

# ARIZONA DEPARTMENT OF REVENUE

## FY 2007 ANNUAL REPORT

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# STATE OF ARIZONA

Department of Revenue



November 15, 2007

The Honorable Janet Napolitano  
Governor  
State of Arizona  
1700 West Washington Street  
Phoenix, Arizona 85007

Janet Napolitano  
Governor

Gale Garriott  
Director

Dear Governor Napolitano and the Taxpayers of Arizona:

Fiscal year 2007 was another milestone year in that we collected more than \$14 billion as an agency. Total taxes collected by the department during fiscal year 2007 exceeded \$14.4 billion, including more than \$8.7 billion that was deposited directly into the state General Fund. Included in this total is \$585.9 million that was collected through the department's tax enforcement efforts. By collecting \$585.9 million through the audit, license compliance, and collections programs, the department exceeded the \$461 million target set at the beginning of the year, performing at 126% of goal.

One area to highlight this year is the Audit division's "Nexus" program. The Nexus Program assists businesses involved in multi state commerce to voluntarily resolve potential state sales/use tax and/or income/franchise tax liabilities where nexus is the central issue. Taxpayers benefit by resolving potential Arizona tax disputes before being assessed with prior year audits of taxes, interest and penalties. Between identifying nexus candidates and administering the Voluntary Disclosure Program, the Nexus Unit collected over \$40M in taxes for fiscal year 2007. This was quite an accomplishment for the two person unit!

Another noteworthy highlight is that the Department processed over 1.3 million electronically filed income tax returns during the last tax season. Interest in alternatives to paper filing has increased over the past few years and DOR's commitment to provide further opportunities has grown accordingly.

The Department's major revenue contributions were achieved while still performing other services at high performance levels and working through the continuing implementation of the Business Reengineering/Integrated Tax System (BRITS) project. Information Technology's focus continues to be on support for data conversions to the new BRITS platform and ongoing maintenance of Legacy and BRITS systems. The successful conversion of the corporate tax system to BRITS occurred in September. Department resources are already actively working on the conversion of the income tax system to BRITS, which will occur in fiscal year 2008.

As we go forward, we will continue to address our three core goals as outlined in our strategic plan:

- To increase our return on investment; we focus on issues of increased productivity and cost effectiveness throughout the agency.
- To increase customer and stakeholder satisfaction; we focus on customer feedback to learn what we are doing well and where we need improvement so we can target our process improvement efforts appropriately.
- To increase employee satisfaction; we focus on our employees and their job performance and satisfaction.

We hope you enjoy reading our Annual Report and find it informative. If you have any questions or comments, please feel free to contact me.

Sincerely,

Gale Garriott  
Director

# **DEPARTMENT ORGANIZATION**

Organization & Organization Chart

Strategic Plan Highlights

Administrative Services

Audit

Collections

External Services & Special Projects

Information Technology

Process Administration

Property Tax

Taxpayer Services

Tax Policy & Research

# Organization

The mission of the Arizona Department of Revenue is to administer tax laws fairly and efficiently for the people of Arizona. It is our vision that we set the standard for tax services.

Tax laws that fall under the department's purview are primarily in the areas of income, transaction privilege (sales), use, luxury, withholding, property, estate, fiduciary, bingo, and severance.

The director is responsible for the direction, operation, and control of the department to ensure that the administration and collection of taxes are cost effective and performed with high quality to meet taxpayers' needs.

Reporting to the director is the deputy director, who assists the director in the day-to-day operations of the department and who serves as acting director when the director is absent. Also reporting to the director is the problem resolution officer, who acts as the taxpayer advocate within the department.

Reporting to both the director and deputy director is the chief internal auditor, who oversees the internal audit team and acts as liaison with external auditors.

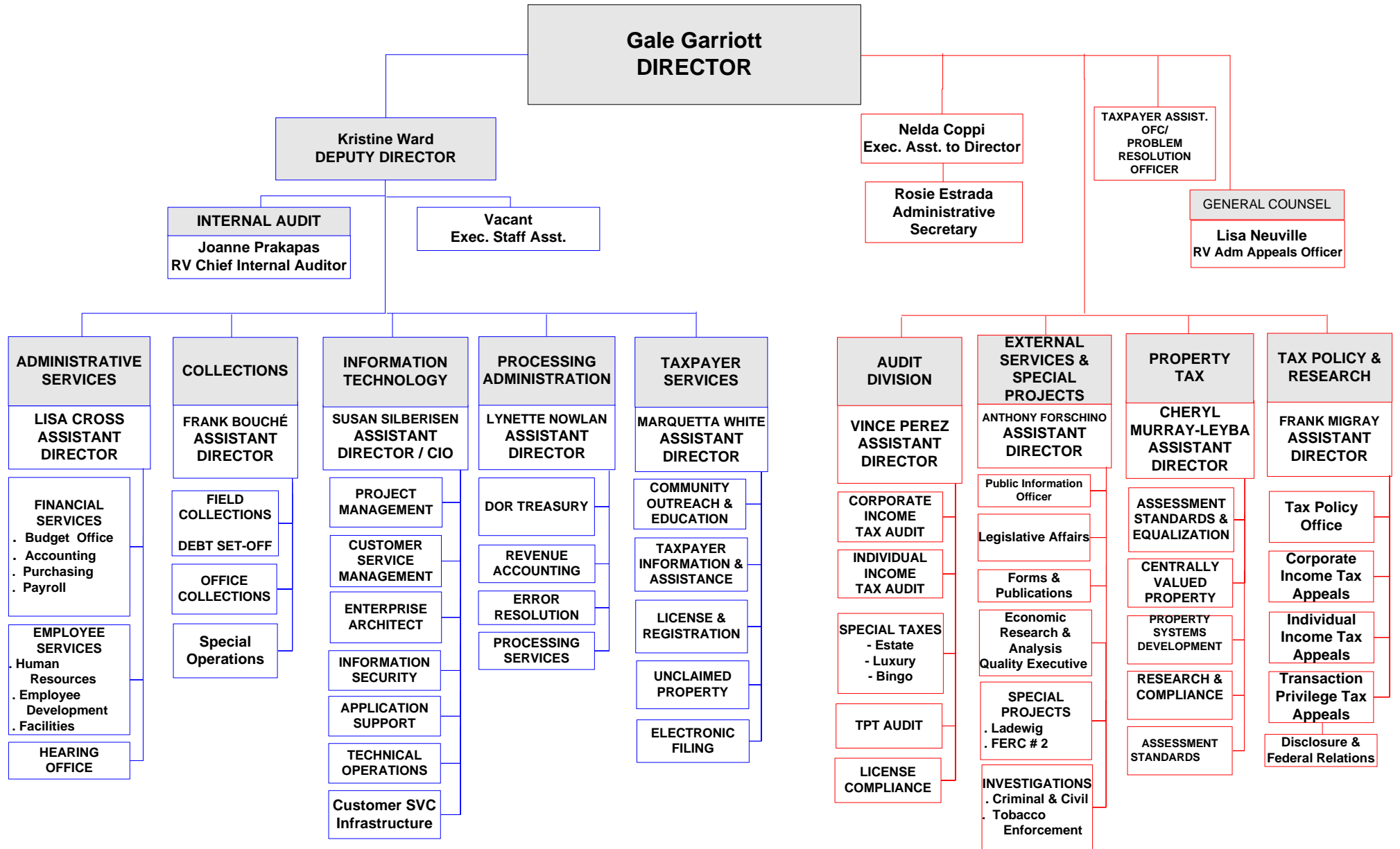
The department is organized into nine divisions, each managed by an assistant director. Divisions include: Administrative Services, Audit, Collections, External Services and Special Projects, Information Technology, Process Administration, Property Tax, Taxpayer Services, and Tax Policy and Research. Each division performs specific functions which are integrated to achieve the department's major external objectives of efficient tax collection and processing, timely enforcement of tax laws, and accurate valuation of property.

The department is currently undertaking an effort to reengineer its business processes and update its tax administration systems. This project, the Business Reengineering and Integrated Tax Systems (BRITS), is managed by the department's Information Technology division. The project management team includes a Project Manager that reports to the Assistant Director of the Information Technology division. The Project Manager is responsible for coordinating the department's efforts with those of the vendor contracted to assist the department with the BRITS project.

The BRITS project is benefits funded and there are three types of benefits that comprise the funding stream: efficiency dollars, license compliance dollars, and discovery dollars. Until the contract is paid in full, efficiency and license compliance dollars are shared with the department's vendor on an 85/15 split. The 85% goes toward paying the costs of the project while the 15% is retained by the state, county or city on whose behalf the tax is collected. Discovery dollars are not shared but are 100% attributable to the vendor.

In fiscal year 2007, \$15.4 million in discovery benefits, \$80.6 million in efficiency benefits, and \$46.9 million in license compliance benefits were recognized. Through fiscal year 2007 the department generated nearly \$93 million more in benefits than are needed to pay the vendor.

# ARIZONA DEPARTMENT OF REVENUE



# Strategic Plan Highlights

## MISSION, VISION, VALUES

A Mission Statement is an explanation of purpose for why an organization exists. Our Mission Statement is “To administer tax laws fairly and efficiently for the people of Arizona.”

A Vision statement tells what an organization wants to become or what it hopes to achieve. Our Vision Statement is “Setting the standard for tax services.”

Our company culture is defined by embracing Values that are shared among all employees. Values set the ground rules for how we conduct business. Our Values for fiscal year 2007 are:

- Innovation – We encourage each other to think creatively.
- Integrity – We strive to exhibit the highest standards of ethics and encourage employees to take a personal responsibility in making decisions based on facts.
- Quality – We strive to do things right the first time and continually look for ways to improve.
- Respect – We believe that all customers and employees should be treated with dignity.
- Results – We choose our strategies based on desired outcomes.
- Teamwork – We believe that the best way to achieve excellence is together.

## GOALS AND OBJECTIVES

We continue to focus on our three core goals in fiscal year 2007:

- To maximize our return on investment.
- To maximize customer and stakeholder satisfaction.
- To maximize employee satisfaction.

## KEY MEASURE RESULT HIGHLIGHTS

The results of twenty key measures for fiscal year 2007 follow with a comparison to prior years.

## TOTAL GROSS REVENUES COLLECTED

Detailed gross revenues are reported under Table 1. There was an increase in revenue in all tax types in fiscal year 2007.

### FY06

Transaction Privilege Tax ....	\$7,210,783,723
Income & Withholding .....	\$4,672,595,539
Corporate .....	\$ 978,239,759
Other .....	\$ 372,709,725
Total .....	\$13,234,328,747

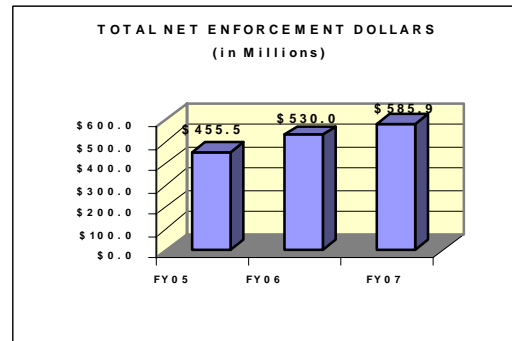
### FY07

Transaction Privilege Tax ....	\$7,820,458,912
Income & Withholding .....	\$4,972,237,335
Corporate .....	\$1,070,710,516
Other .....	\$ 537,830,441
Total .....	\$ 14,401,237,204

## TOTAL NET ENFORCEMENT DOLLARS

The enforcement numbers reported are the amounts in net dollars of revenue generated by the audit, collections and license compliance enforcement programs.

FY05 .....	\$ 455,564,124
FY06 .....	\$ 530,000,447
FY07 .....	\$ 585,929,679



**NET ENFORCEMENT BREAKDOWN BY ENFORCEMENT PROGRAM**

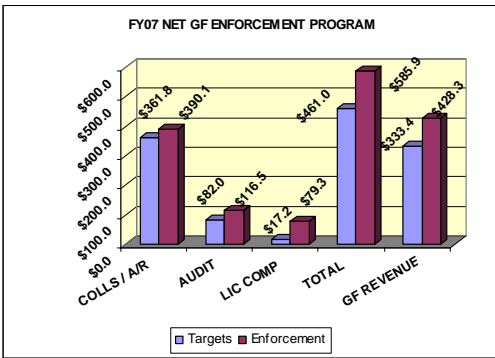
This chart recaps each program’s contribution to total enforcement collections. General Fund distribution information is included.

**FY07 Net Targets**

Collections/Accounts Receivable ...	\$361.8M
Income, Corporate, TPT Audit .....	\$ 77.8M
License Compliance.....	\$ 17.2M
Enforcement Revenue .....	\$457.0M
General Fund Revenue .....	\$331.0M

**FY07 Net Actual**

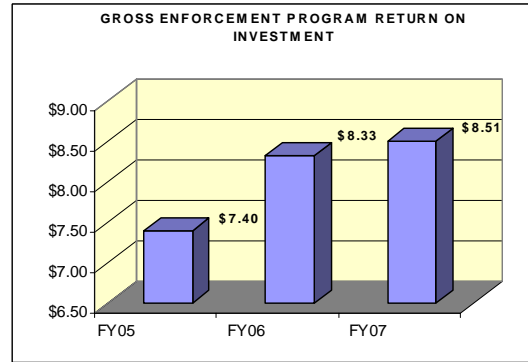
Collections/Accounts Receivable ...	\$390.1M
Income, Corporate, TPT Audit .....	\$116.5M
License Compliance.....	\$ 79.3M
Enforcement Revenue .....	\$585.9M
General Fund Revenue .....	\$428.3M



**ENFORCEMENT PROGRAM RETURN ON INVESTMENT**

The enforcement program return on investment is calculated by taking the total enforcement dollars collected as they relate to each dollar spent in the DOR budget.

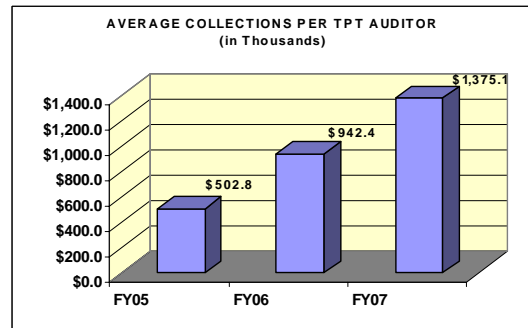
FY05 .....	\$7.40
FY06 .....	\$8.33
FY07 .....	\$8.51



**AVERAGE COLLECTIONS PER TRANSACTION PRIVILEGE TAX AUDITOR (IN THOUSANDS)**

Average collections per auditor include those from the field, desk, and license compliance audit areas. Increases resulted from success in the License Compliance program.

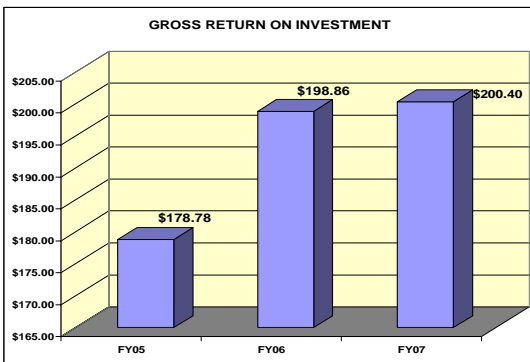
FY05 .....	\$502.8
FY06 .....	\$942.4
FY07 .....	\$1,375.1



**RETURN ON INVESTMENT**

Return on investment is calculated from the gross revenue dollars generated as it relates to each dollar spent in the DOR budget.

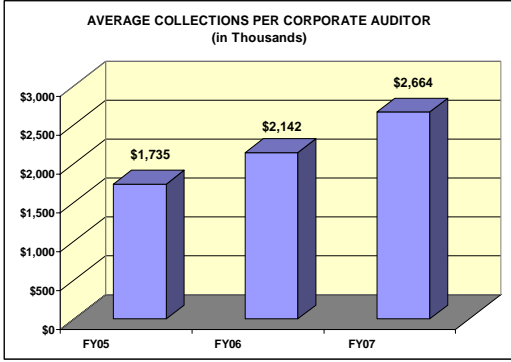
FY05 .....	\$178.78
FY06 .....	\$198.86
FY07 .....	\$200.40



**AVERAGE COLLECTIONS PER CORPORATE AUDITOR (IN THOUSANDS)**

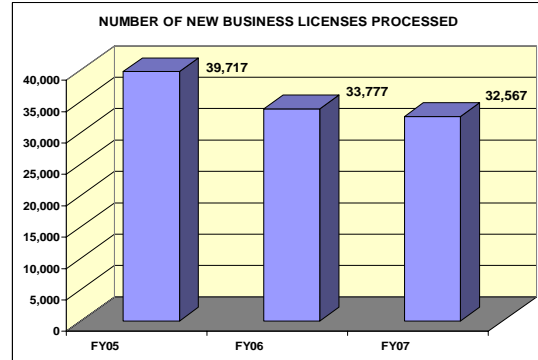
Average collections per corporate auditor increased as new auditors completed their training.

FY05 .....	\$1,735
FY06 .....	\$2,142
FY07 .....	\$2,664



**NUMBER OF NEW BUSINESS LICENSES PROCESSED**  
 The number of licenses issued includes those issued via AZTaxes on-line applications, as well as those mailed to the License and Registration section or received at the counter.

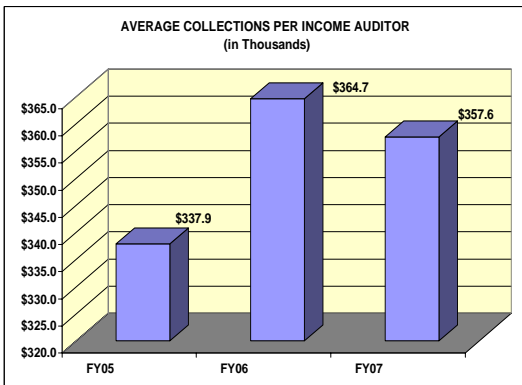
FY05 .....	39,717
FY06 .....	33,777
FY07 .....	32,567



**AVERAGE COLLECTIONS PER INDIVIDUAL INCOME AUDITOR (IN THOUSANDS)**

Staff decreased in fiscal year 2007 accounting for the decline in per auditor collections.

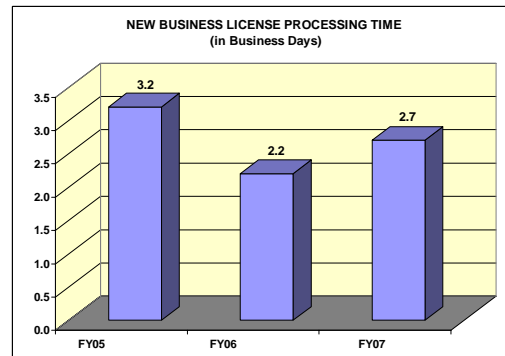
FY05 .....	\$337.9
FY06 .....	\$364.7
FY07 .....	\$357.6



**NEW BUSINESS LICENSE TURNAROUND TIME**

New business license processing turnaround times reflect mailed applications. Although the turnaround time increased compared to fiscal year 2006, the section did achieve their target by averaging less than three business processing days.

FY05 .....	3.2 days
FY06 .....	2.2 days
FY07 .....	2.7 days

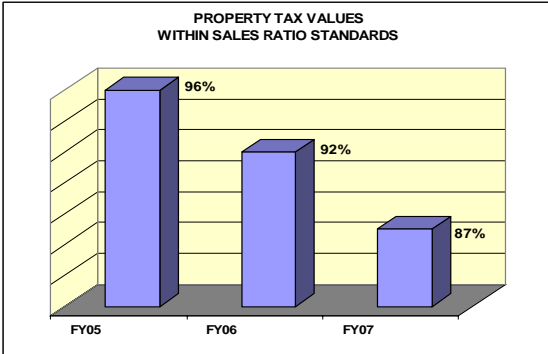




**PROPERTY TAX – ACCURACY OF PROPERTY VALUES IN RELATION TO MARKET VALUE**

Property is required to be valued within an acceptable range of market value. Overall, 87% of properties within areas where there are an adequate number of sales, are valued in accordance with statutory valuation levels.

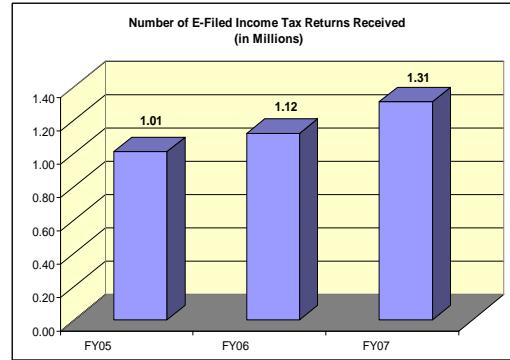
FY05 .....	96%
FY06 .....	92%
FY07 .....	87%



**TOTAL NUMBER OF E-FILED INDIVIDUAL INCOME TAX RETURNS RECEIVED**

Tax returns submitted via electronic filing are processed virtually error free. Interest in alternative filing has been increasing over the last few years.

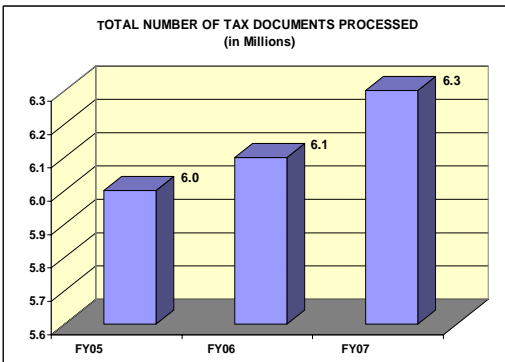
FY05 .....	1.01M
FY06 .....	1.12M
FY07 .....	1.31M



**TOTAL NUMBER OF TAX DOCUMENTS RECEIVED**

Documents consist of paper and electronic tax returns.

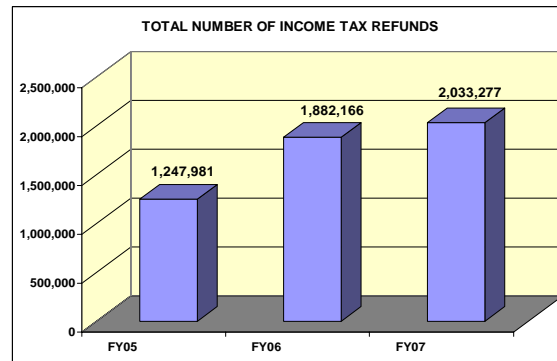
FY05 .....	6.0M
FY06 .....	6.1M
FY07 .....	6.3M



**TOTAL NUMBER OF INDIVIDUAL INCOME TAX REFUNDS**

The total number of income tax refunds processed includes both electronic direct deposits and paper refund warrants. Over 1 million refunds have been processed each year.

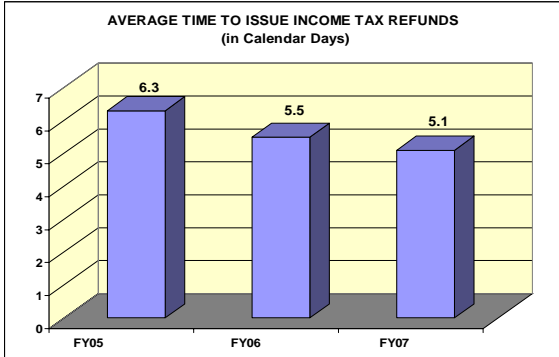
FY05 .....	1.25M
FY06 .....	1.88M
FY07 .....	2.03M



**AVERAGE TIME TO ISSUE INCOME TAX REFUNDS**

The average time to process an income tax refund is measured in calendar days. The data includes cycle times for both paper and electronic refunds. Each year, more of the population takes advantage of electronic filing opportunities. A portion of those electronic filers also prefer to receive their refunds electronically via direct deposit.

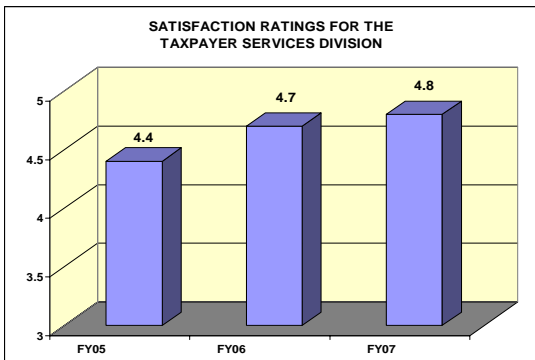
FY05 .....	6.3 days
FY06 .....	5.5 days
FY07 .....	5.1 days



**TAXPAYER SATISFACTION RATINGS FOR THE TAXPAYER SERVICES DIVISION**

These scores were received from taxpayers rating the services of the employees in the Taxpayer Services division's *Taxpayer Information & Assistance* call center. (All satisfaction ratings tracked at the department have a 1 to 5 scale, 5 being the highest rating.)

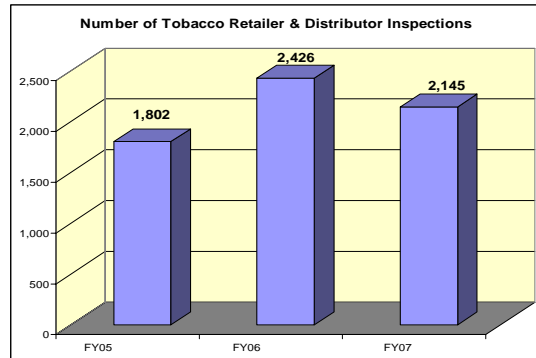
FY05 .....	4.40
FY06 .....	4.70
FY07 .....	4.80



**NUMBER OF TOBACCO RETAILER AND DISTRIBUTOR INSPECTION VISITS COMPLETED**

Tobacco inspection visits serve multi-purposes including providing education to retailers and distributors, fulfilling legislative requirements, and identifying seizure opportunities.

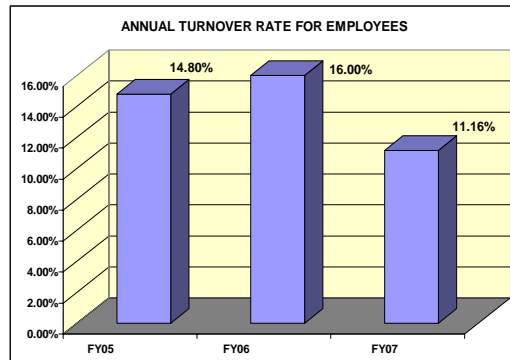
FY05 .....	1,802
FY06 .....	2,426
FY07 .....	2,145



**AVERAGE ANNUAL TURNOVER RATE FOR EMPLOYEES**

Although there is no direct control over employee turnover, this measure is typically tracked in the public and private sectors as a standard indicator of employee satisfaction.

