

Iowa Department of Revenue Enterprise Case Study

Executive Summary

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Government agencies, often short on financial resources, have significant barriers to overcome to implement any major technology initiatives. Fortunately for Iowa Department of Revenue (IDR), state legislation in 1997 granted the IDR the ability to pay for projects with performance-based funding. The IDR was then able to actively pursue the possibility of implementing its Tax Gap Compliance Project.

Following a period of information gathering, investigation and analysis, and supported by the performance-based funding legislation, IDR issued a Request for Proposal (RFP) for a Tax Gap Compliance System. In response to the RFP, Teradata Corporation proposed a comprehensive solution to meet IDR's goals for closing the tax gap and increasing revenue, employing a state of the art data warehouse. Teradata® tailored the finances of its proposed solution to the innovative funding mechanism allowed by the legislation and requested in the RFP. Teradata and IDR held a mutual confidence that revenue would substantially increase as a result of the implementation of the technology solution. And so, Teradata agreed to be paid nothing up front but instead to share in the revenue stream as it was collected by the State of Iowa.

The implementation of the IDR's enterprise data warehouse (EDW) has resulted in new and refreshed audit programs to promote taxpayer compliance, work process efficiencies and cost savings. In the future the IDR sees potential value in the EDW for policy analysis as well as enhanced taxpayer education and services.

Iowa is a model for how a state can help its citizens understand and comply with its tax laws, even increasing voluntary compliance.

Background

The IDR is responsible for the financial management of the state tax system and compliance with the tax laws. In 2004 Iowa collected nearly \$6.2 billion in gross taxes and issued refunds totaling \$737.6 million.

Nearly 3.2 million documents are processed each year, including 1.4 million individual income tax returns. More than 15,000 sales and use tax permits are issued every year, and approximately 8,500 withholding tax agents are registered each year. The department also conducts taxpayer education programs, from presentations to telephone, e-mail, Internet, and in-person contacts. The department has 384 full-time employees and hires 60 temporary workers during tax season with the substantial majority of these employees processing tax returns.

The IDR consists of five separate divisions: Internal Services, Property Tax, Revenue Operations, Technology & Information Management and Compliance.

The Compliance division has four major functional groups: Tax Policy, Taxpayer Services (e.g. taxpayer education and walk-up window services), Audit Services and Audit and Examination which is responsible for office and field examinations of tax returns and refund claims. The Protest Unit, a function within Audit Services, deals with protests from correspondence or field audits and collection notices.

Approximately 50 office examiners pursue audit leads from their “office,” through the use of letters, telephone calls, and other contacts with the taxpayer. These are called

IDR’s mission is to collect all taxes due, but no more.

To that end the IDR administers 21 separate taxes established by the Iowa Code.

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

correspondence audits. Their focus is on identifying individuals and businesses who are obliged to file taxes but have not (i.e. non-filers).

Field auditors in offices around Iowa and four who are out-of-state pursue audit leads in the “field,” through actual visits to corporate offices, business locations, and occasionally in an individual taxpayer’s home. They work by setting up appointments with the individual or business and doing a physical review of the tax related records. Much of the work done by field auditors relates to sales tax audits of businesses. Whereas the federal government primarily collects income tax and does not collect sales tax, states rely heavily on sales tax to generate income.

The out-of-state auditors investigate businesses that are not Iowa residents, but where a “nexus” exists that triggers Iowa tax liabilities. The nexus may be employees of the company who live in the state and work on behalf of the company in Iowa, triggering withholding tax obligations.

Out-of-state auditors also follow up on consumer use tax obligations.

Office examiners and field auditors work on a combination of newly generated leads and follow-ups on individuals and businesses that were brought into compliance in past years. Examiners and auditors issue billings for additional tax due, interest and penalties, and issue refunds for overpayment. The Audit Services section establishes audit criteria and reviews completed audits. Protests are resolved through informal settlement or through formal proceedings.

Revenue Operations, a separate division of the IDR, handles the incoming tax returns and is responsible for the follow-up collections generated by compliance. Inaccurate collections billings create unnecessary workload for this group, so Compliance needs to track and analyze its own accuracy to ensure that it does not unduly burden the Revenue Operations group.

