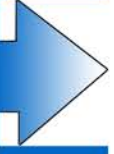


# ANNUAL REPORT 2006





Iowa Department of Revenue

Director: Mark R. Schuling  
Hoover State Office Building  
Des Moines, Iowa 50319  
phone (515) 281-3204

December 1, 2006

The Honorable Thomas J. Vilsack  
Governor  
State Capitol Building  
Des Moines, Iowa 50319

The Honorable Members  
Iowa General Assembly  
Statehouse  
Des Moines, Iowa 50319

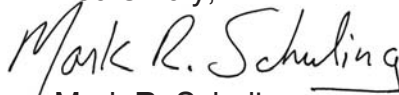
Dear Governor Vilsack  
and Members of the Iowa General Assembly:

On behalf of the staff of the Iowa Department of Revenue, I am pleased to submit our Fiscal Year 2006 Annual Report. The mission of our Department is "To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more." This is accomplished by providing taxpayers with current and complete information, and up-to-date technology to support tax filings and payments. This report provides information about some of the ways in which that mission was accomplished during the past fiscal year.

We recognize our responsibilities to the taxpayers, and service is a priority. We are pleased to offer our professional services through the Internet and will continue to make progress and improve on those services.

Our actions will comply with the statutory provisions of the State of Iowa, and our duties under those statutes will be carried out in a fiscally responsible manner. Thank you for this opportunity to serve you and our State.

Yours truly,

  
Mark R. Schuling  
Director

FISCAL YEAR 2006

IOWA DEPARTMENT OF REVENUE

# IOWA DEPARTMENT OF REVENUE

To be recognized as a Department employing a well-trained work force that in a fair and respectful manner provides responsive and accurate services that enable all customers to comply with Iowa's tax law.

To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more.

- We will create an environment of collaboration and partnership in order to improve voluntary compliance with Iowa's tax system.
- We will safeguard our customers' confidential information.
- We will provide a consistent, fair and professional program of collection services.
- We will improve our methods of processing tax returns and payments and managing tax revenues so that these transactions will be timely, accurate and cost effective.
- We will support Department operations by responsibly managing our finances to provide an environment that nurtures our human resources, enhances technology platforms and continues a strong program of performance measurement and evaluation.
- We will provide education and supervision so that property assessment will be uniform, fair and equitable, and we will assist local governments by efficiently administering the local option tax programs.
- We will provide expert advice and support to policy-makers and to local and state government entities to promote economic growth in the state and accountability in the administration of the state tax system.

Compliance Division ..... Wendell Dickey, Interim  
Internal Services Division ..... Cynthia Morton  
Property Tax Division ..... Dick Stradley  
Revenue Operations Division ..... Stuart Vos  
Taxpayer Services and Policy Division ..... David Casey, Interim  
Technology and Information Management Division .... Richard Jacobs

## Our Vision

## Our Mission

## Our Goals

## Division Administrators

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Individual Income Tax, Corporation Income Tax  
Partnership Income Tax, Franchise Income Tax  
Sales Tax, Retailer's Use Tax  
Consumer's Use Tax, Local Option Taxes  
Hotel / Motel Tax, Car Rental Tax  
Withholding Tax, Motor Fuel Tax  
Cigarette / Tobacco Tax, Inheritance & Estate Taxes  
Fiduciary Tax, Property Tax  
Motor Vehicle Use Tax, Drug Stamp Tax  
Real Estate Transfer Tax, Moneys & Credits Tax

**Taxes  
Established  
by Iowa Code**

# MAJOR ACCOMPLISHMENTS

## ***Electronic Filing of Business Taxes***

Withholding: 98% of all returns were e-filed through eFile & Pay

Paper: 6,671

E-filed: 322,744

Sales/Use: 93% of all returns were e-filed through eFile & Pay

Paper: 27,292

E-filed: 369,165

LPG: 99% of all returns were e-filed through eFile & Pay

120 filers

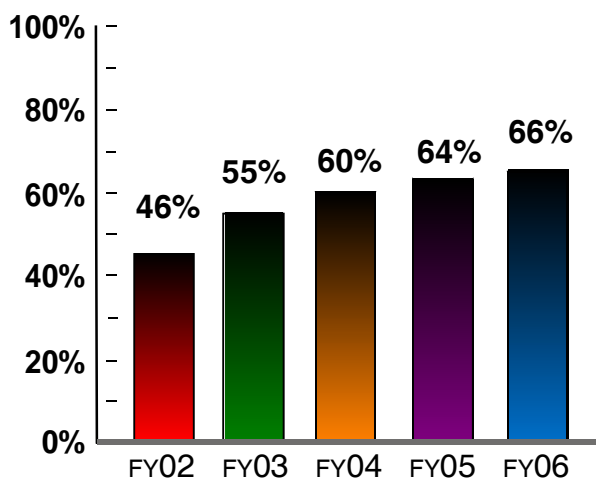
Motor Fuel: 99% of all returns were e-filed through eFile & Pay

