

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 5, 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
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Secretary Kerr, Kansas Department of Commerce (KDOC)
Dr. Art Hall, Executive Director, Center for Applied Economics, KU School of Business

Others attending:

See attached list.

It was noted that minutes from the January 23, 24 and 25, 2008 meetings were sent electronically to the Committee on January 28 and, by consensus, approved on February 5, 2008.

The following bill introductions were requested.

Representative Whitham requested a bill be introduced that would provide standardization for the granting of sales and use taxes. Representative Carlson seconded. The motion carried.

Representative Wilk made a motion to introduce a bill which would treat commercial trucks the same for M & E exemptions as the rest of business machinery and equipment. Representative Carlson seconded. The motion carried.

On behalf of Representative Goyle, the Chairman requested a bill introduction changing the social security exemption from \$50,000 for household to an individual. Representative Carlson seconded. The motion carried.

The Chairman called attention to a copy of an article "Growth and taxes - Outmoded tax systems are undercutting the economic future of the states," published in "Governing - January 2008." He urged members to read the article as it is relevant to what is happening in Kansas today (Attachment 1).

The Chairman invited Secretary Kerr to the podium for a review of his proposal for the 2008 IMPACT program. On January 31, 2008, Secretary Wagon distributed information and reviewed details on the program. In response to questions regarding the criteria used for selection of applicants, he stated that the guidelines have not been finalized; however, he provided an outline from which they are working. Applicants would have a period of time to submit applications up until the end of October. All applications would be processed within thirty days and would be notified by November 1, 2008. They would have thirty days in which to accept or reject the cash refunds. That would allow the state time to reallocate any unused funds to other applicants. The Committee requested that Secretary Kerr provide copies of the criteria as they are finalized.

Secretary Kerr distributed a spreadsheet on Tax Incentive programs, current and proposed, that included (HPIP), Enterprise Zone Program, Business & Jobs Program, **SB 497** and the Differences (proposed vs. existing). This spreadsheet was previously distributed in the Senate. The requirements for participation were included (Attachment 2.)

Discussion followed regarding:

1. Difference in salaries between rural and metropolitan areas
2. Constitutional merit of the program
3. Timing of refund mechanism for businesses before they make an investment

CONTINUATION SHEET

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4. Fiscal note on tax credit program
5. Factors that determine the percentage of refunds a company will receive

A memorandum was distributed from the Kansas Department of Revenue with data on Investment Projects tied to HPIP Qualification. The chart represented FY 05-08 and listed the number and average cost of those projects (Attachment 3.)

In response to Committee's requests the following information was distributed :

1. Kiowa county Business Restoration Assistance Program, with application
2. Southeast Kansas Business Restoration Assistance Program, with application
3. NAICS included in proposed legislation
4. A map "Kansas-Core based Statistical Areas and Counties, referred to in **SB 497.** The map reflects the opportunity zones (rural areas that are economically disadvantages) (Attachment 4.)

The Chairman requested that the following issues regarding the Corporate Tax Structure be brought to the table in order for members to review all proposals, determine what they want to accomplish and how much they want to spend before they move into policy. He stated there are four major components. They are:

1. IMPACT
2. Tax Credit program (**SB 497**)
3. R & D sales tax exemption (**HB 2739**)
4. Corporate tax issues regarding business verses non-business (Interim Bill.)

The Chairman reviewed bills from last year, i.e., Corporate tax rate, Expensing (**HB 2751**), Unitary, etc.

Dr. Art Hall briefed the committee on the various components of "Implementation of Expensing in Kansas," a primer on the expensing proposal in the Kansas, Inc. Strategic Plan (Attachment 5.) He stated the tax policy matter is decades old; however, the current conversation comes from Kansas, Inc.'s Strategic Plan. All through the development stages, the theme "every business matters" was emphasized. He provided data on the number of businesses, large and small, located in Kansas. Key points of his presentation included:

1. Overarching goals of the program
2. Explanation of "expensing"
3. What is the Kansas, Inc. Proposal
4. How expensing compares with investment tax credits
5. A taxpayer perspective
6. Kansas, Inc's solution for implementing expensing
7. What is the fiscal note for the Kansas, Inc. Expensing proposal
8. Methodological points related to the fiscal note calculations

The overarching goal for expensing and all the tax credits proposed have the same policy goal, *to increase the expected rate of return on investment*, which in turn will attract private investors. Discussion followed on details of the proposal.

A memorandum regarding a Bill Summary corresponding to the Kansas, Inc., "Proposal for Universal Expensing of Capital Investment" as endorsed by the Joint Committee on Economic Development and an information brochure on "The Center for Applied Economics" (Attachment 6) were distributed.

The meeting adjourned at 10:30 A.M. The next meeting is February 6, 2008.