The Compliance Approach

Compliance is at the core of the IDR's mission. The department includes among its goals encouraging and enhancing voluntary compliance through taxpayer education and assistance, and enhancing revenue collection through office examinations and field audits. The IDR's philosophy is that most non-compliance is an educational issue. Taxpayers don't know they aren't complying. They don't understand the filing requirements or they don't understand what to file. Policy issues and grey areas, changes in laws, all contribute to potential misunderstandings by taxpayers. The IDR believes that through effective education and communication it can promote compliance.

Before the EDW project, the department's ability to develop and pursue audit leads could be labor intensive. As Rhonda Kirkpatrick, Executive Officer at the IDR, says, "In the past when we did compliance programs, they were written on mainframe programs, so we were limited in terms of how many different data sources could come together in one database for the match. The output of that match on the mainframe was basically paper, so we provided paper to our business users and they worked from that."

The majority of audit leads came from federally generated leads, leads identified by matching federal and state tax information. This method relied on the federal collection of information through 1099's, 1098's, W2's and other forms filed with the IRS. It was time consuming to integrate other sources of information into any analysis. Data was siloed. Information that was not in the same format as the IRS information could not be matched against the federal data to find discrepancies and possible compliance issues. Only "hard matches" were possible in many cases, meaning a taxpayer could only be identified through their social security number or Federal Employer Identification Number (FEIN) or a handful of other specific identifiers. "Soft matches," based on identifying information like name or address had to be done manually, if at all. To compound the issue, some IRS data was provided in paper format and any kind of matching had to be done by manually reviewing the data.

Prior to the implementation of the EDW, the department relied on mainframe applications and 20 disparate standalone systems and file extracts that did not

communicate with one another. A positive step in consolidation began in 1997 when the state unveiled its new IRIS (Integrated Revenue Information System) that integrates several of these systems together. The disparity of data, systems, and sources presented challenges:

- > No single, integrated view of the taxpayer or tax compliance activities
- > Inability to fully use available internal and external data sources
- > Limited management information reports
- > Labor and paper-intensive processes

For example, a taxpayer might be contacted simultaneously through different IDR channels, each pursuing audit leads. In effect the compliance group worked in three different silos – office, field and protest. A field auditor might arrive on the doorstep of a taxpayer who had just received a letter from an office examiner. A collection letter might be sent to a taxpayer actively protesting a tax bill. The result was some inefficiencies and taxpayer frustration. The IDR wanted to develop ways to meet these challenges and work more effectively.

The Decision to Invest

For some time the IDR had been hoping to implement a Tax Gap Compliance Project to address the challenges of working more efficiently and enhancing voluntary taxpayer compliance. With scarce resources, beginning a new project with significant start-up costs can be next to impossible – but with a technology company willing to share the risks, it becomes a viable option. That option became a real opportunity in 1997 when state legislation was passed granting the IDR the ability to pursue projects where performance-based funding could be secured for the project development and support.

In response to the IDR's RFP for the Tax Gap Project, Teradata proposed an innovative approach to non-compliance discovery and data warehousing that was uniquely suited to the resource constraints most government agencies operate under. To be paid, the project must be self-funding.

By implementing an EDW and the associated business intelligence tools, the department had two broad objectives:

- 1. Improve compliance and increase collections by identifying non-complying taxpayers and identifying taxpayer behavior patterns which cause non-compliance.**
- 2. Increase efficiency and improve processes for managing, tracking and working compliance cases.**

By taking its contractual fee out of the revenues generated by the implementation of its technology, Teradata would have a stake in ensuring its own success.

And so, Teradata and the IDR entered a benefits-based contract for the provision

of the hardware, software and services. Payments were made monthly to Teradata, calculated based on the benefits the department accrued as a result of the EDW. Essentially, the project was paid for out of compliance receipts.

Implementation

In 1999, the IDR implemented the Tax Gap Compliance Project, an initiative targeting the promotion of voluntary tax compliance, improved processes, and increased tax revenues, by creating a single, integrated view of all the IDR's internal data resources and the external data resources crucial to tax compliance available from other state agencies, the federal government, and commercially available sources.

