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ARIZONA TAX RESEARCH ASSOCIATION

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ATRA's 2013 LEGISLATIVE PROGRAM

ATRA's Board of Directors adopted its 2013 Legislative Agenda in December and ATRA staff will work to advance those goals during the First Regular Session of the 51st Legislature. First and foremost, ATRA staff will advocate for the recommendations put forward by Governor Brewer's Transaction Privilege Tax (TPT) Simplification Task Force that aim to simplify Arizona's overly complicated TPT system. Another major agenda item included in ATRA's Legislative Program focuses on conforming legislation to implement Prop 117.

STATE BUDGET – State Fiscal Stability

For the last several years, ATRA's legislative agenda was developed recognizing that the Legislature's highest priority should be passing a state budget that is not only balanced but sustainable in future years. The revenue from the temporary 1% sales tax will sunset June 30, 2013 and will not be available for the Fiscal Year (FY) 2014 budget. The major budget issue for state policymakers for FY14 is ensuring that one-time revenue (rainy day fund and cash balance) is not appropriated for on-going spending that cannot be sustained in future years. The passage of HB 2567 (Olson) last session requires the Legislature, in conjunction with the passage of the general appropriations act, to also reflect revenue and expenditure estimates for the following three years. Ensuring that those estimates are reasonable and reflect a balanced budget in future years is critically important.

ATRA will again provide updated budget recommendations to the Legislature in late January after the Joint Legislative Budget Committee and Office of Strategic Planning and Budgeting have submitted their recommendations for the FY14 state budget.

TAXATION

Property Tax

Property Tax Rate Increases. While statewide property valuations have fallen 35% over the last three years, statewide levies have dropped only 10%. As a result, the average statewide property tax rate climbed for the third year in a row. The statewide average rate of \$11.75 has now climbed \$2.55 (28%) from a historical low-point of \$9.20 in 2009. A portion of the increase in property tax rates can be attributed to increases in the K-12 schools' Qualifying Tax Rate (QTR) and the State Equalization Rate. Together those rates have increased \$1.31 over the last three years as a result of formulaic increases in the state's Truth-in-Taxation law.

Notwithstanding the current pressures on property tax rates, there will be considerable pressure at the Capitol in 2013 to increase access to the property tax base – particularly for K-12 school bonding authority. Increases in school bonding authority would be on top of a recent 50% increase in K-12 school override authority.

Property Tax Reform vs. Targeted Property Tax Breaks. ATRA has led the effort to reform Arizona's

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property tax system and reduce the disparity in tax treatment between business and residential property. As a result of previous ATRA-backed legislation passed in 2005, 2007, and 2011, the effective tax rate on business properties has improved from 3rd highest in the country to 13th, according to the most recent statistics from the Minnesota Taxpayers Association. In addition, repeated efforts to decrease the tax burden on business equipment through enhanced accelerated depreciation have significantly reduced the exposure to that punitive tax. Small business can also look forward to an increase in the exemption from the current \$68,079 to \$125,700 in tax year 2013. Through ATRA’s consistent efforts, Arizona’s competitive tax position for Arizona businesses has significantly improved compared to a decade ago.

The steady progress that has been made in addressing Arizona’s high business property tax problem is the direct result of policymakers addressing the cause of that problem: the shift of taxes from residential properties to business through higher assessment ratios on business property. To their credit, over the last decade, policymakers largely rejected calls to address the problem through rifle-shot tax breaks to specific industries. ATRA continues to support policies that provide for equitable treatment among property taxpayers and will oppose efforts that undermine that important policy principle. Along with other organizations that oppose targeted tax breaks for specific industries, ATRA has been successful in recent sessions in defeating legislation to expand class six (5% assessment ratio) to targeted industries.

For the 2013 session, ATRA will pursue the following property tax legislation:

Proposition 117 Omnibus Implementation - ATRA will pursue legislation to conform Arizona Revised Statutes to be consistent with the provisions of Proposition 117. Statutory references to **primary** and **secondary** net assessed value will be changed to **limited** net assessed value.

Debt Service Levy Reform – ATRA will pursue legislation to limit the secondary property tax levy in any year to an amount necessary to meet the required principal and interest payments on outstanding general obligation bonds.

City General Purpose Parcel Taxes – ATRA will pursue legislation to prevent cities from imposing general purpose parcel taxes.