270 filers

## ***Electronic Filing of Individual Income Tax***

For tax year 2005, 66 percent of individual income tax returns were filed electronically. Ninety-six percent of e-filers had their refunds in 14 days. Eighty-six percent of refunds from paper-filed returns were issued in 60 days.

### ***Iowans Choose to eFile Individual Income Tax Returns***



## FISCAL YEAR 2006

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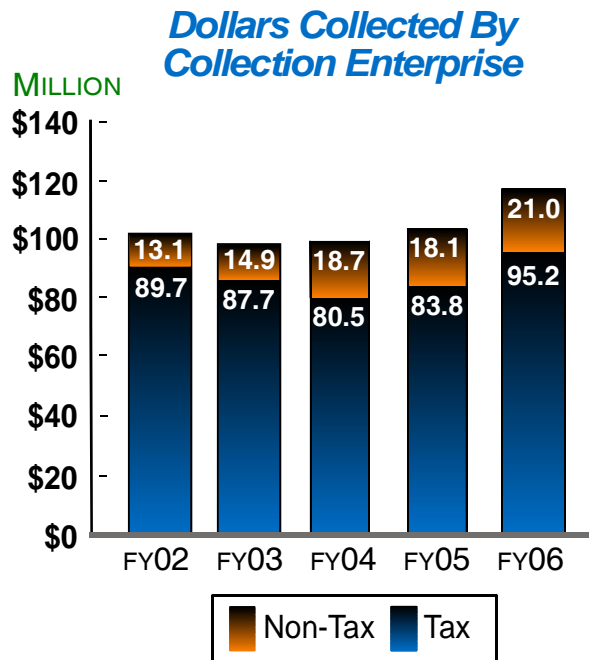
Iowa has more than 120,000 businesses collecting sales tax and more than 83,000 employers withholding income tax.

The Department processes more than 1.4 million individual income tax returns. Almost 63% are refund returns.

# MAJOR ACCOMPLISHMENTS

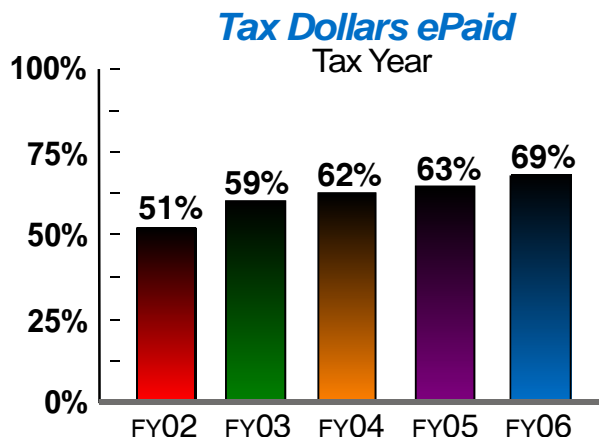
## Collections

- Began collecting Department of Natural Resources debt.
- Special Events Vendors: Encouraged permanent tax permits; 37% attending more than three events obtained permanent permits. Increased collections by mail instead of onsite visits.
- Motor Vehicle Use Tax: Improved exemption certificate review by going from a bulky mail process to a sleek computerized process.
- Technology Improvements: More sophisticated auto dialer techniques using virtual agent technology and credit bureau scoring is now used for calling campaigns. Federal data is used to obtain asset information for increased collections.



## Electronic Payments

The Department received 69% of all deposits electronically.



## FISCAL YEAR 2006

Child support, college loan, and court debt are also collected by the Department.

Electronic payment options include direct debit (ePay through eFile & Pay), ACH credit, and credit card. Sixty-eight percent of withholding and 50% of sales and use payments were received through ePay.

