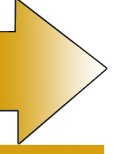


# ANNUAL REPORT 2007



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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 Tax  
Fiduciary Tax, Property Tax  
Motor Vehicle Use Tax, Drug Stamp Tax  
Real Estate Transfer Tax, Moneys & Credits Tax

**Taxes  
Established  
by Iowa Code**

**IOWA**  **Department of REVENUE**

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

December 1, 2007

**The Honorable Chester J. Culver**  
**Governor**  
**State Capitol Building**  
**Des Moines, Iowa 50319**

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

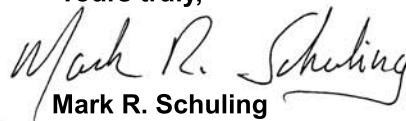
**Dear Governor Culver**  
**and Members of the Iowa General Assembly:**

On behalf of the staff of the Iowa Department of Revenue, I am pleased to submit our Fiscal Year 2007 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**

# 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 administration of the state tax system.

## ***Department Administration***

Director ..... Mark Schuling  
Administrator, Compliance Division ..... David Casey  
Administrator, Internal Services Division ..... Cynthia Morton  
Administrator, Property Tax Division ..... Dale Hyman  
Administrator, Revenue Operations Division ..... Stuart Vos  
Administrator, Taxpayer Services & Policy Division ..... David Casey  
Administrator, Technology & Information  
Management Division ..... Richard Jacobs

**Our Vision**

**Our Mission**

**Our Goals**

# SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2007

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

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

Paper: 4,241

E-filed: 329,880

Sales/Use: 95% of all returns were e-filed through eFile & Pay

Paper: 20,525

E-filed: 383,466

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

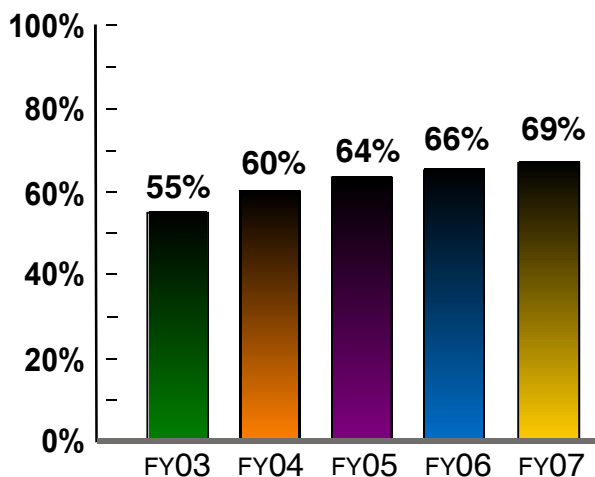
Nearly \$4 billion (84%) of sales and withholding dollars were received electronically.

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

For tax year 2006, 69 percent of individual income tax returns were filed electronically. More than 97 percent of e-filers had their refunds in 14 days.

For tax year 2006, Iowa led the nation with 69% of returns filed electronically.

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



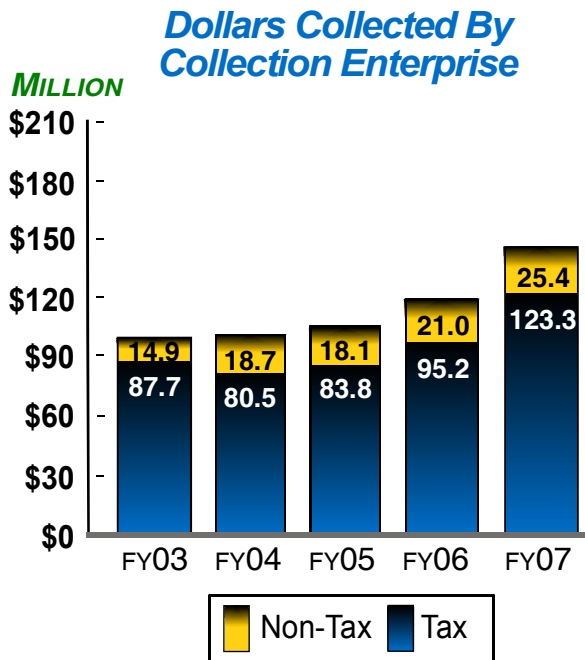
The Department processes more than 1.4 million individual income tax returns. Almost 63 percent are refund returns.

# SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2007

## Collections

The Department significantly upgraded its collections software with the installation of "Strata," which uses data-based modeling to stratify accounts. Collections increased from \$116 million in FY06 to \$148 million.

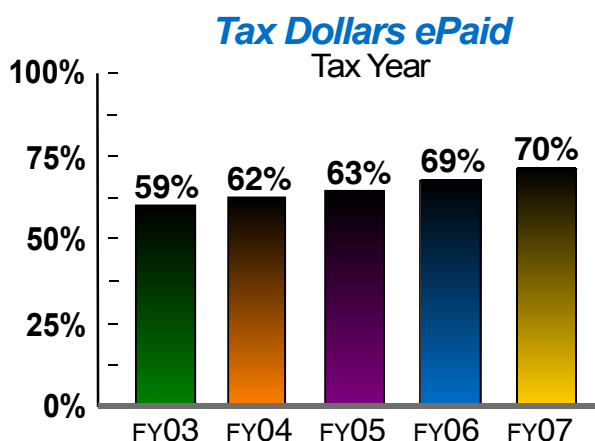


In addition to taxes, the Department also collects:

- child support
- college loan
- court debt
- Department of Natural Resources debt

## Electronic Payments

The Department received 70 percent of all deposits electronically.



Electronic payment options include:

- direct debit (ePay through eFile & Pay)
- electronic funds transfer, and
- credit card.

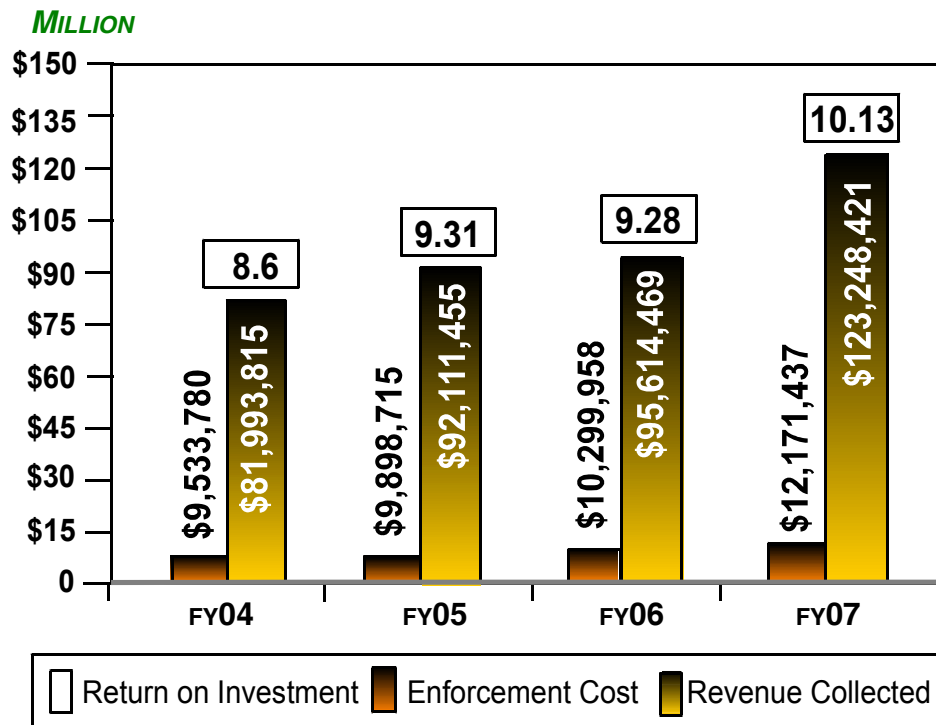
# SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2007

## Return on Investment

Every \$1 invested in audit activities generated more than \$10 in taxes collected. An investment of \$12.2 million in audit activities produced more than \$123 million for the General Fund to finance services to lowans.

