

ATRA SUPPORTS SB1028/HB2400

Accelerating the Reduction in the Assessment Ratio for Business Property Taxes

Summary

SB1028/HB2400 accelerates the reduction in the assessment ratio for business property taxes (class 1) from a 10-year phased reduction to six years. Beginning in tax year 2008, the assessment ratio will be reduced from 23.5% to 23%, and 1% each year, until 2011 when the assessment ratio will reach 20%. This legislation is consistent with the original plan that was introduced in 2005.

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 24.5% of value (tax year 2006), 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 roughly 2.5 times more than residential.

The higher ratios on business property result in much higher tax burdens on those properties. Arizona's 2006 effective tax rates show that the property tax burden on commercial and industrial property (2.44%) is over 2.5 times higher than residential (0.92%). On a national level, Arizona homeowners rank in the bottom half while industrial property ranks fourth (see attachment). 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, SB1028/HB2400 will provide a meaningful impact on Arizona's high business property taxes as well as Arizona's economic development efforts.

ATRA ASKS FOR YOUR SUPPORT BY VOTING *YES* ON SB1028/HB2400



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