

Legislative Post Audit Performance Audit Report Highlights

Kansas Tax Revenues: Reviewing How Other States Inventory and Evaluate Tax Credits and Exemptions

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QUESTION 1: How Does Kansas' Process for Inventorying and Evaluating Tax Credits and Exemptions Compare to Those in Other States?

Background Information

The state foregoes about \$6 billion a year through tax credits and exemptions. Most of this forgone revenue stems from exemptions and credits required at the federal level, by the state constitution, or to avoid double taxation. However, many tax credits and exemptions are policy choices intended to influence taxpayer behavior.

Two agencies are primarily responsible for administering the state's tax credits and exemptions. The Kansas Department of Revenue administers nearly all tax credits in Kansas, estimates the value of sales tax exemptions, and collects property tax exemption data. The Kansas Insurance Department tracks information on tax credits that are claimed by insurance companies.

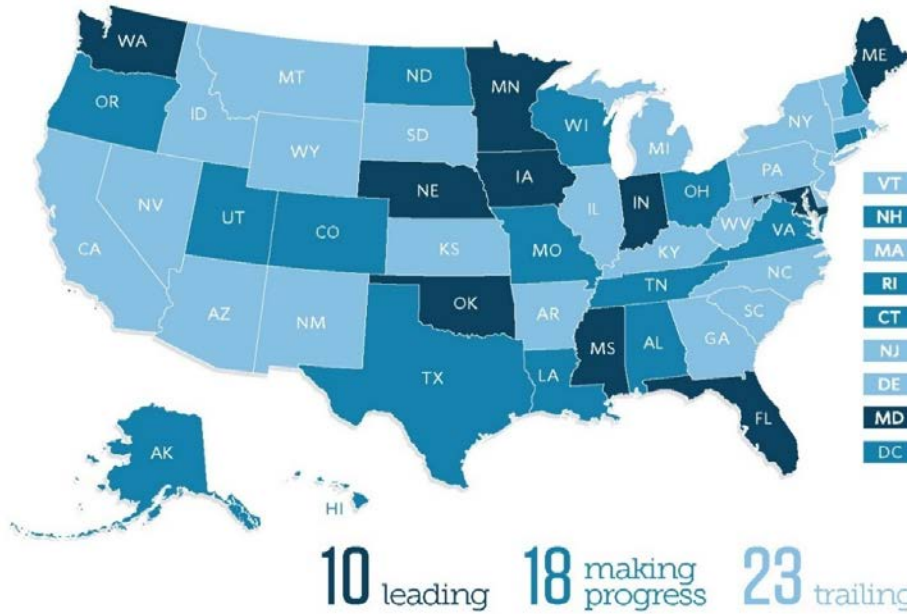
A 2010 legislative post audit noted Kansas lacked a strong process for evaluating tax credits and that sales and property tax exemption data did not accurately reflect these exemptions' costs.

- According to The Pew Charitable Trusts, Kansas trails other states in following best practices for evaluating tax incentives (page 7).
 - A May 2017 Pew report identified best practices for state tax incentive evaluation, which included formal evaluation policies, evaluations that address economic impact, and lawmaker review of evaluation results.
 - Pew compared each state's tax incentive evaluation process to these best practices and determined Kansas was in the lowest performance category.
- Kansas does not have formal policies requiring regular, systematic evaluations of major tax incentives (page 9).
 - Between the Department of Revenue and the Insurance Department, the state has a comprehensive inventory of all available tax credits and exemptions.
 - However, Kansas does not have a formal policy to require any state agency to routinely evaluate the state's major tax incentives.
- The limited evaluations that are conducted do not necessarily address the cost or economic impact of tax incentives (page 10).
 - The Department of Revenue and the Insurance Department regularly track basic tax incentive information such as the number of claims and amount.
 - At least three agencies—the State Historical Society, the Department of Revenue, and our office—conduct limited or ad hoc assessments related to tax incentives, although none are as regular or systematic as those described in the Pew report.
- Kansas does not have formal processes to ensure lawmakers consider the results of tax incentive evaluations (page 11).
 - Kansas does not require legislative committees review evaluation results.
 - However, the Department of Revenue does provide basic tax incentive information to the Legislature, and legislative committees get copies and presentations of ad hoc Post Audit reports on tax incentives.
- Several other states, including Kansas' neighbors, meet many of Pew's best practices (page 12). According to the Pew report:
 - Nebraska, Oklahoma, Iowa, Indiana, and Washington are "leading" states, while Colorado and Missouri are "making progress."
 - Each of these states has formal policies that require regular, systematic evaluation of all major tax credits and exemptions, and most regularly evaluate the costs and economic impacts of tax incentives.
 - Most of these states have formal processes in place to ensure lawmakers consider the results of tax incentive evaluations.
 - In contrast to its neighbors, Pew considers Kansas to be a "trailing" state.

A map showing how Pew ranked each state is shown below:

Figure 1-1

Pew State Tax Incentive Evaluation Ratings for All 50 States and the District of Columbia



Source: Reprinted from *How States Are Improving Tax Incentives for Jobs and Growth: A National Assessment of Evaluation Practices* (The Pew Charitable Trusts, 2017).

SUMMARY OF RECOMMENDATIONS

Recommendation to the Kansas Legislature (page 15)

- The Legislature should identify major credits and exemptions to regularly review and assign one or more state agencies to conduct evaluations of these incentives on a predetermined multiyear schedule.
- These regular evaluations should assess the impacts of incentives on the economy and taxpayer behavior compared to their costs.
- The Legislature should also require appropriate legislative committees to consider evaluation results as part of their policy decisions.

AGENCY RESPONSE

We provided copies of the draft audit report to the Kansas Department of Revenue and the Kansas Insurance Department. Neither agency submitted a formal response to the audit.

HOW DO I REQUEST AN AUDIT?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.

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