

Revenue and Transportation Committee (Materials)
April 17 and 18, 2008

- 1. Realty Transfer Certificate Project/Land Sales**
 - a. Realty Transfer Project – Income Tax Compliance on Land Sales
 - b. Realty Transfer Certificate Data Capture Status
 - c. Non-Resident Participation in Montana Real Estate Transactions Summary
 - d. Summary Results from Montana Real Estate Transactions Compliance Initiative
 - e. Results from Montana Real Estate Sales Compliance Initiative
 - f. 1099 S Compliance Cases Worked
 - g. Withholding at Time of Sale vs. After Sale Collection Efforts
 - h. Estimated Rates of Return on Nonresident Land Sales
 - i. Federal Individual Income Tax Underreporting Gap
 - j. General Compliance Rate of Selected Taxpayer Groups
 - k. List of States With Non-Resident Withholding on Land Sales

- 2. Tax Season Filing and Taxpayer Services Update**
 - a. Tax Season Update
 - b. E-Services Time Line – *Where We Are and Where We Are Going*

- 3. Tax Compliance**
 - a. Audit Collections and Expenditures by Fiscal Year
 - b. Ratio of Audit Collections to Expenditures by Fiscal Year
 - c. Compliance and Collections – Third Quarter FY08 Report
 - d. Pass-Through Entities Audit Program Report

- 4. Litigation Update/Pass-Through Entities**
 - a. Major Case Update
 - b. Centrally Assessed – Taxes Paid Under Protest

- 5. Restaurant Beer and Wine Licenses**
 - a. New Restaurant Beer and Wine Licenses - Summary
 - b. New Restaurant Beer and Wine Licenses - Status Update by City

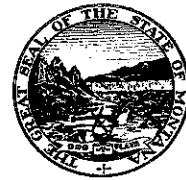
- 6. Federal Economic Stimulus Legislation**
 - a. Overview of the Economic Stimulus Act 2008
 - b. Overview of Housing Market Relief Legislation
 - c. Economic Stimulus Payments

- 7. Property Reappraisal**
 - a. Relationship of Reappraisal to Market Trends
 - b. Update on Current Property Reappraisal Cycle
 - c. 2009 Reappraisal Graph



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Overview of the Economic Stimulus Act of 2008

On February 13, 2008 President Bush signed the *Economic Stimulus Act of 2008* into law. This act had three components that will impact Montana revenues.

INDIVIDUALS

- Refundable Recovery Rebate Credit for 2008
 - Eligible Individuals receive a basic credit in 2008 equal to the greater of:
 - net income tax liability, not to exceed \$600 (\$1,200 in the case of a joint return), OR
 - \$300 (\$600 if joint return) if the individual has either:
 - (a) qualifying income (any combination of earned income, Social Security benefits, and certain veteran's benefits) of at least \$3,000; OR
 - (b) net tax liability of at least \$1 and gross income greater than the sum of the basic standard deduction and personal exemption amount.
 - An additional \$300 credit for each qualifying child.
 - The credit is phased out for individuals with income over \$75,000 (\$150,000 for joint income tax filers).
 - Checks will be issued starting in early May.

It is estimated that 270,000 Montana households will receive \$254.9 million in rebates. Because the rebates decrease the federal taxes paid deduction for taxpayers who itemize deductions on state tax returns, the rebates will increase income tax revenue by \$7.0 million in FY 2009 and by about \$0.5 million split between FY 2010 and FY 2011. The impacts of the rebate are presented in Table 1.

BUSINESSES

- Bonus Depreciation
 - The provision allows an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualifying property, which includes (1) property eligible for MACRS; (2) water utility property; and (3) computer software. This additional depreciation is recaptured in later years.
 - The property must be placed in use during calendar year 2008.

- Tax payers may elect not to use this accelerated depreciation.

The total impact of bonus depreciation on individual and corporate income tax revenue is estimated to be \$0 in FY 2008, \$(2.618) million in FY2009, \$(3.620) million in FY2010 and \$0.709 million in FY2011. The impacts of the increased depreciation deduction are presented in Table 1.

