

State of Arizona
Senate
Fiftieth Legislature
Second Regular Session
2012

SENATE BILL 1217

AN ACT

AMENDING SECTIONS 42-12003, 42-12052, 42-12053, 42-12054, 42-15103 AND
42-16051, ARIZONA REVISED STATUTES; RELATING TO PROPERTY TAX CLASSIFICATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 42-12003, Arizona Revised Statutes, is amended to
3 read:

4 42-12003. Class three property; definition

5 A. For purposes of taxation, class three is established consisting of:

6 1. Real and personal property and improvements to the property that
7 are used as the owner's primary residence ~~or leased or rented to~~, THAT ARE
8 NOT OTHERWISE INCLUDED IN CLASS ONE, TWO, FOUR, SIX, SEVEN OR EIGHT AND THAT
9 ARE VALUED AT FULL CASH VALUE.

10 2. REAL AND PERSONAL PROPERTY THAT IS OCCUPIED BY a relative of the
11 owner, as provided by section 42-12053, and used as the relative's primary
12 residence, that ~~are IS~~ not otherwise included in class one, two, four, six,
13 seven or eight and that ~~are IS~~ valued at full cash value. ~~Only an owner's or~~
14 ~~a relative's primary residence may be classified as class three, except that~~
15 ~~the~~

16 B. FOR THE PURPOSES OF THIS SECTION, A homesite that is included in
17 class three may include:

18 1. Up to ten acres on a single parcel of real property on which the
19 residential improvement is located.

20 2. More than ten, but not more than forty, acres on a single parcel of
21 real property on which the residential improvement is located if it is zoned
22 exclusively for residential purposes or contains legal restrictions or
23 physical conditions that prevent the division of the parcel.

24 ~~B-~~ C. For the purposes of this section, "physical conditions" means
25 topography, mountains, washes, rivers, roads or any other configuration that
26 limits the residential usable land area.

27 Sec. 2. Section 42-12052, Arizona Revised Statutes, is amended to
28 read:

29 42-12052. Review and verification of class three property;
30 civil penalty; appeals

31 A. Each county assessor shall review assessment information, on a
32 continuing basis, to ensure proper classification of residential dwellings.
33 The assessor may enter into intergovernmental agreements with the department
34 for an exchange of information to ensure a coordinated and comprehensive
35 review and identification of property that may be rented while classified as
36 class three pursuant to section 42-12003.

37 ~~B.—Beginning in 2012 and each even-numbered year thereafter the county~~
38 ~~assessor shall include with the notice of full cash value sent to owners of~~
39 ~~class three property pursuant to section 42-15101 an affidavit, in a form~~
40 ~~prescribed by the department, on which the owner must declare, under penalty~~
41 ~~of perjury, whether the property is the owner's primary residence, or leased~~
42 ~~or rented to a relative of the owner, as provided by section 42-12053, and~~
43 ~~used as the relative's primary residence, in the current valuation year. The~~
44 ~~owner must return the completed affidavit form to the county assessor within~~
45 ~~sixty days. If the owner indicates on the affidavit that the property is not~~

1 ~~the owner's or relative's primary residence, if the owner indicates on more~~
2 ~~than one affidavit that more than one parcel is the owner's primary~~
3 ~~residence, or if the owner fails to return the affidavit timely to the~~
4 ~~assessor, the assessor shall reclassify the property as class four pursuant~~
5 ~~to section 42-12004 or in another classification according to the property's~~
6 ~~use and within fifteen days notify the owner of the reclassification and of~~
7 ~~the owner's the right to appeal the reclassification. If for any reason an~~
8 ~~owner believes that reclassification pursuant to this subsection is~~
9 ~~erroneous, the owner may file a notice of claim with the assessor pursuant to~~
10 ~~section 42-16254 to resolve the correct classification.~~

11 ~~C.~~ B. If the assessor has reason to believe that a parcel of property
12 that is classified as class three pursuant to section 42-12003 is not used as
13 the owner's primary residence or ~~is being rented~~ AS A QUALIFYING FAMILY
14 MEMBER RESIDENCE PURSUANT TO SECTION 42-12053, the assessor shall notify the
15 owner, in a form prescribed by the department as provided by subsection D of
16 this section, and request that the owner respond as to whether the property
17 ~~is occupied as the owner's primary residence~~ MEETS THE REQUIREMENTS OF
18 SECTION 42-12003 OR 42-12053, is a secondary residence or is used as a rental
19 property. If the owner ~~responds that the property is not the owner's primary~~
20 ~~residence, or if the owner~~ fails to respond to the assessor within thirty
21 days after the notice is mailed, the assessor shall mail the owner a final
22 notice within thirty days requesting that the owner provide information as to
23 whether or not the property ~~is the owner's~~ MEETS THE REQUIREMENTS OF A
24 primary residence, a secondary residence or IS used as a rental property. If
25 the owner fails to respond to the assessor within fifteen days after the
26 final notice is mailed, the assessor shall:

