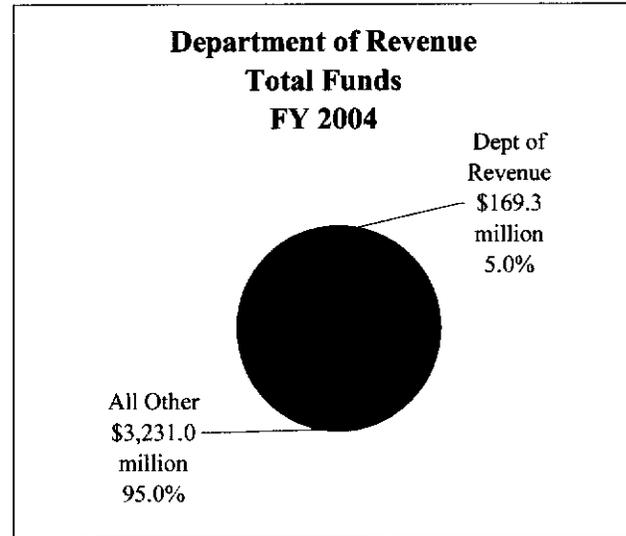
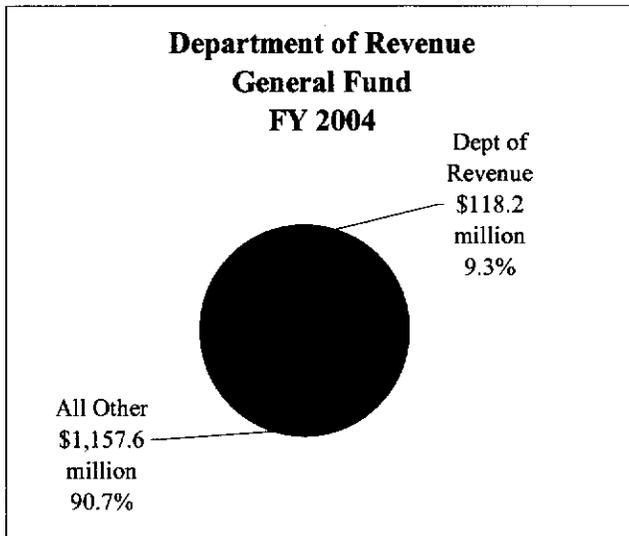


## Department of Revenue Agency Profile<sup>1</sup>



### WHAT DOES THE AGENCY DO?

The Department of Revenue administers state taxes except for gasoline and motor fuel taxes administered by the Department of Transportation. The department:

- o Administers and enforces Montana's tax laws
- o Administers the Montana Alcoholic Beverage Code
- o Enforces the Montana Cigarette Sales Act

The department collects and distributes revenue from and enforces regulations for over 30 state taxes and fees. The department also regulates the sale and distribution of alcoholic beverages in the state. In doing so, the department buys, imports, stores, sells, and delivers liquors to agency liquor stores.

Total FTE: 613.03 FTE (FY 2004 after transferring 30.00 FTE to DOLI per SB 271, 2003 Legislature)

### How Services Are Provided

The Department consists of six divisions with the following functions:

1. **Director's Office** - supports the agency's director and other divisions with the following functions:
  - o Department legal services, including development of administrative rules, policies, and the tax dispute resolution process
  - o Tax Policy and Research for state revenue legislation and legislative proposals affecting the department, and department economic data analysis
  - o Department budget analysis

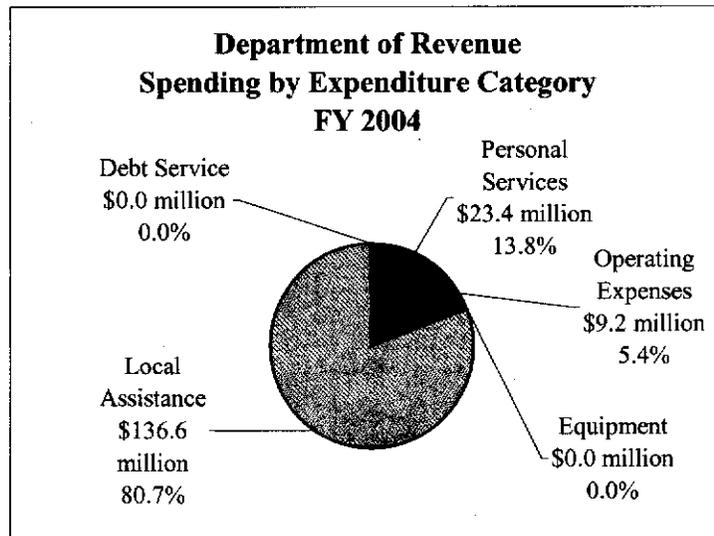
<sup>1</sup> For an explanation of terms used in this profile, consult the

