

SESSION OF 2022

SUPPLEMENTAL NOTE ON SENATE BILL NO. 326

As Amended by Senate Committee on
Assessment and Taxation

Brief*

SB 326, as amended, would create an income tax credit for any Class II or Class III railroad or any owner or lessee of rail siding located on or adjacent to a Class II or Class III railroad for tax years 2022 through 2031 equal to 50 percent of the qualified track maintenance expenditures paid or incurred during the taxable year for track located in the state of Kansas. Expenditures used to generate a federal tax credit or funded by a state or federal grant would not result in a credit.

The credit would be limited to \$5,000 per mile of track or per rail siding owned or leased within the state as of the close of the taxable year. A mile of track would be taken into account only once in each taxable year, and the total amount of statewide credits allowed for each taxable year would be limited to \$8.72 million.

Any unused credit could be carried forward for up to five taxable years. For the five taxable years immediately following the year for which the credits were allowed, the taxpayer earning the credits would be permitted to transfer the credits to any eligible customer or eligible vendor. The bill would require any transfer of credit to be made by written agreement and would require the agreement to be filed with the Department of Revenue within 30 days of the transfer.

An eligible customer would be defined as a business that uses short-line railroads or railroad-related property within Kansas, that is served by a short-line railroad, or stores

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

railcars on the short-line railroad. An eligible vendor would be defined as a person providing railroad-related services to the taxpayer earning the credits.

The credit would not be refundable.

The bill would require the Secretary of Revenue to annually certify the tax credit amount allowed for each eligible taxpayer.

The Secretary of Revenue and the Secretary of Transportation would be authorized to adopt rules and regulations to administer the credit and verify the eligibility of taxpayer expenditures for purposes of the credit.

Background

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Watco.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by representatives of Watco, the Cimarron Valley Railroad, and Mickelson and Company. Written-only proponent testimony was provided by representatives of the Kansas Agribusiness Retailers Association, the Kansas Cooperative Council, the Kansas Grain and Feed Association, and the Western Kansas Development Organization. Proponents stated enactment of the bill would result in increased investment in short-line railroad infrastructure and safer and more efficient rail service to rural rail customers.

No other testimony was provided.

The Senate Committee amended the bill to limit the recipients of transferred tax credits to eligible customers and eligible vendors.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, the Department of Revenue estimates enactment of the bill would result in an annual reduction of \$8.72 million in State General Fund receipts. The Department of Revenue also indicates implementation of the bill would require the addition of 1.0 FTE position. Any fiscal effect associated with the bill is not reflected in *The FY 2023 Governor's Budget Report*.

Taxation; income tax; tax credits; short-line railroads; track maintenance