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DEPARTMENT ORGANIZATION

Organization & Organization Chart

Strategic Plan Highlights

Administrative Services

Audit

Collections

Information Technology

Process Administration

Property Tax

Taxpayer and External Services

Tax Policy & Research

Organization

The mission statement of the Department of Revenue is to serve the people of Arizona by administering tax laws with integrity, fairness and efficiency. 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.

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.

The department is organized into eight divisions, each managed by an assistant director. Divisions include: Administrative Services, Audit, Collections, Information Technology, Process Administration, Property Tax, Taxpayer and External 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 serve the people of Arizona by administering tax laws with integrity, fairness and efficiency”. This statement of purpose guides our direction, agency actions and decision making.

Our Vision Statement, “to set the standard for tax services”, identifies 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:

- Accountability – in actions and work activities. We take responsibility for the work we do.
- Accuracy – by exercising care in doing our jobs and following established policies and procedures.
- Creativity – in the way we approach our work and serve our customers.
- Integrity – we have high ethical standards and make decisions based on facts.
- Respect – for co-workers, customers and our Mission.
- Results – by setting expectations in our actions and operations to achieve desired outcomes.
- Service – to our customers. We listen and try to resolve issues fairly and consistently.

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 2012 are presented as well as comparisons to prior years.

TOTAL GROSS REVENUES COLLECTED

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

FY12

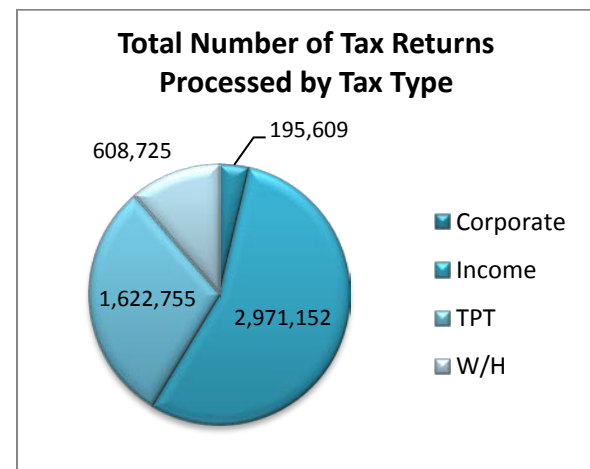
Transaction Privilege Tax	\$7,330,738,929
Income & Withholding	\$4,370,704,272
Corporate	\$ 758,413,453
Other	\$ 544,171,647
Total	\$ 13,004,028,301

Detailed gross revenues are reported under Table 1.

TOTAL NUMBER OF TAX RETURNS PROCESSED BY TAX TYPE

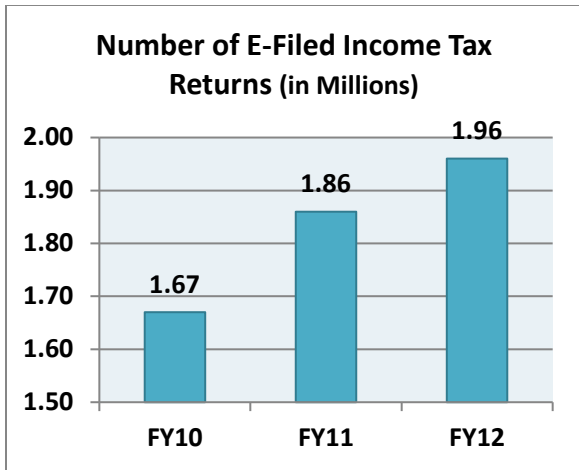
All tax returns are processed through the BRITS system.

Corporate Income Tax	195,609
Individual Income Tax	2,971,152
Transaction Privilege	1,622,755
Withholding	608,725
Total Returns Processed.....	5,398,241



TOTAL NUMBER OF E-FILED INDIVIDUAL INCOME TAX RETURNS RECEIVED

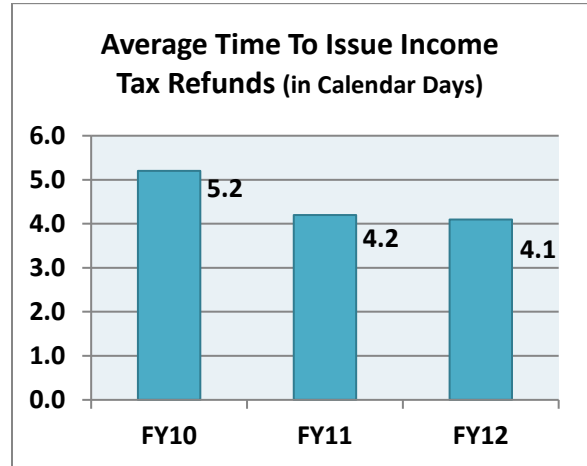
FY10	1.67M
FY11	1.86M
FY12	1.96M



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.

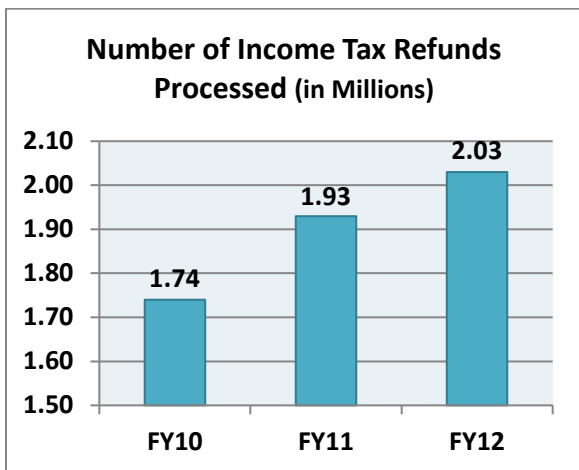
FY10	5.2 days
FY11	4.2 days
FY12	4.1 days



TOTAL NUMBER OF INDIVIDUAL INCOME TAX REFUNDS

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

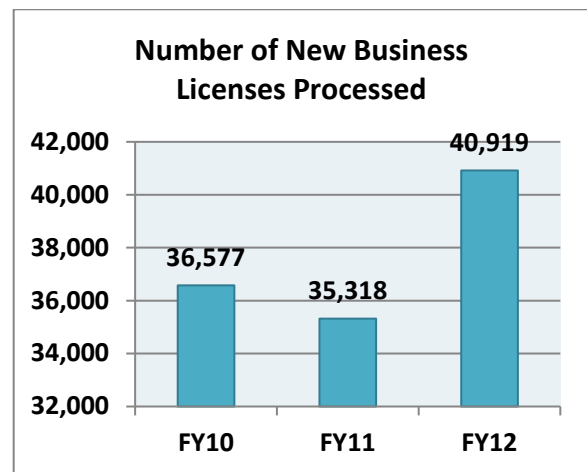
FY10	1,742,324
FY11	1,932,100
FY12	2,031,879



NUMBER OF NEW BUSINESS LICENSES PROCESSED

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

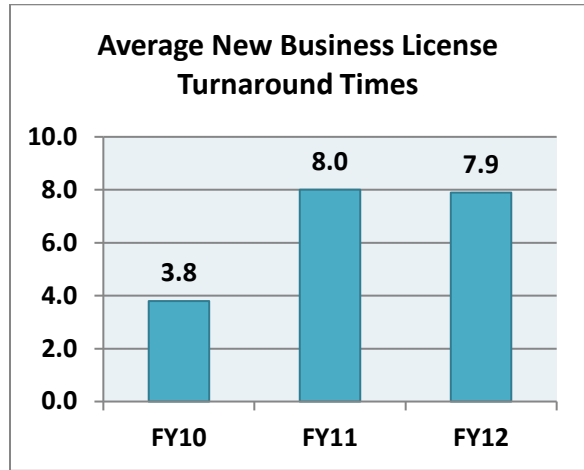
FY10	36,577
FY11	35,318
FY12	40,919



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.

FY10	3.8 days
FY11	8.0 days
FY12	7.9 days

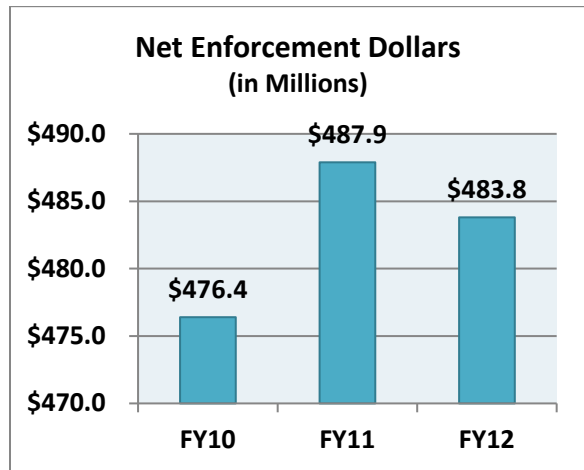


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**TOTAL NET ENFORCEMENT DOLLARS**

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

|            |                |
|------------|----------------|
| FY10 ..... | \$ 476,471,539 |
| FY11 ..... | \$ 487,948,450 |
| FY12 ..... | \$ 483,890,612 |



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NET ENFORCEMENT REVENUE WITH GENERAL FUND TOTALS

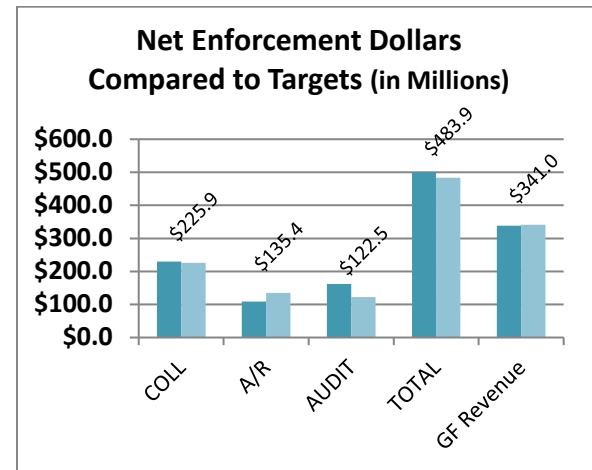
The enforcement program generated results at 96.7% of goal, almost reaching fiscal year 2012 targets. This chart also shows how much of the enforcement revenues went to the General Fund.

