

Arizona Tax 101

Arizona Tax Research Association

2011 CAP Spring Conference

Kevin McCarthy

President, ATRA



Total State and Local Taxes in Arizona FY 2010

Sales	\$7,364,083,841
Property	\$7,043,999,906
Income	\$2,836,408,014
Subtotal	\$17,244,491,761
Other Taxes	\$1,885,432,227
Total	\$19,129,923,988

Common Characteristics of Most States

Three Legs to Most State & Local Stools

- ▶ 50 - Property
- ▶ 46 - Sales
- ▶ 43 - Individual Income
- ▶ 46 - Corporate Income

There Has Been On-going Debate About The Efficacy of our System for Decades *Many Study Committees*

- ▶ Fiscal 2000 - 1999
- ▶ CFRC - 2004
- ▶ TRAC - 2004
- ▶ Usually jump-started for two reasons:
 - Impetus for real tax reform
 - Cover for tax increases
 - Combination of both

Performance of Arizona's Tax System

ATRA's Three Decade Analysis 1980-2010

- ▶ Arizona's tax system is far from perfect and in need of reform in some key areas;
- ▶ However, as a revenue producer, the system performed quite well from 1980 through 2010.

How Has The System Performed?

Per Capita Tax Collections (1980-1990-2000-2010)

(Inflation Adjusted To 1980 \$)

Year	Per Capita	Decade Change	%
1980	\$950.58		
1990	\$1,269.16	\$318.58	33.5%
2000	\$1,461.71	\$192.55	15.2%
2010	\$1,293.73	-\$167.98	-11.5%
1980 to 2010 growth:		\$343.15	36.1%

Arizona's Tax System & The Three-Legged Stool

- ▶ The three legs of Arizona's tax stool also saw minimal change between 1980 and 2010:

	1980	2000	2010
Sales	38%	38%	38%
Property	32%	28%	36%
Income	17%	21%	14%

National Rankings

Total State & Local Taxes

Total Tax Collections - State and Local FY2007

Per Capita

Per \$1,000
of Income

State	Amount	Rank	Amount	Rank
ARIZONA	3,589.85	33	116.98	22
U.S. Average	\$4,195.07		\$116.19	

National Rankings

Total State & Local General Sales Taxes

General Sales Tax Collections - State and Local				
FY2007				
Per Capita			Per \$1,000 of Income	
State	Amount	Rank	Amount	Rank
ARIZONA	1,440.83	5	46.95	6
U.S. Average	1,007.09		\$ 27.86	

National Rankings

Total State & Local Property Taxes

Property Tax Collections-State & Local FY 2007				
Per Capita			Per \$1,000 of Income	
State	Amount	Rank	Amount	Rank
ARIZONA	957.08	36	31.19	29
U.S. Average	\$1,260.09		\$34.92	

National Rankings

Total State & Local Individual Income Taxes

Individual Income Tax Collections-State & Local FY 2007				
Per Capita			Per \$1,000 of Income	
State	Amount	Rank	Amount	Rank
ARIZONA	576.51	40	18.79	40
U.S. Average	\$1,156.16		\$31.89	

National Rankings

Total State & Local Corporate Income Taxes

Corporate Income Tax Collections				
FY 2007				
Per Capita			Per \$1,000 of Income	
State	Amount	Rank	Amount	Rank
ARIZONA	151.71	26	4.94	22
U.S. Average	\$196.12		\$5.42	

Snapshot of AZ's Tax System

Average Overall Reliance

- High Sales Taxes
- Average Property Taxes
 - High Business Property Taxes
 - Low Homeowner Property Taxes
- Low Personal Income Taxes

Property Tax

- Arizona's system is generally regarded as one of the most complex in the country
- Several aspects of the property tax system have created significant policy problems:
 - High Business Property Taxes
 - 1% Residential Cap
 - Accountability
- Several ATRA-backed reforms have improved the system over the last 16 years

A Quick Review of the Basics:

- A 1980 property tax initiative established the framework for our current system:

1. Unlimited (Secondary) Values

2. Limited (Primary) Values

Unlimited (Secondary) Values

- ▶ Property valued at its full cash (market) value
- ▶ No limit on annual growth in value
- ▶ State has experienced dramatic growth
 - *State's property tax base has more than doubled in last 10 years (138%)*

