

MINUTES OF THE SENATE COMMERCE COMMITTEE.

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on February 4, 2003 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: April Holman, Legislative Research
Deb Hollon, Legislative Research
Norman Furse, Revisor of Statutes
Mitch Rice, Revisor of Statutes
Jodie Anspaugh, Secretary

Conferees appearing before the committee: Chris Clarke, Legislative Post Audit
Joan Wagnon, Secretary of Revenue
Charlie Ranson, Kansas, Inc.

Others attending: See attached list.

Chairperson Brownlee welcomed Chris Clarke from Legislative Post Audit to the committee. Ms. Clarke testified on the Performance Audit Report. (Attachment 1) The audit is available from Legislative Post Audit. Her presentation reviewed factors that have affected the recent steep drop in corporate income tax receipts. She answered two questions: Why were corporate income tax receipts so much lower in fiscal year 2002 than estimated, and how have the resources and results for reviewing and auditing corporate tax returns changed during the last few years?

First question: the largest factor is the downturn in the economy. The downturn in the economy appears to have been the primary factor affecting the steep drop in corporate income tax receipts. Other contributing factors were: a Supreme Court decision ordering the Department to refund \$25 million in taxes paid, multi-state corporations apportioning less of their income to Kansas, and an increase in the number and amount of income tax credits taken.

Post Audit recommends that the Department of Revenue develop a database for storage, retrieval, and analysis of corporate tax credits, develop quality-control procedures, and that the Department provide staff with adequate training. They also recommend that the Department clean up the current credit spreadsheets, institute a system to identify taxpayers who should file a return but don't, and improve its process for storing, cataloging, and retrieving documents stored off-site. They also recommend the Legislature support US Congress efforts to promote sharing of information and corporate accountability.

Second question: How have the resources and results for reviewing and auditing corporate tax returns changed during the last few years? There has been less scrutiny of corporate tax returns since the

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implementation of a new computer system in 2001. Before converting to that system, the Department elected to ease up on the review of corporate tax credits claimed on returns. Under the new system, returns receive less overall up-front scrutiny than in the past. As far as conducting a back-end review with audits, recently, the Department has one fewer auditor and has averaged about 7 fewer audits than in previous years. However, the additional dollars the State has received as a result of audits has stayed fairly constant.

Post Audit recommends that the Department of Revenue enter lines 1-19 of the tax return for all corporate taxpayers. They also recommend that the Department allow its staff to review more of the returns, and track whether this is beneficial in terms of identifying non-compliance or additional taxes due the State. Finally, they recommend that the Department hire more corporate auditors, or re-assign existing positions to the corporate audit area.

Chairperson Brownlee welcomed Secretary Joan Wagon, Department of Revenue. (Attachments 2 & 3) Richard Cram of the Department of Revenue also submitted written testimony. (Attachment 4) Secretary Wagon stressed her commitment to corporate accountability, and professional and fair dealings with all Kansas taxpayers. As she has only taken this position two weeks ago, she is looking for opportunities to make improvements. She has named a new Audit Administrator to direct corporate audits. He will report directly to the Secretary of Revenue.

Chairperson Brownlee welcomed Charles Ranson, President of Kansas, Inc. to the committee. (Attachment 5) All corporate taxpayers filing in Kansas must complete a questionnaire regarding claims for and use of specifically-enumerated income tax credits and sales tax exemptions. However, for quite some time, because access was restricted to taxpayer information deemed confidential elsewhere in the statutes that control the Department of Revenue's release of information, Kansas, Inc. was never able to do more than to guesstimate the revenue forgone by the State resulting from operation of these economic development incentive programs.

The meeting was adjourned at 9:30 a.m.

The next meeting is scheduled for February 5, 2003.