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# Compliance and Collections Second Quarter Fiscal Year 2008 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 with a few exceptions such as motor fuel and insurance premiums, 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. For the division to be successful in meeting our mission, all of the collected resources are focused on the common goals of ensuring compliance and timely collections. The division is successful because of the division employees and all of the support division throughout the department. This includes the Office of Legal Affairs and their assistance with legal support enforcement of compliance activities and assistance in unresolved collections.

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.

# Compliance Results

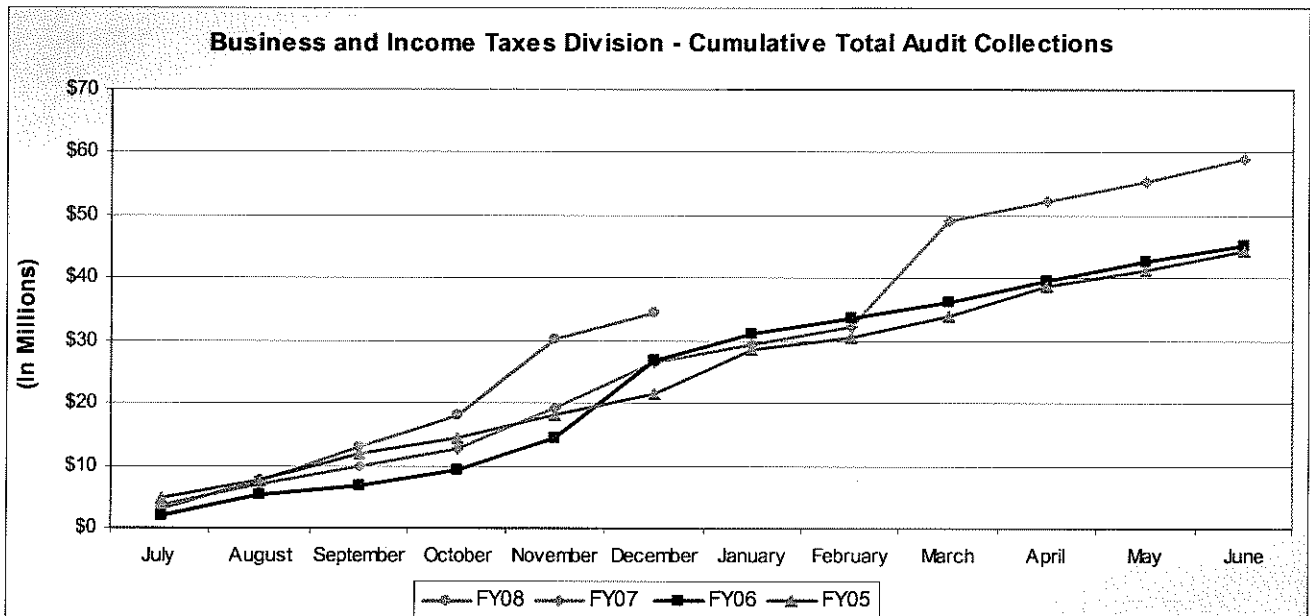
<b>Summary of Compliance Activities</b> <b>Fiscal Year 2008</b> <b>First and Second Quarter Ending December 31, 2007</b>			
<b>Compliance Activities</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Total</b>
Individual Income Tax	\$7,911,231	\$10,205,305	\$18,116,536
Corporation License Tax	\$3,649,733	\$ 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>
<b>Summary of Compliance Activities</b> <b>Fiscal Year 2007</b> <b>First and Second Quarter Ending December 31, 2006</b>			
<b>Compliance Activities</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Total</b>
Individual Income Tax	\$6,966,764	\$8,806,788	\$15,773,552
Corporation License Tax	\$1,605,202	\$7,245,351	\$ 8,850,553
Natural Resource Tax	\$ 277,040	\$ 517,680	\$ 794,721
Miscellaneous Taxes	\$ 908,386	\$ 258,832	\$ 1,167,218
<b>Total Audit Collections</b>	<b>\$ 9,757,392</b>	<b>\$16,828,651</b>	<b>\$26,586,043</b>
<b>Accounts Receivable and Collections</b>	<b>\$10,717,912<sup>1</sup></b>	<b>\$15,241,637<sup>1</sup></b>	<b>\$26,038,123<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 second quarter of FY08 audit activities with those of the three prior fiscal years. In comparison with the second quarter FY07, the division is \$3 million ahead in audit collection activity.

