

# Fiscal Note

**BILL #** SCR 1003

**TITLE:** personal property tax; exemption

**SPONSOR:** Mesnard

**STATUS:** As Amended by Senate FIN

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## Description

SCR 1003, as amended by the Senate Finance Committee, would amend the Arizona Constitution, upon voter approval, by increasing the full cash value exemption for commercial and agricultural business personal property initially acquired during or after Tax Year (TY) 2021 from the current amount of \$185,811 to \$1,000,000. Personal property initially acquired before TY 2021 would not be subject to the \$1.0 million exemption amount. The concurrent resolution would authorize the Legislature to adjust the exemption amount for inflation each year.

## Estimated Impact

Based on data furnished by the Maricopa County Assessor's Office, SCR 1003, as amended, is estimated to have a direct General Fund cost of \$1.5 million, beginning in FY 2023. The proposal would reduce net assessed valuation (NAV), which would result in an increase of the state's K-12 education formula cost.

## Analysis

SCR 1003, as amended, would increase the exemption for business and agricultural personal property initially acquired during or after TY 2021 to \$1.0 million. By way of comparison, the current (TY 2020) exemption amount is \$185,811.

Based on 2019 property data, the Maricopa County Assessor's Office estimates that the concurrent resolution would reduce the county's total NAV by \$(24.0) million. Based on the *2019 State and County Abstract of the Assessment Roll*, the JLBC Staff estimates that the corresponding statewide NAV loss would be \$(35.9) million. (Maricopa's share of the total statewide net assessed value (NAV) of agricultural and business personal property was 67% in TY 2019.)

The personal property exemption does not apply to centrally valued property with the exception for telecommunications property. The Department of Revenue (DOR) is responsible for assessing centrally valued property, including telecommunications property. DOR has not provided an estimate of the NAV loss for telecommunications property under SCR 1003. However, based on data provided by DOR for a similar measure introduced in the 2015 Regular Session (HCR 2016), the JLBC estimates that SCR 1003 would reduce statewide NAV for telecommunications property by \$(4.8) million. This means that the total NAV loss (including both locally assessed personal property and telecommunications personal property) under the concurrent resolution would be an estimated \$(40.7) million.

As noted above, the \$1.0 million exemption amount under SCR 1003 would apply only to personal property initially acquired during or after TY 2021. Under the state's assessment calendar, SCR 1003 would first affect the property tax roll in TY 2022, which for budgetary purposes corresponds to FY 2023.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated by local property taxes. The state also pays a certain percentage (which is currently 47.19%) of residential school property taxes through the Department of Education's Homeowner's Rebate program. By reducing statewide NAV by \$(40.7) million, SCR 1003 would reduce the local share of K-12 funding by an estimated \$(1.5) million in FY 2023. Under the Basic State Aid formula, the state share of K-12 funding would increase by the same amount, or \$1.5 million, in order to provide the same amount of total funding to schools.

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**JLBC**

SCR 1003 would not have any impact on the state's Truth-in-Taxation (TNT) program in FY 2023. Under TNT, rising property values are offset by corresponding decreases in tax rates (and vice versa) to level out collections. TNT is calculated based on the assessed valuation of existing property, not new property. Therefore, since SCR 1003 would not affect the value of existing property in FY 2023, the concurrent resolution would have no impact on FY 2023 TNT rates.

There could be some indirect or "dynamic" effects insofar as the proposal's higher exemption amount induces businesses to purchase personal property that they otherwise would not have acquired. Such additional business spending may result in additional hiring, increased income and consumer spending, which in turn could translate into additional tax dollars for the state.

**Local Government Impact**

SCR 1003 is estimated to reduce the total statewide property tax base by (0.5)%. For this reason, the proposal is likely to have a limited impact on local governments.

1/27/20