# Fiscal Note

**BILL #** SB 1496 **TITLE:** property tax exemptions; inflation adjustment

**SPONSOR:** Mesnard **STATUS:** As Introduced

**PREPARED BY:** Benjamin Newcomb

**Description**

SB 1496 would change the inflation index used to annually calculate the maximum assessed property value for widows, widowers, persons with total and permanent disability, and disabled veterans to qualify for a property tax exemption provided by the Arizona Constitution.

Under current law, the Gross Domestic Product (GDP) Price Deflator is used for the annual calculation of the assessed value limit. The proposal would replace this inflation index with the Federal House Price Index (FHPI), beginning in Tax Year (TY) 2025. The bill has a general effective date.

**Estimated Impact**

Due to a lack of specific property and income data, we are not able to quantify the fiscal impact of the proposal. We expect, however, that the bill's first-year fiscal impact, which would occur in FY 2026, would be relatively limited.

As discussed in the *Analysis* section below, the fiscal impact of the bill depends on whether the state's Truth-in-Taxation (TNT) provision is included or not. On a pre-TNT basis, we expect a small cost increase whereas on a post-TNT basis, we anticipate that the General Fund would incur a small cost savings. The post-TNT savings incurred by the General Fund would be "paid for" through a tax shift to those property owners that would not benefit from the proposal.

**Analysis**

Under current law, widows, widowers, and persons with disability, including disabled veterans, are eligible for a property tax exemption on their owner-occupied residential (Class 3) property if they meet certain income and property value qualifications. Current statutes provide that the amount of the exemption, assessed value limit, and income limits be indexed annually to the average growth in the GDP Price Deflator over the previous two fiscal years. The table below displays these limits for TY 2024.

| Limits | TY 2024 Amount |
|---|---|
| Assessed Property Value Limit | $30,099 |
| Income Limit | $37,297 without dependents |
| | $44,745 with dependents |
| Exemption Amount | $4,476 |

The bill would index the assessed property value limit to the average annual percentage change in the FHPI over the two prior fiscal years, beginning in TY 2025. The income limits and exemption amount would remain indexed to the GDP Price Deflator.

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Over the past decade, the average annual growth rate in the FHPI was 7.08% compared to 1.93% for the GDP Price Deflator. Using these growth rates to calculate the TY 2025 assessment limit would generate an amount of $32,230 (or $322,300 in terms of Limited Property Value (LPV)) under the FHPI index and $30,681 ($306,810 in terms of LPV) under the GDP Price Deflator. This means that for a widowed or disabled person to qualify for the exemption in TY 2025, the LPV of their home could be $15,490 higher under the bill than under current law. This assumes that their income would not exceed the TY 2025 limits of $38,018 without dependents and $45,610 with dependents. Therefore, since the assessment limit under the FHPI would be higher than under the GDP Price Deflator, more taxpayers would qualify for the personal exemption under the bill than under current law.

*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. With a higher assessed property value limit under the FHPI, the proposal would allow more individuals to qualify for the personal exemption, which would decrease statewide Class 3 net assessed value (NAV), beginning in TY 2025. Lower overall NAV would result in a direct BSA cost increase, beginning in FY 2026. This cost would grow each year to the extent the FHPI grows at a faster rate than the GDP Price Deflator. There is insufficient public data on the number of widows, widowers, disabled persons, disabled veterans, their income, and the value of their property for us to quantify the dollar impact of this proposal.

*Post-TNT Impact*- The NAV reduction under the proposal would also have an impact on the state's Truth-in-Taxation (TNT) program. Under TNT, the Qualifying Tax Rate (QTR) is adjusted each year to offset changes in the statewide annual valuation of existing property. This rate change occurs automatically unless the Legislature decides to forgo the TNT adjustment. Since the bill would result in a reduction in Class 3 NAV, the TNT adjustment would result in the FY 2026 QTR being higher under the proposal than under current law.

Under the Homeowner's Rebate (HOR) program, the state pays 50% of the QTR applied to Class 3 property. The remaining 50% is paid by the homeowner. The decrease in Class 3 NAV under the bill would reduce taxpayers' property tax liability, thereby generating General Fund savings with respect to the HOR program. We expect that the savings from the HOR program would more than offset the BSA cost increase under TNT.

**Local Government Impact**

The bill could result in a property tax shift in local taxing jurisdictions affected by the proposed legislation.

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