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TO: Special Committee on Commerce

FROM: Kathleen Smith, Director of Policy and Research  
Kansas Department of Revenue

RE: Administration of Tax Credits

DATE: October 27, 2025

Thank you for the opportunity to appear before the Special Committee on Commerce to briefly describe the administration of tax credits. The administration of tax credits includes processes and responsibilities undertaken by the Department to manage, oversee, and deliver tax credit programs. Tax credits are financial incentives that reduce the amount of tax owed by individuals or businesses, often used to encourage certain behaviors such as charitable donations or investment in buildings, machinery and equipment. Tax credits can be classified as nonrefundable, refundable or use-or-lose.

The Kansas Department of Revenue provides support and oversight for more than 50 different tax credits that are available to the taxpayers of Kansas. The Department works with several partner agencies in this administration as well as managing several tax credits independently. Our partner agencies include:

- Kansas Department of Commerce
- Kansas Department for Aging and Disability Services
- Kansas Board of Regents
- Kansas Department of Education
- Kansas Department of Health and Environment
- Kansas State Historical Society
- Kansas Housing Resources Corporation
- Kansas Department of Insurance
- Kansas Department of Transportation

The administration of tax credits involves several key steps to ensure accuracy, compliance, and fairness:

1. Taxpayers submit a tax return and applicable credit schedule to claim the credit.
2. The Department reviews the credit schedule and tax return to verify eligibility and ensure all required information is complete and accurate.
3. Adjustments are made as necessary based on the review of submitted documentation and supporting information.

4. A cross-check is performed with the Department's ATP tax system to confirm that the information reported on the credit schedule aligns with system records.
5. If any changes are made, the taxpayer is notified of any adjustment(s) to their return.

The Department has identified the following major challenges in administering the existing tax credit programs:

- Complexity of eligibility rules

- Transferability of credits

- Extensive carry forward periods

- Pass-through entity returns with multiple levels and multiple shareholders, partners or members

It is important to note that rapidly changing technology will impact tax credit administration over time. The Department is engaged with the Federation of Tax Administrators (FTA), Multistate Tax Commission (MTC), Midwestern States Association of Tax Administrators (MSATA) and other states in varying degrees to ensure that the Department's tax credit administrative review protocols reflect best practices when taking into account the Department's existing technology and resources.

In summary, the administration of tax credits is a multi-step process designed to uphold the integrity of the tax system by ensuring that credits are accurately claimed and properly applied. While the Department follows a statutorily mandated thorough review and verification process to maintain compliance and fairness, it continues to face several challenges that add significant complexity to this work. These include navigating intricate eligibility rules, managing the transferability and long-term tracking of credits, and processing returns for pass-through entities with complex ownership structures. The Department is working to address these challenges as doing so is vital to improving efficiency, minimizing errors, and ensuring the smooth administration of the tax credit programs.