- Department communication activities, including information dissemination, media relations, document editing, stakeholder relations, website maintenance, public involvement, and special events
- Internal quality assurance
- Administrative support including, preparing for legislative committees, transcribing legal hearings, editing correspondence, and finalizing mass mailings

(29.00 FTE all funded in HB 2)

2. **Information Technology** - provides data support, applications support, technology support, and user assistance. (31.00 FTE all funded in HB 2)
3. **Resource Management** - provides service and support to all divisions of the department by integrating human resources, payroll and benefits, education and training, liquor distribution, accounting and facilities management (37.50 FTE all funded in HB 2)
4. **Customer Service** - provides centralized customer service, revenue collection, and document processing for the department and other state agencies (115.25 FTE all authority types comprised of 111.75 FTE funded in HB 2 and 3.50 FTE funded with proprietary funds)
5. **Business and Income Taxes** - oversees audits and measures to verify tax-paying entities are in compliance with the law (102.78 FTE all funded in HB 2)
6. **Property Assessment** – provides valuation and assessment of real and personal property throughout the state for property tax purposes (301.00 FTE all funded in HB 2)

The Department of Revenue provides services and functions through the employment of state FTE, who conduct property valuations and assessments, audit taxpaying entities, operate the state liquor warehouse, process tax payments, and administer the day-to-day support functions behind the department processes. The department employs contracted information technology consultants to augment state FTE in maintaining the Process Oriented Integrated Tax System (POINTS).



### How Services are Funded

Department of Revenue expenditures are funded with a combination of general fund, state special revenue, federal special revenue, proprietary funds, capital projects, and nonexpendable trust funds. Of

general fund expenditures, which comprise 45 percent (\$116.4 million) of department expenditures, 76 percent (\$88.5 million) are appropriated in state law, with the remaining authorized primarily through the various appropriations acts. An additional 22 percent (\$57.2 million) of total fund expenditures made through off-budget transfers are funded with interest income from nonexpendable trust funds and authorized in state law.

Proprietary funds account for funding for 20 percent (\$51.4 million) of department expenditures. Proprietary funds are primarily from liquor sales, with less than a quarter of a percent funded by customer service center charges for collecting on bad debt for subscribing agencies.

State and federal special revenue funds comprise the remaining 13 percent (\$31.7 million) of department expenditures. Appropriations in state law authorize nearly 79 percent (\$23.2 million) of state special revenue expenditures with the remaining authorized through various appropriations acts. Expenditures via statutory appropriations of state special revenue are funded from:

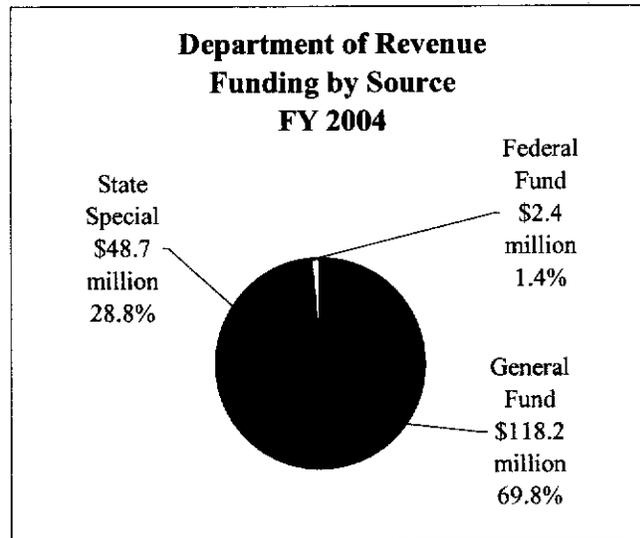
- o Tobacco and cigarette taxes deposited in the tribal agreement account
- o Metal mines tax
- o Montana oil production tax
- o Coal gross proceeds tax
- o Beer, wine, and liquor excise taxes

Expenditures of state special revenue made via appropriations legislation are funded from:

- o Agriculture coal severance tax
- o Combined oil and gas earmarked revenue
- o Unclaimed property administration funds
- o One-stop licensing and new hire administration account
- o Property valuation improvement fund
- o Oil and gas earmarked revenue account

