



Kansas Economic Progress Council
Suite 200
212 West 8th
Topeka, Kansas 66603

Testimony on SB 457 and SB 458
Senate Assessment and Taxation Committee
March 12, 2012

Bernie Koch
Executive Director
Kansas Economic Progress Council

Senator Donovan and members of the committee, thank you for the opportunity to appear in support of Senate Bill 457 and Senate Bill 458. I will combine my testimony on both of these measures.

I'm Bernie Koch with the Kansas Economic Progress Council, a statewide not for profit organization of businesses, trade associations, chambers of commerce, and individuals. We support pro-growth policies for communities and the state.

Senate Bill 457 provides the option of a single factor formula based on sales outside the state to new manufacturing firms locating in Kansas.

There are 13 states that use a single factor sales formula. California and New Jersey are phasing it in. It appears that some states have different formulas for different kinds of businesses. I've attached to my testimony information on what the states do in this area from a February 2012 document prepared by the Federation of Tax Administrators.

We believe this legislation would help encourage manufacturing businesses that have nationwide and worldwide sales.

Manufacturing is already one of the largest parts of the Kansas economy, making up over 13 percent of gross state product according to the U.S. Department of Commerce Bureau of Economic Analysis.

Before the recession in 2007, manufacturing was 16 percent of our economy, the largest sector.

We have said in past testimony that we would support looking at this concept for all businesses, not just manufacturing. We believe it would encourage location of headquarters in the state and facilitate companies that export.

Senate Bill 458 would allow bioscience companies relocating to Kansas to pay no income tax. We believe continuing technological innovation and improvement are major contributors to sustaining economic growth. SB 458 encourages that innovation in Kansas and we support it as well.

Finally, while we support these measures, I would urge you to continue looking at our tax structure and how it impacts business.

You have probably heard of the recent Tax Foundation study that ranks Kansas high in tax burden on both mature and new businesses. In state-specific comments on Kansas, the Tax Foundation study indicates Kansas often has the highest property tax burden of any state on business and among the top ten sales tax burdens.

Some of the most specific studies I've been able to find on business property taxes have been done by the Lincoln Institute of Land Policy and the Minnesota Taxpayers Association. There's some very disturbing data in their latest study about commercial property tax rates in both rural and urban areas of Kansas.

The study looked at the largest urban areas in each state and ranked them by commercial property tax effective rates.

Wichita ranked 7th with an effective tax rate of 2.914 percent.

That same study chose a rural city in each state with a population of between 2,500 and 10,000 for inclusion in the study. They wanted a city with an average rural tax rate for the state and selected Iola for Kansas. They then compared effective commercial property tax rates. Iola had the highest tax rate in this portion of the study, 3.976 percent.

We believe the research shows we must eventually concentrate our attention on these areas.

Thank you for the opportunity to appear today.

STATE APPORTIONMENT OF CORPORATE INCOME

(Formulas for tax year 2011 -- as of January 1, 2011)

ALABAMA *	3 Factor	NEBRASKA	Sales
ALASKA *	3 Factor	NEVADA	No State Income Tax
ARIZONA *	Double wtd Sales/80% Sales, 10% Property & 10% Payroll	NEW HAMPSHIRE	Double wtd Sales
ARKANSAS *	Double wtd Sales	NEW JERSEY	Double wtd Sales
CALIFORNIA *	Sales/Double wtd Sales (1)	NEW MEXICO *	3 Factor/Double wtd. Sales
COLORADO *	Sales	NEW YORK	Sales
CONNECTICUT	Double wtd Sales/Sales	NORTH CAROLINA *	Double wtd Sales
DELAWARE	3 Factor	NORTH DAKOTA *	3 Factor
FLORIDA	Double wtd Sales	OHIO	Triple Weighted Sales (4)
GEORGIA	Sales	OKLAHOMA	3 Factor
HAWAII *	3 Factor	OREGON	Sales
IDAHO *	Double wtd Sales	PENNSYLVANIA	90% Sales, 5% Property & 5% Payroll
ILLINOIS *	Sales	RHODE ISLAND	3 Factor
INDIANA	Sales	SOUTH CAROLINA	Double wtd Sales/Sales (5)
IOWA	Sales	SOUTH DAKOTA	No State Income Tax
KANSAS *	3 Factor/Sales	TENNESSEE	Double wtd Sales
KENTUCKY *	Double wtd Sales	TEXAS	Sales
LOUISIANA	Sales	UTAH	3 Factor/Double wtd Sales
MAINE *	Sales	VERMONT	Double wtd Sales
MARYLAND	Sales/Double wtd Sales	VIRGINIA	Double wtd Sales
MASSACHUSETTS	Double wtd Sales	WASHINGTON	No State Income Tax
MICHIGAN	Sales	WEST VIRGINIA *	Double wtd Sales
MINNESOTA	90% Sales, 5% Property, & 5% Payroll (2)	WISCONSIN *	Sales
MISSISSIPPI	Sales/Other (3)	WYOMING	No State Income Tax
MISSOURI *	3 Factor/Sales	DIST. OF COLUMBIA	3 Factor
MONTANA *	3 Factor		

Source: Compiled by FTA from state sources.

Notes:

The formulas listed are for general manufacturing businesses. Some industries have a special formula different from the one shown.

* State has adopted substantial portions of the UDITPA (Uniform Division of Income Tax Purposes Act).

Slash (/) separating two formulas indicates taxpayer option or specified by state rules.

3 Factor = sales, property, and payroll equally weighted.

Double wtd Sales = 3 factors with sales double-weighted

Sales = single sales factor

(1) Beginning with the 2011 tax year, California taxpayers may elect to use a single sales factor.

(2) Minnesota is phasing in a single sales factor which will reach 100% in 2014.

(3) Mississippi provides different apportionment formulas based on specific type of business. A single sales factor formula is required if no specific business formula is specified.

(4) Formula for franchise tax shown. Department publishes specific rules for situs of receipts under the CAT tax.

(5) Taxpayers are allowed only 80% of the reduced taxes from a single sales factor.