ARIZONA DEPARTMENT OF REVENUE
2004 ANNUAL REPORT

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STATE OF ARIZONA

Department of Revenue

Janet Napolitano
Governor

J. Elliott Hibbs
Director

November 15, 2004

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

Dear Governor Napolitano and the Taxpayers of Arizona:

Fiscal 2004 was a year in which we celebrate the Department of Revenue's major contribution in addressing the state's fiscal crisis. Total taxes collected by the department during fiscal year 2004 exceeded $9.8 billion, including more than $5 billion that was deposited directly into the state General Fund. Included in this total is over $490 million that was collected through the department's tax enforcement efforts. By collecting over $490 million through the audit, license compliance, collections and one-time Amnesty programs, the department exceeded the $433 million target set at the beginning of the year; performing at 113% of goal. Despite having to absorb $1.49 million in increases for health insurance and retirement contributions for employees, the department committed to maintaining our original baseline projections and exceeding our overall revenue generating program commitment. The Tax Amnesty Program, which ran from September 1 through October 31, 2003, far exceeded revenue generating expectations, collecting over $72 million or 188% over the anticipated $25 million target.

The major revenue contribution was achieved while still performing other services at high performance levels and implementing the first phase of the Business Reengineering/Integrated Tax System (BRITS) project, the conversion of the Transaction Privilege Tax (TPT) System. Although conversion did not progress as smoothly as desired, improvements were made in the way in which we deliver TPT tax administration. The project will extend into the next three fiscal years as withholding and the corporate and individual income taxes are integrated. So far we have made some significant service improvements for business taxpayers and new business owners. We now provide taxpayer access to TPT and withholding accounts through the AzTaxes.gov web site, which allows taxpayers to file their tax returns and pay their taxes electronically, as well as view their account tax information at any time. When complete, the department will have state of the art tax administration abilities and taxpayers will be able to reach the department anytime of the day or night, seven days a week, providing even greater access to Arizona's citizens.

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

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

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

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

Sincerely,

J. Elliott Hibbs
Director

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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 deliver world-class tax administration services through technology and exceptional employees.

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

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

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

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

Also reporting to the director is the Business Re-engineering and Integrated Tax Systems (BRITS) Change Management team. This unit is responsible for coordinating the department's efforts to completely reengineer agency tax systems and processes, plus provide numerous tools to improve the effectiveness of enforcement programs. Its members are subject matter experts from across the department. From late 2002 until 2006, the unit will continue to involve employees of the department in working with Accenture, the selected vendor, in the implementation of BRITS. New transaction privilege tax and withholding systems will be completed in 2004, with other systems to follow.

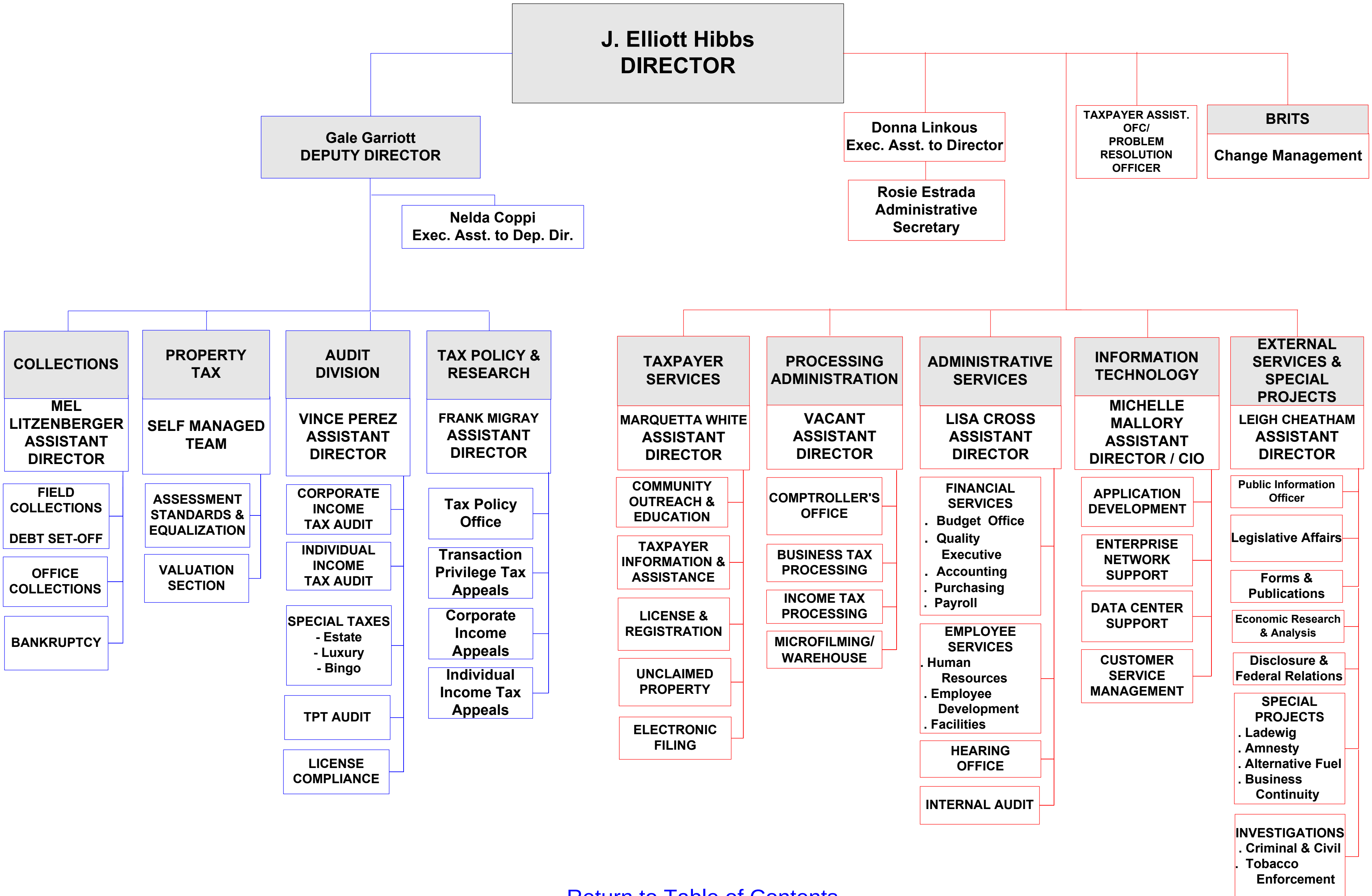
The BRITS project is benefits funded. There are two types of benefits which are funding this project up to the time in which the contract has been paid in full. They are discovery dollars and efficiency dollars. Discovery dollars are associated with accounts or taxpayers who were not in our system but were "discovered" by one of the new enforcement programs using new BRITS tools. The revenues reported for these accounts include dollars collected at the time of discovery as well as revenues voluntarily paid by the account after it is established. All discovery dollars are shared with the department's vendor on an 85/15 split. The 85% goes toward paying the costs of the project while the 15% is retained by the state, county or city on whose behalf the tax is collected. In fiscal year 2004, the BRITS contractor received $855,300 in discovery payments.

The efficiency revenues are those associated with increases in enforcement revenues (audit, collections, billings and license enforcement) as a result of the new systems implementation. Efficiency gains are defined as enforcement revenues collected in excess of a baseline. Baseline numbers were established which equal the amounts expected based on our staffing size and historical productivity, excluding that produced from the amnesty program. The revenue numbers are adjusted to eliminate duplications. Whereas, discovery dollars are attributed directly as reported by the affected taxpayer, efficiency dollars are prorated per the overall distribution of receivable dollars processed through the Accounts Receivable system that month. In fiscal year 2004, the BRITS contractor received $10.7 million in efficiency payments.

HIGHLIGHTS IN FISCAL YEAR 2004

- The department continues the implementation of the BRITS project that began in September, 2002. On January 2, 2004, Release 1 of implementing our Transaction Privilege Tax System was initiated. The rollout of the Withholding Tax conversion is scheduled for September, 2004. Corporate and Income Tax system integration will follow. Additional tools have also been introduced to Collectors and Auditors to increase the productivity of our employees.

ARIZONA DEPARTMENT OF REVENUE



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Strategic Plan Highlights

Overview

The Arizona Department of Revenue Leadership Team met in early March 2004 to review the fiscal year 2004 Strategic Plan and to update the agency's direction for the 2005 fiscal year. Half of the full day planning session was spent in reviewing the accomplishments of the current fiscal year and looking at the current "state of the department." The second half was spent defining strategies and direction for the 2005 fiscal year. This year's strategic plan focuses on the outcomes, strategic issues, objectives and measures and cost analysis of key products of the department. By focusing on these priorities, and rolling them down to the section and unit level, all divisions of the department will readily link to the strategic plan. Continuing this focus is expected to achieve improved results in the new fiscal year.

Mission, Vision, Values

The Mission Statement is "To administer tax laws fairly and efficiently for the people of Arizona." This statement tells who we are and what we do.

The Vision Statement is "Deliver world-class tax administration services through technology and exceptional employees." This statement tells who we want to be. Our company culture is further defined by embracing Values that are shared among all employees. They set the ground rules for how we conduct business and our interpersonal relationships.

The Values for fiscal year 2005 are the same ones as adopted in fiscal year 2004, although we have added to them for further clarification. They are:

- Creativity – We encourage each other to think outside the box.
- Integrity – We exhibit the highest standards of ethics and personal responsibility and make 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 2005:

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

There is a linkage between the department's higher level goals and the lower level performance measures. This relationship enables employees to see how the work performed in their daily activities supports and connects to the department as a whole. Although there are many objectives and performance measures supporting the department's goals at the section and work unit levels, the DOR Leadership Team has selected a handful of these to serve as *key measures* for the department. The key measures touch across the three goals and related outcomes.

Key Measure Result Highlights

Following is an overview of several key measure results from our fiscal year 2004 Strategic Plan. Results are presented in comparison to prior year's data.

Total Gross Revenues Collected

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

FY03

Transaction Privilege Tax $5,145,165,803
Income & Withholding $2,966,888,410
Corporate ....$ 518,246,330
Other ....$ 438,251,254
Total $9,068,551,797

Total Gross Revenues Collected
FY04

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

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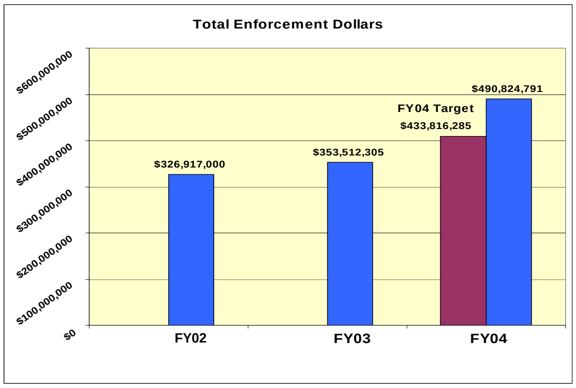
TOTAL NET ENFORCEMENT DOLLARS

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

FY02	$326,917,000
FY03	$353,512,305
FY04 Target	$433,816,285
FY04 Actual	$490,824,791



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FISCAL YEAR 2004 ENFORCEMENT BREAKDOWN BY ENFORCEMENT PROGRAM

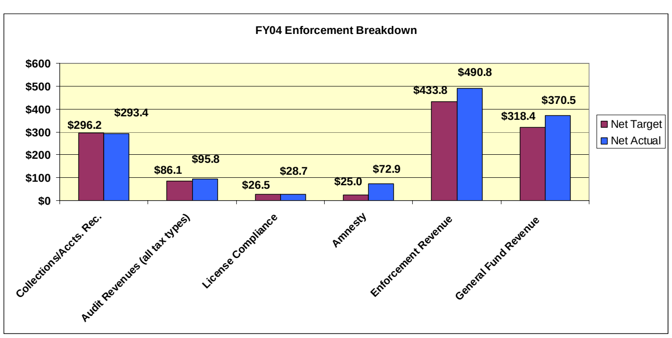
This chart recaps each program's contribution to total enforcement collections. General Fund distribution information is included.

<u>FY04 Net Target</u>

Collections/Accounts Receivable	$296.2M
All Audit	$112.6M
Amnesty	$ 25.0M
Enforcement Revenue	$433.8M
General Fund Revenue	$318.4M

<u>FY04 Net Actual</u>

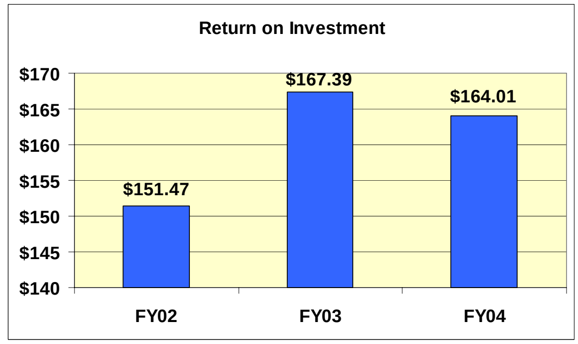
Collections/Accounts Receivable	$293.4M
All Audit	$124.5M
Amnesty	$ 72.9M
Enforcement Revenue	$490.8M
General Fund Revenue	$370.5M



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.

FY02	$151.47
FY03	$167.39
FY04	$164.01



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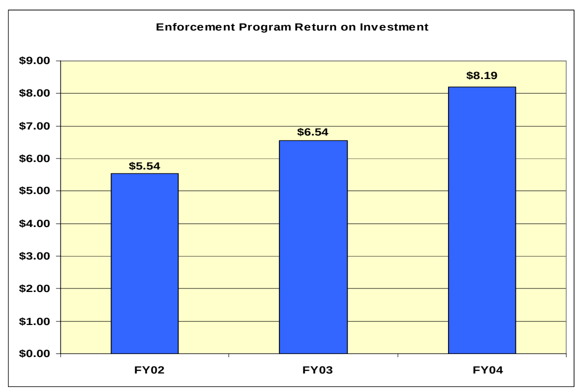
ENFORCEMENT PROGRAM RETURN ON INVESTMENT

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.

FY02	$5.54
FY03	$6.54
FY04	$8.19



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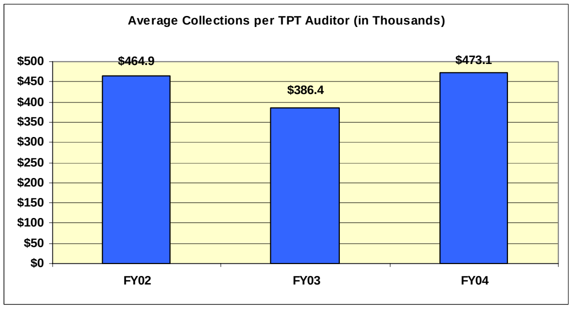
AVERAGE COLLECTIONS PER TRANSACTION PRIVILEGE TAX AUDITOR (IN THOUSANDS)

An increase of transaction privilege tax Audit staff to 75 desk and field agents allowed for an increase in overall audits per agent as well as dollars generated per auditor.

FY02 ....$464.9
FY03 ....$386.4
FY04 ....$473.1



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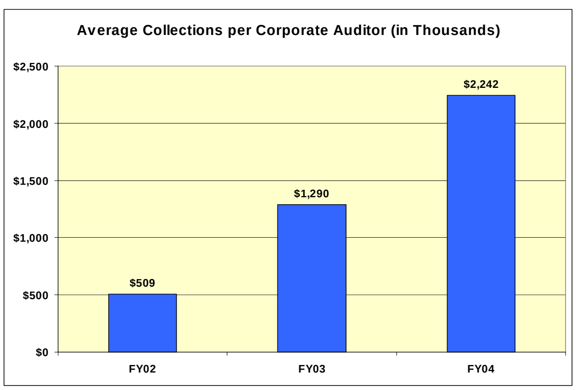
AVERAGE COLLECTIONS PER CORPORATE AUDITOR (IN THOUSANDS)

An increase of corporate audit staff to 46 agents allowed for an increase in overall audits per agent as well as dollars generated per auditor.

FY02 ....$509
FY03 ....$1,290
FY04 ....$2,242



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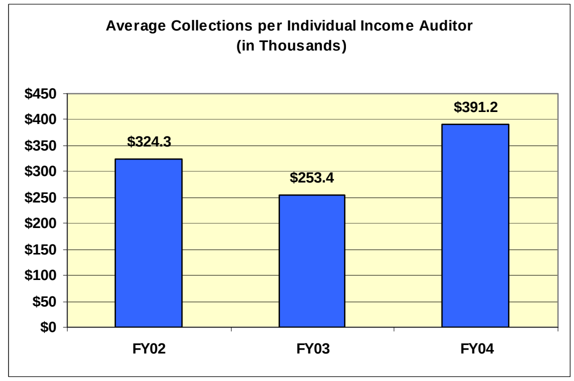
AVERAGE COLLECTIONS PER INDIVIDUAL INCOME AUDITOR (IN THOUSANDS)

The individual income audit section was able to maintain an average staff of 34 agents which allowed for an increase in overall audits per agent as well as increased dollars generated per auditor.

FY02 ....$324.3
FY03 ....$253.4
FY04 ....$391.2



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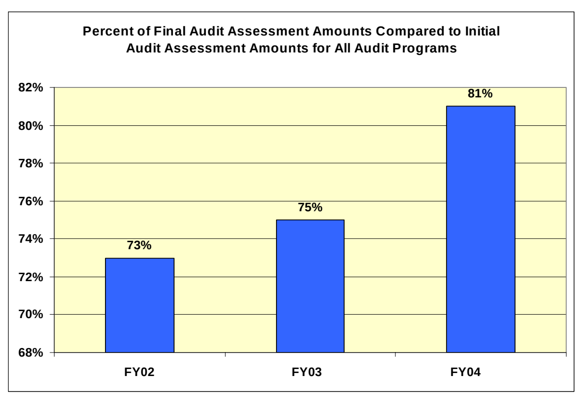
PERCENT OF FINAL AUDIT ASSESSMENT AMOUNTS COMPARED TO INITIAL ASSESSMENT AMOUNTS FOR ALL AUDIT PROGRAMS

This is a quality measure which shows how much change in assessment exists between initial and final audits. The upward trend shows there is less change between initial and final audit assessments, implying better quality of audits.

FY02 .... 73%
FY03 .... 75%
FY04 .... 81%



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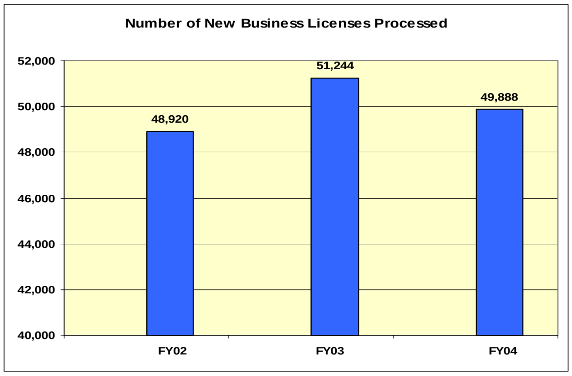
NUMBER OF NEW BUSINESS LICENSES PROCESSED

This is the total amount of new businesses licensed through our License and Registration program, some of them through the new AZTaxes.gov on-line registration.

FY02 48,820
FY03 51,244
FY04 49,888



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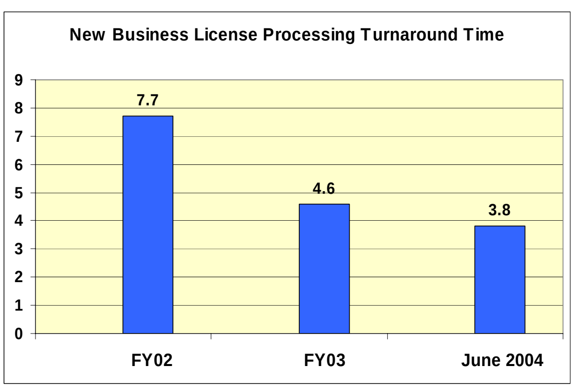
NEW BUSINESS LICENSE TURNAROUND TIME

The time it takes to process a new business license is measured in business days. Release I of the BRITS Project allows for on-line license registration on the AZTaxes.gov web site. Conversion issues impacted license turnaround times in early fiscal year 2004, but the department provided a dramatic improvement to a 3.8 day turnaround time by June of 2004.

FY02 .... 7.7 days
FY03 .... 4.6 days
June 2004 .... 3.8 days



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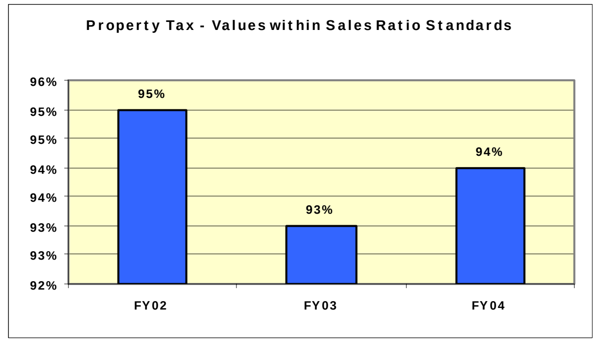
PROPERTY TAX – VALUES WITHIN SALES RATIO STANDARDS

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

FY02 .... 95%
FY03 .... 93%
FY04 .... 94%



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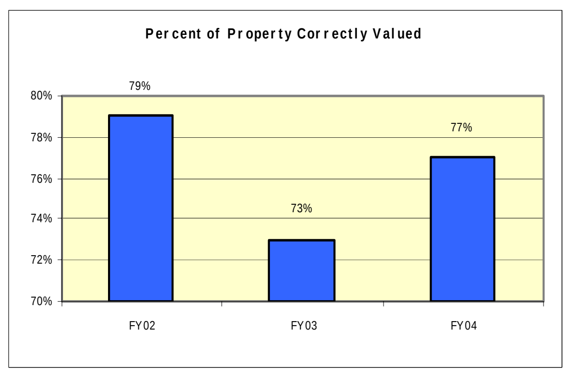
PERCENT OF PROPERTY CORRECTLY VALUED

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

FY02 .... 79%
FY03 .... 73%
FY04 .... 77%



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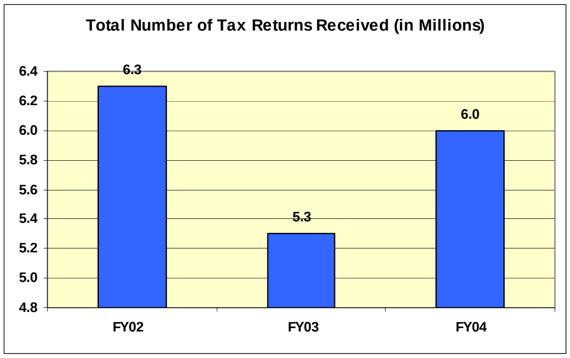
TOTAL NUMBER OF TAX RETURNS RECEIVED
These numbers include all paper and electronic returns received for all four major tax types – income, transaction privilege tax, corporate and withholding.

