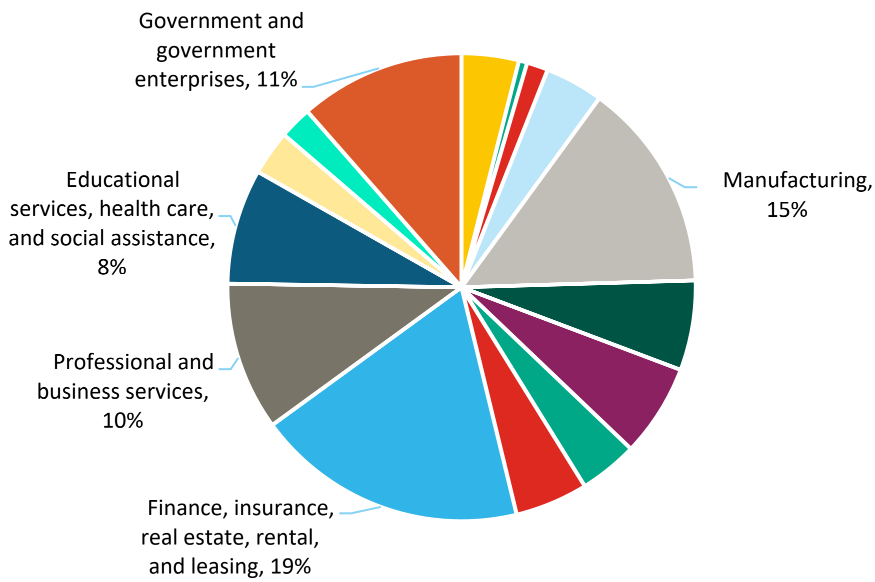
The current apportionment formula that equally weighs sales, property, and payroll is the fairest method for determining corporate tax liability in Kansas, especially given the strong manufacturing presence in the state. Manufacturing makes up a substantial piece of the state economy and, therefore, the corporate tax base. This is important because it is the large manufacturers that stand to gain the most.

According to Michael Mazerov, a former Senior Fellow at the Center on Budget and Policy Priorities, "[g]enerally speaking, when a state switches from a three factor apportionment formula to a sales-only formula, it provides an automatic income tax cut to any corporation with a large share of its nationwide property and payroll in the state but a large share of its sales outside the state. Manufacturers are most likely to fit this profile."[1]

[1] Mazerov, M. (September 1, 2005). *THE "SINGLE SALES FACTOR" FORMULA FOR STATE CORPORATE TAXES: A Boon to Economic Development or a Costly Giveaway?*

In 2023, manufacturing accounted for 15% of state gross domestic product, which is equal to $33.1 billion of economic output. That is an extraordinary amount of money, most of which is derived from sales outside the state of Kansas.[2] It may be tempting to believe that taxing these manufacturers less will lead to job creation, but this is unlikely for two reasons: automation and labor force constraints.

Kansas GDP by Industry, 2023



Source: U.S. Bureau of Economic Analysis, SAGDP2N Gross domestic product (GDP) by state, 2023

Since 2000, manufacturing employment in Kansas has declined by more than 12% while GDP in the industry has more than doubled.[3,4] This is a trend that is likely to continue as robotics and artificial intelligence capabilities continue to advance. A tax cut for major corporations leaves manufacturers with additional funds for facility automation rather than workforce expansion.

