

Approved: 2-21-00
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on February 17, 2000, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Marlee Bertholf, Kansas Chamber of Commerce & Industry
Michael Wojcicki, Kansas Technology Enterprise Corp.

Others attending: See attached list.

The minutes of the February 15, 2000, meeting were approved.

SB 454—Income taxation; credit for research and development activities

Marlee Bertholf, Kansas Chamber of Commerce and Industry (KCCI), testified in support of **SB 454**. She explained that the research and development tax credit created in 1986 included a sunset provision. Kansas businesses have requested that the sunset date be extended several times. **SB 454** eliminates the sunset date, making research and development a permanent tax credit for Kansas businesses. Ms. Bertholf noted that the use of this tax credit has led to the development of cutting edge technology in many areas. In conclusion, she called attention to charts attached to her written testimony which reflect the amount of tax credits claimed from 1988 to September 1999, noting that the amount claimed in that period totals \$12.3 million. (Attachment 1)

Committee discussion followed regarding the location of a statutory definition of “research and development.” Don Hayward, Revisor of Statutes, informed the Committee that the definition in the law includes items that are expenditures on the federal tax return and not inclusive of grant monies from federal and state government.

Michael Wojcicki Kansas Technology Enterprise Corporation, testified in support of **SB 454**. He stated that the research and development tax credit is an investment in Kansas’ future just as much as a company’s commitment to research and development is an investment rather than an expenditure. He informed the Committee that 42 states have some type of research and development incentive. He believes the bill would encourage innovative companies to grow and stay in Kansas. (Attachment 2)

Senator Langworthy closed the hearing on **SB 454** and turned the Committee’s attention to a previously heard bill, **SB 545** which would authorize Neosho County to impose a countywide sales tax for jail facility purposes. She noted that Wilson County and Wabaunsee County (Attachment 3) also requested to be added to the list of 15 other counties with special authority for countywide sales taxes for financing the construction or remodeling of a law enforcement facility or courthouse. Miami County requested to be included in the bill to grant it authority to retain a countywide sales tax, which would be required to sunset after five years, to finance road construction.

Staff added that the all cities in Harper County requested to be added to the list of Class D cities with up to 1.0 percent of additional rate authority for funding economic development initiatives or public infrastructure projects. Any taxes so imposed after the effective date of the act by cities in Harper or in other Class D cities would be required to sunset after 10 years. Current law requires such taxes to sunset after five years. The city of Anthony, located in Harper County, supports the provisions relating to Class D cities.

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE
Room 519-S, Statehouse, at 11:10 a.m. on February 17, 2000.

Senator Bond moved to amend **SB 545** as discussed, including the provision for Class D cities, seconded by Senator Hardenburger. The motion carried.

Senator Bond moved to report **SB 545** as amended favorable for passage, seconded by Senator Stephens. The motion carried.

Senator Lanworthy called the Committee's attention to another previously heard bill, **SB 417** which would change the filing deadline in the homestead property tax refund act from April 15 to October 15. She reminded the Committee that the bill was introduced at the request of Senator Emert.

Mr. Hayward distributed copies of a balloon for **SB 417** and explained the proposed amendments. (Attachment 4) The section changing the deadline date from April 15 to October 15 would be deleted, and the Director of Taxation would have the authority to extend the time for filing or accepting a claim filed after the April 15 filing deadline. Mr. Hayward noted that currently homestead tax refund appeals go directly to the Board of Tax Appeals (BOTA). As amended, the bill would provide that appeals go informally before the Department of Revenue before going to BOTA for a formal hearing.

Senator Lee moved to amend **SB 417** as shown on the balloon, seconded by Senator Corbin. The motion carried.

Senator Bond moved to replace the language in **SB 417** which would change the deadline date to October 15, seconded by Senator Hardenburger. The motion failed.

Senator Lee moved to report **SB 417** as amended favorable for passage, seconded by Senator Corbin. The motion carried.

Attention was turned to another previously heard bill, **SB 499** concerning the foreclosure and sale of real estate. The bill would allow cities to sell property with delinquent taxes within the city limits three years after it first becomes eligible for sale if the county has not initiated a foreclosure action.

