



---

# Business and Income Taxes Division – Compliance and Collections Fiscal Year End 2008 Report

Compiled by Jill Hamilton, Management Analyst

# Table of Contents

## Introduction

Overview of Business and Income Taxes Division .....	3
--	---

## Compliance

Compliance Results .....	4
Pass Through Entity Collections.....	5
Realty Transfer Certificates.....	6
Audit Collection Comparison by Fiscal Year ..	7
Audit Collections and Expenditures.....	9

## Income and Withholding

Individual Income Tax .....	10
-----------------------------	----

## Business Tax and Valuation

Corporation License Tax .....	11
Miscellaneous Tax .....	13
Natural Resources Tax .....	15
Industrial and Centrally Assessed Property .....	17
Work Items Completed.....	18
GenTax Discovery.....	19

## Accounts Receivable and Collections

Collection Recoveries Summary .....	20
Payment Plan Summary .....	20
Warrant for Distraint Summary.....	21
Funds Levy Summary .....	21

## Administrative Research Team

Summary of Responsibilities .....	22
-----------------------------------	----

## 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 produce impressive results and meet/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 End 2008**  
**July 1, 2007 – June 30, 2008**

<b>Compliance Activities</b>	<b>First Half</b>	<b>Second Half</b>	<b>Total</b>
Individual Income Tax	\$18,116,536	\$14,520,240	\$32,636,776
Corporation License Tax	\$11,553,646	\$ 5,319,376	\$16,873,022
Natural Resource Tax	\$ 2,872,982	\$ 2,886,638	\$ 5,759,620
Miscellaneous Taxes	\$ 1,798,578	\$ 523,248	\$ 2,321,826
<b>Total Audit Collections</b>	<b>\$34,341,742</b>	<b>\$23,249,502</b>	<b>\$57,591,244</b>
<b>Accounts Receivable and Collections</b>	<b>\$23,855,188<sup>1</sup></b>	<b>\$33,070,633<sup>1</sup></b>	<b>\$56,925,821<sup>1</sup></b>

**Summary of Compliance Activities**  
**Fiscal Year End 2007**  
**July 1, 2006 – June 30, 2007**

<b>Compliance Activities</b>	<b>First Half</b>	<b>Second Half</b>	<b>Total</b>
Individual Income Tax	\$15,773,552	\$ 12,828,073	\$28,601,625
Corporation License Tax	\$ 8,850,553	\$17,962,146	\$26,812,699
Natural Resource Tax	\$ 794,721	\$ 936,076	\$ 1,730,797
Miscellaneous Taxes	\$ 1,167,218	\$ 652,345	\$ 1,819,563
<b>Total Audit Collections</b>	<b>\$26,586,043</b>	<b>\$32,378,641</b>	<b>\$58,964,684</b>
<b>Accounts Receivable and Collections</b>	<b>\$26,038,123<sup>1</sup></b>	<b>\$31,583,542<sup>1</sup></b>	<b>\$57,621,665<sup>1</sup></b>

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

# Selective Compliance Initiatives

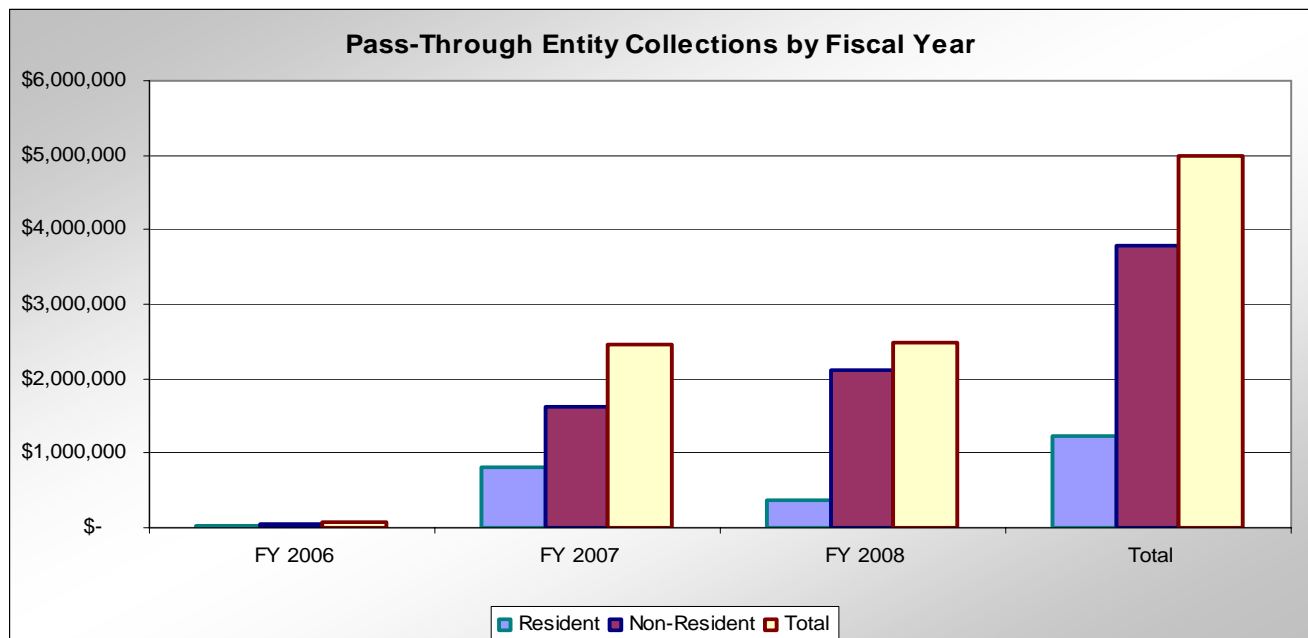
Over the past several years the division has been working on a number of *new or renewed* selective compliance initiatives. All of these initiatives are important, enhance compliance in specific areas, and lead to the success of the department. Each quarter this report will begin highlighting specific compliance initiatives. In this report the pass-through audit program and the Realty Transfer Certificate program are highlighted.

## Pass-Through Collections

The pass-through audit program is a combination of office and field audits which have focused on specific issues related to pass-through entities. Some of the issues and associated audit collections identified are detailed in the following table.

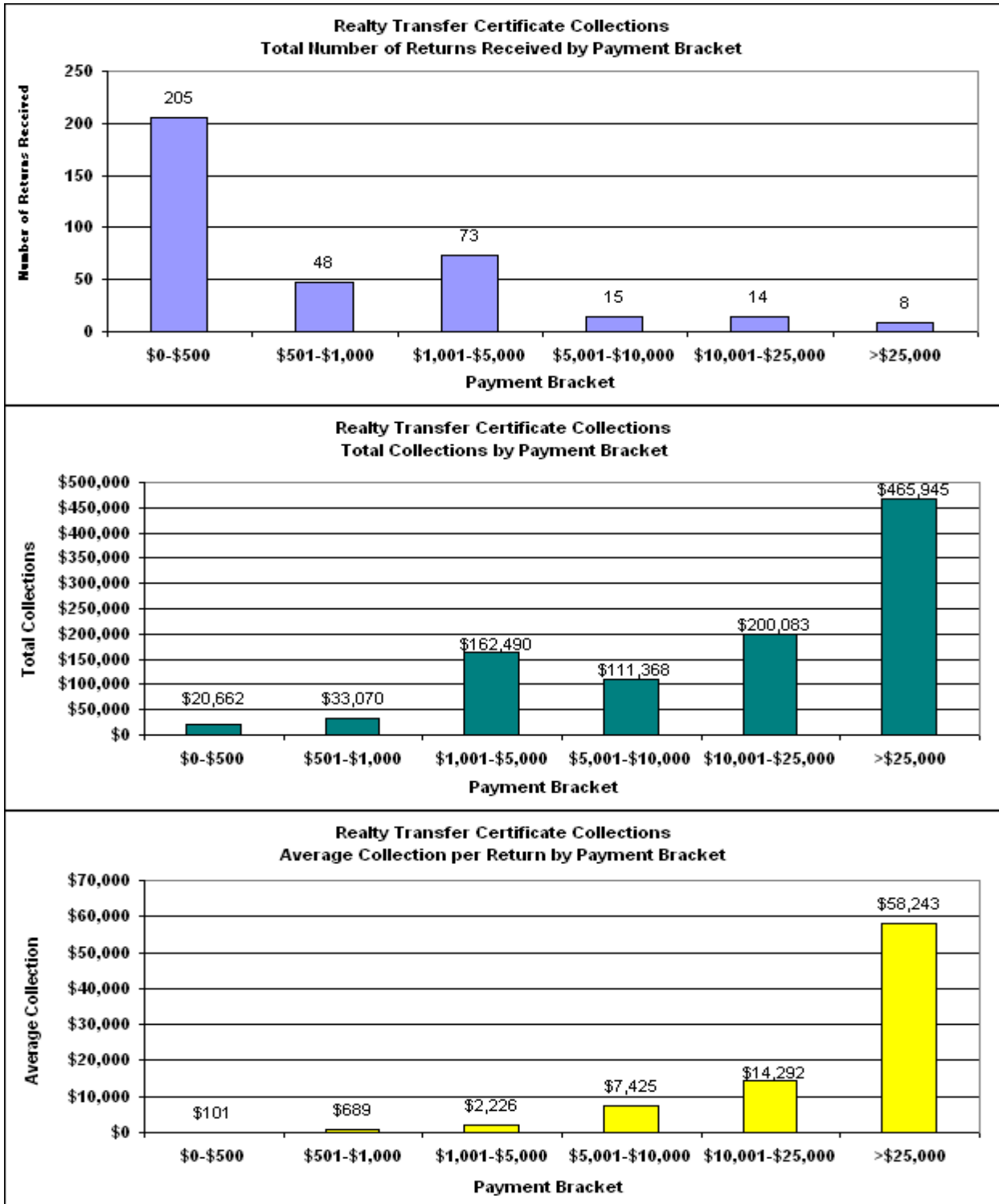
Pass-Through Entity Audit Collections FY07 and FY08			
	Non-Resident	Resident	Total
<b>Field Audit</b>	\$ 1,632,107		\$ 1,632,107
<b>Office Audit:</b>			
Gross Proceeds	\$ 33,880	\$ -	\$ 33,880
Interest Income	\$ -	\$ 244,416	\$ 244,416
Medical & Health Care Payments	\$ 5,897	\$ -	\$ 5,897
Mortgage Interest	\$ -	\$ 115,549	\$ 115,549
Nonemployee Compensation	\$ 1,407,437	\$ 182,179	\$ 1,589,616
Other Income	\$ -	\$ 21,069	\$ 21,069
Partner Non-filers	\$ 639,992	\$ 480,113	\$ 1,120,105
Property Sales	\$ 41,449	\$ 118,622	\$ 160,070
Rents	\$ 1,465	\$ 52,844	\$ 54,309
Royalties	\$ 20,677	\$ -	\$ 20,677
Substitute Payments in Lieu of Dividends of Interest	\$ -	\$ 4,176	\$ 4,176
<b>Grand Total</b>	<b>\$ 3,782,904</b>	<b>\$ 1,218,968</b>	<b>\$ 5,001,871</b>