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



The vast majority of taxpayers file their returns and pay their taxes on time. In fairness to them, the Department collects unpaid taxes.

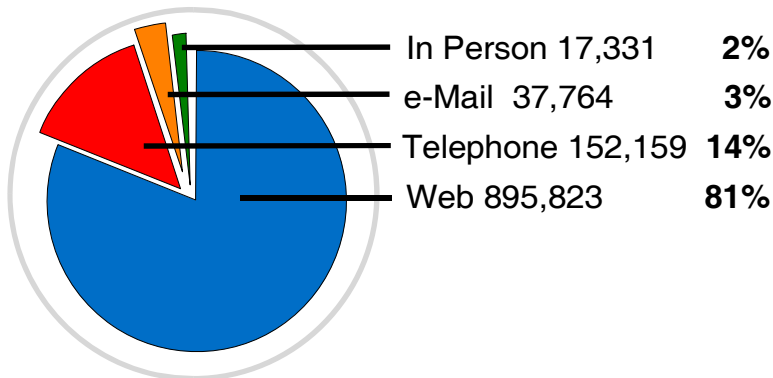
# SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2007

## *Taxpayer Contacts*

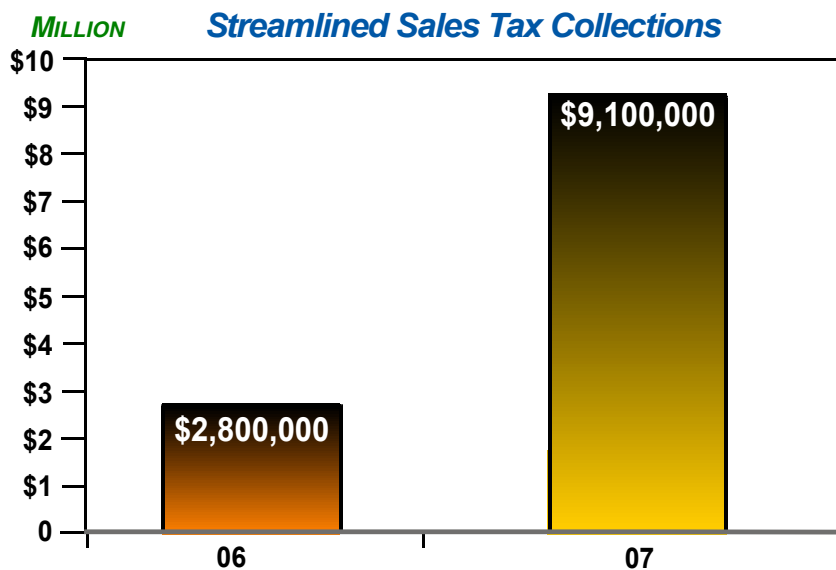
Iowa taxpayers seek out the Department for answers to their questions and information about taxes. Tax specialists are available by telephone and e-mail; in addition, they teach classes statewide for businesses and tax practitioners. Electronic services are available 24/7.

### *Taxpayer Contacts 1,103,077*



## *Streamlined Sales Tax*

Iowa received approximately \$9.1 million from Streamlined Sales Tax Project returns. Total collections since 2005 are more than \$15 million.



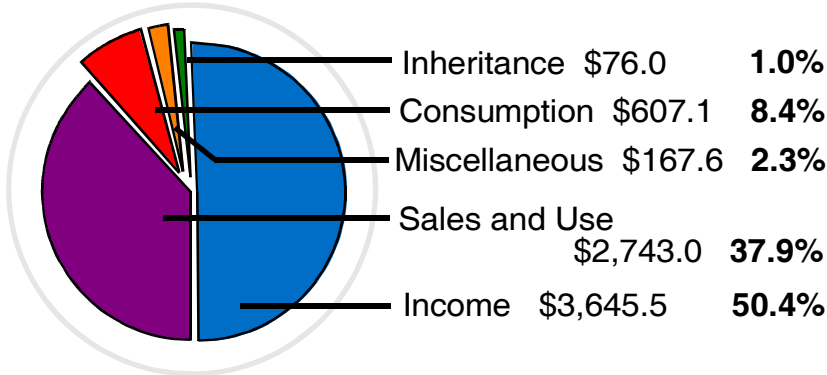
More than 1,000  
retailers nationwide  
have voluntarily  
registered to collect  
sales tax.



