

ARIZONA DEPARTMENT OF REVENUE
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JANE DEE HULL
GOVERNOR



MARK W. KILLIAN
DIRECTOR

November 15, 2002

Governor Jane Dee Hull
Office of the Governor
1700 W. Washington Street
State Capitol, 9 th Floor
Phoenix, Arizona 85007

The Honorable Governor Hull and the Taxpayers of Arizona:

"...Fair administration, firm enforcement, and prompt and courteous service..."

This brief quote from our mission statement accurately reflects the collective character of the Arizona Department of Revenue. With this annual report, we hope to illustrate how those simple tenets are continually exemplified within the Department.

This last year, the Department redoubled its efforts to make our mission a reality. Technological advancements and reorganization have culminated in a more responsible and satisfied staff. By supplying personnel with better tools and with a departmental structure more conducive to an empowered workforce, we have dismantled barriers to communication, efficiency, and speed of response.

I credit the entire staff of DOR with these enhancements. Most of the substantive progress of the Department over the last fiscal year has been a result of employee suggestions or direct involvement. It has been a truly rewarding experience observing a staff so intent on participating in shaping their agency and in serving the taxpayers.

And the more I see the agency becoming a team of responsible individuals who are truly aware of their duty to the public trust, the more I'm sure the Department is in good hands.

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

Sincerely,

A handwritten signature in black ink that reads "Mark W. Killian".

Mark W. Killian

OTHER LOCATIONS: Tucson Government Mall – 400 W. CONGRESS - TUCSON
East Valley – 3191 N. WASHINGTON STREET - CHANDLER
North Valley – 2902 W. AGUA FRIA FREEWAY - PHOENIX

DEPARTMENT OF REVENUE

2002 ANNUAL REPORT

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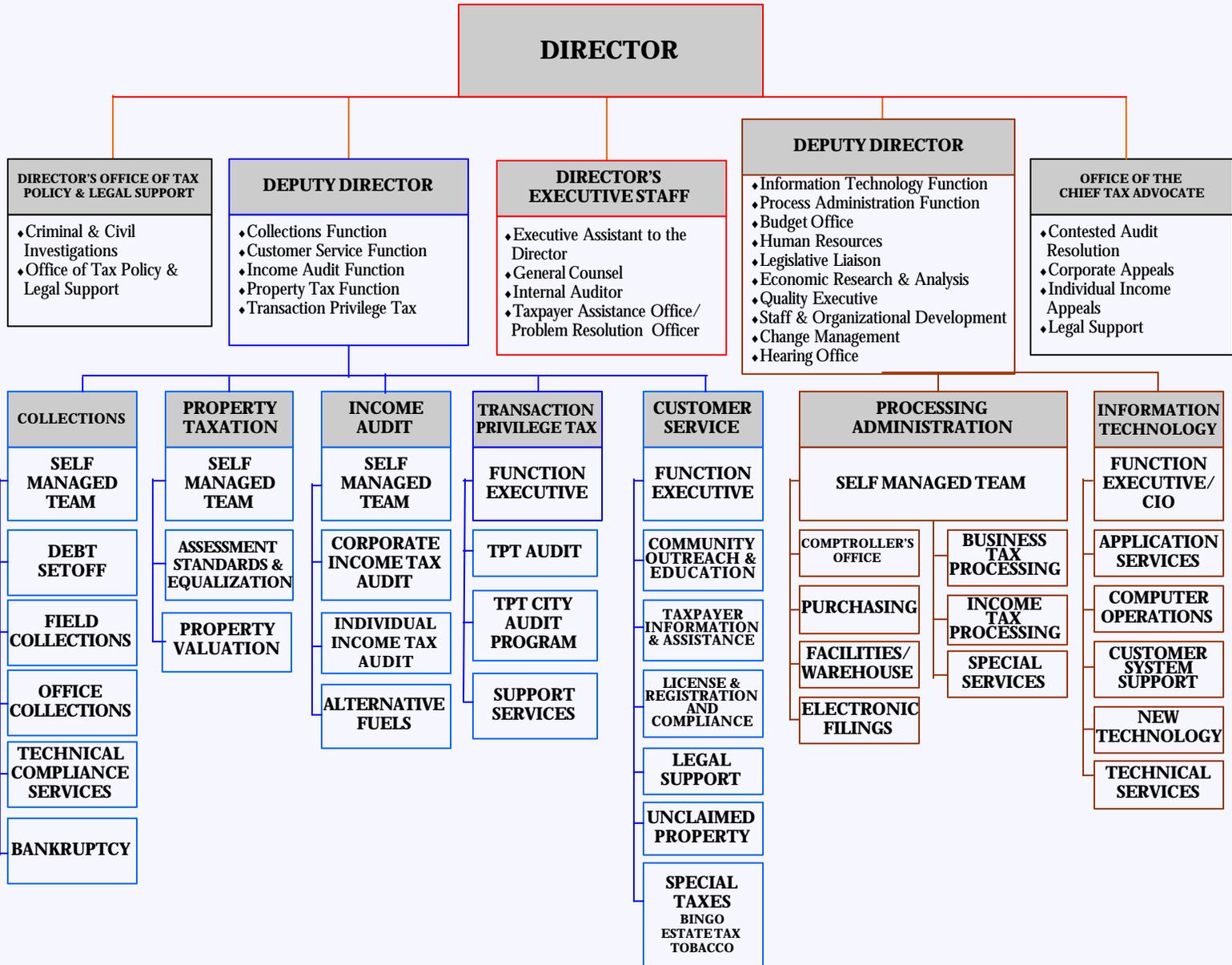
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DEPARTMENT ORGANIZATION



FY 2002 HIGHLIGHTS

COLLECTIONS SECTION REMAINS PRODUCTIVE

- In spite of continued high vacancy rates, the Collections Function succeeded in collecting a combined \$247,170,014 which was 6% more than they collected in FY 2001.
- In addition, the call center in Office Collections maintained excellent customer service levels for all incoming calls by answering 98% of them within 30 seconds.

Customer Service Levels Continued to Improve

- The completion of *AZ-Taxes for Small Business* marked a milestone in electronic services. This is an interactive program available both on our Web Site and on CD that educates businesses and guides owners through preparation of a variety of tax returns.
- Participation in Outreach and Taxpayer Education events increased by 39%.
- License Compliance automated the state fair process by using laptops and printers to complete a fillable TPT-1 form. Revenue collected from the 2001 State Fair increased 22% over the 2000 State Fair.

Millions of Dollars and Returns Processed

- During the 2001 tax-filing season, more than two million (2,276,537) individual income tax returns were processed, generating in excess of 1.5 million refunds. More than 620,995 documents required the reconciliation of data based on the Department's computer generated information.
- The Incoming Mail Unit processed nearly 3.7 million letters and flats during the fiscal year plus the 4.2 million Personal Income, Withholding, and Transaction Privilege Tax returns produced. During the peak season, this unit ran two shifts with over 95 temporary and 17 permanent employees. With the help of three mail-opening machines, they opened approximately 60,000 pieces of mail daily. Teamwork also played an important part during peak time. The Incoming Mail staff worked with volunteers from other sections of the Department towards a common goal of opening and processing mail to get refunds to taxpayers quicker and improve the Department's overall customer service.
- The Remittance Processing Unit deposited more than \$3.8 billion dollars and processed 2.9 million documents. Due to the teamwork of all sections in the function and additional resources such as updating the J&B Software in our TMSimage program, working overtime and utilizing temporary employees, the FY 2002 year-end closed smoothly.
- The Data Input Unit keyed over 2.1 million documents this year. The unit kept its primary emphasis on keying business tax returns this year by outsourcing the bulk of the Individual Income Tax documents. The implementation of 2D bar code technology on the Arizona Form 140 reduced the burden of keying the balance of the income returns. This technology allows

FY 2001 HIGHLIGHTS CONTINUED

an average batch of 75 returns to be scanned in 11 minutes, vs. 1.5 hours of keying time. We were able to scan approximately 110,000 returns this season. This successful program will be expanded in the coming year.

- The Out Going Mail Team processed over 3.5 million pieces of mail, not including the county property tax forms. During the last year, postage costs were reduced through elimination of withholding A1QRT, A1WP and reduction in the number of TPT mail outs.

E-Government Services Expanded

- During FY 2002, 486,514 Arizona Individual Income returns were filed electronically. This represents an 18.5% increase over the prior year. In FY 2002, more than 205,000 taxpayers received their refund via direct deposit. This is the second year we offered this convenience. The number of tax professionals participating in the e-file program exceeded 1,650.
- The Electronic Funds Transfer Unit electronically processed approximately \$4.641 billion during FY 2002. This is an increase of \$192.6 million more than in FY 2001 or 4.3 %. The unit also processed 321,393 payments in FY 2002, an increase of 10.4% from the prior year. In FY 2002 the unit processed 57.8% of business tax dollars received at the DOR and 13.1 % of the business tax transactions. The Comptroller's Office returned 10,603 warrants to taxpayers that had been returned to the Department for a better address.

Transaction Privilege Tax Productivity Improved

- Fiscal year 2002 was a very productive year for the Transaction Privilege Tax section as shown by the 2,754 audits that were completed for a total of \$26,453,913.64.
- The Audit section realized total revenues of \$ 14,030,611 The shining accomplishment for the Section was the fact that 1,888 new taxpayers were licensed. This was a record high for the Section and constitutes a 100% increase over the prior year.

OVERVIEW OF THE DEPARTMENT

FUNCTION ACTIVITIES

COLLECTIONS FUNCTION

OFFICE COLLECTIONS

After the Accounts Receivable system has completed the prescribed billing cycle, cases are referred to Office Collections. Delinquents (business accounts with returns that have not been filed) are also worked in this section. Here, collectors attempt to reach account resolution via the telephone and with targeted mailings. The section uses a Predictive Dialer System (PDS) to dial the phone on accounts prioritized for work. This system automatically brings up computer screens of the account on calls made and routes them to the first available collector. Office Collections also uses an Automatic Call Distribution (ACD) system to process and handle incoming calls. This system has an Interactive Voice Response (IVR) module that provides automated responses for some basic collections questions such as account balances. The section operates from 8:00 a.m. to 6:00 p.m. Monday through Thursday and from 8:00 a.m. to 5:00 p.m. on Fridays.

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 their territory. Field collectors use a combination of telephone and field visits to effect closure. In addition to recommending lien and levy action, field collectors may subpoena records, work Offers in

Compromise, recommend seizures and write off cases if they are determined to be uncollectible. The objective in Field Collections is to reach closure in the least intrusive manner. Seizure actions are only used as a last resort after all other more reasonable actions have failed.

The Collections Function Liaison section is responsible for all other non-mainstream collection activities. These include cases referred to an outside collection agency in addition to handling disputed audit accounts, insufficient funds check collections, lien processing, case adjustments, Letters of Good Standing, levies on Department of Administration vendors, levies on contractor and insurance bonds and internal systems training.

The Department uses an outside collection agency to work the smaller dollar accounts in state and to work out-of-state accounts that cannot be resolved in the other collections sections.

BANKRUPTCY AND LITIGATION

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

In addition to processing bankruptcies, the section refers cases to the Attorney General's Office that may require legal action to effect closure as well as processing Offers in Compromise.

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.

REVENUES FOR THE THREE COLLECTIONS FUNCTION UNITS(FY 2002)

Office Collections.....	\$ 88,820,707
Field Collections.....	\$ 39,704,958
Bankruptcy/Litigation.....	\$ 18,011,195
Debt Setoff.....	\$ 108,664
Unassigned.....	\$100,524,490

(TCS figures are included in Bankruptcy and Litigation figures. The Unassigned figures are dollars collected that are not associated with a Collector ID.)

HIGHLIGHTS IN FY 2002

- ◆ In spite of continued high vacancy rates, the Collections Function succeeded in collecting a combined \$247,170,014 which was 6% more than they collected in FY 2001-2002.
- ◆ At the same time, they worked to reduce the turn around time for processing Offers in Compromise to at or below 60 days. A total of 269 Offers were reviewed this year with 78% of them completed within 60 days of receipt.
- ◆ In addition, the call center in Office Collections maintained excellent customer service levels for all incoming calls by answering 98% of them within 30 seconds.

CUSTOMER SERVICE FUNCTION

COMMUNITY OUTREACH AND EDUCATION
Community Out Reach and Education (CORE)

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

LEGAL SUPPORT

This group is responsible for providing consultation on legal issues for operating units and technical legal correspondence. They are also responsible for form design for the Department, and for creating and maintaining informational publications on a wide variety of tax issues, the TaxNews (tax practitioner newsletter) and the ReveNews (employee newsletter).

LICENSE AND REGISTRATION

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

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

The License Compliance group within the section performs research to identify non-complying businesses and brings them into

compliance. They provide education on licensing statutes and regulations to assist taxpayers in complying with the tax laws.

SPECIAL TAXES

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

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

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

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.

UNCLAIMED PROPERTY

The Unclaimed Property program is administered for the purpose of returning to rightful owners 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 gift certificates or layaways, and uncashed checks. The staff attempts to locate the property owner and processes claims in order to return the property to owners. They also facilitate the submission of property from businesses that hold the property.

HIGHLIGHTS IN FY 2002

- ◆ The completion of *AZ-Taxes for Small Business* marked a milestone in electronic services. This is an interactive program available both on our Web Site and on CD that educates businesses and guides owners through preparation of a variety of tax returns.
- ◆ Participation in Outreach and Taxpayer Education events was increased by 39%.
- ◆ Partnered with a wide range of entities including the Internal Revenue Service, Maricopa County, Cities of Phoenix, Surprise, Avondale, Flagstaff, Tucson, Mesa and Yuma. CORE expanded outreach services for the public and educational opportunities for businesses.
- ◆ Answered over 900 technical tax letters with 90% answered within 30 calendar days.
- ◆ Created a new brochure, *The Law and Your Taxes*, to address misconceptions regarding the tax system in AZ.
- ◆ Redesigned the Informational Publications & TaxNews homepages on the Internet.
- ◆ Worked with twenty-nine software vendors to provide AZ forms to their customers with over 90 forms offered.
- ◆ Upgrading our cashiering system resulted in faster processing time of payments made at satellite offices and has eliminated hundreds of staff hours previously required. For the year, cashiering over 92,000 documents and \$190 million in payments were handled in our walk-in offices.
- ◆ License Compliance automated the state fair process by using laptops and printers to complete a fillable TPT-1 form. Revenue collected from the 2001 State Fair increased 22% over the 2000 State Fair.
- ◆ As a result of visiting the local bonding authorities, the monthly average of taxpayer bonds increased from 308 for FY01 to 335 for FY02.
- ◆ The Bingo group visited 94% of all Class B & C licensees, well over their goal of 90%. Increased oversight has provided support to

bingo operations and assists the non-profit organizations that are funded by bingo games and has improved the accuracy of filing.

- ◆ The Bingo section pursued investigations that have resulted in two successful criminal prosecutions.
- ◆ The number of Luxury Tax audits doubled over the previous year with six completed in FY02. Assessments during this period decreased from \$318,820 in FY01 to \$123,283 in FY02.
- ◆ The estate tax unit improved operations by reducing the processing days from a high of 102 days to 20 days during the year.
- ◆ By using the DOR website to notify the public about the elimination of the Form 74 (Report of Personal Representative of Decedent) we increased awareness and reduced the number of telephone calls regarding the form.
- ◆ Staff training was advanced with the establishment of regular consultation from Tax Analysts in our Legal Support team. This has been successful in keeping phone agents up to date on matters of taxability and legislative issues.
- ◆ Cross training of staff was initiated to expand knowledge and productivity among phone agents and those employees who handle taxpayer correspondence.
- ◆ FAQ's (Frequently Asked Questions) database was developed for fiduciary tax issues. More FAQ's are in development.
- ◆ New on-line forms were developed to improve the transmission of information between phone agents and others within the agency.
- ◆ Service on Unclaimed Property claims

improved with an average turnaround of 49 days, compared to 51 days in FY01.

- ◆ Unclaimed property collections increased by \$10.7 million to a total of \$48.7 million.
- ◆ The number of audits completed increased by 16% over FY01.

DIRECTOR'S FUNCTION

DIRECTOR'S OFFICE

The Director, responsible for the operation and control of the entire Department, ensures that the administration and collection of taxes are performed effectively, efficiently and in a fair manner. Additionally, the Director ensures that the Department provides the best possible customer service.

The Director has several direct reports including two Deputy Directors who assist in the day-to-day operations of the agency and serve as Acting Director when the Director is absent. The responsibilities of the Deputy Directors are divided into the Tax Administration Team and the Planning and Support Team.

The Tax Administration Team is responsible for the day-to-day operations of the basic tax administration functions of Customer Service, Collections, Property Tax Administration, Income Audit and Transaction Privilege Tax.

The Planning and Support Team is responsible for support services such as Information Technology and Process Administration functions, Change Management, Human Resources, Hearing Office, Staff Organization and Development, Budget, Legislative Services and Office of Economic Research and Analysis.

The Deputy Directors also serve on the Leadership Team with the function executives and administrators to oversee resource allocation and policy determination and planning. Other direct-reports to the Director include:

Other direct-reports to the Director include:

- the Problem Resolution Officer who acts as an advocate for taxpayers and expedites resolution of complex problems and situations;
- the Internal Auditor who reviews internal processes and procedures used by the Department to ensure that they are secure and effective;
- the Chief Tax Policy Officer who oversees the legal support of the Department;
- the Chief Tax Advocate who provides legal support to the Director and representation to audit and property tax functions, and
- General Counsel who provides the Director with legal advice on tax and administrative matters, reviews appeals to the Director from Hearing Office decisions and writes Final Orders of the Director regarding appeals, and drafts and reviews proposed legislation, contracts and intergovernmental agreements.

TAX POLICY AND LEGAL SUPPORT

The Chief Tax Policy Officer oversees the Director's Office of Tax Policy & Legal Support, consisting of Criminal & Civil Investigations and the Office of Tax Policy, and provides coordinated policy and legal support for the Department.

Criminal & Civil Investigations is comprised of the Tobacco Enforcement, Criminal Investigations & Internal Investigations units of the Department. The Tobacco Enforcement unit enforces the tobacco luxury taxes by educating retailers and wholesale operations, inspecting premises for compliance with stamping requirements and monitoring compliance with tax laws. It also seizes luxury tax contraband and auctions seized products to properly licensed businesses to recover tax revenues.

The Criminal Investigations unit handles criminal investigations of tax evasion, improper or fraudulent tax activity and other related issues. Internal Investigations investigates allegations of misconduct by Department employees and vendors.

The Office of Tax Policy reviews, analyzes, develops and disseminates information regarding the Department's interpretation of state tax laws. The unit responds to technical and complex tax inquiries, issues private taxpayer rulings, reviews and analyzes legislation, develops and promulgates administrative rules, and assists the Department in tax law administration.

OFFICE OF TAX ADVOCACY

The Chief Tax Advocate oversees the Office of Tax Advocacy, which provides legal and interpretative support, and case resolution and advocacy for the audit and property tax functions in the Department. The office also acts as liaison to the Attorney General's Tax Section and coordinates the defense of tax litigation with the Attorney General. The Office of Tax Advocacy provides additional support to the Director on an as-needed basis, including services in the area of protecting taxpayer confidentiality and privacy. The Office consists of Contested Audit Resolution, the Corporate Income Tax Appeals, the Individual Income Tax Appeals and the Legal and Interpretative Support Team.

The Contested Audit Resolution unit is headed by the Deputy Chief Tax Advocate and assists the Transaction Privilege Tax Audit Function with case refinement and resolution services as well as advocating the TPT Function positions in cases before the State Office of Administrative Hearings, the Department's Hearing Office and the Director. The unit, primarily through the Chief Transaction Privilege Tax Counsel, also provides interpretative advice to the TPT Function. The Deputy Chief Tax Advocate also acts as the Disclosure Officer for the Department.

Department.

The Corporate and Individual Income Tax Appeals unit's review cases from the income audit sections and provide case refinement, resolution and advocacy services for those cases including representation before the Department's Hearing Office and the Director. The unit also provides interpretive advice to the income audit staff.

The Legal and Interpretative Support Team is headed by the Chief Income Tax Counsel and provides legal and interpretative advice to both the Corporate and Individual Income Tax Audit units. The team also provides advocacy support and services to the Income Tax audit units. The Chief Income Tax Counsel also acts as the leader of the privacy team and as e-commerce counsel.

OFFICE OF ECONOMIC RESEARCH AND ANALYSIS

The Office of Economic Research & Analysis provides technical services to the Department, the legislature and the executive offices, evaluating proposals regarding changes to any of the taxes administered by the Department. The unit provides staff support to the Economic Estimates Commission, Debt Oversight Commission and Property Tax Oversight Commission. It maintains the income tax simulation models and prepares annual and ad hoc reports on tax revenue expenditures, bonding capacities and other tax revenue issues.

