

# ARIZONA DEPARTMENT OF REVENUE

## FY 2006 ANNUAL REPORT

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# STATE OF ARIZONA

Department of Revenue  
Office of the Director  
(602) 716-6090



Janet Napolitano  
Governor

Gale Garriott  
Director

November 14, 2006

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

Dear Governor Napolitano and the Taxpayers of Arizona:

Fiscal year 2006 was a milestone year for the Department of Revenue (Department) in that we collected more than \$13 billion as an agency. Total taxes collected by the Department during fiscal year 2006 exceeded \$13.2 billion, including more than \$8.5 billion that was deposited directly into the state General Fund. Included in this total is over \$530 million that was collected through the Department's tax enforcement efforts. By collecting over \$530 million through the audit, license compliance, and collections programs, the Department exceeded the \$438 million target set at the beginning of the year, performing at 120% of goal.

One area to highlight this year is the Corporate Income Tax Audit "Discovery" program where the Discovery Unit matched the Department's electronically filed W-2 records against employer withholding tax registrations and filings to identify employers that are not registered or are not filing the required withholding returns. Results exceeded expectations as this program yielded \$5.4 million in additional revenue for the state in fiscal year 2006, bringing in \$3.5 million over the \$1.8 million target. Another noteworthy highlight is that the Department processed over 1.1 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 the Department'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 2006. Department resources are already actively working on the conversion of the income tax system to BRITS, which will occur in fiscal year 2008.

The Honorable Janet Napolitano  
November 14, 2006  
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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,

A handwritten signature in black ink that reads "Gale Garriott". The signature is written in a cursive style with a large, stylized initial "G".

Gale Garriott  
Director

cc: File

# 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 taxpayer's 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.

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. All benefits 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. There are three types of benefits which are funding this project up to the time in which the contract has been paid in full. They are discovery dollars, efficiency dollars, and license compliance dollars.

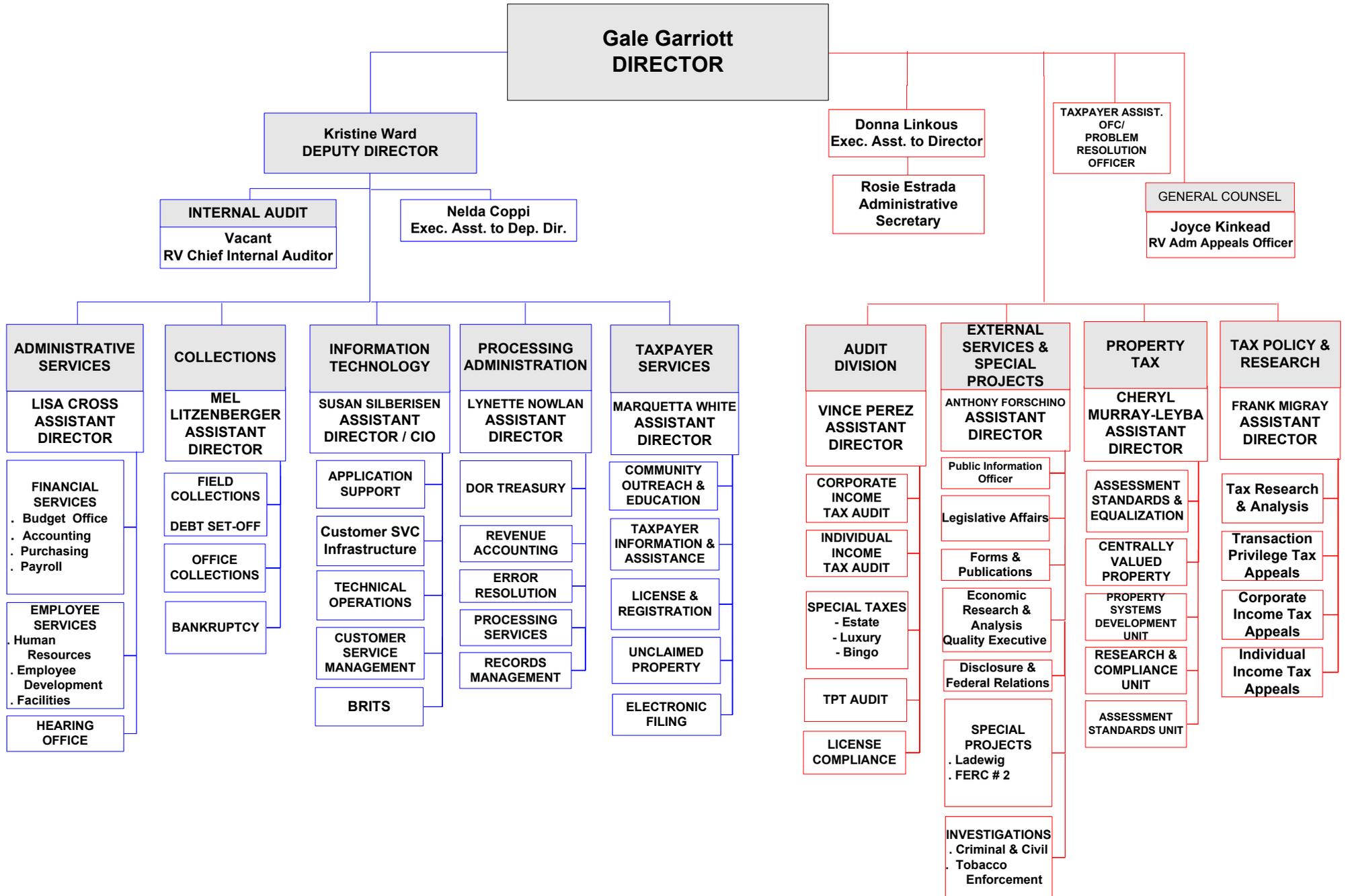
Discovery dollars are associated with accounts or taxpayers who were not in our system but were "discovered" by one of the new enforcement programs using new BRITS tools. The revenues reported for these accounts include dollars collected at the time of discovery as well as revenues voluntarily paid by the account after it is established. In fiscal year 2006, \$13.6 million in discovery benefits were recognized.

The efficiency revenues are those associated with increases in enforcement revenues (audit, collections, billings and license enforcement) as a result of the new systems implementation. Efficiency gains are defined as enforcement revenues collected in excess of a baseline. Baseline numbers were established which equal the amounts expected based on our staffing size and historical productivity. In fiscal year 2006, \$72.5 million in efficiency benefits were recognized.

License compliance is similar to discovery and efficiency. The work of the license compliance section is to find businesses that are not licensed or not licensed in all of the cities where they operate, similar to discovery. In fiscal year 2006, \$3.8 million in license compliance benefits were recognized.

At the close of fiscal year 2006 the Department had earned benefits in excess of amount billed by the vendor for services completed thus far. While benefits continue to be measured and recognized, vendor payments were less than the full amount recognized. For fiscal 2006 \$90 million in benefits (at the 100% level) were recognized while \$70.4 million was paid to the vendor. An additional \$6.1 million from benefits recognized during fiscal 2006 remains available to be paid to 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 2006 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 2006 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 except Estate Tax in fiscal year 2006 compared to fiscal year 2005.

## TOTAL GROSS REVENUES COLLECTED

### FY05

Transaction Privilege Tax....	\$6,255,415,018
Income & Withholding .....	\$3,754,718,182
Corporate .....	\$ 789,739,978
Other .....	\$ 477,593,567
Total .....	\$11,277,466,745

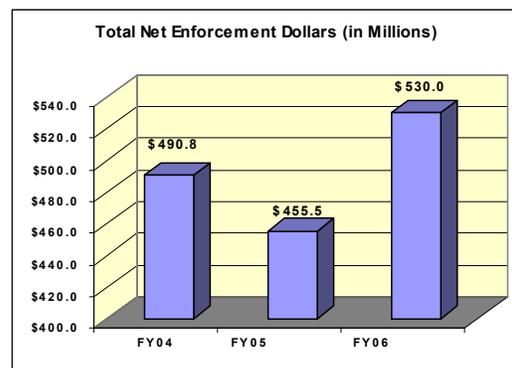
### FY06

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

## 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.

FY04 .....	\$ 490,792,363
FY05 .....	\$ 455,564,124
FY06 .....	\$ 530,000,447



**FISCAL YEAR 2006 ENFORCEMENT BREAKDOWN BY ENFORCEMENT PROGRAM**

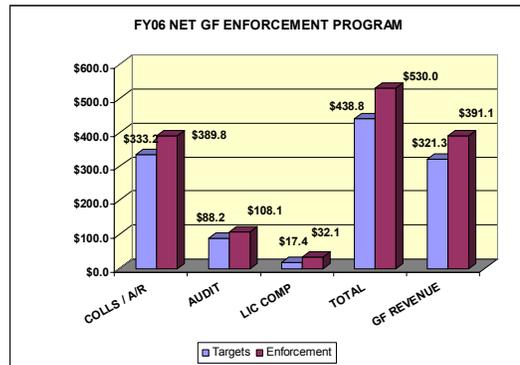
This chart recaps each program’s contribution to total enforcement collections. General Fund distribution information is included.

**FY06 Net Targets**

Collections/Accounts Receivable ...	\$333.2M
Income, Corporate, TPT Audit .....	\$ 88.2M
License Compliance .....	\$ 17.4M
Enforcement Revenue .....	\$438.8M
General Fund Revenue .....	\$321.3M

**FY06 Net Actual**

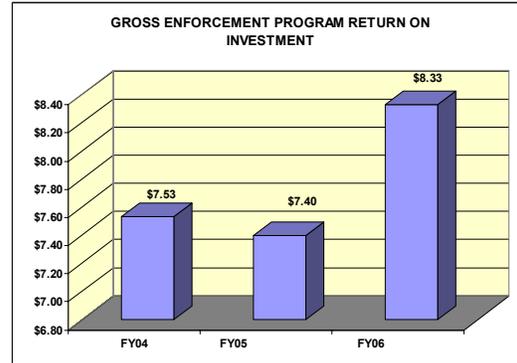
Collections/Accounts Receivable ...	\$389.8M
Income, Corporate, TPT Audit .....	\$108.1M
License Compliance .....	\$ 32.1M
Enforcement Revenue .....	\$530.0M
General Fund Revenue .....	\$391.1M



**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.

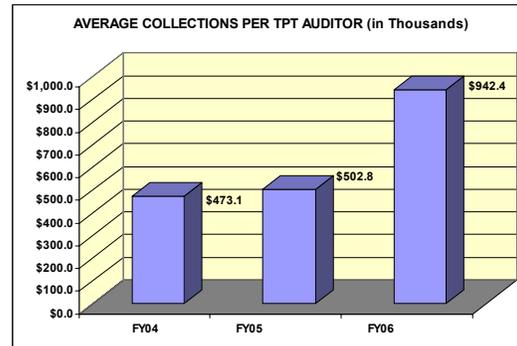
FY04 .....	\$7.53
FY05 .....	\$7.40
FY06 .....	\$8.33



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

Average collections per auditor include those from the field, desk, and license compliance audit areas.

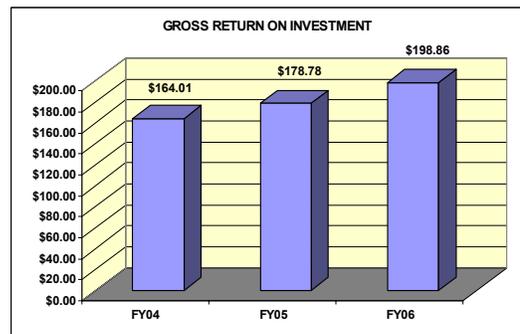
FY04 .....	\$473.1
FY05 .....	\$502.8
FY06 .....	\$942.4



**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.

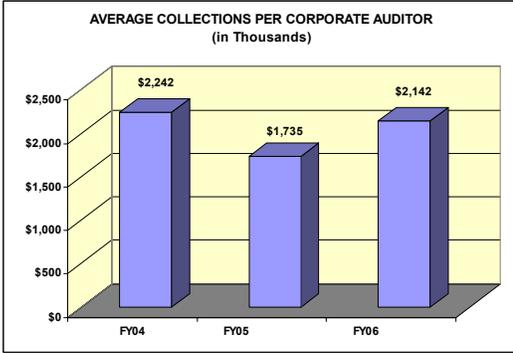
FY04 .....	\$164.01
FY05 .....	\$178.78
FY06 .....	\$198.86



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

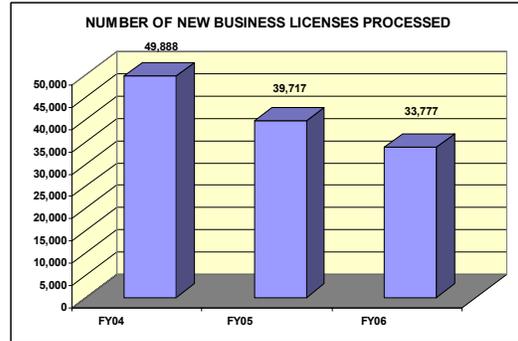
Average collections per corporate auditor increased over FY05 as productivity geared up after training.

FY04 .....	\$2,242
FY05 .....	\$1,735
FY06 .....	\$2,142



**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.

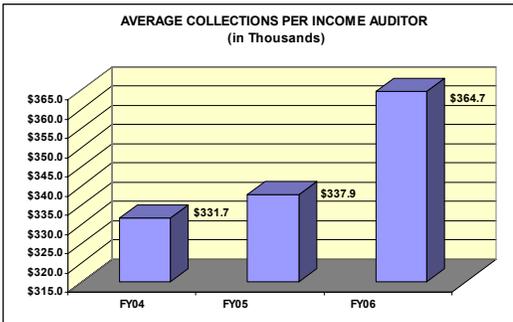
FY04 .....	49,888
FY05 .....	39,717
FY06 .....	33,777



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

Average auditor staff remained approximately the same as in FY05; productivity increased as new employees completed on the job training.

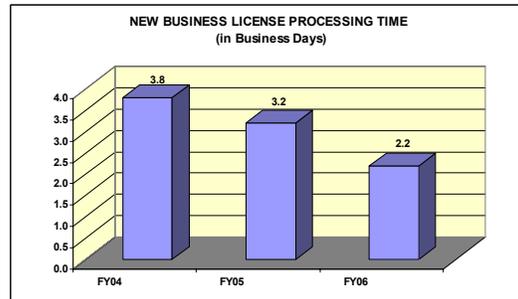
FY04 .....	\$331.7
FY05 .....	\$337.9
FY06 .....	\$364.7



**NEW BUSINESS LICENSE TURNAROUND TIME**

New business license processing turnaround times reflect mailed applications.

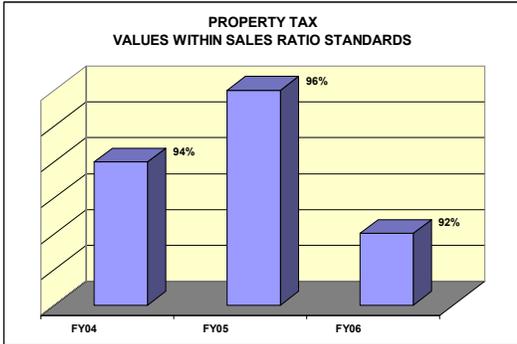
FY04 .....	3.8 days
FY05 .....	3.2 days
FY06 .....	2.2 days



**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, 92% of properties within areas where there are adequate number of sales, are valued in accordance with statutory valuation levels.

FY04 .....	94%
FY05 .....	96%
FY06 .....	92%

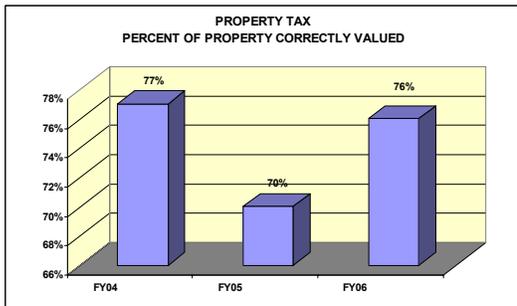


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**DISTRIBUTION OF PROPERTY TAX BURDEN**

This is a measure of fairness in the distribution of the property tax burden among taxpayers. Overall, 76% of properties are valued fairly when compared with similar properties; 24% of properties are valued too high or too low in relation to similar properties.

|            |     |
|------------|-----|
| FY04 ..... | 77% |
| FY05 ..... | 70% |
| FY06 ..... | 76% |

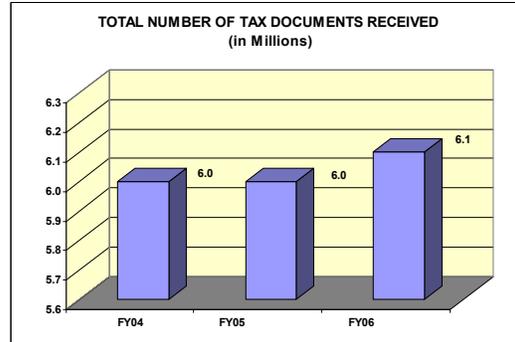


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**TOTAL NUMBER OF TAX DOCUMENTS RECEIVED**

Documents consist of paper and electronic income tax returns as well as corporate, income and TPT returns.

FY04 .....	6.0M
FY05 .....	6.0M
FY06 .....	6.1M

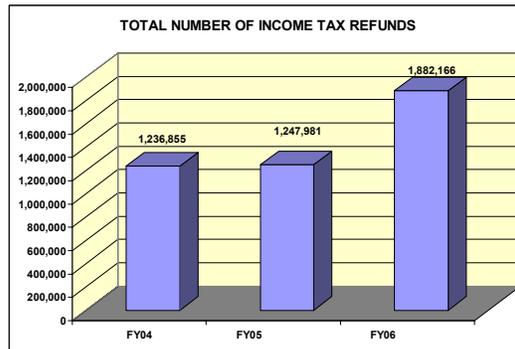


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**TOTAL NUMBER OF INCOME TAX REFUNDS**

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. It is important to note that the average process time is decreasing, as depicted in the following chart.

|            |           |
|------------|-----------|
| FY04 ..... | 1,236,855 |
| FY05 ..... | 1,247,981 |
| FY06 ..... | 1,882,166 |

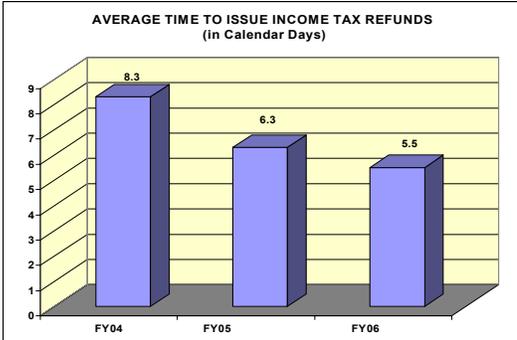


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**AVERAGE TIME TO ISSUE INCOME TAX REFUNDS**

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. Those electronic filers also prefer to receive their refunds electronically via direct deposit.

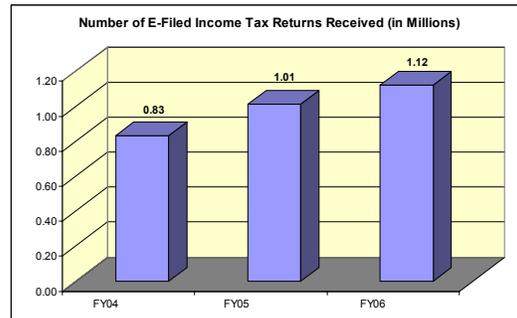
FY04 .....	8.3 days
FY05 .....	6.3 days
FY06 .....	5.5 days



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

Income tax returns submitted via electronic filing are processed virtually error free. Interest in the paper alternative filing has been increasing over the past few years.

