

Approved: 2/15/2011
Date

MINUTES OF THE HOUSE GOVERNMENT EFFICIENCY COMMITTEE

The meeting was called to order by Representative Mike Burgess, Chair, at 3:35 p.m. on January 31, 2011, in Room 546-S of the Capitol.

All members were present.

Committee staff present:

Julian Efird, Legislative Research
Iraida Orr, Legislative Research
Katherine McBride, Revisor of Statutes
Renaë Jefferies, Revisor of Statutes
Linda Herrick, Committee Assistant

Conferees appearing before the Committee:

Richard Cram, Kansas Department of Revenue

Others attending:

(see attached list)

Chair Burgess introduced Richard Cram, Director of Policy and Research, Kansas Department of Revenue. Mr. Cram introduced Kathleen Smith, tax specialist and expert on tax credits and business incentive programs, who accompanies him today. Mr. Cram noted that his presentation centers around the response to the Legislative Post Audit (LPA) report on tax credits concerning deficiencies in the data collection methodology. A copy of the response furnished last February to the Legislative Post Audit Department was provided (Attachment 1). There is some updated information that Ms. Smith has gathered which Mr Cram included in his report. Chair Burgess thanked Mr. Cram for his presentation.

Chair Burgess announced the briefings that will come before the Government Efficiency Committee the remainder of this week. Because of the snow storm predicted, the Chair reminded the committee to listen to the television station for possible legislative session cancellation, thus committee meeting cancellations.

The committee has not introduced a bill on performance measurements. Chair Burgess made a motion to request the introduction of a bill on performance measurements, Representative Ruiz seconded the motion, and it was unanimously approved by the committee members.

There was no other business to come before the committee.

The next meeting will be the day the Legislature comes back to work after the snow storm.

The meeting adjourned at 4:13 p.m.

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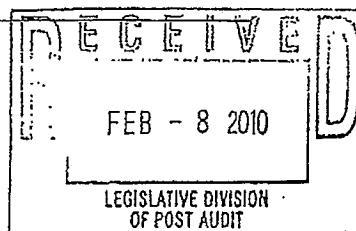
KANSAS
DEPARTMENT OF REVENUE

Mark Parkinson, Governor
Joan Wagnon, Secretary

www.ksrevenue.org

February 8, 2010

Barbara J. Hinton
Legislative Post Auditor
800 Southwest Jackson Street, Suite 1200
Topeka, KS 66612-2212



Re: Department Response to Performance Audit Entitled: *Kansas Tax Revenues: Reviewing Tax Credits and Exemptions*

Dear Ms. Hinton:

You have requested we indicate what actions we have taken or will take to implement the recommendations made to the Department in the above-referenced draft performance audit. I have copied those recommendations below, along with our responses to them.

LPA Recommendation

- I. to improve the accuracy of the information the Department of Revenue provides to the Legislature about the number and dollar value of tax credits that are claimed each year, the Department should do the following:
 - a. determine what types of computer edits could be cost-effectively installed in its current computer systems to flag some of the types of errors we found during this audit, and install those edits.

Department Response

The Department's tax return processing system cannot capture all of the data on a paper return—only that data necessary to complete the processing of the return is captured. This does not include information on a tax credit schedule. For paper income tax returns, all data concerning tax credits shown on schedules must be manually captured by people who review those returns and then record that data into a separate database. The Department is currently reviewing each tax credit database to determine additional cost-effective computer edits that will improve data accuracy. Recommendations for adding feasible computer edits will be proposed to our Information Technology staff and will be implemented as soon as is practical, given the available resources.

The Department is actively campaigning for the electronic filing of tax returns. Electronically filed returns allow the Department to capture the tax credit data electronically and build in computer edits thereby improving the data reliability. The Department has requested introduction of House Bill 2521 and Senate Bill 428 in order to obtain legislative authority to require electronic filing of returns. As more returns are filed electronically, the tax credit data capture errors should resolve themselves. As we

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take steps to move taxpayers to an electronic return filing environment, this will be the most effective strategy for eliminating the tax credit data reliability issues.

LPA Recommendation

- b. ensure that the staff responsible for entering tax credit information into the databases understand the importance of the completeness and accuracy of the information.

