



PERFORMANCE AUDIT REPORT

Kansas Tax Revenues: Reviewing How Other States Inventory and Evaluate Tax Credits and Exemptions

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
October 2017**

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October 6, 2017

To: Members, Legislative Post Audit Committee

This report contains the findings, conclusions, and recommendations from our completed performance audit, *Kansas Tax Revenues: Reviewing How Other States Inventory and Evaluate Tax Credits and Exemptions*. The audit was requested by Senator Julia Lynn. The audit team included Andy Brienzo and Josh Rueschhoff. Chris Clarke was the audit manager.

We would be happy to discuss the findings, conclusions, and recommendations presented in this report with any legislative committees, individual legislators, or other state officials.

Sincerely,

Scott Frank
Legislative Post Auditor

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Kansas Tax Revenues: Reviewing How Other States Inventory and Evaluate Tax Credits and Exemptions

Background Information

Kansas tax revenues are primarily made up of income and sales and excise taxes. In fiscal year 2016, personal and corporate income taxes accounted for about \$2.7 billion (35%) of total state tax revenue, whereas sales and excise taxes—which include taxes on things such as retail sales, motor fuels, liquor, cigarettes, and oil and gas severance—accounted for about \$4.2 billion (56%).

The number of tax credits and exemptions enacted in Kansas has increased significantly over the years. Tax revenues are generated by applying a rate to a taxable base, and granting sales or property tax exemptions takes certain transactions or properties out of the base. When this happens, the same tax rate applied to the smaller tax base results in reduced revenue. The number of Kansas tax credits and exemptions has grown since 1985. For example, between 1985 and 2016, the number of sales tax exemptions more than tripled from 30 to more than 100, and the number of property tax exemptions increased from 43 to more than 100.

In 2010, we released a series of audits on Kansas tax credits and exemptions which noted Kansas lacked a strong system for reviewing and evaluating tax credits. As part of our work, we identified numerous best practices related to evaluating tax credits and found Kansas did not have a process that met them.

Objectives, Scope, and Methodology

On April 28, 2017, the Legislative Post Audit Committee approved a request from Senator Julia Lynn for an audit of Kansas' process for inventorying and evaluating tax credits and exemptions. This performance audit answers the following question:

1. How does Kansas' process for inventorying and evaluating tax credits and exemptions compare to those in other states?

To answer the question, we identified best practices and other states' processes for evaluating tax credits and exemptions by interviewing researchers and reviewing a report from The Pew Charitable Trusts (Pew) titled *How States Are Improving Tax Incentives for Jobs and Growth: A National Assessment of Evaluation Practices*. As part of this work, we verified the appropriateness of the methodology Pew researchers used for their report but did not independently assess its accuracy. All information in the Pew report is current as of its date of publication in May 2017.

To determine how Kansas' process for evaluating tax credits and exemptions compared to best practices and to other states' processes, we interviewed officials and reviewed documentation from the Kansas Department of Revenue; Kansas Insurance Department; Kansas Department of Commerce; Kansas Department of Wildlife, Parks and Tourism; Kansas Department of Health and Environment; Kansas State Department of Education; Kansas Corporation Commission; Kansas Historical Society; the Kansas Center for Entrepreneurship; and the University of Kansas' Assistive Technology for Kansans program. As part of this work, we assessed the controls the Department of Revenue and the Insurance Department have in place to ensure the data they maintain are accurate and useful to inventory and evaluate tax credits and exemptions.

***Compliance with
Generally Accepted
Government Auditing
Standards***

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overview of Tax Credits and Exemptions in Kansas

The State Foregoes About \$6 Billion a Year Through Tax Credits and Exemptions

During each of tax years 2012-2016, tax credits and exemptions resulted in at least \$6 billion in foregone tax revenue for the state. **Figure OV-1** below summarizes taxes collected by the state of Kansas. As the figure shows, Kansas collected between \$7.4 billion and \$7.9 billion in annual tax revenue during fiscal years 2012 through 2016. Most of this revenue went into the State General Fund. **Figure OV-2** on the following page shows information regarding foregone tax revenues for those same years. As the figure shows, tax credits and sales tax exemptions resulted in about \$6 billion in foregone state tax revenue each year during the same tax years.

