EXHIBIT 5
DATE 1/17/11
HB Revenue

Montana Department of Revenue
5% Base Budget Reduction

As required by 17-7-111(3)(f), MCA, the Montana Department of Revenue hereby submits its plan to reduce the proposed base budget to 95% of the current base budget. This plan amounts to a $2,472,165 general fund reduction and a $38,086 state special revenue reduction. The department submits this plan as an unspecified reduction - specific budget reductions will be determined if implemented. In FY2010, the Montana Department of Revenue was responsible for $2.55 billion in state and local tax revenues. The unavoidable net result of a 5% reduction in expenditures is a loss of revenue to the State of Montana that substantially exceeds the amount of the reduction in expenditures. A reduction of this size in the Department of Revenue budget will put the state further away from the balanced budget required by the Montana Constitution.

The department's budget is already small compared to its large mission due to effective management, previous careful cost cutting, and limited original resources – we operate on a lean basis. Here is what has already been done to reduce resources within the department: in the 2011 biennium the department has absorbed an unspecified reduction exceeding $1 million per year plus the 5% reduction associated with 17-7-140, MCA; in the 2013 biennium the department will absorb another $250,000 per year through an unspecified reduction and face the possibility that the department has to absorb the administrative costs of the property tax mitigation bill passed in 2009.

The department is an integrated operation all parts of which contribute to revenue production and taxpayer service. State revenues and services will be negatively impacted no matter where a 5% reduction is applied. The potential list of reductions below has been prioritized as required:

1) Inability to reprogram computer systems to implement changes made to tax laws in the 2011 legislative session and keep up with ever-changing technology through reduction in information technology resources. This reduction is dependent on no tax legislation being enacted.
2) Increase in tax refund delays through reduction in processing resources which will also increase the amount of interest paid to taxpayers due to late refunds.
3) Reduced discovery of new construction and missed property certification deadlines through reduction in appraisal and associated property resources.
4) Reduced ability to defend values established for centrally assessed property through reduction in litigation support resources.
5) Reduced audit collections through reduction in audit resources.

Operating a fully-functioning Department of Revenue through difficult economic hard times is crucial. Other struggling states who have implemented across-the-board cuts to state agencies are now restoring their revenue department budgets because they learned (the hard way) that the loss in revenues significantly exceeded the savings in the budget area. Other states having avoided this learning experience by increasing their tax agency's budget to generate net additional revenues to help balance their budgets.

The consequences of the proposed elimination or reduction in services equate to losses in state and local revenues which will have a negative impact on most, if not all, government services. Regardless of where the reduction occurs, such a reduction places state government further out-of-balance in relation to its balanced budget mandate and disadvantages Montana's households. Some impacts are listed below:

- Lower the quality of education for Montana children.
- Reduce the safety and security of Montana's citizens by decreasing the level of security at Montana's correctional facilities and the effectiveness of other criminal justice operations.
- Cut services currently provided to the state's ill, elderly, and disabled.
- Compromise management of the state's water resources, as well as state and forested land.
- Hurt household budgets of ordinary Montanans through delayed tax refunds.