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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

VOLUME 77
NUMBER 1

JANUARY 2017

2017 ATRA Legislative Program

Introduction/State Budget

ATRA's legislative program is developed each year with recognition that the Legislature and Governor's highest priority for the session should be passing a state budget that is not only balanced but is sustainable. The preeminent challenge facing state policymakers is ensuring that the FY 2018 budget is structurally balanced – meaning ongoing spending does not exceed ongoing revenue and that one-time revenue (rainy day fund and cash balance) is not appropriated for ongoing spending.

ATRA will provide state budget recommendations to the Legislature after the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSP) have submitted their recommendations for the FY 2018 budget.

Taxation

Property Tax

Arizona property taxpayers have ridden a historic roller coaster over the last 13 years. Following record increases in net assessed values (NAV) from 2003 to 2008, statewide NAV plummeted between tax years 2009 and 2013. Largely as a result of Prop 117, statewide property values have been stabilized with NAV growth up only 5.7% over the last two years.

However, Arizona's statewide average tax rate for 2016 of \$12.95 is the second highest in state history and has climbed 41% over the last seven years.

Regrettably, despite recent policy changes aimed at reducing Arizona's very high business property tax burden, the collapse of the residential real estate market during the Great Recession had a particularly negative effect on business property taxes. In fact, the reduction in residential values resulted in a 22% increase in effective tax rates on business property from 2009 to 2015.

Prevent greater access to the property tax

For the 2017 session, ATRA will oppose efforts on the part of Arizona local governments and special districts to increase access to the property tax base. Despite widespread recognition that Arizona's business property taxes are a major impediment to economic development, there is considerable pressure at the Capitol to increase access to the property tax. In recent years, Arizona Fire Districts have sought increased access to the property tax base through a removal of the current \$3.25 rate cap.

In addition, ATRA will advocate for the continued compliance with the state's Truth-in-Taxation law. Since its passage in 1998, the state has consistently complied with the TNT law. For the last three years, the Qualifying Tax Rate and the State Equalization Tax Rate have fallen as a result of the TNT law. While that rate has both risen and fallen with the fluctuations in the real estate market, ATRA believes adherence to the TNT law is an important principle that will benefit taxpayers over time.

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, steady progress has been made in reforming the underlying policies that result in Arizona's high business property taxes. That progress is the direct result of policymakers addressing the root cause of that problem: the shift of taxes from residential property 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 2017 session, ATRA will pursue the following property tax legislation:

Require Voter Approval for Desegregation/Office of Civil Rights (OCR) Levies (Senator Lesko)

ATRA will pursue legislation to require the 19 Arizona school districts, beginning in FY 2020, to receive voter approval for continued property tax levies to fund their desegregation/OCR expenditures. These voter approved property taxes would be levied as secondary property taxes

like all other K12 school district overrides. These Desegregation/OCR override levies would be capped at the existing levels for each of the 19 districts.

Districts that remain under a federal court order to desegregate would be required to secure voter approval for their property tax levies beginning the year following being declared unitary.

Reform the Government Property Lease Excise Tax (Representative Leach)

The Government Property Lease Excise Tax (GPLET) remains an extraordinarily controversial feature of Arizona's public finance structure. Enacted in 1996 to replace the possessory interest tax, GPLET is a mechanism to tax private businesses on certain government properties. ATRA participated in a major GPLET reform effort in 2010. A recent Auditor General report analyzed the impact of the 2010 reforms and noted that they have been largely side stepped by city governments.

ATRA will pursue prospective reforms to GPLET in the following areas:

All properties would be required to pay the K12 school districts GPLET during the 8-year abatement period.

Future GPLET projects would be prohibited from using the grandfathering provision that allows the use of pre-2010 GPLET rates.

Require the government lessor to calculate the GPLET tax – not the lessee. Lessor would be required to pay for any underreporting.

1% Cap Reform (Senator Farnsworth)

In recent years state policymakers have struggled with the myriad of negative impacts associated with the 1% constitutional cap on homeowner primary property taxes. Pima County successfully challenged the 2015 legislation that shifted the state's responsibility to subsidize the 1% cap back to local governments. As a result, the state's taxpayers are back on the hook for subsidizing the high tax rates of many local governments. In addition, the subsidy continues to incentivize those local governments to raise rates on non-residential taxpayers that are not protected by the cap.

ATRA will support legislation to protect the state's taxpayers from this unfair subsidy as well as protect local taxpayers from spiraling tax rates in jurisdictions with homeowners at the 1% cap.

General Obligation Bond Levies (Representative Ugenti-Rita)

In 2013 ATRA successfully advocated for legislation limiting the annual secondary property tax

levy for General Obligation bond debt service to the amount necessary to pay the annual debt service, including a reasonable amount for delinquency. In 2016, ATRA discovered some local governments were ignoring the 2013 law that clearly required the final levy to be netted.

ATRA will pursue legislation to make clear that the annual debt service levy shall be net of the cash balance from the prior year.

Sales Tax

Prime Contracting Reform (Representative Cobb)

For decades, Arizona's prime contracting tax has arguably been the most complicated, inefficient and controversial area of the sales tax code. The 2013 TPT reforms carved out service contractors doing maintenance, repair, replacement, or alteration (MRRRA) on existing property. Those reforms were modified in 2015 in an attempt to create greater certainty for contractors and tax agencies regarding the line between MRRRA projects and prime contracting. Those reforms continue to present major compliance challenges for both contractors and tax agencies.

ATRA will support continued efforts to eliminate the prime contracting tax in favor of a tax on construction materials at retail in order to reduce the tax compliance burden on businesses and state and local governments.

Taxation of Digital Goods/Services

ATRA will pursue a study committee to provide clarity on the taxation of sales, leasing, or licensing of digital goods and services transferred electronically to customers.

Public Finance

Truth-in-Taxation (Representative Barton)

ATRA will pursue legislation to expand the Property Tax Oversight Commission (PTOC) review of truth-in-taxation calculations to countywide special taxing districts. In addition, the legislation will simplify current truth-in-taxation public notices.