FY12 Net Targets

Collections	\$229.4M
Accounts Receivable	\$109.1M
All Audit	\$162.0M
Total Revenue	\$500.5M
General Fund Revenue	\$338.2M

FY12 Net Actual

Collections	\$225.9M
Accounts Receivable	\$135.4M
All Audit	\$122.5M
Total Revenue	\$483.9M
General Fund Revenue	\$341.3M



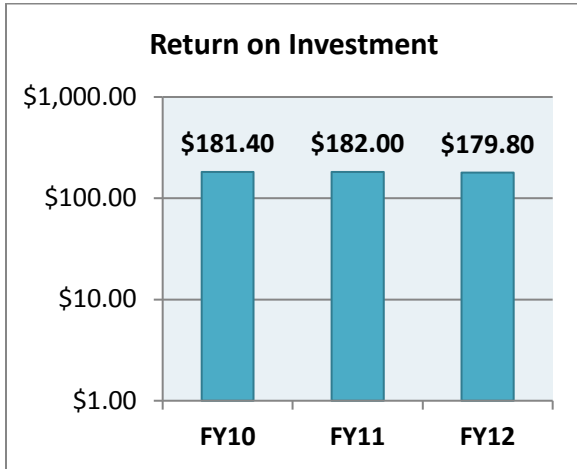
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**RETURN ON INVESTMENT**

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 2012, \$179.80 was produced for each dollar spent in the total DOR budget.

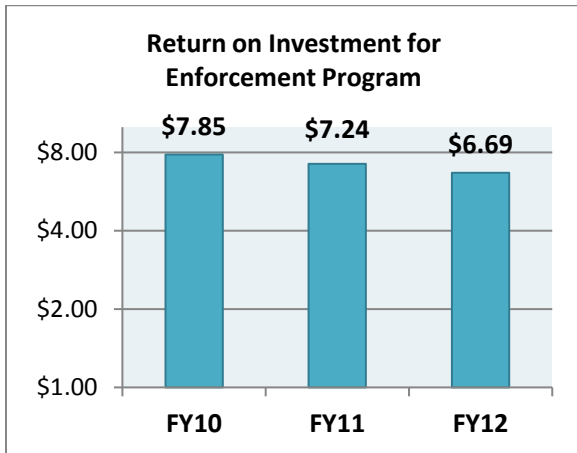
|            |          |
|------------|----------|
| FY10 ..... | \$181.40 |
| FY11 ..... | \$182.00 |
| FY12 ..... | \$179.80 |



**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 2012, \$6.69 of enforcement revenue was collected for each dollar spent in the total DOR budget.

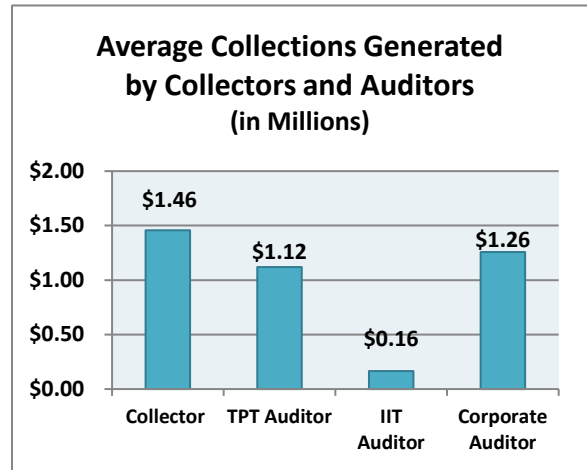
|            |        |
|------------|--------|
| FY10 ..... | \$7.85 |
| FY11 ..... | \$7.24 |
| FY12 ..... | \$6.69 |



**AVERAGE COLLECTOR AND AUDITOR PRODUCTIVITY**

|                         |             |
|-------------------------|-------------|
| Collector.....          | \$1,457,372 |
| TPT Auditor .....       | \$1,119,917 |
| Corporate Auditor ..... | \$1,256,441 |
| IIT Auditor .....       | \$ 164,487  |

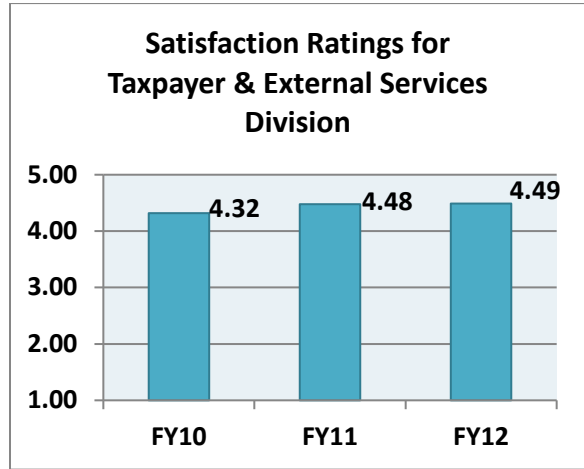
Collectors collected an average of \$1.5 million dollars per collector in FY12. Auditors collected at different levels depending upon the type of audit work they performed; ranging from a little over \$164,000 per individual income (IIT) auditor to \$1.2 million per corporate auditor.



**TAXPAYER SATISFACTION RATINGS FOR THE TAXPAYER & EXTERNAL SERVICES DIVISION**

These scores were received from taxpayers rating the services of the employees in the Taxpayer & External 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.)

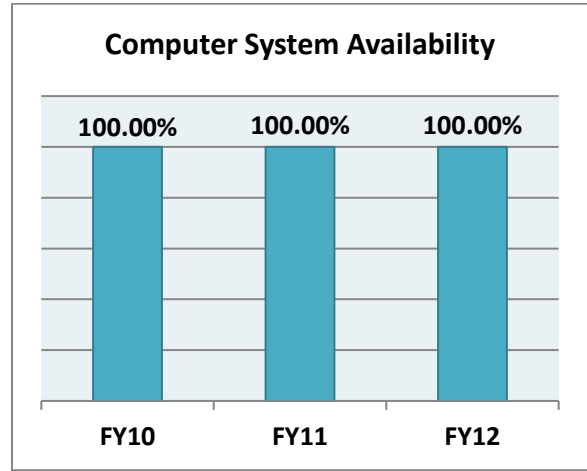
|            |      |
|------------|------|
| FY10 ..... | 4.32 |
| FY11 ..... | 4.48 |
| FY12 ..... | 4.49 |



**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.

|            |         |
|------------|---------|
| FY10 ..... | 100.0 % |
| FY11 ..... | 100.0 % |
| FY12 ..... | 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, including troubleshooting building utility issues (i.e. chillers, UPS, elevators etc.) remodeling office areas at the department's four buildings and coordinating 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, risk management issues 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, 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.

## **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 2012**

- **The Accounting Unit** processed 99% of all invoices within 30 days.
  - **Facilities** accomplished the following notable tasks:
    - ✓ Painted the common areas on all floors in the 1600 building.
    - ✓ Retrofit the lighting at the Warehouse.
    - ✓ Upgraded the camera system to include additional cameras at the 1600 building, as well as the East Valley office.
    - ✓ Installed a new camera and recording system for the cashier's area at the Tucson office.
    - ✓ Installed new assembly area capacity signs as required by NFPA throughout the 1600 building.
  - The Hearing Office workload has increased significantly during the last three years. For FY12 the Hearing Office handled nearly as many cases as it did in FY 2000 and 2001.
-

- Approximately 99% of all employees were paid by direct deposit. Warrants were issued only to new employees not yet set up for electronic payment.
  - All procurement such as contracts and purchase orders were issued through the new statewide ProcureAZ system.
-

# 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. 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 Field Audit Unit also handles refund requests.

The Compliance Unit consists of License Compliance and Desk Audit. The License Compliance Unit continues to prove to be a 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 several different audit projects across all tax types. The information processed in this unit is from various sources including governmental agencies.

## **Special Taxes (ST)**

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

The Bingo Unit issues licenses, processes returns, and provides customer service to Bingo licensees. The Estate Tax Unit issues income tax certificates for probate to close an estate. During this fiscal year, the Estate Tax Unit was transferred to the Collection Division.

