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ADMINISTRATIVE AND COMPLIANCE COSTS OF MONTANA TAXES

BY

MICHAEL NELSON KILLWORTH

B.A., UNIVERSITY OF MONTANA, 1965

PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS


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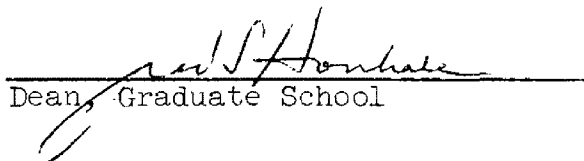
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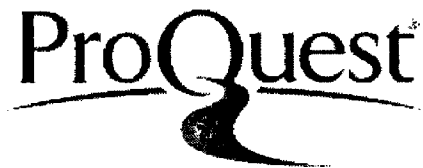


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CHAPTER I

INTRODUCTION

The desirability of a particular tax or tax structure may be judged by several criteria. Administrative and compliance costs are two of these criteria. Administrative costs are those costs incurred by government in seeing that the tax laws are properly enforced and in actually collecting tax revenue. Compliance costs are those costs borne by taxpayers, both individuals and business firms, in keeping records necessary to determine tax liability, filing the necessary returns and remitting the tax payment. The purpose of this study is to estimate both the administrative and compliance costs of most taxes currently being used at the state and local level in Montana. It is hoped that the information derived from these estimates will be useful in studying the present Montana tax system and in recommending any changes that might be made to it.

Having available accurate estimates of administrative and compliance costs is important for several reasons. A first reason involves selection of the most desirable tax structure for the state. For example, a state legislature may be trying to decide between two different taxes, each of which is capable of meeting increased revenue requirements. Both the equity and economic effects of each tax have been examined and found to be within acceptable standards. However, it is found that one of the proposed taxes is cheaper to administer than the other while the compliance cost is about the same. The tax which

is more efficient to administer is, other things equal, clearly the more desirable of the two. The same would be true if the administrative costs were about the same but one tax was more expensive to comply with than the other. A second reason for developing administrative and compliance cost estimates is to indicate those areas in which the tax laws are in need of reform. For those taxes which are found to have excessive administrative and compliance costs, the solution may not require dropping the tax from consideration. Careful examination may show that through modification and revision of outdated tax requirements, the administrative and compliance costs may be sharply reduced without a loss in the effectiveness of the tax. A third reason for making administrative and compliance cost estimates is to provide a means of comparing Montana costs with those experienced by other states. Such comparisons, if properly made, may be helpful in pointing out areas where inefficiency in either administration or compliance exists. Once these inefficiencies have been recognized, specialized study may reveal the reason and make their elimination possible. Administrative and compliance costs also involve the use of productive resources and may therefore cause problems of unequal distribution of burden among both individuals and business firms. A final reason suggested for their study is thus to provide distributive information and implications of the costs.

The reader should recognize that there are several important limitations to this study. The research deals only with taxes that are currently being levied in Montana. A thorough effort has been made to measure and estimate the administrative and compliance cost of these taxes, but there is no attempt to examine closely each tax as to why

its cost is particularly high or low. Therefore, no specific recommendations will be made for minimizing the costs of each tax. Rather, the study attempts only to estimate the costs so as to show, for comparison or remedial purposes, which taxes have the higher costs.

The introductory chapter of this thesis is a review of other important contributions made to the study of administrative and compliance costs. With this survey of previous studies in the field, the reader may more meaningfully interpret the results of this study which are presented beginning with Chapter Four. Preceding Chapter Four, however, is a short chapter dealing with the experimental design of the study. The final chapter summarizes the results by restating important findings and drawing conclusions for the whole study.

CHAPTER II

SURVEY OF PREVIOUS STUDIES

This chapter contains a brief survey of previous studies which have made significant contributions to the study of administrative and compliance costs. In most cases, the scope of the studies here reviewed only slightly overlaps with the scope of this study. This survey is included merely to provide the reader with a meaningful background from which to examine the results of this study, and to indicate the general need for more information about administrative and compliance costs. All studies are presented in chronological order beginning with those concerning compliance costs and followed by those dealing with administrative costs.

COMPLIANCE COSTS

Robert Murray Haig - 1933

One of the first major studies dealing with compliance costs was completed in 1935 by Robert Murray Haig, Professor of Political Economy at Columbia University. The research study was entitled, "The Cost To Business Concerns of Compliance With Tax Laws."¹ Questionnaires were prepared and distributed to 1,600 corporations. The response was a poor 186 returns with only 163 of these suitable for tabulation of results. The sample consisted of mainly large firms with an average annual sales of 17 million. The figures presented

¹Haig, Robert Murray, "The Cost to Business Concerns of Compliance With Tax Laws," The Management Review, (November 1935), 323-333.

relate to a single year, 1933, a year of low volume and low profits for most business firms. Mr. Haig comments that cost-to-tax ratios may be substantially lower in a more prosperous year.

For the 163 corporations properly responding to the questionnaire, total compliance cost for all federal, state and local taxes was about 2.3 percent of total taxes paid in 1934. There was, as one might expect, a wide variation in the weight of the burden of compliance costs between different taxes. Professor Haig contends that taxes which have low administrative costs appear to involve the tax payer in high compliance costs and vice versa. He supports this conclusion with several examples. Out of 95 corporations paying the federal corporation income tax, the typical corporation had a compliance cost of 4.7 percent of tax paid while eleven corporations had costs in excess of 25 percent of tax paid. This, says Haig, is in sharp contrast to the low cost of administering the tax. For state income taxes, the typical compliance cost was 9.5 percent while 14 of the 76 reporting corporations had costs in excess of 40 percent of tax liability. With 122 corporations reporting, the average cost to tax ratio for state and local property taxes was 1.04 percent. With regard to state sales taxes, 91 corporations had an average cost which was 3.7 percent of tax paid.

Professor Haig feels that the primary cause of high compliance costs among intrastate business firms is the lack of uniformity of state tax laws. He demonstrates with his data that the larger the number of states in which a firm is operating, the higher are the compliance costs as a percentage of tax paid. He concludes the report by stating, "the task of this paper contents itself with an attempt to ascertain whether

or not there is substantial basis for complaints of unreasonable costs of tax compliance which are steadily increasing in volume;" Professor Haig answers, "yes, there is."

James W. Martin - 1944

In 1942, James W. Martin submitted a monograph on tax compliance and administration costs to the Secretary of the Treasurys' Committee on Intergovernmental Fiscal Relations.¹ In 1944, he released much of this information with a series of articles in the "Bulletin of the National Tax Association." Two of these articles dealt with administrative costs and will be covered later in this chapter. The other two articles dealing with compliance costs are reviewed here. No cost estimates were included in the first article which appeared in the March issue of the Bulletin.² Rather, Mr. Martin discusses the many problems connected with studying compliance costs. He concludes the article by suggesting that a major study covering several thousand taxpayers is needed.

A second article about compliance costs appeared in the April, 1944 issue of the Bulletin.³ Again, Mr. Martin discusses the general lack of compliance cost information currently available. He suggests that, for illustrative purposes, a few examples of estimated costs would

¹ Senate Document No. 69, 78th Congress, First Session, (1943), 306-315.

² Martin, James W. "Costs of Tax Administration: Expenses of Compliance," Bulletin of the National Tax Association, XXIX (March 1944), 162-167.

³ Martin, James W. "Costs of Tax Administration: Examples of Compliance Expenses," Bulletin of the National Tax Association, XXIX, (April 1944), 194-205.

be helpful. With this idea, several corporations were contacted and asked to estimate their compliance costs. The firms do not represent a random sample but were chosen because their cooperation could be relied upon. Table I summarizes the results. It is clear that no general conclusions can be drawn from this table. However, in Table 2, Mr. Martin presents compliance cost estimates which combine his information with that of other studies. The Haig study was heavily drawn upon for the estimates.¹

In light of information used to derive Table 2, Mr. Martin draws two important conclusions. First, compliance costs are highly variable depending on the type of taxpayer, kind of tax, differences in state tax policies and whether the tax is imposed on the federal or state level. Second, federal compliance costs in 1940 and 1941 were lower than state and local costs.

James May and G. Clark Thompson

In 1950, James May and G. Clark Thompson reported the results of a survey conducted by the National Industrial Conference Board concerning the compliance cost experience of 125 manufacturing companies.² As no attempt was made to estimate costs by specific taxes, the study was limited to overall tax compliance costs. Costs were found to be 0.1 percent of sales for the average reporting company and 1.5 percent of total taxes paid. These estimates include record keeping expense as

¹ Haig, Robert Murray, "The Cost to Business Concerns of Compliance With Tax Laws", The Management Review, (November 1935), 323-333.

² May, James B., and Thompson, G. Clark, "The Tax on Taxes", National Industrial Conference Board, VII, (April 1950), 130-133.

TABLE 1

ESTIMATED COMPLIANCE COSTS OF SEVERAL CORPORATIONS
 FROM FEDERAL AND STATE TAXES, PRESENTED AS A PERCENTAGE
 OF TAX PAID - 1941*

TYPE OF BUSINESS	TYPE OF TAX						
	STATE TAXES			FEDERAL TAXES			
	Payroll	Sales	Property	Income	Income and Excess Profits	Capital Stock	Misc. Excise
Tobacco Company	5.3%	a	a	4.0	1.1	.8	4.6
Medium Sized Railroad	1.9	7.2	1.4	.2	4.1 ^c	1.2	.3
Large Railroad	.9	-	-	-	0.4	0.5 ^b	0.5 ^b
Department Store	2.7	2.3	0.7	-	1.1	-	-
Utility Corporation	0.7	-	0.8	-	-	-	2.3

^a Estimate for property, sales, and certain miscellaneous taxes, 1.6 percent of tax.

^b These two taxes are combined and the figure shown is the average.

*Information for this table is taken from the table on page 201 of the Martin study. /

¹ Martin, op. cit., 194-205.

TABLE 2

FEDERAL AND STATE TAX COMPLIANCE COST GUESSES - 1941*

Type of Tax	Revenue	Estimated Compliance Cost	Cost as a Percent of Revenue
Federal Taxes	(1000's \$)	(1000's \$)	
Alcoholic Beverages	\$ 820,056	\$ 3,280	0.4%
Capital Stock	166,653	1,500	0.9
Corporation Income	1,860,356	24,185 ^a	1.3
Employment	925,856	26,850	2.9
Excess Profits	192,385	962 ^b	0.5
Estate and Gift	409,058	6,106	1.5
Individual Income	1,418,383	17,021	1.2
Manufacturers and Retailers	617,354	9,878	1.6
Miscellaneous	224,874	4,722	2.1
Stamp	39,057	195	0.5
Tobacco	698,077	3,490	0.5
State and Local Taxes			
Alcoholic Beverages	408,869	9,813	2.4
Death and Gift	116,351	1,862	1.6
Employment	875,558	26,267	3.0
Gasoline	934,337	1,869	0.2
Corporation and Personal Income	408,867	13,084	3.2
Insurance Premium	89,033	267	0.3
Property	4,969,897	44,729	0.9
Sales	545,594	12,549	2.3
Tobacco	106,374	532 ^c	0.5

^aAbout 4 million added as estimated compliance cost for corporations without a taxable income.

^bAbout 168,000 dollars added as estimated cost even though no tax is paid.

^cNet after credit for discounts to compensate for affixing tax stamps.

*Data for this table is taken from the table on page 201 of the Martin report.¹

well as preparing, filing, and defending federal, state, and local tax returns. May and Thompson conclude the report by including several suggestions for minimizing compliance costs made by officials of the companies participating in the survey. Some of these recommendations were: 1) standardized state tax laws and forms to make filing of the same information possible for each state; 2) combine certain federal and state reports and reduce both the detail and frequency of the returns, and 3) eliminate or collect only once a year minor and insignificant taxes.

Clinton Oster and Arthur Lynn Jr. - 1955

In 1955, Clinton Oster and Arthur Lynn Jr. reported a case study of the compliance costs from the Ohio axle-mile tax.¹ According to the authors, the objectives of the study were to estimate initial and recurring compliance costs and to explore the possibilities of minimizing the costs. Eighteen Ohio trucking companies, representing a cross section of the Ohio trucking economy, were selected and subjected to a case study. Full cooperation was received from eleven of the companies. The cost estimates expressed as a percentage of tax liability varied from a low of two percent to a high of 103.7 percent. The weighted average cost for all eleven firms was 18.6 percent of average tax liability. Oster and Lynn conclude, "compliance cost level here indicated is noticeably higher than in previous studies of other taxes; yet only the most obvious cost

¹ Oster, Clinton W., and Lynn, Arthur D., "Compliance Costs of the Ohio Axle Mile Tax: A Case Study;" National Tax Journal, VIII, (1955) pp. 209-214.

elements are included."

Sorrell M. Mathes and G. Clark Thompson - 1959

In a 1959 edition of the National Industrial Conference Board, Sorrell M. Mathes and G. Clark Thompson report on a study entitled, "The High Cost of Tax Compliance."¹ A questionnaire was sent to 222 manufacturing companies in which they were asked to estimate their compliance costs as a percentage of both their sales and tax liability. Results from 150 useable responses are summarized in Tables 3 and 4.

It is important to note that the cost estimates in both Tables 3 and 4 represent overall compliance cost for all taxes paid. No attempt was made to estimate the cost separately for each tax.

James Yocum - 1961

In April of 1961, James Yocum published the results of a study estimating the compliance costs to various Ohio retailers of complying with the state sales tax.² It was a carefully conducted case study covering 526 retail businesses in eight kinds of retailing. Yocum reports that total sales tax collection costs were 14.84 percent of total taxes collected. The cost estimates included direct costs of business firms from collecting the tax as well as allocated estimated overhead costs for each firm. Average direct costs alone were about 7.93 percent of tax liability while overhead costs were 6.91 percent. These

¹Thompson, C. Clark, and Mathes, Sorrell, M., "The High Cost of Tax Compliance," National Industrial Conference Board, XXVI (1959), 383-388.

²Yocum, James C., Retailers Cost of Sales Tax Collection In Ohio, Bureau of Business Research, Ohio State University, Columbus, Ohio, 1961.

TABLE 3

TOTAL TAX COMPLIANCE COSTS AS A PERCENTAGE OF SALES
FOR 150 MANUFACTURING COMPANIES - 1958*

Company Size		Number of Companies With (Shown)			
		Compliance Cost as a Percentage of Sales			
Number of Employees		0.049% or under	.050% to .099%	.100% to .299%	.300% and up
0 To	99	1	-	-	-
100 To	499	2	4	5	7
500 To	999	-	1	7	6
1,000 To	4,999	6	12	26	9
5,000 To	9,999	3	8	6	3
10,000 To	49,999	8	18	10	2
50,000 and up		3	1	2	-
Total		23	44	56	27

*The information in this table is taken from the table on page 384 of the Mathes and Thompson study.

TABLE 4

TOTAL TAX COMPLIANCE COSTS AS A PERCENTAGE OF TOTAL TAX
LIABILITY FOR 127 MANUFACTURING COMPANIES - 1958*

Company Size		Number of Companies with Shown Compliance Cost as a Percentage of Total Tax Liability			
		0.99% or under	1.00% to 1.99%	2.00% to 2.99%	3.00% and up
Number of Employees					
0 To	99	1	-	-	-
100 To	499	2	2	-	8
500 To	999	1	2	1	5
1,000 To	4,999	6	20	6	17
5,000 To	9,999	4	8	4	4
10,000 To	49,999	8	14	4	5
50,000 and up		4	-	-	1
Total		26	46	15	40

*The information in this table is taken from the table on page 385 of the Mathes and Thompson study.

figures are misleading since the Ohio sales tax law requires the use of a tax stamp. These stamps are an additional expense and therefore compliance costs in Ohio would be typically greater than for other states not using them. Yocum has, however, estimated that by excluding all costs associated with tax stamps, total collection costs of the Ohio sales tax would be 7.64 percent of tax liability.

Marion H. Bryden - 1961

In July of 1961, the Canadian Tax Foundation published a report, "The Cost of Tax Compliance," written by Marion H. Bryden.¹ The study was limited entirely to Canadian corporation taxpayers and relied on data gathered by means of questionnaires sent to 500 corporations which were also supporters of the Foundation. Several methods were used to present the results of the study. These included expressing costs as a percentage of net sales, expressing costs as a percentage of tax liability, and expressing costs as a percentage of operating expenses. Only one set of results, those showing costs in relation to tax liability, are presented here. The cost estimates are based on 125 useable responses to the questionnaire.

Table 5, summarizes the compliance cost experience of the reporting companies by the type of business in which they were engaged.

It can be seen from Table 5 that total compliance costs were .74 percent of total taxes paid. It is also interesting to note that overall compliance cost estimates were generally lower than those reported in American studies. Compliance cost estimates for two specific

¹Bryden, Marion H., "The Cost of Tax Compliance," Canadian Tax Papers, No. 25, Canadian Tax Foundation, (July 1961).

