

ATRA SUPPORTS HB2263

Reduced Assessment Ratio For Business Property Taxes

SUMMARY

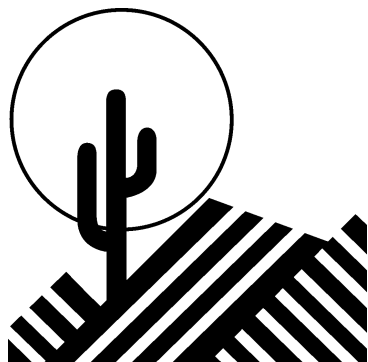
HB2263 makes a small step to a more equitable treatment of business property taxes by dropping the assessment ratio on commercial properties (class 1) from 25% to 24%. The bill also protects the current level of school funding by requiring JLBC, when calculating the truth in taxation (TNT) rate for equalization assistance for schools, to take into account the decrease in net assessed value (NAV) in class 1 property so that the qualifying tax rate (QTR) and the county equalization assistance rate will generate the same amount of funding for public schools as if there were no change to the assessment ratio.

Basis for ATRA's Support

Although Arizona has about average reliance on the property tax when compared to other states (Arizona ranks 32nd in per capita property tax collections for FY 2000), Arizona's method of distributing the burden causes a number of problems for Arizona. Arizona has ***nine classes of property***, second only to Minnesota in the number of classes employed. Arizona taxes the majority of business property at 25% of its value. Homes, on the other hand, where the majority of the state's taxable property lies, are taxed at 10% of the value.

There are two primary policy concerns that result from Arizona's use of the classification system:

1. The higher ratios on business property result in much higher tax burdens on those properties. The enclosed table of Arizona's 2002 effective tax rates shows that the property tax burden on commercial and industrial property (2.91%) is three times higher than residential (1.05%). The dramatic disparity in business vs. homeowner property taxes is also reflected in the enclosed tables showing Arizona's national rankings in these categories. Arizona homeowners rank in the bottom half (30th) while industrial property ranks among the highest in the country (4th). The practical effect of these rankings is that very few capital-intensive manufacturers are willing to locate in Arizona without some form of a tax break. Many of the recent manufacturing plants have been placed in foreign trade zones (class 6) which are taxed at only 5% of value. While this proposal would not change these rankings immediately, it would be a small move in the right direction.
2. Second, the subsidy provided to the homeowner/voter undermines accountability for local government spending. There are many negatives associated with Arizona's property tax classification system and the most significant is that it insulates the homeowner/voter from the true cost of government spending. The enclosed pie chart reflects the increase in total property taxes since 1980. Primary and secondary property taxes have collectively climbed from \$821.6 million to \$4.8 billion – an increase of 480%.



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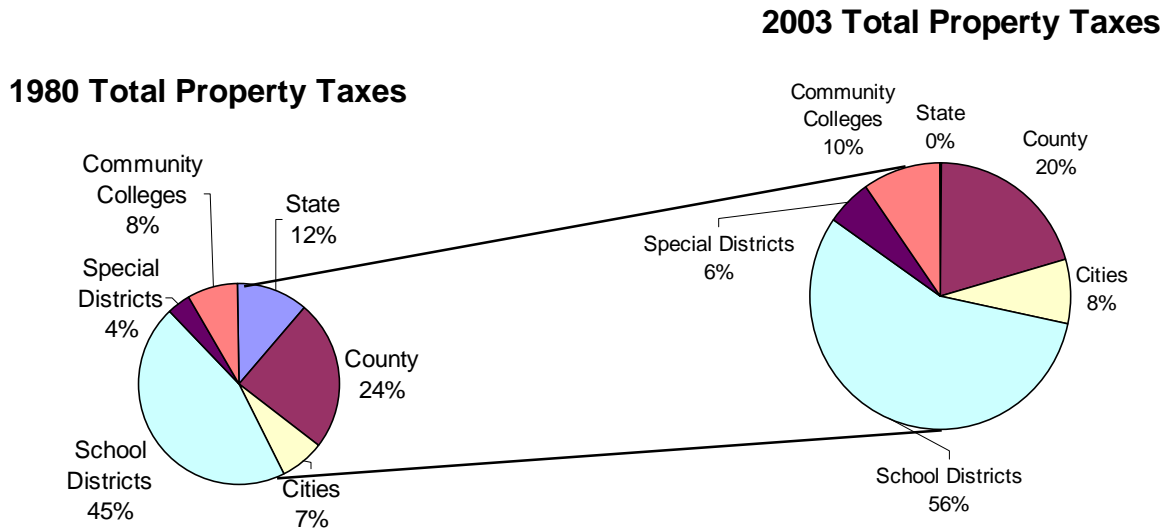
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2002 Effective Tax Rates

Class	Description	Assessment Ratio	Total Taxable Full Cash Value	Percent of Total FCV	Total Taxes Paid	Percent of Total Taxes Paid	Effective Rate
1	Commercial, Industrial, Utilities, & Mines	25%	63,327,870,879	23.47%	1,844,726,209	44.24%	2.91%
2	Agricultural & Vacant Land	16%	19,731,879,936	7.31%	317,242,001	7.61%	1.61%
3	Owner-occupied Residential	10%	158,164,295,799	58.62%	1,658,758,696	39.78%	1.05%
4	Rental Residential	10%	24,353,520,202	9.03%	306,948,518	7.36%	1.26%
5	Railroad, Private car, airline flight	21%	1,096,016,250	0.41%	26,554,841	0.64%	2.42%
6	Residential historic, Enterprise zones	5%	2,571,451,913	0.95%	15,025,509	0.36%	0.58%
7	Commercial Historic	1%	20,497,803	0.01%	445,152	0.01%	2.17%
8	Rental Residential Historic	1%	563,360,325	0.21%	109,584	0.00%	0.02%
9	Possessory Interests	1%	1,451,157	0.00%	1,823	0.00%	0.13%
Total			269,830,344,264	100.00%	4,169,812,332	100.00%	1.55%

