

Department of Revenue

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	880.8
Personal Services	30,453,400	28,451,200	28,451,200
Employee Related Expenditures	13,545,900	12,503,000	12,503,000
Professional and Outside Services	6,292,000	9,570,100	9,570,100
Travel - In State	236,200	291,000	291,000
Travel - Out of State	122,500	116,000	116,000
Other Operating Expenditures	9,262,700	10,691,700	10,691,700
Equipment	2,772,900	2,071,300	2,071,300
OPERATING SUBTOTAL	62,685,600	63,694,300	63,694,300
SPECIAL LINE ITEMS			
BRITS Operational Support	6,014,400	7,538,900	7,538,900
Income Tax Fraud Prevention	0	3,150,000	3,150,000
TPT Information Technology	0	1,230,700	0
TPT Simplification	1,000,000	990,600	990,600
Unclaimed Property Administration and Audit	1,070,500	1,218,500	1,218,500
AGENCY TOTAL	70,770,500	77,823,000	76,592,300
FUND SOURCES			
General Fund	45,637,600	30,338,600	30,338,600
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	24,215,700	46,407,500	45,176,800
Liability Setoff Program Revolving Fund	378,600	398,000	398,000
Tobacco Tax and Health Care Fund	538,600	678,900	678,900
SUBTOTAL - Other Appropriated Funds	25,132,900	47,484,400	46,253,700
SUBTOTAL - Appropriated Funds	70,770,500	77,823,000	76,592,300
Other Non-Appropriated Funds	4,011,200	3,017,100	3,017,100
TOTAL - ALL SOURCES	74,781,700	80,840,100	79,609,400

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.

Operating Budget

The Baseline includes \$63,694,300 and 810.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$24,152,400
DOR Administrative Fund	38,465,000
Liability Setoff Program Revolving Fund	398,000
Tobacco Tax and Health Care Fund	678,900

These amounts are unchanged from FY 2016.

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The Baseline includes \$7,538,900 and 51 FTE Positions in FY 2017 for operational support of BRITS. These amounts consist of:

General Fund	2,045,600
DOR Administrative Fund	5,493,300

These amounts are unchanged from FY 2016.

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.

Income Tax Fraud Prevention

The Baseline includes \$3,150,000 from the General Fund in FY 2017 for income tax fraud prevention. This amount is unchanged from FY 2016. This funding initially appeared in the FY 2016 operating budget. The FY 2016 amount was transferred to this line item for ease of comparison. *(Please see the FY 2016 Appropriations Report for more information.)*

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.

TPT Information Technology

The Baseline includes no funding from the DOR Administrative Fund in FY 2017 for programming changes to TAS. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (1,230,700)

The Baseline includes a decrease of \$(1,230,700) from the DOR Administrative Fund in FY 2017 for the elimination of one-time funding 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 electronic system will make DOR the single source for taxpayers to apply for licenses, file returns, and make payments for all state, county and municipal TPT and sales taxes.

This system was initially scheduled to be available in January 2015, but has been delayed due to extensive programming changes needed to establish the system. DOR has yet to determine when the system will be available.

Monies in this line item were used to hire temporary IT staff to make programming changes in TAS, which will allow DOR to complete the electronic TPT filing system.

TPT Simplification

The Baseline includes \$990,600 and 19 FTE Positions from the General Fund in FY 2017 for TPT simplification

responsibilities. These amounts are unchanged from FY 2016.

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 14 "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 Baseline includes \$1,218,500 from the DOR Administrative Fund in FY 2017 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2016.

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 value of properties they recover. This amount is currently estimated at \$1,218,500.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

If the total 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.

The department shall report the department's General Fund revenue enforcement goals for FY 2017 to the Joint Legislative Budget Committee on or before September 30, 2016. 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 2017 on or before

September 30, 2017. The reports shall include a comparison of projected and actual General Fund revenue enforcement collections for FY 2017, including the amount of projected and actual enforcement collections for all tax types.

New Footnotes

The department may not transfer any monies from the Income Tax Fraud Prevention line item without prior review by the Joint Legislative Budget Committee.

