



# K A N S A S

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## Analysis of Kansas Corporate Income Tax 2000-2002

This Analysis 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. It also examined employment data concerning the largest tax credit claimants, in order to determine whether any correlation exists between improved employment performance and tax credits, in comparison to employment data for the Kansas economy as a whole during 2000 to 2003. The 2001 recession and aftermath of 9/11 dominated this time period. The Analysis did not consider other taxes, such as individual income, sales or property tax, or other business tax incentive programs, such as STAR bonds, local property tax exemptions, or the enterprise zone sales tax exemption.

### Historical Background

The Kansas corporate income tax has been in place since 1933, initially at a rate of 2% of Kansas taxable income. The rate has been increased several times over the years, and was last raised in 1992, when the current rate structure was adopted: the 4% rate on Kansas taxable income, with a surtax of 3.35% on Kansas taxable income above \$50,000. This 7.35% marginal rate on Kansas taxable income above \$50,000 is typical of rates in many states, but higher than the corporate income tax rates in three neighboring states, including: Colorado (4.63%); Missouri (6.25%); and Oklahoma (6%). It is lower than the corporate income tax rate in Nebraska (5.58% on first \$50,000; 7.81% marginal on income above \$50,000).

Most states impose some type of corporate income tax. Only Nevada, South Dakota, Washington, and Wyoming do not (although Washington imposes a "business and occupations" tax).

### Recent History of Corporate Income Tax Receipts

Annual Kansas corporate income tax receipts (by fiscal year) since 1981 are shown below:

Fiscal Year	Amount Collected	Percent Change
1981	\$161,967,709	
1982	\$146,823,052	-9.4%
1983	\$122,831,287	-16.3%
1984	\$120,993,044	-1.5%

1985	\$141,957,298	17.3%
1986	\$135,818,461	-4.3%
1987	\$104,632,665	-23.0%
1988	\$171,437,706	63.8%
1989	\$172,927,488	0.9%
1990	\$167,600,876	-3.1%
1991	\$185,319,680	10.6%
1992	\$169,118,247	-8.7%
1993	\$169,118,153	0.0%
1994	\$211,953,103	25.3%
1995	\$229,421,376	8.2%
1996	\$218,586,552	-4.7%
1997	\$263,573,332	20.6%
1998	\$281,651,300	6.9%
1999	\$227,369,923	-19.3%
2000	\$250,122,826	10.0%
2001	\$211,906,919	-15.3%
2002	\$93,958,484	-55.7%
2003	\$105,222,316	12.0%
2004	\$141,173,000	34.2%

Although the bottom fell out of corporate income tax receipts in FY 2002, the recent trend is encouraging. FY 2004 corporate income tax receipts exceeded the April 2004 Consensus Revenue Estimate (\$125 million) by 12.9% and were 34.2% above the prior year's receipts. Thus far in FY 2005, corporate income tax receipts of \$52.9 million through the end of September are 62.8% above the April 2004 Consensus Revenue Estimate and 45.9% above actual corporate income tax receipts for this same time period last year.

Despite the recent upturn, the long term trend for corporate income tax receipts reflects significant shrinkage of the tax base—even though tax rates have remained unchanged since 1992. Receipts for FY 2004 are below receipts for FY 1981 and are barely half of the receipts for the peak year, FY 1998.

Corporate income tax receipts account for a much smaller portion of total state taxes collected by the department and deposited in the state general fund than they did even a decade ago. For FY 1991, corporate income tax receipts accounted for 8.4% of the total state taxes collected by the department and deposited in the state general fund. For FY 2003, corporate income tax receipts accounted for only 2.6% of total state taxes collected by the department and deposited in the state general fund.

The pie graphs at Chart 1 (attached) (comparing state and local tax revenue by source for FY 1998 to the same for FY 2003) show that income (individual and corporate) and privilege taxes have become a smaller portion of total state and local tax base in recent years. For FY 2003, property and vehicle taxes accounted for 34.7 percent of state and local tax revenues; sales and use taxes, 27.8 percent, and income and privilege taxes, 21.8 percent. As noted in 2003 Supplement to Kansas Tax Facts:

The relative balance in the big three sources of state and local tax revenue—sales, income, and property—that Kansas had achieved for a number of years after the 1992 school finance law appears to be eroding. . . . As recently as

FY 1998, the figures were much more closely balanced: 30.9 percent for property and vehicles; 28.1 percent for sales and use; and 28.0 percent for income and privilege.

Economists generally believe that with a diversified revenue portfolio not relying too heavily on a single source, Kansas state and local governments are better able to withstand economic downturns.

### Distribution of Corporate Income Taxpayers

The department receives approximately 25,000 to 30,000 corporate income tax returns per year. Most of those returns reflect zero tax liability. The largest 200 corporations account for almost three-fourths of the corporate income tax revenue, as shown below (statistics taken from the department's Annual Reports for FY 2001, FY 2002 and 2003). As shown below, this distribution pattern has remained fairly consistent over many years.

#### Corporate Income Tax Liability By Taxable Income Bracket

##### Tax Year 2001 Returns Filed In Calendar Year 2002

Taxable Income Brackets	Number Returns	Percent of Total Returns	Tax Liability	Percent of Total Liability
No Taxable Income	13,975	60.3%	\$ 0	0.0%
\$0 - \$75,000	7,834	33.8%	\$ 6,051,308	8.7%
\$75,000.01 - \$100,000	371	1.6%	\$ 1,704,346	2.4%
\$100,000.01 - \$500,000	743	3.2%	\$ 9,917,859	14.3%
\$500,000.01 - \$1,000,000	112	0.5%	\$ 5,475,153	7.9%
\$1,000,000.01 - Over	<u>125</u>	<u>0.5%</u>	<u>\$46,438,219</u>	<u>66.7%</u>
Total	23,160	100.0%	\$69,586,885	100.0%

##### Tax Year 2000 Returns Filed In Calendar Year 2001

Taxable Income Brackets	Number Returns	Percent of Total Returns	Tax Liability	Percent of Total Liability
No Taxable Income	18,025	60.4%	\$ 0	0.0%
\$0 - \$75,000	9,550	32.0%	\$ 7,437,981	4.3%
\$75,000.01 - \$100,000	466	1.6%	\$ 2,162,361	1.2%
\$100,000.01 - \$500,000	1,226	4.1%	\$ 17,989,315	10.3%
\$500,000.01 - \$1,000,000	230	0.8%	\$ 11,676,780	6.7%
\$1,000,000.01 - Over	<u>329</u>	<u>1.1%</u>	<u>\$135,700,416</u>	<u>77.6%</u>
Total	29,826	100.0%	\$174,700,416	100.0%

