

Iowa Department of Revenue
Presentation to the Administration and Regulation Appropriations Sub-Committee
January 24, 2006

Major Accomplishments in 2005-2006

Electronic Filing of Individual Income Tax

- Iowa led the nation – for the fourth consecutive year — with 63 percent of individual income tax returns filed electronically without a mandate.
- For the third straight year, the department surpassed its target of 95% of all electronic refunds requests processed within 14 days. Although, the measurement is 95% of all electronic refunds issued within 14 days the department actually issued 91% of all electronic refunds within 7 days. The percent issued within 14 days was 97%.

Electronic Filing of Business Taxes

The department implemented Iowa eFile & Pay on January 1, 2005, for withholding taxpayers. eFile & Pay became available for sales and use tax filers on July 1, 2005. Motor fuel tax will be added in the near future. This system allows taxpayers to file their returns and make payments electronically. Benefits include:

- Secure and confidential filing for taxpayers.
- Filing convenience: 24x7 system availability.
- Access to payment history.
- Reduced errors in tax filings and payments.
- Increased timeliness in availability of data for all users.

Ninety-four percent of withholding returns were filed through eFile & Pay for the third quarter of 2005. Ninety-one percent of sales tax returns for the quarter ending September 30, 2005, were filed through eFile & Pay.

Electronic Payments

The department received 63% of all General Fund revenues electronically. This represents \$4.3 billion of deposits through electronic funds transfer.

Return on Investment

The return on investment for FY'05 was \$9.31 dollars collected for every dollar spent in enforcement. This compares to \$8.60 in fiscal year 2004.

Streamlined Sales Tax

On October 1, 2005, the date of implementation of the project, Iowa was one of thirteen full member states in the Streamlined Sales Tax initiative. To date 325 retailers have registered under the centralized system. Prior to implementation twenty-three companies voluntarily registered and have remitted \$2 million dollars. This project provides uniformity to corporate filers.

Changes in Withholding Tables

Effective April 1, 2005, the Department implemented the first year of a two year reduction in withholding rates.

**Iowa Department of Revenue
Presentation to the Administration and Regulation Appropriations Sub-Committee
January 24, 2006**

New Requests in Fiscal Year 2007

Iowa Department of Revenue Internal Operations (625_ADM_006)

- \$70,008 increased rental costs due to relocation.
 - Rental space houses all departmental records and forms distribution center.
 - Move necessitated due to renovation of Records and Property Center.
- \$64,314 requested for increased utility fees to utilize 1/3.

Property Assessment Appeal Board (625_ADM_008)

- \$277,401 to implement HF 868, Section 21 beginning January, 2007
- Establishes a Property Assessment Appeal Board within the Department of Revenue.

Printing Cigarette Stamps (625_ADM_011)

- Increases standing limited appropriation by \$25,000.
- Eliminates payment from Department's general fund for amounts beyond standing appropriation.
- Legislation proposed to become a standing unlimited.

Motor Vehicle Fuel Appropriation Increase (625_ADM_013)

- Increase of \$5,373 to reflect requested increases in Offer 006 (Internal Operations).

Processing \$6 Billion Dollars of Tax Receipts (625_ADM_003)

- \$50,000 one time expense for image scanning capability.
- Provides imaging of documents from warehouse location to central offices.
- Eliminates manual transport of paper documents.

Collection Enterprise Services (625_ADM_001)

- Creates self-supporting funding.
- Proposed legislation provides ability to recoup costs from generated tax collections.
- Proposed legislation for service expansion to local government entities.

Department of Revenue Collection Enterprise Proposal

Summary: The department proposes establishing the collection function as a self-supporting enterprise. This will allow the department to respond to opportunities to improve collection revenue in the short term and to invest in new collection technology that will generate even greater collections in the future. Legislative language is being drafted to ensure appropriate reporting of expenditures, investments and results to the Governor and General Assembly.

1. Collection is inherently an enterprise function.

Taxpayers whose accounts are in collections won't pay unless motivated to do so. Therefore our ability to collect is directly related to the level of effort expended. Effective collection efforts depend upon a combination of people, technology and process. Enhancements to those inputs will generate additional collection revenue.

2. ROI opportunities can be determined through portfolio analysis and best practices.

We currently have 98,000 court and tax debtors representing \$84 million on whom we have suspended collection activity. The ability to create a business case analysis and direct resources to opportunities within that portfolio will improve results. For example, analysis of the federal refund offset program suggests we could increase offset collections by over \$10 for every dollar spent if we would institute an alias matching program. We have not implemented this program due to a lack of budget resources.

3. Collection software upgrade is critical

Collection techniques have become more sophisticated since our collection software was developed in 1993. The department is proposing a multi-year software procurement to replace our existing collection system with more modern and effective software. The ROI on software upgrades in other states has been impressive. Twenty-two states and the IRS have upgraded software within the last few years.

Our software is now so old that upgrades are no longer available and we may soon reach a point where the vendor will not support the software. Our proposed software procurement will improve the productivity of agents and free up agent time to do what they do best, which is communicate with debtors to obtain payments.

Outstanding liabilities (\$ Millions)	2003	2004	2005
Tax	\$138.4	\$162.7	\$155.9
Court	53.9	65.2	96.9
Total	\$192.3	\$227.9	\$252.8

Collections (\$ Millions)	2003	2004	2005
Tax	\$ 87.7	\$ 80.5	\$ 83.8
Court	12.1	12.5	14.5
Other	2.7	6.2	3.6
Total	\$102.5	\$ 99.2	\$101.9