The following graph shows the total collections by fiscal year 2006, 2007, and 2008 totaled \$5 million.



# Realty Transfer Certificate (RTC) Compliance Initiative

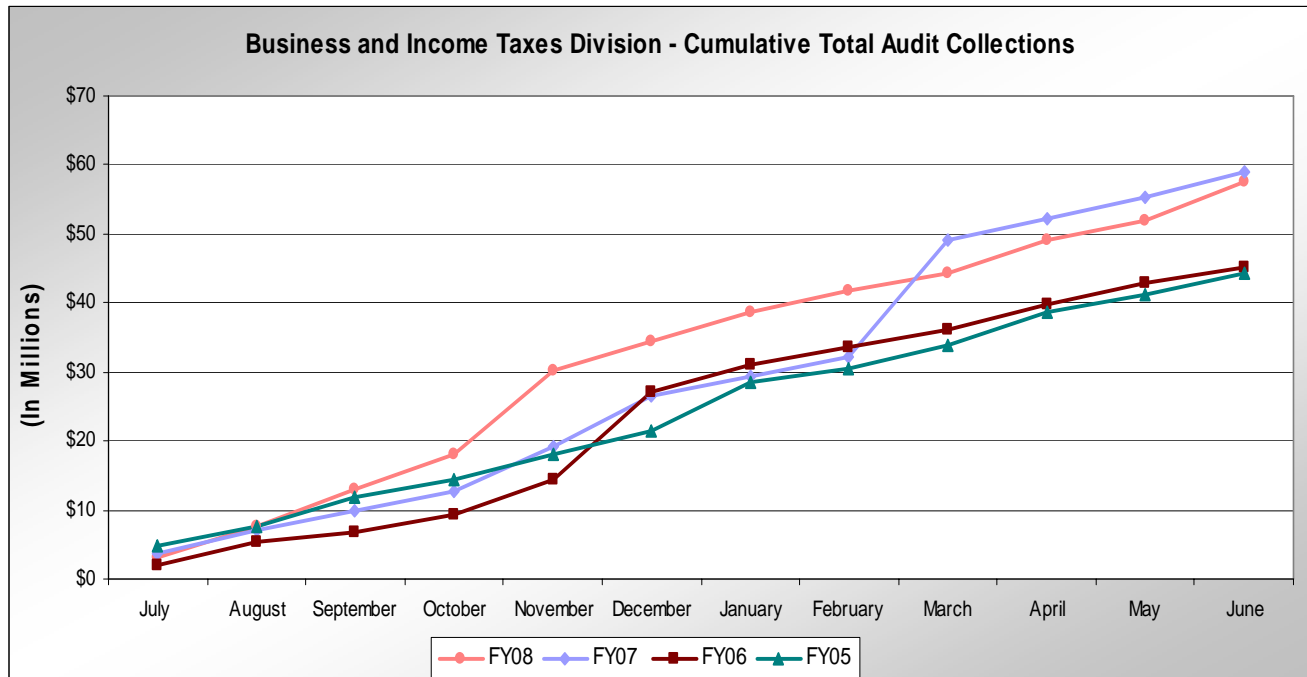
The objective of this project is to identify income tax non-filers among those selling Montana real property in five years from 2003-2007 and identify major cases of underreporting of gains on land sales. The project began in November 2007 and required an additional 93 temporary staff working 29,187 hours to help data enter the RTC's. As of June 30, 2008, the project has collected almost \$1 million from 11 different counties.



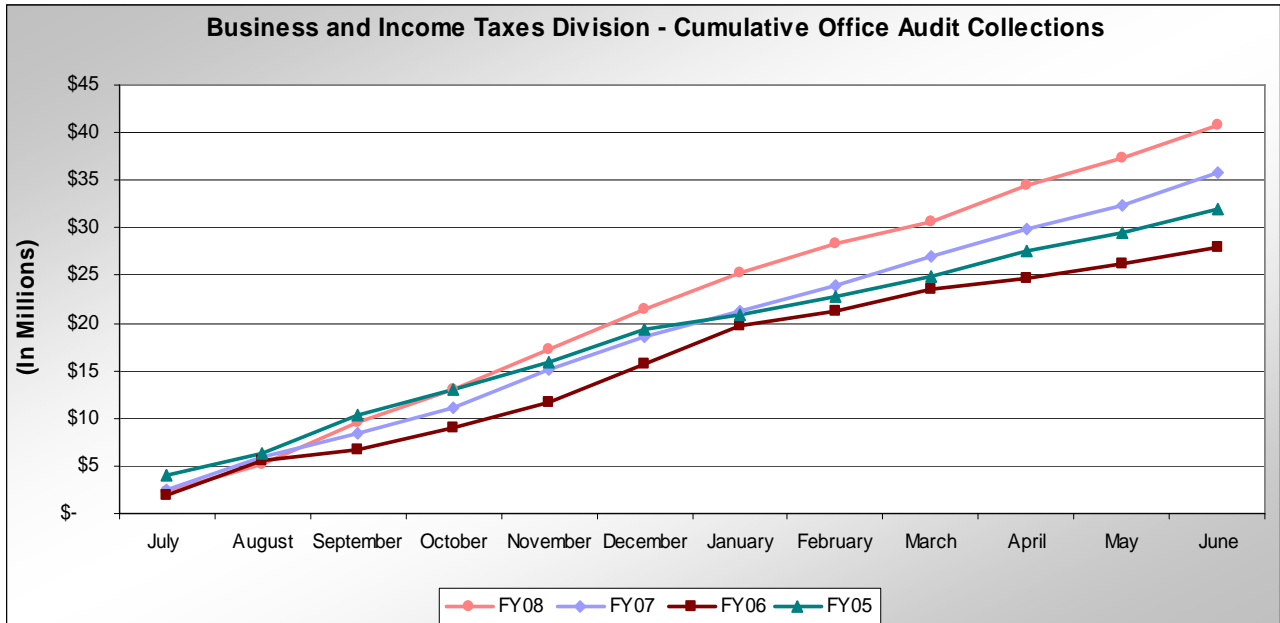
# Audit Collection Comparison by Fiscal Year

The following line chart compares FY08 audit activities with those of the three prior fiscal years. Detailed information of audit collections by tax type for FY08 is shown in the proceeding pages.

