

**Santos Law Office, P.L.L.C.**

Arizona State & Local Tax Law and Litigation

## ***Fighting the TaxMan***

Delivering Value to Real Estate Clients in a Down Economy by Contesting Property Tax Assessments

**DOMINGOS R. SANTOS, JR.**

Member, Santos Law Office, P.L.L.C.

T: 602.549.9130

E: [ds@santoslawpllc.com](mailto:ds@santoslawpllc.com)

# Agenda

- The Property Tax Problem
- Understanding Assessed Values
- Contesting Assessed Values
- Handling a Property Tax Appeal
- Business Development
- Questions

# The Property Tax Problem

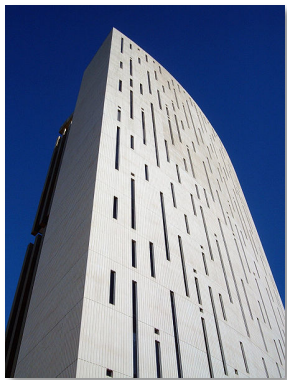
- Property taxes represent one of the largest expense items for commercial property owners.
- In today's real estate market, commercial property owners are facing increasing vacancy rates, declining lease rates, and increasing property taxes.
- Property tax assessments, which depend in part on the market value of property, often fail to reflect the economic reality facing commercial property owners.
- Real estate counsel can add value to their clients by evaluating and, if appropriate, challenging the client's assessed value.

# Understanding Assessed Values

- A property's assessed value is made up of two components: (1) the property's full cash value and (2) the property's assessment ratio.
- For most commercial and industrial property types, full cash value “is synonymous with market value which means the estimate of value that is derived annually by using standard appraisal methods and techniques.” A.R.S. § 42-11001(6).
- The property's assessment ratio is expressed in a percentage and is dependant upon the property's use on the annual date of valuation.

