

ARIZONA DEPARTMENT OF REVENUE

2005 ANNUAL REPORT

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STATE OF ARIZONA

Department of Revenue



November 15, 2005

Janet Napolitano
Governor

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

Gale Garriott
Director

Dear Governor Napolitano and the Taxpayers of Arizona:

Fiscal year 2005 was a milestone year in that we collected more than \$10 billion as an agency for the first time ever. Total taxes collected by the department during the year exceeded \$11.2 billion, including more than \$6 billion that was deposited directly into the state General Fund. Included in this total is over \$455 million that was collected through the department's tax enforcement efforts. By collecting over \$455 million through the audit, license compliance, and collections programs, the department exceeded the \$427 million target set at the beginning of the year; performing at 107% of goal. The department committed to maintaining our original baseline projections and exceeding our continuing overall revenue generating program targets. One area to highlight this year is the Corporate Audit's Tax Shelter Unit's "Voluntary Compliance Initiative" program wherein taxpayers were asked to come forward and file amended returns to reverse the effects of abusive tax avoidance transactions. Seventy-one taxpayers took advantage of this program under this initiative yielding \$29 million in additional revenue for the state in fiscal year 2005 and an additional \$18 million is scheduled to be collected in fiscal year 2006.

This major revenue contribution was achieved while still performing other services at high performance levels and working through the first phase of the Business Reengineering/Integrated Tax System (BRITS) project, the conversion of the Transaction Privilege Tax (TPT) System. Conversion of the Withholding Tax system also occurred during fiscal year 2005. Improvements were made in the way in which we deliver TPT and Withholding tax administration. The project will extend into the next two fiscal years as the corporate and individual income taxes are integrated. The corporate tax release is scheduled to occur in fiscal year 2006. We have continued to make significant service improvements for business taxpayers and new business owners by providing taxpayer access to TPT and withholding accounts through the AzTaxes.gov web site, which allows taxpayers to file their tax returns and pay their taxes electronically, as well as view their account tax information at any time.

We have completed our annual Strategic Plan review. The review included looking at our accomplishments, identifying current strategic issues, and making course corrections for the new fiscal year.

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

- To increase our return on investment; wherein issues of increased productivity and cost effectiveness are addressed 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; wherein we focus on our employees satisfaction and job performance because they are our most important assets.

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

Sincerely,

Gale Garriott
Director

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.

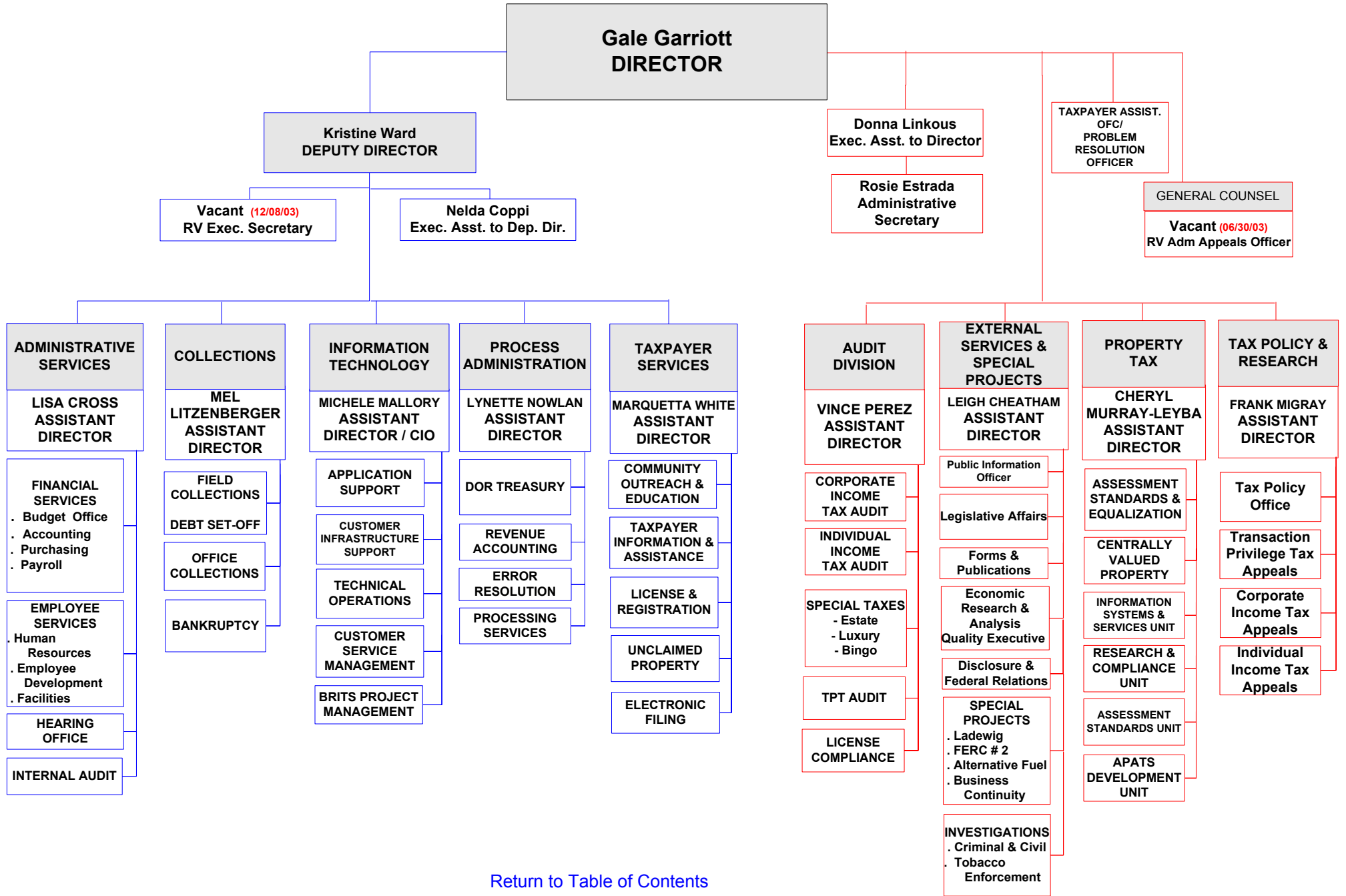
The BRITS project is benefits funded. There are three types of benefits which are funding this

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. All discovery 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. In fiscal year 2005, the BRITS contractor received \$6,220,386 in discovery payments.

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, excluding that produced from the amnesty program. The revenue numbers are adjusted to eliminate duplications. Whereas, discovery dollars are attributed directly as reported by the affected taxpayer, efficiency dollars are prorated per the overall distribution of receivable dollars processed through the Accounts Receivable system that month. In fiscal year 2005, the BRITS contractor received \$12.1 million in efficiency payments.

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. However, the contract with the vendor provided for an efficiency baseline for this type of work; as a result, license compliance is a separate efficiency calculation. In fiscal year 2005, the BRITS contractor was paid \$5.6 million in license compliance payments.

ARIZONA DEPARTMENT OF REVENUE



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Strategic Plan Highlights

OVERVIEW

The Arizona Department of Revenue Leadership Team met in March 2005 to review the progress of the fiscal year 2005 Strategic Plan. Half of that full day planning session was spent reviewing the year to date accomplishments of each division for fiscal year 2005 and the current “state of the department.” Using the information obtained in the morning session, the second half of the planning session was spent identifying and defining strategies and direction for fiscal year 2006. The fiscal year 2006 strategic plan focuses on outcomes, strategic issues, objectives, and measures. Employees throughout the department have since established their section’s objectives and measures. The Leadership Team reviewed the work of the division employees in May and selected a handful of Key Measures to track and review in fiscal year 2006. Key Measures are those that are of overarching interest across the department and indicative of overall performance.

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 2006:

- 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 2005 follow with a comparison to fiscal year 2004 and prior years.

TOTAL GROSS REVENUES COLLECTED

Detailed gross revenues are reported under Table 1. There was an increase in revenue in all tax types in fiscal year 2004 compared to fiscal year 2003.

TOTAL GROSS REVENUES COLLECTED

FY04

Transaction Privilege Tax\$5,624,814,633
Income & Withholding\$3,112,626,522
Corporate\$ 596,582,273
Other\$ 510,637,038
Total\$9,844,660,466

FY05

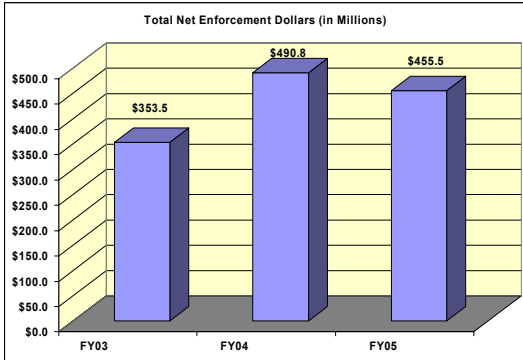
Transaction Privilege Tax\$6,255,415,018
Income & Withholding\$3,749,158,811
Corporate\$ 789,739,978
Other\$ 453,879,297
Total\$11,266,809,364

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**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.

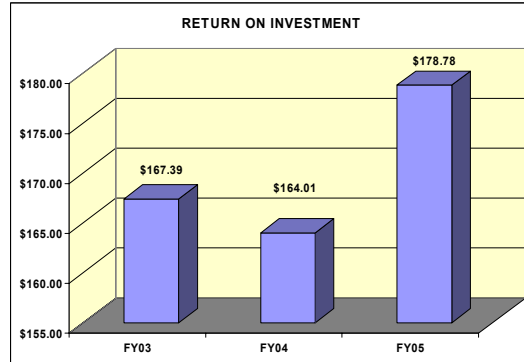
|            |               |
|------------|---------------|
| FY03 ..... | \$353,512,305 |
| FY04 ..... | \$490,792,363 |
| FY05 ..... | \$455,564,124 |



**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.

|            |          |
|------------|----------|
| FY03 ..... | \$167.39 |
| FY04 ..... | \$164.01 |
| FY05 ..... | \$178.78 |



**FISCAL YEAR 2005 ENFORCEMENT BREAKDOWN BY ENFORCEMENT PROGRAM**

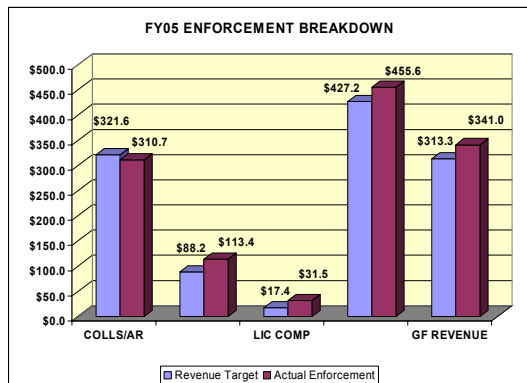
This chart recaps each program’s contribution to total enforcement collections. General Fund distribution information is included.

**FY05 Net Target**

|                                    |          |
|------------------------------------|----------|
| Collections/Accounts Receivable .. | \$321.6M |
| All Audit .....                    | \$ 88.2M |
| Amnesty .....                      | \$ 17.4M |
| Enforcement Revenue .....          | \$427.2M |
| General Fund Revenue .....         | \$313.3M |

**FY05 Net Actual**

|                                    |          |
|------------------------------------|----------|
| Collections/Accounts Receivable .. | \$310.7M |
| All Audit .....                    | \$113.4M |
| Amnesty .....                      | \$ 31.5M |
| Enforcement Revenue .....          | \$455.6M |
| General Fund Revenue .....         | \$341.0M |

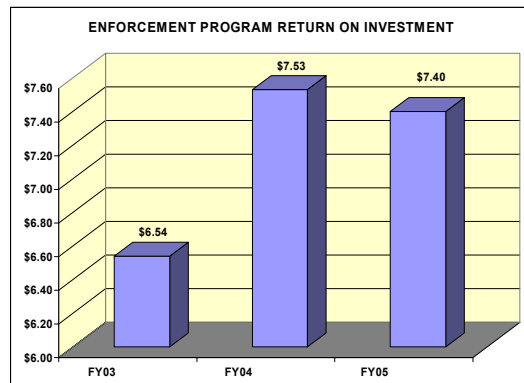


**ENFORCEMENT PROGRAM**

**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.

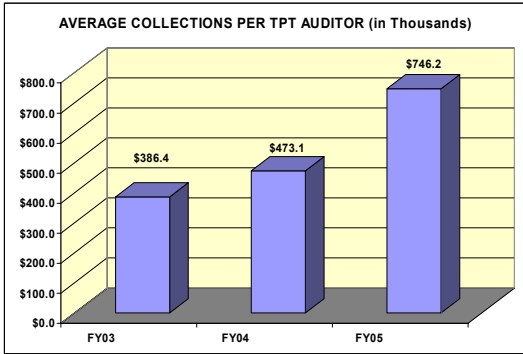
|            |        |
|------------|--------|
| FY03 ..... | \$6.54 |
| FY04 ..... | \$8.19 |
| FY05 ..... | \$7.40 |



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

TPT Audit collections have increased with the hiring of additional staff of up to 75 desk and field agents in FY04. The learning curve is winding down and productivity increases are being noticed.

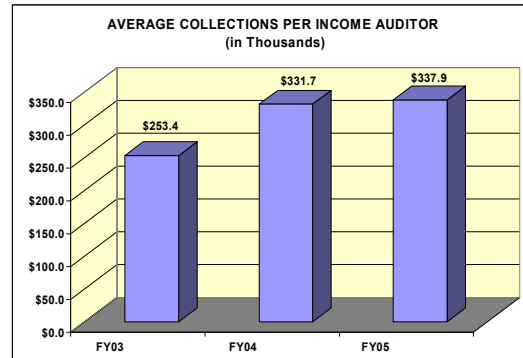
|            |         |
|------------|---------|
| FY03 ..... | \$386.4 |
| FY04 ..... | \$473.1 |
| FY05 ..... | \$746.2 |



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

The Individual Income Audit section maintained an average staff of 50 agents which allowed for a slight increase in overall audits per agent as well as increased dollars generated per auditor.

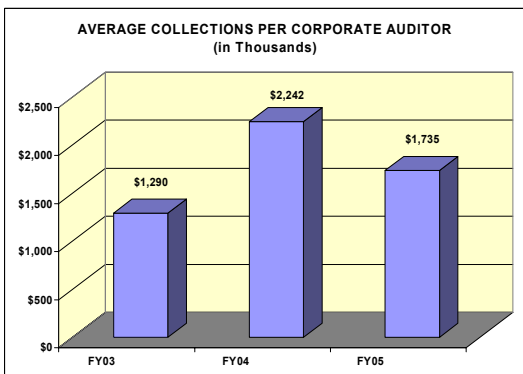
|            |         |
|------------|---------|
| FY03 ..... | \$253.4 |
| FY04 ..... | \$391.2 |
| FY05 ..... | \$337.9 |



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

Corporate Audit collections have also increased with the hiring of additional staff of up to 46 auditor staff in FY04. The learning curve is winding down and productivity increases are being noticed.

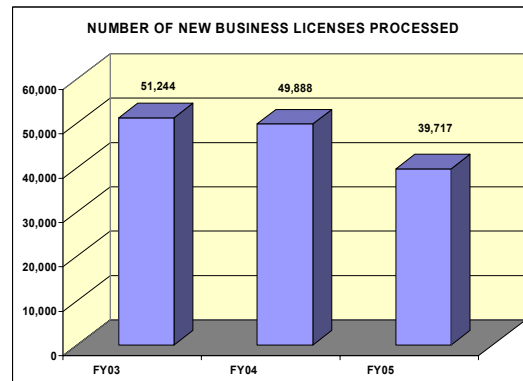
|            |         |
|------------|---------|
| FY03 ..... | \$1,290 |
| FY04 ..... | \$2,242 |
| FY05 ..... | \$1,735 |



**NUMBER OF NEW BUSINESS LICENSES PROCESSED**

The reported number of new business licenses are those that occur at the counter in the License and Registration section. FY05 data does not include on-line registrations through the BRITS AzTaxes web site.

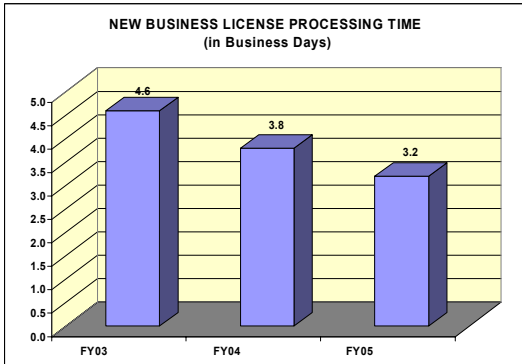
|            |        |
|------------|--------|
| FY03 ..... | 51,244 |
| FY04 ..... | 49,888 |
| FY05 ..... | 39,717 |



**NEW BUSINESS LICENSE TURNAROUND TIME**

The time it takes to process a new business license is measured in business days. Release 1 of the BRITS Project allows for on-line license registration on the AzTaxes.gov web site. Conversion issues impacted license turnaround times in early FY04, but the department provided a dramatic improvement to a 3.2 day processing time by July of 2005.

|            |          |
|------------|----------|
| FY03 ..... | 4.6 days |
| FY04 ..... | 3.8 days |
| FY05 ..... | 3.2 days |

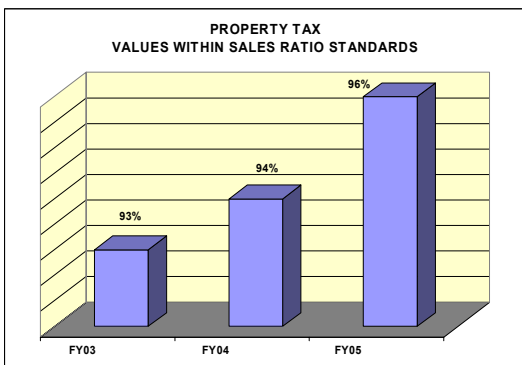


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PROPERTY TAX – VALUES WITHIN SALES RATIO STANDARDS

This measure ensures that properties are being valued by the counties in a fair and consistent manner according to sales ratio standards.

FY03	93%
FY04	94%
FY05	96%

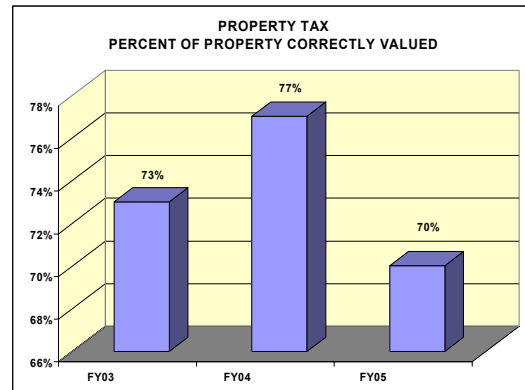


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**PERCENT OF PROPERTY CORRECTLY VALUED**

This measure ensures that properties are being valued by the counties in a fair and consistent manner.

|            |     |
|------------|-----|
| FY03 ..... | 73% |
| FY04 ..... | 77% |
| FY05 ..... | 70% |

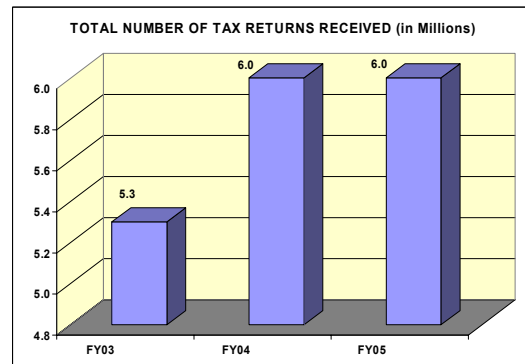


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TOTAL NUMBER OF TAX RETURNS RECEIVED

These numbers include all paper and electronic returns received for all four major tax types – income, transaction privilege tax, corporate and withholding.

FY03	5.3M
FY04	6.0M
FY05	6.0M



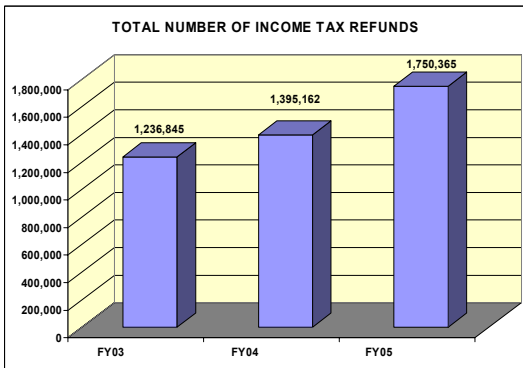
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**TOTAL NUMBER OF INCOME TAX REFUNDS**

The total number of income tax refunds processed includes both direct deposit checks and paper refund warrants. Although the number of income tax refunds is growing each year, it is important to note that average process time is decreasing, as depicted in the following chart.

|            |           |
|------------|-----------|
| FY03 ..... | 1,656,518 |
| FY04 ..... | 1,236,855 |
| FY05 ..... | 1,247,981 |

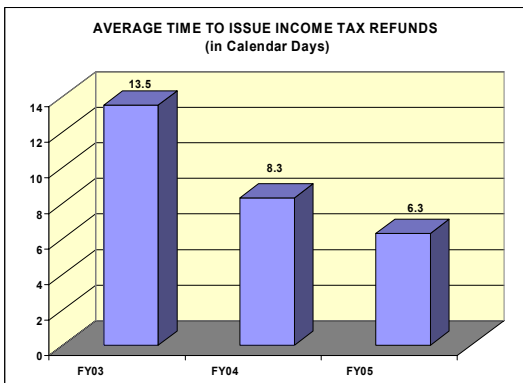


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AVERAGE TIME TO ISSUE INCOME TAX REFUNDS

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.

FY03	13.5 days
FY04	8.3 days
FY05	6.3 days

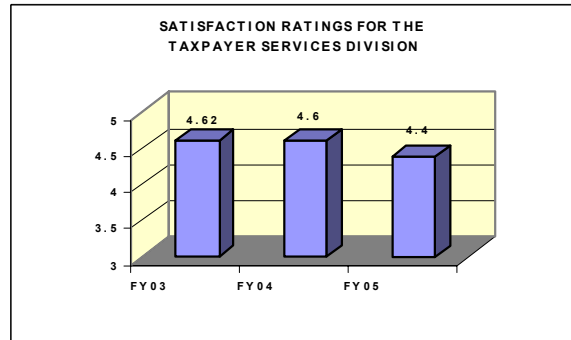


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**TAXPAYER SATISFACTION RATINGS FOR THE TAXPAYER SERVICES DIVISION**

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.)

|            |      |
|------------|------|
| FY03 ..... | 4.62 |
| FY04 ..... | 4.60 |
| FY05 ..... | 4.40 |

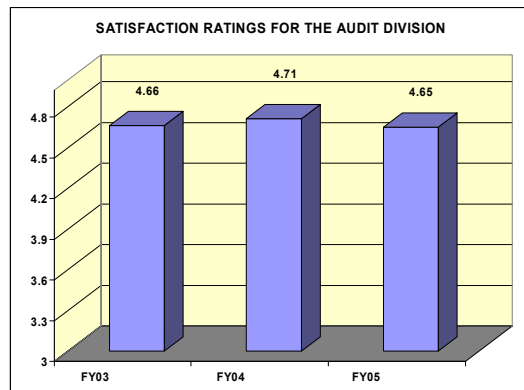


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AVERAGE TAXPAYER SATISFACTION RATINGS FOR THE AUDIT DIVISION

The reported scores are derived by averaging the ratings of the transaction privilege tax, Corporate, and Individual Income audit section survey scores. Taxpayers rate their satisfaction levels of the service of audit employees. (All satisfaction ratings tracked at the department have a 1 to 5 scale, 5 being the highest rating.)

FY03	4.66
FY04	4.71
FY05	4.65

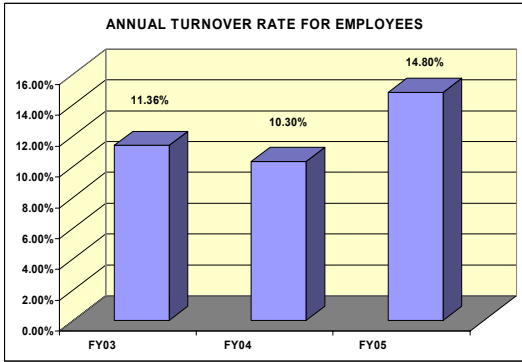


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**AVERAGE ANNUAL TURNOVER RATE FOR EMPLOYEES**

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.

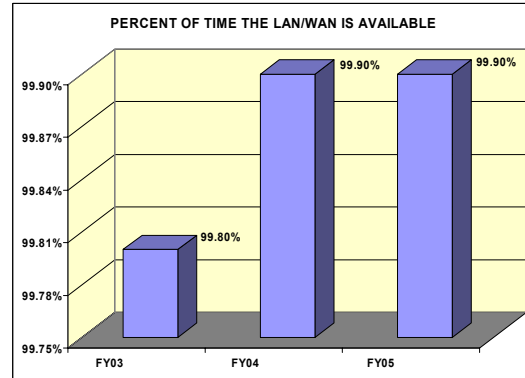
|            |         |
|------------|---------|
| FY03 ..... | 11.36 % |
| FY04 ..... | 10.30 % |
| FY05 ..... | 14.80 % |



**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.

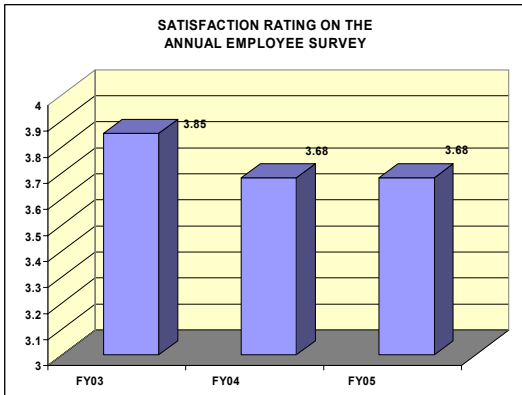
|            |       |
|------------|-------|
| FY03 ..... | 99.8% |
| FY04 ..... | 99.9% |
| FY05 ..... | 99.9% |



**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.)

|            |      |
|------------|------|
| FY03 ..... | 3.85 |
| FY04 ..... | 3.68 |
| FY05 ..... | 3.68 |



The twenty key measures reported here serve as a general overview of how the department is progressing in line with the strategic plan. Once objectives are established and the appropriate related measures are selected, the process of baseline activity and tracking performance begins. Although new or additional objectives are selected every year, we have the ability to analyze trend data with the measures that have been tracked over the course of several fiscal years. We provide accountability to our taxpayers and stakeholders with shared strategic plan data. 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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# 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. The section has a team of trainers whose role is to develop and deliver in-house training for agency specific activities such as training for various PC software and tax systems, and confidentiality guidelines. The unit offers both self-study classes and classroom training and coordinates with the Arizona Government University training program.

