

SESSION OF 2022

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2618

As Amended by House Committee on Financial
Institutions and Rural Development

Brief*

HB 2618, as amended, would establish a five-year property tax exemption beginning with tax year 2023 for property used by cities, counties, or townships that is leased for the purpose of establishing a business incubator. This new exemption would only apply to property in a county with a population of 40,000 or less.

The bill would limit this exemption to a time period of not more than five calendar years after the calendar year a business commences its operations on the property. The bill would further provide that after five calendar years, only the portion of property being used by the business still operating on the property will be subject to tax.

The bill would define “incubator” as a property under public ownership that would provide temporary tenancy to start-up rural microentrepreneurs, microenterprises, new technology development entities, or commercial entities at below-market rates for a term of five years or less.

The bill would also state the legislative intent is to provide temporary tenancy for the initial five years and after that the tenant can remain in the space and pay property taxes based on the square footage of the space being leased or move out of the space and allow the governmental entity owning the property to establish a new business incubator space for a new business.

*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>

The bill would also specify that no new exemptions could be granted pursuant to the property tax exemption established by the bill after December 31, 2025.

Background

The bill was introduced by the House Committee on Financial Institutions and Rural Development (House Committee) at the request of Representative Kelly. [*Note:* The bill was initially referred to the House Committee on Taxation; it was rereferred to the House Committee on February 16, 2022.]

House Committee on Financial Institutions and Rural Development

In the House Committee hearing on March 7, 2022, a representative of the Office of Rural Prosperity, Department of Commerce, provided **proponent** testimony. The proponent stated the bill would create a mechanism to lower operation costs for small businesses and entrepreneurs, which would encourage more business startups in rural areas. The conferee requested consideration of amendments to define a publicly owned incubator and create limits to eligibility criteria to tenants that have been in business less than five years and cities with a population of less than 15,000 (counties would remain at 40,000 or less in population).

No other testimony was provided.

The House Committee amended the bill to provide a definition of “incubator” and a statement of legislative intent relating to providing temporary tenancy for the first five years of a business, and also specify no new exemptions would be granted pursuant to the bill after December 31, 2025.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, enactment of the bill has the potential to decrease property tax revenues by adding a new property tax exemption which could result in less property tax revenues to the two state building funds: the Educational Building Fund and the State Institutions Building Fund. The fiscal note further states the bill would decrease the amount of property tax revenues school districts would receive through the State's uniform mill levy and also would decrease revenues to any local government that levies a property tax. The Department of Revenue (Department) however, did not give a precise estimate of the decreased property tax revenues and the effect on local and state revenues because it did not have data on the property that would receive the property tax exemption. The fiscal note further indicates the bill would have the potential to increase property tax collection for businesses that exceed the five-year abatement period and choose to remain on the property. The Department indicates there are currently 95 counties with a population of less than 40,000 people. In addition, the bill would have no fiscal effect on the operations of the Department.

The League of Kansas Municipalities (League) and the Kansas Association of Counties (Association) indicate the bill has the potential to increase economic development in counties with a population of 40,000 or less and, after the five-year abatement period ends, to increase local property tax revenues that are used in part to finance local governments. However, the League and the Association do not have a basis on which to make a precise estimate of the fiscal effect on local governments.

Taxation; business incubator; rural; property tax exemption