

Introduction

This pamphlet was prepared to assist citizens in understanding Arizona's property tax system. Although the subject is complex, we will attempt to present this information in a simple, brief form.

Tax Base

The full cash value, or market value, of all real property in Arizona is the starting point for determining taxable values. Arizona courts have interpreted the term "full cash value" to mean the "cash equivalent value" of the property. Although the full cash value is synonymous with market value, the value established by the assessor may be equal to, or less than, the actual market value. These lower values are the result of adjusting all sale prices for mass appraisal error, creative financing, personal property, and time on the market (Arizona Department of Revenue-Guideline on 1993 Ratio Standards Addendum).

Affidavits of Value are legal documents that must be filed with the county recorder along with the deed of sale of the property. The information provided in the affidavit is used in sales ratio studies, which are done by the Arizona Department of Revenue and county assessors, to determine the equality of assessments within a neighborhood or market area. In addition, all sales affidavits that qualify as "arm's-length" transactions are used to estimate the full cash value of all properties within a jurisdiction.

Arizona is unique in that it uses two types of property values for taxing purposes:

1) primary (limited) values and 2) secondary (full cash) values. An understanding of these values is essential to property owners considering an appeal of their assessment.

Secondary (full cash) values are unlimited in the amount that they increase each year since they fluctuate with the market. Secondary values fund such things as bond issues, budget overrides, and special districts. There is no limit on either the amount of taxes that may be assessed or on the growth rate of the assessed values. Thus, the secondary assessed value of a property may rise 30% or more a year if the full cash value (market value) of the property rises accordingly. In contrast, the primary value is limited as to the amount it may increase each year. The primary value may increase in one of two ways: 1) Up to 10% of the previous year's value, or 2) 25% of the difference between the current year's secondary value and previous year's primary value, whichever is greater. In no event should the primary value exceed the secondary value.

There are a few exceptions to the calculation of primary values. The primary value of a property may rise above the increase limit in the case of new construction, errors in assessments during previous years, and change in the usage of the property. In these instances, county assessors are required to determine the primary (limited) value of the property at an amount equivalent to other properties with similar characteristics.

In most instances, the majority of property taxes are collected from the primary values of properties. Primary property tax revenues help to fund the maintenance and operation budgets of state and local governments.

The limitations on primary valuation increases are mandated by the Arizona Constitution and cannot be changed by law. In addition, the Arizona Constitution limits the total amount of primary property taxes that counties, cities, and community college districts can levy. The amount of total primary property taxes that a county, city, or community college district can levy is limited by a levy limit that grows by 2% each year plus new construction. The levy limit operates off a base year levy established in 1979-80. The limit increases each year regardless of use, so there is no loss of future capacity if the jurisdiction does not levy to its limit.

An additional limitation affects owner-occupied residences. The combined primary tax from all jurisdictions on such a property may not exceed 1% of the primary value. In cases where the tax exceeds that amount (a primary tax rate of \$10 or more per \$100 of assessed valuation), school district taxes are reduced on the primary amount, and the state provides additional aid to the school district to make up the difference between the overall primary tax rate and \$10.

The constitutional guarantee limiting total primary taxes on homeowners to 1% of full cash value has been extended by court decisions to mean 1% of the equivalent full cash value of the property after exemptions. The primary tax rate for owner-occupied property often stays below the \$10 level because the state pays 35% of the school district primary tax rate for owner-occupied homes. This "homeowner rebate" appears automatically on tax bills and is reflected on the line titled STATE AID TO EDUCATION. An example of the homeowner rebate calculation may be found in the forthcoming section on "Calculating the Tax."

Arizona also provides property tax exemptions in varying dollar amounts to some disabled persons and to widows and widowers whose spouses died while they were residents of Arizona. The dollar amounts are scaled to the combined value of property owned but eligibility is restricted to taxpayers with total incomes below prescribed levels. The maximum allowable exemption is \$3,000, which is equally applied to both the primary and secondary assessed values of the property.

World War I and disabled veterans who entered the service from Arizona or were residents of the state prior to September 1, 1945, are also eligible for an exemption; however, there is no limit on the income of these veterans. In addition, property tax deferrals are provided to qualified homeowners over the age of 69. Qualifications and procedures are outlined in A.R.S § 42-17301.