Figure OV-1					
Total State of Kansas Tax Receipts					
Fiscal Years 2012-2016 (In Millions)					
Revenue Source	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Sales and Excise Taxes	\$ 3,811.4	\$ 3,862.0	\$ 4,025.6	\$ 4,075.0	\$ 4,242.8
Income Taxes	\$ 3,243.8	\$ 3,360.0	\$ 2,685.4	\$ 2,760.8	\$ 2,664.9
Other Taxes	\$ 437.8	\$ 428.2	\$ 409.8	\$ 418.4	\$ 342.6
Insurance Premiums	\$ 166.4	\$ 174.5	\$ 198.4	\$ 211.8	\$ 299.0
Property Taxes	\$ 78.7	\$ 83.9	\$ 92.0	\$ 64.9	\$ 66.3
Total Receipts	\$ 7,738.1	\$ 7,908.6	\$ 7,411.1	\$ 7,530.9	\$ 7,615.6

Source: Kansas Legislative Research Department (unaudited).

Most of this forgone revenue stems from credits and exemptions required at the federal level, by the state constitution, or to avoid double taxation. Many tax credits and exemptions are mandated or generally recognized as good tax policy. For example, the sales tax exemption related to food stamps is based on the federal Food Stamp Act of 1977. In addition, the Kansas Constitution does not allow the state to collect taxes on farm machinery and livestock or any property used exclusively for state, county, educational, or religious purposes. Finally, other exemptions are deemed necessary to avoid double taxation or implement good public policy. For example, mobile home sales are exempt from sales tax to put them on par with residential homes, which are not subject to sales tax. Further, exempting sales of intermediate items required for the creation of goods that will be sold to consumers prevents double taxation and limits sales taxes to consumption rather than production.

Our 2010 audit found 27 of the 99 sales tax exemptions in existence at that time were either required by law or needed to avoid things like double taxation or taxing government entities. These exemptions accounted for about 81% of the sales tax

revenue foregone by the state in 2009. Further, more than half of the property tax exemptions in existence at that time were required by the Kansas Constitution.

Figure OV-2					
Tax Revenues Lost to Tax Credits and Sales Tax Exemptions					
Tax Years 2012-2016 (In Millions)					
	2012	2013	2014	2015	2016
Total Sales Tax Exemptions (a)	\$ 5,487.7	\$ 5,644.0	\$ 5,716.2	\$ 5,934.0	\$ 6,500.1
Total Tax Credits	\$ 340.7	\$ 256.7	\$ 260.8	\$ 240.9	(b)
Total Foregone State Revenue	\$ 5,828.4	\$ 5,900.7	\$ 5,977.0	\$ 6,174.9	(c)

(a) Estimated based on data collected and analyzed by the Kansas Department of Revenue.
 (b) Tax credit data are not yet available for this year due to the time required to compile them.
 (c) Total could not be calculated due to missing tax credit data.
 Source: Kansas Department of Revenue and Kansas Insurance Department (unaudited).

However, many tax credits and exemptions are incentives intended to motivate taxpayer behavior. Tax incentives are provisions in the tax code that encourage taxpayers to engage in certain behaviors or activities by reducing their tax liability. They are often used to achieve policy goals such as economic development, financing postsecondary education, or stimulating research and development. Tax credits reduce the taxes owed by a taxpayer dollar for dollar, whereas sales and property tax exemptions remove certain transactions or properties from taxation altogether.

We did not look at other tax incentives such as preferential tax rates, exclusions, deferrals, and deductions because they were outside the scope of this audit.

Two Agencies Are Primarily Responsible for Administering the State's Tax Credits and Exemptions

Several state agencies determine taxpayers' eligibility for or track taxpayers' usage of certain tax credits. However, two agencies administer most of the state's credits and exemptions, and track taxpayers' usage of all available tax credits as well as their dollar value in foregone tax revenue.

The Kansas Department of Revenue administers nearly all tax credits in Kansas. The department also tracks and estimates the dollar value of sales tax exemptions, as well as collecting and maintaining data from county appraisers on exempted real and personal property. It regularly provides standardized reports or fulfills ad hoc information requests on these tax incentives for the Legislature.

