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# ARIZONA TAX RESEARCH ASSOCIATION

## 2007 LEGISLATIVE PROGRAM

### **STATE BUDGET**

ATRA will again make specific recommendations to the Legislature regarding opportunities for better financial management and to clean up sloppy state spending practices. (Refer to separate document on budget recommendations.)

### **TAXATION**

#### **Property Tax**

The 2005 Legislative session was highlighted by the passage of a property tax reform measure (HB 2779) that will lower the assessment ratio on class one property from 25% to 20% over the next decade. The 2006 session was highlighted by a statewide property tax cut of \$215 million (HB 2876). While both of those measures will have a marked impact on Arizona's high business property taxes, both require further legislative action. First, Arizona's high business property taxes demand a more timely response than the current 10-year phased reduction in the assessment ratio on class one property. Second, the 2006 property tax reduction was a temporary measure that will be reinstated in 2009. This tax reduction provides meaningful relief to both homeowners and business taxpayers and should be made permanent next year.

ATRA will pursue the following recommendations in the property tax:

- Make Tax Cut Permanent – repeal the increase in the state equalization rate in 2009.
- Class One Assessment Ratios – reduce the current 10-year phased reduction to six years.
- State Truth-in-Taxation (TNT) Compliance – ensure the Legislature adopts the TNT rates for the FY 2008 state budget.

#### **Secondary Property Tax Reforms:**

The majority of secondary property taxes are voter approved overrides and debt service levies on voter approved bonds and therefore have some limitations on growth. However, there are a number of areas in the secondary tax that need reformed if taxpayers are to be protected from significant tax increases when valuations climb.

- Cap School Overrides – K-12 school district M&O overrides would be a fixed amount approved by the voters (10% of the district budget in the year of approval).
- Cap County Flood Control, Library District, and Public Health Service Districts levies – these countywide special district levies would be capped to the same percentage growth as the annual increase in the county's primary levy limit.

**School Finance**

- Tax Rate Cap/1% Districts – the primary tax rates of school districts with a combination of 50% or more of their residential taxpayers at the 1% cap and a primary rate 150% of the QTR would be capped. Enforcement would be given to the Property Tax Oversight Commission.
- Capital Outlay Overrides – pursue legislation to limit capital outlay overrides to 100% of school district's Capital Outlay Revenue Limit (CORL).

**Sales Tax**

- Prime Contracting – pursue legislation to clarify the definition of prime contractor to ensure the tax is not applied to more than 100% of the contract amount.
- Affiliated Entity Leasing – pursue legislation to create equity for TPT exemptions for leases to affiliated entities.

**Corporate Income**

- IRS Final Determination Definition – pursue legislation to define “final determination” in order to clarify when the 90-day deadline begins when filing an amended appeal with the Department of Revenue.

**Public Finance**

- Students FIRST Reform – (refer to separate sheet).
- Initiative Reform – support legislation directed at reforming the state's initiative process.
- Dual Enrollment Reform – support recommendations of the Ad Hoc Committee on Dual Enrollment.
- Public Health Services Districts – pursue legislation that would require a county board of supervisors to receive voter approval prior to creating a Public Health Services District.
- County Budget/Tax Amendments – pursue the following technical changes to county finance laws:
  1. Require counties to reflect all available revenues in their adopted budgets.
  2. Require counties to separately state in their published tax rates and assessed values the secondary levies for K-12 school district class A bonds, class B bonds, M&O overrides and capital outlay overrides.
  3. Clarify that the published net assessed values used to set property tax rates do not include in-lieu values of exempt property.

**Other Issues**

- School Finance Reform
- School District Excess Utilities
- Higher Education Funding Reform