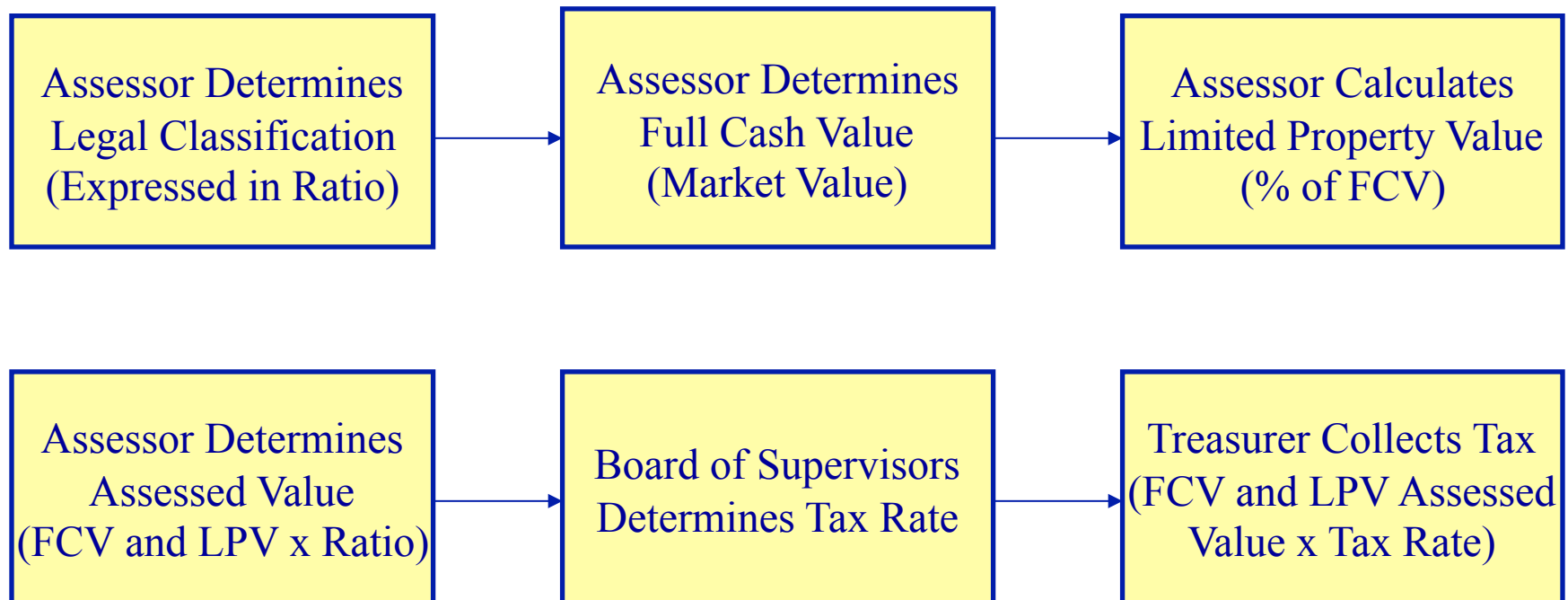
# Understanding Assessed Values

- The property's assessed value is determined by multiplying the full cash value by the assessment ratio.
- The property's tax liability is determined by multiplying the applicable tax rate by the assessed value.
- Example:



**Phoenix Financial Center**  
**Parcel No. 118-33-137D**  
**2011 Tax Year Full Cash Value: \$24,649,295**  
**Use: Office Building**  
**Assessment Ratio: 20%**  
**Assessed Value: \$4,929,859**

# Understanding Assessed Values



# Understanding Assessed Values

- **Valuation and Classification Process (2 years)**
  - Valuation Year – Year 1
    - January 1 (Year 1) – Assessor determines the full cash value, limited property value, and legal classification of real property
      - A.R.S. § 42-11001(6) (full cash value), (7) (limited property value), (18) (valuation date, January 1), (19) (tax year, year before tax levied)
    - ~ February (Year 1) – Assessor sends taxpayers notice of the full cash value, limited property value, and legal classification of real property
      - A.R.S. § 42-15101
    - ~ April (Year 1) – Deadline for administrative appeals to the Assessor
      - A.R.S. §§ 42-16051 to -16056

# Understanding Assessed Values

- **Valuation and Classification Process (2 years)**
  - Valuation Year – Year 1 (Continued)
    - August 15 (Year 1) – Deadline for the Assessor to rule on all administrative appeals
      - A.R.S. § 42-16055(A)
    - ~ September 10 (Year 1) – Deadline for administrative appeals to the Arizona State Board of Equalization
      - A.R.S. § 42-16157
    - October 15 (Year 1) – Deadline for the SBOE to rule on all administrative appeals
      - A.R.S. § 42-16165
    - December 15 (Year 1) – Deadline for direct appeals to Superior Court
      - A.R.S. § 42-16201(A)

# Understanding Assessed Values

- **Valuation and Classification Process (2 years)**
  - Tax Year – Year 2
    - August (Year 2) – Board sets property tax rates for Maricopa County and adopts tax rates for other taxing jurisdictions
    - September (Year 2) – Treasurer mails taxpayers property tax bills

# Contesting Assessed Values

- **Substantive Grounds**

- Excessive Valuation: The property's valuation is excessive (i.e., the full cash value determined by the Assessor or SBOE is higher than the market value of the property on the date of valuation).
- Incorrect Legal Classification: The property's legal classification is incorrect. Legal classification is dependent on the property's use and may change how the property's valuation is determined (e.g., agricultural classification).
- Tax Exemption: The property qualifies for a tax exemption. To be valid, a tax exemption must be enumerated in the Arizona Constitution.

# Contesting Assessed Values

- **Appeal Procedure**

- Appeal to the Assessor

- Informal and inexpensive appeal process.
    - Likelihood of securing relief is low – the Assessor's Office is determining whether their initial decision was correct.
    - Deadline: Early April of the valuation year
    - A.R.S. §§ 42-16051 to -16056

- Appeal to the State Board of Equalization

- Also informal and inexpensive appeal process.
    - Three-member panel of former government and real estate professionals.