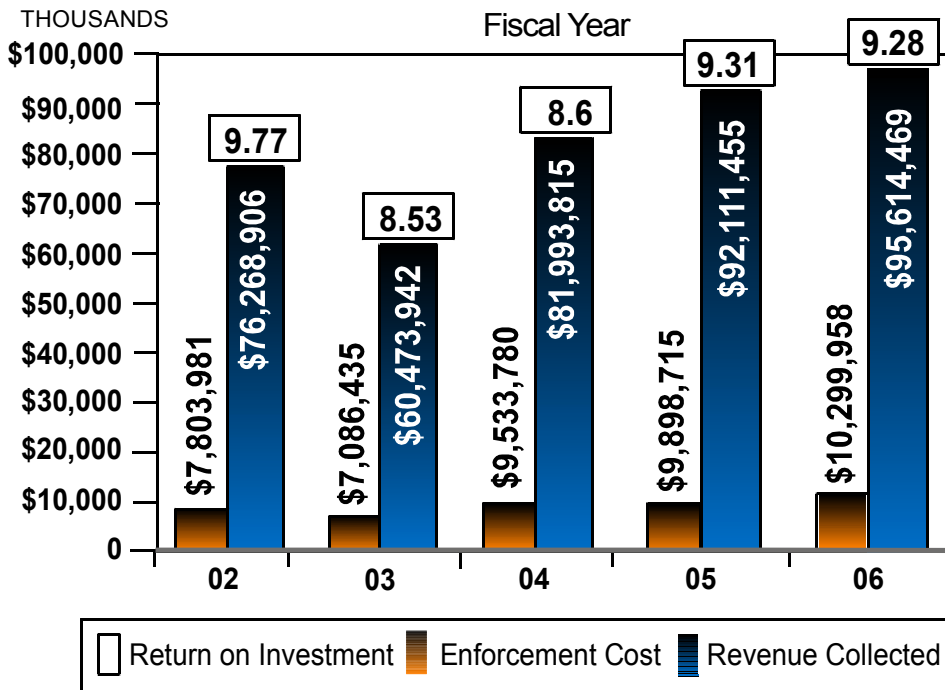
# MAJOR ACCOMPLISHMENTS

FISCAL YEAR 2006

## Return on Investment

Every \$1 invested in audit activities generated \$9 in taxes collected. An investment of \$9.89 million in audit activities produced more than \$95 million for the General Fund to finance services to Iowans.

### Return on Investment Dollars Spent on Enforcement Versus Dollars Collected



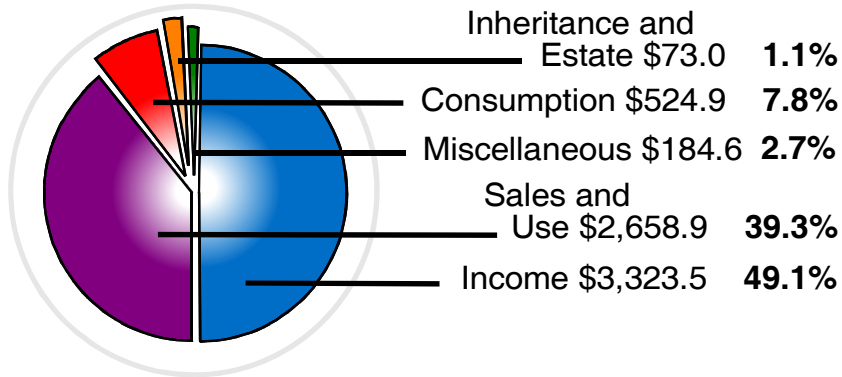
Revenue collected continues to increase as additional tools are developed to aid compliance activities.

# GROSS TAX COLLECTIONS AND REFUNDS

FISCAL YEAR 2006

## Gross Tax Collections - \$6,764.9

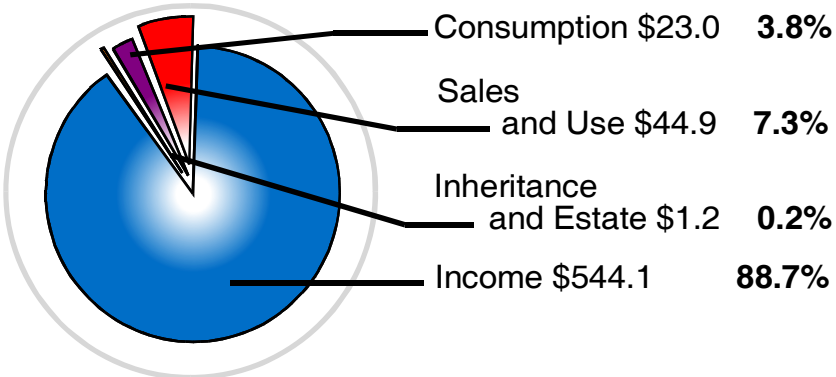
MILLION



Electronic payment options speed up the deposit of revenues, improving the State's cash flow.