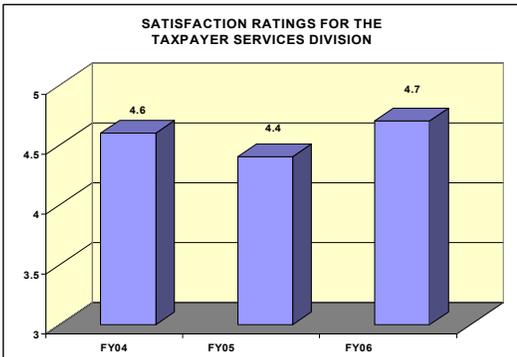
FY04 .....	0.83M
FY05 .....	1.01M
FY06 .....	1.12M



**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.)

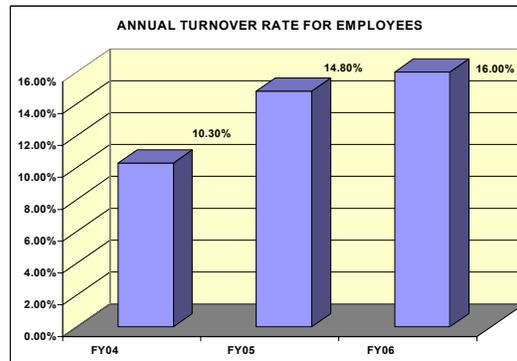
FY04 .....	4.60
FY05 .....	4.40
FY06 .....	4.70



**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.

FY04 .....	10.30 %
FY05 .....	14.80 %
FY06 .....	16.00 %



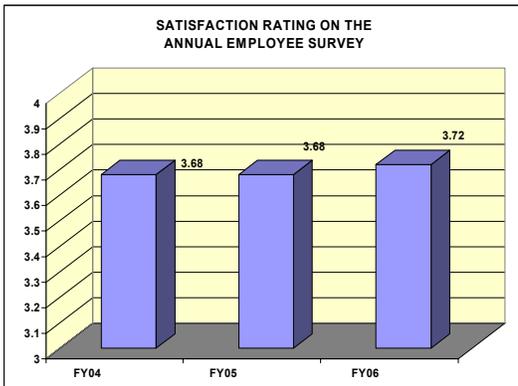
**OVERALL AVERAGE SATISFACTION RATING ON THE ANNUAL EMPLOYEE SURVEY**

The annual employee satisfaction survey has been standardized over the past three years allowing for comparative data analysis. (All satisfaction ratings tracked at the department have a 1 to 5 scale, 5 being the highest rating.)

FY04 .....	3.68
FY05 .....	3.68
FY06 .....	3.72

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.

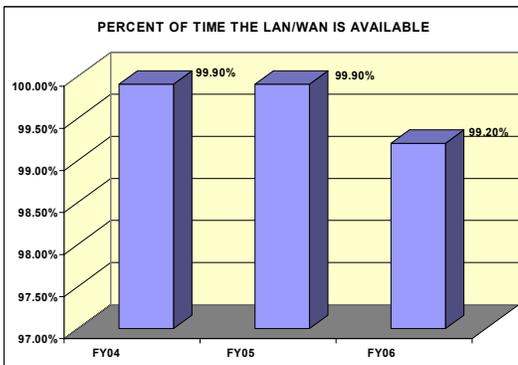
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**PERCENT OF TIME THE LOCAL AND WIDE AREA NETWORK (LAN/WAN) IS AVAILABLE.**

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

FY04 .....	99.9 %
FY05 .....	99.9 %
FY06 .....	99.2 %



# 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, confidentiality guidelines, plus health and safety programs. 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 2006**

- Continued enhancements of the new Human Resources Information Solution (HRIS) system.
- Responded to 98% of building maintenance work orders within 24 hours.
- The Hearing Office resolved 148 cases during the fiscal year.
- Rolled out Hiring Gateway to all agency divisions. The divisions now post vacancies and receive hiring lists electronically.
- DOR participated in a state-wide job fair resulting in 52 hires for the agency.

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# AUDIT

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

The Audit Division is comprised of Corporate Income Tax Audit, Individual Income Tax Audit, Transaction Privilege and Use Tax Audit, Discovery and Special Taxes: Bingo, Estate Tax, and Luxury Tax. Division goals consist of creating horizontal integration, consolidation of resources, creating consistent policy decisions that impact the audit groups, eliminating duplication of efforts, therefore, reducing unnecessary costs, and assimilating reporting methodologies.

The Audit Divisions greatest asset is our employees. Our employees are charged with fairly determining whether the correct amount of tax has been reported and are responsible for performing audits in a professional and courteous manner with a minimum of disruption to the taxpaying community.

## **Corporate Income Tax Audit**

The section is comprised of four units: Field Audit Unit, Office Audit Unit, Tax Shelter Unit, and the Nexus Unit.

The Field Audit Unit conducts the majority of its audits outside of the state of Arizona at the corporate headquarters where the company books and records are maintained.

The Office Audit Unit operates numerous audit programs in-house. These audits are based upon varied selection criteria designed to identify areas of non-compliance.

The Tax Shelter Unit works toward identifying taxpayers who have utilized abusive tax schemes in order to avoid paying state income tax.

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 realized that they have an obligation to file and would like to file past, current and future tax returns with the state.

The Corporate Audit Section continuously seeks to improve its processes, particularly in the area of its

ability to identify areas of non-compliance that yield large adjustments and result in additional revenues to the state. We strive to have an aggressive audit program that is viewed by other states as a model program to emulate and that is regarded by corporations as a deterrent to abusing the tax laws.

The newly designed ESKORT auditing and tracking system will help yield a more sophisticated audit select system, will improve management's tracking of audit production, and will enhance preparation of the audits. As the ESKORT system is implemented by the Corporate Audit Unit, extensive training will take place to ensure that all users of the system will be properly trained in a timely manner regarding the various systems. This should yield a smooth transition to the new systems that will be easy, efficient, and effective.

## **Individual Income Tax Audit**

Individual Income Audit Section conducts office and field audits of individuals and pass-through entities such as partnerships and subchapter S corporations.

The Section views the audit process as an educational and cooperative process that improves voluntary compliance by ensuring taxpayers report and pay the correct amount of tax due. Auditors are charged with determining whether the correct amount of tax has been reported and performing audits in a professional and courteous manner.

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

### **Field Audit**

For fiscal year 2006, although the group utilized valuable resources and time to train new auditors, the Field Audit unit exceeded their goals and objectives by approximately 13%. Audit survey reports continue to improve and show that our auditors strive for professionalism and clarity. Throughout the fiscal year, Field Audit unit members dedicated numerous hours on designing, testing and implementing the ESKORT System. Once fully implemented, the system will provide the unit and Audit Division with additional tools to maximize audit selection, audit tracking and planning.

### **License Compliance Unit**

The License Compliance Unit (LCU) is a dynamic and successful unit in the Transaction Privilege and Use Tax Audit section. The License Compliance officers conduct both office reviews and also conduct field visits to cover special events and activities.

Their main function is to provide the best customer service by ensuring all business in Arizona are licensed and paying the correct tax. These efforts are accomplished through correspondence and one-on-one contacts with vendors. The education goes beyond the individual vendors; it includes working closely with other departments, agencies and promoters of special events throughout the state to ensure they are fully educated about TPT and Withholding tax related issues.

### **Desk Audit Unit**

For fiscal year 2006, the Unit exceeded their goal by approximately 15% of forecasted revenues. This group continues to excel in locating, identifying, and bringing entities doing business in Arizona into compliance, in addition to educating these same taxpayers on how to report correctly on future tax returns. The Unit worked diligently on training new staff and dedicated valuable resources on system integration. Two team members were dedicated exclusively to work on designing, testing, implementing and training the audit staff on the new BRITS System (Business Re-Engineering Integrated Tax System).

The Cities Program continues to provide assistance to all the cities in Arizona. This unit is responsible for coordinating the administration, collection and auditing for those cities and towns that have contracted with the department. In addition, the Cities Program represents the department in working with the cities and towns that are not in the administration program through the Unified Audit Committee. This committee works to ensure that all cities and towns handle audit issues uniformly.

### **Refund Audit Unit**

The Refund Section is responsible for analyzing and processing taxpayer refund requests. While responding to increasingly complex requests and the changing TPT system, the unit continues to work to reduce the refund processing time and excel in its customer service.

### **Administrative Support**

Fiscal year 2006 was another successful year for the Administrative Support Unit. The unit processes completed field audits timely and accurately and tracks protest periods/accounts, for the most part, this continues to be a manual, labor intensive process.

### **Audit Discovery Unit**

The Audit Discovery unit was created as part of the department's effort to step up discovery efforts in relation to the BRITS contract. Tax payments made by taxpayers that are brought into compliance through one of the unit's discovery programs are considered "Discovery Payments" and these monies are distributed between Accenture and ADOR according to the gain sharing formulas outlined in the BRITS contract. The unit is made up of auditors that originated from the Corporate Audit Section, Transaction Privilege and Use Tax Audit Section, and the Individual Income Tax Audit Section. The 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.

### **Special Taxes**

This group is made up of Estate Tax, Luxury Taxes, and the Bingo section.

The Estate Tax unit processes all estate tax returns and conducts audits.

The Luxury Tax staff administers tax for liquor and tobacco, including licensing for tobacco wholesalers and processing of associated tax returns. The unit also supports the Office of the Attorney General in administration of the Tobacco Master Settlement Agreement.

The Bingo section issues licenses and conducts audit examinations of Bingo operators. The staff investigates complaints and violations of Bingo laws, as well as conducts workshops and consultations with licensees.

### **HIGHLIGHTS IN FISCAL YEAR 2006**

- The Tax Shelter Unit generated \$21.7 million exceeding its \$11 million goal by 197% The unit continues to enhance its enforcement activities through its partnering efforts with the Internal Revenue Service, the Multistate Tax Commission, Federation of Tax Administrators and several other state taxing agencies across

the country to identify taxpayers that have participated in abusive tax avoidance transactions (ATATs) and promoters that have sold ATAT products.

- The Nexus unit had an incredible year. The unit brought 221 non-filing taxpayers into to compliance this past year and collected \$7.3 million from these taxpayers. Additionally the unit's collections from adding prior non-filing taxpayers to the tax rolls garnered the state \$24.6 million. The unit's total collection for the year was \$31.9 million which exceeded its goal of \$17.5 million by 182%.
- The Computer Audit Operations Unit enhanced the effectiveness and efficiency of the Corporate Filed Audit Unit through its development of an auto-update program that automatically uploads any new statutes and rules, court cases, tax rulings, tax procedures, as well as audit program changes when the auditor logs on to their computer. Thus providing the field auditor with the most up-to-date available information prior to engaging in a field audit.
- The Audit Division enthusiastically supported BRITS and ESKORT, the department's reengineering projects, by providing subject matter experts to assist in business reengineering, efficiency efforts, system design, testing, procedure writing, and training needs.
- Customer service is emphasized by the Individual Income Tax Audit Section. In order to determine our quality of service provided, surveys are sent with all audit determinations. On a scale of 1 to 5 (5 being excellent) survey scores averaged 4.32. To increase the response rate, the survey form has been added to the department's internet site and allows the taxpayers to email the completed form to the Section.
- The computer generated assessment program has been enhanced to increase the number of accounts that are eligible to be processed by this program. The results were the issuance of 7,070 assessments for approximately \$2.1 million which is an increase of 1,565 assessments and \$700,000 compared to the previous fiscal year. This is an efficiency gain resulting from the department's data warehousing project.

- The Individual Income Tax Audit Section completed over 51,000 audits resulting in total assessments of \$28.1 million. The additional revenue collected was \$18.2 million, which was \$3.9 million or 27.6% over the fiscal year objective.
- Fiscal Year 2006 was a phenomenal year for the License Compliance Unit as indicated by how they exceeded their goals and objectives:
  - ✓ Completed 145,267 researches.
  - ✓ Visited 2,026 field sites.
  - ✓ Attended 57 special events including canvassing the communities of Maricopa, Tubac, Stanfield, Gila Bend, Theba, Sentinel, Dateland, Aztec, Mohawk, Wellton, Ligurta, Somerton, Bullhead City, Pinetop/Lakeside and Show Low.
  - ✓ Issued 3,638 licenses. Collected \$70,578 in license fees. Answered 23,144 phone inquiries from taxpayers.
  - ✓ In addition to these accomplishments, the unit generated over \$34 million in revenue, exceeding their goal by 62%.
- The Discovery Unit sent 26,119 letters to 17,337 taxpayers inquiring about their Arizona filing status for Corporate Income Tax, Transaction Privilege and Use Tax, Withholding Tax and Individual Income Tax based upon computer generated leads. The programs of the unit generated \$5,435,668 in collections for the fiscal year.
- Arizona's Estate Tax was effectively repealed January 1, 2005, following the IRS's elimination of the Federal State Death Tax Credit last year. Although no Arizona estate tax is owed on the estate of a person who dies after 2004, original returns for estate tax owed on the estate of a person who died before 2005 could be filed through March 31, 2006. After this date we will continue to receive amended estate tax returns as it can take years to settle a complicated estate.

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# COLLECTIONS

**Mission Statement:** *To fairly and efficiently collect receivables and delinquent returns and to insure businesses are properly licensed/registered with the department.*

## **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. The section uses a Predictive Dialer System (PDA) to dial the phone on accounts prioritized for work. This system automatically brings up computer screens of the account on calls made and routes them to the first available collector. Office Collections also 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 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 Bankruptcy/Litigation 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, work Offers in Compromise, recommend 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.

## **Bankruptcy and Litigation**

Bankruptcy and Litigation 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 as well as processing Offers-in-Compromise. The Litigation 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 and internal systems training.

During the past year we have re-structured this Section. Two teams have been created to focus on routine tax liability accounts and special projects, while reducing efforts in administering bankruptcy accounts. More case load has been shifted to the Attorney General's Office as part of this change. The Division expects to reduce a major portion of inventory which has cases that are considered "delinquent", that is tax returns have not been filed, yet many of them do not have liabilities, the tax payers are not compliant with filing returns in a timely manner. As this inventory is reduced, the agents will work on cases with liabilities.

## **Debt Set-Off**

Debt Set-Off serves other state agencies by offsetting tax refunds to reduce debts to other state agencies and the courts. This program includes qualifying agencies and courts for program participation, notifying agency participants and taxpayers when matches are made, monitoring status of and validating claims, finalizing matches, resolving discrepancies and generating payments to agencies and/or releases to taxpayers.

## **HIGHLIGHTS IN FISCAL YEAR 2006**

- Expanded the training unit to include a full time trainer in Tucson.
- Restructured the Bankruptcy Section to provide more focus on routine collections accounts and reducing our efforts on bankruptcy cases.
- Renamed the Bankruptcy Section to Litigation and Special Projects.
- Expanded the Administrative Support Team and its duties to free up Collection Agents time for more productive enforcement activity.
- Collected \$317 million (a record) during the fiscal year, up from \$255 million in FY 2005.

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# 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**

### **Ladewig**

Design, implement and effectuate the refund program resulting from the Ladewig class action lawsuit.

### **HIGHLIGHTS IN FISCAL YEAR 2006**

- A well known Yuma area tax return preparer was indicted in September, 2005, on 23 counts of filing fraudulent tax returns for his clients for the years 2001 through 2004. In April 2006, he was sentenced to 36 months supervised probation and ordered to pay the department \$21,155 as restitution. As a condition of his probation, he is not to be employed or involved in the business of tax preparation.

- The Tobacco Enforcement Unit of the Criminal Investigations Section conducted over 2,200 inspections of retail stores, 190 inspections of distributor operations, seized over 2.2 million cigarettes, issued nine citations for misdemeanor violations, and six individuals were indicted on 20 counts (Fraudulent Schemes and Artifices, sale of counterfeit cigarettes, conspiracy).
- In July, a third installment payment was mailed to 305,000 Ladewig claimants. Because of our policy not to send a warrant to a taxpayer whose account has a “bad address” identifier, we forwarded data on an additional 43,500 claimants to the department’s Unclaimed Property section. The total cost of these transactions was \$50.5 million.
- With the assistance of the Attorney General’s office, the claimant, and class counsel, the remaining 200 Ladewig cases with an unresolved dispute status were researched, documented, reported, and ultimately resolved.
- By changing the Form 1099-G and Form 1099-INT production program to focus on the data in the Ladewig system, claimants were able to receive all of their forms in one envelope. In the previous year, the mainframe system was the originator of data and only one form could be inserted per envelope.

# INFORMATION TECHNOLOGY

**Mission Statement:** *The DOR Information Technology Division will use technology effectively and innovatively to maximize opportunities internally for assessing risks, promoting stability, and maintaining confidence in the tax systems.*

## **Application Services**

Application Services provides support for all primary mainframe and client server applications. Support includes software project management, problem-resolution (24/7 support), installing mandated regulatory changes and installing changes to enhance application functionality and efficiency.

Current direction includes conversion of legacy mainframe systems to client-server based applications in support of the new integrated tax system - BRITS. Currently, the focus of Application Services continues to be support for data conversions to the new BRITS platform and ongoing maintenance of Legacy and BRITS systems.

## **Customer Infrastructure Support**

Customer Infrastructure Support (CIS) is responsible for research, analysis, implementation, and support of network and server hardware and software technologies. This includes 24/7 support for Data, WAN, Internet, and customer technical support for four locations across the State of Arizona.

The focus of CIS is to ensure maximum system and network uptime. Additionally, we strive to place a high level of emphasis on responding to our customers in a timely manner.

## **Customer Services Management**

Customer Services Management (CSM) group acts as a liaison and single point of contact for new system requests between the business units and IT. We work with the customer to gather project information and develop requirement specifications. The team administers all System Investigation Requests (SIRs) and works with the customer to determine the priority of the requests. In addition, the team promotes IT capabilities and services by understanding the needs of the business units for both Legacy applications and BRITS.

CSM is responsible for testing all software applications prior to deployment. This includes changes and fixes to existing applications, as well as new applications.

## **Technical Operations**

The Technical Operations section is comprised of Production Control, Technical Support, Security Management, Database Management, and Business Continuity for IT Systems. The Production Control team is responsible for scheduling and processing all batch production jobs on the Legacy and BRITS systems. Technical Operations is responsible for all offsite data storage. The team provides third tier technical support to the programming staff for mainframe issues and supports all third party software implemented with the BRITS systems. The Security Management team is responsible for all security configurations in the online BRITS system. This team processes security access requests within the BRITS and mainframe systems. The Disaster Recovery team is responsible for data recovery at offsite locations. The Database Management team is responsible for all development, test, and production databases.

## **HIGHLIGHTS IN FISCAL YEAR 2006**

- Delivered 14 software releases for the BRITS applications. The releases covered a wide range of application corrections, enhancements, annual and legal changes.
- Implemented a new Remittance Processing application server and upgraded the application to meet current standards.
- Modified the 2-D barcode application to process credit forms 320, 321 and 322.
- Modified the 2-D barcode application to accept tax year 2005 returns.
- Modified the Data Entry system to accept tax year 2005 returns.
- Modified the E-File system to accept tax year 2005 returns.
- Implemented Mobile Collections modifications that reduced nightly data replication from 18 hours to 3 hours.

- Upgraded the AZTaxes interfaces to BizTalk 2004.
- Implemented the following AZTaxes functionality:
  1. Taxpayer's ability to cancel payments;
  2. License Verification
  3. Added Star Valley as a new program city
  4. Modified JT-1 UI to support DES interface
  5. Added links to DES/EA/UIT websites on AZTaxes pages
  6. Added functionality to notify cities when a new report is added to AZTaxes
- Implemented year-end Income and Corporate tax changes.
- Implemented changes to support 1099G mailing notice for refunds to the taxpayer.
- Implemented changes required for Real and Personal Property 2005 tax year billings.
- Upgraded the on-site data center, providing substantial infrastructure enhancement for future growth.

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# PROCESS ADMINISTRATION

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

## **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 is responsible for resolving discrepancies between the taxpayer’s calculations and the department’s computerized calculations for the largest four tax types (Individual Income, TPT, Withholding and Corporate). The Review unit, which is part of Error Resolution, is responsible for further researching of possible discrepancies found on taxpayer accounts.

## **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 2006**

- During fiscal year 2006, 6.1 million tax documents were processed for all tax types.
- Individual income tax refund turn-around time averaged 5.46 days.
- During fiscal year 2006, 4,111,910 individual payments were received, processed and deposited with an average deposit time of 3.54 days.
- The Records Management section received 9,821 requests to pull documents and they processed 100% of these requests within 24 hours.

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# 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.

## **Valuation Section**

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 assessors 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 the 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 existing component costs for the computerized construction cost system and annually reviews market and location adjustments in each county. The group also provides training for county appraisers on the use of the construction cost system.

## **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 2006**

- As other Divisions began to see the benefits of the new BRITS system, the Property Tax Division began the process of developing a new property tax system (the Arizona Property Assessment and Taxation System, APATS) to replace its 30-year old mainframe system. The property tax system is used widely throughout the state by Assessors, Treasurers, and Recorders. It is also relied upon by the legislature, the Governor's Office, the department and others involved in the property tax program. The Property Tax Division oversees the work of the 15 County Assessors

whose offices are responsible for valuing and assessing property for property tax purposes.

- One of the duties of the Property Tax Division is to provide data processing services for any counties that do not have their own property tax systems. Currently, the division provides data processing services for 12 counties. The Property Tax Division is looking forward to a more flexible, user-friendly system.
- The Affidavits Team changed the procedure for processing affidavits, saving 32 hours per month, and thereby providing sales data to the counties in a more timely fashion.
- The Construction Cost Team developed specifications for a new calculation engine to be used in segregated cost computations.
- The Training and Certification Team certified 62 property appraisers.

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# 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. They have also added a new partner, the Small Business Forum, a cooperative venture with the IRS and the Arizona Workforce Connection that strives to bring business and government together to the benefit of both.