## **Facilities Management**

The Facilities Management Section coordinates department facility maintenance and remodeling at the department's four buildings; receives all goods and supplies purchased by the department; repairs and maintains the department's security system; manages building security access, the parking garage and security guards.

## **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, classification 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 2005**

- Continued enhancements of the new Human Resources Information Solution (HRIS) system.
- Administered a successful Benefits Open Enrollment for all employees in the department.
- Responded to 98% of building maintenance work orders within 24 hours.
- The Hearing Office resolved 141 cases during the fiscal year.
- Implemented the State's Employment Hiring Gateway.

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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 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.

Employees are one of the greatest assets for the division. Through training and education, 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**

The section is comprised of four units: Field Audit Unit, Office Audit Unit, Tax Shelter Unit, and the Nexus Unit. There are sixty one (61) positions in the section, divided as follows: thirty-five (35) positions in Field Audit, ten (10) positions in Office Audit, three (3) positions in the Tax Shelter Unit, four (4) positions in Nexus, seven (7) administrative support positions, one (1) trainer and one (1) administrator.

The Field Audit Unit conducts over 95% 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 aimed at identifying 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.

During this fiscal year, the department centralized the Nexus Unit. The 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 tentatively scheduled to be implemented by the Corporate Audit Unit during fiscal year 2006 will help yield a more sophisticated audit select system, will improve management's tracking of audit production, and will eventually 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 Audit Section**

Service to the taxpayers remained a focus of the Section. How the Section's auditors performed their duties in a courteous and professional manner while striving to ensure that taxpayers were reporting and paying the proper amount of taxes due was evidenced by the customer survey results. In this fiscal year, the Section sent out 41,023 Customer Satisfaction Surveys. While a majority of these surveys were sent to taxpayers who owed additional taxes as a result of the Section's actions, on a scale of 1 to 5 (with 5 being excellent), the average survey score for this fiscal year was 4.72.

Improvements in the communications with other areas of the department have been emphasized during this past fiscal year. One example of this improvement in communications is where the

Section has worked closely with the department's Criminal Investigations Division (CID). A tax preparer that was investigated and indicted for preparing fraudulent tax returns by CID was forwarded to the Section to review over 8,000 clients for approximately 15,000 tax returns. These actions resulted in over \$ 7,000,000 in additional taxes being assessed from the amended returns filed by the clients and audits conducted of clients who failed to respond to the Section's inquiries.

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

#### **Field Audit**

The Revenue Enhancement Proposal approved in fiscal year 2003 has proven successful. With more than a third of the Field Audit staff hired through this program, these individuals, with only a little more than a year experience at the beginning of this fiscal year, added to the group's total production for the year.

On a scale of 1 to 5 (5 being the highest), taxpayer survey ratings, which measure the level of taxpayers' satisfaction with the audit process, averaged 4.63. This average exceeded the fiscal year goal of 4.01, showing that the Transaction Privilege and Use Tax Auditors strive for clarity and professionalism in both their work ethic and their work product.

#### **Compliance Unit (Desk and Licensing)**

Since combining the Desk Audit and Licensing units in 2004, the Compliance Unit continues to provide efficient service to the taxpaying community. This unit had an exceptional year; goals were surpassed by approximately \$9.5 million. The Compliance Unit collected in excess of \$42.5 million. 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 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. The Cities Program has continued to work diligently to service these cities. In addition, the Cities Program continues to represent 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**

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 strive to reduce the refund processing time and excel in its customer service.

#### **Administrative Support**

Fiscal year 2005 was another successful year for the Administrative Support Unit. With fewer employees, the unit timely and accurately processed the 2,500 plus units conducted by the Field Audit Group. This unit is responsible for ensuring audit accounts are logged correctly and handled in a timely manner. 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 DOR 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 2005**

- The Tax Shelter Unit operated the “Arizona Voluntary Compliance Initiative” during the periods February 14, 2005 through May 15, 2005 wherein taxpayers were asked to come forward and file amended returns to reverse the effects of abusive tax avoidance transactions. Seventy-one (71) taxpayers took advantage of this program and came forward under this initiative yielding \$29 million in additional revenue for the state in fiscal year 2005 and an additional \$18 million to be collected in fiscal year 2006. The unit continues their vigorous efforts to identify taxpayers involved in abusive tax avoidance transactions and will assess all appropriate penalties.
- The continuance of the computer generated assessment (CGA) program resulted in the issuance of 5,505 assessments for approximately \$1.4 million. These CGA audits are issued programmatically by the Audit Division’s Information Technology staff in conjunction with programmers for the BRITS project. Criteria have been established by the Section that allows for certain audits to be issued automatically without intervention of an auditor. If a given audit fails to meet the established criteria, then the audit is assigned to an auditor for examination and processing. As more information becomes available electronically through the department’s data warehousing project, the Section plans to expand the usage of the CGA audit program in the future, which would result in additional cost savings for the department.
- This fiscal year was a very productive one for the Individual Income Tax Audit Section. There were over 46,000 audit units conducted for total assessments of \$28.4 million, which was over the fiscal year objective by \$2.9 million or 11.3%. The additional revenue that was collected as a result of actions taken by the Individual Income Tax Audit Section was \$16.9 million, which was over the fiscal year objective by \$2.6 million or 18.3%.
- The new Business Re-Engineering Tax Integrated Systems (BRITS) has created a major impact on the daily business operations of the Field, Refunds, Desk, Licensing and Processing Groups. With learning and understanding these new change to our tax system, these groups pulled together to exceed their fiscal year gross revenue expectations by almost \$8 million.
- For fiscal year 2005, the Field Audit Group audited over 2,500 units (state and city audits). These audit units resulted in assessments in excess of \$40 million.
- The Transaction Privilege and Use Tax Compliance Unit licensed 6,182 new taxpayers and collected over \$42.5 million.
- The Refund Section processed over 650 refund claims, approving more than 447 claims totaling over \$10 million.
- The Audit Discovery Unit sent out over 6,500 letters to business taxpayers inquiring about their tax status for Corporate Income Tax and Withholding Tax. The new programs generated over \$950,000 in fiscal 2005.
- Arizona’s estate tax is based on a percentage of the federal state death tax credit: If all tangible assets are in Arizona, it is 100% of the credit. In 1999, Congress passed a bill which reduces the amount of federal state death tax credit on estates by 25% each year until it is eliminated. Arizona’s estate tax was effectively eliminated January 1, 2005. Although there is no Arizona estate tax now, we will continue to get returns filed for decedents whose death occurred in the last days of 2004. Their personal representatives have 9 months from the date of death to file and are allowed one 6 month extension. This could take the department into March of 2006.
- The Luxury Tax audit staff was increased by four (4) tobacco field auditors. As a result, Luxury Tax audit collections increased to \$400,531, which is up more than \$145,568 from the previous fiscal year.

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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 the Collections Division. After receiving a Faire-Isaac (collectibility) score, income tax cases under the \$3,000 threshold are routed for automatic wage levy enforcement. If this is unsuccessful, an automatic bank levy is issued. If there is still no positive response, the case is referred to the Office Collections Section, where telephone contact is initiated with the taxpayer in an attempt to resolve the tax liability. Business accounts receive the same Faire-Isaac scoring and are then routed in one of two directions depending on score results. They receive an automatic “demand letter” or are routed to Office Collections for telephone contact.

Delinquent accounts (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. This section uses a Predictive Dialer System (PDA) to dial the phone on accounts prioritized for work. This system automatically brings up computer screens for 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, obtain 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 taxpayer with a state tax liability has filed bankruptcy. This section is responsible for identifying all cases which involve bankruptcy filings, seeing that appropriate claims are filed with the bankruptcy court, and following up on actions 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.

## **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 2005**

- Restructured the Training Section to include a supervisor and two staff trainees for the purpose of improving training for new system use, and to help build consistency in the team regarding case handling.
- Developed a Tech Support team to satisfy user testing requirements for the new

integrated tax system (BRITS) being implemented, and to provide various routine performance reports to management and ad hoc reports for others as required.

- Collected \$247 million for the fiscal year ended June 30, 2005, up from \$240 million the previous year.

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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, the Arizona TaxNews (tax practitioner newsletter) and the Online News (electronic employee newsletter).

## **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.

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. Staff in this Office was expanded this fiscal year by adding the responsibilities of the Quality Office. 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 2005**

- In August, 2004, ten additional full-time employees were added to the Tobacco Enforcement Unit. These additional positions allowed the Unit to increase compliance inspections throughout Arizona, and to educate distributors, retailers, and consumers regarding DOR's luxury tax requirements on tobacco

products. During fiscal year 2005, over 1,800 inspections were conducted and over nine million cigarettes were seized. In addition, three large criminal investigations were initiated, and several training sessions were held with federal, state, and local law enforcement agencies throughout the state to educate them on tobacco tax violations. Due to increased compliance efforts, cigarette stamp sales are increasing and areas of non-compliance are decreasing. The presence of these tobacco investigators will be a deterrent to continued violations and at the same time will increase the awareness of Arizona's luxury tax requirements.

- After all of the initial installment or lump sum payments were mailed, heir information inundated the Ladewig staff. While some heirs were able to cash the warrant, which typically was payable to a family member, others could not, so not only was the information updated for any subsequent installment payments but the

initial check had to be voided and a replacement check had to be issued in the heir(s) name.

- The second installment is required to be mailed by July 20<sup>th</sup>, 2005. It is projected that 350,000 claimants will receive warrants totaling \$50.5 million. The last installment payment must be made by July 21, 2006.
- Claimants that did not cash their warrants within the legal tender six month period had their funds transferred to the unclaimed property section. This transfer affected 79,000 claimants whose refunds totaled \$22 million. If a claimant or heir came forward to claim the funds, the Ladewig staff worked the case so any future payment was mailed to the current address and recipient.

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# INFORMATION TECHNOLOGY

**Mission Statement:** *To provide technical support, systems management and administration, technology design, and technology acquisition to support the Arizona Department of Revenue's key operational products and services.*

## **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. The focus of Application Services continues to be support for data conversions to the new BRITS platform and ongoing maintenance of Legacy and BRTIS 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.

In addition, 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 unit is responsible for scheduling and processing all batch production jobs on the legacy and BRITS systems. In addition, this section is responsible for all offsite data storage. The Technical Support unit 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 unit 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 unit is responsible for data recovery at offsite locations. The Database Management unit is responsible for all development, test, and production databases.

## **HIGHLIGHTS IN FISCAL YEAR 2005**

- Assumed responsibility from Accenture for managing the BRITS Production Environment.
- Developed and implemented formal processes for prioritizing and implementing software releases and handling day-to-day system problems.
- Provided training for the IT staff on the new technologies delivered with the BRITS solutions.
- Developed Data Entry application for BRITS Withholding forms.
- Added Tax forms A 1-R (AZ Withholding Reconciliation return) and A1 – APR (AZ Annual Payment Withholding Tax Return) to the BRITS Data Entry application.
- Delivered 11 Software releases for the BRITS applications. The releases covered a wide range of application corrections, enhancements, annual and legal changes.
- Expanded 2-D barcode program to include 140PY, 140NR, and 140PTC for tax year 2004.

- Implemented year-end Income and Corporate tax changes.
- Implemented changes to support 1099G mailing notice for refunds to the taxpayer.
- Modified the Data Entry System to accept 2004 Tax Forms.
- Modified applications in accordance with Arizona House Bill 2429, Chapter 137, Laws 2003 that required removal of Social Security numbers from all outgoing notices.
- Provided programming support for the Tax Amnesty Program.
- Changed the method of posting Arizona Return E-File acknowledgements from a third party vendor to a portal provided by the IRS. This modification provides for a single path to post Arizona return acknowledgements and retrieving Federal acknowledgements.
- Implemented changes required for Real and Personal Property 2004 tax year billings.
- Transitioned operational control of the batch systems, data warehouse support, and all security functions from the BRITS project team to DOR staff.
- Completed two disaster recovery tests in conjunction with ADOA.

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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.*

The division consists of the following sections:

## **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).

## **Processing Services**

Processing Services is responsible for the opening, batching, processing and storage of 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 business tax. Document Control and Records Management are 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.

## **Error Resolution**

Error Resolution is responsible for batching and preparing individual income tax documents for further processing, and 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.

## **HIGHLIGHTS IN FISCAL YEAR 2005**

- During fiscal year 2005, 1,607,400 paper individual income tax documents were processed. The total number of refunds issued was 1,247,981.
- Individual income tax refund turn-around time averaged 6.7 days.
- The total number of Corporate Income Tax documents processed was 148,090.
- The total number of Transaction Privilege, Use and Severance Tax documents processed was 1,372,383.
- The Records Management unit received and created files for approximately 54,500 new license applications and completed 9,996 requests for taxpayer documents. Micrographics, completed by an outside vendor, microfilmed 13.7 individual pieces of papers that equate to the documentation that comes in with individual income and corporate income tax returns.
- 15,685 refunds were sent back out to taxpayers that had been returned to the department due to the taxpayer’s address being incorrect. This was 60% of the total returned refunds.

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# PROPERTY TAX

## **Valuation Section**

The Valuation Section consists of four units: the Centrally Valued Properties Unit, the Locally Assessed Properties Unit, the Personal Property Group and the Construction Cost Group.

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 by this unit for such properties are transmitted to the appropriate county assessors for the county tax roll.

The Locally Assessed Properties 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.

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

The Construction Cost Group 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.

## **Assessment Standards & Equalization (AS&E) Section**

The AS&E Section consists of four units: the Central Information Services (CIS) Unit, the CAMA/GIS Unit, the Manuals and Forms Group and the Equalization Review Unit.

The CIS group develops and coordinates the information processing services necessary to support property tax administration for 13 Arizona Counties. The support services provided to the client counties include management of automated systems used in the maintenance of assessment and tax rolls, the preparation of valuation abstracts, property tax notices of value and statements of taxes due. The group is also responsible for the statewide administration of the additional state aid to

education homeowner rebate program for Arizona school districts and levy limit calculations for client counties, cities/towns and community college districts.

The CAMA/GIS unit assists the county assessors with maintaining and updating a standardized cadastral mapping system (CAD). The unit prepares tax area code maps that depict boundaries of taxing jurisdictions authorized to levy property taxes. In addition, they develop sales-based models for residential properties and maintain and assist County Assessors with the Land Valuation System and the Sales Tracking System.

The Manuals and Forms group responsibilities include the annual compilation and updating of manuals and guidelines; annual review of forms prescribed for use in the administration of the property tax system; annual review of legislative enactments and changes to existing property tax statutes; and annual preparation of the "Title 42 Extract of Property Tax Statutes". This extract includes all property tax statutes and related statutes from other titles affecting the property tax system.

The Valuation Review group is responsible for annually measuring county assessors' performance for compliance with established full cash/market value standards. The group conducts sales ratio studies throughout the yearly valuation cycle to assist counties in complying with valuation standards.

## **HIGHLIGHTS IN FISCAL YEAR 2005**

- A contract was awarded to Manatron, Inc., to develop a new property valuation and taxation system for use by the department and its client Counties. The Arizona Property Assessment and Taxation System (APATS) will replace labor intensive business practices which are currently being supported manually; provide the capability to create reports based on flexible parameters selected by the user; allow users to work on more than one tax year at a time; provide the flexibility to respond to inquiries and reflect legislative changes on a timely basis, and allow more flexibility in the analysis of

assessor values for equalization purposes. The projected “go live” date is August 2006.

- The division was reorganized in order to accommodate changes in workload and responsibilities resulting from the award of the APATS contract.
- As part of the division’s equalization function, Counties with chronic uniformity problems were required to submit reappraisal plans. Reappraisal plans were filed by seven counties. Uniformity problems are difficult to resolve and will generally require a reappraisal of properties

in the area to determine why some values are high and others low. The division will monitor the counties’ progress in their plans.

- Five equalization orders were issued for vacant land parcels in Santa Cruz County. After efforts on the part of the Assessor to bring values in line, the department was able to rescind the orders. The Assessor has also submitted a reappraisal plan to address the problem with vacant land values.

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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 present workshops and seminars statewide as well as participating in trade shows. 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, associations and organizations as well as the Small Business Administration.

## **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 some new 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 telephone contact, 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 for the purpose of returning 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 2005

- The Community Outreach and Education Section (CORE) initiated Spanish language small business classes in Phoenix, Yuma, and several other cities in partnership with Small Business Development Centers.
- CORE co-sponsored Small Business Development Workshops in a joint venture with the Pinal County Small Business Development Center (SBDC), the City of Casa Grande and Pinal County. The program featured tax issues relevant to the business community.
- CORE continued to provide educational opportunities for tax professionals and small businesses with signature events, “Tax Talk” and “Employers Potpourri”. The section partnered with numerous entities to reach Arizona taxpayers statewide. Entities include the Internal Revenue Service, U.S. Department of Labor, Homeland Security, Social Security Administration, Arizona Department of Economic Security, State Compensation Fund, Arizona Small Business Association, Chicanos Por La Causa, Chambers of Commerce, Arizona Forum for Improvement of Taxation, Maricopa County, Healthcare Group of Arizona, and the cities of Avondale, Bullhead City, Buckeye, Casa Grande, Glendale, Flagstaff, Kingman, Lake Havasu, Parker, Phoenix, Peoria, Prescott, Surprise, Tucson and Yuma.
- CORE collaborated with the Coalition for Volunteer Income Tax Assistance (VITA) with the City of Phoenix, United Way in Tucson, and Internal Revenue Service in providing E-File services to taxpayers. Over 3,000 returns were completed from the VITA sites.
- CORE assisted in the promotion of the federal Earned Income Tax Credit and state credits targeting lower income taxpayers with advertising in state income tax booklets, operating VITA sites, and developing brochure material, news releases.
- E-filing of Arizona income tax returns jumped by 16%, with nearly one million returns filed electronically. In addition, more than 380,000 two dimensional (2D) barcode returns were received. Together, 59% of all income tax returns received were processed without data entry using the electronic technologies. As a result the agency saved on processing and record retention costs.
- While tax practitioners prepare the bulk of electronic returns received (approximately 75 %), this year the “home-market” preparation activity increased by 20%.
- Taxpayers’ growing acceptance of electronic services was further witnessed with the 6% increase in direct deposits and a 46% jump in direct debit. As a result DOR saved \$149,000 in postage costs by not mailing refund warrants.
- The E-File team’s advancement in providing alternatives for paper returns was marked by providing 2D barcode fill-in forms on our website. DOR staff set up the 2D barcode format for the five most commonly used income forms. This service provides an option for those who may not feel comfortable with electronic filing, but still want some of the electronic benefits, such as faster refunds. This enhancement has improved return accuracy and decreased the processing time of paper returns.
- License and Registration (L&R) processed 39,717 applications for new business licenses with an average turnaround of 3.2 days, which reflected a significant improvement over the 9.9 day turnarounds reported for last year.
- Taxpayer Information and Assistance (TIA) staff ended the fiscal year with 10% increase in agent-handled calls. The volume of calls offered increased by 8%, which resulted in the rate of abandoned calls decreasing from 37% in fiscal year 2004 to 31% and wait times declining from 6:26 minutes to 5:54 (but short of the five minute goal).
- TIA completed 19,261 written correspondence cases (inquiries answered or problems resolved), a reduction of 27% from last year while the number of e-mails handled increased by 26%. The percent of cases resolved within 30 days increased from 58% to 84%, a 26% improvement over last year.
- New properties reported to Unclaimed Property in fiscal year 2005 totaled 377,563; valued at a total of \$83 million. This is an increase of more

than 55,000 properties over the total number reported in fiscal year 2004. For the fiscal year, the staff returned over 31,878 properties valued at \$16.2 million to their rightful owners, which is 60% more than fiscal year 2004.

- Through the cooperative Compliance Examination Program, the Unclaimed Property Audit Team vastly improved compliance rates. With 274 audits completed (a 140% increase from last year), the team collected \$2.79 million compared to just \$900,000 last fiscal year.

# 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 2005**

- As reported last year, the division has begun to work with industry representatives to develop guidelines applicable to particular industries to try to avoid future disagreement and litigation. The meetings with hotel/motel industry representatives resulted in legislation to cure some problem areas. A tax ruling outlining typical transactions and tax consequences is anticipated as an additional result of this collaboration.

- This past year the division promulgated rules in a number of areas to give further guidance to taxpayers, including the taxation of rental of tangible personal property, the taxability of the sale of fuel, the income tax credit for taxes paid to other states and countries and use taxation. In addition, the division drafted and proposed rules relating to job printing, taxation of computer hardware and software, the transaction privilege tax exemptions for prescription drugs and prosthetic devices, and proper luxury tax stamping of cigarettes.
- The Tax Research & Analysis Section also provides the Arizona representative to the Streamlined Sales Tax Project, a nationwide effort to simplify the sales and use tax reporting amongst the states. While Arizona has not become a member of the Project, this representative monitors the progress of the effort and also acts as a resource for the department and others on the subject.

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**TABLE 1  
REVENUE SUMMARY  
GROSS REVENUE COLLECTED  
FISCAL YEAR 2000-01 THOUGH FISCAL YEAR 2004-05**

| <b>SOURCE</b>                                          | <b>FY2000-01</b>       | <b>FY2001-02</b>       | <b>FY2002-03</b>       | <b>FY2003-04</b>       | <b>FY2004-05</b>        |
|--------------------------------------------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|
| <b>TRANSACTION PRIVILEGE<br/>USE AND SEVERANCE TAX</b> |                        |                        |                        |                        |                         |
| Distribution Base                                      | \$1,248,485,639        | \$1,246,773,262        | \$1,265,625,175        | \$1,362,143,376        | \$1,504,851,881         |
| Nonshared Portion                                      | 2,356,788,664          | 2,379,509,616          | 2,400,432,714          | 2,588,439,418          | 2,871,370,865           |
| Use Tax                                                | 196,887,927            | 162,751,987            | 190,186,057            | 232,215,946            | 259,687,993             |
| Education Tax (1)                                      | 100,682                | 439,004,543            | 447,841,034            | 487,214,807            | 538,346,435             |
| Undistributed Estimated                                |                        |                        |                        |                        |                         |
| Transaction Privilege Tax                              | 1,894,841              | 28,766,081             | 9,156,917              | 14,056,241             | 24,907,681              |
| Other State Revenue                                    | 21,123,487             | 32,971,582             | 34,401,816             | 35,802,096             | 35,242,534              |
| County and City Collections                            | 721,459,433            | 766,018,836            | 797,522,090            | 889,627,518            | 1,021,007,631           |
| Amnesty                                                | ----                   | ----                   | ----                   | 15,315,231             | ----                    |
| <b>Subtotal</b>                                        | <b>\$4,546,740,674</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>INCOME TAX</b>                                      |                        |                        |                        |                        |                         |
| Withholding                                            | 2,363,693,852          | 2,309,340,885          | 2,310,302,093          | 2,336,442,815          | 2,626,264,231           |
| Individual                                             | 858,775,963            | 705,843,394            | 656,586,317            | 776,183,707            | 1,122,894,580           |
| Corporate                                              | 678,002,658            | 512,257,476            | 518,246,330            | 596,582,273            | 789,739,978             |
| Amnesty                                                | ----                   | ----                   | ----                   | 56,757,741             | ----                    |
| <b>Subtotal</b>                                        | <b>\$3,900,472,473</b> | <b>\$3,527,441,755</b> | <b>\$3,485,134,740</b> | <b>\$3,765,966,537</b> | <b>\$4,538,898,790</b>  |
| <b>LUXURY TAX</b>                                      |                        |                        |                        |                        |                         |
| Spirituos Liquor                                       | 21,327,540             | 21,574,744             | 22,004,331             | 23,438,818             | 25,085,444              |
| Vinous Liquor                                          | 8,477,493              | 9,035,156              | 9,924,749              | 10,404,546             | 11,473,203              |
| Malt Liquor                                            | 21,602,321             | 22,031,467             | 22,137,764             | 22,110,426             | 22,664,420              |
| Tobacco - All Types (2)                                | 160,694,260            | 161,754,302            | 217,955,008 (5)        | 281,795,514            | 290,503,381             |
| Licensing                                              | 8,600                  | 5,250                  | 5,950                  | 6,400                  | 5,325                   |
| Amnesty                                                | ----                   | ----                   | ----                   | 187,315                | ----                    |
| <b>Subtotal</b>                                        | <b>\$212,110,214</b>   | <b>\$214,400,920</b>   | <b>\$272,027,802</b>   | <b>\$337,943,019</b>   | <b>\$349,731,773</b>    |
| <b>ESTATE TAX</b>                                      |                        |                        |                        |                        |                         |
| Estate                                                 | 76,921,666             | 81,892,657             | 96,859,390             | 42,292,396             | 32,811,705              |
| Unclaimed Property                                     | 38,027,873             | 48,687,357             | 46,219,555             | 49,653,262             | 83,063,365              |
| Escheated Estates                                      | 647,074                | 252,786                | 269,557                | 568,385                | 731,836                 |
| <b>Subtotal</b>                                        | <b>\$115,596,613</b>   | <b>\$130,832,800</b>   | <b>\$143,348,502</b>   | <b>\$92,514,043</b>    | <b>\$116,606,906</b>    |
| <b>OTHER REVENUES</b>                                  |                        |                        |                        |                        |                         |
| Bingo                                                  | 634,384                | 629,680                | 626,770                | 624,501                | 610,055                 |
| Flight Property Tax                                    | 13,387,179             | 13,056,694             | 12,741,749             | 12,641,445             | 0 (6)                   |
| Private Car Tax                                        | 1,349,685              | 1,509,625              | 1,485,996              | 1,335,056              | 1,312,163               |
| Nuclear Plan Assessment                                | 924,778                | 940,611                | 1,012,992              | 1,036,085              | 1,168,550               |
| Waste Tire                                             | 6,346,629              | 6,392,637              | 7,007,444              | 7,785,148              | 8,164,120               |
| <b>Subtotal</b>                                        | <b>\$22,642,655</b>    | <b>\$22,529,247</b>    | <b>\$22,874,950</b>    | <b>\$23,422,235</b>    | <b>\$11,254,888</b>     |
| <b>DEPARTMENT TOTAL</b>                                | <b>\$8,797,562,629</b> | <b>\$8,951,000,629</b> | <b>\$9,068,551,797</b> | <b>\$9,844,660,466</b> | <b>\$11,271,907,375</b> |
| State Property Tax (3)                                 | 22,552,932             | 18,454,625             | 9,493,897              | 20,188,811             | 31,300,125              |
| <b>TOTAL (4)</b>                                       | <b>\$8,820,115,561</b> | <b>\$8,969,455,254</b> | <b>\$9,078,045,694</b> | <b>\$9,864,849,278</b> | <b>\$11,303,207,500</b> |

(1) Education tax became effective on June 1, 2001.

