

5% Base Budget Reduction Form
[17-7-111-3\(f\)](#)

AGENCY CODE & NAME: 5801 Department of Revenue

		Minimum Requirement General Fund	State Special Revenue Fund
TARGETED REDUCTION TO EQUAL 5% OF CURRENT BASE BUDGET		\$ 2,496,065	\$ 56,003
Priority	SERVICE(S) TO BE ELIMINATED OR REDUCED	General Fund Annual Savings	State Special Revenue Annual Savings
1	Prorated Reduction - Director's Office	\$ 667,828	\$ 5,631
2	Prorated Reduction - Citizen Services and Resource Management	\$ 389,883	\$ 15,394
3	Prorated Reduction - Business and Income Taxes	\$ 462,739	\$ 33,041
4	Prorated Reduction - Property Assessment	\$ 975,616	\$ 1,937
5		\$ -	\$ -
6		\$ -	\$ -
7		\$ -	\$ -
8		\$ -	\$ -
9		\$ -	\$ -
10		\$ -	\$ -
11		\$ -	\$ -
	TOTAL SAVINGS	\$ 2,496,066	\$ 56,003
	DIFFERENCE	\$ (1)	\$ -

Director's Office

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

2.73 FTE Boiler Plate Reduction (\$293,223 personal services reduction) and an additional \$380,236 reduction in operating funds. These budget reductions in the Director's Office will decrease state revenues available to fund government services by several times the amount of the expenditure cuts. The personal services reductions would likely be applied in the Information Technology Unit, our Tax Policy and Research Unit, our Legal Services Office, and our Administrative Support Unit. As a central services provider, a decrease will occur in the level of services provided to the entire department that will then have a decreased service level impact upon Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts. An operating budget impact of this magnitude could only be applied to maintenance contracts that support the various IT software systems that are the backbone of tax administration. This will have a likely impact upon citizens by slowing income tax processing that will slow tax refunds, put IT software systems at higher risk of security breaches, and diminish the overall efficiency of tax administration to the public; including online/electronic tax filing opportunities.

#2 THE SAVINGS THAT ARE EXPECTED:

\$673,459

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Revenue Loss: Up to \$3.0 million

Eliminating a Tax Policy Analyst in the Tax Policy Research Unit (TPR) will result in slower response to information requests, including both during the legislative session as well as during the interim. This will also have an impact on meeting the deadlines for fiscal note preparation during each legislative session. All of the above will have an impact on those who seek and receive information from TPR including: the public, legislators, other state agencies, OBPP, LFD, the Governor's Office and the Director's Office. Eliminating a Sr. Tax Counsel (Attorney) position will have a direct impact on the revenue collections that come through the DOR compliance program. According to DOR research and experience, the impact to revenue collections for those staff involved in compliance work will likely be in the range of 5:1 - 8:1 in terms of less revenue collected. Given that attorney's are typically involved in the largest dollar compliance work, it is likely that the impact of this reduction will be closer to the 8:1 level. This reduction may also slow down DOR capacity in litigation matters that may affect the timelines involved in major litigation cases that will impact the taxpayers involved in those litigation matters. Eliminating a Computer Systems Analyst position in the Network Support Unit will increase delays to DOR computer upgrades, both software and hardware, which will have a negative effect on the efficiency of desktop, laptop and mobile computer devices for DOR staff. This will have a negative impact on staff productivity, including on tax compliance work. Eliminating a .50 Executive Assistant will result in slower response time to information requests, taxpayer letters and other administrative responsibilities in the office of the director.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Reduce public expectations on the promptness of income tax refunds; reduce investments in tax compliance work of legal matters; and slow down efforts to modify existing business processes to meet the demands of expanding IT services and providing electronic services.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

Citizen Services and Resource Management

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

3 FTE Boiler plate reduction in personal services of \$194,580 and a combined reduction in additional personal services and operating expenses of \$210,697.

#2 THE SAVINGS THAT ARE EXPECTED:

