

ARIZONA DEPARTMENT OF REVENUE

FY 2008 ANNUAL REPORT

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STATE OF ARIZONA

Department of Revenue



November 14, 2008

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

Janet Napolitano
Governor

Gale Garriott
Director

Dear Governor Napolitano and the Taxpayers of Arizona:

Fiscal year 2008 was another milestone year in that we collected more than \$14 billion as an agency for the second consecutive year. Total taxes collected by the Department during fiscal year 2008 exceeded \$14.0 billion, including more than \$7.9 billion that was deposited directly into the state General Fund. Included in this total is \$556.4 million that was collected through the Department's tax enforcement efforts. By collecting \$556.4 million through the audit, license compliance and collections programs, the Department exceeded the \$524.7 million fiscal year 2008, performing at 106% of goal.

One area to highlight this year is the Audit division's "Nexus" program. The Nexus Program assists businesses involved in multi-state commerce to voluntarily resolve potential state sales/use tax and/or income tax liabilities where nexus is the central issue. Taxpayers benefit by resolving potential Arizona tax disputes before being assessed with prior year audits of taxes, interest and penalties. Between identifying nexus candidates and administering the Voluntary Disclosure Program, the Nexus Unit collected over \$40.4 million in taxes for fiscal year 2008. This is quite an accomplishment as the Unit exceeded \$40 million in collections for two years in a row.

Another noteworthy highlight is that the Department processed over 1.5 million electronically filed income tax returns during the last tax season. Interest in alternatives to paper filing has increased over the past few years and Department's commitment to provide further opportunities has grown accordingly.

The Department's major revenue contributions were achieved while still performing other services at high performance levels and working through the continuing implementation of the Business Reengineering/Integrated Tax System (BRITS) project. Information Technology's focus continues to be on support for data conversions to the new BRITS platform and ongoing maintenance of Legacy and BRITS systems. The fourth and final system conversion occurred in January 2008 with the successful implementation of the Income Tax system to BRITS.

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

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

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

Sincerely,

Gale Garriott
Director

DEPARTMENT ORGANIZATION

Organization & Organization Chart

Strategic Plan Highlights

Administrative Services

Audit

Collections

External Services & Special Projects

Information Technology

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Organization

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

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

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

Reporting to the director is the deputy director, who assists the director in the day-to-day operations of the department and who serves as acting director when the director is absent. Also reporting to the director is the problem resolution officer, who acts as the taxpayer advocate within the department. Reporting to both the director and deputy director is the chief internal auditor, who oversees the internal audit team and acts as liaison with external auditors.

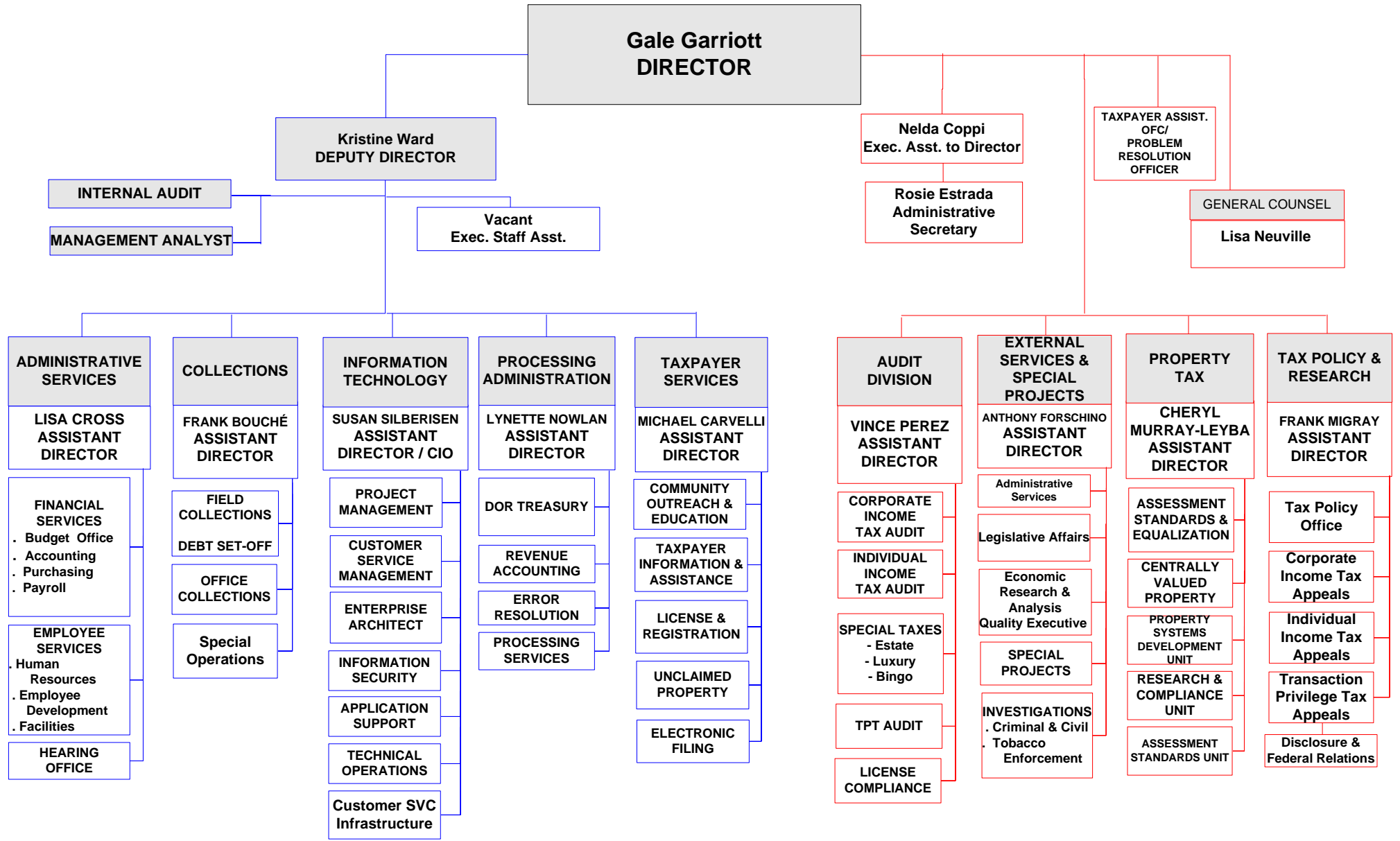
The department is organized into nine divisions, each managed by an assistant director. Divisions include: Administrative Services, Audit, Collections, External Services and Special Projects, Information Technology, Process Administration, Property Tax, Taxpayer Services, and Tax Policy and Research.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

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

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

In fiscal year 2008, \$15.8 million in discovery benefits, \$92.6 million in efficiency benefits, and \$27.8 million in license compliance benefits were recognized. Through fiscal year 2008 the department generated nearly \$226 million more in benefits than were needed to pay the vendor.

ARIZONA DEPARTMENT OF REVENUE



Strategic Plan Highlights

MISSION, VISION, VALUES

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

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

Our company culture is defined by embracing Values that are shared among all employees. Values set the ground rules for how we conduct business. Our Values for fiscal year 2008 are:

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

GOALS AND OBJECTIVES

We continue to focus on our three core goals in fiscal year 2008:

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

KEY MEASURE RESULT HIGHLIGHTS

The results of these key measures for fiscal year 2008 follow with a comparison to prior years.

TOTAL GROSS REVENUES COLLECTED

Detailed gross revenues are reported under Table 1.

FY07

Transaction Privilege Tax	\$7,890,380,625
Income & Withholding	\$4,972,237,335
Corporate	\$1,070,710,516
Other	\$ 553,133,139
Total	\$ 14,486,461,614

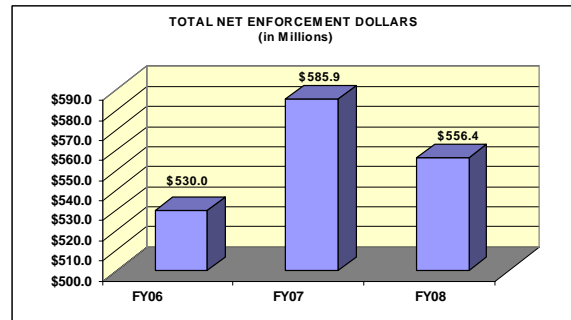
FY08

Transaction Privilege Tax	\$7,597,257,813
Income & Withholding	\$4,805,821,218
Corporate	\$ 985,126,064
Other	\$ 640,983,162
Total	\$ 14,029,188,258

TOTAL NET ENFORCEMENT DOLLARS

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

FY06	\$ 530,000,447
FY07	\$ 585,929,679
FY08	\$ 556,416,693



NET ENFORCEMENT BREAKDOWN BY ENFORCEMENT PROGRAM

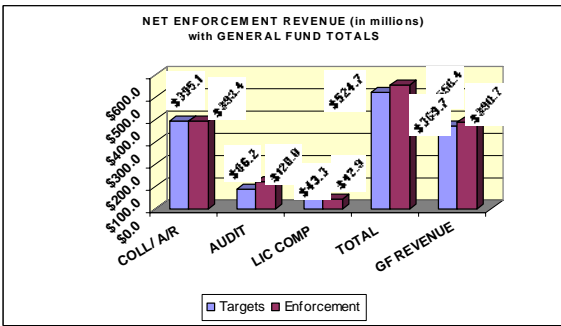
This chart recaps each program’s contribution to total enforcement collections. General Fund distribution information is included.

FY08 Net Targets

Collections/Accounts Receivable ...	\$395.1M
Income, Corporate, TPT Audit	\$ 86.2M
License Compliance.....	\$ 43.3M
Enforcement Revenue	\$524.7M
General Fund Revenue	\$369.7M

FY08 Net Actual

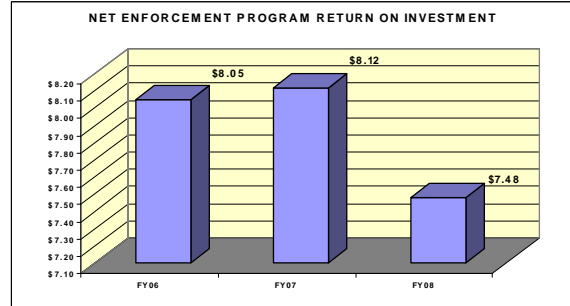
Collections/Accounts Receivable ...	\$393.4M
Income, Corporate, TPT Audit	\$120.0M
License Compliance.....	\$ 42.9M
Enforcement Revenue	\$556.4M
General Fund Revenue	\$390.7M



ENFORCEMENT PROGRAM RETURN ON INVESTMENT

The enforcement program return on investment is calculated by taking the total enforcement dollars collected as they relate to each dollar spent in the DOR budget. Net figures are reported for all years this year instead of gross numbers reported in previous reports.

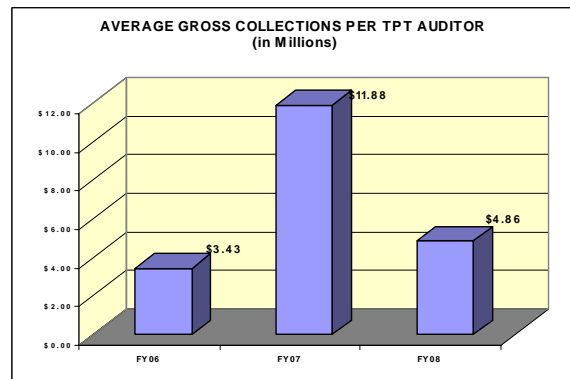
FY06	\$8.05
FY07	\$8.12
FY08	\$7.48



AVERAGE GROSS COLLECTIONS PER TRANSACTION PRIVILEGE TAX AUDITOR (IN MILLIONS)

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

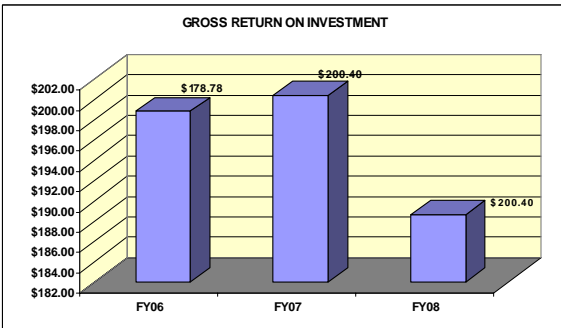
FY06	\$3.43
FY07	\$11.88
FY08	\$4.86



RETURN ON INVESTMENT

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

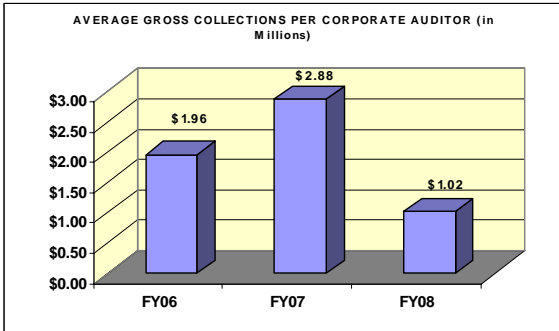
FY06	\$178.86
FY07	\$200.40
FY08	\$188.68



AVERAGE COLLECTIONS PER CORPORATE AUDITOR (IN MILLIONS)

Productivity decreased due to vacancies.

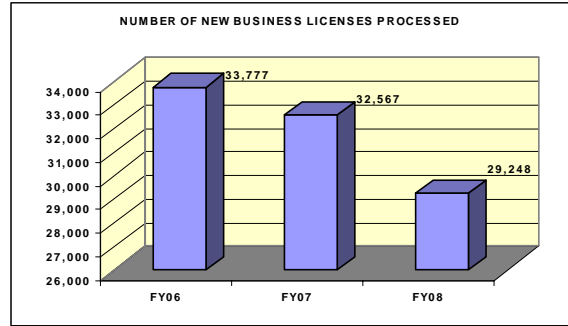
FY06	\$1.96
FY07	\$2.88
FY08	\$1.02



NUMBER OF NEW BUSINESS LICENSES PROCESSED

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

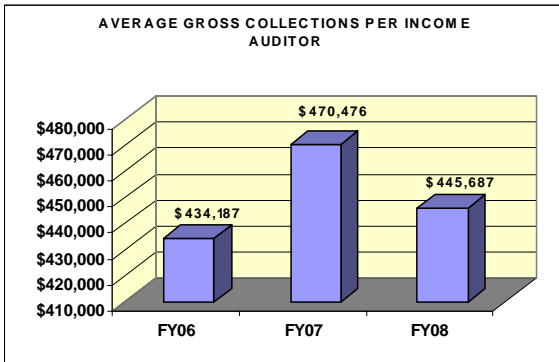
FY06	33,777
FY07	32,567
FY08	29,248



AVERAGE COLLECTIONS PER INDIVIDUAL INCOME AUDITOR

Collections per income tax auditor decreased slightly due to the conversion of the legacy system to BRITS in December 2007 and the necessary staff training that occurred before and after BRITS conversion.

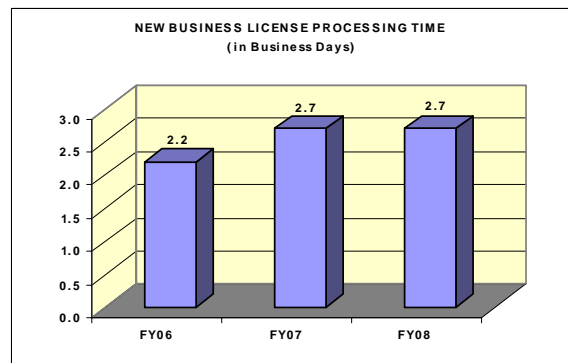
FY06	\$434,187
FY07	\$470,476
FY08	\$445,687



NEW BUSINESS LICENSE TURNAROUND TIME

The License & Registration staff maintained a 2.7 business day turnaround for license processing for the second year in a row. Although there were fewer licenses processed this year compared to last, perhaps due to a slowing economy, staff was able to process them in an efficient manner.

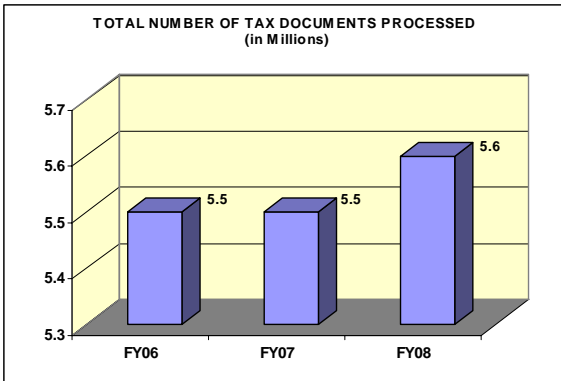
FY06	2.2 days
FY07	2.7 days
FY08	2.7 days



TOTAL NUMBER OF TAX DOCUMENTS RECEIVED

Documents consist of paper and electronic tax returns.

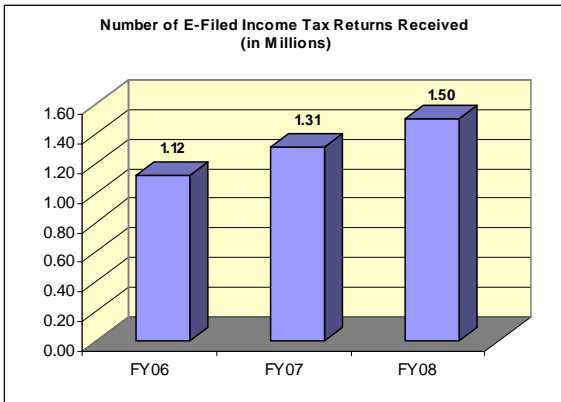
FY06	5.5M
FY07	5.5M
FY08	5.6M



TOTAL NUMBER OF E-FILED INDIVIDUAL INCOME TAX RETURNS RECEIVED

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

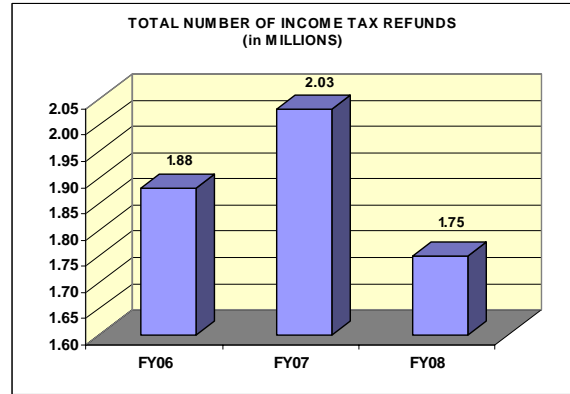
FY06	1.12M
FY07	1.31M
FY08	1.50M



TOTAL NUMBER OF INDIVIDUAL INCOME TAX REFUNDS

The total number of income tax refunds processed includes both electronic direct deposits and paper refund warrants.

