

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:30 A.M. on March 19, 2008 in Room 519-S of the Capitol.

All members were present except:

Nick Jordan- excused

Committee staff present:

Gordon Self, Office of Revisor of Statutes  
Chris Courtwright, Kansas Legislative Research Department  
Scott Wells, Office of Revisor of Statutes  
Ryan Hoffman, Kansas Legislative Research Department  
Mary Jane Brueck, Committee Assistant

Conferees appearing before the committee:

Steve Warren, Vice-Provost for Research, Kansas University  
Christy Caldwell, Greater Topeka Chamber of Commerce  
Rick Wienckowski, Hill's Pet Nutrition  
Secretary David Kerr, Department of Commerce  
Bernie Koch, Wichita Metro Chamber of Commerce  
Senator Dennis Pyle

Others attending:

See attached list.

Chairman Allen introduced Mary Jane Brueck, on loan from Sen. Donovan's office in Judy's absence.

Senator Allen announced that the revision in this week's agenda did not get to the printer to reflect changes. The committee will not meet Thursday, March 20 or Friday, March 21. Watch for agenda for next week. Bills assigned to that date have been moved to Monday.

Chairman Allen opened the hearing on **HB 2750-- An act concerning property tax; exempting certain property leased to companies for research and development purposes.** Explanation of the bill was given before recognizing conferees.

Proponents:

Steve Warren, Vice Provost for Research, KU explained the purpose of HB 2750 is to ensure continued property tax exemption status to the universities when said property is used by for-profit entities for research and development purposes. The House amended the bill to include post-secondary educational institutions. The Kansas Department of Revenue (KDOR) has indicated since this property is currently not on the tax role, there is no fiscal note. (Attachment 1)

Sen. Lee expressed concern this bill would put private companies at a disadvantage. Mr. Warren explained the research being done in state institutions' labs is only start-up research, not advanced research. By allowing research to begin in our educational institutions, an idea that may have an impact on the future may attract inventors and companies to come to and remain in Kansas. This bill is primarily intended for companies doing research in the very early stages.

Fiscal note attached to the day's agenda. (Attachment 2)

Seeing no one else to speak to this bill, Chairman Allen closed the hearing on **HB 2750** and opened the hearing on **SB 686--An act concerning income taxation; relating to apportionment of net income. SB 686** is being referred to as this year's version of last year's "Hill's bill" (i.e. **SB 240**).

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:30 A.M. on March 19, 2008 in Room 519-S of the Capitol.

Proponents:

Christy Caldwell, Vice President of Government Relations, Greater Topeka Chamber of Commerce, said last year's fiscal note and briefs are attached to her testimony. (Attachment 3) Sen. Lee asked how this bill will help the unnamed company seeking this legislation. Ms. Caldwell explained **SB 686** would lower the income tax liability for that company.

Rick Wienckowski, Chief Financial Officer, Hill's Pet Nutrition, Inc. gave his support to this bill. (Attachment 4) There were several questions concerning loss of income taxes to the state during the first few years a company is located in Kansas. A corporation takes a long term look at the tax environment. In the short term under current law there would be lower taxes if a company qualifies for HPIP credits. But after that period expires (i.e. 10 years), corporate income taxes will go up. Therefore, corporations also look at taxes in surrounding states. This bill would make Kansas more inviting. Sen. Lee asked if this will penalize the companies already here, and suggested perhaps we should change our corporate income tax laws.

Sen. Bruce asked why there is a sunset in this bill. The sunset was targeted to last year's **SB 240**. Sen. Bruce asked about a House bill on a similar issue, and was told it does not relate to this bill.

David Kerr, Secretary of Commerce, said his support of this bill is contingent on the fiscal note. (Attachment 5) He thinks this offer should be available to all companies who want to apply. Sen. Lee asked Mr. Kerr if this will be a disadvantage to present companies. Mr. Kerr thinks present companies could also benefit from this bill.

Bernie Koch, Vice President and Government Relations, Wichita Metro Chamber Commerce spoke in support of this bill. (Attachment 6)

Bud Burke, Cessna Aircraft, submitted his written testimony in favor of this bill. (Attachment 7)

Sen. Allen closed the hearing on **SB 686**.

Subcommittee report on **SB 617--Income tax credit for property taxes paid by certain taxpayers** was presented by Sen. Pyle. Sen Pyle distributed handouts from the subcommittee. (Attachment 8) An acronym for this program would be Selective Assistance For Effective Senior Relief (SAFE SR)

Motion was made by Senator Schmidt to adopt the subcommittee recommendation; seconded by Sen. Pine. The motion passed.

Sen Schmidt made a motion to remove the contents of **HB 2529** and replace it with the amended contents of **SB 617**. Seconded by Sen. Pine. Motion carried.

Sen. Schmidt moved **Sub HB 2529** be passed. Sen Pine seconded the motion. Motion carried.

Regarding **SUB HB 2018--An act creating the state court of tax appeals and abolishing the state board of tax appeals**. Senator Allen asked what is the will of the committee. Sen. Lee offered an amendment to put language back into the bill reinstating regional representation of COTA Board members and moved the amendment. Sen. Schmidt seconded the motion and the motion carried.

