

Rev-A-News

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Compliance and Collection

Montana Withholding Tax Tables - Significant Changes for 2005

The Montana Economic Development Tax Act (Senate Bill 407) was passed by the 2003 Legislative Assembly to provide comprehensive tax reform, including a reduction of individual income tax rates.

The state tax rate table has been revised to provide for seven tax brackets with marginal rates ranging from 1% to 6.9%. The tax rate reductions are effective beginning January 1, 2005.

The department has revised the withholding tax tables for tax year 2005 to reflect these new tax rates and tax brackets. The revised 2005 Withholding Tax Tables are now available on the department's website at www.discoveringmontana.com/revenue (click on Forms & Resources / Downloadable Forms / Withholding Forms). In addition, a booklet was mailed to employers in November 2004.

These additional individual income tax changes, associated with the Montana Economic Development Tax Act, are effective beginning with tax year 2005.

- The current full deduction for federal income taxes paid during the tax year is capped at \$5,000 (\$10,000 if married and filing jointly).
- A new tax credit equal to 1% of the net capital gains is in effect for 2005 and 2006. This percentage increases to 2% beginning in tax year 2007.
- The personal exemption and standard deduction amounts in current law were adjusted to accommodate a new base year (tax year 2005) from which adjustments to these items are calculated. The base amount for calculating exemptions has increased from \$800 to \$1,900. The base amount for calculating the standard deduction has increased from \$665 to \$1,580.

If you have any questions regarding the changes to the withholding tax tables or other changes associated with the Montana Economic Development Tax Act, please call the department's Customer Service Center at (406) 444-6900.

Upcoming Changes to Montana Corporation Tax Forms

Due to the enhanced functionality of the Department of Revenue's new tax system, some changes have been made to the requirements for filing amended C. corporation and S. corporation returns.

Effective December 1, the Department of Revenue will discontinue use of Form CLT-4X. This form will no longer be distributed by the department or available on our website. The form has been used by C. corporations and S. corporations to file amended Montana returns for 2003 and prior years.

The department is requiring all amended returns for periods 2003 and prior to be filed on the regular forms. Amended returns for 2003 and prior years for C. corporations will be filed on form CLT-4 of the applicable year. Amended returns for 2003 and prior years for S. corporations will be filed on form CLT-4S of the applicable year. The word "AMENDED" should be written across the top of the return. Also, a statement describing the reason for the amendment must be filed with the return.

For 2004, the returns have been redesigned to allow for filing amended returns and do not require an additional statement describing the reason for the amendment.

As a reminder, you can download department forms from our website at www.discoveringmontana.com/revenue or you can request forms from our Customer Service Center by calling (406) 444-6900.

New Tax Increases, Reporting Requirements for Cigarette and Tobacco Taxes

On November 2, 2004, Montana voters passed Initiative I-149, which increases cigarette and tobacco taxes in Montana.

The following information is intended to assist wholesalers, retailers and other customers in understanding the tax changes. Please call our Customer Service Center at (406) 444-6900 with any questions, or visit our web site at www.discoveringmontana.com/revenue.

New Tax Rates (Effective January 1, 2005)

	<u>Current</u>	<u>Effective January 1, 2005</u>
Other Tobacco Products (OTP) Taxes		
• OTP tax	25%	50%
• OTP moist snuff* tax	\$0.35/oz	\$0.85/oz
• OTP discount rate	2.5%	1.50%
Cigarette Taxes		
• 20 cigarettes/pack (cig/pk) tax insignia	\$0.70	\$1.70
• 25 cig/pk tax insignia	\$0.875	\$2.125
• Insignia monthly discount rates:		
◦ For the first 25,800 insignia	1.66%	0.90%
◦ For the next 25,800 insignia	1.11%	0.60%
◦ Purchases in excess of 51,600 insignia	0.83%	0.45%
◦ For all 20 cig/pk and 25 cig/pk insignia sheets	0.83%	0.45%

Information for Wholesalers

Cigarettes, tobacco products, and moist snuff* products received at a wholesaler's warehouse after December 31, 2004 must reflect the new tax, the January 1, 2005 minimum price, and the new discount rates.

Each wholesaler will have an opportunity to sell the December 31, 2004, cigarette inventory at the December 31, 2004, published minimum price, provided that all of the inventory has an affixed Montana \$0.70 stamp at the close of business on December 31, 2004. Therefore, to use any remaining \$0.70 stamps, all wholesalers must affix all \$0.70 cigarette stamps by the close of business December 31, 2004. All Montana tax insignia (\$.70 & \$0.875) not affixed must be returned to the Department of Revenue postmarked by January 3, 2005. The department will refund the value of those returned stamps. After December 31, 2004, the department will only sell new tax insignia.

In addition, all wholesalers must submit form CT-TXCHG and form TP101 to the Department of Revenue reflecting the cigarette and tobacco products inventory at close of business on December 31, 2004. These two reports must be completed and postmarked or faxed to the department on or before January 3, 2005. Any wholesaler who fails to file the reports by January

3, 2005, will be assessed a \$50 late filing penalty for each report not filed. The mailing address is Department of Revenue, Customer Intake Bureau, P.O. Box 1712, Helena, MT 59604-1712. The fax number is (406) 444-0722.

On or about December 31, 2004, the department may perform an onsite audit of both in-state and out-of-state wholesalers to verify year-end stamped cigarette and OTP inventories.

To summarize, for any wholesaler who wishes to sell cigarettes with the \$0.70 or \$0.875 insignia, the product must be stamped at close of business on December 31, 2004. The department will refund or credit any stamps not affixed and will not be selling any \$0.70 or \$0.875 insignia after December 31, 2004.

* "Moist snuff" is any finely cut, ground, or powdered tobacco, other than dry snuff, intended to be placed in the oral cavity.