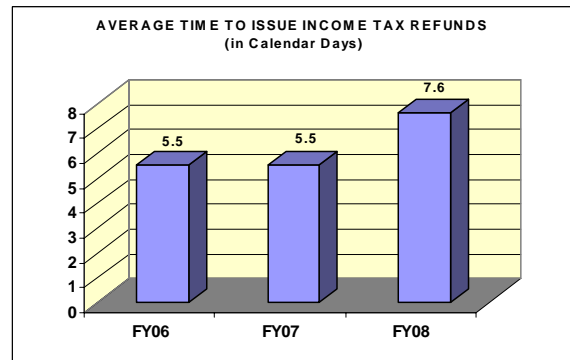
FY06	1,882,166
FY07	2,033,277
FY08	1,750,370



AVERAGE TIME TO ISSUE INCOME TAX REFUNDS

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

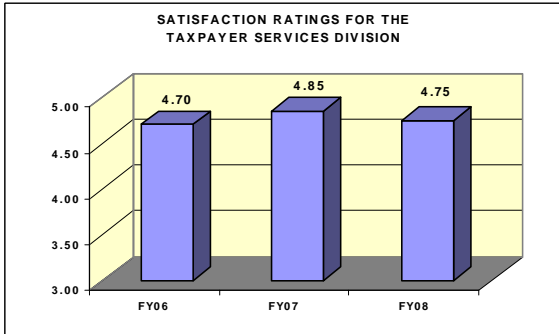
FY06	5.5 days
FY07	5.1 days
FY08	7.6 days



TAXPAYER SATISFACTION RATINGS FOR THE TAXPAYER SERVICES DIVISION

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

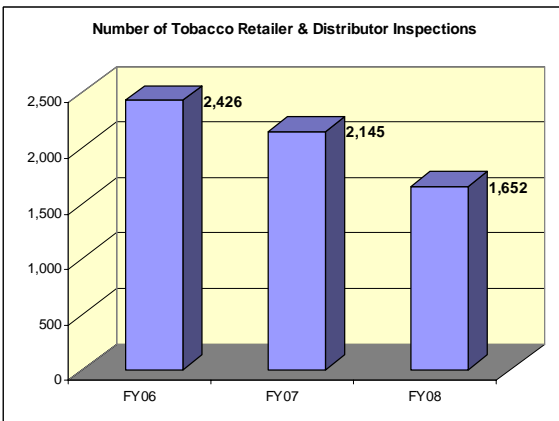
FY06	4.70
FY07	4.85
FY08	4.75



NUMBER OF TOBACCO RETAILER AND DISTRIBUTOR INSPECTION VISITS COMPLETED

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

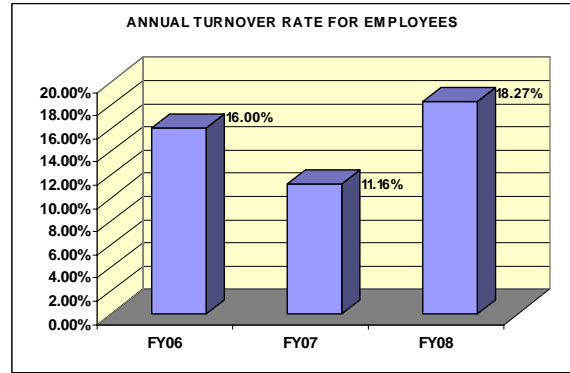
FY06	2,426
FY07	2,145
FY08	1,652



AVERAGE ANNUAL TURNOVER RATE FOR EMPLOYEES

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

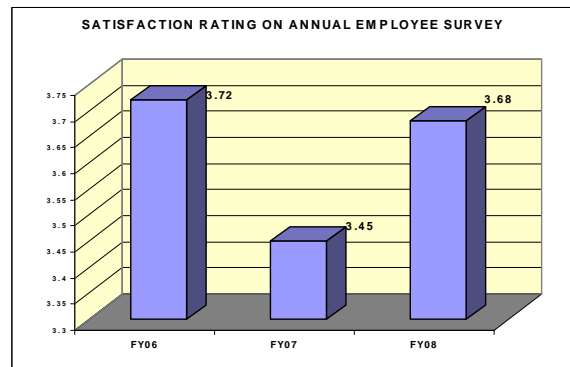
FY06	16.00 %
FY07	11.16 %
FY08	18.27 %



OVERALL AVERAGE SATISFACTION RATING ON THE ANNUAL EMPLOYEE SURVEY

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

FY06	3.72
FY07	3.45
FY08	3.68

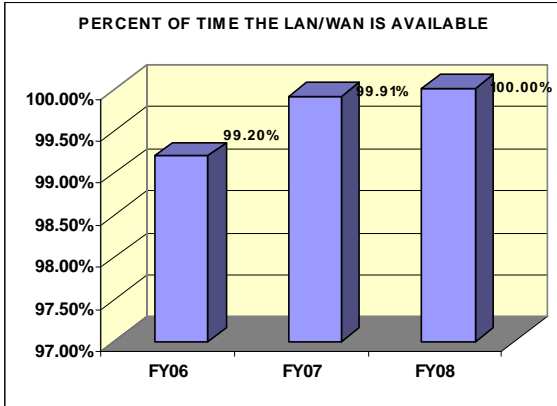


PERCENT OF TIME THE LOCAL AND WIDE AREA NETWORK (LAN/WAN) IS AVAILABLE.

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

FY06	99.2 %
FY07	99.9 %
FY08	100.0 %

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



ADMINISTRATIVE SERVICES

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

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

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

Accounting

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

Budget Office

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

Employee Development

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

Facilities Management

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

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

Hearing Office

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

Human Resources

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

Payroll

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

Purchasing

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

HIGHLIGHTS IN FISCAL YEAR 2008

- Accounting processed 99% of all invoices within 30 days.
- EDU completed training for BRITS (Business Reengineering Integrated Tax System) Releases 3.0, 3.1, 3.2, and 3.3.
- Facilities responded to 99% of building maintenance work orders within 24 hours.
- Facilities scheduled and worked with the contractors in getting the entire fire alarm system replaced to include detection system, new audible speakers and strobes, PA system, new panels, and fire department phones and hookups.
- Facilities scheduled and worked with the contractors in having all restrooms renovated throughout the building (10 floors). Handicap accessible restrooms have been constructed on the first, fifth and eighth floors. Water saving fixtures have been installed in bathrooms throughout the building and all were designed with a pipe chase for accessibility for maintenance crews.
- The Hearing Office resolved 167 cases during the fiscal year.
- Staffing and Recruiting coordinated four job fairs during fiscal year 2008 resulting in the hiring of 48 new employees.
- Human Resources Benefits successfully enrolled 98% of all DOR employees during the 2007 benefits positive open enrollment period.
- Human Resources implemented new I-9 E-Verify process in December with 100% success rate.
- Payroll processed payroll time sheets bi-weekly for a staff of approximately 950. It also processed 465 direct deposit forms, 56 written employment verification forms, 80 retirement forms and 24 industrial injury claims.
- The Purchasing Office attended the Purchasing Maze VI event at ASU West explaining to almost 1,000 small-business, women-business and minority-business owners “how to do business with the State of Arizona”.
- The Purchasing Office staff completed the Certification in Arizona State Public Procurement and the procurement authority was raised from \$100,000 to \$250,000.

AUDIT

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

The Audit Division consists of the Corporate Income Tax Audit, Individual Income Tax Audit, Transaction Privilege and Use Tax Audit and Special Taxes sections. We carry out our mission statement with an emphasis on treating the diverse taxpayer base fairly, consistently and respectfully.

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

Corporate Income Tax Audit

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

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

The Office Audit Unit focuses its audit work on desk audit programs such as analyzing, verifying, and processing of amended returns and refund claims, tax clearance letters, verification of net operating losses, including audits based upon federal revenue agent reports. Due to many computer system enhancements, this unit is moving into an electronic flow of information that allows the work to be more efficient and productive.

The Tax Shelter Unit, working with the Internal Revenue Service, other states and tax administration organizations identifies potential offenders who have utilized abusive tax schemes in order to avoid paying state income tax.

The Administrative Support Unit is responsible for processing the field, office, and abusive tax avoidance transaction (ATAT) audits, as well as a myriad of other duties such as microfilming, handling the mail, timesheets and payroll, and report production.

In the spirit of cooperation with other state agencies, the department entered into an inter-service agency agreement with the Arizona Department of Commerce regarding the motion picture tax credit. Under this agreement, the department is lending corporate income tax expertise to assist in the review of filings by production companies seeking tax credits.

In a related program, newly authorized by the legislature, production companies may also request a "limited managed audit" to verify their request for motion picture tax credits. This program is proving to be very popular and assures that any tax credits claimed are valid and correct.

Individual Income Tax Audit

The Individual Income Tax Audit Section is comprised of staff dedicated to providing quality service in educating taxpayers by ensuring the correct amount of tax is reported. Audits are conducted in both the office and field of Individuals and Pass-through entities such as Partnerships and S Corporations. The Section has placed an emphasis on treating taxpayers in a courteous and professional manner.

In fiscal year 2008, the Section continued to provide assistance with the BRITS project, which is the department's reengineering project. Part of this project is the development of a new base audit system which will further modernize the Section's processes. Employees are encouraged to provide feedback and ideas to assist the efforts of the department. Data warehousing will allow continual improvement in the quality of the audit process by matching of information available to the Section.

Revenue Agents Reports received from the Internal Revenue Service are being increasingly referred to the department in an electronic format. Receiving this data in an electronic format allows the department to create a more complete audit file that includes all other department data and information on the taxpayer and tax year involved without requiring manual research by our clerical support staff. Most of the audit files now contain all information that an auditor would need in order to process the audit and make all necessary adjustments. This results in an audit being issued in

a more timely manner as manual clerical support research is not required.

Special Taxes

Special Taxes is comprised of four separate units: Bingo and Estate Tax, Discovery, Luxury Tax, and Nexus.

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

The Discovery Unit uses electronic records from outside sources paired with technology to create non-filer leads that are explored by the unit's auditors.

The Luxury Tax staff administers the taxes imposed on tobacco distributors and liquor wholesalers. This includes the licensing of tobacco distributors and processing of tax returns for both tobacco and liquor, as well as performing distributor audits and collecting taxes from consumers who purchase tobacco products via the internet or through mail order. The unit also supports the Office of the Attorney General in administration of the Tobacco Master Settlement Agreement.

The Nexus Unit identifies companies and individuals who have an obligation to file tax returns with the state of Arizona, including, but not limited to, corporate income tax, transaction privilege/use tax, and individual income tax. Nexus is Latin, from *nectere* to bind. For tax purposes, it describes the connection (or link) that an out of state company/individual has within a taxing jurisdiction. The unit is also responsible for maintaining the department's Voluntary Disclosure Program. This program facilitates the process for taxpayers, who have determined that they have an obligation to come into compliance with their filing requirement(s) with the department.

Transaction Privilege and Use Tax Audit

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

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

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

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

The Desk Audit Unit mainly works on projects dealing with use tax liabilities. The information processed in this unit is from various governmental agencies.

HIGHLIGHTS IN FISCAL YEAR 2008

- The Audit Division's gross enforcement collections exceeded \$184 million.
- The Corporate Section exceeded fiscal year revenue goals with hard work and dedication. The customer service survey rating averaged 4.6 with 44% of taxpayer surveys rating the corporate auditors a perfect 5.0 score, on a scale of 1 to 5 with 5 being excellent.
- The Corporate Income Tax (CIT) Field Audit unit's assessed approximately \$26 million and collected \$20.5 million. Overall, additional revenue from collections associated with audits generated \$35.1 million. In addition, the field audit unit issued refund denials of \$23.4 million.
- The CIT Office Audit unit's assessed approximately \$2.3 million and collected \$1.2 million. The unit researched, reviewed and audited 7,214 taxpayers. The CIT office unit had refund denials of \$1.7 million.
- The CIT Audit's Tax Shelter Unit assessed approximately \$9.7 million and collected \$9.4 million.

- The Individual Income Tax (IIT) Audit Section completed just over 49,500 audits for total assessments of \$39.7 million. Additional revenue associated with audits generated \$17.4 million.
- The computer generated assessment (CGA) program was enhanced to increase the number of accounts eligible to be processed. Over 5,500 audits were issued for total assessments of \$1.6 million in IIT.
- An essential part of IIT's focus is to provide quality service to the taxpayers. Surveys are sent to all taxpayers who are contacted by the Section. Over 1,400 surveys were returned during the fiscal year with an average score of 3.95, using a scale of 1 to 5 with 5 being excellent.
- The quality of IIT initial audit assessments has continued to improve. Over 89.3% of the initial audit assessments required no changes. The goal is to achieve a rate of 82%.
- The Nexus Unit had another remarkable fiscal year generating \$40.4 million.
- Transaction Privilege Tax Section (TPT) customer satisfaction surveys for the fiscal year averaged 4.70, using a scale of 1 to 5 with 5 being excellent.
- TPT Field Audit had an outstanding year with assessments totaling just over \$45.3 million
- TPT License Compliance licensed 2,190 new businesses with \$48.4 million in generated revenue.
- TPT Desk Audit Unit licensed 3,160 new businesses with \$15.5 million in generated revenue.
- TPT Refund Unit has approved and processed 255 refunds with \$21.7 million as the total refunded amount.
- The Audit Information Technology Unit started the system test phase of the ESKORT project for the Desk Audit Release. The Desk Release will encompass all tax types for both field and desk. In completing phase 1 of system test, the unit identified and defined necessary changes needed in the application to comply with requirements.

COLLECTIONS

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

Office Collections

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

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

Field Collections

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

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

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

Special Operations

This section services a growing population of individual and business tax accounts that have filed for protection under the bankruptcy code. 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; and is responsible for all other non-mainstream collection activities. These include handling insufficient funds check collections, Letters of Good Standing, levies on Arizona Department of Administration vendors, levies on contractor and insurance bonds, internal systems training and processing Offers-in-Compromise.

Debt Set-Off

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

HIGHLIGHTS IN FISCAL YEAR 2008

- Field Collections continued to excel in the education of their taxpayers and in encouraging them to utilize the E-file method for their taxes.
- The division was responsible for the generation of total revenues of over \$275 million, a \$29 million (10 %) shortfall over the target of \$305 million for the year.

EXTERNAL SERVICES & SPECIAL PROJECTS

Criminal and Civil Investigations

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

Forms and Publications

This unit is responsible for design and printing of all official department forms, except Property Tax related forms, and 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 informational publications.

Legislative Services Team

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

Office of Economic Research and Analysis

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

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

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

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

Public Information Officer

This position is the official spokesperson for the department, facilitates the flow of information to the public, and responds to all media contacts and inquiries.

HIGHLIGHTS IN FISCAL YEAR 2008

- Restitution payments received during fiscal year 2008 totaled \$37,189. This total is a combination of both financial-related and tobacco-related prosecutions wherein the suspect(s) were ordered to pay restitution.
- Eight individuals in Gilbert, Arizona, who had been preparing fraudulent Arizona individual income tax returns for several years, were indicted in September, 2007, on 136 different counts related to these tax returns. During the investigation and review of search warrant evidence it was discovered that there were approximately 7,000 clients, and the loss to DOR in tax revenue exceeded \$10,000,000. The two main subjects have pled guilty and agreed to reimburse DOR \$2 million. The civil side of DOR is currently auditing their clients.

- Tobacco training was provided by our POST-certified agents to various law enforcement and state agencies during the year, including the Four-State Peace Officers Association, the Organized Retail Crime Alliance, a district court judge's conference, the West Valley Chief's Meeting, and at the Arizona Department of Health Services.
- A tobacco training video was created to teach law enforcement officers throughout the state about tobacco violations. This video has been accepted as part of the curriculum at the training academies.
- Due to information received from an agent with the California Board of Equalization who was investigating a California tobacco distributor, our Arizona agents contacted an Arizona retailer who had been buying untaxed tobacco from the California distributor and selling it to customers. Due to this information, the Arizona retailer has filed tobacco tax returns and paid \$28,620 to date in delinquent taxes.
- Eighteen (18) citations were issued during fiscal year 2008. Of these eighteen citations, ten citations included a charge for failing to produce tobacco invoices as required, in violation of A.R.S. §42-1127(I)(1). Two citations were issued to retailers who were selling cigarettes that were not on the Arizona Cigarette Directory in violation of A.R.S. §44-7111(3)(c). Many of the citations had more than one charge. Additional charges included knowingly selling tobacco on which no taxes had been paid in violation of A.R.S. §42-1127(G), and knowingly selling cigarettes without tax stamps in violation of A.R.S. §42-1127(H). Fines assessed by the courts on these citations during fiscal year 2008 totaled \$6,950.
- There were a total of 1,652 retail inspections that were conducted during the year, along with 198 distributor inspections. The following tobacco products were seized during the year:
 - a) 135,895 cigarette sticks
 - b) 453,488 cigars
 - c) 18,298 blunts
 - d) 1,856 lbs OTP (other tobacco products)
- The Supervisor for Criminal and Civil Investigations was named Supervisor of the Year for fiscal year 2008.
- The Office of Economic Research and Analysis was named Small Unit of the Year for fiscal year 2008.

INFORMATION TECHNOLOGY

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

Application Support

Application Support provides maintenance support for all mainframe applications, the BRITS Taxpayer Administration System (TAS), and the Executive Dashboard. Significant activities include working with Technical Operations to schedule production runs, supporting production processes (such as TPT Close), and resolving defects either on an emergency basis or as a part of packaged releases. Defects are completed based on user priority. Applications Support works closely with the Customer Service Center in responding to customer requests for support; Business Analysis & Testing for requirements and testing; Technical Services for prevention of recurring incidents; Enterprise Architecture for software release management, implementation, and performance enhancement; and Information Security for compliance.

Business Analysis & Testing

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

Technical Services

The Continual Service Improvement unit consists of Production Control, Problem Management, and Continual Service Improvement. These groups are

based on the Information Technology Infrastructure Library (ITIL) framework.

Production Control's primary objective is ensuring batch scheduling and processing on both the Legacy and BRITS systems are completed.

Problem Management's purpose is to minimize the adverse impact of incidents and problems on the business caused by errors within the IT infrastructure, and to prevent recurrence of incidents related to these errors.

Through research conducted, Continual Service Improvement focuses on existing processes that are candidates for improvement, including reviewing Service Level Agreements (SLAs), policies, and standards, and developing procedures for improvement.

Customer Service Center

During the past year, the Customer Service Center has continued to evolve. The Database and Technical Operations support teams have been reassigned under the Customer Service Center to consolidate the management of the customer support roles. This allows for the consolidation of processes and reduces duplication of effort from multiple teams. By including the additional support teams under the Customer Service Center, DOR IT support staff is better able to address the needs of the department, communicate to the end users, and resolve issues.

The Customer Service Center covers the hardware and software that make up the network, including individual PCs. This IT unit is the backbone for all computer services provided to our DOR customers. We are the entry point for all Customer Service and support requests and work closely with Application Support and Continual Service Improvement to determine priorities and processes for requests.

The Technical Operations support team is responsible for support and management of client/server (BRITS) technical infrastructure, Oracle application server (TAS infrastructure), and client/server third party software. They also act as a liaison to the Arizona Department of Administration (ADOA) for technical activities, provide Tier 3 support for problem management, and handle

software installations, migrations, and upgrades to ensure software/vendor compliance.

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

Enterprise Architecture

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

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

Information Security

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

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

Project Management Office (PMO)

The PMO is responsible for establishing, maintaining, and enforcing project management processes, procedures, and standards for IT projects.

The primary goals of the PMO are to:

- Promote excellence in Project Management for all IT projects, both by supplying experienced and qualified Project Managers and by providing guidance to project team members;
- Guide key IT projects to a successful conclusion;
- Create a foundation for consistent IT project success throughout the organization through development of a strong and pervasive Project Management discipline;
- Support the mission, vision, and goals of the department.

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

HIGHLIGHTS IN FISCAL YEAR 2008

- Individual Income Tax processing is now part of the BRITS program. This final tax type for the department's integrated tax system was a major milestone and was converted in December, 2007. The BRITS system is now successfully being used to process all individual income tax transactions.
- Information Security established an Information Security Steering Committee (ISSC) for oversight of the InfoSec program. The members of the committee include key personnel throughout the agency who have a critical interest in the program because of the relationship between InfoSec and the duties for which they are responsible. The ISSC:
 - provides oversight of the InfoSec Program;
 - reviews and assesses InfoSec policy for effectiveness, impact, and appropriateness;
 - identifies information security control mechanisms for security standards as appropriate;
 - provides input on information security issues;
 - promotes sound information security practices; and
 - provides expert advice, recommendations, and guidance to give Leadership an

understanding of the InfoSec program and its regulations, risks, concerns, and issues for sound decision making.