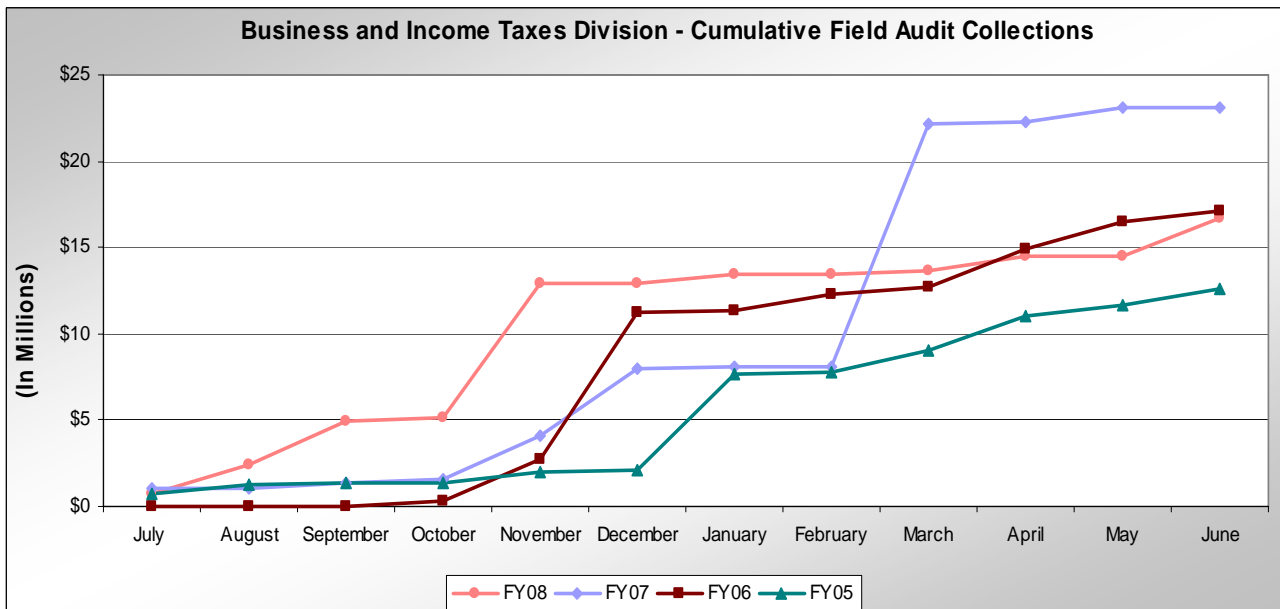
## Total Audit Collections: \$57.6 million



## Office Audit Collections: \$40.9 million

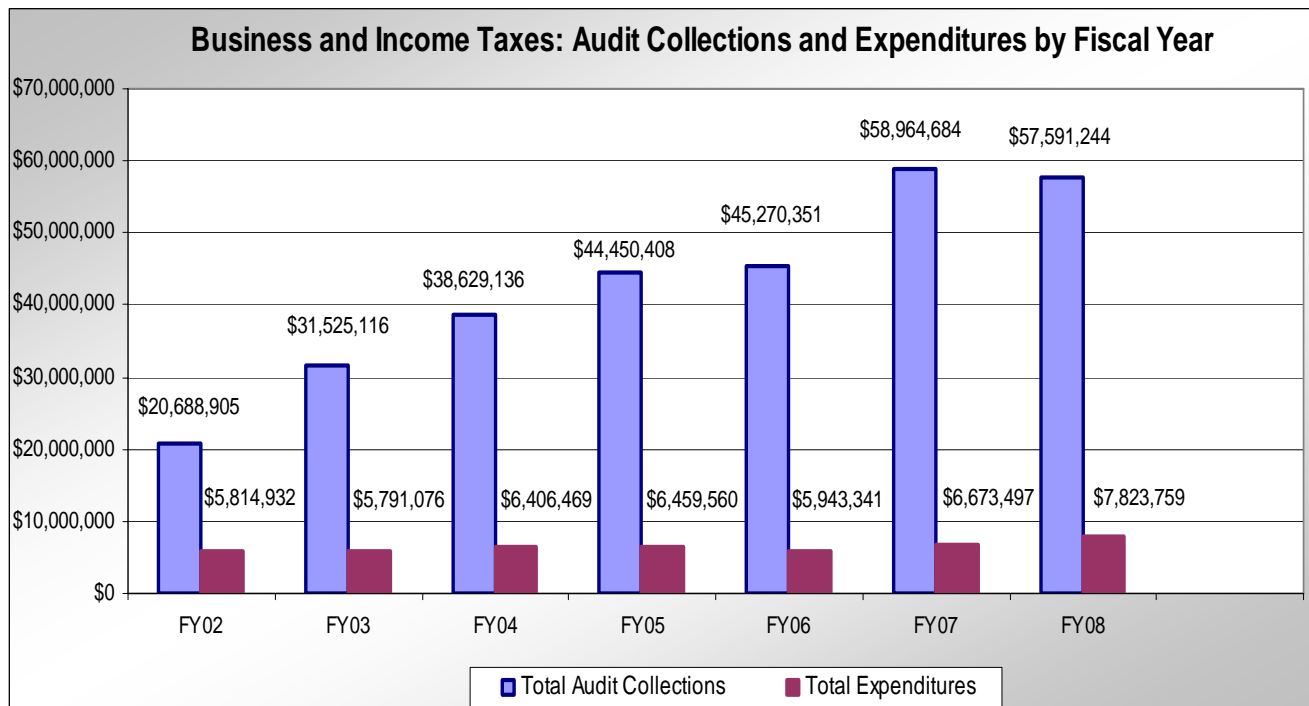


## Field Audit Collections: \$16.7 million





# Audit Collections to Expenditures

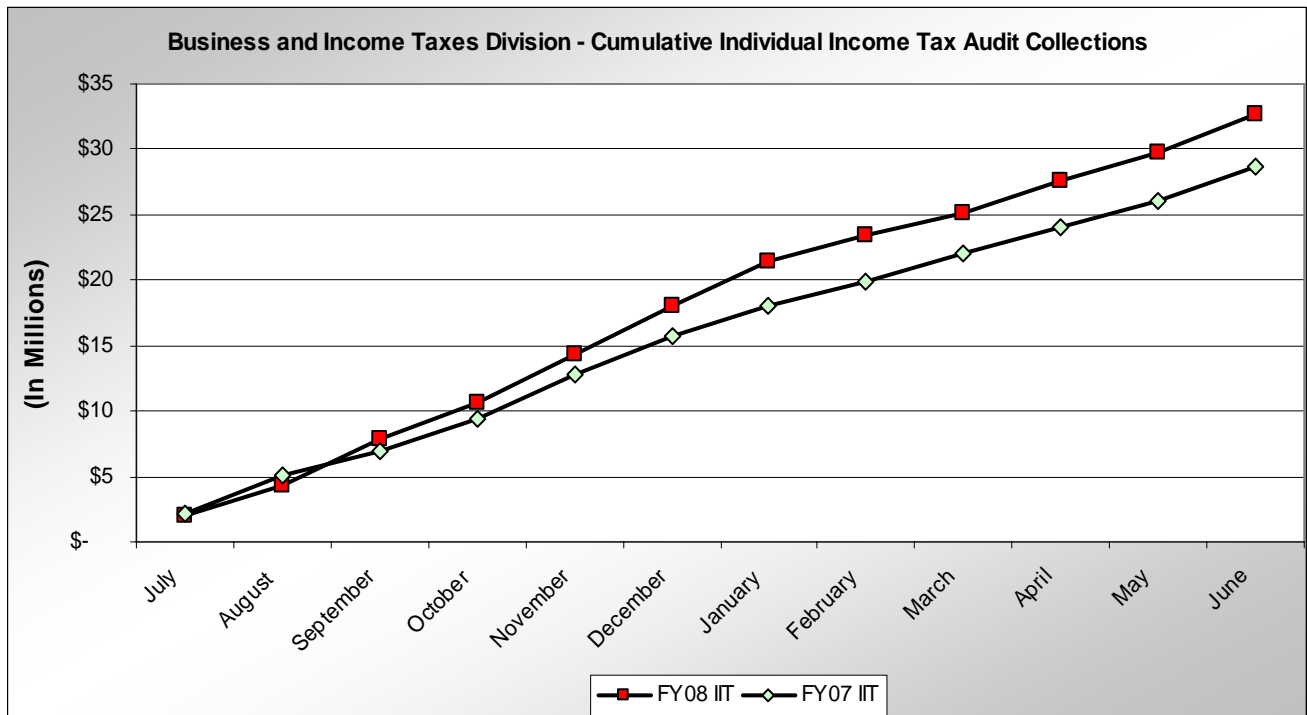


# Individual Income and Withholding Taxes

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.

