

Testimony to Senate Taxation Committee  
Supporting SB457 with Amendments  
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Chairman Donovan and Other Honorable Senators:

The Greater Kansas City Chamber has nearly 2,500 members, 40% of which are in Kansas. The Chamber agrees with the Governor and those economic development experts saying that Kansas income tax rates, corporate and individual, have been a negative factor in recruiting business which could provide new jobs to Kansas. In addition, the Kansas property system and tax rates are also a negative factor.

Let us be clear, The Chamber supports the Governor's call for reduced tax rates on individuals and corporations, if it can be done at a pace that does not impact essential government services, and agrees that allowing LLCs, Partnerships and other pass through entities some exemption to allow easier capital formation is a good idea. The Chamber supports reduction of rates if obligating the state only to tax reductions of the size that can be paid for now, without resort to further borrowing from the highway plan, and without harming essential services. The Chamber does not support the 2% cap or any other permanent cap on budget growth which is present in Sub. for SB 177. Legislation binding on future legislatures long term is generally not a good idea, and this is especially true at this time given the debt that the state already needs to repay and the shortfall in KPERS. The House plan makes that debt worse by further borrowing from the highway plan.

SB 457 avoids these problems and creates a potentially powerful new job development tool. However, we wish to suggest some changes and our support for this bill must be conditional as we will detail below.

SB 457 would allow corporations bringing new operations to Kansas to elect to use a formula for splitting their total corporate income between Kansas and other

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states that is based solely upon their sales within Kansas versus sales outside Kansas. The bottom line is that any corporation (even small or start-up companies) could put new or existing divisions or manufacturing plants, or even its corporate headquarters, in Kansas, knowing that increasing their property and payroll within Kansas (a positive to Kansas) would not become a negative in the corporation's total tax computation. This is important because currently the top Kansas rate for corporate taxpayers is high for the Midwest.

Further, the "sales only" option is increasingly being adopted by other states. I am attaching a page from a February 2012 survey done by the Federation of Tax Administrators. Even a brief review shows that 14 states now use sales only for this apportionment), including Iowa, Nebraska, and Texas; and another 22 allow a formula which significantly increases the weight given to the sales factor in the three factor formula. In short, Kansas is in a minority of about 7 states that appear to be mostly following the old Uniform law. There are studies showing that the states most often cited as doing better than Kansas in attracting new businesses, including new corporate headquarters (Texas, Iowa, Florida, Indiana) owe much of their success to adopting this kind of corporate income tax apportionment scheme allowing sales only or at least a significantly larger weighting for sales.

The current three factor formula equally weighs property and payroll percentages with state sales percentages. Most Kansas corporate taxpayers currently are forced to use the old three factor formula. The major exceptions are listed in subparagraphs (b)(2) to (b)(6) in Section 1 of the bill (KSA 79-3279) and generally require large investments. The bill as introduced allows this election to any new corporate taxpayer who brings 10 or more employees to Kansas.

As stated above, The Chamber feels the bill needs some changes. First, The Chamber respectfully requests that you add an amendment that this option is available in relocating employees to Johnson or Wyandotte County from an adjoining county in Missouri only if that company would have been eligible to elect to use the sales only factor had it remained in the State of Missouri. Since Missouri allows a switch to this single factor by companies being retained in Missouri this should not limit this tool for most corporate relocations. Second, you may wish to consider adding this retention option for corporations being retained in Kansas. This would allow Kansas the same business retention tool that is available in Missouri.

The Chamber feels that the continual churning of business moves offering more tax incentives to move less than 30 miles within the Kansas City metro region, is actually not good for citizens of either state. Offering incentives to companies to move who are not increasing the total number of people employed, sometimes provides little long term benefit. There have even been instances of companies getting incentives from one state to move to the other and then in a short period more incentives were granted to them to move back again. This is hard to justify.

The Chamber would also like to point out the bill contains a five year sunset, so that the legislature may evaluate how well it is working. The Chamber supports regular examination by the State of all tax incentives - to assess their effectiveness and determine the results.

In conclusion, if the amendments suggested above were adopted, The Chamber would be an enthusiastic supporter of SB 457.

## STATE APPORTIONMENT OF CORPORATE INCOME

(Formulas for tax year 2012 -- as of January 1, 2012)

ALABAMA *	Double wtd Sales	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	70% Sales, 15% Payroll, & 15% Property (1)
CALIFORNIA *	Sales/Double wtd Sales	NEW MEXICO *	3 Factor
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 (3)
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	Sales
IOWA	Sales	SOUTH DAKOTA	No State Income Tax
KANSAS *	3 Factor	TENNESSEE	Double wtd Sales
KENTUCKY *	Double wtd Sales	TEXAS	Sales
LOUISIANA	Sales/3 Factor	UTAH	84% Sales, 8% Payroll, & 8% Property (4)
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	93% Sales, 3.5% Property, & 3.5% Payroll (1)	WISCONSIN *	Sales
MISSISSIPPI	Sales/Other (2)	WYOMING	No State Income Tax
MISSOURI *	3 Factor	DIST. OF COLUMBIA	Double wtd Sales
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) Minnesota and New Jersey is phasing in a single sales factor which will reach 100% in 2014.

(2) 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.

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

(4) Utah is phasing in a single sales factor which will reach 100% in 2013.