- A \$500,000 network refresh project was completed with minimal disruption to the end users:
 - replaced all network switches and routers in all three DOR locations (Phoenix, Tucson and East Valley);
 - increased data throughput of the system; and
 - segmented various areas to improve data transfer between sites.
- A middleware support team was developed to monitor and troubleshoot issues as they happen.
- The Data Center RFP process was completed, resulting in the selection of Infocrossing as the new Data Center vendor.
- IT saw continued improvement of business analysis and testing processes. Restructuring both areas helped support the final phases of the BRITS project, which included providing Tier 2 support for our Customer Service Center.
- Requirements gathering and system test functions were transitioned successfully from Accenture to DOR staff.
- Application Support delivered seven maintenance releases for the BRITS application. These releases were designed to increase performance, adapt to new business rules, correct defects, and provide annual and legal changes. The number of code modules updated in a maintenance release varies between 40 and 80, depending on the complexity and demands of the Agency. Examples of maintenance release items include:
 - Monitoring of the BRITS processes led to the identification and resolution of numerous performance bottlenecks. Included in these were changes that resulted in performance improvements of up to 98% for some data searches.
 - Implemented changes to enable the Integrated Voice Response (IVR) job to run in 13 hours instead of 24.
 - Implemented changes to the BRITS application to support 2007 tax return processing for Income and Corporate.
- Implemented new rate and legislative changes required for Real and Personal Property 2007 tax year billings.
- The BRITS Application Support Team oversees and manages more than 31 separate processes supporting various DOR functional areas. Of large significance is management of taxpayer correspondence letters reviewed and sent electronically to our vendor, for printing and mailing. Included are over 40,000 notices of enforced action, 90,000 tax correction notices, 208,000 accounts receivable demands, 40,000 final demands, 111,000 refund adjustments, 80,000 delinquency notices, and 17,000 payment plan notices.
- Management and support of the BRITS application has been transitioned from vendor consultants to DOR IT staff, thereby reducing our dependence on the consultants and their associated cost. A reduced number of vendor consultants remain to complete their contractual obligations.

PROCESS ADMINISTRATION

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

The division consists of the following sections:

Processing Services

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

DOR Treasury

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

Error Resolution

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

Revenue Accounting

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

Records Management

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

HIGHLIGHTS IN FISCAL YEAR 2008

- 5.6 million paper tax documents were received and processed for the four major tax types.
- 4.27 million payments were received, processed and deposited with an average deposit time of 1.84 days.
- 1.7 million refunds were issued to individual income taxpayers with an average refund turn-around time of 7.6 days.
- The Records Management section received 14,300 requests to pull documents and they processed 100% of those requests within 48 hours.
- Individual Income Tax was implemented and converted in to the new integrated tax system, BRITS, at the beginning of December, 2007. The Process Administration division played a significant role in the implementation and conversion by conducting data purification efforts on information that was to be converted, processing all of the Individual Income tax returns and payments in time for the conversion and completing the testing of the new system.

PROPERTY TAX

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

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

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

Centrally Valued Properties

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

Assessment

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

Personal Property

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

Construction Cost

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

Central Information Services

The Central Information Services Team coordinates the data processing services necessary to support property tax administration for 11 Arizona Counties. The support services provided to the counties include management of automated systems used in the preparation of assessment and tax rolls, the preparation of valuation abstracts, property tax notices of value and statements of taxes due.

Computer Assisted Valuation

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

Forms and Manuals

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

Equalization

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

HIGHLIGHTS IN FISCAL YEAR 2008

- The Centrally Valued Property Unit (CVP) had two property valuation cases go to trial. One case involved the valuation of a telecommunications company; the other involved the valuation of an electric generation facility. In both cases, after trials lasting several days, the Tax Court upheld CVP's values. The CVP Unit also settled a major telecommunications case involving complex valuation issues covering eight tax years. This settlement ended seven years of litigation over those claims.

- Over the past two years, the division, in partnership with several counties, spearheaded a critical project to replace the current cost system which is used by Arizona County Assessors to value approximately 90% of all commercial and industrial property in the state, as well as some residential property. The project involved strict timelines, multiple stakeholders, and highly technical issues. The division successfully completed the project on time, allowing the division to continue to provide a reliable valuation model for assessors to use.
- The division formed a partnership with Rio Salado Community College that allows students attending the department's appraiser training

classes to receive college credit. Students completing Level 1 courses are eligible for 9 credits and students completing Level 2 courses are eligible for 6 additional hours of credit. A total of 47 students completed the Level 1 series of courses and 34 students completed the Level 2 series of courses in the Rio Salado program this fiscal year. The Assessment Standards Unit provided training to a total of 498 students who attended Level 1 courses and 197 students who attended Level 2 courses. Among these students, 65 appraisers received their Level 1 certification and 29 appraisers received their Level 2 certification.

TAXPAYER SERVICES

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

Community OutReach and Education (CORE)

This section provides the department's outreach and educational programs for taxpayers and practitioners. CORE's primary goal is to promote voluntary compliance with tax laws through taxpayer and practitioner education. The staff develops and presents workshops and seminars and specialty presentations, and participates in trade, business, and government events throughout the state. The programs focus on support for the small business community; and services and assistance are also directed toward the needs of personal income tax filers. Many projects are developed in partnership with the Internal Revenue Service, other federal, state, and local agencies, and Small Business Development Centers, as well as the Small Business Administration and other business associations. CORE also enjoys good relationships with Chambers of Commerce throughout the state.

Through continuing partnerships with civic and business organizations, CORE has been able to increase class attendance and develop new venues throughout the state. CORE leverages the marketing opportunities provided by these organizations to increase the circulation of its class schedules. Marketing materials stress the partnership between the organization and CORE to the benefit of both. Some cities have allowed CORE to include class information for that city to be included in utility bill and other mailings. These types of partnerships have increased CORE's outreach opportunities and reduced the cost of marketing the classes.

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

Department of Insurance, SCORE, the Small Business Administration, and the Arizona Department of Commerce.

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

CORE is also the liaison between the department and the Earned Income Tax Credit (EITC) and the Volunteer Income Tax Assistance (VITA) programs that provides tax preparation services for the poor, elderly, and non-English speaking populations. CORE provides tax preparation sites, preparer training, training materials, and logistical support for these programs.

e-File

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

License and Registration (L & R)

The License and Registration Section processes applications for transaction privilege, use, severance, and withholding Taxes. The unit also issues transaction privilege tax licenses for program cities that participate in the state tax collection program. They also administer the taxpayer bonding program that protects the state against potential losses of tax revenue from contracting businesses and other high risk taxpayers.

The section oversees and maintains the database of licensed businesses. They provide assistance to the public through dissemination of licensing information, publications, and referrals as needed. The section handles the over-the-counter sales of tobacco stamps and provides cashiering services at each of the department's locations.

Taxpayer Information and Assistance (TIA)

This is the vital hub of employees who provide tax information to individual income and business customers, corporate officers, tax practitioners, enrolled agents and other authorized representatives.

TIA is responsible for responding to customer inquiries concerning business and income taxes administered by the department. Staff also answers questions and offers resolution for account disputes in relation to billing, taxability, business registration, filing and payment. The various avenues of communication come to DOR through the telephone call center, webmail, written correspondence and our walk-in offices located in Phoenix, Chandler and Tucson.

Staff handles individual income tax forms distribution every tax season via mail and telephone orders. This is an enormous task that is performed to ensure all form distribution sites in Arizona are adequately stocked with Arizona state tax forms and instructions.

Thanks to the clerical support team, thousands of Power of Attorney and Disclosure forms received daily are processed every year. This is quite a task considering hundreds may be received from a single payroll company in one day. In addition to other duties, this team is responsible for providing guidance for walk-in customers at the lobby reception desk in our Phoenix office.

Another important aspect of TIA is the Penalty Review Unit (PRU). This unit is responsible for reviewing and making decisions on requests for abatement of penalties for non-audit periods. In the event of a subsequent hearing in cases where abatement was denied, a representative from PRU will attend the hearing to present their case substantiating their decision.

Unclaimed Property

This program is administered to return abandoned property such as contents of safe deposit boxes, dormant bank accounts, insurance policy proceeds, security deposits, unclaimed stocks, bonds, and mutual fund accounts, and all types of uncashed checks to rightful owners. Through a variety of methods, the unclaimed property staff attempts to locate the owners and processes claims in order to return the property. The staff facilitates the reporting and remitting of abandoned property from businesses, financial institutions, and other entities that hold the property. The unit is also responsible for promoting compliance with the Unclaimed Property Statutes through outreach and audit.

HIGHLIGHTS IN FISCAL YEAR 2008

- The Community OutReach and Education Section (CORE) expanded its outreach in fiscal year 2008 to include video conferencing and online training. This was achieved through the Gila Community College Small Business Development Center which set up an interactive television production that connected classrooms in Globe and Payson. The online training presentation covering charitable contributions was also available on the department's website and had over 1,000 hits in the two months. In addition, CORE partnered with the Arizona Small Business Association to use WebEx technology to increase attendance of out-of-state businesses that would like to take advantage of the classroom training provided by CORE. CORE is also exploring a partnership with the Arizona Department of Administration (DOA) to leverage DOA's training technology with CORE's constituency of business owners and practitioners. Through its continuing partnerships with the cities and towns, Chambers of Commerce, Small Business Development Centers, and other civic and government agencies, CORE had classroom and seminar attendance of over 12,000 in fiscal year 2008.
- eFiling of individual income tax returns increased 14% with over 1.5 million returns filed electronically. This places Arizona above the national growth rate of 11%. In addition, more than 526,000 2-D (two dimensional) barcode income tax returns were received.

Together, 71% of all 2007 income tax returns received were processed without data entry which results in agency savings in processing costs and administration of records retention.

- This year the “home-market” prepared 35% of the eFiled returns which indicates a growing confidence in this product. Additionally, tax payments by direct debit increased by 23%, which is another sign of confidence in electronic transactions with government.
- Direct deposit of refunds increased by 31% on eFiled returns this year. Taxpayers who choose this option receive their refunds in an average of three working days. In addition, DOR saved more than \$300,000 in postage costs by not mailing these warrants.
- One of the License & Registration (L&R) business objectives is to process all Transaction Privilege, Use, Severance, City Only, and Withholding tax applications received within 3 days. This goal was achieved in fiscal year 2008 by processing nearly 43,000 applications. The applications were a part of the 162,000 total documents processed by the section. During the year, L&R also assisted over 27,000 customers over the counter and cashiered \$364 million in payments. Signature cards, still required for all electronic registrations, increased by 19%. This indicates increased use of AZTaxes.gov to process license applications. Nearly 40% of all license applications are now done online. L&R staff processed over 5,000 taxpayer bonds and collected over \$946,000 in delinquencies.
- Taxpayer Information and Assistance had a very successful fiscal year 2008 as evidenced by the accomplishments listed below:
 - ✓ Calls offered for the year were 572,166. This is an increase of 8% from the prior year. Broken down; business calls ended the year with 237,571 an increase of 5% and income calls were 334,595, an increase of 10%.
 - ✓ Calls answered ended at 300,772 for the year. Business calls answered were 141,262;

business calls include license and registration, transaction privilege and use tax (TPT) and withholding tax. Income calls answered totaled 159,510; income calls include individual and corporate income tax.

- ✓ Correspondence cases worked were 29,331. This is a 43% increase from the prior year. Cases worked include all four tax types; TPT, withholding, corporate and individual.
- ✓ Web mail inquiries received were 12,886. This is a 153% increase year on year. Web mail responses for the year were 12,832, a 181% increase from the prior year.
- ✓ Penalty abatement cases reviewed for non-audit tax periods ended the year with 2,618. Turnaround time for review and determination improved by 44% for this year.
- ✓ Tax form orders processed internally included 14,420 booklets and 12,573 flats. There were 208 Booklet X orders processed. There were 127 distribution centers throughout Arizona and one in California. 2,125 cases were delivered (by our vendor) to those distribution centers.
- ✓ Power of Attorney and disclosure forms processed for the year are 17,014.
- ✓ Walk-in office staff assisted a total of 11,990 customers; 7,326 in Phoenix and 4,664 in Tucson.
- ✓ Lobby receptionist provided guidance and reception services for 109,457 customers. Of this, our Phoenix office serviced 90,006 customers and Tucson serviced 19,451 customers.
- The number of new properties reported to Unclaimed Property in fiscal year 2008 totaled 313,756 with total collections equaling more than \$136M. The claims processing staff returned 30,433 properties valued at \$27.8M to rightful owners. The average time to process and pay a claim was 67 days.

TAX POLICY & RESEARCH

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

Tax Research & Analysis

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

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

Tax Appeals

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

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

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

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

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

HIGHLIGHTS IN FISCAL YEAR 2008

- The Multistate Tax Commission has initiated a project to develop recommended amendments for the Uniform Division of Income for Tax Purposes Act (UDITPA). UDITPA is used by many states, including Arizona, to allocate the income of corporations to the various states

where the corporations have business activities. The Tax Research Section has been monitoring this project.

- The section also provides the Arizona representative to the Streamlined Sales Tax Project, a nationwide effort to simplify the sales

and use tax reporting amongst the states. While Arizona has not become a member of the Project, this representative monitors the progress of the effort and also acts as a resource for the department and others on the subject.

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 2003-04 THROUGH FISCAL YEAR 2007-08**

SOURCE	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
TRANSACTION PRIVILEGE USE AND SEVERANCE TAX					
Distribution Base	\$1,362,143,376	\$1,504,851,881	\$1,742,272,992	\$1,848,148,565	\$1,788,242,630
Nonshared Portion	2,588,439,418	2,871,370,865	3,350,808,572	3,575,743,539	3,448,839,624
Use Tax	232,215,946	259,687,993	306,198,808	303,010,863	340,535,252
Education Tax	487,214,807	538,346,435	628,471,192	666,184,022	645,827,821
Undistributed Estimated					
Transaction Privilege Tax	14,056,241	24,907,681	33,445,892	34,613,656	(28,064,558)
Other State Revenue	35,802,096	35,242,534	37,070,520	32,316,678	26,543,638
County and City Collections	889,627,518	1,021,007,631	1,237,537,000 (6)	1,430,363,301	1,375,333,407
Amnesty	15,315,231	-----	-----	-----	-----
Subtotal	\$5,624,814,633	\$6,255,415,018	\$7,335,804,976	\$7,890,380,625	\$7,597,257,813
INCOME TAX					
Withholding	2,336,442,815	2,626,264,231	3,041,031,728	3,294,287,540	3,344,770,438
Individual	776,183,707	1,128,453,951 (6)	1,631,563,811	1,677,949,795	1,461,050,780
Corporate	596,582,273	789,739,978	978,239,759	1,070,710,516	985,126,064
Amnesty	56,757,741	-----	-----	-----	-----
Subtotal	\$3,765,966,537	\$4,544,458,160 (6)	\$5,650,835,298	\$6,042,947,851	\$5,790,947,282
LUXURY TAX					
Spirituos Liquor	23,438,818	25,085,444	26,392,315	27,674,933	27,613,939
Vinous Liquor	10,404,546	11,473,203	11,509,865	10,755,478	13,006,487
Malt Liquor	22,110,426	22,664,420	23,245,180	24,758,494	23,936,126
Tobacco - All Types (1)	281,795,514	290,503,381	302,040,359 (6)	363,431,607 (4)	412,769,855
Licensing	6,400	5,325	5,900	8,100	7,075
Amnesty	187,315	-----	-----	-----	-----
Subtotal	\$337,943,019	\$349,731,773	\$363,193,619 (6)	\$426,628,612	\$477,333,481
ESTATE TAX					
Estate	42,292,396	32,811,705 (7)	13,275,666	860,558	414,711
Unclaimed Property	49,653,262	83,063,365	69,705,035	97,125,191	136,446,760
Escheated Estates	568,385	731,836	562,510	552,507	647,669
Subtotal	\$92,514,043	\$116,606,906	\$83,543,211	\$98,538,256	\$137,509,139
OTHER REVENUES					
Bingo	624,501	610,055	623,480	619,387	558,330
Flight Property Tax	12,641,445	13,180,039 (5)	13,685,936	15,302,697	13,821,790
Private Car Tax	1,335,056	1,312,163	1,426,435	1,709,362	1,615,246
Nuclear Plan Assessment	1,036,085	1,168,550	1,198,087	1,367,248	1,440,492
Waste Tire	7,785,148	8,164,120	8,477,996	8,967,577	8,704,684
Subtotal	\$23,422,235	\$24,434,927 (6)	\$25,411,934 (6)	\$27,966,271 (6)	\$26,140,542
DEPARTMENT TOTAL	\$9,844,660,466	\$11,290,646,784 (6)	\$13,458,789,039 (6)	\$14,486,461,614 (6)	\$14,029,188,258
State Property Tax (2)	20,188,811	31,300,125	30,298,197	29,906,683	28,558,411
TOTAL (3)	\$9,864,849,278	\$11,321,946,909 (6)	\$13,489,087,236 (6)	\$14,516,368,297 (6)	\$14,057,746,669

(1) Figures represent gross tobacco revenue less administrative expenses

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

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

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

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

(6) Corrected figures.

(7) Arizona's estate tax was effectively repealed January 1, 2005, following the IRS's elimination of the Federal State Death Tax Credit.

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

Figures may not add to total due to rounding

TABLE 2
NET REVENUE TO STATE GENERAL FUND
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

SOURCE	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Transaction Privilege, Use, and Severance Tax	\$3,290,458,614	\$3,650,082,271	\$4,257,917,335	\$4,516,215,317	\$4,406,139,759
Transaction Privilege, Use, and Severance Tax-Amnesty	12,308,108	----	----	----	----
Undistributed Estimated Transaction Privilege Tax	14,056,241	24,907,681	33,445,892	34,613,656	(28,064,558)
Income Tax	2,413,036,616	3,170,987,163 (4)	4,089,641,855	4,089,906,556	3,506,425,271
Income Tax-Amnesty	56,757,741	----	----	----	----
Luxury Tax	61,245,119	64,446,627	66,732,468	65,808,829	61,037,231
Luxury Tax-Amnesty	55,899	----	----	----	----
Estate Tax	38,818,431	31,236,067 (5)	11,683,603	(550,764)	320,203
Unclaimed Property	8,043,962	9,423,140	10,256,152	11,703,745	9,755,359
Bingo	624,501	610,055	623,480	619,387	558,330
Private Car Tax	1,335,056	1,312,163	1,426,435	1,709,362	1,615,246
Nuclear Plan Assessment	1,036,085	1,168,550	1,198,087	1,367,248	1,440,492
Flight Property Tax	6,320,722	---- (3)	----	----	----
Department Total	\$5,904,097,095	\$6,954,173,717 (4)	\$8,472,925,307	\$8,721,393,336	\$7,959,227,334
State Property Tax (1)	20,188,811	31,300,125	30,298,197	29,906,683	28,558,411
TOTAL	\$5,924,285,907	\$6,985,473,842 (4)	\$8,503,223,504	\$8,751,300,019	\$7,987,785,745

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

TABLE 3
GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX
FISCAL YEAR 2006-07 AND FISCAL YEAR 2007-08

GROSS COLLECTIONS	FY2006-07	FY2007-08	% CHANGE
Collections	\$292,147,672	\$275,528,300	-5.7%
Audit	\$221,562,318	\$184,263,380	-16.8%
Accounts Receivable	\$97,979,181	\$117,918,382	20.4%
TOTAL GROSS COLLECTIONS	\$611,689,171	\$577,710,062	-5.6%
ADJUSTMENTS (1)			
Duplication, Credit Audits and Other Adjustments As Reported	\$25,759,492	\$21,293,369	-17.3%
TOTAL ADJUSTED NET ENFORCEMENT COLLECTIONS (2)	\$585,929,679	\$556,416,693	-5.0%

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

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

TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX

MAJOR FEATURES

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

The state tax rates range from 2.5% to 5.6% depending on the type of business, with most rates at 5.6% (*Refer to Table 5*). Gross revenue exceeding \$7.5 billion was remitted by Transaction Privilege, Severance and Use Tax license holders during fiscal year 2008 (*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. The severance rate is 2.5% on mining metalliferous minerals (*Refer to Table 5*).

DISTRIBUTION

The transaction privilege tax 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 5.6% use tax is imposed on the purchase price of tangible personal property when a transaction privilege tax equal to or greater than the Arizona rate was not paid. A use tax collection responsibility is imposed on retailers whose activities in the state are insufficient to require them to pay transaction privilege tax but are nonetheless substantial enough to fall outside the protective umbrella of the United States Constitutional provision governing interstate commerce. Firms without nexus may also voluntarily collect use tax for the benefit of their customers.

MUNICIPAL PRIVILEGE AND USE TAX

The department collects transaction privilege and use tax for 77 Arizona cities and towns at no charge to the municipalities. This is a service to the cities and to the taxpaying community who are therefore able to combine their reporting requirements on a single form and payment to a single governmental entity. Weekly distribution checks to the cities are processed after the department collects the local taxes (*Refer to Tables 26 and 27*).