The Luxury Tax staff administers the luxury tax imposed on tobacco distributors and liquor wholesalers. This includes the licensing of tobacco distributors and processing of tax returns for both tobacco and liquor. The unit also conducts audits of tobacco distributors, liquor wholesalers and collects taxes from consumers who purchase tobacco products via the Internet or through mail order. Cigarette distributors pay tobacco taxes by purchasing tax stamps from the department to affix to the cigarettes, thereby reflecting that the tax has been paid. The distributor affixes the appropriate stamp to each pack of cigarettes that is to be sold in Arizona. The department and the Office of the Attorney General play a significant role in regards

to the administration of the Tobacco Master Settlement Agreement.

The Nexus Unit is responsible for identifying out-of-state companies and individuals who have an obligation to file tax returns with the State of Arizona. Nexus is the connection required to exist between a State and potential taxpayer such that the State has the constitutional right to impose the tax. The United States constitution limits the State's right to impose a tax through the Due Process and the Commerce Clause. Non-resident individuals are required to pay tax on all income derived from Arizona sources provided they meet the filing threshold. The unit operates various out-of-state non-filer programs for Transaction Privilege Tax, Corporate Income Tax, and Individual Income Tax. The Nexus Unit is also responsible for maintaining the department's Voluntary Disclosure Program. This program consists of taxpayers voluntarily coming forward to file tax returns for Transaction Privilege/Use Tax, Corporate, Partnership, Individual, and Withholding. The program facilitates the process for taxpayers who have determined a filing requirement exists, therefore, wish to come into compliance for all tax types. Furthermore, based on questionnaires the unit pursues specific industries based on Nexus issues, provides written Nexus determinations and solicits delinquent tax returns.

### **Audit Processing**

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

### **Audit Information Technology (AIT)**

The Audit IT Section 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 2012**

### **Corporate Income Tax Audit (CIT) Section**

- ✓ Audited 196 taxpayers, and produced 462 units, and assessed approximately \$33 million and collected approximately \$52 million.
- ✓ Developed and prepared a database tracking and audit selection workbench system for the Section.
- ✓ Started revisions to the Corporate Audit taxpayer reports and audit package with on-going monitoring and revisions.
- ✓ Started the assessment of core training needs and practices for revision of new auditor training program.

### **Individual Income Tax (IIT) Audit**

- ✓ Completed 65,234 audits for total assessments of \$44.5 million and collected \$25.3 million in additional revenue.
  - ✓ The computer generated assessment (CGA) program was further refined to increase the number of accounts eligible to be processed by this program. The results were the issuance of 21,020 audits for total assessments of \$6.13 million.
  - ✓ IIT customer surveys averaged a score of 4.36, using a scale of 1 to 5 with 5 being excellent.
  - ✓ Initial audit assessment quality is constantly improving. For the fiscal year, over 92% of initial audit assessments required no changes. The goal to achieve was established at 86%.
-

### **Transaction Privilege and Use Tax (TPT) Audit**

- ✓ Field Audit Unit audited 525 taxpayers, produced 2,800 units, assessed over \$93 million and collected in excess of \$12 million in tax revenue.
- ✓ License Compliance Unit licensed 2,221 new taxpayers and collected over \$6 million.
- ✓ Desk Audit produced over 4,163 new billings that generated over \$4 million in tax revenue.
- ✓ Customer surveys averaged a score of 4.57, using a scale of 1 to 5 with 5 being excellent.

### **Special Taxes (ST)**

- ✓ The Nexus Unit brought 382 new Corporate Income taxpayers into compliance that filed 1,098 tax returns for a total of \$2.3 million collected. Compliance dollars collected were \$1.7 million.
- ✓ Overall, the Nexus unit brought 527 new taxpayers into compliance and collected a total of \$38.7 million.

### **Information Technology (AIT)**

- ✓ The Audit IT Section completed the upgrade to Microsoft Office 2007 and Internet Explorer 2008. This was significant in that it gave the Field Auditors capacities they did not have in dealing with large volume audits. The Section continues to work through issues relating to the programs in the audit select software. This has provided Audit IT the opportunity to work closely with the DOR IT Division in learning the technical aspects of the programs. A major accomplishment was the deployment of the Model City Tax Code website. This project was completed timely and without issues. The Section continues to apply changes as requested from cities, the League of Arizona Cities and Towns, and the Arizona Tax Research Association (ATRA). Finally, the Section continues to work diligently to support the applications for the programs run by the Audit Division.





# 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. Collectors attempt to reach account resolution, on mostly income tax cases, via the telephone and with targeted mailings. Office Collections uses an Automatic Call Distribution (ACD) system to process and handle incoming calls. This system has an Interactive Voice Response (IVR) module that provides automated responses for some basic collections questions such as account balances. Office Collectors can request that liens and levies be filed and can negotiate installment payment plans. If they are not able to resolve a case, it might be referred to Field Collections, or the Attorney General's for further action.

## **Field Collections**

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

Field collectors are assigned a territory (by ZIP code) and are responsible for all types of tax cases (mostly large balance business cases) in the territory. Field collectors use a combination of telephone and field visits. In addition to recommending lien and levy action, Field collectors may subpoena records, investigate Offers-in-Compromise, conduct seizures and recommend writing 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 debts owed to other state agencies, the courts and political subdivisions of the state. 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 2012**

- The division was responsible for the generation of total revenues of \$226 million, a \$5 million (2%) increase over prior fiscal year 2011.
- Hand-held mobile devices were introduced in Field Collections. Greater security of taxpayer information and improved collections efficiency are expected.

# 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.*

The IT Division provides technology and services to all Divisions. All teams in the Division strive to continually improve processes, tools, and standards in order to provide improved service to our internal customers and the Arizona taxpayers.

## **Applications Support**

Applications Support works with the various Divisions to resolve defects, and support technology-enabled business processes. Application support provides operational, support and maintenance services for all Department of Revenue tax processing systems, including

- All tax processing systems, including: Taxpayer Administration System (TAS), AZ Taxes ([www.aztaxes.gov](http://www.aztaxes.gov)), electronic filing, Data Entry systems, Cashier, and Remittance.
- Enterprise Reporting and Analytics.
- Property and Audit mainframe applications.
- System scheduling and processing services, ensuring system processes are completed successfully.
- Support, management and monitoring of the tax systems infrastructure, application services and more than 200 system and inter-agency interfaces.

## **Managed Services Group**

The Managed Services Group (MSG) acts as a liaison between IT and the functional areas within DOR (Collections, Audit, Taxpayer and External 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.

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.

Network Engineering and Server Support is responsible for operations and oversight of all of the agency's data centers including all servers, storage systems, security infrastructure and networks.

The Database Administration Team assures availability, reliability, capacity and performance management of the Department's databases. The databases include tax process Analytic and Reporting systems.

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:

- Ensure compliance to policy & regulatory mandates
- Manage risks & vulnerabilities in accordance with NIST800-53 & IRS Pub1075
- Participate in Vendor Oversight Committee Audits employing BS27001
- Coordinate/Perform InfoSec Forensics activities
- Assist & review Infosec policies standards and procedures
- Provide Employee Awareness of Information Security

## **Business Solutions Group**

The Business Solutions Group (BSG) is responsible for information technology governance, project management and software development.

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BSG is made up of two teams, the Project Management Office and Software Development. The Project Management Office is responsible for establishing, maintaining, and enforcing project management processes, procedures, and standards for IT projects.

The Software Development team is responsible for building high quality, cost effective, sustainable software solutions for the taxpayers, the department and to meet legislative mandates. This team also provides on-going enhancements to improve efficiency of the department's information systems.

### **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 cost, and improve services. The primary goal of the VMO is to partner with vendors, not only to negotiate the best terms possible, but to gain commitment to assist and support operations of the department.

### **HIGHLIGHTS IN FISCAL YEAR 2012**

- Supported a new processing record of more than 2,000,000 electronic returns.
- Sustained and improved the technical environments that support core business processes and are used to process all tax filings, payments and returns for the taxpayers.
- Initiated upgrades to key system databases increasing reliability, availability and performance of during the primary tax season.

- Implemented more than 116 business-driven changes to the tax systems.
- Upgraded the remittance payment processing system, providing the ability for electronic deposits and improving the timeliness of payment processing.
- Upgraded the field audit team with new mobile systems increasing the productivity of the team.
- Participated in the state-wide Telecommunication and Networking RFP.
- Participated in the inter-agency Professional Services RFP.
- Effectively addressed critical legislative mandates from the legislative session including:
  - 2011 Tax Recovery Program to improve voluntary compliance in the filing of tax returns
  - Model City Tax Code website to provide timely and accurate information to the public
  - Provided for reporting of individual Use Taxes to improve the voluntary compliance in filing of tax returns
  - Enabled the electronic filing of Withholding tax returns and electronic payments to improve Department efficiency through increase electronic taxpayer transactions



# 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. Individual unit roles and responsibilities are defined below.

## **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 financial services for the department. This includes the reconciliation and reporting of tax dollars deposited to the State's financial institution, revenue and taxpayer accounting services, including accounts receivable management and refund/warrant management.

