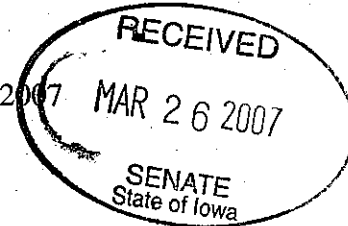




Iowa Department of Revenue

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

March 22, 2007



Mr. Dennis C. Prouty
Director
Iowa Legislative Services Bureau
State Capitol Building

Office of the Secretary of Senate
Iowa Senate
For Senate Chairpersons and Ranking Members
State Capitol Building

Office of the Chief Clerk
Iowa House of Representatives
For House Chairpersons and Ranking Members
State Capitol Building

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

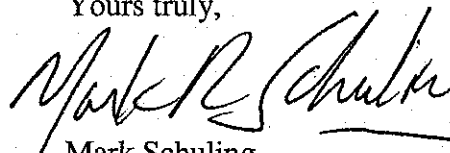
Pursuant to the Code of Iowa, Section 421.17(23), please find attached an annual report of costs incurred and paid, for services to support the department's Tax Gap Compliance Project for Fiscal Year 2006.

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 costs 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.

Yours truly,



Mark Schuling
Director

Enclosure

**Iowa Department of Revenue (IDR)
Tax Gap Compliance Project
Revenue and Expenditure Report for Fiscal Year 2006
Code of Iowa, Section 421.17(23)
March 2007**

IDRF Tax Gap Compliance Project Background:

In November 1999, the Iowa Department of Revenue and Finance (IDR) partnered with NCR Government Systems Corporation to design, develop, and implement a data warehouse and automated audit processing/transaction system. The partnership with NCR is funded through performance-based procurement in accordance with the Code of Iowa, Section 421.17(23).

The Tax Gap project targets the promotion of voluntary tax compliance, enhanced and improved customer services and audit efficiency, and increased tax revenues. Through this initiative, opportunities to fully utilize multiple and complex data sources are available to the department to identify non-filer of tax returns and non-payers of taxes.

While the original contract with NCR Government Systems Corporation covered a three-year and six-month period, the Tax Gap project goals and accomplishments are continuing efforts. IDR continued this partnership in 2006. We have projected that this project will continue to generate at least \$10,000,000 in revenues each year on an ongoing basis beyond the contract period.

Purpose of Report:

This report is being distributed to support the requirement per the Code of Iowa, Section 421.17(23), to report the amount of costs incurred and paid for services to create or administer systems or programs which identify non-filers of returns or non-payers of taxes administered by the Iowa Department of Revenue.

FY 2006	
Revenues:	
Corporation Income	\$7,579,323
Individual Income	\$7,337,994
Sales/Use	\$1,945,040

TOTAL Revenues	\$16,862,157
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Expenditures:	
Professional Service	\$966,609
Outside Service & Repair	0
ITE Reimbursement	\$81,075
Data Processing	\$63,875
Salaries	\$1,908,850
Support	\$167,030

TOTAL Expenditures	\$3,187,439
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