



Montana Department of  
**REVENUE**

Presentation to the Revenue and Transportation  
Legislative Interim Committee

Dan Bucks, Director

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Revenue & Transportation Committee  
September 30, 2005

Exhibit #5



# Revised Income Tax Booklet

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- Booklet redesigned for ease of use
- Instructions thoroughly rewritten in clear, direct style
  - larger print, more white space
- Federal items mirror federal 1040 – ending taxpayer confusion
- Forms expanded to reflect all features of Montana law
  - especially those that allow taxpayers to legally reduce taxes
  - 45 items spelled out, of which 32 reduce taxes
- No late payment penalties applied to check-offs
- Full information for legislature on impact of all provision of law



# Individual Income Tax Forms

Federal Income

## 2004 Montana Individual Income Tax Return Form 2 04

|  |   |  |   |  |
|--|---|--|---|--|
| Last Name  |   | First Name and Middle Initial          |   | Social Security No   |
| Spouse's Last Name (if different)                                    |   | Spouse's First Name and Middle Initial |   | Spouse's Social Security No                                |
| Mailing Address<br>City State Zip Code+4                             |   |  |   |  |
| Filing Status<br>Check One   | Single  | Married filing jointly                 | Married and both filing separate returns on this form | Married and both filing separate returns on separate forms |
| Residency<br>Check One   | Resident Full Year  | Nonresident Full Year                  | Resident Part Year                                    | State moved to (use date of change)                        |
| Exemptions   |   |  |   |  |
| 1 Yourself   | <input checked="" type="checkbox"/> Regular                 | <input type="checkbox"/> 65 or Over    | <input type="checkbox"/> Blind                        | Enter number checked                                       |
| 2 Spouse   |   |  |   | Enter number checked                                       |
| 3 Dependents   | Dependent's Full Name, Social Security Number, Relationship |  |   | Enter number checked                                       |
| 5 Add lines 1, 2, 3 and 4 if additional dependents, see instructions |   |  |   |  |

|   |   |  |     |
|---|---|--|-----|
| Enter amounts reported on federal return  |   | Round to nearest dollar if no entry, leave blank |     |
| 6 Wages, salaries, tips, etc.   | Attach copies of W-2(s) from all states                     | 7  | 7   |
| 7 Taxable interest income   | Attach Federal Schedule if over \$1,500                     | 8  | 8   |
| 8 Dividend income   | Attach Federal Schedule if over \$1,500                     | 9  | 9   |
| 9 Net business income (loss)  | Attach Federal Schedule C or C-EZ                           | 10   | 10  |
| 10 Capital gain (or loss)   | Attach Federal Schedule D                                   | 11   | 11  |
| 11 Supplemental gains (or losses)   | Attach Federal Form 4797                                    | 12   | 12  |
| 12 Rents, royalties, partnerships, estates, trusts, etc.  | Attach Federal Schedule E and Form 8562 and all K-1's       | 13a  | 13a |
| 13 Total IRA distributions  | 13a Taxable amount  | 13b  | 13b |
| 14 Total pensions and annuities   | 14a Taxable amount  | 14b  | 14b |
| 15 Social security benefits   | 15a Taxable amount  | 15b  | 15b |
| 16 Net farm income (Loss)   | Attach Federal Schedule F                                   | 16   | 16  |
| 17 Other income: State refund, unemployment, other (specify)  | 17  | 17   | 17  |
| 18 Total of lines 6 thru 17   | Total   | 18   | 18  |
| 19 Adjustments to income: Educator Expense, Reservists, etc., IRA, Student loan interest, Tuition and fees, 1/2 SE tax, HSA, Moving Expenses, SE Health, SE, SEP, SIMPLE, Early withdrawal penalty, Alimony paid, Other | 19  | 19   | 19  |
| 20 Federal adjusted gross income (subtract line 19 from line 18)  | Note: Line 20 must match your federal adjusted gross income | 20   | 20  |

|   |       |    |  |    |  |
|---|-------|----|--|----|--|
| ADDITIONS   |       | 21 |  | 21 |  |
| 21 Interest and dividends on state, county, or municipal bonds (Non-Montana)    | 21    |    |  | 21 |  |
| 22 Federal income tax refunds/overpayment (see page 3, line 22 on instructions) | 22    |    |  | 22 |  |
| 23 Other additions (see page 3, line 23 of instructions)                        | 23    |    |  | 23 |  |
| 24 Total additions to income (add lines 21 thru 23)                             | Total | 24 |  | 24 |  |
| 25 Add lines 20 and 24, enter result  | 25    |    |  | 25 |  |

|  |                 |    |  |    |  |
|--|-----------------|----|--|----|--|
| REDUCTIONS   |                 | 26 |  | 26 |  |
| 26 Farm Risk Management Account  | Attach Form FRM | 26 |  | 26 |  |
| 27 Interest exclusion for elderly  | 27              |    |  | 27 |  |
| 28 Interest exclusion for savings bonds, etc. Specify  | 28              |    |  | 28 |  |
| 29 Exempt pension & annuity income (list sec. no. if disability) Attach Worksheet IV, Page 13  | 29              |    |  | 29 |  |
| 30 Unemployment  | 30              |    |  | 30 |  |
| 31 Medical Care Savings Account  | Attach Form MSA | 31 |  | 31 |  |
| 32 Family Education Savings Account (Attach name and social security number(s) of beneficiary) | 32              |    |  | 32 |  |
| 33 First Time Home Buyers Account  | Attach Form FTB | 33 |  | 33 |  |
| 34 Health care professional loan payment exclusion   | 34              |    |  | 34 |  |
| 35 Other reductions (see page 5, line 35 of instructions)                                      | 35              |    |  | 35 |  |
| 36 Total reductions to income (add lines 26 thru 35)   | Total           | 36 |  | 36 |  |
| 37 Subtract line 36 from line 25. Enter here and on line 38, page 2                            | 37              |    |  | 37 |  |

ATTACH WITHHOLDING STATEMENTS HERE BELOW LINE 6

## 2005 Montana Individual Income Tax Return Form 2

|                                       |                       |                             |   |  |  |  |  |                                  |  |
|---------------------------------------|-----------------------|-----------------------------|---|--|--|--|--|----------------------------------|--|
| Amended Return                        |                       | Your first name and initial |   | Last name  |  | Deceased                               |  | Your social security number      |  |
| Spouse's first name and initial       |                       | Last name                   |   | Deceased   |  | Spouse's social security number        |  | Home address (number and street) |  |
| City                                  |                       | State                       |   | Zip+4  |  |  |  |                                  |  |
| Filing Status (check only one box)    | 1 Single              | 2 Married filing jointly    | 3a Married filing separately on the same form | 3b Married filing separately on separate forms. Spouse's SSN | 3c Married filing separately and spouse not filing. Spouse's SSN | 4 Head of household (see instructions) |  |                                  |  |
| Residency Status (check only one box) | 5a Resident full year | 5b Nonresident full year    | 5c Resident part-year                         | Date of change: State moved to: State moved from:            |  |  |  |                                  |  |