COUNTY TAX AND SURCHARGE COLLECTION

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

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

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

**TABLE 4
GROSS TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08**

SOURCE	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Distribution Base	\$1,362,143,376	\$1,504,851,881	\$1,742,272,992	\$1,848,148,565	\$1,788,242,630
Nonshared	2,588,439,418	2,871,370,865	3,350,808,572	3,575,743,539	3,448,839,624
Use Tax	232,215,946	259,687,993	306,198,808	303,010,863	340,535,252
Amnesty	13,553,444	-----	-----	-----	-----
SUBTOTAL	\$4,196,352,184	\$4,635,910,738	\$5,399,280,372	\$5,726,902,967	\$5,577,617,505
Education Tax	\$487,214,807	\$538,346,435	\$628,471,192	\$666,184,022	\$645,827,821
Undistributed Estimated	14,056,241	24,907,681	33,445,892	34,613,656	(28,064,558)
Telecommunications Devices	5,091,661	4,035,765	3,860,508	6,744,231 (3)	6,581,940
Poison Control Fund	1,437,566	1,066,833	1,128,620	-----	-----
School for the Deaf	1,362,312 (3)	1,363,179	867,140 (3)	-----	-----
Teratogen Information Program	-----	53,771 (3)	48,678 (3)	-----	-----
911 Excise	25,691,865	26,543,285	28,736,693	23,074,167	17,332,349
Municipal Water	2,195,590	2,156,683	2,403,644	2,449,270	2,550,646
Environmentally Hazardous Products (2)	44	-----	-----	-----	-----
Waste Tire Accounts	-----	-----	-----	-----	-----
Receivable Collections	23,068	23,018	25,238	49,009	78,702
Less Collection Fees (1)	-----	-----	-----	-----	-----
Amnesty-Other	765,008	-----	-----	-----	-----
GROSS STATE COLLECTIONS	\$4,734,190,336	\$5,234,407,387	\$6,098,267,976	\$6,460,017,324	\$6,221,924,406
Municipal Privilege Tax	\$352,320,229	\$428,527,285	\$551,992,962	\$619,189,088	\$581,066,050
Apache County Excise Tax	959,948	1,015,316	1,202,364	1,150,488	1,402,145
Cochise County Excise Tax	6,181,770	6,363,569	7,084,178	7,626,330	7,801,411
Cocoonino County Excise Tax	10,079,519	10,213,403	11,510,952	12,219,377	12,455,849
Cocoonino County Jail Tax	6,043,452	6,128,614	6,904,220	9,143,351	12,400,413
Cocoonino County Capitol Projects Tax	2,454,757	2,550,207	2,878,151	3,050,257	3,108,226
Gila County Excise Tax	2,626,335	2,608,771	3,014,729	3,308,376	3,287,537
Gila County Road Tax	2,709,463	2,698,164	3,107,708	3,410,721	3,391,644
Graham County Excise Tax	1,157,663	1,229,557	1,616,224	1,977,017	2,258,906
Greenlee County Excise Tax	713,868	803,692	1,062,011	1,052,972	1,641,764
La Paz County Excise Tax	972,286	1,011,440	1,147,366	1,168,130	1,122,268
La Paz County Jail Tax	972,523	1,011,321	1,147,361	1,167,821	1,122,266
La Paz County Health Services District	215,928	1,418	1,124	573	41
Maricopa County Road Tax	288,009,151	316,805,562	214,045,397 (1)	1,496,644	715,372
Maricopa County Road Tax Extension	-----	-----	153,591,999 (1)	390,953,954	379,350,183
Maricopa County Stadium Tax	82,139	416	4,796	2,346	884
Maricopa County Jail Tax	106,323,691	117,322,803	125,919,368	145,445,860	139,699,551
Maricopa County Rental Car Surcharge	5,556,717	6,024,355	6,493,520	6,211,155	6,206,305
Mohave County Excise Tax	5,599,830	6,638,796	7,809,442	7,717,443	7,070,208
Navajo County Excise Tax	5,322,106	5,777,336	6,613,709	6,778,153	7,083,165
Pima County Hotel Tax	2,716,687	2,885,159	6,396,637	8,766,453	8,215,104
Pima County Rental Car Surcharge	1,485,916	1,594,810	1,588,913	1,689,669	1,731,469
Pima County R.V. Surcharge	201,697	197,740	213,599	217,530	208,287
Pima County Road Tax	-----	-----	-----	66,810,147	74,768,398
Pinal County Excise Tax	9,550,194	11,921,052	16,998,069	18,826,280	17,449,950
Pinal County Health Services District	-----	-----	-----	-----	2,319,086 (1)
Pinal County Road Tax	9,757,830	12,173,030	17,279,308	19,177,206	17,856,916
Santa Cruz County Excise Tax	2,456,163	2,583,595	3,130,804	3,458,900	3,267,685
Santa Cruz County Jail Tax	-----	-----	-----	3,111,567	3,241,021
Yavapai County Excise Tax	12,564,395	14,102,433	16,623,589	16,971,697	15,908,075
Yavapai County Jail Tax	6,190,924	7,045,465	8,310,397	8,483,152	7,952,863
Yuma County Excise Tax	9,103,289	10,602,218	11,880,763	12,400,384	12,339,424
Yuma County Jail Tax	9,100,795	10,601,525	11,880,747 (4)	12,401,312	12,338,683
Yuma County Capitol Projects Tax	9,072,298	10,580,860	11,820,404	8,240,159 (1)	49,866
Yuma County Health Services District	-----	-----	1,811,649 (1)	2,458,301	2,474,852
Tourism/Sports Authority	19,125,954	19,987,721	22,454,539	24,267,403	24,027,540
Amnesty-County Taxes	996,779	-----	-----	-----	-----
Additional Distribution	-----	-----	-----	13,085	-----
COUNTY AND CITY COLLECTIONS	\$890,624,297	\$1,021,007,631	\$1,237,537,000	\$1,430,363,301	\$1,375,333,407
TOTAL DEPARTMENT OF REVENUE RECEIPTS	\$5,624,814,633	\$6,255,415,019	\$7,335,804,975	\$7,890,380,625	\$7,597,257,813

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

TABLE 5
STATE TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX RATES
FISCAL YEAR 2007-08

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	1.0%	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%
25. Hotel/Motel Tax	2.75%	2.75%	0.0%	5.5%
29/30. Use and Use Inventory Tax	0.0%	5.0%	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

TABLE 6
NET TAXABLE SALES
BY TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX CLASSIFICATIONS (1)
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

CLASSIFICATION	FY2003-04	% OF TOTAL	FY2004-05	% OF TOTAL	FY2005-06	% OF TOTAL	FY2006-07	% OF TOTAL	FY2007-08	% OF TOTAL
Transporting (5)	\$67,486,501	0.08	\$53,371,189	0.06	\$59,800,611	0.06	\$43,350,656	0.04	\$48,715,871	0.04
Mining, Oil & Gas	287,786,559	0.34	317,201,953	0.34	321,538,409	0.30	255,531,207	0.22	216,674,568	0.19
Mining Severance	261,623,478	0.31	656,631,022	0.71	1,219,984,252	1.12	1,743,361,330	1.51	1,752,522,103	1.56
Utilities	6,430,306,112	7.69	6,828,178,785	7.34	7,679,981,999	7.06	8,609,033,694	7.47	9,237,778,527	8.23
Communications	2,809,508,501	3.36	2,934,857,677	3.15	3,220,061,678	2.96	3,513,667,361	3.05	3,669,682,556	3.27
Private Car and Pipelines	15,919,891	0.02	14,832,331	0.02	25,751,236	0.02	19,678,951	0.02	16,021,363	0.01
Publishing	128,910,761	0.15	134,924,680	0.14	133,679,534	0.12	129,680,750	0.11	122,652,124	0.11
Job Printing	348,923,705	0.42	367,010,013	0.39	403,686,091	0.37	397,801,716	0.35	391,037,724	0.35
Restaurants and Bars	7,202,034,300	8.62	7,939,964,059	8.53	8,933,458,779	8.22	9,619,785,333	8.34	9,663,958,579	8.61
Amusements	813,488,687	0.97	872,520,031	0.94	998,766,714	0.92	1,086,363,361	0.94	1,146,344,296	1.02
Commercial Lease (4)	(6,517,860)	n/a (2)	918,894	0.00 (2)	(119,532)	n/a (2)	(1,707)	n/a (2)	(443,473)	n/a (2)
Personal Property										
Rentals	3,174,944,574	3.80	3,242,363,333	3.48	3,633,373,845	3.34	3,927,824,025	3.41	3,995,696,708	3.56
Contracting	13,156,489,701	15.74	16,044,846,683	17.24	20,487,917,068	18.85	22,415,050,588	19.44	20,156,298,616	17.95
Feed Wholesale (3)	(8,021)	n/a (2)	0	0.00	0	0.00	0	0.00	0	0.00
Retail	42,409,054,932	50.74	46,378,344,449	49.83	53,147,971,363	48.89	55,009,403,286	47.72	52,626,992,989	46.86
Hotel/Motel	1,831,153,519	2.19	2,063,973,281	2.22	2,268,775,586	2.09	2,411,634,235	2.09	2,405,704,851	2.14
Rental Occupancy Tax	4,201,555	0.01	2,413,680	0.00 (2)	3,471,162	0.00 (2)	1,064,998	0.00 (2)	(2,669,444)	n/a (2)
Use Tax	4,644,318,922	5.56	5,218,535,456	5.61	6,155,958,934	5.66	6,091,506,625	5.28	6,837,880,265	6.09
Use Tax-Utilities	126,773	0.00 (2)	234,400	0.00 (2)	16,581,719	0.02	12,153,982	0.01	12,461,292	0.01
Membership Camping	2,998,348	0.00 (2)	2,896,795	0.00 (2)	2,784,840	0.00 (2)	12,257	0.00 (2)	51,662	0.00 (2)
Other	119,004	0.00 (2)	0	0.00	0	0.00	0	0.00	0	0.00
TOTAL	\$83,582,869,941	100.00	\$93,074,018,711	100.00	\$108,713,424,289	100.00	\$115,286,902,648	100.00	\$112,297,361,177	100.00

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

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

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

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

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

Figures may not add to total due to rounding.

TABLE 7
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS BY CLASS
FISCAL YEAR 2007-08

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL COLLECTIONS
Transporting (1)	\$483,574	\$1,934,351	\$2,417,925
Nonmetal Mining, Oil and Gas	2,163,633	4,597,721	6,761,355
Mining Severance	35,001,290	8,750,323	43,751,613
Timbering Severance - Ponderosa (3)	(81)	(20)	(101)
Timbering Severance - Other (3)	3,878	970	4,847
Utilities	92,290,973	369,163,891	461,454,863
Communications	36,657,900	146,631,598	183,289,498
Private Car and Pipelines	159,930	639,719	799,649
Publishing	1,225,014	4,900,057	6,125,071
Printing	3,905,624	15,622,495	19,528,119
Restaurants and Bars	193,065,666	289,598,499	482,664,165
Amusements	22,898,794	34,348,191	57,246,984
Commercial Lease (2)	(8,847)	(7,845)	(16,692)
Rentals of Personal Property	79,827,746	119,741,619	199,569,365
Contracting	201,304,042	805,216,169	1,006,520,211
Retail	1,051,304,403	1,576,956,604	2,628,261,007
Hotel/Motel	66,081,718	66,081,718	132,163,437
Rental Occupancy Tax (3)	(53,580)	(26,390)	(79,971)
Use Tax Utilities	124,548	498,192	622,740
Use Tax	0	340,535,252	340,535,252
License Fees	0	561,898	561,898
Membership Camping (3)	1,003	1,505	2,508
Jet Fuel Tax	1,854,516	2,781,774	4,636,291
Jet Fuel Use Tax	0	1,045,498	1,045,498
Non Sufficient Funds	0	(2,457)	(2,457)
Telecommunications Service Assistance	(49,114)	(196,455)	(245,568)
TOTAL	\$1,788,242,630	\$3,789,374,876	\$5,577,617,505

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

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

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

Figures may not add to total due to rounding.

**TABLE 8
DISTRIBUTION OF TRANSACTION PRIVILEGE, USE
AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2007-08**

Net Regular to State General Fund	\$4,406,139,759
Net Estimated Payments to General Fund	(28,064,558)
Net to Cities	447,060,657
Net to Counties	724,417,089
Net to Education Fund	645,827,821
911 Wireline/Excise, 911 Wireless, Telecommunications devices, Municipal Water, and Waste Tire Accounts Receivable Collections	26,543,638
TOTAL GROSS COLLECTIONS	\$6,221,924,406

**ADDITIONAL DISTRIBUTION FROM
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2007-08**

Phoenix International Raceway - Bridge Construction	\$416,667
Phoenix International Raceway - Highway Improvements	\$416,667
Rio Nuevo	\$15,456,187
Sports and Tourism Authority	\$6,887,503
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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$13,304,340	9.4%	\$665,217
Communications	17,528,171	-30.7%	876,409
Job Printing	151,341	-33.5%	7,567
Restaurants and Bars	10,462,084	-0.4%	523,104
Amusements	350,710	13.7%	17,535
Rentals of Personal			
Property	7,231,393	34.7%	361,570
Contracting (All)	91,176,608	14.8%	4,558,830
Retail	114,527,756	52.2%	5,726,388
Hotel/Motel	12,752,509	-2.8%	701,388
Other Taxable Activities (2)	109,327,963	54.4%	5,193,329
TOTAL	\$376,812,875	28.9%	\$18,631,337

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	21	24	26
Communications	133	142	123
Job Printing	n/a	12	12
Restaurants and Bars	66	71	74
Amusements	n/a	15	9
Rentals of Personal			
Property	180	171	181
Contracting (All)	452	471	477
Retail	1,241	1,297	1,307
Hotel/Motel	56	59	60
Other Taxable Activities	845	878	918
TOTAL	2,994	3,140	3,187

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance are not included.

(2) For FY08, more categories have been classified under Other Taxable Activities compared to FY07.

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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$180,059,819	15.8%	\$9,002,991
Communications	55,460,583	4.8%	2,773,029
Publishing	1,143,434	-35.5%	57,172
Restaurants and Bars	128,070,420	2.7%	6,403,521
Amusements	5,530,959	85.6%	276,548
Rentals of Personal			
Property	28,236,534	2.4%	1,411,827
Contracting (All)	308,775,576	0.1%	15,438,779
Retail	800,525,261	2.2%	40,026,263
Hotel/Motel	43,939,052	13.5%	2,416,648
Other Taxable Activities	85,922,026	-11.0%	4,217,448
TOTAL	\$1,637,663,664	2.8%	\$82,024,226

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	46	55	53
Communications	228	211	198
Publishing	n/a	25	20
Restaurants and Bars	350	351	353
Amusements	60	58	62
Rentals of Personal			
Property	409	403	381
Contracting (All)	1,162	1,201	1,240
Retail	3,452	3,580	3,541
Hotel/Motel	142	151	152
Other Taxable Activities	1,438	1,472	1,521
TOTAL	7,287	7,507	7,521

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$163,936,934	3.7%	\$8,196,847
Communications	84,630,092	-5.4%	4,231,505
Publishing	2,079,384	-19.6%	103,969
Job Printing	2,322,472	-27.9%	116,124
Restaurants and Bars	343,057,328	1.8%	17,152,866
Amusements	69,830,101	43.0%	3,491,505
Rentals of Personal Property	78,666,862	24.9%	3,933,343
Contracting (All)	423,950,333	6.7%	21,197,517
Retail	1,053,022,228	-2.0%	52,651,111
Hotel/Motel	231,614,677	7.5%	12,738,807
Other Taxable Activities	119,406,985	0.1%	5,811,374
TOTAL	\$2,572,517,396	2.6%	\$129,624,968

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	34	36	42
Communications	249	259	234
Publishing	n/a	30	30
Job Printing	34	43	42
Restaurants and Bars	471	467	475
Amusements	91	99	87
Rentals of Personal Property	528	501	489
Contracting (All)	1,881	1,915	1,957
Retail	4,270	4,413	4,343
Hotel/Motel	268	257	245
Other Taxable Activities	1,801	1,841	1,874
TOTAL	9,627	9,861	9,818

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance are not included.

Figures may not add to total due to rounding.

TABLE 12
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GILA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$118,123,905	11.4%	\$5,906,195
Communications	25,394,010	-2.8%	1,269,701
Publishing	720,275	-25.6%	36,014
Job Printing	440,298	-0.4%	22,015
Restaurants and Bars	58,555,682	-2.2%	2,927,784
Amusements	1,639,457	-25.1%	81,973
Rentals of Personal Property	13,216,970	-10.7%	660,848
Contracting (All)	112,357,550	-3.9%	5,617,877
Retail	308,440,601	0.8%	15,422,030
Hotel/Motel	12,739,997	-10.9%	700,700
Other Taxable Activities	101,775,011	41.0%	3,775,275
TOTAL	\$753,403,756	4.6%	\$36,420,412

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	33	32	32
Communications	190	189	161
Publishing	15	16	15
Job Printing	n/a	17	18
Restaurants and Bars	189	188	184
Amusements	33	30	30
Rentals of Personal Property	283	277	281
Contracting (All)	859	923	948
Retail	2,090	2,116	2,095
Hotel/Motel	66	72	69
Other Taxable Activities	901	943	1,034
TOTAL	4,659	4,803	4,867

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance are not included.

Figures may not add to total due to rounding.

TABLE 13
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GRAHAM COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Communications	\$14,500,654	58.2%	\$725,033
Restaurants and Bars	26,755,083	7.1%	1,337,754
Rentals of Personal Property	20,180,264	30.4%	1,009,013
Contracting (All)	64,153,601	24.6%	3,207,680
Retail	263,300,619	12.2%	13,165,031
Other Taxable Activities	76,978,664	5.6%	3,731,138
TOTAL	\$465,868,885	14.0%	\$23,175,649

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Communications	143	141	119
Restaurants and Bars	67	60	61
Rentals of Personal Property	157	164	161
Contracting (All)	305	334	406
Retail	1,164	1,230	1,275
Other Taxable Activities	684	727	819
TOTAL	2,520	2,656	2,841

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Communications	\$3,711,889	50.0%	\$185,594
Restaurants and Bars	5,052,353	36.9%	252,618
Rentals of Personal Property	1,735,764	-70.5%	86,788
Contracting (All)	81,544,520	-2.8%	4,077,226
Retail	146,854,818	162.1%	7,342,741
Other Taxable Activities	759,718,744	-12.2%	21,403,777
TOTAL	\$998,618,088	-1.9%	\$33,348,744

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Communications	76	89	76
Restaurants and Bars	28	25	26
Rentals of Personal Property	59	72	71
Contracting (All)	102	111	137
Retail	441	498	516
Other Taxable Activities	322	362	410
TOTAL	1,028	1,157	1,236

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$22,711,352	5.8%	\$1,135,568
Communications	7,571,608	0.0%	378,580
Job Printing	126,763	-16.5%	6,338
Restaurants and Bars	27,187,687	1.1%	1,359,384
Amusements	175,763	-6.0%	8,788
Rentals of Personal Property	2,835,278	-18.3%	141,764
Contracting (All)	33,007,878	-7.8%	1,652,392
Retail	123,602,020	-3.4%	6,180,101
Hotel/Motel	5,948,451	-5.4%	327,165
Other Taxable Activities	7,585,055	1.0%	374,256
TOTAL	\$230,751,855	-2.8%	\$11,564,336

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	18	18	16
Communications	122	127	107
Job Printing	n/a	10	11
Restaurants and Bars	99	102	114
Amusements	13	10	17
Rentals of Personal Property	178	167	170
Contracting (All)	338	350	347
Retail	1,908	1,864	1,777
Hotel/Motel	55	57	50
Other Taxable Activities	565	599	619
TOTAL	3,296	3,304	3,228

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance are not included.

Figures may not add to total due to rounding.