TABLE 5

TOTAL TAX COMPLIANCE COSTS AS A PERCENTAGE OF TOTAL
TAXES PAID BY 116 CANADIAN CORPORATIONS, SHOWN
BY TYPE OF COMPANY - 1961*

Type of Company	Number Reporting	Average Cost As a Percent of Tax	Range of Ratios
Service	4	2.90%	.14 to 4.76%
Wholesale	2	1.82	.86 to 3.81
Mining, Oil & Gas	7	1.03	.51 to 2.27
Retail	4	1.00	.36 to 1.28
Insurance	14	.78	.08 to 2.76
Manufacturing	58	.72	.04 to 4.34
Pulp and Paper	15	.48	.18 to 2.82
Alcoholic Beverage	5	.11	.04 to .24
Food Processing	7	.72	.07 to 2.06
Electrical	4	1.42	.99 to 1.82
Textiles	3	1.09	.75 to 4.34
Other	26	.55	.14 to 2.90
Public Utilities	13	.56	.04 to 1.52
Transportation and Communication	4	.48	.42 to 2.00
Financial	10	.25	.04 to 3.81
All Companies	116	.74	.04 to 4.76

*The information in this table is taken from the table on page 12 of the Canadian Tax Foundation study.

tax categories were also presented. For the Canadian corporation income tax, the average compliance cost was .28 percent of tax paid while the cost to tax ratio was .92 percent for property and business taxes. (See Table 6).

The second half of the Canadian Tax Foundation report concerns compliance costs to business firms from acting as collection agents for the government. It was found that the average ratio of all collection costs to all taxes collected was .56 percent while the average cost of withholding and remitting personal income taxes was .68 percent of taxes withheld. Table 6 summarizes briefly the Foundation report.

Kenneth S. Johnston - 1963

In 1963, The Bureau of Business Research at Ohio State University published a monograph by Kenneth Johnston entitled, Corporations' Federal Income Tax Compliance Costs.¹ Compliance cost information was obtained through a careful case study of six manufacturing corporations selected in accordance with the sales and income tax classifications in Table 7. Johnston states that the primary objective of the study was to determine the cost effects of complying with the federal income tax law. He feels, however, that the most valuable result of the study was development of an effective research methodology to be used in additional research of compliance costs. The compliance cost estimates, (See Table 7), are not designed to be representative of all manufacturing companies

¹ Johnston, Kenneth S., Corporations Federal Income Tax Compliance Costs, Bureau of Business Research, Ohio State University, Columbus: Ohio (1963).

TABLE 6

SUMMARY OF THE COST OF PAYING AND COLLECTING TAXES
FOR 125 CANADIAN CORPORATIONS - 1961*

	Cost of Paying Taxes	Cost of Collecting Taxes
All Taxes		
Companies Reporting	116	120
Average Cost Liability Ratio	.74%	.56%
Individual and Corporate Income Taxes		
Companies Reporting	92	116
Average Cost Liability Ratio	.28%	.68%
Property and Business Taxes		
Companies Reporting	96	-
Average Cost Liability Ratio	.92%	-
Hospital Insurance Premiums		
Companies Reporting	-	71
Average Cost Liability Ratio	-	3.30%

*The information in this table is taken from the table on page 30 (table 21) of the Foundation report.

TABLE 7

COMPLIANCE COST OF SIX MANUFACTURING CORPORATIONS FROM THE
FEDERAL INCOME TAX - 1963*

FIRM	1960 Sales Range (Millions)	1960 Federal Income Tax Range (Millions)	Effective Tax Rate	Total Compliance Cost as A Percentage of Income	
				Before Tax	After Tax
1	\$750 - 1,000	\$20 - 60	53.99%	.10%	.05%
2	750 - 1,000	20 - 60	53.99	.20	.09
3	50 - 75	2.5 - 6	51.90	.41	.20
4	50 - 75	2.5 - 6	51.92	.56	.27
5	.75 - 4	.02 - .06	47.33	3.24	1.70
6	.75 - 4	.02 - .06	41.24	2.95	1.73

*Information for the Table is taken from Tables 1, 10, and 11, on pages 16 and 17, respectively of the Johnston study.

in the U.S.

It can be seen that while the rate of the corporation federal income tax was clearly progressive, the before and after tax compliance costs as a percentage of taxable income were regressive. Johnston concludes that the apparent regressiveness of compliance costs is a result of the economies of scale experienced by larger firms and because firms operating at higher tax rate levels derive the benefit of government "sharing" a greater portion of the cost of complying. Compliance costs are a legitimate expense of doing business and are deducted before determining the net income on which a firm pays taxes. If, for example, a firm's tax rate is 51 percent of net income, then 51 percent of every tax deductible expense, including compliance costs, is shared by the government.

Fred J. Muller - 1963

In 1963, a research study entitled, "Burden of Compliance" was written by Fred J. Muller and published by the University of Washington¹ Bureau of Business Research. The study was limited to those compliance costs incurred by business firms in collecting taxes from employees or customers. Several taxes which involve business firms in this type of activity are federal income taxes, social security taxes, state and local sales and use taxes, and certain excise taxes. No attempt was made to estimate compliance cost estimates for taxes levied directly against the sample firms. Data for the study was gathered by means of

¹Muller, Fred J., "The Burden of Compliance," University of Washington Bureau of Business Research, (October 1963).

a questionnaire sent to a sample of 250 small business firms located throughout Washington, California and Oregon. Of these, 180 useable questionnaires were returned. In addition, about 1000 sales transactions were individually checked to determine the time to collect sales taxes. Tables 8 and 9 summarize Mr. Muller's findings.

TABLE 8

ESTIMATED AVERAGE COMPLIANCE TIME FOR STATE
SALES AND USE TAXES - 1963*

COMPANY ANNUAL GROSS SALES	NUMBER OF FIRMS	HOURS REQUIRED	
		RANGE	AVERAGE
\$ 1,000 to \$25,000	17	3.0 to 13.3	7.2 hours
25,000 to 100,000	33	6.0 to 11.3	9.2
100,000 to 200,000	15	6.1 to 8.3	6.9
200,000 to 300,000	6	6.7 to 8.4	7.2
300,000 to 400,000	4	8.1 to 10.2	9.0
TOTAL	75	WEIGHTED AVERAGE	8.1 hours

*The information in this table is taken from Table 5 of the Muller Report P. 55¹.

From Table 8 it can be seen that a business firm's average compliance time for state sales and use taxes was 8.1 hours. This time estimate includes record keeping, computing the tax liability, and remitting payment. In addition, the time necessary to collect the sales tax from customers, as measured by 1000 individual observations, averaged 15 to 20 seconds per customer.

¹Ibid.

TABLE 9

AVERAGE FEDERAL PAYROLL TAX COMPLIANCE TIME ESTIMATES
FOR FEDERAL INCOME TAX AND F.I.C.A. WITHHOLDING -1963*

	Number of Times Occurring Per Year	Time In Average Minutes Per Employee				Total
		Computation Time	Ledger Posting	Returns	W-2	
Each Payroll Period	52	5	4			468
Monthly Deposit	8	1				8
Quarterly Returns	4	4	2	6		48
Annual Returns	1	20	1	11	2	34
AVERAGE TOTAL TIME IN MINUTES PER EMPLOYEE						558
AVERAGE TOTAL TIME IN HOURS PER EMPLOYEE						9.3

*The information in this table is taken from Table 3, P. 54 of the Muller Report.¹

As indicated in Table 9, the average annual payroll tax compliance time per employee was 9.3 hours. It is also important to note that these compliance time estimates do not include estimates to collect the various state and local taxes; only those required to collect federal taxes. It is unfortunate that Mr. Muller did not choose to assign a dollar value to the cost estimates and then relate them to actual taxes collected. Such cost estimates would have made the data more meaningful. Mr. Muller does mention in the conclusion of his report, "The high costs of tax compliance are simply not justified by taxes collected, particularly by the smaller firm."

¹Ibid, p. 54.

House Report 1480 - 1964

In House Report 1480 of the 88th Congress, the committee on State Taxation of Interstate Commerce reported part of the results of a study recently completed.¹ Data was gathered through interview with 56 manufacturing companies, 26 wholesalers and 18 retailers. These companies do not represent a random sample, but were selected for diversity and special compliance problems. The study primarily deals with compliance cost problems facing the firm engaged in interstate commerce. An attempt was made to divide the data into two tax compliance cost categories, one including all state retail sales and use taxes and the other all state corporate income taxes. In reporting the results of the portion of the study dealing with corporate income taxes, the Committee noted that even when comparing companies of similar size and type, compliance costs varied widely. In Table 10, the estimated compliance costs of only state corporation income taxes as well as state corporation income, capital stock, and local income taxes combined are presented as a percentage of gross receipts for 100 cost study participants.

From Table 10 it can be seen that the median compliance cost as a percentage of gross sales for the 100 cost study participants was between .005 and .01 of one percent for state corporation income taxes and between .02 and .05 of one percent for all income taxes combined. The study also states compliance costs as a percentage of gross sales.

¹ House Report No. 1480, Vol. 1, 88th Congress, Second Session (1964).

TABLE 10

STATE CORPORATION INCOME TAX COMPLIANCE COST ESTIMATES AS A
PERCENTAGE OF GROSS SALES FOR 100 COST STUDY PARTICIPANTS*

Cost as a Percent of Gross Sales	Number of Firms	
	State Corporation Income Taxes Only	State Corporation Income, Capital Stock, and Local Income Taxes Combined
Cost Negligible	13	5
Under 1/1000 of 1%	5	2
1/1000 To 2/1000	4	2
2/1000 To 5/1000	11	10
5/1000 To 1/100	19	12
1/100 To 2/100	14	14
2/100 To 5/100	18	26
5/100 To 1/10	10	13
1/10 To 2/10	3	9
2/10 To 1/2	2	3
1/2 To 1%	<u>1</u>	<u>4</u>
Total	100	100

*The information in this table combines tables 11-4 and 11-5 or page 356 of the Committee report.

¹

House Report, P. 356.

by the number of states, and thus-taxing jurisdictions within which the various companies were operating. The committee states, "The firm which avoids the affects of multiple taxation may expect slight advantages over firms of similar size affected by multiplicity." Table 11 shows the amounts of the reported compliance costs.

The Subcommittee concludes "the complexity of the multiple state tax system instead of producing large amounts of compliance costs has resulted in noncompliance and in inequities which come with a tax system in which formal requirements have been abandoned."

House Report 565 - 1965

A second portion of the Subcommittee on State Taxation of Interstate Commerce tax compliance cost study was reported in House Report 565 of the 89th Congress.¹ This portion of the study deals specifically with state sales and use taxes. Compliance cost data was obtained from the Subcommittees' case study of 100 corporations. Table 12 presents the compliance cost results as a percentage of gross sales for several company size categories.

The median sales tax compliance cost as a percentage of sales for all firms was between .02 and .05 of one percent. It is important to note that compliance cost estimates in table 12 include all costs attributable entirely to the sales tax and all other costs of which an unknown part is attributable to the sales tax. The costs are therefore somewhat overstated. The data does seem to indicate that sales

¹"State Taxation of Interstate Commerce," Vol. 3, House Report 545, 89th Congress, First Session.

TABLE 11

ESTIMATED MEDIUM INCOME TAX COMPLIANCE COSTS COMPARED WITH
 MEDIAN TOTAL INCOME TAX LIABILITY FOR VARIOUS CATEGORIES
 OF BUSINESS FIRMS - 1964*

Class of Company	Median Tax Liability	Median Compliance Cost	Cost as a Percentage of Tax
<u>Manufacturing</u>			
<u>Sales \$200,000 to \$1 Million</u>			
Operating in a Single State	\$ 650	\$ 20	3.1%
Operating in more than one State	789	50	19.0
<u>Sales \$1 Million to \$50 Million</u>			
Operating in a Single State	6,304	75	1.2
Operating in 2 or 3 States	7,171	383	5.3
Operating in 4 to 15 States	26,700	2,749	10.3
<u>Mercantiling</u>			
<u>Sales 200,000 to 1 Million Dollars</u>			
Operating in Single State	495	20	4.0
Operating in more than one State	408	150	36.8
<u>Sales 1 Million to 50 Million</u>			
Operating in a Single State	4,474	75	1.7
Operating in 2 or 3 States	2,050	241	11.8

*The information in this table is from table 11-6 of the Subcommittee study. Data for both tables was obtained from 1,193 respondents to a Subcommittee questionnaire.

TABLE 12

SALES TAX COMPLIANCE COSTS OF 88 CORPORATIONS AS A
PERCENTAGE OF GROSS SALES AND BY COMPANY SIZE - 1965*

Compliance Cost as a Percentage of Sales	Number of Companies by Company Size (\$ Sales)					
	\$50,000 to 200,000	200,000 to \$500,000	500,000 to 1 Million	1 Million to 5 Million	5 Million to 50 Mil.	Over 50 Mil.
Negligible	2			2		
Under 1/100 of 1%				1	1	
1/1000 to 2/1000				2		
2/1000 to 5/1000				1	4	
5/1000 to 1/100		1	2	4	4	2
1/100 to 2/100			1	4		1
2/100 to 5/100	1	2	3	6	2	
5/100 to 1/10		2	3	4	5	
1/10 to 2/10	1	4	5	4	3	
2/10 to 1/2		2	2	2	1	
1/2 to 1%		3				
1% to 2%				1		
TOTAL	4	14	16	31	20	3

*The information in this table is taken from table 25-7 on page 794 of House Report 565.¹

¹
House Report 565, p. 794.

tax compliance costs tended to be slightly heavier on the smaller companies. With regard to multiplicity of taxing jurisdictions, it was found that those companies operating in more than one state faced significantly higher costs than those operating in a single state. Apparently, however, the level of costs does not vary much between firms operating in two or three states and those operating in a large number of states. In the conclusion of this last portion of the report, the Subcommittee states, "costs are not great, but, the prevailing system is characterized by numerous demands upon the businessman which would not seem to be justified by the needs of the states."

John H. Wicks - 1965

In 1965, John H. Wicks, Associate Professor of Economics at the University of Montana, reported the results of a compliance cost of the Montana personal income tax.¹ Data for the study was gathered from 106 useable replies to a questionnaire sent to the parents of 318 introductory-economics students at the University. The compliance cost estimates represent time spent in record keeping and preparing returns, as well as any costs of hiring others to perform this task. With appropriate adjustment for sample bias, Wicks reported the following results. The median taxpayer compliance cost for the Montana personal income tax was about \$5.60 or 7.0 percent of the taxpayer's Montana liability. The mean compliance cost was \$18.20 or 3.18 percent of tax liability. Wicks suggests that due to possible overstating of costs on some questionnaires, the median perhaps offers a

¹Wicks, John H. "Taxpayer Compliance Costs from the Montana Personal Income Tax," The Montana Business Quarterly, Bureau of Business and Economic Research, University of Montana, Missoula, Montana. (Fall 1965), 36-42.

better measure of costs than the mean. The estimated median Montana income tax compliance cost was 10.9 percent of the estimated compliance cost from the federal personal income tax. Mean Montana cost was 23.9 percent of reported federal tax compliance costs. The study concluded that compliance costs hit certain occupations harder than others.

(See Table 13.) Costs were particularly high for the self-employed.

TABLE 13

ESTIMATED MONTANA PERSONAL INCOME TAX COMPLIANCE
COSTS BY OCCUPATIONAL CATEGORY - 1965*

Occupation	Median Cost	Mean Cost	Median Cost as a Percentage of Tax Liability	Mean Cost as a Percentage of Tax Liability
Managerial	\$ 5	\$28	4.5%	47.2%
Professional	7	62	11.0	120.4
Other White Collar	5	5	11.0	14.9
Self-Employed Other Than Professional	13	44	13.5	85.9
Skilled Labor	7	10	5.0	9.1
Other Wage Labor	3	11	5.0	15.2

*The information in this table is taken from Table 2, page 41 of the Wicks Report.¹

H. Norman Larsen - 1966

Mr. H. Norman Larsen,² a graduate student in economics at the University of Montana, recently reported the results of a compliance

¹ Ibid., p. 41.

² Larsen, H. Norman, "Compliance Costs Due to Death Taxation," Dept. of Economics, University of Montana, Missoula, Montana, (1965).

cost study of the Montana inheritance tax. Mr. Larsen measured the compliance cost of the Montana inheritance tax by sending questionnaires to a random sample of lawyers, accountants, and bank officials in the state. In addition, the personal compliance costs to taxpayers were included by asking the lawyers to estimate them. Table 14 provides a summary of the costs.

TABLE 14

COMPLIANCE COST ESTIMATES OF FOUR GROUPS OF INDIVIDUALS
INVOLVED IN ADMINISTRATION OF THE MONTANA
INHERITANCE TAX - 1966

Lawyers	\$250,500
Accountants	9,100
Bank Officials	3,900
Taxpayers (exclusive of fees)	<u>43,000</u>
TOTAL COMPLIANCE COST	\$306,500

From the above table, total compliance cost was \$306,500 while revenue collected during the same period was \$2,498,000. Total Montana inheritance tax compliance costs were therefore about 12 percent of total taxes paid for the same period.

