

Iowa Department of Revenue and Finance Response to Request for De-appropriation Reductions in FY 2001

FY 2001 Reductions Already in Affect: \$1.25 million equaling a 4.5% reduction

The following reductions in FY 2001 the Department's budget took place to meet reductions due to Legislative cuts, absorbing salary adjustments, health insurance and pay grade revisions attained through Collective Bargaining:

FY2001 spending reductions:

Defer on planned field server and lap top upgrades:	\$170,000
Reduction in planned IT maintenance and development:	\$175,000
Reduction in outside data entry:	\$100,000
Misc. Adjustments:	\$ 37,390
40% FTE charged to Utility Replacements:	\$ 33,000
Revision of FY01 collections charges:	<u>\$121,000</u>
Total identified savings 07/00	\$636,390

As of February 2001, the department is still seeking ways to absorb these reductions plus an additional \$400,000 of cuts due to the fact that the costs of administering local option processing will not be recovered by charging a fee. Aside from the line item reductions mentioned above, a hiring freeze, except for those positions considered essential, has been in effect since July 1, 2000. The department is operating at a current deficit of \$500,000.

Additional 5% reduction for FY 2001

- Represents an additional \$1.5 million above the \$1.25 million already underway.
- Total reflects a 9.5% reduction in 2001
- A major portion of departmental operations occur within the last five months of the fiscal year due to income tax processing expenses including 78% of our temporary employee costs and 92% of outside data entry costs.
- **Any reductions during these months will have a significant impact on the processing of income tax returns and refunds.**

Following are the functions of the six departmental programs, code citations, impacts of prior FY 2001 reductions and impacts of future reductions.

Compliance Program

164.49 FTE FY01 budget: \$11 million

- Provides educational services and information to taxpayers.
- Discovers unpaid tax liabilities and bills the correct amount of tax.
- Produces revenue under the Office Examination Program - \$25 million in FY2000.
- Produces revenue under the In-state Audit Program - \$6 million in FY2000.
- Produces revenue under the Out-of-State Audit Program - \$11 million in FY2000.
- Develops administrative rules and regulations
- Conducts review of claims for tax refunds.
- Responds to taxpayer questions when they are completing their returns.

These activities are in accordance with the following Sections of the Iowa Code:

Policy

Declaratory Orders (Policy Function) 17A.9

Examination & Review Authority

Individual & Withholding – Audit 422.25(1)

Interest 422.25(3) Interest Computation 421.7

Refund 422.25(3)

Corporate 422.29 (By Reference)

Franchise Tax 422.26 (By Reference)

Sales 422.54

Use Tax 423.23 (By Reference)

Environmental Protection Charge - Audit 424.10(1)

Refund 424.10(3)

Hotel Motel Tax 422A.1 (By Reference)

General Local Option Tax 422B.9 (By Reference)

Auto-Rental Tax 422C.4 (By Reference)

School Infrastructure Local Option Tax 422E.3 (By Reference)

Inheritance Tax 450.94

Generation Skipping Transfer Tax 450A.12 (By Reference)

Qualified Use Inheritance Tax 450B.7 (By Reference)

Estate Tax 451.12 (By Reference)

Motor Vehicle Fuel Tax 452A.64 (Refunds 452A.72)

Cigarette 453A.28

Tobacco 453A.48

General Authority

Protest and Appeals – 17A.10 Informal

17A.11 Formal

Judicial Review 17A.19

Impacts of Current Reductions:

- No upgrading of servers and laptops in the field offices for Revenue Auditors.
- Reduced IT support and application development impact the areas of sales tax audits
- No local option educational assistance or local option review during audits.
- Holding 7 FTE vacant to absorb reductions, representing a loss of \$1.8 million in revenue from Auditor and Examiner vacancies.

Impacts of Further Reductions:

- Loss of revenue to the general fund through examination and audit activities. The reduction of one auditor would reduce revenues by \$181,000 and one examiner by \$811,000.
- Reduced voluntary compliance without education/information services. This is particularly critical during tax season when customers are calling for information on completing tax returns.
- Backlogs in audit resolution and appeal processes.

Processing Program

135.32 FTE FY01 budget: \$5.6 million

- Processes and deposits tax collections. (\$5.7 billion in FY00).
- Issues refunds in a timely manner to enhance customer service and avoid interest payments.
- Issues permits and licenses.
- Resolves taxpayer errors.
- Distributes funds to local governments for local option taxes and property tax programs.

These activities are in accordance with the following Iowa Code Sections:

- 257.22 - instructional support income surtax*
- 421.6 - deposit of revenue
- 421.17 offset tax refunds for state debt.
- 422 - individual income, corporate income, sales and franchise taxes
- 422A - hotel/motel tax*
- 422B - Local Option sales tax*
- 422C - automobile rental excise tax
- 422D - emergency medical income surtax*
- 422E- school local option tax*
- 423 - use tax
- 424 - EPC Diminution Charge
- 425 - Homestead Credit reimbursement*
- 426 - Ag Land tax credit reimbursement*
- 426A - Military Service tax credit reimbursement*
- 427B - Machinery and Equipment reimbursement*
- 428A- real estate transfer tax*
- 432 - deposit of insurance premium tax
- 435 - Mobile Home tax credit reimbursement*
- 450 - inheritance tax
- 451 - estate tax
- 452A - motor fuel tax
- 453A - cigarette tax
- 455F - household hazardous waste permit fee
- 455G - underground storage tank
- 456A.16 - chickadee checkoff
- 541A - Individual development accounts

***These Sections relate to distribution of approximately \$600 million to local governments.**

Impacts of Current Reductions:

- Reduced outside data entry (already resulted in \$125,000 of interest payments in corporate income tax).
- Reduced IT support and application development delayed sales tax system upgrade affecting sales (including local sales) tax processing and fund distribution.
- Holding 8 FTE vacant resulting in slower turnaround times in response to taxpayer filings.

