

**Department of Revenue**

A.R.S. § 42-102

Director: Elliott Hibbs

JLBC Analyst: Bob Hull

	<b>FY 2002 Actual</b>	<b>FY 2003 Estimate</b>	<b>FY 2004 Approved</b>
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	1,108.0	1,145.1	1,134.0 <sup>1/</sup>
Personal Services	32,993,700	32,778,400	32,778,400
Employee Related Expenditures	7,877,100	7,614,200	7,862,600
Professional and Outside Services	2,714,900	2,157,500	2,157,500
Travel - In State	362,000	341,700	341,700
Travel - Out of State	395,200	227,400	227,400
Other Operating Expenditures	14,128,000	12,393,700	12,291,900
Equipment	2,026,200	432,300	420,300
<b>OPERATING SUBTOTAL</b>	<b>60,497,100</b>	<b>55,945,200</b>	<b>56,079,800</b>
<b>SPECIAL LINE ITEMS</b>			
Alternative Fuel Tax Credit	418,500	462,300	0
Revenue Generating Program	0	3,275,800	6,552,000
<b>AGENCY TOTAL</b>	<b>60,915,600</b>	<b>59,683,300</b>	<b>62,631,800<sup>2/3/4/</sup></b>
<b>FUND SOURCES</b>			
General Fund	58,838,000	57,366,400	60,362,400
<u>Other Appropriated Funds</u>			
Estate and Unclaimed Property Fund	1,334,100	1,511,600	1,448,200
Liability Setoff Fund	347,300	390,500	385,800
Tobacco Tax and Health Care Fund	396,200	414,800	435,400
SUBTOTAL - Other Appropriated Funds	2,077,600	2,316,900	2,269,400
<b>AGENCY TOTAL</b>	<b>60,915,600</b>	<b>59,683,300</b>	<b>62,631,800</b>

**AGENCY DESCRIPTION** — *The Department of Revenue (DOR) administers and enforces the collection of personal and corporate income, sales, withholding, luxury and estate taxes. The department administers state property tax laws through the 15 county assessors. The department does not collect transportation related fees and taxes, nor the insurance premium tax.*

<sup>1/</sup> Includes 153 FTE Positions funded from Special Line Items in FY 2004.

<sup>2/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

<sup>3/</sup> The Department of Revenue may contract with a third party vendor to accept credit card payment for taxes only if there is no cost to the state General Fund for accepting credit card payments. Before contracting, the department shall report to the Joint Legislative Budget Committee on this program. (General Appropriation Act footnote)

<sup>4/</sup> Included in the total appropriation of \$62,602,600 for FY 2004 is \$6,552,000 from the state General Fund and 153 FTE Positions for the Revenue Generating Program. This program is expected to generate \$53,249,000 for the state General Fund in FY 2004. The department shall provide quarterly progress reports to the Joint Legislative Budget Committee as to the effectiveness of the Revenue Generating Program and the department's overall Enforcement and Collections Program. The reports shall include a comparison of projected and actual revenue enforcement collections for FY 2004. The reports are due within 30 days after the end of each calendar quarter. (General Appropriation Act footnote as adjusted for statewide allocations.)

PERFORMANCE MEASURES	FY 2002	FY 2002	FY 2003	FY 2004
	Appropriation	Actual	Appropriation	Appropriation
• Average calendar days to refund income tax	19.4	10.6	19.4	14
• Total tax documents processed (millions)	5.8	6.3	5.8	--
• % of non-audit revenue to total revenue	97.2	95.6	97.3	95.8
• % of private taxpayer rulings completed within 45 calendar days of receipt	90	96	90	--
• % of written taxpayer inquiries answered within 30 calendar days of receipt	--	60	--	70
• % that collector contacts taxpayer within 30 calendar days of being assigned a delinquent account	75	50	95	51
• % of delinquent accounts collected	20	9.5	20	10
• % of agency staff turnover	16	13	16	12
• Administration as a % of total cost	5.8	6.4	5.8	6.4
• Customer satisfaction rating for taxpayer information section (Scale 1-5).	6.0	7.3	6.0	4.6

**Comments:** The agency reports that they must manually collect data to report on collectors contacting taxpayers within 30 calendar days and on delinquent accounts collected, which makes the results somewhat variable. The agency expects to be able to measure both of these items more easily and accurately in the future using their Business Reengineering/Integrated Tax System (BRITS) computer project. The agency reports that the use of more electronic filing and 2D bar coding to replace some manual data entry, plus a fully staffed processing section contributed to the shorter amount of time to issue income tax refunds.

