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# Business and Income Taxes Division – Compliance and Collections Second Quarter Fiscal Year 2009 Report

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## Introduction

The Business and Income Taxes Division (BITD) oversees audits and verifies compliance with Montana tax law for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property. The division also seeks to return unclaimed property (lost money and other properties) to its rightful owners.

<http://psmine.state.mt.us/revenue/whatwedo/bit.asp>.

The purpose of this report is to provide summary information on the main areas of performance measures currently tracked by BITD. The performance measures give a glimpse of the amount of work and accomplishments achieved by the division. To be successful in meeting our mission, all of the division resources must be focused on the common goals of ensuring compliance and timely collections. The outstanding effort demonstrated by the division employees has allowed our division to meet and exceed our fiscal goals.

BITD consists of three bureaus; Accounts Receivable and Collections (ARC), Business Tax and Valuation (BTV), and Income and Withholding Taxes (IWT) and one administrative unit.

Throughout the report several common performance measures are used. These common measures are defined as follows:

**Audits:** Audit activities determine the correct tax liability for individuals and business entities in accordance with the Montana Code Annotated, Title 15 (Taxation). These activities include both the detailed examination of tax returns and supporting documents, and the automated verification of return edits identified during return (batch) processing.

**Work Items:** A work item is a task that is tracked by IRIS and must be completed. Work items can be assigned to specific users, or put in a work item queue by the system. Users may search and work them accordingly. Work items can be manually created or automatically generated through IRIS for the majority of all tax types in the system.

# Compliance Results

**Summary of Compliance Activities  
Fiscal Year 2009  
First and Second Quarter Ending December 31, 2008**

<b>Compliance Activities</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Total</b>
Individual Income Tax	\$10,183,474	\$ 9,042,343	\$19,225,817
Corporation License Tax	\$ 5,419,410	\$ 8,823,262	\$14,242,672
Natural Resource Tax	\$ 1,204,896	\$ 2,923,658	\$ 4,128,554
Miscellaneous Taxes	\$ 493,413	\$ 509,197	\$ 1,002,610
<b>Total Audit Collections</b>	<b>\$17,301,193</b>	<b>\$21,298,460</b>	<b>\$38,599,653</b>
<b>Accounts Receivable and Collections</b>	<b>\$10,144,803<sup>1</sup></b>	<b>\$ 6,605,093<sup>1</sup></b>	<b>\$16,749,896<sup>1</sup></b>

**Summary of Compliance Activities  
Fiscal Year 2008  
First and Second Quarter Ending December 31, 2007**

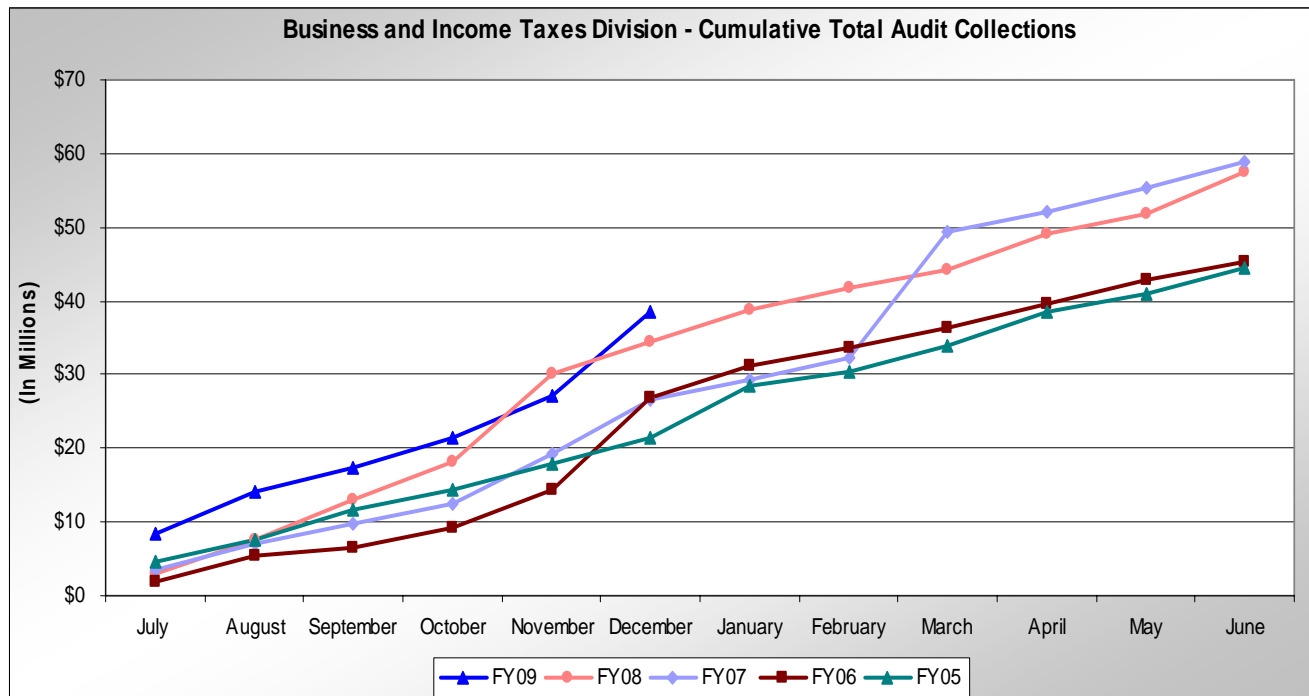
<b>Compliance Activities</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Total</b>
Individual Income Tax	\$7,911,231	\$10,205,305	\$18,116,526
Corporation License Tax	\$3,649,733	\$ 7,903,913	\$11,553,646
Natural Resource Tax	\$2,488,060	\$ 384,922	\$ 2,872,982
Miscellaneous Taxes	\$ 374,681	\$ 1,423,897	\$ 1,798,578
<b>Total Audit Collections</b>	<b>\$14,423,705</b>	<b>\$19,918,037</b>	<b>\$34,341,742</b>
<b>Accounts Receivable and Collections</b>	<b>\$13,834,687<sup>1</sup></b>	<b>\$10,020,500<sup>1</sup></b>	<b>\$23,855,188<sup>1</sup></b>