CHANGE MANAGEMENT

This unit is responsible for coordinating the Department's efforts for change management. It includes staff that functions as the Department's project managers for the Business Reengineering and Integrated Tax System (BRITS) project. For the BRITS project, the Change Management unit has drafted subject matter experts from across the Department to implement the BRITS project. The unit will continue to draft expert employees to work with the selected vendor in

the implementation phase over the next five years.

The Budget Resource & Planning unit is responsible for monitoring current year expenditures against the approved budget, coordinating preparation of the Department's biennial budget and providing staff and operating budget information and analysis to the Leadership Team.

The Office for Quality unit coordinates the strategic planning efforts of the Department and an agency-wide quality program patterned after the Malcomb Baldrige self-assessment process.

The Staff & Organizational Development unit (SODS) provides the centralized training for the Department. It is supplemented by specialized training within functional areas and on-the-job-training (OJT). The unit has a self-managed team of trainers whose role is to develop in-house training for key activities such as using tax systems, ethics, supervisory training and confidentiality. The unit offers both self-study classes and classroom training and coordinates with the Department of Administration training program.

HIGHLIGHTS IN FY 2002

- ◆ The biggest single activity of the Director's Function was the on-going effort to select a vendor for our BRITS project.
- ◆ The Director's Office for Quality oversaw our continued efforts to coordinate the objectives, goals and performance measures. The Quality Office provided training to 60 facilitators who then worked with their colleagues in all the sections and units to develop annual goals and performance measures.
- ◆ In late August of 2001, the Arizona Supreme

Court established a new precedent when it authorized a class action lawsuit against the State for refund of taxes paid under a statute that violated the U.S. Constitution. This decision authorized the creation of a class of potential refund recipients estimated to amount to 600,000 to 700,000 persons who may be entitled to refunds for up to four years each. The Chief Tax Advocate has been designated to lead the Department's efforts to develop a program to respond to this decision. Since that time considerable effort has been devoted, to designing a refund program that would be consistent with the Court's decision and to working with the Attorney General's Chief Tax Counsel and the attorneys for the class in trying to structure a settlement of this complex lawsuit. As of the end of the fiscal year, those negotiations had brought the parties close to a settlement.

INCOME AUDIT FUNCTION

The Income Tax Audit Function continues to be managed by 2 Administrators, one each from Individual Audit and Corporate Audit. This team is responsible for management of personnel and other resources in the function as well as participation on the Leadership Team. In order that scarce resources are wisely used, a team was established to determine what efficiencies could be found by consolidating some activities and eliminating redundancies. These endeavors became even more important because of the effect that the Ladewig case and budget cuts had on staffing levels.

The Function continued to support BRITS, the Department's reengineering project, during the latest fiscal year. The function provided any needed personnel or material to assist the Change Management Team with preparations for the implementation of the project. As required by the project, IA stands ready to provide subject matter experts to the BRITS process to insure

that our business partner has the best available talent for this important work.

This fiscal year saw increasing involvement of employees in the Strategic Planning process. Using Department wide objectives, employee groups developed strategies that supported these objectives. In-house trained facilitators assisted these employee groups in developing the strategies and keeping the groups focused on what needed to be measured and metrics for evaluating performance. Monthly meetings were held to discuss progress and evaluate the effectiveness of the strategies in support of the objectives. Because agency management views the Strategic Plan as a living document needing continuous improvement, plans are already under way to make next years Plan even better, with more employee involvement and more precise metrics.

Customer service continues to be an essential component of the Function's goals and customer surveys are a vital source of customer information. Service delivery is so important that it is one of the things measured by both Individual and Corporate Audit as indicators of effectiveness. Ratings and comments by our taxpayers are also used in the employee evaluation process. During the Fiscal Year, both Sections sent out a total of 20,224 surveys. On a scale of 1 to 5 (5 being excellent), scores averaged 4.47 (weighted), a 2% improvement over FY01.

Improved survey scores is one indicator of the effectiveness of decentralizing the management structure of Individual Audit. Pushing decision making down to the lowest level possible has improved the speed and effectiveness of service. Empowering employees in this way increases staff productivity and employee satisfaction.

During this year of serious budget constraints we were required to look for ways to streamline

processes and eliminate duplication of efforts. We took the opportunity to centralize the process whereby data was accumulated and input into the strategic plan document. We worked together to develop a PowerPoint presentation so that we could fulfill our goal of presenting to our employees monthly updates of the goal.

HIGHLIGHTS IN FY 2002

CORPORATE AUDIT

- ◆ CITA experienced a ripple effect from the September 11 terrorist attacks. Management and auditors were extremely cognizant of the need to insure the safety of our travelers and a number of trips were postponed until the second half of the fiscal year or the next fiscal year. We worked delicately and compassionately with those taxpayers affected by the attacks until such a time that we were all ready to resume business as usual. The end of the fiscal year was filled with some of those rescheduled field appointments with business activities returning to some degree of normalcy.
- ◆ Working in partnership with Transaction Privilege Tax, we added to the Department's Internet site the ability for entities to come forward in our voluntary disclosure program. The voluntary disclosure program allows companies to come forward by providing a detailed written description of their past activities. The site provides all the information necessary to make it easier for taxpayers to come forward.

INDIVIDUAL INCOME AUDIT

- ◆ The computer generated audit (CGA) project was completed during the fiscal year and testing is underway. This project scans taxpayer returns, looking for errors using algorithms designed by the audit development team. The program then initiates the assessment process. Our taxpayer surveys indicated a desire for

timelier and more accurate assessments and this program improves audits in both of these areas. A related project called computer-assisted audits (CAA) is on the drawing board. This program assists the auditor in decision making by using pre-programmed coding to automatically enter data into the assessment system. This saves auditor time and allows increased analysis time by audit staff. It also insures that the correct codes and amounts are keyed into the system. A new audit program, started in the East Valley Office, involves the review of Schedule C's from the federal return. Preliminary work shows that this could be a very productive program as well. ITA also asked for and received training from the IRS on auditing Schedule A's. This training not only improved auditor expertise in this area but also improved the development team's ability to program for audit select. ITA is also moving forward with the on-line audit procedure manual that allows auditors to quickly access reference and procedural material. This on-line manual is very popular with staff and we are continuing to put material into it.

- ◆ The ITA pass-through entity program passed the \$1 million mark during the Fiscal Year in assessments. With nearly \$725,000 collected, this is by far the most efficient audit program in ITA. This audit program looks at Partnership, Sub-S, and LLC returns to identify areas of non-compliance both at the entity level and at the individual level. To further increase the success of this program, ITA recently requested an enhancement to the information we get from IRS to include K-1 data for payers and payees with Arizona addresses. In cooperation with the Information Technology function, ITA will process downloads that will identify those not filing on pass-through income that is attributable to Arizona. This program has been very successful in other states in

identifying income not being reported or paid. ITA expects a similar result in Arizona.

- ♦ ITA auditor productivity continued to increase during the fiscal year. Despite hardships associated with hiring freezes and productive personnel going to the Alt Fuel and Ladewig projects, audit assessment dollars remained at the same level as FY01. Because of the fewer number of auditors though, assessments dollars per auditor increased nearly 40% to \$460,438. The number of audits per auditor increased by 8% to nearly 2,000 per auditor. Both of these increases can be attributed to better audit select, improved inventory management, and just plain hard work. Overall, the audit production goal was exceeded by 239 units.

INFORMATION TECHNOLOGY FUNCTION

STRATEGIC MANAGEMENT SERVICES

Strategic Management Services (SMS), working with the Government Information Technology Agency (GITA), conducts research to create/update policies, procedures, and standards, which will improve services to the individual Functions of DOR. In the past year the unit has participated in preparing Governor's Shared Technology White Paper. SMS has completed the mapping of the core business processes of the function, Disaster Recovery/Business Continuity Plans, and the 3-Year IT Strategic Plan. At the senior management level, the unit tracks and reports on all major projects throughout the agency. SMS is assisting in the development of Enterprise Architecture Projects as well as preparing for the BRITS Project.

APPLICATION DEVELOPMENT TEAM (ADT)

Traditionally, application development was staffed and operated out of Information Technology (IT). As projects were developed, appropriate

additional staff was added to project teams out of the user areas. But the focal point was IT. This focus occurred because the technical application development skills were within IT. Today, the technical application skills are not only in IT, but also in our user areas. To take advantage of these expanded skill sets, the Application Development Team (ADT) was created. The Application Development Team (ADT) is a virtual team utilizing resources from both the Information Technology and user areas to make modifications and enhancements to our applications.

CUSTOMER SUPPORT

Customer Support is part of the Applications Development Team (ADT). The Customer Support section reviews and monitors all Information Technology Requests (ITR) related to mainframe operations, tests changes and performs quality control functions on selected system output.

Customer Support interacts with users to perform system and business function analysis related to changes in DOR's systems. Customer Support also coordinates between various user groups in the DOR and Information Technology support staff to maintain the mainframe security access system for all users.

APPLICATION SERVICES

Applications Services is part of the Applications Development Team (ADT). Application Services plans, designs, develops, implements, maintains, supports and enhances mainframe and client server applications. The section also provides 24/7 on call support. Future Department direction includes the re-engineering of legacy tax systems to support new technologies.

DATA CENTER SUPPORT

Data Center Support is comprised of Computer Operations, Production Control, Technical Support and Data Base Management. This team functions as the liaison to ADOA for mainframe processing. All processing relating to ADOR is scheduled and monitored by the Computer

Operations staff. The Production Control group is responsible for tape management and offsite storage of disaster recovery data.

The Technical Support section provides the first line of support for all mainframe related issues. This group also leads projects that require joint communications between ADOA and ADOR and the mainframe security systems.

The Data Base management group supports and maintains the client server data bases and the mainframe data bases. This section is responsible for all data base system software on the mainframe. They provide the first line of support for all data base issues.

ENTERPRISE NETWORK SUPPORT

Enterprise Network Support is responsible for the research, analysis and implementations of new technologies as they apply to business needs. The goal of this section is to include the support and management of the LAN/Wan to ensure 99.80% of system availability to internal and external customers. The Server, Communication, and Customer Support groups are responsible for supporting four remote sites, and 1200 LAN customers. In addition, this staff is responsible for implementing all new hardware and software.

HIGHLIGHTS IN FY 2002

- ◆ Implemented significant portions of our Ready The Organization projects. These projects are intended to enhance our internal practices as well as our external customer relationships so that we will be in a strong position to support future efforts to reengineer our legacy systems.
- ◆ Updated Cashier System to scan technology.
- ◆ Implemented SAN (Storage Area Network)
- ◆ Expanded help desk staff hours to improve customer service

- ◆ Reorganized process Administration Division
- ◆ Implemented the IT Ambassador Program to enhance our customer service. IT Staff members regularly visit user areas to provide in person customer support.
- ◆ Completed 201 ITRs (Information Technology Requests) to implement enhancements to our applications.
- ◆ Implemented a Strategic Plan Database Application.
- ◆ Developed and implemented a new Debt Setoff application (with the Courts coming online).
- ◆ Developed and implemented 2D Bar Code application.
- ◆ Implemented Year-end Income and corporate tax changes.
- ◆ Report Elimination of unnecessary reports
- ◆ Mapped the core business processes of the function
- ◆ Disaster Recovery/Business Continuity Plan
- ◆ Completed the 3-Year IT Strategic Plan
- ◆ Implemented UPS system on LAN
- ◆ Implemented Virtual Private Network
- ◆ Redesigned the Intranet to GITA standards

PROCESS ADMINISTRATION

FUNCTION

ORGANIZATION

The mission of the Process Administration Function is to provide quality service and perform timely and accurate processing of taxes for Arizona taxpayers. The function consists of the following sections:

COMPTROLLER

The Comptroller 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, the processing of accounts payable invoices, travel services including employee reimbursement, fixed asset inventory services and refund warrant management.

The Accounts Receivable Unit is responsible for processing new receivable and adjustment transactions for the four major tax types, the timely reconciliation of the system, NSF check processing, and credit balance management.

The Remittance Processing Unit is responsible for recording and depositing tax payments that are not processed through the Cashier system.

ELECTRONIC FUNDS TRANSFER UNIT

The Electronic Funds Transfer Unit is responsible for the management of the program for receiving taxpayer payments electronically for the business tax types (TPT, Withholding and Corporate).

FACILITIES/RECORDS MANAGEMENT

Facilities Management is responsible for coordinating DOR facility maintenance and remodeling at the Department's five locations; receiving all goods and supplies purchased by DOR; security system maintenance and repairs; and issuance of DOR identification cards and building access. Central Supply is also part of the Facilities Management section with distribution of office supplies and internal forms. Records Management maintains and provides access to tax returns and License applications with the Department. The Micro-graphics section

microfilms income tax, corporate tax and other miscellaneous documents. They also duplicate the information for distribution to different Department sites.

PURCHASING

Purchasing is responsible for contracting and purchasing all goods and services required by DOR. This includes furniture and supplies, and printing of tax forms, tax booklets, business cards and envelopes. Purchasing is also responsible for contract management, vendor performance and compliance.

MAIL SERVICES

Mail Services is divided into two units: Incoming Mail is responsible for the receipt, sorting and delivery of all tax documents, payments and correspondence received by the agency. Outgoing Mail is responsible for mailing all tax documents, billing, correspondence, and tax change notices, audit and collection notices to taxpayers.

INDIVIDUAL INCOME TAX PROCESSING

Individual Income Tax Processing is divided into four units: Refund/Research, Document Processing, Data Entry and Error Resolution. These units are responsible for issuing income tax refunds, preparing documents and revenue to be keyed and resolving discrepancies between the taxpayer's calculations and the Department's computerized calculations. Data Input is responsible for keying all tax returns and documents into the agency's various computer systems.

BUSINESS TAX PROCESSING

Business Tax Processing is divided into three units: Transaction Privilege Tax, Withholding Tax and Corporate Income Tax. Each of these units is responsible for the preparation of documents and revenue, issuing credits/refunds as appropriate and resolving discrepancies between the taxpayer's calculations and the Department's calculations.

Highlights In FY 2002

- ◆ During the 2001 tax-filing season, more than two million (2,276,537) individual income tax returns were processed, generating in excess of 1.5 million refunds. More than 620,995 documents required the reconciliation of data based on the Department's computer generated information.
- ◆ Refund turn-around time averaged 18.01 days.
- ◆ The total number of Corporate Income Tax documents processed was 216,739 of which 109,196 were returns. The Corporate Income Tax refunds issued exceeded \$165 million.
- ◆ The total number of Transaction Privilege, Use and Severance Tax documents processed exceeded 1.39 million, of which 1.26 million were returns. The Electronic Funds Transfer (EFT) system for Transaction Privilege Tax (started in early 1998) has exceeded our expectations. The \$2.7 billion received is 55% of all TPT revenues collected.
- ◆ The total number of Withholding Tax Documents processed exceeded 1.9 million, of which 370,884 were returns. This year 3,416 employers filed Withholding returns annually and we expect this number to grow as the tax practitioners and small businesses take advantage of this annual program.
- ◆ The Accounts Receivable Unit continued its high level of service in processing maintenance items in less than 24 hours of receipt on items of maintenance with only a 3/10 of 1% error rate.
- ◆ The Records Management unit continues to improve production while maintaining quality. The Records Maintenance Section has received approximately 25,000 new license applications and has had 42,000 requests for taxpayer documents. The Micro-graphics Section received 4.0 million individual documents for microfilming.
- ◆ The Incoming Mail Unit processed nearly 3.7 million letters and flats during the fiscal year plus the 4.2 million Personal Income, Withholding, and Transaction Privilege Tax returns this mail produced. During the peak season, this unit ran two shifts with over 95 temporary and 17 permanent employees. With the help of three mail-opening machines, they opened approx. 60,000 pieces of mail daily. Teamwork also plays an important part during peak time. Incoming Mail staff worked with volunteers from other sections of the Department towards a common goal of opening and processing mail to get refunds to taxpayers quicker and improve the Department's overall customer service.
- ◆ The Remittance Processing Unit deposited more than \$3.8 billion and processed 2.9 million documents. Due to the teamwork of all sections in the function and additional resources such as updating the J&B Software in our TMSimage program, working overtime and utilizing temporary employees, the FY02 year-end closed smoothly.
- ◆ The Data Input unit keyed over 2.1 million documents this year. The unit kept its primary emphasis on keying business tax returns this year by outsourcing the bulk of the Individual Income Tax documents. The burden of keying the balance of the Income returns was reduced by the implementation of 2D bar code technology on the Arizona Form 140. This technology allows an average batch of 75 returns to be scanned in 11 minutes, vs. 1.5 hours of keying time. We were able to scan approximately 110,000 returns this season. This successful program will be expanded in the coming year.
- ◆ The Out Going Mail Team processed over 3.5 million pieces of mail, not including the

county property tax forms. During the last year, postage costs were reduced through elimination of withholding A1QRT, A1WP and reduction in the number of TPT mail outs.

- ◆ Fiscal year 2000 – 2001, we purchased a CAD program that would assist the facilities staff in updating building floor plans as well as allowing us to develop new floor plans. Before the CAD program, the staff members would draw each new modular office then forward the drawing to a vendor to have the existing floor plans modified. Since the CAD program has been purchased and installed the Facilities staff have saved over 1000 work hours and \$45,000 in design fees. In fiscal year 2001 – 2002 the Facilities staff purchased a printer that would accommodate the printing of building floor plans. This printer has saved over 100 work hours of going from one area to another to print a floor plan that was not easily read. Now we can print floor plans to 1/8 scale that allow ease of readability. We will have 1 additional staff member trained on the operation of the CAD system by the end of fiscal year 2003. With the additional staff trained, we will be able to work more efficiently.
- ◆ 486,514 Arizona Individual Income returns were filed electronically in FY02. This represents an 18.5% increase over the prior year. More than 205,923 taxpayers received their refund via direct deposit. This is the second year we offered this convenience. The number of tax professionals participating in the e-file program exceeded 1,650.
- ◆ The Electronic Funds Transfer Unit electronically processed approximately \$4.641 billion during FY02. This is an increase of \$192.6 million more than in FY01 or 4.3 %. The unit also processed 321,393 payments in FY02 an increase of 10.4% from the prior year. In FY02 the unit electronically processed 57.8% of business tax dollars received and

13.1% of the business tax transactions. The Comptroller's Office returned 10,603 warrants to taxpayers that had been returned to the Department for a better address.

- ◆ The Purchasing Unit issued 2,256 purchase orders with an average order time of 1.54 days.

PROPERTY TAX FUNCTION

VALUATION SECTION

The Valuation Section consists of four teams: 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 65 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.

TECHNICAL SYSTEMS AND SUPPORT SECTION

The Technical Systems and Support Section consists of three teams: the CIS and Valuation Review Unit, the CAMA/GIS Unit and the Manuals and Forms Group.

The CIS & Valuation Review unit consists of two groups: the Central Information Services group (CIS) and the Valuation Review group.

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 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.

COMPUTER ASSISTED MASS APPRAISAL/ GEOGRAPHIC INFORMATION SYSTEMS

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.

HIGHLIGHTS IN FY 2002

- ◆ The CAMA Unit assisted the Navajo County Assessor's office with a valuation review of properties affected by the Rodeo-Chediski fire.
- ◆ The CIS Unit in conjunction with the Information Technology Function completed the communication portion of the Client County Virtual Private Network. The VPN system has increased response time and laid the foundation for the implementation of the Client County Information System. Significant progress was also made towards completion of the PT50+ Real Time Update Project which will take many of the secured property system updates currently done at night and put them on-line, in real-time.
- ◆ The Valuation Review Unit automated the method of incorporating property sales affidavit information into the sales database eliminating the need to key over 100,000 documents a year.
- ◆ The Construction Cost Unit developed a new Shopping Center Economic Obsolescence and Depreciation Table for qualifying shopping centers valued under ARV 42-13201-06.
- ◆ The Locally Assessed Property Unit is conducting research in preparation for

issuing two new guidelines for use by the County Assessors. The guidelines pertain to timeshare properties and commercial industrial properties located in enterprise zones.

- ◆ The Training and Certification Team taught 24 appraisal courses with an average attendance of 18 students per course. The Team also administered five certification examinations. Forty-one Level One and 10 Level Two students were certified.

TRANSACTION PRIVILEGE TAX FUNCTION

FIELD AUDIT SECTION

Without losing emphasis on customer service, the Field Audit Section exceeded their goals and objectives. Based on audit surveys, over 97% of the audits were completed in a fair, accurate, timely and expeditious manner. Furthermore, the surveys indicated that the Field Auditors were thorough in explaining their audit approach and theory, in part due to the use of opening and closing interviews. Very importantly the survey responses also showed that more than 96% of the time the Field Auditors were courteous and professional.

REFUND SECTION

The Refund Section is responsible for analyzing and processing taxpayer refund requests. While responding to a changing environment, and law changes, the refund section re-engineered its processes by developing better monitoring and tracking systems and streamlined procedures. The Section continued to excel in good customer service while processing twice as many claims this year than in any previous year.