|   |                                     |  |                          |   |                      |
|---|-------------------------------------|--|--------------------------|---|----------------------|
| Exemptions  |                                     | Column A (for single, joint, separate, or head of household) |                          | Column B (for spouse when filing separately using filing status 3a) |                      |
| 6a Yourself   | <input checked="" type="checkbox"/> | 65 or older  | <input type="checkbox"/> | Blind   | Enter number checked |
| 6b Spouse   | <input type="checkbox"/>            | 65 or older  | <input type="checkbox"/> | Blind   | Enter number checked |
| 6c Dependent's first name   | Last name                           | SSN  | Relationship             | Disability  |                      |
| 6d If additional dependents, see instructions. Add lines 6a thru 6c and enter total exemptions here |                                     |  |                          |   |                      |

|   |  |  |     |
|---|--|--|-----|
| Enter amounts corresponding to your federal return.   |  | Round to nearest dollar. If no entry, leave blank. |     |
| 7 Wages, salaries, tips, etc.   | Attach federal Form(s) W-2                     | 7  | 7   |
| 8a Taxable interest   | Attach federal Schedule B if required          | 8a   | 8a  |
| 8b Tax-exempt interest  | Do not include on line 8a. <b>A:</b> <b>B:</b> | 8b   | 8b  |
| 9a Ordinary dividends   | Attach federal Schedule B if required          | 9a   | 9a  |
| 9b Qualified dividends  | <b>A:</b> <b>B:</b>                            | 9b   | 9b  |
| 10 Taxable refunds, credits, or offsets of state and local income taxes   | 10   | 10   | 10  |
| 11 Alimony received   | 11   | 11   | 11  |
| 12 Business income (or loss)  | Attach federal Schedule C or C-EZ <b>NAICS</b> | 12   | 12  |
| 13 Capital gain (or loss)   | Attach federal Schedule D if required          | 13   | 13  |
| 14 Other gains (or losses)  | Attach federal Schedule 4797                   | 14   | 14  |
| 15a IRA distribution  | 15a <b>A:</b> <b>B:</b> Taxable amount         | 15a  | 15a |
| 16a Pensions and annuities  | 16a <b>A:</b> <b>B:</b> Taxable amount         | 16a  | 16a |
| 17 Rental real estate, royalties, partnerships, S, corporations, trust  | Attach federal Sch. E                          | 17   | 17  |
| 18 Farm income (or loss)  | Attach federal Schedule F                      | 18   | 18  |
| 19 Unemployment compensation  | 19   | 19   | 19  |
| 20a Social security benefits  | 20a <b>A:</b> <b>B:</b> Taxable amount         | 20a  | 20a |
| 21 Other income. List type and amount   | 21   | 21   | 21  |
| 22 Add and enter amounts in the far right columns lines 7 thru 21. This is your total income.                     | 22   | 22   | 22  |
| 23 Educator expenses  | 23   | 23   | 23  |
| 24 Business expenses or reservist, etc. Attach Schedule 2106 or 2106EZ  | 24   | 24   | 24  |
| 25 Health savings account deduction. Attach federal Form 8889   | 25   | 25   | 25  |
| 26 Moving expenses. Attach federal Form 3903  | 26   | 26   | 26  |
| 27 One-half of self-employment tax. Attach federal Schedule SE  | 27   | 27   | 27  |
| 28 Self-employed SEP, SIMPLE, and qualified plans   | 28   | 28   | 28  |
| 29 Self-employed health insurance deduction   | 29   | 29   | 29  |
| 30 Penalty on early withdrawal of savings   | 30   | 30   | 30  |
| 31a Alimony paid  | 31b Recipient's SSN <b>A:</b> <b>B:</b>        | 31a  | 31a |
| 32 IRA deduction  | 32   | 32   | 32  |
| 33 Student loan interest deduction  | 33   | 33   | 33  |
| 34 Tuition and fees deduction   | 34   | 34   | 34  |
| 35 Domestic production activities deduction. Attach federal Form 8903   | 35   | 35   | 35  |
| 36 Add lines 23 through 35 and enter result here  | 36   | 36   | 36  |
| 37 Subtract line 36 from line 22 and enter result here  | 37   | 37   | 37  |
| 37a Combine amounts on line 37 columns A and B and enter result here. This is your federal adjusted gross income. | 37a  | 37a  | 37a |
| 38 Enter Montana additions to federal AGI from Form 2A, Schedule I, line 17                                       | 38   | 38   | 38  |
| 39 Enter Montana subtractions from federal AGI from Form 2A, Schedule II, line 34                                 | 39   | 39   | 39  |
| 40 Add lines 37 and 38, then subtract line 39. This is your Montana adjusted gross income.                        | 40   | 40   | 40  |

ATTACH WITHHOLDING STATEMENTS HERE

Items identical in both booklets

Items that were combined in 2004 booklet, expanded in 2005 booklet



# Individual Income Tax Forms

## Federal Income 2

**2004 Montana Individual Income Tax Return Form 2** **04**  
 of Fiscal year beginning 2004 and ending 2005

Last Name, First Name and Middle Initial, Social Security No., Spouse's Last Name, Spouse's First Name and Middle Initial, Spouse's Social Security No., Mailing Address, City, State, Zip Code+4, Filing Status, Residency Status, Exemptions, Enter amounts reported on federal return, ADDITIONS, REDUCTIONS.

1. Yourself  2. Spouse  3. Dependents  4. Add lines 1, 2, 3 and 4 if additional dependents, see instructions.

6. Wages, salaries, tips, etc. 7. Taxable interest 8. Dividend income 9. Net business income (loss) 10. Capital gain (or loss) 11. Supplemental gains (or losses) 12. Rents, royalties, partnerships, estates, trusts, etc. 13. Total IRA distributions 14. Total pensions and annuities 15. Social security benefits 16. Net farm income (loss) 17. Other income 18. Adjustments to income 19. Total federal adjusted gross income 20. Federal adjusted gross income 21. Interest and dividends on state, county, or municipal bonds 22. Federal income tax refunds/overpayment 23. Other additions 24. Total additions to income 25. Add lines 20 and 24, enter result 26. Farm Risk Management Account 27. Interest exclusion for elderly 28. Interest exclusion for savings bonds, etc. 29. Exempt pension & annuity income 30. Unemployment 31. Medical Care Savings Account 32. Family Education Savings Account 33. First Time Home Buyers Account 34. Health care professional loan payment exclusion 35. Other reductions 36. Total reductions to income 37. Subtract line 36 from line 25. Enter here and on line 38, page 2.

**2005 Montana Individual Income Tax Return** **Form 2**  
 For the year Jan 1 - Dec 31, 2005 or the tax year beginning 2005, ending 2005

Amended Return, Your first name and initial, Last name, Deceased, Your social security number, Spouse's first name and initial, Last name, Deceased, Spouse's social security number, Home address (number and street), City, State, Zip+4, Filing Status, Residency Status, Exemptions, Enter amounts corresponding to your federal return, Adjusted Gross Income.