##### Tax Year 1989 Returns Filed in Calendar Year 1990

Taxable Income Brackets	Number Returns	Percent of Total Returns	Tax Liability	Percent of Total Liability
No Taxable Income	20,022	58.3%	\$ 0	0.0%
\$0 - \$25,000	8,219	25.2%	\$ 2,775,067	2.2%
\$25,000.01 - \$50,000	2,036	6.3%	\$ 3,834,025	3.1%
\$50,000.01 - \$75,000	1,097	3.1%	\$ 3,880,877	2.9%
\$75,000.01 - \$100,000	561	1.7%	\$ 2,929,035	2.4%
\$100,000.01 - \$500,000	1,178	3.8%	\$ 16,367,577	13.6%
\$500,000.01 - Over	<u>468</u>	<u>1.5%</u>	<u>\$ 93,003,841</u>	<u>75.8%</u>
Total	33,581	100.0%	\$ 122,790,422	100.0%

## Corporate Income Tax Credits

"Both tax exemptions and tax-deductibility are a form of subsidy that is administered through the tax system. A tax exemption has much the same effect as a cash grant to the organization of the amount of tax it would have to pay on its income. Deductible contributions are similar to cash grants of the amount of a portion of the individual's contributions." *Regan v. Taxation With Representation of Washington*, 461 U.S. 540, 544 (1983). Tax credits, like exemptions and deductions, are also a form of subsidy. During the 1990's, several business-oriented tax credit programs were either expanded or created, the most significant in size being the business and job development (B&J) credit, high performance incentive program (HPIP) credit, research and development (R&D) credit, and business machinery and equipment property tax (B M&E) credit. The first three tax credits listed are non-refundable (i.e., the taxpayer must have sufficient tax liability to offset the credit claim), and the last, the business machinery and equipment property tax credit, is refundable—even when there is no tax liability. Non-refundable credits exceeding the taxpayer's liability can be carried forward and claimed in future years, subject to certain constraints and time limits. The tax credit programs are described in Appendix A.

These credit programs were designed to favor capital-intensive, higher wage-paying businesses, such as manufacturers. Corporations availing themselves of these credits must make significant capital investments, hire additional employees, pay higher wages, or all of the above.

Table 1 shows that total corporate credit claims for the largest 4 tax credit programs have increased dramatically in recent years. It provides data on the amount of and number of corporate taxpayers claiming the B&J credit, HPIP credit, R&D credit, and B M&E credit claimed from process year (calendar year during which the return was processed, which is generally the calendar year following the tax year of the return) 1994 through process year 2002. The total credits allowed increased from \$18.5 million in process year 1997 to \$54.1 million in process year 2002. Corporate income tax receipts declined significantly during much of this time period.

Table 1

<b>HPIP TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS</b>		
<b>HPIP</b>	<b>Filers</b>	<b>Credit Allowed</b>
PY 1994	*confidential	
PY 1995	5	\$163,733
PY 1996	6	\$345,755
PY 1997	12	\$884,455
PY 1998	13	\$2,919,924
PY 1999	20	\$4,814,076
PY 2000	29	\$11,019,194
PY 2001	33	\$10,770,156
PY 2002	39	\$20,297,734
<b>Total</b>	<b>157</b>	<b>\$51,215,027</b>

<b>BUSINESS &amp; JOB DEVELOPMENT TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS</b>		
<b>B&amp;J</b>	<b>Filers</b>	<b>Credit Allowed</b>
PY 1994	392	\$9,737,422
PY 1995	515	\$9,972,855
PY 1996	619	\$11,910,471
PY 1997	633	\$16,384,465
PY 1998	630	\$24,981,586
PY 1999	508	\$14,757,102
PY 2000	404	\$11,261,171
PY 2001	392	\$13,286,971
PY 2002	329	\$14,076,006
<b>Total</b>	<b>4,422</b>	<b>\$126,368,049</b>

<b>BUSINESS MACHINERY &amp; EQUIPMENT TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS</b>		
<b>M&amp;E</b>	<b>Filers</b>	<b>Credit Allowed</b>
PY 1994		
PY 1995		
PY 1996		
PY 1997		
PY 1998		
PY 1999	2,509	\$3,784,307
PY 2000	3,486	\$10,453,217
PY 2001	4,156	\$14,464,830
PY 2002	4,450	\$18,771,538
<b>Total</b>	<b>14,601</b>	<b>\$47,473,892</b>

<b>RESEARCH &amp; DEVELOPMENT TAX CREDIT CLAIMED BY CORPORATE INCOME TAX FILERS</b>		
<b>R&amp;D</b>	<b>Filers</b>	<b>Credit Allowed</b>
PY 1994	61	\$3,199,219
PY 1995	68	\$704,701
PY 1996	58	\$846,025
PY 1997	57	\$1,243,004
PY 1998	58	\$2,428,084
PY 1999	52	\$1,354,640
PY 2000	48	\$1,061,975
PY 2001	47	\$3,597,764
PY 2002	59	\$997,203
<b>Total</b>	<b>508</b>	<b>\$15,432,615</b>

**TOTAL CREDIT ALLOWED - CORPORATE INCOME TAX FILERS**

	<b>HPIP</b>	<b>B&amp;J</b>	<b>M&amp;E</b>	<b>R&amp;D</b>	<b>Total</b>
PY 1994	*confidential	\$9,737,422		\$3,199,219	12,936,641
PY 1995	\$163,733	\$9,972,855		\$704,701	10,841,289
PY 1996	\$345,755	\$11,910,471		\$846,025	13,102,251
PY 1997	\$884,455	\$16,384,465		\$1,243,004	18,511,924
PY 1998	\$2,919,924	\$24,981,586		\$2,428,084	30,329,594
PY 1999	\$4,814,076	\$14,757,102	\$3,784,307	\$1,354,640	24,710,125
PY 2000	\$11,019,194	\$11,261,171	\$10,453,217	\$1,061,975	33,795,557
PY 2001	\$10,770,156	\$13,286,971	\$14,464,830	\$3,597,764	42,119,721
PY 2002	\$20,297,734	\$14,076,006	\$18,771,538	\$997,203	54,142,481
<b>Total</b>	<b>51,215,027</b>	<b>\$126,368,049</b>	<b>47,473,892</b>	<b>\$15,432,615</b>	<b>240,489,583</b>

The B M&E credit, the only refundable credit of the 4 credit programs, has a large number of corporate claimants: 4,450 corporate claimants in process year 2002, with \$18.8 million in B M&E credits allowed during process year 2002. The B M&E credit is not the largest corporate tax credit program. In process year 2002, \$20.3 million in HPIP credits were allowed to 39 corporations. Of the 4 credit programs, HPIP, the largest monetarily, was claimed by the smallest number of corporate taxpayers. The B&J credit was claimed by 329 corporations, and the R&D credit was claimed by 59 corporations in process year 2002. Depending on the circumstances, a corporation may claim several, if not all 4 of these credits in one tax year.