Secondary NAV Growth

County	TY 2000	TY 2010	TY 2011	1-Year Change	11-Year Change
Apache	\$332,086,804	\$541,020,129	\$550,408,898	\$9,388,769	\$218,322,094
Cochise	\$503,459,048	\$1,111,756,015	\$1,091,813,753	-\$19,942,262	\$588,354,705
Coconino	\$1,004,868,701	\$2,053,368,455	\$1,840,139,122	-\$213,229,333	\$835,270,421
Gila	\$316,076,473	\$600,837,768	\$526,039,289	-\$74,798,479	\$209,962,816
Graham	\$91,427,926	\$242,900,116	\$227,219,347	-\$15,680,769	\$135,791,421
Greenlee	\$168,773,033	\$269,703,589	\$280,746,565	\$11,042,976	\$111,973,532
La Paz	\$115,292,908	\$245,133,007	\$272,923,571	\$27,790,564	\$157,630,663
Maricopa	\$20,877,715,546	\$49,707,952,123	\$38,760,296,498	-\$10,947,655,625	\$17,882,580,952
Mohave	\$960,138,646	\$2,526,548,121	\$1,997,158,478	-\$529,389,643	\$1,037,019,832
Navajo	\$558,264,740	\$1,116,355,302	\$1,040,385,596	-\$75,969,706	\$482,120,856
Pima	\$4,236,070,095	\$9,342,561,193	\$8,481,950,795	-\$860,610,398	\$4,245,880,700
Pinal	\$671,060,458	\$2,673,415,335	\$2,218,641,621	-\$454,773,714	\$1,547,581,163
Santa Cruz	\$201,651,947	\$442,659,975	\$399,532,315	-\$43,127,660	\$197,880,368
Yavapai	\$1,247,635,912	\$3,350,111,921	\$2,761,069,711	-\$589,042,210	\$1,513,433,799
Yuma	\$552,869,545	\$1,418,967,607	\$1,316,076,878	-\$102,890,729	\$763,207,333
Total	\$31,837,391,782	\$75,643,290,656	\$61,764,402,437	-\$13,878,888,219	\$29,927,010,655

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Source: County adopted rate & levy sheets and the 2011 State and County Abstract of the Assessment Roll

Limited (Primary) Values

Annual growth in value limited:

- No more than 10% over previous year's limited or primary value
- One-fourth of the difference between the new unlimited (secondary) value and the previous year's limited (primary) value
- Despite limit, Primary NAV more than doubled in last 10 years (138%)

Primary NAV Growth

County	TY 2000	TY 2010	TY 2011	1-Year Change	11-Year Change
Apache	\$324,460,252	\$503,365,682	\$525,120,383	\$21,754,701	\$200,660,131
Cochise	492,396,096	\$1,042,041,186	\$1,049,525,230	\$7,484,044	\$557,129,134
Coconino	971,779,413	\$1,920,050,800	\$1,811,022,250	-\$109,028,550	\$839,242,837
Gila	289,616,426	\$568,461,573	\$517,775,462	-\$50,686,111	\$228,159,036
Graham	87,843,540	\$217,455,207	\$217,218,154	-\$237,053	\$129,374,614
Greenlee	168,404,267	\$269,441,653	\$280,460,740	\$11,019,087	\$112,056,473
La Paz	110,490,204	\$225,558,163	\$264,941,637	\$39,383,474	\$154,451,433
Maricopa	19,362,298,255	\$46,842,818,990	\$38,491,699,290	-\$8,351,119,700	\$19,129,401,035
Mohave	935,484,196	\$2,321,464,632	\$1,932,681,709	-\$388,782,923	\$997,197,513
Navajo	534,952,560	\$1,059,004,850	\$1,026,064,246	-\$32,940,604	\$491,111,686
Pima	4,111,664,071	\$8,939,647,260	\$8,309,777,181	-\$629,870,079	\$4,198,113,110
Pinal	639,663,229	\$2,562,246,078	\$2,160,151,164	-\$402,094,914	\$1,520,487,935
Santa Cruz	197,130,189	\$411,470,857	\$382,516,474	-\$28,954,383	\$185,386,285
Yavapai	1,181,301,079	\$3,187,559,879	\$2,716,672,159	-\$470,887,720	\$1,535,371,080
Yuma	536,651,463	\$1,301,330,388	\$1,247,021,315	-\$54,309,073	\$710,369,852
Total	\$29,944,135,240	\$71,371,917,198	\$60,932,647,394	-\$10,439,269,804	\$30,988,512,154

