Arizona

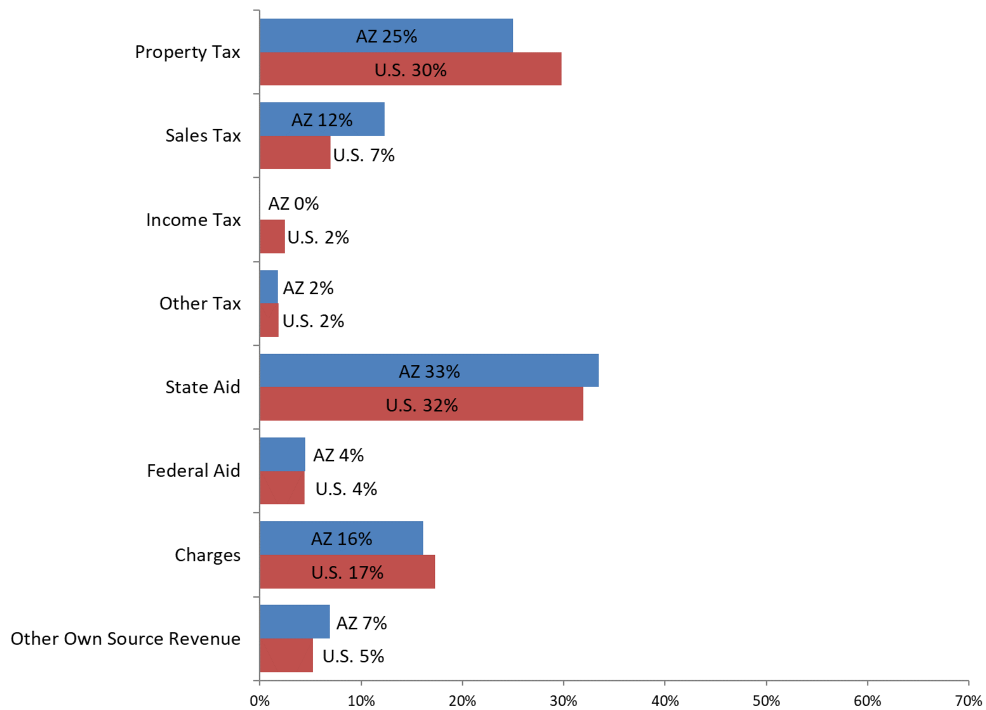
Highlights

Although recently simplified, Arizona's property tax system is still complex. For assessment purposes, property is divided into nine different classes, with an assessment ratio that ranges by class from 1 to 18 percent. The ratio is 10 percent for residential property, so that a $100,000 house would be assessed at $10,000.

Since 1980, the state has employed two different measures of the property tax base, although a 2012 constitutional amendment is phasing out this distinction. The first measure is full cash value (FCV), which is equal to or less than market value. The second measure is limited property value (LPV), which can never exceed FCV and is limited in the amount to which it can increase each year. Until the 2015 tax year, primary property taxes were levied against LPV to fund maintenance and operating budgets of local governments, such as school districts and cities. Secondary property taxes were levied against FCV to fund voter-approved general obligation bonds, budget overrides, and special districts.

Figure AZ-1

Sources of Local General Revenue, Arizona and U.S., 2014



Source: U.S. Census via Significant Features of the Property Tax

Beginning in 2015, LPV is the basis for levying all property taxes, although FCV will still be estimated. As in prior law, LPV can never exceed FCV and is now limited to the lesser of: 1) the previous year's LPV plus

5 percent, or 2) the current year's FCV. The LPV is referred to as the net assessed value when the tax is computed.

Local governments in Arizona are less reliant on the property tax than are local governments in most states (figure AZ-1). One reason is that cities and counties can levy sales taxes. Another distinctive feature of Arizona's property tax system is that Arizona is the only state in the country that does not use tax increment finance, a common economic development tool.

Property Tax Reliance

The property tax in Arizona is primarily a local revenue source because the state general fund currently receives less than 0.5 percent of all property taxes levied in the state. Arizona is below the U.S. average in its reliance on the property tax, whether measured as per capita, percent of personal income, percentage of state-local revenue, or effective tax rate on owner-occupied housing (Table AZ-1).

Table AZ-1
Selected Arizona Property Tax Statistics, 2014[1]

	Arizona	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$987	$1,464	*34*
Property tax percentage of personal income	2.6%	3.2%	*34*
Total property tax as percentage of state-local revenue	14.8%	16.9%	*27*
Median owner-occupied home value[2]	$167,500	$178,600	*25*
Median real estate taxes paid for owner-occupied home[2]	$1,356	$2,149	*36*
Effective tax rate, median owner-occupied home[3]	0.8%	1.2%	*34*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Assessment duties are divided between the Department of Revenue (DOR) and the 15 county assessors (Table AZ-2). Generally, geographically dispersed and complex properties, such as mines, utilities, airlines, and railroads, commonly referred to as "centrally valued property," are valued by DOR. All other properties are valued by the county assessors and are therefore referred to as "locally assessed property." Assessment occurs annually, with some counties using computer techniques for mass appraisal. Yearly ratio studies are conducted by the Arizona Department of Revenue to ensure accurate calculations of the full cash value.