27 1. Reclassify the property as class four. In addition to other appeal
28 procedures provided by law, the owner of the property that is reclassified as
29 class four under this paragraph may appeal the reclassification to the county
30 board of supervisors within thirty days after the notice of classification is
31 mailed. If the owner proves to the board's satisfaction that the property is
32 occupied as the owner's primary residence, the board shall order the property
33 to be reclassified as class three property pursuant to section 42-12003.

34 2. Notify the county treasurer who shall assess a civil penalty
35 against the property equal to ~~twice~~ the amount of additional state aid paid
36 pursuant to section 15-972 with respect to the property in the preceding tax
37 year. The owner of the property shall pay a penalty under this paragraph to
38 the county treasurer within thirty days after the notice of the penalty is
39 mailed. The owner may appeal the penalty to the county board of supervisors
40 within the time required for payment. If the owner proves to the board's
41 satisfaction that the property is occupied by the owner, the board shall
42 waive the penalty, and the property shall be listed as class three pursuant
43 to section 42-12003. Until paid or waived, the penalty constitutes a lien
44 against the property. The county treasurer shall deposit all revenue

1 received from penalties assessed under this paragraph in the county general
2 fund.

3 C. BEGINNING IN 2013 AND DURING EACH ELECTIVE TERM OF OFFICE
4 THEREAFTER THE COUNTY ASSESSOR SHALL SEND NOTICES UNDER SUBSECTION B OF THIS
5 SECTION TO EACH OWNER OF PROPERTY CLASSIFIED AS CLASS THREE PURSUANT TO
6 SECTION 42-12003 DESCRIBED BY ANY OF THE FOLLOWING:

7 1. THE OWNER HAS A MAILING ADDRESS OUTSIDE THE COUNTY IN WHICH THE
8 PROPERTY IS LOCATED.

9 2. THE OWNER HAS A MAILING ADDRESS, OTHER THAN A POST OFFICE BOX, THAT
10 IS DIFFERENT THAN THE SITUS ADDRESS OF THE PROPERTY.

11 3. THE OWNER HAS THE SAME MAILING ADDRESS LISTED FOR MORE THAN ONE
12 PARCEL OF CLASS THREE PROPERTY IN THIS STATE.

13 4. THE OWNER APPEARS TO BE A BUSINESS ENTITY.

14 D. The department shall:

15 1. Prescribe all forms used to notify property owners under this
16 section. The forms shall contain information as to criteria for the
17 reclassification of property and the civil penalties that may result if the
18 owner fails to respond to the notice.

19 2. Monitor and review the procedures and practices used by assessors
20 and treasurers to accomplish the verification of class three property and the
21 assessment and collection of penalties prescribed by this section and propose
22 suggested improvements to establish uniform processes and performance among
23 the counties.

24 E. The department may inspect the records of county assessors and
25 county treasurers to determine compliance with the requirements of this
26 section and the accuracy of the classification of owner-occupied residential
27 property and rental property.

28 Sec. 3. Section 42-12053, Arizona Revised Statutes, is amended to
29 read:

30 42-12053. Criteria for distinguishing primary residential
31 property, secondary residential property and rental
32 property

33 A. For the purpose of classifying residential property under sections
34 42-12003, 42-12004 and 42-12052, a parcel is not considered ~~rental~~ A
35 **SECONDARY PROPERTY OR RENTAL** property ~~and shall be classified as class three~~
36 ~~property~~, if ~~either~~:

37 ~~1. The property was not rented by the owner for more than three months~~
38 ~~in the preceding twelve consecutive months and the owner does not intend to~~
39 ~~rent it for more than three months during the next twelve consecutive months.~~

40 ~~2. the owner rents the property to~~ **PROPERTY IS OCCUPIED BY** a member of
41 the owner's family, who must be:

42 ~~(a)~~ 1. The owner's natural or adopted child or a descendant of the
43 owner's child.

44 ~~(b)~~ 2. The owner's parent or an ancestor of the owner's parent.