DESK AUDIT SECTION

This past fiscal year was a year of rebuilding for the Desk Audit crew. Half of the staff were recent hires and had minimum experience. Despite this lack of experience, and with on-the-

job training emphasized, the results were very positive. There is still additional training to be accomplished, but the Section looks forward to having a seasoned crew for the upcoming fiscal year.

PROGRAM INFORMATION GROUP

The Program Information Group had many accomplishments this year and continues to excel by ensuring minimal downtime in the various operations and programs of the TPT Function. The Group has also continued to maintain and upgrade the ATC program used by the Field Auditors. The main upgrades include faster program processing and the ability to automatically import reporting histories. The group continues to provide support to the TPT staff in maintaining critical programs necessary to continue with existing projects.

AUDIT SELECT SECTION

The Audit Select Section's primary focus is audit research and selection. The Section continues towards this through the staff's hard work and dedication to the job. The Audit Select Section has also been working with the Program Information Group on a data warehouse project. The Section also assists in the conversion of SIC codes to NAICS codes and continues to provide assistance to the 12 non-program cities in coordinating joint audits with the Department of Revenue.

ADMINISTRATIVE SUPPORT UNIT

Fiscal year 2002 was a banner year for the Administrative Support Unit. With fewer employees than the preceding fiscal year, the Unit is also responsible for retrieving and delivering incoming mail and reports to the Function's employees. When asked or needed the staff also assists others to ensure all daily duties are completed.

HIGHLIGHTS IN FY2002

- ◆ In fiscal year 2002, 2,754 audits that were completed for a total of \$26,453,913.64.
- ◆ The Refund Section processed 2,254 refund claims granting \$33 million and denying over \$9 million
- ◆ The Desk Audit section realized total revenues of \$14,030,611. The shining accomplishment for the Section was the fact that 1,888 new taxpayers were licensed. This was a record high for the Section and constitutes a 100% increase over the prior year.
- ◆ The Program Information Group developed: a new audit protest database and successfully converted all existing records; new letter templates for both the Field and Desk

Auditors that are more readily accessible; a database to handle the volumes of information for Audit Select; and, a new SQL database consisting of approximately 60 million historical records.

- ◆ The Administrative Support Unit timely and accurately processed the 2,754 audits, which includes manually writing the necessary maintenance reports to put the information into DOR's system. The Unit also manually wrote up approximately 572 pieces of amended maintenance to correct billings.

ARIZONA'S TAXES

**The Department collected
\$8.9 billion in revenue
For fiscal year 2002**

**96% of collections
Were attributable to the Income Tax and
Transaction Privilege Tax.**

TABLE 1
REVENUE SUMMARY
GROSS REVENUE COLLECTED
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

SOURCE	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02
TRANSACTION PRIVILEGE USE AND SEVERANCE TAX					
Distribution Base	\$1,015,306,840	\$1,089,625,165 (4)	\$1,195,140,016	\$1,248,485,639	\$1,246,773,262
Nonshared Portion	1,875,579,736	2,042,232,511 (4)	2,230,332,220	2,356,788,664	2,379,509,616
Use Tax	136,868,591	148,043,174 (4)	176,566,264	196,887,927	162,751,987
Education Tax	-----	-----	-----	100,682 (5)	439,004,543
Undistributed Estimated					
Transaction Privilege Tax	5,262,078	11,668,636	12,392,607	1,894,841	28,766,081
Other State Revenue	17,094,298	18,352,045	18,254,373	21,123,487	32,971,582
County and City Collections	510,665,036	541,562,578	654,131,327	721,459,433	766,018,836
Subtotal	\$3,560,776,579	\$3,851,484,109	\$4,286,816,807	\$4,546,740,674	\$5,055,795,907
INCOME TAX					
Withholding	1,863,292,013	2,072,018,474	2,259,201,907	2,363,693,852	2,309,340,885
Individual	669,323,279	765,853,606	826,789,215	858,775,963	705,843,394
Corporate	630,836,596	643,230,321	637,765,231	678,002,658	512,257,476
Subtotal	\$3,163,451,888	\$3,481,102,401	\$3,723,756,353	\$3,900,472,473	\$3,527,441,755
LUXURY TAX					
Spirituos Liquor	18,787,775	19,648,670	20,587,605	21,327,540	21,574,744
Vinous Liquor	7,893,100	7,969,428	9,026,326	8,477,493	9,035,156
Malt Liquor	19,463,378	20,534,013	21,309,231	21,602,321	22,031,467
Tobacco - All Types (1)	169,316,629	166,288,764	162,896,049	160,694,260	161,754,302
Licensing	7,100	7,175	7,175	8,600	5,250
Subtotal	\$215,467,982	\$214,448,050	\$213,826,386	\$212,110,214	\$214,400,920
ESTATE TAX					
Estate	64,490,574	89,087,575	85,238,335	76,921,666	81,892,657
Unclaimed Property	20,770,144	21,315,542	31,415,063	38,020,547	48,681,438
Escheated Estate and Unclaimed Dividends	124,335	309,305	201,612	654,400	252,786
Subtotal	\$85,385,053	\$110,712,421	\$116,855,010	\$115,596,613	\$130,826,881
OTHER REVENUES					
Bingo	750,970	717,830	677,036	634,384	629,680
Flight Property Tax	15,165,878	14,856,910	13,418,771	13,387,179	13,056,694
Private Car Tax	1,494,821	1,441,440	1,476,728	1,349,685	1,509,625
Nuclear Plan Assessment	880,824	926,814	945,935	924,778	940,611
Waste Tire	5,125,561	5,476,881	5,674,452	6,346,629	6,392,637
Subtotal	\$23,418,054	\$23,419,875	\$22,192,921	\$22,642,655	\$22,529,247
DEPARTMENT TOTAL	\$7,048,499,556	\$7,681,166,856	\$8,363,447,477	\$8,797,562,629	\$8,950,994,710
State Property Tax (2)	37,957,273	10,069,191	24,686,866	22,552,932	18,454,625
TOTAL (3)	\$7,086,456,829	\$7,691,236,047	\$8,388,134,343	\$8,820,115,561	\$8,969,449,335

(1) Figures represent gross tobacco revenue less administrative expenses.

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

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

(4) Corrected figures.

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

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

Figures may not add to total due to rounding.

TABLE 2
NET REVENUE TO STATE GENERAL FUND
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

SOURCE	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02
Transaction Privilege, Use, and Severance Tax	\$2,362,627,656	\$2,566,087,404 (3)	\$2,817,525,828	\$2,982,824,755	\$2,972,274,262
Undistributed Estimated Transaction Privilege Tax	5,262,078	11,668,636	12,392,607	1,894,841	28,766,081
Income Tax	2,099,332,295	2,302,706,944	2,434,799,495	2,445,472,944	2,011,052,550
Luxury Tax	64,429,625	64,770,498	65,436,145	65,568,793	66,069,587
Estate Tax/ Unclaimed Property	65,269,787	89,334,610	84,725,503	78,961,539	88,298,138
Bingo	750,970	717,830	677,036	634,384	629,680
Private Car Tax	1,494,821	1,441,440	1,476,728	1,349,685	1,509,625
Nuclear Plan Assessment	880,824	926,814	945,935	924,778	940,611
Flight Property Tax (2)	7,582,939	7,367,078	6,709,385	6,693,590	6,528,347
Department Total	\$4,607,630,996	\$5,045,021,253	\$5,424,688,662	\$5,584,325,308	\$5,176,068,883
State Property Tax (1)	37,957,273	10,069,191	24,686,866	22,552,932	18,454,625
TOTAL	\$4,645,588,269	\$5,055,090,444	\$5,449,375,528	\$5,606,878,240	\$5,194,523,508

(1) Property Tax is not collected by the Department of Revenue and, therefore, is not reflected in this chart. It is collected by the Counties for distribution to local taxing authorities. The "state property tax" referenced above is the only portion of the property tax that is deposited in the state general fund. It is derived from the minimum qualifying tax rate.

(2) Beginning with FY98, 50% of all Flight Property Tax revenues were deposited into the General Fund.

(3) Corrected figure.

Figures may not add to total due to rounding.

TABLE 3
GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX
FISCAL YEAR 2000-01 AND FISCAL YEAR 2001-02

AUDIT COLLECTIONS	FY2000-01	FY2001-02	% CHANGE
Assessment Collections (Gross)	\$90,281,036	\$59,929,966	-33.6%
Miscellaneous Taxes (Net of Credit)	\$6,176,200	\$1,360,262	-78.0%
TOTAL AUDIT UNIT COLLECTIONS	\$96,457,236 (3)	\$61,290,228	-36.5%
TOTAL BILLINGS	\$181,828,894 (3)	\$147,046,075	-19.1%
TOTAL DELINQUENT TAX COLLECTIONS	\$169,126,938	\$272,698,314	61.2%
TOTAL UNADJUSTED ENFORCEMENT COLLECTIONS	\$447,413,068 (3)	\$481,034,617	7.5%
ADJUSTMENTS (1)			
Duplication, Credit Audits and Other Adjustments As Reported	(\$88,491,768)	(\$67,733,729)	23.5%
TOTAL ADJUSTED ENFORCEMENT COLLECTIONS (2)	\$358,921,300	\$413,300,888	15.2%
REFUND DENIALS	\$19,271,321	\$18,991,988	-1.4%

(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.

(3) Corrected figures

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*). Approximately 178,000 accounts collectively remitted gross revenues exceeding \$4.5 billion during the 2002 fiscal year for transaction privilege, use and severance tax revenues (*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, (*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*). Beginning with November 1999 returns, mining severance collections are fully distributed to municipalities (38.16%) and counties (61.84%). Mining severance returns for prior periods are distributed in the same manner as transaction privilege tax. 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 or sales 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

DOR collects transaction privilege and use tax for 75 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, DOR 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 DOR. 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 three other types of county excise tax options are a hospital tax, a jail tax, and a stadium tax. Currently, no county imposes a hospital tax, although Gila County had one in the past. La Paz, Yuma, Coconino, and Maricopa counties have a jail tax.

TABLE 4
GROSS TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

SOURCE	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02
Distribution Base	\$1,015,306,840	\$1,089,625,165 (5)	\$1,195,140,016	\$1,248,485,639	\$1,246,773,262
Nonshared	1,875,579,736	2,042,232,511 (5)	2,230,332,220	2,356,788,664	2,379,509,616
Use Tax	136,868,591	148,043,174 (5)	176,566,264	196,887,927	162,751,987
SUBTOTAL	\$3,027,755,167	\$3,279,900,850	\$3,602,038,500	\$3,802,162,230	\$3,789,034,865
Education Tax (9)	-----	-----	-----	100,682 (1)	439,004,543
Undistributed Estimated	5,262,078	11,668,636	12,392,607	1,894,841	28,766,081
911 Wireline/Excise Tax	7,652,326	8,084,729	7,846,057	9,201,049	14,998,348
Telecommunications Devices	4,908,914	5,158,289	4,960,224	5,514,542	6,395,057
Poison Control Fund	1,815,626	1,907,860	1,834,603	2,039,625	2,365,295
911 Wireless Service	722,736 (1)	1,181,481	1,507,573	2,136,015	6,928,990
Municipal Water	1,891,072	1,957,725	2,081,879	2,120,483	2,213,435
Environmentally Hazardous Products (2)	784	536	980	5,909	14
Waste Tire Accounts					
Receivable Collections	105,094	62,946	25,739	109,948	71,330
Less Collection Fees	(2,255)	(1,521)	(2,682)	(4,084)	(888)
GROSS STATE COLLECTIONS	\$3,050,111,543	\$3,309,921,530	\$3,632,685,479	\$3,825,281,241	\$4,289,777,071
Municipal Privilege Tax	180,932,433	202,218,016	230,976,587	257,706,985	280,950,442
Pima County Hotel Tax	2,378,163	2,437,787	2,625,508	2,823,410	2,495,830
Maricopa County Rental Car Surcharge	5,376,877	5,405,493	5,734,678	5,636,907	5,396,445
Pima County Rental Car Surcharge	1,384,659	1,388,744	1,476,750	1,557,354	1,377,083
Pima County R.V. Surcharge	182,205 (1)	218,359	212,849	197,598	189,838
Apache County Excise Tax	582,718	638,649	1,862,479	1,130,977	903,381
Cochise County Excise Tax	4,058,429	4,311,066	4,853,891	5,123,754	5,698,660
Coconino County Excise Tax	7,742,012	8,085,596	8,876,866	9,054,404	8,793,909
Coconino County Jail Tax	4,121,136	4,793,744	5,261,397	5,358,317	5,486,442
Gila County Excise Tax	2,357,618	2,350,334	2,311,624	2,596,028	2,617,971
Gila County Hospital Tax (3)	3,054	7,003	92	38,499	509
Gila County Transportation	2,396,123	2,423,201	2,377,944	2,612,288	2,718,050
Graham County Excise Tax	1,128,771	1,172,236	1,188,238	1,206,320	1,192,075
Greenlee County Excise Tax	632,440	546,749	563,020	645,168	562,389
La Paz County Excise Tax	691,178	777,423	806,441	820,780	885,465
La Paz County Jail Tax	692,383	776,444	807,563	821,969	885,694
Maricopa County Road Tax	209,263,453	229,470,201	248,595,990	264,722,440	267,563,343
Maricopa County Stadium Tax (4)	50,550,929	437,677	150,336	280,370	145,148
Maricopa County Jail Tax	-----	34,290,683 (1)	91,054,451	97,603,200	98,372,053
Mohave County Excise Tax	-----	-----	1,608,620 (1)	4,114,594	4,446,472
Navajo County Excise Tax	3,964,486	4,372,839	4,655,169	4,831,327	4,993,912
Pinal County Excise Tax	5,076,787	5,698,428	6,149,485	6,492,013	6,763,454
Pinal County Road Tax	5,232,966	6,072,244	6,575,202	6,750,294	6,965,671
Santa Cruz County Excise Tax	1,725,137	1,847,305	1,918,653	2,092,940	2,114,505
Yavapai County Excise Tax	7,696,746	8,565,735	9,571,900	10,054,989	10,799,358
Yavapai County Jail Tax (6)	-----	-----	-----	3,627,698	4,294,368
Yuma County Excise Tax	6,252,408	6,638,969	6,965,025	7,417,302	7,665,873
Yuma County Jail Tax	6,241,927	6,617,655	6,950,571	7,412,145	7,653,390
Yuma County Capitol Projects Tax (7)	-----	-----	-----	3,150,273 (1)	7,582,374
Tourism/Sports Authority (8)	-----	-----	-----	5,579,087 (1)	16,504,732
COUNTY AND CITY COLLECTIONS	510,665,036	541,562,578	654,131,327	721,459,433	766,018,836
TOTAL DEPARTMENT OF REVENUE RECEIPTS	\$3,560,776,579	\$3,851,484,108	\$4,286,816,806	\$4,546,740,674	\$5,055,795,907

- (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) Corrected Figure.
(6) Yavapai County Jail Tax began on July 1, 2000
(7) Yuma County Capitol Projects Tax Began on January 1, 2001
(8) Tourism/Sports Authority Tax became effective March 1, 2001.
(9) Education Tax became effective on June, 1, 2001.

TABLE 5
STATE TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX RATES
FISCAL YEAR 2001-02

TAXABLE ACTIVITIES	DISTRIBUTION BASE	NONSHARED	EDUCATION	TOTAL TAX
1. Transporting and Towing	1.0%	4.0%	0.6%	5.6%
2. Nonmetalliferous Mining, Oil and Gas Production	1.0%	2.125%	0.0%	3.125%
4. Utilities	1.0%	4.0%	0.6%	5.6%
5. Communications	1.0%	4.0%	0.6%	5.6%
6. Railroads and Aircraft	1.0%	4.0%	0.6%	5.6%
7/8. Private Car/Pipelines	1.0%	4.0%	0.6%	5.6%
9. Publishing	1.0%	4.0%	0.6%	5.6%
10. Printing	1.0%	4.0%	0.6%	5.6%
11. Restaurants and Bars	2.0%	3.0%	0.6%	5.6%
12. Amusements	2.0%	3.0%	0.6%	5.6%
14. Personal Property Rentals	2.0%	3.0%	0.6%	5.6%
15. Contracting (1)	1.0%	4.0%	0.6%	5.6%
17. Retail	2.0%	3.0%	0.6%	5.6%
19. Mining Severance	2.5%	0.0%	0.0%	2.5%
21. Timbering Severance - Ponderosa (per thousand board feet)	\$1.704	\$0.426	\$0	\$2.13
22. Timbering Severance - Other (per thousand board feet)	\$1.208	\$0.302	\$0	\$1.51
25. Hotel/Motel Tax	2.75%	2.75%	0.0%	5.5%
28. Rental Occupancy Tax	2.0%	1.0%	0.0%	3.0%
29/30. Use and Use Inventory Tax	0.0%	5.0%	0.6%	5.6%
47. Membership Camping	2.0%	3.0%	0.6%	5.6%
49. Jet Fuel (per gallon)	\$0.0122	\$0.0183	\$0	\$0.0305
51. Jet Fuel Use (per gallon)	\$0	\$0.0305	\$0	\$0.0305

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

TABLE 6
NET TAXABLE SALES
BY TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX CLASSIFICATIONS (1)
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

CLASSIFICATION	% OF									
	FY1997-98	TOTAL	FY1998-99	TOTAL	FY1999-00	TOTAL	FY2000-01	TOTAL	FY2001-02	TOTAL
Transportation and Towing	\$64,281,736	0.11	\$58,302,201	0.09	\$56,620,330	0.08	\$85,910,143	0.11	\$57,567,191	0.08
Mining, Oil & Gas	190,472,916	0.31	204,730,724	0.31	193,933,697	0.27	224,834,096	0.30	208,310,010	0.28
Mining Severance	1,082,898,418	1.77	749,256,686	1.14	481,582,634	0.66	168,695,209	0.22	(4,263,622)	(0.01)
Timber Severance (4)	(781)	(0.00) (6)	(439)	(0.00) (6)	0	0.00 (6)	0	0.00 (6)	766,360	0.00 (6)
Utilities	4,923,557,931	8.05	5,066,644,493	7.72	5,268,207,981	7.27	5,814,282,521	7.65	5,919,273,137	7.83
Communications	1,919,236,806	3.14	2,153,027,806	3.28	2,453,093,781	3.39	2,870,088,870	3.78	2,945,681,407	3.90
Railroads and Aircraft	36,688,382	0.06	36,057,579	0.05	32,885,789	0.05	52,745,618	0.07	38,788,894	0.05
Private Car and Pipelines	12,773,763	0.02	15,556,192	0.02	5,612,007	0.01	15,485,669	0.02	7,134,188	0.01
Publishing	110,592,575	0.18	119,042,396	0.18	112,357,871	0.16	124,462,488	0.16	82,843,214	0.11
Job Printing	405,093,470	0.66	418,739,698	0.64	418,677,603	0.58	402,933,841	0.53	351,141,961	0.46
Local Advertising (2)	0	0.00	(1,614)	(0.00) (6)	27,476	0.00 (6)	0	0.00 (6)	0	0.00 (6)
Restaurants and Bars	5,095,503,749	8.33	5,476,712,938	8.34	5,976,371,272	8.25	6,300,820,165	8.29	6,428,712,331	8.51
Amusements	672,756,982	1.10	680,140,832	1.04	758,823,163	1.05	760,837,607	1.00	743,800,365	0.98
Commercial Lease (5)	386,199,867	0.63	(133,063,779)	(0.20)	659,198,999	0.91	182,691,438	0.24	36,912,605	0.05
Personal Property Rentals	2,909,345,629	4.76	3,170,337,708	4.83	3,412,995,935	4.71	3,658,549,237	4.81	3,607,518,815	4.77
Contracting	8,568,022,267	14.00	10,021,561,060	15.27	10,847,157,383	14.98	11,250,537,683	14.80	11,820,596,498	15.64
Feed Wholesale (3)	(6,707,034)	(0.01)	269,821	0.00 (6)	382,271	0.00 (6)	(41,648)	(0.00) (6)	(1,806,235)	(0.00) (6)
Retail	30,469,141,007	49.80	32,964,475,378	50.22	36,403,861,655	50.27	38,282,337,115	50.37	38,432,859,974	50.85
Hotel/Motel	1,609,506,373	2.63	1,679,514,834	2.56	1,818,473,902	2.51	1,871,008,576	2.46	1,659,760,985	2.20
Rental Occupancy Tax	4,211,147	0.01	3,930,929	0.01	3,733,808	0.01	4,896,781	0.01	5,967,630	0.01
Use Tax	2,729,476,046	4.46	2,951,224,001	4.50	3,514,612,988	4.85	3,922,952,933	5.16	3,240,459,960	4.29
Membership Camping	1,621,718	0.00 (6)	1,682,321	0.00 (6)	1,411,253	0.00 (6)	2,420,361	0.00 (6)	2,741,146	0.00 (6)
Agriculture Equipment (7)	-----		-----		-----		1,212,738	0.00 (6)	2,106,425	0.00 (6)
TOTAL	\$61,184,672,966	100.00	\$65,638,141,764	100.00	\$72,420,021,798	100.00	\$75,997,661,442	100.00	\$75,586,873,240	100.00

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

(2) Local advertising was phased out on January 1, 1986.

