



# ATRA SUPPORTS HB2213

## Reforms Government Property Lease Excise Tax (GPLET)

- Mechanism to tax private business on certain property tax exempt government properties
- An “excise” tax that is based on the square footage & use of a building rather than property value
- An 8 year abatement (no tax) is allowed in “slum & blight” single, central business districts (CBD)
- Currently \$750+ million in abated property value statewide

### HOW DOES GPLET WORK NOW?

- If property is not abated, GPLET collections distributed to taxing jurisdictions as follows:
  - Counties-13%
  - Community Colleges-7%
  - Cities & Towns-7%
  - School Districts-73%
- Lessee calculates & remits GPLET tax
- Property may be exempt from GPLET for 8 yrs if
  - Area is “slum & blight” (loosely defined)
  - Located inside single CBD
- Developers demand GPLET; want best deal possible
- Similarly situated businesses on uneven playing fields
- Pre-2010 rates well below actual property taxes

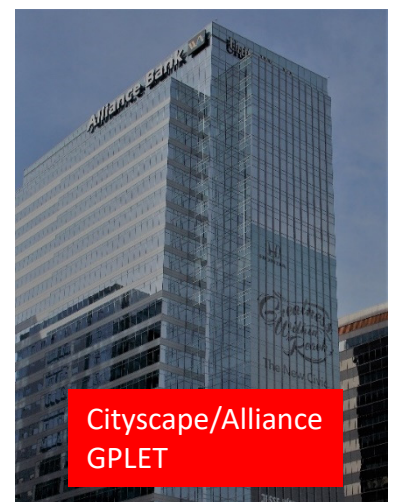
### AUDITOR GENERAL SPECIAL AUDIT

- Dec 2015: OAG audit exposes several flaws
  - Hundreds of thousands in uncollected taxes due to errors
  - Errors lead to higher State GF payouts
- GPLET: “Lacks adequate procedures”
  - Lessees responsible for calculation of tax is problematic
  - Gov lessors must ensure correct tax paid
- Grandfathering clause
  - Just 16 leases of 268 identified subject to 2010 rates
  - GPLETs will not provide the revenue the 2010 law projected

### Examples of GPLET fairness issues

Taxpayer

GPLET



\*Property Tax due

*“It’s rare for the Auditor General to write such a scathing review of an entire program; GPLET absolutely must be reformed. Moreover, we cannot allow one-off tax breaks which completely cut out the K-12 school districts. GPLET creates unfair tax burdens for everyone and my legislation is a step in the right direction.” –Rep. Vince Leach*

## GPLET unfairly pits taxpayers against competing businesses receiving tax breaks



### WHAT THE BILL DOES- AS AMENDED

- Abated property added to tax roll in year nine
  - Prospective; does not affect signed deals
  - 8 year abatement still allowed
  - Years 9-25 eliminated if there was abatement
  - No change to deals which do not receive abatement
- Improves collection, remittance procedures
  - Lessee no longer calculates own tax
  - Lessor (landlord) responsible for calculation of tax
- Clarifies grandfathering of 1996 rates
  - Any use of 1996 rates must be validated by the state as a legitimate pre-2010 deal

### HOW DID WE GET HERE?

- Early 80's: Some cities begin aggressively using their tax exempt status for economic development
  - 1985: Legislature creates Possessory Interest Tax (PIT), exempts all existing deals from tax
  - 1993: Court strikes exemptions as unconstitutional
- 1996: Legislature creates GPLET, replaces PIT
  - Create an "excise" tax, not *ad valorem* tax
  - Exempts all existing deals (again)
  - Rates drop every 10 years by 20% until zero
  - Unlimited in length, hence 75 or 100-year deals
- 2010: Legislature reforms GPLET
  - Increased rates; aligned closer to property taxes
  - Limits deals to 25 years; defined business districts
  - Prospective 10-year grandfather window provided

*"The city's not really going to lose any money- the city is going to be made whole...the way this agreement has been written. But there's others who do... the school district loses money. There's money going to their education foundations- that's great- but that money does not go to the General Fund... and can't go to impact classrooms. The schools will be made whole eventually; they're going to raise our taxes... they get their money from other taxpayers... from everybody else who's not on this parcel." – Tempe Councilman Dave Schapira, July 30, 2015 discussing a GPLET deal.*