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# Business and Income Taxes Division – Compliance and Collections Fiscal Year End 2011 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.

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 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 2011  
July 1, 2010 – June 30, 2011**

<b>Compliance Activities</b>	<b>First Half</b>	<b>Second Half</b>	<b>Total</b>
Individual Income Tax	\$ 16,892,300	\$ 17,019,400	\$33,911,700
Corporation License Tax	\$ 7,269,200	\$ 20,165,820	\$27,435,020
Natural Resource Tax	\$ 793,800	\$ 2,492,750	\$ 3,286,550
Miscellaneous Taxes	\$ 1,056,040	\$ 793,630	\$ 1,849,670
Pass Through Business Taxes	\$ 69,400	\$ 353,200	\$ 422,600
Centrally Assessed/Industrial Property	\$ 3,660	\$ 0	\$ 3,660
<b>Total Audit Collections</b>	<b>\$26,084,400<sup>1</sup></b>	<b>\$40,824,800<sup>1</sup></b>	<b>\$66,909,200<sup>1</sup></b>

**Summary of Compliance Activities  
Fiscal Year End 2010  
July 1, 2009 – June 30, 2010**

<b>Compliance Activities</b>	<b>First Half</b>	<b>Second Half</b>	<b>Total</b>
Individual Income Tax	\$ 23,746,816	\$ 18,062,267	\$ 41,809,083
Corporation License Tax	\$ 7,461,333	\$ 7,622,814	\$ 15,084,147
Natural Resource Tax	\$ 15,221,360	\$ 2,093,538	\$ 17,314,898
Miscellaneous Taxes	\$ 726,867	\$ 3,750,611	\$ 4,477,478
Pass Through Business Taxes	\$ 167,457	\$ 128,734	\$ 296,191
Centrally Assessed/Industrial Property	\$ 0	\$ 100,084	\$ 100,084
<b>Total Audit Collections</b>	<b>\$47,323,833<sup>1</sup></b>	<b>\$31,758,048<sup>1</sup></b>	<b>\$79,081,881<sup>1</sup></b>

<sup>1</sup>The selective compliance initiatives and GenTax Discovery collections are included in the Audit Collection total. Further note: Activities associated with delinquent account receivables of taxes owed are also 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. For the current and previous fiscal years, the pass-through audit program is highlighted.

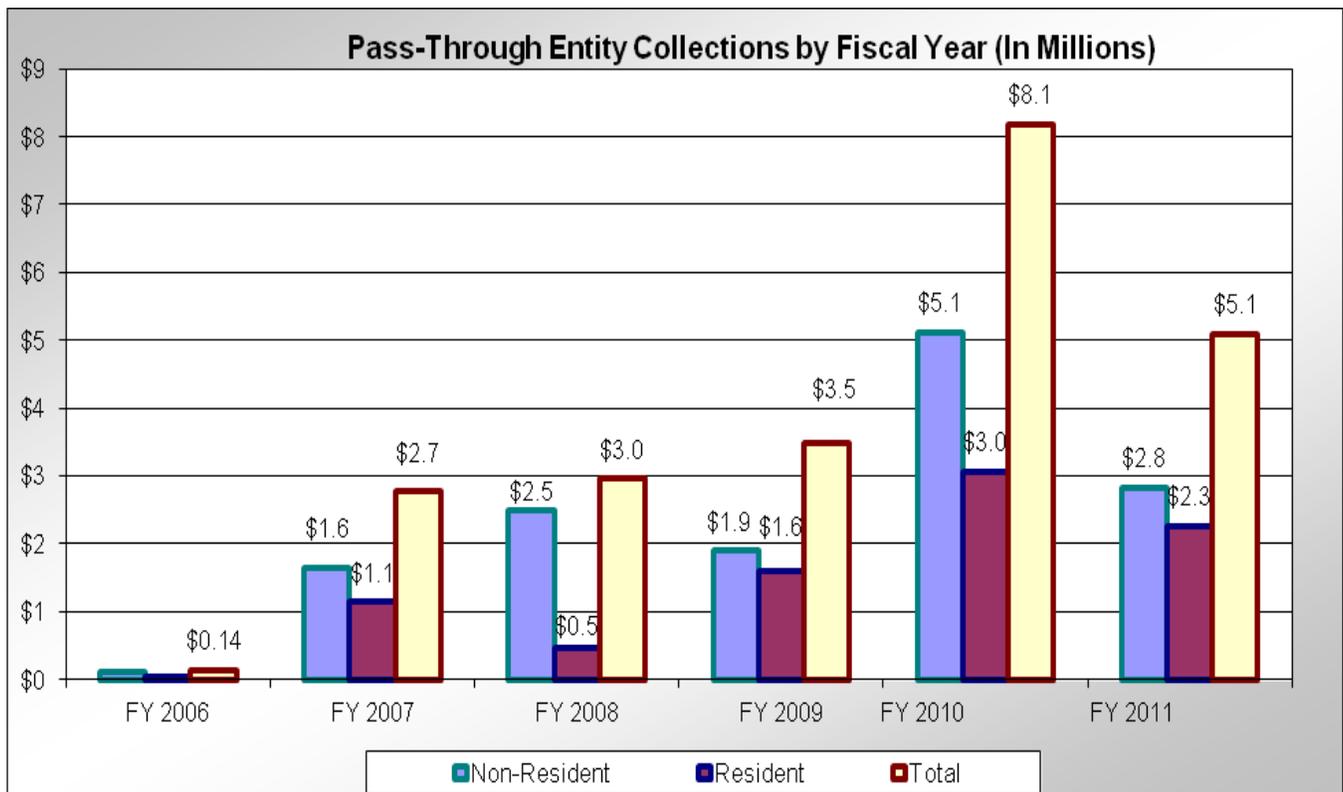
## Pass-Through Entities and Collections

Increasingly, in Montana and nationwide, business and investment activities are being conducted by pass-through entities. The most common type of pass-through entity today is the limited liability company or LLC. Other types of pass-through entities are partnerships and S corporations. Income and expenses are reported in the tax returns of the owners. These owners can be corporations, individuals, other pass-through entities, or a mix of all of them. Due to the complex nature of pass-through entities, they often represent a challenge for tax administration.

The pass-through audit program is a combination of office and field audits which have focused on specific issues related to pass-through entities (individual and business tax collections are represented in the chart below).

The following graph shows resident, non-resident, and total collections by fiscal year.

