

**Sales Tax Exemptions and Income Tax
Credits for Economic Development:
*Report for Tax Year 2002***

Prepared by

KANSAS INC.

May 2004

KANSAS INC.

Jerry Lonergan, *President*

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Greetings:

Since 1994, Kansas Inc. has prepared reports seeking to evaluate the cost effectiveness of various tax credit and sales tax exemption programs enacted to encourage economic development within the state. Over the years, research methodology has changed with the objective of preserving confidential corporate taxpayer information and providing a more accurate evaluation of the economic development tax incentive programs. Unfortunately, the research methodology established nearly two years ago that created the survey questionnaire used in this report proved ineffective in evaluating individual tax incentive programs and the overall impact of Kansas incentives.

This report, prepared by Research Analyst Sean Tomb, provides interesting insight into a segment of Kansas's corporate taxpayers. For example, half of all corporations responding to the questionnaire indicated they would have proceeded with their project as planned, even if the economic development tax incentive programs were not available. In contrast, 14.5 percent of the firms would have left the state and invested in other locations without the availability of the tax incentives. These suggest the state's tax incentive programs can be improved in order to strengthen our approach to economic development.

The 2004 Legislature transferred the responsibility of producing this report to the Kansas Department of Revenue (KDOR) on or after January 1, 2006 (H.B. 2647). This transfer of duties, supported by Kansas Inc., requires KDOR to produce a report that evaluates the cost effectiveness of the state's economic development tax incentive programs. Discussions are underway between Kansas Inc. and KDOR to help create a reliable method to evaluate the effectiveness of the state's economic development tax incentive programs for future reports. Kansas Inc. is grateful to KDOR for their continued cooperation.

As a cost-saving strategy future Kansas Inc. reports will be made available at the organization's web site. Mailings will include the executive summary, a note on how to access the report online, and a contact phone number to request a hard copy of the report.

Sincerely,



Jerry Lonergan

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KEY FINDINGS

The Economic Development Incentive Questionnaire developed under the previous leadership of the Kansas Department of Revenue (KDOR) and Kansas Inc. does not allow a statistically valid evaluation of the cost effectiveness of individual tax incentive programs. Although the study methodology contains flaws and the report cannot provide a complete analysis of economic development tax incentive programs in Kansas, it does provide a snapshot into the opinions and benefits of tax incentives to a segment of the state's corporate taxpayers.

Methodology/Process Problems:

- Due to the lack of consistent responses from corporations on a uniform basis, information on overall investment, wages, and job creation associated with the economic development tax incentive programs is not available.
- 82 of 136 (60.3%) corporate questionnaires, identified as receiving economic development tax incentives, did not answer all questions in the survey. This problem potentially could have been avoided if the survey had been pre-tested for clarity and for the ability to answer the research questions.
- 6,093 (less than 20%) of the estimated 39,000 corporate tax filers submitted the required questionnaire to KDOR. Only 136 questionnaires were received from participants in economic development tax incentive programs for tax year 2002.
- Compliance with filling out the required corporate questionnaire varied widely by incentive program: High Performance Incentive Program (HPIP) had a 94.6% response rate, while only 1.9% of the participants of the Kansas Enterprise Zone tax credit submitted their questionnaires.

Tax Year 2002 Questionnaire:

- Across all taxpayer classifications, more than \$75,000,000¹ worth of economic development sales tax exemptions and income tax credits were granted for tax year 2002. The questionnaire was only distributed to corporate filers and those responding accounted for \$15.8 million of the total incentives claimed.
- 14.5% of the responding corporations reported that they seriously considered undertaking their economic development project in another state.
- 50% of respondents stated their project would have proceeded as planned if economic incentive programs were not available to them.
- Owner's place of residence, tax incentives, and quality of life were the three most popular answers on why firms undertook the project in Kansas.

¹ This figure does not include data from the Integrated Production Machinery and Equipment (IPME) sales tax exemption or any confidential data from less than five filers.

INTRODUCTION

Tax Year 2002 Report Limitations

Tax incentive reports prior to the 2002 tax year lacked the necessary wage and job information from employers receiving tax incentives to adequately perform an analysis of the incentive programs used by the state. Methodology and the questionnaire developed for this report attempted to deliver that information, however, there are three reasons to be suspect of any conclusions drawn from this data. First, the data is self-reported; no mechanism is in place to verify claims. Second, firms that participate in multiple tax incentive programs are only required to fill out one form, making it impossible to report accurate information on individual incentive programs. Finally, the procedures for filling out the questionnaire were unclear, leading to inaccurate, incomplete or misleading information.

