

New Construction Valuation Property Tax Levy Limit



Introduction

Arizona Revised Statute (A.R.S.) [42-13002\(B\)\(3\)](#) authorizes the Arizona Department of Revenue (ADOR) to audit the valuation of new construction as determined by each county. There are multiple data processing systems being used by the counties. It is important that the systems be programmed to calculate new construction each year and that the calculation is consistent among the counties. Application of the following definitions and methodology guidelines will ensure uniformity of the calculations.

Property Tax Levy Limit

Article 9, Section [19\(1\)](#) of the Arizona Constitution sets the limit of the annual increase in the amount of primary property taxes that can be levied by counties, cities, towns, and community college districts:

“The maximum amount of ad valorem taxes levied by any county, city, town or community college district shall not exceed an amount two per cent greater than the amount levied in the preceding year.”

A.R.S. [42-17051 \(A1\) to \(A7\)](#) lists the procedure for computing the maximum allowable primary property tax limit.

New Construction Excluded from Levy Limit

The two percent levy limitation applies to previously existing properties. Exclusion of new construction in the levy limit is referenced in Arizona Revised Statutes:

A.R.S. [42-17107\(A\)](#)

“...the proposed primary property tax levy, excluding amounts that are attributable to new construction...”

A.R.S. [42-17107\(A\)\(1\)\(d\)](#)

“This proposed increase is exclusive of increased primary property taxes received from new construction.”

A.R.S. [42-17107\(B\)](#)

“...except for amounts attributable to new construction.”

A.R.S. [42-17107\(C\)](#)

“For purposes of this section, “amount attributable to new construction” means the net assessed valuation of property added to the tax roll since the previous year multiplied by a property tax rate computed by dividing the primary property tax levy of the county, city or town in the preceding year by the estimate of the total net assessed valuation of the county, city or town for the current year, excluding the net assessed valuation attributable to new construction.”

Current year net assessed valuation of new construction that is either partially or fully completed since the prior tax year is not subject to the levy limit. A.R.S. [42-17051\(A\)\(3\)](#): “Determine the assessed value for the current tax year of all property in the political subdivision that was subject to tax in the preceding tax year.”

Because the new partially complete construction or the new fully completed new construction did not exist and had no valuation in the preceding year, it was not subject to tax. Therefore, the levy limit can grow by two per cent (2%) each year plus the net valuation of new construction. The county assessor is responsible for annually calculating the amount of new construction valuation for use in determining the allowable aggregate property tax levy limit.

Definition of New Construction

New construction means any change in the physical characteristics of an improvement on a parcel that may substantially affect the full cash value of the parcel. There should be no market influences in the calculation of new construction.

New Construction Valuation

New construction valuation is calculated by comparing the current year's valuation of property to the prior year's inventory using the current year's valuation methodology. By using the current year's valuation methodology and applying it to the prior year's inventory, there should be no market influences in the new construction calculation.

Examples of changes to the tax roll attributable to a net assessed valuation change for new construction:

Example #1:

New Structure Added to the Roll for the First Time

Current Year Net Assessed Value	Land \$20,000	Current Year Improvement Inventory, Current Valuation \$80,000	Total \$100,000
Current Year Net Assessed Value Subject to Tax in Prior Year	Land \$20,000	Prior Year Improvement Inventory, Current Valuation \$0	Total \$20,000
Current Year Total Net Assessed Value Levy Limit Attributable to New Construction		Net Assessed Value New Construction \$80,000	

The \$80,000 net assessed valuation amount is attributable to new construction. Per A.R.S. [42-17107\(C\)](#), it is excluded from the current tax year two percent levy limit.

Example #2:**New Construction Addition to an Existing Structure**

Current Year Net Assessed Value	Land \$20,000	Current Year Improvement Inventory, Current Valuation \$80,000	Total \$100,000
Current Year Net Assessed Value Subject to Tax in Prior Year	Land \$20,000	Prior Year Improvement Inventory, Current Valuation \$50,000	Total \$70,000
Current Year Total Net Assessed Value to New Construction		Net Assessed Value New Construction \$30,000	

The \$30,000 net assessed valuation amount is attributable to added new construction. Per A.R.S. [42-17107\(C\)](#), it is excluded from the current tax year two percent levy limit.