45 ~~(c)~~ 3. The owner's stepchild or stepparent.

1 ~~(d)~~ 4. The owner's child-in-law or parent-in-law.

2 ~~(e)~~ 5. The owner's natural or adopted sibling.

3 B. For the purpose of classifying owner-occupied residential property
4 under sections 42-12003, 42-12004 and 42-12052, the department shall adopt
5 standard criteria for use in determining whether the property is considered
6 to be the owner's or relative's primary residence, including:

7 1. The period of occupancy each year.

8 2. The owner's registered voting precinct.

9 3. The owner's driver license address.

10 4. The registration address of the owner's motor vehicles.

11 5. Other appropriate indicators of primary residency.

12 Sec. 4. Section 42-12054, Arizona Revised Statutes, is amended to
13 read:

14 42-12054. Change in classification of owner-occupied residence

15 A. If a person purchases or converts property that is listed as class
16 one, paragraph 12 or 13, class two OR CLASS FOUR pursuant to article 1 of
17 this chapter and occupies the property as ~~a~~ THE PERSON'S PRIMARY residence,
18 the person may have the classification reviewed for change to class three
19 from the date of conversion and occupancy as a primary residence and may
20 appeal from the decision resulting from the review in the same manner as
21 provided by law for review of a valuation for ad valorem property taxes and
22 appeal from that review.

23 B. If a person purchases or converts property that is listed as CLASS
24 ONE, PARAGRAPH 12 OR 13, CLASS TWO OR class four pursuant to ~~section 42-12004~~
25 ~~and occupies the property as the person's primary residence~~ ARTICLE 1 OF THIS
26 CHAPTER AND THE PROPERTY IS OCCUPIED BY A MEMBER OF THE OWNER'S IMMEDIATE
27 FAMILY AS DESCRIBED IN SECTION 42-12053, the person may have the
28 classification reviewed for change to class three from the date of occupancy
29 and may appeal the decision resulting from the review in the same manner as
30 provided by law for review of a valuation for ad valorem property taxes and
31 appeal from that review.

32 C. If a person makes such a conversion or occupancy or appeals the
33 classification after the county assessor has closed the rolls, the person may
34 petition the county board of supervisors to change the classification and
35 reduce the assessed valuation from the date of conversion or occupancy.

36 D. The board of supervisors shall entertain the petition in the same
37 manner as a board of equalization hears a request for reduction in valuation.

38 E. The petitioner may appeal the board of supervisors' decision in the
39 same manner as provided in section 42-16111, except that the petitioner shall
40 file the notice of appeal within fifteen days after the board's finding.

41 F. If the board of supervisors finds that the property is in fact
42 being used for the owner's primary residence and should be listed as class
43 three property, it shall change the classification on the roll and fix the
44 assessed valuation from the date of occupancy. The amount of taxes that is
45 assessed against the property shall be computed by applying the current tax

1 rate to the original assessed valuation prorated for the portion of the tax
2 year before the property was occupied plus the current tax rate applied to
3 the reassessed value of the property prorated for the balance of the year.

4 G. The board of supervisors shall notify the department, assessor and
5 county treasurer of the change in classification, the change in assessed
6 valuation and the amount of tax assessed. The department and the assessor
7 may appeal any such decision in the same manner as provided in section
8 42-16111. The assessor and treasurer shall note the change on their records,
9 and the treasurer may issue a future tax credit, endorsed by the board, to
10 the person whose property is liable for the tax. The tax credit shall be
11 used on the next or several succeeding property tax assessments that the
12 person may owe thereafter.

13 Sec. 5. Section 42-15103, Arizona Revised Statutes, is amended to
14 read:

15 42-15103. Contents of notice form

16 The notice form shall:

17 1. Prominently display a statement **FOR ALL RESIDENTIAL PROPERTIES:**

18 ~~(a) In even numbered valuation years informing property owners that if~~
19 ~~the parcel of property is listed on the notice as class three pursuant to~~
20 ~~section 42-12003, the owner must complete and return the enclosed affidavit~~
21 ~~to the county assessor declaring whether the property is the owner's~~
22 ~~residence, or leased or rented to a relative of the owner, as provided by~~
23 ~~section 42-12053, and used as the relative's primary residence, for the~~
24 ~~current year. The statement shall include the following text in at least~~
25 ~~twelve point type:~~

26 ~~If your property qualifies as your primary residence, you may~~
27 ~~receive a reduction on your property taxes up to \$600.~~

28 ~~(b) informing property owners that if a parcel of property is used as~~
29 ~~a rental unit and the property is listed on the notice as class three~~
30 ~~pursuant to section 42-12003, the owner must notify the county assessor of~~
31 ~~the rental use of the property or be subject to a civil penalty prescribed by~~
32 ~~section 42-12052.~~

33 (a) WHICH DEFINES CLASS THREE PROPERTIES AS DESCRIBED IN SECTION
34 42-12003.