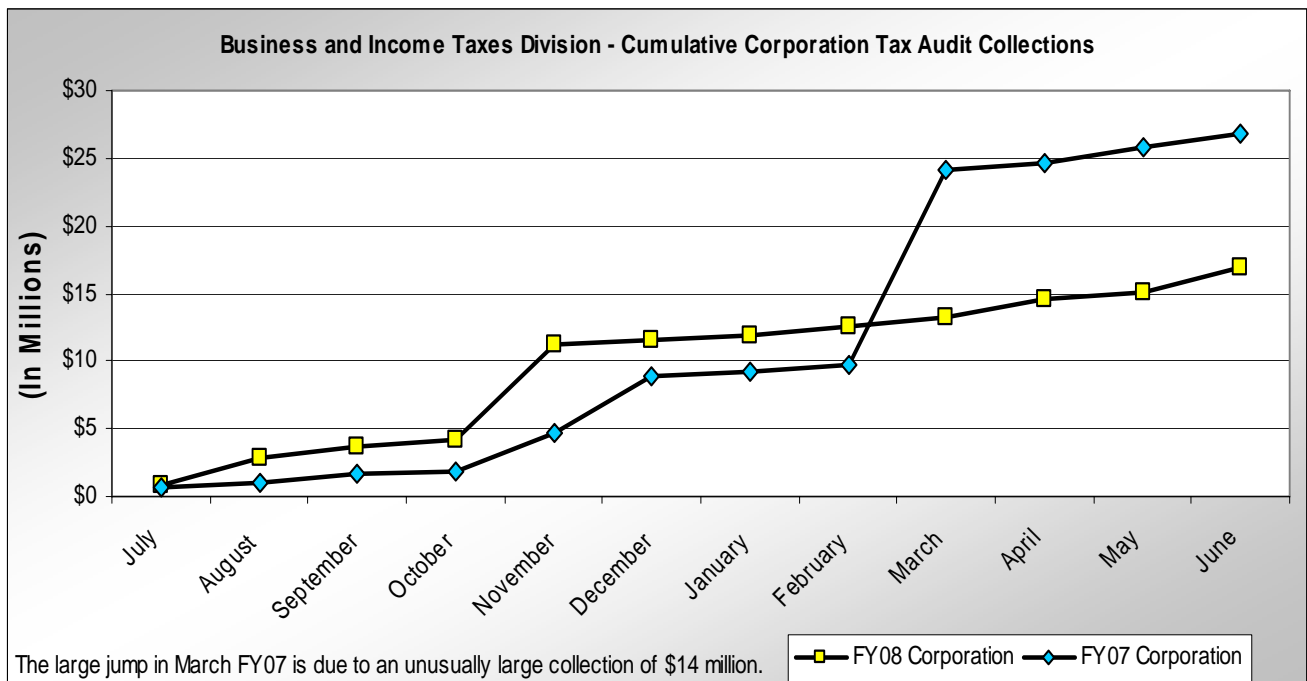
Individual income tax audit collections for fiscal year 2008 totaled \$32.6 million.



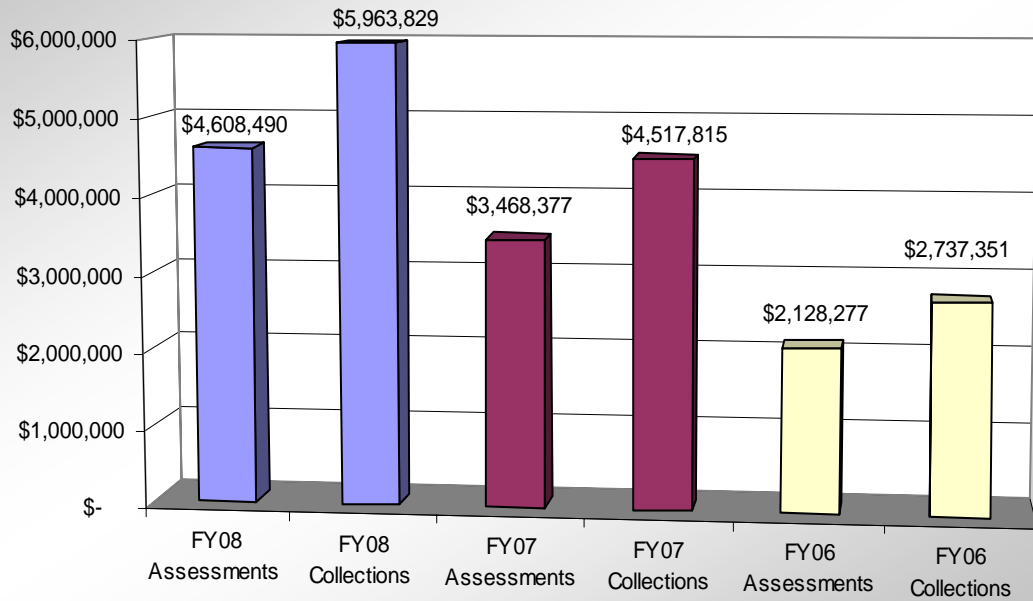
# Corporation License Taxes

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 fiscal year 2008 totaled \$16.9 million.

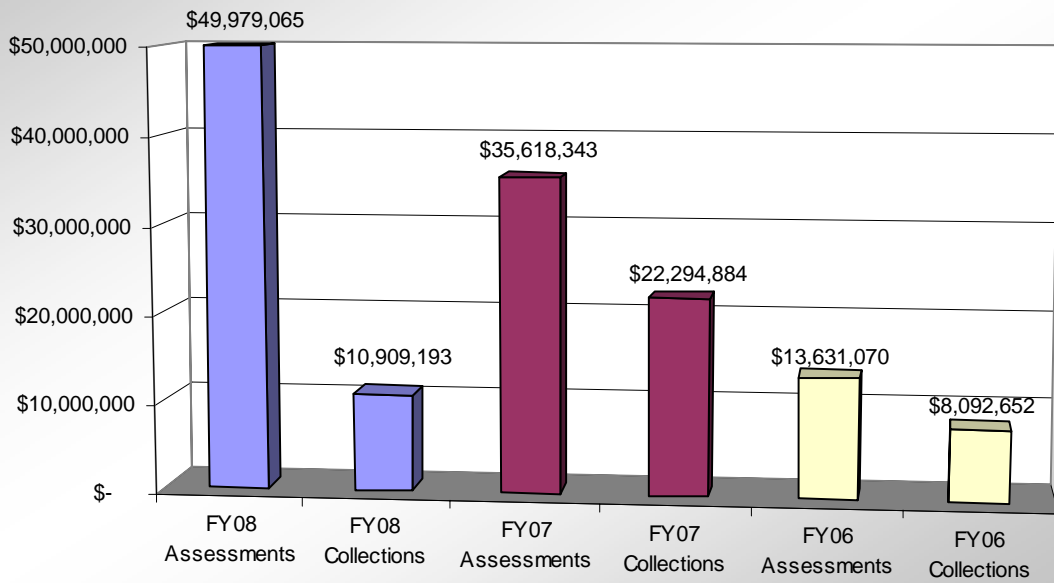


### Corporation License Tax Office Audit Assessments & Collections



Note: Collections may be significantly higher than assessments because 1) penalty and interest continues to accrue until the tax is paid off, 2) regular system billing payments are included in audit collections but not in audit assessments.

