Montana State Legislature

Exhibit Number: 5

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Montana Department of
REVENUE

2006-2007 Major Decision Packages

General Government & Transportation Appropriations Subcommittee

2005 Legislative Session

EXHIBIT 5
DATE 2/13/05
HB 2

Montana Department of
REVENUE

Decision Package Numbers: 101, 201, 501, 601, 701

Replacement of Federal Funds – UI Transfer

A portion of fixed costs associated with support services and withholding tax were funded with federal funds for administering unemployment insurance tax.

Prior to moving the administration of unemployment insurance tax to the department in fiscal year 1999, these costs were funded with general funds.

As a result of SB 271 in the prior legislative session,the federal funding for the Department of Revenue's fixed costs -- costs that remain with DOR -- were transferred to the Department of Labor and Industry on July 1, 2004.

With the loss of federal funding, the department is not fully funded for the fixed costs that remain. The department requests replacement of the federal funds with general funds.

*NOTE: This decision package does not involve variable costs -- and the federal funding for them have been transferred to Labor and Industry.

Montana Department of
REVENUE

IRIS

Integrated Revenue Information System (IRIS)

- Senate Bill 271,directed the Montana Department of Revenue to replace the Process Oriented INTegrated System (POINTS).
- In August 2003, the department hired Fast Enterprises as the vendor for the new system, IRIS.

Why IRIS Works

- Costs less than the other systems
- Rolled out-on-time and on-budget
- Implemented faster than other systems
- It is a proven tax system operating in multiple states
- IRIS works for the Montana taxes implemented to date

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Accomplished to Date

Six taxes currently are in production:

Rental Vehicle Tax

✓ *In Production, On Schedule, On Budget*

Registration, Returns Processing	*September 26, 2003*
All other functionality	*October 27, 2003*

Lodging Facility Tax

✓ *In Production, On Schedule, On Budget* — *March 29, 2004*

Cigarette Tax

✓ *In Production, Ahead of Schedule, On Budget* — *March 29, 2004*

Income Tax Withholding

✓ *In Production, On Schedule, On Budget* — *July 5, 2004*

Combined Oil & Gas

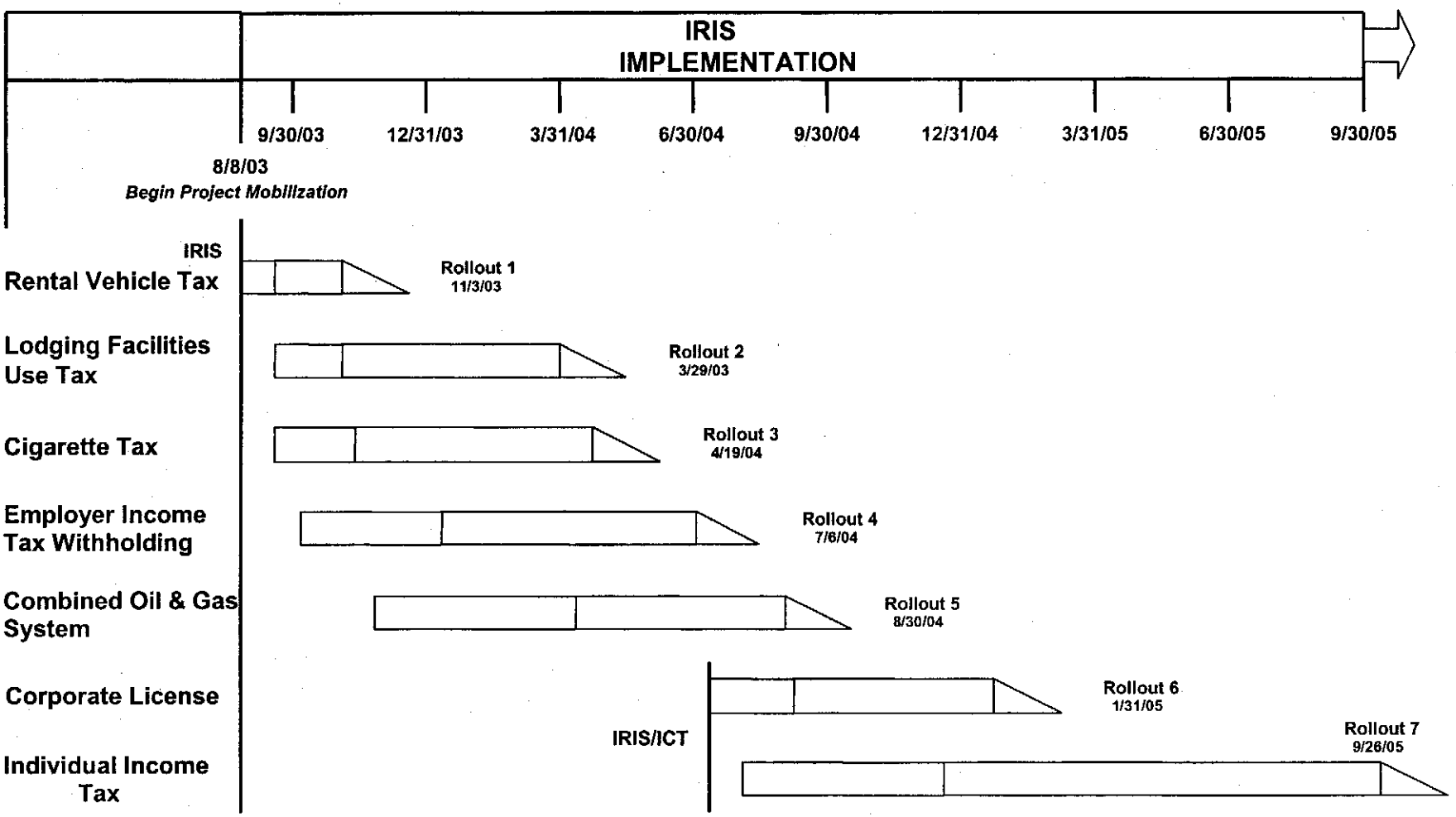
✓ *In Production, On Schedule, On Budget* — *August 30, 2004*