## **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 2006

- The Community Outreach and Education (CORE) Section completed the year with overall higher attendance due to changes they made in planning, organizing and promoting their education programs for taxpayers and the tax practitioner community. The group continues to introduce new and innovative ways to serve taxpayers with new classes such as one for restaurant and bar owners.
- This year the CORE Section worked with the City of Sedona to provide special presentations on filling out returns for businesses licensed in the City. They are also working with the City to provide a direct mailing to offer assistance. The city's location, straddling two counties and multiple city tax rates make for a complex TPT return which may require extra assistance.
- Attendance at CORE's Employers' Forum more than doubled this fiscal year, with an audience of 600 at the program's three venues statewide (up from 250 last year). This program brings together representatives from various federal agencies to cover issues of interest to employers, including the Internal Revenue Service, Immigration, Social Security, Department of Labor, and the Small Business Administration; in addition to the Arizona Department of Commerce and the Arizona Department of Economic Security.
- e-filing of Arizona Income Tax Returns jumped by 13.8%, with over one million returns filed electronically. This exceeds the increases experienced in other states. In addition, more than 414,000 2-D (two dimensional) barcode returns were received. Together, 51% of all income tax returns received were processed without data entry using the new technologies, which places Arizona in the top 1/3 of non-mandated states for e-filing. As a result the agency saved on processing costs and administration of records retention.
- While Tax Practitioners prepare the bulk of electronic returns received (approximately 75%), this year the "home-market" preparation activity increased by 21%.
- Taxpayers' growing acceptance of electronic services was further witnessed with the 20% increase in direct deposits and a 13% jump in direct debit. As a result DOR saved approximately \$31,400 in postage costs by not mailing refund warrants.
- License and Registration Section processed 33,777 applications for new business licenses with an average turnaround of 2.2 days. The number of applications is gradually declining. The volume is down by 47% and 25% of applications are submitted on line.
- Taxpayers showed their support for services on AZTaxes as evidenced in the 14% increase in returns filed.
- The Unclaimed Property Section experienced a 21% increase in the number of claims processed. A total of 39,210 properties, a 23% percent increase, were returned to rightful owners compared to 31,878 during FY2005. Total dollars refunded to claimants equaled more than \$17.6 million a nine percent increase over the \$16.2 million refunded in the prior fiscal year.
- Taxpayer Information and Assistance (TIA) staff ended the fiscal year with a 5% decrease in agent-handled calls while the number of calls handled by the IVR increased by 7%. However, the volume of calls offered decreased by less than 1%. The rate of calls abandoned increased from 31% in FY05, to 36% for FY06. Wait times likewise increased from 5:54 minutes to 7:11 minutes.
- This year in TIA the volume of e-mails handled increased by 40% and they completed 18,814 written correspondence cases (inquiries answered or problems resolved), a reduction of 2% from last year. The percent of cases resolved within 30 days decreased from 84% to 65%, a 19% decline over last year.
- Calls answered, wait times, abandon rates as well as correspondence were all heavily impacted this year due to the high turnover in TIA. This was the result of higher vacancy rates and increased training time. However, improvements in training methods are expected to reduce the time it takes to get new employees through their core training from 12 weeks to 6 weeks.

# 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 2006**

- The division has continued to work with industry representatives in developing detailed guidelines applicable to the transient lodging industry in an effort to avoid future disagreement and litigation. A tax ruling and related matrix outlining the state and city privilege tax treatment of the various activities undertaken by a transient lodging business has been drafted, and will be issued in September. In conjunction with the ruling, the department will be holding training sessions at various locations in the state to be attended by industry and government representatives.



# 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**  
**REVENUE SUMMARY**  
**GROSS REVENUE COLLECTED**  
**FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

<b>SOURCE</b>	<b>FY2001-02</b>	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
<b>TRANSACTION PRIVILEGE USE AND SEVERANCE TAX</b>					
Distribution Base	\$1,246,773,262	\$1,265,625,175	\$1,362,143,376	\$1,504,851,881	\$1,742,272,992
Nonshared Portion	2,379,509,616	2,400,432,714	2,588,439,418	2,871,370,865	3,350,808,572
Use Tax	162,751,987	190,186,057	232,215,946	259,687,993	306,198,808
Education Tax	439,004,543	447,841,034	487,214,807	538,346,435	628,471,192
Undistributed Estimated					
Transaction Privilege Tax	28,766,081	9,156,917	14,056,241	24,907,681	33,445,892
Other State Revenue	32,971,582	34,401,816	35,802,096	35,242,534	37,070,520
County and City Collections	766,018,836	797,522,090	889,627,518	1,021,007,631	1,112,515,747
Amnesty	----	----	15,315,231	----	----
<b>Subtotal</b>	<b>\$5,055,795,907</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>INCOME TAX</b>					
Withholding	2,309,340,885	2,310,302,093	2,336,442,815	2,626,264,231	3,041,031,728
Individual	705,843,394	656,586,317	776,183,707	1,128,453,951 (6)	1,631,563,811
Corporate	512,257,476	518,246,330	596,582,273	789,739,978	978,239,759
Amnesty	----	----	56,757,741	----	----
<b>Subtotal</b>	<b>\$3,527,441,755</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>LUXURY TAX</b>					
Spirituos Liquor	21,574,744	22,004,331	23,438,818	25,085,444	26,392,315
Vinous Liquor	9,035,156	9,924,749	10,404,546	11,473,203	11,509,865
Malt Liquor	22,031,467	22,137,764	22,110,426	22,664,420	23,245,180
Tobacco - All Types (1)	161,754,302	217,955,008 (4)	281,795,514	290,503,381	298,000,302
Licensing	5,250	5,950	6,400	5,325	5,900
Amnesty	----	----	187,315	----	----
<b>Subtotal</b>	<b>\$214,400,920</b>	<b>\$272,027,802</b>	<b>\$337,943,019</b>	<b>\$349,731,773</b>	<b>\$359,153,562</b>
<b>ESTATE TAX</b>					
Estate	81,892,657	96,859,390	42,292,396	32,811,705	13,275,666
Unclaimed Property	48,687,357	46,219,555	49,653,262	83,063,365	69,705,035
Escheated Estates	252,786	269,557	568,385	731,836	562,510
<b>Subtotal</b>	<b>\$130,832,800</b>	<b>\$143,348,502</b>	<b>\$92,514,043</b>	<b>\$116,606,906</b>	<b>\$83,543,211</b>
<b>OTHER REVENUES</b>					
Bingo	629,680	626,770	624,501	610,055	623,480
Flight Property Tax	13,056,694	12,741,749	12,641,445	0 (5)	0
Private Car Tax	1,509,625	1,485,996	1,335,056	1,312,163	1,426,435
Nuclear Plan Assessment	940,611	1,012,992	1,036,085	1,168,550	1,198,087
Waste Tire	6,392,637	7,007,444	7,785,148	8,164,120	8,477,996
<b>Subtotal</b>	<b>\$22,529,247</b>	<b>\$22,874,950</b>	<b>\$23,422,235</b>	<b>\$11,254,888</b>	<b>\$11,725,998</b>
<b>DEPARTMENT TOTAL</b>	<b>\$8,951,000,629</b>	<b>\$9,068,551,797</b>	<b>\$9,844,660,466</b>	<b>\$11,277,466,745 (6)</b>	<b>\$13,316,041,793</b>
State Property Tax (2)	18,454,625	9,493,897	20,188,811	31,300,125	30,298,197
<b>TOTAL (3)</b>	<b>\$8,969,455,254</b>	<b>\$9,078,045,694</b>	<b>\$9,864,849,278</b>	<b>\$11,308,766,871 (6)</b>	<b>\$13,346,339,990</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 November 2002.

(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 2001-02 THROUGH FISCAL YEAR 2005-06**

<i><b>SOURCE</b></i>	<b>FY2001-02</b>	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Transaction Privilege, Use, and Severance Tax	\$2,972,274,262	\$3,027,135,359	\$3,290,458,614	\$3,650,082,271	\$4,257,917,335
Transaction Privilege, Use, and Severance Tax-Amnesty	-----	-----	12,308,108	-----	-----
Undistributed Estimated Transaction Privilege Tax	28,766,081	9,156,917	14,056,241	24,907,681	33,445,892
Income Tax	2,011,052,550	2,056,591,466	2,413,036,616	3,170,987,163 (4)	4,089,641,855
Income Tax-Amnesty	-----	-----	56,757,741	-----	-----
Luxury Tax	66,069,587	64,586,950	61,245,119	64,446,627	66,732,468
Luxury Tax-Amnesty	-----	-----	55,899	-----	-----
Estate Tax/ Unclaimed Property	88,298,138	100,963,571	46,862,393	40,659,207	21,939,755
Bingo	629,680	626,770	624,501	610,055	623,480
Private Car Tax	1,509,625	1,485,996	1,335,056	1,312,163	1,426,435
Nuclear Plan Assessment	940,611	1,012,992	1,036,085	1,168,550	1,198,087
Flight Property Tax	6,528,347	6,255,987 (2)	6,320,722	0 (3)	0
<b>Department Total</b>	<b>\$5,176,068,883</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>
State Property Tax (1)	18,454,625	9,493,897	20,188,811	31,300,125	30,298,197
<b>TOTAL</b>	<b>\$5,194,523,508</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>

(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.

Figures may not add to total due to rounding.

**TABLE 3**  
**GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX**  
**FISCAL YEAR 2004-05 AND FISCAL YEAR 2005-06**

AUDIT COLLECTIONS	FY2004-05	FY2005-06	% CHANGE
Assessment Collections (Gross)	\$78,123,161	\$136,278,194	74.4%
Miscellaneous Taxes (Net of Credit)	\$6,052,339	\$6,525,325	7.8%
<b>TOTAL AUDIT UNIT COLLECTIONS</b>	<b>\$84,175,500</b>	<b>\$142,803,519</b>	69.6%
<b>TOTAL BILLINGS</b>	<b>\$179,115,169</b>	<b>\$121,338,165</b>	-32.3%
<b>TOTAL DELINQUENT TAX COLLECTIONS</b>	<b>\$284,542,214</b>	<b>\$376,580,351</b>	32.3%
<b>TOTAL UNADJUSTED ENFORCEMENT COLLECTIONS</b>	<b>\$547,832,883</b>	<b>\$640,722,035</b>	17.0%
<b>ADJUSTMENTS (1)</b>			
Duplication, Credit Audits and Other Adjustments As Reported	(\$87,863,654)	(\$141,655,338)	61.2%
<b>TOTAL ADJUSTED ENFORCEMENT COLLECTIONS (2)</b>	<b>\$459,969,229</b>	<b>\$499,066,697</b>	8.5%
<b>REFUND DENIALS</b>	<b>\$17,956,903</b>	<b>\$51,718,543</b>	188.0%

(1) Audits resulting in credit adjustments are subtracted to produce an actual figure representing the net gain to the state from the Taxation and Transaction Privilege Tax Divisions' efforts.

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

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# **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 \$5.3 billion was remitted by Transaction Privilege, Severance and Use Tax license holders during fiscal year 2006 (*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 77 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*).

Effective with the enactment of Laws 2000, Chapter 297, the department also conducts multi-jurisdictional audits with and for all other cities in Arizona.

## **COUNTY TAX AND SURCHARGE COLLECTION**

Of the 15 counties in Arizona, 14 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 an excise tax, all 14 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 three counties, Gila, Maricopa, 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  
GROSS TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS  
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

SOURCE	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06
Distribution Base	\$1,246,773,262	\$1,265,625,175	\$1,362,143,376	\$1,504,851,881	\$1,742,272,992
Nonshared	2,379,509,616	2,400,432,714	2,588,439,418	2,871,370,865	3,350,808,572
Use Tax	162,751,987	190,186,057	232,215,946	259,687,993	306,198,808
Amnesty	----	----	13,553,444	----	----
<b>SUBTOTAL</b>	<b>\$3,789,034,865</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>
Education Tax (8)	\$439,004,543	\$447,841,034	\$487,214,807	\$538,346,435	\$628,471,192
Undistributed Estimated	28,766,081	9,156,917	14,056,241	24,907,681	33,445,892
911 Wireline/Excise Tax	14,998,348	13,914,520	13,718,911	14,345,470	14,116,317
Telecommunications Devices	6,395,057	6,328,095	5,091,661	4,035,765	3,860,508
Poison Control Fund	2,365,295	2,340,528	1,437,566	1,066,833	1,128,620
School for the Deaf (11)	----	----	1,362,312 (1)	1,363,179	867,140
Teratogen Information Program (12)	----	----	----	53,771 (1)	48,678
911 Wireless Service	6,928,990	9,596,186	11,972,954	12,197,815	14,620,376
Municipal Water	2,213,435	2,150,995	2,195,590	2,156,683	2,403,644
Environmentally Hazardous Products (2)	14	42	44	0	0
Waste Tire Accounts					
Receivable Collections	71,330	72,824	23,068	23,018	25,238
Less Collection Fees	(888)	(1,375)	(11)	0	0
Amnesty-Other	----	----	765,008	----	----
<b>GROSS STATE COLLECTIONS</b>	<b>\$4,289,777,071</b>	<b>\$4,347,643,714</b>	<b>\$4,734,190,336</b>	<b>\$5,234,407,387</b>	<b>\$6,098,267,976</b>
Municipal Privilege Tax	\$280,950,442	\$302,626,095	\$352,320,229	\$428,527,285	\$551,992,962
Pima County Hotel Tax	2,495,830	2,556,951	2,716,687	2,885,159	6,396,637
Maricopa County Rental Car Surcharge	5,396,445	5,267,273	5,556,717	6,024,355	6,493,520
Pima County Rental Car Surcharge	1,377,083	1,435,901	1,485,916	1,594,810	1,588,913
Pima County R.V. Surcharge	189,838	194,949	201,697	197,740	213,599
Apache County Excise Tax	903,381	960,194	959,948	1,015,316	1,202,364
Cochise County Excise Tax	5,698,660	5,673,861	6,181,770	6,363,569	7,084,178
Coconino County Excise Tax	8,793,909	9,467,920	10,079,519	10,213,403	11,510,952
Coconino County Jail Tax	5,486,442	5,692,968	6,043,452	6,128,614	6,904,220
Coconino County Capitol Projects (9)	----	864,263 (1)	2,454,757	2,550,207	2,878,151
Gila County Excise Tax	2,617,971	2,519,790	2,626,335	2,608,771	3,014,729
Gila County Hospital Tax (3)	509	2	0	0	0
Gila County Transportation	2,718,050	2,606,712	2,709,463	2,698,164	3,107,708
Graham County Excise Tax	1,192,075	1,174,735	1,157,663	1,229,557	1,616,224
Greenlee County Excise Tax	562,389	700,206	713,868	803,692	1,062,011
La Paz County Excise Tax	885,465	862,595	972,286	1,011,440	1,147,366
La Paz County Jail Tax	885,694	862,282	972,523	1,011,321	1,147,361
La Paz County Health Services District (10)	----	143,928 (1)	215,928	1,418 (1)	1,124
Maricopa County Road Tax	267,563,343	268,720,901	288,009,151	316,805,562	246,186,493
Maricopa County Stadium Tax (4)	145,148	98,185	82,139	416	4,796
Maricopa County Jail Tax	98,372,053	98,462,479	106,323,691	117,322,803	125,919,368
Mohave County Excise Tax	4,446,472	4,874,083	5,599,830	6,638,796	7,809,442
Navajo County Excise Tax	4,993,912	5,295,310	5,322,106	5,777,336	6,613,709
Pinal County Excise Tax	6,763,454	8,062,544	9,550,194	11,921,052	16,998,069
Pinal County Road Tax	6,965,671	8,280,451	9,757,830	12,173,030	17,279,308
Santa Cruz County Excise Tax	2,114,505	2,186,284	2,456,163	2,583,595	3,130,804
Yavapai County Excise Tax	10,799,358	11,279,837	12,564,395	14,102,433	16,623,589
Yavapai County Jail Tax (5)	4,294,368	4,489,617	6,190,924	7,045,465	8,310,397
Yuma County Excise Tax	7,665,873	8,084,880	9,103,289	10,602,218	11,880,763
Yuma County Jail Tax	7,653,390	8,113,092	9,100,795	10,601,525	8,310,397
Yuma County Capitol Projects Tax (6)	7,582,374	8,041,984	9,072,298	10,580,860	11,820,404
Yuma County Health Services District (13)	----	----	----	----	1,811,649
Tourism/Sports Authority (7)	16,504,732	17,921,823	19,125,954	19,987,721	22,454,539
Amnesty-County Taxes	----	----	996,779	----	----
<b>COUNTY AND CITY COLLECTIONS</b>	<b>\$766,018,836</b>	<b>\$797,522,090</b>	<b>\$890,624,297</b>	<b>\$1,021,007,631</b>	<b>\$1,112,515,747</b>
<b>TOTAL DEPARTMENT OF REVENUE RECEIPTS</b>	<b>\$5,055,795,907</b>	<b>\$5,145,165,803</b>	<b>\$5,624,814,633</b>	<b>\$6,255,415,019</b>	<b>\$7,210,783,723</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) Gila County Hospital Tax ended effective March 31, 1993.  
(4) Maricopa County Stadium Tax ended effective December 1, 1997.  
(5) Yavapai County Jail Tax began on July 1, 2000  
(6) Yuma County Capitol Projects Tax Began on January 1, 2001  
(7) Tourism/Sports Authority Tax became effective March 1, 2001.  
(8) Education Tax became effective on June 1, 2001.  
(9) Coconino County Capital Projects Tax became effective on January 1, 2003.  
(10) La Paz County Health Services District Tax became effective on September 1, 2002 and expired May 31, 2004.  
(11) School for the Deaf Tax became effective on July 1, 2003.  
(12) Teratogen Information Program Tax became effective on July 1, 2004.

**TABLE 5**  
**STATE TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX RATES**  
**FISCAL YEAR 2005-06**

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)	\$1.704	\$0.426	\$0	\$2.13
22. Timbering Severance - Other (per thousand board feet)	\$1.208	\$0.302	\$0	\$1.51
25. Hotel/Motel Tax	2.75%	2.75%	0.0%	5.5%
28. Rental Occupancy Tax	2.0%	1.0%	0.0%	3.0%
29/30. Use and Use Inventory Tax	0.0%	5.0%	0.6%	5.6%
47. Membership Camping	2.0%	3.0%	0.6%	5.6%
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.

**TABLE 6**  
**NET TAXABLE SALES**  
**BY TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX CLASSIFICATIONS (1)**  
**FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

CLASSIFICATION	FY2001-02	% OF TOTAL	FY2002-03	% OF TOTAL	FY2003-04	% OF TOTAL	FY2004-05	% OF TOTAL	FY2005-06	% OF TOTAL
Transporting (7)	\$96,356,085	0.13	\$26,106,195	0.03	\$67,486,501	0.08	\$53,371,189	0.06	\$59,800,611	0.06
Mining, Oil & Gas	208,310,010	0.28	268,072,442	0.35	287,786,559	0.34	317,201,953	0.34	321,538,409	0.30
Mining Severance	(4,263,622)	(0.01)	45,049,321	0.06	261,623,478	0.31	656,631,022	0.71	1,219,984,252	1.12
Timber Severance (4)	766,360	0.00 (2)	0	0.00	0	0.00	0	0.00	0	0.00
Utilities	5,919,273,137	7.83	5,940,826,217	7.72	6,430,306,112	7.69	6,828,178,785	7.34	7,679,981,999	7.07
Communications	2,945,681,407	3.90	2,869,499,256	3.73	2,809,508,501	3.36	2,934,857,677	3.15	3,220,061,678	2.96
Private Car and Pipelines	7,134,188	0.01	12,492,721	0.02	15,919,891	0.02	14,832,331	0.02	25,751,236	0.02
Publishing	82,843,214	0.11	133,229,181	0.17	128,910,761	0.15	134,924,680	0.14	133,679,534	0.12
Job Printing	351,141,961	0.46	427,730,090	0.56	348,923,705	0.42	367,010,013	0.39	403,686,091	0.37
Restaurants and Bars	6,428,712,331	8.51	6,655,027,562	8.65	7,202,034,300	8.62	7,939,964,059	8.53	8,933,458,779	8.22
Amusements	743,800,365	0.98	782,669,793	1.02	813,488,687	0.97	872,520,031	0.94	998,766,714	0.92
Commercial Lease (5)	36,912,605	0.05	(7,578,796)	(0.01)	(6,517,860)	(0.01)	918,894	0.00 (2)	(119,532)	(0.00) (2)
Personal Property										
Rentals	3,607,518,815	4.77	3,319,777,937	4.31	3,174,944,574	3.80	3,242,363,333	3.48	3,633,373,845	3.34
Contracting	11,820,596,498	15.64	11,563,726,354	15.03	13,156,489,701	15.74	16,044,846,683	17.24	20,487,917,068	18.85
Feed Wholesale (3)	(1,806,235)	(0.00) (2)	(67,256)	(0.00) (2)	(8,021)	(0.00)	0	0.00	0	0.00
Retail	38,432,859,974	50.85	39,408,769,331	51.22	42,409,054,932	50.74	46,378,344,449	49.83	53,147,971,363	48.90
Hotel/Motel	1,659,760,985	2.20	1,698,499,187	2.21	1,831,153,519	2.19	2,063,973,281	2.22	2,268,775,586	2.09
Rental Occupancy Tax	5,967,630	0.01	1,427,458	0.00 (2)	4,201,555	0.01	2,413,680	0.00 (2)	3,471,162	0.00 (2)
Use Tax	3,240,459,960	4.29	3,793,690,395	4.93	4,644,318,922	5.56	5,218,535,456	5.61	6,155,958,934	5.66
Membership Camping	2,741,146	0.00 (2)	2,406,275	0.00 (2)	2,998,348	0.00 (2)	2,896,795	0.00	2,784,840	0.00
Agriculture Equipment (6)	2,106,425	0.00 (2)	0	0.00	0	0.00	0	0.00	0	0.00
Other	-----	-----	-----	-----	119,004	0.00 (2)	0	0.00	0	0.00
<b>TOTAL</b>	<b>\$75,586,873,240</b>	<b>100.00</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>

(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) Effective July 13, 1995 the tax rate on Timber Severance was changed to a dollar amount per 1,000 board feet. Timber Severance includes only sales subject to the repealed rate.

