

**IOWA**  Department of **REVENUE**

Annual  
Report  
2008

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FISCAL YEAR 2008

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Partnership Income Tax, Franchise Income Tax  
Sales Tax, Retailer's Use Tax  
Consumer's Use Tax, Local Option Taxes  
Hotel / Motel Tax, Car Rental Tax  
Withholding Tax, Motor Fuel Tax  
Cigarette / Tobacco Tax, Inheritance Tax  
Fiduciary Tax, Property Tax  
Motor Vehicle Use Tax, Drug Stamp Tax  
Real Estate Transfer Tax, Moneys & Credits Tax

**Taxes  
Established  
by Iowa Code**

# IOWA Department of REVENUE

FISCAL YEAR 2008

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December 31, 2008

**The Honorable Chester J. Culver**  
**Governor**  
**State Capitol Building**  
**Des Moines, Iowa 50319**

**The Honorable Members**  
**Iowa General Assembly**  
**State Capitol Building**  
**Des Moines, Iowa 50319**

**Dear Governor Culver**  
**and Members of the Iowa General Assembly:**

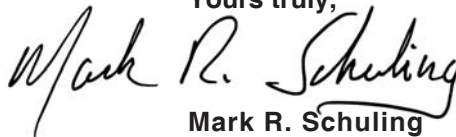
On behalf of the staff of the Iowa Department of Revenue, I am pleased to submit our Fiscal Year 2008 Annual Report. The mission of our Department is "To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more."

In 2008, the Department provided a Tax Amnesty that generated more than \$28 million in additional tax collections. The Department also oversaw the conversion of the school infrastructure local option tax to a one cent sales tax. The Department accomplishes these objectives and its mission by providing taxpayers with current and complete information, and up-to-date technology to support tax filings and payments.

We recognize our responsibilities to the taxpayers, and service is a priority. We are pleased to offer our professional services through the Internet and will continue to make progress and improve on those services. This report provides information about some of the ways in which that mission was accomplished during the past fiscal year.

Our actions will comply with the statutory provisions of the State of Iowa, and our duties under those statutes will be carried out in a fiscally responsible manner. Thank you for this opportunity to serve you and our State.

Yours truly,



**Mark R. Schuling**

**Director**

# IOWA DEPARTMENT OF REVENUE

To be recognized as a Department employing a well-trained work force that in a fair and respectful manner provides responsive and accurate services that enable all customers to comply with Iowa's tax law.

To serve Iowans and to support government services in Iowa by collecting all taxes required by law, but no more.

- We will create an environment of collaboration and partnership in order to improve voluntary compliance with Iowa's tax system.
- We will safeguard our customers' confidential information.
- We will provide a consistent, fair, and professional program of collection services.
- We will improve our methods of processing tax returns and payments and managing tax revenues so that these transactions will be timely, accurate, and cost effective.
- We will support Department operations by responsibly managing our finances to provide an environment that nurtures our human resources, enhances technology platforms, and continues a strong program of performance measurement and evaluation.
- We will provide education and supervision so that property assessment will be uniform, fair, and equitable, and we will assist local governments by efficiently administering the local option tax programs.
- We will provide expert advice and support to policy-makers and to local and state government entities to promote economic growth in the state and accountability in administration of the state tax system.

## ***Department Administration***

Director ..... Mark Schuling  
Administrator, Compliance Division ..... David Casey  
Administrator, Internal Services Division ..... Roger Stirler  
Administrator, Property Tax Division ..... Dale Hyman  
Administrator, Revenue Operations Division ..... Stuart Vos  
Administrator, Taxpayer Services & Policy Division ..... David Casey  
Administrator, Technology & Information  
Management Division ..... Richard Jacobs

**Our Vision**

**Our Mission**

**Our Goals**

# SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2008

## ***Electronic Filing of Business Taxes***

Withholding: 99 percent of all returns were e-filed through eFile & Pay.

Paper: 4,345

E-filed: 333,705

Sales/Use: 95 percent of all returns were e-filed through eFile & Pay.

Paper: 19,243

E-filed: 385,320

Liquefied Petroleum Gas: 99 percent of all returns were e-filed through eFile & Pay.

1,352 filers

Motor Fuel: 99 percent of all returns were e-filed through eFile & Pay.

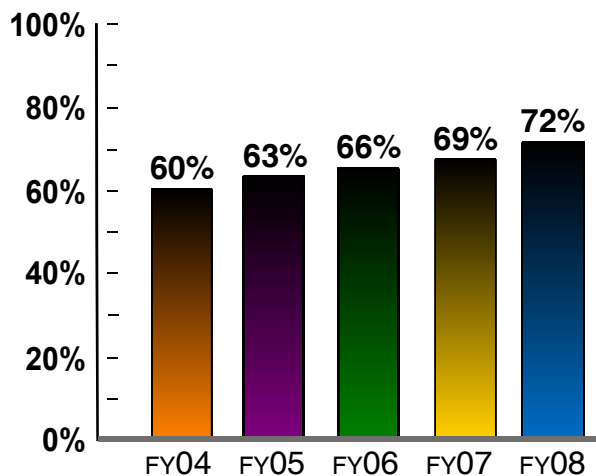
6,112 filers

Nearly \$5 billion (86.3 percent) of sales and withholding dollars were received electronically.