Sen. Schmidt moved the committee recommend the bill favorably as amended. Sen. Lee seconded the motion. The motion carried.

Next, Sen. Allen brought up **HB 2520--Liability for taxes and other expenses related to conversion of lands into condominiums**. Discussion was heard. Sen. Lee moved the bill be passed out of committee favorably. Sen. Donovan seconded the motion. The motion carried.

Sen. Allen reiterated no meeting tomorrow or Friday.

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:30 A.M. on March 19, 2008 in Room 519-S of the Capitol.

There was no objection to taking action on **HB 2750--An act concerning property tax; exempting certain property leased to companies for research and development purposes.**

Sen. Schmidt moved the bill be amended by adding contents of already passed bills SB 383 and SB 444. Senator Donovan seconded the motion, and the motion carried.

Sen. Donovan moved the committee recommend HB 2750 as amended favorable for passage. Sen Pine seconded the motion. The motion carried.

Being no further business, the meeting adjourned. The next meeting is scheduled for March 24.

**SENATE  
ASSESSMENT & TAXATION COMMITTEE  
GUEST LIST**

DATE: 3-19-08

NAME	REPRESENTING
Steve Warren	University of Kansas
Kevin Boatright	University of Kansas

**Testimony by Dr. Steve Warren**  
**Vice Provost for Research and Graduate Studies**  
**The University of Kansas**

**Kansas Senate Assessment and Taxation Committee**  
**Wednesday, March 19, 2008. 10:30 a.m.**  
**Room 519-South, State Capitol**

Chairperson Allen, members of the Committee -- my name is Steve Warren, and I serve as vice provost for research and graduate studies at the University of Kansas.

I am here to speak in favor of a bill -- H. 2750 -- that would extend a public university's property tax exemption to include a private company's R&D efforts performed in a university laboratory.

Currently, companies in Kansas have limited access to university research facilities to perform R&D that results in new tech-based products.

For example, under the state tax code, for-profit companies may not lease or occupy state university research labs -- even on a temporary basis as part of company-university collaborative research projects -- without endangering the property tax exemption of the building in which the research occurs.

This concern applies to established companies as well as early-stage, university spin-offs -- small businesses whose very existence is tied to the work of university researchers.

Public universities have no choice but to adhere to current state statutes on property tax exemptions. The proposed bill language -- as passed by the House last week -- resolves this issue in a fair and productive way.

The change would immediately benefit companies that wish to do research on a university campus.

It would also benefit universities, whose students and faculty would have new opportunities to work on real-world problems.

And it would benefit the state as a whole in ways I'll outline in a moment.

As I said, the bill extends the current university property tax exemption to include a company's R&D efforts performed in a university lab.

To accomplish that goal, it authorizes a company to enter into a lease agreement to use the labs, and the term of the lease would be brief -- no more than five years.

Such a change benefits all three partners in an economic development initiative based on university research.

Existing companies and start-up companies could:

- Access university research labs on a temporary basis;
- Develop new technologies for commercialization that benefit the public; and
- Expedite their transition from the university to a business incubator or industrial site.

This is especially important for small, start-up companies. For them, close proximity to faculty and students doing related research greatly improves the likelihood they will survive and thrive on their own.

By the same token, an established company conducting a single research project in cooperation with university faculty is more likely to want to conduct additional research on that campus in the future.

Building a research track record over time -- with a Fortune 500 company or a small regional firm - is the building of a relationship.

It can be a factor in whether that company chooses to locate or expand a future research or manufacturing facility in Kansas.

Further, the state's three research universities have a mission in economic development. That mission compels us to reach out to the private sector and support their efforts through research, workforce development, and public service.

The research resulting from adoption of this bill would do just that. Without this language, however, the universities will continue to be hamstrung.

In particular, our efforts to start, nurture and grow small, high-tech companies will be limited by the need to maintain a firewall between university labs and these small entrepreneurial businesses.

We are forced to distance ourselves from them, in a sense, at the very moment they need our support and expertise the most.

Finally, this exemption is not expected to result in a loss of local property tax revenue.

In fact, it should lead to new property tax revenue being generated. For example:

- Existing Kansas companies that perform R&D are not likely to move their operations to a temporary location on campus. Therefore, no current property tax revenue will be lost.
- Existing Kansas companies could start new R&D projects with Kansas universities. This could lead to new technologies being commercialized and then located within Kansas communities, generating new property tax revenue.
- Successful, new, university-based start-up companies will move quickly from the lab into private building space, thus generating new property tax revenue.
- Finally, out-of-state companies using the labs could create technologies here and be recruited to commercialize that technology in Kansas, thus generating new property tax revenue.

The state could benefit from this change in other ways, including increased royalty revenue from technology licensing agreements and possible equity positions in successful companies.

Last year, KU faculty generated research expenditures in excess of \$193 million from external grants and contracts. That's a huge economic impact by itself, but it's not the only one.