Administrative CostsThomas J. Reynolds - 1937

In 1937, the Twentieth Century Fund published the results of an administrative cost study entitled, "Cost of Administering the Various State and Local Taxes," by Thomas J. Reynolds.¹ Reynolds presents administrative cost information concerning major state taxes for the period from 1925 through 1935.² Data for the study was gathered by means of letters sent to the appropriate tax officials in each state.

For the period from 1932 through 1935, the average administrative cost of the personal income tax estimated to be 1.97 percent of total average revenue while that for the corporation income tax was .63 percent of revenue.

The administrative cost of the state inheritance and estate taxes dropped steadily from 2.06 percent of revenue in 1925 to .90 percent in 1935. Mr. Reynolds suggests that this supports the conclusion, also apparent with personal and corporate income taxes, that percentage collection costs vary inversely with the amount of revenue collected. The reported Montana costs for the inheritance and estate

1

Reynolds, Thomas J., "Cost of Administering the Various State and Local Taxes," Studies in Current Tax Problems, Twentieth Century Fund: New York, 1937. pp. 107-135.

2

It is important for the reader to remember that the data used in this report represents a period of wide variation in annual tax revenues.

taxes from 1925 until 1931 were:

<u>1925</u>	<u>1926</u>	<u>1927</u>	<u>1928</u>	<u>1929</u>	<u>1930</u>	<u>1931</u>
4.0%	8.0	1.5	1.2	5.2	4.0	5.3

The average state gasoline tax administrative cost as a percent of revenue from 1925 till 1935 was .41 percent with an average of 33 states reporting cost information. The Montana cost was shown as .92 percent of revenue for both 1932 and 1933.

For an average of 42 states reporting, the average administrative cost of the state motor vehicle taxes was 6.31 percent of collections from 1925 until 1933. The figures reported for Montana from 1925 till 1935 were as follows:

<u>1925</u>	<u>1926</u>	<u>1927</u>	<u>1928</u>	<u>1929</u>	<u>1930</u>	<u>1931</u>	<u>1932</u>	<u>1933</u>
3.50%	3.87	2.72	5.85	5.61	3.54	2.14	3.41	3.98

On page 120, Mr. Reynolds states that the most important source of state and local revenue and the one with the least information about administrative costs, are state and local property taxes. He presents very little of his own data and relies heavily on a report submitted by M. Slade Kendrick entitled, "The Collection of General Property Taxes on Farm Property in the U.S.A. With Emphasis on New York State."¹ Mr. Kendrick's study is quite detailed and deals primarily with property tax administrative costs in several eastern states during the middle 1920's. Total administrative costs of the property tax were

¹
M. Slade Kendrick, "The Collection of General Property Taxes on Farm Property in the U.S.A. With Emphasis on N.Y.S.," Cornell U., Og. Experiment Station, Bulletin 469, June 1928. Ithaca, N.Y.

generally from 2.0 to 3.0 percent of tax revenue.

With regard to the various state sales taxes, Reynolds reports that for four states with a retail rate of three percent, administrative cost was about two percent of revenue. Seven states with retail rates from two to three percent typically had costs that were three percent of revenue while five states with retail rates of from one to two percent also experienced costs that were typically three percent of revenue. Apparently, administrative costs were higher in sparsely populated states than in those more densely populated. Poorer states also experienced high costs.

James W. Martin - 1944

In 1944, James W. Martin published two tax administrative cost reports. The first of these two articles was entitled, "Cost of Tax Administration: Nature of Public Cost."¹ It contains a general discussion of administrative cost problems and the need for studying them, thus, laying the groundwork for a second article, "Cost of Tax Administration: Statistics of Public Expense."² In this report, Mr. Martin presents various federal and state administrative cost estimates for the period 1935 through 1941. Data for the estimates were collected by the University of Kentucky Bureau of Business Research using a cost

¹ Martin, James W., "Cost of Tax Administration: Nature of Public Costs," The Bulletin of the National Tax Association, XXIX (January 1944), 104-112.

² Martin, James W. "Costs of Tax Administration: Expenses of Compliance," Bulletin of the National Tax Association, XXIX (March 1944), 162-167.

estimating schedule sent to tax administrators in each state. Even though the response was somewhat incomplete, much useful information was obtained. Table 15 summarizes the federal tax administrative cost estimates for 1941 in eleven tax categories. This table supports the general contention that most federal taxes, in comparison to similar state taxes, are more efficiently administered, i.e., each dollar of tax revenue is cheaper to collect. However, Mr. Martin warns that straight comparison of federal and state tax administrative cost to revenue ratios is of little significance and should be made only with an awareness of the differences in the nature of the taxes being compared. The degree of tax law enforcement and differences in the relative sizes of administrative operations are two important reasons why the significance of comparing federal and effective state administrative cost to tax ratios is limited.

Table 16 presents these cost estimates as a percentage of tax collections for seven major state taxes from 1935 to 1941. Mr. Martin suggests that the apparent decline in administrative costs between 1935 and 1941 probably resulted from the increase in revenues during the same period.

TABLE 15

FEDERAL TAX ADMINISTRATIVE COST ESTIMATES FOR
ELEVEN TAX CATEGORIES - 1941*

Tax Category	Revenue Receipts (1000's \$)	Administrative Cost (1000's \$)	Cost as a Percentage of Revenue
Personal Income	\$1,418,383	\$23,875	1.68%
Corporation Income	1,860,356	13,233	.71
Excess Profits	192,385	1,880	1.00
Employment	925,856	6,329	.68
Capital Stock	166,653	842	.51
Estate and Gift	407,058	2,100	.52
Alcoholic Beverages	820,056	13,641	1.66
Tobacco	698,077	1,241	.18
Stamps	39,057	245	.63
Manufacturing and Retail Excise	617,354	590	.10
Miscellaneous	224,874	1,314	.58
Total	\$7,370,109	\$65,290	.89%

*The information in this table is taken from Table II on page 134 of the Martin Report.¹

¹
Martin, P. 134.

TABLE 16

ESTIMATED STATE TAX ADMINISTRATIVE COSTS AS A PERCENTAGE
OF TAX COLLECTIONS FOR SEVEN TYPES OF TAXES - 1935 - 1941*

Type of Tax	Cost as a Percentage of Revenue for Each Year						
	1935	1936	1937	1938	1939	1940	1941
Chain Store	-	20.9%	13.8%	11.3%	11.3%	18.8%	5.3%
Death	2.4%	1.0	1.6	1.8	2.0	2.0	2.2
Gasoline	.7	.7	.7	.7	.6	.6	.5
Income	2.5	1.7	1.4	1.6	1.9	1.8	1.5
Sales	2.1	2.1	2.0	2.4	2.5	2.3	2.0
Tobacco	3.3	3.3	2.6	2.7	2.7	1.4	1.4
Alcoholic Beverage	3.3	3.5	3.5	3.4	3.5	2.9	3.0

*The information in this table is taken from Table XI on page 143 of the Martin Report.¹

¹
Martin, p. 143.

National Tax Association Committee on Cost of Taxpayer
Compliance and Administration - 1962

In the 1962 Proceedings of the National Tax Association, The Committee on Cost of Taxpayer Compliance and Administration presents a final report on a study of tax administrative costs.¹ The Committee had originally intended to present information concerning the administrative costs of both federal and state taxes. Unfortunately, the Internal Revenue Service indicated that it was unable to determine the collection costs of any major federal taxes. They did, however, make a general statement that total federal administrative costs were about .44 percent of revenues in 1961. State tax administrative cost data was collected by means of a questionnaire sent to state tax administrators. Although the authors were not explicit concerning the degree of successful response to the questionnaire, they apparently felt it was adequate for their purposes. The study attempted to cover all major taxes in all states, but due to inaccuracies and inadequacies of the data, cost estimates were made for only the following taxes: general sales and use taxes; corporate net income tax; motor fuel taxes; motor vehicle taxes; alcoholic beverage taxes; cigarette and tobacco taxes; and death and gift taxes. It is important to note that no attempt was made to include overhead expenses in the cost estimates. Exclusion of overhead expenses, states the Committee, "... was thought necessary by the Committee since the more involved the questionnaire became, the fewer the returns to be

¹"Report of the Committee on Cost of Taxpayer Compliance and Administration, "National Tax Association Proceedings, 55th Annual Conference (1963), 475-476.

expected, and equally significant, the difference in treatment by administrators of such expenses would impair the usefulness of cost figures for comparative purposes."

Results of the Study

In 1960, it cost about 79 million dollars to collect 3,467 million dollars of sales and use taxes in 24 reporting states. The ratio of total administrative costs to total revenue was 2.28 percent while the arithmetic average of the individual state costs was 2.36 percent.

For 21 reporting states, the total combined cost of administering both corporate and individual income taxes was 1.64 percent of total tax collections. The average of all state cost to tax ratios was 1.85 percent, while the reported Montana figure was 2.17 percent. An attempt was made to separate the costs of the two taxes and this revealed that for all states reporting, administrative costs of the corporate income were about .75 percent of revenue while cost for the personal income taxes was about 2.0 percent of revenue.

Some difficulty was experienced in presenting collection cost estimates for various state motor fuels taxes in that some of the 32 reporting states have dealer allowances while others do not. The Committee reported that average costs as a percentage of collections for the states with collection allowances was 3.76 percent while cost for states with no allowances was .62 percent. The reported Montana figure was excluded from the above averages because it was unreasonably

high 14.16 percent. The Committee speculated that the Montana cost to revenue ratio was high because refunds, not dealer allowances, were reported.

The participating states reported an average administrative cost to revenue ratio of 10.61 percent for motor vehicle taxes. However the Committee indicates that due to discrepancies in the reported data, the various state cost ratios for this tax have little or no validity. Montana cost was shown as 33.65 percent of revenue.

Total administrative cost for cigarette and tobacco taxes was found to be 3.14 percent of total collections for 30 reporting states. The arithmetic mean of the ratios for each state was 3.53 percent. When excluding allowances to dealers for stamping, the ratio of total costs to total collections was only .51 percent. Collection costs were shown as 5.03 percent of revenues for Montana.

Twenty-five states reported that total administrative costs of alcoholic beverage taxes were about 2.03 percent of revenues while the arithmetic mean of the ratios for each state was 3.45 percent. No figure was available for Montana.

Total death and gift tax collection costs for 27 reporting states was 2.59 percent of revenue, while Montana cost to tax ratio was 1.65 percent. The arithmetic mean of the ratios for each state was 2.27 percent.

The last group of taxes included in the Committee report on state tax administrative costs were pari-mutual taxes. Only nine states reported for a weighted average cost to collections ratio of .92 percent.

The arithmetic mean of each state ratio was 2.14 percent. No figure was reported for Montana.

Table 17 summarizes, for comparison purposes, the results of the Committee on Taxpayer Compliance and Administration administrative cost report.

TABLE 17

ESTIMATED STATE TAX ADMINISTRATIVE COSTS FOR EIGHT
TYPES OF TAXES - 1960*

Type of Tax	Number of States Reporting	Total Cost as a Percentage of Total (All States)	Average of Cost To Tax Ratios (All States)	Montana Cost as a Percentage of Montana Tax
Sales and Use Taxes	24	2.28%	2.36%	Not Applicable
Corporation Income Tax	21	.75	-	2.17% ^A
Personal Income Tax	21	2.0	-	
Motor Fuels Taxes	32	-	3.76 ^B	14.16
Motor Vehicle Taxes	-	-	10.61	33.65
Cigarette and Tobacco	30	3.14 ^C	3.53	5.03
Alcoholic Beverages	25	2.03	3.45	D
Death and Gift Taxes	27	2.59	2.27	1.65
Pari-Mutual	9	.92	2.14	D

^aThis figure is for corporation and personal income taxes combined.

^bThe reported figure is for states with dealer collection allowances. For states with no allowances, costs were .62 percent of revenue.

^cThe figure includes allowances to dealers for stamping. When excluding such allowances, cost was .61 percent.

^dNo figure was reported for Montana.

*The information in this table is taken from an administrative cost study report by the Committee on Taxpayer Compliance and Administration¹

¹Report of the Committee on Cost of Taxpayer Compliance and Administration, "National Tax Association Proceedings, 56th Annual Conference (1963), 475-476.

Conclusion to the survey of previous studies.

While the above studies were in many respects quite good, it should be apparent to the reader that there is a great need for more information concerning tax administration and compliance costs. Most of the compliance cost studies have dealt only with large corporations leaving little said about smaller firms or individuals. Administrative cost studies are likewise quite broad in scope and because of differences in administrative procedures and degree of tax law enforcement, do not come close to providing the type of information necessary for policy decisions at the state and local level. It is for this reason that a comprehensive study of Montana tax administration and compliance costs has been undertaken.

CHAPTER III

GENERAL RESEARCH METHOD

The research reported in this thesis is almost all of an empirical nature. The material in this chapter is therefore a brief description and explanation of the techniques used in gathering and analyzing Montana tax administrative and compliance cost data.

COMPLIANCE COSTS

Compliance cost information for the federal personal income tax, Montana personal income tax, personal property tax other than motor vehicles, real property tax, and motor vehicle taxes was gathered by means of a questionnaire sent to a random sample of 1000 taxpayers stratified by income. A second questionnaire was sent to 500 business firms, consisting of 300 sole proprietorships and partnerships and 200 corporations, to measure compliance costs from Montana income tax withholding, property taxation, unemployment compensation, and the corporation license tax. A special compliance cost questionnaire was sent to business firms paying various Montana special license and severance taxes. The total sample size for these 15 different special taxes comprised an additional 219 firms. (For a sample of each of these questionnaires used to gather compliance cost information see Appendix 1 at the end of this thesis.) Overall response to the questionnaires averaged 50 to 60 percent. However, due to the large scope of the study and the number of separate samples involved, no attempt is made here to explain specific sample sizes and the degree of successful response to the

questions for each tax. Rather, this information will be presented with the cost estimates.

The various samples were obtained from a State Board of Equalization list of taxpayers for each tax. An attempt was made to contact each sample participant by telephone prior to sending the first questionnaire. A pilot study using several different techniques showed this to be the best technique for insuring a high rate of questionnaire response. A follow-up phone call and another questionnaire were used when no response was received from participants within one month of sending the first questionnaire. No telephone calls were made to those few sample members whose residence or home offices were not located in the state of Montana.

While the compliance cost questionnaires were designed to gather a great deal of information about the compliance of each taxpayer, only the most obvious cost elements were used in calculating total compliance cost. These include both time and money spent in record keeping, filing of reports and returns, remittance of tax payment and retaining an accountant or other professional for tax compliance help. No attempt was made to include tax planning costs, legal fees, or other miscellaneous expense which might be more indirectly related to tax compliance.

A large portion of total compliance cost from some taxes, particularly for individuals, results from the taxpayers' compliance time. Three methods were therefore used to assign a value to time estimates. First, costs were calculated using each individuals' estimate of the value of his own time. The second method was to use the average hourly wage of each individual, arrived at by dividing the wages, salaries and

self-employment income reported on his 1963 income tax return by the average number of hours worked per year. The third time valuation method was used only in connection with the property tax. It was simply to apply a flat value of \$2 per hour to all time estimates. While some of the cost data was analyzed by hand, most of it was placed on cards and processed by IBM electronic computer.

Tax compliance cost estimates taken by themselves are usually of little significance. For this reason, all compliance costs in this study have been expressed as a percentage of the actual tax payment for which they were incurred. Thus, if the cost of paying \$100 of tax was estimated to be \$5, compliance cost would be 5 percent of tax paid. Not only does cost expressed as a percentage of tax paid add more meaning to the estimates, it also serves as an important measure of the efficiency with which a tax may be complied. While there is no hard rule as to just what level of costs may be considered efficient or inefficient. Certainly if an amount of one tax can be paid with less expense than the same amount of another, the former, from a compliance cost point of view, would have to be the more efficient of the two.

In addition to expressing costs as a percentage of tax paid, federal personal income tax compliance costs are given as a percentage of reported gross income. This serves as an important measure of the equity of the burden of compliance costs on various occupation and income groups. For example, if costs as a percentage of average annual income were .2 percent for one occupation group and .5 percent for another, it might be concluded that the compliance cost burden was heavier for the latter. Costs are not shown as a percentage of income

or sales for the Montana taxes because it was feared that questions concerning Montana sales and income would significantly reduce questionnaire response.

ADMINISTRATIVE COSTS

All state tax administrative costs were estimated wholly or in part through personal and telephone interview with the appropriate government officials. Also, questionnaires were sent to local tax administrators in each of Montana's 56 counties measuring the administrative cost of the real property tax, motor vehicle taxes, personal property other than motor vehicles, and Montana estate and inheritance taxes. Specific information concerning the degree of successful response to the questionnaires will be presented with the cost estimates. For a sample of each questionnaire used in the administrative cost study, see Appendix 2.

All administrative cost estimates, both those taken from interviews as well as questionnaires, simply represent the portion of total expenditures in the fiscal year ending June 30, 1965 which was made by each government agency responsible for the administration of a particular tax. It is important to note that because of the nature of government record keeping, no attempt was made to include any administrative costs not reflected in the annual budgets of the agencies involved. Because of this, some general overhead expenses are not included in the estimates, somewhat understating the cost for each tax.

