

Department of Revenue

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	880.8	880.8	892.8 ^{1/}
Personal Services	29,433,200	30,112,200	31,095,900
Employee Related Expenditures	11,514,500	12,730,800	14,523,900
Professional and Outside Services	8,614,900	6,820,400	6,819,900
Travel - In State	51,900	69,000	69,000
Other Operating Expenditures	12,928,200	16,186,000	18,610,800
Equipment	420,500	294,600	503,500
OPERATING SUBTOTAL	62,963,200	66,213,000	71,623,000 ^{2/}
SPECIAL LINE ITEMS			
BRITS Operational Support	7,555,800	7,567,500	7,797,000
E-Commerce Compliance and Outreach	0	854,900	854,900
Income Tax Information Technology	0	466,300	0
Tax Fraud Prevention	3,149,100	3,150,000	3,150,000 ^{3/4/}
TPT Simplification	946,500	984,100	1,013,800
Unclaimed Property Administration and Audit	2,443,400	1,467,800	1,467,800 ^{5/}
FY 2023 Salary Increase	0	0	4,180,300
AGENCY TOTAL	77,058,000	80,703,600	90,086,800 ^{6/7/}
FUND SOURCES			
General Fund	29,253,200	53,542,400	59,863,300
<u>Other Appropriated Funds</u>			
Department of Revenue Administrative Fund	46,453,300	25,669,800	28,603,100
Liability Setoff Program Revolving Fund	714,300	806,900	892,500
Tobacco Tax and Health Care Fund	637,200	684,500	727,900
SUBTOTAL - Other Appropriated Funds	47,804,800	27,161,200	30,223,500
SUBTOTAL - Appropriated Funds	77,058,000	80,703,600	90,086,800
Other Non-Appropriated Funds	2,016,100	3,083,800	3,083,800
TOTAL - ALL SOURCES	79,074,100	83,787,400	93,170,600

AGENCY DESCRIPTION — The Department of Revenue (DOR) administers and enforces the collection of individual and corporate income, sales, withholding, luxury, recreational marijuana and estate taxes. The department administers state property tax laws through the 15 county assessors

FOOTNOTES

- ^{1/} Includes 70 GF FTE Positions funded from Special Line Items in FY 2023.
- ^{2/} The operating lump sum appropriation includes \$2,000,000 and 25 FTE positions for additional audit and collections staff. (General Appropriation Act footnote)
- ^{3/} The department may not transfer any monies to or from the tax fraud prevention line item without prior review by the joint legislative budget committee. (General Appropriation Act footnote)
- ^{4/} On or before November 1, 2022, the department shall report the results of private fraud prevention investigation services during fiscal year 2021-2022 to the joint legislative budget committee. The report shall include the total number of fraudulent returns prevented and the total dollar amount of fraudulent returns prevented during fiscal year 2021-2022. (General Appropriation Act footnote)
- ^{5/} If the total value of properties retained by unclaimed property contract auditors exceeds \$1,467,800, the excess amount is transferred from the state general fund to the department of revenue administrative fund established by section 42-1116.01, Arizona Revised Statutes, and is appropriated to the department for contract auditor fees. (General Appropriation Act footnote)
- ^{6/} The department shall report the department's general fund revenue enforcement goals for fiscal year 2022-2023 to the joint legislative budget committee on or before September 30, 2022. On or before September 30, 2023, 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 fiscal year 2022-2023. The reports shall compare projected and actual state general fund, total state tax, total county tax and total municipal tax revenue enforcement collections for fiscal year 2021-2022 and fiscal year 2022-2023, including the amount of projected and actual enforcement collections for all tax types. The reports shall also include the total number of transaction privilege tax delinquent accounts, the total dollar value of those accounts classified by age of account and the total dollar amount of delinquent account write-offs determined to be uncollectible for fiscal year 2021-2022. (General Appropriation Act footnote)

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

Operating Budget

The budget includes \$71,623,000 and 822.8 FTE Positions in FY 2023 for the operating budget. This amount consists of:

	FY 2023
General Fund	\$47,622,900
DOR Administrative Fund	22,469,500
Liability Setoff Program Revolving Fund	830,300
Tobacco Tax and Health Care Fund	700,300

FY 2023 adjustments are as follows:

Information Technology Resources

The budget includes an increase of \$3,513,000 and 12 FTE from the General Fund in FY 2023 to increase the capacity of the department's information technology staff to implement state and federal tax law changes in the current tax system, along with funding server and data storage upgrades.

