

ARIZONA DEPARTMENT OF REVENUE

2003 ANNUAL REPORT

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STATE OF ARIZONA

Department of Revenue



November 15, 2003

Janet Napolitano
Governor

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

J. Elliott Hibbs
Director

The Honorable Governor Napolitano and the Taxpayers of Arizona:

The Arizona Department of Revenue is proud of its progress to effectively and efficiently administer and collect taxes due the state. For example, total costs were reduced in processing, while enforcement revenues exceeded our expected results. Every effort is made to ensure taxes are collected in a fair and equitable manner so that all taxpayers are treated the same and pay their fair share. Total taxes collected by the Department during fiscal year 2003 exceeded \$9 billion, including more than \$5 billion that was deposited directly into the state General Fund. Included in this total is nearly \$401 million that was collected through the Department's tax enforcement efforts.

Our Business Reengineering/Integrated Tax System (BRITS) project moved forward on schedule this year. Contracted as a "revenue gain sharing" project, our vendor will be paid based upon additional revenue generated by the Department resulting from automation of various enforcement activities and adding new enforcement tools. At the end of the project's four year schedule, the Department will be the national leader in tax administration, with all tax systems fully integrated. Taxpayers will be able to access the Department's automated information twenty-four hours a day, seven days a week, and file and pay taxes electronically. Further, the department's ability to manage tax information, respond to taxpayer contacts and to be more effective and efficient in most aspects of administration will increase significantly, to the benefit of Arizona citizens.

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

To increase our return on investment.

Issues of increased productivity and cost effectiveness are addressed throughout the agency.

To increase customer and stakeholder satisfaction.

We focus on customer feedback to learn what we are doing well and where we need improvement so we can target our process improvement efforts appropriately.

To increase employee satisfaction.

Employees are our most important assets. We focus on their satisfaction and job performance.

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

Sincerely,

J. Elliott Hibbs
Director

DEPARTMENT ORGANIZATION

Organization & Organization Chart

Administrative Services

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External Services & Special Projects

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Tax Policy & Research

ORGANIZATION

The mission of the Arizona Department of Revenue is to administer the tax laws fairly and efficiently for the people of Arizona. It is our Vision that we set the standard for effective and efficient tax administration and employee satisfaction. Tax laws that fall under the department's purview are primarily in the areas of income, Transaction Privilege (sales), use, luxury, withholding, property, estate, fiduciary, bingo, and severance.

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

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

Also reporting to the director is the Business Re-engineering and Integrated Tax Systems (BRITS) Change Management team. This unit is responsible for coordinating the Department's efforts to totally reengineer agency tax systems and processes, plus provide numerous enforcement tools to improve the effectiveness of enforcement programs. Its members are subject matter experts from across the Department. From late 2002 until 2006, the unit

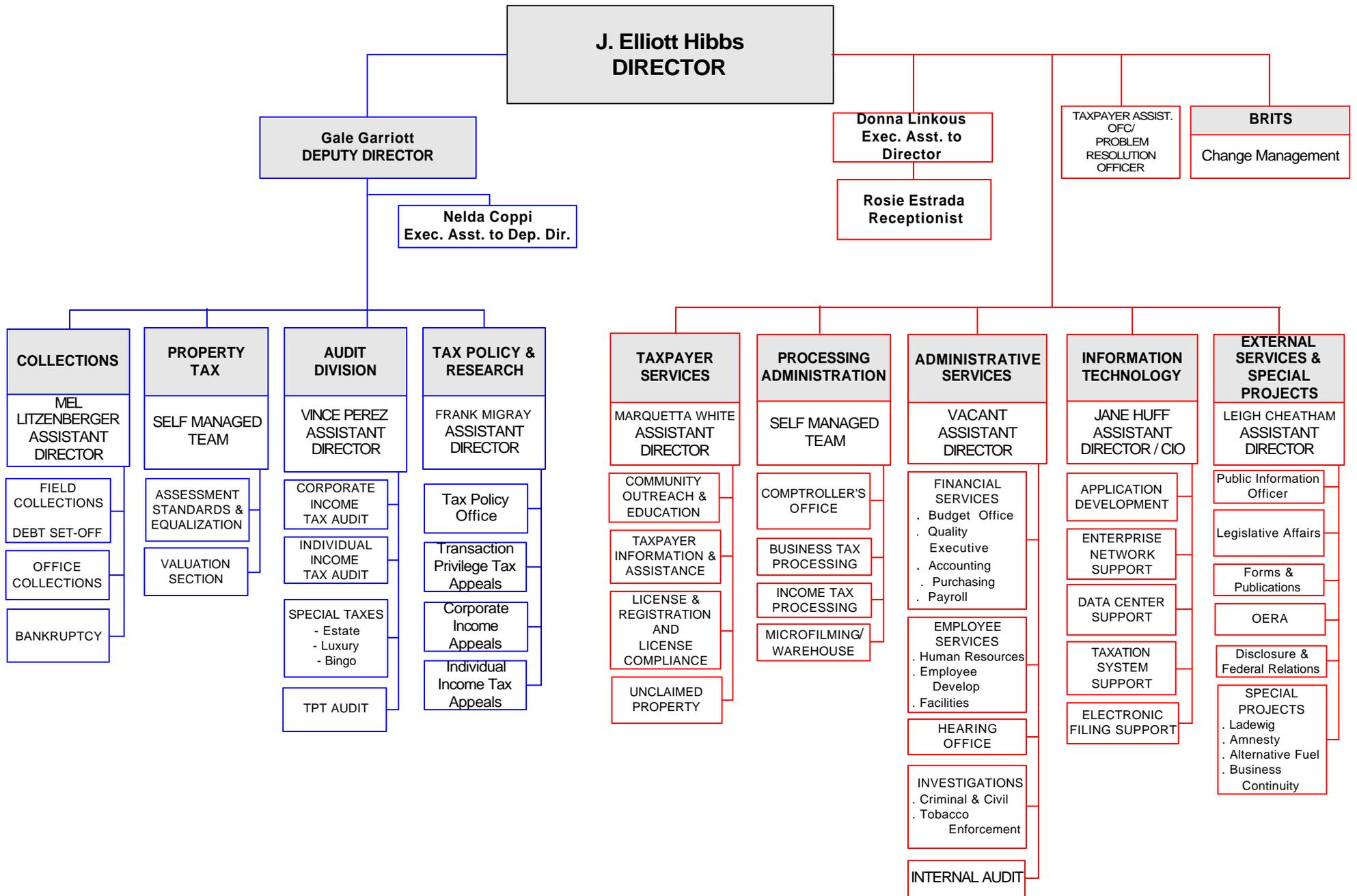
will continue to involve employees of the Department in working with Accenture, the selected vendor, in the implementation of BRITS. New transaction privilege tax and withholding systems will be completed in 2004, with other systems to follow.

The department is organized into nine divisions, each managed by an assistant director or a self-managed team. Divisions include: administrative services, audit, collections, external services and special projects, information technology, process administration, property tax, taxpayer services, and tax policy and research. Each division performs specific functions which are integrated to achieve the department's major external objectives of efficient tax collection and processing, timely enforcement of tax laws, and accurate valuation of property.

HIGHLIGHTS IN FISCAL YEAR 2003

- The Department began implementation of BRITS in September 2002. Release 1 includes an integration of our Transaction Privilege Tax and Withholding Tax into one system. The rollout of Release 1 is on schedule for January 2, 2004. In the meantime, tools have been introduced to increase the productivity of collectors and income tax auditors.

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ADMINISTRATIVE SERVICES

Organization

The mission of the Administrative Services Division is to provide efficient and courteous service to our customers, both inside and outside the department. The Administrative Services Division is responsible for the oversight of the department's financial and employee services as well as taxpayer services including problem resolution assistance, audit due process, and criminal/civil investigations. The Division consists of the following sections:

Accounting

The Accounting Section processes accounts payable invoices, provides travel services including employee reimbursements, and oversees the fixed assets inventory.

Budget Office

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

Criminal and Civil Investigations

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

Employee Development

The Employee Development Section provides centralized training for the department. The section has a team of trainers whose role is to develop and deliver in-house training for key activities such as using various PC software and tax systems,

supervision, applying confidentiality guidelines, and customer service. The section offers both self-study classes and classroom training and coordinates with the Arizona Government University training program.

Facilities Management

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

Hearing Office

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

Human Resources

The Human Resources Section is responsible for administering personnel activities for the department. This includes consultations with management concerning employee relations and discipline, classification of positions and reorganizations, recruitment, and staffing. The Human Resources section is also responsible for processing personnel actions, new employee orientation, employee benefits program, and interpreting the Department of Administration Personnel rules and implementing policies. The section also oversees the Affirmative Action/Equal Employment Opportunity responsibilities as well as Americans with Disabilities issues. Programs administered by the section include the Employee Recognition Program, Travel Reduction Program, and Employee Suggestion Program.

Internal Audit

The Internal Auditor assists the department to find more efficient ways to conduct business.

Payroll

The Payroll Section is responsible for oversight of the employee payroll, which includes accurate tracking of hours worked, leave taken and payroll deductions.

Purchasing

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

Quality Office

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

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AUDIT

The Individual Income Audit Section along with the Corporate Audit Section began the year as the two areas comprising the Income Tax Audit Function. Individual Audit had four Deputy Administrators who also filled the role of Individual Audit Administrator. This Deputy Administrator team was responsible for the decision making on all issues affecting Individual Audit from personnel matters to resource management to audit selection programs. They also took turns being the lead contact person and representing the Section on the department's Leadership Team. The decisions the team had to make during the year were made more challenging by hiring freezes and budget cuts. More than ever, the Section truly had to learn to do more with less and find new, more efficient ways of doing things.

By the end of the fiscal year, the Income Tax Audit Function evolved into the Audit Division, which now includes the Individual Income Audit Section, Corporate Audit Section, Transaction Privilege Tax Audit Section, and the Special Taxes Audit Section. Throughout the year, BRITS, the department's reengineering program, continued to be the main focus of the department. Individual Income provided subject matter experts for BRITS whenever needed.

Customer service was once again a primary objective of the Individual Income Audit Section. The effectiveness of the Section's auditors performing their duties in a professional and courteous manner while still ensuring taxpayers were paying the correct amount of tax was evidenced by the customer survey results. The Section sent out 22,510 Customer Satisfaction Surveys during the year. Most of these went to taxpayers that owed additional tax as a result of an audit, yet on a scale of 1 to 5 (5 being excellent), the average score was 4.68, a 5% improvement from fiscal year 2002.

Transaction Privilege and Use Tax Audit

Field Audit

Without losing emphasis on customer service, the Field Audit Section exceeded their goals and objectives. Audit survey reports continue to improve and show that our auditors strive for professionalism and clarity.

Compliance Unit

This unit, which grew from 8 to 18 last fiscal year, continued to excel in its efforts to locate, identify, and bring entities doing business in Arizona into compliance. Although more than half of the staff were recent hires and had minimum experience, the fiscal year-end results were very positive.

The Cities Program is now contained within the Compliance Unit and is responsible for coordinating the administration, collection and auditing for those cities and towns that have contracted with the department. The City Program has continued to work diligently to service these cities. In addition, the Cities Program continues to represent the department in working with the cities and towns that are not in the administration program through the Unified Audit Committee. This committee works to ensure that all cities and towns handle audit issues uniformly.

Refund

The Refund Section is responsible for analyzing and processing taxpayer refund requests.

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 TPT Audit. Specifically the Group continued to maintain and upgrade the ATC (Automatic Tax Calculator) program used by the Field Auditors, continually creating databases for the Compliance Unit, and maintaining the various programs used in the audit environment. The group continues to provide support to the TPT staff in maintaining critical programs necessary to continue with existing projects.

Administrative Support

Fiscal year 2003 was another banner year for the Administrative Support Unit. With few employees, the Unit timely and accurately processed the 2,282 audits conducted. This is a manual and labor-intensive process. The Unit is also responsible for retrieving and delivering incoming mail and reports to the section's employees. When asked or needed, the staff also assists others to ensure all daily duties are completed.

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.

HIGHLIGHTS IN FISCAL YEAR 2003

- The computer generated assessment program that was started in fiscal year 2002 became a reality this fiscal year. In the last quarter of the fiscal year, the Individual Income Section issued 3,748 computer-generated assessments (CGA). CGA's are issued programmatically by the Section's computer staff in conjunction with programmers from BRITS. The Section established a set of criteria for which federal CP2000 audits could be issued automatically without the intervention of an auditor. If a given audit meets the established criteria, an assessment will be programmatically issued to the taxpayer; if it fails to meet the established criteria, the audit will be reviewed to determine if it should be assigned to an auditor. In the future, more of the Section's audits will be issued as CGA's as criteria are established for each of the different audit types and adjustments.
 - During the year, the Individual Income Audit Section began performing more audits on Schedule A's and Schedule C's. Desk auditors performed the Schedule A Itemized Deductions audits. Field auditors performed the Schedule C audits on in-state taxpayers. Both of these new audit programs were found to be very productive even though they did take additional auditor time. The Section feels both the Schedule A and Schedule C audit programs
- were a success and the Section will continue to pursue these types of audit leads in the future.
 - The Individual Audit pass-through entity audit program continued to be successful. This program requires field auditors to review Partnership and Sub-S Corporation returns to identify areas of noncompliance at both the entity and the individual levels. When necessary, audit trips are taken to perform audits on out of state entities. The Section issued assessments of approximately \$600,000 during the fiscal year as the result of audits of pass-through entities. This continues to be the Section's most productive audit program from a cost/benefit analysis standpoint.
 - Individual Audit auditor productivity once again increased during the fiscal year. Total dollars assessed by the Section increased by 27%. Total dollars assessed per auditor increased by 29% to \$594,838. A primary reason for these increases was the continued refinement in the process of providing audit leads by the Section's Development Team. The percentage of audit leads that led to an assessment being issued increased by 32% for the fiscal year. The continued hard work of the administrative support staff along with the audit staff was also key in increasing the auditor productivity.
 - The Computer Audit Operations Unit (IT) developed an auto-update program that automatically uploads any new statutes and rules, court cases, tax rulings, tax procedures, as well as audit program changes when the auditor logs on to their computers. Our auditor preparedness has been greatly enhanced with this auto-update of key tools the auditors need while conducting the fieldwork phase of their corporate income tax field audits.
 - Partnering with both the Internal Revenue Service and other state revenue departments, the Corporate Audit Section is developing a program to seek out abusive tax schemes. As this program expands, we anticipate bringing in millions of dollars from uncovering abusive schemes.

- The Corporate Audit Section has supported BRITS, the department’s reengineering project, by providing experts to assist in the system design. Auditors were enlisted to be the “Change Agents” to spread the message of BRITS and how it will impact the day-to-day operations of the section and the audit programs.
- The performance goals and objectives as established by the units within the Corporate Audit Section for the department’s Strategic Plan were met or exceeded for the second straight year! By creating a sense of pride and identifying where they fit into the overall organization, the auditors and support staff were given the opportunity to make decisions regarding their particular tasks that allowed them to met or exceed their goals.
- A Revenue Enhancement Package was approved and funded by the legislature that allowed the Corporate Audit Section to add twenty-three (23) personnel to the unit to increase audit coverage as well as collections of both under-reported as well as unreported corporate taxes. Some features of the package included:
 1. Adding a new team of corporate field auditors
 2. Expanding the Nexus Unit
 3. Opening a Corporate Audit service center in the East Valley Office
 4. Increasing the number of auditors per team
- Fiscal year 2003 was a productive year for the Field Audit section of Transaction Privilege and Use Tax Audit as shown by the 2,282 audits that were completed for a total of \$38.3 million.
- The Compliance Unit of Transaction Privilege and Use Tax Audit realized total revenues just over \$18.5 million while licensing more than 3,100 new taxpayers. This was a record high for the Section and constitutes a 166% increase over the prior year.
- The Refund Section of Transaction Privilege and Use Tax Audit continued to excel in good customer service while processing more than 2,400 refund claims totaling just under \$20 million.
- Under the Cities Program of Transaction Privilege and Use Tax Audit, the staff has responded to nearly 2,200 telephone calls and distributed just under 1,000 city payment journals.
- 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 number of Luxury Tax audits decreased by one over the previous year with five completed in fiscal year 2003. Assessments during this period increased from \$146,859 in fiscal year 2002 to \$282,718 in fiscal year 2003.
- The estate tax unit improved operations by reducing the processing days from a high of 102 days to 20 days during the year.

