

## MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:45 A.M. on January 31, 2007 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Kansas Legislative Research Department  
Martha Dorsey, Kansas Legislative Research Department  
Gordon Self, Office of Revisor of Statutes  
Jason Thompson, Office of Revisor of Statutes  
Judy Swanson, Committee Assistant

Conferees appearing before the committee:

Derrick Sontag, NFIB  
Marlee Carpenter, Kansas Chamber  
Duane Simpson, Kansas Grain & Feed Assn/Agribusiness Retailers Assn  
Natalie Bright, Wichita Independent Business Association  
Bernie Koch, Wichita Metro Chamber of Commerce  
Betty Nelson, CBIZ  
Kelly Schoen, Z3 Graphix  
Ashley Sherard, Lenexa Chamber of Commerce  
Andrew Nave, Overland Park Chamber of Commerce  
Roxanne Helphingstine (Written only)

Others attending:

See attached list.

**SB 213—Creating the Kansas investment credit act and the Kansas jobs credit act and providing changes to the franchise tax and the income tax on corporations**

Hearing was opened.

Derrick Sontag, NFIB, testified NFIB supports the elimination of the franchise tax. (Attachment 1) He said the minimum investment requirement of \$1,000,000 would eliminate a very large percentage of small businesses, and NFIB would like the amount to be closer to \$100,000. He encouraged the committee to consider lowering the net new job requirement to a number smaller than 20.

Marlee Carpenter, The Kansas Chamber, said the Chamber supports **SB 213**, but would prefer a repeal of the franchise tax. (Attachment 2) The Chamber also supports the simplification of the tax credits. The Chamber would prefer a threshold between \$100,000 and \$200,000, and the new job requirement be reduced to under 10. The Chamber wants the investment tax credit to be claimed by a unitary group.

Duane Simpson, Kansas Grain & Feed Association and Kansas Agribusiness Retailers Association testified while his members may not qualify for business incentives and tax credits, they believe the simplification will make it likely members who qualify will be more likely to receive the incentive. (Attachment 3) They want a full repeal of the state franchise tax.

Natalie Bright, Wichita Independent Business Association and Kansas Independent Business Coalition, testified in favor of the total elimination of the franchise tax. (Attachment 4) WIBA welcomes the simplification of the application process, but has concerns about the threshold levels. She encouraged lower threshold levels.

Bernie Koch, Wichita Metro Chamber of Commerce, testified his Chamber supports the elimination of the franchise tax. (Attachment 5) The reduction of the corporate tax rate is a positive. At some point Kansas should look at how the corporate tax rate is applied, but the fiscal note would be huge. He would like to see the thresholds lowered and the job credit for employees lowered. He was concerned about the transition from the current system to the new system, because he did not want any businesses to be hurt by the transition.

## CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:45 A.M. on January 31, 2007 in Room 519-S of the Capitol.

Betty Nelson, CBIZ, testified she had three concerns about the bill. (Attachment 6) She would like: 1) the investment tax threshold be no more than \$200,000, 2) the new jobs requirement be lowered to five, and 3) to make training a separate tax credit, and allow companies who meet the NAICS code requirements to qualify for a tax credit. Ms. Nelson will provide an additional chart to the Committee concerning current benefits. She said the bill as written will hinder businesses from locating in Kansas.

Kelly Schoen, Z3 Graphix, gave a brief history of his company. (Attachment 7) He decided to locate his business in Kansas because of HPIP, and said the investment tax credit is critical to a company the size of his company. He is concerned the investment credit threshold is too high, the elimination of the training credit will reduce the incentive for small businesses to properly train their employees, increasing the jobs creation requirement will eliminate the incentive for small businesses, and lowering the Kansas corporate income tax rate will not benefit most small businesses.

Ashley Sherard, Lenexa Chamber of Commerce, said her Chamber does not believe increasing the investment tax credit threshold to \$1 million is good public policy. (Attachment 8) She supports a minimum job creation threshold of five to seven new jobs. The Chamber supports the tax reduction and simplification concepts in **SB 213**.

Andrew Nave, Overland Park Chamber of Commerce, supports creation of a cash grant program. (Attachment 9)

Written testimony was entered by Roxanne Helphingstine, Mission Electronics. (Attachment 10)

Committee discussion was held. Bernie Koch said he had no proposal to replace the \$44 million that would be lost. Betty Nelson said she did not look into O-Zones when she did her research. Kelly Schoen said he did not locate in another area because he bought an existing company and could not move his employees and their families.

Secretary of KDOR Joan Wagnon said hopefully by next week KDOR will have compromise numbers to present to the Committee for consideration. Marlee Carpenter said she is not ready with compromise numbers as she is waiting on her members to respond to her survey.