## ***Electronic Filing of Individual Income Tax***

For tax year 2007, 72 percent of individual income tax returns were filed electronically. More than 95 percent of e-filers had their refunds in 14 days.

***Iowans Choose to eFile Individual Income Tax Returns***



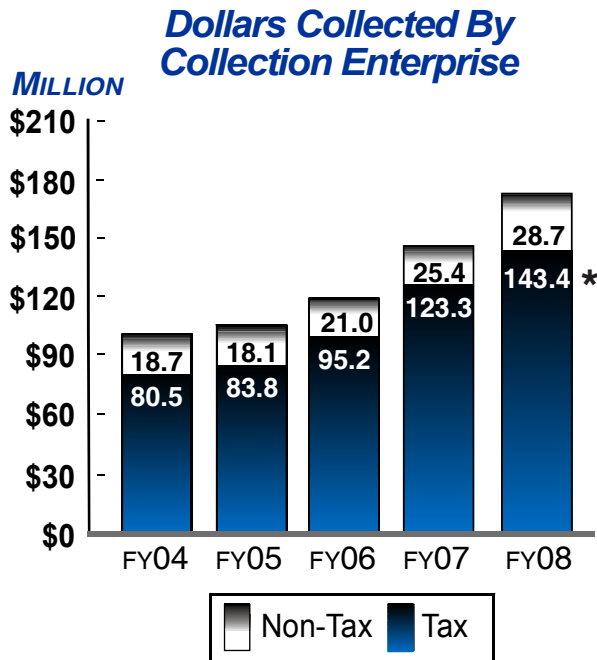
The Department processes more than 1.5 million individual income tax returns. Almost 64 percent are refund returns.

# SIGNIFICANT ACHIEVEMENTS

FISCAL YEAR 2008

## Collections

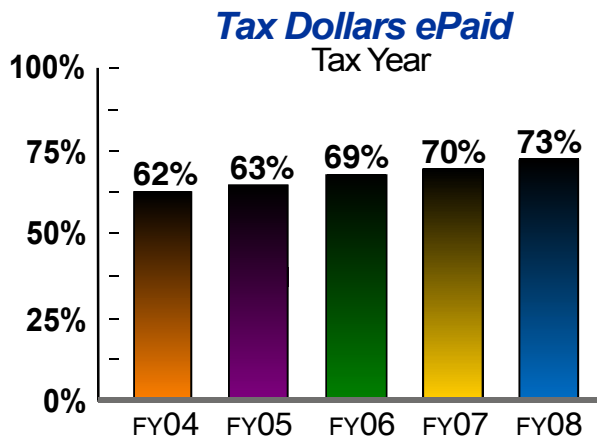
Collections increased from \$148 million in FY07 to \$172 million.



\* Includes \$12.4 million generated through the Tax Amnesty Program

## Electronic Payments

The Department received 73 percent of all deposits electronically.



Electronic payment options include:

- direct debit (ePay through eFile & Pay)
- electronic funds transfer
- credit card

# SIGNIFICANT ACHIEVEMENTS

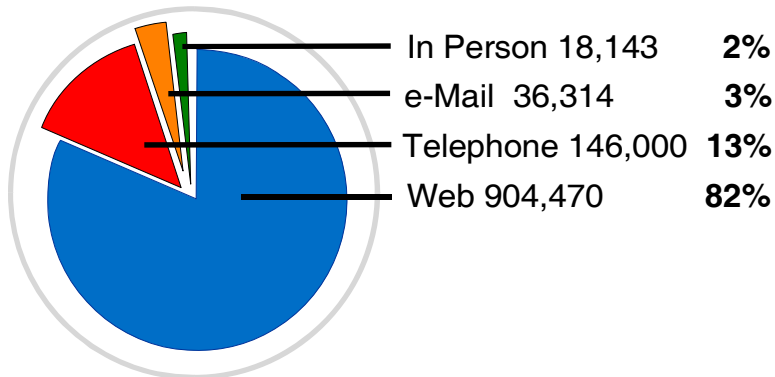
FISCAL YEAR 2008

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## Taxpayer Contacts

Iowa taxpayers seek out the Department for answers to their questions and information about taxes. Tax specialists are available by telephone and e-mail; in addition, they teach classes statewide to businesses and tax practitioners. Electronic services are available 24/7.