## **Records Management**

Records Management is responsible for the filing, maintaining, storing and disposal of all tax documents as well as providing access to tax returns and license applications within the department. Records Management is also the source of assistance when developing customized records retention and disposition schedules for the department.

## **HIGHLIGHTS IN FISCAL YEAR 2012**

- The Process Administration Division implemented a new Remittance Processing system. The Remittance system is a very critical function for the State of Arizona in that it electronically deposits taxpayer checks to the bank so the State can use the funds to invest, pay bills, earn interest, and distribute revenues to other government agencies, including counties, cities, and state agencies. This upgrade mitigated the increasing risk of potential system failure due to age.
  - Received and processed 5.6 million tax documents.
  - Received, processed and deposited 4.1 million payments with an average deposit time of 0.69 days
  - 2.0 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 dispersed 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.

## **CAMA / Construction Cost**

The Computer-Assisted Mass Appraisal (CAMA) and Construction Cost Team maintains the Add-On Component Costs as well as the Residential and Commercial Depreciation schedules in order to promote the use of uniform costs throughout the State when counties value property using the cost approach. The team also provides training and assistance for county appraisers in the use of the cost and market approaches to value, including sales based valuation models.

## **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. The team verifies County Property Tax Rates, including Additional State Aid to Education calculations.

## **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.

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## HIGHLIGHTS IN FISCAL YEAR 2012

- The Centrally Valued Property Team valued approximately 800 taxpayers, totaling \$36.6 billion in full cash value. There were 24 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, three were withdrawn; two were settled, and six were heard before the Board. The Board decided in favor of the department in three of the six cases. The Assessment Standards and Training Team completed on-site meetings with four 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 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 worked with the county treasurers regarding reports and reporting requirements for the Government Property Lease Excise Tax (GPLET) returns and payments received for the preceding calendar year. The Team also worked with government lessors regarding GPLET return filing requirements by their lessees.
  - The Manuals and Forms Team updated 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.
  - 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 39 students attending Level 1 certification courses and 20 students attending Level 2 certification courses in the DOR Appraiser Training and Certification Program this fiscal year. A total of 34 appraisers received their Level 1, Level 2 or Level 3 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 12 students completed the Level 1 series of courses and 20 students completed the Level 2 series of courses in the Rio Salado program this fiscal year.
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# TAXPAYER AND EXTERNAL SERVICES

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

## **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**

This unit is responsible for design and printing 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.

## **License and Registration (L & R)**

The License and Registration section provides assistance to taxpayers, business owners, corporate officers, tax practitioners, companies and other representatives who wish to conduct business within the State, to obtain required licensing, make payments to the State or to purchase tobacco stamps.

The L&R customer service team (CS) is responsible for assisting this group of constituents when they

visit one of the three department locations. The CS team provides education and assistance with establishing and securing a Transaction Privilege Tax License, a Withholding Registration or a Use Tax Certificate. Additionally, the CS team provides education and assistance by responding to general inquiries regarding notices or taxes and they also collect and post payments made to the State.

The L&R maintenance unit (MU) is responsible for assisting the same group of constituents when they call into the license and registration or bond lines. The unit is also responsible for working and resolving all mailed in correspondence regarding licenses or registration, including applications, signature cards and business updates. The maintenance unit provides education and assistance with establishing and securing a Transaction Privilege Tax License, a Withholding Registration or a Use Tax Certificate. Moreover, the maintenance unit administers the bond program, solar registration program and portions of the tobacco stamp program. The team is responsible for providing specialized education, assistance and support to companies in these unique lines of business and other department units. Additionally, the unit provides maintenance support to customers and other department units by researching and resolving the most complicated account license, registration or bond problems.

## **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

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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.

#### **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.

#### **HIGHLIGHTS IN FISCAL YEAR 2012**

- The Criminal Investigation Unit stopped nearly \$11 million in fraudulent refunds from being issued. This is an increase of over \$ 7.8 million over last fiscal year (nearly a 250% increase).
  - The Tobacco Enforcement Unit conducted approximately 4,000 retail and wholesale tobacco inspections with an increase of 1,300 over last fiscal year (118% increase). During this time period the unit also conducted 180 separate seizures of illegal tobacco products (a 34% increase). Over 114,000 sticks of cigarettes and 134,420 cigars were among the untaxed other tobacco products seized.
  - The Office of Economic Research and Analysis accomplished several things over the fiscal year. These include:
    - ✓ Calculated and/or authorized transfers to the Arizona Sports and Tourism Authority, Rio Nuevo, Phoenix Convention Center, WQARF and Phoenix International Raceway.
    - ✓ Sent out 867 Certificates of Eligibility for the Health Insurance Premium Tax Credit to individuals and small businesses.
    - ✓ Sent out 220 approvals for the Water Conservation Credit.
    - ✓ Approved 124 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 148 Disabled/Displaced Student Scholarship Awards. Approved 71 Disabled/Displaced Student Eligibility Applications.
- ✓ Approved 43 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 2,515 information requests.
  - ✓ Administered the FY12 Employee Satisfaction Survey.
  - The License & Registration team processed 44,546 applications with an average turnaround of 8.3 days. 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:
    - ✓ Answered 237,490 calls and replied to 6,787 emails.
    - ✓ Walk-in office staff assisted a total of 21,849 customers.
    - ✓ Responded to 5,921 Tax Practitioner Hotline inquiries.
    - ✓ Responded to 15,133 written inquiries.
    - ✓ Completed 1,932 requests for penalty abatement.
    - ✓ Processed 11,275 Power of Attorney forms.
  - For the second consecutive year, unclaimed property staff returned a record-breaking amount of unclaimed property. Over \$40 million was returned to nearly 19,000 owners. More than 76,000 properties were returned, which was nearly double the total from the previous fiscal year.
    - ✓ The average time to process and pay a claim was 64 days, reflecting a 14% increase in efficiency over the previous fiscal year.
    - ✓ Over \$115 million in new property was added to the database, and nearly 22,000 claims for property were received.
-

# TAX POLICY AND RESEARCH

The Division provides administrative tax policy for the department, legal and interpretive 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 and also reviews all requests for public records. The division consists of Corporate Appeals, Individual Income Appeals, Transaction Privilege Tax 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. 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 substantive policy statements (rulings and procedures), as well as private taxpayer rulings. The section also responds to technical and complex inquiries by telephone and issues taxpayer 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 other Divisions within the Department.

## **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 department's General Counsel 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 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, and represents 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

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# **TRANSACTION PRIVILEGE, USE AND SEVERANCE TAX**

## **MAJOR FEATURES**

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

During fiscal year 2012, 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 \$7.33 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.

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# INCOME TAX

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

## **CORPORATE INCOME TAX**

### **MAJOR FEATURES**

Every corporation doing business in Arizona is required to file a corporate income tax return. Corporations filed returns with the state and made payments of \$647.9 million during fiscal year 2012 (*Refer to Table 28*).

## **INDIVIDUAL INCOME TAX**

### **MAJOR FEATURES**

For tax year 2009 filed in 2010, approximately 2.5 million individual filers reported Arizona gross income (defined as federal adjusted gross income) totaling more than \$122.2 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 2009 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*). Pursuant to HB 2001, Chapter 1, 2<sup>nd</sup> Special Session, 2011, \$31.5 million of withholding tax revenues is transferred annually to the Job Creation Withholding Clearing Account. Pursuant to HB 2332, Chapter 128, 1st Regular Session, 2011, taxpayers are to declare their annual amount of use tax on their individual income tax return beginning with taxable year 2011. The use tax amount has been adjusted out of Individual Gross Revenue and is included in the Transaction Privilege, Use and Severance tables.



# 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 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 describes 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.

### **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.

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**CREDIT****AVAILABLE TO****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.

**New Employment**

Provides nonrefundable individual and corporate credits for net increases in qualified employment positions in Arizona at a business location 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.

**Renewable Energy Production**

This credit provides nonrefundable individual and corporate credits for production of electricity by a qualified energy generator that produces electricity using a qualified energy resource.

**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.

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**CREDIT****AVAILABLE TO****Solar Energy Devices –  
Commercial and Industrial  
Applications**

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

**Solar Liquid Fuel**

Provides nonrefundable individual and corporate credits for increased research activities related to solar liquid fuel.