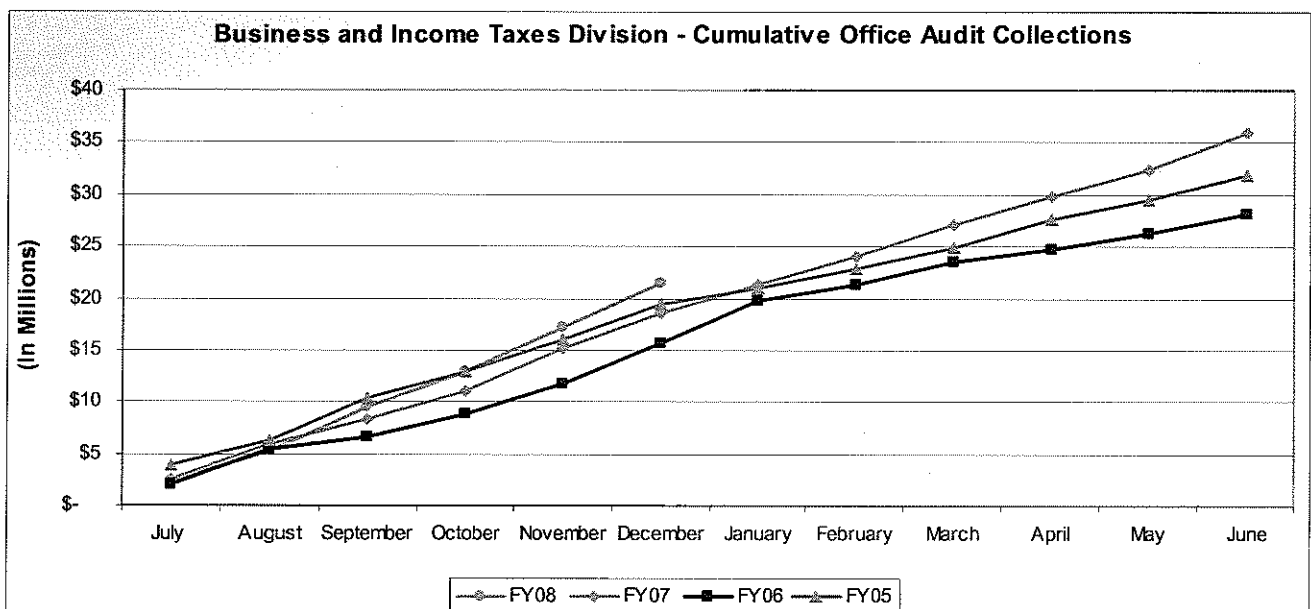
**Total Audit Collections: \$34.3 million**

(First quarter \$14.4 million; Second quarter \$19.9 million)