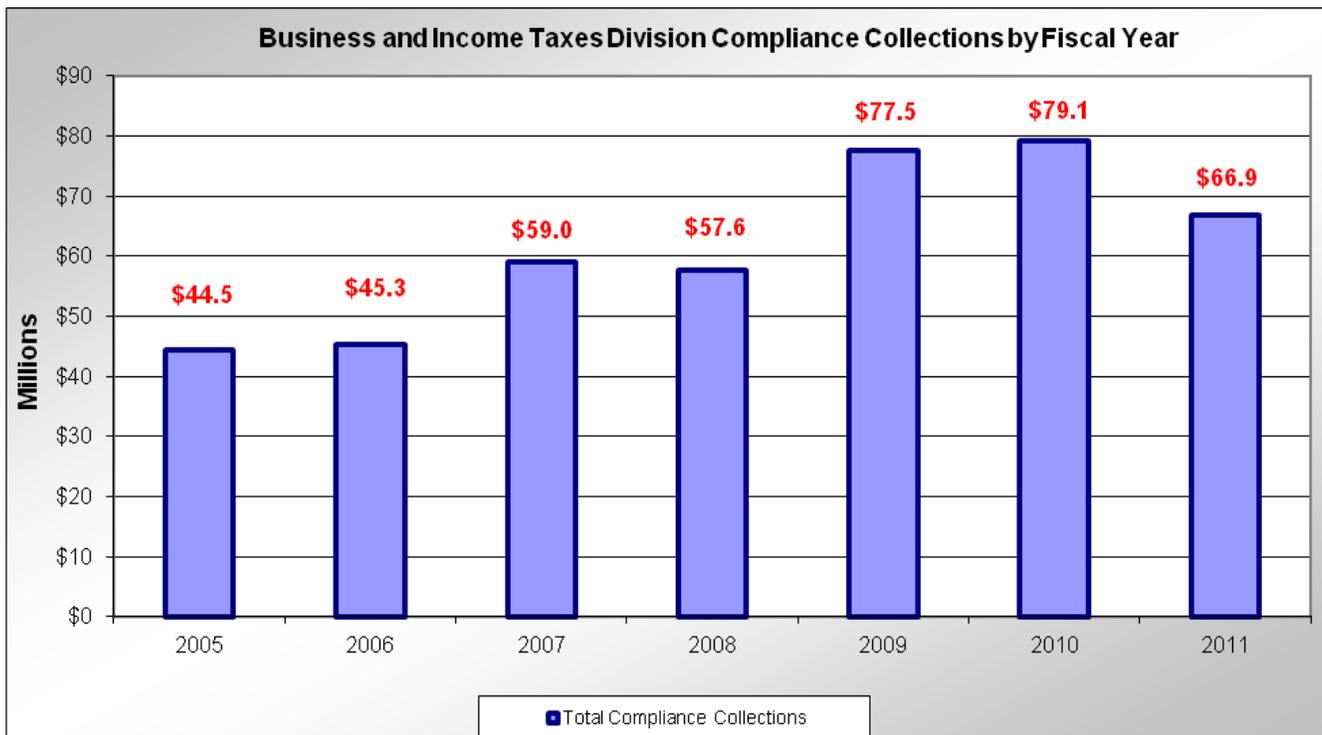
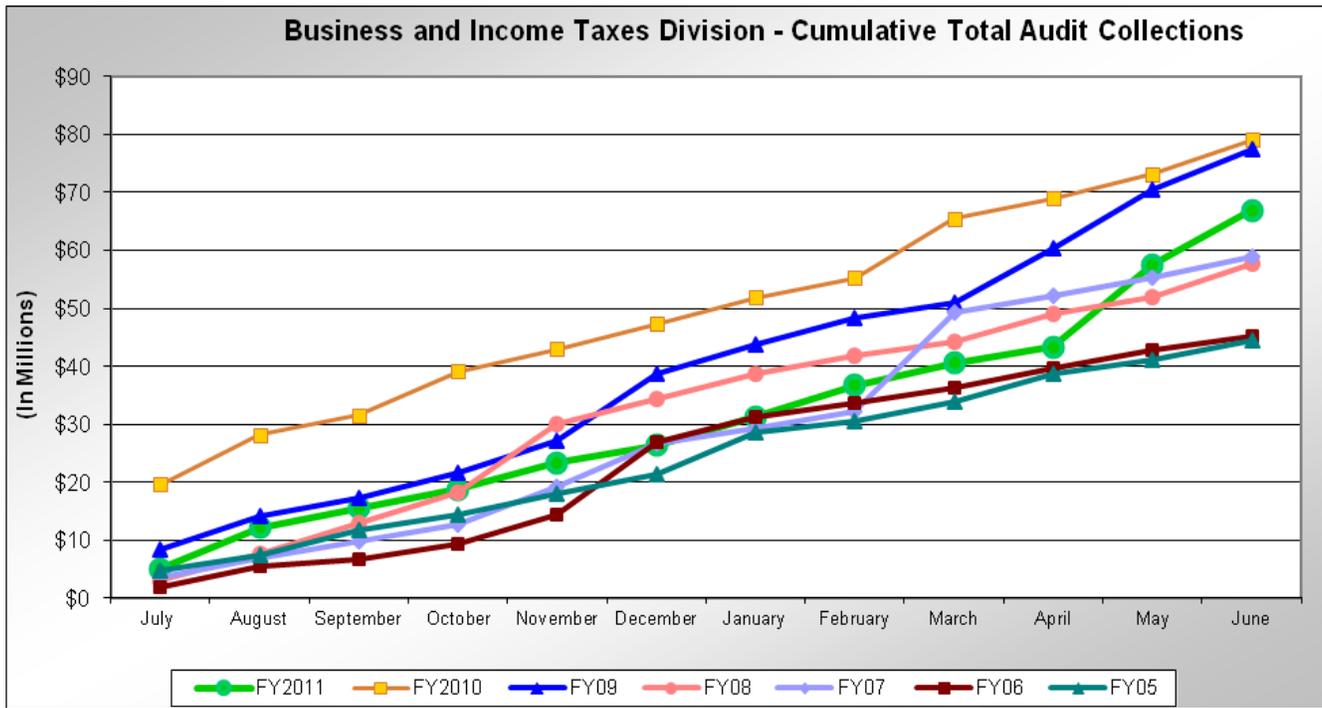
**Total Collections (all fiscal years): \$22.6 million**  
**Residents: \$8.5 million; Non-Residents: \$14.1 million**



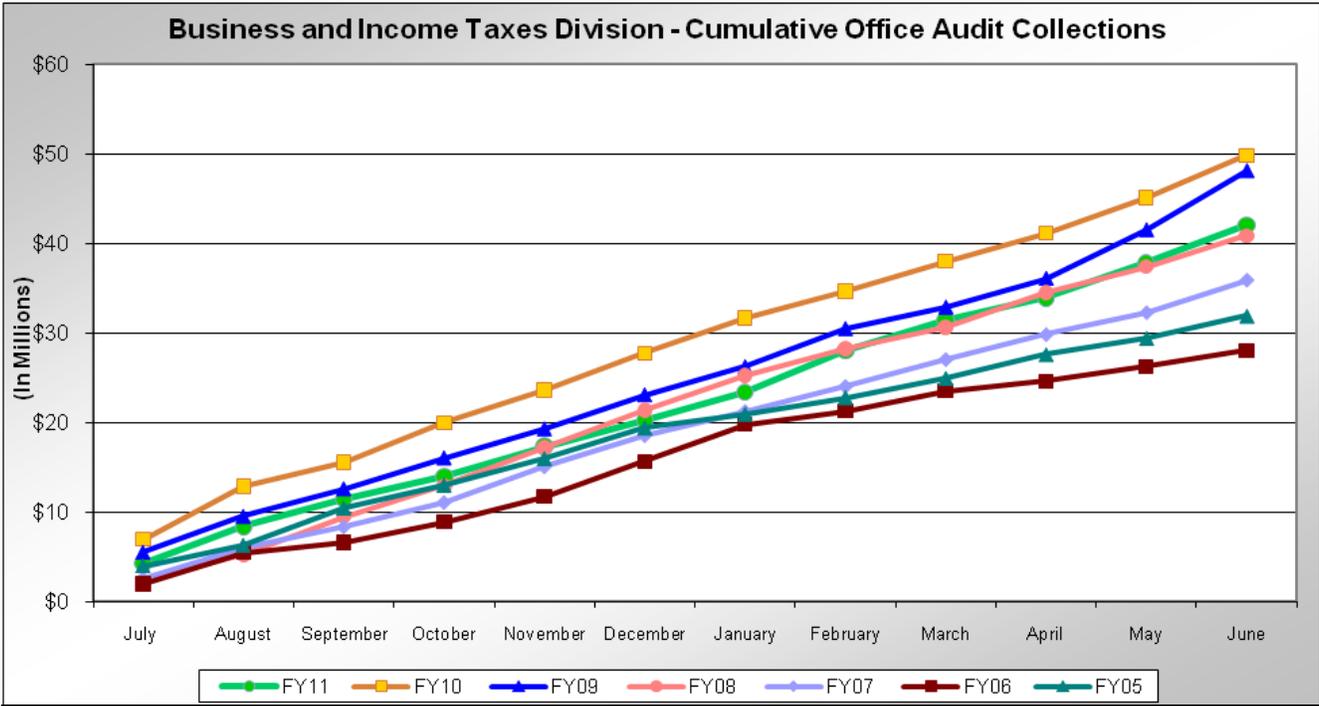
# Audit Collection Comparison by Fiscal Year

The following line chart compares FY11 audit activities with those of the six prior fiscal years. Detailed information of audit collections by tax type for FY11 is shown in the following pages.