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COLLECTIONS

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.

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 and seizure actions are only used as a last resort after all other more reasonable actions have failed.

The Collections Division 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

Division Units (fiscal year 2003)

Office Collections	\$ 94,605,346
Field Collections	\$ 58,098,717
Bankruptcy/Litigation	\$ 13,382,869
DSO	\$ 0
Unassigned	\$ 74,696,328

(TCS and Debt Set-Off figures are included in the Field Collections figures. The Unassigned figures are dollars collected that are not associated with a Collector ID.)

HIGHLIGHTS IN FISCAL YEAR 2003

- In spite of continued high vacancy rates, the Collections Division succeeded in collecting a combined \$240,783,260 which was 2.58% less than they collected in fiscal year 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 253 Offers were reviewed this year with 76% 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.

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EXTERNAL SERVICES & SPECIAL PROJECTS

Forms and Publications

This unit is responsible for design and printing of all official department forms except Property Tax related forms, review and approval of all substitute forms used by software vendors in preparing Arizona tax returns. This unit is also responsible for the production of all informational publications, the Arizona TaxNews (tax practitioner newsletter) and the department's Online News (electronic employee newsletter).

Ladewig

This unit designs, implements and effectuates the refund program resulting from the Ladewig class action lawsuit.

Legislative Services

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

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.

Public Information Officer

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

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INFORMATION TECHNOLOGY

Application Services

Application Services provides support for all existing mainframe and client server applications. Support includes problem-resolution (24/7 on-call support), responding to user inquiries, installing mandated regulatory changes and installing changes to enhance application functionality and efficiency. Applications Services maintains a close relationship with the users to ensure satisfaction of their needs.

Current direction includes the conversion from our legacy systems to BRITS – our new integrated tax system. The focus of Applications Services is to support the conversion to the new integrated tax system while at the same time support the day-to-day processing.

Data Center Support

Data Center Support is comprised of Production Control, Technical Support, and Data Base Management. This team functions as the liaison to ADOA for all mainframe processing and project coordination between the two agencies.

Production Control staff schedules and monitors all work done on the ADOA mainframe for the Department of Revenue. The Technical Support staff provides the first line of technical support for all mainframe-related issues for the application programming staff. The Data Base Management staff supports and maintains the mainframe database management system.

Enterprise Network Support

Enterprise Network Support (ENS) is responsible for research, analysis, implementation, and support of new technologies as they apply to AZDOR business needs. This includes 24 / 7 support for Voice, Data, LAN, WAN, Internet Connectivity, and customer support for five locations across the State of Arizona.

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

HIGHLIGHTS IN FISCAL YEAR 2003

Application Services:

- Implemented changes required for real and personal property 2002 tax year billings;
- Provided client counties the ability to update property information in real time online;
- Implemented Proposition 104 – the elderly taxpayer property value freeze;
- Completed system changes to the TPT (sales tax) system to establish new health service district tax for La Paz County;
- Updated TPT to accommodate for the new Rio Nuevo district in Tucson;
- Enhanced the auto levy program to utilize information from the federal 1099 file. Also automated the issuance of levies;
- Implemented electronic filing of 1099G information to the IRS;
- Implemented year-end income and corporate tax changes;
- Reengineered the estate tax application to enhance functionality and to convert from an Access to a visual basic environment;
- Automated the E-File process to identify software vendor errors and prevent invalid data from processing. Provided an online interface to view E-File tax data that was previously not available online. This allows easier access to tax return information and enhances our ability to service the taxpayers;
- Automated the Electronic Return Originator (ERO) Update process to reduce time and errors in updating ERO information;
- Worked closely with Accenture, the vendor chosen to implement BRITS – our new integrated tax system. Assigned staff to actively support the implementation of the new system. Have begun to position ourselves to provide on-going system support.

Data Center Support:

- Implemented FTP process improvements to transfer data to the Auditor General's Office;
- Implemented changes in the mainframe systems to reduce costs for mainframe processing. Examples are:
 - Control D project made reports available online to reduce printing and paper costs;
 - Separation of private and non-private files for reduced data storage costs at ADOA;
 - Implementation of TPX to reduce overall state software license costs;
 - Created and published a project management methodology for the IT division.

Enterprise Network Support:

- Upgraded the AZDOR Network Infrastructure to enhance network throughput as well as position the agency for an IP telephony system.
- Implemented BRITS server farm to provide the infrastructure necessary to support the BRITS applications.
- Implemented Microsoft Operations Manager to automate alerts for server performance and monitoring.
- Researched and selected vendor to provide PCs for the agency desktop refresh.
- Conducted and passed Security Posture Assessment for AZDOR network.
- Deployed Image Viewer application to support BRITS program implementation.
- Improved Help Desk policies and procedures to ensure better customer service to the agency.
- Installed hardware and software to provide support for annual VITA Site that assists taxpayers.

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PROCESSING ADMINISTRATION

Organization

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

Comptroller

The Comptroller is responsible for providing revenue accounting services. This includes the reconciliation and reporting of tax dollars deposited to the State's financial institution, revenue and taxpayer accounting services, and refund warrant management.

The Accounts Receivable Unit is responsible for processing new receivable and adjustment transactions, timely reconciliation and reporting, NSF check processing, and credit balance management.

The Remittance Processing unit is responsible for the timely and accurate preparation of tax remittances for deposit.

The Data Entry Unit is responsible for the timely and accurate entry of tax forms to the tax systems.

The Electronic Funds Transfer Unit is responsible for the management of the program for receiving electronic business tax payments.

Records Management

Records management maintains and provides access to tax returns and license applications within the department.

Micrographics Section microfilms all individual and corporate tax returns. They duplicate all microfilm for distribution within the department.

The department's warehouse stores bulk items such as: copy paper, a wide variety of envelopes and bulk tax forms. The staff also provide a wide variety of duties such as assisting the Facilities group with moving modular product, moving office equipment and department records between sections and/or locations and courier services between the department office sites as well as vendor and other State agencies.

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 changes notices, audit and collection notices to all taxpayers.

Individual Income Tax Processing

Individual Income Tax Processing is divided into three units: Refund/Research, Document Processing 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.

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 FISCAL YEAR 2003

- During the 2003 tax-filing season, 1,596,196 paper documents were processed. The total number of income tax refunds processed was 1,021,770.
- Refund turn-around time averaged 12 days.
- The total number of Corporate Income Tax documents processed was 216,849 of which 104,782 were returns. The Corporate Income Tax refunds issued exceeded \$194 million.
- The total number of Transaction Privilege, Use and Severance Tax documents processed was 1,322,423, of which 1,190,600 were returns. The Electronic Funds Transfer (EFT) system for Transaction Privilege Tax (started in early 1998) has exceeded our expectations. The \$2.9 billion received is 60% of all TPT revenues collected.
- The total number of Withholding Tax Documents processed was 2,011,952, of which 431,701 were returns. This year 5,373 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 Records Management unit has worked to improve quality. The Records Maintenance Section has received approximately 45,017 new license applications and has completed 49,850 requests for taxpayer documents. The Micrographics Section microfilmed 2.7 million individual documents.
- The Electronic Funds Transfer Unit electronically processed approximately \$4.71 billion during fiscal year 2003. This is an increase of \$7.7 million more than fiscal year 2002. The unit also processed 366,994 payments, an increase of 45,601 payments from the prior year. In fiscal year 2003 the unit electronically processed 61.2% of the business tax payments received and 14.9% of the business tax transactions.
- The Comptroller's Office returned 12,423 warrants to taxpayers that had been returned to the department because the taxpayer's address was incorrect. This was 92% of all warrants returned.
- The Remittance Processing Unit processed almost 2.9 million checks totaling over \$3.4 billion dollars.
- The Data Entry Unit keyed over 2 million documents in fiscal year 2003. The unit kept its primary focus on keying business tax returns. Individual Income tax returns were outsourced to our keying partners because of the volume received and the statutory requirements for turning refunds around. The decrease in the number of documents keyed by the Unit is attributable to the increased number of returns that were e-filed. This enabled the department to decrease the amount of money spent in the preparation and keying of income tax returns.
- The Accounts Receivable Unit continued its high level of service in processing maintenance items in less than 24 hours of receipt with a .07% error rate.
- The Incoming Mail Unit processed approximately 5 million letters and flats during the fiscal year. This included income, transaction privilege tax, withholding and corporate tax mail.
- The Outgoing Mail Team processed over 2.7 million pieces of mail, not including the county property tax forms.

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PROPERTY TAX

Valuation Section

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

The Centrally Valued Properties Unit annually determines the full cash value of all utilities, railroads, mines and other complex or geographically-dispersed properties (see page 63 for a list of the industries valued by the department). Values determined by this unit for such properties are transmitted to the appropriate county assessors for the county tax roll.

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

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

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

Assessment Standards & Equalization (AS&E) Section

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

The CIS group develops and coordinates the information processing services necessary to support property tax administration for 13 Arizona Counties. The support services provided to the client counties include management of automated systems used in the maintenance of assessment and

tax rolls, the preparation of valuation abstracts, property tax notices of value and statements of taxes due. The group is also responsible for the statewide administration of the additional state aid to education homeowner rebate program for Arizona school districts and levy limit calculations for client counties, cities/towns and community college districts.

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

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

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

HIGHLIGHTS IN FISCAL YEAR 2003

- The Centrally Valued Property Unit completed the tax year 2004 valuations for approximately 840 centrally valued taxpayers for a total of \$23 billion full cash value.
- The PT50+ Real Time Update Project was completed. This will allow many of the secured property system updates to be put on-line in real time.
- The County Services Unit produced the 2003 Commercial Property Tax Market Study. The study provides the county assessors with commercial and multi-family property sales, income/expense and capitalization rate data for the 13 non-metro counties in Arizona. Copies of the study were provided to assessors in electronic format via e-mail for the first time.
- The Training and Certification Unit taught 15 appraisal courses with an average attendance of 21 students per course. Thirty Level One and 43 Level Two students were certified.
- The Construction Cost Unit inaugurated the Square Foot Enhancement to the Construction Cost Mainframe Computer System. This enhancement will allow the County Assessors' Staff to list improvements on the Cost System with less appraiser training time, less field time and with fewer input errors.

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TAXPAYER SERVICES

Community OutReach and Education (CORE)

This section provides the Department's outreach and educational programs for both 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.

E-File

This program was established to coordinate services between other agencies, the practitioner community and software industry. They approve software for use by practitioners and the public and market the benefits of E-Filing to the taxpayer. Tax returns that are submitted through this program are processed virtually error free and refunds are issued in days rather than weeks.

License and Registration (L&R)

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

The section oversees the 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 conducts research to identify unlicensed businesses and brings them into compliance. They provide education on licensing statutes and regulations to assist taxpayers in complying with the tax laws.

Taxpayer Information and Assistance (TIA)

This section provides information concerning business and income taxes administered by the Department. This is accomplished through various avenues, including telephone contact, email, recorded tax information, correspondence and walk-in services at each of the agency's offices.

The section researches and resolves account problems and responds to billing inquiries and disputes.

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

Unclaimed Property

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

HIGHLIGHTS IN FISCAL YEAR 2003

- Participation in Taxpayer Education events increased by 36% (to almost 24,000) while improving efficiency with 6% fewer presentations.
- CORE provided showcase events for Tax Practitioners and Small Businesses in the form of Tax Talk and Employers Potpourri. The section partnered with a wide range of entities, including the Internal Revenue Service, Social Security Administration, Immigration and Naturalization, Department of Labor, Department of Economic Security, Maricopa County, Arizona Small Business Association, Chicanos Por La Causa, Chambers of Commerce, Small Business Development Centers statewide, AARP, SCORE, Arizona Forum for Improvement of Taxation and cities of Phoenix, Surprise, Avondale, Flagstaff, Tucson, Mesa, Chandler and Yuma. This partnering enabled us to provide businesses with a wide variety of resources and assistance to meet the challenges of dealing with the regulatory environment and taxation.
- Coordinated the Volunteer Income Tax Assistance program providing efile services to taxpayers. Over 3,200 taxpayers were assisted at the department's Supersite.
- E-filed tax returns increased by 50% for a total of 723,743 returns. Of which, 316,100 taxpayers received their refunds via direct deposit.
- The number of tax professionals participating in the e-file program increased to 2,800, a 69% increase.
- The number of license applications processed was up 5% over last fiscal year to total 51,244 with a turnaround average of 4.6 days. This was a considerable improvement over fiscal year 2002, when the average turnaround for license applications averaged 8.3 days.
- The License Compliance unit performed researches on 116,076 businesses or a 40% increase over last year and issued 3,007 licenses, a 53% increase. This resulted in a 5.8% increase in revenues (a total of \$24,024,384) for the fiscal year.
- The recorded instructions for Forms 140, 140A and 140EZ were completely revised and re-recorded for the DOR call center. An electronic version of the recorded instructions has also been produced for the first time and is available on the internet.
- Staff established a new walk-up station in the lobby to assist with crowd control on payment days. This has resulted in shorter lines at the cashiering windows and faster service to taxpayers that chose to use this service. As a result over 7,300 taxpayers avoided waiting in lines at DOR offices.
- TIA staff reduced the inventory of open cases from 3,478 cases to 2,428 cases.
- The Unclaimed Property Holder Compliance Unit completed input of annual holder reports. A total of 18,397 reports were keyed, an increase of 15% over last year. From these reports, 164,737 new properties were added to the system. This is an increase of more than 30,000 properties from the prior year's reports. Audit collections totaled \$5.9 million, a \$700,000 increase over last fiscal year.
- Unclaimed Property completed the first phase of imaging holder reports. The imaged documents are much easier to use by the staff resulting in a reduction of research time of about 50%. The easy access to original documents (via images) is also expected to decrease the chance for errors in processing of claims.