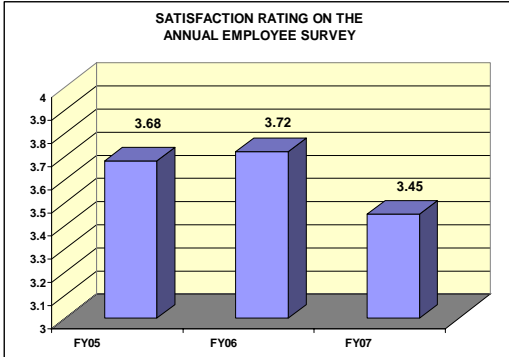
FY05 .....	14.80 %
FY06 .....	16.00 %
FY07 .....	11.16 %



**OVERALL AVERAGE SATISFACTION RATING ON THE ANNUAL EMPLOYEE SURVEY**

The annual employee satisfaction survey is an opportunity to see how we are doing as an agency. We are looking into some areas in need of improvement. (All satisfaction ratings tracked at the department have a 1 to 5 scale, 5 being the highest rating.)

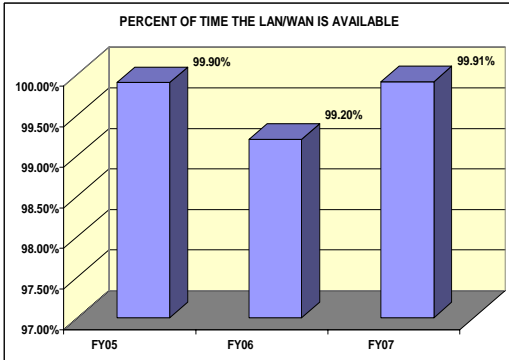
FY05 .....	3.68
FY06 .....	3.72
FY07 .....	3.45



**PERCENT OF TIME THE LOCAL AND WIDE AREA NETWORK (LAN/WAN) IS AVAILABLE.**

Local and wide area network availability is a good measure for the Information Technology Division to assess their ability as a service provider.

FY05 .....	99.9 %
FY06 .....	99.2 %
FY07 .....	99.9 %



The twenty key measures reported here serve as a general overview of how the department is progressing in line with the strategic plan. The strategic plan keeps us aligned with our Mission, Values, and Vision and our day to day performance as a department.

# ADMINISTRATIVE SERVICES

**Mission Statement:** *To provide support and expertise in delivering excellent services by understanding our products and customers.*

The vision of the Administrative Services Division is to be the leader in innovative and proactive customer support.

The Administrative Services Division is responsible for the oversight of the department's financial and employee services. Programs administered by the division include the Employee Recognition Program, Travel Reduction Program and the Employee Suggestion Program. The division consists of the following sections/units:

## **Accounting**

The Accounting Unit, which is part of the Financial Services Section, processes accounts payable invoices, provides travel services including employee reimbursement, and oversees the fixed assets inventory.

## **Budget Office**

The Budget Office, which is part of the Financial Services Section, is responsible for monitoring current year expenditures against the approved budget, coordinating preparation of the department's budget, providing staff and operating budget information and analysis to the director and the department's Leadership Team.

## **Employee Development**

The Employee Development Unit, which is part of the Employee Services Section, provides centralized training for the department's employees. The role of the unit's trainers is to develop and deliver in-house training for agency-specific activities such as taxation, computer tax systems, and confidentiality guidelines. The unit offers classroom presentations; narrative self-study and computer based training courses, and coordinates with the Arizona Government University training program.

## **Facilities Management**

The Facilities Management Section coordinates building facility maintenance, remodeling office areas at the department's four buildings and coordinates capital improvements to the building in cooperation with the Arizona Department of Administration (ADOA). Facilities Management also receives and logs all goods and supplies purchased by the

department; processes building security access requests; maintains temporary and vendor security access badges, monitors employee parking, and manages the security guards. The section oversees safety issues such as evacuation drills, safety inspections and other risk management issues.

## **Hearing Office**

The Hearing Office holds hearings and issues written decisions on protests of department assessments and refund denials relating to income tax, withholding tax and estate tax.

## **Human Resources**

The Human Resources Unit, which is part of the Employee Services Section, is responsible for administering personnel activities for the department. This includes consultations with management concerning employee relations and discipline, classifications of positions and reorganizations, recruitment, and staffing. The Human Resources Unit is also responsible for processing all personnel actions, new employee orientation, the employee benefits program, and interpreting the Department of Administration Personnel rules and implementing policies. The Section also oversees the Affirmative Action/Equal Employment Opportunity responsibilities as well as Americans with Disabilities issues.

## **Payroll**

The Payroll Unit, which is part of the Financial Services Section, is responsible for oversight of the employee payroll, which includes accurate tracking of hours worked, leave taken and payroll deductions. The unit also oversees risk management issues.

## **Purchasing**

The Purchasing Unit, which is part of the Financial Services Section, is responsible for contracting and purchasing all goods and services required by the department. This includes furniture and supplies along with the printing of tax booklets and forms for the department. The unit also oversees all contract and maintenance agreements.

## **HIGHLIGHTS IN FISCAL YEAR 2007**

- Continued enhancements of the Human Resources Information Solution (HRIS) System.
- Accounting processed 99% of all invoices within 30 days.
- DOR was recognized as being one of 25 agencies to pay invoices for the AzNet Communications within 15 days of receipt, scoring the department a 2% discount overall.
- Employee Development completed the BRITS (Business Reengineering Integrated Tax System) Release 2 training for corporate income tax.
- Responded to 97% of building maintenance work orders within 24 hours.
- The Hearing Office resolved 157 cases during the fiscal year.

# AUDIT

**Mission Statement:** *To promote voluntary compliance by auditing, identifying common areas of non-compliance and educating taxpayers.*

The Audit Division consists of the Corporate Income Tax Audit, Individual Income Tax Audit, Transaction Privilege and Use Tax Audit and Special Taxes sections. Our mission is to promote voluntary compliance by auditing, identifying common areas of non-compliance and educating taxpayers. We do this with an emphasis on treating the diverse taxpayer base fairly, consistently and respectfully.

Our staff members are professional, courteous employees whose expertise reflects in their performance and achievement of audit goals. We take pride in our accomplishments and persistently strive to be more efficient, exceed expectations and be viewed as a model audit program.

In this pursuit, the Corporate and Transaction Privilege and Use Tax Section's field audit portion of ESKORT, an automated audit system that contains a sophisticated audit select system, audit assistant and case management and tracking system, has been implemented. The desk audit operations, including Individual Income Tax Audit, will be implemented in Fiscal Year 2008.

The ESKORT audit system, when completed, will enhance all areas of audit production, audit preparation and audit tracking.

## **Corporate Income Tax Audit**

The section is comprised of the Field Audit, Office Audit and the Tax Shelter units.

The Field Audit Unit conducts the majority of its audits outside of Arizona where the corporation's books and records are maintained. The selected audits are based upon various criteria designed to identify areas of non-compliance.

The Office Audit Unit focuses its audit programs on desk audit work, including the verification of amended returns and refund claims.

The Tax Shelter Unit works with the IRS, other states and tax administration organizations to identify taxpayers who have utilized abusive tax schemes in order to avoid paying state income tax.

## **Individual Income Tax Audit**

The Individual Income Tax Audit Section is comprised of Desk Audit Unit, Field Audit Unit and a Support Staff Unit.

The Desk Audit Unit handles the majority of the work. The main source of information continues to be the IRS; however, the operations are expanding as other sources become available and as the department's technology is upgraded.

The Field Audit Unit conducts audits for Individuals and Pass-through entities, such as Partnerships and S Corporations. The operations in this area continue expanding due to new sources and technology.

The Support Staff Unit is responsible for the manual research necessary to build the audit files. This process allows the audit staff to concentrate their efforts on audits. It creates a higher level of efficiency that results in audits being accurate and issued in a timelier manner.

## **Transaction Privilege and Use Tax Audit**

The Transaction Privilege and Use Tax Audit Section is comprised of Field Audit Unit, License Compliance Unit, Refund Unit, Desk Audit Unit and an Administrative Support Unit.

The Field Audit Unit, with an increased emphasis on customer service, hard work and dedication, exceeded Fiscal Year 2007 expectations.

License Compliance Unit continues to prove to be a dynamic and successful unit. The staff can be counted on to assist taxpayers and others to ensure tax compliance. License Compliance officers do both office research and field work. Their goal is to provide the best customer service possible, seek out those businesses that are not licensed for Transaction Privilege and/or Withholding tax and provide education and knowledge, so taxpayers across the state can voluntarily comply with the tax laws.

The Refund Unit is responsible for analyzing and processing taxpayer refund requests. The auditors in this unit conduct both desk and field work to verify information supplied for requested refunds.

The Desk Audit Unit mainly works on projects dealing with use tax liabilities. The information processed in this unit is from various governmental agencies. Due to many computer system enhancements, this unit is moving into an electronic flow of information that allows the work to be more efficient and productive.

The Administrative Support Unit is responsible for processing the field audits and handling the mail for the Section. This support remains necessary because the ESKORT system is not complete. The unit has also been instrumental in the process flow-charting used to design ESKORT.

### **Special Taxes**

Special Taxes is made up four separate units: Bingo and Estate Tax Unit, Discovery Unit, Luxury Tax Unit, and the Nexus Unit.

The Bingo and Estate Tax Unit issues licenses, processes returns and conducts audit examinations of Bingo operators. The staff investigates complaints and violations of Bingo laws, as well as conducts workshops and consultations with Bingo licensees. The unit also processes all estate tax returns and conducts Estate Tax audits

The Discovery Unit uses electronic records from outside sources paired with new technology obtained as part of the BRITS contract to create leads that are explored by the unit's auditors. The tax payments made by taxpayers that are brought into compliance through one of the unit's discovery programs are considered "Discovery Payments," thus the Discovery Unit.

The Luxury Tax staff administers the taxes imposed on tobacco and liquor distributors. This includes the licensing of tobacco distributors and processing of tax returns for both tobacco and liquor, as well as performing distributor audits. The unit also supports the Office of the Attorney General in administration of the Tobacco Master Settlement Agreement.

The Nexus Unit identifies companies and Individuals who have an obligation to file tax returns with the state of Arizona, including, but not limited to, corporate income tax, transaction privilege/use tax, and individual income tax. The unit also receives voluntary disclosures from taxpayers who have determined that they have an

obligation to file and would like to file past, current and future tax returns with the state.

### **HIGHLIGHTS IN FISCAL YEAR 2007**

- The Audit Division's revenue net of duplications for fiscal year 2007 exceeded \$195.8 million.
- The Corporate Income Tax (CIT) Field Audit unit's assessments produced approximately \$22 million and collections \$25 million. Overall, additional revenue from collections associated with audits generated \$69.2 million.
- The CIT Office Audit unit's assessments were approximately \$2.3 million and collections \$2.8 million. The unit operates numerous programs, including the following: process review assistance, tax clearance assistance, tax-exempt status review, net operating loss audits, federal revenue agent report audits, and BRITS assistance. The unit researched, reviewed and audited 5,300 taxpayers.
- The CIT Audit's Tax Shelter Unit assessments generated approximately \$1.7 million and collections \$1.8 million. This unit receives leads on taxpayers that have utilized illegal tax shelters to avoid paying Arizona income taxes. The leads are obtained by collaborating with the Internal Revenue Service, Multistate Tax Commission and other State taxing agencies.
- The Individual Income Tax (IIT) Audit Section completed more than 52,000 audits for total assessments of \$25.8 million. Overall, additional revenue from collections associated with audits generated \$17.8 million.
- An essential part of IIT's focus is to provide quality service to the taxpayers. Customer satisfaction surveys are sent with all audit determinations. Over 1,700 surveys were received during fiscal year 2007 with an average score of 4.13, using a scale of 1 to 5 with 5 being excellent.
- The quality of IIT's initial audit assessments has continued to improve. For fiscal year 2007, over 86.6% of the initial audit assessments required no additional changes. The goal is to achieve a minimum rate of 81%.

of its most productive years generating assessments of approximately \$64.7 million. Additional revenue generated from collections associated with Audits was \$35.5 million.

- The TPT customer satisfaction surveys for the Field Audit Unit averaged 4.55, using a scale of 1 to 5 with 5 being excellent.
- The TPT License Compliance Unit experienced an outstanding fiscal year. Their highlights include:
  - ✓ 101,069 researches
  - ✓ 3,215 field visits
  - ✓ 45 special event visits
  - ✓ 3,289 licenses issued
  - ✓ 16,418 phone inquiries from taxpayers handled
  - ✓ \$91+ million in revenue generated
- The TPT Refund Unit processed 470 refund claims, approving just under \$23.6 million and denying approximately \$ 2.8 million
- The TPT Desk Audit Unit generated \$10.6 million in revenue by licensing 2,622 new taxpayers.
- The Audit Information Technology Section implemented the ESKORT Audit Workbench for TPT and Corporate Field Audit. This system includes Audit Selection based on rules and observation ranking. Additionally the Case Management and Tracking and Audit Support systems are used by the Field Auditors to manage, track and perform calculations on an Audit. The section has also been diligently working on the Desk Audit development for all tax types.
- The Nexus Unit had another incredible year bringing 165 non-filing taxpayers into compliance. The unit generated \$40.6 million during the fiscal year, which surpassed the goal by \$14 million.



# COLLECTIONS

**Mission Statement:** *To collect delinquent tax liabilities in a fair manner, to promote voluntary compliance through the impartial enforcement of tax laws, and to provide efficient service to the taxpayers of this state.*

## **Office Collections**

After the Accounts Receivable system has completed the prescribed billing cycle, cases are referred to Office Collections. Delinquents (business accounts with returns that have not been filed) are also worked in this section. Here, collectors attempt to reach account resolution via the telephone and with targeted mailings. Office Collections uses an Automatic Call Distribution (ACD) system to process and handle incoming calls. This system has an Interactive Voice Response (IVR) module that provides automated responses for some basic collections questions such as account balances.

Office Collectors can request that liens and levies be filed and can negotiate installment payment plans. If they are not able to resolve a case, it is referred to Field Collections or Special Operation for further action.

## **Field Collections**

If an Office Collector determines that a case cannot be resolved by phone and that a field (on-site) approach is warranted, the case is referred to the Field Collections section.

Field collectors are assigned a territory (by ZIP code) and are responsible for all types of tax cases (income, business, withholding, etc.) in the territory. Field collectors use a combination of telephone and field visits to effect closure. In addition to recommending lien and levy action, Field collectors may subpoena records, investigate Offers-in-Compromise, conduct seizures and write off cases if they are determined to be uncollectible.

The objective in Field Collections is to reach closure in the least intrusive manner and seizure actions are only used as a last resort after all other more reasonable actions have failed.

## **Special Operations**

This section services a growing population of individual and business tax accounts that have filed

for protection under the bankruptcy code. Cases are routed here at any time during the collection process when a case is identified as having filed bankruptcy. This section is responsible for identifying all cases which involve bankruptcy filings, seeing that appropriate claims are filed and following up on actions being taken by the bankruptcy court relative to these accounts.

In addition to processing bankruptcies, the section refers cases to the Attorney General's Office that may require legal action to effect closure. This unit is responsible for all other non-mainstream collection activities. These include handling disputed audit accounts, insufficient funds check collections, lien processing, case adjustments, Letters of Good Standing, levies on Department of Administration vendors, levies on contractor and insurance bonds, internal systems training and processing Offers-in-Compromise.

## **Debt Set-Off**

The area is responsible for the offsets of income tax refunds to pay other delinquent taxes and debts owed to other state agencies or courts. The process involves matching data received from other agencies against refund data, notifying participating agencies and taxpayers when matches are made, validating the information, and paying the claims when warranted. The unit's duties also include qualifying agencies and courts for participation in the program and resolving discrepancies as necessary to protect the rights of both taxpayers and claimants.

## **HIGHLIGHTS IN FISCAL YEAR 2007**

- Field Collections continued to excel in the education of their taxpayers and in encouraging them to utilize the E-file method for their taxes.
- The division was responsible for the generation of total revenues of \$294 million, a \$9 million (3%) increase over the target of \$285 million for the year.

# **EXTERNAL SERVICES & SPECIAL PROJECTS**

## **Criminal and Civil Investigations**

The Criminal and Civil Investigations Section is comprised of the Tobacco Enforcement Unit and the Criminal Investigations Unit. The Tobacco Enforcement Unit enforces the tobacco luxury taxes by educating retailers and wholesale suppliers, inspecting tobacco products for compliance with tax stamp requirements and seizing products that are not being sold legally in Arizona. The unit also investigates criminal activity, such as the importation and sale of counterfeit tobacco products. The Criminal Investigations Unit investigates tax evasion, improper or fraudulent tax activity by both taxpayers and preparers, and other related issues. Both units work with other law enforcement organizations to prosecute tax-related crimes.

## **Forms and Publications**

This unit is responsible for design and printing of all official department forms except Property Tax related forms, review and approval of all substitute forms used by software vendors in preparing Arizona tax returns. This unit is also responsible for the production of all informational publications.

## **Legislative Services Team**

This team represents the department before the Legislature. Coordinates the analysis, research and testimony of tax legislation, reads, analyzes, and tracks bills through the legislative process; coordinates implementation of legislation after passage. Acts as the liaison between legislators and the department including handling constituent issues for legislators and the Governor's office, monitors federal law changes.

## **Office of Economic Research and Analysis**

The Office of Economic Research & Analysis provides statistical analysis and research services to the department, the Governor's Office, the Legislature and other political subdivisions as well as the private sector. Fiscal impacts, where possible, and analysis are provided for proposals of changes to taxes administered by the department. This Office provides forecasts of general fund revenues from the major three tax types for consideration in the Governor's budget proposal. Staff support is provided for the Economic Estimates Commission, the Debt Oversight

Commission and the Property Tax Oversight Commission. An individual income tax simulation model is maintained to analyze proposed changes to Arizona's individual income tax. The department's annual report is prepared by this Office, as well as the Tax Expenditure Report and the Report on Bonded Indebtedness. Other reports are prepared throughout the year providing statistics and information on various tax types, including the monthly publication Tax Facts, and the Arizona TaxNews (tax practitioner newsletter).

This Office is also responsible for a variety of administrative duties involving everything from assisting in the re-engineering of the department's computer system to directing transfers of funds from specific tax types as directed by statutes.

The Quality Office is also a part of the Office of Economic Research and Analysis. The Quality Office coordinates the strategic planning efforts of the department with programs focusing on agency-wide quality initiatives. Included in these initiatives are customer satisfaction survey improvements, feedback and analysis and benchmarking studies.

## **Public Information Officer**

This position is responsible for all department communication with members of the media. This position is also the official spokesperson for the department, and facilitates the flow of information to the public and responds to all media contacts and inquires.

## **SPECIAL PROJECTS**

### **Federal Employee Retiree Contribution (FERC) project**

In April of 2006, a proposed settlement was reached in a lawsuit filed by several federal employees to recover Arizona income taxes paid by federal employees on mandatory contributions to federal retirement programs during any one or more of the years 1985 to and including 1990. This case has been in litigation for more than a decade, and has been through the appeals process a number of times on several different issues, and resulted in five published Court of Appeals decisions.

To be eligible for a refund under the settlement, an individual refund claim must have been filed with

the Arizona Department of Revenue before July 9, 1998, and must also meet other eligibility requirements contained in the Settlement.

All claimants, whether they received a refund or were denied a refund, had a right to appeal the decision (including the initial “denial” letter) through the Department’s administrative appeal process. Claimants that received a refund were notified of their refund amount, including interest, while denied claims were provided a specific reason the decision was based on.

### **HIGHLIGHTS IN FISCAL YEAR 2007**

- During fiscal year 2007, over 107,000 cigarettes were seized, along with 346,649 cigars and 585 pounds of other tobacco products based on non-compliance by the owners of retail stores or tobacco distributorships.
- A total of 19 citations were issued and \$4,640 in fines were assessed against retailers who were not in compliance. In addition, a \$24,000 settlement was reached with an in-patient treatment facility that sold illegal cigarettes in their in-house stores.
- A Springerville resident was indicted for selling illegal cigarettes to restaurants, bars, and private clubs in the Springerville area. Over 39,000 cigarettes were seized at the time of this individual’s arrest. She subsequently pled guilty, was placed on probation, and was ordered to pay restitution.
- A tobacco training video was produced which has been approved by the Arizona Peace Officers Standards and Training Board and will be added to the curriculum of Arizona law enforcement academies. This video will provide information related to tobacco violations and will assist other law enforcement agencies in teaching their officers how to recognize and handle counterfeit and contraband tobacco when they run across it.
- The Tobacco Enforcement Unit has become very involved in working with other law enforcement agencies due to the incidence of tobacco related crimes that are connected to other crimes including the funding of terrorist related activities. Our two tobacco supervisors

are part of the multi-agency group that is working with the Arizona Counter Terrorism Information Center.

- Stanley Griffis embezzled over \$600,000 in public funds during the time he was Pinal County Manager. An investigation was initiated by Rick Romley, former Maricopa County Attorney, who was appointed a Special Assistant Attorney General by Terry Goddard. The Criminal Investigations Section was asked by Mr. Romley to become part of the investigation. In February, 2007, Griffis pled guilty to 6 felony counts, including filing fraudulent tax returns for four years. On May 10, 2007, Griffis was sentenced to 3 ½ years in prison and was ordered to pay restitution of over \$600,000, including \$37,044 to DOR.
- Over 100 fraudulent returns were prepared by Stephen Newberg in a multiple refund scheme wherein he used the personal information of individuals who were in prison. Newberg was indicted in October, 2006, and subsequently pled guilty and was sentenced to five years of supervised probation and was ordered not to prepare tax returns.
- Monies received by DOR from court ordered criminal restitution based on our financial investigations totaled \$827,869 for fiscal year 2007.
- In May of 2006, the department mailed the more than 40,000 FERC claimants a “notice of settlement and settlement hearings” alerting them to the proposed settlement and informing them of the terms of the settlement. A final judgment approving the settlement was issued in August 2006. The initial refunds were issued in October and by the end of the fiscal year warrants were issued to 15,972 claimants totaling \$12,155,962; an additional \$3,038,946 was paid to the attorney’s representing the plaintiffs in this case.

# INFORMATION TECHNOLOGY

**Mission Statement:** *The IT Division provides DOR with an integrated technology environment and automated business processes which allow for timely, efficient, and secure transfer of information to employees, taxpayers, and other agencies.*

## **Application Support**

Applications Support provides support for all mainframe applications, the BRITS Taxpayer Administration System (TAS), and the Executive Dashboard. Significant activities include resolving defects, supporting production processes (such as TPT Close), and implementing releases to correct defects and provide enhancements. Enhancements are developed at the users' request and are completed based on priority. Applications Support works closely with the Project Management Office for project organization, Business Analysis & Testing for requirements and testing, Enterprise Architecture for software release management, Information Security for compliance, and Technical Services for implementation.

## **Business Analysis & Testing**

The Business Analysis & Testing (BAT) group (formerly Customer Services Management) acts as a liaison between IT and the functional areas within DOR (Collections, Audit, Taxpayer Services, etc). BAT administers all System Investigation Reports (SIRs) and ensures requests are properly tracked and prioritized. BAT is responsible for establishing policies, standards, methodologies, and guidelines pertaining to business requirements gathering and application testing. BAT works closely with the functional areas to better understand their business and IT requirements and seek ways to improve efficiencies through the use of application technology. BAT is responsible for testing all software applications prior to deployment, which includes implementing changes or fixes to new and existing applications.

## **Customer Service Center**

Customer Service Center (formerly Customer Infrastructure Support) covers the hardware and software that make up the network, including individual PCs. This IT Unit is the backbone for all computer services provided to our DOR customers. We are the entry point for all Customer Service and

Support requests and work closely with Application Support and Technical Services to determine priorities and processes for requests. Because some of these requests require addition of hardware and software, this unit also encompasses vendor management.

## **Enterprise Architecture**

Enterprise Architecture (EA) is a new IT unit, established in January, 2007. A key function of EA is to create a roadmap for the evolution of internal systems, including technology, processes, tools, and training. EA evaluates business needs and recommends technical strategies to help the agency stay current with technical developments. EA also includes oversight of development efforts and adherence to technology standards through release management.

Currently, EA is assessing service-oriented architectures (SOA) and collaborative work environments, researching best practices followed in industry and other agencies, and identifying business and technical opportunities within AZ DOR. One focus is Knowledge Management.

## **Information Security**

The DOR IT Information Security (InfoSec) unit is a centralized department which ensures a methodically sound program is in place throughout the DOR, with the primary focus of protecting our information and systems based upon governance and security best practices. The DOR InfoSec Program includes the following functional areas:

- Access and Authentication
- Policy and Compliance
- Monitoring Events and Incident Response
- Employee Awareness

## **Project Management Office (PMO)**

The PMO is responsible for establishing, maintaining, and enforcing project management processes, procedures, and standards for IT projects. The primary goals of the PMO are to:

- Facilitate the process for the Department to prioritize key IT projects and make informed business decisions based upon thorough cost-

benefit analysis and aligned with departmental goals and objectives;

- Guide key IT projects to a successful conclusion;
- Create a foundation for consistent IT project success throughout the organization, achieved through development of a strong and pervasive Project Management discipline;
- Support the mission, vision, and goals of the Department.

The PMO consists of the PMO Director and a team of Project Managers (PMs). The PMO was established in June 2006 to better determine best practices in project methodology and standards, while actively managing a variety of projects and programs, including the BRITS program.

### **Technical Services**

The technical services unit includes Technical Support, Database Administration, and Production Control. The Technical Support team is responsible for support and management of client server (BRITS) technical infrastructure, Oracle Application Server (TAS infrastructure), and Client Server Third Party software. They also act as a liaison to ADOA for technical activities, provide Tier 3 support for problem management, and handle software installations, migrations, and upgrades to ensure software/vendor compliance.