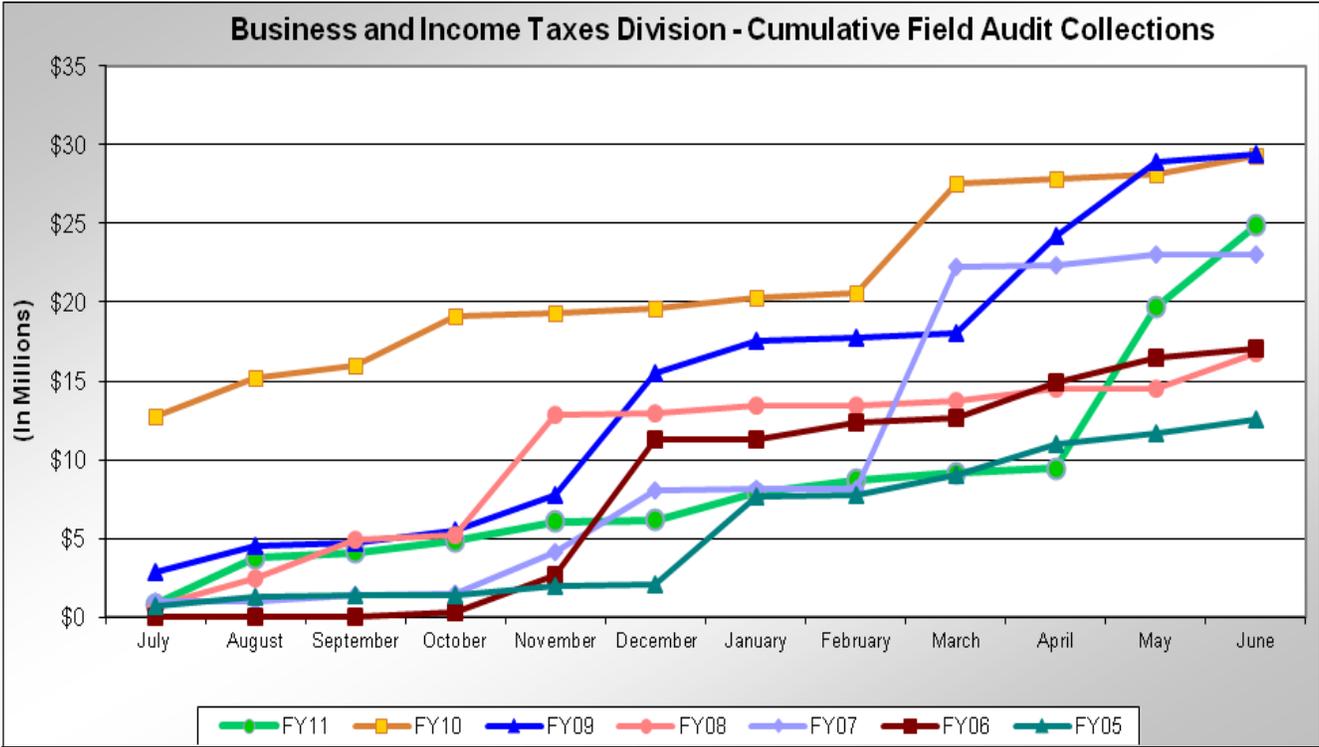
## Total Audit Collections: \$66.9 million



## Office Audit Collections: \$42.0 million



## Field Audit Collections: \$24.9 million

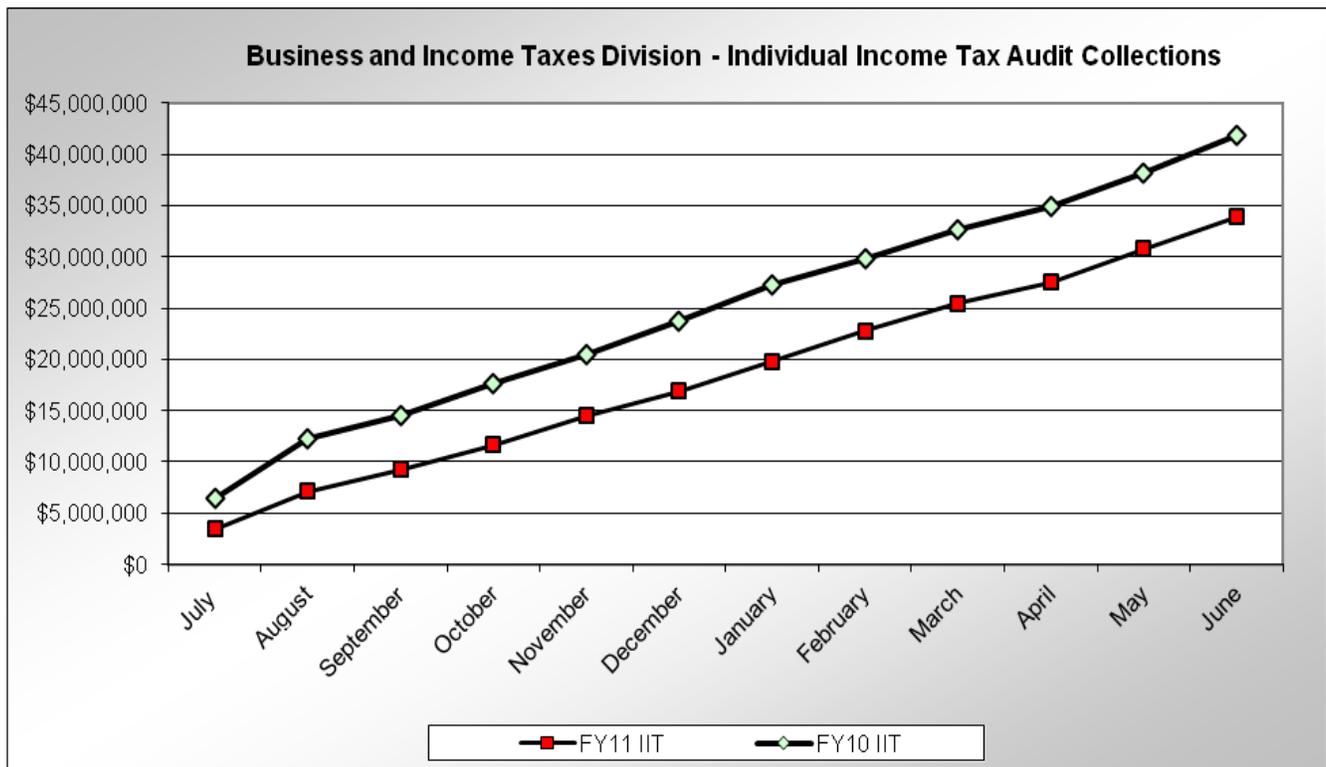


# Individual Income and Withholding Taxes

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.

