Fiscal Note

BILL # SB 1069

TITLE: personal property exemption; increase

SPONSOR: Mesnard

STATUS: As Introduced

PREPARED BY: Hans Olofsson

Description

Under current law, personal property that is used in a trade or business or for agricultural purposes is exempt from property taxation up to a certain amount that is increased each year to account for inflation. For Tax Year (TY) 2025, the maximum amount of the exemption is $269,905. SB 1069 would increase the business and agricultural personal property exemption to $500,000, beginning in TY 2026.

Estimated Impact

Based on data provided by the Maricopa County Assessor's Office, we estimate that the bill would have a direct General Fund cost of $4.2 million, beginning in FY 2027, 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 $4.2 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 $825,000, beginning in FY 2027.

Analysis

The business personal property tax exemption, which is annually adjusted for inflation based on the Bureau of Labor Statistics' (BLS) Employment Cost Index, was $225,572 in TY 2023, $248,691 in TY 2024, and $269,905 in TY 2025. Based on the average annual percentage increase of the inflation-adjusted exemption in the 3 most recent years, we estimate that the exemption amount will increase to $294,600 in TY 2026, when SB 1069 would first go into effect.

The Maricopa County Assessor's Office (MCAO) estimates that if the business personal property exemption were increased from $294,600 to $500,000, the county's NAV would be reduced by $(102.2) million. Based on the Department of Revenue's (DOR) most recent *State and County Abstract of the Assessment Roll* and most recent County Levy Limit Worksheets provided by the state's 15 counties, we estimate that the statewide NAV loss would be $(149.8) million, of which $(146.8) million would be attributable to existing property and the remaining $(3.0) million 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 $(149.8) million in TY 2026, the bill would result in a direct BSA cost increase of $4.2 million, beginning in FY 2027. 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 2027. 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 $(146.8) million NAV loss of existing property, we estimate that the FY 2027 qualifying tax rate (QTR) would be 0.46 cents higher than under current law. There would be essentially no impact on the cost of the BSA formula as the effect of the lower NAV would be almost exactly offset by the higher QTR under the bill.

Under the HOR program, the state pays 50% of the QTR applied to Class 3 property. The remaining 50% is paid by the homeowner. Other classes of property do not receive the homeowner's rebate. While the bill would not impact Class 3 NAV, the 0.46 cents higher QTR increases the cost of the HOR program by $825,000 under TNT. This means that the total post-TNT cost under the bill is estimated to be $825,000, beginning in FY 2027.

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 (0.15)%. For this reason, the bill is likely to have a limited impact on local governments.

2/11/25