

Damaged and Destroyed Property



Preface

The Arizona Department of Revenue (Department or ADOR) administers the property tax system in cooperation with the 15 county assessors, among others. One of the administrative duties of the Department is to prepare and maintain publications reflecting standard and statutory appraisal methods and techniques that are used in the identification, classification, valuation, and assessment of property for ad valorem purposes. The Department regularly updates these publications, consistent with the following three update levels, depending on the perceived need:

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

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

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

This publication is a Revision. It supersedes the prior version (April 2024) of this publication and remains effective until replaced. Additional information may be issued as an addendum to this publication or as a separate publication. Due to the flexibility provided for in statute, deadlines and procedures may vary by county. The Department recommends contacting the county assessor of the county in which a subject property is located for detailed information regarding the deadlines and procedures in that jurisdiction. **The information in this publication is based upon laws and rules in effect at the time of publication. Should any content in this publication conflict with current laws or rules, the latter shall be controlling.**

All comments, inquiries, and suggestions concerning the material in this publication 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
propertytaxpublications@azdor.gov

This publication can be accessed on the Department website at:

https://azdor.gov/sites/default/files/2023-03/PROPERTY_DamagedDestroyedProperty.pdf.

Authority

Authority to produce this publication is found in Arizona Revised Statutes (A.R.S.) [42-11054\(A\) \(1\) and \(2\)](#). Regarding the weight of authority of this publication, see A.R.S. [42-13051\(B\)\(2\)](#).

Jurisdiction

The information in this publication is presented only as it applies to locally assessed property (valued by the assessor), not to centrally valued property (valued by the Department). For information regarding the assessment of centrally valued property, refer to the Department publications entitled [Appraisal Manual For Centrally Valued Natural Resource Property](#), [Centrally Valued Properties](#), and [Valuation of Underlying Leased Land on a Wind Farm](#).

Publication Formatting and Style

Publications produced by the Department Property Tax Unit generally follow the rules of citation, format, grammar, punctuation, and related matters found in the following three guides: *Style Manual: An Official Guide to the Form and Style of Federal Government*

Publications,¹ *The Chicago Manual of Style*,² and *The Bluebook: A Uniform System of Citation*.³

Terminology

In this publication, the term “manufactured housing” is used in a general way to refer to all types of fabricated housing described in Arizona statute, including, among others, mobile homes, recreational vehicles, and fabricated housing used for commercial purposes.

Changes in Law

Following are notable changes in Arizona law that became effective since the last version of this publication was prepared by the Department, and that may be applicable to the material herein. Although every effort has been made to include all relevant and notable changes in law, this section may not be all inclusive. The Department recommends relying on your own research and discretion.

Statutory and Constitutional Changes

The table below has been updated through the legislative session identified in the header row.

2024 – Fifty-sixth Legislature – Second Regular Session

House Bill [2408](#): Amended A.R.S. 42-15157

Provided that the assessor may issue a notice of proposed correction for property destroyed after the rolls have closed; addressed classification of destroyed property; defined “destroyed” with respect to property.

¹ United States Government Publishing Office (U.S. GPO), [Style Manual: An Official Guide to the Form and Style of Federal Government Publications](#), 31st ed. (Washington, DC: U.S. GPO, 2016).

² The University of Chicago, [The Chicago Manual of Style](#), 17th ed. (Chicago: University of Chicago Press, 2017).

³ Editors, Columbia Law Review, et al., comps., [The Bluebook: A Uniform System of Citation](#), 21st ed. (Cambridge: Harvard Law Review Association, 2021).

Caselaw Changes

There were no changes in Arizona caselaw that were notable and applicable to the material in this publication since the prior version was published.

Table of Contents

Preface..... i

 Authority..... ii

 Jurisdiction..... ii

 Publication Formatting and Style..... ii

 Terminology..... iii

 Changes in Law..... iii

 Statutory and Constitutional Changes..... iii

 Caselaw Changes..... iv

Introduction..... 1

Identification of Damaged or Destroyed Property..... 1

 Damaged Property..... 1

 Destroyed Property..... 2

 Partially Damaged or Destroyed Property..... 2

Reporting Damaged or Destroyed Property..... 3

Classification of Damaged or Destroyed Property..... 5

Valuation of Damaged or Destroyed Property..... 6

 Extension of Statutory Procedures..... 7

 Valuation Procedures..... 7

 Revaluation Management..... 9

 Improvements Under Reconstruction..... 9

 Long-Term or Permanent Condition..... 9

 Partially Harmed Property..... 10

 Limited Property Valuation..... 10

 Rule B and the Assessment Cycle..... 10

 Rule B and Proration..... 11

Introduction

Property can be damaged or destroyed in numerous ways, such as by accident, fire, flood, or storm. When property is damaged or destroyed, several considerations related to property tax assessment arise.