The Database Administration team supports all activities in database administration, including backup/recovery, capacity management, job scheduling and monitoring, migration to production, and environment upgrades to ensure software/vendor compliance. Databases supported are ADATABASE (mainframe), Oracle (TAS), SQL Server Databases, SAND (Executive Dashboard), and TeraData (for the Audit group). They also handle Tier 3 support for problem management.

The Production Control team supports production mainframe and TAS batch processing. Functions supported include scheduling and execution of production jobs, printing, mainframe migrations, and tape management processes. The team supports the Applications team and other divisions in the department.

## **HIGHLIGHTS IN FISCAL YEAR 2007**

- Debt Set-off (DSO) has increased its processing frequency from every other day to every weekday, cutting its turnaround time in half. Fee Transfers (our \$9 fee) have increased by \$35,091 from fiscal year 2006 to fiscal year 2007. The number of matches has increased by 4,395 for a total of \$1,759,502.33 over last year's amount.
- We have begun to implement Google mini, which will allow intranet searches at a very low cost to the agency.
- [AZDOR.gov](http://AZDOR.gov) had 2,386,360 page views in April 2007 alone, with zero downtime, making it the most visited of all AZ State sites.
- The InfoSec team has centralized application security, including assuming responsibility for user access and authentication for all applications previously managed by other IT units. Streamlining has provided a "one stop shop" for managers requesting or removing employee access and troubleshooting related issues.
- DOR IT implemented an IRS secure data transport solution so exchange of IRS Federal Taxpayer Information (FTI) is completed via secure electronic transfer method vs. having the FTI sent on magnetic tape through the mail.
- Corporate Income Tax processing is now part of the BRITS program. All business tax processing (along with transaction privilege tax and payroll withholding tax processing) has been successfully integrated in a single system.
- Implementation of Field Audit component of the BRITS program has provided the Audit division with a comprehensive tool to effectively process audits conducted in the field.
- Document imaging, document management, and archival system for processing unclaimed property have been implemented. This project introduced a new generation of claims processing using an on-line image-based workflow to more efficiently and effectively process claims against unclaimed property.

- Continued to improve project management methodology and process to benefit remaining BRITS activities.
- Successfully restructured the former Help Desk to become Desktop Support Services and the Customer Service Center (CSC), each team operating with a team lead and reporting to the Customer Services Manager.
- Established a Vendor Management organization within the CSC to facilitate faster response to requests, more efficient tracking of purchases, and provide a central point of responsibility for managing license compliance.
- Completed a \$500K network infrastructure upgrade.
- Delivered eight software releases for the BRITS applications, covering a wide range of application enhancements, corrections, annual, and legal changes, including:
  - Allowing refunds based on the Withholding Annual return (A1QRT). Released 2004 and 2005 A1QRT refunds that had been previously held due to a review item. The refunds were released in five separate refund runs. In all, refunds were sent to 11,650 taxpayers totaling over \$2.4 million.
  - Implementation of House Bill 2086. The new statute moved the due date for Transaction Privilege Tax (TPT) electronic payments back to the second to the last business day of the month; all TPT returns received by the department on or before the second to the last business day are timely; the postmark date for a timely return remains the 25<sup>th</sup>; the due date for TPT returns remains the 20<sup>th</sup> and is the date from which penalties and interest are computed. In addition, the new late-filing penalty for TPT returns is based on the amount of tax showing due on the return without reduction for any tax paid for the period.
- The Accounts Receivable (A/R) Summary Project was completed to comply with the Auditor General's requirement that DOR provide comprehensive annual A/R reporting. Information provided included: a listing of every payment processed and deposited during the fiscal year, a listing of all payments applied and deposited by the Department each fiscal year, and a listing of all payments applied and deposited between July 1st and July 31st applied to underpaid periods in June. The A/R Summary includes all accounts receivable sorted by tax type, as well as a total for each type.
- Modified critical applications to enable processing tax year 2006 Individual Income and Corporate tax returns. Applications modified included 2-D Barcode, Data Entry, E-File, Income, and Corporate.
- Implemented changes required for Real and Personal Property 2006 tax year billings.
- Implemented processes and procedures for prioritizing user requests (SIRs) based on standard priority criteria, ensuring our efforts are focused on the most critical business needs. Information is communicated to the agency using various avenues, including the intranet.

# PROCESS ADMINISTRATION

**Mission Statement:** *To provide quality service by processing all tax returns and payments accurately and timely for Arizona taxpayers.*

The Division consists of the following sections:

## **Processing Services**

Processing Services is responsible for the opening, batching and processing of all tax documents for all tax types. Mail Services is responsible for the receipt, sorting and delivery of all tax documents, payments and correspondence received by the agency. Processing is responsible for batching documents and identifying any “trouble” documents prior to being data entered for all taxes.

## **DOR Treasury**

DOR Treasury is responsible for depositing all tax revenue and data entering all tax return information for the largest four tax types (Individual Income, TPT, Withholding and Corporate).

## **Error Resolution**

Error Resolution, which includes the Review unit, is responsible for ensuring accuracy in the processing of the largest four tax types (Individual Income, TPT, Withholding and Corporate).

## **Revenue Accounting**

Revenue Accounting is responsible for providing financial services for the Department. This includes the reconciliation and reporting of tax dollars deposited to the State’s financial institution, revenue and taxpayer accounting services, including accounts receivable management and refund/warrant management.

## **Records Management**

Records Management is responsible for the filing, maintaining and storing of all tax documents. Records Management also provides access to tax returns and license applications within the department.

## **HIGHLIGHTS IN FISCAL YEAR 2007**

- 5.2 million paper tax documents were received and processed for all tax types.
- 4.17 million payments were received, processed and deposited with an average deposit time of 2.92 days.
- 2,033,277 refunds were issued to individual income taxpayers with an average return turn-around time of 7.73 days.
- The Records Management section received 12,000 requests to pull documents and they processed 100% of those requests within 48 hours.
- Corporate Income Tax was implemented and converted in to the new integrated tax system, BRITS, at the beginning of October, 2006. The Process Administration division played a significant role in the implementation and conversion by conducting data purification efforts on information that was to be converted, processing all of the corporate returns and payments in time for the conversion and completing the testing of the new system.

# PROPERTY TAX

**MISSION STATEMENT:** *To ensure fair and uniform property values for Arizona taxpayers.*

The vision of the Property Tax Division is to deliver excellent property tax services.

The Property Tax Division is responsible for general oversight of the County Assessors in the administration of Arizona's property tax laws and for the valuation of complex, geographically dispersed properties. Functional areas of the Division and primary responsibilities of each are discussed below.

## **Centrally Valued Properties**

The Centrally Valued Properties Unit annually determines the full cash value of all utilities, railroads, mines and other complex or geographically dispersed properties (see page 63 for a list of the industries valued by the department). Values determined for such properties are transmitted to the appropriate county treasurers for collection of property taxes. In addition, the unit assists county assessors with maintaining and updating a standardized cadastral mapping system. The unit prepares tax area code maps that depict boundaries of taxing jurisdictions authorized to levy property taxes.

## **Assessment Standards**

The Assessment Standards Unit oversees and ensures the application of uniform appraisal methods and techniques used by county assessors to determine the value of property. The unit also presents technical workshops to county assessors and provides an appraiser/assessor certification program for appraisal staff.

## **Personal Property**

The Personal Property Team oversees the development and application of personal property procedures and manuals and provides technical workshops to county personnel.

## **Construction Cost**

The Construction Cost Team maintains the computerized "construction cost valuation system" that is used by all county assessors to value property by the cost approach. The group also provides training for county appraisers in the use of the construction cost valuation system.

## **Central Information Services**

The Central Information Services Team coordinates the data processing services necessary to support property tax administration for 12 Arizona Counties. The support services provided to the counties include management of automated systems used in the preparation of assessment and tax rolls, the preparation of valuation abstracts, property tax notices of value and statements of taxes due.

## **Computer Assisted Valuation**

The Computer-Assisted Mass Appraisal Team develops sales-based models for residential properties and maintains and assists County Assessors with the Land Valuation System and the Sales Tracking System.

## **Forms and Manuals**

The Manuals and Forms Team is responsible for the annual compilation and updating of manuals and guidelines; review of forms prescribed for use in the administration of the property tax system; review of legislative enactments and changes to existing property tax statutes; and preparation of the "Title 42 Extract of Property Tax Statutes".

## **Equalization**

The Equalization Team is responsible for annually measuring county assessor performance for compliance with established full cash/market value standards. The team conducts sales ratio studies throughout the yearly valuation cycle to assist counties in complying with valuation standards.

## **HIGHLIGHTS IN FISCAL YEAR 2007**

- The division entered into a contract with Maricopa, Pima, and Yuma counties and with the vendor that supplies property replacement cost information to build a system that will allow continued reliance on the construction cost system that is used in all counties.
- The division formed a partnership with Rio Salado Community College that will allow students attending the department's appraiser training classes to receive college credit. Students who are interested in receiving college credit for these courses will be able to apply for concurrent enrollment with Rio Salado Community College at the beginning of each



class. Students completing Level 1 courses will be eligible for 9 credits and students completing Level 2 courses will be eligible for 6 additional hours of credit.

- The Centrally Valued Properties Unit hears and decides appeals from 50-60 corporate taxpayers each year. As a result of decisions made either at that level or at the next level (State Board of Equalization), four property valuation cases

involving 15 tax years are currently pending in Tax Court; two with telecommunications companies and two with electric utilities. One-week trials were scheduled for August, October and December. A March case has been scheduled for a 26-day trial.

- Work was halted on the Arizona Property Assessment and Taxation System.

# TAXPAYER SERVICES

**Mission Statement:** *To meet the needs of our customers in a professional manner, with the highest standards of integrity.*

## **Community OutReach and Education (CORE)**

This section provides the department's outreach and educational programs for taxpayers and practitioners. CORE's primary goal is to promote voluntary compliance with tax laws through taxpayer education. The staff develops and presents workshops and seminars as well as participating in trade shows throughout the state. The programs focus on support for the small business community but services and assistance are also directed toward personal income tax. Many projects are developed in partnership with the IRS, other federal, state and local agencies and organizations as well as the Small Business Administration and business associations.

Through continuing partnerships with civic and businesses organizations, CORE has been able to increase class sizes and venues throughout the state. CORE leverages the marketing opportunities provided by these organizations to increase the circulation of its class schedules. Marketing materials stress the partnership between the organization and CORE to the benefit of both. This is especially important to our program cities that rely on compliance with tax law for their funding. CORE partners with Small Business Development Centers at Community Colleges in support of small businesses. It also enjoys good relationships with Chambers of Commerce throughout the state. Some of the Cities have allowed CORE to include class information for that city to be included in utility bill mailings. These types of partnerships have increased CORE's outreach opportunities and reduced the cost of marketing their classes.

In addition to monthly workshops, CORE holds its semi-annual Arizona Employer Forum in support of small business employers throughout the state. Presenters include the IRS, Social Security Administration, Department of Labor and Immigration and Customs Enforcement. In addition to presenters, CORE provides exhibitor tables for other organizations to display their products and services to the small business community.

Exhibitors include the Department of Insurance, SCORE, and the Small Business Administration.

CORE recognizes the important role of educated tax practitioners in a healthy tax system. CORE regularly conducts presentations to practitioner groups including the Society of Practicing Accountants and the Society of Enrolled Agents. CORE also maintains a seat on the Arizona Forum for the Improvement of Taxation (AFIT). This organization represents a cross section of the practitioner community including CPA's, Enrolled Agents, and the Arizona Bar. The annual Tax Talk seminar in December is designed to provide continuing education to tax practitioners and attendance continues to grow. CORE also provides education to payroll service providers including the Arizona Payroll Association.

## **e-File**

This program was established to coordinate services between government agencies, the practitioner community and software industry. The staff approves software for use by practitioners and the public and markets the benefits of e-Filing to taxpayers. Tax returns that are submitted through this program are processed virtually error free and refunds are issued in days rather than weeks.

## **License and Registration (L & R)**

This section processes applications for transaction privilege, use, severance and withholding taxes. The unit issues transaction privilege tax licenses for contract cities that participate in the state tax collection program. They also administer the taxpayer bonding program, which affects contracting businesses and delinquent taxpayers.

The section oversees the database of licenses and continually corrects and updates taxpayer records. They provide assistance to the public through dissemination of general license information. The section handles the sale of tobacco stamps and cashiering services for customers at each of the agency's offices.

## **Taxpayer Information and Assistance (TIA)**

This section provides information concerning business and income taxes administered by the department. This is accomplished through various avenues including the telephone call center, email,

recorded tax information, correspondence and walk-in services at each of the agency's offices.

They also answer questions in relation to billings, taxability, business registration, filing and payment requirements.

Another important function of Taxpayer Information and Assistance is the Penalty Review Unit, which is responsible for reviewing and making a determination on all taxpayer requests for penalty abatements (except those relating to an audit). If the unit determines that reasonable cause exists and abatement is warranted, the staff handles the necessary paperwork. If abatement is not warranted, the staff represents the department in any subsequent hearings.

### **Unclaimed Property**

This program is administered to return to the rightful owner abandoned property in the form of goods and money such as the contents of safe deposit boxes, insurance policy premiums, deposits in banks and security deposits, unclaimed stocks/mutual funds, layaways and uncashed checks. Through a variety of methods, staff attempts to locate property owners and processes claims in order to return the asset to the owner and also facilitates the submission of property from businesses and entities that hold the property. In addition, the unit is responsible for promoting compliance from businesses that hold abandoned property through outreach and audit efforts.

### **HIGHLIGHTS IN FISCAL YEAR 2007**

- The Community Outreach and Education Section (CORE) has expanded its outreach in 2007 to include radio call-in programs and minority businesses. The call-in programs were conducted in English and Spanish and were targeted at providing general information and filing assistance for business taxpayers. CORE also recognizes the importance of reaching out to minority businesses and has participated in programs with the Greater Phoenix Black Chamber of Commerce, the 11<sup>th</sup> annual Seminarios en Espanol, and the Arizona Black Expo. In addition, CORE partners with the Cities of Phoenix and Mesa to provide Spanish language Small Business Workshops. CORE was also invited to provide a seminar to

business leaders of the Hopi Tribe in Northern Arizona that addressed their special needs.

- E-filing of Arizona Income Tax Returns jumped by 16.5%, with over 1.3 million returns filed electronically. This places Arizona fourth in the nation for growth in electronic filing. In addition, more than 427,800 two dimensional (2-D) barcode returns were received. Together, 75.8% of all tax year 2006 individual come tax returns received were processed without data entry up from 51% the prior year. As a result the agency saved on processing and record retention costs.
- While Tax Practitioners prepare the bulk of electronic returns, this year the "home-market" prepared 30% of the eFiled returns.
- Direct deposit of refunds reached another milestone with more than 586,900 taxpayers which is an increase of 21%. As a result DOR saved \$39,700 in postage costs by not mailing warrants. In addition, direct debit of tax payments also increased by 1%.
- One of License and Registration's business objectives is to process business applications within 3 business days. This fiscal year License and Registration processed 48,632 applications. They excelled with a 44% increase in the number of applications processed and continued to meet their goal of 3 business days. Continued growth in the valley keeps License and Registration cashiers busy assisting customers at the counter. This year they assisted 47,246 customers, a 29% increase over last year. They processed 24,136 signature cards, a 6% increase from the prior year. Bonding is an important aspect of License and Registration and our bonding officers did a remarkable job. They received 6,589 bonds compared to the 5,710 the prior year, a 15% increase. Even with the increase in volume, the License and Registration recognizes customer service as a critical factor. They demonstrated that by yet again improving their customer survey rating to 4.96, from 4.85 last year.
- Taxpayer Information and Assistance (TIA) staff routinely promote into positions elsewhere in the department. While TIA training is excellent and provides quality staff to the rest of

the department, they experience a larger than usual turnover rate. The challenge then, is for TIA is to maintain and improve customer service.

- Through improved monitoring, additional cross-training and reallocation of resources to areas in need, TIA was still able to achieve some significant improvements. Those improvements are:

- ✓ 16% increase in the number of calls answered for transaction privilege tax and withholding tax.
- ✓ 9% increase in the number of calls answered for income tax.
- ✓ Total number of calls answered was 353,331.
- ✓ 19% reduction of our abandon rate.
- ✓ 42% decrease in our average wait time for business tax.

- ✓ 36% decrease in our average wait time for income tax.
- ✓ Overall the average wait time decreased from 7:11 (minutes:seconds) to 4:09.

- The number of new properties reported to Unclaimed Property in fiscal year 2007 totaled 600,946 with total collections equaling more than \$97M. This is an increase of more than 230,000 properties (60%) over the number of properties reported in fiscal year 2006. For the fiscal year, the staff returned 69,370 properties valued at \$22.5M to rightful owners. This represents a 75% increase in number of properties returned during the past fiscal year compared to fiscal year 2006. In addition to the dramatic increase in number of properties paid, the staff was able to significantly reduce the average number of days to pay properties from 46 to only 23 days.

# TAX POLICY & RESEARCH

The division provides administrative tax policy for the department, legal and interpretative support, case resolution and advocacy for the various divisions within the department. The division also acts as liaison to the Attorney General's Tax Section and coordinates the defense of litigation with the Tax Section attorneys. The division provides additional support to the director on an as-needed basis, including services in the area of protecting taxpayer confidentiality and privacy. The division consists of Corporate Audit Appeals, Individual Income Audit Appeals, Transaction Privilege Tax Audit Appeals, and the Tax Research & Analysis Section.

## **Tax Research & Analysis**

Tax Research & Analysis Section reviews, analyzes, develops and disseminates administrative tax policy for the department in numerous ways. The section also researches questions presented by other sections of the department, the Governor's office, and the Legislature. The section is responsible for drafting formal taxpayer rulings and procedures as well as private taxpayer rulings. The section also responds to technical and complex inquiries by telephone and information letters. The section is responsible for maintaining consistency in interpretation of policy and interpretation within the department.

The section is also responsible for reviewing and analyzing legislation, assisting the department in setting tax policy, and developing and promulgating administrative rules. Additionally, the section provides policy support for the Audit Division and provides guidance and interpretative advice to the audit sections on audit issues and protested cases.

## **Tax Appeals**

The office consists of three appeals sections: Transaction Privilege & Use Tax, Corporate Income Tax and Individual Income Tax.

The Transaction Privilege & Use Tax (TPT) Appeals Section is headed by the TPT Appeals Administrator and assists the Transaction Privilege and Use Tax Audit Section with case refinement and resolution services at the informal

hearing as well as advocating the audit section's position in cases before the State Office of Administrative Hearings, the department's Hearing Office, and the director. The section also assists the Tax Section of the Attorney General's Office with preparation and research of cases being heard before the Board of Tax Appeals, Tax Court and the appellate courts. The Administrator of the Section acts as the Disclosure Officer for the department.

The Corporate Income Tax Appeals Section reviews cases from the Corporate Income Audit Section and provides case refinement, resolution and advocacy services for those cases. The section works hand-in-hand with the Corporate Audit Section, represents the Corporate Audit Section in informal hearings, before the Hearing Office, and before the director. The section also assists the Tax Section of the Attorney General's Office with preparation and research of cases being heard before the Board of Tax Appeals, Tax Court and the appellate courts. In addition, the staff will testify at various levels of the appeals process. The section may also provide interpretative advice to the Corporate Income Audit staff.

The Individual Income Tax Appeals Section reviews cases from the Individual Income Audit Section and provides case refinement, resolution and advocacy services for those cases, representing the Individual Income Audit Section before the Hearing Office and before the director. The section also provides interpretative advice to the Individual Income Audit Staff. The section also assists the Tax Section of the Attorney General's Office with preparation and research of cases being heard before the Board of Tax Appeals, Tax Court and the appellate courts. In addition, the staff will testify at various levels of the appeals process.

## **HIGHLIGHTS IN FISCAL YEAR 2007**

- The division completed issued the ruling and related matrix outlining the state and city privilege tax treatment of the various activities undertaken by a transient lodging business. The department and city representatives also

held training sessions at various locations in the state to discuss the ruling and the matrix and to answer any questions. The sessions were attended by both industry and government representatives.

- The division, together with the External Services Division, worked with distributors in updating the procedures related to the affixation of Arizona tax stamps to cigarette packages for retail sale and various issues faced by cigarette distributors and retailers related to the nature and handling of tax stamps after affixation.

# ARIZONA'S TAXES

Revenue Summary (Table 1)

Net Revenue to State General Fund (Table 2)

Gross Collections of Audit Assessments and Delinquent Tax (Table 3)

Transaction Privilege, Use and Severance Tax

Income Tax

Property Tax

**TABLE 1 - revised 03/08**  
**REVENUE SUMMARY**  
**GROSS REVENUE COLLECTED**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

<b>SOURCE</b>	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
<b>TRANSACTION PRIVILEGE USE AND SEVERANCE TAX</b>					
Distribution Base	\$1,265,625,175	\$1,362,143,376	\$1,504,851,881	\$1,742,272,992	\$1,848,148,565
Nonshared Portion	2,400,432,714	2,588,439,418	2,871,370,865	3,350,808,572	3,575,743,539
Use Tax	190,186,057	232,215,946	259,687,993	306,198,808	303,010,863
Education Tax	447,841,034	487,214,807	538,346,435	628,471,192	666,184,022
Undistributed Estimated					
Transaction Privilege Tax	9,156,917	14,056,241	24,907,681	33,445,892	34,613,656
Other State Revenue	34,401,816	35,802,096	35,242,534	37,070,520	32,316,678
County and City Collections	797,522,090	889,627,518	1,021,007,631	1,112,515,747	1,430,363,301
Amnesty	----	15,315,231	----	----	----
<b>Subtotal</b>	<b>\$5,145,165,803</b>	<b>\$5,624,814,633</b>	<b>\$6,255,415,018</b>	<b>\$7,210,783,723</b>	<b>\$7,890,380,625</b>
<b>INCOME TAX</b>					
Withholding	2,310,302,093	2,336,442,815	2,626,264,231	3,041,031,728	3,294,287,540
Individual	656,586,317	776,183,707	1,128,453,951 (6)	1,631,563,811	1,677,949,795
Corporate	518,246,330	596,582,273	789,739,978	978,239,759	1,070,710,516
Amnesty	----	56,757,741	----	----	----
<b>Subtotal</b>	<b>\$3,485,134,740</b>	<b>\$3,765,966,537</b>	<b>\$4,544,458,160 (6)</b>	<b>\$5,650,835,298</b>	<b>\$6,042,947,851</b>
<b>LUXURY TAX</b>					
Spirituos Liquor	22,004,331	23,438,818	25,085,444	26,392,315	27,674,933
Vinous Liquor	9,924,749	10,404,546	11,473,203	11,509,865	10,755,478
Malt Liquor	22,137,764	22,110,426	22,664,420	23,245,180	24,758,494
Tobacco - All Types (1)	217,955,008	281,795,514	290,503,381	302,040,359 (6)	363,431,607 (4)
Licensing	5,950	6,400	5,325	5,900	8,100
Amnesty	----	187,315	----	----	----
<b>Subtotal</b>	<b>\$272,027,802</b>	<b>\$337,943,019</b>	<b>\$349,731,773</b>	<b>\$363,193,619 (6)</b>	<b>\$426,628,612</b>
<b>ESTATE TAX</b>					
Estate	96,859,390	42,292,396	32,811,705	13,275,666	860,558
Unclaimed Property	46,219,555	49,653,262	83,063,365	69,705,035	97,125,191
Escheated Estates	269,557	568,385	731,836	562,510	552,507
<b>Subtotal</b>	<b>\$143,348,502</b>	<b>\$92,514,043</b>	<b>\$116,606,906</b>	<b>\$83,543,211</b>	<b>\$98,538,256</b>
<b>OTHER REVENUES</b>					
Bingo	626,770	624,501	610,055	623,480	619,387
Flight Property Tax	12,741,749	12,641,445	0 (5)	0	0
Private Car Tax	1,485,996	1,335,056	1,312,163	1,426,435	1,709,362
Nuclear Plan Assessment	1,012,992	1,036,085	1,168,550	1,198,087	1,367,248
Waste Tire	7,007,444	7,785,148	8,164,120	8,477,996	8,967,577
<b>Subtotal</b>	<b>\$22,874,950</b>	<b>\$23,422,235</b>	<b>\$11,254,888</b>	<b>\$11,725,998</b>	<b>\$12,663,574</b>
<b>DEPARTMENT TOTAL</b>	<b>\$9,068,551,797</b>	<b>\$9,844,660,466</b>	<b>\$11,277,466,745 (6)</b>	<b>\$13,320,081,849 (6)</b>	<b>\$14,471,158,917</b>
State Property Tax (2)	9,493,897	20,188,811	31,300,125	30,298,197	29,906,683
<b>TOTAL (3)</b>	<b>\$9,078,045,694</b>	<b>\$9,864,849,278</b>	<b>\$11,308,766,871 (6)</b>	<b>\$13,350,380,047 (6)</b>	<b>\$14,501,065,600</b>

(1) Figures represent gross tobacco revenue less administrative expenses

(2) Property Tax is collected and deposited in the state general fund by counties. This figure includes deposits to the General Fund derived from the minimum Qualifying Tax Rate and taxes collected within Unorganized School Districts

(3) All revenues collected by the Department of Revenue, including those which are refunded or distributed, and State Property Tax

(4) Growth due to increases in tobacco tax rates effective December 2007.

(5) Effective FY05, all Flight Property Tax revenues will be transferred to the State Aviation Fund

(6) Corrected figures.

