

## Iowa Department of Revenue and Finance

### Our Goals

- ◆ Improved voluntary compliance
- ◆ Enhanced statewide debt collection
- ◆ Effective accounting and payroll systems
- ◆ Program results subject to performance measurement
- ◆ Improved tax processing/deposit operations
- ◆ Providing an environment for employee development
- ◆ Effective use of technology

### Budget Request for FY 2003

#### Total General Fund

	<u>FY2001</u>	<u>FY 2002 Revised</u>	<u>FY 2003 Gov's</u>
	<u>Recom.</u>		
(1) Operations	\$29,675,882	\$26,795,296	\$25,392,008
Statewide Prop. Tax	75,615	59,433	60,033
Tax Fairness Study			400,000
Collections Costs & Fees	<u>67,000</u>	<u>29,700</u>	<u>30,000</u>
<b>Total</b>	<b>\$29,818,497</b>	<b>\$26,884,429</b>	<b>\$25,882,041</b>
<b>FTE</b>	<b>500.60</b>	<b>444.01</b>	<b>417.81</b>

**Motor Vehicle Fuel**      \$1,017,849      \$1,084,112      \$1,073,632

(1) Reflects Loss Of Accounting Bureau To Dept. Of Administrative Services.

### Funding Results

The FY 03 budget request supports the Department's strategic goals and reflects realignment and resource allocation to insure the following strategies are achieved:

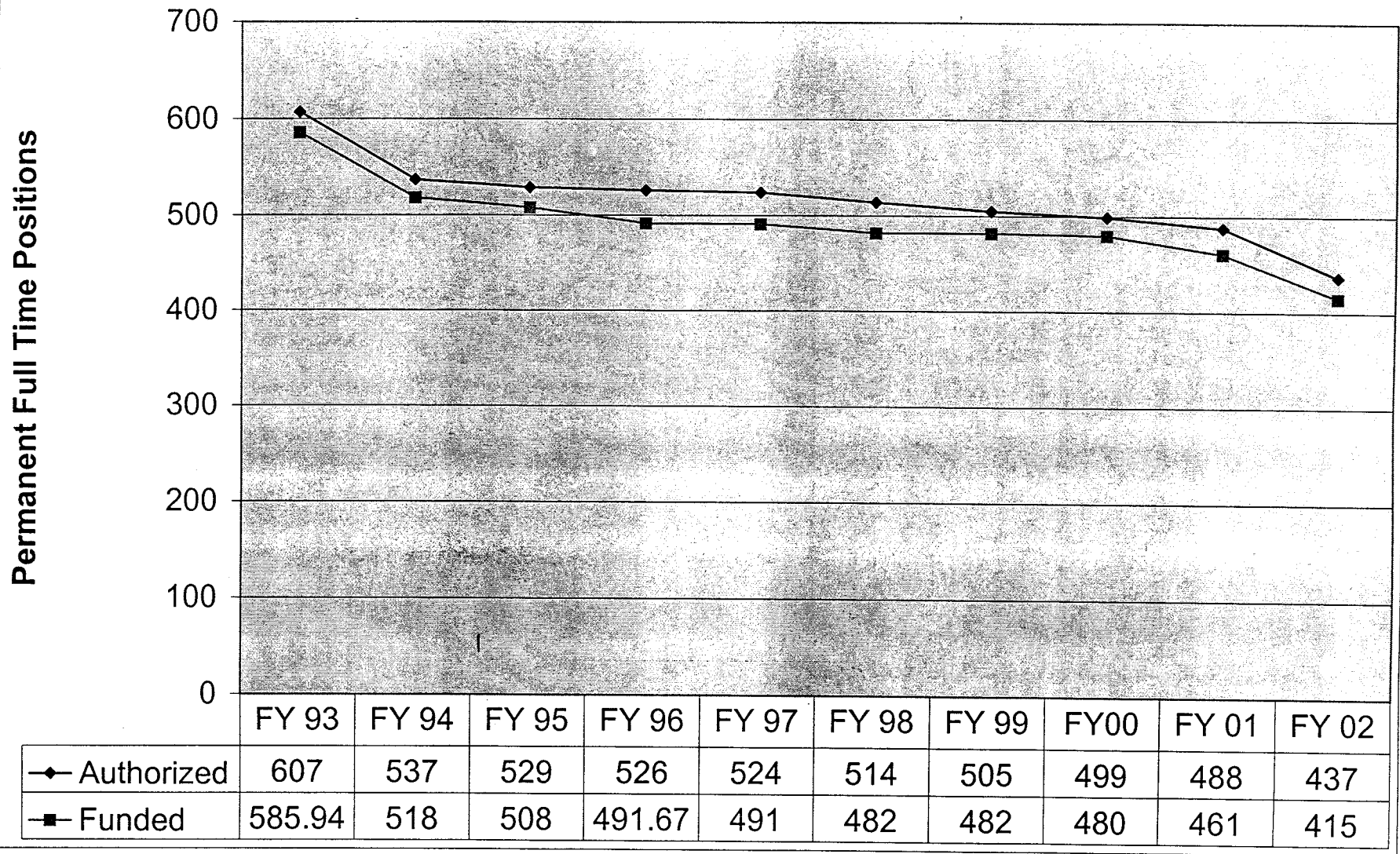
- ◆ Continue enhancement of electronic filing opportunities and self help services.
- ◆ Continue implementation of Tax Gap and collection of \$10 million.
- ◆ Develop recommendations for alternatives for current processing of paper returns.
- ◆ Collections services will continue to be offered to other state agencies
- ◆ Conduct a department-wide Iowa Excellence Self Examination.
- ◆ Initiate a comprehensive Tax Fairness Study.
- ◆ Improve transactions with local tax officials utilizing electronic communication technologies.

For more information about the Iowa Department of Revenue and Finance  
please visit our web site at:

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

**The full text of this presentation is available on  
our web site under Contact Us**

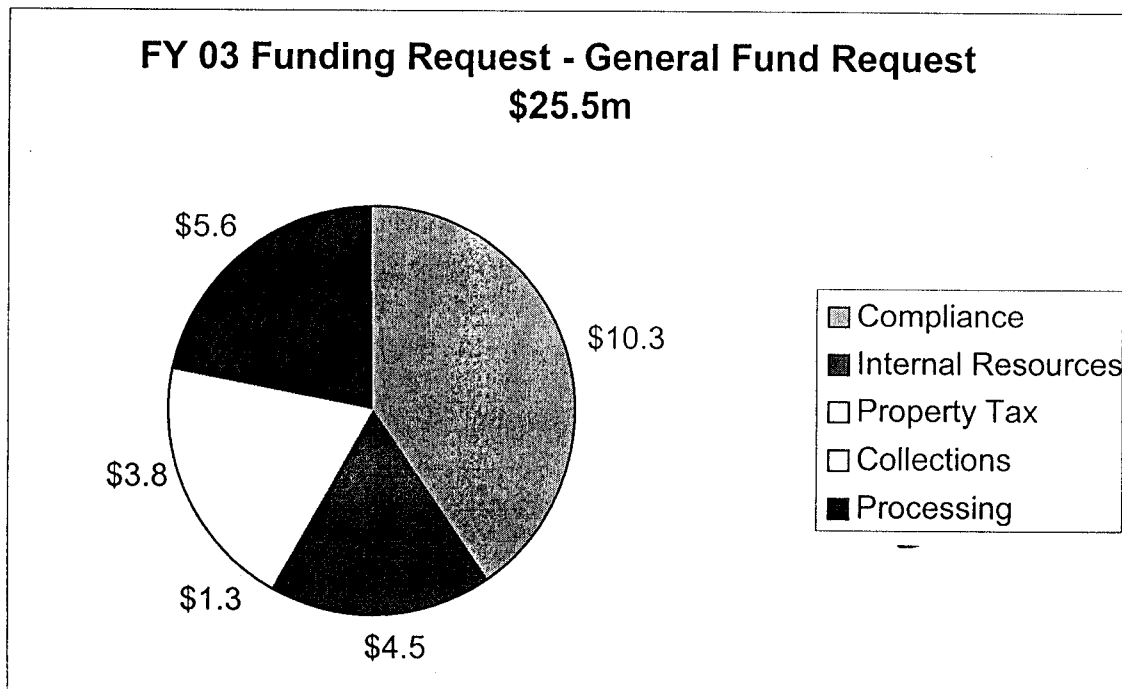
## Iowa Department of Revenue & Finance



# Iowa Department of Revenue and Finance

## Five Program Areas

Compliance  
Processing  
Collections  
Internal Resource Management  
Property Tax

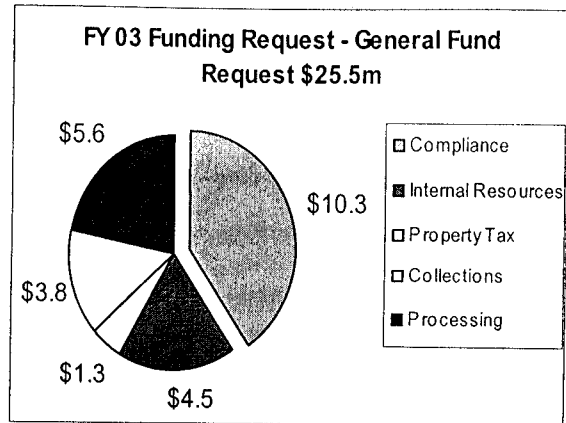


## COMPLIANCE

FY03: \$ 10.3m  
159.35 FTE's

### Program Description

To improve voluntary compliance with Iowa's tax laws so the correct amount of taxes are paid, but no more, through policy development, taxpayer education and assistance, examination, audit and the timely resolution of disputed tax issues, and to provide quality service to external and internal customers.



### Program Goals

- ◆ Provide timely, accurate and understandable information to customers.
- ◆ Discover unpaid tax liabilities and bill the correct amount of tax.
- ◆ Maintain specified turnaround times of reviewing and issuing refunds.
- ◆ Resolve protested issues at the lowest possible level of the audit and examination process.
- ◆ Participate in National, Regional and State initiatives to achieve sales tax simplification and resolve e-commerce issues

### Key Measures

- Revenue collected per dollar of cost
- Ratio of collections to original dollars established
- Comparison of types of taxpayer contacts based on 24 x 7 services and electronic initiatives.
- Trends of taxpayer service contacts that require direct human intervention.
- Busy signal rates
- Tax protest trends
- Individual income tax – Recoveries of tax known due.
- Number of examinations conducted.

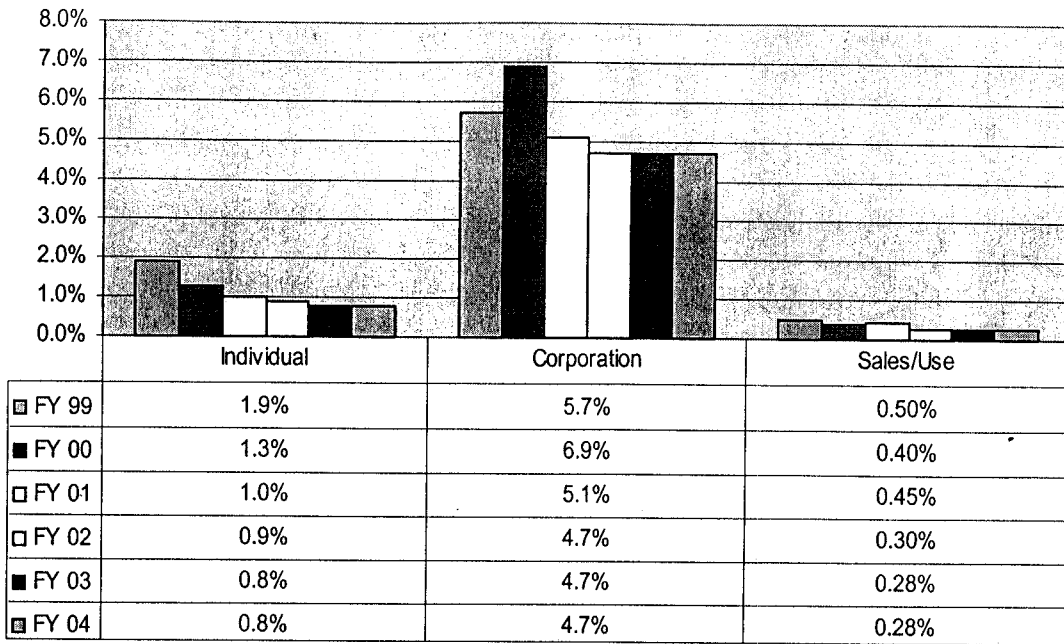
### FY 2001 Results

- ✓ 17,000 office examinations generated \$33.9 million in revenue
- ✓ 491 in-state field audits generated \$10.9 million in revenue
- ✓ Out-of-state offices generated \$4.3 million in revenue.
- ✓ 618,000 "hits" on the Department's home page
- ✓ 89,000 "Where's my refund?" calls handled by the Interactive Voice Response system.
- ✓ 774,000 occurrences where customers utilized various automated self-help options.

