



ARIZONA TAX RESEARCH ASSOCIATION
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An explanation of



Arizona Property Taxes

2010
Edition

Arizona Capitol Times
The Arizona Tax Research Association

Tax Notice Form

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.

Property Values

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.

2009 FIRST HALF PAYMENT STUB
DUE OCTOBER 1, 2009
DELINQUENT AFTER NOV. 2, 2009

LASTNAME FIRSTNAME
MAKE CHANGES TO MAILING ADDRESS BELOW
OR GO TO <http://treasurer.maricopa.gov>

PARCEL/ACCOUNT # 503-85-062 8
PRINT THE ABOVE PARCEL / ACCOUNT NUMBER ON YOUR CHECK

U.S. FUNDS ONLY
PLEASE CHECK WHICH PAYMENT APPLIES

FIRST HALF	\$ 1,130.05
FULL YEAR	\$ 2,260.10

The law allows payment of the full year by December 3, 2009, without an interest penalty on the first half.

090000000100002260100000113005503650620081

2009 SECOND HALF PAYMENT STUB
DUE MARCH 1, 2010
DELINQUENT AFTER MAY 3, 2010

LASTNAME FIRSTNAME
MAKE CHANGES TO MAILING ADDRESS BELOW
OR GO TO <http://treasurer.maricopa.gov>

PARCEL/ACCOUNT # 503-85-062 8
PRINT THE ABOVE PARCEL / ACCOUNT NUMBER ON YOUR CHECK

U.S. FUNDS ONLY
PLEASE CHECK WHICH PAYMENT APPLIES

SECOND HALF	\$ 1,130.05
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Please remember that your second half payment is due in March and that no additional notification is sent.

0900000000200002260100000113005503650620089

In contrast, the primary (limited) 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 the previous year's primary value, whichever is greater. In no event can 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, and change in property use. In these instances, county assessors are required to determine the primary (limited) value of the property at an amount equivalent to other properties of similar use.

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

Property Tax Limitations

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 to 2% each year plus new construction. The levy limit operates off a base year levy established in fiscal year (FY) 1979-80 that was recalculated in FY 2005-06 due to the passage of Prop 101. As a result, the actual primary property tax levy in 2005 became the basis for the calculation of future levy limits. The levy 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.

Notice of Valuation Form

____ PAMELA J. PEARSALL
 YAVAPAI COUNTY ASSESSOR
 1015 FAIR STREET
 PRESCOTT, AZ 86305

____ RETURN SERVICE REQUESTED

Re: 402-21-477A

██████████ LASTNAME FIRSTNAME
 1234 N. SOMEWHERE ST.
 ██████████ SOMEWHERE USA 12345

██████████

2010 RESIDENTIAL NOTICE OF VALUE

THIS IS NOT A TAX BILL

- APPEAL INSTRUCTIONS are on the back side of this Notice. Appeal forms are available by phone by calling the County Assessor's Office at (928) 771-3220.
- If the legal class shown for this property is Class 3 (owner-occupied) and the property is being rented, you must report the rental use to the County Assessor within 30 days of receipt of this Notice of Value. Failure to report the rental use may result in a civil penalty pursuant to A.R.S. § 42-12052.
- FULL CASH VALUE (FCV) is synonymous with market value if no statutory method is prescribed to determine the value. FCV is used to compute secondary taxes including bonded indebtedness, special budget override district taxes (fire, flood control, etc.)
- LIMITED PROPERTY VALUE (LPV) is calculated according to a statutory formula mandated by the Legislature and is used to compute primary taxes earmarked for maintenance and operation of school districts, cities, counties, and community college districts. By law, the LPV can not exceed the full cash value.