(2) Figures represent gross tobacco revenue less administrative expenses

(3) 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

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

(5) Growth due to increases in tobacco tax rates effective November 2002

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

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 2000-01 THROUGH FISCAL YEAR 2004-05**

| <i>SOURCE</i>                                            | <b>FY2000-01</b>       | <b>FY2001-02</b>       | <b>FY2002-03</b>       | <b>FY2003-04</b>       | <b>FY2004-05</b>       |
|----------------------------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Transaction Privilege,<br>Use, and Severance Tax         | \$2,982,824,755        | \$2,972,274,262        | \$3,027,135,359        | \$3,290,458,614        | \$3,650,082,271        |
| Transaction Privilege,<br>Use, and Severance Tax-Amnesty | -----                  | -----                  | -----                  | 12,308,108             | -----                  |
| Undistributed Estimated<br>Transaction Privilege Tax     | 1,894,841              | 28,766,081             | 9,156,917              | 14,056,241             | 24,907,681             |
| Income Tax                                               | 2,445,472,944          | 2,011,052,550          | 2,056,591,466          | 2,413,036,616          | 3,165,427,793          |
| Income Tax-Amnesty                                       | -----                  | -----                  | -----                  | 56,757,741             | -----                  |
| Luxury Tax                                               | 65,568,793             | 66,069,587             | 64,586,950             | 61,245,119             | 64,446,627             |
| Luxury Tax-Amnesty                                       | -----                  | -----                  | -----                  | 55,899                 | -----                  |
| Estate Tax/<br>Unclaimed Property                        | 78,961,539             | 88,298,138             | 100,963,571            | 46,862,393             | 40,659,207             |
| Bingo                                                    | 634,384                | 629,680                | 626,770                | 624,501                | 610,055                |
| Private Car Tax                                          | 1,349,685              | 1,509,625              | 1,485,996              | 1,335,056              | 1,312,163              |
| Nuclear Plan<br>Assessment                               | 924,778                | 940,611                | 1,012,992              | 1,036,085              | 1,168,550              |
| Flight Property Tax                                      | 6,693,590              | 6,528,347              | 6,255,987 (2)          | 6,320,722              | 0 (3)                  |
| <b><i>Department Total</i></b>                           | <b>\$5,584,325,308</b> | <b>\$5,176,068,883</b> | <b>\$5,267,816,008</b> | <b>\$5,904,097,095</b> | <b>\$6,948,614,347</b> |
| State Property Tax (1)                                   | 22,552,932             | 18,454,625             | 9,493,897              | 20,188,811             | 31,300,125             |
| <b><i>TOTAL</i></b>                                      | <b>\$5,606,878,240</b> | <b>\$5,194,523,508</b> | <b>\$5,277,309,905</b> | <b>\$5,924,285,907</b> | <b>\$6,979,914,472</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.

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**TABLE 3**  
**GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX**  
**FISCAL YEAR 2003-04 AND FISCAL YEAR 2004-05**

| AUDIT COLLECTIONS                                            | FY2003-04            | FY2004-05            | %<br>CHANGE   |
|--------------------------------------------------------------|----------------------|----------------------|---------------|
| Assessment Collections (Gross)                               | \$93,679,314         | \$78,123,161         | -16.6%        |
| Miscellaneous Taxes (Net of Credit)                          | \$5,552,814          | \$6,052,339          | 9.0%          |
| <b>TOTAL AUDIT UNIT COLLECTIONS</b>                          | <b>\$99,232,128</b>  | <b>\$84,175,500</b>  | <b>-15.2%</b> |
| <b>TOTAL BILLINGS</b>                                        | <b>\$215,610,954</b> | <b>\$179,115,169</b> | <b>-16.9%</b> |
| <b>TOTAL DELINQUENT TAX COLLECTIONS</b>                      | <b>\$276,059,598</b> | <b>\$284,542,214</b> | <b>3.1%</b>   |
| <b>TOTAL UNADJUSTED ENFORCEMENT COLLECTIONS</b>              | <b>\$590,902,680</b> | <b>\$547,832,883</b> | <b>-7.3%</b>  |
| <b>ADJUSTMENTS (1)</b>                                       |                      |                      |               |
| Duplication, Credit Audits and Other Adjustments As Reported | (\$96,405,082)       | (\$87,863,654)       | -8.9%         |
| <b>TOTAL ADJUSTED ENFORCEMENT COLLECTIONS (2)</b>            | <b>\$494,497,598</b> | <b>\$459,969,229</b> | <b>-7.0%</b>  |
| <b>REFUND DENIALS</b>                                        | <b>\$32,290,597</b>  | <b>\$17,956,903</b>  | <b>-44.4%</b> |

(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's exceeding \$5.2 billion was remitted by Transaction Privilege, Severance and Use Tax license holders during fiscal year 2005 (*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 2000-01 THROUGH FISCAL YEAR 2004-05**

| SOURCE                                      | FY2000-01              | FY2001-02              | FY2002-03              | FY2003-04              | FY2004-05            |
|---------------------------------------------|------------------------|------------------------|------------------------|------------------------|----------------------|
| Distribution Base                           | \$1,248,485,639        | \$1,246,773,262        | \$1,265,625,175        | \$1,362,143,376        | 1,504,851,881        |
| Nonshared                                   | 2,356,788,664          | 2,379,509,616          | 2,400,432,714          | 2,588,439,418          | 2,871,370,865        |
| Use Tax                                     | 196,887,927            | 162,751,987            | 190,186,057            | 232,215,946            | 259,687,993          |
| Amnesty                                     | -----                  | -----                  | -----                  | 13,553,444             | -----                |
| <b>SUBTOTAL</b>                             | <b>\$3,802,162,230</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> |
| Education Tax (8)                           | 100,682                | 439,004,543            | 447,841,034            | 487,214,807            | 538,346,435          |
| Undistributed Estimated                     | 1,894,841              | 28,766,081             | 9,156,917              | 14,056,241             | 24,907,681           |
| 911 Wireline/Excise Tax                     | 9,201,049              | 14,998,348             | 13,914,520             | 13,718,911             | 14,345,470           |
| Telecommunications Devices                  | 5,514,542              | 6,395,057              | 6,328,095              | 5,091,661              | 4,035,765            |
| Poison Control Fund                         | 2,039,625              | 2,365,295              | 2,340,528              | 1,437,566              | 1,066,833            |
| School for the Deaf (11)                    | -----                  | -----                  | -----                  | 1,362,312 (1)          | 1,363,179            |
| Teratogen Information Program (12)          | -----                  | -----                  | -----                  | -----                  | 53,771 (1)           |
| 911 Wireless Service                        | 2,136,015              | 6,928,990              | 9,596,186              | 11,972,954             | 12,197,815           |
| Municipal Water                             | 2,120,483              | 2,213,435              | 2,150,995              | 2,195,590              | 2,156,683            |
| Environmentally Hazardous Products (2)      | 5,909                  | 14                     | 42                     | 44                     | 0                    |
| Waste Tire Accounts                         |                        |                        |                        |                        |                      |
| Receivable Collections                      | 109,948                | 71,330                 | 72,824                 | 23,068                 | 23,018               |
| Less Collection Fees                        | (4,084)                | (888)                  | (1,375)                | (11)                   | 0                    |
| Amnesty-Other                               | -----                  | -----                  | -----                  | 765,008                | -----                |
| <b>GROSS STATE COLLECTIONS</b>              | <b>\$3,825,281,241</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> |
| Municipal Privilege Tax                     | 257,706,985            | 280,950,442            | 302,626,095            | 352,320,229            | 428,527,285          |
| Pima County Hotel Tax                       | 2,823,410              | 2,495,830              | 2,556,951              | 2,716,687              | 2,885,159            |
| Maricopa County Rental Car Surcharge        | 5,636,907              | 5,396,445              | 5,267,273              | 5,556,717              | 6,024,355            |
| Pima County Rental Car Surcharge            | 1,557,354              | 1,377,083              | 1,435,901              | 1,485,916              | 1,594,810            |
| Pima County R.V. Surcharge                  | 197,598                | 189,838                | 194,949                | 201,697                | 197,740              |
| Apache County Excise Tax                    | 1,130,977              | 903,381                | 960,194                | 959,948                | 1,015,316            |
| Cochise County Excise Tax                   | 5,123,754              | 5,698,660              | 5,673,861              | 6,181,770              | 6,363,569            |
| Coconino County Excise Tax                  | 9,054,404              | 8,793,909              | 9,467,920              | 10,079,519             | 10,213,403           |
| Coconino County Jail Tax                    | 5,358,317              | 5,486,442              | 5,692,968              | 6,043,452              | 6,128,614            |
| Coconino County Capitol Projects (9)        | -----                  | -----                  | 864,263 (1)            | 2,454,757              | 2,550,207            |
| Gila County Excise Tax                      | 2,596,028              | 2,617,971              | 2,519,790              | 2,626,335              | 2,608,771            |
| Gila County Hospital Tax (3)                | 38,499                 | 509                    | 2                      | 0                      | 0                    |
| Gila County Transportation                  | 2,612,288              | 2,718,050              | 2,606,712              | 2,709,463              | 2,698,164            |
| Graham County Excise Tax                    | 1,206,320              | 1,192,075              | 1,174,735              | 1,157,663              | 1,229,557            |
| Greenlee County Excise Tax                  | 645,168                | 562,389                | 700,206                | 713,868                | 803,692              |
| La Paz County Excise Tax                    | 820,780                | 885,465                | 862,595                | 972,286                | 1,011,440            |
| La Paz County Jail Tax                      | 821,969                | 885,694                | 862,282                | 972,523                | 1,011,321            |
| La Paz County Health Services District (10) | -----                  | -----                  | 143,928 (1)            | 215,928                | 1,418 (1)            |
| Maricopa County Road Tax                    | 264,722,440            | 267,563,343            | 268,720,901            | 288,009,151            | 316,805,562          |
| Maricopa County Stadium Tax (4)             | 280,370                | 145,148                | 98,185                 | 82,139                 | 416                  |
| Maricopa County Jail Tax                    | 97,603,200             | 98,372,053             | 98,462,479             | 106,323,691            | 117,322,803          |
| Mohave County Excise Tax                    | 4,114,594              | 4,446,472              | 4,874,083              | 5,599,830              | 6,638,796            |
| Navajo County Excise Tax                    | 4,831,327              | 4,993,912              | 5,295,310              | 5,322,106              | 5,777,336            |
| Pinal County Excise Tax                     | 6,492,013              | 6,763,454              | 8,062,544              | 9,550,194              | 11,921,052           |
| Pinal County Road Tax                       | 6,750,294              | 6,965,671              | 8,280,451              | 9,757,830              | 12,173,030           |
| Santa Cruz County Excise Tax                | 2,092,940              | 2,114,505              | 2,186,284              | 2,456,163              | 2,583,595            |
| Yavapai County Excise Tax                   | 10,054,989             | 10,799,358             | 11,279,837             | 12,564,395             | 14,102,433           |
| Yavapai County Jail Tax (5)                 | 3,627,698              | 4,294,368              | 4,489,617              | 6,190,924              | 7,045,465            |
| Yuma County Excise Tax                      | 7,417,302              | 7,665,873              | 8,084,880              | 9,103,289              | 10,602,218           |
| Yuma County Jail Tax                        | 7,412,145              | 7,653,390              | 8,113,092              | 9,100,795              | 10,601,525           |
| Yuma County Capitol Projects Tax (6)        | 3,150,273 (1)          | 7,582,374              | 8,041,984              | 9,072,298              | 10,580,860           |
| Tourism/Sports Authority (7)                | 5,579,087 (1)          | 16,504,732             | 17,921,823             | 19,125,954             | 19,987,721           |
| Amnesty-County Taxes                        | -----                  | -----                  | -----                  | 996,779                | -----                |
| <b>COUNTY AND CITY COLLECTIONS</b>          | <b>721,459,433</b>     | <b>766,018,836</b>     | <b>797,522,090</b>     | <b>890,624,297</b>     | <b>1,021,007,631</b> |
| <b>TOTAL DEPARTMENT OF REVENUE RECEIPTS</b> | <b>\$4,546,740,674</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> |

- (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 2004-05**

| TAXABLE ACTIVITIES                                               | DISTRIBUTION<br>BASE | NONSHARED | EDUCATION | TOTAL<br>TAX |
|------------------------------------------------------------------|----------------------|-----------|-----------|--------------|
| 1. Transporting and Towing                                       | 1.0%                 | 4.0%      | 0.6%      | 5.6%         |
| 2. Nonmetalliferous Mining,<br>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<br>(per thousand board feet) | \$1.704              | \$0.426   | \$0       | \$2.13       |
| 22. Timbering Severance - Other<br>(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 2000-01 THROUGH FISCAL YEAR 2004-05**

| CLASSIFICATION               | FY2000-01               | % OF<br>TOTAL | FY2001-02               | % OF<br>TOTAL | FY2002-03               | % OF<br>TOTAL | FY2003-04               | % OF<br>TOTAL | FY2004-05               | % OF<br>TOTAL |
|------------------------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| Transporting (7)             | \$138,655,762           | 0.18          | \$96,356,085            | 0.13          | \$26,106,195            | 0.03          | \$67,486,501            | 0.08          | \$53,371,189            | 0.06          |
| Mining, Oil & Gas            | 224,834,096             | 0.30          | 208,310,010             | 0.28          | 268,072,442             | 0.35          | 287,786,559             | 0.34          | 317,201,953             | 0.34          |
| Mining Severance             | 168,695,209             | 0.22          | (4,263,622)             | (0.01)        | 45,049,321              | 0.06          | 261,623,478             | 0.31          | 656,631,022             | 0.71          |
| Timber Severance (4)         | 0                       | 0.00          | 766,360                 | 0.00 (2)      | 0                       | 0.00          | 0                       | 0.00          | 0                       | 0.00          |
| Utilities                    | 5,814,282,521           | 7.65          | 5,919,273,137           | 7.83          | 5,940,826,217           | 7.72          | 6,430,306,112           | 7.69          | 6,828,178,785           | 7.34          |
| Communications               | 2,870,088,870           | 3.78          | 2,945,681,407           | 3.90          | 2,869,499,256           | 3.73          | 2,809,508,501           | 3.36          | 2,934,857,677           | 3.15          |
| Private Car and<br>Pipelines | 15,485,669              | 0.02          | 7,134,188               | 0.01          | 12,492,721              | 0.02          | 15,919,891              | 0.02          | 14,832,331              | 0.02          |
| Publishing                   | 124,462,488             | 0.16          | 82,843,214              | 0.11          | 133,229,181             | 0.17          | 128,910,761             | 0.15          | 134,924,680             | 0.14          |
| Job Printing                 | 402,933,841             | 0.53          | 351,141,961             | 0.46          | 427,730,090             | 0.56          | 348,923,705             | 0.42          | 367,010,013             | 0.39          |
| Restaurants and Bars         | 6,300,820,165           | 8.29          | 6,428,712,331           | 8.51          | 6,655,027,562           | 8.65          | 7,202,034,300           | 8.62          | 7,939,964,059           | 8.53          |
| Amusements                   | 760,837,607             | 1.00          | 743,800,365             | 0.98          | 782,669,793             | 1.02          | 813,488,687             | 0.97          | 872,520,031             | 0.94          |
| Commercial Lease (5)         | 182,691,438             | 0.24          | 36,912,605              | 0.05          | (7,578,796)             | (0.01)        | (6,517,860)             | (0.01)        | 918,894                 | 0.00 (2)      |
| Personal Property<br>Rentals | 3,658,549,237           | 4.81          | 3,607,518,815           | 4.77          | 3,319,777,937           | 4.31          | 3,174,944,574           | 3.80          | 3,242,363,333           | 3.48          |
| Contracting                  | 11,250,537,683          | 14.80         | 11,820,596,498          | 15.64         | 11,563,726,354          | 15.03         | 13,156,489,701          | 15.74         | 16,044,846,683          | 17.24         |
| Feed Wholesale (3)           | (41,648)                | (0.00) (2)    | (1,806,235)             | (0.00) (2)    | (67,256)                | (0.00) (2)    | (8,021)                 | (0.00)        | 0                       | 0.00          |
| Retail                       | 38,282,337,115          | 50.37         | 38,432,859,974          | 50.85         | 39,408,769,331          | 51.22         | 42,409,054,932          | 50.74         | 46,378,344,449          | 49.83         |
| Hotel/Motel                  | 1,871,008,576           | 2.46          | 1,659,760,985           | 2.20          | 1,698,499,187           | 2.21          | 1,831,153,519           | 2.19          | 2,063,973,281           | 2.22          |
| Rental Occupancy Tax         | 4,896,781               | 0.01          | 5,967,630               | 0.01          | 1,427,458               | 0.00 (2)      | 4,201,555               | 0.01          | 2,413,680               | 0.00 (2)      |
| Use Tax                      | 3,922,952,933           | 5.16          | 3,240,459,960           | 4.29          | 3,793,690,395           | 4.93          | 4,644,318,922           | 5.56          | 5,218,535,456           | 5.61          |
| Membership Camping           | 2,420,361               | 0.00 (2)      | 2,741,146               | 0.00 (2)      | 2,406,275               | 0.00 (2)      | 2,998,348               | 0.00 (2)      | 2,896,795               | 0.00          |
| Agriculture Equipment (6)    | 1,212,738               | 0.00 (2)      | 2,106,425               | 0.00 (2)      | 0                       | 0.00          | 0                       | 0.00          | 0                       | 0.00          |
| Other                        | -----                   | -----         | -----                   | -----         | -----                   | -----         | 119,004                 | 0.00 (2)      | 0                       | 0.00          |
| <b>TOTAL</b>                 | <b>\$75,997,661,442</b> | <b>100.00</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> |

(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 2004-05**

| CLASSIFICATION                        | DISTRIBUTION<br>BASE   | NONSHARED              | TOTAL<br>COLLECTIONS   |
|---------------------------------------|------------------------|------------------------|------------------------|
| Transporting (1)                      | \$532,326              | \$2,129,303            | \$2,661,629            |
| Nonmetal Mining, Oil and Gas          | 3,167,535              | 6,731,011              | 9,898,546              |
| Mining Severance                      | 13,119,268             | 3,279,817              | 16,399,086             |
| Timbering Severance                   | 24                     | 6                      | 29                     |
| Timbering Severance - Ponderosa       | 30,541                 | 7,635                  | 38,176                 |
| Timbering Severance - Other           | 1,949                  | 487                    | 2,437                  |
| Utilities                             | 68,183,601             | 272,734,405            | 340,918,006            |
| Communications                        | 29,304,641             | 117,218,564            | 146,523,206            |
| Private Car and Pipelines             | 148,175                | 592,701                | 740,876                |
| Publishing                            | 1,347,053              | 5,388,212              | 6,735,265              |
| Printing                              | 3,664,659              | 14,658,634             | 18,323,293             |
| Restaurants and Bars                  | 158,571,888            | 237,857,832            | 396,429,720            |
| Amusements                            | 17,424,687             | 26,137,031             | 43,561,719             |
| Commercial Lease (2)                  | 16,535                 | 14,662                 | 31,198                 |
| Rentals of Personal Property          | 64,743,966             | 97,116,793             | 161,860,759            |
| Contracting                           | 159,375,847            | 637,839,511            | 797,215,358            |
| Retail                                | 926,346,797            | 1,388,682,170          | 2,315,028,967          |
| Hotel/Motel                           | 56,685,924             | 56,686,339             | 113,372,263            |
| Rental Occupancy Tax                  | 48,427                 | 23,852                 | 72,279                 |
| Use Tax Utilities                     | 2,343                  | 9,374                  | 11,717                 |
| Use Tax                               |                        | 259,615,656            | 259,615,656            |
| License Fees                          | 0                      | 377,176                | 377,176                |
| Membership Camping                    | 57,819                 | 86,729                 | 144,548                |
| Jet Fuel Tax                          | 2,136,210              | 3,204,316              | 5,340,526              |
| Jet Fuel Use Tax                      | 0                      | 890,252                | 890,252                |
| Non Sufficient Funds                  | 0                      | 9,730                  | 9,730                  |
| Telecommunications Service Assistance | (58,335)               | (233,340)              | (291,675)              |
| <b>TOTAL</b>                          | <b>\$1,504,851,881</b> | <b>\$3,131,058,859</b> | <b>\$4,635,910,739</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 2004-05**

|                                                                                                                                                                                                              |                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Net Regular to State General Fund                                                                                                                                                                            | \$3,650,082,271        |
| Net Estimated Payments to General Fund                                                                                                                                                                       | 24,907,681             |
| Net to Cities                                                                                                                                                                                                | 376,212,970            |
| Net to Counties                                                                                                                                                                                              | 609,615,497            |
| Net to Education Fund                                                                                                                                                                                        | 538,346,435            |
| 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 | 35,242,534             |
| <b>TOTAL GROSS COLLECTIONS</b>                                                                                                                                                                               | <b>\$5,234,407,387</b> |

**ADDITIONAL DISTRIBUTION FROM  
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS  
FISCAL YEAR 2004-05**

|                               |             |
|-------------------------------|-------------|
| Phoenix International Raceway | \$416,667   |
| Rio Nuevo                     | \$7,469,632 |
| Tourism and Sports Authority  | \$4,601,697 |
| 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, 2004 AND ENDING JUNE 30, 2005**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | CALCULATED NET<br>TAXABLE INCOME | % CHANGE<br>FROM FY 2003-04 | COLLECTIONS         |
|----------------------------------------------------|----------------------------------|-----------------------------|---------------------|
| Utilities                                          | \$11,856,502                     | 3.4%                        | \$592,825           |
| Communications                                     | 16,504,990                       | 28.0%                       | 825,250             |
| Publishing                                         | 515,496                          | -2.7%                       | 25,775              |
| Restaurants and Bars                               | 10,432,463                       | 7.3%                        | 521,623             |
| Amusements                                         | 318,644                          | 65.4%                       | 15,932              |
| Rentals of Personal                                |                                  |                             |                     |
| Property                                           | 6,202,533                        | 78.1%                       | 310,127             |
| Contracting (All)                                  | 78,678,659                       | 4.0%                        | 3,933,933           |
| Retail                                             | 62,262,116                       | 3.6%                        | 3,113,106           |
| Hotel/Motel                                        | 11,749,911                       | 15.0%                       | 646,245             |
| Other Taxable Activities                           | 49,518,332                       | 40.3%                       | 2,385,887           |
| <b>TOTAL</b>                                       | <b>\$248,039,647</b>             | <b>13.0%</b>                | <b>\$12,370,703</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | FY2002-03    | FY2003-04 (2) | FY2004-05    |
|----------------------------------------------------|--------------|---------------|--------------|
| Utilities                                          | 19           | 20            | 21           |
| Communications                                     | 107          | 107           | 123          |
| Publishing                                         | 13           | 11            | 9            |
| Restaurants and Bars                               | 58           | 58            | 66           |
| Amusements                                         | 13           | 9             | 9            |
| Rentals of Personal                                |              |               |              |
| Property                                           | 178          | 143           | 160          |
| Contracting (All)                                  | 263          | 289           | 382          |
| Retail                                             | 988          | 847           | 1,103        |
| Hotel/Motel                                        | 61           | 54            | 56           |
| Other Taxable Activities                           | 539          | 483           | 706          |
| <b>TOTAL</b>                                       | <b>2,239</b> | <b>2,021</b>  | <b>2,635</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.

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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET TAXABLE INCOME</b> | <b>% CHANGE FROM FY 2003-04</b> | <b>COLLECTIONS</b>  |
|--------------------------------------------------------|--------------------------------------|---------------------------------|---------------------|
| Utilities                                              | \$137,894,128                        | 12.9%                           | \$6,894,706         |
| Communications                                         | 56,642,423                           | 1.8%                            | 2,832,121           |
| Publishing                                             | 1,396,129                            | -1.8%                           | 69,806              |
| Restaurants and Bars                                   | 106,376,359                          | 4.4%                            | 5,318,818           |
| Amusements                                             | 7,265,798                            | -2.7%                           | 363,290             |
| Rentals of Personal                                    |                                      |                                 |                     |
| Property                                               | 19,570,176                           | -30.4%                          | 978,509             |
| Contracting (All)                                      | 213,892,108                          | 5.8%                            | 10,694,605          |
| Retail                                                 | 688,631,417                          | 2.0%                            | 34,431,571          |
| Hotel/Motel                                            | 30,784,828                           | 8.3%                            | 1,693,166           |
| Other Taxable Activities                               | 75,939,612                           | 31.1%                           | 3,768,819           |
| <b>TOTAL</b>                                           | <b>\$1,338,392,978</b>               | <b>4.6%</b>                     | <b>\$67,045,411</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|--------------------------------------------------------|------------------|----------------------|------------------|
| Utilities                                              | 47               | 43                   | 45               |
| Communications                                         | 181              | 175                  | 195              |
| Publishing                                             | 24               | 16                   | 17               |
| Restaurants and Bars                                   | 339              | 300                  | 339              |
| Amusements                                             | 64               | 55                   | 62               |
| Rentals of Personal                                    |                  |                      |                  |
| Property                                               | 446              | 355                  | 374              |
| Contracting (All)                                      | 838              | 755                  | 962              |
| Retail                                                 | 3,158            | 2,797                | 3,222            |
| Hotel/Motel                                            | 136              | 119                  | 126              |
| Other Taxable Activities                               | 1,041            | 974                  | 1,269            |
| <b>TOTAL</b>                                           | <b>6,274</b>     | <b>5,589</b>         | <b>6,611</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.