FY02 .... 6.3M
FY03 .... 5.3M
FY04 .... 6.0M



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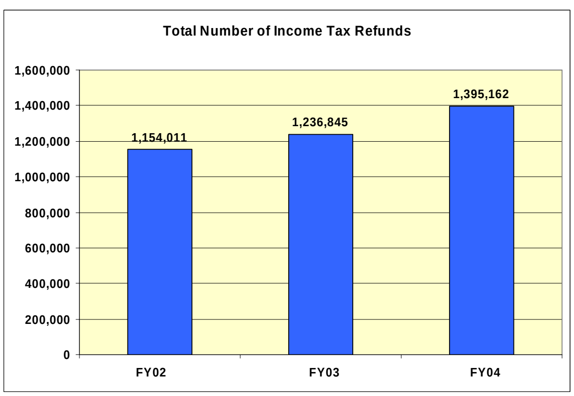
TOTAL NUMBER OF INCOME TAX REFUNDS
The total number of income tax refunds processed includes both direct deposit checks and paper refund warrants. Although the number of income tax refunds is growing each year, it is important to note that average process time is decreasing, as depicted in the following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

FY02 1,154,011
FY03 1,236,845
FY04 1,395,162



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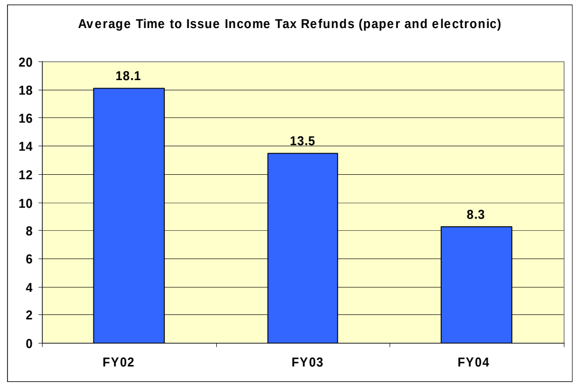
AVERAGE TIME TO ISSUE INCOME TAX REFUNDS
The average time to process an income tax refund is measured in calendar days. The data includes cycle times for both paper and electronic refunds. Each year, more of the population takes advantage of electronic filing opportunities. Those electronic filers also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

FY02 .... 18.1 days
FY03 .... 13.5 days
FY04 .... 8.3 days



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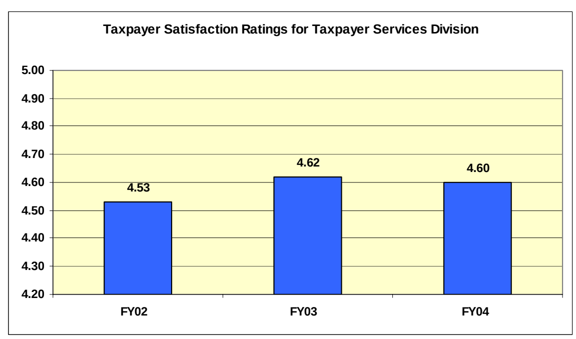
TAXPAYER SATISFACTION RATINGS FOR THE TAXPAYER SERVICES DIVISION
These scores were received from taxpayers rating the services of the employees in the Taxpayer Services division's *Taxpayer Information & Assistance* call center. (All satisfaction ratings tracked at the department have a 1 to 5 scale,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

FY02 ....4.53
FY03 ....4.62
FY04 ....4.60



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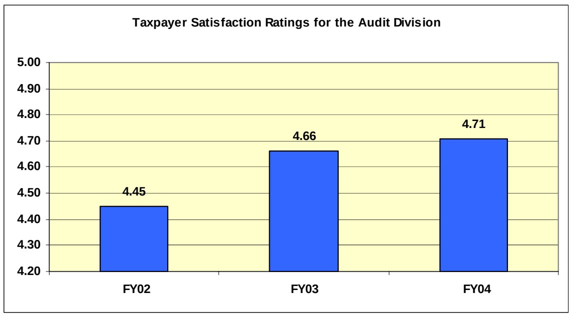
AVERAGE TAXPAYER SATISFACTION RATINGS FOR THE AUDIT DIVISION

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

FY02 ....4.45
FY03 ....4.66
FY04 ....4.71



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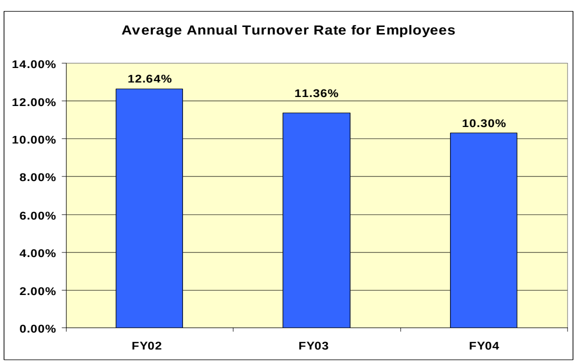
AVERAGE ANNUAL TURNOVER RATE FOR EMPLOYEES

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

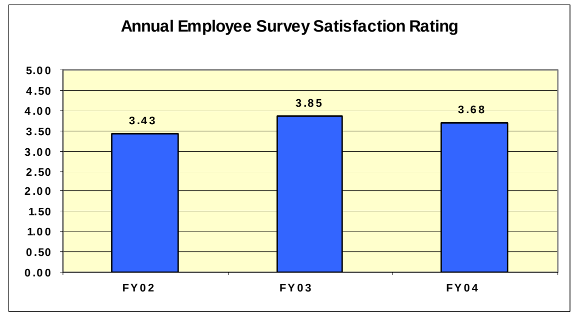
FY02 .... 12.64 %
FY03 .... 11.36 %
FY04 .... 10.30 %



OVERALL AVERAGE SATISFACTION RATING ON THE ANNUAL EMPLOYEE SURVEY

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

FY02 ....3.43
FY03 ....3.85
FY04 ....3.68



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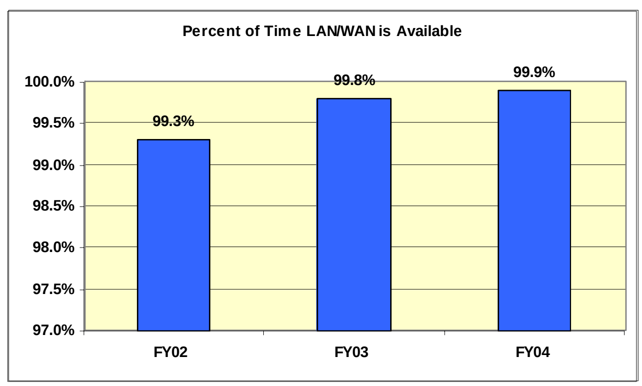
PERCENT OF TIME THE LOCAL AND WIDE AREA NETWORK (LAN/WAN) IS AVAILABLE.

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

FY02 .... 99.3%
FY03 .... 99.8%
FY04 .... 99.9%



The twenty-one key measures reported here serve as a general overview of how the department is progressing in line with the strategic plan. Once objectives are established and the appropriate related measures are selected, the process of base lining activity and tracking performance begins. Although additional, new objectives are selected every year, we have the ability to analyze trend data with the measures that have been tracked over the course of several fiscal years. We have more accountability to our taxpayers and stakeholders with shared strategic plan data. The strategic plan keeps us aligned with our Mission, Values, and Vision and our day to day performance as a department.

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ADMINISTRATIVE SERVICES

Organization
The mission of the Administrative Services Division is 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 as well as taxpayer services including problem resolution assistance and audit due process. 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 Sections, is responsible for monitoring current year expenditures against the approved budget, coordinating preparation of the department's budget, providing staff and operating budget information and analysis to the director and the department's Leadership Team.

Employee Development
The Employee Development Unit, which is part of the Employee Services Section, provides centralized training for the department. The section has a team of trainers whose role is to develop and deliver in-house training for key activities such as using various PC software and tax systems, supervision, confidentiality guidelines, and customer service. The unit offers both self-study classes and classroom training and coordinates with the Arizona Government university training program.

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

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

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

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

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.

Quality Office

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

HIGHLIGHTS IN FISCAL YEAR 2004

- Implementation of the new Human Resources Information Solution (HRIS) system.
- Administered a successful benefits Open Enrollment for all employees in the department.
- Responded to 89.4% of building maintenance work orders within 24 hours.
- The Hearing Office resolved 136 cases during the fiscal year.
- Provided training for three major system conversions within DOR (Windows XP training, Phone training and HRIS training) and contributed to the training of a fourth (BRITS).
- Converted 22 self-paced computer courses and an ADOT web-based Ethics course for use by all State agencies.
- Created video and audio public service announcements for TV and radio to support the DOR Amnesty and E-File programs.
- Implemented a P-card holder program for 26 cardholders. Incorporated a Purchasing Intranet Website to assist those cardholders.

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AUDIT

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

Fiscal year 2004 was a progressive year for the department, particularly for the newly created division that came to be known as the Audit Division. The Audit Division is comprised of Corporate Income Tax Audit, Individual Income Tax Audit, Transaction Privilege and Use Tax Audit and Special Taxes: Bingo, Estate Tax, and Luxury Tax.

Division goals consist of creating horizontal integration, consolidation of resources, creating consistent policy decisions that impact the audit groups, eliminating duplication of efforts, therefore, reducing unnecessary costs, and assimilating reporting methodologies.

Employees are one of the greatest assets for the Division. Thru training and education, employees are charged with fairly determining whether the correct amount of tax has been reported and are responsible for performing audits in a professional and courteous manner with a minimum of disruption to the taxpaying community

Corporate Income Tax

There section is composed of three units: Field Audit, Office Audit and Nexus. There are sixty one (61) positions in the section. There are thirty-eight (38) positions in Field Audit, ten (10) positions in Office Audit, four (4) positions in Nexus , seven (7) administrative support, one (1) trainer and one (1) administrator.

Field Audit conducts over 95% of its audits outside of the state of Arizona. The section expects field auditors to spend at least 25% or more of their time in the field at the location of the corporate headquarters.

Office Audit is self-explanatory and conducts office audits based upon varied selection criteria or from field audit referrals.

The Nexus unit pursues entities that who may not have recognized that they have an obligation to file. The unit also receives voluntary disclosures from taxpayers wherein the taxpayer has come to the realization that it does have an obligation to file and would like to file past, current and future years with the state.

The Corporate Audit Section continuously seeks to improve its processes particularly in the area of its ability to identify lucrative adjustments. This year a system has been implemented whereby each audit adjustment as well as the tax effect of a particular audit adjustment is track utilizing their Field Tracking Database System. It will allow for more meaningful management reports, improved feedback regarding the quality of the audit selected, as well as provide management with the ability to analyze what would be the most productive audit adjustments including the source of the most productive audit leads. Implementation of this system will allow the section to hone in on those adjustments that will produce the greatest return on investment.

The department joined forces with the IRS through a Memorandum of Understanding (MOU) and other states to collectively attack the growing problem of abusive tax shelters being used to illegally reduce taxable income. The MOU leads are the product of well-established federal determinations that abusive schemes such as Home-Based Business, Corporate Soles and Offshore Employee Leasing are illegal and will be disallowed. In addition, the department has signed a Memorandum of Agreement with the Federation of Tax Administrators to obtain potential audit and promoter leads. We expect to receive corporate and individual leads from the IRS with respect to abusive tax scheme program. The MOU that we signed with the IRS will facilitate the exchange of information for this program. The Corporate Audit Section and Individual Audit Sections will play a major role in dedicating resources to combat these activities.

Individual Income Audit Section

A new Administrator for Individual Income Audit started in February of this fiscal year and has worked closely with the four Deputy Administrators in being responsible for the decision making on all issues affecting Individual Audit from personnel matters to resource management to audit selection programs. The decisions made during the year were made more challenging by budget concerns. More than ever, the

Section truly had to learn to do more with less and find new, more efficient ways of doing things. Throughout the year, BRITS, the department's reengineering program, continued to be the main focus of the department. Individual Income provided subject matter experts for BRITS and the ESKORT audit program.

Customer service was again a primary objective of the Section. The effectiveness of the Section's auditors performing their duties in a professional and courteous manner while still ensuring taxpayers were paying the correct amount of tax was evidenced by the customer survey results. The Section sent out 37,962 Customer Satisfaction Surveys during the year. Most of these went to taxpayers that owed additional tax as a result of an audit, yet on a scale of 1 to 5 (5 being excellent), the average score was 4.78, an improvement from fiscal year 2003's average of 4.68.

Transaction Privilege and Use Tax Audit

Field Audit

For fiscal year 2004, the Field Audit Group assessed in excess of $44 Million, approximately 13% higher than fiscal year 2003. The number of taxpayers audited was 19% higher than last fiscal year. In a scale of 1 to 5 (5 being the highest), survey average was 4.83, numbers continue to improve and show that the Transaction Privilege and Use Tax Field Auditors strive for professionalism and clarity.

Compliance Unit (Desk and Licensing)

Starting January 2004, the Licensing Unit was integrated with the Transaction Privilege and Use Tax Audit Group. Desk Audit and Licensing group operate as the Compliance Area. The emphasis for integrating the Licensing Unit with the Transaction Privilege Audit Group was to provide more efficient service to the taxpaying community; assisting in securing a license (Licensing), processing returns (Desk), and field visits (Field Unit). The Compliance Unit had an impressive year; goals were surpassed by approximately 57% (Desk 8%, Licensing 49%), total collections were over $71 million. Compliance unit continues to excel in its efforts to locate, identify, and bring entities doing business in Arizona into compliance. Staff continues to learn and educate taxpayers on how to report correctly.

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

Refund

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

Administrative Support

Fiscal year 2004 was another banner year for the Administrative Support Unit. With few employees, the Unit timely and accurately processed the 2,678 units conducted by the Field Group. The Unit is also responsible to ensure protested accounts are logged timely, correctly and handled promptly. These processes remain manual and labor intensive.

Special Taxes

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

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

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

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

HIGHLIGHTS IN FISCAL YEAR 2004

- The computer generated assessment (CGA) program issued 6,484 assessments for approximately $2,000,000. The CGA audits are issued programmatically by the Section's Information Technology staff in conjunction with programmers from BRITS project. The Individual Income Tax Audit Section established a set of criteria for which federal CP2000 audits could be issued automatically without the intervention of an auditor. If a given audit meets the established criteria, an assessment will be programmatically issued to the taxpayer; if it fails to meet the established criteria, the audit will be reviewed to determine if it should be assigned to an auditor. In the future, more of the Section's audits will be issued as CGA audits as criteria are established for each of the different audit types and adjustments.
- During the year, the Individual Income Tax Audit Section performed more audits on Schedule A's and Schedule C's than in previous years. Desk auditors continued audit programs for Schedule A Itemized Deductions. Field auditors performed the Schedule C audits. These audit programs have proven to be very successful.
- Pass-through entity audits continued in the Individual Income Tax Audit Section. Field auditors review the Partnership and Sub-S Corporations returns to identify areas of noncompliance at the entity and individual levels. Assessments of approximately $1,750,000 during the fiscal year are the result of audits of the pass-through entities. This program continues to be very productive.
- The Individual Income Tax Audit Section has continued to develop and refine the Trust Audit program on the entity and beneficiary levels. We continue to review our selection criteria in this program to improve the results.
- The Individual Income Tax Audit productivity increased again during the fiscal year. Total dollars assessed by the Section increased by 30%. A major reason for this increase was the continued refinement in providing audit leads by the Section's Audit Development Team. In addition, collection revenue generated by the Section increased by 33% for the fiscal year.
- The performance goals and objectives as established by the units within the Corporate Income Tax Audit Section for the department's Strategic Plan were met or exceeded.
  1. Exceeded taxpayer counts by 2%.
     Goal 768 – Actual 784.
  2. Exceeded taxpayer survey score by 10%.
     Goal 4.23 – Actual 4.68.

  Through creating a sense of pride and identifying where they fit into the overall organization, the auditors and support staff were given the opportunity to make decisions regarding their particular tasks that allowed them to exceed their goals.
- A Revenue Enhancement Package approved in fiscal year 2003 was a resounding success! It allowed the Corporate Income Tax Audit Section to add twenty-three (23) employees to the section, which allowed for increased audit coverage and collections. The Section increased audit coverage by 14.7% over the prior year going from a coverage percentage of 1.29% to 1.48%. The Section collected $47.4 million excluding amnesty compared to $33.5 million in the prior year. This represents a 41% increase over collections for the prior year. Some features of the package included:
  1. Adding a new team of corporate field auditors
  2. Expanding the Nexus Unit
  3. Opening a Corporate Audit service center in the East Valley Office
- The Amnesty Program proved to be a popular vehicle for a number of corporate taxpayers to resolve audits in process or under protest. There were 26 corporate taxpayers that under audit that participated in amnesty. These taxpayers paid over $53.8 million. The audit staff worked diligently with the taxpayers to help them file valid applications to take advantage of this one-time program.
- ESKORT/BRITS: ESKORT has been divided into three main groups for Corporate Audit: the Selection Workbench, the Case Management & Tracking System (CM&T), and the Audit Assistant. Each of these systems/processes are

being concurrently designed. The roll-out date for Corporate Audit is anticipated for May/June 2005. We continue to assist in working towards the design and implementation of the new systems for Corporate Audit and eagerly await the efficiencies we hope to achieve with the new systems.

- Fiscal year 2004 was a productive year for the Field Audit section of Transaction Privilege and Use Tax Audit as shown by the 2,678 units that were completed for a total of $44.1 million.
- The Transaction Privilege and Use Tax Audit Compliance Unit realized total revenues just over $71.4 million while licensing 7,522 new taxpayers. This was a record high for the Unit.
- The Transaction Privilege and Use Tax Audit Refund Section continued to excel in good customer service while processing more than 758 refunds totaling $15 million. Refunds denied totaled 165, for approximately $678 million.
- The Transaction Privilege and Use Tax Audit Cities Program continues to excel in servicing the program and non-program cities. Their hard work, along with the new BRITS System, will allow the cities to receive faster and more accurate data.
- Luxury Tax audit assessments increased to $447,843, which is up more than $150,000 from the previous fiscal year.

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COLLECTIONS

Office Collections

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

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

Field Collections

If an Office Collector determines that a case cannot be resolved by phone and that a field (on-site) approach is warranted, the case is referred to the Field Collections section. Field collectors are assigned a territory (by ZIP code) and are responsible for all types of tax cases (income, business, withholding, etc.) in their territory.

Field collectors use a combination of telephone and field visits to effect closure. In addition to recommending lien and levy action, Field collectors may subpoena records, work Offers in Compromise, recommend seizures and write off cases if they are determined to be uncollectible.

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

Bankruptcy and Litigation

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

In addition to processing bankruptcies, the section refers cases to the Attorney General's Office that may require legal action to effect closure as well as processing Offers in Compromise. The Litigation unit is responsible for all other non-mainstream collection activities. These include handling disputed audit accounts, insufficient funds check collections, lien processing, case adjustments, Letters of Good Standing, levies on Department of Administration vendors, levies on contractor and insurance bonds and internal systems training.

Debt Set-Off

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

Highlights in Fiscal Year 2004

- Appointment of an Assistant Director, Mel Litzenberger, effective November 2003.
- Restructured Division to provide for more effective functionality. Merged Specialty Collections Team with Litigation Team; created an Administrative Support Team.
- Began implementation of the BRITS TPT conversion.
- Reassigned work states.
- Abolished the practice of assigning accounts to specific collection agents.

- Expanded the training unit by adding one employee.
- Provided a series of Supervisory Training modules for Division Supervisors.
- Upgraded the Collections handbook. Created an abbreviated model for desk reference.
- Strengthened the report preparation unit.
- Assigned two supervisors and four employees to work full time with BRITS team to assist in the identification of Collections Division issues, and to provide User Acceptance Testing as required.
- Modified and developed procedures for the referral of cases to the Attorney General's office.
- Collected in excess of $240 million in past due taxes.

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EXTERNAL SERVICES & SPECIAL PROJECTS

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

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

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

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

SPECIAL PROJECTS

Arizona Tax Amnesty Program
In fiscal year 2003, Arizona was faced with a $300 million budget deficit, with a $1 billion deficit projected for fiscal year 2004. Governor Napolitano proposed a tax amnesty program to be part of her plan to respond to the fiscal crisis and accelerate revenues into 2004 fiscal year. A second goal of the program was to bring taxpayers into compliance and onto the tax rolls for future tax periods. The Arizona Tax Amnesty Program was authorized by the Legislature in June 2003 and implementation began.