# GROSS TAX COLLECTIONS AND REFUNDS

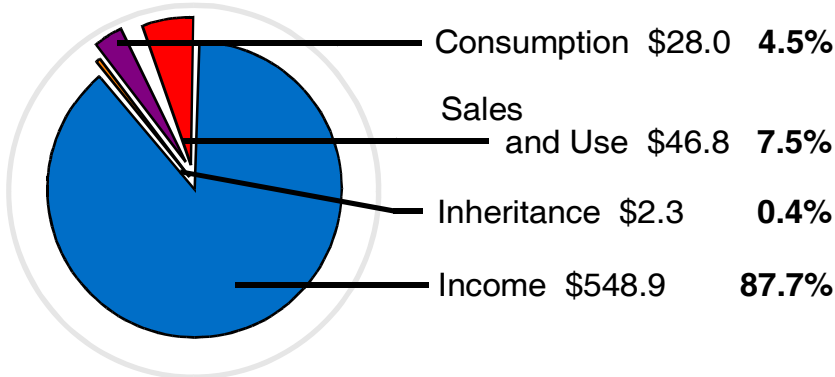
FISCAL YEAR 2007

## Gross Tax Collections - \$7,239.2 MILLION



Last year's gross collections were \$6,773.9 million.

## Tax Refunds - \$625.9 MILLION

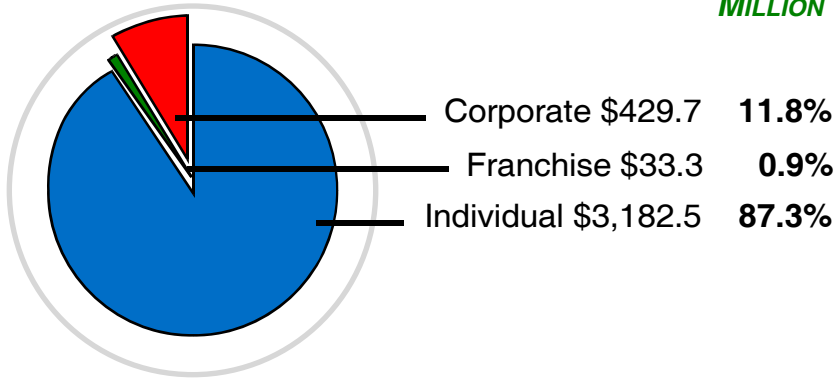


Individuals and businesses may obtain refunds of tax they paid in error. The statute of limitations for refunds is three years.

