

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson Senator Audrey Langworthy at 11:10 a.m. on February 21, 2000, in Room 519-S of the Capitol.

All members were present except: Senator Greta Goodwin – Excused

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: Senator Anthony Hensley
 Karla Pierce, Secretary, Department of Revenue
 Shirley Sicilian, Department of Revenue

Others attending: See attached list.

The minutes of the February 16 and 17, 2000, meetings were approved.

SB 616–Relating to income taxation; requiring audits of corporations

Senator Anthony Hensley testified in support **SB 616**. He explained that the bill directs the Kansas Department of Revenue to perform at least as many corporate tax audits as the average monthly number conducted from 1996 to 1998. He called attention to copies of an article appearing in the *Lawrence Journal World* which highlights the dramatic drop in the number of corporate audits performed from 1994 to 1998. He pointed out that the decline in corporate audits came at a time when the number of Kansas corporations that generate more than \$500,000 in taxable income rose by 42 percent. He noted that, through January of fiscal year 2000, corporate income taxes have fallen \$11.8 million below projections, the largest shortfall of all revenue sources. In his opinion, **SB 616** will help to ensure that Kansas corporations pay their share of taxes. (Attachment 1)

Senator Langworthy pointed out to Senator Hensley that the chart published in the *Lawrence Journal World* stops at 1998; however, more current information is available. She informed him that statistics reflecting corporate income tax audit assessment activity from 1995 to 1999, which is included in the written testimony of Karla Pierce, Secretary, Department of Revenue, show a reverse in the trend in 1999.

Secretary Pierce followed with an update on the Department's corporate audit program. At the outset, she emphasized that the state of the program is sound. She noted, if **SB 616** is enacted, the fiscal impact would likely be zero in terms of state revenues for various reasons. She explained that the main reason the numbers appear to have fallen is that the Department has changed the way it tracks the number of audit assessments. She stated that the potential for large corporate assessments decreased over the last decade due to the following circumstances: (1) law changes, (2) voluntary compliance, (3) improved quality of audits, (4) staff turnover, and (5) the national trend to shift to other ownership types.

Secretary Pierce called attention to two charts attached to her written testimony, one comparing salaries for state auditors to salaries of private sector auditors and other state jobs and one comparing the number of auditors per one million people in states with populations between two and six million. She pointed out that the Kansas audit staff ratio compares equally to other mid-western states. In addition, she noted that this information shows the importance of managing the Department's limited resources in a manner to leverage the highest compliance impact from each action taken, and it also means that creative programs such as self-managed audits need to be added to improve compliance activities. She concluded that requiring a set number of audits may not be the best way to ensure the highest level of compliance, and the requirement would not guarantee a significant increase in the amount of revenue raised. (Attachment 2)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE
Room 519-S, Statehouse, at 11:10 a.m. on February 21, 2000.

With regard to Senator Hensley's statement that corporate income tax collections fell \$54 million between 1998 and 1999, Secretary Pierce reminded the Committee that, in 1998, a Kansas corporate income taxpayer paid two very large tax payments amounting to over \$50 million. She believes that, for the most part, those payments account for the decrease in corporate collections the following year.

Following brief committee discussion, Senator Langworthy closed the hearing on **SB 616** and called the Committee's attention to a bill heard on January 31, **SB 410** which would provide benefits and incentives for statutory compliance by certain taxpayers. She reminded the Committee that the Department of Revenue requested the bill and called upon Shirley Sicilian, Department of Revenue, to assist in a review of the six provisions.

Senator Langworthy recalled that the Committee questioned the provision in New Section 6 allowing individual income taxpayers a \$2 credit (coupon) for filing electronically for tax years 2000 and 2001 as the fiscal note on this provision was at least \$720,000. Ms. Sicilian noted that immediately after the Department introduced the bill, the federal government announced that it would also be pursuing a credit of \$10 for every electronic filing. She also informed the Committee that, after the tax season began, the Department noticed a significant increase in electronic filing.

Senator Lee moved to delete New Section 6 from **SB 410**, seconded by Senator Donovan. The motion carried.

Senator Lee moved to report **SB 410** as amended favorable for passage, seconded by Senator Praeger. The motion carried.

The meeting was adjourned at 11:55 a.m.

The next meeting is scheduled for February 22, 2000.