<sup>1</sup>A portion of the Accounts Receivable and Collections may also be included in the Audit Collection total.

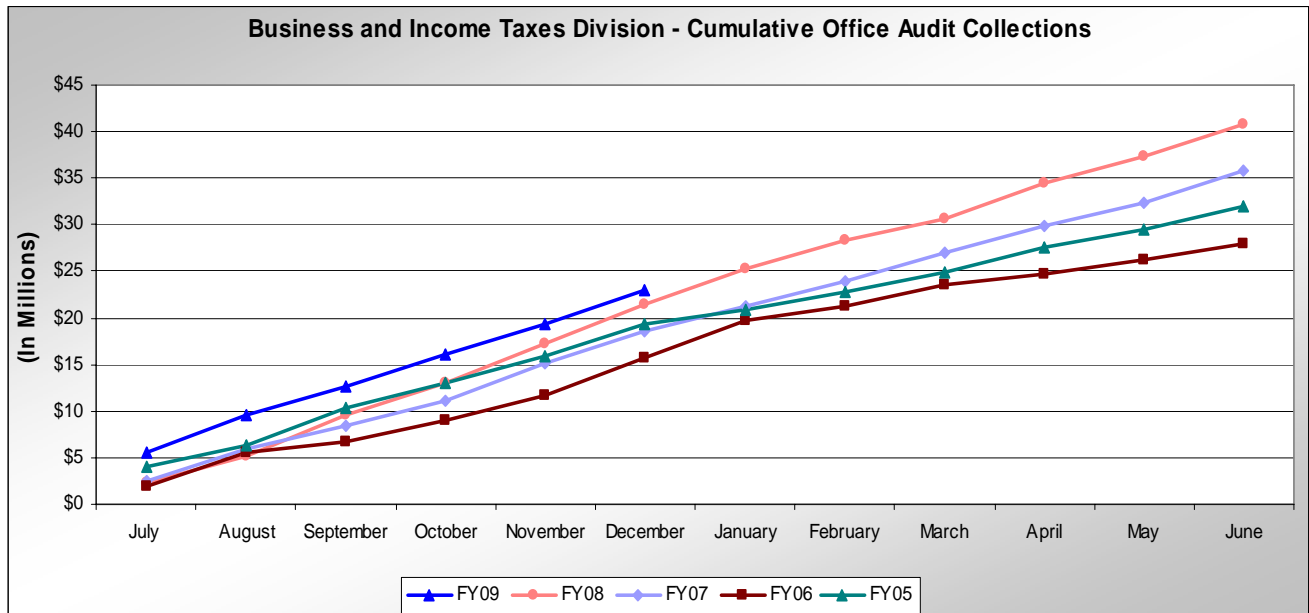
# Audit Collection Comparison by Fiscal Year

The following line chart compares the first half of FY09 audit activities with those of the four prior fiscal years. In comparison with the second quarter FY08, the division is \$4.3 million ahead in audit collection activity for FY09.

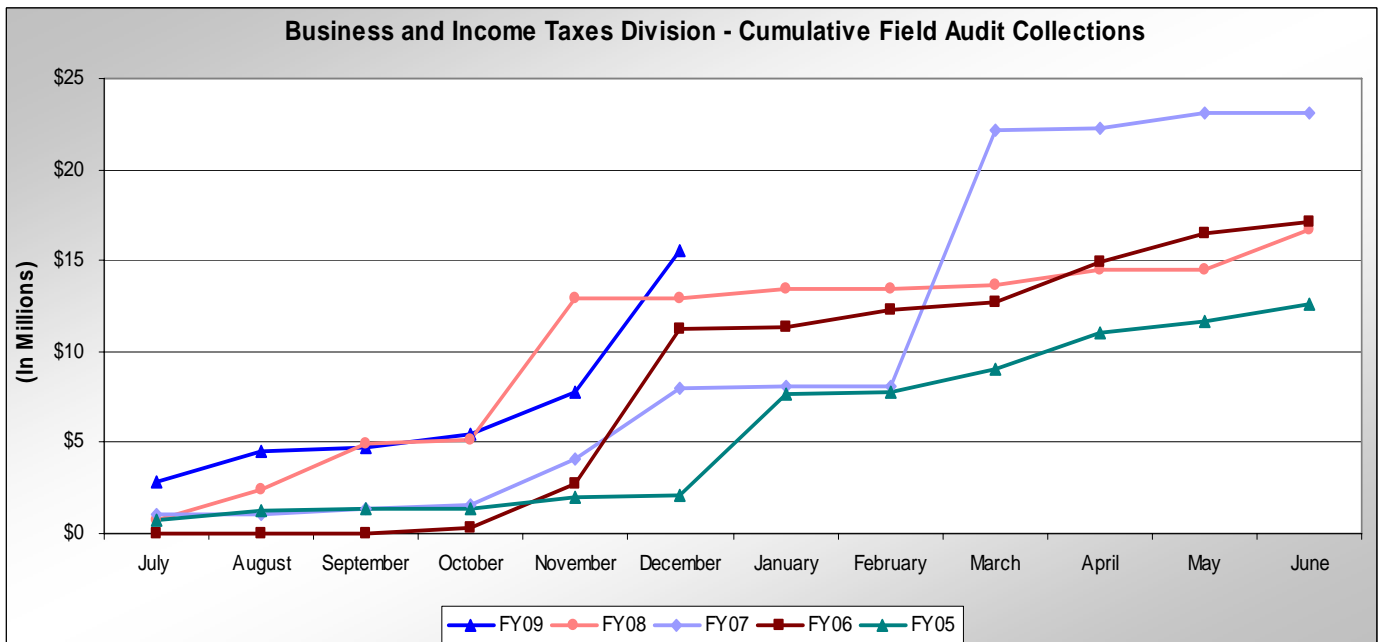
## Total Audit Collections: \$38.6 million