Secretary Wagnon said a Strategic Reserve Fund was in KDOR's original proposal. KDOC has an Impact Fund of approximately \$40-\$45 million of which they use only \$16 million. Hopefully that reserve could be used for cash incentives. The KDOR proposal was a consensus of the Corporate Tax Advisory Committee members as to what would generate the most economic growth for the state. Secretary Wagnon testified the top 200 corporations in Kansas pay approximately 80% of the corporate income tax, and retail giants pay the bulk of the tax. Secretary Wagnon will provide the number of employees in Kansas who work for companies with less than 10 or 20 employees in response to Senator Apple's request. She will procure the information from the Kansas Department of Labor.

Being no further business the hearing was closed and the meeting adjourned at 11:50 a.m. The next meeting will be February 1.

SENATE  
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 1-31-07

NAME	REPRESENTING
David A. Carbin	KDOR
Andrew Nave	Overland Park Chamber
Bill Thompson	KIDOC
Edan Murray	Federico Consulting
Sandy Braden	Caches, Braden, Barbic
Kathleen Smith	KDOR
Ben Cleaves	DOB
Larry R. Baer	LKM
Bob Vancrum	Greater KC Chamber
Duane Simpson	KGFA - KARA
Lindsey Douglas	Hein law Firm
Robyn Horton	KS Motor Carriers Assoc.
Ted Warner	KS Govt. Consulting
John D. Pinegar	Pinegar Smith & Associates
Cathy Bennett	OKC Chamber.



The Voice of Small Business®

**Legislative Testimony  
Derrick Sontag, NFIB State Director  
Senate Bill 213  
January 31, 2007**

Madam Chair and members of the committee:

Thank you for the opportunity to appear before you in support of Senate Bill 213.

As many of you may know, NFIB/KS determines its' legislative agenda by balloting the more than 5,400 NFIB members in Kansas. A large majority of those balloted must respond on the prevailing side, in order for NFIB to support or oppose the issue in question. This process allows the organization's legislative agenda to be determined by the thousands of Kansans who are operating small and independent businesses on a daily basis.

SB 213 contains various proposals that if enacted, would have a direct impact on small businesses in Kansas. For the purposes of this testimony, the membership of NFIB would like to focus on the areas of franchise tax and investment and job credits.

**Franchise Tax**

NFIB members have long supported the elimination of the franchise tax. In the weeks leading up to the 2005 legislative session, members were asked to respond to a ballot survey containing the following question:

*Should legislation be enacted to phase out the Kansas franchise tax completely over five years?*

**Results: Yes – 77.1%      No – 12.6%      Undecided – 10.3%**

As you can see, an overwhelming majority supported the elimination of the tax, in this case by means of a phase-out. This response continues to reflect the mindset of the membership. In 2006, the elimination of the franchise tax was the second highest tax priority of small business, with the machinery and equipment tax phase-out and the estate tax phase-out being first and third, respectively.

NFIB members are appreciative of the Governor's efforts to implement some much needed changes to the franchise tax. Approximately 16,000 businesses would be impacted by raising the threshold to \$1,000,000 in net worth. However, raising the threshold would still create an atmosphere in which limited liability entities are penalized for increasing their net worth, whether the business is profitable or not. Further, members have grown increasingly frustrated in being subject to double taxation on their physical assets. Simply put, the franchise tax serves as a disincentive for small business to explore continued growth.

**Investment Tax Credit**

The simplification of the tax incentive process, as described in SB 213, is noted and greatly appreciated by NFIB members. Often times, small businesses do not have the adequate resources in place to pursue tax credit

inc...ves. The work done by the departments of Revenue and Commerce in improving this process direc... addresses this problem.

However after reviewing the legislation, concerns exist as it relates to the eligibility requirements. The minimum investment requirement of \$1,000,000 eliminates a very large percentage of small businesses in Kansas. Most small businesses will never make a single investment of that magnitude, thus immediately eliminating them from consideration for receiving an investment tax credit. NFIB encourages the committee to explore lowering the minimum investment requirement to an amount more accessible to small business. An amount that is closer to the \$100,000, as proposed in the Opportunity Zones Program, would be satisfactory.

### **Job Credit**

SB 231, as written, would allow businesses that create at least 20 net new jobs to seek a job credit in the amount of \$1,500 for each new employee. Considering that the average small business has ten employees, this proposal would eliminate a large majority of businesses from seeking this credit.

Small businesses annually are responsible for at least 60% of new net jobs and are responsible for employing 54% of the state's non-farm private work force. These are businesses that already contribute to the growth of the Kansas work force.

NFIB encourages the committee to consider lowering the net new job requirement to a number that makes it more accessible for a greater number of small businesses.

Thank you for your time and consideration on this important matter.

Derrick Sontag, Kansas State Director  
National Federation of Independent Business  
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Derrick.sontag@nfib.org

# Legislative Testimony

SB 113

January 31, 2007

Testimony before the Kansas Senate Assessment and Taxation Committee  
By Marlee Carpenter, Vice President of Government Affairs

Marlee Carpenter, Vice President of Government Affairs

Chairman Allen and members of the committee;

The Kansas Chamber and our over 10,000 members encourages the Kansas Legislature to look at pro-growth business tax policy that will encourage capitol investment and job creation in the state. The Kansas Chamber represents business of all sizes and from all part of the state. More than 95% of our members have less than 50 employees so we speak on behalf of large medium and small business.

