

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 9:12 a.m. on March 17, 2010, in Room 783 of the Docking State Office Building.

All members were present.

Committee staff present:

Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Chris Courtwright, Kansas Legislative Research Department
Brandon Riffel, Kansas Legislative Research Department
Marla Morris, Committee Assistant

Conferees appearing before the Committee:

Don Saylor, Kansas Restaurant and Hospitality Association (KHRA)
Richard Cram, Kansas Department of Revenue
Representative Marvin Kleeb
Joan Wagon, Kansas Department of Revenue

Others attending:

See attached list.

Chairman Carlson opened the hearing on:

HB 2709 - Income tax deduction for certain excess employer social security taxes paid

Staff Gordon Self, Office of the Revisor of Statutes briefed the Committee on **HB 2709**. The bill is an income tax bill that deals with subtractions from federal adjusted gross income. In summary, he stated the purpose of the bill is to provide employers who pay the excess social security wages the benefit from a tax standpoint, whether they take it as a deduction or a credit at the federal level. He stood for questions.

Don Saylor, Kansas Restaurant and Hospitality Association (KRHA), spoke in favor of **HB 2709**. The KRHA supports the bill allowing individuals to claim a deduction for amounts paid on social security taxes for employees tip amounts, and encouraged the Committee to allow this deduction so that true taxable income is presented (Attachment 1). He stood for questions.

Richard Cram, Kansas Department of Revenue, presented testimony in opposition to **HB 2709**. Mr. Cram stated the proposed subtraction modification has an estimated negative fiscal impact of \$236,000 for FY 2011 and has administrative costs of \$145,500 for implementation (Attachment 2). The Department feels that given the shortage of revenue, this is not a good year for any proposal that has a negative fiscal impact and additional administrative costs. He stood for questions.

Chairman Carlson directed the Committee to the following written testimony in support of **HB 2709**:

Steve Schmidt, CFO and Partner of Stockade Companies (Attachment 3)
John C. Hendricks, Controller, L.L. & G., Inc. (Attachment 4)

Chairman Carlson closed the hearing on **HB 2709**.

The Chair opened the hearing on:

HB 2740 - Amnesty from assessment or payment of penalties and interest with the respect to certain taxes

Staff Chris Courtwright briefed the Committee on **HB 2740**. The bill provides a tax amnesty for July 1 through December 31, 2010. The amnesty provision would apply to the major state taxes including the Privilege Tax, Estate Tax, Income Tax, Withholding and Estimated Taxes, Cigarette and Tobacco Taxes, Sales and Use Taxes, Liquor and Severance Taxes. Mr. Courtwright presented circumstance that would not allow a tax amnesty. He stated **HB 2740** is very similar to the 2003 Tax Amnesty bill. He stood for questions.

CONTINUATION SHEET

Minutes of the House Taxation Committee at 9:12 a.m. on March 17, 2010, in Room 783 of the Docking State Office Building.

Representative Marvin Kleeb introduced **HB 2740** and testified in support of the bill. **HB 2740** would provide a tax amnesty under certain circumstances that would forgive penalties and interest assessed on certain unpaid taxes if the outstanding liability is paid in full. The intent is to expedite the collection of unpaid taxes into fiscal 2011 thereby helping to cover the shortfall of revenues (Attachment 5). He stood for questions.

Joan Wagnon, Kansas Department of Revenue, testified in opposition to **HB 2740**. Secretary Wagnon provided the Committee with information on the fiscal note for **HB 2740** and a report prepared by the Compliance Enforcement Department providing important facts, figures and a comparative analysis of the impact of a Tax Amnesty (Attachment 6). She stood for questions.

Chairman Carlson closed the hearing on **HB 2740**.

The next meeting is scheduled for March 18, 2010.

The meeting was adjourned at 10:23 a.m.

HOUSE TAXATION COMMITTEE

DATE: March 17, 2010

NAME	REPRESENTING
Michelle Butler	Cap. Strategies
Larry Beebe	KDOT
Robin Harris	KDOR
Jeff Scott	KDOR
Aron Montaini	KDOR
Larry R. Baird	LKM
Julie Hein	How Law Firm
Don Sawyer	KATHA



Testimony Re: HB 454 – Income Tax Deduction for Employer Paid SS Tax
House Taxation Committee
On behalf of
Kansas Restaurant & Hospitality Association
March 17, 2010

Chairman Carlson and Members of the Committee:

My name is Don Sayler and I am the CEO for the Kansas Restaurant & Hospitality Association (KRHA). KRHA is the leading business association for restaurants, hotels, motels, country clubs and allied business in Kansas. Along with the KRHA Educational Foundation, the association works to represent, educate and promote the industry of hospitality in Kansas.

Current Kansas tax law, which starts with federal adjusted gross income, does not allow a deduction for employer paid social security taxes on employee tips when the employer has claimed a federal credit for this amount. Federally, employers have more of a tax advantage by removing the deduction and claiming a tax credit. However, for their Kansas return, they get neither a deduction nor a credit for the expense incurred.

HB 2709 simply would allow employers to reinstate the deduction for the amount claimed as a credit on their federal return, as a subtraction from KS adjusted gross income.

We are aware of the budget concerns this year for the SGF. At the point that this testimony was drafted, a fiscal note for HB 2709 had not been prepared.

KRHA supports HB 2709 allowing individuals to claim a deduction for amounts paid on social security taxes for employees tip amounts. We encourage you to allow this deduction so that true taxable income is presented.

Thank you for allowing me to provide testimony on this important issue and I will be happy to yield to questions.

House Taxation
Date: 3-17-10
Attachment: 1

House Taxation Committee

Richard Cram

March 17, 2010

Department Concerns with House Bill 2709

Representative Carlson, Chair, and Members of the Committee:

House Bill 2709, as introduced, would amend K.S.A. 2009 Supp. 79-32,117 to allow a new subtraction modification from federal adjusted gross income for excess employer social security taxes paid by a taxpayer for tips received by an employee for which the taxpayer claimed the credit provided by section 45B of the federal internal revenue code. No subtraction modification is allowed for excess employer social security taxes when such amount was claimed as a deduction for federal income tax purposes.

This subtraction modification has an estimated negative fiscal impact of \$236,000 for FY 2011 and also has administrative costs of \$145,500 in order to be implemented, due to the extensive amount of programming involved any time that a new subtraction modification is added. Our fiscal note is attached.

Given the shortage of revenue that the State is currently facing, this is not a good year for any proposal that has a negative fiscal impact and also involves significant administrative costs.

2010 House Bill 2709b Revised Fiscal Note

Introduced as a House Bill

Brief of Bill

House Bill 2709, as introduced, allows a subtraction from federal adjusted gross income for excess employer social security taxes paid by a taxpayer for tips received by an employee for which the taxpayer claimed the credit provided by section 45B of the federal internal revenue code. No subtraction modification is allowed for excess employer social security taxes when such amount was claimed as a deduction for federal income tax purposes.

The effective date of this bill is on publication in the statute books for tax years beginning after December 31, 2009.

Fiscal Impact

Passage of this bill could reduce state general fund revenues by about \$236,000 in fiscal year 2011.

No information is available to accurately estimate the amount taxpayers would claim for this subtraction modification. Currently at the federal level taxpayers may deduct excess employer social security taxes as an expense or claim a credit equal to the amount of the excess employer social security taxes paid. The credit is not refundable but may be carried back 3 years and carried forward 15 years. This bill would allow a taxpayer that is claiming the credit at the federal level to also subtract the excess amount from federal adjusted gross income for Kansas income tax purposes.

This credit is part of the federal general business tax credit and is claimed on Form 8846, Credit for Employer Social Security and Medicare Taxes on Certain Employee Tips.