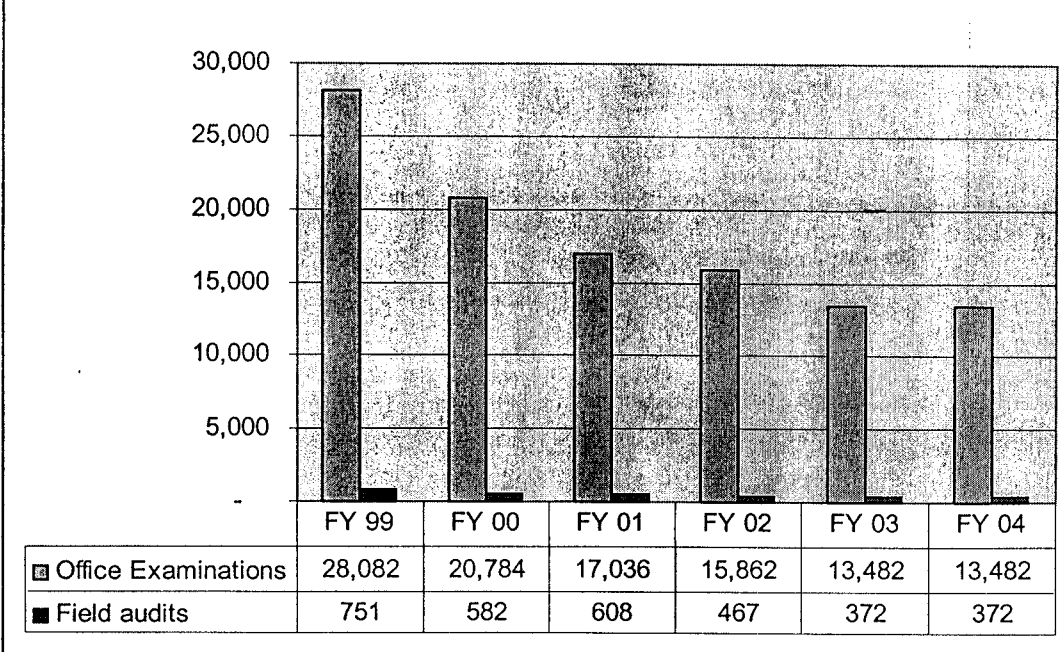
### FY 2003 Initiatives

- Finalize data warehouse technology initiatives and expand to other areas of the agency.
- The Tax Gap initiative will generate an additional \$10 million in revenues.
- Proceed with Iowa Excellence (Baldrige) additional program measurement recommendations.
- Continue to expand electronic filing.
- Continue to expand self-help services available via the web site, phone and other methods.
- Reduce the number of taxpayer contacts requiring direct human intervention.
- Continued participation in Streamlined Sales Tax Project
- Enforcement programs will generate \$50-\$60 million in revenues and refund reductions.

Percentage of Population Audited



Compliance Division - Examination and Audit Trends



**Examination & Audit**

**REVENUE PER \$ COST**

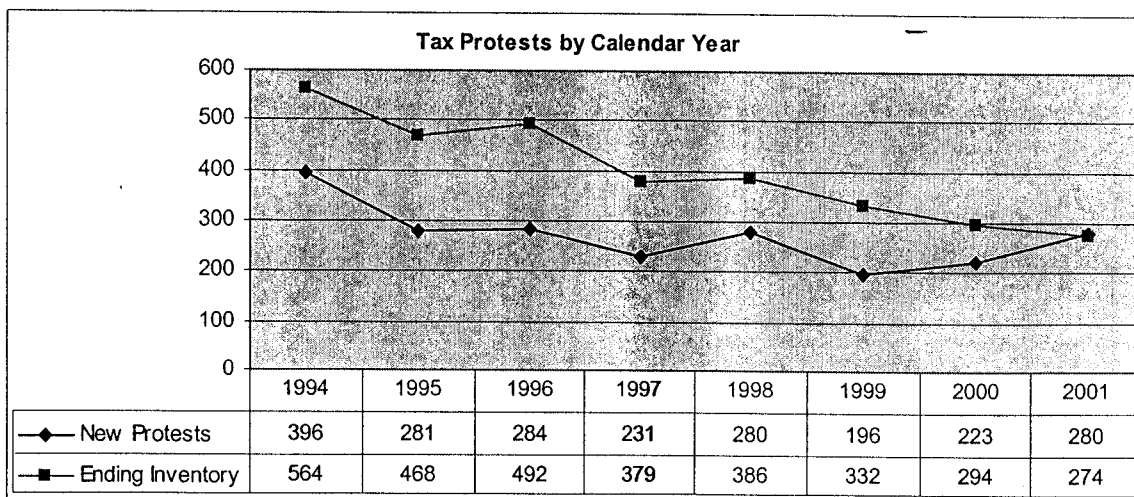
**FY 2001**

Fiscal Year	Revenues		Revenue Per Dollar Cost
	Enforcement Costs	(Collections & Refund Reductions)	
FY 95	\$ 7,913,718	\$ 46,022,969	\$ 5.82
FY 96	\$ 7,283,545	\$ 51,483,896	\$ 7.07
FY 97	\$ 8,185,714	\$ 52,404,260	\$ 6.40
FY 98	\$ 8,200,418	\$ 63,497,679	\$ 7.74
FY 99	\$ 8,467,019	\$ 57,560,227	\$ 6.80
FY 00	\$ 8,603,646	\$ 58,792,690	\$ 6.83
FY 01	\$ 9,286,965	\$ 61,423,534	\$ 6.61

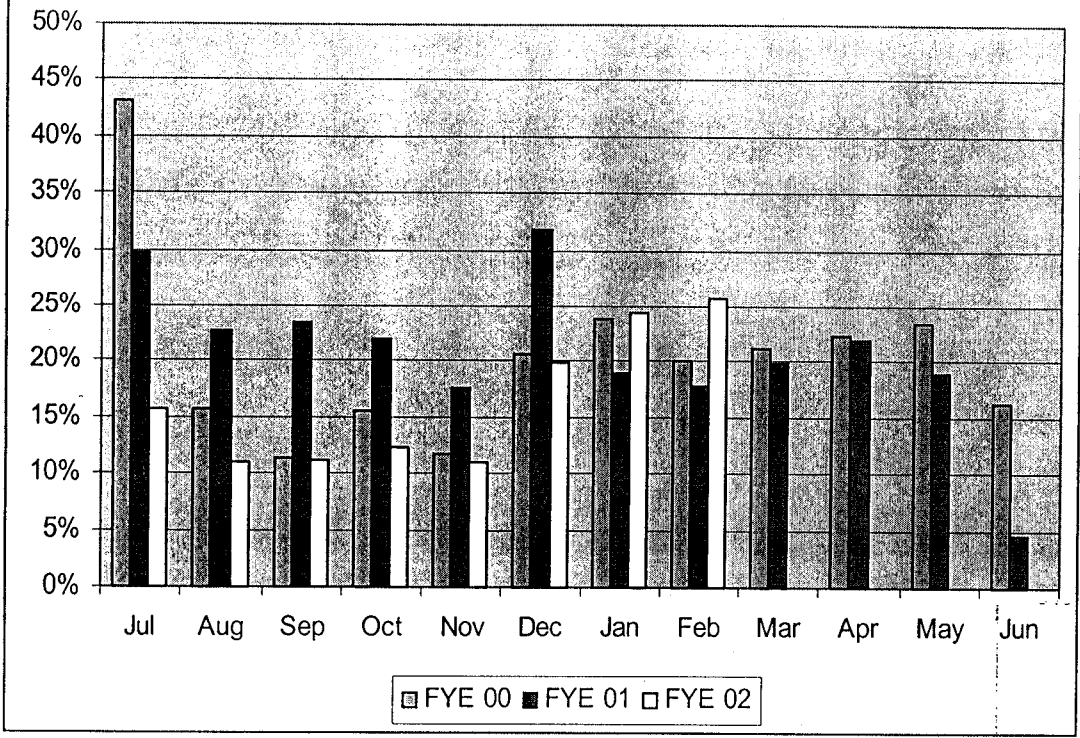
Billings

Refund Reductions

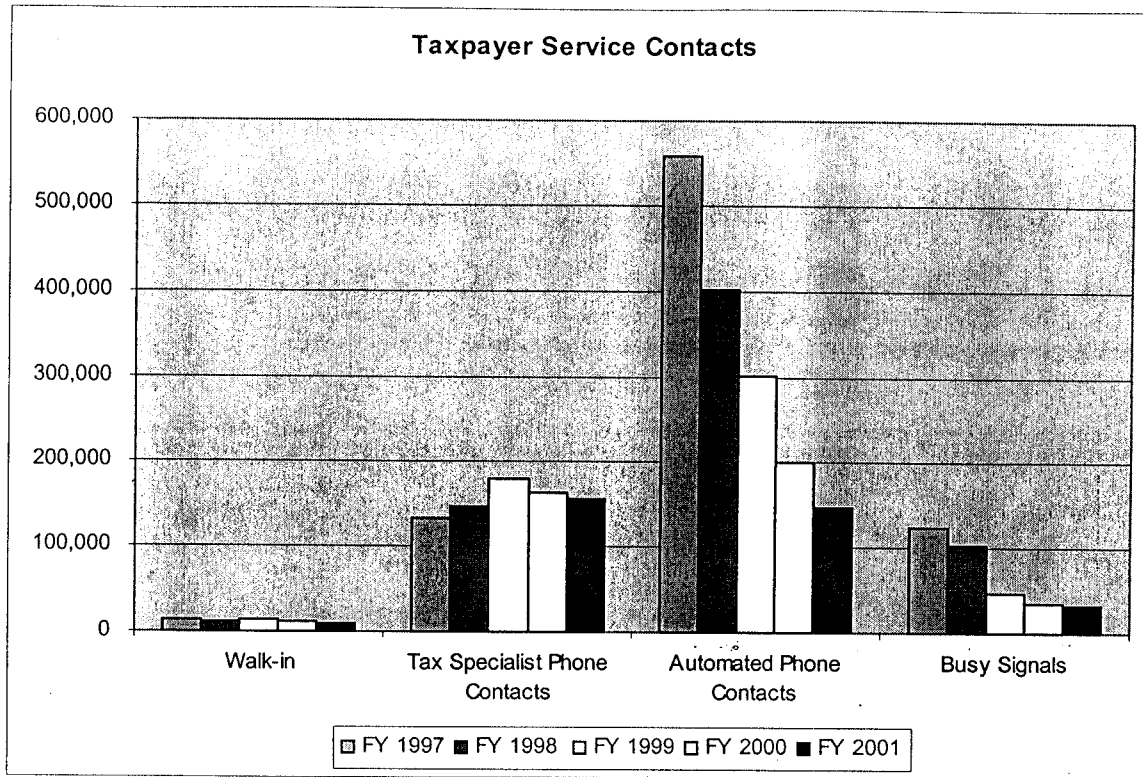
Office Examination	All Billings	Revenue Per		Refund Reductions	
		Hours	Dollar Cost	Hours	Dollars
		40,586	11.07	6,106	\$ 4,612,990
In-State	Sales/Use	35,122	3.87	11,282	\$ 7,356,834
	MVF	3,204	2.41		
Out-of-State	Sales/Use	5,802	3.10	420	\$ 264,124
	Corporate	7,132	4.54		



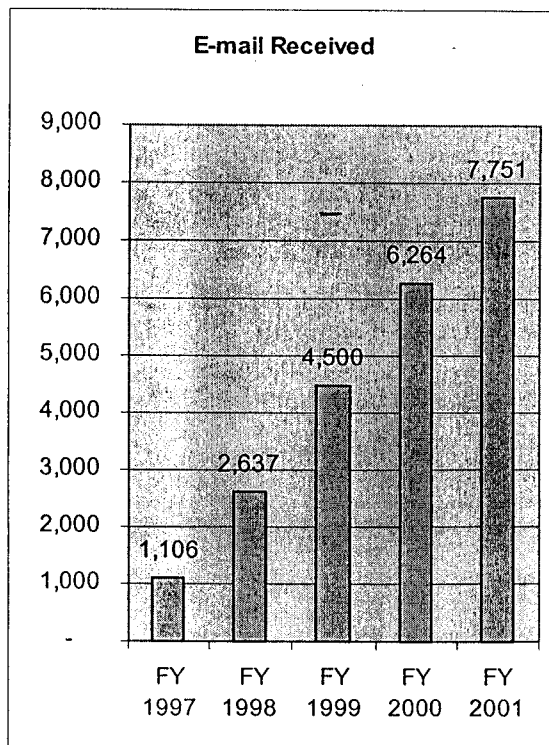
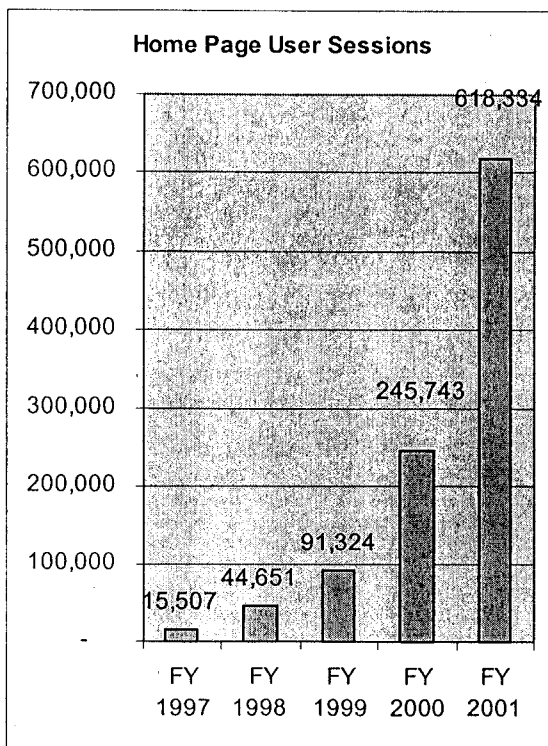
### Taxpayer Services - Busy Signal Rate