For additional detail on the current year revenue, please refer to the appropriate section within this Annual Report



**TABLE 2**  
**NET REVENUE TO STATE GENERAL FUND**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

<b>SOURCE</b>	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Transaction Privilege, Use, and Severance Tax	\$3,027,135,359	\$3,290,458,614	\$3,650,082,271	\$4,257,917,335	\$4,516,215,317
Transaction Privilege, Use, and Severance Tax-Amnesty	-----	12,308,108	-----	-----	-----
Undistributed Estimated Transaction Privilege Tax	9,156,917	14,056,241	24,907,681	33,445,892	34,613,656
Income Tax	2,056,591,466	2,413,036,616	3,170,987,163 (4)	4,089,641,855	4,089,906,556
Income Tax-Amnesty	-----	56,757,741	-----	-----	-----
Luxury Tax	64,586,950	61,245,119	64,446,627	66,732,468	65,808,829
Luxury Tax-Amnesty	-----	55,899	-----	-----	-----
Estate Tax	94,217,919	38,818,431	31,236,067	11,683,603 (5)	(550,764)
Unclaimed Property	6,745,652	8,043,962	9,423,140	10,256,152	11,703,745
Bingo	626,770	624,501	610,055	623,480	619,387
Private Car Tax	1,485,996	1,335,056	1,312,163	1,426,435	1,709,362
Nuclear Plan Assessment	1,012,992	1,036,085	1,168,550	1,198,087	1,367,248
Flight Property Tax	6,255,987 (2)	6,320,722	0 (3)	0	0
<b>Department Total</b>	<b>\$5,267,816,008</b>	<b>\$5,904,097,095</b>	<b>\$6,954,173,717 (4)</b>	<b>\$8,472,925,307</b>	<b>\$8,721,393,336</b>
State Property Tax (1)	9,493,897	20,188,811	31,300,125	30,298,197	29,906,683
<b>TOTAL</b>	<b>\$5,277,309,905</b>	<b>\$5,924,285,907</b>	<b>\$6,985,473,842 (4)</b>	<b>\$8,503,223,504</b>	<b>\$8,751,300,019</b>

- (1) Property Tax is not collected by the Department of Revenue. It is deposited in the State General Fund by counties. This figure includes deposits to the General Fund derived from the minimum Qualifying Tax Rate and taxes collected within Unorganized School Districts.
- (2) A refund issued during FY 03 reduced the General Fund distribution by \$114,887.
- (3) Effective FY05, all Flight Property Tax revenues will be transferred to the State Aviation Fund.
- (4) Corrected figures.
- (5) Arizona's estate tax was effectively repealed January 1, 2005, following the IRS's elimination of the Federal State Death Tax Credit. Figures may not add to total due to rounding.

**TABLE 3**  
**GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX**  
**FISCAL YEAR 2005-06 AND FISCAL YEAR 2006-07**

<b>GROSS COLLECTIONS</b>	<b>FY2005-06</b>	<b>FY2006-07</b>	<b>% CHANGE</b>
Collections	\$317,520,957	\$292,147,672	-8.0%
Audit	\$164,334,686	\$216,409,417	31.7%
Accounts Receivable	\$72,227,902	\$97,979,181	35.7%
Special Taxes	\$0	\$5,152,901	
<b>TOTAL GROSS COLLECTIONS</b>	<b>\$554,083,545</b>	<b>\$611,689,171</b>	10.4%
<b>ADJUSTMENTS (1)</b>			
Duplication, Credit Audits and Other Adjustments As Reported	\$24,083,098	\$25,759,492	7.0%
<b>TOTAL ADJUSTED ENFORCEMENT COLLECTIONS (2)</b>	<b>\$530,000,447</b>	<b>\$585,929,679</b>	10.6%
<b>REFUND DENIALS</b>	<b>\$51,718,543</b>	<b>\$4,706,631</b>	-90.9%

(1) Audits resulting in credit adjustments are subtracted to produce an actual figure representing the net gain to the state from the Audit Division's efforts.

(2) Actual amounts resulting from the department's enforcement effort.

# **TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX**

## **MAJOR FEATURES**

Arizona's transaction privilege, use and severance taxes are imposed on the privilege of transacting business in the state.

The rates range from 1% (cities) to 5.6% depending on the type of business, with most rates at 5.6% (*Refer to Table 5*). Gross revenue exceeding \$7.0 billion was remitted by Transaction Privilege, Severance and Use Tax license holders during fiscal year 2007 (*Refer to Table 4*).

## **SEVERANCE TAX**

A severance tax is imposed in lieu of a transaction privilege tax on the businesses of mining metalliferous mineral and severing timber. The severance rates are 2.5% on mining metalliferous minerals, \$2.13 per thousand board feet (Ponderosa) and \$1.51 per thousand board feet (other) on timbering, effective January 1995 (*Refer to Table 5*).

## **DISTRIBUTION**

The total of transaction privilege and rental occupancy taxes creates a tax base that is divided into two parts, distribution base and non-shared. The distribution base portion is divided among municipalities (25%), counties (40.51%), and the state general fund (34.49%). The non-shared portion is deposited directly to the state general fund (*Refer to Tables 7 and 8*). Use tax is deposited only to the state general fund.

## **USE TAX**

A 5% use tax is imposed on the purchase price of tangible personal property when a transaction privilege tax equal to or greater than the Arizona rate was not paid. A use tax collection responsibility is imposed on retailers whose activities in the state are insufficient to require them to pay transaction privilege tax but are nonetheless substantial enough to fall outside the protective umbrella of the United States Constitutional provision governing interstate commerce. Firms without nexus may also voluntarily collect use tax for the benefit of their customers.

## **MUNICIPAL PRIVILEGE AND USE TAX**

The department collects transaction privilege and use tax for 78 Arizona cities and towns at no charge to the municipalities. This is a service to the cities and to the taxpaying community who are therefore able to combine their reporting requirements on a single form and payment to a single governmental entity. Weekly distribution checks are processed after the department collects the local taxes (*Refer to Tables 26 and 27*).

## **COUNTY TAX AND SURCHARGE COLLECTION**

All 15 counties in Arizona levy some type of county tax or surcharge (*Refer to Table 4*). These taxes or surcharges are collected by the department. The rental car surcharge is imposed only in Maricopa and Pima Counties. A tax on hotels located in unincorporated areas of the county is levied in Pima County.

Of the 14 counties with statutory authority to impose a general excise tax, only 13 do so. By statute, Maricopa County may not impose an excise tax. Although subject to voter approval, any county may levy a transportation excise tax or road tax. Only four counties, Gila, Maricopa, Pima, and Pinal, do so.

The other types of county excise tax options are a hospital tax, a jail tax, capital projects, and health services district.

**TABLE 4 - revised 03/08**  
**GROSS TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

SOURCE	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07
Distribution Base	\$1,265,625,175	\$1,362,143,376	\$1,504,851,881	\$1,742,272,992	\$1,848,148,565
Nonshared	2,400,432,714	2,588,439,418	2,871,370,865	3,350,808,572	3,575,743,539
Use Tax	190,186,057	232,215,946	259,687,993	306,198,808	303,010,863
Amnesty	-----	13,553,444	-----	-----	-----
<b>SUBTOTAL</b>	<b>\$3,856,243,946</b>	<b>\$4,196,352,184</b>	<b>\$4,635,910,738</b>	<b>\$5,399,280,372</b>	<b>\$5,726,902,967</b>
Education Tax	\$447,841,034	\$487,214,807	\$538,346,435	\$628,471,192	\$666,184,022
Undistributed Estimated	9,156,917	14,056,241	24,907,681	33,445,892	34,613,656
Telecommunications Devices	6,328,095	5,091,661	4,035,765	3,860,508	6,744,231 (3)
Poison Control Fund	2,340,528	1,437,566	1,066,833	1,128,620	0
School for the Deaf	-----	1,362,312 (3)	1,363,179	867,140 (3)	0
Teratogen Information Program	-----	-----	53,771 (3)	48,678 (3)	0
911 Excise	23,510,706	25,691,865	26,543,285	28,736,693	23,074,167
Municipal Water	2,150,995	2,195,590	2,156,683	2,403,644	2,449,270
Environmentally Hazardous Products (2)	42	44	0	0	0
Waste Tire Accounts					
Receivable Collections	72,824	23,068	23,018	25,238	49,009
Less Collection Fees	(1,375)	(11)	0	0	0
Amnesty-Other	-----	765,008	-----	-----	-----
<b>GROSS STATE COLLECTIONS</b>	<b>\$4,347,643,713</b>	<b>\$4,734,190,336</b>	<b>\$5,234,407,387</b>	<b>\$6,098,267,976</b>	<b>\$6,460,017,324</b>
Municipal Privilege Tax	\$302,626,095	\$352,320,229	\$428,527,285	\$551,992,962	\$619,189,088
Pima County Hotel Tax	2,556,951	2,716,687	2,885,159	6,396,637	8,766,453
Maricopa County Rental Car Surcharge	5,267,273	5,556,717	6,024,355	6,493,520	6,211,155
Pima County Rental Car Surcharge	1,435,901	1,485,916	1,594,810	1,588,913	1,689,669
Pima County R.V. Surcharge	194,949	201,697	197,740	213,599	217,530
Pima County Road Tax	-----	-----	-----	-----	66,810,147
Apache County Excise Tax	960,194	959,948	1,015,316	1,202,364	1,150,488
Cochise County Excise Tax	5,673,861	6,181,770	6,363,569	7,084,178	7,626,330
Coconino County Excise Tax	9,467,920	10,079,519	10,213,403	11,510,952	12,219,377
Coconino County Jail Tax	5,692,968	6,043,452	6,128,614	6,904,220	9,143,351
Coconino County Capitol Projects	864,263 (1)	2,454,757	2,550,207	2,878,151	3,050,257
Gila County Excise Tax	2,519,790	2,626,335	2,608,771	3,014,729	3,308,376
Gila County Transportation	2,606,712	2,709,463	2,698,164	3,107,708	3,410,721
Graham County Excise Tax	1,174,735	1,157,663	1,229,557	1,616,224	1,977,017
Greenlee County Excise Tax	700,206	713,868	803,692	1,062,011	1,052,972
La Paz County Excise Tax	862,595	972,286	1,011,440	1,147,366	1,168,130
La Paz County Jail Tax	862,282	972,523	1,011,321	1,147,361	1,167,821
La Paz County Health Services District	143,928 (1)	215,928	1,418	1,124	573
Maricopa County Road Tax	268,720,901	288,009,151	316,805,562	214,045,397 (1)	1,496,644
Maricopa Road Tax Extension	-----	-----	-----	153,591,999 (1)	390,953,954
Maricopa County Stadium Tax	98,185	82,139	416	4,796	2,346
Maricopa County Jail Tax	98,462,479	106,323,691	117,322,803	125,919,368	145,445,860
Mohave County Excise Tax	4,874,083	5,599,830	6,638,796	7,809,442	7,717,443
Navajo County Excise Tax	5,295,310	5,322,106	5,777,336	6,613,709	6,778,153
Pinal County Excise Tax	8,062,544	9,550,194	11,921,052	16,998,069	18,826,280
Pinal County Road Tax	8,280,451	9,757,830	12,173,030	17,279,308	19,177,206
Santa Cruz County Excise Tax	2,186,284	2,456,163	2,583,595	3,130,804	3,458,900
Santa Cruz County Jail Tax	-----	-----	-----	-----	3,111,567
Yavapai County Excise Tax	11,279,837	12,564,395	14,102,433	16,623,589	16,971,697
Yavapai County Jail Tax	4,489,617	6,190,924	7,045,465	8,310,397	8,483,152
Yuma County Excise Tax	8,084,880	9,103,289	10,602,218	11,880,763	12,400,384
Yuma County Jail Tax	8,113,092	9,100,795	10,601,525	8,310,397	12,401,312
Yuma County Capitol Projects Tax	8,041,984	9,072,298	10,580,860	11,820,404	8,240,159 (1)
Yuma County Health Services District	-----	-----	-----	1,811,649 (1)	2,458,301
Tourism/Sports Authority	17,921,823	19,125,954	19,987,721	22,454,539	24,267,403
Amnesty-County Taxes	-----	996,779	-----	-----	-----
Additional Distribution	-----	-----	-----	-----	13,085
<b>COUNTY AND CITY COLLECTIONS</b>	<b>\$797,522,088</b>	<b>\$890,624,297</b>	<b>\$1,021,007,631</b>	<b>\$1,233,966,650</b>	<b>\$1,430,363,301</b>
<b>TOTAL DEPARTMENT OF REVENUE RECEIPTS</b>	<b>\$5,145,165,801</b>	<b>\$5,624,814,633</b>	<b>\$6,255,415,019</b>	<b>\$7,332,234,626</b>	<b>\$7,890,380,625</b>

(1) The tax was in place for only a portion of the first fiscal year. This figure does not represent a full year's collection  
(2) Environmentally Hazardous Products was repealed September 1, 1992. All amounts received are for prior tax periods  
(3) The distribution was in place for only a portion of the fiscal year

**TABLE 5**  
**STATE TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX RATES**  
**FISCAL YEAR 2006-07**

TAXABLE ACTIVITIES	DISTRIBUTION BASE	NONSHARED	EDUCATION	TOTAL TAX
1. Transporting and Towing	1.0%	4.0%	0.6%	5.6%
2. Nonmetalliferous Mining, Oil and Gas Production	1.0%	2.125%	0.0%	3.125%
4. Utilities	1.0%	4.0%	0.6%	5.6%
5. Communications	1.0%	4.0%	0.6%	5.6%
6. Railroads and Aircraft	1.0%	4.0%	0.6%	5.6%
7/8. Private Car/Pipelines	1.0%	4.0%	0.6%	5.6%
9. Publishing	1.0%	4.0%	0.6%	5.6%
10. Printing	1.0%	4.0%	0.6%	5.6%
11. Restaurants and Bars	2.0%	3.0%	0.6%	5.6%
12. Amusements	2.0%	3.0%	0.6%	5.6%
14. Personal Property Rentals	2.0%	3.0%	0.6%	5.6%
15. Contracting (1)	1.0%	4.0%	0.6%	5.6%
17. Retail	2.0%	3.0%	0.6%	5.6%
19. Mining Severance	2.0%	0.5%	0.0%	2.5%
21. Timbering Severance - Ponderosa (per thousand board feet) (2)	\$0.00	\$0.00	\$0.00	\$0.00
22. Timbering Severance - Other (per thousand board feet) (2)	\$0.00	\$0.00	\$0.00	\$0.00
25. Hotel/Motel Tax	2.75%	2.75%	0.0%	5.5%
28. Rental Occupancy Tax (2)	0.0%	0.0%	0.0%	0.0%
29/30. Use and Use Inventory Tax	0.0%	5.0%	0.6%	5.6%
47. Membership Camping (2)	0.0%	0.0%	0.0%	0.0%
49. Jet Fuel (per gallon)	\$0.0122	\$0.0183	\$0	\$0.0305
51. Jet Fuel Use ( per gallon)	\$0	\$0.0305	\$0	\$0.0305

(1) Most Contracting activity is covered under class 15, at a 5.6% total tax rate. Other classes at lower rates exist.

(2) Effective November 1, 2006, these rates were repealed.

**TABLE 6**  
**NET TAXABLE SALES**  
**BY TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX CLASSIFICATIONS (1)**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

CLASSIFICATION	FY2002-03	% OF TOTAL	FY2003-04	% OF TOTAL	FY2004-05	% OF TOTAL	FY2005-06	% OF TOTAL	FY2006-07	% OF TOTAL
Transporting (5)	\$26,106,195	0.03	\$67,486,501	0.08	\$53,371,189	0.06	\$59,800,611	0.06	\$43,350,656	0.04
Mining, Oil & Gas	268,072,442	0.35	287,786,559	0.34	317,201,953	0.34	321,538,409	0.30	255,531,207	0.22
Mining Severance	45,049,321	0.06	261,623,478	0.31	656,631,022	0.71	1,219,984,252	1.12	1,743,361,330	1.51
Utilities	5,940,826,217	7.72	6,430,306,112	7.69	6,828,178,785	7.34	7,679,981,999	7.07	8,609,033,694	7.47
Communications	2,869,499,256	3.73	2,809,508,501	3.36	2,934,857,677	3.15	3,220,061,678	2.96	3,513,667,361	3.05
Private Car and Pipelines	12,492,721	0.02	15,919,891	0.02	14,832,331	0.02	25,751,236	0.02	19,678,951	0.02
Publishing	133,229,181	0.17	128,910,761	0.15	134,924,680	0.14	133,679,534	0.12	129,680,750	0.11
Job Printing	427,730,090	0.56	348,923,705	0.42	367,010,013	0.39	403,686,091	0.37	397,801,716	0.35
Restaurants and Bars	6,655,027,562	8.65	7,202,034,300	8.62	7,939,964,059	8.53	8,933,458,779	8.22	9,619,785,333	8.35
Amusements	782,669,793	1.02	813,488,687	0.97	872,520,031	0.94	998,766,714	0.92	1,086,363,361	0.94
Commercial Lease (4)	(7,578,796)	(0.01)	(6,517,860)	(0.01)	918,894	0.00 (2)	(119,532)	(0.00) (2)	(1,707)	(0.00) (2)
Personal Property										
Rentals	3,319,777,937	4.31	3,174,944,574	3.80	3,242,363,333	3.48	3,633,373,845	3.34	3,927,824,025	3.41
Contracting	11,563,726,354	15.03	13,156,489,701	15.74	16,044,846,683	17.24	20,487,917,068	18.85	22,415,050,588	19.44
Feed Wholesale (3)	(67,256)	(0.00) (2)	(8,021)	(0.00)	0	0.00	0	0.00	0	0.00
Retail	39,408,769,331	51.22	42,409,054,932	50.74	46,378,344,449	49.83	53,147,971,363	48.90	55,009,403,286	47.72
Hotel/Motel	1,698,499,187	2.21	1,831,153,519	2.19	2,063,973,281	2.22	2,268,775,586	2.09	2,411,634,235	2.09
Rental Occupancy Tax	1,427,458	0.00 (2)	4,201,555	0.01	2,413,680	0.00 (2)	3,471,162	0.00 (2)	1,064,998	0.00 (2)
Use Tax	3,793,690,395	4.93	4,644,318,922	5.56	5,218,535,456	5.61	6,155,958,934	5.66	6,091,506,625	5.28
Membership Camping	2,406,275	0.00 (2)	2,998,348	0.00 (2)	2,896,795	0.00	2,784,840	0.00	12,257	0.00 (2)
Other	-----	-----	119,004	0.00 (2)	0	0.00	0	0.00	0	0.00
<b>TOTAL</b>	<b>\$76,941,353,662</b>	<b>100.00</b>	<b>\$83,582,743,168</b>	<b>100.00</b>	<b>\$93,073,784,311</b>	<b>100.00</b>	<b>\$108,696,842,570</b>	<b>100.00</b>	<b>\$115,274,748,666</b>	<b>100.00</b>

(1) Net taxable sales are based upon tax receipts.

(2) Percent of total is less than 0.01%.

(3) Feed Wholesale dropped to 0% effective July 17, 1994 and was repealed effective October 1, 1994.

(4) Commercial Lease rate dropped to 0% effective July 1, 1997.

(5) The Transportation/Towing and Railroads/Aircraft business classifications have been combined into one category and renamed Transporting.

Figures may not add to total due to rounding.

**TABLE 7**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS BY CLASS**  
**FISCAL YEAR 2006-07**

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL COLLECTIONS
Transporting (1)	(\$251,960)	(\$1,004,685)	(\$1,256,644)
Nonmetal Mining, Oil and Gas	2,553,154	5,425,452	7,978,605
Mining Severance	34,839,204	8,709,801	43,549,005
Timbering Severance - Ponderosa (3)	7,469	1,867	9,336
Timbering Severance - Other (3)	1,560	390	1,950
Utilities	86,030,697	344,122,789	430,153,486
Communications	35,104,198	140,416,791	175,520,989
Private Car and Pipelines	187,704	750,817	938,521
Publishing	1,295,623	5,182,494	6,478,117
Printing	3,974,022	15,896,089	19,870,111
Restaurants and Bars	192,206,067	288,309,100	480,515,167
Amusements	21,702,278	32,553,417	54,255,695
Commercial Lease (2)	(20)	(20)	(39)
Rentals of Personal Property	78,477,664	117,716,496	196,194,159
Contracting	223,714,233	894,869,413	1,118,583,646
Retail	1,099,125,722	1,648,688,583	2,747,814,304
Hotel/Motel	66,237,832	66,237,832	132,475,665
Rental Occupancy Tax (3)	21,140	10,412	31,553
Use Tax Utilities	120,981	483,923	604,904
Use Tax	0	302,255,656	302,255,656
License Fees	0	128,878	128,878
Membership Camping (3)	216	325	541
Jet Fuel Tax	1,942,818	2,914,227	4,857,045
Jet Fuel Use Tax	0	906,377	906,377
Non Sufficient Funds	0	9,075	9,075
Telecommunications Service Assistance	(53,297)	(213,187)	(266,484)
<b>TOTAL</b>	<b>\$1,847,237,307</b>	<b>\$3,874,372,310</b>	<b>\$5,721,609,616</b>

(1) Transporting/Towing has been combined with Railroads/Aircraft for confidentiality purposes.

(2) Commercial Lease rate dropped to 0% effective July 1, 1997.

(3) Effective November 1, 2006, these rates were repealed.

Figures may not add to total due to rounding.

**TABLE 8**  
**DISTRIBUTION OF TRANSACTION PRIVILEGE, USE**  
**AND SEVERANCE TAX COLLECTIONS**  
**FISCAL YEAR 2006-07**

Net Regular to State General Fund	\$4,516,180,842
Net Estimated Payments to General Fund	34,613,656
Net to Cities	462,037,141
Net to Counties	748,684,984
Net to Education Fund	666,184,022
911 Wireline/Excise, 911 Wireless, Telecommunications Devices, Municipal Water, Environmentally Hazardous Products and Waste Tire Accounts Receivable Collections	32,316,678
<b>TOTAL GROSS COLLECTIONS</b>	<b>\$6,460,017,323</b>
Additional Distribution to State General Fund	34,475
Additional Distribution to Cities	4,697
Additional Distribution to Counties	7,612

**ADDITIONAL DISTRIBUTION FROM**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS**  
**FISCAL YEAR 2006-07**

Phoenix International Raceway - Bridge Construction	\$416,667
Phoenix International Raceway - Highway Improvements	\$416,667
Rio Nuevo	\$14,974,923
Sports and Tourism Authority	\$7,347,546
Tribal Community Colleges	\$1,750,000

Figures may not add total due to rounding.