Senator Steffes moved to recommend **SB 499** favorable for passage, seconded by Senator Praeger. The motion carried.

The meeting was adjourned at 11:45 a.m.

The next meeting is scheduled for February 21, 2000.

LEGISLATIVE TESTIMONY



The Unified Voice of Business

835 SW Topeka Blvd. • Topeka, KS 66612-1671 • 785-357-6321 • Fax: 785-357-4732 • E-mail: kcci@kansaschamber.org • www.kansaschamber.org

SB 454

February 17, 2000

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment and Taxation Committee

by

Marlee Bertholf

Director of Taxation & Small Business

Madam Chair and members of the Committee:

My name is Marlee Bertholf and I am the Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry (KCCI). Thank you for the opportunity to express our members' support of SB 454.

The research and development tax credit was created in 1986 and included a sunset provision. Since that time, Kansas businesses have requested that the sunset date be extended several times. This tax credit will sunset on January 1, 2001 if it is not extended. This proposal will eliminate the sunset date and make research and development a permanent tax credit for Kansas business.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 2,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 48% of KCCI's members having less than 25 employees, and 78% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Senate Assessment & Taxation

2-17-00

Attachment 1

The research and development tax credit is designed to increase research and development activity by Kansas business. The income tax credit is equal to 6.5% of a company's investment in research and development above the average expenditure of the previous three-year period. Only 25% of the allowable annual credit may be claimed in any one-year. Any remaining credit may be carried forward in 25% increments until exhausted. Attached to my testimony is chart that reflects the amount of tax credits claimed from 1988 to September 1999. The amount claimed in the 11-year period totals \$12.3 million. Additionally, Kansas, Inc. states that the research and development tax credit accounted for 10% of the economic development income or privilege tax credits from 1986 to September 1998. That chart is also attached to my testimony.

This tax credit is very important to our members. In fact, some of our members have moved their research facilities to Kansas, one factor being the research and development tax credit. In the telecommunications field, this tax credit has been applied to software development, technology testing, and the development of new and better ways to use telecommunications networks. In the manufacturing field, this tax credit has been used develop new products or derivatives of new products (major changes in products), the development of new and better ways to build the product on the manufacturing floor, and in the development of new software. This tax credit is important to many Kansas businesses and its use has led to the development of cutting edge technology in many areas.

Again, on behalf of the members of KCCI, I would like to thank you for the opportunity to appear before you today. I will be happy to answer any questions.

Research and Development Tax Credit - K.S.A. 79-32,182 et seq. Created in 1986, this tax credit is designed to increase research and development activity by Kansas businesses. The income tax credit is equal to 6.5% of a company's investment in research and development above the average expenditure of the previous three-year period. Only 25% of the allowable annual credit may be claimed in any one year. Any remaining credit may be carried forward in 25% increments until exhausted. Table 11 reports Research and Development Tax Credits awarded since the program's inception and 9/30/99.

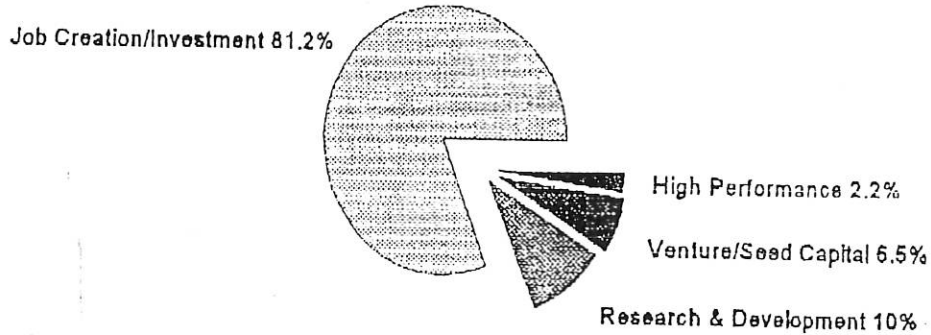
Table 11
Research and Development Tax Credit
Current and Carry-over

	Total Filers	Total Claimed
1988	12	\$ 133,890
1989	24	407,807
1990	39	249,737
1991	50	449,221
1992	63	764,043
1993	76	1,757,598
1994	85	3,171,884
1995	90	720,139
1996	83	875,454
1997	55*	*1,340,675
1998	57	2,382,291
As of 9/20/99	15	61,539
	649	\$12,314,278

Source: KDOR Credit Summary Report of September 30, 1999
 *Individual filers for 1999 were suppressed by KDOR and are not included in this figure or in the total figure.

