

Historic Property



Preface

In 2018, the Department of Revenue (Department) Manuals Team undertook a major project to update all manuals and guidelines produced by the Property Tax Unit. The following three levels of updates were to be applied, dependent upon the perceived need:

Review: Manual or guideline conforms to standard style and formatting. Legislative and other citations verified. No changes to content, methodology, policy, or practice.

Revision: Includes applicable Review processes. Manual or guideline is newly edited. Nonsubstantive legislative changes incorporated. Addition or deletion of information that does not alter valuation methodology.

Rewrite: Includes applicable Review and Revision processes. Major substantive changes made to any combination of content, valuation methodology, policy, or practice.

This 2020 Historic Property Guideline¹ is a Revision of the 2009 Historic Property Guideline issued by the Department on July 15, 2008, and supersedes all previous historic property guidelines issued by the Department. This Guideline was published on August 26, 2020, and remains effective until replaced. Additional information may be issued as an addendum to this Guideline or as a separate guideline. Due to varying county deadlines and policies, the Department recommends contacting your county assessor for detailed information regarding historic property identification, classification, valuation, and assessment. Should any content in this Guideline conflict with current law, the latter shall be controlling.

¹ Conservation easements are addressed in a separate guideline. See https://azdor.gov/sites/default/files/media/PROPERTY_ConservationEasementValuation.pdf.

All inquiries, comments, and suggestions concerning the material in this Guideline may be submitted to the following:

Arizona Department of Revenue
 Local Jurisdictions District
 Property Tax Unit
 1600 West Monroe Street
 Phoenix, AZ 85007-2650
 (602) 716-6843
 propertymanuals&forms@azdor.gov

The 2020 Historic Property Guideline may be viewed on the Department website at: https://azdor.gov/sites/default/files/media/PROPERTY_HistoricProperty.pdf.

Changes in Law

There have been no changes in Arizona law regarding the identification, classification, valuation, or assessment of historic property since the prior version of this Guideline was published.

Changes in Law
N/A
N/A

Background

The Arizona State Historic Preservation Act of 1978 authorized a reduction in property tax assessment for **non-income-producing** historic property that is listed in the National Register of Historic Places. In 1992, the Legislature amended the property tax statutes to establish a property tax incentive program for **income-producing** commercial historic property, which created two new property classes—commercial historic property and commercial historic rental property. This legislation also created specific valuation procedures to separately account for the value of the rehabilitation and maintenance of commercial historic property.

Property tax programs for commercial and noncommercial historic property are administered by the State Historic Preservation Office (SHPO) in conjunction with county assessors and in accordance with Arizona Administrative Code (A.A.C.) Title 12: Natural Resources – Chapter 8: Arizona State Parks Board – Article 3: State Historic Preservation Office Programs. A.A.C. [R12-8-301 to R12-8-307](#). The mission of the SHPO is to work “for the continued use and preservation of heritage resources for the benefit of future Arizonans.”²

The county assessor is responsible for classifying, valuing, and assessing commercial and noncommercial historic real property in accordance with Arizona Revised Statutes (A.R.S.) Title 42: Taxation – Chapter 12: Property Classification – Article 3: Historic Property Classification. A.R.S. [42-12101 through 42-12108](#).

Historic Property Identification

The SHPO is responsible for the identification and certification of historic property in Arizona, as set forth in A.A.C. [R12-8-301 to R12-8-307](#).

² Arizona State Parks & Trails, SHPO, [State Historic Preservation Office \(SHPO\)](#), Mission Statement, accessed July 2020.

To be eligible for certification as historic property, the property must be listed in the National Register of Historic Places, either individually or as a contributor within a historic district. A.A.C. [R12-8-304\(A\)](#). The National Register of Historic Places is “...the official national list of historic districts, sites, buildings, structures, and objects significant in American history, architecture, archaeology, engineering, or culture.” A.A.C. [R12-8-301\(3\)](#). Generally, property must be 50 years old or older to be eligible for listing in the National Register of Historic Places.³

In addition, historic property must be maintained according to certain minimum standards, and all rehabilitation of historic property must be performed in accordance with guidelines established by the U.S. Government in several publications.⁴ A.A.C. [R12-8-304\(C\)\(2\)](#) and [R12-8-306 \(A\) and \(D\)](#).

Finally, the legal description of historic property must not include any building, structure, improvement, or land area that does not contribute to the historic character of the property described in the National Register of Historic Places. A.A.C. [R12-8-304\(C\)\(1\)](#). Even so, the legal description can be modified to exclude such elements, if necessary, even after an application for classification as historic property is filed. A.A.C. [R12-8-304\(C\)\(1\)](#). The application for certification and classification as historic property must be submitted by the property owner, lessor, or agent.

