

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
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- 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
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- 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

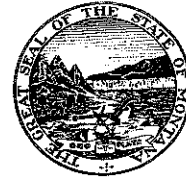
- 6. Federal Economic Stimulus Legislation**
 - a. Overview of the Economic Stimulus Act 2008
 - b. Overview of Housing Market Relief Legislation
 - c. Economic Stimulus Payments

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



Dan Bucks
Director

Montana Department of Revenue



Brian Schweitzer
Governor

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Tax Season Filing and Taxpayer Services Update April 17, 2008

How Are We Doing?

Electronically filed returns are up! Through April 16, 2008, the number of Montana individual income tax returns filed electronically has increased by 12.6% as compared to this same point in time last tax season. The electronic filing has increased for all three Montana income tax forms – Forms 2, 2M and 2EZ. In fact, the number of Forms 2EZ filed electronically this year has nearly doubled from 2007. Taxpayers were also able to file Form 2EC, the elderly homeowner/renter credit form, for the first time electronically this year, and to date, nearly 1,800 have been filed through the department's free website. By expanding the department's free electronic filing program in 2008 to include Forms 2M and 2EC, in addition to Form 2EZ made available to taxpayers last filing season, we met our objective of processing over 20,000 electronically filed returns.

Total processing of returns is up! We are processing income tax returns and payments at a faster pace than in the past. The number of individual income tax returns processed through April 16, 2008 has increased by 6.2% as compared to this time last tax season. Obviously the efficiencies of electronic filing and the increased numbers of e-filed returns have helped. However, other important factors playing a role in the increased processing are the improvements to the check scanner for better character recognition and the fact that the department's integrated tax system is operating smoothly. Less manual assistance has led to a more efficient processing season.

Refund turn-around time is ahead of our targets! With an error-free return filed electronically we promised taxpayers a refund in 5-10 days. This tax season we have consistently been issuing refunds on electronically filed returns within 5-6 days. For tax returns filed on paper we indicated the wait for a refund could be as long as 6-10 weeks. We have been processing returns and issuing refunds filed on paper within 6 weeks. Overall, the department believes we have processed tax returns at a record pace this filing season.

Taxpayer Education, Outreach & Services

To make it easier, more convenient and less costly for citizens and businesses to file and pay state taxes and to improve the efficiencies of administering these taxes, three Montana income tax forms, along with the annual withholding tax reconciliation for employers, could be filed this tax season electronically for free. Forms 2EZ – the short form; 2M – the intermediate form; 2EC – the elderly homeowner/renter credit form; and the MW3 annual withholding tax reconciliation are available on the Montana Department of Revenue's website at mt.gov/revenue.

In order to increase the number of returns received electronically and to make it easier for taxpayers to file their tax returns, the department took great strides in educating the public to make them aware of the free electronic filing services and the taxpayer assistance the department provides in more ways than before.

We built new partnerships with AARP, VITA and MontanaFreeFile.org. The latter, a partnership of government and non-profit entities, including the Montana Department of Revenue, Montana's Credit Unions, Montana HRDC Association, Montana Legal Services Association, and Consumer Credit Counseling Service of Montana/Rural Dynamics. AARP Tax-Aide Montana and the Montana Attorney General's Office also are lending support to this project.

We updated the department's website; added a toll-free number for taxpayers outside the Helena calling area; expanded our walk-in assistance across the state; increased our communications to taxpayers on the changes for 2008; and reached out to Montana taxpayers through the state's universities and colleges and through more public service announcements. These efforts include the following:

Department's Website – mt.gov/revenue

This year we updated the mt.gov/revenue home page to put a greater focus on our online services, including the free filing for forms 2M, 2EZ, and 2EC. The downloadable forms page was updated to provide only one link on the main downloadable page for the form 2M, 2EZ, and 2EC. This link takes taxpayers to a page that provides a brief explanation of the opportunity to file electronically for free and the benefits of filing electronically, plus a link to the forms online filing application. This page also provides links to downloadable, fill-in and self calculating tax forms.

