RETC PROPERTY TAX CONSULTANTS

Minimizing Your Property Tax Valuations

CONSTRUCTION® BUSINESS OWNER
THE LEADING BUSINESS MAGAZINE FOR CONTRACTORS

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Understand state laws, deadlines, reporting requirements, exemptions and appeals.

With the economy in an upswing and the number of construction contracts on the rise, many states will look to increase revenue by turning to local appraisers to seek additional value in both real property and personal property across all industries, including construction. Most companies are aware of the property taxes associated with real property; however, personal property is easily overlooked or overreported to the local appraisers. This mistake can result in significant penalties or overpayment in a company's property bill. Several points of interest should be considered to ensure property taxes are fairly reported.

State Laws

Each state and taxing jurisdiction will have its own laws that distinguish what is considered and taxed as personal or real property. Real property that is appraised typically includes the land and improvements permanently affixed to the land. Personal property is typically defined as all property not permanently attached to the real estate, including machinery and equipment, furniture and fixtures, computer equipment, vehicles and inventory. As construction commences in a new location, construction owners must ensure they are compliant with state and local laws while also taking care to avoid over-reporting items that are exempt or nontaxable either as personal or real property. For information on state laws, visit the state's Department of Revenue website or the local taxing authorities' website.

Deadlines

Since the deadlines to file returns and appeals and pay bills vary from state to state, setting up a calendar with the deadlines in each location where a construction firm is currently operating is beneficial and recommended. Doing so will ensure compliance with the district's laws, keep owners from paying any penalties and interest, and prevent liens from being put on property. The key items to include on the calendar are as follows:

Assessment Date – This is the effective date the valuation of the property is appraised. In most states, this is typically “as of” January 1.

Return Deadline – The reports to the districts must be filed by this day. Note that this date could be considered by postmark or “received by date,” depending on the district.

Appeal Deadline – This is the deadline to file an appeal on either the personal or real property account. Some districts require a filing fee, and this date can vary depending on when the district sends the valuation notice.

Tax Bill Due Date – Some taxing jurisdictions require multiple payments throughout the year, and some will have one full payment deadline.

Reporting

Some states do not place a tax on personal property; however, the ones that do tax personal property have a reporting requirement. The taxing authority typically looks at a specific date of appraisal in order to value the property that is being taxed. That date is typically “as of” January 1; however, some states have different assessment dates, such as July 1 in Nevada. For example, if a construction owner is holding $1 million in inventory as of January 1 in Texas, the owner would need to report the inventory to the assessing authority. If the owner can sell or transfer the inventory prior to the assessment date, the inventory would not be reported and taxed. The rendering of these assets will usually include the taxpayer’s tangible fixed assets including machinery and equipment, furniture and fixtures, computerized equipment, vehicles and inventory. If the reporting requirement is not met, then the taxing authorities can impose penalties and interest for noncompliance.

Most personal property can be categorized into a depreciation table based on the typical life of the property type. These tables are different from generally accepted accounting principles (GAAP) or federal depreciation tables, because they attempt to determine the market value of the property. A professional property tax adviser can help proactively review the filing methodology and identify asset classification issues that have not been previously identified or corrected. This process typically involves scrubbing the fixed asset listing to remove any ghost or duplicated assets that should not be reported on the initial filings and that would otherwise be included on a federal depreciation schedule. An adviser would typically gain an understanding of the business and the use of assets in order to categorize assets in the fastest depreciation table allowable as well as identify any issues that would warrant additional depreciation.

Exemptions

Some state laws allow for certain exemptions in property tax. A property tax adviser can also assist in identifying and obtaining the exemptions in order to maximize the tax-saving opportunities. Examples of possible exemption opportunities include inventory exemptions and the identification of exempt assets by jurisdictional laws or regulations. These opportunities are important to note when operating in a new district in order to take advantage of the exemptions that reduce the overall tax liability, inherently increasing the project’s profit.

Appeals

If the value that has been placed on either real or personal property is overstated by the taxing authority, construction owners have the option to appeal the value to an authority. Each state has its own deadline to file these appeals that is either set from year to year or set a number of days from when the valuation notice was mailed to the company. The valuation disputes can sometimes be resolved informally with the authority; however, in some cases, the valuation dispute may need to be resolved in a more formal format. Be sure to understand the rules and necessary information needed to present the formal appeal to the district. Note that the formal format may require an attorney in certain states. Some states do offer further appeal options if the outcome of the formal appeal does not resolve the valuation issue. Construction owners must understand the various tax laws and deadlines in each state they operate within to ensure they are following the proper procedures. Although the 2013 filing deadline has passed, late appeals can be filed in certain states. For example, Texas allows late filing until Jan. 31, 2014. Construction owners should research which states have multiple deadlines for appeals using their state's Department of Revenue or the local jurisdiction's website. They should seek the help of a tax consultant if they are uncertain or do not fully understand the valuation methods or property tax-saving opportunities. Property tax advisers understand the local valuation methodologies, market conditions and tax laws and can help construction owners remain compliant with the taxing authority. As an added benefit, they also can ensure construction owners are taking advantage of any and all exemptions to help reduce the value paid on the tax bill, which can translate into savings.