## Tax Refunds - \$613.2

MILLION

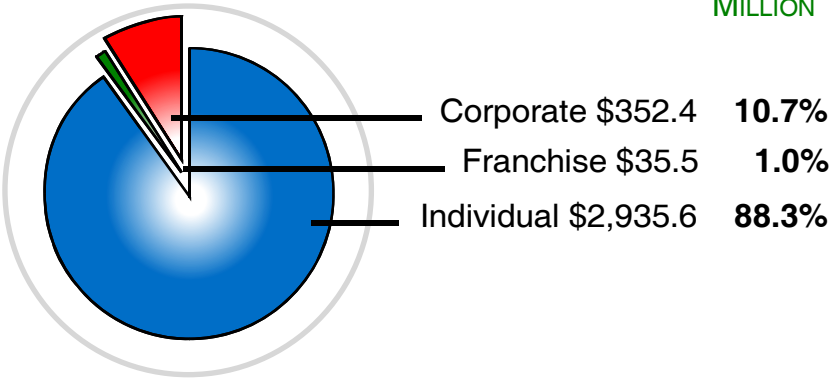


Individuals and businesses may obtain refunds of tax they paid in error.

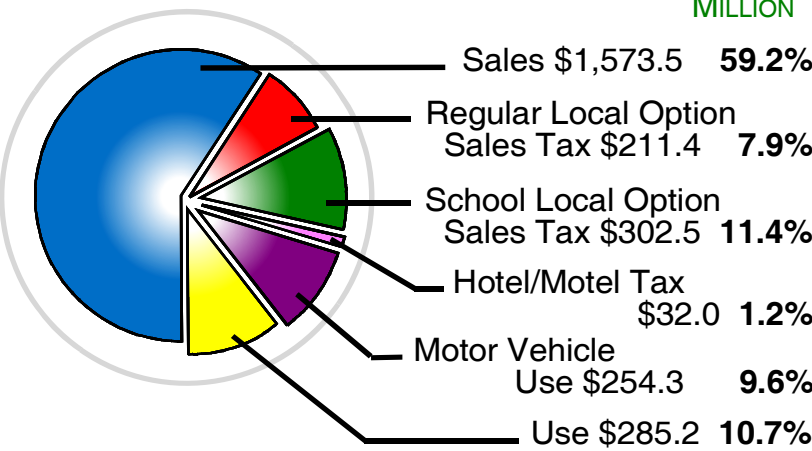


# REVENUE SOURCES

## Income Taxes - \$3,323.5 MILLION



## Sales/Use Taxes - \$2,658.9 MILLION



## FISCAL YEAR 2006

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School district surtax is collected with individual income tax returns. For tax year 2006, \$75.7 million was distributed to 290 of Iowa's 365 school districts. The surtax is used for educational improvement programs.

Sixty of Iowa's 99 counties had a total sales tax rate of 7%. Eleven counties were at 6%; 27 had varying rates, and one was at 5%.

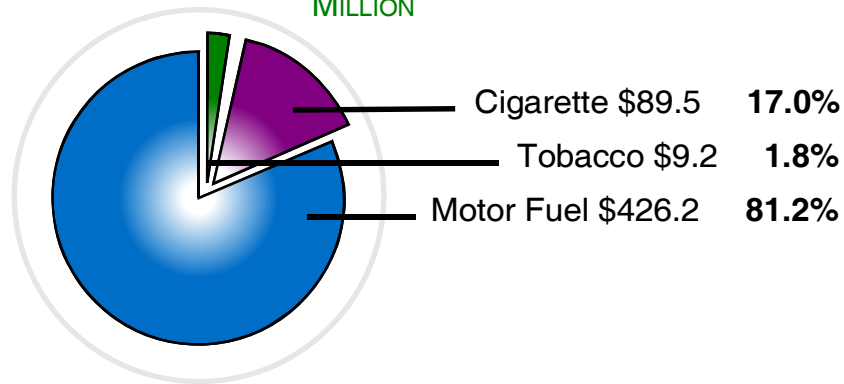
In a typical year, Iowans register about 800,000 vehicles and pay the motor vehicle use tax.