\$405,277

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Revenue loss: \$1,500,000

Eliminating an Accountant in the Financial and Asset Management Bureau would delay the statutory mandated distribution of tax revenues to state funds, local governments and tribal governments; would impact the timeliness of reconciling activity in Gentax with the state's financial records in SABHRS to ensure the state's financial picture is properly stated; delay the monthly analysis of division expenditures and the corresponding projections of expenses against the granted appropriation authority; impact the payment of department expenses on a timely basis; and could impact the department meeting its obligations in closing the state's accounting records at fiscal year-end. Eliminating an E-Business Analyst within the Information Management Bureau would jeopardize development and support of electronic services currently offered by the department. The negative impact includes delays in capturing data used for tax compliance as well as reducing service to citizens including taxpayers and tax preparers and tax policy making entities. This will also have a negative impact on the department's goal to increase and improve electronic services. Eliminating a Collections Specialist in the Collections Bureau will result in a reduction of customer service and loss of revenue to the state. Collection Specialists work with taxpayers to resolve outstanding tax liabilities including responding to informal tax disputes, establishing payment plans, filing warrants for distraint with district courts which places liens on a taxpayer's property to secure the state's interest and issuing wage and bank levies in cases of forced collections. The loss of one Collection Specialist will result in reduced opportunity to resolve outstanding tax liabilities by an average loss of \$1.5 million annually. Reductions in services would likely be a combination of reduced FTE and operating expenses in the Citizen Services and Information Management Bureaus. This would impact services provided by the department's call center; timely processing of unclaimed property; business licensing coordination through the eStop program; and processing of tax returns and deposits of revenues collected. A reduction in the service levels provided would negatively impact tax compliance, burden taxpayers interacting with the department, delay income tax refund processing and ultimately slow the deposit and distribution of state, local and tribal government revenues.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Reduce public expectations on the promptness of income tax refunds; reduce investments in tax compliance work of legal matters; and slow down efforts to modify existing business processes to meet the demands of expanding IT services and providing electronic services.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

Business and Income Taxes Division

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

The 5.00 FTE Boiler plate FTE reduction \$344,796 and \$150,984 operating reduction. Budget reductions in the Business and Income Taxes Division will decrease state and local revenues available to fund government services by several times the amount of expenditure cuts. A significant decrease will occur in the level of services provided to Montana citizens, local governments, tax preparers, and businesses - including delays in tax refunds and cash flow for local governments and school districts.

#2 THE SAVINGS THAT ARE EXPECTED:

\$495,780

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Revenue Loss: \$3,300,000

This budget reduction will have a negative impact upon the department's ability to collect revenue for the state's general fund and for local governments. Based on the past activity within the Business and Income Taxes Division, the lost revenue that would occur is estimated to be 6.6 times the value of the budget reduction or approximately a \$3.3 million revenue loss per year.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

Reduce public expectations on the promptness of income tax refunds; reduce investments in tax compliance work of legal matters; and slow down efforts to modify existing business processes to meet the demands of expanding IT services and providing electronic services.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.

Property Assessment

#1 BRIEF DESCRIPTION OF SERVICE TO BE CONSIDERED FOR ELIMINATION OR REDUCTION:

13.00 FTE Boiler Plate reduction \$668,539

Operating Expenses \$309,014

#2 THE SAVINGS THAT ARE EXPECTED:

\$977,553

#3 THE CONSEQUENCES OR IMPACTS OF THE PROPOSED ELIMINATION OR REDUCTION:

Revenue Loss: \$49,000,000

The Property Assessment Division generates approximately \$950,000,000 in revenue annually for state, local governments, and schools. Almost \$200,000,000 in annual revenue comes into the state general fund. Not a single penny of this revenue gets collected until the Property Assessment Division completes certification of values; which includes picking up new construction, completing sales verifications, completing field reviews, processing business equipment values, completing property ownership and use changes, administering the property tax assistance programs and property tax exemption programs and calculating nearly 800,000 individual tax bills for the County Treasurers.

A reduction of this magnitude in the Property Assessment Division will have severe impacts on the division in the many business functions that it performs. For every \$1 invested in the Property Assessment Division \$50 is generated in revenue. A \$977,553 budget reduction for this division will reduce property tax revenue by at least 50 times that amount or approximately \$49,000,000. The state general fund receives approximately 20% of the total revenue generated; the maximum reduction in the state general fund would be almost \$10 million. Although through management and prioritizing the loss could be limited to about 30% of the \$10 million or approximately \$3,000,000. The property assessment division's 307 FTE provide the taxable valuations that result in the collect of the estimated \$950,000,000 in revenue annually, a reduction of 13 FTE reduce revenue by approximately \$40,000,000.

#4 HOW THE IMPACT TO CONSTITUENTS AND STAFF MIGHT BE MITIGATED:

The impacts of this reduction compromise the effectiveness of state property tax administration resulting in lost property tax revenue at both the state and local government level, loss of funding for schools, as well as, reducing the quality of valuations, and increasing the time and inconvenience spent by taxpayers and local governments on otherwise unnecessary reviews, appeals, and conflicts over their valuations.

#5 WHETHER THE SERVICE IS SPECIFICALLY REQUIRED BY STATE & /OR FEDERAL STATUTE - YES OR NO:

No statutory programs would be cut but public expectations for service levels extend well beyond the statutory services.