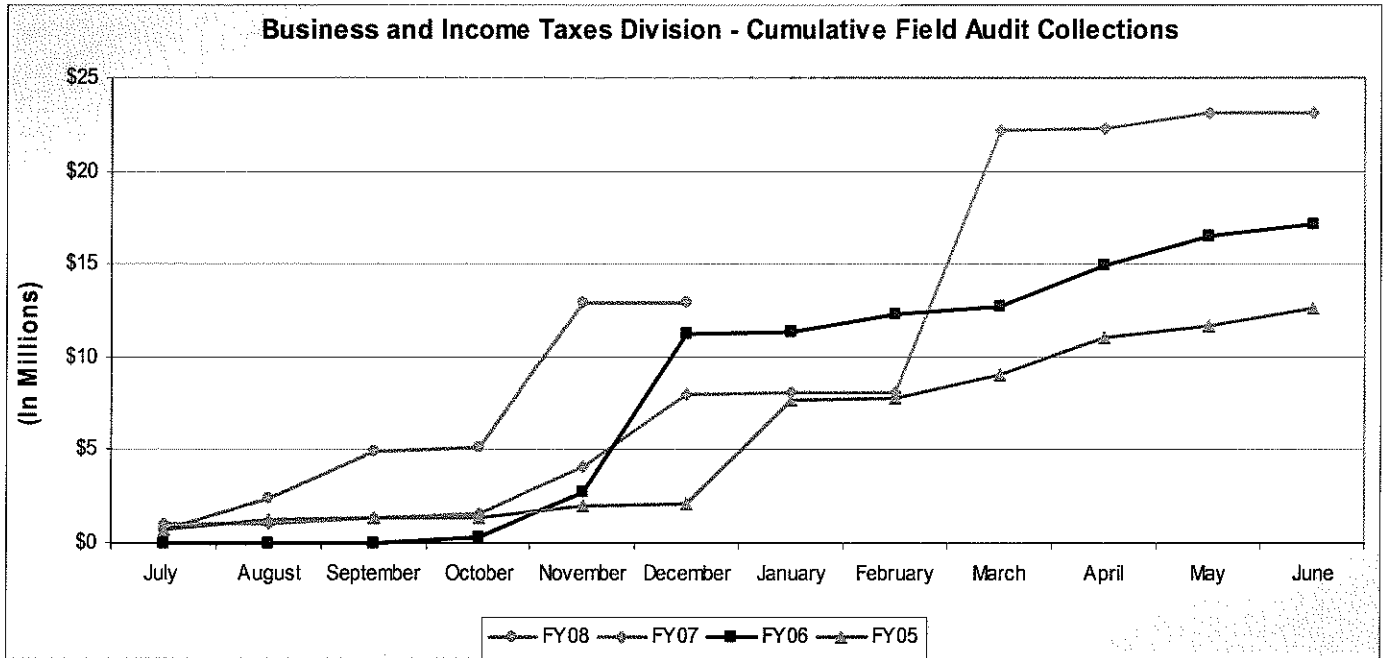
**Total Office Audit Collections: \$21.4 million**

(First quarter \$9.5 million; Second quarter \$11.9 million)



# Total Field Audit Collections: \$12.9 million

(First quarter \$4.9 million; Second quarter \$8.0 million)