Assuming about 30,000 employees work in the food and beverage industry impacted by this bill, that they all make \$2 above minimum wage and work at least 30 hours a week, the impact to Kansas would be a reduction of about \$236,000 ($30,000 \times \$2 \times 1,500 \text{ hrs} \times 7.5\% \text{ FICA} \times 3.5\% \text{ ave tax rate}$) in fiscal year 2011 state general fund receipts.

Administrative Impact

The estimated costs necessary to implement this bill are \$145,580 in fiscal year 2011. Those costs include about \$122,400, or 1,360 hours, of contract APA programming time. The estimated user testing resources necessary to implement the bill are \$20,880, or 720 hours, for testing the new programs. One time costs for form changes is about \$2,300

S T O C K A D E

COMPANIES, LLC

March 15, 2010

Testimony

**Re: HB 2709 – KS Income Tax Effect for Employer Paid Payroll Taxes on Tips
House Taxation Committee
March 15, 2010**

Chairman Carlson and Members of the Committee:

My name is Steve Schmidt and I am the CFO and a Partner of Stockade Companies, a restaurant franchisor with Sirloin Stockade, Coyote Canyon and Montana Mike's Steakhouse franchised locations throughout the Midwest including the State of Kansas.

Current Kansas tax law does not allow a deduction for employer paid social security taxes on employee tips when the employer has claimed a federal credit for this amount. HB 2709 simply would allow employers to subtract the amount claimed as a credit on their federal return from KS adjusted gross income.

Stockade Companies supports HB 2709 allowing businesses to receive a modification to Kansas deduction for the amount of federal payroll taxes paid.

Thank you for allowing me to provide testimony on this important issue.

Sincerely,



Steven L Schmidt
Partner/CFO
Stockade Companies, LLC
2908 N. Plum
Hutchinson, KS 67502

6

House Taxation
Date: 3-17-10
Attachment: 3

March 12, 2010

To: House Taxation Committee
Statehouse
Topeka, KS

Dear Chairman Carlson and Members of the Committee:

My name is John Hendricks and I am the Controller for the L. L. & G., Inc. (LL&G). LL&G and its affiliated companies are franchisees of Sirloin Stockade, Coyote Canyon, and Montana Mike's restaurants.

LL&G and its affiliated companies are Sub Chapter "S" corporations, which means the net income from these companies flows through to each of the individual shareholders. We believe these shareholders are being treated in an unfair manner, in that they are required, under present law, to report a taxable income figure to the State of Kansas that is greater than the true taxable income of the restaurant.

Under Federal law, the company is permitted to deduct as an expense the additional taxes paid on tips reported by employees, or, we may take a tax credit for the additional taxes. The most beneficial tax treatment is to take the tax credit.

The State of Kansas generally follows Federal law in determining taxable income. One discrepancy is the treatment of taxes paid on tips. If we elect to claim the additional taxes as an expense on our Federal tax return, then the taxable income flowing to the State of Kansas is correct. However, if we elect to take tax credit for the additional taxes, which is the most favorable tax treatment, we are not permitted to make an adjustment to the Kansas taxable income for the taxes paid on the tips.

LL&G, its affiliated companies, and shareholders support HB 2709. It is our understanding this bill, should it become law, will allow us to make the appropriate adjustments to the Kansas taxable income so that it will not exceed the true taxable income of the restaurant.

Should you have any questions regarding this matter, please feel free to contact me.

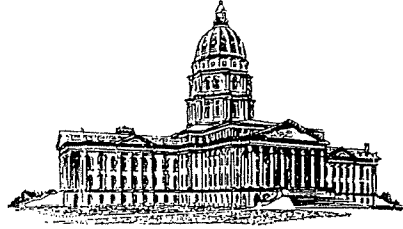
Sincerely,



John C. Hendricks
Controller

STATE OF KANSAS
HOUSE OF REPRESENTATIVE

MARVIN G. KLEEB
STATE CAPITOL
300 SW 10TH AVENUE
TOPEKA, KANSAS 66612
785-296-7663
marvin.kleeb@house.ks.gov



MARVIN G. KLEEB
48TH DISTRICT

COMMITTEE ASSIGNMENTS

TAXATION
JUDICIARY
TRANSPORTATION

DISTRICT OFFICE:
14206 EBY
OVERLAND PARK, KANSAS 66221
(913) 707-4535
marvin@marvinkleeb.com

No committee is more acutely aware of the challenging fiscal situation confronting Kansas than the Taxation Committee. We have been asked by many legislators, groups and individuals to consider every possibility of raising additional revenue to fund education and programs for our most vulnerable citizens.

HB 2740 would provide a tax amnesty under certain circumstances that would forgive penalties and interest assessed on certain unpaid taxes if the outstanding liability is paid in full. The intent is to expedite the collection of unpaid taxes into fiscal 2011 thereby helping to cover the shortfall of revenues.

Just ten months ago, the Revenue Department indicated to the Senate Assessment and Taxation Committee that \$22,000,000 in FY 2010 SGF receipts could be expected through such an amnesty program. Last session, we granted special settlement authority to the Revenue Department to help collect some \$35,000,000 in tax liabilities from the business community.

I would urge the Tax Committee's consideration of HB 2740 to bring much needed revenues into the state.

3

House Taxation
Date: 3-17-10
Attachment: 5

2010 House Bill 2740b Fiscal Note

Introduced as a House Bill

Brief of Bill

House Bill 2740, as amended, provides for a tax amnesty from interest and penalty assessments within the amnesty period from July 1, 2010 to December 31, 2010.

Section 1 provides that amnesty shall apply only to tax liabilities due and unpaid for tax periods ending on or before December 31, 2009, except for privilege, income and corporate taxes which shall apply to periods ending on or before December 31, 2009.

The following taxes administered by the department will be in the amnesty program:

- Privilege Tax
- Estate Tax
- Income Taxes
- Withholding and Estimated Taxes
- Cigarette and Tobacco Taxes
- Retailers Sales and Compensating Taxes
- Local Sales and Use Taxes
- Liquor Enforcement Taxes
- Liquor Drink Taxes
- Mineral Severance Taxes

Amnesty shall not apply if any of the following occurs on or after July 1, 2010:

- Taxpayer has received notice of the commencement of an audit;
- An audit is in progress;
- Taxpayer has received notice of an assessment pursuant to K.S.A. 79-2971 or 79-3643;
- Taxpayer has received notices of a proposed or estimated assessment or notice of assessment as a result of an audit;
- Time to administratively appeal an issued assessment has not yet expired; or
- An assessment resulting from an audit, or any portion of such assessment is pending in the administrative appeals process before the secretary, COTA or the judicial review process.

Amnesty shall not apply to any matter this is the subject of an assessment, or any portion of an assessment, which has been affirmed by a reviewing state, federal, district or appellate court.

Amnesty shall not apply to any party to any criminal investigation or to any civil or criminal litigation that is pending in any court of the United States or this state for nonpayment, delinquency or fraud.

The bill provides that upon written application on forms prescribed by the secretary and upon compliance with the provisions of this bill the Department of revenue shall not seek to collect

House Taxation
Date: 3-17-10
Attachment: 6

any penalty or interest which may be applicable with respect to taxes eligible for amnesty.

If a taxpayer participates in the amnesty program that election shall constitute an express and absolute relinquishment of all administrative and judicial rights of appeal with respect to such tax liability.

No tax payment received pursuant to the amnesty program shall be eligible for refund or credit.

No payment of penalties or interest made prior to July 1, 2010 shall be eligible for amnesty.

Nothing in this bill shall be interpreted to prohibit the department from adjusting such tax return as a result of a federal, department or other state agency audit.

Fraud or intentional misrepresentation of a material fact in connection with an application for amnesty shall void such application and any waiver of penalties and interest from amnesty.

The effective date of this bill is on publication in the statute book.