PARCEL ID NUMBER: 402-21-477A NOTICE DATE: 01/30/2009 APPEAL DEADLINE: 03/31/2009

	FULL CASH VALUE				LIMITED PROPERTY VALUE			
	Legal Class	Value	Assessment Ratio	Assessed value	Legal Class	Value	Assessment Ratio	Assessed value
2009	3	210,196	10.0	21,020	3	177,930	10.0	17,793
2010	3	158,413	10.0	15,841	3	158,413	10.0	15,841

Legal Description: SECTION: 0007 TOWNSHIP: 014 RANGE: 01E ACRES: .34
 PRESCOTT VALLEY UNIT 20 LOT 477 & THE NWLY PTN OF LOT 478
 SEC 7-14-1E

SEPARATE ADDENDUM STATEMENT: In accordance with House Bill 2221, enacted in the 2006 legislative session, the purpose of this addendum is to inform property owners of the following:

1. If the Property listed on this Notice of Value is used for residential rental purposes as defined in Arizona Revised Statute (A.R.S.) § 42-12004 and is currently classified as Legal class 3 (owner occupied), you must register the property as a rental (Legal class 4), with the County Assessor pursuant to A.R.S. 33-1902 of the Rental Residential Property law. Failure to do so may subject you to a penalty.
2. If you fail to register the rental property with the County Assessor after receipt of this Notice of Value, the city or town in which the property is located may impose a civil penalty in the amount of one hundred and fifty dollars (\$150) per day payable to the city or town for each day of violation, and the city or town may impose enhanced inspection and enforcement measures on your property.
3. Several Arizona cities and towns impose a "Transaction Privilege Tax" on persons engaged in the business of leasing or renting residential property. You can access the Model City Tax Code Section 445 for information on the cities and towns that impose the tax to determine if you are required to report the rental use. The web site for the model city tax code is www.modelcitytaxcode.org. That site also contains a phone number for answers to questions regarding the applicable requirements for the Transaction Privilege Tax program.
4. Residential Rental Properties are required to comply with the Landlord Tenant Act pursuant to Title 33, Chapters 10 and 11.

DOR 82101A (12/08)

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.

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.**

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. **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 • 100 N. 15th Ave., Suite 130 • Phoenix, AZ 85007 • (602) 364-1600

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 within 60 days from the date the decision is mailed. 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.

The primary tax rate for owner-occupied property often stays below the \$10 level because the state pays 39% (tax year 2009) of the school district primary tax rate for owner-occupied homes, up to \$560 (A.R.S. § 15-972). 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.”

Property Tax Exemptions

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 of assessed value if the total assessed value does not exceed \$20,000 (adjusted annually for inflation), which is equally applied to both the primary and secondary assessed values of the property. There is no exemption allowed if the total assessed value exceeds \$20,000 (A.R.S § 42-11101).

World War I veterans who were residents of the state prior to September 1, 1945 or disabled veterans who were residents of the state for at least four years (for a service-connected disability) prior to entering the service are also eligible for an exemption. There is no limit on the income of these veterans and the amount exempt varies with the total assessment and/or the level of disability. 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 use. Each class of property is assigned an assessment ratio, pursuant to state law, ranging from 1% to 22% (in tax year 2009). 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 rebate).

The property tax reform legislation of 2005 reduced the assessment ratio on class one property (business) from 25% to 20% over a ten-year period and increased the homeowner rebate from 35% to 40% over five years. Additional legislation passed during the 2007 legislative session accelerated the reduction in the class one assessment ratio from a ten-year phase down to six years (see table below).

Tax Year	Class 1	Homeowner’s Rebate %	Homeowner’s Rebate Cap
2005	25.0%	35%	\$500
2006	24.5%	36%	\$520
2007	24.0%	37%	\$540
2008	23.0%	38%	\$560
2009	22.0%	39%	\$580
2010	21.0%	40%	\$600
2011 & thereafter	20.0%	40%	\$600

Valuation Year 2008, Tax Year 2009

Class 1 (22%) 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. Commercial and industrial personal property exceeding \$65,013 of full cash value (A.R.S. § 42-12001).

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, on or before 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 from the date the decision is mailed (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 are due in full on October 1, delinquent November 1. Taxpayers who miss the November 1 payment can pay the entire year’s taxes without penalty or interest if paid by December 31. The second installment is due March 1 and is delinquent after May 1.

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 regarding 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 all 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.

Class 2 (16%) Agricultural real property, golf courses, and vacant land (A.R.S. § 42-12002). Agricultural personal property exceeding \$65,013 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 (18%) Railroad operating property, private rail car 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 Historic commercial and industrial property included in class 1 (A.R.S. § 42-12007 and 42-12101).

Class 8 Residential rental historic property included in class 4 (A.R.S. § 42-12008 and 42-12101).

Class 9 (1%) Possessory Interests (A.R.S. § 42-12009).

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 \$200,000 in 2009, would appear on the tax rolls in three succeeding years.