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

(6) Agriculture Equipment was phased out July 1, 1988 and is not a current business classification.

(7) 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 2005-06**

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL COLLECTIONS
Transporting (1)	\$597,641	\$2,386,257	\$2,983,898
Nonmetal Mining, Oil and Gas	3,207,147	6,815,188	10,022,335
Mining Severance	24,351,979	6,087,995	30,439,973
Timbering Severance	0	0	0
Timbering Severance - Ponderosa	26,437	6,609	33,047
Timbering Severance - Other	(434)	(109)	(543)
Utilities	76,598,243	306,392,974	382,991,217
Communications	32,121,968	128,487,873	160,609,841
Private Car and Pipelines	256,890	1,027,559	1,284,449
Publishing	1,333,240	5,332,961	6,666,201
Printing	4,027,278	16,109,113	20,136,391
Restaurants and Bars	178,236,334	267,354,502	445,590,836
Amusements	19,931,781	29,897,671	49,829,452
Commercial Lease (2)	(1,896)	(1,681)	(3,577)
Rentals of Personal Property	72,489,508	108,734,261	181,223,769
Contracting	203,444,875	813,779,506	1,017,224,380
Retail	1,060,748,298	1,590,186,482	2,650,934,780
Hotel/Motel	62,241,728	62,241,728	124,483,456
Rental Occupancy Tax	69,424	34,194	103,618
Use Tax Utilities	165,577	662,308	827,885
Use Tax	0	306,198,808	306,198,808
License Fees	0	1,038,882	1,038,882
Membership Camping	55,604	83,405	139,009
Jet Fuel Tax	2,423,897	3,635,846	6,059,743
Jet Fuel Use Tax	0	724,106	724,106
Non Sufficient Funds	0	1,055	1,055
Telecommunications Service Assistance	(52,528)	(210,112)	(262,640)
<b>TOTAL</b>	<b>\$1,742,272,992</b>	<b>\$3,657,007,380</b>	<b>\$5,399,280,372</b>

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

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

Figures may not add to total due to rounding.

**TABLE 8**  
**DISTRIBUTION OF TRANSACTION PRIVILEGE, USE**  
**AND SEVERANCE TAX COLLECTIONS**  
**FISCAL YEAR 2005-06**

Net Regular to State General Fund	\$4,257,917,335
Net Estimated Payments to General Fund	33,445,892
Net to Cities	435,568,248
Net to Counties	705,794,789
Net to Education Fund	628,471,192
911 Wireline/Excise, 911 Wireless, Telecommunications Devices, Poison Control Fund, Schools for the Deaf, Municipal Water and Environmentally Hazardous Products, Waste Tire Accounts Receivable Collections	37,021,843
<b>TOTAL GROSS COLLECTIONS</b>	<b>\$6,098,219,299</b>

**ADDITIONAL DISTRIBUTION FROM**  
**TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS**  
**FISCAL YEAR 2005-06**

Phoenix International Raceway	\$416,667
Rio Nuevo	\$10,968,178
Tourism and Sports Authority	\$5,286,815
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, 2005 AND ENDING JUNE 30, 2006**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2004-05	COLLECTIONS
Utilities	\$13,245,527	11.7%	\$662,276
Communications	32,032,251	94.1%	1,601,613
Restaurants and Bars	11,064,048	6.1%	553,202
Rentals of Personal Property	5,900,052	-4.9%	295,003
Contracting (All)	79,610,694	1.2%	3,980,535
Retail	78,992,488	26.9%	3,949,624
Hotel/Motel	12,086,972	2.9%	664,783
Other Taxable Activities	87,077,301	75.8%	4,240,635
<b>TOTAL</b>	<b>\$320,009,333</b>	<b>29.0%</b>	<b>\$15,947,672</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2003-04	FY2004-05	FY2005-06
Utilities	20	21	21
Communications	107	123	133
Restaurants and Bars	58	66	66
Rentals of Personal Property	143	160	180
Contracting (All)	289	382	452
Retail	847	1,103	1,241
Hotel/Motel	54	56	56
Other Taxable Activities	503	724	845
<b>TOTAL</b>	<b>2,021</b>	<b>2,635</b>	<b>2,994</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$140,468,053	1.9%	\$7,023,403
Communications	51,096,202	-9.8%	2,554,810
Publishing	1,612,830	15.5%	80,642
Restaurants and Bars	111,669,144	5.0%	5,583,457
Amusements	6,927,600	-4.7%	346,380
Rentals of Personal			
Property	24,502,164	25.2%	1,225,108
Contracting (All)	266,685,920	24.7%	13,334,296
Retail	751,822,707	9.2%	37,591,135
Hotel/Motel	34,309,775	11.5%	1,887,038
Other Taxable Activities	82,369,121	8.5%	4,060,339
<b>TOTAL</b>	<b>\$1,471,463,516</b>	<b>9.9%</b>	<b>\$73,686,607</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	43	45	46
Communications	175	195	228
Publishing	16	17	
Restaurants and Bars	300	339	350
Amusements	55	62	60
Rentals of Personal			
Property	355	374	409
Contracting (All)	755	962	1,162
Retail	2,797	3,222	3,452
Hotel/Motel	119	126	142
Other Taxable Activities	974	1,269	1,438
<b>TOTAL</b>	<b>5,589</b>	<b>6,611</b>	<b>7,287</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$143,414,904	6.2%	\$7,170,745
Communications	84,056,472	-0.2%	4,202,824
Job Printing	2,959,101	NA	147,955
Restaurants and Bars	314,017,554	12.7%	15,700,878
Amusements	42,106,746	5.1%	2,105,337
Rentals of Personal Property	60,325,065	19.7%	3,016,253
Contracting (All)	373,775,409	36.4%	18,688,770
Retail	1,027,483,998	9.2%	51,374,200
Hotel/Motel	203,898,013	9.7%	11,214,391
Other Taxable Activities	124,346,250	89.0%	5,995,714
<b>TOTAL</b>	<b>\$2,376,383,512</b>	<b>13.1%</b>	<b>\$119,617,067</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	34	38	34
Communications	209	226	249
Job Printing	NA	NA	34
Restaurants and Bars	395	446	471
Amusements	76	88	91
Rentals of Personal Property	462	511	528
Contracting (All)	1,249	1,640	1,881
Retail	3,349	3,989	4,270
Hotel/Motel	231	256	268
Other Taxable Activities	1,329	1,658	1,801
<b>TOTAL</b>	<b>7,334</b>	<b>8,852</b>	<b>9,627</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$84,853,230	6.4%	\$4,242,662
Communications	25,498,784	-4.1%	1,274,939
Publishing	981,404	-11.1%	49,070
Restaurants and Bars	55,785,985	11.0%	2,789,299
Amusements	1,381,838	-2.1%	69,092
Rentals of Personal Property	18,749,101	43.8%	937,455
Contracting (All)	103,479,494	18.7%	5,173,975
Retail	295,563,299	20.1%	14,778,165
Hotel/Motel	13,254,241	20.9%	728,983
Other Taxable Activities	57,692,755	42.5%	2,353,840
<b>TOTAL</b>	<b>\$657,240,132</b>	<b>18.0%</b>	<b>\$32,397,480</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	26	28	33
Communications	150	161	190
Publishing	11	12	15
Restaurants and Bars	161	179	12
Amusements	30	30	33
Rentals of Personal Property	244	263	283
Contracting (All)	598	746	859
Retail	1,582	1,830	2,090
Hotel/Motel	56	61	66
Other Taxable Activities	626	838	1,078
<b>TOTAL</b>	<b>3,484</b>	<b>4,148</b>	<b>4,659</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Communications	\$7,332,931	1.0%	\$366,647
Restaurants and Bars	21,614,212	21.8%	1,080,711
Rentals of Personal Property	6,929,129	40.5%	346,456
Contracting (All)	42,042,306	47.5%	2,102,115
Retail	194,410,695	25.9%	9,720,535
Other Taxable Activities	65,352,387	10.2%	3,294,308
<b>TOTAL</b>	<b>\$337,681,661</b>	<b>24.1%</b>	<b>\$16,910,772</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Communications	116	127	143
Restaurants and Bars	53	67	67
Rentals of Personal Property	139	149	157
Contracting (All)	201	253	305
Retail	838	985	1,164
Other Taxable Activities	501	631	684
<b>TOTAL</b>	<b>1,848</b>	<b>2,212</b>	<b>2,520</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Communications	\$2,319,466	-12.1%	\$115,973
Restaurants and Bars	3,137,104	20.8%	156,855
Rentals of Personal Property	1,025,664	79.1%	51,283
Contracting (All)	36,431,329	497.1%	1,821,566
Retail	104,322,686	15.5%	5,216,134
Other Taxable Activities	596,203,391	87.5%	16,799,625
<b>TOTAL</b>	<b>\$743,439,639</b>	<b>77.0%</b>	<b>\$24,161,438</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Communications	61	74	76
Restaurants and Bars	23	22	28
Rentals of Personal Property	48	60	59
Contracting (All)	53	75	102
Retail	306	352	441
Other Taxable Activities	221	300	322
<b>TOTAL</b>	<b>712</b>	<b>883</b>	<b>1,028</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$18,827,628	8.2%	\$941,381
Communications	7,929,490	-3.1%	396,474
Restaurants and Bars	26,171,968	-1.6%	1,308,598
Amusements	199,009	39.4%	9,950
Rentals of Personal			
Property	3,094,303	14.6%	154,715
Contracting (All)	35,448,839	78.2%	1,772,442
Retail	129,055,012	6.3%	6,452,751
Hotel/Motel	6,287,883	10.7%	345,834
Other Taxable Activities	9,368,962	21.4%	460,820
<b>TOTAL</b>	<b>\$236,383,096</b>	<b>12.7%</b>	<b>\$11,842,966</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	19	20	18
Communications	99	119	122
Restaurants and Bars	91	103	99
Amusements	10	11	13
Rentals of Personal			
Property	146	156	178
Contracting (All)	199	261	338
Retail	1,587	1,765	1,908
Hotel/Motel	53	57	55
Other Taxable Activities	366	487	565
<b>TOTAL</b>	<b>2,570</b>	<b>2,979</b>	<b>3,296</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, 2005 AND ENDING JUNE 30, 2006**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2004-05	COLLECTIONS
Utilities	\$4,724,710,141	13.1%	\$236,235,507
Communications	2,184,053,481	8.5%	109,202,674
Publishing	92,670,704	-3.5%	4,633,535
Printing	321,467,785	10.5%	16,073,389
Restaurants and Bars	6,108,118,681	12.8%	305,405,934
Amusements	758,618,972	15.3%	37,930,949
Rentals of Personal			
Property	2,795,283,837	10.9%	139,764,192
Contracting (All)	13,174,075,176	25.5%	658,703,759
Retail	36,474,487,195	15.5%	1,823,724,360
Hotel/Motel	1,378,392,922	8.7%	75,811,611
Other Taxable Activities	5,014,198,814	25.8%	249,115,373
<b>TOTAL</b>	<b>\$73,026,077,707</b>	<b>16.5%</b>	<b>\$3,656,601,282</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2003-04	FY2004-05	FY2005-06
Utilities	121	128	131
Communications	504	567	658
Publishing	234	270	310
Printing	823	923	911
Restaurants and Bars	5,245	5,997	6,442
Amusements	627	727	759
Rentals of Personal			
Property	2,544	2,869	3,047
Contracting (All)	11,596	13,918	15,506
Retail	40,363	46,602	48,977
Hotel/Motel	590	638	686
Other Taxable Activities	10,112	11,397	12,226
<b>TOTAL</b>	<b>72,759</b>	<b>84,036</b>	<b>89,653</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$390,397,390	25.1%	\$19,519,870
Communications	82,384,054	23.3%	4,119,203
Publishing	2,973,152	5.6%	148,658
Printing	6,158,722	28.3%	307,936
Restaurants and Bars	203,281,849	7.3%	10,164,092
Amusements	16,537,537	15.5%	826,877
Rentals of Personal			
Property	76,113,251	12.4%	3,805,663
Contracting (All)	726,558,795	24.6%	36,327,940
Retail	1,556,363,540	15.6%	77,818,177
Hotel/Motel	48,188,369	8.0%	2,650,360
Other Taxable Activities	111,140,450	29.6%	6,143,748
<b>TOTAL</b>	<b>\$3,220,097,110</b>	<b>18.5%</b>	<b>\$161,832,523</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	41	45	52
Communications	168	185	202
Publishing	27	23	28
Printing	26	33	37
Restaurants and Bars	358	401	448
Amusements	49	55	68
Rentals of Personal			
Property	466	530	544
Contracting (All)	1,301	1,729	2,039
Retail	3,871	4,522	4,827
Hotel/Motel	133	144	166
Other Taxable Activities	1,224	1,569	1,809
<b>TOTAL</b>	<b>7,664</b>	<b>9,236</b>	<b>10,220</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$80,160,792	12.9%	\$4,008,040
Communications	28,266,493	-23.9%	1,413,325
Restaurants and Bars	86,245,303	14.1%	4,312,265
Rentals of Personal Property	24,540,557	18.3%	1,227,028
Contracting (All)	241,173,013	43.6%	12,058,651
Retail	756,087,523	13.0%	37,804,376
Hotel/Motel	30,064,738	5.4%	1,653,561
Other Taxable Activities	155,605,159	-6.4%	5,956,634
<b>TOTAL</b>	<b>\$1,402,143,579</b>	<b>13.4%</b>	<b>\$68,433,878</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2004-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	38	40	41
Communications	151	165	192
Restaurants and Bars	182	199	219
Rentals of Personal Property	276	317	336
Contracting (All)	747	952	1,082
Retail	1,909	2,300	2,494
Hotel/Motel	135	143	152
Other Taxable Activities	826	1,043	1,171
<b>TOTAL</b>	<b>4,264</b>	<b>5,159</b>	<b>5,687</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$1,196,282,263	6.4%	\$59,814,113
Communications	359,291,590	21.9%	17,964,579
Publishing	18,179,546	-0.1%	908,977
Printing	51,383,245	1.8%	2,569,162
Restaurants and Bars	1,341,594,410	10.9%	67,079,720
Amusements	101,657,446	12.2%	5,082,872
Rentals of Personal			
Property	428,252,580	15.8%	21,412,629
Contracting (All)	2,239,219,904	15.6%	111,960,995
Retail	7,566,032,609	10.5%	378,301,630
Hotel/Motel	361,975,200	12.2%	19,908,636
Other Taxable Activities	859,504,013	30.5%	33,443,299
<b>TOTAL</b>	<b>\$14,523,372,806</b>	<b>12.2%</b>	<b>\$718,446,615</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	63	66	69
Communications	170	233	273
Publishing	76	83	81
Printing	155	175	175
Restaurants and Bars	1,424	1,585	1,684
Amusements	194	217	206
Rentals of Personal			
Property	1,009	1,134	1,146
Contracting (All)	3,928	4,609	4,963
Retail	12,731	14,433	14,861
Hotel/Motel	242	266	283
Other Taxable Activities	2,832	3,546	3,972
<b>TOTAL</b>	<b>22,824</b>	<b>26,347</b>	<b>27,713</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, 2005 AND ENDING JUNE 30, 2006**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2005-06	COLLECTIONS
Utilities	\$273,096,820	20.7%	\$13,654,841
Communications	129,660,929	18.9%	6,483,046
Publishing	3,208,877	-2.4%	160,444
Restaurants and Bars	163,316,189	21.3%	8,165,809
Amusements	22,620,710	11.9%	1,131,036
Rentals of Personal			
Property	48,465,577	27.4%	2,423,280
Contracting (All)	1,747,707,486	70.8%	87,385,374
Retail	950,445,598	23.3%	47,522,280
Hotel/Motel	19,739,975	7.7%	1,085,699
Other Taxable Activities	339,537,256	35.0%	13,740,041
<b>TOTAL</b>	<b>\$3,697,799,418</b>	<b>42.5%</b>	<b>\$181,751,850</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2003-04	FY2004-05	FY2005-06
Utilities	57	58	65
Communications	186	218	260
Publishing	16	16	27
Restaurants and Bars	293	351	402
Amusements	76	94	105
Rentals of Personal			
Property	399	439	479
Contracting (All)	1,586	2,210	2,701
Retail	3,034	3,681	4,157
Hotel/Motel	94	93	101
Other Taxable Activities	1,055	1,373	1,551
<b>TOTAL</b>	<b>6,796</b>	<b>8,533</b>	<b>9,848</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, 2005 AND ENDING JUNE 30, 2006**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2004-05	COLLECTIONS
Utilities	\$40,828,367	8.2%	\$2,041,418
Communications	21,657,555	2.6%	1,082,878
Job Printing	765,886	NA	38,294
Restaurants and Bars	44,131,160	19.0%	2,206,558
Amusements	2,806,409	21.6%	140,320
Rentals of Personal			
Property	10,747,066	3.7%	537,353
Contracting (All)	109,410,814	75.9%	5,470,541
Retail	376,171,268	15.0%	18,808,563
Hotel/Motel	13,954,127	16.0%	767,477
Other Taxable Activities	17,887,540	-10.0%	893,159
<b>TOTAL</b>	<b>\$638,360,192</b>	<b>20.5%</b>	<b>\$31,986,562</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2003-04	FY2004-05	FY2005-06
Utilities	12	13	18
Communications	132	144	165
Job Printing	NA	NA	14
Restaurants and Bars	105	128	138
Amusements	19	21	18
Rentals of Personal			
Property	216	237	246
Contracting (All)	376	499	602
Retail	1,357	1,618	1,800
Hotel/Motel	29	29	30
Other Taxable Activities	565	731	790
<b>TOTAL</b>	<b>2,811</b>	<b>3,420</b>	<b>3,821</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, 2005 AND ENDING JUNE 30, 2006**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2004-05	COLLECTIONS
Utilities	\$255,878,445	11.8%	\$12,793,922
Communications	115,550,705	4.3%	5,777,535
Publishing	3,904,827	0.2%	195,241
Printing	7,895,678	8.0%	394,784
Restaurants and Bars	260,395,812	13.0%	13,019,791
Amusements	24,638,044	13.7%	1,231,902
Rentals of Personal			
Property	66,734,955	19.0%	3,336,748
Contracting (All)	842,209,465	29.9%	42,110,473
Retail	1,607,417,138	15.9%	80,370,857
Hotel/Motel	95,502,596	15.6%	5,252,643
Other Taxable Activities	332,174,599	33.2%	10,441,460
<b>TOTAL</b>	<b>\$3,612,302,265</b>	<b>19.4%</b>	<b>\$174,925,356</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2003-04	FY2004-05	FY2005-06
Utilities	67	75	74
Communications	197	226	240
Publishing	38	46	50
Printing	46	59	62
Restaurants and Bars	502	596	638
Amusements	80	88	93
Rentals of Personal			
Property	469	517	550
Contracting (All)	2,100	2,714	3,065
Retail	4,828	5,790	6,205
Hotel/Motel	167	198	199
Other Taxable Activities	1,275	1,688	1,890
<b>TOTAL</b>	<b>9,769</b>	<b>11,997</b>	<b>13,066</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, 2005 AND ENDING JUNE 30, 2006**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>CALCULATED NET TAXABLE INCOME</b>	<b>% CHANGE FROM FY 2004-05</b>	<b>COLLECTIONS</b>
Utilities	\$211,784,280	15.7%	\$10,589,214
Communications	88,931,276	10.3%	4,446,564
Restaurants and Bars	182,915,360	16.4%	9,145,768
Amusements	12,254,270	23.9%	612,713
Rentals of Personal			
Property	62,710,544	2.1%	3,135,527
Contracting (All)	470,088,423	13.6%	23,504,421
Retail	1,279,315,606	10.5%	63,965,780
Hotel/Motel	44,457,179	18.2%	2,445,145
Other Taxable Activities	81,495,173	3.2%	4,032,415
<b>TOTAL</b>	<b>\$2,433,952,111</b>	<b>11.6%</b>	<b>\$121,877,548</b>