Some additional state agencies either determine taxpayers' eligibility for or track taxpayers' usage of a small number of tax credits, though the Department of Revenue maintains information

on these incentives as well. These are the Department of Commerce; Department of Wildlife, Parks and Tourism; Department of Health and Environment; Department of Education; Kansas Corporation Commission; Kansas Historical Society; the Kansas Center for Entrepreneurship; and the University of Kansas' Assistive Technology for Kansans program.

The Kansas Insurance Department tracks information on tax credits that are claimed by insurance companies. The department maintains information on a small number of credits available only to insurance companies. For credits that are available both to insurance companies and other taxpayers, the Insurance Department only tracks information submitted by insurance companies. The Department of Revenue maintains information on the other taxpayers that claim these credits, such as individuals or other businesses that are not insurance companies. The Department of Revenue regularly requests data from the Insurance Department so it can include all credits in its reports to the Legislature.

***A 2010 Legislative Post
Audit Noted Kansas
Lacked a Strong Process
for Evaluating Tax Credits***

The Legislature directed our office to review whether it should consider eliminating certain tax credits or exemptions. To do this, we identified the elements of a strong tax credit evaluation system, including a specific and measurable purpose for each credit, assignment of responsibility for collecting the data necessary to evaluate each credit, an expiration date (“sunset”) for each credit, and transparency regarding who is benefitting from credits. Although certain tax credit statutes may have contained some of these elements, Kansas did not have a process that consistently included them. We also found the Department of Revenue did not receive all the sales and property tax exemption data that it would need to accurately evaluate the costs of these incentives.

Question 1: How Does Kansas' Process for Inventorying and Evaluating Tax Credits and Exemptions Compare to Those in Other States?

Although Kansas does maintain a comprehensive inventory of its tax credits and exemptions, it trails what many other states are doing to regularly evaluate their tax incentives and use the results to inform policy. According to The Pew Charitable Trusts, Kansas trails other states in following best practices for evaluating tax incentives (page 7). This is because Kansas does not have formal policies requiring regular, systematic evaluations of major tax incentives (page 9). Further, the limited evaluations that are conducted do not necessarily address the cost or economic impact of tax incentives (page 10). Finally, Kansas does not have formal processes to ensure lawmakers consider the results of tax incentive evaluations (page 11). Several other states, including Kansas' neighbors, meet many of Pew's best practices (page 12).

According to The Pew Charitable Trusts, Kansas Trails Other States in Following Best Practices for Evaluating Tax Incentives

Established in 1948, The Pew Charitable Trusts (Pew) is a nonpartisan, nongovernmental public policy research organization. Pew aims to help improve public policy at both the state and federal levels through rigorous analysis, including analysis of state-level tax incentive policy.

A May 2017 Pew report identified a series of best practices for state tax incentive evaluation and assessed how well each state implemented these practices. Pew's report titled *How States Are Improving Tax Incentives for Jobs and Growth: A National Assessment of Evaluation Practices* laid out these best practices, which included three major criteria for evaluating tax incentives:

- **States should have a formal policy which requires regular, systematic evaluation of all major tax credits and exemptions.** When creating evaluation policies, states should include their full tax incentive portfolios. This includes tax credits and exemptions, and may also include other programs such as major cash grant or loan incentives. These evaluations should be done according to a strategic schedule that allows evaluators to study programs in greater depth by focusing on a different subset of incentives each year. Impartial evaluators who have experience evaluating programs and analyzing their economic impact should conduct these evaluations. In many states, this analysis is performed by nonpartisan legislative staff. Finally, it is important to give evaluators access to all relevant data to ensure their evaluations are as rigorous as possible.
- **Evaluations of tax incentives should address key questions regarding the costs and economic impacts of those incentives.** According to Pew, this differentiates higher quality evaluations from lower quality ones. In practice, Pew found evaluations that focused