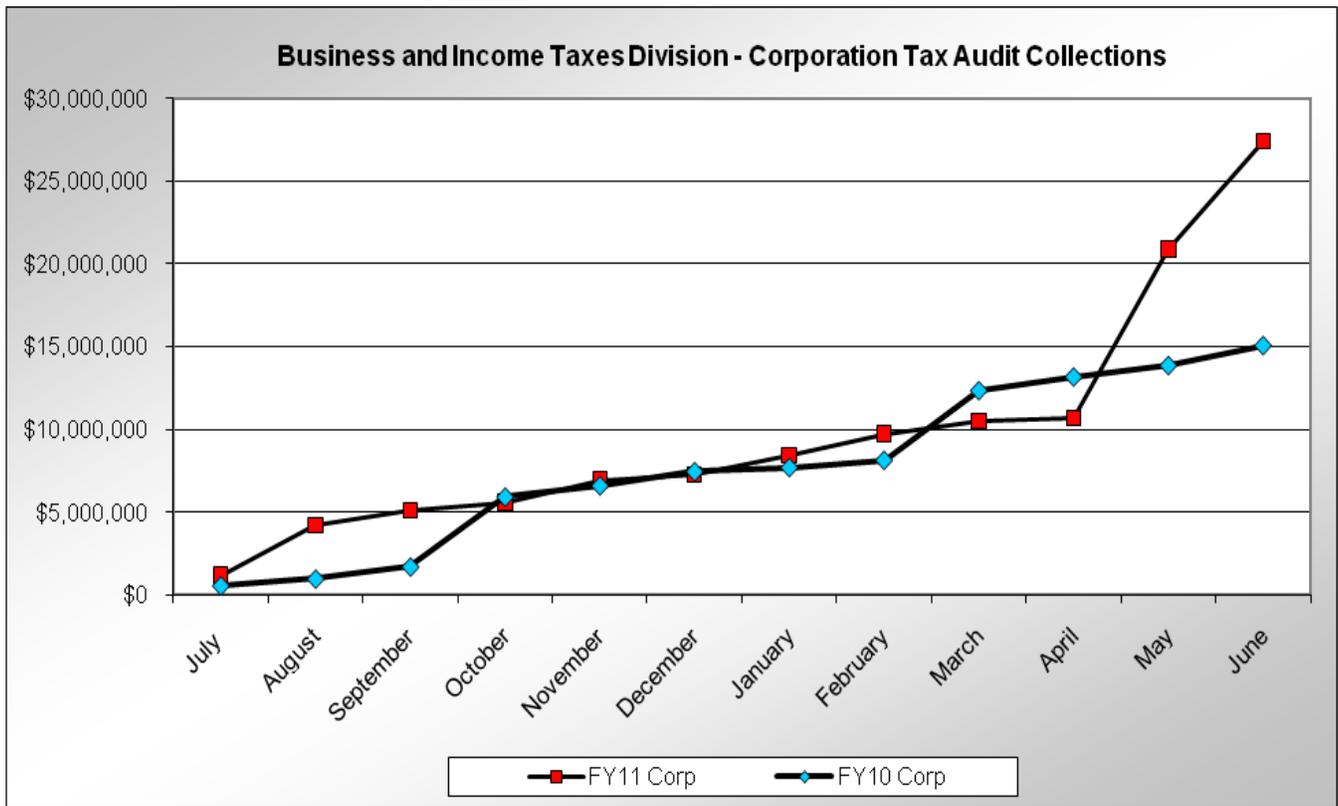
Individual income tax audit collections for fiscal year 2011 totaled \$33.9 million.



# 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 2011 totaled \$27.4 million.



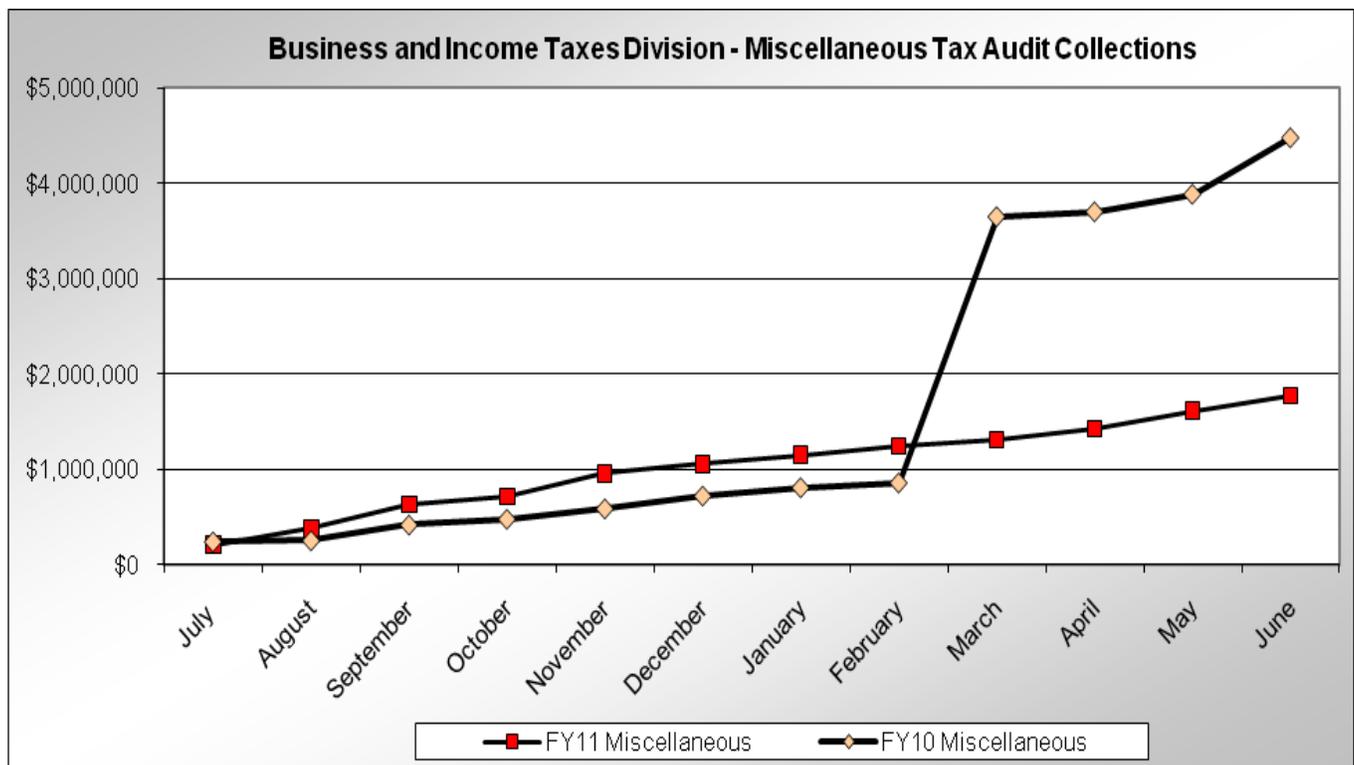
## Miscellaneous Taxes

Various miscellaneous taxes are imposed in Montana including excise taxes, wholesale taxes on distributors, cigarette taxes from internet sales, and special assessments. The 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
- Contractor's Gross Receipts

Miscellaneous tax audit collections for fiscal year 2011 totaled \$1.8 million.