Previous leadership of the Kansas Department of Revenue (KDOR) and Kansas Inc. jointly developed the 2002 Economic Development Incentive Questionnaire. The questionnaire was developed to gain insight on job creation and investment associated with the state's economic development incentive programs. This questionnaire is not effective in analyzing the cost effectiveness of individual tax incentive plans. Compliance with filling out the required corporate questionnaire varied widely by incentive program: High Performance Incentive Program (HPIP) had a 94.6% response rate, while only 1.9% of the participants of the Kansas Enterprise Zone tax credit submitted their questionnaires. The inability to gather complete and reliable data does not allow an accurate analysis of the impacts of individual incentive programs. However, Kansas Inc. is able to analyze the data from questionnaire respondents on a general and overall basis.

The survey was designed to capture information only from corporate taxpayers, all of which are required to fill out the questionnaire regardless of their participation in any economic development tax incentive program (K.S.A. 74-8017). The tax incentive programs examined in this report are not limited to corporate taxpayers. Analysis of individual or privilege taxpayers² who receive these tax incentives is not available in this study.

The data collected from corporate questionnaires also contained several limitations. Eighty-two of 136 (60.3%) corporate questionnaires, identified as receiving economic development tax incentives, did not answer all questions in the survey. Additionally, without violating confidentiality agreements about revealing corporate taxpayer information, Kansas Inc. believes data from questionnaires of some large firms overestimated the amount of investment and job creation specifically associated with these tax incentives. This practice has skewed the conclusions about the overall cost effectiveness of the states tax incentive programs. These problems potentially could have been avoided if the survey had been pre-tested for clarity and for the ability to answer the research questions. An accurate analysis of each tax incentive program would only be possible if more complete data was available and a significant number of all corporations that receive the incentives were captured in the study. With access to necessary data, KDOR should be able to provide this information in future reports.

² Privilege tax is an income tax paid by financial institutions. Privilege taxes are assessed against net earnings of every national banking association, bank, trust company, federally chartered savings bank, and savings and loan association. All such entities must file a Kansas Privilege tax return.

The tax year 2003 questionnaire was developed and distributed to corporate taxpayers prior to the analysis and discovery of methodology problems in the tax year 2002 data. Kansas Inc. has already received completed 2003 Economic Development Incentive Questionnaires from KDOR. Unfortunately, the analysis of the tax year 2003 questionnaire data will contain many of the same problems that are found in this study.³ Discussions are underway between Kansas Inc. and KDOR to help create a valid and reliable method to evaluate the effectiveness of the state's economic development tax incentive programs for future reports.

Although the study methodology contains flaws and the report cannot provide a complete analysis of economic development tax incentive programs in Kansas, it does provide a snapshot into the opinions and benefits of tax incentives to a segment of the state's corporate taxpayers.

Legislative History

In 1994, the Kansas legislature passed H.B. 2556 (K.S.A. 74-8017) giving Kansas Inc. the responsibility to prepare an annual report evaluating the cost effectiveness of specific income tax credits and sales tax exemptions enacted to encourage economic development within the state. The report is to be submitted to the standing committees on Taxation and Economic Development of the House and Assessment and Taxation and Commerce of the Senate.

Changes were made to K.S.A 74-8017 during the 2001 legislative session in an effort to improve the data collection process with Kansas Inc. seeking to perform a more accurate analysis of the cost effectiveness of the state's economic development tax incentive programs beginning with tax year 2002. The tax year 2002 report uses the Economic Development Incentive Questionnaire to evaluate the economic development sales tax exemption and income tax credit programs.

The 2004 Legislature transferred the responsibility of producing this report to the KDOR on or after January 1, 2006 (H.B. 2647). This transfer of duties, supported by Kansas Inc., requires KDOR to produce a report that evaluates the cost effectiveness of the state's economic development tax incentive programs. KDOR is better suited for this responsibility with their access to confidential corporate taxpayer information. Additionally, Kansas Inc. lacked the ability to control and enforce the collection of questionnaires from corporate taxpayers.

Economic Development Incentive Questionnaire Tax year 2002
<p>Sales tax exemption programs examined:</p> <ol style="list-style-type: none"> 1. Kansas Enterprise Zone Act Sales Tax Exemption 2. Integrated Production Machinery and Equipment Sales Tax Exemption (IPME) <p>Income tax credit programs examined:</p> <ol style="list-style-type: none"> 1. Kansas Enterprise Zone Act- Tax Credit 2. Job Expansion and Investment Credit Act (JEICA) Tax Credit 3. High Performance Incentive Program (HPIP): Workforce Training and Education Tax Credit 4. High Performance Incentive Program (HPIP): Investment Credit 5. Research and Development Credit (R&D) 6. Kansas Venture Capital and Seed Capital Credits

³ The 2003 questionnaire was changed to require only those who receive the tax incentives to submit the questionnaire with their 2003 tax return. This change was made only to the questionnaire and statutorily all corporations are still required to submit the questionnaire (K.S.A 74-8017).

