

IOWA  Department of **REVENUE**

Annual
Report
2009

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FISCAL YEAR 2009

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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 Tax
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

December 31, 2009

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

The Honorable Members
Iowa General Assembly
State Capitol Building
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 2009 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."


In 2009, the Department focused on voluntary compliance through taxpayer service and education programs. 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. The Department provided answers to more than 1 million Iowa taxpayer contacts in person, by e-mail, by telephone, and through the Web. The Department accomplishes these objectives and its mission by providing taxpayers with current and complete information, and up-to-date technology to support tax filings and payments.

Additionally in 2009, we focused on security enhancements and the addition of electronic filing of business income tax returns. We continue to promote electronic filing and payment, as this will speed up processing and refunds for Iowans.

We enter the tax season with reduced staffing levels and no temporary employees due to budget constraints. We are sorry for the inconvenience and understand the impact on paper return filers.

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

Our Vision

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.

Our Mission

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

Our Goals

- 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 | Roger Stirler |
| 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 |

SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2009

Electronic Filing of Business Taxes

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

Paper: 3,828

E-filed: 339,158

Sales/Use: 96% of all returns were e-filed through eFile & Pay.

Paper: 18,089

E-filed: 391,099

Liquefied Petroleum Gas: 99% of all returns were e-filed through eFile & Pay.

1,198 filers

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

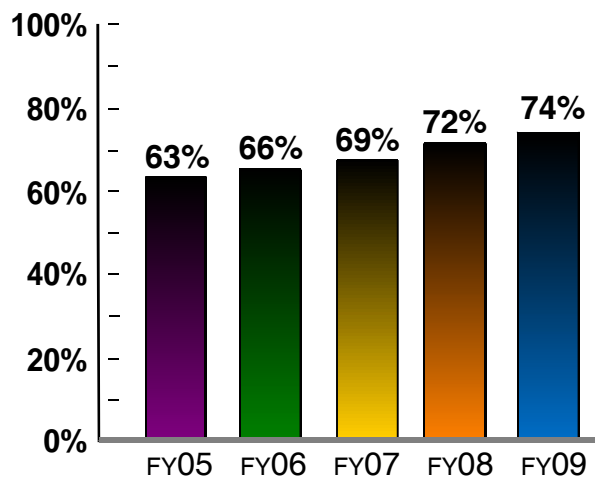
6,379 filers

Over \$5 billion (87.3%) of sales and withholding dollars were received electronically.

Electronic Filing of Individual Income Tax

For tax year 2009, 74% of individual income tax returns were filed electronically. 95% of e-filers had their refunds in 14 days.

Iowans Choose to eFile Individual Income Tax Returns



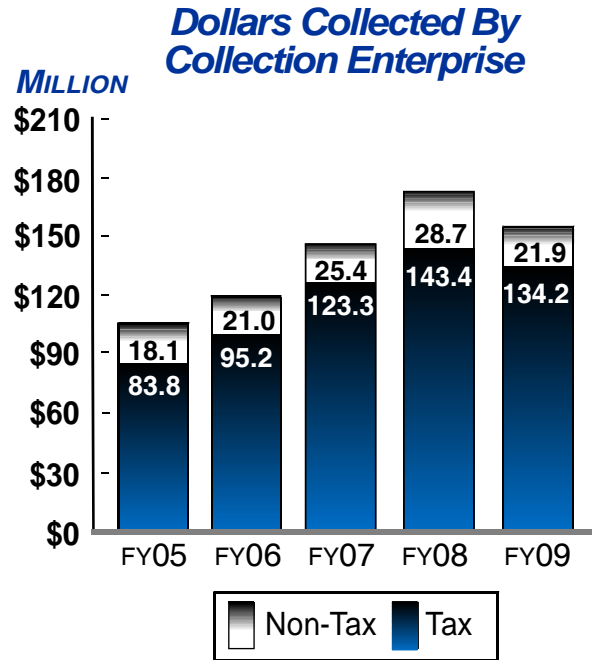
The Department processes more than 1.5 million individual income tax returns. Almost 64% are refund returns.