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Source: County adopted rate & levy sheets and the 2011 State and County Abstract of the Assessment Roll

Arizona's Classification System (Tax Year 2011)

Class	Description	Assessment Ratio
1	Commercial, Industrial, Utilities & Mines	20%
2	Agricultural & Vacant Land	16%
3	Owner-occupied Residential	10%
4	Rental Residential	10%
5	Railroad, Private Car, Airline Flight	15%
6	Residential Historic, Enterprise & Foreign Trade Zones	5%
7	Commercial Historic	1%
8	Rental Residential Historic	1%
9	Possessory Interests	1%

* The assessment ratio for class one property will decline to 19.5% in 2013, 19% in 2014, 18.5% in 2015, and 18% in 2016 and will remain so thereafter.

Example

FCV = \$150,000

Class 1 – Commercial (21%)

NAV = \$31,500

Class 3 – Owner Occupied Home (10%)

NAV = \$15,000

Levies

SECONDARY LEVIES:

No overall limits

Self-limiting - voter approval required for most:

- 1. G.O. Bond Debt Service
- 2. Budget overrides
- 3. Special Districts

(some exceptions to the rule: flood & library districts, fire district assistance tax)

Primary Levies

The hallmark of the 1980 reforms:

Constitutional Levy Limits

Limits placed on the maintenance and operations (M&O) levies of:

- Counties
- Cities and Towns
- Community Colleges

Levy Limit Structure

- ▶ 1980 levy became the base limit
- ▶ Limit increased annually by 2% plus net new construction
- ▶ Capacity generated by limit is maintained even if not accessed
- ▶ Updated by Prop 101 in 2006-pulled \$185 million in capacity out of system

1% Homeowner Cap

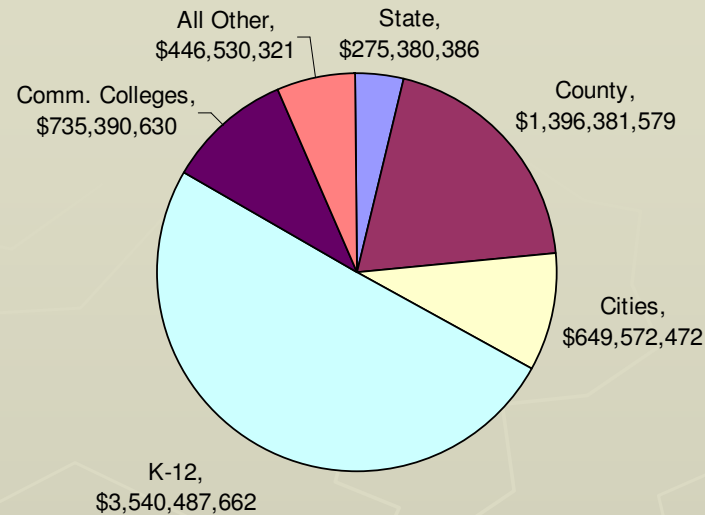
Constitutional maximum limit on homeowner primary property taxes:

Primary taxes cannot exceed 1% of limited or primary value

Example:

