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DEPARTMENT ORGANIZATION

Organization & Organization Chart

Strategic Plan Highlights

Administrative Services

Audit

Collections

External Services & Special Projects

Information Technology

Process Administration

Property Tax

Taxpayer Services

Tax Policy & Research

Organization

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

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

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

Commencing in July, 2011, the chief deputy director and deputy director report to the director. The chief deputy director assists the director in the day-to-day operations of the department serving as acting director when the director is absent. Also

reporting to the director is the problem resolution officer, who acts as the taxpayer advocate within the department. Reporting to both the director and the chief deputy director is the chief internal auditor, who oversees the internal audit team and acts as liaison with external auditors.

Commencing in July 2011, the department was reorganized into eight divisions, each managed by an assistant director. Divisions include: Administrative Services, Audit, Collections, Taxpayer and External Services, 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.

Org chart

Strategic Plan Highlights

MISSION, VISION, VALUES

The Mission Statement of the Department of Revenue is “to administer tax laws fairly and efficiently for the people of Arizona”. This statement of purpose guides our sense of direction, agency actions and decision making.

Our Vision Statement, “setting the standard for tax services”, sets the marker for the kind of agency we want to become and what we hope to achieve.

Our company culture is defined by embracing values that are shared among all employees. Our Values are:

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

GOALS AND OBJECTIVES

We continue to focus on our three core goals:

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

KEY MEASURE RESULT HIGHLIGHTS

The results of these key measures for fiscal year 2011 are presented as well as comparisons to prior years.

TOTAL GROSS REVENUES COLLECTED

FY10

Transaction Privilege Tax	\$5,982,149,321
Income & Withholding	\$3,785,268,107
Corporate	\$ 650,925,393
Other	\$ 589,389,470
Total	\$11,007,732,292

FY11

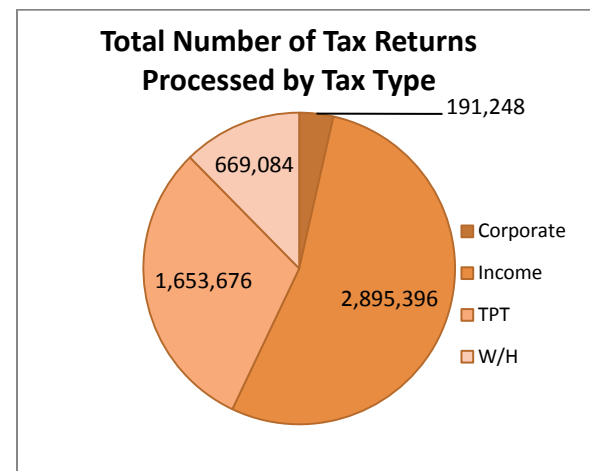
Transaction Privilege Tax	\$6,951,173,293
Income & Withholding	\$4,101,777,020
Corporate	\$ 659,266,690
Other	\$ 547,627,761
Total	\$ 12,259,844,763

Detailed gross revenues are reported under Table 1.

TOTAL NUMBER OF TAX RETURNS PROCESSED BY TAX TYPE

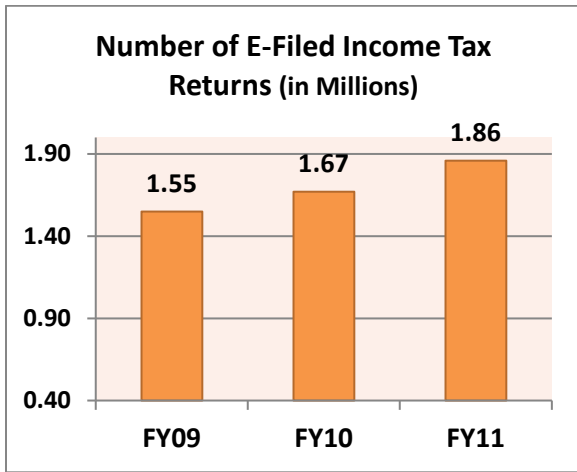
All tax returns are processed through the BRITS system.

Corporate Income Tax	191,248
Individual Income Tax	2,895,396
Transaction Privilege	1,653,676
Withholding	669,084
Total Returns Processed.....	5,409,404



TOTAL NUMBER OF E-FILED INDIVIDUAL INCOME TAX RETURNS RECEIVED

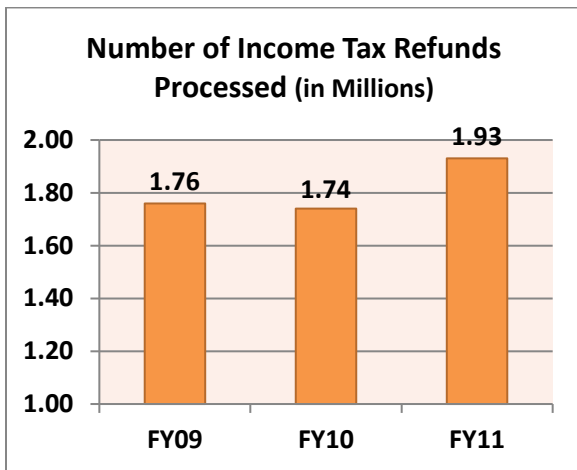
FY09	1.55M
FY10	1.67M
FY11	1.86M



TOTAL NUMBER OF INDIVIDUAL INCOME TAX REFUNDS

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

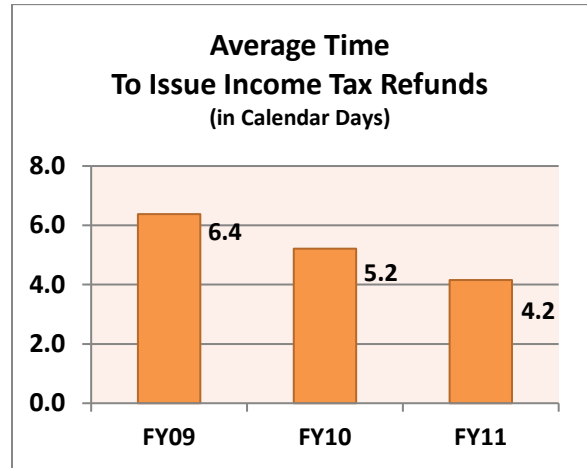
FY09	1,765,865
FY10	1,742,324
FY11	1,932,100



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. A portion of those electronic filers also elect to receive their refunds electronically via direct deposit.

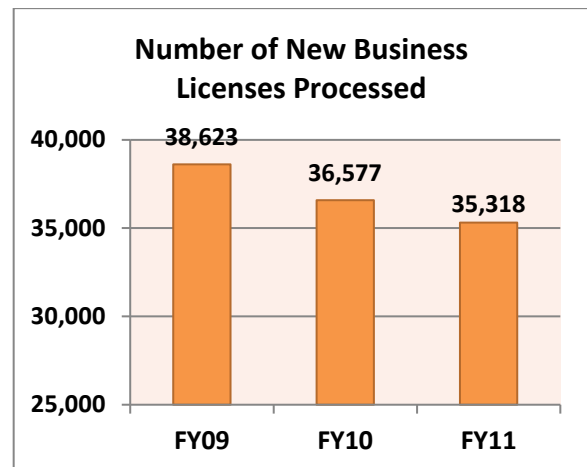
FY09	6.4 days
FY10	5.2 days
FY11	4.2 days



NUMBER OF NEW BUSINESS LICENSES PROCESSED

New business licenses are processed at walk-in counters, through the mail and via on-line services.

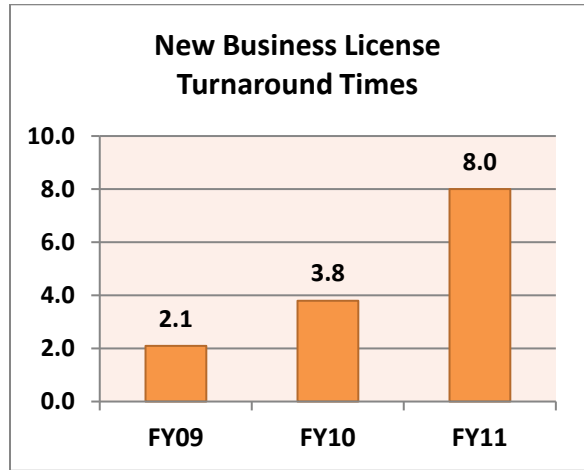
FY09	38,623
FY10	36,577
FY11	35,318



NEW BUSINESS LICENSE TURNAROUND TIME

License turnaround time is defined as the point from when the initial application or request is received via walk-in, mail or electronically and ending when the approved license is mailed to the taxpayer. Higher turnaround times were due to turnover and staffing freeze.