SIGNIFICANT ACHIEVEMENTS

The Department's centralized collection services are available to other state agencies.

Collections

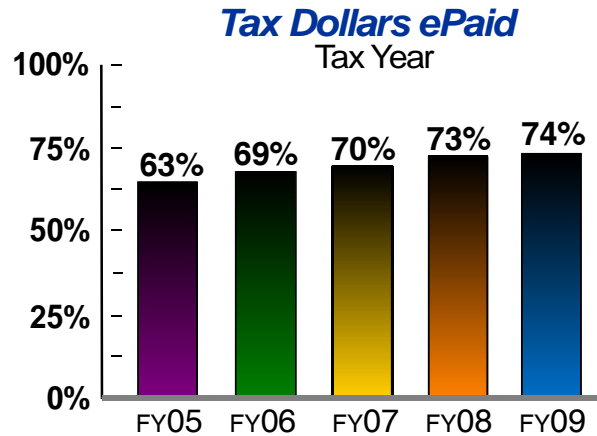
FY09 collections totaled \$156.1 million.



FY08 collections include \$12.4 million generated through the Tax Amnesty Program.

Electronic Payments

The Department received 74% of all deposits electronically.



Electronic payment options include:

- free direct debit (ePay through eFile & Pay)
- electronic funds transfer
- credit/debit card

SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2009

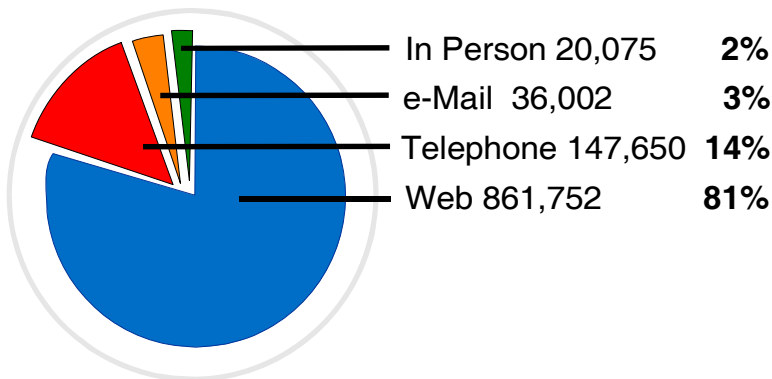
Taxpayer Contacts

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 to businesses and tax practitioners. Electronic services are available 24/7.

95.3% of calls to Taxpayer Services are answered within 60 seconds.

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Taxpayer Contacts 1,065,479

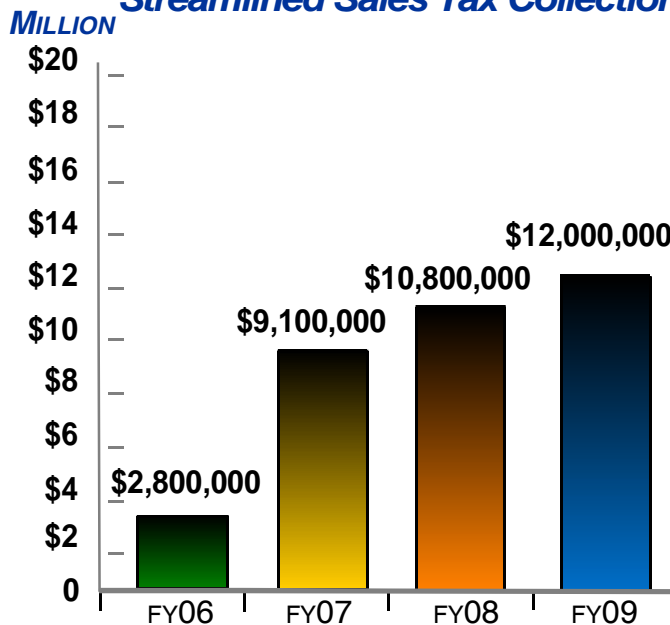


Streamlined Sales Tax

Iowa received approximately \$12 million from Streamlined Sales Tax Project returns. Total collections since 2006 are almost \$34 million.

