

SESSION OF 2008

**SUPPLEMENTAL NOTE ON  
SUBSTITUTE FOR HOUSE BILL NO. 2694**

As Amended by House Committee of the Whole

**Brief\***

Sub. for HB 2694 would create, expand, or amend several provisions dealing with income tax credits. It would amend the sections that pertain to alternative fuel credits and adoption income tax credits. It also would create a credit for living organ donors.

Alternative Fuel Credits

Sub. for HB 2694 would amend KSA 2007 Supp. 79-32,201 in several ways. It would increase the credit available in section (a) for qualified alternative-fueled vehicles from 40 percent to 80 percent. Also, the maximum this credit could be worth would be increased from \$2,400 to \$4,000. The effective date for the previously offered alternative-fueled vehicle credit would be changed from January 1, 2005, to January 1, 2008.

Also, this bill would amend the section as it pertains to the credit that is available in section (b). For individuals who do not claim the credit under section (a), the amount of credit available in section (b) has been lowered from the lesser of 5 percent or \$750 to \$500 without the 5 percent threshold. This bill also would amend how the alternative fuel purchase credit would be administered. This bill would make the following changes:

- Lower the blend of ethanol from 85 percent to at least 20 percent;
- Make the effective date for the purchase of the fuel begin after December 31, 2007; and

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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>

- Lower the amount of gallons purchased need to qualify for the credit from 500 to 200.

The definition of alternative fuel would also be changed. The new definition would have the same meaning as provided for in 42 U.S.C. 13211 and would be effective starting with the taxable year 2007.

Sub. for HB 2694 also would add a new section. Beginning January 1, 2009, this bill would require the taxpayer to be presented with documentation describing all of the available income tax credits at the point of sale when that taxpayer is the first to take title to a qualified alternative-fueled vehicle. The Department of Revenue would be responsible for creating the documentation and providing it to motor vehicle dealerships. This documentation would include:

- A description of all of the available tax incentive programs available to a purchaser of an alternative-fueled vehicle;
- An election form which would allow the purchaser of the alternative-fueled vehicle to chose the credit in either section (a) or (b);
- An option on the election form to choose neither of the credits offered in section (a) or (b) but instead choose to receive a debit card from the Department of Revenue within 28 days of submitting the election form to the department;
- The debit card issued by the Department of Revenue would have a balance of \$500 and would only be capable of being used for the purchase of alternative fuel; and
- The magnetic strip on the back of the card would not be activated.

The credits offered under this portion bill will be available until 2013.

### Living Organ Donation Income Tax Credits

An additional provision of the bill would authorize retroactive to tax year 2007, a new refundable income tax credit equal to unreimbursed expenditures of taxpayers or taxpayers' dependents up to \$10,000 related to the donation, while living, of human organs. Organ would be defined to include all or part of a liver, pancreas, kidney, intestine, lung or bone marrow.

### Adoption Income Tax Credit Expansion

The bill also would expand the current adoption income tax credit retroactively to tax year 2004 such that eligible taxpayers would be able to claim both the state's piggybacked version of the federal tax credit available under section 23 of the Internal Revenue Code as well as an additional \$1,500 state credit available under certain circumstances for the adoption of children in the custody of the Secretary of Social and Rehabilitation Services or special-needs children. Current law authorizes either the piggybacked credit or the \$1,500 credit, but not both.

### **Background**

Sub. for HB 2694 came before the Committee as an attempt to amend the definition of alternative fuel. In 2007, the Legislature amended the definition of alternative fuel from the same meaning as provided in 42 U.S.C. 13211 to mean a combustible liquid derived from grain starch, oil seed, animal fat or other biomass; or produced from biogas source, including any nonfossilized, decaying, organic matter. In its original form, HB 2694 would have changed the definition back to the federal definition.

The Committee held hearings on HB 2694 and heard from conferees. Proponents for the bill were Lee Lundquist of Scholfield Honda, Amber Brillhart of Honda, and Don McNeely representing the Kansas Automobile Dealers Association.

Duane Simpson for the Kansas Association of Ethanol Processors presented neutral testimony.

A subcommittee was formed to address some of the Committee members' concerns about the effectiveness of the alternative-fuel tax incentive program. Representatives Brown, Bowers and Goyle served on the subcommittee and suggested the changes that are present in the amended version of the bill.

The Committee amended the subcommittee's version of the bill to remove the 5 percent of the cost portion of the credit available in section(b). The Committee also amended the bill to add the sunset provision. The Department of Revenue stated this bill as amended by the House Tax Committee would have a fiscal impact of \$450,000 due to the increase in usage of the credits.

On April 1, 2008, the House Committee of the Whole amended this bill in three ways. First was a technical amendment suggested by Representative Brown that amended the definition of flexible fuel motor vehicle. The new definition provides that with exception to the fuel use credit in subsection (b), the vehicle will be capable of operating on at least 20 percent ethanol blended fuel.

The House Committee of the Whole inserted the contents of HB 2362 (living organ donor tax credits) on the motion of Representative Goyle and HB 2931 (adoption income tax credits) on the motion of Representative Holland. The retroactive adoption income tax credit provisions would be expected to decrease receipts by \$0.2 million. The organ donation income tax credit would be expected to decrease receipts by \$1.0 million per year but would decrease FY 2009 receipts by \$2.0 million because of being retroactive to tax year 2007.