

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Chairman Paul "Bud" Burke at
Chairperson

11:00 a.m./p.m. on MARCH 16, 1983 in room 526-S of the Capitol.

All members were present ~~except~~:

Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee: Senator Ed Reilly
Cathy L. Kruzic, Travel & Tourism Director for Kansas
John A. Myers, Director, Lawrence Convention &
Visitors Bureau
Kay Crawford, Film Commission Coordinator

The committee held a hearing on SB 387 which provides an income withholding tax exemption for the film industry. The chairman recognized Senator Reilly, sponsor of the legislation and a member of the Kansas Film Commission, who described for the committee the benefits the state stands to gain by making this change in the income tax law. He said a television movie was filmed in the Lawrence area last summer and Kansas is in a favorable position to make the state even more attractive for movie productions. He said the estimated total income from the movie was well over \$2 1/2 million; in return for the assessment of the income withholding tax on non-residents, Kansas gained only \$3,773, and we could have lost the project over this one point. He urged passage of this legislation providing an incentive to encourage on-location production work in Kansas. (Attachment #1)

Senator Reilly introduced Cathy Kruzic, KDED tourism director, who spoke in support of this proposal, saying that providing this exemption from the income withholding tax will put Kansas in line with our neighboring states which are enjoying the benefits of successful on-location movie production programs. She said encouraging production companies to utilize Kansas locations will not only benefit the local economy, but will employ Kansans as members of the construction crew, drivers, production assistants, and even as actors and extras. (Attachment #2)

Kay Crawford, Film Commission Coordinator for Kansas, answered questions from committee members.

Senator Angell questioned whether if the intent of this bill was to have no tax liability, what about a large construction firm here to build a new office building.

John Myers, Lawrence Convention Bureau, stated that if ABC had known the way our income taxes were structured they probably would not have been in Kansas and they would have lost that project to another location. He said they support the efforts of KDED to bring these groups into the community and they give a good return on the investment besides being a positive, stimulating experience to the community. He distributed a paper showing the economic impact of ABC on Lawrence. (Attachment #3)

The committee considered SB 386 which deals with the taxation of gain from corporation liquidations. The chairman called the committee's attention to a letter distributed to them and signed by attorney Harvey Sorensen concerning some drafted language discussed with Bill Edds of the Dept. of Revenue. Bill Edds testified that the Department position on SB 386 was still one of opposition. He said there was the possibility of a person leaving the state and they would have no ability to collect that tax.

Senator Kerr moved and Senator Hayden seconded a motion to amend SB 386 in line 40 as follows "and such tax on such amount shall be charged to and reduce the amount distributed to such stockholders." The motion passed.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,
room 526-S, Statehouse, at 11:00 a.m.~~pm~~ on MARCH 16, 1983

The chairman noted that he was hearing concern from the committee members on this bill so will get more information about the potential loss of revenue to the state.

The committee held a hearing on SCR 1614 which modifies the rules and regulations of the Dept. of Revenue concerning solar energy incentives.

Representative Santford Duncan explained that this resolution modifies a couple of concurrent resolutions dealing with passive solar tax credits. He said the Rules and Regulations Committee found these regulations to be extremely complicated and since this tax credit is for ordinary people, substituted simpler language and asked to re-introduce this bill with a simpler method even if sacrificed a bit of accuracy.

Senator Angell moved and Senator Johnston seconded a motion to adopt SCR 1614.

Senator Kerr said since the time the resolution was written he had received input that even if the forms are uncomplicated that an accurate assessment is needed of how the system is going to be constructed.

Senator Angell withdrew his motion and Senator Johnston his second.

