

**TESTIMONY OF JAMES P. ZAKOURA,
a Resident of Overland Park, Kansas**

**BEFORE THE KANSAS HOUSE OF REPRESENTATIVES,
TAXATION COMMITTEE
REGARDING KANSAS HOUSE BILL NO. 2444**

My name is James P. Zakoura. I am a resident of Overland Park, Kansas residing at 10886 Nieman Road. I reside in Kansas House District No. 29 and Kansas Senate District No. 8.

I received a great education in the public schools of Osawatomie, Kansas, and earned degrees in education and law from the University of Kansas.

My Testimony before this Committee is my own, and is not offered on behalf of any other person or entity. No other person or entity was consulted in the preparation of this Testimony – it is entirely my own.

My Testimony with regard to House Bill No. 2444 is limited to page 8 of Kansas House Bill No. 2444, Section (XX). My Testimony is limited to my support for ending of the so called “Tax Exemption” / Tax Free status for a select category of 333,792 Kansas persons and entities.

The Tax Exemption / Tax Free status is:

- (1) Grossly Unfair and Unjust to the 1.8 million Tax Filers that actually do pay Kansas State Income Tax;
- (2) Is wholly ineffective as to its stated policy purpose;
- (3) Is far more costly than the State can possibly afford and should allow;
- (4) Has failed to obtain material benefits to the State that are consistent with its enormous costs to the Kansas State Treasury; and
- (5) Creates what is, in essence, a “favored and protected class” that receives Kansas State Services and does not pay for them.

History

Kansas first levied a state income tax after Kansas voters approved a constitutional amendment in 1932.

The constitutional amendment is codified as Article II, Section 2 of the Kansas Constitution, and reads:

“The state shall have power to levy and collect taxes on income from whatever source derived, which taxes may be graduated and progressive.”¹

Interestingly to the consideration of HB 2444, the origins of the Kansas Income Tax are traced to the Populist Movement in the State that fought against taxes that targeted farmers and farmland – while those owing stocks and bonds and railroads often escaped Kansas taxation.²

The Kansas Farm Bureau, which desired a reduction of property taxes on farmers, endorsed a state income tax beginning in 1924.³

Farm interests, aided by the Kansas Chamber of Commerce, called for the State Constitutional Amendment in 1931.⁴

The first Kansas income tax in 1933 had a graduated structure between 1% and 4% for individuals. Remarkably, 83 years later in 2016, the Kansas Individual Income Tax Rate has been only moderately changed, and is now composed of two brackets – 2.7% and 4.6% -- with an effective tax rate of 2.93%. The Kansas Legislature is to be commended for its hard work to moderate the State Income Tax Rates for Kansans. Few areas of commerce have been able to maintain a cost/price structure that has not materially changed in its percentage application, from the rates in the 1930s.

¹ Kansas Law Review, Vol. 61, p. 1021 et seq. p. 1025 (2013).

² Kansas Law Review, *supra*.

³ Kansas Law Review, *supra*.

⁴ Kansas Law Review, *supra*.

**The Current Law Exempts 333,792 Tax Filers from the Payment
of Any Kansas State Income Taxes**

On January 1, 2013, Senate Substitute for House Bill 2117 (HB 2117) (See Act of May 22, 2012, Ch. 135, Sec. 10, § 79-32,110) went into effect.

In my opinion, it included a generally well-conceived reformation and reduction of the individual Kansas state income tax rates – but also incredibly included a 100% exemption from Kansas State Income Tax for a select group of about 15% of Kansas taxpayers. From the start, the Tax Exemption / Tax Free Status was grossly discriminatory, as compared to the great majority of Kansans that actually pay Kansas State Income Tax.

House Bill 2117 combined the Tax Brackets down to only two in number , and reduced the Kansas State Income Taxes on the remaining two brackets. The Tax Reduction Statute also raised the standard deduction for “Head of Household” from \$4,500 to \$9,000, and the standard deduction for “Married / Joint Filers” from \$6,000 to \$9,000.⁵

Kansans shared in this simplification in filing and reduction in tax rates, but one select group was singled out and given a 100% Tax Free Status from Kansas State Income Tax:

- (1) Before the 2013 Tax reduction, the lowest tax rate was 3.5%; after the 2013 Tax Reduction, the lowest tax rate is now 2.7% -- a 23% reduction.
- (2) Before the 2013 Tax reduction, the top tax bracket was 6.45%; after the 2013 Tax Reduction, the top bracket is now 4.6% -- a 29% reduction.
- (3) Instead of a 23% or 29% reduction, the select group of Tax Filers in Kansas received a 100% reduction in their Kansas Tax Rates, and a “free pass” from the Kansas Legislature to pay NO Kansas State Income Taxes.⁶

⁵ Act of May 22, 2012, supra.

⁶ K.S.A. 79-32(c)(XX).

**Exactly Who Receives the Tax Exemption and Pays
No Kansas State Income Tax**

A 100% Exemption from Kansas State Income Tax was granted for income derived from:

- (1) sole proprietorships (a business owned by a single individual)
- (2) rental real estate
- (3) trusts
- (4) farms (farm income is 100% exempt)
- (5) Mineral interests (royalty owners)
- (6) patent royalties
- (7) copyrights
- (8) pass through entities
 - (i) limited liability companies
 - (ii) partnerships
 - (iii) S corporations
- (9) independent contractor income (a service provider that is not an employee)⁷
- (10) statutory employee (full time life insurance sales persons and full time traveling sales persons)⁸

Nowhere in the statute is used or defined, the term “small business.”

The Tax Exemptions are cumulative. There is no size limit – no cap.

The income of any exempt category is 100% exempt from Kansas State Income Tax – regardless of size – whether \$100,000 of exempt income or \$100 Billion of exempt income. The Tax Free Exemption is available to both Kansas residents and Non-Residents. About 12% of Kansas Tax Filers are Non-Residents.

HB 2117 did not include a limit on the amount of business income that can be exempted from Kansas State Income Tax. In Kansas the free pass on income exempt from Kansas State Income Tax could be a Billion Dollars or more. The similar North Carolina exemption statute limits exempt income to \$50,000.⁹

⁷ See, I.R.C. § 3121(d)(3)(2006) Kansas Law Review, Vol. 61, p. 295, at p. 302.