1. Yourself  2. Spouse  3. Dependents  4. Add lines 1, 2, 3 and 4 if additional dependents, see instructions.

7. Wages, salaries, tips, etc. 8a. Taxable interest 9a. Ordinary dividends 9b. Qualified dividends 10. Taxable refunds, credits, or offsets of state and local income taxes 11. Alimony received 12. Business income or (loss) 13. Capital gain or (loss) 14. Other gains or (losses) 15a. IRA distribution 16a. Pensions and annuities 17. Rental real estate, royalties, partnerships, S. corporations, trust 18. Farm income or (loss) 19. Unemployment compensation 20a. Social security benefits 21. Other income 22. Add and enter amounts in the far right columns lines 7 thru 21. This is your total income. 23. Educator expenses 24. Business expenses or reservist, etc. 25. Health savings account deduction 26. Moving expenses 27. One-half of self-employment tax 28. Self-employed SEP, SIMPLE, and qualified plans 29. Self-employed health insurance deduction 30. Penalty on early withdrawal of savings 31a. Alimony paid 32. IRA deduction 33. Student loan interest deduction 34. Tuition and fees deduction 35. Domestic production activities deduction 36. Add lines 23 through 35 and enter result here 37. Subtract line 36 from line 22 and enter result here. This is your federal adjusted gross income. 37a. Combine amounts on line 37 columns A and B and enter result here. This is your federal adjusted gross income. 38. Enter Montana additions to federal AGI from Form 2A, Schedule I, line 17 39. Enter Montana subtractions from federal AGI from Form 2A, Schedule II, line 34 40. Add lines 37 and 38, then subtract line 39. This is your Montana adjusted gross income.

Items that were combined in 2004 booklet, expanded in 2005 booklet



# Individual Income Tax Forms

## 2004 Montana Individual Income Tax Return Form 2 04

2004 Montana Individual Income Tax Return Form 2 04

or Fiscal year beginning 2004 and ending 2005

Last Name, First Name and Middle Initial, Social Security No., Spouse's Last Name and Middle Initial, Spouse's First Name and Middle Initial, Spouse's Social Security No., Mailing Address, City, State, Zip Code, Filing Status (Single, Married Filing Joint Return, Married and both filing separate returns on this return, Married and both filing separate returns on separate forms, Married Filing Separate Return and Spouse is not filing, Head of Household), Residency (Check One: Resident Full Year, Nonresident Full Year, Resident Part Year), Give date of change, State moved to, State moved from.

**Exemptions**

1. Yourself (Married , 65 or Over , Blind ) Enter number checked  1

2. Spouse (Enter number checked  2)

3. Dependents (Dependent's Full Name, Dependent's Social Security Number, Relationship) Enter number checked  3

4. Handicapped Dependent (Enter number checked  4)

5. Add lines 1, 2, 3 and 4 if additional dependents, see instructions. Total Exemptions  5

### Additions

ATTACH WITHHOLDING STATEMENTS HERE BELOW LINE 6

**FEDERAL ADJUSTED GROSS INCOME**

6. Wages, salaries, tips, etc. Attach copies of W-2(s) from all states. 6.

7. Taxable interest income. Attach Federal Schedule if over \$1,500. 7.

8. Dividend income. Attach Federal Schedule if over \$1,500. 8.

9. Net business income (loss). Attach Federal Schedule C or C-EZ. 9.

10. Capital gain (or loss). Attach Federal Schedule D. 10.

11. Supplemental gains (or losses). Attach Federal Form 4797. 11.

12. Rents, royalties, partnerships, estates, trusts, etc. Attach Federal Schedule E and Form 8592 and all K-1's. 12.

13. Total IRA distributions a. 13a. Taxable amount } Attach all 13b.

14. Total pensions and annuities a. 14a. Taxable amount } 1099R's 14b.

15. Social security benefits a. 15a. Taxable amount } 15b.

16. Net farm income (Loss). Attach Federal Schedule F. 16.

17. Other income: State refund, alimony, unemployment, other (specify). 17.

18. Total of lines 6 thru 17. Total => 18.

19. Adjustments to income: Educator or Expense Reservists, etc. IRA, Student loan interest, Tuition and fees, 1/2 SE Tax, HSA, Moving Expenses, SE Health, SE, SEP, SIMPLE, Early withdrawal penalty, Alimony paid, Other. 19.

20. Federal adjusted gross income (subtract line 19 from line 18). Note: Line 20 must match your federal adjusted gross income. 20.

**ADDITIONS**

21. Interest and dividends on state, county, or municipal bonds (Non-Montana). 21.

22. Federal income tax refunds/overpayment (see page 3, line 22 on instructions). 22.

23. Other additions, (see page 3, line 23 of instructions). Specify. 23.

24. Total additions to income (add lines 21 thru 23). Total => 24.

25. Add lines 20 and 24, enter result. 25.

**REDUCTIONS**

26. Farm Risk Management Account. Attach Form FRM. 26.

27. Interest exclusion for elderly. 27.

28. Interest exclusion for savings bonds, etc. Specify. 28.

29. Exempt pension & annuity income, (not sec. sec. disability) Attach Worksheet IV, Page 1.3. 29.

30. Unemployment. 30.

31. Medical Care Savings Account. Attach Form MSA. 31.

32. Family Education Savings Account (Attach name and social security number(s) of beneficiary). 32.

33. First Time Home Buyers Account. Attach Form FTB. 33.

34. Health care professional loan payment exclusion. Attach Form FTB. 34.

35. Other reductions (see page 5, line 35 of instructions). Specify. 35.

36. Total reductions to income (add lines 26 thru 35). Total => 36.

37. Subtract line 36 from line 25. Enter here and on line 38, page 2. 37.

Form 2A, Page 1 - 2005 Social Security Number:

**Amended Return Reconciliation**  
(Use this reconciliation only when you are completing an amended return.) Round to the nearest dollar

Check this box if you are filing this amended return to carry back a net operating loss

1 Enter your amended liability (line 68) or your amended refund (line 74) here. 1

2 Enter your total 2005 refund previously received here. 2

3 Enter your total 2005 payments previously made which are not included in line 63 here. 3

4 Add lines 1 and 2, and then subtract line 3. This is your amended return underpayment or overpayment. 4

Describe your amended adjustments here. Add additional pages if necessary.

**Schedule I: Montana Additions to Federal Adjusted Gross Income**

Column A (for single, joint, separate, or head of household) | Column B (for spouse when filing separately using filing status 3a)

1 Enter interest and mutual fund dividends from other states' state, county, or municipal bonds. 1

2 Enter dividends not included in federal adjusted gross income. 2

3 Enter taxable federal refunds. 3

4 Enter other recoveries of amounts deducted in earlier years that reduced Montana taxable income. 4

5 Enter addition to federal taxable social security/railroad retirement. 5

6 Additions for spouse filing joint federal return.  
6a Enter passive and rental income or loss adjustment. 6a  
6b Enter capital loss adjustment. 6b  
6c Enter IRA deduction adjustment. 6c  
6d Enter student loan interest adjustment. 6d  
6e Enter tuition and fee adjustment. 6e

7 Enter sole proprietor's allocation of compensation to spouse. 7

8 Enter medical care savings account nonqualified withdrawals. 8

9 Enter first-time home buyer savings account nonqualified withdrawals. 9

10 Enter farm and ranch risk management account taxable distributions. 10

11 Enter addition for dependent care assistance credit adjustment. 11

12 Enter addition for smaller federal estate and trust taxable distributions. 12

13 Enter federal net operating loss carryover reported on Form 2, line 21. 13

14 Enter share of federal income taxes paid by your S. corporation. 14

15 Enter title plant depreciation or amortization. 15

16 Enter other additions. Specify. 16

17 Add lines 1 through 16. Enter total here and on Form 2, line 38. These are your total Montana additions to federal adjusted gross income. 17

