

ATRA SUPPORTS SB1095

Reduced Assessment Ratio For Business Property Taxes

Summary

SB1095 provides more equitable treatment of business property taxes by reducing the assessment ratio on business properties (class 1) from 25% to 20%, phased in over ten years. In an effort to address possible shifts in tax liability, the bill increases the current 35% homeowner rebate each year over a five-year period, reaching a maximum of 40% in the fifth year. The bill also includes across the board property tax relief through reductions in the qualifying tax rate, which is set at \$3.6180, and the county equalization assistance for education rate, set at \$0.4358.

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 25% of value 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 at least 2.5 times more than residential.

There are two primary policy concerns that result from Arizona's use of the classification system:

1. The higher ratios on business property result in much higher tax burdens on those properties. The enclosed table of Arizona's 2004 effective tax rates shows that the property tax burden on commercial and industrial property (2.75%) is almost three times higher than residential (0.99%). On a national level, Arizona homeowners rank in the bottom half while industrial property ranks 5th. 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, SB1095 will provide a meaningful impact on Arizona's high business property taxes as well as Arizona's economic development efforts.
2. Second, every study of Arizona's property tax system has noted that the subsidy provided to the homeowner/voter undermines the accountability that is so important to any tax system. Arizona's property tax structure insulates the homeowner/voter from the true cost of government spending. The enclosed pie chart reflects the increase in total property taxes since 1980. Primary and secondary property taxes have collectively climbed from \$821.6 million to more than \$5 billion – an increase of more than 513%.



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