

NOTICES OF PROPOSED RULEMAKING

Unless exempted by A.R.S. § 41-1005, each agency shall begin the rulemaking process by first submitting to the Secretary of State's Office a Notice of Rulemaking Docket Opening followed by a Notice of Proposed Rulemaking that contains the preamble and the full text of the rules. The Secretary of State's Office publishes each Notice in the next available issue of the *Register* according to the schedule of deadlines for *Register* publication. Due to time restraints, the Secretary of State's Office will no longer edit the text of proposed rules. We will continue to make numbering and labeling changes as necessary.

Under the Administrative Procedure Act (A.R.S. § 41-1001 et seq.), an agency must allow at least 30 days to elapse after the publication of the Notice of Proposed Rulemaking in the *Register* before beginning any proceedings for adoption, amendment, or repeal of any rule. A.R.S. §§ 41-1013 and 41-1022.

NOTICE OF PROPOSED RULEMAKING

TITLE 15. REVENUE

CHAPTER 4. DEPARTMENT OF REVENUE PROPERTY AND SPECIAL TAX SECTION

PREAMBLE

1. Sections Affected

Chapter 4
R15-4-103
R15-4-107
R15-4-108
R15-4-109
R15-4-115
R15-4-116
R15-4-118
R15-4-302
Article 4
R15-4-401

Rulemaking Action

Amend
Amend
Amend
Repeal
Amend
Repeal
Amend
Amend
Amend
Amend
Amend

2. The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):

Authorizing statutes: A.R.S. §§ 42-1005, 42-11053, 42-11054, and 42-13002.

Implementing statutes: A.R.S. Const. Art. 9, § 2.2, A.R.S. §§ 42-11111, 42-13005, 42-14052, 42-14053, 42-14054, 42-14103, 42-14105, 42-14152, 42-14154, 42-14202, 42-14204, 42-14251 through 42-14255, 42-14303, 42-14305, 42-14352, 42-14354, 42-14355, 42-14402, 42-14403, 42-15005, 42-15010, and 42-17154

3. List of all previous notices appearing in the Register addressing the proposed rules:

Notice of Rulemaking Docket Opening: 5 A.A.R. 3232, September 17, 1999

4. The name and address of agency personnel with whom persons may communicate regarding the rulemaking:

Name: Ernest Powell, Supervisor
Address: Tax Research & Analysis Section
Arizona Department of Revenue
1600 West Monroe
Phoenix, Arizona 85007
Telephone: (602) 542-4672
Fax: (602) 542-4680
E-mail: powelle@revenue.state.az.us

Arizona Administrative Register
Notices of Proposed Rulemaking

5. An explanation of the rule, including the agency's reasons for initiating the rule:

These rules deal with the valuation or assessment of properties for property tax purposes. As a result of legislative changes and the 5-year review of Title 15, Chapter 4, the Department is proposing to amend or repeal the rules to conform to current statutes and appraisal methods, update statutory references, remove language that is obsolete or that is repetitive of statute and conform to current rulemaking guidelines. The Department proposes to amend R15-4-109 to state the information that shall be included in the property tax forms. In addition, the Department is proposing to repeal R15-4-108 and R15-4-115. The information in R15-4-108 will be incorporated into R15-4-107. R15-4-115 is no longer needed because the annual report for airlines is addressed in R15-4-109 and the method for determining the full cash value of airline companies has changed since this rule was written and is now specific in statute.

6. Reference to any study that the agency proposes to rely on and its evaluation of or justification for the proposed rule and where the public may obtain or review the study, all data underlying each study, any analysis of the study and other supporting material:

None

7. A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a previous grant of authority of a political subdivision of this state:

Not applicable

8. The preliminary summary of the economic, small business, and consumer impact:

It is expected that the benefits of the rules will be greater than the costs. The amendment of these rules will benefit the public by making the rules conform to current statute, appraisal methods and rulemaking guidelines, which will make the rules more accurate as well as clearer and easier to understand. In addition, the amendment of R15-4-109 will benefit taxpayers whose property is valued by the Department by describing the type of information that is required to be included in the forms prescribed by the Department. The Department will incur the costs associated with the rule-making process. Taxpayers are not expected to incur any expense in the amendment of these rules.