The department shall report the results of private fraud prevention investigation services during FY 2016 to the Joint Legislative Budget Committee by November 1, 2016. The report shall include the total number of fraudulent returns prevented and the total dollar amount of fraudulent returns prevented during FY 2016.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the FY 2017 appropriation for the Department of Revenue including a \$3,150,000 General Fund increase for contracting for private fraud prevention investigation services. The footnote also required DOR to make a request for proposal for these services. These funds have been moved to a separate line item and DOR has already awarded the contract.

The Baseline would delete the footnote requiring the Department of Revenue to report on the amount of individual income tax credits claimed in FY 2015. The Baseline would make this footnote permanent law. *(Please see the Statutory Changes section for more information regarding this permanent law.)*

STATUTORY CHANGES

The Baseline would:

- As permanent law, require the Department of Revenue to 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 for a given fiscal year within 3 months of the end of a fiscal year. This report was previously included as a footnote in the FY 2016 General Appropriation Act (Laws 2015, Chapter 8).
- As permanent law, retroactively extend the allocation of luxury tax revenues to the Corrections Fund beyond the June 30, 2015 expiration date. Pursuant to A.R.S. § 42-3104, a portion of alcohol and tobacco revenues are deposited in the Corrections Fund. In FY 2015, the Corrections Fund received \$30.7 million from alcohol and tobacco tax revenues. The majority

of Corrections Fund monies go to the Arizona Department of Corrections to offset General Fund prison spending. The Baseline would permanently extend this allocation and specify this change is retroactive to July 1, 2015. Without a statutory change, the luxury tax revenues that would have been allocated the Corrections Fund will instead be distributed to the General Fund.

Other Issues

Tobacco Tax/Master Settlement Agreement

The Baseline continues to transfer \$436,500 from the Traditional Medicaid Services line item in AHCCCS in FY 2017 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.)*

