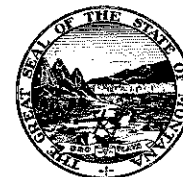




Dan Bucks
Director

Montana Department of Revenue



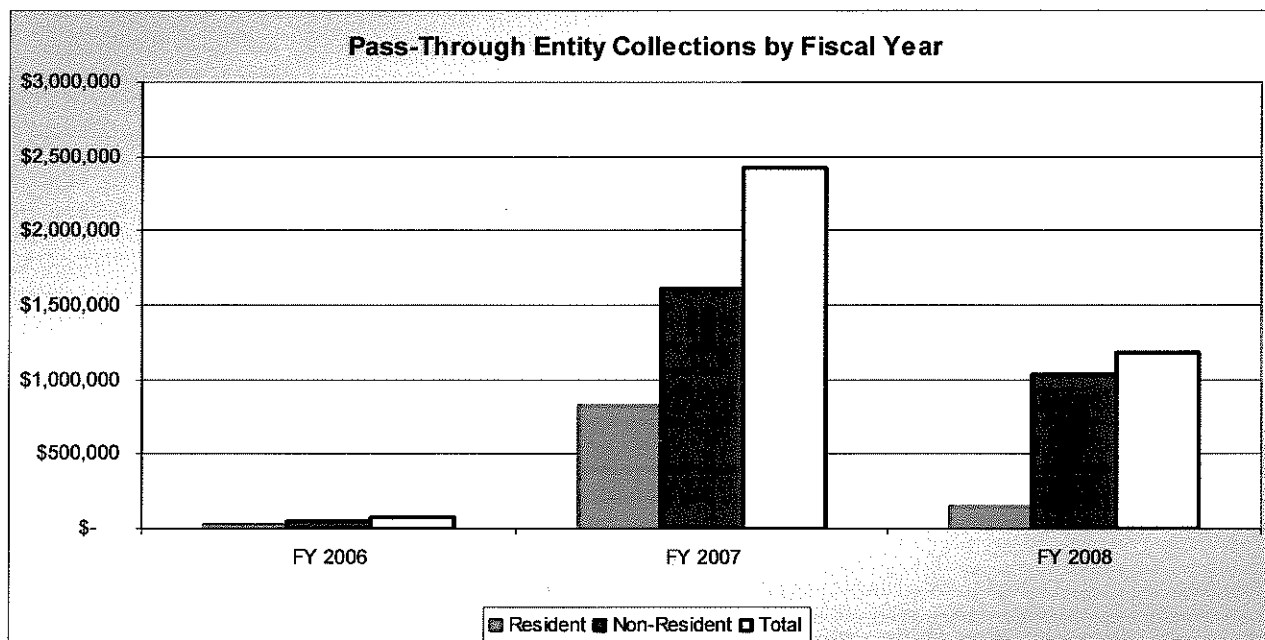
Brian Schweitzer
Governor

Montana Department of Revenue Pass-Through Entities Audit Program Report February 7, 2008

Over the last year, the Department has increased our compliance efforts associated with pass-through entities. Pass-through entities are those entities where the income earned by the entity passes through or flows through to the respective shareholders or partners. S. corporations and partnerships are examples of pass-through entities. There are approximately 23,000 S. corporations and 14,000 partnerships that file tax returns in Montana. For comparison purposes there are 17,000 C. corporations that file a Montana tax return.

Pass-through entity compliance enforcement is an area where many states have very limited or no audit program. Montana, as well as other states, has recognized that this area needs some attention and has focused some of our resources toward this endeavor.

The focus of the compliance efforts has been directed to individual shareholders or partners who have not filed an income tax return and also to entities that have underreported income. The following chart illustrates the progress in terms of audit collections that this program has produced.



- based on review of