

Montana Department of Revenue
Average Return on Investment in Tax Administration
FY2010

Step 1: Total Revenue Generated per Dollar Expended

48:1
<u>\$2,615,415,319</u> \$54,620,914

Step 2: Dividing Revenue Generated per Dollar Expended among Three Major Functions

Liquor

9:1
<u>\$37,519,372</u> \$4,007,349

State Level Taxes
(less 101 mills)

72:1
<u>\$1,329,367,764</u> \$18,568,662

Property
(includes 101 mills)

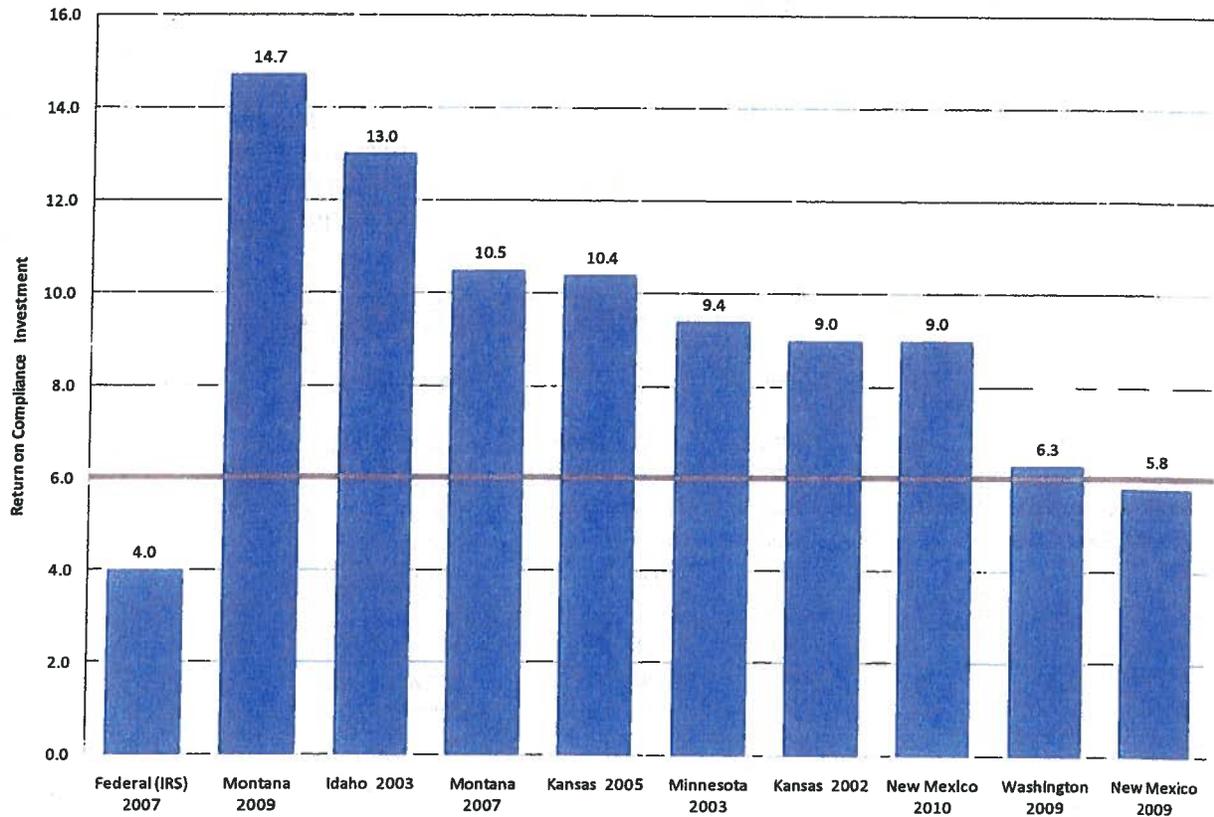
39:1
<u>\$1,248,528,183</u> \$32,044,903

Note: Expenditures from support divisions (DO, IT/PRO, CSR) prorated to major functions