Statewide Adjustments

The budget includes an increase of \$1,897,000 in FY 2023 for statewide adjustments. This amount consists of:

General Fund	584,500
DOR Administrative Fund	1,273,300
Liability Setoff Program Revolving Fund	23,400
Tobacco Tax and Health Care Fund	15,800

(Please see the Agency Detail and Allocations section.)

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The budget includes \$7,797,000 and 51 FTE Positions in FY 2023 for operational support of BRITS.

These amounts consist of:

General Fund	4,600,900
DOR Administrative Fund	3,196,100

FY 2023 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$229,500 in FY 2023 for statewide adjustments. This amount consists of:

General Fund	39,200
DOR Administrative Fund	190,300

This line item funds the 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 current computer system for collecting and processing tax data. The FY 2023 budget included monies for the development of a new integrated tax system. *For additional information, please see the APF- New DOR tax system in the Other Issues section and the Arizona Department of Administration – Automation Projects Fund narrative*

E-Commerce Compliance and Outreach

The budget includes \$854,900 from the General Fund in FY 2023 for E-commerce compliance and outreach (ECCO) administrative costs. These amounts are unchanged from FY 2022.

This line item funds the costs of assisting out-of-state remote sellers and marketplace facilitators with paying transaction privilege tax (TPT) in Arizona. Since October 2019, out-of-state businesses that do not have a physical presence in the state are required to collect and remit TPT if they meet certain economic nexus requirements and thresholds outlined in state law.

Income Tax Information Technology

The budget includes no funding from the General Fund in FY 2023 for Income Tax Information Technology (IT) costs. FY 2023 adjustments are as follows:

Remove One-Time Increase

The budget includes a decrease of \$(466,300) from the General Fund in FY 2023 for one-time costs associated with Laws 2021, Chapter 425. This legislation created an

optional entity-level income tax for partnerships and S-Corporations. The funding increase allowed DOR to make programming changes to the IT tax system to comply with Chapter 425.

Pursuant to a General Appropriation Act footnote, the FY 2022 appropriation is scheduled to lapse on June 30, 2024.

Tax Fraud Prevention

The budget includes \$3,150,000 from the General Fund in FY 2023 for Tax Fraud Prevention. This amount is unchanged from FY 2022.

These monies are 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.

DOR reported that these services prevented \$18.7 million in fraudulent returns in Individual Income Tax returns in FY 2021.

TPT Simplification

The budget includes \$1,013,800 and 19 FTE Positions from the General Fund in FY 2023 for TPT Simplification responsibilities. FY 2023 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$29,700 from the General Fund in FY 2023 for statewide adjustments.

DOR is responsible for the audit and collection of TPT taxes for all municipalities. These monies allow DOR to fund the staffing associated with these TPT oversight responsibilities.

Unclaimed Property Administration and Audit

The budget includes \$1,467,800 from the DOR Administrative Fund in FY 2023 for Unclaimed Property Administration and Audit. This amount is unchanged from FY 2022.

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 \$1,467,800.

FY 2023 Salary Increase

The budget includes \$4,180,300 in FY 2023 for an FY 2023 Salary Increase. This amount consists of:

General Fund	2,620,800
DOR Administrative Fund	1,469,700
Liability Setoff Program Revolving Fund	62,200
Tobacco Tax and Health Care Fund	27,600

This amount funds a 10% staff salary increase. The budget requires all agencies receiving salary increases to transfer the monies in this line item to the relevant line items as part of the FY 2024 budget request submittals. These submittals will include the reallocation for both FY 2023 and FY 2024. *(Please see the Agency Detail and Allocations section.)*

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the Department of Revenue was allocated funding from the General Fund in FY 2024 and FY 2025 for the development costs of a new integrated tax system. *(See the Arizona Department of Administration – Automation Projects Fund section for more information).*