9. The name and address of agency personnel with whom persons may communicate regarding the accuracy of the economic, small business, and consumer impact statement:

Name: Ernest Powell, Supervisor
Address: Tax Research & Analysis Section
Arizona Department of Revenue
1600 West Monroe
Phoenix, Arizona 85007
Telephone: (602) 542-4672
Fax: (602) 542-4680
E-mail: powelle@revenue.state.az.us

10. The time, place, and nature of the proceedings for the adoption, amendment, or repeal of the rule or, if no proceeding is scheduled, where, when, and how persons may request an oral proceeding on the proposed rule:

The Department has not scheduled any oral proceedings. Written comments on the proposed rules or preliminary economic, small business, and consumer impact statements may be submitted to the person listed above. Pursuant to A.R.S. § 41-1023(C), the Department will schedule oral proceedings if 1 or more individuals file written requests for oral proceedings within 30 days after the publication of this Notice.

A person may submit written comments regarding the proposed rules by submitting the comments no later than 5 p.m., August 7, 2000, to Ernest Powell, Supervisor, Tax Research & Analysis Section, Arizona Department of Revenue, 1600 West Monroe, Phoenix, Arizona 85007.

11. Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:

Not applicable

12. Incorporations by reference and their location in the rules:

None

13. The full text of the rules follows:

TITLE 15. REVENUE

**CHAPTER 4. DEPARTMENT OF REVENUE
~~PROPERTY AND SPECIAL TAX SECTION~~**

ARTICLE 1. PROPERTY VALUATION

- R15-4-103. Prorating Value for Classification Purposes
- R15-4-107. Separately Owned ~~Separate Assessment of Minerals and Mineral Rights~~
- R15-4-108. ~~Valuation of Separately Assessed Minerals or Mineral Rights~~
- R15-4-109. Taxpayer Reports ~~reports~~
- R15-4-115. ~~Annual Report~~
- R15-4-116. Exemption for Totally and Permanently Disabled Person ~~Definition~~
- R15-4-118. Sales Screening and Processing

ARTICLE 3. VALUATION OF AIRLINE PROPERTY

- R15-4-302. Definitions

ARTICLE 4. CLASS FIVE ~~SEVEN LIMITED VALUE AND ASSESSMENT RATIO~~

- R15-4-401. Calculation of Class Five ~~Seven~~ Assessment Ratios

ARTICLE 1. PROPERTY VALUATION

R15-4-103. Prorating Value for Classification Purposes

- A.** If the assessor determines that a parcel of property should have more than one assessment ratio due to multiple uses pursuant to A.R.S. § 42-15010 ~~A.R.S. § 42-227~~, the assessor shall calculate the assessment ratios ~~shall be calculated~~ in accordance with subsections (B) and (C) this rule and apply the ratios applied to the full cash value of the entire parcel.
- B.** For secondary tax purposes separate assessment ratios shall be calculated for land and improvements.
 - 1. The assessment ratio for land ~~is shall be~~ calculated by taking the full cash appraised value of the land in each class divided by the total value of the land. The resultant quotient for each class ~~is shall be~~ then multiplied by the assessment ratio for the class. The sum of these products is the ratio for the land.
 - 2. The assessment ratio for improvements ~~is shall be~~ calculated by taking the full cash appraised value of the improvements in each class divided by the total appraised value of the improvements. The resultant quotient for each class ~~is shall~~ then ~~be~~ multiplied by the assessment ratio for the class. The sum of these products is the assessment ratio for improvements.
- C.** For primary tax purposes a single assessment ratio shall be calculated to be applied to the limited value.
 - 1. The assessment ratio for limited value ~~is shall be~~ calculated by dividing the full cash value of the land by total full cash value of land and improvements. The resultant quotient ~~is shall~~ then ~~be~~ multiplied by the assessment ratio for land as calculated in subsection (B)(1).
 - 2. The full cash value of improvements ~~is shall be~~ divided by the total full cash value of land and improvements. The resultant quotient ~~is shall~~ then ~~be~~ multiplied by the assessment ratio for improvements as calculated in subsection (B)(2) above.
 - 3. The sum of the factors calculated in subsections (C)(1) and (C)(2) is the assessment ratio for limited value.

R15-4-107. Separately Owned ~~Separate Assessment of Minerals and Mineral Rights~~

- A.** ~~If in any case where the ownership of minerals or mineral rights in land is different from the ownership of~~ are owned by some person or persons other than the person or persons owning the surface rights, any assessment of the such minerals or mineral rights shall ~~may be assessed separately from the surface rights. Whenever the value of the minerals or mineral interest is substantial, then such separately owned minerals or mineral interest shall be separately assessed.~~
- B.** The valuation of separately owned minerals or mineral rights shall be based on a standard amount per acre that is annually determined by the Department of Revenue unless:
 - 1. There are known mineral reserves;
 - 2. There is a current mineral lease on the property; or
 - 3. There is a reasonable basis for believing that the value of the mineral rights or the minerals located on the property exceed the standard amount per acre determined by the Department of Revenue.