Article IX, §18 of the constitution allows residents 65 years or older, with annual incomes below established thresholds, to apply to the county assessor to freeze the full cash value of their primary residence for up to three years. Income limits are set at 400% of the Supplemental Security Income (SSI) benefit rate provided for in the Social Security Act for one owner and 500% for more than one owner. Property owners must apply to the assessor in the county in which the property is located. Property owners must reapply with the assessor every three years. All taxpayers interested in receiving this benefit should contact their local assessor.

The Classification System

Arizona's property tax system "classifies" property according to its usage. Each class of property is assigned an assessment ratio, pursuant to state law, ranging from 1% to 25%. The assessment ratios are applied to both the primary and secondary values of a property and determine a property's net assessed value. All classifications use the same tax rates (with exception of the homeowner's rebate).

Valuation Year 2002, Tax Year 2003

Class 1 (25%) 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. Commercial and industrial real property not included in other classes. Commercial and industrial personal property exceeding \$55,465 of full cash value (A.R.S. § 42-12001).

Class 2R* (16%) Agricultural real property and vacant land (A.R.S. § 42-12002).

Class 2P** (16%) Agricultural personal property exceeding \$55,465 of full cash value (A.R.S. § 42-12002).

Class 3 (10%) Owner-occupied residential property (A.R.S. § 42-12003).

Class 4 (10%) Leased or rented residential property (A.R.S. § 42-12004).

Class 5 (21%) Railroad operating property, private car company property, and airline flight property (A.R.S. § 42-12005).

Class 6 (5%) Noncommercial historic property, foreign trade zone property, qualifying military reuse zone property, qualifying enterprise zone property, qualifying environmental technology property, and qualifying environmental remediation property (A.R.S. § 42-12006).

Class 7 Ratio applied to 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 (A.R.S. § 42-12007 and 42-12101).

Class 8 Ratio applied to 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 (A.R.S. § 42-12008 and 42-12101).

Class 9 (1%) Possessory Interests (A.R.S. § 42-12011).

*Note: Real Property (R). **Note: Personal Property (P).

HOW “NET ASSESSED VALUE” IS CALCULATED:

Using the classifications and limitations explained above, let’s illustrate how a home and business, both of which have a taxable value of \$100,000 in 2002, would appear on the tax rolls in three succeeding years.

The net assessed values (NAV) would differ because the home is assessed at 10% of the full cash value (FCV), while the business is assessed at 25% of the FCV.

Tax Year 2002

Property Class	Home	Business
Assessment Ratio	(10%)	(25%)
Secondary FCV	\$100,000	\$100,000
Secondary NAV	10,000	25,000
Primary LPV	93,000	93,000
Primary NAV	9,300	23,250*

*Note: The taxable NAV of the business is 2.5 times greater than the home.

Tax Year 2003

If we assume property values will increase 17% in the next year, we have:

Property Class	Home	Business
Secondary FCV	\$117,000	\$117,000
Secondary NAV	11,700	29,250
Primary LPV	102,300*	102,300*
Primary NAV	10,230	25,575

*This reflects the 10% limit on increases for primary values (Using the 25% method would only increase the primary value to \$99,000). Even though secondary values increase 17%, primary values may only increase 10%.

Tax Year 2004

Let’s assume values increase 25% the following year:

Property Class	Home	Business
Secondary FCV	\$146,250	\$146,250
Secondary NAV	14,625	36,563
Primary LPV	113,288**	113,288**
Primary NAV	11,328	28,322

**Notice that primary (limited) values increased more than 10% due to the large difference between the new secondary value and old primary value ($\$146,250 - \$102,300 = \$43,950$). Twenty-five percent of that difference ($\$10,988$) was larger than a 10% increase in the previous year’s primary value ($\$10,230$).

CALCULATING THE TAX:

Using the 2002 tax rates in the Phoenix Elementary and Phoenix Union School Districts within the City of Phoenix, the following would be the taxes levied on the two hypothetical properties:

Property Class	Home	Business
Secondary NAV	\$10,000	\$25,000
Total Secondary Rate	5.0682	5.0682
Secondary Taxes Owed	\$507	\$1,267
Primary NAV	\$9,300	\$23,250
Effective Primary Rate*	8.6614	11.4615
Primary Taxes Owed	\$806	\$2,665
TOTAL TAXES OWED	\$1,312	\$3,932

*State pays 35% of homeowner's primary school district rate. In this example, the homeowner rebate reduces the tax rate by \$2.8001.