On behalf of the entire business community, we would like to thank the legislature and the administration for working together to pass the repeal of the property tax on newly purchased business machinery and equipment as well as increasing the deminimus property tax exemption to \$1,500. These tax changes will help grow the Kansas economy and will encourage businesses to locate and expand in the state. This tax change along with the repeal of the Kansas Estate Tax is much needed and positive step in the right direction however the Kansas business climate still needs attention.

The Kansas Chamber is here is support of SB 213. The reduction in the corporate income tax, franchise tax changes and simplification of the tax credits are all issues that top our legislative agenda. Corporate income tax reductions would be very beneficial to the Kansas tax climate. This reduction will help Kansas compete with other states for investment and jobs. We support this measure and urge the committee to act favorably upon this tax reduction initiative.

The Kansas Chamber also supports franchise tax changes. SB 213 increases the threshold to exempt out very small businesses. We think that this is a good first step. The Kansas Chamber would prefer to see an approach that would repeal the franchise tax all together or a combination of rate and cap reduction. If the Governor's plan for franchise tax relief is enacted, there is nothing that will address the subsidiary issue. In Kansas, each subsidiary must pay the full franchise tax. Companies that choose to organize with many subsidiary companies are penalized under Kansas law and the penalty has increased significantly over the last few years. If full repeal is not an option, we urge this committee to consider addressing the subsidiary issue and the double taxation that occurs under the franchise tax.

The Kansas Chamber also supports the simplification of the tax credits. The current HPIP program is the flagship economic development program of the state. The current HPIP program is so complicated and complex that only very sophisticated

Assessment & Taxation  
Date 1-31-07  
Attachment # 2



The Force for Business

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taxpayers that have access to accountants or lawyers can claim this credit. The proposed simplification is overdue and supported by our business members. Our concern comes with the threshold increase. We believe that the proposed \$1 million threshold is much too high. Many small and medium sized businesses that make significant investments in the state would not qualify for tax credits. We believe that a threshold amount between \$100,000 and \$200,000 would be more reflected of the types of investments make in Kansas.

The same is true with the new Jobs Credit. We believe that the 20 jobs requirement is too high, even in the metro area. We would suggest that this number is reduced below Missouri's 10 net new job credit.

In addition, the Kansas Chamber would advocate for the investment tax credit to be claimed by a unitary group. Kansas is a unitary state and companies must report income on a combine basis. This is a very complicated and fact specific area. Currently, only the company that generates the tax credit can claim it, even if their income is grouped together with other related entities for income tax purposes. There is much litigation around this area of tax law and we believe that if income is combine for income tax purposes, then tax credits should apply to income taxed in Kansas from the unitary group.

The Kansas Chamber is supportive of the overall goal of the bill and is ready and willing to continue to work with the Department of Revenue and Department of Commerce to come to an agreement so that these pro-jobs, pro-business measures advance though the legislative process and gain passage.

Thank you for your time and I will be happy to answer any questions.

*The Kansas Chamber, with headquarters in Topeka, is the statewide business advocacy group moving Kansas towards becoming the best state in America to do business. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have more than 10,000 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, medium and large employers all across Kansas.*

Assessment & Taxatio  
Date 1-31-07  
Attachment # 2-2



# *Kansas Grain & Feed Association*

## Kansas Agribusiness Retailers Association

### **Joint Statement in Support of Senate Bill 213 Senate Assessment and Taxation Committee**

**Barbara Allen, Chair  
January 31, 2007**



Thank you Madam Chair and members of the Senate Assessment and Taxation Committee; I am Duane Simpson, Vice President of Government Affairs for the Kansas Grain and Feed Association (KGFA) and the Kansas Agribusiness Retailers Association (KARA).

KGFA is a voluntary state association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. KGFA's membership includes over 950 Kansas business locations and represents 99% of the commercially licensed grain storage in the state.

KARA's membership includes over 700 agribusiness firms that are primarily retail facilities that supply fertilizers, crop protection chemicals, seed, petroleum products and agronomic expertise to Kansas farmers. KARA's membership base also includes ag-chemical and equipment manufacturing firms, distribution firms and various other businesses associated with the retail crop production industry. On behalf of these organizations, I am testifying in support of Senate Bill 213.

While many of our members may not qualify for business incentives and tax credits we believe that the simplification of the program will make it more likely that those members who do qualify are able to receive the incentive. The rural opportunity zone credits are certainly something our members will be interested in. While just a handful of our members pay a significant amount of corporate income taxes, we certainly welcome the reduction of the rate.