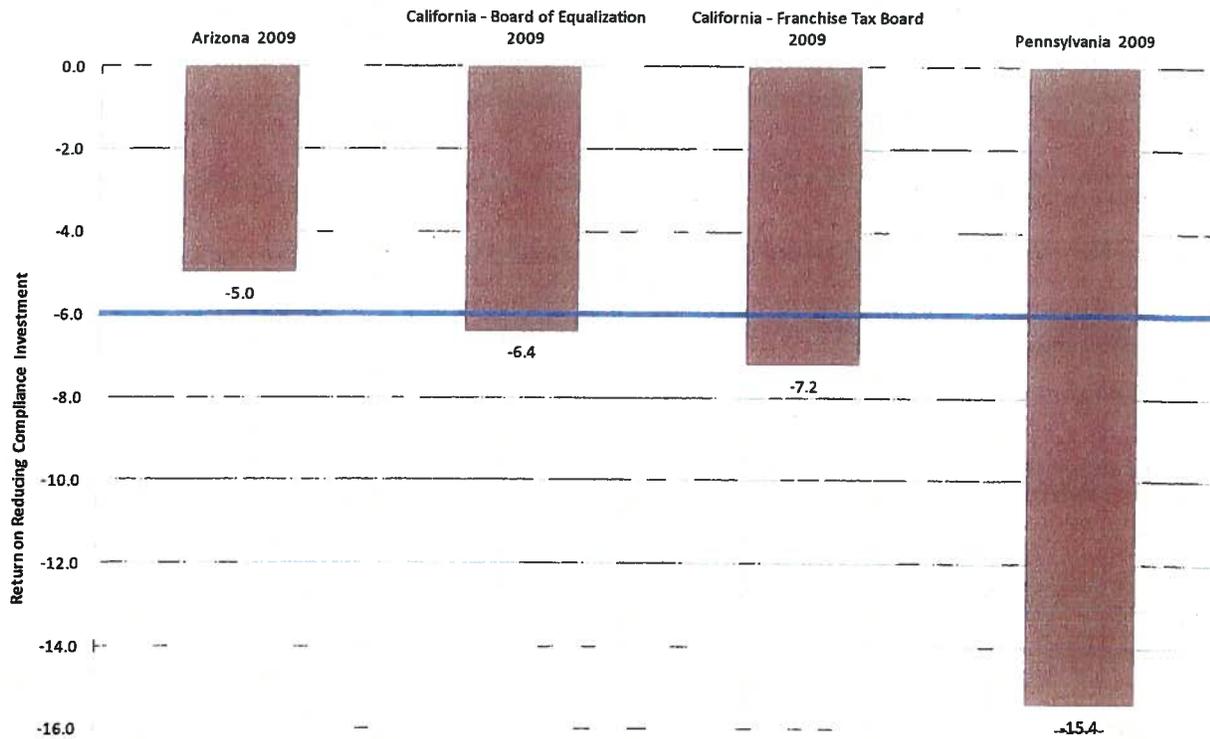


Montana Department of Revenue

Impact of Investing in Tax Compliance



Reduction in Compliance Investment



Choices for Revenue Agencies, Including the Montana Department of Revenue, Have Consequences

As a standardized practice, other states and the federal government collect information and develop estimates of the additional (or reduction) in tax revenue received for each additional (or reduced) dollar in the compliance department's budget. The examples provided in the table below exemplify the benefits of investing in compliance and the consequences of cutting collecting agencies' budgets.

Revenue Generated (or Lost) From Additions (or Reductions) in Compliance Initiatives					
<u>Government</u>	<u>Year</u>	<u>Investment or (Reduction)</u>	<u>Revenue or (Loss)</u>	<u>Return on Investment</u>	<u>Source</u>
Federal (IRS)*	2007	\$11,100,000,000	\$44,400,000,000	4 to 1	1
Arizona	2009	(\$10,800,000)	(\$54,000,000)	5 to 1	5, 6
California - Board of Equalization	2009	(\$41,500,000)	(\$264,000,000)	6.4 to 1	2
California - Franchise Tax Board	2009	(\$65,000,000)	(\$465,000,000)	7.2 to 1	2
Idaho	2003	\$926,000	\$12,000,000	13 to 1	3
Kansas	2002	\$6,000,000	\$54,000,000	9 to 1	3
Kansas	2005	\$1,440,000	\$15,000,000	10.4 to 1	3
Minnesota	2003	\$10,300,000	\$97,200,000	9.4 to 1	3
Montana	2007	\$1,052,893	\$11,085,122	10.5 to 1	4
Montana	2009	\$1,257,907	\$18,500,242	14.7 to 1	4
New Mexico * (first year)	2009	\$5,000,000	\$29,000,000	5.8 to 1	3
New Mexico * (ongoing)	2010	\$5,000,000	\$45,000,000	9 to 1	3
Pennsylvania*	2009	(\$13,000,000)	(\$200,000,000)	15.4 to 1	7
Washington *	2009	\$10,700,000	\$67,800,000	6.3 to 1	3

* Projected

Sources:

1. Reducing the Federal Tax Gap - A Report on Improving Voluntary Compliance - Internal Revenue Service, U.S. Department of the Treasury - 8/2/2007.
2. Furloughs at the Franchise Tax Board: Loss Is Seven Times Greater than the Savings - California Senate Office of Oversight and Outcomes - 2/12/2010.
3. Idaho's Tax Gap, 2009 Estimating Idaho's tax Gap and Developing Strategies to Reduce It - Idaho Tax Commission - 11/2009.
4. Montana Department of Revenue 2007 Biennium Compliance Package Collections by Month and 2009 Biennial Compliance Package Collections by Month.
5. Stronger Arizona - An estimate of state general fund losses as a result of Arizona Department of Revenue budget cuts.
6. Arizona Department of Revenue - Office of the Auditor General, "division analysis indicates corporate income tax audits result in \$15 in assessments for each \$1 spent, while audits of individual income taxes result in \$5 in assessments for each \$1 spent."
7. The Pennsylvania Budget and Policy Center: 30 Ways in 30 Days: Revenue Collections - Proposed Cuts to Revenue Department Penny Wise and Pound Foolish.