**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**

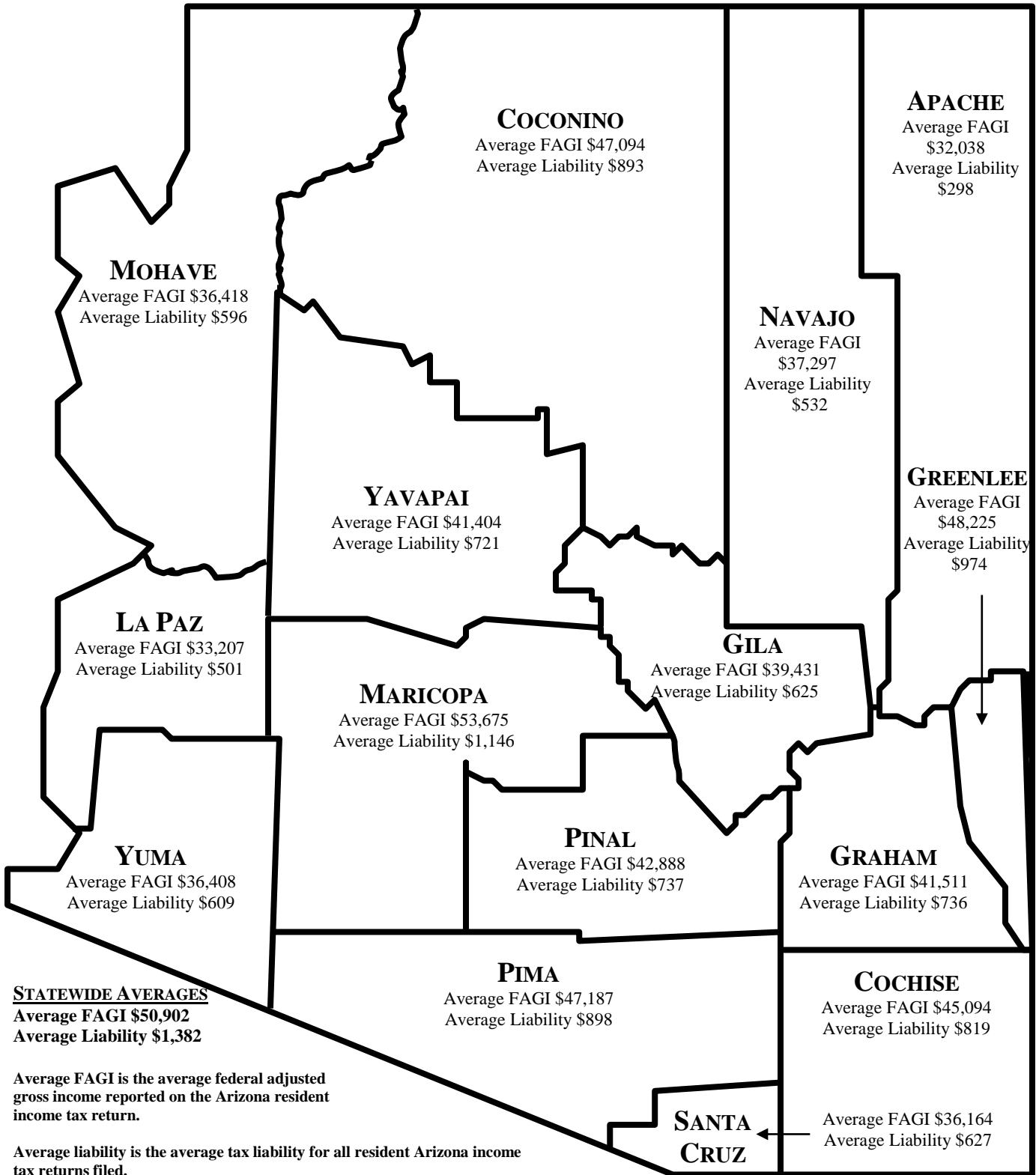
Allows corporate taxpayers a credit equal to 30 percent of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona.

**Water Conservation System**

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

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**TABLE 33  
 AVERAGE FEDERAL ADJUSTED GROSS INCOME  
 AND AVERAGE TAX LIABILITY PER RETURN  
 BY COUNTY FOR TAX YEAR 2009**





# 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**

| <b>Class</b>  | <b>Legal Classification</b>                                                              | <b>Assessment Ratio</b>                        |
|---------------|------------------------------------------------------------------------------------------|------------------------------------------------|
| 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;<br>20% on the remainder |
| 2R            | Agricultural Real; Vacant Land                                                           | 16%                                            |
| 2P            | Agricultural Personal                                                                    | First \$67,268 exempt;<br>16% on the remainder |
| 3             | Residential                                                                              | 10%                                            |
| 4             | Rental Residential                                                                       | 10%                                            |
| 5             | Railroads, Airlines                                                                      | 15%                                            |
| 6             | Historic Property; Foreign Trade Zones;<br>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%                                             |

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## INDUSTRIES VALUED BY THE DEPARTMENT

| Industry                            | Number of Companies |            |            |
|-------------------------------------|---------------------|------------|------------|
|                                     | 2010                | 2011       | 2012       |
| Airlines (Flight Property).....     | 29                  | 28         | 28         |
| Electric & Gas*                     |                     |            |            |
| Generation .....                    | 36                  | 38         | 53         |
| Transmission and Distribution.....  | 29                  | 29         | 32         |
| Mines (non-producing) .....         | 1                   | 1          | 1          |
| Mines (producing).....              | 35                  | 35         | 30         |
| Pipelines (Gas Transmission) .....  | 8                   | 8          | 8          |
| Private Rail Cars .....             | 260                 | 284        | 289        |
| Producing Oil & Gas Interests ..... | 3                   | 3          | 3          |
| Railroads .....                     | 11                  | 11         | 11         |
| Telecommunications .....            | 67                  | 65         | 63         |
| Water Utilities.....                | 326                 | 327        | 316        |
| <b>Total .....</b>                  | <b>805</b>          | <b>829</b> | <b>834</b> |

\* Includes Salt River Project

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## **ALL OTHER SOURCES OF REVENUE**

Bingo

Estate Tax

Luxury Tax

Unclaimed Property & Escheated Estates

Waste Tire Fees

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## **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 2007-08 THROUGH FISCAL YEAR 2011-12**

|  | <b>Fiscal<br/>Year</b> |  |  |  |  | <b>Amount</b> |
|--|------------------------|--|--|--|--|---------------|
|  | 2007-08                |  |  |  |  | \$558,330     |
|  | 2008-09                |  |  |  |  | \$531,588     |
|  | 2009-10                |  |  |  |  | \$520,655     |
|  | 2010-11                |  |  |  |  | \$504,905     |
|  | 2011-12                |  |  |  |  | \$508,145     |

|                                        | <b>BINGO COLLECTIONS</b> |                  |                  |                  |                  |
|----------------------------------------|--------------------------|------------------|------------------|------------------|------------------|
|                                        | <b>FY2007-08</b>         | <b>FY2008-09</b> | <b>FY2009-10</b> | <b>FY2010-11</b> | <b>FY2011-12</b> |
| Licenses                               | \$18,393                 | \$19,735         | \$19,718         | \$27,576         | \$18,164         |
| Proceeds                               | 539,576                  | 510,177          | 499,206          | 476,482          | 486,056          |
| Penalty, Interest<br>and Miscellaneous | 361                      | 1,676            | 1,731            | 847              | 3,926            |
| <b>TOTAL</b>                           | <b>\$558,330</b>         | <b>\$531,588</b> | <b>\$520,655</b> | <b>\$504,905</b> | <b>\$508,145</b> |

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## 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 2007-08 THROUGH FISCAL YEAR 2011-12**

| <b>Fiscal Year</b> | <b>Collections</b> | <b>Refunds</b> | <b>Net</b> |
|--------------------|--------------------|----------------|------------|
| 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  |
| 2011-12            | \$200,825          | \$0            | \$200,825  |

Figures may not add to total due to rounding.

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## LUXURY TAX

Arizona's luxury tax applies to cigarettes, other tobacco products, and alcoholic beverages. The department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and alcoholic beverages. The department also investigates and confiscates contraband tobacco products. During the 2012 fiscal year, over \$388 million was received in luxury tax collections.

Of the monies collected per the Tobacco Products Referendum (Prop 303), \$39.8 million was distributed to the Prop 204 Protection Account, \$25.6 million to the Medically Needy Account, \$18.9 million for Emergency Health Services, \$4.7 million for Health Research, and \$1.9 million for Health Education. Due to the passage of the Tobacco Tax and Health Care Initiative in November 1994, \$46.9 million was distributed to the Medically Needy Fund, \$15.4 million to the Health Education Fund and \$3.4 million to the Health Research Fund. The Corrections Fund, established by the Legislature in 1984 to pay for prison construction, received \$28.5 million. The Drug Treatment and Education Fund received \$8.8 million, and the Corrections Revolving Fund received \$3.5 million due to the passage of Proposition 200 in 1994. The Smoke Free AZ fund received \$3.0 million due to the passage of Proposition 201 in 2006. The Early Childhood Development and Health Fund received \$129.4 million due to the passage of Proposition 203 in 2006. The remaining \$56.4 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 |
|------------|---------|

|                                                          |         |
|----------------------------------------------------------|---------|
| <b>Vinous Liquors</b> more than 24% alcohol (per gallon) | \$ 4.00 |
|----------------------------------------------------------|---------|

|                                                          |         |
|----------------------------------------------------------|---------|
| <b>Vinous Liquors</b> less than 24% alcohol (per gallon) | \$ 0.84 |
|----------------------------------------------------------|---------|

### **Malt Liquor (Beer)**

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

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## **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 intangible and 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.*)

