



The taxpayer's watchdog for over 70 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 72 NUMBER 1 JANUARY 2012

ATRA's 2012 LEGISLATIVE PROGRAM

ATRA's Board of Directors officially adopted the organization's 2012 legislative program at its December 2011 meeting. As a result, ATRA staff will aggressively pursue those goals during this year's second regular session of the 50th Legislature.

STATE BUDGET – State Fiscal Stability

The 2012 ATRA legislative agenda was developed with a recognition that the Legislature's highest priority for the session should be passing a Fiscal Year (FY) 2013 budget that is not only balanced, but is also sustainable in FY 2014, when the temporary sales tax sunsets. Fortunately, and for the first time in several years, in 2011 the Legislature and Governor passed a state budget that was balanced and relatively free of budget gimmicks. ATRA succeeded in having many of its budget recommendations adopted as a part of the Fiscal Year (FY) 2012 budget.

With a balanced budget adopted for FY 2012, it is now critical for the Governor and Legislature to create a multi-year budget strategy that will ensure stability in state government finances. Arizona state government faces a number of fiscal uncertainties that, left unmanaged, could lead to another budget crisis. It is incumbent on state policymakers to plan for a stable and predictable budget path over the next two years.

ATRA's 2012 budget recommendations will again encourage state leaders to maximize their authority in creating the state's budget. The FY 2012 budget was only balanced by ignoring requirements from the federal government to spend money we do not have and overly strict interpretations of the limitations on the state's budget authority through voter initiatives.

TAXATION

Property Tax

Prevent further increases in property taxes. Following a ten-year streak of decreases in the state average property tax rate, Arizona property taxpayers saw another increase in the state average tax rate in tax year 2011. That rate has climbed \$1.74 (19%) over the last two years. Despite widespread recognition that Arizona's business property taxes are an impediment to economic development, there is considerable pressure at the Capitol to increase property taxes as well as increase access to the property tax base for local governments. In addition to the imposition of the state equalization rate in tax year 2009, the Legislature and Governor dramatically expanded K-12 school district access to the property tax through a 50% increase in the override authority. That increased override authority has resulted in significant increases in secondary property taxes across the state, and regrettably, undermined some of the progress that has been achieved through reductions in the assessment ratio on business property.

Property Tax Reform. ATRA has led the effort to reform Arizona's property tax system and reduce the disparity in tax treatment between business and residential property. As the result of previous ATRA-backed legislation passed in 2005, 2007, and 2011, the effective tax rate on business properties has improved from 3rd highest in the country to 15th, according to the most recent statistics from the Minnesota Taxpayers Association. In addition, Arizona's efforts to decrease the tax burden on business equipment through accelerated depreciation have dramatically decreased that punitive tax. Through ATRA's consistent efforts, Arizona's competitive tax position for capital intensive manufacturing is significantly improved compared to a decade ago.

The steady progress that has been made in addressing Arizona's high business property tax problem is the direct result of policymakers addressing the cause of that problem: the shift of taxes from residential properties to business through high assessment ratios on business property. To their credit, over the last decade, policymakers largely rejected calls to address the problem through rifle-shot tax breaks to specific industries. ATRA continues to support policies that provide for equitable treatment among property taxpayers and will oppose efforts that undermine that important policy principle.

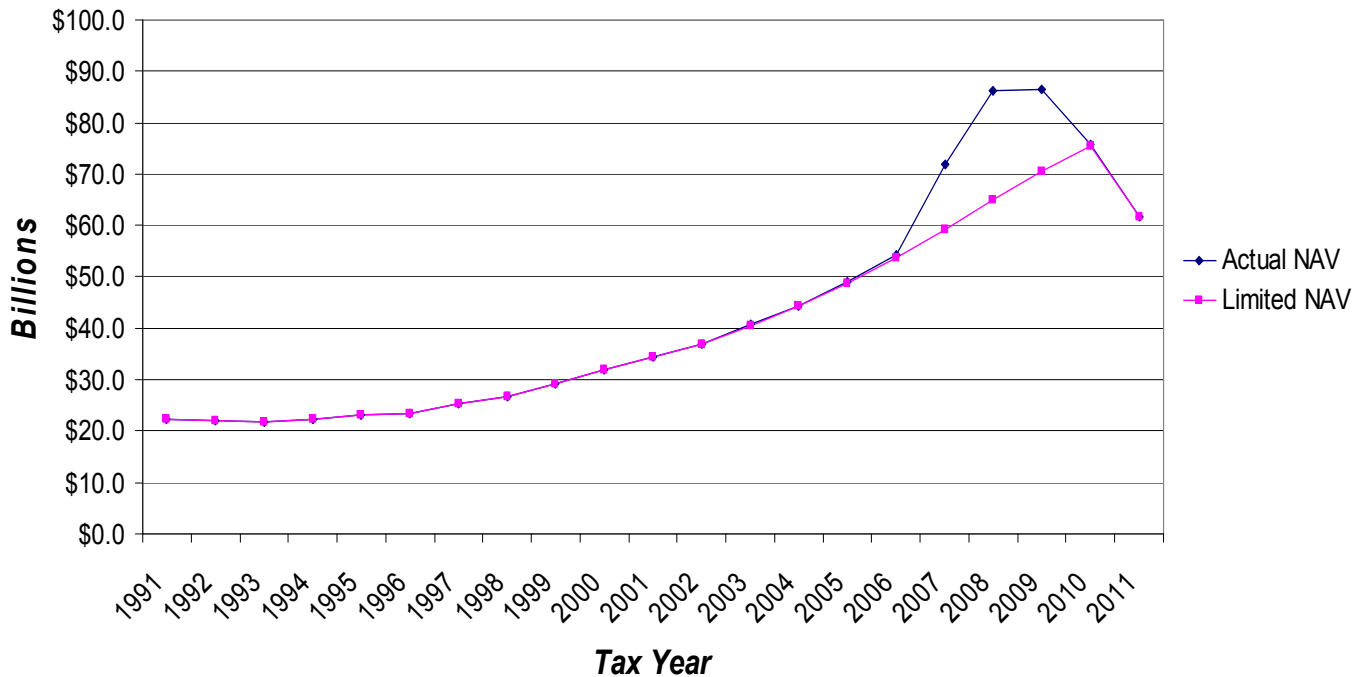
LEGISLATIVE PROGRAM, *Continued from Page 1*

