Department of Revenue

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	892.8	892.8	892.8
Personal Services	29,464,600	32,517,800	32,517,800
Employee Related Expenditures	12,641,000	14,065,200	14,065,200
Professional and Outside Services	10,210,500	10,640,700	10,640,700
Travel - In State	94,400	117,100	117,100
Travel - Out of State	38,300	52,600	52,600
Other Operating Expenditures	15,212,700	16,773,200	16,773,200
Equipment	933,700	221,600	221,600
OPERATING SUBTOTAL	**68,595,200**	**74,388,200**	**74,388,200** 1/
SPECIAL LINE ITEMS			
Proposition 312 - Property Tax Refund Administration Costs	0	500,000	0
BRITS Operational Support	7,440,900	8,005,200	8,005,200
E-Commerce Compliance and Outreach	937,000	981,200	981,200
Tax Fraud Prevention	3,144,300	3,170,800	3,170,800 2/3/
TPT Simplification	758,100	1,085,400	1,085,400
Unclaimed Property Administration and Audit	1,762,600	1,473,900	1,473,900 4/5/
AGENCY TOTAL	**82,638,100**	**89,604,700**	**89,104,700** 6/7/
FUND SOURCES			
General Fund	56,262,300	60,871,900	60,371,900
Other Appropriated Funds			
Department of Revenue Administrative Fund	24,244,100	27,077,000	27,077,000
Liability Setoff Program Revolving Fund	1,488,000	939,100	939,100
Tobacco Tax and Health Care Fund	643,700	716,700	716,700
SUBTOTAL - Other Appropriated Funds	26,375,800	28,732,800	28,732,800
SUBTOTAL - Appropriated Funds	**82,638,100**	**89,604,700**	**89,104,700**
Other Non-Appropriated Funds	1,649,000	1,652,600	1,652,600
TOTAL - ALL SOURCES	84,287,100	91,257,300	90,757,300

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/ The operating lump sum appropriation includes $2,000,000 and 25 FTE positions for additional audit and collections staff. (General Appropriations Act footnote)

2/ 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 Appropriations Act footnote)

3/ On or before November 1, 2026, the department shall report the results of private fraud prevention investigation services during fiscal year 2025-2026 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 2025-2026. (General Appropriations Act footnote)

4/ If the total value of properties retained by unclaimed property contract auditors exceeds $1,473,900, 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 Appropriations Act footnote)

5/ If the department of revenue incurs legal expenses to protect the unclaimed property program from legal challenges, the amount of unclaimed property legal expenses 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 unclaimed property legal expenses. The department may not transfer more than $1,500,000 from the general fund in fiscal year 2026-2027 for unclaimed property legal expenses. (General Appropriations Act footnote)

6/ The department of revenue shall report the department's general fund revenue enforcement goals for fiscal year 2026-2027 to the joint legislative budget committee on or before September 30, 2026. On or before September 30, 2027, 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 2026-2027. 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 2025-2026 and fiscal year 2026-2027, 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 2025-2026. (General Appropriations Act footnote)

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

Operating Budget

The Baseline includes $74,388,200 and 820.8 FTE Positions in FY 2027 for the operating budget. This amount consists of:

	FY 2027
General Fund	$50,220,600
DOR Administrative Fund	22,511,800
Liability Setoff Program Revolving Fund	939,100
Tobacco Tax and Health Care Fund	716,700

These amounts are unchanged from FY 2026.

Proposition 312 – Property Tax Refund Administration Costs

The Baseline includes no funding in FY 2027 for the Proposition 312 – Property Tax Refund Administration Costs. Adjustments are as follows:

Remove One-Time Administration Funds

The Baseline includes a decrease of $(500,000) from the General Fund in FY 2027 to remove funding for one-time initial costs of administering property tax refunds under Proposition 312. Pursuant to a FY 2026 budget footnote, this appropriation is exempt from lapsing until June 30, 2027.

Proposition 312 allows a property owner once per tax year to apply for a refund of primary property taxes as reimbursement of documented, reasonable expenses incurred to mitigate the effects of certain public nuisances. Property owners are required to apply to the Department of Revenue under the refund process established by Proposition 312.

Business Reengineering/Integrated Tax System (BRITS) Operational Support

The Baseline includes $8,005,200 and 51 FTE Positions in FY 2027 for operational support of BRITS. This amount consists of:

General Fund	4,913,900
DOR Administrative Fund	3,091,300

These amounts are unchanged from FY 2026.