Fiscal Impact

Passage of this bill will increase fiscal year 2011 state general fund revenues about \$10.0 million.

It is estimated that during the amnesty period of July through December 2010, that approximately \$10.0 million in tax liabilities that are currently due and unpaid will be collected above the current trend. Based on current realizable value of about \$105 million, an amnesty program would probably generate between \$8-\$10 million SGF receipts in fiscal year 2011 and create a reduction in SGF receipts of a similar amount in fiscal year 2012.

The net realizable value in fiscal year 2011 is substantially less than in 2003, the debt is much more current, which increases the odds of collection, and we are achieving close to \$10 million in growth in delinquent tax collections over each of the last 4 years. An increase of \$8- \$10 million SGF above the current pattern is what could be expected.

Administrative Impact

Administrative costs to implement this bill are estimated to be about \$925,700 in fiscal year 2011.

IS costs are estimated to be about \$25,200, or 280 hours, of contract programming salary to develop and implement a new tax type.

Tax Operations costs are estimated to be about \$900,500 in fiscal year 2011. Those costs include \$900,000 for 45 temporary employees to process and collect the anticipated amnesty revenues over the 180 days of the amnesty period. Also required is an estimated \$3,500, or 120 hours, to test the new programs associated with tracking and monitoring the amnesty payments.

Lessons Learned – 2003 Tax Amnesty

That was then, this is now

Important Facts, Figures, and Comparative Analysis of the impact of a Tax Amnesty

Tax Administration Amnesty:

1. A program which allows a time frame for individuals and businesses who have not filed or registered with the department, a window of opportunity to do so without financial penalty and/or interest, to come clean and become compliance ... so to speak.
2. A program which allows a time frame for those owing established tax debt an opportunity to Pay In Full the principal debt amounts for the benefit of waived penalty and/or interest, to start with a clean slate ... so to speak.

2003 Amnesty Program Application Figures – ‘Participation’

- 15,021 applications for amnesty accepted
 - a) Only 283 were new, previously unknown registrations who came forward to get compliant. (*only 1.8% of all the applications*)
 - i. 101 - 36% were Individual Income Tax
 - ii. 45 - 16% Sales Tax
 - iii. 137 - 52% Remaining Tax Types
- 283 nonregistered/nonfiled applicants coming forward is not a good result, and this result is typical compared with other States experience.
- Of the 15,021 applications, 14,738 settled their tax debt within the guidelines of the Amnesty Program.

2003 Amnesty Program: Consisted of two parts; *Amnesty I* and *Amnesty II*

- ***Amnesty I – FY02: Consisted of Accelerated Case Settlements of audits, appeals, lawsuits, and hearings.***
 - Net Result: \$21.5 million collected
 - \$7 million in penalty and interest abated
 - 25% of the total debt value abated
- ***Amnesty II - FY03: Consisted of ‘on the books’ Accounts Receivable delinquencies and the requirement of all missing non-filed tax returns.***
 - Net Result: \$30.9 Million collected
 - \$19 million in penalty and interest abated
 - 38% of the total debt value abated
- **Summary**
 - ***Amnesty I and Amnesty II combined:***
 - Approx. \$80.5 million in debt
 - \$54 million collected
 - \$26 million written off
 - Debt devaluation of 33% (*reflected in the Amnesty Bounce the following 2 fiscal years*)

Commentary; Lessons Learned:

- The goal of finding new registrations did not meet a significant result. Only 283 new registrations resulted from the 2003 amnesty program. Current Department of Revenue matching with Department of Labor programs are identifying unregistered and non-filed entities and have resulted in well over 5,000 discoveries in the last few years. This is much more effective and yields a greater result. We have the wage proof, and in many cases, the taxpayers simply pay the bill. Amnesty does not provide a dataset to search and/or match.
- Several other states offering amnesty programs report similar results. Current compliance initiatives, and discovery programs and continuously streamlining our case management collection practices result in much greater results than amnesty programs.
- Amnesty resulted in overall debt devaluation. Much of the Penalty and Interest abated for the program, \$26 M, could have been recovered with our operating methodologies.
- Accelerated resolution on current collection accounts being “worked” resulted in a \$20 million negative bounce in recovery over the following two fiscal years. So in essence, the Amnesty provided an accelerated cash flow, pulling that cash flow out of the following two fiscal years.

Today’s Economic Climate and Payment Indicators:

Other impacts of amnesty programs: From our own experiences and through multiple collaborative meetings with other states in the Federation of Tax Administration, Midwest States Association of Tax Administrators, etc. the Kansas Department of Revenue agrees that frequent amnesty programs conditions, or basically trains taxpayers not to not file and/or pay their outstanding tax debts timely, but to simply wait until the next Amnesty is offered.

Those trying to game the system of frequent Amnesty Programs work to fly under the radar, utilizing the State’s tax revenue for operating capital until the next Amnesty is offered. Evidence suggests those taxpayers are basically using the State as a free bank during these instances because the Amnesty generally offers a waiver of penalty and interest – no penalty for unlawful actions.

- Louisiana and Missouri for instance, has offered a number of amnesty programs in recent years and reports trends of reductions in voluntary tax compliance. Taxpayers become accustomed, or conditioned to simply wait for the next amnesty, penalty free.
- In those situations, the State is creating a free loan atmosphere to certain taxpayers creating an unfair competitive advantage for honest taxpayers filing and paying lawfully.

Current Accounts Receivable Recovery Inventory Characteristics: Our current delinquent debt inventory composition is substantially different than it was in 2003.

Currently...

- 64% of the AR total consists of tax assessments. If an individual or business does not file, the State can file for them in the form of set-up returns. We create tax assessments which are inflated exaggerations of actual liability as strong incentive to file, but this is done mostly because KDOR does not have the detailed financial information necessary to calculate the actual liability owed.
- Tax assessments are worth approximately 8% of their true value.
 - Current Assessed AR: \$433,069,722
 - Estimated Value: \$34.6 million
- The remainder of the AR, consisting of filed tax return liabilities, is worth about 50% of our on the booked value.
 - Current Filed Liabilities AR: \$157,356,206

- Estimated Value: \$78.6 million
- Total realizable value of KDOR's AR is approx. \$113.2 million of viable debt that would be suitable for amnesty. **At current AR Recovery pace we are exceeding the realizable value estimates.
- At current (FY2010) week ending Feb. 12, KDOR AR recovery is \$90 million and running at \$7.9 million ahead of FY2009's pace, or +8%. We have a sound recovery program.
- From the time of the bottom dip of the last amnesty "bounce" (FY2005), AR recovery has grown every year at a pace averaging \$11.1 million, with FY2009 ending at \$140 million, this was a 9 year historic pace, each year outpacing the previous, and we are still performing at this level. Please refer to the charts provided.
- At current new debt referral pace, 82% of all those new debt referrals are resolved within 74 days. This constitutes 62% of the referred debt value. Collection overhead is significantly lower in these first 74 days, because the debts cure quickly.
- No debt charge offs occurred many years prior to the 2003 amnesty so there was a good deal of very old, unsubstantiated debt in those totals. We've since cleaned all of that up establishing an annual Charge Off program based directly on KSA 79-3233 (g) (i), 79-3618 (b), 12-1692, 41-501, 79-3301, 79-3370, 79-3401, 79-3490, 79-34108, 79-3817, 79-4101, and 79-41a01.