**Technical Adjustments** — The FY 2004 approved amount includes technical adjustments for Employee Related Expenditures, Risk Management charges, lease-purchase rent charges, Other Fund health and dental insurance changes; and Other Fund retirement changes. (Please see the General Provisions section at the end of this Appropriations Report for further details on these changes.)

**Technical Policy Issues** — The approved amount includes a General Fund decrease of (0.1) FTE Position to simplify the department's accounting records. The approved amount includes a transfer of 5 FTE Positions from the General Fund to the Estate and Unclaimed Property Fund for an increase in unclaimed property workload.

**Equipment** — The approved amount includes a total decrease of \$(99,500) below FY 2003 due to the elimination of one-time funding for computer equipment, including an Estate and Unclaimed Property Fund decrease of \$(84,500) and a Liability Setoff Fund decrease of \$(15,000).

#### **Special Line Items**

**Alternative Fuel Tax Credit** — The approved amount includes a General Fund decrease of \$(462,300) and (11) FTE Positions below FY 2003 due to the substantial completion of the review of all income tax returns that claim an alternative fuel tax credit in each year the credits are authorized by law.

**Revenue Generating Program** — The approved amount includes a General Fund increase of \$3,276,200 above FY 2003 for the annualization of 153 FTE Positions in the

Revenue Generating Program. This program is expected to generate \$53,249,000 for the General Fund in FY 2004. A General Appropriation Act footnote requires that the department provide quarterly progress reports to the Joint Legislative Budget Committee regarding the effectiveness of the program, including a comparison of projected and actual revenue enforcement collections for FY 2004.

**Additional Legislation:** Budget Reconciliation; Public Finances (Chapter 263) — Chapter 263, Section 85 establishes a tax amnesty program for income, sales and luxury taxes, but not estate or property taxes. To qualify, a taxpayer must file an application with the Department of Revenue between September 1, 2003 and October 31, 2003, and must pay at least 1/3 of the total amount due by October 31, 2003. The balance must be paid by May 1, 2004. The tax amnesty program generally covers the period from January 1983 through December 2001, and includes a reduction in interest and waiver of penalties. The program does not include accounts receivables, and certain people such as those subject to a criminal tax investigation or those with a tax bill from a completed audit. This program is expected to generate \$25,000,000 for the General Fund in FY 2004. The department is required to provide cumulative monthly reports to the Governor, the Speaker of the House of Representatives and the President of the Senate beginning November 15, 2003 through June 15, 2004. The reports shall include the number of taxpayers that applied for and received amnesty, the revenue received, and the outstanding liability from amnesty.

**Vetoes:** Budget Reconciliation; Public Finances (Chapter 263) — Previous legislation allocated \$15,000,000 in FY 2003 to the Department of Revenue for first year

payments and costs associated with the case of Ladewig v. State of Arizona, with any unused amount to be held in reserve for future payments. This litigation involved the different state income tax treatment of dividends from Arizona and non-Arizona companies. Chapter 263, Section 67 makes any unused amount available for future administration costs.

Chapter 263, Section 69 would have allocated \$75,000,000 in FY 2004 to the Department of Revenue for second year payments and costs associated with the case of Ladewig v. State of Arizona. The department could have used up to \$7,300,000 for administration costs. Any unused amounts from either allocation were required to be held in reserve for future payments. The Governor vetoed Section 69.

The FY 2003 and FY 2004 expenses solely cover administrative costs. The refunds to taxpayers will begin in FY 2005. The anticipated cost is \$161,700,000 in FY 2005, \$81,400,000 in FY 2006 and \$84,100,000 in FY 2007.

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