## Taxpayer Service Contacts

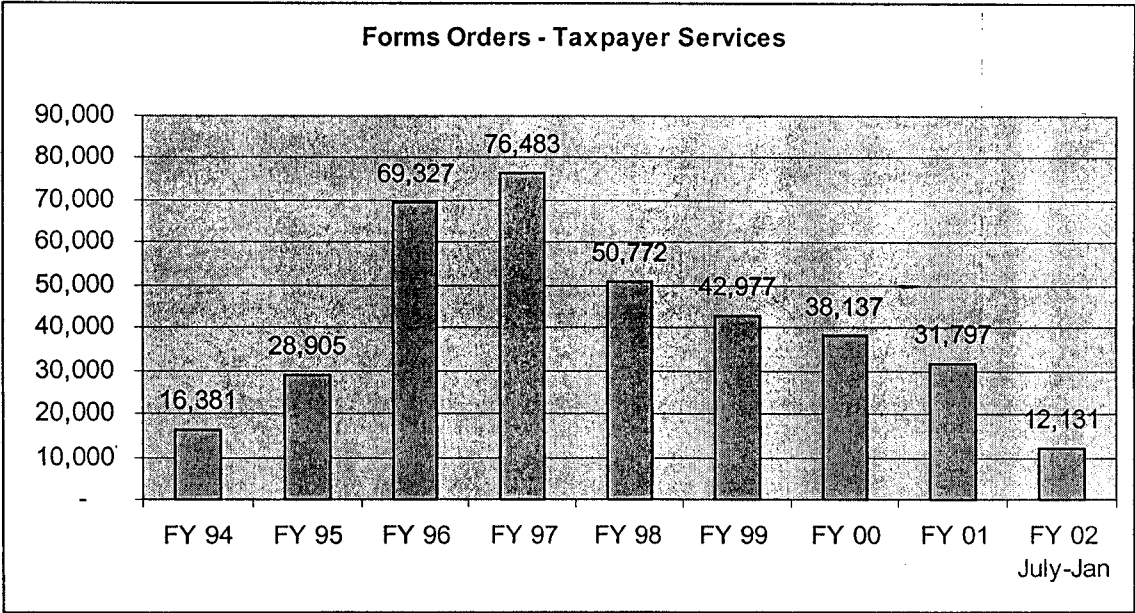
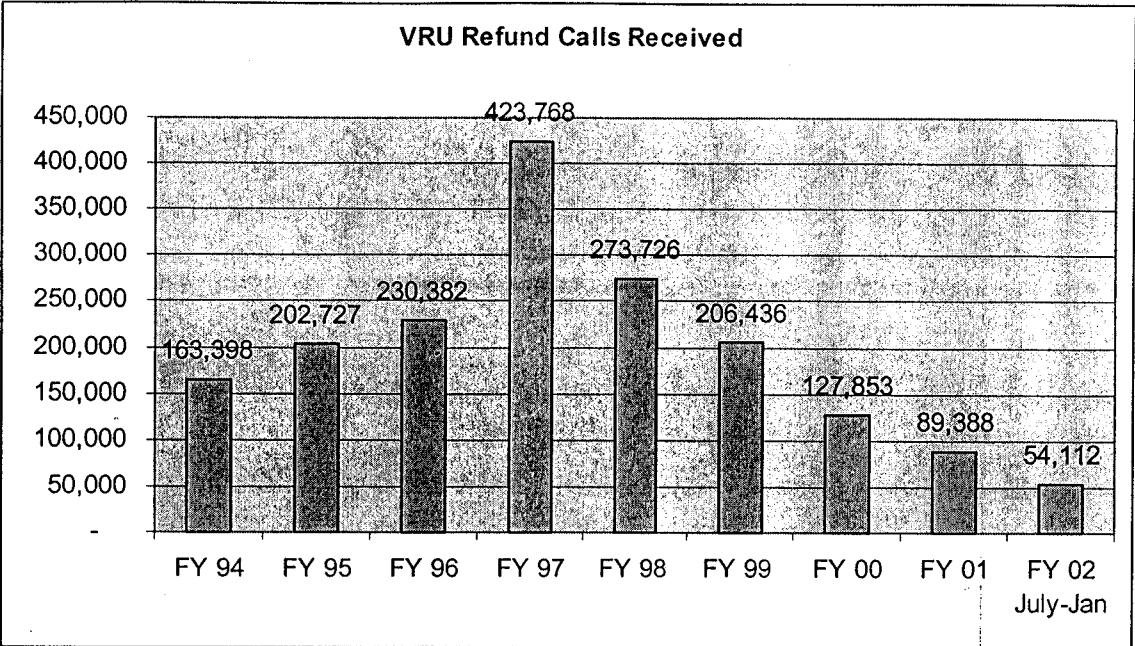


## 24 X 7 Access



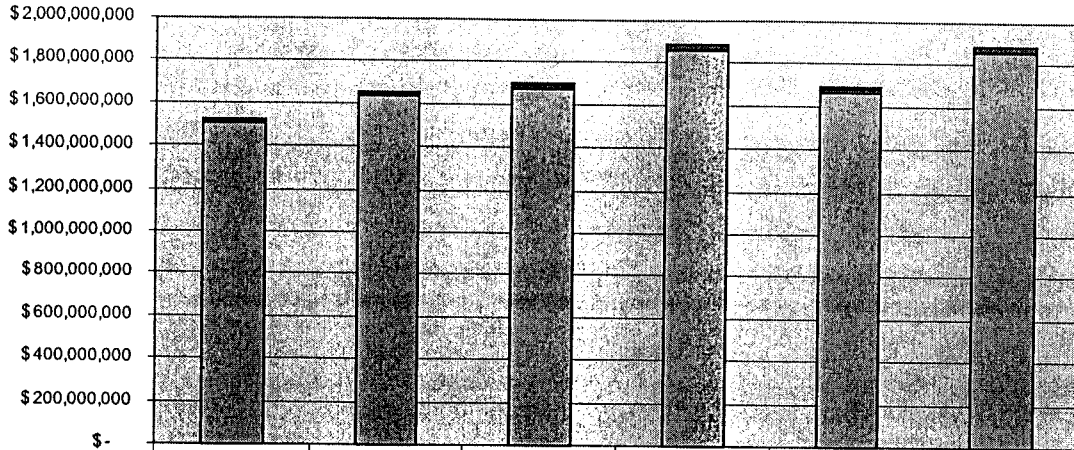


**Results of strategies to reduce non-technical phone calls to Taxpayer Services**



### State of Iowa - Individual Income Tax Known Due

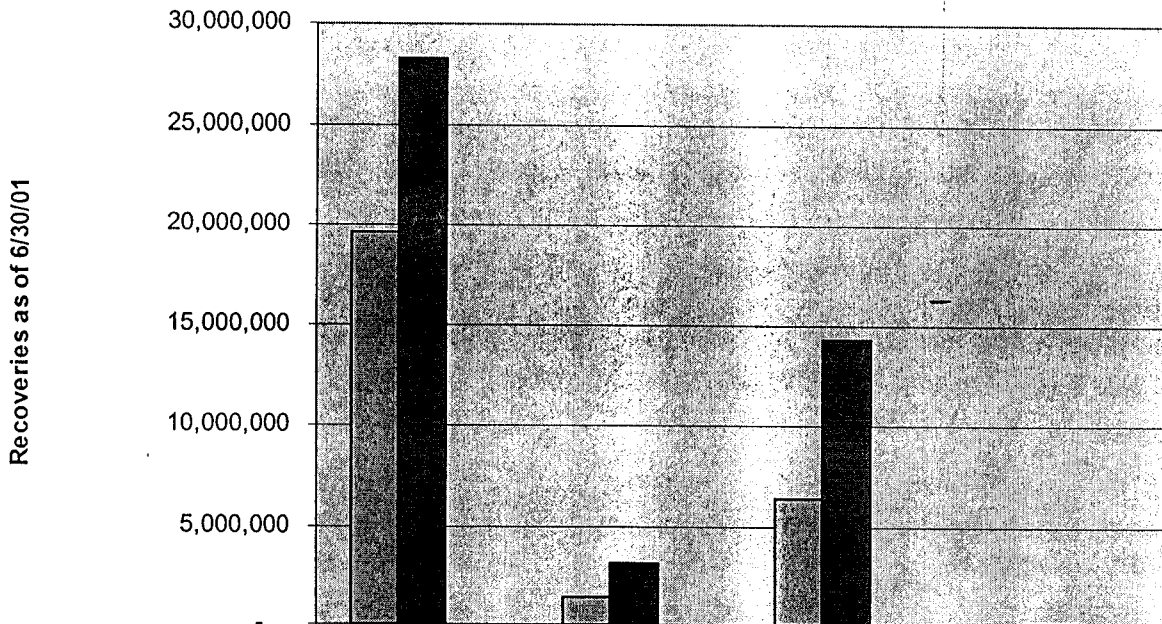
One Year After the Due Date



	1994	1995	1996	1997	1998	1999
□ Tax Not Paid	\$4,326,603	\$4,167,934	\$3,654,764	\$3,993,969	\$3,347,991	\$3,471,923
■ Tax Paid Late	\$17,158,421	\$17,206,817	\$23,098,333	\$25,020,527	\$21,032,283	\$26,128,294
□ Timely Paid Tax	\$1,504,307,684	\$1,631,888,532	\$1,672,266,594	\$1,860,556,355	\$1,665,479,755	\$1,862,145,350

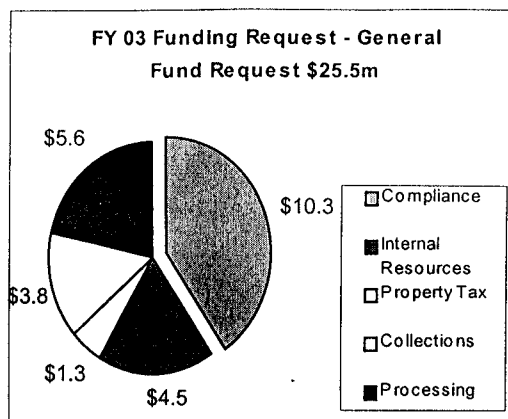
Tax Year

### Recovery Rate for FY 2000 Billings - Compliance Division



	Corporation Tax	Sales Tax	Individual Income	Withholding
□ Revenue Collected	19,584,838	1,391,960	6,406,297	25,991
■ Revenue Established	28,304,328	3,178,016	14,278,118	98,806
□ Recovery Rate	69%	44%	45%	26%

PROCESSING	FY03: \$ 5.6m 116.87 FTE's
<b>Program Description</b>	
To service taxpayers of the State of Iowa by processing their tax information and payments in an accurate and timely manner so that questions or adjustments are dealt with expeditiously, and any refunds or other distribution of funds or information meets management directed or statutory time requirements.	



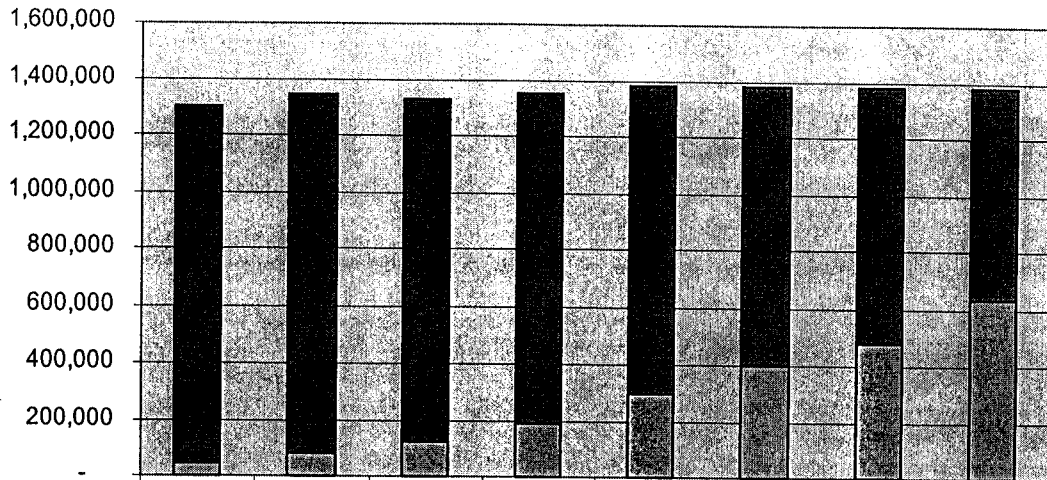
- Program Goals**
- ◆ Accurately filed returns.
  - ◆ Tax information will be opened, processed and on-line within specified time frames.
  - ◆ Payment transactions will be deposited within specified time frames.
  - ◆ Financial reporting will be completed within one day of deposit.
  - ◆ Process and issue 90% of electronically filed income tax refunds within 14 days of the date received.
  - ◆ Process and issue 90% of paper filed income tax refunds within 30 days of the date received.
  - ◆ Resolve exception transactions posted to the reconciliation file within specified time frames.
  - ◆ Accurately distribute funds within specified time frames.

- Key Measures**
- Percent of income tax transactions sent to the reconciliation file that are resolved within 30 days.
  - Income tax returns filed – Electronic vs. Paper
  - Percent of income tax refunds issued within 30 days of time received.
  - Deposit times.
  - Percent of dollars deposited via Electronic Funds Transfer.
  - Review rate for documents sent to resolution.

- FY 2001 Results**
- ✓ Processed and deposited \$5.85 million in gross tax collections.
  - ✓ 82% of income tax refunds issued within 30 days.
  - ✓ Processed 3.95 million tax documents
  - ✓ Issued 27,000 tax permits for businesses

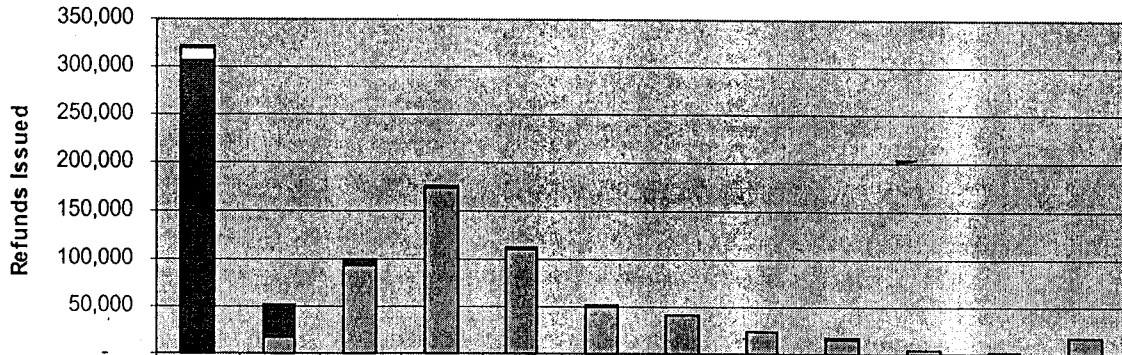
- FY 2003 Initiatives**
- Maintain the development of e-filing options for business taxes.