*****Accounts Receivable in 2003 consisted mainly of older, aging and converted from old computer system liabilities. Today's AR inventory characteristics are a sharp contrast to the inventory of 2003. Today, the debt is newer, cleaner and collected much more efficiently.***

Current State of the Economy Factors:

- We are experiencing that the number of payment plans being entered into continues to increase every year, in strong part because of our growing efficiencies ... we find them, or get to them much quicker ... however, it is important to note:
 - Scheduled payment amounts are decreasing; i.e. the amount people can pay monthly is on the decline.
 - Duration of the payment plans are increasing (result of lower payments) because they need to spread the payments out over more time.
 - Usage of credit cards as a payment method is also increasing, and the amount of those payments are decreasing similarly to the monthly payment amounts. In many instances, people are paying their monthly installments with their credit cards.
 - Disposable income has stalled; therefore we are seeing the ability to pay declining for short payment plans.
- This in turn raises the question for amnesty.
 - Amnesty requires a Payment in Full and that all outstanding non-filed periods to be filed to create a "clean slate" for the taxpayer to start over in compliance. However economic evidence points to a declining taxpayer ability to pay off debt in full.
 - Business practicality becomes a major factor.
 - We are currently recovering bad debt at an increasing success rate of around \$11.1M per fiscal year due to multiple compliance programs developed and implemented.
 - Instituting an Amnesty Program is an extremely manual process. We would have to take collectors off the collection phones, Field Agents off investigations and recovery of incoming new debt would start to bottleneck negatively impacting the current successful momentum of growing recovery.

KDOR Compliance Initiatives Since 2003

Development of Field Services:

- Civil Tax Enforcement
- Field Investigations
 - Delinquencies not resolving in the previous mentioned 74 days enter into one of the Field Services case management agent intervention up to and including seizure of assets if required.
- Contracted Collection Agencies
 - Four external collection agencies used to aid in the recovery of aged delinquent debt.
 - This business strategy has allowed KDOR to reach beyond our jurisdictional boundaries to recover bad debt in other States, something that was not being utilized in 2003. These contractors aid in the forward movement of current case inventory more efficiently to recover bad debt.
 - One of our collection contractors does nothing but track down bad debt the KDOR has charged off its books in which we deemed uncollectible for reasons such as ‘taxpayer cannot be located’, ‘responsible party cannot be located’, ‘assets that were previously outside our jurisdictional boundaries’. We send this contractor those carefully selected debts, they skip trace and search the country to find taxpayer who have evaded our reach, and have been successful recovering millions of dollars we had written off. This is basically gravy to the State ... we reinstate the debt and deposit the money.

Creation of Business Intelligence Discovery Efforts:

- Expanded technology and data use/understanding through the use of data-mining and data-warehousing, which has led to substantial increases in “discovery” of unregistered and non-filed debt.
 - Current AR inventory is 64% assessments of non-filed, underreported tax liabilities.
 - 2003 AR inventory consisted of 25-30% assessments.
 - Increase of assessments is the indicator that multiple discovery projects implemented are producing great results.
 - We are continually developing new and effective recovery methodologies.
 - Compliance Enforcement has evidenced 8 historic recovery years in the last 10 (please refer to provided chart).
 - More Discovery Programs are in development.
 - Self Serve Web Based Tax Clearance; cutting edge progressiveness on the national tax administration scene.

All of the aforementioned AR recovery efforts are the result of years of developing and implementing successful business strategies. These strategies have:

- Efficiently extended our abilities to resolve delinquencies.
- Produced the ability to reach beyond our jurisdictional boundaries, which has eluded us for years.
- Charged off debts sent to collection agency resulting in “extra” collection monies.
- Greatly increased collection ability of delinquent taxes.

*Kansas Department of Revenue
Compliance Enforcement*

The Kansas Department of Revenue's Compliance Enforcement Division does not believe a general tax amnesty to be a fiscally responsible decision given the current positive momentum of our recovery efforts.

In addition, as shown on the 10 year AR Recovery Chart, the 2003 Amnesty created a negative revenue recovery bounce of nearly \$20 M impacting the next two fiscal years. Our experience, in addition to what other States have experienced, an Amnesty Program inserted in a robust recovery program which is producing exceptional results will negatively impact the State's delinquent tax collections efforts for years to come.

Compliance Enforcement - Taxation

10 Fiscal Year History

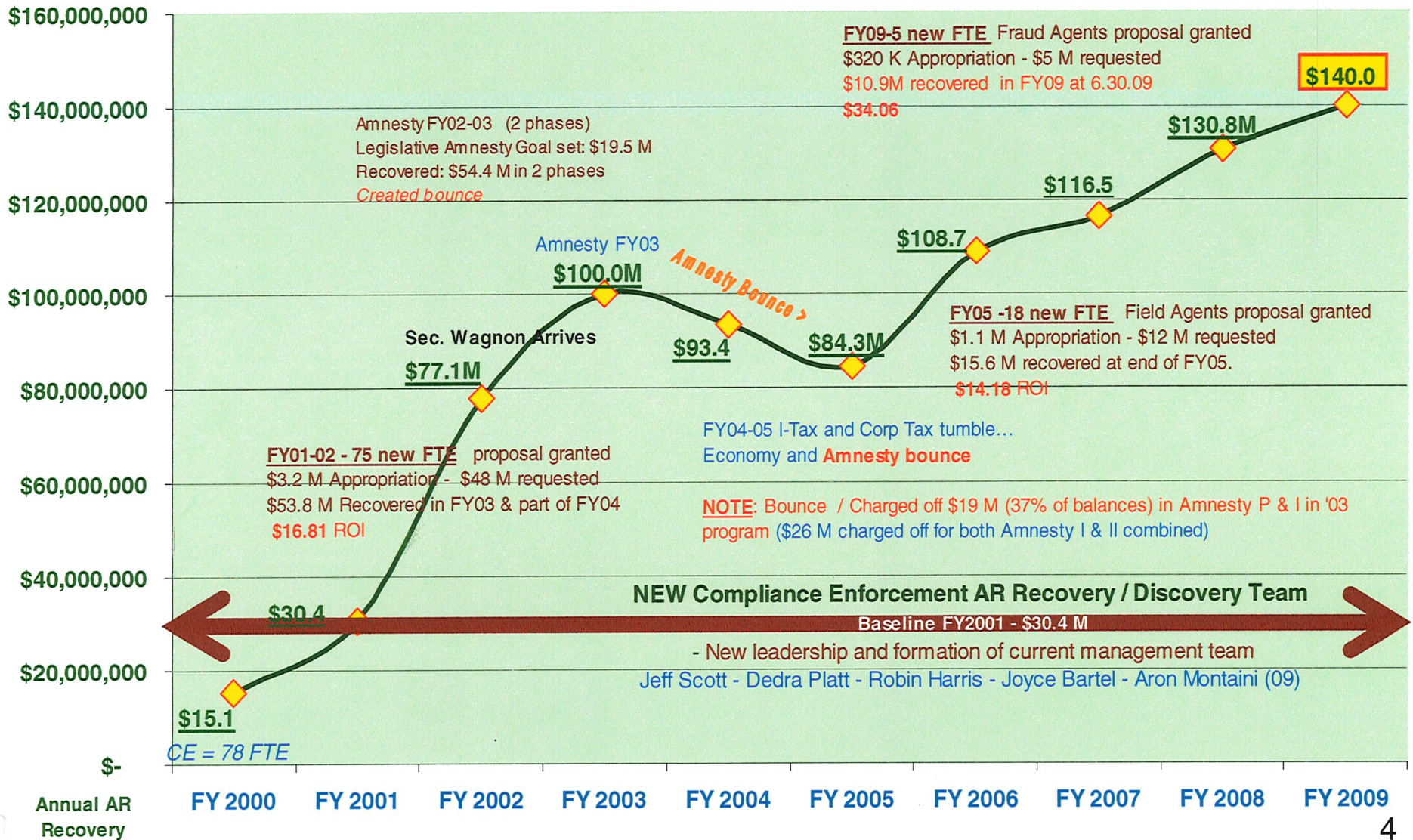
AR Recovery & Discovery FY2000 through FY2009

