Approved: January 24, 1997
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on January 23, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Bond, Senator Hardenburger, Senator Karr, Senator Lee, Senator Praeger, Senator Sallee and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Paul Welcome, Kansas County Appraisers Association
John LaFaver, Secretary, Kansas Department of Revenue
Karla Pierce, Kansas Department of Revenue
David Weeks, Kansas Department of Revenue

Others attending: See attached list

Paul Welcome, Kansas County Appraisers Association, requested the introduction of two bills. The first requested bill would change the re-inspection cycle from four to six years with approval of the data base by the Property Valuation Department.

Senator Bond moved to introduce the bill, seconded by Senator Sallee. The motion carried.

The second bill requested for introduction would allow alternate notification by post cards for values which have not changed from the prior year rather than using the current data mailer system. Alternate notification by post card would reduce costs.

Senator Sallee moved to introduce the bill, seconded by Senator Bond. The motion carried.

Senator Langworthy reminded the committee that the hearing on **SB 34** was continued at the January 22 meeting to allow time for Shirley Sicilian, Kansas Department of Revenue, to report on the fiscal impact of the bill. Ms. Sicilian was unable to attend but will report at a future meeting.

Senator Langworthy called attention to an issue report concerning taxation of industrial machinery and equipment. The information was submitted by Charles Warren of Kansas, Inc., as background information helpful in preparation for the hearing on **SB 51** scheduled for January 24. (Attachment 1)

A briefing by Secretary John LaFaver, Kansas Department of Revenue, to update the progress and changes at the Department of Revenue to prepare for the twenty-first century was next on the agenda. Senator Langworthy emphasized that the briefing was scheduled at Mr. LaFaver's request and was not a committee request for interrogation.

Mr. LaFaver stressed that the goal of his department was to refocus tax administration in Kansas by providing first-rate customer service. He commented that modern technology coupled with a fundamental commitment to rethink how taxes are administered can "pay off" both in improved taxpayer service and increased collections. He said this type of change was presently in progress in the department and was scheduled to continue over the next two years. He distributed copies of articles from national publications recognizing the excellent technology utilized by the Kansas Department of Revenue. (Attachments 2 and 3) Mr. LaFaver expressed the hope that the two national publications would receive the same attention as did negative local articles published last year. In addition to technical changes, he emphasized the concentrated effort to change the culture of the agency. He stated that any fundamental redirecting and restructuring of an agency generally

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.

required new people with a new vision, optimism, and energy. He introduced the new tax leadership team which consisted of the following: Karla Pierce, Director of Transition (Project 2000); Kenneth Rakestraw, Channel Management (communication); Joyce Bartel, Director of Customer Relations (routine tax accounts); Dean Reynoldson, Director of Enforcement (tax fraud and alcoholic beverage control); and David Weeks, Director of Tax Compliance (supervision of audit and collection functions). He explained that the selection of new leadership personnel was not based upon expertise on taxes but rather was based upon skill and dedication to customer service in a team effort.

Mr. LaFaver called on Karla Pierce to give an overview of the high points accomplished by Project 2000 to date. She discussed the visions for the future organization of the department, emphasizing the importance of putting the customer first at all times through team effort. (Attachment 4) David Weeks followed with a review of the new role of the audit process to provide education to taxpayers so that they can comply with the law in the least intrusive manner. Another goal was to identify areas which need statutory change. (Attachment 5)

Committee discussion followed regarding the Tax Discovery Program and the additional revenue collected by the state under Project 2000.

Mr. LaFaver explained that employees are constantly updated on how the changes will affect their jobs. Employees will not be terminated, however, there will be fewer employees in the future as persons retire or quit and are not replaced. Committee members commended the department for the implementation of the one-person contact customer service. Mr. LaFaver invited committee members to tour the department.

The minutes of January 22 were approved.

The meeting was adjourned at 11:59 a.m.

The next meeting is scheduled for January 24, 1997.