Statutory Changes

The Tax Omnibus Budget Reconciliation Bill (BRB) makes the following changes:

- As permanent law, establishes the appropriated DOR Integrated Tax System Project Fund for the administrative, development, and other operating costs incurred in implementing a new integrated tax system modernization project. The fund consists of monies deposited into the fund from fees charged to local governments and revenues transferred from the 0.6% sales tax and the 16% recreational marijuana excise tax.
- As permanent law, establish the DOR tax system modernization project advisory committee to serve as a liaison between the department and users of the tax system. The Director of DOR shall serve as member of the committee and the chairperson of the committee, which sunsets, December 31, 2029. The committee shall consist of 8 voting members and 2 non-voting members. The voting members are: 1 member appointed by the Senate President; 1 member appointed by the Speaker of the House of Representatives; the OPSB Director or the director's designee, the Director of the Department of

Administration or the director's designee, and 3 members appointed by the DOR Director (1 representative from a city or town of this state, 1 representative from a county in this state, 1 representative from the business community). The non-voting members are the Auditor General or the Auditor General's designee and the JLBC Director or the Director's designee.

- As permanent law, requires DOR to maintain an individual income tax model that estimates the fiscal impact of proposed individual income tax legislation and requires that the staff of DOR, JLBC, and OSPB have access to the model when the new Integrated Tax System Modernization Project is completed.
- As permanent law, requires DOR to charge a fee to local governments from FY 2023 to FY 2028 to recover a portion of the administrative, development, and other operating costs incurred in implementing the integrated tax system modernization project. The charges are to be deposited into the new Integrated Tax System Project Fund. Local governments may meet this obligation from any source of revenue.
- As session law, stipulates legislative intent that the fees charge to local governments not exceed \$5,388,200 in FY 2023. Includes provisions that stipulate that the fee charged to local governments be allocated to counties, cities, towns, councils of governments, and regional transportation authorities with a population of more than 800,000. This allocation is to be proportionate to the share of revenues distributed to them 2 fiscal years prior to the current fiscal year. Provides that population is the basis for determining the apportioning of fees among counties as well as among cities and towns. *(For additional discussion of the local government assessment, please see the Other Issues in the County Funding agency section.)*
- As permanent law, requires that a portion of revenues from the 0.6% education sales tax as well as the 16% recreational marijuana excise tax be transferred to the new Integrated Tax System Project Fund for the amounts needed to cover their share of the costs of the new system, and amends A.R.S. § 5029.02 to allow for a portion of the 0.6% education sales to be used to cover these costs.
- As session law, stipulates legislative intent that the amount transferred in FY 2023 from the 0.6% educational sales tax shall not exceed \$653,400 and the 16% recreational marijuana tax shall not exceed \$145,500.

The Procurement BRB makes the following changes:

- As session law, requires DOR to review any bid from a vendor who developed, in whole or part, a project of similar size and complexity of the DOR tax system. In soliciting bids, DOR may not include any mandatory minimum qualifications.

Integrated Tax System

The budget includes a transfer of \$9,632,700 from the General Fund and \$6,187,100 from the Integrated Tax System Project Fund to the Automation Projects Fund (APF) for the development of a new integrated tax system for the Department of Revenue. The sum of \$15,819,800 is then appropriated from the Automation Projects Fund for the first year of funding *(Please see the Department of Administration – Automation Projects Fund narrative for details regarding this information technology project.)*

The appropriation included specific requirements for the system and for the Department of Revenue prior to procurement. *(These requirements are detailed in the Arizona Department of Administration – Automation Project Fund's narrative.)*

The FY 2023 budget includes the first year of 6 years of funding for a \$104.8 million new income tax modernization system for the Department of Revenue. Of this amount, across all years \$41.0 million is to be assessed to certain state government funds, local governments and other taxing authorities to recover a portion of the administrative, development and operating costs for the system. These assessed monies will be deposited into the Integrated Tax System Project Fund. *Please see the Other Issues - Statutory Changes section and the Department of Administration – Automation Projects Fund section for additional details on the funding, requirements, and oversight of this project.*