



Department of Revenue

Kim Reynolds, Governor
Chris Cournoyer, Lt. Governor

Mary Mosiman, Director

October 29, 2025

Mr. Tim McDermott
Director
Iowa Legislative Services Agency
State Capitol
LOCAL

Office of the Secretary of Senate
Iowa Senate
For Senate Ways & Means Chairpersons and Ranking Members
State Capitol
LOCAL

Office of the Chief Clerk
Iowa House of Representatives
For House Ways & Means Chairpersons and Ranking Members
State Capitol
LOCAL

Dear Mr. McDermott, 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 2025.

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 Respectfully,

Mary Mosiman
Director

Cc: Patrick Tomka, Governor's Office



**Tax Gap Compliance Project
Revenue and Expenditure Report for Fiscal Year 2025
October 2025**

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 2025, the Program produced over **\$97.7 million** in gross revenue, broken down as follows:

FY 2025 Program Revenues:

Individual	\$46,682,750
Withholding	\$865,134
Fiduciary	\$567,057
Corporation	\$18,821,359
Franchise	\$391,804
Retail Sales	\$18,964,161
Retail Use	\$271,153
Consumer Use	\$237,102
Vehicle Use	\$46,179
Inheritance	\$3,504,411
Partnership	\$5,998,059
Composite	<u>\$1,351,541</u>
TOTAL Program Revenues	\$97,700,710

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.

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

FY 2025 Program Expenditures:

Professional Service	\$7,399,121
Outside Service & Repair	\$0.00
DOM DoIT Reimbursement	\$2,541,925
Data Processing	\$1,631,030
Salaries	\$20,440,874
Support	<u>\$1,181,650</u>

TOTAL Program Expenditures \$33,194,600

The expenditures are also on a cash basis. Net revenues transferred to the general fund as a result of the Program totaled over **\$64.5 million** for fiscal year 2025.

In addition to revenue collected from non-filers and non-payers, the Department also works to prevent issuing fraudulent or erroneous refunds.¹ 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.²

**FY 2025 Program Refund
Reductions:**

Fraud Team	\$9,912,172
Other Erroneous Refund Claims	<u>\$34,968,991</u>

***TOTAL Program Refund
Reductions*** \$44,881,163

When the amounts collected under the Program are added to the refunds reduced, the Program produced a total value to the State of over **\$109 million** after expenses during FY 2025.

¹ The refund reduction numbers only reflect reductions made to individual income tax returns.