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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET<br/>TAXABLE INCOME</b> | <b>% CHANGE<br/>FROM FY 2003-04</b> | <b>COLLECTIONS</b>   |
|------------------------------------------------------------|------------------------------------------|-------------------------------------|----------------------|
| Utilities                                                  | \$134,985,169                            | 9.4%                                | \$6,749,258          |
| Communications                                             | 84,266,608                               | 4.8%                                | 4,213,330            |
| Restaurants and Bars                                       | 278,716,260                              | 7.5%                                | 13,935,813           |
| Amusements                                                 | 40,058,745                               | 18.3%                               | 2,002,937            |
| Rentals of Personal                                        |                                          |                                     |                      |
| Property                                                   | 50,376,731                               | -2.6%                               | 2,518,837            |
| Contracting (All)                                          | 274,066,452                              | -9.2%                               | 13,703,323           |
| Retail                                                     | 941,269,703                              | 3.9%                                | 47,063,485           |
| Hotel/Motel                                                | 185,857,910                              | 4.7%                                | 10,222,185           |
| Other Taxable Activities                                   | 111,206,011                              | 89.0%                               | 5,347,907            |
| <b>TOTAL</b>                                               | <b>\$2,100,803,588</b>                   | <b>9.3%</b>                         | <b>\$105,757,075</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|------------------------------------------------------------|------------------|----------------------|------------------|
| Utilities                                                  | 38               | 34                   | 38               |
| Communications                                             | 207              | 209                  | 226              |
| Restaurants and Bars                                       | 435              | 395                  | 446              |
| Amusements                                                 | 87               | 76                   | 88               |
| Rentals of Personal                                        |                  |                      |                  |
| Property                                                   | 539              | 462                  | 511              |
| Contracting (All)                                          | 1,531            | 1,249                | 1,640            |
| Retail                                                     | 3,921            | 3,349                | 3,989            |
| Hotel/Motel                                                | 254              | 231                  | 256              |
| Other Taxable Activities                                   | 1,392            | 1,329                | 1,658            |
| <b>TOTAL</b>                                               | <b>8,404</b>     | <b>7,334</b>         | <b>8,852</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.

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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET TAXABLE INCOME</b> | <b>% CHANGE FROM FY 2003-04</b> | <b>COLLECTIONS</b>  |
|--------------------------------------------------------|--------------------------------------|---------------------------------|---------------------|
| Utilities                                              | \$79,781,748                         | -6.7%                           | \$3,989,087         |
| Communications                                         | 26,579,953                           | -0.3%                           | 1,328,998           |
| Publishing                                             | 1,103,781                            | 11.4%                           | 55,189              |
| Restaurants and Bars                                   | 50,266,529                           | 3.7%                            | 2,513,326           |
| Amusements                                             | 1,411,807                            | -10.2%                          | 70,590              |
| Rentals of Personal Property                           | 13,034,488                           | -3.7%                           | 651,724             |
| Contracting (All)                                      | 87,203,621                           | -8.6%                           | 4,360,181           |
| Retail                                                 | 246,150,590                          | 4.1%                            | 12,307,529          |
| Hotel/Motel                                            | 10,962,727                           | 4.9%                            | 602,950             |
| Other Taxable Activities                               | 40,481,453                           | 15.5%                           | 1,786,877           |
| <b>TOTAL</b>                                           | <b>\$556,976,697</b>                 | <b>0.5%</b>                     | <b>\$27,666,453</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|--------------------------------------------------------|------------------|----------------------|------------------|
| Utilities                                              | 32               | 26                   | 28               |
| Communications                                         | 151              | 150                  | 161              |
| Publishing                                             | 15               | 11                   | 12               |
| Restaurants and Bars                                   | 178              | 161                  | 179              |
| Amusements                                             | 33               | 30                   | 30               |
| Rentals of Personal Property                           | 259              | 244                  | 263              |
| Contracting (All)                                      | 738              | 598                  | 746              |
| Retail                                                 | 1,864            | 1,582                | 1,830            |
| Hotel/Motel                                            | 69               | 56                   | 61               |
| Other Taxable Activities                               | 641              | 626                  | 838              |
| <b>TOTAL</b>                                           | <b>3,980</b>     | <b>3,484</b>         | <b>4,148</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.

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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET<br/>TAXABLE INCOME</b> | <b>% CHANGE<br/>FROM FY 2003-04</b> | <b>COLLECTIONS</b>  |
|------------------------------------------------------------|------------------------------------------|-------------------------------------|---------------------|
| Communications                                             | \$7,263,077                              | -9.5%                               | \$363,154           |
| Restaurants and Bars                                       | 17,739,278                               | 12.2%                               | 886,964             |
| Rentals of Personal<br>Property                            | 4,931,654                                | 12.8%                               | 246,583             |
| Contracting (All)                                          | 28,496,853                               | -4.4%                               | 1,424,843           |
| Retail                                                     | 154,375,048                              | 9.8%                                | 7,718,752           |
| Other Taxable Activities                                   | 59,309,945                               | 34.1%                               | 2,980,450           |
| <b>TOTAL</b>                                               | <b>\$272,115,856</b>                     | <b>12.0%</b>                        | <b>\$13,620,746</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|------------------------------------------------------------|------------------|----------------------|------------------|
| Communications                                             | 104              | 116                  | 127              |
| Restaurants and Bars                                       | 64               | 53                   | 67               |
| Rentals of Personal<br>Property                            | 164              | 139                  | 149              |
| Contracting (All)                                          | 251              | 201                  | 253              |
| Retail                                                     | 953              | 838                  | 985              |
| Other Taxable Activities                                   | 521              | 501                  | 631              |
| <b>TOTAL</b>                                               | <b>2,057</b>     | <b>1,848</b>         | <b>2,212</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.
- (2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
- 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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET<br/>TAXABLE INCOME</b> | <b>% CHANGE<br/>FROM FY 2003-04</b> | <b>COLLECTIONS</b>  |
|------------------------------------------------------------|------------------------------------------|-------------------------------------|---------------------|
| Communications                                             | \$2,638,085                              | -7.4%                               | \$131,904           |
| Restaurants and Bars                                       | 2,596,048                                | 1.0%                                | 129,802             |
| Rentals of Personal<br>Property                            | 572,597                                  | -38.8%                              | 28,630              |
| Contracting (All)                                          | 6,100,943                                | -39.5%                              | 305,047             |
| Retail                                                     | 90,310,622                               | 28.6%                               | 4,515,531           |
| Other Taxable Activities                                   | 317,913,682                              | 58.4%                               | 9,559,155           |
| <b>TOTAL</b>                                               | <b>\$420,131,977</b>                     | <b>46.2%</b>                        | <b>\$14,670,070</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|------------------------------------------------------------|------------------|----------------------|------------------|
| Communications                                             | 65               | 61                   | 74               |
| Restaurants and Bars                                       | 22               | 23                   | 22               |
| Rentals of Personal<br>Property                            | 61               | 48                   | 60               |
| Contracting (All)                                          | 72               | 53                   | 75               |
| Retail                                                     | 356              | 306                  | 352              |
| Other Taxable Activities                                   | 235              | 221                  | 300              |
| <b>TOTAL</b>                                               | <b>811</b>       | <b>712</b>           | <b>883</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET<br/>TAXABLE INCOME</b> | <b>% CHANGE<br/>FROM FY 2003-04</b> | <b>COLLECTIONS</b>  |
|------------------------------------------------------------|------------------------------------------|-------------------------------------|---------------------|
| Utilities                                                  | \$17,406,257                             | -2.3%                               | \$870,313           |
| Communications                                             | 8,182,175                                | -2.4%                               | 409,109             |
| Restaurants and Bars                                       | 26,610,988                               | 7.1%                                | 1,330,549           |
| Amusements                                                 | 142,750                                  | 5.3%                                | 7,138               |
| Rentals of Personal                                        |                                          |                                     |                     |
| Property                                                   | 2,699,324                                | -21.0%                              | 134,966             |
| Contracting (All)                                          | 19,894,810                               | -25.1%                              | 994,741             |
| Retail                                                     | 121,435,734                              | 16.8%                               | 6,071,787           |
| Hotel/Motel                                                | 5,677,834                                | 5.0%                                | 312,281             |
| Other Taxable Activities                                   | 7,714,950                                | 28.4%                               | 366,043             |
| <b>TOTAL</b>                                               | <b>\$209,764,823</b>                     | <b>6.7%</b>                         | <b>\$10,496,926</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|------------------------------------------------------------|------------------|----------------------|------------------|
| Utilities                                                  | 25               | 19                   | 20               |
| Communications                                             | 95               | 99                   | 119              |
| Restaurants and Bars                                       | 96               | 91                   | 103              |
| Amusements                                                 | 14               | 10                   | 11               |
| Rentals of Personal                                        |                  |                      |                  |
| Property                                                   | 167              | 146                  | 156              |
| Contracting (All)                                          | 235              | 199                  | 261              |
| Retail                                                     | 1,805            | 1,587                | 1,765            |
| Hotel/Motel                                                | 53               | 53                   | 57               |
| Other Taxable Activities                                   | 552              | 366                  | 487              |
| <b>TOTAL</b>                                               | <b>3,042</b>     | <b>2,570</b>         | <b>2,979</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | CALCULATED NET<br>TAXABLE INCOME | % CHANGE<br>FROM FY 2003-04 | COLLECTIONS            |
|----------------------------------------------------|----------------------------------|-----------------------------|------------------------|
| Utilities                                          | \$4,179,067,137                  | 4.9%                        | \$208,953,357          |
| Communications                                     | 2,012,495,388                    | 6.1%                        | 100,624,769            |
| Publishing                                         | 96,077,547                       | 4.7%                        | 4,803,877              |
| Printing                                           | 291,029,246                      | 8.6%                        | 14,551,462             |
| Restaurants and Bars                               | 5,413,605,876                    | 10.1%                       | 270,680,294            |
| Amusements                                         | 657,928,807                      | 8.0%                        | 32,896,440             |
| Rentals of Personal                                |                                  |                             |                        |
| Property                                           | 2,520,798,544                    | 1.6%                        | 126,039,927            |
| Contracting (All)                                  | 10,500,668,295                   | 23.2%                       | 525,033,415            |
| Retail                                             | 31,570,900,708                   | 9.8%                        | 1,578,545,035          |
| Hotel/Motel                                        | 1,268,265,337                    | 13.5%                       | 69,754,594             |
| Other Taxable Activities                           | 4,185,763,124                    | 25.8%                       | 207,862,862            |
| <b>TOTAL</b>                                       | <b>\$62,696,600,008</b>          | <b>20.9%</b>                | <b>\$3,139,746,033</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | FY2002-03     | FY2003-04 (2) | FY2004-05     |
|----------------------------------------------------|---------------|---------------|---------------|
| Utilities                                          | 166           | 121           | 128           |
| Communications                                     | 633           | 504           | 567           |
| Publishing                                         | 297           | 234           | 270           |
| Printing                                           | 953           | 823           | 923           |
| Restaurants and Bars                               | 5,768         | 5,245         | 5,997         |
| Amusements                                         | 711           | 627           | 727           |
| Rentals of Personal                                |               |               |               |
| Property                                           | 2,926         | 2,544         | 2,869         |
| Contracting (All)                                  | 13,022        | 11,596        | 13,918        |
| Retail                                             | 44,565        | 40,363        | 46,602        |
| Hotel/Motel                                        | 622           | 590           | 638           |
| Other Taxable Activities                           | 10,918        | 10,112        | 11,397        |
| <b>TOTAL</b>                                       | <b>80,581</b> | <b>72,759</b> | <b>84,036</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | CALCULATED NET<br>TAXABLE INCOME | % CHANGE<br>FROM FY 2003-04 | COLLECTIONS          |
|----------------------------------------------------|----------------------------------|-----------------------------|----------------------|
| Utilities                                          | \$311,974,746                    | 34.9%                       | \$15,598,737         |
| Communications                                     | 66,792,635                       | -1.8%                       | 3,339,632            |
| Publishing                                         | 2,816,098                        | 4.3%                        | 140,805              |
| Printing                                           | 4,801,735                        | -2.0%                       | 240,087              |
| Restaurants and Bars                               | 189,382,495                      | 13.3%                       | 9,469,125            |
| Amusements                                         | 14,316,759                       | -4.4%                       | 715,838              |
| Rentals of Personal                                |                                  |                             |                      |
| Property                                           | 67,714,116                       | 13.9%                       | 3,385,706            |
| Contracting (All)                                  | 582,971,124                      | 33.2%                       | 29,148,556           |
| Retail                                             | 1,346,898,900                    | 13.3%                       | 67,344,945           |
| Hotel/Motel                                        | 44,636,443                       | 9.1%                        | 2,455,004            |
| Other Taxable Activities                           | 85,735,400                       | -45.8%                      | 4,072,167            |
| <b>TOTAL</b>                                       | <b>\$2,718,040,451</b>           | <b>14.5%</b>                | <b>\$135,910,602</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | FY2002-03    | FY2003-04 (2) | FY2004-05    |
|----------------------------------------------------|--------------|---------------|--------------|
| Utilities                                          | 50           | 41            | 45           |
| Communications                                     | 165          | 168           | 185          |
| Publishing                                         | 26           | 27            | 23           |
| Printing                                           | 35           | 26            | 33           |
| Restaurants and Bars                               | 410          | 358           | 401          |
| Amusements                                         | 67           | 49            | 55           |
| Rentals of Personal                                |              |               |              |
| Property                                           | 576          | 466           | 530          |
| Contracting (All)                                  | 1,404        | 1,301         | 1,729        |
| Retail                                             | 4,314        | 3,871         | 4,522        |
| Hotel/Motel                                        | 142          | 133           | 144          |
| Other Taxable Activities                           | 1,148        | 1,224         | 1,569        |
| <b>TOTAL</b>                                       | <b>8,337</b> | <b>7,664</b>  | <b>9,236</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | CALCULATED NET<br>TAXABLE INCOME | % CHANGE<br>FROM FY 2003-04 | COLLECTIONS         |
|----------------------------------------------------|----------------------------------|-----------------------------|---------------------|
| Utilities                                          | \$71,029,429                     | 6.3%                        | \$3,551,471         |
| Communications                                     | 37,136,305                       | 30.4%                       | 1,856,815           |
| Publishing                                         | 1,228,353                        | 21.8%                       | 61,418              |
| Restaurants and Bars                               | 75,575,769                       | 6.3%                        | 3,778,788           |
| Rentals of Personal                                |                                  |                             |                     |
| Property                                           | 20,750,769                       | 7.2%                        | 1,037,538           |
| Contracting (All)                                  | 167,950,908                      | 10.1%                       | 8,397,545           |
| Retail                                             | 669,120,354                      | 8.7%                        | 33,456,018          |
| Hotel/Motel                                        | 28,524,523                       | 4.1%                        | 1,568,849           |
| Other Taxable Activities                           | 166,297,407                      | 15.5%                       | 6,195,516           |
| <b>TOTAL</b>                                       | <b>\$1,237,613,817</b>           | <b>9.9%</b>                 | <b>\$59,903,959</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | FY2002-03    | FY2003-04 (2) | FY2004-05    |
|----------------------------------------------------|--------------|---------------|--------------|
| Utilities                                          | 45           | 38            | 40           |
| Communications                                     | 162          | 151           | 165          |
| Publishing                                         | 20           | 14            | 17           |
| Restaurants and Bars                               | 209          | 182           | 199          |
| Rentals of Personal                                |              |               |              |
| Property                                           | 328          | 276           | 317          |
| Contracting (All)                                  | 953          | 747           | 952          |
| Retail                                             | 2,218        | 1,909         | 2,300        |
| Hotel/Motel                                        | 142          | 135           | 143          |
| Other Taxable Activities                           | 847          | 812           | 1,026        |
| <b>TOTAL</b>                                       | <b>4,924</b> | <b>4,264</b>  | <b>5,159</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET TAXABLE INCOME</b> | <b>% CHANGE FROM FY 2003-04</b> | <b>COLLECTIONS</b>   |
|--------------------------------------------------------|--------------------------------------|---------------------------------|----------------------|
| Utilities                                              | \$1,124,701,090                      | 4.8%                            | \$56,235,054         |
| Communications                                         | 294,797,351                          | -7.5%                           | 14,739,868           |
| Publishing                                             | 18,191,644                           | 15.6%                           | 909,582              |
| Printing                                               | 50,493,042                           | -11.0%                          | 2,524,652            |
| Restaurants and Bars                                   | 1,209,356,174                        | 11.3%                           | 60,467,809           |
| Amusements                                             | 90,635,770                           | 3.5%                            | 4,531,789            |
| Rentals of Personal                                    |                                      |                                 |                      |
| Property                                               | 369,804,116                          | 5.0%                            | 18,490,206           |
| Contracting (All)                                      | 1,937,147,592                        | 12.0%                           | 96,857,380           |
| Retail                                                 | 6,843,996,208                        | 6.3%                            | 342,199,810          |
| Hotel/Motel                                            | 322,730,920                          | 15.4%                           | 17,750,201           |
| Other Taxable Activities                               | 681,185,041                          | 30.5%                           | 28,262,621           |
| <b>TOTAL</b>                                           | <b>\$12,943,038,949</b>              | <b>13.8%</b>                    | <b>\$642,968,971</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|--------------------------------------------------------|------------------|----------------------|------------------|
| Utilities                                              | 75               | 63                   | 66               |
| Communications                                         | 284              | 170                  | 233              |
| Publishing                                             | 122              | 76                   | 83               |
| Printing                                               | 187              | 155                  | 175              |
| Restaurants and Bars                                   | 1,637            | 1,424                | 1,585            |
| Amusements                                             | 231              | 194                  | 217              |
| Rentals of Personal                                    |                  |                      |                  |
| Property                                               | 1,210            | 1,009                | 1,134            |
| Contracting (All)                                      | 4,531            | 3,928                | 4,609            |
| Retail                                                 | 14,532           | 12,731               | 14,433           |
| Hotel/Motel                                            | 258              | 242                  | 266              |
| Other Taxable Activities                               | 2,840            | 2,832                | 3,546            |
| <b>TOTAL</b>                                           | <b>25,907</b>    | <b>22,824</b>        | <b>26,347</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.  
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET<br/>TAXABLE INCOME</b> | <b>% CHANGE<br/>FROM FY 2003-04</b> | <b>COLLECTIONS</b>   |
|------------------------------------------------------------|------------------------------------------|-------------------------------------|----------------------|
| Utilities                                                  | \$226,294,635                            | 6.6%                                | \$11,314,732         |
| Communications                                             | 109,033,871                              | -1.5%                               | 5,451,694            |
| Publishing                                                 | 3,286,399                                | -3.3%                               | 164,320              |
| Restaurants and Bars                                       | 134,592,160                              | 18.3%                               | 6,729,608            |
| Amusements                                                 | 20,213,921                               | 4.9%                                | 1,010,696            |
| Rentals of Personal                                        |                                          |                                     |                      |
| Property                                                   | 38,048,618                               | 2.9%                                | 1,902,431            |
| Contracting (All)                                          | 1,023,460,120                            | 55.0%                               | 51,173,006           |
| Retail                                                     | 770,701,470                              | 11.4%                               | 38,535,073           |
| Hotel/Motel                                                | 18,328,509                               | 14.7%                               | 995,137              |
| Other Taxable Activities                                   | 251,506,043                              | 29.1%                               | 11,015,322           |
| <b>TOTAL</b>                                               | <b>\$2,595,465,745</b>                   | <b>53.7%</b>                        | <b>\$128,292,019</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|------------------------------------------------------------|------------------|----------------------|------------------|
| Utilities                                                  | 63               | 57                   | 58               |
| Communications                                             | 203              | 186                  | 218              |
| Publishing                                                 | 23               | 16                   | 16               |
| Restaurants and Bars                                       | 314              | 293                  | 351              |
| Amusements                                                 | 93               | 76                   | 94               |
| Rentals of Personal                                        |                  |                      |                  |
| Property                                                   | 441              | 399                  | 439              |
| Contracting (All)                                          | 1,804            | 1,586                | 2,210            |
| Retail                                                     | 3,384            | 3,034                | 3,681            |
| Hotel/Motel                                                | 116              | 94                   | 93               |
| Other Taxable Activities                                   | 1,159            | 1,055                | 1,373            |
| <b>TOTAL</b>                                               | <b>7,600</b>     | <b>6,796</b>         | <b>8,533</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.
- (2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | CALCULATED NET<br>TAXABLE INCOME | % CHANGE<br>FROM FY 2003-04 | COLLECTIONS         |
|----------------------------------------------------|----------------------------------|-----------------------------|---------------------|
| Utilities                                          | \$37,746,324                     | 7.9%                        | \$1,887,316         |
| Communications                                     | 21,118,847                       | -1.5%                       | 1,055,942           |
| Restaurants and Bars                               | 37,094,258                       | 3.7%                        | 1,854,713           |
| Amusements                                         | 2,308,587                        | 71.2%                       | 115,429             |
| Rentals of Personal                                |                                  |                             |                     |
| Property                                           | 10,366,923                       | -5.8%                       | 518,346             |
| Contracting (All)                                  | 62,185,362                       | -11.8%                      | 3,109,268           |
| Retail                                             | 327,117,496                      | 10.7%                       | 16,355,875          |
| Hotel/Motel                                        | 12,024,511                       | 12.0%                       | 661,348             |
| Other Taxable Activities                           | 19,882,255                       | 32.4%                       | 993,222             |
| <b>TOTAL</b>                                       | <b>\$529,844,564</b>             | <b>6.8%</b>                 | <b>\$26,551,460</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | FY2002-03    | FY2003-04 (2) | FY2004-05    |
|----------------------------------------------------|--------------|---------------|--------------|
| Utilities                                          | 16           | 12            | 13           |
| Communications                                     | 124          | 132           | 144          |
| Restaurants and Bars                               | 119          | 105           | 128          |
| Amusements                                         | 19           | 19            | 21           |
| Rentals of Personal                                |              |               |              |
| Property                                           | 253          | 216           | 237          |
| Contracting (All)                                  | 413          | 376           | 499          |
| Retail                                             | 1,533        | 1,357         | 1,618        |
| Hotel/Motel                                        | 30           | 29            | 29           |
| Other Taxable Activities                           | 591          | 565           | 731          |
| <b>TOTAL</b>                                       | <b>3,098</b> | <b>2,811</b>  | <b>3,420</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.
- (2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | CALCULATED NET<br>TAXABLE INCOME | % CHANGE<br>FROM FY 2003-04 | COLLECTIONS          |
|----------------------------------------------------|----------------------------------|-----------------------------|----------------------|
| Utilities                                          | \$228,799,929                    | 4.8%                        | \$11,439,996         |
| Communications                                     | 110,786,323                      | 9.1%                        | 5,539,316            |
| Publishing                                         | 3,896,216                        | 8.9%                        | 194,811              |
| Printing                                           | 7,313,780                        | 16.4%                       | 365,689              |
| Restaurants and Bars                               | 230,484,099                      | 10.5%                       | 11,524,205           |
| Amusements                                         | 21,662,236                       | 4.0%                        | 1,083,112            |
| Rentals of Personal                                |                                  |                             |                      |
| Property                                           | 56,084,792                       | 5.4%                        | 2,804,240            |
| Contracting (All)                                  | 648,376,806                      | 20.5%                       | 32,418,840           |
| Retail                                             | 1,387,286,607                    | 12.8%                       | 69,364,330           |
| Hotel/Motel                                        | 82,620,290                       | 19.4%                       | 4,544,116            |
| Other Taxable Activities                           | 249,319,510                      | 94.3%                       | 8,146,041            |
| <b>TOTAL</b>                                       | <b>\$3,026,630,586</b>           | <b>31.3%</b>                | <b>\$147,424,696</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| TAXABLE ACTIVITIES AND<br>BUSINESS CLASSIFICATIONS | FY2002-03     | FY2003-04 (2) | FY2004-05     |
|----------------------------------------------------|---------------|---------------|---------------|
| Utilities                                          | 74            | 67            | 75            |
| Communications                                     | 218           | 197           | 226           |
| Publishing                                         | 45            | 38            | 46            |
| Printing                                           | 56            | 46            | 59            |
| Restaurants and Bars                               | 555           | 502           | 596           |
| Amusements                                         | 86            | 80            | 88            |
| Rentals of Personal                                |               |               |               |
| Property                                           | 541           | 469           | 517           |
| Contracting (All)                                  | 2,371         | 2,100         | 2,714         |
| Retail                                             | 5,553         | 4,828         | 5,790         |
| Hotel/Motel                                        | 182           | 167           | 198           |
| Other Taxable Activities                           | 1,393         | 1,275         | 1,688         |
| <b>TOTAL</b>                                       | <b>11,074</b> | <b>9,769</b>  | <b>11,997</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. 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, 2004 AND ENDING JUNE 30, 2005**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>CALCULATED NET<br/>TAXABLE INCOME</b> | <b>% CHANGE<br/>FROM FY 2003-04</b> | <b>COLLECTIONS</b>   |
|------------------------------------------------------------|------------------------------------------|-------------------------------------|----------------------|
| Utilities                                                  | \$183,067,264                            | 8.4%                                | \$9,153,363          |
| Communications                                             | 80,619,646                               | 18.4%                               | 4,030,982            |
| Restaurants and Bars                                       | 157,135,302                              | 12.1%                               | 7,856,765            |
| Amusements                                                 | 9,890,021                                | -7.5%                               | 494,501              |
| Rentals of Personal                                        |                                          |                                     |                      |
| Property                                                   | 61,407,952                               | 7.1%                                | 3,070,398            |
| Contracting (All)                                          | 413,753,032                              | 35.4%                               | 20,687,652           |
| Retail                                                     | 1,157,887,477                            | 15.5%                               | 57,894,374           |
| Hotel/Motel                                                | 37,617,427                               | 11.6%                               | 2,068,959            |
| Other Taxable Activities                                   | 78,946,505                               | 33.9%                               | 3,899,247            |
| <b>TOTAL</b>                                               | <b>\$2,180,324,626</b>                   | <b>18.1%</b>                        | <b>\$109,156,240</b> |

**NUMBER OF ACCOUNTS**  
**FISCAL YEAR 2002-03 THROUGH FISCAL YEAR 2004-05**

| <b>TAXABLE ACTIVITIES AND<br/>BUSINESS CLASSIFICATIONS</b> | <b>FY2002-03</b> | <b>FY2003-04 (2)</b> | <b>FY2004-05</b> |
|------------------------------------------------------------|------------------|----------------------|------------------|
| Utilities                                                  | 37               | 30                   | 31               |
| Communications                                             | 171              | 162                  | 195              |
| Restaurants and Bars                                       | 317              | 283                  | 312              |
| Amusements                                                 | 38               | 39                   | 39               |
| Rentals of Personal                                        |                  |                      |                  |
| Property                                                   | 486              | 400                  | 450              |
| Contracting (All)                                          | 719              | 623                  | 847              |
| Retail                                                     | 3,279            | 2,855                | 3,327            |
| Hotel/Motel                                                | 103              | 90                   | 100              |
| Other Taxable Activities                                   | 1,095            | 1,084                | 1,357            |
| <b>TOTAL</b>                                               | <b>6,245</b>     | <b>5,566</b>         | <b>6,658</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.