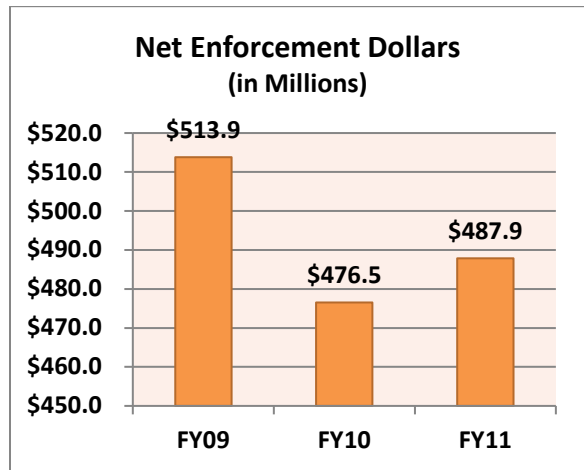
FY09	2.1 days
FY10	3.8 days
FY11	8.0 days



TOTAL NET ENFORCEMENT DOLLARS

Total net enforcement dollars represent all revenue collected by collectors and auditors through their various enforcement programs.

FY09	\$ 513,880,714
FY10	\$ 476,471,539
FY11	\$ 487,948,450



NET ENFORCEMENT REVENUE WITH GENERAL FUND TOTALS

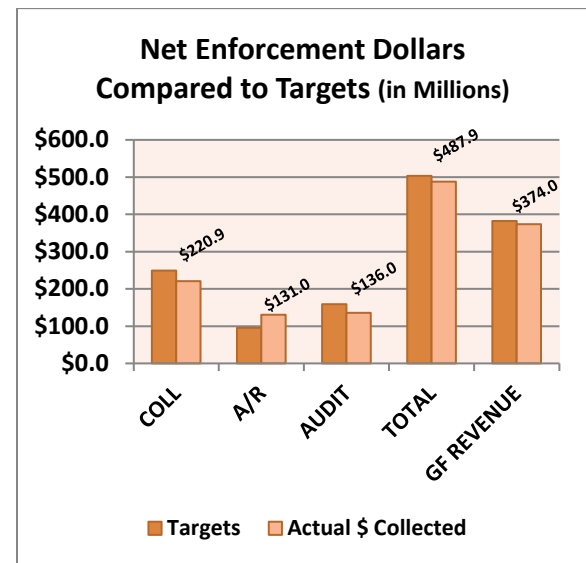
The enforcement program generated results at 96.9% of goal, almost reaching fiscal year 2011 targets. This chart also shows how much of the enforcement revenues went to the General Fund.

FY11 Net Targets

Collections	\$249.0M
Accounts Receivable	\$ 95.8M
All Audit	\$158.6M
Total Revenue	\$503.5M
General Fund Revenue	\$382.1M

FY11 Net Actual

Collections	\$220.9M
Accounts Receivable	\$131.0M
All Audit	\$136.0M
Total Revenue	\$487.9M
General Fund Revenue	\$374.0M



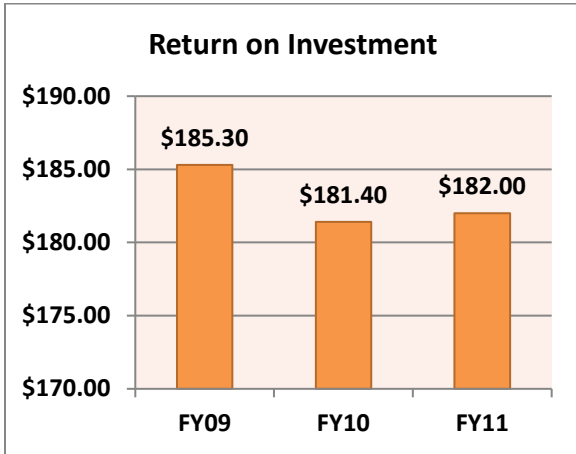
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RETURN ON INVESTMENT

Return on investment is calculated by dividing the total number of gross revenue dollars received and processed by the department’s total operating budget. For fiscal year 2011, \$182.00 was produced for each dollar spent in the total DOR budget.

FY09	\$185.30
FY10	\$181.40
FY11	\$182.00

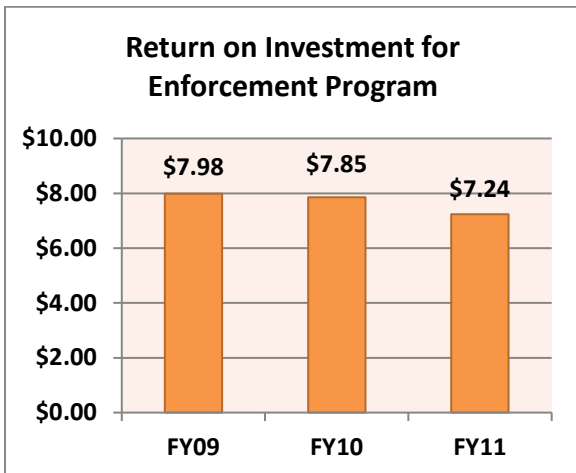


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**RETURN ON INVESTMENT FOR ENFORCEMENT PROGRAM**

The return on investment for the enforcement program is calculated by dividing the total number of net enforcement dollars collected by the department’s total operating budget. For fiscal year 2011, \$7.24 of enforcement revenue was collected for each dollar spent in the total DOR budget.

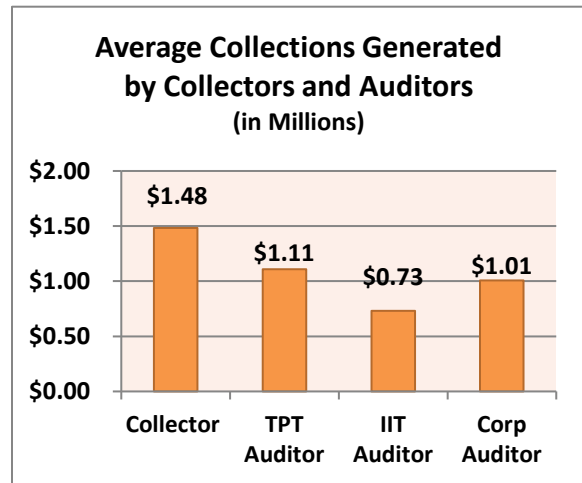
|            |        |
|------------|--------|
| FY09 ..... | \$7.98 |
| FY10 ..... | \$7.85 |
| FY11 ..... | \$7.24 |



**AVERAGE COLLECTOR AND AUDITOR PRODUCTIVITY**

Collectors collected an average of \$1.4 million dollars per collector in fiscal year 2011. Auditors collected at different levels depending upon the type of audit work they performed; ranging from over \$730,000 per individual income (IIT) auditor to over \$1.1 million per transaction privilege tax (TPT) auditor.

|                         |             |
|-------------------------|-------------|
| Collector .....         | \$1,482,774 |
| TPT Auditor .....       | \$1,109,434 |
| IIT Auditor .....       | \$ 730,700  |
| Corporate Auditor ..... | \$1,007,661 |



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TAXPAYER SATISFACTION RATINGS FOR THE TAXPAYER SERVICES DIVISION

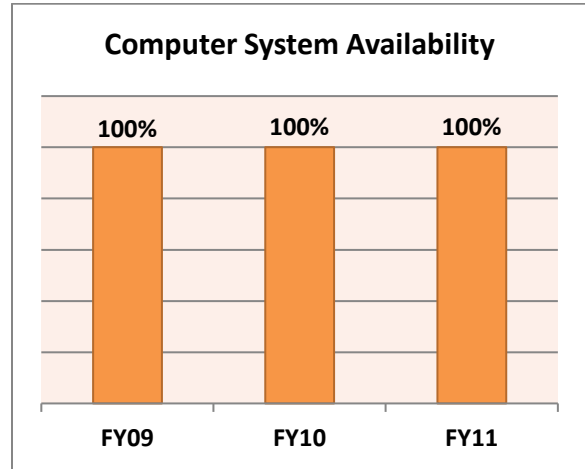
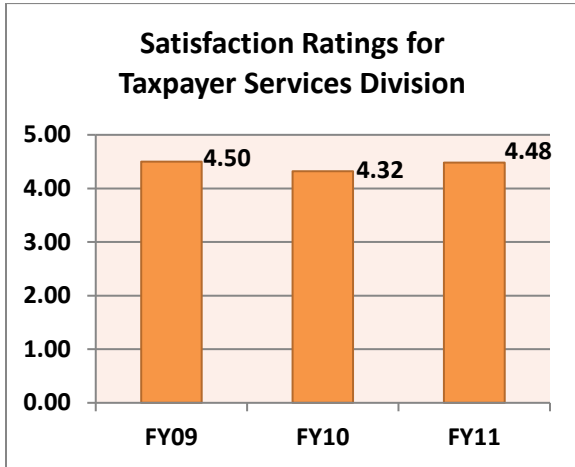
These scores were received from taxpayers rating the services of the employees in the Taxpayer Services division’s *Taxpayer Information & Assistance* call center. (All satisfaction ratings tracked at the department have a 1 to 5 scale, 5 being the highest rating.)