As with compliance costs, probably the most meaningful way to express administrative costs is as a percentage of revenue collections during which the costs were incurred.

CHAPTER IV

THE MONTANA PROPERTY TAX

All property in Montana is subject to taxation unless it had previously been exempted. The rate of the property tax depends on the total of all lawful levies by the state and various local governments on the property. The assessor in each county is responsible for assessing all taxable property in his county with the exception of that property which is required to be assessed by the State Board of Equalization. Each person owning or controlling property in the stage subject to taxation is required to file a statement listing all such property. In many cases, the assessor actually performs this function. Taxes are payable in two semi-annual installments and, with the exception of some personal property, taxes become a lien on real estate owned by the taxpayer as of the first Monday in March. Those personal property taxes not secured by a lien are due when the tax is assessed.

THE COMPLIANCE COSTS

Compliance cost information concerning the Montana property tax was obtained by sending questionnaires to two sample groups. One sample consisted of 1,000 individuals and the other of 500 business firms. Tables 18 and 19 summarize information about the degree of successful response experienced with each sample group. It can be seen from Table 18 that while the rate of response from the sample of private taxpayers was not high, the number of responses which were

complete enough to be useable were sufficiently large in each case to provide meaningful results.

TABLE 18

RESPONSE RATE FOR VARIOUS QUESTIONS ON A QUESTIONNAIRE DESIGNED TO MEASURE COMPLIANCE COST OF THE MONTANA PROPERTY TAX SENT TO A RANDOM SAMPLE OF 1,000 INDIVIDUAL TAXPAYERS

Type of Property Tax	Sample Size	Number of Useable Responses	Rate of Useable Responses
Real Property Tax	1000	342	34.2%
Motor Vehicles	1000	386	38.6
Personal Property Other Than Motor Vehicles	1000	227	22.7
Average			31.6

TABLE 19

RESPONSE RATE TO VARIOUS QUESTIONS ON A QUESTIONNAIRE DESIGNED TO MEASURE THE COMPLIANCE COST OF TAX SENT TO A RANDOM SAMPLE OF 500 BUSINESS FIRMS

Type of Business	Sample Size	Average Number of Useable Responses	Rate of Useable Responses
Partnerships and Sole Partnerships	300	44	15%
Corporations	200	28	14
All Businesses Combined	500	71	14

There were three questions concerning the property tax on each questionnaire. The figures presented represent the average number of useable responses to all three questions.

Table 19 shows that for 500 business firms receiving a property tax questionnaire, there was an average of 71 useable responses for a response rate of 14 percent. Perhaps this poor response is an indication that most business firms feel the compliance cost of Montana property taxes to be of little importance.

Compliance Costs to Individuals

Most of the compliance costs to individuals from property taxation are the result of the individuals compliance time. The dollar amount of the costs will therefore depend on the value assigned to the taxpayer's time. The first method of assigning a value to compliance time was to use an arbitrary \$2 per hour value for all time estimates. Table 20 shows the compliance costs of the property tax using the \$2 per hour time value.

TABLE 20

COMPLIANCE COSTS OF THE MONTANA PROPERTY TAX FOR A
RANDOM SAMPLE OF PRIVATE TAXPAYERS USING A
\$2 PER HOUR VALUE FOR ALL COMPLIANCE TIME
ESTIMATES

Type of Tax	Useable Responses	Average Amount of Tax Paid	Average Cost	Cost Tax
Real Property Tax	342	\$507	Negligible ¹	---
Motor Vehicles	386	82.50	\$2.28	2.75%
Personal Property Other Than Motor Vehicles	227	94.20	1.50	1.60

¹ Only nine persons out of the entire sample of taxpayers reported a compliance cost for the tax on real property.

The average time in paying the motor vehicle tax was 1.14 hours while average tax paid was \$82.50. Using the \$2 per hour value, average compliance cost was 2.76 percent of average tax paid. It is important to note that the amount of motor vehicle tax paid in each case includes both the annual license fee as well as the property tax. It was impossible to separate them as both taxes are paid at the same time. For the tax on personal property other than motor vehicles, the average amount of tax paid was \$94.20, while average cost was \$1.50. Cost was thus 1.60 percent of tax. Because only nine persons out of 342 paying the real property tax reported any cost at all, the average cost of the real property tax was negligible when compared to the average amount of tax paid.

A second method of assigning a value to taxpayer compliance time was to use each individual's estimate as to the value of his own time. Montana property tax compliance cost estimates using this method are presented in Table 21.

TABLE 21

COMPLIANCE COST OF THE MONTANA PROPERTY TAX FOR A SAMPLE
OF PRIVATE TAXPAYERS USING EACH INDIVIDUAL'S ESTIMATE
AS TO THE VALUE OF HIS OWN COMPLIANCE TIME

Type of Tax	Useable Responses	Average Amount of Tax Paid	Average Cost	Cost Tax
Real Property Tax	342	\$507	Negligible ¹	---
Motor Vehicles	96	73.68	\$3.82	5.19%
Personal Property Other Than Motor Vehicles	73	108.41	2.25	2.08

¹ Only nine persons paying the tax on real property reported any cost in complying with the tax.

From Table 21, it can be seen that when using each individual's estimate as to the value of his own compliance time, the compliance cost of the real property tax was again negligible. Motor vehicle tax costs, which averaged \$3.82, were 5.19 percent of taxes paid, while personal property taxes other than motor vehicles were 2.08 percent.

A third and final method for determining the hour value of compliance time was to divide gross annual income for each individual by the number of hours worked per year. Hours worked per year were taken from the questionnaires and annual gross income for each individual was taken from his 1963 Montana tax return. Table 22 presents the costs using this last method of time valuation.

TABLE 22

COMPLIANCE COST OF THE MONTANA PROPERTY TAX FOR A SAMPLE OF PRIVATE INDIVIDUALS USING EACH INDIVIDUAL'S AVERAGE HOURLY WAGE FOR A COMPLIANCE TIME VALUE

Type of Tax	Useable Responses	Average Amount of Tax Paid	Average Cost	Cost Tax
Real Property Tax	342	\$507	Negligible ¹	---
Motor Vehicles	96	73.68	\$5.67	7.69%
Personal Property Other Than Motor Vehicles	73	108.41	4.30	3.97

¹

Only nine persons paying the tax on real property reported any cost in complying with the tax.

Table 22 indicates that when using each individual's average hourly wage, compliance cost of the real property tax is negligible.

Motor vehicle taxes with an average cost of \$5.67 were 7.69 percent of average tax paid while for the personal property tax other than motor vehicles cost was 3.97 percent of tax.

For all property taxes except those on motor vehicles, average compliance cost was less than one percent of tax paid no matter which method of time valuation was used.

Compliance Costs to Business Firms

The compliance cost questionnaires sent to business firm requested estimates of the labor costs or any other costs in keeping records, reporting property subject to taxation, and remitting tax payment. On the basis of these estimates, the combined real and personal property tax compliance costs were calculated for sole proprietorships and partnerships, corporations, and all business firms together. Table 23 presents the results.

TABLE 23

COMPLIANCE COST TO VARIOUS BUSINESS FIRMS FROM THE MONTANA PROPERTY TAX

Type of Business	Average Number of Useable Responses	Mean Cost	Mean Tax Paid	Cost Tax
Partnerships and Sole Proprietorships	43	\$20.14	\$1174.23	1.72%
Corporations	28	29.10	3515.86	.83

The average compliance cost from the Montana property tax for 43 sole proprietorships and partnerships was \$20.14. With an average tax paid

of \$1174.23, cost was therefore 1.72 percent of tax. Corporations experienced a much smaller cost to tax ratio of .83 percent.

Administrative Cost of the Montana Property Tax

The administrative cost of the Montana property tax was measured through interview with personnel of the State Board of Equalization and by sending questionnaires to the various county administrative agencies in each of the states' 56 counties. For ease in comparison, the counties were divided into three groups according to their dollar amount of taxable valuation. The first group includes the five counties with the largest taxable valuation. A second group contains the next 23 largest counties by taxable valuation and the last, those 28 counties with the smallest taxable valuation. The questionnaires were sent to the county commissioners', clerk and recorders', treasurers', and assessors' offices in each county. The various response rates are shown in Tables 24 through 26. The response to a property tax administrative cost questionnaire sent to four county offices in each of Montana's five largest counties by taxable valuation averaged 65 percent.

Tables 25 and 26 demonstrate that a high questionnaire response rate was also obtained from county officials in Montana's 23 middle sized and 28 smallest counties by taxable valuation.

Tables 27 through 29 present the estimates of the administrative costs at the county level for the tax on real property, motor vehicles, and personal property other than motor vehicles, respectively. It is important to note that the cost estimates for each property tax represent that portion of each county offices' expenditures for the fiscal year ending June 30, 1965, made in the administration of the tax.

TABLE 24

RESPONSE RATE OF FOUR COUNTY OFFICES IN EACH OF MONTANA'S FIVE
LARGEST COUNTIES BY TAXABLE VALUATION TO A QUESTIONNAIRE
ON PROPERTY TAX ADMINISTRATIVE COSTS

County Office	Real Property Tax		Motor Vehicles		Personal Property Other Than Motor Vehicles	
	Number of Useable Responses	Rate of Response	Number of Useable Responses	Rate of Response	Number of Useable Responses	Rate of Response
Commissioners	4	80%	4	80%	4	80%
Clerk & Recorder	4	80	3	60	4	80
Treasurer	3	60	2	60	2	40
Assessor	3	60	2	60	2	40
Average		70%		65%		60%

TABLE 25

RESPONSE RATE OF FOUR COUNTY OFFICES IN EACH OF MONTANA'S 10 MIDDLE-SIZED COUNTIES BY TAXABLE VALUATION TO A QUESTIONNAIRE
ON PROPERTY TAX ADMINISTRATIVE COSTS

County Office	Real Property Tax		Motor Vehicles		Personal Property Other Than Motor Vehicles	
	Number of Useable Responses	Rate of Response	Number of Useable Responses	Rate of Response	Number of Useable Responses	Rate of Response
Commissioners	12	52%	9	35%	11	48%
Clerk & Recorder	13	57	11	48	12	52
Treasurer	15	65	15	65	14	61
Assessor	18	78	17	74	18	78
Average		63%		56%		60%

TABLE 26

RESPONSE RATE OF FOUR COUNTY OFFICES IN EACH OF MONTANA'S 28
SMALLEST COUNTIES BY TAXABLE VALUATION TO A QUESTIONNAIRE
ON PROPERTY TAX ADMINISTRATIVE COSTS

County Office	Real Property Tax		Motor Vehicles		Personal Property Other Than Motor Vehicles	
	Number of Useable Responses	Rate of Response	Number of Useable Responses	Rate of Response	Number of Useable Responses	Rate of Response
Commissioners	15	54%	6	21%	16	57%
Clerk & Recorder	17	61	11	39	17	61
Treasurer	16	57	15	54	16	57
Assessor	21	<u>75</u>	21	<u>75</u>	20	<u>71</u>
Average		62%		47%		62%

TABLE 27

ADMINISTRATIVE COST ESTIMATES OF THE FOUR COUNTY LEVEL OFFICES INVOLVED
 IN ADMINISTRATION OF THE MONTANA TAX ON REAL PROPERTY

Counties by Taxable Valuation	Commissioner Average Cost	Clerk & Recorder Average Cost	Treasurer Average Cost	Assessor Average Cost	Total Cost	Average Revenue	<u>Cost</u> <u>Revenue</u>
Five Counties With Largest Assessed Valuation	\$5,353	\$3,967	\$4,507	\$44,950	\$58,757	\$5,537,023	1.06%
Next 23 Counties By Assessed Valuation	3,360	3,847	9,847	9,704	26,758	1,378,289	1.94
28 Counties With Least Assessed Valuation	788	1,696	5,576	5,430	13,490	517,053	2.61

TABLE 29

ADMINISTRATIVE COST ESTIMATES OF THE FOUR COUNTY LEVEL OFFICES INVOLVED IN
ADMINISTRATION OF THE MONTANA MOTOR VEHICLE ANNUAL LICENSE FEE AND PROPERTY TAX

Counties by Taxable Valuation	Commissioner Average Cost	Clerk & Recorder Average Cost	Treasurer Average Cost	Assessor Average Cost	Total Cost	Average Revenue	<u>Cost</u> <u>Revenue</u>
Five Counties With Largest Assessed Valuation	\$174	\$ 625	\$30,111	\$9,488	\$40,398	\$679,171	5.95%
Next 15 Counties by Assessed Valuation	602	1,429	5,278	4,513	11,822	136,653	8.65
15 Counties With Least Assessed Valuation	146	986	3,182	1,661	5,975	53,146	11.24

TABLE 30

ADMINISTRATIVE COST ESTIMATES OF THE FOUR COUNTY LEVEL OFFICES INVOLVED IN
ADMINISTRATION OF THE MONTANA TAX ON PERSONAL PROPERTY OTHER THAN MOTOR VEHICLES

Counties by Taxable Valuation	Commissioner Average Cost	Clerk & Recorder Average Cost	Treasurer Average Cost	Assessor Average Cost	Total Cost	Average Revenue	<u>Cost</u> <u>Revenue</u>
Five Counties With Largest Assessed Valuation	\$268	\$544	\$11,651	\$13,780	\$26,223	\$451,621	5.75%
Next 15 Counties by Assessed Valuation	509	918	3,487	6,337	11,751	146,136	8.0%
15 Counties With Least Assessed Valuation	285	629	1,625	2,425	5,564	53,210	10.46

Because of the nature of governmental record keeping, no attempt was made to include any administrative costs not reflected in the annual budgets of the agencies involved.

Real Property

The reader may see from Table 27 that the total average administrative cost of the real property tax for five Montana counties with the largest taxable valuation was \$58,757. Average revenue during the period the costs were incurred was \$5,537,023 making cost about 1.06 percent of revenue. Reported costs were 1.94 percent of revenue for the 23 middle-sized counties, and 2.61 percent for the 28 smallest counties. The preceding cost estimates do not, however, include all costs of administering the real property tax. Consideration must be given both to the administrative work performed by the State Board of Equalization as well to recent expenditures being made by various counties for reclassification of property.

Public utility property, both real and personal, is assessed by the personnel of the State Board of Equalization. Board personnel estimate that the total cost of performing this function was about \$40,000 last fiscal year.

Administrative cost estimates in Table 27 are also understated because they do not include expenditures for reclassification. Most counties in the state are now permanently involved in some form of reclassification of real property. Through telephone interviews with about 20 county officers, it was found that administrative procedures of reclassification vary greatly from county to county. No uniform and accurate reclassification cost estimates were therefore possible

despite the fact that they are a legitimate cost of administering the tax.

Motor Vehicles

The information presented in Table 11 combines the property tax on motor vehicles with the annual license fee. As stated before, since both taxes are administered together, it was impossible to separate them. It can be seen from the Table 28 that for the five counties with the largest assessed valuations, administrative cost was 5.95 percent of revenue. It was 8.65 percent for the 23 middle-sized counties, and 11.24 percent for the 28 counties with the smallest assessed valuations. These figures indicate that collection efficiency decreases with the amount of assessed value in a county.

Other Personal Property

As shown by Table 29, the administrative cost of the Montana taxation of personal property other than motor vehicles was 5.78 percent of revenue collected for the five largest counties in the state by taxable valuation, 8.03 percent for the 23 middle-sized counties and 10.46 percent for those 28 counties with the smallest assessed valuation. As with the real property tax and the taxes on motor vehicles, the counties with the greatest amounts of assessed valuations experienced the greatest administrative efficiency. The cost estimates for the personal property tax other than motor vehicles understate total administrative functions performed by the State Board of Equalization or the small portion of county reclassification expenditures that go for personal property.

For all property taxes other than motor vehicles, the weighted average administrative cost was about 2.8 percent. The weighted average compliance cost of property taxes on other than motor vehicles was .8 percent.

CHAPTER V

MONTANA PERSONAL INCOME AND CORPORATION LICENSE TAX

Personal Income Tax

The Montana personal income tax is imposed on the entire net income of residents; non-residents are taxed on the income they earn in the state. The rates vary from 1.1 percent for the first \$1000 of taxable income to 7.9 percent of all taxable income in excess of \$7000. Individual returns are filed annually with the State Board of Equalization, and tax remittance is to accompany the return. All taxpayers whose incomes are not subject to withholding, except farmers and ranchers, must file declarations of estimated tax liability with the Board by April 15. Information returns covering payments of taxable income in excess of \$500 to any individual must be filed with the Board by employers. In addition to the above requirements, employers must withhold from wages an amount which is determined by the Board. Withholding returns and payments must be made quarterly but if quarterly taxes withheld total less than \$10, an employer may make only an annual return. All employers withholding wages must submit an annual summary of withholding from each employee to the Board and to the employee.

Compliance Costs of the personal income tax.