⁸ Supra.

⁹ Kansas Law Review, supra, at p. 1022.

When the Tax Exemption was debated in 2012, the Kansas Department of Revenue (KDOR) estimated that 190,000 Rate Filers would qualify for the Tax Exemption. KDOR later indicated that it did not include about 50,000 Tax Filers with Farm Income that would be exempt. The Exempt number quickly increased in 2013, from 190,000 to 240,000.

By 2015 the number of Tax Exempt Filers grew to 333,792.

Pass through entities – Sole Proprietorship, Partnerships, LLCs, and S Corporations – have become so prevalent, so large and produce such a large percentage of Kansas State Income – that the Kansas State Tax Exemption will likely cripple the State’s finances in the coming years. Pass Through Businesses are currently the most common business forms in Kansas. Pass Through Businesses are also the most common business form in the United States. Of the 27.7 million formed in the United States 2011, about 94% were Pass Through Businesses.

**The Purported Justification for the Tax Exemption is Flawed,
Not Capable of Audit, and at the Very Least, is Grossly Overstated;
And Almost Two Times the Number of Tax Exempt Entities
Now Exist as Compared to the Number Forecast in 2012**

The Media Release on May 22, 2012, by the Office of the Governor, stated in part:

“The new law cuts state income tax rates for all hard-working Kansans by 14 to 24 percent and **eliminates state income taxes on more than 191,000 small business owners.**”

...

“Today’s legislation will create tens of thousands of new jobs.”

...

“Dynamic projections show the new law will result in 22,900 new jobs, give \$2 billion more in disposable income to Kansans and increase population by 35,740 **all in addition to the normal growth rate of the state.**” (Emphasis added) Attachment A, hereto.

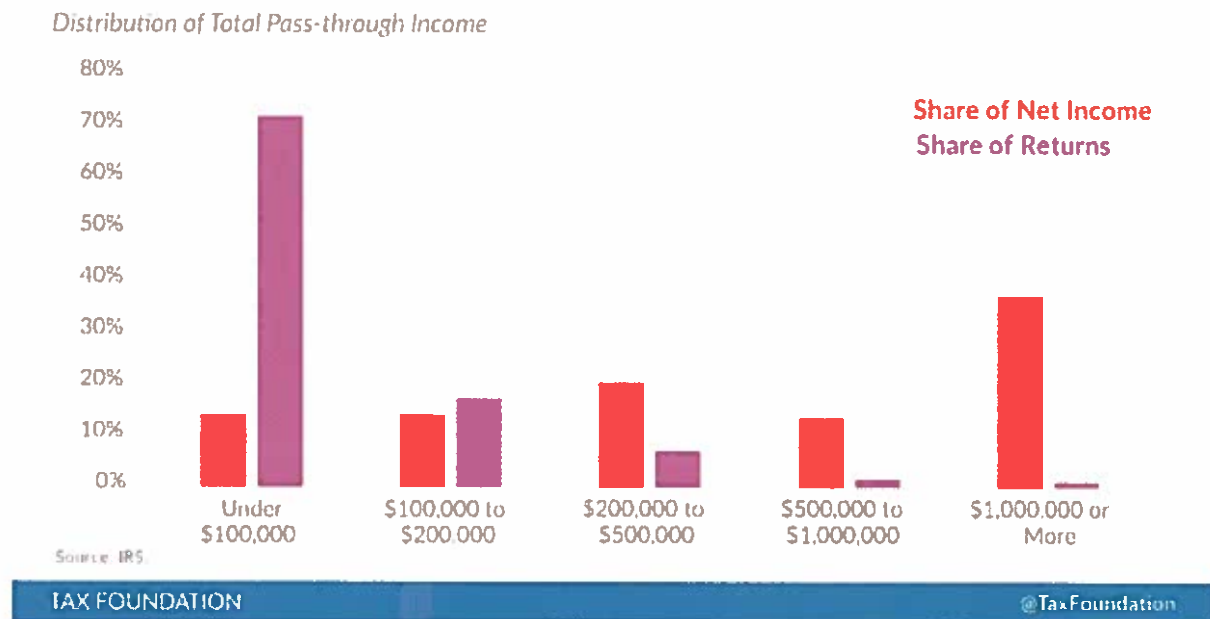
While the Media Release may have been well intentioned, and even based in part on some economic data available at the time, the predictions as to job growth turned out to be

entirely inaccurate, as well as materially inconsistent with a lot of economic data available at the time.

Small Businesses?

It is not possible to track how much of the hundreds of millions of foregone Kansas Tax Dollars went to “small businesses” – but available studies would lead one to believe – “not much.”

Figure 10. High Income Taxpayers Report Most Pass-through Business Income



The Tax Foundation reports that Pass Through Entities have more employees in Kansas (600,592 – 53.3%) than C Corporations (526,274 – 46.17%). While most pass through employment is either self-employment (33.6%), or at small firms between 1 and 100 employees (38.7%), in 2011 – 27.5% was at firms with more than 100 employees, and 15.9% was at firms with more than 500 employees. Exhibit 1

The Payroll of Pass Through Entities in Kansas in 2011 was \$13,321,261,000. In 1998, net pass through income was 829 Billion, overtaking C Corporation income (773 Billion) for the first time. This has remained the case in the period 2006-2011. Exhibit 1

High Income Individuals report the most Pass Through Business Income. According to IRS data, about 40% of all Pass Through Income is reported by less than 1% of tax payers earning One Million Dollars per year, or more. This is not consistent with a properly designed statute that purports to provide a 100% Kansas State Tax Exemption to an undefined category of “small businesses.” (See chart above)

Even worse than the terrible economic results of the current Kansas Tax Exemption statute – are the certain, more terrible economic results to come. The Number of Tax Exempt Entities almost doubled in three years. This increase in Tax Exempt Entities will continue with tens of thousands of Tax Filers dropping from the Kansas Tax Rolls each year.