More than 1,200 retailers nationwide have voluntarily registered to collect sales tax.

Streamlined Sales Tax Collections



SIGNIFICANT ACHIEVEMENTS

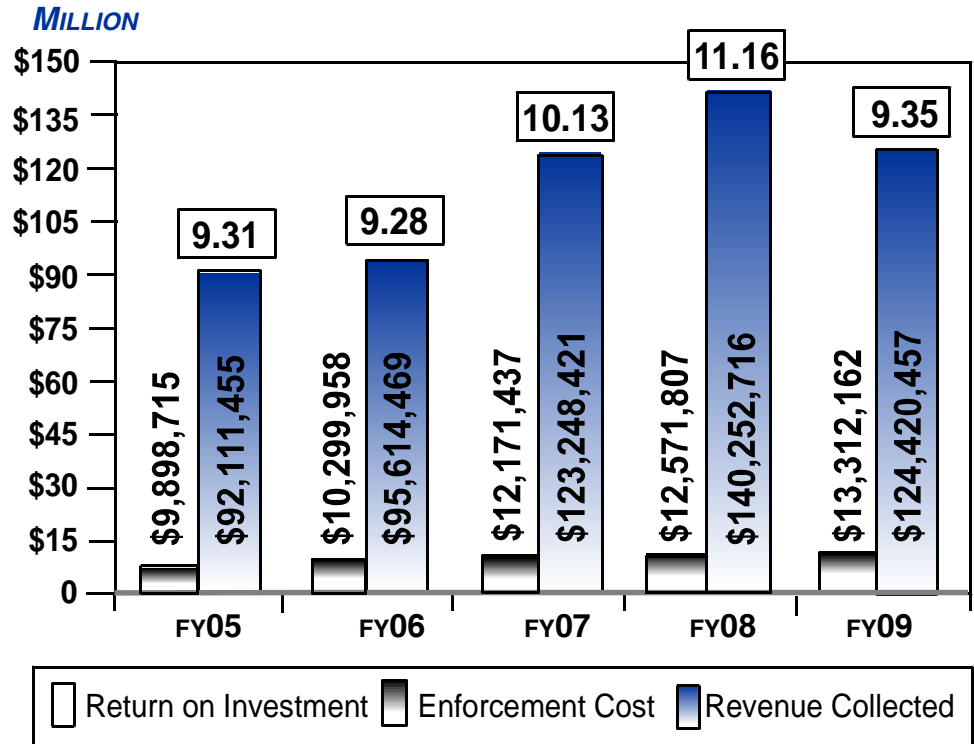
The vast majority of taxpayers file their returns and pay their taxes on time. In fairness to them, the Department collects unpaid taxes.

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Return on Investment

Every \$1 invested in audit activities generated more than \$9 in taxes collected. An investment of \$13.3 million in audit activities produced more than \$124 million for the General Fund to finance services to Iowans.

Return on Investment Dollars Spent on Enforcement Versus Dollars Collected

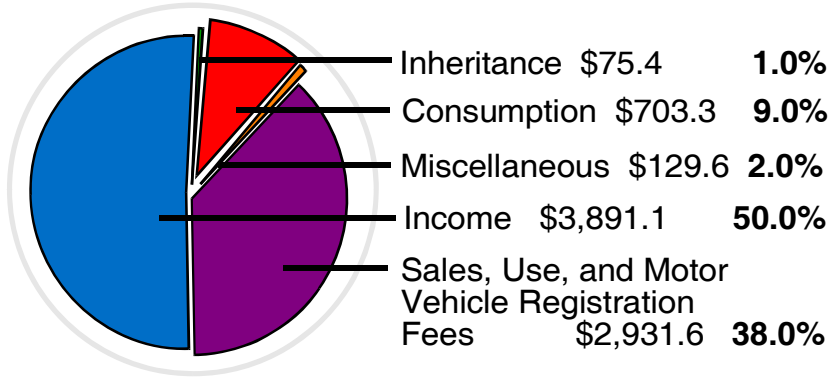


GROSS TAX COLLECTIONS AND REFUNDS

FISCAL YEAR 2009

Gross Tax Collections - \$7,731.

