

A Report on Kansas Tax Policy
for the
Governor's Tax Equity Task Force

ANALYSIS OF TAX POLICY IMPACT ON BUSINESS

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November 1995

EXECUTIVE SUMMARY

A key question for state (and local) governments is whether tax policy contributes to a business climate that is seen by businesses as favorable. Clearly, business climate is a multi-faceted concept, extending far beyond taxes. But tax policy is that part of the business climate over which governments have the most control. The purpose of this study is to examine Kansas tax policy as it applies to new and mature businesses in the state, and to compare Kansas tax policy with the policies of other states in the region and nation.

The major findings of the study are:

1. Under the current tax structure, Kansas stands out as the state in the region with the highest taxes on mature businesses. A mature firm in Kansas will pay higher taxes than would be paid if that same facility were located in another state in the region.
2. New or expanding firms in Kansas may be largely shielded from the underlying high Kansas business tax structure by income and property tax incentives. This is particularly true if a firm is granted the full amount of property tax abatements allowed by law--100 percent for ten years.
3. The sources of the high overall tax level for Kansas businesses are a) the property tax and b) the corporate income tax.
4. State corporate tax rates in the U.S. typically range from 5 to 10 percent. Of 45 states imposing general corporate income taxes in 1994, the majority (32 states) charge a flat tax rate, while the remaining states impose graduated rates that increase with income. Within the region surrounding Kansas, rates range from 4 to 12 percent. Kansas applies a relatively low rate of 4 percent on the first \$50,000 of income, and a rate of 7.35 percent on income above \$50,000.

5. The income-allocation formula can significantly alter a firm's in-state income tax liability. This holds particularly for an export-oriented firm, that is, a firm selling a large percentage of its output outside state boundaries. The higher the weight given to sales, the lower will be the allocation fraction for such firms. Under a sales-only criterion, the export-oriented firm typically pays minimal taxes in the state where it concentrates production.
6. The concept of *effective property tax rates* provides a key to understanding property taxation and to comparing taxes across states. The definition of an effective tax rate is simple; it is the annual tax bill divided by the true market value of a piece of property.
7. For machinery and equipment, Kansas posts the highest effective property tax rate in the region, 2.95 percent. Colorado and Nebraska tax an average of 2.44 percent. On the low end, Oklahoma taxes an average of 1.07 percent, while Iowa completely excludes machinery and equipment from the tax base.
8. The sales tax combines elements of a tax on consumption, a tax on investment, and a tax on production. In Kansas, machinery and equipment and industrial energy use are exempted from the sales tax.
9. The Moran plan would produce an annual state and local tax savings about \$1000 per employee for a mature capital-intensive firm in Kansas, and of about \$400 per employee for a less capital-intensive firm. About 1/3 of this impact would be offset by increases in federal income taxes. Additional offsets might occur if the tax changes induced increases in property values.
10. The Kansas business tax structure does not provide as favorable a climate for the state's export base as exists in many other states. Changes in the income

allocation formula might effectively target exporting firms generally. Several states appear to have manipulated their income allocation formulas in order to attract export-oriented businesses.

11. The Kansas tax structure may discourage continuous investment in machinery and equipment through the high property tax rate on this type of property. New or expanding firms may qualify for property tax abatements, hence removing the investment dis-incentive. But a more general means may be needed to encourage, or at least not to discourage, continuous reinvestment.

INTRODUCTION

A key question facing state (and local) governments is whether they contribute to a business climate that is seen by businesses as favorable. Does the state or locality look like a good place to locate, expand, and make profits? At the very least, governments don't want to be seen as discouraging this kind of activity. Clearly, business climate is a multi-faceted concept, extending far beyond taxes. But the tax climate is that part of the business climate over which governments have the most control.

The 1993 Kansas economic development strategy¹ outlines some objectives for tax policy, including that the tax environment encourage businesses to invest in people, facilities, machinery, and equipment, and that tax policies encourage the expansion of manufacturing and export-oriented service firms. It is in light of these objectives that address the issues of tax climate and business competitiveness.

Within our report, we discuss how three major tax sources--sales, corporate income, and property taxes--affect business operations. We focus on the corporate sector, but many of our conclusions apply to businesses more generally. We provide tax rate comparisons of Kansas with other states as a preliminary step in assessing the business climate. We then argue that rate comparisons give an incomplete picture of the business climate facing a firm, and discuss the potential uses of simulation models to provide additional information. We discuss the IPPBR tax and cost simulation model for Kansas, present comparisons of Kansas with other states that result from the model, and use the model to estimate the impacts of possible changes in Kansas tax structure.

Our discussion draws heavily on research that the Institute for Public Policy and

¹ *A Kansas Vision*, Kansas Inc. 1993

Business Research performed during 1994 and early 1995 with funding from Kansas, Inc. [*Kansas Business Costs and Taxes: A Comparison with Other States*, IPPBR Monograph # 221, June, 1995]. This research compared Kansas with other nearby states (Colorado, Iowa, Missouri, Nebraska, Oklahoma) and with several large industrial states (California, Illinois, New York, New Jersey). The current report retains the same set of comparison states and the same methodology used in our earlier work. We summarize the earlier study, and update it where possible. More importantly, we expand the study to provide information relevant to the current discussions of proposed tax changes.

DESCRIPTION OF MAJOR BUSINESS TAXES

Corporate Income Tax

All of the states considered in this study levy a corporate income tax on net profits or taxable income derived within the state. As a source of state finance, the corporate tax appears small, comprising about 7 percent of total state tax revenue for the U.S. on average as of 1993.² In Kansas, dependence on the corporate income tax (6.7 percent of tax revenue) approximates the U.S. average, but substantially exceeds the regional average of 3.8 percent. While corporate income taxes may be a small source of total revenue, they are an important cost to businesses. Of taxes paid by firms to state and local governments, our simulation model indicates that the corporate income tax generally ranks second in dollar amount after the property tax.

In real terms (1992 dollars), state corporate income taxes average about \$90 per capita for the nation as a whole. The per capita level of taxation in Kansas is similar to the

² U.S. Bureau of the Census, *State Government Finances 1993*. Downloaded from Census web site. 1993 data are the most recent for all states.

national level, and exceeds the regional average. California and New York stand out among the large comparison states, each collecting close to \$150 per capita. State corporate tax collections show no clear trends over the last several years.