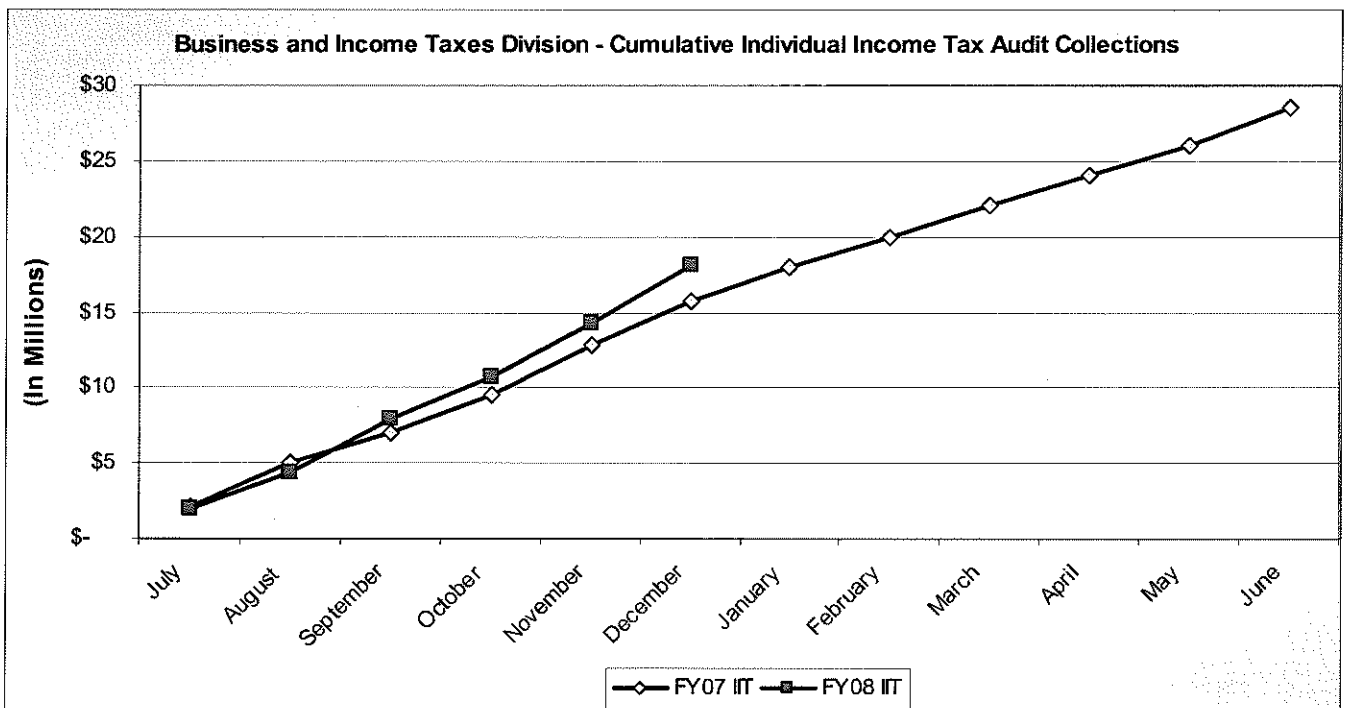


# Individual Income Taxes

Income tax revenues are collected primarily through:

- employer withholding,
- periodic estimated tax payments,
- payments made when the return is filed,
- bill payments made from office and field audit collections, and
- part-year residents and nonresidents with income from Montana sources.

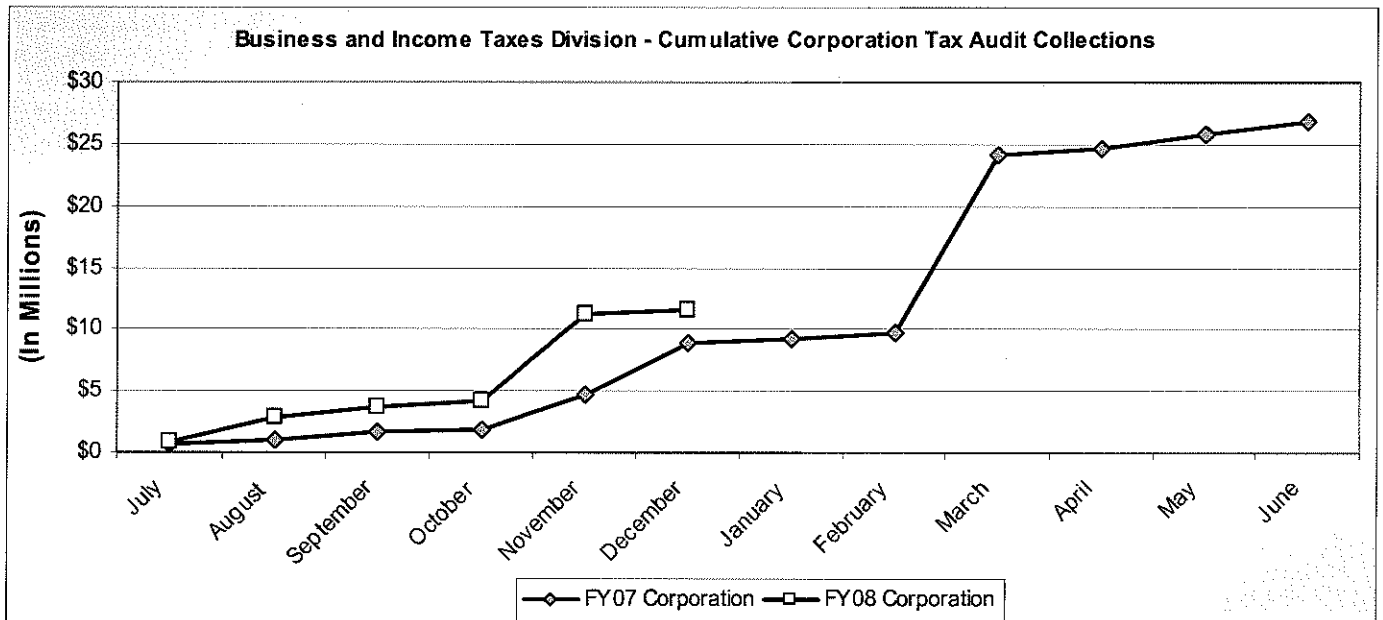
Individual income tax audit collections for the first and second quarter of FY2008 totaled \$18.1 million.



