Purpose

The purpose of this guideline is to assist in determining the legal classification of the property of membership organizations, not the exemption of such property from taxation. The thrust of the guideline is to clarify the statutes regarding property classification and assessment, and explain why the membership status of the property owners and users does not determine the classification and assessment of real and personal property.

Statutory Classification of Property

Classification of property is based on its use. A.R.S. § § 42-12001 through 12011 and 12051[1] define the use attributed to each classification and A.R.S. § 42-15001 through 15012 assigns the assessment ratio to each class. A.R.S. § 42-12004(1)(c) and 12004(2)(c) contain a reference to real and personal property owned or controlled by nonprofit organizations that qualify under sections 501(c)(3), (4), (7), (10) or (14) of the Internal Revenue Code.

Guideline

The Assessor is responsible for the identification, classification, valuation and assessment of land, buildings and personal property where applicable. Membership (equity or non-equity)[2] status that is frequently associated with certain types of property, by itself, does not determine property classification or qualification for exemption.[3] Use, rather than membership status establishes the criteria for property classification. The properties addressed in this guideline fall into three distinct categories of use: 1) properties that are not used for profit (nonprofit), 2) properties that are used for profit, and 3) properties that are a mixture of both uses. The

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[1] Statutory references are effective January 1, 1999. Previous statute numbers can be cross-referenced by referring to Appendix A.

[2] **Equity Memberships.** Equity membership can exist in a variety of business ventures dealing in tangible and intangible assets. Such memberships are found in private golf, tennis, swim clubs, special interest clubs, stock purchase clubs and the like. It is important to note that an equity membership may exist in for profit as well as nonprofit enterprises.

Non-Equity Memberships. A non-equity membership has limited privileges and responsibilities attached to it. The membership requires a no risk investment, holds no ownership entitlements or rights to tangible or intangible assets, has no influence or control over the use of the property, and has no financial obligation beyond initiation fees and/or membership dues. The non-equity membership is found in commercial enterprises that establish "clubs" for special uses. The most common are probably health clubs and retail clubs.

[3] Some exemptions are available to membership organizations such as Veteran or Fraternal organizations. However, the use of the property, not just the ownership, determines whether the property qualifies for the exemption.

following procedure contains the issues to be considered in identifying property subject to statutory classifications, assessment ratios and valuation methods.

To determine how the property should be classified, the appraiser must answer the following questions:

- Is the property used in a nonprofit activity?
- Is the property used in a “for profit" activity?
- Is the use of the property a mixture of both?

If the property has a nonprofit use, it is classified as Class 4 and assessed at 16% unless it qualifies under A.R.S. § § 42-11002, 11101 through 11129 and 11151 through 11155 for tax exempt status. If the property has a for profit use, it is a Class 3 property and is assessed at 25%. If the property is a mixture of both nonprofit and for profit uses, the value attributable to each use must be determined and a mixed assessment ratio applied.

Nonprofit Use Classification

Privately owned clubs with restricted membership formed for the exclusive use of members and their guests, established and operated as nonprofit entities, are classified as Class 4(R) real and Class 4(P) personal property. The classification is not based on the equity position of the membership but on the nonprofit use of the property. As part of the qualification as Class 4, the owner must obtain an income tax exempt status designation from the Internal Revenue Service under 26 United States Code (USC) § 501(c)(3), (4), (7), (10) or (14). The term "nonprofit status" does not necessarily imply an exemption from property tax. To qualify for the exemption the property must meet the criteria established under article nine, section two of the Arizona Constitution and it must meet the criteria set by A.R.S. § § 42-11002, 11101 through 11129 and 11151 through 11155.

For-Profit (Commercial) Use Classification

Property used exclusively for commercial purposes is ordinarily included in Class 3(R) and 3(P) property.[4] Membership status has no significance in the classification and assessment of the land, improvements and personal property belonging to commercial enterprises. Use of

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[4] Commercial real and personal property that typically meets the criteria for property included in Class 3 may qualify as Class 9 if the property meets the criteria for commercial historic property.

the land, improvements and personal property for profit (i.e., fitness and merchandising clubs, various sports activity clubs, etc.) dictates that the property be valued and classified as Class 3(R) and Class 3(P) commercial real and personal property.

Mixed Use Classification

Occasionally private clubs may allow limited public access to their facilities. By offering the use of the facilities to the public for a fee, the value of the property attributed to nonprofit and for-profit use must be determined. This results in a mixed-use classification and assessment ratio.

The mixed-use classification of this type of property is not based on the equity or non-equity position of its members. The classification is based on the use of the property and whether that use creates a financial benefit or personal profit for the owners or members. The use of the property and the intent and profit motivation of the owner determine how the land and improvements will be classified and assessed.

A property in this category may be considered both a Class 3 property for its commercial use and a Class 4 property for its nonprofit use. The property should be assessed with a mixed assessment ratio derived by calculating the value of the land and improvements in their applicable assessment ratios (16% and 25%) to produce a combined assessment ratio attributable to nonprofit and commercial use. If the same property is used for both profit and nonprofit purposes, the proportional share of applicable revenue or some other objective criterion may determine the mixed ratio. The respective proportions should first be applied to the land and improvement values and then factored by the appropriate assessment ratios. (See Chapter 2, Part 3 of the ADOR Assessment Procedures Manual for mixed assessment ratio guidelines.)

Example of mixed use calculation:

A private, nonprofit golf club leases its restaurant and pro shop space to concessionaires. Both concessions are open to the public. In this case, neither the corporation nor membership receives any profits from either business operation. Income from the lease is allocated to offset additional maintenance costs resulting from public access to the facility. The Assessor determines that the value of the restaurant, pro shop and allocated land is equivalent to 20% of the property's Full Cash Value of $750,000.

Calculation:

Total Full Cash Value of the Property	$750,000
Value attributed to Class 3 use (20%)	150,000
Value attributed to Class 4 use (80%)	600,000

Full Cash Value		X	Assessment Ratio	=	Assessed Value
Class 3	$150,000		25%		$37,500
Class 4	600,000		16%		96,000
	$750,000				$133,500

The assessed value is divided by the full cash value to determine the mixed assessment ratio.

$133,500/$750,000 = 17.8% Assessment Ratio

Appendix

Title 42 - Derivation of New Sections

New Section #	Old Section #
42-11002, 42-11101	42-271
42-11102, 42-11103	
42-11104, 42-11105	
42-11106, 42-11107	
42-11108, 42-11109	
42-11110, 42-11111	
42-11112, 42-11113	
42-11114, 42-11115	
42-11116, 42-11117	
42-11118, 42-11119	
42-11120, 42-11121	
42-11122, 42-11123	
42-11124	42-271.01
42-11125	42-274.01, paragraph 1
42-11126	42-274.01, paragraph 2
42-11127	42-280
42-11128	42-631, 632, 633,634
42-11129	N/A
42-11151	42-272
42-11152	42-274, subsections A through E

New Section #	Old Section #
42-11153	42-275
42-11154, 42-11155	42-271
42-12001, 42-12002	42-162
42-12003, 42-12004	
42-12004(1)(c)	42-162(A)(4)(a)(iii)
42-12004(2)(c)	42-162(A)(4)(b)(iii)
42-12005, 42-12006	42-162
42-12007, 42-12008	
42-12009, 42-12010	
42-12011, 42-12051	
42-15001, 42-15002	42-227
42-15003, 42-15004	
42-15005, 42-15006	
42-15007, 42-15008	
42-15009, 42-15010	
42-15011, 42-15012	