Business and Income Taxes Division

The following provides a discussion for the need to continue to fully fund the Division compliance staff and the need for the additional staff requested in the Governor's budget. In the Governor's budget the request for an additional funding of \$1,000,000 is forecasted to return \$5,000,000 in general fund revenue.

The following discussion highlights several areas of non-compliance that current staff focuses on and the potential issues/work the requested staff would be involved with.

Cross-Matches

The Division uses cross-matching techniques to identify non-filer and non-compliance cases. Cross-matching is a process of matching the Department's information to information received from non-Department data sources. Some of the outside agencies that the Department has information sharing agreements with include: Internal Revenue Service; Department of Justice; Department of Labor and Industry; Fish, Wildlife and Parks; Department of Public Health and Human Services; and the Supreme Court.

Non-Filer Cases: Over the last several years, the Division has identified approximately 31,900 non-filer cases. The Division has been able to work 16,300 of these cases. 15,600 of these non-filer cases have yet to be worked and may never be worked with the current staffing levels.

Non-Compliance Cases: Over the same period, the Division has identified 140,000 specific cases of non-compliance through our cross-matching techniques. Of these cases, the Division has been able to work 42,000 cases. These 42,000 cases generated almost \$13,000,000 in compliance collections. Unfortunately, there are 98,000 cases that remain to be worked.

Pass-Through Entity Compliance

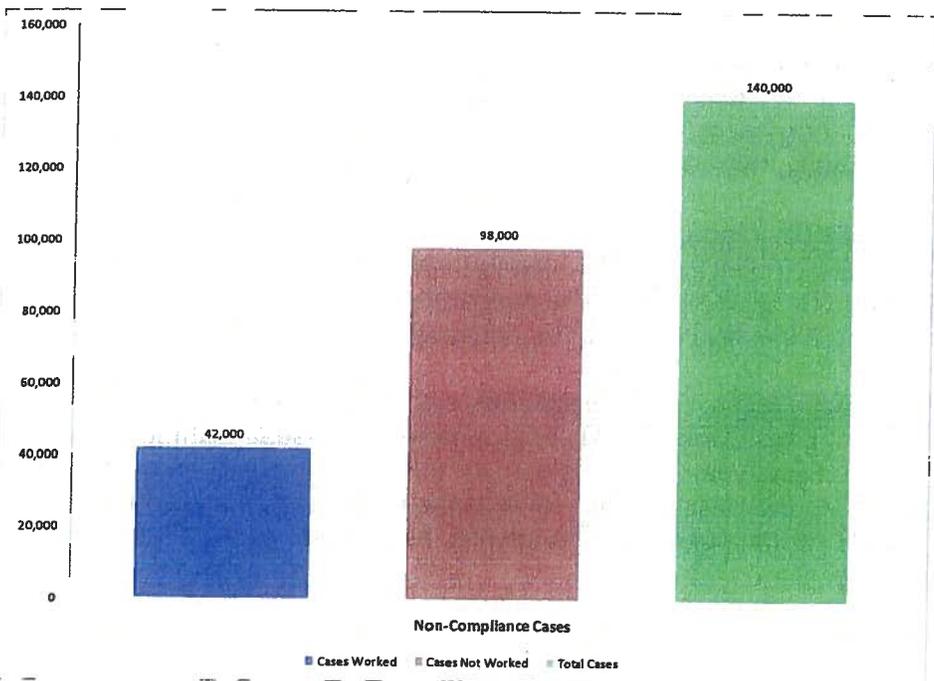
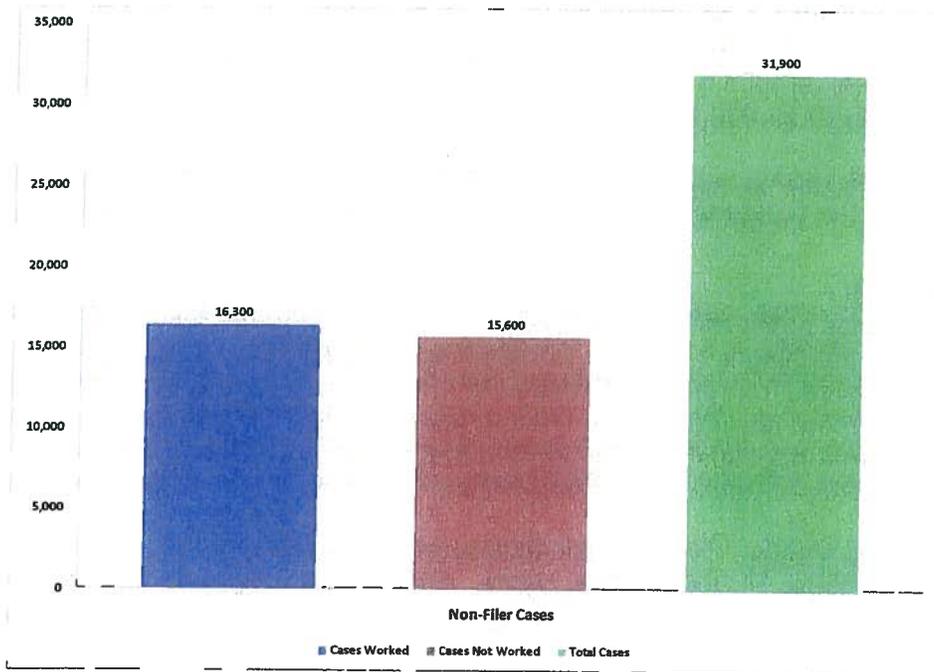
With the continued explosive growth of pass-through entities (partnerships and s-corporations) and the complexity of the pass-through entities multi-tiered structure, the Division is having difficulty providing the necessary compliance coverage.