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2005-06**

<b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Utilities	30	31	32
Communications	162	195	322
Restaurants and Bars	283	312	348
Amusements	39	39	43
Rentals of Personal			
Property	400	450	440
Contracting (All)	623	847	997
Retail	2,855	3,327	3,599
Hotel/Motel	90	100	101
Other Taxable Activities	1,084	1,357	1,418
<b>TOTAL</b>	<b>5,566</b>	<b>6,658</b>	<b>7,300</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 2001-02 THROUGH FISCAL YEAR 2005-06**

<b>COUNTY</b>	<b>FY2001-02</b>	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>	<b>% CHANGE FROM FY 2004-05</b>
Apache	\$3,808,535	\$3,878,392	\$4,135,998	\$4,542,978	\$5,213,591	<b>14.8%</b>
Cochise	9,111,850	9,344,323	10,135,220	10,852,890	12,250,317	<b>12.9%</b>
Coconino	13,695,680	13,903,149	14,362,293	15,127,441	16,990,411	<b>12.3%</b>
Gila	4,087,916	4,058,750	4,314,601	4,600,625	5,347,259	<b>16.2%</b>
Graham	2,366,529	2,381,979	2,500,199	2,735,648	3,257,813	<b>19.1%</b>
Greenlee	1,794,359	1,750,473	1,975,250	2,511,678	3,918,655	<b>56.0%</b>
La Paz	1,525,956	1,523,806	1,665,084	1,824,245	2,050,126	<b>12.4%</b>
Maricopa	325,710,325	329,197,352	355,145,845	392,415,261	453,769,970	<b>15.6%</b>
Mohave	13,293,460	13,839,979	15,239,251	17,231,461	20,349,087	<b>18.1%</b>
Navajo	7,990,618	8,287,880	8,627,859	9,440,461	10,785,151	<b>14.2%</b>
Pima	76,759,008	77,729,083	82,562,254	90,284,731	102,619,310	<b>13.7%</b>
Pinal	12,467,448	13,328,798	14,773,417	16,911,027	21,298,154	<b>25.9%</b>
Santa Cruz	3,275,822	3,357,505	3,627,497	3,949,677	4,604,423	<b>16.6%</b>
Yavapai	16,504,368	17,000,259	18,519,004	21,183,714	25,131,601	<b>18.6%</b>
Yuma	12,675,627	13,121,508	14,220,509	16,003,660	18,208,919	<b>13.8%</b>
	<b>\$505,067,501</b>	<b>\$512,703,234</b>	<b>\$551,804,281</b>	<b>\$609,615,497</b>	<b>\$705,794,789</b>	<b>15.8%</b>

Figures may not add to totals due to rounding.

**TABLE 25**  
**STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX**  
**DISTRIBUTION TO MUNICIPALITIES**  
**FISCAL YEAR 2005-06**

<b>CITIES</b>	<b>AMOUNT</b>	<b>COUNTY TOTAL</b>	<b>CITIES</b>	<b>AMOUNT</b>	<b>COUNTY TOTAL</b>
<b>APACHE</b>			Scottsdale	\$21,706,009	
Eagar	\$431,861		Surprise	3,303,258	
Springerville	211,165		Tempe	16,985,845	
St. Johns	379,926	\$1,022,952	Tolleson	532,625	
<b>COCHISE</b>			Wickenburg	544,190	
Benson	\$504,462		Youngtown	322,316	\$306,753,376
Bisbee	652,128		<b>MOHAVE</b>		
Douglas	1,769,312		Bullhead City	\$3,616,044	
Huachuca City	187,500		Colorado City	357,011	
Sierra Vista	4,045,014		Kingman	2,149,024	
Tombstone	161,051		Lake Havasu City	4,490,795	\$10,612,873
Willcox	399,736	\$7,719,203	<b>NAVAJO</b>		
<b>COCONINO</b>			Holbrook	\$526,521	
Flagstaff	\$5,663,983		Pinetop-Lakeside	383,567	
Fredonia	110,937		Show Low	823,994	
Page	729,120		Snowflake	477,585	
Williams	304,326	\$6,808,366	Taylor	340,092	
<b>GILA</b>			Winslow	1,019,418	\$3,571,177
Globe	\$801,614		<b>PIMA</b>		
Hayden	95,517		Marana	\$1,451,600	
Miami	207,310		Oro Valley	3,419,549	
Payson	1,458,454		Sahuarita	347,159	
Star Valley	256,582		South Tucson	587,879	
Winkelman	47,437	\$2,866,914	Tucson	52,116,587	\$57,922,774
<b>GRAHAM</b>			<b>PINAL</b>		
Pima	\$212,986		Apache Junction	\$3,406,699	
Safford	988,579		Casa Grande	2,701,030	
Thatcher	430,683	\$1,632,247	Coolidge	833,739	
<b>GREENLEE</b>			Eloy	1,110,973	
Clifton	\$277,984		Florence	1,842,663	
Duncan	86,950	\$364,935	Kearny	240,827	
<b>LA PAZ</b>			Mammoth	188,678	
Parker	\$336,237		Maricopa	535,195	
Quartzsite	359,152	\$695,389	Superior	348,444	\$11,208,248
<b>MARICOPA</b>			<b>SANTA CRUZ</b>		
Avondale	\$3,842,415		Nogales	\$2,235,653	
Buckeye	909,874		Patagonia	94,339	\$2,329,992
Carefree	313,428		<b>YAVAPAI</b>		
Cave Creek	399,201		Camp Verde	\$1,012,030	
Chandler	18,946,940		Chino Valley	874,537	
El Mirage	814,785		Clarkdale	366,434	
Fountain Hills	2,166,799		Cottonwood	982,903	
Gila Bend	212,022		Dewey-Humboldt	359,051	
Gilbert	11,746,548		Jerome	298,342	
Glendale	23,430,775		Prescott	3,634,141	
Goodyear	2,025,023		Prescott Valley	2,520,169	
Guadalupe	559,823		Sedona	1,091,377	\$11,138,984
Litchfield Park	407,981		<b>YUMA</b>		
Mesa	42,594,554		San Luis	\$1,640,707	
Paradise Valley	1,463,165		Somerton	778,056	
Peoria	11,603,808		Wellton	195,853	
Phoenix	141,459,827		Yuma	8,318,647	\$10,933,262
Queen Creek	462,165		<b>TOTAL</b>	<b>\$435,580,692</b>	<b>\$435,580,692</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 2005-06**

<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*	\$11,662,971	Maricopa	2.0*	\$23,064,170
Benson	2.5*	2,379,003	Miami	2.5*	\$270,478
Bisbee	2.5*	1,717,078	Oro Valley	2.0*	12,148,997
Buckeye	2.0*	16,474,433	Page	3.0*	5,608,402
Bullhead City	2.0*	15,097,000	Paradise Valley	1.65*	8,657,002
Camp Verde	2.0*	2,862,473	Parker	2.0*	1,302,372
Carefree	3.0*	3,357,511	Patagonia	3.0*	177,398
Casa Grande	1.8*	16,924,396	Payson	2.12*	7,314,067
Cave Creek	2.5*	4,072,253	Pima	2.0*	230,849
Chino Valley	3.0*	5,539,314	Pinetop-Lakeside	2.5*	3,657,527
Clarkdale	2.25*	757,013	Prescott Valley	2.33*	13,664,196
Clifton	2.0	309,802	Quartzsite	2.5*	1,295,525
Colorado City	2.0*	280,548	Queen Creek	2.0*	14,072,408
Coolidge	3.0*	5,145,952	Safford	2.5*	3,936,411
Cottonwood	2.2*	9,638,434	Sahuarita	2.0*	9,890,118
Dewey-Humboldt	2.0*	756,138	St. Johns	2.0*	550,955
Douglas	2.5*	4,693,907	San Luis	3.5*	3,896,284
Duncan	2.0	87,301	Sedona	3.0*	13,897,940
Eagar	3.0*	753,387	Show Low	2.0	9,924,958
El Mirage	3.0*	4,919,611	Sierra Vista	1.5*	14,734,321
Eloy	3.0*	4,815,490	Snowflake	2.0*	1,343,841
Florence	2.0*	1,703,192	Somerton	2.5*	1,204,864
Fountain Hills	2.6*	10,866,239	South Tucson	2.5*	2,259,443
Fredonia	2.0	105,323	Springerville	3.0*	1,492,468
Gila Bend	3.0*	1,067,027	Superior	2.0*	295,099
Gilbert	1.5*	48,868,514	Surprise	2.2*	49,583,522
Globe	2.0*	3,439,539	Taylor	2.0*	675,007
Goodyear	2.0*	33,866,419	Thatcher	2.0*	2,220,828
Guadalupe	3.0*	1,272,595	Tolleson	2.0*	5,544,062
Hayden	3.0*	771,195	Tombstone	2.5*	679,241
Holbrook	3.0*	2,402,111	Wellton	2.5	625,288
Huachuca City	1.5*	247,778	Wickenburg	1.7*	2,495,998
Jerome	3.0	466,002	Willcox	3.0*	2,456,203
Kearny	2.0*	243,630	Williams	3.0*	4,257,689
Kingman	2.0*	14,577,917	Winkelman	3.5*	70,053
Lake Havasu City	2.0*	21,691,613	Winslow	3.0*	3,739,990
Litchfield Park	2.0*	3,483,395	Youngtown	2.0*	1,337,281
Mammoth	2.0*	62,718	Yuma	1.7	32,445,814
Marana	2.5*	33,592,673			
			<b>TOTAL</b>		<b>\$551,992,962</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, 2006 and may have changed during the remainder of FY 06.  
Figures may not add to total due to rounding.

**TABLE 27**  
**MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM**  
**FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

<b>FISCAL YEAR</b>	<b>TOTAL COLLECTIONS</b>	<b>NUMBER OF CITIES IN PROGRAM</b>
2001-02	\$280,950,442	75
2002-03	\$303,164,388	75
2003-04	\$352,320,229	76
2004-05	\$428,527,285	77
2005-06	\$551,992,962	77

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# 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 \$874 million during fiscal year 2006 (*Refer to Table 28*).

## **INDIVIDUAL INCOME TAX**

### **MAJOR FEATURES**

For tax year 2003 filed in 2004, approximately 2.2 million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than \$ 110.1 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 2005 tax year ranged from 2.87 percent to a maximum of 5.04 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 2006 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

*(Refer to Tables 29 and 32).*

<b>CREDIT</b>	<b>AVAILABLE TO</b>
Agricultural Preservation District	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	Taxpayers that incur expenses to purchase and install a Conservation System agricultural water conservation system in Arizona. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
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.
Construction Materials	Taxpayers that purchase construction materials, in excess of five million dollars, for a building used predominantly for mining, manufacturing, fabricating, refining, metallurgical operations, or research and development as defined in ARS 43-1168. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
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 is \$200.
Contributions Made or Fees Paid to Public Schools	Individual taxpayers that make contributions or paid certain fees to public schools in Arizona. Taxpayers filing single or head of household can take a maximum credit of \$200. Taxpayers that file married filing joint can take a maximum credit of \$250, taxpayers that are married filing separately can each take one-half of the allowable credit up to the maximum credit of \$250.
Contributions to School Tuition Organizations	Individual taxpayers that made contributions to a school tuition organization that provides scholarships or grants to qualified schools. Taxpayers filing single or head of household can take a maximum credit of \$500. Taxpayers that file married filing joint can take a maximum credit of \$625, taxpayers that are married filing separately can each take one-half of the allowable credit up to the maximum credit of \$625.
Credit for Taxes Paid to Another State or Country	(INDIVIDUALS ONLY) Taxpayers that paid a net income tax to Arizona and another qualified state or foreign country, on the same income.
Defense Contracting	Taxpayers certified by the Arizona Department of Commerce as a qualified defense contractor for qualified increases in employment.
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.

**CREDIT****AVAILABLE TO**

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.
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.
Military Reuse Zone	Taxpayers with a net increase in employment of full-time employees working in a military reuse zone.
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.
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 Expenses development expenses conducted in Arizona. Individuals must use Form 308-I effective for taxable years beginning January 1, 2002.
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. The credit applies to taxable years beginning from and after December 31, 2000.
Solar Energy	Individual taxpayers who install a solar energy device in his or her residence 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 2001-02 THROUGH FISCAL YEAR 2005-06**

SOURCE	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	PERCENT OF NET COLLECTIONS IN FY2005-06
<u>Withheld from Wages</u>						
Gross Revenue	\$2,309,340,885	\$2,310,302,093	\$2,336,442,815	\$2,626,264,231	\$3,041,031,728	
Amnesty	-----	-----	\$176,268	-----	-----	
Refunds and Charge-offs	(9,047,839)	(8,527,022)	(8,422,819)	(5,267,886)	(8,992,229)	
<b>NET</b>	<b>\$2,300,293,045</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>	67.1%
<u>Individuals &amp; Fiduciaries</u>						
Gross Revenue	\$705,843,394	\$656,586,317	\$776,183,708	\$1,128,453,951	\$1,631,563,811	
Amnesty	-----	-----	2,890,549	-----	-----	
Regular Refunds and Charge-offs	(915,490,638)	(853,999,525)	(791,230,045)	(895,440,957)	(1,012,026,853)	
Attorney Fees - Ladewig refunds (2)		(2,000,000)	(2,000,000)	(6,249,511)	(5,107,102)	
<b>NET</b>	<b>(\$209,647,244)</b>	<b>(\$199,413,208)</b>	<b>(\$14,155,788)</b>	<b>\$226,763,483 (3)</b>	<b>\$614,429,855</b>	13.6%
<u>Corporations</u>						
Gross Revenue	\$512,257,476	\$518,246,330	\$596,582,273	\$789,739,978	\$978,239,759	
Amnesty	-----	-----	53,690,925	-----	-----	
Refunds and Charge-offs	(165,976,997)	(128,839,937)	(124,623,328)	(87,880,694)	(104,020,287)	
<b>NET</b>	<b>\$346,280,480</b>	<b>\$389,406,393</b>	<b>\$525,649,869</b>	<b>\$701,859,285</b>	<b>\$874,219,472</b>	19.3%
<b>Subtotal Net Collections</b>	<b>\$2,436,926,281</b>	<b>\$2,491,768,256</b>	<b>\$2,839,690,345</b>	<b>\$3,549,619,113 (3)</b>	<b>\$4,520,688,826</b>	100.0%
<b>Less distributions for:</b>						
Urban Revenue Sharing	\$421,876,573	\$430,559,053	\$365,065,158	\$373,072,580	\$425,228,927	
Contracted Collection Agency	20,922	18,110	409	0	0	
Wildlife Contributions	177,886	178,190	167,014	174,101	212,208	
Child Abuse Prevention	210,223	202,941	198,467	200,870	240,323	
Special Olympics	83,873	84,062	79,498	87,888	100,319	
Neighbors Helping Neighbors	37,696	41,330	42,269	37,509	51,410	
State Aid to Public Schools	33,955	29,420	46,052	42,696	37,991	
Domestic Violence Shelter	150,954	149,012	132,713	142,058	178,520	
Democratic Party	15,984	18,246	27,252	23,860	27,679	
Green Party	2,559	114	1	0	0	
Libertarian Party	2,090	2,182	1,570	2,292	2,436	
Republican Party	14,127	16,557	19,561	16,777	19,190	
Reform Party	92	0	0	0	0	
Natural Law Party	200	10	0	0	0	
Clean Elections	3,246,597	3,877,564	4,116,022	4,831,319	4,947,968	
<b>Subtotal Distributions</b>	<b>\$425,873,731</b>	<b>\$435,176,789</b>	<b>\$369,895,988</b>	<b>\$378,631,950</b>	<b>\$431,046,971</b>	
<b>NET REVENUE TO STATE GENERAL FUND</b>	<b>\$2,011,052,550</b>	<b>\$2,056,591,466</b>	<b>\$2,469,794,357</b>	<b>\$3,170,987,163 (3)</b>	<b>\$4,089,641,855</b>	
<b>WQARF DISTRIBUTION (1)</b>	<b>\$15,000,000</b>	<b>\$10,000,000</b>	<b>\$10,000,000</b>	<b>\$10,000,000</b>	<b>\$10,000,000</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 2002 THROUGH TAX YEAR 2005**

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
2002	2,100	1,500	2,100	2,300	4,050/8,100	502	240
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

(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 2002 THROUGH TAX YEAR 2004**

CREDIT	TAX YEAR 2002		TAX YEAR 2003		TAX YEAR 2004	
	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS
Agricultural Pollution Control	6	\$32,542	(2)	(2)	(2)	(2)
Agricultural Preservation District	0	\$0	0	\$0	0	\$0
Agricultural Water Conservation	130	\$1,246,811	116	\$1,424,697	(2)	(2)
Alternative Fuel - Non Refundable						
--Delivery System	0	\$0	0	\$0	(2)	(2)
--Vehicles	74	\$104,771	50	\$59,406	26	\$34,972
--Refuel Apparatus/Infrastructure	8	\$3,531	(1)	(1)	(1)	(1)
--Neighborhood Electric Vehicles	1,735	\$2,484,187	1,168	\$1,533,072	(2)	(2)
Clean Elections	33,470	\$688,864	32,042	\$727,224	32,338	\$739,774
Construction Materials	0	\$0	0	\$0	(2)	(2)
Defense Contracting	0	\$0	0	\$0	0	\$0
Donation to Charities for the						
Working Poor	14,226	\$2,676,900	17,467	\$3,259,400	20,736	\$3,851,700
Donation of Motor Vehicles	41	\$40,261	--	--	--	--
Employment of TANF Recipients	(1)	(1)	(1)	(1)	(2)	(2)
Enterprise Zone	138	\$1,412,718	172	\$1,346,363	(2)	(2)
Environmental Technology	0	\$0	0	\$0	0	\$0
Family Tax Credit	427,798	\$7,382,178	417,451	\$7,445,937	425,484	\$7,709,270
Income Taxes Paid to Other States	24,909	\$52,843,508	25,722	\$62,484,651	29,463	\$78,932,829
Increased Excise Taxes Paid	529,265	\$28,403,741	548,831	\$29,581,905	551,038	\$29,630,205
Military Reuse Zone	0	\$0	0	\$0	0	\$0
Pollution Control Device	13	\$18,525	(2)	(2)	(2)	(2)
Private School STO (3)	52,161	\$26,171,191	58,122	\$29,445,494	63,830	\$31,871,900
Property Tax	14,991	\$5,106,544	15,028	\$5,301,879	14,768	\$5,237,022
Public School Extra Curricular (3)	143,697	\$22,455,129	201,407	\$27,753,764	213,987	\$30,958,872
Recycling Equipment	5	\$3,267	(2)	(2)	(2)	(2)
Research and Development	76	\$484,138	63	\$338,204	65	\$1,025,184
School Site Donation	66	\$2,380,444	31	\$561,908	(2)	(2)
Solar Energy	2,303	\$977,721	962	\$402,796	(2)	(2)
Solar Hot Water Heater &						
Plumbing Stub Outs	15	\$3,312	(1)	(1)	(1)	(1)
Technology Training	(1)	(1)	0	\$0	0	\$0
Underground Storage	0	\$0	0	\$0	0	\$0
<b>Total</b>	<b>1,245,132</b>	<b>\$154,924,757</b>	<b>1,318,640</b>	<b>\$171,677,567</b>	<b>1,351,748</b>	<b>\$189,997,811</b>

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

(2) Credits claimed for tax year 2003 and 2004 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 2003 (1)**

<b>FEDERAL ADJUSTED GROSS INCOME</b>	<b># OF FILERS</b>	<b>% OF TOTAL</b>	<b>LIABILITY</b>	<b>% OF TOTAL</b>
Negative Income	27,633	1.36%	\$161,457	0.01%
\$0.01 to \$1,999	39,990	1.97%	66,918	0.00%
\$2,000 to \$5,999	121,685	5.99%	191,765	0.01%
\$6,000 to \$9,999	144,167	7.10%	3,932,804	0.18%
\$10,000 to \$13,999	149,850	7.38%	11,155,396	0.51%
\$14,000 to \$19,999	227,586	11.21%	33,091,708	1.53%
\$20,000 to \$24,999	169,104	8.33%	44,244,741	2.04%
\$25,000 to \$29,999	144,863	7.14%	55,856,987	2.58%
\$30,000 to \$39,999	230,292	11.34%	128,936,711	5.95%
\$40,000 to \$49,999	170,772	8.41%	133,604,306	6.16%
\$50,000 to \$74,999	282,064	13.89%	328,746,955	15.17%
\$75,000 to \$99,999	150,716	7.42%	277,326,312	12.79%
\$100,000 to \$199,999	135,090	6.65%	449,509,071	20.74%
\$200,000 to \$499,999	29,106	1.43%	284,350,341	13.12%
\$500,000 to \$999,999	4,887	0.24%	134,690,276	6.21%
\$1,000,000 to \$4,999,999	2,155	0.11%	174,055,617	8.03%
\$5,000,000 and over	206	0.01%	107,722,891	4.97%
<b>TOTAL</b>	<b>2,030,166</b>	<b>100.00%</b>	<b>\$2,167,644,256</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 2003, filed from January 2004 forward.