**TABLE 9**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN APACHE COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$12,157,442	-8.2%	\$607,872
Communications	25,285,016	-21.1%	1,264,251
Publishing	858,527	n/a	42,926
Job Printing	227,448	n/a	11,372
Restaurants and Bars	10,508,324	-5.0%	525,416
Amusements	308,400	n/a	15,420
Rentals of Personal			
Property	5,368,476	-9.0%	268,424
Contracting (All)	79,400,398	-0.3%	3,970,020
Retail	75,232,998	-4.8%	3,761,650
Hotel/Motel	13,117,561	8.5%	721,466
Other Taxable Activities	70,804,097	n/a	3,426,735
<b>TOTAL</b>	<b>\$293,268,687</b>	<b>-8.4%</b>	<b>\$14,615,553</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	21	21	24
Communications	123	133	142
Publishing	n/a	n/a	10
Job Printing	n/a	n/a	12
Restaurants and Bars	66	66	71
Amusements	n/a	n/a	15
Rentals of Personal			
Property	160	180	171
Contracting (All)	382	452	471
Retail	1,103	1,241	1,297
Hotel/Motel	56	56	59
Other Taxable Activities	724	845	868
<b>TOTAL</b>	<b>2,635</b>	<b>2,994</b>	<b>3,140</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications  
Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 10**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN COCHISE COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$155,442,234	10.7%	\$7,772,112
Communications	52,925,880	3.6%	2,646,294
Publishing	1,771,567	9.8%	88,578
Restaurants and Bars	124,654,066	11.6%	6,232,703
Amusements	2,979,764	-57.0%	148,988
Rentals of Personal			
Property	27,579,999	12.6%	1,379,000
Contracting (All)	308,516,943	15.7%	15,425,847
Retail	783,434,408	4.2%	39,171,720
Hotel/Motel	38,711,316	12.8%	2,129,122
Other Taxable Activities	96,575,380	17.2%	4,753,791
<b>TOTAL</b>	<b>\$1,592,591,556</b>	<b>8.2%</b>	<b>\$79,748,156</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	45	46	55
Communications	195	228	211
Publishing	17	n/a	25
Restaurants and Bars	339	350	351
Amusements	62	60	58
Rentals of Personal			
Property	374	409	403
Contracting (All)	962	1,162	1,201
Retail	3,222	3,452	3,580
Hotel/Motel	126	142	151
Other Taxable Activities	1,269	1,438	1,472
<b>TOTAL</b>	<b>6,611</b>	<b>7,287</b>	<b>7,507</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 11**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN COCONINO COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$158,069,986	10.2%	\$7,903,499
Communications	89,443,255	6.4%	4,472,163
Publishing	2,586,723	n/a	129,336
Job Printing	3,220,143	8.8%	161,007
Restaurants and Bars	336,927,805	7.3%	16,846,390
Amusements	48,844,537	16.0%	2,442,227
Rentals of Personal Property	62,963,340	4.4%	3,148,167
Contracting (All)	397,182,073	6.3%	19,859,104
Retail	1,073,989,197	4.5%	53,699,460
Hotel/Motel	215,456,842	5.7%	11,850,126
Other Taxable Activities	119,249,916	n/a	5,789,612
<b>TOTAL</b>	<b>\$2,507,933,817</b>	<b>5.5%</b>	<b>\$126,301,092</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004/05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	38	34	36
Communications	226	249	259
Publishing	n/a	n/a	30
Job Printing	NA	34	43
Restaurants and Bars	446	471	467
Amusements	88	91	99
Rentals of Personal Property	511	528	501
Contracting (All)	1,640	1,881	1,915
Retail	3,989	4,270	4,413
Hotel/Motel	256	268	257
Other Taxable Activities	1,658	1,801	1,841
<b>TOTAL</b>	<b>8,852</b>	<b>9,627</b>	<b>9,861</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 12**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN GILA COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$106,082,042	25.0%	\$5,304,102
Communications	26,127,319	2.5%	1,306,366
Publishing	968,076	-1.4%	48,404
Job Printing	442,070	n/a	22,103
Restaurants and Bars	59,871,578	7.3%	2,993,579
Amusements	2,187,514	58.3%	109,376
Rentals of Personal Property	14,803,088	-21.0%	740,154
Contracting (All)	116,873,756	12.9%	5,843,688
Retail	306,059,645	3.6%	15,302,982
Hotel/Motel	14,306,475	7.9%	786,856
Other Taxable Activities	72,205,716	n/a	2,929,696
<b>TOTAL</b>	<b>\$719,927,278</b>	<b>9.5%</b>	<b>\$35,387,307</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	28	33	32
Communications	161	190	189
Publishing	12	15	16
Job Printing	n/a	n/a	17
Restaurants and Bars	179	189	188
Amusements	30	33	30
Rentals of Personal Property	263	283	277
Contracting (All)	746	859	923
Retail	1,830	2,090	2,116
Hotel/Motel	61	66	72
Other Taxable Activities	838	901	943
<b>TOTAL</b>	<b>4,148</b>	<b>4,659</b>	<b>4,803</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 13**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN GRAHAM COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Communications	\$9,164,238	25.0%	\$458,212
Restaurants and Bars	24,981,198	15.6%	1,249,060
Rentals of Personal Property	15,480,030	123.4%	774,002
Contracting (All)	51,506,265	22.5%	2,575,313
Retail	234,598,000	20.7%	11,729,900
Other Taxable Activities	72,872,133	11.5%	3,677,202
<b>TOTAL</b>	<b>\$408,601,864</b>	<b>21.0%</b>	<b>\$20,463,688</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Communications	127	143	141
Restaurants and Bars	67	67	60
Rentals of Personal Property	149	157	164
Contracting (All)	253	305	334
Retail	985	1,164	1,230
Other Taxable Activities	631	684	727
<b>TOTAL</b>	<b>2,212</b>	<b>2,520</b>	<b>2,656</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 14**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN GREENLEE COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2006-07</b>	<b>COLLECTIONS</b>
Communications	\$2,474,231	6.7%	\$123,712
Restaurants and Bars	3,690,086	17.6%	184,504
Rentals of Personal Property	5,875,272	472.8%	292,764
Contracting (All)	83,897,710	130.3%	4,194,886
Retail	56,039,151	-46.3%	2,801,958
Other Taxable Activities	865,653,965	45.2%	23,255,769
<b>TOTAL</b>	<b>\$1,017,630,414</b>	<b>36.9%</b>	<b>\$30,853,591</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Communications	74	76	89
Restaurants and Bars	22	28	25
Rentals of Personal Property	60	59	72
Contracting (All)	75	102	111
Retail	352	441	498
Other Taxable Activities	300	322	362
<b>TOTAL</b>	<b>883</b>	<b>1,028</b>	<b>1,157</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 15**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN LA PAZ COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$21,462,030	14.0%	\$1,073,101
Communications	7,569,626	-4.5%	378,481
Job Printing	151,826	n/a	7,591
Restaurants and Bars	26,898,454	2.8%	1,344,923
Amusements	186,919	-6.1%	9,346
Rentals of Personal Property	3,470,124	12.1%	173,506
Contracting (All)	35,798,256	1.0%	1,789,913
Retail	127,995,574	-0.8%	6,399,779
Hotel/Motel	6,287,850	0.0%	345,832
Other Taxable Activities	7,510,252	n/a	368,815
<b>TOTAL</b>	<b>\$237,330,912</b>	<b>0.4%</b>	<b>\$11,891,287</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	20	18	18
Communications	119	122	127
Job Printing	n/a	n/a	10
Restaurants and Bars	103	99	102
Amusements	11	13	10
Rentals of Personal Property	156	178	167
Contracting (All)	261	338	350
Retail	1,765	1,908	1,864
Hotel/Motel	57	55	57
Other Taxable Activities	487	565	599
<b>TOTAL</b>	<b>2,979</b>	<b>3,296</b>	<b>3,304</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 16**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN MARICOPA COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$5,340,104,563	13.0%	\$267,005,228
Communications	2,313,194,999	5.9%	115,659,750
Publishing	93,802,867	1.2%	4,690,143
Job Printing	322,225,750	0.2%	16,111,288
Restaurants and Bars	6,570,717,167	7.6%	328,535,858
Amusements	818,967,314	8.0%	40,948,366
Rentals of Personal			
Property	3,007,608,464	7.6%	150,380,423
Contracting (All)	14,769,818,830	12.1%	738,490,942
Retail	37,801,674,663	3.6%	1,890,083,733
Hotel/Motel	1,483,775,430	7.6%	81,607,649
Other Taxable Activities	4,828,904,018	25.8%	239,684,048
<b>TOTAL</b>	<b>\$77,350,794,064</b>	<b>5.9%</b>	<b>\$3,873,197,428</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	128	131	143
Communications	567	658	687
Publishing	270	310	314
Job Printing	923	911	940
Restaurants and Bars	5,997	6,442	6,584
Amusements	727	759	720
Rentals of Personal			
Property	2,869	3,047	3,035
Contracting (All)	13,918	15,506	16,516
Retail	46,602	48,977	49,535
Hotel/Motel	638	686	640
Other Taxable Activities	11,397	12,226	11,920
<b>TOTAL</b>	<b>84,036</b>	<b>89,653</b>	<b>91,034</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.



**TABLE 17**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN MOHAVE COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2005-06	COLLECTIONS
Utilities	\$450,080,323	15.3%	\$22,504,016
Communications	89,705,573	8.9%	4,485,279
Publishing	2,349,891	-21.0%	117,495
Job Printing	6,219,570	1.0%	310,978
Restaurants and Bars	217,311,463	6.9%	10,865,573
Amusements	13,109,384	-20.7%	655,469
Rentals of Personal			
Property	78,505,382	3.1%	3,925,269
Contracting (All)	637,075,884	-12.3%	31,853,794
Retail	1,514,736,752	-2.7%	75,736,838
Hotel/Motel	49,267,458	2.2%	2,709,710
Other Taxable Activities	135,507,737	21.9%	6,456,952
<b>TOTAL</b>	<b>\$3,193,869,416</b>	<b>-0.8%</b>	<b>\$159,621,373</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2004-05	FY2005-06	FY2006-07
Utilities	45	52	51
Communications	185	202	202
Publishing	23	28	27
Job Printing	33	37	35
Restaurants and Bars	401	448	446
Amusements	55	68	60
Rentals of Personal			
Property	530	544	540
Contracting (All)	1,729	2,039	2,178
Retail	4,522	4,827	4,990
Hotel/Motel	144	166	164
Other Taxable Activities	1,569	1,809	1,925
<b>TOTAL</b>	<b>9,236</b>	<b>10,220</b>	<b>10,618</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 18**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN NAVAJO COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$87,982,279	9.8%	\$4,399,114
Communications	35,121,694	24.3%	1,756,085
Publishing	1,197,866	n/a	59,893
Restaurants and Bars	95,177,582	10.4%	4,758,879
Amusements	6,735,258	n/a	336,763
Rentals of Personal			
Property	28,671,062	16.8%	1,433,553
Contracting (All)	257,433,160	6.7%	12,871,658
Retail	786,854,498	4.1%	39,342,725
Hotel/Motel	34,050,385	13.3%	1,872,771
Other Taxable Activities	57,973,047	n/a	2,831,366
<b>TOTAL</b>	<b>\$1,391,196,831</b>	<b>-0.8%</b>	<b>\$69,662,807</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	40	41	41
Communications	165	192	184
Publishing	n/a	n/a	14
Restaurants and Bars	199	219	233
Amusements	n/a	n/a	45
Rentals of Personal			
Property	317	336	319
Contracting (All)	952	1,082	1,191
Retail	2,300	2,494	2,665
Hotel/Motel	143	152	151
Other Taxable Activities	1,043	1,171	1,181
<b>TOTAL</b>	<b>5,159</b>	<b>5,687</b>	<b>6,024</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 19**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN PIMA COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$1,278,206,901	6.8%	\$63,910,345
Communications	482,889,845	34.4%	24,144,492
Publishing	15,059,142	-17.2%	752,957
Job Printing	48,497,756	-5.6%	2,424,888
Restaurants and Bars	1,443,381,949	7.6%	72,169,097
Amusements	117,606,080	15.7%	5,880,304
Rentals of Personal			
Property	463,813,222	8.3%	23,190,661
Contracting (All)	2,423,605,573	8.2%	121,180,279
Retail	7,818,537,872	3.3%	390,926,894
Hotel/Motel	362,516,704	0.1%	19,938,419
Other Taxable Activities	1,087,259,776	30.5%	41,996,036
<b>TOTAL</b>	<b>\$15,541,374,819</b>	<b>7.0%</b>	<b>\$766,514,372</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	66	69	77
Communications	233	273	326
Publishing	83	81	86
Job Printing	175	175	165
Restaurants and Bars	1,585	1,684	1,692
Amusements	217	206	220
Rentals of Personal			
Property	1,134	1,146	1,154
Contracting (All)	4,609	4,963	5,111
Retail	14,433	14,861	15,091
Hotel/Motel	266	283	276
Other Taxable Activities	3,546	3,972	4,232
<b>TOTAL</b>	<b>26,347</b>	<b>27,713</b>	<b>28,430</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 20**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN PINAL COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2005-06	COLLECTIONS
Utilities	\$328,860,573	20.4%	\$16,443,029
Communications	144,967,732	11.8%	7,248,387
Publishing	3,203,374	-0.2%	160,169
Job Printing	1,563,187	n/a	78,159
Restaurants and Bars	188,814,158	15.6%	9,440,708
Amusements	27,092,315	19.8%	1,354,616
Rentals of Personal			
Property	64,076,430	32.2%	3,203,821
Contracting (All)	1,868,637,725	6.9%	93,431,886
Retail	1,048,949,102	10.4%	52,447,455
Hotel/Motel	21,788,811	10.4%	1,198,385
Other Taxable Activities	384,785,747	13.3%	13,813,263
<b>TOTAL</b>	<b>\$4,082,739,156</b>	<b>10.4%</b>	<b>\$198,819,878</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2004-05	FY2005-06	FY2006-07
Utilities	58	65	67
Communications	218	260	261
Publishing	16	27	27
Job Printing	n/a	n/a	35
Restaurants and Bars	351	402	405
Amusements	94	105	101
Rentals of Personal			
Property	439	479	519
Contracting (All)	2,210	2,701	2,968
Retail	3,681	4,157	4,530
Hotel/Motel	93	101	108
Other Taxable Activities	1,373	1,551	1,669
<b>TOTAL</b>	<b>8,533</b>	<b>9,848</b>	<b>10,690</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 21**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN SANTA CRUZ COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$39,456,652	-3.4%	\$1,972,833
Communications	28,515,966	31.7%	1,425,798
Job Printing	737,358	n/a	36,868
Restaurants and Bars	48,964,608	11.0%	2,448,230
Amusements	5,316,255	89.4%	265,813
Rentals of Personal Property	15,059,224	40.1%	752,961
Contracting (All)	122,805,283	12.2%	6,140,264
Retail	412,242,405	9.6%	20,612,120
Hotel/Motel	13,395,410	-4.0%	736,748
Other Taxable Activities	20,899,574	16.8%	1,045,010
<b>TOTAL</b>	<b>\$707,392,735</b>	<b>10.8%</b>	<b>\$35,436,645</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	13	18	18
Communications	144	165	165
Job Printing	NA	14	13
Restaurants and Bars	128	138	144
Amusements	21	18	20
Rentals of Personal Property	237	246	247
Contracting (All)	499	602	652
Retail	1,618	1,800	1,933
Hotel/Motel	29	30	37
Other Taxable Activities	731	790	842
<b>TOTAL</b>	<b>3,420</b>	<b>3,821</b>	<b>4,071</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 22**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN YAVAPAI COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2005-06	COLLECTIONS
Utilities	\$289,043,134	13.0%	\$14,452,157
Communications	119,212,349	3.2%	5,960,617
Publishing	4,103,785	5.1%	205,189
Job Printing	7,957,313	0.8%	397,866
Restaurants and Bars	275,375,048	5.8%	13,768,752
Amusements	27,806,901	12.9%	1,390,345
Rentals of Personal			
Property	68,378,734	2.5%	3,418,937
Contracting (All)	799,876,996	-5.0%	39,993,850
Retail	1,629,489,832	1.4%	81,474,492
Hotel/Motel	101,100,329	5.9%	5,560,518
Other Taxable Activities	382,940,997	15.3%	11,851,222
<b>TOTAL</b>	<b>\$3,705,285,417</b>	<b>2.6%</b>	<b>\$178,473,945</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2004-05	FY2005-06	FY2006-07
Utilities	75	74	70
Communications	226	240	256
Publishing	46	50	52
Job Printing	59	62	60
Restaurants and Bars	596	638	635
Amusements	88	93	93
Rentals of Personal			
Property	517	550	551
Contracting (All)	2,714	3,065	3,149
Retail	5,790	6,205	6,322
Hotel/Motel	198	199	180
Other Taxable Activities	1,688	1,890	1,965
<b>TOTAL</b>	<b>11,997</b>	<b>13,066</b>	<b>13,333</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees, Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 23**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)**  
**IN YUMA COUNTY FOR THE PERIOD BEGINNING**  
**JULY 1, 2006 AND ENDING JUNE 30, 2007**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2005-06</b>	<b>COLLECTIONS</b>
Utilities	\$238,454,958	12.6%	\$11,922,748
Communications	87,069,638	-2.1%	4,353,482
Restaurants and Bars	192,511,847	5.2%	9,625,592
Amusements	12,998,356	6.1%	649,918
Rentals of Personal Property	66,171,179	5.5%	3,308,559
Contracting (All)	462,621,737	-1.6%	23,131,087
Retail	1,339,569,190	4.7%	66,978,459
Hotel/Motel	49,461,843	11.3%	2,720,401
Other Taxable Activities	88,106,932	8.1%	4,328,436
<b>TOTAL</b>	<b>\$2,536,965,680</b>	<b>4.2%</b>	<b>\$127,018,682</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-05 THROUGH FISCAL YEAR 2006-07**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Utilities	31	32	37
Communications	195	322	216
Restaurants and Bars	312	348	348
Amusements	39	43	42
Rentals of Personal Property	450	440	469
Contracting (All)	847	997	1,084
Retail	3,327	3,599	3,784
Hotel/Motel	100	101	99
Other Taxable Activities	1,357	1,418	1,583
<b>TOTAL</b>	<b>6,658</b>	<b>7,300</b>	<b>7,662</b>

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.

Figures may not add to total due to rounding.

**TABLE 24**  
**STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX**  
**DISTRIBUTION TO COUNTIES**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

<b>COUNTY</b>	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>	<b>% CHANGE FROM FY 2005-06</b>
Apache	\$3,878,392	\$4,135,998	\$4,542,978	\$5,213,591	\$5,021,042	<b>-3.7%</b>
Cochise	9,344,323	10,135,220	10,852,890	12,250,317	13,078,428	<b>6.8%</b>
Coconino	13,903,149	14,362,293	15,127,441	16,990,411	17,652,655	<b>3.9%</b>
Gila	4,058,750	4,314,601	4,600,625	5,347,259	5,375,594	<b>0.5%</b>
Graham	2,381,979	2,500,199	2,735,648	3,257,813	3,419,080	<b>5.0%</b>
Greenlee	1,750,473	1,975,250	2,511,678	3,918,655	5,112,364	<b>30.5%</b>
La Paz	1,523,806	1,665,084	1,824,245	2,050,126	2,027,860	<b>-1.1%</b>
Maricopa	329,197,352	355,145,845	392,415,261	453,769,970	480,738,808	<b>5.9%</b>
Mohave	13,839,979	15,239,251	17,231,461	20,349,087	22,051,895	<b>8.4%</b>
Navajo	8,287,880	8,627,859	9,440,461	10,785,151	10,999,752	<b>2.0%</b>
Pima	77,729,083	82,562,254	90,284,731	102,619,310	106,931,317	<b>4.2%</b>
Pinal	13,328,798	14,773,417	16,911,027	21,298,154	25,221,897	<b>18.4%</b>
Santa Cruz	3,357,505	3,627,497	3,949,677	4,604,423	4,919,731	<b>6.8%</b>
Yavapai	17,000,259	18,519,004	21,183,714	25,131,601	26,858,064	<b>6.9%</b>
Yuma	13,121,508	14,220,509	16,003,660	18,208,919	19,276,498	<b>5.9%</b>
Additional Distribution	-----	-----	-----	-----	7,612	
	<b>\$512,703,234</b>	<b>\$551,804,281</b>	<b>\$609,615,497</b>	<b>\$705,794,789</b>	<b>\$748,692,595</b>	<b>6.1%</b>

Figures may not add to totals due to rounding.



**TABLE 25**  
**STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX**  
**DISTRIBUTION TO MUNICIPALITIES**  
**FISCAL YEAR 2006-07**

<b>CITIES</b>	<b>AMOUNT</b>	<b>COUNTY TOTAL</b>	<b>CITIES</b>	<b>AMOUNT</b>	<b>COUNTY TOTAL</b>
<b>APACHE</b>			Scottsdale	\$22,312,325	
Eagar	\$421,531		Surprise	8,389,268	
Springerville	196,271		Tempe	15,758,308	
St. Johns	367,354	\$985,156	Tolleson	617,612	
<b>COCHISE</b>			Wickenburg	577,597	
Benson	\$450,520		Youngtown	585,771	\$329,406,973
Bisbee	624,455		<b>MOHAVE</b>		
Douglas	1,634,322		Bullhead City	\$3,631,722	
Huachuca City	173,935		Colorado City	387,789	
Sierra Vista	4,152,576		Kingman	2,457,899	
Tombstone	153,025		Lake Havasu City	5,078,803	\$11,556,213
Willcox	369,255	\$7,558,087	<b>NAVAJO</b>		
<b>COCONINO</b>			Holbrook	\$515,627	
Flagstaff	\$5,815,412		Pinetop-Lakeside	395,868	
Fredonia	105,501		Show Low	939,533	
Page	675,780		Snowflake	469,054	
Williams	298,921	\$6,895,614	Taylor	389,689	
<b>GILA</b>			Winslow	934,781	\$3,644,552
Globe	\$712,373		<b>PIMA</b>		
Hayden	84,781		Marana	\$2,540,114	
Miami	185,816		Oro Valley	3,744,827	
Payson	1,466,566		Sahuarita	1,329,699	
Star Valley	190,663		South Tucson	535,111	
Winkelman	42,105	\$2,682,304	Tucson	50,352,715	\$58,502,466
<b>GRAHAM</b>			<b>PINAL</b>		
Pima	\$203,679		Apache Junction	\$3,238,230	
Safford	889,634		Casa Grande	3,086,156	
Thatcher	432,461	\$1,525,774	Coolidge	777,479	
<b>GREENLEE</b>			Eloy	1,057,391	
Clifton	\$246,740		Florence	1,951,302	
Duncan	77,178	\$323,918	Kearny	213,759	
<b>LA PAZ</b>			Mammoth	167,472	
Parker	\$311,752		Maricopa	1,514,469	
Quartzsite	342,167	\$653,919	Superior	309,281	\$12,315,538
<b>MARICOPA</b>			<b>SANTA CRUZ</b>		
Avondale	\$6,592,036		Nogales	\$2,074,862	
Buckeye	2,414,748		Patagonia	87,443	\$2,162,305
Carefree	350,151		<b>YAVAPAI</b>		
Cave Creek	452,991		Camp Verde	\$1,019,847	
Chandler	21,940,979		Chino Valley	1,171,447	
El Mirage	3,047,282		Clarkdale	349,771	
Fountain Hills	2,327,876		Cottonwood	1,032,204	
Gila Bend	188,192		Dewey-Humboldt	383,037	
Gilbert	16,594,544		Jerome	31,365	
Glendale	23,036,293		Prescott	3,875,040	
Goodyear	4,392,378		Prescott Valley	3,191,182	
Guadalupe	527,982		Sedona	1,039,332	\$12,093,225
Litchfield Park	430,370		<b>YUMA</b>		
Mesa	42,589,898		San Luis	\$2,179,413	
Paradise Valley	1,317,628		Somerton	926,702	
Peoria	13,129,991		Wellton	187,241	
Phoenix	140,272,664		Yuma	8,437,741	\$11,731,098
Queen Creek	1,560,091		Additional Distribution		\$4,697
			<b>TOTAL</b>	<b>\$462,037,141</b>	<b>\$462,041,838</b>

City Distributions are based on relative population.  
 Figures may not add to total due to rounding.

**TABLE 26**  
**MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM**  
**COLLECTIONS BY CITY**  
**FISCAL YEAR 2006-07**

<b>CITY</b>	<b>RATE (1) (PERCENT)</b>	<b>COLLECTIONS</b>	<b>CITY</b>	<b>RATE (1) (PERCENT)</b>	<b>COLLECTIONS</b>
Apache Junction	2.2*	\$12,706,880	Maricopa	2.0*	\$23,912,100
Benson	2.5*	3,521,733	Miami	2.5*	293,707
Bisbee	2.5*	1,840,038	Oro Valley	2.0*	15,083,616
Buckeye	2.0*	21,176,137	Page	3.0*	5,859,635
Bullhead City	2.0*	14,738,205	Paradise Valley	1.65*	9,825,128
Camp Verde	2.0*	2,706,405	Parker	2.0*	1,360,203
Carefree	3.0*	3,669,144	Patagonia	3.0*	176,712
Casa Grande	1.8*	24,585,990	Payson	2.12*	7,503,852
Cave Creek	2.5*	4,073,281	Pima	2.0*	242,671
Chino Valley	3.0*	4,941,038	Pinetop-Lakeside	2.5*	4,248,442
Clarkdale	2.25*	1,357,111	Prescott Valley	2.33*	14,584,471
Clifton	3.0*	433,821	Quartzsite	2.5*	1,497,925
Colorado City	2.0*	318,844	Queen Creek	2.0*	20,225,405
Coolidge	3.0*	6,549,753	Safford	2.5*	6,342,493
Cottonwood	2.2*	10,248,166	Sahuarita	2.0*	14,103,320
Dewey-Humboldt	2.0*	689,570	St. Johns	2.0*	509,529
Douglas	2.5*	5,106,688	San Luis	3.5*	3,901,795
Duncan	2.0	91,617	Sedona	3.0*	14,165,807
Eagar	3.0*	926,119	Show Low	2.0	10,964,955
El Mirage	3.0*	5,628,283	Sierra Vista	1.75*	17,364,206
Eloy	3.0*	7,113,849	Snowflake	2.0*	1,486,125
Florence	2.0*	3,609,702	Somerton	2.5*	990,230
Fountain Hills	2.6*	11,075,428	South Tucson	2.5*	2,446,463
Fredonia	2.0	140,008	Springerville	3.0*	1,527,062
Gila Bend	3.0*	1,032,993	Star Valley	2.0*	463,990
Gilbert	1.5*	57,129,376	Superior	2.0*	586,091
Globe	2.0*	3,984,775	Surprise	2.2*	46,575,052
Goodyear	2.0*	45,989,375	Taylor	2.0*	845,852
Guadalupe	3.0*	1,471,410	Thatcher	2.0*	1,599,034
Hayden	3.0*	1,570,626	Tolleson	2.0*	6,868,998
Holbrook	3.0*	2,613,570	Tombstone	2.5*	723,599
Huachuca City	1.5*	249,725	Wellton	2.5*	651,261
Jerome	3.0	525,459	Wickenburg	1.7*	3,358,668
Kearny	2.5*	315,764	Willcox	3.0*	2,481,745
Kingman	2.0*	14,070,401	Williams	3.0*	4,167,097
Lake Havasu City	2.0*	20,832,079	Winkelman	3.5*	87,378
Litchfield Park	2.0*	4,110,305	Winslow	3.0*	4,299,435
Mammoth	2.0*	72,061	Youngtown	2.0*	835,814
Marana	2.0*	30,674,073	Yuma	1.7	35,139,419
<b>TOTAL</b>					<b>\$619,189,088</b>

\* Jurisdiction levied at more than one rate during the fiscal year. Rate shown is the rate charged on most transactions.  
(1) Rate shown is effective January 1, 2007 and may have changed during the remainder of FY 07.  
Figures may not add to total due to rounding.

**TABLE 27**  
**MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

<b>FISCAL YEAR</b>	<b>TOTAL COLLECTIONS</b>	<b>NUMBER OF CITIES IN PROGRAM</b>
2002-03	\$303,164,388	75
2003-04	\$352,320,229	76
2004-05	\$428,527,285	77
2005-06	\$551,992,962	78
2006-07	\$619,189,088	78

# INCOME TAX

The State of Arizona imposes two types of income tax: corporate, which applies to incorporated businesses and certain other entities operating in this state; and individual, which is levied upon those persons who reside in or earn income in the state (*Refer to Table 28*).

## **CORPORATE INCOME TAX**

### **MAJOR FEATURES**

Every corporation doing business in Arizona is required to file a corporate income tax return. Corporations filed returns with the state and made payments of \$986 million during fiscal year 2007 (*Refer to Table 28*).

## **INDIVIDUAL INCOME TAX**

### **MAJOR FEATURES**

For tax year 2004 filed in 2005, approximately 2.3 million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than \$ 114.5 billion. Individuals with Arizona gross income of more than \$75,000, in the preceding or current year, are required to file Arizona estimated tax payments. An individual can apply any portion of an income tax refund toward the following year's income tax as an estimated payment.

The graduated rate structure for the 2006 tax year ranged from 2.73 percent to a maximum of 4.79 percent on an individual's income over \$150,000 (or joint income over \$300,000).

## **DISTRIBUTION**

State income tax collections are shared with Arizona municipalities in an Urban Revenue Sharing Program. During fiscal year 2007 an amount equal to 15 percent of net income tax collections from two years prior was distributed to cities and towns. The distribution is based on population and is given only to incorporated cities and towns. The remainder is deposited in the state general fund after amounts sufficient to pay refunds are allocated (*Refer to Tables 28 and 29*).

Voluntary taxpayer contributions to Aid to Education Fund, Citizens Clean Elections Fund, Domestic Violence Shelter Fund, Child Abuse Prevention Fund, Arizona Wildlife Fund, Special Olympics Fund, Neighbors Helping Neighbors Fund, and political parties are distributed to the appropriate agency, political party or organization (*Refer to Table 29*).

# CORPORATE AND INDIVIDUAL INCOME TAX CREDITS

## CREDIT

### **Agricultural Preservation District**

## AVAILABLE TO

A refundable credit for a taxpayer who owns property classified as agricultural property and who conveys ownership or development rights to an agricultural preservation district.

