

FY2011 Revenue Generating Options

					FY2010			FY2011			FY2012		
Priority	Division	Issue	One-time v. Ongoing	Statutory Change Needed	Reduction:			Reduction:			Reduction:		
					FTE	Revenue Impact	Appropriation Impact	9,774.2	FTE	Revenue Impact	Appropriation Impact	19,548.5	FTE
Revenue Generating Options													
1	Collections	Continue Funding for Temporary Collectors	On-going	No	-	-	-	74.0	38,672.4	3,000.0	74.0	38,672.4	3,000.0
2	Taxpyr Svc	Increase Business License Fees from \$12 to \$50 Annually	On-going	Yes	-	-	-	4.0	9,500.0	140.0	4.0	9,500.0	140.0
3	Collections	Outsource a Portion of the Collections Inventory	On-going	Yes	-	-	-	4.0	942.2	65.0	4.0	3,768.8	238.6
4	Collections	Automate the Bank Levy Process	On-going	Yes	-	-	-	-	7,370.0	175.0	-	2,345.0	250.0
5	Audit	Restore Audit Staffing to FY2009 Pre-RIF Levels	On-going	No	-	-	-	71.0	6,150.3	4,479.3	71.0	18,339.6	4,190.4
6	Collections	Increase Collectors to Address Business Inventory	On-going	No	-	-	-	7.0	1,554.7	360.0	7.0	1,829.1	360.0
7	Collections	Align the Statute of Limitations with the IRS	On-going	Yes	-	-	-	4.0	769.8	275.5	4.0	2,914.4	238.6
8	Process	Penalty for Mandated Electronic Payments	On-going	Yes	-	-	-	-	3,400.0	-	-	1,700.0	-
9	Process	Accounting Credit-Electronic Filing Requirement	On-going	Yes	-	-	-	-	3,900.0	-	-	4,466.7	-
10	Process	Payroll Services-Electronic Filing Requirement	On-going	Yes	-	-	-	-	800.0	-	-	600.0	-
Revenue Enhancement Totals					-	-	-	164.0	73,059.4	8,494.8	164.0	84,136.0	8,417.6

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Continue Funding for Temporary Collectors

Issue Priority: Revenue Generating Option #1

Revenue Generated (in general fund dollars):

FY2011 - \$38,672.4

FY2012 - \$38,672.4

Appropriation Required: \$3,000,000

FTEs Required: 74.0

Issue description

In FY2009, the Collections Division staff was reduced by over 43%, or 94 collectors. The reduction was subsequently partially restored through the appropriation of \$3 million to hire temporary collectors for just FY2010. Since the funding was made available on July 1st, the Department has hired and trained 74 temporary collectors.

The funding was provided with the expectation that the additional collectors would generate approximately \$45 million in general fund revenues. Through September the Department has expended approximately \$400,000 of the \$3 million appropriation, resulting in over \$4 million in revenue. While revenues are running behind forecast, the collectors are still providing a significantly positive return on investment.

The revenue generating option being proposed would continue funding for these positions through FY2011 which would allow the Department to address the collections inventory which has grown 26.6% since July 2008 to \$467 million and 297,000 cases.

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Increase Business License Fees from \$12 to \$50 Annually

Issue Priority: Revenue Generating Option #2

Revenue Generated (in general fund dollars):

FY2011 - \$9,500,000

FY2012 - \$9,500,000

Appropriation Required: \$140,000

FTEs Required: 4.0

Issue Description

Increase the business license fee from a one-time \$12 fee to a \$50 fee, renewable annually.

Current statute requires the payment of a \$12 one-time fee from taxpayers applying for a transaction privilege tax license, and that fee amount has been in place for at least 20 years. A study conducted by the Department in 2006 calculated the cost of printing and processing a transaction privilege tax license to be in excess of \$40. In a review of several Valley cities, the Department found that some cities are charging in excess of \$50 with an annual renewal.

Legal Citation:

Amend A.R.S. § 42-5005.A to increase the fee from \$12 to \$50 renewable annually. Draft language is available upon request.

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Outsource a Portion of the Collections Inventory

Issue Priority: Revenue Generating Option #3

Revenue Generated (in general fund dollars):

FY2011 - \$942,200

FY2012 - \$3,768,800

Appropriation Required:	FY2011	\$65,000
	FY2012	\$238,600

FTEs Required: 4.0

Issue description

The Department has statutory authority to outsource collection cases up to a maximum dollar amount of \$500. The \$500 threshold, however, is not profitable for many private collection agencies. This option would eliminate the cap and allow the Department to augment its collection staffing during high inventory periods.

