

Kansas Administrative Regulations

Kansas Department of Revenue

Article 19.—Kansas Retailers' Sales Tax

92-19-4b. Recordkeeping requirements.

(a) Purpose. Each taxpayer shall maintain the books, records, and other information required to be maintained by the Kansas retailers' sales tax act in accordance with this regulation.

(b) Definitions. For purposes of this regulation, these terms shall be defined as follows:

(1) "Database management system" means a software system that controls, relates, retrieves, and provides accessibility to data stored in a database.

(2) "Director" means the director of taxation of the department of revenue or the director's designee.

(3) "Electronic data interchange" or "EDI technology" means the computer-to-computer exchange of business transactions in a standardized, structured electronic format.

(4) "Hard copy" means any documents, records, reports, or other data printed on paper.

(5) "Machine-sensible record" means a collection of related information in an electronic format. This term shall not include hard-copy records that are created or recorded on paper or stored in or by an imaging system, including microfilm, microfiche, and storage-only imaging systems.

(6) "Storage-only imaging system" means a system of computer hardware and software that provides for the storage, retention, and retrieval of documents originally created on paper. This term shall not include any system, or part of a system, that manipulates or processes any information or data contained on the document in any manner other than to reproduce the document in hard copy or as an optical image.

(7) "Taxpayer" means any person who is obligated to account to the director of taxation for taxes collected or accrued under the Kansas retailers' sales tax act.

(c) Recordkeeping requirements: general.

(1) Each taxpayer shall maintain all records that are necessary to determine the correct tax liability under Kansas sales and compensating tax acts. All required records shall be made available on request by the director as provided for in K.S.A. 79-3609, and amendments thereto. These records shall include the following:

(A) Invoices;

(B) bills of lading;

(C) sales records;

(D) copies of bills of sale;

(E) exemption certificates;

(F) a true and complete inventory taken at least once a year; and

(G) all other pertinent documents that establish gross receipts from sales, as well as any deductions allowed by law or claimed on returns.

(2) If a taxpayer retains records that are required to be retained under this regulation in both machine-sensible and hard-copy formats, that individual shall make the records available to the director in machine-sensible format upon request of the director.

(3) Nothing in this regulation shall be construed to prohibit any taxpayer from demonstrating tax compliance with traditional hard-copy documents or reproductions of them, in whole or in part, whether or not the taxpayer also has retained or has the capability to retain records using electronic or other storage media in accordance with this regulation. However, this subsection shall not relieve the taxpayer of the obligation to comply with paragraph (c)(2).

(d) Recordkeeping requirements: machine-sensible records.

(1) General requirements.

(A) Machine-sensible records used to establish tax compliance shall contain sufficient transaction-level detail information so that the details underlying the machine-sensible records can be identified and made available to the director upon request. Any taxpayer may discard duplicated records and redundant information if the taxpayer's responsibilities under this regulation are met.

(B) At the time of an examination, the retained records shall be capable of being retrieved and converted to a standard record format.

(C) Taxpayers shall not be required to construct machine-sensible records other than those created in the ordinary course of business. A taxpayer who does not create the electronic equivalent of a traditional paper document in the ordinary course of business shall not be required to construct the record in an electronic format for tax purposes.

(2) Electronic data interchange requirements.

(A) If a taxpayer uses electronic data interchange processes and technology, the level of record detail, in combination with other records related to the transactions, shall be equivalent to that contained in an acceptable paper record. The retained records shall contain the following information:

- (i) The vendor name;
- (ii) the invoice date;
- (iii) a product description;
- (iv) the quantity purchased;
- (v) the price;
- (vi) the amount of tax;
- (vii) an indication of tax status;
- (viii) the shipping detail; and
- (ix) any other information required by the secretary.

Codes may be used to identify some or all of the data elements, if the taxpayer provides a method that allows the director to interpret the coded information.

(B) The taxpayer may capture the information necessary to satisfy the requirements of paragraph (d)(2)(A) at any level within the accounting system and shall not be required to retain the original EDI transaction records if the audit trail, authenticity, and integrity of the retained records can be established.

(3) Electronic data processing systems requirements. The requirements for an electronic data processing accounting system shall be similar to those for a manual accounting system, in that an adequately designed accounting system shall incorporate methods and records that will satisfy the requirements of this regulation.

(4) Business process information.

(A) Upon the request of the director, the taxpayer shall provide a description of the business process that created the retained records. This description shall include the relationship between the records and the tax documents prepared by the taxpayer, and the measures employed to ensure the integrity of the records.

(B) Each taxpayer shall be capable of demonstrating the following:

(i) The functions being performed as they relate to the flow of data through the system;

(ii) the internal controls used to ensure accurate and reliable processing; and

(iii) the internal controls used to prevent the unauthorized addition, alteration, or deletion of retained records.