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: January 23, 1997

NAME	REPRESENTING
John LaFaver	KDOR
Karla Pierce	KDOR
David Weeks	KDOR
Kenneth Rakestraw	KDOR
Dean Reynoldson	KDOR
Mark Beck	KDOR
Rod Broberg	KCAA
Harry Tiffany	KDOR
Dave Holthaus	Western Resources
Jeff Bridges	DOB
Jason Pitsenberger	Brad Smoot
Steven Brunkan	KDOR
Kelly Kultala	City of Overland Park
TK Shively	Ks Legal Services
Betty Bomar	DRS
[illegible] Yagany	Sh. 1st./SV/Hs Counties
Mary R. Cook	Thomas County
Richard Rodewald	Taxpayers
Don Schnacke	KIOGA

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: 1-23-97

NAME	REPRESENTING
HAROLD PITTS	OBSERVE
Joyce Bartie	KDOR
Jonathan Small	KOCH INDUSTRIES, INC

Some Issues Concerning the Taxation of Industrial Machinery and Equipment

prepared for Kansas, Inc.

by Pat Oslund, Research Economist

Institute for Public Policy and Business Research
University of Kansas
607 Blake Hall
Lawrence, Kansas 66045

Charles Krider, Director

September 23, 1996

Senate Assessment & Taxation
1-23-97
Attachment 1

Some Issues Concerning the Taxation of Industrial Machinery and Equipment

1. What is the basis of the tax?

Most states divide property into two major types for the purpose of taxation: real estate and personal property. Industrial machinery and equipment is a sub-category of personal property. Other types of personal property include inventories, mineral leases, and intangible assets such as savings accounts. These may or may not be taxable, depending on the state.

2. How many states tax industrial machinery and equipment?

The most recent survey of property taxation in all 50 states is from the *1992 Census of Governments,* which contains 1991 data. As of 1991, machinery and equipment was included in the property tax base in 41 states. In Maryland, local governments have the option to tax or exempt machinery and equipment as they choose. During its 1995 legislative session, Iowa removed new industrial machinery and equipment from the property tax rolls from the tax rolls. Significantly, several large industrial states such as Illinois, New York, New Jersey, and Pennsylvania do not apply property taxes to industrial machinery and equipment.

3. How is machinery and equipment assessed?

Some states assess the property at a percentage of market value, while others tax the full value. Practices for depreciating property vary across states. In Kansas, machinery and equipment is assessed at 25 percent of market value when new, minus depreciation. Property in Kansas is depreciated using a 7 year straight line depreciation schedule. But while any property is still in use, its value is placed at no less than 20 percent of its original value when new.

4. How do tax rates on machinery and equipment in Kansas compare with those in other states in the region?

In order to compare taxes on machinery and equipment across states, IPPBR has estimated an "effective" tax rate (Table 1). The effective rate measures the annual property tax on machinery and equipment as a percentage of its true market value. The effective rate is based on the assumption that the property is indeed taxed--that it has not been granted a property tax abatement.

Kansas clearly has the highest statewide average rate in the region. As of 1995, Kansas rates average 2.97 % of value. Effective rates in Colorado and Nebraska are estimated at 2.39%. Other states in the region have substantially lower rates.

Iowa recently (1995) removed property taxes on machinery and equipment entirely. But as seen in Table 1, Iowa had applied a very low rate to machinery and equipment even before this change in tax policy.

With the exception of Iowa, there have been no other major policy changes in taxation of machinery and equipment in the region since 1993. However, effective rates have changed somewhat due to changes in mill levies in the surrounding states.

On the basis of a recent review of legislation, it appears that Iowa is the only state in the nation to enact major changes in the basic taxation of machinery and equipment in the last two years. However, a few states have enacted more generous property tax abatements.

Table 1
Taxes on Machinery and Equipment as a Percent of Value

State	1993 Statewide Average Effective Rate	1995 Statewide Average Effective Rate
Colorado	2.44 %	2.39 %
Iowa	0.90 %	not taxed
Kansas	2.85 %	2.97 %
Missouri	1.86 %	2.03 %
Nebraska	2.44 %	2.39 %
Oklahoma	1.07 %	1.02 %

5. How are taxes on machinery and equipment affected by property tax abatements?

For new and expanding firms that qualify for property tax abatements, the impact of the tax on machinery and equipment is mitigated. In Kansas, these firms may receive up to 100 percent property tax relief for 10 years. For firms that do not receive abatements, the tax on machinery and equipment stands out as unusually high. The situation is reversed for firms that receive tax abatements--Kansas abatements on machinery and equipment are the most generous in the region (Table 2).

