

Approved February 10, 1988  
Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator Wint Winter, Jr. at  
Chairperson

12:40 ~~am~~ p.m. on February 4, 1988 in room 254-E of the Capitol.

All members were present except:

Committee staff present:

Bill Edds, Revisor of Statutes' Office  
Lynne Holt, Kansas Legislative Research Department  
Mary Allen, Secretary to the Committee

Conferees appearing before the committee:

Harold Stones, Kansas Bankers Association  
Rex Wiggins, Kansas Venture Capital, Inc.

The meeting was called to order at 12:40 p.m. by the Chairman, Senator Wint Winter, Jr.

Harold Stones, Executive Vice-President of the Kansas Bankers Association, introduced the President of Kansas Venture Capital, Inc., Rex Wiggins. Mr. Wiggins gave the Committee an update on Kansas Venture Capital, Inc. (KVC) and noted that in excess of \$6½ million worth of stock has been sold in KVC. He said that they have "done two deals" so far and have two more which they are close to doing.

Mr. Wiggins observed that the \$6½ million which has been raised was raised predominately through the banks of the State of Kansas. KVC wants to sell stock to other institutions and corporations besides banks. He stated that legislation is needed in two areas to help with this, for present law in these areas hinders them in their stock solicitations. The first concerns the tax credit given by the state as it applies to subchapter S corporations and the second concerns the insurance companies' premium tax. He passed out some suggested legislation for the Committee's consideration (Attachment I) and noted that if these suggestions were made law, it would be easier for KVC to sell its remaining stock.

Mr. Stones told the Committee that Fred Braun, a Director of KVC, feels that the Kansas law on tax credits does not allow subchapter S corporations to invest in KVC and these corporations could be potential stock buyers. An accountant was consulted and it was agreed that Substitute for Senate Bill 756 did not allow the tax credits for subchapter S corporations. He pointed out that Sections 1 and 2 of the proposed legislation (Attachment I) allow the same tax credit which was applied to other domestic corporations and financial institutions to apply to subchapter S corporations. He said that Section 3 of the proposed legislation adds a new section, K.S.A. 40-252. He observed that present law allows the tax credit against the privilege tax of insurance companies. He noted that in order for the tax credit to be meaningful to insurance companies it must be a credit against the premium tax. By adding K.S.A. 40-252, the premium tax is referenced. This would allow an insurance company to take its twenty-five percent tax credit off of either its privilege tax or its premium tax.

Senator Burke moved that a bill be drafted and introduced as a Committee bill which would incorporate the suggested changes in the law made by KVC as contained in Attachment I. Senator Hayden seconded the motion. The motion carried.

Mr. Wiggins told the Committee that the economic benefits which come from successful venture capital investments are permanent, very substantial and do a lot for the Kansas economy. He emphasized, however, that those benefits will not happen overnight. He said that he is going to do his very best to preserve and create

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

room 254-E, Statehouse, at 12:40 ~~xxx~~ p.m. on February 4, 1988

shareholder interest for Kansas Venture Capital shareholders. He noted that this goes hand in hand with good sound venture capital investments that have good sound economic development.

Mr. Wiggins said that the KVCII offering memorandum states that KVCII can call in its money on different increments. He observed that KVCII has called in fifty percent, about \$3.7 million, of the funds subscribed to it. He asked the Committee to consider having the state phase in its \$10 million investment instead of waiting until KVCII raises its total \$10 million from the private sector. He feels that to a certain degree it is punitive to KVCII's existing shareholders to have their money paid in to KVCII when the state has not, as yet, invested its money.

The Chairman invited KVCII to bring back, for Committee consideration, some suggested legislation for a phase in program of the state's \$10 million investment in KVCII.

Senator David Kerr asked Mr. Wiggins if there are any significant gaps in the state's risk capital system. Mr. Wiggins replied that if he had to look at gaps he would look at them in the area of pure research and development funding. He pointed out that the dollar amounts in that area do not need to be as large as in other areas.

The meeting was adjourned at 1:30 p.m. by the Chairman.

GUEST LIST

<u>NAME</u>	<u>REPRESENTING</u>
Rex E. Wiggins	Kansas Venture Capital
Larry J. High	Kansas Venture Capital
Rich Bailey	Kansas Dept. of Comm.
Brad Mean	Kansas Dept. of Commerce
Jack Montgomery	KDOC
Debbie Zabel	IPPBR - Univ of Kansas
Joe A. Morris	KCSI
Lawrence Stone	KISR
DIWAYNE ZIMMERMAN	KDOC

