

**Program Budget Comparison**

The following table summarizes the total executive budget for the program by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	133.45	133.45	138.45	138.45	133.45	138.45	5.00	3.75%
Personal Services	8,139,328	7,978,456	8,279,080	8,283,464	16,117,784	16,562,544	444,760	2.76%
Operating Expenses	1,313,986	1,517,250	1,500,793	1,475,435	2,831,236	2,976,228	144,992	5.12%
<b>Total Costs</b>	<b>\$9,453,314</b>	<b>\$9,495,706</b>	<b>\$9,779,873</b>	<b>\$9,758,899</b>	<b>\$18,949,020</b>	<b>\$19,538,772</b>	<b>\$589,752</b>	<b>3.11%</b>
General Fund	8,653,778	8,680,288	8,871,318	8,850,177	17,334,066	17,721,495	387,429	2.24%
State Special	543,928	545,200	656,944	657,243	1,089,128	1,314,187	225,059	20.66%
Federal Special	255,608	270,218	251,611	251,479	525,826	503,090	(22,736)	(4.32%)
Other	0	0	0	0	0	0	0	n/a
<b>Total Funds</b>	<b>\$9,453,314</b>	<b>\$9,495,706</b>	<b>\$9,779,873</b>	<b>\$9,758,899</b>	<b>\$18,949,020</b>	<b>\$19,538,772</b>	<b>\$589,752</b>	<b>3.11%</b>

**Program Description**

The Business and Income Taxes Division is responsible for ensuring that Montana citizens and businesses pay the appropriate amount of taxes. This is done by providing tax expertise and ensuring tax compliance for 38 of Montana's taxes and fees. The tax types include but are not limited to corporation license, natural resource, withholding, individual income, lodging facilities, cigarette, contractor's gross receipts, and telecommunications taxes. The tax types account for approximately \$1.5 billion of state revenue. The division also values all industrial and centrally assessed property in the state which generates over \$350 million in state and local revenue annually. Some of the duties associated with the division's tax administration responsibilities include: tax expertise, taxpayer education, auditing, identification of non-compliant taxpayers, property appraisals, and overall program management and compliance.

**Program Highlights**

<b>Business and Income Taxes Division Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>◆ The proposed increase in the Business and Income Taxes Division budget is primarily due to:                             <ul style="list-style-type: none"> <li>• The addition of 5.00 FTE, which would replace temporary or modified positions with permanent positions in the Tobacco and Unclaimed Property Compliance Programs</li> <li>• Raises given in FY 2012</li> </ul> </li> <li>◆ The proposal to increase operating expenses is related to the increases in fixed costs</li> </ul>	
<b>Major LFD Issues</b>	
<ul style="list-style-type: none"> <li>◆ Replacing modified personnel with permanent FTE would increase the base by approximately 3.0%</li> </ul>	

**Program Discussion**

- The executive requests an additional 5.00 FTE, in most cases for tax compliance purposes. The proposals for new FTE would cost \$576,571 in the 2015 biennium and would be funded with state special revenue
- 74 staff were provided with raises that averaged 6.3%. The annualized cost of the raises is \$187,311, not including the increased costs of taxes and insurances
- The division experienced a vacancy rate, based on position usage, of 2.7% in FY 2012, compared to the budgeted 4% rate of vacancy savings

**Funding**

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Department Of Revenue Funding by Source of Authority 2015 Biennium Budget - Business And Income Taxes Division							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$17,721,495	\$0	\$0	\$17,721,495	90.7%		
State Special Total	\$1,314,187	\$0	\$10,000	\$1,324,187	6.8%		
02025 Unclaimed Property	\$622,613	\$0	\$0	\$622,613	3.2%		
02110 Accommodation Tax Admin	\$282,135	\$0	\$0	\$282,135	1.4%		
02293 Film Production Credit	\$0	\$0	\$10,000	\$10,000	0.1%	15-31-906	Direct
02790 6901-statewide Tobacco Sttlmnt	\$409,439	\$0	\$0	\$409,439	2.1%		
Federal Special Total	\$503,090	\$0	\$0	\$503,090	2.6%		
03928 Royalty Audit - Nrcr	\$503,090	\$0	\$0	\$503,090	2.6%		
Total All Funds	\$19,538,772	\$0	\$10,000	\$19,548,772	100.0%		
<b>Percent - Total All Sources</b>	<b>99.9%</b>	<b>0.0%</b>	<b>0.1%</b>				

The Business and Income Taxes Division is primarily funded with general fund, with some state special revenue and federal special revenue. State special revenue comes from the unclaimed property fund for program support and tobacco settlement funds that supports tobacco tax compliance activities. Other state special revenue includes the accommodations tax and funds expenses for administering the tax. Federal special revenue comes from reimbursements for performing mineral royalty audits.

