8

Testimony on Senate Bill 342

by Betty Nelson
Senior State Incentive Manager
CBIZ Accounting, Tax & Advisory Services of Kansas City

March 8, 2007

CBIZ is a national leader in accounting, tax and advisory services with 140 offices in 34 major cities throughout the country. We are one of the nation's leading providers of outsourced business services, including accounting and tax, benefits and insurance, and a wide range of consulting services.

CBIZ is headquartered in Cleveland, Ohio with our mid-west regional office in Leawood, KS. CBIZ moved our regional office from Missouri to Kansas in July of 2003 based on the incentive package we received from the State of Kansas for committing to $20,000,000 of new investment and 540 net new jobs.

I am part of our State and Local Tax (SALT) group and work with clients every day that are expanding, creating jobs and adding capital investment. We prepare our clients' State and Federal tax returns and advise them on related issues such as tax credits, training grants and sales tax exemptions. Taxes are important to business. Business decisions are affected by them. Job creation and retention, site selection, competition and numerous other decisions hinge on them. Our clients make location decisions based on our advice.

Currently, companies have three *separate* ways to invest in the State of Kansas:

1. Invest in capital by purchasing or leasing new equipment and/or expanding facilities.
2. Create net new jobs, thereby increasing payroll.
3. Invest in training initiatives by spending greater than 2% of their gross payroll on training their workforce (both existing and new employees).

We are extremely concerned that SB 342 will adversely affect our clients' desire and determination to move to or expand in Kansas. Although we applaud the State's efforts to simplify the document preparation, we believe that the raising of the thresholds and elimination of the training tax credit will diminish Kansas' ability to compete with its neighbors.

Until now, Kansas has been very effective at winning new businesses in the state based on the incentive packages they have offered to those who are considering opening a business or moving an existing business to the state. If the tax credits for smaller businesses are removed, the state will certainly not be in a competitive position and will struggle to catch up with the surrounding states.

Investment Tax Credit

Current investment level required

- Currently all companies must subtract out the first $50,000 of investment and can earn a 10% tax credit on qualified investment greater than $50,000.

New Legislation proposed

- Raise the investment threshold to $1,000,000.

Our proposal

- Investment threshold (if it must be raised) should be no more than $150,000 to account for companies making routine investment in their business.

Job Creation Tax Credit

Current job creation level required

- Manufacturers must create two net new jobs in all areas of the state.
- Retail businesses must create two net new jobs in all areas of the state.
- Non manufacturing/non-retail businesses must create five net new jobs.
- Business headquarters and ancillary support must create 20 net new jobs in all areas of the state.

New Legislation proposed

- All businesses in Metropolitan Statistical Area (MSA) would be required to create 20 net new jobs.
- Retail businesses will not be eligible.
- In Opportunity Zones manufacturers will be required to create five net new jobs.

Our proposal

- Manufacturing and non-manufacturing/non-retail businesses must create five net new jobs
- Business headquarters and ancillary support operation must create 20 net new jobs.

  Twenty jobs are too many for a small to medium business to create in any given year.

Excessive Training Tax Credit

Current Training Tax Credit

- Companies who invest greater than 2% of their gross payroll in training their workforce can earn a dollar for dollar tax credit up to $50,000 for providing Kansas with a well-trained workforce.

New Legislation proposed

- *Eliminate* this tax credit for all businesses.

Our proposal

- Make this a separate tax credit and allow all companies who meet the NAICS code requirements and wage standards to receive a tax credit for investing in human capital for training that exceeds 2% of their gross payroll. Training employees is expensive, especially if your employees leave. However, not training them and having them stay is even more expensive.

Incentives are a natural lightning rod for criticism. Debate often centers on whether they are necessary and effective or simply a waste of resources. Companies seek such objectives as a skilled labor force, the availability of raw materials and a short distance to markets. In the final analysis, however, government incentives are crucial to a company's ultimate decision on where to locate that new facility.

Many of our clients are small businesses that are growing and expanding. These companies pay higher than above average wages. They generate greater than 50% of their revenues from out of state, and they invest in properly training their workforce. These are the types of businesses all of you want in your communities. This legislation, as proposed, will discourage desirable businesses from locating in Kansas from outside of the state and will hinder businesses already located in the state from expanding.

Attached is a spreadsheet showing how the new legislation proposed will affect both a new business coming to Kansas and an existing business that is considering leaving the state.

Thank you for your consideration.

Software business considering locating from out of state into the Kansas Metropolitan Statistical Area (MSA)

Assumptions:

Total investment of $6,500,000 over 5 years
Total jobs of 70 over 5 years
Type of business - Software developer
Job creation is $1,500 per net new job

	Year 1	Year 2	Year 3	Year 4	Year 5	
Investment	$3,000,000	$875,000	$875,000	$875,000	$875,000	$6,500,000
Job creation	30	10	10	10	10	70
Benefits under the current tax credit programs						
HPIP (minus first $50,000)	$295,000	$82,500	$82,500	$82,500	$82,500	$625,000
Business & Job Tax credit	$45,000	$15,000	$15,000	$15,000	$15,000	$105,000
Training tax credit	$50,000	$50,000	$50,000	$50,000	$50,000	$250,000
Sales tax exemption (using 7.225)	$72,250	$63,219	$63,219	$63,219	$63,219	$325,126
Total benefit						$1,305,126
Benefits under the proposed legislation						
Investment tax credit ($50,000 will no longer be deducted)	$300,000	$0	$0	$0	$0	$300,000
Jobs Credit	$45,000	$0	$0	$0	$0	$45,000
Sales tax exemption (using 7.225)	$72,250	$0	$0	$0	$0	$72,250
Training Tax Credit	$0	$0	$0	$0	$0	$0
Total benefit						$417,250

By raising the investment level from $50,000 to $1,000,000 in any given year and raising the job creation requirement from 5 to 20 jobs the company would lose $887,876 in incentives that would be offered under the current incentive programs.

Existing manufacturing business considering a new location/could locate in either Kansas or Missouri

Assumptions:

Total investment of $1,400,000 over 5 years
Total of 25 jobs added over the next 5 years
Type of business - Manufacturer of electronic components
Job creation is $1,500 per net new job
Existing jobs - 30
One half of the equipment investment each year is for non-manufacturing equipment.
Training tax credit - The company can earn up to $50,000 each year, but we are only estimating the company earns $20,000 each year.
This company is a Sub S and is taxed at the individual level.

	Year 1	Year 2	Year 3	Year 4	Year 5	
Investment	$600,000	$200,000	$200,000	$200,000	$200,000	$1,400,000
Job creation	5	5	5	5	5	25
Benefits under the current tax credit programs						
HPIP (minus first $50,000)	$45,000	$15,000	$15,000	$15,000	$15,000	$105,000
Business & Job Tax credit	$7,500	$7,500	$7,500	$7,500	$7,500	$37,500
Training tax credit	$20,000	$20,000	$20,000	$20,000	$20,000	$100,000
Sales tax exemption (using 7.225)	$7,225	$7,225	$7,225	$7,225	$7,225	$36,125
Total benefit						$278,625
Benefits under the proposed legislation						
Investment tax credit ($50,000will no longer be deducted)	$0	$0	$0	$0	$0	$0
Jobs Credit	$0	$0	$0	$0	$0	$0
Sales tax exemption (using 7.225)	$0	$0	$0	$0	$0	$0
Training Tax Credit	$0	$0	$0	$0	$0	$0
Total benefit						$0

By raising the investment level from $50,000 to $1,000,000 in any given year and raising the job creation requirement from 2 to 20 jobs, the company would lose $278,625 in incentives that would be offered under the current incentive programs.