(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts. Figures may not add to total due to rounding.

**TABLE 24**  
**STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX**  
**DISTRIBUTION TO COUNTIES**  
**FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2004-05**

| <b>COUNTY</b> | <b>FY2000-01</b>     | <b>FY2001-02</b>     | <b>FY2002-03</b>     | <b>FY2003-04</b>     | <b>FY2004-05</b>     | <b>% CHANGE<br/>FROM FY2003-04</b> |
|---------------|----------------------|----------------------|----------------------|----------------------|----------------------|------------------------------------|
| Apache        | \$4,445,431          | \$3,808,535          | \$3,878,392          | \$4,135,998          | 4,542,978            | <b>9.8%</b>                        |
| Cochise       | 9,594,853            | 9,111,850            | 9,344,323            | 10,135,220           | 10,852,890           | <b>7.1%</b>                        |
| Coconino      | 13,978,278           | 13,695,680           | 13,903,149           | 14,362,293           | 15,127,441           | <b>5.3%</b>                        |
| Gila          | 4,443,907            | 4,087,916            | 4,058,750            | 4,314,601            | 4,600,625            | <b>6.6%</b>                        |
| Graham        | 2,462,318            | 2,366,529            | 2,381,979            | 2,500,199            | 2,735,648            | <b>9.4%</b>                        |
| Greenlee      | 3,003,365            | 1,794,359            | 1,750,473            | 1,975,250            | 2,511,678            | <b>27.2%</b>                       |
| La Paz        | 1,495,379            | 1,525,956            | 1,523,806            | 1,665,084            | 1,824,245            | <b>9.6%</b>                        |
| Maricopa      | 322,426,596          | 325,710,325          | 329,197,352          | 355,145,845          | 392,415,261          | <b>10.5%</b>                       |
| Mohave        | 13,012,998           | 13,293,460           | 13,839,979           | 15,239,251           | 17,231,461           | <b>13.1%</b>                       |
| Navajo        | 7,932,049            | 7,990,618            | 8,287,880            | 8,627,859            | 9,440,461            | <b>9.4%</b>                        |
| Pima          | 79,516,015           | 76,759,008           | 77,729,083           | 82,562,254           | 90,284,731           | <b>9.4%</b>                        |
| Pinal         | 12,511,593           | 12,467,448           | 13,328,798           | 14,773,417           | 16,911,027           | <b>14.5%</b>                       |
| Santa Cruz    | 3,346,986            | 3,275,822            | 3,357,505            | 3,627,497            | 3,949,677            | <b>8.9%</b>                        |
| Yavapai       | 16,629,440           | 16,504,368           | 17,000,259           | 18,519,004           | 21,183,714           | <b>14.4%</b>                       |
| Yuma          | 11,861,866           | 12,675,627           | 13,121,508           | 14,220,509           | 16,003,660           | <b>12.5%</b>                       |
|               | <b>\$506,661,075</b> | <b>\$505,067,501</b> | <b>\$512,703,234</b> | <b>\$551,804,281</b> | <b>\$609,615,497</b> | <b>10.5%</b>                       |

Figures may not add to totals due to rounding.

**TABLE 25  
STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX  
DISTRIBUTION TO MUNICIPALITIES  
FISCAL YEAR 2004-05**

| <b>CITIES</b>   | <b>AMOUNT</b> | <b>COUNTY TOTAL</b> | <b>CITIES</b>     | <b>AMOUNT</b>        | <b>COUNTY TOTAL</b>  |
|-----------------|---------------|---------------------|-------------------|----------------------|----------------------|
| <b>APACHE</b>   |               |                     | Scottsdale        | \$18,778,653         |                      |
| Eagar           | \$373,618     |                     | Surprise          | 2,857,768            |                      |
| St. Johns       | 328,688       |                     | Tempe             | 14,695,069           |                      |
| Springerville   | 182,688       | \$884,993           | Tolleson          | 460,793              |                      |
| <b>COCHISE</b>  |               |                     | Wickenburg        | 470,798              |                      |
| Benson          | 436,428       |                     | Youngtown         | 278,847              | \$265,383,445        |
| Bisbee          | 564,180       |                     | <b>MOHAVE</b>     |                      |                      |
| Douglas         | 1,530,696     |                     | Bullhead City     | 3,128,371            |                      |
| Huachuca City   | 162,213       |                     | Colorado City     | 308,863              |                      |
| Sierra Vista    | 3,499,488     |                     | Kingman           | 1,859,198            |                      |
| Tombstone       | 139,331       |                     | Lake Havasu City  | 3,885,149            | 9,181,581            |
| Willcox         | 345,826       | 6,678,162           | <b>NAVAJO</b>     |                      |                      |
| <b>COCONINO</b> |               |                     | Holbrook          | 455,512              |                      |
| Flagstaff       | 4,900,116     |                     | Pinetop-Lakeside  | 331,838              |                      |
| Fredonia        | 95,975        |                     | Show Low          | 712,867              |                      |
| Page            | 630,788       |                     | Snowflake         | 413,176              |                      |
| Williams        | 263,284       | 5,890,163           | Taylor            | 294,226              |                      |
| <b>GILA</b>     |               |                     | Winslow           | 881,936              | 3,089,554            |
| Globe           | 693,505       |                     | <b>PIMA</b>       |                      |                      |
| Hayden          | 82,635        |                     | Marana            | 1,255,832            |                      |
| Miami           | 179,352       |                     | Oro Valley        | 2,958,376            |                      |
| Payson          | 1,261,761     |                     | Sahuarita         | 300,340              |                      |
| Winkelman       | 41,040        | 2,258,293           | South Tucson      | 508,595              |                      |
| <b>GRAHAM</b>   |               |                     | Tucson            | 45,087,945           | 50,111,087           |
| Pima            | 184,262       |                     | <b>PINAL</b>      |                      |                      |
| Safford         | 855,255       |                     | Apache Junction   | 2,947,259            |                      |
| Thatcher        | 372,599       | 1,412,116           | Casa Grande       | 2,336,759            |                      |
| <b>GREENLEE</b> |               |                     | Coolidge          | 721,297              |                      |
| Clifton         | 240,494       |                     | Eloy              | 961,143              |                      |
| Duncan          | 75,224        | 315,718             | Florence          | 1,537,270            |                      |
| <b>LA PAZ</b>   |               |                     | Kearny            | 208,348              |                      |
| Parker          | 290,891       |                     | Mammoth           | 163,232              |                      |
| Quartzsite      | 310,716       | 601,606             | Maricopa          | 463,016              |                      |
| <b>MARICOPA</b> |               |                     | Superior          | 301,452              | 9,639,776            |
| Avondale        | 3,324,212     |                     | <b>SANTA CRUZ</b> |                      |                      |
| Buckeye         | 787,165       |                     | Nogales           | 1,934,144            |                      |
| Carefree        | 271,158       |                     | Patagonia         | 81,616               | 2,015,760            |
| Cave Creek      | 345,363       |                     | <b>YAVAPAI</b>    |                      |                      |
| Chandler        | 16,391,683    |                     | Camp Verde        | 875,544              |                      |
| El Mirage       | 704,900       |                     | Chino Valley      | 756,593              |                      |
| Fountain Hills  | 1,874,577     |                     | Clarkdale         | 317,015              |                      |
| Gila Bend       | 183,428       |                     | Cottonwood        | 850,346              |                      |
| Gilbert         | 10,162,364    |                     | Dewey-Humboldt    | 193,472              |                      |
| Glendale        | 20,270,811    |                     | Jerome            | 30,479               |                      |
| Goodyear        | 1,751,921     |                     | Prescott          | 3,144,027            |                      |
| Guadalupe       | 484,323       |                     | Prescott Valley   | 2,180,290            |                      |
| Litchfield Park | 352,960       |                     | Sedona            | 944,190              | 9,291,955            |
| Mesa            | 36,850,091    |                     | <b>YUMA</b>       |                      |                      |
| Paradise Valley | 1,265,837     |                     | San Luis          | 1,419,435            |                      |
| Peoria          | 10,038,874    |                     | Somerton          | 673,125              |                      |
| Phoenix         | 122,382,014   |                     | Wellton           | 169,439              |                      |
| Queen Creek     | 399,835       |                     | Yuma              | 7,196,762            | 9,458,761            |
|                 |               |                     | <b>TOTAL</b>      | <b>\$376,212,971</b> | <b>\$376,212,970</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 2004-05**

| <b>CITY</b>      | <b>RATE (1)<br/>(PERCENT)</b> | <b>COLLECTIONS</b> | <b>CITY</b>      | <b>RATE (1)<br/>(PERCENT)</b> | <b>COLLECTIONS</b>   |
|------------------|-------------------------------|--------------------|------------------|-------------------------------|----------------------|
| Apache Junction  | 2.2*                          | \$10,498,373       | Maricopa         | 2.0*                          | 6,535,462            |
| Benson           | 2.5*                          | 1,925,502          | Miami            | 2.5*                          | \$261,224            |
| Bisbee           | 2.5*                          | 1,533,906          | Oro Valley       | 2.0*                          | 9,320,114            |
| Buckeye          | 2.0*                          | 8,402,231          | Page             | 3.0*                          | 4,489,157            |
| Bullhead City    | 2.0*                          | 12,374,522         | Paradise Valley  | 1.65*                         | 8,104,679            |
| Camp Verde       | 2.0*                          | 1,833,566          | Parker           | 2.0*                          | 1,172,527            |
| Carefree         | 2.0*                          | 2,783,963          | Patagonia        | 3.0*                          | 197,273              |
| Casa Grande      | 1.8*                          | 14,082,213         | Payson           | 2.12*                         | 5,933,072            |
| Cave Creek       | 2.5*                          | 3,336,084          | Pima             | 2.0*                          | 211,782              |
| Chino Valley     | 3.0*                          | 3,831,848          | Pinetop-Lakeside | 2.5*                          | 3,169,671            |
| Clarkdale        | 2.25*                         | 559,921            | Prescott Valley  | 2.33*                         | 11,198,060           |
| Clifton          | 2.0                           | 240,831            | Quartzsite       | 2.5*                          | 1,134,255            |
| Colorado City    | 2.0*                          | 241,622            | Queen Creek      | 2.0*                          | 9,272,839            |
| Coolidge         | 3.0*                          | 3,037,110          | Safford          | 2.0*                          | 2,540,286            |
| Cottonwood       | 2.2*                          | 7,951,737          | Sahuarita        | 2.0*                          | 7,451,077            |
| Dewey-Humboldt   | 2.0*                          | 30,286             | St. Johns        | 2.0*                          | 484,559              |
| Douglas          | 2.5*                          | 4,519,831          | San Luis         | 3.5*                          | 2,914,039            |
| Duncan           | 2.0                           | 72,664             | Sedona           | 3.0*                          | 12,278,609           |
| Eagar            | 3.0*                          | 584,748            | Show Low         | 2.0                           | 8,544,891            |
| El Mirage        | 3.0*                          | 4,026,943          | Sierra Vista     | 1.5*                          | 13,472,587           |
| Eloy             | 3.0*                          | 3,164,171          | Snowflake        | 2.0*                          | 979,298              |
| Florence         | 2.0*                          | 1,178,967          | Somerton         | 2.5*                          | 861,789              |
| Fountain Hills   | 2.6*                          | 8,745,997          | South Tucson     | 2.5*                          | 2,168,695            |
| Fredonia         | 2.0                           | 72,338             | Springerville    | 3.0*                          | 1,340,175            |
| Gila Bend        | 3.0*                          | 853,425            | Superior         | 2.0*                          | 218,393              |
| Gilbert          | 1.5*                          | 42,803,570         | Surprise         | 2.2*                          | 37,819,927           |
| Globe            | 1.5*                          | 2,561,080          | Taylor           | 2.0*                          | 573,106              |
| Goodyear         | 2.0*                          | 21,831,213         | Thatcher         | 2.0*                          | 1,993,353            |
| Guadalupe        | 3.0*                          | 1,239,687          | Tolleson         | 2.0*                          | 4,608,511            |
| Hayden           | 3.0*                          | 620,161            | Tombstone        | 2.5*                          | 731,563              |
| Holbrook         | 3.0*                          | 2,270,947          | Wellton          | 2.5                           | 436,322              |
| Huachuca City    | 1.5*                          | 181,070            | Wickenburg       | 1.7                           | 2,110,656            |
| Jerome           | 3.0                           | 415,802            | Willcox          | 3.0*                          | 1,871,092            |
| Kearny           | 2.0*                          | 263,552            | Williams         | 3.0*                          | 3,244,377            |
| Kingman          | 2.0*                          | 12,090,746         | Winkelman        | 3.5*                          | 79,684               |
| Lake Havasu City | 2.0*                          | 19,467,528         | Winslow          | 3.0*                          | 3,356,602            |
| Litchfield Park  | 2.0*                          | 2,392,214          | Youngtown        | 2.0*                          | 1,297,524            |
| Mammoth          | 2.0*                          | 71,754             | Yuma             | 1.7                           | 29,178,389           |
| Marana           | 2.5*                          | 24,879,543         |                  |                               |                      |
|                  |                               |                    | <b>TOTAL</b>     |                               | <b>\$428,527,285</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, 2005 and may have changed during the remainder of FY 05.  
Figures may not add to total due to rounding.



**TABLE 27**  
**MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM**  
**FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2004-05**

| <b>FISCAL<br/>YEAR</b> | <b>TOTAL<br/>COLLECTIONS</b> | <b>NUMBER OF CITIES<br/>IN PROGRAM</b> |
|------------------------|------------------------------|----------------------------------------|
| 2000-01                | \$257,706,985                | 75                                     |
| 2001-02                | \$280,950,442                | 75                                     |
| 2002-03                | \$303,164,388                | 75                                     |
| 2003-04                | \$352,320,229                | 76                                     |
| 2004-05                | \$428,527,285                | 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 \$701 million during fiscal year 2005 (*Refer to Table 28*).

## **INDIVIDUAL INCOME TAX**

### **MAJOR FEATURES**

For tax year 2002 filed in 2003, approximately 2.2 million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than \$ 95.0 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 2004 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 2005 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**

Family

**AVAILABLE TO**

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

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 2000-01 THROUGH FISCAL YEAR 2004-05**

| SOURCE                               | FY2000-01              | FY2001-02              | FY2002-03              | FY2003-04              | FY2004-05              | PERCENT OF<br>NET COLLECTIONS<br>IN FY2004-05 |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------------------------------|
| <u>Withheld from Wages</u>           |                        |                        |                        |                        |                        |                                               |
| Gross Revenue                        | \$2,363,693,852        | \$2,309,340,885        | \$2,310,302,093        | \$2,336,442,815        | 2,626,264,231          |                                               |
| Amnesty                              | -----                  | -----                  | -----                  | \$176,268              | -----                  |                                               |
| Refunds and Charge-offs              | (7,032,321)            | (9,047,839)            | (8,527,022)            | (8,422,819)            | (5,267,886)            |                                               |
| <b>NET</b>                           | <b>\$2,356,661,531</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> | 74.0%                                         |
| <u>Individuals &amp; Fiduciaries</u> |                        |                        |                        |                        |                        |                                               |
| Gross Revenue                        | 858,775,963            | 705,843,394            | 656,586,317            | 776,183,708            | 1,122,894,580          |                                               |
| Amnesty                              | -----                  | -----                  | -----                  | 2,890,549              | -----                  |                                               |
| Regular Refunds and Charge-offs      | (911,549,899)          | (915,490,638)          | (853,999,525)          | (791,230,045)          | (895,440,957)          |                                               |
| Attorney Fees - Ladewig refunds (2)  |                        |                        | (2,000,000)            | (2,000,000)            | (6,249,511)            |                                               |
| <b>NET</b>                           | <b>(\$52,773,936)</b>  | <b>(\$209,647,244)</b> | <b>(\$199,413,208)</b> | <b>(\$14,155,788)</b>  | <b>\$221,204,113</b>   | 6.2%                                          |
| <u>Corporations</u>                  |                        |                        |                        |                        |                        |                                               |
| Gross Revenue                        | 678,002,658            | 512,257,476            | 518,246,330            | 596,582,273            | 789,739,978            |                                               |
| Amnesty                              | -----                  | -----                  | -----                  | 53,690,925             | -----                  |                                               |
| Refunds and Charge-offs              | (136,828,789)          | (165,976,997)          | (128,839,937)          | (124,623,328)          | (87,880,694)           |                                               |
| <b>NET</b>                           | <b>\$541,173,869</b>   | <b>\$346,280,480</b>   | <b>\$389,406,393</b>   | <b>\$525,649,869</b>   | <b>\$701,859,285</b>   | 19.8%                                         |
| <b>Subtotal</b>                      |                        |                        |                        |                        |                        |                                               |
| <b>Net Collections</b>               | <b>\$2,845,061,464</b> | <b>\$2,436,926,281</b> | <b>\$2,491,768,256</b> | <b>\$2,839,690,345</b> | <b>\$3,544,059,743</b> | 100.0%                                        |
| <b>Less distributions for:</b>       |                        |                        |                        |                        |                        |                                               |
| Urban Revenue Sharing                | 396,452,640            | 421,876,573            | 430,559,053            | 365,065,158            | 373,072,580            |                                               |
| Contracted Collection Agency         | 60,989                 | 20,922                 | 18,110                 | 409                    | 0                      |                                               |
| Wildlife Contributions               | 194,201                | 177,886                | 178,190                | 167,014                | 174,101                |                                               |
| Child Abuse Prevention               | 222,325                | 210,223                | 202,941                | 198,467                | 200,870                |                                               |
| Special Olympics                     | 88,051                 | 83,873                 | 84,062                 | 79,498                 | 87,888                 |                                               |
| Neighbors Helping Neighbors          | 38,800                 | 37,696                 | 41,330                 | 42,269                 | 37,509                 |                                               |
| State Aid to Public Schools          | 26,884                 | 33,955                 | 29,420                 | 46,052                 | 42,696                 |                                               |
| Domestic Violence Shelter            | 152,928                | 150,954                | 149,012                | 132,713                | 142,058                |                                               |
| Democratic Party                     | 15,130                 | 15,984                 | 18,246                 | 27,252                 | 23,860                 |                                               |
| Green Party                          | 2,667                  | 2,559                  | 114                    | 1                      | 0                      |                                               |
| Libertarian Party                    | 2,422                  | 2,090                  | 2,182                  | 1,570                  | 2,292                  |                                               |
| Republican Party                     | 15,474                 | 14,127                 | 16,557                 | 19,561                 | 16,777                 |                                               |
| Reform Party                         | 36                     | 92                     | 0                      | 0                      | 0                      |                                               |
| Natural Law Party                    | 142                    | 200                    | 10                     | 0                      | 0                      |                                               |
| Clean Elections                      | 2,315,832              | 3,246,597              | 3,877,564              | 4,116,022              | 4,831,319              |                                               |
| <b>Subtotal Distributions</b>        | <b>\$399,588,520</b>   | <b>\$425,873,731</b>   | <b>\$435,176,789</b>   | <b>\$369,895,988</b>   | <b>\$378,631,950</b>   |                                               |
| <b>NET REVENUE TO STATE</b>          |                        |                        |                        |                        |                        |                                               |
| <b>GENERAL FUND</b>                  | <b>\$2,445,472,944</b> | <b>\$2,011,052,550</b> | <b>\$2,056,591,466</b> | <b>\$2,469,794,357</b> | <b>\$3,165,427,792</b> |                                               |
| <b>WQARF DISTRIBUTION (1)</b>        | <b>\$15,000,000</b>    | <b>\$15,000,000</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.

Figures may not add to total due to rounding.

**TABLE 29  
EXEMPTIONS, DEDUCTIONS AND CREDITS  
TAX YEAR 2001 THROUGH TAX YEAR 2004**

| 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 |
|----------|------------------------|-----------------|---------------------------|---------------------|------------------------------|-----------------------------|---------------------------|
| 2001     | 2,100                  | 1,500           | 2,100                     | 2,300               | 4,050/8,100                  | 502                         | 240                       |
| 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                       |

(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 2001 THROUGH TAX YEAR 2003**

| CREDIT                             | TAX YEAR 2001    |                      | TAX YEAR 2002    |                      | TAX YEAR 2003    |                      |
|------------------------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
|                                    | CLAIMANTS        | CREDITS              | CLAIMANTS        | CREDITS              | CLAIMANTS        | CREDITS              |
| Agricultural Pollution Control     | 9                | \$17,500             | 6                | \$32,542             | (2)              | (2)                  |
| Agricultural Preservation District | 0                | \$0                  | 0                | \$0                  | (2)              | (2)                  |
| Agricultural Water Conservation    | 130              | \$1,441,141          | 128              | \$1,229,780          | (2)              | (2)                  |
| Alternative Fuel - Non Refundable  |                  |                      |                  |                      |                  |                      |
| --Delivery System                  | (1)              | (1)                  | 0                | \$0                  | 0                | \$0                  |
| --Vehicles                         | 110              | \$195,819            | 72               | \$105,119            | 45               | \$56,801             |
| --Refuel Apparatus/Infrastructure  | 20               | \$16,440             | 7                | \$3,531              | 3                | \$4,960              |
| --Neighborhood Electric Vehicles   | 2,612            | \$5,716,267          | 1,735            | \$2,484,187          | 1,168            | \$1,533,072          |
| Alternative Fuel - Refundable      |                  |                      |                  |                      |                  |                      |
| --Delivery System                  | (1)              | (1)                  | --               | --                   | --               | --                   |
| --Vehicles                         | 158              | \$2,694,618          | --               | --                   | --               | --                   |
| --Refuel Apparatus/Infrastructure  | 12               | \$33,750             | --               | --                   | --               | --                   |
| Clean Elections                    | 26,757           | \$599,485            | 33,470           | \$688,864            | 32,042           | \$727,224            |
| Construction Materials             | (1)              | (1)                  | 0                | \$0                  | (2)              | (2)                  |
| Defense Contracting                | 0                | \$0                  | 0                | \$0                  | (2)              | (2)                  |
| Donation to Charities for the      |                  |                      |                  |                      |                  |                      |
| Working Poor                       | 12,538           | \$2,196,043          | 14,226           | \$2,676,900          | 17,467           | \$3,259,400          |
| Donation of Motor Vehicles         | 162              | \$171,819            | 41               | \$40,261             | --               | --                   |
| Employment of TANF Recipients      | 0                | \$0                  | (1)              | (1)                  | (2)              | (2)                  |
| Enterprise Zone                    | 217              | \$2,168,612          | 138              | \$1,412,718          | 172              | \$1,346,363          |
| Environmental Technology           | 0                | \$0                  | 0                | \$0                  | (2)              | (2)                  |
| Family Tax Credit                  | 402,094          | \$7,356,939          | 427,798          | \$7,382,178          | 417,451          | \$7,445,937          |
| Income Taxes Paid to Other States  | 29,007           | \$58,777,258         | 24,909           | \$52,843,508         | 25,563           | \$62,153,855         |
| Increased Excise Taxes Paid        | 428,189          | \$22,612,548         | 529,265          | \$28,403,741         | 546,116          | \$29,420,779         |
| Military Reuse Zone                | 0                | \$0                  | 0                | \$0                  | (2)              | (2)                  |
| Pollution Control Device           | 18               | \$31,624             | 13               | \$18,525             | (2)              | (2)                  |
| Private School STO (3)             | 46,755           | \$24,924,656         | 52,161           | \$26,171,191         | 58,122           | \$29,445,494         |
| Property Tax                       | 15,218           | \$5,015,318          | 14,991           | \$5,106,544          | 15,022           | \$5,299,736          |
| Public School Extra Curricular (3) | 166,468          | \$20,004,715         | 143,697          | \$22,455,129         | 201,407          | \$27,753,764         |
| Recycling Equipment                | 6                | \$2,928              | 5                | \$3,267              | (2)              | (2)                  |
| Research and Development           | 44               | \$465,524            | 76               | \$484,138            | (2)              | (2)                  |
| School Site Donation               | 51               | \$2,869,356          | 66               | \$2,380,444          | (2)              | (2)                  |
| Solar Energy                       | 2,230            | \$868,225            | 2,303            | \$977,721            | (2)              | (2)                  |
| Solar Hot Water Heater &           |                  |                      |                  |                      |                  |                      |
| Plumbing Stub Outs                 | 18               | \$7,804              | 15               | \$3,312              | (2)              | (2)                  |
| Technology Training                | (1)              | (1)                  | (1)              | (1)                  | (2)              | (2)                  |
| Underground Storage                | 0                | \$0                  | 0                | \$0                  | 0                | \$0                  |
| <b>Total</b>                       | <b>1,132,930</b> | <b>\$158,240,447</b> | <b>1,245,127</b> | <b>\$154,908,074</b> | <b>1,314,578</b> | <b>\$168,447,385</b> |

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

(2) Credits claimed for tax year 2003 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 2002 (1)**

| <b>FEDERAL ADJUSTED<br/>GROSS INCOME</b> | <b># OF<br/>FILERS</b> | <b>% OF<br/>TOTAL</b> | <b>LIABILITY</b>       | <b>% OF<br/>TOTAL</b> |
|------------------------------------------|------------------------|-----------------------|------------------------|-----------------------|
| Negative Income                          | 27,174                 | 1.36%                 | \$167,382              | 0.01%                 |
| \$0.01 to \$1,999                        | 37,477                 | 1.88%                 | 49,341                 | 0.00%                 |
| \$2,000 to \$5,999                       | 117,539                | 5.90%                 | 115,851                | 0.01%                 |
| \$6,000 to \$9,999                       | 143,884                | 7.22%                 | 3,882,335              | 0.19%                 |
| \$10,000 to \$13,999                     | 149,912                | 7.53%                 | 11,293,715             | 0.56%                 |
| \$14,000 to \$19,999                     | 228,143                | 11.45%                | 33,306,774             | 1.66%                 |
| \$20,000 to \$24,999                     | 168,663                | 8.47%                 | 44,494,997             | 2.21%                 |
| \$25,000 to \$29,999                     | 143,353                | 7.20%                 | 55,736,071             | 2.77%                 |
| \$30,000 to \$39,999                     | 227,808                | 11.44%                | 127,595,336            | 6.35%                 |
| \$40,000 to \$49,999                     | 168,610                | 8.46%                 | 131,529,176            | 6.55%                 |
| \$50,000 to \$74,999                     | 278,243                | 13.97%                | 322,294,769            | 16.04%                |
| \$75,000 to \$99,999                     | 142,836                | 7.17%                 | 259,513,140            | 12.92%                |
| \$100,000 to \$199,999                   | 125,263                | 6.29%                 | 410,877,959            | 20.45%                |
| \$200,000 to \$499,999                   | 26,676                 | 1.34%                 | 255,761,030            | 12.73%                |
| \$500,000 to \$999,999                   | 4,377                  | 0.22%                 | 119,218,057            | 5.93%                 |
| \$1,000,000 to \$4,999,999               | 1,851                  | 0.09%                 | 145,832,237            | 7.26%                 |
| \$5,000,000 and over                     | 163                    | 0.01%                 | 87,625,645             | 4.36%                 |
| <b>TOTAL</b>                             | <b>1,991,972</b>       | <b>100.00%</b>        | <b>\$2,009,293,815</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 2002, filed from January 2003 forward.