Table 2
Property Tax Abatements for Manufacturing Machinery and Equipment

State	Maximum Abatement Allowed
Colorado	50% for 4 Years
Iowa	Property already exempt
Kansas	100% for 10 years
Missouri	No abatements on machinery and equip.
Nebraska	No abatements on machinery and equip.
Oklahoma	100% for 5 years

The extent to which Kansas firms actually receive abatements on machinery and equipment is an interesting question. Data published by the Kansas Department of Revenue (*Statistical Report of Property Assessment and Taxation*, 1995) shed some light on this issue. In 1995, over $1 billion in personal property was listed as exempt, either through IRB (industrial revenue bond) abatements or through the Kansas constitutional economic development provisions. In comparison, about $5 billion in industrial and commercial machinery and equipment was taxed in 1995 (Table 3). Overall, about 19% of commercial and industrial machinery and equipment appears to be abated.[1]

Table 3
1995 Value of Commercial and Industrial Machinery and Equipment

Description	appraised value $ mil
Appraised Value Subject to Taxes	$5,012
Exempt Value: Economic Development Abatements	$103
Exempt Value: IRB Abatements	$1,066
Total Commercial and Industrial Personal Property (Taxed plus Exempt)	$6,180
Exempt as % of Total	18.91%

[1] There may be property listed in the IRB category that would have been exempt from the property tax in any case, such as property belonging to community hospitals. A further examination of the data would be necessary to see what percentage of IRB exemptions are strictly for economic development projects.

It should be pointed out that property tax abatements are not granted automatically to firms that purchase machinery and equipment. A firm must make a formal application to local government for an abatement, and the local government must examine the costs and benefits of granting the abatement. Because of the red tape involved, it is likely that small firms "underutilize" property tax abatements.

6. What are some of the arguments against applying the property tax to machinery and equipment?

a) The personal property tax adds the "price" of owning machinery, and , according to the l laws supply and demand, discourages its use. In other words, personal property taxes discourage investment in capital goods.

b) Firms with similar net income may pay very different amounts of property tax--firms with a high level of machinery and equipment will pay more.

c) If a state's tax rates on machinery and equipment are usually high, this will reduce the attractiveness of the state as a business location.

d) Costs to discover and appraise property, and to insure compliance may be high (this was the finding of a recent study of taxation in Ohio).[2]

7. What are some of the arguments for continuing the property tax on machinery and equipment?

a) Machinery and equipment is a form of wealth just like any other property. Thus if some forms of wealth (such as real estate) are taxed, machinery and equipment should be as well.

b) The tax is probably very inelastic, in the sense that it does not fluctuate much with income changes. (This result was shown the Ohio study-it has not been established for Kansas, but probably holds true). Inelastic taxes can provide an advantage during periods of slow economic activity.

c) Revenue lost from removal of the tax may need to be made up elsewhere--in other words, reducing or removing the tax may involve tax shifting.

8. Does Kansas suffer from lack of capital investment?

To shed some light on the issue, we look at two (albeit imperfect) statistics--the book value of assets of Kansas manufacturers, and the average annual amount of investment in

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[2] Roy Bahl, ed. *Taxation and Economic Development: A Blueprint for Tax Reform in Ohio.* Columbus: Battelle Press. 1996.

manufacturing. The two statistics reflect both buildings and machinery/equipment--separate data for machinery/equipment were not available.

Book value of assets reflects the purchase price of capital goods less depreciation. The measure does not take into account changes in the value of capital goods that might have occurred since purchase due to inflation or market forces. Nevertheless, it provides some measure of the capital intensity of a state's manufacturing industries. As seen in Table 4, Kansas manufacturing is the most capital intensive in the region by this measure, and is more capital intensive than US manufacturing as a whole. This is no doubt due to the importance of the aircraft industry in Kansas.

Over a six-year period (1987-1992), Kansas investment per employee hovered in the mid-range for the region and was 93 percent of the US average. The data indicate that the stock of capital goods in Kansas is not growing as fast as the stock of capital goods for the US as a whole. Similarly, Kansas is not growing as fast as Colorado or Iowa. The data also suggest that Kansas manufacturing as a whole may be becoming less capital-intensive.