Application for Historic Property Classification

An owner of real property who seeks to have the property classified as either commercial or noncommercial historic property must submit an application to the assessor of the county in which the property is located. A.A.C. [R12-8-305\(A\)](#) and A.R.S. [42-12102\(A\)\(1\)](#). The application must be filed during the valuation year preceding the

³ Arizona State Parks & Trails, SHPO, [National Register](#), Frequently Asked Questions (Question 3), accessed July 2020.

⁴ See J. Henry Chambers, AIA, *Cyclical Maintenance for Historic Buildings* (Washington, D.C.: National Park Service, 1976); U.S. Department of the Interior, *The Secretary of the Interior's Standards for Historic Preservation Projects*, Section III, Guidelines (Washington, D.C.: National Park Service, 1983); U.S. Department of the Interior, *The Secretary of the Interior's Standards for Rehabilitation*, (Washington D.C.: National Park Service, 1995).

tax year for which historic classification is requested. A.R.S. [42-12102\(B\)](#). It is recommended that the application be delivered to the assessor by June 30 in order to be approved or denied by the August 1 deadline.⁵

The following information is required when filing an application (A.A.C. [R12-8-305\(B\)](#)):

1. Address of the property,
2. Legal description of the property,
3. Property classification,
4. Name of owner,
5. Historic property name as listed on the National Register of Historic Places,
6. Date of original construction,
7. Description of any exterior changes to the property since the property was listed on the National Register of Historic Places,
8. Photographs^[6] of the property that meet the specifications of the Board,^[7] and
9. The owner's written consent for the Officer^[8] or the Officer's representative to view the property.

Application forms are available from the county assessor or the SHPO (the SHPO and A.A.C. both refer to the application as the "Verification of Eligibility"). Samples of the application forms (commercial historic and noncommercial historic) follow.

⁵ Arizona State Parks & Trails, SHPO, [State Historic Property Tax Reclassification \(SPT\) for Owner Occupied Homes](#), Application to the SPT Program, accessed July 2020.

⁶ For photograph requirements, see Arizona State Parks & Trails, SHPO, [State Historic Property Tax Reclassification \(SPT\) for Owner Occupied Homes](#), Application to the SPT Program, accessed July 2020.

⁷ "Board" means the Arizona State Parks Board." A.A.C. [R12-8-101](#).

⁸ "Officer" means an employee of the Board who has professional competence and expertise in the field of historic preservation and administers the State Historic Preservation Program." A.A.C. [R12-8-301\(1\)](#).

Review of Application for Historic Property Classification

Within 10 days of receiving an application, the assessor must review it and then refer it to the SHPO. A.A.C. [R12-8-305\(D\)](#) and A.R.S. [42-12102\(E\)](#). The SHPO, with the assistance of the Arizona Historical Advisory Commission, will evaluate the application and may also view the subject property. A.R.S. [42-12103\(A\)](#). Consent to view the property must be granted by the owner. A.A.C. [R12-8-305\(B\)\(9\)](#) and A.R.S. [42-12102\(A\)\(2\)](#).

After its evaluation, the SHPO may approve all or part of the historic property application. A.R.S. [42-12103\(C\)](#). If only part of the application is approved, or at any time before approval, the property owner may withdraw the application. A.R.S. [42-12103\(D\)](#). If a property is eligible for certification as historic property, the SHPO must not deny the application solely due to the loss of revenue that may result. A.R.S. [42-12103\(C\)](#).

The SHPO must notify both the assessor and the property owner of the approval or denial of the application on or before August 1. A.R.S. [42-12103\(B\)](#). An application that is not approved by August 1 is considered to be denied for the current valuation year, pursuant to A.R.S. [42-12103\(B\)](#), but may still be considered by the SHPO for the following valuation year.¹¹ If the application is denied, the property owner may appeal the decision to either the tax court or the superior court. A.R.S. [42-12103\(E\)](#).

“After the SHPO Officer determines a property is eligible for reclassification, the SHPO shall certify a historic property as Non-Commercial or Commercial, as defined in A.R.S. § 42-12101.” A.A.C. [R12-8-304\(B\)](#). The SHPO must certify this determination in writing, including the facts upon which the approval is based, and must file a copy of the certification with the assessor within 10 days. A.R.S. [42-12103\(F\)](#).

¹¹ The August 1 deadline was codified to allow assessors sufficient time to issue a Supplemental Notice of Change by September 30, as required by A.R.S. [42-15105\(1\)](#). See the discussion below on page 26 under Assessment Calendar Variance.