Currently, 14 companies operating in Kansas began as KU start-ups. We also have 21 active technology licenses with Kansas companies.

Our goal is to significantly increase both numbers, along with the jobs and investment that result. Let me briefly describe two KU start-up companies, the kind of operations that would benefit the most from the bill you're considering.

**XenoTech, LLC**

- XenoTech is located in Lenexa. It started in the mid-1990s as a spin-off from research performed at the KU Medical Center. The company is a contract research organization, specializing in drug metabolism-related research. The company currently has more than 100 employees. With a grant from the Kansas Bioscience Authority, XenoTech plans to expand its operations and locate a new facility in the Kansas Bioscience Park in Olathe.

**CyDex Pharmaceuticals, Inc.**

- CyDex is also located in Lenexa. It started in the mid- 1990s as a spin-off from research performed at the nationally recognized KU School of Pharmacy in Lawrence. The company develops pharmaceutical products based upon advanced drug delivery technologies. CAPTISOL is its lead technology. The company employees approximately 30 people.

Technologies developed in KU labs were the foundation for the success of both companies.

Each company licensed its respective technologies. Combined, these two companies have now paid more than \$6.4 million in royalties and other revenue to KU.

Not included in this summary is the financial impact on Kansas of the income, sales, and property taxes generated as a result of these companies and their employees.

For all these reasons, I encourage you to support this legislation. When adopted, it will free the state's public universities to do an even better job of economic development based on productive and innovative research.

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February 6, 2008

The Honorable Kenny Wilk, Chairperson  
House Committee on Taxation  
Statehouse, Room 242-W  
Topeka, Kansas 66612

Dear Representative Wilk:

SUBJECT: Fiscal Note for HB 2750 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2750 is respectfully submitted to your committee.

HB 2750 would provide a property tax exemption for all real and all tangible personal property owned by state educational institutions or by the Board of Regents on behalf of the state educational institutions which is leased by a for-profit company and is used for research and development purposes. Under current law, state educational institutions are exempt from property tax. Any rental income received by a state educational institution or the Board of Regents must be used for educational or scientific purposes. In addition, the lease must not exceed a five year term.

The Department of Revenue estimates the enactment of HB 2750 would not have a fiscal effect. Under current law, property that is owned and used by a state educational institution or the Board of Regents is exempt from property tax. HB 2750 would continue the exemption while the property is leased to a for-profit company.

Sincerely,



Duane A. Goossen  
Director of the Budget

cc: Steve Neske, Revenue  
Kelly Oliver, Board of Regents



Testimony: SB 686  
Senate Assessment and Taxation  
Wednesday, March 19, 2008  
By: Christy Caldwell, Vice Pres. Government Relations  
Greater Topeka Chamber of Commerce

Chairperson Allen and members of the Committee:

I would like to express the Greater Topeka Chamber of Commerce strong support for SB 686.

Last year I testified before your committee in favor of SB 240, regarding the apportionment of income; this bill became known as the Hills bill even though it applies to any manufacturer that meets certain qualifications. SB 240 passed the Senate unanimously and the House in similar fashion. This bill ultimately resulted in Hills building a new manufacturing facility currently under construction in Emporia. Although we had hoped it would be in Topeka, we are pleased that the plant is being built in Kansas and not another state.

To refresh your memory SB 240 establishes a single-factor corporate income tax apportionment formula option for manufacturers who build new Kansas facilities with an investment of \$100 million or more and employ at least 100 new employees at higher than average wages. The bill included a sunset provision activated on December 31, 2009.

SB 686, the bill you have before you today, does nothing more than extend the sunset to 2014.

The Topeka Chamber is asking for this change because we are currently working with an international company that plans to build its first manufacturing facility in the United States. It is a company in a rapidly growing emerging industry sector. The company plans a \$150 million investment to build its plant and plans to employ close to 1000 individuals by 2013. The company will utilize high tech robotics in its manufacturing process. We just learned last Friday that Topeka, the only location being considered in Kansas, is now on their short list with two other locations under consideration in the United States. If we can bring this company to Topeka it will offer a new industry cluster for our state. The competition for this manufacturing plant is severe; the company is on a fast track and we believe will begin construction very quickly once their location decision is made.

The apportionment election option you provided manufacturers last year in SB 240 will help us attract this company and may well assist other communities in the state bring new manufacturing jobs and significant investment to their communities. The difficulty is that as quickly as this company appears to be moving; it is not likely they will have their plant built and their employees hired before the sunset included in last year's bill.

In the 2007 session, Secretary Wagon also testified before your Committee in support of SB 240; she has indicated to us her support to extend the sunset as proposed in the bill you have before you today. She has cautioned the importance of keeping this bill 'clean' so that it does not jeopardize projects currently in the works or state financial concerns. Last year you received a fiscal note from the Division of Budget and additional communications on the bill brief indicating there was no fiscal impact at least for several years. I have attached the fiscal note from last year's bill and the bill brief (SB 240); if you refer to the last paragraph of the bill brief it indicates no fiscal impact at that time.

