

**DRAFT**  
**SCOPE STATEMENT**

**Kansas Tax Revenues: Reviewing Tax Credits and Exemptions**

Kansas has enacted a number of taxes to fund government operations. A few examples are individual and corporate income tax, privilege tax (on financial institutions), sales and use tax, motor fuel taxes, mineral taxes, and the like. According to the Department of Revenue's fiscal year 2008 annual report, the amount the State collected from various taxes that year, before refunds, was nearly \$8.3 billion.

Over the years, the Legislature has enacted a variety of tax credits and exemptions designed to stimulate certain types of economic activity or to achieve other public purposes. For example, a taxpayer who makes a cash donation of \$250 or more in the Kansas Community Entrepreneurship Fund receives a tax credit of 50% of the amount donated.

Some credits are commonly claimed and account for large amounts of foregone tax revenue, while other credits are less frequently used. For example, based on information compiled by the Department of Revenue for the 2006 tax year, nearly 15,000 taxpayers claimed slightly more than \$28 million under the Business Machinery and Equipment Credit. In contrast, only nine taxpayers claimed about \$17,000 from a credit that allows taxpayers to claim up to 50% of the cost of plugging an abandoned oil well.

With the proliferation of credits and exemptions over the years, Kansas legislators have expressed an interest in knowing whether some of those credits and exemptions still are needed or whether they have outlived their original purposes. They also want to know whether transferrable tax credits represent an effective use of taxpayer dollars.

A performance audit of this topic would answer the following question(s).

- 1. Does Kansas have any tax credits or exemptions that aren't accomplishing their intended purpose or have outlived their usefulness?** To answer this question, we would review the statutes and consult with officials in the Department of Revenue, Legislative Research, and others to come up with a complete list of the tax credits and exemptions that currently are offered under the Kansas law, as well as information about when they were enacted, their original purpose, and how much they've been used (number of taxpayers claiming them and total dollar amount) in recent years. If information is available, we would compare the amount of revenue that currently is being foregone to the projected cost of each credit or exemption at the time it was passed. In addition, we would look across the credits and exemptions to identify any that are infrequently used or show a significantly declining level of use. We would also talk to officials from taxpayer advocacy groups, and business groups to get their opinions about the usefulness of some of the tax credits and exemptions. We would also talk to officials from the Department of Revenue to identify any problematic issues related to credits or exemptions such as difficulty in tracking transferrable credits. For a sample of the more costly tax credits or exemptions, we would determine whether any mechanisms were put in place to determine whether the credit or exemption actually achieved its intended purpose. If there are requirements the taxpayer must fulfill to take the tax credit, such as creating a certain number of jobs, we would look to see what evidence exists to show that

the requirements were fulfilled. For the sample of these credits and exemptions, we would contact nearby states to determine whether they offer those same types of tax breaks. In addition, we would find out what types of information other states can and do report to their legislatures about the use of tax credits and exemptions. We would conduct other work in this area as needed.

2. **What transferrable tax credits exist in Kansas, and are they a cost-effective means of generating money to fund certain types of projects or causes?** To answer this question, we would review the statutes and talk to officials at the Department of Revenue to identify the types of transferrable tax credits allowed in Kansas. We would review testimony that was provided to the Legislature about the anticipated effects of the credits at the time they were proposed. In cases where entities are awarded tax credits that they can sell to third parties to fund projects or activities, we would determine the amount of money generated for projects in relation to the foregone revenue cost to the State. We would review the records at the Department of Revenue to identify the amount of each type of transferrable tax credit that was claimed in recent years and the types of taxpayers who are benefitting from the use of the credits. We would contact officials from a sample of other states or tax policy groups to determine the extent to which these types of credits are used elsewhere, and gather their opinions about whether they think the credits are cost-effective.

**Estimated time to complete:** 12-15 weeks