### Corporation License Tax Field Audit Assessments & Collections



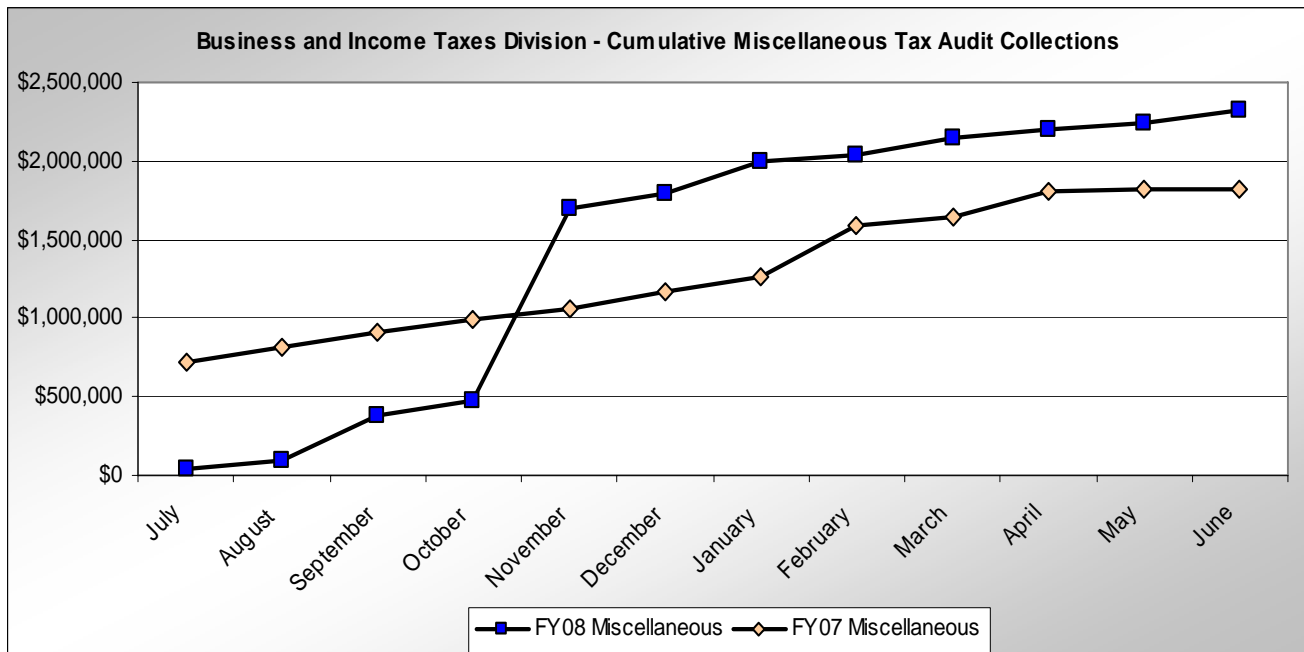
# Miscellaneous Taxes

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

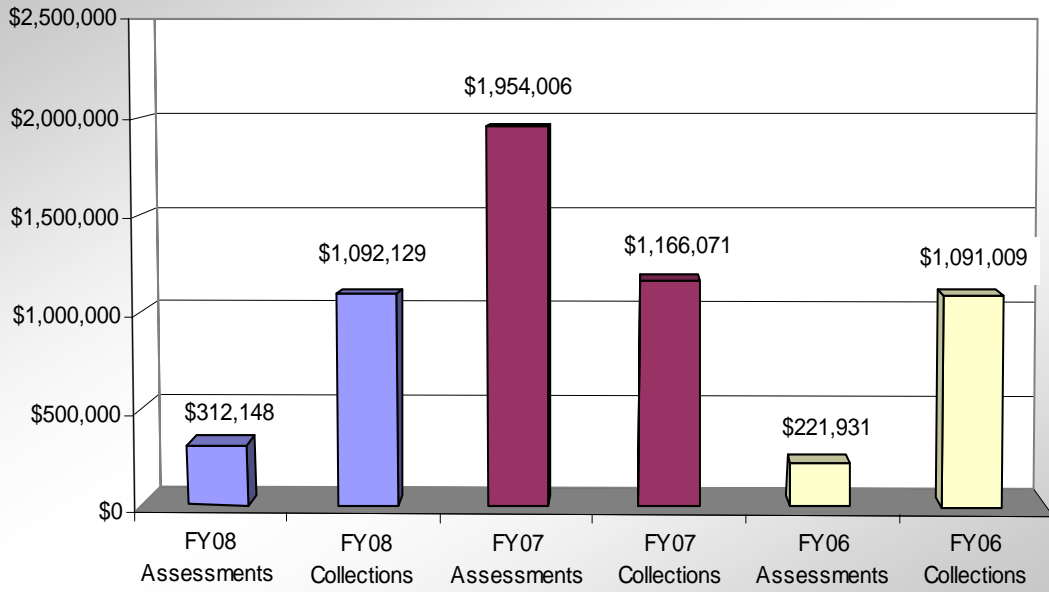
Several miscellaneous taxes that make up a significant part of the division's audit collections are:

- 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 fiscal year 2008 totaled \$2.3 million.

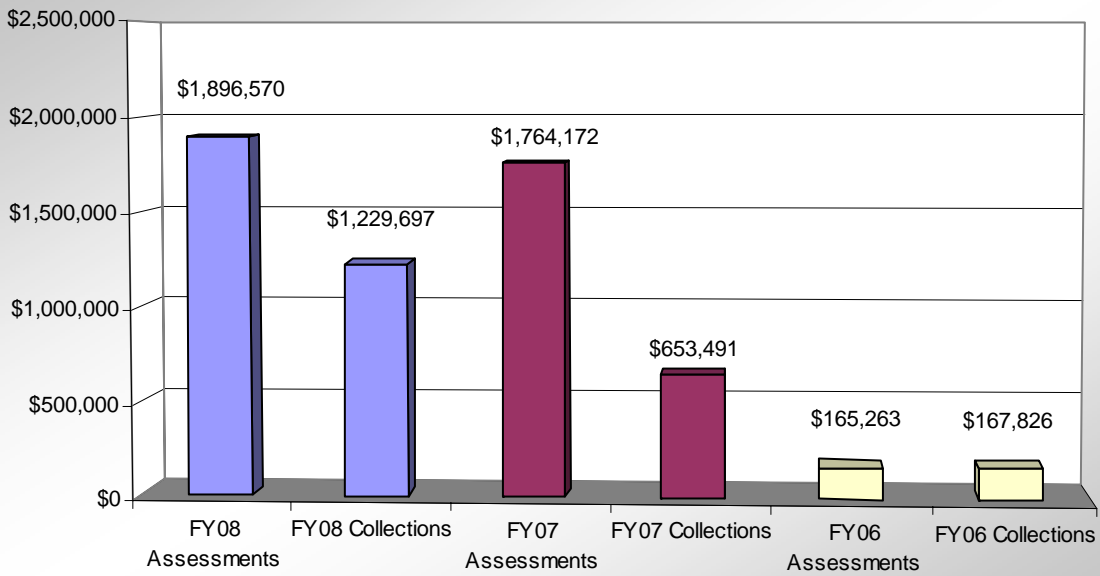


**Miscellaneous Taxes  
Office Audit Assessments & Collections**



Note: Collections may be significantly higher than assessments because 1) penalty and interest continues to accrue until the tax is paid off, 2) regular system billing payments are included in audit collections but not in audit assessments.

**Miscellaneous Taxes  
Field Audit Assessments & Collections**



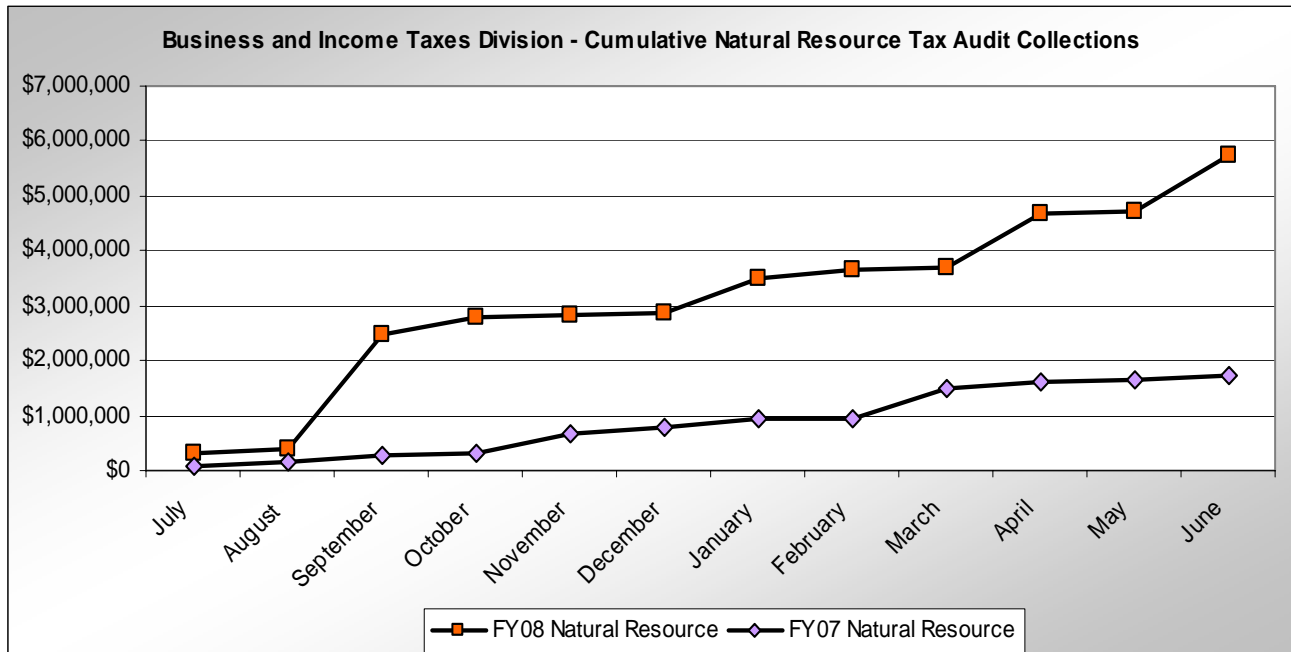
# Natural Resource Taxes

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.

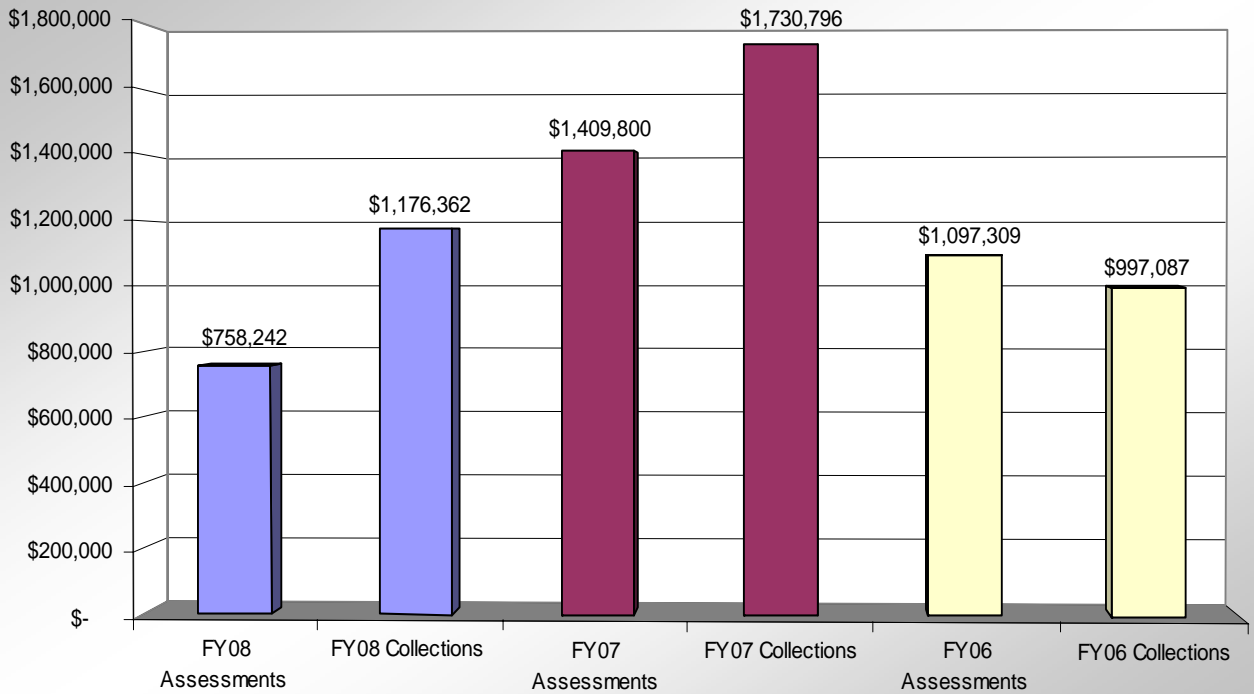
Natural resource tax collection is largely made up of the oil and natural gas production tax, however other sources of significant revenue are:

- 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 fiscal year 2008 totaled \$5.8 million.