Expenditures of federal special revenue made via appropriations legislation are funded from:

- o Unemployment insurance administrative grants
- o Natural resources royalty audit reimbursements
- o Federal share of new hire administrative account

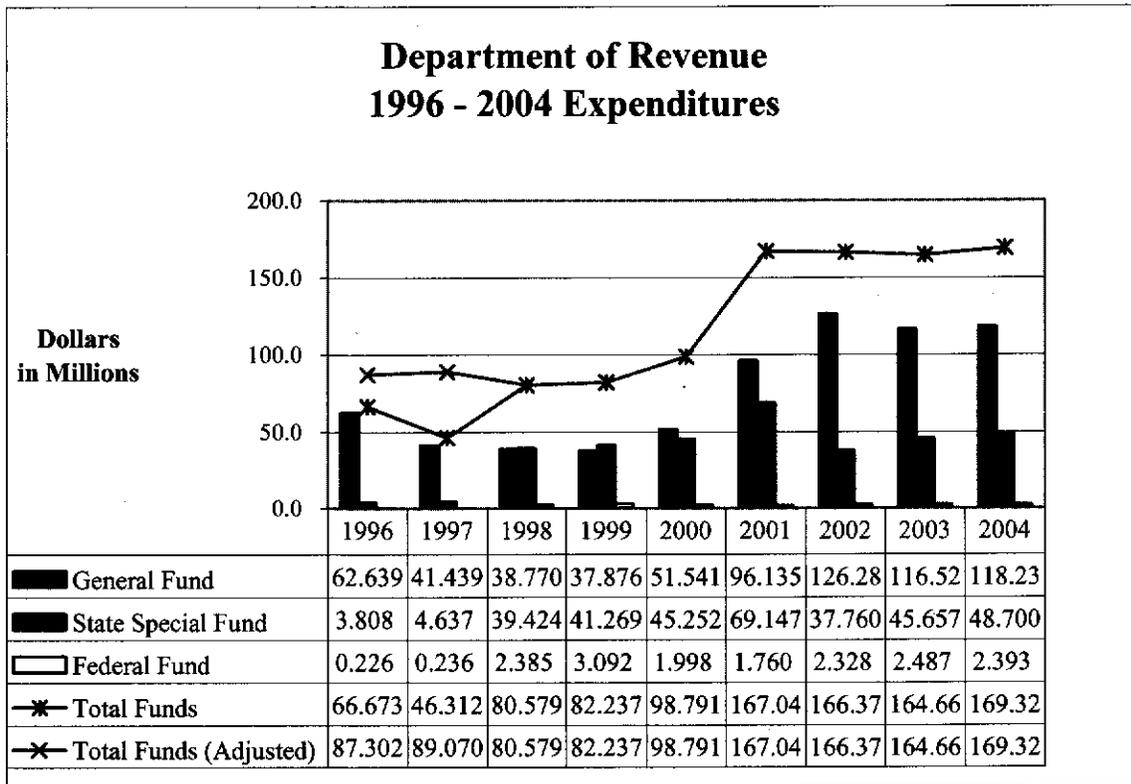


### Related Data and Statistics

<i>Element</i>	<i>1996</i>	<i>2003</i>	<i>Significance of Data</i>
Number of income tax returns processed	433,105	467,776 (2001)	Estimate of workload (income tax processing)
Number of income tax returns with refunds	261,034	310,404 (2001)	Estimate of workload (income tax processing)
Number of corporation tax returns processed		33,090 (2001)	Estimate of workload (corporation tax processing)
Number of metalliferous mine producers filing returns	14	4	Estimate of workload (metal mines tax processing)
Number of off-premise liquor licenses issued		1,061	Estimate of workload (liquor license processing)
Number of on-premise liquor licenses issued		2,239	Estimate of workload (liquor license processing)
Number of wholesaler liquor licenses issued		36	Estimate of workload (liquor license processing)
Number of supplier liquor licenses issued		404	Estimate of workload (liquor license processing)
Number of parcels - reappraisal valuation		800,000	Estimate of workload (reappraisal valuation)

Source: Biennial Report of the Montana Department of Revenue, July 1, 2000 to June 30, 2002

## Expenditure History



Dept of Revenue		
Fund	Percent of Total (2004)	Average Growth (1996 - 2004)
General Fund	69.8%	8.3%
State Special Fund	28.8%	37.5%
Federal Fund	1.4%	34.3%
Total Funds	100.0%	12.4%
Total Funds (adjusted)	100.0%	8.6%

Note: The Total Funds (Adjusted) information adjusts total fund expenditures for two occurrences:

- o Reduces FY 1996 and FY 1997 expenditures for one-time tax refunds of HB 171 and HB 497 in the 1995 legislature that refunded income and property taxes because of a high general fund balance
- o Increases expenditures to offset an accounting change in which non-governmental funds were used to account for expenditures during FY 1996 and FY 1997.