Items are identical in 2004 and 2005 booklet

Items combined in 2004 booklet, expanded in 2005 booklet



Montana Department of  
**REVENUE**

# Individual Income Tax Forms

## 2004 Montana Individual Income Tax Return Form 2 04

or Fiscal year beginning 2004 and ending 2005

**2004 Montana Individual Income Tax Return Form 2 04**

or Fiscal year beginning 2004 and ending 2005

Last Name, First Name and Middle Initial, Social Security No., Spouse's Last Name & Middle Initial, Spouse's First Name and Middle Initial, Spouse's Social Security No., Mailing Address, City, State, Zip Code, Marital Status, Residence, Exemptions, Total Exemptions, Enter amounts reported on federal return, FEDERAL ADJUSTED GROSS INCOME, ADDITIONS, REDUCTIONS, Total Federal adjusted gross income (subtract line 19 from line 18), Note: Line 39 must match your federal adjusted gross income.

### Reductions

ATTACH WITHHOLDING STATEMENTS HERE BELOW LINE 6

Form 2A, Page 2 - 2005 Social Security Number:

| Schedule II: Montana Subtractions from Federal Adjusted Gross Income |  |     |     |
|--|--|-----|-----|
| 1  | Enter exempt interest and dividends from federal bonds, notes, and obligations.....  | 1   | 1   |
| 2  | Enter exempt tribal income.....  | 2   | 2   |
| 3  | Enter exempt unemployment compensation.....  | 3   | 3   |
| 4  | Enter exempt workers' compensation benefits.....   | 4   | 4   |
| 5  | Enter exempt capital gains and dividends from small business investment companies.....   | 5   | 5   |
| 6  | Enter state tax refunds included in Montana Form 2, line 10.....   | 6   | 6   |
| 7  | Enter recoveries of amounts deducted in earlier years that did not reduce Montana income.....  | 7   | 7   |
| 8  | Enter exempt military salary of residents on active duty.....  | 8   | 8   |
| 9  | Enter exempt income of nonresident military servicepersons and spouses.....  | 9   | 9   |
| 10   | Enter exempt life insurance premiums reimbursement for National Guard and Reservist.....   | 10  | 10  |
| 11   | Enter partial pension and annuity income exemption. Report Tier II Railroad Retirement on line 23 below.....                                       | 11  | 11  |
| 12   | Enter partial interest exemption from taxpayers 65 and older.....  | 12  | 12  |
| 13   | Enter partial retirement disability income exemption for taxpayers under age 65.....   | 13  | 13  |
| 14   | Enter exemption for certain taxed tips and gratuities.....   | 14  | 14  |
| 15   | Enter exemption for certain income of child taxed to parent.....   | 15  | 15  |
| 16   | Enter exemption for certain health insurance premiums taxed to employee.....   | 16  | 16  |
| 17   | Enter exemption for student loan repayments taxed to health care professional.....   | 17  | 17  |
| 18   | Enter exempt medical care savings account deposits and earnings.....   | 18  | 18  |
| 19   | Enter exempt first-time home buyer savings account deposits and earnings.....  | 19  | 19  |
| 20   | Enter exempt family education savings account deposits and earnings.....   | 20  | 20  |
| 21   | Enter exempt farm and ranch risk management account deposits.....  | 21  | 21  |
| 22   | Enter subtraction to federal taxable social security/Tier I Railroad Retirement reported on Form 2, line 20b.....                                  | 22  | 22  |
| 23   | Enter subtraction for federal taxable Tier II Railroad Retirement benefits reported on Form 2, line 16b.....                                       | 23  | 23  |
| 24   | Subtractions for spouse filing joint federal return.....   |     |     |
| 24a  | Enter passive loss carryover exclusion.....  | 24a | 24a |
| 24b  | Enter IRA deduction adjustment.....  | 24b | 24b |
| 24c  | Enter capital loss adjustment.....   | 24c | 24c |
| 25   | Enter subtraction of sole proprietor for allocation of compensation to spouse.....   | 25  | 25  |
| 26   | Enter Montana net operating loss carry over from Montana NOL Form Schedule B.....  | 26  | 26  |
| 27   | Enter 40% capital gain exclusion for pre-1987 installment sales.....   | 27  | 27  |
| 28   | Enter subtraction for business related expenses for purchasing recycled material.....  | 28  | 28  |
| 29   | Enter subtraction for sales of land to beginning farmers.....  | 29  | 29  |
| 30   | Enter subtraction for larger federal estate and trust taxable distribution.....  | 30  | 30  |
| 31   | Enter subtraction for wage deduction reduced by federal targeted jobs credit.....  | 31  | 31  |
| 32   | Enter subtraction for certain gains recognized by liquidating corporation.....   | 32  | 32  |
| 33   | Enter other subtractions. Specify:.....  | 33  | 33  |
| 34   | Add lines 1 through 33, enter total here and on Form 2, line 39. These are your total Montana subtractions from federal adjusted gross income..... | 34  | 34  |

Items are identical in 2004 and 2005 booklet

Items combined in 2004 booklet, expanded in 2005 booklet

Items new under law in 2005 booklet



# Individual Income Tax Forms

Questions? Please call (406) 444-6900 or TDD (406) 444-2830

Page 2 - 2004

FORM 2A

MONTANA

**Schedule II - Credits Against Tax**  
(See instructions on pages 8 and 9)

|   | Column A (For single, joint, separate or head of household) | Column B (For spouse only when filing separately and box 3 is checked) |
|---|---|--|
| 96. Rural physician's credit  | 96.   | 96.  |
| 97. College contribution credit                                       | 97.   | 97.  |
| 98. Qualified endowment credit  | 98.   | 98.  |
| 99. Elderly care credit   | 99.   | 99.  |
| 100. Credit for income tax liability paid to another state or country | 100.  | 100.   |
| 101. Contractors gross receipts tax credit                            | 101.  | 101.   |
| 102. Alternative energy systems credit                                | 102.  | 102.   |
| 103. Energy conservation installations credit                         | 103.  | 103.   |
| 104. Alternative energy production credit                             | 104.  | 104.   |
| 105. Recycle credit   | 105.  | 105.   |
| 106. Dependent care assistance credit                                 | 106.  | 106.   |
| 107. Health insurance for uninsured Montanans                         | 107.  | 107.   |
| 108. Historical property preservation credit                          | 108.  | 108.   |
| 109. Developmental disability account contribution credit             | 109.  | 109.   |
| 110. Empowerment zone credit  | 110.  | 110.   |
| 111. Other credits (see instructions)                                 | 111.  | 111.   |
| 112. Total Credits - Enter here and on Form 2, line 46                | 112.  | 112.   |

