Governor Announces Details of Montana's Tax Compliance Plan
Montanans Are Being Cheated Out Of At Least $10 Million A Year

(HELENA) - At a press conference in the Capitol, Governor Brian Schweitzer today unveiled a plan to close the loopholes on tax laws that are cheating Montanans out of at least $20 million in tax dollars per biennium.

"The long term consequences of abusive tax shelters could be severely detrimental to Montana's economy," said Governor Brian Schweitzer. "Montana's hardworking and law abiding citizens do not deserve to be ripped off by high net worth individuals and multi-state corporations who aren't playing by the rules."

The General Accounting Office estimated that the federal system lost up to $85 billion over the past decade to abusive tax shelters. The Multistate Tax Commission estimated the states had a corporate loss of $12 billion in 2001 - Montana's share of that was estimated to be $26 million.

"The Montana tax system belongs to the citizens of the state," said Revenue Director Dan Bucks. "Through their tax system, Montanans share in doing good works together to create new possibilities for the people of our state. Because Montanans share this tax system in common, it is important that every business and individual pay their fair share of taxes."

The goals of the tax compliance plan are as follows:

* Ensure that income earned in Montana, but escaping taxation, is taxed properly by the state.

* Restore integrity and equity to a tax system undermined by a growing culture of non-compliance among the most powerful participants in our economy.

* Target specific, known compliance problems with solutions tailored to asking taxpayers not paying their fair share of taxes to do so.

The plan will do the following:

1. Stop abusive tax sheltering and the shifting of Montana income elsewhere by large corporations and wealthy individuals. High net worth individuals, non-residents and multistate/multinational corporations have increased their use of abusive tax shelters and income shifting techniques. Untold billions of dollars of federal and state revenue have been lost over the last ten years to such tax sheltering. Based on limited information from only two states, the Department of Revenue has identified 116 cases of abusive tax sheltering by large corporations and non-residents-including one case of underreported national income of over $500 million.

   The plan will require the disclosure of the use of abusive tax shelters by taxpayers with a net worth exceeding $2 million and businesses making sales of over $10 million. Business that are not filing and paying taxes, but sell more than $500,000 annually into the state, would be required to disclose their business operations so that the state can determine if they should be filing taxes.

2. Prevent non-residents and those leaving the state from escaping taxation on profits earned from the sale or exchange of Montana real estate property rightfully taxable here. Many non-residents selling Montana real property fail to file state tax returns reporting and paying taxes on profits from those sales. Test audits in Ravalli County have revealed nine cases of non-residents selling bare land who have failed to pay the state nearly $250,000. The plan will require new withholding requirements to prevent non-residents from ignoring and skipping out on their Montana tax obligations.

3. Revise provisions in Montana law that allows income to escape taxation. Montana tax law has not been updated to deal with some of the complex, special treatments afforded special purpose

entities under federal law, allowing special classes of income to escape taxation. These out-dated provisions often become the basis for abusive tax sheltering. The plan would correct these out-dated provisions.

4. Improve compliance through increased enforcement of current laws with respect to multistate/multinational corporations and non-resident individuals.

   In an effort launched in December 2003, California collected over $1.4 billion-when they expected only $90 million-in the first stage of their crackdown on abusive tax shelters. Since then Connecticut, Illinois, North Carolina, South Carolina, New Jersey and Arizona have undertaken similar initiatives to curb tax shelters.

   Over forty states, including Montana, have signed special exchange of information agreements with the IRS and other states sharing information on abusive tax shelters.
   Approximately a dozen states have taken action to crack down on non-residents skipping out on paying taxes on profits from the sale of real estate within their borders.

   The federal government has undertaken multiple efforts in the past few years to curtail tax abuses. Late last year, Congress strengthened federal abusive tax shelter laws. The U.S. Treasury and IRS have undertaken several efforts to crack down on a variety of tax shelters. IRS audit priorities have recently changed to focus increasingly on abuses by corporations and high net worth individuals.