Compliance Cases: The Division has only been able to work a very small number of pass-through entity non-compliance cases. But the cases that were worked in fiscal year 2010 totaled \$7.3 million in compliance collections. With a properly staffed pass-through compliance unit and with the additional requested FTE the Division anticipates that similar results would be achieved in the 2013 Biennium.

Income Reporting Audits

Because Montana's income tax system is based on the federal system, it is imperative that the Division make sure that the federal information reported on Montana's tax returns is correct.

Compliance Coverage: Past experience with IRS audits has shown a very limited coverage of reported income and expenses (federal income tax issues) for tax purposes is actually done. Between the IRS and the Division's field audit staff only 0.6% of the 500,000 individual income tax returns received by the Department are audited in detail for federal income tax issues each per year. Simply relying on the IRS for audit coverage of federal income tax issues doesn't provide the necessary audit coverage to ensure compliance.





Dan Bucks
Director

Montana Department of Revenue



Brian Schweitzer
Governor

Property Assessment Division Staffing Levels – past to present

North Central Montana – Cascade, Pondera, Toole, Teton, Glacier

Year	Staffing Levels
1996	39
2010	27
Decrease in Staff over time	12

North Central Montana has experienced a 31% decrease in staffing level since 1996.

Eastern Montana – see county detail attached

Year	Staffing Levels
1994	108.5
2010	76
Decrease in Staff over time	32.5

Eastern Montana has experienced a 30% decrease in staffing level since 1994.

Eastern Montana county detail

County	1994 staff	Current Staff	Staff reduction
Big Horn	6	3	3
Carbon	5	4	1
Carter	2	1	1
Custer	8	5	3
Daniels	2.5	2	0.5
Dawson	4	4	0
Fallon	4	2	2
Golden Valley	3	1	2
Meagher	2	1	1
Musselshell	5	1	4
Powder River	4	2	2
Prairie	2.5	1	1.5
Richland	5	4	1
Roosevelt	3	2	1
Rosebud	6	2	4
Sheridan	4	3	1
Stillwater	4	2.5	1.5
Sweet Grass	2	1.5	0.5
Treasure	1	1	0
Wheatland	3	2	1
Wibaux	2.5	1	1.5
Yellowstone	30	30	0
Total	108.5	76	32.5

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Tax auditors bring in more than twice revenue goal

Posted: Friday, February 4, 2011 12:15 am

The Associated Press |

BOISE — The Idaho State Tax Commission's tax compliance initiative is well ahead of projected goals, with temporary auditors bringing in \$32 million in their first 18 months on the job.

The agency is looking to expand the program by making 48 temporary auditors permanent — and adding more in coming quarters to pursue tax scofflaws.

Tax Commissioner David Langhorst said Thursday that continued expansion hinges on hitting goals every quarter.

That's a condition Gov. Butch Otter has put on the program.

So far, however, the new auditors are worth their weight in collections.

Last year, auditors brought in \$20.5 million, twice their goal.

Through this year's first six months, they've collected \$12.2 million, already above the full-year, \$11.5 million goal.

The program's four-year projection is \$67 million in increased revenue.

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