### Corporate Income Tax Burden

In order to determine how much impact these tax credit programs have on the corporate income tax burden, the department reviewed corporate income tax returns for tax years 2000, 2001 and 2002 and developed a sample database containing taxpayer information extracted from actual returns of corporations. Corporations in the top 100 in Kansas income tax liability (measured before credits are applied) in each of those three tax years were included. Based on information received from the Department of Commerce, corporations among the top 100 employers in Kansas (based on number of employees) were also included in the database. The total amount of companies included in the sample was 250. These large corporations account for approximately three-fourths of the corporate income tax base. 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 years 2000, 2001 and 2002 for each of these corporations were captured in the database.

Table 2 summarizes the results by NAICS code categories (using the first 2 digits of the NAICS code). The number of corporations included in each NAICS code category is shown in parenthesis in the first column. According to NAICS, the manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances or components into new products. The retail trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.

Table 2. Tax and credits Statistics by Industry from a Sample of Top 200 Corporations from Tax Year 2000 to Tax Year 2002.

Industry (# of corporations)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	Property Tax Refund	Total Other Ref Credits	Net Receipts	Payment Percentage
Mining (8)	\$18,112,767	\$11,000	\$0	\$0	\$0	\$132,917	\$0	\$17,968,850	99.21%
Utilities (5)	\$11,067,425	\$287,225	\$0	\$0	\$231,725	\$12,588	\$46,024	\$10,721,588	96.88%
Manufacturing (58)	\$106,017,045	\$43,477,139	\$15,534,381	\$6,426,435	\$22,151,467	\$13,460,663	\$732,800	\$48,346,443	45.60%
Wholesale Trade (44)	\$42,696,065	\$5,275,178	\$4,279,126	\$627,929	\$265,623	\$2,152,127	\$76,065	\$35,192,695	82.43%
Retail Trade (40)	\$67,150,276	\$9,121,169	\$5,076,413	\$0	\$1,334,017	\$2,513,120	\$189,306	\$55,326,681	82.39%
Transportation and Warehousing (7)	\$16,799,674	\$1,102,070	\$841,938	\$0	\$224,632	\$1,551,930	\$81,250	\$14,064,423	83.72%
Information (16)	\$30,981,962	\$1,117,749	\$545,699	\$61,548	\$500,502	\$5,339,965	\$1,228,587	\$23,295,661	75.19%
Finance and Insurance (16)	\$18,601,663	\$1,339,593	\$32,000	\$0	\$0	\$45,545	\$1,250	\$17,215,275	92.55%
Professional and Technical Services (11)	\$6,764,612	\$49,281	\$48,970	\$311	\$0	\$118,724	\$0	\$6,596,607	97.52%
Management of Companies and Enterprises (10)	\$17,947,926	\$480,650	\$242,550	\$0	\$0	\$361,265	\$0	\$17,106,011	95.31%
Accommodation and Food Services (6)	\$6,076,907	\$432,019	\$88,280	\$0	\$0	\$97,752	\$14,279	\$5,532,857	91.05%
Others (29)	\$15,320,818	\$3,218,822	\$1,465,082	\$0	\$1,280,577	\$878,537	\$700	\$11,222,759	73.25%
Total (250)	\$357,537,139	\$65,911,895	\$28,154,439	\$7,116,223	\$25,988,543	\$26,665,133	\$2,370,261	\$262,589,850	73.44%

Table 2 shows wide disparity between the various industry sectors in net tax receipts (after credits are taken) vs. tax liability measured before credits are taken (directly proportional to Kansas taxable income). The “payment percentage” column shown above reflects the percent of tax liability (measured before credits are taken) actually paid after credits were applied to reduce tax liability. Manufacturers have by far the lowest tax payment percentage rate at 45.60%.

Charts 2 and 3 (attached) show that although manufacturers represent the largest portion of Kansas tax liability before credits (and Kansas taxable income) in the sample, retail trade represents the largest portion of net taxes paid after credits are taken. Manufacturers are clearly best situated to take advantage of the largest tax credit programs. Charts 2 and 3 graphically display the information in Table 2. Chart 2 shows the percentage of total Kansas income tax liability (measured before credits are taken) attributable to each industry sector in the sample. Chart 3 shows the percentage of total net tax receipts (taxes paid after credits were taken) attributable to each industry sector in the sample.

Within this sample of 250, the Analysis looked at the group of top 20 corporations that claimed the most B&J credits during tax years 2000, 2001 and 2002. Some corporations appeared in the group of top 20 B&J credit claimants in more than 1 tax year. This group totalled 58 corporations. These corporations also claimed large portions of the other credits, but the ranking was based on the B&J credits claimed. The 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 2000

5 in Manufacturing/Transportation/Warehousing  
 Total Taxable Income: \$208.8 million  
 Total Net Tax: \$4.375 million  
 Ave. Effective Tax Rate: 2.1%  
 Range: .88% to 5.44%

15 in Retail/Wholesale/Other  
 Total Taxable Income: \$436 million  
 Total Net Tax: \$24.4 million  
 Ave. Effective Tax Rate: 5.6%  
 Range: .27% to 7.07%

##### Tax Year 2001

10 in Manufacturing/Transportation/Warehousing  
 Total Taxable Income: \$257 million  
 Total Net Tax: \$3.19 million  
 Ave. Effective Tax Rate: 1.2%  
 Range: -1.3% to 5.16%  
 (5 with refunds or zero taxes)

10 in Retail/Wholesale/Other  
 Total Taxable Income: \$281 million  
 Total Net Tax: \$17 million  
 Ave. Effective Tax Rate: 6%  
 Range: -1.9% to 7%  
 (1 with refund)

##### Tax Year 2002

9 in Manufacturing/Transportation/Warehousing  
 Total Taxable Income: \$169 million  
 Total Net Tax: \$4.37 million  
 Ave. Effective Tax Rate: 2.59%  
 Range: -1.8% to 6.34%  
 (4 with refunds or zero taxes)

11 in Retail/Wholesale/Other  
 Total Taxable Income: \$82 million  
 Total Net Tax: \$3.385 million  
 Ave. Effective Tax Rate: 4.14%  
 Range: .02% to 6.13%

The results show a wide 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 each category. For example, in tax year 2002, the 9 corporations in the manufacturing/transportation/warehousing category had an average effective tax rate of 2.59%, although within that category, the effective tax rate ranged from -1.8% to 6.34%, with 4 either receiving refunds or with zero net tax liability. Of the 11 corporations in the retail/wholesale/other category in tax year 2002, the average effective tax rate was 4.14%, although within that category, the effective tax rate ranged from .02% to 6.13%.

