NEWS RELEASE

Arizona Supreme Court
Administrative Office of the Courts

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Arizona Supreme Court Clarifies How Qualifying Agricultural Property Must Be Valued for Property Tax Purposes

PHOENIX – The Arizona Supreme Court today held that for property tax purposes, orchard trees, vineyard vines, and other permanent crops that qualify as agricultural property under Arizona law must be valued under the same income-based methodology that applies to qualifying agricultural land and may not be separately valued at market value.

The case arose after Cochise County valued agricultural land using the statutory income approach but also assigned separate market values to orchard trees and vineyard vines, increasing the taxable value of the properties. Agricultural landowners challenged that practice, arguing it conflicted with Arizona's agricultural-property tax statutes.

The Supreme Court concluded that Arizona's agricultural-property statutes create a unified framework. One statute identifies what property qualifies for agricultural classification, while another prescribes the exclusive method for valuing that property—an income approach based on the property's agricultural use rather than market influences. Reading those statutes together, the Court held that permanent crops are part of the qualifying agricultural property and are not subject to a separate tax.

Justice Maria Elena Cruz, writing for the unanimous Court, explained that allowing assessors to assign a separate market value to permanent crops would reintroduce market considerations that the Legislature expressly directed assessors to disregard when valuing agricultural property. It also determined that separately valuing the crops after applying the statutory income approach would effectively subject the same agricultural value to two valuation methodologies, contrary to the Legislature's prohibition against double taxation.

The Court further held that although the Arizona Department of Revenue has authority to issue manuals and guidance implementing the tax statutes, administrative guidance cannot alter or expand the valuation methods established by the Legislature. Accordingly, the Court ruled that the Department's Agricultural Property Manual is unenforceable to the extent it requires assessors to separately assign market values to permanent crops in addition to valuing qualifying agricultural property under the statutory income approach.

The Court affirmed the tax court's judgment. Although the Court agreed with the court of appeals' ultimate decision, it vacated that opinion and replaced it with its own reasoning.

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