Private TPT Collectors

The FY 2016 Revenue Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 10) allows DOR to hire contracted collectors to collect TPT accounts receivable in FY 2016 and FY 2017. The department may use up to \$2.0 million of revenues collected by the contractors to pay for services rendered. DOR has decided not to hire contracted collectors. The FY 2016 budget assumed the contracted collectors would generate \$32.6 million in General Fund revenues in FY 2016 and \$13.0 million in General Fund revenues in FY 2017 (net of fees). The Baseline General Fund revenue projections have been reduced accordingly to account for this lack of revenue.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Department of Revenue Administrative Fund (RVA1993/A.R.S. § 42-1116.01)		Appropriated
Source of Revenue: The sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Each year, \$24,500,000 in unclaimed property proceeds are deposited into this fund. In addition, pursuant to A.R.S. § 42-5041, this fund receives cost assessments paid by local governments for DOR operating costs.		
Purpose of Fund: To cover the Department of Revenue's operating costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property.		
Funds Expended	24,215,700	46,407,500
Year-End Fund Balance	2,969,600	1,817,900
Escheated Estates Fund (RVA3745/A.R.S. § 12-885)		Non-Appropriated
Source of Revenue: The fund consists of monies from the sale of escheated estates. Property escheats, or reverts to the state, after 5 years when there is no will to transmit the property and there are no legal heirs to inherit it.		
Purpose of Fund: To deposit proceeds from the sale of escheated property and hold them in the fund for 12 months, from which payment of claims may be made, before being transferred to the Permanent State School Fund. There were no transfers made in FY 2015.		
Funds Expended	0	0
Year-End Fund Balance	365,300	365,300
Estate and Unclaimed Property Fund (RVA1520/A.R.S. § 44-301)		Non-Appropriated
Source of Revenue: The fund consists of monies from the sale of abandoned property, including bank accounts, safe deposit boxes, stock certificates, utility deposits, life insurance policies and unclaimed victim restitution monies. Property is typically considered "abandoned" after 3 years. Notwithstanding the title of this fund, it no longer includes the proceeds of escheated estates. Those funds are deposited to the department's Escheated Estates Fund.		
Purpose of Fund: To pay allowed claims. The department retains not less than \$100,000 of the fund while the state attempts to locate abandoned property owners. Once monies are determined to be "unreturnable" they are disbursed as follows: Monies associated with unclaimed utility deposits are transferred to the Utility Assistance Fund. Monies from unclaimed shares and dividends of Arizona corporations and unclaimed property in a self-storage unit are transferred to the Permanent State School Fund. Unclaimed victim restitution monies are transferred to the Arizona Criminal Justice Commission's Victim Compensation and Assistance Fund. A.R.S. § 44-313 requires that the first \$2,000,000 in unclaimed property proceeds be deposited into the Seriously Mentally Ill Housing Trust Fund, the next \$2,500,000 into the Housing Trust Fund, the next \$24,500,000 into the DOR Administrative Fund and all remaining monies be redirected to the General Fund.		
Funds Expended	0	0
Transfer to Unclaimed Property Refunds	42,673,900	43,000,000
Year-End Fund Balance	5,466,700	5,466,700
I Didn't Pay Enough Fund (RVA6001/A.R.S. § 43-211)		Non-Appropriated
Source of Revenue: Voluntary contributions from taxpayers.		
Purpose of Fund: Up to 10% of annual deposits may be used by DOR to administer the fund. Any unexpended monies revert to the General Fund at the close of the fiscal year.		
Funds Expended	0	0
Year-End Fund Balance	19,800	29,800
IGA and ISA Fund (RVA2500/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Transfer of funds from Arizona Early Childhood Development and Health Board. The fund also receives all transfers relating to the Automation Projects Fund projects. In addition, the FY 2016 Revenue BRB deposited \$0.76 per resident fee from Non-Program cities to fund sales tax related IT projects.		
Purpose of Fund: To execute various intergovernmental and interagency service agreements.		
Funds Expended	4,011,200	3,017,100
Year-End Fund Balance	4,321,900	4,704,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Liability Setoff Program Revolving Fund (RVA2179/A.R.S. § 42-1122)		Appropriated
Source of Revenue: Fees collected from agencies, political subdivisions or taxpayers utilizing the setoff procedure. The Department of Revenue withholds taxpayer refunds to satisfy debts owed by the taxpayers to certain state and local agencies, such as delinquent child support payments owed to the Department of Economic Security.		
Purpose of Fund: To cover the Department of Revenue's costs of administering the Liability Setoff program.		
Funds Expended	378,600	398,000
Year-End Fund Balance	2,262,600	2,950,900
Revenue Publications Revolving Fund (RVA2166/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: Receipts from the sale of department tax-related publications.		
Purpose of Fund: To offset costs of publishing and distributing tax-related publications.		
Funds Expended	0	0
Year-End Fund Balance	35,500	60,500
Special Collections Fund (RVA2168/A.R.S. § 42-1004)		Non-Appropriated
Source of Revenue: This fund consists of all monies received pursuant to contingent fee contracts to collect delinquent state taxes, penalties and interest due under A.R.S. Title 43 (taxation of income) and Title 42, Chapter 5, Article 1 (transaction privilege taxes).		
Purpose of Fund: To pay all fees and court costs provided for in contingent fee collection contracts authorized by A. R. S. § 42-1004B3. The remainder of the collected amounts is distributed to the state or political subdivisions according to the distribution proportions for the tax collected.		
Funds Expended	0	0
Year-End Fund Balance	1,834,000	1,834,000
Statewide Employee Recognition Gifts/Donations Fund (RVA2449/A.R.S. § 35-149)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: For employee recognition programs that recognize and award the performance, achievement, longevity or major life event of department employees.		
Funds Expended	0	0
Year-End Fund Balance	2,200	4,700
Tobacco Tax and Health Care Fund (RVA1306/A.R.S. § 36-771)		Appropriated
Source of Revenue: The fund consists of tobacco taxes retained by the department to administer the Tobacco Tax program.		
Purpose of Fund: To monitor and enforce tobacco tax laws.		
Funds Expended	538,600	678,900
Year-End Fund Balance	6,200	6,200
Waste Tire Fund (RVA2356/A.R.S. § 44-1305)		Non-Appropriated
Source of Revenue: Collections from a fee on new tire purchases and penalties for violations.		
Purpose of Fund: Up to 3.5% of the monies in the fund are transferred quarterly to the Department of Environmental Quality (DEQ) to monitor and enforce the requirements of A.R.S. Title 44, Chapter 9, Article 8, Waste Tire Disposal. The remainder is distributed quarterly to counties to establish and implement waste tire programs. Monies in the fund are exempt from lapsing under A.R.S. § 35-190.		
Funds Expended	0	0
Year-End Fund Balance	0	0