Mobile Homes

A mobile home may be treated as real or personal property, depending on who owns the property on which it is located. Persons owning a mobile home (one that is permanently affixed to the land) and the real property on which it is located, may record an Affidavit of Affixture with the assessor's office. Once the affidavit is recorded, the mobile home is considered real property, subject to real property liens. Mobile homes and real estate owned by the same person will be billed for real property taxes once per year, payable in two installments. Mobile home owners who do not own the real property on which their homes are located will be billed once per year, payable in full within 30 days. Mobile homes are subject to all other state laws regarding property taxes. Unsecured mobile homes are also subject to the \$0.50 per \$100 of assessed value mobile home relocation tax (ARS § 33-1476.03).

Change of Use:

WARNING! Because the usage of property determines its classification, major tax liabilities could be assessed when the use of the property is changed. In addition, civil penalties may be assessed if an owner-occupied home is converted to rental property and the county assessor is not notified of the change. Converting an owner-occupied residence to rental property makes it ineligible for the homeowner's rebate and, therefore, increases the tax liability on the property.

VALUATION CALENDAR

Notice of Valuation to Property Owners

Notice of Valuation Form: On or before March 1 of each year, the county assessor is required to notify each property owner as to the full cash value and limited value of the property. This form shows both full cash and limited values for the current and preceding years (see page 11).

Appeals (see chart page 10)

If a property owner believes that the values or classification are excessive or erroneous, the owner may file an appeal with the county assessor within 60 days after the date the assessor mailed the “notice of valuation.” If requested by the property owner, the assessor is required to meet with the owner and rule on the appeal by August 15. If the owner does not wish to meet with the assessor, the owner may submit written evidence to support the appeal. A property owner whose appeal is denied may appeal to the County Board of Equalization (CBOE) or the State Board of Equalization (SBOE) within 25 days after the assessor’s decision is mailed. If the property under appeal is located within Maricopa or Pima county, the taxpayer is required to file an appeal with the SBOE; otherwise, the taxpayer is required to file the appeal with the CBOE. The CBOE and SBOE are required to rule on its appeals by October 15 except for properties valued by the Department of Revenue, in which case the decisions shall be issued on or before November 15. Decisions of the CBOE and SBOE may be appealed to tax court within 60 days from the last date of decision of an administrative appeal.

If no administrative appeal is filed, a property owner may appeal the valuation or classification directly to tax court on or before December 15 of the valuation year.

New Construction, Additions, Deletions, And Changes in Use

Property that changes due to new construction, additions or deletions, or changes in use that occur after September 30 of the previous year may be added to the roll, up to and including September 30 of the valuation year. The assessor is required to notify the property owner of any change in the valuation on or before September 30. Within 25 days of the assessor’s notice, the property owner may appeal the valuation to the SBOE or CBOE. The SBOE and CBOE are required to rule on these appeals by the third Friday in November. A further appeal to tax court must be filed within 60 days after the date of the decision. (A.R.S. § 42-16205).

Paying Taxes

Property taxes are levied on a calendar year, although Arizona governments work on a fiscal year. Property values are established as of January 1 of each year, while the tax rates on those values are set on the third Monday in August of the following year.

The first installment on the tax bill is due on October 1 and is considered delinquent after November 1. The entire amount may be paid in October if the taxpayer so desires, and taxes of \$100 or less must be paid in full in October. Taxpayers who miss the November 1 payment can pay the entire year’s taxes without penalty or interest if paid prior to December 31. The second installment is due March 1 and is delinquent after May 1.

Arizona Property Valuation & Classification Appeals Process

The County Assessor mails the notice of property valuation no later than March 1. A.R.S. 42-15101

1. The Decision to Appeal

Any owner of property may file a petition with the Assessor in the county in which the property is located if the owner believes that his or her property has been improperly valued or incorrectly classified. (January 1, 2002 is the valuation date for tax year 2003). A.R.S. 42-16051.