### Individual Income Tax - Electronic Filing Rate



	1995	1996	1997	1998	1999	2000	2001	*2002
□ Electronic Filing Rate	3%	6%	9%	14%	21%	29%	35%	46%
■ Paper	1,260,000	1,265,000	1,212,000	1,169,000	1,087,000	982,000	903,664	752,200
▣ Electronic Filed	43,000	78,000	120,385	186,478	295,290	400,206	478,536	630,000

### Refund Processing Time Comparison - Individual Income Tax 2001

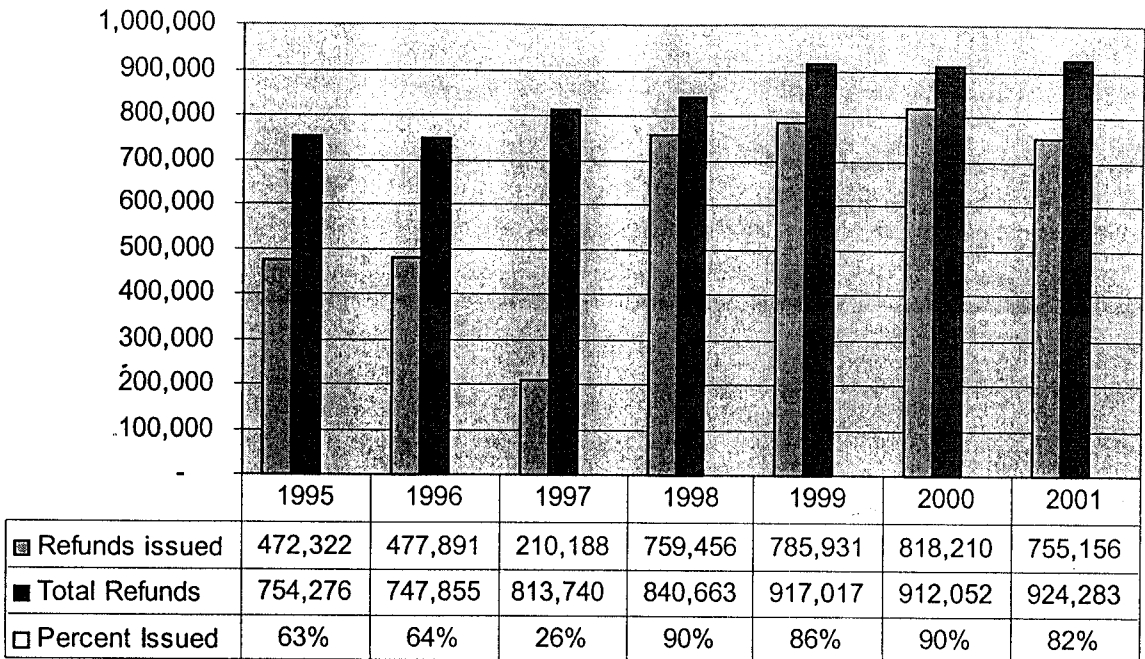


	0 - 7	8 - 14	15 - 21	22 - 28	29 - 35	36 - 42	43 - 49	50 - 56	57 - 63	64 - 70	71 - 77	Over 77
□ Web file	1,004	92	29	-	-	-	-	1	-	-	-	-
□ Tele file	14,507	825	107	26	25	9	9	5	-	1	-	3
■ ELF	305,55	33,503	6,176	3,167	2,607	1,651	1,077	542	222	73	66	160
▣ Paper	304	17,975	93,844	173,55	110,23	50,214	40,636	23,892	16,152	5,159	2,622	18,253

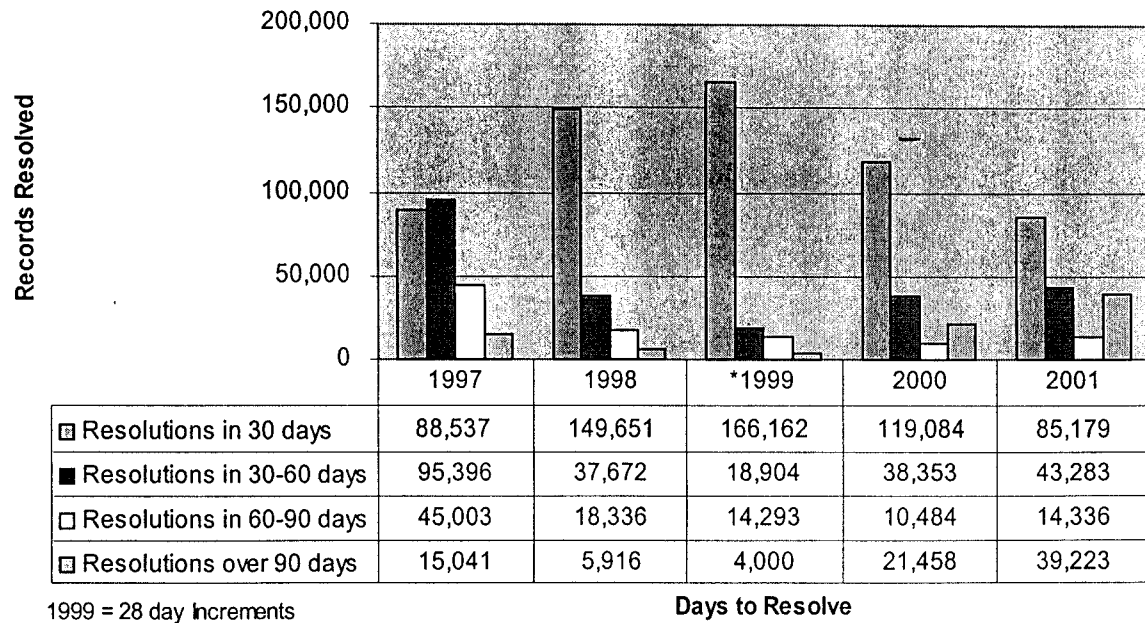
Excludes refunds that were offset

Days to Issue

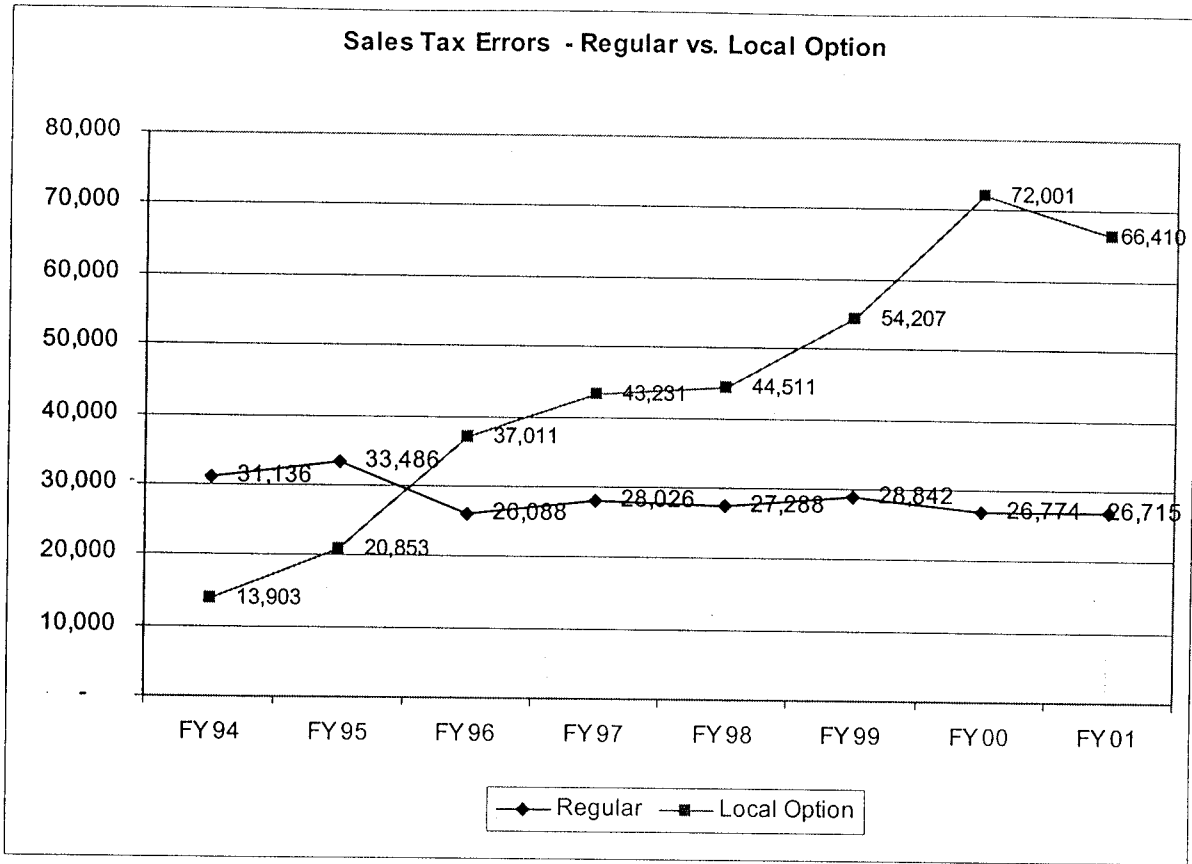
### Individual Income Tax Refunds Issued within 30 days



### Individual Income Tax Resolutions - 30 day increments



## Sales Tax Error Volumes



## Sales Tax Error Rates

	Returns without Local Option				Returns with Local Option		
	<u>2001</u>	<u>2000</u>	<u>1999</u>		<u>2001</u>	<u>2000</u>	<u>1999</u>
Volume	263,702	294,035	308,384	Volume	217,393	181,328	170,114
Errors	21,161	20,932	24,121	Errors	66,410	72,001	54,207
Error Rate	8.0%	7.1%	7.8%	Error Rate	30.5%	39.7%	31.9%

	Monthly Deposits		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Volume	396,376	389,238	365,909
Errors	5,554	5,842	4,721
Error Rate	1.4%	1.5%	1.3%

**Processing Program**  
**Documents Sent to Review - Review Rate**

FY 99	<u>Tax Type</u>	<u>Total Returns</u>	<u>Returns to Review</u>	<u>% to Review</u>
	Individual Income Tax	1,396,744	212,741	15.2%
	Elderly & Disabled Property Tax Relief	19,362	6,325	32.7%
	Sales Tax	844,407	83,049	9.8%
	Withholding	775,095	28,195	3.6%

FY 00	<u>Tax Type</u>	<u>Total Returns</u>	<u>Returns to Review</u>	<u>% to Review</u>
	Individual Income Tax	1,505,769	201,627	13.4%
	Elderly & Disabled Property Tax Relief	22,306	7,473	33.5%
	Sales Tax	864,601	98,775	11.4%
	Withholding	789,428	30,844	3.9%

FY 01	<u>Tax Type</u>	<u>Total Returns</u>	<u>Returns to Review</u>	<u>% to Review</u>
	Individual Income Tax	1,560,860	223,495	14.3%
	Elderly & Disabled Property Tax Relief	23,348	8,051	34.5%
	Sales Tax	877,471	93,125	10.6%
	Withholding	790,664	31,191	3.9%

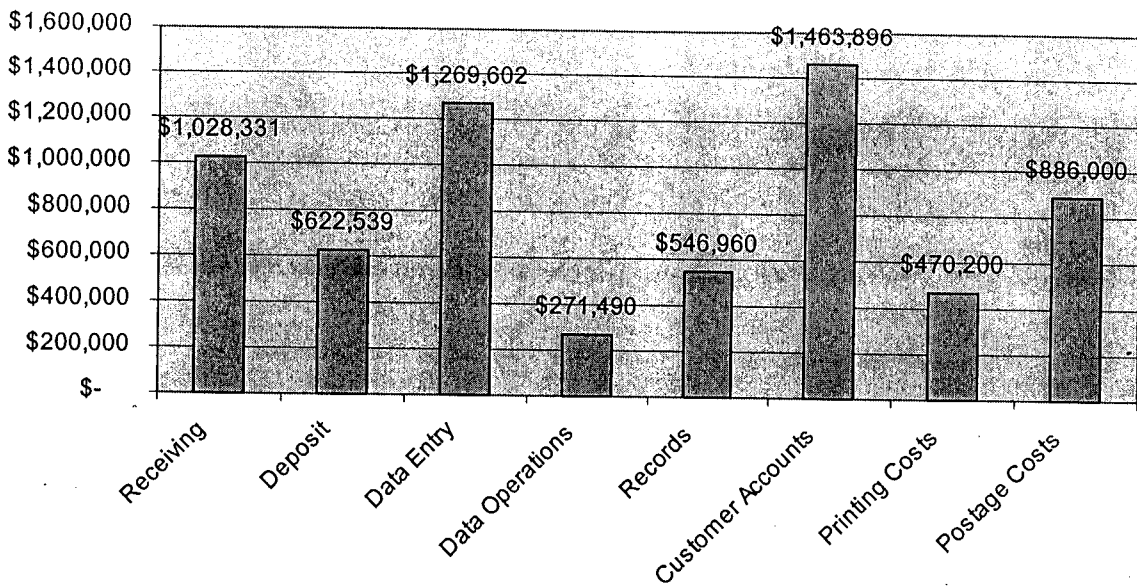
**Tax Deposits - FY 2001**

<b>EFT - % of dollars</b>	<b>Tax Type</b>	<b>Total Dollars</b>	<b>Received EFT</b>	<b>% EFT</b>
	Withholding	1,877,825,577	1,077,811,758	57%
	Corporate	237,889,070	101,223,076	43%
	Sales/Use	1,979,301,659	1,093,609,795	55%
	Motor Vehicle Use	237,854,260	237,855,173	100%
	Motor Fuel Tax	446,780,146	434,395,395	97%