35 (b) INFORMING PROPERTY OWNERS THAT IF THE PROPERTY LISTED ON THE
36 NOTICE DOES NOT MEET THE DEFINITION PROVIDED PURSUANT TO SUBDIVISION (a), THE
37 OWNER MUST NOTIFY THE COUNTY ASSESSOR OF THE USAGE OF THE PROPERTY OR THE
38 OWNER MAY BE SUBJECT TO A CIVIL PENALTY PRESCRIBED BY SECTION 42-12052.

39 ~~2. Include with each notice for property classified as class three an~~
40 ~~affidavit form described by section 42-12052, subsection B, with simplified~~
41 ~~instructions, for the owner to declare whether the property is the owner's~~
42 ~~primary residence.~~

43 ~~3.~~ 2. Include ~~a form with~~ **SIMPLIFIED** instructions on the procedure
44 and deadlines for appealing the assessed valuation shown on the notice. ~~The~~
45 ~~appeal form for property that is listed as class three pursuant to section~~

1 ~~42-12003 shall contain simplified instructions and shall be separate from the~~
2 ~~appeal form for other classes of property.~~

3 ~~4. 3. Provide in a separate addendum~~ PROMINENTLY DISPLAY a statement
4 informing owners of property that is used for residential rental purposes
5 that:

6 (a) The parcel must be listed on the notice as class four, and the
7 owner must register the residential rental property with the county assessor
8 pursuant to section 33-1902 or the owner may be subject to a penalty.

9 (b) If the owner is required to register the rental property with the
10 county assessor and fails to do so after receipt of this notice, the city or
11 town may impose a civil penalty payable to the city or town in the amount of
12 one hundred fifty dollars per day for each day of violation, and the city or
13 town may impose enhanced inspection and enforcement measures on the property.

14 (c) If the city or town in which the property is located requires the
15 lessor to pay transaction privilege tax on residential rent, a notice of
16 applicable requirements imposed by the city or town and that failure to pay
17 the applicable tax could result in a penalty or fine by the city or town.

18 (d) Residential rental properties are required to comply with the
19 landlord tenant law pursuant to title 33, chapters 10 and 11.

20 Sec. 6. Section 42-16051, Arizona Revised Statutes, is amended to
21 read:

22 42-16051. Petition for assessor review of improper valuation or
23 classification

24 A. An owner of property ~~which~~ THAT in the owner's opinion has been
25 valued too high or otherwise improperly valued or listed on the roll may file
26 a petition with the assessor on a written form prescribed by the department.

27 B. The petition shall state the owner's opinion of the full cash value
28 of the property and substantial information that justifies that opinion of
29 value for the assessor to consider for purposes of basing a change in
30 classification or correction of the valuation. For purposes of this
31 subsection, the owner provides substantial information to justify the opinion
32 of value by stating the method or methods of valuation on which the opinion
33 is based and:

34 1. Under the income approach, including the information required in
35 section 42-16052.

36 2. Under the market approach, including the full cash value of at
37 least one comparable property in the same geographic area or the sale of the
38 subject property.

39 3. Under the cost approach, including the cost to build or rebuild the
40 property plus the land value.

41 C. The petition may include more than one parcel of property if they
42 are part of the same economic unit according to department guidelines or if
43 they are owned by the same owner, have the same use, are appealed on the same
44 basis and are located in the same geographic area, as determined pursuant to
45 department guidelines, and are on a form prescribed by the department.

1 D. The petition shall be filed within sixty days after the date the
2 assessor mailed, delivered by common carrier or transmitted electronically,~~—~~
3 the notice of valuation under section 42-15101. United States postal service
4 postmark dates are evidence of the date petitions were filed for purposes of
5 this subsection.

6 E. THE PETITION FOR REVIEW FORM FOR PROPERTY THAT IS LISTED AS CLASS
7 THREE PURSUANT TO SECTION 42-12003 SHALL CONTAIN SIMPLIFIED INSTRUCTIONS AND
8 SHALL BE SEPARATE FROM THE PETITION FORMS USED FOR OTHER CLASSES OF PROPERTY.