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, FY 2024 and FY 2025 budgets included monies for the development of a new integrated tax system. The FY 2026 budget assumes additional funding in FY 2027, FY 2028 and FY 2029. *(Please see the Integrated Tax System Other Issues section and the Arizona Department of Administration – Automation Projects Fund narrative.)*

E-Commerce Compliance and Outreach

The Baseline includes $981,200 from the General Fund in FY 2027 for E-Commerce Compliance and Outreach (ECCO) administrative costs. This amount is unchanged from FY 2026.

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.

Tax Fraud Prevention

The Baseline includes $3,170,800 from the General Fund in FY 2027 for Tax Fraud Prevention. This amount is unchanged from FY 2026.

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 $75,506,300 million being paid to filers of fraudulent returns in Individual Income Tax returns in FY 2025.

TPT Simplification

The Baseline includes $1,085,400 and 19 FTE Positions from the General Fund in FY 2027 for TPT Simplification responsibilities. These amounts are unchanged from FY 2026.

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 Baseline includes $1,473,900 and 2 FTE Positions from the DOR Administrative Fund in FY 2027 for Unclaimed Property Administration and Audit. These amounts are unchanged from FY 2026.

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 $1,473,900.

A footnote allows the Department of Revenue to transfer up to $1,500,000 from the General Fund to the DOR Administrative Fund for incurred legal expenses regarding the unclaimed property program. A separate footnote appropriates the total value of properties retained by unclaimed contractors over $1,473,900, for contract auditor fees.

Other Issues

This section includes information on the following topics:

- Statutory Changes
- Long-Term Budget Impacts
- Integrated Tax System

Statutory Changes

The Baseline would:

- As permanent law, amend statutory references in A.R.S. § 42-5041 to align with the new Maricopa County Road Tax (effective on January 1, 2026) and the current funding schedule for the DOR Integrated Tax System project. The FY 2026 budget suspended funding in FY 2026 and assumes the final year of spending will occur in FY 2029. (*See the Integrated Tax System section below for more information.)*
- As session law, continue to stipulate legislative intent regarding the amount to be charged to all counties, cities, towns, Council of Governments and regional transportation authorities with a population greater than 800,000 for the Integrated Tax System project. This amount shall not exceed $6,286,300 for FY 2027. Each local government type (for example all counties share of the $6,286,300) is based on that government type's proportionate share of certain state and locally-collected revenues received by those local entities 2 fiscal years prior to the current fiscal year. This will also include the new Maricopa County Road Tax that becomes effective on January 1, 2026. *(See Table 2 in the Integrated Tax System section for a list of the tax categories used to calculate the assessments.)* Once each government type's share of the local assessment has been calculated, population is the basis for determining the apportioning of fees among counties as well as among cities and towns.
- As session law, continue to stipulate legislative intent that the amounts charged to the 16% recreational marijuana excise tax and the 0.6% education sales tax for the Integrated Tax System Project shall not exceed $169,800 and $762,300, respectively, in FY 2027.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, the Department of Revenue is allocated funding from the General Fund in FY 2028 and FY 2029 for the development costs of a new integrated tax system. The FY 2026 budget did not include funding in FY 2026 and the Baseline assumes the final year of spending occurs in FY 2029. *(See the Integrated Tax System section below for more information.)*

Integrated Tax System

The FY 2023 budget assumed 6 years of funding for a $104,827,600 new income tax modernization system. Of this total amount, $40,997,900 is assessed to certain state government funds, local governments, and other taxing authorities to recover a portion of costs for the system.

The long-term spending plan for the tax system assumed the costs would be allocated as follows: 1) 60.89% from the General Fund; 2) 34.06% from Local Governments; 3) 4.13% from the 0.6% Education Sales Tax; and 4) 0.92% from the 16% recreational marijuana excise tax. The non-General Fund sources (which total 39.11% of the project budget) are deposited into the Integrated Tax System Project Fund. (Please see *Table 1* below*)*.

For the calculation of cost allocations in FY 2027, the above percentages are applied to an FY 2027 project budget of $18,456,800, which reflects the original budgeted amount in that year prior to the FY 2025 budget shifting of $1,300,000 of General Fund monies from FY 2025 to FY 2027 *(see Footnote 1 in Table 1 below)*. With the inclusion of the previously shifted $1,300,000 from the General Fund, FY 2027 funding totals $19,756,800 as shown in *Table 1*.