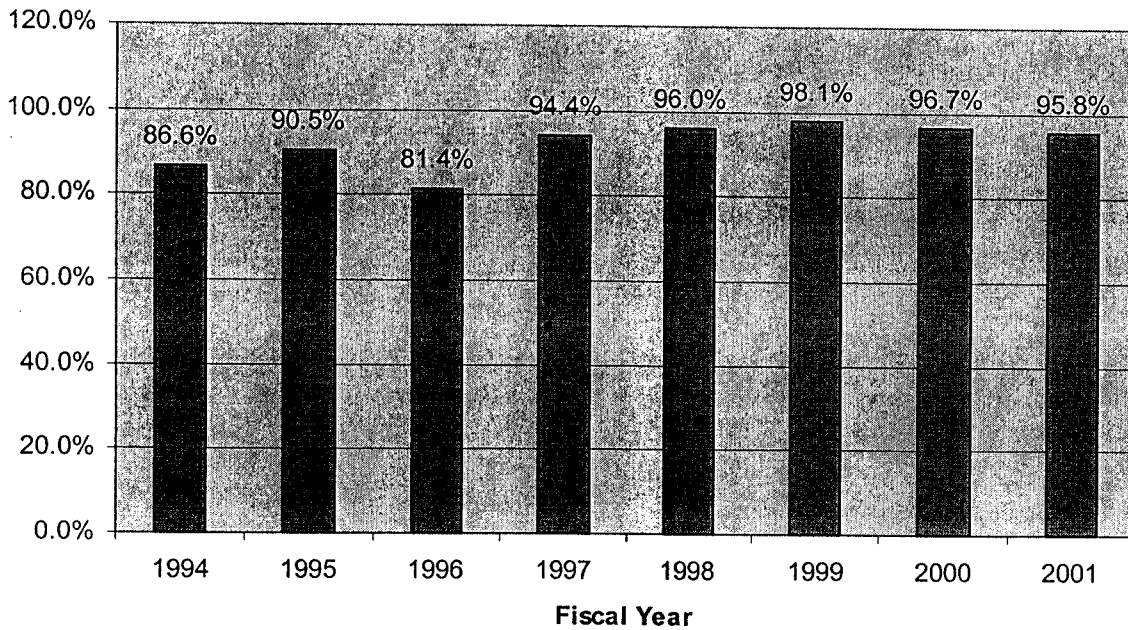
<b>EFT - Number of Payments</b>	<b>Tax Type</b>	<b>Total Payments</b>	<b>EFT Payments</b>	<b>% EFT</b>
	Withholding	704,245	76,113	11%
	Corporate Estimate	42,191	854	2%
	Sales/Use	745,698	42,336	6%
	Motor Vehicle Use	1,195	1,195	100%
	Motor Fuel Tax	7,008	1,602	23%

**FY 2001 Document Processing Costs - Iowa Department of Revenue**

Total Processing Costs = \$6,559,018

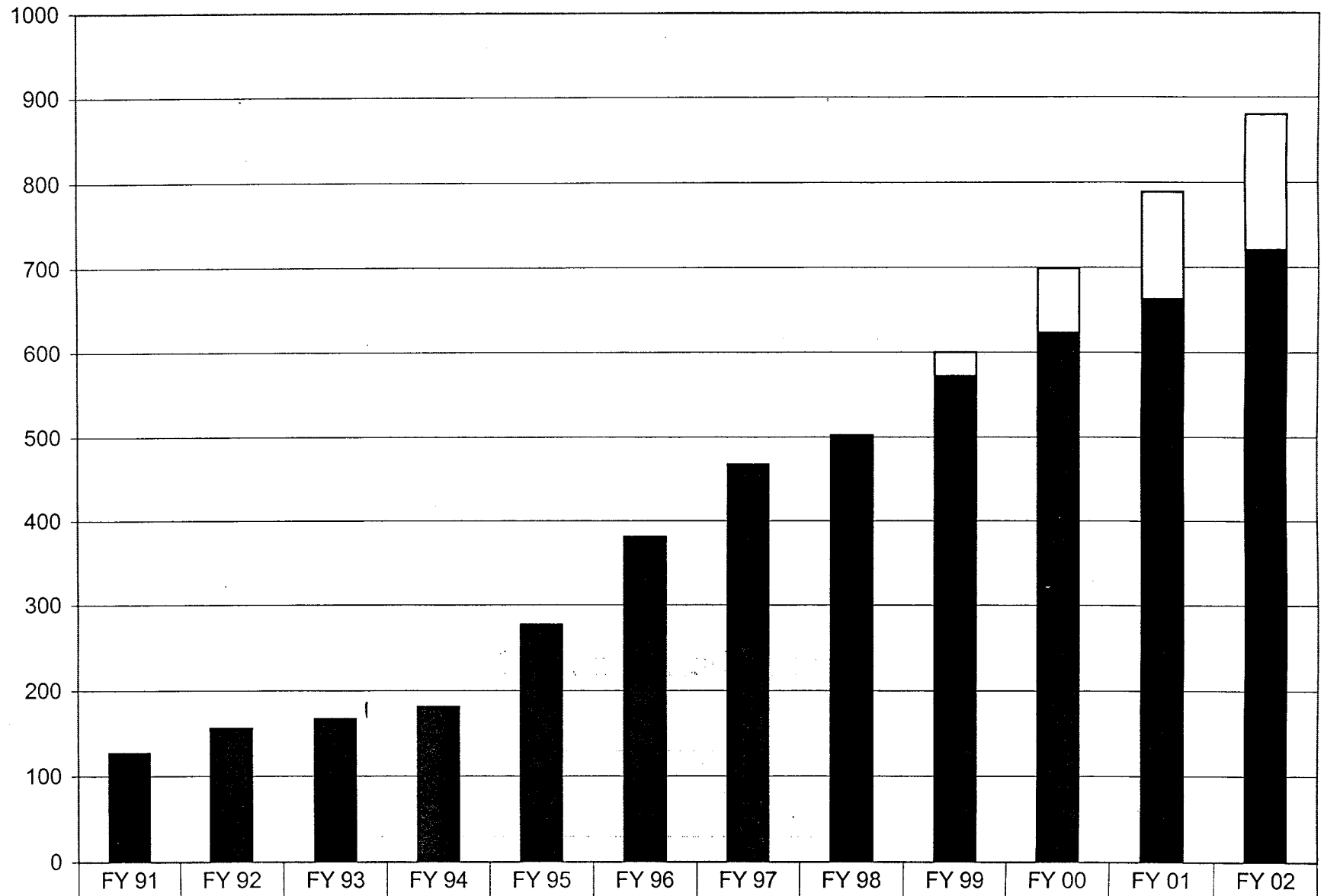


**Percent of Actual Local Option Tax Actual Distributions based on Estimates**



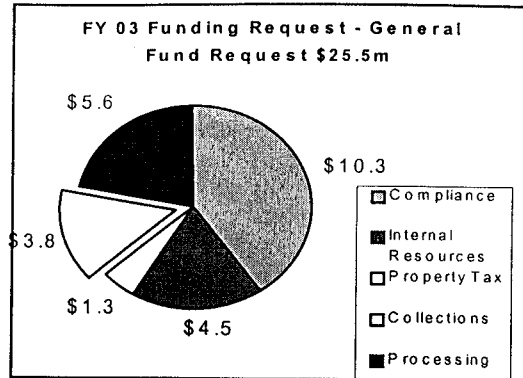


# Total Local Option Jurisdictions



□ School Districts									28	76	126	159
■ Regular Jurisdictions	127	156	167	181	277	381	467	502	572	623	663	721

<b>COLLECTIONS</b>	FY03: \$ 3.8m 68.7 FTE's
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**Program Description**  
To resolve the outstanding debt owed to the Department of Revenue and Finance and other contracting agencies; and to resolve the unbilled, non-filed returns for the Department in compliance with Iowa law.

- Program Goals**
- ◆ Resolve 75% of billed accounts within 180 days of entry into the collection facility.
  - ◆ Collect the "net debt" placed with the collection facility within the following time parameters:
    - a) 36% of net debt in 60 days
    - b) 45% of net debt in 180 days
    - c) 71% of net debt in 365 days

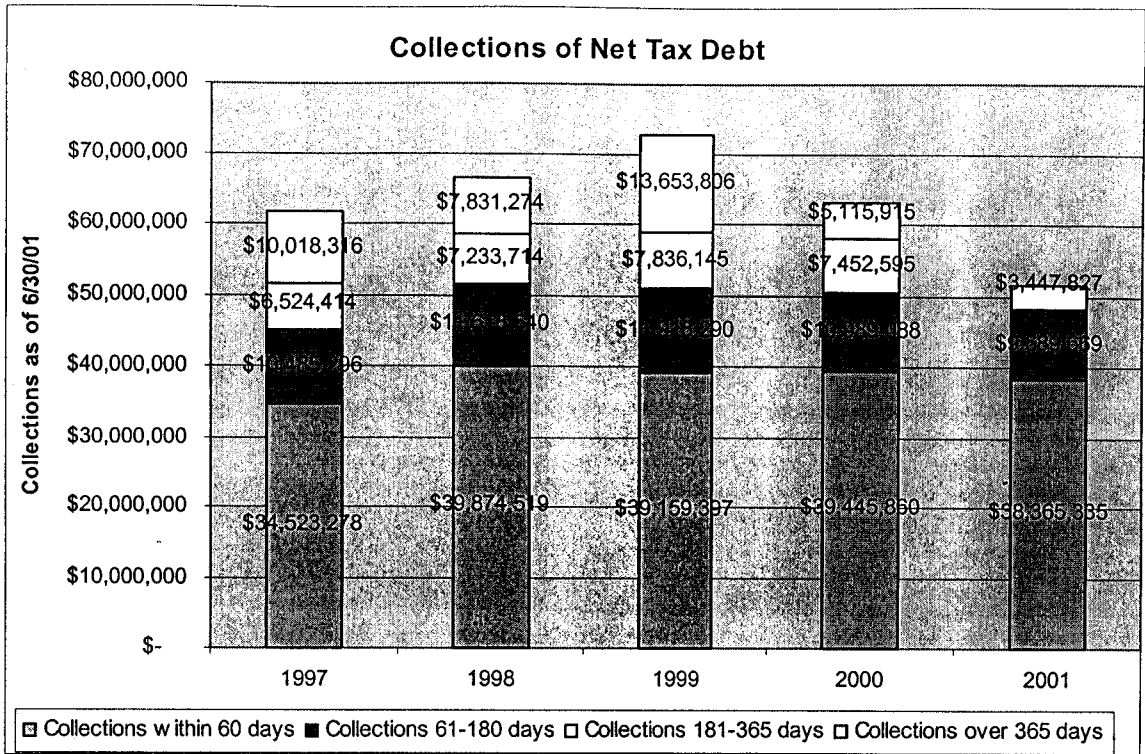
- Key Measures**
- ◆ Percentage of billed accounts resolved within 180 days.
  - ◆ Percentage of collections to net debt at 60, 180, and 365 days.
  - ◆ Net Recovery rate – Aged one, two, and three years.
  - ◆ Collection Partnership – Costs as a percentage of total collections.

- FY 2001 Results<sup>1</sup>**
- ◆ Resolved 71% of billed accounts within 180 days of entry into the collection facility.
  - ◆ Collected the "net debt" placed with the collection facility with the following time parameters:
    - a) 41% of net debt in 60 days
    - b) 53% of net debt in 180 days
    - c) 61% of net debt in 365 days
  - ◆ Net Recovery rate<sup>2</sup>:
    - a) 80% for accounts aged one year
    - b) 90% for accounts aged two years
  - ◆ Collection Partnership – 10.72% total cost to collect.

- FY 2003 Initiatives**
- ◆ Provide collection services to other state agencies.
  - ◆ Continuously refine processes to achieve collection results and customer satisfaction at the first contact.

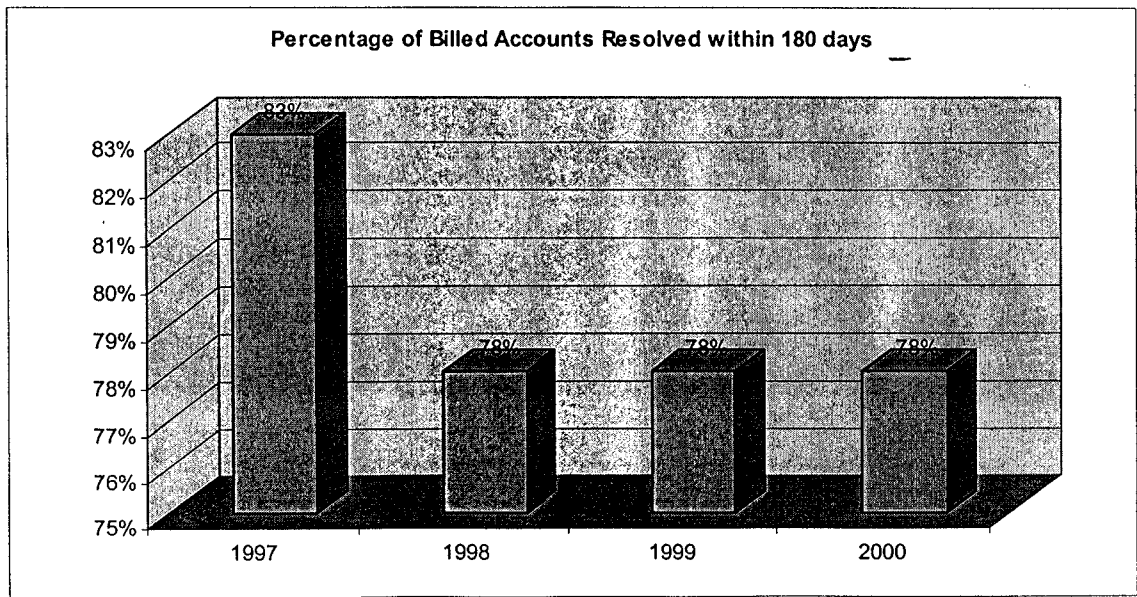
<sup>1</sup> As of July 12, 2001, for fiscal year 2000. Numbers rounded.