Impact of Economic Stimulus Package on Montana Revenues: FY 2009 – FY 2011			
	FY 2009	FY 2010	FY 2011
Rebate Checks	\$7,000,000	\$250,000	\$250,000
Bonus Depreciation	-\$2,618,000	-\$3,620,000	\$708,000
Total	\$4,382,000	-\$3,370,000	\$958,000

- Enhanced Expensing

This provision increases the Code Sec. 179 expensing limitation from \$128,000 to \$250,000; and increases the threshold for reducing this deduction from \$510,000 to \$800,000. Hence, expensing under the new law phases out completely if qualifying purchases exceed \$1,050,000. It applies to property placed in service in tax years beginning in 2008.



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Overview of Housing Market Relief Legislation

There have been two laws passed that provide relief to distressed property owners. In addition, the Senate has passed a bill targeted at the housing market, and the House is currently working on a similar bill.

- **Mortgage Forgiveness Debt Relief Act of 2007**
 - Allows taxpayers to exclude the forgiveness of debt used to purchase a house from gross income.
 - Became law December 20, 2007
- **Economic Stimulus Act of 2008**
 - Increases the maximum mortgage amounts that various government agencies may give to potential homebuyers.
 - Increases the principal for mortgages issued by Fannie Mae and Freddie Mac to 175 percent of the pre-legislation levels.
 - Increases the amounts allowed for mortgages issued by the Federal Housing Administration to 175 percent of the pre-legislation dollar limitation for residences of all sizes.
 - Applies to loans originated or approved for origination between July 1, 2007 and December 31, 2008.
 - Became law February 13, 2008
- **Foreclosure Prevention Act of 2008**

One version of this bill was passed by the Senate last week. The House of Representatives is debating a different version this week. The following list includes any provision that is in at least one version of the bill. It is not clear which ones will be included in a final bill sent to the President. Also, the President hopes for a bill that uses existing federal agencies to provide relief for homeowners, rather than one that uses tax expenditures.

 - Allows contractors and homebuilders to carryback net operating losses for an additional 2 years, to 2005. This allows firms to receive a refund for taxes paid during profitable years.
 - Provides a \$7,000 tax credit for individuals that buy foreclosed homes.
 - \$150 million dollars for counseling borrowers.
 - \$4 billion dollars to local governments to buy and refurbish foreclosed and abandoned homes.

- A standard deduction for property taxes paid for taxpayers that do not itemize their income tax return. The deduction would be \$500 for individuals and \$1000 for joint filers. This is only available if local taxing jurisdictions do not raise property taxes between April 2, 2008 and January 1, 2009.
- \$10.9 billion in tax exempt bonds for local housing agencies to refinance sub prime mortgages.
- Permanently raises the amount that federal agencies can guarantee.
- Extends the amount of time that a returning veteran has before they face foreclosure.

TPR is monitoring the progress of this bill and is prepared to do any analysis when the bill has been finalized.



Federal Economic Stimulus Payments

General Information from the Internal Revenue Service

- [Economic Stimulus Payments Information Center](#) from the Internal Revenue Service
- [Answers to Frequently Asked Questions](#) from the Internal Revenue Service

Applying for the Federal Economic Stimulus Payment

Although it will be necessary to file a federal income tax return to receive your federal economic stimulus payment, you do not have to file a Montana individual income tax return if you would otherwise not be required to do so.

Taxability of the Federal Economic Stimulus Payments

The economic stimulus payment (federal tax rebate) is not taxable for federal or state income tax purposes. Please note however that if you itemize your deductions for state income tax purposes for tax year 2008, your "federal income taxes paid" deduction may be reduced because of this rebate.

Here are a couple of scenarios to help you determine if the federal tax rebate will impact your Montana income tax situation. Please keep in mind that the maximum allowable deduction for "federal income taxes paid" for Montana individual income tax purposes is \$5,000 for single, head of household, or married filing separately, and \$10,000 for married filing jointly.

- If your itemized deduction for "federal income taxes paid" is below the threshold for your filing status, your deduction for "federal income taxes paid" on your state tax return will be reduced by the amount of the rebate.
- If your itemized deduction for "federal income taxes paid" exceeds the threshold for your filing status, your deduction for "federal taxes paid" on your state tax return most likely will not be impacted because your deduction has already surpassed the maximum allowable amount. The exception would be if the federal tax rebate decreases the amount of your itemized deduction so that it now falls below the threshold for your filing status.