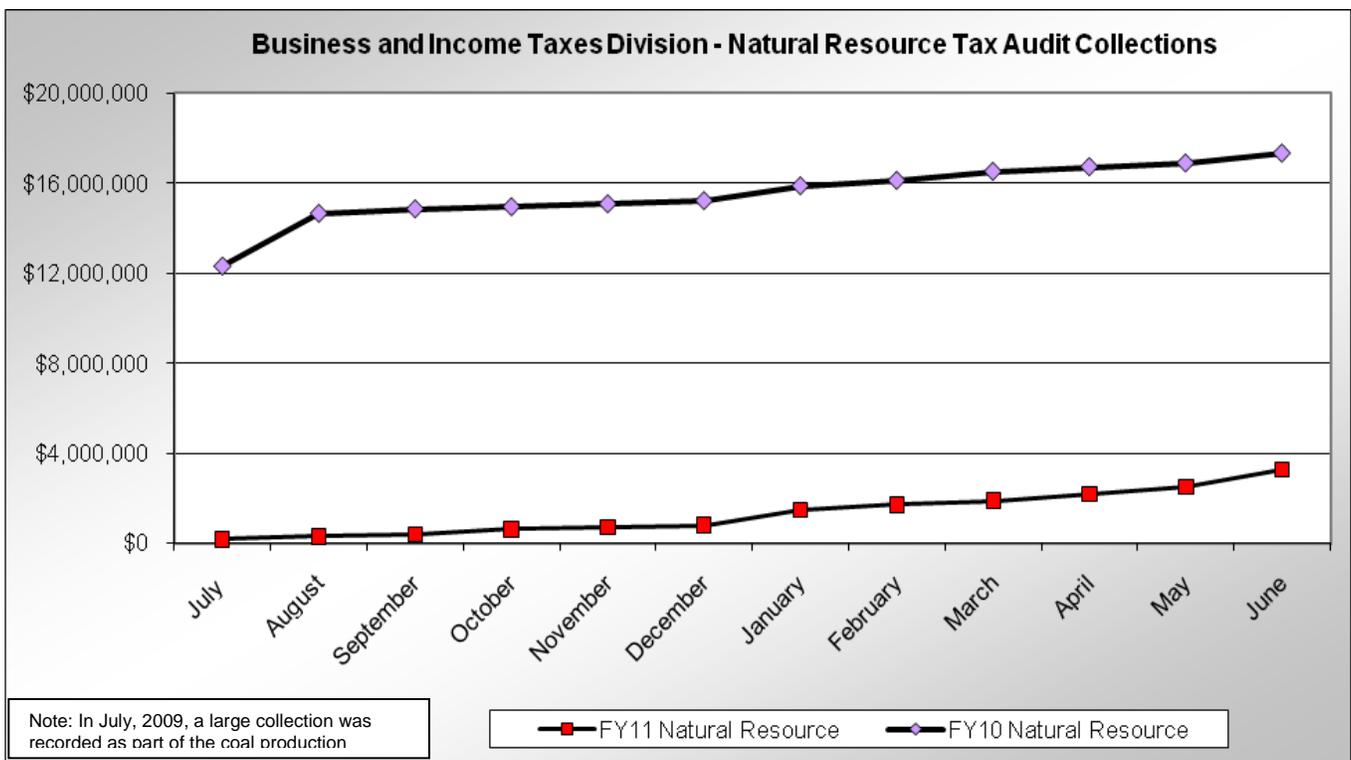
## Natural Resource Taxes

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 fiscal year 2011 totaled \$3.3 million.

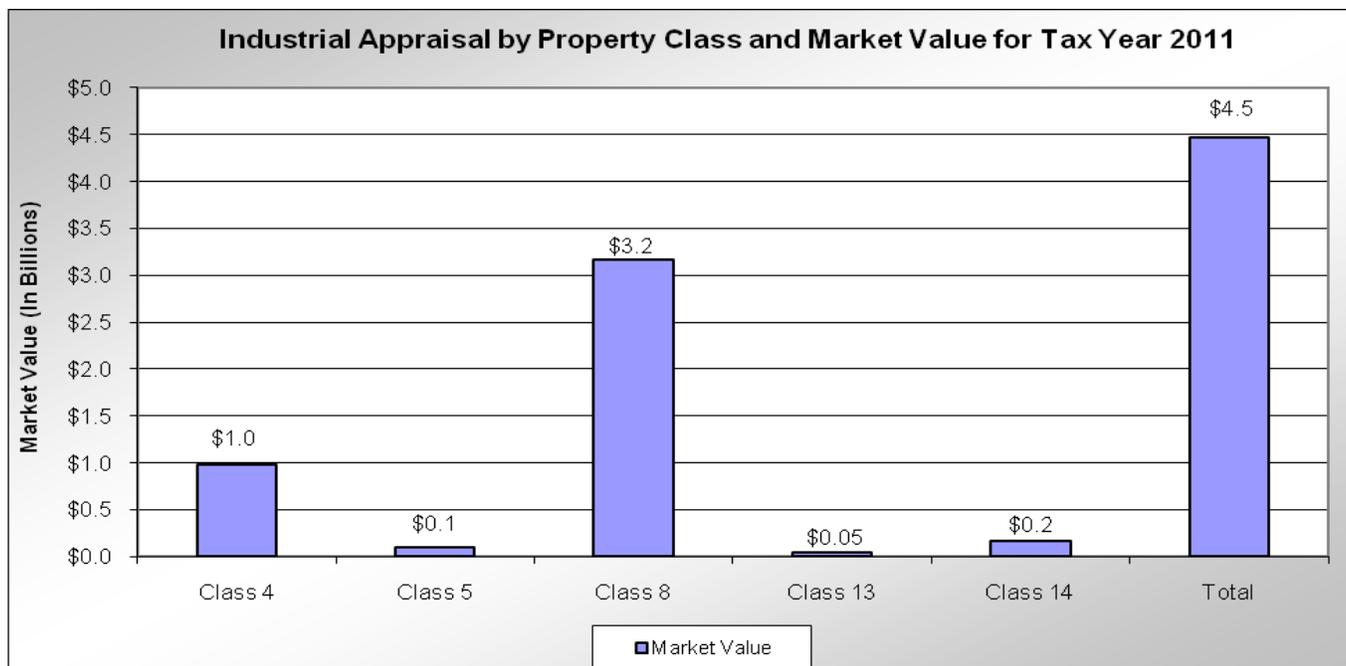


# Industrial and Centrally Assessed Property

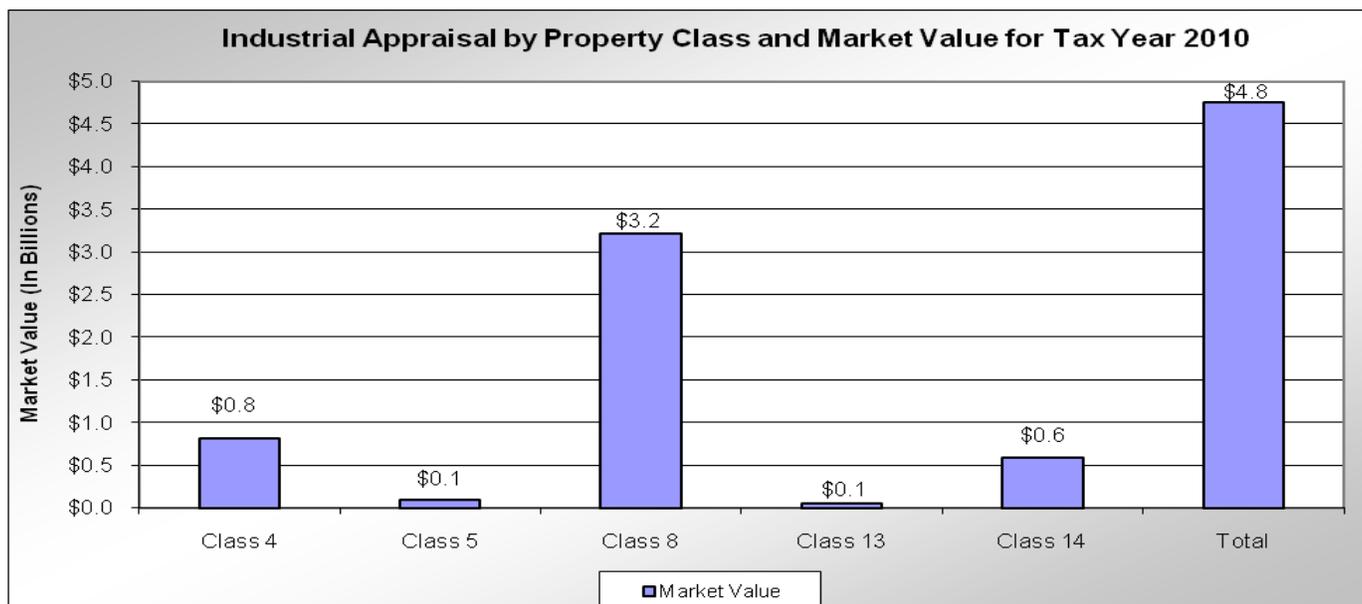
## Industrial Property Appraisals:

- 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.