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TAX POLICY & RESEARCH

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

Tax Research & Analysis

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

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

Tax Appeals

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

The Transaction Privilege & Use Tax (TPT) Appeals Section is headed by the TPT Appeals Administrator and assists the Transaction Privilege and Use Tax Audit Section with case refinement and resolution services at the informal hearing as well as advocating the audit section's position in

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

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

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

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ARIZONA'S TAXES

Revenue Summary (Table 1)

Net Revenue to State General Fund (Table 2)

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

Transaction Privilege, Use and Severance Tax

Income Tax

Property Tax

TABLE 1
REVENUE SUMMARY
GROSS REVENUE COLLECTED
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

SOURCE	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03
TRANSACTION PRIVILEGE USE AND SEVERANCE TAX					
Distribution Base	\$1,089,625,165	\$1,195,140,016	\$1,248,485,639	\$1,246,773,262	\$1,265,625,175
Nonshared Portion	2,042,232,511	2,230,332,220	2,356,788,664	2,379,509,616	2,400,432,714
Use Tax	148,043,174	176,566,264	196,887,927	162,751,987	190,186,057
Education Tax (1)	-----	-----	100,682	439,004,543	447,841,034
Undistributed Estimated					
Transaction Privilege Tax	11,668,636	12,392,607	1,894,841	28,766,081	9,156,917
Other State Revenue	18,352,045	18,254,373	21,123,487	32,971,582	34,401,816
County and City Collections	541,562,578	654,131,327	721,459,433	766,018,836	797,522,090
Subtotal	\$3,851,484,109	\$4,286,816,807	\$4,546,740,674	\$5,055,795,907	\$5,145,165,803
INCOME TAX					
Withholding	2,072,018,474	2,259,201,907	2,363,693,852	2,309,340,885	2,310,302,093
Individual	765,853,606	826,789,215	858,775,963	705,843,394	656,586,317
Corporate	643,230,321	637,765,231	678,002,658	512,257,476	518,246,330
Subtotal	\$3,481,102,401	\$3,723,756,353	\$3,900,472,473	\$3,527,441,755	\$3,485,134,740
LUXURY TAX					
Spiritous Liquor	19,648,670	20,587,605	21,327,540	21,574,744	22,004,331
Vinous Liquor	7,969,428	9,026,326	8,477,493	9,035,156	9,924,749
Malt Liquor	20,534,013	21,309,231	21,602,321	22,031,467	22,137,764
Tobacco - All Types (2)	166,288,764	162,896,049	160,694,260	161,754,302	217,955,008 (5)
Licensing	7,175	7,175	8,600	5,250	5,950
Subtotal	\$214,448,050	\$213,826,386	\$212,110,214	\$214,400,920	\$272,027,802
ESTATE TAX					
Estate	89,087,575	85,238,335	76,921,666	81,892,657	96,859,390
Unclaimed Property	21,315,542	31,415,063	38,020,547	48,681,438	46,219,555
Escheated Estates and Unclaimed Dividends	309,305	201,612	654,400	252,786	269,557
Subtotal	\$110,712,421	\$116,855,010	\$115,596,613	\$130,826,881	\$143,348,502
OTHER REVENUES					
Bingo	717,830	677,036	634,384	629,680	626,770
Flight Property Tax	14,856,910	13,418,771	13,387,179	13,056,694	12,741,749
Private Car Tax	1,441,440	1,476,728	1,349,685	1,509,625	1,485,996
Nuclear Plan Assessment	926,814	945,935	924,778	940,611	1,012,992
Waste Tire	5,476,881	5,674,452	6,346,629	6,392,637	7,007,444
Subtotal	\$23,419,875	\$22,192,921	\$22,642,655	\$22,529,247	\$22,874,950
DEPARTMENT TOTAL	\$7,681,166,856	\$8,363,447,477	\$8,797,562,629	\$8,950,994,710	\$9,068,551,797
State Property Tax (3)	10,069,191	24,686,866	22,552,932	18,454,625	9,493,897
TOTAL (4)	\$7,691,236,047	\$8,388,134,343	\$8,820,115,561	\$8,969,449,335	\$9,078,045,694

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

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

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

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

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

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 1998-99 THROUGH FISCAL YEAR 2002-03

<i>SOURCE</i>	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03
Transaction Privilege, Use, and Severance Tax	\$2,566,087,404	\$2,817,525,828	\$2,982,824,755	\$2,972,274,262	\$3,027,135,359
Undistributed Estimated Transaction Privilege Tax	11,668,636	12,392,607	1,894,841	28,766,081	9,156,917
Income Tax	2,302,706,944	2,434,799,495	2,445,472,944	2,011,052,550	2,056,591,466
Luxury Tax	64,770,498	65,436,145	65,568,793	66,069,587	64,586,950
Estate Tax/ Unclaimed Property	89,334,610	84,725,503	78,961,539	88,298,138	100,963,571
Bingo	717,830	677,036	634,384	629,680	626,770
Private Car Tax	1,441,440	1,476,728	1,349,685	1,509,625	1,485,996
Nuclear Plan Assessment	926,814	945,935	924,778	940,611	1,012,992
Flight Property Tax	7,367,078	6,709,385	6,693,590	6,528,347	6,255,987 (2)
<i>Department Total</i>	<i>\$5,045,021,253</i>	<i>\$5,424,688,662</i>	<i>\$5,584,325,308</i>	<i>\$5,176,068,883</i>	<i>\$5,267,816,008</i>
State Property Tax (1)	10,069,191	24,686,866	22,552,932	18,454,625	9,493,897
<i>TOTAL</i>	<i>\$5,055,090,444</i>	<i>\$5,449,375,528</i>	<i>\$5,606,878,240</i>	<i>\$5,194,523,508</i>	<i>\$5,277,309,905</i>

(1) Property Tax is not collected by the Department of Revenue. It is deposited in the State General Fund by counties. This figure includes deposits to the General Fund derived from the minimum Qualifying Tax Rate and taxes collected within Unorganized School Districts.

(2) A refund issued during FY 03 reduced the General Fund distribution by \$114,887.

Figures may not add to total due to rounding.

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TABLE 3
GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX
FISCAL YEAR 2001-02 AND FISCAL YEAR 2002-03

AUDIT COLLECTIONS	FY2001-02	FY2002-03	% CHANGE
Assessment Collections (Gross)	\$51,058,784	\$64,860,554	27.0%
Miscellaneous Taxes (Net of Credit)	\$1,360,262	\$6,172,998	353.8%
TOTAL AUDIT UNIT COLLECTIONS	\$52,419,045	\$71,033,552	35.5%
TOTAL BILLINGS	\$150,299,818	\$138,229,448	-8.0%
TOTAL DELINQUENT TAX COLLECTIONS	\$272,698,314	\$265,393,464	-2.7%
TOTAL UNADJUSTED ENFORCEMENT COLLECTIONS	\$475,417,177	\$474,656,464	-0.2%
ADJUSTMENTS (1)			
Duplication, Credit Audits and Other Adjustments As Reported	(\$58,416,043)	(\$73,785,528)	26.3%
TOTAL ADJUSTED ENFORCEMENT COLLECTIONS (2)	\$417,001,135	\$400,870,936	-3.9%
REFUND DENIALS	\$18,991,988	\$12,132,145	-36.1%

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

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

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TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX

MAJOR FEATURES

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

The rates range from 1% (cities) to 5.6% depending on the type of business, with most rates at 5.6% (*Refer to Table 5*). Approximately 172,000 accounts collectively remitted gross revenues exceeding \$4.3 billion during the 2003 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, effective January 1995 (*Refer to Table 5*).

DISTRIBUTION

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

USE TAX

A 5% use tax is imposed on the purchase price of tangible personal property when a transaction privilege 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

The department 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, the department also conducts multi-jurisdictional audits with and for all other cities in Arizona.

COUNTY TAX AND SURCHARGE COLLECTION

Of the 15 counties in Arizona, 14 levy some type of county tax or surcharge (*Refer to Table 4*). The department collects these taxes or surcharges. 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, 13 do so. By statute, Maricopa County may not impose an excise tax. Although subject to voter approval, any county may levy a transportation excise tax or road tax. Only three counties, Gila, Maricopa, and Pinal, do so.

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

**TABLE 4
GROSS TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03**

SOURCE	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03
Distribution Base	\$1,089,625,165	\$1,195,140,016	\$1,248,485,639	\$1,246,773,262	\$1,265,625,175
Nonshared	2,042,232,511	2,230,332,220	2,356,788,664	2,379,509,616	2,400,432,714
Use Tax	148,043,174	176,566,264	196,887,927	162,751,987	190,186,057
SUBTOTAL	\$3,279,900,850	\$3,602,038,500	\$3,802,162,230	\$3,789,034,865	\$3,856,243,946
Education Tax (8)	-----	-----	100,682	439,004,543	447,841,034
Undistributed Estimated	11,668,636	12,392,607	1,894,841	28,766,081	9,156,917
911 Wireline/Excise Tax	8,084,729	7,846,057	9,201,049	14,998,348	13,914,520
Telecommunications Devices	5,158,289	4,960,224	5,514,542	6,395,057	6,328,095
Poison Control Fund	1,907,860	1,834,603	2,039,625	2,365,295	2,340,528
911 Wireless Service	1,181,481	1,507,573	2,136,015	6,928,990	9,596,186
Municipal Water	1,957,725	2,081,879	2,120,483	2,213,435	2,150,995
Environmentally Hazardous Products (2)	536	980	5,909	14	42
Waste Tire Accounts					
Receivable Collections	62,946	25,739	109,948	71,330	72,824
Less Collection Fees	(1,521)	(2,682)	(4,084)	(888)	(1,375)
GROSS STATE COLLECTIONS	\$3,309,921,530	\$3,632,685,479	\$3,825,281,241	\$4,289,777,071	\$4,347,643,714
Municipal Privilege Tax	202,218,016	230,976,587	257,706,985	280,950,442	302,626,095
Pima County Hotel Tax	2,437,787	2,625,508	2,823,410	2,495,830	2,556,951
Maricopa County Rental Car Surcharge	5,405,493	5,734,678	5,636,907	5,396,445	5,267,273
Pima County Rental Car Surcharge	1,388,744	1,476,750	1,557,354	1,377,083	1,435,901
Pima County R.V. Surcharge	218,359	212,849	197,598	189,838	194,949
Apache County Excise Tax	638,649	1,862,479	1,130,977	903,381	960,194
Cochise County Excise Tax	4,311,066	4,853,891	5,123,754	5,698,660	5,673,861
Coconino County Excise Tax	8,085,596	8,876,866	9,054,404	8,793,909	9,467,920
Coconino County Jail Tax	4,793,744	5,261,397	5,358,317	5,486,442	5,692,968
Coconino County Capitol Projects (9)	-----	-----	-----	-----	864,263
Gila County Excise Tax	2,350,334	2,311,624	2,596,028	2,617,971	2,519,790
Gila County Hospital Tax (3)	7,003	92	38,499	509	2
Gila County Transportation	2,423,201	2,377,944	2,612,288	2,718,050	2,606,712
Graham County Excise Tax	1,172,236	1,188,238	1,206,320	1,192,075	1,174,735
Greenlee County Excise Tax	546,749	563,020	645,168	562,389	700,206
La Paz County Excise Tax	777,423	806,441	820,780	885,465	862,595
La Paz County Jail Tax	776,444	807,563	821,969	885,694	862,282
La Paz County Health Services District (10)	-----	-----	-----	-----	143,928
Maricopa County Road Tax	229,470,201	248,595,990	264,722,440	267,563,343	268,720,901
Maricopa County Stadium Tax (4)	437,677	150,336	280,370	145,148	98,185
Maricopa County Jail Tax	34,290,683 (1)	91,054,451	97,603,200	98,372,053	98,462,479
Mohave County Excise Tax	-----	1,608,620 (1)	4,114,594	4,446,472	4,874,083
Navajo County Excise Tax	4,372,839	4,655,169	4,831,327	4,993,912	5,295,310
Pinal County Excise Tax	5,698,428	6,149,485	6,492,013	6,763,454	8,062,544
Pinal County Road Tax	6,072,244	6,575,202	6,750,294	6,965,671	8,280,451
Santa Cruz County Excise Tax	1,847,305	1,918,653	2,092,940	2,114,505	2,186,284
Yavapai County Excise Tax	8,565,735	9,571,900	10,054,989	10,799,358	11,279,837
Yavapai County Jail Tax (5)	-----	-----	3,627,698	4,294,368	4,489,617
Yuma County Excise Tax	6,638,969	6,965,025	7,417,302	7,665,873	8,084,880
Yuma County Jail Tax	6,617,655	6,950,571	7,412,145	7,653,390	8,113,092
Yuma County Capitol Projects Tax (6)	-----	-----	3,150,273 (1)	7,582,374	8,041,984
Tourism/Sports Authority (7)	-----	-----	5,579,087 (1)	16,504,732	17,921,823
COUNTY AND CITY COLLECTIONS	541,562,578	654,131,327	721,459,433	766,018,836	797,522,090
TOTAL DEPARTMENT OF REVENUE RECEIPTS	\$3,851,484,108	\$4,286,816,806	\$4,546,740,674	\$5,055,795,907	\$5,145,165,803

- (1) The tax was in place for only a portion of the first fiscal year. This figure does not represent a full year's collection.
(2) Environmentally Hazardous Products was repealed September 1, 1992. All amounts received are for prior tax periods.
(3) Gila County Hospital Tax ended effective March 31, 1993.
(4) Maricopa County Stadium Tax ended effective December 1, 1997.
(5) Yavapai County Jail Tax began on July 1, 2000
(6) Yuma County Capitol Projects Tax Began on January 1, 2001
(7) Tourism/Sports Authority Tax became effective March 1, 2001.
(8) Education Tax became effective on June 1, 2001.
(9) Coconino County Capital Projects Tax became effective on January 1, 2003.
(10) La Paz County Health Services District Tax became effective on September 1, 2002.

TABLE 5
STATE TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX RATES
FISCAL YEAR 2002-03

TAXABLE ACTIVITIES	DISTRIBUTION BASE	NONSHARED	EDUCATION	TOTAL TAX
1. Transporting and Towing	1.0%	4.0%	0.6%	5.6%
2. Nonmetalliferous Mining, Oil and Gas Production	1.0%	2.125%	0.0%	3.125%
4. Utilities	1.0%	4.0%	0.6%	5.6%
5. Communications	1.0%	4.0%	0.6%	5.6%
6. Railroads and Aircraft	1.0%	4.0%	0.6%	5.6%
7/8. Private Car/Pipelines	1.0%	4.0%	0.6%	5.6%
9. Publishing	1.0%	4.0%	0.6%	5.6%
10. Printing	1.0%	4.0%	0.6%	5.6%
11. Restaurants and Bars	2.0%	3.0%	0.6%	5.6%
12. Amusements	2.0%	3.0%	0.6%	5.6%
14. Personal Property Rentals	2.0%	3.0%	0.6%	5.6%
15. Contracting (1)	1.0%	4.0%	0.6%	5.6%
17. Retail	2.0%	3.0%	0.6%	5.6%
19. Mining Severance	2.0%	0.5%	0.0%	2.5%
21. Timbering Severance - Ponderosa (per thousand board feet)	\$1.704	\$0.426	\$0	\$2.13
22. Timbering Severance - Other (per thousand board feet)	\$1.208	\$0.302	\$0	\$1.51
25. Hotel/Motel Tax	2.75%	2.75%	0.0%	5.5%
28. Rental Occupancy Tax	2.0%	1.0%	0.0%	3.0%
29/30. Use and Use Inventory Tax	0.0%	5.0%	0.6%	5.6%
47. Membership Camping	2.0%	3.0%	0.6%	5.6%
49. Jet Fuel (per gallon)	\$0.0122	\$0.0183	\$0	\$0.0305
51. Jet Fuel Use (per gallon)	\$0	\$0.0305	\$0	\$0.0305

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

TABLE 6
NET TAXABLE SALES
BY TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX CLASSIFICATIONS (1)
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