**TABLE 31**  
**NONRESIDENT/ PART YEAR RESIDENT INDIVIDUAL INCOME TAX**  
**LIABILITY BY FEDERAL ADJUSTED GROSS INCOME**  
**TAX YEAR 2002 (1)**

| <b>ARIZONA PORTION OF<br/>FEDERAL ADJUSTED<br/>GROSS INCOME</b> | <b># OF<br/>FILERS</b> | <b>% OF<br/>TOTAL</b> | <b>LIABILITY</b>     | <b>% OF<br/>TOTAL</b> |
|-----------------------------------------------------------------|------------------------|-----------------------|----------------------|-----------------------|
| Negative Income                                                 | 16,839                 | 9.23%                 | \$219,849            | 0.18%                 |
| \$0.01 to \$1,999                                               | 18,128                 | 9.94%                 | 47,728               | 0.04%                 |
| \$2,000 to \$5,999                                              | 31,089                 | 17.05%                | 138,116              | 0.11%                 |
| \$6,000 to \$9,999                                              | 23,349                 | 12.80%                | 1,004,204            | 0.83%                 |
| \$10,000 to \$13,999                                            | 17,458                 | 9.57%                 | 1,909,510            | 1.57%                 |
| \$14,000 to \$19,999                                            | 19,453                 | 10.67%                | 4,068,242            | 3.35%                 |
| \$20,000 to \$24,999                                            | 11,237                 | 6.16%                 | 3,789,834            | 3.12%                 |
| \$25,000 to \$29,999                                            | 8,268                  | 4.53%                 | 3,769,867            | 3.10%                 |
| \$30,000 to \$39,999                                            | 10,967                 | 6.01%                 | 6,991,560            | 5.76%                 |
| \$40,000 to \$49,999                                            | 6,917                  | 3.79%                 | 6,376,412            | 5.25%                 |
| \$50,000 to \$74,999                                            | 8,613                  | 4.72%                 | 11,651,142           | 9.59%                 |
| \$75,000 to \$99,999                                            | 3,816                  | 2.09%                 | 8,177,113            | 6.73%                 |
| \$100,000 to \$199,999                                          | 4,054                  | 2.22%                 | 15,710,436           | 12.93%                |
| \$200,000 to \$499,999                                          | 1,529                  | 0.84%                 | 15,676,880           | 12.91%                |
| \$500,000 to \$999,999                                          | 402                    | 0.22%                 | 10,852,996           | 8.94%                 |
| \$1,000,000 to \$4,999,999                                      | 214                    | 0.12%                 | 17,887,230           | 14.73%                |
| \$5,000,000 and over                                            | 28                     | 0.02%                 | 13,194,237           | 10.86%                |
| <b>TOTAL</b>                                                    | <b>182,361</b>         | <b>100.00%</b>        | <b>\$121,465,356</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 2002, filed from January 2003 forward.



**TABLE 32**  
**CORPORATE INCOME TAX**  
**CORPORATE TAXPAYER BY SIZE OF TAX LIABILITY**  
**TAX YEAR 2002(1)**

| <b>CORPORATE<br/>TAX LIABILITY</b> | <b># OF<br/>FILERS</b> | <b>% OF<br/>TOTAL</b> | <b>LIABILITY</b>     | <b>% OF<br/>TOTAL</b> |
|------------------------------------|------------------------|-----------------------|----------------------|-----------------------|
| \$50 Minimum                       | 37,560                 | 72.3%                 | \$1,876,938          | 0.4%                  |
| \$50.01 to \$99.99                 | 1,106                  | 2.1%                  | 79,877               | 0.0%                  |
| \$100 to \$499.99                  | 3,547                  | 6.8%                  | 921,171              | 0.2%                  |
| \$500 to \$999.99                  | 1,931                  | 3.7%                  | 1,404,808            | 0.3%                  |
| \$1,000 to \$4,999.99              | 4,402                  | 8.5%                  | 10,633,208           | 2.5%                  |
| \$5,000 to \$9,999.99              | 1,234                  | 2.4%                  | 8,601,286            | 2.0%                  |
| \$10,000 to \$49,999.99            | 1,364                  | 2.6%                  | 30,270,516           | 7.2%                  |
| \$50,000 to \$99,999.99            | 319                    | 0.6%                  | 22,547,658           | 5.4%                  |
| \$100,000 to \$499,999.99          | 330                    | 0.6%                  | 72,479,849           | 17.3%                 |
| \$500,000 to \$999,999.99          | 50                     | 0.1%                  | 32,117,747           | 7.7%                  |
| \$1,000,000 to \$15,000,000        | 75                     | 0.1%                  | 238,780,945          | 56.9%                 |
| <b>TOTAL</b>                       | <b>51,918</b>          | <b>100.0%</b>         | <b>\$419,714,003</b> | <b>100.0%</b>         |

**CORPORATE INCOME TAX CREDITS**  
**TAX YEAR 2002**

| <b>CREDIT TYPE</b>                         | <b># OF<br/>FILERS</b> | <b>CREDIT<br/>USED</b> | <b>CARRYFORWARD<br/>AVAILABLE</b> |
|--------------------------------------------|------------------------|------------------------|-----------------------------------|
| Agricultural Pollution Control Equipment   | *                      | *                      | *                                 |
| Agricultural Preservation District         | 0                      | \$0                    | \$0                               |
| Agricultural Water Conservation            | *                      | *                      | *                                 |
| Alternative Fuel - Non Refundable          |                        |                        |                                   |
| --Fuel Delivery System                     | 3                      | \$1,039                | \$456,867                         |
| --Vehicles                                 | 8                      | \$32,969               | \$672,946                         |
| --Refueling Apparatus & Infrastructure     | *                      | *                      | *                                 |
| --Neighborhood Electric Vehicles           | 16                     | \$31,172               | \$935,186                         |
| Clean Elections                            | 102                    | \$646                  | \$0                               |
| Coal Used for Electric Generation          | *                      | *                      | *                                 |
| Consolidated Filers                        | 30                     | \$2,196,494            | \$59,745,538                      |
| Construction Materials                     | 3                      | \$100                  | \$426,592                         |
| Defense Contracting                        | *                      | *                      | *                                 |
| Donation of Motor Vehicles to Work Program | 0                      | \$0                    | \$0                               |
| Employment of TANF Recipients              | 7                      | \$173,550              | \$6,186                           |
| Enterprise Zone                            | 127                    | \$5,944,633            | \$8,184,501                       |
| Environmental Technology                   | *                      | *                      | *                                 |
| Military Reuse Zone                        | *                      | *                      | *                                 |
| Pollution Control Equipment                | 28                     | \$1,386,455            | \$4,068,530                       |
| Recycling Equipment                        | 4                      | \$5,145                | \$192,332                         |
| Research & Development                     | 124                    | \$10,901,624           | \$480,178,160                     |
| School Site Donation                       | *                      | *                      | *                                 |
| Solar Hot Water Heater Plumbing Stub-Outs  | 0                      | \$0                    | \$0                               |
| Technology Training                        | 4                      | \$41,083               | \$0                               |
| Underground Storage Tanks                  | *                      | *                      | *                                 |
| <b>TOTAL (2)</b>                           | <b>477</b>             | <b>\$25,310,248</b>    | <b>\$624,871,484</b>              |

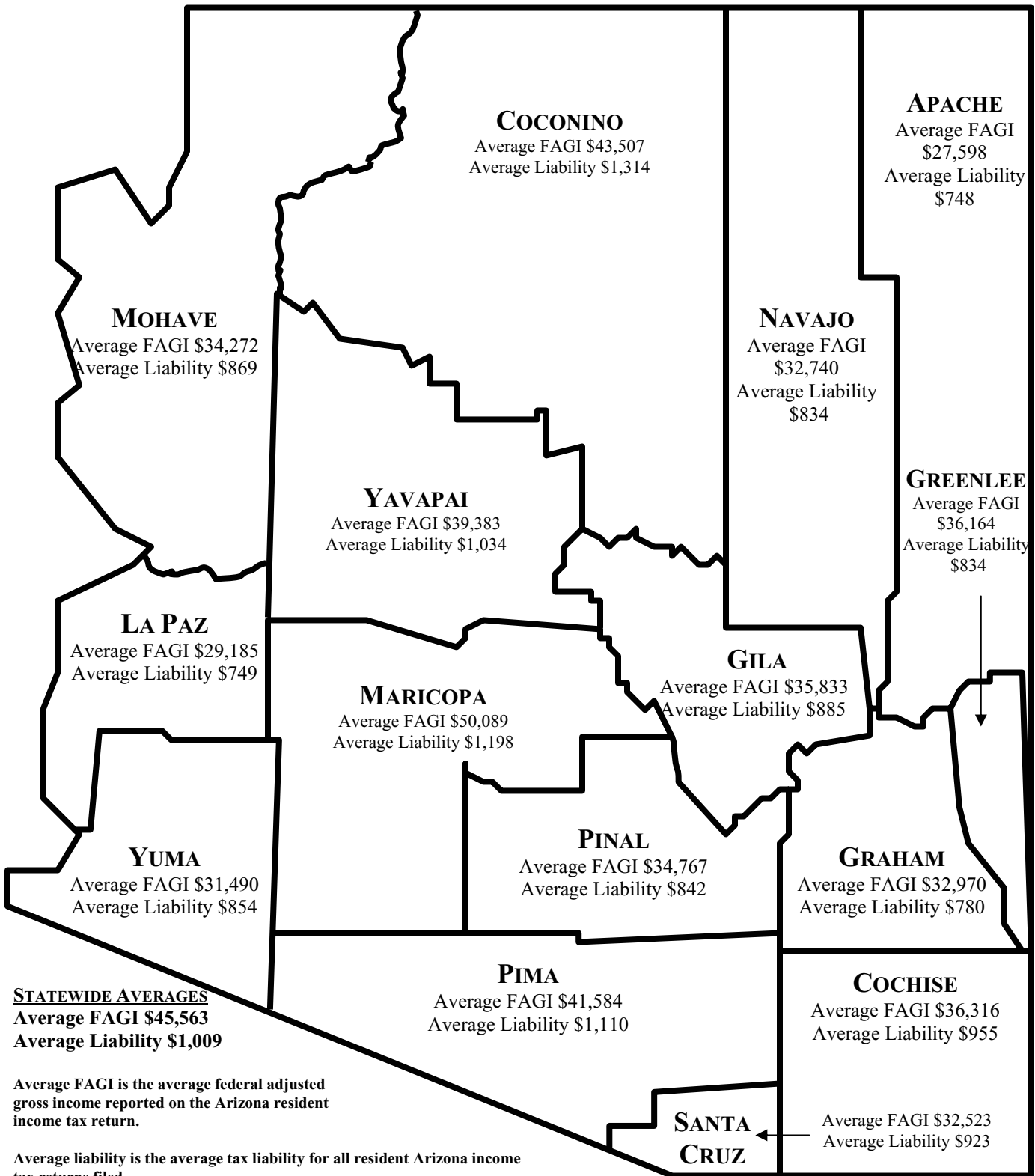
(1) This summary combines all liability on the Arizona Form 120 Corporate Income Tax returns for tax year 2002 filed from January 2003 forward.

(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 2002**



**TABLE 34**  
**URBAN REVENUE SHARING**  
**FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2004-05**

| <b>FISCAL YEAR</b> | <b>AMOUNT</b> |
|--------------------|---------------|
| 2000-01            | \$396,452,640 |
| 2001-02            | \$421,876,573 |
| 2002-03            | \$430,559,053 |
| 2003-04            | \$365,065,158 |
| 2004-05            | \$373,072,580 |

**TABLE 35  
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING  
TO MUNICIPALITIES IN FISCAL YEAR 2004-05**

| <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             | \$396,760            | 0.11%             |
| Eagar                   | \$370,744     | 0.10%             | Scottsdale              | 18,634,175           | 4.99%             |
| St. Johns               | 326,159       | 0.09%             | Surprise                | 2,835,781            | 0.76%             |
| Springerville           | 181,281       | 0.05%             | Tempe                   | 14,582,117           | 3.91%             |
| <b>COCHISE</b>          |               |                   | Tolleson                | 457,248              | 0.12%             |
| Benson                  | 433,071       | 0.12%             | Wickenburg              | 467,176              | 0.13%             |
| Bisbee                  | 559,838       | 0.15%             | Youngtown               | 276,702              | 0.07%             |
| Douglas                 | 1,518,919     | 0.41%             | <b>MOHAVE</b>           |                      |                   |
| Huachuca City           | 160,965       | 0.04%             | Bullhead City           | 3,104,301            | 0.83%             |
| Sierra Vista            | 3,472,564     | 0.93%             | Colorado City           | 306,486              | 0.08%             |
| Tombstone               | 138,259       | 0.04%             | Kingman                 | 1,844,894            | 0.49%             |
| Willcox                 | 343,166       | 0.09%             | Lake Havasu City        | 3,855,257            | 1.03%             |
| <b>COCONINO</b>         |               |                   | <b>NAVAJO</b>           |                      |                   |
| Flagstaff               | 4,862,417     | 1.30%             | Holbrook                | 452,008              | 0.12%             |
| Fredonia                | 95,237        | 0.03%             | Pinetop-Lakeside        | 329,284              | 0.09%             |
| Page                    | 625,935       | 0.17%             | Show Low                | 707,382              | 0.19%             |
| Williams                | 261,258       | 0.07%             | Snowflake               | 409,997              | 0.11%             |
| <b>GILA</b>             |               |                   | Taylor                  | 291,962              | 0.08%             |
| Globe                   | 688,170       | 0.18%             | Winslow                 | 875,151              | 0.23%             |
| Hayden                  | 81,999        | 0.02%             | <b>PIMA</b>             |                      |                   |
| Miami                   | 177,972       | 0.05%             | Marana                  | 1,246,170            | 0.33%             |
| Payson                  | 1,252,053     | 0.34%             | Oro Valley              | 2,935,614            | 0.79%             |
| Winkelman               | 40,724        | 0.01%             | Sahuarita               | 298,029              | 0.08%             |
| <b>GRAHAM</b>           |               |                   | South Tucson            | 504,682              | 0.14%             |
| Pima                    | 182,843       | 0.05%             | Tucson                  | 44,741,049           | 11.99%            |
| Safford                 | 848,675       | 0.23%             | <b>PINAL</b>            |                      |                   |
| Thatcher                | 369,733       | 0.10%             | Apache Junction         | 2,924,583            | 0.78%             |
| <b>GREENLEE</b>         |               |                   | Casa Grande             | 2,318,781            | 0.62%             |
| Clifton                 | 238,644       | 0.06%             | Coolidge                | 715,748              | 0.19%             |
| Duncan                  | 74,646        | 0.02%             | Eloy                    | 953,749              | 0.26%             |
| <b>LA PAZ</b>           |               |                   | Florence                | 1,491,452            | 0.40%             |
| Parker                  | 288,652       | 0.08%             | Kearny                  | 206,645              | 0.06%             |
| Quartzsite              | 308,325       | 0.08%             | Mammoth                 | 161,976              | 0.04%             |
| <b>MARICOPA</b>         |               |                   | Maricopa                | 459,455              | 0.12%             |
| Avondale                | 3,298,636     | 0.88%             | Superior                | 299,132              | 0.08%             |
| Buckeye                 | 781,108       | 0.21%             | <b>SANTA CRUZ</b>       |                      |                   |
| Carefree                | 269,072       | 0.07%             | Nogales                 | 1,919,263            | 0.51%             |
| Cave Creek              | 342,706       | 0.09%             | Patagonia               | 80,988               | 0.02%             |
| Chandler                | 16,265,569    | 4.36%             | <b>YAVAPAI</b>          |                      |                   |
| El Mirage               | 699,476       | 0.19%             | Camp Verde              | 868,807              | 0.23%             |
| Fountain Hills          | 1,860,154     | 0.50%             | Chino Valley            | 750,772              | 0.20%             |
| Gila Bend               | 182,017       | 0.05%             | Clarkdale               | 314,576              | 0.08%             |
| Gilbert                 | 10,084,177    | 2.70%             | Cottonwood              | 843,803              | 0.23%             |
| Glendale                | 20,114,852    | 5.39%             | Jerome                  | 30,245               | 0.01%             |
| Goodyear                | 1,738,442     | 0.47%             | Prescott                | 3,119,838            | 0.84%             |
| Guadalupe               | 480,597       | 0.13%             | Prescott Valley         | 2,163,515            | 0.58%             |
| Litchfield Park         | 350,244       | 0.09%             | Sedona                  | 936,926              | 0.25%             |
| Mesa                    | 36,566,575    | 9.80%             | <b>YUMA</b>             |                      |                   |
| Paradise Valley         | 1,256,199     | 0.34%             | San Luis                | 1,408,514            | 0.38%             |
| Peoria                  | 9,961,638     | 2.67%             | Somerton                | 647,910              | 0.17%             |
| Phoenix                 | 121,440,437   | 32.55%            | Wellton                 | 168,135              | 0.05%             |
|                         |               |                   | Yuma                    | 7,141,392            | 1.91%             |
|                         |               |                   | <b>TOTAL</b>            | <b>\$373,072,580</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;<br>25% on the remainder |
| 2R            | Agricultural Real; Vacant Land                                                                               | 16%                                            |
| 2P            | Agricultural Personal                                                                                        | First \$53,266 exempt;<br>16% on the remainder |
| 3             | Residential                                                                                                  | 10%                                            |
| 4             | Rental Residential                                                                                           | 10%                                            |
| 5             | Railroads, Airlines                                                                                          | 21%                                            |
| 6             | Historic Property; Foreign Trade Zones;<br>Enterprise Zone; Qualified Environmental<br>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 |                 |            |
|-------------------------------------|---------------------|-----------------|------------|
|                                     | 2003.....           | 2004.....       | 2005       |
| Airlines (Flight Property).....     | 30.....             | 30.....         | 37         |
| Electric & Gas*                     |                     |                 |            |
| Generation .....                    | 26.....             | 26.....         | 24         |
| Transmission and Distribution.....  | 35.....             | 35.....         | 35         |
| Mines (non-producing) .....         | 2.....              | 2.....          | 3          |
| Mines (producing).....              | 33.....             | 32.....         | 34         |
| Pipelines (Gas Transmission) .....  | 9.....              | 9.....          | 9          |
| Private Rail Cars .....             | 256.....            | 254.....        | 256        |
| Producing Oil & Gas Interests ..... | 2.....              | 2.....          | 4          |
| Railroads .....                     | 11.....             | 11.....         | 11         |
| Telecommunications .....            | 81.....             | 81.....         | 81         |
| Waste Water Utilities.....          | 26.....             | 26.....         | 25         |
| Water Utilities.....                | 327.....            | 326.....        | 321        |
| <b>Total .....</b>                  | <b>838.....</b>     | <b>834.....</b> | <b>840</b> |

\* Includes Salt River Project

**TABLE 36**  
**STATE OF ARIZONA**  
**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>          |                      |                        |                  |                        |              |

**TAX YEAR 2004 PRIMARY PROPERTY TAX LEVIES**

| TAX AUTHORITY                                   | NET ASSESSED VALUATION  | STATE               | COUNTY               | CITIES & TOWNS       | COMMUNITY COLLEGES   | SCHOOLS                | ALL OTHER       | TOTAL                  | PRIMARY RATE |
|-------------------------------------------------|-------------------------|---------------------|----------------------|----------------------|----------------------|------------------------|-----------------|------------------------|--------------|
| APACHE                                          | \$296,128,594           | \$0                 | \$2,480,965          | \$0                  | \$0                  | \$9,320,804            | \$0             | \$11,801,769           | 3.99         |
| COCHISE                                         | \$611,079,588           | \$197,701           | \$20,735,764         | \$1,649,765          | \$10,918,770         | \$26,942,271           | \$0             | \$60,444,271           | 9.89         |
| COCONINO                                        | \$1,174,117,295         | \$0                 | \$11,153,929         | \$4,040,799          | \$4,817,403          | \$41,350,256           | \$0             | \$61,362,387           | 5.23         |
| GILA                                            | \$365,997,563           | \$0                 | \$17,809,442         | \$1,772,394          | \$2,301,393          | \$15,707,349           | \$0             | \$37,590,578           | 10.27        |
| GRAHAM                                          | \$101,932,721           | \$0                 | \$2,297,973          | \$167,009            | \$2,109,803          | \$4,104,525            | \$0             | \$8,679,310            | 8.51         |
| GREENLEE                                        | \$160,123,797           | \$0                 | \$1,964,231          | \$9,476              | \$0                  | \$5,653,142            | \$0             | \$7,626,849            | 4.76         |
| LA PAZ                                          | \$141,588,228           | \$0                 | \$3,831,378          | \$0                  | \$2,634,249          | \$4,257,347            | \$0             | \$10,722,974           | 7.57         |
| MARICOPA                                        | \$28,070,870,413        | \$12,202,740        | \$467,885,268        | \$134,366,940        | \$258,560,787        | \$1,243,174,899        | \$0             | \$2,116,190,634        | 7.54         |
| MOHAVE                                          | \$1,251,920,164         | \$0                 | \$27,617,359         | \$3,304,905          | \$11,872,243         | \$48,847,306           | \$0             | \$91,641,813           | 7.32         |
| NAVAJO                                          | \$644,595,265           | \$0                 | \$7,010,618          | \$312,790            | \$8,099,984          | \$23,181,404           | \$0             | \$38,604,797           | 5.99         |
| PIMA                                            | \$5,412,550,080         | \$0                 | \$245,080,267        | \$8,788,292          | \$60,312,046         | \$291,815,602          | \$0             | \$605,996,207          | 11.20        |
| PINAL                                           | \$1,061,148,994         | \$0                 | \$52,093,926         | \$3,199,136          | \$22,814,703         | \$47,695,648           | \$64,803        | \$125,868,216          | 11.86        |
| SANTA CRUZ                                      | \$247,854,940           | \$0                 | \$9,430,137          | \$0                  | \$0                  | \$12,263,995           | \$0             | \$21,694,132           | 8.75         |
| YAVAPAI                                         | \$1,676,029,540         | \$0                 | \$36,148,695         | \$1,333,861          | \$26,189,637         | \$59,289,987           | \$0             | \$122,962,180          | 7.34         |
| YUMA                                            | \$658,763,396           | \$0                 | \$18,274,097         | \$6,089,513          | \$12,256,293         | \$29,436,047           | \$0             | \$66,055,950           | 10.03        |
| <b>TOTAL STATE</b>                              | <b>\$41,874,700,578</b> | <b>\$12,400,441</b> | <b>\$923,814,049</b> | <b>\$165,034,880</b> | <b>\$422,887,311</b> | <b>\$1,863,040,583</b> | <b>\$64,803</b> | <b>\$3,387,242,068</b> | <b>8.09</b>  |
| <b>AVERAGE STATE PRIMARY TAX RATE PER \$100</b> |                         |                     |                      | <b>8.09</b>          |                      |                        |                 |                        |              |

All figures are current as of September 1, 2005.



