Department of Revenue

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	861.8	880.8	880.8 1/
Personal Services	30,869,300	34,499,800	34,499,800
Employee Related Expenditures	14,409,500	14,654,000	14,322,000
Professional and Outside Services	5,687,700	5,326,200	8,476,200
Travel - In State	282,200	336,000	336,000
Travel - Out of State	200,300	349,700	349,700
Other Operating Expenditures	10,531,100	8,048,900	8,244,900
Equipment	976,200	615,700	615,700
OPERATING SUBTOTAL	**62,956,300**	**63,830,300**	**66,844,300**
SPECIAL LINE ITEMS			
BRITS Operational Support	7,555,500	7,604,200	7,538,900
TPT Information Technology	0	0	1,230,700
TPT Simplification	0	1,000,000	990,600
Unclaimed Property Administration and Audit	1,497,100	1,218,500	1,218,500 2/
AGENCY TOTAL	**72,008,900**	**74,653,000**	**77,823,000** 3/4/5/6/
FUND SOURCES			
General Fund	46,040,200	48,139,400	30,338,600
Other Appropriated Funds			
Department of Revenue Administrative Fund	24,684,600	24,436,800	46,407,500
Liability Setoff Revolving Fund	709,600	397,300	398,000
Tobacco Tax and Health Care Fund	574,500	679,500	678,900
SUBTOTAL - Other Appropriated Funds	25,968,700	25,513,600	47,484,400
SUBTOTAL - Appropriated Funds	**72,008,900**	**73,653,000**	**77,823,000**
Other Non-Appropriated Funds	1,693,500	5,847,400	5,847,400
TOTAL - ALL SOURCES	73,702,400	79,500,400	83,670,400

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.

1/ Includes 70 GF FTE Positions funded from Special Line Items in FY 2016.

2/ 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, established by A.R.S. § 42-1116.01, and appropriated to the department for contract auditor fees. (General Appropriation Act footnote)

3/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

4/ The department shall report the department's General Fund revenue enforcement goals for FY 2016 to the Joint Legislative Budget Committee on or before September 30, 2015. 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 2016 on or before September 30, 2016. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2016, including the amount of projected and actual enforcement collections for all tax types. (General Appropriation Act footnote)

5/ The FY 2016 appropriation for the Department of Revenue includes a $3,150,000 state General Fund lump sum increase for contracting for private fraud prevention investigation services. Before awarding a contract for the services, the department shall make a request for proposals and review all submissions. (General Appropriation Act footnote)

6/ On or before September 30, 2015, the Department of Revenue shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the amount of individual income tax credits claimed in FY 2015. (General Appropriation Act footnote)

Operating Budget

The budget includes $66,844,300 and 810.8 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	$24,702,800
DOR Administrative Fund	41,064,600
Liability Setoff Revolving Fund	398,000
Tobacco Tax and Health Care Fund	678,900

These amounts fund the following adjustments:

DOR Local Cost Sharing

The budget includes a decrease of $(20,755,800) from the General Fund and a corresponding increase of $20,755,800 from the DOR Administrative Fund in FY 2016 for local cost sharing. The FY 2016 Revenue Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 10), as amended by Laws 2015, Chapter 323, requires DOR to assess a fee on counties and cities, as well as on councils of governments and regional transportation authorities (the Maricopa Association of Governments and Pima Association of Governments) to recover a portion of DOR's operating costs incurred to collect, process, and distribute local and state shared tax revenues.

The bill includes an intent statement that the fees not exceed $20,755,835, which are allocated between cities, counties, councils of governments and regional transportation authorities proportionally based on their share of tax distributions from DOR. The distribution of fees amongst the entities in a category (for example, Phoenix as a share of all city fees) is based on population. *Table 1* lists the estimated fees by category of government.

Table 1
DOR Local Cost Sharing Estimates

Category	Amount
Counties	$ 6,749,336
Maricopa Association of Governments	2,582,397
Pima Association of Governments	511,203
Cities	10,912,899
Total	**$20,755,835**

Income Tax Fraud Prevention

The budget includes an increase of $3,150,000 from the General Fund in FY 2016 for income tax fraud prevention. These monies will be used to contract with a vendor to provide fraud prevention investigation services, make programming changes to the Taxpayer Accounting System (TAS), and provide audit and investigative support. The vendor will be paid for the total dollar value of the fraud prevention, but the payment is not to exceed $2,700,000. The enacted budget estimates this fraud prevention would increase state General Fund revenue by $9.3 million during FY 2016.