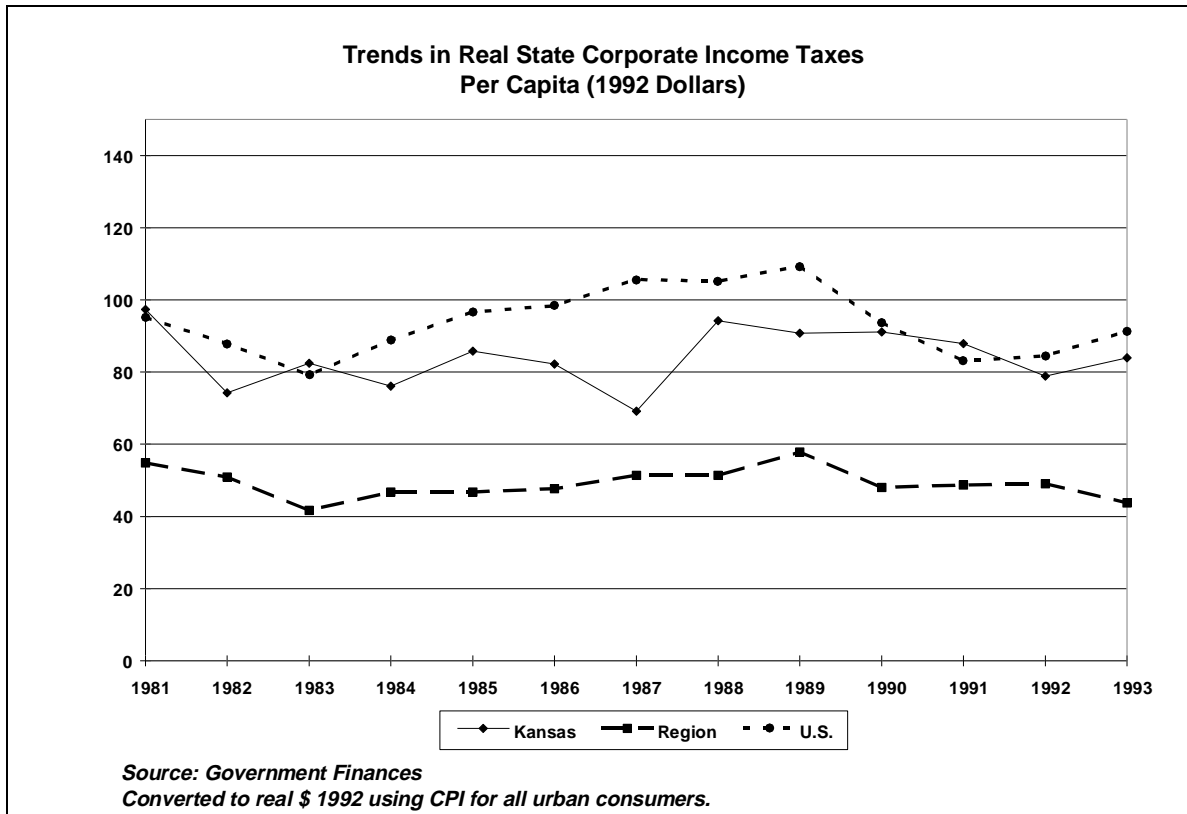


Figure 1

Corporate Tax Rates

State corporate tax rates in the U.S. typically range from 5 to 10 percent. Of 45 states imposing general corporate income taxes in 1994, the majority (32 states) charge a flat tax rate, while the remaining states impose graduated rates that increase with income. Within the region surrounding Kansas, rates range from 4 to 12 percent. Kansas applies a relatively low rate of 4 percent on the first \$50,000 of income, and a rate of 7.35 percent on income above \$50,000. Iowa taxes corporate incomes over \$250,000 at 12 percent, the

highest rate in the region. Among the large comparison states, rates range from 7.3 to 9.3 percent. In addition to state-level corporate income taxes, some cities impose an additional levy.

Table 1
State Corporate Income Tax Rates,
Federal Deductibility, and Effective Tax Rates

State	Rate	Adjusted Rate ¹	Federal Deductibility
Colorado	Flat 5%	5.0%	No
Iowa	First \$25,000 -- 6%	5.0%	50% of federal income tax is deductible
	Next \$75,000 -- 8%	6.6%	
	Next \$150,000 -- 10%	8.3%	
	Over \$250,000 -- 12%	10.0%	
Kansas	First \$50,000 -- 4.0%	4.0%	No
	Over \$50,000 -- 7.35%	7.35%	
Missouri	6.25% ²	5.2%	50% of federal income tax is deductible
Nebraska	First \$50,000 -- 5.58%	5.58%	No
	Over \$50,000 -- 7.81%	7.81%	
Oklahoma	Flat 6%	6.0%	No
California	Flat 9.3%	9.3%	No
Illinois	Flat 7.3% ³	7.3%	No
New Jersey	Flat 9%	9.0%	No
New York	Flat 9% ²	9.0%	No

¹ The calculation assumes a marginal federal tax rate of 34%.

MARGINAL ADJUSTED RATE = STATUTORY RATE x (1 - .34 x deductibility fraction).

² Missouri has a local corporate income tax in the cities of Kansas City and St. Louis. This earnings tax is equal to 1% of net profits from activities in the cities. New York City has a tax equal to 8.85 percent of allocated income.

³ Includes the Illinois income tax of 4.8% and the personal property replacement tax of 2.5%.

SOURCES: Information provided by individual state departments of revenue; state statutes; Commerce Clearing House, *State Tax Guide*, 1994; Research Institute of America, *All States Tax Guide*, 1994.

It is important to note, however, that comparisons of state tax rates can be misleading. The states exhibit considerable variations in the allowable deductions, in income allocation methods, and in economic development incentives, all of which influence corporate tax bills.

Allocation Formula

Of particular interest is the method by which states divide up the income of multi-state firms. State tax laws divide the income of the firm among competing jurisdictions. Each state remains free to decide its own allocation rules and to choose its own set of definitions of in-state sales. Hence there is no assurance that exactly 100 percent of income will be taxed overall. Provisions known as UDITPA (Uniform Division of Income for Tax Purposes Act) have introduced some uniformity into inter-state taxation. The evenly weighted three-factor formula is a major provision of UDITPA, and as of 1994 this method of allocation was used exclusively in 18 of the 45 states imposing a corporate income tax, and was offered as an option in five others.³ The most common alternatives to the evenly weighted three-factor formula are the double weighted sales formula and the single-factor formula based on sales alone.

The income-allocation formula can significantly alter a firm's in-state income tax liability. This holds particularly for an export-oriented firm, that is, a firm selling a large percentage of its output outside state boundaries. The higher the weight given to sales, the lower will be the allocation fraction for such firms. Under a sales-only criterion, the export-oriented firm typically pays minimal taxes in the state where it concentrates production. While the firm will also pay some taxes out-of-state, this amount is largely independent of the amount paid in-state. The export-oriented firm finds a distinct advantage in locating

³ Compiled from Commerce Clearing House, *State Tax Guide*.

its production facility in a state with a sales-only allocation formula, or with a sales formula that weights sales more heavily than other factors.

Almost every variety of income allocation method can be found in the region surrounding Kansas. Oklahoma relies exclusively on the three-factor method, and Kansas uses the three-factor method in most cases. Colorado offers firms a choice of using a two-factor method based on sales and property, or the traditional three-factor method. For those firms with no other activity in Colorado except sales, the state provides an option of paying 0.5 percent of Colorado-based gross receipts. In Missouri, firms may choose between the three-factor method or a method based on sales alone. According to the Missouri Department of Economic Development [1989], about 90 percent of firms choose the sales-only formula. Iowa bases income allocations on sales alone; in Nebraska, a single-factor formula was phased in during the early 1990s.

Within the large comparison states, Illinois and New Jersey employ an evenly weighted three-factor formula. California and New York use a three-factor formula, but double the weight applied to sales. California converted to a two-factor formula from an evenly weighted three-factor formula in 1994.

Property Taxes

Both state and local governments levy property taxes on the value of land, buildings, and equipment owned by firms and households. Property taxes are particularly important for local governments; indeed, they provide the single largest source of local revenue in all states covered by our study. The actual taxes paid businesses result from a complex interaction of tax rates, the types and amount of property owned, the definition of the tax base, assessment practices, and whether the property qualifies for any special tax incentives.

Table 2
Allocation Methods for Income of Multi-State Firms

Colorado	Choice of two-factor formula ($\frac{1}{2}$ sales, $\frac{1}{2}$ property), or three-factor formula ($\frac{1}{3}$ each sales, property, payroll). For companies with no other Colorado activity except sales, with no owned or rented real estate in Colorado, and with gross sales under \$100,000, an alternative is to pay 0.5% of gross receipts on sales in Colorado.
Iowa	Single-factor formula based on sales. Sales in Iowa defined as products shipped to or delivered to Iowa destinations.
Kansas	Three-factor formula ($\frac{1}{3}$ each sales, property, payroll). For firms with a payroll factor exceeding 200% of the average of the property factor and the sales factor, a two-factor formula based 50% on sales and 50% on property is an option.
Missouri	Choice of single-factor formula based on a sales-only or a three-factor formula ($\frac{1}{3}$ each sales, property, payroll). When the sales-only formula is used, sales considered to be in Missouri include all sales with destinations and origins in Missouri, plus 50% of sales with destinations in Missouri and origins outside Missouri, plus 50% of sales with origins in Missouri and destinations outside Missouri.
Nebraska	A single-factor formula based on sales was phased in between 1988 and 1992. Nebraska sales are sales shipped to or delivered to Nebraska destinations.
California	Three-factor formula (property, twice sales, payroll). Companies can use equally weighted formula if over 50% of sales are from extractive or agricultural business.
Illinois	Three-factor formula ($\frac{1}{3}$ each sales, property, payroll).
New Jersey	Three-factor formula ($\frac{1}{3}$ each sales, property, payroll).
New York	Three-factor formula (property, twice receipts, payroll).
Oklahoma	Three-factor formula ($\frac{1}{3}$ each sales, property, payroll).