It should be emphasized that the above findings are preliminary. A detailed industry by industry examination would be necessary to see whether there are alternative explanations for the data.

Table 4
Book Value of Assets In Manufacturing and Capital Investment

State	Book Value of Assets per Mfg. Employee, 1992	Av. Annual Capital Expenditure per Employee, 1987-92	Investment per Emp. in State as Percent of US Average	Av. Annual Investment as % of Book Value
Colorado	55,861	4,947	99.1%	8.9%
Illinois	78,071	6,175	123.7%	7.9%
Iowa	66,151	4,987	99.9%	7.5%
Kansas	74,652	4,641	93.0%	6.2%
Missouri	49,564	3,964	79.4%	8.0%
Nebraska	46,294	3,879	77.7%	8.4%
Oklahoma	67,950	4,546	91.1%	6.7%
US Average	61,971	4,992		8.1%

Source: US Bureau of the Census, *1992 Census of Manufactures*. Note that 1992 data are the most recent available.

TAX MODERNIZATION

Kansas overhauls its tax processing

Whirlwind plan includes business re-engineering effort and consolidation of 50 tax systems

BY CLAIRE E. HOUSE
GCN Staff

Kansas state taxpayers and workers won't recognize the state's Revenue Department once Project 2000 gets through with it.

Project 2000, a $70 million business process re-engineering venture, will revamp the department to improve tax processing and enforce payment compliance, Revenue Secretary John LaFaver said.

In doing so, he said, the project will generate at least $234 million in revenue over the next 10 years and improve customer service to Kansas taxpayers, who file an estimated 2 million returns annually.

The overhaul encompasses both management and technical projects that include:

- Reorganizing the agency's staff and doing away with separate tax departments
- Implementing a client-server system with a Microsoft Windows NT network supporting 800 users
- Consolidating state taxpayer information from 50 disparate tax programs and using decision support software to enhance account management
- Giving taxpayers various filing channels, including a cutting-edge Internet program
- Rolling out an imaging system to digitize paper tax documents
- Creating a new payment remittance system.

The Revenue Department has been trying to improve its tax systems since the early 1980s, Project 2000 director Karla Pierce said. But duplicative work on the more than 50 IBM mainframe systems used throughout the department hamstrung the effort.

More than technology

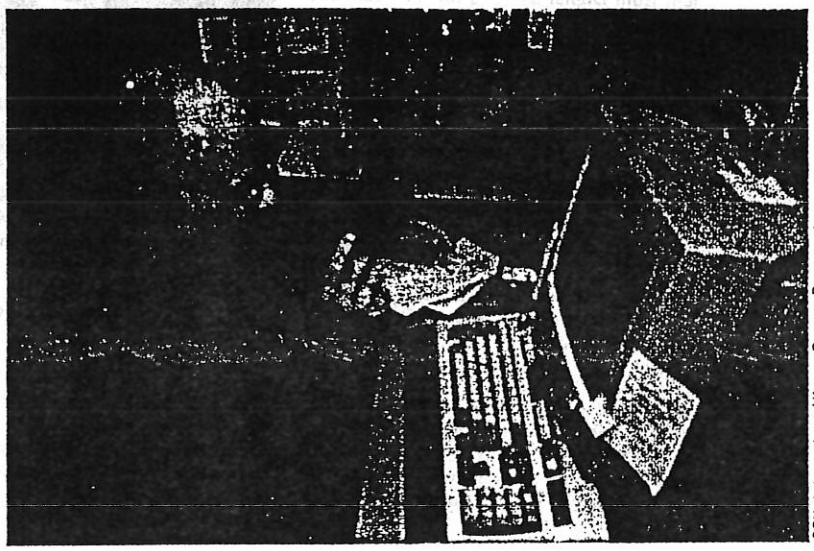
"In the early '90s, the managers that were here realized that technology alone wasn't going to solve our problems and meet our needs," she said. "We came up with the idea to re-engineer the business process and get the technology to support those processes."

Currently, sales tax, income tax, withholding tax and every other kind of tax each has its own staff structure, organization and system, LaFaver said. Like most tax organizations, the department was built piece by piece as different taxes were enacted, procedures created and legislation passed, he said.