Table 3 compares the manufacturing firms and retail firms within this group of 58 corporations included in the “top 20” in B & J credit claimants for tax years 2000, 2001 and 2002. The amount of tax liability (measured before credits are taken), credits and net receipts for all three tax years for manufacturing and retail firms in the group are listed. Of the 58 corporations in the group, 13 were manufacturing corporations and 9 were retail trade corporations. The “total” row at the bottom sums the information not only for these 13 manufacturers and 9 retailers, but also the rest of the 58 corporations in the group.

Table 3. Summary information for the Corporations that claimed most B&J Credits in TY 2000, 2001 and 2002

Sector (# of sample)	Total Tax Liability	Total NR Credits	B&J	R&D	HPIP	B M & E	Total Ref. Credits	Net Receipts	Percent- age*
<b>Manufacture (13)</b>	\$43,405,188	\$29,235,951	\$14,965,331	\$5,990,066	\$8,192,460	\$3,567,459	\$298,675	\$10,303,103	23.74%
<b>Retail Trade (9)</b>	\$25,096,141	\$4,684,763	\$4,684,763	\$0	\$0	\$388,165	\$0	\$20,023,213	79.79%
<b>Total (58)</b>	\$103,582,994	\$42,709,553	\$26,977,254	\$6,543,973	\$8,990,232	\$5,347,514	\$359,019	\$55,166,908	53.26%

\*Percentage = (Net Receipts/Total Tax Liability).

Table 3 shows that manufacturing firms succeeded 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 80% of the amount their tax liability measured before credits. The average payment percentage for all 58 corporations in this group of largest B&J credit claimants is about 53%. The manufacturing corporations in the group also claimed the largest amounts of refundable and non-refundable credits from the other tax credit programs.

### **The Kansas Economy—Retail Sector Compared to Manufacturing Sector**

As discussed above, based on the sample database of large corporations, the manufacturing sector enjoys a lower effective tax rate than other sectors of the economy, as a result of tax credits. In the last decade, and in particular since the 2001 recession and 9/11, the United States manufacturing sector has been shrinking. Kansas is no exception. The two charts below provide historical employment information for various sectors of the Kansas economy.

Chart 4 compares the Kansas civilian labor force to aggregate employment and private sector employment from 1990 through 2003. The civilian labor force represents persons either in the workforce or actively looking for work. The difference between the civilian labor force line and the aggregate employment line represents unemployment. The difference between the aggregate employment line and the private sector line reflects public sector employment. After steadily increasing during the 1990’s and into 2000, the civilian labor force and aggregate employment experienced significant drop-offs beginning in late 2000 through early 2002 and

then steadily increased. Private sector employment also steadily increased during the 1990's, but reached a plateau in 2000 and then declined through 2003.

Chart 4. Kansas Civilian Labor Force, Total Employment and Employment in Private Sector, 1990-2003

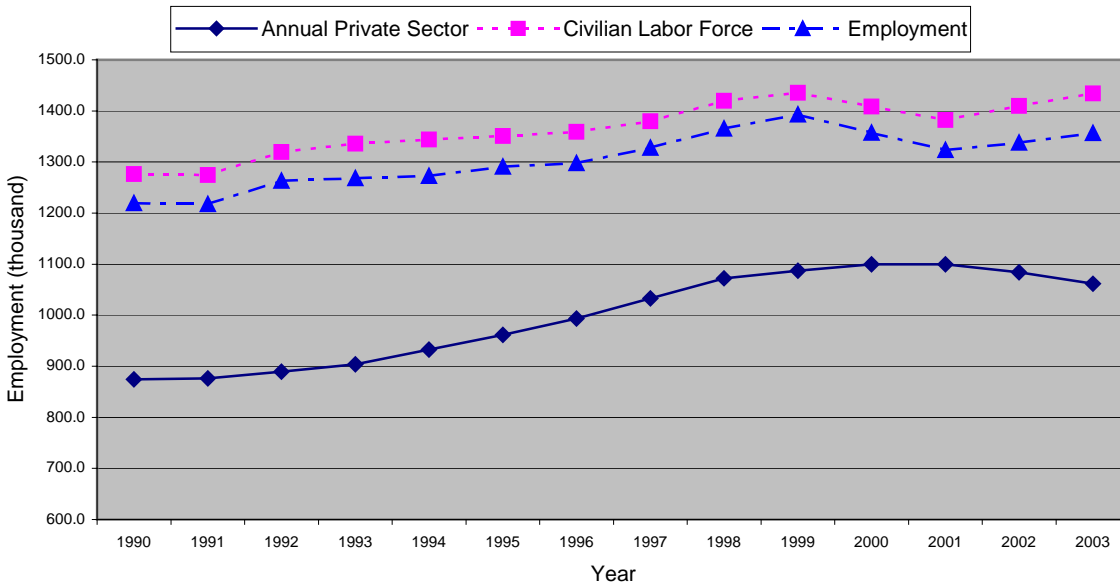


Chart 5 compares Kansas manufacturing employment and retail trade employment from 1990 through 2003. During most of the 1990's, both manufacturing and retail trade experienced steady growth, with dramatic growth in manufacturing in the late 1990's. Manufacturing sector employment was significantly larger than the retail sector throughout the 1990's, ranging from 40,000 to 60,000 employees higher. Since 1999, manufacturing sector employment has sharply declined. Retail sector employment experienced only modest decline during 2001 to 2003. The gap between retail sector employment and manufacturing sector employment has significantly narrowed: manufacturing sector employment exceeded retail sector employment by only 20,000 jobs in 2003.

Chart 5. Comparing Kansas Manufacturing and Retail Trade Sectors Employment: 1990-2003