SOURCES: Information provided by individual state departments of revenue, state statutes, and Commerce Clearing House, *State Tax Guide*, 1994.

Effective Property Tax Rates

The concept of *effective property tax rates* provides a key to understanding property taxation and to comparing taxes across states. The definition of an effective tax rate is simple; it is the annual tax bill divided by the true market value of a piece of property. Effective rates vary not only among states, but also among the major categories of

property: residential real estate, commercial real estate, business machinery and equipment, and inventories.

Calculating an effective tax rate is easier in theory than in practice. In fact, any estimate of the rate must consider three components: 1) the applicable mill levy, 2) the statutory assessment ratio, and 3) the relationship between appraised and market property values. We present estimates of effective rates based on these three components in Table 3. These rates do not account for the possibility that property taxes will be abated for economic development purposes.

Within the region surrounding Kansas, the states show a wide range of rates for various classes of property. For residential property, Oklahoma averages the lowest tax rate (0.97 percent) while Nebraska averages the highest (2.20 percent). For commercial real estate, Oklahoma again ranks lowest (0.99 percent) while Iowa ranks highest (2.71 percent). Kansas ranks in the mid-range of the region for residential property, with taxes averaging 1.25 percent. It ranks second highest in the region for commercial and industrial real estate, taxing at an average of 2.79 percent. For machinery and equipment, Kansas posts the highest tax rate in the region, 2.95 percent. Colorado and Nebraska tax an average of 2.44 percent. On the low end, Oklahoma taxes an average of 1.07 percent, while Iowa completely excludes machinery and equipment from the tax base.

Three of the four large comparison states have similar property tax structures. Illinois, New Jersey, and New York all concentrate taxation on real estate and omit machinery and equipment from the property tax base. Estimated average rates on real estate are also similar: 2.70 percent in Illinois, 2.67 percent in New Jersey, and 2.80 percent in New York.

In California, property taxes are limited to one percent of total assessed property values. After adjusting for various types of exemptions, rates on taxable assessed property

average 1.06 percent. The effective rate of taxation (taxes/market value) in California is a function of the length of time the property has been with its current owner; the rate averages .58 percent.

State and local governments frequently offer property tax abatements as an incentive to attract new firms and to encourage industry expansions. Arguably, property tax abatements provide the single most important tax incentive at the state and local level. Without abatements, property taxes often exceed state and local income taxes. And when granted, tax abatements frequently amount to more than 50 percent of the property tax liability. Thus, property tax abatements provide a substantial reduction in a large tax.

Sales Tax

Most state governments (45 of 50) , including those of all ten states investigated in this study, impose a general *ad valorem* tax on retail sales. Local governments in 37 states, and in all of the states in this study except New Jersey, also impose some form of general sales tax. Strictly speaking, sales taxes apply to goods and some services sold within a state's boundary, while use taxes apply to items purchased out of state but brought into state for their final consumption. In general, sales and use taxes are applied at the same rate and to the same categories of goods and services.

Table 3
State Average Effective Property Tax Rates

<i>State</i>	<i>Res. Real¹</i>	<i>Com. Real</i>	<i>Mach/ Equip²</i>	<i>Inventory</i>
Colorado (1993)	1.08	2.44	2.44	0
Iowa (1993)	1.89	2.71	0	0
Kansas (1994)	1.25	2.79	2.95	0
Missouri (1993)	1.13	2.22	1.86	0
Nebraska (1993)	2.20	2.25	2.44	0
Oklahoma (1993)	0.97	0.99	1.07	1.07
California (1993)	1.06	1.06	1.06	0
Illinois (1992)	2.70	2.70	0	0
New Jersey (1993)	2.67	2.67	0	0
New York (1993)	2.80	2.80	0	0

² Industrial machinery and equipment were removed from the tax rolls retroactive to 1994.

In real per capita terms, state and local sales taxes in the U.S. average over \$500 annually. They supply close to 26 percent of total state and local tax revenue. Until recently, Kansas sales taxes followed national and regional trends, rising sharply in the mid-1980s and then leveling off. Since 1992, Kansas sales taxes have risen substantially, due to rate increases implemented as part of Kansas school finance reforms.

