



The taxpayer's watchdog for 80 years

ARIZONA TAX RESEARCH ASSOCIATION

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2020 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 sustainable. The preeminent challenge facing state policymakers is ensuring that the Fiscal Year (FY) 2021 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.

Strong economic growth has driven state tax collections above budgeted estimates for two fiscal years, dramatically improving the state's fiscal condition. The Joint Legislative Budget Committee (JLBC) is estimating that lawmakers will have access to significant one-time revenues for the FY 2021 budget. It is imperative that Governor Ducey and lawmakers carefully distinguish between appropriations that create on-going expectations from obvious one-time expenditures like capital outlays and debt retirement.

ATRA will provide updated state budget recommendations to the Legislature after the JLBC and the Office of Strategic Planning and Budgeting (OSPB) have submitted their recommendations for the FY 2021 budget.

Taxation

Property Tax

Property tax reform. 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, 2011, steady progress has been made in reforming the underlying policies that drive 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.

Most legislative sessions include debates surrounding reforms to Arizona's tax code. ATRA believes any effort to reform Arizona's tax system should include further reductions to the class one assessment ratio with the ultimate goal of 15%. Despite the progress that has been achieved in this area, Arizona's high effective tax rates continue to be the number one tax impediment to industry growth in Arizona.

Prevent greater access to the property tax. For the 2020 session, ATRA will oppose efforts on the part of Arizona State and 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 obstacle to economic development, there is considerable pressure each year at the Capitol to increase access to the property tax.

In addition, ATRA will advocate for the continued compliance with the state's Truth-in-Taxation (TNT) law. Since its passage in 1998, the state has consistently complied with the TNT law. For the last five 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.

Targeted Property Tax Breaks. For decades, ATRA has led the effort at the Capitol to oppose rifle-shot property tax breaks to specific industries. ATRA will continue to support policies that provide for equitable treatment among property taxpayers and oppose efforts that undermine that important policy principle.

For the 2020 session, ATRA will pursue the following legislation:

Property Tax

Reduce the assessment ratio on class one property below the current 18%.

ATRA will support legislation to reduce the assessment ratio on class one property below the current 18% level. The timing and details associated with this proposal remain a work in progress. (Senator J.D. Mesnard)

Mailing Property Tax Bills to Mortgagor

During the 2019 session, ATRA successfully pursued legislation requiring all county treasurers to mail a statement reflecting the current property tax bill to every mortgagor. Regrettably, the Maricopa County Treasurer chose to only send every mortgagor the total amount of taxes due without any detailed information on the taxes levied by the various jurisdictions. ATRA will pursue legislation making it clear that the tax statement include a breakdown of the taxes owed to each legal entity taxing the property. (Senator Vince Leach)

Sales Tax

Model City Tax Code Transparency

Arizona businesses are burdened with one of the most complicated sales tax systems in the country.

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Much of that burden is grounded in Arizona's independent municipal sales tax structure that allows cities to levy taxes on a different tax base from the state and counties. In an attempt to address the chaos associated with various city tax structures, Arizona cities created the Model City Tax Code (MCTC) in 1987, and in 1988, Arizona policymakers created the Municipal Tax Code Commission (MTCC) to oversee amendments to the MCTC. In 1999, lawmakers stripped cities and towns of the authority to adopt tax ordinances not included in the MCTC. Following confusion regarding the responsibility and location of the official version of the MCTC, Arizona lawmakers passed legislation in 2011 requiring the Arizona Department of Revenue (ADOR) to maintain the official version of the code. In 2013, led by Governor Brewer, lawmakers preempted cities on local collection of sales and consolidated audit authority at the state level.

In 2020, ATRA will pursue legislation to simplify, streamline and create transparency for the process to amend the MCTC. The legislation will clarify that any party can pursue amendments to the MCTC as well as simplifying the public notification requirements for ADOR that currently staffs the MTCC.

Prime Contracting Simplification

In 2012, Governor Brewer's TPT Simplification Task Force recommended the state "aggressively" transition from the current prime contracting tax to a tax on materials at retail. In the years following that recommendation, the Legislature changed how TPT is applied to activities involving maintenance, repair, replacement, and alteration (within certain thresholds) from prime contracting to a tax on materials at the point of sale, now known as MRRA.

MRRA simplified tax compliance for contractors that only work on MRRA projects; however, those complications were shifted to contractors involved in both MRRA and prime contracting activities. In 2017, Rep. Regina Cobb sponsored legislation that required ADOR commission a study to determine the noncompliance under prime contracting. The study showed that the state lost approximately \$1 billion in tax revenue between 2010 and 2016. ATRA will support legislation to simplify the tax compliance for MRRA and prime contracting projects. (Rep. Regina Cobb)

Corporate Income Tax

Extending Arizona's corporate income tax filing deadline

ATRA will pursue legislation to extend Arizona's corporate income tax filing deadline by 30 days. Currently the deadline for filing Arizona's corporate income tax returns coincides with the deadline for filing the federal corporate income tax return. This change will provide considerable administrative compliance relief to Arizona corporations as well as improve the quality of their Arizona corporate tax filings. (Rep. Ben Toma)

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Public Finance

Transparency of K-12 School Audits

In an effort to drive more transparency over the state's largest expenditure, ATRA will pursue legislation to make it easier for private citizens to access public school audits and compliance questionnaires. Presently, many districts and charters (LEAs) do not make these available and they must be requested through FOIA. Audits often do not describe compliance with state laws and rules, making compliance questionnaires a critical tool for monitoring these agencies. Additionally, it is reported that governing board members are often unaware of the results of these audits and are either not discussed at board meetings or quietly adopted in consent agendas. If an LEA is reported by the Auditor General for noncompliance, little detail is presently provided to the State Board of Education, who is charged with enforcing remedies for noncompliance.

State law should demand important documents such as audits and questionnaires be made easily accessible to the public. The Department of Education already publishes budgets and the annual financial reports on their website for each district and charter; audits and questionnaires should be similarly accessible. Governing Boards should publicly accept these documents by roll call vote, closing the accountability loop on these important reviews. It also gives the board and the public the opportunity to discuss them. Finally, the bill would require the Auditor General detail in writing the deficiencies of noncompliant LEAs to the State Board and Department of Education to empower their decision making. (Rep. Michelle Udall)

ADOR Letter Rulings

In an effort to increase transparency and taxpayer involvement surrounding ADOR tax rulings, ATRA will support the following measure.

Taxpayers may anonymously request guidance from ADOR as to the tax treatment of a transaction or activity. Currently, a taxpayer may request a conference with the Department at the time the request is submitted; however, it is left to the Department's discretion as to whether a meeting is granted. ATRA will support legislation that requires the Department to meet with the requestor upon request.

The Department also regularly issues Tax Rulings and Tax Procedures and *may* allow for public comment. ATRA will support any effort to increase taxpayer involvement in these draft rulings prior to their final issuance.