However, our members are not satisfied with SB 213's franchise tax provisions. The Secretary of Revenue has noted that small businesses will benefit from the increased exemption and that big businesses will benefit more from the corporate income tax rate cuts. Our members, however do not typically qualify as either. Once again, this bill is based upon the flawed premise that only a "big business" has a high net worth. When we think of big businesses, we think of profitable businesses. Indeed, only profitable businesses have income that can be taxed. But agribusiness, like so many other small businesses, by their nature have considerable net worth despite very thin operating margins. The Secretary also noted that this bill is designed to simplify the tax credit process, yet the franchise tax filing process has not been simplified at all. Businesses are still required to file a franchise tax return, whether they have a tax liability or not. If simplicity is truly a goal, a full repeal of the franchise tax will simplify the tax return of every business.

If the franchise tax is not repealed in its entirety, many of our members will not see any tax relief from this proposal at all. We understand that your resources are limited and that we cannot, "have it all." Therefore, Madam Chair, I urge the committee to take the best parts of this bill and combine that with a full repeal of the state franchise tax.

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**Assessment & Taxation**  
Date 1-31-07  
Attachment # 3





**Wichita Independent Business Association**

THE VOICE OF INDEPENDENT BUSINESS

**Kansas Senate Assessment and Taxation Committee  
Testimony in support of Senate Bill 213**

**By:**

**Natalie S. Bright, Governmental Affairs Consultant  
Wichita Independent Business Association  
Kansas Independent Business Coalition**

Chairman Allen and Honorable Committee Members,

Thank you for the opportunity to appear before you on behalf of the members of the Wichita Independent Business Association (WIBA) and the Kansas Independent Business Coalition (KIBC). On behalf of the 1,300 members of WIBA and 300 members of the KIBC, I would like to take this opportunity to thank this committee, the KDOR and the Business Roundtable for collaborating to come up with the proposals set out in SB 213. It is refreshing to have these varying groups working collectively to come up with tax reform initiatives. While the members of WIBA/KIBC do not specifically endorse every provision of SB 213, we do support the overall spirit of the bill.

As reference for this committee, I would like to share recent member survey results in regards to which tax reforms would be most beneficial to their businesses. Overwhelmingly, our members ranked reductions in property taxes and personal income taxes as being potentially the most beneficial, while phasing out franchise tax and reducing corporate income tax tied for third. In light of these survey results, I am here to tell you that although the reforms in SB 213 are not at the top of WIBA's desired tax reforms, they are items, which if adopted, will bring needed reform to the Kansas business tax climate. In fact, Pete Schrepfermann, a past Chairman of WIBA, recently testified in favor of the total elimination of Kansas franchise tax because it is an unfair tax on one's net worth.

We did not ask in our most recent survey about how the proposed changes to Kansas business incentive programs would affect our members since prior surveys have indicated to us that our members do not participate in these programs. I have visited anecdotally with various members about SB 213 and all have welcomed the simplification of the application process and felt this might make the programs more attractive for small businesses to pursue them. However, all have raised concerns about the threshold entrance levels set out in SB 213 and encourage you to continue working to establish lower threshold levels that might be more attainable by smaller Kansas businesses.

In conclusion, I would like to thank again those who participated in the creation of the proposals set out in SB 213. Over the past few years, the Kansas Legislature has implemented changes to Kansas tax policy that have been positive for growing Kansas businesses. While the proposals would not address the most critical concerns of our members, we do believe there is merit in the proposals and if passed will keep Kansas on the path of economic growth and stability.

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Assessment & Taxation  
Date 1-31-07  
Attachment # 4

**Testimony on Senate Bill  
213  
Senate Assessment and  
Taxation Committee  
January 31, 2007**



**WICHITA METRO  
CHAMBER OF COMMERCE**

Senator Allen and members of the committee, I'm Bernie Koch, the Vice President for Government Relations at the Wichita Metro Chamber of Commerce. Thank you for the opportunity to appear before you today on Senate Bill 213.

Our chamber has over 1,800 members.

Half of our members are small businesses with ten or fewer employees, but we also number among our members some of the largest companies in the state. The employees of our members make up approximately 55 percent of the workforce of the four-county Wichita Metropolitan Area, comprised by Sedgwick, Harvey, Butler, and Sumner Counties.

We are generally supportive of Senate Bill 213, but have some comments about the individual components.

**Franchise tax**

Our Chamber supports elimination of the business franchise tax and we welcome changes in this or any other bill that move us closer to that goal. Because we have such a diverse membership, I'm not sure they would agree on the best way to do that.

As others have ably pointed out, it can be a double or triple taxation of the same assets.

**Corporate tax rate**

We look at the reduction of the corporate tax rate as a positive. Our professional staff at the Greater Wichita Economic Development Coalition tells me we seem to suddenly be getting a lot of serious contacts from very large companies looking at us as a location for what might be called "back office" operations.

Many large companies are spinning off middle level jobs to a more cost-effective location. The headquarters might be in New York City or Chicago or Los Angeles, where real estate prices are high and other costs of doing business are prohibitive.

The company can save money by spinning some operations off to places where there are lower costs, but a great work force. I'm referring to operations like payroll, customer service, processing, benefits administration, and legal.