## Total Office Audit Collections: \$23.1 million



## Total Field Audit Collections: \$15.5 million

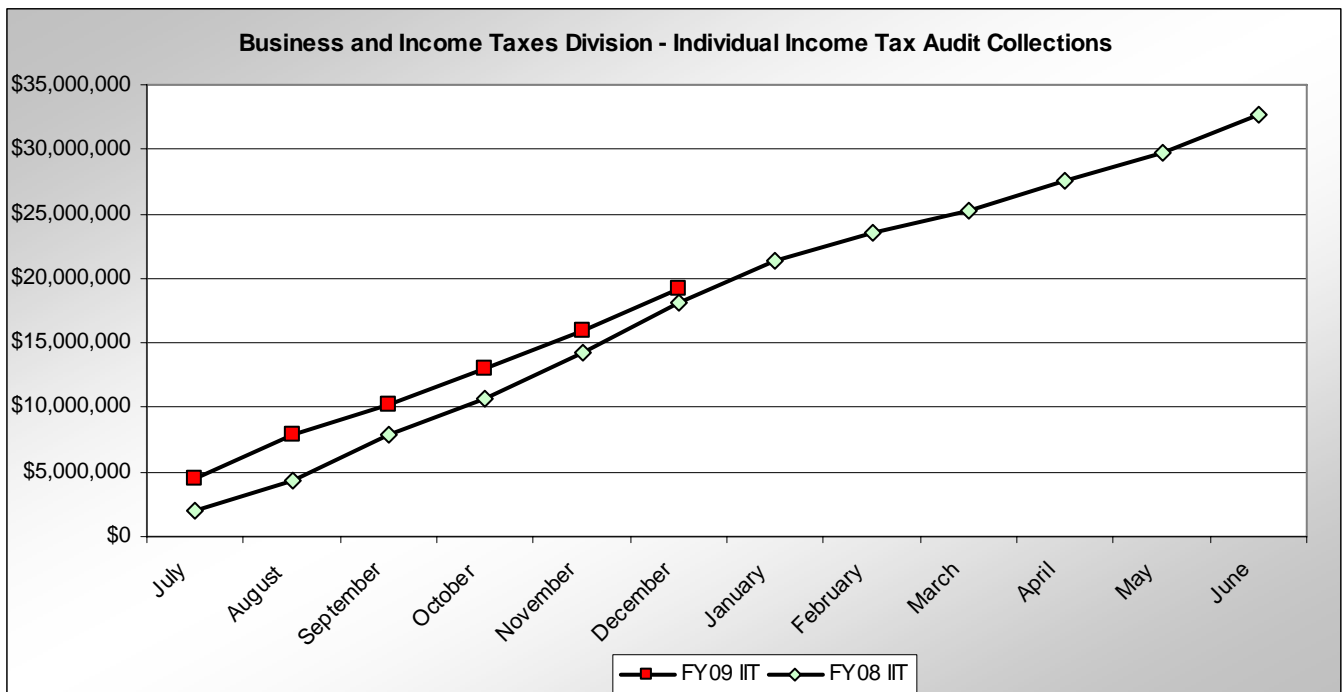


# Individual Income and Withholding Taxes

In Montana, the individual income tax has a graduated rate structure with rates ranging from 1% to 6.9% of taxable income. This is a “progressive” tax because taxpayers with higher incomes pay a higher percentage of their income. Not only are residents of Montana required to file, but part-year residents and non-residents with income from Montana sources are required to file an individual income tax return.

Income tax revenues are collected primarily through employer withholding, periodic estimated tax payments, and payments made when the return is filed. In addition, audit collections are included in the overall income tax revenue and are collected through audit and bill payments.