The department decided to capitalize on best practices information in offering this one-time special service to Arizona taxpayers. This program allowed department leadership to practice its mission to efficiently and fairly administer the tax laws for the people of Arizona and put its vision of delivering world-class tax administration services through technology and exceptional employees into practice. The department implemented the tax amnesty program using its six values: creating a **quality** program through **teamwork**; involving all employees to identify **creative** approaches that produced excellent **results**; and working with **integrity** and **respect** for one another for the greater good.

The official tax amnesty period ran from September 1, 2003 to October 31, 2003 with payments accepted through May 1, 2004. The program targeted all taxpayers for amnesty participation, business taxpayers (transaction privilege, corporate, withholding, luxury and use taxes) and personal income taxpayers. The impending application of new enhanced technology for finding delinquent taxpayers provided a marketing impetus. Taxpayers were warned of stepped up compliance efforts that would be forthcoming if the tax amnesty offering was not accepted by non-filers or under filers. After the program ended, the imposition of higher interest rates and penalties would also make continued non-compliance extremely expensive; therefore, further encouraging taxpayers to "come clean" via amnesty.

A target was set to generate at least $25 million in new tax revenues during the tax amnesty period. The primary measure of success for the tax amnesty program was collecting over $73 million; $48 million over the $25 million target. The department managed to accomplish these excellent results with direct expenses (advertising, printing, postage, telephones, and temporary employees) of approximately $64,600. This is a phenomenal return on investment of roughly $1,100 for each $1 spent.

The amount of money brought in is a reminder that there continues to be a need for an on-going, vigorous tax enforcement program to ensure every taxpayer pays a fair share of the tax burden. That will continue to be the focus and goal for the future.

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

HIGHLIGHTS IN FISCAL YEAR 2004

- The Tobacco Enforcement Unit added ten additional tobacco investigators to impact the number of inspections and educational visits and to ensure compliance with the luxury tax laws. Almost a million cigarette sticks were seized during the year from Arizona retailers who did not pay the required luxury tax. The presence of these tobacco investigators will be a deterrent to continued violations and at the same time will increase the awareness of Arizona's luxury tax requirements.
- The annual Arizona State Quality Awards Program recognizes Arizona organizations for performance excellence. The program, modeled after the Malcolm Baldrige Award criteria, provides not only an opportunity for recognition, but also valuable feedback on where an organization is positioned on the quality continuum.

  The Arizona Tax Amnesty Program was one of twelve recipients for the Arizona Quality Alliance (AQA) Showcase in Excellence Awards. Showcase in Excellence Awards recognize organizations for specific process excellence. This program allows organizations to focus on each of the processes and build toward a complete quality implementation. Since the Tax Amnesty Program yielded such outstanding results, the department wanted to share its story and applied for the award, relating the program to several of the six categories aligned with the Baldrige criteria: Leadership, Strategic Planning, Customer and Market Focus, Measurement, Analysis and Knowledge Management; Human Resource Focus; or Process Management.
- The Ladewig project continues to implement the court authorized Settlement Agreement of the lawsuit and begins the payment of approximately $302 million in refunds of tax and interest due from 1986 through 1989 on certain corporate dividend income. The project originally estimated administrative implementation costs of $35 million but due to automation, use of equipment from previous projects and using temporary employees instead of full time employees or overtime, these costs were reduced to $23 million over 5 years. The management staff of DOR employees assigned to the project was instrumental in reducing the costs, thus returning the expected $13 million to the claimants in their last refund check in 2006. During this fiscal year, the project staff recovered information from more than 20,000,000 federal and state tax return records as well as all related audit records. The staff then identified and matched more than 6,000,000 records required for completing the refund calculations. Approximately 225,000 inquiry letters requesting supplemental information were sent to claimants. Notices listing the amounts used for the refund calculations were mailed to more than 775,000 claimants. All of this work was completed before the due date established in the Settlement Agreement. The department expects to mail more than 450,000 warrants and 1099 forms to claimants in fiscal year 2005 and another 325,000 letters to claimants who don't qualify for refunds under the terms of the settlement.

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INFORMATION TECHNOLOGY

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

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

Customer Services Management
The Customer Services Management (CSM) group acts as a liaison and single point of contact between the business units and IT. We work with the customer to gather project information and develop requirement specifications.

The team manages all System Investigation Requests (SIRs) and communicates status back to the customer. In addition, we help promote IT capabilities and services by understanding the needs of the business units for both legacy applications and BRITS.

Data Center Support
Data Center Support is comprised of Production Control, Technical Support, and Data Base Management. This team functions as the liaison to ADOA and the BRITS Team for job processing and printing. In addition with ADOA, this team coordinates projects and upgrades to the mainframe.

Production Control staff schedules and monitors all work done on the ADOA mainframe for the department and monitors work with the new BRITS systems. The Technical Support staff provides the first line of technical support for all mainframe-related issues for the application programming staff. The Data Base Management staff supports and maintains the mainframe database management system and is working on the oracle data base systems in BRITS.

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

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

HIGHLIGHTS IN FISCAL YEAR 2004

Application Services:

- Worked closely with Accenture, the vendor chosen to implement BRITS. Assigned staff to actively support the implementation of the new system. Have begun to position ourselves to provide on-going BRITS system support;
- Modified the Cashier System to accommodate BRITS Release 1 – Transaction Privilege (Sales) Tax Conversion;
- Provided the ability to stop individual income refunds being issued before the warrant prints;
- Implemented changes to permit warrants to be printed by 3rd party vendor;
- Designed an Auto Wage Levy program that utilizes employer information from DES and automated the issuance of wage levies;
- Enhanced the E-File Vendor Testing Scenario processing to ensure more thorough testing;
- Created a process to allow staff to view E-File returns;
- Rewrote the Estate Tax Application to make it easier for staff to use;
- Implemented year-end income and corporate tax changes;
- Implemented changes required for Real and Personal Property 2003 tax year billings;
- Modified the Data Entry System to accept 2003 Tax Forms;

Customer Services Management

- The CSM group was formed on January 1, 2004.
- Established to help support the business units transition from legacy to BRITS.
- Developed SIR procedures/processes and forms to better document requests, track progress, test fixes and sign off when completed.
- Established prioritization meetings to facilitate communication between the groups and prioritize SIRs.

Enterprise Network Support:

- Agency wide PC and Laptop refresh.
- AT&T Data Center implementation to support BRITS
- Network upgrade from Microsoft NT to Microsoft 2003 Active Directory

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PROCESSING ADMINISTRATION

Organization

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

Comptroller

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

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

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

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

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

Records Management

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

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

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

Mail Services

Mail Services is divided into two units: Incoming Mail is responsible for the receipt, sorting, and delivery of all tax documents, payments and correspondence received by the agency.

Outgoing Mail is responsible for mailing all tax documents, billing, correspondence and tax change notices, audit and collection notices to taxpayers. This portion of the mail services was out-sourced the last quarter of the fiscal year.

Individual Income Tax Processing

Individual Income Tax Processing is divided into three units: Refund/Research, Document Processing and Error Resolution. These units are responsible for issuing income tax refunds, preparing documents and revenue to be keyed and resolving discrepancies between the taxpayer's calculations and the department's computerized calculations.

Business Tax Processing

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

HIGHLIGHTS IN FISCAL YEAR 2004

- During the 2004 tax-filing season, 1,554,135 paper documents were processed. The total number of income tax refunds processed was 1,551,889.
- Refund turn-around time averaged 8.3 days.
- The total number of Corporate Income Tax documents processed was 223,848. The Corporate Income Tax refunds issued exceeded $124 million.
- The total number of Transaction Privilege, Use and Severance Tax documents processed was 1,421,863.
- The total number of Withholding Tax Documents processed was 1,973,849.
- The Records Management unit has worked to improve quality. The Records Maintenance Section has received approximately 134,707 new license applications and has completed 132,013 requests for taxpayer documents. The Micrographics Section, assisted by an outside vendor microfilmed 14.8 million individual documents.

- The Comptroller's Office returned 16,009 warrants to taxpayers that had been returned to the department because the taxpayer's address was incorrect. This was 73% of all warrants returned.
- The Data Entry Unit keyed over 2 million documents in fiscal year 2004. The unit kept its primary focus on keying business tax returns. Individual Income tax returns were outsourced to our keying partners because of the volume received and the statutory requirements for turning refunds around. The decrease in the number of documents keyed by the Unit is attributable to the increase number of returns that were e-filed. This enabled the department to decrease the amount of money spent in the preparation and keying of income tax returns.
- The Accounts Receivable Unit continued its high level of service in processing maintenance items in less than 24 hours of receipt with a .05% error rate.
- The Incoming Mail Unit processed approximately 5 million letters and flats during the fiscal year. This included income, transaction privilege tax, withholding, and corporate tax mail.
- The outgoing mail team and vendor processing the department's outgoing mail processed 4.5 million pieces of mail.

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PROPERTY TAX

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

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

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

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

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

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

The CIS group develops and coordinates the information processing services necessary to support property tax administration for 13 Arizona Counties. The support services provided to the client counties include management of automated systems used in the maintenance of assessment and tax rolls, the preparation of valuation abstracts, property tax notices of value and statements of taxes due. The group is also responsible for the statewide administration of the additional state aid to education homeowner rebate program for Arizona school districts and levy limit calculations for client counties, cities/towns and community college districts.

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

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

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

HIGHLIGHTS IN FISCAL YEAR 2004

- A Request for Proposals (RFP) was issued to solicit bids from prospective vendors for the development of a new property valuation and taxation system. The mainframe systems that support the property tax program were developed in the late 1970's and 1980's based upon the property tax laws and assessment administration techniques then in effect. These systems exceeded their intended life cycle long ago and do not support current information processing and functionality needs. The current system does not allow the flexibility necessary for an efficient management and assessment system. The new system will replace labor intensive business practices which are currently being supported manually; provide the capability to abstract information based on flexible parameters selected by the user; allow users to work on more than one tax year at a time; provide the necessary flexibility to reflect legislative changes timely, and allow more flexibility in the analysis of assessor values for equalization purposes. The target date for awarding the contract is October 1, 2004.

- Four Equalization Orders were issued: two in Maricopa County and two in Cochise County. After efforts on the part of the assessors to bring values in line with statutory standards, the department was able to rescind three Orders. The fourth Order was successfully defended at the Board of Equalization by the Valuation Review Team.
- The County Services Team embarked on an important new program to verify commercial and industrial property sales information for purposes of supporting the sales ratio studies. Such verification allows the division to cleanse its sales data base, thereby producing improved ratio analyses.

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TAXPAYER SERVICES

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

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.

Marketing efforts by the department advanced significantly through expansion of television, radio, internet, and newspaper advertising. This was the first time that paid advertising was used. Coverage from media outlets for interviews on local programming also increased awareness of the advantages of e-File. In conjunction with the Governor's Task Force to assist low-income taxpayers, the staff incorporated promotion of the federal Earned Income Tax Credit routinely in promotional materials and advertising for e-File.

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

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

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

They also answer questions in relation to billings, taxability, business registration, filing and payment requirements.

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

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

HIGHLIGHTS IN FISCAL YEAR 2004

- CORE provided showcase events for Tax Practitioners and Small Businesses in the form of Tax Talk and Employers Potpourri. The section partnered with a wide range of entities, including the IRS, Social Security Administration, Immigration and Naturalization, Department of Labor, Department of Economic Security, Maricopa County, Arizona Small Business Association, Chicanos Por La Causa, Small Business Development Centers statewide, AARP, SCORE, Arizona Forum for Improvement of Taxation and the cities of Avondale, Chandler, Flagstaff, Mesa, Phoenix, Surprise, Tucson, and Yuma. This partnership enabled us to provide businesses with a wide variety of resources and assistance to meet the challenges of dealing with the regulatory environment and taxation.
- The CORE unit coordinated the Volunteer Income Tax Assistance (VITA) program providing e-File services to taxpayers. This year the department expanded support by establishing a VITA Supersite in our Tucson office. Over 3,700 low income taxpayers were assisted at the department's Supersite in Phoenix and 194 in Tucson.
- The CORE unit initiated the agency's first "Midnight Special" allowing taxpayers to drop off their returns on April 15th until midnight. Over 800 taxpayers took advantage of this event.
- The effectiveness of marketing efforts resulted in a 15% increase in the number of e-Filed tax returns to 830,641 returns for tax year 2003. The number of taxpayers who received their refunds via direct deposit increased by 15% to 378,742 and direct debit of tax payments grew by 66%. This expansion of e-File services saved an estimated $350,825 in processing, printing and postage costs for the state.
- Two-dimensional bar coding of tax returns increased by 173% from 127,270 to 347,550. This technology provides taxpayers who prefer not to file electronically with an alternative that offers expedited processing and increased accuracy over a standard paper return and has resulted in an estimated $83,000 savings in processing costs.
- The number of tax professionals participating in the e-File program increased to 4,582, a 64% increase.
- Improvements in the process of approving software for developers was so well received that the National Association of Computer Tax Preparers (NACTP) awarded the department with the Excellence In Communication award for achievement of the NATCP standards in communication. This recognition of effort to streamline processes with our partners in private industry was appreciated, as it further promotes service to our customers, the Arizona taxpayers.
- The average number of days to generate a business license was reduced to 3.0 days by the end of fiscal year. This is a significant improvement over fiscal year 2003, when the average turnaround for license applications averaged 4.6 days and the delays experienced during the computer system conversion in January 2004 that resulted in cycle times as much as 26 days.
- In January, our new website, www.AZTaxes.gov, allowed business owners to apply for a license on line. Over 11,300 business owners have made use of AZTaxes to apply for a license of register for online filing or account access.
- TIA staff reduced the inventory of open cases from 2,428 cases to 1,258 cases.
- The total number of calls answered in the call center increased from 261,737 to 300,903, a difference of 39,166. While working with a smaller staff due to budget constraints, the section not only handled more calls but was able to keep the combined wait time averages (business and income) similar to those of last year. Last year the wait times averaged 6:01 and this year's average is 6:24.
- An additional 35,662 taxpayers utilized our automated phone system over last fiscal year, bringing the total number to 697,157.
- A cooperative compliance approach, as opposed to a formal audit, was implemented this year in the Unclaimed Property Audit section resulting in an increase from last year of 10 audits to 114 this year. An additional 131,301 properties were received over last year for a total of 322,447.

- The Unclaimed Property Section began liquidating securities held by the state in custody for the rightful owners on a quarterly basis. Sale of securities held for more than three years yielded $6.8 million to the unclaimed property fund. [The sale of securities netted only $300,000 in fiscal year 2003.]
- Production on claims in the Unclaimed Property section increased by 9,452, with 26,977 claims completed in fiscal year 2004. Turnaround times were extended from 48 in fiscal year 2003 to 80 in fiscal year 2004 but staff closed the year with cycle times down to 70 days and began fiscal year 2005 at 48 days.

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TAX POLICY & RESEARCH

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

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

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

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

The Transaction Privilege & Use Tax (TPT) Appeals Section is headed by the TPT Appeals Administrator and assists the Transaction Privilege and Use Tax Audit Section with case refinement and resolution services at the informal hearing as well as advocating the audit section's position in cases before the State Office of Administrative Hearings, the department's Hearing Office, and the director. The Section also assists the Tax Section of the Attorney General's Office with preparation and research of cases being heard before the Board of Tax Appeals, Tax Court and the appellate courts. The Administrator of the Section acts as the Disclosure Officer for the department.

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

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

HIGHLIGHTS IN FISCAL YEAR 2004

- The section has begun to work with industry representatives to develop guidelines applicable to a particular industry to try to avoid future disagreement and litigation. The section is currently working with the hotel/motel industry regarding such guidelines.
- The section started placing selected Director's and Hearing Officer's Decisions on its website in a redacted form so that all confidential information is removed. The decisions often address issues where no rules or rulings have previously been issued.

- This past year the section has drafted and promulgated rules regarding the electronic filing of income tax returns, and emergency rules relating to the procedures to be followed by taxpayers wanting to avail themselves of the amnesty program. The section is also working on rules relating to job printing, leasing of tangible personal property, motion picture production refunds and the taxability of the sale of fuel.

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ARIZONA'S TAXES

Revenue Summary (Table 1)
Net Revenue to State General Fund (Table 2)
Gross Collections of Audit Assessments and Delinquent Tax (Table 3)
Transaction Privilege, Use and Severance Tax
Income Tax
Property Tax

TABLE 1
REVENUE SUMMARY
GROSS REVENUE COLLECTED
FISCAL YEAR 1999-00 THOUGH FISCAL YEAR 2003-04

SOURCE	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04
TRANSACTION PRIVILEGE USE AND SEVERANCE TAX					
Distribution Base	$1,195,140,016	$1,248,485,639	$1,246,773,262	$1,265,625,175	$1,362,143,376
Nonshared Portion	2,230,332,220	2,356,788,664	2,379,509,616	2,400,432,714	2,588,439,418
Use Tax	176,566,264	196,887,927	162,751,987	190,186,057	232,215,946
Education Tax (1)	-----	100,682	439,004,543	447,841,034	487,214,807
Undistributed Estimated Transaction Privilege Tax	12,392,607	1,894,841	28,766,081	9,156,917	14,056,241
Other State Revenue	18,254,373	21,123,487	32,971,582	34,401,816	35,802,096
County and City Collections	654,131,327	721,459,433	766,018,836	797,522,090	889,627,518
Amnesty	-----	-----	-----	-----	15,315,231
Subtotal	**$4,286,816,807**	**$4,546,740,674**	**$5,055,795,907**	**$5,145,165,803**	**$5,624,814,633**
INCOME TAX					
Withholding	2,259,201,907	2,363,693,852	2,309,340,885	2,310,302,093	2,336,442,815
Individual	826,789,215	858,775,963	705,843,394	656,586,317	776,183,707
Corporate	637,765,231	678,002,658	512,257,476	518,246,330	596,582,273
Amnesty	-----	-----	-----	-----	56,757,741
Subtotal	**$3,723,756,353**	**$3,900,472,473**	**$3,527,441,755**	**$3,485,134,740**	**$3,765,966,537**
LUXURY TAX					
Spirituous Liquor	20,587,605	21,327,540	21,574,744	22,004,331	23,438,818
Vinous Liquor	9,026,326	8,477,493	9,035,156	9,924,749	10,404,546
Malt Liquor	21,309,231	21,602,321	22,031,467	22,137,764	22,110,426
Tobacco - All Types (2)	162,896,049	160,694,260	161,754,302	217,955,008 (5)	281,795,514
Licensing	7,175	8,600	5,250	5,950	6,400
Amnesty	-----	-----	-----	-----	187,315
Subtotal	**$213,826,386**	**$212,110,214**	**$214,400,920**	**$272,027,802**	**$337,943,019**
ESTATE TAX					
Estate	85,238,335	76,921,666	81,892,657	96,859,390	42,292,396
Unclaimed Property	31,415,063	38,027,873	48,687,357	46,219,555	49,653,262
Escheated Estates	201,612	647,074	252,786	269,557	568,385
Subtotal	**$116,855,010**	**$115,596,613**	**$130,832,800**	**$143,348,502**	**$92,514,043**
OTHER REVENUES					
Bingo	677,036	634,384	629,680	626,770	624,501
Flight Property Tax	13,418,771	13,387,179	13,056,694	12,741,749	12,641,445
Private Car Tax	1,476,728	1,349,685	1,509,625	1,485,996	1,335,056
Nuclear Plan Assessment	945,935	924,778	940,611	1,012,992	1,036,085
Waste Tire	5,674,452	6,346,629	6,392,637	7,007,444	7,785,148
Subtotal	**$22,192,921**	**$22,642,655**	**$22,529,247**	**$22,874,950**	**$23,422,235**
DEPARTMENT TOTAL	**$8,363,447,477**	**$8,797,562,629**	**$8,951,000,629**	**$9,068,551,797**	**$9,844,660,466**
State Property Tax (3)	24,686,866	22,552,932	18,454,625	9,493,897	20,188,811
TOTAL (4)	**$8,388,134,343**	**$8,820,115,561**	**$8,969,455,254**	**$9,078,045,694**	**$9,864,849,278**

(1) Education tax became effective on June 1, 2001.
(2) Figures represent gross tobacco revenue less administrative expenses
(3) Property Tax is collected and deposited in the state general fund by counties. This figure includes deposits to the General Fund derived from the minimum Qualifying Tax Rate and taxes collected within Unorganized School Districts
(4) All revenues collected by the Department of Revenue, including those which are refunded or distributed, and State Property Tax
(5) Growth due to increases in tobacco tax rates effective November 2002.
For additional detail on the current year revenue, please refer to the appropriate section within this Annual Report
Figures may not add to total due to rounding

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TABLE 2
NET REVENUE TO STATE GENERAL FUND
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

SOURCE	**FY1999-00**	**FY2000-01**	**FY2001-02**	**FY2002-03**	**FY2003-04**
Transaction Privilege, Use, and Severance Tax	$2,817,525,828	$2,982,824,755	$2,972,274,262	$3,027,135,359	$3,290,458,614
Transaction Privilege, Use, and Severance Tax-Amnesty	-----	-----	-----	-----	12,308,108
Undistributed Estimated Transaction Privilege Tax	12,392,607	1,894,841	28,766,081	9,156,917	14,056,241
Income Tax	2,434,799,495	2,445,472,944	2,011,052,550	2,056,591,466	2,413,036,616
Income Tax-Amnesty	-----	-----	-----	-----	56,757,741
Luxury Tax	65,436,145	65,568,793	66,069,587	64,586,950	61,245,119
Luxury Tax-Amnesty	-----	-----	-----	-----	55,899
Estate Tax/ Unclaimed Property	84,725,503	78,961,539	88,298,138	100,963,571	46,862,393
Bingo	677,036	634,384	629,680	626,770	624,501
Private Car Tax	1,476,728	1,349,685	1,509,625	1,485,996	1,335,056
Nuclear Plan Assessment	945,935	924,778	940,611	1,012,992	1,036,085
Flight Property Tax	6,709,385	6,693,590	6,528,347	6,255,987 (2)	6,320,722
Department Total	***$5,424,688,662***	***$5,584,325,308***	***$5,176,068,883***	***$5,267,816,008***	***$5,904,097,095***
State Property Tax (1)	24,686,866	22,552,932	18,454,625	9,493,897	20,188,811
TOTAL	***$5,449,375,528***	***$5,606,878,240***	***$5,194,523,508***	***$5,277,309,905***	***$5,924,285,907***

(1) Property Tax is not collected by the Department of Revenue. It is deposited in the State General Fund by counties. This figure includes deposits to the General Fund derived from the minimum Qualifying Tax Rate and taxes collected within Unorganized School Districts.
(2) A refund issued during FY 03 reduced the General Fund distribution by $114,887.
Figures may not add to total due to rounding.

