

National Conference of State Legislatures

Property Tax Seminar

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Presented by:

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Agenda

- Administrative Principles
- Property Tax Overview
 - Basic Calculation
 - Administrative Complexity
- COST Analysis & Scorecard
- Administrative Issues
- NCSL Tax Task Force:

Why does this matter?

How can State legislators Help?

Property Tax Administrative Challenges

Why is this Important?

- 9,000 assessing jurisdictions & 250,000 taxing jurisdictions
- State & local governments have limited resources to administer taxes
- Taxpayers are striving to comply in a more cost efficient manner

What Role do State Legislators Have?

- State lawmakers should consider enacting laws that require local assessors to administer property tax in a consistent manner with central oversight
- Drive Administrative Simplification within your state

Property Tax Administration Principles

- Uniform Tax Base within a State
- Efficient Filing & Reporting Procedures...Use of Technology
- Centralized Review & Uniform Appeal Procedures
- Tax Payment Requirements on Contested Valuations

Public Opinion on Property Taxes

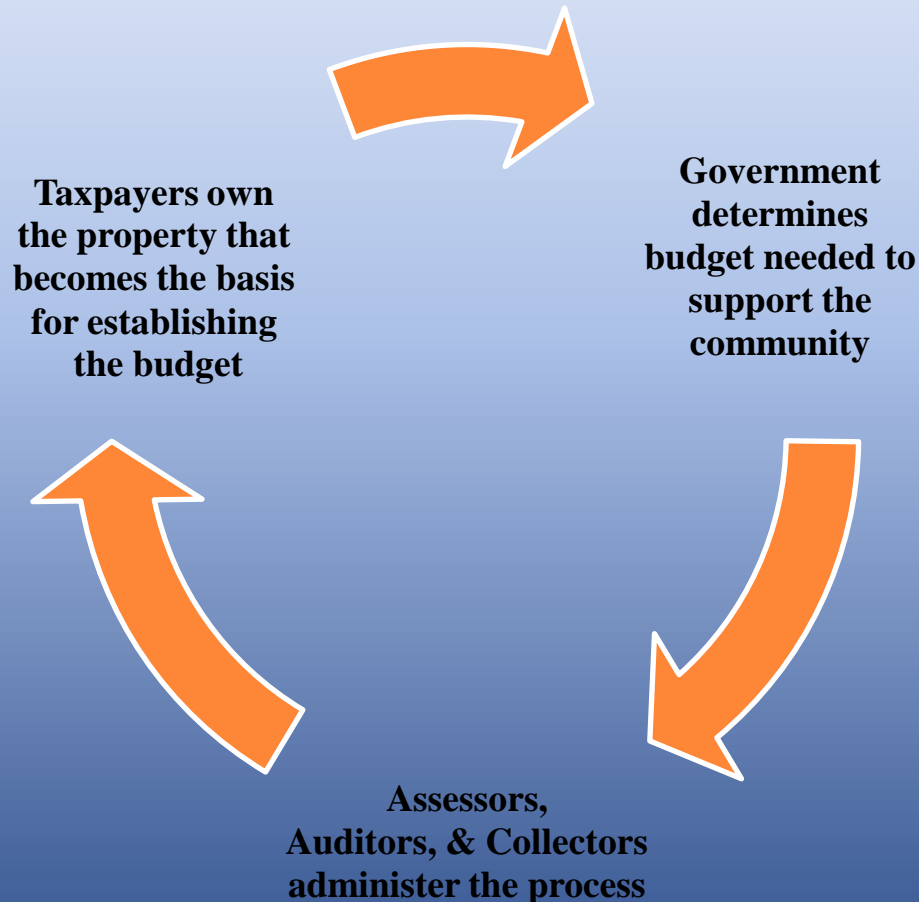
AEI (American Enterprise Institute for Public Policy Research) has compiled surveys for over 75 years on tax burdens. From its Public Opinion on Taxes (Updated April, 2012):

Surveys suggest that the local property tax is now seen as more onerous than the federal income tax. 36% of folks surveyed in Feb./Mar. 2003 told Kaiser/NPR/Harvard that the property tax was the tax they disliked the most, followed by 29% who chose the income tax. Gallup shows a substantial jump since the late 1980s in the proportion of people mentioning the local property tax as the worst or least fair tax. In their April 2005 poll, 42% gave that response. Only 20% said the federal income tax was the worst tax.