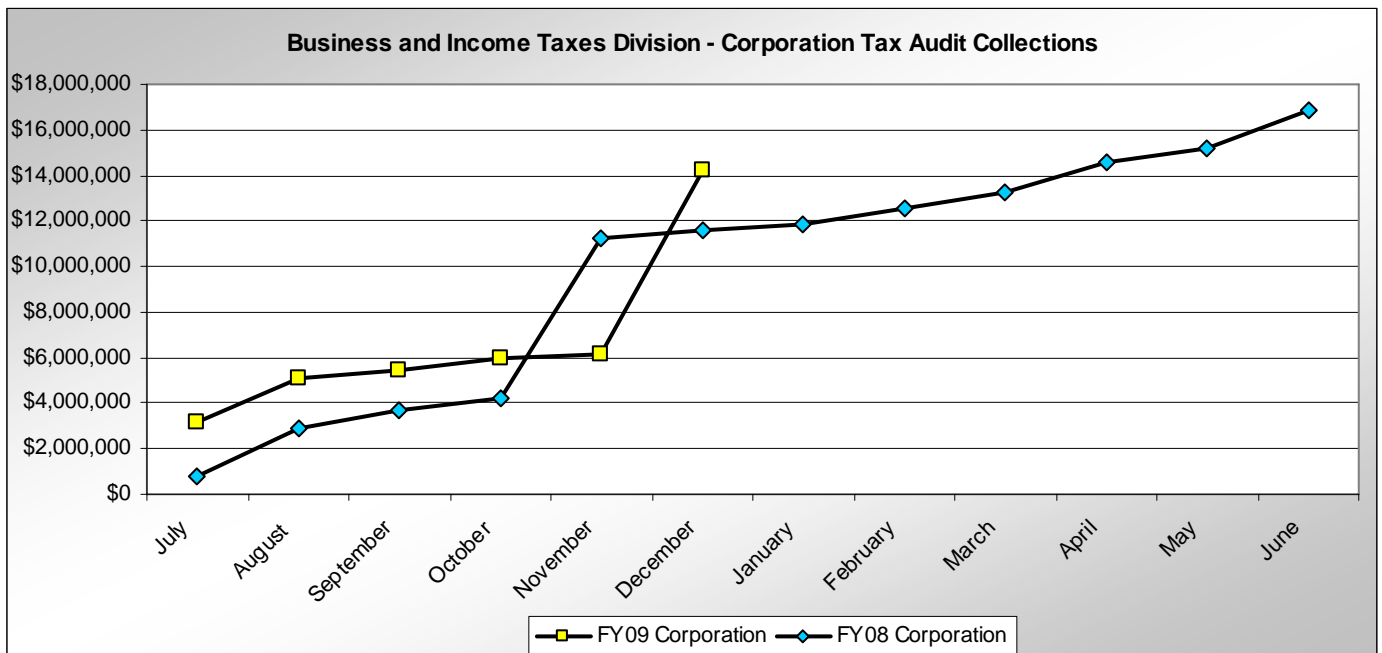
Individual income tax audit collections for the first and second quarter of FY2009 totaled \$19.2 million.



# Corporation License Taxes

Montana's corporation license tax is a franchise tax levied on corporations for "the privilege of carrying on business in this state." The tax is levied at the rate of 6.75% on net income earned in Montana. Corporations conducting business that is taxable both within and outside the state (multi-state corporations) are required to allocate income to Montana based on an equally-weighted, three-factor apportionment formula, where sales, property, and payroll are the three factors.

Corporation tax audit collections for the first and second quarter of FY2009 totaled \$14.2 million.