The FY 2027 Baseline includes a transfer of $12,538,400 from the General Fund and a transfer of $7,218,400 from the Integrated Tax System Project Fund to the Automation Projects Fund (APF) for the project. The sum of $19,756,800 is then appropriated from the APF.

Table 1

Integrated Tax System Annual Funding

	General Fund	Integrated Tax System Project Fund	Total
FY 2023	$9,632,700	$6,187,100	$15,819,800
FY 2024 1/	10,494,100	7,575,300	18,069,400
FY 2025	11,847,300	7,609,500	19,456,800
FY 2026	0	0	0
FY 2027	12,538,400	7,218,400	19,756,800
FY 2028	7,591,700	4,876,300	12,468,000
FY 2029 2/	11,725,500	7,531,300	19,256,800
Total	**$63,829,700**	**$40,997,900**	**$104,827,600**

1/ The FY 2024 budget transferred $11,794,100 from the General Fund to the DOR APF Subaccount for this project. The FY 2025 budget transferred $1,300,000 back to the General Fund and increased the FY 2027 General Fund allocation by $1,300,000.

2/ The amount displayed in the FY 2029 allocation was previously intended to be appropriated in FY 2026. This appropriation was shifted to a later year to accommodate project delays.

The FY 2026 budget shifted the FY 2026 costs of $19,256,800 to FY 2029 as shown in *Table 1*.

The FY 2027 Baseline restores the local sharing costs suspended in the FY 2026 Budget by a provision in the Revenue Budget Reconciliation Bill, and assumes the final year of funding will occur in FY 2029.

The FY 2027 Baseline restores session law that specifies that local governments be charged an assessment for project costs in FY 2027 and amends permanent law to align with the new Maricopa County Road Tax (effective 1/1/2026) and extend the statutory authorization of the assessment to cover the current funding schedule through FY 2029.

For the non-General Fund costs, budget legislation in FY 2027 will again specify the amount to be charged to all counties, cities, towns, Council of Governments and regional transportation authorities with a population greater than 800,000 for the Integrated Tax System project.

The total local government amount will equal 34.06% of the FY 2027 project costs. Each local government type (for example, all counties share of the local government amount) is based on that government type's proportionate share of certain state and locally-collected revenues received by those local entities 2 fiscal years prior to the current fiscal year. (See *Table 2* for a list of the tax categories used to calculate the assessments.) Once each government type's share of the local assessment has been calculated, population is the basis for determining the apportioning of fees among counties as well as among cities and towns.

The FY 2027 budget will also include legislative intent regarding the amounts charged to the 16% recreational marijuana excise tax (0.92% of annual project costs) and the 0.6% education sales tax (4.13% of annual project costs), with those amounts being deposited into the Integrated Tax System Project Fund in FY 2027.

Combined, the FY 2027 amounts charged to local governments along with the marijuana excise tax and education sales tax charges will total the $7,218,400 amount displayed in *Table 1.*

Table 2

State and Locally-Collected Tax Categories Used for Allocation of DOR Tax System Charges

Tax Category/Distribution	ARS Statutory Reference
State TPT Revenue Sharing	42-5029
Municipal TPT	42-6001
County Excise Tax	42-6103
Maricopa County Road Tax	42-6105 (Thru 12/31/25)
Maricopa County Road Tax	42-6105.01 (Eff. 1/1/26)
Pima County Road Tax	42-6106
County Road Tax	42-6107
County Hotel Tax	42-6108/41-6108.01
County Jail Excise Tax	42-6109/42-6109.01
County – Electricity Use Tax	42-6110
County Capital Projects Tax	42-6111
County Judgment Bonds Tax	42-6112
Urban Revenue Sharing	43-206

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate

Department of Revenue Administrative Fund (RVA2463/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.

Purpose of Fund: To cover DOR's operating costs including unclaimed property contract auditors and the handling, publicizing and selling of abandoned property.