Some business customers have up to 12 contacts for tax issues and can have pieces of account information in many systems, said Colin Shaw, project director and a vice president of American Management Systems Inc. of Fairfax, Va., which won the re-engineering contract last July.

Additionally, each of the department's separate functional groups, such as collections and auditing, has its own stovepipe and often paper-intensive support system.

The system will score the likelihood of a taxpayer filing and paying proper taxes.



GCN photo courtesy of Kansas Revenue Department

Tax collector Kevin Kaul says that the new applications are "speeding up things tremendously" for Kansas Revenue Department workers and for taxpayers as well.

But that's all changing thanks to a complete reorganization supported by a fully integrated client-server system with imaging and Internet services, Shaw said.

About 25 ProLiant 5000 servers from Compaq Computer Corp. will house the Windows NT network. An Oracle 7.5 database from Oracle Corp. will consolidate every piece of information about a customer's tax history into a single file. Another database, in Lotus Notes 4.0, will centralize tax policy information.

"The policy and research database will be a common database available to the tax examiner, collections officer, auditor, customer relations representative," and, ultimately, every taxpayer in Kansas via the Internet, Shaw said.

But the real gem of the system is Strata, LaFaver said. A decision-support tool developed by AMS, Strata will take customer account data and score that taxpayer's likelihood of filing and paying proper taxes on time.

Targeted auditing

With Strata, Revenue can focus its efforts more constructively to bring taxpayers into compliance, Pierce said. The department will use Strata's risk-assessment scoring in the Collections Department to decide if it needs to confront a nonpayer with, say, only a letter or phone call vs. an in-depth evaluation or even legal action, she said. Auditors will be able to use the scoring to make informed auditing decisions.

"Today, auditing is more random—there's

see TAXES next page

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Attachment 2

Strata keeps tabs on delinquencies; Mosaix tracks data for ta

TAXES from previous page

more suspicion," Pierce said. With the scores, "we will be able to target an entire industry segment, raising the compliance of the whole segment rather than just one taxpayer." She said the account database also will cross-reference outside databases, such as business directories, to keep taxpayer records complete.

Collections is currently using Strata in conjunction with Mosaix, a predictive dialing system from Digital Systems Inc. of Redmond, Wash. Referencing data in the legacy systems, Strata identifies and ranks delinquencies and feeds them into the collections system, Shaw said.

Mosaix calls people on the list, transfers a connected call to a collector and pulls up the account file automatically on screen. The taxpayer and account files can be transferred directly to other departments for handling.

Tax collector Kevin Kaul's workspace used to overflow with a box and a drawer full of paper queries.

"Today that box is gone, the drawer is all cleaned out," he said. And, taxpayers don't wait days to hear back from the department. "We're speeding up things tremendously," he said.

Revenue users are receiving 800 160-MHz Pentiums with 24M RAM and 2G hard drives, half of which are already installed. AMS has been developing the system tools using the object-oriented PowerBuilder 5.0 from PowerSoft Corp. of Concord, Mass. AMS

The re-engineering effort will combine records from 50 systems into one, Revenue Secretary John LaFaver says.

expects to complete the system for Kansas by December 1998, Pierce said.

The department also is opening new filing channels, the most innovative of which is a Java applet that will let users prepare returns online. LaFaver and Shaw said they believe the Kansas Revenue Department is the first state tax agency to use the so-called intelligent form application, set for release March 1.

Taxpayers using Microsoft Explorer or Netscape Communications Corp.'s Navigator will download tax forms from the World Wide Web, and Java applets will guide them through their return preparations and do the calculations for them, Shaw said. The users then will print and mail the forms, which carry a character band of data—common to commercial tax preparation software programs—for easy reading by the department's imaging software.

Digitized returns

The imaging system, from FileNet Corp. of Costa Mesa, Calif., goes live next month, Pierce said. Kodak ImageLink 923D scanners will capture digital images of the returns, and an NT intelligent character recognition (ICR) engine will interpret the handwritten data. Ultimately, the imaging system will feed the data into the Oracle databases. Until system completion, the data will be submitted to the individual legacy systems for processing.

Payments will be handled by a remittance system from Unisys Corp., which does ICR on the payment voucher and also on the check. By speeding up deposits during the height of the tax season, the system will make the department $200,000 in interest alone, Shaw said.