Sales Tax

Sales Tax Reform – Arizona businesses are burdened with the most administratively complex sales tax system in the country. Much of that burden is grounded in Arizona’s independent municipal sales tax structure, which allows cities to levy taxes on a different tax base than the state as well as collect and audit those taxes independently of the state. ATRA’s ultimate goal is to create a uniform state and local sales tax base. A uniform base would dramatically decrease the fiscal compliance costs for both business and state and local government.

For decades, ATRA’s efforts to create uniformity of the state and local sales tax system, as well as simplify the administration and compliance of the sales tax, have been opposed by Arizona’s cities and towns. However, Arizona state and local governments now share the business community’s interest in simplification

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<p>ARIZONA TAX RESEARCH ASSOCIATION Lyn White.....Chairman Kevin J. McCarthy.....President Jennifer Stielow.....Vice President Ben Nowicki.....Research Analyst Maria Travers.....Office Manager</p>	<p>Published 10 times annually by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficiency and economy in Arizona government and reductions at all levels. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research Association. <i>Serving Arizona’s taxpayers since 1940.</i></p>	<p>1814 W. Washington Street Phoenix, Arizona 85007 (602) 253-9121 www.arizonatax.org atra@arizonatax.org</p>
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and standardization of the sales tax code because of increasing lost revenues associated with online retail transactions. Legislation being considered in Congress to grant states the authority to require remote sellers to remit sales tax would require fundamental changes to Arizona's sales tax administration and tax base.

As a result of our high reliance on the sales tax, Arizona has a heightened interest in a resolution to the taxation of online retail activity. With high sales tax rates, Arizonans are incentivized to avoid those taxes through online purchases. Several studies suggest that Arizona is losing more tax revenue to online retail than most states. A recent study from the National Conference of State Legislatures estimated Arizona's lost revenue at \$709 million annually. As the table below reflects, that puts Arizona's losses on a per capita basis as the 6th highest nationally.

State	Lost Sales Tax Revenue (Millions)	Sales Taxes Lost Per Capita
Louisiana	\$808.3	\$178.30
Nevada	\$344.9	\$127.71
New Mexico	\$246.0	\$119.47
Tennessee	\$748.5	\$117.95
California	\$4,159.7	\$111.66
Arizona	\$708.6	\$110.86
Wyoming	\$61.7	\$109.47
Mississippi	\$303.2	\$102.18
Kansas	\$279.2	\$97.86
New York	\$1,767.0	\$91.19

ATRA strongly supported Governor Brewer's creation of the TPT Simplification Task Force, which met through the summer and fall studying Arizona's system. ATRA strongly supports the recommendations of the Task Force that were adopted on December 13, 2012.

Implementing Sales Tax Reform – ATRA will pursue legislation to implement the recommendations of the Governor's Task Force. ATRA's legislation will be focused on short-term and long-term goals – with short-term goals receiving the primary focus for the 2013 session. The short-term goals for 2013 will likely focus on the following:

- ◆ Statewide administration of the sales tax for all jurisdictions. This legislation would contain a delayed effective date for transition purposes for the 18 non-program cities;
- ◆ Statewide administration of sales tax audits, including multi-jurisdictional audits if applicable;
- ◆ Uniform single point of licensing;
- ◆ Eliminate Prime Contracting Tax in favor of tax on materials at point of sale.

Treatment of Exempt Machinery and Equipment under Prime Contracting – ATRA will pursue legislation to reverse the Department of Revenue's effort to change the longstanding treatment of the installation of exempt machinery and equipment under the prime contracting tax.

LEGISLATIVE PROGRAM, *Continued from Page 3***Public Finance/Other**

School Finance. There is increasing pressure to change Arizona's school finance laws. Currently, there are three lawsuits filed against the State of Arizona that challenge the current school finance system on equity grounds. One of those lawsuits is filed on behalf of Arizona's charter schools. The 2011 session (SB1263) and 2012 session (HB2405) were highlighted by very high profile disagreements regarding proposed changes to K-12 school bonding limits and their impact on taxpayers and the existing litigation facing the state. ATRA anticipates that the 2013 session will again feature similar debates.

For decades, major changes to Arizona's school finance laws have been driven by court decisions that were lost by the State of Arizona. The *Roosevelt v Bishop* decision has cost Arizona taxpayers roughly \$4.5 billion since the state lost that court case. It is a certainty that Arizona taxpayers will again be the losers if the state loses any of the current suits it is facing. To that end, any proposed changes to Arizona's school finance system should always be measured against their impact on the State of Arizona's ability to defend the current system.

ATRA will oppose "reforms" to the school finance system that simply increase the reliance on the local property tax – thereby increasing inequities across districts – in isolation of other reforms that protect the state and its taxpayers in future litigation.