Committee, we are facing stiff competition to land this project in Topeka; approximately 950 layoffs are underway or have just happened in Topeka from several firms who are downsizing or leaving our state. In researching our possible competition, other states have offered 25 year income tax forgiveness for similar projects. Our economic development professionals believe the apportionment option SB 686 provides, along with the M&E property tax elimination, and the dollars Topeka/Shawnee County citizens have provided, we will be a strong contender. Today we ask that you favorably pass SB 686 so we are aggressive in our efforts to attract this manufacturer, and for other communities in Kansas who can also utilize SB 686 to attract manufacturers as well.

Thank you.



**Hill's Pet Nutrition, Inc. and Subsidiaries**  
P. O. Box 148  
Topeka, Kansas 66601-0148  
(785) 354-8523

Richard J. Wienckowski  
*Vice President, Chief Financial Officer*

**Testimony: Senate Bill 686**  
**Senate Assessment & Taxation Committee**  
**Wednesday, March 19, 2008**  
**By**  
**Richard Wienckowski, Chief Financial Officer**  
**Hill's Pet Nutrition, Inc.**

Chairperson Alan and Members of the Committee:

I would also like to express strong support for Senate Bill 686. Last year, the Kansas Legislature and the Governor signed Senate Bill 240 allowing apportionment of income utilizing a single factor. The Bill became the major deciding factor for Hill's Pet Nutrition, Inc. to locate a plant in the state of Kansas. This bill virtually eliminated the disparity that existed between the method of taxation for corporate income tax between Kansas and the neighboring states. The state of Kansas was now on the same basis as the competition was offering in the states of Missouri, Illinois, Indiana, Nebraska and Oklahoma. Hill's is now in the process of building its plant in Emporia, Kansas. The plant is now expected to have an invested capital in excess of \$175 million and will employ between 130 and 150 employees.

Additionally, adjacent to the plant we are building a regional distribution warehouse, which is expected to cost an additional \$20 million. This regional distribution warehouse will employ between 50 and 60 additional individuals who will be employed by a third-party warehouse management company. None of these investments would have taken place in Kansas had not the Legislature approved Senate Bill 240.

For a multinational company, Senate Bill 240 eliminated the penalty we faced by increasing employment and investment in Kansas. As you know, Kansas taxes all profits of a multinational company, whether they are earned in Kansas, Tokyo, London, China or any other place on this planet. Under Kansas Unitary Tax program, the more people employed in Kansas and the more assets invested in Kansas, the more the state of Kansas taxes profits made outside the state of Kansas. Neighboring states do not do this; they only tax the profit made by a company in their state. This form of taxation is a great disincentive for a large corporation to invest and create jobs here in Kansas.

I urge you to extend the opportunity to make investments and create jobs in Kansas to other manufacturers. Senate Bill 686 offers comparable tax structures as our neighboring states do. Passing this bill will encourage other corporations to make and expand jobs in Kansas so all Kansans can prosper.

**Assessment & Taxation**  
Date 3-19-08  
Attachment # 4



Testimony on SB 686

To the Senate Assessment and Taxation Committee

By David Kerr, Secretary of Commerce

March 19, 2008

Chairperson Allen and members of the committee,

I am appearing today in support of SB 686, a bill that would extend a valuable business incentive through the year 2014. I might add that I have not yet seen the fiscal note on the bill, so my support is contingent on the bill having a reasonable and acceptable fiscal impact.

Last year in SB 240, the Legislature decided to craft language that was focused and targeted. Even though the Legislature may not have envisioned a broad application at the time, I do think it succeeded in providing another attractive option for businesses to locate here. If other companies subsequently meet the definition of "qualifying taxpayer" under this new language, serious consideration should be given to extending the alternative to potential business opportunities.

It makes sense to be responsive and flexible when laying out the rules by which business income is apportioned to the state. By way of analogy, we have successfully changed the law over the years with respect to the ways in which businesses may incorporate in order to better reflect the realities of the business world and to provide necessary benefits. Today, we have subchapter S corporations, limited liability partnerships, limited liability corporations, and others.

Similarly, we currently have in our statutes a range of useful options for apportioning business income. If the public policy contained in SB 240's language is sound, then the option ought to be extended so that it can be available to other companies in the state that care to use it. A sensible approach may also be a review every five years or so to examine what impact the option has had on the state's economic development.

The SB 240 language sets minimum wage thresholds for certain eligible worksites that are for manufacturing companies that are similar to those set in the High Performance Incentive Program (HPIP), a successful program administered by the Department of Commerce. As a result, the requirements contained in the SB 240 language are familiar and appear to be sensible and workable. I am aware of at least two companies whose willingness to make significant job and capital investments in Kansas will be influenced by their ability to use the provisions in this statute, if they are extended.

Thank you for your time and I am happy to answer any questions you may have.

Assessment & Taxation  
Date 3-19-08  
Attachment # 5



WICHITA METRO  
CHAMBER OF COMMERCE

**Testimony to Senate Assessment & Taxation Committee**

**March 19, 2008**

**Bernie Koch, VP/Government Relations**

**Wichita Metro Chamber of Commerce**

**350 W. Douglas, Wichita, Kansas 67202**

**Senate Bill 686**

Madame Chair, members of the Committee, I am Bernie Koch with the Wichita Metro Chamber of Commerce, appearing in support of Senate bill 686. Thank you for the opportunity to testify today on apportionment of business income.