Further, as the IDR works through its compliance and audit programs, it identifies tax rules and regulations which need to be clarified to make compliance easier for the taxpayer and tax preparer. This *policy feedback loop* can work because of the deep information resources of the EDW.

Project Components

There are four major components to the ongoing Tax Gap project

1. Enterprise data warehouse (EDW)
2. Data warehouse query tools
3. Web-based audit component application
4. Automated interface programs

The EDW is a repository for a range of internal and external data sources. It also supports several data interface programs, which automate the movement of data to other agency legacy systems. The EDW contains over 2,600 data elements from 30 major source systems. IDR receives data from other state and federal agencies by way of physical file download, including Iowa Workforce Development (IWD) information and federal IRS data. InfoUSA

data, a commercial data source similar to Dunn and Bradstreet, is being prepared for integration into the EDW to provide a new source of business information.

With limited resources, choices are constantly made as to what information must take priority. In the next several years the IDR expects to add cigarette/tobacco taxes and motor fuel taxes, for example, and ultimately will have all its tax data in the EDW.

The data warehouse query tools have assisted in the development of more than 100 reports, in addition to supplying data to business users needed to support audit activities and improve efficiency. Reports have also been developed to assist the agency with collection activity. Plus, management and analysis reports were created to support a variety of measurements and answer key business questions.

Kirkpatrick says, "When we implemented Teradata, we also implemented business intelligence and that allowed us to put the data from the data warehouse into the hands of the users. They're more confident in what they do and they can do a better job more efficiently."

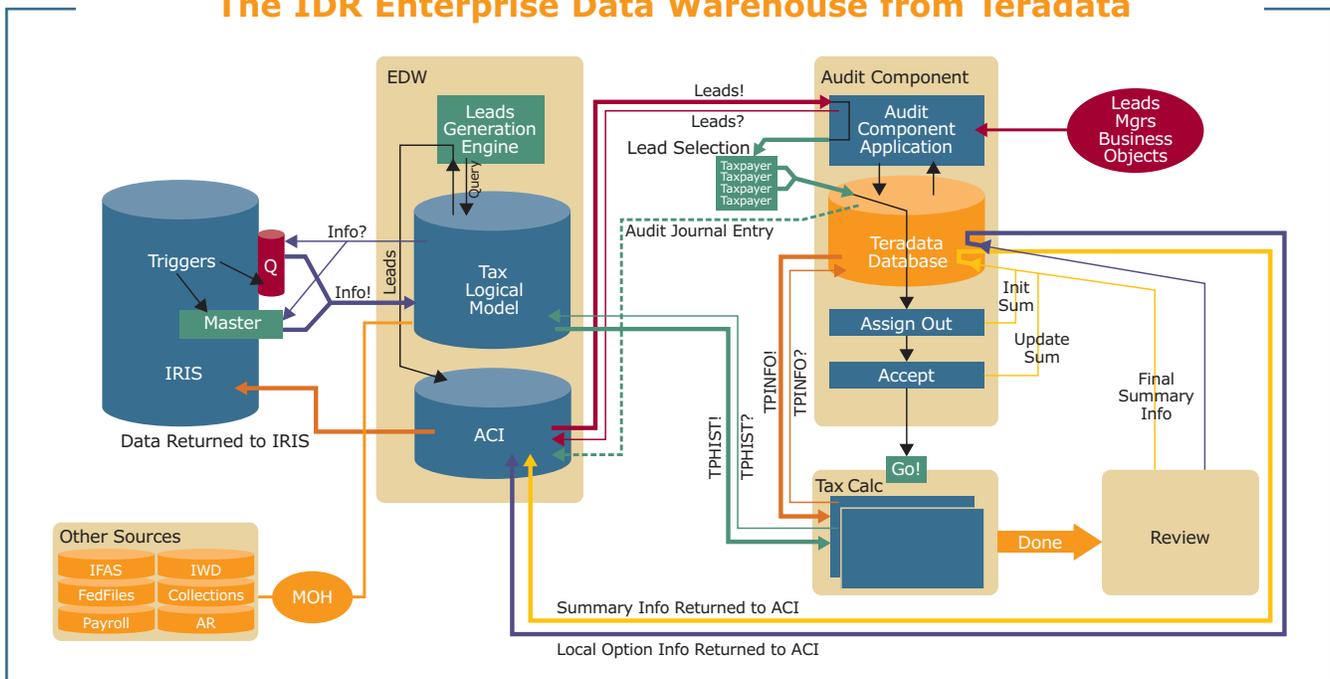
The Audit Component (AC), part of the Teradata solution, consists of a Web-based application to support the tracking, performance and reporting of all audit and examination activities and results. The AC captures any activity on a taxpayer's file – a payment, a billing, an audit, a

