



Arizona Business Personal Property

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Considerations of Businesses to Locate in Arizona

- Location/Climate – data centers, solar panels
- Infrastructure/Transportation - roads, trains
- Educated workforce
- Lower taxes



Arizona Business Personal Property

- **Self-reported**
- **Asset listing due April 1st annually**
- **Annual calendar**
- **Administered by the counties (Locally assessed)**



Tools for Tax Reduction

- **Special Property Classes – 9 classes with subclasses in all but one**
- **Exemptions – \$159,498**
- **Valuation Methodologies**
 - Additional Depreciation (Bonus depreciation – IE: a percentage of the scheduled depreciation)
 - Reduced Minimum Value (Unique to Arizona)



Arizona Tax Calculation

- **Determine Full Cash Value**

Synonymous with market value or by statutory formula

- **Apply Assessment Ratio**
- **Apply Tax Rate**



Property Classes in Arizona

- **Nine Property Classes**
 - Each is assigned an assessment ratio
 - Foreign Trade Zones, other special types 5%
 - Residential 10%
 - Agricultural, Vacant Land 15% (was 16%)
 - Commercial 18% (was 20%)



Special Property Classes

Foreign Trade Zone

- Created in U.S. to provide special customs procedures to U.S. plants engaged in international trade-related activities
- Class 6 on all property in designated FTZ with 5% assessment ratio
- No time limit
- Future use of property limited



Special Property Classes

Military Reuse Zone

- **Closed Military Facility**
- **Runway at least 8,000 feet long**
- **Previously used for training of active duty US troops**
- **Must be currently devoted to providing aviation services or manufacturing aviation products**
- **5% assessment ratio for five years – new property qualifies for additional five years**
- **Property class restrictions at the end of five years**



Special Property Classes

Enterprise Zones (Ended 6/30/2011)

- **Previously a designated property class**
- **Legislation in 2011 ended program**
- **2017 final tax year of applicability**



Special Property Classes

Environmental Technology

- **Manufacture, produce or process solar and other renewable energy products, or products from recycled materials**
- **5% assessment ratio for twenty years**
- **Property class restrictions at end of twenty years**
- **Additional improvements qualify for another twenty years**



Special Property Classes

Environmental Remediation

- **Property must be used to monitor, assess, remove, treat contaminated water or soil**
- **5% assessment ratio**
- **No restrictions on future classifications of property**



Special Property Classes

Healthy Forests

- **Must be used to solely for the purposes of harvesting, transporting, or the initial processing of qualifying forest products**
- **Must be initially qualified in 2005-2024**
- **Limited to five years**
- **Additional improvements qualify for another five years**
- **Property class restrictions at the end of five years**



Special Property Classes

Biodiesel Manufacturers

- **Property specifically and solely used to manufacture biodiesel fuel that is 100% biodiesel and its by-products**
- **Property specifically and solely used to manufacture motor vehicle biofuel and its by-products**
- **Valued Full Cash Value**
- **Manufactured from raw feedstock obtained from off-site sources**
- **5% assessment ratio**
- **No time limit**
- **No restrictions on future classifications of property**



Special Property Classes

Renewable Energy Manufacturing

- **Property must be used in manufacturing, research and development or headquarters for renewable energy (equipment) manufacturing**
- **5% assessment ratio**
- **No new properties may be qualified after 2014**
- **Length of qualification is 10 to 15 years based on wages paid to employees**
- **Property may not subsequently be classified under any other special property class**



Exemptions

- **Must be granted by constitution**
- **Requires a public vote**
- **Taxes must be uniform within and between the same class of property (cannot exempt hotel personal property while not exempting restaurant personal property)**



Standard Property Classes

- **Agricultural/Vacant Property – 15% ratio**
 - (Reduced from 16% in tax year 2016)
- **Commercial Property – 18% ratio**
 - (Reduced from 20% in tax year 2012)