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TABLE 3
GROSS COLLECTIONS OF AUDIT ASSESSMENTS AND DELINQUENT TAX
FISCAL YEAR 2002-03 AND FISCAL YEAR 2003-04

AUDIT COLLECTIONS	**FY2002-03**	**FY2003-04**	**% CHANGE**
Assessment Collections (Gross)	$64,860,554	$136,889,314	111.1%
Miscellaneous Taxes (Net of Credit)	$6,172,998	$5,552,814	-10.0%
TOTAL AUDIT UNIT COLLECTIONS	**$71,033,552**	**$142,442,128**	100.5%
TOTAL BILLINGS	**$138,229,448**	**$176,804,904**	27.9%
TOTAL DELINQUENT TAX COLLECTIONS	**$265,393,464**	**$276,059,598**	4.0%
TOTAL UNADJUSTED ENFORCEMENT COLLECTIONS	**$474,656,464**	**$595,306,630**	25.4%
ADJUSTMENTS (1)			
Duplication, Credit Audits and Other Adjustments As Reported	($73,785,528)	($139,615,082)	89.2%
TOTAL ADJUSTED ENFORCEMENT COLLECTIONS (2)	**$400,870,936**	**$455,691,548**	13.7%
REFUND DENIALS	**$12,132,145**	**$32,290,597**	166.2%

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

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TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX

MAJOR FEATURES

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

The rates range from 1% (cities) to 5.6% depending on the type of business, with most rates at 5.6% (*Refer to Table 5*). Gross revenue's exceeding $4.7 billion was remitted by the 185,000 Transaction Privilege, Severance and Use Tax license holders during fiscal year 2004 *(Refer to Table 4)*.

SEVERANCE TAX

A severance tax is imposed in lieu of a transaction privilege tax on the businesses of mining metalliferous mineral and severing timber. The severance rates are 2.5% on mining metalliferous minerals, $2.13 per thousand board feet (Ponderosa) and $1.51 per thousand board feet (other) on timbering, effective January 1995 (*Refer to Table 5*).

DISTRIBUTION

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

USE TAX

A 5% use tax is imposed on the purchase price of tangible personal property when a transaction privilege tax equal to or greater than the Arizona rate was not paid. A use tax collection responsibility is imposed on retailers whose activities in the state are insufficient to require them to pay transaction privilege tax but are nonetheless substantial enough to fall outside the protective umbrella of the United States Constitutional provision governing interstate commerce. Firms without nexus may also voluntarily collect use tax for the benefit of their customers.

MUNICIPAL PRIVILEGE AND USE TAX

The department collects transaction privilege and use tax for 76 Arizona cities and towns at no charge to the municipalities. This is a service to the cities and to the taxpaying community who are therefore able to combine their reporting requirements on a single form and payment to a single governmental entity. Weekly distribution checks are processed after the department collects the local taxes (*Refer to Tables 26 and 27*).

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

COUNTY TAX AND SURCHARGE COLLECTION

Of the 15 counties in Arizona, 14 levy some type of county tax or surcharge (*Refer to Table 4*). These taxes or surcharges are collected by the department. The rental car surcharge is imposed only in Maricopa and Pima Counties. A tax on hotels located in unincorporated areas of the county is levied in Pima County.

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

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

TABLE 4
GROSS TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

SOURCE	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04
Distribution Base	$1,195,140,016	$1,248,485,639	$1,246,773,262	$1,265,625,175	$1,362,143,376
Nonshared	2,230,332,220	2,356,788,664	2,379,509,616	2,400,432,714	2,588,439,418
Use Tax	176,566,264	196,887,927	162,751,987	190,186,057	232,215,946
Amnesty	-----	-----	-----	-----	13,553,444
SUBTOTAL	**$3,602,038,500**	**$3,802,162,230**	**$3,789,034,865**	**$3,856,243,946**	**$4,196,352,184**
Education Tax (8)	-----	100,682	439,004,543	447,841,034	487,214,807
Undistributed Estimated	12,392,607	1,894,841	28,766,081	9,156,917	14,056,241
911 Wireline/Excise Tax	7,846,057	9,201,049	14,998,348	13,914,520	13,718,911
Telecommunications Devices	4,960,224	5,514,542	6,395,057	6,328,095	5,091,661
Poison Control Fund	1,834,603	2,039,625	2,365,295	2,340,528	1,437,566
School for the Deaf (11)	-----	-----	-----	-----	1,362,312 (1)
911 Wireless Service	1,507,573	2,136,015	6,928,990	9,596,186	11,972,954
Municipal Water	2,081,879	2,120,483	2,213,435	2,150,995	2,195,590
Environmentally Hazardous Products (2)	980	5,909	14	42	44
Waste Tire Accounts Receivable Collections	25,739	109,948	71,330	72,824	23,068
Less Collection Fees	(2,682)	(4,084)	(888)	(1,375)	(11)
Amnesty-Other	-----	-----	-----	-----	765,008
GROSS STATE COLLECTIONS	**$3,632,685,479**	**$3,825,281,241**	**$4,289,777,071**	**$4,347,643,714**	**$4,734,190,336**
Municipal Privilege Tax	230,976,587	257,706,985	280,950,442	302,626,095	352,320,229
Pima County Hotel Tax	2,625,508	2,823,410	2,495,830	2,556,951	2,716,687
Maricopa County Rental Car Surcharge	5,734,678	5,636,907	5,396,445	5,267,273	5,556,717
Pima County Rental Car Surcharge	1,476,750	1,557,354	1,377,083	1,435,901	1,485,916
Pima County R.V. Surcharge	212,849	197,598	189,838	194,949	201,697
Apache County Excise Tax	1,862,479	1,130,977	903,381	960,194	959,948
Cochise County Excise Tax	4,853,891	5,123,754	5,698,660	5,673,861	6,181,770
Coconino County Excise Tax	8,876,866	9,054,404	8,793,909	9,467,920	10,079,519
Coconino County Jail Tax	5,261,397	5,358,317	5,486,442	5,692,968	6,043,452
Coconino County Capitol Projects (9)	-----	-----	-----	864,263 (1)	2,454,757
Gila County Excise Tax	2,311,624	2,596,028	2,617,971	2,519,790	2,626,335
Gila County Hospital Tax (3)	92	38,499	509	2	0
Gila County Transportation	2,377,944	2,612,288	2,718,050	2,606,712	2,709,463
Graham County Excise Tax	1,188,238	1,206,320	1,192,075	1,174,735	1,157,663
Greenlee County Excise Tax	563,020	645,168	562,389	700,206	713,868
La Paz County Excise Tax	806,441	820,780	885,465	862,595	972,286
La Paz County Jail Tax	807,563	821,969	885,694	862,282	972,523
La Paz County Health Services District (10)	-----	-----	-----	143,928 (1)	215,928
Maricopa County Road Tax	248,595,990	264,722,440	267,563,343	268,720,901	288,009,151
Maricopa County Stadium Tax (4)	150,336	280,370	145,148	98,185	82,139
Maricopa County Jail Tax	91,054,451	97,603,200	98,372,053	98,462,479	106,323,691
Mohave County Excise Tax	1,608,620 (1)	4,114,594	4,446,472	4,874,083	5,599,830
Navajo County Excise Tax	4,655,169	4,831,327	4,993,912	5,295,310	5,322,106
Pinal County Excise Tax	6,149,485	6,492,013	6,763,454	8,062,544	9,550,194
Pinal County Road Tax	6,575,202	6,750,294	6,965,671	8,280,451	9,757,830
Santa Cruz County Excise Tax	1,918,653	2,092,940	2,114,505	2,186,284	2,456,163
Yavapai County Excise Tax	9,571,900	10,054,989	10,799,358	11,279,837	12,564,395
Yavapai County Jail Tax (5)	-----	3,627,698	4,294,368	4,489,617	6,190,924
Yuma County Excise Tax	6,965,025	7,417,302	7,665,873	8,084,880	9,103,289
Yuma County Jail Tax	6,950,571	7,412,145	7,653,390	8,113,092	9,100,795
Yuma County Capitol Projects Tax (6)	-----	3,150,273 (1)	7,582,374	8,041,984	9,072,298
Tourism/Sports Authority (7)	-----	5,579,087 (1)	16,504,732	17,921,823	19,125,954
Amnesty-County Taxes	-----	-----	-----	-----	996,779
COUNTY AND CITY COLLECTIONS	**654,131,327**	**721,459,433**	**766,018,836**	**797,522,090**	**890,624,297**
TOTAL DEPARTMENT OF REVENUE RECEIPTS	**$4,286,816,806**	**$4,546,740,674**	**$5,055,795,907**	**$5,145,165,803**	**$5,624,814,633**

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

TABLE 5
STATE TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX RATES
FISCAL YEAR 2003-04

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

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

TABLE 6
NET TAXABLE SALES
BY TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX CLASSIFICATIONS (1)
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

CLASSIFICATION	FY1999-00	% OF TOTAL	FY2000-01	% OF TOTAL	FY2001-02	% OF TOTAL	FY2002-03	% OF TOTAL	FY2003-04	% OF TOTAL
Transporting (8)	$89,506,119	0.12	$138,655,762	0.18	$96,356,085	0.13	$26,106,195	0.03	$67,486,501	0.08
Mining, Oil & Gas	193,933,697	0.27	224,834,096	0.30	208,310,010	0.28	268,072,442	0.35	287,786,559	0.34
Mining Severance	481,582,634	0.66	168,695,209	0.22	(4,263,622)	(0.01)	45,049,321	0.06	261,623,478	0.31
Timber Severance (4)	0	0.00 (2)	0	0.00 (2)	766,360	0.00 (2)	0	0.00 (2)	0	0.00 (2)
Utilities	5,268,207,981	7.27	5,814,282,521	7.65	5,919,273,137	7.83	5,940,826,217	7.72	6,430,306,112	7.69
Communications	2,453,093,781	3.39	2,870,088,870	3.78	2,945,681,407	3.90	2,869,499,256	3.73	2,809,508,501	3.36
Private Car and Pipelines	5,612,007	0.01	15,485,669	0.02	7,134,188	0.01	12,492,721	0.02	15,919,891	0.02
Publishing	112,357,871	0.16	124,462,488	0.16	82,843,214	0.11	133,229,181	0.17	128,910,761	0.15
Job Printing	418,677,603	0.58	402,933,841	0.53	351,141,961	0.46	427,730,090	0.56	348,923,705	0.42
Local Advertising (6)	27,476	0.00 (2)	0	0.00 (2)	0	0.00 (2)	0	0.00 (2)	0	0.00 (2)
Restaurants and Bars	5,976,371,272	8.25	6,300,820,165	8.29	6,428,712,331	8.51	6,655,027,562	8.65	7,202,034,300	8.62
Amusements	758,823,163	1.05	760,837,607	1.00	743,800,365	0.98	782,669,793	1.02	813,488,687	0.97
Commercial Lease (5)	659,198,999	0.91	182,691,438	0.24	36,912,605	0.05	(7,578,796)	(0.01)	(6,517,860)	(0.01)
Personal Property Rentals	3,412,995,935	4.71	3,658,549,237	4.81	3,607,518,815	4.77	3,319,777,937	4.31	3,174,944,574	3.80
Contracting	10,847,157,383	14.98	11,250,537,683	14.80	11,820,596,498	15.64	11,563,726,354	15.03	13,156,489,701	15.74
Feed Wholesale (3)	382,271	0.00 (2)	(41,648)	(0.00) (2)	(1,806,235)	(0.00) (2)	(67,256)	(0.00) (2)	(8,021)	(0.00) (2)
Retail	36,403,861,655	50.27	38,282,337,115	50.37	38,432,859,974	50.85	39,408,769,331	51.22	42,409,054,932	50.74
Hotel/Motel	1,818,473,902	2.51	1,871,008,576	2.46	1,659,760,985	2.20	1,698,499,187	2.21	1,831,153,519	2.19
Rental Occupancy Tax	3,733,808	0.01	4,896,781	0.01	5,967,630	0.01	1,427,458	0.00 (2)	4,201,555	0.01
Use Tax	3,514,612,988	4.85	3,922,952,933	5.16	3,240,459,960	4.29	3,793,690,395	4.93	4,644,318,922	5.56
Membership Camping	1,411,253	0.00 (2)	2,420,361	0.00 (2)	2,741,146	0.00 (2)	2,406,275	0.00 (2)	2,998,348	0.00 (2)
Agriculture Equipment (7)	0	0.00	1,212,738	0.00 (2)	2,106,425	0.00 (2)	0	0.00 (2)	0	0.00 (2)
Other	------	------	------	------	------	------	------	------	119,004	0.00 (2)
TOTAL	***$72,420,021,798***	***100.00***	***$75,997,661,442***	***100.00***	***$75,586,873,240***	***100.00***	***$76,941,353,662***	***100.00***	***$83,582,743,168***	***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) Effective July 13, 1995 the tax rate on Timber Severance was changed to a dollar amount per 1,000 board feet. Timber Severance includes only sales subject to the repealed rate.
(5) Commercial Lease rate dropped to 0% effective July 1, 1997.
(6) Local advertising was phased out on January 1, 1986.
(7) Agriculture Equipment was phased out July 1, 1988 and is not a current business classification.
(8) 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 (1)
FISCAL YEAR 2003-04

CLASSIFICATION	DISTRIBUTION BASE	NONSHARED	TOTAL COLLECTIONS
Transporting (4)	$674,865	$2,699,460	$3,374,325
Nonmetal Mining, Oil and Gas	2,877,866	6,115,464	8,993,330
Mining Severance	5,232,470	1,308,117	6,540,587
Timbering Severance	0	0	0
Timbering Severance - Ponderosa	7,589	1,897	9,486
Timbering Severance - Other	981	245	1,226
Utilities	64,303,061	257,212,244	321,515,306
Communications	28,095,085	112,380,340	140,475,425
Private Car and Pipelines	159,199	636,796	795,995
Publishing	1,289,108	5,156,430	6,445,538
Printing	3,489,237	13,956,949	17,446,185
Restaurants and Bars	144,040,686	216,061,029	360,101,715
Amusements	16,269,774	24,404,661	40,674,434
Commercial Lease (3)	(47,824)	(41,590)	(89,414)
Rentals of Personal Property	63,498,890	95,248,339	158,747,229
Contracting	131,564,894	526,259,547	657,824,442
Feed Wholesale (2)	(20)	(18)	(38)
Retail	848,179,945	1,272,272,802	2,120,452,747
Hotel/Motel	50,356,759	50,356,701	100,713,460
Rental Occupancy Tax	84,247	41,800	126,047
Use Tax	0	232,215,946	232,215,946
License Fees	0	656,660	656,660
Membership Camping	59,967	89,950	149,917
Jet Fuel Tax	2,078,071	3,117,106	5,195,177
Jet Fuel Use Tax	0	724,540	724,540
Non Sufficient Funds	0	65,557	65,557
Telecommunications Service Assistance	(72,661)	(290,643)	(363,304)
Other	1,190	5,032	6,222
Amnesty	1,900,987	11,652,457	13,553,444
TOTAL	**$1,364,044,362**	**$2,832,307,821**	**$4,196,352,184**

(1) Does not reflect the balance of undistributed estimated payments at the end of FY 03.
(2) Feed Wholesale dropped to 0% effective July 17, 1994 and was repealed effective October 1, 1994.
(3) Commercial Lease rate dropped to 0% effective July 1, 1997.
(4) Transporting/Towing has been combined with Railroads/Aircraft for confidentiality purposes.
Figures may not add to total due to rounding.

TABLE 8
DISTRIBUTION OF TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2003-04

Net Regular to State General Fund	$3,290,458,614
Net Regular to State General Fund-Amnesty	$12,308,108
Net Estimated Payments to General Fund	14,056,241
Net to Cities	340,535,844
Net to Cities-Amnesty	475,247
Net to Counties	551,804,281
Net to Counties-Amnesty	770,090
Net to Education Fund	487,214,807
Net to Education Fund-Amnesty	713,878
911 Wireline/Excise, 911 Wireless, Telecommunications Devices, Poison Control Fund, Schools for the Deaf, Municipal Water and Environmentally Hazardous Products, Waste Tire Accounts Receivable Collections, and Other Amnesty	35,853,237
Less Collection Fees	(11)
TOTAL GROSS COLLECTIONS	**$4,734,190,335**

ADDITIONAL DISTRIBUTION FROM TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS
FISCAL YEAR 2003-04

Office of Tourism	$11,947,238
Phoenix International Raceway	$416,667
Rio Nuevo	$5,081,197
Tourism and Sports Authority	$2,895,339
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, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$11,467,610	17.9%	$573,381
Communications	12,890,738	-15.7%	644,537
Publishing	529,690	4.2%	26,485
Restaurants and Bars	9,725,454	10.1%	486,273
Amusements	192,621	-26.7%	9,631
Rentals of Personal Property	3,483,395	42.9%	174,170
Contracting (All)	75,672,125	-8.3%	3,783,563
Retail	60,086,420	3.3%	3,004,321
Hotel/Motel	10,213,787	-0.2%	561,758
Other Taxable Activities	35,297,204	13.9%	1,609,741
TOTAL	**$219,559,045**	**0.2%**	**$10,873,859**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	25	19	20
Communications	111	107	107
Publishing	14	13	11
Restaurants and Bars	63	58	58
Amusements	12	13	9
Rentals of Personal Property	182	178	143
Contracting (All)	321	263	289
Retail	987	988	847
Hotel/Motel	63	61	54
Other Taxable Activities	488	539	483
TOTAL	**2,266**	**2,239**	**2,021**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 10
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1) IN COCHISE COUNTY FOR THE PERIOD BEGINNING JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$122,167,049	3.3%	$6,108,352
Communications	55,650,445	12.9%	2,782,522
Publishing	1,421,235	-30.3%	71,062
Printing/Advertising	2,396,653	26.4%	119,833
Restaurants and Bars	101,920,032	17.8%	5,096,002
Amusements	7,464,437	-27.3%	373,222
Rentals of Personal Property	28,136,967	30.8%	1,406,848
Contracting (All)	202,155,876	17.2%	10,107,794
Retail	674,809,118	8.5%	33,740,456
Hotel/Motel	28,416,771	14.2%	1,562,922
Other Taxable Activities	55,542,006	-17.5%	2,768,707
TOTAL	**$1,280,080,590**	**8.8%**	**$64,137,720**

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

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	48	47	43
Communications	181	181	175
Publishing	19	24	16
Printing/Advertising	25	26	22
Restaurants and Bars	346	339	300
Amusements	70	64	55
Rentals of Personal Property	421	446	355
Contracting (All)	796	838	755
Retail	3,107	3,158	2,797
Hotel/Motel	140	136	119
Other Taxable Activities	886	1,015	952
TOTAL	**6,039**	**6,274**	**5,589**

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

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

Figures may not add to total due to rounding.

TABLE 11
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1) IN COCONINO COUNTY FOR THE PERIOD BEGINNING JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	123,438,271	1.5%	6,171,914
Communications	80,423,792	7.7%	4,021,190
Publishing	2,797,701	18.9%	139,885
Printing/Advertising	2,763,020	-6.9%	138,151
Restaurants and Bars	259,385,939	6.4%	12,969,297
Amusements	33,864,935	19.0%	1,693,247
Rentals of Personal Property	51,714,889	-3.1%	2,585,744
Contracting (All)	301,678,381	6.4%	15,083,919
Retail	905,570,637	2.1%	45,278,532
Hotel/Motel	177,533,138	9.6%	9,764,323
Other Taxable Activities	120,348,107	89.0%	5,771,646
TOTAL	**$2,059,518,811**	**7.1%**	**$103,617,847**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	40	38	34
Communications	215	207	209
Publishing	32	30	24
Printing/Advertising	33	31	28
Restaurants and Bars	426	435	395
Amusements	98	87	76
Rentals of Personal Property	542	539	462
Contracting (All)	1,459	1,531	1,249
Retail	3,771	3,921	3,349
Hotel/Motel	251	254	231
Other Taxable Activities	1,189	1,331	1,277
TOTAL	**8,056**	**8,404**	**7,334**

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

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

Figures may not add to total due to rounding.