protest, a status change, and so on. The AC does not keep the history of the changes on the taxpayer's file. That's done by the EDW, which is updated daily. Where two status changes have occurred in one day on an audit file, only the last will be recorded in the EDW, as the AC does not maintain a history of status changes throughout a day. This design recognizes the periodic nature of status changes in an audit. It is unusual for more than one status change to occur in a day, and in the event it happens, the interim status change will likely not be relevant for any future purposes.

Daily interface programs trigger the movement of data from the AC application to the EDW when key audit activity events occur. From the EDW, the data then moves electronically to IRIS. Likewise, a daily refresh of final audit result data is automatically sent from IRIS to the EDW and from the EDW to the AC. This enables data to be purged from IRIS, to improve the performance of the system. The purged data is stored on the EDW, where it can be retrieved as needed for audits. There is a quarterly registration interface between IRIS and the EDW to do a full refresh of all the taxpayers in the system.

The migration of data from legacy applications (such as IRIS) to the EDW was only one part of the implementation effort. Perhaps more important was automating the movement of audit results into IRIS, and automating the issuance of billings and refunds resulting from these audits.

The IDR Enterprise Data Warehouse from Teradata



By completing this circular interchange of information, the system ensures that internal users have a single view of taxpayer activity, resulting in more accurate future selection of audit candidates.

Up-to-date information available to every group in the IDR ensures open and accurate intra-departmental communication and data sharing, so the IDR can operate effectively as one agency. Where there used to be multiple ways to do one task, billing – for example, there is now one case management process.

Additionally, in the process of integrating its systems, the IDR was able to identify and cleanse bad data including misidentified taxpayers and incorrect addresses or social security numbers.

The Team

The deployment team consisted of both contract personnel working for the IDR and Teradata Professional Services consultants responsible for business discovery, data warehouse construction, logical data modeling, and user training. Teradata Professional Services continues to support the EDW with one on-site person, who works with IDR personnel to develop new opportunities and program sets.

Users

When the system went live in 2000, the initial user population was approximately 50 IDR employees, who each underwent an average of six hours of training. By 2003 the number of users had risen to 100, who leverage the system for lead generation, case assignment and management, and day-to-day audit and examination. There

are 15 power users – department managers who use the query and data mining tools to create audit programs and identify noncompliance case leads.

Whereas IRIS used to be accessed by keys or indexes, the EDW enables the users to access the data in a host of ways to find the pertinent information.

The System

- > 2-node Intel-based Teradata 4800 server
- > Teradata Database V2R5
- > Business Objects and Microsoft Access for reporting

Data is extracted from 10 internal core source systems, including integrated revenue information, human resources and payroll, and financial accounting.

New Business Strategies

Business benefits:

- > Better decision making**
- > Improved customer service**
- > Higher voluntary compliance rates**
- > Consistent, accurate and more timely data**

With the development and implementation of the EDW, the department has improved its detection of non-compliance in all tax areas. Compliance programs range from discovering non-filers for individual and corporate income tax, to auditing large multi-state corporations doing business in Iowa for corporate income and sales and use taxes, to detecting under-reporting of Federal tax refunds.

Improved targeting

The broad range of data sources available and aggregated through the EDW enable the department to do trending analysis to detect patterns in non-compliance and develop “match” programs to identify target groups of non-filers or under-reporters. Business users with in-depth knowledge of the tax laws work with power users of the EDW to identify possible revenue generation opportunities.