SECTION 1: ECONOMIC DEVELOPMENT QUESTIONNAIRE RESULTS

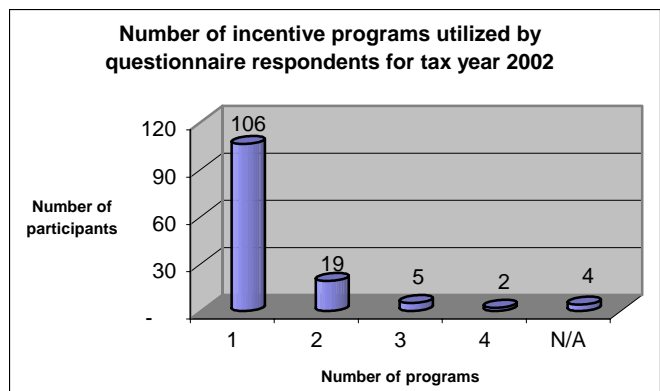
For tax year 2002, all corporate taxpayers were required to complete the State of Kansas Economic Development Incentive Questionnaire (see appendix A) in conjunction with their corporate tax return filed with KDOR. The questionnaire is published in the State of Kansas corporate tax booklet and available for download at the KDOR website. Kansas Inc. received corporate questionnaires from 6,093 (less than 20%) of the estimated 39,000 corporate taxpayers. The staff of Kansas Inc. received and analyzed questionnaires from 136 corporate tax filers; collectively this group reported participating in 166 economic development incentive programs for tax year 2002.⁴ This amounts to all questionnaires received by Kansas Inc. that answered “yes” to the first question, indicating participation in at least one economic development incentive program. The completion of the entire or other sections of the questionnaire varied widely, hence the reason for incomplete data on individual questions.

Respondents to the State of Kansas Economic Development Incentive Questionnaire were identified as participating in the following incentive programs. The 26 “Multiple” respondents reported participation in 61 distinct tax incentive programs.

JEICA	52
IPME	26
Multiple	26
HPIP Invest	14
HPIP Workforce	3
R&D	9
Enterprise Zone Sales	1
Enterprise Zone Credit	1
N/A incomplete data	4

JEICA	18
HPIP Invest	14
IPME	8
HPIP Workforce	9
R&D	7
Enterprise Zone Sales	3
Enterprise Zone Credit	2

Participation: 80.9% of questionnaire respondents (106) reported participating in only one tax incentive program for tax year 2002. The upper limit found two firms claiming participation in four tax incentive programs for tax year 2002. Seventy firms, slightly more than half (51.4%) of all respondents reported participating in the Job Expansion and Investment Credit Act tax credit program. No corporation reported receiving the Kansas Venture Capital and Seed Capital Credits for tax year 2002.



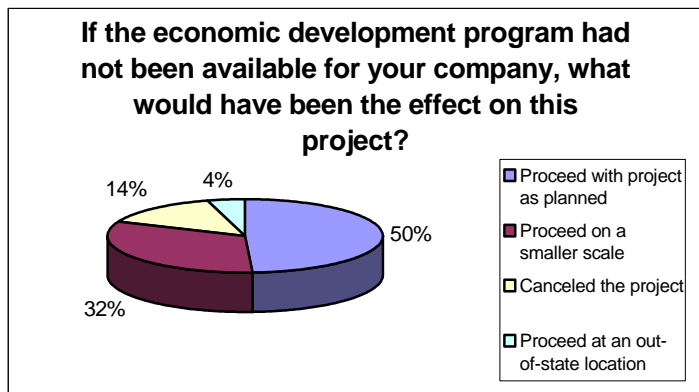
Corporate questionnaire respondents reported \$6,800,546 in sales tax exemptions and \$9,014,589 in income tax credits for tax year 2002. Across all taxpayer classifications, more than

⁴ Data as of April 1, 2004. Economic Development Incentive Questionnaires for tax year 2002 were still being delivered to Kansas Inc. at the time of publication.

\$75,000,000 worth of sales tax exemptions and income tax credits were granted for tax year 2002.⁵

Investment and Job Creation: Questionnaire respondents were asked to report the total level of investment, wages, and job creation associated with the tax incentive programs for tax year 2002. Numerous firms listed their overall investment, wage and job numbers instead of listing only the values specifically attributed to the incentive programs. Firms were also not given specific instructions to differentiate between in-state and overall investment; thus it is unclear whether this represents investment in Kansas. *Due to the lack of consistent data reported from corporations on a uniform basis, information on overall investment, wage and job creation associated with the economic development tax incentive programs is not available.*