Department Response

The Department has taken this recommendation to heart. The Department had begun conducting on-going training of staff in accurately recording tax credit data in the tax credit databases in order to determine the source of errors noted in this audit. In addition, as a result of this audit, all staff responsible for capturing and recording tax credit information have been thoroughly briefed on the importance of accuracy in such work, and will be trained periodically to ensure the accuracy of their work.

LPA Recommendation

- c. periodically spot check some of the data-entry on the tax credits to help ensure that the data from tax returns are being accurately recorded.

Department Response

Since this audit, the Department has implemented procedures with the staff responsible for capturing and recording tax credit information to regularly check the accuracy of recorded tax credit data. In addition, the Department will conduct periodic reviews of the credit database information.

On pages 52-53, the audit notes errors found in the Department's database for the angel investor credit. The Kansas Department of Revenue has completed a thorough review of the angel investor tax credit data. This review included an analysis of each credit that has been issued by the Kansas Technology Enterprise Corporation (KTEC) and the data accumulated in our automated tax processing system. Upon our review and corrections, KDOR has compiled the following information:

Tax Year	Number of Filers	Amount of Credit Available	Amount of Credit Allowed
2005	90	\$1,772,862	\$1,032,124
2006	123	\$1,701,332	\$1,145,537
2007	163	\$2,677,758	\$2,022,462
2008	237	\$6,243,579	\$4,262,166
TOTAL	613	\$12,395,531	\$8,462,289

KTEC has issued \$13.4M in credits, KDOR has established \$12.4M of these credits in our automated tax processing system. The difference between the amount of credits issued by KTEC (\$13.4) and the amount of credits available or established in KDOR's ATP system (\$12.4M) can be attributed to taxpayers that haven't established the credit by submitting the Schedule K-30 with the filing of a tax return.

LPA Recommendation

2. To ensure that the Legislature has complete information about the number of people or businesses claiming tax credits and the cost of those credits to the State, the Department of Revenue should arrange to gather annual tax credit information

from the Insurance Department, and incorporate that information into any analyses it performs or any summary information it develops.

Department Response

The Department of Revenue will annually obtain tax credit data from the Department of Insurance and incorporate it into any future annual reports on tax credit usage.

We also offer the following comments concerning the contents of the audit:

On page 29 and recommendation No. 2 on page 55, we strongly agree with the list of tax credits identified for repeal, with the possible exception of the single city port authority credit, which was enacted to help with the financing of the expansion of a short-line railroad headquartered at Pittsburg, Kansas.

We also agree with the list of seven tax credits on pages 30 and 31 identified as being overly generous and would further suggest that any tax credit providing more than a 25% credit for the investment or contribution made is too generous and should be curtailed. In particular, the center for entrepreneurship credit allows for "double dipping" by a credit claimant taking the federal charitable contribution credit, as well as the state tax credit, without the requirement of "adding back" the federal deduction to Kansas taxable income.

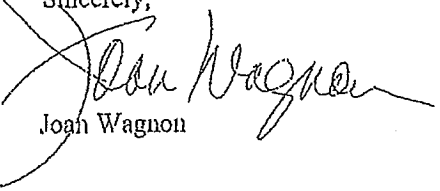
We agree with the LPA observations about the business and job development credit on page 32 and would recommend it be repealed and replaced with a more effective business incentive program.

On pages 37-38 and the LPA recommendations Nos. 1 and 3 on page 55, we strongly agree that any statute providing a tax credit should state the purpose, provide a means for measuring the outcomes of the credit, the authority to collect the appropriate information, make an entity responsible for collecting and evaluating such information (the Department is willing to assume that responsibility), contain a sunset, and be transparent as to who is claiming the credit and how much.

Concerning the discussion of the transferability of the historic preservation tax credit on pages 42-55 the LPA recommendation No. 4 on page 56, we strongly concur and agree that the transferability feature be removed and instead, the credit should be made either refundable with a yearly cap, or a grant should be appropriated each year as funding, with the State Historical Society being given the responsibility to administer this as a grant program.

In conclusion, we believe this audit will provide very valuable information to the Legislature and provide necessary guidance concerning the curtailment or elimination of various credits.

Sincerely,


Joan Wagnon