Standard Property Classes

Personal Property Exemptions

- **Exemption for first \$159,498 of Full Cash Value**
(Calculation changed in 2012 to use two-year average)
 - Applies to agricultural personal property, locally assessed commercial personal property and telecommunication property
 - Indexed annually
 - Applies for each business not each location
- **Estimated 80-90% of Arizona businesses pay no personal property tax**



Standard Property Classes

Additional Depreciation

- **Applies for first five years property is assessed in Arizona**
- **Applies to locally assessed commercial and agricultural property**
- **First year value is 25% of regularly scheduled depreciated value**
 - EX: For tax year 2017, a 10 year asset's first year would be 89% good
With additional depreciation 22.3% good
Phases out over next four years



Standard Property Classes

W/O Additional Depreciation Example – 10 Year Asset

\$1,000,000 Cost – Year One

Without Additional Depreciation

- **Cost of Asset** **\$1,000,000**
- **Normal Depreciation** **\$890,000 Full Cash Value**
(89% good) **(FCV)**
- **Less Exemption (\$159,498)** **\$730,502 Taxable value**
- **X Assessment Ratio (18%)** **\$131,490 Assessed Value**
- **X Tax Rate 12.94%** **\$17,015 Property Tax**



Standard Property Classes

Additional Depreciation Example – 10 Year Asset

\$1,000,000 Cost – Year One

With Additional Depreciation

- **Cost of Asset** **\$1,000,000**
- **Normal Depreciation** **\$890,000**
- **(89% good)**
- **Additional Depreciation** **\$890,000 X 25% =**
\$222,500 Full Cash Value
(FCV)
- **Less Exemption (\$159,498)** **\$63,002 Taxable value**
- **X Assessment Ratio (18%)** **\$11,340 Assessed Value**
- **X Tax Rate 12.94%** **\$1,467 Property Tax**



Standard Property Classes

Comparison of Additional Depreciation 10 Year Asset \$1,000,000 Cost – Year One

With Additional Depreciation

- Tax is \$1,467

Without Additional Depreciation

- Tax is \$17,015

Taxes are estimates and only to be used for comparison purposes. Actual taxes vary widely throughout the state based upon the tax authorities and their associated tax rates. The rate used in this example is the 2016 Average Statewide Tax Rate of \$12.94 per \$100 of assessed value.



Standard Property Classes

Comparison of Estimated Taxes with and without Additional Depreciation 10 Year Asset \$1,000,000 Cost

	With Additional Depreciation	Without Additional Depreciation
Year 1	\$1,467	\$17,015
Year 2	\$3,925	\$14,919
Year 3	\$5,711	\$12,822
Year 4	\$6,657	\$10,493
Year 5	\$7,272	\$8,630
Year 6	\$6,301	\$6,301
Year 7	\$3,738	\$3,738
Year 8	\$1,409	\$1,409
Year 9	\$0	\$0
Year 10	\$0	\$0

Year 9 FCV is less than the \$159,498 exemption amount.
Taxes are estimates only and vary annually by location.



Standard Property Classes

Reduced Minimum Value

- **Minimum value of qualifying property on each valuation table is 2.5% of cost**
 - Qualifying property is certain sub-classes of property in class one and class 2



Standard Property Classes

Solar

- **Solar Generation Facilities (Centrally Valued) are statutorily valued at 20% of the depreciated cost**
 - When power is sold onto grid
- **Locally assessed solar energy devices “are considered to have no value and add no value to the property on which such device or system is installed.”**



Standard Property Classes

The Future

- Possible further decrease of the assessment ratio
- Possible increase of the base exemption amount – (Bi-annual index will still occur at least until such time as a change is made)
- Possible provision to include class six properties in list of classes eligible for additional depreciation
- Application of the additional depreciation calculation to Centrally Valued telecommunication equipment.



THE END

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The Personal Property Manual is online at

https://www.azdor.gov/Portals/0/Property/Personal_Property_Manual_2017.pdf