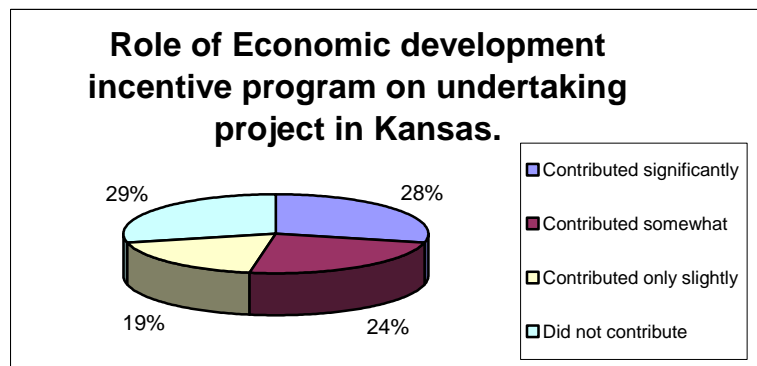
Overview of Firms: The data from several questions suggests that most firms that receive the state's economic development tax incentives are not rent-seeking mobile firms searching for the



best incentives available from other states. Fully 50% of respondents would proceed with the project as planned in Kansas even if tax incentive programs were not available. An additional 32% of firms would still proceed with the project in Kansas, but on a smaller scale. Only 18% would cancel or move the project out-of-state if economic development tax incentives were not available. None of the firms who would have proceeded

with the project as planned reported the economic development incentive program contributed significantly to their decision to go ahead with the project in Kansas.⁶

Mixed results were found on determining to what extent the state's economic development incentive programs factored in the firms decision to go ahead with the project in Kansas. The four possible answers to this question were fairly evenly divided; 29% of respondents stated the economic development incentives did not contribute to undertaking the project in Kansas while 28% stated they contributed significantly, 24% contributed somewhat and 19% contributed only slightly.



⁵ This figure does not include data from the IPME sales tax exemption or confidential data from less than 5 filers in any category.

⁶ Of the 55 corporate questionnaire respondents that would have proceeded with the project as planned, 56.4% stated the economic development incentives did not contribute to undertaking the project in Kansas, while 29.1% contributed only slightly, and 14.5% contributed somewhat. These firms accounted for \$1.7 million in tax incentives.

The data from the questionnaire show 100 of 117 (85.5%) corporations did not seriously consider undertaking this project in another state. This is supported by data showing most of the respondents (83.5%) utilized economic development incentive program to expand an existing Kansas facility.

The questionnaire asked corporate tax filers the three (3) most important reasons for your firm's ultimate decision to undertake the project in Kansas. Owner's place of residence, tax incentives, and quality of life were the three most popular answers. Responses in the "Tax incentives" and "Financial incentives" categories include benefits from local and state incentive programs.

Most important reasons for undertaking the project in Kansas (Three answers accepted)	
Owner's place of residence	56.4% (62)
Tax incentives	46.4% (51)
Quality of life	36.4% (40)
Proximity to markets	30.9% (34)
Skilled labor force	22.7% (25)
Financial incentives ⁷	20.0% (22)
Labor costs	8.2% (9)
Transportation infrastructure	7.3% (8)
Aggressive recruitment efforts	3.6% (4)
Training/education	3.6% (4)
Cost and availability of energy, water, or other inputs	2.7% (3)
Competitive tax structure	1.8% (2)
Other ⁸	22.7% (25)

⁷ Most participants listed HPIP training programs.

⁸ Most of the responses in the "other" category explain expansion of existing business operations. Additional responses included the quality of the facility/building and the benefits of disabled access credits.

SECTION 2: SALES TAX EXEMPTIONS EXAMINED

Kansas Enterprise Zone Act Sales Tax Exemption

K.S.A. 79-3606(cc)

The Kansas Enterprise Zone Act provides for a sales tax exemption on the purchase of certain tangible property and services purchased for new or expanding businesses. To be eligible, a business must create a minimum number of net new jobs depending on the type of business, i.e. retail, manufacturing, or non-manufacturing. To qualify for the Kansas sales tax exemption, the business must file a "Request for Project Exemption Certificate" form PR-70b with the KDOR prior to incurring any of the project costs.

Tax Year 2002 Total Filers				
Type of Business	Number of Certificates Issued	Reported Project Cost ⁹	Forgone Taxable Project Cost ¹⁰	Estimated Sales Tax Exempted ¹¹
Manufacturing	149	\$429,998,499	\$319,739,906	\$16,563,644
Non-manufacturing	88	\$543,309,820	\$418,646,548	\$20,901,323
Retail	71	\$44,543,602	\$27,886,015	\$1,430,638
Total	308	\$1,017,851,921	\$766,272,469	\$38,895,605

Questionnaire Respondents		
Kansas Enterprise Zone Act Sales Tax Exemption		
One Program	Multi-Program	Total Respondents
1	3	4

Kansas Inc. received questionnaires from four corporations participating the Kansas Enterprise Zone Act sales tax exemption program under K.S.A. 79-3606(cc). Information was not available from KDOR on how many sales tax exemptions were from corporate tax filers for tax year 2002.

⁹ This is the total estimated project cost reported to KDOR. At the time of issue, these costs were not audited.