TABLE 16
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN MARICOPA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$5,727,793,111	7.3%	\$286,389,656
Communications	2,468,306,652	6.7%	123,415,333
Publishing	85,876,221	-8.5%	4,293,811
Job Printing	317,782,971	-1.4%	15,889,149
Restaurants and Bars	6,565,944,950	-0.1%	328,297,248
Amusements	853,063,207	4.2%	42,653,160
Rentals of Personal			
Property	3,048,813,224	1.4%	152,440,661
Contracting (All)	13,315,477,503	-9.8%	665,773,875
Retail	35,592,784,696	-5.8%	1,779,639,235
Hotel/Motel	1,489,312,952	0.4%	81,912,212
Other Taxable Activities	5,418,695,227	12.2%	269,450,398
TOTAL	\$74,883,850,713	-3.2%	\$3,750,154,737

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	131	143	144
Communications	658	687	654
Publishing	310	314	306
Job Printing	911	940	921
Restaurants and Bars	6,442	6,584	6,759
Amusements	759	720	752
Rentals of Personal			
Property	3,047	3,035	3,057
Contracting (All)	15,506	16,516	16,546
Retail	48,977	49,535	49,466
Hotel/Motel	686	640	663
Other Taxable Activities	12,226	11,920	11,441
TOTAL	89,653	91,034	90,709

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$482,942,652	7.3%	\$24,147,133
Communications	93,661,070	4.4%	4,683,054
Publishing	2,405,150	2.4%	120,257
Job Printing	5,264,581	-15.4%	263,229
Restaurants and Bars	216,041,736	-0.6%	10,802,087
Amusements	16,666,318	27.1%	833,316
Rentals of Personal			
Property	80,060,984	2.0%	4,003,049
Contracting (All)	489,986,329	-23.1%	24,499,316
Retail	1,371,519,438	-9.5%	68,575,972
Hotel/Motel	46,951,991	-4.7%	2,582,359
Other Taxable Activities	140,456,677	3.7%	6,679,095
TOTAL	\$2,945,956,925	-7.8%	\$147,188,867

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	52	51	49
Communications	202	202	187
Publishing	28	27	28
Job Printing	37	35	36
Restaurants and Bars	448	446	445
Amusements	68	60	74
Rentals of Personal			
Property	544	540	539
Contracting (All)	2,039	2,178	2,014
Retail	4,827	4,990	4,885
Hotel/Motel	166	164	152
Other Taxable Activities	1,809	1,925	1,921
TOTAL	10,220	10,618	10,330

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$92,255,352	4.9%	\$4,612,768
Communications	40,135,719	14.3%	2,006,786
Publishing	1,135,152	-5.2%	56,758
Restaurants and Bars	95,570,042	0.4%	4,778,502
Rentals of Personal			
Property	37,319,981	30.2%	1,865,999
Contracting (All)	279,562,880	8.6%	13,978,144
Retail	818,594,217	4.0%	40,929,711
Hotel/Motel	34,756,271	2.1%	1,911,595
Other Taxable Activities	71,219,440	22.8%	3,498,387
TOTAL	\$1,470,549,054	6.2%	\$73,638,649

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	41	41	38
Communications	192	184	163
Publishing	n/a	14	19
Restaurants and Bars	219	233	235
Amusements	n/a	45	44
Rentals of Personal			
Property	336	319	299
Contracting (All)	1,082	1,191	1,199
Retail	2,494	2,665	2,691
Hotel/Motel	152	151	151
Other Taxable Activities	1,171	1,181	1,234
TOTAL	5,687	6,024	6,073

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$1,291,244,638	1.0%	\$64,562,232
Communications	479,967,215	-0.6%	23,998,361
Publishing	17,692,637	17.5%	884,632
Job Printing	47,689,021	-1.7%	2,384,451
Restaurants and Bars	1,451,212,168	0.5%	72,560,608
Amusements	112,085,954	-4.7%	5,604,298
Rentals of Personal			
Property	466,395,063	0.6%	23,319,753
Contracting (All)	2,288,608,409	-5.6%	114,430,420
Retail	7,651,258,490	-2.1%	382,562,925
Hotel/Motel	319,154,819	-12.0%	17,553,515
Other Taxable Activities	1,243,472,126	30.5%	47,017,232
TOTAL	\$15,368,780,541	-1.1%	\$754,878,426

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	69	77	79
Communications	273	326	316
Publishing	81	86	84
Job Printing	175	165	171
Restaurants and Bars	1,684	1,692	1,703
Amusements	206	220	213
Rentals of Personal			
Property	1,146	1,154	1,143
Contracting (All)	4,963	5,111	5,278
Retail	14,861	15,091	14,988
Hotel/Motel	283	276	273
Other Taxable Activities	3,972	4,232	4,122
TOTAL	27,713	28,430	28,370

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance are not included.

Figures may not add to total due to rounding.

TABLE 20
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN PINAL COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$391,610,466	19.1%	\$19,580,523
Communications	157,103,201	8.4%	7,855,160
Publishing	3,610,864	12.7%	180,543
Job Printing	1,452,576	-7.1%	72,629
Restaurants and Bars	203,069,968	7.6%	10,153,498
Amusements	28,074,518	3.6%	1,403,726
Rentals of Personal Property	62,567,755	-2.4%	3,128,388
Contracting (All)	1,461,402,552	-21.8%	73,070,128
Retail	1,112,778,763	6.1%	55,638,938
Hotel/Motel	23,528,275	8.0%	1,294,055
Other Taxable Activities	413,788,236	7.5%	15,649,173
TOTAL	\$3,858,987,176	-5.5%	\$188,026,762

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	65	67	70
Communications	260	261	236
Publishing	27	27	28
Job Printing	n/a	35	33
Restaurants and Bars	402	405	435
Amusements	105	101	101
Rentals of Personal Property	479	519	505
Contracting (All)	2,701	2,968	3,077
Retail	4,157	4,530	4,711
Hotel/Motel	101	108	109
Other Taxable Activities	1,551	1,669	1,773
TOTAL	9,848	10,690	11,078

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance are not included.

Figures may not add to total due to rounding.

TABLE 21
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN SANTA CRUZ COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$44,284,102	12.2%	\$2,214,205
Communications	29,678,429	4.1%	1,483,921
Job Printing	648,775	-12.0%	32,439
Restaurants and Bars	50,153,975	2.4%	2,507,699
Amusements	6,477,330	21.8%	323,867
Rentals of Personal Property	11,385,081	-24.4%	569,254
Contracting (All)	100,692,022	-18.0%	5,034,601
Retail	389,075,734	-5.6%	19,453,787
Hotel/Motel	16,458,729	22.9%	905,230
Other Taxable Activities	21,847,128	4.5%	1,092,302
TOTAL	\$670,701,305	-5.2%	\$33,617,305

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	18	18	16
Communications	165	165	146
Job Printing	14	13	11
Restaurants and Bars	138	144	158
Amusements	18	20	24
Rentals of Personal Property	246	247	252
Contracting (All)	602	652	672
Retail	1,800	1,933	1,996
Hotel/Motel	30	37	38
Other Taxable Activities	790	842	902
TOTAL	3,821	4,071	4,215

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$312,148,297	8.0%	\$15,607,415
Communications	113,956,125	-4.4%	5,697,806
Job Printing	7,501,386	-5.7%	375,069
Restaurants and Bars	280,197,443	1.8%	14,009,872
Amusements	31,238,503	12.3%	1,561,925
Rentals of Personal			
Property	65,041,731	-4.9%	3,252,087
Contracting (All)	675,722,242	-15.5%	33,786,108
Retail	1,539,569,029	-5.5%	76,978,451
Hotel/Motel	109,530,781	8.3%	6,024,193
Other Taxable Activities (2)	392,547,538	2.5%	12,536,516
TOTAL	\$3,527,453,075	-4.7%	\$169,829,443

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	74	70	74
Communications	240	256	231
Job Printing	62	60	65
Restaurants and Bars	638	635	643
Amusements	93	93	100
Rentals of Personal			
Property	550	551	519
Contracting (All)	3,065	3,149	3,066
Retail	6,205	6,322	6,320
Hotel/Motel	199	180	188
Other Taxable Activities	1,940	2,017	2,063
TOTAL	13,066	13,333	13,269

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance are not included.

(2) For FY08, more categories have been classified under Other Taxable Activities compared to FY07.

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, 2007 AND ENDING JUNE 30, 2008

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2006-07	COLLECTIONS
Utilities	\$258,162,995	8.3%	\$12,908,150
Communications	78,077,139	-10.3%	3,903,857
Restaurants and Bars	202,627,659	5.3%	10,131,383
Amusements	13,551,703	4.3%	677,585
Rentals of Personal			
Property	72,009,823	8.8%	3,600,491
Contracting (All)	429,880,615	-7.1%	21,494,031
Retail	1,341,139,317	0.1%	67,056,966
Hotel/Motel	50,086,961	1.3%	2,754,783
Other Taxable Activities	89,909,654	2.0%	4,428,655
TOTAL	\$2,535,445,865	-0.1%	\$126,955,900

NUMBER OF ACCOUNTS
FISCAL YEAR 2005-06 THROUGH FISCAL YEAR 2007-08

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2005-06	FY2006-07	FY2007-08
Utilities	32	37	36
Communications	322	216	199
Restaurants and Bars	348	348	340
Amusements	43	42	46
Rentals of Personal			
Property	440	469	473
Contracting (All)	997	1,084	1,042
Retail	3,599	3,784	3,762
Hotel/Motel	101	99	104
Other Taxable Activities	1,418	1,583	1,611
TOTAL	7,300	7,662	7,613

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance, NSF, and Telecommunications Service Assistance 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 2003-04 THROUGH FISCAL YEAR 2007-08

COUNTY	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	% CHANGE FROM FY 2006-07
Apache	\$4,135,998	\$4,542,978	\$5,213,591	\$5,021,042	\$5,074,805	1.1%
Cochise	10,135,220	10,852,890	12,250,317	13,078,428	12,547,126	-4.1%
Coconino	14,362,293	15,127,441	16,990,411	17,652,655	17,161,720	-2.8%
Gila	4,314,601	4,600,625	5,347,259	5,375,594	5,370,720	-0.1%
Graham	2,500,199	2,735,648	3,257,813	3,419,080	3,551,781	3.9%
Greenlee	1,975,250	2,511,678	3,918,655	5,112,364	4,893,205	-4.3%
La Paz	1,665,084	1,824,245	2,050,126	2,027,860	1,962,689	-3.2%
Maricopa	355,145,845	392,415,261	453,769,970	480,738,808	465,016,355	-3.3%
Mohave	15,239,251	17,231,461	20,349,087	22,051,895	21,046,522	-4.6%
Navajo	8,627,859	9,440,461	10,785,151	10,999,752	10,977,266	-0.2%
Pima	82,562,254	90,284,731	102,619,310	106,931,317	104,069,379	-2.7%
Pinal	14,773,417	16,911,027	21,298,154	25,221,897	24,071,466	-4.6%
Santa Cruz	3,627,497	3,949,677	4,604,423	4,919,731	4,703,843	-4.4%
Yavapai	18,519,004	21,183,714	25,131,601	26,858,064	25,136,960	-6.4%
Yuma	14,220,509	16,003,660	18,208,919	19,276,498	18,833,253	-2.3%
Additional Distribution	-----	-----	-----	7,612	-----	
	\$551,804,281	\$609,615,497	\$705,794,789	\$748,692,595	\$724,417,089	-3.2%

Figures may not add to totals due to rounding.

TABLE 25
STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX
DISTRIBUTION TO MUNICIPALITIES
FISCAL YEAR 2007-08

CITIES	AMOUNT	COUNTY TOTAL	CITIES	AMOUNT	COUNTY TOTAL
APACHE			Scottsdale	\$21,574,639	
Eagar	\$407,594		Surprise	8,111,903	
Springerville	189,782		Tempe	15,237,309	
St. Johns	355,209	\$952,585	Tolleson	597,192	
COCHISE			Wickenburg	558,500	
Benson	\$435,625		Youngtown	566,404	\$318,787,274
Bisbee	603,809		MOHAVE		
Douglas	1,580,288		Bullhead City	\$3,511,650	
Huachuca City	168,184		Colorado City	374,968	
Sierra Vista	4,015,284		Kingman	2,376,636	
Tombstone	147,965		Lake Havasu City	4,910,888	\$11,174,143
Willcox	357,047	\$7,308,203	NAVAJO		
COCONINO			Holbrook	\$498,579	
Flagstaff	\$5,623,144		Pinetop-Lakeside	382,780	
Fredonia	102,013		Show Low	908,471	
Page	653,437		Snowflake	453,546	
Williams	289,038	\$6,667,632	Taylor	376,806	
GILA			Winslow	903,876	\$3,524,058
Globe	\$688,820		PIMA		
Hayden	81,978		Marana	\$2,456,133	
Miami	179,672		Oro Valley	3,621,016	
Payson	1,418,078		Sahuarita	1,285,736	
Star Valley	184,359		South Tucson	517,419	
Winkelman	40,713	\$2,593,622	Tucson	48,687,962	\$56,568,267
GRAHAM			PINAL		
Pima	\$200,535		Apache Junction	\$3,131,168	
Safford	860,221		Casa Grande	2,984,122	
Thatcher	418,163	\$1,478,919	Coolidge	751,774	
GREENLEE			Eloy	1,022,432	
Clifton	\$238,583		Florence	1,886,788	
Duncan	74,626	\$313,209	Kearny	206,692	
LA PAZ			Mammoth	161,935	
Parker	\$301,445		Maricopa	1,464,398	
Quartzsite	330,854	\$632,299	Superior	299,055	\$11,908,364
MARICOPA			SANTA CRUZ		
Avondale	\$6,374,091		Nogales	\$2,006,263	
Buckeye	2,334,912		Patagonia	84,552	\$2,090,815
Carefree	338,574		YAVAPAI		
Cave Creek	438,014		Camp Verde	\$986,129	
Chandler	21,215,570		Chino Valley	1,132,716	
El Mirage	2,946,533		Clarkdale	338,207	
Fountain Hills	2,250,912		Cottonwood	998,077	
Gila Bend	181,970		Dewey-Humboldt	370,373	
Gilbert	16,316,997		Jerome	30,328	
Glendale	22,274,671		Prescott	3,746,925	
Goodyear	4,247,158		Prescott Valley	3,085,676	
Guadalupe	510,526		Sedona	1,004,970	\$11,693,401
Litchfield Park	416,141		YUMA		
Mesa	41,181,798		San Luis	\$2,107,358	
Paradise Valley	1,274,065		Somerton	896,064	
Peoria	12,695,889		Wellton	181,051	
Phoenix	135,634,993		Yuma	8,183,395	\$11,367,867
Queen Creek	1,508,512				
			TOTAL	\$447,060,657	\$447,060,657

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

TABLE 26
MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM
COLLECTIONS BY CITY
FISCAL YEAR 2007-08

CITY	RATE (1) (PERCENT)	COLLECTIONS	CITY	RATE (1) (PERCENT)	COLLECTIONS
Apache Junction (2)	2.2*	\$879,901	Maricopa	2.0*	\$18,574,745
Benson	2.5*	3,473,007	Miami	2.5*	416,891
Bisbee	2.5*	1,887,421	Oro Valley	2.0*	16,603,028
Buckeye	2.0*	18,897,494	Page	3.0*	6,642,357
Bullhead City	2.0*	12,657,372	Paradise Valley	1.65*	10,126,499
Camp Verde	2.0*	2,457,285	Parker	2.0*	1,274,949
Carefree	3.0*	3,710,156	Patagonia	3.0*	241,986
Casa Grande	1.8*	28,444,072	Payson	2.12*	7,302,297
Cave Creek	2.5*	4,178,992	Pima	2.0*	310,311
Chino Valley	3.0*	4,935,395	Pinetop-Lakeside	2.5*	4,197,926
Clarkdale	2.25*	891,512	Prescott Valley	2.33*	12,351,045
Clifton	3.0*	554,200	Quartzsite	2.5*	1,626,602
Colorado City	2.0*	273,849	Queen Creek	2.25*	18,015,415
Coolidge	3.0*	5,315,977	Safford	2.5*	7,385,031
Cottonwood	2.2*	9,911,065	Sahuarita	2.0*	10,576,590
Dewey-Humboldt	2.0*	420,587	St. Johns	2.0*	526,085
Douglas	2.5*	5,350,489	San Luis	3.5*	4,621,222
Duncan	2.0	92,250	Sedona	3.0*	14,254,478
Eagar	3.0*	857,687	Show Low	2.0	10,942,341
El Mirage	3.0*	5,929,568	Sierra Vista	1.75*	17,797,427
Eloy	3.0*	8,441,969	Snowflake	2.0*	1,376,873
Florence	2.0*	5,626,375	Somerton	2.5*	1,363,902
Fountain Hills	2.6*	10,470,882	South Tucson	2.5*	2,149,998
Fredonia	4.0*	271,315	Springerville	3.0*	1,871,366
Gila Bend	3.0*	1,136,127	Star Valley	2.0*	551,411
Gilbert	1.5*	56,533,469	Superior	2.0*	197,566
Globe	2.0*	4,057,521	Surprise	2.2*	40,087,807
Goodyear	2.0*	40,346,762	Taylor	2.0*	836,269
Guadalupe	3.0*	1,551,378	Thatcher	2.0*	2,220,472
Hayden	3.0*	1,577,738	Tolleson	2.5*	7,959,492
Holbrook	3.0*	3,012,807	Tombstone	2.5*	727,836
Huachuca City	1.5*	219,333	Wellton	2.5*	688,163
Jerome	3.0	507,224	Wickenburg	1.7*	3,146,665
Kearny	2.5*	355,937	Willcox	3.0*	2,516,769
Kingman	2.0*	12,990,503	Williams	3.0*	4,249,660
Lake Havasu City	2.0*	18,222,454	Winkelman	3.5*	97,171
Litchfield Park	2.0*	3,133,416	Winslow	3.0*	4,294,927
Mammoth	2.0*	73,762	Youngtown	2.0*	1,164,200
Marana	2.0*	27,319,468	Yuma	1.7	34,811,560
TOTAL					\$581,066,050

* 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, 2008 and may have changed during the remainder of FY 08.

(2) Effective July 1, 2007, Apache Junction no longer participates in the municipal privilege tax collection program. Collections shown here are from periods prior to July 1, 2007.

Figures may not add to total due to rounding.

TABLE 27
MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

FISCAL YEAR	TOTAL COLLECTIONS	NUMBER OF CITIES IN PROGRAM
2003-04	\$352,320,229	76
2004-05	\$428,527,285	77
2005-06	\$551,992,962	78
2006-07	\$619,189,088	78
2007-08	\$581,066,050	77

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 \$784 million during fiscal year 2008 (*Refer to Table 28*).

INDIVIDUAL INCOME TAX

MAJOR FEATURES

For tax year 2005 filed in 2006, approximately 2.4 million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than \$136.7 billion. Individuals with Arizona gross income of more than \$75,000, in the preceding or current year, are required to file Arizona estimated tax payments. An individual can apply any portion of an income tax refund toward the following year's income tax as an estimated payment.

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

DISTRIBUTION

State income tax collections are shared with Arizona municipalities in an Urban Revenue Sharing Program. During fiscal year 2008 an amount equal to 15 percent of net income tax collections from two years prior was distributed to cities and towns. The distribution is based on population and is given only to incorporated cities and towns. The remainder is deposited in the state general fund after amounts sufficient to pay refunds are allocated (*Refer to Tables 28 and 29*).

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

CORPORATE AND INDIVIDUAL INCOME TAX CREDITS

CREDIT

AVAILABLE TO

Agricultural Preservation District

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

Agricultural Water Conservation System

Taxpayers that incur expenses to purchase and install an agricultural water conservation system in Arizona.

Agricultural Pollution Control Equipment

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

Clean Elections

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

Contributions to Charities that Provide Assistance to the Working Poor

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

Corporate Contributions To School Tuition Organizations

Corporate taxpayers that make cash contributions to school tuition organizations. The amount of the donation must be pre-approved by the department. There is an annual limit to the aggregate amount of donations made.

Defense Contracting

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

Employing Arizona National Guard Members

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

Employment of TANF Recipients

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

Enterprise Zone

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

Environmental Technology Facility

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

Family

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

Healthy Forest Enterprises

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

Income Taxes Paid to Another State or Country

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

Investment in Qualified Small Businesses

Allows a credit for investments in qualified small businesses to individuals.