**Total Levies, 1980 to 2003,
\$821.6 million to \$4.8 billion (480% Growth)**



**Residential Property Taxes
Payable 2002**

**Industrial Property Taxes
Payable 2002**

**\$150,000 Land and Building
\$50,000 Fixtures**

**\$25,000,000 Land and Building
\$12,500,000 Machinery and Equipment
\$10,000,000 Inventories \$2,500,000 Fixtures**

<u>Rank</u>	<u>State</u>	<u>NET TAX</u>	<u>ETR</u>	<u>Rank</u>	<u>State</u>	<u>NET TAX</u>	<u>ETR</u>
1	Connecticut	5,148	2.574%	1	Connecticut	1,669,200	3.338%
2	Texas	4,046	2.023%	2	Illinois	1,599,028	3.198%
3	Michigan	4,039	2.019%	3	Michigan	1,589,233	3.178%
4	Wisconsin	3,959	1.980%	4	Arizona	1,490,592	2.981%
5	Illinois	3,918	1.959%	5	South Carolina	1,483,965	2.968%
6	Pennsylvania	3,853	1.927%	6	Texas	1,478,150	2.956%
7	New Jersey	3,810	1.905%	7	Kansas	1,420,835	2.842%
8	New Hampshire	3,505	1.753%	8	Indiana	1,212,104	2.424%
9	Maryland	3,282	1.641%	9	Louisiana	1,166,994	2.334%
10	Maine	3,254	1.627%	10	Vermont	1,096,121	2.192%
11	Florida	3,218	1.609%	11	Missouri	1,090,463	2.181%
12	Vermont	3,188	1.594%	12	Massachusetts	1,084,297	2.169%
13	Oregon	3,182	1.591%	13	New York	1,048,884	2.098%
14	Iowa	3,026	1.513%	14	Florida	1,029,926	2.060%
15	North Dakota	2,976	1.488%	15	Tennessee	1,017,958	2.036%
16	Rhode Island	2,968	1.484%	16	Mississippi	1,014,396	2.029%
17	Nebraska	2,910	1.455%	17	Iowa	1,010,947	2.022%
18	Tennessee	2,633	1.316%	18	Rhode Island	1,003,006	2.006%
19	South Dakota	2,546	1.273%	19	District of Columbia	970,800	1.942%
20	New York	2,519	1.259%	20	Maine	958,070	1.916%
21	Alaska	2,447	1.223%	21	Ohio	878,186	1.756%
22	Ohio	2,057	1.029%	22	Minnesota	878,067	1.756%
23	Missouri	2,014	1.007%	23	Georgia	861,007	1.722%
24	Mississippi	2,000	1.000%	24	Oregon	848,400	1.697%
25	Indiana	1,904	0.952%	25	Alaska	837,038	1.674%
26	Georgia	1,820	0.910%	26	Nebraska	808,441	1.617%
27	Kansas	1,818	0.909%	27	West Virginia	802,597	1.605%
28	California	1,788	0.894%	28	Wisconsin	781,000	1.562%
29	North Carolina	1,785	0.893%	29	New Jersey	737,896	1.476%
30	Arizona	1,740	0.870%	30	Maryland	698,400	1.397%
31	Delaware	1,712	0.856%	31	Oklahoma	689,613	1.379%
32	Oklahoma	1,682	0.841%	32	Colorado	681,442	1.363%
33	New Mexico	1,660	0.830%	33	Arkansas	656,708	1.313%
34	Virginia	1,656	0.828%	34	Pennsylvania	642,237	1.284%
35	Montana	1,645	0.823%	35	Idaho	638,910	1.278%
36	Nevada	1,640	0.820%	36	South Dakota	597,562	1.195%
37	Idaho	1,614	0.807%	37	Montana	593,706	1.187%
38	Arkansas	1,559	0.779%	38	New Hampshire	584,220	1.168%
39	South Carolina	1,487	0.744%	39	Alabama	573,780	1.148%
40	Washington	1,449	0.724%	40	New Mexico	568,700	1.137%
41	Minnesota	1,415	0.707%	41	Utah	563,748	1.127%
42	Louisiana	1,328	0.664%	42	North Dakota	531,814	1.064%
43	Kentucky	1,317	0.659%	43	California	500,000	1.000%
44	Utah	1,187	0.593%	44	North Carolina	493,541	0.987%
45	District of Columbia	1,090	0.545%	45	Virginia	493,525	0.987%
46	Wyoming	1,083	0.542%	46	Nevada	447,499	0.895%
47	West Virginia	1,041	0.521%	47	Washington	401,349	0.803%
48	Alabama	942	0.471%	48	Wyoming	349,600	0.699%
49	Colorado	806	0.403%	49	Kentucky	340,438	0.681%
50	Massachusetts	589	0.294%	50	Delaware	290,554	0.581%
51	Hawaii	403	0.201%	51	Hawaii	235,220	0.470%
AVERAGE		2,248	1.124%	AVERAGE		851,768	1.704%

* Minnesota Taxpayers Association, Arizona Tax Research Association