- \$125,000 limited value
- \$1,250 total primary taxes

Tax Year 2010 Total Levies

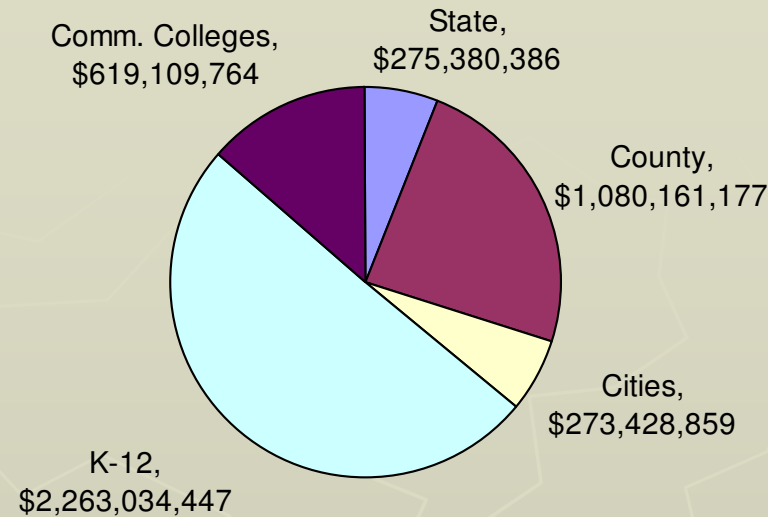


Jurisdiction	2010 Total Levies	% of Total
State	\$275,380,386	3.9%
County	\$1,396,381,579	19.8%
Cities	\$649,572,472	9.2%
K-12	\$3,540,487,662	50.3%
Comm. Colleges	\$735,390,630	10.4%
All Other	\$446,530,321	6.3%
Totals	\$7,043,743,050	100.0%

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Source: ADOR Average Statewide Tax Rates, 2010 publication

Tax Year 2010 Total Primary Levies

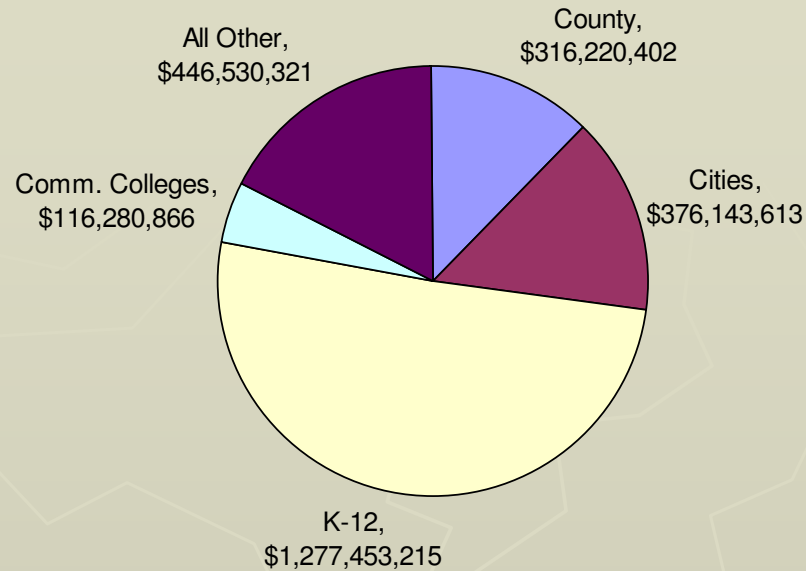


Jurisdiction	2010 Primary Levies	% of Total
State	\$275,380,386	6.1%
County	\$1,080,161,177	23.9%
Cities	\$273,428,859	6.1%
K-12	\$2,263,034,447	50.2%
Comm. Colleges	\$619,109,764	13.7%
Totals	\$4,511,114,633	100.0%

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Source: ADOR Average Statewide Tax Rates, 2010 publication

Tax Year 2010 Total Secondary Levies



Jurisdiction	2010 Secondary Levies	% of Total
County	\$316,220,402	12.5%
Cities	\$376,143,613	14.9%
K-12	\$1,277,453,215	50.4%
Comm. Colleges	\$116,280,866	4.6%
All Other	\$446,530,321	17.6%
Totals	\$2,532,628,417	100.0%

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Source: ADOR Average Statewide Tax Rates, 2010 publication

Property Taxes



Tax Year	Primary	Secondary	Total
2010	\$4,511,114,633	\$2,532,628,417	\$7,043,743,050
2009	\$4,581,475,317	\$2,658,502,527	\$7,239,977,844
2008	\$4,211,311,863	\$2,576,525,762	\$6,787,837,625
2007	\$3,937,551,943	\$2,362,403,961	\$6,299,955,904
2006	\$3,664,771,365	\$2,039,966,098	\$5,704,737,463
2005	\$3,594,330,633	\$1,834,242,380	\$5,428,573,013

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Source: Arizona Tax Research Association

ATRA's Focus On Property Tax Reform Has Been Twofold

- ▶ Decrease inequities in current system
- ▶ Control growth in property tax levies
 - High business taxes
 - 1% cap problem

