

# property Taxfacts

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## Property Tax in a Changing Environment

Recent projections point to distressed and delinquent commercial real estate loans tripling this year. This means more commercial properties are heading for foreclosure. This also means that state and local budgets will be behind the 8 ball when it comes to property tax revenue for the next few years. How can you make sure they aren't passing an unfair share of that cost on to you...the viable taxpayer? It becomes vital that you are aware of your property's assessment, taxes and appeal rights.

However, according to the National Conference of State Legislators, "Property taxes, which generally are not well understood, make up one of the most complex revenue systems used at the state and local levels."

Most of us know property taxes are tied to a tangible asset's value in some manner. In most states, this is the market value of the asset at some statutory level referred to as the Taxable or Assessed Value. Going one step further, once the Market Value is established and the taxable ratio is known the equalization factor raises its head. The equalization factor helps level the playing field from one county to another. It mitigates any advantage one county may have over another due to the accuracy of its valuation methodology or any underlying incentives it may offer for political advantage over adjoining counties.

So, you have the market value of your property times the ratio and that gives you the assessed or taxable value. That is then multiplied by the equalization factor, which is issued by the county or state or both, to give you the final or equalized value. The equalized value is very important when dealing with property taxes. It, along with all of the state, county, city and town budgets, determines what you will pay in taxes next

year. Simply put, the budget is divided by the equalized value to arrive at a tax rate which is used to calculate your annual property tax. Whew....and you thought this was easy!

Given the above, let's look at what determines your property's market value. The most frequent method is an appraisal report completed by a certified appraiser. Alternatively there is the income or the sales approaches to value. As you might figure, the sales approach takes into account recent sales of your property or comparable ones; the income approach looks at the adjusted income the property is generating. Both the income and the sales approaches to value are typically included in any full appraisal report.

While we are in what many economists are describing as the worst recession since the Great Depression taxpayers are experiencing a sense of desperation when the reduced value of their real property does not result in lower property taxes. This is the result of the basis of property tax. First, the property tax is an ad valorem "at value" tax. As such, each taxpayer pays their share of the tax revenue needed to run the local taxing bodies. The same factors that are depressing the value of your property are depressing everyone else. So, in effect your share of the pie has not changed. Second, due to the recession the number of sales that occur are limited and many of these are questionable. This makes it difficult, but not impossible, to argue that they reflect fair market value. During recessionary times tax assessors are generally remiss in taking action to reduce their assessment rolls. They reason that if they reduce all properties by the same % it will have no impact on tax bills. However, for those taxpayers that are aggressive and successfully appeal their assessment will see a reduction.

### *TIME SURE FLYS!!*

*It's been 20 years since E&A opened its doors!! There have been a lot of changes since 1989...but one thing has remained constant. That's our dedication to our clients and the continued wonderful relationships we have enjoyed with them.*

*We thank all of you for your support. We could not have done it without you!!*

*Ennes & Associates, Inc.*

This brings us to the crux of the matter. How do you measure changing values? Some states, like Georgia and Arkansas have enacted legislation directing taxing authorities to consider adjusting properties' market value in consideration of the recent downturn. Georgia has expanded their criteria for determining market value to include foreclosure or distressed sales or other financial institution owned sales. Arkansas has legislated guidelines for counties not currently reassessing to adjust values to reflect the current downturn.

However, if you want to check that your value reflects the current market trends there are several ways to proceed. The proper way to measure change is to determine time on the market, inventory levels and absorption factors for specific groups of properties. In addition, you need to monitor your market area and determine if it is better or worse than the city, region, state or nation. Recent sales or listings (within 6 months), regional micro economic factors such as employment levels, income, job growth and property development also are

## FYI.....

**Maryland**—For taxable years beginning after June 30<sup>th</sup> 2009 the State may grant a property tax exemption for certain manufacturing personal property if the owner files an application within six months after the date for the first assessment notice for the taxable year that included personal property. Once the State approves the application the exemption will become effective.

**Montana**—In order to keep an operation in business county governing bodies or consolidated local governments may jointly reduce by 95% the taxable value of commercial real property improvement, personal property or and combination of that property other than land that is subject to taxation. Due notice and a public hearing must precede the joint resolution. A separate resolution must be issued for each commercial or industrial property.

**Washington**— Recent legislation states that by January 1, 2014 all taxable real property within a county must be revalued annually for property tax purposes. Upon request, the Department of Revenue will provide advisory appraisals for industrial properties valued at \$25 million or more.

**Missouri**—Appeal deadlines are changing for some taxpayers in Missouri. The City of St. Louis, St. Louis County, Jackson County and St. Charles County will now have a deadline for Board of Equalization appeals of July 13, 2009. These hearings must be completed by the last Saturday in August. All State Tax Commission appeals will be due by September 30, 2009.

**California**—You are invited to put your two cents in to the rulemaking process by the California State Board of Equalization. They recently released a draft of revised property tax rules pertaining to business property audits of locally assessed properties. You can view the document at [www.boe.ca.gov/proptaxes/auditrulestimeline.html](http://www.boe.ca.gov/proptaxes/auditrulestimeline.html)

contributing factors. Finding comparable properties on your own is time consuming at best.

With the help of the internet it is a little less daunting, however there are a number of items you must be aware of when considering a comparable. First you must know the breakdown between land and improvements. Then, you must consider all of the components that contribute to each property's value i.e. land size, improvement size, garages, outbuildings, paving, use, etc. Once you have identified at least 4 comparables, you are in a better position to identify the trend for your area and how that affects the value of your property.

Here at Ennes, we provide full services to comply with all elements of the changing property tax environment and strive to take any jurisdiction to task to ensure our client's pay only their fair share.



## *Gentle Spring!?*

Compared to recent years this year's spring was fairly docile. Even so, there were plenty of stories of floods, fires and tornadoes...and the hurricane season hasn't happened yet.

However, if your property has suffered any type of damage from Mother Nature be aware that property tax relief is a possibility. Real estate is valued as of the assessment date and taxes are paid on that value as of the lien date in spite of any catastrophe that happens after that date. (although in extreme cases, like Katrina, immediate temporary relief is sometimes available) While in some instances it is possible to reduce the assessment for the current year, most statutes dictate these disasters be considered in the following year.

Even if the property has been restored by the subsequent assessment date, it is very often possible to have the value prorated for the period covering the time from the damage through reconstruction.

While we attempt to monitor natural disasters and the impact they may have on our clients' facilities, it is impossible for our office to investigate all sites. In addition, in some instances, there are time constraints which determine when an assessment can be adjusted. So, it is very important for our clients to keep us apprised of any damage. Don't let it be a complete loss!