

December 10, 2018

Mr. Glen Dickinson
Director
Iowa Legislative Services Agency
State Capitol
L O C A L

Office of the Secretary of Senate
Iowa Senate
For Senate Ways & Means Chairpersons and Ranking Members
State Capitol
L O C A L

Office of the Chief Clerk
Iowa House of Representatives
For House Ways & Means Chairpersons and Ranking Members
State Capitol
L O C A L

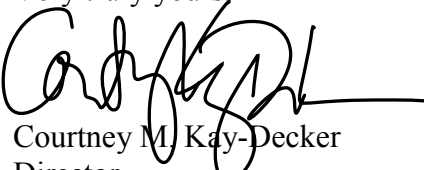
Dear Mr. Dickinson, Senate and House Chairpersons and Ranking Members:

Pursuant to Code of Iowa, Section 421.17(23), please find attached an annual report of costs incurred and paid for services to support the department's Tax Gap Compliance Program for Fiscal Year 2018.

The Code of Iowa, Section 421.17(23) states:

"The Director shall report annually to the Legislative Services Agency and the chairpersons and ranking members of the Ways and Means Committees on the amount of cost incurred and paid during the previous fiscal year pursuant to this subsection."

If you have any questions or further information is needed, please let me know.

Very truly yours,

Courtney M. Kay-Decker
Director



Iowa Department of **REVENUE**

Tax Gap Compliance Project Revenue and Expenditure Report for Fiscal Year 2018 November 2018

Overview

The Iowa Department of Revenue Tax Gap Program (“**Program**”) was established pursuant to Iowa Code § 421.17(23). The Program allows the Department to pay for the costs of closing the “tax gap” from revenues collected through Program activities. The “tax gap” consists of non-filers of tax returns and non-payers of taxes. During the 2015 legislative session, the General Assembly broadened the Program to include identification and prevention of fraudulent and erroneous refunds. *See* 2015 Iowa Acts, 86th G.A. ch. 138, § 105.

This report is required by Iowa Code section 421.17(23) and 2015 Iowa Acts, 86th G.A. ch. 138, § 106. The report contains the costs of the Program, amounts billed and collected under the Program, refund claims reduced or denied under the Program, and general recommendations to facilitate and improve the Program.

Tax Gap Program Results

In fiscal year 2018, the Program produced over **\$88.4 million** in gross revenue, broken down as follows:

FY 2018 Program Revenues:

Individual	\$62,949,937
Withholding	\$1,349,048
Fiduciary	\$172,501
Corporation	\$11,890,498
Franchise	\$106,801
Retail Sales	\$4,578,809
Retail Use	\$3,117,005
Consumer Use	\$2,638,831
Vehicle Use	\$999,678
Inheritance	\$185,279
Elderly Credit	<u>\$447,388</u>
<i>TOTAL Program Revenues</i>	\$88,435,775

The revenues set forth above are reported on a cash basis, meaning that only amounts that have been both billed and paid under the Program are included.¹

From these revenues, the Department paid the following expenses to administer the Program:

FY 2018 Program Expenditures:

Professional Service	\$2,150,304
Outside Service & Repair	\$12,846
OCIO Reimbursement	\$6,258,819
Data Processing	\$355,153
Salaries	\$11,377,283
Support	<u>\$657,065</u>

TOTAL Program Expenditures \$20,811,470

The expenditures are also on a cash basis. Net revenues transferred to the general fund as a result of the Program totaled over **\$67.6 million** for fiscal year 2018.

In addition to revenue collected from non-filers and non-payers, the Department also works to prevent issuing fraudulent or erroneous refunds.² Refund reductions occur when the Department determines the amount of a taxpayer's refund request is incorrect and reduces the refund amount accordingly. As part of the Program, the Department has a team dedicated to identifying and preventing refund fraud. The work of the Department's fraud prevention and detection team generally results in refund reductions.

FY 2018 Program Refund Reductions:

Fraud Team	\$18,147,060
Other Erroneous Refund Claims	<u>\$16,516,176</u>

TOTAL Program Refund Reductions \$34,663,236

When the amounts collected under the Program are added to the refunds reduced, the Program produced a total value to the State of nearly **\$102.3 million** after expenses during FY 2018.

¹ During fiscal year 2017, and in response to recent statutory amendments, the Department comprehensively assessed the designation of revenues to the Program to ensure that all revenue that meets the statutory definition are properly reported. After completing this analysis, the Department has updated the Program allocation for fiscal year 2018. Furthermore, the Department will periodically re-evaluate allocations as workflows change to ensure that all appropriate revenues are attributed to the Program.

² The refund reduction numbers only reflect reductions made to individual income tax returns.