

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 59th LEGISLATURE - REGULAR SESSION

JOINT APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT AND TRANSPORTATION

Call to Order: By **CHAIRMAN JOHN SINRUD**, on February 3, 2005 at
8:00 A.M., in Room 317-B Capitol.

ROLL CALL

Members Present:

Rep. John Sinrud, Chairman (R)
Sen. Lane L. Larson, Vice Chairman (D)
Sen. Mike Cooney (D)
Sen. Rick Laible (R)
Rep. Jon C. Sesso (D)
Sen. Corey Stapleton (R)
Rep. Janna Taylor (R)

Members Excused: Rep. Rosalie (Rosie) Buzzas (D)

Members Absent: None.

Staff Present: Greg DeWitt, Legislative Branch
Jamie Mickelson, Committee Secretary

Please Note. These are summary minutes. Testimony and discussion
are paraphrased and condensed.

Committee Business Summary:

Hearing & Date Posted: Hearing on the Department of Revenue

Executive Action:

HEARING

THE DEPARTMENT OF REVENUE

Greg Dewitt, LFD, handed out "Department of Revenue Agency Profile" and "Governor Schweitzer's Budget Analysis for the Department of Revenue." He gave a brief overview of the two handouts. He stated that there were two changes in the Schweitzer budget from the Martz Budget. There was one change in a decision package and one new decision package added. He informed the Committee that the Department of Revenue receives their funding primarily from HB 2 and general funds. He commented that there are currently some issues with funding the department. He stated that when SB 281 moved the Unemployment Insurance Collection, (UI) to the Department of Labor it impacted the Department of Revenue's funding. He asked the Committee to turn to Pages A-146 and A-147. He stated that Figure 1 is what the Department of Revenue's funds looked like before SB 281 passed, and what they look like now. He stated that Figure 2 shows the fiscal impact and several decision packages for a funding switch to replace lost federal funds with general fund. He informed the Committee that Figure 3 shows an agency-wide Full Time Equivalent (FTE) reduction. He commented that in Figure 4 shows Points, IRIS, DP 04, and Property Tax.

EXHIBIT(jgh27a01)

EXHIBIT(jgh27a02)

{Tape: 1; Side: A; Approx. Time Counter: 0 - 9.0}

Dan Bucks, Department of Revenue, informed the Committee of the Department Budget Requests. He gave a summary of the handouts labeled "Revenue 2006-2007 Budget Presentation Department Overview," and Gallatin County Quota Statistics." He stated that he wanted to thank the taxpayers who are doing the right things under the laws, and that he wanted to identify the taxpayers who are not paying their taxes. The Department of Revenue does five things:

EXHIBIT(jgh27a03)

EXHIBIT(jgh27a04)

- 1) Collect and administer taxes equitably under the law
- 2) Assess and certify values of property taxes
- 3) Administer state liquor laws
- 4) Return abandoned property to the rightful owner
- 5) Conduct tax policy research

He then directed the Committee to turn to Page 4 of Exhibit 3. He gave a brief overview of the six divisions:

- 1)Business and Income Taxes Division
- 2)Property Assessment Division
- 3)Resource Management Division
- 4)Customer Service Center
- 5)Information Technology Division
- 6)Director's Office

Mr. Bucks handed out a packet labeled, "Revenue 2006-2007 Major Decision Packages." He gave a brief description of all of the decision packages to the Committee.

EXHIBIT(jgh27a05)

{Tape: 1; Side: A; Approx. Time Counter: 5.6 - 21}

DP 201 REPLACEMENT OF FEDERAL FUNDS UI Transfer Page A-156

SEN. STAPLETON asked if the Department of Revenue is taking money out of the Department of Labor to fund any of the decision packages. **Christi Moyer, OBPP**, stated that the Department of Revenue is using funds from HB 2 and general funds.

SEN. LAIBLE asked if the \$1.4 million is for the first decision package or for all of the decision packages. **Mr. Bucks** stated that the \$1.4 million is for all of the decision packages.

SEN. LAIBLE asked when the Department of Revenue lost the UI Program, why didn't the department make adjustments in the budget the last session because they were expecting the program to be moved to the Department of Labor. **Neil Peterson, Department of Revenue**, stated that he didn't know why the budget wasn't adjusted the last session. He stated that the transfer of the UI Program was made in July of 2004. He informed **SEN. LAIBLE** that in the second year of the biennium, the Department of Revenue received some additional funding to replace the UI Program money.

