



K A N S A S

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Update to Analysis of Kansas Corporate Income Tax Dated October 14, 2004 To Reflect Tax Year 2003

The Analysis dated October 14, 2004 focused on the Kansas corporate income tax during tax years 2000, 2001 and 2002 and the impact of the 4 largest business income tax credit incentive programs on corporate income tax receipts, in an effort to determine how the corporate income tax burden falls within various industry sectors. Provided below are updates to Tables 2 and 3 of the Analysis, to reflect the addition of tax year 2003 data. Also, the discussion of the Top 20 claimants of the Business and Job Development income tax credit is updated for tax year 2003 data.

Corporate Income Tax Burden

In updating the Analysis dated October 14, 2004, tax returns from a sample of the largest 244 corporate taxpayers for tax year 2003 were reviewed in order to determine how much impact the business tax credit programs (Business & Job Development, High Performance Incentive Program, Research & Development, Business Machinery & Equipment) have on the corporate income tax burden. These corporations accounted for approximately 82% of the corporate income tax base for tax year 2003. The North American Industry Classification System (NAICS) code, Kansas taxable income, Kansas corporate income tax liability before credits, credits claimed, and the net tax receipts after credits for tax year 2003 for each of these corporations were captured in the database.

The update to Table 2 (attached) summarizes the results by NAICS code categories (using the first 2 digits of the NAICS code) for tax year 2003. The number of corporations included in each NAICS code category is shown in parenthesis in the first column.

Consistent with the Table 2 in the prior Analysis, the Update to Table 2 continues to show wide disparity between the various industry sectors in the proportion of tax liability that is reduced or eliminated by tax credits from participation in business incentive tax credit programs. The "payment percentage" column shown on the attached Update to Table 2 reflects the percent of tax liability (measured before credits are taken) actually paid after credits were applied to reduce tax liability. Manufacturers continue to experience a low tax payment percentage rate, 54.35% for tax year 2003, although higher than the 45.60% tax payment percentage rate for tax years 2000 through 2002. The retail trade sector, now by far the largest in generating total tax liability before credits, as well as in the amount of net taxes paid (tax paid after credits are taken), had a much higher tax payment percentage rate of 87.21% for tax year 2003, and the wholesale trade sector an even higher percentage, 94.61%.

While the Analysis dated October 14, 2004 (see Charts 2 and 3 of that document) indicated that manufacturers represented the largest portion of Kansas tax liability before credits (and Kansas taxable income) in the sample during tax years 2000 through 2002, the tax year 2003 data shows that retail trade represents the largest portion of Kansas taxable income, Kansas income tax liability generated before credits are taken, and net taxes paid after credits are taken.

Within the sample of 244 corporations, the group of top 20 corporations that claimed the most B&J credits during tax year 2003 were identified. Corporations in this group were divided into 2 broad categories by NAICS code: manufacturing/transportation/warehousing and retail/wholesale/other. The effective tax rate for each corporation was computed, as well as the average effective tax rate for each of the two categories. The results are shown below.

Top 20 B & J Credit Claimants

Tax Year 2003

6 in Manufacturing/Transportation/Warehousing	14 in Retail/Wholesale/Other
Total Taxable Income: \$40.96 million	Total Taxable Income: \$247.77 million
Total Net Tax: \$1.742 million	Total Net Tax: \$15.69 million
Ave. Effective Tax Rate: 4.2%	Ave. Effective Tax Rate: 6.3%
Range: -.58% to 7.78%	Range: 3.51% to 6.59%

The results continue to show a significant disparity between the average effective tax rate paid by the manufacturing/transportation/warehousing category vs. the retail/wholesale/other category. There is also wide disparity in effective tax rates paid by individual corporations within the manufacturing/transportation/warehousing category. For example, in tax year 2003, the 6 corporations in the manufacturing/transportation/warehousing category had an average effective tax rate of 4.2% (compared to a lower effective tax rate of 2.1% for tax years 2000 through 2002), although within that category, the effective tax rate ranged from -.58% to 7.78%. Of the corporations in the retail/wholesale/other category in tax year 2003, the average effective tax rate was 6.3%, although within that category, the effective tax rate ranged from 3.51% to 6.59%, a much smaller variance.

The Update to Table 3 (attached) compares the manufacturing firms and retail firms within the group of corporations included in the "top 20" in B & J credit claimants during tax years 2000 through 2003 (a sample size of 78 corporations). The amount of tax liability (measured before credits are taken), credits and net receipts (tax paid after credits were taken) for all four tax years for manufacturing and retail firms in the group are listed. Of the 78 corporations in the group, 17 were manufacturing corporations and 18 were retail trade corporations. The "total" row at the bottom sums the information not only for these 17 manufacturers and 18 retailers, but also the rest of the 78 corporations in the group.