**Credits**

**Schedule III - Nonresident/Part Year Resident Identification of Montana Source Income**  
(See instructions page 10)

Nonresident military service members, see instructions for lines 113 through 124, page 10

|  | Column A (For single, joint, separate or head of household) | Column B (For spouse only when filing separately and box 3 is checked) |
|--|---|--|
| 113. Wages, salaries, tips, etc.                             | 113.  | 113.   |
| 114. Interest income   | 114.  | 114.   |
| 115. Dividend income   | 115.  | 115.   |
| 116. Net business income                                     | 116.  | 116.   |
| 117. Capital gain (or loss)                                  | 117.  | 117.   |
| 118. Supplemental gain (or loss)                             | 118.  | 118.   |
| 119. Rents, royalties, partnerships, estates and trusts      | 119.  | 119.   |
| 120. Taxable pensions, annuities, IRAs                       | 120.  | 120.   |
| 121. Taxable portion of social security                      | 121.  | 121.   |
| 122. Net farm income (or loss)                               | 122.  | 122.   |
| 123. Other income/loss (federal refund, etc.)                | 123.  | 123.   |
| 124. Montana source total income (add lines 113 through 123) | 124.  | 124.   |

**Schedule IV - Nonresident/Part Year Resident Prorated Tax Computation**

|   | Column A (For single, joint, separate or head of household) | Column B (For spouse only when filing separately and box 3 is checked) |
|---|---|--|
| 125. Montana source total income from line 124 above  | 125.  | 125.   |
| 126. Enter federal income from line 18, plus amount of line 24, Form 2. (Nonresident military service members, see instructions on page 10.)  | 126.  | 126.   |
| 127. Divide amount on line 125 by amount on line 126. (Carry to 4 decimal places - Do not enter more than 1.0000)   | 127.  | 127.   |
| 128. Taxable income from line 42, Form 2  | 128.  | 128.   |
| 129. Calculate tax on amount on line 128 using tax table on Form 2, page 2.   | 129.  | 129.   |
| 130. Part year resident and nonresident tax - multiply amount on line 129 by percent on line 127 and enter result here and on line 43, Form 2. This is the amount of your prorated tax. | 130.  | 130.   |

When you file your Montana income tax return electronically you represent that you have retained all documents required as a tax record and that you will provide a copy to the department upon request.

Form 2A, Page 5 - 2005 Social Security Number:

| Schedule V: Montana Tax Credits  | Column A (for single, joint, separate, or head of household) | Column B (for spouse, when filing separately using filing status 3a) |
|--|--|--|
| <b>Nonrefundable credits that are single-year credits and HAVE NO carryover</b>  |  |  |
| 1 Enter your credit for an income tax liability paid to another state or country from Form 2A, Schedules VI, line 10 or VII, line 10. Attach Form 2A, Schedules VI and VII to your income tax return | 1  | 1  |
| 2 Enter college contribution credit and attach Form CC   | 2  | 2  |
| 3 Enter qualified endowment credit and attach Form QEC   | 3  | 3  |
| 4 Enter energy conservation installation credit and attach Form ENRG-C   | 4  | 4  |
| 5 Enter alternative fuel credit and attach Form AFRCR  | 5  | 5  |
| 6 Enter rural physician's credit   | 6  | 6  |
| 7 Enter health insurance for uninsured Montanans credit and attach Form HI   | 7  | 7  |
| 8 Enter elderly care credit and attach Form ECC  | 8  | 8  |
| 9 Enter developmental disability account contribution credit   | 9  | 9  |
| 10 Enter recycle credit and attach Form RCYL   | 10   | 10   |
| 11 Enter oil seed crushing and biodiesel production facility credit and attach Form OSC  | 11   | 11   |
| 12 Enter biodiesel blending and storage tank credit and attach Form BBSC   | 12   | 12   |
| 13 Add lines 1 through 12 and enter result here and on Form 2, line 49. <b>These are your total nonrefundable single-year credits.</b>   | 13   | 13   |
| <b>Nonrefundable credits that HAVE a carryover provision</b>   |  |  |
| 14 Enter the amount of your 2005 contractor's gross receipts tax credit  | 14   | 14   |
| 15 Enter geothermal systems credit and attach Form ENRG-A  | 15   | 15   |
| 16 Enter alternative energy systems credit and attach Form ENRG-B  | 16   | 16   |
| 17 Enter alternative energy production credit and attach Form AEPC   | 17   | 17   |
| 18 Enter dependent care assistance credit and attach Form DCAC   | 18   | 18   |
| 19 Enter historic property preservation credit and attach federal Form 3468  | 19   | 19   |
| 20 Enter Montana capital company credit  | 20   | 20   |
| 21 Enter infrastructure user's fee credit  | 21   | 21   |
| 22 Enter empowerment zone credit   | 22   | 22   |
| 23 Enter increasing research activities credit and attach Form RSCH  | 23   | 23   |
| 24 Enter mineral exploration incentive credit and attach Form MINE-CRED  | 24   | 24   |
| 25 Enter film employment production credit and attach Form FPC. Report your credit on this line if you have made the one-time four year carry forward election                                       | 25   | 25   |
| 26 Add line 14 through 25 and enter result here and on Form 2, line 50. <b>These are your total nonrefundable carryover credits.</b>   | 26   | 26   |
| <b>Refundable credits</b>  |  |  |
| 27 Enter your elderly homeowner/renter credit and attach Form 2EC  | 27   | 27   |
| 28 Enter film employment production credit and attach Form FPC   | 28   | 28   |
| 29 Enter film qualified expenditure credit and attach Form FPC   | 29   | 29   |
| 30 Add lines 27 through 29 and enter result here and on Form 2, line 61. <b>These are your total refundable credits.</b>   | 30   | 30   |

|  |  |                                     |
|--|--|-------------------------------------|
| Items are identical in 2004 and 2005 booklet | Items combined in 2004 booklet, expanded in 2005 booklet | Items new under law in 2005 booklet |
|--|--|-------------------------------------|



# Individual Income Tax Forms

Back of Form

**Form 2 Page 2 - 2004** Social Security Number: \_\_\_\_\_

Column A (for single joint separate or head of household) Column B (for spouse only when filing separate and box 3 is checked)

**DEDUCTIONS**

38. Montana adjusted gross income (From line 37) ..... 38

39. Deductions **Check only one**

(A) Standard deduction  (A) ..... 39

(B) Itemized deductions  (B) ..... 39

40. Subtract line 39 from 38 and enter balance ..... 40

41. Exemptions (All filers are entitled to at least one exemption) ..... 41

42. Multiply \$1,840 times the number of exemptions on line 41 ..... 42

43. Taxable income. Subtract line 41 from line 40 ..... 43

**TAX COMPUTATION**

43. Tax from table below. Nonresident-year residents enter the amount from line 130, Form 2A Schedule IV. If line 42 is less than zero, enter zero here ..... 43

44. Tax on lump sum distributions (see instructions for this line). Attach Federal Form 4972 ..... 44

45. Subtotal - Add lines 43 and 44 ..... 45

46. Credits from Form 2A, line 112, Schedule II ..... 46

47. Balance. Subtract line 46 from 45 and enter difference (but not less than zero) ..... 47

48. Other tax, penalties and repayment, see page 9 (separately) ..... 48

For each of the programs below enter any amount you and your spouse want to contribute. Enter totals in boxes on line 52 (see instructions for details).

