

MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

HELENA, MONTANA

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July

Upcoming Meetings

August 16 & 17 – [Water Policy](#)
August 23 – [Rail Service Competition Council](#)
September 6 & 7 – [Energy and Telecommunications](#)
September 7 – [State Administration and Veterans' Affairs](#)
September 12 & 13 – [Water Policy](#)
September 13 & 14 – [Environmental Quality Council](#)
September 19 – [Revenue and Transportation](#)
September 24 – [Children, Families, Health & Human Services](#)
September 25 – [Legislative Council](#)
October 1 – [Law and Justice](#)
October 4 & 5 – [Legislative Finance](#)
October 16 & 17 – [Water Policy](#)
October 19 – [State Administration and Veterans' Affairs](#)
November 8 – [Energy and Telecommunications](#)
November 8 & 9 – [Law and Justice](#)
November 15 & 16 – [Energy and Telecommunications](#)
November 15 & 16 – [Water Policy](#)
November 16 – [Children, Families, Health & Human Services](#)
November 30 – [State Administration and Veterans' Affairs](#)
December 6 – Montax Annual Meeting
December 6 & 7 – [Revenue and Transportation](#)
December 6 & 7 – [Legislative Finance](#)
December 12 & 13 – [Water Policy](#)

General Fund

Based on preliminary numbers, total general fund revenues for fiscal 2007 were \$74 million more than the estimate used by the 60th Legislature in HJ2 (revenue estimate resolution). The Department of Administration will be submitting a certification letter to the budget director on August 1. The amount of money to be distributed to the schools' capital investment and deferred maintenance program (HB2) and the income tax credit authorized in HB9 will be based on the certified amounts.

More money in the state coffers could mean more money for schools and maybe for taxpayers. HB2 from the Special Session provides for a one-time payment of up to \$30 million for distribution to schools for capital investment and deferred maintenance. The one-time payment depends on whether the 2007 fiscal year end budget exceeds the estimate in HJ2 of \$1,762,355,000.

In yet another bill from the Special Session, HB9, there is a refundable income tax credit available if the fiscal

year end budget exceeds \$1.8 billion. Taxpayers would receive a portion of the property taxes paid for statewide mills by multiplying a factor times a base \$20,000 market value per qualifying residence.

Interim Activities – Use our website – www.montax.org

As the interim activities start to get underway, we will be updating our web page so you can easily find committee information, dates of committees and handouts that were not included on the committees' websites. Be sure to check our [calendar](#) often, as upcoming meetings are posted regularly.

The [Legislative Branch website](#) lists all Interim Committees. Other useful information is the [Interim Newsletter](#) and the [broadcast link](#) where you can listen to many of the interim committees. We hope you will use our website www.montax.org to get to these links quickly. As we post new information, we'll be letting you know through email.

Membership Drive

The Board of Directors made a positive motion to hire Ronda Wiggers, to assist in membership development at the June 8th meeting. Over the past few years, the association has become more involved in issues that have resulted in additional expenses. We want to continue to actively work with other associations on issues important to our members, help coordinate discussions and, when necessary, hire outside consultants to help us ensure Montana's tax system and government expenditures remain reasonable.

A part of the membership drive will be a review of our dues' structure. We are also planning on mailing each member all of our publications, including the tax digest (one of our more popular publications) to increase our value to you. We will continue to email the newsletter to save mailing costs.

Remember, you are our best promoter. If you know someone who is not a member, encourage them to join. They can contact us through the website www.montax.org or (406)442-2130.

