

Arizona: Property Tax Regime Update...

Prepared for:

BOMA

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Jodi A. Bain, Esq.

Attorney at Law

520.203.3044

BLFAZ.com

Licensed in Arizona and New York
Se habla Inglés/ Se habla Español



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Vocabulary–

- ▶ ADOR – Arizona Department of Revenue
- ▶ ATC – Arizona Tax Court
- ▶ FCV – Full Cash Value
- ▶ LPV – Limited Property Value
- ▶ SBOE – State Board of Equalization

Property Tax Math -

1. **LPV x Assessment Ratio = Assessed Value**
2. **(Assessed Value x Tax Rate)/100**

= Property Tax \$\$

New property tax regime as of the 2015 tax year–

- Implemented as of January 1, 2014 for the 2015 tax year
- Changed how property taxes are calculated
- Property taxes calculated on the Limited Assessed Value (“LPV”)
- Limits the annual increase of LPV to 5% subject to *four (4) categories of exceptions*



▶ Arizona Revised Statutes Title 42, Chapter 13

Article 7 Limitation on Valuation Increases

42-13301 Limited property value

42-13302 **Determining limited value in cases of omissions and changes**

A.R.S. 42-13301

Limited property value

- A. The limited property value of property for property taxation purposes is the limited property value of the property in the preceding valuation year plus five per cent of that value.
- B. The current limited property value of a parcel of property *shall not* exceed its current full cash value.
- C. The limited property value of a parcel of property shall be determined and shown on notices and tax rolls as the total limited property value of the property. Separate determinations shall not be made for the limited property value of land and for the improvements on the land in reference to property parcels.

A.R.S.42-13302 (A)

Determining limited value in cases of omissions and changes

- ▶ A. In the following circumstances the limited property value [LPV] shall be established at a level or percentage of full cash value [FCV] that is comparable to that of other properties of the same or similar use or classification:

Prop 117 Exceptions...

A.R.S. 42-13302(A) 1-4

Exceptions to 5% CAP on LPV

- 1. Property that was erroneously totally or partially omitted from the property tax rolls in the preceding tax year.
- 2. Property for which a change in use has occurred since the preceding tax year.

Prop 117 Exceptions...con't.

- 3. Property that has been modified by **construction, destruction *or* demolition** since the preceding valuation year.
- 4. Property that has been **split, subdivided *or* consolidated** from January 1 through September 30 of the valuation year, *except for cases that result from an action **initiated** by a governmental entity.*

In a Nut Shell...

When there is a Prop 117 exception...

- ▶ If an exception occurs, the LPV is not capped at a 5% increase.
- ▶ If an exception occurs, the LPV will be reset to a percentage of the FCV by what is called the 'Rule B Factor'.
- ▶ The Rule B Factor is set each year and is:
 - 89.1% of the FCV for Class 1, commercial property
 - 94% of the FCV for Class 2, land, etc..

for the 2018 tax year in Pima County.

▶ Hypothetical–

- A 10,000 SF office building valued in the 2014 tax year with a FCV of \$500,000 and a LPV of \$500,000.

Scenario #1:

No changes to the property,

no exceptions,

only revalued by assessor

Scenario #1:

What happens to LPV in Scenario #1?

– 5% LPV increase –

Tax Year	Full Cash Value (FCV)	Limited Property Value (LPV)	Est. Tax (based on 2014 tax rate)	Taxes Per Square Foot
2014	\$500,000	\$500,000	\$15,510	\$1.55
2015	\$1,100,000	\$525,000	\$16,285	\$1.63

– *Minimal Actual Tax Increase – \$775.*

Same Hypothetical –

- A 10,000 SF office building valued in the 2014 tax year with a FCV of \$500,000 and a LPV of \$500,000

Scenario #2:

Property had a parcel split (or construction or change in use, etc.),

LPV exception triggered

&

revalued by assessor

Scenario #2:

What happens to LPV in Scenario #2?

- Prop 117 Exception Triggered -

Tax Year	Full Cash Value (FCV)	Limited Property Value (LPV)	Est. Tax (based on 2014 tax rate)	Taxes Per Square Foot
2014	\$500,000	\$500,000	\$15,510	\$1.55
2015	\$1,100,000	\$1,028,000	\$31,903	\$3.19

- LPV recalculated using a 'Rule B' Factor
- Prop 117 Exception - Tax Increase - \$16,393.

Hypothetical & Impact of Prop 117 –

- ▶ **Scenario #1 – No Prop 117 Exceptions**
 - Estimated Property Tax increase based on 2014 tax rates with no ‘Exception’ = \$775

- ▶ **Scenario #2 – Property Split for 2015 tax year**
 - Estimated Property Tax increase based on 2014 tax rates *with ‘Exception’* = \$16,393

 - Estimated Property Tax impact is *more than doubling* the burden **from \$1.55/SF to \$3.19/SF**

Takeaways on Prop 117



- ▶ It does not limit tax rate increases
- ▶ It does not limit increase in actual taxes to 5%
- ▶ A simple change in the property can have significant financial implications
- ▶ It limits the LPV – a component of property valuation
- ▶ Exceptions do exist and should be planned and closely monitored
- ▶ Maintaining property valuation vigilance can reduce overall tax burden
- ▶ Keeping FCV accurate matters

Q & A

Just Ask...

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Remember...

- ▶ Maintaining a tight spread between FCV and LPV is advantageous – especially when facing an ‘Exception’.
- ▶ A reduction in property valuation may noticeably reduce overall taxes and a key expense burden.
- ▶ A well-informed property tax attorney or adviser may assist in:
 - The planning process
 - Anticipating exception implications of Prop 117