

Approved: _____
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson Wagle at 9:00 a.m. on January 19, 2000, in Room 519-S of the Capitol.

All members were present except: Rep. Howell - excused

Those attending from the Tax, Judicial and Transportation Budget Committee:

Rep. J. Peterson
Rep. Hermes
Rep. Nichols

Committee staff present: April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Ann Deitcher, Committee Secretary

Conferees appearing before the committee: Karla Pierce, Secretary of Department of Revenue

The Chair introduced Janet Stubbs of the Kansas Building Industry Association who requested the introduction of a bill regarding excise tax. This would establish guidelines that the local unit of government would have to follow in order to implement an excise tax.

The Chair recommended passage of this bill and it was seconded by Representative Tomlinson. The bill passed on a voice vote.

Representative Aurand moved that a bill be adopted regarding hotel services exempting certain sales of hotel rental services that would only apply to federal employees. Representative Minor seconded the motion which carried on a voice vote.

The Chair introduced the Bi-States Cultural Tax which is up for renewal. It was seconded by Representative Johnston and passed on a voice vote.

The Chair then recognized Secretary Karla Pierce of the Department of Revenue who gave a briefing to the Committee on the State of the Department of Revenue Tax Operations. (Attachment 1).

The Secretary said they though it would be wise to go back prior to Project 2000 to explain juyst why they'd made the choices that were made. She referred to the first box on page 3.

She said that overall what was going on in 1995 was that the entire process didn't focus on the customer, the taxpayer, at all. The other thing that was going on in 1995 was the compliance initiative. They had very aggressive audit techniques. Appeals took five to seven weeks.

Secretary Pierce reminded the Committee of the 1996 article in CFO Magazine that ranked Kansas right at the top as having a tax climate that was not favorable to business. Tax practitioners and attorneys could shop around for their favorite tax specialist in the department and they could get the answer they wanted.

She said that typically those answers were locked away in a file drawer so no one else knew where they were so there was no way to apply policy consistently across the board. Very little effort was made to locate additional taxpayers and accounts receivables were several years behind the collections process when they actually occurred. Looking for a way to solve these problems they decided the solution was Project 2000.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Page 1

They had failed in several attempts in the early 1980's to put in a satisfactory tax system so they knew that the Legislature wasn't going to give them funding to rebuild the Department of Revenue. Thus, they came up with an innovative funding mechanism which was to pay for these improvements from the improved benefits that were generated by making the changes.

The Department of Revenue did an analysis and at the end of the fiscal year, after the shortfall was accounted for, they found they'd underestimated fiscal notes from the tax relief by \$10 million. There was some acceleration of refund processing that occurred in June of around \$10 million that probably would have occurred in July in prior years. The consensus estimate deviation which is what they changed in November, was between \$35 and \$48 million. This means that in May of 1998 they revised the estimate after the \$117 million tax reductions down to \$1.684 billion for an income tax. The actual receipts in FY99 were \$1.695 million more than they said they would collect in May 1998.

Secretary Pierce went on to explain that they didn't stay with the May 1998 consensus estimate because when they put out withholding tax tables in July of 1998, they doubled up on the reductions because they needed to annualize the reduction and withholding tax to account for the reduction in the law. Many businesses must not have put those in because withholding continues at a higher rate than it was going on the prior year. That was the indication that the Revenue Department thought the economy was growing faster than it really was. The other thing was the estimated tax law said that if you pay the same amount of tax that you paid last year, you don't get an estimate penalty. People did not adjust their estimated payment. They still came in very high in January. What happened was that the withholding and the estimated were coming at such a rate that they thought they should increase the November estimate.

In April, with the delays in refund processing, they didn't realize there were still that many more yet to come, they didn't know they would be paying all that money back out in April and May after the April estimate. So they didn't adjust it that much in April. The data just wasn't available when they were making those up.

Representative Vickrey asked if they were paying interest on refunds. Secretary Pierce said they were.

Representative Wilk asked how we were doing now against our estimates. Secretary Pierce said that as of the fiscal year-to-date, we are .4% or \$7 million behind where we thought we'd be. This is a \$5 growth over last year. Sales tax was down \$6 million in December but it was difficult to tell about sales tax until the end of January because you wouldn't know when people made their Christmas purchases. The December filing month is not due until January 25. Another thing that happened had to do with a large company that had just filed an amended return in January that will take up a lot of this shortfall. That was for November and should have been filed in December. Individual income tax was down \$867 thousand at the end of December so they feel it's right where they thought it would be. A couple of unusually large inheritance tax payments have come in recently that have offset some of the other things.

Representative Wilk asked for the final report to be submitted to the Tax Committee.

Representative Johnston asked how much the project cost and how much new money had gone into the State General Fund. The Secretary said the cost of the project was \$65 million. \$800 thousand has gone toward the State General Fund. The way the contract is set up is that the first \$45 million directly to the contractor. There's another \$10 million that is for the purchase of equipment and they pay out the other \$10 million that they owe AMS after they hit a revenue threshold of increased revenues of \$89 million and they share in that. The state has to benefit \$189 million in order for the contractor to be paid in full.

On the subject of errors in the booklet, the Secretary said that only 12% of the booklets had gone out with errors. This affected 600 people. As soon as error was discovered, new booklets were printed and sent out. They also contacted the preparers to inform them of the error.

Representative Johnston said he would like to see samples of some of the different types of letters they send out to people who have paid late, underpaid or overpaid or whatever other problems there were. He felt that since this was the Department's first contact with constituents, he was interested in what these letters looked like and what the wording was. Secretary Pierce said these would be provided.

CONTINUATION SHEET

The Chair asked if when the new system was set up, did AMS come in and do a review of our Kansas statutes so that we could take their system and apply it to our individual state law and make sure we were following our statutes. The Secretary said that they did.

Representative Nichols said that Post Audit had pointed out that other states had less reliance on automation and more reliance on manual involvement while the policy of this state is to have a little more reliance on automation versus manual involvement. He wondered if some of the glitches in the system could be traced back to the greater reliance on automation versus manual involvement and said he would like to better understand why that is the policy. Given some of the mistakes that happened last year, he wondered if the Department planned on altering that policy.

Secretary Pierce said they had added more manual review this year.

The meeting adjourned at 11:00 a.m. The next meeting is scheduled for Wednesday, January 20, 2000.