House Engrossed

property tax; agricultural real property

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HOUSE BILL 2261

AN ACT

AMENDING SECTIONS 42-12002, 42-12004, 42-12051, 42-12152, 42-12153, 42-12154, 42-12155, 42-12156, 42-12157, 42-12158, 42-12159, 42-13101, 42-13102 AND 42-15252, ARIZONA REVISED STATUTES; RELATING TO AGRICULTURAL REAL PROPERTY.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Section 42-12002, Arizona Revised Statutes, is amended to read:

42-12002. Class two property

For purposes of taxation, class two is established consisting of three subclasses:

1. Class two (R) consists of:

(a) Real property and improvements to property that are used ~~for~~ AS agricultural ~~purposes~~ REAL PROPERTY and that are valued at full cash value or pursuant to chapter 13, article 3 of this title, as applicable.

(b) Real property and improvements to property that are primarily used ~~for~~ AS agricultural ~~purposes~~ REAL PROPERTY to produce trees other than standing timber, vines, rosebushes, ornamental plants or other horticultural crops, regardless of whether the crop is grown in containers, soil or any other medium, that are not included in class one, three, four, six, seven or eight and that are valued at full cash value or pursuant to chapter 13, article 3 of this title, as applicable.

(c) Real property and improvements to property that are owned and controlled by a nonprofit organization that is exempt from taxation under section 501(c)(3), (4), (7), (10) or (14) of the internal revenue code if the property is not used or intended for the financial benefit of members of the organization or any other individual or organization, unless the financial benefit is for charitable, religious, scientific, literary or educational purposes, and that are valued at full cash value.

(d) Real property of golf courses that is valued at full cash value or pursuant to chapter 13, article 4 of this title.

(e) Real property and improvements to property of a guest ranch that meets the requirements prescribed in chapter 13, article 12 of this title, that are not included in class four and that are valued at full cash value.

(f) All other real property and improvements to property, if any, that are not included in class one, three, four, six, seven or eight and that are valued at full cash value.

2. Class two (P) consists of:

(a) Personal property that is used for agricultural purposes and that is valued at full cash value or pursuant to chapter 13, article 3 of this title, as applicable.

(b) Personal property that is primarily used for agricultural purposes to produce trees other than standing timber, vines, rosebushes, ornamental plants or other horticultural crops, regardless of whether the crop is grown in containers, soil or any other medium, that is not included in class one, three, four, six, seven or eight and that is valued at full cash value or pursuant to chapter 13, article 3 of this title, as applicable.

(c) Personal property that is owned and controlled by a nonprofit organization that is exempt from taxation under section 501(c)(3), (4), (7), (10) or (14) of the internal revenue code if the property is not used or intended for the financial benefit of members of the organization or any other individual or organization, unless the financial benefit is for charitable, religious, scientific, literary or educational purposes, and that is valued at full cash value.

(d) Personal property of golf courses that is valued at full cash value or pursuant to chapter 13, article 4 of this title.

(e) Personal property of a guest ranch that meets the requirements prescribed in chapter 13, article 12 of this title and that is not included in class four and that is valued at full cash value.

(f) All other personal property that is not included in class one, three, four, six, seven or eight and that is valued at full cash value.

3. Class two (C) consists of real property, and improvements to real property, that is burdened by a conservation easement that has been created and is currently in effect pursuant to title 33, chapter 2, article 4.

Sec. 2. Section 42-12004, Arizona Revised Statutes, is amended to read:

42-12004. Class four property

A. For the purposes of taxation, class four is established consisting of:

1. Real and personal property and improvements to the property that are used for residential purposes, including residential property that is owned in foreclosure by a financial institution, that is not otherwise included in another classification and that is valued at full cash value. The homesite that is included in class four may include:

(a) Up to ten acres on a single parcel of real property on which the residential improvement is located.