# REVENUE SOURCES

FISCAL YEAR 2006

## Consumption - \$524.9

MILLION

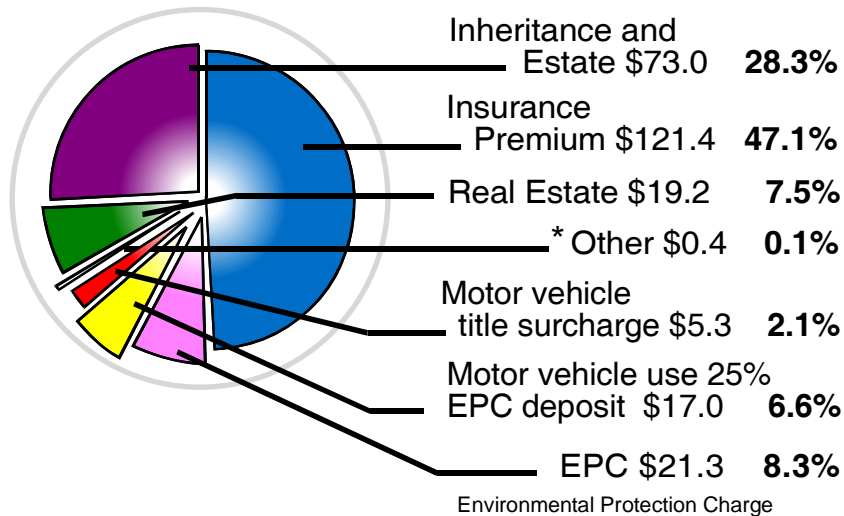


Cigarettes are taxed at 36 cents for a pack of 20 and 45 cents for 25. Other tobacco products are taxed at a rate of 22 percent of the wholesale price.

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## Other - \$257.6

MILLION

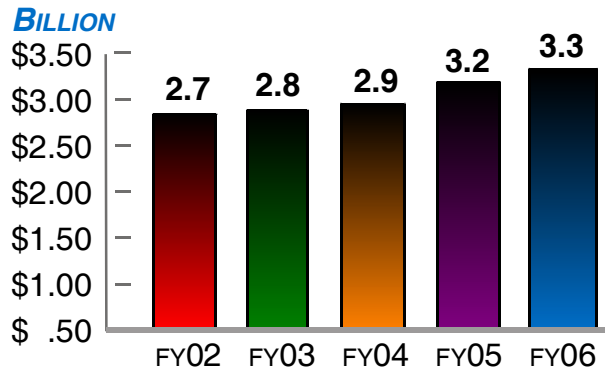


\* Hazardous materials permit fee, Reimbursements, Miscellaneous

The insurance premium tax is administered by the Iowa Department of Commerce. The Iowa Department of Revenue serves as a depository. The tax is imposed on the premiums of every insurance company except fraternal beneficiary associations.

# GROSS COLLECTIONS BY TAX TYPE 5-YEAR COMPARISON

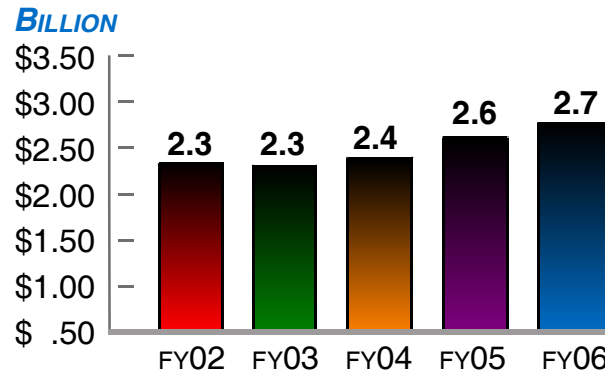
## Income



## FISCAL YEAR 2006

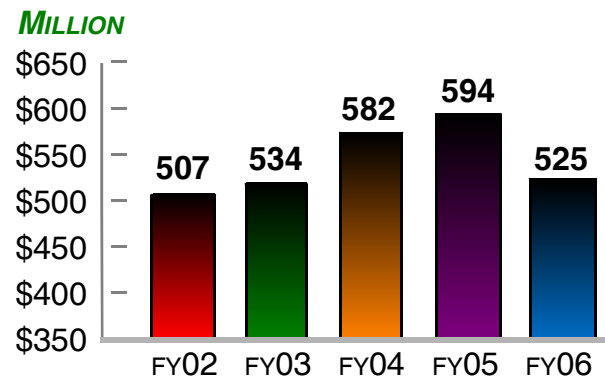
Income taxes include individual, corporation and franchise.