**TABLE 37  
STATE OF ARIZONA  
TAX YEAR 2005 SECONDARY PROPERTY TAX LEVIES**

| TAX AUTHORITY      | NET ASSESSED VALUATION  | STATE      | COUNTY               | CITIES & TOWNS       | COMMUNITY COLLEGES  | SCHOOLS                | ALL OTHER            | TOTAL                  | SECONDARY RATE |
|--------------------|-------------------------|------------|----------------------|----------------------|---------------------|------------------------|----------------------|------------------------|----------------|
| 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> |
|---------------------------------------------------|-------------|

**TAX YEAR 2004 SECONDARY PROPERTY TAX LEVIES**

| TAX AUTHORITY      | NET ASSESSED VALUATION  | STATE      | COUNTY               | CITIES & TOWNS       | COMMUNITY COLLEGES  | SCHOOLS              | ALL OTHER            | TOTAL                  | SECONDARY RATE |
|--------------------|-------------------------|------------|----------------------|----------------------|---------------------|----------------------|----------------------|------------------------|----------------|
| APACHE             | \$302,353,668           | \$0        | \$3,398,152          | \$78,758             | \$1,348,497         | \$1,975,679          | \$2,675,052          | \$9,476,138            | 3.13           |
| COCHISE            | \$628,655,003           | \$0        | \$1,603,699          | \$134,929            | \$0                 | \$10,388,668         | \$6,881,859          | \$19,009,155           | 3.02           |
| COCONINO           | \$1,222,225,551         | \$0        | \$3,543,232          | \$4,944,225          | \$1,948,855         | \$22,255,918         | \$10,083,803         | \$42,776,033           | 3.50           |
| GILA               | \$378,256,442           | \$0        | \$1,134,769          | \$100,000            | \$0                 | \$4,914,042          | \$4,555,315          | \$10,704,126           | 2.83           |
| GRAHAM             | \$103,542,473           | \$0        | \$52,608             | \$0                  | \$0                 | \$1,656,656          | \$333,521            | \$2,042,785            | 1.97           |
| GREENLEE           | \$160,301,809           | \$0        | \$1,709,958          | \$0                  | \$0                 | \$1,060,252          | \$44,948             | \$2,815,158            | 1.76           |
| LA PAZ             | \$148,341,040           | \$0        | \$148,341            | \$0                  | \$323,128           | \$1,351,174          | \$3,881,259          | \$5,703,902            | 3.85           |
| MARICOPA           | \$30,066,986,670        | \$0        | \$53,861,685         | \$207,813,806        | \$34,904,190        | \$722,321,146        | \$104,483,185        | \$1,123,384,012        | 3.74           |
| MOHAVE             | \$1,321,872,683         | \$0        | \$6,745,517          | \$425,605            | \$0                 | \$15,197,488         | \$19,520,945         | \$41,889,555           | 3.17           |
| NAVAJO             | \$663,206,947           | \$0        | \$2,258,200          | \$47,779             | \$1,675,261         | \$9,554,916          | \$5,576,753          | \$19,112,908           | 2.88           |
| PIMA               | \$5,620,156,274         | \$0        | \$66,885,481         | \$21,274,250         | \$12,842,057        | \$106,087,354        | \$47,719,434         | \$254,808,576          | 4.53           |
| PINAL              | \$1,128,263,009         | \$0        | \$2,969,706          | \$0                  | \$0                 | \$24,494,987         | \$14,900,697         | \$42,365,390           | 3.75           |
| SANTA CRUZ         | \$253,681,084           | \$0        | \$1,044,405          | \$0                  | \$0                 | \$5,445,990          | \$4,259,782          | \$10,750,177           | 4.24           |
| YAVAPAI            | \$1,785,174,684         | \$0        | \$3,723,175          | \$1,685,025          | \$5,155,584         | \$13,543,524         | \$23,271,664         | \$47,378,972           | 2.65           |
| YUMA               | \$678,720,689           | \$0        | \$3,895,857          | \$89,500             | \$1,478,254         | \$13,178,322         | \$2,236,981          | \$20,878,914           | 3.08           |
| <b>TOTAL STATE</b> | <b>\$44,461,738,026</b> | <b>\$0</b> | <b>\$152,974,785</b> | <b>\$236,593,877</b> | <b>\$59,675,826</b> | <b>\$953,426,116</b> | <b>\$250,425,198</b> | <b>\$1,653,095,802</b> | <b>3.72</b>    |

|                                                   |             |
|---------------------------------------------------|-------------|
| <b>AVERAGE STATE SECONDARY TAX RATE PER \$100</b> | <b>3.72</b> |
|---------------------------------------------------|-------------|

All figures are current as of September 1, 2005.

**TABLE 38**  
**AVERAGE PROPERTY TAX RATES**  
**PER \$100 OF ASSESSED VALUATION**  
**TAX YEAR 2002 THROUGH TAX YEAR 2005**

|                    | 2002           |               | 2005           |               |
|--------------------|----------------|---------------|----------------|---------------|
|                    | PRIMARY        | SECONDARY     | PRIMARY        | SECONDARY     |
| School Districts   | \$4.87         | \$2.24        | \$4.69         | \$2.16        |
| Counties           | 2.24           | 0.30          | 2.22           | 0.29          |
| State              | 0.04           | 0.00          | 0.04           | 0.00          |
| Cities             | 0.38           | 0.55          | 0.39           | 0.55          |
| Community Colleges | 1.03           | 0.18          | 1.02           | 0.16          |
| Special Districts  | 0.00           | 0.66          | 0.00           | 0.66          |
|                    | <b>\$8.56</b>  | <b>\$3.93</b> | <b>\$8.36</b>  | <b>\$3.82</b> |
| <b>TOTAL</b>       | <b>\$12.49</b> |               | <b>\$12.18</b> |               |

|                    | 2004           |               | 2005           |               |
|--------------------|----------------|---------------|----------------|---------------|
|                    | PRIMARY        | SECONDARY     | PRIMARY        | SECONDARY     |
| School Districts   | \$4.45         | \$2.15        | \$4.23         | \$2.06        |
| Counties           | 2.21           | 0.35          | 2.17           | 0.54          |
| State              | 0.03           | 0.00          | 0.03           | 0.00          |
| Cities             | 0.39           | 0.53          | 0.39           | 0.53          |
| Community Colleges | 1.01           | 0.13          | 0.99           | 0.15          |
| Special Districts  | 0.00           | 0.56          | 0.00           | 0.47          |
|                    | <b>\$8.09</b>  | <b>\$3.72</b> | <b>\$7.81</b>  | <b>\$3.75</b> |
| <b>TOTAL</b>       | <b>\$11.81</b> |               | <b>\$11.56</b> |               |

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

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## **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 \$ 610,055 was deposited in fiscal year 2005 (*Refer to Table 39*).

**TABLE 39**  
**BINGO COLLECTIONS**  
**FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2004-05**

| <b>Fiscal<br/>Year</b> | <b>Amount</b> |
|------------------------|---------------|
| 2000-01                | \$634,384     |
| 2001-02                | \$629,680     |
| 2002-03                | \$626,770     |
| 2003-04                | \$624,501     |
| 2004-05                | \$610,055     |

**BINGO COLLECTIONS**

|                                        | <b>FY2000-01</b> | <b>FY2001-02</b> | <b>FY2002-03</b> | <b>FY2003-04</b> | <b>FY2004-05</b> |
|----------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Licenses                               | \$24,549         | \$21,322         | \$26,110         | \$19,121         | \$19,070         |
| Proceeds                               | 606,880          | 605,388          | 598,465          | 603,306          | 585,289          |
| Penalty, Interest<br>and Miscellaneous | 2,955            | 2,970            | 2,194            | 2,074            | 5,697            |
| <b>TOTAL</b>                           | <b>\$634,384</b> | <b>\$629,680</b> | <b>\$626,770</b> | <b>\$624,501</b> | <b>\$610,055</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.

**TABLE 40**  
**COLLECTIONS OF ESTATE TAXES**  
**FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2004-05**

| <b>Fiscal Year</b> | <b>Collections</b> | <b>Refunds</b> | <b>Net</b>   |
|--------------------|--------------------|----------------|--------------|
| 2000-01            | \$76,921,666       | \$2,269,883    | \$74,651,783 |
| 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 |

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 2005 fiscal year, over \$344 million was received in luxury tax collections.

Of the monies collected per the Tobacco Products Referendum (Prop 303), \$60.6 million was distributed to the Prop 204 Protection Account, \$39.0 million to the Medically Needy Account, \$28.9 million for Emergency Health Services, \$7.2 million for Health Research, and \$2.9 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, \$73.1 million was allocated to the Medically Needy Fund, \$24.0 million to the Health Education Fund and \$5.2 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$28.0 million, and the Arizona Wine Promotional Fund received \$34,667. The Drug Treatment and Education Fund received \$7.9 million, and the Corrections Revolving Fund received \$3.1 million due to the passage of Proposition 200 in 1994. The remaining \$64.4 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   |

**TABLE 41**  
**LUXURY TAX COLLECTIONS**  
**FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2004-05**

| SOURCE:                                      | FY2000-01            | FY2001-02            | FY2002-03            | FY2003-04            | FY2004-05            | PERCENT OF<br>COLLECTIONS<br>IN FY2004-05 |
|----------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-------------------------------------------|
| Spiritous Liquor                             | \$21,327,540         | \$21,574,744         | \$22,004,331         | \$23,438,818         | \$25,085,444         | 7.3%                                      |
| Vinous Liquor                                | 8,477,493            | 9,035,156            | 9,924,749            | 10,404,545           | 11,473,203           | 3.3%                                      |
| Malt Liquor                                  | 21,602,321           | 22,031,467           | 22,137,764           | 22,110,426           | 22,664,420           | 6.6%                                      |
| <b>Liquor Collections</b>                    | <b>\$51,407,354</b>  | <b>\$52,641,368</b>  | <b>\$54,066,844</b>  | <b>\$55,953,790</b>  | <b>\$59,223,067</b>  |                                           |
| Tobacco - All Types (1)                      |                      |                      |                      |                      |                      |                                           |
| Gross Revenue                                | 161,078,853          | 162,148,102          | 218,358,747          | 282,209,893          | 290,948,888          |                                           |
| Refunds                                      | (2,662,128)          | (4,169,264)          | (5,614,159)          | (7,273,023)          | (5,109,215)          |                                           |
| Licenses                                     | 8,600                | 5,250                | 5,950                | 6,400                | 5,325                |                                           |
| Administrative Expenses                      | (384,593)            | (393,800)            | (403,739)            | (414,329)            | (445,507)            |                                           |
| <b>Net Tobacco Collections</b>               | <b>\$158,040,732</b> | <b>\$157,590,288</b> | <b>\$212,346,798</b> | <b>\$274,528,941</b> | <b>\$285,399,491</b> | <b>82.8%</b>                              |
| <b>Amnesty Luxury Collections</b>            | -----                | -----                | -----                | <b>\$187,315</b>     | -----                |                                           |
| <b>TOTAL COLLECTIONS</b>                     | <b>\$209,448,087</b> | <b>\$210,231,655</b> | <b>\$266,413,642</b> | <b>\$330,670,046</b> | <b>\$344,622,558</b> |                                           |
| <b>DISTRIBUTIONS:</b>                        |                      |                      |                      |                      |                      |                                           |
| State General Fund                           | \$65,568,793         | \$66,069,587         | \$64,586,950         | \$61,301,017         | \$64,446,627         |                                           |
| Wine Promotional Fund                        | 21,278               | 23,391               | 25,497               | 27,995               | 34,667               |                                           |
| Tobacco Tax & Health Care Fund-Prop. 200 (1) | 108,709,176          | 108,177,154          | 102,529,785          | 92,599,453           | 96,540,601           |                                           |
| Tobacco Products Tax Fund-Prop. 303 (1)      | N/A                  | N/A                  | 59,938,321           | 133,563,168          | 138,521,611          |                                           |
| Drug Treatment & Education Fund              | 6,903,464            | 7,098,014            | 7,306,966            | 7,490,976            | 7,894,513            |                                           |
| DOC Revolving Fund                           | 2,743,924            | 2,820,269            | 2,902,721            | 2,978,318            | 3,139,770            |                                           |
| Department of Corrections Fund               | 25,154,893           | 25,718,685           | 26,348,946           | 26,613,423           | 28,049,051           |                                           |
| DOC Transfer from Prop 200 Funds             | 346,559              | 324,556              | 277,104              | 531,839              | 226,191              |                                           |
| Prop 200 Transfer from Prop 303 Funds (1)    | N/A                  | N/A                  | 2,497,352            | 5,563,857            | 5,769,526            |                                           |
| <b>TOTAL DISTRIBUTIONS</b>                   | <b>\$209,448,087</b> | <b>\$210,231,655</b> | <b>\$266,413,642</b> | <b>\$330,670,046</b> | <b>\$344,622,558</b> |                                           |

(1) In November 2002, Proposition 303 increased the Luxury tax on cigarets 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.

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## **UNCLAIMED PROPERTY**

Responsibilities of the Unclaimed Property Program include the collection, safekeeping, and disposition of ordinary unclaimed 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 regular business associations, banking and financial organizations, insurance companies, utilities, fiduciaries, state courts, and governmental agencies. The largest percentage of unclaimed property is comprised of:

- Contents of safe deposit boxes on which rent has not been paid for one year.
- Checks written to employees not cashed after one year.
- Government and Court property not claimed in one year.
- Utility deposits not claimed in two years.
- Stock or other equity interest in a business association or financial organization with no activity for three years.
- Checks written to vendors 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.

Owners may recover unclaimed property at any time with proper documentation, and there is no statute of limitation on claims.

## **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, or if a known heir cannot be located. When either of these conditions exist, 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 2000-01 THROUGH FISCAL YEAR 2004-05**

| SOURCE:                               | FY2000-01           | FY2001-02           | FY2002-03           | FY2003-04           | FY2004-05           | PERCENT OF<br>COLLECTIONS<br>IN FY2004-05 |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------------------------------|
| <b>UNCLAIMED PROPERTY</b>             | \$38,027,873        | \$48,687,357        | \$46,219,555        | \$49,653,262        | \$83,063,365        |                                           |
| Refunds                               | (15,764,220)        | (11,903,236)        | (10,333,078)        | (10,093,832)        | (16,241,154)        |                                           |
| Expenses                              | (1,023,813)         | (1,324,594)         | (1,325,764)         | (1,368,887)         | (1,459,889)         |                                           |
| <b>NET</b>                            | <b>\$21,239,840</b> | <b>\$35,459,527</b> | <b>\$34,560,714</b> | <b>\$38,190,543</b> | <b>\$65,362,322</b> | <b>99.4%</b>                              |
| <b>ESCHEATED ESTATES</b>              | 647,074             | 252,786             | 269,557             | 568,385             | 731,836             |                                           |
| Refunds                               | (576,578)           | (294,542)           | (55,504)            | (223,945)           | (339,712)           |                                           |
| <b>NET</b>                            | <b>\$70,496</b>     | <b>(\$41,755)</b>   | <b>\$214,052</b>    | <b>\$344,441</b>    | <b>\$392,124</b>    | <b>0.60%</b>                              |
| <b>TOTAL NET REVENUE</b>              | <b>\$21,310,336</b> | <b>\$35,417,772</b> | <b>\$34,774,766</b> | <b>\$38,534,984</b> | <b>\$65,754,446</b> | <b>100.0%</b>                             |
| <b>DISTRIBUTIONS:</b>                 |                     |                     |                     |                     |                     |                                           |
| <b>General Fund</b>                   | 4,309,756           | 7,656,006           | 6,745,652           | 8,043,962           | 9,423,140           |                                           |
| <b>Housing Fund</b>                   | 11,733,852          | 19,761,582          | 17,950,660          | 20,708,267 (5)      | 23,942,665          |                                           |
| <b>Ladewig (6)</b>                    | -----               | -----               | -----               | -----               | 21,292,088          |                                           |
| <b>Utility Assistance Fund</b>        | 905,023             | 868,416             | 1,118,958           | 1,307,953           | 1,664,467           |                                           |
| <b>Racing Fund</b>                    | 4,266,855           | 7,186,030           | 6,527,513           | 7,530,279           | 8,706,424           |                                           |
| <b>Victim Restitution Fund</b>        | 17,027              | (18,426) (2)        | 2,128,019           | 547,274             | 299,565             |                                           |
| <b>Net to Permanent School Fund:</b>  |                     |                     |                     |                     |                     |                                           |
| Escheated Estates                     | 70,496              | (41,755)            | 214,052             | 344,441             | 392,124 (1)         |                                           |
| Unclaimed Shares/dividends            | 7,326               | 5,919               | 0                   | 43,788              | 29,359              |                                           |
| Storage Facility (3)                  | -----               | -----               | -----               | 9,021               | 4,614               |                                           |
| <b>Retained by Unclaimed Property</b> | 0                   | 0                   | 89,912 (4)          | 0                   | 0                   |                                           |
| <b>TOTAL DISTRIBUTION</b>             | <b>\$21,310,336</b> | <b>\$35,417,772</b> | <b>\$34,774,766</b> | <b>\$38,534,984</b> | <b>\$65,754,446</b> |                                           |

(1) FY 05 Escheated Estates will be transferred in FY 06.

(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 2005, the department collected \$8,164,120 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 2004-05**

| COUNTY                                   | FY 2000-01         | FY 2001-02         | FY 2002-03         | FY 2003-04         | FY 2004-05         |
|------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Apache                                   | \$76,526           | \$78,693           | \$88,265           | \$100,750          | \$104,593          |
| Cochise                                  | 174,766            | 174,721            | 188,526            | 208,639            | 218,301            |
| Coconino                                 | 171,302            | 161,337            | 182,060            | 202,203            | 210,871            |
| Gila                                     | 93,175             | 88,035             | 100,584            | 109,692            | 113,751            |
| Graham                                   | 40,407             | 38,300             | 42,055             | 45,472             | 47,489             |
| Greenlee                                 | 14,980             | 14,021             | 14,267             | 14,571             | 15,401             |
| La Paz                                   | 36,436             | 36,329             | 40,230             | 46,334             | 48,427             |
| Maricopa                                 | 3,440,863          | 3,525,885          | 3,837,502          | 4,245,363          | 4,452,595          |
| Mohave                                   | 267,186            | 271,827            | 305,722            | 355,631            | 375,524            |
| Navajo                                   | 125,978            | 127,482            | 143,348            | 162,789            | 169,024            |
| Pima                                     | 927,554            | 904,818            | 991,330            | 1,085,793          | 1,138,071          |
| Pinal                                    | 220,890            | 207,211            | 231,521            | 256,738            | 272,484            |
| Santa Cruz                               | 60,520             | 65,220             | 67,292             | 74,443             | 78,802             |
| Yavapai                                  | 280,743            | 290,584            | 323,797            | 369,140            | 386,285            |
| Yuma                                     | 193,171            | 184,430            | 205,684            | 235,110            | 246,759            |
| Arizona Dept of<br>Environmental Quality | 222,132            | 223,742            | 245,261            | 272,480            | 285,744            |
| <b>Total</b>                             | <b>\$6,346,629</b> | <b>\$6,392,637</b> | <b>\$7,007,444</b> | <b>\$7,785,148</b> | <b>\$8,164,120</b> |

Figures may not add to total due to rounding.

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# LEGISLATIVE SUMMARY

The following is intended to give a brief summary of the 2005 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 August 12, 2005. 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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## Administration

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### Senate Bill 1171 (Chapter 95)

Taxation; Managed Audit Agreements

SB 1171 establishes a managed audit agreement program where the Department of Revenue (DOR) and the taxpayer work together to audit the taxpayer's books.

This bill allows the taxpayer to request a managed audit agreement and DOR may enter into a managed audit agreement with a taxpayer to audit certain business activities and types of taxes for a specified time period. The types of taxes that may be included under the managed audit include the transaction privilege tax (TPT), local excise tax, use and luxury tax beginning January 2006, with corporate income taxpayers becoming eligible for the program beginning January 2007. Once the managed audit is completed, the taxpayer is required to submit the findings to DOR, at which time DOR may review the audited records and accept or reject the taxpayer's findings and assess a deficiency or issue a refund. If a deficiency is assessed, the taxpayer is not required to pay penalties unless the managed audit discloses that the taxpayer committed fraud or willful tax evasion. Under this bill interest does not accrue on a deficiency or refund if paid within 45 days of the date of the assessment or refund determination. The taxpayer maintains the same appeal rights as if DOR had conducted the audit. In addition, a limited managed audit does not preclude DOR from auditing issues not covered under the managed audit agreement, subject to the statute of limitations.

### Provisions

- Establishes a managed audit agreement program that the taxpayer and DOR agree to determine the liability for any privilege tax, local excise tax, use tax, luxury tax or corporate income tax.
- Allows DOR to consider all relevant factors when determining whether to enter into a managed audit agreement, including the taxpayer's history of tax compliance, any legal dispute with DOR and its relevance to the managed audit proposal, the amount of time and quality of resources the taxpayer is able to dedicate to the audit and the extent and availability of the taxpayer's records.
- Requires DOR to notify the cities or towns in which the taxpayer conducts business.
- Prohibits a city or town that does not agree to participate in the managed audit agreement from conducting an audit for 42 months following the end of the last tax period covered by the agreement with some exceptions.
- Requires the taxpayer to provide written findings of the managed audit agreement to DOR.
- Requires DOR to accept or reject the managed audit findings after performing the review.
- Provides the taxpayers with the same appeal rights as if DOR conducted the audit
- Prohibits DOR from assessing interest or penalties unless the managed audit discloses that the taxpayer committed fraud or willful tax evasion or collected monies represented as tax but were not remitted to the state.
- Requires the taxpayer to pay interest if the entire assessment is paid after 45 days.

- DOR is not required to pay interest if the refund is paid within 45 days.
- Requires, in cases of appeal, interest to be calculated on any additional tax that is due or any refund.
- Allows DOR to audit issues not covered by limited managed audit agreement and within the statute of limitations.

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### **Senate Bill 1185 (Chapter 196)**

#### Use Tax Percentage Based Reporting

SB 1185 adds a Use tax statute that allows for an alternative method of reporting based on a percentage.

#### Provisions:

- Allows the Director of DOR to permit a taxpayer to use a percentage-based reporting method for determining use tax payments by issuing a letter of authorization.
- The letter of authorization is valid for four years.
- Allows the Director of DOR to revoke the letter of authorization under certain conditions.
- The revocation of a letter of authorization made by the director may not be appealed by the taxpayer.
- Allows DOR to audit a taxpayer that has the letter of authorization for a percentage-based reporting method regarding the calculation of use tax.
- Allows the taxpayer to protest a determination of an audit, limited to whether DOR's proposed changes are correct to the terms of the letter of authorization.
- Becomes effective for taxpayers who use direct use tax payments for tax periods after June 30<sup>th</sup>, 2005 and for all use taxpayers on June 30, 2007.

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## **Income Tax**

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### **House Bill 2059 (Chapter 148)**

#### Income Tax Credits

HB 2059 amends the Individual and Corporate income tax credits for pollution control equipment to provide clarification of property qualifying for the credit.

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### **House Bill 2139 (Chapter 289)**

#### Income Tax; Corporate Sales Factor

#### Optional Sales Factor Provisions

- Provides an optional apportionment formula for corporate income tax for multi-state and multi-national corporations if certain conditions are met.
- If the conditions are met, allows multi-state and multi-national corporations to elect an apportionment formula using the current double-weighted sales factor or an 80% sales factor apportionment for corporate income tax purposes.
- Provides a three-year phase-in for the option of the 80% sales factor apportionment formula, beginning with tax year 2007 with a 60% sales factor apportionment formula. In the second year, the sales factor weight is increased to 70% and for 2009 and subsequent years, the sales factor is increased to 80%.

#### Conditions for Optional Sales Factor Provisions

- Provides that the optional enhanced sales factor apportionment formula is effective beginning in tax year 2008 but that it is retroactive to tax year 2007 if the following conditions are met:
  - One or more corporations announce on or after June 1, 2005 that one or more capital investment projects, individually or collectively, exceed \$1 Billion and that these corporations report their activity to the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB). Each report must include:
    - The date the project will begin and an estimated completion date of the project;

- A description of the construction or reconstruction, expansion, installation of new equipment, tooling or retooling;
- Estimated cost of the project and the number of contractors expected to be employed, and
- Estimated construction employment and the estimated long-term employment of the completed project.
- By December 15, 2007, the corporations that reported their proposed capital investments to JLBC and OSPB must notify these offices that these projects have commenced and are in excess of \$1 Billion.
- JLBC and OSPB will jointly:
  - Publish a list of the corporations and projects reported to them for 2006, 2007 and 2008, and
  - By December 31, 2007, notify DOR and Legislative Council if the conditions for the enhanced sales factor formula have occurred.
- Requires each corporation that made capital investment commitments to file a report on the status of each project by December 31, 2005, 2006, 2007 and 2008.

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### **House Bill 2155 (Chapter 11)**

2005 Tax Corrections Act

See summary under multiple tax types.

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### **House Bill 2156 (Chapter 12)**

Income Tax Credit Review Schedule

HB 2156 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. Removes the income tax credits that were reviewed in 2004 and adds these credits to the review schedule in 2009.

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### **House Bill 2323 (Chapter 292)**

Tax Credits; Water Conservation Systems

Provisions:

- Provides an individual credit for installation of a water conservation system in a residence to reclaim graywater. The credit is

- 25 percent of the cost of installing a water conservation system not to exceed \$1,000 in the taxpayer's Arizona residence.
- total credit is limited to \$250,000 per year
- Provides a corporate credit for installation of plumbing stub outs for a separate graywater system in a residence. The credit is
  - for the full cost of installing a water conservation system plumbing stub out not to exceed \$200.
  - total credit is limited to \$500,000 per year
- Requires the Department of Revenue (DOR) to establish a preapproval process for the tax credit applications.
- Allows the credit to be carried forward for five years.

Both credits are effective for taxable years beginning from and after December 31, 2006 and ending before January 1, 2012.

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### **Senate Bill 1027 (Chapter 303)**

Income Tax; Military Exemption

SB 1027 provides that in addition to the subtraction allowed under A.R.S. §§ 43-1022 and 43-1332, an individual or an estate may subtract compensation received for active service as a member of the armed forces of the United States to the extent not already excluded from Arizona gross income under the internal revenue code or subtracted from Arizona gross income pursuant to A.R.S. § 43-1022.

This bill will exempt active duty military pay from Arizona income tax. In the case where a taxpayer's only source of income is active duty military pay, the taxpayer will also be exempt from filing an Arizona income tax return under A.R.S. § 43-301 unless the taxpayer must file to claim a refund of Arizona income tax withheld.

This provision is effective and applies to taxable years beginning from and after December 31, 2005 through December 31, 2006. Therefore, this legislation will apply to only the 2006 taxable year.

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## **Senate Bill 1224 (Chapter 264)**

### **Income Tax Credit; National Guard Employees**

The bill adds new A.R.S. §§ 43-1079.01 and 43-1167.01 to provide an income tax credit for a taxpayer whose employee is a member of the Arizona National Guard, if the employee is placed on active duty. The amount of the credit is \$1,000 for each employee who is placed on active duty by the Arizona National Guard. To qualify for the credit, the employee must be a member of the Arizona National Guard who is employed by the taxpayer in a full-time equivalent position when the employee is placed on active duty. Each member of the Arizona National Guard who is employed must have served during the taxable year on active duty for training that exceeds the required annual training period, including any activation for federal or state contingencies or emergencies. Any amount of unused credit may be carried forward for not more than five consecutive taxable years' income tax liability.