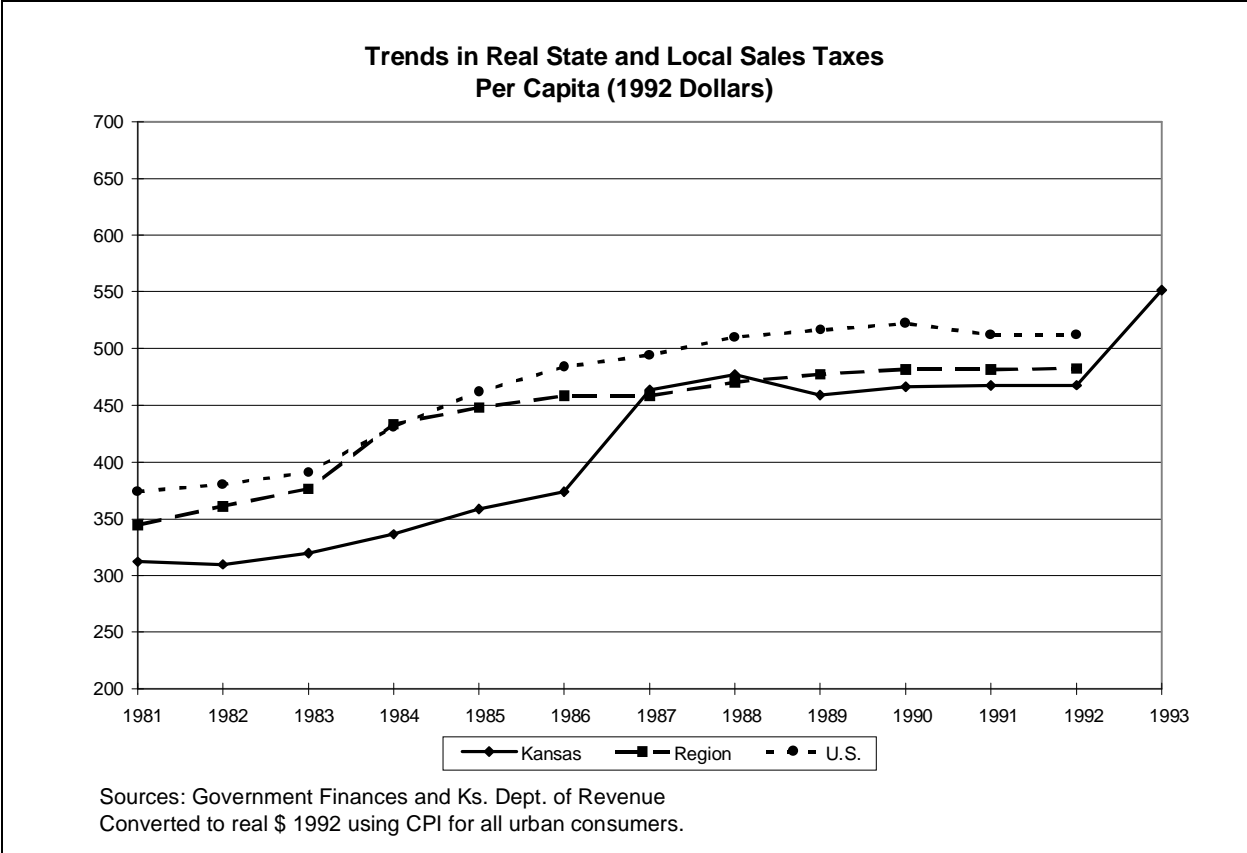


Figure 2

Sales Tax Rates

State sales tax rates in the region fall within a narrow range, between a low of 3 percent in Colorado and a high of 5 percent in Nebraska (see Table 4). The large comparison states tend to have higher sales tax rates, with the exception of New York. Local sales taxes add to the tax total, and in some jurisdictions rival or exceed state taxes in magnitude. For example, local taxes in Denver add a 4.3 percent levy in addition to the 3 percent state tax; New York City taxes add 4.25 percent to the 4 percent state tax. Within the region, local taxes are imposed as follows: Kansas City, Missouri–2.25 percent; Kansas City, Kansas–2.0 percent; and Overland Park (Johnson County, Kansas)–1.6 percent.

Most states use a fairly broad concept of retail sales in defining their sales tax bases. In fact, the sales tax combines elements of a tax on consumption, a tax on investment, and a tax on production. The extent to which each of these three activities is taxed depends on state-specific rules for sales tax exemptions and inclusions.

Table 4
State and Local Sales Taxes 1994

State	State Sales Tax	Local Sales Tax
Colorado	3.0%	combined city and county rates range from 0.1% to 5.0%.
Iowa	5.0%	up to 1%.
Kansas	4.9%	may be levied up to 1% county and 1% city for general use. Additional 1% county or city tax may be used for health care services.
Missouri	4.225%	city and county up to 2% each.
Nebraska	5.0%	up to 1.5%.
Oklahoma	4.5%	cities up to 2% plus counties up to 4%.
California	6.0%	1.25% base. Up to 1.25% additional in some communities.
Illinois	6.25%	current rates up to 2.75%.
New Jersey	6.0%	not authorized.
New York	4.0%	4.25% in NYC. Other communities impose up to 4.5%.

Sources: Commerce Clearing House, *State Tax Guide*, 1994; Research Institute of America, *All States Tax Guide*; and information provided by individual states.

The sales tax acts as a tax on consumption when sales taxes are levied on purchases commonly made by households. Although most tangible products are taxed, states commonly make exceptions for food and drugs. Among the states in this study, Colorado, Iowa, Nebraska, California, and New Jersey exempt groceries, and all except Illinois

exempt prescription medications. States also include selected consumer services in the tax base, generally including restaurant meals, hotels, and telephone charges. While none of the states has broadened its sales tax base to include all services, Iowa stands out for the number of consumer services taxed. Measures that would have extended the sales tax to many categories of personal and business services in Kansas were in large measure defeated by the 1992 Legislature. At the same time, sales taxes were extended to labor used in housing construction (repealed in 1995).

Sales taxes affect investment when states levy taxes on the purchase of machinery, equipment, tools, construction materials and construction services, or repairs (see Table 4). All of the states in this study make some provisions for machinery and equipment exemptions, and most make provisions for exemption of construction materials. The specific requirements for exemption vary widely by state. Criteria by which these exemptions can be compared include:

1. the extent to which exemptions are limited to particular industries, particularly manufacturing;
2. the extent to which exemptions are limited to direct use in the production processes, and exclude auxiliary machinery and equipment;
3. the extent to which exemptions are limited to new firms; and
4. the extent to which exemptions are broadened in enterprise zones or other distressed areas.

We select several states for detailed discussion, in order to illustrate the range of possibilities.

Kansas

The basic sales tax exemption for investment in Kansas applies to machinery and equipment used directly in manufacturing, assembling, processing, warehousing, or in-

plant distribution of goods intended for resale. For qualifying new or expanding firms, the exemption extends to all property and services used in constructing, expanding, or remodeling a facility. Firms in manufacturing industries must add two jobs to receive the "new or expanding" designation, firms in nonmanufacturing industries must add five jobs, and firms in retailing must add two jobs and locate or expand in a community of 2,500 or less.

The new or expanding firm designation creates savings for a firm in two ways. First, machinery and equipment that would not otherwise qualify under the basic manufacturing criteria receive an exemption. Second, construction materials and labor receive an exemption. Ordinarily, materials would be taxed, as would any labor not associated with the initial construction of a facility.⁴

Iowa

The basic sales tax exemption for investment in Iowa applies to machinery, equipment, and computers, including replacement parts, that are used directly in processing, R&D, manufacturing, recycling, or data processing by insurance, financial, or commercial firms. In addition, taxes paid on any property except furnishings used by a qualified business in an enterprise zone are refundable. Taxes paid on materials used in the construction of a facility for a qualified business in an enterprise zone are also refundable.

Missouri

Missouri sales tax exemptions for investment apply primarily to new and expanding firms. For these firms, machinery and equipment used directly in production is exempt.

⁴ Until 1995, labor associated with original construction was taxed at 2.5 percent. The tax was repealed in 1995.

Replacement equipment also qualifies for exemption if it is necessitated by product or design changes. Both construction labor and materials are taxable.

Production, in contrast to consumption or investment, is taxed to the extent that materials, utilities, fuels, business services, and other production-related purchases enter the sales tax base. All states in the study exclude materials which become a component part of new goods. Laws covering products which are consumed or used up during production vary more widely across the states. In Kansas and Oklahoma, consumables are clearly tax exempt. Iowa excludes materials used in processing. Colorado excludes materials which "enter into processing" of manufactured products. Nebraska and Missouri exempt "ingredients." Illinois generally taxes goods that are consumed during the process of production, but grants partial exemptions for qualified facilities in enterprise zones.

Laws covering taxation of energy also vary across states. All states allow some exemptions for electricity, gas, and other energy. For most of the states in this study, electricity, gas, and other industrial fuels are exempt when used in manufacturing processes. Kansas restored this exemption in 1995.

THE IPPBR TAX SIMULATION MODEL FOR KANSAS

The above discussion of tax rates, bases, and exemptions illustrates that there is no easy way to make comparisons of tax structures across states. The overall taxes that will be paid by a firm result from a complex interaction of these three factors. Simulation models are an approach to making valid inter-state comparisons of business taxes. Several states in addition to Kansas have developed such models. Examples include Indiana (James Papke and Leslie Papke) and West Virginia (West Virginia Research League) from the 1980s and Massachusetts (S.H. Brooks Co.) more recently.

The key to simulation models is that they look at the problem from the point of view of a profit-maximizing firm. The focus is on bottom line indicators of success for the firm-- sometimes measured as return on investment, sometimes measured as total profit, and sometimes measured as profit per employee, as in our model. The models look at how these indicators are affected by state and sometimes city-specific variables.

Our modeling effort at IPPBR has been underway since 1987, with the financing and assistance of Kansas, Inc. As a generalization, we have updated and revised our model about every two years since the modeling effort began. Our model takes a “representative firm” approach, calculating taxes and costs for a typical firm in each of several industries.

The current capacities of the model include:

- A. estimation of the business costs and taxes of a representative firm in each of 15 industries;
- B. estimation of statewide average taxes and costs for ten states;
- C. estimation of costs and taxes for specific metropolitan locations (nine metro areas are currently included);
- D. analysis of the impact of tax changes on Kansas businesses;
- E. estimation of the impact of economic development tax incentives on the overall profitability of a firm by industry and by location;
- F. comparison of Kansas taxes and costs (by industry) with those in other states.

Note first that the model includes more than just taxes: it includes a complete set of relevant business costs. Note also that the model clearly distinguishes the situation of firms that receive incentives such as tax abatements from those that do not receive these special tax breaks.