The Montana Department of Revenue's website also offers information about tax season updates, electronic filing options, frequently asked questions and other tax related information. The website also includes an e-mail function that allows taxpayers to send a message to the department. To access the e-mail function, click on Contact Us.

Partnerships With Other Websites

Information for filing the Montana income tax returns online for free and links to the department for assistance was posted on the montanafreefile.org website, the Montana Information Network for state employees and the State of Montana website. Montana State University Student Affairs sent an email to students of the MSU campuses directing them to their website for information on filing their Montana income tax return and Dawson Community College included tax filing information with the student packets for the winter term.

Department's Call Center

(866) 859-2254 (toll free) and (406) 444-6900 (Helena)

8:00 a.m. – 5:00 p.m., Monday – Friday, with expanded hours on Saturday, April 12 from 10:00 a.m. to 2:00 p.m. and until 8:00 p.m. on April 14 and 15.

This year the Montana Department of Revenue is offering a toll-free number for taxpayers outside of the Helena calling area. This number, (866) 859-2254, was included in the tax form booklets, on postcards mailed to taxpayers and on posters advertising the on-line electronic forms posted throughout the state at libraries, local offices, volunteer taxpayer assistance sites and credit unions.

Where's My Refund?

Taxpayers who have filed and claimed a refund can check the status of their refund by calling (406) 444-9840 or by logging on to mt.gov/revenue and clicking the "Where's My Refund" icon.

Department Walk-in Assistance

Helena

Taxpayer assistance is available year-round at the Montana Department of Revenue's offices on the third floor of the Sam W. Mitchell Building in Helena. A special taxpayer assistance room (Room 160) is open on the first floor of the Mitchell Building (east wing) from March 1 - April 15 from 8:00 a.m. – 5:00 p.m. with expanded hours on Saturday, April 12 from 10:00 a.m. to 2:00 p.m. and until 8:00 p.m. on April 14 and 15.

Statewide – New Options for 2008!

During income tax season the department offered special taxpayer assistance at selected offices statewide, including Missoula, Kalispell, Libby, Butte, Glasgow, Red Lodge, Miles City, Plentywood, Dillon and Forsyth. At these locations, a computer was available for taxpayers to file their state income tax returns, Forms 2EZ, 2M or 2EC, electronically for free. As well, the department designated employees at these facilities to assist with the filings and to resolve taxpayer questions.

Assistance with Volunteer Tax Preparation Organizations

This year the department loaned computers and printers to AARP and VITA sites around the state to assist with preparing tax returns, provided training to volunteers in Havre, Glendive, Butte and Helena on filing the Montana income tax returns for free via the department's website, made periodic visits to sites offering assistance and communicated with the volunteer organizations over the tax season on the filing implications of the federal stimulus payments. The department has an upcoming meeting with these groups to discuss lessons learned this filing season and to make plans to improve on services in 2009.

There were fourteen credit unions around the state that provided assistance and free electronic filing for walk-in customers. The department communicated with them about the new forms available electronically in 2008 and offered assistance where needed.

Department Mailings

The department mailed taxpayers a postcard with the electronic filing options and the benefits of filing electronically prior to the filing season.

In addition to educating taxpayers on electronic filing options, the mailings were designed to inform taxpayers of the three forms available in the event a simpler form fit their filing requirements. This year, a letter providing electronic filing instructions was included with the mailing of the Montana Annual Withholding Tax Reconciliation form (MW3) and instructions mailed to employers in December. Also, taxpayers who filed for the Montana Elderly Homeowner/Renter Credit in 2006 were mailed the credit form, along with instructions on filing the form electronically, plus a form and instructions for claiming the \$140 income tax credit for property taxes if applicable.

Department Communications

The department continues to strive to make tax forms and instructions easier to understand and to write them in a manner that benefits the taxpayer. In 2005, the department went through a major rewrite of the individual income tax forms and instructions, trying to inform taxpayers of all credits and deductions available to them. This year, three separate income tax booklets were created to allow taxpayers to benefit from using only the forms and instructions that meet their filing needs.

The department continues to refine forms through taxpayer comment cards included in tax booklets and feedback from focus groups targeted to review and comment on forms. The department also plans in the near future to review the letters and paragraphs generated through Gentax to improve their structure and clarity.