The credit may be claimed only once by the taxpayer in any taxable year with respect to each employee who is placed on active duty by the Arizona National Guard. The taxpayer may also claim the credit again for that employee in a subsequent taxable year if that employee remains on active duty or is placed again on active duty in a subsequent taxable year.

Co-owners, including partners in a partnership and shareholders of an S corporation, may claim only the pro rata share of their allowable credit based on their ownership interest. The total of the credits allowed all co-owners may not exceed the allowable credit.

The credits will become effective beginning with the 2006 taxable year.

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## **Senate Bill 1335 (Chapter 316)**

### **Income Tax Credit; Small Business Investments**

SB 1335 creates a new income tax credit for investments made after July 1, 2006, by individuals for qualifying investments in a qualified small business. Within 30 days after making the investment, investors apply to Commerce, which reviews the application to determine if the small business qualifies and if the investment itself qualifies. If both qualify, Commerce certifies the

credit (including amount and years to be claimed) to the applicant and Revenue. Unless the small business in which the investment is made is a bioscience company or is located in a rural area of Arizona (county of 400,000 or less) the credit is ten percent of the investment amount for each of 3 consecutive years starting the year after the investment. The credit for small business in a rural or bioscience company is twelve percent for the first two years after the investment and eleven percent the third year. Unused credits may be carried forward up to three years. The investor must file a timely return to claim a credit or the credit for that year will expire.

To qualify an investment must be at least \$25,000 and the investor and affiliates cannot own more than thirty percent of the voting power of the small business. To be a qualified small business it must have a location within the state with two employees who are residents, must not have more than \$2 million in total assets and not have as a principal business an activity which is on the statutory disqualified list. In general, manufacturing, research and development, hardware and software services by providers of the same qualify. Other professional services, retail, agricultural, financial and health care do not. Activities involving human cloning or embryonic stem cell research do not qualify.

The credit is capped in four ways: (1) Commerce shall not authorize credits after June 30, 2011; (2) the total amount of credits to be authorized by Commerce in all years cannot exceed \$20 million; (3) each investor and its affiliates are limited to a total of \$250,000 in investments in any year; and (4) the total investments for all years in any given business cannot exceed \$2 million. Upon a written request by a business, Commerce will certify that the business is a qualifying small business, a rural business and a bioscience business. This certification will remain effective for a year, unless Commerce revokes it. Investments made while a certification is in place will be considered qualified for credit purposes unless the investor knew or should have known the certification was in error.

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## **Senate Bill 1283 (Chapter 278)**

### **Forests Health Amendments**

See summary under multiple tax types.

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## **Senate Bill 1347 (Chapter 317)**

Tax Incentives; Movie Production

See summary under multiple tax types.

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## **Senate Bill 1466 (Chapter 115)**

National Guard Relief; Tax Checkoff

This bill adds new A.R.S. § 26-183 to establish a national guard relief fund. This bill also adds new A.R.S. § 43-619 to establish a new refund check-off on the individual income tax return form. Under this bill, a taxpayer may designate an amount of the taxpayer's refund as a voluntary contribution to the national guard relief fund. The taxpayer may also donate any amount to the national guard relief fund in lieu of or in addition to the designated portion of the refund by an appropriate indication on the return and by including that amount with the return.

This bill is effective and applies to taxable years beginning from and after December 31, 2005.

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## **Senate Bill 1529 (Chapter 334)**

Budget; Revenue; Marriage; Taxation

- This bill conforms the Arizona definition of "internal revenue code" to the Internal Revenue Code in effect on January 1, 2005 including those provisions that became effective during 2004 and adopts the retroactive effective dates of all retroactive provisions.
- This bill will continue to exclude the three provisions where Arizona did not previously conform to the federal changes. For 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 Jobs 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 amends A.R.S. § 43-1041 to provide for inflation indexing for the standard deduction. Under this bill, for each taxable year beginning on or after January 1, the department must adjust the standard deduction according to the average annual change in the metropolitan Phoenix consumer price index published by the

United States Bureau of Labor Statistics. The revised dollar amounts must be raised to the nearest dollar. The designated dollar amounts cannot be revised below the amount shown by the standard deduction in the prior taxable year. This provision is effective retroactively to taxable years beginning from and after December 31, 2004.

- The bill amends A.R.S. § 43-1088 (credit for contributions to charities that provide assistance to the working poor) to increase the maximum credit allowed to married taxpayers to twice the amount allowed to single individuals or heads of household. This increase is phased in over a two year period. Under this amendment, the maximum credit for married taxpayers filing a joint return will be \$300 for 2005 and \$400 for 2006 and later years.
- The bill amends A.R.S. § 43-1089 (credit for contributions to school tuition organizations) to increase the maximum credit allowed to married taxpayers to twice the amount allowed to single individuals or heads of household. This increase is phased in over a two year period. Under this amendment, the maximum credit for married taxpayers filing a joint return will be \$825 for 2005 and \$1,000 for 2006 and later years.
- The bill amends A.R.S. § 43-1089.01 (credit for fees paid or contributions made to public schools) to increase the maximum credit allowed to married taxpayers to twice the amount allowed to single individuals or heads of household. This increase is phased in over a two year period. Under this amendment, the maximum credit for married taxpayers filing a joint return will be \$300 for 2005 and \$400 for 2006 and later years.
- Provides taxpayers who make charitable cash contributions in January 2005 for tsunami relief can claim those contributions on their 2004 tax return instead of 2005.

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## Transaction Privilege Tax/ Use Tax

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### House Bill 2155 (Chapter 11)

2005 Tax Corrections Act

See summary under multiple tax types.

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### Senate Bill 1283 (Chapter 278)

Forests Health Amendments

See summary under multiple tax types.

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### Senate Bill 1347 (Chapter 317)

Tax Incentives; Movie Production

See summary under multiple tax types.

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### Senate Bill 1439 (Chapter 62):

Lodging Sales Tax; Application

SB 1439 relates to the taxation of transient lodging (hotel/resort) businesses, and the various services and activities that are provided.

#### Transporting Classification

SB 1439 exempts from the transporting classification entities arranging transportation as a convenience or service to its customers if that entity is not otherwise engaged in the business of transporting person, freight or property for hire. Exemption is not extended to those businesses that dispatch vehicles upon customer request, send billings and receive payments.

#### Telecommunication classification

A person that is engaged in a transient lodging business subject to taxation under the transient lodging classification and provides telephone, fax, or internet access services to its customers at an additional charge, and the amounts are separately stated on the customer invoice, revenue is considered to be taxable under the telecommunication classification.

#### Transient Lodging classification

Tax base for transient lodging excludes from gross proceeds;

- 1) Transactions or activities that would not be taxable to that person if engaged in that business activity and are not limited to transients.

- 2) Transactions or activities that would not be taxable under the transporting or amusement classification due to an exclusion, exemption or deduction and are limited to transients.
- 3) Certain commission payments.

#### Amusements;

Arranging an amusement activity as a service for another person is not taxable under the transient lodging activity. This exception does not apply to businesses that operate or conduct amusements pursuant to customer orders and send the billings and receive payments.

The bill has a general effective date for some of the provisions. The sections relating to amusements and transportation are retroactive to July 1, 1993, the same retroactive date that was used in HB 2427 (1999 session), and by SB 1002 in the second special session (1999 session) relating to destination services.

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## Property Tax

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### House Bill 2056 (Chapter 66):

Property Tax; Utilities

This bill has amended the definition of “plant” under A.R.S. § 42-14154(G)(8) to exclude “contributions in aid of construction,” or CIAC from the definition. This type of property is now excluded from being considered in the valuation of electric utility and natural gas utility transmission and distribution properties. The two most common examples of CIAC are buried electric lines and new electric lines that have been extended to new developments or to remote properties by property developers. Commonly, once the developers install these power lines they become the property of the utility company.

The bill is effective retroactively from and after December 31, 2004, making it applicable to the current (2005) tax year. This may require an adjustment of levy limits in certain counties (notably Maricopa and Pima). Additionally, litigation is still pending with several centrally valued property (CVP) taxpayers over this issue.

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**House Bill 2134 (Chapter 40):**

Property Taxation; Board of Equalization

Requires that the State Board of Equalization shall review and consider all competent evidence, including similar property values, if presented as evidence when hearing an appeal on a taxpayer's property.

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**House Bill 2252 (Chapter 131):**

Property Tax Administration

- Makes several clarifying amendments to ARS §§ 42-16252 and 42-16254 of the Error Correction statutes. The first significant amendment is in regard to the method of delivery to taxpayers of a "notice of error" that does not result in an increase in property value. The second adds wording to specify which statute (ARS § 42-1123) governs the amount of interest to be paid when a taxpayer has either overpaid property taxes or owes additional taxes, correcting the current inconsistency between the interest rate used by the County Treasurers and the rate used by the IRS and DOR.
- Adds new ARS § 42-18005. This allows the County Treasurer or a Board of Supervisors to act for the state to collect property taxes for "...any tax liens that are assigned to the state or any property that is held by the state."
- Amends A.R.S. § 42-18051, now allowing a County Treasurer to also require electronic transmission of documentation from any individual or entity that owns multiple parcels of property and that pays taxes on those parcels in a lump sum payment, and raises the minimum lump sum payment amount from twenty-five to fifty thousand dollars.
- Adds new ARS § 42-17153(D), which specifies that a tax lien on any property owned by a water utility company valued by DOR is a tax lien on all of that company's property. This was done in order to prevent a water company from having delinquent taxes or tax liens on property located in one taxing jurisdiction while the taxes are paid on property in some other taxing jurisdiction(s).
- Amends ARS §§ 42-18202 and 42-18208 which alter the lien foreclosure process with respect to

time limits and to tax liens held by the state (and conforms them to the amendments made to the statutes discussed above).

- Also creates three Session Law provisions:
  - Tax amnesty for water utility companies (allows the County Treasurer to "waive" accrued interest from before September 30, 1995);
  - An intent clause stating the amendments of §§ 42-17153, 42-18005 and 42-18208 are all clarifications of existing law;
  - Provides a nonseverability clause for the entire act.

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**House Bill 2441 (Chapter 276):**

Tribal Housing; Tax Exemption

Exempts all property that is owned by an Indian tribe through a 501(c)(3) charitable "housing authority" that is used for low-income housing or related facilities that is not located on an Indian reservation. Subjects this exemption to an initial (one-time only) application filing requirement and requires the self-reporting of any exemption disqualifying events. Also provides for voluntary payments in lieu of property taxes equal to the lesser of the maximum amount allowed under federal law or the cost to the affected taxing jurisdiction of facilities or services provided to the property.

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**House Bill 2500 (Chapter 243):**

Property Records; Redaction

Beginning 01-01-2006, requires all County Assessors, Treasurers and Recorders, on receipt of a court order, to remove from public access the addresses and phone numbers of a specified list of public officers (e.g., police officers, judges, parole officers).

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**House Bill 2779 (Chapter 302):**

Budget; Property Taxes

Provisions:

- Decreases the assessment ratio for Legal Class One property from twenty-five to twenty percent over the next ten tax years in one-half of one percent increments per year.
- Increases the Additional State Aid for owner-occupied residential properties (commonly



referred to as the “Homeowner’s Rebate”) percentage from the current thirty-five percent to forty percent over the next five tax years in one percent increments per year.

- Increases the Homeowner’s Rebate amount from the current \$500 to \$600 over the next five tax years in twenty dollar increments per year.
- Allows the board of supervisors for county jail districts and county juvenile detention facilities to levy an amount for tax years 2006, 2007 and 2008 in an amount equal to tax year 2005

The following table shows the changes by calendar year

| Calendar Year       | Homeowner’s Rebate % | Homeowner’s Rebate cap | Class 1 AR |
|---------------------|----------------------|------------------------|------------|
| 2005                | 35%                  | \$500                  | 25%        |
| 2006                | 36%                  | \$520                  | 24.5%      |
| 2007                | 37%                  | \$540                  | 24%        |
| 2008                | 38%                  | \$560                  | 23.5%      |
| 2009                | 39%                  | \$580                  | 23%        |
| 2010                | 40%                  | \$600                  | 22.5%      |
| 2011                | 40%                  | \$600                  | 22%        |
| 2012                | 40%                  | \$600                  | 21.5%      |
| 2013                | 40%                  | \$600                  | 21%        |
| 2014                | 40%                  | \$600                  | 20.5%      |
| 2015 and thereafter | 40%                  | \$600                  | 20%        |

**Senate Bill 1041 (Chapter 186):**

Property Tax Exemptions; Eligibility

This bill amends ARS § 42-11111 the widows, widowers and disabled persons property tax exemption from being subject to filing an annual reapplication to now being required to file only an initial (one-time only) application, and requiring an existing exemption holder to “self-report” any exemption disqualifying events.

**Senate Bill 1178 (Chapter 309):**

Property Tax Exemption; Widows & Widowers

Requires the use of the Gross Domestic Product (GDP) priced deflator defined under A.R.S. § 41-563 to annually index (calculate an inflation-offsetting increase in) the tax dollar exemption amount, the assessed value limitations and the gross household income limitations now specified under A.R.S. § 42-11111.

Increases the income limits for widows, widowers and disabled persons seeking property tax exemption from \$13,200 to \$25,000 if the person does not have children under 18 years old living with the person and from \$18,840 to \$30,000 if the person has one or more children living at home

**House Bill 2281 (Chapter 72):**

Special Taxing Districts; Assessments

Amends §§ 48-594, 48-932 and 48-2062 by creating an assessment adjustment (or “reallocation”) mechanism for all parties that have a “legal interest” in any parcel located within a given sanitary assessment district. This new reallocation method is similar to other special taxing district’s procedures.

**House Bill 2309 (Chapter 135):**

Fire District Annexation; Taxes

Amends A.R.S. § 48-813 regarding fire district boundary changes, by creating a new provision allowing a city or town proposing to annex only a portion of an existing fire district to enter into agreements with the remaining portion of the district (the area not being annexed) which are intended to “mitigate any detrimental effects on the remaining population of the district

**Multiple Tax Types**

**House Bill 2155 (Chapter 11)**

2005 Tax Corrections Act

HB 2155 makes technical, conforming and clarifying changes to Arizona tax statutes.

- The bill repeals a statute allocating a portion of luxury tax revenue on sales of Arizona-produced wine to the Arizona Wine Promotional Fund, because the statutes governing the Arizona Wine Commission were repealed on January 1, 2005.
- A use tax exemption for property used for mentally or physically handicapped persons was brought into conformity with changes made by Laws 2004, Ch. 61, § 2 to the complementary TPT retail exemption.
- A.R.S. § 42-3251 and A.R.S. § 42-5160 were corrected to provide one version instead of two.
- Makes a correction to the enterprise zone credit.

Corrects a bill from 2004 which was intended to allow taxpayers that filed their 1<sup>st</sup> or 2<sup>nd</sup> year credits for periods prior to 2002 on amended returns to be able to claim a 2<sup>nd</sup> or 3<sup>rd</sup> year credit in 2002 or later despite a previous change that provided that 2<sup>nd</sup> and 3<sup>rd</sup> year credits would only be allowed if the 1st or 2<sup>nd</sup> year was claimed on an original return. However, the change in 2004 only made the change retroactive to years beginning from and after December 31, 2003 which rendered the change meaningless since it would have been too late to claim the 2<sup>nd</sup> or 3<sup>rd</sup> year credits. This new provision makes the 2004 change retroactive to years beginning after December 31, 2001.

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### **Senate Bill 1347 (Chapter 317)**

#### Tax Incentives; Movie Production

- Provides corporate and individual income tax and TPT/use tax benefits to motion picture production companies that pay at least \$250,000 in production costs in this state and meet other criteria. The companies must continue to meet all of these criteria during each 12-month period for which they are qualified for tax incentives.
- Provides that the income tax credit is effective for taxable years beginning from and after December 31, 2005 through December 31, 2010. Any costs that a qualified motion picture production company pays in this state that are directly attributable to the production of a motion picture in this state can be used to compute the credit.
- Specifies that the credit amount is a percentage that ranges from 10% to 20%, and is based on how much in production costs a company pays in Arizona.
- Enables entities that originated or previously purchased the corporate income tax credit to transfer it to any number and any type of entity that has an income tax liability. Income tax credits may be transferred to entities regardless of whether or not any of those entities have income tax liabilities.
- Provides a five-year credit carry forward. Each transferee is subject to the same carryover period as for the production company that originally produced the credit.

- If the transferor was not qualified or is later disqualified from using the credit at the time of transfer, all its transferees will lose their credits. The transferees' only recourse is against the transferor.

#### *Department of Commerce*

- Enables the Department of Commerce to begin its rulemaking process before the act's general effective date, which is August 12, 2005.
- Requires the Department of Commerce to qualify a motion picture production company and pre-approve the company's estimated income tax credit amounts to insure that total credits do not exceed that year's statutory credit limit. The pre-approvals must be done on a first-come, first-served basis, effective from and after December 31, 2005 through December 31, 2010.
- Requires the Department of Commerce to issue a letter of qualification that is good for twelve consecutive months.
- Limits the total amounts of credits pre-approved to specified totals, beginning with \$30 million in 2006 and increasing in \$10 million increments annually until it reaches \$70 million for years from and after December 31, 2009.
- Limits the credit to no more than \$5 million for an individual motion picture.
- Obscene motion pictures are not eligible for any incentives
- Requires the Department of Commerce to render a post-approval to the qualified motion picture company meeting post-production requirements and to notify the Department of Revenue. The Department of Commerce must provide these post-approvals to the companies from and after June 30, 2006, and must notify the Department of Revenue that the company might claim income tax credits. Post-approvals are for certified production costs that the production company incurred from and after December 31, 2005.

#### *Department of Revenue*

- Limits the total amounts of credits the Department of Revenue may allow to the aggregate amounts the Department of Commerce pre-approved.

- Precludes the Department of Revenue from allowing credits to any taxpayer who has a delinquent tax balance owing to the Department under Titles 42 and/or 43.
- DOR will be responsible for issuing TPT/use tax exemption certificates to qualifying companies that are effective for twelve calendar months. Upon presentation to vendors, companies are able to purchase most goods and services exempt from TPT/use tax under the retail, personal property rental, transient lodging, restaurant, and prime contracting classifications.

#### *Motion Picture Production Companies*

- Requires the company to employ a certain percentage of Arizona residents in addition to spending at least \$250,000 in a calendar year.
- Requires the qualified production company to certify its costs to Commerce upon completion of their project(s).
- Enables the motion picture company that originated the credit to allocate its credit among its co-owners, including partners, LLC members and S corporation shareholders without regard to ownership interests. The total allocated credit cannot exceed the amount that would have been allowed to a sole owner of the production company.

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### **Senate Bill 1283 (Chapter 278)**

#### Forests Health Amendments

SB 1283 amends last year's Healthy Forest Legislation by adding a fuel tax reduction and beneficial property tax classification for qualifying property. The transaction privilege, use and income tax incentives for qualified businesses are kept with some changes. Businesses that qualify for the tax incentives are first certified by the state Department of Commerce (DOC), to be then approved or denied by the Department of Revenue (DOR). A qualifying business must be engaged in a qualifying project that promotes forest health as defined in the bill. The tax incentives may be forfeited or reclaimed if a business' certificate is revoked. DOR's primary involvement continues to be with the administration of the tax benefits, working with Commerce in designing the Memorandum of

Understanding (MOU) required of qualified businesses and establishing the mechanism to terminate the certification of a qualified business and to recapture tax benefits as provided in the MOU. The bill also includes technical changes that were recommended by DOR last year but were not incorporated.

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## **Miscellaneous**

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### **House Bill 2035 (Chapter 237):**

#### Stadium, Tax-Funded; Expanded Use

H.B. 2035 provides the Arizona Sports & Tourism and Authority (AZSTA) with statutory authority to contract with a "professional football league" (i.e., the NFL) and nonprofit intercollegiate sports organizations (i.e., the NCAA) to refund Arizona transaction privilege taxes paid on admission to their championship games. AZSTA would also waive any "facility user fees" (e.g., ticket sale fees), game day expenses relating to the 2007 National Championship, and fees for using AZSTA-provided communications, services, or amenities. Such actions are allowed only if AZSTA has paid the current year's principle and interest payments on any AZSTA bonds pledged. Under the conditional enactment clause, none of the above-described legislation will be effective unless a AZSTA facility is selected by October 31, 2005, as the site of an NCAA national championship or playoff game.

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### **House Bill 2055 (Chapter 116):**

#### Municipal Taxes; Credits & Claims

The bill relates to City Privilege Tax Refunds and calculation of interest. It:

- Prohibits the City from refusing to process a valid claim or requiring a taxpayer to refile a valid claim, and establishes certain procedures.
- Prohibits the City from requiring the taxpayer to return the refund to the taxpayer's customers whether the amount of the tax was separately itemized and collected from the customer.
- Makes the interest rate and calculation same as for the state TPT.
- Interest on a refund is calculated from the date the claim for refund is filed to the date the

refund is paid. This is consistent with the current provisions of the Model City Tax Code.

- The bill is effective September 30, 2005, and states that the change cannot be cited or considered in the interpretation of the code in effect prior to the change.

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### **House Bill 2133 (Chapter 39):**

County Excise Taxes; Hotels

HB 2133 amends ARS § 42-6108 to apply to a county with a larger population than was previously stipulated, and only apply to transient lodging businesses in unincorporated areas of the county. The maximum tax rate, as set by the county board of supervisors, is increased from 2% to 6%. The distribution of revenues from this tax are modified to include a percentage for the county's economic development activities. Due to the population stipulation of A.R.S. § 42-6108, this current tax has application only in Pima County.

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### **House Bill 2343 (Chapter 80):**

Vehicles; Special Registration

HB 2343 amends three Title 28 statutes dealing with motor vehicle registrations, to change the nonresident registration from a 30-day to a 90-day certificate. This bill also amends A.R.S. § 42-5061 to change the cross references to this certificate in two subsections that provide full or partial transaction privilege tax exemptions for sales of motor vehicles to nonresidents of certain states.

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### **House Bill 2365 (Chapter 248):**

Special District; Theme Park & Car Dealers

Provisions:

- Allows the establishment of a joint Theme Park and Vehicle Support Facility District (District) in a city with a population greater than 1,000,000 and a county with a population greater than 125,000 but less than 150,000.
- Requires the District to levy a transaction privilege tax (TPT) at a rate of nine percent on business activity within the District.
- Authorizes the District to issue \$1 billion in negotiable bonds to provide sufficient monies

for theme park and vehicle support facility purposes.

- Requires the District to receive commitments in private sector financing before the bonds can be issued.

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### **House Bill 2626 (Chapter 249):**

Military Reuse Zone; Tax Incentives

- Increases, from five to ten years, the termination date and subsequent renewal terms for military reuse zones.
- Eliminates prequalification with DOC for eligibility for the transaction privilege tax (TPT) exemption relating to prime contracting activities and the class 6 property classification.
- Requires taxpayers seeking to qualify for a tax incentive on the TPT for prime contracting activities in a military reuse zone or on the classification of property in a military reuse zone, to provide information to DOC relating to the amount of tax benefits the taxpayer receives each year for each year in which the taxpayer claims the incentives.
- Allows taxpayers seeking an income tax credit for net increases in employment in a military reuse zone or an income tax credit for the classification of property in a military reuse zone, to be qualified for the credit for a five-year period, subject to the continued eligibility of the taxpayer.

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### **Senate Bill 1169 (Chapter 94):**

Luxury Tax; Liquor Wholesalers

S.B. 1169 provides that, beginning January 1, 2007, the Arizona luxury tax for wine will be due only upon its sale by the wholesaler. Currently, all wholesalers of beer, wine, and spirits must pay luxury tax and add the amount of the tax to the sales price; the tax for beer and wine accrues in the month that the wholesaler purchases them, while the tax for spirits accrues in the month the wholesaler sells them in Arizona. The bill brings the time that tax is due on wine in line with that for spirits.

- Exempts from most of the title's licensure, regulatory, and prohibitory provisions the acquisition, storage, distribution, and consumption of wine for religious purposes.

- Extends the applicability of a requirement that the product remain on a wholesaler's premises for at least twenty-four hours to all alcoholic beverages; presently, it only applies to beer.

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**Senate Bill 1238 (Chapter 311):**

Income Tax; December Withholding

- Employers can elect to not impose Arizona withholding in December.
- In order to make the election, the employer must notify its employees and the Department of Revenue (on a form the Department prescribes) before October 1, 2005 with respect to December 2005 Arizona withholding, and before July 1 in each year thereafter.
- Allows employees to change their rate of withholding to compensate for the decrease in annual withholding
- This bill is effective from and after August 31, 2005.

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**Senate Bill 1274 (Chapter 200):**

Municipal Tax Incentives

S.B. 1274 requires a municipality to make findings regarding the financial benefits and necessity of a retail development tax incentive agreement as a condition of entering into the agreement. A municipality must find by a majority vote (a two-thirds vote is required for municipalities in or within twenty-five miles of a metropolitan area with a population of more than 2 million) of the governing body that: (a) the proposed incentive is anticipated to raise more revenue than the amount of the incentive within the duration of the incentive agreement, and (b) but for the provision of the incentive, the retail business or a similar one would not locate in the municipality in the same time, place, or manner. The finding must be verified by an independent third party before the municipality enters into the agreement.

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**Senate Bill 1287 (Chapter 105):**

Municipal Business Incentives; Referendum

- Prohibits a municipality from using an emergency clause on an action by the council involving an economic development expenditure or development agreement.

- Requires economic development expenditure and development agreement actions to become effective at least 30 days after final approval.
- Defines "expenditure" as any waiver, exemption, deduction, credit, rebate, discount, deferral or other abatement or reduction of the normal municipal tax liability that otherwise applies to similar existing business and property in the municipality that is an inducement to locate a business in the municipality.

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**Senate Bill 1413 (Chapter 259):**

Rental Agreements; Heavy Equipment

- Requires a person in the business of renting heavy equipment property in Arizona to include in the rental agreement a one and one-half percent surcharge of the gross rental receipts for any item of heavy equipment that is rented by a customer.
- Stipulates the surcharge be used to pay the personal property tax levied against the heavy equipment.