51. Total Tax - Add lines 47, 48, and 52 ..... 51

52. Combine amounts shown on line 52 columns A and B ..... 52

**EXEMPTIONS AND CREDITS**

53. Montana tax withheld. Attach withholding statements ..... 53

54. Payments of 2004 estimated tax and amounts credited from previous year ..... 54

55. Payment made with extension ..... 55

56. Elderly Homeowner/Renter Credit. Attach Form 2EC ..... 56

57. Total of lines 53 thru 56 ..... 57

58. Combine amounts shown on line 57 columns A and B ..... 58

**REFUND OR CREDIT**

59. If line 60 is larger than line 58 enter the difference. This is your overpayment. ..... 59

60. Amount on line 61 to be applied to 2005 estimate  ..... 60

61. Enter the amount from line 61 you want refunded to you (refunds more than \$100 will be issued) ..... 61

Refund Returns: Mail to Dept. of Revenue, PO Box 6577, Helena, MT 59604-6577

If you wish to use direct deposit enter your RTN# and ACCT# below. See instructions on page 6.

RTN# \_\_\_\_\_ ACCT# \_\_\_\_\_

62. If line 61 is larger than line 60 enter tax due (If you owe one see instructions for the line) ..... 62

63. If you choose to pay your tax due by credit card visit our website at [www.dor.mt.gov/revenue](http://www.dor.mt.gov/revenue) and enter your card number here. See instructions on page 6.

64. Check this box if at least 25% of your gross income is from farming (attach breakdown of computations)  ..... 64

65. Check here if estimated payments were made using the annualization method. (Attach Montana Form 653-3)  ..... 65

66. Check here if you do not need state income tax forms and instructions mailed to you next year. Tax forms are also available on the internet.  ..... 66

67. Name, address and telephone number of preparer ..... 67

68. May the DOR discuss this return with the preparer shown above? Yes  No  ..... 68

69. Questions? Please call (406) 444-6900 or TDD (406) 444-2930 for hearing impaired ..... 69

70. Your signature is required \_\_\_\_\_ Date \_\_\_\_\_ Daytime telephone number \_\_\_\_\_ Spouse's signature \_\_\_\_\_ Date \_\_\_\_\_

I declare under penalty of false swearing that the information in this return and attachments is true, correct and complete.

**Tax Table**

| If Taxable Income is: |              |             |                    | If Taxable Income is: |              |             |                    |
|-----------------------|--------------|-------------|--------------------|-----------------------|--------------|-------------|--------------------|
| Over                  | But not over | Multiply by | and Subtract = Tax | Over                  | But not over | Multiply by | and Subtract = Tax |
| \$ 0                  | \$ 2,300     | X . 2%      | \$ 0               | \$18,400              | \$22,900     | X . 7%      | \$ 483             |
| \$ 2,300              | \$ 4,600     | X . 3%      | \$ 23              | \$22,900              | \$32,100     | X . 8%      | \$ 712             |
| \$ 4,600              | \$ 9,200     | X . 4%      | \$ 80              | \$32,100              | \$46,900     | X . 9%      | \$1,033            |
| \$ 9,200              | \$13,800     | X . 5%      | \$181              | \$46,900              | \$80,300     | X 10%       | \$1,462            |
| \$13,800              | \$18,400     | X . 6%      | \$288              | \$80,300              |              | X 11%       | \$2,295            |

Example = taxable income \$2,400 x 3% (.83) = \$72 subtract \$23 = \$49 tax

When you file your Montana income tax return electronically you represent that you have retained all documents required as a tax record and that you will provide a copy to the department upon request.

**Form 2, Page 2 - 2005** Social Security Number: \_\_\_\_\_

Column A (for single joint separate or head of household) Column B (for spouse when filing separately using filing status 3a)

41. Enter here Montana adjusted gross income from line 40 ..... 41

**DEDUCTIONS** **Check only one**

42. (A) Standard Deduction:  (A) ..... 42

(B) Itemized Deductions (from Form 2A, Schedule III, line 30):  (B) ..... 42

43. Subtract line 42 from line 41 and enter amount here ..... 43

44. Exemptions (all individuals are entitled to at least one exemption) ..... 44

45. Multiply \$1,900 by the number of exemptions on line 44 and enter result here ..... 45

46. Subtract line 44 from line 43. Enter result here, but not less than zero. This is your taxable income ..... 46

47. Enter tax from the tax table on page 9. If line 45 is less than zero, enter zero ..... 47

48. Enter capital gains tax credit here ..... 48

49. Subtract line 47 from 46 and enter result here, but not less than zero. This is your resident tax after capital gains tax credit ..... 49

49a. Non-resident, part-year resident tax after capital gains tax credit. Enter here the amount from Form 2A, Schedule IV, line 20, but not less than zero ..... 49a

49. Enter nonrefundable single-year credits from Form 2A, Schedule V, line 13 ..... 49

50. Enter nonrefundable carryover credits from Form 2A, Schedule V, line 26 ..... 50

51. Add lines 49 and 50 and subtract this total from line 48 or 49a and enter result here, but not less than zero. This is your total tax after nonrefundable credits ..... 51

52. Enter family education savings account recapture tax ..... 52

53. Enter endowment credit recapture tax ..... 53

54. Enter rural physician's credit recapture tax ..... 54

55. Add lines 52 through 54 and enter result here. This is your total recapture tax ..... 55

56. Add lines 51 and 55 and enter result here. This is your total tax due ..... 56

57. Combine amounts on line 56 columns A and B and enter result here. This is your combined total tax due ..... 57

58. Enter Montana income tax withheld. Attach federal Forms W-2 and 1099 ..... 58

59. Enter estimated tax payments here ..... 59

60. Enter extension payment here ..... 60

61. Enter refundable credits from Form 2A, Schedule V, line 30 ..... 61

62. Add lines 58 through 61 and enter here. These are your total payments/offsets ..... 62

63. Combine amounts on line 62 columns A and B. These are your combined payments and offsets ..... 63

64. If line 62 is more than line 63, enter the difference here ..... 64

65. Interest on underpayment. Late file penalty  Late pay penalty  Interest  Enter the sum of 65a thru 65d here ..... 65

66. Enter other penalties here ..... 66

67. Enter here the amount of your contributions by check-off reported on line 75 ..... 67

68. Add lines 64 through 67 and enter amount here. This is the amount you owe. Make check payable to MONTANA DEPARTMENT OF REVENUE or visit our website at [www.mt.gov/revenue](http://www.mt.gov/revenue) to pay by credit card or E-check ..... 68

69. If line 67 is less than line 63, enter the difference here ..... 69

70. Enter other penalties here ..... 70

71. Subtract line 70 from line 69 and enter amount here. This is your overpayment ..... 71

72. Enter here the amount of your contributions by check-off reported on line 75 ..... 72

73. Enter the amount of line 71 you want applied to your 2006 estimated tax ..... 73

74. Subtract lines 72 and 73 from line 71 and enter result here. This is your refund ..... 74

If you wish to use direct deposit enter your RTN# and ACCT# below. See instructions.  checking  savings

RTN# \_\_\_\_\_ ACCT# \_\_\_\_\_

75.  Nongame wildlife program  Child abuse prevention  Agriculture in schools  Check-off Total ..... 75

75a) \_\_\_\_\_ 75b) \_\_\_\_\_ 75c) \_\_\_\_\_

If applicable, check appropriate box:

Farming gross income. Annualized estimated payments

Do not mail 2006 forms and instructions. SSN or FEIN: \_\_\_\_\_

May the DOR discuss this return with your tax preparer? Yes  No  Questions? Call (406) 444-6900 or TDD (406) 444-2930 for hearing impaired

76. Name, address and telephone number of paid preparer ..... 76

77. Extension - Check this box and attach a copy of your federal Form 4868 to receive your Montana extension.  ..... 77

78. Your signature is required \_\_\_\_\_ Date \_\_\_\_\_ Daytime telephone number \_\_\_\_\_ Spouse's signature \_\_\_\_\_ Date \_\_\_\_\_

I declare under penalty of false swearing that the information in this return and attachments is true, correct and complete.