(b) More than ten, but not more than forty, acres on a single parcel of real property on which the residential improvement is located if it is zoned exclusively for residential purposes or contains legal restrictions or physical conditions that prevent the division of the parcel. For the purposes of this subdivision, "physical conditions" means topography, mountains, washes, rivers, roads or any other configuration that limits the residential usable land area.

2. Real and personal property and improvements to the property that are used for residential purposes and solely leased or rented, that are not included in class one, two, three, six, seven or eight and that are valued at full cash value.

3. Child care facilities that are licensed under title 36, chapter 7.1 and that are valued at full cash value.

4. Real and personal property and improvements to property that are used to operate nonprofit residential housing facilities that are structured to house or care for persons with disabilities or who are at least sixty-two years of age and that are valued at full cash value.

5. Real and personal property and improvements that are used to operate licensed residential care institutions or licensed nursing care institutions that provide medical services, nursing services or health-related services and that are structured to house or care for persons with disabilities or who are at least sixty-two years of age and that are valued at full cash value.

6. Real and personal property consisting of not more than eight rooms of residential property that are leased or rented to transient lodgers, together with furnishing not more than a breakfast meal, by the owner who resides on the property and that is valued at full cash value.

7. Real and personal property that consists of residential dwellings maintained for occupancy by agricultural employees as a condition of employment or as a convenience to the employer, that is not included in class three and that is valued at full cash value. The land associated with these dwellings shall be valued as agricultural ~~land~~ REAL PROPERTY pursuant to chapter 13, article 3 of this title.

8. Real property and improvements to property constituting common areas that are valued pursuant to chapter 13, article 9 of this title.

9. Real and personal property that is defined as timeshare property by section 32-2197 and valued pursuant to chapter 13, article 10 of this title, except for any property used for commercial, industrial or transient occupancy purposes and included in class one to the extent of that use.

10. Real and personal property and improvements that are used for residential purposes and that are leased or rented to lodgers, except for:

(a) Property occupied by the owner of the property as the owner's primary residence and included in class three.

(b) Property used for commercial purposes and included in class one.

11. Low-income multifamily residential rental properties that are valued pursuant to chapter 13, article 13 of this title.

12. Real and personal property and improvements to property of a guest ranch that meets the requirements prescribed in chapter 13, article 12 of this title and that is included in the Arizona dude ranch heritage trail program established by section 41-867 and that are valued at full cash value.

B. Subsection A, paragraphs 4 and 5 of this section do not limit eligibility for exemption from taxation under chapter 11, article 3 of this title.

Sec. 3. Section 42-12051, Arizona Revised Statutes, is amended to read:

42-12051. Treatment of partially completed or vacant improvements; notification; exception

A. For the purposes of classifying property under article 1 of this chapter, partially completed or vacant improvements on the land, including improved common area tracts, shall be classified according to their intended use as demonstrated by objective evidence.

B. For property that is not valued by the department, an improvement on the land is considered to be partially completed when the foundation of the structure or structures to be located on the property is in place.

C. The only portion affected by the reclassification is the improvement on the land and that portion of the land that is necessary to support the use of the structure or structures, except that common area tracts in residential developments associated with partially completed improvements shall receive the same classification as the partially completed improvements.

D. Property that is not valued by the department, that does not have a structure or structures and that is actively used for commercial purposes shall be classified as prescribed by article 1 of this chapter.

E. The department shall prescribe a form to be completed by the owner to notify the assessor that the requirements of this section have been completed. The form shall state the requirements for classification and shall provide the owner with information concerning the reclassification of property. Filing the notice is mandatory, but failing to notify the assessor does not prevent the reclassification of property if the requirements are completed.

F. This section does not apply to property that is classified as agricultural REAL PROPERTY pursuant to article 4 of this chapter.

Sec. 4. Heading change

The article heading of title 42, chapter 12, article 4, Arizona Revised Statutes, is changed from "AGRICULTURAL PROPERTY CLASSIFICATION" to "AGRICULTURAL REAL PROPERTY CLASSIFICATION".