In most instances the initiative for a new program will be generated from the business area, as they have the best understanding of the nuances of the tax system. For example, a program has been developed to look into the specific types

of businesses prone to sales tax underreporting or non-filing. The business types targeted will tend to be those that operate largely on a cash basis. Understanding the way a business works and its tax implications is the specialized knowledge of the business areas in the IDR. Special audit programs are then initiated to pursue taxpayers not in compliance with Iowa tax laws, and the department can track every audit lead as it is assigned and worked on by auditors.

As Kirkpatrick says, “the Iowa Department of Revenue has the ability to work smarter and pick the most efficient leads. There is less time spent justifying actions, so we can move on to getting things done.”

The EDW enables audit programs to identify taxpayers more precisely, using not only names, but addresses and other identifying data. The ability to “soft match” the different name and address forms under which a single individual might be listed ensures a targeted contact. The system can automatically generate compliance letters to go to a large target group and performs complex tax calculations quickly and easily.

Primary emphasis has been on detecting State Non-Income Filers through the so-called SNIF program. This program is also known as the Federal-State Match Program because it matches federal information with Iowa addresses against Iowa filing history to determine taxpayers who have filed federally but not with the state. The program was in existence prior to the EDW, but has been refreshed and improved as a result of the new information resources. The Federal-State Match Program has generated thousands of leads. The first five processing years reviewed generated 18,000 leads and the most recent three years generated 13,000 leads. By the end of 2005 the IDR will be up-to-date on its Federal-State Match Program and will be able to follow up on non-filers immediately, without a lag of some years. In turn, taxpayer response is generally faster the closer a follow-up is to the date of the tax obligation.

The IDR has also been able to expand and improve its use of Iowa Workforce Development (IWD) data to identify out-of-state companies with employees in Iowa and establish a nexus resulting in tax obligations for the out-of-state company.

One targeted initiative involved the taxation of hotel/motel businesses for consumer use tax obligations. Hotels and motels were an ideal target for the investigation of consumer use tax payments as the industry procures large quantities of items like beds, linens, paintings, curtains,

and other furnishings and accessories for its rooms from out-of-state suppliers. An audit of who a business's suppliers are identifies non-Iowa companies, whether the supplier has a nexus with Iowa and thus charged tax, or whether the Iowa-based company owes consumer use tax.

Another initiative enabled by the increased data available to the IDR was a partnership and S-Corp program. In the past it was necessary to physically pull the partnership or S-Corp return and manually review the list of partners or members to determine how much income was apportioned to each and whether non-state residents were receiving income from an Iowa partnership or S-Corp. Now the same query can be performed in minutes and non-filers targeted.

The first under-reporting initiative involved the Federal tax refund – the Federal Refund Under Reporter. Under Iowa tax law the federal tax refund a taxpayer receives in any year is taxable as income on their Iowa taxes the following year. This aspect of the Iowa tax law is not clear to many taxpayers so some taxpayers do not realize they owe tax on the refund – others just forget from one year to the next. The information gathering for this initiative is simple: match Iowa tax returns to IRS refund data from the previous year. This query takes about half a day and generates 20,000 leads each year resulting in incremental revenue of about \$12 million.

Already the IDR has seen in the tax

preparer community a heightened awareness of their new compliance initiatives. The hope is that voluntary compliance will rise as the tax preparers – and in turn the taxpayers – become more aware of the information resources at the IDR's disposal and the initiatives that are enabled.

Opportunity assessment

The EDW has also made it possible for the IDR to investigate and effectively assess compliance programs under consideration by examining the revenue potential of a particular target. Taxation of lump sum distributions was one program that was investigated. When a taxpayer receives a lump sum distribution, like a pension payment, Iowa taxes the sum at 25% of the federal tax rate. Before investigating this compliance avenue, the IDR guessed that it would be a fruitful avenue to pursue. But in fact, once the preliminary information was pulled from the EDW and analyzed, the agency discovered that there were very few people to pursue and the program was not worth developing. The cost of implementing the program might well have outweighed the return.

In another instance, a proposed withholding tax program sought withholding non-filers. First it looked at business registrations and matched it with instances where no withholding transactions occurred after registration. As this did not yield sufficient leads, the IDR added information on employees who had tax withheld and looked at whether the companies had actually remitted the

withholding. Using W2's and 1099's the IDR cross-referenced withholding amounts with remittance amounts by companies. Although there were many more leads, it turned out there were still not enough non-remitters to make the program worth pursuing.