**2011 Market Value: \$4.5 billion**



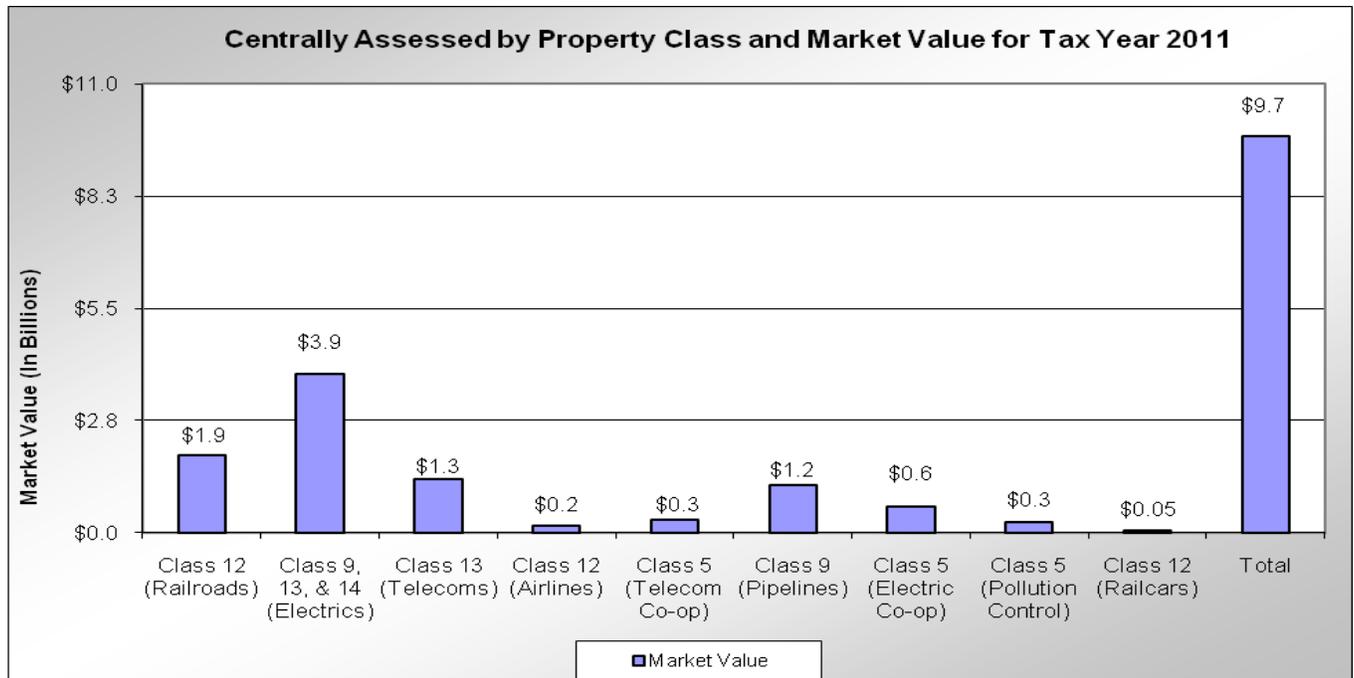
**2010 Market Value: \$4.8 billion**



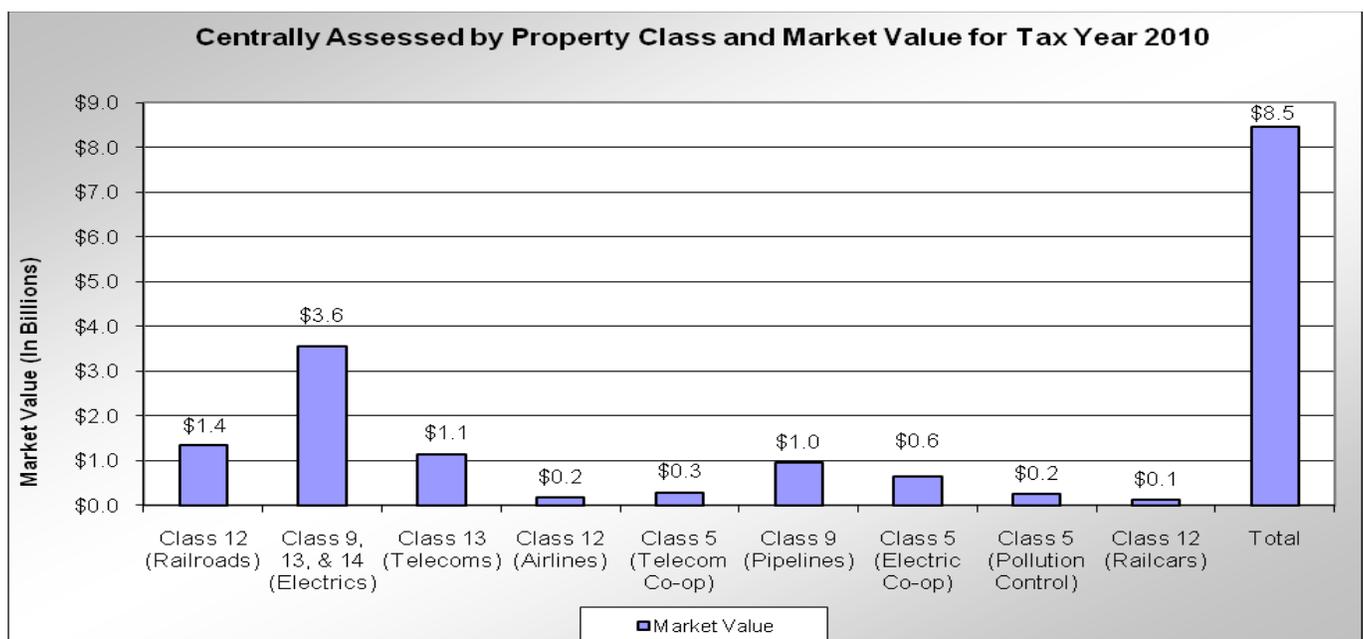
Utility Property Appraisals:

- 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.

