

SESSION OF 2011

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 198**

As Amended by Senate Committee of the Whole

**Brief\***

SB 198, as amended, would designate 50 counties as Rural Opportunity Zones (ROZ), effectively providing an income tax exemption for certain out-of-state taxpayers who relocate to those counties; and authorizing the counties to participate in a state-matching program to repay student loans of up to \$15,000 for certain students who establish domicile in ROZ counties.

The counties which would receive the ROZ designation are:

Barber, Chautauqua, Cheyenne, Clark, Cloud, Comanche, Decatur, Edwards, Elk, Gove, Graham, Greeley, Greenwood, Hamilton, Harper, Hodgeman, Jewell, Kearny, Kingman, Kiowa, Lane, Lincoln, Logan, Marion, Mitchell, Morton, Ness, Norton, Osborne, Pawnee, Phillips, Pratt, Rawlins, Republic, Rooks, Rush, Russell, Scott, Sheridan, Sherman, Smith, Stafford, Stanton, Trego, Thomas, Wallace, Washington, Wichita, Wilson and Woodson.

**Income Tax Provisions**

For tax years 2012-2016, taxpayers would receive a full tax credit against their own state income tax liability, provided they have been:

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

- Domiciled outside the state for five or more years immediately prior to establishing residency in a ROZ;
- Had Kansas source income of less than \$10,000 for each of the five years immediately prior to establishing residency in a ROZ; and
- Were domiciled in a ROZ during the entirety of the taxable year for which the credit is to be claimed.

Tax credits would be denied relative to returns which are not timely filed, as well as for individuals who are delinquent in any tax due to the state or any political subdivision.

An additional provision would require that a report be made each January to the standing tax committees relative to the number of persons applying for the tax credits.

### **Student Loan Repayment Provisions**

ROZ counties would be authorized to adopt resolutions prior to January 1, 2012 (and every subsequent year through January 1, 2016) irrevocably obligating the counties to pay half of certain extant student loan costs, up to a maximum of \$15,000, in equal increments over a five-year period. A state matching program, subject to appropriations, would provide for matching payments. (If the maximum \$15,000 amount were to be adopted in a ROZ county resolution, the state and the county would each repay \$7,500 in equal increments over a five-year period, or \$1,500 per year per governmental entity.)

Resident individuals would be entitled to apply for the loan repayments relative to payments made to attend institutions of higher learning where they obtained an associate, bachelor or post-graduate degree, provided they

have established domicile in a ROZ county on or after the date such county commenced participation in the program, and prior to July1, 2016. Eligibility for the loan repayment program would terminate upon relocation outside of the ROZ county from which initial eligibility was obtained.

## **Background**

The bill was requested for introduction by the Governor and supported by the Secretary of Revenue and the Secretary of Commerce. Other proponents included the Kansas Dental Association and the Kansas Hospital Association.

Based on the latest information available from the Department of Revenue relative to the Senate Committee version of the bill, the tax credit is expected to reduce State General Fund receipts by \$1.504 million in FY 2013; and by \$4.368 million in FY 2014.

The fiscal note from the Budget Division also indicated that *The Governor's Budget Report* recommended that \$1.329 million in Economic Development Initiatives Fund monies be appropriated in FY 2012 to the Department of Commerce for the ROZ loan repayment program and associated administrative purposes. The fiscal note from the Department of Revenue observed that if 50 students qualified for the maximum amount of loan repayment in the first year, the state's matching share would be \$75,000. The Department of Revenue also indicated that it has not yet been able to estimate its own administrative costs associated with the new tax credit program.

The original bill would have applied the ROZ designation to those 40 counties believed to have had population declines of at least 10 percent over the last decade, and also would have prohibited participation in the income tax exemption or student loan repayment programs for persons with any Kansas source income over the preceding five and two years, respectively. The original bill also would have applied an out-

of-state residency test relative to the student loan repayment program.

The Senate Assessment and Taxation Committee amended the bill to incorporate some technical amendments suggested by the Department of Revenue; to add six counties that Senator King said have relatively low median household income or high child poverty rates; and to relax the proposed restriction relative to Kansas source income to authorize participation by persons with such income of up to \$10,000 in a given year.

The Senate Committee of the Whole amended the bill to add four additional counties that Senator King said either had population declines of 8 percent or more or were located next to a number of other counties which were being proposed to receive the ROZ designation; to add the annual reporting requirement relative to the standing tax committees; and to make the student loan repayment program more generally available to all individuals (regardless of prior residency, Kansas source income, or where they may have received their higher education degrees).