Commercial Historic Property Definition

Commercial Historic Property is defined in A.R.S. [42-12101\(1\)](#), as follows:

1. “Commercial historic property” means real property that:
 - (a) Meets the criteria for classification as class one, paragraph 12 pursuant to section 42-12001 or class four pursuant to section 42-12004, subsection A, paragraphs 2 through 9.
 - (b) Is listed in the national register of historic places established and maintained under the national historic preservation act (P.L. 89-665; 80 Stat. 915; 16 United States Code section 470 et seq.), as amended.
 - (c) Meets the minimum standards of maintenance established by rule by the Arizona state parks board.

Commercial Historic Property Classes	
Class (Subclass)	Description
One (12)	Commercial or Industrial Use not Included in any Other Property Class
Four (2)	Leased or Rented Residential
Four (3)	Child Care Facility
Four (4)	Nonprofit Residential Facility for Seniors or Persons with a Disability
Four (5)	Residential/Nursing Care Institution for Seniors or Persons with a Disability
Four (6)	Bed and Breakfast
Four (7)	Agricultural Housing not Included in Property Class Three
Four (8)	Residential Common Area
Four (9)	Timeshare

Noncommercial Historic Property Definition

Noncommercial historic property is defined in A.R.S. [42-12101\(2\)](#), as follows:

2. “Noncommercial historic property” means real property:
 - (a) That is listed in the national register of historic places established and maintained under the national historic preservation act (P.L. 89-665; 80 Stat. 915; 16 United States Code section 470 et seq.), as amended.
 - (b) That meets the minimum standards of maintenance established by rule by the Arizona state parks board.

- (c) On which no business or enterprise is conducted with the intent of earning a profit.

The statute does not define noncommercial historic property by cross-referencing other property classifications, as it does for commercial historic property. Due to this omission, noncommercial historic property is generally understood to be real property that would not otherwise be classified as property class One or as any of the for-profit subclasses of property class Four. Thus, noncommercial historic property consists predominantly of owner-occupied residential properties (i.e., primary residences), though properties used in other ways may also qualify as historic property, provided they meet the criteria set forth herein.

Historic Property Classification

Commercial Historic Property Classification

Upon certification by the SHPO, real property that meets the definition of commercial historic property may be reclassified by the assessor. If such property meets the criteria for classification as property class One, subclass (12), it would be reclassified as property class Seven. A.R.S. [42-12007](#). If such property meets the criteria for classification as property class Four, subclasses (2) through (9), it would be reclassified as property class Eight. A.R.S. [42-12008](#).

As long as the property is operated and maintained according to the laws, rules, and regulations that govern historic property, classification as commercial historic property may be granted for a period of 10 consecutive tax years. A.R.S. [42-12102\(D\)](#). Even so, subsequent 10-year periods are possible if the owner submits a new application that includes a new, qualifying rehabilitation project, according to the process set forth in the previous section.

Noncommercial Historic Property Classification

Upon certification by the SHPO, real property that meets the definition of noncommercial historic property may be reclassified by the assessor as property class Six, subclass (1). A.R.S. [42-12006](#). Classification as noncommercial historic property may be granted for a period of 15 consecutive tax years. A.R.S. [42-12102\(C\)](#). However, this classification may be continued indefinitely for succeeding periods of 15 years upon approval of an application submitted during the final year of each 15-year assessment period. A.R.S. [42-12102\(C\)](#).

Nonqualifying For-Profit Use of Noncommercial Historic Property

Noncommercial historic property is property “[o]n which no business or enterprise is conducted with the intent of earning a profit.” A.R.S. [42-12101\(2\)\(c\)](#). Accordingly, certain residential use property cannot qualify to be reclassified as noncommercial historic property, due to the commercial use of such property. Examples include property class Three, subclass (A)(3) (owner-occupied residential rental); property class Four, subclass (2) (leased or rented residential);¹² property class Four, subclass (3) (child care residential); property class Four, subclass (6) (bed and breakfast residential); and property class Four, subclass (10), (vacation rental residential).

With respect to some of the examples above, the portion of the property devoted to for-profit use could be assessed separately, resulting in a mixed-use assessment. See the discussion below on page 25 under Mixed-Use Assessment.