## Sales/Use



Sales, use and motor vehicle use taxes are represented. The state rate for each of these is 5 percent.

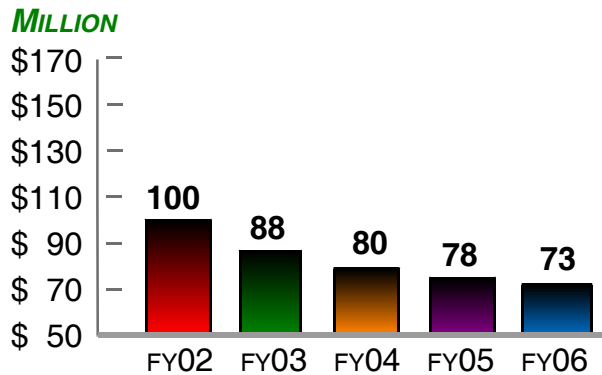
## Consumption



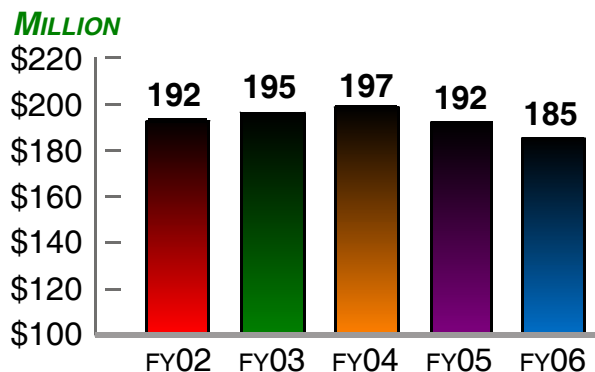
“Consumption” taxes are cigarette, tobacco, and motor fuel taxes.

# GROSS COLLECTIONS BY TAX TYPE 5-YEAR COMPARISON

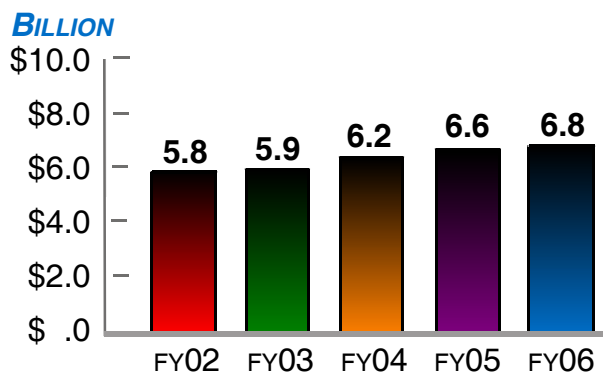
## *Inheritance and Estate*



## *Miscellaneous*



## *All Tax Types*



## FISCAL YEAR 2006

In 1997, Iowa law eliminated inheritance tax on lineal ascendants and descendants, including step-children. For deaths after January 1, 2005, Federal law changed the state death tax credit to a deduction, thus eliminating Iowa estate tax.

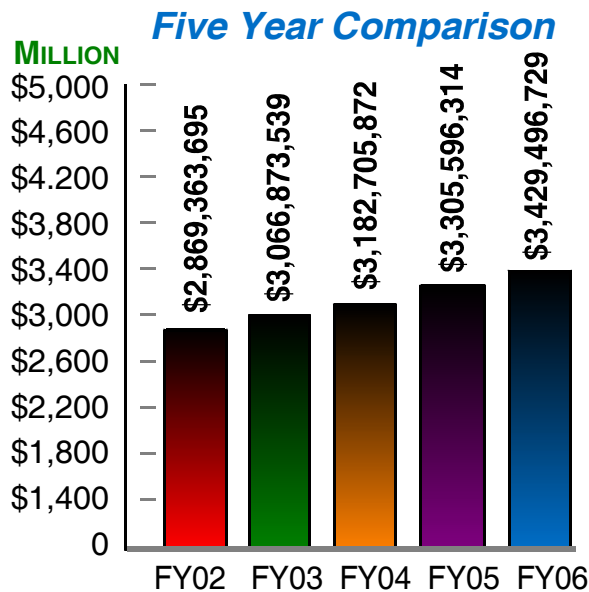
### Miscellaneous Taxes include:

