Fiscal Note

BILL # SB 1184

TITLE: municipal tax exemption; residential leases

SPONSOR: Kaiser

STATUS: As Introduced

PREPARED BY: Hans Olofsson

Description

SB 1184, as introduced, would prohibit municipalities from imposing a tax or fee on the business of renting or leasing real property for:

- Residential dwellings of 4 or fewer units, beginning October 1, 2024
- Residential dwellings of more than 4 units, beginning January 1, 2028

In addition, the bill would require municipalities to use monies allocated to the distribution base from state TPT levied on remote sellers for public safety before any other municipal purposes.

Estimated Impact

Since the state does not currently impose the Transaction Privilege Tax (TPT) on leased or rented real residential property, the bill would not have an impact on the state General Fund. However, the bill is estimated to reduce municipal tax revenues by $(75.3) million in FY 2025, and this revenue loss would grow to $(282.7) million by FY 2029, as shown in *Table 1* below.

Table 1

Municipal TPT Impact
Millions of Dollars

FY	Rental TPT Prohibition: 1-4 Unit Dwellings	Rental TPT Prohibition: >4 Unit Dwellings	Rental TPT Prohibition: All Dwellings
2025	$(75.3) 1/	N/A	$(75.3)
2026	$(119.5)	N/A	$(119.5)
2027	$(125.8)	N/A	$(125.8)
2028	$(132.4)	$(57.2) 2/	$(189.6)
2029	$(138.8)	$(143.9)	$(282.7)

1/ Fiscal impact would be limited to the last 8 months of FY 2025
2/ Fiscal impact would be limited to the last 5 months of FY 2028

As discussed in the *Analysis* section below, due to significant data limitations, the allocation of the municipal revenue loss between dwellings of 1 to 4 units and dwellings with more than 4 units is highly speculative and for this reason should be interpreted with caution.

(Continued)

Analysis

Based on Department of Revenue (DOR) data reported through December 2022, we estimate that municipalities will collect a total of $200.9 million in sales tax revenue from residential leases in FY 2023.

IHS Markit, an international economic consulting firm, projects that property income in Arizona will grow by 7.1% in FY 2024, 7.0% in FY 2025, 5.8% in FY 2026, 5.3% in FY 2027, 5.2% in FY 2028, and 4.8% in FY 2029. Based on that forecast, we project that municipal rental TPT under current law will grow to $215.1 million in FY 2024, $230.2 million in FY 2025, $243.4 million in FY 2026, $256.2 million in FY 2027, $269.6 million in FY 2028, and $282.7 million in FY 2029.

According to the most recent result from the American Community Survey (ACS) published by the US Census Bureau, there were 868,623 residential dwellings paying rent in Arizona in 2021. Of this total, 583,794 units, or 67%, had a monthly rent of less than $1,500 in 2021 while the remaining 284,829 units, or 33%, paid a monthly rent of $1,500 or more. Since the ACS data does not break out the monthly rent by dwelling type, we made the simplifying assumption that a monthly rent of less than $1,500 is for apartments (dwellings with more than 4 units) and a monthly rent of $1,500 or more is for single-family homes, duplexes, triplexes, and fourplexes (i.e., dwellings with 1 to 4 units).

The assumption above was based on the average monthly rent for an apartment in Arizona in 2021, which was $1,365, according to apartmentlist.com, which is a website that provides information on rents in various markets, along with research and analytics of the rental market. According to the Arizona Regional Multiple Listing Service (ARMLS), the average monthly lease for a single-family home in Maricopa County was $2,123 in 2021. (ARMLS data only includes Maricopa County and is limited to single-family dwellings. Duplexes, triplexes, and fourplexes combined make up less than 5% of total 1 to 4-unit dwellings.)

Based on the assumed 67%/33% split between dwellings with more than 4 units and dwellings with 4 or fewer units, and the weighted average rent paid by each of these dwelling categories (calculated from the ACS data), we estimate that 51% of the total statewide rent in 2021 was paid for dwellings with more than 4 units, and the remaining 49% for dwellings with 1 to 4 units.

Based on the discussion above, we assume that 49% of municipal rental TPT is generated from dwellings with 1 to 4 units and the remaining 51% is generated from dwellings with more than 4 units. To derive the estimated impact of the bill, we applied these percentages to the total projected amount of rental TPT under current law through FY 2029, which we listed above.

Since the repeal of rental TPT on residential dwellings with 4 or fewer units would go into effect on October 1, 2024, the fiscal impact would be limited to the last 8 months of FY 2025. (TPT levied and collected in October is remitted to DOR in November.) Therefore, we estimate that this provision of the bill would result in a revenue loss to municipalities of $(75.3) million in FY 2025 [=$(230.2) million x 49% x 8/12]. The provision that repeals rental TPT on dwellings with more than 4 units would go into effect on January 1, 2028, and for this reason the fiscal impact of this provision would be limited to the last 5 months of FY 2028 [$(57.2) million = $(269.6) million x 51% x 5/12].

Finally, we would note that the lack of detailed data in the American Community Survey makes our estimates highly uncertain and should therefore be interpreted with caution.

Local Government Impact

See above.

2/3/23