The Update to Table 3 shows that manufacturing firms continue to succeed in offsetting much of their tax liability with credits, owing only 24% of the amount of their tax liability measured before credits were applied, while retailers offset a much smaller portion of their tax liability, still owing about 81% of the amount their tax liability measured before credits. The average payment percentage for all 78 corporations in this group of largest B&J credit claimants is about 57%.

Updated Conclusions

Many of the conclusions in the Analysis dated October 14, 2004 remain valid for the tax year 2003 corporate income tax data sample: manufacturers continue to utilize the business tax credit incentive programs heavily and have claimed the largest amounts of the credits. Because tax credits are used to lower tax burden, the effective tax rates continue to vary greatly within industry groups of all types. Generally, the manufacturing sector bears a smaller share of the corporate income tax burden than other sectors of the economy, compared to the taxable income generated by those sectors.

The tax year 2003 data sample reveals one important change: the retail sector has now become the most dominant portion of the corporate income tax base, generating the largest amount of Kansas taxable income and contributing the largest portion of the corporate income tax receipts. In tax years 2000, 2001 and 2002, the manufacturing sector generated the largest amount of Kansas taxable income (but not corporate income tax receipts). The retail sector has benefited less than the manufacturing sector from the tax credit programs. The retail sector typically bears a higher share of the corporate income tax burden, and pays higher effective tax rates.

Update to Table 2: Tax and Credits Statistics by Industry from a sample of 244 Corporations for Tax year 2003.

Industry (# of corporations)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	CIME Credit	Total Ref. Credits	Net Receipts	Payment %
Agriculture, Mining and Utilities (10)	\$12,487,012	\$544,410	\$0	\$0	\$544,410	\$219,237	\$0	\$11,723,364	93.88%
Construction (6)	\$666,750	\$0	\$0	\$0	\$0	\$15,329	\$16,256	\$635,165	95.26%
Manufacturing (39)	\$20,412,158	\$7,894,827	\$613,466	\$283,740	\$6,897,871	\$1,378,092	\$46,100	\$11,093,139	54.35%
Wholesale Trade (51)	\$16,840,931	\$135,443	\$96,000	\$39,443	\$0	\$771,757	\$0	\$15,933,731	94.61%
Retail Trade (44)	\$30,064,738	\$3,170,582	\$2,493,213	\$12,165	\$665,204	\$673,794	\$0	\$26,220,362	87.21%
Information (12)	\$7,102,178	\$243,117	\$900	\$0	\$0	\$390,130	\$19,952	\$6,448,979	90.80%
Finance and Insurance (24)	\$6,874,239	\$0	\$0	\$0	\$0	\$17,780	\$0	\$6,856,459	99.74%
Real Estate and Rental and Leasing (5)	\$979,887	\$0	\$0	\$0	\$0	\$1,194	\$0	\$978,693	99.88%
Professional and Technical Services (17)	\$4,715,392	\$124,700	\$99,700	\$0	\$0	\$59,258	\$0	\$4,531,434	96.10%
Management of Companies and Enterprises (11)	\$6,246,353	\$0	\$0	\$0	\$0	\$234,429	\$0	\$6,011,924	96.25%
Health Care and Social Assistance (6)	\$1,372,700	\$0	\$0	\$0	\$0	\$19,756	\$0	\$1,352,944	98.56%
Accommodation and Food Services (7)	\$2,086,084	\$295,116	\$222,956	\$0	\$0	\$67,261	\$0	\$1,723,707	82.63%
Other Services (12)	\$6,099,645	\$590,426	\$379,484	\$0	\$188,946	\$287,194	\$0	\$5,222,025	85.61%
Total All Industries (244)	\$115,948,066	\$12,998,621	\$3,905,719	\$335,348	\$8,296,431	\$4,135,211	\$82,308	\$98,731,927	85.15%

Other services includes: Administrative and Waste Service, Educational Services, Arts, Entertainment and Recreation, Transportation and Warehousing, and other service sectors not specified by the current codes

Update to Table 3. Summary information for the corporations that claimed most B&J Credits from TY 2000 to 2003

Sector (# of sample)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	BM&E	Total Ref. Credits	Net Receipts	Payment %
Manufacturing (17)	\$45,169,004	\$30,137,026	\$15,507,797	\$6,140,317	\$8,400,818	\$3,830,802	\$298,675	\$10,902,501	24.14%
retail Trade (18)	\$41,517,023	\$7,125,540	\$7,125,540	\$0	\$0	\$605,059	\$0	\$33,786,424	81.38%
Total (78)	\$125,095,156	\$46,969,073	\$30,689,223	\$6,694,224	\$9,387,536	\$5,917,080	\$359,019	\$71,242,175	56.95%