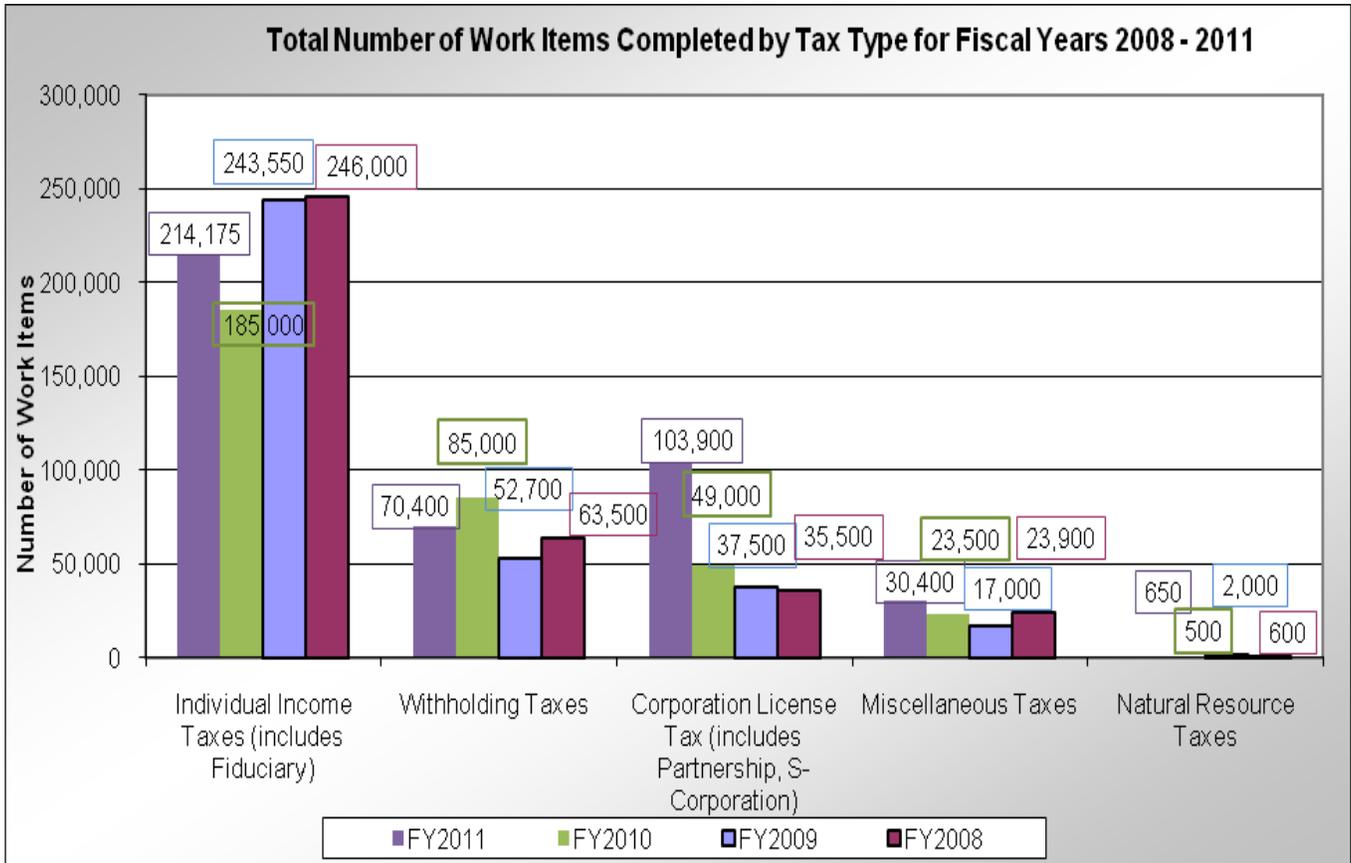
**2011 Market Value: \$9.7 billion**



**2010 Market Value: \$8.5 billion**



## Work Items-Tax Errors or Omissions Completed in FY11 Compared to FY10, FY09, and FY08

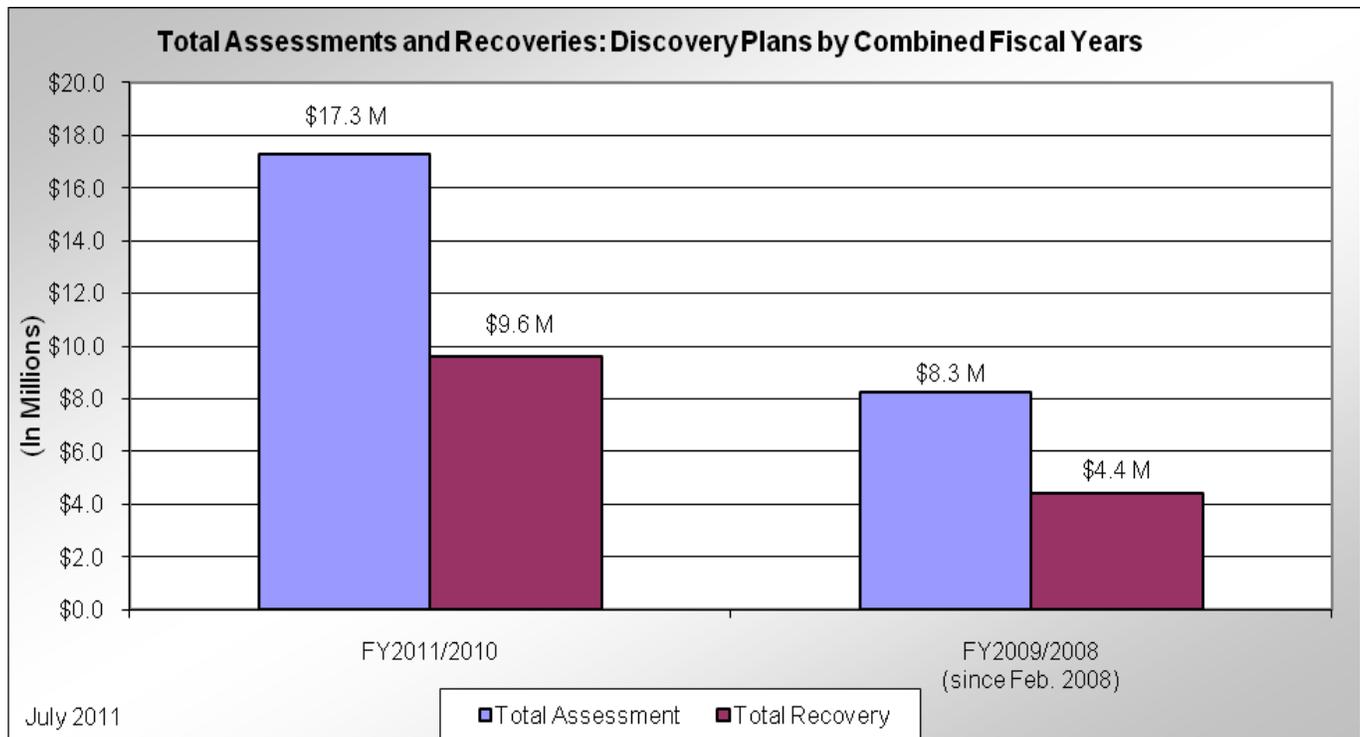


# GenTax Discovery

Discovery is a Gentax product that is able to retrieve and cross match pertinent data for the purpose of “discovering” opportunities to improve tax 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, other state agencies, and internal Gentax data that is all stored in the data warehouse.

Since the development and implementation of Gentax Discovery, managing and working potential audit leads has become an integral part of the Business and Income Taxes Divisions’ daily operations. Through the use of Discovery, the division can better identify, analyze, and investigate multiple data files to effectively pursue more accurate assessments of tax liabilities. In conjunction with Discovery, the data warehouse has also proven to be a fundamental tool in effectively leveraging large volumes of data in one single location.

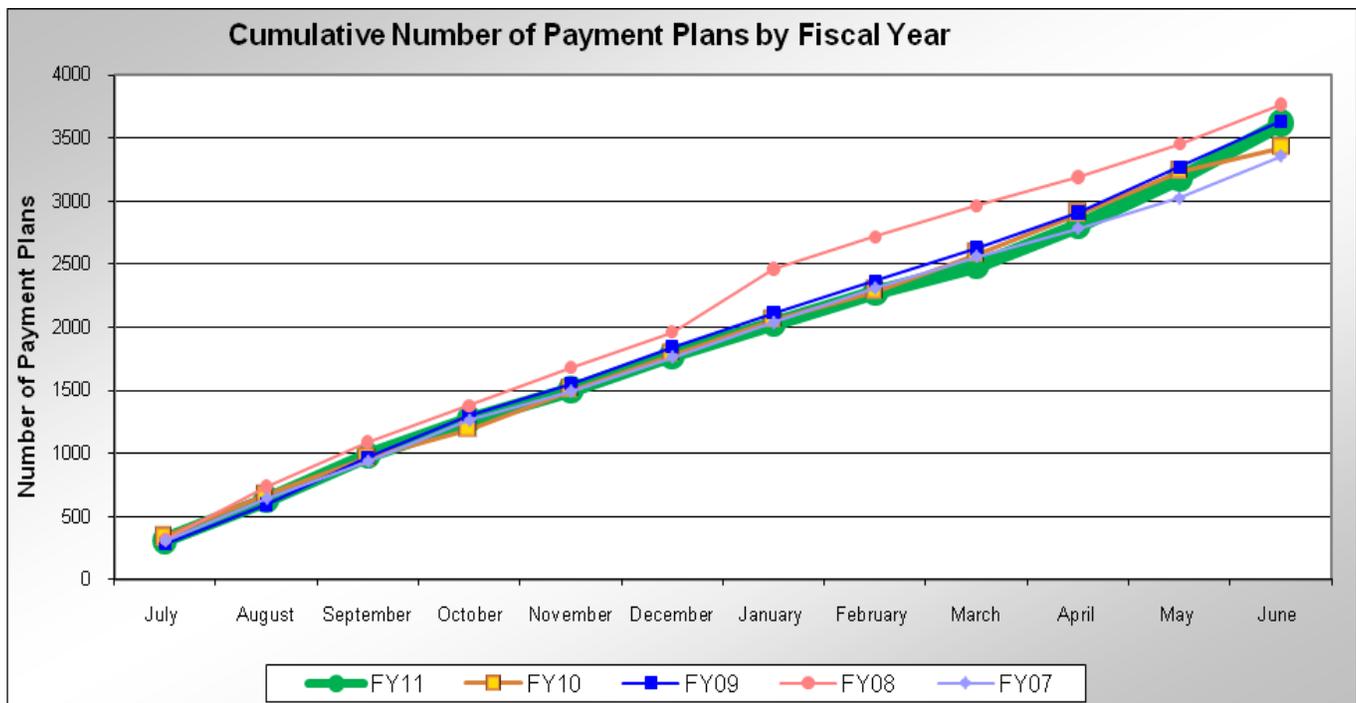
To date, over 75 discoveries are in progress or have been completed and several new discoveries are prepared and ready to begin. Since February 2008, \$25.6 million (IIT and CLT) has been assessed and \$14.0 million has been collected using Gentax Discovery.