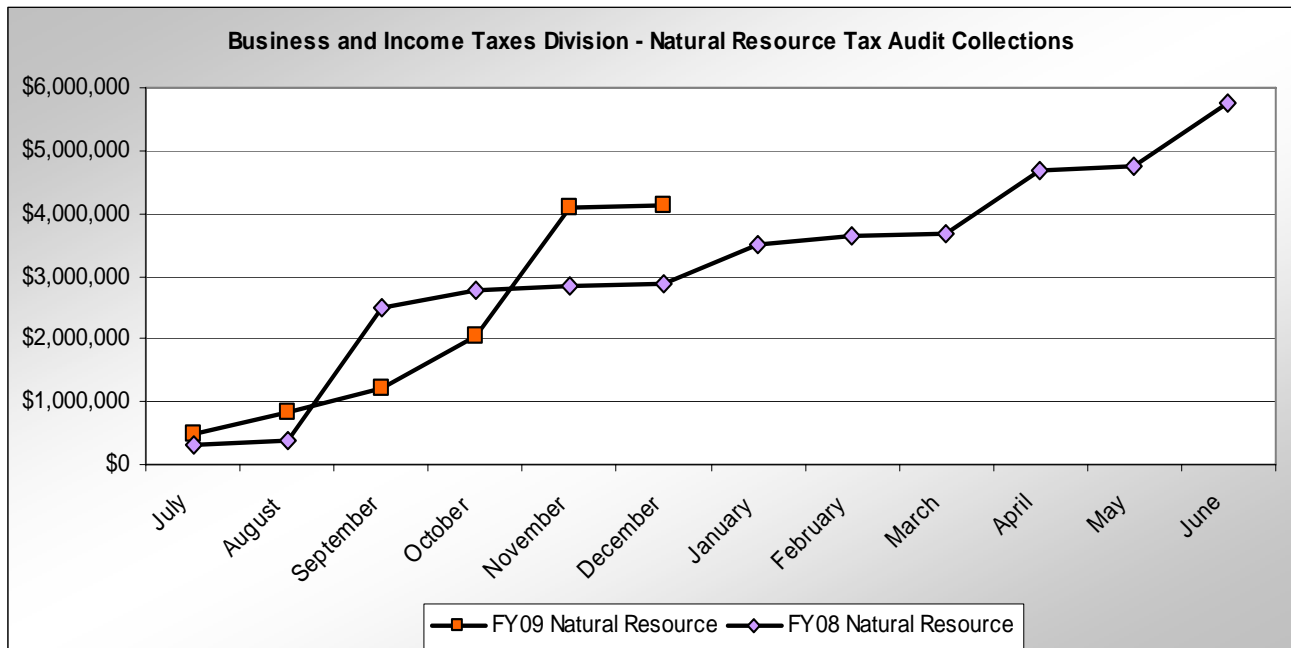
# Natural Resource Taxes

Generally, natural resource taxes may be categorized as either severance/license taxes, or some form of ad valorem taxes. Each of the different natural resource taxes in Montana vary by certain characteristics including tax rates, filing requirements, disposition of the tax, and production tax incentives.

Natural resource tax collection is largely made up of the oil and natural gas production tax, however other sources of significant revenue are:

- Coal severance tax
- Coal gross proceeds tax
- Metalliferous mines license tax
- Metal mines gross proceeds tax
- Bentonite production tax
- Miscellaneous mines net proceeds tax
- Resource indemnity and groundwater assessment tax
- Cement and gypsum tax

Natural resource tax audit collections for the first and second quarter of FY2009 totaled \$4.1 million.



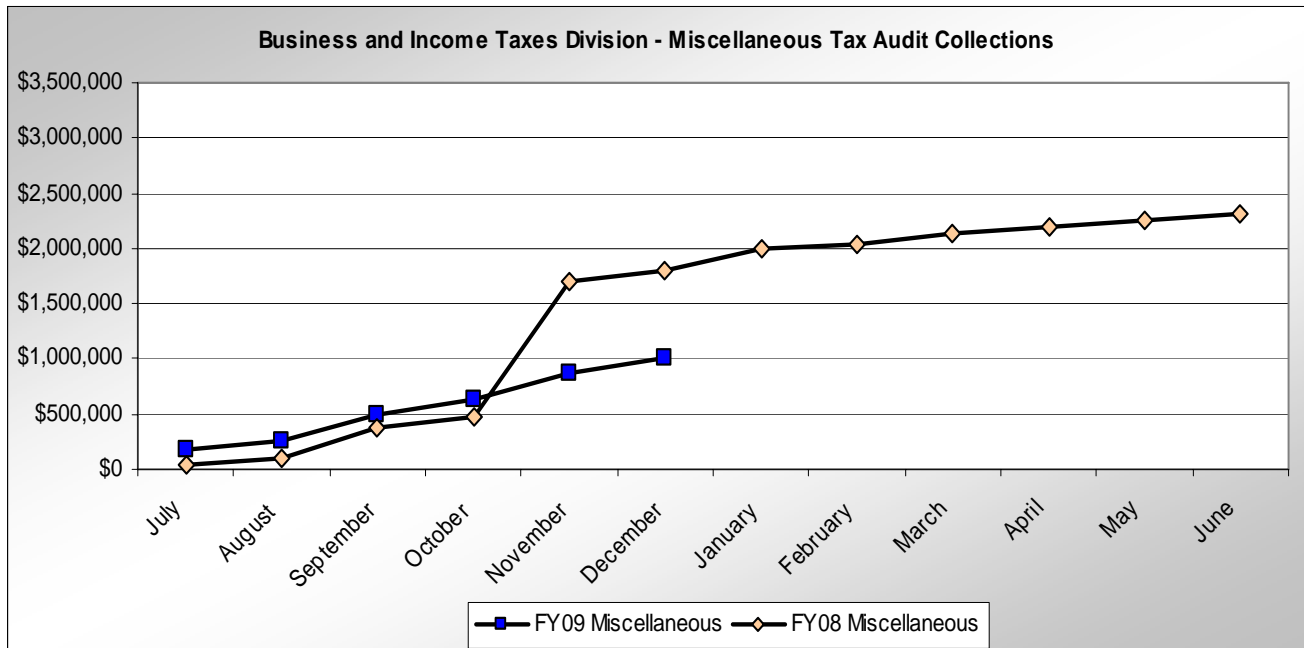
# Miscellaneous Taxes

Various miscellaneous taxes are imposed in Montana including excise taxes, wholesale taxes on distributors, cigarette taxes from Internet sales, and special assessments. The business and income taxes division tracks collections on over 15 different miscellaneous taxes.

Several miscellaneous taxes that make up a significant part of the division's audit collections are:

- Retail Telecommunications Excise Tax
- Electrical Energy Tax
- Wholesale Energy Transaction Tax
- Public Service Commission Tax
- Consumer Counsel Tax
- TDD Telecommunications Service Fee
- Statewide 911 Emergency Telephone System Fee
- Lodging Facilities Use Tax
- Rental Vehicle Tax
- Cigarette/Tobacco Products Tax
- Nursing Facilities Bed Tax
- Abandoned Property
- Beer/Wine/Hard Cider Tax