The chairman adjourned the meeting at 11:55 a.m. The committee will meet upon adjournment of the Senate in Room 531-N.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
MARCH 16	Phil Martz	Topeka	PUD
	Tom Whitaker	Topeka	Ks Motor Carriers Assn
	JANET STUBBS	"	HBAK
	Marge Streckfus	Salina	League of Women Voters
	Billie Farmer	Salina	League of Women Voters
	Carmen Wilson	Salina	League of Women Voters
	Bill Eads	Lawrence	REVENUE
	Lynn O'Hara	"	KD&D
	KAY Crawford	"	KD&D
	JOHN MYERS	LAWRENCE	LAWR. CONVENTION BUREAU
	Charles W. Wurtz	Wichita	Mid American

#1

SENATE ASSESSMENT & TAXATION COMMITTEE

Room 526 S

Testimony For
Senate Bill 387

"Film Industry Income Tax Exemption"

Senator Edward Reilly
Kansas Film Commission

March 17, 1983

Atch. 1

As a member of the Kansas Film Commission, I know first-hand the work being done to promote Kansas for on-location film production, the benefits the state stands to gain, and the competition we face from other states.

I am here today to ask for your support on Senate Bill 387, AN INCENTIVE TO ENCOURAGE EVEN MORE ON-LOCATION PRODUCTION WORK IN KANSAS.

On May 22nd, ABC is scheduled to air the television movie, "THE DAY AFTER", which was filmed in the Lawrence area in August and September. During this show, many people will be seeing Kansas for the first time, and many in the movie industry will be intrigued by our unique beauty, variety of locations, and know by the credits that Kansas is a hospitable environment for movie makers.

We are in a favorable position at this time to make Kansas even more attractive for movie productions. As documented by the Economic Impact Study on ABC Circle Films' project, the estimated total income from the movie was well over \$2½ million. In return for the assessment of the income withholding tax on non-residents, Kansas gained only \$3,773. It is important to note that we could have lost the project over this one point.

The word spreads fast in Hollywood. When it became known that Kansas had a full-time film services coordinator, requests for assistance came pouring into the Travel and Tourism office.

Currently, two feature length motion picture projects are in the works for filming, one this summer and the other in the fall. One project will have a budget of \$15 million and will film entirely in Kansas. The other project has a somewhat smaller budget, but estimates filming in the state for 45 days.

Kansas will gain additional revenue in the form of increased sales tax and income tax charged against residents working on the movie production. In addition, Kansans will be put to work in a variety of capacities, from drivers, construction workers, production assistants to actors and extras.

We must take the initiative now and make this change in our income tax law that will provide additional revenue for the state and put Kansans to work.

Film promotion efforts exist in almost all the fifty states plus the Virgin Islands. Our neighboring State of Arkansas has just signed into law an incentive that will return a nickel to a producer for every dollar spent in that state for a production.

As more and more productions leave Hollywood and New York for the realism and cost-efficiency of filming on-location, states across the country are gearing up to attract their business. I urge you to help make Kansas a viable part of that movement.

Thank you.

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SENATE ASSESSMENT & TAXATION COMMITTEE

Room 526 S

Testimony For
Senate Bill 387

"Film Industry Income Tax Exemption"

Charles J. Schwartz, Secretary
Cathy L. Kruzic, Travel & Tourism Dir.
Kay Crawford, Film Commission Coordinator

March 17, 1983

Attch. 2



Mr. Chairman and Members of the Committee:

A change in the Kansas income withholding tax is being requested in order to increase the number of on-location movie productions being filmed in Kansas.

The state is currently in the business of promoting ourselves for on-location production of movies, television movies or programs and commercials. A film services coordinator works with production companies, assisting with location scouting, serving as a liaison between a community and the company, and pre-production coordination of equipment, props or extras.

The Travel and Tourism Division of the Kansas Department of Economic Development supports an exemption from the Kansas income withholding tax for non-residents only, who are working in the state for one hundred twenty days or less on a movie, television production or a commercial.

An exemption for non-residents working on a film production in Kansas will be an additional incentive for attracting filmmakers. Providing an exemption for non-residents will put Kansas in line with our neighboring state^s of Colorado, Arkansas and at least twelve other states which are enjoying the benefits of successful on-location movie production programs.

