

INCENTIVES




KANSAS
as big as you thinkSM



CUSTOMIZED PROPOSALS

The Kansas Department of Commerce (Commerce), Business Development Division, will provide a detailed description of how the following programs will apply to a company's unique site location specifications in writing. These incentives are directly tied to the number of jobs created, employee salaries, capital investment, and company financial strength.

The Division will also coordinate with community economic development organizations regarding local incentives, which may include property tax abatement, discounted building and land purchases or lease agreements, special build-to-suit agreements, and finance packages.

Although every project is unique, it is not unusual for a financially strong company, creating 100 or more jobs, to realize a state and local incentive package of tax savings and direct assistance valued in excess of several million dollars.

Please note that all types of assistance that are offered for new company locations are also available for **subsequent expansions.**

New and expanding companies that have recently utilized Kansas incentives include:

- Alorica
- Cereal Ingredients, Inc.
- Empire Carpet
- Examinetics
- Ferrellgas
- Franchise Services Company
- General Motors
- Jostens
- National Electronic Warranty
- OfficeMax
- PRA International
- Perceptive Vision
- Prescription Solutions
- Science Applications International Corp.
- Standridge Color Corp.
- Staples
- United States Postal Service

WORKFORCE TRAINING

Through the Kansas 1st initiative, educational institutions in Kansas continuously develop a growing reservoir of business-relevant training. Kansas 1st customizes these programs to meet an employer's specific needs. Kansas' universities, community colleges, and technical colleges can help businesses analyze jobs; design, develop, and evaluate training; screen potential employees by specific criteria; assess incumbent and potential employee skills; and recruit qualified employees.

Commerce also continues to offer its traditional workforce training programs through Kansas 1st. Companies may design training plans to meet specific skill requirements and can apply to receive financial assistance to offset training costs through the most appropriate program(s). Those companies creating new jobs may qualify for Investments in Major Projects And Comprehensive Training (IMPACT) and/or Kansas Industrial Training (KIT) assistance. Jobs created within a "Kansas Basic Industry"—that is, in manufacturing, distribution, regional or national service facilities, or another business primarily engaged in goods production or development or service provision for out-of-state sales—may qualify for these programs. Eligibility for either program depends on the number of jobs created and the corresponding wages.

Both programs offer direct financial assistance to pay a negotiated portion of the costs to train a company's employees. Companies may apply the assistance toward such items as instructors' salaries; meals, travel, and lodging (including out-of-state or international travel); videotape development; textbooks and training manuals; supplies and materials; temporary training facilities; and curriculum planning and development.

To participate in IMPACT or KIT, the company prepares a training plan identifying who will be trained, the types of training, who would conduct the training, and the estimated training costs. KIT training contracts typically run 12-18 months in length. IMPACT contracts run somewhat longer, allowing up to 36 months to train each new position. Trainees are free to travel to the geographic locations most appropriate to provide them with the skills the company needs.

A retraining program to help upgrade skills of an existing workforce is also available. The program, called Kansas Industrial Retraining (KIR), can be used for basic enterprises that are restructuring due to the incorporation of existing technology, new technology, product diversification, or new production activities. Retraining assistance is also available through IMPACT if it affects 250 or more jobs within metro areas or 100 or more outside the metro areas of Kansas.

INCENTIVE PROGRAMS

Kansas has two corporate income tax credit programs available to eligible companies—the Enterprise Zone Program and the High Performance Incentive Program. These programs can substantially reduce a company's tax liability depending on their job creation and capital investment.

Enterprise Zone Program — This program offers corporate income tax credits for new job creation and qualified capital investment in Kansas. **The entire state of Kansas is designated as an Enterprise Zone.**

Eligibility for this program depends on the type of business and the number of jobs created. For example, a firm classified as a manufacturer would need to create at least two net new jobs, while a non-manufacturer would have to create five net new jobs.

