



**Dan Bucks**  
Director

# Montana Department of Revenue



**Brian Schweitzer**  
Governor

## MEMORANDUM

SENATE TAXATION 2  
EXHIBIT NO. \_\_\_\_\_  
DATE 2.11.11  
BILL NO. HB 103

To: Senate Taxation Committee  
From: Alan Peura, Deputy Director  
Date: February 11, 2011  
Subject: Committee Questions on HB103

At the hearing on the above referenced bill, committee members asked me three questions that I have listed below together with the responses.

1. **Would the Department object to an amendment to qualify "original tax record" where it appears on page 3, lines 18-22, by adding "Department" to indicate that it is the original tax record of the Department?**

The Department would not object to such an amendment and would work with committee staff to draft this amendment.

2. **What are the primary reasons that a taxpayer who filed an electronic return may be asked by the Department to subsequently submit a paper copy of that return?**

For individual income taxpayers that file electronically using a third-party software vendor (e.g., Intuit's Turbo Tax, CCH, etc.) those electronic returns reach the Montana Department of Revenue through the IRS Legacy software. When that return is filed, because of the constraints of the Legacy software, the Department receives only some of the federal data and schedules. In addition, some of the third-party software vendors do not provide support for all of the federal tax forms, so in those cases the Department would again not receive all of the taxpayer data and schedules.

This is a common problem that Montana CPAs are aware of as the Department has engaged in discussions with them about this matter.

In the instances when electronic returns arrive at the Department without federal data and schedules, due to the IRS Legacy software system and the third-party software vendor product limitations (neither of which the Department has the ability to control), the Department may ask the taxpayer to submit this data and schedules in paper form if a review of the taxpayer's account is conducted.

Otherwise, the Department would not ask a taxpayer to submit a paper return when they have previously filed it electronically.

The beginning of the light at the end of the tunnel to this Legacy and third-party software filing gap is the Modernized e-file (MEF) system that the IRS has launched. The Montana Department of Revenue fought hard to be in line to participate with MEF last tax season for Individual Income Tax filings. MEF is a very new process that is reducing this gap in data and schedules that the Department will receive through electronic filing. In the future, MEF will be expanding its capacity to handle more returns so that this issue will begin to improve, although the Department will still remain dependent upon the IRS and third-party software vendors to be fully successful.

Please note that the department's own more versatile electronic filing system, the Taxpayer Access Point (TAP), is also helping to eliminate the need for paper correspondence with regard to data and schedule information gaps.

**Therefore, a request by the department for paper schedules in follow-up to an electronic filing is has absolutely no bearing on the capacity of the department to manage electronic returns and records.**

3. **Can the Department demonstrate the business processes of scanning and imaging that are being implemented to ensure that the Department has the entire, usable record of the paper file in the electronic format before that paper document would be destroyed?**

The Department recognizes the need for a rigorous business process to ensure the accuracy and usability of the electronic record in advance of destroying any paper records. Towards that goal, the process unit staff has implemented a careful business process and would invite members of the Senate Taxation Committee to a tour and demonstration of the processing facility in order to watch this business process in action.

**The Department would propose that this tour and demonstration would be scheduled in the morning on Friday, March 4, 2011.**

The processing unit facility is located on Last Chance Gulch in downtown Helena. Please let me know if you would like to make arrangements for a tour and demonstration.

Cc: Rep. Fitzpatrick, HB103 sponsor