

INTERIM GUIDELINE ON THE ASSESSMENT OF EQUINE PROPERTY



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Introduction

In 2011, the Legislature amended A.R.S. § 42-12151 to expand the uses which may qualify for agricultural classification to include land and improvements devoted to commercial breeding, raising, boarding or training equine. It also amended the statute to allow land and improvements used for equine rescue facilities registered with the Department of Agriculture to qualify. The Department of Revenue has worked with industry representatives in drafting this Interim Guideline. The purpose of the Interim Guideline is to provide assistance to Arizona's County Assessors in determining which commercial equine facilities and equine rescue facilities qualify for agricultural status. This Guideline may be amended as issues arise and more information becomes available.

The Department of Revenue's Agricultural Manual will be amended in the near future to conform to A.R.S. 42-12151(4) and the provisions of this Guideline. Where there is a conflict between the current Agricultural Manual and the amendments to A.R.S. § 42-12151, the amended statute and this Interim Guideline will control. A copy of the amended statute is included in the Appendix for reference.

I. Eligibility:

- a. Land and improvements devoted to commercial breeding, raising, boarding or training equine, as defined in A.R.S. § 3-1201, may be eligible for agricultural classification under A.R.S. § 42-12151, if they meet the criteria expressed in this Guideline, Arizona Revised Statutes, and in the Department of Revenue's Agricultural Property Manual. Ariz. Sess. Laws 2011, Ch 8, § 1.
 - i. "Equine" means horses, mules, burros and asses. A.R.S. § 3-1201.
- b. Land and improvements of Equine Rescue Facilities registered with the Department of Agriculture pursuant to A.R.S. § 3-1350 are also eligible for agricultural classification. A.R.S. § 42-12151.
 - i. The Department of Agriculture maintains a public list of registered equine rescue facilities at Department offices and on its official public website: <http://www.azda.gov/main/equinerescueregistry.html>.

- ii. Equine Rescue Facilities must be nonprofit organizations and therefore do not require an expectation of profit to qualify.

II. Qualifications

- a. Land and improvements devoted to the commercial breeding, raising, boarding or training of equine must meet the following criteria to be eligible for classification as agricultural property:
 - i. Commercial Breeding Operations must be breeding equine for fee or for sale. These operations should have the capacity to breed and care for at least three equine for breeding purposes at a given time and conduct breeding activity for at least three animals on an annual basis. Both male and female equine used for breeding purposes should be factored into the minimum number of breeding equine assuming the equine are capable of reproduction. Breeding equine do not need to be owned by the facility owner or operator if used for breeding purposes at the request of another equine owner. In some cases, an equine facility with the capacity to care for less than three equine should be considered a viable commercial breeding operation. These cases include, but are not limited to:
 - 1. Operations with a small number of animals with highly desirable genetic attributes.
 - 2. Facilities that are used primarily for breeding activities through artificial insemination, including semen collection, rather than live breeding.
 - ii. Commercial Equine Raising Operations must be raising equine for sale. These operations shall have the capacity to care for at least ten equine at a given time and have a reasonable expectation of profit from the equine raising activities.

- iii. Commercial Boarding Operations shall have the capacity to board and care for a minimum of ten equine owned by someone other than the facility owner or operator.
- iv. Commercial Training Operations must conduct business to reflect a reasonable expectation of profit from the equine training activities.
- v. Equine facilities that are part of and that make a functional contribution to a qualified ranching facility are considered agricultural property regardless of capacity, size or gross revenue.
- vi. A commercial equine property may meet one or all of these criteria or a combination of the above criteria. The Assessor has the discretion to allow commercial equine operations that do not meet the minimum number of equine to qualify for the agricultural classification under A.R.S § 42-12154.
- vii. The primary use of the property must be devoted to the commercial breeding, raising, boarding or training of equine. See A.R.S. § 42-12152.
 1. Primary is the principal or main use of the property. However, as outlined below, a property may have multiple uses. Only that property or portion of property primarily used for a commercial equine operation shall qualify for agricultural classification.
- viii. The property must be used in accordance with agricultural industry management practices for commercial equine operations for at least seven out of the last ten years. The Assessor does have discretion, however, in allowing operations to qualify if they have not been in operation for this period of time under A.R.S. 42-12154.
- ix. Property and improvements used primarily for public, recreational or exhibition activities such as rodeo arenas, equine exhibition facilities or trail ride services are generally classified as commercial property and do not qualify for agricultural classification under A.R.S. § 42-12151. However, riding facilities ancillary to a qualified commercial equine