Statewide Adjustments

The budget includes a decrease of $(136,000) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(121,600)
DOR Administrative Fund	(14,500)
Liability Setoff Revolving Fund	700
Tobacco Tax and Health Care Fund	(600)

(Please see the Agency Detail and Allocations section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes $7,538,900 and 51 FTE Positions in FY 2016 for operational support of BRITS. These amounts consist of:

General Fund	4,645,200
DOR Administrative Fund	2,893,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of $(65,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(64,000)
DOR Administrative Fund	(1,300)

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.

TPT Information Technology

The budget includes $1,230,700 from the DOR Administrative Fund in FY 2016 to make programming changes to TAS. This amount funds the following adjustments:

One-Time TPT Information Technology Funding

The budget includes a one-time increase of $1,230,700 from the DOR Administrative Fund in FY 2016 for temporary Information Technology (IT) staff to make programming changes in TAS for Transaction Privilege Tax (TPT) simplification.

As part of the TPT simplification, Laws 2013, Chapter 255 and Laws 2014, Chapter 263 require DOR to operate a statewide electronic TPT filing system to receive TPT payments. This system was initially scheduled to be available in January 2015, but has been delayed until January 2016 due to extensive programming changes needed to establish the system. Monies in this line item will be used to hire temporary IT staff to make programming changes in TAS, which will allow DOR to complete the electronic TPT filing system.

The FY 2016 Revenue BRB requires DOR to assess a one-time fee to all "Non-Program" cities which currently collect their own TPT revenues. The bill includes an intent statement that the fee be $0.76 per resident. The monies generated from this fee are estimated to be $2.8 million and will be deposited into the DOR IGA and ISA Fund. The fee monies, combined with the $1,230,700 from the DOR Administrative Fund, will be used to hire temporary IT staff to complete the electronic TPT filing system.

TPT Simplification

The budget includes $990,600 and 19 FTE Positions from the General Fund in FY 2016 for TPT simplification responsibilities. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of $(9,400) from the General Fund in FY 2016 for statewide adjustments.

While this funding was initially included in the operating budget in FY 2015, the FY 2016 monies were appropriated in a separate line item. The FY 2015 amounts are displayed as a part of this line item for ease of comparison. *(Please see the FY 2015 Appropriations Report for more information.)*

Laws 2013, Chapter 255 and Laws 2014, Chapter 263 created a unified TPT audit and collections 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.

Unclaimed Property Administration and Audit

The budget includes $1,218,500 from the DOR Administrative Fund in FY 2016 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2015.

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.

Additional Legislation

Private Collectors

The FY 2016 Revenue BRB allows DOR to use up to $2,000,000 to hire contracted collectors to collect TPT accounts receivable in FY 2016 and FY 2017. The department may use revenues collected by the contracted collectors to pay for services rendered. The enacted budget assumes the contracted collectors would increase state General Fund revenue (net of fees) by $32.6 million during FY 2016.

Tax Amnesty

The FY 2016 Revenue BRB establishes a tax amnesty program which requires DOR to waive all penalties and interest payments for tax liabilities for tax years 2013 and before. The taxpayer must pay the total tax due during the specified amnesty period between September 1, 2015 and October 31, 2015. The enacted budget assumes the tax amnesty program would generate $15,000,000 in additional one-time General Fund revenue in FY 2016.

Other Issues

Tobacco Tax/Master Settlement Agreement

The budget continues to transfer $436,500 from the Traditional Medicaid Services line item in AHCCCS in FY 2016 for DOR staff to help enforce the provisions of the Master Settlement Agreement. These monies are provided in a footnote in the AHCCCS budget. This transfer funds 6 FTE Positions to perform luxury tax enforcement and audit duties. The FTE Position increase is not reflected in DOR's appropriation total. *(Please see the AHCCCS section for more information regarding these transfers.)*

Additionally, the budget includes a decrease of $(1,000,000) to the Automation Projects Fund to eliminate one-time funding for the development of a luxury tax processing and revenue accounting system within DOR to help administer the Master Settlement Agreement. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

(Please see the FY 2015 Appropriations Report for background information relating to DOR tobacco tax enforcement funding.)

Capital Gains Reduction and Tax Credit Reporting

The budget includes a decrease of $(1,700,000) to the Automation Projects Fund to eliminate one-time funding for programming improvements to capture, analyze, and report income tax credit information. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*