Kansas stands to gain substantially from on-location productions and the expenditures made by the company and their cast and crew while working in the state. Encouraging production companies to utilize Kansas locations will not

only benefit the local economy, but will employ Kansans as members of the construction crew, drivers, production assistants, and even as actors and extras.

As an example, Kansas was the on-location production site during August and September for a made-for-television movie scheduled to air on ABC stations this May. While the company was in the Lawrence area, ABC Circle Films' expenditures reached well over \$1 million dollars for hiring crews, purchasing of construction materials, rental of vehicles and equipment, hotel rooms and meals for a crew of 80, location rentals, caterers, actors and extras, and other miscellaneous expenses. An additional \$60,000 was spent outside of Lawrence but within Kansas for a variety of rentals and purchases.

The multiplier effect boosted the actual expenditure total to an estimated total income in Lawrence of \$2,147,000 with an additional estimated total income of \$550,000 for the expenditures outside of Lawrence.

A total of 169 jobs were created for Kansans during the two-month production.

The State of Kansas received \$42,386 in state sales tax that was generated from the movie-related expenditures with Lawrence generating a local sales tax of \$5,787. From the salaries paid to those working on the production, the state received an estimated \$75,530 in personal income tax from Kansans, with \$3,773 coming from the salaries of non-Kansans.

In Kansas, a production company finds a variety of locations to fit the requirements of almost any script, cooperation from the state and local communities and freedom from burdensome restrictions placed on them in California. Film companies like to work in Kansas, but they would find us even more attractive for their work if the state could offer them an income tax

exemption for their non-resident employees.

An exemption for non-resident employees would function in much the same way that the Job Expansion and Investment Tax Credit works to encourage industrial development in Kansas. A production company is in the state on a temporary basis and therefore, does not require the expansion of services like sewer, water and utilities that a permanent facility requires.

Filmmaking is an industry that Kansas should work to attract. The state has the potential for receiving substantial revenue from production work.

In closing, I urge your support for this change in our withholding statutes to place Kansas in a better position for attracting film production.

"The Day After"
ABC Circle Films
Lawrence, Kansas
August-September 1982

INCOME

- *\$1,020,000 - movie-related expenditures in Lawrence
- *\$60,000 - additional expenditures outside of Lawrence
- \$2,147,100 - estimated total income created in Lawrence
- \$2,697,500 - estimated income created in Kansas

JOBS

- * 140 - local jobs created by the production (includes local actors)
- * 29 - jobs created outside Lawrence

* 169 - total temporary jobs created in Kansas

RETAIL SALES

- *\$1,157,300 - additional retail sales in Lawrence
- *\$ 255,600 - additional retail sales outside of Lawrence

\$1,412,900 - additional retail sales in Kansas

BC Circle Films economic impact cont.

TAXES

- * \$5,787 - local sales tax generated in Lawrence
 - * \$42,386 - additional sales tax revenue to Kansas
 - *75,530 - personal income tax estimate for Kansas residents
 - *\$3,773 - estimate for kansas income tax paid by non-kansas residents
-

* \$121,689 total additional taxes accruing to Kansas

OTHER

*\$1,850 - ABC Circle Films' contribution to the Lawrence United Way Campaign

COSTS

- *\$2,000 - time spent by KDED personnel
 - *\$1,000 - expenditures by KDED personnel for travel and entertainment.
 - *\$5,100 - time spent by the Lawrence Convention and Visitors Bureau staff
 - *\$1,000 - expenditures by the Lawrence CVB for travel and entertainment
-

\$10,000 - estimate of total direct costs involved in attracting film project to Lawrence and coordinating local responsibilities during filming.

