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ARIZONA TAX RESEARCH ASSOCIATION

ATRA OPPOSES SB1402

Providing a targeted property tax break is bad policy

Background:

SB1402 provides a generous property tax break for all regionally and nationally accredited institutions of higher education. The real and personal property owned by the institution is classified under class 6, which is assessed at 5%, compared to other for-profit business property, which is classified under class 1 and is assessed at 18.5%. Grand Canyon University has long advocated for this property tax break and has expanded the bill this year to include all for-profit universities to avoid the threat of the bill being declared unconstitutional for creating a class of property which is arbitrary or specious.

Basis for ATRA's Opposition:

Arizona has considerably higher business property taxes compared to other states as a result of Arizona's longstanding policy to shift the burden from residential property (class 3), which is assessed at 10%, to business property (class 1), which is currently assessed at 18.5%. Based on a 2015 study published by the Minnesota Center for Fiscal Excellence, the property tax burden "shift" in Arizona from residential to commercial and industrial property ranks 9th in the nation. Back in 2005 when the assessment ratio for class 1 property was 25%, Arizona had the 4th highest business property tax burden. Since then, lawmakers have made considerable progress in reducing the assessment ratio and the "Jobs" bill that was signed into law in 2011 continues the reduction in the assessment ratio to 18% by 2016. Furthermore, Arizona statutes provide additional depreciation on business personal property, commonly referred to as "accelerated" depreciation, within the first five years of acquisition. The Legislature has enhanced the accelerated depreciation schedule several times over the last decade in an effort to encourage businesses to purchase new equipment.

To their credit, policymakers have mostly rejected calls over the last decade to address Arizona's high business property taxes 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. Arizona continues to make strides towards improving its tax climate for businesses. Providing targeted tax breaks for popular businesses discourages efforts to improve the system in an equitable manner for all.

Finally, the resulting tax impact that will occur in every district that has a for-profit college is currently unknown but certain to be significant. There are several qualifying colleges and the JLBC Fiscal Note only covers the state general fund impact resulting from the University of Phoenix and Grand Canyon University. At a minimum, lawmakers should weigh the total impact before advancing this bill.

ATRA ASKS YOU TO VOTE NO ON SB1402!