# REVENUE SOURCES

FISCAL YEAR 2007

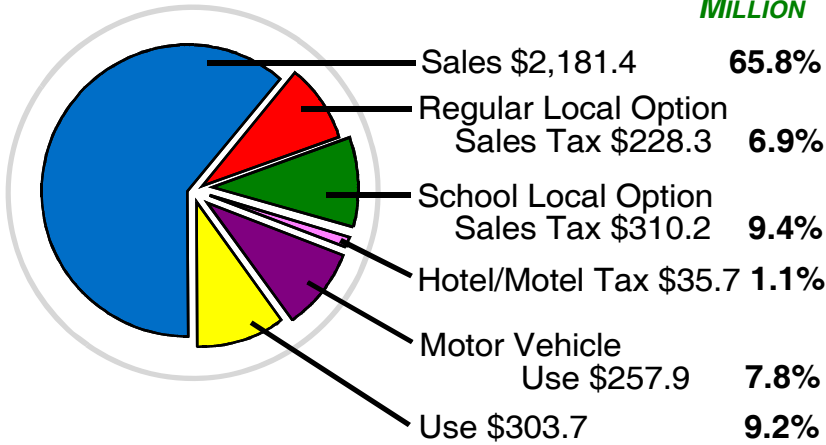
## *Income Taxes - \$3,645.5* *MILLION*



### Number of returns:

- Corporate: 37,756
- Franchise: 545
- Individual: 1,491,484

## *Sales/Use Taxes - \$2,743.0* *Total Including Local Option Taxes - \$3,317.2* *MILLION*



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

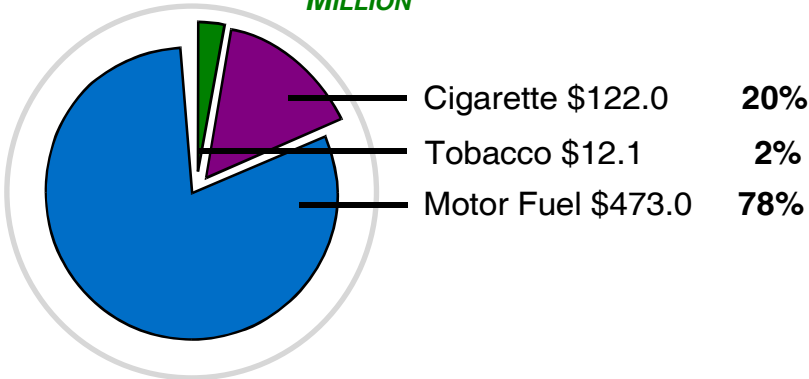
### Use tax includes:

- consumer's use
- retailer's use

# REVENUE SOURCES

FISCAL YEAR 2007

## Consumption - \$607.1 MILLION

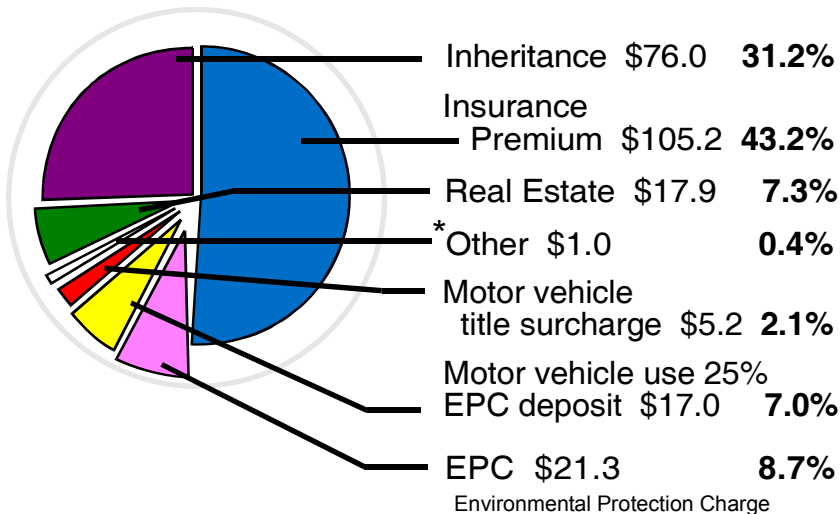


The cigarette tax increased from 36¢ to \$1.36 on March 16, 2007.

### Motor fuel tax rates per gallon:

- Gasoline: 21¢
- Ethanol: 19¢
- E85: 17¢
- Diesel: 22.5¢

## Other - \$243.6 MILLION



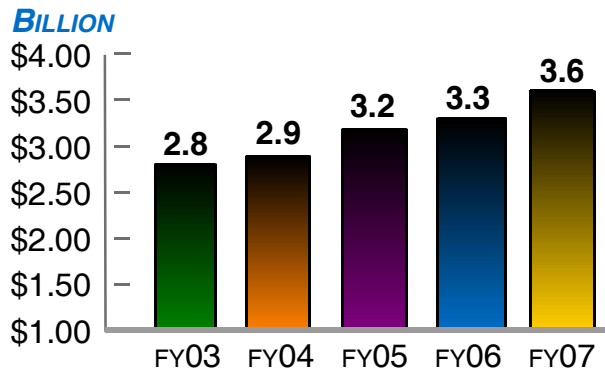
The real estate transfer tax is imposed on the amount paid for the property. The first \$500 of the amount paid for the property is exempt. The remainder is taxed at \$1.60 per thousand dollars.