TABLE 12
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GILA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$85,517,022	5.6%	$4,275,851
Communications	26,672,208	6.5%	1,333,610
Publishing	990,425	-4.1%	49,521
Printing/Advertising	560,381	-13.7%	28,019
Restaurants and Bars	48,477,658	7.6%	2,423,883
Amusements	1,572,738	611.4%	78,637
Rentals of Personal Property	13,540,304	4.4%	677,015
Contracting (All)	95,365,146	1.8%	4,768,257
Retail	236,358,368	2.9%	11,817,918
Hotel/Motel	10,454,732	12.9%	575,010
Other Taxable Activities	34,473,557	16.6%	1,510,537
TOTAL	**$553,982,539**	**4.9%**	**$27,538,260**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	36	32	26
Communications	164	151	150
Publishing	14	15	11
Printing/Advertising	14	14	9
Restaurants and Bars	167	178	161
Amusements	37	33	30
Rentals of Personal Property	280	259	244
Contracting (All)	710	738	598
Retail	1,812	1,864	1,582
Hotel/Motel	67	69	56
Other Taxable Activities	598	627	617
TOTAL	**3,899**	**3,980**	**3,484**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 13
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GRAHAM COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Communications	$8,023,664	-15.2%	$401,183
Restaurants and Bars	15,803,787	-4.3%	790,189
Rentals of Personal Property	4,370,514	-13.5%	218,526
Contracting (All)	29,818,429	-15.9%	1,490,921
Retail	140,658,606	4.4%	7,032,930
Other Taxable Activities	44,232,991	52.6%	2,227,245
TOTAL	**$242,907,990**	**5.5%**	**$12,160,995**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Communications	110	104	116
Restaurants and Bars	67	64	53
Rentals of Personal Property	170	164	139
Contracting (All)	197	251	201
Retail	974	953	838
Other Taxable Activities	491	521	501
TOTAL	**2,009**	**2,057**	**1,848**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 14
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN GREENLEE COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Communications	$2,849,017	-9.8%	$142,451
Restaurants and Bars	2,571,005	4.0%	128,550
Rentals of Personal Property	936,356	-15.6%	46,818
Contracting (All)	10,079,996	-44.4%	504,000
Retail	70,251,741	10.1%	3,512,587
Other Taxable Activities	200,708,627	142.6%	6,492,148
TOTAL	**$287,396,743**	**67.7%**	**$10,826,554**

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

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Communications	69	65	61
Restaurants and Bars	23	22	23
Rentals of Personal Property	79	61	48
Contracting (All)	78	72	53
Retail	363	356	306
Other Taxable Activities	203	235	221
TOTAL	**815**	**811**	**712**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 15
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN LA PAZ COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$17,821,487	7.9%	$891,074
Communications	8,384,648	63.8%	419,232
Publishing	421,370	-11.3%	21,068
Restaurants and Bars	24,835,929	14.9%	1,241,796
Amusements	135,586	-32.2%	6,779
Rentals of Personal Property	3,416,337	-7.8%	170,817
Contracting (All)	26,565,872	31.6%	1,328,294
Retail	103,975,183	10.4%	5,198,759
Hotel/Motel	5,408,714	4.0%	297,479
Other Taxable Activities	5,588,026	N/A	275,975
TOTAL	**$196,553,151**	**22.6%**	**$9,851,275**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	22	25	19
Communications	100	95	99
Publishing	11	12	8
Restaurants and Bars	97	96	91
Amusements	13	14	10
Rentals of Personal Property	174	167	146
Contracting (All)	225	235	199
Retail	1,787	1,805	1,587
Hotel/Motel	58	53	53
Other Taxable Activities	387	540	358
TOTAL	**2,874**	**3,042**	**2,570**

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

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

Figures may not add to total due to rounding.

TABLE 16
TRANSACTION PRIVILEGE,USE AND SEVERANCE TAX COLLECTIONS (1)
IN MARICOPA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	3,983,833,551	7.9%	199,191,678
Communications	1,897,565,759	2.1%	94,878,288
Publishing	91,754,681	-2.8%	4,587,734
Printing/Advertising	268,070,783	-23.6%	13,403,539
Restaurants and Bars	4,915,740,625	8.8%	245,787,031
Amusements	609,328,910	2.7%	30,466,446
Rentals of Personal Property	2,479,973,993	-2.8%	123,998,700
Contracting (All)	8,521,645,128	11.3%	426,082,256
Retail	28,752,599,442	8.2%	1,437,629,972
Hotel/Motel	1,117,434,138	9.2%	61,458,878
Other Taxable Activities	3,698,653,716	25.8%	183,931,767
TOTAL	**$56,336,600,727**	**8.6%**	**$2,821,416,288**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	157	166	121
Communications	640	633	504
Publishing	295	297	234
Printing/Advertising	970	953	823
Restaurants and Bars	5,443	5,768	5,245
Amusements	695	711	627
Rentals of Personal Property	2,913	2,926	2,544
Contracting (All)	12,177	13,022	11,596
Retail	43,087	44,565	40,363
Hotel/Motel	625	622	590
Other Taxable Activities	10,765	10,918	10,112
TOTAL	**77,767**	**80,581**	**72,759**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 17
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1) IN MOHAVE COUNTY FOR THE PERIOD BEGINNING JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$231,211,070	22.2%	$11,560,554
Communications	67,991,812	16.7%	3,399,591
Publishing	2,700,743	-4.5%	135,037
Printing/Advertising	4,898,997	23.5%	244,950
Restaurants and Bars	167,079,705	8.2%	8,353,985
Amusements	14,976,625	-3.9%	748,831
Rentals of Personal Property	59,459,429	5.1%	2,972,971
Contracting (All)	437,529,755	34.6%	21,876,488
Retail	1,188,476,969	10.8%	59,423,848
Hotel/Motel	40,921,244	14.4%	2,250,668
Other Taxable Activities	158,281,380	-0.2%	7,827,516
TOTAL	**$2,373,527,729**	**14.5%**	**$118,794,439**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	53	50	41
Communications	159	165	168
Publishing	26	26	27
Printing/Advertising	36	35	26
Restaurants and Bars	407	410	358
Amusements	68	67	49
Rentals of Personal Property	541	576	466
Contracting (All)	1,286	1,404	1,301
Retail	4,225	4,314	3,871
Hotel/Motel	145	142	133
Other Taxable Activities	1,144	1,148	1,224
TOTAL	**8,090**	**8,337**	**7,664**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 18
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN NAVAJO COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$66,843,458	7.0%	$3,342,173
Communications	28,477,341	-25.1%	1,423,867
Publishing	1,008,900	-19.5%	50,445
Restaurants and Bars	71,098,751	5.5%	3,554,938
Amusements	4,878,540	23.8%	243,927
Rentals of Personal Property	19,356,060	5.0%	967,803
Contracting (All)	152,574,633	11.9%	7,628,732
Retail	615,673,414	1.0%	30,783,671
Hotel/Motel	27,411,504	-1.9%	1,507,633
Other Taxable Activities	139,071,281	-17.2%	5,032,420
TOTAL	**$1,126,393,882**	**-0.6%**	**$54,535,607**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	46	45	38
Communications	154	162	151
Publishing	17	20	14
Restaurants and Bars	198	209	182
Amusements	37	38	30
Rentals of Personal Property	340	328	276
Contracting (All)	850	953	747
Retail	2,205	2,218	1,909
Hotel/Motel	149	142	135
Other Taxable Activities	769	809	782
TOTAL	**4,765**	**4,924**	**4,264**

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

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

Figures may not add to total due to rounding.

TABLE 19
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1) IN PIMA COUNTY FOR THE PERIOD BEGINNING JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	1,073,603,628	6.6%	53,680,181
Communications	318,812,733	-33.0%	15,940,637
Publishing	15,742,944	-11.1%	787,147
Printing/Advertising	56,728,931	6.2%	2,836,447
Restaurants and Bars	1,087,058,505	6.2%	54,352,925
Amusements	87,528,989	9.5%	4,376,449
Rentals of Personal Property	352,048,637	-18.2%	17,602,432
Contracting (All)	1,729,023,041	10.7%	86,451,152
Retail	6,440,448,568	5.9%	322,022,428
Hotel/Motel	279,749,670	4.1%	15,386,232
Other Taxable Activities	485,549,665	30.5%	22,386,857
TOTAL	**$11,926,295,310**	**4.9%**	**$595,822,888**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	76	75	63
Communications	319	284	170
Publishing	113	122	76
Printing/Advertising	178	187	155
Restaurants and Bars	1,527	1,637	1,424
Amusements	222	231	194
Rentals of Personal Property	1,210	1,210	1,009
Contracting (All)	4,371	4,531	3,928
Retail	13,982	14,532	12,731
Hotel/Motel	252	258	242
Other Taxable Activities	2,590	2,840	2,832
TOTAL	**24,840**	**25,907**	**22,824**

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

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

Figures may not add to total due to rounding.

TABLE 20
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN PINAL COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	212,373,781	14.5%	10,618,689
Communications	110,715,979	19.6%	5,535,799
Publishing	3,398,009	8.4%	169,900
Printing/Advertising	1,820,656	-0.5%	91,033
Restaurants and Bars	113,752,712	6.3%	5,687,636
Amusements	19,264,394	12.1%	963,220
Rentals of Personal Property	36,972,576	-4.2%	1,848,629
Contracting (All)	660,098,355	56.8%	33,004,918
Retail	692,004,303	6.4%	34,600,215
Hotel/Motel	15,974,976	-0.7%	878,624
Other Taxable Activities	193,067,640	24.7%	8,574,445
TOTAL	**$2,059,443,380**	**22.0%**	**$101,973,107**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	60	63	186
Communications	218	203	16
Publishing	23	23	22
Printing/Advertising	22	24	293
Restaurants and Bars	314	314	76
Amusements	83	93	
Rentals of Personal Property	433	441	399
Contracting (All)	1,645	1,804	1,586
Retail	3,265	3,384	3,034
Hotel/Motel	102	116	94
Other Taxable Activities	1,016	1,135	1,033
TOTAL	**7,181**	**7,600**	**6,739**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 21
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1) IN SANTA CRUZ COUNTY FOR THE PERIOD BEGINNING JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$34,968,464	30.0%	$1,748,423
Communications	21,430,353	15.4%	1,071,518
Publishing	621,420	9.8%	31,071
Restaurants and Bars	35,757,075	4.7%	1,787,854
Amusements	1,348,361	1.4%	67,418
Rentals of Personal Property	11,002,231	-10.5%	550,112
Contracting (All)	70,471,803	39.3%	3,523,590
Retail	295,522,418	6.5%	14,776,121
Hotel/Motel	10,731,680	7.2%	590,242
Other Taxable Activities	14,391,249	0.8%	718,467
TOTAL	**$496,245,056**	**11.3%**	**$24,864,815**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	19	16	12
Communications	133	124	132
Publishing	11	10	7
Restaurants and Bars	131	119	105
Amusements	16	19	19
Rentals of Personal Property	264	253	216
Contracting (All)	392	413	376
Retail	1,518	1,533	1,357
Hotel/Motel	29	30	29
Other Taxable Activities	506	581	558
TOTAL	**3,019**	**3,098**	**2,811**

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

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

Figures may not add to total due to rounding.

TABLE 22
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN YAVAPAI COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	218,358,573	11.4%	10,917,929
Communications	101,508,098	9.8%	5,075,405
Publishing	3,577,240	-15.6%	178,862
Printing/Advertising	6,285,455	-7.4%	314,273
Restaurants and Bars	208,672,278	5.6%	10,433,614
Amusements	20,830,905	2.7%	1,041,545
Rentals of Personal Property	53,200,128	-2.0%	2,660,006
Contracting (All)	538,286,958	16.6%	26,914,348
Retail	1,229,975,550	10.4%	61,498,777
Hotel/Motel	69,195,591	-3.8%	3,805,757
Other Taxable Activities	128,298,610	74.6%	4,804,276
TOTAL	**$2,578,189,385**	**11.8%**	**$127,644,793**

NUMBER OF ACCOUNTS
FISCAL YEAR 2001-02 THROUGH FISCAL YEAR 2003-04

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	73	74	67
Communications	222	218	197
Publishing	52	45	38
Printing/Advertising	61	56	46
Restaurants and Bars	545	555	502
Amusements	94	86	80
Rentals of Personal Property	529	541	469
Contracting (All)	2,235	2,371	2,100
Retail	5,333	5,553	4,828
Hotel/Motel	174	182	167
Other Taxable Activities	1,249	1,393	1,275
TOTAL	**10,567**	**11,074**	**9,769**

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

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

Figures may not add to total due to roun

TABLE 23
TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX COLLECTIONS (1)
IN YUMA COUNTY FOR THE PERIOD BEGINNING
JULY 1, 2003 AND ENDING JUNE 30, 2004

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	CALCULATED NET TAXABLE INCOME	% CHANGE FROM FY 2002-03	COLLECTIONS
Utilities	$168,929,435	9.7%	$8,446,472
Communications	68,111,914	27.0%	3,405,596
Publishing	3,631,121	56.5%	181,556
Restaurants and Bars	140,154,842	9.7%	7,007,742
Amusements	10,689,053	8.8%	534,453
Rentals of Personal Property	57,332,757	-1.9%	2,866,638
Contracting (All)	305,524,202	26.2%	15,276,210
Retail	1,002,644,195	7.8%	50,132,210
Hotel/Motel	33,705,575	16.7%	1,853,807
Other Taxable Activities	55,326,038	25.4%	2,746,269
TOTAL	**$1,846,049,133**	**11.8%**	**$92,450,952**

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

TAXABLE ACTIVITIES AND BUSINESS CLASSIFICATIONS	FY2001-02	FY2002-03	FY2003-04 (2)
Utilities	44	37	30
Communications	187	171	162
Publishing	13	14	11
Restaurants and Bars	292	317	283
Amusements	41	38	39
Rentals of Personal Property	462	486	400
Contracting (All)	693	719	623
Retail	3,246	3,279	2,855
Hotel/Motel	92	103	90
Other Taxable Activities	925	1,081	1,073
TOTAL	**5,995**	**6,245**	**5,566**

(1) License fees, Jet Fuel, Jet Fuel Use, Timber Severance Ponderosa/Other, NSF, Seizure/Sales Fees, Telecommunications Service Assistance, Subpoena Fees , Utilities Credit and Amnesty are not included.
(2) The counts for FY04 reflect reductions due to data purification and not necessarily a decline in business counts.
Figures may not add to total due to rounding.

TABLE 24
STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX
DISTRIBUTION TO COUNTIES
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

COUNTY	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04	% CHANGE FROM FY2002-03
Apache	$5,473,442	$4,445,431	$3,808,535	$3,878,392	$4,135,998	6.6%
Cochise	9,229,981	9,594,853	9,111,850	9,344,323	10,135,220	8.5%
Coconino	13,841,588	13,978,278	13,695,680	13,903,149	14,362,293	3.3%
Gila	3,882,098	4,443,907	4,087,916	4,058,750	4,314,601	6.3%
Graham	2,412,735	2,462,318	2,366,529	2,381,979	2,500,199	5.0%
Greenlee	3,098,540	3,003,365	1,794,359	1,750,473	1,975,250	12.8%
La Paz	1,486,269	1,495,379	1,525,956	1,523,806	1,665,084	9.3%
Maricopa	306,464,900	322,426,596	325,710,325	329,197,352	355,145,845	7.9%
Mohave	12,938,817	13,012,998	13,293,460	13,839,979	15,239,251	10.1%
Navajo	7,748,173	7,932,049	7,990,618	8,287,880	8,627,859	4.1%
Pima	76,273,737	79,516,015	76,759,008	77,729,083	82,562,254	6.2%
Pinal	11,582,587	12,511,593	12,467,448	13,328,798	14,773,417	10.8%
Santa Cruz	3,180,054	3,346,986	3,275,822	3,357,505	3,627,497	8.0%
Yavapai	16,154,370	16,629,440	16,504,368	17,000,259	18,519,004	8.9%
Yuma	11,358,869	11,861,866	12,675,627	13,121,508	14,220,509	8.4%
	$485,126,158	**$506,661,075**	**$505,067,501**	**$512,703,234**	**$551,804,281**	**7.6%**

Figures may not add to totals due to rounding.

TABLE 25
STATE TRANSACTION PRIVILEGE AND SEVERANCE TAX
DISTRIBUTION TO MUNICIPALITIES
FISCAL YEAR 2003-04

CITIES	AMOUNT	COUNTY TOTAL
APACHE		
Eagar	$338,824	
St. Johns	298,078	
Springerville	165,674	$802,576
COCHISE		
Benson	395,785	
Bisbee	511,639	
Douglas	1,388,146	
Huachuca City	147,107	
Sierra Vista	3,173,589	
Tombstone	126,356	
Willcox	313,620	6,056,242
COCONINO		
Flagstaff	4,443,781	
Fredonia	87,037	
Page	572,044	
Williams	238,765	5,341,628
GILA		
Globe	628,921	
Hayden	74,940	
Miami	162,649	
Payson	1,144,256	
Winkelman	37,218	2,047,984
GRAHAM		
Pima	167,102	
Safford	775,608	
Thatcher	337,900	1,280,609
GREENLEE		
Clifton	218,098	
Duncan	68,218	286,316
LA PAZ		
Parker	263,801	
Quartzsite	281,779	545,580
MARICOPA		
Avondale	3,014,637	
Buckeye	713,858	
Carefree	245,906	
Cave Creek	313,200	
Chandler	14,837,664	
El Mirage	639,255	
Fountain Hills	1,700,002	
Gila Bend	166,346	
Gilbert	9,215,969	
Glendale	18,383,042	
Goodyear	1,588,769	
Guadalupe	439,220	
Litchfield Park	320,089	
Mesa	33,408,722	
Paradise Valley	1,147,953	
Peoria	9,103,980	
Phoenix	110,984,893	
Queen Creek	362,600	
Scottsdale	$17,029,846	
Surprise	2,591,632	
Tempe	13,326,555	
Tolleson	417,880	
Wickenburg	426,954	
Youngtown	252,879	$240,631,851
MOHAVE		
Bullhead City	2,837,033	
Colorado City	280,099	
Kingman	1,686,056	
Lake Havasu City	3,523,335	8,326,524
NAVAJO		
Holbrook	413,092	
Pinetop-Lakeside	300,934	
Show Low	646,480	
Snowflake	374,698	
Taylor	266,825	
Winslow	799,803	2,801,832
PIMA		
Marana	1,138,880	
Oro Valley	2,682,870	
Sahuarita	272,370	
South Tucson	461,231	
Tucson	40,889,021	45,444,371
PINAL		
Apache Junction	2,672,788	
Casa Grande	2,119,143	
Coolidge	654,125	
Eloy	871,634	
Florence	1,264,982	
Kearny	188,945	
Mammoth	148,031	
Maricopa	120,213	
Superior	273,378	8,313,239
SANTA CRUZ		
Nogales	1,754,022	
Patagonia	74,015	1,828,038
YAVAPAI		
Camp Verde	794,006	
Chino Valley	686,134	
Clarkdale	287,492	
Cottonwood	771,155	
Jerome	27,640	
Prescott	2,851,232	
Prescott Valley	1,977,245	
Sedona	856,260	8,251,164
YUMA		
San Luis	1,287,246	
Somerton	610,438	
Wellton	153,660	
Yuma	6,526,547	8,577,891
TOTAL	**$340,535,844**	**$340,535,844**

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 2003-04

CITY	RATE (1) (PERCENT)	COLLECTIONS	CITY	RATE (1) (PERCENT)	COLLECTIONS
Apache Junction	2.2*	$9,530,785	Miami	2.5	$241,899
Benson	2.5*	2,009,010	Oro Valley	2.0*	8,687,532
Bisbee	2.5*	1,391,393	Page	3.0*	4,179,964
Buckeye	2.0*	3,856,634	Paradise Valley	1.4*	7,827,966
Bullhead City	2.0*	9,884,242	Parker	2.0*	1,180,046
Camp Verde	2.0*	1,646,801	Patagonia	3.0*	230,016
Carefree	2.0*	1,717,524	Payson	2.0*	5,434,673
Casa Grande	1.8*	12,441,300	Pima	2.0*	149,866
Cave Creek	2.5*	2,793,346	Pinetop-Lakeside	2.5*	2,939,917
Chino Valley	2.0*	2,428,802	Prescott Valley	2.33*	8,806,709
Clarkdale	2.25*	497,303	Quartzsite	2.5*	968,785
Clifton	2.0	223,496	Queen Creek	2.0*	5,568,031
Colorado City	2.0*	204,901	Safford	2.0*	2,424,155
Coolidge	2.0*	2,140,776	Sahuarita	2.0*	5,276,252
Cottonwood	2.2*	7,022,949	St. Johns	2.0*	493,015
Douglas	2.5*	4,440,416	San Luis	2.5*	2,345,057
Duncan	2.0	70,760	Sedona	3.0*	11,782,294
Eagar	3.0*	543,524	Show Low	2.0	7,685,555
El Mirage	3.0*	4,134,525	Sierra Vista	1.5*	11,940,465
Eloy	3.0*	2,654,823	Snowflake	2.0*	878,838
Florence	2.0*	1,060,616	Somerton	2.5*	740,625
Fountain Hills	2.6*	7,502,847	South Tucson	2.5*	2,320,471
Fredonia	2.0	89,091	Springerville	3.0*	1,259,095
Gila Bend	3.0*	1,288,096	Superior	2.0*	192,218
Gilbert	1.5*	34,744,135	Surprise	2.2*	25,303,448
Globe	1.5*	2,147,091	Taylor	2.0*	564,785
Goodyear	2.0*	16,976,720	Thatcher	2.0*	2,057,423
Guadalupe	3.0*	1,011,501	Tolleson	2.0*	3,767,460
Hayden	3.0*	438,097	Tombstone	2.5*	666,929
Holbrook	3.0*	2,280,665	Wellton	2.5	405,577
Huachuca City	1.5*	240,401	Wickenburg	1.7	1,794,086
Jerome	3.0	401,880	Willcox	3.0*	1,865,397
Kearny	2.0*	355,839	Williams	3.0*	3,092,125
Kingman	2.0*	10,267,792	Winkelman	3.5*	82,058
Lake Havasu City	2.0*	18,381,821	Winslow	3.0*	3,378,127
Litchfield Park	2.0*	2,530,029	Youngtown	2.0*	1,003,344
Mammoth	2.0*	104,542	Yuma	1.7	25,242,196
Marana	2.0*	19,445,864			
Maricopa		643,492	**TOTAL**		**$352,320,229**

* 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, 2004 and may have changed during the remainder of FY 04
Figures may not add to total due to rounding.