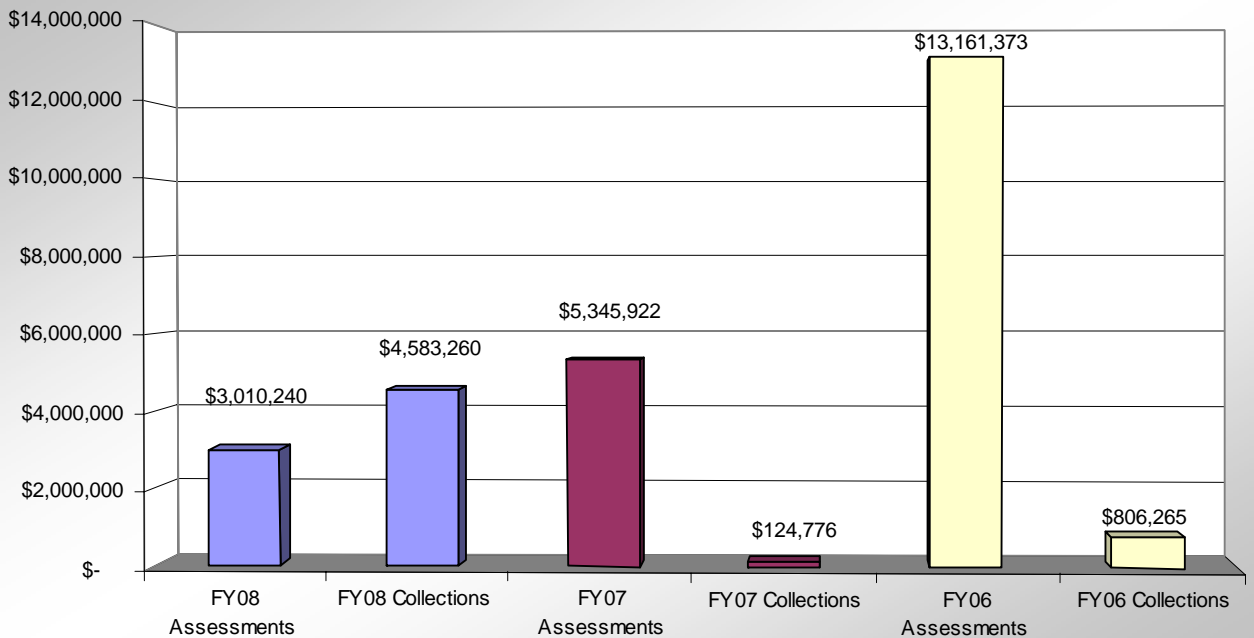


### Natural Resource Office Audit Assessments & Collections



Note: Collections may be significantly higher than assessments because 1) penalty and interest continues to accrue until the tax is paid off, 2) regular system billing payments are included in audit collections but not in audit assessments.

### Natural Resource Field Audit Assessments & Collections

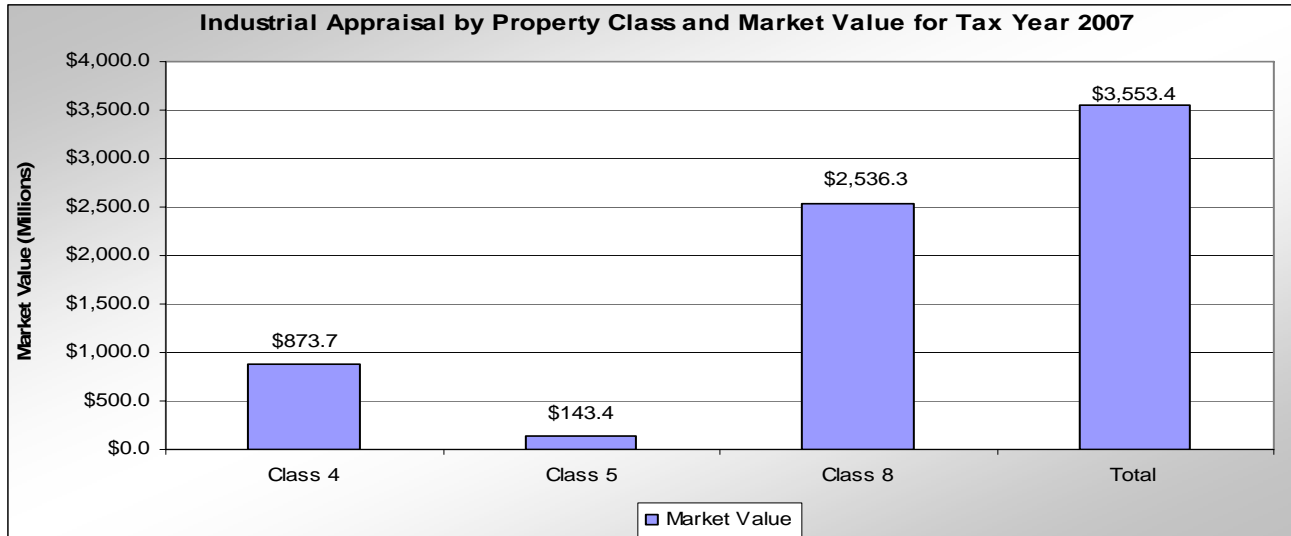




# Industrial and Centrally Assessed Property

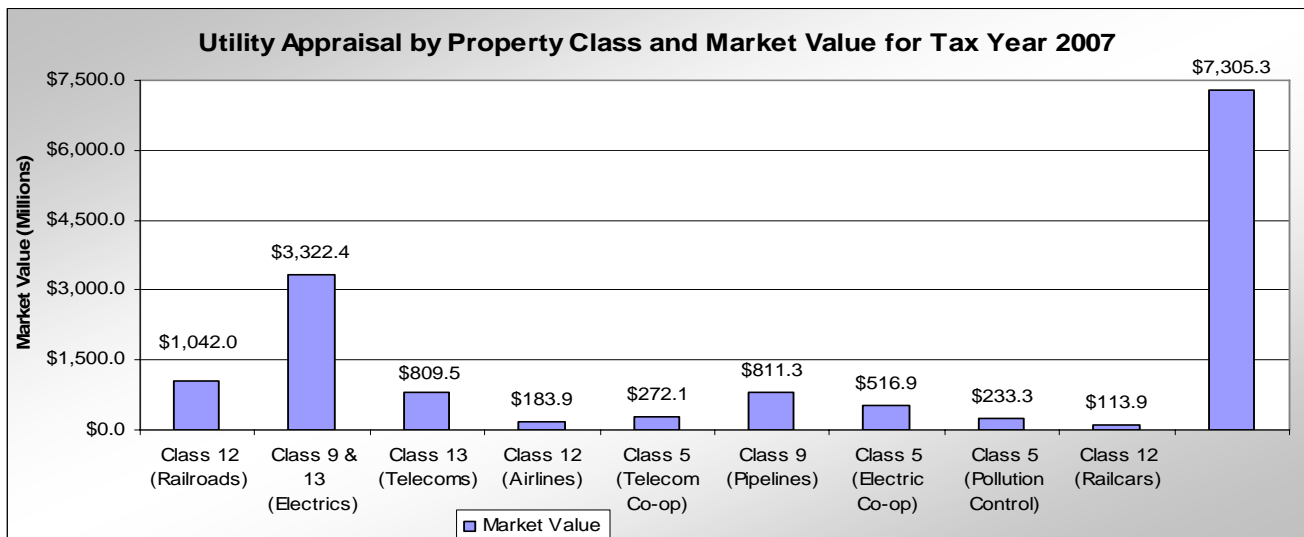
## Industrial Property Appraisals:

- Responsible for approximately 1,900 parcels of taxable property located across the State of Montana;
- Includes large companies within the grain industry, mining, wood products, and oil refining, plus many smaller commercial manufacturing companies and companies that have established locations in more than one county in the state.

