



## Arizona And Property Taxes

Arizona has one of the most complicated property tax systems in the nation. We currently have nine different property tax classifications.

While the same tax rate is applied to every property based on where the property is located the amount of taxes paid can be dramatically different based on the property tax classification.

### Arizona Property Tax Classifications

#### **Class    Assessment**

#### Ratio

Class 1	18%	Commercial and industrial real property not included in other classes. Commercial and industrial personal property exceeding \$159,498 of full cash value. Mines and mining claim property and standing timber. Local telecommunications service, gas, water and electric utility company property, pipeline company property, producing oil and gas property.
Class 2	15%	Agricultural real property and vacant land and Exempt Property
Class 3	10%	Primary Residence
Class 4	10%	Leased, Rented or Second Home; Care Facilities for Children and Adults, Bed and Breakfasts
Class 5	15%	Railroad operating property, private car company property and airline flight property
Class 6	5%	Noncommercial historic property, foreign trade zone property, qualifying military reuse zone property, qualifying enterprise zone property, quality environmental technology property, and qualifying environmental remediation property
Class 7	18%	Commercial Historic Base (Class 1) property, subtracting for up to 10 years, all but 1% of the full cash value of modifications to restore and rehabilitate historic property



Class 8	10%	Residential Commercial (Class 4) property, subtracting for up to 10 years, all but 1% of the full cash value of modifications to restore and rehabilitate historic property
Class 9	1%	Possessory Interests (Certain Improvements on Government Property)

### **Property Tax Problems to Consider**

Pima County is the only county in Arizona to rely exclusively on property taxes to finance virtually every service provided to taxpayers.

**Thousands of people every year that do not own a business or property in Pima County use county services free of charge.** Public safety, roads, parks and recreation are all paid for 100% by property taxpayers. That is just one of many problems associated with relying exclusively on property taxes to pay for county services.

- **Equity** – A \$100,000 property has a dramatically different tax liability of anywhere from 5% to 18% of its assessed valuation based on the classification of the property.
- **Job Creation** – Businesses pay far more in property taxes than residential properties. Pima County's high property tax rates are a real barrier to business expansion, retention and recruitment. High property taxes discourage new investment in businesses in Pima County.
- **Disproportionately Impacts Low Income Families** – Owner occupied residential property taxes are heavily subsidized in our current property tax system. These properties qualify for the Homeowners Rebate which subsidizes property taxes for our schools **but only for owner occupied properties.** People living in rental properties pay property taxes indirectly through their monthly rent. As they do not qualify for these subsidies, **many low income families in rental properties actually pay more in property taxes than owner occupied property taxpayers do.**
- **Special Interests** – Powerful special interests have the ability to go to the Legislature and create legal exemptions in the tax code that allow them to dramatically reduce their property tax liability. As a result tax liability is shifted to those that are not so well represented in the Legislature.

- **Government Properties** – Many of Pima County’s largest employers such as Davis Monthan and the University of Arizona are government properties that do not pay property taxes. These employers pay sales taxes. By relying exclusively on property taxes we are exempting major parts of our community and our local economy from paying their fair share for services that our entire community uses.
- **Pima County Cannot Set The Rules** – The rules for property taxes are 100% controlled by the State of Arizona. Changes by the Legislature in the property tax code can dramatically change tax revenues coming in to Pima County. Those changes can incentivize tax rate hikes in Pima County to make up for revenue lost due to tax code changes.
- **Tax Avoidance** – Taxpayers can avoid property taxes by leaving Pima County. High property taxes make lower property tax counties more attractive.

### **One Percent Cap Issues**

In 1980, Arizona voters approved a package of 10 property tax reforms which included a Constitutional 1% cap on property taxes on class three residential properties. As a result, when property taxes in a local jurisdiction exceed 1% of assessed valuation on a residential property the state pays all local education property taxes above that 1% cap.

The state currently pays over \$30 million dollars in local property taxes because of the 1% cap. The bulk of that money goes to Pima County right now. **Every taxpayer in Arizona is a property taxpayer in Pima County even if they don’t own property here.**

Two years ago the State of Arizona passed legislation to attempt to shift those local taxes back to Pima County. The legislation was challenged and overturned after a lawsuit filed by Pima County. The tax liability for the state continues to grow each year as a result of the 1% cap. It is unreasonable to assume that the state will not seek another way to shift that tax liability back to Pima County taxpayers.

Because this 1% cap protection applies only to class three residential properties state law shifts even greater tax liability on businesses and non-owner occupied residential property once the cap is hit.

The impact of the 1% cap is even felt by property taxpayers in Pima County. Many taxpayers in Oro Valley, Marana, Sahuarita and Green Valley do not know that as a result of the 1% cap they are paying property taxes in Tucson Unified School District.

## Solutions

Pima County should consider:

1. Reduce spending and property taxes below the 1% cap OR
2. Consider passage of a half-cent sales tax and use those funds to buy down property tax rates below the 1% cap.

## Challenges

- **Reducing spending and tax rates can help get us below the 1% cap.** That will resolve our issues with the state and with statewide taxpayers subsidizing our local property taxes. It must be noted that Pima County alone cannot resolve this issue. Any tax cuts passed by Pima County could be offset by tax increases in local school districts and leave us in the same situation we currently find ourselves in right now.
- **Just reducing tax rates leaves us with the same structural flaws of the current property tax code.** 100% reliance on property taxes to pay for county services, even at lower rates, will place the majority of the tax burden on business owners and will continue to favor residential homeowners over families living in rental homes. Lower income renters will continue to pay higher property taxes than owner occupied property owners. Visitors and non-property owners in Pima County will continue to access Pima County services for free.
- **A Pima County sales tax would require a unanimous vote of the Pima County Board of Supervisors.** ARS 42-6103 requires Pima County to have a unanimous vote of the Board of Supervisors. It is of note that just a simple majority vote is required to raise property taxes.
- **Legislative action would be required to lower the vote threshold to a simple majority vote of the Board of Supervisors.** There would likely be additional concessions required by the Legislature and Governor to grant this authority to Pima County.

## **Conclusions**

Those who argue about the regressive nature of sales tax do so while ignoring the fact that we do not tax food, housing or medication. While this certainly does not eliminate the impact of additional sales taxes on low income families it does mitigate some of those concerns.

You must also ignore all the problems and inequities that have been outlined here with the current property tax system. In many ways property taxes are even less fair and less transparent than sales taxes are on our most economically vulnerable citizens.

Automatically defaulting to a 100% reliance on a flawed property tax system is neither fair nor equitable. It carries with it negative impacts on job creation, slows growth in wages by limiting business capital investment and expansion and does little to improve the financial position of low income families.

A sales tax that is used to substantially reduce property taxes has merits that need to be examined objectively. There is a reason that every other county in Arizona has chosen to diversify their revenue streams with sales taxes in order to grow their economies, expand opportunities for their citizens and ensure that everyone that uses county services pays for county services.