Equity

► Some success:

- 2005 Legislation: 10-year phase down in class one assessment ratio to 20%
- 2007 Legislation: accelerated reduction to six years-assessment ratio reduced to 20% by 2011

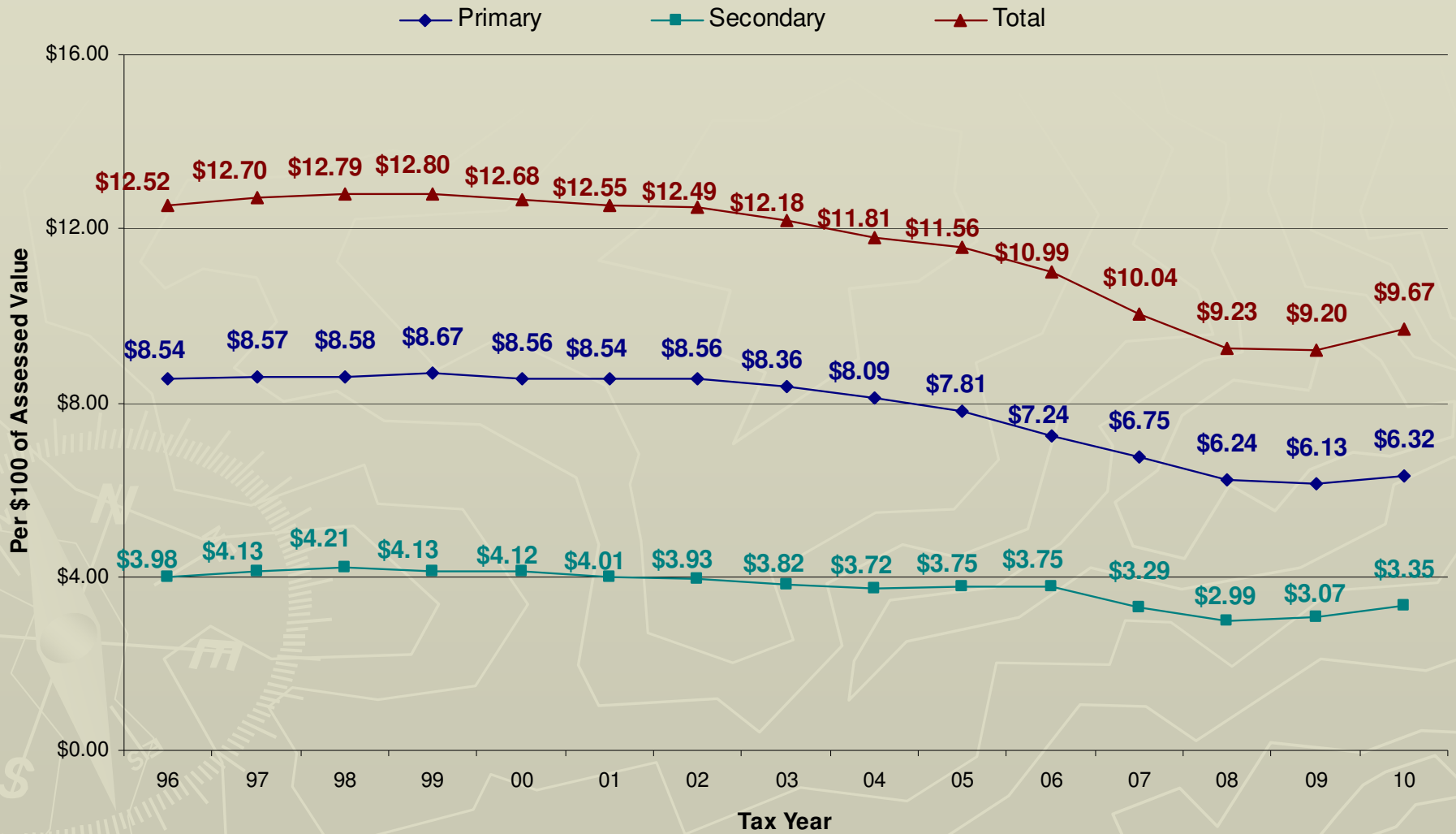
Successful Efforts to Control Levy Growth

