

“Did you know that the improper classification of your residence could be costing you \$\$\$”

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How to Avoid the Overpayment of Property Taxes

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During a year when property taxes are on the rise for many Arizona property owners, one of the easiest ways for Arizona property owners to reduce their property taxes, is to confirm that their real property is properly classified with the treasurer in the county where the property is located. Specifically, a property’s misclassification of being a primary residence versus a rental property could result in a tax increase of up to \$600 per year for the property owner.¹ What is especially troubling for real property owners is that an estimated 25% of Arizona rental properties are misclassified by the State.² Consequently, every real property owner should ask themselves, “[i]s my residence misclassified... am I paying too much in property taxes?!”

How Did This Misclassification Occur?

In Arizona, real property is classified into nine classes. The purpose of this classification is to help ensure the common treatment of real property. Through property classification, the State is trying to avoid having a non-commercial, historical building (a Class 6 classification), from being treated like agricultural property (a Class 2 classification).

In 2011, the Arizona Legislature enacted House Bill 2001 (“H.B. 2001”), which among other things, changed the classification requirements for real property in Arizona.³ Prior to the enactment of H.B. 2001, real property used for residential purposes was classified as “Class 3” property for taxation purposes. Now, under H.B. 2001, only real property that is used as the property owner’s primary residence, or that is leased or rented to the relative⁴ of the owner and used as the relative’s primary residence, is allowed to be classified as a “Class 3” property. Furthermore, “Class 4” properties were expanded to include residential properties which reverted back to a lender and/or financial institution during a non-judicial foreclosure. As a result, many of the purchasers of foreclosed properties (Class 4) now utilizing the properties as their primary residences (Class 3), have not properly updated the classifications of their properties, resulting in a widespread misclassification.

¹ <http://www.azleg.gov/legtext/50leg/2s/bills/hb2001h.pdf>

² <http://www.azcentral.com/arizonarepublic/news/articles/2011/03/14/20110314arizona-property-tax-hikes.html>

³ <http://www.azleg.gov/legtext/50leg/2s/bills/hb2001h.pdf>

⁴ A relative includes: 1) the owner’s natural or adopted child or a descendant of the owner’s child; 2) the owner’s parent or an ancestor of the owner’s parent; 3) the owner’s stepchild or stepparent; 4) the owner’s child-in-law or parent-in-law; or the owner’s natural or adopted sibling. See A.R.S. §42-12053(A)

Class 3 vs. Class 4... What is the difference?

The owners of Class 3 properties are eligible for a credit of up to \$600 for property taxes. Alas, the owners of Class 4 properties are not eligible for this credit. As a result, if your Class 3 property is misclassified as a Class 4 property with the treasurer's office in the county which your real property is located, you may be missing out on receiving up to \$600 as a property tax credit. Assuming that the maximum amount is received, this misclassification could cost a property owner **\$3,000** in property tax credits over a period of five years.

How Can I Determine the Classification of My Property?

To determine the legal classification of your real property, look to your most recent Property Notice of Valuation from the treasurer's office where your property is located, as depicted below.

2012 VALUATIONS		Value	Assessment Ratio	Assessed Value
FCV	3	192,800	10.0	19,280
LPV	3	192,800	10.0	19,280

Has My Real Property Been Misclassified?

Generally, a property will qualify as a Class 3 (and for the credit of up to \$600), if the property in question is used as the owner's primary residence, or if it is leased or rented to a relative of the owner and used as the relative's primary residence. If your real property satisfies this requirement, but does not show a classification of a Class 3 on its Property Notice of Valuation, it likely is misclassified.

What Can I Do About It?

If you believe that your property has been misclassified, please contact attorney Scott F. Burns to schedule an Initial Consultation to assess your matter and to properly prepare your property misclassification appeal.

About the Author

Scott F. Burns is an Arizona real estate attorney and licensed Arizona real estate broker. Scott regularly counsels real estate licensees, property owners, and tenants with their commercial and residential real estate transaction and litigation issues.

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