CLASSIFICATION	FY1998-99	% OF TOTAL	FY1999-00	% OF TOTAL	FY2000-01	% OF TOTAL	FY2001-02	% OF TOTAL	FY2002-03	% OF TOTAL
Transportation										
and Towing	\$58,302,201	0.09	\$56,620,330	0.08	\$85,910,143	0.11	\$57,567,191	0.08	\$63,088,526	0.08
Mining, Oil & Gas	204,730,724	0.31	193,933,697	0.27	224,834,096	0.30	208,310,010	0.28	268,072,442	0.35
Mining Severance	749,256,686	1.14	481,582,634	0.66	168,695,209	0.22	(4,263,622)	(0.01)	45,049,321	0.06
Timber Severance (4)	(439)	(0.00) (6)	0	0.00 (6)	0	0.00 (6)	766,360	0.00 (6)	0	0.00 (6)
Utilities	5,066,644,493	7.72	5,268,207,981	7.27	5,814,282,521	7.65	5,919,273,137	7.83	5,940,826,217	7.72
Communications	2,153,027,806	3.28	2,453,093,781	3.39	2,870,088,870	3.78	2,945,681,407	3.90	2,869,499,256	3.73
Railroads and										
Aircraft	36,057,579	0.05	32,885,789	0.05	52,745,618	0.07	38,788,894	0.05	(36,982,331)	(0.05)
Private Car and										
Pipelines	15,556,192	0.02	5,612,007	0.01	15,485,669	0.02	7,134,188	0.01	12,492,721	0.02
Publishing	119,042,396	0.18	112,357,871	0.16	124,462,488	0.16	82,843,214	0.11	133,229,181	0.17
Job Printing	418,739,698	0.64	418,677,603	0.58	402,933,841	0.53	351,141,961	0.46	427,730,090	0.56
Local Advertising (2)	(1,614)	(0.00) (6)	27,476	0.00 (6)	0	0.00 (6)	0	0.00 (6)	0	0.00 (6)
Restaurants and Bars	5,476,712,938	8.34	5,976,371,272	8.25	6,300,820,165	8.29	6,428,712,331	8.51	6,655,027,562	8.65
Amusements	680,140,832	1.04	758,823,163	1.05	760,837,607	1.00	743,800,365	0.98	782,669,793	1.02
Commercial Lease (5)	(133,063,779)	(0.20)	659,198,999	0.91	182,691,438	0.24	36,912,605	0.05	(7,578,796)	(0.01)
Personal Property										
Rentals	3,170,337,708	4.83	3,412,995,935	4.71	3,658,549,237	4.81	3,607,518,815	4.77	3,319,777,937	4.31
Contracting	10,021,561,060	15.27	10,847,157,383	14.98	11,250,537,683	14.80	11,820,596,498	15.64	11,563,726,354	15.03
Feed Wholesale (3)	269,821	0.00 (6)	382,271	0.00 (6)	(41,648)	(0.00) (6)	(1,806,235)	(0.00) (6)	(67,256)	(0.00) (6)
Retail	32,964,475,378	50.22	36,403,861,655	50.27	38,282,337,115	50.37	38,432,859,974	50.85	39,408,769,331	51.22
Hotel/Motel	1,679,514,834	2.56	1,818,473,902	2.51	1,871,008,576	2.46	1,659,760,985	2.20	1,698,499,187	2.21
Rental Occupancy Tax	3,930,929	0.01	3,733,808	0.01	4,896,781	0.01	5,967,630	0.01	1,427,458	0.00 (6)
Use Tax	2,951,224,001	4.50	3,514,612,988	4.85	3,922,952,933	5.16	3,240,459,960	4.29	3,793,690,395	4.93
Membership Camping	1,682,321	0.00 (6)	1,411,253	0.00 (6)	2,420,361	0.00 (6)	2,741,146	0.00 (6)	2,406,275	0.00 (6)
Agriculture Equipment (7)	-----		-----		1,212,738	0.00 (6)	2,106,425	0.00 (6)	0	0.00 (6)
TOTAL	\$65,638,141,764	100.00	\$72,420,021,798	100.00	\$75,997,661,442	100.00	\$75,586,873,240	100.00	\$76,941,353,662	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 2002-03

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL COLLECTIONS
Transporting and Towing	\$630,885	\$2,523,541	\$3,154,426
Nonmetal Mining, Oil and Gas	2,680,724	5,696,540	8,377,264
Mining Severance	899,557	226,676	1,126,233
Timbering Severance	0	0	0
Timbering Severance - Ponderosa	3,979	995	4,974
Timbering Severance - Other	148	37	185
Utilities	59,408,263	237,633,048	297,041,311
Communications	28,694,992	114,779,971	143,474,963
Railroads and Aircraft	(369,823)	(1,479,293)	(1,849,117)
Private Car and Pipelines	124,927	499,709	624,636
Publishing	1,332,292	5,329,167	6,661,459
Printing	4,277,301	17,109,203	21,386,505
Restaurants and Bars	133,100,550	199,650,828	332,751,378
Amusements	15,653,395	23,480,094	39,133,490
Commercial Lease (3)	(60,586)	(53,554)	(114,140)
Rentals of Personal Property	66,395,555	99,593,342	165,988,897
Contracting	115,637,260	462,549,058	578,186,318
Feed Wholesale (2)	(168)	(147)	(315)
Retail	788,153,157	1,182,285,310	1,970,438,467
Hotel/Motel	46,708,788	46,708,668	93,417,455
Rental Occupancy Tax	28,550	14,273	42,824
Use Tax	0	189,684,520	189,684,520
License Fees	0	499,636	499,636
Membership Camping	48,126	72,188	120,314
Jet Fuel Tax	2,335,405	3,503,107	5,838,512
Jet Fuel Use Tax	0	501,537	501,537
Non Sufficient Funds	0	42,649	42,649
Telecommunications Service Assistance	(58,101)	(232,406)	(290,507)
Miscellaneous Fees	0	75	75
TOTAL	\$1,265,625,175	\$2,590,618,770	\$3,856,243,946

(1) Does not reflect the balance of undistributed estimated payments at the end of FY 02.

(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.

Figures may not add to total due to rounding.

TABLE 8
DISTRIBUTION OF TRANSACTION PRIVILEGE, USE
AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2002-03

Net Regular to State General Fund	\$3,027,135,359
Net Estimated Payments to General Fund	9,156,917
Net to Cities	316,405,353
Net to Counties	512,703,234
Net to Education Fund	447,841,034
911 Wireline/Excise, 911 Wireless, Telecommunications Devices, Poison Control Fund, Municipal Water and Environmentally Hazardous Products, and Waste Tire Accounts Receivable Collections	34,403,191
Less Collection Fees	(1,375)
TOTAL GROSS COLLECTIONS	\$4,347,643,714

ADDITIONAL DISTRIBUTION FROM
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2002-03

Office of Tourism	\$11,098,643
Phoenix International Raceway	\$416,667
School Facilities Board	\$38,274,100
Tourism and Sports Authority	\$687,411
Tribal Community Colleges	\$1,750,000

Figures may not add total due to rounding.

TABLE 9
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN APACHE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$9,729,694	1.1%	\$486,485
Communications	15,287,455	25.8%	764,373
Publishing	508,308	12.2%	25,415
Restaurants and Bars	8,833,391	-0.4%	441,670
Amusements	262,918	-33.8%	13,146
Rentals of Personal Property	2,438,344	-25.4%	121,917
Contracting (All)	82,563,174	13.0%	4,128,159
Retail	58,189,085	0.8%	2,909,454
Hotel/Motel	10,230,709	-0.7%	562,689
Other Taxable Activities	31,001,983	-13.5%	1,492,665
TOTAL	\$219,045,062	3.5%	\$10,945,972

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	27	25	19
Communications	94	111	107
Publishing	15	14	13
Restaurants and Bars	67	63	58
Amusements	10	12	13
Rentals of Personal Property	195	182	178
Contracting (All)	307	321	263
Retail	1,010	987	988
Hotel/Motel	57	63	61
Other Taxable Activities	530	488	539
TOTAL	2,312	2,266	2,239

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$118,273,644	0.8%	\$5,913,682
Communications	49,288,282	-2.3%	2,464,414
Publishing	2,037,906	8.2%	101,895
Printing/Advertising	1,895,785	0.6%	94,789
Restaurants and Bars	86,549,292	-3.1%	4,327,465
Amusements	10,269,589	71.4%	513,479
Rentals of Personal			
Property	21,515,037	1.2%	1,075,752
Contracting (All)	172,513,390	16.8%	8,625,670
Retail	621,696,028	4.1%	31,084,801
Hotel/Motel	24,875,357	1.1%	1,368,145
Other Taxable Activities	67,289,603	-1.5%	3,361,548
TOTAL	\$1,176,203,912	4.4%	\$58,931,640

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	49	48	47
Communications	166	181	181
Publishing	18	19	24
Printing/Advertising	27	25	26
Restaurants and Bars	347	346	339
Amusements	69	70	64
Rentals of Personal			
Property	439	421	446
Contracting (All)	804	796	838
Retail	3,193	3,107	3,158
Hotel/Motel	141	140	136
Other Taxable Activities	862	886	1,015
TOTAL	6,115	6,039	6,274

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Non Metal Mining/Mining Severance	\$8,380,380	119.6% (2)	\$261,216
Utilities	121,625,649	0.8%	6,081,282
Communications	74,686,302	14.0%	3,734,315
Publishing	2,353,697	-29.9%	117,685
Printing/Advertising	2,969,145	0.1%	148,457
Restaurants and Bars	243,697,303	0.6%	12,184,865
Amusements	28,460,119	N/A	1,423,006
Rentals of Personal Property	53,389,590	-1.7%	2,669,480
Contracting (All)	283,450,308	10.7%	14,172,515
Retail	886,550,606	3.9%	44,327,530
Hotel/Motel	162,004,543	-1.3%	8,910,250
Other Taxable Activities	55,303,498	-27.3%	2,767,942
TOTAL	\$1,922,871,140	5.0%	\$96,798,543

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Non Metal Mining/Mining Severance	16	17	21
Utilities	47	40	38
Communications	184	215	207
Publishing	32	32	30
Printing/Advertising	36	33	31
Restaurants and Bars	423	426	435
Amusements	93	98	87
Rentals of Personal Property	531	542	539
Contracting (All)	1,354	1,459	1,531
Retail	3,828	3,771	3,921
Hotel/Motel	248	251	254
Other Taxable Activities	1,152	1,172	1,310
TOTAL	7,944	8,056	8,404

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$81,003,492	-3.1%	\$4,050,175
Communications	25,050,901	-27.0%	1,252,545
Publishing	1,033,121	-1.8%	51,656
Printing/Advertising	649,687	-8.2%	32,484
Restaurants and Bars	45,044,854	-3.1%	2,252,243
Amusements	221,081	-88.3% (2)	11,054
Rentals of Personal			
Property	12,963,540	3.2%	648,177
Contracting (All)	93,656,179	3.2%	4,682,809
Retail	229,649,935	-2.8%	11,482,497
Hotel/Motel	9,263,814	-11.4%	509,510
Other Taxable Activities	29,577,674	25.1%	1,309,660
TOTAL	\$528,114,278	-2.5%	\$26,282,809

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	36	36	32
Communications	135	164	151
Publishing	19	14	15
Printing/Advertising	15	14	14
Restaurants and Bars	164	167	178
Amusements	40	37	33
Rentals of Personal			
Property	286	280	259
Contracting (All)	696	710	738
Retail	1,818	1,812	1,864
Hotel/Motel	66	67	69
Other Taxable Activities	572	598	627
TOTAL	3,847	3,899	3,980

(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 13
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GRAHAM COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Communications	\$9,464,896	-13.7%	\$473,245
Restaurants and Bars	16,512,692	1.8%	825,635
Rentals of Personal Property	5,052,962	-27.2%	252,648
Contracting (All)	35,455,675	-12.4%	1,772,784
Retail	134,775,246	1.7%	6,738,762
Other Taxable Activities	28,979,739	-23.4%	1,467,719
TOTAL	\$230,241,210	-6.0%	\$11,530,792

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Communications	103	110	104
Restaurants and Bars	74	67	64
Rentals of Personal Property	177	170	164
Contracting (All)	215	197	251
Retail	999	974	953
Other Taxable Activities	453	491	521
TOTAL	2,021	2,009	2,057

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Communications	\$3,156,887	-7.9%	\$157,844
Restaurants and Bars	2,472,559	-9.6%	123,628
Rentals of Personal Property	1,109,998	67.2%	55,500
Contracting (All)	18,134,131	50.2%	906,707
Retail	63,788,779	16.3%	3,189,439
Other Taxable Activities	82,724,177	33.1%	3,545,710
TOTAL	\$171,386,531	26.1%	\$7,978,828

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Communications	69	69	65
Restaurants and Bars	22	23	22
Rentals of Personal Property	88	79	61
Contracting (All)	82	78	72
Retail	375	363	356
Other Taxable Activities	230	203	235
TOTAL	866	815	811

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$16,520,677	-6.0%	\$826,034
Communications	5,119,173	-6.3%	255,959
Publishing	475,023	-2.1%	23,751
Restaurants and Bars	21,624,369	-1.9%	1,081,218
Amusements	199,837	-36.9%	9,992
Rentals of Personal Property	3,704,532	-25.6%	185,227
Contracting (All)	20,182,036	-4.4%	1,009,102
Retail	94,185,714	-0.9%	4,709,286
Hotel/Motel	5,200,263	-2.1%	286,014
Other Taxable Activities	(6,826,683)	N/A (2)	(345,286)
TOTAL	\$160,384,941	-15.6%	\$8,041,296

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	21	22	25
Communications	94	100	95
Publishing	12	11	12
Restaurants and Bars	91	97	96
Amusements	17	13	14
Rentals of Personal Property	191	174	167
Contracting (All)	217	225	235
Retail	1,806	1,787	1,805
Hotel/Motel	59	58	53
Other Taxable Activities	394	387	540
TOTAL	2,902	2,874	3,042

(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 16
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN MARICOPA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Non Metal Mining/Mining Severance	\$46,361,542	14.7%	\$1,450,097
Utilities	3,692,412,945	0.2%	184,620,647
Communications	1,857,816,276	-6.1%	92,890,814
Publishing	94,405,042	109.2%	4,720,252
Printing/Advertising	350,891,563	25.0%	17,544,578
Restaurants and Bars	4,518,271,416	4.4%	225,913,571
Amusements	593,253,116	-0.3%	29,662,656
Rentals of Personal			
Property	2,550,691,169	-9.5%	127,534,558
Contracting (All)	7,658,535,624	-6.2%	382,926,781
Retail	26,584,187,078	1.6%	1,329,209,354
Hotel/Motel	1,023,055,734	3.7%	56,268,065
Other Taxable Activities	2,893,278,840	14.5%	144,999,465
TOTAL	\$51,863,160,345	0.5%	\$2,597,740,839

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Non Metal Mining/Mining Severance	55	52	58
Utilities	136	157	166
Communications	624	640	633
Publishing	322	295	297
Printing/Advertising	956	970	953
Restaurants and Bars	5,239	5,443	5,768
Amusements	706	695	711
Rentals of Personal			
Property	2,925	2,913	2,926
Contracting (All)	11,773	12,177	13,022
Retail	43,250	43,087	44,565
Hotel/Motel	619	625	622
Other Taxable Activities	10,938	10,713	10,860
TOTAL	77,543	77,767	80,581

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$189,134,368	7.8%	\$9,456,718
Communications	58,250,478	-1.9%	2,912,524
Publishing	2,827,022	19.4%	141,351
Printing/Advertising	3,968,118	-7.5%	198,406
Restaurants and Bars	154,382,732	3.9%	7,719,137
Amusements	15,586,517	9.8%	779,326
Rentals of Personal			
Property	56,587,904	-3.4%	2,829,395
Contracting (All)	324,986,886	1.6%	16,249,344
Retail	1,072,241,559	10.0%	53,612,078
Hotel/Motel	35,765,970	1.2%	1,967,128
Other Taxable Activities	158,675,581	38.3%	7,851,375
TOTAL	\$2,072,407,135	8.7%	\$103,716,783

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	51	53	50
Communications	136	159	165
Publishing	27	26	26
Printing/Advertising	36	36	35
Restaurants and Bars	404	407	410
Amusements	64	68	67
Rentals of Personal			
Property	549	541	576
Contracting (All)	1,277	1,286	1,404
Retail	4,151	4,225	4,314
Hotel/Motel	148	145	142
Other Taxable Activities	1,140	1,144	1,148
TOTAL	7,983	8,090	8,337