FY09	4.50
FY10	4.32
FY11	4.48

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

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

FY09	100.0 %
FY10	100.0 %
FY11	100.0 %



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

ADMINISTRATIVE SERVICES

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

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

The Administrative Services Division is responsible for the oversight of the department's financial and employee services. The division consists of the following sections/units:

Accounting

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

Budget Office

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

Facilities Management

The Facilities Management Section coordinates building facility maintenance, remodeling office areas at the department's four buildings and coordinates tenant improvements to the buildings in cooperation with ADOA or the landlord. Facilities Management receives and logs all goods and supplies purchased by the department, manages building security access and the security guards. The section oversees safety issues such as fire drills, safety inspections, and interaction with the State Fire Marshall.

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 is responsible for administering personnel activities for the department. This includes consultations with management concerning employee relations and

discipline, classifications of positions, recruitment, and staffing. The Human Resources Unit is also responsible for processing all personnel actions through the State's Personnel System (HRIS), new employee orientation, new employee training, employee benefits program, and interpreting ADOA Personnel rules and policies that govern personnel within the ADOA Personnel System. The unit also oversees the Affirmative Action/Equal Opportunity responsibilities, Family Medical Leave Act and Americans with Disabilities issues.

Payroll

The Payroll Unit is responsible for oversight of the department's employee payroll, which includes accurate tracking of hours worked, leave taken and payroll deductions through HRIS. The unit also oversees risk management issues.

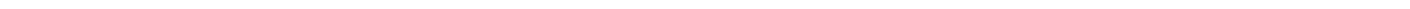
Purchasing

The Purchasing Unit is responsible for contracting and purchasing all goods and services required by the department. The unit oversees all contract and maintenance agreements and is the program administration area for the State Purchasing Card Program (P-Card).

HIGHLIGHTS IN FISCAL YEAR 2011

- The Accounting Unit processed 99% of all invoices within 30 days.
- The Hearing Office resolved 281 cases during the fiscal year.
- Human resources implemented a new department-wide background check process. The process was changed from post-employment fingerprint cards to pre-employment online background screening. Background checks are now completed prior to the employee's first day of employment thus providing additional security for staff, computer systems and information. The processing time has been reduced from an average of 14 days to 3 days.
- Facilities completed building energy conservation programs to include new lighting for the Phoenix building and the garage. Also

installed motion sensors throughout the Phoenix building for lighting controls.



AUDIT

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

The Audit Division consists of the Corporate Income Tax Audit, Individual Income Tax Audit, Transaction Privilege and Use Tax Audit, Special Taxes, Processing and Information Technology sections. The division's major emphasis is to treat taxpayers equitably, fairly and respectfully.

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

Corporate Income Tax (CIT) Audit

The Corporate Income Tax Audit Section is comprised of the Field Audit and Office Audit units.

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

The Office Audit Unit focuses its audit work on desk audit programs such as analyzing, verifying, and processing of amended returns and refund claims, verification of net operating losses, including audits based upon federal revenue agent reports.

Individual Income Tax (IIT) Audit

The Individual Income Tax Audit Section is made up of staff dedicated to providing quality service in educating taxpayers by ensuring the correct amount of tax is reported. Audits are conducted in both the office and field of individuals and pass-through entities such as Partnerships and S Corporations. While most taxpayers are overwhelmed by the audit process, the Section has placed an emphasis on treating taxpayers in a courteous and professional manner.

Data from the Internal Revenue Service are being increasingly referred to the department in an electronic format that creates a more complete audit file that includes all other department data

and information on the taxpayer and tax year involved without requiring manual research by clerical support staff. This results in an audit being issued in a timelier manner since manual clerical support research is not required.

Transaction Privilege and Use Tax (TPT) Audit

The Transaction Privilege and Use Tax Audit Section is comprised of Field Audit and the Compliance Unit.

The Field Audit Unit conducts the majority of its audits within Arizona but out-of-state audits are conducted as well. The determining factor is the location of the taxpayer's books and records.

The Compliance Unit consists of License Compliance and Desk Audit. The License Compliance Unit continues to prove to be a dynamic and successful unit. License Compliance officers do both office research and field work. Their goal is to seek out those businesses that are not licensed for transaction privilege and/or withholding tax and provide education and knowledge, so taxpayers can voluntarily comply with the tax laws.

The Desk Audit Unit works on twenty-four different audit projects ranging from use tax to personal property rentals. The information processed in this unit is from various sources including governmental agencies.

Special Taxes (ST)

Special Taxes comprises three separate units: Bingo and Estate Tax, Luxury Tax, and Nexus.

The Bingo and Estate Tax Unit issues licenses, processes returns and conducts audit examinations of bingo licensees. The staff investigates complaints and violations of bingo laws, as well as conducts workshops and consultations with bingo licensees. The unit also processes estate tax returns and issues Arizona Income Tax Certificates required by the probate court to close an estate.

The Luxury Tax staff administers the taxes imposed on tobacco distributors and liquor wholesalers. This includes the licensing of tobacco distributors and processing of tax returns for both tobacco and liquor, as well as performing distributor audits and collecting taxes from consumers who purchase tobacco products via the internet or through mail

order. The unit also supports the Office of the Attorney General in administration of the Tobacco Master Settlement Agreement.

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

Audit Processing

Audit Processing handles audit support for all audit operations; TPT Audit, Corporate Audit, Individual Audit, and Special Taxes. The Section keys all of the audit assessments into the system (BRITS), hand stuffs and mails all assessments, maintains all audit files and researches and corrects system issues.

Audit Information Technology (AIT)

The Audit IT Team is made up of tax specialists from the three major tax types, Individual Income Tax, Corporate Income Tax and Transaction Privilege Tax. These personnel have acquired the technical backgrounds in the various software and hardware that the department uses to support the daily functions of the Audit Division. They utilize their tax backgrounds with their IT technical backgrounds to support the large volume of data that the Audit Division needs to perform their function of auditing under the various taxing sections.

The Audit IT Team creates, develops, and supports the various tracking databases which retain all the information on the activities which take place in each of the taxing section. This includes but is not limited to the selection of the audits, the assignment of the audits, and the capturing of the final data of each of the audits.

HIGHLIGHTS IN FISCAL YEAR 2011

Corporate Income Tax Audit (CIT) Section

- ✓ Hired 21 new field staff and production has increased accordingly.
- ✓ Field Audit Unit assessed approximately \$38 million and collected approximately \$24 million.
- ✓ Office Audit Unit assessed approximately \$3 million and collected approximately \$7 million. The discrepancy results from a large assessment paid in this year, but assessed in a prior fiscal year.

Individual Income Tax (IIT) Audit

- ✓ Completed over 62,700 audits for total assessments of \$36.5 million and collected \$22.7 million in additional revenue.
- ✓ The computer generated assessment (CGA) program was enhanced to increase the number of accounts eligible to be processed by this program. The results were the issuance of 18,423 audits for total assessments of \$6.3 million.
- ✓ Customer surveys averaged a score of 4.38, using a scale of 1 to 5 with 5 being excellent.
- ✓ Initial audit assessment quality continues to improve; 93% of initial audit assessments required no changes. The goal to achieve was established at 85%.
- ✓ The section continued to provide assistance with the AIMS project, which is the department's data warehousing project. This will allow continual improvement in the quality of the audit process by the matching of information available to the section.

Transaction Privilege and Use Tax (TPT) Audit

- ✓ Field Audit Unit audited 421 taxpayers, produced 1,728 units, assessed over \$35 million and collected in excess of \$23 million in tax revenue.
 - ✓ License Compliance Unit licensed 1,216 new taxpayers and collected over \$37 million.
 - ✓ Desk Audit produced over 3,850 new billings that generated over \$13 million in tax revenue.
-

- ✓ Customer surveys averaged a score of 4.51, using a scale of 1 to 5 with 5 being excellent.

Special Taxes (ST)

- ✓ The Nexus Unit brought 339 businesses into compliance and collected over \$41 million.

Information Technology (AIT)

- ✓ The Audit IT Section has been involved in the requirements definition and analysis phases of the AIMS Audit Selection Project. This is a critical project for Audit as it will replace programs from a platform that will no longer be supported. The programs being transferred to the new platform are vital to the TPT Desk unit. Additionally, the Section continues to work diligently to support the applications for the programs run.
-

COLLECTIONS

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

Office Collections

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

Office Collectors can request that liens and levies be filed and can negotiate installment payment plans. If they are not able to resolve a case, it might be referred to Field Collections or Special Operation for further action. Office collections continue to accept payments over the phone for individual income tax. This includes payments through checking accounts, credit cards, and some debit cards (Visa® and MasterCard®).

Field Collections

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

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

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

Administrative Support

Provides all support functions for the division: payroll, mail, maintenance on collection accounts, request levies, filing and releasing of tax liens and providing Certificates of Compliance.