In fact, our model is currently structured to look at four different scenarios. The “tax structure only” simulations provide estimates of the underlying tax rates and tax bases in effect within a state. The “variations in other business cost” simulations complete the picture of business competitiveness by incorporating state-specific data on wages, land costs, construction costs, and energy.

Table 5
Model Simulation Scenarios

	Partial Model tax structure variations only (constant costs)	Full Model variations in taxes and other business costs
new firms that receive all potential tax incentives	table 6	table 7
mature firms that receive no special tax incentives	table 8	table 9

Our model makes a number of assumptions about the firms, which we have grouped into three categories: those applying to all firms, those applying to new firms only, and those applying to mature firms only.

Assumptions Applying to All Firms

1. Firms in each industry are assumed to hire competitively 100 full-time employees.
2. Firms are export-oriented, selling 90 percent of their product outside the state.
3. Prices of the firm's output are determined in national markets, so that the firm cannot pass increases in state and local taxes along to its customers.
4. On average, firms earn a before-tax rate of return of 20 percent on their investment. State-to-state variations in taxes and costs affect the actual after-tax return on investment.

5. All simulations are calculated as annual averages over a 20- year period. During that time period, the firm's initial investment is assumed to depreciate and replacement investment is assumed to take place.
6. The model incorporates what is known as the *federal offset*. Reductions in state and local taxes generally increase federal taxable income, and hence the federal income tax liability.
7. No adjustments are made for differences across locations in labor productivity.
8. Materials prices are assumed to be the same in all locations.

Assumptions Applying to New Firms Only

1. Firms purchase a new structure and new machinery and equipment.
2. In states which allow property tax abatements, firms receive the maximum property tax abatement allowed by state law.
3. Firms qualify for job and investment tax credits in states where these are applicable. In states that enhance benefits in enterprise zones, the enhanced credit level is incorporated into the model.
4. Firms qualify for enterprise zone reductions in sales taxes where applicable.

Assumptions Applying to Mature Firms Only

1. Firms receive no property tax abatement.
2. Firms operate from buildings that were purchased previous to the period under analysis. They replace some of their machinery and equipment each year.
3. Firms do not qualify for job and investment tax credits or for special enterprise zone benefits.

Of these assumptions, the most important is probably that the firm's are "export oriented." By this we mean that the firm makes most of its sales to out-of-state customers. It is this kind of firm that we can imagine actually making cost-based location decisions. The export assumption is also relevant for the allocation of the firm's profits for corporate income tax purposes.

Our model proceeds to construct profiles for representative new and mature firms in each of several industries, showing their costs and assets. This process is very data intensive, and requires us to reconcile data from numerous sources. We start out with national data, and then customize the firm profiles for specific locations by creating price adjustment factors indices (regional to national) for each item on which we can get data. For example, we use (ratio of regional wage to national wage) times payroll. Indexes are constructed for wages (county), utilities (state), land prices (state), and construction costs (city and state).

We also collect data on tax rates by state and, where applicable, metro areas. Our set of rates includes state and local property taxes, state and local sales taxes, state and local income taxes, unemployment insurance rates, and worker compensation rates. We also incorporate the relevant definitions of the base to which each tax applies.

Our model calculates all taxes except income taxes by taking rate times base. We then fill out income tax forms for the representative firms for 20 years. The long time framework allows us to capture the impact of business incentives, some of which (for example, property tax abatements) extend for many years. It also allows us to capture time-sensitive features of the income tax such as credit carry-overs.

For the current report, we present the results of several applications of the simulation model. We first update our comparisons of Kansas with other states in the region and nation [Tables 6-9]. We then investigate the impacts of possible changes in Kansas tax structure. We summarize our results in terms of four representative industries: a capital-intensive manufacturer, and less capital-intensive manufacturer, a data processing firm, and a research and development laboratory.

Tables 6 and 7: The Situation Facing New Firms

Tables 6 and 7 illustrate the current situation facing new firms that receive all possible credits and abatements. We turn to the table that shows the “partial” model to get insight into the Kansas tax structure. As seen in Table 6, taxes per employee for a firm that locates in Kansas are below the regional average and profits above the regional average. In fact, taxes that would be faced by a new firm in Kansas are lower than those of any state in the region except Iowa, which recently introduced generous new incentive packages. Table 7 expands the analysis to include basic business costs in addition to taxes. We find that total costs facing a new (or expanding) firm that chooses Kansas as a location are also below the regional average, and that profits are higher than the regional average. The results hold across all four industries that we include in the tables.

Tables 8 and 9: The Situation Facing Mature Firms

Table 8 illustrates the unfavorable tax climate facing mature firms in Kansas. A firm located in Kansas faces taxes that are substantially above the regional average, and are, in fact, the highest in the region for all of the industries included in the simulation. But as we have pointed out previously, taxes tell only part of the business climate story. When we consider all business costs (Table 9), we find that Kansas moves closer to the regional average. For example, costs plus taxes for a capital-intensive manufacturer rank third highest out of the six states in the region. What we see is that an unfavorable tax structure for mature firms in Kansas is in part offset by modest basic costs of doing business. We also find that the entire region provides a lower cost environment than that found in the large comparison states.

Detailed output from the model shows that two taxes account for the unfavorable ranking of the Kansas tax structure. The first of these taxes is the relatively high property

tax on machinery and equipment--this is especially important for capital intensive firms. Several of the states in our comparison group (Iowa, Illinois, New York, and New Jersey) exclude machinery and equipment from the tax base. The second tax responsible for the overall high level of taxes is the corporate income tax. Kansas income tax rates for the upper bracket are higher than those in several states in the region. Perhaps more significantly, Kansas relies on an evenly weighted allocation formula except in very limited cases. In contrast, states such as Missouri and Nebraska base allow an income allocation method based on sales alone, which provides advantages to export-oriented businesses. In fact, the sales-only formula in Nebraska was introduced as part of a tax package specifically designed for economic development.

Table 6
Taxes and Profits per Employee: Partial Model
New Firms Receiving Tax Credits and Abatements

Location	Capital Intensive Mfg.		Other Mfg.		Data Processing		Research and Dev.	
	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>
<i>State Averages</i>								
Colorado	\$14,450	\$17,051	\$8,330	\$8,759	\$3,384	\$3,791	\$16,113	\$17,919
Iowa	12,138	19,322	7,274	9,807	3,047	4,149	12,871	21,409
Kansas	13,117	18,451	7,421	9,731	3,138	4,086	14,369	20,024
Missouri	13,871	17,589	7,769	9,312	3,145	4,033	15,307	18,747
Nebraska	14,186	17,382	7,722	9,430	3,226	3,998	15,568	18,825
Oklahoma	13,769	17,798	7,908	9,244	2,982	4,183	15,005	19,318
California	14,449	17,036	8,116	8,959	3,468	3,696	15,368	18,953
Illinois	12,958	18,610	7,545	9,607	3,286	3,907	14,577	19,407
New Jersey	13,517	18,051	8,004	9,148	3,343	3,881	14,025	20,368
New York	13,828	17,683	8,162	8,976	3,763	3,433	14,534	19,492
Reg. Av. (Co, Ia, Mo, Ne, Ok)	13,683	17,829	7,801	9,311	3,157	4,031	14,973	19,243
Kansas as % of Reg. Av.	95.86%	103.49%	95.13%	104.52%	99.42%	101.36%	95.97%	104.06%

NOTE: Under the assumptions of the partial model, taxes vary by location, other costs are standardized
SOURCE: Calculated by IPPBR

Table 7
Taxes and Profits per Employee: Full Model
New Firms Receiving Tax Credits and Abatements