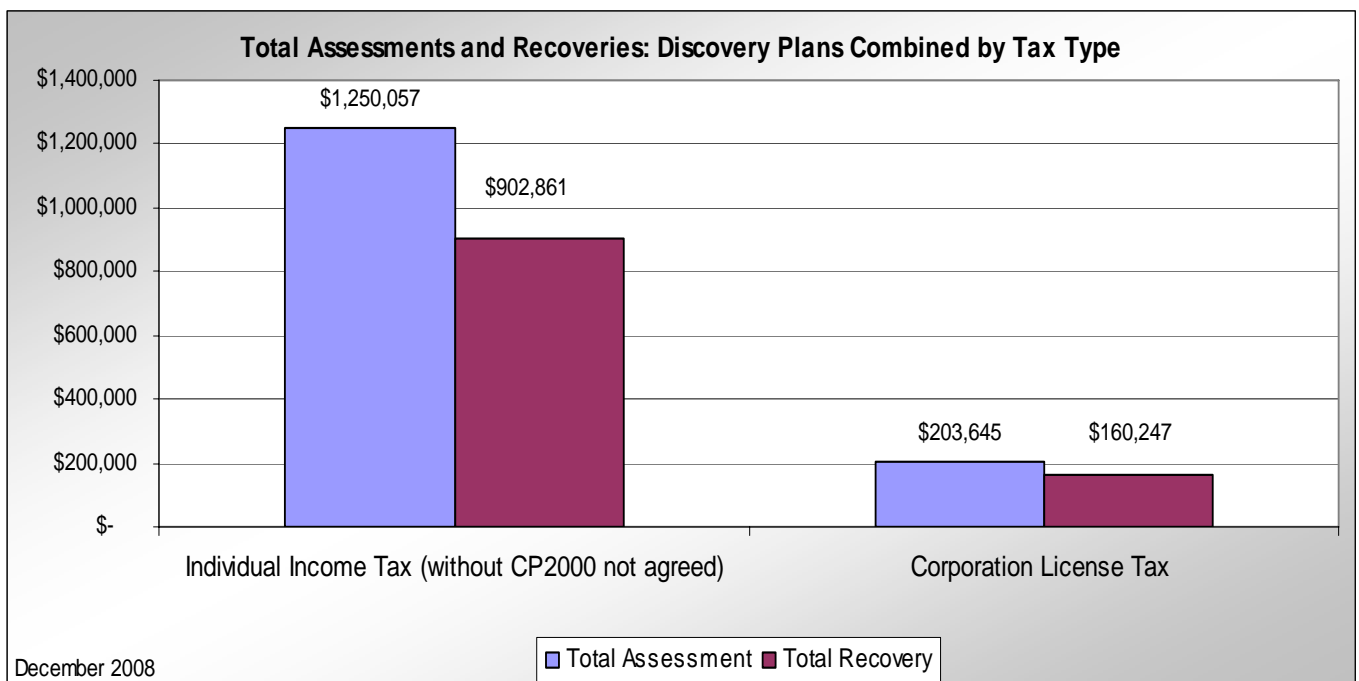
Miscellaneous tax audit collections for the first and second quarter of FY2009 totaled \$1.0 million.



