REVISED

BILL # HCR 2018

TITLE: repeal business personal property tax

SPONSOR: Murphy

STATUS: As Introduced

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FISCAL ANALYSIS

Description

The Arizona Constitution currently exempts the first $50,000 in full cash value of personal property used for business or agricultural purposes from taxation. Statute further defines the constitutional provision to apply to certain sub-classes of business (Class 1) and agricultural (Class 2) personal property. Such sub-classes of property are locally assessed as opposed to centrally valued property (except for telecommunications property). Generally, centrally valued property refers to geographically dispersed and complex properties, such as mines, utilities, airlines, and railroads. Such property is valued by the Department of Revenue (DOR) as opposed to the county assessors.

The original fiscal note assumed that only locally assessed personal property would be affected by HCR 2018. There is now, however, uncertainty whether the language in HCR 2018 would also cover centrally valued property. Since the release of the original fiscal note, Legislative Council has opined that the property tax repeal under the bill would also include centrally valued property.

Estimated Impact

Based on property valuation data reported in DOR's *State and County Abstract of the Assessment Roll*, HCR 2018 is estimated to have a General Fund cost of $94.7 million to $199.1 million beginning in FY 2010. The range depends on whether centrally valued property is covered by HCR 2018. The bill would reduce statewide net assessed valuation (NAV), which would result in an increase of the state's K-12 education formula cost.

The fiscal impact resulting from the NAV loss could be offset by reducing the cost of automatic school tax rate reductions under the state's truth-in-taxation (TNT) provisions. The net General Fund cost if the TNT savings are incorporated would be an estimated $18.6 million to $38.1 million beginning in FY 2010. The range is contingent on whether centrally valued property is included under the property tax exemption provided by HCR 2018 or not.

The remainder of the analysis is the same as the original fiscal note. The estimates would need to be revised if it is determined that centrally valued properties are covered by HCR 2018.

Analysis

According to the *State and County Abstract of the Assessment Roll*, business and agricultural personal property comprised $3.1 billion of statewide NAV in FY 2006 and $2.9 billion in FY 2007. Under current law, this amount is estimated to be about $3.0 billion in FY 2010. Thus, under HCR 2018, the statewide NAV loss would be $(3.0) billion in FY 2010.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (39% in FY 2010) of residential school property taxes through the Department of Education's Homeowner's Rebate program. By reducing NAV by $(3.0) billion in tax year 2009, the bill will result in a direct increase of the state share of K-12 funding by $94.7 million in FY 2010. This estimate includes the net impact on both Basic State Aid and the Homeowner's Rebate.

The NAV reduction under HCR 2018 will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the qualifying tax rate (QTR) to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2010, the school tax rate is expected to be reduced by 9.2¢ under existing statutes. However, under HCR 2018, the $(3.0) billion NAV reduction is expected to result in an overall statewide deprecation of existing property in FY 2010, which in turn will raise the tax rate by 4.5¢ under TNT. This means that the QTR would be 13.7¢ higher under the bill than under current law, which constitutes a TNT saving of $(76.1) million.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund, beginning in FY 2010, will be $94.7 million. However, if the QTR is adjusted to account for TNT, the bill's General Fund cost would instead be about $18.6 million.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

3/20/07