TABLE 27
MUNICIPAL PRIVILEGE TAX COLLECTION PROGRAM
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

FISCAL YEAR	TOTAL COLLECTIONS	NUMBER OF CITIES IN PROGRAM
1999-00	$230,976,587	75
2000-01	$257,706,985	75
2001-02	$280,950,442	75
2002-03	$303,164,388	75
2003-04	$352,320,229	76

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INCOME TAX

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

CORPORATE INCOME TAX MAJOR FEATURES

Every corporation doing business in Arizona is required to file a corporate income tax return. Corporations filed returns with the state and made payments of $596 million during fiscal year 2004 *(Refer to Table 28).*

INDIVIDUAL INCOME TAX MAJOR FEATURES

For tax year 2001 filed in 2002, approximately 2.1 million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than $ 95.4 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 2003 tax year ranged from 2.87 percent to a maximum of 5.04 percent on an individual's income over $150,000 (or joint income over $300,000).

DISTRIBUTION

State income tax collections are shared with Arizona municipalities in an Urban Revenue Sharing Program. During fiscal year 2004 an amount equal to 15.0 percent of net income tax collections from two years prior was distributed to cities and towns. The distribution is based on population and is given only to incorporated cities and towns. The remainder is deposited in the state general fund after amounts sufficient to pay refunds are allocated *(Refer to Tables 28 and 29).*

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

CORPORATE AND INDIVIDUAL INCOME TAX CREDITS

(Refer to Tables 29 and 32).

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	Taxpayers that incur expenses to purchase and install a Conservation System agricultural water conservation system in Arizona. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
Agricultural Pollution Control Equipment	Taxpayers that incur expenses during the taxable year to purchase agricultural pollution control equipment.
Clean Elections	For donations made directly to the Clean Elections Fund or a donation made on the tax return.
Construction Materials	Taxpayers that purchase construction materials, in excess of five million dollars, for a building used predominantly for mining, manufacturing, fabricating, refining, metallurgical operations, or research and development as defined in ARS 43-1168. This credit was repealed for corporations for taxable years beginning from and after December 1, 1999.
Contributions to Charities that Provide Assistance to the Working Poor	Individual taxpayers that make cash contributions to certain charities that provide help to the working poor. The maximum amount of this credit is $200.
Contributions Made or Fees Paid to Public Schools	Individual taxpayers that make contributions or paid certain fees to public schools in Arizona. Taxpayers filing single or head of household can take a maximum credit of $200. Taxpayers that file married filing joint can take a maximum credit of $250, taxpayers that are married filing separately can each take one-half of the allowable credit up to the maximum credit of $250.
Contributions to School Tuition Organizations	Individual taxpayers that made contributions to a school tuition organization that provides scholarships or grants to qualified schools. Taxpayers filing single or head of household can take a maximum credit of $500. Taxpayers that file married filing joint can take a maximum credit of $625, taxpayers that are married filing separately can each take one-half of the allowable credit up to the maximum credit of $625.
Credit for Taxes Paid to Another State or Country	(INDIVIDUALS ONLY) Taxpayers that paid a net income tax to Arizona and another qualified state or foreign country, on the same income.
Defense Contracting	Taxpayers certified by the Arizona Department of Commerce as a qualified defense contractor for qualified increases in employment.
Employment of TANF Recipients	Taxpayers that employ recipients of Temporary Assistance for Needy Families (TANF).
Enterprise Zone	Taxpayers whose business is located in an Arizona enterprise zone that have a net increase in qualified employment positions.
Environmental Technology	Taxpayers that incur expenses in constructing a qualified Facility environmental technology manufacturing, producing, or processing facility as described in ARS 41-1514.02. The qualified environmental technology manufacturer, producer, or processor must have been certified by Commerce before July 1, 1996.

CREDIT	AVAILABLE TO
Family	A credit for taxpayers below certain income levels, with differing amounts for different household sizes.
Increased Excise Taxes	This credit is for Arizona residents whose federal adjusted gross income is beneath a certain threshold ($25,000 or less for Married Filing Joint or Head of Household, or $12,500 for Married Filing Separately or Single) and who cannot be claimed as a dependent by any other taxpayer.
Military Reuse Zone	Taxpayers with a net increase in employment of full-time employees working in a military reuse zone.
Pollution Control	Taxpayers that purchase real or personal property that is used within Arizona in the taxpayer's trade or business to control or prevent pollution.
Recycling Equipment	Taxpayers who acquire and place in service recycling equipment in Arizona. This credit was repealed for corporations not individuals.
Research and Development	Corporate taxpayers with an increase in qualifying research and Expenses development expenses conducted in Arizona. Individuals must use Form 308-I effective for taxable years beginning January 1, 2002.
School Site Donation	This tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. The credit applies to taxable years beginning from and after December 31, 2000.
Solar Energy	Individual taxpayers who install a solar energy device in his or her residence located in Arizona.
Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	Taxpayers for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona.
Taxes Paid for Coal Consumed in Generating Electrical Power	Corporate taxpayers, a credit equal to 30 percent of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona. This credit was repealed effective August 25, 2004.
Technology Training	A refundable credit for providing technological skills training to not more than 20 employees.

TABLE 28
INCOME TAX COLLECTIONS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

SOURCE	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04	PERCENT OF NET COLLECTIONS IN FY2003-04
Withheld from Wages						
Gross Revenue	$2,259,201,907	$2,363,693,852	$2,309,340,885	$2,310,302,093	$2,336,442,815	
Amnesty	-----	-----	-----	-----	$176,268	
Refunds and Charge-offs	(10,053,362)	(7,032,321)	(9,047,839)	(8,527,022)	(8,422,819)	
NET	**$2,249,148,545**	**$2,356,661,531**	**$2,300,293,045**	**$2,301,775,071**	**$2,328,196,264**	82.0%
Individuals & Fiduciaries						
Gross Revenue	826,789,215	858,775,963	705,843,394	656,586,317	776,183,708	
Amnesty	-----	-----	-----	-----	2,890,549	
Regular Refunds and Charge-offs	(784,055,322)	(911,549,899)	(915,490,638)	(853,999,525)	(791,230,045)	
Attorney Fees - Ladewig refunds (2)				(2,000,000)	(2,000,000)	
NET	**$42,733,894**	**($52,773,936)**	**($209,647,244)**	**($199,413,208)**	**($14,155,788)**	-0.5%
Corporations						
Gross Revenue	637,765,231	678,002,658	512,257,476	518,246,330	596,582,273	
Amnesty	-----	-----	-----	-----	53,690,925	
Refunds and Charge-offs	(114,583,545)	(136,828,789)	(165,976,997)	(128,839,937)	(124,623,328)	
NET	**$523,181,687**	**$541,173,869**	**$346,280,480**	**$389,406,393**	**$525,649,869**	18.5%
Subtotal Net Collections	**$2,815,064,125**	**$2,845,061,464**	**$2,436,926,281**	**$2,491,768,256**	**$2,839,690,345**	100.0%
Less distributions for:						
Urban Revenue Sharing	377,710,988	396,452,640	421,876,573	430,559,053	365,065,158	
Contracted Collection Agency	58,016	60,989	20,922	18,110	409	
Wildlife Contributions	177,079	194,201	177,886	178,190	167,014	
Child Abuse Prevention	185,666	222,325	210,223	202,941	198,467	
Special Olympics	83,854	88,051	83,873	84,062	79,498	
Neighbors Helping Neighbors	46,610	38,800	37,696	41,330	42,269	
State Aid to Public Schools	7,411	26,884	33,955	29,420	46,052	
Domestic Violence Shelter	139,208	152,928	150,954	149,012	132,713	
Democratic Party	11,127	15,130	15,984	18,246	27,252	
Green Party	0	2,667	2,559	114	1	
Libertarian Party	3,210	2,422	2,090	2,182	1,570	
Republican Party	13,650	15,474	14,127	16,557	19,561	
Reform Party	194	36	92	0	0	
Natural Law Party	0	142	200	10	0	
Clean Elections	1,827,616	2,315,832	3,246,597	3,877,564	4,116,022	
Subtotal Distributions	**$380,264,630**	**$399,588,520**	**$425,873,731**	**$435,176,789**	**$369,895,988**	
NET REVENUE TO STATE GENERAL FUND	**$2,434,799,495**	**$2,445,472,944**	**$2,011,052,550**	**$2,056,591,466**	**$2,469,794,357**	
WQARF DISTRIBUTION (1)	**$15,000,000**	**$15,000,000**	**$15,000,000**	**$10,000,000**	**$10,000,000**	

(1) Beginning July 1, 1999, a transfer is made to the Water Quality Assurance Revolving Fund from corporate income tax collections.
Figures may not add to total due to rounding.
(2) Attorney fees relating to the Ladewig class action lawsuit were paid from individual income tax refunds.

TABLE 29
EXEMPTIONS, DEDUCTIONS AND CREDITS
TAX YEAR 2000 THROUGH TAX YEAR 2003

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
2000	2,100	1,500	2,100	2,300	3,600/7,200	502	240
2001	2,100	1,500	2,100	2,300	4,050/8,100	502	240
2002	2,100	1,500	2,100	2,300	4,050/8,100	502	240
2003	2,100	1,500	2,100	2,300	4,050/8,100	502	240

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

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

INDIVIDUAL INCOME TAX CREDITS
TAX YEAR 2000 THROUGH TAX YEAR 2002

	TAX YEAR 2000		TAX YEAR 2001		TAX YEAR 2002	
CREDIT	**CLAIMANTS**	**CREDITS**	**CLAIMANTS**	**CREDITS**	**CLAIMANTS**	**CREDITS**
Agricultural Pollution Control	9	$17,562	8	$17,337	(2)	(2)
Agricultural Water Conservation	129	$1,574,638	123	$1,414,695	(2)	(2)
Alternative Fuel - Non Refundable						
--Delivery System	6	$41,417	(1)	(1)	0	$0
--Vehicles	156	$324,844	96	$172,179	58	$86,490
--Refuel Apparatus/Infrastructure	114	$203,929	12	$12,011	(1)	(1)
--Neighborhood Electric Vehicles	4,083	$22,104,183	2,394	$5,070,551	1,485	$2,113,879
Alternative Fuel - Refundable						
--Delivery System	19	$2,863,157	(1)	(1)	--	--
--Vehicles	4,892	$94,120,548	154	$2,620,836	--	--
--Refuel Apparatus/Infrastructure	672	$3,189,099	12	$33,750	--	--
Clean Elections	23,717	$537,345	26,757	$599,485	33,470	$688,864
Construction Materials	(1)	(1)	(1)	(1)	0	$0
Donation to Charities for the Working Poor	10,654	$1,775,654	3,405	$587,317	(2)	(2)
Donation of Motor Vehicles	464	$549,223	152	$163,276	(2)	(2)
Enterprise Zone	146	$1,596,521	153	$1,619,102	(2)	(2)
Environmental Technology	0	$0	0	$0	0	$0
Family Tax Credit	335,253	$7,799,840	402,094	$7,356,939	427,798	$7,382,178
Income Taxes Paid to Other States	27,831	$57,403,404	29,007	$58,777,258	24,072	$51,035,964
Increased Excise Taxes Paid	--	--	428,189	$22,612,548	522,848	$28,014,487
Pollution Control Device	(1)	(1)	16	$16,920	(2)	(2)
Private School STO (3)	38,084	$17,633,463	46,605	$24,848,091	52,139	$26,170,469
Property Tax	14,593	$4,653,837	15,218	$5,015,318	14,971	$5,100,756
Public School Extra Curricular (3)	149,215	$17,526,299	166,468	$20,004,715	143,697	$22,455,129
Recycling Equipment	6	$4,605	6	$2,928	5	$3,267
Research and Development	--	--	28	$393,208	(2)	(2)
School Site Donation	--	--	44	$2,582,943	(2)	(2)
Solar Energy	2,660	$924,231	2,298	$766,385	(2)	(2)
Solar Hot Water Heater & Plumbing Stub Outs	35	$11,566	18	$7,804	(2)	(2)
Technology Training	--	--	(1)	(1)	(1)	(1)
All Other	0	$0	0	$0	0	$0
Total	**612,744**	**$234,867,485**	**1,123,262**	**$154,731,739**	**1,220,546**	**$143,053,580**

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

(2) Credits claimed for tax year 2002 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 2001 (1)

FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	22,813	1.17%	$97,494	0.00%
$0.01 to $1,999	37,121	1.91%	46,368	0.00%
$2,000 to $5,999	115,190	5.91%	84,884	0.00%
$6,000 to $9,999	138,824	7.13%	3,950,552	0.19%
$10,000 to $13,999	144,351	7.41%	11,317,403	0.55%
$14,000 to $19,999	222,611	11.43%	33,812,026	1.65%
$20,000 to $24,999	166,294	8.54%	45,342,690	2.21%
$25,000 to $29,999	141,520	7.26%	56,736,491	2.77%
$30,000 to $39,999	224,028	11.50%	127,919,751	6.24%
$40,000 to $49,999	164,590	8.45%	130,327,390	6.36%
$50,000 to $74,999	273,810	14.05%	320,594,335	15.64%
$75,000 to $99,999	139,032	7.14%	254,978,040	12.44%
$100,000 to $199,999	123,893	6.36%	409,761,632	19.99%
$200,000 to $499,999	27,500	1.41%	262,739,189	12.82%
$500,000 to $999,999	4,479	0.23%	121,233,036	5.92%
$1,000,000 to $4,999,999	2,067	0.11%	163,227,880	7.96%
$5,000,000 and over	200	0.01%	107,368,503	5.24%
TOTAL	**1,948,323**	**100.00%**	**$2,049,537,664**	**100.00%**

(1) This summary combines all liability reported on the Arizona Form 140 and 140A Individual Income tax returns for tax year 2001, filed from January 2002 forward.

TABLE 31
NONRESIDENT/ PART YEAR RESIDENT INDIVIDUAL INCOME TAX
LIABILITY BY FEDERAL ADJUSTED GROSS INCOME
TAX YEAR 2001 (1)

ARIZONA PORTION OF FEDERAL ADJUSTED GROSS INCOME	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
Negative Income	14,898	8.09%	$1,022,256	0.77%
$0.01 to $1,999	18,281	9.93%	36,910	0.03%
$2,000 to $5,999	31,878	17.32%	160,637	0.12%
$6,000 to $9,999	24,030	13.05%	1,098,475	0.83%
$10,000 to $13,999	18,088	9.83%	2,033,016	1.53%
$14,000 to $19,999	19,302	10.49%	4,143,611	3.12%
$20,000 to $24,999	11,156	6.06%	3,882,349	2.93%
$25,000 to $29,999	8,483	4.61%	3,973,882	2.99%
$30,000 to $39,999	11,054	6.00%	7,237,926	5.45%
$40,000 to $49,999	7,201	3.91%	6,708,529	5.06%
$50,000 to $74,999	9,259	5.03%	12,764,675	9.62%
$75,000 to $99,999	3,954	2.15%	8,538,035	6.43%
$100,000 to $199,999	4,233	2.30%	16,386,491	12.35%
$200,000 to $499,999	1,589	0.86%	16,487,147	12.42%
$500,000 to $999,999	436	0.24%	11,898,947	8.97%
$1,000,000 to $4,999,999	212	0.12%	17,477,090	13.17%
$5,000,000 and over	36	0.02%	18,855,836	14.21%
TOTAL	**184,090**	**100.00%**	**$132,705,812**	**100.00%**

(1) This summary combines all liability reported on the Arizona Form 140NR and 140PY Individual Income tax returns for tax year 2001, filed from January 2002 forward.

TABLE 32
CORPORATE INCOME TAX
CORPORATE TAXPAYER BY SIZE OF TAX LIABILITY
TAX YEAR 2001(1)

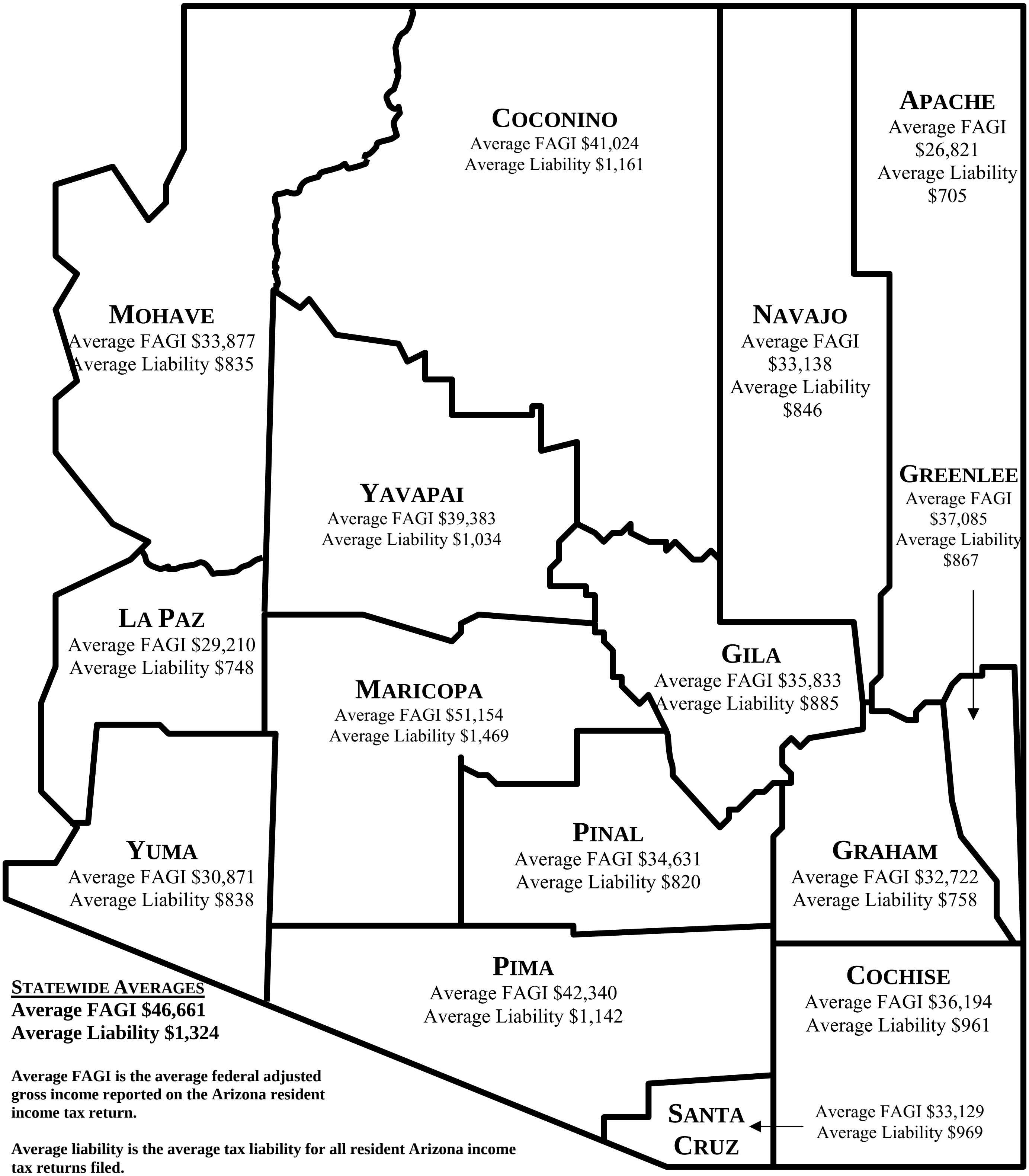
CORPORATE TAX LIABILITY	# OF FILERS	% OF TOTAL	LIABILITY	% OF TOTAL
$50 Minimum	36,990	71.5%	$1,844,486	0.5%
$50.01 to $99.99	1,236	2.4%	90,962	0.0%
$100 to $499.99	3,882	7.5%	993,948	0.3%
$500 to $999.99	1,897	3.7%	1,372,183	0.4%
$1,000 to $4,999.99	4,419	8.5%	10,774,229	3.0%
$5,000 to $9,999.99	1,206	2.3%	8,397,095	2.3%
$10,000 to $49,999.99	1,350	2.6%	29,885,660	8.3%
$50,000 to $99,999.99	326	0.6%	23,070,669	6.4%
$100,000 to $499,999.99	322	0.6%	68,664,533	19.2%
$500,000 to $999,999.99	50	0.1%	36,040,710	10.1%
$1,000,000 to $15,000,000	62	0.1%	177,186,978	49.4%
TOTAL	**51,740**	**100.0%**	**$358,321,453**	**100.0%**

CORPORATE INCOME TAX CREDITS
TAX YEAR 2001

CREDIT TYPE	# OF FILERS	CREDIT USED	CARRYFORWARD AVAILABLE
Agricultural Pollution Control Equipment	*	*	*
Agricultural Preservation District	0	$0	$0
Agricultural Water Conservation	*	*	*
Alternative Fuel - Non Refundable			
--Fuel Delivery System	3	$184,431	$457,906
--Vehicles	*	*	*
--Refueling Apparatus & Infrastructure	*	*	*
--Neighborhood Electric Vehicles	20	$69,701	$1,020,712
Alternative Fuel - Refundable			
--Fuel Delivery System	0	$0	$0
--Vehicles	11	$202,552	$0
--Refueling Apparatus & Infrastructure	0	$0	$0
Coal Used for Electric Generation	*	*	*
Construction Materials	3	$100	$426,692
Defense Contracting	*	*	*
Donation of Motor Vehicles to Work Program	0	$0	$0
Employment of TANF Recipients	6	$57,851	$26,503
Enterprise Zone	125	$6,434,613	$9,991,012
Environmental Technology	*	*	*
Military Reuse Zone	3	$109,373	$21,939
Pollution Control Equipment	28	$1,889,292	$3,497,465
Recycling Equipment	4	$21,442	$197,477
Research & Development	121	$9,301,385	$368,184,898
School Site Donation	*	*	*
Solar Hot Water Heater Plumbing Stub-Outs	0	$0	$0
Technology Training	10	$40,595	$0
Underground Storage Tanks	0	$0	$0
TOTAL (2)	**357**	**$20,171,986**	**$444,568,769**

(1) This summary combines all liability on the Arizona Form 120 Corporate Income Tax returns for tax year 2001 filed from January 2002 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 2001



Average FAGI is the average federal adjusted gross income reported on the Arizona resident income tax return.