Although this legislation originally was designed to help one company, it may have applications for others as well. For many years our legislative policies have included this statement: "The Wichita Metro Chamber of Commerce supports business tax reform designed to enhance Kansas ability to compete, including a reduction of the Kansas corporate income tax rate and changes that make Kansas more attractive to headquarters and back office operations."

We believe this legislation makes us more attractive to headquarters and back office operations because of the single factor formula for sales. Our hope is that some day, Kansas will go to a single factor of sales in Kansas when determining corporate income tax for all businesses. However, we realize that is not practical anytime soon.

Many companies on the East and West Coasts have been looking at moving corporate and back office operations to the Midwest for two primary reasons: the quality of the work force and low real estate prices. East and West Coast real estate prices can be mitigated by moving to the Midwest. When a firm decides to do this, they also look at the corporate tax rate, and more particularly, how that rate is applied.

For example, Iowa has a single factor formula corporate income tax: sales inside the state of Iowa. Sales outside of Iowa don't count toward Iowa corporate income taxes. As a result, Des Moines is a major center for the insurance industry with over 64 home offices of national insurance companies. It also has a sizeable financial services base and publishing. It's been called the number one spot for U.S. insurance companies with headquarters for the Principal Financial Group, EMC Insurance Group, Allied Insurance, and others. It's often referred to as the Hartford of the West. It's the home of the Meredith Corporation, the publisher of Better Homes and Gardens. In 2007, Forbes Magazine ranked Des Moines as the fourth Best Place for Business. Quality work force, relatively low real estate prices, and the corporate tax structure.

Another state that falls into this category is South Dakota, which has no state corporate income tax, along with favorable real estate prices and a quality work force. Almost 20 years ago, Citigroup located its credit card operations in Sioux Falls. Others were to follow including Great Western Bank, Total Card, BankFirst, Capital Card Services and Wells Fargo. Sioux Falls now has the 9<sup>th</sup> highest concentration of financial institutions in the United States.

Once again, it's the combination of the corporate tax structure, real estate costs, and quality work force.

I believe Kansas is also well suited in this area and is expanding.

Passage of Senate Bill 686 continues to move us in the right direction for attracting corporate and back office operations. I urge your support.

Thank you for the opportunity to appear today.



Greater Wichita Economic Development Coalition

BUSINESS AT FULL THROTTLE

# NEWS RELEASE

For immediate release: March 11, 2008

Contact: Amy Flowers, 316.268.1130  
Vera Bothner, 316.640.5326

## ***Site Selection Magazine Names Top Metro Areas for New and Expanded Corporate Facilities***

Wichita, Kan. – *Site Selection* magazine released its top 10 lists of metro areas in the nation with the most new and expanded corporate facilities in 2007. Wichita tied for fourth with Dayton, Ohio, in the tier of metro areas with populations between 200,000 and 1 million.

The full top 10 in this tier were:

- Greensboro/High Point, N.C.,
- Omaha/Council Bluffs, Neb./Iowa and Akron, Ohio (tied for second)
- Wichita and Dayton (tied for fourth)
- Syracuse, N.Y and Raleigh/Cary, N.C. (tied for sixth)
- Grand Rapids/Wyoming, Mich.
- Tulsa, Okla.
- Lexington/Fayette Co. Ky. and Knoxville, Tenn. (tied for tenth)

Based in Atlanta, *Site Selection* magazine is the oldest publication in the corporate real estate and economic development field. *Site Selection's* yearly analyses are regarded by corporate real estate analysts as a key industry scoreboard. The magazine has a circulation base of 44,000 executives involved in corporate site selection decisions.

For this analysis, the Conway Data Inc. New Plant Database tracks the number of new and expanded corporate projects with significant impact. New facilities and expansions included in the analyses must be corporate and meet at least one of three criteria: involve a capital investment of at least \$1 million; create at least 50 new jobs; or add at least 20,000 square feet of new floor area.

Site Selection also named Ohio the recipient of its Governor's Cup as the state with the most new and expanded corporate facilities. More information can be found at [www.siteselection.com](http://www.siteselection.com)

"Wichita continues to be recognized for its growth and expansion," said GWEDC Interim President Al Higdon. "This recognition from one of the most respected magazines in economic development will continue to help us position the Wichita community as a great place to locate and grow business."

###

350 W. Douglas ▪ Wichita, KS 67202

T 316-268-1133 ▪ F 316-265-7502

[www.gwedc.org](http://www.gwedc.org)

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*Bud Burke*

Cessna Aircraft Company  
Statement regarding SB 686

Cessna Aircraft Company supports the passage of Senate Bill 686 which extends the placed into service date and employee hiring dates contained in KSA 79-3279(b)(6) to December 31, 2014.