Montana Taxpayer

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Upcoming Administrative Rules – DOR

The Department of Revenue will begin their interim housekeeping and proposed changes to their rules over the next few months. HB9 – the \$400 property tax rebate already had a rule hearing. No one spoke in opposition to the rules. Some of the rules most likely to surface include:

- Clarification of expenditures for tax deductions (mostly to clarify examples currently in rule);
- HB3 – Tax incentives for energy development (Jones);
- HB40 – Big Sky Credits on the Big Screen (Gallik);
- HB755 – Exempt certain gift certificate from abandoned property law (Keane);
- SB118 - Eliminate sunset for hospital bed tax (Cobb);
- SB150 - Exclude property contributions from qualified endowment credit and extend credit (Gillan);
- HB490 - Adoption tax credit (French);
- SB281 - Simplify income taxation for married couples filing individually (Balyeat);
- HB257 – Revise taxpayer bill of rights (Lake);
- HB 166 - Extend biodiesel tax credit (Raser)
- SB553 – Short-term emergency lodging tax credit (Nooney);
- SB439 - Withholding for natural resource royalty payments (Elliott);
- SB378 – Use of comparable federal tax definitions (Gillan) review existing rules for

compliance or standardization with federal terms;

- SB316 – Clarify taxation of agricultural parcels reduced by public use by government (Elliott);
- SB549 - Revise property tax classification criteria of certain agricultural land (Story);
- HB39 - Ownership update for water rights (McNutt);
- HB680 - Revise tax laws to authorize department of revenue to collect out-of-state debt (Cohenour);
- SB403 - Revise property tax exemption for disabled veterans (Lind);

Liquor Related

- HB113 - Revise residency requirements for liquor licenses (McChesney);
- HB633 - Revise quota lottery liquor license applications and prohibit gambling (Dutton);
- SB127 - Revise out-of-state winery access to Montana retailers (Wanzenried);
- SB524 - Revise brewery regulation and beer distribution laws (Wanzenried);

Items remaining from last interim

- HB667 - Purchasing pools, tax credit for health insurance (Wanzenried) – waiting for numbers from State Auditors Office, clarification on what is a bona fide taxpayer;
- Clarification of lodging and facility taxes.

Taxpayer Advocate Warns Congress of Dangers of Tax Gap Obsession - by Dustin Stamper, July 20, 2007

National Taxpayer Advocate Nina Olson in her annual midyear report to Congress warned legislators that their relentless drive to make the IRS narrow the tax gap could harm taxpayers.

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Released to the public on July 19, the report identifies the top objectives of the Office of the Taxpayer Advocate, which include strengthening the offer in compromise program, championing for improved taxpayer services, and monitoring the IRS private debt collection program. But Olson prefaced her report with a letter emphasizing the dangers of Congress's fixation with the tax gap.

Since the IRS in 2006 estimated that the government loses as much as \$345 billion every year to noncompliance, legislators have held countless hearings to spur the IRS to more aggressively go after the money. In the past, Olson herself has identified the tax gap as one of the most serious challenges facing the IRS, but she said Congress's single-minded focus on the issue could harm the IRS's and her office's services.

"The IRS is under scrutiny for its efforts to close the tax gap, while [the Taxpayer Advocate Service] is struggling to address taxpayer difficulties that arise as a result of these very

efforts," she wrote. "IRS oversight should not just be limited to urging the IRS to collect more tax revenue."

According to Olson, the IRS could "overreach" and "cut corners" to satisfy the revenue needs of Congress and suffer a backlash from the same legislators now driving the effort. Olson said her staff is also on the verge of being overwhelmed by the explosion in taxpayer cases.

"Even as Congress directs the IRS to address specific areas of noncompliance, Congress should require the IRS to adopt a long-term research strategy that focuses not only on 'closing the tax gap,' but also on understanding what it takes to encourage taxpayers to be voluntarily compliant and how to change taxpayer behavior," the report said.

TAS Caseload

The report said taxpayer advocate service (TAS) cases increased 43 percent between 2004 and 2006, while advocates to work those cases decreased 8 percent. The report sets an ambitious agenda for TAS to "institutionalize" its authority within the IRS.

"Such integration must begin with a strong message from IRS leadership that TAS serves an important function in assuring a fair and just tax system," Olson said.