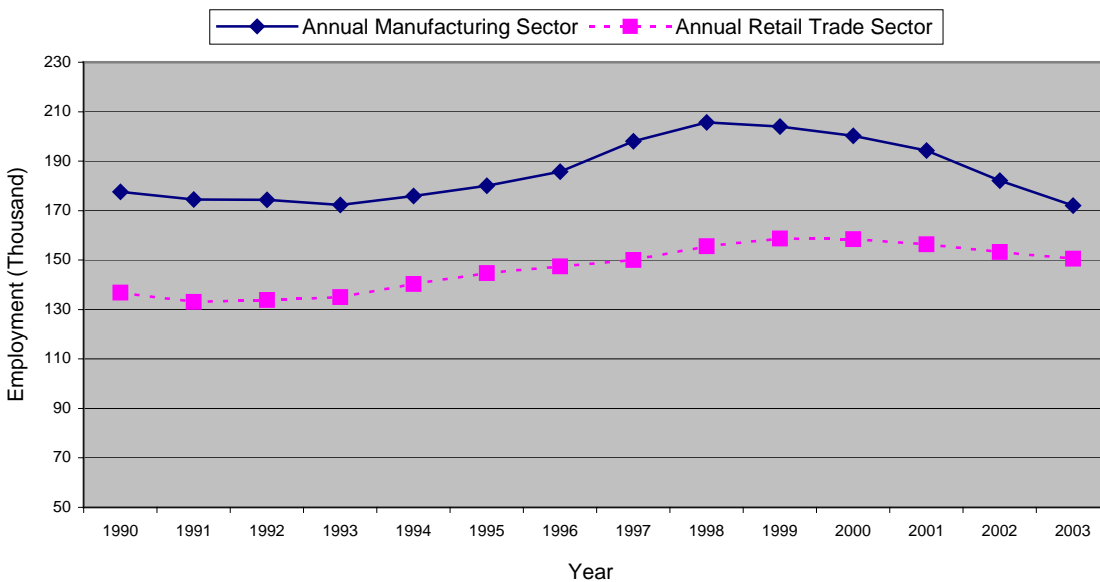
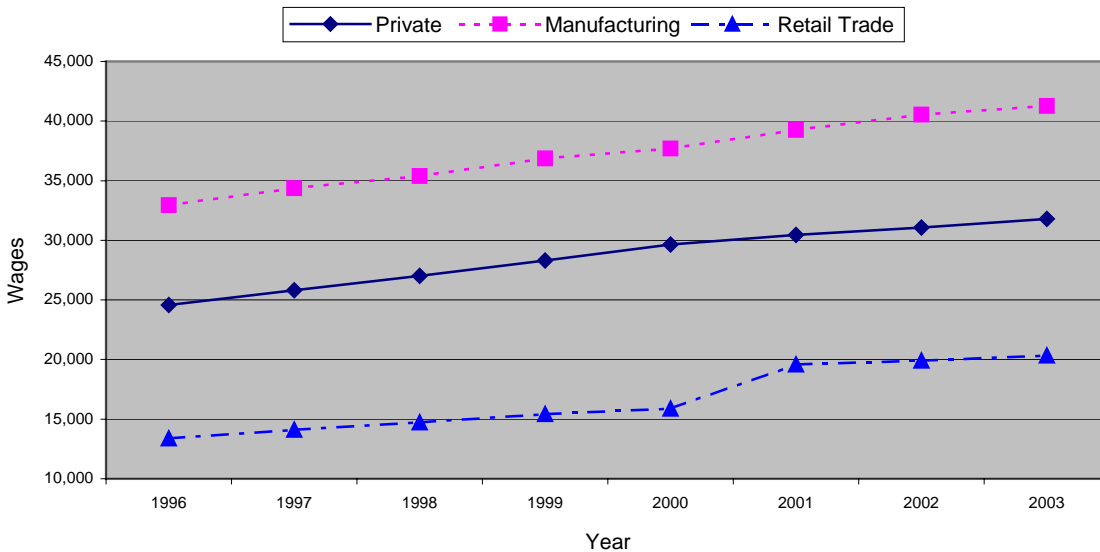


Chart 6 compares the average annual wages for the Kansas private sector, manufacturing sector and retail sector from 1996 through 2003. Manufacturing sector wages are higher than private sector wages, and retail wages are lower than private sector wages. Despite the 2001 recession, wage levels have increased throughout the time period shown.

Chart 6. Kansas Average Annual Wages in Different Sectors



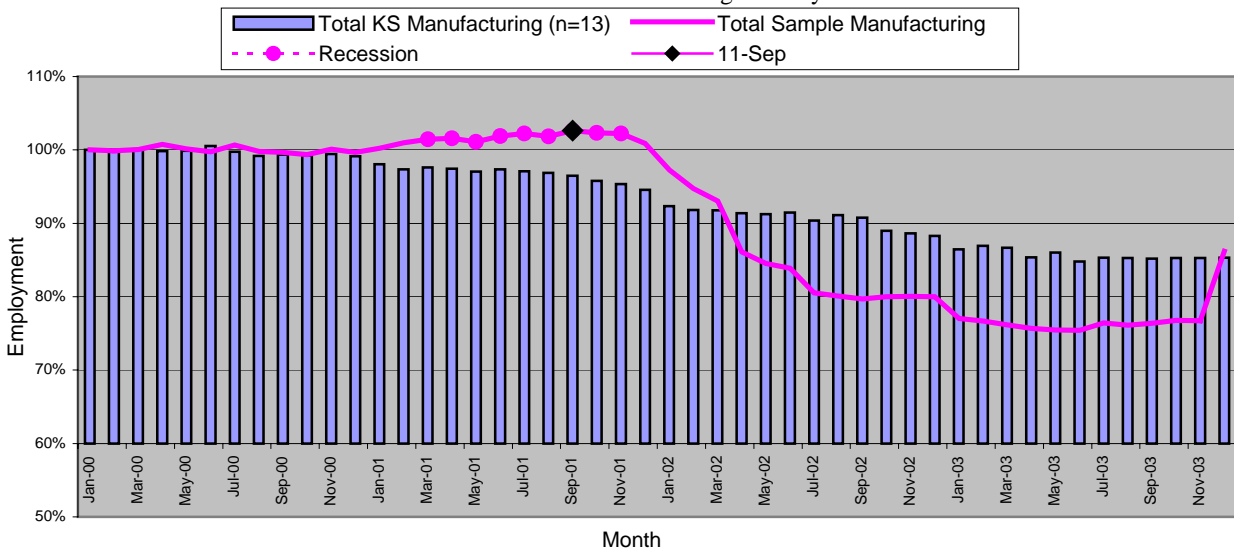
As the charts above show, the Kansas economy experienced a serious recession during 2001, and with the added impact of 9/11, experienced higher unemployment rates in many sectors for an extended time period.

### Employment Data on Top 20 Business and Job Development Credit Claimants

The B & J tax credit program provides tax credits based on the number of net new employees and the amount of qualified capital investment. Corporations claiming large amounts of these credits could be expected to have a higher job growth than their industrial average. Employment data was obtained from the Department of Labor on the corporations included in the group of top 20 claimants of the B&J tax credit during tax years 2000, 2001 and 2002, in order to determine how well changes in the employment levels in these corporations compared with changes in employment levels in the Kansas economy.

Chart 7 compares the performance of employment levels of manufacturers (13 corporations) included in the group of largest B&J tax credit claimants with that of the entire Kansas manufacturing sector. The percentage rate of change in the employment levels of manufacturers among the largest B&J tax credit claimants are compared to similar data for the entire Kansas manufacturing sector from 2000 through 2003. Employment levels of manufacturers claiming the largest B&J credits performed worse than employment levels of the Kansas manufacturing sector during much of this time period. Chart 7 graphically notes the 2001 recession (March 2001 to November 2001, according to the National Bureau of Economic Research) and 9/11 on the time line for the group of largest B&J tax credit claimants. These events dominated this time period and severely affected the Kansas manufacturing sector.