### Taxpayer Contacts 1,104,927



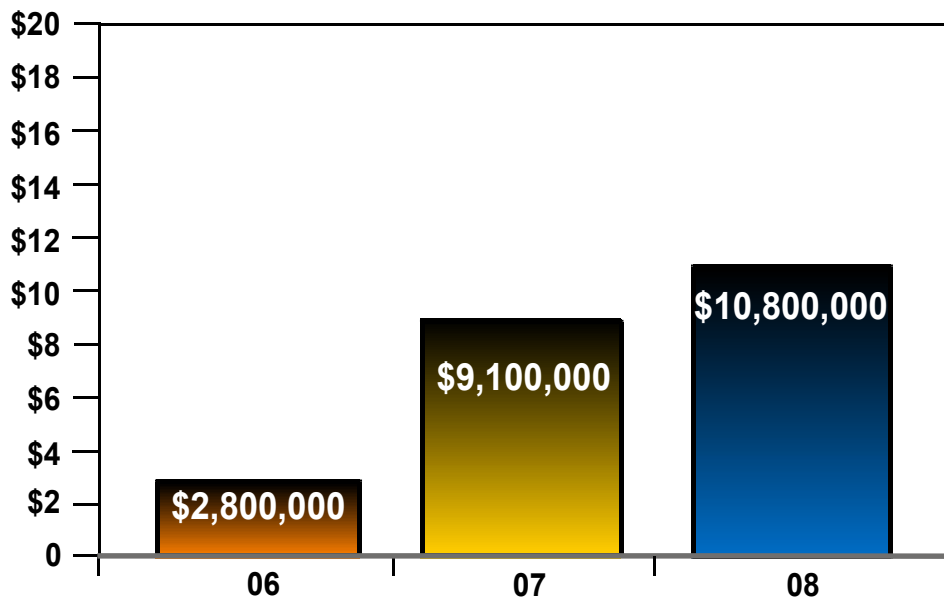
The Department is improving its letters under a new program called Plain Talk. Plain Talk uses clear, straight-forward language to help taxpayers better understand and use written information.

## Streamlined Sales Tax

Iowa received approximately \$10.8 million from Streamlined Sales Tax Project returns. Total collections since 2005 are almost \$23 million.

More than 1,100 retailers nationwide have voluntarily registered to collect sales tax.

### Streamlined Sales Tax Collections



# SIGNIFICANT ACHIEVEMENTS

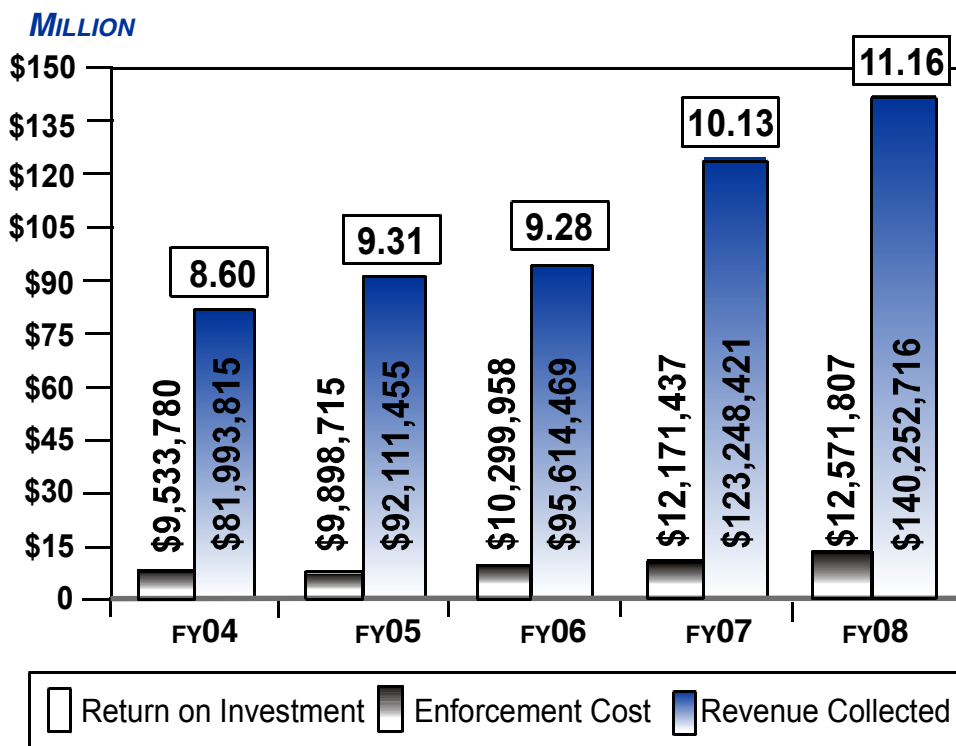
FISCAL YEAR 2008

## Return on Investment

Every \$1 invested in audit activities generated more than \$11 in taxes collected. An investment of \$12.6 million in audit activities produced more than \$140 million for the General Fund to finance services to Iowans.

The vast majority of taxpayers file their returns and pay their taxes on time. In fairness to them, the Department collects unpaid taxes.