¹⁰ Depending on project type, estimates of exempted taxable amounts are made, using the following percent: addition to facility at 60%; additional machinery & equip at 100%; original construction at 60%; remodel existing facility at 100%.

¹¹ Estimated exempted taxable costs times sales tax rate of 4.9% prior to July 1, 2002 and 5.3% after.

Integrated Production Machinery and Equipment Sales Tax Exemption K.S.A. 79-3606(kk)

The IPME sales tax exemption program exempts all sales of machinery and equipment (including repair and replacement parts and accessories), which is used in Kansas as an integral or essential part of an integrated production operation by a manufacturing or processing plant or facility. A manufacturer/purchaser must submit the “Integrated Production Machinery and Equipment Exemption Certificate” form ST-201 to the vendor to claim this sales tax exemption.

Questionnaire Respondents		
Integrated Production Machinery and Equipment Sales Tax Exemption		
One Program	Multi-Program	Total Respondents
26	8	34

Kansas Inc. received questionnaires from 34 corporations participating in the IPME sales tax exemption program. Information on corporate and overall taxpayers receiving the IPME sales tax exemption was unavailable from KDOR for tax year 2002.

SECTION 3: INCOME TAX CREDITS EXAMINED

Kansas Enterprise Zone Act- Tax Credit

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

The Kansas Enterprise Zone Act provides a tax credit for manufacturing and non-manufacturing companies, which make an investment and create jobs as a result of that investment. This act provides tax incentives throughout the state encouraging businesses to create new jobs through capital investment projects involving the building of new facilities or the expansion or renovation of existing facilities. Schedule K-34 must be completed and submitted with the state tax return to claim the Kansas Enterprise Zone tax credit.

The job creation tax credit component of the Kansas Enterprise Zone Act allows for one-time earned credits to be applied against the business' Kansas tax liability. The basic job creation tax credit is \$1,500 per net new job. If a county has been designated as a non-metropolitan business region, the credit is \$2,500 per net new job. The credits may be used to offset up to 100% of the business' annual tax liability and unused credits can be carried forward indefinitely. Retail businesses are not eligible for these credits unless that retail business has established or will establish a business headquarters facility or an ancillary support facility in Kansas. Those retail businesses that are designated under standard industrial classification codes 5961, 7948 or 7372 shall also qualify for this credit.

Tax Year 2002 Individual Filers			
Filers	Claims	Credit claimed	Credits allowed
79	104	\$1,271,878	\$605,943

Tax Year 2002 Corporate Filers			
Filers	Claims	Credit claimed	Credits allowed
155	204	\$12,728,536	\$8,792,518

Tax Year 2002 Privilege Filers			
Filers	Claims	Credit claimed	Credits allowed
CONFIDENTIAL ¹²			

Tax Year 2002 Total Filers			
Filers	Claims	Credit claimed	Credits allowed
234	308	\$14,000,414	\$9,388,461

Questionnaire Respondents		
Kansas Enterprise Zone Act Tax Credit		
One Program	Multi-Program	Total Respondents
1	2	3

Kansas Inc. received questionnaires from three of the 155 (1.9%) corporations participating in the Kansas Enterprise Zone Act tax credit program. This represents 1.3% of the total filers for the Enterprise Zone tax credits for tax year 2002.

¹² This information is confidential as there are less than five filers. This information is not included in the total.

Job Expansion and Investment Credit Act K.S.A. 79-32,153

The *Job Expansion and Investment Tax Credit Act of 1976* provides business incentives for those businesses that may not qualify for the Enterprise Zone incentives, such as retail businesses, or non-manufacturing businesses that do not create at least five new jobs. Eligibility for JEICA tax credit requires the creation of at least two net new jobs. Schedule K-34 must be completed and submitted with the state tax return to claim the JEICA tax credit.

This Act provides a job expansion credit of \$100 per net new employee and an investment tax credit of \$100 per \$100,000 of qualified investment. These credits are earned in the year the capital investment is made and becomes operational and for each of nine successive years thereafter. Credits may be used to offset up to 50% of the business' Kansas tax liability. Unused credits may not be carried forward.

Tax Year 2002 Individual Filers			
Filers	Claims	Credit claimed	Credits allowed
222	308	\$655,117	\$529,355

Tax Year 2002 Corporate Filers			
Filers	Claims	Credit claimed	Credits allowed
145	428	\$4,564,330	\$4,520,612

Tax Year 2002 Privilege Filers			
Filers	Claims	Credit claimed	Credits allowed
19	27	\$48,430	\$48,430

Tax Year 2002 Total Filers			
Filers	Claims	Credit claimed	Credits allowed
386	758	\$5,267,077	\$5,098,397

Questionnaire Respondents		
Job Expansion and Investment Tax Credit		
One Program	Multi-Program	Total Respondents
52	18	70

Kansas Inc. received questionnaires from 70 of the 145 (48.3%) corporations participating in the JEICA tax credit program. This represents 18.1 % of the total filers for the JEICA tax credits for tax year 2002.