Additionally, the Business and Income Taxes Division administers a statutory appropriation for the administrative costs of the film production credit. In the 2015 biennium, the statutory appropriation is estimated to provide \$10,000 toward the administrative costs.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	8,653,778	8,653,778	17,307,556	97.66%	9,453,314	9,453,314	18,906,628	96.76%
Statewide PL Adjustments	211,311	190,170	401,481	2.27%	31,836	11,279	43,115	0.22%
Other PL Adjustments	0	0	0	0.00%	288,494	288,077	576,571	2.95%
New Proposals	6,229	6,229	12,458	0.07%	6,229	6,229	12,458	0.06%
<b>Total Budget</b>	<b>\$8,871,318</b>	<b>\$8,850,177</b>	<b>\$17,721,495</b>		<b>\$9,779,873</b>	<b>\$9,758,899</b>	<b>\$19,538,772</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget adopted by the legislature. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					189,449					194,445
Vacancy Savings					(333,157)					(333,352)
Inflation/Deflation					(2,042)					(1,296)
Fixed Costs					177,586					151,482
<b>Total Statewide Present Law Adjustments</b>		<b>\$211,311</b>	<b>(\$175,478)</b>	<b>(\$3,997)</b>	<b>\$31,836</b>		<b>\$190,170</b>	<b>(\$174,762)</b>	<b>(\$4,129)</b>	<b>\$11,279</b>
DP 701 - Tobacco Tax Compliance Program	3.00	0	179,876	0	179,876	3.00	0	179,609	0	179,609
DP 702 - Unclaimed Property Compliance Program	2.00	0	108,618	0	108,618	2.00	0	108,468	0	108,468
<b>Total Other Present Law Adjustments</b>	<b>5.00</b>	<b>\$0</b>	<b>\$288,494</b>	<b>\$0</b>	<b>\$288,494</b>	<b>5.00</b>	<b>\$0</b>	<b>\$288,077</b>	<b>\$0</b>	<b>\$288,077</b>
<b>Grand Total All Present Law Adjustments</b>	<b>5.00</b>	<b>\$211,311</b>	<b>\$113,016</b>	<b>(\$3,997)</b>	<b>\$320,330</b>	<b>5.00</b>	<b>\$190,170</b>	<b>\$113,315</b>	<b>(\$4,129)</b>	<b>\$299,356</b>

DP 701 - Tobacco Tax Compliance Program – The executive requests 3.00 permanent FTE in the 2015 biennium to continue the Tobacco Tax Compliance Program.

<b>LFD COMMENT</b>	For the past three biennia, the Business and Income Taxes Division has requested permanent FTE to conduct compliance audits of the tobacco tax. The auditors verify that all wholesalers, sub-jobbers, and retailers are in compliance with the Tobacco Master Settlement Agreement (TMSA). With each of the past requests, the legislature responded by providing sufficient budget authority to place modified staff into the positions, but did not provide permanent FTE for the program. According to the DOR, the TMSA requires states to enforce the cigarette laws for TMSA participating manufacturers as well as non-participating manufacturers, and noncompliance puts the federal TMSA distributions at risk. This function has been accomplished by the same modified FTE for the past six years.
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DP 702 - Unclaimed Property Compliance Program – The executive requests an increase in state special revenue appropriation authority and 2.00 FTE in the 2015 biennium due to the changing nature and workload increases of the Unclaimed Property Program.

**LFD COMMENT** For the past two biennia, the Business and Income Taxes Division has requested permanent FTE for the Unclaimed Property Compliance Program. The agency states that the FTE are required to protect the state from liability for claims for failing to properly manage unclaimed property and un-locatable mineral trusts. The last two legislatures have approved this request on a temporary basis and the 2011 made the appropriation one-time-only. The currently temporary positions are in a program with 3.00 permanent FTE. According to the agency, this dynamic makes it difficult for the program to retain staff in the one-time-only positions, as the staff seek other permanent positions within the agency. Up to the time of this writing in the 2013 biennium, each of the positions has been held by two staff. If the Legislature chooses to approve this request, they may consider asking the agency to provide retention statistics on the positions to the Sixty-fourth Legislature.

**LFD ISSUE** Replacing Modified FTE Will Increase Base Expenditures  
 If permanent FTE replace modified FTE in the Business and Income Taxes Division, these additions would increase the base budget by 3.0% while maintaining the positions on a modified or temporary basis would not.

**New Proposals**

Program	FTE	Fiscal 2014				Fiscal 2015				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 704 - Funding the Purchase of Cigarette Tax Stamps										
07	0.00	3,118	0	0	3,118	0.00	3,118	0	0	3,118
DP 6101 - Professional Development Center Fee Allocation										
07	0.00	3,111	0	0	3,111	0.00	3,111	0	0	3,111
<b>Total</b>	<b>0.00</b>	<b>\$6,229</b>	<b>\$0</b>	<b>\$0</b>	<b>\$6,229</b>	<b>0.00</b>	<b>\$6,229</b>	<b>\$0</b>	<b>\$0</b>	<b>\$6,229</b>

DP 704 - Funding the Purchase of Cigarette Tax Stamps – The executive requests an increase in general fund authority to fund a 40%, or \$0.30/1,000 stamps, increase in cigarette tax stamps. The request would increase general fund support of tax stamps.

DP 6101 - Professional Development Center Training Fee - The executive requests an increase for training services purchased from the Professional Development Center (PDC) of the Department of Administration. This request reflects the difference between the amount paid in the base for PDC services and a fixed cost allocation based on agency FTE counts. Starting in the 2015 biennium and beyond, the executive recommends funding the PDC as a fixed cost item. For a further discussion, see the narrative for the Department of Administration.