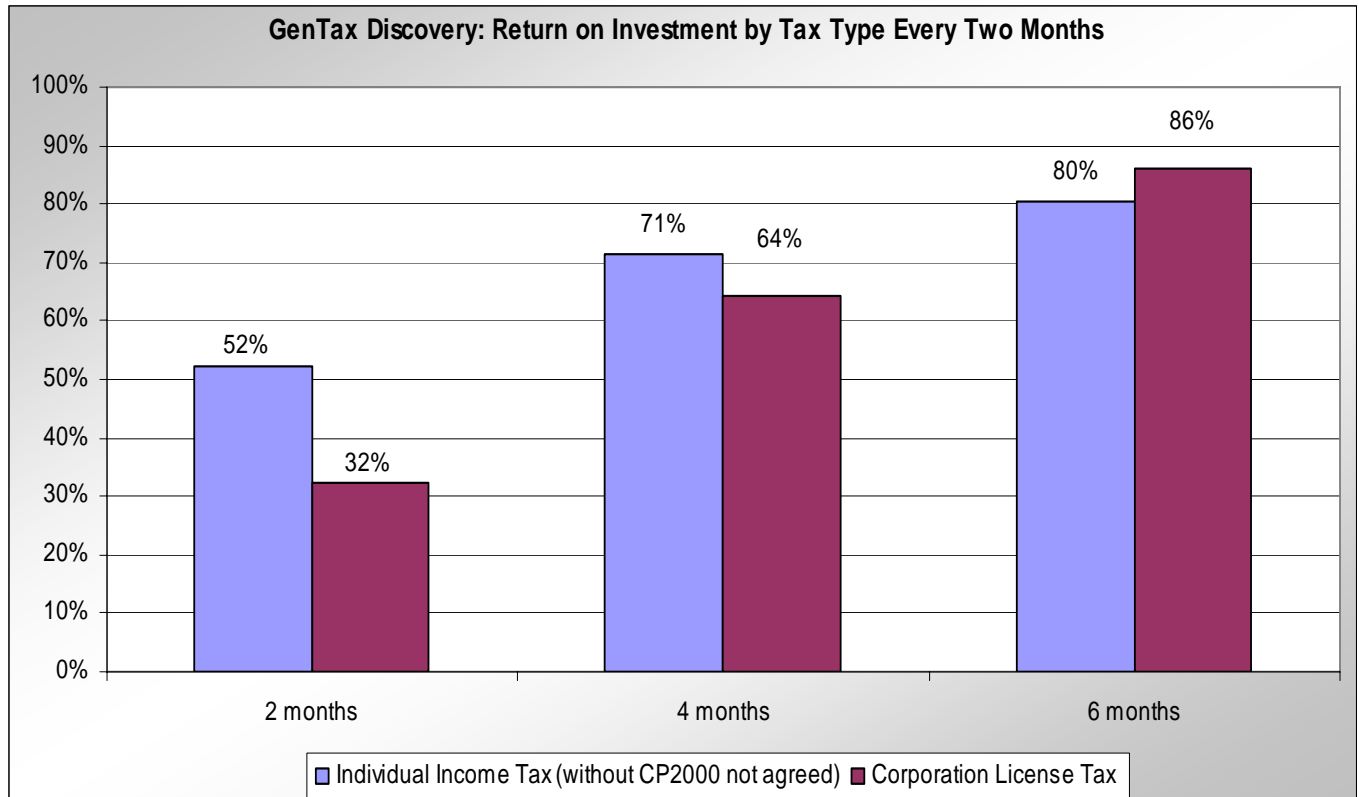
# GenTax Discovery

Discovery is a Gentax product that is able to retrieve and crossmatch pertinent data for the purpose of “discovering” opportunities to improve compliance from non-registrants, non-filers, and under-reporters. Discovery uses data imported from external sources such as data files received from the Internal Revenue Service or other state agencies, as well as internal Gentax data.

In the last year, development of Discovery has progressed steadily. Currently 35 auditors in Individual Income Tax and Corporation License Tax are working on various discoveries.



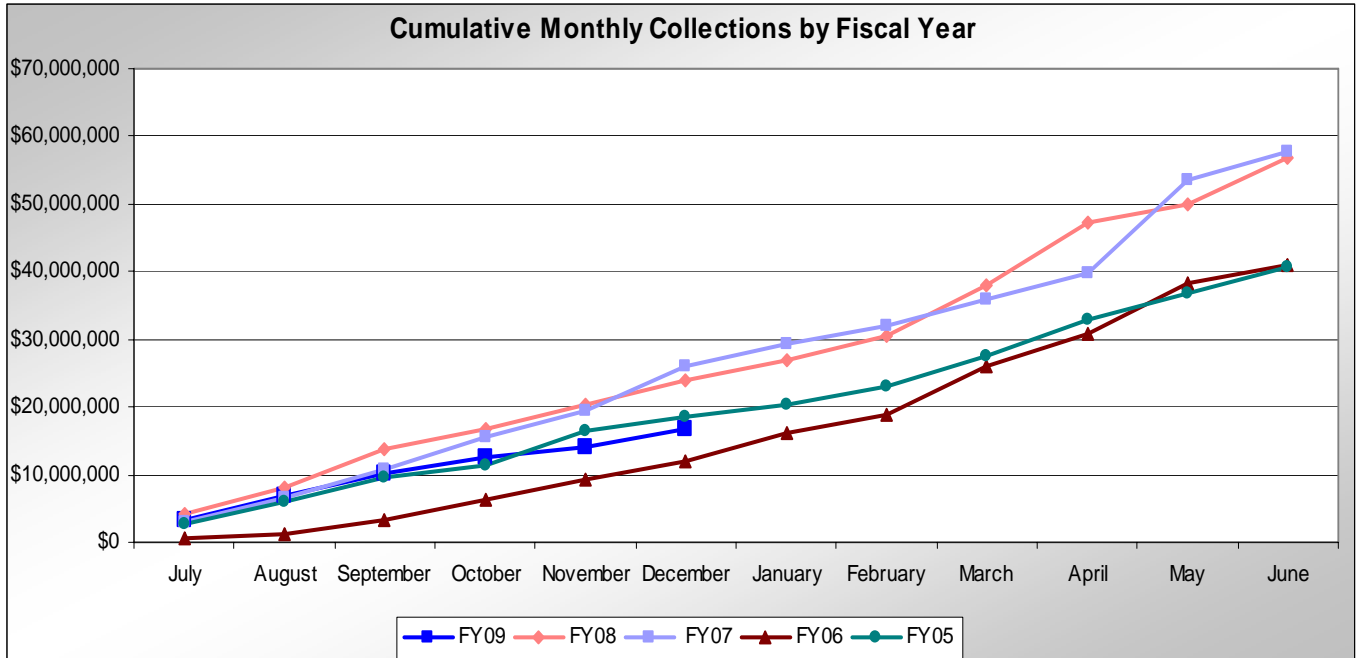
The use of discovery was piloted in early 2008 for CP2000's. As the year progressed, more discoveries for individual income tax and corporate license tax were developed. The graph below illustrates, in general, the amount of time it takes to realize a return on investment (ROI) for discovery activities from the time an assessment is made to the time the revenue is collected. Some discoveries can be quickly assessed and collected, while others that are more complicated or include a field audit will take longer to assess and collect. On average the trend indicates a significant return within the first 6 months after assessment. It is the intent to monitor the return on investment for up to 18 months.