Sec. 5. Section 42-12152, Arizona Revised Statutes, is amended to read:

42-12152. Criteria for classification as agricultural real property; exception; affidavit

A. Property is not eligible for classification as property used ~~for~~ AS agricultural ~~purposes~~ REAL PROPERTY unless it meets the following criteria:

1. The primary use of the property is as agricultural land and the property has been in active production according to generally accepted agricultural practices for at least three of the last five years. Property that has been in active production may be:

(a) Inactive for a period of not more than twelve months as a result of acts of God.

(b) Inactive as a result of participation in:

(i) A federal farm program that allows voluntary land conserving use acreage or acreage conservation, or both.

(ii) A scheduled crop rotation program.

(c) Inactive or partially inactive due to a temporary or partial reduction in or transfer of the available water supply or irrigation district water allotments for agriculture use in the farm unit. For land within an irrigation district in a county with a population of less than nine hundred thousand persons, the temporary or partial reduction or transfer may be verified by an official certification from the irrigation district to the county assessor that confirms the reduction or transfer, except that if that land is located in an active management area and the land does not have an irrigation grandfathered groundwater right, the land is not eligible as cropland. A certification for temporary or partial reduction is not valid for full inactivity of the farm unit for more than one year.

(d) Grazing land that is inactive or partially inactive due to reduced carrying capacity or generally accepted range management practices.

2. There is a reasonable expectation of operating profit, exclusive of land cost, from the agricultural use of the property.

3. If the property consists of noncontiguous parcels, the noncontiguous parcels must be managed and operated on a unitary basis and each parcel must make a functional contribution to the agricultural use of the property.

B. If feedlot or dairy operations that are in active production are moved to another property at which the operations are in active production, the requirement that the property be in active production for at least three of the last five years does not apply to the property to which the operations are moved for the first three years after the operations are moved.

C. The requirement in subsection A, paragraph 2 of this section is satisfied if the owner files with the assessor an affidavit of agricultural use, signed by the owner attesting that all information in the affidavit is true and the property is actively producing with an expectation of profit.

Sec. 6. Section 42-12153, Arizona Revised Statutes, is amended to read:

42-12153. Application for classification of property used as agricultural real property

A. The county assessor shall make agricultural ~~use~~ REAL PROPERTY application forms available that require the following information in addition to any other information prescribed by the department:

1. The size of the property.

2. The type of crops grown on the property.

3. The type and number of animal units raised on the property.

4. The number of acres leased for agricultural purposes and the terms of the lease for each parcel leased.

5. A verification that the property meets the requirements prescribed in section 42-12152.

B. The owner of property or the owner's designated agent under section 42-16001 shall file a completed agricultural ~~use~~ REAL PROPERTY application form with the county assessor before the property may be classified as ~~being used for~~ agricultural ~~purposes~~ REAL PROPERTY. If the ownership of a property changes, an agricultural ~~use~~ REAL PROPERTY application form must be filed by the new owner within sixty days after the change in ownership to maintain the agricultural ~~use~~ REAL PROPERTY status. If the owner or the owner's agent fails to file an application form as prescribed in this subsection, the assessor shall not classify the property, on notice of valuation, as ~~being used for~~ agricultural ~~purposes~~ REAL PROPERTY. The owner or agent may appeal the classification as prescribed by chapter 16, article 2 or 5 of this title regardless of whether the owner or agent filed an application form.

Sec. 7. Section 42-12154, Arizona Revised Statutes, is amended to read:

42-12154. Approval of nonconforming property

A. The county assessor may:

1. Approve the ~~agricultural~~ classification of property AS AGRICULTURAL REAL PROPERTY if the property has either:

(a) Fewer than the minimum number of acres or animal units as prescribed in section 42-12151.

(b) Been in commercial agricultural production for less than the period prescribed in section 42-12152, subsection A, paragraph 1.

2. Continue the agricultural REAL PROPERTY classification of owner occupied property if a change in classification of the property would cause extreme hardship to the property owner.

