



The taxpayer's watchdog for over 80 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 83 NUMBER 2 FEBRUARY 2023

ATRA Legislative Program Update

As the legislative session approaches the last days of February, lawmakers enter cross-over week with the fate of hundreds of bills left to be determined.

The following summaries include ATRA's top legislative priorities that currently remain in motion:

Business Property Tax Reform

ATRA's top legislative priorities for the 2023 session remain focused on business property tax reform. Last year's successful efforts that reduced the tax burden on businesses through the reduction in the class 1 (business) assessment ratio to 15% and limited the taxable value on newly acquired locally assessed business personal property (BPP) to 2.5% of the acquisition price were historic. This year, ATRA is advocating to accelerate the reduction in the 15% ratio and to reduce the tax burden on all *existing* locally assessed BPP.

SB1276 assessed valuation; class one property (Mesnard)

ATRA's long-term goal of reducing the class 1 (business) assessment ratio to 15% was finally achieved as a result of last year's legislation sponsored by Senator J.D. Mesnard. The reduction in the ratio is scheduled to drop by one-half percent increments over four years in order to reach 15% by

Continued on page 2

Jack Moody Joins ATRA

Jack Moody joined the ATRA staff in January as the new Senior Research Analyst. Jack will oversee K12 and community college finance issues as well as general taxation.



A sixth-generation Arizonan, Jack is a graduate of the University of Arizona where he earned a bachelor's degree in political science with a focus in international relations. Before joining ATRA, Jack began his career by leading political campaigns and public affairs efforts at Camelback Strategy Group.

Arizona gets a "D" Grade on COST Sales Tax Scorecard

The Council on State Taxation (COST) produces an annual study that ranks states on their sales tax systems (COST: "The Best and Worst of State Sales Tax Systems"). The goal of the COST scorecard is to encourage state policymakers to improve their sales tax administrative practices in order to improve taxpayer compliance. The COST scorecard evaluates multiple criteria in each state's sales tax system based on the

Continued on page 4

tax year 2027. Senator Mesnard is the sponsor of this year's proposal under SB1276 that accelerates the reduction by two years so that the 15% ratio will be effective by tax year 2025. Preventing tax shifts was not necessary under SB1276 since it was addressed in last year's legislation through an increase to the homeowner rebate, elimination of the state equalization tax rate, and rate relief for fire districts. A large business coalition joined forces with ATRA again this year to advocate for class 1 reforms: *National Federal of Independent Business (NFIB)*, *Building Owners & Managers Association of Greater Phoenix (BOMA)*, *Arizona Rock Products Association (ARPA)*, *Arizona Farm and Ranch Group*, *Arizona Chamber of Commerce*, *Tucson Metro Chamber*, *Greater Phoenix Chamber of Commerce*, *National Association of Industrial and Office Properties (NAIOP)*, *Commercial Real Estate Executives for Economic Development (CREED)*, *East Valley Chambers of Commerce Alliance (EVCCA)*, and the *Arizona Technology Council*.

Another important reform under SB1276 increases the equity between *existing* BPP and *newly* acquired BPP that receives the benefit of the 2.5% value by enhancing the accelerated depreciation schedule for all *existing* BPP. Specifically, the depreciation applied to BPP that was acquired prior to tax year 2022 is increased by 15% in the second through fifth years.

SB1276 passed the Senate on a partisan vote.

SB1263 business personal property; tax exemption (Mesnard)

Sponsored by Senator J.D. Mesnard, SB1263 eliminates the taxation on all locally assessed BPP, effective beginning in tax year 2024.

For decades, ATRA has been a strong advocate for reducing the tax burden on locally assessed BPP. Not only does the BPP tax discourage capital investment in Arizona but many businesses often fail to self-report because they are unaware they owe the taxes.

