

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:10 a.m. on January 13, 1998, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Lee, Senator Bond, Senator Donovan, Senator Goodwin, Senator Hardenburger, Senator Karr, Senator Praeger, Senator Steffes 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: Shirley Sicilian, Department of Revenue
John LaFaver, Secretary, Department of Revenue
Karla Pierce, Department of Revenue

Others attending: See attached list

Senator Langworthy welcomed the committee and staff back for the 1998 session.

Shirley Sicilian, Department of Revenue, requested the introduction of four bills. (Attachment 1)

The first bill would amend the Kansas inheritance tax statute to reflect federal changes.

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

The second bill would phase in the income tax penalty and increase the charge-off limit for uncollectible accounts.

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

The third bill would clarify that the motor fuel tax is imposed on the distributor.

Senator Corbin moved to introduce the bill, seconded by Senator Lee. The motion carried.

The fourth bill would provide a motor fuel tax credit to distributors who file electronically.

Senator Lee moved to introduce the bill, seconded by Senator Steffes. The motion carried.

John LaFaver, Secretary, Department of Revenue, introduced Karla Pierce, Director of Transition, who presented an update on Project 2000. Mr. LaFaver noted that Project 2000 is the Department's comprehensive effort to redo and substantially rethink its tax operations. Ms. Pierce presented an overview of Project 2000 and discussed the Department's accomplishments to date and its future plans for the next one and one-half years to implement the remaining components of the project. (Attachment 2)

Mr. LaFaver followed with a report on the status of present negotiations with regard to a comprehensive, national use tax collections agreement. (Attachment 3) The agreement concerns the issue of out-of-state catalog firms paying state sales tax. The issue goes back to the late 1960s when there was a case (Bellas Hess) wherein a state assessed a sales tax against an out-of-state marketer. The U.S. Supreme court ruled in 1967 that if a firm does not have nexus (legal presence) in a state, the state lacks the authority to require that firm to collect its state sales tax. In 1992, a state came back with a slightly new set of facts (the Quill case) which also found its way to the U.S. Supreme Court. The Supreme Court ruled as it did in 1967, noting that

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:00 a.m. on January 13, 1998.

the issue requires action by the U.S. Congress. States have continued to examine the economic activities of catalog sales marketers and, in some cases, have been successful in finding that a firm has nexus and, therefore, have been able to assess back taxes.

After requests by major catalog marketers, negotiations have taken place over the past two years with representatives from states. In December, it was assumed that a contract was ready to be signed, but negotiations broke down after the catalog marketers withdrew their support. Therefore, Mr. LaFaver felt that the resolution of the issue is not likely in the near future.

In response to a question from Senator Bond regarding potential sales tax collections in Kansas if Congress were to enact legislation giving states the ability to collect sales taxes from catalog marketers, Mr. LaFaver estimated that Kansas could potentially collect in the realm of \$15 million per year.

The meeting was adjourned at 11:57 a.m.

The next meeting is scheduled for January 14, 1998.

SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: January 13, 1998

NAME	REPRESENTING
Karla Pierce	Dept. of Revenue
JOHN LAFAVER	KDOR
Shirley Sicilian	KDOR
Jim Langford	DOB
Ann Durkes	DOB
MARK BECK	KDOR
Harriet Lange	Ks Assn B' Castles
Natalie Beopie	Federico Consulting
LINDA McGILL	PMA
Ken Peterson	KS Petroleum Council
Matthew Goddard	Heartland Community Bankers Assoc.
DAVE HOLT HAUS	Western Resources
Anne Sjiness	Peterson Public Affairs Group
Kelley Kuitala	City of Overland Park
Bernie Koch	Wichita Chamber of Commerce
Ashley Sherard	Overland Park Chamber of Commerce
Kathy Peterson	YMCA's of Kansas
Jim Alley	CPAR
Rich McKee	KLA

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Office of Policy & Research

MEMORANDUM

TO: Senator Langworthy
Chair, Senate Committee on Assessment and Taxation

FROM: Shirley Klenda Sicilian

RE: Request for Introduction of Department of Revenue Proposed Legislation

DATE: January 13, 1998

Senator Langworthy and members of the Senate Committee on Assessment and Taxation, thank you for the opportunity to appear today and request introduction of Department proposed legislation. My name is Shirley Sicilian. I am Director of the Office of Policy & Research at the Kansas Department of Revenue.