B. The county assessor may continue the agricultural REAL PROPERTY classification of owner occupied property that has fewer than the minimum number of animal units as prescribed in section 42-12151, paragraph 3 if the number of animal units equals, as nearly as practicable, the property's carrying capacity.

Sec. 8. Section 42-12155, Arizona Revised Statutes, is amended to read:

42-12155. Notice of approval or disapproval; appeal

A. The county assessor shall notify the property owner whether the assessor has approved or disapproved the agricultural REAL PROPERTY classification of the property on or before the date on which the assessor next mails the owner the notice of valuation for the property.

B. If the assessor disapproved the agricultural REAL PROPERTY classification, the assessor shall notify the owner of the reason for disapproval within one hundred twenty days of the application.

C. The owner may appeal the decision of the assessor as prescribed by chapter 16, article 2, 5 or 6 of this title.

Sec. 9. Section 42-12156, Arizona Revised Statutes, is amended to read:

42-12156. Notice of change in use

A. If all or part of the property ceases to qualify as agricultural REAL property under this article, the person who owns the property at the time of change shall notify the county assessor within sixty days after the change.

B. If the county assessor determines that there has been a change of use and the property ceases to qualify as agricultural REAL property under this article, the county assessor shall notify the property owner by certified mail of the reason for reclassifying the property and include information for the property owner to appeal the reclassification.

Sec. 10. Section 42-12157, Arizona Revised Statutes, is amended to read:

42-12157. Recapture and penalty for false information or failure to notify of change in use

If an owner of property or the owner's agent intentionally provides false information on an AGRICULTURAL REAL PROPERTY application form, or fails to provide the notice required under section 42-12156:

1. The property shall be reclassified immediately as being used for a nonagricultural use and shall be valued at its nonagricultural full cash value.

2. The owner is liable for the additional taxes on the difference between the nonagricultural full cash value and the full cash value of the property for all of the tax years in which the property was classified based on the false information.

3. The owner shall also pay a penalty equal to twenty-five ~~per cent~~ PERCENT of the additional taxes computed under paragraph 2 of this section. The assessor may abate this penalty for good cause. Twenty ~~per cent~~ PERCENT of the penalty shall be deposited in the state general fund, and eighty ~~per cent~~ PERCENT of the penalty shall be deposited with the county treasurer to be used by the county assessor's office.

Sec. 11. Section 42-12158, Arizona Revised Statutes, is amended to read:

42-12158. Inspections by county assessor

The county assessor or the assessor's deputies shall:

1. Make an on-site inspection of twenty-five percent of the property classified as ~~being used for~~ agricultural ~~purposes each year~~ REAL PROPERTY.

2. Make an on-site inspection and appraise all of these properties within every four years.

3. If the county assessor or the assessor's deputy determines that the property does not meet the criteria for agricultural REAL PROPERTY classification, notify the property owner pursuant to section 42-12156.

Sec. 12. Section 42-12159, Arizona Revised Statutes, is amended to read:

42-12159. Restoration of agricultural real property classification and valuation; refund

A. A county assessor may reclassify real property as class two pursuant to section 42-12002 and this article under the following conditions:

1. The current owner previously held title to the property but sold the property before September 1, 1989.

2. Title to the property has reverted to the current owner involuntarily, or voluntarily in lieu of foreclosure or forfeiture, from the buyer or a successor in title, and the current owner did not receive a notice of valuation for the tax year in question.

3. The former owner of the property failed to apply for classification of the property as ~~used for~~ agricultural ~~purposes~~ REAL PROPERTY pursuant to this article or prior law and failed to appeal the denial of agricultural status during the property tax appeal period for the tax year in question.

4. The property met the requirements prescribed by section 42-12152, subsection A.

5. The current reversionary owner of the property applies to the county assessor for reclassification and revaluation within four years after the date the property was reverted.