MILLION

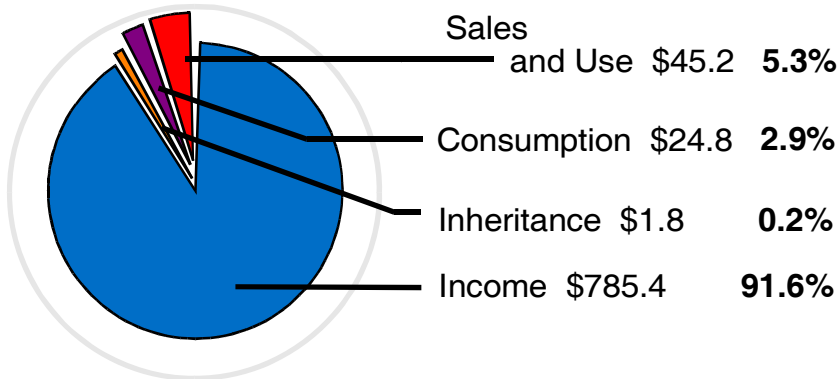


FY08 gross collections were \$7,836.1 million.

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

Tax Refunds - \$857.2

MILLION



More than 95% of taxpayers who e-filed their individual income tax returns received their refunds in 14 days.

REVENUE SOURCES

Number of returns:

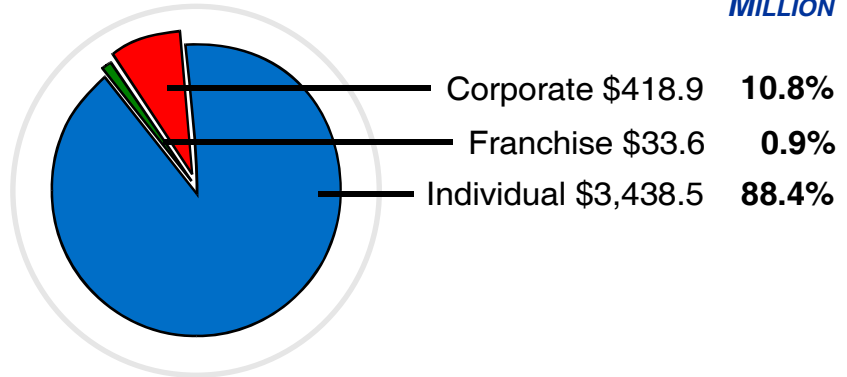
- Corporation: 37,436
- Franchise: 521
- Individual: 1,470,636
- S corporation: 71,083
- Partnership: 52,549

School districts received \$373.7 million through the SAVE initiative.

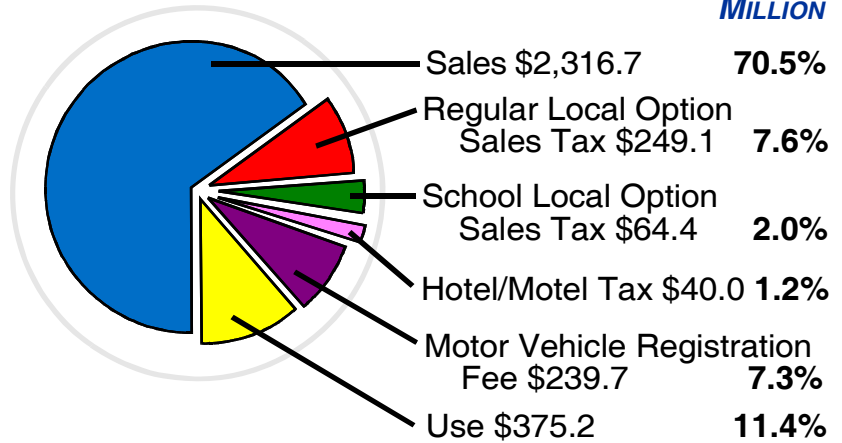
Use tax includes:

