

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 January 13, 2000, in Room 519-S of the Capitol.

All members were present except: Senator Corbin – 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: Leo Hafner, Legislative Post Audit  
Karla Pierce, Secretary, Kansas Department of Revenue

Others attending: See attached list.

The minutes of the January 12, 2000, meeting were approved.

Senator Langworthy requested the introduction of a bill on behalf of individuals interested in a constitutional amendment relating to the classification and taxation of aircraft and watercraft. She explained that the bill would reclassify aircraft and watercraft similar to the way trucks and recreational vehicles are classified.

Senator Hardenburger moved to introduce the bill, seconded by Senator Steineger. The motion carried.

Leo Hafner, Legislative Post Audit, distributed copies of the performance audit report on the various issues related to the Department of Revenue's handling and processing of income tax returns. The report was published in December of 1999. Copies are available at the office of the Legislative Division of Post Audit. Mr. Hafner pointed out that, although the audit includes information on sales tax, it focuses primarily on individual income tax. He discussed findings on the following questions (Attachment 1):

- Has income tax processing under Project 2000 worked as intended?  
Mr. Hafner said the short answer to this question is, "No." He outlined the primary cause of problems.
- To what extent were refunds delayed in 1999 and what factors contributed to delays?  
Mr. Hafner noted that, on the average, refunds took about twice as long as the previous year. He discussed contributing factors, impacts, and issues related to unclear laws.
- How well did the Department communicate with taxpayers?  
Mr. Hafner reported that the Department's correspondence to taxpayers often was unnecessary or confusing, and it was extremely difficult for taxpayers to get through to the Department. He noted that the Department has made some improvements to the phone system.
- Does the Department have an adequate process for ensuring that checks remitted by taxpayers are properly accounted for and not destroyed?  
Mr. Hafner reported that the Department's procedures were reviewed by CPA firms as part of the annual statewide audit, and no problems were found. He noted that the Post Audit Division also found no problems. In addition, he noted that, even if a taxpayer's check should accidentally reach the warehouse and be shredded, the state would not lose money because the check would not have been posted to the taxpayer's account, thus, the taxpayer would eventually get a bill from the Department.

## CONTINUATION SHEET

### MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE Room 519-S, Statehouse, at 11:10 a.m. on January 13, 2000.

Karla Pierce, Secretary, Kansas Department of Revenue, followed with a response to the post audit report on the 1999 income tax processing season and outlined the Department's current plans for improving its performance for the upcoming 2000 season. (Attachment 2)

At the outset, Secretary Pierce agreed with the conclusion made in the report that individual income tax processing did not go as smoothly as the Department hoped it would. She pointed out that the report also confirms that 1.2 million individual income tax returns (85% of the total) were processed essentially without problems. She informed the committee that return problems discovered last year were corrected to an accuracy rate of 99.9%. She explained that the demands of implementing the Tax Reform and Relief Act of 1998 contributed to the delays in issuing refunds because changes to Project 2000 as a result of the act were huge.

Secretary Pierce also discussed findings presented in the report regarding the completion of more work with fewer staff than in 1998, the Department's control over checks received from taxpayers, and the overall execution of Project 2000. In addition, she discussed the steps the Department has taken to ensure better communication with taxpayers by telephone and written correspondence.

She also addressed the portion of the report concerning problems the Department may experience with the new sales tax component of the integrated tax system during the upcoming tax season. She reported that, as of November 1999, an integrated tax processing system is in place. She noted that the key challenge in sales tax processing is customer education on the simplified filing requirements.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for January 18, 2000.