B. If the applicant submits a complete, correct and timely application under subsection A of this section, together with a sworn statement, under penalty of perjury, that the information contained in the application is true according to the applicant's best belief and knowledge and if the county assessor is satisfied that the property meets the requirements prescribed by subsection A of this section, the assessor shall:

1. Reclassify the property as class two under section 42-12002.

2. Redetermine the valuation of the property for the tax year in question pursuant to this article.

3. Issue a certificate of revaluation to the applicant.

C. The owner shall submit the certificate of revaluation to the county treasurer. After receiving the certificate, the county treasurer shall refund any taxes paid by the current owner with respect to the property for the tax year in question in excess of the taxes that would be due under the reclassification and revaluation, if the applicant submits proof that the applicant has paid the taxes for the tax year in question. The county treasurer is entitled to credit for the refund in the next accounting period with each taxing jurisdiction to which the tax monies may have been transmitted.

Sec. 13. Section 42-13101, Arizona Revised Statutes, is amended to read:

42-13101. Valuation of agricultural real property

A. ~~Land that is used for agricultural purposes~~ PROPERTY CLASSIFIED AS AGRICULTURAL REAL PROPERTY shall be valued using only the income approach to value without any allowance for urban or market influences.

B. The income of agricultural REAL property shall be determined using the capitalized average annual net cash rental of the AGRICULTURAL REAL property. For THE purposes of this subsection, the average annual net cash rental of the AGRICULTURAL REAL property:

1. Is the average of the annual net cash rental, excluding real estate and sales taxes, determined through an analysis of typical arm's length rental agreements collected for a ~~five year~~ FIVE-YEAR period before the year for which the valuation is being determined for comparable agricultural ~~land used for agricultural purposes~~ REAL PROPERTY and located in the vicinity, if practicable, of the AGRICULTURAL REAL property being valued.

2. Shall be capitalized at a rate 1.5 percentage points higher than the average long-term annual effective interest rate for all new farm credit services loans for the ~~five year~~ FIVE-YEAR period before the year for which the valuation is being determined.

Sec. 14. Section 42-13102, Arizona Revised Statutes, is amended to read:

42-13102. Statement of agricultural lease

A. Each lease of agricultural ~~land~~ REAL PROPERTY or agreement to rent agricultural ~~land~~ REAL PROPERTY for a period of more than ninety days shall be abstracted in a written statement in a form approved by the department containing at least the following information:

1. The name and address of the lessor and lessee.

2. The complete legal description of the AGRICULTURAL REAL property.

3. The situs address, if any, of the AGRICULTURAL REAL property.

4. The cash or cash equivalent of the lease payments.

5. The conditions of the lease, including the relationship, if any, of the parties.

6. The lessor expenses associated with the property excluding land cost, interest on land cost, income tax depreciation and capital improvements.

B. The county assessor shall not use the information listed pursuant to chapter 15, article 2 of this title to supplement the information obtained pursuant to this section.

C. The owner or lessor or an agent of the owner or lessor shall file the statement with the county assessor for use by the assessor for the valuation process under section 42-13101. If the ownership or the lessor or lessee of the AGRICULTURAL REAL property changes or if there is a change in the lease as abstracted pursuant to subsection A of this section, a new statement shall be filed with the assessor within three months after the change or before January 31, whichever is later.

D. The assessor shall transmit a copy of the statement to the department.

Sec. 15. Section 42-15252, Arizona Revised Statutes, is amended to read:

42-15252. Determining assessed valuation of remote municipal property

A. The county assessor shall determine the full cash value and assessed valuation of remote municipal property at the same amount and using the same method of assessment as applied to private property that is used for the same purpose in the county.

B. Remote municipal property that is used ~~for~~ AS agricultural ~~purposes~~ REAL PROPERTY as provided in chapter 12, article 4 of this title shall be valued pursuant to chapter 13, article 3 of this title. Remote municipal property that has been retired from irrigated agricultural REAL PROPERTY use but that is not used for any commercial purpose shall be valued at its market value and assessed as class two property pursuant to sections 42-12002 and 42-15002.

C. The assessor shall transmit the determination of the value of the property to the county board of supervisors on or before the third Monday in June.