Chart 7. Comparison of Employment Level Between the Sample Manufacturers (n=13) and the Total Kansas Manufacturing Industry



The Department of Labor employment information provides no correlation between the tax credit programs and improved employment performance for manufacturers claiming the largest amounts of those credits, during the aftermath of the 2001 recession and 9/11.

Chart 8 compares the performance of employment levels of retailers included in the sample (9) of largest B&J claimants with that of the entire Kansas retail sector. The percentage rate of change in the employment levels of retailers among the largest B&J tax credit claimants are compared to similar data for the entire Kansas retail sector from 2000 through 2003. Employment levels of retailers claiming the largest B&J credits performed somewhat better than employment levels of the Kansas manufacturing sector during much of this time period, although retailers claim a much smaller portion of the credits than manufacturers. The 2001 recession and 9/11 are noted graphically.

Chart 8. Comparison of Employment Level Between the Sample Retailers (n=9) and the Total Kansas Retail Trade Industry

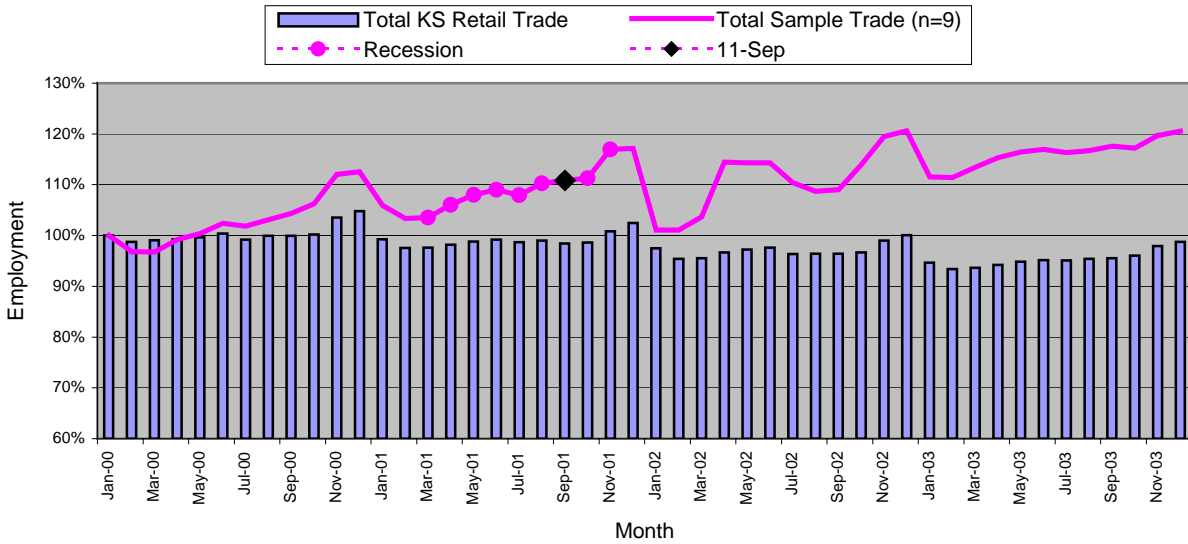
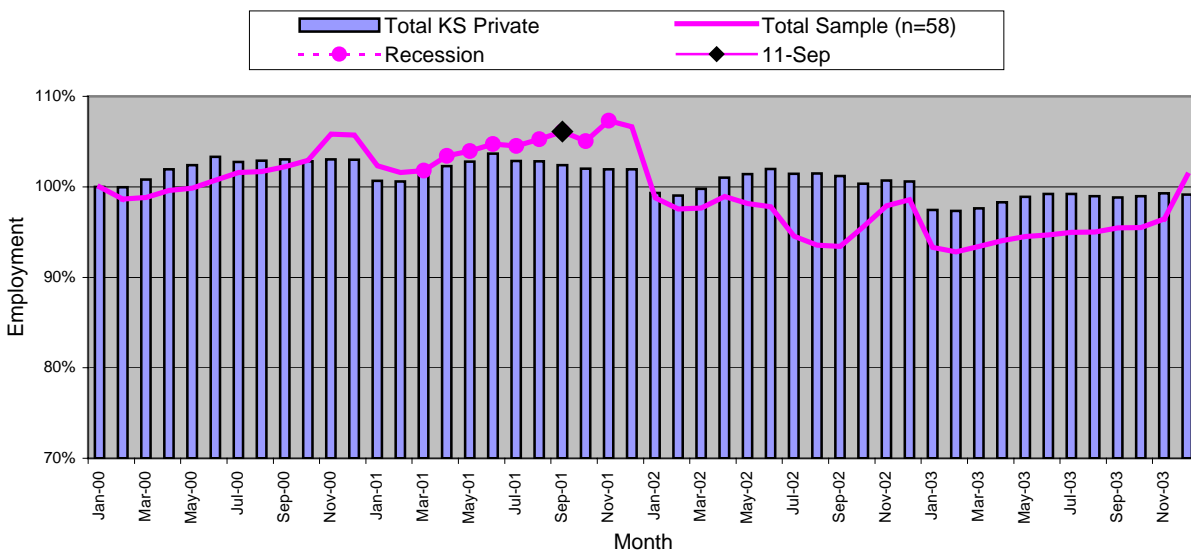


Chart 9 tracks the percentage rate of change in the aggregate employment level of corporations included in the group of top 20 B&J credit claimants from January 2000 through the end of 2003 and compares that to the percentage rate of change in the aggregate employment level of the Kansas private sector during the same time period. During most of this time period the rate of change in employment level of the corporations in the group claiming the largest B&J credits was worse than in the private sector as a whole in Kansas. The 2001 recession and 9/11 are also noted graphically.

Chart 9. Comparison of Employment Level Between the Sample Corporations (n=58) and the Total Kansas Private Industries



**Conclusions**

Manufacturers have utilized the business tax credit incentive programs and have claimed the largest amounts of the credits. This result is consistent with state economic development policy that has been in effect for 10 years. Some larger claimants have used the credits to eliminate their corporate income tax liability entirely—even obtaining refunds.

Because tax credits are used to lower tax burden, the effective tax rate varies 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 credit programs do not appear to have shielded manufacturers claiming the

largest amounts of B&J credits from the economic downturn experienced by the Kansas economy in the 2001 recession, and in the aftermath of 9/11.

The retail sector contributes the largest portion of the corporate income tax receipts, although the manufacturing sector generated the largest amount of Kansas taxable income in tax years 2000, 2001 and 2002. The retail sector is less able than the manufacturing sector to benefit from the tax credit programs, typically bears a higher share of the corporate income tax burden, and pays higher effective tax rates. Retailers in the group of top 20 B&J credit claimants showed stronger employment performance in the aftermath of the 2001 recession and 9/11 than the Kansas retail sector as a whole.