Debt Set-Off

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

HIGHLIGHTS IN FISCAL YEAR 2011

- The division was responsible for the generation of total revenues of \$221 million, a \$9 million (4%) increase over prior fiscal year 2010.
- The Federal Matching System (FMS) program generated \$16 million in revenue, a \$12 million increase over fiscal year 2010.
- Office Collections successfully launched best practices inbound / outbound calling strategies resulting in:
 - 70,000 more inbound telephone calls
 - Increased total cases worked by 30,000 cases
 - Increased answer percent by 2% (93 – 95%)
 - Reinstated High Balance Collection team
 - Expanded Office Collections to East Valley Facilities
- Developed on the job training program (OJT), quality control program (QC) and continuous training program (CT).

EXTERNAL SERVICES & SPECIAL PROJECTS

Criminal and Civil Investigations

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

Forms and Publications

This unit is responsible for design and printing of all official department forms, except Property Tax related forms, and review and approval of all substitute forms used by software vendors in preparing Arizona tax returns.

Legislative Liaison

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

Office of Economic Research and Analysis

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

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

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

Public Information Officer

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

Commencing in August 2011, Taxpayer Services merged with External Services and Special Projects to become Taxpayer and External Services.

HIGHLIGHTS IN FISCAL YEAR 2011

- The Criminal Investigations and Tobacco Enforcement Units received restitution payments totaling \$222,795 during fiscal year 2011, an increase of over 600 percent compared to fiscal year 2010. This total is a combination of both financial-related and tobacco-related prosecutions wherein the suspect(s) were ordered to pay restitution. Fines assessed by the court for both financial-related and tobacco-related cases totaled \$18,789.
 - The Financial Investigations Unit stopped/recouped \$3,193,855 in fraudulent refunds in fiscal year 2011 which is also a marked increase over last year's figures.
 - The Tobacco Enforcement Unit issued fifty-nine criminal citations during fiscal year 2011. Many of the citations are for knowingly selling tobacco on which no taxes have been paid or
-

knowingly selling cigarettes without tax stamps. Others are for failing to produce tobacco invoices as required during an inspection.

- The Tobacco Enforcement Unit conducted 1,691 retail inspections with an additional 197 licensed distributor inspections during fiscal year 2011. Seventy-three separate seizures were conducted which included over 69,000 cigars, over 722 pounds of molasses tobacco and over 345 pounds of smokeless tobacco, on which no tobacco taxes were paid. During this same period, 108,362 cigarettes were confiscated which included untaxed cigarettes and cigarettes which were non-Arizona directory compliant.
- The Office of Economic Research and Analysis accomplished several things over the fiscal year. These include:
 - ✓ Calculated and/or authorized transfers to the Tourism & Sports Authority, Rio Nuevo, Phoenix Convention Center, WQARF and Phoenix International Raceway.
 - ✓ Sent out 911 Certificates of Eligibility for the Health Insurance Premium Tax Credit to individuals and small businesses.
 - ✓ Sent out 291 approvals for the Water Conservation Credit.
 - ✓ Approved 110 corporate donations for the Corporate Income Tax Credit for Donations

to School Tuition Organizations and the Corporate Income Tax Credit for Donations to School Tuition Organizations for Disabled/Displaced Student Scholarships. Confirmed 171 Disabled/Displaced Student Scholarship Awards. Approved 42 Disabled/Displaced Student Eligibility Applications. Held 3 meetings (Phoenix, Tucson and Payson) to educate school tuition organizations on extensive new law governing the private school tax credit programs.

- ✓ Assisted in the creation of an online, searchable database containing bonded indebtedness information of all political subdivisions in Arizona.
 - ✓ Approved 84 new charities as Qualified Charitable Organizations for purposes of the income tax credit for contributions to charities that provide assistance to the working poor.
 - ✓ Satisfied 2,216 information requests.
 - ✓ Administered the FY11 Employee Satisfaction Survey.
 - ✓ Completed the 2005 individual income tax simulation model.
-

INFORMATION TECHNOLOGY

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

Applications Support

Applications Support provides maintenance services for the BRITS Taxpayer Administration System (TAS), AZ Taxes (www.aztaxes.gov), eFile and BRITS feeder applications like Data Entry, Cashier, Remittance and 2D Barcode. Support is also provided for business Reporting Functions, and more than a dozen mainframe applications including the Property and Audit applications.

Activities include working with the various divisions (Process Administration, Collections, Taxpayer Services, Audit, Property Tax, External Services and Special Projects) to resolve defects, and supporting production processes such as the monthly Transaction Privilege Tax (TPT) Close.

Application Support works closely with the Managed Services Group in responding to customer requests for support, software release management, software implementation and performance enhancement.

Managed Services Group

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

Operations and Security

The Operations and Security team consists of the Desktop Support, Server and Network Engineering and Support, Database Administration, Information Security, Production Control and Systems Integration and Support.

Desktop Support ensures that all employees have the required telephone and end-user computer hardware, software, and peripherals necessary to perform their job functions as well as providing the technical support to keep them up and running.

Server and Network Engineering & Support is responsible for the support and management of the hardware and operations systems for all servers, storage systems, backup/archive, email, and networks. This team is responsible for operations and oversight of all of the agency's data centers.

The Database Administration Team supports various activities in database administration which include ensuring availability, performing backup/recovery, capacity management, maintenance, database performance diagnostics, tuning and monitoring, and upgrades to ensure software/vendor compliance. The databases include Oracle (TAS), SQL Server (AZTAXES, e-File, Cashier, Remittance, etc), SAND (Executive Dashboard), and Teradata (for the Audit division).

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

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

Production Control manages system scheduling and processing services on the mainframe and BRITS systems, ensuring system processes are completed successfully.

Systems Integration and Support is responsible for support, management and monitoring of the tax systems infrastructure, application services and more than 200 system and inter-agency interfaces.

This team also supports services that ensure usability and availability of the AZTaxes.gov and AZDOR.gov websites for taxpayers.

Business Solutions Group

The Business Solutions Group (BSG) is responsible for information technology, project management and software development. BSG is made up of three teams:

Project Management Office (PMO). The PMO is responsible for establishing, maintaining, and enforcing project management processes, procedures, and standards for IT projects. The PMO was established to better determine best practices in project methodology and standards, while actively managing a variety of projects and programs.

Systems Analysts and Design. The purpose of this team of business applications architects is to provide system design and technology expertise for the design of effective and efficient solutions to business requirements.

Software Development. This team is responsible for building quality software to meet legislative mandates, and to provide on-going enhancements to improve efficiency of the department's information systems.

The primary goals of the Business Solutions Group are:

- Promote excellence in Project Management for all IT projects, both by supplying experienced and qualified Project Managers and by providing guidance to project team members;
- Design and development high quality, cost effective, sustainable software solutions that utilize appropriate technical standards; Look for opportunities to continually improve processes, tools, and standards in order to provide improved service;
- Support the mission, vision and goals of the department.

The Vendor Management Office

The Vendor Management Office (VMO) is responsible for building and managing relationships with the department's IT suppliers and service providers to increase customer satisfaction, reduce costs, and improve services. The primary goal of the

VMO is to partner with vendors, not only to negotiate the lowest price possible, but to gain commitment to assist and support operations of the department. Our core competencies include:

- Vendor Selection based on specific business requirements/needs.
- Vendor/Customer Relationship Management.
- IT Contract Management and Administration.
- Asset/Life Cycle Management.

HIGHLIGHTS IN FISCAL YEAR 2011

- Sustained the technical environments that are used to process all tax filings, payments and returns.
- Automated key financial transactions.
- Disk hardware upgrade of key system databases increasing availability during the primary tax season.
- Successfully completed 2010 year end form changes, government lease database, and local government debt database projects.
- Started a multi-year Agency Information Management (AIMs) program which will consolidate our data warehouse and business intelligence environments, replacing aging technologies and modernizing mission critical applications.
- Supported more than 3,500 business-driven changes to the tax systems.
- Effectively addressed critical legislative mandates from the legislative session including:
 - Statute of Limitations alignment
 - Supporting Transparency through the establishment of a public database of government property leases
 - Supporting Transparency through the establishment of an online accessible and searchable database of local government debts reported to the department
 - Business license fees increase
 - The one percent (1%) transaction privilege tax increase

PROCESS ADMINISTRATION

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

The Process Administration Division serves as the catalyst and cornerstone of the Department of Revenue. The division is responsible for the initial processing of all tax returns, remittances, supporting documentation, and correspondence received by the department. This includes opening, sorting, and reviewing all returns and accompanying mail, performing archival capture functions, remittance deposit preparation, and data entry into the computer systems. These functions are performed using both manual input of documents and imaging technologies. The division processes over five million returns and remittances each year.

Processing Services

Processing Services is responsible for the opening, batching and processing of tax documents for the largest four tax types: Individual Income, Transaction Privilege Tax, Withholding, and Corporate. Mail Services is responsible for the receipt, sorting and delivery of tax documents, payments and correspondence received by the agency. Processing is responsible for batching documents and identifying any documents missing proper information prior to data being entered for all taxes.

DOR Treasury

Treasury ensures efficiency and is responsible for processing taxpayer payments, entering taxpayer data, keying stray payments into the cashiering system, and researching problem payments. Treasury consists of three integrated units: Remittance, Data Entry, and Payment Stray.