(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 18
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN NAVAJO COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$62,448,812	5.9%	\$3,122,441
Communications	38,022,288	-8.0%	1,901,114
Publishing	1,253,134	-6.6%	62,657
Restaurants and Bars	67,376,131	5.1%	3,368,807
Amusements	3,941,560	-9.7%	197,078
Rentals of Personal Property	18,433,188	5.5%	921,659
Contracting (All)	136,378,343	-1.6%	6,818,917
Retail	609,720,330	5.5%	30,486,017
Hotel/Motel	27,933,779	-1.9%	1,536,358
Other Taxable Activities	168,020,849	41.0%	5,842,407
TOTAL	\$1,133,528,414	7.8%	\$54,257,454

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	40	46	45
Communications	134	154	162
Publishing	18	17	20
Restaurants and Bars	199	198	209
Amusements	38	37	38
Rentals of Personal Property	337	340	328
Contracting (All)	802	850	953
Retail	2,272	2,205	2,218
Hotel/Motel	136	149	142
Other Taxable Activities	732	769	809
TOTAL	4,708	4,765	4,924

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Non Metal Mining/Mining Severance	\$21,420,008	74.3% (2)	\$606,200
Utilities	1,006,989,727	-2.2%	50,349,486
Communications	476,149,190	7.4%	23,807,459
Publishing	17,711,933	12.6%	885,597
Printing/Advertising	53,407,377	12.5%	2,670,369
Restaurants and Bars	1,023,676,833	0.8%	51,183,842
Amusements	79,916,618	-3.8%	3,995,831
Rentals of Personal			
Property	430,279,614	-3.4%	21,513,981
Contracting (All)	1,562,446,655	2.9%	78,122,333
Retail	6,081,458,205	2.2%	304,072,910
Hotel/Motel	268,612,157	1.0%	14,773,669
Other Taxable Activities	350,667,300	5.8%	17,581,765
TOTAL	\$11,372,735,615	1.9%	\$569,563,442

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Non Metal Mining/Mining Severance	20	21	28
Utilities	75	76	75
Communications	250	319	284
Publishing	94	113	122
Printing/Advertising	187	178	187
Restaurants and Bars	1,535	1,527	1,637
Amusements	224	222	231
Rentals of Personal			
Property	1,227	1,210	1,210
Contracting (All)	4,330	4,371	4,531
Retail	14,179	13,982	14,532
Hotel/Motel	258	252	258
Other Taxable Activities	2,575	2,569	2,812
TOTAL	24,954	24,840	25,907

(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 20
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN PINAL COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Non Metal Mining/Mining Severance	\$27,055,585	N/A	\$835,572
Utilities	185,487,590	0.4%	9,274,379
Communications	92,552,255	6.4%	4,627,613
Publishing	3,135,490	-5.8%	156,775
Printing/Advertising	1,828,934	24.1%	91,447
Restaurants and Bars	106,987,728	8.1%	5,349,386
Amusements	17,184,462	1.2%	859,223
Rentals of Personal Property	38,597,893	1.5%	1,929,895
Contracting (All)	421,051,904	26.1%	21,052,595
Retail	650,612,208	20.5%	32,530,610
Hotel/Motel	16,081,818	1.3%	884,500
Other Taxable Activities	127,734,501	107.6% (2)	6,357,962
TOTAL	\$1,688,310,369	22.5%	\$83,949,958

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Non Metal Mining/Mining Severance	28	26	26
Utilities	50	60	63
Communications	171	218	203
Publishing	23	23	23
Printing/Advertising	21	22	24
Restaurants and Bars	294	314	314
Amusements	87	83	93
Rentals of Personal Property	423	433	441
Contracting (All)	1,546	1,645	1,804
Retail	3,288	3,265	3,384
Hotel/Motel	98	102	116
Other Taxable Activities	954	990	1,109
TOTAL	6,983	7,181	7,600

(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 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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$26,904,334	-2.4%	\$1,345,217
Communications	18,565,128	-7.1%	928,256
Publishing	565,769	212.1%	28,288
Restaurants and Bars	34,162,511	4.0%	1,708,126
Amusements	1,330,180	-4.7%	66,509
Rentals of Personal Property	12,290,955	-5.4%	614,548
Contracting (All)	50,579,781	8.1%	2,528,989
Retail	277,372,392	4.3%	13,868,620
Hotel/Motel	10,010,664	6.3%	550,587
Other Taxable Activities	14,274,330	38.0%	698,294
TOTAL	\$446,056,046	4.3%	\$22,337,433

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	19	19	16
Communications	124	133	124
Publishing	14	11	10
Restaurants and Bars	121	131	119
Amusements	24	16	19
Rentals of Personal Property	271	264	253
Contracting (All)	416	392	413
Retail	1,535	1,518	1,533
Hotel/Motel	26	29	30
Other Taxable Activities	516	506	581
TOTAL	3,066	3,019	3,098

(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, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Non Metal Mining/Mining Severance	\$36,358,788	6.8%	\$1,118,756
Utilities	196,027,037	0.3%	9,801,352
Communications	92,474,997	12.8%	4,623,750
Publishing	4,236,106	-5.2%	211,805
Printing/Advertising	6,787,691	25.5%	339,385
Restaurants and Bars	197,689,964	3.1%	9,884,498
Amusements	20,292,524	2.6%	1,014,626
Rentals of Personal			
Property	54,277,624	0.5%	2,713,881
Contracting (All)	461,668,842	5.7%	23,083,442
Retail	1,114,009,393	5.3%	55,700,470
Hotel/Motel	71,933,854	-1.1%	3,956,362
Other Taxable Activities	49,722,494	3.8%	2,423,820
TOTAL	\$2,305,479,314	4.7%	\$114,872,147

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Non Metal Mining/Mining Severance	24	31	34
Utilities	72	73	74
Communications	200	222	218
Publishing	54	52	45
Printing/Advertising	65	61	56
Restaurants and Bars	536	545	555
Amusements	85	94	86
Rentals of Personal			
Property	560	529	541
Contracting (All)	2,092	2,235	2,371
Retail	5,309	5,333	5,553
Hotel/Motel	189	174	182
Other Taxable Activities	1,179	1,218	1,359
TOTAL	10,365	10,567	11,074

(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 23
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN YUMA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2002 AND ENDING JUNE 30, 2003

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2001-02	COLLECTIONS
Utilities	\$154,010,362	0.5%	\$7,700,518
Communications	53,614,750	4.4%	2,680,737
Publishing	2,320,097	-14.1%	116,005
Restaurants and Bars	127,745,785	5.0%	6,387,289
Amusements	9,828,758	4.2%	491,438
Rentals of Personal			
Property	58,445,585	1.5%	2,922,279
Contracting (All)	242,123,425	9.6%	12,106,171
Retail	930,332,775	7.3%	46,516,639
Hotel/Motel	28,889,696	7.5%	1,588,933
Other Taxable Activities	44,118,115	-11.0%	2,188,940
TOTAL	\$1,651,429,348	5.8%	\$82,698,950

NUMBER OF ACCOUNTS
FISCAL YEAR 2000-01 THROUGH FISCAL YEAR 2002-03

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2000-01	FY2001-02	FY2002-03
Utilities	40	44	37
Communications	144	187	171
Publishing	15	13	14
Restaurants and Bars	277	292	317
Amusements	46	41	38
Rentals of Personal			
Property	491	462	486
Contracting (All)	672	693	719
Retail	3,229	3,246	3,279
Hotel/Motel	109	92	103
Other Taxable Activities	963	925	1,081
TOTAL	5,986	5,995	6,245

(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 1998-99 THROUGH FISCAL YEAR 2002-03

COUNTY	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	% CHANGE FROM FY2001-02
Apache	\$3,565,934	\$5,473,442	\$4,445,431	\$3,808,535	\$3,878,392	1.8%
Cochise	8,390,958	9,229,981	9,594,853	9,111,850	9,344,323	2.6%
Coconino	12,695,530	13,841,588	13,978,278	13,695,680	13,903,149	1.5%
Gila	4,067,599	3,882,098	4,443,907	4,087,916	4,058,750	-0.7%
Graham	2,247,541	2,412,735	2,462,318	2,366,529	2,381,979	0.7%
Greenlee	3,226,878	3,098,540	3,003,365	1,794,359	1,750,473	-2.4%
La Paz	1,421,105	1,486,269	1,495,379	1,525,956	1,523,806	-0.1%
Maricopa	277,695,556	306,464,900	322,426,596	325,710,325	329,197,352	1.1%
Mohave	12,194,408	12,938,817	13,012,998	13,293,460	13,839,979	4.1%
Navajo	7,136,959	7,748,173	7,932,049	7,990,618	8,287,880	3.7%
Pima	70,057,426	76,273,737	79,516,015	76,759,008	77,729,083	1.3%
Pinal	11,018,980	11,582,587	12,511,593	12,467,448	13,328,798	6.9%
Santa Cruz	2,968,377	3,180,054	3,346,986	3,275,822	3,357,505	2.5%
Yavapai	14,218,059	16,154,370	16,629,440	16,504,368	17,000,259	3.0%
Yuma	10,495,286	11,358,869	11,861,866	12,675,627	13,121,508	3.5%
	\$441,400,596	\$485,126,158	\$506,661,075	\$505,067,501	\$512,703,234	1.5%

Figures may not add to totals due to rounding.

TABLE 26
MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM
COLLECTIONS BY CITY
FISCAL YEAR 2002-03

CITY	RATE (1) (PERCENT)	COLLECTIONS	CITY	RATE (1) (PERCENT)	COLLECTIONS
Apache Junction	2.2*	\$9,390,565	Marana	2.0*	\$17,086,578
Avondale	N/A	2,354 (2)	Miami	1.5	139,083
Benson	2.5*	1,832,243	Oro Valley	2.0*	5,950,842
Bisbee	2.5*	1,240,406	Page	2.0*	3,298,469
Buckeye	2.0*	2,486,828	Paradise Valley	1.4*	7,002,741
Bullhead City	2.0*	8,306,835	Parker	2.0*	1,030,745
Camp Verde	2.0*	1,458,211	Patagonia	3.0*	136,313
Carefree	2.0*	1,652,461	Payson	2.0*	5,212,287
Casa Grande	1.8*	11,223,379	Pima	2.0*	204,121
Cave Creek	2.5*	2,654,827	Pinetop-Lakeside	2.5*	2,491,660
Chandler	N/A	248 (2)	Prescott Valley	2.33*	7,296,025
Chino Valley	2.0*	2,351,416	Quartzsite	2.5*	771,527
Clarkdale	2.25*	429,519	Queen Creek	1.0*	1,828,305
Clifton	2.0	264,786	Safford	2.0*	2,427,468
Colorado City	2.0*	252,563	Sahuarita	2.0*	3,867,613
Coolidge	2.0*	2,061,120	St. Johns	2.0*	510,108
Cottonwood	2.2*	6,341,593	San Luis	2.5*	2,159,798
Douglas	2.5*	4,098,523	Sedona	3.0*	11,000,954
Duncan	2.0	122,188	Show Low	2.0	6,882,454
Eagar	3.0*	523,805	Sierra Vista	1.5*	10,474,439
El Mirage	3.0*	6,761,112	Snowflake	2.0*	906,043
Eloy	3.0*	2,587,881	Somerton	2.5*	612,328
Florence	2.0*	1,033,416	South Tucson	2.5*	2,355,149
Fountain Hills	1.6*	4,850,820	Springerville	3.0*	1,191,458
Fredonia	2.0	83,225	Superior	2.0*	175,230
Gila Bend	3.0*	2,377,507	Surprise	2.0*	18,625,533
Gilbert	1.5*	29,369,020	Taylor	2.0*	564,130
Glendale	N/A	3,038 (2)	Thatcher	2.0*	1,979,529
Globe	1.5*	1,691,713	Tolleson	2.0*	3,061,317
Goodyear	2.0*	14,531,875	Tombstone	2.5*	587,559
Guadalupe	2.0*	727,079	Wellton	2.5	317,346
Hayden	1.0*	332,450	Wickenburg	1.0	1,154,154
Holbrook	3.0*	2,109,309	Willcox	3.0*	1,649,431
Huachuca City	1.5*	140,173	Williams	3.0*	2,680,976
Jerome	3.0	348,594	Winkelman	3.5*	141,235
Kearny	2.0*	210,493	Winslow	3.0*	3,223,892
Kingman	2.0*	9,016,740	Youngtown	2.0*	480,588
Lake Havasu City	2.0*	16,573,095	Yuma	1.7	22,500,497
Litchfield Park	2.0*	1,679,544			
Mammoth	2.0*	65,507	TOTAL		\$303,164,388

* 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, 2003 and may have changed during the remainder of FY 03.

(2) Does not participate in the Department's Collection program. These figures do not represent a full years collections.

TABLE 27
MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

FISCAL YEAR	TOTAL COLLECTIONS	NUMBER OF CITIES IN PROGRAM
1998-99	\$202,218,016	75
1999-00	\$230,976,587	75
2000-01	\$257,706,985	75
2001-02	\$280,950,442	75
2002-03	\$303,164,388	75

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INCOME TAX

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

CORPORATE INCOME TAX

MAJOR FEATURES

Every corporation doing business in Arizona is required to file a corporate income tax return. Corporations filed returns with the state and made payments of \$518 million during fiscal year 2002 (*Refer to Table 28*).

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 \$ 96.9 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 2002 tax year ranged from 2.87 percent to a maximum of 5.04 percent on an individual's income over \$150,000 (or joint income over \$300,000).

DISTRIBUTION

State income tax collections are shared with Arizona municipalities in an Urban Revenue Sharing Program. During fiscal year 2003 an amount equal to 15.8 percent of net income tax collections from two years prior was distributed to cities and towns. In fiscal year 2002 the percentage was also 15.8 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 a Conservation System agricultural water conservation system in Arizona. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
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.
Credit for Taxes Paid to Another State or Country	(INDIVIDUALS ONLY) Taxpayers that paid a net income tax to Arizona and another qualified state or foreign country, on the same income.
Defense Contracting	Taxpayers certified by the Arizona Department of Commerce as a qualified defense contractor for qualified increases in employment.
Employment of TANF Recipients	Taxpayers that employ recipients of Temporary Assistance for Needy Families (TANF).
Enterprise Zone	Taxpayers whose business is located in an Arizona enterprise zone that have a net increase in qualified employment positions.
Environmental Technology	Taxpayers that incur expenses in constructing a qualified Facility environmental technology manufacturing, producing, or processing facility as described in ARS 41-1514.02. The qualified environmental technology manufacturer, producer, or processor must have been certified by Commerce before July 1, 1996.

CREDIT**AVAILABLE TO**

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.
Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	Taxpayers for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona.
Taxes Paid for Coal Consumed in Generating Electrical Power	Corporate taxpayers, a credit equal to 30 percent of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona.
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.

