

An explanation of

98
EDITION

A stylized outline of the state of Arizona in a light gray color. Overlaid on the outline is a sunburst design with rays emanating from the right side, and a five-pointed star positioned in the center of the state. The text 'ARIZONA PROPERTY TAXES' is written in a large, white, outlined, serif font across the center of the state outline.

ARIZONA
PROPERTY
TAXES

ARIZONA NEWS SERVICE, INC.

THE ARIZONA TAX RESEARCH ASSOCIATION

THE ARIZONA ASSOCIATION OF REALTORS®

The Voice for Real Estate® in Arizona

Introduction

This pamphlet was prepared to assist property owners 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. Some recent methods of innovative financing (such as inflating the value of a property in order to obtain a loan with a lower interest rate) may also cause county assessors to use an amount less than the full sales price listed in the Affidavit of Value as the tax base.

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 larger area. It is not used to establish the market value of a property.

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

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

Secondary (unlimited) values are the easier to understand. Although their purpose is to fund such things as bond issues, budget overrides and special districts, they also track the full cash value of a property. 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 of the property rises accordingly. In contrast, primary (limited) value increases generally may not exceed 10% per year. However, the primary value

must be increased by 25% of the difference between the past primary value and the new secondary value, if that value increase would be more than 10% of the past primary value. 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. They 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 (Class 5 property). 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. Also, 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.

Arizona also provides property tax exemptions in varying dollar amounts to some disabled persons and to some 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 1997 the maximum amount is \$2,340.

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 27%. 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.

However, the Arizona Legislature annually appropriates money to pay a percentage (35% in 1997) of the primary school district tax on owner-occupied homes. The "homeowner rebate" appears automatically on tax bills. That rebate is reflected on the form on the line titled STATE AID TO EDUCATION. Thus, homeowners actually pay a lower primary tax rate than other properties.

Property Tax Classifications and Assessment Ratios:

Tax Year 1997

- Class 1** (27%) Mines and mining claim property and standing timber. They are not protected from limited value increases. Also, by law, ratio is scheduled to decrease 1% a year until 25% in 1999.
- Class 2** (27%) Local telecommunications service, gas, water and electric utility company property, and pipeline

company property, and producing oil and gas property. (Special formulas determine value, and they are not protected from limited value increases.) By law, ratio is scheduled to decrease 1% a year until 25% in 1999.

- Class 3R** (25%) Commercial and industrial real property not included in other classes. (Some properties use special formulas to determine value.)
- Class 3P** (25%) Commercial and industrial personal property with a full cash value exceeding \$50,000.
- Class 4R** (16%) Agricultural real property and vacant land. (Agricultural land is valued by the rental value of property for farming purposes.)
- Class 4P** (16%) Agricultural personal property with a full cash value exceeding \$50,000.
- Class 5** (10%) Residential property not used for profit.
- Class 6** (10%) Leased or rented residential property.
- Class 7** (23%) Railroad operating property, private care company property, and airline flight property. (The assessment ratio is calculated annually to ensure that railroad property remains at the weighted average of all other classes of income-producing property in order to comply with federal law.)
- Class 8** (5%) Non-commercial historic property, foreign trade zone property, qualifying military reuse zone property, qualifying enterprise zone property and qualifying environmental technology property.
- Class 9** Ratio applied to Class 3 property, subtracting for up to ten

years, all but 1% of the full cash value of modifications to restore and rehabilitate historic property.

Class 3 property that also meets the criteria for commercial historic property defined in A.R.S. § 42-161.

Class 10 Ratio applied to Class 6 property, subtracting for up to ten years, all but 1% of the full cash value of modifications to restore and rehabilitate historic property.

Class 6 property that also meets the criteria for commercial historic property defined in A.R.S. § 42-161.

Class 11 (1%) Possessory Interest (Reference A.R.S. § 42-162)

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 1997, would appear on the tax rolls in three succeeding years.

The net assessed values (NAV) would differ because the home (Class 5) is assessed at 10% of the full cash value (FCV), while the business (Class 3) is assessed at 25% of the full cash value (FCV).

Tax Year 1997

Property Class	Home	Business
Assessment Ratio	(10%).....	(25%).....
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 2.5 times greater than the home.