Error Resolution

Error Resolution, which includes the Review unit, is responsible for ensuring accuracy in the processing of returns and payments for the largest four tax types.

Revenue Accounting

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

Records Management

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

HIGHLIGHTS IN FISCAL YEAR 2011

- The Process Administration Division continues its amazing performance. Constant process review for the purpose of streamlining the work flow assists the division to become more efficient and effective. An improvement to the process this year was the procurement of automated mail opening equipment. Division leadership is proud to declare that through the collective team efforts of all employees, turnaround time for the processing of returns and payments continue to be within the goals set. With the assistance of an increase in electronically filed individual income tax returns and combined efficiencies, the Division generated savings in labor costs but maintained refund turnaround times.
 - 5.4 million tax documents were received and processed for the largest four tax types.
 - 4.2 million payments were received, processed and deposited with an average deposit time of 1.23 days.
 - 1.9 million refunds were issued to individual income taxpayers.
-

PROPERTY TAX

MISSION STATEMENT: *To ensure fair and uniform property values for Arizona taxpayers.* The vision of the Property Tax Division is to deliver excellent property tax services.

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

Centrally Valued Properties

The Centrally Valued Properties Team annually determines the full cash value of all utilities, railroads, mines and other complex or geographically dispersed properties (see page 83 for a list of the industries the department values). Values determined for such properties, with the exception of flight property and private rail cars, are transmitted to the appropriate county treasurers for collection of property taxes. The department collects taxes levied on flight property and private rail cars and deposits the taxes with the State Aviation Fund and the General Fund, respectively. In addition, the team assists county assessors with maintaining and updating a standardized cadastral mapping system. The team prepares tax area code maps that depict boundaries of taxing jurisdictions authorized to levy property taxes.

Assessment Standards and Training

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

Personal Property

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

Construction Cost

The Construction Cost Team maintains the

computerized Construction Cost Valuation System and provides it for use by the Maricopa and Pima County Assessors to value property by the cost approach. The team also provides training for county appraisers in the use of the Construction Cost Valuation System.

Central Information Services

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

Computer-Assisted Valuation

The Computer-Assisted Mass Appraisal Team develops sales-based models for residential properties and maintains and assists county assessors with the Land Valuation System.

Manuals and Forms

The Manuals and Forms Team is responsible for producing and updating manuals, guidelines, and forms prescribed for use in the administration of the property tax system. The team also reviews legislative enactments and changes to existing property tax statutes, and prepares an extract of the property tax statutes found in Title 42.

Equalization

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

HIGHLIGHTS IN FISCAL YEAR 2011

- The Centrally Valued Property Team valued approximately 800 taxpayers, totaling \$34.3 billion in full cash value. There were 23 taxpayers (less than 3%) who appealed their values to the department in the first level of appeal; 11 taxpayers went on to file petitions with the State Board of Equalization. Of those 11 petitions, one was withdrawn; four were

settled, and six were heard before the Board. The Board decided in favor of the department in five of the six cases. There were ten new cases filed in tax court for the 2011 tax year.

- The department also prevailed, at the Tax Court level, on its litigation (2008 through 2010) with Southwest Airlines in November 2010. That case is now on appeal. In addition, two other court cases that involved appeals of Board decisions were dismissed by the taxpayer in June 2010.
- The Assessment Standards and Training Team completed on-site meetings with eight county assessors' offices during the fiscal year. The agenda for each meeting included statewide issues concerning the valuation and classification of property, provisions of newly passed legislation and the resulting changes required in DOR Guidelines and Manuals, and new requirements for appraiser training and certification as impacted by each county installing new computer systems. Agendas also included specific concerns unique to each county. The Team conducted five appraiser continuing education Income Workshops throughout the state this fiscal year. The Team also reviewed and entered lease data from approximately 1,000 leases into a statewide database for use with the Government Property Lease Excise Tax (GPLET) program.
- The Manuals and Forms Team completed return forms, instructions and tax rate charts for use with the Government Property Lease Excise Tax (GPLET) program. The return forms are designed to be filed by prime lessees of government property improvements with their

government lessor and the county treasurer of the county in which the property is located. The lessee may also use the return form to calculate the amount of GPLET due. In addition, the Team developed a GPLET reporting form for use by the county treasurers to report GPLET returns and payments received for the preceding calendar year to the department and respective government lessors.

- The Training and Certification Team reviewed and revised course materials used in the Appraiser Training and Certification Program to incorporate changes brought about in part, by the county assessors adopting new computerized mass appraisal systems. The Training and Certification Team provided training to 36 students attending Level 1 certification courses and 42 students attending Level 2 certification courses in the DOR Appraiser Training and Certification Program this fiscal year. A total of 32 appraisers received their Level 1 certification and 30 appraisers received their Level 2 certification during the fiscal year. The Property Tax Division continued its partnership with Rio Salado Community College this fiscal year. The partnership allows students attending DOR appraiser training courses to receive 9 semester hours of college credit for completing Level 1 courses, and 6 additional semester hours of credit for Level 2 courses. A total of 30 students completed the Level 1 series of courses and 35 students completed the Level 2 series of courses in the Rio Salado program this fiscal year.
-

TAXPAYER SERVICES

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

License and Registration (L & R)

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

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

Taxpayer Information and Assistance (TIA)

Taxpayer Information and Assistance provides tax information to individual income and business customers, corporate officers, tax practitioners, enrolled agents and other authorized representatives.

TIA is responsible for responding to customer inquiries concerning business and income taxes administered by the department. The staff answers questions and offers resolution for account disputes in relation to billing, taxability, business registration, filing and payment. The various avenues of communication come to the department through the telephone call center, webmail, written correspondence and our walk-in offices at each of the department's locations.

Every year the clerical support team processes thousands of Power of Attorney and Disclosure forms. In addition to other duties, this team is responsible for providing guidance to walk-in customers at the lobby reception desk in our Phoenix office.

The Penalty Review Unit (PRU) is responsible for reviewing and making decisions on requests for abatement of penalties for non-audit periods. In the event of a subsequent hearing in cases where

abatement was denied, a representative from PRU will attend the hearing to present their case substantiating their decision.

Unclaimed Property

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

Commencing in August 2011, Taxpayer Services merged with External Services and Special Projects to become Taxpayer and External Services.

HIGHLIGHTS IN FISCAL YEAR 2011

- The License & Registration team processed 35,308 applications with an average turnaround of 8 days. The applications were a part of the nearly 140,410 total documents processed by the section. Nearly 52% of all license applications are now done online. L&R staff processed over 2,700 taxpayer bonds and collected over \$79,000 in delinquencies.
- During the year, L&R also assisted almost 11,000 customers over the counter and cashiered over \$438 million in payments.
- Taxpayer Information and Assistance accomplishments include:
 - ✓ Calls offered for the year were 432,257, an increase of over 60,000 calls from fiscal year 2010.
 - ✓ Answered 257,535 calls and replied to 4,993 emails.
 - ✓ Worked 15,171 correspondence cases with 86 percent resolved in less than 30 days.

- ✓ PRU reviewed 2,443 requests for penalty abatement and approved 1,548 cases.
 - ✓ Walk-in office staff assisted a total of 15,052 customers.
 - Unclaimed property claims processing staff returned properties valued at over \$34 million to its rightful owners, which was the highest annual return total in the unit's history.
 - ✓ The average time to process and pay a claim was 74 days.
 - ✓ The number of new properties reported to Unclaimed Property totaled 990,071 with total collections equaling more than \$121 million.
-

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 Appeals, Individual Income Audit Appeals, Transaction Privilege Tax Audit Appeals, and the Tax Research & Analysis Section.

Tax Research & Analysis

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

The section reviews and analyzes legislation, assists the department in setting tax policy, and develops and promulgates 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 includes the TPT Protest unit. TPT Appeals 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 (OAH), the department's Hearing Office, and the director. It also represents the department at OAH in matters involving other issues, such as tobacco, luxury tax, and administrative determinations. The section also assists the Tax Section of the Attorney General's Office with preparation of cases being heard before the Board of Tax Appeals, Tax Court and the appellate courts. The administrator of the section acts as the General Counsel and 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, staff testifies at various levels of the appeals process. The section provides interpretative advice to the Corporate Income Audit staff.

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

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

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.

During fiscal year 2011, the state tax rates range from 2.5% to 6.6% depending on the type of business, with most rates at 5.6% (*Refer to Table 5*). Gross revenue exceeding \$6.95 billion was remitted by Transaction Privilege, Severance and Use Tax license holders during fiscal year 2011 (*Refer to Table 4*).

On May 18, 2010, voters approved Proposition 100 which temporarily increases the state transaction privilege and use rate on most transactions by one percentage point beginning June 1, 2010 and ending May 31, 2013.

SEVERANCE TAX

A severance tax is imposed in lieu of a transaction privilege tax on the businesses of mining metalliferous mineral. The severance rate is 2.5% on mining metalliferous minerals (*Refer to Table 5*).