The compliance cost of the Montana personal income tax was estimated by sending questionnaires to a random sample of 1000 taxpayers,

who filed 1963 Montana tax returns.¹ From this sample, 421 useable returns were received for a response rate of about 42 percent. The compliance cost estimates include all costs of keeping the necessary records to determine tax liability, preparing the returns or having it done by a professional,² and submitting the tax payments. Since the value assigned to compliance time is an important factor in determining total compliance cost, two methods were used. First, costs were calculated using each individual's estimate as to the value of his own time. A second method was to use each individuals' average hourly wage computed as previously explained. The compliance costs using the first method of valuation are presented in Tables 30 and 31.

Since the sample used to derive these estimates was stratified by taxpayer income, it was necessary to weight the average amount of tax paid and average compliance cost for each income category in proportion to the number of taxpayers in the state falling in each category, i. e. if

$$a) \quad \frac{\sum_{i=1}^n \text{Cost}_i}{\sum_{i=1}^n \text{Tax}_i} = \frac{\sum_{i=1}^n W_i \frac{\sum_{j=1}^n C_j}{\sum_{j=1}^n T_j}}{\sum_{i=1}^n W_i} \quad \begin{array}{l} : W_i = \text{weight of income} \\ \text{bracket } i. \\ C_i = \text{average cost in} \\ \text{bracket } i. \\ T_i = \text{average tax in bracket } i. \\ i = \text{number of brackets.} \end{array}$$

¹The sample was stratified by eight taxpayer income categories, (see Tables 30 and 32), so as to insure a sufficient amount of returns from each category to have meaningful results.

²Much of the compliance expense of keeping records and determining Montana personal income tax liability are also required for the federal tax. It was therefore necessary to estimate total cost for the federal tax so as to estimate additional costs resulting only from the Montana tax. Since compliance costs of the federal personal income tax are beyond the scope of this thesis, but of great interest, they are presented in Appendix 3.

TABLE 10

COMPLIANCE COST OF THE MONTANA PERSONAL INCOME TAX USING EACH INDIVIDUAL'S
ESTIMATE AS TO THE VALUE OF HIS OWN COMPLIANCE TIME - PRESENTED FOR
EIGHT INCOME CATEGORIES AS A PERCENTAGE OF TAX PAID

Income Category	Record Keeping		Filing		Remittance		Total Cost	Tax Paid
	Average Cost	Standard Deviation	Average Cost	Standard Deviation	Average Cost	Standard Deviation		
0 To \$ 3,000	\$ 0.00	0.00	\$ 7.13	11.89	\$ 5.20	18.13	\$11.33	187.44
3,000 To 5,000	0.00	0.00	4.86	6.73	2.70	6.49	7.56	27.5
5,000 To 7,500	5.39	21.85	5.22	5.65	1.76	3.05	12.37	21.8
7,500 To 10,000	15.33	64.67	9.05	24.71	2.50	4.76	26.88	25.4
10,000 To 15,000	7.93	21.46	12.40	23.39	4.99	10.38	25.32	4.4
15,000 To 25,000	21.24	112.28	25.44	92.35	8.86	12.79	55.54	17.6
25,000 To 50,000	15.22	47.11	14.90	36.35	20.13	10.76	50.25	4.3
Over 50,000	0.00	0.00	2.75	2.77	34.19	12.40	46.94	2.1
$a \leq \frac{\text{Cost}}{\text{Tax}} = 20.7\%$		$b \leq \frac{\text{Cost}}{\text{Tax}} = 84.9\%$		WEIGHTED AVERAGE				11.1

TABLE 11

COMPLIANCE COST OF THE MONTANA PERSONAL INCOME TAX USING EACH INDIVIDUAL'S
ESTIMATE AS TO THE VALUE OF HIS OWN COMPLIANCE TIME - PRESENTED
FOR SEVEN DIFFERENT OCCUPATION CATEGORIES AS A PERCENTAGE OF TAX PAID

Occupation	Record Keeping		Filing		Remittance		Total Cost	Tax Paid
	Average Cost	Standard Deviation	Average Cost	Standard Deviation	Average Cost	Standard Deviation		
Farming and Ranching	\$ 6.75	\$ 26.75	\$ 4.94	\$ 6.39	\$ 8.74	\$12.29	\$20.43	5.1%
Professional	21.32	104.83	18.03	33.43	7.54	10.76	46.89	7.3
Self-Employed Other Than Professional	1.39	7.24	10.00	26.81	16.83	14.07	25.22	4.3
Managerial	13.21	26.67	23.12	23.99	13.08	19.55	49.41	11.3
White Collar Service and Clerical	5.66	17.92	6.69	7.05	1.08	1.80	13.42	24.2
Skilled and Unskilled Labor	8.93	47.52	6.60	18.99	1.41	2.38	16.94	26.4
Salesman	0.00	0.00	3.50	4.16	7.79	11.23	11.23	4.3
AVERAGE							11.1	

j = number of taxpayers
in ith bracket

b) $\frac{\text{Cost}}{\text{Tax}}$ was the weighted average of the cost-to-tax ratios for each

income category, i.e.,
$$\sum \frac{\text{Cost}}{\text{Tax}} = \frac{\sum_{i=1}^n W_i \frac{C_i}{T_i}}{\sum_{i=1}^n W_i}$$

It can be seen from Table 30 that average total compliance cost as a percentage of average tax paid varied greatly by income group. Costs ran from a high of 189.4 percent for taxpayers with incomes of 0 to \$3,000 to a low of 2.1 percent for taxpayers with annual incomes of over \$50,000. An analysis of variance between the means of record keeping, filing, and remittance costs in Table 30 showed that differences between record keeping and filing costs were insignificant. Average remittance costs were, however, significant to a 99.9 percent confidence level.

Table 31 shows that average total compliance cost of the Montana personal income tax varies according to occupation of the taxpayer. Average cost as a percentage of average tax paid ran from a high of 26.4 percent for skilled and unskilled labor to a low of 4.3 percent for salesmen and self-employed other than professionals. An analysis of variance between the average costs in Table 31 indicates that while the variation in record keeping costs was insignificant, variation in filing and remittance costs were significant to the 99.9 percent confidence level.

The second set of cost estimates using each individual's average hourly wage as a compliance time value are presented in Tables 32 and 33.

TABLE 32

COMPLIANCE COST OF THE MONTANA PERSONAL INCOME TAX USING EACH INDIVIDUAL'S
AVERAGE HOURLY WAGE AS A VALUE FOR COMPLIANCE TIME - PRESENTED FOR
EIGHT INCOME CATEGORIES AS A PERCENTAGE OF TAX PAID

Income Category	Record Keeping		Filing		Remittance		Total Cost	Tax Paid
	Average Cost	Standard Deviation	Average Cost	Standard Deviation	Average Cost	Standard Deviation		
To \$ 3,000	\$ 0.00	\$ 0.00	\$ 6.69	\$ 10.65	\$ 5.20	\$18.13	\$ 11.89	181.8%
3,000 To 5,000	0.00	0.00	9.39	30.26	3.70	6.49	12.09	43.5
5,000 To 7,500	3.13	16.46	6.96	15.74	1.76	3.05	11.85	27.2
7,500 To 10,000	5.40	15.97	12.05	42.10	2.50	4.76	17.95	29.6
10,000 To 15,000	7.98	27.59	12.21	19.87	4.99	10.38	25.18	34.4
15,000 To 25,000	28.52	146.76	27.18	95.32	8.86	12.22	64.56	12.8
25,000 To 50,000	35.42	150.82	67.97	315.26	20.13	30.06	127.52	10.5
Over 50,000	0.00	0.00	10.49	16.83	34.19	12.40	44.68	2.5
a	Cost	= 21.9%	a	Cost	= 84.8%	WEIGHTED AVERAGE		60%

a These two averages were derived by using a weighting procedure explained in the footnotes at the bottom of Table 30.

TABLE 33

COMPLIANCE COST OF THE MONTANA PERSONAL INCOME TAX USING EACH INDIVIDUAL'S
AVERAGE HOURLY WAGE AS A VALUE FOR COMPLIANCE TIME - PRESENTED FOR
SEVEN OCCUPATIONS AS A PERCENTAGE OF TAX PAID

Occupation	Record Keeping		Filing		Remittance		Total Cost	Tax Paid
	Average Cost	Standard Deviation	Average Cost	Standard Deviation	Average Cost	Standard Deviation		
Farming and Ranching	\$ 5.14	\$ 26.41	\$14.02	\$ 33.10	\$ 8.74	\$12.29	\$27.90	7.15%
Professional Self-Employed Other Than Professional	36.54	172.13	25.29	93.40	7.54	13.76	69.37	11.1%
Managerial White Collar Service and Clerical	1.70	8.78	59.91	156.91	16.83	34.07	78.44	11.7%
Skilled and Unskilled Labor	20.03	53.55	27.55	96.58	13.08	18.55	69.66	5.1%
Salesman	.51	1.69	5.94	6.05	1.08	1.30	7.52	12.77%
	3.72	15.79	9.44	33.93	1.41	2.38	14.57	10.1%
	0.00	0.00	3.02	3.47	7.79	13.33	10.81	4.25%
	AVERAGE							11.1%

Again, Table 32 shows that compliance costs tended to be a heavier burden on taxpayers with smaller incomes than those with larger incomes. Costs as a percentage of tax paid varied from 181.8 percent for taxpayers with incomes of less than \$3,000 to a low of 2.46 percent for those with incomes in excess of \$50,000. An analysis of variance between the average costs for record keeping, filing, and remittance shows that when using each individual's average hourly wage as a compliance time value, the variations of average record keeping and average filing costs by income category were insignificant at the 99.9 percent level while variations of average remittance costs was significant at the 99.9 percent level.

Table 33 summarizes the compliance costs by occupation using each taxpayer's average hourly wage as a measure of the value of his compliance time. Basically, the table indicates that compliance cost as a percentage of tax paid showed a smaller variation by occupation with costs ranging from a high of 22.3 percent of tax liability for skilled and unskilled labourers to a low of 4.3 percent for salesmen.

An analysis of variance shows that the differences by occupation between the average costs of record keeping, filing, and remittance are found to be insignificant at the 99.9 percent level for record keeping and filing and significant at the 99.9 percent level for average remittance costs.

It is important for the reader to note that for nearly all of the average costs of record keeping, filing, and remittance, using both methods for valuing compliance time, standard deviations were high being typically two to three times the size of each mean.

For all Montana personal income taxpayers taken together by income

category, average compliance cost as a percentage of weighted average tax paid was 40.8 percent when using each individual's estimate as to the value of his own compliance time. It was 56.4 percent when using each individual's average hourly wage as a time value. These figures provide an indication of the typical cost to tax paid ratio of an individual taxpayer in the state. Weighted average compliance cost for all categories as a percentage of weighted average tax paid was 20.7 percent with each individual's estimate as to the value of his own compliance time and 21.9 percent when using average hourly wage as a time value. These last two ratios are the more meaningful in examining the impact of the costs on all taxpayers.

Cost of withholding the Montana personal income tax

The compliance cost of withholding the Montana personal income tax was measured by sending questionnaires to a random sample of 500 business firms. Seventy-four useable returns were obtained from the sample. The average compliance cost of withholding was \$52.44, while mean tax withheld was \$755.20. Thus cost was 8.27 percent of tax withheld.

Administrative cost of the personal income tax

The administrative cost of the Montana personal income tax was estimated by State Board of Equalization personnel, who administer the tax, to be \$357,626 last fiscal year. The revenue collected for the same period was \$16,657,000 so that administrative cost was 2.10 percent of revenue.

CORPORATION LICENSE TAX

Corporations in the state are required to pay a license tax on all income earned in the state. The rate of the tax is 5.25 percent of net income with a minimum tax of \$10. The tax is based on net income, (i.e., federally adjusted gross less deductions), and returns are required to be filed annually with the State Board of Equalization. Payment is made to the State Treasurer once each year.

Compliance cost of the corporation license tax

Questionnaires were sent to 200 corporations in an attempt to measure the compliance cost of the Montana corporation license tax. Only 25 useable questionnaires were returned. Mean compliance cost of the 25 reporting corporations was \$90.09, mean tax paid was \$886.39. Average compliance cost was therefore 10.16 percent of average tax paid. Standard deviation of the \$90.09 mean compliance cost was, however, a high \$153.00.

Administrative cost of the corporation license tax

The administrative cost of the Montana corporation license tax was estimated through personal interview with State Board of Equalization personnel. This discussion indicated that the cost of administering the tax was about \$26,140 for the fiscal year ending June 30, 1965, while revenue collected for the same period was \$5,871,000. Cost was .4 percent of revenue.

CHAPTER VI

COMPLIANCE AND ADMINISTRATIVE COSTS OF SPECIAL MONTANA TAXES

Montana has numerous special license and severance taxes which apply to various business firms operating in the state. This chapter contains administrative and compliance cost estimates for 15 such taxes.

COMPLIANCE COSTS

The various special taxes included in the study are listed at the far left of Table 34, which also summarizes sample size and response to a questionnaire measuring the compliance cost of each tax.

Severance Taxes

Montana has several severance taxes which are imposed on the production of natural resources in the state. These taxes are supposedly designed to compensate the state for removal of its limited supply of natural resources.

Coal Mines License Tax

Coal mine operators in the state pay a tax on every ton of coal removed in excess of 50,000 tons. The coal must be marketable to be subject to the tax, whose rate is five cents per ton. Operators must file reports and make payment quarterly with the State Treasurer.

The compliance costs of the coal mines license tax, shown in Table 35, were estimated by sending questionnaires to the 15 firms currently paying the tax. Eight useable questionnaires were returned.

TABLE 34

SAMPLE SIZES AND QUESTIONNAIRE RESPONSE RATES OF BUSINESS FIRMS
PAYING MONTANA SPECIAL LICENSE TAXES

Name of Tax	Sample Size	Number of Returns	Percentage Returned	Number of Usable Returns	Percentage of Usable Returns
Insurance	39	32	82	21	54
Natural Gas	6	6	100	4	67
Electrical Energy	4	3	75	1	25
Micaceous Minerals	1	1	100	1	100
Oil Producers	24	13	54	9	37
Cement	21	12	57	6	29
Express Company	1	1	100	-- ^a	--
Pullman Company	1	1	100	-- ^a	--
Metalliferous Mines	9	4	44	2	22
Telegraph Company	1	1	100	-- ^a	--
Special Fuel Dealers	25	17	58	11	44
Telephone Company	14	8	57	7	50
Chain Store	30	12	40	4	13
Coal License	18	12	67	8	44
Special Fuel Users	<u>25</u>	<u>12</u>	48	<u>9</u>	36
Total	219	135		83	

^a Responses were received from these firms but they indicated the compliance cost from the Montana tax was impossible to estimate.

Average rate of return = 73% Average Usable rate of return = 35%

TABLE 35

COMPLIANCE COST TO EIGHT BUSINESS FIRMS FROM
THE MONTANA COAL MINES LICENSE TAX

Firm	Cost of Record Keeping	Cost of Filing and Remitting	Total Cost	Amount of Tax Paid	Cost as a % of Tax
1	^a \$ 0	\$ 0	\$ 0	\$ 6	0%
2	^a 0	0	0	17	0
3	60	^a 0	60	29	206.90
4	20	^a 0	20	37	54.05
5	^a 0	0	0	38	0
6	^a 0	0	0	45	0
7	^a 0	0	0	60	0
8	<u>100</u>	<u>0</u>	<u>100</u>	<u>130</u>	76.92
Total	\$180	0	\$180	\$362	

a

Taxpayer indicated that there was a cost but that he felt it was negligible.

$$\frac{\sum \text{cost}}{\sum \text{tax}} = 49.72\%$$

$$\frac{\sum \text{Cost}}{\sum \text{tax}} = 42.24\%$$

Table 35 shows that the sum of the costs divided by the total of taxes paid was 49.72 percent while the average of costs as a percentage of tax for each firm was 42.24 percent. From those data presented in the table, there appears to be no relationship between the amount of tax paid and compliance cost. Costs were extremely variable with negligible costs in most cases and quite high costs when costs were reported at all. All costs reported resulted from the necessity of record keeping.

Oil producers license tax

Production of oil in Montana is subject to a tax of two percent of the gross value of oil produced. In addition, a conservation tax of one quarter of one cent per barrel of oil produced is also levied. The former tax is administered by the State Board of Equalization, while the conservation tax is administered by the Oil and Gas Conservation Commission. Both administrative agencies require quarterly reports and tax payment. The revenue from the oil conservation tax is used to finance the operations of the Commission and no compliance cost information about it is available. The estimated compliance costs of the oil producers license tax are presented in Table 36 and were measured by sending questionnaires to 24 taxpayers. Nine fully complete questionnaires were returned.

Total compliance cost as a percentage of total tax paid was .33 percent. The average of cost as a percentage of tax for each firm was 1.11 percent. Total compliance cost varied widely between firms as did cost as a percentage of tax.

TABLE 36

COMPLIANCE COSTS TO NINE BUSINESS FIRMS FROM THE MONTANA
OIL PRODUCERS LICENSE TAX

Firm	Record Keeping	Filing & Remitting	Total Cost	Tax Paid	Cost as a Percentage of Tax
1	\$ 0 ^a	\$ 0	\$ 0	\$ 291	.0%
2	0	25	25	992	2.52
3	0	25	25	9,000	.28
4	80 ^b	0	80	13,400	.60
5	500	250	750	17,593	4.26
6	0 ^a	750	750	43,592	1.72
7	100	50	150	71,445	.21
8	200	20	220	87,035	.25
9	<u>1,000</u>	<u>150</u>	<u>1,550</u>	<u>705,498</u>	.16
Total	\$1,880	\$1,270	#3,150	\$948,846	

^a Taxpayer indicated that there was a cost but that he felt it was negligible.