# 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 FY2008 totaled \$11.5 million.



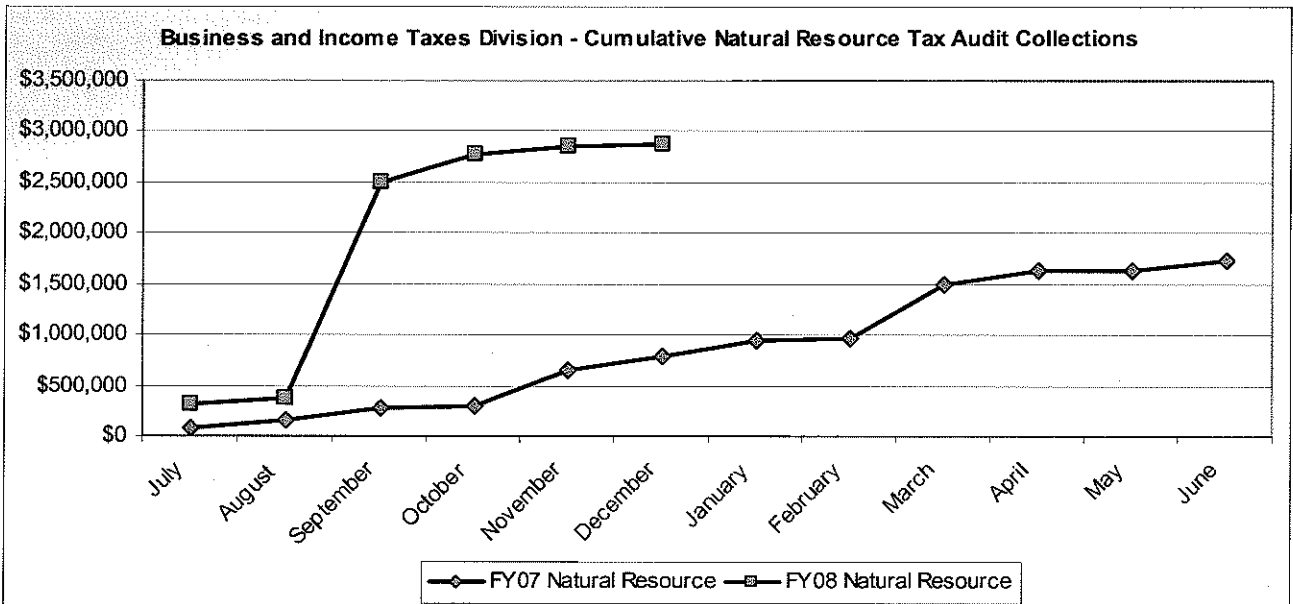
# Natural Resource Taxes

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 FY2008 totaled \$2.8 million.