Impacts of Further Reductions:

- Refunds will not be processed in a timely manner resulting in interest liabilities after June. For each additional \$100,000 reduction in outside data entry services, interest liability would be \$490,000 per month.
- Customers would experience delays in receiving 30,000 permits and licenses.
- May result in additional reductions in local options services.
- Jeopardizes timely deposit of tax revenues.
- Income tax refund offsets for state debt (\$10.5 million in FY 2000) is jeopardized.

Collections Program

82.5 FTE FY01 Budget: \$4.3 million
Collects unpaid state debt. Collected \$73 million in FY00.

Accounts Receivable Program

- Sets up tax billing accounts.
- Processes billing payments and adjustments to billings.
- Provides assistance and information to debtors.

Central Collections

- Resolves unbilled and non-filed returns.
- Provides collection services for other state agencies.
- Pursues telephone collections for billed tax accounts.

Advanced Collections

- Conducts advanced collection of delinquent billed tax accounts.
- Investigates permit holders who fail to file or pay Iowa sales & withholding taxes.
- Pursues efforts to assist delinquent sales tax permit holders to stay in business and comply with Iowa tax law.

These activities are in accordance with the following Sections of the Iowa Code.

- 421.5 - settling doubtful claims for taxes
- 421.17(22) - employ collection agencies
- 421.17(34) - administer central collections unit
- 421.17A- administrative levy
- 421.26 - personal liability for tax due
- 421.29 - registration
- 421.60 - tax procedures and practices act
- 422.26- lien of tax -collection-actions authorized
- 422.30 - jeopardy assessments
- 422.52- bond
- 453B - drug stamp tax

Impact of Current Reductions:

- No planned server or laptop upgrades in field offices impacts agent collection activities.
- Reduced IT support and application development.
- Holding 4 FTE vacant, causing a revenue loss of \$590,000 and delays in bonding and revocations.

Impacts of Further Reductions:

Loss of revenue from collections activities,
Loss of revenue from enforcement programs.

Internal Resource Management Program

63.59FTE

FY01 budget: \$5.4 million

- Provides for new application development to meet customer needs.
- Maintains existing information technology infrastructure to support department programs.
- Maintains departmental accounting and budgeting programs
- Provides human resource services.
- Orders and maintains forms inventories and distributes tax forms. (Section 422.21 Iowa Code)

Impacts of Current Reductions:

- Reduction in professional and scientific services affecting Compliance and Processing Programs.
- Reduced IT maintenance and development capabilities to customer programs.
- Holding 2 FTE vacant which impacts forms management functions.

Impact of Further Reductions:

- Eliminates capabilities for new application development thereby delaying benefits from integration of applications in one and creating additional costs for providing electronic services.
- Jeopardizes the stability of current networked infrastructure used to collect, deposit, capture and utilize data for all taxes.

Property Tax Program

20.60 FTE

FY01 budget: \$1.4 million

- Provides local tax official and education programs
- Processes declaration of value documents used to provide sales data to local assessors
- Conducts equalizations to establish accurate levels of assessment.
- Conducts central assessments to customers involved in establishing property tax levies.
- Implements utility replacement tax

These activities are in accordance with the following Chapters of the Iowa Code:
421.17, 433,434,438,428.24,428.26,428.28,428.29,437,437A, 441.

Impacts of Current Reductions:

- Holding 1 vacant FTE impacting verification of sales data used for equalization.

Impacts of Further Reductions:

Jeopardizes current equalization process that results in class equity in property valuations. Each 1 percent of increase/decrease in statewide property valuation equal to a \$5 million increase/reduction in state expenditures under school aid formula and equity between classes of property.

State Accounting Program

34.05 FTE

FY01 budget: \$1.9 million

- Disburses and accounts for all state finances (\$8.9 billion in FY00).
- Processes biweekly payroll for all branches of state government.
- Facilitates and prepares the completion of financial information reporting.
- Processes state accounting documents for payment for all branches of state government.
- Manages Vendor Payment Offset programs.

These activities are in accordance with the following Code Sections:

Accounting System 421.17(28), 421.31(5), 8.61

GAAP/Financial Reporting 421.31(5), 8.53

Payroll 421.17(28), 421.31(3), 70A.1, 70A.15, 70A.17, 70A.17A

Indirect Cost 421.17(33)

Cash Management Improvement Act 421.31(11)

County Billings 222.73, 222.75, 229.42, 230.20, 230.22, 232.141, 270.5, 269.2

PreAudit/Daily Processing 421.31(1), (2), (3), (4), 421.41, 421.38, 421.39

Reversions 8.33, 8.34

Income Offset 421.17(23), (24), (25), (29)

Impacts of Current Reductions:

No direct impacts

Impacts of Further Reductions:

- Will delay payments of claims to vendors and employees.
- Reduce vendor offset earning to the state. (\$1.3 million collected in FY2000.)
- Jeopardize the implementation of GASB 34 and the State's compliance with GAAP.