(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) Percent of total is less than 0.01%.

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

Figures may not add to total due to rounding.

TABLE 7
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS BY CLASS (1)
FISCAL YEAR 2001-02

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL COLLECTIONS
Transporting and Towing	\$575,672	\$2,302,688	\$2,878,360
Nonmetal Mining, Oil and Gas	2,083,100	4,426,588	6,509,688
Mining Severance	(85,598)	(20,993)	(106,591)
Timbering Severance	9,196	2,299	11,495
Timbering Severance - Ponderosa	718	180	897
Timbering Severance - Other	1,114	278	1,392
Utilities	59,192,731	236,770,926	295,963,657
Communications	29,456,814	117,827,256	147,284,070
Railroads and Aircraft	387,889	1,551,556	1,939,445
Private Car and Pipelines	71,342	285,368	356,709
Publishing	828,432	3,313,728	4,142,161
Printing	3,511,419	14,045,679	17,557,098
Restaurants and Bars	128,574,246	192,861,370	321,435,616
Amusements	14,876,008	22,314,011	37,190,018
Commercial Lease (3)	303,101	271,413	574,514
Rentals of Personal Property	72,150,374	108,225,567	180,375,941
Contracting	118,205,962	472,823,862	591,029,823
Feed Wholesale (2)	(4,518)	(3,954)	(8,471)
Retail	768,614,485	1,153,028,514	1,921,642,999
Hotel/Motel	45,643,489	45,643,365	91,286,854
Rental Occupancy Tax	119,358	59,670	179,029
Use Tax	0	162,022,998	162,022,998
License Fees	0	475,424	475,424
Membership Camping	54,823	82,234	137,057
Jet Fuel Tax	2,259,054	3,388,581	5,647,634
Jet Fuel Use Tax	0	728,989	728,989
Non Sufficient Funds	0	36,558	36,558
Telecommunications Service Assistance	(55,948)	(223,793)	(279,742)
Miscellaneous Fees	0	20	20
Agriculture Equipment (4)	0	21,064	21,064
Utility Credit/Reimbursement	0	157	157
TOTAL	\$1,246,773,262	\$2,542,261,603	\$3,789,034,865

(1) Does not reflect the balance of undistributed estimated payments at the end of FY02.

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

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

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

Figures may not add to total due to rounding.

TABLE 8
DISTRIBUTION OF TRANSACTION PRIVILEGE, USE
AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2001-02

Net Regular to State General Fund	\$2,972,274,262
Net Estimated Payments to General Fund	28,766,081
Net to Cities	311,693,101
Net to Counties	505,067,501
Net to Education Fund	439,004,543
911 Wireline/Excise, 911 Wireless, Telecommunications Devices, Poison Control Fund, Municipal Water and Environmentally Hazardous Products, and Waste Tire Accounts Receivable Collections	32,972,469
Less Collection Fees	(888)
TOTAL GROSS COLLECTIONS	\$4,289,777,071

ADDITIONAL DISTRIBUTION FROM
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2001-02

Office of Tourism	\$10,739,453
Phoenix International Raceway	\$416,667
School Facilities Board	\$382,000,000
Tourism and Sports Authority	\$694,080
Tribal Community Colleges	\$1,750,000
Urban In-Lieu	\$645,322

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, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$9,625,070	-20.0%	\$481,254
Communications	12,147,459	-1.6%	607,373
Publishing	453,177	1.7%	22,659
Restaurants and Bars	8,865,661	-6.6%	443,283
Amusements	397,249	50.6%	19,862
Rentals of Personal Property	3,269,901	6.1%	163,495
Contracting (All)	73,088,110	28.4%	3,654,406
Retail	57,726,056	-23.1%	2,886,303
Hotel/Motel	10,298,568	-15.1%	566,421
Other Taxable Activities	35,859,777	-79.9%	1,730,942
TOTAL	\$211,731,029	-41.2%	\$10,575,998

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	25	27	25
Communications	85	94	111
Publishing	13	15	14
Restaurants and Bars	70	67	63
Amusements	11	10	12
Rentals of Personal Property	179	195	182
Contracting (All)	279	307	321
Retail	1,027	1,010	987
Hotel/Motel	54	57	63
Other Taxable Activities	489	530	488
TOTAL	2,232	2,312	2,266

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included.
 Figures may not add to total due to rounding.

TABLE 10
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN COCHISE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$117,280,077	1.1%	\$5,864,004
Communications	50,464,932	0.4%	2,523,247
Publishing	1,883,882	12.1%	94,194
Printing/Advertising	1,884,218	16.4%	94,211
Restaurants and Bars	89,315,314	6.7%	4,465,766
Amusements	5,992,093	-2.1%	299,605
Rentals of Personal			
Property	21,251,331	1.7%	1,062,567
Contracting (All)	147,696,531	5.1%	7,384,827
Retail	597,497,254	5.3%	29,874,863
Hotel/Motel	24,601,914	-3.1%	1,353,105
Other Taxable Activities	68,342,989	-10.7%	3,387,901
TOTAL	\$1,126,210,536	3.3%	\$56,404,288

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	48	49	48
Communications	133	166	181
Publishing	21	18	19
Printing/Advertising	27	27	25
Restaurants and Bars	341	347	346
Amusements	79	69	70
Rentals of Personal			
Property	418	439	421
Contracting (All)	753	804	796
Retail	3,238	3,193	3,107
Hotel/Motel	138	141	140
Other Taxable Activities	845	862	886
TOTAL	6,041	6,115	6,039

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included.
 Figures may not add to total due to rounding.

TABLE 11
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN COCONINO COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Non Metal Mining/Mining Severance	\$3,816,104	51.7% (2)	\$119,253
Utilities	120,664,563	5.5%	6,033,228
Communications	65,516,782	-0.2%	3,275,839
Publishing	3,356,620	5.0%	167,831
Printing/Advertising	2,967,240	-13.3%	148,362
Restaurants and Bars	242,195,096	-0.2%	12,109,755
Amusements	(11,511,220)	N/A	(575,561)
Rentals of Personal			
Property	54,290,507	0.3%	2,714,525
Contracting (All)	256,042,190	1.6%	12,802,109
Retail	853,357,687	3.1%	42,667,884
Hotel/Motel	164,159,208	-6.8%	9,028,756
Other Taxable Activities	76,075,862	-7.2%	3,793,982
TOTAL	\$1,830,930,638	-1.3%	\$92,285,964

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Non Metal Mining/Mining Severance	15	16	17
Utilities	39	47	40
Communications	169	184	215
Publishing	39	32	32
Printing/Advertising	41	36	33
Restaurants and Bars	426	423	426
Amusements	95	93	98
Rentals of Personal			
Property	550	531	542
Contracting (All)	1,350	1,354	1,459
Retail	3,810	3,828	3,771
Hotel/Motel	239	248	251
Other Taxable Activities	1,128	1,152	1,172
TOTAL	7,901	7,944	8,056

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

(2) Increase due to unusual activity.

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, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$83,601,380	-4.0%	\$4,180,069
Communications	34,324,266	34.6%	1,716,213
Publishing	1,051,605	3.3%	52,580
Printing/Advertising	707,358	20.5%	35,368
Restaurants and Bars	46,500,034	4.1%	2,325,002
Amusements	1,897,577	16.0%	94,879
Rentals of Personal			
Property	12,560,184	-5.1%	628,009
Contracting (All)	90,717,870	2.3%	4,535,894
Retail	236,377,403	3.4%	11,818,870
Hotel/Motel	10,459,151	-11.7%	575,253
Other Taxable Activities	23,637,793	13.7%	1,054,901
TOTAL	\$541,834,622	3.4%	\$27,017,038

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	33	36	36
Communications	124	135	164
Publishing	15	19	14
Printing/Advertising	16	15	14
Restaurants and Bars	165	164	167
Amusements	43	40	37
Rentals of Personal			
Property	289	286	280
Contracting (All)	711	696	710
Retail	1,809	1,818	1,812
Hotel/Motel	68	66	67
Other Taxable Activities	576	572	598
TOTAL	3,849	3,847	3,899

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included.
 Figures may not add to total due to rounding.

TABLE 13
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GRAHAM COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Communications	\$10,964,074	-7.5%	\$548,204
Restaurants and Bars	16,214,002	-4.2%	810,700
Rentals of Personal			
Property	6,941,527	1.2%	347,076
Contracting (All)	40,468,223	46.6%	2,023,411
Retail	132,562,336	-5.7%	6,628,117
Other Taxable Activities	37,808,767	-23.9%	1,904,159
TOTAL	\$244,958,929	-3.4%	\$12,261,667

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2002-03
Communications	87	103	110
Restaurants and Bars	71	74	67
Rentals of Personal			
Property	182	177	170
Contracting (All)	228	215	197
Retail	996	999	974
Other Taxable Activities	443	453	491
TOTAL	2,007	2,021	2,009

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

Figures may not add to total due to rounding.

TABLE 14
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GREENLEE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Communications	\$3,427,170	-14.0%	\$171,358
Restaurants and Bars	2,735,862	-18.8%	136,793
Rentals of Personal Property	663,721	-29.0%	33,186
Contracting (All)	12,074,225	29.8%	603,711
Retail	54,854,616	-8.4%	2,742,731
Other Taxable Activities	62,154,515	-62.9%	2,659,585
TOTAL	\$135,910,108	-44.6%	\$6,347,365

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Communications	52	69	69
Restaurants and Bars	23	22	23
Rentals of Personal Property	82	88	79
Contracting (All)	68	82	78
Retail	373	375	363
Other Taxable Activities	193	230	203
TOTAL	791	866	815

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included.
 Figures may not add to total due to rounding.

TABLE 15
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN LA PAZ COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$17,576,249	13.8%	\$878,812
Communications	5,462,360	31.1%	273,118
Publishing	485,309	7.2%	24,265
Restaurants and Bars	22,035,866	-6.2%	1,101,793
Amusements	316,772	-41.4%	15,839
Rentals of Personal			
Property	4,978,099	22.5%	248,905
Contracting (All)	21,111,760	1.6%	1,055,588
Retail	95,076,962	8.4%	4,753,848
Hotel/Motel	5,310,296	5.8%	292,066
Other Taxable Activities	17,708,790	358.1% (2)	883,093
TOTAL	\$190,062,464	14.8%	\$9,527,328

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	18	21	22
Communications	91	94	100
Publishing	13	12	11
Restaurants and Bars	102	91	97
Amusements	15	17	13
Rentals of Personal			
Property	200	191	174
Contracting (All)	212	217	225
Retail	1,865	1,806	1,787
Hotel/Motel	55	59	58
Other Taxable Activities	447	394	387
TOTAL	3,018	2,902	2,874

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

(2) Increase due to unusual activity in FY 02.

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, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Non Metal Mining/Mining Severance	\$40,423,852	-18.8%	\$1,262,663
Utilities	3,684,640,251	3.2%	184,232,013
Communications	1,979,154,446	-0.5%	98,957,722
Publishing	45,136,947	-47.5%	2,256,847
Printing/Advertising	280,788,123	-14.4%	14,039,406
Restaurants and Bars	4,327,397,867	1.5%	216,369,893
Amusements	594,851,658	4.6%	29,742,583
Rentals of Personal			
Property	2,819,301,684	-2.3%	140,965,084
Contracting (All)	8,163,380,357	5.5%	408,169,018
Retail	26,168,729,464	-0.5%	1,308,436,473
Hotel/Motel	986,195,425	-13.5%	54,240,748
Other Taxable Activities	2,526,220,932	-22.6%	125,126,682
TOTAL	\$51,616,221,006	-1.1%	\$2,583,799,133

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Non Metal Mining/Mining Severance	57	55	52
Utilities	146	136	157
Communications	589	624	640
Publishing	360	322	295
Printing/Advertising	1,022	956	970
Restaurants and Bars	5,213	5,239	5,443
Amusements	740	706	695
Rentals of Personal			
Property	2,950	2,925	2,913
Contracting (All)	11,576	11,773	12,177
Retail	43,693	43,250	43,087
Hotel/Motel	606	619	625
Other Taxable Activities	10,910	10,938	10,713
TOTAL	77,862	77,543	77,767

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included. Figures may not add to total due to rounding.

TABLE 17
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN MOHAVE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$175,433,261	10.3%	\$8,771,663
Communications	59,353,778	13.8%	2,967,689
Publishing	2,367,141	2.6%	118,357
Printing/Advertising	4,289,293	1.2%	214,465
Restaurants and Bars	148,589,696	10.0%	7,429,485
Amusements	14,189,288	-1.0%	709,464
Rentals of Personal			
Property	58,606,400	7.0%	2,930,320
Contracting (All)	319,798,891	5.2%	15,989,945
Retail	974,535,306	8.1%	48,726,765
Hotel/Motel	35,340,194	1.4%	1,943,711
Other Taxable Activities	114,768,948	94.8% (2)	5,687,072
TOTAL	\$1,907,272,197	10.8%	\$95,488,935

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	49	51	53
Communications	112	136	159
Publishing	29	27	26
Printing/Advertising	42	36	36
Restaurants and Bars	403	404	407
Amusements	64	64	68
Rentals of Personal			
Property	535	549	541
Contracting (All)	1,259	1,277	1,286
Retail	4,203	4,151	4,225
Hotel/Motel	145	148	145
Other Taxable Activities	1,140	1,140	1,144
TOTAL	7,981	7,983	8,090

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

(2) Increase due to unusual activity in FY 02.

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, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$58,996,112	0.6%	\$2,949,806
Communications	41,317,358	-9.8%	2,065,868
Publishing	1,341,433	0.9%	67,072
Restaurants and Bars	64,135,553	3.5%	3,206,778
Amusements	4,363,746	29.8%	218,187
Rentals of Personal Property	17,468,897	-6.7%	873,445
Contracting (All)	138,607,290	15.9%	6,930,364
Retail	578,071,060	3.6%	28,903,553
Hotel/Motel	28,465,826	-10.9%	1,565,620
Other Taxable Activities	119,192,858	-5.4%	4,307,347
TOTAL	\$1,051,960,132	2.6%	\$51,088,040

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	39	40	46
Communications	131	134	154
Publishing	20	18	17
Restaurants and Bars	201	199	198
Amusements	44	38	37
Rentals of Personal Property	342	337	340
Contracting (All)	770	802	850
Retail	2,243	2,272	2,205
Hotel/Motel	144	136	149
Other Taxable Activities	689	732	769
TOTAL	4,623	4,708	4,765

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included. Figures may not add to total due to rounding.

TABLE 19
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN PIMA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Non Metal Mining/Mining Severance	\$12,287,098	-70.3% (2)	\$378,523
Utilities	1,029,276,491	-2.2%	51,463,825
Communications	443,208,480	15.8%	22,160,424
Publishing	15,724,754	-6.3%	786,238
Printing/Advertising	47,473,259	-9.3%	2,373,663
Restaurants and Bars	1,015,497,369	2.9%	50,774,868
Amusements	83,031,941	-3.0%	4,151,597
Rentals of Personal Property	445,587,851	4.0%	22,279,393
Contracting (All)	1,519,119,188	-0.2%	75,955,958
Retail	5,952,745,532	0.5%	297,637,277
Hotel/Motel	265,848,719	-11.3%	14,621,680
Other Taxable Activities	331,327,201	-4.5%	16,460,532
TOTAL	\$11,161,127,882	0.2%	\$559,043,976

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Non Metal Mining/Mining Severance	24	20	21
Utilities	68	75	76
Communications	196	250	319
Publishing	98	94	113
Printing/Advertising	201	187	178
Restaurants and Bars	1,574	1,535	1,527
Amusements	223	224	222
Rentals of Personal Property	1,257	1,227	1,210
Contracting (All)	4,232	4,330	4,371
Retail	14,567	14,179	13,982
Hotel/Motel	266	258	252
Other Taxable Activities	2,513	2,575	2,569
TOTAL	25,219	24,954	24,840

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

(2) Decrease due to unusual activity.

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, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Non Metal Mining/Mining Severance	(\$3,693,511)	-105.3% (2)	\$56,889
Utilities	184,739,118	3.1%	9,236,956
Communications	87,023,969	9.3%	4,351,198
Publishing	3,326,901	4.3%	166,345
Printing/Advertising	1,473,306	-31.3%	73,665
Restaurants and Bars	98,961,584	2.6%	4,948,079
Amusements	16,979,606	-13.3%	848,980
Rentals of Personal			
Property	38,037,442	8.5%	1,901,872
Contracting (All)	333,959,177	2.9%	16,697,959
Retail	540,035,225	6.4%	27,001,761
Hotel/Motel	15,875,133	-7.3%	873,132
Other Taxable Activities	61,516,560	10.3%	3,053,170
TOTAL	\$1,378,234,509	-0.8%	\$69,210,007

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Non Metal Mining/Mining Severance	34	28	26
Utilities	48	50	60
Communications	157	171	218
Publishing	26	23	23
Printing/Advertising	25	21	22
Restaurants and Bars	328	294	314
Amusements	80	87	83
Rentals of Personal			
Property	426	423	433
Contracting (All)	1,452	1,546	1,645
Retail	3,398	3,288	3,265
Hotel/Motel	94	98	102
Other Taxable Activities	912	954	990
TOTAL	6,980	6,983	7,181

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

(2) Decrease due unusual activity.

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, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$27,563,837	3.7%	\$1,378,192
Communications	19,986,205	-9.3%	999,310
Publishing	181,274	-16.5%	9,064
Restaurants and Bars	32,842,522	-2.8%	1,642,126
Amusements	1,396,098	-2.9%	69,805
Rentals of Personal Property	12,995,882	-16.8%	649,794
Contracting (All)	46,785,030	2.4%	2,339,251
Retail	266,013,176	3.6%	13,300,659
Hotel/Motel	9,416,481	-7.1%	517,906
Other Taxable Activities	10,341,956	-20.6%	516,863
TOTAL	\$427,522,460	0.5%	\$21,422,971

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	18	19	19
Communications	110	124	133
Publishing	12	14	11
Restaurants and Bars	124	121	131
Amusements	24	24	16
Rentals of Personal Property	284	271	264
Contracting (All)	410	416	392
Retail	1,528	1,535	1,518
Hotel/Motel	28	26	29
Other Taxable Activities	529	516	506
TOTAL	3,067	3,066	3,019

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included.
 Figures may not add to total due to rounding.

TABLE 22
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN YAVAPAI COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Non Metal Mining/Mining Severance	\$34,036,656	-32.9% (2)	\$1,063,567
Utilities	195,530,843	7.7%	9,776,542
Communications	81,954,766	11.1%	4,097,738
Publishing	4,470,033	-2.6%	223,502
Printing/Advertising	5,406,515	13.6%	270,326
Restaurants and Bars	191,730,204	4.6%	9,586,510
Amusements	19,769,057	9.2%	988,453
Rentals of Personal Property	54,005,954	3.8%	2,700,298
Contracting (All)	436,873,952	9.8%	21,843,698
Retail	1,058,305,666	7.5%	52,915,283
Hotel/Motel	72,717,900	-2.1%	3,999,485
Other Taxable Activities	47,880,134	-3.4%	2,371,240
TOTAL	\$2,202,681,680	6.2%	\$109,836,641

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Non Metal Mining/Mining Severance	28	24	31
Utilities	63	72	73
Communications	166	200	222
Publishing	53	54	52
Printing/Advertising	70	65	61
Restaurants and Bars	553	536	545
Amusements	86	85	94
Rentals of Personal Property	541	560	529
Contracting (All)	2,046	2,092	2,235
Retail	5,373	5,309	5,333
Hotel/Motel	185	189	174
Other Taxable Activities	1,103	1,179	1,218
TOTAL	10,267	10,365	10,567

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

(2) Decrease due to unuaual activity.

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, 2001 AND ENDING JUNE 30, 2002

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY2000-01	COLLECTIONS
Utilities	\$153,178,418	-3.9%	\$7,658,921
Communications	51,375,362	1.0%	2,568,768
Publishing	2,699,789	-7.5%	134,989
Restaurants and Bars	121,695,701	7.2%	6,084,785
Amusements	9,431,947	1.4%	471,597
Rentals of Personal Property	57,559,434	-10.4%	2,877,972
Contracting (All)	220,873,703	9.0%	11,043,685
Retail	866,972,231	1.3%	43,348,612
Hotel/Motel	26,871,573	-3.6%	1,477,937
Other Taxable Activities	49,556,892	-1.6%	2,446,918
TOTAL	\$1,560,215,050	1.5%	\$78,114,184

NUMBER OF ACCOUNTS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2001-02

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY1999-00	FY2000-01	FY2001-02
Utilities	34	40	44
Communications	122	144	187
Publishing	15	15	13
Restaurants and Bars	278	277	292
Amusements	49	46	41
Rentals of Personal Property	487	491	462
Contracting (All)	618	672	693
Retail	3,265	3,229	3,246
Hotel/Motel	91	109	92
Other Taxable Activities	900	963	925
TOTAL	5,859	5,986	5,995

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees and Utilities Credit are not included.
 Figures may not add to total due to rounding.