High Performance Incentive Program: Workforce Training and Education Tax Credit

K.S.A 74-50, 132

High Performance Incentive Program: Investment Credit

K.S.A 79-32, 160a(e)

The HPIP program is administered as an incentive program that intrinsically requires foreknowledge in order to access program benefits. The intent of this program is to retain Kansas' existing high-performance businesses, encourage investment in worker training and education, and spur the attraction of new, high-quality firms to the state. The incentives offered under this program are limited to manufacturers, export-oriented service sector firms, and corporate headquarters and back-office operations of national or multi-national corporations.

To be eligible, a firm must either a) Pay above average wages for their industry category or, b) Pay 1 1/2 times the statewide average wage, after eliminating compensation paid to owners with 5% or more equity in the company. The wages at the firm's worksite in Douglas, Johnson, Leavenworth, Sedgwick, Shawnee, or Wyandotte County are compared with wages of similar businesses within the same county. The firm's worksite wages in any other county are compared with regional averages. Besides the wage criterion, all qualifying worksites must also either invest an amount equal to 2% of its total payroll on employee training, or else participate in the Kansas Industrial Training (KIT) program, or the Kansas Industrial Retraining (KIR) program, or the State of Kansas Investment in Lifelong Learning (SKILL) program. In addition, the qualifying worksites of export oriented service sector firms must also earn the majority of their revenues from sales to Kansas manufacturers, or out-of-state businesses, or out-of-state government agencies, or some combination of these kinds of customers. The qualifying worksite of a firm must be certified by the Kansas Department of Commerce before the firm can claim any tax credits. Schedule K-59 must be completed and submitted with the state income tax return to claim HPIP tax credits. Data on these two tax credits are jointly reported from the KDOR and is unavailable on an individual credit (training and education vs. investment) basis.

HPIP: Workforce Training and Education Tax Credit

A qualified firm shall be entitled to a tax credit in the amount equal to the portion of the qualified business facility cash investment in the training and education of the firm's employees that exceeds 2% of the firm's total payroll costs. The maximum amount of the credit that may be claimed by a single corporate taxpayer in any single tax year under this section shall not exceed \$50,000. Tax credits earned by a qualified business under this section must be claimed in their entirety in the tax year eligible.

HPIP: Investment Credit

Qualifying businesses are eligible for a 10% investment tax credit on any eligible capital investment exceeding \$50,000. To be potentially eligible for HPIP tax credits, all investment must be pre-identified to the Kansas Department of Commerce on an HPIP Capital Investment Project Description form, before the company has made any expenditure or signed any commitment document (e.g., an equipment purchase order, or a lease agreement, or a construction contract). To effect actual eligibility for tax credits, the pre-identified investment

must occur, and the related asset must be placed into service, while the company's qualifying worksite is HPIP-certified. The investment tax credit is a one-time credit with a 10-year carry-over provision, subject to re-qualification, for any unused credits. An investment credit may be applied against 100% of a firm's annual tax liability.

Tax Year 2002 Individual Filers			
Filers	Claims	Credit claimed	Credits allowed
75	96	\$2,092,219	\$1,257,637

Tax Year 2002 Corporate Filers			
Filers	Claims	Credit claimed	Credits allowed
37	47	\$71,477,939	\$19,755,506

Tax Year 2002 Privilege Filers			
Filers	Claims	Credit claimed	Credits allowed
CONFIDENTIAL ¹³			

Tax Year 2002 Total Filers			
Filers	Claims	Credit claimed	Credits allowed
112	143	\$73,570,158	\$21,015,143

Questionnaire Respondents HPIP Tax Credit Program			
	One Program	Multi-Program ¹⁴	Total respondents
HPIP-WORK	3	9	12
HPIP-INVEST	14	14	28
TOTAL	17	23	40

Kansas Inc. received questionnaires from 35 of the 37 (94.6%) corporations participating in the HPIP tax credit program. This represents 31.3% of the total filers for the HPIP tax credit program for tax year 2002.

¹³ This information is confidential as there are less than five filers. This information is not included in the total.

¹⁴ Five questionnaires claimed participation in both the HPIP: Workforce Training and Education Tax Credit and the HPIP: Investment Tax Credit for tax year 2002

Research and Development Credit

KSA 79-32,182 et seq.

In order to stimulate increased research and development activity by businesses, the State of Kansas offers R&D income tax credits equal to 6.5% of a company's investment in research and development above an average of the actual expenditures made during the year and the two previous tax years. Only 25% of the allowable annual credit may be claimed in any one year. Any remaining credit may be carried forward in 25% increments until exhausted.

