House Committee on Taxation
Testimony in Support of House Bill 2186
Presented by Eric Stafford, Vice President of Government Affairs

Tuesday, February 16, 2021

Mister Chairman and members of the committee, my name is Eric Stafford, Vice President of Government Affairs for the Kansas Chamber. The Kansas Chamber represents small, medium and large businesses of all industry segments across the state. The Kansas Chamber appreciates the opportunity to testify in support of House Bill 2186, a bill that would grant taxpayers the option to use what's known as a single-factor apportionment method when determining their corporate income tax liability.

Today, Kansas is one of only six states (including Alaska, Hawaii, Montana, North Dakota, and Oklahoma) that uses an evenly weighted three-factor apportionment method. The formula weighs a company's payroll, property and sales in the state to calculate the amount of income attributable to Kansas income tax. Because Kansas includes payroll and property in the apportionment calculation of the corporate income tax, taxpayers are disadvantaged with higher taxes for every dollar of capital investment made in the state and for every new employee hired in Kansas.

Companies with capital intensive operations, such as manufacturing, will incur a significantly higher tax burden in Kansas compared to the 40 states that have adopted a single-factor approach that only focuses on sales, or a three-factor approach with a heavily weighted sales factor.

In the last decade, many states have adopted the single-factor approach to encourage and incentivize capital investment in their state. I have included a breakdown of state apportionment methods on the next page.

In late 2019, we launched our Vision 2025 program to focus on the lagging economic growth experienced in Kansas over the past few decades. We must create a climate that encourages the economic development and investment by private industry that our state has lacked over that time. HB 2186 came to us as a recommendation from our members during our fall working groups as we prepared our 2021 legislative agenda. This policy recommendation was approved by our board at our December meeting.

Our membership is not unanimous on this proposal at this time. Not every taxpayer wants to use the single-factor approach, and therefore, this bill is crafted to make it the election of the taxpayer. In order to keep the fiscal note down, we sought feedback from our members and drafted the bill to apply to specific NAICS code companies who prefer the single sales approach.

That said, we did receive additional feedback after the bill was submitted to the revisor for drafting and we would offer for consideration adding two more codes based on member feedback.

- **NAICS code 541690** - Other Scientific and Technical Consulting Services for biofuel facility, and
- **NAICS code 112210** - "hog farming" under "certain agricultural activities" for hog production facilities.

In closing, we would ask for your support of House Bill 2186 as a proposal that would encourage capital investment in the state. I am happy to answer questions at the appropriate time.

State Primary Apportionment Factors for tax year 2020

Three-Factor (6)	50% Sales (8)	>50% Sales Factor (3)	Single Sales (29)
Alaska	Alabama	Delaware	Arizona*
Hawaii	Arkansas	Maryland	California
Kansas	Florida	Tennessee	Colorado
Montana	Idaho		Connecticut
North Dakota*	New Hampshire		Georgia
Oklahoma	Vermont		Illinois
	Virginia*		Indiana
	West Virginia		Iowa
			Kentucky
			Louisiana
			Maine
			Massachusetts*
			Michigan
			Minnesota
			Mississippi
			Missouri
			Nebraska
			New Jersey
			New Mexico
			New York
			North Carolina
			Oregon
			Pennsylvania
			Rhode Island
			South Carolina
			Texas**
			Wisconsin
			District of Columbia

*State offers alternative apportionment factors as well, either as an optional election or as a requirement for select industries.
**Texas' Margin tax, a gross receipts tax, uses single factor apportionment. Gross receipts taxes in other states do not follow corporate apportionment formulae.
Source: Federation of Tax Administrators