CREDIT**AVAILABLE TO****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.

**Motion Picture
Productions Costs**

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

Pollution Control

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

**Private School
Tuition Organizations**

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

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

Property Tax

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

**Public School Extra
Curricular Activity**

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

Recycling Equipment

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

Research and Development

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

School Site Donation

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

Solar Energy Devices

Individual taxpayers who install a solar energy device in his or her residence located in Arizona.

**Solar Energy Devices –
Commercial & Industrial
Applications**

This credit is available to individuals, corporations and S corporations. The credit is 10% of the cost of the installed device, not to exceed \$25,000 with respect to the same building in the same tax Year, or \$50,000 in total credits in any given year.

**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.

CREDIT

AVAILABLE TO

**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.

Water Conservation System

An individual may qualify for this credit if the taxpayer installed a qualifying water conservation system in the taxpayer's residence located in Arizona.

TABLE 28
INCOME TAX COLLECTIONS
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

SOURCE	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	PERCENT OF NET COLLECTIONS IN FY2007-08
<u>Withheld from Wages</u>						
Gross Revenue	\$2,336,442,815	\$2,626,264,231	\$3,041,031,728	\$3,294,287,540	\$3,344,770,438	
Amnesty	\$176,268	----	----	----	----	
Refunds and Charge-offs	(8,422,819)	(5,267,886)	(8,992,229)	(19,969,915)	(22,167,786)	
NET	\$2,328,196,264	\$2,620,996,345	\$3,032,039,499	\$3,274,317,624	\$3,322,602,653	79.1%
<u>Individuals & Fiduciaries</u>						
Gross Revenue	\$776,183,708	\$1,128,453,951	\$1,631,563,811	\$1,677,949,795	\$1,461,050,780	
Amnesty	2,890,549	----	----	----	----	
Regular Refunds and Charge-offs	(791,230,045)	(895,440,957)	(1,012,026,853)	(1,285,344,591)	(1,369,350,067)	
Attorney Fees - Ladewig refunds (1)	(2,000,000)	(6,249,511)	(5,107,102)	(4,853,277)	(2,575)	
NET	(\$14,155,788)	\$226,763,483 (2)	\$614,429,855	\$387,751,926	\$91,698,139	2.2%
<u>Corporations</u>						
Gross Revenue	\$596,582,273	\$789,739,978	\$978,239,759	\$1,070,710,516	\$985,126,064	
Amnesty	53,690,925	----	----	----	----	
Refunds and Charge-offs	(124,623,328)	(87,880,694)	(104,020,287)	(84,540,518)	(200,615,179)	
NET	\$525,649,869	\$701,859,285	\$874,219,472	\$986,169,998	\$784,510,885	18.7%
Subtotal Net Collections	\$2,839,690,345	\$3,549,619,113 (2)	\$4,520,688,826	\$4,648,239,549	\$4,198,811,676	100.0%
Less distributions for:						
Urban Revenue Sharing	\$365,065,158	\$373,072,580	\$425,228,927	\$551,230,661	\$684,538,927	
Contracted Collection Agency	409	----	----	----	----	
Child Abuse Prevention	198,467	200,870	240,323	250,683	260,062	
Veteran's Donation Fund	----	----	----	----	65,085	
Aid to Education	46,052	42,696	37,991	38,309	107,173	
Domestic Violence Shelter	132,713	142,058	178,520	195,840	196,622	
Special Olympics	79,498	87,888	100,319	106,425	105,085	
Wildlife Contributions	167,014	174,101	212,208	255,738	235,199	
Neighbors Helping Neighbors	42,269	37,509	51,410	53,507	55,421	
Clean Elections	4,116,022	4,831,319	4,947,968	6,145,768	6,505,822	
National Guard Relief Fund	----	----	----	----	264,523	
Democratic Party	27,252	23,860	27,679	31,304	31,539	
Libertarian Party	1,570	2,292	2,436	3,315	2,310	
Republican Party	19,561	16,777	19,190	21,444	18,081	
Green Party	1	0	0	0	557	
Subtotal Distributions	\$369,895,988	\$378,631,950	\$431,046,971	\$558,332,993	\$692,386,405	
NET REVENUE TO STATE GENERAL FUND	\$2,469,794,357	\$3,170,987,163 (2)	\$4,089,641,855	\$4,089,906,556	\$3,506,425,271	
WQARF DISTRIBUTION	\$10,000,000	\$11,000,000 (2)	\$15,000,000	\$15,000,000	\$15,000,000	

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

(2) Corrected figures.

Figures may not add to total due to rounding.

**TABLE 29
EXEMPTIONS, DEDUCTIONS AND CREDITS
TAX YEAR 2004 THROUGH TAX YEAR 2007**

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
2004	2,100	1,500	2,100	2,300	4,050/8,100	502	240
2005	2,100	1,500	2,100	2,300	4,125/8,250	502	240
2006	2,100	1,500	2,100	2,300	4,247/8,494	502	240
2007	2,100	1,500	2,100	2,300	4,373/8,745	502	240

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

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

**INDIVIDUAL INCOME TAX CREDITS
TAX YEAR 2004 THROUGH TAX YEAR 2006**

CREDIT	TAX YEAR 2004		TAX YEAR 2005		TAX YEAR 2006	
	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS	CLAIMANTS	CREDITS
Agricultural Pollution Control	(1)	(1)	(1)	(1)	(2)	(2)
Agricultural Preservation District	0	\$0	0	\$0	---	---
Agricultural Water Conservation	141	\$2,784,783	132	\$1,829,142	79	\$967,778
Alternative Fuel - Non Refundable						
--Delivery System	0	\$0	---	---	---	---
--Vehicles	26	\$34,972	---	---	---	---
--Refuel Apparatus/Infrastructure	(1)	(1)	---	---	---	---
--Neighborhood Electric Vehicles	737	\$1,119,036	348	\$739,258	(2)	(2)
Clean Elections	32,338	\$739,774	31,075	\$801,435	32,563	\$801,655
Commercial & Industrial Solar Energy	---	---	---	---	(2)	(2)
Construction Materials	(1)	(1)	---	---	---	---
Contributions to Charities Providing Help to Working Poor	20,736	\$3,851,700	25,587	\$6,589,000	29,202	\$7,939,507
Defense Contracting	0	\$0	0	\$0	0	\$0
Employing National Guard Members	---	---	---	---	(1)	(1)
Employment of TANF Recipients	0	\$0	5	\$1,652	(2)	(2)
Enterprise Zone	165	\$1,339,705	191	\$1,441,581	188	\$1,569,267
Environmental Technology	0	\$0	0	\$0	0	\$0
Family Tax Credit	425,484	\$7,709,270	439,056	\$7,661,867	448,960	\$6,867,294
Healthy Forest Enterprises	---	---	---	---	0	\$0
Income Taxes Paid to Other States	29,956	\$80,229,015	34,664	\$119,416,310	34,880	\$124,937,274
Increased Excise Taxes Paid	555,762	\$29,924,907	546,678	\$29,358,243	536,940	\$28,751,332
Military Reuse Zone	0	\$0	0	\$0	0	\$0
Motion Picture Production & Infrastructure	---	---	---	---	0	\$0
Pollution Control Device	28	\$16,385	21	\$71,440	(2)	(2)
Private School Tuition Organization (3)	63,830	\$31,871,474	69,239	\$42,194,898	73,617	\$51,011,815
Property Tax	14,768	\$5,242,685	13,943	\$4,977,070	13,247	\$4,776,863
Public School Extra Curricular Activity (3)	213,987	\$30,958,872	215,369	\$35,416,279	218,664	\$43,230,433
Recycling Equipment	(1)	(1)	0	\$0	0	\$0
Research and Development	143	\$1,452,305	165	\$2,963,936	223	\$3,617,562
School Site Donation	100	\$3,511,441	79	\$6,027,400	87	\$7,702,030
Solar Energy	1,979	\$817,331	(2)	(2)	(2)	(2)
Solar Hot Water Heater & Plumbing Stub Outs	17	\$5,677	23	\$10,437	(2)	(2)
Technology Training	0	\$0	0	\$0	---	---
Underground Storage Tanks	0	\$0	---	---	---	---
Total	1,360,221	\$201,618,616	1,376,577	\$259,516,031	1,388,650	\$282,172,810

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

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

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

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

TABLE 30
RESIDENT INDIVIDUAL INCOME TAX LIABILITY
BY FEDERAL ADJUSTED GROSS INCOME
TAX YEAR 2005 (1)

FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	27,672	1.26%	\$284,867	0.01%
\$0.01 to \$1,999	37,918	1.72%	23,637	0.00%
\$2,000 to \$5,999	117,686	5.35%	65,155	0.00%
\$6,000 to \$9,999	142,298	6.47%	3,829,376	0.12%
\$10,000 to \$13,999	147,565	6.71%	11,256,679	0.35%
\$14,000 to \$19,999	229,858	10.45%	33,647,694	1.04%
\$20,000 to \$24,999	175,419	7.98%	45,436,187	1.41%
\$25,000 to \$29,999	154,131	7.01%	58,468,192	1.81%
\$30,000 to \$39,999	249,719	11.36%	137,725,814	4.27%
\$40,000 to \$49,999	183,654	8.35%	141,864,962	4.39%
\$50,000 to \$74,999	309,212	14.06%	353,138,192	10.94%
\$75,000 to \$99,999	178,703	8.13%	321,471,600	9.96%
\$100,000 to \$199,999	182,796	8.31%	607,249,913	18.81%
\$200,000 to \$499,999	47,678	2.17%	467,328,872	14.47%
\$500,000 to \$999,999	8,966	0.41%	246,854,018	7.64%
\$1,000,000 to \$4,999,999	4,840	0.22%	404,734,349	12.53%
\$5,000,000 and over	603	0.03%	395,705,523	12.25%
TOTAL	2,198,718	100.00%	\$3,229,085,030	100.00%

(1) This summary combines all liability reported on the Arizona Form 140 and 140A Individual Income tax returns for tax year 2005, filed from January 2006 forward.

TABLE 31
NONRESIDENT/ PART YEAR RESIDENT INDIVIDUAL INCOME TAX
LIABILITY BY FEDERAL ADJUSTED GROSS INCOME
TAX YEAR 2005 (1)

ARIZONA PORTION OF FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	26,495	10.64%	\$2,203,553	0.72%
\$0.01 to \$1,999	22,627	9.08%	22,606	0.01%
\$2,000 to \$5,999	36,993	14.85%	156,944	0.05%
\$6,000 to \$9,999	28,133	11.30%	1,181,173	0.39%
\$10,000 to \$13,999	22,087	8.87%	2,405,230	0.78%
\$14,000 to \$19,999	24,887	9.99%	5,346,126	1.74%
\$20,000 to \$24,999	14,792	5.94%	5,062,574	1.65%
\$25,000 to \$29,999	11,145	4.47%	5,124,850	1.67%
\$30,000 to \$39,999	15,871	6.37%	10,191,548	3.32%
\$40,000 to \$49,999	10,602	4.26%	9,643,224	3.14%
\$50,000 to \$74,999	14,457	5.80%	19,854,105	6.47%
\$75,000 to \$99,999	6,977	2.80%	15,078,593	4.92%
\$100,000 to \$199,999	8,453	3.39%	33,989,129	11.08%
\$200,000 to \$499,999	3,591	1.44%	39,538,467	12.89%
\$500,000 to \$999,999	1,090	0.44%	30,747,222	10.02%
\$1,000,000 to \$4,999,999	756	0.30%	65,847,623	21.47%
\$5,000,000 and over	111	0.04%	60,366,254	19.68%
TOTAL	249,067	100.00%	\$306,759,221	100.00%

(1) This summary combines all liability reported on the Arizona Form 140NR and 140PY Individual Income tax returns for tax year 2005, filed from January 2006 forward.

TABLE 32
CORPORATE INCOME TAX
CORPORATE TAXPAYER BY SIZE OF TAX LIABILITY
TAX YEAR 2005 (1)

CORPORATE TAX LIABILITY	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
\$50 Minimum	34,826	68.1%	\$1,727,927	0.2%
\$50.01 to \$99.99	1,128	2.2%	81,883	0.0%
\$100 to \$999.99	5,465	10.7%	2,307,964	0.3%
\$1,000 to \$4,999.99	4,977	9.7%	12,458,644	1.5%
\$5,000 to \$9,999.99	1,574	3.1%	11,106,340	1.3%
\$10,000 to \$49,999.99	1,921	3.8%	44,044,859	5.3%
\$50,000 to \$99,999.99	445	0.9%	31,990,189	3.9%
\$100,000 to \$499,999.99	570	1.1%	121,877,818	14.7%
\$500,000 to \$999,999.99	135	0.3%	95,499,542	11.5%
\$1,000,000 to \$15,000,000	134	0.3%	506,797,629	61.2%
TOTAL	51,175	100.0%	\$827,892,795	100.0%

CORPORATE INCOME TAX CREDITS
TAX YEAR 2005

CREDIT TYPE	# OF FILERS	CREDIT USED	CARRYFORWARD AVAILABLE
Agricultural Pollution Control Equipment	0	\$0	\$0
Agricultural Preservation District	0	\$0	\$0
Agricultural Water Conservation	*	*	*
Alternative Fuel - Non Refundable --Neighborhood Electric Vehicles	4	\$3,041	\$677,874
Clean Elections	102	\$2,019	\$0
Coal Used for Electric Generation	3	\$843,909	\$1,870,939
Consolidated Filers	28	\$4,680,893	\$32,171,333
Contributions to School Tuition Organizations	4	\$526,210	\$2,790
Defense Contracting	*	*	*
Employment of TANF Recipients	13	\$99,575	\$24,822
Enterprise Zone	118	\$7,620,213	\$3,568,964
Environmental Technology	*	*	*
Healthy Forest Enterprises	0	\$0	\$0
Military Reuse Zone	*	*	*
Pollution Control Equipment	23	\$2,100,899	\$4,144,624
Recycling Equipment	*	*	*
Research & Development	180	\$47,414,678	\$660,691,988
School Site Donation	5	\$1,272,504	\$1,177
Solar Hot Water Heater Plumbing Stub-Outs	0	\$0	\$0
Technology Training	3	\$46,356	\$0
TOTAL (2)	488	\$64,610,435	\$734,994,261

(1) This summary combines all liability on the Arizona Form 120 Corporate Income Tax returns for tax year 2005 filed from January 2006 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 2005**

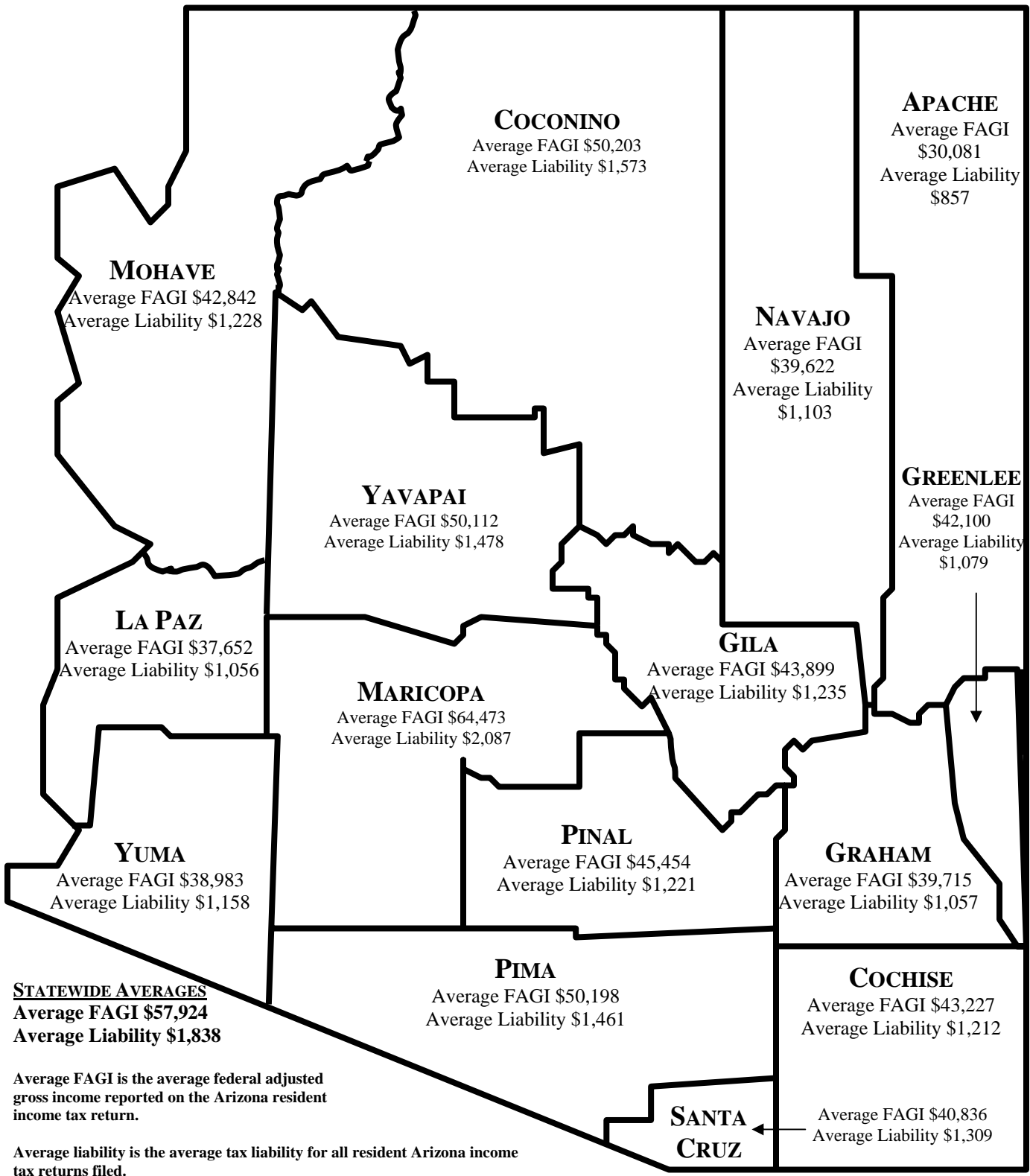


TABLE 34
URBAN REVENUE SHARING
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

FISCAL YEAR	AMOUNT
2003-04	\$365,065,158
2004-05	\$373,072,580
2005-06	\$425,228,927
2006-07	\$551,230,661
2007-08	\$684,538,927