I believe a strong factor causing these companies to look at us seriously is our highly educated work force with a great work ethic. Adjusting our corporate tax rates could be very helpful in tipping the balance on a decision. Those are great jobs that any community would love to have. They pay well. Those kind of well-educated employees buy homes, they shop in your stores, and the support your economy and they support your community.

If we wanted to be very serious about becoming very aggressive in attracting these kinds of operations, at some point in the future Kansas should probably look at not just the corporate tax rate, but how the tax is applied. There is a huge fiscal note to that.

However, states like Iowa and the Dakotas are very successful in attracting these kinds of operations because of their work force and their corporate tax structure.

**Tax credits**

My local economic developers tell me they have some concerns about the tax credit changes but they believe they can be adjusted to make them more workable. I asked if they could provide me information on businesses expansions they have worked on in the past year or two that would have been impacted if this had been in effect, but they could not provide that information on such short notice.

For small and middle size businesses that are considering an expansion, this is the only incentive available. Our economic developers have a difficult time right now supporting small business expansions. We would support reducing the thresholds, as has been discussed. We appreciate Secretary Wagnon's willingness to discuss that.

There are many small to medium sized businesses in the MSA and the region that do not add 20 employees at a time as a direct result of a qualified investment. That's verified by an accountant we know who directly works with small manufacturers that are expanding. He says that even growing companies don't add employees in blocks of five, let alone 20, even for companies with as many as 500 employees.

I don't know if this point has been made, but be aware that under the Business and Job Development Credit there was a distinction between manufacturers and other businesses. It was easier for a manufacturer to qualify for job creation credit than a non-manufacturer. The original theory was that manufacturing jobs "multiply" in the economy to distribution and service sector jobs. In the new job credit language, there doesn't appear to be anything that makes that distinction. I'm not saying that's right or wrong, but it is a change in direction for the state that you should recognize.

My final point is about the transition from the current system to this new system. The Wichita area is recovering from the worst economic downturn in 30 years. Many small and medium sized companies are in the process of expanding once again with the economy. It typically takes two or three years for an expansion. Those companies made their business decisions based on projections made with the current law in mind, expecting that they would qualify for tax credits. We believe there are several expansions in the pipeline. Companies have made plans, signed contracts, and taken other actions that have committed them to expenses.

We would hate for those businesses to be hurt because they believed our economic development professionals when they told them we have these great tax credits in Kansas. We would ask you to look closely at the transition and make sure that it's appropriate.

Thank you again for your willingness to look at these topics.

## Testimony on Senate Bill 213

by Betty Nelson

Senior State Incentive Manager

CBIZ Accounting, Tax & Advisory Services of Kansas City

January 31, 2007

CBIZ is a national leader in accounting, tax and advisory services with 140 offices in 34 major cities throughout the country. We are one of the nation's leading providers of outsourced business services, including accounting and tax, benefits and insurance, and a wide range of consulting services.

CBIZ is headquartered in Cleveland, Ohio with our mid-west regional office in Leawood, KS. CBIZ moved our regional office from Missouri to Kansas in July of 2003 based on the incentive package we received from the State of Kansas for committing to \$20,000,000 of new investment and 540 net new jobs.

I am part of our State and Local Tax (SALT) group and work with clients every day that are expanding, creating jobs and adding capital investment. We prepare our clients' State and Federal tax returns and advise them on related issues such as tax credits, training grants and sales tax exemptions. Taxes are important to business. Business decisions are affected by them. Job creation and retention, site selection, competition and numerous other decisions hinge on them. Our clients make location decisions based on our advice.

Currently, companies have three *separate* ways to invest in the State of Kansas:

1. Invest in capital by purchasing or leasing new equipment and/or expanding facilities.
2. Create net new jobs, thereby increasing payroll.
3. Invest in training initiatives by spending greater than 2% of their gross payroll on training their workforce (both existing and new employees).

We are extremely concerned that this proposal will adversely affect our clients' desire and determination to move to or expand in Kansas. Although we applaud the State's efforts to simplify the document preparation, we believe that the raising of the thresholds and elimination of the training tax credit will diminish Kansas' ability to compete with its neighbors.

Until now, Kansas has been very effective at winning new businesses in the state based on the incentive packages they have offered to those who are considering opening a business or moving an existing business to the state. If the tax credits for smaller businesses are removed, the state will certainly not be in a competitive position and will struggle to catch up with the surrounding states.

## **Investment Tax Credit**

Current investment level required

- Currently all companies must subtract out the first \$50,000 of investment and can earn a 10% tax credit on qualified investment greater than \$50,000.

New Legislation proposed

- Raise the investment threshold to \$1,000,000.

Our proposal

- Investment threshold (if it must be raised) should be no more than \$200,000 to account for companies making routine investment in their business.

## **Job Creation Tax Credit**

Current job creation level required

- Manufacturers must create two net new jobs in all areas of the state.
- Retail businesses must create two net new jobs in all areas of the state.
- Non manufacturing/non-retail businesses must create five net new jobs.
- Business headquarters and ancillary support must create 20 net new jobs in all areas of the state.

