

ATRA OPPOSES SB1041

Providing targeted property tax breaks is bad policy

Background

SB1041 provides generous property tax breaks for businesses that have specific levels of investment between January 1, 2012 and June 30, 2017. To qualify for the property tax incentive, a business must make a capital investment of at least \$5 million within three years and employ at least 25 new employees in a city or town with a population of 50,000 or more. For businesses located in any other area in the state, the capital investment requirement is \$1 million and the business must employ at least 15 new employees. Upon meeting the requirements, the real and personal property of the qualified business is classified under class 6 for ten years, which is assessed at 5% (applies to primary property taxes only) compared to all other business property that is classified under class 1 and assessed at 20%.

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 (class 3), which is assessed at 10%, to business property (class 1), which is currently assessed at 20%. Based on a 2009 study published by the Minnesota Taxpayer's Association, the property tax burden on Arizona industrial property ranks 15th compared to other states. Back in 2005 when the assessment ratio for class 1 property was 25%, Arizona had the 4th highest business property tax burden. Since then, lawmakers have made considerable strides in reducing the assessment ratio, and most recently, the "Jobs" bill that was signed into law continues the reduction in the assessment ratio to 18% by 2016.

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.

Additionally, the Arizona Constitution under Article 9, Section 1, states that "all taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax." While the courts have given the Legislature broad discretion in creating different classes of property, they have also cautioned that those distinctions in use, purpose or industry must be "real" and not be "arbitrary, specious or fanciful." In addition to being bad policy, ATRA believes that creating such disparate tax treatment between identical companies in the same taxing jurisdiction based solely on the timing and size of the investment is unconstitutional.

The only thing worse than passing this legislation is to have the law pass and have businesses make the required level of investments with the anticipation of receiving huge tax incentives, only to have the law invalidated by the courts.

ATRA believes that the property tax breaks provided in SB1041 are bad policy and serve to exacerbate problems in Arizona's property tax system.



ARIZONA TAX RESEARCH ASSOCIATION

1814 West Washington Street, Phoenix, Arizona 85007

(602) 253-9121

www.arizonatax.org

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