- Environmental Protection Charge
- Motor Vehicle Use 25% EPC Deposit
- Real Estate Transfer Tax
- Hazardous Materials Permit Fees
- Insurance Premium Tax
- Reimbursements
- Motor Vehicle Title Surcharge
- Other

# PROPERTY TAX

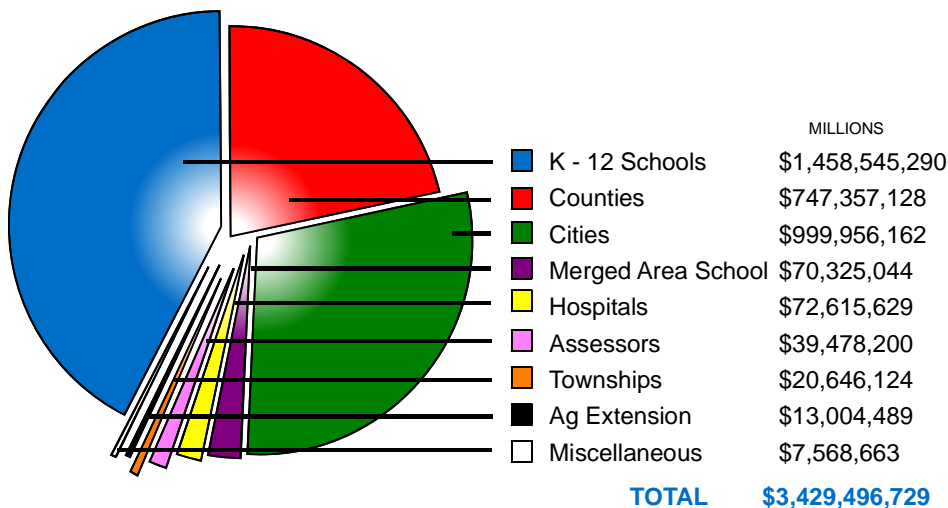
FISCAL YEAR 2006

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## Property Tax Levied By Type of Taxing Authority

TOTAL \$3,429,496,729



The Department assists local governments in making property tax assessments fair and in compliance with the law. It also assesses all railroads, utilities and pipelines in the state, administers certification exams for assessors and deputy assessors, and issues equalization orders every two years.

### ***Tax Gap Program***

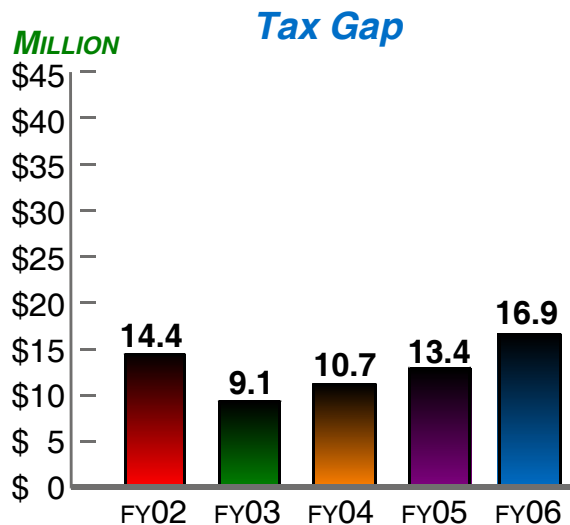
The Tax Gap Program is a Department initiative to improve tax compliance through advanced utilization of technology. Tax Gap consists of four major components: Enterprise Data Warehouse (EDW), Business Intelligence, Web-based Audit Component application, and a number of automated interface programs.

During FY06, three additional internal and external source system data files were loaded to the EDW to support and enhance match programs and the business user with needed information to improve compliance processes.

Heightened usability of Business Object reports occurred by promoting these reports to all field auditors and by utilization of these reports by the Department's Collections Section. More than 190 Department employees are now utilizing 117 available reports.

In FY06, enhanced functionality of the Web-based Audit Component was completed to support additional tax types and interface programs to further automate audit activities and the movement of audit results. Better audit coverage has been provided through the enhancements made to the system, resulting in an average of 33 percent more returns being reviewed by Compliance Division staff.

The Tax Gap Program successfully recognized \$16.9 million during FY06, which is a 24 percent increase from FY05. Total Tax Gap program revenues since its initiation in 2000 are \$70.0 million.



Tax Gap began in 1999 when the Department partnered with an outside vendor to provide data warehousing technology.

Cutting-edge data warehouse technology permitted 33 percent more returns to be reviewed by Compliance Division staff.