10 YR Notable - FY2000 vs FY2009 :

CE = 214 FTE equivalent

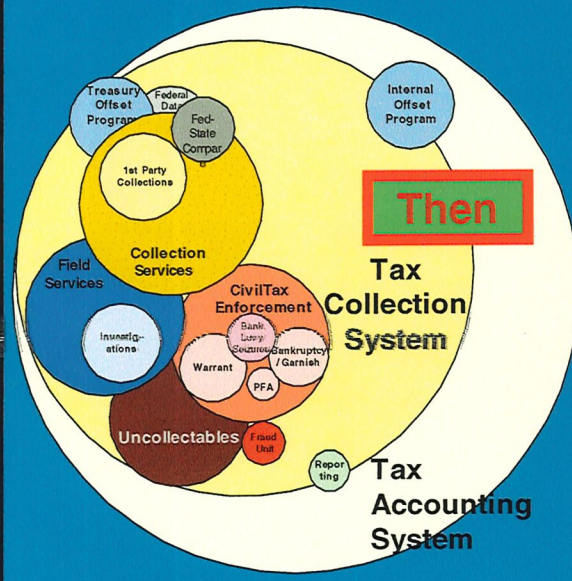
+174% FTE increase from FY00

+822% \$ increase since FY00



Recovery & Discovery Programs

As of February 2010 >



Status in FY 2001



Self Serve Web-Based Tax Clearance & Pay Plan Evolution

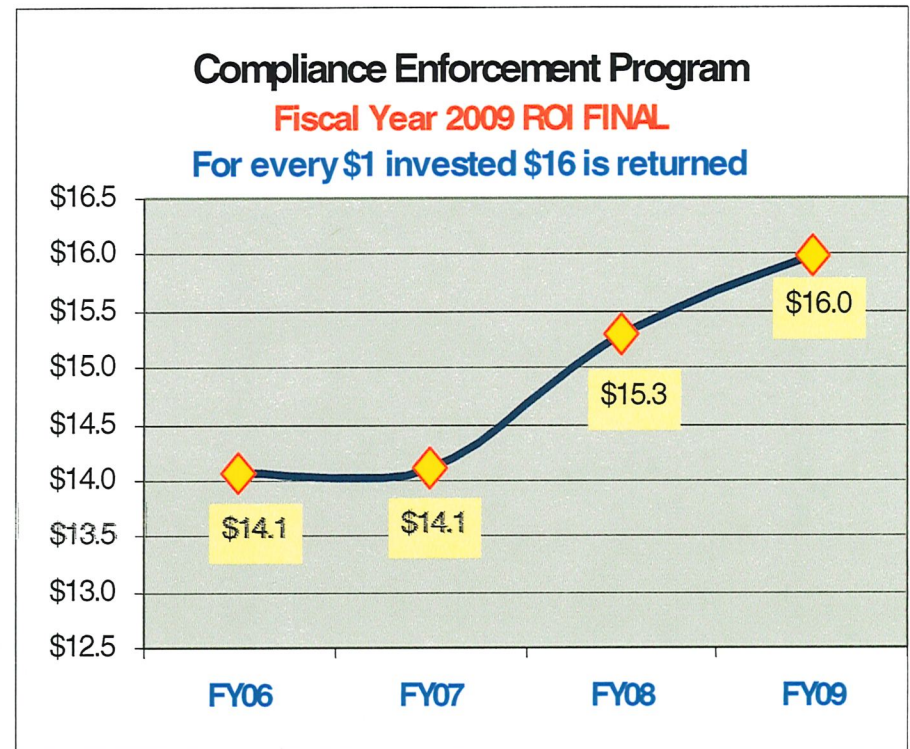
6-9

Compliance Enforcement

For every \$1 invested to operate Compliance Enforcement, we returned \$16 in AR recovery and discovery in FY09 ...

Exceptional return on tax dollar investment!

Kansas Department of Revenue	
Division of Taxation	
Compliance Enforcement Program	
Fiscal Year 2009 - FINAL TOTALS	
Program Return on Investment (ROI)	
<i>85410 & 85510 Object Codes Combined</i>	
Salaries (incl Fringe Benefits) \$	7,635,645
Operating Expenses \$	1,121,582
Total Program Investment \$	8,757,227
Fiscal Year 2009 AR Recovery/Discovery \$	140,064,046
ROI Dollars \$	131,306,819
ROI Ratio	16.0
1) Includes actual salaries with benefits, and temp workers.	
2) FY09 - For every \$1.00 dollar invested to operate Compliance Enforcement we returned \$16 to the State coffers.	

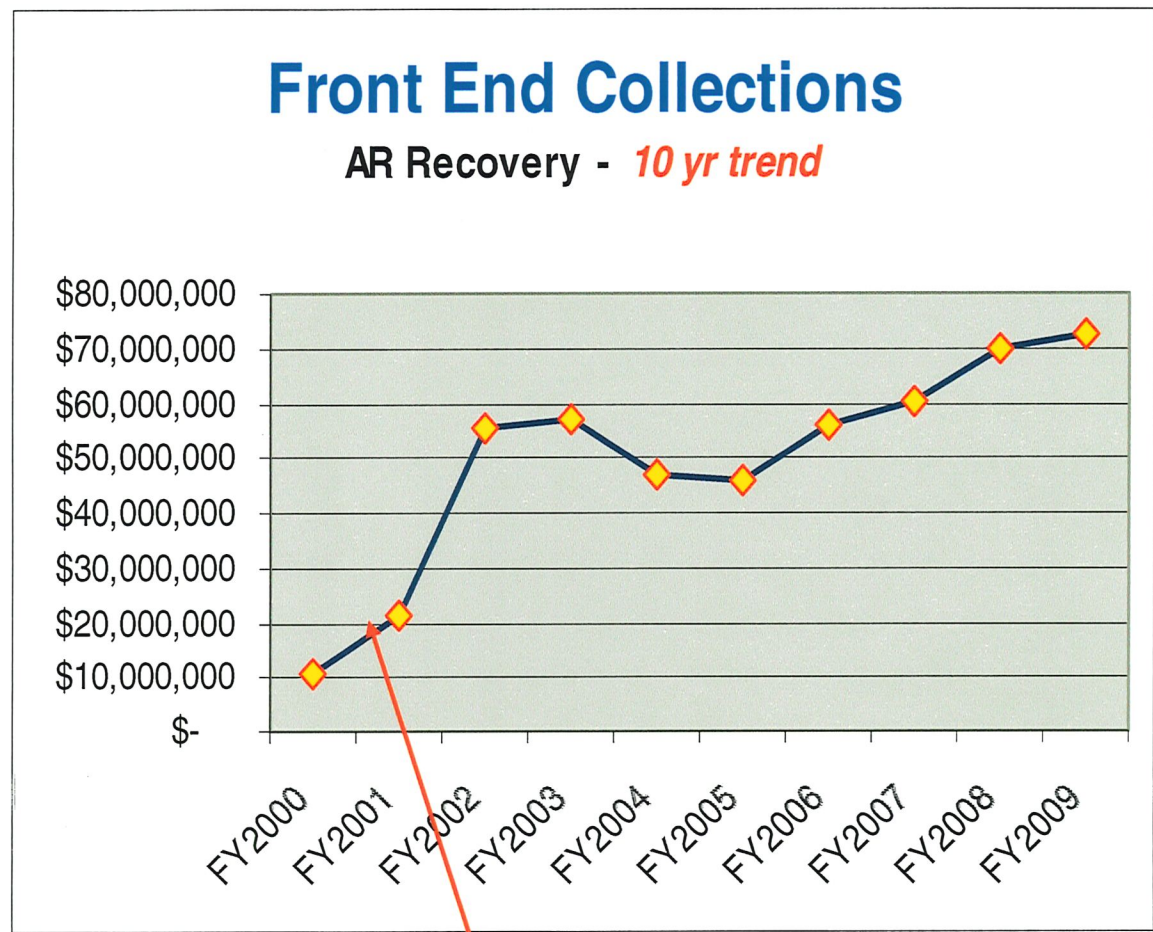


Compliance Enforcement

Fiscal Year	Recovered
FY2000	\$ 10,508,287
FY2001	\$ 21,237,921
FY2002	\$ 55,690,367
FY2003	\$ 57,287,025
FY2004	\$ 47,030,767
FY2005	\$ 45,688,566
FY2006	\$ 56,047,894
FY2007	\$ 60,318,930
FY2008	\$ 69,834,528
FY2009	\$ 72,777,813
10 years >	\$ 423,644,285