# Contesting Assessed Values

- **Appeal Procedure**
  - Appeal to the State Board of Equalization (Continued)
    - Deadline: 25 days from Assessor's decision
    - A.R.S. § 42-16157
  - Appeal from Supplemental Notice of Value
    - Filed with the SBOE.
    - Supplemental notice is issued when the property changes in a qualifying way during the valuation year.
    - Deadline: 25 days from date of notice.
    - A.R.S. § 42-15105.

# Contesting Assessed Values

- **Appeal Procedure**
  - Appeal to Arizona Tax Court
    - Costly and long process.
    - Deadline: 60 days from last administrative decision or, if no administrative appeal, Dec. 15th.

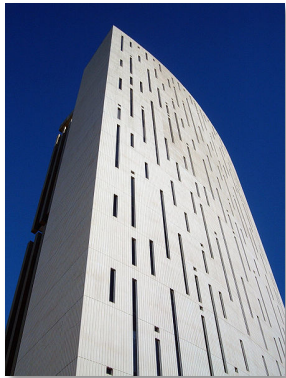
# Handling a Property Tax Appeal

- **What to Expect**

- The County Attorney's Office represents the County in property tax litigation.
- Budget and political issues has caused significant staffing shortages in the County Attorney's Office.
- Average case load per deputy county attorney is over 200 complex property tax cases with little support.
- To make matters worse, their client, the County Assessor's Office, can not devote much time to litigation due to other statutory responsibilities.

# Handling a Property Tax Appeal

- **What is at stake?**
  - A small reduction in the full cash value of your client's property can result in a significant tax savings.



Phoenix Financial Center  
Parcel No. 118-33-137D  
2011 Tax Year Full Cash Value: \$24,649,295

A 5% (\$1.2M) Reduction in the Full Cash Value Results in a  
Tax Savings of Approximately \$26,000

# Handling a Property Tax Appeal

- **Information Sources**

- Maricopa County Assessor ([www.maricopa.gov/assessor](http://www.maricopa.gov/assessor))
  - On this page, you have access to:
    - Valuation and Classification Information
    - Tax Rate and Billing Information
    - Recording Information
- State Board of Equalization ([www.sboe.state.az.us/](http://www.sboe.state.az.us/))
  - On this page, you have access to:
    - SBOE Hearing Schedule
    - SBOE Decisions

# Business Development

- **Existing Clients**

- Your existing clients are your best source for developing new property tax business.

- **Renewable Energy Industry**

- Arizona law provides that certain renewable energy improvements have no value or add no value to property for property tax purposes. A.R.S. § 42-11054(C)(2), (C)(3).

- **Charter Schools**

- Arizona law provides significantly favorable tax treatment to property that is leased to a charter school. A.R.S. § 42-12009 (A)(5).

# Business Development

- **Land Developers**

- Land development will not take place in Arizona in any significant way for at least 3-5 years. Land developers need to lower their property tax liability in the interim and agricultural classification and valuation is the way to do it.

- **Property Management Companies**

- Property management companies often direct (1) whether to file a property tax appeal and (2) who to hire (a property tax consultant or an attorney).
- Often, their compensation is tied to increasing the net operating income of the property.
- Lower taxes = Higher NOI

# Business Development

- **Hotel Owner and Operators**
  - The hotel industry is being battered by the economic slowdown.
  - Contesting property tax values is an excellent way to help executives and tax managers improve the books.
- **Banks**
  - Banks are becoming unwilling owners of significant portfolios of real estate.
  - While they market the property for sale, they need to reduce their carrying costs and contesting property tax liability is a way to do that.

# Business Development

- **Trade Associations**

- Trade association (e.g., NAIOP) are great ways to reach large numbers of prospective clients and present *amicus* opportunities.

- **Exempt Organizations**

- Exempt organizations want their dollars going toward their mission; not property taxes.