TABLE 28
INCOME TAX COLLECTIONS
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

SOURCE	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	PERCENT OF NET COLLECTIONS IN FY2002-03
<u>Withheld from Wages</u>						
Gross Revenue	\$2,072,018,474	\$2,259,201,907	\$2,363,693,852	\$2,309,340,885	\$2,310,302,093	
Refunds and Charge-offs	(18,463,322)	(10,053,362)	(7,032,321)	(9,047,839)	(8,527,022)	
NET	\$2,053,555,152	\$2,249,148,545	\$2,356,661,531	\$2,300,293,045	\$2,301,775,071	92.4%
<u>Individuals & Fiduciaries</u>						
Gross Revenue	765,853,606	826,789,215	858,775,963	705,843,394	656,586,317	
Refunds and Charge-offs	(721,059,420)	(784,055,322)	(911,549,899)	(915,490,638)	(855,999,525)	
NET	\$44,794,187	\$42,733,894	(\$52,773,936)	(\$209,647,244)	(\$199,413,208)	-8.0%
<u>Corporations</u>						
Gross Revenue	643,230,321	637,765,231	678,002,658	512,257,476	518,246,330	
Refunds and Charge-offs	(97,842,182)	(114,583,545)	(136,828,789)	(165,976,997)	(128,839,937)	
NET	\$545,388,138	\$523,181,687	\$541,173,869	\$346,280,480	\$389,406,393	15.6%
Subtotal Net Collections	\$2,643,737,477	\$2,815,064,125	\$2,845,061,464	\$2,436,926,281	\$2,491,768,256	100.0%
Less distributions for:						
Urban Revenue Sharing	340,310,656	377,710,988	396,452,640	421,876,573	430,559,053	
Contracted Collection						
Agency	39,610	58,016	60,989	20,922	18,110	
Wildlife Contributions	146,278	177,079	194,201	177,886	178,190	
Child Abuse Prevention	210,355	185,666	222,325	210,223	202,941	
Special Olympics	74,471	83,854	88,051	83,873	84,062	
Neighbors Helping	32,374	46,610	38,800	37,696	41,330	
Neighbors						
State Aid to Public Schools	48,503	7,411	26,884	33,955	29,420	
Domestic Violence Shelter	137,524	139,208	152,928	150,954	149,012	
Democratic Party	14,401	11,127	15,130	15,984	18,246	
Green Party	0	0	2,667	2,559	114	
Libertarian Party	3,077	3,210	2,422	2,090	2,182	
Republican Party	12,077	13,650	15,474	14,127	16,557	
Reform Party	869	194	36	92	0	
Natural Law Party	0	0	142	200	10	
Clean Elections	340	1,827,616	2,315,832	3,246,597	3,877,564	
Subtotal Distributions	\$341,030,534	\$380,264,630	\$399,588,520	\$425,873,731	\$435,176,789	
NET REVENUE TO STATE						
GENERAL FUND	\$2,302,706,944	\$2,434,799,495	\$2,445,472,944	\$2,011,052,550	\$2,056,591,466	
WQARF DISTRIBUTION (1)	***	\$15,000,000	\$15,000,000	\$15,000,000	\$10,000,000	

(1) 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 1998 THROUGH TAX YEAR 2002

TAX YEAR	PERSONAL EXEMPTION (2)	BLIND EXEMPTION	AGE 65 AND OVER EXEMPTION	DEPENDENT EXEMPTION	STANDARD DEDUCTION LIMIT (1)	MAXIMUM PROPERTY TAX CREDIT	MAXIMUM FAMILY TAX CREDIT
1998	2,100	1,500	2,100	2,300	3,600/7,200	502	240
1999	2,100	1,500	2,100	2,300	3,600/7,200	502	240
2000	2,100	1,500	2,100	2,300	3,600/7,200	502	240
2001	2,100	1,500	2,100	2,300	4,050/8,100	502	240
2002	2,100	1,500	2,100	2,300	4,050/8,100	502	240

(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 1999 THROUGH TAX YEAR 2001

CREDIT	Tax Year 1999		Tax Year 2000		Tax Year 2001	
	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS
Agricultural Pollution Control	(1)	(1)	9	\$17,562	(2)	(2)
Agricultural Water Conservation	121	\$922,072	86	\$1,289,513	(2)	(2)
Alternative Fuel - Non Refundable						
--Delivery System	12	\$21,864	7	\$41,417	(1)	(1)
--Vehicles	246	\$736,134	176	\$322,257	(1)	(1)
--Refuel Apparatus/Infrastructure	73	\$101,753	120	\$208,315	0	\$0
--Neighborhood Electric Vehicles	1,146	\$6,770,641	3,258	\$17,010,923	1,370	\$2,850,991
Alternative Fuel - Refundable						
--Delivery System	--	--	19	\$2,863,157	(1)	(1)
--Vehicles	--	--	4,891	\$94,111,012	151	\$2,558,844
--Refuel Apparatus/Infrastructure	--	--	670	\$3,192,104	12	\$33,750
Clean Elections	8,585	\$502,151	23,717	\$537,345	26,757	\$599,485
Donation to Charities for the Working Poor	6,712	\$1,147,485	5,705	\$1,000,257	(2)	(2)
Donation of Motor Vehicles	92	\$102,327	461	\$546,758	(2)	(2)
Enterprise Zone	143	\$1,417,307	146	\$1,596,521	153	\$1,619,102
Family Tax Credit	327,974	\$7,925,721	335,253	\$7,799,840	402,094	\$7,356,939
Income Taxes Paid to Other States	26,317	\$51,433,659	27,831	\$57,403,404	28,156	\$57,741,188
Increased Excise Taxes Paid	--	--	--	--	428,189	\$22,612,548
Private School STO (3)	31,892	\$13,716,791	38,084	\$17,620,022	46,546	\$24,838,082
Property Tax	15,862	\$4,987,796	14,593	\$4,653,837	15,213	\$5,014,476
Public School Extra Curricular (3)	109,748	\$14,775,353	149,215	\$17,526,299	166,468	\$20,004,715
Solar Energy	2,757	\$913,984	2,532	\$902,637	(2)	(2)
Solar Hot Water Heater & Plumbing Stub Outs	35	\$7,944	35	\$11,566	(2)	(2)
All Other (1)	16	\$122,124	12	\$16,725	15	\$83,577
Total	531,731	\$105,605,106	606,820	\$228,671,471	1,115,124	\$145,313,697

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

(2) Credits claimed for tax year 2001 are being reviewed. No data is available at this time.

(3) 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 2000(1)

FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	16,705	0.88%	\$124,449	0.01%
\$0.01 to \$1,999	34,070	1.80%	44,313	0.00%
\$2,000 to \$5,999	113,127	5.98%	136,861	0.01%
\$6,000 to \$9,999	135,691	7.17%	5,068,644	0.23%
\$10,000 to \$13,999	141,559	7.48%	12,567,082	0.57%
\$14,000 to \$19,999	221,020	11.68%	37,493,198	1.70%
\$20,000 to \$24,999	161,516	8.54%	48,171,990	2.19%
\$25,000 to \$29,999	137,931	7.29%	58,778,827	2.67%
\$30,000 to \$39,999	216,069	11.42%	128,406,468	5.83%
\$40,000 to \$49,999	160,059	8.46%	130,672,751	5.93%
\$50,000 to \$74,999	265,215	14.02%	317,488,151	14.41%
\$75,000 to \$99,999	131,889	6.97%	246,741,967	11.20%
\$100,000 to \$199,999	118,941	6.29%	404,067,738	18.34%
\$200,000 to \$499,999	29,538	1.56%	291,965,295	13.25%
\$500,000 to \$999,999	5,315	0.28%	146,537,929	6.65%
\$1,000,000 to \$4,999,999	2,622	0.14%	215,356,501	9.77%
\$5,000,000 and over	289	0.02%	159,886,355	7.26%
TOTAL	1,891,556	100.00%	\$2,203,508,519	100.00%

(1) This summary combines all liability reported on the Arizona Form 140 and 140A Individual Income tax returns for tax year 2000, filed from January 2001 forward.

TABLE 31
NONRESIDENT/ PART YEAR RESIDENT INDIVIDUAL INCOME TAX
LIABILITY BY FEDERAL ADJUSTED GROSS INCOME
TAX YEAR 2000 (1)

ARIZONA PORTION OF FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	13,158	7.10%	\$910,076	0.63%
\$0.01 to \$1,999	16,960	9.15%	19,852	0.01%
\$2,000 to \$5,999	31,425	16.95%	232,106	0.16%
\$6,000 to \$9,999	24,233	13.07%	1,437,679	0.99%
\$10,000 to \$13,999	18,775	10.13%	2,413,861	1.67%
\$14,000 to \$19,999	19,860	10.71%	4,737,465	3.28%
\$20,000 to \$24,999	11,711	6.32%	4,366,582	3.02%
\$25,000 to \$29,999	8,695	4.69%	4,301,424	2.98%
\$30,000 to \$39,999	11,827	6.38%	8,112,827	5.61%
\$40,000 to \$49,999	7,499	4.05%	7,209,791	4.99%
\$50,000 to \$74,999	9,732	5.25%	13,840,520	9.57%
\$75,000 to \$99,999	4,259	2.30%	9,460,288	6.54%
\$100,000 to \$199,999	4,668	2.52%	18,505,713	12.80%
\$200,000 to \$499,999	1,781	0.96%	19,030,838	13.16%
\$500,000 to \$999,999	476	0.26%	13,076,686	9.04%
\$1,000,000 to \$4,999,999	271	0.15%	23,241,181	16.08%
\$5,000,000 and over	30	0.02%	13,677,095	9.46%
TOTAL	185,360	100.00%	\$144,573,984	100.00%

(1) This summary combines all liability reported on the Arizona Form 140NR and 140PY Individual Income tax returns for tax year 2000, filed from January 2001 forward.

TABLE 32
CORPORATE INCOME TAX
CORPORATE TAXPAYER BY SIZE OF TAX LIABILITY
TAX YEAR 2000(1)

CORPORATE TAX LIABILITY	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
\$50 Minimum	36,387	69.1%	\$1,806,646	0.3%
\$50.01 to \$99.99	1,253	2.4%	90,735	0.0%
\$100 to \$499.99	3,906	7.4%	990,609	0.2%
\$500 to \$999.99	1,953	3.7%	1,421,478	0.3%
\$1,000 to \$4,999.99	5,008	9.5%	12,287,982	2.3%
\$5,000 to \$9,999.99	1,526	2.9%	10,528,075	1.9%
\$10,000 to \$49,999.99	1,636	3.1%	35,973,304	6.6%
\$50,000 to \$99,999.99	372	0.7%	25,361,348	4.6%
\$100,000 to \$499,999.99	425	0.8%	85,891,154	15.7%
\$500,000 to \$999,999.99	77	0.1%	47,290,941	8.7%
\$1,000,000 to \$72,000,000	79	0.2%	324,090,780	59.4%
TOTAL	52,622	100.0%	\$545,733,052	100.0%

CORPORATE INCOME TAX CREDITS
TAX YEAR 2000

CREDIT TYPE	# OF FILERS	CREDIT USED	CARRYFORWARD AVAILABLE
Agricultural Pollution Control Equipment	0	\$0	\$0
Agricultural Water Conservation	*	*	*
Alternative Fuel - Non Refundable			
--Fuel Delivery System	4	\$50	\$831,369
--Vehicles	9	\$284,971	\$368,595
--Refueling Apparatus & Infrastructure	4	\$2,180	\$6,532
--Neighborhood Electric Vehicles	37	\$1,142,629	\$916,426
Alternative Fuel - Non Refundable			
--Fuel Delivery System	5	\$677,992	\$0
--Vehicles	181	\$15,617,314	\$19,391
--Refueling Apparatus & Infrastructure	12	\$138,940	\$0
Coal Used for Electric Generation	*	*	*
Construction Materials	4	\$204,184	\$426,792
Defense Contracting	3	\$2,659,007	\$15,146,850
Donation of Motor Vehicles to Work Program	0	\$0	\$0
Employment of TANF Recipients	6	\$27,598	\$14,398
Enterprise Zone	71	\$4,883,910	\$7,162,415
Environmental Technology	*	*	*
Military Reuse Zone	3	\$120,440	\$16,262
Pollution Control Equipment	32	\$3,806,949	\$6,665,304
Recycling Equipment	5	\$15,626	\$222,796
Research & Development	105	\$6,624,306	\$317,668,240
Solar Hot Water Heater Plumbing Stub-Outs	*	*	*
Underground Storage Tanks	0	\$0	\$0
TOTAL (2)	492	\$36,508,237	\$374,123,024

(1) This summary combines all liability on the Arizona Form 120 Corporate Income Tax returns for tax year 2000 filed from January 2001 forward.

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

* The single asterisk indicates that no information can be released due to confidentiality laws in Arizona.

Figures may not add to total due to rounding.

**TABLE 33
 AVERAGE FEDERAL ADJUSTED GROSS INCOME
 AND AVERAGE TAX LIABILITY PER RETURN
 BY COUNTY FOR TAX YEAR 2000**

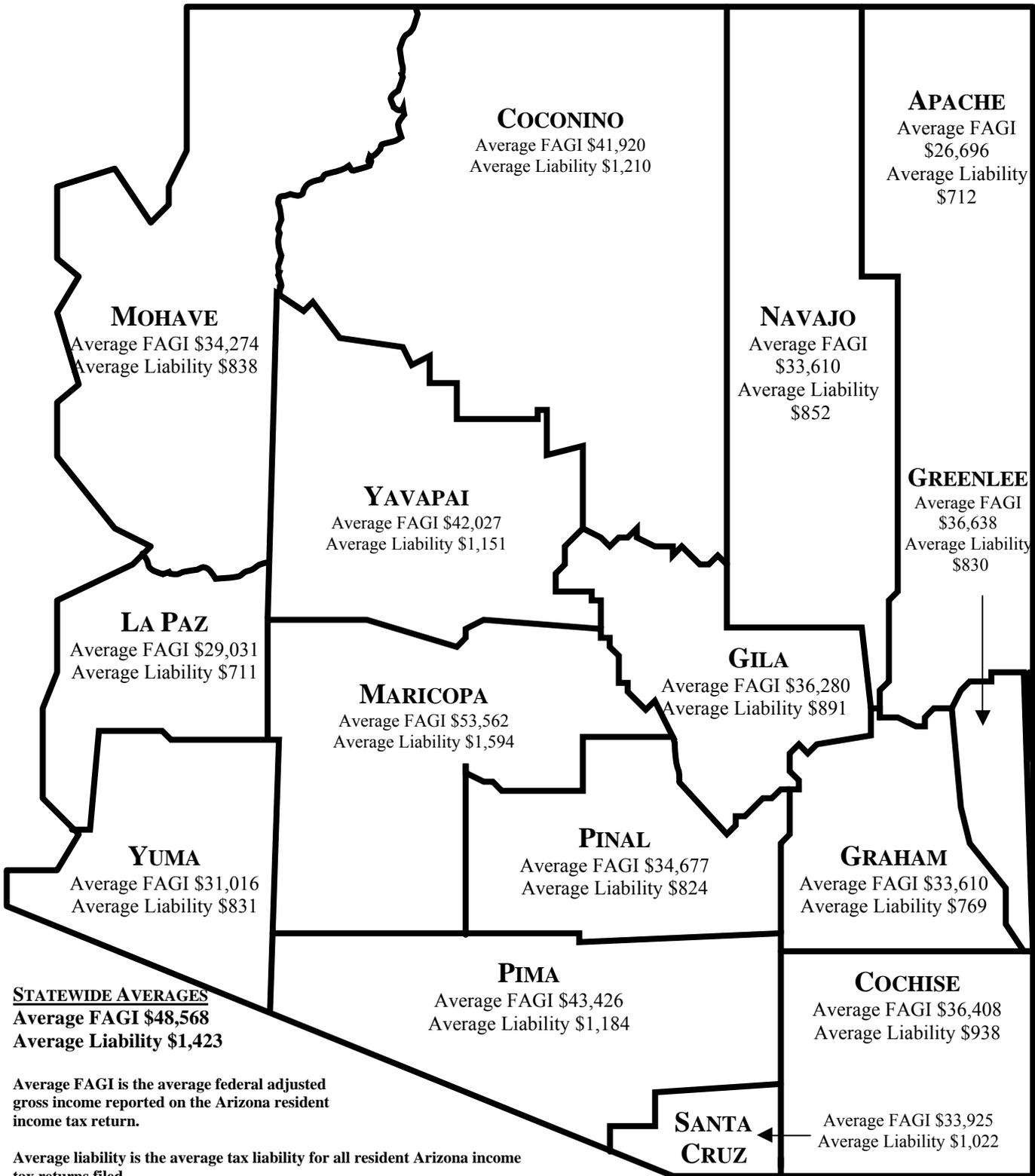


TABLE 34
URBAN REVENUE SHARING
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