Information for Retailers

This initiative increases the tax on a pack of 20 cigarettes to \$1.70 and the tax on a pack of 25 cigarettes to \$2.125. The tax for other tobacco products will be increased to 50% of the wholesale price and the tax for moist snuff* will be increased to \$.85 /ounce.

The effective date of this tax increase is January 1, 2005, and applies to all products received by Montana licensed wholesalers after December 31, 2004. The color of the Montana cigarette tax insignia will change with the implementation of this tax increase, however, the old insignia (green for packs of 20; pink for packs of 25) will continue to be affixed to products received by wholesalers prior to January 1, 2005. Here are examples of the new insignia:



Cigarettes affixed with the old insignia may be sold after January 1, 2005 at the December 31, 2004 minimum price; however, those packs affixed with the new insignia must be sold at (or above) the January 1, 2005 minimum. Penalties for violation include revocation or suspension of the cigarette license, a civil penalty not to exceed \$500, or any combination of these.

Reporting Forms

The 2005 reporting forms listed below will enable wholesalers and retailers to comply with the new tax rate enacted by I-149:

CT-TXCHG - I-149 Cigarette and OTP Inventory Reporting Form

CT-201 - NEW 2005 Insignia Ordering Form

CT-203 - NEW 2005 Manufacturers / Wholesalers Cigarette Tax Refund Form

CT-205 - NEW 2005 Monthly Cigarette Tax Reconciliation Form

CT-207 - NEW Exempt Sale Refund Application (*CT-206, the Cigarette Tax-Exempt Sale Certificate, was not changed*)

TP-101 - NEW 2005 Monthly OTP Tax Reporting Form

TP-102 - NEW 2005 OTP Tax Credit Form

Customer Service

ABC's of Alcohol Beverage Control

"...a well-run government alcohol monopoly becomes a means not only of maximizing government revenues from alcohol, but also of maximizing the society's protection from alcohol-related damage."

--Robin Room, The Evolution of Alcohol Monopolies and Their Relevance for Public Health, 1994.

Revenues derived by the Control States from the sale of distilled spirits flow directly to state and local government. There is clearly an extra dividend in the superior revenue generation, moderate consumption, and quality of life that define the Control State Systems.

As a Control State, Montana believes that moderation can best be achieved by neither promoting nor encouraging the consumption of alcohol but, instead, by controlling. The purpose of control is to make liquor available to those adults who choose to drink responsibly. While accomplishing this goal, we are also generating millions of dollars for the state's general fund, other public programs, and cities and counties benefiting the residents of Montana. Revenue includes excise, license tax, profits and other fees.

Fiscal Year 2004 Total Distribution of Funds \$21,847,928

Profit Distribution

General Fund	\$18,165,912
State Institutions	\$3,682,016

Less Equals More

Control States consume 19% less distilled spirits than license states and generate 102% more revenue than license states.

Less Per Capita Consumption

Control States: 1.59 gallons
License States: 1.89 gallons

More Per Gallon Revenue

Control States: \$21.71
License States: \$10.74

Montana Specifics

Revenue

Revenue per wine gallon (spirits):	\$15.82	Rank:	18th
Revenue per wine gallon (wine):	\$1.45	Rank:	43rd
Revenue per wine gallon (beer):	\$0.17	Rank:	50th

Consumption

Spirits per capita consumption:	1.96 wine gallon	Rank:	19th
Wine per capita consumption:	2.77 wine gallon	Rank:	23rd
Beer per capita consumption:	40.78 wine gallon	Rank:	5th

Wine gallon is defined as a standard US bulk or liquid gallon of 128 fluid ounces.

The above information was obtained from the DISCUS 2003 State Data Book, which was published in June 2004.

About the Agency

Property Assessment: Region 4

Nestled among substantially vertical, pine-covered landscapes, the Department of Revenue's Region 4 is comprised of the following picturesque counties staffed with engaging personalities:

Missoula County is the region 4 headquarters. Manager Jim Fairbanks oversees a fine "seasoned" staff of seventeen property tax appraisers and valuation specialists. The newly designed offices are located at 2681 Palmer Street, Suite 1, in Missoula (east of the Target store). The secured office was designed with private taxpayer inquiry / issue resolution rooms that provide useful customer service. The adjacent IRS office results in substantial income tax response activity, especially leading up to the April 15 individual income tax deadline. This administrative center also provides space for two Department of Revenue individual income tax auditors, a Department of Revenue withholding tax auditor, five Department of Labor and Industry audit staff, and a Department of Environmental Quality representative.

Area manager Rocky Haralson oversees operations in Lewis & Clark County, Powell County and Granite County. The Lewis & Clark County office has a staff of fifteen who reside in Helena's city-county building. The Powell County office is located in the county seat of Deer Lodge. Cele Pohle - one of the few remaining elected assessors in Montana - joins appraiser Florian Tininenko, who also appraises in adjacent Granite County. Another elected assessor, Ann Veis, staffs the Granite County office in Philipsburg.

Area manager Debbie Reesman oversees operations in Ravalli County and Mineral County. There are fourteen employees in the Ravalli County office in Hamilton. Property discovery is especially challenging in one of Montana's fastest growing counties, as most construction is discovered behind trees, over hillsides or atop mountains. Additionally, due to heavy irrigation, even small tracts qualify as farms and ranches.

The Mineral County office is located in Superior. Personal property auditor Lois Sherd and appraiser Anthony Francesconi are responsible for valuations from scenic riverside Alberton to the very elevated Idaho state line.

Career Opportunities

The Department of Revenue posts new job opportunities on Wednesday and Friday each week. Visit our website www.discoveringmontana.com/revenue and go to About the Agency for current job opportunities.