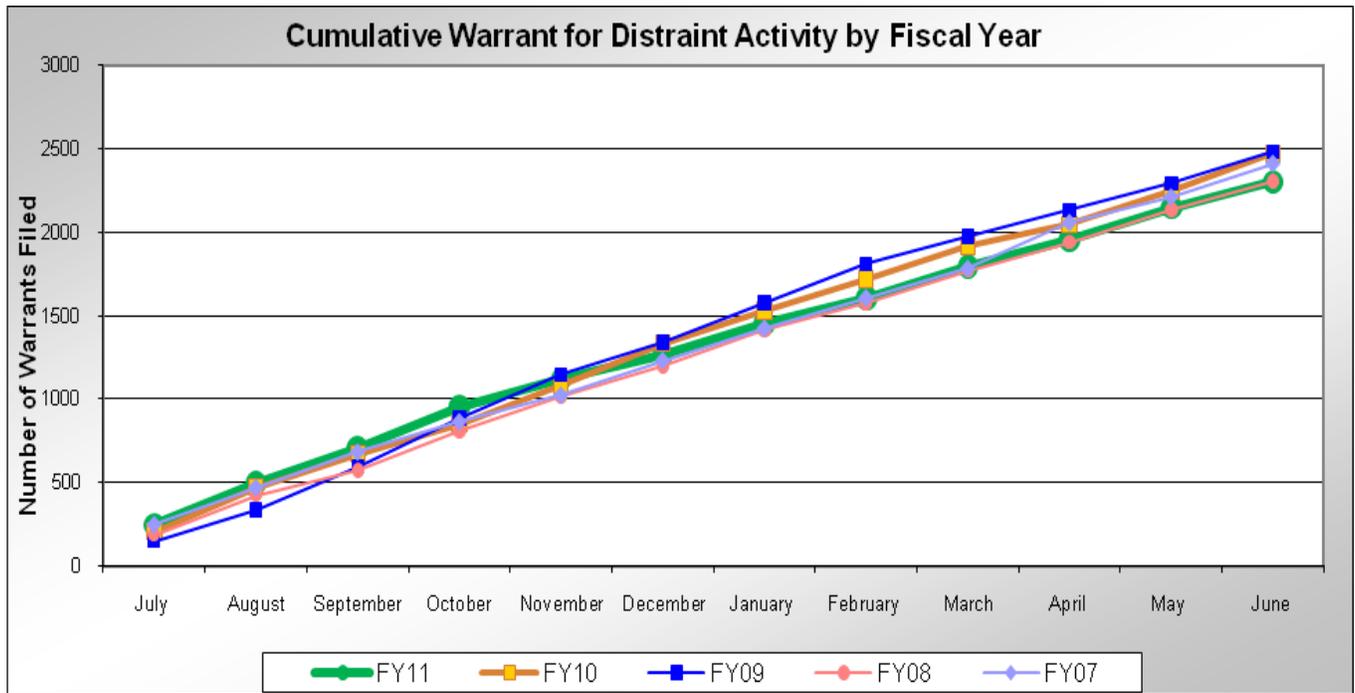
# Accounts Receivable and Collections

- 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.

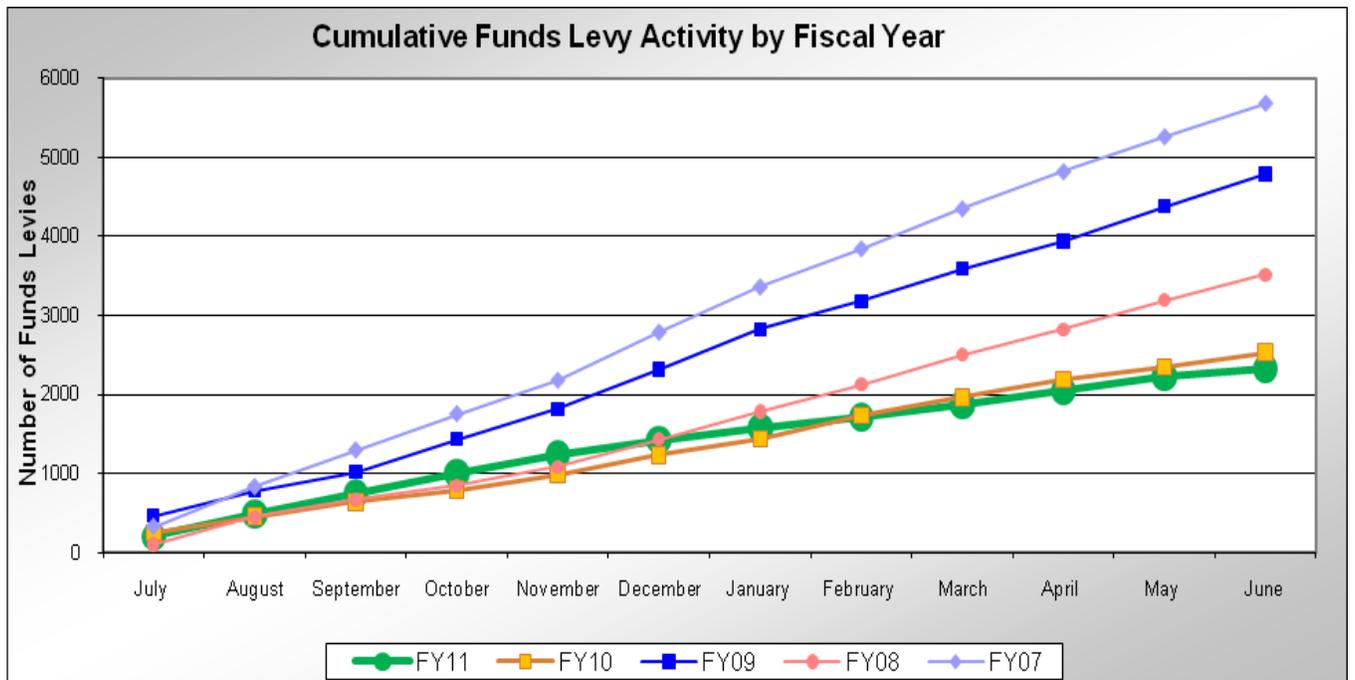
Total Number of Payment Plans Established for Fiscal Year 2011: 3,618



Total Number of Warrants Filed for Fiscal Year 2011: 2,301



Total Number of Levies Initiated for Fiscal Year 2011: 2,326



## Writ of Execution (Writs)

Beginning December 2008, the Accounts Receivable and Collections bureau began tracking the number of writs that are issued by the clerk of justice or city court. The BITD administrative staff receives the writs and has approximately 12 hours to data enter them into the system. From that point, if a notification of outstanding debt is received the money is offset, held for seven days, and sent to the specific agency documented in the writ. The writs are eligible for offset up to a maximum of 120 days.

	<b>FY11 Total</b>	<b>FY10 Total</b>	<b>FY09 Total</b>	<b>FY08 Total</b>
<b>Writ Offset Collections</b>	\$1,118,973	\$960,179	\$648,438	\$314,628
<b>Number of Writ Offsets</b>	4,369	3,830	2,590	1,176

# Administrative Research Team

The administrative team consists of 6 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/writs of execution
- 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.