But LaFaver is quick to point out that Project 2000 is about much more than technology. "It's totally about rethinking and revamping the notion of what a department of revenue is," he said. "The technology empowers that, gives us leverage." ■

PRACTITIONER'S UPDATE

Russians, Australians Trek to Kansas for Tax Advice

John LaFaver, the secretary of revenue in Kansas, has been down this road before. After revising tax administration in Montana and then Maine, his reputation brought him to Kansas. Now his work is luring inquisitive tax officials from as far away as Russia and Australia.

John LaFaver

But of all the visitors, which have included officials from several states, the most interesting are the Russians. "These were high-level fiscal people. We walked them through our collection system, but what they were most amazed at was our statistics on how many people voluntarily file," LaFaver said. "Their notion of collecting taxes is how many police officers have to knock on doors."

State-of-the-art

The Russians and others are coming to Kansas to get a first-hand look at Project 2000, the code name for LaFaver's overhaul of the department of revenue, whose jurisdiction covers driver's licenses and other certificates as well as tax compliance and collection. For one thing, the project is fine-tuning a tax collection system developed in LaFaver's previous state jobs, including better integration among different divisions of the revenue department. The system is designed so that one division, such as withholding tax, doesn't issue a refund without first checking whether the same taxpayer is delinquent in other areas, such as sales taxes.

LaFaver is also taking Kansas into new areas, such as a "Tax Discovery" system that matches various databases to identify tax scofflaws and quickly implement collections. The system, including computer hardware and software developed with American Management Systems in Arlington, Va., is projected to cost $70 million by the time it's fully implemented in 1998. LaFaver figures the department will "more than double" that in new collections over the same period and estimates the system has already identified as many as 400 delinquent taxpayers since it began in 1995, bringing in about $7 million.

And, in an effort particularly interesting to his Russian visitors, LaFaver is attempting to change the culture of his department to make it more customer-friendly. A learning center has been established to train personnel in "what putting customers first means"—the customers being taxpayers, tax professionals and various licensees. The goal, he said, is to make the revenue department as service-oriented as a top financial services firm.

"If I had to cut out part of Project 2000, I'd cut the technology," LaFaver said. "What's more important is the cultural change of the agency."—*P.D.*

Senate Assessment + Taxation
1-23-97
Attachment 3

KANSAS DEPARTMENT OF REVENUE
PUTTING THE CUSTOMER FIRST EVERY TIME

Presentation to the Senate Assessment and Taxation Committee
January 23, 1997

To effectively change large, traditional organizations, the leaders must begin by establishing a vision of the future. This vision must communicate the values that will guide the organization.

In June 1995, Secretary John LaFaver and senior department leaders met to establish the vision for the future. This vision directs all changes being implemented in the Department.

Our Vision for the Department of Revenue

- **We will put the customer first every time**
- **We will be the benchmark for the nation**
- **We will sustain a team environment**

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Attachment 4

WE WILL PUT THE CUSTOMER FIRST EVERY TIME

<u>What do our customers expect from the Department of Revenue?</u>

During statewide meetings we listened to taxpayers, business owners and local units of government describe their expectations of the Department of Revenue. Twelve expectations were communicated to the Department. We developed a survey and ask for those themes to be prioritized.

The top five expectations of Kansas Taxpayers are:

- Friendly attitude by Department associates
- Simple forms in plain language
- Equal treatment of all taxpayers
- Knowledgeable people answering the phone
- One person to handle my account -- start to finish

<u>What best business practices of Kansas companies should the Department implement?</u>

We visited a number of Kansas companies and asked for their best advice on how to provide superior customer service, work in a team environment and train associates to be customer service oriented. Some of the companies we talked with include Boeing, Hill's Pet Foods, Heinz Pet Products, Security Benefit Group of Companies and Hallmark Cards. We documented the following best practices from our benchmarking visits.

- Providing customer service through one stop shop
- Mystery shopper program to monitor customer service
- Use of data-driven decision making
- Team approach to management
- Job rotation for team members
- Team based reward programs
- Continuous improvement programs

<u>How will we know when we are putting the customer first?</u>

We have established performance goals to measure our progress towards achieving the vision. The goals measure what the taxpayers think of us, how well our processes work and how well our associates can do their jobs. If we do all of these things well, the customers will be paying the correct amount of tax due.