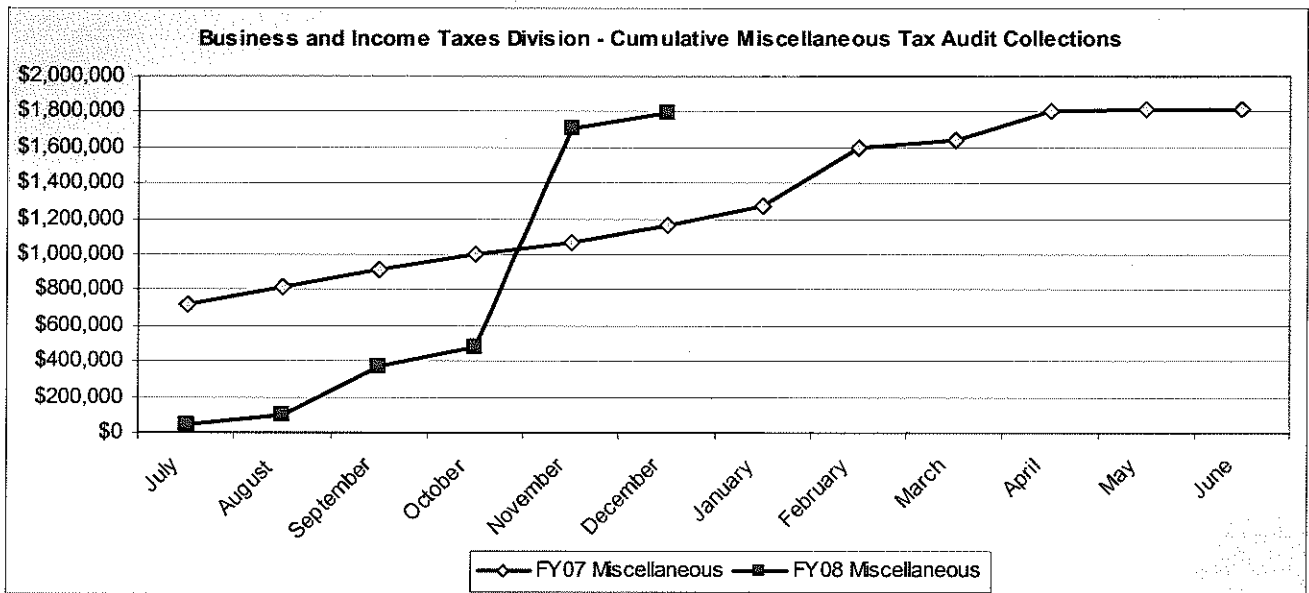
# Miscellaneous Taxes

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:

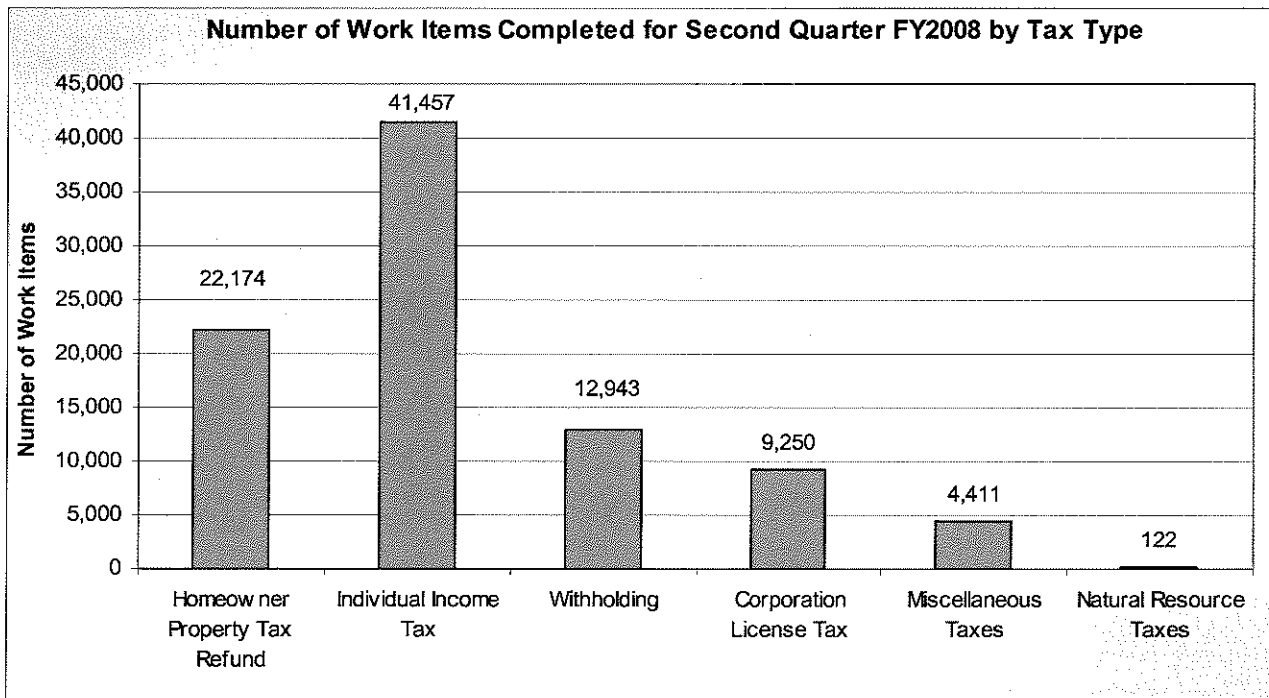
- Retail Telecommunications Excise Tax
- Electrical Energy Tax
- Wholesale Energy Transaction Tax
- Public Service Commission Tax
- Consumer Counsel Tax
- TDD Telecommunications Service Fee
- Statewide 911 Emergency Telephone System Fee
- Lodging Facilities Use Tax
- Rental Vehicle Tax
- Cigarette/Tobacco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

Miscellaneous tax audit collections for the first and second quarter of FY2008 totaled \$1.8 million.