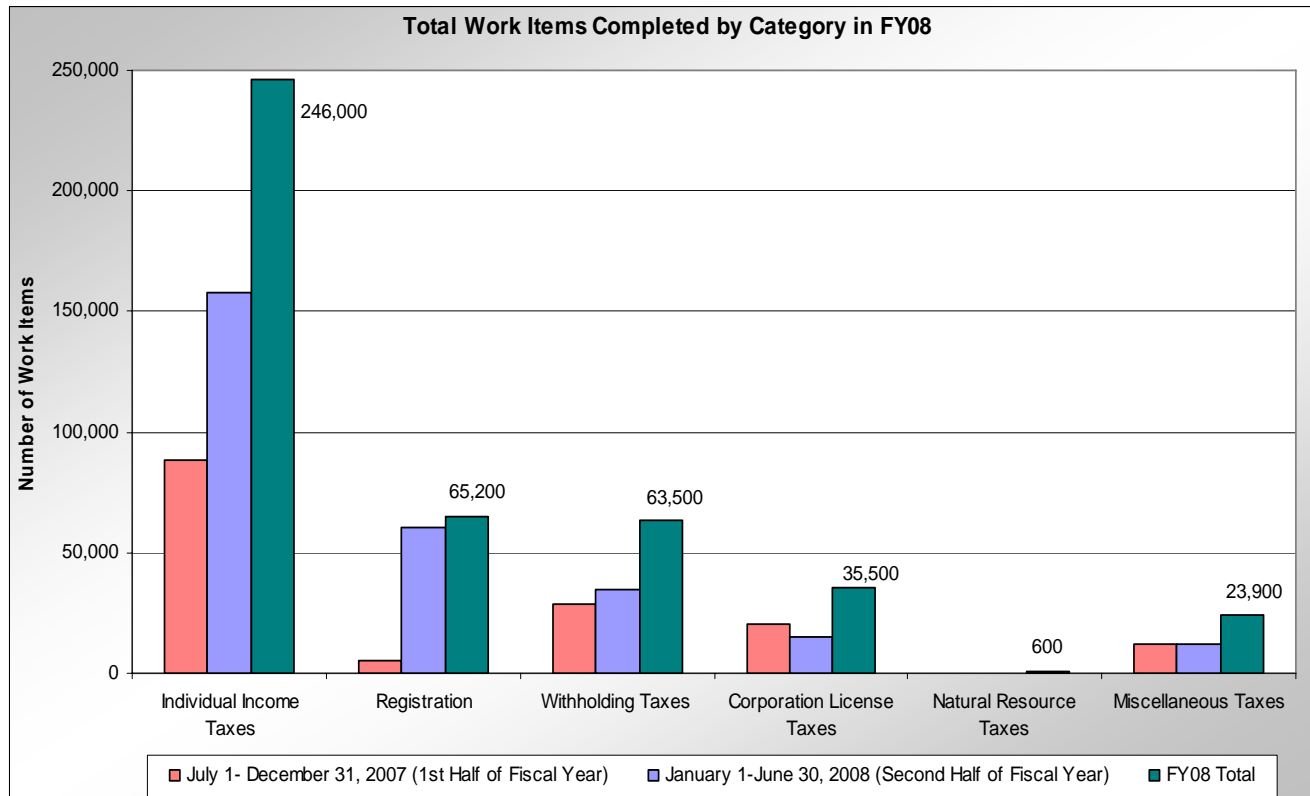


## Utility Property Appraisals:

- Responsible for approximately 330 public utility type properties located across the state or the country.
- State of Montana has the responsibility to assess for ad valorem tax purposes certain properties or portions of properties of large corporations that operate across county and state lines.
- Includes properties of railroads, utilities, pipelines, airlines, water transportation companies, railroad car companies, electric cooperatives, communications companies, and other public service companies.



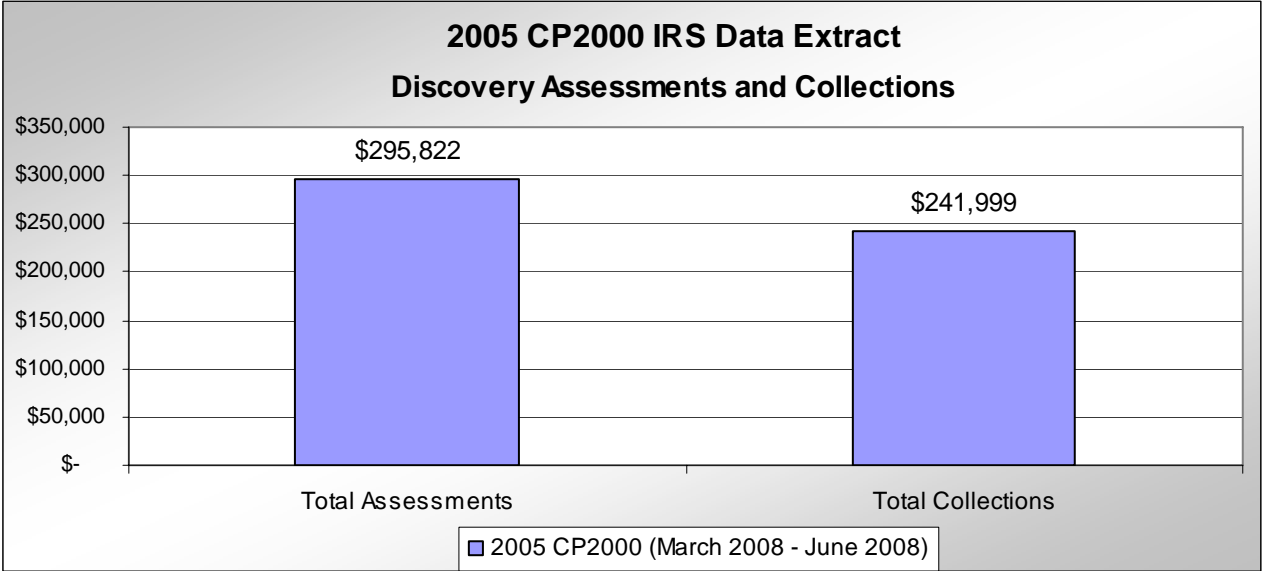
# Work Items-Tax Errors or Omissions Completed in FY08



# GenTax Discovery

Discovery is used to manage data imported from external sources (data files received from the Internal Revenue Service, other agencies) for the purpose of “discovering” opportunities for revenue recovery from non-registrants, non-filers, and under-reporters. Discovery is a companion product to GenTax which work together to be able to retrieve and cross match pertinent data.

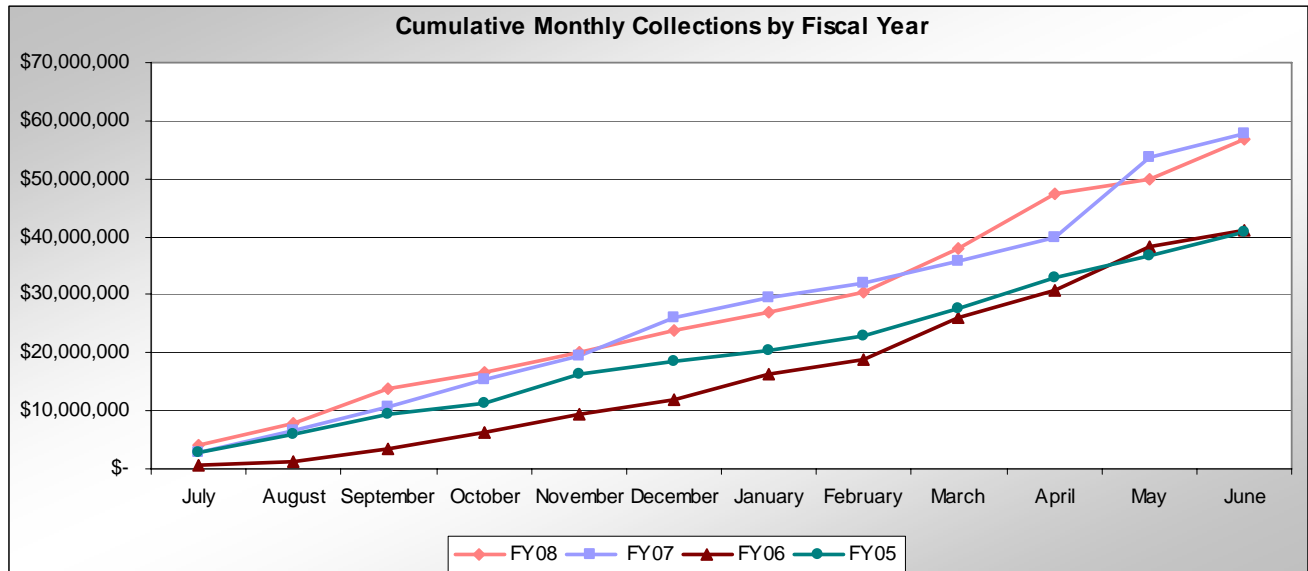
In the last year, development of Discovery has progressed steadily. Currently 33 auditors in Individual Income Tax and Corporation License Tax are working on various discoveries.



