



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Goals/Objectives

Complete your draft of the following information for each agency goal and related objectives. This will be reviewed by the policy and budget staff. Do not exceed two pages.

- Save the document in the Guest Directory\Performance Indicators in your agency folder, named in the following format: **aaaa.ppp.vv** Where aaaa is the agency number, ppp is a number of your choice to identify each goal, and vv is the version number. The first version should be 01, then 02, etc.
- Send your OBPP budget analyst a message when you have saved a document(s) in the file.

Agency Contact: Larry Finch / Gene Walborn/ Ed Caplis

Phone Number: 3526 / 0908/ 3531

Agency Name: Department of Revenue

Division: Business and Income Tax Division

Program (identify and briefly describe):

List a single goal and brief description:

Goal III: Prevent Tax Increases, Aid Taxpayers in Following the Law, Ensure Fiscal Responsibility, Protect Montana Businesses from Unfair Competition, and Improve Tax Fairness and Integrity in Montana's Current Tax Laws

Improve existing compliance programs to ensure that resident, nonresident and corporate taxpayers are meeting their filing obligations and paying their fair share of taxes. Fair compliance programs support the Schweitzer Administration's record and commitment to not raising taxes, to ensure fiscal responsibility and a state government that lives within its means. They also help ensure that Montana businesses do not face unfair competition from out-of-state businesses that do business in Montana but that may not pay their fair share of Montana taxes. Finally, these programs help citizens partner with each other in paying for the costs of government.

Employ a coordinated and comprehensive approach to compliance by combining audit, legal, public information and collections resources to provide compliance coverage for all taxes and fees, and to reduce differences in levels of compliance among different taxpayers and taxpayer groups, including but not limited to correcting the known shortfalls in compliance by nonresidents and out-of-state companies.

Describe the performance measures related to this goal:

Performance Measure I: On an on-going basis, evaluate forms, instructions, and taxpayer services through taxpayer satisfaction surveys including the current form and instruction feedback cards and post-audit surveys.

Performance Measure II: Measure the effectiveness of the new mineral withholding system and report the findings by mid-year 2009.

Performance Measure III: For nonresident sellers of property, establish a baseline rate of noncompliance and then periodically measure on-going rates of non-filing by the end of calendar 2008.

Performance Measure IV: For nonresident owners of pass-through entities, establish a baseline rate of noncompliance and then periodically measure on-going rates of noncompliance for non-filing and underreporting of income by mid year of calendar 2009.

Performance Measure V: Continue to identify taxpayers using abusive tax shelters and evaluate effectiveness of efforts under current law to curb such shelters by the end of calendar 2008.

List significant milestones and target dates to be completed in the 2009 Biennium:

The milestones are inherent in the performance measures listed above.

Describe the current status of the measurements related to the goal:

The Department's successful implementation of the new Gentax computer system for state tax administration provides the data foundation for the proposed performance measurement activities.

The performance measures are in the design and development stage.

**Department of Revenue Goals
For LFC Working Group Review**

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Overall Agency Goal

Encourage compliance with Montana's tax laws through public education, effective and balanced enforcement, uniform and equitable valuation of all property and support for taxpayers who comply with the law.

Significant Proposals Included in the 2009 Biennium Budget

Goal I: Increase Compliance with Montana's Tax Laws

Implement new and enhance existing compliance programs to ensure that both resident and nonresident taxpayers are meeting their filing obligations and paying their fair share of tax. Employ a coordinated and comprehensive approach to compliance by combining audit, legal and collections resources to provide basic compliance coverage for all taxes and fees, and to reduce differences in levels of compliance among different taxpayers and taxpayer groups, including but not limited to correcting the known shortfalls in compliance by nonresidents and out-of-state companies.

- ***Objective I:*** Using existing laws, existing staff and additional staff provided by the 2007 Legislature, identify and reduce the number of nonfilers and instances of underreporting and underpayment. Evaluate areas where legislative changes are necessary to achieve cost effective results.
- ***Performance Measures and Milestones:***
 - Establish baseline, and then, on a semi-annual basis, establish on-going rates of noncompliance for nonfiling and underreporting of income for key filer groups, including W-2s and 1099 forms, using data currently available (including information from the fiscal 2007 nonfiling projects).
 - Develop a nonfiler compliance strategy and audit selection process that ensures a cost effective approach to compliance, while identifying opportunities for periodically educating nonfilers of their tax filing and remittance responsibilities, and identifying legislative changes needed to enhance compliance efforts.

- **Objective II:** Decrease taxable mineral royalty income nonfilers by successfully implementing a mineral royalty withholding system by December 31, 2007.
 - **Performance Measures and Milestones:**
 - Estimate the current (baseline) mineral royalty rate of noncompliance to allow the subsequent periodic measurement of the effectiveness of the new withholding system, for taxpayers subject to withholding as well as for taxpayers for whom withholding does not apply, and report the findings to the 2009 Legislature by March 31, 2009.

- **Objective III:** Using existing laws, existing staff and additional staff provided by the 2007 Legislature, complete a Realty Transfer Certificate/individual income tax cross-match pilot project to identify and reduce the number of nonresidents who sell Montana property but fail to file or pay Montana taxes. Measure the costs of this approach, and the cost savings achieved by other states through withholding, and report the results to the 2009 legislature.
 - **Performance Measures and Milestones:**
 - By April 2008, update information on other states' statutes and processes for identifying and addressing issues related to nonresident sales of property.
 - By June 2008, establish the baseline noncompliance rate for nonfilers associated with 1099S forms and RTC cross-match programs, and prepare a report for the 2009 Legislature of the costs of noncompliance in terms of revenue foregone in relation to current collection activity administrative costs.
 - By June 2008, identify opportunities for educating nonresidents on their tax filing and remittance responsibilities.