The net assessed values (NAV) differ because the home is assessed at 10% of the full cash value (FCV), while the business is assessed at 22% of the FCV.

Tax Year 2009

Property Class	Home	Business
Assessment Ratio	(10%)	(22%)
Secondary FCV	\$200,000	\$200,000
Secondary NAV	\$20,000	\$44,000
Primary LPV	\$180,000	\$180,000
Primary NAV	\$18,000	\$39,600

Tax Year 2010

In tax year 2010, the assessment ratio for businesses drops to 21%. If we assume property values will increase 17% in the next year, we have:

Property Class	Home	Business
Assessment Ratio	(10%)	(21%)
Secondary FCV	\$234,000	\$234,000
Secondary NAV	\$23,400	\$49,140
Primary LPV	\$198,000	\$198,000
Primary NAV	\$19,800	\$41,580

This above example reflects the 10% limit on increases for primary values (Using the 25% method would only increase the primary value to \$193,500). Even though secondary values increase 17%, primary values may only increase 10% in this case.

Tax Year 2011

In tax year 2011, the assessment ratio for businesses drops to 20%. Let's assume values increase 25% the following year:

Property Class	Home	Business
Assessment Ratio	(10%)	(20%)
Secondary FCV	\$292,500	\$292,500
Secondary NAV	\$29,250	\$58,500
Primary LPV	\$221,625	\$221,625
Primary NAV	\$22,163	\$44,325

Notice that primary (limited) values increased more than 10% due to the large difference between the new secondary value and the previous year's primary value (\$292,500-\$198,000=\$94,500). Twenty-five percent of that difference (\$23,625) was larger than a 10% increase in the previous year's primary value (\$19,800).

CALCULATING THE TAX:

Using the 2009 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 (10%)	Business (22%)
Secondary NAV	\$20,000	\$44,000
Total Secondary Rate	3.7672	3.7672
Secondary Taxes Owed	\$753.44	\$1,657.57
Primary NAV	\$18,000	\$39,600
Effective Primary Rate*	5.4079	7.0671
Primary Taxes Owed	\$973.42	\$2,798.57
TOTAL TAXES OWED	\$1,726.86	\$4,456.14

*In tax year 2009, the state pays 39% of the homeowner's primary school district rate. In these school districts, the rebate reduces the tax rate by \$1.6592.

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. Taxes are levied against mobile homes, whether treated as real or personal, in the same manner as real property and 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 primary tax (ARS § 33-1476.03).

County Assessors

Apache County Assessor

P.O. Box 770
St. Johns, AZ 85936
928-337-4364 • Fax: 337-3386
rdahozy@co.apache.az.us

Cochise County Assessor

1415 Melody Lane, Bldg. B
Bisbee, AZ 85603
520-432-8650 • Fax: 432-8698
pleiendecker@cochise.az.gov

Coconino County Assessor

110 East Cherry Avenue
Flagstaff, AZ 86001
928-679-7962 • Fax: 679-7977
cmazon@coconino.az.gov

Gila County Assessor

1400 East Ash Street
Globe, AZ 85501
928-425-3231 • Fax: 425-0408
dhom@co.gila.az.us

Graham County Assessor

921 Thatcher Blvd.
Safford, AZ 85546
928-428-2828 • Fax: 428-5849
dalder@graham.az.gov

Greenlee County Assessor

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

La Paz County Assessor

P.O. Box 790
Parker, AZ 85344
928-669-6165 • Fax: 669-9740
gnault@co.la-paz.az.us

Maricopa County Assessor

301 West Jefferson, Suite 330
Phoenix, AZ 85003
602-506-3877 • Fax: 506-3394
russellk@mail.maricopa.gov

Mohave County Assessor

700 W. Beale St.
Kingman, AZ 86402
928-753-0703 • Fax: 753-0749
ron.nicholson@co.mohave.az.us

Navajo County Assessor

P.O. Box 668
Holbrook, AZ 86025
928-524-4086 • Fax: 524-4291
cammy.darris@navajocountyaz.gov

Pima County Assessor

115 North Church Avenue
Tucson, AZ 85701
520-740-8630 • Fax: 792-9825
bill.staples@asr.pima.gov

Pinal County Assessor

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520-866-6361 • Fax: 866-6353
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