Total fund expenditures of governmental funds derived from all sources of appropriations authority have increased by nearly 154.0 percent from FY 1996 to FY 2004, but only 94.0 percent after adjusting for tax refunds given in FY 1996 and FY 1997. During the same period, general fund expenditures have increased by 89 percent, from \$62.6 million to \$118.231 million, but general fund has been reduced from 94.0 percent to 69.8 percent of total funds. Simultaneously, state special and federal funds have increased as a percentage of total funds from nearly 5.7 percent to 28.8 percent and from 0.3 percent to 1.5 percent, respectively.

## Reasons for Expenditure Growth/Change

The decline for general fund from FY 1996 to FY 1998 is attributed to two one-time events:

- o HB 171 in the 1995 Legislature refunded \$21.5 million general fund derived from excess tax collections
- o HB 497 in the 1995 Legislature provided property tax refunds of \$5.3 million in FY 1996 and \$5.0 million in FY 1997

The growth of state special funds from FY 1997 to FY 1998 is due entirely to an accounting change in which expenditures from several tax types were accounted for with agency funds during the 1997 biennium but accounted for with state special funds from FY 1998 and beyond. Agency funds are not included in the historical expenditure chart and accounted for \$47.4 million in FY 1996 and \$47.8 million in FY 1997, but the same tax types totaled \$37.9 million in FY 1998 when expended as state special funds. The spike of state special funds in FY 2001 is due primarily to a spike in gas and oil tax collections attributed to a tax dispute settlement with Shell Oil.

The growth of general fund FY 1999 to FY 2002 is primarily due to the changes in local government assistance attributed to property tax revisions of SB 184 in the 1999 Legislature and the local government funding revisions of HB 124 in the 2001 Legislature.

## Agency Functions, State Purposes Served, and Customers

The Department of Revenue is structured to perform certain functions. The functions are in support of overarching policy objectives. The following lists the major functions, overarching policy objectives, and primary customers served. Please note that LFD staff has both identified general state overarching policy objectives and assigned functions. For an explanation of the overarching policy objectives and how they were derived, please refer to the "Background on the Agency Profiles" document.

<i>Policy Objectives</i>	<i>Major Agency Functions</i>	<i>Customers</i>
Infrastructure -- Governmental and Physical	Revenue distribution	Taxpayers, state government, local government, citizens
	Property valuation	Property owners, state government, local government
	Tax compliance	Taxpayers, state government, local government
	Agency management and administration	Taxpayers
	Information technology support	Agency programs
	Liquor operations	Liquor wholesales and retailers

## HOW CAN THE LEGISLATURE EFFECT CHANGE?

In order to change expenditure levels and/or agency activity, the legislature must address one or more of the following basic elements that drive costs.

Tax policy changes – tax policy changes impact staff workload and costs associated with tax administering systems. The legislature can impact costs to administer and enforce state tax laws by influencing the number and type of taxes administered and the citizenry impacted by the taxes. It can impact tax administering and enforcement costs by affecting the complexity and frequency of tax policy changes. Tax policy changes also impact costs to implement, modify, and maintain computer systems used to administer taxes.

Revenue distribution – revenues collected by the department are distributed according to statutory requirements. The legislature can impact the costs to administer the distribution of revenues by influencing the statutory requirements for the frequency and complexity of revenue distributions and by the number of distribution requirement changes the department must implement. With 43.0 percent of the department budget authorized through statutory appropriations to distribute revenue for local assistance payments, the legislature can influence a significant portion of the department budget through revenue distribution requirements.

### **Statewide Factors with Impact**

In addition to the factors above, a number of factors common to many agencies will also impact changes in expenditures over time.

- o All general factors impacting overall personal services costs such as level of the pay plan and benefits due to personal services accounting for 10.6 percent of total expenditures for all types of spending authority in this agency

### **Statutory References**

The primary statutory references defining duties and responsibilities of the department are found at the following locations.

2-15-1301, MCA - Department of Revenue -- Head  
15-1-201, MCA - Administration of Revenue Laws  
Title 15, MCA - Taxation