Location	Capital Intensive Mfg.		Other Mfg.		Data Processing		Research and Dev.	
	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>
<i>State Averages</i>								
Colorado	\$169,025	\$18,131	\$241,695	\$9,760	\$93,550	\$4,641	\$55,236	\$18,683
Iowa	162,761	24,395	237,838	13,617	88,499	9,692	47,746	26,173
Kansas	165,069	22,087	239,033	12,422	90,155	8,036	50,449	23,470
Missouri	167,551	19,605	240,892	10,563	91,708	6,483	53,037	20,882
Nebraska	164,455	22,701	237,938	13,517	88,585	9,606	50,181	23,739
Oklahoma	164,988	22,168	238,983	12,472	89,524	8,667	50,491	23,428
California	174,291	12,865	246,463	4,992	98,066	125	58,256	15,663
Illinois	170,718	16,438	243,713	7,742	96,392	1,799	56,306	17,613
New Jersey	175,226	11,930	247,418	4,037	101,990	(3,799)	58,699	15,220
New York	176,524	10,632	248,201	3,254	103,367	(5,176)	60,415	13,504
Reg. Av. (Co, Ia, Mo, Ne, Ok)	165,756	21,400	239,469	11,986	90,373	7,818	51,338	22,581
Kansas as % of Reg. Av.	99.59%	103.21%	99.82%	103.64%	99.76%	102.79%	98.27%	103.94%

NOTE: Under the assumptions of the full model, taxes and other costs (labor land energy, etc.) vary by location.

Table 8
Taxes and Profits per Employee: Partial Model
Mature Firms Receiving NO Tax Credits or Abatements

Location	Capital Intensive Mfg.		Other Mfg.		Data Processing		Research and Dev.	
	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>	<i>Taxes per Emp.</i>	<i>Profits per Emp.</i>
<i>State Averages</i>								
Colorado	\$15,128	\$16,325	\$8,509	\$8,568	\$3,415	\$3,760	\$16,130	\$17,902
Iowa	12,589	18,871	7,580	9,501	3,218	3,978	13,271	21,009
Kansas	15,585	15,863	8,512	8,561	3,606	3,567	17,261	16,753
Missouri	14,692	16,592	8,434	8,604	3,432	3,747	15,825	18,229
Nebraska	14,247	17,023	7,751	9,282	3,238	3,937	15,660	18,377
Oklahoma	15,100	16,331	8,430	8,632	3,425	3,740	16,442	17,519
California	15,494	15,991	8,501	8,574	3,559	3,605	16,950	17,371
Illinois	13,692	17,785	8,179	8,888	3,484	3,674	14,739	19,166
New Jersey	13,713	17,742	8,140	8,938	3,466	3,710	14,283	19,992
New York	14,415	17,014	8,781	8,280	3,953	3,212	14,401	19,554
Reg. Av. (Co, Ia, Mo, Ne, Ok)	14,352	17,028	8,141	8,918	3,346	3,833	15,466	18,607
Kansas as % of Reg. Av.	108.59%	93.16%	104.57%	96.00%	107.78%	93.07%	111.61%	90.03%

NOTE: Under the assumptions of the partial model, taxes vary by location, other costs are standardized
SOURCE: Calculated by IPPBR

Table 9
Taxes and Profits per Employee: Full Model
Mature Firms Receiving NO Tax Credits or Abatements

Location	Capital Intensive Mfg.		Other Mfg.		Data Processing		Research and Dev.	
	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>	<i>Cost+Tax per Emp.</i>	<i>Profits per Emp.</i>
<i>State Averages</i>								
Colorado	\$169,754	\$17,402	\$241,890	\$9,565	\$93,585	\$4,606	\$55,256	\$18,664
Iowa	163,077	24,079	237,895	13,560	88,675	9,516	48,131	25,789
Kansas	167,588	19,569	240,133	11,322	90,652	7,539	53,668	20,251
Missouri	168,571	18,586	241,606	9,849	92,044	6,147	53,583	20,336
Nebraska	164,846	22,311	238,110	13,345	88,684	9,507	50,658	23,262
Oklahoma	166,511	20,645	239,585	11,870	89,895	8,296	52,387	21,532
California	175,177	11,979	246,644	4,811	97,956	235	59,756	14,163
Illinois	171,551	15,605	244,440	7,015	96,596	1,595	56,554	17,365
New Jersey	175,543	11,613	247,631	3,824	102,221	(4,030)	59,082	14,838
New York	177,142	10,014	248,826	2,629	103,671	(5,479)	60,446	13,473
Reg. Av. (Co, Ia, Mo, Ne, Ok)	166,552	20,604	239,817	11,638	90,576	7,615	52,003	21,916
Kansas as % of Reg. Av.	100.62%	94.97%	100.13%	97.28%	100.08%	99.00%	103.20%	92.40%

NOTE: Under the assumptions of the full model, taxes and other costs (labor land, energy, etc.) vary by location.
SOURCE: Calculated by IPPBR

SIMULATIONS OF CHANGES IN KANSAS TAXES

We now turn to the impacts of changes in Kansas tax structure on typical businesses. We begin with an analysis of changes in specific taxes. The impact of alternative tax packages can be roughly estimated by combining changes in individual taxes. We then progress to an analysis of a tax package sponsored by Senator Jerry Moran and embodied in S.B. 41 during the 1995 Kansas legislative session (Moran plan). With the exception of the Moran package, our simulations are not revenue neutral--that is, we have not considered the overall impact of the tax changes on state and local finances. Furthermore, our simulations are "partial equilibrium" in nature. That is, they do not consider long term changes in the value of resources such as land that might develop as a result of significant tax structure changes. We discuss the results in terms of both new and mature firms.

Increase in Corporate Income Tax Rate (Tables 10-11)

We analyze the impact of an approximate 20% increase in the corporate income tax rate, from 7.35% for the upper bracket to 8.8%. The change increases the tax liability of capital-intensive firms by about \$300 per employee, and for less capital intensive firms by about \$170 per employee. Approximately 1/3 of the reduction in state income taxes is offset by an increase in federal income taxes. The dollar amounts of tax changes are similar for new and mature firms. The results of this simulation are found in Tables 10 and 11 at the back of the report.

Change in Income Allocation Formula (Tables 12-13)

Changes of a similar magnitude (but opposite sign) are achieved by changing the income allocation formula--from one based on weights of 1/3 each for sales, property, and payroll to a double weighted sales formula (50% sales, 25% property, 25% payroll). The dollar amounts of tax benefits is about \$350 per employee for mature capital-intensive

firms, and about \$200 per employee for less capital-intensive firms. Again, some of the gain is offset by changes in federal liabilities.

Sales Tax Increase (Tables 14-15)

We look next at an increase in the sales tax of 1%, from 4.9 percent to 5.9 percent. The impact on manufacturing firms is estimated to be very small. Manufacturing equipment, original construction labor, and utilities used in production are already exempt from the sales tax in Kansas. Hence the increase in tax is applied to a very small base. Service firms were not included in this particular simulation, but it is likely that the impact of a sales tax increase will be greater on such firms since their purchases of inputs are less likely to be exempt.

Reduction in Property Tax Rate (Tables 16-17)

In this simulation, we look at a reduction in property tax rates of 25 mills, a reduction of about 20 percent for the state overall. Here we see a significant difference between new firms and mature firms. For new capital intensive firms, property tax savings are estimated at \$377 per employee, while for mature firms savings are estimated at \$850 per employee. The reason for the difference is simple--the new firm is already receiving a significant property tax abatement. Property tax reductions are in part offset by increases in both state and federal income taxes.

Moran Plan (Tables 18-19)

We now turn to an analysis of the Moran plan. This plan would phase in a 35 mill reduction in property tax rates, would increase the state sales tax rate to 6%, and would increase personal income tax rates. No corporate income tax rate increase is included in the current plan.