Incidental For-Profit Use of Noncommercial Historic Property

Pursuant to A.R.S. [42-12101\(2\)\(c\)](#), for-profit activity may not be conducted on noncommercial historic property. However, Arizona caselaw indicates that occasional or incidental for-profit use of noncommercial historic property may not rise to the level of requiring reclassification or mixed-use assessment. The Arizona Court of Appeals

¹² Residences in a co-op must be owner-occupied to be eligible for certification as noncommercial historic property.

determined that nonprofit entities may engage in occasional or incidental activities that are normally considered commercial in nature without losing their nonprofit status (e.g., gift shop, grounds or buildings leased for gatherings, etc.).¹³ This suggests that as long as the principal or primary use of a noncommercial historic property is not for-profit, the owner may conduct occasional or incidental for-profit activity on the property.

Historic Property Valuation and Assessment

Noncommercial Historic Property Valuation and Assessment

There are no specific valuation procedures for noncommercial historic property, as there are for commercial historic property. Noncommercial historic property is valued at market value using standard appraisal methods and techniques.

The base year for valuation purposes is the year in which the SHPO determines that the property is eligible for historic property classification (e.g., 2019 “base” valuation year / 2020 tax year). The base year extends between January 1 and August 1, because the SHPO must approve or deny all new historic property applications on or before August 1. A.R.S. [42-12103\(B\)](#).

Noncommercial historic property is classified as property class Six, subclass (1), which has a five percent assessment ratio. A.R.S. [42-15006](#).

However, if only a portion of a particular parcel qualifies to be classified as historic property, that parcel may be subject to a mixed-use assessment. For example, the owner of a residence that is classified as noncommercial historic property may use part of the structure as a primary residence and the remainder of the structure for a commercial purpose (e.g., vacation rental). In such a case, the assessor could calculate a mixed-use assessment ratio that reflects the value attributed to each use occurring on the property. Only that portion of the property that is used by the owner as a primary

¹³ See [Tucson Botanical Gardens Inc. v. Pima County](#), 218 Ariz. 523, 526, 189 P.3d 1096, 1099 (2008).

residence would qualify to be classified as property class Six, subclass (1). The remaining portion would be classified as property class Four, subclass (10).

Commercial Historic Property Valuation and Assessment

Specific valuation procedures apply to commercial historic property, which is classified as property class Seven or property class Eight. These procedures require the assessor to value the property using either the market approach (i.e., sales comparison approach) or the cost approach. A.R.S. [42-12104\(B\)](#). The income approach is not to be used to value commercial historic property. In addition, commercial historic property is assessed using mixed-use assessment ratios that are applied to the base value and to the historic renovation value.

The base year for valuation of commercial historic property is the year the SHPO approves the application for historic property classification. A.R.S. [42-12104\(B\)](#).

Components of Value

The assessor must maintain three values for every commercial historic property: base land value, base improvement value, and historic renovation value.

Base Land Value. The initial base land value is the market value of the land in the valuation year in which the SHPO approves the application for historic property classification. The base land value may change in subsequent years as the market fluctuates, but the base land value is always included as part of the total base value of commercial historic property.

Base Improvement Value. Base improvement value is the value of that portion of the improvements that are not rehabilitated. Retroactive value adjustments for rehabilitation completed prior to certification as historic property are not allowed. As with base land value, base improvement value may fluctuate in subsequent years according to market influences.

Improvements to commercial historic property that are beyond the scope of approved standards for historic preservation are also included in the base improvement value. The SHPO will notify the assessor of any nonqualifying rehabilitation.

Historic Renovation Value. Historic renovation value is the value of that portion of the improvements that are rehabilitated according to plans approved by the SHPO. The historic renovation value also fluctuates over time, due to its relationship with the base improvement value and according to the market.

The assessor determines the base improvement value and historic renovation value using a method of apportionment. This method requires no accounting of construction costs or analysis of the value of rehabilitation approved by the SHPO. The SHPO does not provide the assessor with a value of approved rehabilitation, but merely certifies those modifications that adhere to the Secretary of the Interior's Standards for Rehabilitation.

It should be noted that without a substantial amount of rehabilitation, the reduction in property tax for commercial historic property will not be significant. The greatest tax savings for owners of commercial historic property are achieved via federal tax credits and accelerated depreciation.¹⁴

Assessment Ratios

The base assessment ratio for property class Seven is the same as the assessment ratio for property class One (18 percent). A.R.S. [42-15007](#). For property class Eight, the base assessment ratio is the same as that for property class Four (10 percent). A.R.S. [42-15008](#). These assessment ratios are applied only to the base improvement value, the value of that portion of the commercial historic property that has not been

¹⁴ Arizona State Parks & Trails, SHPO, [Tax Incentives Program](#), Commercial Properties, accessed July 2020.

rehabilitated. The rehabilitated portion of commercial historic property is assessed at only one percent of value for up to 10 years. A.R.S. [42-15007](#) and [42-15008](#).

