



AN INNOVATION AGENDA FOR KANSAS IN 2022

- I) ACCESS TO CAPITAL**
 - Create Capital Mobility
 - Mitigate Early-Stage Investment Risk
 - Create State-Wide Wealth by Increasing Liquidity

- II) WORKFORCE DEVELOPMENT**
 - Retain Human Capital
 - Encourage Labor Mobility

- III) BUILDING STATE-WIDE SUPPORT CAPACITY**
 - Leverage Private, Philanthropic and Federal Funds
 - Invest in Entrepreneurship without Burdening Taxpayers

ACCESS TO CAPITAL

To grow our state's economy with an entrepreneurial focus, we must remove barriers to capital access to equity. Angel investors in Kansas continue to be the most prevalent, non-institutional source of early-stage funding, but some statutory restrictions and administrative changes to the Angel Investment Tax Credit program limit its applicability to some early-stage funding situations. Creating incentives to encourage private investment such as angel investment is critical to building an entrepreneurial economy in our state.

Goal: Mitigate the risk of early-stage investment by improving ease of access and utility of the Angel Investment Tax Credit.

- **Suggested Policy:** Increase the allocation for the Kansas Angel Tax Credit by \$4 million to be capped at \$10 million.
- **Suggested Policy:** Create a claw-back provision for companies utilizing the tax credit that is flexible and reduces over time. If company leaves the state or is acquired in first three years after utilizing tax credits, they would be required to pay back 100%, then reduce to 80% in year four, 60% in year four, etc.
- **Suggested Policy:** Raise the threshold that disallows transferability of AITC to \$50,000 income tax liability.

Goal: Ensure startup employees are not unduly penalized for exercising stock options they receive in lieu of salary.

- **Suggested Policy:** Allow for an optional, three-year deferral of personal income tax on exercise of stock options in businesses less than five years old with fewer than 250 employees to make exercising these options more affordable for employees who have earned them.

Goal: Give early-stage entrepreneurs a second chance at success after making a misstep in complex tax and permitting processes.

- **Suggested Policy:** Capitalize a \$2 million fund from the EDIF (see section 3), to be allocated on a case-by-case basis to provide relief for businesses that have accrued significant tax, permitting, or inspection based fees, penalties and interest (in excess of \$10,000) at the state or local level. Awards can be secured only once in a company's lifetime, will be made up to \$10,000, and the proprietor must present a compelling case as to why the business is important to the local community, why the award will be catalytic to business survival, and a plan to avoid making the same mistakes again. Only companies in their first three years of business operation and who employ three or more people will be eligible.

Goal: Restore critical small business development incentives to rural economic developers.

- **Suggested Policy:** Reinstate the sales tax exemptions of the former Enterprise Zones program to allow local communities (the ultimate beneficiaries of sales tax) the ability to provide exemptions to small businesses to encourage main street development at their discretion.

WORKFORCE DEVELOPMENT

Goal: Encourage young people who graduate from Kansas colleges and universities or who would have qualified for in-state tuition their freshman year of college with degrees in priority STEM fields to stay in or move home to Kansas.

- **Suggested Policy:** Provide an 100% exclusion from state income tax equal to the total amount of student loan payments in a year (both principal and interest), capped at \$25,000 per year for those who graduate from an accredited 4-year college with a degree in a “strategic workforce priority discipline” and maintain a residence in the state of Kansas.

Goal: Encourage foreign and urban entities to hire remote workers based in Kansas, especially in rural areas.

- **Suggested Policy:** Provide an exclusion from state corporate income tax equal to 10% of a worker’s annual salary for foreign (out-of-state) entities that hire remote employees based in Kansas (25% if those employees are based in a ROZ county) that have a salary which exceeds the county median salary of the previous year. To maintain eligibility, employees for whom the exemption is claimed must receive a COLA raise each year and must remain with the same employer. The tax credit sunsets after 5 years.
- **Suggested Policy:** Provide an exclusion from state corporate income tax equal to 25% of a worker’s annual salary for Kansas-based entities in non-ROZ counties that hire remote employees located in ROZ counties that have a salary which exceeds the county median salary of the previous year. To maintain eligibility, employees for whom the exemption is claimed must receive a COLA raise each year and must remain with the same employer. The tax credit sunsets after 5 years.

Goal: Encourage labor mobility in the state of Kansas.

- **Suggested Policy:** Allocate \$10 million to a 50% tax credit to be allocated to businesses operating in Kansas on a first-come, first-served basis that invest at least \$100,000 in a new Kansas business started by an employee who separated from the company in the previous 24 months. Not more than \$1 million of the tax credits can be allocated to any one business in the same year.
- **Suggested Policy:** Limit the scope and duration of non-compete agreements in the state of Kansas to provide certainty to employee leaving their jobs to start new companies in their areas of expertise. Limit non-compete enforcement to key employees and trade secrets and limit duration to 12 months.

BUILD STATE-WIDE SUPPORT CAPACITY

Goal: Ensure the Economic Development Initiatives Fund is used for its intended purpose—to create and fund programs that attract, retain and promote creation of new businesses in Kansas. October, 2019 Legislative Post Audit Report identifies problems and presents a roadmap for proper use of EDIF funds.

- **Suggested Policy:** Oppose additional sweeps from the Economic Development Initiatives Fund to the State General Fund to meet budget shortfalls and otherwise cover the cost of basic functions of the administration. Support efforts to ensure the EDIF funds programs that create, retain or attract businesses to Kansas.

Goal: Increase broad access to federal SBIR and STTR funding opportunities by Kansas companies.

- **Suggested Policy:** Appropriate \$5 million of EDIF funding to the creation of an SBIR/STTR bridge grant program to create a seamless transition from proof of concept to commercialization funding. Allow up to \$100,000 of those funds to be used to create administrative capability to manage the program within the Kansas Department of Commerce.
- **Suggested Policy:** Appropriate \$1 million from the EDIF to organize and fund an RFP to provide nine \$100,000 grants available on a competitive, regional basis to non-profit organizations for the sole purpose of providing technical assistance for SBIR and STTR grant applications. To maintain eligibility for the following year, selected organizations must help entrepreneurs submit at least 5 completed applications. Allow the remaining \$100,000 to be used to create administrative capability to manage the program within the Kansas Department of Commerce.

Goal: Provide matching funds to leverage private, philanthropic and federal support and build capacity for entrepreneur support organizations and programs.

- **Suggested Policy:** Appropriate \$5 million from the EDIF to provide up to ten \$495,000 annual operating grants, contingent on the provision of 1:1 matching funds from public, private or philanthropic sources, to fund the operation or creation of non-profit organizations dedicated to supporting entrepreneurs around the state. Allow up to \$50,000 of the appropriation to be used to create administrative capability to manage the program within the Kansas Department of Commerce.
- **Suggested Policy:** Appropriate \$5 million from the EDIF as a source of state matching funds for major federal or philanthropic grant applications designed to support new or existing entrepreneur support programs or university research commercialization efforts on a strategic and competitive basis. (Examples: matching funds for federal EDA i6 or seed fund support grants, regional public-private partnerships like Digital Sandbox, Manufacturing Extension Partnership program applications, etc.)