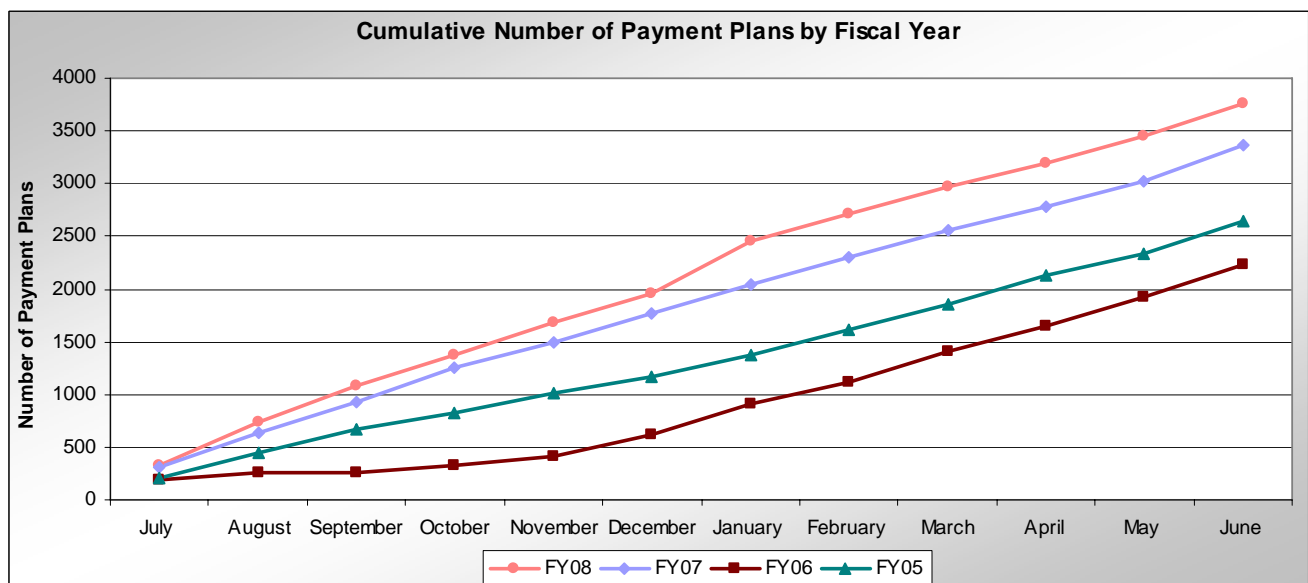
# Accounts Receivable and Collections

- Responsible for administering collection activities associated with delinquent account receivables of taxes statutorily administered by the department.
- Includes monthly statements of accounts, phone contacts, written notices, tax liens, funds and wage levies and legal activities such as debtor's examinations and orders to show cause.
- Administers centralized collection activities for other government agencies who contract with the department for collection services to collect outstanding debts owed the agencies.

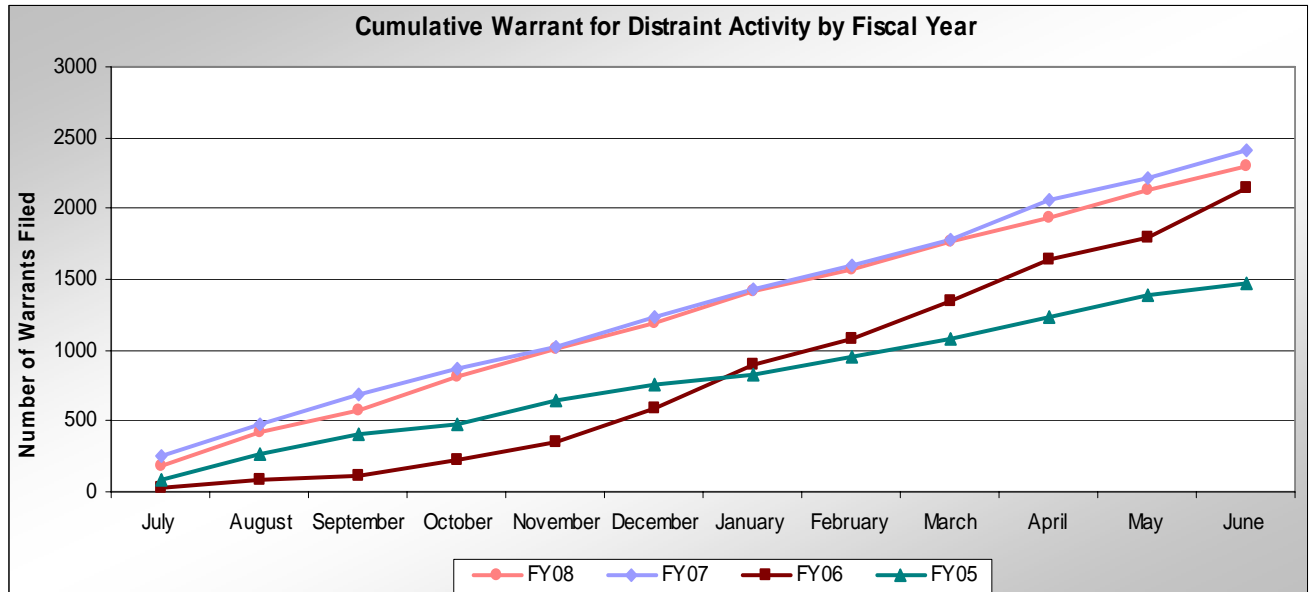
Accounts receivable collections for fiscal year 2008 totaled \$56.9 million.



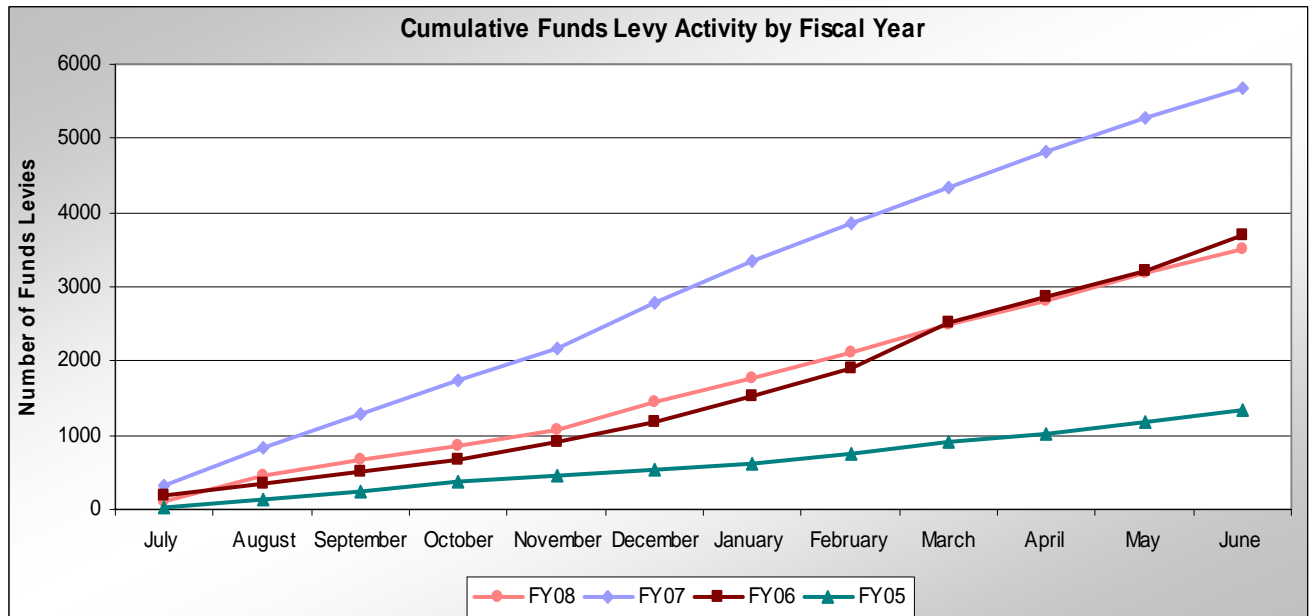
Total Number of Payment Plans Established for Fiscal Year 2008: 3,764



Total Number of Warrants Filed for Fiscal Year 2008: 2,306



Total Number of Levies Initiated for Fiscal Year 2008: 3,516



# Administrative Research Team

The administrative team consists of 4 research technicians, 1 support lead, and 1 management officer.

The administrative team is responsible for a wide variety of duties that span across all three divisions. Several of these duties include:

- Tracking/documentation of the Statement of Accounts (SOA), suggested replies, correspondence and legal referrals
- Front desk responsibilities – greeting/assisting taxpayers
- Management of state vehicles – tracking mileage, assign/manage the appointments to reserve the vehicles
- Data entry/Coordinate RTC project
- Track/update potential fraud case spreadsheet
- Complete requested tax certificates from the Corporation Bureau
- Assist taxpayers with requests for W-2s from previous years
- Assist the processing division during income tax season researching refunds that were returned due to bad addresses
- General administrative activities.