- ▶ 1996 property tax cuts
 - Elimination of state 47-cent tax rate
 - Reduction in the qualifying tax rate (QTR) for schools from \$4.72 to \$4.40
- ▶ 2006 reduction in county education rate
- ▶ Truth in Taxation (TNT) laws passed in 1996, 1997, & 1998
- ▶ On-going effort to eliminate or limit non-voter approved K-12 district levies (excess utilities, desegregation levies)

Results

- ▶ Statewide average rate has fallen from a high of \$13.27 in 1995 to \$9.67 in 2010
- ▶ A decrease of \$3.60 (27%)

Statewide Average Tax Rate



2007 Effective Tax Rates

Class	Description	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	Commercial, Industrial, Utilities, & Mines	97,073,398,842	17.08%	2,120,216,908	36.41%	2.18%
2	Agricultural & Vacant Land	42,353,525,829	7.45%	495,928,282	8.52%	1.17%
3	Owner-occupied Residential	372,022,532,872	65.44%	2,697,511,539	46.33%	0.73%
4	Rental Residential	51,777,461,130	9.11%	460,547,049	7.91%	0.89%
5	Railroad, Private car, airline flight	1,485,829,675	0.26%	29,809,718	0.51%	2.01%
6	Residential historic, Enterprise & Foreign Trade Zones	3,682,589,996	0.65%	17,775,286	0.31%	0.48%
7	Commercial Historic	33,064,304	0.01%	494,240	0.01%	1.49%
8	Rental Residential Historic	13,406,107	0.00%	105,245	0.00%	0.79%
9	Possessory Interests	25,740,472	0.00%	18,450	0.00%	0.07%
Total		568,467,549,227	100.00%	5,822,406,715	100.00%	1.02%

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Source: Arizona Tax Research Association – Tax Year 2007 Property Tax Model

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

Industrial Property Taxes Payable 2007				Industrial Property Taxes Payable 2008				Industrial Property Taxes Payable 2009			
Rank	State	NET TAX	ETR	Rank	State	NET TAX	ETR	Rank	State	NET TAX	ETR
1	South Carolina	1,864,900	3.730%	1	South Carolina	1,947,900	3.896%	1	South Carolina	1,538,879	3.078%
2	Michigan	1,724,404	3.449%	2	Michigan	1,658,568	3.317%	2	Michigan	1,480,031	2.960%
3	Indiana	1,470,297	2.941%	3	Texas	1,261,850	2.524%	3	Texas	1,261,850	2.524%
4	Mississippi	1,291,050	2.582%	4	Mississippi	1,242,554	2.485%	4	Mississippi	1,242,554	2.485%
5	Arizona	1,264,650	2.529%	5	Kansas	1,169,583	2.339%	5	Missouri	1,150,676	2.301%
6	Texas	1,264,358	2.529%	6	Missouri	1,116,103	2.232%	6	Kansas	1,141,163	2.282%
7	Kansas	1,121,475	2.243%	7	Indiana	1,104,315	2.209%	7	Indiana	1,090,901	2.182%
8	Missouri	1,111,255	2.223%	8	Iowa	1,095,133	2.190%	8	Iowa	1,087,622	2.175%
9	Iowa	1,069,372	2.139%	9	Tennessee	1,008,207	2.016%	9	Tennessee	1,046,277	2.093%
10	Tennessee	1,033,544	2.067%	10	Arizona	996,842	1.994%	10	Pennsylvania	1,029,057	2.058%
11	New York	988,045	1.976%	11	New York	993,271	1.987%	11	Louisiana	1,026,584	2.053%
12	Connecticut	949,440	1.899%	12	Connecticut	980,760	1.962%	12	New York	976,546	1.953%
13	Pennsylvania	911,994	1.824%	13	D.C.	903,275	1.807%	13	D.C.	935,725	1.871%
14	DC	903,738	1.807%	14	Pennsylvania	893,737	1.787%	14	Connecticut	881,326	1.763%
15	West Virginia	833,234	1.666%	15	Louisiana	890,381	1.781%	15	Arizona	843,417	1.687%
AVERAGE		745,139	1.490%	AVERAGE		725,151	1.450%	AVERAGE		729,805	1.460%

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Source: Minnesota Taxpayer's Association