Valuation using the Market Approach

The assessor may use the market approach to value commercial historic property (A.R.S. [42-12104\(B\)](#)) if the method is appropriate and there are adequate comparable sales available. Once an estimate of value is determined, the assessor may use a cost manual to help apportion the total value between the base improvement value and the historic renovation value.

The following example demonstrates how to calculate apportioned base improvement value and historic renovation value for commercial historic property. This process is applicable to commercial historic property in both property class Seven and property class Eight.

The hypothetical property is a commercial building that is certified as a historic property. Rehabilitation approved by the SHPO was completed on the property, and a cost manual was used to apportion the quantity of rehabilitation as follows: electrical (10.5%), heating and cooling (9.1%), interior (19.2%), plumbing (6.4%), and roof (14.7%). The market value of the land is \$80,000, and the total market value of the improvements is \$200,000. Using this information, the assessor can calculate the historic renovation value, total base value, overall assessment ratio, and assessed value.

Step 1: Calculate Apportioned Historic Renovation	
Project	Historic Renovation Quantity Estimates
Electrical	10.5%
HVAC	9.1%
Interior	19.2%
Plumbing	6.4%
Roof	+ 14.7%
Total = 59.9%	

Step 2: Calculate Historic Renovation Value and Total Base Value	
Total Improvement Value	\$ 200,000
Apportioned Historic Renovation (as a decimal)	x .599
Historic Renovation Value	= \$ 119,800
Total Market Value \$ 280,000	
Historic Renovation Value	- \$ 119,800
Total Base Value	= \$ 160,200

Step 3: Calculate Percent of Use by Value	
Commercial Percent of Use	
Total Base Value	\$ 160,200
Total Market Value	\$ 280,000
	= .572
Historic Percent of Use	
Historic Renovation Value	\$ 119,800
Total Market Value	\$ 280,000
	= .428

Step 4: Calculate Assessment Ratio by Use		
Total Base Value Assessment Ratio		
Commercial Percent of Use	.572	=
Commercial Assessment Ratio	x .18	.103
Historic Renovation Value Assessment Ratio		
Historic Percent of Use	.428	=
Historic Property Assessment Ratio	x .01	.004

Step 5: Calculate Overall Mixed Assessment Ratio		
Total Base Value Assessment Ratio		.103
Historic Renovation Value Assessment Ratio		+ .004
Total		= .107

Step 6: Calculate Assessed Value		
Total Market Value		\$ 280,000
Overall Mixed Assessment Ratio	x .107	
Assessed Value		= \$ 29,960

Valuation Using the Cost Approach

The assessor may use the cost approach to value commercial historic property. A.R.S. [42-12104\(B\)](#). The same method of apportionment demonstrated above for the market approach also may be used with the cost approach.

The following example demonstrates how to calculate apportioned base improvement value and historic renovation value for commercial historic property. This process is applicable to commercial historic property in both property class Seven and property class Eight.

The hypothetical property is a commercial building constructed in 1936 that is certified as a historic property. Rehabilitation approved by the SHPO was completed on the property in 2020, and a cost manual was used to help apportion the quantity of rehabilitation as follows: electrical (10.5%), heating and cooling (9.1%), interior (19.2%), and plumbing (6.4%). The land value, based on market sales of comparable properties, is \$122,500. The total replacement cost new less depreciation (RCNLD) of the improvements is \$147,842 (building: \$48,337; commercial yard improvements: \$634; historic renovation: \$98,871). Using this information, the assessor can calculate the historic renovation value, total base value, overall assessment ratio, and assessed value.

All improvements should be listed by the assessor in detail to provide a complete cost record for the entire property, including separate base improvement and historic renovation data for each improvement. Sectionalizing the improvements to determine the portion of value to allocate to the base and historic portions of each improvement is necessary to calculate the overall mixed assessment ratio. In addition, sectionalizing allows the assessor to determine the overall effective age of the subject property and to apply the appropriate amount of depreciation to each improvement, based on the original construction year and the year of rehabilitation.