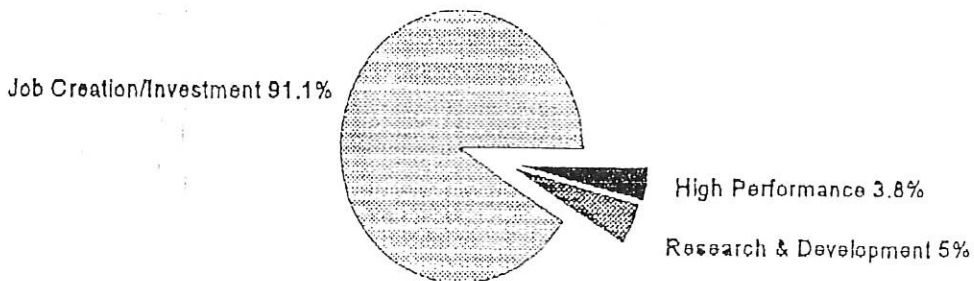
**These figures are taken from "Sales Tax Exemption and Kansas Economic Development Income Tax Credits," by Kansas, Inc. and presented to the Kansas Legislature in January 1999.

Figure 8
Composition of Fiscal Impact
Calendar Year 1986 through 9/30/98



Fiscal Impact during Calendar Year 1997. According to the Department of Revenue, taxpayers claimed economic development income or privilege tax credits totaling \$21.0 million during Calendar Year 1997. Figure 9 reflects data compiled by the Department of Revenue and provides a comparison of the fiscal impacts of each economic development tax credit. The figures represented include credits and carry-overs actually claimed during Calendar Year 1997. More than ninety percent (91.1%) of the total economic development credits claimed during Calendar Year 1997 were Job Creation and Investment Credits available through the Kansas Enterprise Zone and K.S.A.79-32,153 et seq.. It is expected that the High Performance Firms Incentives Program, which is a relatively new program, will constitute a larger portion of the pie in the future as the number of certified firms continues to grow.

Figure 9
Composition of Fiscal Impact
Calendar Year 1997



**These figures are taken from "Sales Tax Exemption and Kansas Economic Development Income Tax Credits," by Kansas, Inc. and presented to the Kansas Legislature in January 1999.

KTEC

KANSAS TECHNOLOGY ENTERPRISE CORPORATION

Kansas Technology Enterprise Corporation
Michael Wojcicki, Chief Operating Officer

Testimony to the Senate Assessment and Taxation Committee
in Support of SB 454

February 17, 2000

Madame Chair, I am here in support of SB 454 which would continue tax credits to Kansas businesses which increase their investments in research and development. Technology is the engine driving our robust economy and research is the fuel for that engine. The R&D tax credit is an investment in Kansas' future just as much as a company's commitment to R&D is an investment rather than an expenditure.

Currently, 42 states have some type of R&D tax incentive. This number has grown from 35 states in 1996. I would point out that, of the few states which do not offer some type of R&D tax incentive, Alaska has no income, corporate or sales tax and Michigan will be introducing legislation this year.

This is a bill which encourages innovative companies to grow and stay in Kansas, and I encourage your favorable recommendation on it.

*Senate Assessment & Taxation
2-17-00*



WABAUNSEE COUNTY COURT HOUSE

COMMISSIONER FIRST DISTRICT
ALAN WINKLER, McFarland

COMMISSIONER SECOND DISTRICT
FRED HOWARD II, Estridge

COMMISSIONER THIRD DISTRICT
MAURICE GLEASON, Maple Hill

BOARD MEETINGS
10:00 A.M. EVERY MONDAY

OFFICE OF COUNTY CLERK

RUTH M. DIEPENBROCK, Clerk

ALMA, KANSAS 66401

TELEPHONE 785-765-2421 or 785-765-2422

FAX 785-765-3704

February 14, 2000.