### **Agricultural Water Conservation**

Taxpayers that incur expenses to purchase and install a Conservation System agricultural water conservation system in Arizona.

### **Agricultural Pollution Control Equipment**

Taxpayers that incur expenses during the taxable year to purchase agricultural pollution control equipment.

### **Clean Elections**

For donations made directly to the Clean Elections Fund or a donation made on the tax return.

### **Contributions to Charities that Provide Assistance to the Working Poor**

Individual taxpayers that make cash contributions to certain charities that provide help to the working poor. The maximum amount of this credit for single taxpayers is \$200. Married filing joint taxpayers can take a credit of \$400.

### **Defense Contracting**

Taxpayers certified by the Arizona Department of Commerce as a qualified defense contractor for qualified increases in employment.

### **Employing Arizona National Guard Members**

Credit for employers who have an employee that is a member of the Arizona National Guard if the employee is placed on active duty. The credit is \$1,000 for each employee placed on active duty.

### **Employment of TANF Recipients**

Taxpayers that employ recipients of Temporary Assistance for Needy Families (TANF).

### **Enterprise Zone**

Taxpayers whose business is located in an Arizona enterprise zone that have a net increase in qualified employment positions.

### **Environmental Technology**

Taxpayers that incur expenses in constructing a qualified Facility environmental technology manufacturing, producing, or processing facility as described in ARS 41-1514.02. The qualified environmental technology manufacturer, producer, or processor must have been certified by Commerce before July 1, 1996.

### **Family**

A credit for taxpayers below certain income levels, with differing amounts for different household sizes.

### **Healthy Forest**

Businesses that operate a healthy forest enterprise may receive a non-refundable credit against corporate and individual income tax liabilities for taxable years beginning from and after December 31, 2004 through December 31, 2014.

### **Income Taxes Paid to Another State or Country**

Taxpayers that paid a net income tax to Arizona and another qualified state or foreign country, on the same income.

### **Increased Excise Taxes**

This credit is for Arizona residents whose federal adjusted gross income is beneath a certain threshold (\$25,000 or less for Married Filing Joint or Head of Household, or \$12,500 for Married Filing Separately or Single) and who cannot be claimed as a dependent by any other taxpayer.

**CREDIT****AVAILABLE TO****Military Reuse Zone**

Taxpayers with a net increase in employment of full-time employees working in a military reuse zone.

**Motion Picture  
Productions Costs**

Provides a transferable tax credit against corporate and individual income tax liabilities for motion picture production companies that produce motion pictures completely or partially in Arizona.

**Pollution Control**

Taxpayers that purchase real or personal property that is used within Arizona in the taxpayer's trade or business to control or prevent pollution.

**Private School  
Tuition Organizations**

Individual taxpayers that made contributions to a school tuition organization that provides scholarships or grants to qualified schools. The credit is \$500 or \$1000, depending upon filing status.

A.R.S § 43-1183 provides a corporate income tax credit. The amount of total credits the department may allow cannot exceed \$10 million dollars in the first fiscal year. This amount will increase 20% in each following fiscal year. The state's fiscal year begins on July 1, and ends on June 30 of the following year.

**Property Tax**

A refundable credit for property taxes accrued if certain age and income level conditions are met.

**Public School Extra  
Curricular Activity**

Individual taxpayers that make contributions or paid certain fees to public schools in Arizona. The credit is \$200 or \$400, depending upon filing status.

**Recycling Equipment**

Taxpayers who acquire and place in service recycling equipment in Arizona. This credit was repealed for corporations not individuals.

**Research and Development**

Corporate taxpayers with an increase in qualifying research and development expenses conducted in Arizona.

**School Site Donation**

This tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school.

**Solar Energy Devices**

Individual taxpayers who install a solar energy device in his or her residence located in Arizona. Business that install one or more solar energy devices for commercial or industrial purposes in its trade or business located in Arizona.

**Solar Hot Water  
Heater Plumbing Stub  
Outs and Electric Vehicle  
Recharge Outlets**

Taxpayers for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona.

**Taxes Paid for Coal  
Consumed in Generating  
Electrical Power**

Corporate taxpayers, a credit equal to 30 percent of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona.

**Technology Training**

A refundable credit for providing technological skills training to not more than 20 employees.

**TABLE 28**  
**INCOME TAX COLLECTIONS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

SOURCE	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07	PERCENT OF NET COLLECTIONS IN FY2006-07
<u>Withheld from Wages</u>						
Gross Revenue	\$2,310,302,093	\$2,336,442,815	\$2,626,264,231	\$3,041,031,728	\$3,294,287,540	
Amnesty	----	\$176,268	----	----	----	
Refunds and Charge-offs	(8,527,022)	(8,422,819)	(5,267,886)	(8,992,229)	(19,969,915)	
<b>NET</b>	<b>\$2,301,775,071</b>	<b>\$2,328,196,264</b>	<b>\$2,620,996,345</b>	<b>\$3,032,039,499</b>	<b>\$3,274,317,624</b>	70.4%
<u>Individuals &amp; Fiduciaries</u>						
Gross Revenue	\$656,586,317	\$776,183,708	\$1,128,453,951	\$1,631,563,811	\$1,677,949,795	
Amnesty	----	2,890,549	----	----	----	
Regular Refunds and Charge-offs	(853,999,525)	(791,230,045)	(895,440,957)	(1,012,026,853)	(1,285,344,591)	
Attorney Fees - Ladewig refunds (2)	(2,000,000)	(2,000,000)	(6,249,511)	(5,107,102)	(4,853,277)	
<b>NET</b>	<b>(\$199,413,208)</b>	<b>(\$14,155,788)</b>	<b>\$226,763,483</b> (3)	<b>\$614,429,855</b>	<b>\$387,751,926</b>	8.3%
<u>Corporations</u>						
Gross Revenue	\$518,246,330	\$596,582,273	\$789,739,978	\$978,239,759	\$1,070,710,516	
Amnesty	----	53,690,925	----	----	----	
Refunds and Charge-offs	(128,839,937)	(124,623,328)	(87,880,694)	(104,020,287)	(84,540,518)	
<b>NET</b>	<b>\$389,406,393</b>	<b>\$525,649,869</b>	<b>\$701,859,285</b>	<b>\$874,219,472</b>	<b>\$986,169,998</b>	21.2%
<b>Subtotal Net Collections</b>	<b>\$2,491,768,256</b>	<b>\$2,839,690,345</b>	<b>\$3,549,619,113</b> (3)	<b>\$4,520,688,826</b>	<b>\$4,648,239,549</b>	100.0%
<b>Less distributions for:</b>						
Urban Revenue Sharing	\$430,559,053	\$365,065,158	\$373,072,580	\$425,228,927	\$551,230,661	
Contracted Collection Agency	18,110	409	0	0	0	
Wildlife Contributions	178,190	167,014	174,101	212,208	255,738	
Child Abuse Prevention	202,941	198,467	200,870	240,323	250,683	
Special Olympics	84,062	79,498	87,888	100,319	106,425	
Neighbors Helping Neighbors	41,330	42,269	37,509	51,410	53,507	
State Aid to Public Schools	29,420	46,052	42,696	37,991	38,309	
Domestic Violence Shelter	149,012	132,713	142,058	178,520	195,840	
Democratic Party	18,246	27,252	23,860	27,679	31,304	
Libertarian Party	2,182	1,570	2,292	2,436	3,315	
Republican Party	16,557	19,561	16,777	19,190	21,444	
Clean Elections	3,877,564	4,116,022	4,831,319	4,947,968	6,145,768	
<b>Subtotal Distributions</b>	<b>\$435,176,665</b>	<b>\$369,895,987</b>	<b>\$378,631,950</b>	<b>\$431,046,971</b>	<b>\$558,332,993</b>	
<b>NET REVENUE TO STATE GENERAL FUND</b>	<b>\$2,056,591,590</b>	<b>\$2,469,794,358</b>	<b>\$3,170,987,163</b> (3)	<b>\$4,089,641,855</b>	<b>\$4,089,906,556</b>	
<b>WQARF DISTRIBUTION (1)</b>	<b>\$10,000,000</b>	<b>\$10,000,000</b>	<b>\$11,000,000</b> (3)	<b>\$15,000,000</b> (3)	<b>\$15,000,000</b>	

(1) Beginning July 1, 1999, a transfer is made to the Water Quality Assurance Revolving Fund from corporate income tax collections.

(2) Attorney fees relating to the Ladewig class action lawsuit were paid from individual income tax refunds.

(3) Corrected figures.

Figures may not add to total due to rounding.

**TABLE 29  
EXEMPTIONS, DEDUCTIONS AND CREDITS  
TAX YEAR 2003 THROUGH TAX YEAR 2006**

TAX YEAR	PERSONAL EXEMPTION (2)	BLIND EXEMPTION	AGE 65 AND OVER EXEMPTION	DEPENDENT EXEMPTION	STANDARD DEDUCTION LIMIT (1)	MAXIMUM PROPERTY TAX CREDIT	MAXIMUM FAMILY TAX CREDIT
2003	2,100	1,500	2,100	2,300	4,050/8,100	502	240
2004	2,100	1,500	2,100	2,300	4,050/8,100	502	240
2005	2,100	1,500	2,100	2,300	4,125/8,250	502	240
2006	2,100	1,500	2,100	2,300	4,247/8,494	502	240

(1) Amounts shown are for individual and married-filing-jointly returns.

(2) Beginning with tax year 1997, married filers claiming at least one dependent are entitled to an additional \$2,100 personal exemption.

**INDIVIDUAL INCOME TAX CREDITS  
TAX YEAR 2003 THROUGH TAX YEAR 2005**

CREDIT	TAX YEAR 2003		TAX YEAR 2004		TAX YEAR 2005	
	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS
Agricultural Pollution Control	(2)	(2)	(2)	(2)	(2)	(2)
Agricultural Preservation District	0	\$0	0	\$0	0	\$0
Agricultural Water Conservation	151	\$1,611,928	109	\$2,444,313	(2)	(2)
Alternative Fuel - Non Refundable						
--Delivery System	0	\$0	0	\$0	(2)	(2)
--Vehicles	50	\$60,504	26	\$34,972	(2)	(2)
--Refuel Apparatus/Infrastructure	5	\$8,960	(1)	(1)	---	---
--Neighborhood Electric Vehicles	1,168	\$1,533,072	(2)	(2)	(2)	(2)
Clean Elections	32,042	\$727,224	32,338	\$739,774	31,075	\$801,435
Construction Materials	(1)	(1)	(1)	(1)	---	---
Contributions to Charities Providing Help to Working Poor	17,467	\$3,259,400	20,736	\$3,851,700	25,587	\$6,589,000
Defense Contracting	0	\$0	0	\$0	0	\$0
Employment of TANF Recipients	(1)	(1)	0	\$0	(2)	(2)
Enterprise Zone	193	\$1,698,443	164	\$1,271,630	189	\$1,384,760
Environmental Technology	0	\$0	0	\$0	0	\$0
Family Tax Credit	417,451	\$7,445,937	425,484	\$7,709,270	439,056	\$7,661,867
Income Taxes Paid to Other States	25,722	\$62,484,651	29,956	\$80,229,015	34,664	\$119,416,310
Increased Excise Taxes Paid	548,831	\$29,581,905	555,762	\$29,924,907	546,678	\$29,358,243
Military Reuse Zone	0	\$0	0	\$0	0	\$0
Pollution Control Device	67	\$48,826	9	\$31,986	(2)	(2)
Private School Tuition Organization (3)	58,122	\$29,445,494	63,830	\$31,871,900	69,234	\$42,192,973
Property Tax	15,028	\$5,301,879	14,768	\$5,242,685	13,943	\$4,977,070
Public School Extra Curricular Activity (3)	201,407	\$27,753,764	213,987	\$30,958,872	215,369	\$35,416,279
Recycling Equipment	4	\$2,380	(1)	(1)	0	\$0
Research and Development	82	\$765,768	103	\$1,315,373	(2)	(2)
School Site Donation	38	\$933,599	99	\$3,510,857	75	\$6,012,397
Solar Energy	1,171	\$480,091	1,875	\$787,155	(2)	(2)
Solar Hot Water Heater & Plumbing Stub Outs	(1)	(1)	17	\$5,677	(2)	(2)
Technology Training	0	\$0	0	\$0	0	\$0
Underground Storage Tanks	0	\$0	0	\$0	---	---
<b>Total</b>	<b>1,319,005</b>	<b>\$173,145,791</b>	<b>1,359,286</b>	<b>\$199,934,333</b>	<b>1,375,870</b>	<b>\$253,810,334</b>

(1) Too few claimants to allow release of information without violating confidentiality laws.

(2) Credits claimed for tax years are being reviewed. No data is available at this time.

(3) Data reported is based on donation information provided to the Department of Revenue by the Private School Tuition Organizations and the Public Schools. For the purposes of this report, it is assumed that all credit was used in the tax year.

Figures for all credits shown here are subject to change, due to the verification process.



**TABLE 30**  
**RESIDENT INDIVIDUAL INCOME TAX LIABILITY**  
**BY FEDERAL ADJUSTED GROSS INCOME**  
**TAX YEAR 2004 (1)**

<b>FEDERAL ADJUSTED GROSS INCOME</b>	<b># OF FILERS</b>	<b>% OF TOTAL</b>	<b>LIABILITY</b>	<b>% OF TOTAL</b>
Negative Income	28,705	1.37%	\$334,297	0.01%
\$0.01 to \$1,999	38,123	1.81%	34,952	0.00%
\$2,000 to \$5,999	119,298	5.68%	109,406	0.00%
\$6,000 to \$9,999	143,612	6.83%	3,981,242	0.15%
\$10,000 to \$13,999	147,943	7.04%	11,207,734	0.43%
\$14,000 to \$19,999	228,483	10.87%	33,465,214	1.28%
\$20,000 to \$24,999	171,901	8.18%	44,950,144	1.72%
\$25,000 to \$29,999	148,666	7.07%	57,108,370	2.19%
\$30,000 to \$39,999	237,861	11.32%	133,198,327	5.11%
\$40,000 to \$49,999	176,381	8.39%	138,480,115	5.31%
\$50,000 to \$74,999	294,620	14.02%	343,777,468	13.19%
\$75,000 to \$99,999	164,199	7.81%	301,808,584	11.58%
\$100,000 to \$199,999	155,597	7.40%	521,383,671	20.00%
\$200,000 to \$499,999	36,492	1.74%	359,456,378	13.79%
\$500,000 to \$999,999	6,547	0.31%	182,660,548	7.01%
\$1,000,000 to \$4,999,999	3,257	0.15%	267,736,064	10.27%
\$5,000,000 and over	399	0.02%	206,803,966	7.93%
<b>TOTAL</b>	<b>2,102,084</b>	<b>100.00%</b>	<b>\$2,606,496,480</b>	<b>100.00%</b>

(1) This summary combines all liability reported on the Arizona Form 140 and 140A Individual Income tax returns for tax year 2004, filed from January 2005 forward.

**TABLE 31**  
**NONRESIDENT/ PART YEAR RESIDENT INDIVIDUAL INCOME TAX**  
**LIABILITY BY FEDERAL ADJUSTED GROSS INCOME**  
**TAX YEAR 2004 (1)**

<b>ARIZONA PORTION OF FEDERAL ADJUSTED GROSS INCOME</b>	<b># OF FILERS</b>	<b>% OF TOTAL</b>	<b>LIABILITY</b>	<b>% OF TOTAL</b>
Negative Income	21,515	10.07%	\$628,913	0.32%
\$0.01 to \$1,999	20,348	9.52%	29,912	0.02%
\$2,000 to \$5,999	33,834	15.84%	408,981	0.21%
\$6,000 to \$9,999	25,470	11.92%	1,092,643	0.55%
\$10,000 to \$13,999	19,779	9.26%	2,186,409	1.10%
\$14,000 to \$19,999	21,900	10.25%	4,706,465	2.37%
\$20,000 to \$24,999	12,778	5.98%	4,433,934	2.24%
\$25,000 to \$29,999	9,745	4.56%	4,547,472	2.29%
\$30,000 to \$39,999	13,652	6.39%	8,859,631	4.47%
\$40,000 to \$49,999	8,595	4.02%	7,924,815	4.00%
\$50,000 to \$74,999	11,535	5.40%	15,967,932	8.05%
\$75,000 to \$99,999	5,109	2.39%	11,194,555	5.64%
\$100,000 to \$199,999	5,820	2.72%	23,501,813	11.85%
\$200,000 to \$499,999	2,417	1.13%	26,776,258	13.50%
\$500,000 to \$999,999	636	0.30%	17,775,491	8.96%
\$1,000,000 to \$4,999,999	463	0.22%	36,688,758	18.50%
\$5,000,000 and over	67	0.03%	31,602,054	15.93%
<b>TOTAL</b>	<b>213,663</b>	<b>100.00%</b>	<b>\$198,326,036</b>	<b>100.00%</b>

(1) This summary combines all liability reported on the Arizona Form 140NR and 140PY Individual Income tax returns for tax year 2004, filed from January 2005 forward.

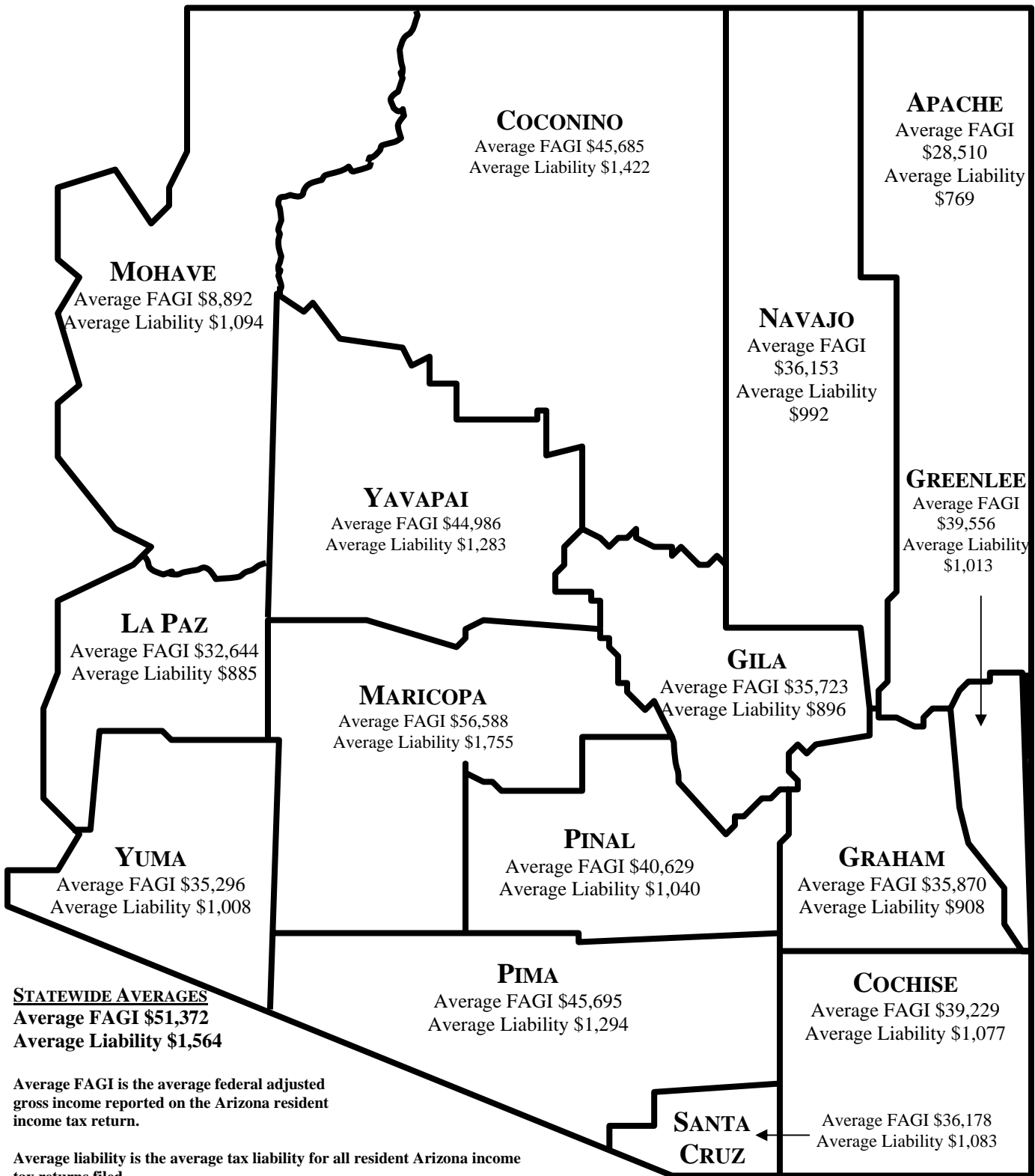
**TABLE 32**  
**CORPORATE INCOME TAX**  
**CORPORATE TAXPAYER BY SIZE OF TAX LIABILITY**  
**TAX YEAR 2003(1)**

<b>CORPORATE TAX LIABILITY</b>	<b># OF FILERS</b>	<b>% OF TOTAL</b>	<b>LIABILITY</b>	<b>% OF TOTAL</b>
\$50 Minimum	35,569	70.1%	\$1,775,088	0.3%
\$50.01 to \$99.99	1,051	2.1%	77,273	0.0%
\$100 to \$499.99	3,396	6.7%	892,017	0.1%
\$500 to \$999.99	1,874	3.7%	1,351,730	0.2%
\$1,000 to \$4,999.99	4,644	9.1%	11,553,493	1.8%
\$5,000 to \$9,999.99	1,471	2.9%	10,297,740	1.6%
\$10,000 to \$49,999.99	1,664	3.3%	36,669,542	5.6%
\$50,000 to \$99,999.99	385	0.8%	27,033,581	4.2%
\$100,000 to \$499,999.99	507	1.0%	108,641,087	16.7%
\$500,000 to \$999,999.99	95	0.2%	66,145,064	10.2%
\$1,000,000 to \$15,000,000	107	0.2%	385,824,667	59.3%
<b>TOTAL</b>	<b>50,763</b>	<b>100.0%</b>	<b>\$650,261,282</b>	<b>100.0%</b>

**CORPORATE INCOME TAX CREDITS**  
**TAX YEAR 2004**

<b>CREDIT TYPE</b>	<b># OF FILERS</b>	<b>CREDIT USED</b>	<b>CARRYFORWARD AVAILABLE</b>
Agricultural Pollution Control Equipment	*	*	*
Agricultural Preservation District	0	\$0	\$0
Agricultural Water Conservation	*	*	*
Alternative Fuel - Non Refundable			
--Fuel Delivery System	*	*	*
--Vehicles	3	\$2,837	\$0
--Refueling Apparatus & Infrastructure	*	*	*
--Neighborhood Electric Vehicles	10	\$11,380	\$779,883
Clean Elections	90	\$562	\$0
Coal Used for Electric Generation	3	\$908,990	\$1,799,254
Consolidated Filers	30	\$2,280,960	\$55,108,438
Construction Materials	*	*	*
Defense Contracting	*	*	*
Employment of TANF Recipients	14	\$485,190	\$5,985
Enterprise Zone	113	\$7,532,667	\$4,615,711
Environmental Technology	*	*	*
Military Reuse Zone	*	*	*
Pollution Control Equipment	22	\$1,174,893	\$4,267,084
Recycling Equipment	*	*	*
Research & Development	154	\$32,799,603	\$590,769,464

**TABLE 33  
 AVERAGE FEDERAL ADJUSTED GROSS INCOME  
 AND AVERAGE TAX LIABILITY PER RETURN  
 BY COUNTY FOR TAX YEAR 2004**



**TABLE 34**  
**URBAN REVENUE SHARING**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

<b>FISCAL YEAR</b>	<b>AMOUNT</b>
2002-03	\$430,559,053
2003-04	\$365,065,158
2004-05	\$373,072,580
2005-06	\$425,228,927
2006-07	\$551,230,661

**TABLE 35  
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING  
TO MUNICIPALITIES IN FISCAL YEAR 2006-07**

<b>CITIES BY COUNTY</b>	<b>AMOUNT</b>	<b>% OF TOTAL</b>	<b>CITIES BY COUNTY</b>	<b>AMOUNT</b>	<b>% OF TOTAL</b>
<b>APACHE</b>			Queen Creek	\$1,863,574	0.34%
Eagar	\$503,531	0.09%	Scottsdale	26,652,724	4.84%
St. Johns	438,815	0.08%	Surprise	10,021,225	1.82%
Springerville	234,451	0.04%	Tempe	18,823,759	3.41%
<b>COCHISE</b>			Tolleson	737,755	0.13%
Benson	538,159	0.10%	Wickenburg	689,956	0.13%
Bisbee	745,929	0.14%	Youngtown	699,720	0.13%
Douglas	1,952,246	0.35%	<b>MOHAVE</b>		
Huachuca City	207,770	0.04%	Bullhead City	4,338,198	0.79%
Sierra Vista	4,960,373	0.90%	Colorado City	463,226	0.08%
Tombstone	182,792	0.03%	Kingman	2,936,032	0.53%
Willcox	441,086	0.08%	Lake Havasu City	6,066,778	1.10%
<b>COCONINO</b>			<b>NAVAJO</b>		
Flagstaff	6,946,680	1.26%	Holbrook	615,931	0.11%
Fredonia	126,025	0.02%	Pinetop-Lakeside	472,876	0.09%
Page	807,239	0.15%	Show Low	1,122,300	0.20%
Williams	357,070	0.06%	Snowflake	560,299	0.10%
<b>GILA</b>			Taylor	465,496	0.08%
Globe	850,950	0.15%	Winslow	1,116,623	0.20%
Hayden	101,274	0.02%	<b>PIMA</b>		
Miami	221,962	0.04%	Marana	3,034,241	0.55%
Payson	1,751,855	0.32%	Oro Valley	4,473,305	0.81%
Star Valley	227,753	0.04%	Sahuarita	1,588,364	0.29%
Winkelman	50,296	0.01%	South Tucson	639,206	0.12%
<b>GRAHAM</b>			Tucson	60,147,789	10.91%
Pima	241,309	0.04%	<b>PINAL</b>		
Safford	1,062,694	0.19%	Apache Junction	3,868,160	0.70%
Thatcher	516,587	0.09%	Casa Grande	3,686,503	0.67%
<b>GREENLEE</b>			Coolidge	928,722	0.17%
Clifton	294,739	0.05%	Eloy	1,263,084	0.23%
Duncan	92,191	0.02%	Florence	2,330,887	0.42%
<b>LA PAZ</b>			Kearny	255,342	0.05%
Parker	372,397	0.07%	Mammoth	200,050	0.04%
Quartzsite	408,728	0.07%	Maricopa	1,206,112	0.22%
<b>MARICOPA</b>			Superior	369,445	0.07%
Avondale	7,874,379	1.43%	<b>SANTA CRUZ</b>		
Buckeye	2,884,487	0.52%	Nogales	2,478,484	0.45%
Carefree	418,265	0.08%	Patagonia	104,453	0.02%
Cave Creek	541,111	0.10%	<b>YAVAPAI</b>		
Chandler	26,209,140	4.75%	Camp Verde	1,218,238	0.22%
El Mirage	3,640,067	0.66%	Chino Valley	1,399,327	0.25%
Fountain Hills	2,780,715	0.50%	Clarkdale	417,811	0.08%
Gila Bend	224,801	0.04%	Cottonwood	1,232,997	0.22%
Gilbert	19,761,466	3.58%	Dewey-Humboldt	457,549	0.08%
Glendale	27,517,525	4.99%	Jerome	37,467	0.01%
Goodyear	5,246,824	0.95%	Prescott	4,628,849	0.84%
Guadalupe	630,691	0.11%	Prescott Valley	3,811,960	0.69%
Litchfield Park	514,089	0.09%	Sedona	1,241,512	0.23%
Mesa	50,874,877	9.23%	<b>YUMA</b>		
Paradise Valley	1,573,945	0.29%	San Luis	2,603,373	0.47%
Peoria	15,684,157	2.85%	Somerton	1,086,932	0.20%
Phoenix	167,559,793	30.40%	Wellton	223,665	0.04%
			Yuma	10,079,129	1.83%
			<b>TOTAL</b>	<b>\$551,230,661</b>	<b>100.00%</b>

City distributions are based on relative population

# PROPERTY TAX

In Arizona, property taxation is based upon the "ad valorem" value of property (ad valorem, meaning "according to value"). The tax is calculated from two different bases: full cash value (or market value) and limited value (i.e., statutorily-controlled value). The full cash value is used to calculate tax rates to pay for voter-initiated bonds, overrides, and special district levies (*Refer to Table 37*). Taxes based upon the limited (controlled) value produce funds to maintain the basic operations of state, county and city government, schools, and other public entities (*Refer to Table 36*). Limited values cannot exceed the full cash value of each property. Taxes calculated on the limited value, called primary taxes, are added to those derived from the full cash value, or secondary taxes, to produce the total annual tax bill. All taxable property in Arizona is classified according to its actual use. Each classification is assigned a specific assessment ratio prescribed by law which is multiplied by the full cash and limited values to produce an assessed value (See Figure 1). The assessed value is the basis for calculating tax bills.