The potential for even greater future devastation to Kansas State Finances increases every year. The Tax Exempt / Tax Free Status categories in Kansas are so numerous and so expansive, that most Kansas Filers can simply restructure their activities, and in the future, pay no Kansas State Income Tax.

Some Examples of the Tax Exemption

Ms. North is a single woman, head of household, and a Bookkeeper (employee) at Smith Construction, LLC. In 2015 she earned \$39,000. Her Kansas State Income Tax obligation is \$810.

Joe Smith is the sole owner of Smith Construction, LLC. His LLC has \$500,000 of taxable income in both 2012 and 2015. Joe has no significant income outside of his LLC. Joe

paid \$31,305 of Kansas Income Tax in 2012. In 2015, Joe paid “Zero” Kansas Income Tax, due to the subtraction of his LLC income.

Ms. Jones has a 1/8 mineral royalty interest in an oil well that produces 8 barrels of oil per day. Assume an oil price of \$50 per barrel in 2014. Ms. Jones would receive \$21,250 of mineral royalties and pay “Zero” Kansas Income Tax.

Mr. Law is an attorney and receives income of \$300,000 in 2015 in LLC distributions from his Law Firm. Mr. Law will pay “Zero” Kansas Income Tax.

Ms. Paralegal is an employee at the Law Firm of Mr. Law. She is married and the sole support for herself and her husband. Her compensation in 2015 was \$59,000. Ms. Paralegal will pay \$1,830 of Kansas State Income Tax.

Mr. Farmer earns Farm Income of \$105,000 in 2015 (the average in Kansas). Mr. Farmer will pay “Zero” Kansas State Income Tax in 2015.

Ms. Tech is brilliant, and her patent for search engines used by Google and Yahoo earned her patent royalty of \$3 Million per year in 2015. She will owe “Zero” Kansas State Income Tax in 2015.

Ms. Tech’s Financial Advisor is a sole proprietor, and earned \$200,000 per year in 2015. The Financial Advisor will pay “Zero” Kansas Income Tax in 2015.

Ms. Tech dines every evening at her favorite restaurant – Applebee’s in Overland Park. Assume the manager at Applebee’s is single and “head of household,” and earned \$49,000 in 2015. The manager owes Kansas State Income Tax of \$1,270 in 2015.

Mr. Longlife is a life insurance salesman. His wife, Landie, is a real estate agent. Together, they had an income of \$250,000 in 2015. They will pay “Zero” Kansas State Income Tax in 2015.

The Longlife’s daughter goes to public school in Kansas. Her teacher – Ms. Educator – had an annual adjusted gross income in 2015 of \$69,000. Ms. Educator will pay Kansas State Income Tax in 2015 in the amount of \$2,190.

**Employment Gains in Kansas Since the Tax Exemption
Have Been Non-Existent, Resulting in Hundreds of Millions of Dollars of
Lost Revenue, With No Benefit to the State of Kansas**

The Media Release of May 22, 012, stated in part:

“The new law cuts state income tax rates for all hard-working Kansans by 14 to 24 percent and eliminates state income taxes on more than 191,000 small business owners.”

...

“Today’s legislation will create tens of thousands of new jobs.”

...

“Dynamic projections show the new law will result in 22,900 new jobs, give \$2 billion more in disposable income to Kansans and increase population by 35,740 all in addition to the normal growth rate of the state.” (Emphasis added) Attachment A, hereto.

This statement as to employment has turned out to be materially incorrect.

Before the effective date of the Tax Exemption - Kansas experienced year over year, non-farm employment increases as follows:

2011 over 2010 – A gain of 11,100

2012 over 2011 – A gain of 18,100 (Attachment B, hereto)

The three year (2010, 2011, and 2012) annual average employment increase, before the effective date of the Tax Exemption, was 9,733.

In the three year period of 2013, 2014, 2015 in which the Tax Exemption has been in place, Kansas has an average annual increase in non-farm employment of 13,300. (Attachment B, hereto)

The quite negligible average annual increase in non-farm employment of 3,567 employees per year, since the effective date of the Tax Exemption, has cost the Kansas Treasury at least \$267,300,000 per year. This equates to foregone, per year, Kansas Taxes of \$74,936 per each new non-farm employee – that pays \$810 in Kansas State Income Taxes.¹⁰

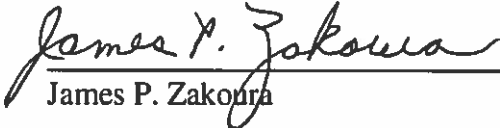
The amount of this “Give Away” of Kansas Tax Revenue is likely much greater, since the “average” Kansas Tax Payer in 2014 paid about \$1,500 per year in Kansas State Income Taxes.

¹⁰ (330,000 Exempt Tax Payers at \$810 per year – the amount of Kansas Income Tax payable on a \$30,000 per year adjusted gross income.)

CONCLUSION

The Tax Exemption / Tax Free Status granted to Kansas Tax Filers is highly discriminatory, ineffective, is far too expensive for any value received, and will become progressively a greater burden for the Kansas Treasury.

It should be promptly terminated.


James P. Zakoua

Media Releases

All news

Governor Brownback signs pro-growth tax legislation

Topeka — Joined by small business owners, state legislators, Governor's Council of Economic Advisors, Governor's Cabinet members and Lt. Gov. Jeff Colyer, M.D., Kansas Governor Sam Brownback signed one of the largest tax relief measures in Kansas history into law today at the Capitol in Topeka. The new law cuts state income tax rates for all hard-working Kansans by 14 to 24 percent and eliminates state income taxes on more than 191,000 small business owners.

Governor Brownback likened Senate Sub for House Bill 2117 to a shot of adrenaline into the heart of the Kansas economy.

"My faith is in the people of Kansas, not the government's ability to tax and redistribute. They know better how to spend their money and I believe they will do incredible things with it," Brownback said. "Today's legislation will create tens of thousands of new jobs and help make Kansas the best place in America to start and grow a small business. Now is the time to grow our economy, not state government, and that's what this tax cut will do."

Kansas Revenue Secretary Nick Jordan said the new law will leave \$1.1 billion in Kansans' pockets during the next two years to save, spend and invest.