breeding, raising, boarding or training operation would qualify provided they make a functional contribution to the qualified commercial equine breeding, raising, boarding or training operation.

- x. Any noncontiguous parcels must be managed and operated on a unitary basis along with the rest of the commercial equine operation with each parcel making a functional contribution to the commercial operation.
 - xi. The equine operation must be operated as a commercial business and is distinct from a hobby or casual operation.
- b. There must be a reasonable expectation of operating profit, exclusive of land cost, from the commercial equine operation.
- i. Assessors must use good judgment to differentiate between hobby and business enterprises. Assessors may need to review business records to determine if the operation is a viable commercial business, as opposed to a hobby or casual operation. The following considerations may be helpful in determining whether a particular property is run as a commercial operation with a reasonable expectation of operating profit:
 - 1. Is the equine operation conducted in a businesslike manner?
 - a. Does the owner and / or operator keep books and records including invoices, sales receipts, profit and loss statements or similar documents?
 - b. Is there a business plan?
 - c. Does the owner insure the equine?
 - 2. What is the expertise of those involved in the equine operation?
 - 3. How much time and effort is spent on the equine operation?
 - 4. What is the history of operating profits and losses for this equine activity? If the property is used for commercial horse boarding, is there a written agreement between the parties involved? Is the

property capable of housing three or more breeding animals?
Has the facility conducted breeding activities for at least three animals on an annual basis?

5. Are the equine activities engaged in for personal pleasure or recreation?
 - a. Caring for only a few horses primarily for personal or recreational use does not allow a property to qualify for the agricultural classification.
 6. Are the owners or operators connected with the commercial equine facility insured against liability?
 7. Does the equine facility require a signed liability release as defined in A.R.S. § 12-553(E)(2)?
- c. Regardless of whether a commercial equine breeding, raising, boarding or training operation meets the capacity required in the qualifications outlined above, there must be a sufficient number of animal units to demonstrate a reasonable expectation of profit for a commercial operation.

III. Valuation

- a. A.R.S. § 42-13101(A) requires that land used for qualified agricultural purposes must be valued using only the statutory income capitalization valuation procedure without any allowance for urban or market influence.
- b. The Department's Agricultural Property Manual defines high-density use as the intensive use of a relatively small area of land for the production of a high-yield crop or commodity, wherein comparatively large amounts of labor and capital are required per unit of land. There is no minimum acreage requirement for high-density use. For valuation purposes qualified commercial equine operations are considered to be a high-density use.
- c. Equine properties may consist of a single use, or may be similar to other agricultural properties that are used for more than one purpose simultaneously. An example of a multiple use property would be a parcel

containing: (1) the owner's residence; (2) the equine operation; and (3) additional agricultural uses such as field crops or a commercial use such as a retail store.

- i. Land that is approved for qualified agricultural status shall be valued according to its use, that is, land devoted to high-density use shall be valued similarly to comparable high density use properties; irrigated pasture shall be valued similarly to other comparable irrigated pasture land, etc.
- d. Land that has not been approved for qualified agricultural classification status by the County Assessor, is considered nonqualifying property. It must be valued utilizing all applicable standard appraisal methods and techniques. Nonagricultural full cash value is the full cash value prescribed in A.R.S. § 42-11001(6), and is synonymous with market value.
- e. Land that is part of an agricultural economic unit, but used for nonagricultural purposes, should be valued according to its use. For example, the portion of a parcel that is supporting residential structures should be valued using current market sales data for comparable property; land used for commercial purposes should be valued on the same basis as other commercial land; undeveloped land should be valued as other nonagricultural undeveloped land, etc.
- f. Buildings and other structures can vary significantly according to the needs of a particular agricultural operation. All structural improvements should normally be valued using the cost approach. The cost approach addresses the replacement cost new of a structure or other improvement minus depreciation.
- g. Residential structures may also be valued using the cost approach.
- h. See the DOR Agricultural Property Manual for a more complete discussion regarding valuation procedures.