## **GENERAL PROPERTY TAX**

### **ADMINISTRATION**

The duties of valuing property for tax purposes are divided between the department and the fifteen County Assessors' Offices. The department values utilities, airlines, railroads, mines, and other geographically-dispersed properties (Centrally Valued Properties). Values determined by the department for those properties are transmitted to the County Boards of Supervisors for entry upon the county tax rolls for levy and collection of property taxes.

County Assessors, utilizing appraisal standards and manuals prescribed by the department, are responsible for assessment of other classes of property, including residential, commercial, industrial, and agricultural properties (Locally Assessed Properties).

Appeals of valuation or classification determined by the county assessors for locally assessed properties originate with the property owner's petition for review filed with the county assessor. Such appeals may be continued to either the local County Board

of Equalization, or to the State Board of Equalization and the Tax Court, a division of the Maricopa County Superior Court. Appeals may also be filed directly with the Tax Court.

### **TAX COLLECTION AND DISTRIBUTION**

County Treasurers collect all property taxes (except airline and private car companies) and distribute receipts to all taxing entities. Taxes levied on airline flight properties and private rail car properties are collected by the department and deposited with the Arizona State Treasurer. Taxes on airline flight properties and private car companies are levied at the average state tax rate. This rate is derived by dividing the total of all of the levies in the state by the total net assessed value in the state. This calculation produces the weighted average of all of the levies in the state and is referred to as the "average state tax rate."

### **EQUALIZATION**

The department's primary tool in evaluating assessors' assessment performance is its sales ratio study, which compares values established by the County Assessors with sales prices of recently sold properties. These studies are performed several times each year by county, type of property, and area.

Sales ratios are derived by dividing full cash values by sales prices of recently sold properties. The median sales ratio is the middle sales ratio when the ratios are arrayed in order of magnitude; in other words, there are an equal number of properties above and below the median.

The sales ratio studies include coefficients of dispersion which are a measure of how equally all taxpayers are treated. Coefficient of dispersion targets are currently 25 % for vacant land and commercial properties, 15 % for residential properties in Maricopa and Pima counties, and 20 % on residential properties in all other counties. Lower coefficients of dispersion indicate greater equity in property assessments.

### **Centrally Valued Properties**

The Centrally Valued Properties Unit is responsible for the annual valuation of 13 industries for ad valorem property tax purposes (see chart next page).

Generally, these are large, complex properties which are often located in more than one county and/or in more than one state. Values are determined for the entire system and then apportioned to Arizona and to the individual taxing jurisdictions. They are referred to as “centrally valued” because they are valued by the department rather than the 15 County Assessors.

Beginning with tax year 1998, the assessment and appeals calendar for centrally valued properties was changed to coincide with the calendar for locally assessed properties.

**Figure 1**

<b>Class</b>	<b>Legal Classification</b>	<b>Assessment Ratio</b>
1.1	Mines	24.5%
1.3-1.7, 1.11	Utilities	24.5%
1.12	Commercial Real	24.5%
1.13	Commercial Personal	First \$59,099 exempt; 24.5% on the remainder
2R	Agricultural Real; Vacant Land	16%
2P	Agricultural Personal	First \$59,099 exempt; 16% on the remainder
3	Residential	10%
4	Rental Residential	10%
5	Railroads, Airlines	22%
6	Historic Property; Foreign Trade Zones; Qualified Environmental Technology Facilities	5%
7	Commercial Historic	Combination 1% and 24.5%
8	Rental Residential Historic	Combination 1% and 10%
9	Improvements on government property	1%



## INDUSTRIES VALUED BY THE DEPARTMENT

Industry	Number of Companies		
	2005.....	2006.....	2007
Airlines (Flight Property).....	37.....	35.....	34
Electric & Gas*			
Generation .....	24.....	24.....	24
Transmission and Distribution.....	35.....	35.....	35
Mines (non-producing) .....	3.....	5.....	5
Mines (producing).....	34.....	33.....	31
Pipelines (Gas Transmission) .....	9.....	9.....	9
Private Rail Cars .....	256.....	256.....	262
Producing Oil & Gas Interests .....	4.....	4.....	4
Railroads .....	11.....	11.....	11
Telecommunications .....	81.....	76.....	77
Water Utilities.....	321.....	330.....	328
<b>Total .....</b>	<b>808.....</b>	<b>815.....</b>	<b>818</b>

\* Includes Salt River Project

**TABLE 36**  
**STATE OF ARIZONA**  
**TAX YEAR 2007 PRIMARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	PRIMARY RATE
APACHE	\$336,596,256	\$0	\$1,603,545	\$0	\$0	\$13,251,088	\$0	\$14,854,633	4.41
COCHISE	\$812,722,290	\$281,529	\$23,286,932	\$2,001,178	\$14,165,750	\$36,910,823	\$0	\$76,646,212	9.43
COCONINO	\$1,514,258,140	\$559,128	\$6,636,993	\$5,167,135	\$5,628,498	\$48,403,460	\$0	\$66,395,214	4.38
GILA	\$453,078,054	\$0	\$18,621,508	\$1,871,239	\$2,712,578	\$16,912,741	\$0	\$40,118,066	8.85
GRAHAM	\$135,117,570	\$0	\$2,342,398	\$187,936	\$2,706,810	\$5,173,891	\$0	\$10,411,035	7.71
GREENLEE	\$289,217,635	\$0	\$1,340,524	\$212,199	\$0	\$7,072,886	\$0	\$8,625,609	2.98
LA PAZ	\$170,555,367	\$0	\$3,591,725	\$0	\$2,958,283	\$4,312,547	\$0	\$10,862,555	6.37
MARICOPA	\$38,930,267,550	\$18,730,011	\$430,333,525	\$172,793,690	\$321,018,986	\$1,441,573,430	\$0	\$2,384,449,642	6.12
MOHAVE	\$1,890,688,680	\$0	\$28,923,755	\$4,488,486	\$15,543,352	\$62,510,019	\$0	\$111,465,612	5.90
NAVAJO	\$812,314,271	\$14,858	\$4,907,191	\$329,942	\$9,956,536	\$25,827,281	\$0	\$41,035,807	5.05
PIMA	\$7,353,331,088	\$179,827	\$264,866,986	\$10,373,546	\$74,937,796	\$341,151,614	\$0	\$691,509,769	9.40
PINAL	\$1,908,801,658	\$2,634	\$76,783,734	\$10,638,767	\$34,358,431	\$94,097,025	\$0	\$215,880,591	11.31
SANTA CRUZ	\$312,714,438	\$2,437	\$9,947,132	\$0	\$0	\$15,816,596	\$0	\$25,766,165	8.24
YAVAPAI	\$2,470,265,871	\$657,561	\$37,775,306	\$1,457,152	\$33,094,152	\$79,158,169	\$0	\$152,142,340	6.16
YUMA	\$937,839,418	\$0	\$18,936,854	\$8,365,288	\$16,266,825	\$43,819,725	\$0	\$87,388,692	9.32
<b>TOTAL STATE</b>	<b>\$58,327,768,286</b>	<b>\$20,427,985</b>	<b>\$929,898,108</b>	<b>\$217,886,558</b>	<b>\$533,347,997</b>	<b>\$2,235,991,295</b>	<b>\$0</b>	<b>\$3,937,551,943</b>	<b>6.75</b>
<b>AVERAGE STATE PRIMARY TAX RATE PER \$100</b>									<b>6.75</b>

**TAX YEAR 2006 PRIMARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	PRIMARY RATE
APACHE	\$316,510,258	\$0	\$1,482,218	\$0	\$0	\$10,347,759	\$0	\$11,829,977	3.74
COCHISE	\$734,609,559	\$271,895	\$21,421,215	\$1,939,466	\$13,126,004	\$26,322,643	\$0	\$63,081,223	8.59
COCONINO	\$1,367,963,404	\$559,000	\$6,322,727	\$4,880,677	\$5,362,417	\$49,398,371	\$0	\$66,523,192	4.86
GILA	\$412,254,721	\$0	\$17,928,132	\$1,829,699	\$2,556,391	\$16,740,708	\$0	\$39,054,930	9.47
GRAHAM	\$115,866,166	\$0	\$2,039,361	\$181,378	\$2,393,563	\$4,833,455	\$0	\$9,447,757	8.15
GREENLEE	\$226,709,610	\$0	\$1,261,412	\$11,128	\$0	\$6,308,775	\$0	\$7,581,315	3.34
LA PAZ	\$154,507,381	\$0	\$3,409,669	\$0	\$2,894,541	\$4,428,411	\$0	\$10,732,621	6.95
MARICOPA	\$33,807,465,267	\$27,106,867	\$399,013,484	\$156,365,069	\$298,014,922	\$1,381,296,194	\$0	\$2,261,796,536	6.69
MOHAVE	\$1,604,391,585	\$0	\$26,916,878	\$4,536,245	\$14,410,838	\$56,643,473	\$0	\$102,507,434	6.39
NAVAJO	\$734,836,821	\$17,364	\$4,577,299	\$313,058	\$9,287,601	\$25,307,243	\$0	\$39,502,565	5.38
PIMA	\$6,467,201,516	\$162,985	\$248,469,882	\$9,729,668	\$68,358,320	\$320,381,536	\$0	\$647,102,391	10.01
PINAL	\$1,472,159,592	\$2,638	\$63,428,688	\$6,061,705	\$30,221,007	\$68,742,744	\$0	\$168,456,782	11.44
SANTA CRUZ	\$280,155,394	\$2,322	\$9,259,136	\$0	\$0	\$14,175,106	\$0	\$23,436,564	8.37
YAVAPAI	\$2,125,710,207	\$618,153	\$35,184,002	\$1,506,354	\$30,414,662	\$69,142,161	\$0	\$136,865,332	6.44
YUMA	\$820,782,919	\$0	\$17,588,577	\$7,600,954	\$15,472,994	\$36,009,872	\$0	\$76,672,397	9.34
<b>TOTAL STATE</b>	<b>\$50,641,124,400</b>	<b>\$28,741,224</b>	<b>\$858,302,680</b>	<b>\$194,955,401</b>	<b>\$492,513,260</b>	<b>\$2,090,078,451</b>	<b>\$0</b>	<b>\$3,664,591,016</b>	<b>7.24</b>
<b>AVERAGE STATE PRIMARY TAX RATE PER \$100</b>									<b>7.24</b>

All figures are current as of September 1, 2007.

Note: Some increase/decrease due to reporting tax levies in different authorities than in previous years.

**TABLE 37  
STATE OF ARIZONA  
TAX YEAR 2007 SECONDARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	SECONDARY RATE
APACHE	\$352,863,759	\$0	\$5,466,119	\$0	\$1,231,847	\$1,063,329	\$3,800,803	\$11,562,098	3.28
COCHISE	\$872,912,337	\$0	\$3,894,525	\$158,462	\$0	\$11,483,966	\$8,313,771	\$23,850,724	2.73
COCONINO	\$1,744,822,563	\$0	\$7,444,637	\$6,279,004	\$2,003,056	\$21,003,998	\$15,290,495	\$52,021,190	2.98
GILA	\$477,902,533	\$0	\$1,433,708	\$205,000	\$0	\$5,042,866	\$5,681,073	\$12,362,647	2.59
GRAHAM	\$140,072,106	\$0	\$172,768	\$0	\$0	\$1,834,284	\$382,722	\$2,389,774	1.71
GREENLEE	\$289,414,018	\$0	\$627,260	\$0	\$0	\$1,978,733	\$45,348	\$2,651,341	0.92
LA PAZ	\$200,054,271	\$0	\$172,148	\$0	\$884,640	\$1,476,159	\$3,457,267	\$5,990,214	2.99
MARICOPA	\$49,534,573,831	\$0	\$92,422,485	\$330,163,218	\$74,981,944	\$919,992,983	\$179,390,983	\$1,596,951,613	3.22
MOHAVE	\$2,516,012,949	\$0	\$24,247,864	\$436,575	\$0	\$18,004,508	\$26,588,443	\$69,277,390	2.75
NAVAJO	\$851,317,372	\$0	\$4,891,393	\$0	\$1,659,075	\$12,050,785	\$12,087,179	\$30,688,433	3.60
PIMA	\$8,220,395,835	\$0	\$117,676,604	\$27,962,810	\$13,596,535	\$139,990,117	\$63,767,444	\$362,993,510	4.42
PINAL	\$2,334,827,334	\$0	\$5,682,713	\$0	\$0	\$46,804,558	\$21,654,821	\$74,142,092	3.18
SANTA CRUZ	\$341,683,683	\$0	\$2,242,325	\$0	\$0	\$6,725,382	\$4,673,510	\$13,641,217	3.99
YAVAPAI	\$2,853,059,731	\$0	\$9,738,414	\$1,915,789	\$5,214,651	\$15,609,948	\$37,791,617	\$70,270,419	2.46
YUMA	\$1,107,186,911	\$0	\$13,480,009	\$0	\$4,893,288	\$14,607,029	\$630,973	\$33,611,299	3.04
<b>TOTAL STATE</b>	<b>\$71,837,099,233</b>	<b>\$0</b>	<b>\$289,592,972</b>	<b>\$367,120,858</b>	<b>\$104,465,036</b>	<b>\$1,217,668,646</b>	<b>\$383,556,449</b>	<b>\$2,362,403,961</b>	<b>3.29</b>
<b>AVERAGE STATE SECONDARY TAX RATE PER \$100</b>				<b>3.29</b>					

**TAX YEAR 2006 SECONDARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	SECONDARY RATE
APACHE	\$323,062,906	\$0	\$4,021,254	\$0	\$1,377,864	\$1,377,082	\$3,339,283	\$10,115,483	3.13
COCHISE	\$767,433,022	\$0	\$3,497,787	\$136,912	\$0	\$10,629,070	\$7,058,405	\$21,322,174	2.78
COCONINO	\$1,473,342,694	\$0	\$5,850,539	\$5,222,056	\$1,988,055	\$23,134,859	\$13,191,954	\$49,387,463	3.35
GILA	\$422,267,703	\$0	\$1,266,803	\$160,000	\$0	\$4,263,179	\$4,935,240	\$10,625,222	2.52
GRAHAM	\$119,712,036	\$0	\$152,641	\$0	\$0	\$1,764,372	\$341,448	\$2,258,460	1.89
GREENLEE	\$226,907,616	\$0	\$283,052	\$0	\$0	\$1,563,441	\$317,348	\$2,163,841	0.95
LA PAZ	\$172,147,917	\$0	\$172,148	\$0	\$859,535	\$1,449,517	\$3,624,361	\$6,105,561	3.55
MARICOPA	\$36,294,693,601	\$0	\$87,964,669	\$248,325,777	\$66,462,148	\$831,303,500	\$150,328,696	\$1,384,384,790	3.81
MOHAVE	\$1,908,996,588	\$0	\$18,187,807	\$433,475	\$0	\$14,312,274	\$19,019,502	\$51,953,058	2.72
NAVAJO	\$754,945,315	\$0	\$4,803,717	\$44,248	\$1,675,224	\$11,248,363	\$10,371,805	\$28,143,357	3.73
PIMA	\$6,869,955,457	\$0	\$100,121,166	\$26,681,580	\$13,362,063	\$124,762,769	\$51,378,932	\$316,306,510	4.60
PINAL	\$1,547,005,089	\$0	\$3,634,561	\$0	\$0	\$32,386,046	\$20,170,832	\$56,191,439	3.63
SANTA CRUZ	\$294,247,098	\$0	\$1,918,450	\$0	\$0	\$5,927,603	\$3,519,112	\$11,365,165	3.86
YAVAPAI	\$2,302,712,940	\$0	\$8,504,423	\$1,706,825	\$5,214,983	\$14,564,165	\$29,065,681	\$59,056,077	2.56
YUMA	\$917,331,539	\$0	\$11,095,341	\$0	\$4,580,354	\$14,543,208	\$498,143	\$30,717,046	3.35
<b>TOTAL STATE</b>	<b>\$54,394,761,521</b>	<b>\$0</b>	<b>\$251,474,358</b>	<b>\$282,710,873</b>	<b>\$95,520,226</b>	<b>\$1,093,229,448</b>	<b>\$317,160,742</b>	<b>\$2,040,095,646</b>	<b>3.75</b>
<b>AVERAGE STATE SECONDARY TAX RATE PER \$100</b>				<b>3.75</b>					

All figures are current as of September 1, 2007.

Note: Some increase/decrease due to reporting tax levies in different authorities than in previous years.

**TABLE 38**  
**AVERAGE PROPERTY TAX RATES**  
**PER \$100 OF ASSESSED VALUATION**  
**TAX YEAR 2004 THROUGH TAX YEAR 2007**

	2004		2005	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.45	\$2.15	\$4.23	\$2.06
Counties	2.21	0.35	2.17	0.54
State	0.03	0.00	0.03	0.00
Cities	0.39	0.53	0.39	0.53
Community Colleges	1.01	0.13	0.99	0.15
Special Districts	0.00	0.56	0.00	0.47
	<u>\$8.09</u>	<u>\$3.72</u>	<u>\$7.81</u>	<u>\$3.75</u>
<b>TOTAL</b>	<b>\$11.81</b>		<b>\$11.56</b>	
	2006		2007	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.16	\$2.01	\$3.83	\$1.70
Counties	1.69	0.56	1.59	0.40
State	0.02	0.00	0.04	0.00
Cities	0.38	0.52	0.37	0.51
Community Colleges	0.97	0.18	0.91	0.15
Special Districts	0.00	0.48	0.00	0.53
	<u>\$7.24</u>	<u>\$3.75</u>	<u>\$6.75</u>	<u>\$3.29</u>
<b>TOTAL</b>	<b>\$10.99</b>		<b>\$10.04</b>	

School district rate includes Unorganized School Districts.  
 Figures may not add to total due to rounding.

## **ALL OTHER SOURCES OF REVENUE**

Bingo

Estate Tax

Luxury Tax

Unclaimed Property & Escheated Estates

Waste Tire Fees



## **BINGO**

The tax on state licensed bingo operations is based on a multi-tiered licensing structure. There are three classes of bingo licenses, each of which has a different tax rate.

Each licensee's tax rate is based on bingo receipts. Class A licensees, whose gross receipts do not exceed \$15,600 per year, are taxed at 2.5 percent of their adjusted gross receipts. (Adjusted gross receipts are the monies left after paying prizes.) Class B and Class C licensees are taxed on their gross receipts. Class B licensees, whose gross receipts do not exceed \$300,000, are taxed at 1.5 percent of their gross receipts. Class C licensees, whose gross receipts exceed \$300,000 per year, are taxed at 2 percent of their gross receipts from bingo.

All taxes collected are deposited in the state general fund. A total of \$ 619,387 was deposited in fiscal year 2007 (*Refer to Table 39*).

**TABLE 39**  
**BINGO COLLECTIONS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

<b>Fiscal Year</b>	<b>Amount</b>
2002-03	\$626,770
2003-04	\$624,501
2004-05	\$610,055
2005-06	\$623,480
2007-08	\$619,387

**BINGO COLLECTIONS**

	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>FY2006-07</b>
Licenses	\$26,110	\$19,121	\$19,070	\$18,788	\$18,092
Proceeds	598,465	603,306	585,289	599,400	596,773
Penalty, Interest and Miscellaneous	2,194	2,074	5,697	5,292	4,522
<b>TOTAL</b>	<b>\$626,770</b>	<b>\$624,501</b>	<b>\$610,055</b>	<b>\$623,480</b>	<b>\$619,387</b>

## ESTATE TAX

Arizona's Estate Tax was effectively repealed January 1, 2005, following the IRS's elimination of the Federal State Death Tax Credit. No Arizona estate tax is owed on the estate of a person who dies after 2004 and there is no requirement to file an Arizona Form 76. We will continue to receive late original returns and amended tax returns for decedents with a date of death prior to 2005 as it can take years to settle a complicated estate.

The Arizona estate tax is a tax on the transfer of property or interest in property that takes effect upon the owner's death. The estate tax is imposed on the net taxable estate before distribution, differing from the inheritance tax, which is imposed on the portion of the estate received by a beneficiary. Arizona does not impose inheritance or gift taxes. Estate taxes are deposited into the state general fund. (*Refer to Table 40.*)

The Special Taxes Unit of the Arizona Department of Revenue is responsible for the collection of estate taxes and the processing of estate tax returns and reports of personal representative of decedent.

Only estates that are required to file a federal estate tax return are required to file an Arizona Estate Tax return.

The Arizona estate tax for an Arizona resident decedent is an amount equal to the federal credit for state death taxes. If the decedent owned real or tangible personal property located in another state, the Arizona tax is reduced by either the amount of death tax paid to the other state or a prorated share of the federal credit, whichever is less.

The Arizona estate tax for a nonresident decedent is a prorated share of the federal credit, based on the value of real property and tangible personal property having actual situs in Arizona this year.

**TABLE 40**  
**COLLECTIONS OF ESTATE TAXES**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

<b>Fiscal Year</b>	<b>Collections</b>	<b>Refunds</b>	<b>Net</b>
2002-03	\$96,859,390	\$2,641,471	\$94,217,919
2003-04	\$42,292,396	\$3,473,964	\$38,818,431
2004-05	\$32,811,705	\$1,575,639	\$31,236,066
2005-06	\$13,275,666	\$1,592,063	\$11,683,603
2006-07	\$860,033	\$1,410,797	(\$550,764)

Figures may not add to total due to rounding.



## LUXURY TAX

Arizona's luxury tax applies to cigarettes, other tobacco products, and alcoholic beverages. The department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and alcoholic beverages. The department also investigates and confiscates contraband tobacco products. During the 2007 fiscal year, over \$421 million was received in luxury tax collections.