Previous actions by the Arizona Legislature and voters have slowly reduced the reliance on the BPP tax. Over the last thirty years, the Legislature has enacted several measures that have reduced the tax and compliance burden on BPP. In 1994, legislation was enacted to apply "accelerated depreciation" on newly acquired BPP, which has been subsequently enhanced since. In 1996, voters approved a constitutional amendment to exempt the first \$50,000 in BPP per taxpayer, which is now over \$200,000 due to adjustments for inflation. Finally, last year's legislation that limited the taxation of newly acquired BPP to a valuation factor of 2.5% dramatically reduced the tax reliance on most BPP that will be acquired in the future. And mostly recently with the passage of Proposition 130 at the ballot last November, the Legislature now has the broad authority to fully exempt the tax on locally assessed BPP. In fact, the reliance on the BPP has been reduced to the point that it now accounts for less than 3% of the total property tax base.

Passage of SB1263 will allow Arizona to join twelve other states that have eliminated the BPP tax: Delaware, Hawaii, Illinois, Iowa, Minnesota, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, and South Dakota. The Business coalition joining ATRA in support of the BPP elimination includes the following: *National Federal of Independent Business (NFIB)*, *Building Owners & Managers Association of Greater Phoenix (BOMA)*, *Arizona Rock Products Association (ARPA)*, *Arizona Farm and Ranch Group*, *Arizona Farm Bureau*, *Arizona Chamber of Commerce*, *Homebuilders Association of Central Arizona*, *Greater Phoenix Chamber of Commerce*, *National Association of Industrial and Office Properties (NAIOP)*, *Commercial Real Estate Executives for Economic Development (CREED)*, *East Valley Chambers of Commerce Alliance (EVCCA)*, *the Arizona Technology Council*, and *the Goldwater Institute.*s

SB1263 passed Senate Finance 4-3 and currently awaits COW.

SB1495 K-12; school funding; revisions (Bennett)

For decades, ATRA has advocated for a school finance system that is equitable and reflective of Arizona's K12 system that encourages and promotes parental choice. ATRA has also argued that a more equitable school finance system reduces that state's exposure to the continuous litigation facing the state. These inequities are evident when comparing districts with and without secondary tax rates, such as Phoenix Union and Bullhead City. Phoenix Union is able to maintain a comparatively high per-pupil spending rate of \$15,060 because of its access to a variety of expenditures outside the school budget limits. Bullhead City, which has no secondary levies, spends at a rate of only \$11,761 per student.

SB1495 would allow any school district with no secondary property tax (no bonds or overrides) to switch to a new state funding formula similar to the current charter funding system. Upon the approval of district voters, eligible districts would opt into the new state funding system (an average of \$1,200 more per pupil) and agree to forgo bond and override funding as well as expenditures typically funded by primary levies such as desegregation spending, adjacent ways, excess transportation costs and small school spending. In order to offset some of the state general fund impacts of the new state funding formula, district voters would also be required to approve an additional property tax rate of \$0.35 for elementary and union districts or \$0.70 for unified districts.

Last year's version of this bill (SB1269) received a fiscal note from JLBC, which suggested a net General Fund impact of \$14.2mil in FY24. ATRA believes the FY25 impact would be much lower, as not every qualifying district is expected to opt in immediately.

Arizona's Constitution calls for a "general and uniform public school system." SB1495 is sensible and responsible policy that assists lesser-spending districts while allowing districts to equitably compete for students in system with high student mobility between districts.

Continued from page 1

following factors: 1) exemptions for business inputs; 2) taxation of software and digital products; 3) sales tax simplification and uniformity; 4) centralized sales tax administration; 5) fair sales tax processes; 6) reasonable tax payment/credit administration; and 7) fair audit and refund procedures. Based on this criteria, Arizona received an overall letter grade of “D.” To no surprise, Arizona scored poorly in the category of central administration of local taxes, mainly since cities have an independent tax base outside of state statute (Model City Tax Code) and they have the authority to conduct audits. Additionally, Arizona received a failing grade in the “software & digital products” category as it is one of only three states (Alabama & Louisiana) that taxes this area without any statutory authority to do so.

2022 COST Sales Tax Scorecard: Overall Grades