The EDW's ability to deal with targeted tactical queries enables the IDR evaluate such potential audit programs. By outlining particular parameters and rules, the EDW can generate results within minutes showing the likely cost/benefit of the program and act accordingly.

North American Information Classification System

The EDW gives IDR examiners and auditors the opportunity to challenge and review taxpayer data in ways not available to them before. Businesses pay tax according to a business classification code established under a coding structure called the North American Information Classification System (NAICS).

NAICS codes are in many cases out-dated, as the nature of a business changes over the course of its operation. In some cases the codes themselves reflect a different era as they have not changed as much as they might have to reflect the shift from the manufacturing marketplace of the past to a more services-oriented landscape today.

Until the advent of the EDW, the IDR had to take the NAICS on faith and could not investigate the efficacy of the self-assigned code a business might have chosen. Now,

the IDR can do, for example, a search on all limousine companies based on a match with the words “car service or limousine” in a company’s name, instead of relying on a NAICS classification as a limousine company.

The IDR does not want to know everything about a business, but it does want to know everything relevant to the accurate calculation of the business’s tax obligation including, the type of business, who is working for the company, buying from the company, or supplying the company. The IDR can now go beyond the NAICS code and understand the true nature of the business.

Collection Accuracy

Compliance efforts are not isolated to the compliance group. Once examiners or auditors have sent notices of collection to a taxpayer, the payments are returned to Revenue Operations. The EDW enables the IDR to perform analysis of the efficiencies within collections, including accuracy and turn around time, to ensure minimal waste of Revenue Operations resources on misdirected Compliance efforts. Reducing the percentage of collection notices subject to revision is an ongoing goal. Already the IDR has lowered the dollar amount of the total adjustments made to initial collection notices. More accurate early estimates helps taxpayers understand their obligations better and respond more quickly.

The increasingly deeper information resources in the EDW mean that collection notices, are more accurate, as Compliance can draw on federal, state and other sources of information to build a picture of a non-filers’ salary and other revenue.

On the other end of the process, a tax payment may be applied to the wrong place or not at all. With as many filings as the IDR processes, there are bound to be errors – a sales tax remittance applied to the company’s withholding tax, corporate tax applied to another tax, a bad check, or other issue. Prior to the EDW, tracking down a misdirected payment had to be done by manually reviewing all the ledgers. Now the system can be queried by amount, with likely dates or even by address, using the Document Locator Number (DLN), the social security number or FEIN.

Audit Trail

The single view of the taxpayer provided by the EDW enables the IDR to follow a detailed audit trail on any taxpayer. Whereas IRIS stores only three years of data, the EDW has historical and current data. An auditor or examiner can look at historical data to create previous audit trails, and current data to see the status of an ongoing audit, whether it is a paper audit, a field audit, a corporate audit, an individual audit, or a sales tax audit. They can see links between an individual and a business they may own or other relevant tax relationships and history. In the past it might take two weeks to obtain notes or

comments. Now, tax calculation sheets and comments are all readily available through Business Objects reports built from the EDW. With this information, examiners and auditors can collaborate to ensure the audits are efficient and effective.

Privacy

The ability to improve lead selection and target more intelligently means that taxpayers are less likely to be intruded on by an unfounded contact from the IDR. Prior to the EDW, lack of specific data and intelligence meant a certain number of the “leads” identified would actually be compliant taxpayers. Today, better information yields more accurate leads – and more respect for the privacy of taxpayers. In turn, taxpayers have increased confidence in the IDR and its operations.

Cost Savings

While increased revenue collection is the major direct benefit of the Tax Gap Project, there were also substantial cost savings. With the EDW, existing staff at the IDR are able to analyze larger volumes of data, manage a greater number of cases, and exercise a higher level of control over taxpaying behavior than was possible before. Prior to the EDW, to manage the volume of tasks it manages now, the department would have had to increase its audit staff by at least 20-25%, a material cost it has avoided.

ROI and the Future

It took only 4 months for the EDW to start generating revenue. Since the project's beginning, Iowa has recovered over \$52 million in revenue collections.

