

# STATE OF ARIZONA

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Department of Revenue  
Audit Division



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Vincent G. Perez  
Assistant Director

The Honorable Senator Yarbrough  
Arizona State Senate  
1700 W. Washington  
Phoenix, AZ 85007-2890

Dear Senator Yarbrough:

The following information is provided to address concerns raised during SB 1165; Municipal Taxes; Auditors and Collections discussions about the Department of Revenue's tax administration efforts for the program cities.

- **The Department Does Not Charge Program Cities a Fee**

From the inception of the city program, the Department has never charged any program city a fee for its tax administration. However, from January 2003 through December 2009, while the Department was paying for the BRITS computer system, the cities and counties contributed approximately \$19 million towards the total BRITS cost of just over \$153 million through program city and county collections and revenue sharing. During this same period, DOR collected and distributed \$15.2 billion for city and county collections and revenue sharing. This \$19 million equates to a contribution of approximately 1/10<sup>th</sup> of 1% of the cities' and counties' collections. The rationale behind their contribution was that the cities and counties would also benefit from a more efficient and updated system. Lastly, the cities were made aware, in advance, that they would be contributing to the payment of the system. The BRITS project is completed and is paid in full.

- **The Department Distributes Revenues Timely**

The Department instructs the Treasurer's Office to distribute revenues to the program cities three to four times a month, usually on Fridays. In reality, the Department begins the distribution process before all of the months' revenue has been received. In fact, if a business submits an error-free return and an electronic payment is received by Thursday, the Department will instruct the Treasurer's Office to distribute the money the next day with the weekly Friday distribution.

- **The Department Promptly Accounts for Monthly City Revenues**

Businesses generally remit money to the Department between the 20<sup>th</sup> and the next to last business day of the month following the sales activity. These deadlines are

set by the Arizona Revised Statutes (the Model City Tax Code imposes similar taxpayer reporting and payment deadlines to the cities). Over the past several months, the City Payment Journal (“CPJ”), which is a monthly accounting of all monies paid to each city by each business, has been available to city personnel within two working days (and in many cases, one working day) after the month-end TPT close.

- **The Department Provides Prompt Tax Administration Services**

The Department has a team of employees dedicated to monitoring collection activity and communicating with the cities. This team consistently contacts city personnel when unusual activity, either positive or negative, is about to impact their revenue stream. Additionally, an audit manager is specifically assigned to handle city issues. This manager timely and thoroughly responds to the cities’ needs and is regularly complimented for her efficiency and accuracy.

The Department also has a unit in the Audit Division that, in pertinent part, conducts four major programs dedicating to generating city tax dollars. They are; city auto, city canvassing, building permits and city leads.

The Audit Division also completes field audits for the cities. Since FY 2003, 12,727 audits totaling \$43,313,873.11 have been completed for the cities.

- **Policy Considerations**

Allowing cities to contract out their tax collection and audit responsibilities to private, for-profit companies has serious public policy implications. First, there is an obvious conflict of interest if compensation for the performance of auditing and collecting services is based on the amount of dollars assessed or collected. Accordingly, the Arizona Revised Statutes provides in the Taxpayers’ Bill of Rights that Department employees cannot be compensated on the basis of taxes assessed or collected. Even if the outside company compensates employees on a straight hourly basis, the company makes more money if more dollars are assessed and collected, so there is always the risk of compromising fairness and objectivity with respect to taxpayers.

Secondly, having two different taxing “authorities” applying the tax laws would undoubtedly lead to situations where taxpayers would be subject to different interpretations of the same law, particularly when one of the “authorities” is motivated by monetary gain. Consistency of application and predictability are two of the most sought after characteristics of any taxing structure, both of which would be jeopardized by having multiple taxing “authorities”.

Finally, there is significant oversight of the Department to ensure that taxpayers are treated fairly and that the Department operates within its statutory framework. As part of the Executive branch of government, the Department is supervised by the

Governor, subject to oversight by the Legislature and regularly audited by the Auditor General's Office. Those checks and balances would not be present if cities are allowed to contract out their audit and collection functions to private companies.

I hope this information addresses the concerns raised about the Department's efforts and helps clarify the level of service the Department provides the program cities. If you have any questions or need additional clarification on this matter, please contact me at [vperez@azdor.gov](mailto:vperez@azdor.gov) or (602) 716-6552.

Sincerely,

Vincent G. Perez  
Assistant Director  
Audit Division

cc: Michael Hunter, Office of the Governor, Director, Legislative Affairs