

SESSION OF 2018

SUPPLEMENTAL NOTE ON SENATE BILL NO. 334

As Amended by Senate Committee on
Commerce

Brief*

SB 334, as amended, would extend 75.0 percent of the unused High Performance Incentive Program (HPIP) tax credits beyond the current carryforward limit, from 16 years to 25 years. In any tax year after the 16th year, the amount of tax credits used by a taxpayer would be limited to 25.0 percent of the reduced amount. Taxpayers would be required annually to certify under oath that they continue to meet HPIP requirements. The bill would not revive HPIP tax credits that expired before January 1, 2018.

Background

HPIP provides persons with a 10.0 percent non-refundable income tax credit for eligible capital investments that exceed either \$50,000 in non-metropolitan counties or \$1.0 million in the five metropolitan counties of Douglass, Johnson, Sedgwick, Shawnee, and Wyandotte. In 2011, the Legislature passed legislation that provided for an extension to use HPIP tax credits from 10 years to 16 years.

The bill was introduced by the Senate Committee on Commerce at the request of Sprint.

During the hearing before the Senate Committee on Commerce, a representative of Sprint spoke in favor of the bill, explaining the company built its campus headquarters in Overland Park in 2002, which generated \$108.0 million in

*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>

HPIP tax credits. The company has utilized approximately \$8.0 million in tax credits. The estimated \$100.0 million in tax credits will expire at the end of Sprint's fiscal year, which is March 31, 2018. The conferee explained Sprint has 6,136 employees on its campus, which includes 4,228 Kansas residents. Sprint estimates its headquarters supports more than 9,500 jobs throughout Kansas and generates, directly and indirectly, \$600.0 million of income for Kansas employees.

Representatives of CenturyLink, the Kansas Chamber, and the Wichita Regional Chamber of Commerce spoke in favor of the bill, stating the extension would provide flexibility to companies that have been adversely affected by the economy.

A representative of Americans for Prosperity provided written-only testimony in opposition to the bill, stating the extension would not incentivize additional economic growth and could cause the State's revenues to become less stable.

The Senate Committee amended the bill to limit the number of years that reduced HPIP tax credits may be used to 25 years. The bill, as introduced, would have placed no deadline on the use of the tax credits after the 16th year.

According to the fiscal note prepared by the Division of the Budget, in consultation with the departments of Commerce and Revenue, the bill, as introduced, would decrease revenues to the State General Fund (SGF) by up to \$30.0 million in FY 2019. The Department of Revenue indicates 289 taxpayers claimed approximately \$51.7 million in HPIP tax credits in tax year 2015. There are more than \$600.0 million in outstanding HPIP tax credits that may be claimed. The Department of Revenue estimates it would require \$28,800 from the SGF in FY 2018 to implement the bill, which would be performed by existing staff. The Department of Commerce estimates the additional costs of certifying HPIP companies beyond the 16th year would be negligible and could be absorbed within existing resources.

Any fiscal effect associated with the bill is not reflected in *The FY 2019 Governor's Budget Report*.

Following the Senate Committee amendments, the Department of Revenue indicated the amendments to the bill would not affect the fiscal note.