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Idaho Statesman
PO Box
Boise, ID

Re: Tax Commission Reform

Dear Sirs,

A CPA from Idaho asked the Montana Society of Certified Public Accountants (MSCPA) for a referral regarding information about revenue directors. I was contacted and the following discussion is a result of that contact and an article printed as a press release from an Idaho legislator. Montana and I have no skin in this game. Also, the MSCPA is not a participant in this article.

The article that calls for Tax Commission Reform needs the following response as we want the citizens of Idaho to be making a good choice regarding the efficient and responsible administration of tax law in the state.

Your wonderful state has a Tax Commission. Montana and other nearby states utilize a revenue director which serves as a cabinet post for the Governor. Trust that no matter how the state is organized politics or the perception of politics will be in the middle of things. I have observed in Montana over the last 35 years that revenue directors come and go just like governors. These bureaucrats are just as influenced by politics as a commission can be and probably more so as they serve at the direction of the governor. We have had mixed results with revenue directors. We had one director make questionable decisions around the Y2K time period that cost the taxpayers of Montana 50+ million dollars on a custom built from India, tax software program. The program was thrown out but only after the legislature cut off additional funds once the tab reached 50 big ones.

Legislation cannot prevent favoritism, sweetheart deals and definitely politics. A tax commission such as your state has currently may be, and in all likelihood, is a better structure than a revenue director. One person, as a revenue director, that serves at the beck and call of a governor is easier to manipulate than several people on a commission. You could hire a computer to be the revenue director who would not be influenced by special or general interests. However, even a computer could be programmed to have bias.

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Revenue directors in Montana are political appointments by the governor. Our experience is that they change when the governor changes or sometimes more often than elections. This phenomenon is not unique to Montana. The Federal system is similar and is therefore subject to inconsistent management. The inconsistency comes from the political appointment process and changes in priorities as the result of differing experiences of the appointed directors. I seriously doubt that a "professional revenue director" would change anything regarding in the influence of special interests. If there would be any difference with a revenue director, then your experience will probably be a worsening of the politics inside the administration of Idaho's taxes.

Obvious mismanagement at the existing Tax Commission is an issue or perceived issue that I cannot address. However, if your current structure has the governor appointing the Tax Commission Chair, then I would recommend that a reversion to the old system would be an improvement. The four Tax Commissioners could select a chair from the best knowledge and experience available and therefore avoid a political appointment.

The proposed legislation for an overhaul of the Idaho tax administration would create a new agency called the Department of Revenue and Taxation. We have just such a bureaucracy in Montana and it is no shiny example of government at its finest. I am not sure another level of bureaucracy for Idaho is in its best interest. I know that it is not in the best interest of Idaho taxpayers.

I would agree with the notion that today's environment for states revenue enhancement and taxation is challenging. Everything in life these days is a challenge. Why should the taxing authorities' be no different? Is it another political fight in Idaho over new regulations on property assessing? Montana's constitution requires that all property be reported at fair market value. This requires a re-appraisal of all property every ten years. Therefore, we have numerous property appeals at the county level and at the State level if property owners cannot find relief at the local level. This process repeats itself every ten years. So beware, the grass is not always greener on the other side of the fence.

The announcement of proposed legislation by an Idaho lawmaker mentioned the use of a forensic audit of the Tax Commission. I do not know if this is a side issue or a reason to support the legislative proposal. The term forensic is defined as "of the courts". I am not sure that is what is needed under allegations of sweetheart deals. I would agree that 75 million dollars is a lot of tax and a lot of whistle blowing at a state level such as Idaho. However, an investigation by an independent function may be warranted if the process is not rooted in some political witch hunt. Wrongdoing is one thing but political vendettas are a waste of taxpayer resources.

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Finally, I have considered asking the Montana legislature to review our tax administration function. The legislature meets once every two years and the interim years allows for committee work to take place. The applicable interim committee for Montana is called the Revenue and Transportation Interim Committee (Ratic) to consider the advantages and disadvantages to a commission to administer taxes as opposed to a revenue director.

I am skeptical that you can legislate your way out of the politics in the lifeblood of government- taxes. The best you can do is work real hard at minimizing the effects of political adventures into the process. Good luck.

/s/ Walter J. Kero, CPA