## Return on Investment Dollars Spent on Enforcement Versus Dollars Collected

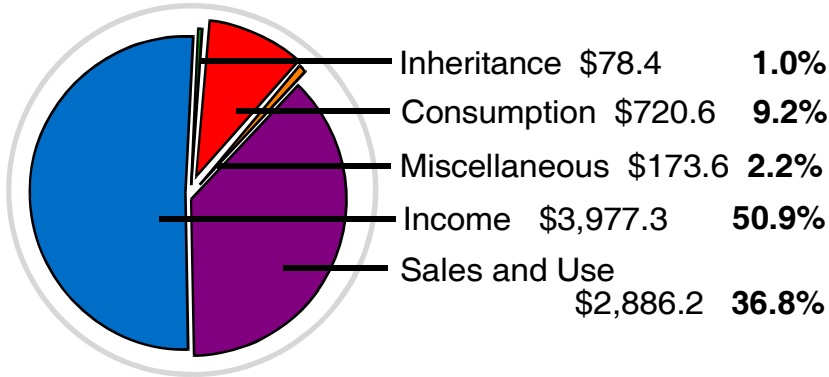




# GROSS TAX COLLECTIONS AND REFUNDS

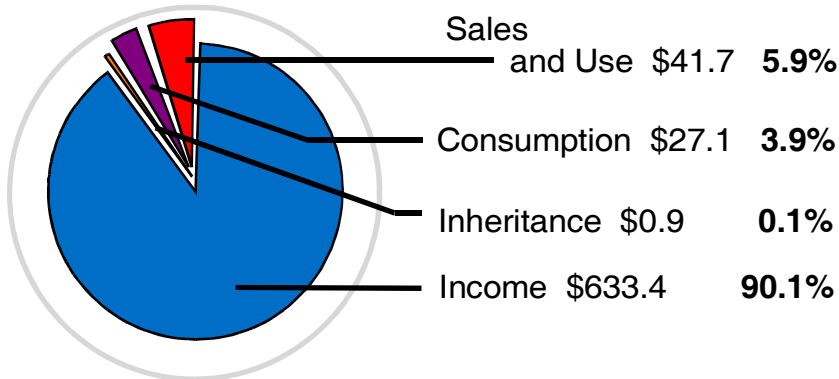
FISCAL YEAR 2008

## Gross Tax Collections - \$7,836.1 MILLION



Last year's gross collections were \$7,239.2 million.

## Tax Refunds - \$703.1 MILLION



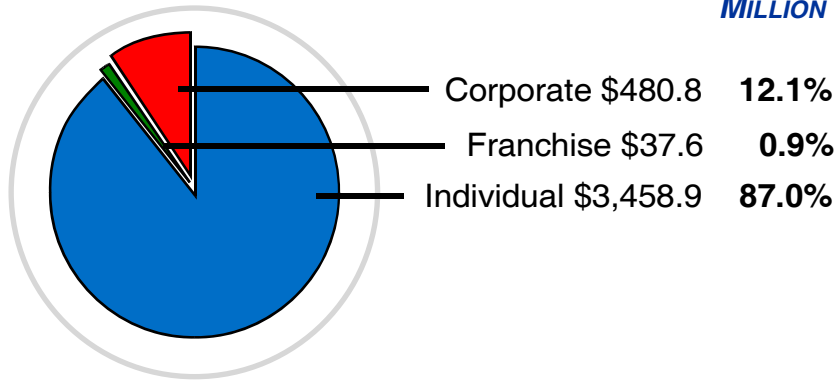
More than 95 percent of taxpayers who e-filed their individual income tax returns received their refunds in 14 days.

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# REVENUE SOURCES

FISCAL YEAR 2008

## *Income Taxes - \$3,977.3* *MILLION*

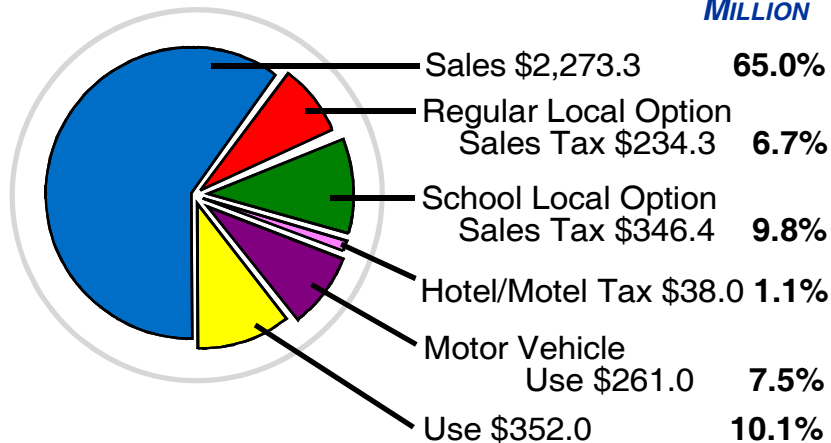


### Number of returns:

- Corporate: 38,610
- Franchise: 547
- Individual: 1,567,275

## *Sales/Use Taxes - \$2,886.3*

### *Total Including Local Option Taxes - \$3,505.0* *MILLION*



The 1 percent school local option tax was incorporated into the state rate on July 1, 2008.