TABLE 24
STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX
DISTRIBUTION TO COUNTIES
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

COUNTY	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02	% CHANGE FROM FY2000/01
Apache	\$3,384,940	\$3,565,934	\$5,473,442	\$4,445,431	\$3,808,535	-14.3%
Cochise	7,886,873	8,390,958	9,229,981	9,594,853	9,111,850	-5.0%
Coconino	12,183,683	12,695,530	13,841,588	13,978,278	13,695,680	-2.0%
Gila	4,156,713	4,067,599	3,882,098	4,443,907	4,087,916	-8.0%
Graham	2,139,621	2,247,541	2,412,735	2,462,318	2,366,529	-3.9%
Greenlee	3,813,256	3,226,878	3,098,540	3,003,365	1,794,359	-40.3%
La Paz	1,316,162	1,421,105	1,486,269	1,495,379	1,525,956	2.0%
Maricopa	256,008,018	277,695,556	306,464,900	322,426,596	325,710,325	1.0%
Mohave	11,639,836	12,194,408	12,938,817	13,012,998	13,293,460	2.2%
Navajo	6,690,773	7,136,959	7,748,173	7,932,049	7,990,618	0.7%
Pima	65,670,660	70,057,426	76,273,737	79,516,015	76,759,008	-3.5%
Pinal	10,457,557	11,018,980	11,582,587	12,511,593	12,467,448	-0.4%
Santa Cruz	2,793,965	2,968,377	3,180,054	3,346,986	3,275,822	-2.1%
Yavapai	13,324,088	14,218,059	16,154,370	16,629,440	16,504,368	-0.8%
Yuma	9,834,655	10,495,286	11,358,869	11,861,866	12,675,627	6.9%
	\$411,300,801	\$441,400,596	\$485,126,158	\$506,661,075	\$505,067,501	-0.3%

Figures may not add to totals due to rounding.

TABLE 25
STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX
DISTRIBUTION TO MUNICIPALITIES
FISCAL YEAR 2001-02

CITIES	AMOUNT	COUNTY TOTAL	CITIES	AMOUNT	COUNTY TOTAL
APACHE			Queen Creek	\$332,593	
Eagar	\$310,785		Scottsdale	15,620,534	
St. Johns	243,343		Surprise	2,377,160	
Springerville	160,531	\$714,658	Tempe	12,223,711	
COCHISE			Tolleson	383,299	
Benson	363,032		Wickenburg	391,621	
Bisbee	469,298		Youngtown	231,952	\$220,616,766
Douglas	1,102,889		MOHAVE		
Huachuca City	134,933		Bullhead City	2,602,254	
Sierra Vista	2,910,958		Colorado City	256,919	
Tombstone	115,899		Kingman	1,546,526	
Willcox	287,667	5,384,675	Lake Havasu City	3,231,760	7,637,459
COCONINO			NAVAJO		
Flagstaff	4,076,034		Holbrook	378,906	
Fredonia	79,835		Pinetop-Lakeside	276,030	
Page	524,704		Show Low	592,980	
Williams	219,006	4,899,579	Snowflake	343,690	
GILA			Taylor	244,744	
Globe	576,874		Winslow	733,615	2,569,965
Hayden	68,738		PIMA		
Miami	149,189		Marana	1,044,631	
Payson	1,049,563		Oro Valley	2,288,695	
Winkelman	34,138	1,878,502	Sahuarita	249,830	
GRAHAM			South Tucson	423,062	
Pima	153,273		Tucson	37,505,234	41,511,452
Safford	711,422		PINAL		
Thatcher	309,937	1,174,632	Apache Junction	2,451,601	
GREENLEE			Casa Grande	1,943,772	
Clifton	200,049		Coolidge	599,993	
Duncan	62,573	262,622	Eloy	799,502	
LA PAZ			Florence	1,113,215	
Parker	241,970		Kearny	173,309	
Quartzsite	258,461	500,430	Mammoth	135,780	
MARICOPA			Superior	250,755	7,467,926
Avondale	2,765,159		SANTA CRUZ		
Buckeye	654,782		Nogales	1,608,868	
Carefree	225,556		Patagonia	67,890	1,676,758
Cave Creek	287,281		YAVAPAI		
Chandler	13,607,407		Camp Verde	728,298	
El Mirage	586,353		Chino Valley	603,768	
Fountain Hills	1,559,318		Clarkdale	263,701	
Gila Bend	152,580		Cottonwood	707,338	
Gilbert	8,453,298		Jerome	25,353	
Glendale	16,861,747		Prescott	2,615,277	
Goodyear	1,457,290		Prescott Valley	1,813,617	
Guadalupe	402,872		Sedona	785,400	7,542,752
Litchfield Park	293,600		YUMA		
Mesa	30,544,828		San Luis	1,180,720	
Paradise Valley	1,052,954		Somerton	559,921	
Peoria	8,350,576		Wellton	140,944	
Phoenix	101,800,295		Yuma	5,973,339	7,854,924
			TOTAL	\$311,693,101	\$311,693,101

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 2001-02

CITY	RATE (1) (PERCENT)	COLLECTIONS	CITY	RATE (1) (PERCENT)	COLLECTIONS
Apache Junction	2.2*	\$7,976,373	Marana	2.0*	\$14,842,812
Benson	2.5*	1,729,091	Miami	1.5	116,348
Bisbee	2.5*	1,210,933	Oro Valley	2.0*	6,333,076
Buckeye	2.0*	1,676,502	Page	2.0*	3,371,939
Bullhead City	2.0*	7,750,817	Paradise Valley	1.4*	7,297,814
Camp Verde	2.0*	1,367,995	Parker	2.0*	977,970
Carefree	2.0*	1,833,020	Patagonia	3.0*	161,750
Casa Grande	1.8*	9,887,404	Payson	2.0*	5,166,169
Cave Creek	2.5*	2,370,960	Pima	2.0*	141,215
Chino Valley	2.0*	2,055,626	Pinetop-Lakeside	2.5*	2,428,102
Clarkdale	2.25*	399,591	Prescott Valley	2.0*	5,828,323
Clifton	2.0	301,558	Quartzsite	2.5*	941,117
Colorado City	2.0*	216,132	Queen Creek	1.0*	1,100,691
Coolidge	2.0*	2,205,133	Safford	2.0*	2,623,302
Cottonwood	2.2	6,603,951	Sahuarita	2.0*	2,723,008
Douglas	2.5*	4,090,781	St. Johns	2.0*	460,509
Duncan	2.0	117,115	San Luis	2.5*	2,068,532
Eagar	3.0*	372,379	Sedona	3.0*	10,651,562
El Mirage	3.0*	6,649,544	Show Low	2.0	6,617,258
Eloy	3.0*	2,437,413	Sierra Vista	1.5*	9,741,663
Florence	2.0*	902,407	Snowflake	2.0*	1,010,994
Fountain Hills	1.6*	4,268,848	Somerton	2.5*	528,863
Fredonia	2.0	81,536	South Tucson	2.5*	2,217,163
Gila Bend	3.0*	868,966	Springerville	3.0*	1,215,617
Gilbert	1.5*	29,194,285	Superior	2.0*	172,045
Glendale	N/A	101 (2)	Surprise	2.0*	16,090,834
Globe	1.5*	1,770,347	Taylor	2.0	490,662
Goodyear	2.0*	12,305,079	Thatcher	2.0*	1,844,013
Guadalupe	2.0	660,014	Tolleson	2.0*	3,276,405
Hayden	1.0*	359,654	Tombstone	2.5*	505,351
Holbrook	3.0*	2,105,617	Wellton	2.5	350,130
Huachuca City	1.0	120,004	Wickenburg	1.0	1,149,538
Jerome	3.0	338,647	Willcox	2.0	1,226,634
Kearny	2.0*	245,706	Williams	3.0*	2,660,117
Kingman	2.0*	8,458,447	Winkelman	3.5*	79,960
Lake Havasu City	2.0*	14,705,906	Winslow	3.0*	2,973,359
Litchfield Park	2.0*	1,342,656	Youngtown	2.0*	463,644
Mammoth	2.0*	79,620	Yuma	1.7	22,041,801
TOTAL					\$280,950,442

* 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, 2002 and may have changed during the remainder of FY02.

(2) Glendale is not part of the Department's Collection program. These figures do not represent a full years collections.

Figures may not add to total due to rounding.

TABLE 27
MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

FISCAL YEAR	TOTAL COLLECTIONS	NUMBER OF CITIES IN PROGRAM
1997-98	\$180,932,433	74
1998-99	\$202,218,016	75
1999-00	\$230,976,587	75
2000-01	\$257,706,985	75
2001-02	\$280,950,442	75

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 \$512 million during FY02 (*Refer to Table 28*).

Tax Rate Reduction. Laws 1999, Ch. 318 amended ARS § 43-1111 to reduced the corporate tax rate from 8 percent on taxable income or \$50, whichever is greater, to 7.968 percent of taxable income or \$50, whichever is greater. The tax reduction is effective for taxable years beginning from and after December 31, 1999. Corporations that expect an Arizona income tax liability of at least \$1,000 for the taxable year are required to make estimated tax payments. Any corporate taxpayer whose Arizona income tax liability for the *preceding* taxable year was \$20,000 or more is required to make estimated tax payments via the electronic funds transfer program.

Repeal of Several Corporate Tax Credits. Laws 1999, Ch. 318 repealed ARS § 43-1162 (**correction industries tax credit**); § 43-1164 (**recycling equipment tax credit**); § 43-1171 (**construction materials tax credit**); and § 43-1172 (**agricultural water conservation system tax credit**). The tax credits are repealed effective for taxable years beginning from and after December 31, 1999. Taxpayers may claim carryovers of unused tax credits from taxable years beginning prior to January 1, 2000, for taxable years beginning on or before December 31, 2005, consistent with the provisions of the repealed credits.

INDIVIDUAL INCOME TAX

MAJOR FEATURES

For tax year 2000 filed in 2001, approximately two

million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than \$ 95.6 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 2001 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).

New Subtraction for World War II Victims:

Starting with 2000 taxable year, taxpayers may subtract distributions made to them for their persecution or their ancestors by Nazi Germany or any other Axis regime for racial, religious or political reasons. Taxpayers may also subtract items of income that are attributable to, derived from or related to assets that were stolen or hidden from or lost to them if they were persecuted by Nazi Germany or any other Axis regime for racial, religious or political reasons before, during or immediately after World War II.

DISTRIBUTION

State income tax collections are shared with Arizona municipalities in an Urban Revenue Sharing Program. During FY 2002 an amount equal to 15 percent of net income tax collections from two years prior was distributed to cities and towns. In FY 2001 the percentage was 15 percent. 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

In addition to the new (expanded) provisions listed above, the following are non-refundable corporate and individual income tax credits. (*Refer to Table 29*).

CREDIT	AVAILABLE TO
Agricultural Water	Taxpayers that incur expenses to purchase and install an Conservation System agricultural water conservation system in Arizona. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
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.
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 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 required credit up to the maximum credit of \$625.
Correctional Industries	Corporate taxpayers for the investment in qualified property on the grounds of an Arizona correctional facility, or for the employment of inmates in the Arizona correctional facility, or for the employment of inmates in prison construction (for an Arizona correctional facility). This credit was repealed for taxable years beginning from and after December 1, 1999.
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).

CREDIT**AVAILABLE TO**

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.
Fees Paid to Public Schools	Individual taxpayers that 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 required credit up to the maximum credit of \$250.
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.
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.

CREDIT**AVAILABLE TO**

Underground Storage Tanks	Taxpayers that incurred expenses for corrective actions taken with respect to the release of a regulated substance from an underground storage tank. To qualify for this credit, the taxpayer must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank.
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.
Wheels to Work Donation	This tax credit is for the fair market value of any motor vehicle donated by the taxpayer to the Wheels to Work program established by ARS §46-142. The credit applies to taxable years beginning from and after December 31, 1998.

TABLE 28
INCOME TAX COLLECTIONS
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

SOURCE	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02	PERCENT OF NET COLLECTIONS IN FY2001-02
<u>Withheld from Wages</u>						
Gross Revenue	\$1,863,292,013	\$2,072,018,474	\$2,259,201,907	\$2,363,693,852	\$2,309,340,885	
Refunds and Charge-offs	(11,947,994)	(18,463,322)	(10,053,362)	(7,032,321)	(9,047,839)	
NET	\$1,851,344,019	\$2,053,555,152	\$2,249,148,545	\$2,356,661,531	\$2,300,293,045	94.4%
<u>Individuals & Fiduciaries</u>						
Gross Revenue	669,323,279	765,853,606	826,789,215	858,775,963	705,843,394	
Refunds and Charge-offs	(657,470,764)	(721,059,420)	(784,055,322)	(911,549,899)	(915,490,638)	
NET	\$11,852,514	\$44,794,187	\$42,733,894	(\$52,773,936)	(\$209,647,244)	-8.6%
<u>Corporations</u>						
Gross Revenue	630,836,596	643,230,321	637,765,231	678,002,658	512,257,476	
Refunds and Charge-offs	(102,775,471)	(97,842,182)	(114,583,545)	(136,828,789)	(165,976,997)	
NET	\$528,061,125	\$545,388,138	\$523,181,687	\$541,173,869	\$346,280,480	14.2%
Subtotal						
Net Collections	\$2,391,257,658	\$2,643,737,477	\$2,815,064,125	\$2,845,061,464	\$2,436,926,281	100.0%
Less distributions for:						
Urban Revenue Sharing	291,243,578	340,310,656	377,710,988	396,452,640	421,876,573	
Contracted Collection						
Agency	82,890	39,610	58,016	60,989	20,922	
Wildlife Contributions	190,715	146,278	177,079	194,201	177,886	
Child Abuse Prevention	223,435	210,355	185,666	222,325	210,223	
Special Olympics	95,487	74,471	83,854	88,051	83,873	
Neighbors Helping	61,562	32,374	46,610	38,800	37,696	
Neighbors						
State Aid to Public Schools (1)	***	48,503	7,411	26,884	33,955	
Domestic Violence Shelter (1)	***	137,524	139,208	152,928	150,954	
Democratic Party	12,091	14,401	11,127	15,130	15,984	
Green Party	0	0	0	2,667	2,559	
Libertarian Party	3,004	3,077	3,210	2,422	2,090	
New Alliance Party	5	0	0	0	0	
Republican Party	11,623	12,077	13,650	15,474	14,127	
Reform Party	973	869	194	36	92	
Natural Law Party	0	0	0	142	200	
Clean Elections (1)	***	340	1,827,616	2,315,832	3,246,597	
Subtotal Distributions	\$291,925,363	\$341,030,534	\$380,264,630	\$399,588,520	\$425,873,731	
NET REVENUE TO STATE						
GENERAL FUND	\$2,099,332,295	\$2,302,706,944	\$2,434,799,495	\$2,445,472,944	\$2,011,052,550	
WQARF DISTRIBUTION (2)	***	***	\$15,000,000	\$15,000,000	\$15,000,000	

(1) Individual and corporate income tax checkoffs and donations established in tax year 1998.

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

Figures may not add to total due to rounding.

TABLE 29
EXEMPTIONS, DEDUCTIONS AND CREDITS
TAX YEAR 1997 THROUGH TAX YEAR 2001

TAX YEAR	PERSONAL EXEMPTION	BLIND EXEMPTION	AGE 65 AND OVER EXEMPTION	DEPENDENT EXEMPTION	STANDARD DEDUCTION LIMIT (1)	MAXIMUM PROPERTY TAX CREDIT	MAXIMUM FAMILY TAX CREDIT
1997	2,100 (2)	1,500	2,100	2,300	3,600/7,200	502	120
1998	2,100 (2)	1,500	2,100	2,300	3,600/7,200	502	240
1999	2,100 (2)	1,500	2,100	2,300	3,600/7,200	502	240
2000	2,100 (2)	1,500	2,100	2,300	3,600/7,200	502	240
2001	2,100 (2)	1,500	2,100	2,300	3,600/7,200	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

SELECTED INDIVIDUAL INCOME TAX CREDITS
TAX YEAR 1998 THROUGH TAX YEAR 2000

CREDIT	Tax Year 1998		Tax Year 1999		Tax Year 2000	
	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS
Agricultural Water Conservation	88	\$576,761	(2)	(2)	(3)	(3)
Alternative Fuel - Non Refundable						
-- Delivery System	(1)	(1)	11	\$21,749	4	\$34,644
--Vehicles	71	\$56,864	245	\$734,322	168	\$275,941
--Refuel Apparatus/Infrastructure	--	--	66	\$99,888	31	\$32,247
--Neighborhood Electric Vehicles	--	--	1,140	\$6,765,473	2,366	\$11,899,648
Alternative Fuel - Refundable						
-- Delivery System	--	--	--	--	15	\$2,752,868
--Vehicles	--	--	--	--	4,811	\$91,828,990
--Refuel Apparatus/Infrastructure	--	--	--	--	573	\$2,885,544
Clean Elections	--	--	8,585	\$502,151	23,522	\$531,673
Donation to Charities for the Working Poor	2,856	\$472,502	6,353	\$1,091,095	(3)	(3)
Donation of Motor Vehicles	--	--	71	\$80,142	(3)	(3)
Enterprise Zone	94	\$963,958	95	\$922,134	93	\$1,003,394
Family Tax Credit	312,768	\$7,390,406	327,974	\$7,925,721	322,897	\$7,576,013
Private School STO (4)	4,248	\$1,816,299	31,892	\$13,716,791	38,084	\$17,620,022
Property Tax	17,237	\$5,290,628	15,862	\$4,987,796	14,550	\$4,640,629
Public School Extra Curricular (4)	74,242	\$8,990,042	109,748	\$14,775,353	149,215	\$17,526,299
Solar Energy	2,147	\$685,645	2,755	\$876,055	2,121	\$692,374
Solar Hot Water Heater & Plumbing Stub Outs	8	\$2,153	19	\$1,854	(3)	(3)
All Other (1)	9	\$68,851	9	\$67,917	(3)	(3)
Total	413,768	\$26,314,109	504,825	\$52,568,441	558,450	\$159,300,286

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

(2) Credits claimed for tax year 1999 are being reviewed. No data is available at this time.

(3) Credits claimed for tax year 2000 are being reviewed. No data is available at this time.

(4) Data reported on these credits 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 1999(1)

FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	15,304	0.84%	\$125,913	0.01%
\$0.01 to \$1,999	35,668	1.96%	60,254	0.00%
\$2,000 to \$5,999	113,556	6.23%	169,343	0.01%
\$6,000 to \$9,999	136,216	7.47%	5,069,669	0.25%
\$10,000 to \$13,999	144,232	7.91%	12,833,414	0.64%
\$14,000 to \$19,999	221,585	12.15%	37,815,549	1.89%
\$20,000 to \$24,999	157,904	8.66%	47,466,783	2.37%
\$25,000 to \$29,999	133,492	7.32%	57,154,784	2.85%
\$30,000 to \$39,999	208,133	11.41%	124,166,557	6.20%
\$40,000 to \$49,999	153,758	8.43%	126,164,047	6.30%
\$50,000 to \$74,999	250,840	13.76%	302,839,755	15.11%
\$75,000 to \$99,999	117,347	6.44%	222,126,012	11.08%
\$100,000 to \$199,999	102,359	5.61%	353,140,863	17.62%
\$200,000 to \$499,999	25,675	1.41%	255,866,794	12.77%
\$500,000 to \$999,999	4,699	0.26%	129,580,946	6.47%
\$1,000,000 to \$4,999,999	2,342	0.13%	193,776,478	9.67%
\$5,000,000 and over	263	0.01%	135,730,820	6.77%
TOTAL	1,823,373	100.00%	\$2,004,087,981	100.00%

(1) This summary combines all liability reported on the Arizona Form 140 and 140A Individual Income tax returns for tax year 1999, filed from January 2000 forward.

