

ATRA SUPPORTS HB2508

Reduced Assessment Ratio For Business Property Taxes

Summary

HB2508 provides more equitable treatment of business property taxes by reducing the assessment ratio on business properties (class 1) from 25% to 20%, phased in over five years. In an effort to address possible shifts in tax liability, the bill increases the current 35% homeowner rebate each year over the five-year period, reaching a maximum of 42% in the fifth year.

Basis for ATRA's Support

Arizona has one of the most complicated property tax systems in the country. One such complexity is Arizona's classification system. Arizona classifies property according to usage into nine classes. The largest classes are business (class 1), which is taxed at 25% of value and residential (class 3), which is taxed at 10% of value. The assessment ratios are used to shift taxes from one class of property to another. In Arizona's case, the tax burden is shifted so that, dollar for dollar, business pays at least 2.5 times more than residential.

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 2004 effective tax rates shows that the property tax burden on commercial and industrial property (2.75%) is almost three times higher than residential (0.99%). On a national level, Arizona homeowners rank in the bottom half while industrial property annually ranks among the top ten. The practical effect of these high tax rates 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. When fully phased-in, HB2508 will provide a meaningful impact on Arizona's high business property taxes as well as Arizona's economic development efforts.
2. Second, every study of Arizona's property tax system has noted that the subsidy provided to the homeowner/voter undermines the accountability that is so important to any tax system. Arizona's property tax structure 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 more than \$5 billion – an increase of more than 513%.

ATRA ASKS FOR YOUR SUPPORT BY VOTING *YES ON HB2508*



ARIZONA TAX RESEARCH ASSOCIATION

1814 West Washington Street, Phoenix, Arizona 85007

(602) 253-9121

www.arizonatax.org

Serving Arizona's Taxpayers Since 1940