Determining New Construction Amounts:

The application of a Rule A or Rule B in determining a parcel's limited property value does not automatically include or exclude the parcel from being used in the determination of a new construction amount.

New construction amounts attributed to locally assessed personal property are determined in accordance with A.R.S. [42-17053](#).

New construction amounts attributed to Centrally Valued Property (CVP) are determined by the Department of Revenue based on data reported annually by CVP taxpayers.

Exemption Status:

Changes in exemption status from one year to the next **should be included** in the calculation of the maximum allowable primary property tax levy limit.

Arizona Constitution, Article 9, Section [19\(6\)](#): The levy limit "...shall be increased by the amount of the ad valorem taxes levied against property not subject to taxation in the prior year and shall be decreased by the amount of ad valorem

taxes levied against property subject to taxation in the prior year and not subject to taxation in the current year.”

Exclusions to Property Tax New Construction Valuation

Statutory Calculations

With no additions or deletions to the tax roll, a change in net assessed value due to the statutory calculation of the limited property value should not be included in the new construction calculation.

Market Conditions

With no additions or deletions to the tax roll, a change in net assessed value due to market conditions should not be included in the new construction calculation. For example, the new construction valuation should not be influenced by a change in a parcel's value source, e.g. cost, income or market as the basis for valuation.

Override Values

Override values due to appeals, senior freeze, etc. should not be included in the new construction calculation.

Property Codes

A change in Property Status Code (PSC) or Property Use Code (PUC) does not automatically include or exclude a parcel from the new construction calculation.

Parcel Splits/Combines

With no additions or deletions to the tax roll, a change in net assessed value due to parcel splits or combines should not be included in the new construction calculation.

Land Values

Land values should be excluded in the calculation of the new construction valuation amounts, with the exception of property annexations by cities, towns and fire districts. In the case of annexations, the total value added is included as new construction.

Assessment Ratio

A change in net assessed value due to a change in the assessment ratio with no additions or should not be included in the new construction calculation.

Building Permits

Values based on building permits, without confirmation of improvement inventory should not be included in the new construction calculation.

Compliance Audits

A.R.S. [42-13002\(A\)\(1\)](#) directs the ADOR to “Exercise general supervision over county assessors in administering the property tax laws to ensure that all property is uniformly valued for property tax purposes.” A.R.S. [42-13002\(B\)\(3\)](#) is the statutory directive that conveys to the ADOR the authority to audit the valuation of new construction as determined by each county as prescribed by A.R.S. [42-17051](#). The counties may voluntarily submit to an audit; lacking a proffer, the ADOR will randomly select a county for an audit.

Although the method used to develop the net assessed value of property subject to tax in the prior year for levy limit purposes may differ slightly in each county system, the end result should not. To ensure uniform valuation of all property throughout the state, counties selected by the ADOR for a compliance audit will be required to submit information associated with parcels that have been included in the new construction calculation.

The counties selected for an audit are to provide the following information to the ADOR on or before February 10th of the tax year:

- An abstract of the current tax year assessment roll
- Levy limit worksheets for all jurisdictions that levy a tax
- Assessment files which represent the February 10th assessment roll
- A description of the methodology used to develop new construction amounts
- A list of parcels that represent the February 10th new construction amounts for each jurisdiction that levies a tax

The parcel list should include the following information:

- Parcel number
- Tax area code
- Current year full cash value
- Current year limited property value
- Current year net assessed value
- Current year full cash value subject to tax in the prior year
- Current year limited property value subject to tax in the prior year
- Current year net assessed value subject to tax in the prior year
- Net assessed value new construction amount

Note:

1. Additional Information may be required.
2. The parcel list should consist of only the new construction accounts, not the entire parcel inventory.