(C) The following documentation shall be required for machine-sensible records retained as specified in this regulation:

(i) Record formats or layouts;

(ii) field definitions, including the meaning of all codes used to represent information;

(iii) file descriptions, including the data set name; and

(iv) detailed charts of accounts and account descriptions.

(e) Records maintenance requirements.

(1) The taxpayer shall adequately catalog and preserve electronic and other retained machine-sensible records.

(2) The taxpayer's computer hardware or software shall accommodate the extraction and conversion of retained machine-sensible records.

(f) Access to machine-sensible records.

(1) The manner in which the director is provided access to machine-sensible records as required in paragraph (c)(2) may be satisfied through a variety of means, each of which shall take into account the taxpayer's facts and circumstances through consultation with the taxpayer.

(2) The access shall be provided in one or more of the following manners:

(A) The taxpayer may arrange to provide the director with the hardware, software, and personnel resources to access the machine-sensible records.

(B) The taxpayer may arrange for a third party to provide the hardware, software, and personnel resources necessary to access the machine-sensible records.

(C) The taxpayer may convert the machine-sensible records to a standard record format specified by the director, including copies of files, on a magnetic medium that is approved by the director.

(D) Other means of providing access to the machine-sensible records may be agreed upon by the taxpayer and director.

(g) Taxpayer responsibility and discretionary authority.

(1) In conjunction with meeting the requirements of subsection (d), a taxpayer may create files solely for the use of the director, including a file that contains the transaction-level detail from the data base management system and that meets the requirements of subsection (d). The taxpayer shall document the process that created any separate file to show the relationship between that file and the original records.

(2) Any taxpayer may contract with a third party to provide custodial or management services of the records. A third-party contract shall not relieve the taxpayer of the taxpayer's responsibilities under this regulation.

(h) Alternative storage media.

(1) For purposes of storage and retention, taxpayers may convert hard-copy documents received or produced in the normal course of business and required to be retained under this regulation to microfilm, microfiche, or other storage-only imaging systems and may discard the original hard-copy documents, if the conditions of this subsection are met. Documents that may be stored on these media shall include the following:

(A) General books of account;

(B) journals;

(C) voucher registers;

(D) general and subsidiary ledgers; and

(E) supporting records of details, including sales invoices, purchase invoices, exemption certificates, and credit memoranda.

(2) Microfilm, microfiche, and other storage-only imaging systems shall meet the following requirements:

(A) The taxpayer shall maintain, and make available on request, documentation establishing the procedures for converting the hard-copy documents to microfilm,

microfiche, or other storage-only imaging system. The documentation shall contain, at a minimum, a description sufficient to allow an original document to be followed through the conversion system as well as internal procedures established for inspection and quality assurance.

(B) The taxpayer shall establish procedures for the effective identification, processing, storage, and preservation of the stored documents and for making them available for the period they are required to be retained under subsection (j).

(C) Upon request by the director, the taxpayer shall provide facilities and equipment for reading, locating, and reproducing any documents maintained on microfilm, microfiche, or other storage-only imaging system.

(D) When displayed on equipment or reproduced on paper, the documents shall exhibit a high degree of legibility and readability. For this purpose, "legibility" means the quality of a letter or numeral that enables the observer to identify it positively and quickly to the exclusion of all other letters or numerals. "Readability" means the quality of a group of letters or numerals being recognizable as words or complete numbers.

(E) All data stored on microfilm, microfiche, and other storage-only imaging systems shall be maintained and arranged in a manner that permits the location of any particular record.

(F) There shall be no substantial evidence that the microfilm, microfiche, or other storage-only imaging system lacks authenticity or integrity.

(i) Effect on hard-copy recordkeeping requirements.

(1) Except as otherwise provided in this regulation, the provisions of this regulation shall not relieve taxpayers of the responsibility to retain hard-copy records that are created or received in the ordinary course of business as required by existing law and regulations. Hard-copy records may be retained using a recordkeeping medium as specified in subsection (h).

(2) If hard-copy records are not produced or received in the ordinary course of transacting business, including when electronic data interchange technology is used, hard-copy records shall not be required to be produced simply for the purpose of maintaining hard-copy records.

(3) The taxpayer shall retain hard-copy records generated at the time of a transaction using a credit or debit card, unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this regulation. These details shall include those listed in paragraph (d)(2)(A).

(4) Computer printouts that are created for validation, control, or other temporary purposes shall not be required to be retained.

(5) Nothing in this regulation shall prevent the director from requesting hard-copy printouts in lieu of retained machine-sensible records at the time of examination.

(j) Record retention: time period. All records required to be retained under this regulation shall be preserved pursuant to K.S.A. 79-3609 and amendments thereto, unless the director has advised the taxpayer in writing that the records are no longer required.

(Authorized by K.S.A. 2000 Supp. 79-3618 and K.S.A. 79-3707; implementing K.S.A. 2000 Supp. 79-3609, K.S.A. 79-3702, and K.S.A. 2000 Supp. 79-3706; effective July 27, 2001.)

***** Authenticated Kansas Administrative Regulation *****