Private Debt Collection

Olson in the report reiterated her opposition to the IRS private debt collection program, but said she will monitor the program closely to protect taxpayer rights. The report said the IRS is preparing two studies to test the effectiveness of the program; those studies are due out in August 2008.

Offers in Compromise

Olson has recently begun stressing the need for the IRS to reinvigorate the Offers in Compromise (OIC) program. The report said a new provision requiring that a nonrefundable partial payment be made with an OIC may have reduced the program's accessibility.

"The partial payment requirements may discourage good offer submissions by requiring payments that taxpayers cannot afford, and by increasing the cost to taxpayers when the IRS returns an offer without determining whether to accept or reject it," the report said.

Transparency

In her 2006 annual report to Congress, Olson cited an increasing lack of transparency at the IRS as a serious problem, but the current report said the agency has made some improvement. In the 2006 report, Olson's office complained that the IRS Office of Chief Counsel was denying it access to a sample of 15 nonpublic legal memos to analyze. Chief Counsel cited Freedom of Information Act litigation with Tax Analysts in its refusal, and Tax Analysts took the case back to court to settle the issue.

The chief counsel's office has since turned over 15 memos, and Olson's report agreed that some should not be published. "For example, some discuss the hazards of litigation, which is the type of frank communication that any lawyer should be able to have with a client outside of public view," the report said. "Others do not contain legal analysis *per se*, but rather recommendations about business or policy decisions. At least if the policy is not ultimately adopted, we believe this is the type of internal dialogue that should remain undisclosed to promote a frank exchange of ideas."

But the report also argued that tax administration would benefit from the publication of other memos. Making them publicly available could help taxpayers understand the law and help the IRS administer the law consistently, the report said. According to the report, the chief counsel's office and TAS agreed which of the 15 memos should be made public in light of the decision in Tax Analysts' litigation.

(Ed. Note: This is why our association continues to advocate the importance of education for taxpayers to increase tax compliance).

Identify Theft – Steps you can take now

(From the Montana of Justice's website)

We decided to include this article to refresh your minds that identity theft can happen to anyone and that by taking a few small defensive steps you can help ensure your identity is protected.

Annual Credit Report

The first step is to go to www.annualcreditreport.com. This is the official government site.

Once you are on the screen, select your state (in the space that says "start here"). Be sure to complete this process for all three credit bureaus: Experian, Equifax and TransUnion. It is not necessary to buy or purchase any of the credit scores, unless you are interested. You will be asked a series of questions such as previous addresses, banking and credit card information, etc. If you are unable to answer a question, they might mail you a report number or email you one.

It is very important to print all three credit reports. Each report could contain different information. That is why it is so important to carefully review all three.

Credit Freeze

As you may be aware SB116, the credit freeze took effect on July 1, 2007. This statute allows a consumer to freeze their credit, so it cannot be accessed without your special code. The Department of Justice's website <http://www.doj.mt.gov/> has a link that will take you to a sample letter you can use to freeze your credit reports.

A security freeze allows consumers to proactively "lock up" their credit information so no one can access it without their permission. This prevents a thief from falsely using someone else's identity to take out a new mortgage, apply for a credit card or get financing.

The freeze is easily lifted if consumers plan to make a major purchase, open a new credit card or take out a loan.

A security freeze will not:

- lower your credit score;
- prevent you from getting your own credit report;
- stop credit card companies from sending you pre-approved credit offers. To stop most pre-approved credit offers, call 888-5OPTOUT (888-567-8688) or go online to www.optoutprescreen.com. You can choose to opt out for five years or permanently.

Cost

It costs \$3 to place a security freeze on your credit files with a credit bureau, for a total of \$9 to freeze your files with all three credit bureaus. For a security freeze to be effective for married couples, both spouses have to freeze their separate credit files. The total cost for a couple is \$18. To have a freeze temporarily lifted also costs \$3 per credit bureau. There is no fee to permanently remove a security freeze.