\* Hazardous materials permit fee, Reimbursements, Miscellaneous

# GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

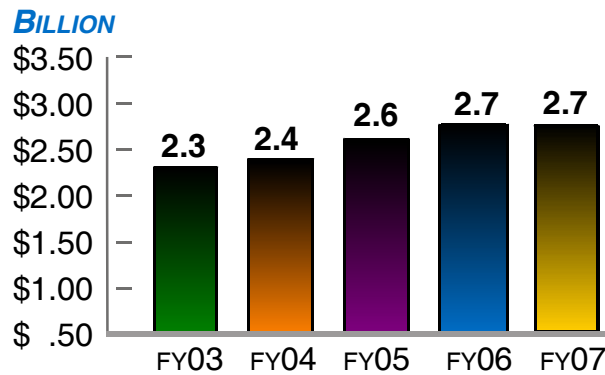
FISCAL YEAR 2007

## Income



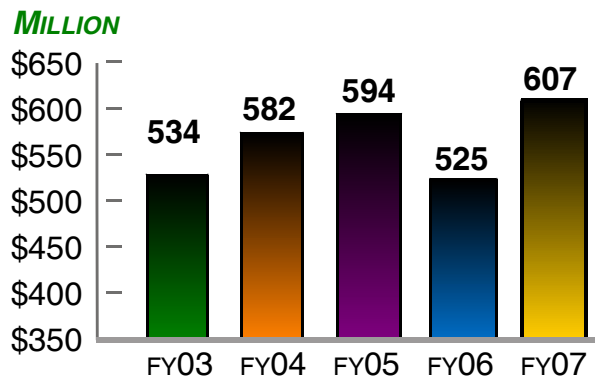
Income taxes include individual, corporation and franchise.

## State Sales/Use



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

## Consumption

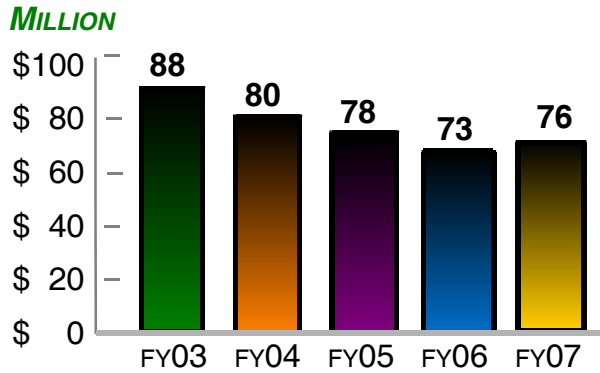


“Consumption” taxes are cigarette, tobacco, and motor fuel taxes.

# GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

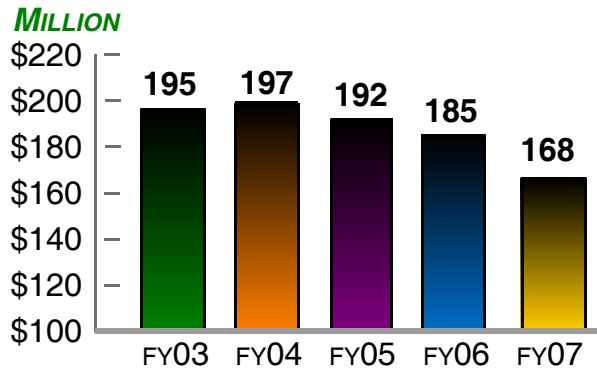
FISCAL YEAR 2007

## Inheritance



Lineal ascendants and descendants, including step-children, are exempt from paying Iowa inheritance tax. Iowa estate tax was eliminated in 2005.