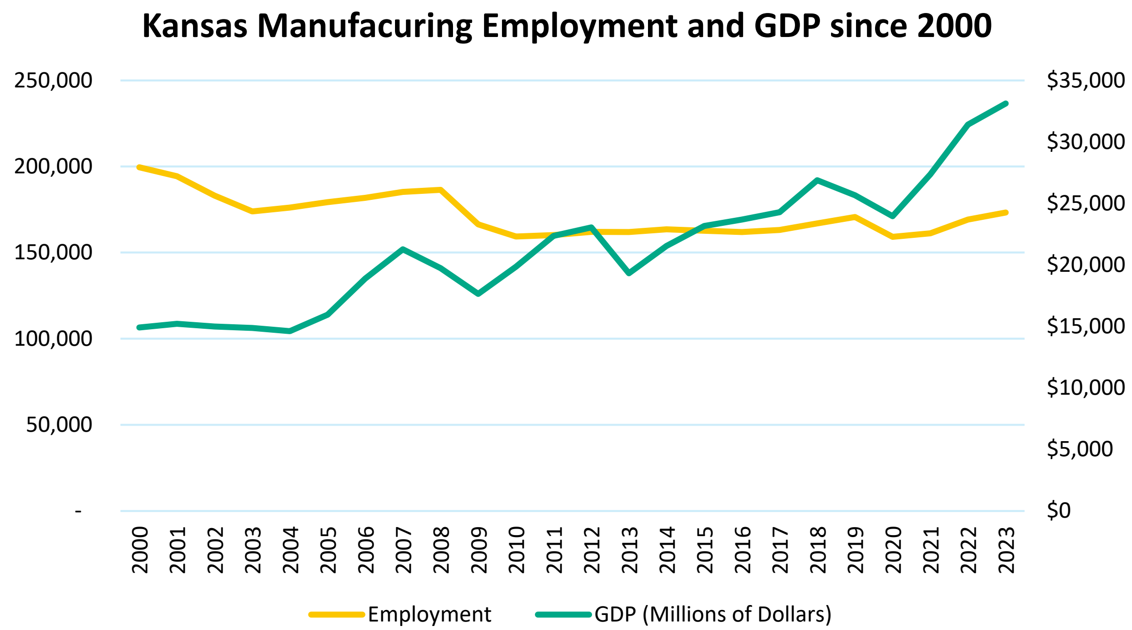
From 2000-2014, all but two states that levy corporate income taxes, including every state using single sales factor apportionment lost manufacturing jobs; the only two that gained jobs were Alaska and North Dakota, both of which used an equally weighted property, payroll, and sales formula.[5]

[2] U.S. Bureau of Economic Analysis. (2003). *SAGDP2N Gross Domestic Product (GDP) by State.*

[3] U.S. Bureau of Labor Statistics. (n.d.). *Current Employment Statistics (CES), 2000-2023.*

[4] U.S. Bureau of Economic Analysis. (n.d.). *SAGDP2N Gross Domestic Product (GDP) by State, 2000-2023.*

[5] Mazerov, M. (April 1, 2015). *Case for "Single Sales Factor" Tax Cut Now Much Weaker*.



Source: U.S. Bureau of Economic Analysis, SAGDP2N Gross domestic product (GDP) by state and U.S. Bureau of Labor Statistics, Current Employment Statistics (CES), 2000-2023

The economic benefit of what little job creation might occur is also questionable because of population dynamics in the state. With a rapidly aging and slowly growing population, the most likely outcome for any jobs created is that they will be filled by an employee of a different manufacturer. This cannibalization of other companies' workforces will offset any perceived gain from new jobs, leaving total employment little changed but state revenues significantly lower.

While we have little to gain from a new apportionment formula, we stand to lose plenty. Corporations, especially large manufacturers, use an incredible amount of state resources. While corporations do provide jobs, goods, and services, they also provide a host of externalities that the state is responsible for. Infrastructure is the best example for this policy.

Corporations, through production and distribution, extensively utilize state infrastructure. For example, Frito-Lay has trucks coming and going from its Topeka facility 24 hours per day; those trucks cause wear and tear on roads and bridges across the state.

By removing property from the apportionment formula, the state will no longer be able to capture the portion of corporate income that is responsible for such wear and tear. Despite lower corporate tax receipts, those roads and bridges will need to be repaired, and that money must come from somewhere.

This will leave the state with two options: ignore the problem or shift the tax burden. Neither is desirable, and, unfortunately, a burden shift is the more likely scenario. In this way, Kansas residents will be on the hook for corporate use of public resources. Reducing corporate tax rates exacerbates this problem, putting small businesses at a disadvantage and increasing the cost of government for all taxpayers except the large – and most likely profitable – C-Corporations.

Corporations have received recent tax cuts through the Tax Cuts and Jobs Act and the state APEX legislation. Instead of changing their tax structure, we believe there are other priorities that should supersede a corporate tax cut, including a state child tax credit and reinstatement of renter eligibility in the Homestead Program. However, if you choose to move this legislation forward, I urge the Committee to consider amending it to remove the rate reduction formula and instead include a third corporate income tax bracket for those making more than $1 million in taxable income. This would retain some sense of equity in the corporate tax code and recover at least some of the revenue lost through the change to a single sales factor apportionment formula.

Please contact me at nathan@kac.org if I can be of further assistance.

About Kansas Action for Children

Kansas Action for Children is a nonprofit advocacy organization working to make Kansas a place where every child has the opportunity to grow up healthy and thrive. We work across the political spectrum to improve the lives of Kansas children through bipartisan advocacy, partnership, and information-sharing on key issues, including early learning and education, health, and economic security for families.