The purpose of this publication is to provide assessment personnel and other interested parties with information and procedures necessary to identify, classify, and value damaged or destroyed property in accordance with Arizona law.

Identification of Damaged or Destroyed Property

The assessor is responsible for identifying locally assessed property, including damaged and destroyed property, and listing it on the tax roll. See A.R.S. [42-13051](#) and [42-15053](#). Since there are few Arizona laws or rules that define damaged or destroyed property with respect to property tax assessment, the following are offered as guidance.

Damaged Property

Damaged property is real and/or personal property that has sustained physical harm to the extent that use of the property is restricted. In addition, the harm to the property must be curable, meaning that the cost to cure⁴ the harm does not exceed the cost to replace the property. Finally, the harm must have been caused by a specific, verifiable event, such as an accident, fire, flood, storm, etc. For example, a damaged property designation may apply if fire harms part of a home, and the harmed areas are in the process of being repaired.

Additional examples of damaged property might include:

- Damage to the windows of a structure
- Curable harm to the exterior frame, foundation, or roof of a structure

⁴ **Cost to Cure:** The actual or estimated cost to correct, mitigate, or replace a defective component or other impairment of a property.

- Destruction of a single room in a structure with several rooms
- Curable harm to land caused by fire or flooding

Destroyed Property

Destroyed property is real and/or personal property that has sustained physical harm to the extent that use of the property is not possible. In addition, the harm to the property must be incurable, meaning that the cost to cure the harm would be greater than the cost to raze and rebuild the property. With respect to destroyed property, the term “destroyed” is defined as “physical destruction caused by a verifiable accident, including fire, flood or any other act of God.” A.R.S. [42-15157\(C\)](#).

Examples of destroyed property might include:

- Total collapse of a structure
- Incurable harm to the second floor of a structure
- Shifting of a structure on its foundation
- Collapse, overturn, or severe frame buckle of manufactured housing
- Water level in a structure at critical height (per municipal or insurance standards)
- Incurable harm to land caused by fire or flooding

Partially Damaged or Destroyed Property

Frequently, only a portion of a property is damaged or destroyed. In such a case, the extent of both the harm to the property and the consequent decrease in utility determine how the property should be treated for purposes of assessment.

- If the unharmed portion of the property is still functional, only that portion of the property that has been harmed can be considered damaged or destroyed, such as with wind damage to wood fencing or a completely collapsed porch.
- If the harmed portion of the property fully restricts use of the unharmed portion, the total property may be treated as damaged or destroyed. Examples include smoke damage from a forest fire that affects an entire structure or harm from a

landslide that significantly shifts a structure on its foundation, which in either case causes the property to be temporarily (damaged) or permanently (destroyed) unfit or nonfunctional for any use.

Note: If harm to a property is significant, and the property is uninhabitable, unusable, or condemned, the property should be considered salvage, rather than damaged or destroyed. For additional information, refer to the Department publication entitled [Salvage](#).

Reporting Damaged or Destroyed Property

Property that has been damaged or destroyed is typically reported by the taxpayer or taxpayer agent to the assessor of the county in which the property is located. See A.R.S. [42-13051](#) and [42-15053](#). The assessor can also set in motion the process to address damaged or destroyed property. The timing and extent of the harm to the property determines which form the taxpayer, agent, or assessor should use to report the same.

The taxpayer or agent may file one or more of the following:

- *Taxpayer Notice of Claim – Destroyed Property*⁵ (ADOR Form [82135C](#))
- *Taxpayer Notice of Claim – Real Property* (ADOR Form [82179B](#))
- *Taxpayer Notice of Claim – Multiple Parcel Form* (ADOR Form [82179BB](#))
- *Taxpayer Notice of Claim – Personal Property* (ADOR Form [82179PT](#))

See A.R.S. [42-15157\(A\)](#), [42-16251\(3\)\(e\)\(v\)](#), and [42-16254](#). The tax officer⁶ may issue a Notice of Proposed Correction and a supplemental notice of valuation and/or

⁵ Notwithstanding the name of this form (and the terminology used in A.R.S. [42-15157](#)), the form can be used to report both damaged and destroyed property.

⁶ “**Tax officer**” means the department, county assessor or county treasurer, as applicable.” A.R.S. [42-16251\(4\)](#) (emphasis added).

classification (referred to as a September Notice of Change).⁷ See A.R.S. [42-15157\(A\)](#), [42-16252](#), and [42-15105](#).