IV. Classification

- a. Agricultural properties, including equine operations, are often used for more than one purpose simultaneously.
- b. Properties with multiple uses are referred to as “mixed-use” properties and must be classified proportionately, by value, in the appropriate legal class or classes for each use occurring on the property; with a corresponding mixed use assessment ratio.
- c. Complete procedures for calculating a mixed-use legal classification and an effective assessment ratio are described in the DOR Assessment Procedures Manual, Part Three, Chapter Two.

V. Personal Property

- a. **Equine – Exempt.** Equine, if owned by a person who is "principally engaged in agricultural production," are exempt from property taxation pursuant to Article IX, Section 13, of the Arizona Constitution. See A.R.S. § 42-11126.
- b. **Equine – Taxable.** All animals that are used for commercial purposes and that are not held for sale in the normal course of business are taxable. All such animals are valued at market value. Refer to Valuation Table 8 in the Personal Property Manual for the values of certain types of animals if their market value is unknown.
- c. **Considerations and Examples.**
 - i. The following two questions may help to identify the status of an animal as being taxable or property tax exempt:
 1. Is the owner principally engaged in agricultural production? If so, all equines owned by that person are exempt.
 2. If the animal is not exempt, as per question number one, is the animal used for commercial purposes? If the answer is yes, the animal is subject to valuation and assessment for property tax purposes.

- ii. The following examples demonstrate these concepts:
 - 1. A rancher breeds and raises horses. The raising and breeding of horses by the rancher is considered to be an agricultural activity, and therefore, the horses are property tax exempt.
 - 2. A breeder raises horses to be sold as race horses (or for any other purpose). The horses are exempt because they are inventory held for resale.
 - 3. If, for instance, the rancher or breeder sells a horse to a business that provides trail rides, or to a licensed hunting guide providing pack animals, the horse then becomes taxable.
 - 4. Horses used as race horses are taxable.
 - 5. Horses owned by an individual who keeps the horse only for personal recreational use are not taxable.
 - 6. Equine owned by a circus or a private zoo are taxable.
 - 7. Equine owned by an exempt entity (e.g., The Phoenix Zoo) are tax exempt.
- iii. Business personal property of a commercial equine breeding, raising, boarding or training operation should be reported annually to the County Assessor on a DOR 82520A form. Taxable property of these operations includes, but is not limited to: tack, machinery, equipment, parts, tools, supplies, barn cleaners, barn ventilators, wash racks, lockers, blowers, conveyors, driers, elevators, grain bins and tanks, irrigation pipe and fittings, piping systems, and electrical systems.

VI. Agricultural Manual

- a. The Department of Revenue's Agricultural Property Manual states, in a Note on page 2.6, that "land primarily used for boarding or training horses or other animals, or for breeding animals for pet or recreational use, shall be considered to be commercial property, and is classified as Legal Class One. Those areas and improvements used to display the animals (show rings) or

which have associated uses (e.g., corrals, pens, barns, exercise areas) will also be classified as commercially used property.” That Note is superseded by the amendment to A.R.S. § 42-12151

VII. Effective Date

- a. This guideline is effective for the 2012 Valuation Year / 2013 Tax Year.

APPENDIX

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 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 section 3-1201 or equine rescue facilities registered with the department of agriculture pursuant to section 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 and 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.

2011 Ariz. Sess. Laws, Ch. 8

SIGNED BY THE GOVERNOR MARCH 15, 2011.