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Proponent Testimony on SB 91
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The Department of Commerce supports SB91 which would allow for tax credit transferability in the High Performance Incentive Program.

High Performance Incentive Program (HPIP)

The High Performance Incentive Program provides tax incentives to businesses that pay above-average wages and have a strong commitment to skills development for their workers. This program recognizes the need for Kansas companies to remain competitive and encourages capital investment in facilities, technology and continued employee training and education. A substantial investment tax credit for new capital investment in Kansas and a related sales tax exemption are the primary benefits of this program.

To qualify, a company currently must:
1) be a for-profit company subject to state taxes;
2) pay above-average wages (as compared to other similar firms in the same geographical area with matching NAICS codes);
3) make a significant investment in eligible employee training and
4) be either a manufacturer or able to document that most of its sales are to Kansas manufacturers and/or out-of-state businesses or government agencies. A business in any NAICS code can qualify if it is a headquarters or back-office operation of a national or multi-national corporation.

HPIP offers employers three potential benefits:

1. A 10 percent income tax credit for eligible capital investment that exceeds $50,000 ($1M in five metro counties) at a company's facility, with the tax credits subject to a carry-forward that can be used in any of the next 16 years in which the qualified facility requalifies for HPIP.
2. A sales tax exemption to use in conjunction with the company's eligible capital investment at its qualified facility.
3. A training tax credit of up to $50,000.

<u>What is the challenge with HPIP?</u>

HPIP is one of the most valuable incentives to the State. It is a non-discretionary incentive that values capital investment and high wages. In the last review of HPIP, by the Legislative Post Audit, it found that for every $1 invested by the State, the program brought in $56.20 in business investment.

While the tax credit can carry over for a sixteen-year period, assuming the company is able to re-certify, companies have struggled to fully utilize the tax credit. A main reason for this, is the credit is limited to the entity's tax liability. This means that this tax credit **is not refundable. We know that currently hundreds of millions of HPIP credits sit on our books, each year.** If the goal is to truly incent companies and promote a pro-business, welcoming environment for companies, who are focused on capital investment and high paying jobs, we should offer incentives tailored to their needs. If we don't, we will continue to lag behind other states that already offer transferability.

<u>How do we fix it?</u>

SB 91 offers a tweak to HPIP, that will create a more competitive incentive. The proposal would work as follows:

1. A company would be allowed to transfer up to 50% of the tax credit it receives from the capital investment it makes.
2. Those transfers must occur within one calendar year
3. A company may make as many transfers as it would like to get to the 50% limit, if those transfers are conducted in one calendar year.
4. Only projects placed into service as of January 1, 2021, would be eligible.

By allowing companies to see immediate benefit from the incentive, Kansas will see more capital investment, more jobs and a far more competitive incentive program.

States like Florida, Arkansas, Missouri, New Mexico and New Jersey are all providing transferability of job creation and capital investment incentives. These are only a sample of the states providing the incentive but meant to show that states of all sizes, tax structures and incentives are offering more transferability, not less.

For all these reasons, the Department of Commerce strongly urges the Senate Commerce Committee report SB 91 favorable for passage.