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

Tax Year 1998

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

*This reflects the 10% limit on increases for primary values. Even though secondary values increase 17%, primary values may only increase 10%. Let's assume values increase 25% the next year:

Tax Year 1999

Secondary FCV	\$146,250	\$146,250
Secondary NAV	14,625	36,563
Primary FCV	113,288	(112,530)113,288
Primary NAV	11,328	28,332

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 old primary value (\$10,230). However, this does not equal a 25% increase (\$25,575).

CALCULATING THE TAX:

Using the 1997 tax rates in the Phoenix Elementary and Phoenix Union School Districts within the City of Phoenix, the following would be the taxes owed on the two hypothetical properties:

	Home	Business
Secondary NAV	\$10,000	\$25,000
Total Secondary Rate	5.0349	5.0349
Secondary Taxes Owed	\$503	\$1,249
Primary NAV	\$9,300	\$23,250
Effective Primary Rate*	8.6851	11.4514

Primary Taxes Owed.....	\$807	\$2,662
TOTAL TAXES OWED.....	\$1,310	\$3,921

*State pays 35% of homeowner’s primary school district rate. In this example, the homeowner rebate reduces the tax rate by \$2.7663 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 and the real property on which it is located must record an Affidavit of Affixture. 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 \$.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 school district tax 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 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 (see page 11).

Appeals (see chart page 10)

If a property owner believes that the values are excessive or violate the statutory limitations, the owner may file an appeal with the county assessor within 60 days after the date the assessor mailed the notice “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, within 25 days after the assessor’s decision is mailed, to the county Board of Equalization, if one is established in the county, or to the state Board of Equalization. (Appeals of assessor decisions in Maricopa and Pima counties go to the state Board of Equalization. Appeals of assessor decisions in the other 13 counties go to the county Board of Equalization.) The county or state Board of Equalization is required to rule on its appeals by October 15 except for properties which are valued by the Department of Revenue, in which case the decisions shall be issued on or before November 15. Decisions of the county and state Boards of Equalization may be appealed to tax court within 60 days, but not 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 state or county Board of Equalization. The county and state Boards of

Equalization are required to rule on these appeals by November 15. A further appeal to tax court must be filed on or before December 15.

Paying Taxes

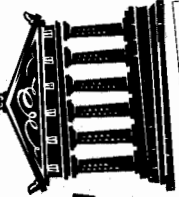
On or before October 1 of each year, the county treasurer sends a notice to the owner of all taxes assessed against the property (see page 12). Property taxes are levied on a calendar year, although Arizona governments work on a fiscal year. Property values are established as of January 1 of each year, 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 \$25 or less must be paid in full in October. The second installment is due March 1 and is delinquent after May 1.

ARIZONA PROPERTY VALUATION AND CLASSIFICATION APPEALS PROCESS
 Brought to you by the Arizona Association of REALTORS



Property owner may file a petition no later than the deadline due as it appears on the notice of valuation (not more than 60 days after date notice is mailed). A.R.S. 42-221 (E).



TAX COURT APPEAL

After receiving notice of valuation, property owner may appeal through the Administrative Process or directly to Tax Court or Superior Court. A.R.S. 42-221(J)/42-246(A).

If the property owner does not file an appeal in the Administrative Process, the owner may file a petition with the Tax Court or Superior Court at any time after receiving the notice of valuation but not later than December 15. A.R.S. 42-246(A).



If both parties agree, further appeal by either party is not permitted. A.R.S. 42-221(I).

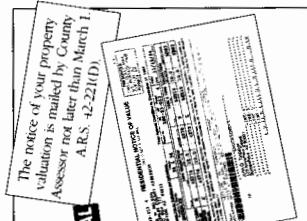


Petitioner may meet with the County Assessor or submit substantial written information. The assessor will answer all requests on or before August 15. A.R.S. 42-221(D).



Board of Equalization

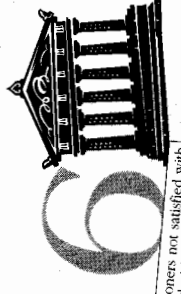
Petitioners not satisfied with the decision of the assessor may file a petition with the board of Equalization for that county within 25 days of the date the decision is mailed or to Tax Court or Superior Court within 60 days. A.R.S. 42-221(J)/42-246(B).



The notice of your property valuation is mailed by County Assessor not later than March 1. A.R.S. 42-221(D).

THE DECISION TO APPEAL

Any owner of property which in his opinion has been valued too high or otherwise improperly valued or the legal classification of the property is incorrect may file a petition with the Assessor in the county in which the property is located (January 1, 1996 is the valuation date for the tax year 1997). A.R.S. 42-221(B).