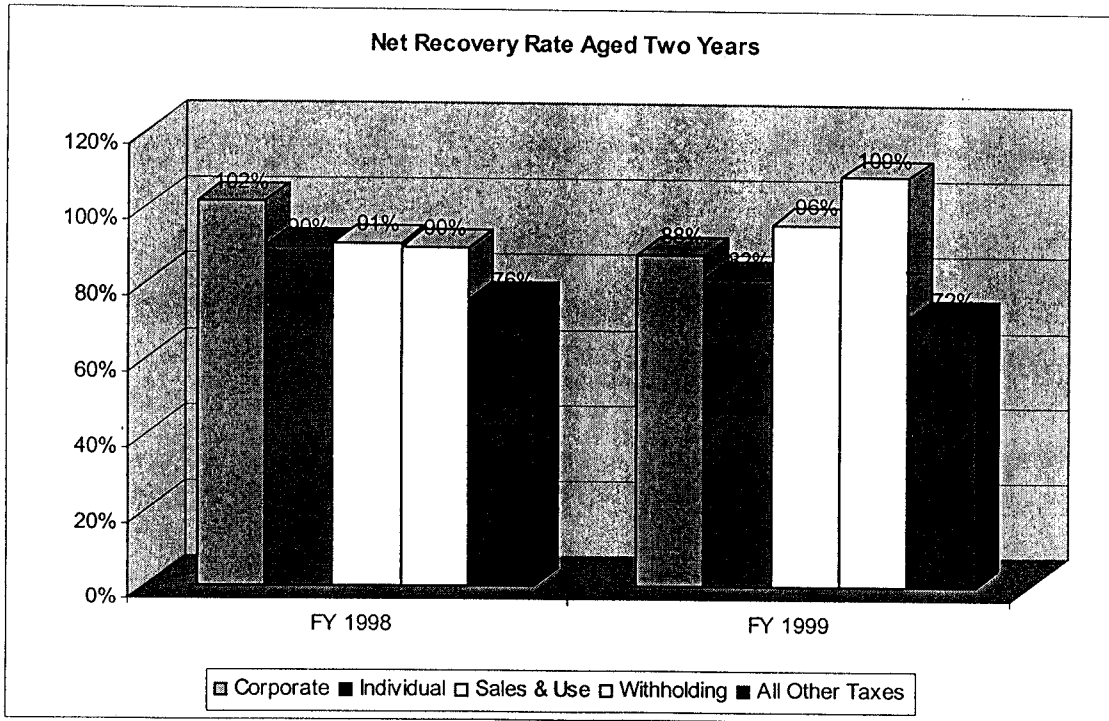
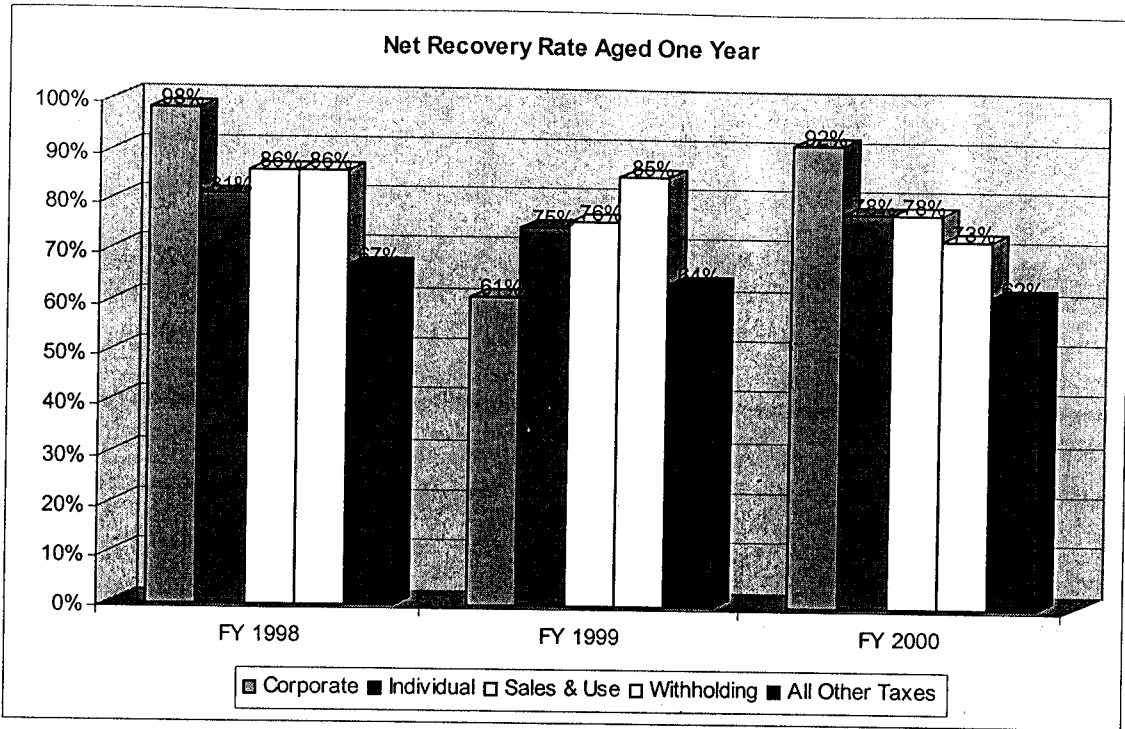
<sup>2</sup> Based on FY 1998 and FY 1999.



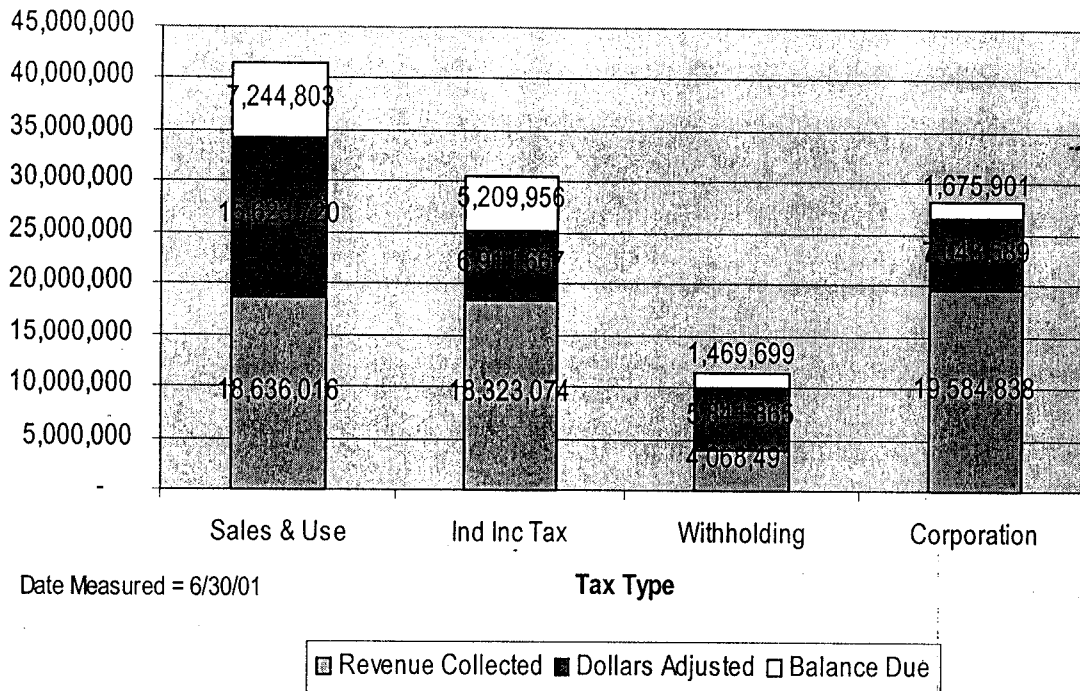
#### Percentage of collections to net debt at 60, 180, and 365 days

	Collections within 60 days	Collections 61-180 days	Collections 181-365 days
1997	45%	14%	9%
1998	44%	13%	8%
1999	43%	13%	8%
2000	41%	12%	8%

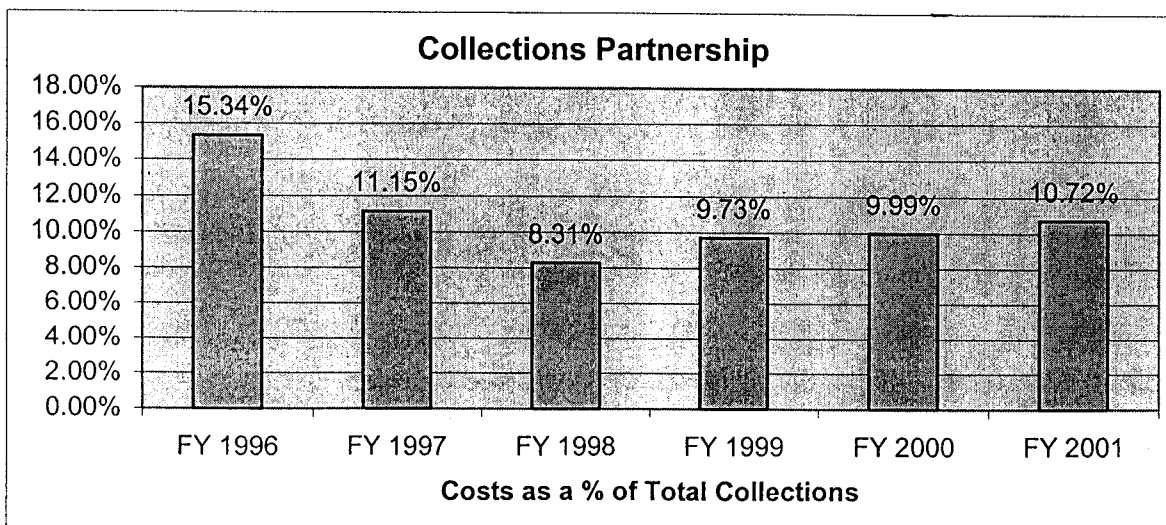
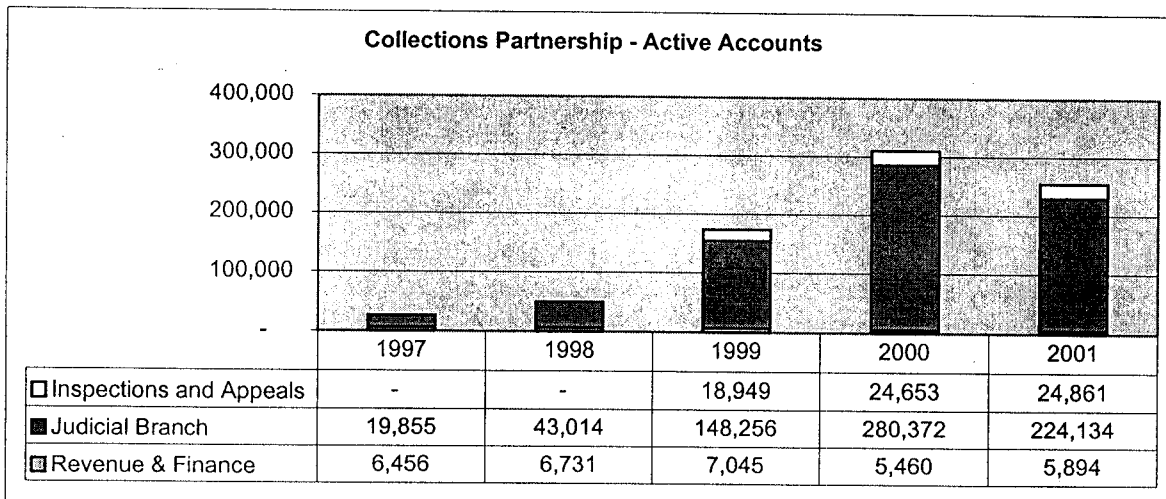
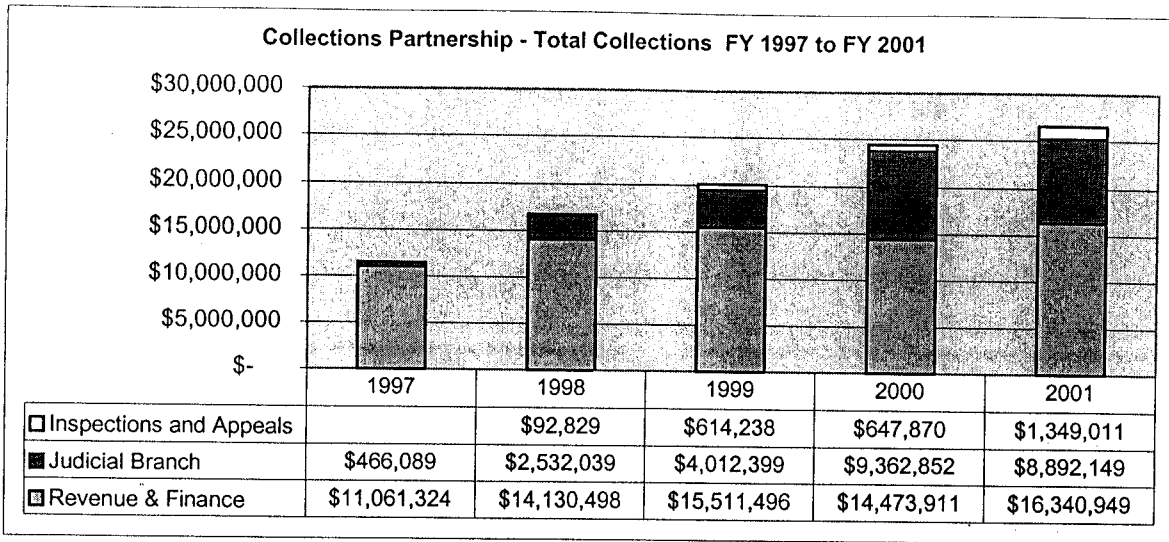




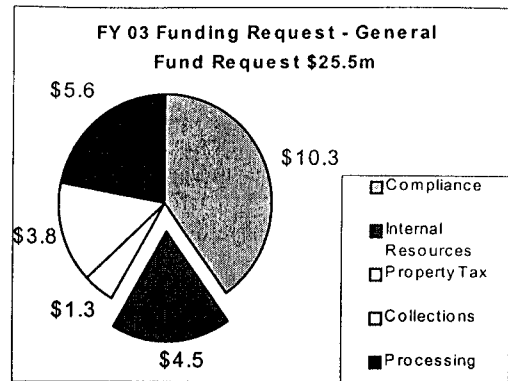
### Collections & Adjustments - Accounts Billed in FY 2000



### Collections Partnership



INTERNAL RESOURCE MGT.	FY03: \$ 4.5 51.89
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### Program Description

To provide information technology, employee development administration, information analysis and budget and reporting services to enable employees to meet their program goals and to provide services to our customers.

