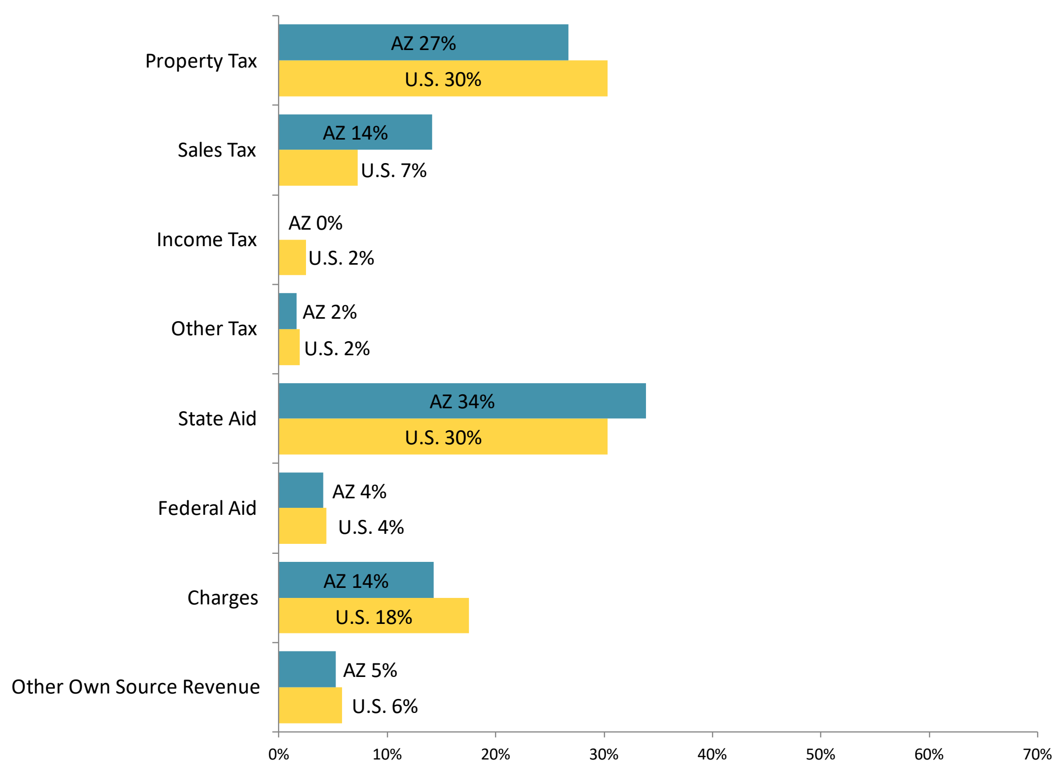
Arizona

Highlights

Although simplified in 2012, 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., 2020



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

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, 2020[1]

	Arizona	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,206	$1,810	*36*
Property tax percentage of personal income	2.3%	3.1%	*36*
Total property tax as percentage of state-local revenue	13.7%	16.6%	*30*
Median owner-occupied home value[2]	$242,000	$229,800	*20*
Median real estate taxes paid for owner-occupied home[2]	$1,559	$2,551	*36*
Effective tax rate, median owner-occupied home[3]	0.6%	1.1%	*39*

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 2016–2020.

[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 the 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 (17 percent for 2023); agricultural and nonprofit (15 percent); residential (10 percent); rented residential (10 percent); railroad and flight property (assessed by formula); noncommercial historic and special purposes (5 percent); commercial historic property (17 percent for 2023); commercial historic/residential property (10 percent); and certain improvements on government property (1 percent) (CCH Editorial Staff 2022; SB 1093 of 2022). The assessment ratios are applied to values and determine the property's net assessed value. All classifications use the same tax rate. Due to legislation enacted in 2022 (Senate Bill 1093), the assessment ratio for Class 1 and Class 7 property will decline incrementally each year through 2027.

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 FCV. 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.

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. The maximum benefit is $502.