^b Both estimates for record keeping cost and filing and remitting are combined.

$$\frac{\text{Cost}}{\text{Tax}} = .33\%$$

$$\frac{\text{Cost}}{\text{Tax}} = 1.11\%$$

Cement dealers license tax

Firms manufacturing cement and allied products or importing them into the state are subject to the cement dealers license tax. The tax rate is four cents per barrel on cement or five cents per ton on cement plaster. Quarterly reports and tax payment are required by the State Board of Equalization which administers the tax.

Questionnaires were sent to 21 taxpayers estimating the compliance cost of the cement dealers license tax. Twelve were returned with six complete enough to be useful. Table 37 contains the data.

TABLE 37

COMPLIANCE COSTS TO SIX BUSINESS FIRMS FROM
THE MONTANA CEMENT DEALERS LICENSE TAX

Firm	Record Keeping	Filing & Remitting	Total Cost	Tax Paid	Cost as a % of Tax
1	\$ 25	\$ 0	\$ 25	\$ 18	138.89%
2	0	10	10	25	40.00
3	0	0	0	75	0
4	10	10	20	319	6.27
5	0	0 ^a	0	40,761	0
6	<u>0</u>	<u>50</u>	<u>50</u>	<u>48,800</u>	.10
Total	\$ 35	\$ 70	\$105	\$89,998	

^a Taxpayer indicated that there was a cost but that he felt it was negligible.

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = .12\%$$

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = 30.9\%$$

Total compliance costs as a percentage of total taxes paid were .12 percent, while the arithmetic average of the cost to tax ratio for each firm was 30.87 percent. This second figure is much larger than the first since one firm paid over \$40,000 of tax, yet reported negligible cost. It appears that those firms paying small amounts of tax did not comply as efficiently as did those firms paying larger amounts of tax.

Metalliferous mines license tax

Persons operating mines in Montana pay a tax on the value of all marketable metal removed. The rates include an annual license fee of one dollar and a graduating scale varying from 0.5 percent to 1.25 percent of gross market value of the metals removed depending on the amount of metal removed. The tax is administered by the State Board of Equalization which requires both annual reports and tax payment.

The compliance cost of this tax is measured by sending questionnaires to the nine taxpayers who pay it. Two firms returned useable estimates, which Table 38 shows.

Micaceous Minerals License Tax.

Everyone operating a mine from which micaceous minerals are taken must pay an annual license tax of five cents per ton. The State Board of Equalization, which administers the tax, required an annual report and quarterly tax payments.

Compliance cost information is available for only payers of this tax. The business firm produces vermiculite, paid \$8,000 in tax last year, and reported negligible compliance cost.

TABLE 38

COMPLIANCE COSTS TO TWO BUSINESS FIRMS FROM THE
MONTANA METALLIFEROUS MINES LICENSE TAX

Firm	Record Keeping	Filing and Remitting	Total Cost	Tax Paid	Cost as a % of Tax
1	\$ 0	\$ 0	\$ 0	\$ 3,290	0%
2	<u>600^a</u>	<u>--</u>	<u>600</u>	<u>901,913</u>	.07
Total	\$600	\$ 0	\$600	\$905,203	

^a Estimate for both record keeping and filing and remitting costs are combined.

$$\frac{\text{Cost}}{\text{Tax}} = .07\%$$

$$\frac{\text{Cost}}{\text{Tax}} = .04\%$$

Utility Gross Receipts Taxes

Electric energy company license tax

The electric energy company license tax is based on the gross sales of electricity and electrical power. The rate is one and one-quarter percent of gross sales, and both monthly reports and tax payments are required.

Questionnaires were sent to four taxpayers to determine the compliance cost of this tax. Three questionnaires were returned, but only one was complete enough to be useful. The estimates of this firm showed total compliance cost to be \$10 against \$5,184 of tax paid. This makes cost .19 percent of tax. The two other firms returned questionnaires completely filled out except for the compliance cost estimates. Apparently, they deemed the costs to be negligible.

Telephone company license tax

All telephone companies must pay a tax on gross income derived from intra-state business. The rate is one and one-half percent on sales over \$250 quarterly. Quarterly reports to the State Board of Equalization are required, and tax payments are to accompany the reports.

There are fourteen payers of this tax. Eight of these firms returned questionnaires, seven of which were useable. Table 39 contains the data.

TABLE 39

COMPLIANCE COSTS TO SEVEN BUSINESS FIRMS FROM THE MONTANA
TELEPHONE COMPANY LICENSE TAX

Firm	Record Keeping	Filing and Remitting	Total Cost	Tax Paid	Cost as a % of Tax
1	\$ 8	\$ 0	\$ 8	\$ 477	1.68
2	57	3	60	982	6.11
3	25	15	40	1,136	3.52
4	3	0	3	1,273	.24
5	0	34	34	5,011	.68
6	300	0	300	24,441	1.23
7	<u>0</u>	<u>0^a</u>	<u>0</u>	<u>401,962</u>	0
Total	\$393	\$ 52	\$445	\$435,282	

^aTaxpayer indicated that there was a cost but that he felt it was negligible.

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = .10\%$$

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = .45\%$$

Total compliance cost for all firms as a percentage of total tax paid was .10 percent. The average of cost as a percentage of tax for each firm was 1.92 percent. From these data, there does not appear to be a relationship between cost as a percentage of tax and amount of tax paid in the sense that both companies paying large and small amounts of tax were able to do so with similar efficiency.

Natural gas distributors tax

The natural gas distributors tax is based on the cubic feet of natural gas produced or distributed in the state. The rate is one-half of one cent per 1000 cubic feet; both quarterly reports and tax payment to the Board of Equalization are required. In addition, there is a gas conservation tax which is one mill per 10,000 cubic feet of gas. Revenue from the conservation tax is used to help finance the operations of the Oil and Gas Conservation Commission. The Commission administers the tax and required quarterly reports and tax payment. The combined administrative cost of the gas and oil conservation tax will be presented in the next chapter. However, no compliance cost information about this tax is available.

The compliance cost of the natural gas distributors tax was estimated by sending the questionnaires to the six firms currently paying the tax. While questionnaires were received from all six, only four were complete enough to be useable. Table 40 summarizes the estimates.

The sum of compliance costs for all firms divided by the total amount of tax paid was .10 percent. The average of cost as a percentage of tax for the individual firms was .45 percent.

TABLE 40

COMPLIANCE COSTS TO FOUR BUSINESS FIRMS FROM THE
MONTANA NATURAL GAS DISTRIBUTORS TAX

Firm	Record Keeping	Filing and Remitting	Total Cost	Tax Paid	Cost as a % of Tax
1	\$ 0	\$ 0	\$ 0	\$ 1,231	0
2	0 ^a	28	28	1,805	1.55
3	5	0	5	1,964	.25
4	<u>0^a</u>	<u>0</u>	<u>0</u>	<u>29,623</u>	0
	\$ 5	\$ 28	\$ 33	\$34,623	

a

Taxpayer indicated that there was a cost but that he felt it was negligible.

$$\frac{\text{Cost}}{\text{Tax}} = .10\%$$

$$\frac{\text{Cost}}{\text{Tax}} = .45\%$$

Other Special Taxes

Insurance Companies tax

All insurance companies in the state are required to pay an annual license and filing fee of \$50, and also to pay a tax of 2.25 percent of premiums collected in Montana. An annual report and tax payment must be made to the State Auditor's Office which administers the tax.

Questionnaires were sent to a random sample containing 39 insurance companies of all types, (for example, life, casualty) in order to determine the compliance cost of the tax. The data for 21 useable questionnaires returned is presented in Table 41.

TABLE 41

COMPLIANCE COSTS TO 21 INSURANCE COMPANIES FROM
THE MONTANA INSURANCE COMPANIES TAX

Firm	Record Keeping	Filing and Remitting	Total Cost	Tax paid	Cost as a % of Tax
1	\$0 ^c	\$ 0	\$ 5	\$ 6	83.33%
2	0	20	20	57 ^d	35.09
3	0	0	0	59	0
4	110	20	130	293	44.37
5	0 ^c	25	25	363	6.89
6	0	0	0	395	0
7	0	25	25	415	6.02
8	35	27	62	556	11.15
9	0 ^c	25	25	572	4.37
10	0 ^c	50	50	591	8.46
11	0 ^c	300	300	1,388	21.61
12	0 ^c	200	200	1,601	12.49
13	0	35	35	1,663	2.10
14	0 ^c	20	20	1,807	1.11
15	0 ^c	0 ^a	0	3,093	0
16	0	11	11	4,125	.27
17	0 ^c	10	10	5,480	.18
18	500	50	550	26,235	2.10
19	135	100	235	37,889	.62
20	100	100	200	67,000	.30
21	<u>13,000</u> ^b	<u>375</u> ^b	<u>13,375</u> ^b	<u>92,341</u> ^b	14.48
Total	\$13,880	\$1,398	\$15,278	\$245,929	

^aTaxpayer indicated that there was a cost but that he felt it was negligible.

^bThese figures represent the combined experience of four Montana insurance companies.

^cCost was estimated as negligible because the record keeping process was needed for similar taxes in other states.

^dThis figure for tax paid includes the annual filing and license fee of \$.5 each.

$$\frac{\text{Cost}}{\text{Tax}} = .25\%$$

$$\frac{\text{Cost}}{\text{Tax}} = 13.16\%$$

The sum of compliance costs for all the insurance companies was \$15,278 while the total amount of tax paid was \$245,929. Cost was therefore 6.21 percent of tax remitted. The average of cost as a percentage of tax paid for each firm was 12.14 percent. The data does tend to show that some efficiency in complying with the tax is gained as the amount of tax paid increases. Several individuals commented to the effect that they thought certain aspects of the record keeping requirements of the tax were difficult to perform.

Retailers license tax (Chain store tax)

Every person or business firm in Montana establishing one or more retail stores under the same general management must pay a license tax. The rate varies according to the number of stores and increases from six dollars for the first store to \$201 for each store in excess of five. Wholesale stores pay a fixed rate of \$38.50 per store. No reports are required and tax payment is made annually.

Thirty-nine taxpayers were sent a questionnaire designed to measure the compliance cost of the retailers license tax. Only twelve were returned and of these only four were complete enough to be useable. The estimates are shown in Table 42.

The sum of all costs in Table 42 divided by total tax paid is .23 percent, while the average of each cost as a percentage of tax is 10.16 percent. The latter figure is much higher because firm number two in the table reported \$10 of cost against only \$25 of tax paid. This estimate is hard to understand since the \$10 cost was for record keeping; the chain store tax required no records.

TABLE 42

COMPLIANCE COSTS TO FOUR BUSINESS FIRMS FROM
THE MONTANA CHAIN STORE TAX

Firm	Record Keeping	Filing and Remitting	Total Cost	Tax Paid	Cost as a % of Tax
1	\$ 0	\$ 0	\$ 0	\$ 6	0%
2	10	0	10	25	40.00
3	0	1	1	157	.64
4	<u>0</u>	<u>0^a</u>	<u>0</u>	<u>4530</u>	0
Total	\$ 10	\$ 1	\$ 11	\$ 4,718	

^a Taxpayer indicated that there was a cost but that he felt it was negligible.

$$\frac{\text{Cost}}{\text{Tax}} = .23\%$$

$$\frac{\text{Cost}}{\text{Tax}} = 10.16\%$$

Special fuel users and dealers tax

The special fuel users and dealers tax is based on the gallons of special fuel used in vehicles operating on highways in the state. Both dealers and users must obtain licenses and file bonds of not less than \$500. The rate of the tax is six cents per gallon on gasoline and nine cents per gallon for diesel fuel. Returns must be filed with the State Board of Equalization every month with accompanying tax payment.

Questionnaires were sent to random samples of 25 special fuel dealers and 25 special fuel users asking for information about the compliance cost of the tax. Seventeen dealers responded with eleven of

these being useable. Twelve returns, nine of which were useable, were received for the special fuel users. Tables 43 and 44 contain the cost estimates for the special fuel dealers and users respectively.

For the special fuel dealers tax the sum of all costs divided by the total of taxes paid was 1.20 percent. The average of each firm's cost as a percentage of tax paid was 5.55 percent. There appears to be little relationship between cost as a percentage of tax and amount of tax paid, although there may be some significance to the fact that the two firms paying the smallest amount of tax also experienced the heaviest cost to tax burden.

The reported total of all compliance costs as a percentage of total tax paid is 5.03 percent for the special fuel dealers tax. The average of cost as a percentage of tax for each firm was 123.87 percent. This latter figure is so extremely high because of the high costs experienced by two firms in relation to their relatively small amounts of tax paid. It is significant to note that those three firms which had the greatest compliance burden in relation to tax paid were the same three firms that paid the smallest amount of tax. Record keeping costs were generally much greater than those for filing and remitting.

TABLE 43

COMPLIANCE COSTS OF 11 SPECIAL FUEL DEALERS FROM
THE MONTANA SPECIAL FUEL USERS AND DEALERS TAX

Firm	Record Keeping	Filing and Remitting	Total Cost	Tax Paid	Cost as a % of Tax
1	\$ 360	\$ 0	\$ 360	\$ 1,500	24.00%
2	150	130	280	2,000	14.00
3	228	0 ^a	228	4,200	5.43
4	125 ^c	0	125	7,245	1.73
5	80 ^c	30	110	8,759	1.26
6	390	0 ^a	390	9,740	4.00
7	275	72	347	25,454	1.36
8	1,380	0	1,380	26,770	5.16
9	775	20	795	28,360	2.80
10	1,800	--	1,800	160,750	1.12
11	<u>720</u>	<u>60</u>	<u>780</u>	<u>275,400</u>	.28
Total	\$6,283	\$312	\$6,595	\$550,178	

^aTaxpayer indicated that there was a cost but that he felt it was negligible.

^bCosts of both record keeping and filing and remitting are combined.

^cHere the taxpayer estimated cost in terms of time. A value of \$2 per hour was used for all time estimates.

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = 1.20\%$$

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = 5.55\%$$

TABLE 44

COMPLIANCE COSTS TO NINE SPECIAL FUEL USERS FROM THE
MONTANA SPECIAL FUEL USERS AND DEALERS LICENSE TAX

Firm	Record Keeping	Filing and Remitting	Total Cost	Tax Paid	Cost as a % of Tax
1	\$ 180	\$ 0	\$180	\$ 20	900.00%
2	48 ^{ab}	0	48	286	16.78
3	470	183	653	460	181.39
4	0	24	24	695	3.45
5	240 ^a	--	240	5,413	4.43
6	28 ^a	--	28	6,820	.41
7	0 ^c	20 ^b	20	13,161	.15
8	340	10	350	15,712	2.23
9	<u>3,045</u>	<u>550</u>	<u>3,585</u>	<u>59,471</u>	6.03
Total	\$4,351	\$787	\$5,128	\$101,918	

^aThe cost estimates for both record keeping and filing and remitting are combined.

^bThe estimate was made in terms of time and a value of \$2 per hour was used.

^cThe taxpayers stated records were kept anyway and therefore cost was negligible.

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = 5.03\%$$

$$\frac{\sum \text{Cost}}{\sum \text{Tax}} = 123.87\%$$

Administrative cost of Special Montana Taxes

The administrative costs of the various Montana special taxes were estimated through personal and telephone interview with the appropriate government agencies officials. The estimates, which include the cost of enforcing and collecting the tax, were arrived at by asking what portion of each government agencies' expenditures for the fiscal year ending June 30, 1965 were made in administration of a particular tax. As with other administrative costs previously presented, actual amounts arrived at in each case will be understated by any cost of administration that is not included in the current budget of the agencies involved.

Montana State Board of Equalization personnel stated that the combined yearly administrative costs of the following special business license taxes was about \$2,000: metalliferous mines, micaceous minerals, coal mines, cement dealers, telephone company, telegraph company, electric energy, express company, natural gas, and freight line company. The administrative cost of each of these taxes was so small that it was impossible to make individual estimates of them. Total revenue from the above tax was \$2,430,222. so administrative cost averaged only .08 percent of revenue.

Table 45 shows the administrative cost of six other Montana special taxes for which separate cost estimates were available.

Table 45 shows that the chain store tax and the boat certificate tax (certificate of number tax) were, in terms of the cost of collecting each dollar of tax, the most costly to administer. The oil producers tax was the least costly with cost being only .19 percent of collections.

The total revenue from all 16 special taxes was \$7,016,158,

while total administrative cost was \$89,332.

Cost was therefore 1.17 percent of revenue. The average of cost as a percentage of revenue for all 16 taxes taken individually was 2.53 percent.