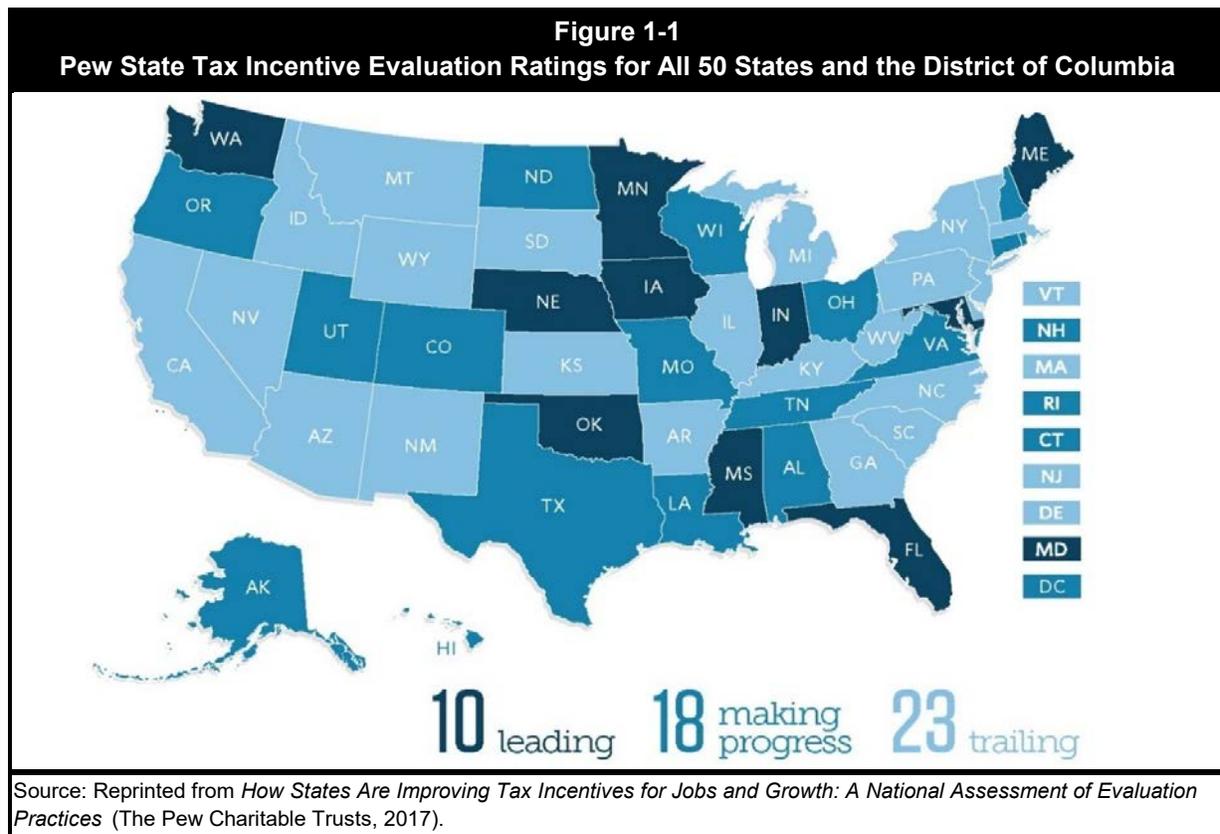
on how incentives affect business behavior also typically answered the other key questions about incentives. These include assessing whether funding tax incentives outweighed alternative uses of the money dedicated to them, incentives' effects on the larger economy, whether incentives are well designed to meet their goals and benefit intended recipients, and whether incentives are being administered effectively and include adequate fiscal protections to ensure their costs do not grow unexpectedly and create budgetary challenges.

- **States should have formal processes in place to ensure lawmakers consider the results of tax incentive evaluations.** In most states that regularly evaluate tax incentives, a designated legislative committee meets regularly to discuss the results from tax incentive evaluations, receive input from stakeholders, and consider policy changes. These committees are typically either relevant preexisting committees or new committees created specifically for this purpose. Including sunset provisions in tax incentive laws can help ensure they are reviewed to determine whether incentives should be extended, altered, or allowed to expire. Finally, evaluation results should also be communicated to relevant state agencies because not all changes require legislative action.

Pew compared each state's tax incentive evaluation process to these best practices and determined Kansas was in the lowest performance category. Pew staff established their best practices by interviewing state officials and evaluators and reviewing existing research on tax incentive evaluation. To determine each state's performance against these best practices, they searched for statutes requiring regular tax incentive evaluations and studied evaluations produced by each state that had such a requirement. They also determined whether these statutes required legislators to formally review evaluation results and looked for instances in which legislators used evaluation results to shape tax incentive policy. Pew placed each state into one of three categories: leading, making progress, or trailing. *Figure 1-1* on the following page shows how Pew rated each state. As the figure shows:

- **Pew designated 10 states as “leading” in tax incentive evaluation.** These states had taken meaningful steps to meet Pew's three major best practices, and included nearby states such as Nebraska, Oklahoma, and Iowa.
- **Pew identified 17 other states and the District of Columbia as “making progress” toward meeting their best practices.** These states had enacted requirements for regular tax incentive evaluation but had not yet fully implemented these policies, did not rigorously measure incentives' economic impacts, or did not formally provide evaluation results to lawmakers. These included neighboring states such as Missouri and Colorado.
- **Pew designated the 23 remaining states—including Kansas—as “trailing.”** These states either lacked a requirement for regular tax incentive evaluation, or had a requirement in place but did not produce effective evaluations or provide evaluation results to

lawmakers. Our review of Kansas' tax incentive evaluation process confirmed Pew's assessment that Kansas did not meet any of its three best practices.



Kansas Does Not Have Formal Policies Requiring Regular, Systematic Evaluations of Major Tax Incentives

To verify Pew's assessment of Kansas' performance against best practices, we looked more specifically at the state's process for evaluating tax incentives. Specifically, we talked with state agency officials and reviewed documentation from executive and legislative branch agencies to better understand Kansas' process for evaluating tax credits and exemptions. Since tax incentive data must be available to conduct effective evaluations, we also reviewed Kansas' process for inventorying tax credits and exemptions.

As shown on page 7, Pew's first best practice requires that states have a formal policy in place that requires regular evaluations of their full tax incentive portfolios. These evaluations should be performed by independent evaluators according to a strategic schedule.

Between the Department of Revenue and the Insurance Department, the state has a comprehensive inventory of all available tax credits and exemptions. Both agencies maintain

inventories of the tax incentives for which they are responsible. Further, the Department of Revenue maintains administrative data on other agencies' credits, such as those for which eligibility is determined by a different department. Between the Department of Revenue and the Insurance Department, the state appears to maintain inventories that account for all state tax credits and sales and property tax exemptions.

However, Kansas does not have a formal policy to require any state agency to evaluate the state's major tax incentives.

Consequently, no formal tax incentive evaluation process exists, and none of the state agencies that have a role in administering tax incentives have independently created plans to regularly evaluate them. However, some agencies have conducted analyses on an ad hoc basis, as described more fully below.

The Limited Evaluations that Are Conducted Do Not Necessarily Address the Cost or Economic Impact of Tax Incentives

As described on pages 7-8, Pew's second best practice requires that evaluations of tax credits and exemptions isolate changes in business behavior, analyze alternative uses of the money devoted to incentives, and determine whether incentives are well designed to meet their goals and prevent budgetary challenges.

The Department of Revenue and the Insurance Department regularly track basic tax incentive information. These agencies maintain information on the dollar value and taxpayers' usage of each tax credit and exemption in the state. However, this administrative information does not meet the rigorous analysis best practice identified by Pew because it does not assess how these tax incentives impact either taxpayer behavior or the broader economy. In addition, Insurance Department staff told us they did not know what data they would need to evaluate the tax credits they administer and they would need to hire additional staff before they could do so.

At least three agencies conduct limited or ad hoc assessments related to tax incentives, although none are as systematic as those described in the Pew report. We interviewed officials and reviewed documentation from the agencies that administer, determine taxpayers' eligibility for, or track taxpayers' usage of tax incentives to determine whether they evaluated these incentives. The Kansas Historical Society, the Department of Revenue, and Legislative Post Audit perform analyses related to tax incentives on a limited or ad hoc basis, as described below.

- **The Kansas Historical Society evaluates the effects of the Historic Preservation Tax Credit, as required by the federal National Park Service.** These analyses show the economic impact of spending caused by the credit, such as the number of jobs

created. However, these evaluations do not assess this credit's influence on business behavior or the other key elements mentioned by Pew, including the potential effects of using the money devoted to the credit in alternative ways or whether adequate fiscal protections are in place.