Arizona Administrative Register
Notices of Proposed Rulemaking

R15-4-108. Valuation of Separately Assessed Minerals or Mineral Rights Repealed

~~Unless there are known mineral reserves, or unless there is a current mineral lease on the property, or unless there is a reasonable basis for believing that minerals having a substantial value are located on the property, such separately owned minerals or mineral interest in land shall be valued at such amount per acre as is annually determined by the Department of Revenue.~~

R15-4-109. Taxpayer Reports reports

~~**A.** On or before the statutory deadline April 1 of each year, mines, railroad companies, private car companies, railroads, pipelines, natural gas distribution companies, water companies, electric companies, sewer companies, airline companies, and telecommunications companies, and oil, gas and geothermal interests, shall file property tax reports in a the reports required by the Director of the Department of Revenue. The reports shall be in such form as is prescribed by the Director. The form shall contain all the information necessary to identify the taxpayer and the property and to value the property in accordance with prescribed statutory methods or standard appraisal methods and techniques. The Department shall not accept the filing of a form that does not contain all the necessary information.~~

~~**B.** A taxpayer may request that the Director grant an Requests for extension of time for filing a property tax report. The taxpayer shall submit the extension request to be made with the Director or the Director's designee in writing on or before the statutory due date April 1.~~

R15-4-115. Annual Report Repealed

~~**A.** Every airline company operating within this state shall file a report under oath with the Department on or before the statutory deadline of each year. This report shall set forth the following information according to type of aircraft for the entire preceding calendar year provided, however, that the taxpayer may report for the first week of each calendar quarter of the preceding calendar year if reporting on that basis does not result in a lower valuation apportioned to the state than reporting on an entire calendar year basis:~~

- ~~1. The total Arizona ground time for flight property operated in air commerce,~~
- ~~2. The total system ground time for flight property operated in air commerce,~~
- ~~3. The total Arizona mileage for flight property operated in air commerce, and~~
- ~~4. The total system mileage for flight property operated in air commerce.~~

~~**B.** Aircraft are of different types under Subsection (A) of this rule if any of the following differ:~~

- ~~1. Seating capacity,~~
- ~~2. Type, size, or placement of engines,~~
- ~~3. Manufacturer, or~~
- ~~4. Overall design.~~

~~**C.** Annual reports shall be reported on forms prescribed by the Department. Such forms shall be filed on or before the statutory deadline each year. If any form is not fully completed, such form may not be accepted for filing.~~

R15-4-116. Exemption for Totally and Permanently Disabled Person Definition

~~“Disabled”. For purposes of the property tax exemption in A.R.S. Const. Art. 9, § 2.2, the following definitions apply term “totally and permanently disabled person” means:~~

- ~~1. “Disabled” means physically or mentally incapacitated.~~
- ~~2. “Totally and permanently disabled person” means a person who is certified by a competent medical authority as disabled to the extent that the person is not able A person who is totally and permanently disabled, either physically or mentally, resulting in the person's inability to engage in any substantial gainful activity. 2. The disability must be expected to last for a continuous period of not less than 12 months and must be medically certified by a competent medical authority.~~

R15-4-118. Sales Screening and Processing

~~**A.** The Department's sales ratio studies shall be based upon sales data contained in affidavits of property value that which have been screened by the county assessor and the Department. However, the Department may supplement its sales ratio data with appraisals and other industry standard sources of market value information.~~

~~**B.** The Department shall maintain a list of validation codes to be used by the county assessor for the screening, editing and processing of affidavits of property value. The county assessor shall assign a validation code from the Department's list to each affidavit of property value before transmittal to the Department. For sales that which do not require a change in legal description, the assessor shall transmit such affidavits of property value to the Department within 30 days of recording. For sales that which require changes in a parcel's legal description, the assessor's shall transmit such affidavits of property value to the Department by January 31 of the year following the calendar year of recording.~~

~~**C.** The Department may modify the validation codes assigned to any affidavit of property value by the county assessor. The Department shall notify the county assessor in writing of any such modifications. The county assessor may request the Department to reconsider the modified validation codes within 15 days after receiving notice of the Department's modification.~~

Arizona Administrative Register
Notices of Proposed Rulemaking

- D. If the validation code indicates that a sale does not represent the market value of the subject property, ~~the Department that sale shall exclude that sale~~ be excluded from the Department's sales ratio studies.
- E. ~~Multiple parcel sales of five or less parcels shall be included in the Department's sales ratio studies, unless the validation code indicates that the sale does not represent market value.~~
- F. If the validation code indicates that a sale represents the market value of the subject property, the Department shall compute the ratio that the full cash value of the subject property bears to the selling price of the subject property for use in its sales ratio study. However, the Department shall eliminate the following from its sales ratio studies:
1. Sales that have extremely high or extremely low ratios;
 2. Sales in which there has been substantial change to the property since the date of the sale and the assessor's full cash value for the property reflects the changes made ~~new construction~~; and
 3. Sales which do not represent the market value of the subject property for the tax year in question.