CHAPTER VII

COMPLIANCE AND ADMINISTRATIVE COSTS OF THE MONTANA ALCOHOLIC BEVERAGE TAXES, CIGARETTE TAX, INHERITANCE TAX

Alcoholic Beverages Taxes

Montana imposes an excise tax on all liquors sold or delivered in the state. There is both a 16 percent state tax and 4 percent local tax on the retail price of the liquor. These taxes are collected by the local liquor stores of the Montana Liquor Control Board when the liquor is sold. In addition to the above taxes, Montana imposes a tax of \$1.50 per 31 gallons on all beer sold in the state by brewers and wholesalers. The tax is paid by all wholesale beer distributors, and both monthly reports and tax payments to the Liquor Control Board is required.

Liquor Taxes

The Montana Liquor Control Board levies the taxes on liquor simply by adding 20 percent to what would otherwise be the price of liquor. Since the Board must set a price for each item it sells through its liquor stores whether or not the tax exists, it has been assumed that it costs nothing to administer the liquor excise. And of course this liquor excise involves no compliance costs for individuals or private firms, for they have nothing to do with the tax collection process.

Compliance Cost of the Beer Tax

The tax on beer does give rise to compliance costs which are incurred by private taxpayers. These costs were estimated from

questionnaires sent to the 70 wholesale beer distributors in Montana. Questionnaires were returned by 33 firms, and 27 of these were complete enough to be useable. Table 46 contains the data.

In Table 46, the total amount of compliance cost for all firms divided by the total of tax paid was 1.34 percent. The average of cost as a percentage of tax for each firm was 2.16 percent. Costs varied widely between companies and apparently there is no relationship between cost as a percent of tax and the amount of tax paid.

Administrative Cost of the Montana Beer Tax

The administrative cost of the Montana tax on beer was estimated through personal interview with personnel of the State Liquor Control Board, which administers the tax. The cost determined represents the total expenditures made by the Board in administering the tax and understates the actual cost of administration by the amount of general overhead also attributable to the tax. In this case, general overhead would probably be a very small portion of the total cost. The administrative cost was found to be \$3,007 for the fiscal year ending June 30, 1966. Thus, cost was about .44 percent of revenue.

A second administrative cost exists for the beer and liquor license tax. This is the cost to the Liquor Control Board in enforcing the requirement that those firms required to purchase licenses from the Board to and properly display these licenses. The cost to the Liquor Control Board of performing this function is \$17,650, while revenue gained from these licenses was \$965,350. Cost was therefore 1.83 percent of the license.

TABLE 46

COMPLIANCE COST OF 27 WHOLESALE BEER DISTRIBUTORS FROM
THE MONTANA BEER TAX BY ORDER OF TAX PAID

FIRM	RECORD KEEPING	FILING & REMITTING	TOTAL COST	TAX PAID	COST/TAX PAID
1	\$ 0 ^A	\$ 0 ^A	\$ 0	\$ 360	0%
2	0 ^B	0	0	400	0
3	384 ^C	0	384	1,238	31.0
4	0	0	0	1,425	0
5	0	0	0	1,727	0
6	24 ^C	0	24	2,865	.8
7	50	10	60	4,420	1.4
9	0	0	0	4,495	0
9	144	0	144	6,833	2.1
10	62	12	74	7,103	1.0
11	0	0	0	8,000	0
12	0	24 ^C	24	8,926	.3
13	12 ^C	0	12	9,104	.1
14	30 ^D	-	30	9,615	.3
15	50	10	60	10,789	.6
16	500	192 ^C	692	11,317	6.1
17	0	240	240	11,500	2.1
18	560 ^C	10	570	11,577	4.9
19	25	15	40	11,754	.3
20	0 ^A	0	0	12,963	0
21	150	253 ^A	403	15,354	2.6
22	55	0	55	16,111	.3
23	0	180	180	18,652	1.0
24	192 ^C	0	192	24,000	.8
25	600 ^D	-	600	24,542	2.4
26	20	0	20	25,256	.1
27	0	60	60	27,000	.2
TOTAL	2,858	1,006	3,864	287,326	
	$\frac{\text{Cost}}{\text{Tax}} = 2.16\%$			$\frac{\text{Cost}}{\text{Tax}} = 1.34\%$	

- A Taxpayer indicated that there was a cost but that it was negligible.
- B Taxpayer indicated no cost because records were kept in the ordinary course of business.
- C Cost was estimated by applying a \$2 per hour value to the taxpayer's time estimate.
- D Estimates for both record keeping, and filing and remittance are combined.

CIGARETTE TAX

All cigarettes sold or possessed for sale in Montana are subject to a tax. The tax is directed at ultimate consumers but pre-collected from wholesale tobacco distributors for administrative convenience. The rate of the tax is eight cents on each pack of twenty cigarettes, and while no reports are required, wholesalers must preserve their sales records for at least one year. Wholesalers must stamp each package of cigarettes with a special machine to show that the tax has been paid. Each month, the local county treasurer collects the amount of tax corresponding to the number of packages of cigarettes stamped and resets the stamping machine. The wholesalers are allowed a discount of five percent of the tax revenue they collect to compensate them for their trouble and expense in handling the tax.

Compliance cost

In order to estimate the cost to wholesalers of complying with the cigarette tax, 38¹ wholesale distributors were interviewed by telephone. Of these, relevant information could be obtained from only eleven. These eleven firms, do, however, represent a fairly equal distribution between small, medium, and large scale operations. Collection costs were broken down into ten cost categories which are shown in Table 47.

It can be seen from Table 47 that wages were the largest single

¹The telephone interviews and calculations of the cost estimates were performed by Mr. Paul Anderson, an undergraduate student in economics.

expense in affixing tax stamps and collecting the revenue. The interest expense item assumes that the firms borrow funds to finance tax payment which must be made before revenue from the cigarette sales is obtained. Rent expense covers use of the area needed to contain the stamping machine and related articles. The cost estimates are complete except perhaps for some minor costs of bad debts for cigarettes on which the wholesalers have already paid the tax yet are unable to collect from the retailer.

TABLE 47

TEN COMPLIANCE COST ITEMS OF THE MONTANA CIGARETTE TAX
 SHOWN AS A PERCENTAGE OF THE TOTAL COMPLIANCE COSTS
 OF ELEVEN FIRMS COLLECTING THE TAX

Cost Item	Cost as a Percentage of the total
Wages	40.1%
Depreciation of Stamping Machines	8.9
Maintenance of Stamping Machines	4.7
Stamping Head Rent	6.0
Interest	21.9
Supplies	6.2
Rent	10.7
Insurance	1.9
Certified Checks	1.7
Electricity	<u>.1</u>
Total	100.0%

The aggregate of compliance costs for all firms taken together was \$3,995 monthly while average monthly taxes collected were \$148,450. Cost was therefore 2.76 percent of tax. The average cost per firm was 2.69 percent. Costs as a percentage of tax paid varied only slightly from firm to firm and seemed to be independent of the firm's size. In no case was cost as much as the five percent discount allowed each wholesaler. In fact, costs averaged only 55 percent of the discount.

Administrative cost

The administrative cost of the Montana cigarette tax was estimated by telephone interview with personnel of the State Board of Equalization. About \$2,800 of the Boards' total expenditure in the fiscal year ending June 30, 1965 was made for administration of the cigarette tax. Revenue from the tax during the same period was \$6,321,000, so cost was .04 percent of tax collected. This administrative cost estimate does not include the efforts of local county treasurers who are responsible for actually collecting the tax and resetting the machines used to stamp each cigarette package. However, by contacting several treasurers across the state, it was determined that the cost of performing this function was small and would not significantly increase total administrative cost.

MONTANA INHERITANCE TAX

The Montana inheritance tax falls on each beneficiary's share of an estate. The tax has graduated rates which vary according to the degree of relationship between the decedent and the beneficiary. Those individuals of close relationship to the decedent are subject to lower

TABLE 48

THE COMPLIANCE COSTS OF ELEVEN TOBACCO WHOLESALERS
FROM THE MONTANA CIGARETTE TAX

FIRM	AVERAGE COST PER MONTH	AVERAGE MONTHLY DISCOUNT	<u>COST</u> <u>DISCOUNT</u>	AVERAGE MONTHLY TAX COLLECTED	<u>COST</u> <u>TAX</u>	<u>DISCOUNT</u> <u>TAX</u>
1	\$ 88.24	\$ 160.00	55.0%	\$ 3,200	2.75%	5%
	162.76	288.00	56.5	5,760	2.82	5
3	165.71	320.00	51.8	6,400	2.51	5
4	213.56	384.00	55.6	7,680	2.79	5
5	297.41	500.00	59.5	10,000	2.97	5
6	444.92	676.00	65.8	13,340	3.36	5
7	570.54	750.00	76.0	15,000	3.81	5
8	425.82	1000.00	42.6	20,000	2.13	5
9	343.05	1000.00	34.0	20,000	1.72	5
10	685.30	1160.00	59.0	23,200	2.95	5
11	596.86	1200.00	49.7	24,000	2.49	5
TOTAL	\$3,995			\$148,580		
AVERAGE			55%		2.76%	5%
	$\frac{\sum \text{Cost}}{\sum \text{Tax}} = 2.69\%$			$\frac{\sum \text{Cost}}{\sum \text{Tax}} = 2.76\%$		

rates than those of more distant relationship. Various exemptions are also allowed. The tax is primarily administered by the State Board of Equalization, although some county level administration also takes place.

Compliance Cost

The compliance cost of the Montana inheritance tax was recently studied by H. Norman Larsen, a graduate student in economics at the University of Montana. Mr. Larsen's unpublished study is reviewed in Chapter II of this thesis. He estimates that total compliance cost from the Montana inheritance tax in 1965 was \$306,500 while revenue collected during the same period of time was \$2,498,000. Cost was therefore about 12 percent of tax paid.

Administrative Cost

Montana Board of Equalization personnel estimate that their total cost of administering the inheritance tax was \$27,765 last year. Revenue for the same period was \$2,498,000, so cost was about 1.1 percent of revenue. This figure somewhat understates actual administrative cost of the tax as many local county treasurer's offices and clerk and recorder's offices are also involved in its administration.

CHAPTER IX

SUMMARY AND CONCLUSIONS

SUMMARY

Table 49 summarizes the administrative and compliance cost estimates for all taxes included in the study.

From Table 49, it may be seen that the Coal Mines License Tax with an average compliance cost that was 49.7 percent of tax paid, had by far the greatest relative compliance burden. It was followed by the Personal Income Tax and the Montana inheritance tax with costs of 21.9 percent and 12.0 percent of tax paid, respectively. The boat certificate tax proved to be the most expensive to administer with each dollar of tax revenue costing 21.7 cents. Motor vehicle taxes and the chain store tax followed with costs of 9.9 percent and 9.2 percent of revenue. When combining administrative and compliance costs, the Coal Mines License Tax was again high with an average cost to tax ratio of 49.7 percent. The Personal Income Tax, motor vehicle taxes, and the inheritance tax were next highest with combined costs of 24.0 percent, 17.6 percent, and 13.1 percent of tax, respectively. The average compliance cost of the federal personal income tax, not shown in the above table, was 39.14 percent of tax paid when using each individual's average hourly wage as a compliance time value.

It is very important to note that while every effort has been made to insure the accuracy and reliability of the data, the study has suffered the same problem common to empirical research, especially of research

TABLE 49

SUMMARY OF ADMINISTRATIVE AND COMPLIANCE
COSTS FOR VARIOUS MONTANA TAXES

TYPE OF TAX	COMPLIANCE COST AS A PERCENTAGE OF TAX PAID	ADMINISTRATIVE AS A PERCENTAGE OF TAX PAID	ADMINISTRATIVE PLUS COMPLIANCE AS A PERCENTAGE OF TAX PAID
Personal Income Tax	62.9% ^A	2.1%	14.0%
Corporation License	10.2	.4	10.6
Non-Motor Vehicle Business Property Tax	1.2	2.8 ^B	4.0
Non-Motor Vehicle Individual Property Tax	.8	2.8 ^B	3.6
Motor Vehicle Taxes	7.7	6.7	14.4
Oil Producers	.5	.2	.7
Coal Mine License	49.7	C	49.7
Cement Dealers	.1	C	.1
Metalliferous Mines	.1	C	.1
Micaceous Minerals	D	C	.1
Electric Energy	.2	C	.2
Telephone Company	.1	C	.1
Natural Gas	.1	C	.1
Special Fuel Users	5.0	.9 ^E	5.9
Insurance Companies	6.2	1.9	8.1
Chain Store License	.2	3.2	3.4
Beer Tax	1.3	.4	1.7
Cigarette Tax	2.7	.04	2.7
Inheritance	12.0	1.1	13.1
Boat Certificate	F	21.7	
Contractors License	F	3.3	
Oil and Gas Conservation	F	3.4	

A Average hourly wage was used as a compliance time value.

B This figure combines the business and individual non-motor vehicle property tax.

C Administrative cost was reported negligible in relation to revenue.

D Cost was reported negligible in relation to tax paid.

E This figure represents the administrative cost of all motor fuel taxes.

F No compliance cost estimates are available for these taxes.

dealing with tax compliance costs. This problem is wide variation in reported costs, even among taxpayers of similar size and type. Standard deviations were typically twice the size of mean cost in each of the compliance cost calculations. Much of this variation may be explained, however, when one considers the difficulty of isolating and estimating compliance and administration costs. In spite of this difficulty, it is the author's opinion that the data, for the most part, do a good job of measuring the administrative and compliance cost of Montana taxes and therefore provides meaningful data for the formulation of Montana tax policy.

General Conclusions

In light of the results reported in this thesis, several general conclusions may be drawn concerning the administrative and compliance costs of Montana taxes.

There appears to be a relationship between administrative and compliance costs for many taxes with those having high costs of administration tending to have relatively low costs of compliance, and vice versa. The personal income tax, corporation license tax, coal mines license tax, special fuel users tax, chain store license tax, and the inheritance tax are good examples of this relationship.

The efficiency with which the Montana property tax may be administered generally varies inversely according to the amount of taxable valuation in a county. Those counties with the greater assessed valuation tend to experience lower administrative costs as a percentage of property tax revenues than did counties with relatively small amounts

of taxable valuation. This situation leads to the conclusion that economies of scale apply to the cost of property tax administration.

The compliance costs from the Montana personal income tax burden taxpayers of smaller annual incomes much more heavily in percentage terms than those taxpayers with relatively greater annual incomes. The personal income tax also burdened some occupation groups more heavily than others. However, those groups experiencing the highest cost-to-tax ratios were not necessarily the ones with the greatest costs. Their greater burden came from a relatively smaller tax liability.

Generally, the weight of the burden of administrative and compliance costs varies widely from tax to tax. This variation shows some taxes to be much more efficient to administer and comply with than others. The results of this thesis show that for some taxes, administrative and compliance costs are high in relation to the amount of tax. These costs result in an unnecessary misallocation of Montana resources and shows those taxes to be a poor means of gathering revenue when evaluated solely according to the criteria of efficiency. In those cases where inefficiency has been shown to exist, careful examination should be undertaken to reveal the reason. The solution may only require modification of existing tax requirements making complete elimination of the tax unnecessary.

APPENDICES

APPENDIX I

APPENDIX I

Tax Study Department
University of Montana
Missoula, Montana 59801

As a part of the University's contribution to the current study of Montana taxation under the direction of the Legislative Council, we are investigating the compliance costs resulting to taxpayers from personal income and property taxes. Compliance costs are those costs, both in time and money, borne by the taxpayer in keeping the necessary records for preparation of returns and in actually paying the taxes.

These costs are important considerations in evaluating a tax system and any changes that might be made in it. The best way to improve our tax system in this respect is to report information concerning these costs as accurately as possible.

Therefore, we would certainly appreciate your filling out and returning the enclosed questionnaire. Your name was chosen randomly as one to send this questionnaire to, and because of the statistical process involved your response would add materially to the accuracy of this study.

Tax Study Department
University of Montana
Missoula, Montana 59801

TAXPAYER COMPLIANCE COST QUESTIONNAIRE

Instructions: Please answer the following questions so as to describe your situation last year. We know that many of the items can only be estimated, but we would appreciate the best guess you can make.

1. Did you keep any personal records (exclusive of any business you may own or partnership you may have an interest in) only for income tax purposes?

Yes _____ No _____

If so, what was the nature and cost or time involved in their keeping?

Was any portion of these records needed only for Montana tax purposes?

Yes _____ No _____

If so, what portion?

2. How long would you estimate that it took you to prepare your federal personal income tax return?

_____ hours.

In terms of money, how much do you feel this time was worth to you?

\$ _____

3. How many hours in addition to the above would you say that it took you to prepare and remit your Montana income tax return?

_____ hours

4. Did you pay anyone to help you prepare your federal income tax return?

Yes _____ No _____

If so, approximately how much last year?

\$ _____

5. Did you pay anyone to help you prepare your Montana income tax return?

Yes _____ No _____

If so, about how much, in addition to the above, did that cost?

\$ _____

6. What, if any, was the nature and amount of any other costs you incurred in complying with personal income taxation?

7. On your federal return, did you itemize deductions or take the standard 10 percent deduction? Please check one.

Itemized deductions _____

Took standard deduction _____

8. On the average, how many hours per week do you devote to your work?

_____ hours

Questions 9 - 11 apply only to property used for personal, not business purposes. In answering them, if you don't know exactly, please give your best estimate.