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## WASTE TIRE

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

During fiscal year 2012, the department collected \$8,518,868 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 2007-08 THROUGH FISCAL YEAR 2011-12**

|                                                        | <b>FY2007-08</b>   | <b>FY2008-09</b>   | <b>FY2009-10</b>   | <b>FY2010-11</b>   | <b>FY2011-12</b>   |
|--------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Apache</b>                                          | \$103,134          | \$95,378           | \$97,963           | \$103,880          | \$110,216          |
| <b>Cochise</b>                                         | 216,915            | 199,557            | 204,708            | 215,256            | 225,450            |
| <b>Coconino</b>                                        | 205,128            | 187,696            | 191,303            | 200,347            | 211,898            |
| <b>Gila</b>                                            | 112,443            | 103,035            | 105,054            | 110,165            | 115,502            |
| <b>Graham</b>                                          | 49,073             | 46,443             | 47,450             | 48,835             | 51,514             |
| <b>Greenlee</b>                                        | 16,192             | 15,263             | 15,395             | 15,231             | 16,315             |
| <b>La Paz</b>                                          | 47,522             | 44,034             | 45,573             | 49,117             | 52,807             |
| <b>Maricopa</b>                                        | 4,814,030          | 4,319,137          | 4,296,301          | 4,357,598          | 4,531,883          |
| <b>Mohave</b>                                          | 403,198            | 366,003            | 370,916            | 390,315            | 413,996            |
| <b>Navajo</b>                                          | 171,073            | 157,354            | 160,731            | 168,210            | 176,949            |
| <b>Pima</b>                                            | 1,152,277          | 1,047,700          | 1,057,356          | 1,092,320          | 1,133,099          |
| <b>Pinal</b>                                           | 369,984            | 354,234            | 365,864            | 393,137            | 414,977            |
| <b>Santa Cruz</b>                                      | 78,644             | 72,277             | 73,531             | 77,565             | 82,081             |
| <b>Yavapai</b>                                         | 406,174            | 369,189            | 372,547            | 387,234            | 407,032            |
| <b>Yuma</b>                                            | 254,235            | 236,624            | 243,142            | 260,715            | 276,990            |
| <b>Arizona Department of<br/>Environmental Quality</b> | 304,664            | 276,153            | 277,383            | 285,438            | 298,160            |
| <b>Total</b>                                           | <b>\$8,704,684</b> | <b>\$7,890,076</b> | <b>\$7,925,216</b> | <b>\$8,155,363</b> | <b>\$8,518,868</b> |

Figures may not add to total due to rounding.

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# **LEGISLATIVE SUMMARY**



# LEGISLATIVE SUMMARY

The following is intended to give a brief summary of the 2012 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](http://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 August 2, 2012. 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](http://www.azleg.state.az.us/FinalDisposition.asp) or may be requested from the Secretary of State's Office by calling (602) 542-4086.

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## Income Tax

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### House Bill 2120 (Chapter 38)

Internal revenue code conformity

Incorporates the federal changes made in 2011 into Arizona's definition of "internal revenue code."

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### House Bill 2212 (Chapter 71)

Tax exempt organizations; returns; exception

Increases, from \$25,000 to \$50,000, the maximum income amount a tax exempt organization may have before being required to file an Arizona income tax return.

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### House Bill 2627 (Chapter 271)

Tax credit; charitable organizations

Modifies certification criteria required by DOR to qualify as a charitable organization by removing the requirement that organizations declare if they promote or provide referrals for abortions.

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### House Bill 2713 (Chapter 351)

Insurance premiums; long-term care; deduction (Arizona long term care trust)

Establishes an individual income tax subtraction for long-term care insurance premiums paid by taxpayers not claiming itemized deductions. Also establishes an individual income tax subtraction for amounts deposited into a long-term care savings account, as long as the amounts are included in the individual's federal adjusted gross income.

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### House Bill 2727 (Chapter 77)

Public school tax refund checkoff

Modifies the Assistance for Education Fund tax refund checkoff box to allow individual taxpayers to contribute any portion of their refund.

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### House Bill 2779 (Chapter 257)

Clean elections; trigger reports; repeal

Eliminates matching fund reporting requirements for nonparticipating candidates under the Clean Elections Act.

Eliminates voluntary tax donation check off for Clean Elections from the Arizona individual income tax form and eliminates tax credits and tax reductions for contributions to Clean Elections.

---

### House Bill 2815 (Chapter 343)

Employment; incentives; regulatory tax credit

#### Qualified Facility Credit

Adds new, refundable corporate and individual income tax credits for taxpayers that open a qualified facility in Arizona. A qualified facility is a facility that devotes at least 80% of the property and payroll at the facility to one or more of the following:

- Manufacturing of tangible products in this state if at least 65% of the product will be sold out-of-state.
  - A global, national, or regional headquarters for a taxpayer that is involved in manufacturing and that derives at least 65% of its revenue from out-of-state sales.
-

- Qualified research conducted by a taxpayer that derives at least 65% of its revenue from out of state.

The new qualified facility credit is tied to the same cap as the existing renewable energy industry cap of \$70 million per year, with an annual limit of \$30 million per taxpayer. The existing renewable energy industry credit is modified to also have the same per taxpayer cap. The credit is claimed in five equal installments and any amount in excess of tax liability is refunded.

The amount of the credit is the **10% of the lesser** of:

1. The total qualifying investment in the qualified facility; or
2. \$200,000 for each net new full-time employment position at the qualified facility.

At least 51% of the net new full-time employment positions at the qualified facility must be paid a wage of at least 125% of the median annual wage in Arizona. The positions must include health insurance for which the applicant pays at least 80% of the premium or membership costs.

The credit is subject to pre and post approvals by the Arizona Commerce Authority (ACA) and the taxpayer must enter into a managed review agreement with the ACA to be conducted by an unaffiliated CPA chosen by the taxpayer at their own expense. The managed review must be completed before the applicant applies for post-approval of the credit.

### **Quality Jobs**

Modifies the existing premium tax, corporate income tax, and individual income tax credits for tax years beginning from and after December 31, 2012 for new employment by allowing:

- Mandatory investment and hiring to be done in a twelve month period from the start of the investment. The credit would be allowed in the year completed.
- New first year credits for new employees hired to be claimed for each of three years at the location once the initial requirements are met.
- Taxpayers to include employees hired after the start of the required investment even though the employees are working at a temporary work site while construction is completed at the designated location as long as the employee was hired to work at the designated location, the payroll for employees destined for the designated location is segregated and the employee is moved to the designated location within 30 days of its completion.

The annual cap of 400 employees per taxpayer is eliminated.

The credits are not subject to pre-approval by the ACA before a credit may be claimed.

### **Capital Gains**

Provides for an individual income tax subtraction for long-term capital gains from assets acquired after December 31, 2011. The subtraction is phased in over time with a 10% subtraction for 2013, 20% for 2014 and 25% for 2015 and after.

### **Bonus depreciation**

Currently, Arizona adds back all federal depreciation claimed and then allows a subtraction for the amount of depreciation a taxpayer would have been allowed if they had chosen not to claim bonus depreciation on their federal return. The amendment would allow individual income tax taxpayers to claim a subtraction for property placed in service in 2014 or after to claim the subtraction for depreciation as if the federal bonus depreciation allowed was 10% of the amount allowed federally. For assets placed in service in tax year 2013, the taxpayer would start out claiming depreciation based on opting out of the bonus depreciation but in tax year 2014 they will be able to take a subtraction to make the depreciation claimed to date the same as if the taxpayer had claimed a bonus depreciation equal to ten percent of the federal bonus depreciation in the prior year.

### **Net operating Loss Deduction for Corporations**

Allows net operating losses arising in taxable periods beginning from and after December 31, 2011 to be carried forward for 20 years for corporate income tax purposes.

### **Business Personal Property Tax**

Changes the methodology for annually indexing the business personal property exemption beginning in 2013 and specifies that the exemption should be re-calculated as if this had been in effect since 1997.

The old index was the change in the Employment Cost Index over one year; the new index will be the change in the same index over two years (effectively doubling the rate of increase of the exemption). The net effect would be to increase the exemption from \$68,079 in 2012 to approximately \$133,000 in 2013.

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## **Senate Bill 1046 (Chapter 2)**

Corporate tax allocation; sales factor

Modifies the corporate apportionment formula by allowing certain sales of services to be included in the sales factor.

SB 1046 allows service providers that sell more than 85% of their services to customers that receive the benefit of the service outside of Arizona to include sales in the sales factor based on market (where the customers are) rather than cost of performance (COP).

The election will be phased-in starting in taxable years beginning January 1, 2014 with a sales factor that is 85% market sales and 15% COP sales. The market sales percentage increases 5% each year and the COP sales decreasing 5% each year until the percentage of market sales included in the sales factor reaches 100% in 2017.

The election is not mandatory, but if made, is binding for 5 consecutive tax years.

The law is effective for tax years beginning January 1, 2014.

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## **Senate Bill 1047 (Chapter 4)**

School tuition organizations; administration (tax credit; school tuition organizations)

Establishes an additional individual income tax credit for contributions to certified school tuition organizations. The amount of the credit is \$500 for a single individual or a head of household or \$1,000 for a married couple filing a joint return and is limited to taxpayers who have claimed a maximum credit pursuant to ARS § 43-1089. A taxpayer may only claim the excess amount under the new STO credit.

