Fiscal Note

BILL # SB 1495 **TITLE:** personal property exemption; increase

SPONSOR: Mesnard **STATUS:** As Introduced

PREPARED BY: Benjamin Newcomb

Description

SB 1495 increases the full cash value exemption for commercial and agricultural business personal property tax from its current level of $248,691 to $500,000, starting in TY 2025. The bill becomes effective January 1, 2025.

Estimated Impact

Based on data furnished by the Maricopa County Assessor's Office, we estimate the bill would have a direct General Fund cost of $5.3 million, beginning in FY 2026, prior to applying the state's Truth-in-Taxation (TNT) adjustments. The bill would reduce net assessed valuation (NAV), which would result in an increase of the state's K-12 education formula cost.

This $5.3 million cost would be partially offset by savings under the automatic school tax rate adjustments provided under the TNT provisions. Once TNT savings are accounted for, we estimate the General Fund cost would be $1.6 million, beginning in FY 2026.

Analysis

Based on 2023 property data, the Maricopa County Assessor's Office estimates that increasing the business personal property exemption to $500,000 would reduce the county's total NAV by $(116.3) million. Based on an extrapolation of data from the *2023 State and County Abstract of the Assessment Roll*, we estimate that the TY 2025 statewide NAV loss would be $(181.7) million. Using the TY 2023 Levy Limit Worksheets, we further estimate that of the total statewide NAV loss of $(181.7) million, $(164.8) million would be attributable to existing property while $(16.4) million would be attributable to new property.

Pre-TNT Impact- Under the Basic State Aid (BSA) formula, the state pays for the cost of K-12 education not generated by local property taxes. By reducing NAV by $(181.7) million in TY 2025, the bill would result in a direct BSA cost increase of $5.3 million, beginning in FY 2026. Since the business personal property exemption does not impact Class 3 (primary residence) property, the bill has no effect on the cost of the Homeowner's Rebate (HOR) program absent the TNT adjustment.

Post-TNT Impact- The bill would also have an impact on the state's TNT program in FY 2026. Under TNT, rising property values are offset by corresponding decreases in tax rates (and vice versa) to level out collections. This rate change occurs automatically unless the Legislature decides to forgo the TNT adjustment. TNT is calculated based on the assessed valuation of existing property. Due to the $(164.8) million NAV loss of existing property, we estimate that the FY 2026 qualifying tax rate (QTR) would be 0.56 cents higher than under current law. The net impact of the 0.56 cents higher QTR and the $(16.4) million NAV reduction of new property is a BSA cost increase of $0.5 million.

Under the HOR program, the state pays 50% of the QTR applied to Class 3 property. The remaining 50% is paid by the

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homeowner. Other classes of property do not receive the homeowner's rebate. While the bill would not impact Class 3 NAV, the higher QTR increases the cost of the HOR program by $1.1 million under TNT. Therefore, the total post-TNT cost under the bill is estimated to be $1.6 million, beginning in FY 2026.

There could be some dynamic effects associated with the bill insofar as the increased exemption amount incentivizes changes in the behavior of business owners with respect to personal property. Changes in business spending could impact hiring, income, and consumer spending, all of which could lead to additional tax revenue for the state.

Local Government Impact

We estimate the bill would reduce the total statewide property tax base by (0.2)%. For this reason, the bill is likely to have a limited impact on local governments.

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