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ARIZONA TAX RESEARCH ASSOCIATION

ATRA OPPOSES SB1412

Further Reducing the Tax Burden on Class 6 Property Not Justified

Background

Arizona has considerably higher business property taxes compared to other states as a result of Arizona's long-standing policy to shift the burden from residential property (class 3), which is assessed at 10%, to business property (class 1), which is currently assessed at 19.5% (tax year 2013). Based on a 2012 study published by the Minnesota Center for Fiscal Excellence, the property tax burden on Arizona industrial property ranked 13th highest 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 progress in reducing the assessment ratio and the "Jobs" bill that was signed into law in 2011 continues the reduction in the assessment ratio to 18% by 2016.

Furthermore, Arizona statutes provide additional depreciation on business personal property classified under class 1, commonly referred to as "accelerated depreciation," within the first five years of acquisition. The Legislature has enhanced the accelerated depreciation schedule several times over the last two decades in an effort to decrease the high effective tax rate on manufacturers. When the benefits of accelerated depreciation are considered, Arizona's ranking compared to other states improves dramatically.

In order to avoid the high property tax burden placed on businesses assessed under class 1, legislation has been enacted to provide dramatic tax relief (approximately 75%) for businesses seeking better tax treatment under class 6, which is assessed at 5%.

Basis for ATRA's Opposition:

SB1412 extends the benefits of accelerated depreciation on business personal property to property classified under class 6. Surprisingly, the proponents of SB1412 argue that extending those benefits to class 6 personal property is a matter of equity when, in fact, SB1412 dramatically increases the current inequities among business property taxes. Considering the 2012 rankings published in the Minnesota study noted above, **the benefits associated with being assessed at a 5% assessment ratio under class 6 reduces the tax burden on that property to the lowest in the nation** (see chart on next page). Extending accelerated depreciation to a business classified under class 6 would reduce the tax burden an additional 21%. Simply put, there is no rational explanation for significantly decreasing taxes for class 6 taxpayers.

**Industrial Property Taxes
Payable 2012**

**\$25,000,000 Land and Building
\$12,500,000 Machinery and Equipment
\$10,000,000 Inventories \$2,500,000 Fixtures**

Rank	State	NET TAX	ETR
1	South Carolina	1,806,139	3.612%
2	Michigan	1,512,417	3.025%
3	Tennessee	1,280,405	2.561%
4	Iowa	1,271,181	2.542%
5	Mississippi	1,268,084	2.536%
6	Texas	1,264,610	2.529%
7	Missouri	1,144,261	2.289%
8	Rhode Island	1,131,750	2.264%
9	Indiana	1,125,000	2.250%
10	Illinois	1,067,885	2.136%
11	Louisiana	1,059,185	2.118%
12	Minnesota	1,049,304	2.099%
13	Arizona	968,425	1.937%
14	New York	963,761	1.928%
15	DC	956,938	1.914%
16	Pennsylvania	876,075	1.752%
17	Oregon	871,518	1.743%
18	Nebraska	836,145	1.672%
19	Georgia	830,199	1.660%
20	Colorado	812,169	1.624%
21	West Virginia	808,971	1.618%
22	Kansas	791,451	1.583%
23	Connecticut	791,368	1.583%
24	Idaho	785,823	1.572%
25	Massachusetts	782,040	1.564%
26	Alaska	748,022	1.497%
27	Wisconsin	738,650	1.477%
28	Oklahoma	709,768	1.420%
29	Florida	699,019	1.398%
30	Arkansas	696,893	1.394%
31	Maryland	691,666	1.383%
32	Ohio	687,091	1.374%
33	Utah	637,876	1.276%
34	Vermont	631,426	1.263%
35	Montana	607,906	1.216%
36	New Jersey	587,099	1.174%
37	New Mexico	572,571	1.145%
38	New Hampshire	562,818	1.126%
39	Alabama	554,610	1.109%
40	Maine	517,550	1.035%
41	California	506,220	1.012%
42	North Carolina	492,141	0.984%
43	Nevada	453,211	0.906%
44	South Dakota	427,613	0.855%
45	North Dakota	423,299	0.847%
46	Kentucky	384,213	0.768%
47	Washington	382,484	0.765%
48	Delaware	345,284	0.691%
49	Wyoming	322,783	0.646%
50	Hawaii	301,847	0.604%
51	Virginia	263,243	0.526%
AVERAGE		786,462	1.573%

Industrial Property
Class 1 assessed at 20%
in tax year 2012. Real
and Personal Property
total tax liability =
\$968,425 (1.937%
ETR)-Rank 13th

Same Property
Class 6 assessed at 5%.
Real and Personal Property
(no accel. dep.) total tax
liability = **\$241,628**
(0.4833% ETR)-Rank 51st

SB1412 w/accel.
Depreciation =
\$190,834
(0.3801% ETR)

[28% less than
51st ranking]