Corporation License Tax

✓ *In Production, On Schedule, On Budget* — *January 31, 2005*

Montana Department of
REVENUE

Proposed IRIS Schedule



Montana Department of
REVENUE

Tobacco Use Prevention Initiative

What?

- Support tobacco use prevention efforts by funding them at the percentage designated by I-146
- Tobacco use prevention includes the enforcement of tobacco products taxes
- The initiative is a joint effort between Department of Public Health & Human Services, Department of Revenue and Department of Justice

Funding Source?

- State special revenue

Department Impact? (4 New FTE)

- 2 Auditor positions
- 1 Attorney position
- 1 Administrative Support position

Montana Department of
REVENUE

DP 111 Compliance Unit

Compliance concentration

- The 8 FTE added by the adjustment would concentrate on compliance issues involving primarily, but not exclusively, multi-state corporations and non-residents. Examples of issues where other states have found significant non-compliance with personal income and corporate license tax include:
  - ✓ Abusive tax shelters, where transactions are used to hide or disguise income
  - ✓ Income earned in the state by non residents that is not reported or taxed (i.e capital gains income)
  - ✓ Income earned by out-of-state businesses that have enough economic presence in the state to owe, but do not pay, corporation license taxes
  - ✓ Income earned in Montana that flows through one or more pass-through entities to an out-of-state recipient who does not pay Montana income tax
- Similar issues involving the shifting of Montana income to other states-projection of additional revenue in the amount of $3.4 million in the 2007 biennium.

Montana Department of REVENUE

DP804 – Property Tax Computer System

One billion property tax dollars at risk

Current computer systems are obsolete

- Systems replacement recommended in Statewide IT Strategic Plan

CAMA system support in jeopardy

- Only large system of this type remaining in US
- Reduced support – Future support in question

Division effectiveness impacted due to outdated computer systems

Montana Department of REVENUE

DP804 – Property Tax Computer System

Current systems

- Separate, stand alone
- Minimal or no communication
- Flat file system
- Any change requires constant programmer intervention

New technology

- Integrated single system
- Relational database
- User screen development
- Very limited vendor programming intervention required

Montana Department of REVENUE

DP804 – Property Tax Computer System

Updated System provides:

- Integrated property tax system
- Ability to interface with IRIS system
- Efficiencies enabled
- Ensures ongoing collection of one billion property tax dollars