In general, corporations claiming the most tax credits did not show employment performance matching that of the Kansas private sector economy during most of the 2000-2003 time period. This result should be tracked and measured over a longer period of time before conclusions are reached because of the recession during the sample years.

## **Appendix A**

### **Business and Job Development Credits - K.S.A. 79-32,153 and K.S.A. 79-32,160a**

K.S.A. 79-32,153

A taxpayer that invests in a qualified business facility and hires at least two employees as a result of that investment may be eligible for a tax credit of \$100 for every new qualified business facility employee and \$100 for every \$100,000 of investment made.

K.S.A. 79-32,160a

A taxpayer that invests in a qualified business facility and hires a minimum number of employees as a result of that investment may be eligible for the enhanced tax credit of at least \$1,500 for every new qualified business facility employee and \$1,000 for every \$100,000 of investment made. To qualify for the enhanced credit, a manufacturing business must hire at least 2 qualified business facility employees as a direct result of the investment, a non-manufacturing business must hire at least 5 qualified business facility employees as a direct result of the investment, and a retail business must be considered a business headquarters, ancillary support operation (such as a warehouse), catalog house or prepackaged software operation and hire at least 20 qualified business facility employees as a direct result of the investment.

### **High Performance Incentive Program Credits - K.S.A. 74-50,132 and K.S.A. 79-32,160a(e)**

Businesses must be certified in advance by Department of Commerce, in order to qualify for HPIP. The program applies only to businesses within certain specified NCAIS codes that pay wages higher than the prevailing wage within that industry.

### **Training and Education Tax Credit**

A qualified firm making a cash investment in the training and education of its employees can receive a credit equal to the portion of the investment in the training and education that exceeds 2% of the businesses total payroll costs.

### **Investment Tax Credit**

A credit is available for those qualified firms that make an investment in a qualified business facility. the investment tax credit is 10% of the qualified business facility investment that exceeds \$50,000.

### **Business Machinery and Equipment Credit - K.S.A. 79-32,206**

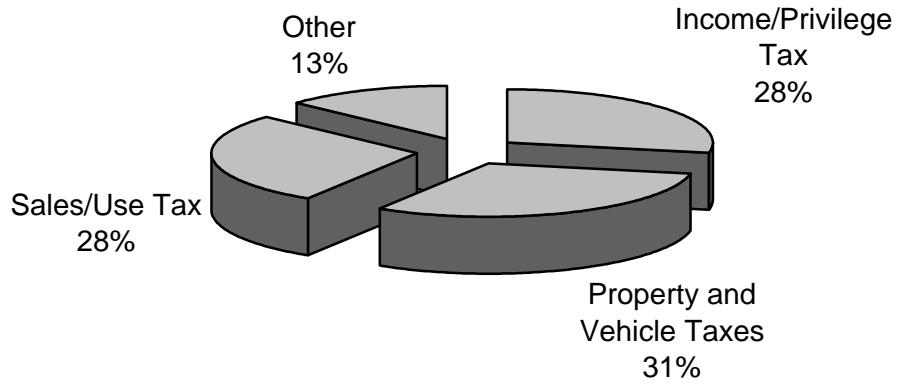
A credit may be allowed in an amount equal to 15% of the personal property tax levied and paid on commercial and industrial machinery and equipment classified for property taxation purposes pursuant to section 1 of article 11 of the Kansas Constitution in subclass (5) or (6) of class 2 and machinery and equipment classified for such purposes in subclass (2) of class 2. The credit amount will increase to 20% of the property tax levied for property tax years 2005 and 2006, and 25% of the property tax levied for property tax years 2007 and after. This credit is refundable.

**Research and Development Tax Credit - K.S.A. 79-32,182a**

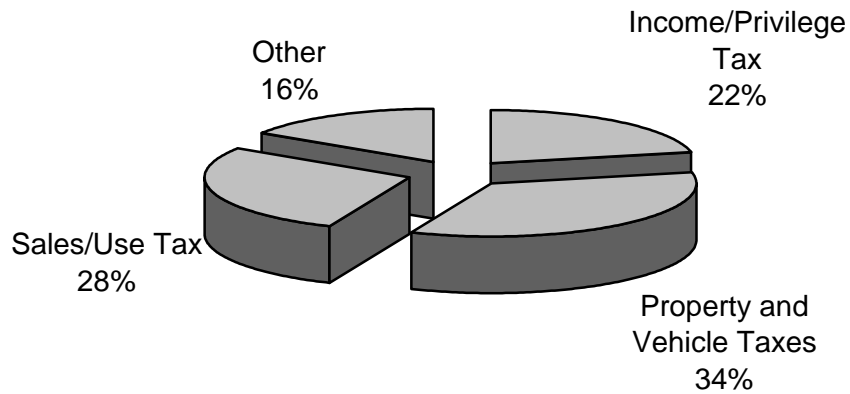
A taxpayer with qualifying expenditures in research and development activities conducted within Kansas may be eligible to receive a credit of 6 1/2% of the amount expended for the research.