- consumer's use
- retailer's use

Income Taxes - \$3,891.0 MILLION



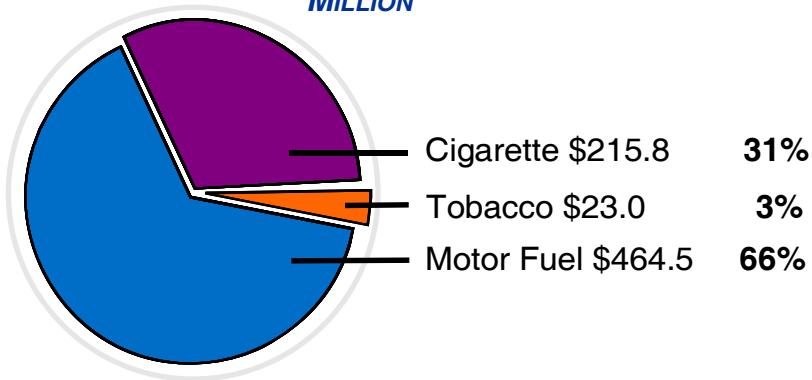
Sales/Use Taxes - \$2,931.6 MILLION
Total Including Local Option Taxes - \$3,285.1 MILLION



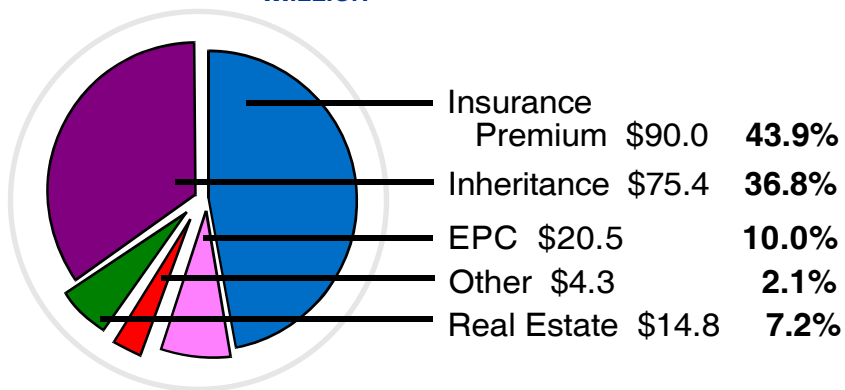
REVENUE SOURCES

FISCAL YEAR 2009

Consumption - \$703.3 MILLION



Other - \$205.0 MILLION



Motor fuel tax rates per gallon:

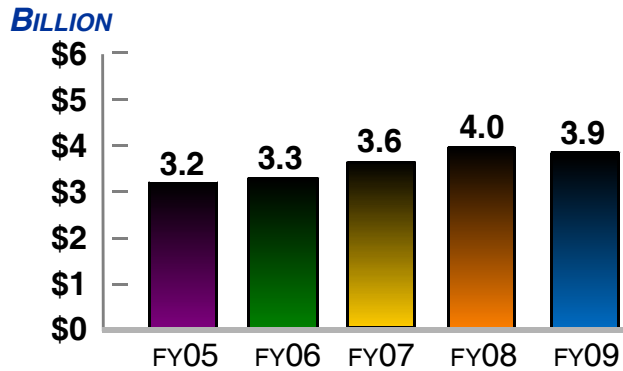
- Gasoline: 21¢
- Ethanol: 19¢
- E85: 19¢
- Diesel: 22.5¢

The EPC (Environmental Protection Charge) is imposed on all petroleum products deposited into non-exempt storage tanks in Iowa. It is used to finance petroleum leakage cleanup, to provide loans to qualifying operators for upgrade or replacement of their tank systems, and to offer insurance to operators to meet federal requirements.

GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

Income taxes include individual, corporation, and franchise.