Research is defined as "expenditures in research and development activities" made for such purposes, other than expenditures of money made available to the taxpayer pursuant to federal or state law, which are treated as expenses allowable for deduction under the provisions of the Federal Internal Revenue Code of 1986, as amended. Schedule K-53 must be completed and submitted with the state income tax return to claim the R&D credit.

Tax Year 2002 Individual Filers			
Filers	Claims	Credit claimed	Credits allowed
54	62	\$ 147,008	\$ 51,389

Tax Year 2002 Corporate Filers			
Filers	Claims	Credit claimed	Credits allowed
59	72	\$ 12,609,480	\$ 997,203

Tax Year 2002 Total Filers			
Filers	Claims	Credit claimed	Credits allowed
113	134	\$ 12,756,488	\$ 1,048,592

Questionnaire Respondents Research and Development Tax Credit		
One Program	Multi-Program	Total respondents
9	7	16

Kansas Inc. received questionnaires from 16 of the 59 (27.1%) corporations participating in the R&D tax credit program. This represents 14.2% of the total filers for the R&D tax credits for tax year 2002.

Kansas Venture Capital and Seed Capital Credits

K.S.A. 74-8205, 74-8206, 74-8304, 74-8304a, 74-8401

A tax credit in the amount of 25% of the total amount of cash investment in the stock of Certified Kansas Venture Capital Companies was effective for all taxable years beginning after December 31, 1985 and before January 1, 1998. Additionally, credits were offered for investment in the Kansas Venture Capital Company, certified local seed capital pools and the technology-based venture capital company (Sunflower Technology Venture, LP). Any unused credit may be carried forward until the total amount is used.

A Kansas venture capital company is any for-profit partnership or corporation that has as its primary business activity the investment of funds in return for equity in ventures that are in need of capital for expansion, new product development or similar business purposes. The Kansas Secretary of Commerce must certify a venture capital company and a local seed capital pool. Schedule K-55 must be completed and submitted with the income or privilege tax return to claim the venture capital credit and a local seed capital pool credit.

Tax Year 2002 Individual filers			
Filers	Claims	Credit claimed	Credits allowed
5	7	\$ 17,082	\$ 31,261

Tax Year 2002 Corporate filers			
Filers	Claims	Credit claimed	Credits allowed
CONFIDENTIAL ¹⁵			

Tax Year 2002 Total filers			
Filers	Claims	Credit claimed	Credits allowed
5	7	\$ 17,082	\$ 31,261

Questionnaire Respondents		
Kansas Venture Capital and Seed Capital		
One Program	Multi-Program	Total respondents
0	0	0

No questionnaires were received from corporate tax filers participating in the Kansas Venture Capital and Seed Capital program for tax year 2002.

¹⁵ This information is confidential as there are less than five filers. This information is not included in the total.

Appendix A: State of Kansas Economic Development Incentive Questionnaire

STATE OF KANSAS ECONOMIC DEVELOPMENT INCENTIVE QUESTIONNAIRE

All Kansas corporate income taxpayers are required, pursuant to K.S.A. 74-8017, to complete the following questionnaire regarding economic development income tax credits and sales tax exemptions. The information requested by the questionnaire is required to evaluate the utilization and effectiveness of these economic development and business tax credits and incentives provided by the state of Kansas.

The information you provide in this questionnaire will be supplied to Kansas, Inc. by the Kansas Department of Revenue (KDOR). Kansas, Inc. is subject to the same confidentiality requirements as the Department of Revenue with respect to this information. Your responses will be kept in the strictest of confidence and will only be reported to Kansas, Inc. for use in preparing the reports required by K.S.A. 74-8017. If you have any questions, call the Department of Revenue at 1-877-526-7738, press 1 for a touch-tone phone (listen briefly), press 5 for Business Taxes (listen briefly), then press 3 for Corporate Taxes.

INCOME TAX CREDITS

- Job Expansion and Investment Credit Act and Kansas Enterprise Zone Act, K.S.A. 79-32,153, K.S.A. 79-32,160a
- Research and Development Credit, K.S.A. 79-32,182
- Kansas Venture Capital and Seed Capital Credits, K.S.A. 74-8205, 74-8206, 74-8304, 74-8304a, 74-8401
- High Performance Incentive Program (HPIP): Workforce Training and Investment Credit, K.S.A. 74-50,132, 79-32,160a(e)

SALES TAX EXEMPTIONS

- Kansas Enterprise Zone Act Sales Tax Exemption, K.S.A. 79-3606(cc)
- Integrated Production Machinery & Equipment Sales Tax Exemption, K.S.A. 79-3606(kk)

CONTACT INFORMATION

The Kansas Department of Revenue will retain the contact information in strict confidentiality. However, granting the incentive requires the firm or individual to cooperate with Kansas, Inc., who may conduct a follow-up interview of a sample of all recipients in order to study how important the incentive was to the investment/location decision.