Average liability is the average tax liability for all resident Arizona income tax returns filed.

TABLE 34
URBAN REVENUE SHARING
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

FISCAL YEAR	AMOUNT
1999-00	$377,710,988
2000-01	$396,452,640
2001-02	$421,876,573
2002-03	$430,559,053
2003-04	$365,065,158

TABLE 35
DISTRIBUTION OF INCOME TAX AS URBAN REVENUE SHARING
TO MUNICIPALITIES IN FISCAL YEAR 2003-04

CITIES BY COUNTY	AMOUNT	% OF TOTAL
APACHE		
Eagar	$363,653	0.10%
St. Johns	308,076	0.08%
Springerville	189,659	0.05%
COCHISE		
Benson	424,788	0.12%
Bisbee	549,131	0.15%
Douglas	1,489,868	0.41%
Huachuca City	157,887	0.04%
Sierra Vista	3,406,148	0.93%
Tombstone	135,615	0.04%
Willcox	336,602	0.09%
COCONINO		
Flagstaff	4,769,419	1.31%
Fredonia	93,415	0.03%
Page	613,963	0.17%
Williams	256,261	0.07%
GILA		
Globe	675,008	0.18%
Hayden	80,431	0.02%
Miami	174,568	0.05%
Payson	1,228,107	0.34%
Winkelman	39,945	0.01%
GRAHAM		
Pima	179,347	0.05%
Safford	832,444	0.23%
Thatcher	362,661	0.10%
GREENLEE		
Clifton	234,080	0.06%
Duncan	73,217	0.02%
LA PAZ		
Parker	283,132	0.08%
Quartzsite	302,428	0.08%
MARICOPA		
Avondale	3,235,547	0.89%
Buckeye	766,169	0.21%
Carefree	263,926	0.07%
Cave Creek	336,151	0.09%
Chandler	15,922,197	4.36%
El Mirage	457,428	0.13%
Fountain Hills	1,824,577	0.50%
Gila Bend	178,535	0.05%
Gilbert	9,891,309	2.71%
Glendale	19,730,140	5.40%
Goodyear	1,705,193	0.47%
Guadalupe	471,405	0.13%
Litchfield Park	343,445	0.09%
Mesa	35,835,607	9.82%
Paradise Valley	1,231,973	0.34%
Peoria	9,771,113	2.68%
Phoenix	119,117,792	32.63%
Queen Creek	$389,171	0.11%
Scottsdale	18,277,782	5.01%
Surprise	2,781,545	0.76%
Tempe	14,303,004	3.92%
Tolleson	448,502	0.12%
Wickenburg	458,241	0.13%
Youngtown	271,410	0.07%
MOHAVE		
Bullhead City	3,044,929	0.83%
Colorado City	300,625	0.08%
Kingman	1,809,609	0.50%
Lake Havasu City	3,781,523	1.04%
NAVAJO		
Holbrook	443,363	0.12%
Pinetop-Lakeside	322,987	0.09%
Show Low	693,853	0.19%
Snowflake	402,155	0.11%
Taylor	286,378	0.08%
Winslow	858,412	0.24%
PIMA		
Marana	1,222,336	0.33%
Oro Valley	2,845,866	0.78%
Sahuarita	292,329	0.08%
South Tucson	495,030	0.14%
Tucson	43,885,341	12.02%
PINAL		
Apache Junction	2,868,648	0.79%
Casa Grande	2,274,432	0.62%
Coolidge	702,059	0.19%
Eloy	935,507	0.26%
Florence	1,350,966	0.37%
Kearny	202,791	0.06%
Mammoth	158,878	0.04%
Superior	293,411	0.08%
SANTA CRUZ		
Nogales	1,882,556	0.52%
Patagonia	79,439	0.02%
YAVAPAI		
Camp Verde	852,191	0.23%
Chino Valley	736,413	0.20%
Clarkdale	308,560	0.08%
Cottonwood	827,665	0.23%
Jerome	29,666	0.01%
Prescott	3,060,168	0.84%
Prescott Valley	2,122,136	0.58%
Sedona	919,006	0.25%
YUMA		
San Luis	1,381,575	0.38%
Somerton	655,171	0.18%
Wellton	164,920	0.05%
Yuma	7,002,250	1.92%
TOTAL	**$365,065,158**	100.00%

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

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PROPERTY TAX

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

GENERAL PROPERTY TAX ADMINISTRATION

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

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

Appeals of valuation or classification determined by the county assessors for locally assessed properties originate with the property owner's petition for review filed with the county assessor. Such appeals may be continued to either the local County Board of Equalization, or to the State Board of Equalization and the Tax Court, a division of the Maricopa County Superior Court. Appeals may also be filed directly with the Tax Court.

TAX COLLECTION AND DISTRIBUTION

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

EQUALIZATION

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

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

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

Centrally Valued Properties

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

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

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

Figure 1

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

INDUSTRIES VALUED BY THE DEPARTMENT

Industry	Number of Companies		
	2002	2003	2004
Airlines (Flight Property)	32	30	30
Electric & Gas*			
Generation	14	26	26
Transmission and Distribution	37	35	35
Mines (non-producing)	2	2	2
Mines (producing)	30	33	32
Pipelines (Gas Transmission)	10	9	9
Private Rail Cars	265	256	254
Producing Oil & Gas Interests	2	2	2
Railroads	11	11	11
Telecommunications	78	81	81
Waste Water Utilities	25	26	26
Water Utilities	331	327	326
Total	837	838	834

* Includes Salt River Project

TABLE 36
STATE OF ARIZONA
TAX YEAR 2004 PRIMARY PROPERTY TAX LEVIES

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

AVERAGE STATE PRIMARY TAX RATE PER $100	
AVERAGE STATE PRIMARY TAX RATE PER $100	**8.09**

TAX YEAR 2003 PRIMARY PROPERTY TAX LEVIES

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

AVERAGE STATE PRIMARY TAX RATE PER $100	**8.36**

All figures are current as of September 1, 2004.

TABLE 37
STATE OF ARIZONA
TAX YEAR 2004 SECONDARY PROPERTY TAX LEVIES

TAX AUTHORITY	NET ASSESSED VALUATION	STATE	COUNTY	CITIES & TOWNS	COMMUNITY COLLEGES	SCHOOLS	ALL OTHER	TOTAL	SECONDARY RATE
APACHE	$302,353,668	$0	$3,398,152	$78,758	$1,348,497	$1,975,679	$2,675,052	$9,476,138	3.13
COCHISE	628,655,003	0	1,603,699	134,929	0	10,388,668	6,881,859	19,009,155	3.02
COCONINO	1,222,225,551	0	3,543,232	4,944,225	1,948,855	22,255,918	10,083,803	42,776,033	3.50
GILA	378,256,442	0	1,134,769	100,000	0	4,914,042	4,555,315	10,704,126	2.83
GRAHAM	103,542,473	0	52,608	0	0	1,656,656	333,521	2,042,785	1.97
GREENLEE	160,301,809	0	1,709,958	0	0	1,060,252	44,948	2,815,158	1.76
LA PAZ	148,341,040	0	148,341	0	323,128	1,351,174	3,881,259	5,703,902	3.85
MARICOPA	30,066,986,670	0	53,861,685	207,813,806	34,904,190	722,321,146	104,483,185	1,123,384,012	3.74
MOHAVE	1,321,872,683	0	6,745,517	425,605	0	15,197,488	19,520,945	41,889,555	3.17
NAVAJO	663,206,947	0	2,652,827	47,779	1,675,261	9,554,916	5,576,753	19,507,536	2.94
PIMA	5,620,156,274	0	66,885,481	21,274,250	12,842,057	106,087,354	47,719,434	254,808,576	4.53
PINAL	1,128,263,009	0	2,969,706	0	0	24,494,987	14,900,697	42,365,390	3.75
SANTA CRUZ	253,681,084	0	1,044,405	0	0	5,445,990	4,259,782	10,750,177	4.24
YAVAPAI	1,785,174,684	0	3,723,175	1,685,025	5,155,584	13,543,524	23,271,664	47,378,972	2.65
YUMA	678,720,689	0	3,895,857	89,500	1,478,254	13,178,322	2,236,981	20,878,914	3.08
TOTAL STATE	**$44,461,738,026**	**$0**	**$153,369,412**	**$236,593,877**	**$59,675,826**	**$953,426,116**	**$250,425,198**	**$1,653,490,429**	**3.72**

AVERAGE STATE SECONDARY TAX RATE PER $100 3.72

TAX YEAR 2003 SECONDARY PROPERTY TAX LEVIES

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

AVERAGE STATE SECONDARY TAX RATE PER $100 3.82

All figures are current as of September 1, 2004.

TABLE 38
AVERAGE PROPERTY TAX RATES
PER $100 OF ASSESSED VALUATION
TAX YEAR 2001 THROUGH TAX YEAR 2004

	2001		2002	
	PRIMARY	**SECONDARY**	**PRIMARY**	**SECONDARY**
School Districts				
Counties	$4.88	$2.30	$4.87	$2.24
State	2.22	0.31	2.24	0.30
Cities	0.05	0.00	0.04	0.00
Community Colleges	0.37	0.55	0.38	0.55
Special Districts	1.02	0.19	1.03	0.18
	0.00	0.66	0.00	0.66
	$8.54	**$4.01**	**$8.56**	**$3.93**
TOTAL	**$12.55**		**$12.49**	

	2003		2004	
	PRIMARY	**SECONDARY**	**PRIMARY**	**SECONDARY**
School Districts	$4.69	$2.16	$4.45	$2.15
Counties	2.22	0.29	2.21	0.35
State	0.04	0.00	0.03	0.00
Cities	0.39	0.55	0.39	0.53
Community Colleges	1.02	0.16	1.01	0.13
Special Districts	0.00	0.66	0.00	0.56
	$8.36	**$3.82**	**$8.09**	**$3.72**
TOTAL	**$12.18**		**$11.81**	

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

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ALL OTHER SOURCES OF REVENUE

Bingo

Estate Tax

Luxury Tax

Unclaimed Property & Escheated Estates

Waste Tire Fees

BINGO

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

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

All taxes collected are deposited in the state general fund. A total of $ 624,501 was deposited in fiscal year 2004 *(Refer to Table 39)*.

TABLE 39
BINGO COLLECTIONS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

Fiscal Year	Amount
1999-00	$677,036
2000-01	$634,384
2001-02	$629,680
2002-03	$626,770
2003-04	$624,501

BINGO COLLECTIONS

	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04
Licenses	$21,534	$24,549	$21,322	$26,110	$19,121
Proceeds	644,385	606,880	605,388	598,465	603,306
Penalty, Interest and Miscellaneous	11,116	2,955	2,970	2,194	2,074
TOTAL	**$677,036**	**$634,384**	**$629,680**	**$626,770**	**$624,501**

ESTATE TAX

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

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

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

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

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

TABLE 40
COLLECTIONS OF ESTATE TAXES
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

Fiscal Year	Collections	Refunds	Net
1999-00	$85,238,335	$4,594,005	$80,644,330
2000-01	$76,921,666	$2,269,883	$74,651,783
2001-02	$81,892,657	$1,340,437	$80,552,220
2002-03	$96,859,390	$2,641,471	$94,217,919
2003-04	$42,292,396	$3,473,964	$38,818,431

Figures may not add to total due to rounding.

LUXURY TAX

Arizona's luxury tax applies to cigarettes, other tobacco products, and alcoholic beverages. The department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and alcoholic beverages. The department also investigates and confiscates contraband alcoholic beverages and tobacco products. During the 2004 fiscal year, over $331 million was received in luxury tax collections. Increased collections of approximately 24% are primarily due to a tobacco tax increase established by Proposition 303 in November 2002.

Of the monies collected per the Tobacco Products Referendum (Prop 303), $58.4 million was distributed to the Prop 204 Protection Account, $37.6 million to the Medically Needy Account, $27.8 million for Emergency Health Services, $7.0 million for Health Research, and $2.8 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, $70.2 million was allocated to the Medically Needy Fund, $23.0 million to the Health Education Fund and $5.0 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received $27.1 million, and the Arizona Wine Promotional Fund received $27,995. The Drug Treatment and Education Fund received $7.5 million, and the Corrections Revolving Fund received $2.9 million due to the passage of Proposition 200 in 1996. The remaining $61.3 million was deposited into the state general fund. ***(Refer to Table 41)***

Luxury Tax Rates

Cigarettes	
per cigarette	$ 0.059
package of 20	$1.18
package of 25	$ 1.475
Cigars	
small cigars weighing not more than 3 lbs/1,000 package of 20 or less	$ 0.2625
selling for $0.05 or less (each 3 cigars)	$ 0.13
selling for more than $0.05 (each cigar)	$ 0.13
Smoking Tobacco	
snuff, fine cut, chewing, etc. (per ounce)	$ 0.1325
Cavendish, plug, or twist (per ounce)	$ 0.0325
Spirituous Liquors	
per gallon	$ 3.00
Vinous liquors more than 24% alcohol (per gallon)	$ 4.00
Vinous liquors less than 24% alcohol (per gallon)	$ 0.84
Malt Liquor (Beer)	
per gallon	$ 0.16
per barrel (31 gallons)	$ 4.96

TABLE 41
LUXURY TAX COLLECTIONS
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

SOURCE:	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04	PERCENT OF COLLECTIONS IN FY2003-04
Spirituous Liquor	$20,587,605	$21,327,540	$21,574,744	$22,004,331	$23,438,818	**7.1%**
Vinous Liquor	9,026,326	8,477,493	9,035,156	9,924,749	10,404,545	**3.1%**
Malt Liquor	21,309,231	21,602,321	22,031,467	22,137,764	22,110,426	**6.7%**
Liquor Collections	**$50,923,162**	**$51,407,354**	**$52,641,368**	**$54,066,844**	**$55,953,790**	
Tobacco - All Types (1)						
Gross Revenue	163,206,980	161,078,853	162,148,102	218,358,747	282,209,893	
Refunds	(3,474,292)	(2,662,128)	(4,169,264)	(5,614,159)	(7,273,023)	
Licenses	7,175	8,600	5,250	5,950	6,400	
Administrative Expenses	(310,931)	(384,593)	(393,800)	(403,739)	(414,329)	
Net Tobacco Collections	**$159,428,932**	**$158,040,732**	**$157,590,288**	**$212,346,798**	**$274,528,941**	**83.0%**
Amnesty Luxury Collections	**-----**	**-----**	**-----**	**-----**	**$187,315**	
TOTAL COLLECTIONS	**$210,352,094**	**$209,448,087**	**$210,231,655**	**$266,413,642**	**$330,670,046**	

DISTRIBUTIONS:	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04
State General Fund	$65,436,145	$65,568,793	$66,069,587	$64,586,950	$61,301,017
Wine Promotional Fund	21,197	21,278	23,391	25,497	27,995
Tobacco Tax & Health Care Fund-Prop. 200 (1)	109,786,025	108,709,176	108,177,154	102,529,785	92,599,453
Tobacco Products Tax Fund-Prop. 303 (1)	N/A	N/A	N/A	59,938,321	133,563,168
Drug Treatment & Education Fund	6,897,717	6,903,464	7,098,014	7,306,966	7,490,976
DOC Revolving Fund	2,739,633	2,743,924	2,820,269	2,902,721	2,978,318
Department of Corrections Fund	25,192,099	25,154,893	25,718,685	26,348,946	26,613,423
DOC Transfer from Prop 200 Funds	279,278	346,559	324,556	277,104	531,839
Prop 200 Transfer from Prop 303 Funds (1)	N/A	N/A	N/A	2,497,352	5,563,857
TOTAL DISTRIBUTIONS	**$210,352,094**	**$209,448,087**	**$210,231,655**	**$266,413,642**	**$330,670,046**

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

UNCLAIMED PROPERTY

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

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

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

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

ESCHEATED ESTATES

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

TABLE 42
COLLECTIONS AND DISTRIBUTION OF UNCLAIMED PROPERTY
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

SOURCE:	**FY1999-00**	**FY2000-01**	**FY2001-02**	**FY2002-03**	**FY2003-04**	**PERCENT OF COLLECTIONS IN FY2003-04**
UNCLAIMED PROPERTY	$31,415,063	$38,027,873	$48,687,357	$46,219,555	$49,653,262	
Refunds	(9,881,814)	(15,764,220)	(11,903,236)	(10,333,078)	(10,093,832)	
Expenses	(1,110,490)	(1,023,813)	(1,324,594)	(1,325,764)	(1,368,887)	
NET	**$20,422,759**	**$21,239,840**	**$35,459,527**	**$34,560,714**	**$38,190,543**	**99.1%**
ESCHEATED ESTATES	201,612	647,074	252,786	269,557	568,385	
Refunds	(188,587)	(576,578)	(294,542)	(55,504)	(223,945)	
NET	**$13,026**	**$70,496**	**($41,755)**	**$214,052**	**$344,441**	**0.9%**
TOTAL NET REVENUE	**$20,435,784**	**$21,310,336**	**$35,417,772**	**$34,774,766**	**$38,534,984**	**100.0%**
DISTRIBUTIONS:						
General Fund	4,081,173	4,309,756	7,656,006	6,745,652	8,043,962	
Housing Fund	11,421,658	11,733,852	19,761,582	17,950,660	20,708,267 (6)	
Utility Assistance Fund	639,104	905,023	868,416	1,118,958	1,307,953	
Racing Fund	4,153,330	4,266,855	7,186,030	6,527,513	7,530,279	
Victim Restitution Fund (2)	-----	17,027	(18,426) (3)	2,128,019	547,274	
Net to Permanent School Fund:						
Escheated Estates	13,026	70,496	(41,755)	214,052	344,441 (1)	
Unclaimed Shares/dividends	0	7,326	5,919	0	43,788	
Storage Facility (4)	-----	-----	-----	-----	9,021	
Retained by Unclaimed Property	127,494	0	0	89,912 (5)	0	
TOTAL DISTRIBUTION	**$20,435,784**	**$21,310,336**	**$35,417,772**	**$34,774,766**	**$38,534,984**	

(1) FY 04 Escheated Estates will be transferred in FY 05.
(2) Victim Restitution Fund became effective on January 1, 2001 per HB 2061.
(3) Claims paid during FY 02 for Victims Restitution exceeded their collections, therefore, no transfer was required.
(4) FY04 was the first year that the Department of Revenue made deposits to the Permanent School Fund from unclaimed Storage Facility property pursuant to A.R.S. §33-1704.
(5) This amount was retained by Unclaimed Property due to an overpayment to the General Fund in FY 02
(6) $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.
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 2004, the department collected $7,785,149 and distributed 3.5% percent to the Department of Environmental Quality with the remainder being distributed to the counties based on the number of motor vehicles registered in the county *(Refer to Tables 43 and 44)*. The distribution is performed quarterly.

TABLE 43
WASTE TIRE FEE COLLECTIONS
FISCAL YEAR 2003-04

NUMBER OF TIRES	NUMBER OF FILERS	TOTAL NUMBER OF TIRES	AMOUNT REMITTED
1 to 50	167	1,092	$2,954
51 to 100	67	8,765	$7,041
101 to 250	140	23,417	$32,757
251 to 500	123	44,447	$64,382
501 to 1,000	99	69,843	$93,417
1,001 to 2,500	144	243,495	$304,646
2,501 to 5,000	132	469,615	$564,376
5,001 to 10,000	88	610,381	$801,504
10,001 to 25,000	80	1,127,027	$1,280,634
More Than 25,000	22	5,023,489	$4,613,596
No Information	6	474	$11,527
Overpayments			($149,642)
Accounts Receivable Adjustment (1)			$23,857
Year -end Adj's			$134,100
Total	**1,068**	**7,622,045**	**$7,785,149**

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

TABLE 44
WASTE TIRE FEE DISTRIBUTION
FISCAL YEAR 1999-00 THROUGH FISCAL YEAR 2003-04

	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04
Apache	$68,421	$76,526	$78,693	$88,265	$100,750
Cochise	156,256	174,766	174,721	188,526	208,639
Coconino	153,159	171,302	161,337	182,060	202,203
Gila	83,307	93,175	88,035	100,584	109,692
Graham	36,127	40,407	38,300	42,055	45,472
Greenlee	13,394	14,980	14,021	14,267	14,571
La Paz	32,577	36,436	36,329	40,230	46,334
Maricopa	3,076,438	3,440,863	3,525,885	3,837,502	4,245,363
Mohave	238,888	267,186	271,827	305,722	355,631
Navajo	112,636	125,978	127,482	143,348	162,789
Pima	829,316	927,554	904,818	991,330	1,085,793
Pinal	197,496	220,890	207,211	231,521	256,738
Santa Cruz	54,110	60,520	65,220	67,292	74,443
Yavapai	251,010	280,743	290,584	323,797	369,140
Yuma	172,712	193,171	184,430	205,684	235,110
AZ Dept of Environmental Quality	198,606	222,132	223,742	245,261	272,480
Total	$5,674,452	$6,346,629	$6,392,637	$7,007,444	$7,785,148

Figures may not add to total due to rounding.