Note: A Notice of Claim or Notice of Proposed Correction is limited in its application to the period of time “during which the current owner held title to the property,” and also to “the **current tax year** in which the notice ... is filed and the three immediately preceding tax years.”^{8,9} A.R.S. [42-16256 \(A\) and \(B\)](#) (emphasis added). Alternatively, a September Notice of Change is limited in its application to a period of time that includes the majority of the **current valuation year** (from October 1 of the preceding year through September 30 of the current valuation year). A.R.S. [42-15105\(1\)](#). The difference in applicability of these notices is important to the proper notification and revaluation of damaged or destroyed property.

Regardless of which form is used to report damaged or destroyed property, the form must describe the basis for the claim and detail the proposed change in property value. Pertinent information should include the specific property that was damaged (improvement, land, personal); the date, cause, and extent of the damage; and potentially whether the damage has created a temporary or permanent location hazard.

Upon receiving a Notice of Claim, or prior to issuing a Notice of Proposed Correction, the assessor must perform a review to determine and verify the extent of the harm to the subject property and whether the property should be categorized as damaged or destroyed. See A.R.S. [42-16252](#) and [42-16254](#). The assessor must also consider the classification of the damaged or destroyed property.

⁷ A September Notice of Change is only applicable to locally assessed property.

⁸ The *Taxpayer Notice of Claim – Destroyed Property* (ADOR Form [82135C](#)) contains enough space to report damaged or destroyed property for only two tax years. This is because the valuation of damaged or destroyed property is typically addressed immediately. Even so, the limited space on the form does not prevent any claims allowed by statute.

⁹ Further limitations apply if the taxpayer consents to a proposed correction (limits on additional tax, interest, or penalty) or if a specific property tax error is established by a nonappealable court ruling (limits on additional assessment or refund). See A.R.S. [42-16252\(E\)](#) and [42-16256\(C\)](#).

Classification of Damaged or Destroyed Property

In Arizona, the classification of most property is based on the current use of the property (classification statutes describe each property class using phrases such as “used for” and “used as”). See A.R.S. [42-12001 to 42-12009](#). Current use is defined as “the use to which property is put at the time of valuation by the assessor or the department.”¹⁰ A.R.S. [42-11001\(4\)](#). See A.R.S. [42-11054\(C\)\(1\)](#).

Generally, the classification of property that has been damaged will not need to be changed, because the current use of such property is not typically changed. For the same reason, the classification of property that is only partially damaged or partially destroyed usually would not be changed.

However, the classification of destroyed property may need to be changed, depending on the timing of several events, which it is important to note, could occur over several assessment cycles.¹¹ Examples include the date of destruction and whether and when the owner chooses to rebuild the property.¹²

Destroyed property that is left unrestored or vacant over successive tax years, or for which an intended use has not been decided, generally should be classified as property Class Two.¹³ A.R.S. [42-12002 \(1\)\(f\) and \(2\)\(f\)](#). Even so, the classification of certain

¹⁰ The cited statutes employ the term “current usage,” rather than “current use.” However, the latter is preferred in this publication, in accordance with the industry standard.

¹¹ An assessment cycle consists of a valuation year and a tax year, which are defined as follows: “**Valuation year**’ means: (a) For real property ..., the calendar year preceding the year in which the taxes are levied. (b) For personal property, the calendar year in which the taxes are levied.” A.R.S. [42-11001\(20\) \(a\) and \(b\)](#) (emphasis added).

“**Tax year**’ for all property means the calendar year in which the taxes are levied.” A.R.S. [42-11001\(17\)](#) (emphasis added).

¹² Following a recent event in Arizona that destroyed numerous homes, statistics showed that nearly two years after the event, 26% of property owners had started to rebuild their homes. The associated construction permits were issued an average of 280 days after destruction, with the earliest permit being issued after 23 days and the latest after 527 days (1.44 years). In a separate destructive event, one residential building permit was not issued until after 1,560 days (4.27 years).

¹³ It is important to note that in the case of residential property subject to these circumstances, a change to Class Two could result in an increase, rather than a decrease, of taxable value, and also in the loss of the homeowner property tax rebate related to additional state aid for education.

damaged or destroyed property may be subject to A.R.S. [42-12051\(A\)](#), which states, in part, “For the purposes of classifying property ..., partially completed or vacant improvements on the land ... shall be **classified according to their intended use** as demonstrated by objective evidence.” (emphasis added).

In any event, “the county assessor may maintain the property classification in place on the date of destruction for a period of five years or until an objectively verifiable change in use occurs, whichever is sooner.” A.R.S. [42-15157\(B\)\(2\)](#). See A.R.S. [42-13302\(A\)\(2\)](#).