Step 1: Calculate Apportioned Historic Renovation	
Project	Historic Renovation Quantity Estimates
Electrical	10.5%
HVAC	9.1%
Interior	19.2%
Roof	+ 6.4%
Total = 45.2%	

Step 2: Calculate Total Base Value and Total Value		
Building RCNLD	\$	48,337
Yard Improvements RCNLD	\$	634
Land Market Value	+ \$	122,500
Total Base Value	= \$	171,471
Total Base Value		
Total Base Value	\$	171,471
Historic Renovation RCNLD	- \$	98,871
Total Value	= \$	270,342

Step 3: Calculate Percent of Use by Value		
Commercial Percent of Use		
Total Base Value	\$	$\frac{171,471}{270,342} = .634$
Total Value	\$	
Historic Percent of Use		
Historic Renovation RCNLD	\$	$\frac{98,871}{270,342} = .366$
Total Value	\$	

Step 4: Calculate Assessment Ratio by Use		
Total Base Value Assessment Ratio		
Commercial Percent of Use	.634	=
Commercial Assessment Ratio	x .18	.114
Historic Renovation Value Assessment Ratio		
Historic Percent of Use	.366	=
Historic Property Assessment Ratio	x .01	.004

Step 5: Calculate Overall Mixed Assessment Ratio		
Total Base Value Assessment Ratio		.114
Historic Renovation Value Assessment Ratio	+	.004
Total	=	.118

Step 6: Calculate Assessed Value		
Total Value	\$	270,342
Overall Mixed Assessment Ratio	x	.118
Assessed Value	= \$	31,900

Historic Property Management

Disqualification for Classification as Historic Property

Pursuant to A.R.S. [42-12105](#), both commercial and noncommercial historic property may become disqualified for classification and assessment as historic property under the following conditions:

1. Notice from the taxpayer to the assessor to discontinue assessment of the property as historic property.
2. Sale or transfer of the property to an ownership that makes it exempt from property taxation.
3. Notice from the SHPO to the assessor that the property no longer qualifies as historic property.
4. Failure to maintain the property according to the minimum maintenance standards established by A.A.C. [R12-8-306](#).¹⁵

¹⁵ Note that A.A.C. [R12-8-306\(A\)](#) requires application of the minimum maintenance standards to both commercial and noncommercial historic property, even though A.R.S. [42-12105\(B\)\(4\)](#) disqualifies only commercial historic property for failure to comply with the minimum maintenance standards.

In addition to these conditions, the SHPO is required to decertify any historic property that is condemned by a local authority. A.A.C. [R12-8-306\(B\)](#). Before decertifying a historic property for any reason, the SHPO must notify the property owner of the disqualification by mail, return receipt requested. A.A.C. [R12-8-304\(F\)](#).

Effect of Changing Circumstances

Disqualification for Classification as Historic Property

If all or part of a property ceases to qualify for historic property classification, the property owner is required to notify the assessor of the change prior to the next January 1. A.R.S. [42-12106\(B\)](#). The assessor must then reclassify the property according to its current use and redetermine its market value according to standard appraisal methods and techniques. See A.R.S. [42-11054\(C\)\(1\)](#). The assessor should also inform the SHPO that the property has been disqualified for classification as historic property.

Sale or Transfer of Historic Property

The sale or transfer of historic property to a new owner, including a transfer by reason of death, does **not** disqualify the property from being classified and assessed as historic property, as long as the property continues to qualify and the new owner submits the required reports. A.A.C. [R12-8-304\(E\)](#) and A.R.S. [42-12106\(A\)](#).

Accordingly, a change in ownership of historic property does not affect the 10-year qualifying term for commercial historic property or the renewable 15-year qualifying term for noncommercial historic property.

Owners of noncommercial historic property are required to notify the SHPO when property ownership changes using the [Affidavit of Change of Ownership](#).¹⁶ Though it is not required, the assessor should also notify the SHPO whenever the ownership of historic property changes.

¹⁶ Arizona State Parks & Trails, SHPO, [State Historic Property Tax Reclassification \(SPT\) for Owner Occupied Homes](#), Owner Requirements, accessed July 2020.

Improvement, Alteration, or Demolition of Historic Property

Once a property is classified and assessed as commercial historic property, the property owner must apply to the SHPO for approval of any improvement, alteration, or demolition of the property. A.R.S. [42-12106\(C\)](#). “Each modification that is intended to restore or rehabilitate commercial historic property must be approved by the historic preservation officer to qualify for classification and assessment as class seven or class eight property.” A.R.S. [42-12106\(C\)](#).

The same is true of noncommercial historic property. “If an owner plans to do any work on the property that will impact its public appearance, the SHPO must be contacted for review and comment or approval prior to project implementation. All such projects are reviewed for appropriateness according to...the Secretary of the Interior's Standards for Rehabilitation....”¹⁷

Change in Classification of Historic Property

Historic property may change in classification from commercial to noncommercial, and vice versa, as long as the property continues to qualify and the owner submits the required reports.

Penalties

Property that ceases to qualify as historic property is generally subject to the imposition of penalties. However, there are particular circumstances under which a penalty must not be applied.