## Miscellaneous

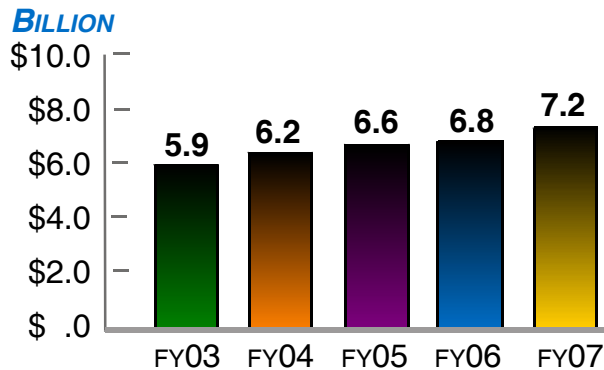


Miscellaneous Taxes include:

- 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

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## All Tax Types

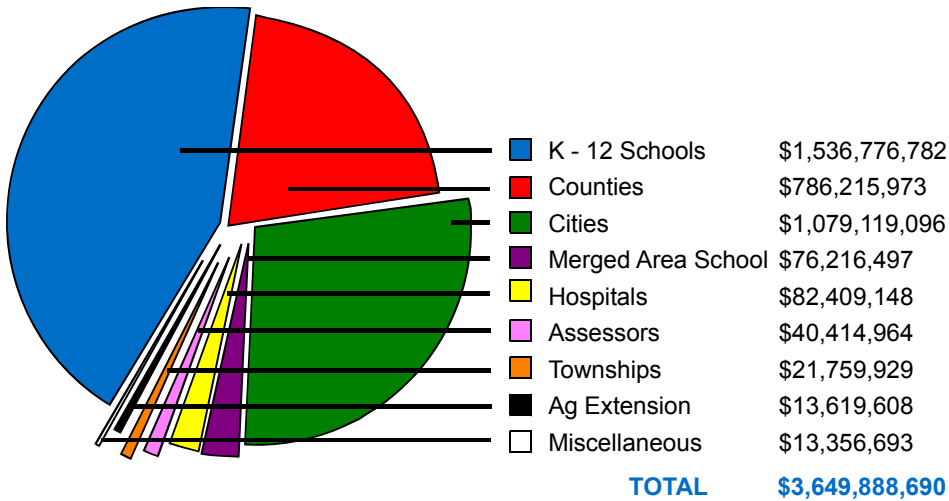


# PROPERTY TAX

FISCAL YEAR 2007

## Property Tax Levied By Type of Taxing Authority

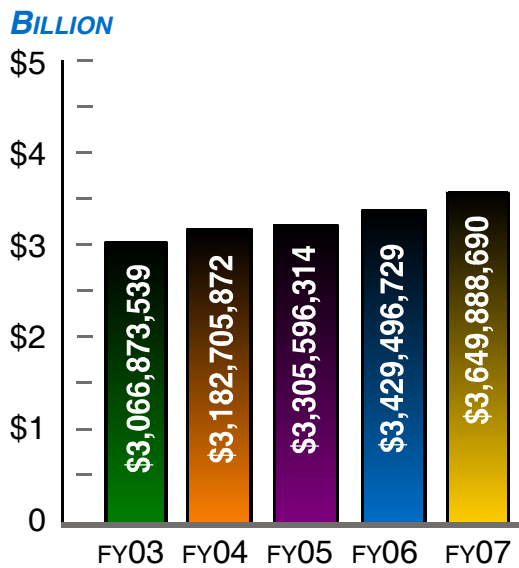
TOTAL \$3,649,888,690



### The Department:

- administers credits and exemptions to property owners
- educates, certifies and assists assessors and boards of review
- issues equalization orders every two years
- assesses utility and railroad properties
- generally supervises assessor offices and boards of review

## Annual Comparison



# SUPPLEMENTAL REPORTS

FISCAL YEAR 2007

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## *Tax Gap Program*

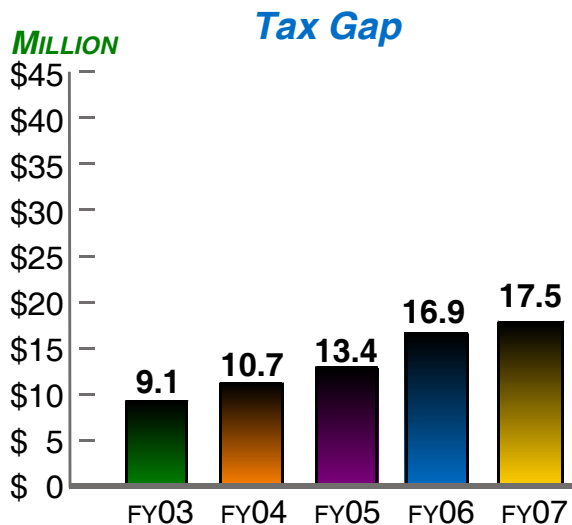
The Tax Gap Program is a Department initiative to improve tax compliance through advanced utilization of technology. Tax Gap consists of four major components: Enterprise Data Warehouse (EDW), Business Intelligence, Web-based Audit Component application, and a number of automated interface programs.