Property Value Limitation –ATRA will pursue a constitutional amendment for the 2012 general election ballot to limit the annual growth in the limited property value (LPV) of locally assessed property to 5% and, as is the case now, the LPV cannot exceed the full cash value (FCV). The assessor, however, will continue to establish the FCV based on market value and the property owner will maintain the ability to appeal the FCV. However, for taxing purposes, the LPV will be the only taxable value. Further, in order to avoid inequities between existing property and new construction, the assessor will continue to establish the FCV based on market value and the LPV based on the “Rule B” methodology, which is based on the relationship between the assessed values of similar property compared to their market values.

This proposal will insulate taxpayers from dramatic increases in their tax bills that result from major fluctuations in the real estate market. As depicted in the graph below, an ATRA analysis reveals that, had this proposal been in place over the last decade, it would have prevented \$33 billion in value from being added to the tax rolls that was ultimately removed as a result of the collapse of the real estate market.

Applying a reasonable limit to the growth in locally assessed property will increase the stability of Arizona’s property tax system by providing greater predictability for both government and taxpayers, as well as create a more simple and understandable property tax system.

Actual Value Growth vs. 5% LPV Proposal
1991-2011



County-wide Secondary Levy Limits – ATRA will pursue legislation to place levy limitations on the following countywide special districts: Library Districts, Public Health Services Districts, and Jail Districts. These countywide special district levies should be

See **Legislative Program**, page 3

<p>ARIZONA TAX RESEARCH ASSOCIATION Lyn White.....Chairman Kevin J. McCarthy.....President Jennifer Stielow.....Vice President Ben Nowicki.....Research Analyst Maria Travers.....Office Manager</p>	<p>Published 10 times annually by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficiency and economy in Arizona government and reductions at all levels. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research Association. <i>Serving Arizona’s taxpayers since 1940.</i></p>	<p>1814 W. Washington Street Phoenix, Arizona 85007 (602) 253-9121 FAX (602) 253-6719 www.arizonatax.org atra@arizonatax.org</p>	
---	--	--	--

LEGISLATIVE PROGRAM, *Continued from Page 2*

limited to the same percentage growth as the annual increase in the county's primary levy limit. In addition, the legislation will place a hard cap on library district tax rates.

Taxation of Software – ATRA will pursue legislation to reverse the current efforts by county assessors to extend the personal property tax to computer software.

Auditing of Constitutional Levy Limitations – ATRA will pursue legislation to authorize the Department of Revenue to sample audit the new construction assessed valuations in county levy limitations. The legislation will also require local governments to use the final values published on February 10th for setting tax rates unless adjustments are approved by the Property Tax Oversight Commission.

Corporate Income Tax

Elective Service Sales Factor – ATRA will support a change to the corporate income tax sales factor allocation to allow multi-state service companies the option to tax services at the location of the customer vs. the location of the income-producing activity.

Net Operating Loss Carryforward – ATRA will pursue legislation that extends the current five-year limit on net operating loss carryforwards to 20 years for losses arising in tax years beginning from and after 12/31/2011.

Sales Tax

Sales Tax Reform – Arizona businesses are burdened with the most administratively complex sales tax system in the country. Much of that burden is grounded in Arizona's independent municipal sales tax structure that allows cities to levy taxes on a different tax base than the state as well as collect and audit those taxes independently of the state. ATRA's ultimate goal is to create a uniform state and local sales tax base. A uniform base would dramatically decrease the fiscal compliance costs for both business and state and local government.

ATRA supports Governor Brewer's plan to establish a task force of experts that will make recommendations to her, the Speaker, and President regarding uniformity of the state and local sales tax base as well as recommendations to reduce compliance and administrative costs in the state and local sales tax system.

Temporary Sales Tax – ATRA will oppose efforts (legislative or initiative) to extend or make permanent the current temporary sales tax without reforming the current state and local sales tax system.

Public Finance/Other

Local Government Budget Reform – ATRA will pursue legislation to require counties, cities, and community college districts to include the following in their adopted budgets: 1) number of FTE's 2) total salaries 3) employer retirement costs 4) employer health care costs 5) all unencumbered cash, both restricted and unrestricted, from all funds. Beginning in FY 2013, community colleges and fire districts would be required to post their budgets to their websites within seven days after adoption and for the length of 60 months, which are the same requirements currently imposed on counties and cities.

Local Government Debt Reform – ATRA will pursue legislation to improve the information provided to taxpayers in the publicity pamphlets that local governments are required to mail for bond and override elections.

US Census Bureau Reporting – ATRA will pursue legislation to transfer Arizona's reporting of public finance/tax information to the U.S. Census Bureau from ASU to JLBC.