DISTRIBUTION

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

USE TAX

A 6.6% use tax is imposed on the purchase price of tangible personal property when a transaction privilege tax equal to or greater than the Arizona rate was not paid. A use tax collection responsibility is imposed on retailers whose activities in the state are insufficient to require them to pay transaction privilege tax but are nonetheless substantial enough to fall outside the protective umbrella of the United States Constitutional provision governing interstate commerce. Firms without nexus may also voluntarily collect use tax for the benefit of their customers.

MUNICIPAL PRIVILEGE AND USE TAX

The department collects transaction privilege and use tax for 73 Arizona cities and towns at no charge to the municipalities. This is a service to the cities and to the taxpaying community who are therefore able to combine their reporting requirements on a single form and payment to a single governmental entity. Weekly distribution checks to the cities are processed after the department collects the local taxes (*Refer to Tables 26 and 27*).

COUNTY TAX AND SURCHARGE COLLECTION

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

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

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

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 \$560 million during fiscal year 2011 (*Refer to Table 28*).

INDIVIDUAL INCOME TAX

MAJOR FEATURES

For tax year 2008 filed in 2009, approximately 2.6 million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than \$118.9 billion. Individuals with Arizona gross income of more than \$75,000, in the preceding or current year, are required to file Arizona estimated tax payments. An individual can apply any portion of an income tax refund toward the following year's income tax as an estimated payment.

The graduated rate structure for the 2008 tax year ranged from 2.59 percent to a maximum of 4.54 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. (*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, I Did Not Pay Enough Fund, Veteran's Donation Fund, National Guard Relief Fund, and political parties are distributed to the appropriate agency, political party or organization (*Refer to Table 28*).

CORPORATE AND INDIVIDUAL INCOME TAX CREDITS

CREDIT

AVAILABLE TO

Agricultural Pollution Control Equipment

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

Agricultural Water Conservation System

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

Clean Elections

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

Contributions to Charities that Provide Assistance to the Working Poor

Individual taxpayers that make cash contributions to certain charities that provide help to the working poor. The credit is \$200 or \$400, depending upon filing status.

Corporate Contributions To School Tuition Organizations

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

Corporate Contributions To School Tuition Organizations for Displaced Students or Students with Disabilities

Corporate credit that allows taxpayers to make cash contributions to school tuition organizations that provides scholarships or grants to displaced students or students with disabilities. The amount of the donation must be pre-approved by the department. There is an annual limit to the aggregate amount of donations made.

Defense Contracting

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

Employing Arizona National Guard Members

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

Employment of TANF Recipients

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

Enterprise Zone

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

Environmental Technology Facility

Taxpayers that incur expenses in constructing a qualified environmental technology manufacturing, producing, or processing facility as described in ARS § 41-1514.02.

Family

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

Healthy Forest Enterprises

Businesses that operate a healthy forest enterprise may receive a non-refundable credit against corporate and individual income tax liabilities.

Income Taxes Paid to Another State or Country

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

CREDIT**AVAILABLE TO****Increased Excise Taxes**

A refundable credit 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 to mitigate the increase in transaction privilege tax rate for education.

Investment in Qualified Small Businesses

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

Military Family Relief Fund

Individual taxpayers that make contributions to the fund which helps service members and their families faced with unforeseen expenses when a loved one becomes a casualty of war. The credit is \$200 or \$400, depending upon filing status.

Military Reuse Zone

Taxpayers with a net increase in employment of full-time employees working in a military reuse zone.

Motion Picture Productions Costs

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

Pollution Control

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

Private School Tuition Organizations

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

Property Tax

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

Public School Extra Curricular Activity

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

Recycling Equipment

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

Renewable Energy Industry

This credit provides refundable individual and corporate income tax credits for expanding or locating qualified renewable energy operations in this state.

Research and Development

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

School Site Donation

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

Solar Energy Devices

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

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

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

CREDIT

AVAILABLE TO

**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.

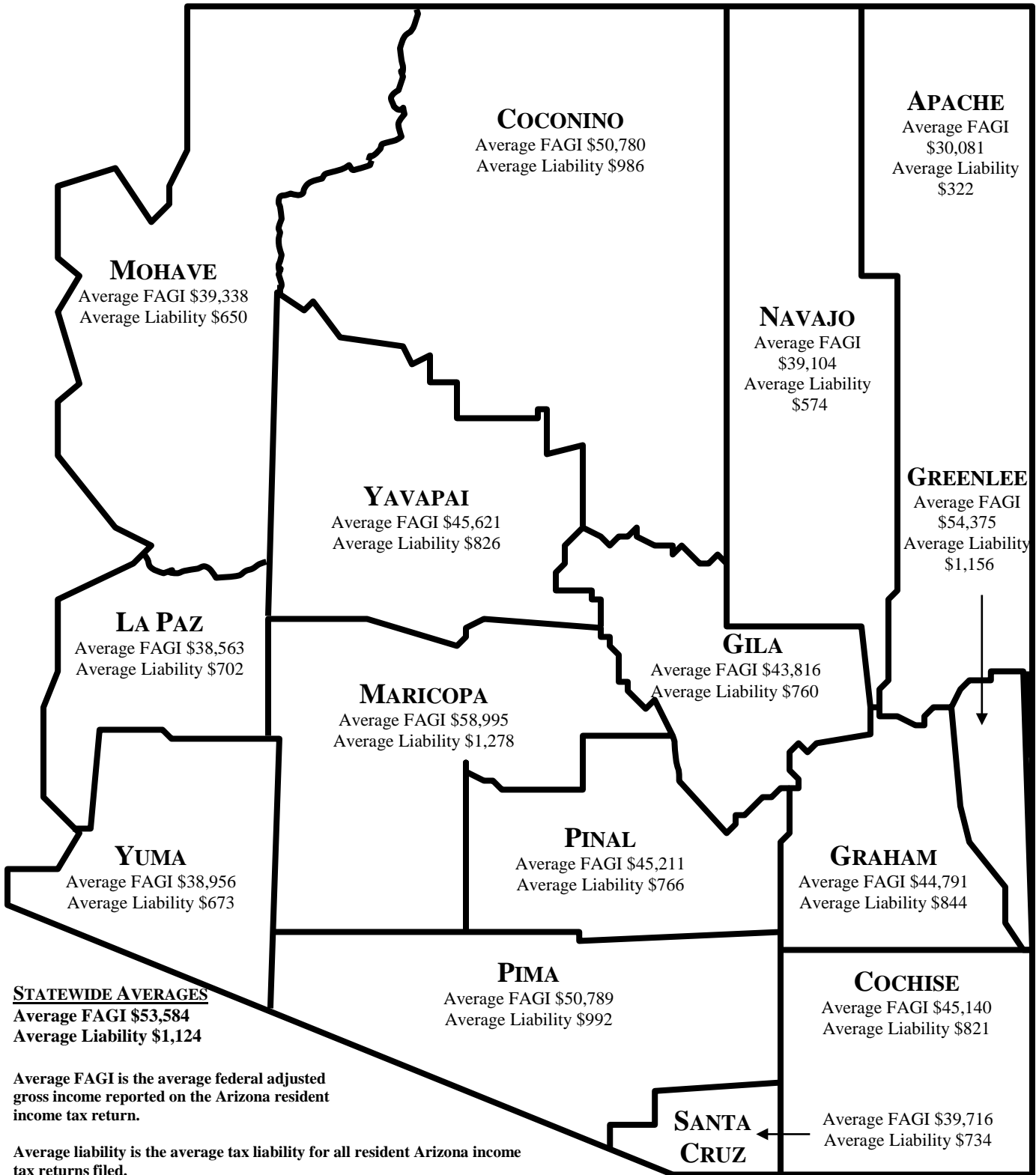
**Taxes Paid for Coal Consumed
in Generating Electrical Power**

Corporate taxpayers that allows a credit equal to 30 percent of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona.

Water Conservation System

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

**TABLE 33
 AVERAGE FEDERAL ADJUSTED GROSS INCOME
 AND AVERAGE TAX LIABILITY PER RETURN
 BY COUNTY FOR TAX YEAR 2008**



PROPERTY TAX

In Arizona, property taxation is an "ad valorem" tax (ad valorem, meaning "according to value"). The tax is calculated from two different bases: full cash value (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 value provide revenues 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, telecommunication companies, and other geographically-dispersed properties (Centrally Valued Properties). The values for those properties the department appraises are transmitted to the County Boards of Supervisors for entry upon the county tax rolls for levy and collection of property taxes.

The county assessors, using the appraisal standards, guidelines and manuals the department adopted, are responsible for the appraisal and assessment of other classes of property, including residential, commercial, and agricultural properties (Locally Assessed Properties).

Appeals of valuation or classification for locally assessed properties originate with the property owner's petition for review filed with the county assessor. Subsequent appeals may be filed with

either the local County Board of Equalization or the State Board of Equalization or the Arizona Tax Court, a division of the Maricopa County Superior Court.