**TABLE 35
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING
TO MUNICIPALITIES IN FISCAL YEAR 2007-08**

CITIES BY COUNTY	AMOUNT	% OF TOTAL	CITIES BY COUNTY	AMOUNT	% OF TOTAL
APACHE			Queen Creek	\$2,309,922	0.34%
Eagar	\$624,132	0.09%	Scottsdale	33,036,354	4.83%
St. Johns	543,917	0.08%	Surprise	12,421,423	1.81%
Springerville	290,605	0.04%	Tempe	23,332,263	3.41%
COCHISE			Tolleson	914,455	0.13%
Benson	667,054	0.10%	Wickenburg	855,209	0.12%
Bisbee	924,588	0.14%	Youngtown	867,311	0.13%
Douglas	2,419,831	0.35%	MOHAVE		
Huachuca City	257,534	0.04%	Bullhead City	5,377,245	0.79%
Sierra Vista	6,148,439	0.90%	Colorado City	574,173	0.08%
Tombstone	226,573	0.03%	Kingman	3,639,245	0.53%
Willcox	546,731	0.08%	Lake Havasu City	7,519,840	1.10%
COCONINO			NAVAJO		
Flagstaff	8,610,488	1.26%	Holbrook	763,453	0.11%
Fredonia	156,209	0.02%	Pinetop-Lakeside	586,135	0.09%
Page	1,000,581	0.15%	Show Low	1,391,104	0.20%
Williams	442,592	0.06%	Snowflake	694,496	0.10%
GILA			Taylor	576,988	0.08%
Globe	1,054,762	0.15%	Winslow	1,384,067	0.20%
Hayden	125,530	0.02%	PIMA		
Miami	275,125	0.04%	Marana	3,760,976	0.55%
Payson	2,171,445	0.32%	Oro Valley	5,544,713	0.81%
Star Valley	282,302	0.04%	Sahuarita	1,968,795	0.29%
Winkelman	62,343	0.01%	South Tucson	792,303	0.12%
GRAHAM			Tucson	74,553,867	10.89%
Pima	307,070	0.04%	PINAL		
Safford	1,317,221	0.19%	Apache Junction	4,794,628	0.70%
Thatcher	640,316	0.09%	Casa Grande	4,569,462	0.67%
GREENLEE			Coolidge	1,151,161	0.17%
Clifton	365,332	0.05%	Eloy	1,565,607	0.23%
Duncan	114,272	0.02%	Florence	2,889,161	0.42%
LA PAZ			Kearny	316,499	0.05%
Parker	461,590	0.07%	Mammoth	247,964	0.04%
Quartzsite	506,623	0.07%	Maricopa	2,242,372	0.33%
MARICOPA			Superior	457,931	0.07%
Avondale	9,760,383	1.43%	SANTA CRUZ		
Buckeye	3,575,354	0.52%	Nogales	3,072,108	0.45%
Carefree	518,445	0.08%	Patagonia	129,470	0.02%
Cave Creek	670,713	0.10%	YAVAPAI		
Chandler	32,486,527	4.75%	Camp Verde	1,510,019	0.22%
El Mirage	4,511,904	0.66%	Chino Valley	1,734,482	0.25%
Fountain Hills	3,446,728	0.50%	Clarkdale	517,882	0.08%
Gila Bend	278,643	0.04%	Cottonwood	1,528,314	0.22%
Gilbert	24,985,544	3.65%	Dewey-Humboldt	567,137	0.08%
Glendale	34,108,285	4.98%	Jerome	46,440	0.01%
Goodyear	6,503,497	0.95%	Prescott	5,737,511	0.84%
Guadalupe	781,748	0.11%	Prescott Valley	4,724,968	0.69%
Litchfield Park	637,220	0.09%	Sedona	1,538,869	0.22%
Mesa	63,059,988	9.21%	YUMA		
Paradise Valley	1,950,923	0.28%	San Luis	3,226,910	0.47%
Peoria	19,440,691	2.84%	Somerton	1,352,065	0.20%
Phoenix	207,692,266	30.34%	Wellton	277,236	0.04%
			Yuma	12,524,328	1.83%
			TOTAL	\$684,538,927	100.00%

City distributions are based on relative population

PROPERTY TAX

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

GENERAL PROPERTY TAX

ADMINISTRATION

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

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

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

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

TAX COLLECTION AND DISTRIBUTION

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

EQUALIZATION

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

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

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

Centrally Valued Properties

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

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

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

Figure 1

Class	Legal Classification	Assessment Ratio
1.1	Mines	23%
1.3-1.7, 1.11	Utilities	23%
1.12	Commercial Real	23%
1.13	Commercial Personal	First \$63,242 exempt; 23% on the remainder
2R	Agricultural Real; Vacant Land	16%
2P	Agricultural Personal	First \$63,242 exempt; 16% on the remainder
3	Residential	10%
4	Rental Residential	10%
5	Railroads, Airlines	21%
6	Historic Property; Foreign Trade Zones; Qualified Environmental Technology Facilities	5%
7	Commercial Historic	Combination 1% and 23%
8	Rental Residential Historic	Combination 1% and 10%
9	Improvements on government property	1%

INDUSTRIES VALUED BY THE DEPARTMENT

Industry	Number of Companies		
	2006	2007	2008
Airlines (Flight Property).....	35	34	30
Electric & Gas*			
Generation	24	24	35
Transmission and Distribution.....	35	35	29
Mines (non-producing)	5	5	1
Mines (producing).....	33	31	33
Pipelines (Gas Transmission)	9	9	8
Private Rail Cars	256	262	271
Producing Oil & Gas Interests	4	4	3
Railroads	11	11	11
Telecommunications	76	77	73
Water Utilities.....	330	328	331
Total	815	818	829

* Includes Salt River Project

**TABLE 36
STATE OF ARIZONA
TAX YEAR 2008 PRIMARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	PRIMARY RATE
APACHE	\$435,342,926	\$0	\$2,016,000	\$0	\$0	\$13,428,266	\$0	\$15,444,266	3.55
COCHISE	\$903,521,761	\$194,777	\$24,177,339	\$2,138,391	\$15,002,075	\$34,724,754	\$0	\$76,237,336	8.44
COCONINO	\$1,686,709,736	\$771,987	\$7,317,594	\$5,419,020	\$6,159,864	\$53,954,916	\$0	\$73,623,381	4.36
GILA	\$513,379,379	\$0	\$20,124,472	\$1,922,762	\$2,872,358	\$18,984,170	\$0	\$43,903,762	8.55
GRAHAM	\$175,244,227	\$0	\$2,851,749	\$196,268	\$3,299,498	\$6,621,187	\$0	\$12,968,702	7.40
GREENLEE	\$445,025,593	\$0	\$1,563,813	\$212,057	\$0	\$7,731,200	\$0	\$9,507,070	2.14
LA PAZ	\$191,349,824	\$0	\$3,751,987	\$0	\$3,114,122	\$4,472,218	\$0	\$11,338,327	5.93
MARICOPA	\$44,881,602,698	\$18,146,524	\$463,836,389	\$186,976,059	\$347,905,170	\$1,537,781,426	\$0	\$2,554,645,568	5.69
MOHAVE	\$2,286,744,927	\$0	\$30,434,288	\$4,699,922	\$16,355,145	\$72,528,464	\$0	\$124,017,819	5.42
NAVAJO	\$908,393,696	\$14,827	\$5,246,080	\$346,659	\$10,644,746	\$27,028,938	\$0	\$43,281,250	4.76
PIMA	\$8,230,966,534	\$174,735	\$279,136,768	\$10,962,909	\$81,023,355	\$357,525,926	\$0	\$728,823,693	8.85
PINAL	\$2,473,499,660	\$3,288	\$85,003,375	\$12,965,537	\$34,850,119	\$107,777,764	\$0	\$240,600,083	9.73
SANTA CRUZ	\$352,686,375	\$2,856	\$10,630,673	\$0	\$0	\$16,918,905	\$0	\$27,552,434	7.81
YAVAPAI	\$2,954,598,732	\$1,006,441	\$40,429,914	\$1,553,141	\$35,424,260	\$80,694,877	\$0	\$159,108,633	5.39
YUMA	\$1,079,816,171	\$0	\$20,327,539	\$9,087,371	\$17,573,465	\$43,273,164	\$0	\$90,261,539	8.36
TOTAL STATE	\$67,518,882,239	\$20,315,435	\$996,847,980	\$236,480,096	\$574,224,177	\$2,383,446,175	\$0	\$4,211,313,863	6.24
AVERAGE STATE PRIMARY TAX RATE PER \$100									6.24

TAX YEAR 2007 PRIMARY PROPERTY TAX LEVIES

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

All figures are current as of September 1, 2008.

**TABLE 37
STATE OF ARIZONA
TAX YEAR 2008 SECONDARY PROPERTY TAX LEVIES**

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	SECONDARY RATE
APACHE	\$471,596,971	\$0	\$6,843,466	\$0	\$1,988,252	\$2,652,729	\$5,008,327	\$16,492,774	3.50
COCHISE	\$1,018,740,280	\$0	\$4,534,536	\$183,661	\$0	\$11,618,656	\$9,078,381	\$25,415,234	2.49
COCONINO	\$2,057,478,154	\$0	\$9,107,640	\$7,345,050	\$2,020,293	\$23,374,450	\$18,295,259	\$60,142,692	2.92
GILA	\$574,203,136	\$0	\$1,722,609	\$150,000	\$0	\$5,699,983	\$6,946,102	\$14,518,694	2.53
GRAHAM	\$189,364,668	\$0	\$232,354	\$0	\$0	\$2,516,870	\$481,249	\$3,230,473	1.71
GREENLEE	\$445,239,742	\$0	\$788,613	\$0	\$0	\$1,857,194	\$34,898	\$2,680,705	0.60
LA PAZ	\$235,112,575	\$0	\$235,113	\$0	\$858,631	\$1,323,232	\$3,961,910	\$6,378,886	2.71
MARICOPA	\$58,303,635,287	\$0	\$98,361,011	\$395,767,107	\$95,293,956	\$922,460,582	\$204,533,281	\$1,716,415,937	2.94
MOHAVE	\$3,231,835,989	\$0	\$31,322,950	\$444,150	\$0	\$18,553,330	\$32,462,213	\$82,782,643	2.56
NAVAJO	\$998,760,072	\$0	\$5,825,597	\$0	\$1,661,175	\$13,321,938	\$14,589,888	\$35,398,598	3.54
PIMA	\$9,594,861,519	\$0	\$120,036,983	\$24,814,860	\$14,502,170	\$147,520,317	\$78,235,150	\$385,109,480	4.01
PINAL	\$3,449,599,026	\$0	\$9,557,568	\$2,769,751	\$0	\$55,470,771	\$29,455,191	\$97,253,281	2.82
SANTA CRUZ	\$404,365,519	\$0	\$2,653,693	\$0	\$0	\$6,852,222	\$6,061,300	\$15,567,215	3.85
YAVAPAI	\$3,746,625,208	\$0	\$12,399,561	\$1,939,408	\$5,264,245	\$14,776,440	\$44,656,008	\$79,035,662	2.11
YUMA	\$1,369,161,501	\$0	\$14,328,693	\$0	\$5,000,045	\$15,916,186	\$858,563	\$36,103,487	2.64
TOTAL STATE	\$86,090,579,647	\$0	\$317,950,387	\$433,413,987	\$126,588,767	\$1,243,914,901	\$454,657,720	\$2,576,525,762	2.99

AVERAGE STATE SECONDARY TAX RATE PER \$100	2.99
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TAX YEAR 2007 SECONDARY PROPERTY TAX LEVIES

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

AVERAGE STATE SECONDARY TAX RATE PER \$100	3.29
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All figures are current as of September 1, 2008.

**TABLE 38
AVERAGE PROPERTY TAX RATES
PER \$100 OF ASSESSED VALUATION
TAX YEAR 2005 THROUGH TAX YEAR 2008**

	2005		2006	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$4.23	\$2.06	\$4.16	\$2.01
Counties	2.17	0.54	1.69	0.56
State	0.03	0.00	0.02	0.00
Cities	0.39	0.53	0.38	0.52
Community Colleges	0.99	0.15	0.97	0.18
Special Districts	0.00	0.47	0.00	0.48
	\$7.81	\$3.75	\$7.24	\$3.75
TOTAL	\$11.56		\$10.99	
	2007		2008	
	PRIMARY	SECONDARY	PRIMARY	SECONDARY
School Districts	\$3.83	\$1.70	\$3.53	\$1.44
Counties	1.59	0.40	1.48	0.37
State	0.04	0.00	0.03	0.00
Cities	0.37	0.51	0.35	0.50
Community Colleges	0.91	0.15	0.85	0.15
Special Districts	0.00	0.53	0.00	0.53
	\$6.75	\$3.29	\$6.24	\$2.99
TOTAL	\$10.04		\$9.23	

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

ALL OTHER SOURCES OF REVENUE

Bingo

Estate Tax

Luxury Tax

Unclaimed Property & Escheated Estates

Waste Tire Fees

BINGO

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

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

All taxes collected are deposited in the state general fund. A total of \$ 558,330 was deposited in fiscal year 2008 (*Refer to Table 39*).

TABLE 39
BINGO COLLECTIONS
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

Fiscal Year	Amount
2003-04	\$624,501
2004-05	\$610,055
2005-06	\$623,480
2006-07	\$619,387
2007-08	\$558,330

BINGO COLLECTIONS

	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Licenses	\$19,121	\$19,070	\$18,788	\$18,092	\$18,393
Proceeds	603,306	585,289	599,400	596,773	539,576
Penalty, Interest and Miscellaneous	2,074	5,697	5,292	4,522	361
TOTAL	\$624,501	\$610,055	\$623,480	\$619,387	\$558,330

ESTATE TAX

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

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

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

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

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

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

TABLE 40
COLLECTIONS OF ESTATE TAXES
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

Fiscal Year	Collections	Refunds	Net
2003-04	\$42,292,396	\$3,473,964	\$38,818,431
2004-05	\$32,811,705	\$1,575,639	\$31,236,066
2005-06	\$13,275,666	\$1,592,063	\$11,683,603
2006-07	\$860,033	\$1,410,797	(\$550,763)
2007-08	\$414,711	\$94,508	\$320,203

Figures may not add to total due to rounding.

LUXURY TAX

Arizona's luxury tax applies to cigarettes, other tobacco products, and alcoholic beverages. The department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and alcoholic beverages. The department also investigates and confiscates contraband tobacco products. During the 2008 fiscal year, over \$471 million was received in luxury tax collections.

Of the monies collected per the Tobacco Products Referendum (Prop 303), \$50.8 million was distributed to the Prop 204 Protection Account, \$32.7 million to the Medically Needy Account, \$24.2 million for Emergency Health Services, \$6.0 million for Health Research, and \$2.4 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, \$59.9 million was allocated to the Medically Needy Fund, \$19.7 million to the Health Education Fund and \$4.3 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$28.7 million, and the Arizona Wine Promotional Fund received \$29,003. The Drug Treatment and Education Fund received \$8.6 million, and the Corrections Revolving Fund received \$3.4 million due to the passage of Proposition 200 in 1994. The Smoke Free AZ fund received \$3.9 million due to the passage of Proposition 201 in 2006. The Early Childhood Development and Health Fund received \$164.8 million due to the passage of Proposition 203 in 2006. The remaining \$61.0 million was deposited into the state general fund. (*Refer to Table 41*)

Luxury Tax Rates

per cigarette	\$ 0.10
package of 20	\$ 2.00
package of 25	\$ 2.50

Cigars

small cigars weighing not more than 3 lbs/1,000 package of 20 or less	\$ 0.441
selling for \$0.05 or less (each 3 cigars)	\$ 0.218
selling for more than \$0.05 (each cigar)	\$ 0.218

Smoking Tobacco

snuff, fine cut, chewing, etc. (per ounce)	\$ 0.223
Cavendish, plug, or twist (per ounce)	\$ 0.055

Spirituos Liquors

per gallon	\$ 3.00
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Vinous Liquors more than 24% alcohol (per gallon)	\$ 4.00
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Vinous Liquors less than 24% alcohol (per gallon)	\$ 0.84
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Malt Liquor (Beer)

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

TABLE 41
LUXURY TAX COLLECTIONS
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

SOURCE:	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	PERCENT OF COLLECTIONS IN FY2007-08
Spiritous Liquor	\$23,438,818	\$25,085,444	\$26,392,315	\$27,674,933	\$27,613,939	5.9%
Vinous Liquor	10,404,545	11,473,203	11,509,865	10,755,478	13,006,487	2.8%
Malt Liquor	22,110,426	22,664,420	23,245,180	24,758,494	23,936,126	5.1%
Liquor Collections	\$55,953,790	\$59,223,067	\$61,147,360	\$63,188,905	\$64,556,551	
Tobacco - All Types						
Gross Revenue	282,209,893	290,948,888	\$302,509,034	\$363,934,467	\$412,769,855	
Refunds	(7,273,023)	(5,109,215)	(4,040,057)	(5,317,826)	(4,761,258)	
Licenses	6,400	5,325	5,900	8,100	7,100	
Administrative Expenses	(414,329)	(445,507)	(468,675)	(502,860)	(587,463)	
Net Tobacco Collections	\$274,528,941	\$285,399,491	\$298,006,202	\$358,121,881	\$407,428,234	86.3%
Amnesty Luxury Collections	\$187,315	-----	-----	-----	-----	
TOTAL COLLECTIONS	\$330,670,046	\$344,622,558	\$359,153,562	\$421,310,786	\$471,984,785	
DISTRIBUTIONS:						
State General Fund	\$61,301,017	\$64,446,627	\$66,732,468	\$65,808,829	\$61,037,231	
Wine Promotional Fund	27,995	34,667	38,481	35,965	29,003	
Tobacco Tax & Health Care Fund-Prop. 200 (1)	92,599,453	96,540,601	100,765,613	94,770,504	79,033,025	
Tobacco Products Tax Fund-Prop. 303 (1)	133,563,168	138,521,611	145,399,774	137,624,177	116,127,254	
Drug Treatment & Education Fund	7,490,976	7,894,513	8,096,444	8,323,287	8,576,309	
DOC Revolving Fund	2,978,318	3,139,770	3,221,929	3,313,709	3,411,936	
Department of Corrections Fund	26,613,423	28,049,051	28,480,322	28,697,521	28,703,383	
DOC Transfer from Prop 200 Funds	531,839	226,191	363,099	783,145	1,479,783	
Prop 200 Transfer from Prop 303 Funds (1)	5,563,857	5,769,526	6,055,432	5,729,557	4,835,440	
Smoke Free AZ - Prop 201 (2)	-----	-----	-----	1,778,847	3,946,308	
Early Childhood Development and Health Fund - Prop 203 (3)	-----	-----	-----	74,445,246	164,805,113	
TOTAL DISTRIBUTIONS	\$330,670,046	\$344,622,558	\$359,153,562	\$421,310,786	\$471,984,785	

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

Figures may not add to total due to rounding.

UNCLAIMED PROPERTY

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

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

The most common examples of unclaimed property are:

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

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

ESCHEATED ESTATES

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

TABLE 42
COLLECTIONS AND DISTRIBUTION OF UNCLAIMED PROPERTY
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

SOURCE:	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	PERCENT OF COLLECTIONS IN FY2007-08
UNCLAIMED PROPERTY	\$49,653,262	\$83,063,365	\$69,705,035	\$97,125,191	\$136,446,760	
Refunds	(10,093,832)	(16,241,154)	(17,693,745)	(22,541,073)	(27,859,528)	
Expenses	(1,368,887)	(1,459,889)	(1,564,120)	(3,112,161)	(5,555,692)	
NET	\$38,190,543	\$65,362,322	\$50,447,170	\$71,471,956	\$103,031,540	99.6%
ESCHEATED ESTATES	568,385	731,836	562,510	552,507	647,669	
Refunds	(223,945)	(339,712)	(195,735)	(7,679)	(281,484)	
NET	\$344,441	\$392,124	\$366,776	\$544,828	\$366,184	0.4%
TOTAL NET REVENUE	\$38,534,984	\$65,754,446	\$50,813,946	\$72,016,784	\$103,397,724	100.0%
DISTRIBUTIONS:						
General Fund	8,043,962	9,423,140	10,256,152	11,703,745	9,755,359	
Housing Fund	20,708,267 (2)	23,942,665	26,004,597	40,972,902	33,684,313	
Ladewig	-----	21,292,088 (3)	3,704,599 (3)	0 (4)	0	
Kerr	-----	-----	-----	83,340 (5)	0	
Utility Assistance Fund	1,307,953	1,664,467	855,505	2,550,675	26,336	
Racing Fund	7,530,279	8,706,424	9,456,217	14,899,237	12,248,841	
Victim Restitution Fund	547,274	299,565	128,281	1,250,347	173,068	
HB 2786 Sec Sale (6)	-----	-----	-----	-----	47,132,471	
Net to Permanent School Fund:						
Escheated Estates	344,441	392,124	366,776	544,828	366,184 (1)	
Unclaimed Shares/dividends	43,788	29,359	18,955	9,482	7,208	
Storage Facility	9,021	4,614	22,865	2,227	3,944	
TOTAL DISTRIBUTION	\$38,534,984	\$65,754,446	\$50,813,946	\$72,016,784	\$103,397,724	

(1) FY 08 Escheated Estates will be transferred in FY 09.

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

(3) Ladewig Unclaimed Property for FY05 and FY06 is to be deposited to the State General Fund, per SB1524.

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

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

(6) Proceeds from the sale of securities in FY08 were deposited in the General Fund per HB 2786, Chapter 260, 1st Regular Session, 2007.

Figures may not add to total due to rounding.

WASTE TIRE

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

During fiscal year 2008, the department collected \$8,704,684 and distributed 3.5% percent to the Arizona Department of Environmental Quality with the remainder being distributed to the counties based on the number of motor vehicles registered in the county (*Refer to Tables 43*). The distribution is performed quarterly.