Of the monies collected per the Tobacco Products Referendum (Prop 303), \$60.2 million was distributed to the Prop 204 Protection Account, \$38.7 million to the Medically Needy Account, \$28.7 million for Emergency Health Services, \$7.1 million for Health Research, and \$2.9 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, \$71.6 million was allocated to the Medically Needy Fund, \$23.8 million to the Health Education Fund and \$5.2 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$28.7 million, and the Arizona Wine Promotional Fund received \$35,965. The Drug Treatment and Education Fund received \$8.3 million, and the Corrections Revolving Fund received \$3.3 million due to the passage of Proposition 200 in 1994. The Smoke Free AZ fund received \$1.8 due to the passage of Proposition 201 in 2006. The Early Childhood Development and Health Fund received \$74.4 million due to the passage of Proposition 203 in 2006. The remaining \$65.9 million was deposited into the state general fund. (*Refer to Table 41*)

## Luxury Tax Rates

	<b>Prior to 12/8/2006</b>	<b>After 12/7/2006</b>
<b>Cigarettes</b>		
per cigarette	\$ 0.059	\$ 0.10
package of 20	\$1.18	\$ 2.00
package of 25	\$ 1.475	\$ 2.50
<b>Cigars</b>		
small cigars weighing not more than 3 lbs/1,000 package of 20 or less selling for \$0.05 or less (each 3 cigars)	\$ 0.2625 \$ 0.13	\$ 0.441 \$ 0.218
selling for more than \$0.05 (each cigar)	\$ 0.13	\$ 0.218
<b>Smoking Tobacco</b>		
snuff, fine cut, chewing, etc. (per ounce)	\$ 0.1325	\$ 0.223
Cavendish, plug, or twist (per ounce)	\$ 0.0325	\$ 0.055
<b>Spirituos Liquors</b>		
per gallon	\$ 3.00	
<b>Vinous Liquors</b> more than 24% alcohol (per gallon)	\$ 4.00	
<b>Vinous Liquors</b> less than 24% alcohol (per gallon)	\$ 0.84	
<b>Malt Liquor (Beer)</b>		
per gallon	\$ 0.16	
per barrel (31 gallons)	\$ 4.96	

**TABLE 41**  
**LUXURY TAX COLLECTIONS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

SOURCE:	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07	PERCENT OF COLLECTIONS IN FY2006-07
Spirituos Liquor	\$22,004,331	\$23,438,818	\$25,085,444	\$26,392,315	\$27,674,933	6.6%
Vinous Liquor	9,924,749	10,404,545	11,473,203	11,509,865	10,755,478	2.6%
Malt Liquor	22,137,764	22,110,426	22,664,420	23,245,180	24,758,494	5.9%
<b>Liquor Collections</b>	<b>\$54,066,844</b>	<b>\$55,953,790</b>	<b>\$59,223,067</b>	<b>\$61,147,360</b>	<b>\$63,188,905</b>	
Tobacco - All Types (1)						
Gross Revenue	218,358,747	282,209,893	290,948,888	\$302,509,034	\$363,934,467	
Refunds	(5,614,159)	(7,273,023)	(5,109,215)	(4,040,057)	(5,317,826)	
Licenses	5,950	6,400	5,325	5,900	8,100	
Administrative Expenses	(403,739)	(414,329)	(445,507)	(468,675)	(502,860)	
<b>Net Tobacco Collections</b>	<b>\$212,346,798</b>	<b>\$274,528,941</b>	<b>\$285,399,491</b>	<b>\$298,006,202</b>	<b>\$358,121,881</b>	85.0%
<b>Amnesty Luxury Collections</b>	----	<b>\$187,315</b>	----	----	----	
<b>TOTAL COLLECTIONS</b>	<b>\$266,413,642</b>	<b>\$330,670,046</b>	<b>\$344,622,558</b>	<b>\$359,153,562</b>	<b>\$421,310,786</b>	
<b>DISTRIBUTIONS:</b>						
State General Fund	\$64,586,950	\$61,301,017	\$64,446,627	\$66,732,468	\$65,808,829	
Wine Promotional Fund	25,497	27,995	34,667	38,481	35,965	
Tobacco Tax & Health Care Fund-Prop. 200 (1)	102,529,785	92,599,453	96,540,601	100,765,613	94,770,504	
Tobacco Products Tax Fund-Prop. 303 (1)	59,938,321	133,563,168	138,521,611	145,399,774	137,624,177	
Drug Treatment & Education Fund	7,306,966	7,490,976	7,894,513	8,096,444	8,323,287	
DOC Revolving Fund	2,902,721	2,978,318	3,139,770	3,221,929	3,313,709	
Department of Corrections Fund	26,348,946	26,613,423	28,049,051	28,480,322	28,697,521	
DOC Transfer from Prop 200 Funds	277,104	531,839	226,191	363,099	783,145	
Prop 200 Transfer from Prop 303 Funds (1)	2,497,352	5,563,857	5,769,526	6,055,432	5,729,557	
Smoke Free AZ - Prop 201 (2)	----	----	----	----	1,778,847	
Early Childhood Development and Health Fund - Prop 203 (3)	----	----	----	----	74,445,246	
<b>TOTAL DISTRIBUTIONS</b>	<b>\$266,413,642</b>	<b>\$330,670,046</b>	<b>\$344,622,558</b>	<b>\$359,153,562</b>	<b>\$421,310,786</b>	

- (1) In November 2002, Proposition 303 increased the Luxury tax on cigarettes from \$0.029 to \$0.059 per cigarette and created the Tobacco Products Tax Fund. Tax rates on other tobacco products also increased. Distributions of the increased rates are made to the Tobacco Products Tax Fund. Proposition 303 also changed the name of the Health Care Fund to the Tobacco Tax & Health Care Fund and established a hold harmless fund for the Prop 200 accounts.
- (2) In December 2006, Proposition 201 increased the Luxury tax on cigarettes from \$0.059 to \$0.061 per cigarette and created the Smoke Free Arizona Fund. Tax rates on other tobacco products were not increased. Distribution of the increased cigarette rate is made to the Smoke Free Arizona Fund.
- (3) In December 2006, Proposition 203 increased the Luxury tax on cigarettes from \$0.061 to \$.10 per cigarette and created the Early Childhood Development and Health Fund. Tax rates on other tobacco products were also increased. Distributions of the increased rates are made to the Early Childhood Development and Health Fund.

Figures may not add to total due to rounding.

## **UNCLAIMED PROPERTY**

Responsibilities of the Unclaimed Property Program include the collection, safekeeping, and disposition of abandoned property and escheated estates.

The Unclaimed Property staff establishes and maintains records of these types of funds along with other personal property that is presumed to be abandoned. This property is received from business associations, banking and financial institutions, insurance companies, utility companies, fiduciaries, state courts, and governmental agencies.

The most common examples of unclaimed property are:

- Payroll checks written to employees not cashed after one year.
- Utility deposits not claimed in two years.
- Contents of safe deposit boxes on which rent has not been paid for three years.
- Government and Court property not claimed in three years.
- Stock or other equity interest in a business association or financial institution with no activity for three years.
- Checks written to vendors or customers not cashed after five years.
- Bank or credit union accounts with no activity for five years.
- Cashier and other official checks not cashed in five years.
- Money orders not cashed in seven years.
- Traveler's checks not cashed in fifteen years.

There is no statute of limitations for filing a claim for unclaimed property. Owners may recover their property at any time with proper documentation.

## **ESCHEATED ESTATES**

In addition to their Unclaimed Property responsibilities, staff members also establish and maintain records of Escheated Estates. An Escheated Estate is created when a person dies without leaving a will and has no known heirs. When this condition exists, his or her property reverts to the state as the original and ultimate proprietor after seven years. Funds received from escheated estates are deposited into the permanent school fund. (*Refer to Table 42.*)

**TABLE 42**  
**COLLECTIONS AND DISTRIBUTION OF UNCLAIMED PROPERTY**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

SOURCE:	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07	PERCENT OF COLLECTIONS IN FY2006-07
<b>UNCLAIMED PROPERTY</b>	\$46,219,555	\$49,653,262	\$83,063,365	\$69,705,035	\$97,125,191	
Refunds	(10,333,078)	(10,093,832)	(16,241,154)	(17,693,745)	(22,541,073)	
Expenses	(1,325,764)	(1,368,887)	(1,459,889)	(1,564,120)	(3,112,161)	
<b>NET</b>	<b>\$34,560,714</b>	<b>\$38,190,543</b>	<b>\$65,362,322</b>	<b>\$50,447,170</b>	<b>\$71,471,956</b>	<b>99.2%</b>
<b>ESCHEATED ESTATES</b>	269,557	568,385	731,836	562,510	552,507	
Refunds	(55,504)	(223,945)	(339,712)	(195,735)	(7,679)	
<b>NET</b>	<b>\$214,052</b>	<b>\$344,441</b>	<b>\$392,124</b>	<b>\$366,776</b>	<b>\$544,828</b>	<b>0.8%</b>
<b>TOTAL NET REVENUE</b>	<b>\$34,774,766</b>	<b>\$38,534,984</b>	<b>\$65,754,446</b>	<b>\$50,813,946</b>	<b>\$72,016,784</b>	<b>100.0%</b>
<b>DISTRIBUTIONS:</b>						
<b>General Fund</b>	6,745,652	8,043,962	9,423,140	10,256,152	11,703,745	
<b>Housing Fund</b>	17,950,660	20,708,267 (4)	23,942,665	26,004,597	40,972,902	
<b>Ladewig</b>	-----	-----	21,292,088 (5)	3,704,599 (5)	0 (6)	
<b>Kerr</b>	-----	-----	-----	-----	83,340 (7)	
<b>Utility Assistance Fund</b>	1,118,958	1,307,953	1,664,467	855,505	2,550,675	
<b>Racing Fund</b>	6,527,513	7,530,279	8,706,424	9,456,217	14,899,237	
<b>Victim Restitution Fund</b>	2,128,019	547,274	299,565	128,281	1,250,347	
<b>Net to Permanent School Fund:</b>						
Escheated Estates	214,052	344,441	392,124	366,776	544,828 (1)	
Unclaimed Shares/dividends	0	43,788	29,359	18,955	9,482	
Storage Facility (2)	-----	9,021	4,614	22,865	2,227	
<b>Retained by Unclaimed Property</b>	89,912 (3)	0	0	0	0	
<b>TOTAL DISTRIBUTION</b>	<b>\$34,774,766</b>	<b>\$38,534,984</b>	<b>\$65,754,446</b>	<b>\$50,813,946</b>	<b>\$72,016,784</b>	

(1) FY 07 Escheated Estates will be transferred in FY 08.

(2) FY04 was the first year that the Department of Revenue made deposits to the Permanent School Fund from Unclaimed Storage Facility property pursuant to A.R.S. §33-1704.

(3) This amount was retained by Unclaimed Property due to an overpayment to the General Fund in FY 02

(4) \$2,750,000 from the Housing fund was transferred to the General fund in FY 04. This transaction should have taken place in FY 03 Per HB 2002.

(5) Ladewig Unclaimed Property for FY05 and FY06 is to be deposited to the State General Fund, per SB1524, signed by the Governor May 20, 2005

(6) Ladewig Claims paid during FY07 exceeded their collections; therefore no transfer was required.

(7) Kerr Unclaimed Property for FY07 is to be deposited to the State General Fund, per HB2867.

## WASTE TIRE

The Arizona waste tire fee is a fee applied to the sale of new motor vehicle tires. The fee is to be collected quarterly at a rate of two percent of the purchase price not to exceed two dollars per tire.

During fiscal year 2007, the department collected \$8,967,577 and distributed 3.5% percent to the Department of Environmental Quality with the remainder being distributed to the counties based on the number of motor vehicles registered in the county (*Refer to Tables 43*). The distribution is performed quarterly.

**TABLE 43**  
**WASTE TIRE FEE DISTRIBUTIONS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2006-07**

COUNTY	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Apache	\$88,265	\$100,750	\$104,593	\$101,645	\$105,927
Cochise	188,526	208,639	218,301	215,348	223,763
Coconino	182,060	202,203	210,871	204,129	211,377
Gila	100,584	109,692	113,751	111,143	116,236
Graham	42,055	45,472	47,489	46,809	49,226
Greenlee	14,267	14,571	15,401	15,008	15,915
La Paz	40,230	46,334	48,427	47,146	49,332
Maricopa	3,837,502	4,245,363	4,452,595	4,742,763	4,995,305
Mohave	305,722	355,631	375,524	387,372	413,274
Navajo	143,348	162,789	169,024	165,729	174,781
Pima	991,330	1,085,793	1,138,071	1,136,415	1,190,164
Pinal	231,521	256,738	272,484	291,962	353,172
Santa Cruz	67,292	74,443	78,802	78,006	80,076
Yavapai	323,797	369,140	386,285	391,322	416,633
Yuma	205,684	235,110	246,759	246,469	258,530
Arizona Dept of Environmental Quality	245,261	272,480	285,744	296,730	313,865
<b>Total</b>	<b>\$7,007,444</b>	<b>\$7,785,148</b>	<b>\$8,164,120</b>	<b>\$8,477,996</b>	<b>\$8,967,577</b>

Figures may not add to total due to rounding.



# LEGISLATIVE SUMMARY





# LEGISLATIVE SUMMARY

The following is intended to give a brief summary of the 2007 tax-related legislation impacting the Department of Revenue (DOR) and not intended to discuss the details of any specific enactment. Please refer to the particular legislation for more definitive information.

The general effective date for legislation is September 19, 2007. All legislation will have this effective date unless otherwise noted in the summary.

Copies of these bills can be downloaded at [www.azleg.state.az.us/FinalDisposition.asp](http://www.azleg.state.az.us/FinalDisposition.asp) or may be requested from the Secretary of State's Office by calling (602) 542-4086.

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## Income Tax

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### House Bill 2079 (Chapter 7)

Income tax credit review schedule

HB2079 is the annual bill to update the income tax credit review schedule based on the recommendations of the Joint Legislative Income Tax Credit Review Committee. The bill has scheduled the following individual and corporate income tax credits for review in 2012.

#### Individual income

43-1073	Family tax credit
43-1089	Credit for contributions to school tuition organizations
43-1089.01	Tax credit; public school fees and contributions
43-1089.02	Credit for donation of school site

#### Corporate income

43-1181	Credit of donation of school site
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### House Bill 2084 (Chapter 112)

Income tax credit; other states

HB2084 provides a credit for taxes paid to another state for taxpayers that are domiciled in Arizona, but considered a resident of another state under the laws of that other state. The credit may only be claimed for the amount of taxes paid on income derived from within the other state.

This bill will be effective retroactively to taxable years from and after December 31, 2001. Any claim for refund must be filed according to the four year statute of limitations.

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### House Bill 2322 (Chapter 225)

Tax credit accountability; motion picture

See summary under Multiple Tax Types.

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### House Bill 2491 (Chapter 180)

Solar energy tax credit; application

See summary under Multiple Tax Types.

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### House Bill 2784 (Chapter 258)

2007 tax reduction package

See summary under Multiple Tax Types.

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### Senate Bill 1036 (Chapter 132)

Tax liabilities; suspension

See summary under Multiple Tax Types.

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### Senate Bill 1157 (Chapter 1 E)

Income tax deadlines

See summary under Multiple Tax Types.

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### Senate Bill 1233 (Chapter 160)

Recomputation of tax; final determination

A taxpayer is no longer required to submit an amended return at the time they file a federal amended return. Instead, the taxpayer is allowed to file 90 days after the final determination is made on their federal amended return. However, it does not prevent taxpayers from filing intermittent amended returns to make a payment to stop the accrual of interest.

SB1233 provides a statutory definition of *final determination* for Arizona income tax purposes:

- Final determination, occurs when the appeal rights of the Internal Revenue Service (IRS) and the taxpayer have been exhausted relative to the tax year.
- Stipulates that a partial agreement, closing agreements, jeopardy or advance payment assessment is part of the final determination and must be submitted to DOR.

- Specifies that partial, closing or other IRS agreements that would be final except for flow through adjustments are considered as a final determination when the taxpayer signs the agreement.
- Clarifies that flow through adjustments are finally determined when appeal rights have been exhausted.
- DOR is not required to issue refunds until the final determination has been made.

These changes are retroactive to final determinations issued by the United States Treasury Department from and after December 31, 2006.

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## Transaction Privilege Tax/ Use Tax

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### **House Bill 2300 (Chapter 252)**

Water district; Upper San Pedro

HB2300 allows the Upper San Pedro Water District and Board of Directors to be established if approved by qualified voters of the District. The bill outlines the powers, duties, responsibilities and limitation of the District and the Board. It also creates an Organizing Board to prepare organizational, financial, comprehensive and election plans for the District. For DOR purposes, this bill calls for the formation of the Upper San Pedro Water District and provides that District with the authority to impose a transaction privilege tax.

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### **House Bill 2515 (Chapter 276)**

Municipal sales tax incentives; prohibition

HB2515 penalizes certain Maricopa County and Pinal County municipalities that offer tax incentives to retail business facilities to locate or relocate into their city or town.

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### **House Bill 2627 (Chapter 188)**

Prime contracting; property owners

HB2627 changes the "prime contractor" definition under A.R.S. § 42-5075 retroactive to January 8, 1991 to generally exclude persons who might commonly be considered 'owner-developers': that is, persons who hire contractors to perform the modifications and who do not perform those activities themselves.

Any claim for refund must be filed no later than December 31, 2007. Failure to file a claim by this date constitutes a waiver of the claim. The aggregate amount of refunds may not exceed \$10,000.

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### **House Bill 2784 (Chapter 258)**

2007 tax reduction package

See summary under Multiple Tax Types.

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### **Senate Bill 1036 (Chapter 132)**

Tax liabilities; suspension

See summary under Multiple Tax Types.

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### **Senate Bill 1592 (Chapter 174)**

Contractors; violations; sales tax

SB1592 requires all contractors who have been convicted of a misdemeanor to pay their outstanding state, county and city transaction privilege taxes from the acts arising from the violation before they are determined eligible for probation or suspension of sentence.

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## Property Tax

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### **House Bill 2078 (Chapter 41)**

Property Tax Commission; sunset continuation

The Property Tax Oversight Commission (PTOC) is intended to provide oversight of the budgeting and taxation process of counties, municipalities, school districts and community college districts. The PTOC was set to sunset on July 1, 2007, but this bill extends the sunset date until July 1, 2017.

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### **House Bill 2091 (Chapter 8)**

Parcel splits; taxing districts

HB2091 states that a special taxing district that submits proposed boundaries after November 1, 2007 must only include whole parcels, not partial parcels.

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### **House Bill 2207 (Chapter 117)**

County treasurers; property tax collection

HB2207 makes the following changes for the county treasurers in regard to collection of property taxes on mobile homes.

- Allows MVD to identify mobile homes with delinquent taxes by taxpayer ID number or tax roll ID. Previously it was tax roll ID only.
- Establishes a method for the County Treasurer to allocate taxes between parcels that have been split or consolidated.
- Eliminates the second deferral of taxes for the purchaser of a personal property mobile home subject to delinquent taxes.

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### **House Bill 2476 (Chapter 106 E)**

Government property tax exemption; retroactivity

In 2006, A.R.S. § 42-11102 was amended to remove subsection D which specifically taxed a group of buildings in Tempe owned by SRP. HB2476 makes the 2006 legislation retroactive to September 18, 2003.

This bill had an emergency clause and went into effect on April 20, 2007 with the Governor's signature.

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### **House Bill 2491 (Chapter 180)**

Solar energy tax credit; application

See summary under Multiple Tax Types.

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### **House Bill 2657 (Chapter 203)**

Property tax; electric generation valuation

HB2657 requires DOR to value the land used in operating electric generation facilities at "the cost to the current owner as of December 31 of the preceding calendar year".

This bill is retroactive to "valuation years beginning from and after December 31, 2006." This means that it is effective for the 2007 valuation year (2008 tax year). The revised land values were included in the preliminary valuation notices that were mailed on June 15, 2007.

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### **House Bill 2784 (Chapter 258)**

2007 tax reduction package

See summary under Multiple Tax Types.

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### **Senate Bill 1554 (Chapter 37)**

Board of equalization; hearing officers

SB1554 increases the allowable pay for hearing officers employed by the State Board of Equalization.

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## **Multiple Tax Types**

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### **House Bill 2322 (Chapter 225)**

Tax credit accountability; motion picture

HB2322 adds new corporate and individual income tax credits for motion picture infrastructure projects (building studios, etc.) as well as making changes to the current motion picture production credit.

- The new infrastructure credits will be subject to the same cap limits as the motion picture production credits with 5% of the cap limit reserved for commercials and music videos.
- The infrastructure credit is based on 15% of the cost of the infrastructure project and the credit is transferable.
- Motion picture production credits were amended to increase the credits from 10-20% of costs to 20-30% of the costs.
- Credits may now be claimed on the first available timely filed return that is due after the final approval from the Department of Commerce as long as it is not earlier than the cap year when the credit was pre-approved. For example, if a taxpayer was pre-approved for a credit from the 2007-cap year and finishes the production and receive post-approval from DOC on 3/31/08, the taxpayer could claim the credit on their timely filed 2007 return that is due 4/15/08 rather than waiting for their 2008 return to be filed.
- Both credits now have provisions to allow the motion picture production company or the infrastructure company to request a limited managed audit of the credit. The audit would have to be done by an independent CPA paid for by the taxpayer and conducted pursuant to a limited managed audit agreement entered into with DOR. If DOR denies the outcome, then the taxpayer may appeal the denial in the same manner as any other protested audit. If DOR approves, then the taxpayer is issued a certification that the credit would not be subject to recapture from the transferees.
- Made changes regarding the expenses that qualify for the credits.
- Allows taxpayers to apply for post-approval from DOC before a viewable copy of the

production is available by submitting a letter of credit payable to DOR. If the DOC later determines that the motion picture does not qualify for the credit, DOR would draw on the letter of credit and hold the monies in an interest bearing account pending the outcome of any appeal.

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### **House Bill 2491 (Chapter 180)**

Solar energy tax credit; application

HB2491 amends the corporate and individual income tax credits available for installing or financing a solar energy device.

Provisions:

- Expands the credit to solar energy devices installed for any nonresidential application, not just for commercial or industrial purposes.
- Allows the device to be installed in the taxpayer's facility, which is broader than the taxpayer's trade or business location.
- Expands the credit to allow a taxable entity or an entity exempt from tax under Chapter 12 of Title 43 to transfer the credit to a third party organization that either installed, developed or financed the solar energy device placed in service during the taxable year.

The change is retroactive to years beginning from and after 12/31/2005, which is when the original statute was effective.

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### **House Bill 2784 (Chapter 258)**

2007 tax reduction package

Provisions:

#### **Military Relief Fund**

- Establishes the Military Family Relief Fund. The money in the fund must be used to provide financial assistance to family members of military personnel who were killed or wounded in the line of duty and who were deployed from a military base in Arizona or who were members of the Arizona Army or Air National Guard.
- Administered by the Arizona Department of Veterans' Services.
- Contributions made to the fund may qualify for an income tax credit, however, donations to the fund that exceed a combined total of

one million dollars in any calendar year do not qualify for the credit.

- The credit is the amount contributed to the fund by the taxpayer during the taxable year, up to \$200 for a single person or head of household and \$400 for a married couple filing a joint return. Married taxpayers that file separate returns may each claim only one-half of the tax credit that would have been allowed on a joint return.
- The credit cannot exceed the taxpayer's tax liability for the taxable year. For a taxpayer to be eligible for the credit, the taxpayer must have received receipt from the Department of Veterans' Services that indicates the donation was within the one million dollar total annual limit for the credit, shows the taxpayer's name, address, last four digits of the taxpayer's social security number and whether the donation qualifies under the limits. The Department of Veterans' Services must furnish a copy of each receipt to DOR.
- This credit is effective for taxable years beginning from and after December 31, 2007 with an automatic repeal on December 31, 2012.

#### **Business Personal Property**

- Changes the schedule of additional depreciation allowed for Legal Class 1 and 2 business personal property that are initially classified during or after tax year 2008.
- Allows a higher percentage of additional depreciation, and also extends the number of years that property receives additional depreciation from 4 to 5 years.

#### **Class One Property**

- Speeds up the reduction of the assessment ratio for Legal Class 1 and Legal Class 6.4 (Enterprise Zone Full Cash Value) so that a 20% assessment ratio is reached in 2010 rather than 2014. To accomplish this, the rate will decrease 1% per year instead of the current ½% per year.

#### **College Savings Plan**

- Provides individuals with a subtraction from Arizona gross income for the amount

contributed to a college savings plan established pursuant to I.R.C. § 529, to the extent that the contributions were not deducted in computing federal adjusted gross income.

- The subtraction is limited to \$750 for a single individual or a head of household and \$1,500 for a married couple filing a joint return. If a husband and wife file separate returns, the subtraction can be taken by either taxpayer, or may be divided between them, but may not exceed \$1,500.
- Requires a recapture of subtracted amounts when such amounts are used for unqualified purposes.
- The subtraction is effective for taxable years beginning from and after December 31, 2007 with an automatic repeal on December 31, 2012.

#### **NBA All-Star TPT Exemption**

- Provides a TPT exemption for admission sales to the 2009 NBA All-Star game and other related events with a conditional enactment that requires the City of Phoenix to provide a municipal TPT exemption for the same events if it is chosen as the host city.

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#### **Senate Bill 1036 (Chapter 132)**

Tax liabilities; suspension

SB1036 allows the director to grant a filing extension and penalty and interest relief for a period of up to one year to taxpayers eligible for disaster relief under I.R.C. § 7508A and taxpayers affected by a state of emergency declared by the Governor.

This legislation will grant relief to all tax types administered under Title 42.

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#### **Senate Bill 1157 (Chapter 1 E)**

Income tax deadlines; conformity

SB1157 conforms the starting point for computing Arizona taxable income for 2006 to include the federal changes made to the Internal Revenue Code during 2006. The bill also conforms the starting point for computing Arizona taxable income in 2007 to the current Internal Revenue Code.

Retroactive to December 31, 2006 the filing or payment of income tax is considered timely filed on the next business day that is not a Saturday, Sunday

or legal holiday, if the original deadline falls on one of those days.

Defines legal holiday to include legal holidays in the State of Arizona or as determined by the U.S. Secretary of the Treasury relating to due dates established by the IRS.

This bill had an emergency clause and went into effect on April 4, 2007 with the Governor's signature.

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### **Miscellaneous**

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#### **House Bill 2681 (Chapter 218)**

Utility assistance; qualified fuel fund

HB2681 repeals the statutes governing the Utility Assistance Fund (UAF) and requires a utility to transfer annually all abandoned deposits to a qualified fuel fund entity for the purposes of assisting eligible Arizona residents in making deposits, repairs, and replacement of utility related appliances or systems.

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#### **House Bill 2786 (Chapter 260)**

Budget reconciliation; general revenues

Provisions related to the Department of Revenue and the Unclaimed Property Statutes:

- Decreases the abandonment period for corporate debt instruments from five to three years.
- Creates a three year abandonment period for dividends and other sums payable to shareholders.
- Eliminates requirement for DOR to pay appreciation to claimants if securities are sold prior to the three year holding period after the holder delivers the securities to DOR.
- Entitles claimants to the net proceeds from the sale of securities.
- Requires all proceeds from the sales of securities in fiscal year 2007-08 be deposited into the state General Fund.

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## **House Bill 2789 (Chapter 263)**

Budget reconciliation; health and welfare

Amends the current language of the Health Insurance Premium Tax Credit found in A.R.S. § 43-210.

The bill:

- Requires the application for a certificate of eligibility to contain a written declaration made under the penalty of perjury; and
- Requires the applicant to obtain health insurance within ninety days for the certificate to remain valid for one year rather than apply for health insurance within 30 days.

These changes become effective with the general effective date of September 19, 2007 with a retroactivity provision to September 21, 2006 when the Health Insurance Premium Tax Credit began.