New Legislation proposed

- All businesses in Metropolitan Statistical Area (MSA) would be required to create 20 net new jobs.
- Retail businesses will not be eligible.
- In Opportunity Zones manufacturers will be required to create five net new jobs.

Our proposal

- Manufacturing and non-manufacturing/non-retail businesses must create five net new jobs
- Business headquarters and ancillary support operation must create 20 net new jobs.  
Twenty jobs are too many for a small to medium business to create in any given year.

## **Excessive Training Tax Credit**

Current Training Tax Credit

- Companies who invest greater than 2% of their gross payroll in training their workforce can earn a dollar for dollar tax credit up to \$50,000 for providing Kansas with a well-trained workforce.

New Legislation proposed

- *Eliminate* this tax credit for all businesses.

Our proposal

- Make this a separate tax credit and allow all companies who meet the NAICS code requirements and wage standards to receive a tax credit for investing in human capital for training that exceeds 2% of their gross payroll. Training employees is expensive, especially if your employees leave. However, not training them and having them stay is even more expensive.

Incentives are a natural lightning rod for criticism. Debate often centers on whether they are necessary and effective or simply a waste of resources. Companies seek such objectives as a skilled labor force, the availability of raw materials and a short distance to markets. In the final analysis, however, government incentives are crucial to a company's ultimate decision on where to locate that new facility.

Many of our clients are small businesses that are growing and expanding. These companies pay higher than above average wages. They generate greater than 50% of their revenues from out of state, and they invest in properly training their workforce. These are the types of businesses all of you want in your communities. This legislation, as proposed, will discourage desirable businesses from locating in Kansas from outside of the state and will hinder businesses already located in the state from expanding.

Attached is a spreadsheet showing how the new legislation proposed will affect both a new business coming to Kansas and an

**Existing manufacturing business considering a new location/could locate in either Kansas or Missouri**

**Assumptions:**

Total investment of \$1,400,000 over 5 years  
 Total of 25 jobs added over the next 5 years  
 Type of business - Manufacturer of electronic components  
 Job creation is \$1,500 per net new job  
 Existing jobs - 30  
 One half of the equipment investment each year is for non-manufacturing equipment.  
 Training tax credit - The company can earn up to \$50,000 each year, but we are only estimating the company earns \$20,000 each year.  
 This company is a Sub S and is taxed at the individual level.

	Year 1	Year 2	Year 3	Year 4	Year 5	
<b>Investment</b>	\$600,000	\$200,000	\$200,000	\$200,000	\$200,000	\$1,400,000
<b>Job creation</b>	5	5	5	5	5	25
<b>Benefits under the current tax credit programs</b>						
HPIP ( minus first \$50,000)	\$45,000	\$15,000	\$15,000	\$15,000	\$15,000	\$105,000
Business & Job Tax credit	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$37,500
Training tax credit	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$100,000
Sales tax exemption (using 7.225)	\$7,225	\$7,225	\$7,225	\$7,225	\$7,225	\$36,125
<b>Total benefit</b>						\$278,625
<b>Benefits under the proposed legislation</b>						
Investment tax credit (\$50,000 will no longer be deducted)	\$0	\$0	\$0	\$0	\$0	\$0
Jobs Credit	\$0	\$0	\$0	\$0	\$0	\$0
Sales tax exemption (using 7.225)	\$0	\$0	\$0	\$0	\$0	\$0
Training Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total benefit</b>						\$0

By raising the investment level from \$50,000 to \$1,000,000 in any given year and raising the job creation requirement from 2 to 20 jobs, the company would lose \$278,625 in incentives that would be offered under the current incentive programs.

*Testimony on SB 213*  
*Before the Senate Taxation Committee*  
*Kelly Schoen, CEO, Z3 Graphix*  
*January 31, 2007*

***Z3 Graphix HPIP Program History***

- In 1999 I purchased the assets of a Missouri corporation to use as the basis to launch a new business model. The predecessor company had low-tech equipment and pay rates that were low by industry standards. Given that, I purchased the assets with the intention of leveraging them into a “High Value” marketing services company that utilized technology to produce value-based marketing products and services.
- As we built the plan for the new business model, we began the search for a location to launch our new printing & marketing services center. We evaluated properties in both Kansas & Missouri, as the predecessor organization had facilities in both states. During the evaluation process, our realtor introduced us to CBIZ so that they could educate us on the potential tax incentives that might be available if we chose to locate in Kansas. After learning more about the HPIP program, and factoring the tax benefits of the HPIP program into our decision, we chose to locate in the College Crossing business park in Lenexa, Kansas.
- Like most small businesses we struggled with the challenges of meeting our debt service related to the leveraged buy out, while still committing the financial resources necessary to equip the company with the assets necessary to execute our business model. By utilizing the HPIP investment tax credit program, we were able to justify investments that we wouldn’t otherwise have been able to make. We averaged over \$200,000 in equipment investments per year for a total of over \$1,000,000.
- Another thing that most small businesses struggle with is dedicating the financial resources and time to train their workforce. The purchase of higher tech equipment required a higher skilled operator. The HPIP Training Tax Credit program provided us with the incentive to dedicate the resources to train our employees to higher skill levels. The result is that we have a work force with significantly higher skill levels, and in turn can deliver a higher level of value to our customers, and accordingly are compensated at significantly higher levels (average compensation is nearly double that of the predecessor organization).
- More skilled employees operating higher tech equipment led to a higher value of products and services for our clients. In turn, our sales grew at double-digit annual rates (sales growth of approximately \$2 mm over the past 5 years). This in turn has allowed us to add new jobs (10 over the past 5 years).