TABLE 43
WASTE TIRE FEE DISTRIBUTIONS
FISCAL YEAR 2003-04 THROUGH FISCAL YEAR 2007-08

COUNTY	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Apache	\$100,750	\$104,593	\$101,645	\$105,927	\$103,134
Cochise	208,639	218,301	215,348	223,763	216,915
Coconino	202,203	210,871	204,129	211,377	205,128
Gila	109,692	113,751	111,143	116,236	112,443
Graham	45,472	47,489	46,809	49,226	49,073
Greenlee	14,571	15,401	15,008	15,915	16,192
La Paz	46,334	48,427	47,146	49,332	47,522
Maricopa	4,245,363	4,452,595	4,742,763	4,995,305	4,814,030
Mohave	355,631	375,524	387,372	413,274	403,198
Navajo	162,789	169,024	165,729	174,781	171,073
Pima	1,085,793	1,138,071	1,136,415	1,190,164	1,152,277
Pinal	256,738	272,484	291,962	353,172	369,984
Santa Cruz	74,443	78,802	78,006	80,076	78,644
Yavapai	369,140	386,285	391,322	416,633	406,174
Yuma	235,110	246,759	246,469	258,530	254,235
AZ Dept of Environmental Quality	272,480	285,744	296,730	313,865	304,664
Total	\$7,785,148	\$8,164,120	\$8,477,996	\$8,967,577	\$8,704,684

Figures may not add to total due to rounding.

LEGISLATIVE SUMMARY

LEGISLATIVE SUMMARY

The following is intended to give a brief summary of the 2008 tax-related legislation impacting the Department of Revenue (DOR) and not intended to discuss the details of any specific enactment. Please refer to the particular legislation for more definitive information.

The general effective date for legislation is September 26, 2008. All legislation will have this effective date unless otherwise noted in the summary.

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

Income Tax

House Bill 2103 (Chapter 60)

2008 tax corrections act

See summary under Multiple Tax Types.

House Bill 2104 (Chapter 94)

Internal revenue code conformity

HB2104 updates Arizona's definition of internal revenue code to include all Internal Revenue Code provisions that were in effect as of January 1, 2008.

Tax year 2007 includes all Internal Revenue Code provisions passed with retroactive federal effective dates between December 31, 2006 and December 31, 2007 which includes the Small Business and Work Opportunity Tax Act of 2007, the Energy Independence and Security Act of 2007, Prevent Taxation of payment to Virginia Tech Victims and Families of 2007, Mortgage Forgiveness Debt Relief Act of 2007 and the Tax Technical Corrections Act of 2007.

House Bill 2107 (Chapter 204)

Delinquent information tax returns; penalty

HB 2107 amends the penalty for filing a late or incomplete informational return from a one time five hundred dollar penalty to a graduated penalty of one hundred dollars per month.

Provisions:

- Provides that an information return that is incomplete or filed after its due date (including extensions) is subject to a penalty of \$100 for each month, or fraction of a month, that the failure continues, up to a maximum penalty of \$500.
- If the failure is due to reasonable cause and not willful neglect, the penalty can be abated.

House Bill 2589 (Chapter 220)

Income tax credit; other states

HB2589 amends the Arizona resident credit for taxes paid to another state or country to define the terms "entire income on which the other state's or country's tax is imposed", "entire income on which the tax is imposed by this chapter", "income subject to tax in the other state or country and also taxable under this title", and "tax payable under this chapter". These are the terms used in the numerator and the denominator of the formula residents use for computing the credit.

The bill also amends the nonresident credit for taxes paid to another state or country to define the terms "entire income on which the taxes paid to the state or country of residence are imposed", "entire income taxable under this title", "income taxable under this title and also subject to tax in the state or country of residence" and "tax payable under this title". These are the terms used in the numerator and the denominator of the formula nonresidents use for computing the credit.

These terms are being defined to clarify what amounts a taxpayer must use for the denominator and the numerator when computing a tax credit under the statutory formula. The definitions from this bill are similar to the definitions in the rule that was in effect prior to the Arizona Court of Appeals overruling those definitions. This will allow taxpayers to compute the credit in the same manner as they did prior to the Arizona Court of Appeals decision in *Sterns v. Arizona Department of Revenue*, 212 Ariz. 333, 131 P.3d 1063 (App. 2006).

This legislation applies retroactively to taxable years beginning from and after December 31, 2007.

Transaction Privilege Tax/ Use Tax

House Bill 2106 (Chapter 21)

Transaction privilege tax; electronic payment delinquency

HB2106 amends the transaction privilege tax statutes to provide an alternative delinquency date for persons filing and paying their tax electronically on or before the last business day of the month.

The return or payment for taxpayers electing to file and pay electronically in any month, will be delinquent if not received by the department on or before the last business day of the month.

This bill is effective on January 1, 2009.

House Bill 2356 (Chapter 303)

Prime contracting TPT; deduction

HB 2356 amends the transaction privilege tax statutes to clarify the deduction allowed under the prime contracting classification for development fees paid to the state, county or a municipality.

The legislation provides an effective date retroactively to September 1, 2006.

House Bill 2622 (Chapter 255)

Exemption; preconstruction services

HB2622 exempts transaction privilege tax for design phase services and professional services related to prime contracting.

Provisions:

- Adds gross proceeds of sales or gross income attributable to design phase services and professional services that are provided pursuant to a separate contract requiring those design services or professional services to the list of items exempt from TPT.
- Defines “design phase services”, “construction phase services” and “professional services”.
- Stipulates that a taxpayer may not claim a refund of TPT based on the retroactivity of this act.
- Specifies that a separate and written design phase services contract or professional services contract that is executed before modification begins is not subject to tax regardless of the timing of the services.

- Clarifies that the tax base does include the gross proceeds of sales or gross income attributable to construction phase services.
- Defines “construction phase services” as services for the execution and completion of any modification, including:
 - administration or supervision of any modification performed on the project including team management and coordination; scheduling; cost controls; submittal process management; field management; safety program; close-out process; and warranty period services.
 - administration or supervision of any modification performed pursuant to a punch list, change orders or change directives.
 - inspection to determine the dates of substantial completion or final completion.
 - preparation of manuals, warranties, as-built drawings, spares or other items the prime contractor must furnish pursuant to the contract for modification work.
 - preparation of status reports after modification work has begun detailing the progress of work performed.
 - preparation of daily logs of modification work that can include documentation of personnel, weather conditions and on-site occurrences.
 - preparation of any submittals or shop drawings used by the prime contractor to illustrate details of the modification work performed.
 - administration or supervision of any other activities for which a prime contractor receives a certificate for payment or certificate for final payment based on the progress of modification work performed on the project.
- Defines “design phase services” as services for developing and completing a design for a project that are not construction phase services that can include:
 - evaluating surveys, reports, test results or any other information for on-site conditions for the project, including physical

characteristics, legal limitations and utility locations for the site.

- evaluating any criteria or programming objectives for the project to ascertain requirements for the project.
- preparing drawings and specifications for architectural program documents, schematic design documents, design development documents, modification work documents or documents that identify the scope of or materials for the project.
- preparing an initial schedule for the project but excluding the preparation of updates to the master schedule after modification work has begun.
- preparing preliminary estimates of costs of modification work before completion of the final design of the project.
- reviewing and evaluating cost estimates and project documents to prepare recommendations on site use; site improvements; selection of materials, building systems and equipment; modification feasibility; availability of materials and labor; local modification activity as related to schedules and time requirements for modification work.
- preparing the plan and procedures for selection of subcontractors, including any prequalification of subcontractor candidates.
- Defines “professional services” as architect, assayer, engineer, geologist, land surveying or landscape architect services.
- Makes technical and conforming changes

This legislation becomes effective on the general effective date, retroactive to January 1, 2001.

House Bill 2732 (Chapter 246)

Vehicles; nonresident purchasers; tax liability

HB2732 addresses retail sales of motor vehicles to nonresidents of Arizona, and establishes new documentation requirements for the four state transaction privilege tax exemptions and the one city privilege tax exemption that mirrors a state exemption, that may apply to these sales. The Department of Revenue is required to prescribe

forms for certificates that will document the necessary criteria for these state and city tax exemptions.

HB 2732 also contains a retroactive provision regarding the documentation that will satisfy the statutory exemptions for sales of motor vehicles to nonresidents, for sales made prior to the effective date of this bill. These separate documentation requirements apply to sales that were made between August 25, 2004 and September 26, 2008.

If a nonresident who has purchased a motor vehicle exempt from tax under one of the statutory provisions registers the motor vehicle in Arizona within one year, that purchaser will now be liable for an amount that is equal to the state, county, *and city* taxes that would have applied to the original sale, plus penalties and interest.

HB 2732 also amends A.R.S. § 28-2001, which provides a definition of “resident” for the purpose of the operation and registration of motor vehicles, to include “a person who is registered to vote in this state.” The bill also amends A.R.S. § 28-2055, which addresses the certificate of title for a motor vehicle, to add a “transfer on death provision” that will allow the owner of a vehicle to designate a beneficiary of the title in the event of the owner’s death.

Senate Bill 1340 (Chapter 194)

Tax exemptions; internet applications

SB1340 provides deductions under the retail, personal property rental and telecommunications classifications of the transaction privilege tax and an exemption under the use tax for application services that are designed to assess or test student learning or to promote curriculum design or enhancement sold to or purchased by or for any school district, charter school, community college or state university.

This bill becomes effective on the general effective date retroactive for taxable years beginning on January 1, 2000.

Senate Bill 1450 (Chapter 297)

Regional attraction districts

See summary under Multiple Tax Types.

Property Tax

House Bill 2130 (Chapter 49)

Residential property tax; homesite area

HB2130 allows up to 10 acres on a single parcel to be classified as legal class 3 property if all other existing requirements are met. Additionally, more than 10, but not more than 40 acres may be classified as class three if it is zoned exclusively for residential purposes, or contains legal restrictions or physical conditions that prevent the division of the parcel. "Physical conditions" is defined as topography, mountains, washes, rivers, roads or any other configuration that limits the residential usable land area.

This bill becomes effective from and after December 31, 2008.

House Bill 2191 (Chapter 178)

Property classification; bed and breakfast

HB2191 increases the allowable number of rooms a bed and breakfast may operate from four to six and still qualify for a class 4 assessment ratio.

House Bill 2330 (Chapter 252)

Property tax exemption; charter schools

HB2330 clarifies the charter school exemption and related procedures by adding subsections stating that:

- Property and buildings owned by a non-profit 501(c)(3) and operated as a charter school are exempt from taxation beginning on the date that the property was first owned by the 501(c)(3) and operated as a charter school.
- Within ten days of receiving an affidavit of eligibility from a nonprofit organization described above, the assessor must issue a receipt for the affidavit.
- The exemption will remain in place until the property is no longer used by a charter school or owned by the 501(c)(3).
- If the property is sold by one 501(c)(3) to another, the new owner must re-establish eligibility.
- If the 501(c)(3) owner of the property fails to timely file the affidavit required to establish the exemption, but otherwise qualifies, the county

board of supervisors must direct the county treasurer to:

- Refund any taxes paid by the organization within 30 days if the taxpayer submits a claim within one year after the date the taxes were paid.
- Forgive any property taxes and accrued interest and penalties that are due but not paid.

House Bill 2351 (Chapter 65)

Property tax lien interest calculation

HB2351 establishes that interest on the purchase of delinquent tax liens begins to accrue on the first day of the month following the purchase of the tax lien.

House Bill 2420 (Chapter 107)

Flood control districts

HB2420 allows flood control districts to sell land to the state or a county after obtaining an appraisal without having a public auction.

House Bill 2523 (Chapter 174)

Tax lien sale; regulation

HB2523 allows the treasurer to sell tax deeds of property that has been foreclosed due to non-payment of delinquent taxes to adjacent property owners if the property meets certain qualifications.

The bill became effective May 6, 2008, immediately upon the Governor's signature.

House Bill 2614 (Chapter 306)

Renewable energy valuation; expiration extension

HB2614 states that renewable energy systems and any other device or system designed primarily for the production of renewable energy of which the majority will be used on-site are considered to add no value to the property if the property is a class three or class four property. This means that grid connected photovoltaic (PV) systems installed on residential property may not be included in the value of the property. "Renewable energy systems" is defined as electric generation systems and electrical transmission and distribution that is used or useful for the generation, storage, transmission or distribution of electric power, energy or fuel derived from solar, wind or other non-petroleum renewable sources, including materials and supplies.

The bill also extends the sunset date for the 20% valuation factor for renewable energy equipment (centrally valued) from 2011 until 2040.

Senate Bill 1189 (Chapter 83)

Private historic cemeteries; historic preservation

SB1189 exempts historic private burial sites and historic private cemeteries from taxation. The owner of the historic private burial site or historic private cemetery must establish qualification for the exemption in the same manner as all other cemetery property. No further filing is required until any part of the property is either used for a different purpose, rezoned, or sold.

In the 2000 General election, voters approved Proposition 105 which permits the legislature to exempt cemetery property. The legislature previously enacted ARS §42-11110 which exempted cemetery property as defined in ARS § 32-2101. While this exempted the majority of cemetery property in Arizona, some historic private burial sites were not covered by this exemption.

Senate Bill 1450 (Chapter 297)

Regional attraction districts

See summary under Multiple Tax Types.

Multiple Tax Types

House Bill 2103 (Chapter 60)

2008 tax corrections act

HB2103 makes technical, conforming and clarifying changes to Arizona tax statutes.

Provisions:

- Clarifies the requirement of domestic micro-breweries that sell or deliver beer to pay all luxury and transaction privilege taxes.
- Reinstates definitions used in the calculation of additional state aid to education that were incorrectly referenced after the passage of the property valuation protection for senior property owners.
- Removes obsolete references to “unsecured” personal property.
- Clarifies statutes relating to the failure to affix proper luxury tax stamps on cigarettes also apply to other tobacco products.

- Corrects references to the Code of Federal Regulations, the U.S. Code and a federal farm program.
- Creates a use tax exemption for the purchase of solar energy devices bought from a retailer that is registered with DOR as a solar energy retailer or a solar energy contractor.
- Defines “solar daylighting” and “solar energy” devices.
- Specifies that Indian-owned, low-income housing properties that are exempt from property tax are exempt from filing an annual affidavit.
- Clarifies that accelerated depreciation for personal property applies to class 2 properties.
- Adds, retroactive to property tax years beginning from and after December 31, 2006, a cross-reference for the clarification of the classification of property used for the manufacture of bio-diesel fuel.
- Creates a cross reference to clarify grants for displaced students are an income tax subtraction.
- Corrects internal references and revised definitions associated with motion picture tax credits.
- Eliminates the provision for DOR to report on the fiscal impact of alternative fuel income tax credits.
- Specifies that values used to determine net contributions shall not be included in the publication of net assessed values.
- Specifies, retroactive to tax years beginning from and after December 31, 2006, that only a residential graywater system that is a water conservation system must comply with rules set forth by the Arizona Department of Environmental Quality.
- Makes other technical and conforming changes.

This bill becomes effective on the general effective date, with a retroactive provision as noted.

House Bill 2391 (Chapter 290)

Budget reconciliation; general revenues

HB 2391 makes various changes related to state revenues necessary to implement the fiscal year 2008-09 state budget.

Provisions:

- Establishes a minimum annual distribution of Urban Revenue Sharing funds to incorporated cities and towns to at least equal the amount a city or town with a population of 1,500 or more receives.
- Increases, for tax year (TY) 2010, both the corporate and individual income research tax credits from 20 percent to 22 percent of qualified expenses up to \$2.5 million.
- Increases, for TY 2010, both the corporate and individual income research tax credits from \$500,000 plus 11 percent, to \$550,000, plus 13 percent of the excess of \$2.5 million.
- Increases, beginning TY 2011, the corporate and individual income tax credits to 24 percent of qualified expenses up to \$2.5 million.
- Increases, beginning TY 2011, the corporate and individual income tax credits to \$750,000, plus 15 percent of the excess of \$2.5 million.
- Repeals the changes to the research and development tax credits beginning on January 1, 2018, and restores current credit evaluation methodology.

Senate Bill 1450 (Chapter 297)

Regional attraction districts

SB 1450 allows for the creation of a Regional Attraction District (RAD) which is a “tax levying public improvement district” that “is regarded as performing a governmental function.” The purpose of the RAD will be to establish and operate a permanent amusement park (Regional Attraction Venue or RAV). The RAD may issue tax exempt bonds. To pay off the bonds, the RAD is authorized to levy a 10% excise tax in addition to the existing state TPT. The tax expires when the bonds have been paid.

The bill provides a property tax exemption for RAV property. However, the language allows, in lieu of property tax, voluntary payments to taxing

jurisdictions on the valuation of the property in the theme park area and requires in lieu payment to taxing jurisdictions on the valuation of property located outside the theme park area.

Miscellaneous

House Bill 2317 (Chapter 38)

Luxury tax; tobacco stamps

HB2317 Codifies provisions of *Arizona Luxury Tax Procedure* LTP 07-1 regarding the department’s presumptions used during compliance inspections of cigarette distributors’ and retailers’ inventories of stamped cigarette packages.

House Bill 2483 (Chapter 159)

Ignition strength of cigarettes; regulation

HB2483 establishes a new standard for cigarette ignition propensity, with associated testing and manufacturer certification requirements, civil penalties for violations, and designates the State Fire Marshal to approve and oversee the program.

This bill is effective on August 1, 2009.

House Bill 2638 (Chapter 151)

Municipal tax incentive penalty; application

HB2638 extends the prohibition for offering or providing municipal tax incentives to retailers “as an inducement or in exchange for locating or relocating” to a particular city or town to any city or town that has at least sixty-five per cent of its geographical area within a “metropolitan statistical area” (MSA) with a population of two million. There is one city in the Phoenix area that is not completely within the Phoenix MSA. The combination of the prior statutory language and geography gave that city an exemption from the requirements and a competitive advantage over other Valley cities.

House Bill 2692 (Chapter 221)

Taxpayer information ruling

HB 2692 allows DOR to issue a new form of specific taxpayer guidance called *taxpayer information rulings* (TIRs), which, like private taxpayers rulings (PTRs) currently issued, provide specific tax determinations based on the specific fact situations of requesting taxpayers. Unlike

PTRs, taxpayers can request TIRs anonymously, but must still reveal their identities to DOR after issuance if they wish for the rulings to be binding for purposes of abating tax, interest, and penalties. Additionally, HB 2692 allows taxpayers to submit written requests that the Director of DOR consider withholding publication of their PTRs or TIRs based on their unique facts and circumstances. Based on the Director's nonappealable determination on whether to publish a ruling, the taxpayer may withdraw its ruling request.

House Bill 2745 (Chapter 152)

Employer sanctions

HB 2745 makes several amendments to the Employer Sanctions bill that was enacted in 2007.

Provisions:

- Provides a defense to the identity theft provisions for persons under the age of 21.
- Addresses the sale of identity information.
- Amends the definitions related to the Legal Arizona Workers Act.
- Clarifies the provisions relating to knowingly employing an unauthorized alien.
- Provides a separate statute to address the intentional employment of unauthorized aliens and the consequences of the intentional actions of the employer.
- Adds the requirement that before a government entity awards an economic development incentive, the employer must be registered with the E-Verify program and that if it is determined that the employer has not complied with this requirement that the employer shall be required to repay all monies received as an economic development incentive. The determination can be appealed. Tax incentives are excluded from this provision.
- Provides for a voluntary employer enhance compliance program and addresses independent contractors.
- Provides requirements for employers paying wages in cash.
- Amends the Administrative Procedures Act (APA) by addressing licensing eligibility. Under the new provision state agencies and

political subdivisions are required to verify authorized presence prior to issuing a license.

- Adds a new chapter to Title 41, chapter 44, Government Procurement. Under the new provision a government entity shall not issue a contract to a contractor or subcontractor who fails to comply with the requirement to register with the E-Verify program.
- Provides for the non-severability of the act.
- Provides an emergency clause, therefore, the bill became effective May 1, 2008, immediately upon the Governor's signature.