Approved: 2-15-2008
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on January 31, 2008 in Room 519-S of the Capitol.

All members were present except: Representative Dillmore

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

Conferees appearing before the committee:
Secretary Joan Wagnon, Kansas Department of Revenue (KDOR)
David Bybee, HPIP Manager - Kansas Department of Commerce (KDOC)

Others attending:
See attached list.

Representative Wilk made a motion to introduce a bill regarding income tax deductions related to medical care expenses. Representative Carlson seconded. The motion carried.

The Chairman invited Secretary Wagnon to the podium to give a briefing on the macro economics package, which is comprised of several incentive programs. Recently Secretary Wagnon and Secretary Kerr had given this briefing jointly, however due to a scheduling conflict for Secretary Kerr, Secretary Wagnon would review KDOC IMPACT program.

The Secretary said that on Friday the Senate Tax and Economic Development Committees are going into a joint session hearing on **SB 497**, which contained the majority of the tax incentive programs. The bill had been jointly referred to those committees. At the request of the Chairman, she explained that a dual referred bill means that you combine the two committees, they move the bill together, and it takes a majority of the total number of combined members to pass the bill out. She said that the 2008 Legislative Proposal is very much a joint effort of KDOR and KDOC, and legislators can be assured that they are totally in agreement on all the proposals.

The Secretary said there were four concepts in the economic development package: 1. Impact Program Enhancement; 2. Tax Incentive Program; 3. Research and Development, and 4. Modernization of the Corporate Income Tax. She explained the genesis of the sub-committee that worked together to develop legislation before them. She introduced David Bybee, HPIP Manager, KDOC in attendance

IMPACT PROGRAM ENHANCEMENT (Attachment 1) Following are key points:

Current Law
- Utilized for training and cash incentives for new or retained jobs.
- Allows for use of 2% of overall withholding taxes collected
- Capacity for debt service and program fees
- Awards restricted to 95% of estimated withholding tax for new or retained jobs

Recommendation for Impact Enhancement
- Maximize value to the state and business by providing the flexibility to utilize debt service or cash
- Eliminate 95% withholding limitation which negatively impacts business recruitment
- Target a minimum of 15% for rural projects and a minimum of 20% for small business opportunities
- Unallocated funds carried forward absent of targets

TAX INCENTIVE PACKAGE (Attachment 2)

OBJECTIVES:

1. Establish a selectively applied tax credit cash refund program (New)

- Applied on a prospective basis only (12/31/07 and after)
- Total amount of appropriation capped at $10M annually
- Companies may apply for a select number of a discounted cash refund of up to 40% of earned credits.
- If awarded and a discounted cash refund is accepted, the remaining amount of company's tax credits would be forfeited.
- Application made through Commerce with selection criteria developed through rules & regulations.
- Commerce submits annual report to Legislature, detailing the company and total credit awarded.

2. Establish the creation of opportunity zones to enhance investment and job creation credits

- Mirrors provisions of **HB 2170**
- Opportunity Zone can be created in response to a disaster area designation

3. Replace existing tax credit programs with streamlined investment tax credit and job creation credit plans

Investment Tax Credit - Set at 10% of qualified investment

- For-profit businesses
- Identified under specifics NAICS codes or HQ/ancillary support operation
- Qualified investment

Job Credit Creation

Investment tax credit and job creation credit plans replace:

- Enterprise Zone Incentives; High Performance Incentive Program (HPIP) and the Businesses and Job Development Credits

4. Simplify qualified investment calculation for investment-based credits

- Qualified investment placed in service during taxpayer's tax year

The Secretary called attention to the following memorandums: 1) Business and Job Development Credit: Job Expansion and Investment Credit Act and Kansas Enterprise Zone Act, which describes the current programs being repealed (Attachment 3); 2) Kansas Tax Credits, which reflects tax expenditure data for 2005 (Attachment 4); 3) High Performance Incentive Program (HPIP) (Attachment 5) and General Flow of HPIP Activities (Attachment 6).

Following were requests for addition information:

- Request data on the amount of HPIP applications and the dollar amount of the credits
- How much debt service is outstanding?
- How many HPIP applications and credits were awarded in 2007
- What criteria will be used to determine whether a company will be awarded a refund?
- Will the criteria be published in the Rules and Regulations before a vote on the bill is taken.
- What is the level of investment most applicants are making?

Due to time constraints the Chairman said they would return to the issue on Tuesday, February 5, 2008. He invited Secretary Wagnon back to that meeting, and also extended the invitation to Secretary Kerr.

The meeting adjourned at 10:25 a.m. The next meeting is 2-1-08.