"After the lost decade for jobs in Kansas, Governor Brownback has been incredibly focused on creating a pro-growth environment that will increase Kansas families' income and accelerate small business growth," Jordan said. "This focus has turned the budget deficit he inherited into a strong surplus, and, with historic tax relief now in place, Kansas is poised to lead America's economic recovery."

The law collapses the current three-bracket structure for individual state income taxes (3.5, 6.25 and 6.45 percent respectively) into a two-bracket system using rates of 3.0 and 4.9 percent. The business income exemption eliminates certain non-wage business income for small business owners (income reported by LLC's, Subchapter-S Corporations, and sole proprietorships on lines 12, 17, and 18 of federal form 1040).

The law also flattens the tax structure and increases the standard deduction amount for single head-of-household filers from \$4,500 to \$9,000, and for married taxpayers filing jointly from \$6,000 to \$9,000.

Dynamic projections show the new law will result in 22,900 new jobs, give \$2 billion more in disposable income to Kansans and increase population by 35,740, all in addition to the normal growth rate of the state.

Speaker of the House Mike O'Neal praised the new tax law.

"By reforming income taxes in Kansas, our state will start building a solid tax foundation that will create a strong economy for the years to come. We must continue down a path that brings prosperity to the residents of Kansas and HB 2117 will move our state toward a healthy and vibrant economy," Speaker O'Neal said.

Rep. Arlen Siegfried, the Majority Leader in the House, said the new tax plan paints a brighter future for the state.

"There's a reason surrounding states are racing to keep pace with Kansas in providing tax relief," Rep. Siegfried said. "They recognize this was a significant victory in a constant battle to attract jobs and grow our economy."

The chair of the House Taxation Committee, Rep. Richard Carlson, said Kansas is raising the bar on pro-growth tax policy.

"Kansas is embarking on and setting the threshold for the nation with a pro-growth, pro-jobs tax reform policy," Rep. Carlson said. "Lowering taxes on individuals and small businesses will jump start the private sector growth in Kansas, allowing Kansans to grow Kansas. We invite the nation's businesses to come grow with Kansas."

Others joining the Governor for the bill signing included legislators: Sen. Dennis Pyle, Reps. Joe Patton, Brett Hildabrand, and Terri Lois Gregory, Governor's Cabinet members: Labor Sec. Karin Brownlee, Commerce Sec. Pat George, K-DOT Sec. Mike King, Agriculture Sec. Dale Rodman, Corrections Sec. Ray Roberts, Aging Sec. Shawn Sullivan, SRS Sec. Phyllis Gilmore, Administration Sec. Dennis Taylor, David Murfin, Kansas Chamber Chairman & President of Murfin Drilling Company; Jason Watkins, Wichita Metro Chamber of Commerce, Derrick Sontag, Americans for Prosperity; Dave Trabert, Kansas Policy Institute, and members of the Governor's Council of Economic Advisors: Patti Bossert, President of Key Staffing; Alfred Botchway, PH D. President of Xenometrics, LLC, and Larry Sevier, CEO of NEX-Tech, Inc.

The bill, Senate Substitute for House Bill 2117, passed the Senate by a vote of 29-11 and the House by a vote of 64-59.

Attachment A



An Overview of Pass-through Businesses in the United States

January 21, 2015

By Kyle Pomerleau

Key Findings

- Pass-through business income is taxed on the business owners' tax returns through the individual income tax code.
- Pass-through business income faces marginal tax rates that exceed 50 percent in some U.S. states.
- Pass-through businesses face only one layer of tax on their profits compared to the double taxation faced by C corporations.
- The number of pass-through businesses has nearly tripled since 1980, while the number of traditional C corporations has declined.
- Pass-through businesses earn more net business income than C corporations.
- Pass-through businesses employed more than 50 percent of the private sector work force and accounted for 37 percent of total private sector payroll in 2011.
- Although pass-through businesses are smaller than C corporations on average, they are not all small businesses. Many people work for large pass-through companies.
- The majority of pass-through business income is taxed at top individual tax rates.
- Tax reform aimed at improving the competitiveness of U.S. businesses needs to address the individual income tax code due to the economic importance of pass-through businesses.

Introduction

One of the goals of tax reform is to improve the competitiveness of U.S. businesses and grow the economy. A promising way to do that is by lowering taxes on saving and investment through business tax reform. Much time is devoted to improving the corporate side of the tax code, but corporate-only business tax reform misses a significant portion of business activity.

The United States currently has a large number of pass-through businesses, or businesses that pay their taxes through the individual income tax code rather than through the corporate code. These sole proprietorships, S corporations, and partnerships make up the vast majority of businesses and more than 60 percent of net business income in America. In addition, pass-through businesses account for more than half of the private sector workforce and 37 percent of total private sector payroll. Pass-through businesses are represented in all industries in the United States.

Given that pass-through businesses are a significant part of the U.S. economy, tax reform should address the individual income tax code along with the corporate tax code.

What Are Pass-through Businesses?

Legal Form	Description
Sole Proprietorship	An unincorporated business owned by a single individual that reports its income on schedule C of the 1040 tax form.
Partnership	An unincorporated business with multiple owners, either individuals or other businesses.
Limited Liability Company (LLC)	A type of business that has limited liability like a traditional C corporation.
S Corporation	A domestic corporation that can only be owned by U.S. citizens (not other corporations or partnerships) and can only have up to 100 shareholders.

Sole proprietorships, S corporations, limited liability companies (LLCs), and partnerships are also known as pass-through businesses (Table 1). These entities are called pass-throughs, because the profits of these firms are passed directly through the business to the owners and are taxed on the owners' individual income tax returns.

This is in contrast with traditional C corporations, which pay tax at the entity level through the corporate income tax. Their owners (shareholders) then pay tax on this income again when they receive a dividend or sell their stock and realize a capital gain.

Another difference between pass-through businesses and traditional C corporations is that owners of pass-through businesses pay the full tax on their business's income every year as the business earns it. Contrast this with owners or shareholders of C corporations, who can defer the taxation on their share of corporate income as long as the corporation retains its earnings or if the shareholder does not realize a capital gain on his stock.