SEN LAIBLE asked Mr. Peterson when the Department of Revenue received money in the budget for the UI Program the last session, if it was one-time-only money. **Mr. Peterson** stated that it was one-time-only money.

{Tape: 1; Side: A; Approx. Time Counter: 21 - 28.8}

REP. SESSO asked for clarification on fixed costs for the budget. **Mr. Bucks** stated that much of the fixed costs for the budget is an accounting function. He stated that he can charge 17% above the direct cost.

REP. SESSO asked if the general fund budget was reduced by the right amount. **Mr. Bucks** stated that the costs remain the same, because the department was able to assign some of the costs to general funds.

REP. SESSO stated that the request is to replace the loss of funds from the UI Program, through assigning costs to general funds. **Mr. Bucks** said, "Yes."

{Tape: 1; Side: B; Approx. Time Counter: 0 - 2.8}

DP 602 STATEWIDE FTE REDUCTION Page A-162

Mr. Bucks gave a brief presentation on the Statewide FTE reduction of \$871,000. He stated that the department will manage with these reductions, and the FTE in the decision package was of a lower priority.

{Tape: 1; Side: B; Approx. Time Counter: 2.8 - 3.9}

CHAIRMAN SINRUD asked the Committee to turn to Page A-147 and directed them to Figure 3. He stated that the FTE cuts include:

- 1.00 FTE from the Directors Office
- 2.00 FTE from the Information Technology Division
- 1.00 from the Resource Management Division
- 1.00 from the Customer Service Center
- 1.00 from the Business and Income Tax Division
- 1.00 from the Property Assessment Division

CHAIRMAN SINRUD asked Mr. Bucks if the cut of 9.45 FTE is to meet the budget proposed by the Governor. **Mr. Bucks** replied, "Yes."

{Tape: 1; Side: B; Approx. Time Counter: 3.9 - 7.2}

DP 105 PAY OFF THE IRIS COMPUTER SYSTEM LOAN Page A- 152

Mr. Bucks stated that one of the goals of the Department of Revenue, the Governor, and the legislature is to bury the POINTS System. He asked the Committee to turn to Page A-147 in the LFD Budget Analysis. He stated that variable costs are high, and informed the Committee that there are four components in the proposal to bury the points system:

- 1) Proposal to pay off IRIS loan for \$16,000,000
- 2) Replace the remainder of POINTS for \$4,000,000
- 3) Maintenance of IRIS for \$1,600,000
- 4) Property taxes and operating costs of computers for \$5,500,000

CHAIRMAN SINRUD asked when HB 3 is effective.

Christi Moyer, OBPP, stated that HB 3 is effective as soon as it passes.

Mr. DeWitt stated that if HB 3, the supplemental bill, passes then the Department of Revenue will not need DP 105 for an increase of \$2.1 million out of general funds. This is because the Schweitzer budget moved all of the funding to pay off the IRIS loan to the supplemental bill.

{Tape: 1; Side: B; Approx. Time Counter: 7.2 - 12.5}

Mr. Bucks stated that he was very pleased with the IRIS System and it is right on schedule and budget.

CHAIRMAN SINRUD left the meeting at 8:55 A.M.

SEN. LAIBLE left the meeting at 8:55 A.M.

DP 202 IRIS OPERATING COSTS Page A-156

Mr. Bucks stated that the Integrated Revenue Information System(IRIS) was not in place during the base year. An increase of \$1.6 million general fund for the biennium, is requested to fund on-going operating costs for IRIS. Funding would be used to pay statewide computer network service costs, vendor maintenance and support costs, and additional printing and mailing costs of account receivable statements mailed monthly with the new system.

SEN. LAIBLE asked how much they are paying now for support and maintenance to which the \$1.6 million is being added.

Margaret Kauske, Department of Revenue, stated that it is the difference between the costs for POINTS and the cost for IRIS. Discussions with the vendor indicate this maintenance cost is fixed for the foreseeable future.

REP. SESSO asked Mrs. Kauske what the Department of Revenue thought about the company that they contract with and who owns the codes and systems that the department uses.

