

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:08 a.m. on January 31, 2000, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department  
April Holman, Legislative Research Department  
Don Hayward, Revisor of Statutes Office  
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Shirley Sicilian, Kansas Department of Revenue

Others attending: See attached list.

The minutes of the meetings of January 25, 26, and 27, 2000, were approved.

Senator Langworthy began a brief review of two previously heard bills, **SB 378**, concerning refunds on sales tax paid upon food and **SB 379**, amending the homestead property refund act. She reminded the Committee that both bills were introduced by the interim Special Committee on Assessment and Taxation.

**SB 378** would change the definition of income to include retirement benefits as well as dividends and interest from any source not included in the adjusted gross income. The only amendment by the Committee was technical.

Senator Hardenburger moved to recommend **SB 378** as favorable for passage as amended, seconded by Senator Steffes. The motion carried.

**SB 379** would amend the homestead property tax refund act to exclude disability payments received under the federal social security act from the calculation of income. The only amendment by the Committee was to add a comma in one sentence for clarification purposes.

Senator Stephens moved to recommend **SB 379** as favorable for passage as amended, seconded by Senator Hardenburger. The motion carried.

**SB 410–Taxation; providing benefits and incentives for statutory compliance by certain taxpayers**

Shirley Sicilian, Kansas Department of Revenue, noted that **SB 410** was introduced at the request of the Department. She said he bill would create benefits and incentives that promote fairness, efficiency, and clarity in the tax laws. Ms. Sicilian discussed the six initiatives in the bill as follows (Attachment 1):

- Reduce interest for participants in a “Managed Sales Tax Audit Program”  
Ms. Sicilian explained that currently the Department relies heavily on voluntary compliance. Under the managed audit agreement, a taxpayer commits to performing a self-audit against an audit plan developed by the Director. Participation has been limited. **SB 410** would allow the Department to encourage participation by referencing the program in statute and allowing a 50 percent interest rate reduction on assessments identified by the eligible taxpayer and verified by the Director. These taxpayers have been in compliance and are unlikely to be audited otherwise; therefore, the fiscal note on the bill is positive.

## CONTINUATION SHEET

### MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE Room 519-S, Statehouse, at 11:08 a.m. on January 31, 2000.

- Provide an electronic filing "coupon" for individual income taxpayers  
Ms. Sicilian noted that one of the Department's goals is to accelerate the increase in electronic filing because a significant and sustained increase in the percentage of taxpayers filing electronically will produce substantial long-term savings for the Department. The Department believes that the key to accelerating electronic filing is to get taxpayers to try it. The bill would encourage taxpayers to try electronic filing by providing them a \$2.00 credit ("coupon") for doing so. Although the estimated fiscal impact for 2001 is \$720,000, the savings in administrative costs would be approximately \$700,000 in fiscal year 2002.
- Allow an "innocent spouse" finding at the state level  
Ms. Sicilian explained that the IRS relieves an "innocent spouse" from income tax liability and that relief automatically flows through to the state level. However, when there is only state liability, there can be no federal "innocent spouse" finding, and the state does not have any provision to grant this relief on its own. The bill would clarify the flow through of the federal funding and would allow the state to make its own "innocent spouse" finding where there is no outstanding federal liability. The fiscal note for this provision is minimal.
- Raise the threshold for filing estimated individual income tax returns  
Ms. Sicilian pointed out that the \$200 threshold for determining whether individuals must file estimated individual income tax returns has been in place since 1989. The bill would move the threshold to \$350. This increase will have a cash flow impact that will reduce fiscal year 2001 State General Fund revenues by \$275,000. There would be some administrative cost savings since increasing the threshold should reduce the number of borderline cases wherein the tax penalty imposed is waived on appeal.
- Clarify certain provisions of the withholding tax law  
Ms. Sicilian noted that current Kansas withholding statutes do not address non-wage payments such as gambling winnings, taxable payments of Indian casino profits, and periodic pension payments. The main purpose of this amendment is to codify Kansas' adherence to the federal treatment of non-wage payments and to codify certain provisions currently found in Kansas regulations. Because these changes simply codify existing practice and rules, they have no fiscal impact.
- Allow tax penalties to be phased in at 1 percent a month, up to 24 percent  
Ms. Sicilian explained, under current statute, if a taxpayer fails to file or pay by the due date, a 10 percent penalty must be assessed. Six months later, the penalty rises to 25 percent. The Secretary may waive the penalty for "reasonable causes." In the majority of cases, taxpayers request a waiver, and their requests are usually granted. The waiver process can be administratively expensive and time consuming. Under the proposed bill, penalties would be phased in at the rate of 1 percent a month up to a maximum of 24 percent. The lower starting rate and more gradual phase in will provide a reasonable penalty that can be uniformly applied. The fiscal note on this provision is minimal.

Ms. Sicilian also suggested an amendment to eliminate contractor registration fees. Current statute requires non-resident contractors to register and pay a fee of \$10 for every Kansas contract with a price greater than \$10,000. Ms. Sicilian noted that the fee produces very little revenue relative to the operational cost of building its collection into the Department's new system. The Department proposes continuing the registration requirement but eliminating the required fee.

The meeting was adjourned at 11:35 p.m.

The next meeting is scheduled for February 1, 2000.