Arizona provides property tax exemptions for disabled veterans, widows and widowers, and persons with total and permanent disability. Each year the legislature determines the amount of the exemption, and sets limits on incomes and assessed values to qualify. A person may be eligible for only one of these exemptions (Ariz. Rev. Stat. § 42-11111).

Arizona does not allow tax increment financing for new developments, and its general 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 a Native American tribal member is exempt from property taxation if the property is located within a Native American reservation. Additionally, if a Native American tribe or tribally designated housing authority owns property outside of a Native American reservation, that property is exempt if it provides low-income rental housing for Native American tribal members (Arizona Department of Revenue).

Table AZ-2
Arizona Property Tax Features, 2021

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	17
Circuit breaker property tax relief program	Yes	31

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.

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).

Four school districts sued the state in 2017 claiming that state funding for school maintenance was inadequate and violated the constitution (*Glendale Elementary School District v. State of Arizona*). The state quickly filed a motion to dismiss, arguing the case was a political issue and not within the purview of the courts. In 2018, the state asked the court to postpone action on the lawsuit after Governor Doug Ducey proposed full funding for "district additional assistance" (money for expenditures outside of maintenance and operation such as curriculum, technology, and buses) and money for school construction and repairs, but the Maricopa County Superior Court declined to postpone action on the case (SchoolFunding.Info). After a court-approved delay to attempt to resolve issues without a trial, the case is set for trial in May 2024 (Kunichoff 2023; SchoolFunding.Info).

Recent Developments

In 2021, Arizona enacted a workaround to the 2017 federal cap on state and local tax deductions (SALT) (Jones 2021). The SALT cap limits individual income tax deductions for taxes paid to state and local governments, such as property taxes, to $10,000 per year. In 2020, the IRS released regulations that permitted an entity-level tax workaround paving the way for the passage of Arizona's legislation (HB 2838).

In 2022, Governor Doug Ducey signed into law Senate Bill 1093, which requires assessment ratios for Class 1 and Class 7 property to incrementally decline through 2027, from 17.5 percent in 2022 to 15 percent in 2027. Class 1 property includes mining, utilities, commercial, and telecommunications properties while Class 7 property consists of commercial historic property. The continued decline in the assessment ratio for commercial properties aims to increase the state's economic growth and to reduce the property tax burden on commercial property owners relative to homeowners (Edwards 2022).

As part of the budget signed into law in June 2022, Arizona eliminated the state equalization assistance property tax rate (SETR), implementing a major property tax reduction. The SETR was a state property tax that supported funding of education in Arizona. By eliminating SETR, revenue is expected to decline by $338 million in fiscal year 2024 and by $345 million in fiscal year 2025. The state's general fund dollars are expected to replace the revenue loss (Jones 2022).

Arizona voters approved Proposition 130 in 2022, restoring a property tax exemption for disabled veterans in the Arizona Constitution. Disabled veterans had been ineligible for the exemption since 1989, when the Arizona Court of Appeals held the benefit was unconstitutional because it was limited to veterans who were Arizona residents before entering the military. Proposition 130 amended the Arizona Constitution (A.R.S. Const. Art. IX, § 2) to allow property tax exemptions for disabled veterans regardless of when they became Arizona residents. Further, Proposition 130 authorizes the legislature to determine the amount of the tax exemption and eligibility criteria (Ballotpedia 2022, Rihl 2022).

Under Arizona's classified property tax system, assessors apply an assessment ratio to each property's valuation to determine its full cash value and its limited property value. Counties can calculate LPV as either 105 percent of LPV from the previous valuation (Rule A) or a percentage of FCV comparable to similar properties (Rule B). In 2023, the Arizona Court of Appeals rejected the practice of applying different percentages to different neighborhoods under Rule B. The appeals court found that effectively basing assessment ratios on the location of a property does not comply with Arizona's classification law (*Machu Picchu Holdings LLC v. Pinal County* and *Rustin Wayas v. Yavapai County*) (Muse 2023).

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