10 Year Revenue Growth

\$ 62,269,526 592.6%

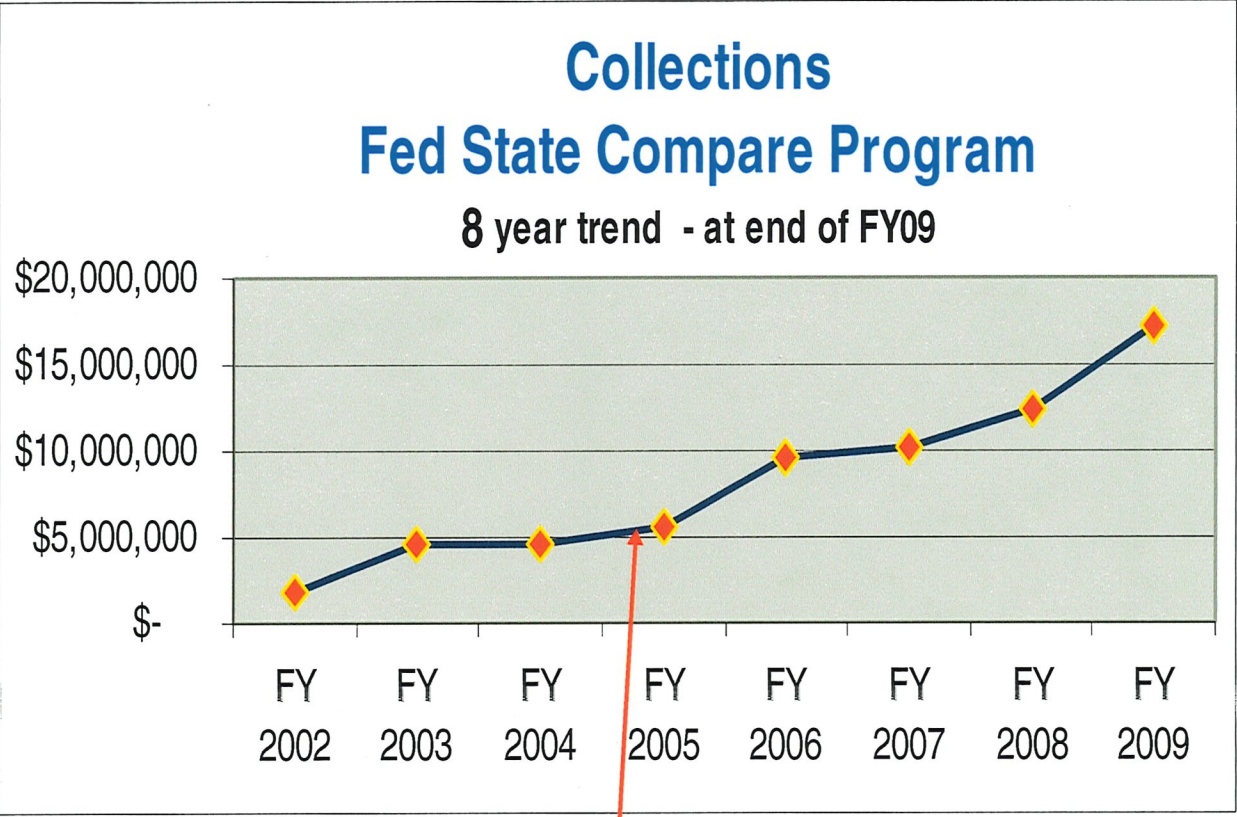


FTE added – legislative proposal approved

Compliance Enforcement

The Fed State Program is a subset program of Front End Collections
 These totals are included in Front End Collections total

FY 2002	\$ 1,772,832
FY 2003	\$ 4,643,182
FY 2004	\$ 4,638,380
FY 2005	\$ 5,632,466
FY 2006	\$ 9,686,722
FY 2007	\$ 10,191,007
FY 2008	\$ 12,376,942
FY 2009	\$ 17,144,289
Total to date	\$ 48,941,531