Cessna has publicly announced its intention to assemble the new Columbus aircraft in Wichita. The city and county governments as well as the Kansas Department of Commerce has provided Cessna various economic incentives as an inducement to locate the final assembly of the aircraft, as well as the manufacturing of various components of the aircraft, in Wichita, KS. Assembly of the new aircraft will involve construction of an all new manufacturing building at the Wichita airport. At this time, the projected investment related to the construction of the facility would most likely meet or exceed the requirements contained in KSA 79-3279(6)(A). Cessna will employ well over 100 new employees at this facility. This bill if passed may assist Cessna Aircraft Company with the economic cost of constructing the facility and employing the workers required to assemble this aircraft. Because the investment is to be completed in the 2013 – 2014 timeframe and the future tax position of the company cannot be ascertained today, it is uncertain what economic benefit this may provide to Cessna. However, the ability to elect to use a single rate allocation factor in the future if all other requirements of the statute are met is important to Cessna. We therefore support this bill and encourage its passage by the Senate Subcommittee on Assessment and Taxation.

MEMORANDUM

March 19, 2008

To: Senate Committee on Assessment and Taxation  
From: Subcommittee on SB 617  
Re: Subcommittee Report

SB 617 proposes to enact a refundable income tax credit for certain property taxes paid by low-income senior citizens.

The subcommittee recommends that SB 617 be amended to include the following provisions:

(1) To help boost the visibility and public awareness of the new credit, the bill should be a "named" act that could ideally be transformed into an easily-remembered acronym (Senator Pyle may have the final recommendation on this issue);

(2) For the sake of simplicity and to minimize administrative costs, language should be included that clarifies that the new tax credit program would be supplemental to the current Homestead program;

(3) The measure of income should be changed to clarify that it would be "household income" utilized prior to tax year 2007 in the Homestead program (which includes Social Security income);

(4) Household income of up to 120 percent of the federal poverty level (currently \$12,480 for single filers and \$16,800 for joint filers) would enable eligible taxpayers to receive 75 percent refunds of their property taxes actually and timely paid.

(5) Given that the provision prohibiting taxpayers from claiming both Homestead refunds and the new tax credit would be retained, the Department of Revenue indicated that the subcommittee's recommendation would be expected to reduce SGF receipts by about \$3.4 million.

## Kansas Department of Revenue

### Current Homestead Refund Program

The Homestead Refund is a rebate program for the property taxes paid by homeowners and renters.

The refund is based on a portion of the property tax paid on a Kansas resident's homestead.

If you own your home, the refund is a percentage of your general property tax.

If you rent your home, 15% of the rent paid for occupancy is used as the property tax amount. The maximum refund is \$70

To qualify you must be a Kansas resident, living in Kansas the entire year.

Your total household income must be \$29,100 or less.

You must also meet one of the following requirements:

Be 55 years of age or older, OR

Be blind or disabled, OR

Have a dependent child under 18 who lived with you all year whom you claim as a personal exemption

### Household Income

Household income is generally all taxable and nontaxable income received by all household members during 2007.

If a household member lived with you only part of the year, you must include the income he or she received during the months that individual lived with you.

Household income includes, but is not limited to:

Taxable and nontaxable wages, salaries, and self-employment income

Earned income credit

Taxable and nontaxable interest and dividends

50% of Social Security and Supplemental Security Income, (SSI) benefits (except disability payments)

Railroad Retirement benefits (except disability payments)

Veterans' benefits and all other pensions and annuities (except disability payments)

Welfare and TAF (Temporary Assistance to Families) payments

Unemployment, worker's compensation and disability income

Alimony received

Business and farm income

Gain from business property sales, investment property sales, and any long-term capital gains included in federal adjusted gross income

Net rents and partnerships (cannot be a negative number)

Foster home care payments, senior companion stipends, and foster grandparent payments

School grants and scholarships (unless paid directly to the school)

Gambling winnings, jury duty payments, and other miscellaneous income

ALL OTHER INCOME received during 2007 not specifically excluded (see below)

Net operating losses and net capital losses can not be used to reduce total household income.

DO NOT subtract any net operating loss or net capital loss from the income amounts.



Excluded Income — DO NOT include these items as household income.

- 50% of Social Security and SSI payments
- Social Security disability payments
- SSI disability payments
- Railroad disability payments
- Veterans disability pensions
- Previous year's Homestead refund, Food Sales Tax or Income Tax refund
- Utility refunds
- Food stamps (Vision cards)
- Personal or student loans
- Lump sum settlements (such as those from an insurance policy)
- Gifts from nongovernmental sources
- Child support
- Income of a minor child or incapacitated person if he or she does not hold legal title to the homestead or is not a party to the rental agreement

### **Homestead Refund Advancement Program**

This optional program allows eligible homeowners who received a 2006 Homestead refund to use their anticipated 2007 Homestead refund (advancement) to pay up to the first half of their 2007 property taxes. The amount of the advancement is based on the 2006 Homestead refund.

