



The taxpayer's watchdog for 85 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

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2025 ATRA Legislative Program

Introduction/State Budget

ATRA's legislative program is developed each year with recognition that the Legislature and Governor's highest priority for the session should be passing a state budget that is balanced and sustainable.

ATRA will provide updated state budget recommendations to the Legislature after the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSPB) have submitted their budget recommendations in January.

Taxation

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 a result of previous ATRA-backed legislation passed in 2005, 2007, 2011, 2021, and 2022, ATRA achieved its decades-long goal of reducing the class one (business) assessment ratio to 15% beginning in tax year 2027. In addition, the historic reductions in the business personal property tax, coupled with the passage of Proposition 130 in 2022, now provides opportunities for further reductions.

Prevent greater access to the property tax. For the 2025 session, ATRA will oppose efforts by the state and local governments, as well as special districts, to increase access to the property tax base.

In addition, ATRA will advocate for the continued compliance with the state's Truth-in-Taxation (TNT) law. Since its passage in 1998, the state has consistently complied with the TNT law and state controlled tax rates have declined in each of the last ten years. While those rates have both risen and fallen with the fluctuations in the real estate market, ATRA believes adherence to the TNT law is an important principle that has and will continue to benefit taxpayers over time.

Targeted Property Tax Breaks. For decades, ATRA has led the effort at the Capitol to oppose rifle-shot property tax breaks to specific taxpayers. Too often, these bad precedents create a path dependency leading to more inequity in the system. ATRA will continue to support policies that provide for equitable treatment among property taxpayers and oppose efforts that undermine that important policy principle.

Leg Program, *Continued from page 1*

For the 2025 session, ATRA will pursue the following legislation:

Property Tax

Personal Property Tax Relief. In November 2022, Arizona voters approved Proposition 130, which gave state lawmakers statutory authority over business personal property tax exemptions. Under the new authority provided to the Legislature, ATRA will pursue increasing the personal property exemption from the current \$248,691 to \$500,000. (Sen. Mesnard)

General Obligation (G.O) Bond Elections. For several years, ATRA has expressed concerns that Arizona voters and taxpayers have often been misled about the property tax implications of voter approved G.O. bonds. Those concerns were heightened in 2024 when some school districts actually used the statutorily required publicity pamphlet to suggest that the bonds WILL NOT INCREASE THE TAX RATE. These claims go beyond the use of public funds to influence the outcome of an election and are a complete contravention of the legal framework for selling G.O. bonds. In order to ensure taxpayers understand the tax implications of the G.O. bonds, ATRA will pursue legislation to require that the “purpose statement” in the publicity pamphlets include the following notice to taxpayers:

Principal of and interest on the Bonds will be payable from a continuing, direct, annual, ad valorem tax levied against all taxable property located within the boundaries of the District. The Bonds will be payable from such tax without limit as to rate or amount. (Rep. Olson)

Sales Tax

City Taxpayer Notification for Model Options. Through the Model City Tax Code (MCTC), Arizona cities are allowed to tax transactions that are exempt at the state and county level. Regrettably, in too many instances, businesses are not made aware of a city tax liability until they are audited by a city. ATRA will propose legislation requiring the city to notice any business that is subject to a model or local option of that obligation when they receive their business license. Upon initial adoption of a model or local option, the city is required to directly notify each impacted business by mail. (Rep. Carter)

TPT Sourcing Rules. The 2024 legislative session included a bill that called for a major change to Arizona’s TPT sourcing laws for businesses with a physical presence in Arizona. ATRA opposed that change and it did not become law. ATRA anticipates another round of proposals regarding sourcing for in-state transactions and will support changes that provide clarity to current law that sources the sales by in-state businesses to the business location.

Public Finance

Government Property Lease Excise Tax (GPLET) Reform. GPLET continues to be a highly controversial feature of Arizona’s public finance system. ATRA participated in several major successful GPLET reform efforts in 2010, 2017, and 2018 to limit cities use of their tax exempt status to harvest property taxes for private projects.

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Leg Program, *Continued from page 2*

However, a historic Arizona Supreme Court Gift Clause decision in 2021 (*Schires v. Carlat*) has made those reforms potentially moot. Arizona's Gift Clause states that a municipality may not "give or loan its credit in the aid of, or make any donation or grant, by subsidy or otherwise, to any individual, association, or corporation." To determine a violation of the Gift Clause, the courts rely on the *Wisturber* two-pronged test to determine whether the expenditure has a public purpose and if the consideration received by the government is grossly disproportionate to the amount paid to the private entity. In considering the direct payments that were bargained for in the case, the court determined that the agreement failed *Wisturber's* second prong and therefore violated the Gift Clause. To reduce Gift Clause challenges to future GPLET agreements, ATRA will pursue legislation to limit the current 8-year abatement period to 4 years so that the "give" doesn't exceed the "get."

In addition, the legislation will amend school finance statutes to require school districts to include the assessed valuation of GPLET property in abatement in the calculation for state equalization assistance. Lastly, in order to reduce the potential for Gift Clause violations for GPLET deals outside the Central Business District, the legislation will reduce the maximum GPLET lease term from the current 25 years to 10 years. (Sen. Leach)

GPLET Transparency. Current law requires a government lessor to notify the county and any city, town and school district in which a government property improvement is located 60 days prior to approval of the lease or development agreement. ATRA will pursue legislation to also require the lessor to notify the impacted community college district, if applicable. The legislation will also require the lessor to provide an estimate of the property tax revenue that each taxing entity will forego during the term of the GPLET abatement period or the term of the GPLET excise tax lease.

ATRA's legislation will improve the existing transparency measures by requiring DOR to post all county treasurer GPLET reports to the DOR website and require lessors to timely update their databases in a format prescribed by DOR. (Sen. Leach)

School Finance Reform. For decades, ATRA has advocated for a school finance system that is equitable and reflective of Arizona's K12 system that encourages and promotes parental choice. ATRA has also argued that a more equitable school finance system reduces the state's exposure to the continuous litigation facing the state. ATRA will support the following school finance reform in the 2025 session to create a state student funding formula. This proposal would allow any school district with no secondary property tax (no bonds or overrides) to switch to a new state funding formula similar to the current charter funding system. Upon the approval of district voters, eligible districts would opt into the new state funding system (an average of \$1,200 more per pupil) and agree to forgo bond and override funding. In order to offset some of the state general fund impacts of the new state funding formula, district voters would also be required to approve an additional property tax rate of \$0.35 for elementary and union districts or \$0.70 for unified districts.

Informational Pamphlets; Property Tax Estimates. Several Arizona statutes require local governments to provide estimates of the property tax increases associated with truth-in-taxation notices, override elections, and bond elections. Currently those estimates require the use of a \$100K home and a \$1M business. ATRA will pursue legislation to update those estimates to \$400K for homes and \$1.5 million for a business. (Rep. Olson)