Items that were combined in 2004 booklet, expanded in 2005 booklet

Items new under law in 2005 booklet



# Individual Income Tax Forms

Form 2A, Page 7 - 2005 Social Security Number:

| Schedule VIII: Reporting of Special Transactions  | Transaction  |
|---|--|
| <p>Complete Schedule VIII only if you and/or your spouse were required to complete for federal income tax purposes any of the federal forms described below. Check the appropriate box indicating which form(s) were required to be filed with your federal income tax return. If your answer is "yes" to one or more of these forms, you will need to attach a complete copy of your federal income tax return Form 1040.</p>  | <p>Check "yes" if you are required to file any of the following forms with the Internal Revenue Service.</p> |
| <p><b>1 I am required to file federal Form 8264 – Application for Registration of a Tax Shelter with the Internal Revenue Service.</b></p> <p>Form 8264 is required to be filed to register a tax shelter. Upon filing Form 8264, you receive a tax shelter registration number from the Internal Revenue Service. This tax shelter number is provided to investors in the tax shelter.</p>   | <p>1 <input type="checkbox"/> YES</p>  |
| <p><b>2 I am required to file federal Form 8271 – Investor Reporting of Tax Shelter Registration Number with the Internal Revenue Service.</b></p> <p>Form 8271 is used to report the tax shelter registration number that the Internal Revenue Service assigns to certain tax shelters required to be registered under 26 USC 6111 and to report the name and identifying number of the tax shelter.</p>   | <p>2 <input type="checkbox"/> YES</p>  |
| <p><b>3 I am required to file federal Form 8824 – Like-Kind Exchanges with the Internal Revenue Service.</b></p> <p><b>NOTE: Check "yes" if your like-kind exchange includes Montana property. Non-residents do not have to report a like-kind exchange if the properties involved do not include Montana property.</b></p> <p>Form 8824 is used to report each exchange of business or investment property for property of a like kind.</p>                              | <p>3 <input type="checkbox"/> YES</p>  |
| <p><b>4 I am required to file federal Form 8865 – Return of U.S. Persons With Respect to Certain Foreign Partnerships with the Internal Revenue Service.</b></p> <p>Form 8865 is used to report the information required under 26 USC 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership</p> | <p>4 <input type="checkbox"/> YES</p>  |
| <p><b>5 I am required to file federal Form 8886 – Reportable Transaction Disclosure Statement with the Internal Revenue Service.</b></p> <p>Form 8886 is used to disclose information for each reportable transaction in which you participated.</p>  | <p>5 <input type="checkbox"/> YES</p>  |
| <p><b>6 I am required to file federal Form 13586 – Additional Information and Documentation for Announcement 2004-46, Settlement Initiative – 60-Day Response with the Internal Revenue Service.</b></p> <p>Form 13586 is required for each year you derive a benefit from a Notice 2000-44 (or substantially similar) transaction.</p>   | <p>6 <input type="checkbox"/> YES</p>  |
| <p><b>7 I am required to file federal Form 13656 – Notice of Election by Executive and Related Person to Participate in Announcement 2005-19 Settlement Initiative with the Internal Revenue Service.</b></p> <p>Form 13656 is an election to participate in the settlement initiative as described in Announcement 2005-19 and as contained in Internal Revenue Bulletin 2005-11 dated March 14,</p>   | <p>7 <input type="checkbox"/> YES</p>  |



# IRIS Status Update

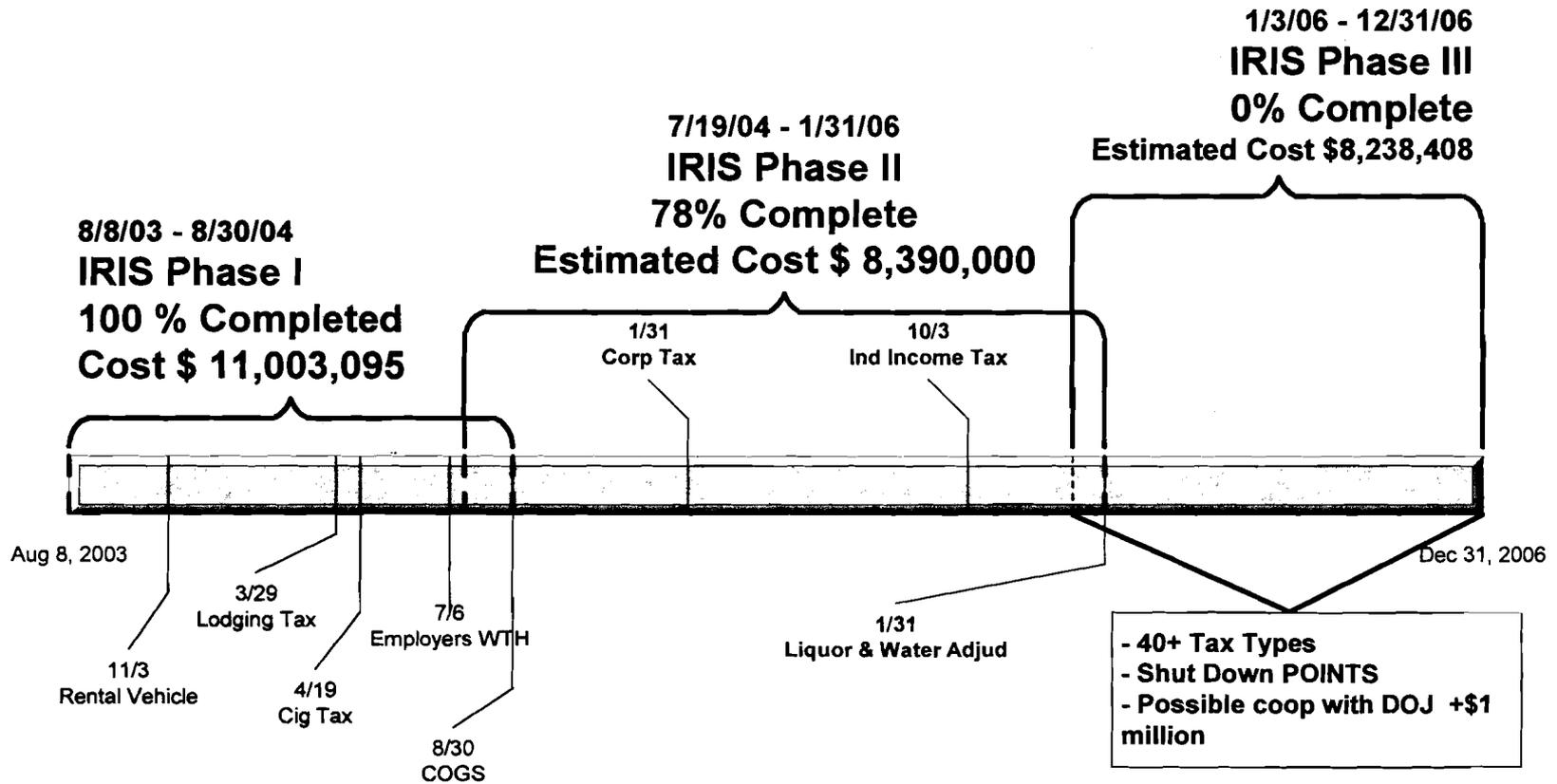
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- On time, on budget and it works
- IRIS will cost less than POINTS, but will handle more taxes
- Accurate; timely service to taxpayers
- Better tools for compliance