A taxpayer must mark the check box on the front of form K-40H to participate in the advancement program in the upcoming year. A letter showing the advancement amount available will be sent to eligible homeowners (those who have no outstanding tax liability to the department) in November of each year

### **SB 617**

### **Senior Property Tax Refund Differences from the Current Homestead Program**

#### **Qualifications**

- Age 65 and older and own your home
- Household Income less than or equal to 120% of federal poverty level for 2 persons ( \$16,800 in 2008)
- The refund is equal to 75% of the property tax paid on a Kansas resident's homestead.

Household Income - the only difference from the current program

100% of Social Security and Supplemental Security Income, (SSI) benefits (except disability payments) is included in the calculation of household income for the Senior Property Tax Refund.

Claimant will be allowed to choose the program which generates the largest refund.

**2007**  
**KANSAS HOMESTEAD CLAIM**

134107

Claimant's  
Social Security  
Number

First four letters of  
claimant's last name.  
Use ALL CAPITAL letters.

Claimant's  
Telephone  
Number

First Name of Claimant	Initial	Last Name		
Home Address (number and street or rural route)				
City	State	Zip Code	County Abbreviation	

Mark this box if claimant is deceased (See instructions) . . . . .

Date of Death \_\_\_\_ / \_\_\_\_ / \_\_\_\_

IMPORTANT: Mark this box if name or address has changed . . . . .

Mark this box if this is an amended claim . . . . .

**YOU MUST HAVE BEEN A RESIDENT OF KANSAS THE ENTIRE YEAR OF 2007**

Answer **ONLY** the questions that apply to you:

- Age 55 or over for the entire year. Enter date of birth. (Must be prior to 1952.) . . . . .
- Disabled or blind for the entire year. Enter date disability began. See instructions on page 16. . . . .
- Dependent child who resided with you and was under 18 years of age for the entire year. Child's name \_\_\_\_\_ . Enter date of birth. (Must be prior to 2007.)

**ENCLOSE Social Security Benefit Verification Statement or Schedule DIS**

**ENTER THE TOTAL RECEIVED IN 2007 FOR EACH TYPE OF INCOME. See instructions, page 16.**

- 2007 Wages OR Kansas Adjusted Gross Income \$ \_\_\_\_\_ plus Federal Earned Income Credit \$ \_\_\_\_\_. Enter the total. . . . .
- All taxable income other than wages and pensions not included in Line 4. Do not subtract net operating losses and capital losses. . . . .
- Total Social Security and SSI benefits received in 2007 (do not include disability payments from Social Security or SSI) \$ \_\_\_\_\_. Enter 50% of this total . . . . .
- Railroad Retirement benefits, including Medicare deductions, and all other pensions, annuities, and veterans benefits (do not include disability payments from Veterans and Railroad Retirement) . . . . .
- TAF payments, general assistance, worker's compensation, grants and scholarships . . . . .
- All other income, including the income of others who resided with you at any time during 2007. . . . .
- TOTAL HOUSEHOLD INCOME** (Add lines 4 through 9. If line 10 is more than \$29,100, you **do not qualify** for a refund)

- OWNER - 2007 general property taxes (See instructions, page 17). . . . .  Mark this box if you have delinquent property tax.
- RENTER - Enter total of line 5 amounts from RNT Schedule(s). **ENCLOSE all RNT Schedules** . . . . .
- Total. Add lines 11 and 12, but do not enter more than \$700. . . . .
- Using your total household income on line 10 and the table on page 6, enter your refund percentage. . . . .
- Homestead refund (Multiply line 13 by percentage on line 14) . . . . .  
**Important:** If you filed Form ELG with your county, your refund will be reduced by the ELG amount applied to the first half of your 2007 property tax. See page 19.

**Mark this box if you wish to participate in the Homestead Refund Advancement Program (see instructions, page 20)**

I authorize the Director of Taxation or the Director's designee to discuss my K-40H and enclosures with my preparer.

**Mail to:** Kansas Homestead Claim  
Kansas Department of Revenue  
915 SW Harrison Street  
Topeka, KS 66699-2000

**IMPORTANT:** Please allow 10 to 12 weeks processing time for your refund. Renters should allow 20 weeks so the rent can be verified with your landlord.

8-4

**Providing the information in this section may speed up the processing of your claim.** (This income should **not** be included on line 10, page 1.) Enter, in the spaces provided, the annual amount of all other income not included as household income on page 1, line 10.

Food Stamps	\$	Personal and Student Loans	\$	Settlements (lump sum)	\$
Child Support	\$	Nongovernmental Gifts	\$	SSI, Social Security, Veterans, or Railroad Disability (enclose documentation)	\$

Other (See instructions on page 17)	Source	Amount
		\$

I, \_\_\_\_\_ resided at \_\_\_\_\_ (property address description) during 2007 and have paid or will pay 100% of the taxes. If you have delinquent property taxes, mark the box on line 11, front of this form.

If the property listed above was owned by someone other than you or you and your spouse, did that person reside with you in 2007, and/or pay any part of the taxes? Yes  No  Explain:

What, if any, portion of the homestead property was rented or used for business in 2007? \_\_\_\_\_% (See instructions on page 18.)