We have four bills for which we respectfully request introduction:

1. **Amend the Kansas inheritance tax statute to reflect federal changes.** In the last session of congress, the federal government increased their "unified death tax credit" which decreased the amount of federal tax due and the state "pick-up" amount. Our current Kansas statutes require payment of the higher of the inheritance or the federal "pick-up" amount as set out in the 1992 version of federal law. This KDOR bill would create prospective conformity with the new 1997 federal law to allow flow-through of the lower federal "pick-up" amount.
2. **Phase-in the income tax penalty and increase the charge-off limit for uncollectable accounts.** The penalty for late filing and payment of Kansas income tax is currently 10% on the first day late, and rises to 25% after six months. The department's proposal would phase-in the penalty at 1% a month up to a maximum of 24%. The bill would also raise the current \$25 limit for charge-off of uncollectable individual income tax accounts receivable to \$100. This would compensate for inflation over the years and ease administration.
3. **Clarify motor fuel tax is imposed on the distributor.** This bill would clarify the legal incidence of the current Kansas fuel tax rests with distributors selling fuel in Kansas. It is different from previously introduced bills on this subject in that it does not include provisions authorizing the secretary to make payments to Native American tribes.
4. **Provide a motor fuel tax credit to distributors who file electronically.** K.S.A. 79-3464c provides a mandate for distributors receiving 50,000 gallons or more motor fuel a month to file electronically. This bill would provide a motor fuel tax credit to those distributors. The credit phases out over 3 years to encourage early compliance.

Senate Assessment + Taxation
1-13-98
Attachment 1

Senate Assessment and Taxation Committee

Project 2000 Presentation

January 13, 1998

Kansas Department of Revenue

Presentation Topics

- Project Overview
- Accomplishments to Date
- Future Plans

*Senate Assessment & Taxation
1-13-98
Attachment 2*

Project 2000 Objectives

- Transforming KDOR values
- Building operations that provide valuable services to customers
- Implementing technology to enable efficient operations
- Training KDOR employees to be effective service providers

Transforming Values Our VISION

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

Voice of the Customer

- 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

Building New Operations

- Benchmarking best practices of successful organizations
- Exceeding customer expectations
 - Multiple but simplified access methods
 - Single point of contact to handle all aspects of taxpayers business
 - Calibrated compliance actions ensure everyone pays their fair share

Accomplishments to Date

- Fast Track Projects Implemented 95-96
 - Telefile; Tel - Assist
 - Tax Discovery Operations
 - Ks Integrated Collections System
 - Automated Call Management System
 - Audit Assessment Process Improvement
- Income Tax Imaging - 1997
- Policy Data Base and Issue Tracking - 1997

Future Implementations

- Compliance and Case Management
- 1998 Income Tax Channel Management
- Collections Case Management and Decision Analytics
- Integrated Tax System
 - Individual Income and Withholding 10-98
 - Corporation Income and Sales 8-99

1998 Income Tax Processing

- 1997 forms Telefile, Tel-Assist and Refund Status Line
- 1996 and 1997 K-40 Form Processing
- Redesigned workflow software and moved edits earlier in the process
- Improved Process, Job Design, Training and Temporary Staffing Models
- Status
 - User Acceptance Testing
 - Implementation January 19th

1998 Channel Implementation

- Redesigned software
 - AMS Team with Imaging Expertise
 - Improved audit trails
- Controlled Production
 - Temporary Staffing Plan
 - Management Processes
- Testing Quality
 - End to End
 - Volume stress test
- One year's experience under our belt

Revenues Earned

Revenues Transferred as of October 31, 1997	\$ 23.0
Estimated December 1997	.8

Under Construction

- Next 18 months
 - Operating two businesses - Old and New
 - Large amount of change
- Delays in service
- Much like a highway construction project
- Benefits
 - Improved services
 - Customers paying right amount of tax

Comprehensive, National Use Tax Collections Agreement

Status of Present Negotiations

A Long History

- *Bellas Hess case - 1967*
- *Quill case - 1992*
- *\$3 billion annually at stake*
- *\$15+ billion lost - just since 1992*

Senate Assessment & Taxation

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Attachment 3

Interests of the States

- *\$3 billion of new revenue annually*
- *Even playing field for main street merchants*

Direct Marketers' Interests

- *Reduce risk of inadvertent nexus - and a huge retroactive tax bill*
- *Set merchandising/marketing strategy without lawyers*
- *Reduce complexity and cost of compliance*

The Negotiations

- *Original focus: Voluntary collections agreement*
- *Present proposal: Simplified administrative system for limited contact taxpayers*

Major Provisions

- *“Inoculation” standards*
 - *2 year retroactive certification*
 - *No traditional nexus presence*
- *Clarify “grey” nexus areas*
 - *Allow limited traditional presence*
- *Unified Audit*
- *Quarterly payment*

Present Status

- *Formal negotiations concluded in December*
- *Key direct marketers subsequently withdrew support*
- *Marketers' present view unclear*

Options Available

- *States could put "agreement" in place*
- *Negotiations could continue*
- *Increase emphasis on a Congressional solution*
- *Increase enforcement actions against non-registered marketers having nexus*