- As we grew sales and added equipment and employees, space became tight. Once again the HPIP investment tax credit program provided us with the incentive to open a new facility in the State of Kansas. In 2005 we opened our second facility in Lenexa.

***Primary Concerns With Proposed Legislative Changes To The HPIP Program:***

- The raising of the investment threshold from \$50,000 would eliminate the incentive for small businesses such as Z3 to continue to invest in equipment and facilities in the State of Kansas. Very often the investment tax credit is the difference maker in allowing a small business to be able to stretch into a deal. Small business provides the majority of jobs and fuel for the economy, and the proposal to raise the investment threshold to a level that is not attainable for most small business would be detrimental.
- The elimination of the training credit would significantly reduce the incentive for small businesses to properly train their employees to be competitive into the future. Because employees in small companies wear a lot of hats, it is extremely difficult to justify the time and expense to train employees to the levels that will enhance their future value. Without the incentive of the HPIP Training Credit, small businesses will be more likely to take a shorter-term approach and reduce or eliminate much of their training. Over time, this will lead to lower skilled and lower paid employees.
- Increasing the jobs creation requirement from 2 to 20 will essentially eliminate the incentive for small businesses. While it may be possible to strive to add 2-5 new jobs per year, it is not realistic to expect to add 20.
- While I understand the proposed legislation does provide for a reduction in the Kansas corporate income tax rate, this will not benefit most small businesses. This is because most small businesses are flow-through entities (S-Corp or LLC) with the earnings being taxed at the individual shareholder level.

***Summary***

- In summary, I see the proposed legislative changes to the HPIP program as being extremely detrimental to the small businesses of Kansas. It will eliminate much of the incentive for investment and training, which in turn will slow the growth potential for the company, which in turn will slow the growth of the economy.
- I believe the Z3 story is a classic example of how the HPIP program can provide the incentive and capability to expand and grow the company. The result has been a substantial increase in sales which has led to increased sales tax revenue and income tax revenue for the State of Kansas. It has also led to substantially higher wages which has provided increased income tax revenue for the State. Increased equipment has led to increased property taxes.



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TO: Senator Barbara Allen, Chairperson  
Members, Senate Taxation Committee

FROM: Ashley Sherard, Vice-President  
Lenexa Chamber of Commerce

DATE: January 31, 2007

RE: **SB 213—Franchise and Corporate Income Tax  
Reductions and Changes to Incentive Programs**

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The Lenexa Chamber of Commerce appreciates the opportunity to express its views on Senate Bill (SB) 213, which would increase the franchise tax threshold from \$100,000 of net worth up to \$1 million, reduce the corporate income tax surcharge, and streamline key economic development incentive programs.

We strongly support the business-friendly concepts represented in SB 213. Reduction or elimination of the franchise tax, reduction of corporate income taxes, and simplified incentive programs would provide companies additional resources to reinvest in their operations and workforce as well as increase the state's competitiveness in attracting and retaining businesses. Both of these outcomes would play a critical role in helping to foster a healthy and growing statewide economy.

While we applaud this effort to promote economic growth, we do have very serious concerns about specific proposals in the bill that revise current tax incentive programs. We believe these proposals will simply put economic incentives out of reach of most growing companies and make Kansas much less competitive in attracting new businesses, particularly against our neighboring states.

First, we do not believe increasing the investment tax credit threshold from \$50,000 to \$1 million is good public policy. This significant jump effectively limits the availability of investment tax credits to only the largest companies and ignores the many growing companies that make up our economic foundation. It also does not make sense to simplify the program's application process to encourage broader participation, and concurrently increase the eligibility criteria to the point that few companies can qualify! We do understand the need to control the fiscal impact of the bill and to also ensure tax credits are awarded to projects that represent meaningful new investment in the state, so we would propose an increase in the minimum investment threshold up to a level between \$100,000-\$200,000.

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Second, we do not believe increasing the job creation tax credit from 5 net new jobs up to 20 jobs is good public policy. Again, this significant jump effectively limits the availability of job creation tax credits to only the largest companies – it's simply not realistic for most growing businesses. It would also put us at a specific competitive disadvantage with Missouri, which offers a job creation tax incentive based on the addition of 10 net new jobs. To maintain a job creation stimulus for growing companies and preserve our competitiveness, we would propose a minimum job creation threshold of five to seven net new jobs.