WE WILL BE THE BENCHMARK FOR THE NATION

As a benchmark for the nation the performance of our business operations will be second to none. Our new business operations are designed to provide the services our customers want and need. We are installing new technology to enable efficient operations and training our human resources to be effective service providers. Some of the outcomes of the new operations are listed below.

Provide multiple but simplified ways to communicate with the Department

An example of this is the new Telefile program that is available statewide this year to short form filers. This program enables taxpayers to complete an 11 line worksheet, dial a toll free number and key the information into the phone. The system computes the tax liability and refund amounts, gives the taxpayer a confirmation number and then the refund is mailed within 5-7 days. The system is available 24 hours a day and no forms are mailed to the Department.

Calibrated compliance actions ensure everyone pays their fair share

Our approach to ensuring everyone pays their fair share requires the Department to view ourselves as service providers not tax collectors. The services delivered are based on the least intrusive compliance tool needed to bring the taxpayer into compliance. This approach benefits both the taxpayer, by being less intrusive and the department, by allowing better utilization of our limited resources.

Single point of contact to handle all aspects of taxpayers business

No longer will taxpayers have to guess which department to go to for services. We are organizing around customer segments and training associates to be customer account representatives. They will be knowledgeable about all tax types related to the customers they are assigned. Each opportunity to provide service to a customer is an opportunity to enable the customer to stay in voluntary compliance.

To provide this exceptional level of customer service the Department must organize so the operations focus on the customer. The structure must eliminate functional silos. By organizing with a customer focus, jobs are designed to enable associates to provide the required service to the customer. Measures provide the information to hold associates accountable for the service they deliver.

WE WILL SUSTAIN A TEAM ENVIRONMENT

Changing our culture to enable customer service and teamwork

We are recognizing and rewarding behavior that puts the customer first. The Secretary has a "Customer First Award" that is given to associates when a customer reports having received great customer service. Names of award winners are published in the Department newsletter. A team of associates is identifying additional ways to recognize behaviors aligned with our new culture.

Newly hired managers value customer service and teamwork

A new approach to hiring associates was used to select the four process managers who lead and manage the new operations. Each manager has proven customer values, has worked in a team environment and has experience in managing effective operations.

NEW DIRECTION IN AUDIT

Audits provide education and problem identification

A very high percentage of Kansas Taxpayers want to file and pay the correct amount of tax. The new role of the audit process is to provide the education so the taxpayer can comply with the tax laws in the least intrusive manner. It also must identify areas of the law that are unclear and difficult to administer. These problem areas must then be communicated to the legislature for your consideration.

Trusting taxpayers to audit their own books

We recognize that Kansas businesses are asking employees to do more work with fewer resources, and so we are simplifying the audit process. Audit processes are being implemented which will minimize the intrusion on taxpayers.

An example is an audit method we call a self audit. In this audit the department provides the taxpayer with a form and instructions on how to complete it. The taxpayer completes the form and returns it to the department. If a taxpayer is unable to complete the form, an auditor will travel to the taxpayer's location and provide assistance. The key element in these new audit methods is that the department trusts taxpayers to audit their own books. These initiatives are very efficient in utilizing scarce audit resources.

Improving the quality of the audits performed

The Department has implemented initial steps to improving the quality of the audits. Improved auditor training programs are in place. The Multi-State Tax Commission presented a seminar for Department auditors in December 1996. Audit report cards are being provided to taxpayers to allow them to give their opinion on the performance of our auditors. The ratings to date have been very favorable. A new problem resolution process has been implemented within the Audit Bureau for corporate income tax assessments. This has been successful in allowing taxpayers to settle disputes informally. Auditors reviewed Department policy and practices from the taxpayers point of view. Their goal was to evaluate whether current policy and practices were being administered consistently. A number of suggestions to simplify and clarify existing laws were documented.

Voluntary compliance vs. revenue driven audits

Our goal is to obtain the highest level of voluntary compliance with the Kansas tax laws. Traditional audits will still be a part of the Department's compliance program, but they will no longer be the primary focus. Compliance programs that bring many taxpayers into voluntary compliance instead of those that maximize the revenue of one taxpayer are win-win situations for the state and its taxpayers.

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Attachment 5