Fiscal Note

BILL # HB 2822

TITLE: personal property; additional depreciation

SPONSOR: Weninger

STATUS: As Introduced

PREPARED BY: Hans Olofsson

Description

Under current law, locally assessed business and agricultural personal property receives additional depreciation over and above the amount allowed under the regular deprecation schedule. The additional depreciation provision has the effect of further reducing the full cash value of such property over the first 5 years of the property's economic life. HB 2822 would set the full cash value of business and agricultural personal property initially classified during or after Tax Year (TY) 2022 to 2.5% of the property's acquisition cost.

Estimated Impact

HB 2822 is estimated to have a direct General Fund cost of $23.4 million in FY 2023. The bill would reduce statewide net assessed valuation (NAV), which increases the state's K-12 education formula cost. Since the bill would only affect new property in the first year of its implementation, there would be no offsetting cost savings under the state's truth-in-taxation (TNT) provisions.

We would note that our analysis does not reflect any potential behavioral responses of businesses to the changes under the bill. For example, all else equal, a decrease of the property tax liability can serve as an incentive for businesses to make more capital investments and hire more labor than they would otherwise. Such "dynamic" effects may result in an increase in economic output, which in turn may generate more tax revenue dollars for the state General Fund than what a "static" analysis assumes.

Analysis

According to the Maricopa County Assessor's Office (MCAO), the bill would reduce the Maricopa County's primary net assessed value (NAV) by an estimated $(450) million. Based on the *State and County 2021 Abstract of the Assessment Roll* published by the Department of Revenue (DOR), we estimate that the NAV of locally assessed business and agricultural personal property in Maricopa represents 69.6% of the statewide total. Using this estimate, we prorated the statewide NAV loss under the bill to be $(647) million.

Under the state's K-12 education funding formula, it is estimated that a NAV loss of $(647) million would increase the state share of school funding by about $23.4 million, beginning in FY 2023. Since the bill would apply to only new property in its first year of its implementation, the NAV loss would not affect existing property and thus the Truth in Taxation (TNT) calculation used to derive the statutory K-12 tax rates for FY 2023. For this reason, the bill would not generate an offsetting cost savings in FY 2023.

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.

2/17/22

JLBC