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ARIZONA TAX RESEARCH ASSOCIATION

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ATRA's 2014 LEGISLATIVE PROGRAM

Introduction

ATRA's Board of Directors adopted its 2014 Legislative Agenda in December and ATRA staff will work to advance those goals during the Second Regular Session of the 51st Legislature. Legislation that passed last year was a major first step to improving the administration of Arizona's Transaction Privilege Tax (TPT) system. This year, ATRA will pursue additional reforms to the TPT system to create uniformity in licensing, filing, and payment of TPT. Additionally, ATRA will pursue legislation to ensure that the calculation of K-12 primary property tax levies are consistent with state law. ATRA will again pursue legislation to prohibit cities from levying a general purpose parcel tax. Finally, ATRA will continue to support policies that provide equitable treatment among property taxpayers and oppose any efforts that seek to do otherwise.

State Budget

ATRA's legislative program is developed each year with recognition that the Legislature's highest priority for the session should be passing a state budget that is not only balanced but is sustainable in future years. State law now requires the Legislature, in conjunction with the passage of the General Appropriations Act, to also reflect revenues and expenditures for the following three years. Clearly, the major challenge facing state policymakers in developing the Fiscal Year (FY) 2015 budget is ensuring that one-time revenue (rainy day and cash balance) is not appropriated for on-going spending that cannot be sustained in future years.

ATRA will provide updated state budget recommendations to the Legislature in late January after the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSPB) have submitted their recommendations for the FY 2015 budget.

Taxation

Property Tax

Arizona property taxpayers have experienced historic instability in the last ten years. Following record increases in net assessed values (NAV) from 2003 to 2008, statewide NAV's plummeted between tax years 2009 and 2013. As a result of the large decreases in NAV, the statewide average tax rate climbed for the fourth year in a row. The statewide average tax rate of \$12.54 for 2013 is the highest rate since 2001 and is now up \$3.34 from the low point of \$9.20 in 2009.

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Notwithstanding the recent pressure on tax rates, state policymakers have added to the problem in recent years by increasing access to the property tax. Regrettably, in the 2013 session, policymakers doubled the debt limits for K-12 schools. That followed a recent measure to increase school overrides by 50%.

For the 2014 session, ATRA will oppose efforts on the part of Arizona local governments and special districts to increase access to the property tax base.

Property Tax Reform vs. Targeted Property Tax Breaks. ATRA has led the effort to reform Arizona's 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 Center for Fiscal Excellence. In addition, repeated efforts to decrease the tax burden on business equipment through enhanced accelerated depreciation have dramatically reduced the exposure to that punitive tax. In addition, this year small businesses benefited from an increase in the personal property tax exemption from the current \$68,079 to \$133,868. 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 root 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 2014 session, ATRA will pursue the following property tax legislation:

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

Publicity Pamphlets for Bond and Override Elections – ATRA will pursue legislation to ensure that publicity pamphlets distributed by local governments are neutral documents designed to inform voters as opposed to taxpayer-financed advocacy pieces. (Sen. Yarbrough)

K-12 School Overrides – ATRA will pursue legislation to limit K-12 school continuation overrides to once during the life of the existing override. (Sen. Yarbrough)

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K-12 Primary Property Tax Levy Reform – ATRA will pursue legislation to ensure that K-12 school primary property taxes are levied in accordance with all applicable state statutes. County School Superintendents will be required to forward their calculations of K-12 primary property taxes to the Property Tax Oversight Committee for review, approval and recalculation if necessary. (Rep. Lesko)

Countywide Secondary Levy Limits – ATRA will pursue legislation to place levy limits on the following countywide special districts: Library Districts, Public Health Services Districts, and Jail Districts. These countywide special district levies would be limited to the same percentage growth as the annual increase in the county's primary levy limit. (Rep. Olson)

Sales Tax

The 2013 legislative session was highlighted by the passage of HB2111, a historic measure that made significant progress toward reforming the administration of what was arguably the most complicated and chaotic sales tax system in the country. However, Arizona's sales tax system still falls short of both ATRA's long-term policy goals, as well as the current federal requirements under the Marketplace Fairness Act.

For the 2014 session, ATRA will pursue the following sales tax legislation:

Uniform Licensing – ATRA will pursue legislation to create uniform state and city licensing procedures.

Uniform Filing, Filing Frequency, and Payment Protocols – ATRA will pursue legislation to create uniformity in filing, filing frequency, and payment protocols of the state and cities.

Consolidated Returns – ATRA will pursue legislation to allow taxpayers to file consolidated returns at both the state and city level. (Rep. Lesko)

Unclaimed Property – ATRA will pursue legislation to extend the state's current prohibition on the Department of Revenue's use of outside auditors to conduct unclaimed property audits.

Public Finance

Annual Budget Publication and Audit Accountability – ATRA will pursue legislation to create penalties for local governments that fail to meet the required deadlines for the publication of their annual audits. In addition, the legislation will make clear that the tentative and final budgets of counties, community colleges, cities and towns are required to be posted on the jurisdiction's website within seven days of adoption and must remain on the website for at least sixty months. (Sen. Pierce)

U.S. Census Bureau Reporting – ATRA will pursue legislation to require JLBC or OSPB to be the official reporting agency to the U.S. Census Bureau for public finance and tax information.