

Update: Trends & Pitfalls in Arizona Property Tax Regime

Prepared for
State Bar of Arizona
Real Property Section Program

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Jodi A. Bain, Esq.

Attorney at Law

520.777.3747

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

Real Property Tax Calculation –

$$\begin{aligned} & (\text{LPV} \times \text{Assessment Ratio}) \\ & \quad \times \text{Tax Rate} \\ & = \text{Property Tax } \$\$ \end{aligned}$$

Topic For Today:

Trends & Pitfalls...

- Proposition 117 & LPV
- Hypothetical – Land Split
- Real Property Tax Valuation Timeline
- ATC – Where to find ATC Recent Decisions
- Take Aways

Proposition 117 –

Changed how property taxes are calculated.

- Implemented as of January 1, 2014 for the 2015 tax year
- Since the 2015 tax year, property taxes are calculated on the LPV
- Caps the annual increase of LPV to 5% subject to 4 main categories of exceptions
- Primarily A.R.S. 42-13301, et al.

LPV Limitations

▶ 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**

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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)

LPV determination 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.

Prop 117 Exceptions...

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

Exceptions to 5% CAP on LPV

- 2. Property for which a *change in use* has occurred since the preceding tax year.

Prop 117 Exceptions...con't.

Exceptions to 5% CAP on LPV

- **3. Property that has been modified by construction, destruction *or* demolition since the preceding valuation year.**

Prop 117 Exceptions...con't.

Exceptions to 5% CAP on LPV

- 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...



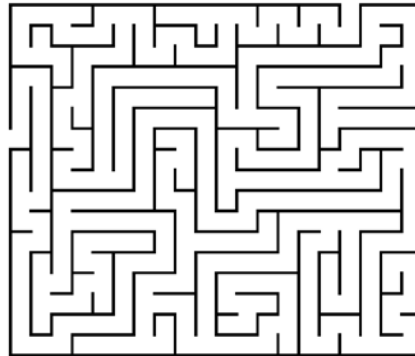
When there is an LPV (A.R.S. 42-13302) exception, the LPV adjusts...

- ▶ If an exception occurs, the LPV cap is released.
- ▶ Then the LPV will 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 for the 2018 tax year.

▶ Hypothetical...

A parcel of land by the airport splits into 11 parcels in May 2017.

What Happens Now?



Think...what happens?

The
Exception
Zone

- 5% LPV cap released -
 - LPV resets -

Recent Client Example
October 30, 2017

Pima County, AZ		2018 tax year				
Prop. Tax Est. – Based on 2018 Noticed Supplemental Values						
<u>Parcel</u>	<u>FCV</u>	<u>LV</u>	<u>Tax Est.*</u>			
P1	\$361,056	\$339,393	\$9,297			
P2	\$217,695	\$204,633	\$5,606			
P3	\$119,580	\$112,405	\$3,079			
P4	\$209,774	\$197,188	\$5,402			
P5	\$109,623	\$103,046	\$2,823			
P6	\$388,926	\$365,590	\$10,015			
P7	\$107,745	\$101,280	\$2,774			
P8	\$91,281	\$85,804	\$2,351			
P9	\$550	\$490	\$13			
P10	\$114,020	\$107,179	\$2,936			
P11	<u>\$500</u>	<u>\$470</u>	<u>\$13</u>			
	\$1,720,750	\$1,617,478	\$44,309			
2018 Original Noticed Value Est. for Single Parcel (for comparison purposes)						
Parent Parcel	\$602,435	\$602,435	\$16,503			
* Applying 2017 tax rates (which are the most recent available).						

Arizona Real Property Valuation Annual Appeal Process Timeline

Notice of Value Mailed:	On or before March 1
Petition must be filed appeal within:	60 days of original notice of value mailing date
County Assessors to Rule on Administrative Property Tax Petitioned Appeals by:	August 15th
Deadline to file for an administrative property tax appeal to the county or State Board of Equalization:	25 days after the mailing of the county assessor's decision
Deadline for SBOE to Issue Decisions on Property Tax Appeal Petitions:	October 15th of valuation year
Deadline for taxpayers to appeal to the Arizona Tax Court:	December 15th
New Owner Provisions	If purchased by December 15 of valuation year – must file to tax court by December 15 of valuation year– OR, if purchased after December 15 through December 31 of valuation year –must file to tax court by December 15 next calendar year

AZ Property Tax Regime:

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

Remember...

- ▶ **Prop 117 *did not* limit tax rate escalations.**
 - It merely limited the increase in a component of property valuation.
- ▶ **Taxing districts are able to set higher tax rates each year based on their budgets and voter-approved bonds and over-rides.**



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- ▶ **Under the new law, an appeal filed in calendar year 2018 for the 2019 tax year may result in limiting the increases in the LPV for the 2020 tax year.**
- ▶ **This means successfully appealing a valuation for tax year 2019, potentially provides savings over a two year period or more in most instances.**

Takeaways...

Significant trends & pitfalls continue to emerge.



- ▶ Prop 117 Implementation introduced a new methodology to property taxation in Arizona as of January 1, 2014.
- ▶ Timeline for filings – annual hard dates.
- ▶ Main Property Types:
 - ▶ Retail (shopping centers, strip retail, single user, etc.)
 - ▶ Multi-family (apartments, duplex tri-plex, etc.)
 - ▶ Office
 - ▶ Industrial
 - ▶ Residential
 - ▶ Land
 - ▶ Agricultural
 - ▶ Other
- ▶ A well-informed property tax attorney assists in:
 - The planning process
 - Anticipating exception implications of Prop 117
 - Timing

- ▶ Maintaining a tight spread between FCV and LPV is advantageous – especially when facing an LPV cap exception.
- ▶ A reduction in property valuation may noticeably reduce overall property taxes and a key expense burden...
 - ↓ Valuation = ↑ NOI = often ↑ value!

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Recent Arizona Tax Court Cases

- ▶ <http://www.superiorcourt.maricopa.gov/SuperiorCourt/TaxCourt/decisions.asp>
- ▶ Not necessarily precedential
- ▶ Limited publication

Q & A ...

Just Ask...

We are here as a resource.

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