Lastly, we do not believe eliminating the excessive training tax credit program is good public policy. In a globally competitive marketplace, why would Kansas want to stop encouraging and rewarding employers that spend above-average resources investing in their workforce? More highly skilled workers are both more productive and earn better wages – all of which generates additional revenue for the state. We would propose not only preserving the training tax credit program, but also recognizing the 21<sup>st</sup> century workplace by including computer-based training among the program's eligible expenditures.

Without these suggested changes, SB 213 will hurt backbone Kansas businesses like Z3 Graphix, a printing operation with 35 full-time employees located on two sites in Lenexa. Z3 Graphix's net worth exceeds \$1 million, so it would not receive SB 213's franchise tax relief. Like most businesses Z3 Graphix is structured as a pass-through organization and not a corporation, so it would not receive SB 213's corporate income tax relief. Z3 Graphix has consistently added employees and invested \$200,000-\$500,000 per year in additional equipment and a second operational site, all of which increased capacity and generated new revenue for the state. Z3 Graphix would not have made these investments and hired additional employees without the investment tax credit – but under SB 213, Z3 Graphix would no longer qualify for those incentives. In short, the provisions of SB 213 not only don't help Z3 Graphix, they actually hurt Z3 Graphix. We don't believe these consequences reflect what SB 213 should intend to achieve.

While we strongly support the tax reduction and simplification concepts embodied in SB 213, we must oppose specific details currently in the proposal. We sincerely hope that our concerns can be resolved so that we may fully support the bill, which we believe can enhance business attraction and expansion efforts across Kansas. Thank you very much for your time and attention to these important issues.



**Testimony before the  
Senate Assessment and Taxation Committee  
Re: Senate Bill 213**

**January 31, 2007**

Presented by Andrew Nave  
Business and Recruitment Manager,  
Overland Park Chamber Economic Development Council

The Overland Park Chamber of Commerce appreciates the opportunity to submit written testimony in support of Senate Bill 213. Our legislative agenda has long included support for the elimination or gradual reduction of the franchise tax. We also support the reduction of the corporate income tax as a means to reduce costs for Overland Park and Kansas businesses. These tax cuts would enhance the business environment in our state.

The Overland Park Chamber also supports simplification of Kansas incentive programs as a means to promote increased capital investment and job creation. We believe that future success in economic development in our state will be dependent upon fostering a favorable economic climate as well as providing competitive economic incentives for business prospects.

We encourage this committee to consider the proposal as presented, but to think creatively of additional options that will make us even more competitive in the marketplace. Our experience has found that high-wage, fast-growth companies are more receptive to front-loaded, cash-based incentives when making relocation decisions than to tax credit-based incentives. For that reason, the Overland Park Chamber supports the creation of a cash grant program similar to Texas, Missouri or Oklahoma. Such a program would provide more flexibility for companies in the first year of relocation when costs are highest. We also encourage consideration of authorization of sellable or refundable tax credits as an enhancement to our current incentive program. We recognize the additional administration involved, but believe the nature of economic development demands that we examine our programs for flexibility, ease and competitiveness in each area.

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We are also supportive of the Opportunity Zones, because we believe rural economic development is crucial to the economic health of Kansas.

There has been debate about where the thresholds should be for investment and job creation. In analyzing our economic development projects, fewer than ten percent of the new business recruitment and retention projects we've assisted with would be affected by the thresholds proposed by this bill.

Your task as a committee is two-fold with this proposed legislation. On one hand, the tax cuts will help create a more favorable climate for business growth. On the other, we need economic development tools to create jobs and capital investment in communities across our state. We appreciate your consideration of the tax cuts as well as creative solutions to provide those economic development incentives to maintain a competitive edge.



January 30, 2007

Senate Taxation Committee  
Kansas State Senate  
Topeka, KS

Dear Senators:

I, D. Roxanne Helphingstine, am president of Mission Electronics, a small business in Lenexa. We are an audio visual integrator and have been in business for 27 years. In 1995 when we began to see an increase in internet business, Mission Electronics had to change the direction of its sales and service.

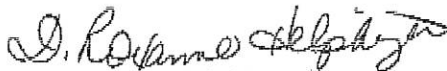
Until that time, we were focused on production equipment sales to television stations and production companies. Those entities began purchasing their equipment on the internet to save on sales tax and pricing. We knew if we did not change our business plan, we would most likely be forced to close our doors.

To do so, we had to expand our staff and hire more technically oriented personnel. In this ever changing technological world, we send our employees to training whenever possible. Consequently, we are very concerned by the proposal to eliminate the training tax credit.

This tax credit has enabled us to send more employees to additional training. We would need to pare down some of that training if this occurs. This tax credit has been a great incentive for us to further educate our employees here at Mission Electronics. As our expenses as a small business have continued to increase (such as in health insurance costs), we appreciate any incentives that are available to us.

I appreciate your consideration in not abolishing the training tax credits.

Sincerely,

  
D. Roxanne Helphingstine  
President



MEI is proud to have been awarded the Gold Level as a Certified Solutions Provider  
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