- **The Department of Revenue uses dynamic modeling software to evaluate the potential effects of tax policy changes or specific projects that may benefit from tax incentives on an ad hoc basis.** For example, staff provided us a fiscal note they produced using this software that outlined the possible effects of a 4% flat tax on the Kansas economy. This analysis included projected changes in economic variables such as employment, private investment, and disposable personal income. However, department staff told us their current analytical capabilities do not allow them to isolate individual tax incentives' effects. Staff also said they would likely need better data than they have now to conduct evaluations aligning with Pew's best practices because much of the information they track is self-reported or estimated.
- **The Legislature periodically directs Legislative Post Audit to evaluate tax incentives.** For example, in 2009 we were directed to conduct a series of audits to evaluate all tax credits and exemptions. Further, in 2013 and 2014, as part of an economic development audit series, we examined the effects of two specific tax incentives—the High Performance Incentive Program (HPIP) and the Promoting Employment Across Kansas (PEAK) program.

Kansas Does Not Have Formal Processes to Ensure Lawmakers Consider the Results of Tax Incentive Evaluations

As shown on page 8, Pew's third best practice requires that lawmakers periodically review the results of rigorous analyses of tax incentives to determine whether those incentives are working as intended.

Kansas has no requirements for systematic review of tax incentive evaluation results by the Legislature. Kansas does not have any statutory requirements regarding a regular review cycle of its tax credits or exemptions by the Legislature. Although some incentives may have a sunset provision, Kansas also does not require the Legislature to review evaluations of these incentives prior to the sunset date. Further, Kansas does not have any executive orders or other mandates in these areas.

The Department of Revenue does provide basic tax incentive information to the Legislature. As part of its process for tracking tax incentives, the department maintains data on the dollar value and taxpayers' usage of tax incentives. The department collects businesses' self-reported impact information from the Department of Commerce as well as information from the actual credit schedules filed by taxpayers. It provides tax credit and exemption information to the Legislature both in regular reports and in response to ad hoc committee requests. Finally, the department has usage and value data on tax credits it does not directly oversee—

including those administered by the Insurance Department—and includes them in its annual reporting.

Legislative committees also get copies and presentations of ad hoc Post Audit reports on tax incentives. Any review or study done by Legislative Post Audit includes presentations to relevant legislative committees, and all legislators are provided copies of our reports' conclusions. Consequently, the Legislature occasionally receives information about tax incentives from our office whenever that type of evaluation is within the scope of an audit. Whether these reports are considered as part of a review of one or more tax incentives is left up to each particular committee chair.

***Several Other States,
Including Kansas'
Neighbors, Meet Many of
Pew's Best Practices***

Finally, to understand how Kansas' process compares to those of neighboring and other leading states, we reviewed Pew's descriptions of the processes in place in these states.

Pew considers Nebraska, Oklahoma, Iowa, Indiana, and Washington to be “leading” states, while Colorado and Missouri are “making progress.” To make these determinations, Pew reviewed these states' tax incentive evaluation statutes, studied their evaluations, interviewed their legislators and evaluators, and looked for evidence that their evaluations led to policy changes.

Each of these states has formal policies that require regular, systematic evaluation of all major tax credits and exemptions. These states created their tax incentive evaluation policies at different times and have evaluation cycles of different lengths, ranging from three to 10 years. The lengths of their evaluation cycles depend in part on the number of incentives each state evaluates and the complexity of these evaluations. For example, Louisiana evaluates all its tax credits every year, but its evaluations tend to be less analytically rigorous than those produced by Washington—a nationally recognized leader in tax incentive evaluation—which evaluates its incentives in 10-year cycles. These states have also tasked various offices with conducting their evaluations, including the Iowa Department of Revenue, several legislative audit and research offices, and, in Oklahoma, private consultants.

Most of these states also regularly evaluate the costs and economic impacts of tax incentives. In general, “leading” states produced evaluations that isolated incentives' effects on business behavior and the larger economy and determined whether incentives are administered effectively and outweigh alternative

uses of the money dedicated to them. For example, Iowa used a control group of farmers who did not receive its Beginning Farmer Tax Credit to isolate the effects of this credit on farmers who received it. However, Missouri’s evaluations do not always examine incentives’ economic impacts or their effectiveness, and they are less analytically rigorous than the evaluations produced by some other states, such as Indiana.

Finally, Pew reports that most of these states have formal processes in place to ensure lawmakers consider the results of tax incentive evaluations. This appears to be especially true for states in which legislative staff conduct the evaluations. This includes Indiana and Washington, where evaluations have reportedly led to tens of millions of dollars in savings for the state. In addition, Nebraska has seen formal legislative consideration of its evaluations in the short time its legislative auditor has been producing them. Changes to tax incentives have been less common in states with weaker connections between evaluators and legislators, including Iowa and Missouri.