For each parcel of real property that is classified and assessed as historic property, the assessor must enter on the tax roll the notation “historic property (potential additional tax).” A.R.S. [42-12104\(A\)](#). This information notifies the public that penalties may apply if the property ceases to qualify for classification and assessment as historic property. See A.R.S. [42-12107](#).

¹⁷ Ibid.

The penalties described herein are added to the property tax levied against the property on the next tax roll (A.R.S. [42-12107\(A\)](#)), and apply only to the current 15-year assessment period for noncommercial historic property or to the current 10-year assessment period for commercial historic property (A.R.S. [42-12107\(F\)](#)).

Penalty for Disqualification

A penalty must be imposed “[i]f property that is classified as historic property becomes disqualified for that classification”. A.R.S. [42-12107\(A\)](#). The penalty is equal to the **lesser** of either 50 percent of the total amount that property taxes were reduced during the years the property was classified as historic property, or 50 percent of the market value of the property. A.R.S. [42-12107\(A\) \(1\) and \(2\)](#).

If the penalty for disqualification is applicable due to either of the following reasons, then the assessor is required to notify the property owner of the disqualification by mail, return receipt requested, **before** assessing the penalty. A.R.S. [42-12107\(C\)](#).

- Notice from the SHPO to the assessor that the property no longer qualifies as historic property. See A.R.S. [42-12105 \(A\)\(3\) and \(B\)\(3\)](#).
- Failure to maintain the property according to minimum maintenance standards. See A.R.S. [42-12105\(B\)\(4\)](#).

Penalty for Failure to Provide Notice of Disqualification

If property that is classified as historic property becomes disqualified for that classification, and the property owner fails to notify the assessor as required by A.R.S. [42-12106\(B\)](#), an additional penalty must be applied. A.R.S. [42-12107\(B\)\(2\)](#). This penalty is equal to 15 percent of the penalty imposed for disqualification. A.R.S. [42-12107\(B\)\(2\)](#). Thus, in order to calculate the additional penalty, the assessor must first determine the date that the notice from the owner should have been issued and inform both the owner and the county treasurer. A.R.S. [42-12107\(B\)\(1\)](#).

Penalty Prohibited

A penalty shall not be imposed if historic property is sold or transferred to an ownership that makes the property exempt from property taxation, or if historic property is destroyed by either an act of God or by fire, unless the fire resulted from an intentional act of the owner or an agent of the owner. A.R.S. [42-12107\(D\)](#).

Reporting Requirements***Periodic Reports to the SHPO***

After a property is classified as commercial or noncommercial historic property, the SHPO is authorized to request property inspections and periodic reports from the property owner to ensure continued qualification. A.A.C. [R12-8-307 \(A\) and \(B\)](#) and A.R.S. [42-12108\(A\)](#). The statute and the title of the reporting form ([Arizona State Historic Property Tax Program Annual Report](#))¹⁸ indicate that the report is due annually. However, the SHPO may require this report annually or “at any other time considered to be necessary.” A.R.S. [42-12108\(B\)](#). For noncommercial historic property, the SHPO currently requires a periodic report every three years.¹⁹

If an owner of historic property fails to submit a required periodic report within 90 days of a written request, “the SHPO shall notify the assessor, and the assessor shall withdraw the property from historic classification and assess the penalties prescribed by section 42-12107.” A.R.S. [42-12108\(C\)](#).

Rehabilitation Report to the SHPO

Prior to the implementation of any rehabilitation of historic property, the owner of the property must submit to the SHPO a written description and supporting photographs for the approval of the rehabilitation project pursuant to The Secretary of the Interior’s Standards for Rehabilitation. A.A.C. [R12-8-306\(C\)](#). The SHPO has 30 calendar days

¹⁸ Arizona State Parks & Trails, SHPO, [State Historic Property Tax Reclassification \(SPT\) for Owner Occupied Homes](#), Forms: Periodic Report, accessed July 2020.

¹⁹ Arizona State Parks & Trails, SHPO, [State Historic Property Tax Reclassification \(SPT\) for Owner Occupied Homes](#), Owner Requirements, accessed July 2020.

from receipt of the proposal in which to comment on the appropriateness of the project. A.A.C. [R12-8-306\(C\)](#). No later than 30 days after a rehabilitation project is completed, the owner must submit photographs documenting compliance of the project with the standards set forth in A.A.C. R12-8-306(D). A.A.C. [R12-8-306\(E\)](#).

Rehabilitation Report to the Assessor

The SHPO must notify the assessor in writing upon the completion of an approved rehabilitation project for commercial historic property. This is accomplished using a form entitled, “State Historic Property Tax Program: State Historic Preservation Office Review of Plans and Completed Projects.” However, the SHPO does not provide the assessor with a dollar amount representing the rehabilitation costs.

