

AN EXPLANATION OF ARIZONA PROPERTY TAXES, 2001

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) Secondary (full cash) values and 2) primary (limited) 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. The amount that the limited value will increase depends on the method that produces the greater result. In no event should the primary value exceed the secondary value.

There are a few exceptions to the calculation of primary values. Cases in which the primary value of a new property may rise above the increase limit include 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 the \$10 rate cap.

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 dollar amounts of the exemptions apply to the assessed value of the property and are applied in the same amount to both the primary and secondary values. In 2000, the maximum amount was \$3,000 (*A.R.S. § 42-11111*).

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 (*Article IX, § 2*). In addition, property tax deferrals are provided to qualified homeowners over the age of 69. Qualifications and procedures are outlined in the Arizona Revised Statute (*A.R.S. § 42-17301*).

Arizona's Classification System: Tax Year 2001

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).

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 \$53,266 of full cash value (<i>A.R.S. § 42-12001</i>).
Class 2R*	(16%)	Agricultural real property and vacant land (<i>A.R.S. § 42-12002</i>).
Class 2P**	(16%)	Agricultural personal property exceeding \$53,266 of full cash value (<i>A.R.S. § 42-12002</i>).
Class 3	(10%)	Residential property not used for profit (<i>A.R.S. § 42-12003</i>).
Class 4	(10%)	Leased or rented residential property (<i>A.R.S. § 42-12004</i>).
Class 5	(21%)	Railroad operating property, private car company property, and airline flight property (<i>A.R.S. § 42-12005</i>).
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 (<i>A.R.S. § 42-12006</i>).
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 (<i>A.R.S. § 42-12007 and 42-12101</i>).
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 (<i>A.R.S. § 42-12008 and 42-12101</i>).
Class 9	(1%)	Possessory Interests (<i>A.R.S. § 42-12011</i>).

*Note: Real Property (R).

**Note: Personal Property (P).

HOW "NET ASSESSED VALUE" IS CALCULATED

Using the classifications and limitations already explained, let's illustrate how a home and business, both of which have a taxable value of \$100,000 in 2001, would appear on the tax rolls in three succeeding years.

The net assessed values (NAV) would differ because the home (Class 3) is assessed at 10% of the full cash value (FCV), while the business (Class 1) is assessed at 25% of the FCV.

	<i>Tax Year 2001</i>	
	Home	Business
	<u>(10%)</u>	<u>(25%)</u>
Secondary FCV	\$100,000	\$100,000
Secondary NAV	10,000	25,000
Primary Value	93,000	93,000
Primary NAV	9,300	23,250

Note: The taxable net assessed values (NAV) of the business are 2½ times greater than the home.

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

	<i>Tax Year 2002</i>	
	Home	Business
	<u>(10%)</u>	<u>(25%)</u>
Secondary FCV	\$117,000	\$117,000
Secondary NAV	11,700	29,250
Primary Value	*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 the secondary value increased 17%, the primary value may only increase by 10%.

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

	<i>Tax Year 2003</i>	
	Home	Business
	<u>(10%)</u>	<u>(25%)</u>
Secondary FCV	\$146,250	\$146,250
Secondary NAV	14,625	36,563
Primary Value	113,288	113,288
Primary NAV	11,328	28,332

Notice that primary (limited) values increased more than 10% due to the large difference between the current secondary value and previous 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 2001 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:

	Home (10%)	Business (25%)
Secondary NAV	\$10,000	\$25,000
\$/100	\$100	\$250
Total Secondary Rate	5.0147	5.0147
Secondary Taxes Owed	\$501	\$1,254
Primary NAV	\$9,300	\$23,250
\$/100	\$93	\$233
Effective Primary Rate*	8.3999	11.0626
Primary Taxes Owed	\$781	\$2,578
TOTAL TAXES OWED	\$1,282	\$3,832

*State pays 35% of homeowner's primary school district rate. In this example, the homeowner rebate reduces the tax rate by \$2.6627 for homeowners.

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.

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.

Notice of Valuation to Property Owners

<i>Notice of Valuation Form</i>	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 primary and secondary values for the current and preceding years.
<i>Tax Notice Form</i>	On or before October 1 of each year, the county treasurer sends a notice to the owner of all taxes assessed against the property.