- **Objective IV:** Using existing laws, existing staff and additional staff provided by the 2007 Legislature, implement a compliance project to identify and reduce the number of nonresident nonfilers and under reporters who have Montana source income earned in a pass-through entity.
 - **Performance Measures and Milestones:**
 - Establish baseline, and then on a semi-annual basis, on-going rates of noncompliance for nonfiling and underreporting of income related to Montana pass-through entities; and develop a nonfiler compliance strategy and audit selection process that ensures a cost effective approach to compliance, while identifying opportunities for periodically educating nonfilers of their tax filing

and remittance responsibilities, and identifying legislative changes needed to enhance compliance efforts.

- By October 31, 2008, prepare a report for the 2009 Legislature detailing nonfiling and underreporting of Montana source income to include a summary of compliance activity undertaken; the identification of compliance issues; and, if necessary, proposals for legislation to address compliance issues.

- **Objective V:** Using existing laws and staff determine whether abusive tax shelters can be addressed or if additional legislation is necessary.

➤ **Performance Measures and Milestones:**

- Using existing resources, identify individuals and businesses having nexus with Montana who have engaged in abusive tax shelters; develop a cost-effective approach to addressing abusive tax shelter cases; and provide the 2009 Legislature with a report summarizing the scope of tax shelter activity, the issues involved in abusive tax shelters, and any legislative proposals needed to address these complex compliance matters.

Goal II: Complete Current Reappraisal Cycle in a Uniform and Equitable Fashion by December 31, 2008

Complete in a timely and accurate fashion the uniform and equitable reappraisal and valuation of all properties subject to the current 6-year reappraisal cycle (Class 4 residential, commercial, and industrial properties, Class 3 agricultural land, and Class 10 forest land). Specifically:

- complete the discovery and uniform valuation of all Class 4 residential, commercial and industrial properties in a manner that reflects an equalization of current market values as required by the Montana Constitution; and
- complete the valuation of agricultural and forest land in a uniform and equitable manner that accurately reflects current land use and productivity values.

- **Objective I:** By January 1, 2009 establish new appraisal values for all Class 4 residential properties in a manner that meets or exceeds the reappraisal standards inherent in Montana's Constitution, the Montana Code Annotated, and generally recognized reappraisal standards.

- **Performance Measure I:** Based on a comprehensive quality of reappraisal study, and measured against widely-recognized

national standards, verify by March 31, 2009 that the overall sales/assessment ratio of Class 4 residential property lies between 0.9 and 1.1; that the coefficient of dispersion is less than 15%; and that the price-related differential lies between 0.98 and 1.03.

- **Performance Measure II:** By December 31, 2009 verify that the statewide number of appeals, excluding any statewide class-action appeals, to County Tax Appeal Boards is 2% or less of the number of statewide parcels, and that 80% of those appeals are either withdrawn by the appellant, adjusted by no more than 10% by the department, or have the original department value sustained in a final appeals decision.
- **Objective II:** By January 1, 2009 establish new productivity values for all Class 3 agricultural properties in a manner that meets or exceeds the reappraisal standards inherent in Montana's Constitution, the Montana Code Annotated, and generally recognized reappraisal standards.
 - **Performance Measure I:** By December 31, 2009 verify for agricultural parcels of 160 acres or more that no more than 2% of those parcels have their agricultural land use type (classification) appealed.
 - **Performance Measure II:** By June 30, 2009 verify that the statewide productivity or yield of agricultural lands as determined by the department of revenue is within 10% of the productivity or yield determination made by the Natural Resource and Conservation Service (NRCS) for each land use type as defined by the department of revenue. (To our knowledge, the external information used to make the comparison for this performance measure is the best comparative information available.)

Goal III: Provide Additional Electronic Filing Services for Montana Taxpayers

Enhance taxpayer services and compliance, increase public and private sector operating efficiencies, and provide for a more timely and accurate flow of information to policy makers by facilitating the filing of information and tax returns through increased opportunities for and availability of electronic filing and electronic payment for all state taxes and fees other than property taxes. Specifically, implement the expanded fed/state e-file program for businesses; implement and expand free electronic filing opportunities; and provide taxpayers with expanded electronic payment options and file transfer services.

- **Objective 1:** Provide for new/expanded e-file services in accordance with the following schedule of milestone dates:
 - Provide for free web filing of mineral royalty withholding annual reconciliation forms by December 7, 2007;
 - Provide for free web filing of employer withholding annual reconciliation forms by January 14, 2008;
 - Provide for free web filing of individual income tax Form 2M returns and Elderly Homeowner/Renter Credit (2EC) returns (including electronic payment and direct deposit capabilities) by January 14, 2008;
 - Provide for free web filing of wine tax returns, and provide wine taxpayers with the ability to view their current account and previous tax return on the web by January 14, 2008;
 - Provide for free web filing of corporation license tax returns under the fed/state modernized e-file program in time to accommodate the filing of 2007 returns;
 - Provide for free web filing of returns and other information for all other tax types by June 30, 2009.