Chart 1

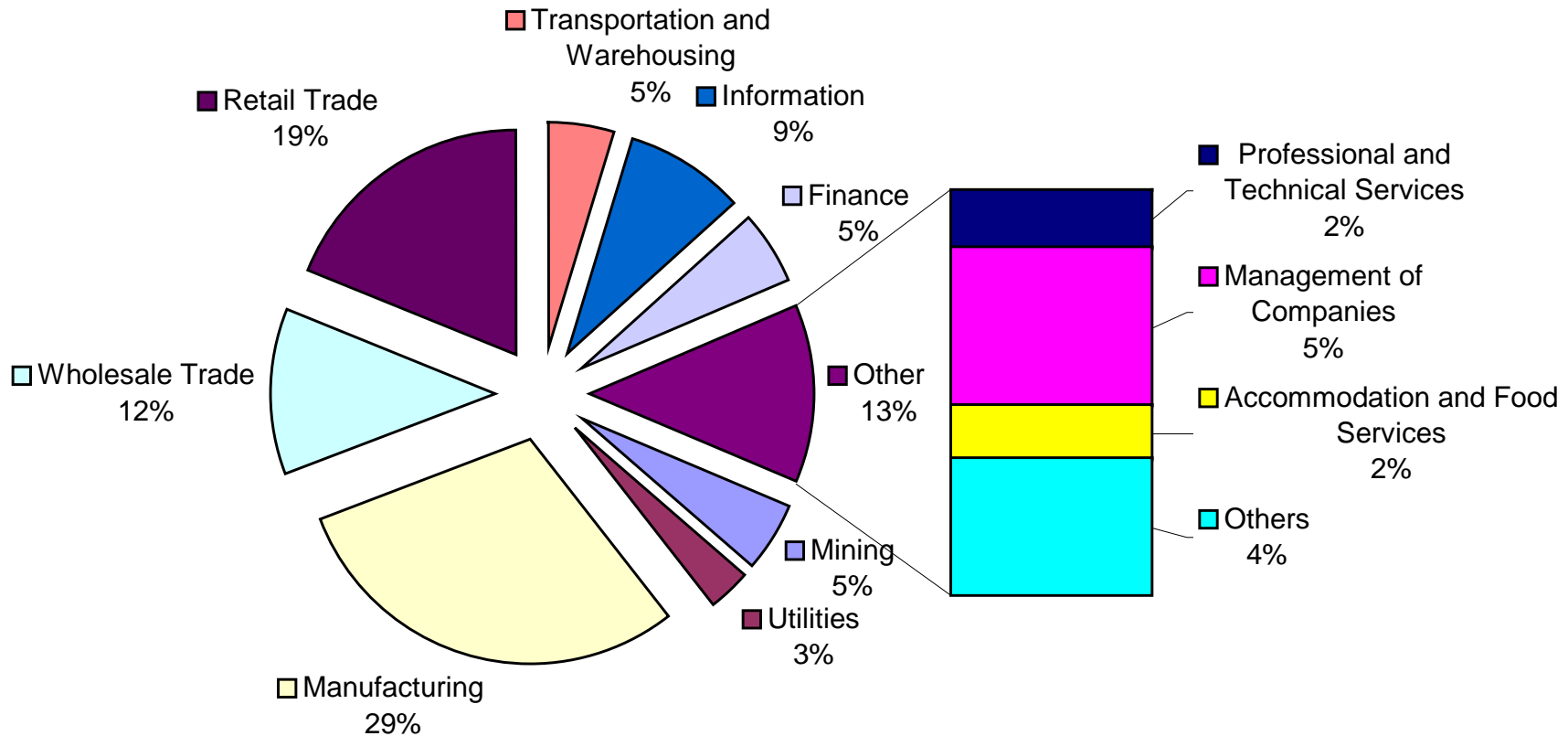
### Fiscal Year 1998 State and Local Tax Revenues by Source



### Fiscal Year 2003 State and Local Tax Revenues by Source

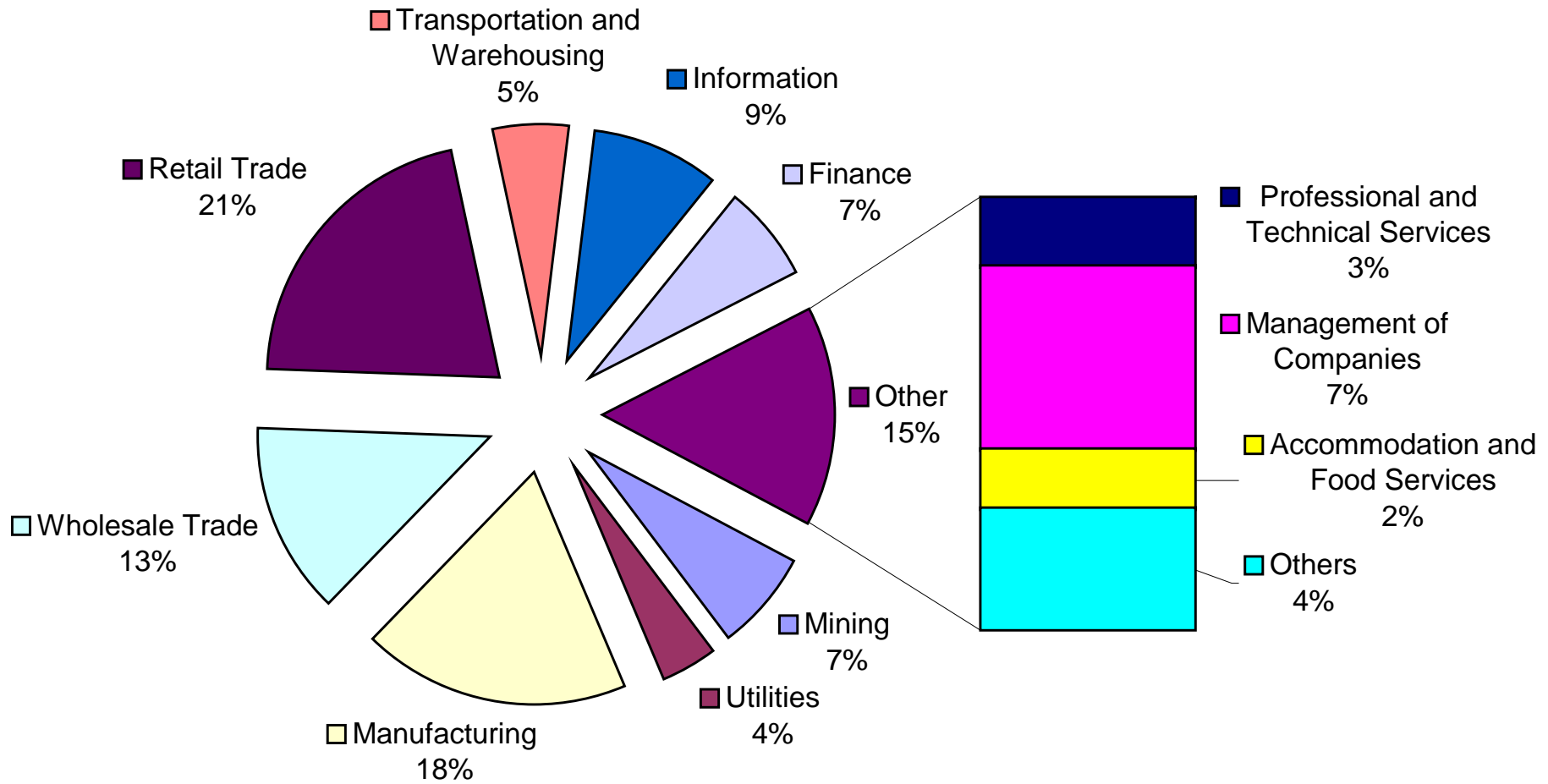


**Chart 2**  
**Total Corporate Income Tax Liability by Sector Before Credits Are Taken**  
**Tax year 2000, 2001 and 2002**



Mining	Utilities	Manufacturing
Wholesale Trade	Retail Trade	Transportation and Warehousing
Information	Finance	Professional and Technical Services
Management of Companies	Accommodation and Food Services	Others

**Chart 3**  
**Total Corporate Income Tax Liability by Sector After Credits Are Taken**  
**Tax Year 2000, 2001 and 2002.**



Mining	Utilities	Manufacturing
Wholesale Trade	Retail Trade	Transportation and Warehousing
Information	Finance	Professional and Technical Services
Management of Companies	Accommodation and Food Services	Others