SESSION OF 2017

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2036

As Amended by House Committee on
Transportation and Public Safety Budget

Brief*

HB 2036, as amended, would create new tax credits for graduates of aerospace and aviation education programs and their employers beginning in tax year 2018. The bill would allow employers whose principal business activity involves the aviation sector to receive a non-refundable income tax credit for tuition reimbursement paid to an employee who has graduated from an accredited engineering or technology undergraduate or graduate degree program, or an associate of applied science degree or technical program. This credit could be claimed if the qualified employee, within one year prior to or following the commencement of employment with a qualified employer, graduated from a qualified program. This credit would be capped at 50.0 percent of the total amount of tuition reimbursement paid and could be claimed each year, for up to the fourth year of employment with a qualified employer.

The bill also would create a nonrefundable tax credit for qualified employers for compensation paid to qualified employees. The tax credit would be 10.0 percent of compensation paid to a qualified employee who graduated from an in-state institution, capped at $15,000 annually, and 5.0 percent for a qualified employee who graduated from an out-of-state institution, capped at $7,500 annually. The credit could be claimed for up to five years.

Additionally, the bill would create a nonrefundable tax credit for qualified employees. After December 31, 2017,

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org qualified employees would be allowed an income tax credit in the amount of $5,000 for up to five consecutive years.

The bill would authorize the Secretary of Revenue to adopt rules and regulations to implement and administer the provisions of the bill.

Background

At the February 1, 2017, hearing of the House Committee on Commerce, Labor and Economic Development, proponents included representatives of the Salina Airport Authority, the Salina Area Chamber of Commerce, Textron Aviation, and the Wichita Regional Chamber of Commerce. Opponent testimony was received from a representative of the Kansas Policy Institute. Neutral testimony was provided by the Kansas Independent College Association and representatives of the Kansas Department of Transportation.

In the Transportation and Public Safety Budget Committee hearing on February 13, proponents of the bill included representatives from the Wichita Regional Chamber of Commerce and Textron Aviation. No opponent or neutral testimony was provided.

The House Budget Committee amended the bill to expand the definition of an accrediting body for determining whether an educational program is qualified, expand the definition of allowable tuition expenses, strike all references to unmanned aircraft systems, and allow the Secretary of Revenue to develop rules and regulations for the administration of the bill.

According to fiscal information from the Department of Revenue, the Board of Regents, and the Department of Administration, available to the Committee when it recommended the amended bill, the amended bill would be expected to reduce State General Fund (SGF) revenue by

$7.7 million in FY 2018. This is based on the assumption that 500 new graduates from in-state institutions, each earning roughly $52,000 annually, would qualify for the tax credits for both themselves and their employers. This cost is composed of the following components:

- Employer credit for tuition reimbursement - $2.6 million;
- Employer credit for compensation paid to qualified employees - $2.6 million; and
- Employee income tax credit of $5,000 - $2.5 million.

The Department of Revenue also indicated enactment of the bill would necessitate an additional $225,100 from the SGF in administrative costs for FY 2018. Any fiscal effect associated with enactment of the bill is not reflected in *The 2018 Governor's Budget Report.*