ESTIMATED EXPENDITURES IN LAWRENCE BY ABC CIRCLE FILMS

Crew Hires	\$299,290
Purchases & rentals	\$190,400
Rooms & meals	\$174,625
Local actors	\$ 62,330
Extras	\$ 49,960
Site Rentals	\$ 49,960
Caterers	\$ 31,170
Miscellaneous	\$ 91,670

\$949,405

personal expenditures by
crew estimated at 10% of
salary (\$700,000)

\$70,000

\$1,020,000

1973, is amended to read:

39-22-604. Withholding tax. (2) (a) "Employee" means and includes every individual who is a resident or domiciled in the state of Colorado performing services for an employer, either within or without or both within and without the state of Colorado, or any individual performing services within the state of Colorado, the performance of which services constitutes, establishes, and determines the relationship between the parties as that of employer and employee, and includes officers of corporations and individuals, including elected officials, performing services for the United States government or any agency or instrumentality thereof or the state of Colorado or any county, city or municipality, or political subdivision thereof; EXCEPT THAT THE TERM SHALL NOT INCLUDE AN INDIVIDUAL WHO IS NOT A RESIDENT OR DOMICILED IN THE STATE OF COLORADO AND WHO PERFORMS SERVICES IN CONNECTION WITH ANY PHASE OF MOTION PICTURE OR TELEVISION PRODUCTION OR TELEVISION COMMERCIALS FOR LESS THAN ONE HUNDRED TWENTY DAYS DURING ANY CALENDAR YEAR.

SECTION 5. Article 23 of title 39, Colorado Revised Statutes 1973, as amended, is amended BY THE ADDITION OF A NEW SECTION to read:

39-23-169. Filing with executive director - when deemed to have been made. (1) Any report, claim, tax return, statement, or other document required or authorized under this article to be filed with or any payment made to the executive director of the department of revenue, which:

(a) Is transmitted through the United States mails shall be deemed filed with and received by the executive director on the date shown by the cancellation mark stamped on the envelope or other wrapper containing the document required to be filed;

(b) Is mailed, but not received by the executive director, or is received and the cancellation mark is not legible, or is erroneous or omitted, shall be deemed to have been filed and received on the date it was mailed if the sender establishes by competent evidence that the document was deposited in the United States mails on or before the date due for filing. In such cases of nonreceipt of a document by the executive director, the sender shall file a duplicate copy thereof within thirty days after written notification is given to the sender by the executive director of the failure to receive such document.

(2) If any report, claim, tax return, statement, remittance, or other document is sent by United States registered mail, certified mail, or certificate of mailing, a record authenticated by the United States postal service of such registration, certification, or certificate shall be considered competent evidence that the report, claim, tax return, statement, remittance, or other document was mailed to the executive

ECONOMIC IMPACT OF ABC ON LAWRENCE
VS
PAYMENT OF PIT BY NON-RESIDENTS EMPLOYED

	LAWRENCE	KANSAS
PERSONAL INCOME	\$2,147,100*	\$2,697,500
EMPLOYMENT	140	169
RETAIL SALES	\$1,157,300*	\$1,412,689
<hr/>		
<u>TOTAL TAXES</u>	<u>\$5,787</u>	<u>\$121,689</u>
SALES	\$5,787	\$42,386
INCOME		
KANSAS	---	\$75,530
NON-RESIDENTS	---	\$3,773 ←
<u>TOTAL INCOME</u>	<u>---</u>	<u>\$79,303</u>

* Does not include economic impact of non-related people who came to Lawrence to observe all or a portion of the film being made, trips by ABC personnel to Lawrence after filming was completed, or an ABC contribution of \$1,850 to the Lawrence United Fund. Additionally, ABC contributed "nonpecuniary" services to the community by donating staff time for lectures and presentations to film groups, civic clubs, and high school and college classes.

RETURN ON INVESTMENT
FOR THE COMMUNITY OF LAWRENCE

Associated Costs For Lawrence: \$6,100.
Personal Income Return: \$2,147,100.

★ RETURN ON INVESTMENT: \$352 / \$1 Invested ★

FROM: Glass, Robert H., "An Analysis of the Economic Impact of a Motion Picture Production in Lawrence, Kansas, 1982.", Research Paper: Institute for Economic and Business Research, University of Kansas, October, 1982.

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