Section 1. K.S.A. 1987 Supp. 74-8206 is hereby amended to read as follows: 74-8206. (a) Except as otherwise provided in K.S.A. 1986 Supp. 74-8207, every taxpayer investing in stock issued by Kansas Venture Capital, Inc. shall be entitled to credit in an amount equal to 25% of the total amount invested in such stock against the income tax liability imposed against such taxpayer pursuant to article 32 of chapter 79 of the Kansas Statutes Annotated. In any one taxable year, the amount of such credit allowable for deduction from the taxpayer's tax liability shall not exceed 25% of the total amount of such credit plus any applicable carry forward amount. The amount by which that portion of the credit allowed by this section to be claimed in any one taxable year exceeds the taxpayer's tax liability in such year may be carried forward until the the total amount of the credit is used. If the taxpayer is a corporation having an election in effect under subchapter S of the Internal Revenue Code or a partnership, the credit provided by this section shall be claimed by the shareholders of such corporation or the partners of such partnership in the same manner as such shareholders or partners account for their proportionate shares of the income or loss of the corporation or partnership.

(b) No taxpayer claiming a credit under this section for investing in stock issued by Kansas Venture Capital, Inc. shall be eligible to claim a credit for the same investment under the provisions of K.S.A. 1986 Supp. 74-8301 to 74-8311, inclusive.

(c) The provisions of this section, and amendments thereto, shall be applicable to all taxable years commencing after December 31, 1985, and prior to January 1, 1993.

Sec. 2. K.S.A. 1987 Supp. 74-8304 is hereby amended to read as follows: 74-8304. (a) There shall be allowed as a credit against the tax imposed by the Kansas income tax act on the Kansas taxable income of a taxpayer and against the tax imposed by K.S.A. 40-252, and amendments thereto, on insurance companies for a cash investment in a certified Kansas venture capital company in an amount equal to 25% of such taxpayer's cash investment in any such company in the taxable year in which such investment is made and the taxable years following such taxable year until the total amount of the credit is used. In any one taxable year, the amount of such credit allowable for deduction from the taxpayer's tax liability shall not exceed 25% of the total amount of such credit plus any applicable carryforward amount. The amount by which that portion of the credit allowed by the preceding sentence to be claimed in any one taxable year exceeds the taxpayer's liability in such year may be carried forward until the total amount of the credit is used. If the taxpayer is a corporation having an election in effect under subchapter S of the Internal Revenue Code or a partnership, the credit provided by this section shall be claimed by the shareholders of such corporation or the partners of such partnership in the same manner as such shareholders or partners account for their proportionate shares of the income or loss of the corporation or partnership.

(b) The secretary of revenue shall allow credits that are attributable to not more than \$24,000,000 of cash investments in certified Kansas venture capital companies which shall include not more than \$10,000,000 for Kansas Venture Capital, Inc. The credits shall be allocated by the secretary for cash investments in certified Kansas venture capital companies in the order that completed applications for designation as Kansas venture capital companies are received by the secretary. Any certified Kansas venture capital company may apply to the secretary at any time for additional allocation of such credit based upon then committed cash investments, but priority as to such additional allocation shall be determined at the time of such subsequent application. Notwithstanding the provisions of subsection (c), investors in Kansas venture capital companies established after July 1, 1984, which otherwise meet the requirements specified in this act, shall be, upon certification of the Kansas venture capital company, entitled to the tax credit provided in subsection (a) in the calendar year in which the investment was made.

(c) No taxpayer shall claim a credit under this section for cash investment in Kansas Venture Capital, Inc. No Kansas venture capital company shall qualify for the tax credit allowed by chapter 332 of the 1986 Session Laws of Kansas for investment in stock of Kansas Venture Capital, Inc.

(d) The provisions of this section, and amendments thereto, shall be applicable to cash investments made in any taxable year commencing after December 31, 1985, and prior to January 1, 1993.

**Sec. 3.** K.S.A. 1987 Supp. 74-8205 is hereby amended to read as follows: 74-8205. (a) Except as otherwise provided in K.S.A. 1986 Supp. 74-8207, every national banking association, state bank, savings and loan association or insurance company investing in stock issued by Kansas Venture Capital, Inc. shall be entitled to a credit in an amount equal to 25% of the total amount invested in such stock against the tax liability imposed against such taxpayer pursuant to K.S.A. 79-1106 to 79-1116, inclusive, and amendments thereto or 40-2801 or 40-252, and amendments thereto, as the case requires. In any one taxable year, the amount of such credit allowable for deduction from the taxpayer's tax liability shall not exceed 25% of the total amount of such credit plus any applicable carryforward amount. The amount by which that portion of the credit allowed by this section to be claimed in any one taxable year exceeds the taxpayer's tax liability in such year may be carried forward until the total amount of the credit is used.

(b) The provisions of this section shall be applicable to investments made in all taxable years commencing after December 31, 1985, and prior to January 1, 1993.

**Sec. 4.** K.S.A. 1987 Supp. 74-8205, 74-8206 and 74-8304 are hereby repealed.

**Sec. 5.** This action shall take effect and be in force from and after its publication in the statute book.