Complete the information below for ALL persons (including yourself) who resided in your household **at any time** during 2007. Indicate the number of months they lived with you and whether or not their income is included on lines 4 through 9 of Form K-40H.

Name	Date of birth	Relationship	Number of months resided in household	Income included on lines 4-9, Yes/No	Social Security Number
Claimant:	/ /				
	/ /				
	/ /				
	/ /				
	/ /				
	/ /				
	/ /				
	/ /				
	/ /				
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	/ /				
	/ /				
	/ /				

## HOMESTEAD REFUND PERCENTAGE TABLE — Line 14

If the amount on line 10, Form K-40H is between:	Enter this percentage on line 14, Form K-40H:
\$ 0 and \$ 6,000 .....	100%
\$ 6,001 and \$ 7,000 .....	96%
\$ 7,001 and \$ 8,000 .....	92%
\$ 8,001 and \$ 9,000 .....	88%
\$ 9,001 and \$ 10,000 .....	84%
\$ 10,001 and \$ 11,000 .....	80%
\$ 11,001 and \$ 12,000 .....	76%
\$ 12,001 and \$ 13,000 .....	72%
\$ 13,001 and \$ 14,000 .....	68%
\$ 14,001 and \$ 15,000 .....	64%
\$ 15,001 and \$ 16,000 .....	60%
\$ 16,001 and \$ 17,000 .....	55%
\$ 17,001 and \$ 18,000 .....	50%
\$ 18,001 and \$ 19,000 .....	45%
\$ 19,001 and \$ 20,000 .....	40%
\$ 20,001 and \$ 21,000 .....	35%
\$ 21,001 and \$ 22,000 .....	30%
\$ 22,001 and \$ 23,000 .....	25%
\$ 23,001 and \$ 24,000 .....	20%
\$ 24,001 and \$ 25,000 .....	15%
\$ 25,001 and \$ 26,000 .....	10%
\$ 26,001 and \$ 29,100 .....	5%
\$ 29,101 and over .....	0%

SENATE BILL No. 617

By Senator Pyle

2-13

9 AN ACT concerning income taxation; relating to credits; property tax  
10 paid by certain taxpayers.

11  
12 *Be it enacted by the Legislature of the State of Kansas:*

13 Section 1. For all taxable years commencing after December 31,  
14 2007, there shall be allowed as a credit against the tax liability of a taxpayer  
15 imposed under the Kansas income tax act, an amount equal to the amount  
16 of property and ad valorem taxes actually and timely paid by a taxpayer  
17 who is 65 years of age or older and who has ~~annual income~~ equal to or  
18 less than ~~100%~~ of the federal poverty level if such taxes were paid upon  
19 real or personal property used for residential purposes of such taxpayer  
20 which is the taxpayer's principal place of residence for the tax year in  
21 which the tax credit is claimed The amount of any such credit for any  
22 such taxpayer shall not exceed the amount of property and ad valorem  
23 taxes paid by such taxpayer as specified in this section. A taxpayer shall  
24 not take the credit pursuant to this section if such taxpayer has received  
25 a homestead property tax refund pursuant to K.S.A. 79-4501 et seq., and  
26 amendments thereto, for such property for such tax year. Subject to the  
27 provisions of this section, if the amount of such tax credit exceeds the  
28 taxpayer's income tax liability for the taxable year, the amount of such  
29 excess credit which exceeds such tax liability shall be refunded to the  
30 taxpayer. The secretary of revenue shall adopt rules and regulations re-  
31 garding the filing of documents that support the amount of the credit  
32 claimed pursuant to this section.

33 Sec. 2. This act shall take effect and be in force from and after its  
34 publication in the statute book.

Section 1. This act shall be known and may be cited as ...and shall be supplemental to the homestead property tax refund act.

75% of  
household income  
120%

For the purposes of this section, the term "household income" means all income, including payments received under the federal social security act, received by all persons of a household in a calendar year while members of such household.

And by redesignating the remaining sections.

4-8  
SB617 Subcommittee Report

8-8

**Kansas Department of Revenue**

SB 617  
Homestead Refund Options  
Kansas Residents age 65 and Over

		Fiscal Impact (dollars are in millions)			
		100% of Social Security Benefits included in Household Income		50% of Social Security Benefits included in Household Income	
		HI < \$14,000	HI < \$16,800	HI < \$14,000	HI < \$16,800
Option 1	Refund 100% of Property Tax	\$ 3.1	\$ 6.0	\$ 7.5	\$ 15.0
Option 2	Refund 75% of Property Tax	\$ 1.6	\$ 3.4	\$ 4.2	\$ 8.0
Option 3	Limit refund amount to \$1,000	\$ 2.6	\$ 5.1	\$ 6.4	\$ 12.8

Option 3 - 80% of claimants have total property taxes of less than \$1,000

Limiting the refund to the amount of property tax or \$1,000, whichever is less, allows 85% of property taxes to be refunded.

HI - Household Income

\$14,000 - 2008 Federal Poverty Level for 2 persons

\$16,800 - 120% of 2008 Federal Poverty Level for 2 persons