### ***Compliance Report***

Fiscal Year 2006 was a successful year in that most of the goals established for the year were met. While compliance is not always measured in terms of dollars collected, projections for FY06 exceeded \$95.7 million dollars for revenue collections and refund reductions made through audits of selected refund claims. This broke down as follows:

- \$41.2 million from office exams
- \$5.1 million from in-state field audit
- \$4.0 million from out-of-state field audit
- \$16.9 million from Tax Gap
- \$28.5 million from refund claim reductions

This was a 4 percent increase over FY05 enforcement totals.

As a Charter Agency, the Department produced more than \$3.2 million in revenue collected or reduced interest paid out through expediting refunds. The Department was provided with funding to hire additional staff, which resulted in a \$3.2 million increase to the General Fund.

While much emphasis is given to enforcement collections, the department's primary focus and best way to secure compliance is through taxpayer service and education programs. The Department continues to provide more electronic filing options for Iowa taxpayers and more self-help and 24/7 service to the general public. By providing more self-help options, the number of calls handled directly by our Taxpayer Service Specialists dropped from 108,000 in FY05 to 99,000 in FY06. The number of e-mail inquiries and responses did rise from 24,500 in FY05 to 29,300 in FY06.

Most taxpayers file and pay their taxes voluntarily. Non-compliant taxpayers are pursued through a variety of audit programs.

Auditors are located in Iowa, Illinois, Washington, Kansas and Pennsylvania.

# SUPPLEMENTAL REPORTS

## ***Report on Information System Activity Integrated Revenue Information System (IRIS)***

### **Streamlined Sales Tax Project**

Applications that permit the receipt and processing of sales tax transactions and payments from retailers participating under the Streamlined Sales Tax Project were developed. New processes allow the secure receipt of tax transactions from various types of filers over the Internet. These services were designed in such a way as to assist the Department in implementing additional e-filing solutions.

### **Business Tax eFile & Pay**

Enhancements to IRIS were made, which expanded services offered through the eFile & Pay application. Electronic filing of motor fuel tax returns and schedules and filing of sales tax consolidated return data are now allowed. Additional maintenance on IRIS expanded interfaces between eFile & Pay and applications that support functional areas such as tax compliance, collections and fiscal analysis.

Currently, more than 95 percent of sales and withholding tax quarterly tax returns are filed electronically. eFile & Pay supports the electronic payment of taxes, and, in fiscal year 2006, more than 82 percent of sales and withholding taxes were remitted electronically. Efforts continue to increase acceptance of the program and to ensure that customer satisfaction remains strong.

### **Individual Income Tax Returns**

Once again, Iowans have accepted the use of electronic filing of income tax returns in record numbers, with nearly 925,000 returns filed electronically in 2006. This represents almost two-thirds of all income tax returns filed. Because of the high degree of accuracy of electronically-filed returns and the efficiency of tax return processing through IRIS, the Department achieved its goal of processing more than 95 percent of electronic refund requests within 14 days of receipt for the fifth consecutive year.

### ***Individual Income Tax Abatements - Calendar 2005***

The director of the Department of Revenue is provided with the statutory authority "to abate any portion of tax, interest or penalties which he determines are excessive in amount, or erroneously or illegally assessed." Abatements apply to those cases in which the initial protest occurs after the 60-day appeal period has expired and in which the taxpayer produces records substantiating the claim to reduced tax liability.

The table below summarizes the individual income tax abatements allowed in calendar 2005:

Number of Returns	Tax	Penalty (includes fees)	Interest	Total Amounts
2,629	\$7,822,859	\$908,944	\$2,591,747	\$11,323,550

FISCAL YEAR 2006

Extending the availability of electronic services continues to be an area of emphasis. The Department received more than 2 million transactions and payments via its electronic services.



# LEARN MORE ABOUT US

FISCAL YEAR 2006

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## **Results Iowa**

To learn about the department's goals, strategic and performance plans, and the strategies we use to achieve results, please see our page on the Results Iowa Web site at <http://www.resultsiowa.org/revenue.html>

## **Online Services, Tax Forms and Publications**

[www.state.ia.us/tax](http://www.state.ia.us/tax)

## **Assistance from a tax specialist:**

E-mail: [idr@iowa.gov](mailto:idr@iowa.gov)

Telephone: **515/281-3114** or **1-800-367-3388**

TDD for hearing impaired: **515/242-5942**

Mail: **Taxpayer Services**

**Iowa Department of Revenue**

**PO Box 10457**

**Des Moines, Iowa 50306-0457**