Petitioners not satisfied with the decision of the County or State Board of Equalization may file a petition with the Tax Court or Superior Court not later than 60 days after the date the decision is mailed but not later than December 15. A.R.S. 42-176/42-246(B).

More information and forms may be obtained from the offices of the County Assessors, the County Board of Supervisors or the State Board of Equalization
ARIZONA STATE BOARD OF EQUALIZATION
 1501 W. Washington St., Suite 221
 Phoenix, AZ 85007
 (602) 542-7070
 Fax on demand 542-0423


For new construction, additions, deletions, and changes that occur after January 1, 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 for that county within 25 days, the Board of Equalization decision may be appealed to Tax Court on or before December 15. A new owner of property not appealed by the former owner may appeal to Tax Court on or before December 15 in the year taxes are levied.

Notice of Valuation Form


Front

311-29-044B 5		NOTICE OF VALUE		DC F-48 2882		
F GEORGE NAULT R LA PAZ COUNTY ASSESSOR O P. O. BOX 790 M PARKER, AZ 85344 M (520) 869-6165		THIS IS NOT A TAX BILL		PRESORTED FIRST CLASS MAIL U.S. POSTAGE PAID TEMPE, AZ PERMIT# 228		
See Reverse Side for Definitions and Instructions.		Your Appeal Deadline is APRIL 29, 1997				
Property in The County of LA PAZ	Year 1998	Parcel ID 311-29-044B 5	SR 5	MP 5	Notice Date 02/28/97	
	1997 VALUATION		1998 VALUATION			
	LEGAL CLASS	BASE VALUE	ASSSESSED VALUE	TOTAL VALUE	BASE VALUE	ASSSESSED VALUE
LAND FCV	4	18563	16.0 2970	4	18563	16.0 2970
IMPR FCV		0	00.0 0		0	00.0 0
TOTAL FCV	4	18563	16.0 2970	4	18563	16.0 2970
LIMITED VALUE	4	14203	16.0 2272	4	15623	16.0 2500

SECTION: 12 TOWNSHIP: 9N RANGE: 20W ACRES:
LEGAL DESCRIPTION: PARKER TOWNSITE BLK 227 SE2 LOT 3 AND LOT 4



TO: *****AUTO**3-DIGIT 850



Back

All property must be valued at full cash value. Your property also has a limited value that cannot exceed the full cash value. The limited assessed value is the basis for computing primary taxes for the maintenance and operation of school districts, cities, community college districts, counties, and the state. The assessed value derived from the full cash value is the basis for computing secondary taxes for bonds, budget overruns, and special districts such as fire, flood control, and other limited purpose districts. The assessed value divided by 100 times the tax rate (set in August of each year) determines property taxes billed in October.

The legal class of taxes on your use of the property:

Legal Assessment		
Class	Ratio	Use of Property
2	25%	Governmental and/or industrial
4	16%	Vacant land and all property not included in other legal classes
5	10%	Owner-occupied property used for residential purposes, including that which is rented for not more than 6 of the preceding 12 months and properly rented to a family member
6	10%	Leased or rented property used for residential purposes

If two or more legal class definitions apply to a single property, a combined assessment rate will be printed on the front of this notice and an "M" (limited use) will appear in the class column. The legal description on the back of this notice may be incomplete due to space limitations. Please notify your assessor of any address changes.

APPEAL INSTRUCTIONS

If you feel that this property has been improperly valued or erroneously listed, you may petition the assessor for review within 90 days of the NOTICE OF VALUE on the front of this card. A "Petition for Review or Valuation" can be obtained from the assessor's office.

Comptrol partitions for review must be filed with the assessor's office by the APRIL 29, 1997 deadline, printed on the front of this notice.

158/WH

To Order Additional Copies Please Return This Form

- Please mail me _____ 1998 Arizona Property Tax booklets @ \$2.50 plus \$1.25 each, postage and handling.
- I want to pick up _____ 1998 Arizona Property Tax booklets @ \$2.50 each at the Arizona Capitol Times office, 14 N. 18th Ave., Phoenix.
- My check is enclosed for \$ _____
Please charge my: MC Visa American Express

Card No. _____ Exp. Date _____

Auth. Signature _____

Name _____ Phone _____

Company / Organization _____

Street Address _____

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