The job creation tax credit in the metropolitan areas of Kansas City, Topeka, Wichita, and Lawrence is \$1,500 per new job created. Designated non-metropolitan areas can provide a credit of \$2,500 per new job created. The investment tax credit is one percent of qualified investment. Up to 100 percent of corporate income tax liability can be eliminated in a given year and unused credits may be carried forward indefinitely.

High Performance Incentive Program — This program provides a ten percent corporate income tax credit on the qualified capital investment of an eligible company. The ten percent tax credit is awarded to companies that operate an eligible business, pay above-average wages, and invest in training their employees. The credits can be used to reduce 100 percent of corporate income tax liability in a given year. In addition, the credits must be used within a consecutive ten-year period.

Please note that for both the Enterprise Zone and High Performance Incentive Programs, qualified capital investment can include such items as the purchase or lease of a facility or equipment, remodeling or build-out costs, fixtures, furniture, and computers. Equipment transferred to Kansas from out-of-state is also credited at the original acquisition cost.

A key component of the High Performance Incentive Program is the completion of the "Capital Investment Project Description" form. This form needs to be submitted to Commerce prior to the company signing any document, such as a lease or purchase agreement, that commits the company to locating or expanding in Kansas.

TAXES AND EXEMPTIONS

Sales Tax Exemption — For qualifying companies, both the Enterprise Zone and High Performance Incentive Programs offer a 100 percent sales tax exemption on the purchase of labor and materials to construct or remodel a facility, as well as on the machinery and equipment used in the facility. This exemption includes computers, furniture, and fixtures.

Other Sales Tax Exemptions —

- 1) Labor related to original construction
- 2) New machinery and equipment for manufacturing and distribution
- 3) Pre- and post-production machinery and equipment, including raw material handling, waste storage, water purification, and oil cleaning, as well as ancillary property such as gas pipes, electrical wiring, pollution control equipment, etc.
- 4) Tangible personal property that becomes an ingredient or component part of a finished product
- 5) Tangible personal property that is immediately consumed in the production process including electric power, natural gas, and water
- 6) Incoming and outgoing interstate telephone or transmission services (WATTS)
- 7) Real and personal property financed with an Industrial Revenue Bond (IRB)

Property Tax Exemption — Kansas communities can offer up to a ten-year property tax exemption on real and personal property. There are two methods for obtaining such an exemption. One approach is through the use of Industrial Revenue Bonds (IRBs), and the other approach is under the Kansas Constitution. The constitutional method is limited to companies involved in manufacturing, distribution, or research and development. In either approach, the exemption amount is negotiated between the company and the community.

Inventory Tax Exemption — All merchants' and manufacturers' inventories have been exempt from property taxes by constitutional amendment.

Property Tax Credit — Annual corporate income tax credit equal to 20 percent of the property taxes paid on machinery and equipment. A refund can be issued to the company for any unused credits. This credit will increase to 25 percent in 2007.

TAXES AND EXEMPTIONS (CONT.)

Research Tax Credit — Income tax credit equal to 6.5 percent of a company's investment in research and development above an expenditure of the previous three-year period. Only 25 percent of the allowable annual credit may be claimed in any one year. Unused credits may be carried forward in 25 percent increments until exhausted.

No Local Income Taxes — Kansas cities and counties do not impose income or earnings taxes on either personal or corporate income.

FINANCE

Kansas Economic Opportunity Initiatives Fund — Commerce can provide a zero percent interest, forgivable loan to qualified companies. This forgivable loan can offset costs associated with the establishment of a new facility or the expansion of an existing facility. Eligible costs include site improvements, construction, build-out, and purchases and relocation of machinery and equipment.

The loan is forgiven in 20 percent annual increments over a five-year period based on the job and payroll targets. Approval of funding for this program is based on the number of new jobs created, the level of wages paid to the new employees, and the economic impact of the project.

Industrial Revenue Bonds — Industrial Revenue Bonds (IRBs) are a popular method of financing up to 100 percent of a growing business' land, building, and equipment. IRBs are securities issued by cities and counties to provide funds for creditworthy companies to acquire land, construct and equip new facilities, or remodel and expand existing facilities. IRBs allow fixed-rate financing for the life of the bond for the project.