**TABLE 31**  
**NONRESIDENT/ PART YEAR RESIDENT INDIVIDUAL INCOME TAX**  
**LIABILITY BY FEDERAL ADJUSTED GROSS INCOME**  
**TAX YEAR 2003 (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	18,359	9.67%	\$401,093	0.28%
\$0.01 to \$1,999	19,531	10.29%	37,734	0.03%
\$2,000 to \$5,999	31,708	16.70%	145,727	0.10%
\$6,000 to \$9,999	23,821	12.55%	993,686	0.70%
\$10,000 to \$13,999	17,926	9.44%	1,970,645	1.38%
\$14,000 to \$19,999	19,461	10.25%	4,171,118	2.92%
\$20,000 to \$24,999	11,258	5.93%	3,849,763	2.70%
\$25,000 to \$29,999	8,257	4.35%	3,856,646	2.70%
\$30,000 to \$39,999	11,541	6.08%	7,469,596	5.24%
\$40,000 to \$49,999	7,252	3.82%	6,681,501	4.68%
\$50,000 to \$74,999	9,474	4.99%	13,025,476	9.13%
\$75,000 to \$99,999	4,097	2.16%	8,933,129	6.26%
\$100,000 to \$199,999	4,644	2.45%	18,422,570	12.92%
\$200,000 to \$499,999	1,722	0.91%	18,805,514	13.19%
\$500,000 to \$999,999	461	0.24%	13,351,303	9.36%
\$1,000,000 to \$4,999,999	289	0.15%	22,782,687	15.97%
\$5,000,000 and over	40	0.02%	17,726,551	12.43%
<b>TOTAL</b>	<b>189,841</b>	<b>100.00%</b>	<b>\$142,621,739</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 2003, filed from January 2004 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	36,800	72.0%	\$1,838,438	0.4%
\$50.01 to \$99.99	1,142	2.2%	83,281	0.0%
\$100 to \$499.99	3,217	6.3%	840,624	0.2%
\$500 to \$999.99	1,816	3.6%	1,320,210	0.3%
\$1,000 to \$4,999.99	4,580	9.0%	11,188,847	2.1%
\$5,000 to \$9,999.99	1,266	2.5%	8,814,794	1.7%
\$10,000 to \$49,999.99	1,467	2.9%	32,221,963	6.1%
\$50,000 to \$99,999.99	314	0.6%	22,274,349	4.2%
\$100,000 to \$499,999.99	396	0.8%	86,750,328	16.6%
\$500,000 to \$999,999.99	58	0.1%	40,076,702	7.6%
\$1,000,000 to \$15,000,000	87	0.2%	318,739,244	60.8%
<b>TOTAL</b>	<b>51,143</b>	<b>100.0%</b>	<b>\$524,148,780</b>	<b>100.0%</b>

**CORPORATE INCOME TAX CREDITS**  
**TAX YEAR 2003**

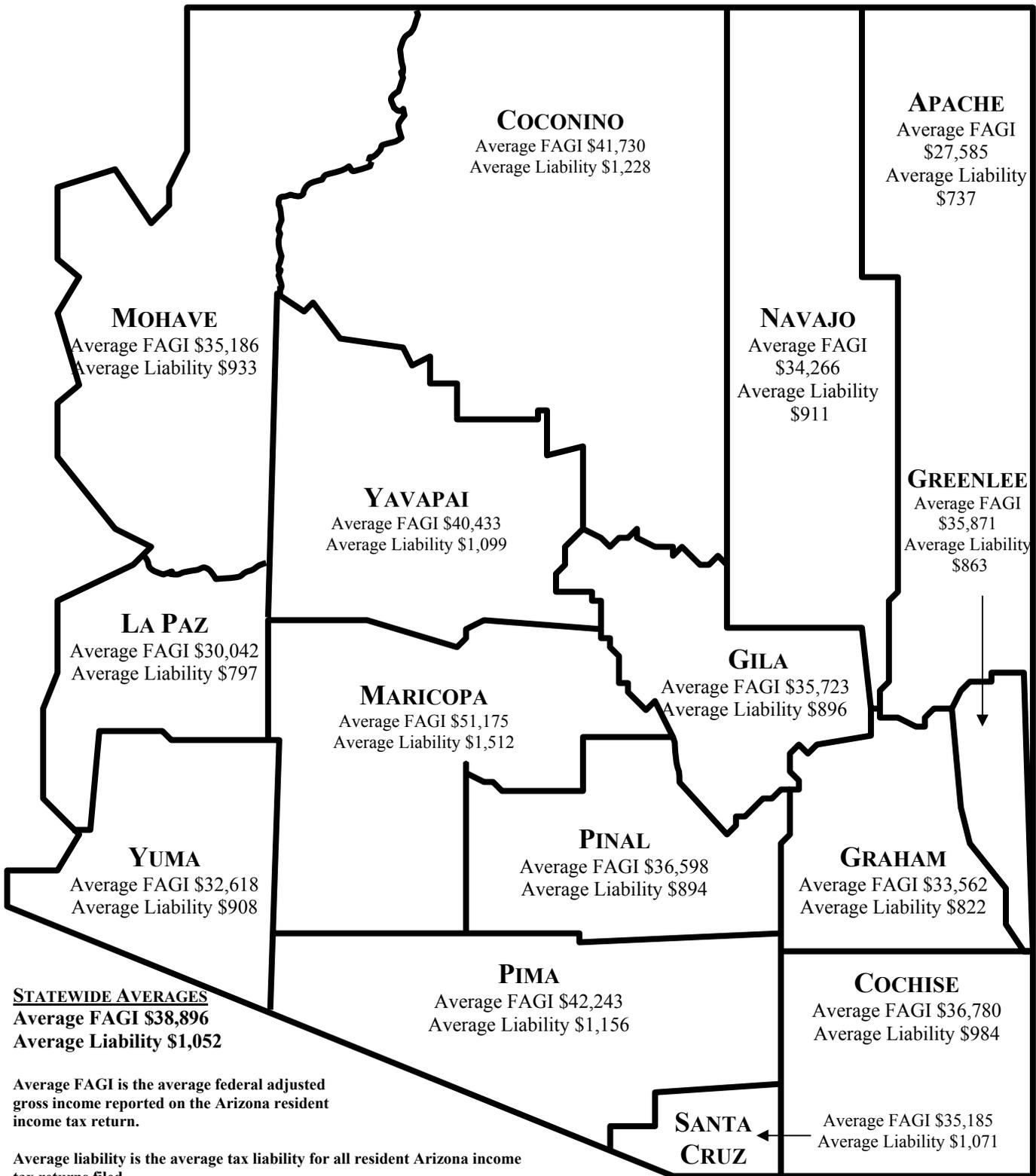
<b>CREDIT TYPE</b>	<b># OF FILERS</b>	<b>CREDIT USED</b>	<b>CARRYFORWARD AVAILABLE</b>
Agricultural Pollution Control Equipment	*	*	*
Agricultural Preservation District	0	\$0	\$0
Agricultural Water Conservation	*	*	*
Alternative Fuel - Non Refundable			
--Fuel Delivery System	*	*	*
--Vehicles	5	\$1,726	\$643,829
--Refueling Apparatus & Infrastructure	*	*	*
--Neighborhood Electric Vehicles	13	\$29,085	\$790,967
Clean Elections	111	\$1,773	\$0
Coal Used for Electric Generation	3	\$1,229,020	\$1,744,443
Consolidated Filers	32	\$2,335,704	\$57,384,032
Construction Materials	*	*	*
Defense Contracting	*	*	*
Employment of TANF Recipients	9	\$466,392	\$6,086
Enterprise Zone	118	\$5,838,182	\$7,209,525
Environmental Technology	*	*	*
Military Reuse Zone	*	*	*
Pollution Control Equipment	27	\$2,412,182	\$4,730,887
Recycling Equipment	4	\$3,426	\$188,906
Research & Development	132	\$25,751,016	\$535,359,173
School Site Donation	*	*	*
Solar Hot Water Heater Plumbing Stub-Outs	0	\$0	\$0
Technology Training	3	\$33,426	\$0
Underground Storage Tanks	0	\$0	\$0
<b>TOTAL (2)</b>	<b>473</b>	<b>\$38,867,306</b>	<b>\$668,790,161</b>

(1) This summary combines all liability on the Arizona Form 120 Corporate Income Tax returns for tax year 2003 filed from January 2004 forward.

(2) Total is for all credits, including those for which information cannot be divulged individually.

\* The single asterisk indicates that no information can be released due to confidentiality laws in Arizona. Figures may not add to total due to rounding.

**TABLE 33  
 AVERAGE FEDERAL ADJUSTED GROSS INCOME  
 AND AVERAGE TAX LIABILITY PER RETURN  
 BY COUNTY FOR TAX YEAR 2003**



**TABLE 34**  
**URBAN REVENUE SHARING**  
**FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

<b>FISCAL YEAR</b>	<b>AMOUNT</b>
2001-02	\$421,876,573
2002-03	\$430,559,053
2003-04	\$365,065,158
2004-05	\$373,072,580
2005-06	\$425,228,927

**TABLE 35  
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING  
TO MUNICIPALITIES IN FISCAL YEAR 2005-06**

<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	\$451,883	0.11%
Eagar	\$281,627	0.07%	Scottsdale	21,223,092	4.99%
St. Johns	371,473	0.09%	Surprise	3,229,767	0.76%
Springerville	206,467	0.05%	Tempe	16,607,943	3.91%
<b>COCHISE</b>			Tolleson	520,775	0.12%
Benson	493,239	0.12%	Wickenburg	532,082	0.13%
Bisbee	637,619	0.15%	Youngtown	315,145	0.07%
Douglas	1,729,948	0.41%	<b>MOHAVE</b>		
Huachuca City	183,329	0.04%	Bullhead City	3,535,594	0.83%
Sierra Vista	3,955,020	0.93%	Colorado City	349,068	0.08%
Tombstone	157,468	0.04%	Kingman	2,101,212	0.49%
Willcox	390,843	0.09%	Lake Havasu City	4,390,884	1.03%
<b>COCONINO</b>			<b>NAVAJO</b>		
Flagstaff	5,537,970	1.30%	Holbrook	514,807	0.12%
Fredonia	108,469	0.03%	Pinetop-Lakeside	375,033	0.09%
Page	712,898	0.17%	Show Low	805,662	0.19%
Williams	297,556	0.07%	Snowflake	466,959	0.11%
<b>GILA</b>			Taylor	332,525	0.08%
Globe	783,780	0.18%	Winslow	996,738	0.23%
Hayden	93,392	0.02%	<b>PIMA</b>		
Miami	202,698	0.05%	Marana	1,419,305	0.33%
Payson	1,426,006	0.34%	Oro Valley	3,343,471	0.79%
Winkelman	46,382	0.01%	Sahuarita	339,435	0.08%
<b>GRAHAM</b>			South Tucson	574,800	0.14%
Pima	208,247	0.05%	Tucson	50,957,094	11.98%
Safford	966,585	0.23%	<b>PINAL</b>		
Thatcher	421,101	0.10%	Apache Junction	3,330,907	0.78%
<b>GREENLEE</b>			Casa Grande	2,640,938	0.62%
Clifton	271,800	0.06%	Coolidge	815,190	0.19%
Duncan	85,016	0.02%	Eloy	1,086,256	0.26%
<b>LA PAZ</b>			Florence	1,801,667	0.42%
Parker	328,756	0.08%	Kearny	235,469	0.06%
Quartzsite	351,162	0.08%	Mammoth	184,480	0.04%
<b>MARICOPA</b>			Maricopa	523,288	0.12%
Avondale	3,756,929	0.88%	Superior	340,692	0.08%
Buckeye	889,631	0.21%	<b>SANTA CRUZ</b>		
Carefree	306,455	0.07%	Nogales	2,185,914	0.51%
Cave Creek	390,319	0.09%	Patagonia	92,240	0.02%
Chandler	18,525,408	4.36%	<b>YAVAPAI</b>		
El Mirage	796,658	0.19%	Camp Verde	989,514	0.23%
Fountain Hills	2,118,592	0.50%	Chino Valley	855,080	0.20%
Gila Bend	207,305	0.05%	Clarkdale	358,281	0.08%
Gilbert	11,485,210	2.70%	Cottonwood	961,036	0.23%
Glendale	22,909,486	5.39%	Dewey-Humboldt	358,910	0.08%
Goodyear	1,979,970	0.47%	Jerome	34,446	0.01%
Guadalupe	547,368	0.13%	Prescott	3,553,288	0.84%
Litchfield Park	398,905	0.09%	Prescott Valley	2,464,100	0.58%
Mesa	41,646,909	9.79%	Sedona	1,067,096	0.25%
Paradise Valley	1,430,613	0.34%	<b>YUMA</b>		
Peoria	11,345,646	2.67%	San Luis	1,604,204	0.38%
Phoenix	138,312,622	32.53%	Somerton	740,710	0.17%
			Wellton	191,495	0.05%
			Yuma	8,133,573	1.91%
			<b>TOTAL</b>	<b>\$425,228,927</b>	<b>100.00%</b>

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



# 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	25%
1.3-1.7, 1.11	Utilities	25%
1.12	Commercial Real	25%
1.13	Commercial Personal	First \$53,266 exempt; 25% on the remainder
2R	Agricultural Real; Vacant Land	16%
2P	Agricultural Personal	First \$53,266 exempt; 16% on the remainder
3	Residential	10%
4	Rental Residential	10%
5	Railroads, Airlines	21%
6	Historic Property; Foreign Trade Zones; Enterprise Zone; Qualified Environmental Technology Facilities	5%
7	Commercial Historic	Combination 1% and 25%
8	Rental Residential Historic	Combination 1% and 10%
9	Improvements on government property	1%

## INDUSTRIES VALUED BY THE DEPARTMENT

Industry	Number of Companies		
	2004.....	2005.....	2006
Airlines (Flight Property).....	30.....	37.....	35
Electric & Gas*			
Generation .....	26.....	24.....	24
Transmission and Distribution.....	35.....	35.....	35
Mines (non-producing) .....	2.....	3.....	5
Mines (producing).....	32.....	34.....	33
Pipelines (Gas Transmission) .....	9.....	9.....	9
Private Rail Cars .....	254.....	256.....	256
Producing Oil & Gas Interests .....	2.....	4.....	4
Railroads .....	11.....	11.....	11
Telecommunications .....	81.....	81.....	76
Water Utilities.....	326.....	321.....	330
<b>Total .....</b>	<b>808.....</b>	<b>815.....</b>	<b>818</b>

\* Includes Salt River Project

**TABLE 36  
STATE OF ARIZONA  
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	\$253,128	\$21,421,215	\$1,939,466	\$13,126,004	\$26,341,410	\$0	\$63,081,223	8.59
COCONINO	\$1,367,963,404	\$554,047	\$6,322,727	\$4,880,677	\$5,362,417	\$49,403,289	\$0	\$66,523,157	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	\$10,804,846	\$399,013,484	\$156,365,069	\$298,014,922	\$1,397,455,351	\$0	\$2,261,653,672	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	\$0	\$4,577,299	\$313,058	\$9,287,601	\$25,324,607	\$0	\$39,502,565	5.38
PIMA	\$6,467,201,516	\$0	\$248,469,882	\$9,729,668	\$68,358,320	\$320,544,521	\$0	\$647,102,391	10.01
PINAL	\$1,472,159,592	\$0	\$63,428,688	\$6,061,705	\$30,221,007	\$68,745,382	\$0	\$168,456,782	11.44
SANTA CRUZ	\$280,155,394	\$0	\$9,259,136	\$0	\$0	\$14,177,411	\$0	\$23,436,547	8.37
YAVAPAI	\$2,125,710,207	\$618,153	\$35,184,002	\$1,506,354	\$30,414,662	\$69,122,501	\$0	\$136,845,672	6.44
YUMA	\$820,782,919	\$0	\$17,588,577	\$7,600,954	\$15,348,641	\$36,009,872	\$0	\$76,548,044	9.33
<b>TOTAL STATE</b>	<b>\$50,641,124,400</b>	<b>\$12,230,174</b>	<b>\$858,302,680</b>	<b>\$194,955,401</b>	<b>\$492,388,907</b>	<b>\$2,106,426,926</b>	<b>\$0</b>	<b>\$3,664,304,087</b>	<b>7.24</b>
<b>AVERAGE STATE PRIMARY TAX RATE PER \$100</b>									<b>7.24</b>

**TAX YEAR 2005 PRIMARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	PRIMARY RATE
APACHE	\$306,041,335	\$0	\$2,740,906	\$0	\$0	\$10,012,527	\$0	\$12,753,433	4.17
COCHISE	\$664,734,679	\$178,408	\$22,422,166	\$1,755,191	\$11,877,479	\$27,627,104	\$0	\$63,860,348	9.61
COCONINO	\$1,263,779,835	\$529,802	\$11,514,299	\$4,683,175	\$5,094,296	\$44,952,695	\$0	\$66,774,267	5.28
GILA	\$387,715,727	\$0	\$18,787,929	\$1,778,023	\$2,437,956	\$17,061,240	\$0	\$40,065,148	10.33
GRAHAM	\$106,584,939	\$0	\$2,373,646	\$174,080	\$2,206,095	\$4,174,388	\$0	\$8,928,209	8.38
GREENLEE	\$190,973,743	\$0	\$2,084,284	\$11,000	\$0	\$5,722,521	\$0	\$7,817,805	4.09
LA PAZ	\$142,746,979	\$0	\$3,833,898	\$0	\$2,690,352	\$4,412,168	\$0	\$10,936,418	7.66
MARICOPA	\$31,010,284,705	\$11,645,068	\$506,366,939	\$146,500,538	\$277,107,904	\$1,290,833,493	\$288,239	\$2,232,742,181	7.20
MOHAVE	\$1,371,598,499	\$0	\$29,980,400	\$3,833,252	\$12,898,512	\$48,219,941	\$0	\$94,932,105	6.92
NAVAJO	\$683,934,130	\$0	\$7,314,676	\$307,342	\$8,793,341	\$22,859,634	\$0	\$39,274,993	5.74
PIMA	\$5,849,548,818	\$0	\$263,685,962	\$9,205,245	\$63,935,569	\$301,692,950	\$0	\$638,519,726	10.92
PINAL	\$1,212,971,458	\$0	\$59,677,802	\$3,417,528	\$25,472,401	\$56,809,174	\$69,026	\$145,445,931	11.99
SANTA CRUZ	\$261,090,689	\$0	\$9,880,977	\$0	\$0	\$13,115,766	\$0	\$22,996,743	8.81
YAVAPAI	\$1,877,847,425	\$682,238	\$40,122,659	\$1,392,723	\$27,980,856	\$64,598,168	\$0	\$134,776,644	7.18
YUMA	\$710,255,636	\$0	\$18,890,669	\$6,695,717	\$13,386,188	\$35,534,108	\$0	\$74,506,682	10.49
<b>TOTAL STATE</b>	<b>\$46,040,108,597</b>	<b>\$13,035,516</b>	<b>\$999,677,212</b>	<b>\$179,753,814</b>	<b>\$453,880,949</b>	<b>\$1,947,625,877</b>	<b>\$357,265</b>	<b>\$3,594,330,633</b>	<b>7.81</b>
<b>AVERAGE STATE PRIMARY TAX RATE PER \$100</b>									<b>7.81</b>

All figures are current as of September 1, 2006.