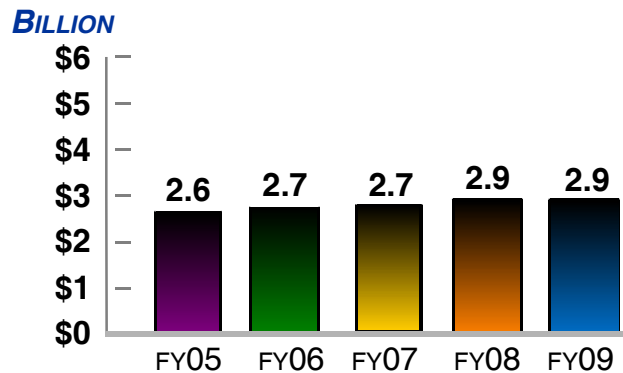
Income



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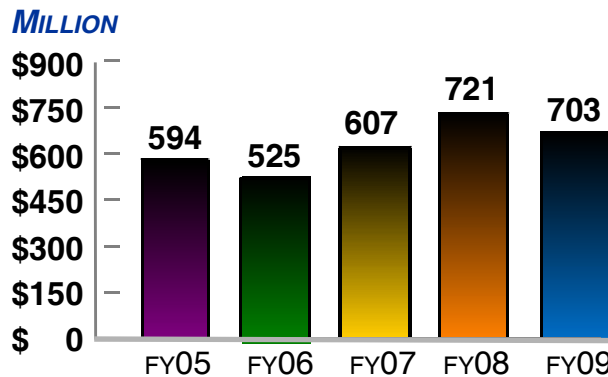
Sales, use, and motor vehicle use taxes are represented.

State Sales/Use



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

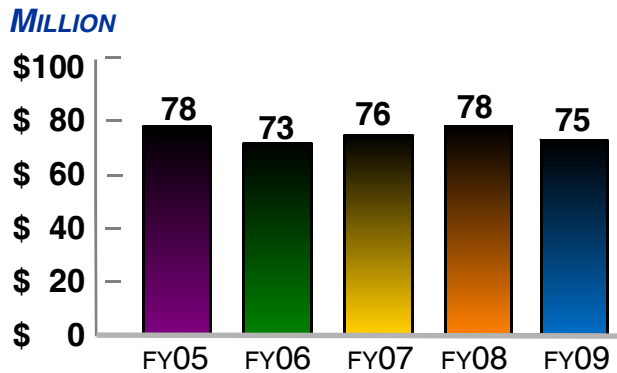
Consumption



GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

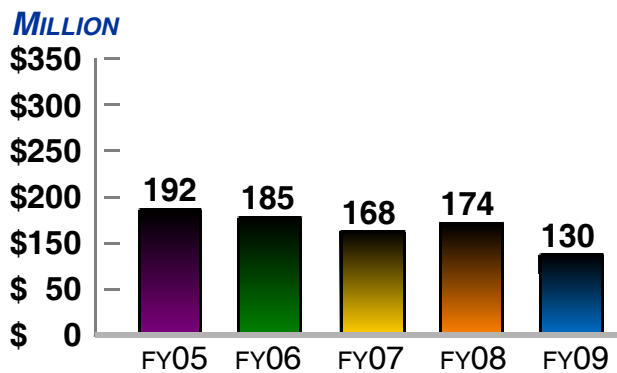
FISCAL YEAR 2009

Inheritance



Lineal ascendants and descendants, including step-children, are exempt from paying Iowa inheritance tax.

Miscellaneous



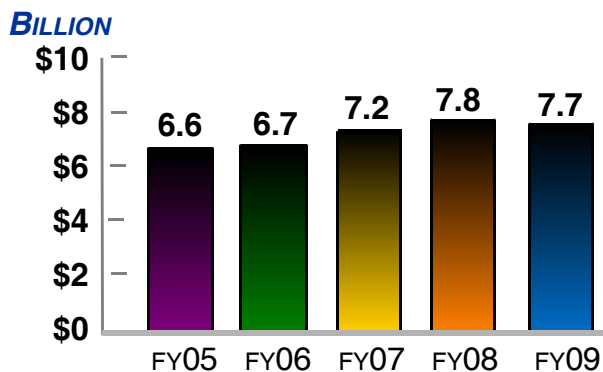
Motor Vehicle Use Tax not included in FY09

Miscellaneous Taxes include:

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

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All Tax Types

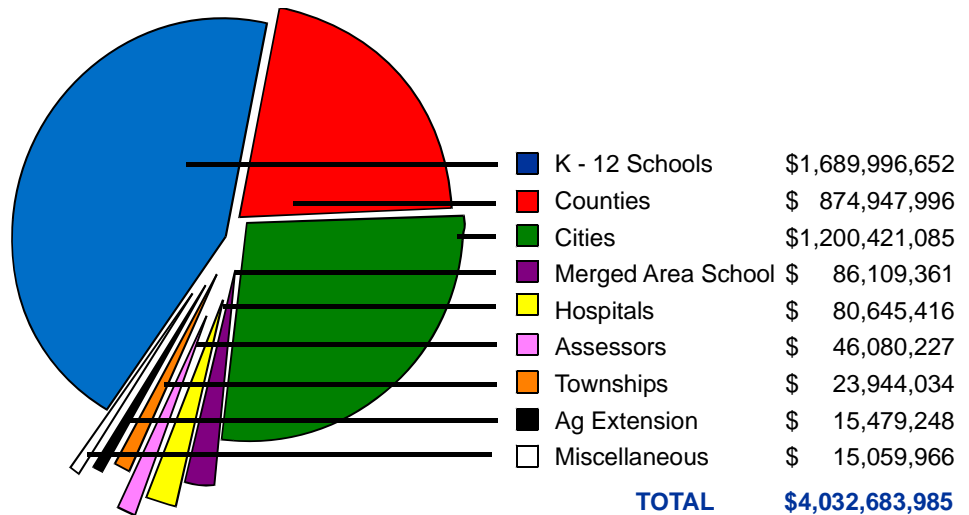


PROPERTY TAX

The Department:

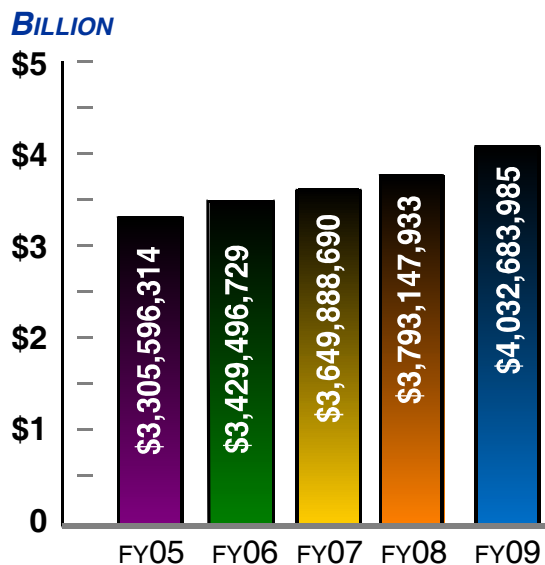
- administers credits and exemptions to property owners
- educates, certifies, and assists assessors and boards of review
- issues equalization orders every two years
- assesses utility and railroad properties

Property Tax Levied By Type of Taxing Authority



The Department assesses the excise tax imposed on gas and electric utilities as a replacement for the property tax. The excise tax certified to local assessors in FY09 totaled \$153.4 million.

Comparison of Years of Total Property Taxes Levied



Source: Iowa Department of Management

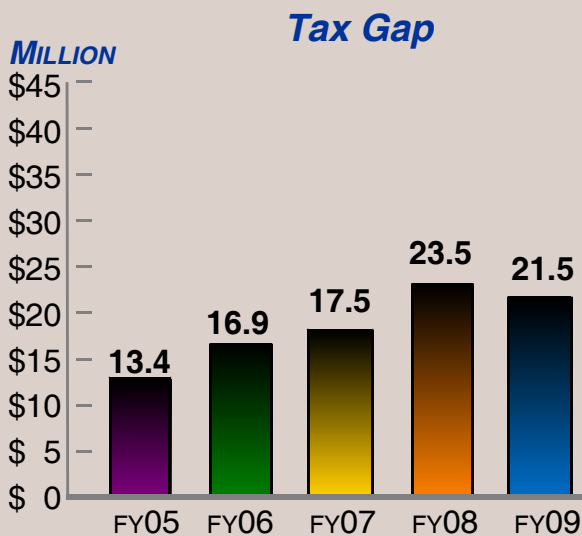
Tax Gap Program

The Tax Gap Program improves tax compliance through advanced use of technology. Tax Gap has four major components: Enterprise Data Warehouse (EDW), Business Intelligence, Web-based Audit Component, and a number of automated interface programs. Additional information on various tax types is continuously added from the processing system.