TABLE 31
NONRESIDENT/ PART YEAR RESIDENT INDIVIDUAL INCOME TAX
LIABILITY BY FEDERAL ADJUSTED GROSS INCOME
TAX YEAR 1999 (1)

ARIZONA PORTION OF FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	12,893	7.20%	\$422,146	0.32%
\$0.01 to \$1,999	17,180	9.59%	57,101	0.04%
\$2,000 to \$5,999	31,966	17.84%	242,273	0.19%
\$6,000 to \$9,999	24,398	13.62%	1,338,370	1.02%
\$10,000 to \$13,999	18,071	10.09%	2,302,127	1.76%
\$14,000 to \$19,999	19,118	10.67%	4,478,375	3.42%
\$20,000 to \$24,999	10,973	6.13%	4,051,885	3.10%
\$25,000 to \$29,999	7,997	4.46%	3,927,810	3.00%
\$30,000 to \$39,999	10,994	6.14%	7,481,312	5.72%
\$40,000 to \$49,999	6,822	3.81%	6,577,307	5.03%
\$50,000 to \$74,999	8,776	4.90%	12,423,343	9.49%
\$75,000 to \$99,999	3,760	2.10%	8,300,070	6.34%
\$100,000 to \$199,999	3,983	2.22%	16,011,066	12.23%
\$200,000 to \$499,999	1,522	0.85%	16,537,285	12.64%
\$500,000 to \$999,999	414	0.23%	11,611,369	8.87%
\$1,000,000 to \$4,999,999	244	0.14%	20,257,774	15.48%
\$5,000,000 and over	37	0.02%	14,846,764	11.34%
TOTAL	179,148	100.00%	\$130,866,377	100.00%

(1) This summary combines all liability reported on the Arizona Form 140NR and 140PY Individual Income tax returns for tax year 1999, filed from January 2000 forward.

TABLE 32
CORPORATE INCOME TAX
CORPORATE TAXPAYER BY SIZE OF TAX LIABILITY
TAX YEAR 1999(1)

CORPORATE TAX LIABILITY	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
\$50 Minimum	29,040	66.9%	\$1,452,000	0.3%
\$50.01 to \$99.99	1,008	2.3%	73,607	0.0%
\$100 to \$499.99	3,094	7.1%	801,273	0.2%
\$500 to \$999.99	1,769	4.1%	1,286,711	0.2%
\$1,000 to \$4,999.99	4,390	10.1%	11,076,535	2.1%
\$5,000 to \$9,999.99	1,460	3.4%	10,292,177	1.9%
\$10,000 to \$49,999.99	1,640	3.8%	36,759,628	6.9%
\$50,000 to \$99,999.99	404	0.9%	28,415,997	5.4%
\$100,000 to \$499,999.99	434	1.0%	94,132,486	17.7%
\$500,000 to \$999,999.99	88	0.2%	60,842,747	11.5%
\$1,000,000 to \$61,000,000	68	0.2%	285,450,931	53.8%
TOTAL	43,395	100.0%	\$530,584,092	100.0%

CORPORATE INCOME TAX CREDITS
TAX YEAR 1999

CREDIT TYPE	# OF FILERS	CREDIT USED	CARRYFORWARD AVAILABLE
Agricultural Water Conservation	*	*	*
Alternative Fuel - Non Refundable			
--Fuel Delivery System	5	\$400,100	\$875,213
--Vehicles	21	\$324,139	\$1,052,098
--Refueling Apparatus & Infrastructure	7	\$13,630	\$16,135
--Neighborhood Electric Vehicles	39	\$1,251,837	\$326,753
Coal Used for Electric Generation	3	\$346,712	\$502,037
Construction Materials	7	\$419,071	\$746,279
Defense Contracting	4	\$1,695,598	\$10,713,356
Employment of TANF Recipients	5	\$47,189	\$2,464
Enterprise Zone	71	\$6,977,472	\$5,683,416
Environmental Technology	*	*	*
Military Reuse Zone	3	\$15,134	\$27,702
Pollution Control Equipment	30	\$4,279,930	\$4,956,413
Recycling Equipment	4	\$16,028	\$234,182
Research & Development	117	\$8,210,082	\$278,840,560
TOTAL (2)	325	\$22,869,491	\$327,853,716

(1) This summary combines all liability indicated on the Arizona Form 120 Corporate Income Tax returns for tax year 1999 filed from January 2000 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 divulged regarding this credit due to the confidentiality laws in Arizona

**TABLE 33
 AVERAGE FEDERAL ADJUSTED GROSS INCOME
 AND AVERAGE TAX LIABILITY PER RETURN
 BY COUNTY FOR TAX YEAR 1999**

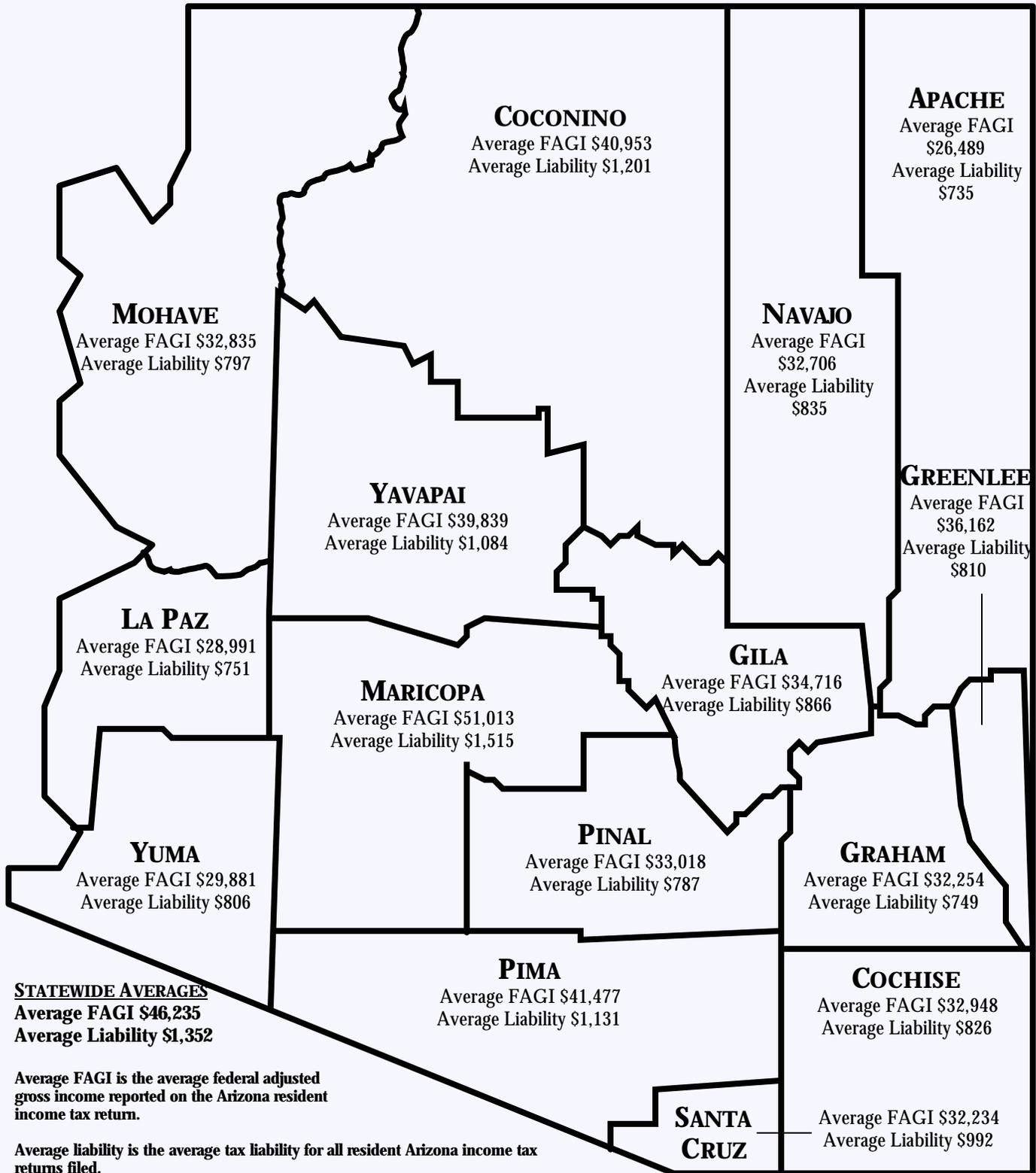


TABLE 34
URBAN REVENUE SHARING
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

FISCAL YEAR	AMOUNT
1997-98	\$291,243,578
1998-99	\$340,310,656
1999-00	\$377,710,988
2000-01	\$396,452,640
2001-02	\$421,876,573

TABLE 35
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING
TO MUNICIPALITIES IN FISCAL YEAR 2001-02

CITIES BY COUNTY	AMOUNT	% OF TOTAL	CITIES BY COUNTY	AMOUNT	% OF TOTAL
APACHE			Queen Creek	\$450,164	0.11%
Eagar	\$420,647	0.10%	Scottsdale	21,142,391	5.01%
St. Johns	329,688	0.08%	Surprise	3,217,486	0.76%
Springerville	216,955	0.05%	Tempe	16,544,791	3.92%
COCHISE			Tolleson	518,795	0.12%
Benson	491,363	0.12%	Wickenburg	530,059	0.13%
Bisbee	635,195	0.15%	Youngtown	313,947	0.07%
Douglas	1,492,760	0.35%	MOHAVE		
Huachuca City	182,632	0.04%	Bullhead City	3,522,150	0.83%
Sierra Vista	3,939,981	0.93%	Colorado City	347,740	0.08%
Tombstone	156,869	0.04%	Kingman	2,093,222	0.50%
Willcox	389,357	0.09%	Lake Havasu City	4,374,187	1.04%
COCONINO			NAVAJO		
Flagstaff	5,516,912	1.31%	Holbrook	512,849	0.12%
Fredonia	108,056	0.03%	Pinetop-Lakeside	373,607	0.09%
Page	710,187	0.17%	Show Low	802,598	0.19%
Williams	296,424	0.07%	Snowflake	465,184	0.11%
GILA			Taylor	331,261	0.08%
Globe	780,799	0.19%	Winslow	992,948	0.24%
Hayden	93,037	0.02%	PIMA		
Miami	201,927	0.05%	Marana	1,413,908	0.34%
Payson	1,420,583	0.34%	Oro Valley	3,097,748	0.73%
Winkelman	46,205	0.01%	Sahuarita	338,145	0.08%
GRAHAM			South Tucson	572,614	0.14%
Pima	207,455	0.05%	Tucson	50,763,330	12.03%
Safford	962,909	0.23%	PINAL		
Thatcher	419,500	0.10%	Apache Junction	3,318,241	0.79%
GREENLEE			Casa Grande	2,630,896	0.62%
Clifton	270,766	0.06%	Coolidge	812,090	0.19%
Duncan	84,693	0.02%	Eloy	1,082,126	0.26%
LA PAZ			Florence	1,506,736	0.36%
Parker	327,506	0.08%	Kearny	234,574	0.06%
Quartzsite	349,827	0.08%	Mammoth	183,779	0.04%
MARICOPA			Superior	339,396	0.08%
Avondale	3,742,643	0.89%	SANTA CRUZ		
Buckeye	886,248	0.21%	Nogales	2,177,602	0.52%
Carefree	305,290	0.07%	Patagonia	91,889	0.02%
Cave Creek	388,835	0.09%	YAVAPAI		
Chandler	18,417,625	4.37%	Camp Verde	985,751	0.23%
El Mirage	793,628	0.19%	Chino Valley	817,201	0.19%
Fountain Hills	2,110,536	0.50%	Clarkdale	356,919	0.08%
Gila Bend	206,517	0.05%	Cottonwood	957,381	0.23%
Gilbert	11,441,538	2.71%	Jerome	34,315	0.01%
Glendale	22,822,372	5.41%	Prescott	3,539,777	0.84%
Goodyear	1,972,442	0.47%	Prescott Valley	2,454,731	0.58%
Guadalupe	545,287	0.13%	Sedona	1,063,039	0.25%
Litchfield Park	397,388	0.09%	YUMA		
Mesa	41,342,421	9.80%	San Luis	1,598,104	0.38%
Paradise Valley	1,425,173	0.34%	Somerton	757,853	0.18%
Peoria	11,302,504	2.68%	Wellton	190,767	0.05%
Phoenix	137,786,687	32.66%	Yuma	8,084,914	1.92%
TOTAL				\$421,876,573	100.00%

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 of Revenue 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

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

INDUSTRIES VALUED BY THE DEPARTMENT

Industry	Number of Companies		
	2001	2002	2003
Airlines (Flight Property).....	34	32	30
Electric & Gas*			
Generation.....	14	14	26
Transmission and Distribution.....	37	37	35
Mines (non-producing).....	4	2	2
Mines (producing).....	30	30	33
Pipelines (Gas Transmission).....	11	10	9
Private Rail Cars.....	260	265	256
Producing Oil & Gas Interests.....	3	2	2
Railroads.....	11	11	11
Telecommunications.....	73	78	81
Waste Water Utilities.....	29	25	26
Water Utilities.....	327	331	327
Total.....	833	837	838

* Includes Salt River Project

TABLE 36
STATE OF ARIZONA
TAX YEAR 2002 PRIMARY PROPERTY TAX LEVIES

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	PRIMARY RATE
APACHE	\$275,868,482	\$0	\$2,350,675	\$0	\$0	\$7,932,794	\$0	\$10,283,469	3.73
COCHISE	537,737,089	374,485	18,423,949	1,255,710	9,608,286	25,345,798	0	55,008,228	10.23
COCONINO	1,048,500,739	0	9,480,544	3,608,334	4,281,028	46,725,205	0	64,095,111	6.11
GILA	331,626,188	0	16,246,035	1,705,615	0	14,701,509	0	32,653,159	9.85
GRAHAM	96,969,355	0	2,210,998	152,985	1,916,114	3,827,076	0	8,107,173	8.36
GREENLEE	180,356,400	0	1,921,336	9,290	0	5,721,153	0	7,651,779	4.24
LA PAZ	120,512,244	0	3,300,709	0	2,201,397	3,698,830	0	9,200,936	7.63
MARICOPA	22,955,864,882	13,427,476	390,180,835	106,911,307	221,156,802	1,108,239,174	0	1,839,915,594	8.02
MOHAVE	1,044,790,536	0	23,391,815	2,831,976	9,818,941	41,867,948	0	77,910,680	7.46
NAVAJO	563,168,606	0	6,644,166	286,357	6,701,706	25,117,257	0	38,749,486	6.88
PIMA	4,669,335,684	0	212,963,731	4,643,860	53,838,033	278,704,603	0	550,150,227	11.78
PINAL	816,899,699	0	40,372,000	2,533,042	17,756,949	39,474,444	0	100,136,435	12.26
SANTA CRUZ	228,063,060	0	8,752,148	0	0	10,907,640	0	19,659,788	8.62
YAVAPAI	1,388,092,520	0	29,096,384	1,151,622	21,980,482	52,714,923	0	104,943,411	7.56
YUMA	596,500,117	0	16,743,162	5,569,705	10,896,268	32,052,882	0	65,262,017	10.94
TOTAL STATE	\$34,854,285,601	\$13,801,961	\$782,078,487	\$130,659,803	\$360,156,006	\$1,697,031,236	\$0	\$2,983,727,493	8.56

AVERAGE STATE PRIMARY TAX RATE PER \$100	8.56
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TAX YEAR 2001 PRIMARY PROPERTY TAX LEVIES

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	PRIMARY RATE
APACHE	\$290,356,165	\$0	\$2,465,995	\$0	\$0	\$8,552,420	\$0	\$11,018,415	3.79
COCHISE	504,130,498	487,910	17,315,370	1,240,870	8,755,738	24,225,930	0	52,025,818	10.32
COCONINO	1,028,681,995	0	8,648,129	3,377,375	4,125,015	41,747,664	0	57,898,183	5.63
GILA	309,062,088	0	15,166,913	1,670,513	0	15,258,987	0	32,096,413	10.39
GRAHAM	91,847,206	0	2,102,015	149,427	1,788,541	3,716,032	0	7,756,015	8.44
GREENLEE	191,053,362	0	1,557,039	9,155	0	5,654,893	0	7,221,087	3.78
LA PAZ	112,008,687	0	3,077,326	0	2,046,062	3,620,177	0	8,743,565	7.81
MARICOPA	21,355,326,477	17,417,290	358,897,617	99,452,302	204,648,094	1,017,198,803	0	1,697,614,106	7.95
MOHAVE	991,882,017	0	22,291,556	2,633,083	9,321,315	40,723,100	0	74,969,054	7.56
NAVAJO	544,634,215	0	6,252,311	279,658	6,265,472	24,171,154	0	36,968,595	6.79
PIMA	4,361,492,992	0	199,294,061	2,975,033	49,960,363	276,898,175	0	529,127,632	12.13
PINAL	701,711,651	0	34,738,937	2,240,048	14,982,948	34,620,916	0	86,582,849	12.34
SANTA CRUZ	215,902,760	0	8,087,933	0	0	10,846,003	0	18,933,936	8.77
YAVAPAI	1,280,950,405	0	26,951,447	1,098,878	19,630,398	51,227,724	0	98,908,447	7.72
YUMA	549,270,133	0	15,464,151	5,208,129	10,033,518	28,282,214	0	58,988,012	10.74
TOTAL STATE	\$32,528,310,651	\$17,905,200	\$722,310,800	\$120,334,471	\$331,557,464	\$1,586,744,192	\$0	\$2,778,852,127	8.54

**TABLE 37
STATE OF ARIZONA
TAX YEAR 2002 SECONDARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	SECONDARY RATE
APACHE	\$283,294,073	\$0	\$3,472,903	\$118,653	\$0	\$5,944,208	\$2,527,266	\$12,063,030	4.26
COCHISE	554,220,855	0	1,413,818	131,154	0	7,279,778	5,957,688	14,782,438	2.67
COCONINO	1,084,875,819	0	3,145,055	4,433,011	1,872,405	17,927,789	8,449,763	35,828,023	3.30
GILA	357,161,346	0	1,071,484	100,000	2,079,751	4,668,305	3,838,702	11,758,242	3.29
GRAHAM	99,614,664	0	40,106	0	0	1,842,704	268,109	2,150,919	2.16
GREENLEE	180,770,442	0	1,131,022	0	0	1,633,174	29,348	2,793,544	1.55
LA PAZ	122,304,607	0	122,305	0	311,877	1,405,585	2,183,938	4,023,705	3.29
MARICOPA	24,457,047,282	0	31,721,521	175,207,012	36,526,312	603,369,737	113,194,334	960,018,916	3.93
MOHAVE	1,072,413,581	0	5,472,909	534,635	0	13,587,726	16,811,747	36,407,017	3.39
NAVAJO	592,604,484	0	712,883	48,250	1,565,661	8,597,221	6,831,602	17,755,617	3.00
PIMA	4,835,561,219	0	51,895,243	20,674,970	18,389,025	102,522,442	45,269,882	238,751,562	4.94
PINAL	863,865,161	0	1,315,235	0	0	21,957,638	12,595,876	35,868,749	4.15
SANTA CRUZ	235,055,570	0	967,724	0	0	5,990,469	3,672,772	10,630,965	4.52
YAVAPAI	1,450,497,580	0	3,072,096	1,667,615	5,735,780	12,506,662	18,727,476	41,709,629	2.88
YUMA	615,920,229	0	3,104,238	74,457	1,570,597	13,483,131	2,050,061	20,282,484	3.29
TOTAL STATE	\$36,805,206,912	\$0	\$108,658,542	\$202,989,757	\$68,051,408	\$822,716,569	\$242,408,564	\$1,444,824,840	3.93

AVERAGE STATE SECONDARY TAX RATE PER \$100	3.93
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TAX YEAR 2001 SECONDARY PROPERTY TAX LEVIES

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	SECONDARY RATE
APACHE	\$298,070,585	\$0	\$3,319,613	\$120,001	\$0	\$7,323,001	\$2,442,584	\$13,205,199	4.43
COCHISE	517,193,490	0	1,319,360	128,162	0	7,253,395	5,626,314	14,327,231	2.77
COCONINO	1,062,082,181	0	2,701,770	4,241,977	1,813,343	19,065,715	7,786,631	35,609,436	3.35
GILA	332,789,774	0	998,370	120,000	1,960,914	4,345,242	3,464,198	10,888,724	3.27
GRAHAM	94,281,882	0	42,207	0	0	1,624,394	276,503	1,943,104	2.06
GREENLEE	191,505,379	0	1,709,952	0	0	1,552,687	34,848	3,297,487	1.72
LA PAZ	113,560,208	0	113,560	0	313,313	1,406,560	2,091,514	3,924,947	3.46
MARICOPA	22,913,134,480	0	31,804,420	162,375,543	34,930,475	574,908,690	106,097,129	910,116,257	3.97
MOHAVE	1,016,292,255	0	5,186,138	528,373	0	16,163,853	17,585,159	39,463,523	3.88
NAVAJO	566,916,980	0	680,296	45,722	1,507,999	9,063,940	5,735,238	17,033,195	3.00
PIMA	4,491,395,307	0	51,929,513	20,953,750	18,035,000	99,366,623	41,635,828	231,920,714	5.16
PINAL	738,562,802	0	1,159,544	0	284,500	19,547,561	10,502,533	31,494,138	4.26
SANTA CRUZ	224,373,276	0	923,745	0	0	5,917,106	3,481,208	10,322,059	4.60
YAVAPAI	1,344,616,822	0	2,831,192	1,674,115	5,598,026	13,673,508	17,023,179	40,800,020	3.03
YUMA	568,655,704	0	2,866,025	74,457	1,568,921	12,437,081	1,830,924	18,777,408	3.30
TOTAL STATE	\$34,473,431,125	\$0	\$107,585,705	\$190,262,100	\$66,012,491	\$793,649,356	\$225,613,790	\$1,383,123,442	4.01

TABLE 38
AVERAGE PROPERTY TAX RATES
PER \$100 OF ASSESSED VALUATION
TAX YEAR 1999 THROUGH TAX YEAR 2002

	1999		2000	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.90	\$2.45	\$4.85	\$2.42
Counties	2.27	0.34	2.23	0.33
State	0.09	0.00	0.07	0.00
Cities	0.38	0.53	0.38	0.54
Community Colleges	1.03	0.15	1.03	0.18
Special Districts	0.00	0.66	0.00	0.65
	\$8.67	\$4.13	\$8.56	\$4.12
TOTAL	\$12.80		\$12.68	
	2001		2002	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.88	\$2.30	\$4.87	\$2.24
Counties	2.22	0.31	2.24	0.30
State	0.05	0.00	0.04	0.00
Cities	0.37	0.55	0.38	0.55
Community Colleges	1.02	0.19	1.03	0.18
Special Districts	0.00	0.66	0.00	0.66
	\$8.54	\$4.01	\$8.56	\$3.93
TOTAL	\$12.55		\$12.49	

School district rate includes Unorganized School Districts.