**TABLE 37  
STATE OF ARIZONA  
TAX YEAR 2006 SECONDARY PROPERTY TAX LEVIES**

<b>TAX AUTHORITY</b>	<b>NET ASSESSED VALUATION</b>	<b>STATE</b>	<b>COUNTY</b>	<b>CITIES &amp; TOWNS</b>	<b>COMMUNITY COLLEGES</b>	<b>SCHOOLS</b>	<b>ALL OTHER</b>	<b>TOTAL</b>	<b>SECONDARY RATE</b>
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	\$44,248	\$1,890,741	0.83
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	\$131,550,276	\$248,325,777	\$66,462,148	\$831,303,500	\$106,888,057	\$1,384,529,758	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	\$108,365,112	\$26,681,580	\$13,362,063	\$124,762,769	\$43,134,986	\$316,306,510	4.60
PINAL	\$1,547,005,089	\$0	\$5,490,967	\$0	\$0	\$32,386,046	\$18,314,426	\$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	\$14,562,788	\$29,065,681	\$59,054,700	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>\$305,160,317</b>	<b>\$282,710,873</b>	<b>\$95,520,226</b>	<b>\$1,093,228,070</b>	<b>\$263,346,651</b>	<b>\$2,039,966,138</b>	<b>3.75</b>
<b>AVERAGE STATE SECONDARY TAX RATE PER \$100</b>									<b>3.75</b>

**TAX YEAR 2005 SECONDARY PROPERTY TAX LEVIES**

<b>TAX AUTHORITY</b>	<b>NET ASSESSED VALUATION</b>	<b>STATE</b>	<b>COUNTY</b>	<b>CITIES &amp; TOWNS</b>	<b>COMMUNITY COLLEGES</b>	<b>SCHOOLS</b>	<b>ALL OTHER</b>	<b>TOTAL</b>	<b>SECONDARY RATE</b>
APACHE	\$309,768,981	\$0	\$3,924,491	\$0	\$1,755,461	\$1,845,332	\$2,702,381	\$10,227,665	3.30
COCHISE	\$682,367,252	\$0	\$3,043,157	\$128,755	\$0	\$9,792,958	\$6,091,779	\$19,056,649	2.79
COCONINO	\$1,316,977,311	\$0	\$5,227,414	\$4,906,112	\$1,967,968	\$23,271,229	\$10,432,654	\$45,805,377	3.48
GILA	\$396,140,946	\$0	\$1,188,423	\$120,000	\$0	\$4,179,842	\$4,805,937	\$10,294,202	2.60
GRAHAM	\$107,832,459	\$0	\$132,489	\$0	\$0	\$1,674,470	\$295,006	\$2,101,965	1.95
GREENLEE	\$191,209,887	\$0	\$9,952	\$0	\$0	\$1,543,807	\$45,448	\$1,599,207	0.84
LA PAZ	\$147,447,642	\$0	\$147,448	\$0	\$696,985	\$1,403,040	\$3,966,028	\$6,213,501	4.21
MARICOPA	\$33,197,218,398	\$0	\$122,105,447	\$228,837,082	\$45,791,129	\$762,270,813	\$95,395,273	\$1,254,399,744	3.78
MOHAVE	\$1,536,725,482	\$0	\$14,575,485	\$434,175	\$0	\$15,862,260	\$15,450,962	\$46,322,882	3.01
NAVAJO	\$702,260,107	\$0	\$3,803,119	\$44,253	\$1,645,395	\$9,862,138	\$8,595,680	\$23,950,585	3.41
PIMA	\$6,050,950,040	\$0	\$88,589,608	\$24,220,340	\$13,215,275	\$116,807,375	\$35,715,563	\$278,548,161	4.60
PINAL	\$1,277,269,108	\$0	\$4,281,125	\$0	\$0	\$28,214,070	\$15,769,478	\$48,264,673	3.78
SANTA CRUZ	\$265,933,931	\$0	\$1,711,148	\$0	\$0	\$5,875,269	\$3,196,498	\$10,782,915	4.05
YAVAPAI	\$2,020,575,209	\$0	\$7,723,835	\$1,697,025	\$5,282,090	\$14,190,918	\$24,404,587	\$53,298,455	2.64
YUMA	\$729,269,392	\$0	\$6,279,356	\$0	\$3,447,257	\$13,244,470	\$405,316	\$23,376,399	3.21
<b>TOTAL STATE</b>	<b>\$48,931,946,145</b>	<b>\$0</b>	<b>\$262,742,497</b>	<b>\$260,387,742</b>	<b>\$73,801,560</b>	<b>\$1,010,037,991</b>	<b>\$227,272,590</b>	<b>\$1,834,242,380</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, 2006.

**TABLE 38**  
**AVERAGE PROPERTY TAX RATES**  
**PER \$100 OF ASSESSED VALUATION**  
**TAX YEAR 2003 THROUGH TAX YEAR 2006**

	2003		2004	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.69	\$2.16	\$4.45	\$2.15
Counties	2.22	0.29	2.21	0.35
State	0.04	0.00	0.03	0.00
Cities	0.39	0.55	0.39	0.53
Community Colleges	1.02	0.16	1.01	0.13
Special Districts	0.00	0.66	0.00	0.56
	<b>\$8.36</b>	<b>\$3.82</b>	<b>\$8.09</b>	<b>\$3.72</b>
<b>TOTAL</b>	<b>\$12.18</b>		<b>\$11.81</b>	
	2005		2006	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.23	\$2.06	\$4.16	\$2.01
Counties	2.17	0.54	1.69	0.56
State	0.03	0.00	0.02	0.00
Cities	0.39	0.53	0.38	0.52
Community Colleges	0.99	0.15	0.97	0.18
Special Districts	0.00	0.47	0.00	0.48
	<b>\$7.81</b>	<b>\$3.75</b>	<b>\$7.27</b>	<b>\$3.75</b>
<b>TOTAL</b>	<b>\$11.56</b>		<b>\$10.99</b>	

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

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## **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 \$ 623,480 was deposited in fiscal year 2006 (*Refer to Table 39*).

**TABLE 39**  
**BINGO COLLECTIONS**  
**FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

<b>Fiscal Year</b>	<b>Amount</b>
2001-02	\$629,680
2002-03	\$626,770
2003-04	\$624,501
2004-05	\$610,055
2005-06	\$623,480

**BINGO COLLECTIONS**

	<b>FY2001-02</b>	<b>FY2002-03</b>	<b>FY2003-04</b>	<b>FY2004-05</b>	<b>FY2005-06</b>
Licenses	\$21,322	\$26,110	\$19,121	\$19,070	\$18,788
Proceeds	605,388	598,465	603,306	585,289	599,400
Penalty, Interest and Miscellaneous	2,970	2,194	2,074	5,697	5,292
<b>TOTAL</b>	<b>\$629,680</b>	<b>\$626,770</b>	<b>\$624,501</b>	<b>\$610,055</b>	<b>\$623,480</b>

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## ESTATE TAX

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 Estate Tax 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. However, if an estate requires a tax lien waiver from the department in order to transfer property prior to receiving the Internal Revenue Service Closing Letter, the department may issue a partial waiver upon receipt of an Application for Waiver of Tax. After the Arizona estate tax and any penalties and interest have been paid, the department will issue a receipt for payment of tax and a complete tax lien waiver.

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.

Arizona's Estate Tax was effectively repealed January 1, 2005, following the IRS's elimination of the Federal State Death Tax Credit last year. Although no Arizona estate tax is owed on the estate of a person who dies after 2004, original returns for estate tax owed on the estate of a person who died before 2005 could be filed through March 31, 2006. After this date we will continue to receive amended estate tax returns as it can take years to settle a complicated estate.

**TABLE 40**  
**COLLECTIONS OF ESTATE TAXES**  
**FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

<b>Fiscal Year</b>	<b>Collections</b>	<b>Refunds</b>	<b>Net</b>
2001-02	\$81,892,657	\$1,340,437	\$80,552,220
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

Figures may not add to total due to rounding.

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## 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 alcoholic beverages and tobacco products. During the 2006 fiscal year, over \$359 million was received in luxury tax collections.

Of the monies collected per the Tobacco Products Referendum (Prop 303), \$63.6 million was distributed to the Prop 204 Protection Account, \$40.9 million to the Medically Needy Account, \$30.3 million for Emergency Health Services, \$7.6 million for Health Research, and \$3.0 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, \$76.2 million was allocated to the Medically Needy Fund, \$25.1 million to the Health Education Fund and \$5.5 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$28.5 million, and the Arizona Wine Promotional Fund received \$38,481. The Drug Treatment and Education Fund received \$8.1 million, and the Corrections Revolving Fund received \$3.2 million due to the passage of Proposition 200 in 1994. The remaining \$66.7 million was deposited into the state general fund. (*Refer to Table 41*)

## Luxury Tax Rates

<b>Cigarettes</b>	
per cigarette	\$ 0.059
package of 20	\$1.18
package of 25	\$ 1.475
<b>Cigars</b>	
small cigars weighing not more than 3 lbs/1,000 package of 20 or less	\$ 0.2625
selling for \$0.05 or less (each 3 cigars)	\$ 0.13
selling for more than \$0.05 (each cigar)	\$ 0.13
<b>Smoking Tobacco</b>	
snuff, fine cut, chewing, etc. (per ounce)	\$ 0.1325
Cavendish, plug, or twist (per ounce)	\$ 0.0325
<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

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**TABLE 41**  
**LUXURY TAX COLLECTIONS**  
**FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2005-06**

SOURCE:	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	PERCENT OF COLLECTIONS IN FY2005-06
Spirituous Liquor	\$21,574,744	\$22,004,331	\$23,438,818	\$25,085,444	\$26,392,315	7.3%
Vinous Liquor	9,035,156	9,924,749	10,404,545	11,473,203	11,509,865	3.2%
Malt Liquor	22,031,467	22,137,764	22,110,426	22,664,420	23,245,180	6.5%
<b>Liquor Collections</b>	<b>\$52,641,368</b>	<b>\$54,066,844</b>	<b>\$55,953,790</b>	<b>\$59,223,067</b>	<b>\$61,147,360</b>	
Tobacco - All Types (1)						
Gross Revenue	162,148,102	218,358,747	282,209,893	290,948,888	\$302,509,034	
Refunds	(4,169,264)	(5,614,159)	(7,273,023)	(5,109,215)	(4,040,057)	
Licenses	5,250	5,950	6,400	5,325	5,900	
Administrative Expenses	(393,800)	(403,739)	(414,329)	(445,507)	(468,675)	
<b>Net Tobacco Collections</b>	<b>\$157,590,288</b>	<b>\$212,346,798</b>	<b>\$274,528,941</b>	<b>\$285,399,491</b>	<b>\$298,006,202</b>	<b>83.0%</b>
<b>Amnesty Luxury Collections</b>	-----	-----	<b>\$187,315</b>	-----	-----	
<b>TOTAL COLLECTIONS</b>	<b>\$210,231,655</b>	<b>\$266,413,642</b>	<b>\$330,670,046</b>	<b>\$344,622,558</b>	<b>\$359,153,562</b>	
<b>DISTRIBUTIONS:</b>						
State General Fund	\$66,069,587	\$64,586,950	\$61,301,017	\$64,446,627	\$66,732,468	
Wine Promotional Fund	23,391	25,497	27,995	34,667	38,481	
Tobacco Tax & Health Care Fund-Prop. 200 (1)	108,177,154	102,529,785	92,599,453	96,540,601	100,765,613	
Tobacco Products Tax Fund-Prop. 303 (1)	N/A	59,938,321	133,563,168	138,521,611	145,399,774	
Drug Treatment & Education Fund	7,098,014	7,306,966	7,490,976	7,894,513	8,096,444	
DOC Revolving Fund	2,820,269	2,902,721	2,978,318	3,139,770	3,221,929	
Department of Corrections Fund	25,718,685	26,348,946	26,613,423	28,049,051	28,480,322	
DOC Transfer from Prop 200 Funds	324,556	277,104	531,839	226,191	363,099	
Prop 200 Transfer from Prop 303 Funds (1)	N/A	2,497,352	5,563,857	5,769,526	6,055,432	
<b>TOTAL DISTRIBUTIONS</b>	<b>\$210,231,655</b>	<b>\$266,413,642</b>	<b>\$330,670,046</b>	<b>\$344,622,558</b>	<b>\$359,153,562</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.

## **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 2001-02 THROUGH FISCAL YEAR 2005-06**

SOURCE:	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	PERCENT OF COLLECTIONS IN FY2005-06
<b>UNCLAIMED PROPERTY</b>	\$48,687,357	\$46,219,555	\$49,653,262	\$83,063,365	\$69,705,035	
Refunds	(11,903,236)	(10,333,078)	(10,093,832)	(16,241,154)	(17,693,745)	
Expenses	(1,324,594)	(1,325,764)	(1,368,887)	(1,459,889)	(1,564,120)	
<b>NET</b>	<b>\$35,459,527</b>	<b>\$34,560,714</b>	<b>\$38,190,543</b>	<b>\$65,362,322</b>	<b>\$50,447,170</b>	<b>99.3%</b>
<b>ESCHEATED ESTATES</b>	252,786	269,557	568,385	731,836	562,510	
Refunds	(294,542)	(55,504)	(223,945)	(339,712)	(195,735)	
<b>NET</b>	<b>(\$41,755)</b>	<b>\$214,052</b>	<b>\$344,441</b>	<b>\$392,124</b>	<b>\$366,776</b>	<b>0.72%</b>
<b>TOTAL NET REVENUE</b>	<b>\$35,417,772</b>	<b>\$34,774,766</b>	<b>\$38,534,984</b>	<b>\$65,754,446</b>	<b>\$50,813,946</b>	<b>100.0%</b>
<b>DISTRIBUTIONS:</b>						
<b>General Fund</b>	7,656,006	6,745,652	8,043,962	9,423,140	10,256,152	
<b>Housing Fund</b>	19,761,582	17,950,660	20,708,267 (5)	23,942,665	26,004,597	
<b>Ladewig (6)</b>	-----	-----	-----	21,292,088	3,704,599	
<b>Utility Assistance Fund</b>	868,416	1,118,958	1,307,953	1,664,467	855,505	
<b>Racing Fund</b>	7,186,030	6,527,513	7,530,279	8,706,424	9,456,217	
<b>Victim Restitution Fund</b>	(18,426) (2)	2,128,019	547,274	299,565	128,281	
<b>Net to Permanent School Fund:</b>						
Escheated Estates	(41,755)	214,052	344,441	392,124	366,776 (1)	
Unclaimed Shares/dividends	5,919	0	43,788	29,359	18,955	
Storage Facility (3)	-----	-----	9,021	4,614	22,865	
<b>Retained by Unclaimed Property</b>	0	89,912 (4)	0	0	0	
<b>TOTAL DISTRIBUTION</b>	<b>\$35,417,772</b>	<b>\$34,774,766</b>	<b>\$38,534,984</b>	<b>\$65,754,446</b>	<b>\$50,813,946</b>	

(1) FY 06 Escheated Estates will be transferred in FY 07.

(2) Claims paid during FY 02 for Victims Restitution exceeded their collections, therefore, no transfer was required.

(3) 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.

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

(5) \$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.

(6) 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. Figures may not add to total due to rounding.

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## 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 2006, the department collected \$8,477,996 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 2001-02 THROUGH FISCAL YEAR 2005-06**

COUNTY	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Apache	\$78,693	\$88,265	\$100,750	\$104,593	\$101,645
Cochise	174,721	188,526	208,639	218,301	215,348
Coconino	161,337	182,060	202,203	210,871	204,129
Gila	88,035	100,584	109,692	113,751	111,143
Graham	38,300	42,055	45,472	47,489	46,809
Greenlee	14,021	14,267	14,571	15,401	15,008
La Paz	36,329	40,230	46,334	48,427	47,146
Maricopa	3,525,885	3,837,502	4,245,363	4,452,595	4,742,763
Mohave	271,827	305,722	355,631	375,524	387,372
Navajo	127,482	143,348	162,789	169,024	165,729
Pima	904,818	991,330	1,085,793	1,138,071	1,136,415
Pinal	207,211	231,521	256,738	272,484	291,962
Santa Cruz	65,220	67,292	74,443	78,802	78,006
Yavapai	290,584	323,797	369,140	386,285	391,322
Yuma	184,430	205,684	235,110	246,759	246,469
Arizona Dept of Environmental Quality	223,742	245,261	272,480	285,744	296,730
<b>Total</b>	<b>\$6,392,637</b>	<b>\$7,007,444</b>	<b>\$7,785,148</b>	<b>\$8,164,120</b>	<b>\$8,477,996</b>

Figures may not add to total due to rounding.

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# LEGISLATIVE SUMMARY



# LEGISLATIVE SUMMARY

The following is intended to give a brief summary of the 2006 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 21, 2006. 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 2054 (Chapter 102)**

Tax check-off; veterans' donations fund

HB2054 requires DOR to include a space on the individual income tax return to allow taxpayers to voluntarily designate an amount to donate from their refund to the Veterans' Donation Fund.

Taxpayers can donate any amount in addition to or in lieu of a portion of their tax refund.

This bill is effective for taxable years beginning January 1, 2007.

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### **House Bill 2088 (Chapter 18)**

Taxation; confidentiality

See summary under Multiple Tax Types

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### **House Bill 2429 (Chapter 333)**

Solar energy tax incentives

See summary under Multiple Tax Types

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### **House Bill 2712 (Chapter 244)**

Tax decisions; distribution

See summary under Multiple Tax Types

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### **House Bill 2795 (Chapter 342)**

Tax exemption; active duty

HB2795 makes permanent the state income tax exemption of military income for active duty members of the Armed Forces of the United States and expands the exemption to include the military income of reservists and members of the National Guard.

This bill becomes effective on January 1, 2007.

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### **House Bill 2871 (Chapter 351)**

General revenues; budget reconciliation

See summary under Multiple Tax Types

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### **House Bill 2876 (Chapter 354)**

Omnibus tax relief act

See summary under Multiple Tax Types

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### **Senate Bill 1069 (Chapter 76)**

2006 Tax Corrections Act

See summary under Multiple Tax Types

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### **Senate Bill 1074 (Chapter 387)**

Enterprise Zone; reauthorization

See summary under Multiple Tax Types

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### **Senate Bill 1155 (Chapter 82)**

Income tax credit review schedule

SB1155 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. This bill has rescheduled the income tax credits for the employment of TANF recipients and contributions to charitable organizations that provide assistance to the working poor for review in 2010. SB1155 also revised the schedule to blend conflicting legislation from the previous session.

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### **Senate Bill 1156 (Chapter 357)**

Internal revenue code conformity

Provisions:

- This bill conforms the Arizona definition of "internal revenue code" to the Internal Revenue Code in effect on January 1, 2006 including those provisions that became effective during 2005 and adopts the retroactive effective dates of all retroactive provisions.
- The bill will continue to exclude the three provisions where Arizona did not previously conform to the federal change: the 30 percent

special bonus depreciation provided in the Job Creation and Worker Assistance Act of 2002; and both the 50 percent bonus depreciation and Section 179 expensing in the Job and Growth Tax Relief Reconciliation Act of 2003. Arizona taxpayers must make an adjustment to add back the amount taken at the federal level and subtract the amount allowable by Arizona when calculating Arizona income tax.

- The bill also conforms the due dates for short period returns following a change in ownership to the federal due date.

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### **Senate Bill 1367 (Chapter 222)**

Motion picture production incentives

See summary under Multiple Tax Types

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### **Senate Bill 1404 (Chapter 325)**

Corporate tuition tax credit; amount

SB1404 increases the maximum annual amount of corporate income tax credits allowed for contributions to a school tuition organization from \$5 million to \$10 million in FY 2006-2007. The cap will annually increase by 20% beginning FY 2007-2008.

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### **Senate Bill 1461 (Chapter 391)**

Department of Revenue; continuation

See summary under Multiple Tax Types

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### **Senate Bill 1499 (Chapter 14)**

Corporate tax credit; tuition organization

SB1499 establishes a corporate income tax credit for contributions made to a school tuition organization that provides educational scholarships and tuition grants to children of low-income families.

Any corporation wishing to participate in this program and be eligible to take the credit must be pre-certified by DOR. The credit is effective with tax year 2007; pre-certification begins September 21, 2006. For more information, go to [www.azdor.gov](http://www.azdor.gov) and click on the "Credit Pre-Certification" link.

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## **Transaction Privilege Tax/ Use Tax**

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### **House Bill 2088 (Chapter 18)**

Taxation; confidentiality

See summary under Multiple Tax Types

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### **House Bill 2089 (Chapter 105)**

Transaction privilege tax; postage deduction

HB2089 enacts a deduction under the job printing classification for postage or freight expenses that are billed to the job printer's customer. ARS § 42-5066(B)(4) stipulates that the amount deducted from the job printer's tax base shall not exceed the actual postage paid to the USPS or the actual freight expense paid to a commercial delivery service, and that the charges must be separately itemized on the customer's invoice and in the taxpayer's records.

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### **House Bill 2360 (Chapter 321)**

Tax exemption; food; school districts

- Creates a deduction for the sale of food to a school district or charter school that is consumed at a public school during school hours from the restaurant classification tax base.
- Expands the use tax exemption for food acquired by or provided to a school district or charter school that is consumed at a public school during school hours.
- Provides a retroactive effective date from and after December 31, 1999.
- Requires that claims for refunds must be filed with the DOR by December 31, 2006.
- Stipulates that the aggregate amount of the refund is not to exceed \$100,000. Interest will not be paid on any refund before July 1, 2007.