ARTICLE 3. VALUATION OF AIRLINE PROPERTY

R15-4-302. Definitions

For the purposes of valuation and taxation of airline companies under A.R.S. Title 42, Chapter 14, Article 6 ~~the following rules, unless the context requires otherwise, the following definitions will apply:~~

1. "Acquisition cost" means the cost to the current owner.
2. "Acquisition date" means the date placed in service by the current owner.
3. "Arizona mileage" means that portion of system mileage which was flown within Arizona, based on a mileage table developed annually by the Department. ~~The mileage table shall be based on maps and charts published by the Arizona Department of Transportation.~~
4. "Fleet type" means aircraft type and model.
- ~~5.~~ "Flight property" as defined in ~~A.R.S. § 42-14251~~ A.R.S. § 42-704 shall include both owned and leased aircraft.
6. "Original cost" means the capitalized acquisition cost of airframes and engines plus modifications, including capitalized interest, as of December 31 of the preceding calendar year.
- ~~7.~~ "Permanently removed from operations" means aircraft which have been entirely terminated from regularly scheduled operations by an airline company.
- ~~8.~~ "Regularly scheduled" means the operation of aircraft that completed at least 120 landings or takeoffs within Arizona during the preceding calendar year, according to a plan of dates or times for landings and takeoffs, whether published or not ~~which meets the following criteria: completion of at least 120 landings or takeoffs within Arizona during the preceding calendar year.~~
9. "System mileage" means the total statute mileage flown within and outside Arizona during the preceding calendar year. ~~It is the sum of airport to airport distances of all flights scheduled, including those flights operated as extra sections to accommodate traffic overflow.~~

ARTICLE 4. CLASS ~~FIVE SEVEN~~ LIMITED VALUE AND ASSESSMENT RATIO

R15-4-401. Calculation of Class ~~Five Seven~~ Assessment Ratios

- A. The Department of Revenue shall calculate the assessment ratios for primary and secondary tax purposes for all Class ~~Five Seven~~ property in accordance with A.R.S. § 42-15005 and this Section. ~~Regulation.~~ The Department shall transmit these assessment ratios to the counties on or before August 31 of every valuation ~~the third Monday in June of every tax year.~~
- B. ~~For the purpose of determining the Class Seven assessment ratio for secondary property taxes as defined in A.R.S. § 42-227, the Director shall calculate the total assessed valuation and total full cash value of all property in Classes One, Two and Three as follows: The assessed value and full cash value of all property valued by the Department in Classes One, Two, and Three shall be based upon the values determined by the Department on or before the first Monday in June. The assessed value and full cash value of all real property valued by the counties in Class Three shall be based upon the Notices of Value prepared by the county assessors pursuant to A.R.S. § 42-221. The assessed value and full cash value of all secured and unsecured personal property valued by the counties in Class Three shall be estimated based upon the full cash value of such property for the previous tax year. For purposes of the calculation of the assessment ratio for secondary property tax in subsection (A) the~~ The full cash value of all property valued by the counties in class one ~~Class Three~~ shall be adjusted to market value as indicated by, if necessary, based upon
- ~~1. The weighted weighed~~ mean sales ratio reflected in the Department's preliminary sales ratio reports for the tax year. ~~and~~
 - ~~2. The adjustment determined by the Director for cash equivalency, personal property, and sampling considerations. The sales ratio study shall be conducted in accordance with the statistical principles applicable to such studies.~~
- C. ~~For the purpose of calculating the Class Seven assessment ratio for primary property taxes as defined in A.R.S. § 42-227, the Director shall calculate the total assessed valuation and total limited valuation of all property in Classes One, Two and~~

Arizona Administrative Register
Notices of Proposed Rulemaking

~~Three by using the same property values determined under Subsection (B) of this rule, except as follows: The assessed value and limited property value of Class Three property valued by the Department shall be based upon the limited property value of such property as determined by the Department on or before the first Monday in June. The assessed value and limited property value of all real property valued by the counties in Class Three shall be based upon the Notices of Value prepared by the county assessors pursuant to A.R.S. § 42-221. For purposes of the calculation of the assessment ratio for primary property tax in subsection (A) the~~ The limited property value of all property valued by the counties in class one Class Three shall be adjusted by the same percentage as the adjustment made to the full cash value of such property under subsection ~~Subsection (B) of this rule.~~