Note, however, that the designation of property as damaged (but not destroyed) is intended to provide only temporary relief, and such property should be reviewed annually to determine its current status. The potential for change in the classification of destroyed property, as discussed above, similarly warrants annual review of its status.

Valuation of Damaged or Destroyed Property

In Arizona, real property is valued annually (the valuation year) and taxes are levied in the following year (the tax year), while personal property is valued and taxed in the same year. A.R.S. [42-11001 \(17\) and \(20\) \(a\) and \(b\)](#). Additionally, valuation of most property in Arizona is based upon the [current use](#) of the property, rather than the appraisal industry standard of potential highest and best use.¹⁴ See A.R.S. [42-11054\(C\)\(1\)](#).

Because the classification of damaged or destroyed property might not change after being harmed, and because there are no distinct property classes for damaged or destroyed property, the same should be valued using standard appraisal methods and techniques, unless the property is subject to valuation by statutory prescription (e.g., agricultural land, golf course, shopping center, etc.). See A.R.S. [42-11001\(6\)](#) and [42-11054 \(A\)\(1\) and \(C\)\(1\)](#).

¹⁴ **Highest and Best Use:** The most reasonably probable use of property that is physically possible, legally permissible, financially feasible, and maximally productive (i.e., most profitable).

Note: Property that is intentionally removed and replaced for any reason other than damage or destruction caused by accident, fire, flood, storm, etc. (e.g., a business decision to tear down and rebuild) would **not** be eligible for the revaluation and proration procedures set forth herein. See A.R.S. [42-15157](#). See, e.g., A.R.S. [42-12106\(C\)](#), [42-13302\(A\)\(3\)](#), and [42-16251\(3\)\(e\)\(iii\)](#).

For additional information regarding the valuation of property, refer to the Department publication entitled [Approaches to Value](#).

Extension of Statutory Procedures

Currently, there are no laws or rules that directly prescribe valuation procedures for damaged property, partially damaged property, or partially destroyed property. There is, however, a statute that governs the valuation of destroyed property, which states, in pertinent part, “If a property is destroyed after the county assessor closes the rolls, the property owner may file a notice of claim pursuant to section 42-16254 or the county assessor may issue a notice of proposed correction pursuant to section 42-16252 to prorate the valuation of the property from the date of destruction.” A.R.S. [42-15157\(A\)](#).

In the absence of express statutory guidance regarding the valuation of damaged property, partially damaged property, and partially destroyed property, and in the interest of consistency in the application of related procedures prescribed for notices of value and property tax error correction, and pursuant to A.R.S. [42-11054\(A\)\(1\)](#) and [42-13051\(B\)\(2\)](#), the Department recommends that the valuation procedures prescribed for destroyed property also be applied to damaged property, partially damaged property, and partially destroyed property. See A.R.S. [42-15157](#).

Valuation Procedures

After the assessor verifies the condition of the damaged or destroyed property and the portion that is harmed, the property should be revalued in accordance with standard and

statutory appraisal methods and techniques. The cost to cure method¹⁵ may be especially helpful in estimating the value of the harm to the property. The information from the revaluation should be used by the assessor either to complete the Notice of Proposed Correction or to check the accuracy of the Notice of Claim.

Thereafter, the assessor and the taxpayer must come to an agreement regarding the details in the Notice of Proposed Correction or Notice of Claim, pursuant to A.R.S. [42-16252](#) or [42-16254](#). Upon reaching an agreement, the assessor must prorate the value of the damaged or destroyed property from the lien date¹⁶ to the date of destruction.¹⁷ A.R.S. [42-15157 \(A\) and \(B\)\(1\)](#). Upon computing the prorated value of the property for the current tax year, the assessor must report the change in valuation or assessment to the Department. A.R.S. [42-11056\(B\)](#).

The proration procedure addresses the necessary revaluation of damaged or destroyed property with respect to the current tax year (and the three immediately preceding tax years, if applicable). See A.R.S. [42-16256\(B\)](#). However, the damaged or destroyed property must also be addressed with respect to the current valuation year, or in other words, the **upcoming** tax year. In the absence of statutory guidance to address this requirement, and in accordance with A.R.S. [42-11054\(A\)\(1\)](#) and [42-13051\(B\)\(2\)](#), the Department recommends the following procedure.