As shown in Table 19, the plan would result in significant tax savings for mature Kansas businesses. Our model estimates savings for capital intensive manufacturers of \$1056 per employee in state and local taxes, and of \$702 per employee after the federal offset has been accounted for. Savings for less capital intensive businesses are smaller, but still significant. If the Moran plan were implemented, Kansas would no longer stand as the state in the region with the highest taxes on businesses. Taxes for a mature export-oriented firm in Kansas would be close to the average for similar firms located in other states in the region.

It should be pointed out that the Moran plan involves large shifts in the Kansas tax base, only some of which affect corporate businesses directly. A substantial portion of the property tax savings would be realized by residential rather than commercial or industrial property owners. Changes in personal income taxes would not affect the bottom line of corporations directly, but could still have an impact on the decisions of corporate executives about where to locate new investment. Small businesses outside the corporate sector would be affected by changes in personal income tax rates directly.

Conclusions and Policy Implications

1. Under the current tax structure, Kansas stands out as the state in the region with the highest taxes on mature businesses. A mature firm in Kansas will pay higher taxes than would be paid if that same facility were located in another state in the region.
2. New or expanding firms in Kansas may be largely shielded from the underlying Kansas business tax structure by income and property tax incentives. This is particularly true if a firm is granted the full amount of property tax abatements allowed by law--100 percent for ten years.

3. The sources of the high overall tax level for Kansas businesses are 1) the property tax and 2) the corporate income tax.
4. The Moran plan would produce a state and local tax savings about \$1000 per employee for a mature capital-intensive firm in Kansas, and of about \$400 per employee for a less capital-intensive firm. About 1/3 of this impact would be offset by increases in federal income taxes. Additional offsets might occur if the tax changes induced increases in property values.
5. The Kansas business tax structure does not provide as favorable a climate for the state's export base as exists in many other states. Firms that sell products outside of Kansas bring new money into the state. And since the firms are not tied down to local markets, they are the firms that have the most mobility in terms of leaving the state. Economic development incentives already target this base to some extent. But incentives focus only on new or expanding firms. Changes in the income allocation formula might effectively target exporting firms more generally. Several states appear to have manipulated their income allocation formulas in order to attract export-oriented businesses.
6. The current Kansas tax structure does not adequately encourage continuous investment in up-to-date technology. New technologies are typically embodied in new machinery and equipment. But the Kansas tax structure seems to discourage this kind of investment through the high property tax rate on machinery and equipment. New or expanding firms may qualify for property tax abatements, hence removing the investment dis-incentive. But a more general means may be needed to encourage, or at least not to discourage, continuous reinvestment.

The simplest means of reducing the tax liability associated with investment would be to change the Kansas assessment ratio. But this would require passage of a constitutional amendment, and may not be realistic. An alternative might be an additional income tax credit based on a firm's use of depreciable personal property within the state. The existing Kansas "high performance incentives" allow a 10 percent investment credit for qualified firms, and seem to be moving in the right direction to encourage investment.

Table 10
Impact per Employee of Increase in Upper Bracket Corporate Tax Rate (to 8.8%)
New Firms Receiving Tax Credits and Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Corporate Tax Inc.</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$33,595	\$18,907	\$33,341	\$18,755	(\$254)	(\$153)	-0.8%	-0.8%
Federal Income Tax	11,422	6,429	11,336	6,377	(86)	(52)	-0.8%	-0.8%
State Income Tax	716	517	997	686	281	169	39.3%	32.6%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	1,288	546	1,288	546	0	0	0.0%	0.0%
On Machinery and Equipment	962	240	962	240	0	0	0.0%	0.0%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	441	298	441	298	0	0	0.0%	0.0%
On Machinery and Structures	129	23	129	23	0	0	0.0%	0.0%
State and Local Taxes	\$3,625	\$2,393	\$3,906	\$2,562	\$281	\$169	7.8%	7.0%
Total Taxes Including Federal	\$15,047	\$8,822	\$15,242	\$8,939	\$195	\$117	1.3%	1.3%
Total Taxes Plus Other Costs	\$165,069	\$239,033	\$165,264	\$239,150	\$195	\$117	0.1%	0.0%

Source: Calculated by IPPBR

Table 11
Impact per Employee of Increase in Upper Bracket Corporate Tax Rate (to 8.8%)
Mature Firms Receiving NO Tax Credits or Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Corporate Tax Inc.</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$29,877	\$17,286	\$29,596	\$17,126	(\$281)	(\$160)	-0.9%	-0.9%
Federal Income Tax	10,158	5,877	10,063	5,823	(96)	(54)	-0.9%	-0.9%
State Income Tax	1,595	915	1,905	1,092	311	177	19.5%	19.3%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	4,067	1,726	4,067	1,726	0	0	0.0%	0.0%
On Machinery and Equipment	3,040	757	3,040	757	0	0	0.0%	0.0%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	454	300	454	300	0	0	0.0%	0.0%
On Machinery and Structures	143	25	143	25	0	0	0.0%	0.0%
State and Local Taxes	\$7,297	\$3,974	\$7,607	\$4,151	\$311	\$177	4.3%	4.4%
Total Taxes Including Federal	\$17,455	\$9,851	\$17,670	\$9,973	\$215	\$122	1.2%	1.2%
Total Taxes Plus Other Costs	\$167,588	\$240,133	\$167,803	\$240,255	\$215	\$122	0.1%	0.1%

Source: Calculated by IPPBR

Table 12
Impact per Employee of Change in Income Allocation Formula (to Double Weighted Sales)
New Firms Receiving Tax Credits and Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Double Weight</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$33,595	\$18,907	\$33,872	\$19,075	\$276	\$168	0.8%	0.9%
Federal Income Tax	11,422	6,429	11,516	6,486	94	57	0.8%	0.9%
State Income Tax	716	517	410	331	(306)	(186)	-42.8%	-35.9%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	1,288	546	1,288	546	0	0	0.0%	0.0%
On Machinery and Equipment	962	240	962	240	0	0	0.0%	0.0%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	441	298	441	298	0	0	0.0%	0.0%
On Machinery and Structures	129	23	129	23	0	0	0.0%	0.0%
State and Local Taxes	\$3,625	\$2,393	\$3,319	\$2,208	(\$306)	(\$186)	-8.4%	-7.8%
Total Taxes Including Federal	\$15,047	\$8,822	\$14,835	\$8,693	(\$212)	(\$129)	-1.4%	-1.5%
Total Taxes Plus Other Costs	\$165,069	\$239,033	\$164,857	\$238,904	(\$212)	(\$129)	-0.1%	-0.1%

Source: Calculated by IPPBR

Table 13
Impact per Employee of Change in Income Allocation Formula (to Double Weighted Sales)
Mature Firms Receiving NO Tax Credits or Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Double Weight</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$29,877	\$17,286	\$30,190	\$17,466	\$313	\$181	1.0%	1.0%
Federal Income Tax	10,158	5,877	10,265	5,939	106	61	1.0%	1.0%
State Income Tax	1,595	915	1,249	716	(345)	(200)	-21.7%	-21.8%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	4,067	1,726	4,067	1,726	0	0	0.0%	0.0%
On Machinery and Equipment	3,040	757	3,040	757	0	0	0.0%	0.0%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	454	300	454	300	0	0	0.0%	0.0%
On Machinery and Structures	143	25	143	25	0	0	0.0%	0.0%
State and Local Taxes	\$7,297	\$3,974	\$6,951	\$3,774	(\$345)	(\$200)	-4.7%	-5.0%
Total Taxes Including Federal	\$17,455	\$9,851	\$17,216	\$9,713	(\$239)	(\$138)	-1.4%	-1.4%
Total Taxes Plus Other Costs	\$167,588	\$240,133	\$167,349	\$239,995	(\$239)	(\$138)	-0.1%	-0.1%