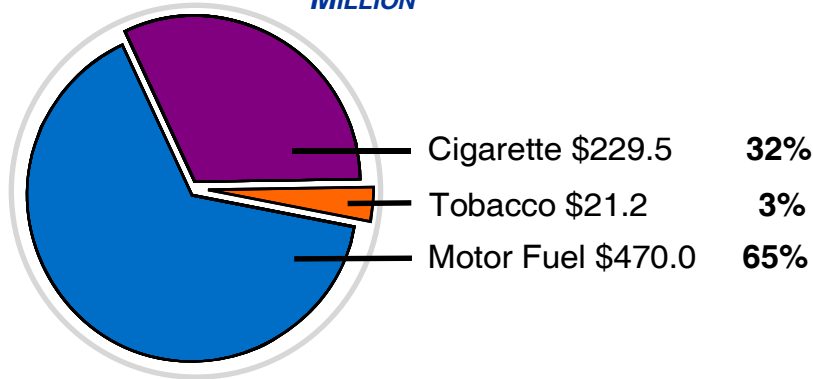
### Use tax includes:

- consumer's use
- retailer's use

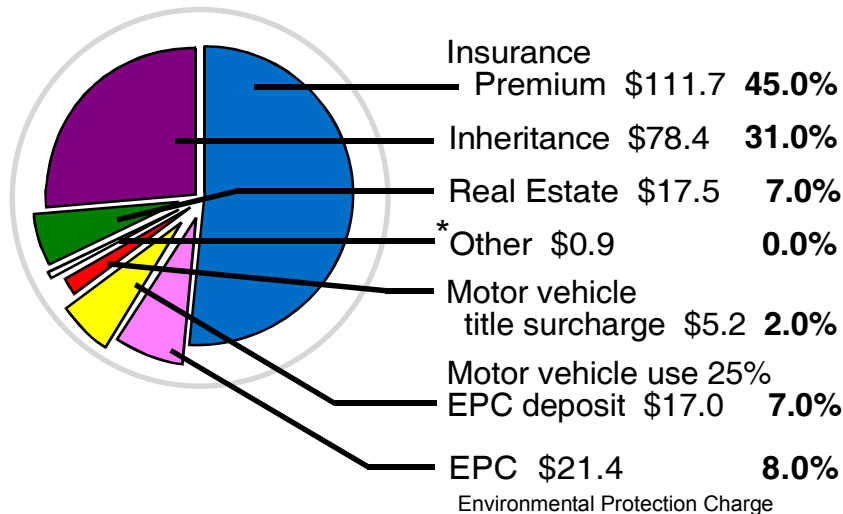
# REVENUE SOURCES

FISCAL YEAR 2008

## Consumption - \$720.7 MILLION



## Other - \$252.1 MILLION



\* Hazardous materials permit fee, Reimbursements, Miscellaneous

## Motor fuel tax rates per gallon:

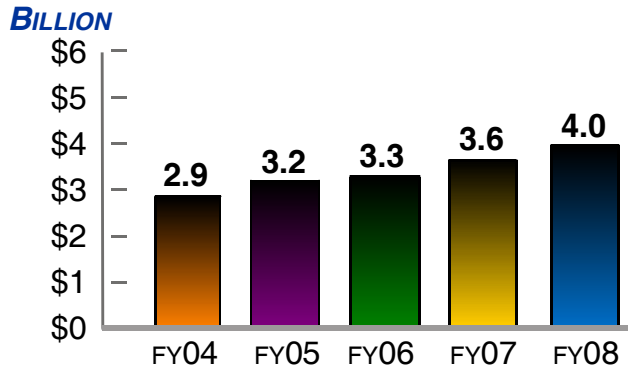
- Gasoline: 20.7¢
- Ethanol: 19¢
- E85: 19¢
- Diesel: 22.5¢

The Insurance premium tax is imposed on the premiums of every insurance company except fraternal beneficiary associations. The Department serves as a depositing agency for the Iowa Department of Commerce.

# GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

FISCAL YEAR 2008

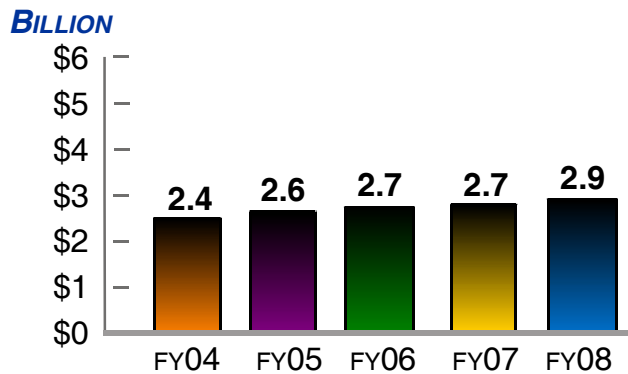
## Income



Income taxes include individual, corporation, and franchise.