Figures may not add to total due to rounding.

All Other Sources Of Revenue

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 \$629,680 was deposited in Fiscal Year 2002 (*Refer to Table 39*).

TABLE 39
BINGO COLLECTIONS
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

FISCAL YEAR	AMOUNT
1997-98	\$750,970
1998-99	\$717,830
1999-00	\$677,036
2000-01	\$634,384
2001-02	\$629,680

BINGO COLLECTIONS

	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02
Licenses	\$22,438	\$24,193	\$21,534	\$24,549	\$21,322
Proceeds	724,040	689,423	644,385	606,880	605,388
Penalty, Interest and Miscellaneous	4,493	4,214	11,116	2,955	2,970
TOTAL	\$750,970	\$717,830	\$677,036	\$634,384	\$629,680

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 1997-98 THROUGH FISCAL YEAR 2001-02

Fiscal Year	Collections	Refunds	Net
1997-98	\$64,490,574	\$1,587,899	\$62,902,674
1998-99	\$89,087,575	\$1,837,477	\$87,250,098
1999-00	\$85,238,335	\$4,594,005	\$80,644,330
2000-01	\$76,921,666	\$2,269,883	\$74,651,783
2001-02	\$81,892,657	\$1,340,437	\$80,552,220

Figures may not add to total due to rounding.

LUXURY TAX

Arizona's luxury tax applies to cigarettes, other tobacco products, and alcoholic beverages. The Department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and alcoholic beverages. The Department also investigates and confiscates contraband alcoholic beverages and tobacco products. During the 2002 fiscal year, over \$210 million was received in luxury tax collections. Of that, \$77.3 million was allocated to the Medically Needy Fund, \$25.4 million to the Health Education Fund and \$5.5 million to the Health Research Fund due to the passage of the Tobacco Tax and Health Care Initiative in November 1994. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$25.7 million, and the Arizona Wine Promotional Fund received \$23,391. The Drug Treatment and Education Fund received \$7.1 million, and the Corrections Revolving Fund received \$2.8 million due to the passage of Proposition 200 in 1996. The remaining \$66.1 million was deposited into the state general fund. (*Refer to Table 41*)

Luxury Tax Rates

Cigarettes

per cigarette	\$.029
package of 20	\$.58
package of 25	\$.725

Cigars

small cigars weighing not more than 3 lbs/1,000 package of 20 or less	\$.129
selling for \$0.05 or less (each 3 cigars)	\$.064
selling for more than \$0.05 (each cigar)	\$.064

Smoking Tobacco

snuff, fine cut, chewing, etc. (per ounce)	\$.065
Cavendish, plug, or twist (per ounce)	\$.016

Spirituous Liquors

per gallon	\$3.00
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Vinous liquors more than 24% alcohol (per gallon) \$4.00

Vinous liquors less than 24% alcohol (per gallon) \$0.84

Malt Liquor (Beer)

per gallon	\$0.16
per barrel (31 gallons)	\$4.96

TABLE 41
LUXURY TAX COLLECTIONS
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

SOURCE	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02	PERCENT OF COLLECTIONS IN FY2001-02
Spirituos Liquor	\$18,787,775	\$19,648,670	\$20,587,605	\$21,327,540	\$21,574,744	10.3%
Vinous Liquor	7,893,100	7,969,428	9,026,326	8,477,493	9,035,156	4.3%
Malt Liquor	19,463,378	20,534,013	21,309,231	21,602,321	22,031,467	10.5%
Liquor Collections	\$46,144,253	\$48,152,111	\$50,923,162	\$51,407,354	\$52,641,368	
Tobacco - All Types						
Gross Revenue	169,660,665	166,646,960	163,206,980	161,078,853	162,148,102	
Refunds	(4,569,441)	(3,457,756)	(3,474,292)	(2,662,128)	(4,169,264)	
Licenses	7,100	7,175	7,175	8,600	5,250	
Administrative Expenses	(344,036)	(358,196)	(310,931)	(384,593)	(393,800)	
Net Tobacco Collections	\$164,754,289	\$162,838,183	\$159,428,932	\$158,040,732	\$157,590,288	75.0%
TOTAL COLLECTIONS	\$210,898,542	\$210,990,294	\$210,352,094	\$209,448,087	\$210,231,655	100.0%
DISTRIBUTIONS:						
State General Fund	64,429,625	64,770,498	65,436,145	65,568,793	66,069,587	
Wine Promotional Fund	9,306	14,595	21,197	21,278	23,391	
Health Care Funds	114,104,507	112,735,957	109,786,025	108,709,176	108,177,154	
Drug Treatment & Education Fund	6,235,814	6,502,823	6,897,717	6,903,464	7,098,014	
DOC Revolving Fund	2,477,227	2,583,453	2,739,633	2,743,924	2,820,269	
Department of Corrections Fund	23,467,623	24,141,360	25,192,099	25,154,893	25,718,685	
DOC Corrections Fund Transfer	174,439	241,607	279,278	346,559	324,556	
TOTAL DISTRIBUTIONS	\$210,898,542	\$210,990,294	\$210,352,094	\$209,448,087	\$210,231,655	

Figures may not add to total due to rounding.

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 or vendors 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.
- 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 1997-98 THROUGH FISCAL YEAR 2001-02

SOURCE	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02	PERCENT OF COLLECTIONS IN FY2001-02
UNCLAIMED PROPERTY	\$20,770,144	\$21,315,542	\$31,415,063	\$38,020,547	\$48,681,438	
Refunds	(6,609,804)	(8,135,383)	(9,881,814)	(15,764,220) (2)	(11,903,236) (4)	
Expenses	(983,832)	(1,020,282)	(1,110,490)	(1,023,813)	(1,324,594) (4)	
Housing Fund	(7,380,832)	(6,791,802)	(11,421,658)	(11,733,852)	(19,761,582)	
Utility Assistance Fund	(711,976)	(818,382)	(639,104)	(905,023)	(868,416)	
Racing Fund	(2,681,159)	(2,465,180)	(4,153,330)	(4,266,855)	(7,186,030)	
Victim Restitution Fund (1)	-----	-----	-----	(17,027)	18,426 (5)	
NET	\$2,402,541	\$2,084,512	\$4,208,667	\$4,309,756	\$7,656,006	100.5%
ESCHEATED ESTATES	109,023	309,305	201,612	647,074	252,786	
Refunds	(69,124)	(92,000)	(188,587)	(576,578)	(294,542)	
NET	\$39,899	\$217,304	\$13,026	\$70,496	(\$41,755)	-0.5%
UNCLAIMED ARIZONA SHARES AND DIVIDENDS (3)	\$15,312	\$0	\$0	\$7,326	\$5,919	0.1%
TOTAL NET REVENUE	\$2,457,752	\$2,301,816	\$4,221,693	\$4,387,578	\$7,620,170	100.0%

DISTRIBUTION
FISCAL YEAR 2001-02

NET TO GENERAL FUND	\$7,745,918 (4)
ADDITIONAL REFUNDS & EXPENSES	(89,912) (4)
NET TO PERMANENT SCHOOL FUND	0 (6)
NET CHANGE IN RESERVES	(35,837)
TOTAL DISTRIBUTION	\$7,620,170

(1) Victim Restitution Fund became effective on January 1, 2001 per HB 2061.

(2) Does not include \$540 transfer recorded in FY01. The distribution was completed in FY02.

(3) Per Article XI of the Arizona Constitution, proceeds from stock sales are to be deposited in the Permanent School Fund.

(4) Amounts shown for Refunds and Expenses increased by \$1,937 and \$87,975, respectively, between AFIS close and the final adjustment close date causing the general fund to receive additional revenues. Corrections will be made in FY03.

(5) Claims paid during FY02 for Victims Restitution exceeded their collections, therefore, no transfer was required.

(6) Due to a lack of funding, FY01 Escheated Estates in the amount of \$70,496 was not transferred to the Permanent State School Fund in FY02.

Also, the transfer of \$5,919 from the AZ Unclaimed Shares/Dividends did not occur in FY02, however, it will be adjusted in FY03.

Figures may not add to total due to rounding.

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 2002, the Department collected \$6,392,637 and distributed 3.4% 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 and 44*). The distribution is performed quarterly.

TABLE 43
WASTE TIRE FEE COLLECTIONS
FISCAL YEAR 2001-02

NUMBER OF TIRES	NUMBER OF FILERS	TOTAL NUMBER OF TIRES	AMOUNT REMITTED
1 to 50	193	3,656	\$5,549
51 to 100	104	7,502	\$10,330
101 to 250	154	25,974	\$33,780
251 to 500	117	42,322	\$54,402
501 to 1,000	120	87,076	\$113,047
1,001 to 2,500	137	232,170	\$283,846
2,501 to 5,000	103	369,652	\$439,064
5,001 to 10,000	90	628,042	\$757,802
10,001 to 25,000	68	1,037,553	\$1,105,115
More Than 25,000	26	3,326,368	\$3,553,251
Overpayments			(\$34,880)
Accounts Receivable Adjustment (1)			\$71,330
Total	1,112	5,760,315	\$6,392,637

(1) This figure represents the Net Balance added to the distribution for Accounts Receivable Collections. Figures may not add to total due to rounding.

TABLE 44
WASTE TIRE FEE DISTRIBUTION
FISCAL YEAR 1997-98 THROUGH FISCAL YEAR 2001-02

	FY1997-98	FY1998-99	FY1999-00	FY2000-01	FY2001-02
Apache	\$54,182	\$64,352	\$68,421	\$76,526	\$78,693
Cochise	143,807	152,286	156,256	174,766	174,721
Coconino	139,828	150,983	153,159	171,302	161,337
Gila	78,834	83,559	83,307	93,175	88,035
Graham	32,835	35,647	36,127	40,407	38,300
Greenlee	13,029	13,870	13,394	14,980	14,021
La Paz	28,969	32,583	32,577	36,436	36,329
Maricopa	2,755,607	2,943,115	3,076,438	3,440,863	3,525,885
Mohave	214,447	232,057	238,888	267,186	271,827
Navajo	101,565	111,158	112,636	125,978	127,482
Pima	770,678	805,024	829,316	927,554	904,818
Pinal	180,662	196,448	197,496	220,890	207,211
Santa Cruz	48,113	52,529	54,110	60,520	65,220
Yavapai	231,975	244,698	251,010	280,743	290,584
Yuma	151,633	166,882	172,712	193,171	184,430
AZ Dept of Environmental Quality	179,395	191,691	198,606	222,132	223,742
Total	\$5,125,561	\$5,476,881	\$5,674,452	\$6,346,629	\$6,392,637

Figures may not add to total due to rounding.

LEGISLATIVE SUMMARY

THE 2002 LEGISLATIVE SUMMARY PROVIDES A BRIEF SUMMARY OF THE TAX-RELATED BILLS THAT WERE ENACTED BY THE LEGISLATURE AND WERE EITHER APPROVED OR VETOED BY THE GOVERNOR. ALSO CONTAINED IN THE SUMMARIZED BILLS ARE OTHER BILLS OF GENERAL INTEREST AND TAX-RELATED RESOLUTIONS FILED WITH THE SECRETARY OF STATE.

INCOME TAX LEGISLATION

HB 2088 (income tax subtraction; dividends; repeal) - Chapter 50 RFE

HB 2088 eliminates the corporate income tax subtraction for dividend income received from Arizona corporations. The Department of Revenue is allowed to disclose the names of corporations, the dividends of which qualified for the subtraction, until July 1, 2004. The bill also clarifies that the Department of Revenue shall release confidential information to the Attorney General for the purpose of enforcing the Tobacco Master Tax Settlement.

The bill is effective retroactively to taxable years beginning from and after December 31, 2001.

HB 2181 (NOW: enterprise; military reuse; tax credits) - Chapter 237 RFE

HB 2181 provides modifications to the enterprise zone program by narrowing definitions, capping the amount of tax credits, increasing reporting requirements and assuring that double credits cannot be taken when a business is in an enterprise zone and another zone.

Enterprise Zone Premium and Income Tax Credit Changes

- Clarifies and narrows the definitions for the enterprise zone program of retail, retail activities and assigned to retail. The definitions refer to allowable limited retail activity by a manufacturer in an enterprise zone. The definition of zone location also clarifies and limits manufacturers to a single location within a zone. If a business has multiple locations in a zone, each location must qualify.
- Limits the number of qualified employment positions that are eligible for the premium or income tax credits under the enterprise zone program. The qualified business will calculate eligible employees as follows but in

no case will the number exceed 200 positions. The calculation for eligible employees is the lesser of:

- the total number of filled qualified employment positions created or
- the difference between the average number of full time employees during the current tax year and the average number of full time employees during the immediately preceding tax year.

- Clarifies current procedures for substitution of employees, ensuring that replacement employees meet the original criteria.
- Clarifies that the current requirement for 35% of the net new eligible employees live in the enterprise zone applies to all three years in which a credit is claimed.
- Requires that an eligible business cannot take credits for the second and third year unless they have taken credit for an employee in the first year of employment. An employee must have been employed at least in the last 90 days of the tax year for the position to qualify for the credit. To qualify for the credit, the business must notify the Department of Commerce within six months or earlier if a tax return is due.
- Stipulates requirements for continuing the credits when an ownership change takes place through purchase, reorganization, stock purchase or merger. First year credits can only be claimed for qualified employment positions that it created and filled after the purchase or reorganization. Second and third year credits can be claimed if the original criteria continues to be met.
- Requires timely reports to the Department of Revenue or the Department of Insurance, as applicable, as well as the Department of Commerce. A failure to submit a timely report disqualifies the taxpayer from the credits.

- Requires increased detailed information on full time employment positions that are eligible for the credit. Also allows the Department of Commerce to make site visits if necessary.
- Clarifies that a credit cannot be taken in an enterprise zone if a credit is taken for the same employee in a military reuse zone or defense-restructuring program.

Enterprise Zone Property Reclassification Changes

- Excludes electric generating plants from the definition of manufacturer for the purpose of reclassification under the enterprise zone program.
- Increases reporting requirements to the Department of Commerce for certification of the property tax reclassification. The Department of Commerce will notify the Department of Revenue or the Department of Insurance, whichever is appropriate, if a business fails to maintain eligibility.
- Requires annual certification for the property reclassification, even though the original certification is for five years. The reclassification is allowed to continue even if the business grows beyond the original size limits for a small business. However, any small businesses originally certified for a ten-year period (prior to 1996), will lose eligibility if size limits are exceeded or the business is no longer independently owned and operated.
- For property that qualifies for reclassification under the enterprise zone program, the reclassification cannot continue under the military reuse zone program.

Miscellaneous Provisions

- Requires that the designation of a military reuse zone must have a runway that is at least 8,000 feet long at the time the military facility was closed.

- Clarifies that a minority and woman owned business must be independently owned and operated.
- Makes technical and conforming changes.
- Contains a Proposition 108 clause requiring two-thirds vote for passage.

The bill is effective retroactively to taxable years beginning from and after December 31, 2001.

HB 2186 (income tax credit review) - Chapter 238

HB 2186 creates the ten member statutory Joint Legislative Income Tax Credit Review Committee. There are five legislative members appointed from each chamber. The committee is to determine the original purpose of existing tax credits and establish a standard for evaluating and measuring the success or failure of tax credits. The committee must review the individual and corporate income tax credits listed in the bill. The committee is to use the Joint Legislative Budget Committee staff and is permitted to use the staff of the Department of Revenue and Legislative Council for assistance. The committee is to determine whether credits should be amended or repealed and is to report to the President, Speaker and Governor by December 15 of the year that the committee reviews the credit.

The income tax credit review schedule is as follows:

2002

- ◆ Recycling Equipment (§ 43-1076)
- ◆ Employment by qualified defense contractor (§ 43-1077 and § 43-1165)
- ◆ Property taxes paid for qualified defense contractor (§ 43-1078 and § 43-1166)
- ◆ Employment in military reuse zone (§ 43-1079 and § 43-1167)
- ◆ Construction cost for qualified environmental technology facility (§ 43-1080 and § 43-1169)

2003

- ◆ Research and Development activities (§ 43-1074.01 and § 43-1168)
- ◆ Coal consumed in electric generating power (§ 43-1081 and § 43-1178)
- ◆ Underground storage tank corrective action costs (§ 43-1085 and § 43-1173)
- ◆ Pollution control equipment (§ 43-1170)

2004

- ◆ Agriculture pollution control devices (§ 43-1081.01 and § 43-1170.01)
- ◆ Solar energy devices (§ 43-1083)
- ◆ Agriculture water conservation system (§ 43-1084)

2005

- ◆ Employment of Temporary Assistance for Needy Families (TANF) recipients (§ 43-1087 and § 43-1175)
- ◆ Contributions to charitable organizations that provide assistance to the working poor (§ 43-1088)
- ◆ Donations of motor vehicles to wheels to work program (§ 43-1090.01 and § 43-1177)

2006

- ◆ Family tax credit (§ 43-1073)
- ◆ Private school tuition organization (§ 43-1089)
- ◆ Public school extra curricular activity fee (§ 43-1089.01)
- ◆ Construction materials incorporated into qualifying facilities (§ 43-1089.02)
- ◆ Solar hot water heater plumbing stub outs and electric vehicle recharge outlets installed in houses constructed by taxpayer (§ 43-1176 and § 43-1090)
- ◆ Donation of school site (§ 43-1181).

The bill also provides that any new individual or corporate income tax credit enacted by the legislature shall include a review by the committee in the fifth full calendar year following the date the credit is enacted.

The bill is effective on the general effective date.

HB 2616 (tax credit; increased taxes; prisoners) - Chapter 280 RFE/RFEIR

HB 2616 provides that for taxable years beginning from and after December 31, 2002 a person who is sentenced for at least sixty days of the taxable year to the custody of the federal Bureau of Prisons, the state Department of Corrections or a county jail is not eligible to claim the state income tax credit in mitigation of increases transaction privilege tax and use tax. The credit is in mitigation of the six-tenths of a cent increase in the transaction privilege tax and use tax for education approved by voters at the 2000 general election.

The bill is effective on the general effective date.

HB 2712 (IRC conformity; revenue sharing) - Chapter 344

HB 2712 conforms Arizona tax statutes to the current United States Internal Revenue Code (IRC) including provisions relating to the Economic Growth and Tax Relief Reconciliation Act of 2001, the Fallen Hero Survivor Benefit Fairness Act of 2001 and portions of the Job Creation and Worker Assistance Act of 2002.

The federal government passed three acts with provisions that have an impact on Arizona tax liability. On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001, which included significant changes to the estate and generation-skipping transfer tax. Arizona's estate tax revenue is based on the state's share of the maximum credit allowed by the federal estate tax laws. The federal provisions in this Act will phase-out and eventually repeal the federal state death tax credit beginning in tax year 2002.

The second Act is the Fallen Hero Survivor Benefit Fairness Act of 2001, signed into law on June 5, 2001. This act amends the Taxpayer Relief Act of 1997 to extend to survivors of public safety officers killed in the line of duty before December 31, 1996, the same tax benefits available to the survivors of officers killed after such date.

The third act was the Job Creation and Workers Assistance Act of 2002, which was signed into law on March 9, 2002. This act provided for special accelerated depreciation for businesses that purchase equipment between September 11, 2001 through September 11, 2004. This bill provides for immediate conformity of this act, except for the special depreciation, which is phased-in on a delayed basis.

In addition, the bill provides changes to the state's Urban Revenue Sharing (URS) program for 15% to 14.8% for fiscal year 2002-03 and fiscal year 2003-04.