## Work Items – Tax Errors or Omissions

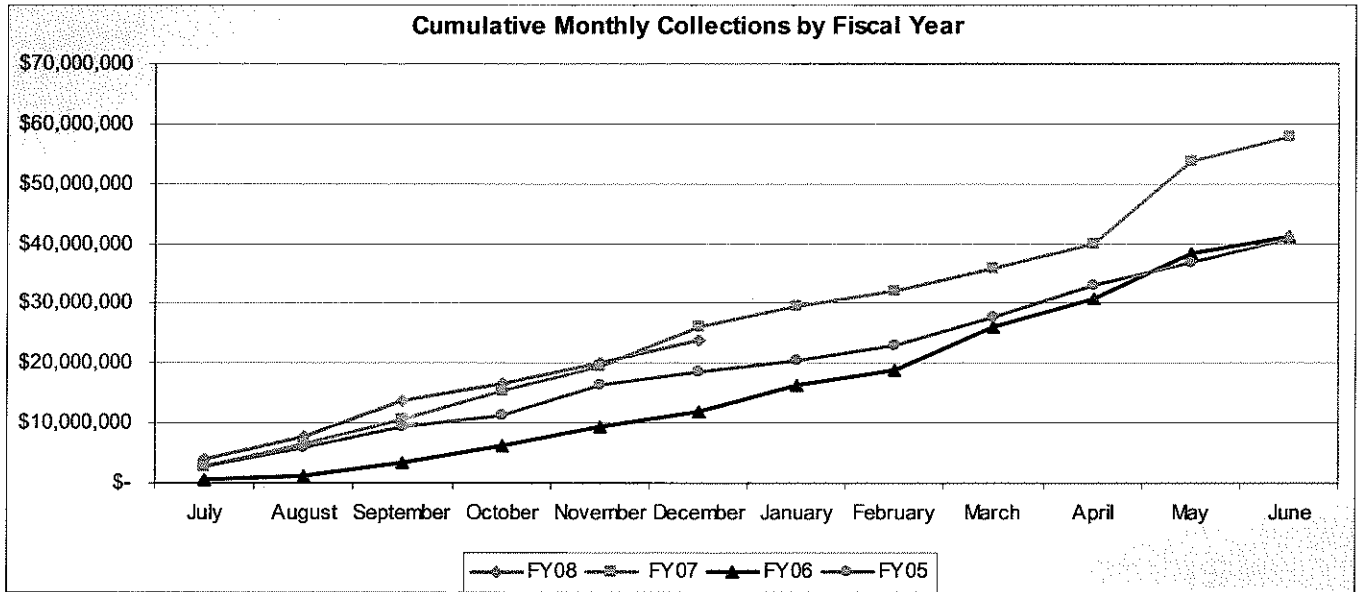
The department tracks the number of returns that are filed with an error. These errors are called work items. A work item is created when there is an error on a tax return or a problem with the taxpayer's account. These work items are manually reviewed and corrected by an auditor.



