

MINUTES OF THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

The meeting was called to order by Chairperson Lana Gordon at 3:30 P.M. on February 1, 2005 in Room 526-S of the Capitol.

All members were present.

Committee staff present:

Kathie Sparks, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Renaë Jefferies, Revisor of Statutes
Helen Pedigo, Revisor of Statutes
Carlene Maag, Committee Secretary

Conferees appearing before the committee:

Secretary Joan Wagnon, KS. Dept. Of Revenue
Sean Tomb, Kansas, Inc.

Others attending:

See attached list.

A motion was made by Representative Treaster and seconded by Representative Horst to approve the minutes of the January 20th meeting. The minutes were approved.

Christy Caldwell from the Topeka Chamber of Commerce requested introduction of legislation that would put together a package of incentives for a local cellophane production company. Representative Grange made a motion to introduce legislation pertaining to the cellophane plant. The motion was seconded by Representative Huntington. A vote was taken, motion passed.

Chairperson Gordon requested introduction of three bills that would: develop a tax increment financing type of bill similar to the bioscience authority; incentives similar to New Mexico; and a bill that would establish a partnership between universities to develop local students and provide experience so that they can become independent film makers or be employed by major film producers in Kansas. Representative Winn made the motion to introduce the legislation proposed by Chairperson Gordon. Representative Novascone seconded the motion. A vote was taken, motion passed.

HB 2010 - Income tax credit and sales tax exemption report; production responsibility moved from Kansas, Inc. to Revenue Department

Chairperson Gordon recognized Secretary Joan Wagnon, Kansas Department of Revenue, (KDOR) who gave testimony as a proponent for **HB 2010**. **HB 2010** would transfer the responsibility for the annual report evaluating the cost effectiveness of certain income tax credits and sales tax exemptions from Kansas, Inc. to KDOR. KDOR supports this bill, with modifications, as shown on the attached balloon amendments.

The bill, as currently drafted, requires KDOR to consult with Kansas, Inc. in the development of a questionnaire to be completed by all corporate income taxpayers. KDOR requests use of the questionnaire be deleted from the bill. (Attachment 1)

Two reports currently being produced by KDOR are the Tax Expenditure Report and the Analysis of Corporate Income Tax.

The Tax Expenditure Report shows the individual income tax and the corporate income tax line by line and puts a value to every credit there is. For example, 163,711 individuals took advantage of the earned taxed credit for a total of \$40,813,000. This report also shows information pertaining to Privilege Tax, Mineral Tax and Motor Fuel Tax. (Attachment 2)

The Analysis of Corporate Income Tax Report provides historical information concerning the corporate income tax and the four largest business incentive tax credit programs which are: Business and Job Development (B&J), High Performance Incentive Program (HPIP), Research and Development (R&D), and

CONTINUATION SHEET

MINUTES OF THE House Economic Development Committee at 3:30 P.M. on February 1, 2005 in Room 526-S of the Capitol.

Business Machinery and Equipment Property Tax Credit (B M&E).

The retail sector contributes the largest portion of the corporate income tax receipts, although the manufacturing sector generated the largest amount of Kansas taxable income in tax years 2000, 2001, and 2002. (Attachment 3) These rapidly expanding tax credit programs are doing exactly what they were designed to do. They are providing incentives to business by giving them a way to reduce their liability.

SB 13 - Bill by Special Committee on Assessment and Taxation

Secretary Wagon stated KDOR would continue to try and work on these reports. KDOR will partner with Kansas, Inc. and if allowed through **SB 13**, will partner with the Department of Commerce and start providing a better data set for the Legislature to evaluate the effectiveness of the tools they have while protecting the confidentiality issue.

A question and answer session followed the testimony.

Rep. Burroughs believes the Analysis of Corporate Income Tax report is a report that Legislatures have been needing or requesting for a number of years.

Rep. O'Malley thanked Secretary Wagon for the report and thought it should be a useful tool.

In general, it was agreed Kansas, Inc. does not have the tools to do the report, but did the best they could with the tools available.

Sean Tomb, Research Analyst for Kansas, Inc. gave testimony as an opponent to **HB 2010**. Kansas, Inc. does not support **HB 2010** as currently written and asks the Legislature to create the statutory authority to allow access to the necessary taxpayer information that would allow Kansas, Inc. to perform an independent evaluation of the cost effectiveness of economic development tax programs. (Attachment 4)

Kansas, Inc. does not want the Legislature to feel it is bucking its responsibility. Mr. Tomb reiterated Kansas, Inc. does not have the tools to do the report.

After a question and answer session, Chairperson Gordon closed the hearing on **HB 2010**.

The meeting adjourned at 5:05 p.m. The next meeting is scheduled for February 3, 2005.