Company Name _____

Contact Person _____

Name E-mail Address Phone Number

Company Mailing Address _____

City _____ State _____ Zip Code _____

Federal Employer Identification Number (EIN) _____

1. Did you claim any of the income tax credits or sales tax exemptions shown above during tax year 2002?

- No (If no, this completes the questionnaire. Please enclose this questionnaire with the corporate tax return filed with KDOR.)
- Yes (If yes, check any and all of the income tax credits and sales tax exemptions claimed, then proceed to question 2.)
- | | |
|---|--|
| <input type="checkbox"/> Job Expansion and Investment Credit Act - Tax Credit | <input type="checkbox"/> Kansas Enterprise Zone Act - Tax Credit |
| <input type="checkbox"/> Research and Development Credit | <input type="checkbox"/> Kansas Venture Capital and Seed Capital Credits |
| <input type="checkbox"/> HPIP Workforce Training and Education Tax Credit | <input type="checkbox"/> HPIP Investment Credit |
| <input type="checkbox"/> Kansas Enterprise Zone Act - Sales Tax Exemption | <input type="checkbox"/> Integrated Production Machinery & Equipment Sales Tax Exemption |

2. Did you utilize any of the income tax credits or sales tax exemptions shown above in tax year 2002?

- Yes (Proceed to question 2a.) No (Proceed to question 3.)

2a. What are the total dollars in income tax credits utilized in tax year 2002? \$ _____

2b. What are the total dollars in sales tax exemptions utilized in tax year 2002? \$ _____

If the responses to both 2a and 2b are zero, then proceed to question 3 on the back of this form.

2c. What is the total dollar level of investment in association with the above incentives? \$ _____

2d. What are the total wages created in association with the above incentives? \$ _____

2e. What is the total number of jobs created in association with the above incentives? _____

2f. Are the investments, wages and jobs associated with the income tax credits generally the same items as those associated with the sales tax exemptions?

- Generally the same items (Proceed to question 3.) Some items are distinct

2g. Please allocate the items by the incentives with which they were associated. Percent associated with:

	Income tax credits:	Sales tax credits:	Both:	Total:
Investment	_____ %	_____ %	_____ %	100%
Wages	_____ %	_____ %	_____ %	100%
Jobs	_____ %	_____ %	_____ %	100%

3. Please check the appropriate box that best describes the project for which the economic development program was used.

- Start-up of a new business. (Proceed to question 4.)
- Expansion of an existing Kansas firm. (Proceed to question 4.)
- Relocation to another city from an existing Kansas location. (Proceed to question 4.)
- Expansion into Kansas by an out-of-state firm. (Skip question 4 and proceed to question 5.)
- Relocation to Kansas from an out-of-state location. (Skip question 4 and proceed to question 5.)

4. Did your company seriously consider undertaking this project in another state? Yes No

5. What were the three (3) most important reasons for your firms ultimate decision to undertake the project in Kansas?

- Aggressive recruitment efforts.
- State and/or local tax incentives.
- State and/or local financial incentives (i.e., grants, HPIP program, training dollars, etc.). Please specify: _____
- Well-trained skilled labor force.
- Cost of labor less expensive.
- Cost and availability of energy, water, or other inputs.
- Proximity to markets.
- Transportation infrastructure.
- Availability of educational/training facilities.
- Competitive tax structure.
- Quality of life in Kansas (i.e., education, housing, cost of living).
- Owner's place of residence.
- Other:

6. To what extent was the economic development program for this project a factor in your company's decision to go ahead with this project in Kansas?

- Contributed significantly.
- Contributed somewhat.
- Contributed only slightly.
- Did not contribute.

7. If the economic development program had not been available for your company, what would have been the effect on this project?

- Proceeded with the project as planned.
- Proceeded on a smaller scale.
- Canceled the project.
- Proceeded at an out-of-state location.

8. How many full-time employees does your company employ? Total _____ In Kansas _____

Please enclose this completed questionnaire with the income tax return you file with the Kansas Department of Revenue.

KANSAS INC.

Created by the 1986 Legislature, Kansas Inc. is an independent, objective, and non-partisan agency designed to conduct economic development research and analysis with a goal of crafting policies and recommendations to insure the state's ongoing competitiveness for economic growth. This is achieved through these primary activities: 1) developing and implementing a proactive and aggressive research agenda; 2) identifying and promoting strategies and policies from the research; 3) conducting evaluation reviews and oversight of programs; and, 4) collaboration with economic development entities and outreach to potential partners. Kansas Inc. is designed to be a public private partnership with expectations that state investments are leveraged with other funds to maintain a strong research portfolio.

A 17-member board of directors co-chaired by the Governor and a private sector representative governs Kansas Inc. Nine board members are representatives from identified industries in the private sector and other members are: the Secretary of Commerce, Legislative leadership, the Kansas Board of Regents, and a representative from labor.

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