EXHIBIT 1

State	C Corporations		Pass-through Total		Sole Proprietorship		Partnership		S Corporations	
	Share	Employment	Share	Employment	Share	Employment	Share	Employment	Share	Employment
Alabama	44.66%	759,390	55.34%	941,143	19.86%	337,810	10.38%	176,477	25.10%	426,856
Alaska	40.87%	109,453	59.13%	158,359	22.64%	60,631	11.60%	31,054	24.90%	66,674
Arizona	47.42%	1,082,867	52.58%	1,200,610	17.43%	397,950	12.50%	285,528	22.65%	517,132
Arkansas	45.68%	470,789	54.32%	559,763	19.41%	200,025	10.43%	107,464	24.48%	252,274
California	44.79%	6,281,899	55.21%	7,743,121	22.55%	3,162,609	9.67%	1,356,736	22.99%	3,223,776
Colorado	43.28%	940,781	56.72%	1,233,139	18.54%	402,999	13.04%	283,389	25.15%	546,751
Connecticut	46.90%	670,857	53.10%	759,461	20.03%	286,557	14.79%	211,596	18.27%	261,308
Delaware	50.50%	183,955	49.50%	180,326	13.57%	49,425	13.63%	49,656	22.30%	81,245
District of Columbia	47.72%	167,067	52.28%	183,012	15.44%	54,037	21.26%	74,435	15.58%	54,540
Florida	43.30%	3,347,252	56.70%	4,382,664	19.28%	1,490,678	9.57%	739,885	27.84%	2,152,101
Georgia	46.21%	1,728,269	53.79%	2,011,755	20.61%	770,791	9.64%	360,372	23.55%	880,592
Hawaii	51.96%	262,206	48.04%	242,420	20.58%	103,853	10.32%	52,053	17.14%	86,514
Idaho	35.98%	192,506	64.02%	342,513	21.29%	113,916	15.06%	80,578	27.67%	148,019
Illinois	45.65%	2,381,740	54.35%	2,836,017	17.50%	912,902	9.85%	513,968	27.01%	1,409,147
Indiana	41.98%	1,036,757	58.02%	1,433,031	16.49%	407,276	11.75%	290,192	29.78%	735,563
Iowa	46.27%	570,868	53.73%	662,857	17.63%	217,458	8.79%	108,486	27.31%	336,913
Kansas	46.70%	526,274	53.30%	600,592	18.27%	205,836	10.72%	120,835	24.31%	273,921
Kentucky	44.34%	677,683	55.66%	850,549	19.90%	304,105	11.74%	179,351	24.02%	367,093
Louisiana	41.03%	712,283	58.97%	1,023,924	20.02%	347,506	15.05%	261,321	23.91%	415,097
Maine	37.64%	182,221	62.36%	301,958	24.41%	118,201	8.29%	40,159	29.66%	143,598
Maryland	43.75%	952,896	56.25%	1,225,339	20.13%	438,505	10.55%	229,728	25.58%	557,106
Massachusetts	47.52%	1,322,241	52.48%	1,460,544	18.21%	506,686	9.62%	267,801	24.65%	686,057
Michigan	43.80%	1,553,073	56.20%	1,992,942	19.41%	688,336	11.44%	405,675	25.35%	898,931
Minnesota	43.94%	1,012,541	56.06%	1,291,745	17.43%	401,737	8.43%	194,226	30.20%	695,782
Mississippi	44.65%	425,946	55.35%	528,010	22.49%	214,554	11.23%	107,121	21.63%	206,335
Missouri	46.72%	1,076,499	53.28%	1,227,605	18.39%	423,710	10.66%	245,567	24.23%	558,328
Montana	32.10%	113,952	67.90%	241,049	23.97%	85,091	11.13%	39,516	32.80%	116,442
Nebraska	44.02%	350,531	55.98%	445,817	16.58%	132,034	8.72%	69,434	30.68%	244,349
Nevada	46.82%	530,211	53.18%	602,201	17.00%	192,474	15.32%	173,438	20.87%	236,289
New Hampshire	44.65%	250,754	55.35%	310,874	20.67%	116,064	9.60%	53,901	25.09%	140,909
New Jersey	45.46%	1,617,960	54.54%	1,941,400	17.12%	609,281	13.66%	486,253	23.76%	845,866
New Mexico	41.31%	262,688	58.69%	373,147	20.85%	132,589	12.97%	82,499	24.86%	158,059
New York	40.69%	2,985,817	59.31%	4,351,881	21.13%	1,550,289	12.49%	916,635	25.69%	1,884,957
North Carolina	45.56%	1,576,409	54.44%	1,883,894	19.20%	664,216	9.47%	327,524	25.78%	892,154
North Dakota	39.54%	111,283	60.46%	170,176	18.77%	52,831	10.37%	29,201	31.32%	88,144
Ohio	46.43%	2,071,166	53.57%	2,389,484	17.68%	788,483	11.40%	508,487	24.49%	1,092,514
Oklahoma	42.23%	573,296	57.77%	784,340	20.33%	276,021	13.08%	177,594	24.36%	330,725
Oregon	42.03%	577,733	57.97%	796,751	19.97%	274,531	11.04%	151,715	26.96%	370,505
Pennsylvania	44.64%	2,150,826	55.36%	2,667,428	18.03%	868,870	10.54%	507,738	26.79%	1,290,820
Rhode Island	39.39%	152,988	60.61%	235,359	19.30%	74,945	8.40%	32,629	32.90%	127,785
South Carolina	45.77%	751,398	54.23%	890,332	19.01%	312,102	10.95%	179,753	24.27%	398,477