Appeals

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, he 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 a taxpayer wishes to appeal the assessor’s decision, the taxpayer is required to file a petition with either the CBOE or the SBOE. 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, but no later than December 15.

Any property owner may appeal the valuation or classification of his property directly to tax court on or before December 15 of the valuation year. Filing directly with the tax court suspends any administrative appeal filed by the taxpayer that may be pending.

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 January 1 of the valuation 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 CBOE or SBOE. The CBOE and SBOE are required to rule on these appeals by the third Friday in November. A further appeal to tax court must be filed on or before December 15.

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 \$50 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.

**STATE OF ARIZONA
AVERAGE TAX RATES* 1913 THROUGH 2001**

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Primary Rate</u>	<u>Secondary Rate</u>	<u>Combined Rate</u>
1913	\$1.51	1947	\$4.24	1980	\$8.57	\$2.03	\$10.60
1914	1.41	1948	4.36	1981	7.87	1.73	9.60
1915	1.62	1949	4.96	1982	7.47	1.86	9.33
1916	1.40	1950	5.63	1983	7.61	1.93	9.54
1917	1.37	1951	5.06	1984	7.40	2.06	9.46
1918	1.20	1952	5.24	1985	7.44	2.42	9.86
1919	1.60	1953	7.40	1986	7.39	2.66	10.05
1920	1.75	1954	7.58	1987	7.67	2.81	10.48
1921	2.10	1955	6.63	1988	7.84	2.92	10.76
1922	2.00	1956	6.17	1989	7.96	2.92	10.88
1923	2.32	1957	7.63	1990	8.33	3.11	11.44
1924	2.33	1958	8.02	1991	8.53	3.42	11.95
1925	2.76	1959	7.71	1992	8.82	3.37	12.19
1926	2.71	1960	7.64	1993	9.00	3.51	12.51
1927	2.98	1961	8.50	1994	9.35	3.43	12.78
1928	3.07	1962	9.30	1995	9.44	3.82	13.26
1929	3.18	1963	9.38	1996	8.54	3.98	12.52
1930	3.04	1964	9.33	1997	8.57	4.13	12.70
1931	3.23	1965	9.66	1998	8.58	4.21	12.79
1932	3.98	1966	9.90	1999	8.67	4.13	12.80
1933	4.32	1967	10.94	2000	8.56	4.12	12.68
1934	4.65	1968	9.72	2001	8.54	4.01	12.55
1935	4.72	1969	10.41				
1936	4.39	1970	10.69				
1937	3.95	1971	11.58				
1938	4.02	1972	11.36				
1939	4.80	1973	10.26				
1940	3.98	1974	10.31				
1941	3.80	1975	10.83				
1942	3.00	1976	11.36				
1943	2.60	1977	11.51				
1944	2.18	1978	11.31				
1945	3.10	1979	11.38				
1946	3.20						

* The average tax rate computed by the Department of Revenue applies to taxes paid by airlines and private car assessments.

Constitutional amendments passed in 1980 established two sets of taxable values and tax rates. For more information see page III.

STATE OF ARIZONA

PROPERTY TAXES LEVIED 1997 THROUGH 2001

PRIMARY

Year	1997 (p)	1998 (p)	1999 (p)	2000 (p)	2001 (p)
State	28,649,598	27,128,718	24,059,465	22,532,038	17,905,200
Counties	530,468,224	564,737,495	623,957,076	667,674,925	722,310,800
Cities & Towns	93,613,792	98,336,776	104,694,820	113,901,648	120,334,471
School Districts	1,182,245,488	1,251,781,842	1,347,510,465	1,451,826,663	1,586,744,192
Special Districts	-	-	-	-	-
Community Colleges	244,399,298	262,550,700	282,885,466	308,128,064	331,557,464
Total Primary	\$2,079,376,400	\$2,204,535,531	\$2,383,107,292	\$2,564,063,338	\$2,778,852,127