The excess STO credit monies for educational scholarships or tuition grants may only be awarded to a student who:

- attended a governmental primary or secondary school as a full-time student or attended a preschool program that offers services to students with disabilities at a governmental school for at least 90 days of the prior fiscal year and transferred from a governmental school to a qualified school;
- enrolls in a qualified school in a kindergarten program or a preschool program that offers services to students with disabilities;

- is the dependent of a member of the Armed Forces of the United States who is stationed in this state;
- received an education scholarship or tuition grant under the above paragraphs and continues to attend a qualified school in a subsequent year.

A taxpayer may not claim the excess STO credit if the contribution is designated for the direct benefit of any dependent of the taxpayer, is a condition of the contribution, has the intent to benefit the taxpayer's dependent, or coordinates with other taxpayer(s) to designate each taxpayer's contribution to the STO organization for the direct benefit of the other taxpayer's dependent.

STOs are prohibited from knowingly colluding with any other STO to issue educational scholarships or tuition grants that exceed statutory limits.

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## **Senate Bill 1121 (Chapter 178)**

Tax subtraction; charitable crop contributions

Expands the individual taxable income subtraction on qualifying donated crops by removing the cap of 80% of the crop value and allowing crops to be donated out-of-state. Additionally, SB 1121 eliminated certain eligibility requirements, including:

- Harvesting must be done by or on behalf of a donee;
  - Harvesting or processing the crop must be economically unfeasible in the taxpayer's normal course of business;
  - The crop would go to waste if not donated.
- 

## **Senate Bill 1122 (Chapter 35)**

Tax refund checkoff boxes

Removes the requirement that space for certain voluntary tax donations be provided on the front page of the Arizona income tax return. The checkoff boxes that affected are for the Child Abuse Prevention Fund, Special Olympics, Arizona Game and Fish Department, Neighbors Helping Neighbors and the Domestic Violence Shelter Fund.

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**Senate Bill 1190 (Chapter 281)**

Tax credit; military family relief

Extends the individual income tax credit for donations made to the Military Family Relief Fund through tax year 2018.

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**Senate Bill 1196 (Chapter 143)**

College savings; report; income subtraction

Makes the individual income tax subtraction for contributions to a qualified college savings plan permanent and extends the deadline of the Arizona Commission for Postsecondary Education annual report from February 1 to March 1.

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**Transaction Privilege Tax/  
Use Tax**

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**House Bill 2123 (Chapter 114)**

Transaction privilege tax reform committee

Establishes a 13-member Transaction Privilege Tax Reform Committee to study and make recommendations regarding the collection of revenues to the state General Fund, including individual and corporate income tax and transaction privilege tax. The Committee also must make recommendations to minimize the fiscal impact to cities, towns and counties.

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**House Bill 2358 (Chapter 206)**

Theme park districts (~~public private partnerships;~~  
~~toll facilities~~)

Modifies the composition of Theme Park and Vehicle Support Facilities Districts, the types of revenue bonds that may be issued and the allowable locations of theme park sites. References to vehicle support facilities are removed and a Theme Park District is enabled to include theme park sites in one or both cities, in the county establishing the district or in a combination of the cities and county.

The amount of required private financial commitments is decreased from 50 to 20 percent of the principal amount of bond issue and allows New Market Tax Credits to be included.

The Auditor General is required to conduct a performance audit of the District and its operations.

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**House Bill 2466 (Chapter 332)**

Local sales tax; payments; DOR

Requires the Department of Administration to establish an online portal with a single point of filing and payment of municipal TPT and excise taxes for cities and towns that are not contracted with DOR for tax administration. Procurement of the online portal must be done via a public-private partnership as outlined by statute and authorizes a user fee for taxpayers who use the online portal.

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**Senate Bill 1214 (Chapter 323)**

Use tax declaration; repeal

Repeals the use tax declaration requirement on the Arizona individual income tax return.

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**Senate Bill 1229 (Chapter 232)**

Tax exemption; residential solar electricity

Exempts sales or transfers of renewable energy credits from the retail and utilities classification (TPT) and use tax. This legislation also deducts the portion of gross proceeds of sales or gross income attributable to the transfer of solar photovoltaic electricity to an electric utility distribution system from the tax base of the utilities classification.

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**Senate Bill 1442 (Chapter 328)**

Prime contracting; manufacturing facilities;  
infrastructure

Allows a city, town, or county, from October 1, 2013 through September 30, 2023, to enter into an agreement with DOR to receive all state prime contracting TPT collections arising from a qualifying project to pay for up to 80 percent of public infrastructure improvements for the project.

A qualifying project requires self-certification from an establishment with an in-state manufacturing operation (excluding mines and utilities) with at least \$500 million in capital investment in urban areas and \$50 million in rural areas to the Commerce Authority and applicable locality.

Contracting TPT arising from qualifying projects, which would otherwise go through the normal statutory distribution method, would be removed and set aside for public infrastructure funding. Once the \$50 million cap is reached, the funding mechanism would cease, and the TPT would return to the normal distribution.

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Restrictions to the public infrastructure funding mechanism include:

- A \$50 million cap for all public infrastructure improvement funding made by the state to all localities.
- Requiring a locality to fund at least 20 percent of the public infrastructure improvements.
- Ending a funding agreement between the locality and DOR once either the 80 percent of the improvement costs have been paid or the \$50 million cap is reached. In the latter case, a locality has no rights to additional reimbursement in the event subsequent audit adjustments or refund claims lower the funded amounts to below the \$50 million cap.
- Making payments on a rolling basis, and using amounts subject to distribution to calculate monies available until the \$50 million cap is reached. In other words, a locality that enters into an agreement with DOR before a second locality may not receive all of the payments it anticipates, if the second locality's qualifying project remits and is paid contracting TPT in larger amounts, such that the \$50 million cap is reached.
- Limiting the total amount paid to a locality with a qualifying project in FY 2014-2015 (the first year that payments under the public infrastructure funding mechanism can occur) to \$5 million.

If a contractor on a qualifying project subsequently makes a refund claim or an audit adjustment results in lower TPT liability than originally reported, the offset is taken from the applicable locality's monthly distribution for the month following payment of the claim or adjustment.

Authorizes DOR to disclose information relating to distributions with any official of a locality in an ongoing agreement with DOR or considering entering one. Places restrictions on the locality's use of the disclosed information.

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## Property Tax

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### House Bill 2092 (Chapter 197)

Property tax appeals; valuation; classification

Increases the maximum limitation for small claims procedures on property classification and valuation to \$2 million in real or personal property.

The State Board of Equalization (SBOE) may no longer increase or decrease valuation of property or change

property classification during a hearing on a taxpayer's appeal; instead, it must grant or deny all or part of the taxpayer's petition for change in valuation or classification.

The SBOE may increase the value of individual units in a multi-parcel appeal up to the aggregate value of all units involved in the appeal. However, it may not exceed the value noticed by the county assessor nor change the property classification in its decision on a taxpayer appeal.

The new owner of a property is permitted to continue an appeal process started by a previous owner or file a new appeal, if the previous owner's appeal did not receive final judgment or a dismissal from Tax Court and the new owner files their own appeal before December 15th of the valuation year.

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### House Bill 2178 (Chapter 200)

Property taxes; refund; forgiveness (~~tech correction;~~ ~~prepaid legal insurance~~)

Authorizes the Mohave County Treasurer to refund taxes paid, and forgive any property taxes and accrued penalties due, for qualified property owners.

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### House Bill 2184 (Chapter 158)

Fire district; alternative tax rate (~~tech correction;~~ ~~occupational safety; exemption~~)

A fire district in which the net assessed valuation declined by a total of 25% or more beginning with the 2008 valuation year, may temporarily increase the tax per \$100 of assessed valuation from \$3.25 to \$3.75 if:

- The amount of levy proposed to be raised by a tax rate in excess of \$3.25 per \$100 of assessed valuation is no more than the amount of tax levy raised in the immediate preceding fiscal year.
- The fire district certifies that no portion of the increased tax levy will be used to pay salary increases or to increase the number of full time employees.
- The fire district certifies that no portion of the increased tax levy will be allocated to future year expenditures, retained or encumbered as reserve monies of any type, and that no more than 5% of the tax levy raised is planned for carry forward monies at the end of the fiscal year.

A fire district with an increased tax levy may not call for an override election.

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## **House Bill 2226 (Chapter 220)**

Property tax; algaculture

Defines lands and improvements of at least 5 acres dedicated to algaculture operations as agricultural real property for property tax purposes.

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## **House Bill 2438 (Chapter 176)**

Gov land; private land; study

Creates the Joint Legislative Study Committee on Government and Private Lands to examine the consequences of transferring real property from private parties to government entities.

DOR is required to contract with each county assessor to conduct a property status study to identify the amount of total private property within each county, tax exempt private property within each county, private property in conservation status within each county, federal lands in wilderness areas, natural conservation areas, national parks, national monuments and other special conservation status areas, if available and municipal and county lands in parks, conservation areas or other special conservation status areas.

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## **House Bill 2478 (Chapter 349)**

Property tax; facilities (schools; budget increases; bonds; ballots)

Limits the athletic, recreational, entertainment, artistic or cultural facilities that can be designated as class 9 properties to those that are used exclusively for those purposes and must become the property of the federal, state, county or municipal property on termination of the lease.