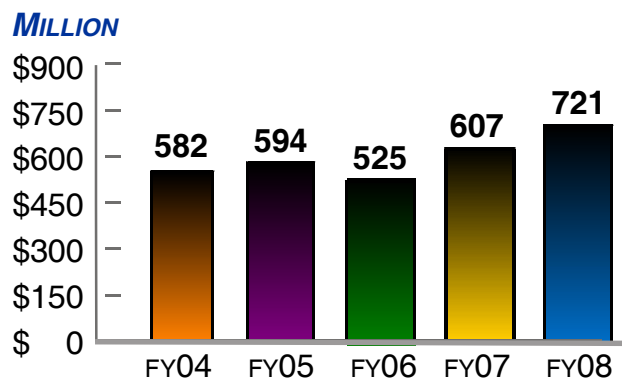
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## State Sales/Use



Sales, use, and motor vehicle use taxes are represented. The state rate for each of these was 5 percent.

## Consumption

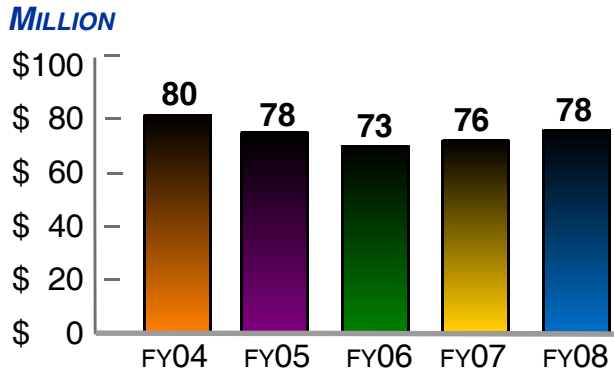


“Consumption” taxes are cigarette, tobacco, and motor fuel taxes.

# GROSS COLLECTIONS BY TAX TYPE ANNUAL COMPARISON

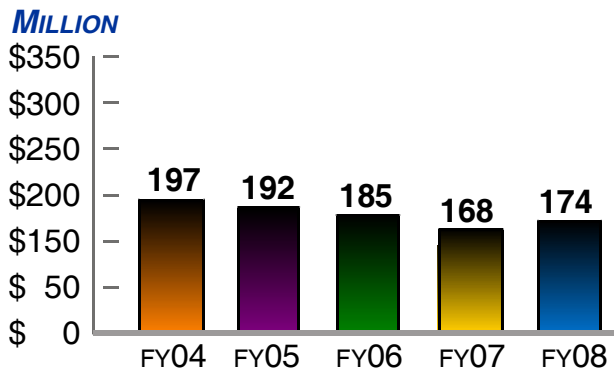
FISCAL YEAR 2008

## Inheritance



Lineal ascendants and descendants, including step-children, are exempt from paying Iowa inheritance tax.

## Miscellaneous

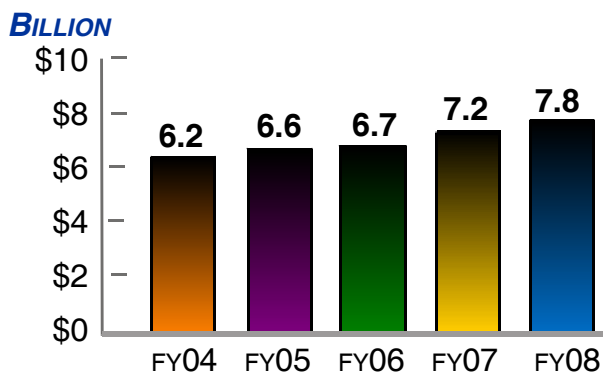


Miscellaneous Taxes include:

- Environmental Protection Charge
- Motor Vehicle Use 25 percent EPC Deposit
- Real Estate Transfer Tax
- Hazardous Materials Permit Fees
- Insurance Premium Tax
- Reimbursements
- Motor Vehicle Title Surcharge
- Other