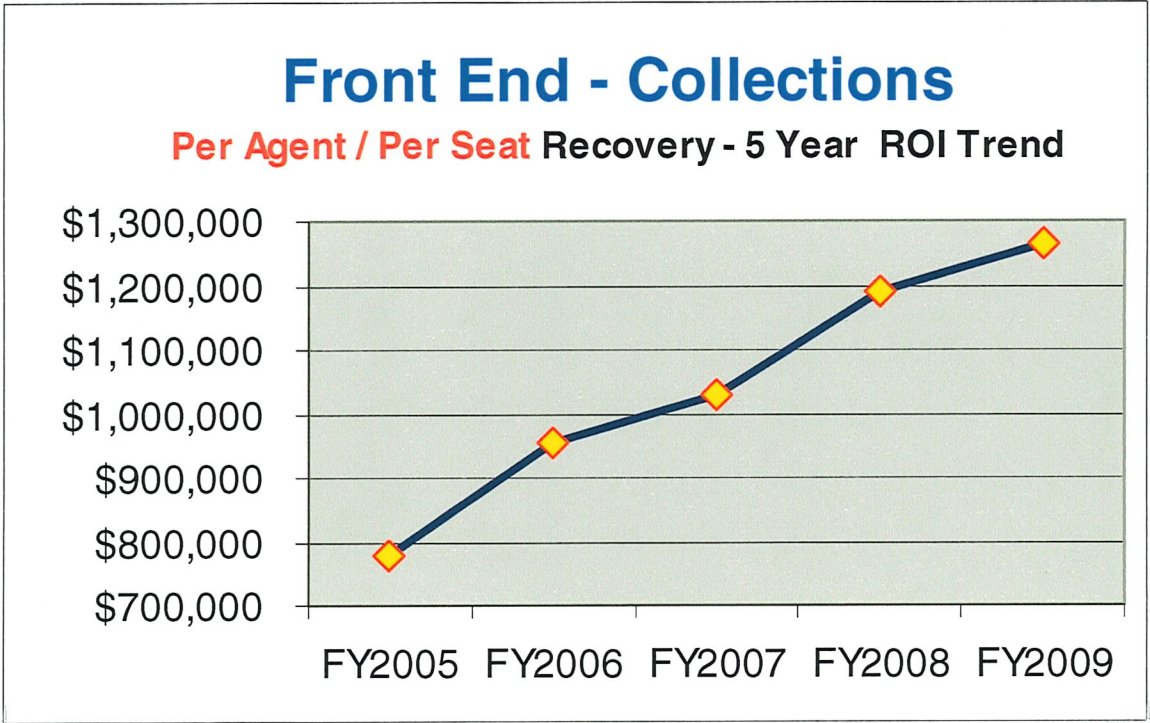


8 Yr Recovery Growth	\$ 15,371,457
8 Yr % Revenue Growth	867.1%

Team Restructured to grow program - FTE added

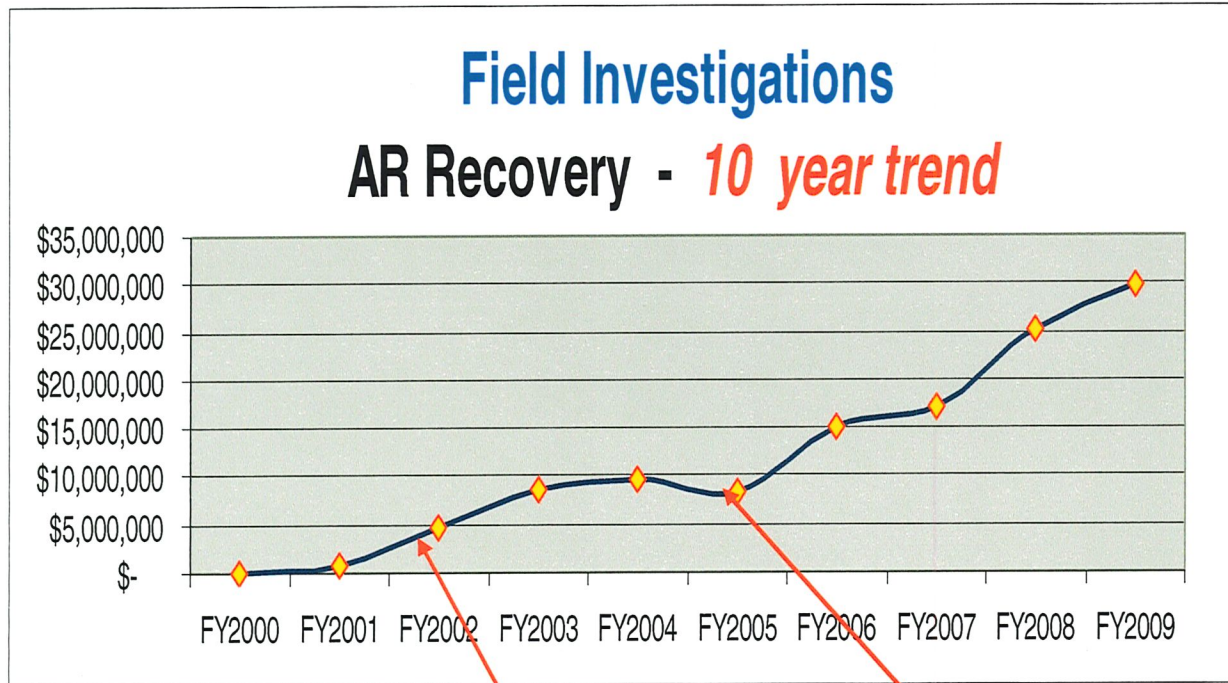
Compliance Enforcement

FY2005	\$	779,668
FY2006	\$	956,449
FY2007	\$	1,029,333
FY2008	\$	1,191,715
FY2009	\$	1,263,504



Compliance Enforcement

Field Services – Field Investigation



Fiscal Year	Recovered
FY2000	\$ 42,401
FY2001	\$ 731,385
FY2002	\$ 4,569,449
FY2003	\$ 8,597,528
FY2004	\$ 9,680,778
FY2005	\$ 8,242,717
FY2006	\$ 14,927,811
FY2007	\$ 16,986,808
FY2008	\$ 25,199,564
FY2009	\$ 28,541,587

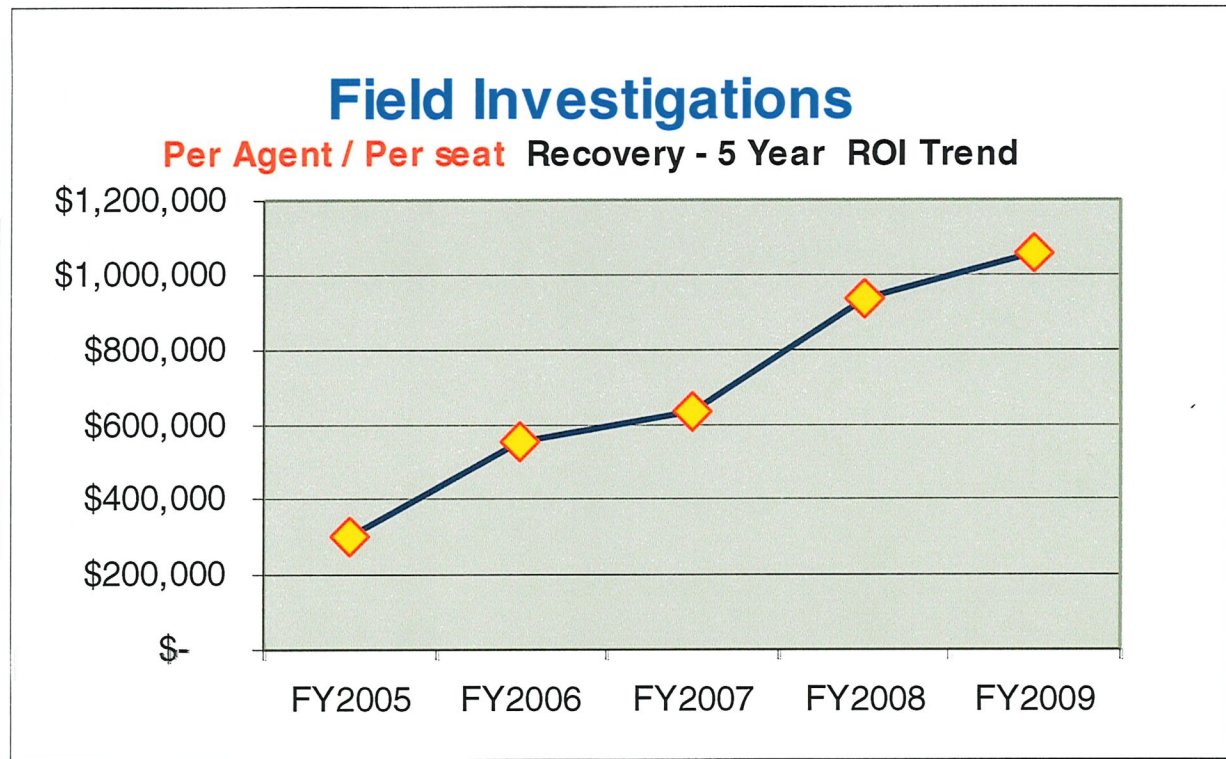
10 Yr Annual Growth >	\$ 28,499,186
% 10 Yr Growth >	67213%

