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Montana Department of Revenue Realty Transfer Certificate Project Report February 7, 2008

The Department has begun a comprehensive compliance initiative involving the comparison of the information recorded on Realty Transfer Certificates (RTCs) to individual income tax records. The initiative involves capturing the information on RTCs in each county and comparing, or cross-matching, that information with the Department's individual income tax information. The results of the cross-match are used to assist the Department in identifying individuals who may have an income tax filing obligation but have not filed a return.

The project is in the initial stages of capturing the RTC information. The attachment titled "Realty Transfer Certificate Data Capture Project" shows where the Department is in capturing the RTC information by county. As reflected on the attachment, 13% of the statewide RTC information has been captured. The data capturing of the RTC information is very time consuming. The Department is estimating that the data capturing component of the project will cost approximately \$750,000.

After the RTC information has been captured for a county, the Department cross-matches that information with the Department's individual income tax information. In those cases where we can not match the RTC information with income tax information that record is identified as a potential non-filer. The potential non-filer is sent a letter asking them to contact the Department to help us clear up why they may not have filed an individual income tax return. Attached are status reports for Jefferson and Wheatland counties showing the results of the project in those counties as of February 4, 2008.

Based on the very limited results of the Jefferson county cross-match the Department anticipates identifying approximately 45,000 non-filers statewide – persons who have not filed income tax returns and for which Department contact about their filing status is reasonable. Over the next 6 months these non-filers will be sent a letter by the Department.

Although the initial phases of the project will center on income tax filing obligations, the Department will also begin to review property transfers to insure the appropriate amount of any taxable gains from the transfer has been reported. This stage of the project will begin later this spring.

Work on the project is obviously in its initial stages, and only a limited number of persons have been contacted by the Department for our first county in the project. Yet, this project is already confirming some earlier conclusions and suggesting some new ones.

- Nonresidents engage in Montana real estate transactions to a substantially greater degree than they are represented among our income taxpayers – 21 % in Jefferson County, 14% in Wheatland County versus 7% of income taxpayers.
- Nonresidents fail to file income tax returns after selling property at a much higher rate than residents.

- Securing tax returns and payments from non-filers is substantially less cost-effective than a system of withholding at the time of sale – costs to the public is higher and results will be less.
- After the fact collection will also inconvenience some citizens and waste staff time on contacts with citizens who have sufficient reasons to not file income tax returns.
- 1031 transactions are not a significant factor accounting for non-filing of income tax returns.

The Department will continue to monitor this initiative closely and provide the Committee with regular updates.

**Jefferson County
 Realty Transfer Certificate Project
 As of 2/4/2008**

Number of Realty Transfer Certificates				
Year	Non-			Grand Total
	Resident	Resident	Unknown *	
2003	136	370	63	569
2004	155	327	85	567
2005	121	445	103	669
2006	118	474	161	753
2007	52	175	31	258
Total	582	1,791	443	2,816
<i>Percent of Total</i>	<i>21%</i>	<i>64%</i>	<i>16%</i>	<i>100%</i>
<i>Percent of Total less Unknowns</i>	<i>25%</i>	<i>75%</i>		<i>100%</i>
Initial Number of Non-filers Identified as of Report Date	170	145		315
Non-Filers as a Percent of Total	29%	8%		11%

* Unknown - Represents the number of RTCs that could not be verified in the cross-matching process to determine if the property owner has or has not filed. No letters are sent for this category.

Summary of Non-Filer Letter Campaign					
Date of Letter	Status	Non-			Percentage of Total
		Resident	Resident	Total	
1/16/2008	Response	27	13	40	35%
	No Response	49	25	74	65%
	Total	76	38	114	
1/31/2008	Responses	0	0	0	0%
	No Response	94	107	201	100%
	Total	94	107	201	
Total	Responses	27	13	40	13%
	No Response	143	132	275	87%
	Total	170	145	315	
Collections to Date Rounded for Confidentiality Purposes		\$ -	\$ 5,500	\$ 5,500	

Detail of Responses from Letters					
Date of Letter	Response Category	Non-			
		Resident	Resident	Total	
1/16/2008	Filed	0	1	1	
	1031 Transaction	1	1	2	
	Bad Address	1	1	2	
	Deceased	0	1	1	
	Divorce decree	1	0	1	
	In research	6	3	9	
	No Gain	7	3	10	
	Primary Residence	3	1	4	
	RTC Data Incorrect	0	2	2	
	RTC Incorrect SSN	1	0	1	
	Tax Documents Requested	7	0	7	
	Total of Responses from 1/16/2008 Letters		27	13	40
	1/31/2008	No response as of Report Date	94	107	201

Response Category Descriptions:
 Filed: The property owner filed an income tax return.
 1031 Transaction: The property was transferred via a 1031 Exchange.
 Bad Address: The letters were returned to the Department due to a bad address.
 Deceased: The property owner is deceased.
 Divorce decree: The transfer was due to a divorce and no taxable event occurred.
 In research: The property owner has supplied the Department additional information which is being reviewed.
 No Gain: The property owner sold property at a loss, or no gain.
 Primary Residence: The property transferred was a primary residence therefore no taxable event occurred.
 RTC Data Incorrect: The RTC name of the seller was incorrect. i.e. Jr. was listed but Sr. sold the property.
 RTC Incorrect SSN: The RTC had an incorrect Social Security Number.
 Tax Documents Requested: The property owner has requested Montana tax documents to file a return.

**Wheatland County
 Realty Transfer Certificate Project
 As of 2/4/2008**

Number of Realty Transfer Certificates				
Year	Non-			Grand Total
	Resident	Resident	Unknown *	
2003	22	223	19	264
2004	34	236	23	293
2005	39	275	18	332
2006	90	301	51	442
2007	23	125	-	148
Total	208	1,160	111	1,479
Percent of Total	14%	78%	8%	100%
Percent of Total less Unknowns	15%	85%		100%
Initial Number of Non-filers Identified as of Report Date	<i>Work not completed at this time.</i>			
Non-Filers as a Percent of Total	0.00%	0.00%		

* Unknown - Represents the number of RTCs that could not be verified in the cross-matching process to determine if the property owner has or has not filed. No letters are sent for this category.

Summary of Non-Filer Letter Campaign					
Date of Letter	Status	Non-			Percentage of Total
		Resident	Resident	Total	
No letters have not been sent as of the report date.	Response	0	0	0	
	No Response	-	-	-	
	Total	0	0	0	
Total	Responses	0	0	0	
	No Response	-	-	-	
	Total	0	0	0	
Collections to Date		\$ -	\$ -	\$ -	

Detail of Responses from Letters				
Date of Letter	Response Category	Non-		
		Resident	Resident	Total
	Filed	0	0	0
	1031 Transaction	0	0	0
	Bad Address	0	0	0
	Deceased	0	0	0
	Divorce decree	0	0	0
	In research	0	0	0
	No Gain	0	0	0
	Primary Residence	0	0	0
	RTC Data Incorrect	0	0	0
	RTC Incorrect SSN	0	0	0
	Tax Documents Requested	0	0	0
Total of Responses from 1/16/2008 Letters		0	0	0

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