Funds Expended	24,244,100	27,077,000
Year-End Fund Balance	6,069,900	3,492,900

Department of Revenue Integrated Tax System Project Fund (RVA2610/A.R.S. § 42-5041) **Appropriated**

Source of Revenue: Monies deposited into the fund from fees charged to local governments (including councils of governments and regional transportation authorities with a population of more than 800,000) and revenues transferred from the 0.6% education sales tax and the 16% recreational marijuana excise tax. Statute requires DOR to charge the fee to local governments and implement the tax revenue transfers from FY 2023 to FY 2029 to recover a portion of the administrative, development and other operating costs of a new integrated tax system.

Purpose of Fund: To contribute to DOR's administrative, development and other operating costs incurred in implementing the new integrated tax system at the department. Each year, all monies in the fund are transferred to the Department of Revenue Automation Projects Fund Subaccount within the Arizona Department of Administration.

Funds Expended	0	0
Year-End Fund Balance	0	0

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.

Funds Expended	0	0
Year-End Fund Balance	414,200	414,200

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 (known as unclaimed property). Unclaimed property includes intangible personal property such as bank and savings accounts, safe deposit boxes and contents, traveler's checks, money orders, stocks or other equity interest, principal on debt, demand or savings deposits, customer credits, insurance settlements, property received or held by a court, wages, retirement accounts, and other miscellaneous types of property that are presumed abandoned according to the schedule set out in statute. Property is typically considered "abandoned" after 3 years. As outlined in A.R.S. § 44-313, A.R.S. § 41-180 and other statutes, certain types of unclaimed property are deposited into other funds.

Purpose of Fund: To pay allowed claims and make any required statutory distributions. DOR retains at least $100,000 of the fund prior to year-end transfers while the state attempts to pay out claims. Once monies are determined to be "unreturnable" they are disbursed as follows: 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 deposited in the General Fund.

Funds Expended	0	0
Year-End Fund Balance	2,115,300	2,115,300

I Didn't Pay Enough Fund (RVA1031/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	0	0

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
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.		
Purpose of Fund: To assist the Tobacco Revenue unit in enforcement compliance.		
Funds Expended	1,105,700	1,087,800
Year-End Fund Balance	516,500	167,400
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. DOR 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 DOR's costs of administering the Liability Setoff program and for general operating expenditures.		
Funds Expended	1,488,000	939,100
Year-End Fund Balance	135,100	1,419,000
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	32,800	33,300
Year-End Fund Balance	17,700	17,700
Smart and Safe Arizona Fund (RVA1120/A.R.S. § 36-2856)		**Non-Appropriated**
Source of Revenue: The fund receives revenues from a 16.0% excise tax on the sale of recreational marijuana products and license and registration fees.		
Purpose of Fund: To pay administrative costs incurred by DOR to implement the provisions of Proposition 207, which legalized the adult use of recreational marijuana. The funds expended line represents DOR's costs to administer and collect the 16.0% marijuana excise tax.		
Funds Expended	510,500	531,500
Year-End Fund Balance	25,100	0
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. § 42-1004 (B)(3). The remainder of the collected amounts is distributed to the state or political subdivisions according to the distribution proportions for the tax collected. Contingency fees paid to collectors are subtracted from gross collections and are not recorded as expenditures within the fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Statewide Employee Recognition Gifts/Donations Fund (RVA2449/A.R.S. § 41-709)		**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	100	100

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
Tax Fraud Interdiction Fund (RVA3050/A.R.S. § 42-1116.02)		**Appropriated**
Source of Revenue: Fines up to $100,000 for individuals and $500,000 for corporations for the sale, use, purchase, development, possession, or licensing of any automated sales suppression device/service, zapper, or phantom-ware used to evade tax administration		
Purpose of Fund: Of the monies in the fund, 50% are to be used by DOR to detect tax fraud caused by automated sales suppression software/service, zappers or phantom-ware. The other 50% are transferred to the Attorney General's office for prosecution of the same tax fraud and other tax fraud violations.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Tobacco Tax and Health Care Fund (RVA1309/A.R.S. § 36-771)		**Appropriated**
Source of Revenue: The fund consists of tobacco taxes retained by DOR to administer the Tobacco Tax program.		
Purpose of Fund: To monitor and enforce tobacco tax laws.		
Funds Expended	643,700	716,700
Year-End Fund Balance	8,800	8,800
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. Laws 2025, Chapter 122 extended the repeal of this fund from Dec. 31, 2025 to Dec. 31, 2028.		
Funds Expended	0	0
Year-End Fund Balance	0	0