9. Did you pay any property taxes on real estate in Montana last year?

Yes _____ No _____

If so, how much?

\$ _____

Were there any costs of complying with this tax (e.g. appealing assessments)?

Yes _____ No _____

If so, what was their nature and amount (time or money)?

10. Did you pay any taxes on motor vehicles?

Yes _____ No _____

If so, how much?

\$ _____

Type of vehicles? (e.g. car, truck)

How much time, if any, did it take you to obtain these licenses?

11. Did you pay any taxes on personal property other than motor vehicles?

Yes _____ No _____

If so, how much?

\$ _____

How much time, if any, did it take you to fill out the form listing this property?

_____ hours.

Were there any other costs of complying with personal property taxation?

Yes _____ No _____

If so, what were their nature and amount (time or money)?

12. Were there any other compliance costs not covered by questions 1 - 11 which you think ought to be mentioned?

Yes _____ No _____

If so, what were they?

13. This last question does not pertain to compliance costs, but its answer would help us in studying the Montana personal income tax. If you had total income from dividends amounting to less than \$50, about how much did they amount to?

\$ _____

Tax Study Department
University of Montana
Missoula, Montana 59801

Gentlemen:

Several weeks ago, the Tax Study Department sent you a questionnaire concerning the compliance costs resulting to businesses from various taxes affecting them. Compliance costs are those costs borne by a taxpayer in keeping records necessary for tax purposes that otherwise would not be kept, to fill out forms and returns, and to remit taxes to the government.

To date, we have not received your questionnaire. Possibly you did not receive the questionnaire or perhaps have misplaced it, and therefore, another one is enclosed for your convenience.

We would appreciate your returning the questionnaire to the Tax Study Department as soon as possible so that complete and accurate data concerning compliance costs may be gathered and compiled.

Sincerely yours,

John H. Wicks, Ph.D.
Assistant Professor of Economics
Director

Tax Study Department
University of Montana
Missoula, Montana 59801

COSTS FROM COMPLYING WITH MONTANA TAX LAWS

Instructions: Please answer the following questions so as to describe your company's situation during its last fiscal year. We know that many of the items can only be estimated, but we would appreciate the best guess you can make.

1. Did you keep any records pertaining to withholding from employee's wages or salaries for Montana income tax purposes which you would not otherwise have kept for federal tax withholding or normal business purposes?

Yes _____ No _____

If you did, what was the general nature of these records?

Approximately how much direct labor cost was involved in keeping them?

What, if any, was the nature and amount of any other costs involved?

What was the total amount of taxes you withheld?

2. Thinking about the withholding of Montana income taxes from employee's wages, did you incur any costs in the submitting of reports and remitting the withholdings to the state of Montana?

Yes _____ No _____

If you did, what was the direct labor cost involved?

What, if any, was the nature and amount of any other costs involved?

3. Do you keep any additional records solely as a result of personal property or other property taxation in Montana?

Yes _____ No _____

If so, what is the general nature of these records?

What is the approximate labor cost involved in keeping them?

What, if any, was the nature and amount of other costs involved in keeping them?

What was the total amount of property (real estate and personal) taxes you paid?

4. Did you incur any cost in actually reporting your personal property subject to tax purposes?

Yes _____ No _____

If so, what was the approximate amount of labor cost involved?

What, if any, was the nature and amount of any other reporting cost involved?

5. Do you incur any other compliance cost as a result of property taxation?

Yes _____ No _____

If so, what is the general nature of such costs?

What is the approximate labor cost involved?

What is the nature and amount of any other costs as a result of property taxation?

6. Do you keep any records solely as a result of the Montana payroll (unemployment compensation) tax?

Yes _____ No _____

If so, what is the approximate labor cost involved in keeping these records.

What, if any, is the nature and amount of any other record keeping costs?

7. Do you incur any costs solely as a result of filing returns covering the payroll tax?

Yes _____ No _____

If so, what is the approximate amount of labor cost involved?

What, if any, is the nature and amount of other costs?

How much payroll tax did you pay?

8. Do you pay any license taxes in Montana other than corporate and vehicle license fees?

Yes _____ No _____

If so, was there any direct labor cost involved in remitting them?

Yes _____ No _____

If you, how much?

What, if any, was the nature and amount of any other costs involved?

How much did you pay in such license taxes? _____

9. Were there any other compliance costs not covered by questions 1-8 which you think ought to be mentioned?

Yes _____ No _____

If so, what were they?

10. And, for purposes of clarification concerning firms in your industry, we would appreciate your answer to the following.

What was the approximate amount of sales of your firm last year?

What is the approximate amount of its payroll? _____

Firm's principal type of business? _____

11. What was the total Montana personal property tax paid? _____

What was the total Montana real property tax paid? _____

What was the total Montana corporation license tax paid? _____

What was the amount of other Montana taxes paid? _____

12. Did you keep any records solely as a result of the Montana Corporation License Tax (Corporation Income Tax) which you would not otherwise have kept for the Federal Corporation Income Tax?

Yes _____ No _____

If you did, what was the general nature of these records?

What was the approximate labor cost involved in keeping them?

What, if any, was the nature and amount of other costs in keeping them?

13. As a result of the Montana Corporation License Tax, did you incur any costs in the submitting of reports and remitting the tax payment to the state of Montana? (Include any other compliance cost which you think results from this tax.)

Yes _____ No _____

If you did, what was the direct labor cost involved?

What, if any, was the nature and amount of other costs involved?

What was the total amount of Corporation License Tax that you paid last year?

APPENDIX II

APPENDIX 2

This questionnaire was used to measure the cost to local county commissioners offices from administering the property tax, inheritance tax, estate tax.

Tax Study Department
University of Montana
Missoula, Montana, 59801

COSTS OF ADMINISTERING MONTANA TAXES

_____ COUNTY COMMISSIONERS OFFICE

Instructions: Please answer the following questions so as to describe your office's experience during the fiscal year ending June 30th, 1965. We know that many of the items can only be estimated, but we would appreciate the best estimate you can make.

1. For the fiscal year ending June 30, 1965, what percentage of your expenditures (e.g. salaries, wages, maintenance and operation, and miscellaneous expense) were made directly or indirectly in the administration of the tax on real estate?

_____ %

Are there any other costs of administering the tax on real property which would not be reflected in your expenditures last year?

Yes _____ No _____

If Yes, what was the general nature and amount of these additional costs?

2. What percentage of your expenditures were made directly or indirectly in the administration of the tax on personal property (other than motor vehicles)?

_____ %

Are there any other costs of administering the tax on personal property (other than motor vehicles)?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs?

3. What percentage of your expenditures were made in the administration of motor vehicle registration and use taxes (including motor carrier fees)?

_____ %

Are there any other costs of administering these motor vehicle registration and use taxes which would not be reflected in the expenditures of your office?

Yes _____ No _____

If yes, what was their general nature and amount?

4. In cooperation with the State Board of Equalization, was your office directly or indirectly involved in the administration of either the inheritance tax or the estate tax?

If yes, what portion of your expenditures were made in the administration of these taxes?

_____ % inheritance tax

_____ % estate tax

Are there any other costs of administering the estate or inheritance taxes which would not be reflected in your expenditures?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs? (Please specify for each tax).

This questionnaire was designed to measure the cost to local county treasurer's offices from administering the property tax, inheritance tax, estate tax.

Tax Study Department
University of Montana
Missoula, Montana 59801

COSTS OF ADMINISTERING MONTANA TAXES

_____ COUNTY TREASURER'S OFFICE

Instructions: Please answer the following questions so as to describe your office's experience during the fiscal year ending June 30th, 1965. We know that many of the items can only be estimated, but we would appreciate the best estimate you can make.

1. For the fiscal year ending June 30, 1965, what percentage of your expenditures (e.g. salaries, wages, maintenance and operation, and miscellaneous expense) were made directly or indirectly in the administration of the tax on real estate?

_____ %

Are there any other costs of administering the tax on real property which would not be reflected in your expenditures last year?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs?

2. What percentage of your expenditures was made directly or indirectly in the administration of the tax on personal property (other than motor vehicles)?

_____ %

Are there any other costs of administering the tax on personal property (other than motor vehicles)?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs?

3. What percentage of your expenditures were made in the administration of motor vehicle registration and use taxes (including motor carrier fees)?

_____ %

Are there any other costs of administering these motor vehicle registration and use taxes which would not be reflected in the expenditures of your office?

Yes _____ No _____

If yes, what was their general nature and amount?

4. In cooperation with the State Board of Equalization, was your office directly or indirectly involved in the administration of either the inheritance tax or the estate tax?

If yes, what portion of your expenditures were made in the administration of these taxes?

_____ % inheritance tax

_____ % estate tax.

Are there any other costs of administering the estate or inheritance taxes which would not be reflected in your expenditures?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs? (Please specify for each tax.)

5. Because the data available to us is incomplete, would you please indicate total revenue collected in the fiscal year ending June 30, 1965, for each of the following taxes?

a. Montana Estate Tax \$ _____

b. Montana Inheritance Tax \$ _____

This questionnaire was designed to measure the cost to local county assessor's offices from administering the property tax, inheritance tax, estate tax.

Tax Study Department
University of Montana
Missoula, Montana 59801

COSTS OF ADMINISTERING MONTANA TAXES
_____ COUNTY ASSESSOR'S OFFICE

Instructions: Please answer the following questions so as to describe your office's experience during the fiscal year ending June 30th, 1965. We know that many of the items can only be estimated, but we would appreciate the best estimate you can make.

1. For the fiscal year ending June 30, 1965, what percentage of your expenditures (e.g. salaries, wages, maintenance and operation, and miscellaneous expense) were made directly or indirectly in the administration of the tax on real estate?

_____ %

Are there any other costs of administering the tax on real property which would not be reflected in your expenditures last year?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs?

2. What percentage of your expenditures was made directly or indirectly in the administration of the tax on personal property (other than motor vehicles)?

_____ %

Are there any other costs of administering the tax on personal property (other than motor vehicles)?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs?

3. What percentage of your expenditures were made in the administration of motor vehicle registration and use taxes (including motor carrier fees)?

_____ %

Are there any other costs of administering these motor vehicle registration and use taxes which would not be reflected in the expenditures of your office?

Yes _____ No _____

If yes, what was their general nature and amount?

4. In cooperation with the State Board of Equalization, was your office directly or indirectly involved in the administration of either the inheritance tax or the estate tax?

_____ % inheritance tax

_____ % estate tax

Are there any other costs of administering the estate or inheritance taxes which would not be reflected in your expenditures?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs? (Please specify for each tax.)

5. Are the expenditures for the reclassification office, if any, in your county reflected in the expenditures for the assessor's office?

Yes _____ No _____

This questionnaire was used to measure the cost to the local county clerk and recorders offices from administering to property tax, inheritance tax, estate tax.

Tax Study Department
University of Montana
Missoula, Montana 59801

COSTS OF ADMINISTERING MONTANA TAXES

_____ COUNTY CLERK AND RECORDER'S OFFICE

Instructions: Please answer the following questions so as to describe your office's experience during the fiscal year ending June 30th, 1965. We know that many of the items can only be estimated, but we would appreciate the best estimate you can make.

1. For the fiscal year ending June 30, 1965, what percentage of your expenditures (e.g. salaries, wages, maintenance and operation, and miscellaneous expense) were made directly or indirectly in the administration of the tax on real estate?

_____ %

Are there any other costs of administering the tax on real property which would not be reflected in your expenditures last year?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs?

2. What percentage of your expenditures were made directly or indirectly in the administration of the tax on personal property (other than motor vehicles)?

_____ %

Are there any other costs of administering the tax on personal property (other than motor vehicles)?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs?

3. What percentage of your expenditures were made in the administration of motor vehicle registration and use taxes (including motor carrier fees)?

_____ %

Are there any other costs of administering these motor vehicle registration and use taxes which would not be reflected in the expenditures of your office?

Yes _____ No _____

If yes, what was their general nature and amount?

4. In cooperation with the State Board of Equalization, was your office directly or indirectly involved in the administration of either the inheritance tax or the estate tax?

If yes, what portion of your expenditures were made in the administration of these taxes?

_____ % inheritance tax

_____ % estate tax

Are there any other costs of administering the estate or inheritance taxes which would not be reflected in your expenditures?

Yes _____ No _____

If yes, what was the general nature and amount of these additional costs? (Please specify for each tax).

5. Because the data available to us is incomplete, would you please indicate total revenue collected in the fiscal year ending June 30, 1965, for each of the following taxes?

a. Real Property Tax \$ _____

b. Personal Property Tax (other than motor vehicles)
\$ _____

c. Motor Vehicle Registration and Use Taxes.
\$ _____

6. Please check each office in the following list which is not located in the Court House.

County Commissioners	_____	District Court	_____
Clerk and Recorder	_____	Sheriff's Office	_____
County Treasurer	_____	County Attorney	_____
Auditor	_____	Justices' Court	_____
Assessor	_____	Coroner	_____
County Surveyor	_____		

Are there offices not in the above list which are located in the Court House?

Yes _____ No _____

If yes, please list these offices below.

- a.
- b.
- c.

APPENDIX III

APPENDIX 3

These tables present the compliance cost of the federal personal income tax.

TABLE 50

COMPLIANCE COST OF THE FEDERAL PERSONAL INCOME TAX USING
EACH INDIVIDUAL'S ESTIMATE AS TO THE VALUE OF HIS OWN COMPLIANCE
TIME - PRESENTED FOR EIGHT INCOME CATEGORIES AS A PERCENTAGE
OF TAX PAID AND AS A PERCENTAGE OF INCOME

Income Category	Average Record Keeping Cost	Average Filing Cost	Average Remittance Cost	Total Average Cost	<u>Cost</u> <u>Tax Paid</u>	<u>Cost</u> <u>Income</u>
0 To \$ 3,000	\$ 8.56	\$ 26.73	\$ 21.69	\$ 56.98	59.00%	1.20%
3,000 To 5,000	44.49	17.26	18.62	80.37	31.28	1.04
5,000 To 7,500	16.12	11.56	6.01	33.69	5.85	.50
7,500 To 10,000	49.47	25.38	9.10	83.95	9.47	.95
10,000 To 15,000	80.01	48.37	19.68	148.06	10.07	1.13
15,000 To 25,000	89.21	63.83	38.32	192.08	10.11	1.17
25,000 To 50,000	81.46	74.42	82.16	238.04	11.78	.70
Over 50,000	15.00	26.25	130.80	172.05	1.35	.51
A <u>Cost</u> <u>Tax</u> = 13.1%		A <u>Cost</u> <u>Tax</u> = 50.1%				

These two averages were derived by using a weighting procedure explained in the footnotes at the bottom of Table 30.

TABLE 51

COMPLIANCE COST OF THE FEDERAL PERSONAL INCOME TAX USING
EACH INDIVIDUAL'S ESTIMATE AS TO THE VALUE OF HIS OWN COMPLIANCE
TIME - PRESENTED FOR SEVEN OCCUPATION CATEGORIES AS A PER-
CENTAGE OF INCOME

Occupation	Average Record Keeping Cost	Average Filing Cost	Average Remittance Cost	Total Average Cost	Cost Tax Paid	Cost Income
Farming and Ranching	\$ 41.86	\$ 9.86	\$ 8.79	\$110.51	11.80%	.61%
Professional	73.76	33.95	10.86	118.56	7.1%	.7%
Self-Employed Other Than Professional	22.17	14.11	67.19	103.47	1.7%	.6%
Managerial	91.09	11.60	40.27	142.96	1.1%	.1%
White Collar Service and Clerical	49.70	21.61	1.59	72.90	10.1%	.2%
Skilled and Unskilled Labor	11.11	15.02	7.89	34.02	7.1%	.1%
Salesman	127.52	16.12	40.01	183.65	11.1%	.1%
				AVERAGE	7.1%	.1%

TABLE 53

COMPLIANCE COST OF FEDERAL PERSONAL INCOME TAX USING EACH
INDIVIDUAL'S AVERAGE HOURLY WAGE AS A COMPLIANCE TIME
VALUE - PRESENTED FOR SEVEN OCCUPATION CATEGORIES AS
A PERCENTAGE OF TAX PAID AND AS A PERCENTAGE OF INCOME

Occupation	Average Record Keeping Cost	Average Filing Cost	Average Remittance Cost	Total Average Cost	Cost Tax Paid	Cost Income
Farming and Ranching	\$ 98.11	\$114.98	\$38.79	\$251.88	21.80%	1.34%
Professional	100.24	106.56	30.86	237.66	8.41	1.16
Self-Employed Other Than Professional	47.79	134.93	67.19	249.91	7.73	1.24
Managerial	150.38	46.56	49.27	246.21	6.83	4.14
White Collar Service and Clerical	48.60	20.95	3.59	73.14	11.60	1.18
Skilled and Unskilled Labor	43.41	22.22	7.29	72.92	11.60	.62
Salesman	363.71	13.10	40.01	416.82	25.32	3.05
				AVERAGE	13.33%	

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