SECONDARY

Year	1997 (s)	1998 (s)	1999 (s)	2000 (s)	2001 (s)
State	-	-	-	-	-
Counties	95,058,045	98,426,699	98,232,435	106,434,526	107,585,705
Cities & Towns	128,687,726	136,793,219	154,913,479	169,583,247	190,262,100
School Districts	624,378,340	681,817,828	711,746,218	770,778,383	793,649,356
Special Districts	165,729,473	180,792,072	191,842,286	207,695,920	225,613,790
Community Colleges	33,893,742	30,040,232	45,498,506	56,133,254	66,012,491
Total Secondary	\$1,047,747,326	\$1,127,870,050	\$1,202,232,924	\$1,310,625,330	\$1,383,123,442

STATE OF ARIZONA

PRIMARY NET ASSESSED VALUATION BY COUNTY (1997-2001)

County	1997 (p)	1998 (p)	1999 (p)	2000 (p)	2001 (p)
Apache	\$344,907,950	\$338,356,939	\$328,034,842	\$324,460,252	\$290,356,165
Cochise	437,540,198	446,503,626	457,578,184	492,396,096	504,130,498
Coconino	819,179,271	858,689,670	909,412,099	971,779,413	1,028,681,995
Gila	271,233,886	286,863,275	276,224,630	289,616,426	309,062,088
Graham	73,089,776	73,558,677	79,270,429	87,843,540	91,847,206
Greenlee	223,789,449	216,690,761	194,223,188	168,404,267	191,053,362
La Paz	101,681,048	103,627,545	106,680,282	110,490,204	112,008,687
Maricopa	15,006,270,531	16,017,265,623	17,463,875,533	19,362,298,255	21,355,326,477
Mohave	884,967,218	900,831,925	910,375,501	935,484,196	991,882,017
Navajo	487,024,631	498,509,986	504,649,826	534,952,560	544,634,215
Pima	3,468,269,392	3,682,397,194	3,853,630,109	4,111,664,071	4,361,492,992
Pinal	568,158,054	582,219,718	621,699,813	639,663,229	701,711,651
Santa Cruz	171,166,856	177,638,581	185,296,784	197,130,189	215,902,760
Yavapai	961,650,156	1,023,772,206	1,097,131,069	1,181,301,079	1,280,950,405
Yuma	458,942,053	475,984,451	495,017,496	536,651,463	549,270,133
State Total	\$24,277,870,469	\$25,682,910,177	\$27,483,099,785	\$29,944,135,240	\$32,528,310,651

SECONDARY NET ASSESSED VALUATION BY COUNTY (1997-2001)

County	1997 (s)	1998 (s)	1999 (s)	2000 (s)	2001 (s)
Apache	\$347,017,504	\$343,151,829	\$333,820,324	\$332,086,804	\$298,070,595
Cochise	445,097,571	453,600,888	466,985,024	503,459,048	517,193,490
Coconino	845,386,482	887,556,466	939,914,689	1,004,868,701	1,062,082,181
Gila	275,948,319	295,834,244	297,743,181	316,076,473	332,789,774
Graham	74,983,885	75,952,942	83,638,784	91,427,926	94,281,882
Greenlee	224,061,470	216,861,732	194,473,485	168,773,033	191,505,379
La Paz	103,544,709	107,645,893	111,836,695	115,292,908	113,560,208
Maricopa	15,723,498,194	16,813,017,261	18,676,830,848	20,877,715,546	22,913,134,480
Mohave	919,414,961	925,168,758	936,938,823	960,138,646	1,016,292,255
Navajo	495,881,092	514,374,366	524,400,892	558,264,740	566,916,980
Pima	3,700,218,262	3,852,574,000	4,000,624,012	4,236,070,095	4,491,395,307
Pinal	576,216,716	587,976,782	640,747,415	671,060,458	738,562,802
Santa Cruz	173,897,579	181,072,171	190,410,468	201,651,947	224,373,276
Yavapai	1,006,364,142	1,048,350,566	1,186,775,025	1,247,635,912	1,344,616,822
Yuma	465,857,125	489,965,133	513,437,968	552,869,545	568,655,704
State Total	\$25,377,388,011	\$26,793,103,031	\$29,098,557,633	\$31,837,391,782	\$34,473,431,135