South Dakota	35.27%	111,142	64.73%	203,998	20.85%	65,698	11.28%	35,561	32.60%	102,739
Tennessee	48.72%	1,193,808	51.28%	1,256,432	22.21%	544,306	14.90%	364,991	14.17%	347,135
Texas	46.72%	4,715,695	53.28%	5,378,460	21.02%	2,121,668	14.54%	1,468,145	17.72%	1,788,647
Utah	42.84%	472,883	57.16%	630,968	15.39%	169,915	14.84%	163,839	26.93%	297,214
Vermont	36.88%	96,160	63.12%	164,610	26.69%	69,589	9.45%	24,653	26.98%	70,368
Virginia	48.01%	1,521,565	51.99%	1,647,972	16.81%	532,800	10.01%	317,146	25.18%	798,026
Washington	45.23%	1,087,939	54.77%	1,317,293	18.45%	443,831	10.73%	258,114	25.58%	615,348
West Virginia	48.80%	270,479	51.20%	283,815	19.43%	107,701	11.77%	65,268	20.00%	110,846
Wisconsin	44.03%	1,002,392	55.97%	1,274,178	16.53%	376,296	9.90%	225,355	29.54%	672,527
Wyoming	38.17%	86,542	61.83%	140,161	20.13%	45,631	13.22%	29,965	28.48%	64,565

Source: Author's calculations based on U.S. Census data.

Appendix Table 3. Payroll by Business Form and State, 2011

State	C Corporate Payroll		Pass-Through Payroll		Sole Proprietorship Payroll		Partnership Payroll		S Corporation Payroll	
	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount
Alabama	60.5%	\$32,007,619	39.5%	\$20,921,116	2.3%	\$1,242,116	9.35%	\$4,948,624	27.8%	\$14,730,376
Alaska	58.9%	\$6,837,634	41.1%	\$4,777,962	3.9%	\$450,529	10.87%	\$1,263,055	26.4%	\$3,064,378
Arizona	66.4%	\$50,723,125	33.6%	\$25,705,549	1.5%	\$1,138,622	10.18%	\$7,778,764	22.0%	\$16,788,163
Arkansas	65.0%	\$19,880,118	35.0%	\$10,727,277	1.8%	\$548,160	9.68%	\$2,962,057	23.6%	\$7,217,060
California	66.3%	\$391,528,884	33.7%	\$199,022,094	2.5%	\$14,631,666	9.64%	\$56,916,574	21.6%	\$127,473,854
Colorado	62.2%	\$51,740,233	37.8%	\$31,422,572	1.5%	\$1,285,006	11.89%	\$9,889,960	24.3%	\$20,247,606
Connecticut	65.0%	\$45,463,512	35.0%	\$24,480,045	2.6%	\$1,806,889	15.18%	\$10,618,564	17.2%	\$12,054,592
Delaware	63.1%	\$9,733,653	36.9%	\$5,699,143	1.4%	\$221,388	17.36%	\$2,679,297	18.1%	\$2,798,458
District of Columbia	56.5%	\$12,464,549	43.5%	\$9,595,380	2.9%	\$630,936	27.74%	\$6,119,752	12.9%	\$2,844,692
Florida	59.9%	\$142,247,165	40.1%	\$95,084,198	1.3%	\$3,105,904	10.41%	\$24,716,547	28.3%	\$67,261,747
Georgia	66.1%	\$83,965,206	33.9%	\$43,133,496	1.6%	\$1,976,450	9.93%	\$12,619,545	22.5%	\$28,537,501
Hawaii	68.3%	\$10,349,394	31.7%	\$4,807,095	3.6%	\$549,641	10.35%	\$1,568,729	17.7%	\$2,688,725
Idaho	52.5%	\$7,778,024	47.5%	\$7,026,080	2.2%	\$320,483	15.97%	\$2,364,049	29.3%	\$4,341,548
Illinois	62.0%	\$132,851,641	38.0%	\$81,256,813	2.1%	\$4,574,599	11.38%	\$24,375,339	24.4%	\$52,306,875
Indiana	57.4%	\$47,204,435	42.6%	\$35,090,766	2.1%	\$1,724,555	11.25%	\$9,255,257	29.3%	\$24,110,954
Iowa	63.3%	\$24,808,579	36.7%	\$14,408,835	2.2%	\$844,610	6.90%	\$2,704,843	27.7%	\$10,859,382
Kansas	65.0%	\$24,718,807	35.0%	\$13,321,261	2.2%	\$828,865	8.77%	\$3,336,798	24.1%	\$9,155,598
Kentucky	61.7%	\$28,913,905	38.3%	\$17,918,397	3.8%	\$1,788,935	10.67%	\$4,994,966	23.8%	\$11,134,496
Louisiana	55.6%	\$32,183,055	44.4%	\$25,695,038	2.3%	\$1,350,352	16.15%	\$9,344,547	25.9%	\$15,000,139
Maine	56.3%	\$7,762,347	43.7%	\$6,035,022	3.2%	\$438,128	7.41%	\$1,021,861	33.2%	\$4,575,033
Maryland	59.9%	\$51,226,319	40.1%	\$34,226,875	2.2%	\$1,913,324	9.98%	\$8,531,057	27.8%	\$23,782,494
Massachusetts	66.7%	\$89,890,293	33.3%	\$44,910,224	1.7%	\$2,327,184	9.78%	\$13,178,838	21.8%	\$29,404,202
Michigan	62.3%	\$78,744,124	37.7%	\$47,663,679	1.9%	\$2,449,317	10.78%	\$13,623,258	25.0%	\$31,591,104
Minnesota	63.8%	\$59,108,837	36.2%	\$33,589,449	1.9%	\$1,764,278	7.62%	\$7,059,076	26.7%	\$24,766,095
Mississippi	62.9%	\$15,818,019	37.1%	\$9,310,039	2.8%	\$698,193	10.93%	\$2,747,398	23.3%	\$5,864,448
Missouri	64.7%	\$50,397,113	35.3%	\$27,542,251	1.9%	\$1,486,279	9.51%	\$7,411,191	23.9%	\$18,644,781
Montana	51.2%	\$4,632,791	48.8%	\$4,423,065	2.9%	\$259,706	9.29%	\$841,740	36.7%	\$3,321,619
Nebraska	58.8%	\$15,008,653	41.2%	\$10,536,723	1.7%	\$443,661	6.90%	\$1,763,625	32.6%	\$8,329,437
Nevada	59.2%	\$21,750,823	40.8%	\$14,967,337	4.1%	\$1,497,066	14.65%	\$5,377,575	22.0%	\$8,092,696