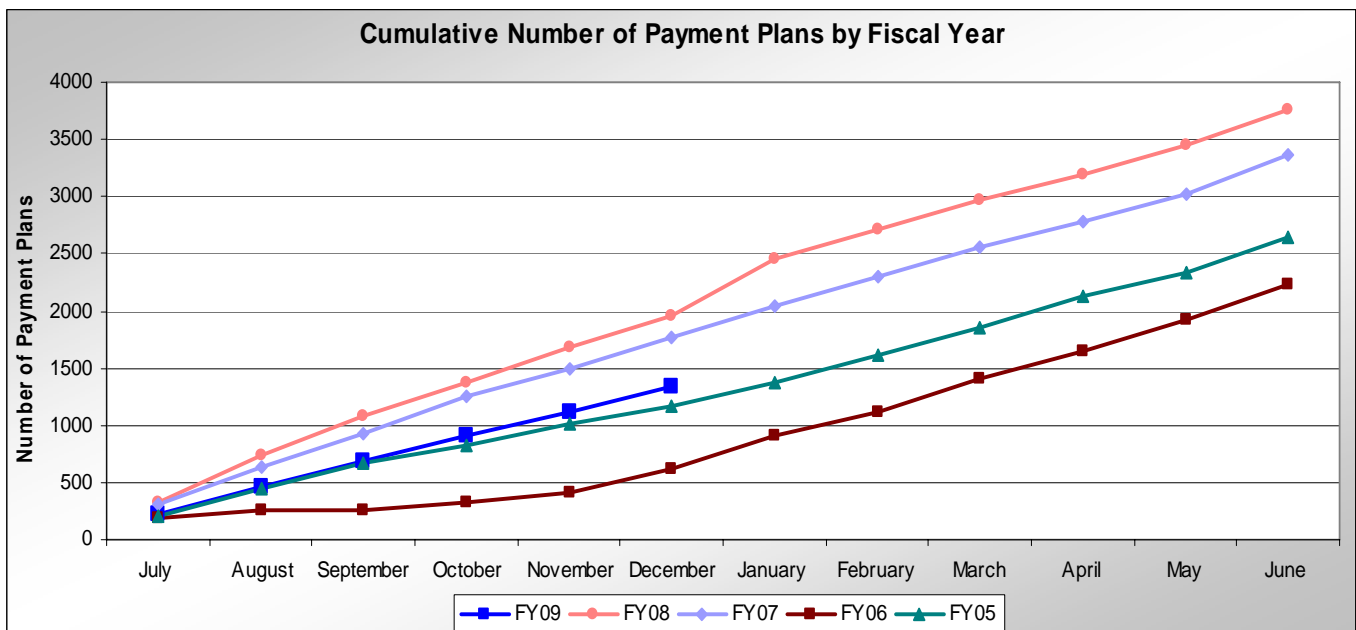
# Accounts Receivable and Collections

The department is responsible for administering collection activities associated with delinquent account receivables of taxes statutorily administered by the department. The department also administers centralized collection activities for other government agencies who contract with the department for collection services to collect outstanding debts owed the agencies.

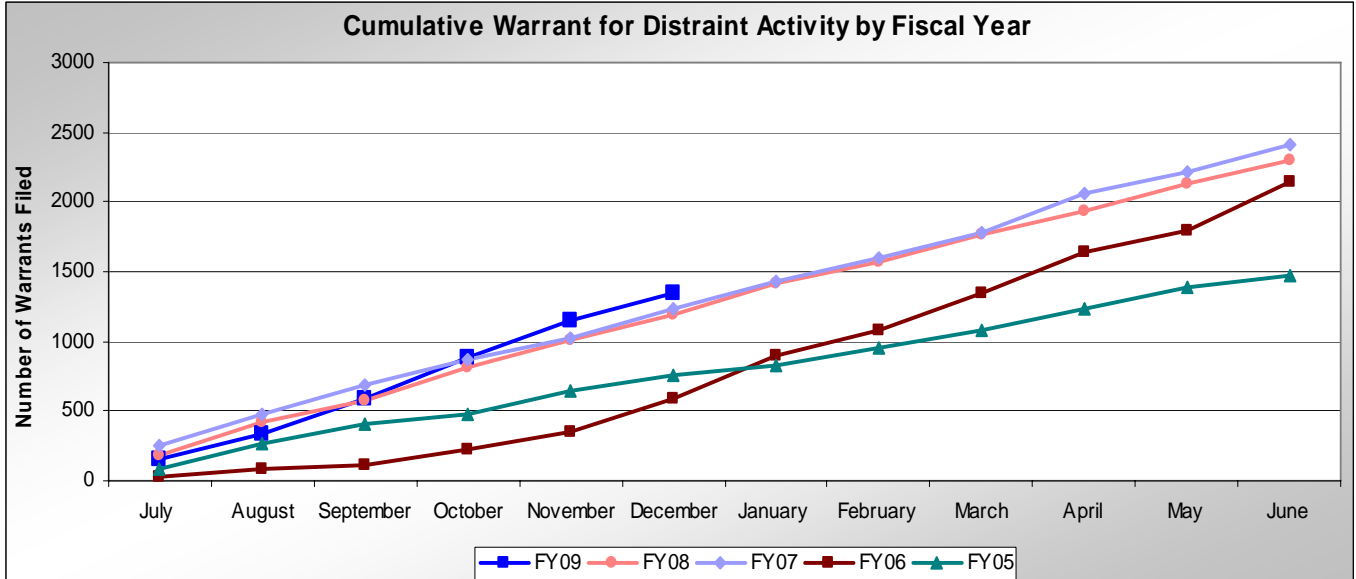
Accounts receivable collections for the first and second quarter of FY2009 totaled \$16.7 million.



Total Number of Payment Plans established for the first and second quarter of FY2009: 1,338



Total Number of Warrants Filed for the first and second quarter of FY2009: 1,339



Total Number of Levies Initiated for the first and second quarter of FY2009: 2,315

