Department of Revenue

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	860.3	861.8	880.8 1/
Personal Services	30,196,200	34,642,300	35,292,300
Employee Related Expenditures	12,381,600	15,385,100	15,755,900
Professional and Outside Services	4,640,100	4,592,900	4,592,900
Travel - In State	316,700	316,800	316,800
Travel - Out of State	223,800	496,400	496,400
Other Operating Expenditures	10,465,500	8,852,700	8,262,700
Equipment	1,699,900	113,300	113,300
OPERATING SUBTOTAL	**59,923,800**	**64,399,500**	**64,830,300** 2/
SPECIAL LINE ITEMS			
BRITS Operational Support	6,970,200	7,602,500	7,604,200
County Assessors	35,400	0	0
Temporary Collectors	2,665,300	0	0
Unclaimed Property Administration and Audit	1,218,500	1,770,000	1,218,500 3/
AGENCY TOTAL	**70,813,200**	**73,772,000**	**73,653,000** 4/5/
FUND SOURCES			
General Fund	44,998,100	47,025,300	48,139,400
Other Appropriated Funds			
Department of Revenue Administrative Fund	24,131,200	24,980,200	24,436,800
Liability Setoff Revolving Fund	1,007,800	1,087,200	397,300
Tobacco Tax and Health Care Fund	676,100	679,300	679,500
SUBTOTAL - Other Appropriated Funds	25,815,100	26,746,700	25,513,600
SUBTOTAL - Appropriated Funds	**70,813,200**	**73,772,000**	**73,653,000**
Other Non-Appropriated Funds	40,543,000	42,150,000	43,150,000
TOTAL - ALL SOURCES	111,356,200	115,922,000	116,803,000

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.

Operating Budget

The budget includes $64,830,300 and 825.8 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
General Fund	$42,337,100
DOR Administrative Fund	21,416,400
Liability Setoff Revolving Fund	397,300
Tobacco Tax and Health Care Fund	679,500

These amounts fund the following adjustments:

Capital Gains Reduction Imaging

The budget includes an increase of $100,000 from the General Fund in FY 2015 for the imaging and scanning of the second page of the individual income tax return form. Laws 2012, Chapter 343 created an income tax reduction for long-term capital gains of up to 25% of the gain amount. This information is displayed on the second page of the individual income tax return and is not currently

1/ Includes 38 GF and 17 OF FTE Positions funded from Special Line Items in FY 2015.
2/ The operating lump sum appropriation includes $100,000 to improve the department's analysis of tax data. Before spending these monies, the department shall submit an expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
3/ If the total dollar value of properties retained by unclaimed property contract auditors exceeds $1,218,500, the excess amount is transferred from the state General Fund to the DOR Administrative Fund and appropriated to the department for contract auditor fees. (General Appropriation Act footnote)
4/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
5/ The department shall report the department's General Fund revenue enforcement goals for FY 2015 to the Joint Legislative Budget Committee on or before September 30, 2014. The department shall provide an annual progress report to the Joint Legislative Budget Committee as to the effectiveness of the department's overall Enforcement and Collections Program for FY 2015 on or before September 30, 2015. The reports must include a comparison of projected and actual General Fund revenue enforcement collections for FY 2015. (General Appropriation Act footnote)

tracked. These monies will allow DOR to image and log this information.

DOR is also allocated $641,000 from the $1,700,000 General Fund transfer to the Automation Projects Fund in FY 2015 for modifications to the Taxpayer Accounting System within DOR that will allow for the tracking and storage of data from the second page of the individual income tax return form. These monies do not appear in the appropriation table above. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Eliminate One-Time Funding
The budget includes a decrease of $(690,000) from the Liability Setoff Revolving Fund in FY 2015 for the elimination of a one-time appropriation for a new debt setoff computer program.

TPT Simplification
The budget includes an increase of $1,000,000 and 19 FTE Positions from the General Fund in FY 2015 for additional staffing for additional Transaction Privilege Tax responsibilities. Laws 2013, Chapter 255 created a unified audit and collection system under the auspices of DOR. As a result, DOR will assume the responsibility for the audit and collection of TPT taxes from all municipalities including the 18 Non-Program cities which currently administer their own TPT taxes. These monies will allow DOR to fund the additional staffing associated with the new TPT oversight responsibilities.

Statewide Adjustments
The budget includes an increase of $20,800 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	$13,100
DOR Administrative Fund	7,400
Liability Setoff Revolving Fund	100
Tobacco Tax and Health Care Fund	200

(Please see the Agency Detail and Allocations section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes $7,604,200 and 55 FTE Positions in FY 2015 for operational support of BRITS. These amounts consist of:

General Fund	5,802,300
DOR Administrative Fund	1,801,900

These amounts fund the following adjustments:

Statewide Adjustments
The budget includes an increase of $1,700 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	1,000
DOR Administrative Fund	700

Monies in this line item are used for annual server and printer replacement costs, increased BRITS data storage requirements, and information technology personnel to operate and maintain the BRITS system. BRITS is the state's computer system for collecting and processing tax data.

Unclaimed Property Administration and Audit

The budget includes $1,218,500 from the DOR Administrative Fund in FY 2015 for Unclaimed Property Administration and Audit. This amount funds the following adjustments:

Appropriation Adjustment
The budget includes a decrease of $(551,500) from the DOR Administrative Fund in FY 2015 to bring the appropriation level in line with actual expenditures.

Monies in this line item are used for the administrative costs of unclaimed or abandoned property. Contract auditors retain 10.25% to 12.5% of the dollar value of properties they recover. This amount is currently estimated at $1,218,500.

Other Issues

Tobacco Tax/Master Settlement Agreement
The budget includes transfers totaling $1,436,500 from the Traditional Medicaid Services line item in AHCCCS in FY 2015 for DOR staff and a luxury tax computer system to help enforce the provisions of the Master Settlement Agreement. These monies are provided by 2 footnotes in the AHCCCS budget. The first provides $436,500 directly to DOR to fund 6 FTE Positions that will perform luxury tax enforcement and audit duties. The FTE Position increase is not reflected in DOR's appropriation total. The second provides $1,000,000 to the Automation Projects Fund for the development of a luxury tax processing and revenue accounting system within DOR.

In 1998, the major tobacco companies and 46 states reached a settlement in which the signatory tobacco companies would make an annual payment to compensate the states for Medicaid costs associated with tobacco use. Currently, Arizona receives an annual payment of approximately $100,000,000 from participating manufacturers annually. As part of the agreement, the states promised to diligently enforce the provisions and collection of tobacco tax laws within their respective states. In CY 2013, an arbitration panel approved an amended settlement between participating manufacturers and 19 states, including Arizona, to resolve issues relating to tobacco tax enforcement. CY 2015 is the first year tobacco tax collections will come under diligent enforcement scrutiny under the provisions of the amended

settlement. The monies provided in this footnote will help DOR to obtain a level of enforcement consistent with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system. The new accounting system will enhance enforcement by automating the current manual data entry process, allowing delinquent returns and account information to be tracked, and logging data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data.

Capital Gains Reduction and Tax Credit Reporting

The budget includes FY 2015 transfers from Department funds associated with the development of improvements to the existing Taxpayer Accounting System that will allow for increased timeliness in reporting tax credit and long-term capital gains information. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*