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### **House Bill 2429 (Chapter 333)**

Solar energy tax incentives

See summary under Multiple Tax Types

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### **House Bill 2702 (Chapter 376)**

Rio Nuevo; shared revenue

- Extends the diversion of 50% of state TPT revenues to the Rio Nuevo Multipurpose Facilities District until July 1, 2025.

- Restricts changes to the District boundaries.
- Makes changes relating to eminent domain.

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**House Bill 2712 (Chapter 244)**

Tax decisions; distribution

See summary under Multiple Tax Types

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**House Bill 2820 (Chapter 230)**

Manufactured buildings; taxation

HB2820 is clarifying existing law and not creating new taxes in regard to the prime contracting classification and use tax for manufactured homes.

- Clarifies that a “dealership of manufactured buildings” is a licensed dealer that sells to a final consumer or a dealer that is responsible for the completion of the delivery or setup contract.
- Specifies that sales for resale do not include sales to a lessor of manufactured buildings.
- Clarifies that proceeds from alterations or repairs to used manufactured homes are taxable.
- Clarifies the site of taxation for the sales of manufactured homes in Arizona in the following ways:
  - homes sold and delivered to another state are not taxed.
  - homes sold with no specified delivery site are taxed at the dealer’s location.
  - homes sold with a specified delivery or setup site in Arizona are taxed at that site.
- Stipulates that homes purchased outside of Arizona, but setup in Arizona are subject to use tax at the rate of 65% of the sales price. Any person hired to setup the home in Arizona is liable for collecting and remitting the use tax along with any tax due under the prime contracting classification.

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**House Bill 2871 (Chapter 351)**

General revenues; budget reconciliation

See summary under Multiple Tax Types

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**House Bill 2876 (Chapter 354)**

Omnibus tax relief act

See summary under Multiple Tax Types

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**Senate Bill 1068 (Chapter 386)**

Contractor sales tax; development fees

SB1068 allows the state and local development fees to be deducted from the TPT prime contracting classification taxable base. This bill has an effective date from and after August 31, 2006.

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**Senate Bill 1069 (Chapter 76)**

2006 Tax Corrections Act

See summary under Multiple Tax Types

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**Senate Bill 1367 (Chapter 222)**

Motion picture production incentives

See summary under Multiple Tax Types

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**Senate Bill 1411 (Chapter 168)**

Prime contracting, exemption; waste disposal

SB1411 provides for an exemption from TPT under the prime contracting classification for the operation of a landfill or a solid waste disposal facility. An activity such as filling, compacting and creating vehicle access to and from cell sites is not taxable. An activity such as constructing roads to a landfill or constructing cell sites is taxable under prime contracting. An intent clause was added stating this law cannot be used or considered in the construction or interpretation of the Model City Tax Code.

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**Senate Bill 1433 (Chapter 371)**

Tax exemption; liquid natural gas

SB1433 exempts natural gas used for the sole purpose of fueling the necessary equipment in the conversion of natural gas into liquefied natural gas from TPT and use tax. The bill requires claims for a refund of TPT or use tax to be submitted to DOR by December 31, 2006. Claims can be submitted retroactively for tax periods beginning August 1, 2005.

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**Senate Bill 1461 (Chapter 391)**

Department of Revenue; continuation

See summary under Multiple Tax Types

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**Senate Bill 1506 (Chapter 225)**

Donated food; tax exemption

SB1506 creates a TPT deduction under the restaurant classification of gross proceeds for prepared food, drink or condiment that is donated by a restaurant to a 501(c) (3) non profit charitable organization that regularly serves free meals to the

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needy and indigent. The bill also exempts from use tax prepared food, drink or condiment that is donated by a restaurant to a 501(c) (3) non profit charitable organization that regularly serves free meals to the needy and indigent.

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## Property Tax

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### House Bill 2175 (Chapter 327)

Property tax exemption; health care

Exempts property owned by a non profit healthcare provider that is used to provide health care services if the property is not used or held for profit. This bill has a retroactive effective date from and after December 31, 1999.

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### House Bill 2350 (Chapter 134)

County treasurer; corrections

HB2350 makes several changes to the county treasurer's procedures that include the clarification of the legal interest rate the treasurer must pay when issuing a tax correction refund.

- Specifies that the interest paid on tax correction refunds will be the interest rate set by DOR on the day the payment is rendered.
- Extends the real property tax abatement processes to include personal property.
- Eliminates DOR's approval for the abatement of property taxes by the county.

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### House Bill 2429 (Chapter 333)

Solar energy tax incentives

See summary under Multiple Tax Types

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### House Bill 2474 (Chapter 322)

Verification of class three property

HB2474 allows DOR oversight of county programs to identify properties that are misclassified as owner-occupied (Class 3) instead of residential-rental (Class 4).

- Allows DOR and the County Assessors Office to enter into intergovernmental agreements for an exchange of information to ensure a coordinated and comprehensive review of information regarding identification of properties that may be misclassified.

- Requires DOR to monitor and review procedures and verify compliance by the county assessor and county treasurer.
- Requires DOR to issue a report by November 15 of each year to the Governor and Legislature on the processes and procedures used by each county in their verification program.

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### House Bill 2717 (Chapter 323)

Tax exemption; government owned property

Current law states that the improvements constructed on land owned by and leased from an agricultural improvement district are subject to tax being paid by the lessee as in any other property used for similar purposes, unless the improvements are otherwise entitled to a Constitutional exemption. HB2717 eliminates this taxation.

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### House Bill 2821 (Chapter 143)

Property tax assessment, valuation, appeals

HB2821 establishes an Elderly Assistance Fund in Maricopa County to help defray school taxes for properties that qualify for the senior value protection option.

HB2821 makes several changes to the definitions used for property tax purposes:

- Defines "due date" as the next business day if the due date falls on a non-business day.
- Adds to the definition of "market value" that full cash value may not exceed market value regardless of valuation method.

This bill changes the deadline for appeals to state and county boards of equalization to sixty days after the date of mailing of the decision or December 15<sup>th</sup>, whichever is later.

This bill also requires the approval of the Property Tax Oversight Commission for changes to the tax roll after February 10<sup>th</sup>.

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### House Bill 2876 (Chapter 354)

Omnibus tax relief act

See summary under Multiple Tax Types

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### Senate Bill 1074 (Chapter 387)

Enterprise Zone; reauthorization

See summary under Multiple Tax Types

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**Senate Bill 1346 (Chapter 388)**

Fleet requirements; tax incentives; bio diesel

SB1346 places real and personal property and improvements used specifically and solely to produce 100% bio diesel fuel and its by-products that are valued at full cash value in the class six property classification.

This bill also amends the motor vehicle fleet mandates in regard to using clean burning fuel equivalents.

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**Senate Bill 1390 (Chapter 38)**

Property tax valuation; telecommunications companies

SB1390 requires DOR to consider obsolescence in the valuation of telecommunications property upon documentation provided by the telecommunications company. The bill also defines obsolescence as a reduction in the value of an asset resulting from functional or economic obsolescence.

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**Senate Bill 1461 (Chapter 391)**

Department of Revenue; continuation

See summary under Multiple Tax Types

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**Senate Bill 1481 (Chapter 392)**

Property tax exemption; educational institutions

SB1481 establishes a property tax exemption for property owned by a non profit religious or charitable organization that leases the property to a non profit educational organization and is used for educational purposes. The bill specifies that the property owner must notify the assessor in writing of any changes in the ownership or use of the property.

SB1481 also establishes an exemption for certain low income assisted living housing projects. The property must not be used or held for profit, and must be used for rental housing and related facilities, and must be owned and operated by a charitable fund, foundation or corporation. Additional restrictions apply to the types of financing on the property, tax credits received, and number of residents.

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**Senate Bill 1502 (Chapter 170)**

Judicial tax appeal determinations; carryover

SB1502 requires the county assessor to use the valuation or change in classification of a property for the next year's valuation if, upon judicial appeal, the property valuation is reduced. The assessor is already required by statute to use the reduced valuation or change in classification upon administrative appeal.

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**Multiple Tax Types**

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**House Bill 2086 (Chapter 123)**

Taxes; payments, penalties, filings and extensions

HB2086 amends a general statute that applies to payments for all tax types, standardizes the due dates for transaction privilege tax (TPT) returns and payments, modifies a non-filing penalty for TPT returns, and allows filing extensions for withholding tax. More specifically, this bill:

- Authorizes a \$25 NSF fee to be applied to a tax payment made by an electronic funds transfer or automated clearing house debit or credit if the transfer, debit or credit is not paid or is dishonored by the institution.  
[See A.R.S. § 42-1126]
- Clarifies that all methods of filing TPT returns and making payments are standardized in that all returns and payments are considered timely if received by DOR on or before the second to the last business day of the month.  
[See A.R.S. § 42-5014]
- Does not allow credit for taxes paid timely when the TPT return is filed late.  
[See A.R.S. § 42-5014]
- Allows employees 10 additional days to reconcile the quarterly withholding amounts when payments are paid in full and not delinquent for the quarter.  
[See A.R.S. § 43-401]

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**House Bill 2088 (Chapter 18)**

Taxation; confidentiality

HB2088 makes several changes to update the tax confidentiality statutes as well as technical and conforming changes.

- Clarifies that TPT cases involving income tax information may be heard by the Office of Administrative Hearings (OAH) if the taxpayer agrees in writing and waives confidentiality
- Authorizes DOR to disclose confidential information to the Federation of Tax Administrators and the Multi-State Tax Commission, U.S. Treasury Department and for judicial or administrative proceedings.
- Authorizes DOR to disclose a list of tobacco distributor license holders
- Stipulates restrictions on the release of information regarding unclaimed property

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### **House Bill 2429 (Chapter 333)**

Solar energy tax incentives

Provisions:

- Establishes a new solar energy device tax credit beginning January 1, 2006 through December 31, 2012 for the installation of one or more solar energy devices for commercial or industrial purposes in a trade or business located in Arizona.
- Department of Commerce has 30 days to approve an application and supply an initial certificate for a Commercial Solar Energy Income Tax Credit.
- Department of Commerce shall not certify tax credits in any calendar year that exceed a total of \$1 million.
- Department of Commerce supplies DOR with a copy of the initial certificate, which includes the unique identification number, and the total amount of the income tax credit to be claimed.
- Specifies the amount of the tax credit is equal to 10% of the installed price and limits the credit taken to \$25,000 with respect to the same building in the same year and to \$50,000 per company per year.
- Allows a third party that finances the solar energy devices to take the tax credit.
- Removes the \$5,000 tax exemption limitation for retail and prime contracting classification under TPT.
- Prohibits solar energy devices and any other device or system designed for the production of

solar energy for on-site consumption form adding to property value.

- Makes technical and conforming changes.

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### **House Bill 2712 (Chapter 244)**

Tax decisions; distribution

HB2712 requires DOR as well as a few other agencies to provide redacted tax decisions to law libraries, state university Colleges of Law, the State Law Library, the Arizona State Library and any person who requests them. The bill also requires these agencies to publish tax decisions on their official website.

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### **House Bill 2871 (Chapter 351)**

General revenues; budget reconciliation

Provisions:

- Appropriates \$850,000 in FY07 to DOR from the General Fund for distribution to towns with populations of 1,500 people or less.
- Repeals the Arizona State Schools for the Deaf and Blind Telecommunications Fund.
- Removes the annual Transaction Privilege Tax distribution to the Arts Endowment Fund.
- Effective June 30, 2007, changes the method for calculating the distribution to the Sports and Tourism Authority for deposit in the Facility Revenue Clearing account.
- Retains the 1.1 percent rate on a telecommunications company's sales or gross income derived from exchange access services, yet retroactive to June 30, 2006 changes the distribution of these funds. Distributions to Poison Control, the School for the Deaf and Blind and Teratogen funding are eliminated.
- Raises the June Transaction Privilege Tax estimated payment threshold from \$100,000 to \$1 million.
- Establishes explicit distribution amounts for Income Tax Urban Revenue Sharing to cities for FY09.
- Makes other technical and conforming changes.

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## House Bill 2876 (Chapter 354)

### Omnibus tax relief act

#### Provisions:

- For tax year 2006, requires municipalities, counties and community college districts to set their primary property levies at the lesser of their constitution levy limit or set them at their 2005 primary property tax levy, plus amounts attributable to new construction, and allow an inflation factor of 2%.
- Changes the name of the county equalization assistance for education tax rate to the state equalization assistance property tax rate and sets the rate at zero for tax years 2006 through 2008. This rate will be adjusted in 2009 to the TNT rate from the 2005 tax year.
- Effective July 1, 2007, requires elections for secondary taxes for bonds, overrides and other special district taxes only to be conducted at the November general election.
- Modifies the information that is provided in the information pamphlet for bonds, overrides and other secondary taxes.
- Beginning in 2006, reduces the individual income tax rate by 10% over a two year period. The charts below indicate the current and new tax rates:

Single/Married Filing Separate Income Bracket	Current Tax Rate	New Tax Rate 2006	New Tax Rate 2007
\$0 - \$10,000	2.87%	2.73%	2.59%
\$10,001 - \$25,000	3.20%	3.04%	2.88%
\$25,001 - \$50,000	3.74%	3.55%	3.36%
\$50,001 - \$150,000	4.72%	4.48%	4.25%
\$150,001 and over	5.04%	4.79%	4.54%

Married Filing Joint/ Head of Household Income Bracket	Current Tax Rate	New Tax Rate 2006	New Tax Rate 2007
\$0 - \$20,000	2.87%	2.73%	2.59%
\$20,001 - \$50,000	3.20%	3.04%	2.88%
\$50,001 - \$100,000	3.74%	3.55%	3.36%
\$100,001 - \$300,000	4.72%	4.48%	4.25%
\$300,001 and over	5.04%	4.79%	4.54%

- Beginning November 1, 2006, the following taxes will be eliminated:
  - Membership camping classification under TPT
  - Rental occupancy tax
  - Severance tax on timber products

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## Senate Bill 1069 (Chapter 76)

### 2006 Tax Corrections Act

SB1069 makes technical, conforming and clarifying changes to Arizona tax statutes.

- Clarifies those out-of-state residents who purchase motor vehicles and whose state of residence does not impose an excise tax are exempt from Arizona transaction privilege tax.
- Rectifies conflicting enactments relating to the Joint Legislative Income Tax Credit Review Committee schedule.
- Rectifies conflicting enactments relating to changes to the individual and corporate income tax credit for the installation of water conservation systems and plumbing sub outs.
- Corrects a reference and deletes an obsolete reference to the Internal Revenue Code (IRC).

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## Senate Bill 1074 (Chapter 387)

### Enterprise Zone; reauthorization

Extends the Enterprise Zone Program for five years and modifies the qualification requirements of the EZ Program. Small commercial printing businesses were added as a qualified business.

- Extends the EZ Program until June 30, 2011.
- Department of Commerce is required to certify small manufacturing and small commercial printing businesses annually under the EZ Program.
- Terminates an EZ Program certification of certified manufacturing or small commercial printing businesses if the ownership interest changes more than 20% and requires the new owners to apply for certification.
- Raises, from 10,000 to 15,000, the minimum population threshold of cities and towns to determine the minimum investment requirement.

This bill becomes effective on the general effective date but is retroactive to July 1, 2006.

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## **Senate Bill 1367 (Chapter 222)**

### Motion picture production incentives

Makes changes to the certification of motion picture production costs and qualification for motion picture production tax incentives.

- Allows a motion picture production company to utilize its authorized payroll service company to meet the required percentage of full-time Arizona resident employees.
- Exempts the difference in the amount of eligible production costs actually incurred versus the amount pre-approved for income tax credits from that year's income tax credit cap.
- Clarifies the requirement that a motion picture production company incur production costs in Arizona of at least \$250,000 for producing one or more motion pictures during a 12 month period for which it is qualified for the tax incentives.
- Specifies that if a company does not submit notice of beginning production to the Department of Commerce within four months after the date of its Department of Commerce pre-approval, or fails to begin production within that time, the pre-approval lapses, its application is void, and the amount of pre-approval no longer applies to that year's income credit cap.
- Allows the Department of Commerce to accept initial applications for the following calendar year after October 31 of each year, if it has pre-approved the full amount of the current calendar year's income tax credit cap.
- Also includes printing activity related to the motion picture production in the TPT exemption.

This bill becomes effective on the general effective date retroactive to January 1, 2006.

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## **Senate Bill 1461 (Chapter 391)**

### Department of Revenue; continuation

In addition to continuing the Department of Revenue until July 1, 2016, this bill prohibits DOR, unless permitted by law, from applying new legislation retroactively or in a way that will penalize a taxpayer who was complying with previous legislation. The bill restricts new interpretations or applications of tax laws by DOR

and states that DOR does not have to provide a refund of tax, penalties or interest paid before a new interpretation or application unless the taxpayer provides documentation showing that the refund will go to a person who paid an extra charge to cover the tax.

SB1461 also requires DOR to submit for review each substantive proposed guideline, table and manual that has been modified from and after December 31, 2006 to the Joint Legislative Oversight Committee on Property Tax Assessment and Appeals. DOR shall not finally adopt any changes for 30 days after submitting them to the committee to allow the committee time to review and meet. If the committee does not meet within the 30 days, DOR is able to adopt the changes made without further consideration.

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## **Miscellaneous**

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### **House Bill 2001 (Chapter 187)**

#### Tax setoff for debts; verification

- Allows for the interception of a taxpayers state tax refund when the taxpayer has been identified as having an outstanding debt with an agency or court.
- Requires the agency or court to verify a taxpayer's identity by verifying at least two pieces of identification and providing final confirmation in writing or electronically to DOR.
- Establishes that a taxpayer is entitled to a full refund including penalties and interest if the tax refund was intercepted in error.

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### **House Bill 2177 (Chapter 378)**

#### Health insurance premium tax credit

HB2177 requires DOR to issue Certificates of Eligibility to individuals or businesses that apply and meet certain requirements. These Certificates of Eligibility allow for a decrease in health insurance premiums for the individual or business and a reduction in Arizona's insurance premium tax for the insurance carrier. The credit is limited to \$5 million annually. For more information, go to [www.azdor.gov](http://www.azdor.gov) and click on the "Credit Pre-Certification" link.

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**House Bill 2870 (Chapter 350)**

State government; budget reconciliation

Provisions:

- Requires DOR to semiannually publish a notice, in each county's newspaper, with a toll free telephone number directing the public to DOR's website regarding abandoned property.
- Eliminates the requirement for DOR to publish the names of individuals with unclaimed property.
- Clarifies a notice be published no later than November 30 of the year after the abandoned property has been paid or delivered to DOR.

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**Senate Bill 1066 (Chapter 278)**

Cigarette sales; licensing, luxury tax

SB1066 establishes new penalties and increases existing penalties for the receiving, possessing and the sale of unstamped or unlawfully stamped cigarettes. The bill prescribes additional licensing requirements for cigarette distributors and conditions for affixing luxury tax stamps.

The bill also clarifies that an individual who purchases tobacco products via the Internet for personal use or consumption is required to register with DOR with no registration fee. These individuals are required to pay the applicable luxury tax within 10 days of receiving the unstamped cigarettes.

The sections of the bill that apply to individuals purchasing unstamped cigarettes for personal use will go into effect on the general effective date. All other sections have a delayed effective date of September 30, 2006.

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**Senate Bill 1087 (Chapter 246)**

Spousal maintenance; tax refund; set off

SB1087 enables the clerk of the court to intercept a taxpayer's state income tax refund for the collection of spousal maintenance.

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**Senate Bill 1276 (Chapter 310)**

Wine shipment; limited production winery

SB1276 requires a Domestic Farm Winery (DFW) that produces less than 20,000 gallons of wine and delivers wine directly to a retailer or consumer to file a bond with DOR. The total of the bond must

be twice the DFW's estimated monthly tax, but not less than \$500. The bond is not required for DFWs that have made timely tax payments for 12 consecutive months.

The bill also requires a DFW not using the services of a wholesaler to make all luxury tax payments and file all returns or reports as required by law.

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**Senate Bill 1148 (Chapter 33)**

Safe deposit boxes; unclaimed property

SB1148 increases the amount of time after the expiration of the lease of a safe deposit box from one year to three years before the contents is considered abandoned.

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**Senate Bill 1170 (Chapter 262)**

Estate; generation skipping taxes; repeal

Permanently repeals the Arizona estate tax

- Subtracts from Arizona gross income the amount of federal estate taxes paid in the current taxable year.
- Removes the reference to filing extensions granted for the Federal estate tax return.
- Removes the six month limit for filing extensions granted by DOR for Arizona estate tax returns.