Legal Citation:

Amend A.R.S. § 42-1004.B.3 to eliminate the \$500 outsourcing limit. Draft language is available upon request.

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Automate the Bank Levy Process

Issue Priority: Revenue Generating Option #4

Revenue Generated (in general fund dollars):

FY2011 - \$7,370,000

FY2012 - \$2,345,000

Appropriation Required:	FY2011	\$175,000
	FY2012	\$250,000

FTEs Required: -0-

Issue Description

The Department has statutory authority to conduct levies on a debtor's bank account but the current process is done manually and is very time consuming. Currently, collectors issue blanket levies to all financial institutions in a given geographical area in hopes of locating one that has a banking relationship with the delinquent taxpayer. It would be much more efficient for banks and for the Department if the Department could enter into an agreement with a vendor to conduct data matching electronically. The process would be similar to the one used by Department of Economic Security to facilitate the collection of unpaid child support.

Legal Citation:

Amend A.R.S. § 6-1601 and A.R.S. § 42-1202 to allow the Department to enter into an agreement with a vendor to conduct data matching electronically.

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Restore Audit Staffing to FY2009 Pre-RIF Levels

Issue Priority: Revenue Generating Option #5

Revenue Generated (in general fund dollars):

FY2011 - \$6,150,300

FY2012 - \$18,339,600

Appropriation Required:	FY2011	\$4,479,300
	FY2012	\$4,190,400

FTEs Required: 71

Issue description

This option restores funding for 71 of the 115 Audit Division positions that were terminated as a result of the FY2009 RIF. All but 5 of the 71 positions are auditors and license compliance officers. Hiring these positions will increase audit coverage of the three major tax types, transaction privilege and use tax, corporate income tax and individual income tax, while generating additional revenue for the state.

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Increase Collectors to Address Business Inventory

Issue Priority: Revenue Generating Option #6

Revenue Generated (in general fund dollars):

FY2011 - \$1,554,700

FY2012 - \$1,829,100

Appropriation Required:	FY2011	\$360,000
	FY2012	\$360,000

FTEs Required: 7

Issue description

The Department does not have adequate staffing to address all of its business tax inventory and this inventory is not appropriate for outsourcing to private collection agencies. This option proposes the Collections Division hiring 7 additional collectors to address 21,000 business tax cases with liabilities of over \$10 million.

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Align the Statute of Limitations with the IRS

Issue Priority: Revenue Generating Option #7

Revenue Generated (in general fund dollars):

FY2011 - \$769,800

FY2012 - \$2,914,400

Appropriation Required:	FY2011	\$275,500
	FY2012	\$238,600

FTEs Required: 4.0

Issue description

Prior to 1994, the Department did not have a limitation on the length of time it had to collect taxes. In that year, the Legislature passed a 10 year statute of limitations, which was further reduced to 6 years in 2001. In 2001, the Department had to write-off approximately \$53 million in tax liabilities because of the statutory change. From 2003 until 2007, the Department had to write-off another \$44 million.

This option proposes increasing the statute of limitations back to the 10 year period, which is the same limit imposed by the IRS for the collection of federal taxes.

Legal Citation:

Amend A.R.S. § 42-114, A.R.S. § 42-1151, A.R.S. § 42-1153, A.R.S. § 42-1201 and A.R.S. § 42-2066 to increase the statute of limitations from 6 years to 10 years. Draft language is available upon request.

**STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS**

Department of Revenue

Issue Title: Penalty for Mandated Electronic Payments

Issue Priority: Revenue Generating Option #8

Revenue Generated (in general fund dollars):

FY2011 - \$3,400,000

FY2012 - \$1,700,000

Appropriation Required: \$-0-

FTEs Required: 0.0

Issue description

The Department is recommending a penalty for those taxpayers who are already mandated to pay electronically by A.R.S. § 42-1129 and A.A.C. R-15-10-302.

A.R.S. § 42-1129 was passed in 1992 enabling the Department to collect tax revenue through electronic processes. The statute only applies to those taxpayers who pay transaction privilege, corporate income and withholding taxes. Administrative rules were created that set the mandated participation thresholds. The current mandated thresholds are established for: any withholding taxpayer who had an average Arizona quarterly withholding liability during the prior year of \$20,000.00 or more; any corporate taxpayer who had an Arizona income tax liability during the prior year of \$20,000.00 or more; and any transaction privilege taxpayer who had an annual liability during the prior calendar year of \$1 million or more. Although these taxpayers are mandated to pay electronically, A.R.S. 42-1129 is worded in such a way that it allows these taxpayers to continue to pay by check which requires Department employees to deposit the check manually.