The Honorable Sam Brownback
Governor
State of Kansas

Lana Gordon, Secretary
Kansas Department of Labor



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Attachment B

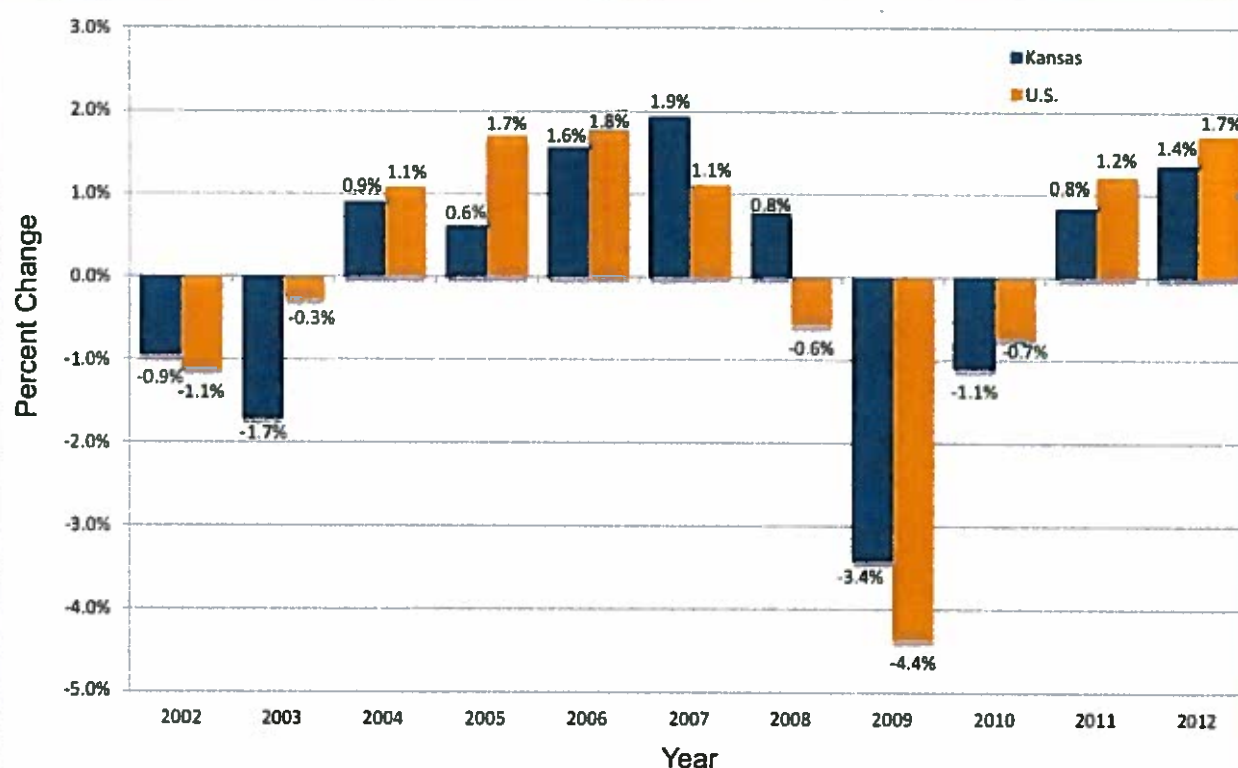
Statewide Summary

Employment

Non-farm employment is one of the most current indicators of the economy's health each month. As firms experience changes in demand for their goods and services, they adjust employment levels accordingly. Employment growth indicates a healthy labor market for an area's economy.

In 2012, Kansas experienced a 1.4 percent increase in non-farm employment, adding 18,100 jobs. This is the highest job growth Kansas has seen in the past five years. Nationally, non-farm employment increased by 1.7 percent, an improvement on the 1.2 percent increase in 2011 and the 0.7 percent decrease in 2010. This is also the highest non-farm job growth since 2007 in the U.S. *Figure 1* illustrates the annual change in non-farm employment beginning in 2002 in Kansas and the U.S.

Figure 1
Percent Change in Non-Farm Employment
Kansas and U.S.
2002 - 2012

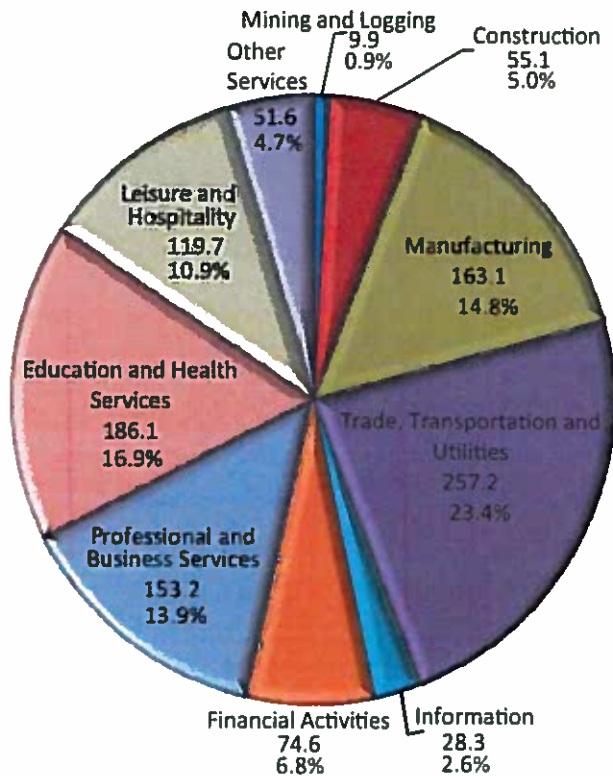


Source: Kansas Department of Labor, Labor Market Information Services in conjunction with the Bureau of Labor Statistics

Employment growth was seen in Kansas throughout most industries in 2012. The professional and business services industry experienced the largest increase in 2012, gaining 4,900 jobs. This growth was throughout the industry, led by a 2,600 job increase in administrative and waste services. The leisure and hospitality industry also experienced significant growth, adding 4,700 jobs. These gains were primarily in accommodation and food services, which added 3,200 jobs. Trade, transportation and utilities gained 2,300 jobs throughout the industry.