### Program Goals

- ◆ To attract and retain skilled workers.
- ◆ Performance measurement tools utilized by all levels of the organization.
- ◆ 100% "E" with emphasis on development of web based interactive applications for filing of returns, payment of taxes and accessing of account information.\*
- ◆ Employee recognition programs are established and utilized.
- ◆ On-line systems available 97% of prime time hours.
- ◆ Provide information and analysis on the condition of tax revenues and refunds.

### Key Measures

- Percent of prime time hours that on-line systems are available.
- Percent of programs with family of measures evaluated
- Forms order fulfillment produces 24 hour turnaround on forms services order
- Numbers of employees recognized for service/performance accomplishments.
- Iowa participation rate for income tax electronic returns.
- Revenue and refunds analysis and tracking reports are provided to users monthly.
- Quarterly background papers on tax revenues, refunds and condition of the State's economy are developed and presented to REC members and staff.
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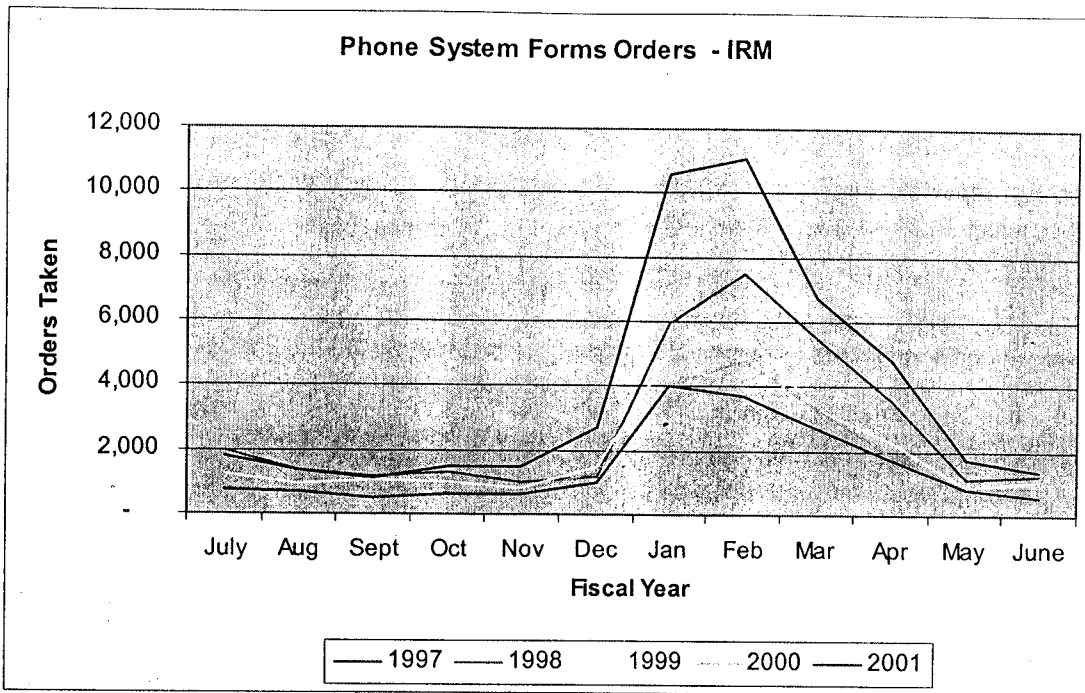
### FY 2001 Results

- ✓ Implemented Sales/use tax component within the Department's Integrated Revenue Information System (IRIS) resulting in improvements to tax return processing and customer service.
  - ✓ Introduction of nine internet applications as a means of customers to interact with the department. Resulted in 28,000 visits to the department web-site.
  - ✓ 20% increase in the number of income tax taxpayers filing electronically.
  - ✓ 15% decrease in forms orders calls. Part of the decrease attributed to deployment of a web-based forms ordering system.
- Tax Expenditure Study Phase I report was completed. Phase II covering property tax and other local government revenue sources was initiated.

### FY 03 Initiatives

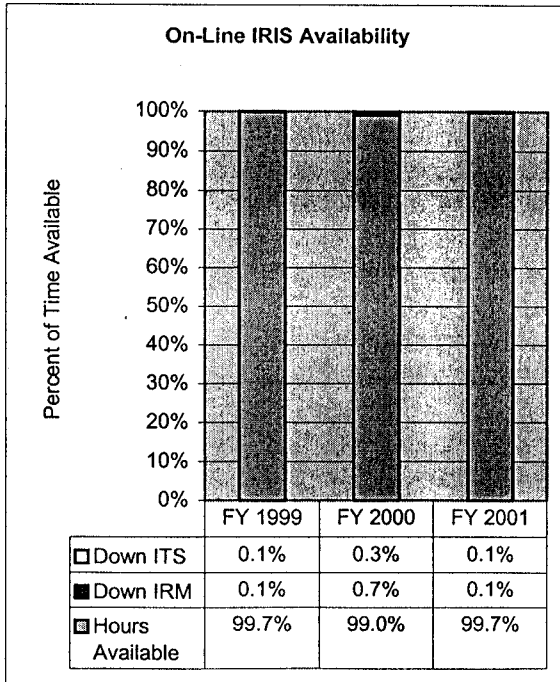
- In conjunction with ITD continue to enhance electronic filing opportunities resulting in the electronic receipt of over 750,000 income and selected business returns.
- Integration of department technology resources with other state agencies to provide improvements in service delivery and increased efficiency for the enterprise.
- Complete Phases II and III of the Tax Expenditure Study and initiate a study of the fairness, efficiency and competitiveness of Iowa's State and local tax systems and fiscal structure.
- Align department operations with the Accountable Government Act.
- Conduct a department wide Iowa Excellence Self Evaluation.