Montana Department of  
**REVENUE**

# IRIS Status Update





# IRIS Monthly Notices to Delinquent Taxpayers

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- Montana joins the rest of the world in November in sending monthly bills
- 19,000 taxpayers affected, owing \$40 million
- Many taxpayers will be surprised...  
numbers will not be familiar due to lapse of time since the last bill, and penalty and interest will be updated
- Information comes from old systems...  
all accounts manually reviewed, but issues could remain
- Taxpayers should call (406) 444-9600 with questions, or to resolve outstanding liabilities



# Compliance Studies

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- IRS study estimated tax gap on preliminary basis to be:  
income tax \$243 billion, all taxes \$353 billion
  
- In 1995, Montana Department of Revenue estimated  
compliance gap at \$100 million annually
  
- New Montana estimate to be made in 2006



# Income Tax Audit Collections

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| <u>Tax Type</u>       | <u>FY2003</u>      | <u>FY2004</u>       | <u>FY2005</u>       | <u>% of Total<br/>Collections*</u> |
|-----------------------|--------------------|---------------------|---------------------|------------------------------------|
| Individual Income Tax | \$23,451,285       | \$29,868,463        | \$39,111,787        | 5.60%                              |
| Corporate Income Tax  | <u>\$8,077,761</u> | <u>\$14,212,819</u> | <u>\$11,125,147</u> | 11.50%                             |
| Total                 | \$31,529,046       | \$44,081,282        | \$50,236,934        | 6.40%                              |

\* FY2005 Audit Collections as a percent of Total FY2005 Collections



# Illegal Tax Shelters

---

- KPMG entered deferred prosecution agreement with federal prosecutors for sale of illegal tax shelters
- Eight former KPMG partners indicted  
...more indictments expected
- Ernst & Young under criminal investigation
- Prosecutors also investigating banks and law firms  
...one banking official confessed
- IRS correcting only 18% of cases



# Illegal Tax Shelter Cases

---

- Montana is pursuing 115 active illegal tax shelter cases
  - 83 out of state corporations - 25 is normal Montana corporate audit case load
  - 32 individuals (21 are nonresidents)
  
- 60 new cases are under evaluation
  
- 64 letters to corporations that illegally sheltered \$28.5 billion in federal taxable income
  - 11 resolved the issue with Montana amended returns or other information
  - 29 are working with the IRS – asked Montana to delay action
  - 2 requested more time
  - **22 are not responding or cooperating**



# Illegal Tax Shelter Cases

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- Current cases are the easier “tip of the iceberg” cases involving taxpayers that have agreed with other tax authorities that abusive activity occurred
  
- Larger challenge: discovering cases of taxpayers that have not disclosed activity to other authorities
  
- Mass marketing of shelters swamps normal enforcement work... and most illegal shelters are designed to avoid audit detection
  
- Mandatory disclosure to state desirable... especially since IRS does not share most non-resident and out of state corporation information with state



# Nonresident Sales of Property

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- 73% of nonresidents fail to file returns for gain on sale of Montana property. Only 3% of Montana residents fail to file returns.
- For tax year 2003, we have identified 1,400 sales of Montana property where the seller was a nonresident for whom no income tax return could be found.
- Contacts will be made with non filing sellers.
- The total associated value (sales price) for these sales is \$222 million.
- On average, it costs 25 times as much to collect from a nonresident as it does a resident.
- Withholding at the time of the sale remains the best option to ensure collection.



# State Employee Cross Match

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State Employee Non-Filer Update, as of 9/29/05

Status of the 413 Original Letters Sent:

|                                  |            |
|----------------------------------|------------|
| Refunds                          | 119        |
| Tax due                          | 53         |
| Filed under different SSN        | 5          |
| Not at address/no forward        | 24         |
| Deployed w/military              | 3          |
| Taxpayer deceased                | 3          |
| <b>Total closed</b>              | <b>207</b> |
| <b>Follow up action required</b> | <b>206</b> |



# Employee Embezzlement

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- Case uncovered due to excellent investigative work by two department employees
- \$96,637 involved, full recovery expected, plus penalty, interest and reimbursement for administrative costs
- Criminal penalties will also apply  
...charges filed against employee and four other citizens
- Legacy systems [POINTS & IT4] and previous internal control procedures, dating back several years, were contributing factors
- IRIS has stronger security and fraud detection  
...department is substantially strengthening internal controls



# Wine Ruling

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## Direct Shipment of Wine – U.S. Supreme Court Decision

The case before the court involved the direct shipment of wine to consumers within a state. The court ruled as follows:

- ❑ States have broad power under the 21<sup>st</sup> amendment to regulate the sale of alcohol within their borders
  
- ❑ However, states may not use this broad power to discriminate against out-of-state interests in favor of in-state interests.



# Out of State Liquor Licensing Ownership

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## Non-resident Ownership of Retail Alcoholic Beverage Licenses

- The Montana First Judicial District Court ruled the requirement to be a resident of Montana to own either an on-premises all-beverages or on-premises beer license was an unconstitutional violation of the U.S. Commerce Clause.
  
- The U.S. Supreme Court's ruling regarding the direct shipment of wine bolstered the District Court's decision. In their decision, the U.S. Supreme Court said states couldn't discriminate against out-of-state interests in regulating the sale of alcohol within their borders.
  
- To-date the Department has had only a few license applications from non-residents.



# Tobacco and Alcohol Tax Agreement

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## Blackfeet Tobacco and Alcohol Revenue Sharing Agreement

- Long-term tobacco agreements are vital to the state for equitable cigarette tax compliance
- Effective July 29, 2005 the Blackfeet Nation and the State of Montana entered into new tobacco and alcohol revenue sharing agreements
- The agreements replace 1995 revenue sharing agreements
- Major changes under the new agreements are as follows:
  - The tribe receives tobacco tax revenue based upon the most current state tobacco tax rates
  - The tribe receives alcohol taxes based upon the current quarter collections
  - The term of the agreement was extended from 5-year terms to essentially 10-year terms
  - 30 day revocation for cause, 5 years revocation without cause, and waiver of sovereign immunity