

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:45 a.m. on March 13, 2001 in Room 519-S of the Capitol.

All members were present except: Senator Allen

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: Representative Jim Morrison
Marlee Carpenter, Kansas Chamber of Commerce &
Industry

Others attending: See attached list.

HB 2063—Property taxation; exempting certain school dormitory personal property.

Representative Jim Morrison testified in support of **HB 2063**. As background information, Representative Morrison noted that a related bill passed during the 2000 Legislative Session concerning taxation of the vocational technical school in Goodland. The bill was requested because the campus buildings, including the dormitories, were being taxed by the local assessor. He explained that, in practice, school buildings were not being taxed; however, by law only the two regents schools were exempt. The law was clarified in 2000 to exempt all community college and vocational technical school buildings. He went on to explain that the same assessor now claims that the furniture in the campus buildings are not exempt and should be taxed. **HB 2063** clarifies that the exemption for campus buildings includes furnishings, kitchen equipment, etc. He noted that no opposition to the bill has been voiced, with the exception of the particular assessor involved.

There being no others wishing to testify, the hearing on **HB 2063** was closed.

The minutes of the March 12, 2001, meeting were approved.

HB 2055—Income taxation; authorizing research and development credits.

Marlee Carpenter, Kansas Chamber of Commerce and Industry (KCCI), testified in support of **HB 2055**. She noted that the bill was not opposed in the House New Economy Committee, and the House passed it on a vote of 124-1. She explained that the research and development income tax credit, created in 1986, sunset on January 1, 2001. She emphasized that the tax credit has been successful in attracting businesses and high paying jobs to the state, and KCCI members feel that it is a tax credit too important to lose. (Attachment 1)

There being no others wishing to testify, the hearing on **HB 2055** was closed.

The meeting was adjourned at 10:55 a.m.

The next meeting is scheduled for March 14, 2001.

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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HB 2055

March 13, 2001

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment and Taxation Committee
by

Marlee Carpenter
Director of Taxation and Small Business

Mr. Chairman and members of the Committee:

My name is Marlee Carpenter and I am the Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to express our support for HB 2055. This bill encountered no opposition or amendments in the House New Economy Committee or on the House floor and passed on a vote of 124-1.

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.

The research and development income tax credit was created in 1986 and sunset on January 1, 2001. KCCI believes that the R&D tax credit is very important to Kansas businesses. Under this tax credit, businesses are allowed an income tax credit equal to 6.5% of a company's investment in

*Senate Assessment & Taxation
3-13-01
Attachment 1*

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.

In 1998, approximately \$2.3 million in credits were claimed. This totals approximately \$141 million in new money spent in the state on research and development activity. Table 11 is attached to my testimony which details the amount of tax credits claimed since its enactment.

Wages for those involved in the research and development field, are typically high paying. Senator Pat Roberts in his presentation to the House Appropriations Committee and the Senate Ways and Means Committee stated that the average high-tech Kansas salary is nearly \$47,000 compared to the average private sector wage of \$27,000. Jobs in research and development are the types of jobs Kansas wants to keep and attract. Forty-two states currently have some type of R&D tax incentive, including the states surrounding Kansas, Missouri, Oklahoma, Nebraska and Colorado. I have attached a table, from a 1999 Kansas, Inc. study that details our surrounding state's research and development incentives.

The research and development tax credit has been important to Kansas businesses and has been used in various ways over the years. 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 to 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 is a tight budget year for Kansas and bills with fiscal notes do not stand much of a chance. However, in his presentation, Senator Pat Roberts gave the following figures:

- Every dollar invested in research generates an additional \$4 for the state economy; and
- For every dollar invested in research, \$14 in benefits is created.

This is not a new tax credit for business in Kansas, but one that has been around for 15 years. It has been successful in attracting businesses and high paying jobs to the state. KCCI's members feel that this is a tax credit too important to lose. We urge you to pass HB 2055 and reinstate the research and development tax credit. Thank you for your time and 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 programs inception and 9/30/99.

	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.

Table 3-5
Research and Development Tax Credits

Colorado	Credit for research and experimental activities conducted in enterprise zones. The credit is equal to 3% of the increase in the taxpayer's expenditures on R&D. No more than one-fourth of the credit may be taken in any one tax year. Unused credits may be carried over.
Iowa	6.5% of the apportioned share of increases in qualifying research expenditures in Iowa. Increases to 13% for qualified firms in enterprise zones or for firms that qualify for Iowa job and investment credits (see Table 3.6 and 3.7 for qualifying criteria).
Kansas	6.5% credit for research and development expenditures in Kansas, based on amount by which such expenditures exceed the taxpayer's average actual expenditures for R&D in the taxable year and the two preceding taxable years. In any taxable year, the maximum deduction from tax liability is 25% of the earned credit plus carryovers. Any amount by which the allowed portion of the credit exceeds the taxpayer's total Kansas tax liability may be carried forward.
Missouri	6.5% credit on a firm's qualified research expenses in the state in excess of the average R&D expenditures for the previous three years.

SOURCES: Information provided by individual state departments of revenue; state statutes and code, Commerce Clearing House, *State Tax Review*, 1999; and Research Institute of America, *All States Tax Guide*, 1999.