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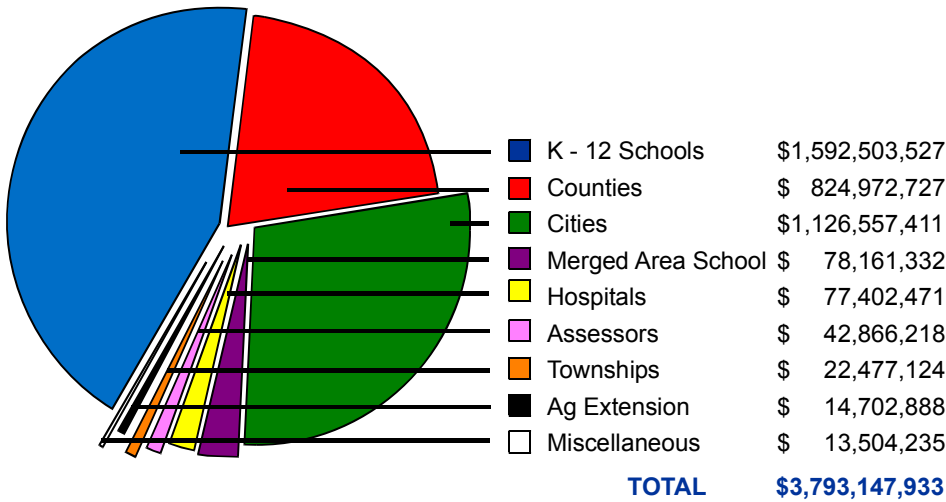
## All Tax Types



# PROPERTY TAX

FISCAL YEAR 2008

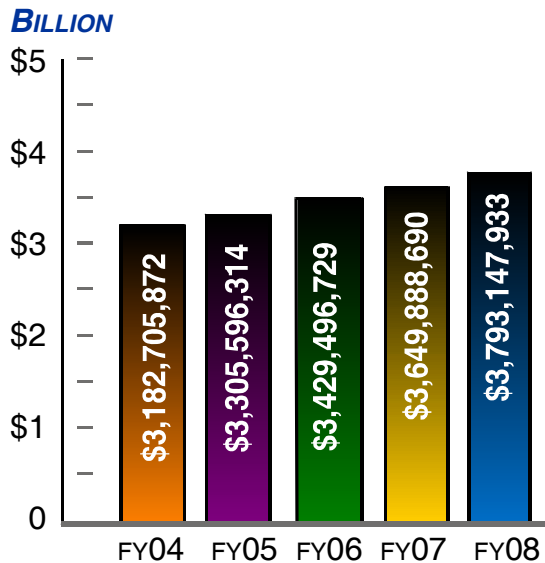
## Property Tax Levied By Type of Taxing Authority



### The Department:

- administers credits and exemptions to property owners
- educates, certifies, and assists assessors and boards of review
- issues equalization orders every two years
- assesses utility and railroad properties

## Comparison of Years of Total Property Taxes Levied



Source: Iowa Department of Management

The Department assesses the excise tax imposed on gas and electric utilities as a replacement for the property tax. The excise tax certified to local assessors in FY08 totaled \$145.8 million.

## *Tax Gap Program*

The Tax Gap Program improves tax compliance through advanced use of technology. Tax Gap has four major components: Enterprise Data Warehouse (EDW), Business Intelligence, Web-based Audit Component, and a number of automated interface programs.

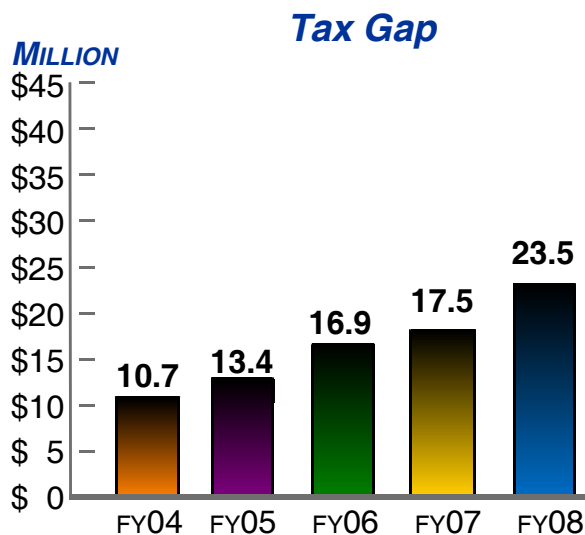
Additional information was added from the processing system for the various tax types. Information in the Data Warehouse was used to help in the development of the Collections Strata Project.

New data sources were loaded to the Data Warehouse: voter registration, e-filed individual returns (state and federal) for tax years 2006 and 2007, bond information, and license information for certain professions.

The Tax Gap Section developed and implemented necessary changes to the Audit Component to process Iowa Tax Amnesty applications, and also developed Business Objects reports to process applications and management reports for statistical information.

Enhancements to the Audit Component were completed to improve correspondence generation, security, and overall functionality. Audit programs were enhanced to reduce the time needed to investigate audit leads and to increase the return on investment.

The Tax Gap Program collected \$23.5 million during FY08.



**Tax Gap revenues since its initiation in 2000 are \$109.9 million.**

## *Compliance Report*

### **Enforcement Programs**

Fiscal Year 2008 was a successful year; the goals established by the Compliance Division for revenue collected were exceeded. Compliance enforcement programs for Fiscal Year 2008 exceeded \$140 million dollars in revenue collected and reductions in refund claims.

