

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Vice Chair Richard Carlson at 9:00 A.M. on February 13, 2008 in Room 519-S of the Capitol.

All members were present except: Representatives King - Excused
Representatives Holland- Excused

Committee staff present:

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

Conferees appearing before the committee:

Stan Ahlerich, President, Kansas Inc.
Art Hall, Executive Director, Center for Applied Economics, KU School of Business
Marlee Carpenter, Kansas Chamber of Commerce
Tim Whitsman, Wichita Independent Business Association
Ken Daniels, KS Small Biz. Com
Derrick Sontag, National Federation Independent Bussinesses
Alan Cobb, Americans For Prosperity
Richard Cram, KDOR

Others attending:

See attached list

Representative Owens requested a bill introduction, on behalf of Representative Virgil Peck, that would allow cities to request assistance from KDOT or the National Guard to help with the demolition of flood damaged houses. Representative Carlson seconded. The motion carried.

Representative Crum requested a bill introduction that would allow Butler County to place a County wide sales tax on the ballot for revenue for public safety, capital projects and/or bridge or road construction. Representative Owens seconded. The motion carried.

HB 2751 - Authorizing the option to expense investment expenditures as an alternative to depreciation in calculating income tax liability.

Gordon Self stated the bill was worked in conjunction with the Revisor's staff and Professor Hall. Mr. Self provided a general overview of the bill and said Dr. Hall would provide details of the seventeen page bill. The taxpayer is allowed to take the full expenditure on the investment in the first year, rather than depreciate the expense over a period of years. He distributed a briefing statement on the Expensing Deduction (Attachment 1).

The Vice Chair opened the public hearing on **HB 2751**.

Stan Ahlerich, President, Kansas Inc. distributed written testimony that provided insight to the expensing proposal that is relative to many of the concepts that were brought forth during the 2007 statewide economic development strategic planning process. During that process, participants articulated six guiding principles, (listed in testimony) regarding economic development efforts. In their assessment, the expensing proposal meets each guiding principle and would provide an immediate income tax deduction for new capital investments for any business (Attachment 2).

Art Hall, Executive Director, Center for Applied Economics, Kansas University, said that they are trying to implement a tax policy that honors the notion that "every business matters" (Attachment 3). What they are doing, as a matter of tax and economic policy, is to establish a value for Kansas investments made in Kansas. Something the federal government does not do under normal rules. Part of the challenge was to create a procedure, that worked seamlessly with the way federal rules work and how the Kansas tax system interacts with it. They believe that has been accomplished in **HB 2751**, with one small exception, which he

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explained.

He described how the Federal Stimulus package would affect the Kansas budget. He stressed two points: **HB 2751** is *not effective* until January 1, 2009 and everything from the federal level will happen in 2008.

He reviewed seven key points of the Federal Rules for Expensing (Section 179). He guided the Committee through the basic mechanics used by a small business, showing calculations from the Kansas Expensing under Adjustments for Federal Rules (Attachment 3). Discussion followed regarding the formula, its rationale and impact of the fiscal note.

Marlee Carpenter, Kansas Chamber of Commerce, said that the Chamber of Commerce is supportive of new and innovative ideas that will provide incentives for investment in the state (Attachment 4). Attached to her testimony was a copy of the Business Opportunity/Vitality-Score Performance, 2002-2006, which ranks Kansas 45, among the fifty states. This is indicative that businesses are not starting in Kansas as rapidly as they are in other states. Companies should be able to choose between the expensing option or continue their existing tax option.

Tim Whitsman, Wichita Independent Business Association, testified that they are supportive of efforts to increase business investment in Kansas. This legislation makes it less difficult for companies that lack the resources to devote entire departments to mastering the intricacies of an incentive to take advantage of the intent of the legislation (Attachment 5). Discussion followed regarding the multiplier used by businesses of varying size. He was asked and agreed to provide information regarding a general idea of what the average multiplier might be.

Ken Daniels, KansasSmallBiz.com answered a previous question on the percentage of Kansans that work for large and small businesses - 8 to 19 % of all Kansans work for the government; of the remaining Kansans, 54% work for small business and 46% work for large business. Any businesses in Kansas, whatever size, benefits the tax base of Kansas and is good for the economy! He said that "expensing" is just "sudden depreciation". It will reduce this year's income, but increases future income for all years when regular depreciation would have been taken (Attachment 6).

Derrick Sontag, National Federation testified that **HB 2751** would allow all taxpaying businesses the option of expensing or accessing applicable tax incentives when making qualified investments. In response to previous discussion he said that 94% of business in Kansas have less than 100 people. NFIB polling has found that one in five small businesses encounter "consistent" cash flow problems. The passage of this bill will have a direct impact on the more than 300,000 small businesses in Kansas (Attachment 7).

Alan Cobb, Americans For Prosperity, appeared in support of the bill, as a way to increase the competitiveness of Kansas businesses. This bill would take another positive step away from picking winners and losers and giving each Kansas business an equal opportunity to expand his or her business (Attachment 8).

It was noted that written testimony from Duane Simpson, was distributed from Kansas Grain & Feed Association, in support on **HB 2751** (Attachment 9).

Richard Cram testified from a neutral position, but expressed concerns regarding **HB 2751**. He said the Department's first and foremost concern is the proposal's staggering initial negative fiscal impact. The estimated fiscal impact in the first year of implementation would be negative \$68 million. The bill would also add significant complexity to the tax laws by creating another set of depreciation rules different from federal law. He said that there are numerous expensing programs at the federal level and questioned the need for more at the state level (Attachment 10).

The meeting was adjourned at 10:25 A.M. The next meeting is February 14, 2008.