In 2003, the IDR implemented five new and refreshed audit programs, generating over 22,000 audit leads for individual and corporation income tax, sales tax, retailer's use tax, and consumer use tax. Associated with these audit programs generated from the EDW, the Tax Gap project produced nearly \$9.1 million in additional tax revenues.

In 2004, the project generated another \$11.2 million but these financial returns do not even take into account the cost savings and work process efficiencies enabled by the EDW.

To date, compliance has been the primary focus of the EDW project at the IDR. As compliance offers the most immediate,

short-term returns, it has by necessity been the first priority under the benefits based contract.

As the project matures, the IDR and Iowa state government will reap benefits beyond the revenue generation of the compliance initiatives. The ability to ask "what if" legislative questions, fiscal impact questions, to analyze data to understand the results of potential changes in the tax laws, opens up

the possibility of making more educated improvements to the Iowa tax system.

Taxpayer education is another area in which improvements can be made with the help of the EDW. The IDR can look at compliance issues more intelligently, mining the available information to learn "why" a compliance issue is occurring, identifying where taxpayers need clarification and what the best method is to provide the missing information or explanation.

Ultimately the goal, as Don Cooper, Administrator of the Compliance Division, puts it, is to "make tax laws more fair and equitable, so people will comply more readily."

Compliance Program Yield in 2003

\$30.6M	office examinations
\$17.4M	refund reductions
\$ 9.1M	tax gap revenues
\$ 7.5M	out-of-state audits of multi-state businesses
\$ 5.1M	in-state field audits
\$69.7M	total incremental collections, representing an annual return exceeding 1,140%

Lessons Learned

<p>Funding</p>	<p>Performance or benefits-based funding gets the job done. Projects can move forward without extended appropriations review. Plus, having mutual goals between the customer and vendor means results, not deliverables, are the focus. This true partnership ensures project success.</p>
<p>Communication and Cooperation</p>	<p>Establishing channels for open communication and cooperation is critical to project development and timely completion. A free exchange of knowledge and experience among business, technical, operations and other key groups creates and fosters a partnership effort throughout the organization.</p>
<p>Shared Goals and Clear Direction</p>	<p>From this openness come shared goals and clear direction on an agreed project plan. Internal marketing enhances communication within the organization to reinforce the goals, vision and new solution value.</p>
<p>Business User</p>	<p>Design and development is best implemented by a team of end-users and technical staff. The primary focus needs to be on the business user. Developing the technical system of the EDW from the end-user perspective ensures that it will truly achieve the goal of helping users make better, faster business decisions.</p>
<p>Vision</p>	<p>Start with a vision of how much value an EDW can bring to the enterprise. Develop an implementation plan that recognizes not only the need to build one component at a time, to meet operational needs and recognize a return on investment early, but also envisions the plan to grow – the future possibilities.</p>
<p>Simultaneous Development</p>	<p>Simultaneous development of the EDW and any related system of customized software (such as IDR’s Audit Component application) results in a better end product, because the organization starts with a vision of how the systems will work together and ends up with a better integrated and automated process.</p>
<p>Leverage</p>	<p>Leverage development and delivery so that diverse end-users understand and exploit opportunities for increased revenues, cost savings and efficiency improvements.</p>

Appendix A – Definitions

Consumer Use Tax is payable on goods bought outside the state of Iowa, by Iowa resident individuals or companies, for use in Iowa, from a company which has no nexus with Iowa, and therefore does not charge the Iowa resident tax under a consumer use exemption. For example, an Iowa resident buys furniture from an Ohio furniture store. The Iowa resident is exempt from paying taxes to the Ohio furniture store. However, the Iowa resident is obligated to pay a consumer use tax to Iowa, as if the furniture had been purchased in Iowa. Similarly, a manufacturing company may buy some of its materials out-of-state and an exemption from

paying tax to the out-of-state supplier carries with it an obligation to pay the consumer use tax to Iowa.

Nexus in this document refers to a company who has established a presence in the state of Iowa.

Soft match is a method of matching information using the nuanced differences that may occur in a data record, such as common misspellings or abbreviations.

Tax Gap is the difference between what should have been collected in taxes and what has actually been collected.

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