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ARIZONA TAX RESEARCH ASSOCIATION

ATRA SUPPORTS SB1294

Restores Tax Treatment for all Destroyed Property

Background

Prior to 2024, Arizona law allowed property owners to seek tax proration relief when improvements (buildings or structures) were removed, demolished, or destroyed after the lien date but during the tax year. This ensured taxpayers were not taxed on property improvements that no longer existed during the period covered by the tax bill.

Under A.R.S. § 42-15157, “destroyed” historically included any removal or demolition of improvements. However, the statute was amended in 2024 under HB2408 to add a definition of “destroyed,” which limited the proration of taxes to improvements that are destroyed only by an act of God (e.g., fire, flood, natural disaster).

The intent of HB2408 was to assist northern Arizona homeowners affected by wildfires whose homes were destroyed and rebuilding was delayed by insurance issues. HB2408 allowed homeowners time to rebuild and remain in class 3 at the lower assessment ratio of 10% for up to five years.

However, the unintended consequence was that it dramatically narrowed the definition of “destroyed” property, thereby removing proration relief for improvements that are removed for any other reason (e.g., rebuilding, redevelopment, etc.). Furthermore, adding this new definition also impacted A.R.S. § 42-16251 that allows taxpayers to seek corrections of errors, such as property destroyed after the lien date. Consequently, taxpayers who “intentionally” remove a structure will be treated differently and pay property taxes on improvements that no longer exist for the tax year.

Basis for ATRA's Support

Although HB2408 was well-intentioned, it inadvertently removed a critical taxpayer protection. To ensure uniform treatment of all property taxpayers, SB1294 reinstates the prior statutory language so that all destroyed property may be prorated after the lien date, regardless of the reason for removal, while preserving lawmakers' intent in enacting HB2408 in 2024.

ATRA ASKS LAWMAKERS TO VOTE YES ON SB1294!