Arizona divides property into nine classifications, with each class of property assigned an assessment ratio. These classifications and their respective assessment ratios are: mining, utilities, commercial and telecommunications (18%); agricultural and nonprofit (16%); residential (10%); rented residential (10%); railroad and flight property (assessed by formula); special purposes (5%); commercial historic property (18%); historic/residential property (10%); and certain improvements on government property (1%)(CCH Editorial Staff 2016). The assessment ratios are applied to values and determine the property's net assessed value. All classifications use the same tax rate.

Arizona taxes business personal property unless specifically exempt. Personal property is included in several of the nine property classifications listed above.

Limits on Property Taxation

In addition to the 5 percent limit on growth in LPV, cities, counties, and community college districts are limited to a levy increase of 2 percent per year plus new construction. The levy operates off of a 2005 base-year levy (set by a constitutional amendment). The levy limit increases each year, regardless of use, so there is no loss of the future tax capacity.

There is an additional tax limit on owner-occupied residences. The combined primary tax from all jurisdictions is limited to no more than 1 percent of the LPV. If the tax exceeds that amount, the school district primary taxes are reduced, and the state provides additional financial aid to the school district to make up the difference between the overall primary tax rate and the 1 percent rate cap.

The large array of special taxing districts that levy secondary property taxes are subject to different tax limits. Some are subject to both levy and tax rate caps, some have tax rate caps and no levy limits, and some (libraries) have neither a tax rate cap nor a levy limit.

Property Tax Relief and Incentives

Arizona has several property tax relief programs, including a circuit breaker called the Senior Citizen Property Tax Refund Credit, which is limited to those over 65 with maximum household income of $5,500 for married couples and $3,750 for single persons.

Arizona does not allow tax increment financing for new developments, and its enterprise zone program expired in 2011. However, the state does have an instrument that provides an incentive for development —the Government Property Lease Excise Tax (GPLET). Under a GPLET, certain developers avoid paying property tax by allowing the title to their land to go to the city in exchange for an exclusive right to lease the property back. Since cities do not pay property taxes, neither does the developer nor the final user. However, the developer or end user does make alternative tax payments based on the size, height, and use of the development, thus explaining why this is an excise tax. After a set period, the GPLET expires and the property goes back on the tax roll.

Property owned by an Indian tribal member is exempt from property taxation if the property is located within an Indian reservation. Additionally, if an Indian tribe or tribally designated housing authority owns property outside of an Indian reservation, that property is exempt if it provides low-income rental housing for Indian tribal members.

Table AZ-2

Property Tax Features of State Governments, United States, 2015

Feature	Arizona	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	Yes	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

Arizona has had a property tax system since territorial days, with the county sheriff playing the role of both the tax assessor and tax collector. Immediately after statehood in 1912, the legislature reenacted all of the existing property tax laws. There were various changes implemented between 1912 and 1980, particularly regarding appraisal standards, assessment ratios, and classification. In 1980, major changes were enacted. In that year, a special statewide June election established the maximum ad valorem tax on all taxable property, defined full cash value, defined limited property value, limited annual increases in assessment of all taxable property, and restricted the authority of all levels of Arizona government to raise property taxes without a two-thirds majority (Arizona Tax Research Association 2015). Over time, there have been some marginal adjustments to this limit, but it is still the guiding principle for property taxes in Arizona.

Recent Developments

In 2010, the GPLET law was changed so that the tax payments based on size, height, and use were approximately doubled; the payments may be adjusted every year to account for inflation; the deal can remain in effect for a maximum of 25 years; and a disclosure requirement was added.

In 2012, voters approved Proposition 117. Under this proposition, the value of real property and improvements is limited to the lesser of: (1) a 5 percent increase over the previous year's limited property value or (2) the current year's full cash value. Additionally, this same proposition changed the current law under which limited property value is the base for primary property taxes and the full cash value is the base for secondary taxes to one in which limited property value is the tax base for all property taxes.

The Arizona Legislature has reduced taxation of personal property in recent years. In 2011, the legislature provided additional accelerated depreciation for business property in class 1 and class 2 for property purchased in 2012 or later. In 2017, the legislature passed a broad business tax incentive bill, SB 1416, which also extended this accelerated depreciation benefit to personal property in foreign trade and military reuse zones (Busby 2017, Jones 2017).

Resources

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