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In this edition of SALT From My Saddle, Busby explains recent changes to Arizona's government property lease excise tax, which applies to some government-owned properties leased to private parties. In particular, the changes may affect the ability of some buildings to qualify for the eight-year tax abatement available to qualifying buildings located in designated slum or blighted areas in established central business districts.

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Some Arizona municipalities use their property-tax-exempt status¹ to persuade businesses to locate in their jurisdictions by taking title to buildings that the businesses construct on government-owned land and then leasing them back to the businesses.

¹ Arizona Const., Art. 9, section 2.1.

Arizona's Government Property Lease Excise Tax

In 1996 the Arizona Legislature enacted an excise tax referred to as the government property lease excise tax (GPLET), which applies to the use or occupancy of some government-owned properties.² In particular, every city, town, county, and stadium district that holds title to one or more buildings located on land that it or another political subdivision of the state owns that are available for use for any commercial, residential rental, or industrial purpose must levy GPLET, generally at a particular rate per square foot³ — unless an exemption or abatement applies.⁴

The Eight-Year Abatement Period

Qualifying properties located in statutorily defined "slum or blighted areas" within the designated "central business district" of a city or town may qualify for a GPLET abatement for eight years from issuance of the certificate of occupancy.⁵

The 2018 GPLET Changes

The Legislature recently amended some of the definitions used to determine whether properties qualify for GPLET abatement, and it will soon require cities and towns to periodically review and renew, modify, or terminate their designations of areas as slums or blighted.⁶

² Laws 1996, Ch. 349.

³ Ariz. Rev. Stat. section 42-6203.

⁴ Ariz. Rev. Stat. sections 42-6201 and 42-6202. For additional background information and a summary of other recent changes to Arizona's GPLET, see Busby, "Arizona's 2017 Government Property Lease Excise Tax Reforms," *State Tax Notes*, Oct. 2, 2017, p. 59.

⁵ Ariz. Rev. Stat. section 42-6209.

⁶ Laws 2018, Ch. 231.

New Limitations on Central Business Districts

Arizona law requires that central business districts be “geographically compact” and limits their overall size. Per this year’s amendments, which took effect August 3, central business districts may not exceed the greatest of (1) the existing total land area of the central business district of the city or town as of January 1, 2018, (2) 2.5 percent⁷ of the total land area within the exterior boundaries of the city or town, or (3) 960⁸ acres.⁹

Until this year’s amendments, Arizona’s GPLET statutes did not define “geographically compact.” Under this year’s amendment, central business districts formed before January 1, 2018, automatically qualify as geographically compact. Cities or towns that form or expand their central business districts after that must satisfy new, arcane criteria for them to qualify as geographically compact.¹⁰

Periodic Reviews of Slum or Blighted Area Designations

This year’s amendment requires all Arizona cities and towns to review each area that they designated as a slum or blighted area within a central business district before September 30, 2018, on or before September 30, 2020. They must renew, modify, or terminate the designation at that time and do so again every 10 years for those that they renew, modify, or designate as a slum or blighted area after September 30, 2018. Otherwise, the slum or blighted designation automatically expires five years from the time that the city or town was supposed to review it. Grandfather provisions protect some planned or existing improvements within areas whose designation as a slum or blighted area is terminated or expires.

Moratorium on GPLET Reforms

While opponents successfully lobbied over the last several years for significant GPLET reforms that have weakened GPLET as an economic development tool for some future projects, they claim that they reached a truce with GPLET advocates during this year’s legislative session. Thus, for now, GPLET remains a viable economic development tool, albeit not as generous as it otherwise would have been for some future projects. ■

⁷This is a reduction from the previous 5 percent limit.

⁸This is an increase from the previous 640-acre limit.

⁹Laws 2018, Ch. 231, section 1.

¹⁰*Id.*