FISCAL YEAR	AMOUNT
1998-99	\$340,310,656
1999-00	\$377,710,988
2000-01	\$396,452,640
2001-02	\$421,876,573
2002-03	\$430,559,053

**TABLE 35
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING
TO MUNICIPALITIES IN FISCAL YEAR 2002-03**

CITIES BY COUNTY	AMOUNT	% OF TOTAL	CITIES BY COUNTY	AMOUNT	% OF TOTAL
APACHE			Queen Creek	\$459,357	0.11%
Eagar	\$429,237	0.10%	Scottsdale	21,574,128	5.01%
St. Johns	341,371	0.08%	Surprise	3,283,188	0.76%
Springerville	221,381	0.05%	Tempe	16,882,535	3.92%
COCHISE			Tolleson	529,389	0.12%
Benson	501,397	0.12%	Wickenburg	540,883	0.13%
Bisbee	648,166	0.15%	Youngtown	320,358	0.07%
Douglas	1,582,047	0.37%	MOHAVE		
Huachuca City	186,361	0.04%	Bullhead City	3,594,074	0.83%
Sierra Vista	4,020,437	0.93%	Colorado City	354,841	0.08%
Tombstone	160,072	0.04%	Kingman	2,135,967	0.50%
Willcox	397,308	0.09%	Lake Havasu City	4,463,510	1.04%
COCONINO			NAVAJO		
Flagstaff	5,629,570	1.31%	Holbrook	523,322	0.12%
Fredonia	110,263	0.03%	Pinetop-Lakeside	381,236	0.09%
Page	724,690	0.17%	Show Low	818,988	0.19%
Williams	302,477	0.07%	Snowflake	474,683	0.11%
GILA			Taylor	338,025	0.08%
Globe	796,744	0.19%	Winslow	1,013,225	0.24%
Hayden	94,937	0.02%	PIMA		
Miami	206,051	0.05%	Marana	1,442,781	0.34%
Payson	1,449,592	0.34%	Oro Valley	3,161,005	0.73%
Winkelman	47,149	0.01%	Sahuarita	345,050	0.08%
GRAHAM			South Tucson	584,307	0.14%
Pima	211,692	0.05%	Tucson	51,799,939	12.03%
Safford	982,572	0.23%	PINAL		
Thatcher	428,066	0.10%	Apache Junction	3,386,001	0.79%
GREENLEE			Casa Grande	2,684,620	0.62%
Clifton	276,295	0.06%	Coolidge	828,673	0.19%
Duncan	86,422	0.02%	Eloy	1,104,223	0.26%
LA PAZ			Florence	1,541,538	0.36%
Parker	334,194	0.08%	Kearny	239,364	0.06%
Quartzsite	356,970	0.08%	Mammoth	187,532	0.04%
MARICOPA			Superior	346,327	0.08%
Avondale	3,819,069	0.89%	SANTA CRUZ		
Buckeye	904,346	0.21%	Nogales	2,222,070	0.52%
Carefree	311,524	0.07%	Patagonia	93,766	0.02%
Cave Creek	396,775	0.09%	YAVAPAI		
Chandler	18,793,721	4.36%	Camp Verde	1,005,881	0.23%
El Mirage	809,835	0.19%	Chino Valley	833,888	0.19%
Fountain Hills	2,153,635	0.50%	Clarkdale	364,207	0.08%
Gila Bend	210,734	0.05%	Cottonwood	976,932	0.23%
Gilbert	11,675,179	2.71%	Jerome	35,016	0.01%
Glendale	23,288,415	5.41%	Prescott	3,612,061	0.84%
Goodyear	2,012,720	0.47%	Prescott Valley	2,504,857	0.58%
Guadalupe	556,422	0.13%	Sedona	1,084,746	0.25%
Litchfield Park	405,503	0.09%	YUMA		
Mesa	42,186,651	9.80%	San Luis	1,630,738	0.38%
Paradise Valley	1,454,175	0.34%	Somerton	773,329	0.18%
Peoria	11,533,306	2.68%	Wellton	194,663	0.05%
Phoenix	140,600,351	32.66%	Yuma	8,250,011	1.92%
TOTAL				\$430,559,053	100.00%

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

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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 2003 PRIMARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	PRIMARY RATE
APACHE	\$299,355,283	\$0	\$2,518,476	\$0	\$0	\$9,474,502	\$0	11,992,978	4.01
COCHISE	570,409,342	289,252	19,445,315	1,561,717	10,192,074	27,275,750	0	58,764,108	10.30
COCONINO	1,116,668,488	0	10,574,850	3,802,598	4,576,108	46,057,014	0	65,010,570	5.82
GILA	346,905,903	0	16,934,905	1,669,552	2,181,311	15,067,482	0	35,853,250	10.34
GRAHAM	100,580,910	0	2,276,045	159,997	2,012,725	4,033,469	0	8,482,236	8.43
GREENLEE	142,275,425	0	1,879,316	9,475	0	5,321,698	0	7,210,489	5.07
LA PAZ	124,251,543	0	3,381,755	0	2,269,703	3,794,684	0	9,446,142	7.60
MARICOPA	25,447,850,971	13,339,439	428,160,093	123,313,689	239,464,278	1,184,565,109	0	1,988,842,608	7.82
MOHAVE	1,159,793,042	0	25,767,122	2,955,272	10,986,212	49,794,838	0	89,503,444	7.72
NAVAJO	623,721,601	0	5,918,642	313,534	7,535,000	25,529,865	0	39,297,041	6.30
PIMA	5,022,474,184	0	228,206,160	4,940,036	57,045,262	286,252,575	0	576,444,033	11.48
PINAL	951,824,434	0	46,876,402	3,178,228	20,689,808	43,806,559	61,887	114,612,884	12.04
SANTA CRUZ	240,075,205	0	9,171,833	0	0	12,304,642	0	21,476,475	8.95
YAVAPAI	1,516,807,417	0	32,649,944	1,236,923	23,771,406	53,162,664	0	110,820,937	7.31
YUMA	631,943,062	0	17,629,316	5,901,383	11,543,704	28,747,323	0	63,821,726	10.10
TOTAL STATE	\$38,294,936,810	\$13,628,691	\$851,390,174	\$149,042,404	\$392,267,591	\$1,795,188,174	\$61,887	\$3,201,578,921	8.36
AVERAGE STATE PRIMARY TAX RATE PER \$100				8.36					

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					

All figures are current as of September 1, 2003.

**TABLE 37
STATE OF ARIZONA
TAX YEAR 2003 SECONDARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	SECONDARY RATE
APACHE	\$305,072,059	\$0	\$3,020,518	\$113,401	\$1,298,692	\$2,717,352	\$2,481,296	\$9,631,259	3.16
COCHISE	586,985,389	0	1,497,399	131,655	0	6,986,271	6,338,753	14,954,078	2.55
COCONINO	1,151,482,204	0	3,338,147	4,585,242	1,931,005	19,449,515	9,309,037	38,612,946	3.35
GILA	363,174,059	0	1,089,522	100,000	0	4,207,139	4,085,478	9,482,139	2.61
GRAHAM	101,767,801	0	48,693	0	0	1,844,157	312,268	2,205,118	2.17
GREENLEE	142,446,531	0	1,709,952	0	0	1,325,372	36,000	3,071,324	2.16
LA PAZ	129,744,836	0	129,745	0	298,543	1,362,361	3,155,766	4,946,415	3.81
MARICOPA	27,477,987,528	0	35,481,860	192,625,370	37,777,314	661,088,911	125,967,689	1,052,941,144	3.83
MOHAVE	1,189,713,576	0	6,071,109	425,605	0	14,145,893	17,769,271	38,411,878	3.23
NAVAJO	649,315,690	0	779,178	48,250	1,509,425	9,245,019	7,779,889	19,361,761	2.98
PIMA	5,221,270,997	0	55,945,920	23,559,680	18,410,202	104,827,259	49,072,140	251,815,201	4.82
PINAL	1,021,719,398	0	1,455,274	0	0	23,727,462	15,072,832	40,255,568	3.94
SANTA CRUZ	246,303,386	0	1,014,031	0	0	5,444,758	4,079,541	10,538,330	4.28
YAVAPAI	1,602,480,129	0	3,403,406	1,674,875	4,977,303	13,345,858	20,613,673	44,015,115	2.75
YUMA	650,434,765	0	3,278,191	85,855	1,496,650	14,034,689	2,209,391	21,104,776	3.24
TOTAL STATE	\$40,839,898,348	\$0	\$118,262,945	\$223,349,933	\$67,699,134	\$883,752,017	\$268,283,024	\$1,561,347,053	3.82
AVERAGE STATE SECONDARY TAX RATE PER \$100									3.82

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

All figures are current as of September 1, 2003.

TABLE 38
AVERAGE PROPERTY TAX RATES
PER \$100 OF ASSESSED VALUATION
TAX YEAR 2000 THROUGH TAX YEAR 2003

	2000		2001	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts				
Counties	\$4.85	\$2.42	\$4.88	\$2.30
State	2.23	0.33	2.22	0.31
Cities	0.07	0.00	0.05	0.00
Community Colleges	0.38	0.54	0.37	0.55
Special Districts	1.03	0.18	1.02	0.19
	0.00	0.65	0.00	0.66
	\$8.56	\$4.12	\$8.54	\$4.01
TOTAL	\$12.68		\$12.55	
	2002		2003	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.87	\$2.24	\$4.69	\$2.16
Counties	2.24	0.30	2.22	0.29
State	0.04	0.00	0.04	0.00
Cities	0.38	0.55	0.39	0.55
Community Colleges	1.03	0.18	1.02	0.16
Special Districts	0.00	0.66	0.00	0.66
	0.00	0.66	0.00	0.66
	\$8.56	\$3.93	\$8.36	\$3.82
TOTAL	\$12.49		\$12.18	

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

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ALL OTHER SOURCES OF REVENUE

Bingo

Estate Tax

Luxury Tax

Unclaimed Property & Escheated Estates

Waste Tire Fee

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 \$626,770 was deposited in fiscal year 2003 (*Refer to Table 39*).

TABLE 39
BINGO COLLECTIONS
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

FISCAL YEAR	AMOUNT
1998-99	\$717,830
1999-00	\$677,036
2000-01	\$634,384
2001-02	\$629,680
2002-03	\$626,770

BINGO COLLECTIONS

	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03
Licenses	\$24,193	\$21,534	\$24,549	\$21,322	\$26,110
Proceeds	689,423	644,385	606,880	605,388	598,465
Penalty, Interest and Miscellaneous	4,214	11,116	2,955	2,970	2,194
TOTAL	\$717,830	\$677,036	\$634,384	\$629,680	\$626,770

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ESTATE TAX

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

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

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

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

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

TABLE 40
COLLECTIONS OF ESTATE TAXES
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

Fiscal Year	Collections	Refunds	Net
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
2002-03	\$96,859,390	\$2,641,471	\$94,217,919

Figures may not add to total due to rounding.

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LUXURY TAX

Arizona's luxury tax applies to cigarettes, other tobacco products, and alcoholic beverages. The department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and alcoholic beverages. The department also investigates and confiscates contraband alcoholic beverages and tobacco products. During the 2003 fiscal year, over \$266 million was received in luxury tax collections. Increased collections of approximately 27% are primarily due to a tobacco tax increase established by Proposition 303 in November 2002.

Of the monies collected per the Tobacco Products Referendum (Prop 303), \$26.2 million was distributed to the Prop 204 Protection Account, \$16.9 million to the Medically Needy Account, \$12.5 million for Emergency Health Services, \$3.1 million for Health Research, and \$1.2 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, \$75.1 million was allocated to the Medically Needy Fund, \$24.6 million to the Health Education Fund and \$5.4 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$26.6 million, and the Arizona Wine Promotional Fund received \$25,497. The Drug Treatment and Education Fund received \$7.3 million, and the Corrections Revolving Fund received \$2.9 million due to the passage of Proposition 200 in 1996. The remaining \$64.6 million was deposited into the state general fund. (*Refer to Table 41*)

Luxury Tax Rates

Cigarettes	
per cigarette	\$ 0.059
package of 20	\$ 1.18
package of 25	\$ 1.475
Cigars	
small cigars weighing not more than 3 lbs/1,000 package of 20 or less	\$ 0.2625
selling for \$0.05 or less (each 3 cigars)	\$ 0.13
selling for more than \$0.05 (each cigar)	\$ 0.13
Smoking Tobacco	
snuff, fine cut, chewing, etc. (per ounce)	\$ 0.1325
Cavendish, plug, or twist (per ounce)	\$ 0.0325
Spirituos Liquors	
per gallon	\$ 3.00
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 1998-99 THROUGH FISCAL YEAR 2002-03

SOURCE	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	PERCENT OF
						COLLECTIONS IN FY2002-03
Spirituos Liquor	\$19,648,670	\$20,587,605	\$21,327,540	\$21,574,744	\$22,004,331	8.3%
Vinous Liquor	7,969,428	9,026,326	8,477,493	9,035,156	9,924,749	3.7%
Malt Liquor	20,534,013	21,309,231	21,602,321	22,031,467	22,137,764	8.3%
Liquor Collections	\$48,152,111	\$50,923,162	\$51,407,354	\$52,641,368	\$54,066,844	
Tobacco - All Types						
Gross Revenue	166,646,960	163,206,980	161,078,853	162,148,102	218,358,747 (1)	
Refunds	(3,457,756)	(3,474,292)	(2,662,128)	(4,169,264)	(5,614,159)	
Licenses	7,175	7,175	8,600	5,250	5,950	
Administrative Expenses	(358,196)	(310,931)	(384,593)	(393,800)	(403,739)	
Net Tobacco Collections	\$162,838,183	\$159,428,932	\$158,040,732	\$157,590,288	\$212,346,798	79.7%
TOTAL COLLECTIONS	\$210,990,294	\$210,352,094	\$209,448,087	\$210,231,655	\$266,413,642	
DISTRIBUTIONS:						
State General Fund	64,770,498	65,436,145	65,568,793	66,069,587	64,586,950	
Wine Promotional Fund	14,595	21,197	21,278	23,391	25,497	
Tobacco Tax & Health Care Fund-Prop. 200 (1)	112,735,957	109,786,025	108,709,176	108,177,154	102,529,785	
Tobacco Products Tax Fund-Prop. 303 (1)	N/A	N/A	N/A	N/A	59,938,321	
Drug Treatment & Education Fund	6,502,823	6,897,717	6,903,464	7,098,014	7,306,966	
DOC Revolving Fund	2,583,453	2,739,633	2,743,924	2,820,269	2,902,721	
Department of Corrections Fund	24,141,360	25,192,099	25,154,893	25,718,685	26,348,946	
DOC Transfer from Prop 200 Funds	241,607	279,278	346,559	324,556	277,104	
Prop 200 Transfer from Prop 303 Funds (1)	N/A	N/A	N/A	N/A	2,497,352	
TOTAL DISTRIBUTIONS	\$210,990,294	\$210,352,094	\$209,448,087	\$210,231,655	\$266,413,642	

(1) In November 2002, Proposition 303 increased the Luxury tax on cigarettts from \$0.029 to \$0.059 per cigarette and created the Tobacco Products Tax Fund. Tax rates on other tobacco products also increased. Distributions of the increased rates are made to the Tobacco Products Tax Fund. Proposition 303 also changed the name of the Health Care Fund to the Tobacco Tax & Health Care Fund and established a hold harmless fund for the Prop 200 accounts.