Source: Calculated by IPPBR

Table 14
Impact per Employee of 1% Increase in Sales Tax (to 5.9%)
New Firms Receiving Tax Credits and Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Sales Tax Increase</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$33,595	\$18,907	\$33,529	\$18,862	(\$66)	(\$45)	-0.2%	-0.2%
Federal Income Tax	11,422	6,429	11,400	6,413	(23)	(15)	-0.2%	-0.2%
State Income Tax	716	517	713	515	(3)	(2)	-0.4%	-0.3%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	1,288	546	1,288	546	0	0	0.0%	0.0%
On Machinery and Equipment	962	240	962	240	0	0	0.0%	0.0%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	441	298	510	345	69	47	15.6%	15.6%
On Machinery and Structures	129	23	149	26	20	4	15.6%	15.6%
State and Local Taxes	\$3,625	\$2,393	\$3,691	\$2,438	\$66	\$45	1.8%	1.9%
Total Taxes Including Federal	\$15,047	\$8,822	\$15,090	\$8,851	\$43	\$30	0.3%	0.3%
Total Taxes Plus Other Costs	\$165,069	\$239,033	\$165,112	\$239,063	\$43	\$30	0.0%	0.0%

SOURCE: Calculated by IPPBR

Table 15
Impact per Employee of 1% Increase in Sales Tax (to 5.9%)
Mature Firms Receiving NO Tax Credits or Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Sales Tax Increase</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$29,877	\$17,286	\$29,793	\$17,230	(\$84)	(\$55)	-0.3%	-0.3%
Federal Income Tax	10,158	5,877	10,130	5,858	(29)	(19)	-0.3%	-0.3%
State Income Tax	1,595	915	1,590	912	(5)	(3)	-0.3%	-0.3%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	4,067	1,726	4,067	1,726	0	0	0.0%	0.0%
On Machinery and Equipment	3,040	757	3,040	757	0	0	0.0%	0.0%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	454	300	525	347	71	47	15.6%	15.6%
On Machinery and Structures	143	25	165	29	22	4	15.6%	15.6%
State and Local Taxes	\$7,297	\$3,974	\$7,363	\$4,018	\$66	\$44	0.9%	1.1%
Total Taxes Including Federal	\$17,455	\$9,851	\$17,493	\$9,876	\$38	\$25	0.2%	0.3%
Total Taxes Plus Other Costs	\$167,588	\$240,133	\$167,643	\$240,169	\$55	\$36	0.0%	0.0%

SOURCE: Calculated by IPPBR

Table 16
Impact per Employee of 25 Mill Reduction in Property Tax
New Firms Receiving Tax Credits and Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Property Tax Red.</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$33,595	\$18,907	\$33,852	\$19,017	\$257	\$109	0.8%	0.6%
Federal Income Tax	11,422	6,429	11,510	6,466	87	37	0.8%	0.6%
State Income Tax	716	517	730	523	14	6	1.9%	1.1%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	1,288	546	1,018	432	(269)	(114)	-20.9%	-20.9%
On Machinery and Equipment	962	240	761	190	(201)	(50)	-20.9%	-20.9%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	441	298	441	298	0	0	0.0%	0.0%
On Machinery and Structures	129	23	129	23	0	0	0.0%	0.0%
State and Local Taxes	\$3,625	\$2,393	\$3,369	\$2,285	(\$255)	(\$108)	-7.0%	-4.5%
Total Taxes Including Federal	\$15,047	\$8,822	\$14,879	\$8,751	(\$168)	(\$71)	-1.1%	-0.8%
Total Taxes Plus Other Costs	\$165,069	\$239,033	\$164,901	\$238,962	(\$168)	(\$71)	-0.1%	-0.0%

SOURCE: Calculated by IPPBR

Table 17
Impact per Employee of 25 Mill Reduction in Property Tax
Mature Firms Receiving NO Tax Credits or Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Property Tax Red.</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$29,877	\$17,286	\$30,688	\$17,630	\$811	\$344	2.7%	2.0%
Federal Income Tax	10,158	5,877	10,434	5,994	276	117	2.7%	2.0%
State Income Tax	1,595	915	1,638	934	44	19	2.7%	2.0%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	4,067	1,726	3,217	1,365	(850)	(361)	-20.9%	-20.9%
On Machinery and Equipment	3,040	757	2,405	599	(636)	(158)	-20.9%	-20.9%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	454	300	454	300	0	0	0.0%	0.0%
On Machinery and Structures	143	25	143	25	0	0	0.0%	0.0%
State and Local Taxes	\$7,297	\$3,974	\$6,490	\$3,632	(\$807)	(\$342)	-11.1%	-8.6%
Total Taxes Including Federal	\$17,455	\$9,851	\$16,924	\$9,626	(\$531)	(\$225)	-3.0%	-2.3%
Total Taxes Plus Other Costs	\$167,588	\$240,133	\$167,057	\$239,907	(\$531)	(\$225)	-0.3%	-0.1%

SOURCE: Calculated by IPPBR

Table 18
Impact per Employee of Moran Plan (Sales Tax to 6%, Property Tax Reduction of 35 Mills)
New Firms Receiving Tax Credits and Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Moran Plan</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$33,595	\$18,907	\$33,882	\$19,011	\$287	\$103	0.9%	0.5%
Federal Income Tax	11,422	6,429	11,520	6,464	98	35	0.9%	0.5%
State Income Tax	716	517	732	523	16	6	2.3%	1.2%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	1,288	546	911	387	(377)	(160)	-29.3%	-29.3%
On Machinery and Equipment	962	240	681	170	(282)	(70)	-29.3%	-29.3%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	441	298	516	349	76	51	17.2%	17.2%
On Machinery and Structures	129	23	151	27	22	4	17.2%	17.2%
State and Local Taxes	\$3,625	\$2,393	\$3,340	\$2,291	(\$285)	(\$102)	-7.9%	-4.3%
Total Taxes Including Federal	\$15,047	\$8,822	\$14,860	\$8,755	(\$187)	(\$67)	-1.2%	-0.8%
Total Taxes Plus Other Costs	\$165,069	\$239,033	\$164,881	\$238,966	(\$187)	(\$67)	-0.1%	-0.0%

Source: Calculated by IPPBR

Table 19
Impact per Employee of Moran Plan (Sales Tax to 6%, Property Tax Reduction of 35 Mills)
Mature Firms Receiving NO Tax Credits or Abatements

<i>Type of Tax</i>	<i>1995 Current Law</i>		<i>Moran Plan</i>		<i>Change</i>		<i>Percent Change</i>	
	Capital		Capital		Capital		Capital	
	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.	Intensive Mfg.	Other Mfg.
Federal Taxable Income	\$29,877	\$17,286	\$30,920	\$17,707	\$1,042	\$421	3.5%	2.4%
Federal Income Tax	10,158	5,877	10,513	6,020	354	143	3.5%	2.4%
State Income Tax	1,595	915	1,651	938	56	23	3.5%	2.5%
Unemploy. and Workers' Comp.	1,155	1,007	1,155	1,007	0	0	0.0%	0.0%
Property Tax	4,067	1,726	2,877	1,221	(1,191)	(505)	-29.3%	-29.3%
On Machinery and Equipment	3,040	757	2,150	535	(890)	(222)	-29.3%	-29.3%
Franchise Tax	25	25	25	25	0	0	0.0%	0.0%
Sales Tax	454	300	532	352	78	52	17.2%	17.2%
On Machinery and Structures	143	25	167	29	25	4	17.2%	17.2%
State and Local Taxes	\$7,297	\$3,974	\$6,240	\$3,543	(\$1,056)	(\$431)	-14.5%	-10.8%
Total Taxes Including Federal	\$17,455	\$9,851	\$16,753	\$9,563	(\$702)	(\$288)	-4.0%	-2.9%
Total Taxes Plus Other Costs	\$167,588	\$240,133	\$166,905	\$239,857	(\$683)	(\$276)	-0.4%	-0.1%

Source: Calculated by IPPBR