

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 1, 2008 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Ryan Hoffman, Legislative Research Department
Scott Wells, Office of Revisor of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Secretary Joan Wagon, Kansas Department of Revenue (KDOR)
Jeffrey D. Morris, Coffeyville City Manager
Representative Stan Frownfelter

Others attending:

See attached list.

The Chairman said they would address the sales tax issue first, and reminded the Committee during their hearing yesterday they discussed extending the policy that was granted to the Greensburg area retroactively to southeast Kansas. They will gut **HB 2336**, which is a sales tax exemption dealing with currency, and use that as the vehicle.

Representative King reviewed the new bill that contained draft language. It is identical to the bill that was passed in the 2007 session during Seine Die for Greensburg (Attachment 1). Discussion followed regarding the refund ability process. Representative King commended Representative Palmer and Williams for their work on the bill. Gordon Self requested authority to make minor changes to the bill, based on review by KDOR and the Adjutant General's office. There was no opposition to that request. The fiscal note is approximately \$3 to \$5 million.

Representative King made a motion to strip language from **HB 2336**, and insert language from the Greensburg bill and make it a substitute bill. It was seconded by Representative Owens. The motion carried.

Representative Peck made a motion the Taxation Committee move out **Substitute for HB 2336** favorably for passage. Representative Menghini seconded. The motion carried.

HB 2640 - Income tax credit for capital investments in businesses located in a city substantially damaged by disaster.

The Chairman invited Richard Cram to the podium to explain the term "Capital Investment." A memorandum on "Capital Expenditures" was distributed (Attachment 2). He said terms within Kansas Income Tax code, will have the same meaning in comparable text from the Internal Revenue Code, so people would look to the term Capital Expenditure for definitions. In general, federal regulations consider "capital expenditures" to include amounts paid to add to the value, or substantially prolong the useful life, of property owned by the taxpayer, such as plant or equipment, or to adapt property to a new or different use. He reviewed examples of capital expenditures. He recommended that the Committee determine what to include in "capital investment" based on the intent of the bill.

The Department staff suggested, as a starting point, they consider the current language used for the Business and Job Development and HPIP tax credit programs (Attachment 3). Those are the same terms used in the new **SB 497**, which limits the investment, for tax credit purposes, to investments in real property improvement and businesses machinery and equipment that stays at the facility. At this time, it does not cover inventory. The Chairman suggested that they use language in the state statute.

Discussion followed regarding interpretation of definitions.

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 1, 2008 in Room 519-S of the Capitol.

Secretary Wagon said that the Committee has to answer the question of whether they want to do more for people in disaster areas, than what is currently covered under various programs?

Representative King explained differences between **HB 2640** and **SB 497**. He suggested language for the bill should include: repairs, building new structures, which are used in a revenue producing enterprise, and inventory. Secretary Wagon said the Department would work with the Revisor's office to draft language to amend **HB 2640**, however there are differences between the approaches in the two bills, especially pertaining to the prospective piece.

Stan Frownfelter spoke to the Committee regarding disaster insurance commonly carried by businesses.

In response to a question, Jeffrey D. Morris, Coffeyville City Manager, came to the podium to explain the difficulties he and his staff in Coffeyville, would have in handling distribution of incentive funds, given the scenario that the city received those dollars instead of the individual businesses.

The following memorandums were distributed: 1) Definition of "City Substantially Damaged by Disaster"; 2) Chart on nine counties with the number of structures severely damaged in 2007; and, 3) Kiowa County Business Restoration Assistance Program(Attachment 4).

After lengthy discussion, the Chairman said that due to the complexity of the subject, he would consider the creation of a sub-committee to study the topic in-depth and return with their recommendations. Anyone interested to serving on said committee, should speak to someone on leadership.

The meeting adjourned at 10:55 a.m. The next meeting is February 5, 2008.