2. Tax Court Appeal

After receiving the notice of valuation, the property owner may appeal through the Administrative Process or Superior Court. A.R.S. 42-16051/42-16201. If the property owner does not file an appeal in the Administrative Process, the owner may file a petition with Tax Court or Superior Court at any time after receiving the notice of valuation but not later than December 15. A.R.S. 42-16201(A).

3. Administrative Process

The property owner may file a petition no later than the deadline date as it appears on the notice of valuation (not more than 60 days after the date the notice is mailed). A.R.S. 42-16051(D).

4. Petitioner may request a meeting with the County Assessor. The assessor will answer all requests on or before August 15. A.R.S. 42-16054. If both parties agree, further appeal by either party is not permitted. A.R.S. 42-16056(A).

5. Board of Equalization

Petitioners not satisfied with the decision of the assessor may file a petition with the Board of Equalization for the county within 25 days of the date the decision is mailed or to Tax Court or Superior Court within 60 days. A.R.S. 42-16056 (C)/42-16201(B).

6. Petitioners not satisfied with the decision of the County or State Board of Equalization may file a petition with Tax Court within 60 days after the date the decision is mailed but not later than December 15. A.R.S. 42-16202(A).

More information and forms may be obtained from the offices of the County Assessor, the County Board of Supervisors or the State Board of Equalization.

Arizona State Board of Equalization • 101 N. 1st Ave., Suite 2323 • Phoenix, AZ 85003 (602) 253-7800

For new construction, additions, deletions, and changes that occur after September 30 of the previous year and up to September 30 of the valuation year, the County Assessor shall notify the owner of any changes in valuation on or before September 30. The owner may appeal to the Board of Equalization within 25 days. The Board of Equalization decision may be appealed to Tax Court on or before December 15. A new owner of property may appeal to Tax Court on or before December 15 in the year taxes are levied if the value was not appealed by the previous owner.

County Assessors

Apache County Assessor
P.O. Box 770
St. Johns, AZ 85936
928-337-7521 Fax: 337-3386
assessor@co.apache.az.us

Cochise County Assessor
P.O. Box 168
Bisbee, AZ 85603
520-432-8659
Fax: 432-8698
assessor@co.cochise.az.us

Coconino County Assessor
110 East Cherry Avenue
Flagstaff, AZ 86001
928-779-6502 Fax: 779-6766
cmazon@co.coconino.az.us

Gila County Assessor
1400 East Ash Street
Globe, AZ 85501
928-425-3231, Ext. 8712
Fax: 425-0408
dhom@mail.co.gila.az.us

Graham County Assessor
921 Thatcher Blvd.
Safford, AZ 85546
928-428-2828 Fax: 428-5951
jattaway@graham.az.gov

Greenlee County Assessor
P.O. Box 777
Clifton, AZ 85533
928-865-5302 Fax 865-4417
ldurr@co.greenlee.az.us

Maricopa County Assessor
301 West Jefferson, Suite 330
Phoenix, AZ 85003
602-506-3877 Fax: 506-3394
kmross@mail.maricopa.gov

Mohave County Assessor
P.O. Box 7000
Kingman, AZ 86402
928-753-0703 Fax: 753-0749
bev.payne@co.mohave.az.us

Navajo County Assessor
P.O. Box 668
Holbrook, AZ 86025
928-524-4086 Fax: 524-4291
assessor@co.navajo.az.us

Pima County Assessor
115 North Church Avenue
Tucson, AZ 85701
520-740-8630 Fax: 792-9825
rlyons@asr.co.pima.az.us

Pinal County Assessor
P.O. Box 709
Florence, AZ 85232
520-866-6361 Fax: 868-6353
paul.larkin@co.pinal.az.us

Santa Cruz County Assessor
2150 North Congress Drive
Nogales, AZ 85621
520-375-8030 Fax: 761-7814
ffuentes@co.santa-cruz.az.us

Yavapai County Assessor
1015 Fair Street
Prescott, AZ 86305
928-771-3220 Fax: 771-3181
tony.martinez@co.yavapai.az.us

Yuma County Assessor
410 South Maiden Ln.
Yuma, AZ 85364
928-373-6040 Fax: 373-6041
jowe@assr.co.yuma.az.us

La Paz County Assessor
1112 Joshua Ave., Suite 204
Parker, AZ 85344
928-669-6165 Fax: 669-9740
gnault@co.la-paz.az.us