During FY07, additional information was added from the processing system for the various tax types. Information in the Data Warehouse was used to help in the development of the Collections Strata Project.

The Business Object Program was upgraded and reports were created for use by various divisions of the Department. More than 200 Department employees are now utilizing 185 available reports.

In FY07 enhancements of the Audit Component Program were completed in order to improve correspondence generation, security, and overall functionality. Audit programs were enhanced to reduce the time needed to investigate audit leads and to increase the return on investment.

The Tax Gap Program collected \$17.5 million during FY07.



**Total Tax Gap program revenues since its initiation in 2000 are \$86.4 million.**

# SUPPLEMENTAL REPORTS

FISCAL YEAR 2007

## ***Compliance Report***

Fiscal Year 2007 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, collections for FY07 exceeded \$123.2 million for revenue collections and refund reductions made through audits of selected refund claims. The break down is as follows:

- \$58.3 million from office exams
- \$6.5 million from in-state field audit
- \$8.0 million from out-of-state field audit
- \$19.3 million from Tax Gap
- \$31.1 million from refund claim reductions

As a Charter Agency, the Department produced more than \$8.1 million in revenue collected or reduced interest paid out through expediting refunds.

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.

## ***Individual Income Tax Abatements*** Calendar 2006

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 2006:

<b>Number of Returns</b>	<b>Tax</b>	<b>Penalty (includes fees)</b>	<b>Interest</b>	<b>Total Amounts</b>
1,631	\$6,557,131	\$620,404	\$1,954,854	\$9,132,389

**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 State, Kansas and Pennsylvania.**



# SUPPLEMENTAL REPORTS

FISCAL YEAR 2007

## *Report on Information System Activity*

### ***Integrated Revenue Information System (IRIS)***

#### **Business operations**

The IRIS application was enhanced at the request of various units to provide additional functionality and opportunities for increased efficiency in business operations. Among the more significant improvements are:

- a process that allows electronic transfer of payment data from the IRIS to the Accounts Receivable system; previously, payments posted to IRIS required several manual processes.
- the ability to record staff notes and comments on transaction records
- improvements in the processes used to distribute local option taxes

#### **Security enhancements**

In addition, IRIS development focused on enhancing the security of data. Primary among the improvements were:

- an inventory of all data extracted for use in other Department information systems and
- the elimination of unnecessary historical data sets in accordance with newly-developed data retention policies.

### ***eServices***

The Department continued to improve the services and marketing of its various electronic filing initiatives.

#### **Individual Income Tax Returns**

Nearly 977,000 individual income tax returns were electronically filed. Due to increased accuracy of these returns, refunds were often issued in only a few days.

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

Businesses filed 97 percent of all sales and withholding quarterly tax returns through the eFile & Pay program.

Electronic filing of detailed transaction reports from the motor fuel industry was implemented . This allows the Department to electronically receive over 250,000 records of sales of fuel on a monthly basis, which ensures compliance with reporting requirements.

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**Once again, Iowa taxpayers took advantage of the ease and accuracy of electronic filing in record numbers by submitting over 2 million electronic transactions.**

# LEARN MORE ABOUT US

FISCAL YEAR 2007

## ***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 [www.resultsiowa.org/revenue.html](http://www.resultsiowa.org/revenue.html)

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

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

Additional statistics are online in Publications > Statistical Reports.

- Sales and use quarterly and annual reports
- Local option tax distributions
- Motor fuel monthly reports
- Individual income tax reports

Information about taxes are online in Research.

- Descriptions and rates
- History of tax rates
- Legislative summaries
- Tax credits
- Declaratory orders

## ***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**