TAX COLLECTION AND DISTRIBUTION

County treasurers collect all property taxes (except those assessed upon airline flight properties and private rail car companies) and distribute receipts to all taxing entities. The department collects taxes levied on airline flight property and private rail cars and deposits the taxes with the Arizona State Treasurer. Taxes on airline flight properties and private rail 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 market area.

Sales ratios are derived by dividing full cash values by sales prices of recently sold properties. The median ratio is the middle ratio in a sorted (low to high) array of sales ratios; 50% of the ratios lie above the median and 50% fall below it. The median ratio is the most commonly used.

The sales ratio studies include coefficients of dispersion which are a measure of how 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 Property Unit is responsible for the annual valuation of 11 industries for ad valorem property tax purposes.

Generally, these are large, complex properties which are often located in more than one county and/or in more than one state. Values determined for such properties are apportioned 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.

The assessment and appeals calendar for centrally valued properties coincides with the calendar for locally assessed properties.

Figure 1

Class	Legal Classification	Assessment Ratio
1.1	Mines	20%
1.3-1.7, 1.11	Utilities	20%
1.12	Commercial Real	20%
1.13	Commercial Personal	First \$67,268 exempt; 20% on the remainder
2R	Agricultural Real; Vacant Land	16%
2P	Agricultural Personal	First \$67,268 exempt; 16% on the remainder
3	Residential	10%
4	Rental Residential	10%
5	Railroads, Airlines	15%
6	Historic Property; Foreign Trade Zones; Qualified Environmental Technology Facilities	5%
7	Commercial Historic	Combination 1% and 20%
8	Rental Residential Historic	Combination 1% and 10%
9	Improvements on government property	1%

INDUSTRIES VALUED BY THE DEPARTMENT

Industry	Number of Companies		
	2009	2010	2011
Airlines (Flight Property).....	29	29	28
Electric & Gas*			
Generation	35	36	38
Transmission and Distribution.....	29	29	29
Mines (non-producing)	1	1	1
Mines (producing).....	35	35	35
Pipelines (Gas Transmission)	8	8	8
Private Rail Cars	264	260	284
Producing Oil & Gas Interests	3	3	3
Railroads	11	11	11
Telecommunications	66	67	65
Water Utilities.....	328	326	327
Total	809	805	829

* Includes Salt River Project

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 (*Refer to Table 39*).

TABLE 39
BINGO COLLECTIONS
FISCAL YEAR 2006-07 THROUGH FISCAL YEAR 2010-11

	Fiscal Year					Amount
	2006-07					\$619,387
	2007-08					\$558,330
	2008-09					\$531,588
	2009-10					\$520,655
	2010-11					\$504,905

	BINGO COLLECTIONS				
	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
Licenses	\$18,092	\$18,393	\$19,735	\$19,718	\$27,576
Proceeds	596,773	539,576	510,177	499,206	476,482
Penalty, Interest and Miscellaneous	4,522	361	1,676	1,731	847
TOTAL	\$619,387	\$558,330	\$531,588	\$520,655	\$504,905

ESTATE TAX

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

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

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

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

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

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

TABLE 40
ESTATE TAX COLLECTIONS
FISCAL YEAR 2006-07 THROUGH FISCAL YEAR 2010-11

Fiscal Year	Collections	Refunds	Net
2006-07	\$860,033	\$1,410,797	(\$550,763)
2007-08	\$414,711	\$94,508	\$320,203
2008-09	\$234,065	\$23,693	\$210,372
2009-10	\$363,755	\$0	\$363,755
2010-11	\$437,372	\$0	\$437,372

Figures may not add to total due to rounding.

LUXURY TAX

Arizona's luxury tax applies to cigarettes, other tobacco products, and alcoholic beverages. The department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and alcoholic beverages. The department also investigates and confiscates contraband tobacco products. During the 2011 fiscal year, over \$391 million was received in luxury tax collections.

Of the monies collected per the Tobacco Products Referendum (Prop 303), \$41.8 million was distributed to the Prop 204 Protection Account, \$26.9 million to the Medically Needy Account, \$19.9 million for Emergency Health Services, \$5.0 million for Health Research, and \$2.0 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, \$49.1 million was distributed to the Medically Needy Fund, \$16.1 million to the Health Education Fund and \$3.5 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$27.1 million. The Drug Treatment and Education Fund received \$8.3 million, and the Corrections Revolving Fund received \$3.3 million due to the passage of Proposition 200 in 1994. The Smoke Free AZ fund received \$3.1 million due to the passage of Proposition 201 in 2006. The Early Childhood Development and Health Fund received \$130.1 million due to the passage of Proposition 203 in 2006. The remaining \$53.6 million was deposited into the state general fund. (*Refer to Table 41*)

Luxury Tax Rates

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

Cigars

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

Smoking Tobacco

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

Spirituos Liquors

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

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

UNCLAIMED PROPERTY

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

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

Common examples of unclaimed property are:

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

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

ESCHEATED ESTATES

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

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 2011, the department collected \$8,155,363 and distributed 3.5% percent to the Arizona Department of Environmental Quality with the remainder being distributed to the counties based on the number of motor vehicles registered in the county (*Refer to Tables 43*). The distribution is performed quarterly.

TABLE 43
WASTE TIRE FEE DISTRIBUTIONS
FISCAL YEAR 2006-07 THROUGH FISCAL YEAR 2010-11

	FY2006-07	FY2007-08	FY2008-09	FY2009-10	FY2010-11
Apache	\$105,927	\$103,134	\$95,378	\$97,963	\$103,880
Cochise	223,763	216,915	199,557	204,708	215,256
Coconino	211,377	205,128	187,696	191,303	200,347
Gila	116,236	112,443	103,035	105,054	110,165
Graham	49,226	49,073	46,443	47,450	48,835
Greenlee	15,915	16,192	15,263	15,395	15,231
La Paz	49,332	47,522	44,034	45,573	49,117
Maricopa	4,995,305	4,814,030	4,319,137	4,296,301	4,357,598
Mohave	413,274	403,198	366,003	370,916	390,315
Navajo	174,781	171,073	157,354	160,731	168,210
Pima	1,190,164	1,152,277	1,047,700	1,057,356	1,092,320
Pinal	353,172	369,984	354,234	365,864	393,137
Santa Cruz	80,076	78,644	72,277	73,531	77,565
Yavapai	416,633	406,174	369,189	372,547	387,234
Yuma	258,530	254,235	236,624	243,142	260,715
Arizona Department of Environmental Quality	313,865	304,664	276,153	277,383	285,438
Total	\$8,967,577	\$8,704,684	\$7,890,076	\$7,925,216	\$8,155,363

Figures may not add to total due to rounding.

LEGISLATIVE SUMMARY

LEGISLATIVE SUMMARY

The following is intended to give a brief summary of the 2011 tax-related legislation impacting the Department of Revenue (DOR) and not intended to discuss the details of any specific enactment. Detailed summaries of these bills can also be found at www.azleg.gov. Please refer to the particular legislation for more definitive information.

The general effective date for legislation enacted during the First Regular Session is July 20, 2011. All legislation will have this effective date unless otherwise noted in the summary.

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

Income Tax

House Bill 2008 (Chapter 4)

Internal revenue code conformity

Incorporates the federal changes made in 2010 into Arizona's definition of "internal revenue code."

House Bill 2236 (Chapter 329)

Tax set-off; political subdivisions

Allows the Department of Revenue's liability setoff program to be used to offset taxpayer debts to counties, cities and other political subdivisions.

House Bill 2332 (Chapter 128)

IRS; conformity policy; penalties

Penalties and interest cannot be assessed on a taxpayer if the taxpayer filed a timely return and paid taxes due, the state definition of the internal revenue code was subsequently amended to subject additional income to taxation, and with the next year's timely return, the taxpayer reports those items and pays the additional tax. Requires taxpayers to disclose on the individual income tax form the amount of use tax due if the person purchased tangible personal property for a nonbusiness purpose and a seller/retailer did not collect the tax.

House Bill 2384 (Chapter 55)

Abortion; public funding prohibition; taxes

Excludes organizations that provide, pay for, promote, provide coverage of, or provide referrals for abortions from being listed as a Qualifying Charitable Organization that is able to accept contributions that

qualify for the tax credit for donations to organizations that provide assistance to the working poor.

House Bill 2556 (Chapter 287)

Health savings accounts; tax incentives

Establishes, for tax years 2012 through 2014, an individual and corporate income tax credit of \$360 per employee for employers that provides a qualified health insurance plan for its employees.

To be eligible, the employer must have paid a minimum of \$360 per employee in health insurance, offered the plan to every employee; and, in the first year that this credit is claimed, the employer must have not provided health insurance coverage for 90 days preceding the offer of coverage. Employers must add any amount of deduction on the taxpayer's federal tax return for health insurance premiums or contributions to health savings accounts for which the credit is claimed to Arizona adjusted gross income.