Washington's Hidden Taxes

Brian Wingfield, 07.25.07, 6:00 AM ET
FORBES, WASHINGTON, D.C. -

There is an old joke--attributed, of course, to Mark Twain--about the difference between a taxidermist and a tax collector: The taxidermist takes only your skin.

But of all the fees levied by the notorious taxman, the most unpopular are those that are hidden. We don't mean the frustrating taxes you see added to the end of your cellphone bill at the end of each month (though those can be maddening). We're talking about those that are simply not apparent to the average consumer.

Take, for example, the gasoline tax. Ever scratched your head wondering how much Uncle Sam is taking when gas prices spike? The answer (regardless of price fluctuations): 18.4 cents on every gallon that you purchase. When coupled with state and local taxes and fees, the average American pays 45.8 cents per gallon in gas taxes alone, according to the American Petroleum Institute, the industry group that represents big oil companies. That's about 15% of the current nationwide average price of gas, \$3.06 per gallon.

But excise taxes like the gas tax aren't the only place for taxes to be secreted away. A favorite hiding place is the tax code itself. In fact, in her annual report to Congress last year, IRS National Taxpayer Advocate Nina Olson said lack of transparency in the tax system was among the most serious problems encountered by taxpayers.

"[T]he IRS sometimes updates its procedures and guidance without [in a timely manner] making them available to the public," her report said. No wonder so many people are confused about how much they owe.

At the top of Olson's list of concerns was perhaps the nation's most famous hidden tax--the alternative minimum tax (AMT). Nearly four decades ago, it was put in place to make sure the rich paid their share

to the system. But because it's not indexed for inflation, it has ensnared a growing slice of the middle class.

In testimony before Congress last month, Leonard Burman, director of the Tax Policy Center, a nonpartisan think tank here, said that by 2010, half of all tax filers making between \$75,000 and \$100,000 will be subject to the AMT. In the past, Congress has applied temporary fixes to rein in this expanding tax, but it has not done so this year.

"The big theme of hidden taxes is that in the end, consumers pay all taxes," says Tom Giovanetti, president of the Institute for Policy Innovation, a Texas-based advocate of tax transparency. The group has argued that that corporate taxes, payroll taxes and so-called "bracket creep"--where taxpayers are bumped into a higher tax bracket because of inflation--are all examples of hidden taxes.

Is Congress doing anything to lighten the load on consumers and wage earners? Hardly.

The Senate is now considering a bill that would raise the federal tax on cigarettes from 39 cents to \$1 to help pay for the Children's Health Insurance Program. President Bush has threatened to veto the measure, but the House is also considering a health care bill that would raise the price of cigarettes.

Planning a trip to Las Vegas soon? You might want to brush up on tax rules as well as your poker skills. Even if you have a net loss at the table, you're still taxed on your winnings. Yes, you can list your losses as a miscellaneous itemized deduction--but you can't deduct more than the total amount of your winnings. And if you're subject to the AMT, you lose these deductions anyway. Gambling, by the way, is not just limited to casinos. It includes lotteries, racetrack betting, raffles and prizes (like a trip or a car).

And few lawmakers are reluctant to abolish the AMT completely because it is expected to bring in \$800 billion in government revenue over the next 10 years.

Our own Steve Forbes has argued that one way to clean up the tax code and expose hidden taxes is through the adoption of a federal "flat" tax, a single rate for individuals and business that would eliminate most of the deductions and exemptions now in place. In some parts of the world, particularly in Eastern Europe and the Baltic states, flat taxes have been cited as a spark for economic growth.

Shining a light on the current system would likely reveal that people actually pay more taxes than they think they do, says Sam Batkins, a spokesman for the National Taxpayers Union, a Washington-based group has supported the flat tax.

And nobody on Capitol Hill is willing to make that claim. "If you're a politician, obviously you don't want to be labeled as a tax hiker," he adds.