Using information in the EDW, the Department supplies the Internal Revenue Service (IRS) with an electronic file of state audit results for individual income tax, corporation income tax, sales and use taxes, and withholding tax on a monthly basis. Also, the State Reverse File Matching Initiative compares the state filing history of these taxes to the federal information contained in the EDW to find underreporters and non-filers at the federal level. This file is sent to the IRS on an annual basis. The Department has a strong working relationship with the IRS to share data and work together on various projects.

Enhancements to the Audit Component were completed to improve correspondence with taxpayers, security of information, and the overall functions within the programs. 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 \$21.5 million during FY09.



Tax Gap revenues since its initiation in 2000 are \$131.5 million.

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

SUPPLEMENTAL REPORTS

Compliance Report

Enforcement Programs

Fiscal Year 2009 was a successful year; the goals established by the Compliance Division for revenue collected were exceeded. Compliance enforcement programs for Fiscal Year 2009 exceeded \$124 million dollars in revenue collected and reductions in refund claims.

- \$ 64.1 million from office exams
- \$ 12.9 million from in-state field audit
- \$ 1.7 million from out-of-state field audit
- \$ 21.5 million from Tax Gap
- \$ 24.2 million from reductions in refund claims

Voluntary Compliance

The Department also focuses on voluntary compliance through taxpayer service and education programs. The Department's Taxpayer Services Section is staffed by tax specialists who work with taxpayers on the telephone and by e-mail. They also conduct tax classes statewide.

The Department attempts to answer telephone calls and respond to e-mails in an efficient manner. The Department provides information through its Web site, electronic mailing lists, and other public methods.

The Department continues to provide electronic filing options and self-help Web site services.

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

Business operations

IRIS continued to support registration and tax return processing for all major taxes. Enhancements in efficiency, functionality, and design were provided to:

- Improve IRIS efficiency in processing returns and managing records of customer contacts with the Department.
- Expand interfaces between existing audit programs and IRIS, thereby expediting collection activity.
- Support annual changes to all tax program logic to reflect legislative and other tax year changes.

Security Enhancements

Security enhancements included:

- Implementation of methods for secure exchange of data files between the Department and its customers.
- Continuation of recent efforts to ensure that only data of critical value is retained by the Department.
- Expansion of education for agency staff about their responsibilities to protect the integrity and security of Department tax data.

e Services

Individual Income Tax Returns

More than 1.1 million individual income tax returns — 74% — were electronically filed. Iowa taxpayers keep us among the nation's leaders in e-filing.

Business Tax eFile & Pay

Electronic filing of business tax returns continues to be widely accepted. Over 97% of quarterly sales, use, withholding, and motor fuel tax returns were filed using the eFile & Pay system. In addition, Iowans paid more than 87% of funds owed to the state electronically.

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

SUPPLEMENTAL REPORTS***Individual Income Tax Abatements***
Calendar 2008

The Director of the Department of Revenue has the authority to abate any portion of tax, interest, or penalties determined to be excessive 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 2008:

| | |
|--------------------------|-----------------|
| Number of Returns: | 2,282 |
| Tax: | \$12,549,546.00 |
| Penalty (includes fees): | \$1,376,751.00 |
| Interest: | \$4,256,854.00 |
| Total Amount: | \$18,183,151.00 |

LEARN MORE ABOUT US

FISCAL YEAR 2009

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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 www.resultsiowa.org/revenue.html

Online Services, Tax Forms, and Publications

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
- Research and analysis
- Iowa Tax Research Library

Assistance from a Tax Specialist

E-mail: 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

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