Senate Bill 1616 (Chapter 28)

Budget; brb; FY 2011-12

Establishes a state and county tax recovery program for the period of September 1 through October 1, 2011 for tax years 2004 through 2009. All taxes administered or collected by DOR are included for recovery except estate and property taxes. If the taxpayer complies with all tax requirements all or part of the civil penalties are abated or waived and an interest at a reduced rate for tax liabilities is imposed

To qualify, taxpayers are required to submit a complete and correct application and pay the tax, plus any interest due before October 1, 2011. A taxpayer is ineligible to participate in the tax recovery if:

- an audit determination has become final with respect to the taxable period for which recovery is sought;
-

- the taxpayer is a party to any criminal investigation that is pending on January 1, 2011 in any court for failure to file or failure to pay, or for fraud with respect to any tax imposed;
- the taxpayer is has been the subject of a past tax-related criminal investigation, indictment or prosecution if it resulted in a conviction, guilty plea or plea of non contest;
- the taxpayer has been convicted of a crime relating to any period or assessment that is the basis of the penalty or interest with respect to the recovery period; or
- the taxpayer is a party to a closing agreement with DOR with respect to the recovery period.

The application for recovery constitutes an express and absolute waiver of all administrative and judicial rights of appeal. The State Board of Tax Appeals or any court must dismiss any action pending before that body if it receives a notification from DOR that recovery has been granted.

Second Special Session House Bill 2001 (Chapter 1)

Arizona Commerce Authority; business incentives
See summary under Multiple Tax Types.

Transaction Privilege Tax/ Use Tax

House Bill 2336 (Chapter 129)

City tax code; official copy

Beginning July 1, 2012, the Department of Revenue is required to maintain the official copy of the Model City Tax Code.

DOR must post the MCTC on the its official website, and all changes to the code must be reflected in the official copy on file within 10 days after approval.

House Bill 2341 (Chapter 300)

Transaction privilege tax exemptions

Expands the transaction privilege tax exemption for sales and use taxes for sales of aircraft, navigational and communication instruments and other accessories and related equipment to foreign governments to include use within the state.

Senate Bill 1160 (Chapter 40)

Municipal transaction privilege tax; residential rentals

Retroactive to January 1, 2011, prohibits municipalities from imposing or increasing transaction privilege taxes on renting residential property unless the increase is approved by the voters at a regular, municipal election.

Senate Bill 1165 (Chapter 66)

Municipal taxes; auditors & collectors

Prohibits municipalities from employing auditors on a contingent fee basis for auditing transaction privilege tax levies, or from entering into contracts with a third party for collection of a transaction privilege tax.

Does not apply to contracts entered into on or before Jan. 1, 2011; however, contract renewals are prohibited.

Senate Bill 1166 (Chapter 144)

Municipal tax exemption; commercial lease

Exempts commercial leases of real property between two corporations 80% of whose voting shares are owned by the same shareholders municipal transaction privilege or use tax.

Senate Bill 1178 (Chapter 321)

County judgment bonds

Authorizes County Boards of Supervisors to issue bonds to pay legal judgments against the county (including court costs and attorney fees).

Before Dec. 31, 2011, a county may by unanimous vote of the Board, levy an excise tax to provide for the bond payments.

Senate Bill 1217 (Chapter 249)

Shared revenues; provisional community colleges

Beginning Oct. 1, 2011, includes provisional community college districts in the definition of "community college district" for purposes of the distribution of state shared sales tax revenues.

Establishes the apportionment of transaction privilege tax revenue for provisional community college districts.

Property Tax

House Bill 2552 (Chapter 8)

Agricultural property tax classification; equine

Expands the eligibility for land to be classified as agricultural (Class 2) for property tax purposes to include land and improvements devoted to commercial breeding, raising, boarding or training equine or an equine rescue facility registered with the Department of Agriculture.

Senate Bill 1105 (Chapter 98)

Real estate transfer affidavit; transmission

Eliminates the requirement that the Department of Revenue is the permanent repository for real estate transfer affidavits. County Recorders are required to scan original real estate transfer affidavits and transmit a copy to DOR and to the Arizona State Library, Archives and Public Records.

The original or a digital copy must also be transmitted to the County Assessor, who is required to transmit data from the affidavit to DOR. After the original document is no longer needed by the County, Recorders are required to transmit the original to the state archives.

Senate Bill 1226 (Chapter 342)

Municipalities; levy limit override

Until December 31, 2012, municipalities with a population between 25,000 and 40,000, are authorized to call an election to ask voter approval to levy a property tax that exceeds its property tax limit.

Senate Bill 1293 (Chapter 232)

Property tax; residential rentals

Expands the eligibility for properties that rent rooms to transient lodgers to be included in the residential rental property (Class Four) classification. The maximum number of rentable rooms at the property is increased to eight and the requirement that average annual occupancy cannot exceed 50% is eliminated.

Unclaimed Property

House Bill 2201 (Chapter 315)

Private taxpayer rulings; unclaimed property

Authorizes the Department of Revenue to issue *holder information rulings* (HIRs) which, like *private holder rulings* (PHRs) currently issued, provide specific unclaimed property determinations based on the specific fact situations of requesting holders of abandoned property.

Unlike PHRs, taxpayers can request HIRs anonymously, but must still reveal their identities to DOR after issuance if they wish for the rulings to be binding for purposes of abating interest and penalties.

Additionally, H.B. 2201 allows taxpayers to submit written requests that the Director of DOR consider withholding publication of their PHRs or HIRs based on their unique facts and circumstances. Based on the Director's nonappealable determination on whether to publish a ruling, the holder may withdraw its ruling request.

Senate Bill 1103 (Chapter 63)

Unclaimed property; exempt child support

Includes child support payments, collected through the support payment clearinghouse, in the list of items exempt from the definition of *property* for the purposes reporting abandoned property to the Department of Revenue.

Multiple Tax Types/Miscellaneous

House Bill 2202 (Chapter 316)

Department of Revenue closing agreements

Modifies the process for determining cases of taxpayer misunderstanding or misapplication of law. The Department of Revenue is required make an initial determination regarding whether a class of affected taxpayer exists. After a determination that such a class exists, a hearing is required, at which, DOR must reach a decision on the nature of the misunderstanding or misapplication and on the proposed definition of the class of affected taxpayer within 60 days of the hearing.

A taxpayer who is denied relief either because of the DOR's definition of the affected class or determined ineligible for relief may appeal to the State Board of Tax Appeals within 60 days.

The definition of "affected class" is expanded to include taxpayers who directly compete with one another or taxpayers who fall under the same North American Industrial Classification Code System code.

Includes a legislative intent clause, which states the purpose is to bring entire classes of taxpayers into compliance with Arizona tax law on a prospective basis in situations where widespread noncompliance was due to a misunderstanding or misapplication of law.

Second Special Session House Bill 2001 (Chapter 1)

Arizona Commerce Authority; business incentives

Establishes an individual and corporate income tax credit for new employment, which allows the owner of a business or an insurer to claim a \$3000/employee tax credit for net increases in full-time employees hired in qualified employment positions in each of the first three years of employment. The credit is only allowed in the second and third years of employment for qualified positions for which the credit was claimed and allowed in the first year. The net increase of qualified positions is limited to a maximum of 400 employees for any taxable year and no more than 10,000 new jobs for all employers in the first year.

To qualify for the credit, the owner must complete the following in the first taxable year:

- Invest at least \$5,000,000 of capital investment and create at least 25 new qualified employment positions within a city or town that has a population of at least 50,000 and that is located in a county that has a population of at least 800,000.
- Invest at least \$1,000,000 of capital investment and create at least 5 qualified employee positions in any other location.

The employer must pay compensation at least equal to the county median wage and offer health insurance for the employee of which the employer pays at least 65 percent of the premium membership cost.

HB 2001 provides an additional individual and corporate credit amount for payments made for university related research. The amount of the credit is equal to 10 percent of the basic research payments that constitute excess expenses over the base amount and the aggregate annual amount of the additional credit is limited to \$10,000,000.

The small business investment income tax credit is continued through June 30, 2016 and the cap on total allowable assets for a qualified small business is increased from \$2,000,000 to \$10,000,000 beginning in 2012. The definition of qualified small business is expanded to include a principal business that engages in retail, real estate, professional services health care services to patients, financial and investment services, personal services, mining, forestry and natural resource

exploitation or other resource extraction businesses, agricultural operations, and operating an investment company or fund.

Eliminates capital gains on income derived from investments in small businesses with assets up to \$10,000,000 beginning in TY 2014.

The corporate income tax rate is phased down:

- 6.5 percent of net income in TY2014.
- 6.0 percent of net income in TY 2015.
- 5.5 percent of net income in TY 2016
- 4.9 percent of net income in TY 2017 and beyond.

The optional enhanced corporate income tax apportionment (or sales factor) formula available to multistate corporations increases:

- 85 percent of sales in TY 2014.
 - 90 percent of sales in TY 2015.
 - 95 percent of sales in TY 2016.
 - 100 percent of sales in TY 2017.
-