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# ARIZONA TAX RESEARCH ASSOCIATION

## ATRA OPPOSES HB2834

### *Providing targeted property tax breaks is bad policy*

#### **Background**

HB2834 provides generous property tax breaks for businesses that make specific dollar investments based on the population of the county or city in which the project will be located. The only other requirement to qualify for the property tax incentive is that the project hire a minimum number of employees as determined by the Arizona Commerce Authority (ACA) and that the positions be paid the county median wage. Upon meeting the requirements, the real and personal property of the qualified business is classified under class 6, which is assessed at 5%, compared to all other business property that is classified under class 1 and assessed at 18%.

#### **Basis for ATRA's Opposition:**

Arizona has considerably higher business property taxes compared to other states as a result of shifting the tax burden from residential property (classes 3 & 4), which is assessed at 10%, to business property (class 1), which is currently assessed at 18%. Based on a 2019 study published by the Minnesota Center for Fiscal Excellence, the property tax burden on Arizona industrial property located in central Phoenix ranks 8<sup>th</sup> compared to other states. When applying the statewide average tax rate to the same property, Arizona's property tax ranking improves considerably to 21<sup>st</sup>. Back in 2005 when the assessment ratio for class 1 property was 25%, Arizona had the 4<sup>th</sup> highest business property tax burden.

Proponents are correct that Arizona's high business property taxes are an impediment to economic development in Arizona. Those high business property taxes are the result of the inequities in Arizona's property tax system. However, their misguided approach to dealing with high business property taxes by creating targeted tax breaks actually creates more inequities in the property tax system and higher taxes on all other taxpayers. Arizona's high business property tax problem should not be solved by targeting relief to select businesses thereby making taxes even higher for other business taxpayers.

In the 1994 *America West Airlines v. Department of Revenue* tax court case, the taxpayer argued state statute capping the property tax of small airlines at 1% of Full Cash Value while taxing large airlines at a higher rate simply based on number and size of airplanes violated the uniformity clause. In its ruling, the Arizona tax court stated that "Under a uniformity clause, property cannot be put in different classes 'according to size or location rather than value because this would be arbitrary classification.'" The court further referenced *Mathias v. Department of Revenue* in its decision in favor of America West that "Classifications, to pass state constitutional muster, must be based on inherent, qualitative, genuine, rational differences between the classes of property to be accorded different treatment." The court further clarified that a property classification system that taxes small airplanes used for rural routes differently than large airplanes used for urban routes "would be a classification of property based on one of the property's characteristics or uses rather than a classification of owners."

Regrettably, the property tax classification system provides an ongoing temptation for policymakers to discriminate in allocating the property tax burden. Instead of creating greater disparities, ATRA encourages policymakers to reduce disparities through reductions in the number of classes.

***ATRA believes that the property tax breaks provided in HB2834 are bad policy and serve to exacerbate problems in Arizona's property tax system.***



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