Effective Age and Tax Liability

Generally, rehabilitation of a property will decrease the effective age of the property. It is therefore possible that rehabilitation of a historic property could decrease the effective age of the property to less than 50 years, the minimum age required to be listed in the National Register of Historic Places.²⁰ However, it is the actual age of the property that is determinative, so a decrease in effective age to less than 50 years will not affect the eligibility of the property for certification as historic property.

In addition to decreasing effective age, rehabilitation of historic property may increase the value of the property, which could potentially increase the tax liability to an amount greater than it was prior to certification as historic property. Another factor that can possibly increase the tax liability of historic property is the tendency of property within historic districts to increase in value more quickly than comparable property that is not within a historic district.

²⁰ Arizona State Parks & Trails, SHPO, [National Register](#), Frequently Asked Questions (Question 3), accessed July 2020.

Mixed-Use Assessment

If only a portion of a particular parcel qualifies to be classified as historic property, that parcel may be subject to a mixed-use assessment. For example, the owner of a residence that is classified as noncommercial historic property may use part of the structure as a primary residence and the remainder of the structure for a commercial purpose (e.g., short-term rental). In such a case, the assessor could calculate a mixed-use assessment ratio that reflects the value attributed to each use currently occurring on the property. Only that portion of the property that is used by the owner as a primary residence would qualify to be classified as property class Six, subclass (1). The remaining portion would be classified as property class Four, subclass (10).

In another example, the owner of a warehouse that is classified as commercial historic property may rehabilitate the front exterior according to SHPO standards and renovate the interior according to modern standards. In this case, the assessor could calculate a mixed-use assessment ratio that reflects the value attributed to each use currently occurring on the property. The front exterior would be classified as property class Eight, while the interior would be classified as property class One.

For instructions on determining mixed-use assessment percentages for historic property that involves multiple uses, refer to the Department's [Assessment Procedures Manual](#), Part 3, Chapter 2, [Determining Mixed-Use Percentages and Assessment Ratios](#).

Mobile Homes

Mobile homes and other manufactured homes are generally assessed as personal property, and are therefore ineligible for classification as historic property. However, a mobile home or other manufactured home that is affixed to, and assessed as, real property may be eligible to be classified as historic property. See A.R.S. [42-15202](#). The process required to permanently affix a mobile home or other manufactured home to real property is set forth in the Department's [Personal Property Manual](#), Chapter 3:

Manufactured Housing and Mobile Homes, under the heading Assessment of Mobile Homes.

Property Use Codes

The assessor should assign property use codes to historic property in the same manner as with any other property. That is, a property use code should be assigned to each parcel according to the predominant use currently occurring on the parcel. This is because only one use code can be applied to any one parcel. The historic nature of the property is not identified by the use code, but by the property classification. For example, a parcel with a one-story office building that has been certified by the SHPO as commercial historic property would be assigned a property use code of 15-11, but would be classified as property class Seven or property class Eight.

Assessment Calendar Variance

Real property in Arizona is valued and taxed over a two-year cycle, with valuation occurring during the first calendar year and taxation occurring during the second calendar year. See A.R.S. [42-11001 \(17\) and \(20\)\(a\)](#). However, in order to meet the various deadlines for valuation and taxation, the effective valuation cycle does not follow the calendar year, but begins October 1 of the year preceding the valuation year, and ends September 30 of the valuation year. See A.R.S. [42-15105](#). The valuation date falls on January 1 of the valuation year. A.R.S. [42-11001\(19\)](#). Accordingly, the assessor has until September 30 of each valuation year to notify property owners of any changes in valuation or classification. A.R.S. [42-15105](#). This notification is called a Supplemental Notice of Change.

In order to allow assessors sufficient time to issue a Supplemental Notice of Change by September 30, A.R.S. [42-12103\(B\)](#) provides that applications for historic property classification must be approved or denied on or before August 1. In addition, an application that is not approved by August 1 is considered to be denied for the current valuation year. A.R.S. [42-12103\(B\)](#). In practice, however, the SHPO may continue to

approve applications after August 1, but grants such approvals for the following valuation year. The assessor must be mindful of this when sending a Supplemental Notice of Change for such property.

The following table illustrates how certification for classification as historic property at different times of the year would affect the Supplemental Notice of Change.

Historic Property Certification	Valuation Year	Tax Year	Notice of Change
Aug 1, 2018	2018	2019	Must send by Sep 30, 2018
Sep 1, 2018	2019	2020	Not applicable
Apr 15, 2019	2019	2020	Must send by Sep 30, 2019
Oct 15, 2019	2020	2021	Not applicable