Approved: Janaury 31, 2008
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:35 A.M. on January 29, 2008 in Room 519-S of the Capitol.

Senator Hensley was absent.

Committee staff present:
- Gordon Self, Office of Revisor of Statutes
- Chris Courtwright, Kansas Legislative Research Department
- Scott Wells, Office of Revisor of Statutes
- Ryan Hoffman, Kansas Legislative Research Department
- Judy Swanson, Committee Assistant

Conferees appearing before the committee:
- Dave Kerr, Secretary, Kansas Department of Commerce
- David Bybee, HPIP Program Manager, Kansas Department of Commerce
- Kathleen Smith, Tax Specialist, Kansas Department of Revenue

Others attending:
See attached list.

Richard Cram, Kansas Department of Revenue (KDOR), requested introduction of a tax incentive package that would create the Kansas investment credit act and the Kansas jobs credit act. Senator Donovan moved to introduce the requested bill. Senator Jordan seconded the motion, and the motion carried.

Chairman Allen announced there would be a Joint Senate Assessment & Taxation Committee and Senate Commerce Committee hearing on Friday, February 1, upon adjournment of the Senate, in Room 123-S, to hear the newly introduced bill. It was noted Senator Lee has another committee meeting which conflicts with the joint hearing.

Dave Kerr, Secretary, Kansas Department of Commerce, presented an overview on the Tax Incentive Package proposal. (Attachment 1) The tax incentive package objectives are to establish a selectively applied tax credit cash refund program, to establish the creation of opportunity zones, to replace existing tax credit programs with streamlined investment tax credit and job creation credit plans, and to simplify qualified investment calculation for investment-based credits. Secretary Kerr explained each objective.

The establishment of a selectively applied tax credit cash refund program is a new concept. It is set up for companies that have not previously been able to use their tax credits. Outstanding tax credits earned, but that cannot be used to date, are about $300 to $450 million. This program would be applied on a prospective basis only (12/31/07 and after). The total amount of appropriations would be capped at $10 million annually.

The establishment of opportunity zones to enhance investment and job creation credits mirrors the provisions of 2007 **HB 2170**. In addition, the proposal would include Opportunity Zones created in response to a disaster area designation.

The incentive package would replace existing tax credit programs with streamlined investment tax credit and job creation credit plans. Qualified investments would equal or exceed $50,000 for businesses in Opportunity Zones, and equal or exceed $300,000 for businesses outside of Opportunity Zones. The new proposal would replace Enterprise Zone incentives, High Performance Incentive Program (HPIP), and the business and job development credits.

Secretary Kerr said the proposal would simplify qualified investment calculation for investment-based credits. A qualified investment would have to remain in service through the last day of the year, and recertification would not be required for investment or job credits.

Secretary Kerr, in response to Senator Apple, said that Miami County would fall outside the realm of this bill, and this issue would need to be addressed individually.

David Bybee, Program Manager, Kansas Department of Commerce, reviewed the current HPIP program. (Attachment 2) HPIP is an incentive program, not an entitlement program. It was structured to reward businesses that have satisfied program objectives and is not available to businesses in which tax benefits have no impact on their decision about where to locate. HPIP does not require job creation, but new job creation is typically part of the kind of major investment that generates the largest benefits from the program. All participants must pay an above-average wage and invest in employee training. Mr. Bybee explained the general flow and timeliness of HPIP activities.

Kathleen Smith, Tax Specialist, Kansas Department of Revenue (KDOR), gave an overview of the Business and Job Development Credit that is currently available. (Attachment 3) She reviewed the qualifications and credit amounts for the Job Expansion and Investment Credit Act.

A credit is allowed as a direct tax credit against the income tax of any Kansas taxpayer in a Kansas Enterprise Zone when an investment in a qualified business facility is made, and a specified minimum number of qualified business facility employees are hired as a direct result of that investment.

Being no further business, the meeting was adjourned at 11:13 a.m. The next Committee meeting will be held January 30.