UNCLAIMED PROPERTY

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

The Unclaimed Property staff establishes and maintains records of these types of funds along with other personal property that is presumed to be abandoned. This property is received from regular business associations, banking and financial organizations, insurance companies, utilities, fiduciaries, state courts, and governmental agencies. The largest percentage of unclaimed property is comprised of:

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

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

ESCHEATED ESTATES

In addition to their Unclaimed Property responsibilities, staff members also establish and maintain records of Escheated Estates. An Escheated Estate is created when a person dies without leaving a will and has no known heirs, or if a known heir cannot be located. When either of these conditions exist, his or her property reverts to the state as the original and ultimate proprietor after seven years. Funds received from escheated estates are deposited into the permanent school fund. (*Refer to Table 42.*)

TABLE 42
COLLECTIONS AND DISTRIBUTION OF UNCLAIMED PROPERTY
FISCAL YEAR 1998-99 THROUGH FISCAL YEAR 2002-03

SOURCE	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	PERCENT OF COLLECTIONS IN FY2002-03
UNCLAIMED PROPERTY	\$21,315,542	\$31,415,063	\$38,020,547	\$48,681,438	\$46,219,555	
Refunds	(8,135,383)	(9,881,814)	(15,764,220)	(11,903,236)	(10,333,078)	
Expenses	(1,020,282)	(1,110,490)	(1,023,813)	(1,324,594)	(1,325,764)	
Housing Fund	(6,791,802)	(11,421,658)	(11,733,852)	(19,761,582)	(17,950,660)	
Utility Assistance Fund	(818,382)	(639,104)	(905,023)	(868,416)	(1,118,958)	
Racing Fund	(2,465,180)	(4,153,330)	(4,266,855)	(7,186,030)	(6,527,513)	
Victim Restitution Fund (1)	-----	-----	(17,027)	18,426 (2)	(2,128,019)	
NET	\$2,084,512	\$4,208,667	\$4,309,756	\$7,656,006	\$6,835,564	97.0%
ESCHEATED ESTATES	309,305	201,612	647,074	252,786	269,557	
Refunds	(92,000)	(188,587)	(576,578)	(294,542)	(55,504)	
NET (3)	\$217,304	\$13,026	\$70,496	(\$41,755)	\$214,052	3.0%
UNCLAIMED ARIZONA SHARES AND DIVIDENDS	\$0	\$0	\$7,326	\$5,919 (3)	\$0	0.0%
TOTAL NET REVENUE	\$2,301,816	\$4,221,693	\$4,387,578	\$7,620,170	\$7,049,617	100.0%

DISTRIBUTION
FISCAL YEAR 2002-03

NET TO GENERAL FUND	\$6,745,652
NET TO PERMANENT SCHOOL FUND (3)	214,052
RETAINED BY UCP(4)	89,912
TOTAL DISTRIBUTION	\$7,049,617

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

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

(3) Due to a lack of available funds, FY 01 and FY 02 Escheated Estates was not transferred to the Permanent School Fund until FY 03 along with Unclaimed Shares and Dividends from FY 02. FY 03 Escheated Estates will be transferred in FY 04.

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

Figures may not add to total due to rounding.

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WASTE TIRE

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

During fiscal year 2003, the department collected \$7,007,444 and distributed 3.1% 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 2002-03

NUMBER OF TIRES	NUMBER OF FILERS	TOTAL NUMBER OF TIRES	AMOUNT REMITTED
1 to 50	192	4,019	\$5,975
51 to 100	90	6,700	\$8,884
101 to 250	139	23,059	\$35,867
251 to 500	105	38,089	\$48,275
501 to 1,000	111	77,897	\$99,159
1,001 to 2,500	151	250,493	\$300,055
2,501 to 5,000	109	386,473	\$456,029
5,001 to 10,000	90	618,567	\$799,124
10,001 to 25,000	71	1,022,115	\$1,099,832
More Than 25,000	22	3,285,839	\$4,094,691
No Information	6		\$4,910
Overpayments			(\$18,182)
Accounts Receivable Adjustment (1)			\$72,824
Total	1,086	5,713,251	\$7,007,444

(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 1998-99 THROUGH FISCAL YEAR 2002-03

	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03
Apache	\$64,352	\$68,421	\$76,526	\$78,693	\$88,265
Cochise	152,286	156,256	174,766	174,721	188,526
Coconino	150,983	153,159	171,302	161,337	182,060
Gila	83,559	83,307	93,175	88,035	100,584
Graham	35,647	36,127	40,407	38,300	42,055
Greenlee	13,870	13,394	14,980	14,021	14,267
La Paz	32,583	32,577	36,436	36,329	40,230
Maricopa	2,943,115	3,076,438	3,440,863	3,525,885	3,837,502
Mohave	232,057	238,888	267,186	271,827	305,722
Navajo	111,158	112,636	125,978	127,482	143,348
Pima	805,024	829,316	927,554	904,818	991,330
Pinal	196,448	197,496	220,890	207,211	231,521
Santa Cruz	52,529	54,110	60,520	65,220	67,292
Yavapai	244,698	251,010	280,743	290,584	323,797
Yuma	166,882	172,712	193,171	184,430	205,684
AZ Dept of Environmental Quality	191,691	198,606	222,132	223,742	245,261
Total	\$5,476,881	\$5,674,452	\$6,346,629	\$6,392,637	\$7,007,444

Figures may not add to total due to rounding.

LEGISLATIVE SUMMARY

LEGISLATIVE SUMMARY

The general effective date is September 18, 2003

INCOME TAX

HB 2057 (Internal Revenue Code Conformity)

This is the annual bill which conforms the Arizona statutory definition of the Internal Revenue Code (IRC) for the 2003 tax year to the federal IRC as of January 1, 2003, including provisions that became effective in 2002, but excluding any provisions that become effective after January 1, 2003.

HB 2058 (income tax credit review schedule)

Laws 2002, Chapter 238 established the Committee for a review of various corporate and individual income tax credits that are set forth in an income tax credit review schedule.

HB2058:

- Requires income tax credits that are recommended by the Committee to be retained or amended to be returned to the Committee's schedule and be reviewed in five years.
- Reassigns income tax credits reviewed in 2002 for review in 2007 as follows:
 - Individual and corporate defense contracting (A.R.S. § 43-1077, 43-1078, 43-1165 & 43-1166).
 - Individual and corporate military reuse zone (A.R.S. § 43-1079 & 43-1167).
 - Individual and corporate environmental technology facility (A.R.S. § 43-1080 & 43-1169).
- Requires the Committee to provide a copy of its report to the Arizona State Library, Archives and Public Records.

A.R.S. § 43-1076 allows an individual income tax credit for placing recycling equipment in service in the amount of ten percent of the cost of installing recycling equipment. The Committee reviewed the recycling equipment income tax credit in its December meeting and discussed the repeal of this credit. A similar credit existed for corporate taxpayers, but this was eliminated in 1999 when the corporate rate was reduced.

HB 2058 repeals retroactive to tax years beginning January 1, 2003, the recycling equipment income tax credit but allows a taxpayer to continue to carry

forward existing amounts. Makes technical and conforming changes to statutory provisions that refer to the recycling credit.

HB 2059 (2003 tax corrections act)

HB 2059 is the annual bill that makes technical, conforming and clarifying changes to the Arizona tax statutes.

HB 2396 (school tax credit; reporting requirements)

The bill amends A.R.S. § 43-1089 (credit for contributions to school tuition organizations) to require a school tuition organization (STO) to file an annual report with the Department of Revenue, if the organization receives a voluntary cash contribution pursuant to subsection A of the statute. It amends A.R.S. § 43-1089.01 (credit for public school fees and contributions) to require a public school to file an annual report with the Department of Revenue, if the school receives a voluntary cash contribution pursuant to subsection A of the statute.

HB 2396 requires a STO or public school to submit this report to the department by February 28th of each year.

HB 2421 (school tax credit; classroom instruction)

HB 2421 amends A.R.S. § 43-1089-01 (credit for public school fees and contributions).

The bill adds a subsection that states that a public school site council or a charter school's principal, director or chief administrator determine how undesignated contributions received through the tax credit are used.

It also includes in the definition of "extracurricular activities" in-state or out-of-state competitive event trips, but excludes senior trips or recreational, amusement or tourist activities.

HB 2444 (redevelopment area; financing, definition)

An emergency measure that expands the definition of designated area by bringing it into conformity with federal law. The definition will include any area that is designated by state statute as an enterprise zone or any area designated by the U.S.

Department of Housing and Urban Development as an empowerment zone or enterprise zone.

SB1019 (wheels to work program; repeal)

The Wheels to Work Program through the Department of Economic Security, Jobs Administration ended in fiscal year 2002 (legislative appropriation was line item vetoed).

This bill removes the wheels to work program statute (§ 46-142) and removes the individual and corporate tax credit for donating a motor vehicle to the program (§ 43-1090.01 & §43-1177).

TRANSACTION PRIVILEGE TAX

HB 2322 (sales tax; solar contractor's exemption)

It expands the solar energy device exemption that already exists in the TPT contracting class to include the mark up and installation of the devices which would be included in the contractor's Gross proceeds or Gross income from the contract. It changes the deduction limit from "\$5,000/device" to "\$5,000/contract." The industry has stated that they have always believed that the installation was exempt and have not paid tax on it. Therefore the fiscal impact will be very slight to the state. The change in the "per device" to "per contract" limit could decrease the amount that can be taken if several devices are on a single contract.

SB 1066 (sales tax increase; preexisting contracts)

Stipulates how an increase in the transaction privilege (sales) tax rate is applied to prime contracting activities. Specifically, the bill requires:

- That any contracts or written bids entered into by prime contractors on or before the effective date of legislation or the date of the election be exempt from transaction privilege tax rate increases imposed as a result of these measures.
- The prime contractor must maintain records as required by the department.

SB 1231 (hospital districts; facilities)

A new subsection is added to A.R.S. § 48-1910 providing that the board of directors of a county-wide hospital district may request the county's board of supervisors to place on a county election ballot the question of imposing county transaction privilege tax (TPT) to support the hospital district.

This could occur in counties that meet certain population and property valuation levels.

The tax could be in effect for up to five years, and could be renewed.

The department will collect the approved TPT and remit revenues therefrom to the county treasurer for dispersal to the hospital district.

PROPERTY

HB 2112 (property tax appeals)

Under Title 12 (Courts and Civil Proceedings) and Title 42 (Taxation), provides for increases in the maximum limits on a given property's full cash value, which are used to determine whether or not a valuation or classification appeal qualifies for small claims court and for determining how many State Board of Equalization hearing officers are required to hear an appeal.

HB 2348 (electric generation, transmission and distribution facilities valuation)

Laws 2000, Ch. 384 created a two-year transition period for a new valuation methodology for electric generation facilities. Because of the complexity of the changeover to the new methodology, in 2002, H.B. 2063 froze the valuations for existing electric generating facilities for one year, and clarified the combined allocation method for distributing valuations among Arizona counties for Tax Year 2003. HB 2063 also; created a timetable for repealing existing sections of 2000's Session Laws; specified the subsequent delayed repeal of certain sections of 2002's Session Laws; and provided for a retroactively effective date of 12-31-2001. For 2003, under Title 42 (Taxation), H.B. 2348 clarifies the framework the department is to utilize to value electric generating facilities; specifies the allocation method for distributing valuations among Arizona counties; amends the Session Laws of 2000 regarding the effective repeal dates of certain provisions; and amends § 42-12001 to include "gas distribution companies, electric transmission companies, electric distribution companies, combination gas and electric transmission and distribution companies, companies engaged in the generation of electricity, and electric cooperatives." This bill has a retroactively effective date of December 31, 2002, making it applicable to Valuation Year 2003.

HB 2461 (truth in taxation)

Under Title 15 (Education), amends the language specified in the Truth in Taxation notice for K-12 public school districts budgeting.

Effective: May 12, 2003 as an Emergency Measure.

SB 1049 (mobile home landlords and tenants)

Amends several statutes under Title 33 regarding various provisions of the Mobile Home Landlord and Tenant Act, and one statute under Title 41 that is related by subject matter. Only the following statute is directly relevant to property tax assessment.

SB 1069 (property tax liens; treasurers procedures)

Amends or adds statutes under Title 11 (Counties), Title 33 (Property) and under Title 42 (Taxation) relating to the procedures of County Treasurers and to holders of property tax lien certificates of purchase.

OTHER

HB 2533 (budget reconciliation; public finances)

HB2533 is an omnibus reconciliation bill (ORB) that accompanies the general appropriations bill. This bill was lengthy; however, two tax issues were part of this bill.

Withholding Tax

- As permanent law, requires a minimum \$5 per month of state withholding per employee.
- As permanent law, alters state income tax withholding rates to offset federal reductions. The 10% rate only applies to those with an income of \$15,000 or less.

Current rates	New rates
10.0 %	10.0 %
18.0 %	18.2 %
21.0 %	21.3 %
23.0 %	23.3 %
29.0 %	29.4 %
34.0 %	34.4 %

- Provides session law to direct employers to increase withholding amounts for employees. The increase is based on the current percentage

the employee now has withheld from their paychecks.

- Non of the changes will preclude employees from changing the percentage of withholding tax if they so choose.

Tax Amnesty

- As session law, establishes a tax amnesty program, allowing the director of the department to abate or waive all or part of civil penalties and to impose interest at a reduced rate for tax liabilities for all qualifying taxpayers. States that as a qualification for amnesty, the taxpayer must pay at least one-third of the total amount due by October 31, 2003, with the total balance due by May 1, 2004. This provision is repealed after June 30, 2004.

SB 1310 (tobacco; non-participating manufacturers)

Makes clarifications to the existing Tobacco Master Settlement Agreement. It establishes a directory of cigarette products that are allowed to be sold in Arizona, gives the Attorney General (AG) the ability to verify information reported by tobacco product manufacturers and requires non-resident or foreign non-participating manufacturers to appoint an agent for service of process.

GENERAL

SB 1348 (tax return preparers; penalties)

Specifies that the civil penalty, imposed on a tax preparer for understating a taxpayer’s liability, can be imposed only if:

- a) there was not a realistic possibility that the preparer’s position would be sustained.
- b) The preparer’s position was undisclosed to the department.

Clarifies that a tax preparer is required to pay 85 percent of a penalty if the payment is made within 30 days from the receipt of notification.

Clarifies that the 30 day time period currently allowed to appeal a department penalty starts with the date of the receipt of notification.

Expands the initial date used regarding statutory requirements for the amount of time to keep tax documents filed electronically (or otherwise) to

include the date the tax documents were presented to the taxpayer for signature.

BILLS VETOED BY THE GOVERNOR

SB 1314 (department; procedures and appeals)

Permitted a taxpayer that has received an assessment in corporate income, sales or use tax to appeal directly to tax court after an informal conference.

Added adverse private taxpayer rulings to the list of actions of the department that can be appealed by the taxpayer to the Board of Tax Appeals

Required the department to post redacted Director's decisions on taxpayer appeals as public records on the department's website.

Governor Napolitano felt that all appeals should exhaust administrative remedies before going to the

courts. We will be working to place director's decisions on our website and don't need the legislation to do that.

SB 1305 (cigarettes; delivery sales)

Placed new restrictions on cigarette manufacturers and distributors who sell cigarettes via the Internet or U.S. mail.

Governor Napolitano supported the primary goal of the bill but felt some of the provisions were not consistent with this goal. The Governor agrees that legislation is needed and would like to see an improved version of this bill in the future.