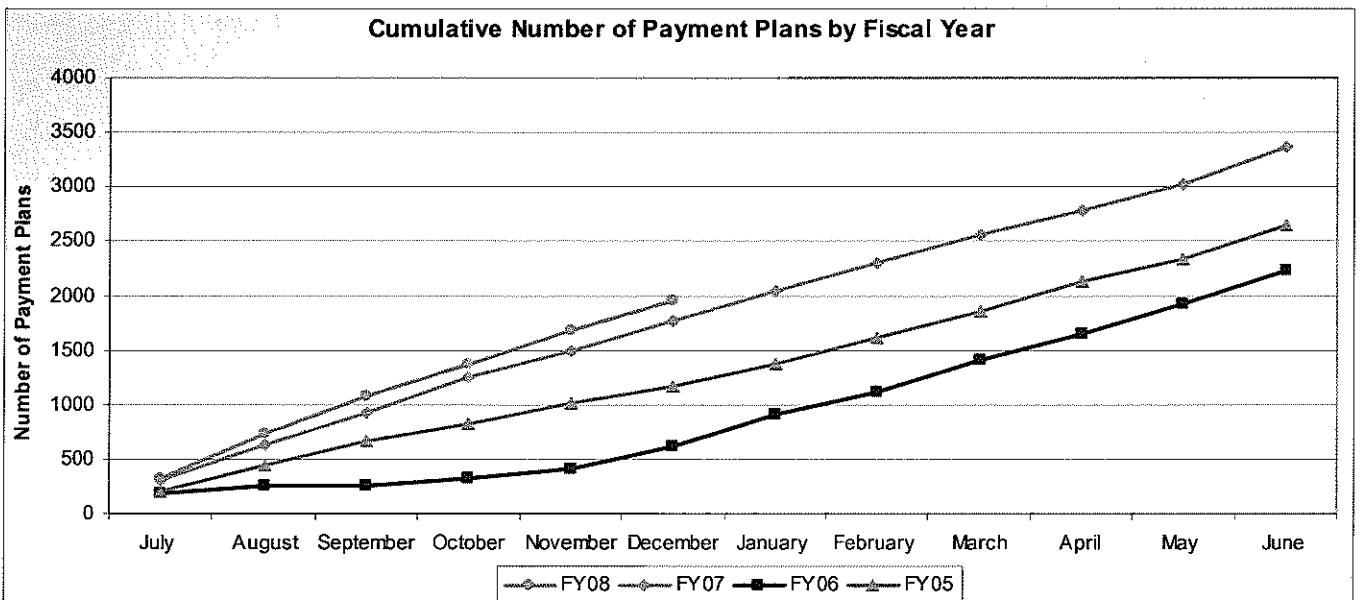
# Accounts Receivable and Collections

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.

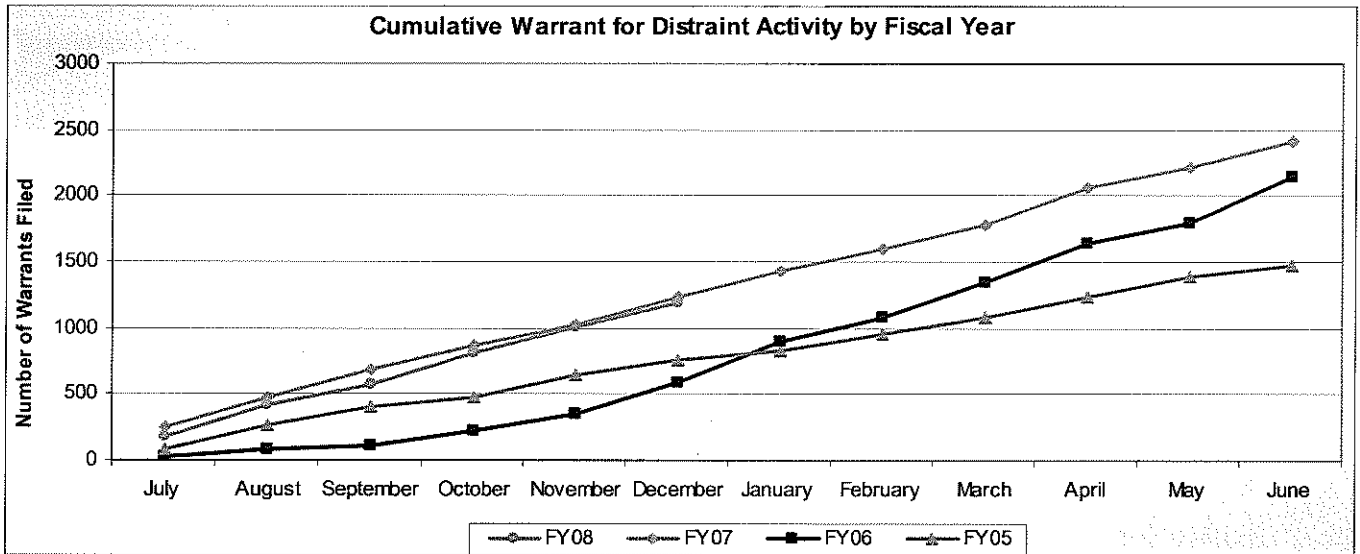
Accounts receivable collections for the second quarter of FY2008 totaled \$10 million.



Total Number of Payment Plans Established for the second quarter of FY2008: 872



Total Number of Warrants Filed for the second quarter of FY2008: 624



Total Number of Levies Initiated for the second quarter of FY2008: 768