Mr. Bucks stated that the company is very responsive and the contract has performance standards. He stated that the arrangements for IRIS works, when POINTS did not.

REP. SESSO stated once POINTS is retired and the department is on to IRIS, it will be interesting to see how it works.

Mr. Bucks stated that this is the right choice and IRIS is a good system

{Tape: 1; Side: B; Approx. Time Counter: 12.5 - 30}

TOBACCO USE PREVENTION INITIATIVE EXHIBIT 4 Page 6

Mr. Bucks gave a brief presentation on the Tobacco Use Prevention Initiative. He stated that this is an initiative that will be funded through appropriations to the Department of Health and Human Services and the Department of Justice.

Mr. Bucks stated that the mission of the Department of Revenue is to enforce tax laws. He informed the Committee that tobacco taxes have changed dramatically, and that it is very important to enforce these taxes. He stated that there will be increased avoidance and that constituents will try to smuggle tobacco from out of state.

SEN. LAIBLE asked what the department does about the internet sales of tobacco. **Mr. Bucks** stated that there are three things that can be done:

- Clearly assert jurisdiction over vendors of interstate or foreign sales
- Work closely with other states
- Looking at how sales are financed and work with credit card sales

SEN. LAIBLE asked **Mr. Bucks** if it is illegal for a citizen of this state to order cigarettes from another state. **Mr. Bucks** replied, "Yes."

{Tape: 2; Side: A; Approx. Time Counter: 0 - 12}

SEN. STAPLETON asked **Mr. Bucks** if he anticipates that the tobacco tax will create a lot of revenue for the state. **Mr. Bucks** stated that he hasn't seen the outcome of the Tobacco Use Prevention Initiative, however, he hopes that it does create revenue for the state.

REP. SESSO asked how much the Tobacco Use Prevention Initiative is going to cost. **Jane Smiley, Department of Public Health and Safety**, stated that the funding comes from initiative 146. She informed the Committee that this initiative uses 32% of tobacco settlement money for tobacco use prevention, this is about \$6.8 million a year. She also stated that \$380,000 of the settlement money is used for enforcement of tobacco use.

REP. SESSO asked if any of the money comes out of revenue that is being produced currently. **Mrs. Smiley** replied, "No."

REP. TAYLOR asked how long the settlement lasts. **Mrs. Smiley** stated that the settlement lasts 30 years, and it is a decreasing settlement of revenue.

SEN. LAIBLE requested a spreadsheet of tobacco settlement money and what it is being used for. **Mrs. Smiley** stated that there is a budget profile with a diagram that she will bring to the Committee.

REP. SESSO asked what the cost of the Tobacco Use Prevention Plan will be. **Mr. Peterson** stated that the program costs will be \$210,000 in FY 2006 and \$197,00 in FY 2007. The Department of Justice costs will be \$160,000 in FY 2006 and \$113,000 in ongoing costs. The combined funding for the Tobacco Tax enforcement is \$310,000 per year for six FTE.

{Tape: 2; Side: A; Approx. Time Counter: 12 - 30}

DP 111 COMPLIANCE UNIT EXHIBIT 4 Page 7

Mr. Bucks gave a brief overview of the handout labeled, "Individual Income Tax Revenues and Audit Collections."

EXHIBIT(jgh27a06)

Mr. Bucks He explained DP 111 to the Committee. He stated that the added eight FTE would deal with multi-state corporations and non-residents. He stated that there are four main compliance issues:

- Abusive tax shelters
- Income earned in the state by nonresidents
- Income earned by out-of-state businesses
- Income earned in Montana that flows through one or more entities

{Tape: 2; Side: B; Approx. Time Counter: 0 - 15}

SEN. LAIBLE asked Mr. Bucks if he could give the Committee an example of an abusive tax shelter. **Mr. Bucks** stated that it is when two people pass a bag of money between two entities.

{Tape: 2; Side: B; Approx. Time Counter: 15 - 18}

Mr. Bucks stated that the firm Earnston Young had a tax shelter. He informed the Committee that the firm passed ownership of their entities onto a bank, and then back to the original owner to hide transactions. He stated that firms do this to throw people off the paper trail.

REP. TAYLOR asked for the names of companies that he is talking about. **Mr. Bucks** stated that he can't give **REP. TAYLOR** the names of companies due to confidentiality.