In contrast to its neighbors, Pew considers Kansas to be a “trailing” state. *Figure 1-2* on the following page has more information about how Kansas compares to these other states in several areas. As a “trailing” state, Kansas is behind each of its neighbors and many other states in establishing a strong tax incentive evaluation process that aligns with Pew’s best practices.

**Figure 1-2
Comparison of Kansas' Tax Incentive Evaluation Process to Those of Selected States
(May 2017)**

State	Pew Designation	Year Evaluation Law Enacted	Evaluation Cycle (Years)	Agency(ies) Conducting Evaluations	Regularly Producing Evaluations?	Formal Process for Providing Evaluation Results to Lawmakers?	Modified or Eliminated Tax Incentives Based on Evaluation Results?
Indiana	Leading	2014	5	Legislative Services Agency	✓	✓	✓
Iowa	Leading	2010	5	Department of Revenue	✓	✓	✓
Nebraska	Leading	2015	3	Legislative Audit Office	✓	✓	
Oklahoma	Leading	2015	4	Private Consultants	✓	✓	
Washington	Leading	2006	10	Joint Legislative Audit and Review Committee	✓	✓	✓
Colorado	Making Progress	2016	5	Office of the State Auditor		✓	
Missouri	Making Progress	1999	4 (a)	Office of the State Auditor Oversight Division, Joint Committee on Legislative Research	✓	✓ (b)	✓
Kansas	Trailing	Not applicable	None	None			

(a) Missouri has not consistently followed this schedule.
(b) Lawmakers have a formal process for considering the results of evaluations conducted by the Oversight Division of the Joint Committee on Legislative Research, but not of those conducted by the Office of the State Auditor.
Source: The Pew Charitable Trusts (unaudited).

Conclusion and Recommendations

Conclusion

Tax incentives can be an effective way of incentivizing taxpayers to engage in behaviors which are beneficial to the state. However, when incentives merely reward behavior that would have occurred anyway, or when those behaviors do not produce the desired benefits, tax incentives can become costly and ineffective.

To help ensure the state offers an array of cost-effective tax incentives, those incentives should be routinely and systematically evaluated by policy makers. As these findings show, Kansas lags behind what many other states are doing to regularly conduct high-quality tax incentive evaluations which measure the economic impact of those incentives and use the results to inform policy. Although Kansas does maintain a comprehensive inventory of its tax incentives, it does little in the way of rigorous evaluation to ensure these incentives are working as intended.

Recommendations

Recommendation to the Kansas Legislature

1. To align Kansas' tax credit and exemption evaluation process with the best practices identified by The Pew Charitable Trusts, the Legislature should (pages 7-14):
 - a. Identify the major tax credits and exemptions that should be reviewed on a regular basis.
 - b. Require one or more state agencies to conduct regular, systematic evaluations of the major tax incentives. These evaluations should:
 - i. Follow a predetermined multiyear schedule.
 - ii. Assess each tax incentive's impacts on the economy and taxpayer behavior and compare them to the cost.
 - c. Require appropriate legislative committees to consider the results of tax incentive analyses as part of their policy decisions.

APPENDIX A
Agency Responses

On September 15, 2017, we provided copies of the draft audit report to the Kansas Department of Revenue and the Kansas Insurance Department. We did not have any recommendations for these agencies, and neither agency submitted a formal response to the audit.

APPENDIX B

Bibliography

This appendix includes a list of the reports and studies noted in this report.

1. Kansas Legislative Division of Post Audit, *Kansas Tax Revenues, Part I: Reviewing Tax Credits* (February 2010).
2. Kansas Legislative Division of Post Audit, *Kansas Tax Revenues, Part II: Reviewing Sales Tax Exemptions* (February 2010).
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4. Kansas Legislative Division of Post Audit, *Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 1* (September 2013).
5. Kansas Legislative Division of Post Audit, *Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 2* (February 2014).
6. Kansas Legislative Division of Post Audit, *Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3* (December 2014).
7. The Pew Charitable Trusts, *How States Are Improving Tax Incentives for Jobs and Growth: A National Assessment of Evaluation Practices* (May 2017).