Statewide Summary

Figure 2
Private Sector Employment by Industry*
Kansas, 2012



*In Thousands (Percentages are rounded and may not equal exactly 100%)
Source: Kansas Department of Labor, Labor Market Information Services in conjunction with the Bureau of Labor Statistics

Two industries recorded employment declines, while employment in the other services industry remained unchanged. Declines continued for the information industry, with a loss of 300 jobs. However, this was an improvement from last year's decline of 2,000 jobs. Government recorded the largest decline for a second consecutive year, losing 900 jobs in 2012. Job gains in local government were offset by losses at the state and federal levels. *Figure 2* displays private sector employment by industry in 2012.

Table 1 shows that since January 2013, employment has continued to edge upward. A comparison of monthly non-farm employment from 2012 to 2013 reveals an over-the-year increase in every month. This increase is significant as an economic indicator because it eliminates the influence of many seasonal factors that are evident when making comparisons from month-to-month.

Although the Great Recession officially started in December 2007 and ended June 2009, Kansas reached its most recent peak in non-farm employment in May 2008. The lowest employment since May 2008 was recorded in January 2010. Since that month, Kansas has gained 82,100 jobs, a 6.3 percent gain. However, June 2013 employment remains 23,400 jobs, or 1.7 percent, lower than in May 2008. Nationally, the most recent peak in non-farm employment was in November 2007, with the lowest employment since then occurring in January 2010. From November 2007 to June 2013, employment in the U.S. has experienced a net loss of 1.7 percent, but is up 7.4 percent since the lowest point.

Table 1
Non-Farm Employment*, Kansas and U.S.
2002 - 2013

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Kansas	1,336.1	1,313.2	1,325.0	1,333.1	1,353.9	1,380.1	1,390.8	1,343.3	1,328.6	1,339.7	1,357.8
U.S.	130,450	130,100	131,509	133,747	136,125	137,645	136,852	130,876	129,917	131,497	133,739
2013											
	January	February	March	April	May	June**					
Kansas	1,347.8	1,358.2	1,362.0	1,371.5	1,380.6	1,382.6					
U.S.	132,704	133,752	134,570	135,513	136,383	136,777					

*In Thousands

Source: Kansas Department of Labor, Labor Market Information Services in conjunction with the Bureau of Labor Statistics

**Preliminary

Kansas Monthly Labor Review
2016 Seasonally Adjusted
Nonfarm Wage and Salary Employment -- Place of Work Data (in thousands)

	January 2016	December 2015	January 2015	Month Change		Year Change	
				Absolute	Percent	Absolute	Percent
TOTAL NONFARM	1,397.7	1,401.7	1,396.3	-4.0	-0.3%	1.4	0.1%
TOTAL PRIVATE	1,142.1	1,145.8	1,139.3	-3.7	-0.3%	2.8	0.2%
GOODS-PRODUCING	229.2	232.1	230.4	-2.9	-1.2%	-1.2	-0.5%
Mining and Logging	7.9	8.1	10.0	-0.2	-2.5%	-2.1	-21.0%
Construction	58.9	61.8	60.2	-2.9	-4.7%	-1.3	-2.2%
Manufacturing	162.4	162.2	160.2	0.2	0.1%	2.2	1.4%
Durable Goods	98.9	97.8	96.5	1.1	1.1%	2.4	2.5%
Non-Durable Goods	63.5	64.4	63.7	-0.9	-1.4%	-0.2	-0.3%
SERVICE-PROVIDING	1,168.5	1,169.6	1,165.9	-1.1	-0.1%	2.6	0.2%
PRIVATE SERVICE-PROVIDING	912.9	913.7	908.9	-0.8	-0.1%	4.0	0.4%
Trade, Transportation and Utilities	264.1	266.6	264.1	-2.5	-0.9%	0.0	0.0%
Wholesale Trade	60.2	60.5	60.1	-0.3	-0.5%	0.1	0.2%
Retail Trade	148.1	147.6	147.4	0.5	0.3%	0.7	0.5%
Transportation, Warehousing & Utilities	55.8	58.5	56.6	-2.7	-4.6%	-0.8	-1.4%
Information	20.2	20.4	21.3	-0.2	-1.0%	-1.1	-5.2%
Financial Activities	80.2	79.3	79.0	0.9	1.1%	1.2	1.5%
Finance and Insurance	64.9	64.3	64.0	0.6	0.9%	0.9	1.4%
Real Estate and Renting & Leasing	15.3	15.0	15.0	0.3	2.0%	0.3	2.0%
Professional and Business Services	177.1	177.0	178.3	0.1	0.1%	-1.2	-0.7%
Professional, Scientific & Technical Svcs	68.3	68.1	69.9	0.2	0.3%	-1.6	-2.3%
Mgmt of Companies & Enterprises	27.4	27.5	27.5	-0.1	-0.4%	-0.1	-0.4%
Admn & Sup. Waste Mgmt and Rem. Svcs	81.4	81.4	80.9	0.0	0.0%	0.5	0.6%
Education and Health Services	194.7	195.0	192.7	-0.3	-0.2%	2.0	1.0%
Health Care and Social Assistance	176.1	176.0	173.6	0.1	0.1%	2.5	1.4%
Leisure and Hospitality	127.9	127.5	125.5	0.4	0.3%	2.4	1.9%
Arts, Entertainment and Recreation	16.8	16.6	16.1	0.2	1.2%	0.7	4.3%
Accommodation & Food Services	111.1	110.9	109.4	0.2	0.2%	1.7	1.6%
Other Services	48.7	47.9	48.0	0.8	1.7%	0.7	1.5%
GOVERNMENT	255.6	255.9	257.0	-0.3	-0.1%	-1.4	-0.5%
State	51.1	51.4	51.4	-0.3	-0.6%	-0.3	-0.6%
Local	179.8	179.6	180.7	0.2	0.1%	-0.9	-0.5%