New Field Agents added

New Field Agents added

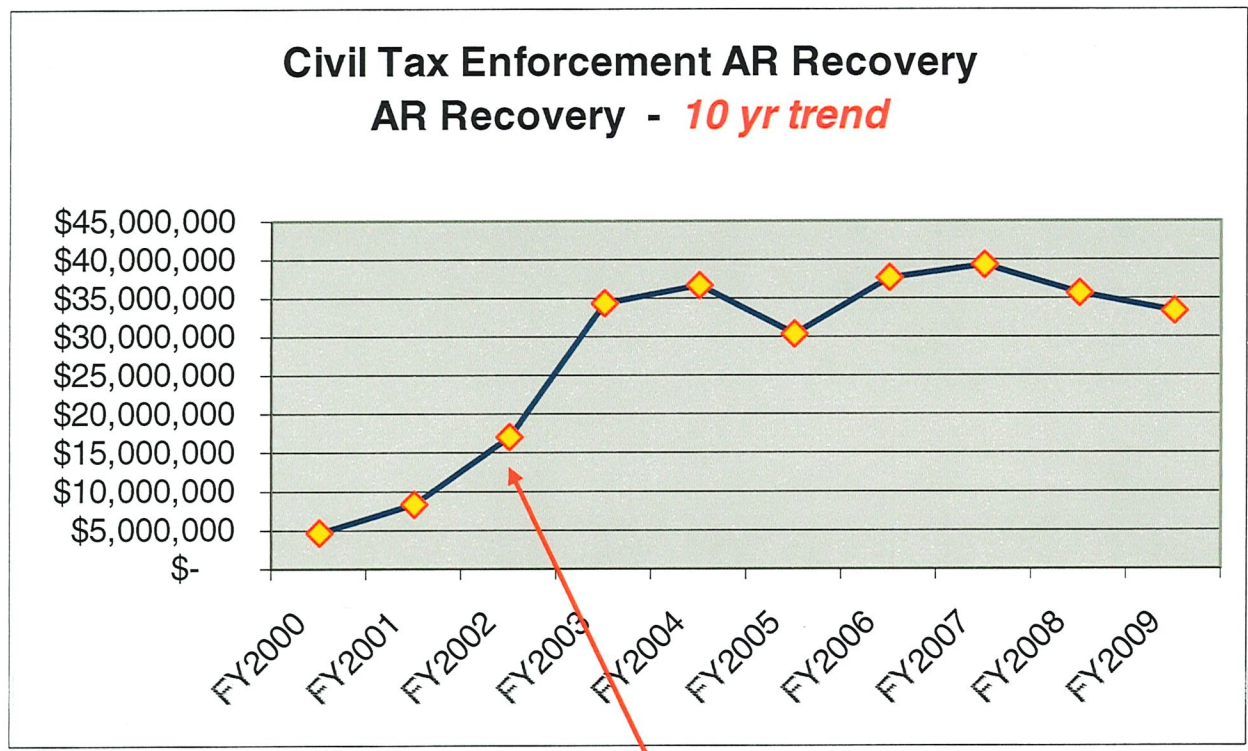
Compliance Enforcement

FY2005	\$	305,286
FY2006	\$	552,882
FY2007	\$	629,141
FY2008	\$	933,317
FY2009	\$	1,057,096



Compliance Enforcement

Civil Tax Enforcement AR Recovery AR Recovery - 10 yr trend



Fiscal Year	Recovered
FY2000	\$ 4,633,929
FY2001	\$ 8,435,997
FY2002	\$ 16,902,851
FY2003	\$ 34,185,029
FY2004	\$ 36,646,833
FY2005	\$ 30,382,974
FY2006	\$ 37,777,026
FY2007	\$ 39,210,620
FY2008	\$ 35,826,171
FY2009	\$ 33,278,002
10 years >	\$ 277,279,432

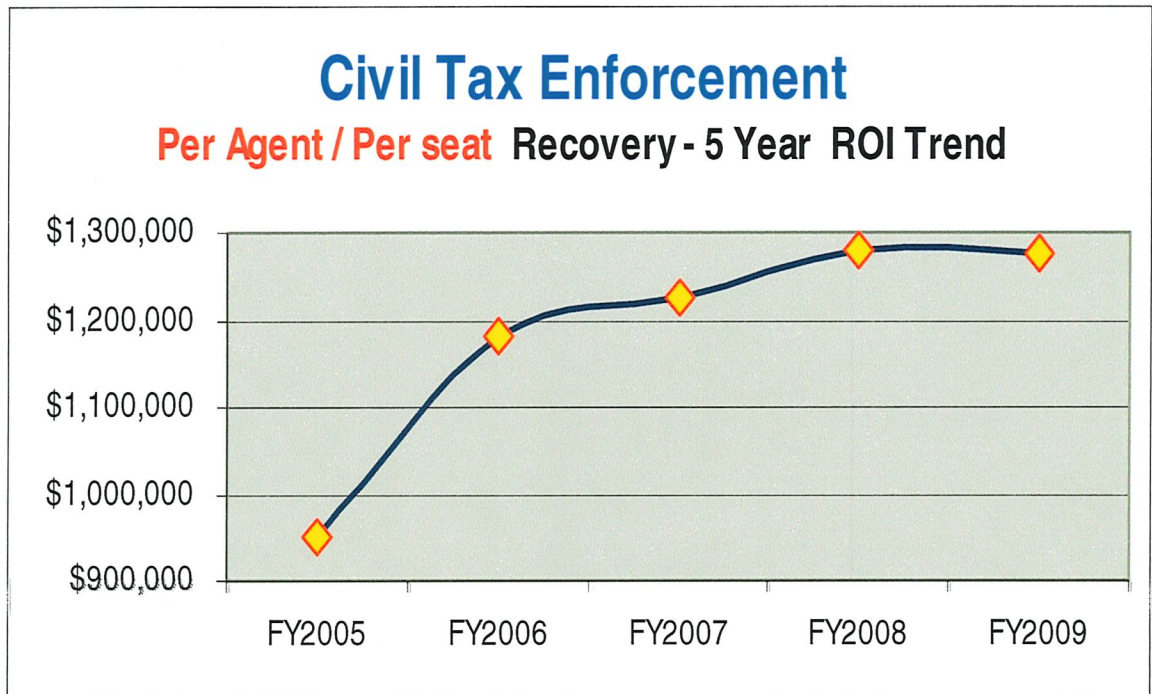
Recovery Increase In TEN years
\$ 30,886,342 101.7%

See Chart on next slide in reference to FY2008 Income Tax Recovery for CTE

FTE doubled – legislative proposal approved

Compliance Enforcement

FY2005	\$	949,468
FY2006	\$	1,180,532
FY2007	\$	1,225,332
FY2008	\$	1,279,506
FY2009	\$	1,276,111



Compliance Enforcement

FY2009 Legal Actions					
Field Services Warrant Execution Activities					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY2009 Total
<u>Court Cases Closed</u>					
Lien Payoff's	4,925	1,624	2,532	2,467	11,548
<u>Warrant Execution</u>					
Bank Levies	328	595	1,073	901	2,897
Till Taps	43	39	54	3	139
Garnishments	264	206	341	345	1,156
Asset Seizures	22	22	36	6	86
Vehicle Seizures	Started separating in 4th Qtr >			4	4
Asset Auctions	9	10	12	16	47
Active Fraud Cases	14	74	151	96	335
Closed Fraud Cases		32	62	17	111

Compliance Enforcement

Tax Fraud Investigation

Legislative Appropriation:

- \$320k for a promised attributable revenue return of
- \$5 Million to expand this Fraud Investigation Team

As shown:

Revenue attribution::

FY2009 is \$10,881,234

Return on Investment:

\$1 to \$34.06

Exceeding promised revenue attribution \$5.88 Million, or 118%!

COMPLIANCE ENFORCEMENT - CIVIL TAX ENFORCEMENT	
TAX FRAUD INVESTIGATION TEAM - FY2009	
http://www.ksrevenue.org/taxfraud.htm	
Report Last Updated	7.1.2009
TAX FRAUD TEAM	
FY 2009 ATTRIBUTABLE RECOVERY >>	\$ 10,881,239.04
WORKLIST / ACCOUNT REVIEWS	
REFUNDS STOPPED - REVENUE SAVED	\$ 3,799,190.39
REFUNDS ADJUSTED - REVENUE SAVED	\$ 44,669.65
INTEREST SAVED	\$ 2,439.03
TOTAL REVENUE SAVED / STOPPED FROM REFUND	\$ 3,846,299.07
TAX ASSESSMENTS - No reporting, or UnderReporting	
INCOME TAX ASSESSED	\$ 1,311,354.93
BUSINESS TAX ASSESSED	\$ 1,066,767.92
TOTAL UNREPORTED OR NON-FILED TAX ASSESSMENTS	\$ 2,378,122.85
RETURN ADJUSTMENTS - UnderReporting	
INCOME TAX BILLED	\$ 9,307.24
BUSINESS TAX BILLED	\$ 1,145,663.10
FRAUD PENALTY AND APPLICABLE INTEREST	\$ 3,501,846.78
TOTAL FUNDS SAVED	\$ 3,846,299.07
TOTAL FUNDS OWED/PAID	\$ 7,034,939.97