{Tape: 2; Side: B; Approx. Time Counter: 18 - 23}

Mr. Bucks gave a brief explanation of nexus.

SEN. STAPLETON asked what is meant by the statement, "We haven't done nexus in a number of years." **Mr. Bucks** stated that it means that the Department hasn't done nexus in about six years.

Mr. Bucks stated that his request to the Committee is very modest. He commented on some of the problems his Committee is facing which have come to light in the past few years.

Mr. Bucks stated that many of the programs and employees which he is asking for in his budget, are to bring revenue into the state. He explained that he is not willing to allow the law to be broken, when he knows that there are more things he could be doing.

{Tape: 2; Side: B; Approx. Time Counter: 23 - 30}

SEN. STAPLETON agreed with **Mr. Bucks** about the law being broken, however he thought that the Department of Revenue sounds a bit intimidating.

Mr. Bucks stated that he has been asked by the Governor to improve the system, and that is why he is presenting the information to the Committee.

SEN. STAPLETON stated that he agrees with the Department of Revenue and explained what they are trying to achieve. He commented that the department needs to collect taxes and generate revenue for the state in a way that is not so intimidating.

{Tape: 3; Side: A; Approx. Time Counter: 0 - 7}

Mr. Bucks informed the Committee of another problem that the Department of Revenue faces. He stated that income earned by non-residents of the state on land sales are not paying their Montana state taxes.

REP. SESSO asked how the Department of Revenue decided on the request for eight employees. **Mr. Bucks** stated that the department asked for two people to work on abusive tax shelters. He also stated that to get IRIS up and running successfully, he will need the extra employees. He finished with informing the Committee that his request is very modest and he may need more employees in the future, and this request is for a start.

SEN. LAIBLE stated that in the 2002 Special Session, 13 FTE were added to the Department. These members were added with the requirement that the Department would be required to report on the revenue resulting from the new auditors. The Department displayed no report last biennium. He said, "Your department is asking for more FTE this session and we have not seen the report from the revenue generated by the 13 FTE that were added last session."

Mr. Bucks stated that the decision packages for 2002 were devoted to individual income taxes of residents of the state. He informed the Committee that he got a report when he came into the department. He shared the report with the Committee. He summarized Exhibit 7 and stated that the department overshot the request.

{Tape: 3; Side: A; Approx. Time Counter: 15 - 26}

EXHIBIT (jgh27a07)

SEN. STAPLETON stated that in the years 1997-2000 was the tipping point of why he introduced SB 271 in the 2003 Legislature. He stated that he hopes that there is some equilibrium soon.

Mr. Bucks stated that the best efforts for taxation across the country are getting worse. He informed the Committee that what has happened since 1998 is that book income and taxable income have moved further away from one another.

{Tape: 3; Side: A; Approx. Time Counter: 26 - 30}

Mr. Bucks stated that the best way to do things is to take things one step at a time, and that is why his request is so modest. He stated, "The first step is modest and when we come back two years from now, this is the kind of chart you will see."

SEN. COONEY asked Mr. Bucks if the state has contracted with outside collection agencies.

REP. SINRUD stated that the collection agency is out of Texas. He stated that he is very distressed with how this agency dealt with his wife. He stated that the Department of Revenue has zero customer service.

SEN. COONEY also stated that he has had an unpleasant experience with collection agencies.

SEN. LAIBLE also confirmed that his experience with customer service was not a pleasant experience.

Mr. Bucks stated that he cannot guarantee it will not happen again, but that it is a high priority, and that he will review the contract with this agency out of Texas.

REP. SESSO asked how much of the department debt collections is given to the collection agencies. **Mr. Bucks** stated that he is unsure.

CHAIRMAN SINRUD closed the meeting for the day and stated that the Committee would reconvene on 2/04/05 to continue the hearing on the Department of Revenue.

Exhibit 8 was handed out, but not discussed.

EXHIBIT(jgh27a08)

Meeting closed at 11:27 A.M.

{Tape: 3; Side: B; Approx. Time Counter: 0 - 20}

ADJOURNMENT

Adjournment: 11:27 A.M.

REP. JOHN SINRUD, Chairman

JAMIE MICKELSON, Secretary

JS/jm

Additional Exhibits:

EXHIBIT ([jgh27aad0.PDF](#))