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States' Differential Tax Assessment of Agricultural Land Statutes *Arizona*



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States' Differential Tax Assessment of Agricultural Land Statutes State of Arizona

[Ariz. Rev. Stat. § 42-12002](#)
[Ariz. Rev. Stat. §§ 42-12151 to 42-12159](#)
[Ariz. Rev. Stat. § 42-13101](#)

Current through the First Special and Second Regular Session of the Fifty-Third Legislature (2018), and includes Election Results from the November 6, 2018 General Election.

§ 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 agricultural purposes 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 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 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) 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) 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 4.3.

§ 42-12151. Definition of agricultural real property

In this article, unless the context otherwise requires, “agricultural real property” means real property that is one or more of the following:

- 1. Cropland in the aggregate of at least twenty gross acres.
- 2. An aggregate of ten or more gross acres of permanent crops.
- 3. Grazing land with a minimum carrying capacity of forty animal units and containing an economically feasible number of animal units.
- 4. Land and improvements devoted to commercial breeding, raising, boarding or training equine, as defined in § 3-1201 or equine rescue facilities registered with the department of agriculture pursuant to § 3-1350.
- 5. Land and improvements devoted to high density use for producing commodities.
- 6. Land and improvements devoted to use in processing cotton necessary for marketing.



7. Land and improvements devoted to use in processing wine grapes for marketing.
8. Land and improvements devoted to use in processing citrus for marketing.
9. Land and improvements devoted to use as fruit or vegetable commodity packing plants that do not cut or otherwise physically alter the produce.
10. Land and improvements owned by a dairy cooperative devoted to high density use in producing, transporting, receiving, processing, storing, marketing and selling milk and manufactured milk products without the presence of any animal units on the land.
11. Land of at least five acres and improvements devoted to algaculture. For the purposes of this paragraph “algaculture” means the controlled propagation, growth and harvest of algae.

§ 42-12152. Criteria for classification of property used for agricultural purposes

A. Property is not eligible for classification as property used for agricultural purposes 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 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 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 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 contained in subsection A, paragraph 2 of this section shall be 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.

§ 42-12153. Application for classification of property used for agricultural purposes

A. The county assessor shall make agricultural use 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 § 42-12152.

B. The owner of property or the owner's designated agent under § 42-16001 shall file a completed agricultural use application form with the county assessor before the property may be classified as being used for agricultural purposes. If the ownership of a property changes, an agricultural use application form must be filed by the new owner within sixty days after the change in ownership to maintain the agricultural use 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. 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.



§ 42-12154. Approval of nonconforming property

A. The county assessor may:

1. Approve the agricultural classification of property if the property has either:

(a) Fewer than the minimum number of acres or animal units as prescribed in § 4212151.

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

2. Continue the agricultural 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 classification of owner-occupied property that has fewer than the minimum number of animal units as prescribed in § 42-12151, paragraph 3 if the number of animal units equals, as nearly as practicable, the property's carrying capacity.

§ 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 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 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 or 5 of this title.

§ 42-12156. Notice of change in use

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

§ 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 application form, or fails to provide the notice required under § 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 of the additional taxes computed under paragraph 2 of this section. The assessor may abate this penalty for good cause. Twenty per cent of the penalty shall be deposited in the state general fund, and eighty per cent of the penalty shall be deposited with the county treasurer to be used by the county assessor's office.

§ 42-12158. Inspections by county assessor

The county assessor or the assessor's deputies shall:

1. Make an on-site inspection of twenty-five per cent of the property classified as being used for agricultural purposes each year.
2. Make an on-site inspection and appraise all of these properties within every four years.

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

A. A county assessor may reclassify real property as class two pursuant to § 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 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 § 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 § 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.

§ 42-13101. Valuation of agricultural land

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

B. The income of agricultural property shall be determined using the capitalized average annual net cash rental of the property. For purposes of this subsection the average annual net cash rental of the 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 period before the year for which the valuation is being determined for comparable agricultural land used for agricultural purposes and located in the vicinity, if practicable, of the 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 period before the year for which the valuation is being determined.