As indicated by the thresholds, the population of taxpayers that will be affected by this proposal are the largest and most sophisticated business taxpayers in Arizona who already remit electronically to the Internal Revenue Service.

Based upon a determination of those mandated taxpayers who are not paying electronically, the Department anticipates revenues to increase by approximately \$11.6 million if those taxpayers who are mandated to make an electronic payment continue to pay by check. However, the Department does anticipate some change in behavior as a result of the new legislation and due to the time it will take the Department to effectively

implement the change, the anticipated revenue for fiscal year 2011 will be \$ 3,400,000.00 and \$1,700,000.00 for fiscal year 2012.

Legal Citation:

A.R.S. § 42-1129 is the statute that allows for electronic payment of transaction privilege, corporate income and withholding tax. The statutory recommendation is to change paragraph B. of that statute to remove the words “or any other means required by the department” which will change the meaning of “readily available monies” to be only those payments made electronically. The recommendation is also to remove 42-1129.D. and create a new 42-1129.D. to assess a 5% penalty on the payment amount for not making the payment electronically when a taxpayer is mandated to do so.

The Department estimates that the required computer system changes would take 8 months to complete, which would result in an effective date for the new law of March 2011.

STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS

Department of Revenue

Issue Title: Accounting Credit – Electronic Filing Requirement

Issue Priority: Revenue Generating Option #9

Revenue Generated (in general fund dollars):

FY2011 - \$3,900,000

FY2012 - \$4,466,700

Appropriation Required: \$-0-

FTEs Required: 0.0

Issue description

The Department is recommending that the transaction privilege tax (TPT) accounting credit should only apply to those taxpayers who file and pay electronically.

Currently, an accounting credit is available to TPT filers for their accounting and reporting expenses. The credit is one percent of the transaction privilege tax and severance tax due. The following conditions are required in order to take the accounting credit.

- The credit must be claimed by the taxpayer.
- The tax liability it applies to must be paid in full and on time.
- The return on which the credit is claimed must be timely.
- The total amount of credit claimed by a taxpayer in a calendar year may not exceed \$10,000.00.

On average, the accounting credit is taken by 68,748 taxpayers for a total amount of \$23,256,283.84 per year. Some of these taxpayers already file and pay electronically. If those taxpayers who now file and pay by paper continue that practice, the proposed change would result in an increase in TPT revenue of \$13,428,185.00 each year. However, it is estimated that half of those taxpayers who file and pay by paper would change to filing and paying electronically. As a result of that change in behavior, and considering the time it will take the Department to effectively implement the change, the more likely increase in TPT revenue would be \$3,916,554.00 in fiscal year 2011 and potentially \$4,466,700.00 in fiscal year 2012. Also, the State will begin to see a reduction in processing costs as electronic filing increases.

Legal Citation:

A.R.S. § 42-5017 would need to be modified by adding to paragraph B a statement that indicates that the taxpayer must file and pay electronically in order to receive the credit.

The Department estimates that the required computer system changes would take 8 months to complete which would result in an effective date for the new law of March 2011.

**.STATE OF ARIZONA
FY2011 REVENUE GENERATING OPTIONS**

Department of Revenue

Issue Title: Payroll Services – Electronic Filing Requirement

Issue Priority: Revenue Generating Option #10

Revenue Generated (in general fund dollars):

FY2011 - \$800,000

FY2012 - \$600,000

Appropriation Required: \$-0-

FTEs Required: 0.0

Issue description

The Department is recommending that all payroll service companies be required to file and pay electronically on behalf of their withholding tax clients. The recommendation is to assess a penalty on the payroll service company of \$25 per client per quarter for every client whose withholding tax return and withholding tax payment is not made electronically. Currently, the Department receives and processes 24,215 paper returns and paper checks in the amount of \$84,984,670 per quarter from payroll service companies.

If there is not a change in practice on the part of the payroll service companies, the proposed change would result in a revenue increase of \$2,421,500.00 each year. However, it is more likely that there will be some change in practice on the part of the payroll service companies and it will also take the Department several months to effectively implement the change. As a result, revenue would only increase in FY2011 by \$800,000. Additional change in practice on the part of the payroll service companies is anticipated for FY2012 and as a result, the increase in revenue would be approximately \$600,000. Also, the State will begin to see a reduction in processing costs as electronic filing increases.

Legal Citation:

Currently, there is no such statute requiring payroll service companies to file and pay electronically on behalf of their withholding tax clients. As a result, a new statute would be needed to require the electronic payment and filing from the payroll service companies

and also assess the \$25.00 penalty per client per quarter when the payment and or return is not filed electronically.

The Department estimates that the required computer system changes would take 10 months to complete which would result in an effective date for the new law of May 2011.