Department Emails

The department submitted emails during the tax season to all state employees reminding them of the benefits of filing early, filing electronically and the resources available to them for assistance. A similar email was also sent to all Montana University System employees.

Public Service Announcements

During the tax season the department ran public service announcements on television, radio and in newspapers, including student newspapers of Montana universities and colleges and Montana Senior News, a communication written for senior citizens. These announcements included information on electronic filing, taxpayer assistance, the Montana Elderly Homeowner/ Renter Credit, new tax forms available online, the energy tax credit, MW3 annual reconciliation for employers, the Property Tax Assistance Program and property tax benefits for disabled or deceased veterans.

Stakeholder Updates

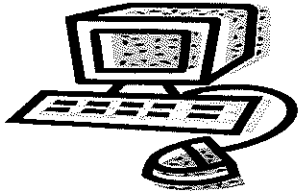
The department held a press conference in early February highlighting the upcoming tax filing season, with media running follow-up stories in newspapers and on television. Department personnel met with tax preparers in December to discuss issues and recommendations and followed-up with email communications in January. Finally, the department's director appeared in a taping of Aging Horizons to educate the public on how to find taxpayer assistance and to encourage electronic filing of income tax returns.

Where Are We Headed?

Next tax filing season the department's plans call for having Form 2, the individual income tax long form, available for free electronic filing on the department's website. With the addition of Form 2, all individual income tax returns will be available on mt.gov/revenue.

We also are moving towards modernized corporate e-filing for business tax returns. Modernized E-file introduces a more efficient and easy e-file system for electronic filing. This initiative is a partnership between the IRS, participating states such as Montana, and software vendors.

On May 1, 2008, the new Modernized E-file service for corporate license tax (Federal 1120) will be available. Modernized E-file will allow corporations to electronically file their state corporation tax returns at the same time they file their federal tax returns. The department will be able to accept electronically filed Montana corporate license tax returns for tax year 2007 beginning in May.



E-Services

Where we are and where we are going ...

2006		
October 2006	Beer Tax & Hard Cider Tax	✓ Direct Internet Filing – Pilot Project
2007		
January 2007	Income Tax – Form 2EZ	✓ Free Internet Filing – Pilot Project
August 2007	\$400 Property Tax Refund	✓ Pre-populated form mailed to taxpayers
December 2007	Mineral Royalty Withholding	✓ Senate Bill 439
	MW3 Employer Annual Reconciliation	✓
	Brewer/Winery Report	✓
	Beer/Wine Retailer Report	✓
2008		
January 2008	Income Tax – Form 2EC	✓ IRIS Phase IV – Rollout One
	Income Tax – Form 2M	✓
	Wine Tax	✓
	Emergency Telephone 911	✓
	Retail Telecom Excise Tax	✓
	Telephone device for the deaf	✓
May 2008	Corporation License Tax – Form CLT-4	Modernized e-file – Joint federal/state
July 2008	Electrical Energy License Tax	IRIS Phase IV – Rollout Two
	Wholesale Energy Trans Tax	
	Hospital Utilization Fee	
	Nursing Facility Bed Tax	
	Consumer Counsel Tax	
	Public Service Regulation Tax	
	Liquor License Renewals	
	Liquor Retailer Account	
	Liquor Vendor Account	
December 2008	Small Business Corporation License Tax – Form CLT-4S	IRIS Phase IV – Rollout Three
	Partnership Return – Form PR-1	
2009		
January 2009	Income Tax - Long Form 2	
July 2009	Liquor Connoisseur Tax	IRIS Phase IV – Rollout Four
	Natural Resource Taxes (Bentonite, Cement and Mineral, Coal Gross Proceeds, Coal Severance, Metal Mines Gross Proceeds, Metal Mines License, Metal Mines Net Proceeds, Micaceous Mineral Mines License, Resource Indemnity Trust)	
	Other Taxes, Fees and Licenses – Bringing Total to More Than 40	Implemented starting July 2008; completed by July 2009.
	Taxpayer “Look Up” Function Implemented for Most Taxes	Implemented starting July 2008; completed by July 2009.