- \$ 80.9 million from office exams
- \$ 13.5 million from in-state field audit
- \$ 2.8 million from out-of-state field audit
- \$ 23.5 million from Tax Gap
- \$ 19.3 million from reductions in refund claim

In its final fiscal year as a Charter Agency, the Department produced \$8.1 million dollars in additional revenue collected. We reduced interest paid to taxpayers by expediting refund claims.

### **Voluntary Compliance**

The Department also focuses on voluntary compliance through taxpayer service and education programs. The Department's Taxpayer Services Section is staffed by tax specialists who work with taxpayers on the telephone and by e-mail. They also conduct tax classes statewide.

We continue to provide electronic filing options, and self-help Web site services.

## *Tax Amnesty*

During its 2007 session, the General Assembly enacted Senate File 580, the Iowa Tax Amnesty Act of 2007. The legislation directed the Department to offer individuals and businesses an opportunity to resolve past due tax obligations during the period from September 4 through October 31, 2007, without fear of prosecution. In addition, as an inducement to come forward the legislation allowed the Department to waive all penalties and half the interest normally due on delinquent tax payments. Iowa last offered a tax amnesty during the fall of 1986.

During the amnesty period, the Department received 7,467 payments totaling \$28,291,220. Tax Amnesty also identified 2,811 taxpayers who had not previously filed a return and had not been previously identified as delinquent under any other compliance programs.

**Most taxpayers file and pay their taxes voluntarily. Non-compliant taxpayers are pursued through a variety of audit programs.**



## ***Report on Information System Activity Integrated Revenue Information System (IRIS)***

### **Business operations**

IRIS continued to support registration and tax return processing for all major taxes. Enhancements in efficiency, functionality, and design were provided to:

- Support the successful completion of the Iowa Tax Amnesty program
- Improve tax return processing to expedite the review and resolution of tax returns
- Implement the increase in state sales and use tax, which became effective July 1, 2008

### **Security enhancements**

Ensuring the security and integrity of tax return data remained a top priority. The accomplishments included:

- Completing a vulnerability assessment of network resources
- Strengthening processes for managing data on the network
- Implementing a data retention program to ensure that only data of critical value to business operations is retained on information systems
- Completing the Internal Revenue Service Security Review, which ensures our information systems securely protect federal tax information

### ***eServices***

We continued to provide solutions to allow taxpayers to electronically file tax returns and remit taxes.

### **Individual Income Tax Returns**

Nearly 1,060,000 individual income tax returns — 72 percent — were electronically filed. Iowa taxpayers keep us among the nation's leaders in e-filing.

### **Business Tax eFile & Pay**

Electronic filing of business tax returns continues to be widely accepted. Over 97 percent of quarterly sales, use, withholding, and motor fuel tax returns were filed using the eFile & Pay system. In addition, Iowans paid more than 86 percent of funds owed to the state electronically.

**Once again, Iowa taxpayers took advantage of the ease and accuracy of electronic filing in record numbers by submitting over 2 million electronic transactions.**

# SUPPLEMENTAL REPORTS

FISCAL YEAR 2008

## *Individual Income Tax Abatements* Calendar 2007

The Director of the Department of Revenue has the authority to abate any portion of tax, interest, or penalties determined to be excessive or erroneously or illegally assessed. Abatements apply to those cases in which the initial protest occurs after the 60-day appeal period has expired and in which the taxpayer produces records substantiating the claim to reduced tax liability. The table below summarizes the individual income tax abatements allowed in calendar 2007:

<b>Number of Returns</b>	<b>Tax</b>	<b>Penalty (includes fees)</b>	<b>Interest</b>	<b>Total Amounts</b>
1,496	\$8,920,753.00	\$978,547.38	\$2,838,033.74	\$12,737,334.12

# LEARN MORE ABOUT US

FISCAL YEAR 2008

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## ***Results Iowa***

To learn about the Department's goals, strategic and performance plans, and the strategies we use to achieve results, please see our page on the Results Iowa Web site at [www.resultsiowa.org/revenue.html](http://www.resultsiowa.org/revenue.html)

## ***Online Services, Tax Forms and Publications***

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

Additional statistics are online in Publications > Statistical Reports.

- Sales and use quarterly and annual reports
- Local option tax distributions
- Motor fuel monthly reports
- Individual income tax reports

Information about taxes are online in Research.

- Descriptions and rates
- History of tax rates
- Legislative summaries
- Tax credits
- Declaratory orders

## ***Assistance from a tax specialist:***

E-mail: [idr@iowa.gov](mailto:idr@iowa.gov)

Telephone: 515/281-3114 or 1-800-367-3388

TDD for hearing impaired: 515/242-5942

Mail: **Taxpayer Services**

**Iowa Department of Revenue**

**PO Box 10457**

**Des Moines, Iowa 50306-0457**