Community Development Block Grant — Eligible small city and county governments may apply for Community Development Block Grant (CDBG) economic development funds in order to make water, sewer, or other infrastructure improvements designed to assist companies in creating jobs. These funds, as administered by the Community Development Division of Commerce, may also be used by a business to acquire land or buildings, construct or renovate facilities, purchase machinery and equipment, or for working capital. Under this program, companies can apply for up to \$35,000 per job created with a maximum limit of \$750,000.

CDBG funds can be used for infrastructure improvement or for working capital, equipment, land, and buildings. Infrastructure funding takes the form of a half-grant and half-loan, with the loan portion having a ten-year term at two percent. Financing for working capital, equipment, and real property carries a fixed rate set at 3.5 percent below prime or four percent, whichever is greater. The term of the loan depends on the type of asset being financed: working capital up to five years, equipment up to ten years, and real property up to 15 years.

At least 51 percent of the jobs created by a company in connection with this CDBG funding must be held by individuals who, at the time of hire, meet the low-to moderate-income guidelines for their county location. The low- to moderate-income status is based on family income and the number of members in the family.

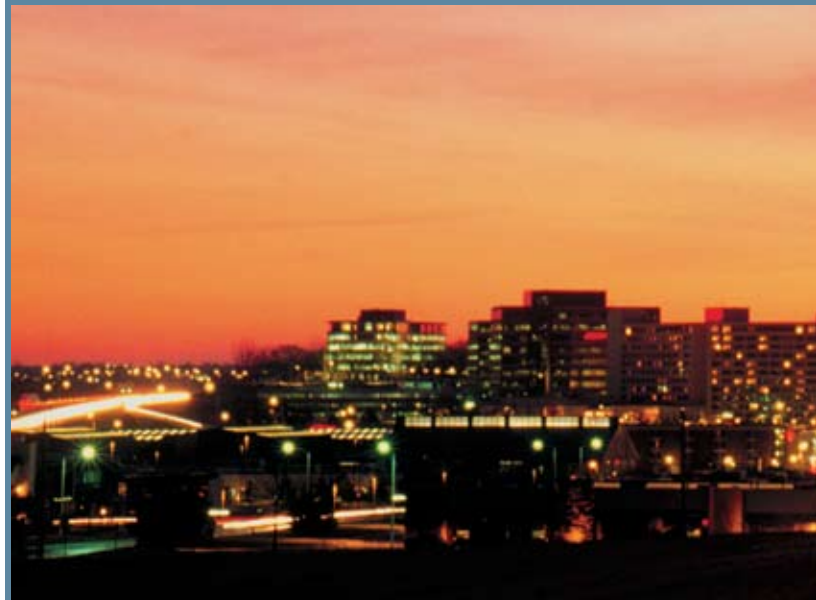
This program has six competitive rounds each year in which applications are accepted and rated for award announcements. Award announcements are usually made within seven weeks of the application deadline.

The CDBG program also provides loan guarantees on an open-window basis. The guarantee equals 75 percent of the loan amount up to a maximum exposure of \$1 million. This assistance requires the creation of at least one job per \$35,000 based on the guaranteed portion of the loan. The business has three years to create the jobs. The private lending institution establishes the interest rate.

Partnership Fund — Commerce provides low-interest state funds to cities and counties for infrastructure improvements that support Kansas basic enterprises such as manufacturing and distribution. Eligible projects may include construction, rehabilitation, or expansion of public facilities including roads, streets, highways, water supply and treatment facilities, water distribution lines, wastewater collection lines, and related improvements.

The Kansas Partnership Fund is a revolving loan fund. As loan principal and interest payments are received from current loan recipients, the funds may be reloaned to other cities and counties.

To learn more about the benefits of doing business in Kansas, please contact us at (785) 296-5298.



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