For the purposes of computing income tax, for tax year 2002 the IRC means the IRC in effect on March 9, 2002. The sections of the bill concerning the special depreciation allowance are made retroactive to taxable years beginning from and after December 31, 1999.

TRANSACTION PRIVILEGE TAX

HB 2242 (NOW: prime contracting; lawn maintenance; exemption) – Chapter 307

HB 2242 clarifies lawn maintenance services are not prime contracting activities.

The bill clarifies that the gross proceeds of income received from lawn maintenance services are not subject to the prime contracting classification if the contract does not include landscaping activities. It defines lawn maintenance service to include lawn mowing, weeding, repairing sprinkler heads or drip irrigation heads, replacing seasonal flowers and refreshing gravel.

The bill further clarifies that the gross proceeds of income received from landscaping activities are subject to the prime contracting classification and defines landscaping activities. These activities include repairing sprinkler or watering systems and installing gravel or boulders, along with planting and removing trees.

The bill is effective for taxable periods beginning from and after August 31, 2002.

HB 2300 (direct use tax payments) - Chapter 338

HB 2300 allows businesses that buy at least \$500,000 worth of tangible personal property annually to pay their use taxes directly to the Department of Revenue. The department will administer the program using application forms, use tax direct payment permits and use tax direct payment certificates.

The bill is effective and applies to taxable periods beginning from and after December 31, 2002.

PROPERTY TAX

HB 2063 (NOW: electric utilities; valuation) - Chapter 234

HB 2063 freezes the property values for existing electric generation properties for tax year 2003 and clarifies the allocation method to distribute the values to taxing jurisdictions.

In 2000, the Legislature passed HB 2324 that provided a different methodology for valuing electrical generation facilities. As a transition to the new values, the 2000 legislation provided that voluntary contributions (in lieu of property taxes) would be paid by generation plants to any county that had a drop of more than 10% of their assessed valuation as a result of the new values. These voluntary contributions are required for tax years 2001 through 2004. For 2001 and 2002, the voluntary contributions are based on actual value lost in those years. The voluntary contributions for 2003 and 2004 are made based on tax year 2002 values. In 2001 Apache County was the only county that received "backfill" voluntary contributions. This bill modifies voluntary contributions for 2003 and 2004 so that they are also based on value lost in those years. The 2004 contribution is only to be made if the value is less than 90% of the 2000 value.

The bill also requires existing electrical generation plants or units valued by DOR in tax year 2002 to be valued at the final tax year 2002 full cash value for tax year 2003. It specifies that plants placed in service between December 31, 2000 and December 31, 2001 shall be valued pursuant to the statutory valuation procedure for electric generation properties. In addition HB 2063 provides a method for allocation among the various taxing jurisdictions of the generation, transmission and distribution properties of the electric utilities. It specifies that generation values will be combined with distribution values for purposes of allocation.

HB 2063 also directs all companies owning electric generation property to provide, under oath by July 1, 2002, the information required by the bill to the Department of Revenue. Assesses a fine of \$1000 per day for noncompliance and allows the director to extend the deadline at the director's discretion and to abate the penalty for reasonable cause.

The bill is effective retroactively to from and after December 31, 2001.

HB 2596 (property tax; appraisal and appeal) - Chapter 278

HB 2596 requires county assessors to make necessary changes in the tax roll to reflect decisions on appeals. For properties that have the valuation appealed, the county assessor can only change the appealed value in the subsequent year if there is new construction, a structural change or change of use on the property.

The bill is effective on the general effective date.

HCR 2038 (senior property valuation freeze) - Secretary of State

HCR 2038 clarifies the administration of the property valuation protection option for seniors 65 years or older by creating uniformity among counties in the program's administration.

During the 2000 legislative session, the legislature passed HCR 2028 that established the program. It was approved by the voters at the 2000 general election. One of the criteria used to determine eligibility was income level. However the section of the Social Security Act that prescribes the supplemental security income benefit income level to be used actually contains two levels – one for individuals and one for two or more persons. Some counties used the supplemental security benefit income level for two or more persons. HCR 2038 provides that income level is the rate for an individual.

In addition, the resolution requires that applications for the program be made to the county assessor on or before September 1. The assessor is to notify the applicant of acceptance or denial on or before December 1. If the application is filed after September 1, the assessor is to process it for the subsequent year.

The resolution will become effective if approved by the voters at the November 2002 general election and on proclamation of the Governor.

SB 1224 (tax valuations; timeshare property) - Chapter 201

Prior to this bill there was not a statutory method of valuation of timeshare properties in Arizona. SB 1224 creates a statutory valuation methodology for timeshare properties. It provides that county assessors classify timeshare properties that are not used for commercial, industrial or transient occupancy purposes as Class 4 property (Class 4 has a 10% assessment ratio). The valuations are based on the original sales price, comparable sales prices or resale prices. The prescribed valuation methodology applies to both new and existing properties and allows for deductions for nonrealty components.

In addition the managing entities of the timeshare properties are required to file a use form with the county assessors once a year as a means of establishing the values of the

properties. The county assessors are to mail the timeshare use form to the managing entities on or before August 1 of each year. The forms, prescribed by the department, are to be filed by the managing entities with the county assessors on or before September 30 of each year.

The bill is effective on the general effective date.

SB 1290 (community health centers; taxation; exemption.) - Chapter 174

SB 1290 exempts qualifying community health centers operating in medically underserved areas, from property taxation if they are used or held for profit. In addition to the centers, appurtenant land and their fixtures and equipment are also exempt.

The bill is effective on the general effective date.

OTHER TAX

HB 2177 (NOW: tourism and sports authority; revisions) - Chapter 288 E

HB 2177 requires the Tourism and Sports Authority (TSA) to select a site host for the multipurpose facility by September 12, 2002. If the TSA fails to select a site host by this date the TSA must seek voter approval for the continuation of the TSA at the next countywide general election held in the county. The bill also expands the entities allowed to provide the land, infrastructure and parking facilities associated with the multipurpose facility and provides additional monitoring of the TSA's financial activities.

If the electors vote to terminate the TSA and its functions, the necessary statutory changes are contained in the bill in sections 20 through 59. These sections would become effective from and after December 31, 2002. Among the changes would be the repeal of the duty of the department regarding the accounting of revenue collected in connection with a multipurpose facility. These include facility-related transaction

privilege taxes in the retail, amusement, restaurant and prime contracting classifications.

The bill contains an emergency clause.

HB 2313 (jail facilities excise tax; extension) - Chapter 266

HB 2313 authorizes the Maricopa County Board of Supervisors, upon resolution and voter approval, to extend a Jail Facilities Excise Tax (JFET) for a period not to exceed twenty years. In 1998, the Legislature authorized Maricopa County to levy a JFET tax at a rate of no more than four percent of the transaction privilege tax, subject to the approval of the voters. The duration of the tax was limited to nine years or until \$900 million is collected, whichever occurs first (Laws 1998, Chapter 225). Maricopa County voters approved a 1/5 of a cent JFET construction and operation of new Maricopa County medium and maximum security jail facilities and juvenile detention facilities. The current tax will expire in 2007.

Statute authorizes the county JFET monies to be used to finance and construct new adult and juvenile jail facilities, maintain and operate adult and juvenile jail facilities and fund specified programs to reduce the expense of adult and juvenile jail facilities. HB 2313 authorizes Maricopa County to request voter approval to extend the JFET and reauthorizes the current uses of the tax as well as including the renovation of adult and juvenile jail facilities and implementation of other programs designed to reduce the expense of adult and juvenile jail facilities.

The statute providing for the JFET as added by the bill is repealed on January 1, 2009 if no tax has been levied as of that date.

The bill is effective on the general effective date.

HCR 2047 (tobacco products tax; health services.) – Secretary of State

HCR 2047 will appear as a proposition on the November 2002 general election ballot. If approved by the voters through referendum, the statutory changes made would impose a tax increase of one and one-half times the tax rate on tobacco products on January 1, 2002. The increase would result in an additional tax of sixty cents per pack of cigarettes. Proceeds from the increased tax would be deposited in the Tobacco Products Tax Fund and distributed to the following accounts in the specified amounts:

- 42% in the Proposition 204 Protection Account.
- 5% in the Health Research Fund.
- 27% in the Medically Needy Account.
- 20% in the Emergency Health Services Account.
- 4% in the Health Care Adjustment Account.
- 2% in the Health Education Account.

The Department of Revenue administers the Health Care Adjustment Account, as well as the collection of the tobacco taxes.

The resolution will become effective if approved by the voters at the November 2002 general election and on proclamation of the Governor.

SB 1043 (taxation; estates and trusts) - Chapter 130

SB 1043 conforms Arizona estate and trust tax statutes to the Internal Revenue Code (IRC). Currently, Arizona statutes regulating income tax of trust, estates, and beneficiaries of trusts differ from current IRC. Arizona's statute dealing with estate and trust income tax is primarily based on the 1939 IRC. The Revenue Act of 1954 and several other subsequent changes to IRC have created many differences between the federal and state treatment of estate and trust income tax. Provisions for determination of income distribution and distribution deductions, estate

and trust income tax exemptions, and distribution of unused carryovers are currently not conformed to federal law.

SB 1043 makes changes to state law to conform to current federal law and current practice.

The bill is effective for tax years beginning from and after December 31, 2002.

OTHER RELATED LEGISLATION

HB 2178 (streamlined sales and use tax) - Chapter 289

HB 2178 adds to Joint Legislative Budget Committee (JLBC) duties, establishes the Tax Reform for Arizona Citizens Committee, establishes the Arizona Fiscal accountability Committee and provides for delegates from Arizona to attend multistate discussions regarding streamlined sales and use taxes.

The JLBC is to analyze the state tax structure, tax burdens on individuals and businesses, and tax incentives for existing and prospective businesses. The JLBC is required to report by October 31, 2002 to various legislative members on the progress of the implementation. The JLBC is also to implement a system of fiscal analysis that applies to those bills introduced in the legislature that involve one or more proposed changes in the tax laws. The analysis is to be based on assumptions that estimate the probable behavioral response of taxpayers, businesses and other citizens.

The fifteen member Tax Reform for Arizona Citizens Committee contains 8 legislative members and seven members representing various groups. The committee is to study and make recommendations on state fiscal policy, economic development strategies, and tax policies of the state and local jurisdictions. It is to develop a comprehensive recommendation concerning the appropriate tax structure of the state and local jurisdictions and a transition

strategy to the appropriate tax structure. The Governor's Office of Strategic Planning and Budgeting, the Department of Revenue, JLBC and Legislative Council are to provide technical assistance. The committee is to submit to the Governor, President and Speaker a status report by December 31, 2002 and a final report by September 15, 2003. The session law creating the committee is repealed from and after December 31, 2003.

The fifteen member Arizona Fiscal Accountability Committee contains 8 legislative members and seven members representing various groups. The committee is to study and make recommendations on the expenditure policies of the state and local jurisdictions, explore privatization of services and realigning of services and the elimination or streamlining of duplicative programs at the state level. It is to develop a comprehensive recommendation concerning the appropriate policy adjustments related to the state's expenditures and a strategy for implementation. The Governor's Office of Strategic Planning and Budgeting, the Auditor General, JLBC and Legislative Council are to provide technical assistance. The committee is to submit to the Governor, President and Speaker a status report by December 31, 2002 and a final report by September 15, 2003. The session law creating the committee is repealed from and after December 31, 2003.

Four delegates are appointed to attend multistate discussions regarding streamlines sales and use taxes. The delegate are (1) one House member appointed by the Speaker, (2) one Senate member appointed by the President, (3) the director, a deputy director or an assistant director of the Department of Revenue appointed by the Governor, and (4) one voting member of the Municipal Tax Code Commission. The delegates are to meet with like delegations from other states to consider whether Arizona should enter into agreement with other states to (1) simplify and modernize administration in order to substantially reduce the burden of tax

compliance for sellers and for all types of commerce, (2) establish standards for tax compliance software and service providers, and (3) establish performance standards for multistate sellers. If the delegates determine that the state should enter into an agreement, the delegates are to recommend the preparation of legislation. The session law relating to the participation in multistate discussions is repealed from and after June 30, 2004.

The bill is effective on the general effective date.

HB 2213 (reviser's technical corrections; 2002) - Chapter 241

HB 2213 corrects defective and conflicting dispositions of statutory text. Sections 25 through 28 of the bill deal with unclaimed property and make reference changes in §44-313 and §44-314 as to the statutory site for the housing trust fund.

The changes to these sections are effective from and after September 30, 2002.

HB 2243 (contract auditors; contingent fees; prohibition) - Chapter 80

HB 2243 prohibits the state from hiring contract auditors on a contingency fee basis except for auditors hired to enforce unclaimed property provisions. The Department of Revenue contracts with persons on a contingent fee basis for the collection of taxes, interest and penalties already due the state. The department does not currently contract on a contingent fee basis for auditing purposes except for unclaimed property issues. The bill codifies the department's current practices.

The bill is effective on the general effective date.

HB 2244 (NOW: taxes; administrative procedure) - Chapter 242

HB 2244 provides exceptions to a tax court's authority to dismiss an appeal if the property taxes become delinquent if either of the

following occurs:

1. The full year tax for the year is paid on or before December 31 of the tax year.
2. The remaining one-half tax that is unpaid is delinquent after the immediately following May 1 is paid by July 1, including interest due.

The bill is effective on the general effective date.

HB 2414 (NOW: agency reports; web site posting) - Chapter 116

HB 2414 requires that all state agencies that maintain an agency web site, except the State Compensation Fund, to post on their web site a copy of the annual agency report. The bill prohibits an agency that posts a copy of their annual report on their web site from distributing copies of the report, with the exception of copies to the Governor, President of the Senate, Speaker of the House of Representatives and Arizona State Library, Archives and Public Records, and pursuant to public records requests.

The agency will send an electronic or printed notification to the recipients that the annual report has been posted on the agency web site. The printed copies of the annual report are to be on twenty-pound bond paper printed with black ink except that the cover and back pages may be of sixty-five pound or less cover paper.

If an agency that has maintained a web site has distributed printed copies of an annual report during the twelve months preceding the bill's effective date, the agency is to notify the director of the Joint Legislative Budget Committee of the savings realized by the posting, printing and distribution requirements contained in the bill. This reporting requirement is repealed on January 1, 2004.

The bill is effective on the general effective date.

HB 2706 (general appropriations; fiscal year 2002-2003) - Chapter 327

HB 2706 contains the appropriations needed to operate state government for fiscal year 2003-03. Section 57 of the bill provides for 1,042.1 FTE positions and appropriates \$61,140,900 to the Department of Revenue, of which \$58,838,200 is from the state general fund.

HB 2708 (omnibus budget reconciliation; public finances) - Chapter 328

HB 2708 is one of the omnibus budget reconciliation bills that provide the statutory changes necessary to implement the fiscal year 2002-03 budget. Section 11 of the bill provides that the Department of Administration shall self-insure by October 1, 2003. The Department of Administration is to seek a variety of plans for self-insurance, including indemnity health insurance, hospital and medical service plans, dental plans and health maintenance organizations. Section 17 of the bill provides that only \$10 million from the corporate income tax shall be transferred to the water quality assurance revolving fund in fiscal year 2002-03. Section 22 requires that the proceeds from the sale, transfer, lease or disposal of excess or surplus property sales in fiscal year 2002-03 be deposited into the state general fund instead of being returned to the agency, except for DPS and ADOT.

SB 1060 (NOW: budget reconciliation; 2002) - Chapter 321 E

SB 1060 contains provisions that are the fourth and final attempt to balance the FY 2001-02 budget. Section 18 of the bill deals with settlement payments in Ladewig v. State of Arizona. It allocated \$75 million in fiscal year 2002-03 for the purposes of covering the first year payments and costs associated with the case. From this allocation, the Department of Revenue may use up to \$15 million for administration and review of payments. Prior to the administrative expenditure, the department is to present an expenditure plan for Joint Legislative Budget

Committee approval that includes an estimate and scope of the entire administrative requirement associated with disbursing payments and costs for the case.

The bill contains an emergency clause.

SB 1139 (tax corrections act of 2002) - Chapter 326

SB 1139 makes technical, conforming and clarifying changes to the tax statutes.

Electronic Return Preparers

- Establishes a retention period for tax returns and accompanying documents.
- Clarifies that electronic return preparers retain records of transaction privilege tax and use tax returns for six years and other tax return records for four years.
- Provides electronic return preparers who fail to retain tax return records for the specified time periods, have the same penalties as other return preparers.
- Allows the Department of Revenue to require, by administrative rule, electronic return preparers to retain tax return documents for six years and other tax return records for four years.
- Clarifies that electronic return preparers must abide by the regulations set forth in department rules, manuals, rulings or procedures.
- Moves the definitions of electronic return preparer, return preparer and return to another statutory section.

Definitions

- Deletes the definition of claimant and statutory references to claimant.
- Removes, from the definition of report, a holder's report of abandoned property.

- Defines Arizona tax liability due on the taxpayer's estimated tax return as the amount of tax due on the return minus the amount of Arizona income tax withheld and tax credits claimed by the taxpayer.

Miscellaneous

- Removes the requirement that Board of Tax Appeals (BOTA) retain specific records for the property tax assessment and appeals.
- Eliminates reporting of transient personal property (livestock).
- Removes the overlap between confidentiality provisions in current statute (Title 42 and Title 44).
- Clarifies the exchange of information regarding severance tax, jet fuel excise tax or use tax to any county, city or town tax official.
- Clarifies that the Department of Revenue collects and administers, in addition to transaction privilege tax, any affiliated excise taxes including:
 - Use tax.
 - Severance tax.
 - Jet fuel excise and use tax.
 - Rental occupancy tax.
- Authorizes the Department of Revenue to prescribe, by administrative rule, alternative methods for signing, subscribing or verifying any report or statement required to be filed by the department in relation to property tax and unclaimed property.
- Allows the Department of Revenue Director to waive the signature requirement provided that an equivalent method of verification is employed.
- Stipulates that the Department of Revenue will no longer prescribe short form returns

for individual taxpayers whose dividend and interest income is less than \$400.

- Corrects internal references regarding personal property.
- Corrects internal references regarding the increased transaction privilege tax from the passage of Proposition 301.
- Provides a conforming change to the utilities classification from the deregulation bill from 1998.
- Removes the transaction privilege tax exemption for semi-trailers manufactured in Arizona that are sold to a person who holds an Interstate Commerce Commission license for use in interstate commerce.
- Clarifies the exchange of confidential information regarding hearings involving tax preparers.
- Changes the date the assessors calculate voluntary contributions from the third Monday in August to the third Friday in September.
- Deletes duplicative statutory language.
- Blends multiple enactments regarding constitutional taxation.

The bill is effective on the general effective date.

SB 1339 (state agencies; administrative procedures; rules) - Chapter 334

SB 1339 makes adjustments to state agency administrative procedures, specifically to rule making guidelines, to substantive policy statements and by requiring annual regulatory agendas.

On or before December 1 of each year each agency is to prepare and make publicly available

the regulatory agenda that the agency expects to follow during the next calendar year.

Among the changes made to the administrative procedures are changes in the areas of the effective date of rules, the vote required for immediate effect of rules, waiting periods for rules, the contents of preambles and the elimination of concise explanatory statements.

In addition to changes in administrative procedures, the bill also broadens the definition of family members to include aunt, uncle, niece and nephew in situations when annual leave is transferred from a state employee to another state employee when a state employee or the employee's family member has an extended illness or injury.

The bill also establishes the Regulatory Reform and Enforcement Study Committee. The 16-member committee has members appointed by the governor, president and speaker and included seven legislators. The committee is to inquire into a multitude of issues including the development of a uniform methodology for the calculation of fees, criminal enforcement of regulatory laws, the effectiveness of agency ombudsmen, and many others. The committee is to submit a written report of its findings and recommendations to the president, speaker and governor on or before December 31, 2003.

Section 5 of the bill deals with Department of Environmental Quality air permits and is effective retroactively to from and after February 28, 1992. The remainder of the bill is effective on the general effective date.

SB 1415 (public records; inspection; mail) - Chapter 211

SB 1415 allows a person to request that the custodian of public records mail a copy of the requested public record not otherwise available on the public body's web site to the requesting person. Copying and postage charges may be

required. Access to a public record is deemed denied if it is not provided “promptly.”

SB 1415 became law without the Governor’s signature. The Governor explained that the bill was “clumsily written and leaves agencies with no guidance as to implementation.” She further expressed her concern about litigation over undefined language, in particular the use of the adverb “promptly.”

The bill is effective on the general effective date.

SB 1436 (state budget cycles) - Chapter 210

SB 1436 replaces Arizona’s biennial budgeting system with a bifurcated budgeting system, requiring the state’s largest budget units to be enacted annually rather than biennially.

The Department of Revenue is a biennial budget unit.

The application of the provisions of the bill begins for the fiscal year 2003-04.

**STATE OF ARIZONA
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