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## **House Bill 2486 (Chapter 350)**

Homeowners' rebate affidavit

Eliminates the requirement for an owner affidavit to qualify for classification as class three property.

The civil penalty for failure to respond to the assessor, is decreased to the amount of additional state aid paid in the preceding tax year, rather than twice the amount of additional state aid paid.

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Beginning in 2013, a county assessor is required to send notices to those class three property owners who have a mailing address outside the county in which the property is located, have a mailing address different than the situs address of the property, have the same mailing address listed for more than one class three property in Arizona, or appear to be a business entity.

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## **House Bill 2608 (Chapter 124)**

Assessed valuations; audit

Allows DOR to audit county assessor property valuations to ensure proper valuation of new construction and directs the governing body of each county, city, town, community college district and school district to fix and determine property tax rates based on property valuations determined on or before February 10 of the tax year.

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## **House Bill 2801 (Chapter 130)**

Property tax bills; payment; interest

Precludes interest charges on delinquent property taxes of less than \$100 if the tax is paid in full by December 31 of the tax year.

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## **House Bill 2803 (Chapter 216)**

Personal property tax appeal deadline

Extends the deadline for filing an administrative appeal of the valuation of personal property from 20 days to 30 days after the delivery of a notice of valuation.

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## **Senate Bill 1279 (Chapter 324)**

Personal property tax; computer software

Clarifies that personal computers and general purpose computers used in a trade or business are valued as personal property. Operating system software necessary to enable the operation is valued as a part of the computer on which it is installed. All other software, whether canned or customized for a specific application, is valued as personal property.

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## **Senate Bill 1416 (Chapter 182)**

Property tax; agriculture classification; affidavit

Modifies the criteria for property that is eligible for designation as agriculture by reducing the number of years land is required to be used for agricultural

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purposes, to at least 3 of the last 5 years, rather than 7 of the last 10 years. Also stipulates that the requirement of reasonable expectation of operating profit can be satisfied if the owner files an affidavit of agricultural use with the county assessor and the property is actively producing with an expectation of profit.

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## Unclaimed Property

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### House Bill 2023 (Chapter 217)

Unclaimed property; certificates of deposit

Stipulates that certificates of deposit and any interest are presumed abandoned three years after maturity if unclaimed by the apparent owner. A deposit that is automatically renewable is deemed matured on its initial date of maturity, unless the owner has consented to a renewal at the time of the account opening. The consent must either be in writing or is evidenced by the original account agreement or by any memorandum or other record on file with the holder.

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## Multiple Tax Types/Miscellaneous

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### House Bill 2094 (Chapter 198)

Prepaid wireless e911 excise tax

Establishes a prepaid wireless telecommunications E911 excise tax in an amount of eight tenths of 1% of the gross proceeds of sales or gross income derived from the retail sale of prepaid wireless telecommunications services, which begins January 1, 2014. The incidence of the tax is changed from the telecommunications provider to the retail seller of the prepaid wireless telecommunications service. Retailers are authorized to keep 3% of the cost of the tax that they collect from their customers.

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### House Bill 2332 (Chapter 331)

Healthy forest enterprise incentives; extension

Extends the transaction privilege, use and income tax incentives for qualified healthy forest enterprises in the state through December 31, 2024 and modifies the requirements for eligibility as a healthy forest enterprise (HFE).

Beginning tax year 2013, new individual and corporate income tax credits are authorized for the costs of training new workers in ecological restoration. The tax credit is equal to the net cost of the training, with a cap of \$3,000 per full-time employee for the first three years of

employment; and no more than 200 employees can be claimed in any taxable year.

Sales of motor vehicle fuel and use fuel sold to qualified HFE businesses is exempted from TPT and use taxes. The fuel must be used in off-road harvesting, processing or transporting qualifying forest products in order to qualify for the exemption.

Sales of repair parts that are installed in equipment used directly by a qualified HFE business for harvesting, processing or transporting qualifying forest products is exempted from TPT and use taxes.

The current TPT exemption for leased or rented equipment by an HFE is expanded to include all leases regardless of their duration.

Reauthorizes the use fuel tax discount on fuel used by vehicles transporting forest products, which reduces the tax from 13 to 9 cents per gallon. The discounted use fuel tax rate is applicable on September 1, 2012.

Reauthorizes the prime contracting exemption for construction contracts with an HFE, which expired December 31, 2009.

- The classification for property owned by a HFE as class 6 property is reestablished for property constructed or installed prior to January 1, 2025.

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### House Bill 2526 (Chapter 213)

Skilled nursing home provider assessments

Pending federal approval, levies an assessment on health care items and services provided by nursing facilities to obtain federal financial participation in the prescribed services to supplement Medicaid payments to facilities. AHCCCS is required to calculate the assessment based on the net patient service revenue of all facilities. The assessment is due quarterly to the Department of Revenue.

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### House Bill 2606 (Chapter 336)

Liquor; omnibus (state liquor board members; comp)

Makes numerous changes to the Arizona Department of Liquor Licenses and Control and modifies liquor licenses registration and compliance requirements.

Increases, from 90 to 120 days, the time period a licensed business may be delinquent in the payment of state taxes before a license suspension or revocation. The delinquent tax liability must exceed \$250 to trigger a license suspension or revocation.

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## Senate Bill 1045 (Chapter 2012)

Tax correction act; 2012

SB 1045 makes technical, clarifying and conforming changes to Arizona's tax statutes as recommended by the Department of Revenue and Legislative Council.

### Provisions:

Deletes obsolete language and internal references relating to rental occupancy, estate and county transportation excise tax.

Clarifies that a taxpayer who fails to make payments by electronic funds transfer for which they are obligated, is required to pay a penalty of five percent of the amount not paid by electronic funds transfer rather than five percent of the entire amount of tax due on the return.

Clarifies that confidential information relating to any tax collected by the on behalf of a county may be shared with that county, city or town.

Repeals A.R.S. Title 42, chapter 3, article 5.1, relating to the tax associated with Delivery Sales of Tobacco Products.

Deletes obsolete language and makes conforming and internal reference changes to adjust for expiring legislation associated with gross proceeds of sales or gross income received from a contract for the construction and development of lake facilities.

Restores language that was inadvertently removed from statute relating to how DOR must account for revenues collected under the transient lodging, amusement and restaurant classification.

Repeals obsolete language relating to county transportation excise taxes for roads (the tax levied under this statute expired in 2010). Also, specifies that outstanding tax liabilities, and any penalties and interest accrued on unpaid amounts of those liabilities pertaining to county transportation excise taxes for roads are neither affected nor impaired by the repeal of A.R.S. § 42 – 6104.

Conforms current law, which expands the range of a Government Property Lease Excise Tax rate from within 90% and 110% to 90% and above the countywide average combined property tax rates to be levied and collected by a local government to use for government property improvement. This language was inadvertently left out of legislation enacted in 2010.

Repeals obsolete language relating to the application of Internal Revenue Code for income tax with associated legislation expiring after TY 1993.

Clarifies the language used to require that DOR determine the amount of withholding tax deducted and retained by employers from employee compensation for services performed within the state, but does not change the method of calculation. Make other conforming changes relating to withholding taxes.

Specifies the appropriate terminology in the School Tuition Organization statutes by replacing “accounting” with “auditing.”

Repeals obsolete session law relating to the temporary 1% TPT increase.

Modifies the premium and corporate income tax credits for new employment.

Conforms the depreciation schedule for manufacturers, assemblers and fabricators personal property with the accelerated schedule for business personal property other similarly situated personal property.

Repeals obsolete language related to the repeal of the Enterprise Zone Program.

Modifies the individual and corporate income tax credits for increased research activities.

Repeals obsolete statutes relating to constructing energy efficient residences.

Delays the repeal of the individual and corporate income tax credit for qualified health insurance plans. (Currently the credit is repealed before carryforwards are exhausted).

Repeals obsolete income tax subtraction relating to displaced pupil grants.

Repeals obsolete session law relating to the economic impact analysis section of Laws 2005, Chapter 289, HB 2139, specifically as it relates to the provision that requires DOR to "cooperate" with JLBC by providing the identity of the corporations that elected the enhanced sales factor.

Repeals obsolete statutes regarding qualified defense contractors.

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## Senate Bill 1280 (Chapter 311)

Tobacco; internet; mail sales; e-cigarettes

SB 1280 provides purchasing restrictions on tobacco products by prohibiting the order or purchase of tobacco products only through a licensed person or a retailer who orders or purchases from a licensed person.

A person who violates the purchase restriction is subject to a maximum civil penalty of \$5,000 for each violation,

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court and investigation costs (including attorney fees), and all state tobacco taxes and all transaction privilege or use taxes including any penalties and interest.

Each order or purchase of a tobacco product seized in violation forfeits to the state and must be destroyed.

DOR may not issue or renew licenses to sell tobacco products if an applicant is in violation of the purchase restriction or escrow account deposit requirements. Also precludes DOR from refunding the tax for stamps that are affixed to contraband articles or substances.

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