## Information and Resource Management

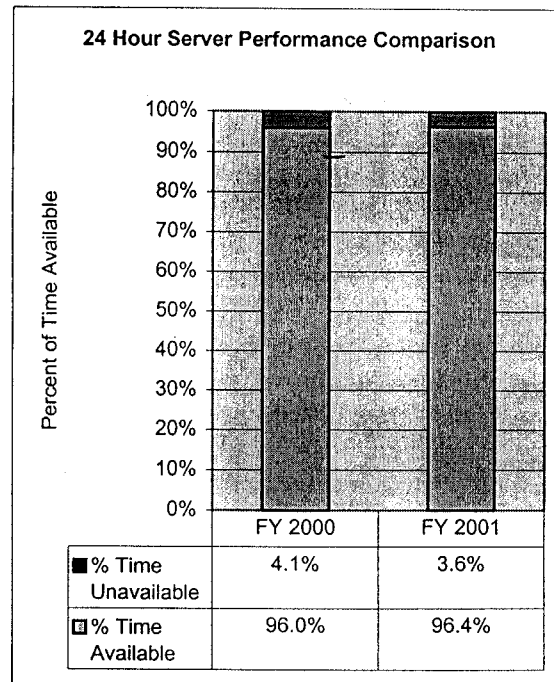


## Information Technology Services

### Main Frame

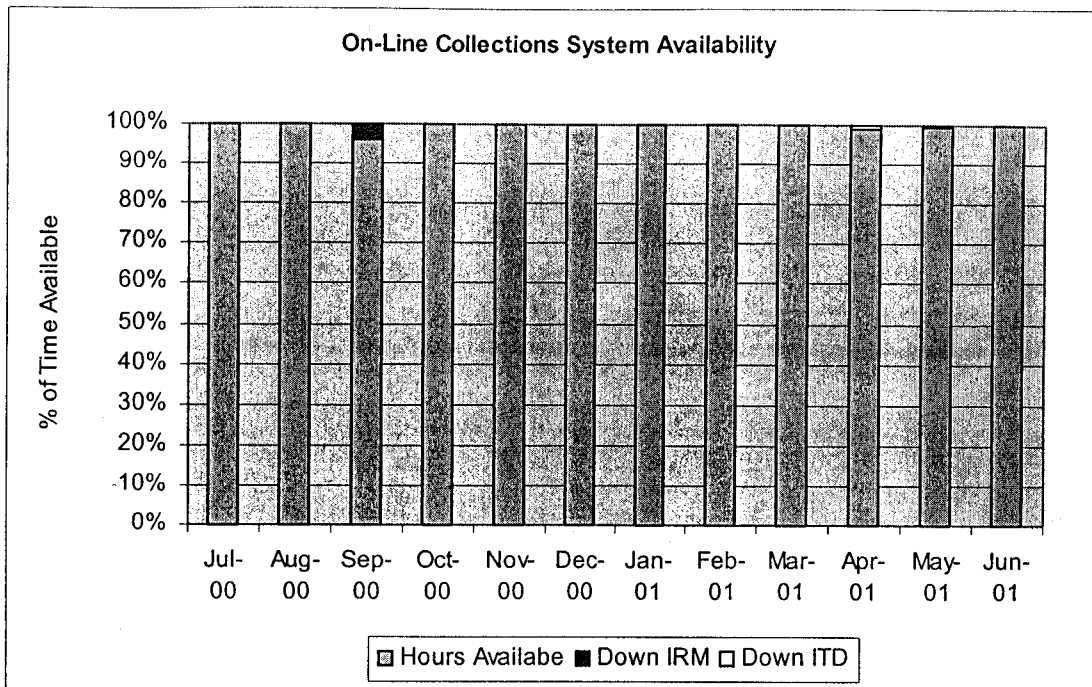


### Local Area Network

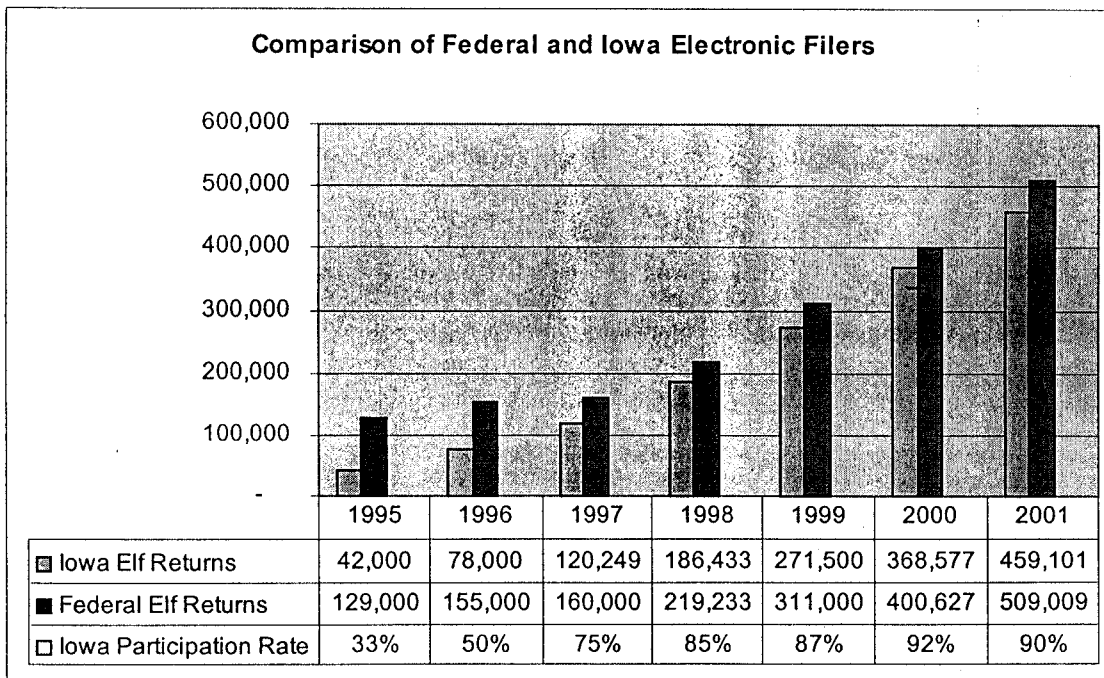




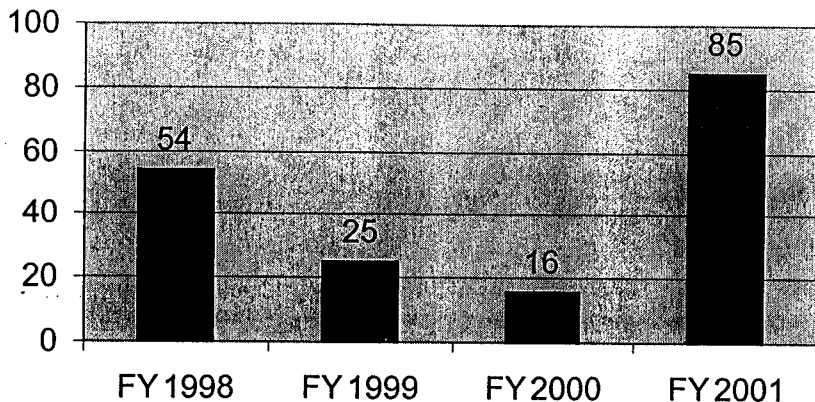
## Main Frame



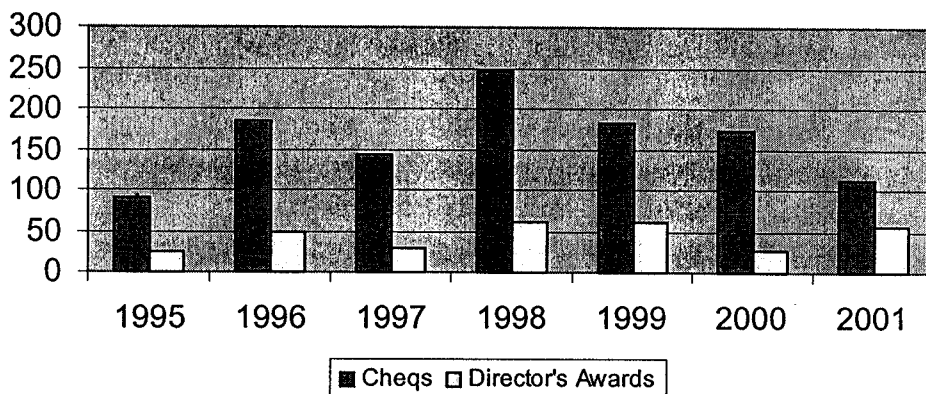
## Electronic Filing Participation Rate



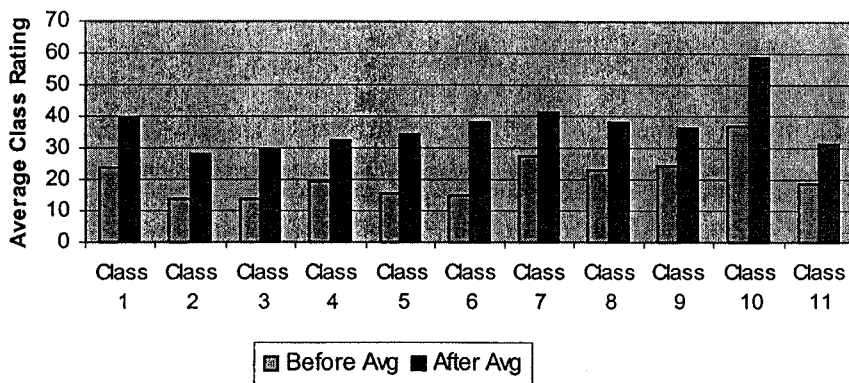
### Participant Attendance in Team Training Classes



### Employee Recognition

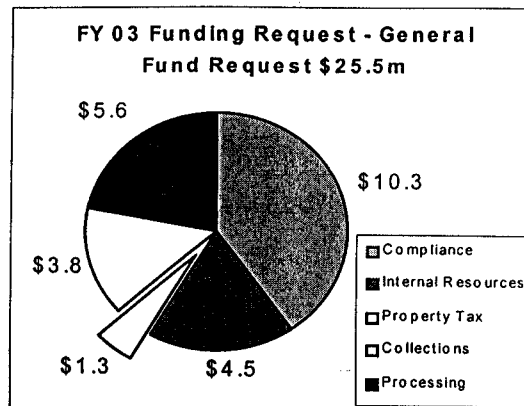


### Participant Knowledge Perception Chart



<b>PROPERTY TAX</b>	<b>FY03: \$ 1.3m 16.60 FTE's</b>
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**Program Description**  
 To provide comprehensive and timely education, service and enforcement programs to property tax officials and property taxpayers of Iowa, which will result in fair and equitable property assessments



- Program Goals**
- ◆ Equalizations – Improve processes and systems to provide information and assistance to assessors in a time frame that such data and aide can be utilized to establish accurate levels of assessment.
  - ◆ Central Assessments – Improve the central assessment process to timely provide accurate assessments to our taxpayer customers, which in turn, will meet the needs of our other customers involved in establishing property tax levies.
  - ◆ Utility Replacement Tax – Implement Iowa’s utility replacement tax timely and accurately.
  - ◆ Training and Education – Implement local tax official education and training programs.

- Key Measures**
- Time frame for processing and providing sales data to local assessors.
  - Time frame for providing certified central assessment values.
  - Number of successful protests of equalization orders.
  - Number of schools, workshops and conferences participated in annually and number of new assessors completing IDRf training curriculum.

- FY 2001 Results**
- ✓ Ongoing implementation of Utility Replacement Tax providing equity in assessed values and estimated property tax levies for all counties.
  - ✓ Processed 90,000 declaration of value documents used to provide sales data to local assessors.
  - ✓ Implement new assessor training system.
  - ✓ Continued to enhance equalization appraisals utilizing improved market based data and methodologies.

- FY 03 Initiatives**
- Continue to monitor and improve utility replacement tax processes.
  - Timely issuance of Equalization orders impacting 2002 property values.
  - Improved transactions with local tax officials utilizing electronic communication technologies.

**Property Tax (PT05)**

**Performance Measures**

**CENTRAL ASSESSMENTS - CERTIFICATES OF ASSESSMENT**

*It is important to local governments to receive the certified central assessment values in a timely manner. These values are utilized in the budgeting and levy process by local governments. The sooner they receive these values, the sooner they can begin the budget process.*

**Dates Mailed**

December 7, 1992  
December 22, 1993  
December 6, 1994  
November 9, 1995  
November 15, 1996  
November 26, 1997  
December 14, 1998  
December 17, 1999  
December 8, 2000  
November 21, 2001

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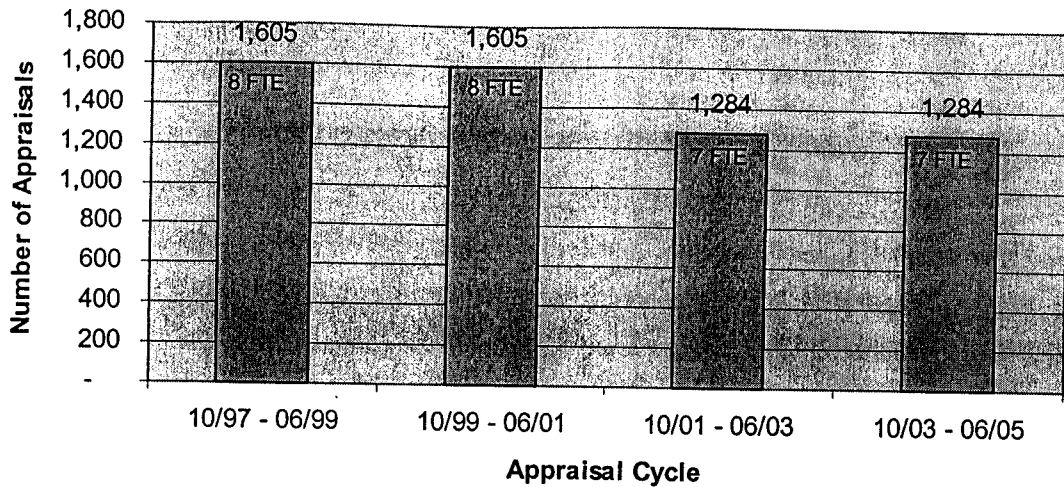
**EQUALIZATION - SALES LISTINGS HISTORY**

<u>Sales Year</u>	<u>Date Partial Sales Listing Sent</u>	<u>Date Final Sales Listing Sent</u>
1992	January 28, 1993	June 1, 1993
1993	February 21, 1994	June 23, 1994
1994	January 23, 1995	June 1, 1995
1995	January 24, 1996	June 6, 1996
1996	December 23, 1996	May 29, 1997
1997	December 23, 1997	May 21, 1998
1998	December 11, 1998	May 14, 1999
1999	December 30, 1999	May 30, 2000
2000	January 8, 2001	May 9, 2001
2001	January 11, 2002	

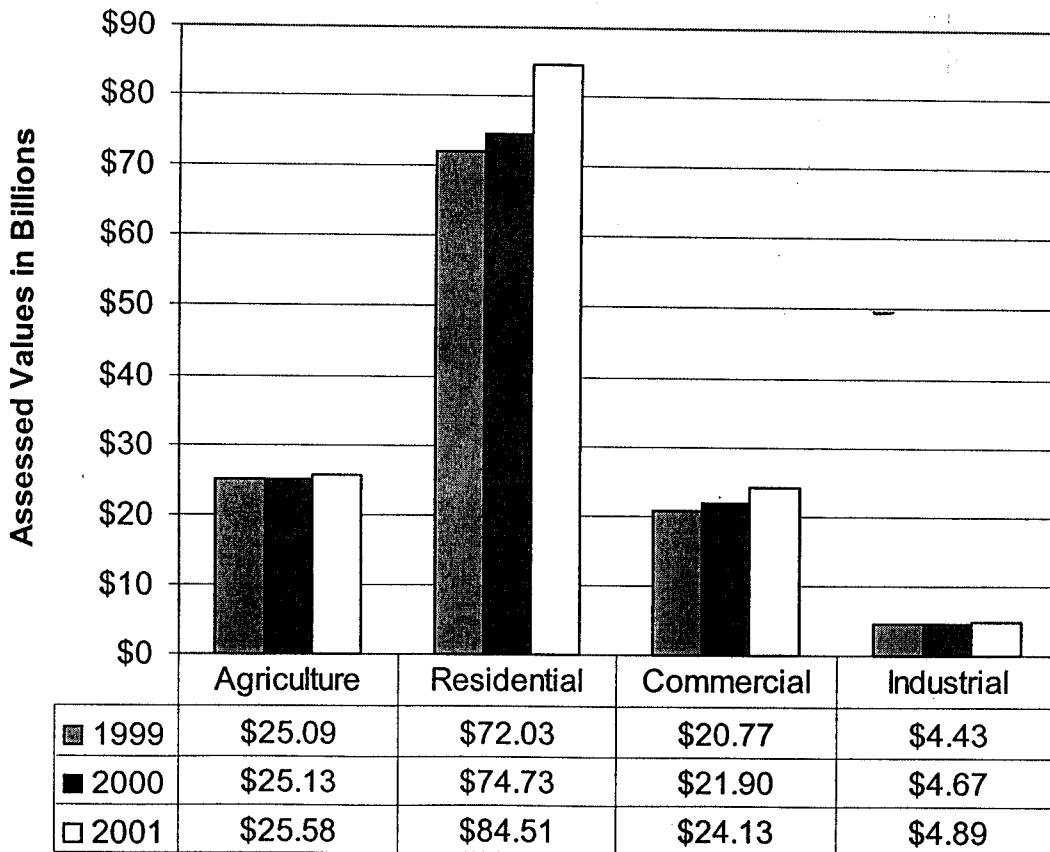
\* January - October Sales

Cutoff = June 1

### Property Tax Appraisals



### Iowa Property Valuations



# Iowa Tax Fairness Study Proposal

## **Purpose of the Study**

The purpose of the study is to provide a comprehensive review of Iowa's State and local public finance systems from the perspective of their fairness, complexity, efficiency, and competitiveness.

## **Background**

Iowa's current system of government finance reflects the State's economy, demographics, political structure, and technology as it existed during the 1930s. Much of the State's current system of State and local finances reflects recommendations made in the 1933 report A Survey of Administration in Iowa prepared by the Brookings Institution. Other studies have been conducted since that time, but they have been limited in scope and lacked the time or support to yield substantive recommendations. The proposed study responds to the recommendation of the Iowa 2010 Initiative, as well as proposals by organizations, such as the Iowa State Association of Counties, that call for a comprehensive review of the overall system of State and local government finance.

## **Scope of the Study**

It is not possible to separate the fiscal problems confronting local governments from those affecting the State. Therefore, both local government and State revenue sources will be addressed by the study. In addition, the study will consider both tax and non-tax revenue sources. In evaluating revenue sources the distribution of burden among different groups of individuals and businesses will be addressed. The consideration of individual tax burdens will include an analysis by income level, family structure, age, and filing status. In considering business tax burdens the study will address the distribution by industry, size, ownership type, and whether the business operates only in Iowa or both within and outside Iowa. The distribution of benefits associated with the different types of tax expenditures will be similarly evaluated for individuals and businesses.

## **Major Issues**

### General Issues:

- How stable and dependable are the revenue sources upon which government relies?
- How equitable and fair is the responsibility for financing government programs and services distributed?
- To what extent does government fiscal policy affect economic decision-making by individuals and businesses?
- What are the costs imposed on individuals and businesses, as well as on government, associated with administering and complying with tax laws and regulations?
- Does the fiscal system enhance government accountability?
- Does the existing fiscal structure provide adequate resources to fund the programs and services government is required to provide?

### Iowa Specific Issues:

- Which level of government should have responsibility for funding different services?
- Which services should be funded from property taxes versus other taxes or non-tax revenue sources?
- Which government provided services should be funded by fees imposed on individuals and businesses consuming the services rather than from general-purpose tax revenues?
- How does the capacity of local government to fund public services vary among different jurisdictions by size and location?
- Do the deductions provided against Iowa individual and corporate income tax for federal income taxes benefit or disadvantage the State from the perspective of economic competitiveness?
- Is the tax burden imposed by the State's business taxes (i.e., corporate income tax, franchise tax, and insurance premiums tax) equitable?
- As the population of the State ages, how will the revenue raising capacity of different revenue sources be affected?

### **Study Oversight and Direction**

Policy oversight is necessary to insure that the study addresses those issues most relevant to political decision-makers, but such oversight must be balanced by the need for technical objectivity. Most importantly, to overcome the shortcomings of prior studies, adequate time and resources must be committed to insure that all relevant issues are thoroughly addressed. To fulfill these requirements the study will require a Policy Oversight Committee, a Technical Advisory Committee, and a professional staff.

### **Study Schedule**

Stage 1: Study Organization and Plan Development -- July 2002 - January 2003

Stage 2: Research and Analysis -- August 2002 - October 2003

Stage 3: Review of Findings and Recommendations Development -- October 2003 - December 2003

### **Budget**

FY 2003: \$400,000

FY 2004: \$300,000