LEGISLATIVE SUMMARY

LEGISLATIVE SUMMARY

The following is intended to give a brief summary of the 2004 tax-related legislation impacting the Department of Revenue (DOR) and not intended to discuss the details of any specific enactment. Please refer to the particular legislation for more definitive information.

The general effective date for legislation is August 25, 2004. 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.

Administration

SB 1274 (Chapter 83) Taxpayer Bill of Rights; Amnesty
SB 1274 makes modifications to the taxpayer bill of rights and clarifies the right of appeal for the tax amnesty program.

With certain prescribed exceptions, DOR has two years from date of initial audit contact to issue a final audit (notice of proposed assessment or proposed overpayment). A final audit (notice of proposed assessment or denial of refund claim) must include the statutory, regulatory and judicial bases for any adjustments made.

These provisions apply retroactively to audits beginning on or after January 1, 2004.

Applications for the tax amnesty program that expired Oct. 31, 2003, are an express waiver of the right to appeal the matters under the amnesty application for the period for which the application was made; taxpayers retain appeal rights on additional tax assessed via a subsequent audit of the period for which the application was made.

This provision is effective retroactively to September 18, 2003.

HB 2225 (Chapter 161) Probation Absconders; Taxpayer Information
DOR must provide the court with the home address and any additional taxpayer ID numbers used by a taxpayer whose debt is referred for setoff and who is identified by the court as a probation absconder.

HB 2346 (Chapter 70) Spousal Maintenance; Taxpayer Information
Spousal maintenance obligations are included in the list of "overdue support" debts for which a taxpayer's income tax refund may be redirected to fulfill. HB 2346 requires DOR to notify the court if a match is made with a taxpayer who has an overdue debt for spousal maintenance.

HB 2382 (Chapter 139) Social Security Numbers; Government Use
HB 2382 limits the government use of complete Social Security numbers to the Arizona Department of Revenue, the Industrial Commission of Arizona or a law enforcement agency of this state, county, city or town. Additionally, HB 2382 allows an agency of this state or county, city, town, or other political subdivisions of this state to disseminate or use the last four numbers of an individual's Social Security Number.

SB 1361 (Chapter 84) Tax Disputes; Burden of Proof
SB 1361 creates a new section 42-1255 stating that DOR has the burden of proof in any administrative as well as judicial proceeding regarding any factual issue that is relevant to ascertaining the tax liability of a taxpayer, provided the taxpayer has cooperated and kept proper records. The new section 42-1255 replaces a subsection under which DOR had the burden of proof only in court proceedings.

Income Tax

HB 2040 (Chapter 61) 2004 Tax Corrections Act
See summary under multiple tax types.

HB 2045 (Chapter 289) Income Tax Credit Review Schedule
HB 2045 is the annual bill to update the income tax credit review schedule based on the

recommendations of the Joint Legislative Income Tax Credit Review Committee. Removes the income tax credits that were reviewed in 2003 and adds these credits to the review schedule in 2008.

Repeals the individual and the corporate income tax credit for corrective action costs for underground storage tanks and makes conforming changes.

Amends Arizona Revised Statutes (A.R.S.) § 41-1525 and amends A.R.S. §§ 43-1074 and 43-1161 to allow enterprise zone credits at a zone location unless more than ten percent of the business at the zone location consists of retail sales of tangible personal property.

Amends A.R.S. § 41-1525 and amends A.R.S. §§ 43-1074 and 43-1161 to provide that taxpayers may claim second and third year credits for taxable year 2002 and third year credits for taxable year 2003 when the first year credit was claimed on an amended return if the qualified employment positions were created prior to January 1, 2002 and certified to the Department of Commerce.

Sections 41-1525, 43-1074 and 43-1161, Arizona Revised Statutes, as amended by this act, apply retroactively to taxable years beginning from and after December 31, 2003.

HB 2549 (Chapter 326) Healthy Forests; Tax Credits
See summary under multiple tax types.

SB 1003 (Chapter 214) Income Tax Exemption; Stillborn Children
SB 1003 provides that a taxpayer is allowed an income tax exemption of $2,300 for each birth for which a certificate of birth resulting in stillbirth has been issued from the Arizona Department of Health Services if the child otherwise would have been a member of the taxpayer's household. The taxpayer may claim the exemption in the year in which the stillbirth occurred. This act applies retroactively to taxable years beginning from and after December 31, 2003.

SB 1389 (Chapter 196) Internal Revenue Code; Partial Conformity
SB 1389 is the annual bill to make conforming changes to the state income tax code to correspond with the federal changes to the Internal Revenue Code. The bill:

1. Conforms to the internal revenue code including retroactive conformity to the effective dates of all provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Military Family Tax Relief Act of 2003, and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.
2. Suspends the statute of limitations to allow taxpayers to claim refunds resulting from retroactive conformity to the provisions of the Military Family Tax Relief Act of 2003. For federal income tax purposes, P.L. 108-121 amended I.R.C. § 121 to allow an election for military and Foreign Service personnel to ignore the time spent on extended duty (up to 10 years) in order to meet the two-out-of-five year requirement needed to exclude gain on the sale of personal residences. The federal provision is effective for sales or exchanges after May 6, 1997 and provides a one-year period (beginning on the date of enactment) for taxpayers to claim refunds as a result of this provision that are otherwise barred by the statute of limitations. Under the Arizona conformity bill, taxpayers may also file an amended Arizona return at any time before the close of the one-year period beginning on November 11, 2003.
3. Requires an add-back of the federal section 179 expense deducted in excess of twenty-five thousand dollars but allows it to be subtracted ratably over a five-year period. Therefore, all taxpayers that deducted I.R.C. § 179 expenses in excess of $25,000 will have to file an amended Arizona income tax return to add the amount in excess of $25,000 to Arizona gross income and to take a subtraction for 1/5 of the amount in excess of $25,000.
4. Requires all taxpayers to add the amount of depreciation allowed under I.R.C. § 167(a).

The bill also requires taxpayers to compute depreciation for Arizona purposes as if bonus depreciation had not been elected for federal purposes. Therefore, all taxpayers that claim depreciation on the federal return must add that depreciation to Arizona gross income on the Arizona return and then take a subtraction for the allowable amount. This provision is retroactive and applies retroactively to taxable years beginning from and after December 31, 1999. The 2004 income tax returns will be modified to accommodate this adjustment. However, for taxable years prior to 2004, this provision will really affect taxpayers that depreciated luxury autos. This amendment will allow taxpayers to depreciate luxury autos for which the taxpayer has claimed federal bonus depreciation using the same depreciation rate that would have been allowed if the taxpayer had not claimed bonus depreciation. These taxpayers will be able to amend a prior year return to make this adjustment, or as an alternative, the taxpayer may elect to recognize the entire cumulative effect of the retroactive change on the tax return for the first taxable year ending on or after December 31, 2003 instead of recognizing the changes on those prior year returns.

5. Allows taxpayers to claim a subtraction to reflect the difference in federal and state basis of bonus depreciation property when that property is sold. This provision is retroactive and applies retroactively to taxable years beginning from and after December 31, 1999. A taxpayer may file an amended return to make this adjustment for a prior year, or as an alternative, the taxpayer may elect to recognize the entire cumulative effect of the retroactive change on the tax return for the first taxable year ending on or after December 31, 2003 instead of recognizing the changes on those prior year returns.

This act is an emergency measure that is necessary to preserve the public peace, health or safety and is operative immediately as provided by law.

Approved by the Governor May 5, 2004.

Transaction Privilege Tax/Use Tax

HB (Chapter 61) 2004 Tax Corrections Act
See summary under multiple tax types.

HB 2086 (Chapter 242) Motor Vehicle Warranties; Tax Refunds
HB 2086 allows motor vehicle manufacturers who repurchase vehicles from consumers due to warranty provisions under Arizona's lemon laws apply to DOR for a refund of sales tax if certain conditions are met.

It allows a manufacturer to apply for a refund from the department if:

1. The manufacturer repurchases a vehicle because it is subject to the state's lemon law or for "reasons of consumer satisfaction".
2. The manufacturer refunds to the consumer the amount of tax; and
3. The manufacturer can provide the department with "satisfactory proof" that:
   a. Tax amounts attributed to the sale of the original vehicle were collected from the consumer; and
   b. The manufacturer refunded the amount of tax to the consumer.

Any refund paid to the manufacturer from these provisions is in lieu of a refund on the vehicle that the dealer would otherwise be entitled to receive.

HB 2277 (Chapter 318) Water Supply; Replenishment; Conservation
Other than making numerous changes to the Central Arizona Water Conservation District and the Central Arizona Groundwater Replenishment District statutes, HB 2277 exempts the acquisition of electricity or other forms of energy by the CAWCD to pump CAP water, from transaction privilege tax and use tax retroactive to January 1, 1985 (Section 13 of the Bill.).

HB 2459 (Chapter 143) Auto Dealers; Taxation; Lease Payments
HB 2459 adds a deduction under the personal property rental classification for income received by a motor vehicle dealer for the first month's payment on the lease of the motor vehicle if the

0lease and payment is assigned to a third party leasing company.

HB 2460 (Chapter 296) Registration; Motor Vehicles; Nonresidents
This legislation expands the MVD's 30-Day Nonresident Registration Permit certificates to require a nonresident motor vehicle purchaser to affirm that the vehicle is to be registered in another state within 30 days. If the purchaser registers the vehicle in Arizona within 365 days, the purchaser will be liable for any state transaction privilege tax, county excise tax, penalties and interest that the motor vehicle dealer would have been required to pay. (Any full or partial exemptions from the transaction privilege tax will be negated in this event.) An amendment to the Retail Classification in the transaction privilege tax statutes allows a resident from a state which provides "reciprocity" with Arizona to purchase a motor vehicle and have the transaction privilege tax imposed on the sale equivalent to the tax rate of the purchaser's state.

The bill does not affect the transaction privilege tax exemption for motor vehicles sold to nonresidents and delivered out-of-state, but these nonresident purchasers are subject to the penalty provision above if the vehicle is registered in Arizona within 365 days.

HB 2549 (Chapter 326) Healthy Forests; Tax Credits
See summary under multiple tax types

SB 1001 (Chapter 240) Fertilizer Transport; Transaction Privilege Tax
SB 1001 provides an exemption from tax under the transaction privilege tax for the income received by a railroad for the transportation of fertilizer from one point in Arizona to another point in Arizona.

This provision is effective from and after September 30, 2004.

SB 1095 (Chapter 305) Teratogen Information Program; Funding; Tax
A small portion of the telecommunications services excise taxes applicable to telecommunications service providers is diverted to fund the Teratogen Information Program, which was established as part of the state Poison Control System under ARS 36-1162.

(Teratogen is defined as a physical, infectious or chemical agent that causes a change in the normal development of a human embryo or fetus.)

The .69% excise tax rate for funding certain telecommunications devices for the impaired is reduced by .01% to .68%.

The .01% reduction will now fund the Teratogen Information Program, making the combined rate the same as before.

This provision applies retroactively to taxable periods beginning from and after June 30, 2004.

SB 1141 (Chapter 234) Preexisting Transactions; Sales Tax
SB 1141 provides that when a state transaction privilege tax rate increase takes effect for written business contracts, other than prime contracts, that the new tax rate increase would not apply until 120 days after the effective date of the rate increase. Other provisions of the bill specify that:

- This does not apply to any taxpayer that has entered into a contract that contains a provision that entitles the taxpayer to recover the increased tax amount from the purchaser.
- These changes apply regardless of the accounting method used by the taxpayer.
- This section does not apply to any rate increases for county excise taxes.

SB 1288 (Chapter 337) Bundled Telecommunications Services
A.R.S. § 42-5064 imposes transaction privilege tax on the business of providing intrastate telecommunications services. As such, telecommunications businesses must separately show gross income derived from nontaxable interstate calls and other income excluded or exempted from tax in books and records kept in the ordinary course of business.

S.B. 1288:

- Adds a new methodology for how such businesses can reasonably identify nontaxable charges on *bundled transactions*, which are sales of both taxable and nontaxable services where the business charges a customer a flat "bundled" rate for all the services.

- Allows a business to elect to use *allocation percentages* derived from its entire service area instead of itemizing for individual calls.
- Allows DOR to request the allocation information and an audit may be performed.
- The telecommunications service provider must waive all rights to a refund on taxes if the taxes were based on the allocation percentage deemed reasonable at the beginning of the tax year at issue.

SB 1293 (Chapter 309) Design-Build Contracts; Prime Contracting
SB 1293 provides for an exclusion of actual direct costs of providing architectural or engineering services that are incorporated into a contract. The bill has a definition for the term "direct costs" and contains a retroactivity clause that provides that any refunds are limited to a total of $100,000. Claims for refunds must be submitted to DOR by December 31, 2004 and:

- The burden of proof is on the taxpayer to establish evidence to qualify for the refund,
- DOR will notify taxpayers of their determination and amount of refund,
- Contains a clause stating the no severability of refund provisions.

SB 1174 (Chapter 249) Use Fuel Refunds; Use Taxes
SB 1174 requires the Arizona Department of Transportation (ADOT) to collect the use tax on use fuel imposed under Title 42, Chapter 5, Article 4 at the time of the submission of a claim for a refund of use fuel taxes paid to ADOT. ADOT is required to not pay the refund until it determines the difference between the amount of the refund and the amount of the Arizona use tax. ADOT is to deposit the use tax revenues collected to the state treasurer for credit to the state general fund monthly and is to notify ADOR of the amount of use tax collected each month.

If the amount of the refund is less than the amount owed for the use tax, then ADOT is to forward any balance due information to the Arizona Department of Revenue for collection purposes.

This act applies to taxable years beginning from and after December 31, 2004.

Property Tax

HB 2040 (Chapter 61) 2004 Tax Corrections Act
See summary under multiple tax types.

HB 2258 (Chapter 295) Property Taxes; Exemption; Corrections
HB 2258 makes changes regarding the county assessor's procedures for tax assessments and appeals. The provisions of the bill include:

- Allows property tax agents to act on behalf of the taxpayer to discuss tax matters with the county assessors, DOR or the County or State Board of Equalization.
- Requires the county assessor to make any necessary changes in the tax roll and records from reviews or corrections of errors and omissions, in addition to any changes from judicial and administrative appeals.
- Removes the requirement for the court to hear property appeals within 270 days.
- Includes in the property tax exemption for institutions for the relief of indigent or afflicted any administrative buildings or property.
- Establishes a new property tax exemption for any non-profit organizations that provide financial support for public libraries.

SB 1004 (Chapter 329) Property Tax Exemption; Widows
SB 1004 increases the value of a home eligible for a $3,000 property tax exemption for widows, widowers and disabled persons. Specifically, the bill provides:

- An increase in the value of a residence from $100,000 or less to $200,000 or less for widows, widowers, or disabled persons to qualify for a $3,000 property tax exemption.
- On or before December 31 each year, DOR is required to increase this residence assessment

limit of $200,000 based on annual inflation as determined by the GDP price deflator.

SB 1091 (Chapter 15) Property Tax Corrections
SB 1091 allows county assessors to send notices of valuation error to property owners at any time in the tax year (defined for all property tax purposes as the "calendar year"). A notice of error in property valuation or a notice of claim is effective only during the current year and the 3 immediately preceding years. Even if the taxpayer consents to the correction but disputes the valuation, the tax roll will be corrected and the corrected value will be effective for the current and subsequent years unless a court determines otherwise.

It defines the term "Tax Year" and specifies which tax years are covered in a "Notice of Error" used by the assessors and a "Notice of Claim" used by a taxpayer to request correction of real and personal property tax roll errors.

Multiple Tax Types

HB 2040 (Chapter 61) 2004 Tax Corrections Act
HB 2040 makes technical, conforming and clarifying changes to Arizona tax statutes.

Transaction Privilege Tax

- Nonprofit health care organizations are exempt from TPT for construction of their facilities if they meet certain conditions. If conditions are not met within a "reasonable time," then the tax is due. "Reasonable time" is defined as a time limitation that DOR determines and that does not exceed the statute of limitation of the original transaction.
- Clarifies the TPT exemption regarding the sale of tangible personal property for programs that are exclusively for mentally or physically handicapped persons. These programs are for training, job placement, rehabilitation or testing.

Property Tax

- Requires DOR to determine the location (or apportionment) of pipeline property by November 30 instead of August 31. Also, clarifies that this is done yearly.
- Clarifies that full cash values of airline and private car companies' properties are public record.
- Eliminates reporting the apportionment of telecommunication companies' valuation from DOR to all local jurisdictions and instead, requires DOR to report the necessary information only to county assessors.

Income Tax

- Clarifies thresholds for requiring individuals to file personal income tax returns.
- The income tax credit for dependent day care services had to be claimed by January 1, 1995. Repeals this obsolete credit and removes the reference to this credit under additions to Arizona gross income.

HB 2549 (Chapter 326) Healthy Forests; Tax Credits
An emergency measure that allows a Healthy Forest Enterprise Assistance Program to be established and provides transaction privilege (TPT), use and income tax incentives for qualified businesses until 2014 and allows the state to contract for electrical energy produced from biomass resources. The bill also authorizes cities, towns and counties to adopt and periodically revise an urban-wildland interface code, makes the State Forester a position separate from the State Land Commissioner, establishes the State Urban-Wildland Fire Safety Committee and requires that the State Forester identify pilot programs to promote forest health.

This act is an emergency measure that is necessary to preserve the public peace, health or safety and is operative immediately as provided by law.

Approved by the Governor June 3, 2004.

Miscellaneous

SB 1353 (Chapter 311) Cigarettes; Delivery Sales
Establishes requirements for tobacco product delivery sales, including verification of the purchaser's age, registration and reporting

requirements and collection of taxes when they were not already paid. Exempts tribal sales and establishes penalties for non-compliance with provisions.

HB 2059 (Chapter 135) Disposition of Proceeds; Abandoned Property

HB 2059 addresses the disposition of excess proceeds from trustee sales that have been deposited with the county treasurer; the presumption of abandonment for certain types of property; and the reporting of excess proceeds to the Arizona Department of Revenue.

The bill stipulates the following:

- Excess proceeds deposited with the county treasurer are presumed abandoned after three years if there is no pending application for distribution.
- Excess proceeds of fifty dollars or less that are presumed abandoned are to be transferred to the county general fund.
- Excess proceeds greater than fifty dollars that are presumed abandoned are to be reported to the Arizona Department of Revenue on or before November 1st of each year. The report shall cover the prior fiscal year and include a copy of all documentation filed with the county treasurer. The county treasurer may assess and deduct a reasonable fee of not more than fifty dollars for the reporting expenses.
- The period for the presumption of abandonment for property held by a court, governmental subdivision, agency or instrumentality, is increased from one to three years.
- Session law at the conclusion of this chaptered legislation provides that the initial reports of excess proceeds presumed abandoned that are due November 1, 2004, derived from a trustee's sale or held by the county treasurer, shall include excess proceeds but no penalties and interest. Such reports shall also include excess proceeds that would have been presumed abandoned within twenty years prior to July 1, 2004.

SB 1415 (Chapter 284) Withholding Tax Rates; Budget Reconciliation

SB 1415 applies to all employees who are subject to Arizona withholding and their employers. This bill increases all of the withholding rates except for the lowest rate available for employees making less than fifteen thousand dollars annually. The lowest available withholding percentage for these employees remains at 10%, and the higher rates are all increased. The bill also provides session law to require the automatic increase of employees' withholding rates if they do not elect a rate of withholding.

SB 1415 is effective for tax years beginning from and after December 31, 2004.

The following table illustrates the changes to the withholding tax rates

Current rates	New Rates for 2005
10.0%	10%
18.2%	19%
21.3%	23%
23.3%	25%
29.4%	31%
34.4%	37%

HB 2259 (Chapter 232) County Treasurers; Procedures

This is the annual bill that makes changes to the administrative procedures regarding county treasurers. Specifically, the bill provides:

- The monthly statement of fees collected by the county will be filed on the first day of the month, instead of the last day of the month and the requirement that the statement be filed under oath is removed.
- Changes the fee for a certified copy of a judgment foreclosing the right to redeem from $10 to $50 dollars and requires that $15 of this fee is designated to the county Taxpayers' Information Fund.
- Designates that thirty days after medical examination of a deceased indigent, the public fiduciary of the county, rather than the county treasurer, receive monies and properties found upon the body.
- Clarifies that checks drawn on the county general fund not presented for payment

within one year will revert to the county general fund or other appropriate fund.

- Retroactive to September 18, 2003, the board of supervisors may allow a claim for the amount of an uncashed check or warrant that is older than one year if they find that the claim is legitimate.
- Allows the county treasurer to require additional supporting information for any person who is making electronic property tax payments in excess of $25,000. If the electronic fund does not balance with the tax parcel information, the funds will not be accepted and clarifies that if payments are delinquent, interest will accrue.
- Removes the six-month time limit for the sheriff's seizure of property after receiving a tax bill.
- Requires monies derived from the levy of the tax on issued bonds to be deposited to the Debt Service Fund rather than the Interest Fund and the Principal Fund.