Honorable State Senator Harry Stephens
Honorable State Representative Vern Osborne

Dear Senator Stephens and Representative Osborne:

The Wabaunsee County Commissioners request your help in introducing a bill that would enable Wabaunsee County to increase our sales tax by 1/4% to be used for the purpose of upgrading the electrical system in the Courthouse.

The existing electrical system in the Courthouse not only does not meet the current codes and safety requirements and is also outdated.

The following list of items that is in need to be addressed in the renovation of the electrical system according to the review of the existing electrical system by an Engineering Firm.

1. A new electrical service to the building to be designed based on the current building demand plus the anticipated future growth in the system. The new system should also provide a connection for the existing emergency generator system that provides backup power. The new electrical service is essential for the building to meet current electrical code and safety standards.
2. The existing electrical panels on each floor will be reviewed for capacity and condition. New electrical panels will be installed to replace existing panels as required. Additional panels will be designed into the system as required to handle the current and future loading. The third floor of the courthouse currently has a shortage of power and will require additional power to meet the current demand.
3. New wiring must be designed into the system to run from the new electrical service to the new power panels on each floor. Additional review will need to be completed to verify if the existing conduit from the boiler room to each panel can be reused.
4. A new distribution system must be designed for the building. The new system will use surface mounted raceway. The new raceway system will incorporate new wiring, receptacles and light switches.
5. All new wiring must be run to the existing light fixtures and ceiling/light fans.

Senate Assessment & Taxation
2-17-00
Attachment 3



WABAUNSEE COUNTY COURT HOUSE

COMMISSIONER FIRST DISTRICT
ALAN WINKLER, McFarland

COMMISSIONER SECOND DISTRICT
FRED HOWARD II, Eskridge

COMMISSIONER THIRD DISTRICT
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February 14, 2000
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An estimated cost for the upgrading of the electrical system in the Courthouse is between \$200,000 and \$240,000.

After completion of the upgrading of the electrical system in the Courthouse, the increase in sales tax could be set aside for the repair and expansion of the Courthouse parking lot and renovation of the jail facilities in the Courthouse.

Your help in assisting us in this matter will greatly appreciated.

Sincerely yours,
BOARD OF WABAUNSEE COUNTY COMMISSIONERS

Maurice Gleason
Maurice Gleason, Chairman

A. N. Winkler
A. N. Winkler, Vice-Chairman

Fred H. Howard II
Fred H. Howard II, Member

SENATE BILL No. 417

By Committee on Assessment and Taxation

1-18

79-4517

9 AN ACT amending the homestead property tax refund act; concerning
10 the filing date; amending K.S.A. [79-4505] and repealing the existing
11 section;

and the resolution of appeals

12
13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. [K.S.A. 79-4505 is hereby amended to read as follows: 79-
15 4505. Except as provided in K.S.A. 79-4517, and amendments thereto,
16 no claim in respect of property taxes levied in any year shall be paid or
17 allowed unless such claim is actually filed with and in the possession of
18 the department of revenue on or before ~~April~~ October 15 of the year next
19 succeeding the year in which said taxes were levied.]

; also repealing K.S.A. 79-4512 and 79-4514

20 Sec. [2] K.S.A. [79-4505] is hereby repealed.

21 Sec. [3] This act shall take effect and be in force from and after its
22 publication in the statute book.

Insofar as the same may be made applicable,
the provisions of K.S.A. 79-3226, and
amendments thereto, shall apply to claims for
refunds allowable pursuant to the homestead
property tax refund act which may become in
dispute.

Sec. 2. K.S.A. 79-4517 is hereby amended
to read as follows: 79-4517. For claims in
respect of property taxes levied in 1976 ~~or in~~
any year ~~subsequent thereto~~, the director of
taxation may: ~~(a) extend the time for filing~~
~~any claim under the provisions of this act or~~
~~accept a claim filed after the filing deadline~~
~~when good cause exists therefor; or (b) accept~~
~~a claim filed after the deadline for filing in~~
~~the case of sickness, absence or disability of~~
~~the claimant if said the claim has been filed~~
within four ~~(4)~~ years of said the deadline.

79-4512, 79-4514 and 79-4517 are

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Attachment H