The assessor should revalue the damaged or destroyed property for the upcoming tax year in accordance with standard and statutory appraisal methods and techniques. If the property is not subject to an appeal, the assessor should notify the taxpayer of the revaluation using a September Notice of Change, as long as the notice can be made prior to September 30 of the current valuation year. A.R.S. [42-15105\(1\)](#). The September

¹⁵ An appraisal method used to estimate an adjustment to the value of harmed property equal to the amount it would cost to restore the property to its original state.

¹⁶ The lien date for real and personal property is January 1 of the tax year. A.R.S. [42-17153 \(A\) and \(C\)\(1\)](#).

¹⁷ It is important to note that a change in value placed into effect after the lien date can create a deficit with respect to the property tax amount secured by the lien.

Notice of Change is the only available method by which the assessor could comply with notice and appeal requirements related to the property value, which was already listed,¹⁸ set,¹⁹ and potentially noticed²⁰ for the upcoming tax year. However, if the property is subject to an appeal, the revaluation and notification should occur as part of that process. For additional information regarding appeals, refer to the Department publication entitled [The Appeals Process](#). If the use of a September Notice of Change is not possible, the assessor could discuss with the taxpayer the option of filing a second Notice of Claim or Notice of Proposed Correction.

There are certain gaps and overlaps that exist between and among the legal events and assessments that relate to the valuation of damaged or destroyed property, as well as local valuation procedures that differ by county, all of which can present exceptions to the procedures set forth above.

Revaluation Management

Improvements Under Reconstruction

If a destroyed property improvement is removed to rebuild another improvement, the assessor may maintain any slabs or site improvements and apply the appropriate property classification intended for the improvement under construction. See A.R.S. [42-12051 \(A\) and \(B\)](#).

Long-Term or Permanent Condition

In cases where harm to property is caused by a long-term or permanent condition, that condition may be reflected in the property value by adjusting the land value and applying appropriate obsolescence to the improvements. Such permanent adjustments must be documented and justified in assessor records.

¹⁸ The assessor must complete and certify the assessment roll on or before December 20 of each year. A.R.S. [42-15153\(A\)](#).

¹⁹ The valuation date for real property is January 1 of the valuation year. A.R.S. [42-11001\(19\)](#).

²⁰ The Notice of Value must be delivered on any date before March 1 of the valuation year. A.R.S. [42-15101\(A\)](#).

Partially Harmed Property

Although different techniques can be applied to the treatment of partially harmed property in a computer valuation system (whether a cost or market system), one technique is to set the property to a partial-complete status and enter a percent complete to apportion the value between harmed and unharmed property.

Limited Property Valuation

Real property and manufactured housing (which is usually personal property) are assessed based upon limited property value, rather than full cash value.²¹ Ariz. Const. art. IX, sec. [18\(3\)\(b\)](#) and A.R.S. [42-11001\(7\)\(b\)](#). See A.R.S. [42-13301 to 42-13304](#). For additional information, refer to the Department publication entitled [Limited Property Value](#).

When a property is damaged or destroyed, there are several factors to consider related to limited property value, such as whether the harm to the property triggers the application of Rule B to determine the limited property value,²² and when and how to properly apply Rule B. For the purposes of this section, it is assumed that Rule B applies.

Rule B and the Assessment Cycle

When Rule B is used to redetermine the limited property value of damaged or destroyed property, it must be applied with respect to the current tax year, rather than the current valuation year (i.e., upcoming tax year). The error correction statutes identify the current tax year as the year to which a valuation adjustment for harm to property must be applied. A.R.S. [42-16256\(B\)](#). See A.R.S. [42-15157 \(A\) and \(B\)\(1\)](#).²³ As such, the assessor will apply Rule B to re-estimate the limited property value that is applicable to

²¹ Locally assessed personal property (i.e., business personal property), not including manufactured housing, is assessed based upon full cash value. A.R.S. [42-11001\(6\)](#) and [42-13304\(1\)](#).

²² There are two methods by which the limited property value can increase from one valuation year to the next. These methods are referred to as “Rule A” (A.R.S. [42-13301](#)) and “Rule B” (A.R.S. [42-13302](#)).

²³ References to the error correction notices and lien date confirm application to the tax year.

the current tax year. For the upcoming tax year, either Rule A or Rule B should be applied to calculate the limited property value, pursuant to A.R.S. [42-13301](#) and [42-13302\(A\) \(2\) and \(3\)](#).

Rule B and Proration

The application of Rule B to determine the limited property value of damaged or destroyed property must be restricted to that portion of the current tax year during which the property was harmed. Thus, to calculate the final prorated value, the assessor must apportion the year using the date of the harm as the dividing point, and consider together two different property values—the previously-determined value of the unharmed property, and the re-determined value (by Rule B) of the harmed property.