Property Tax Snapshot

- Basic Property Tax Calculation

- $Value * Rate = Tax$



Is the Tax Cycle this Basic?

Non-uniform Processes

Lien Date Value

- Fair market value based on exchange (willing buyer and seller)

Adjustments to Prior Valuation

- Any recent sales of actual property (verify arm's length)
- Comparable sales of surrounding properties – sales ratios
- Income adjustments
- Replacement cost adjustments
- Improvements/Obsolescence
- Special property valuation – *e.g.*, agricultural land (value in use v. exchange)

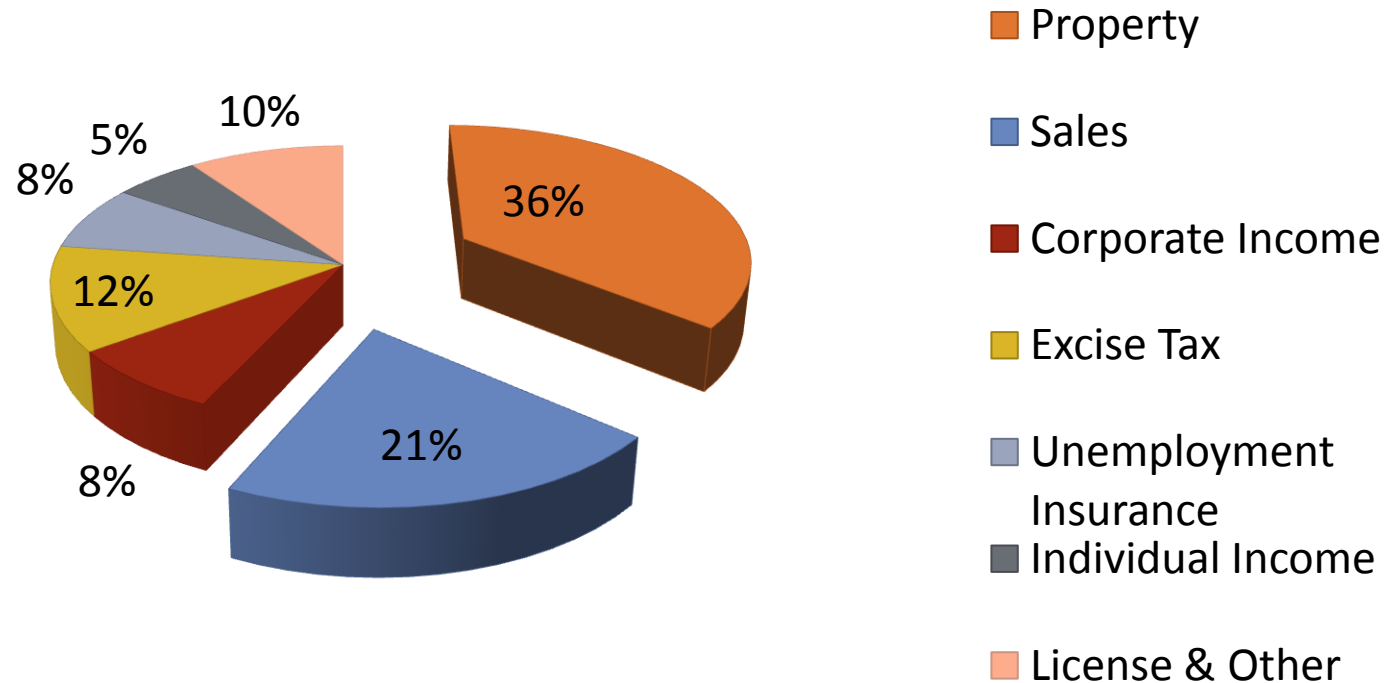
Taxable Value

- Assessment rate adjustments
- Equalization rate adjustments
- Removal of exempt property/value – *e.g.*, homestead exemption
- Application of valuation caps

Tax Rates

- Statutory rate
- Fixed rate or limited growth levy adjustments
- Tax rate caps

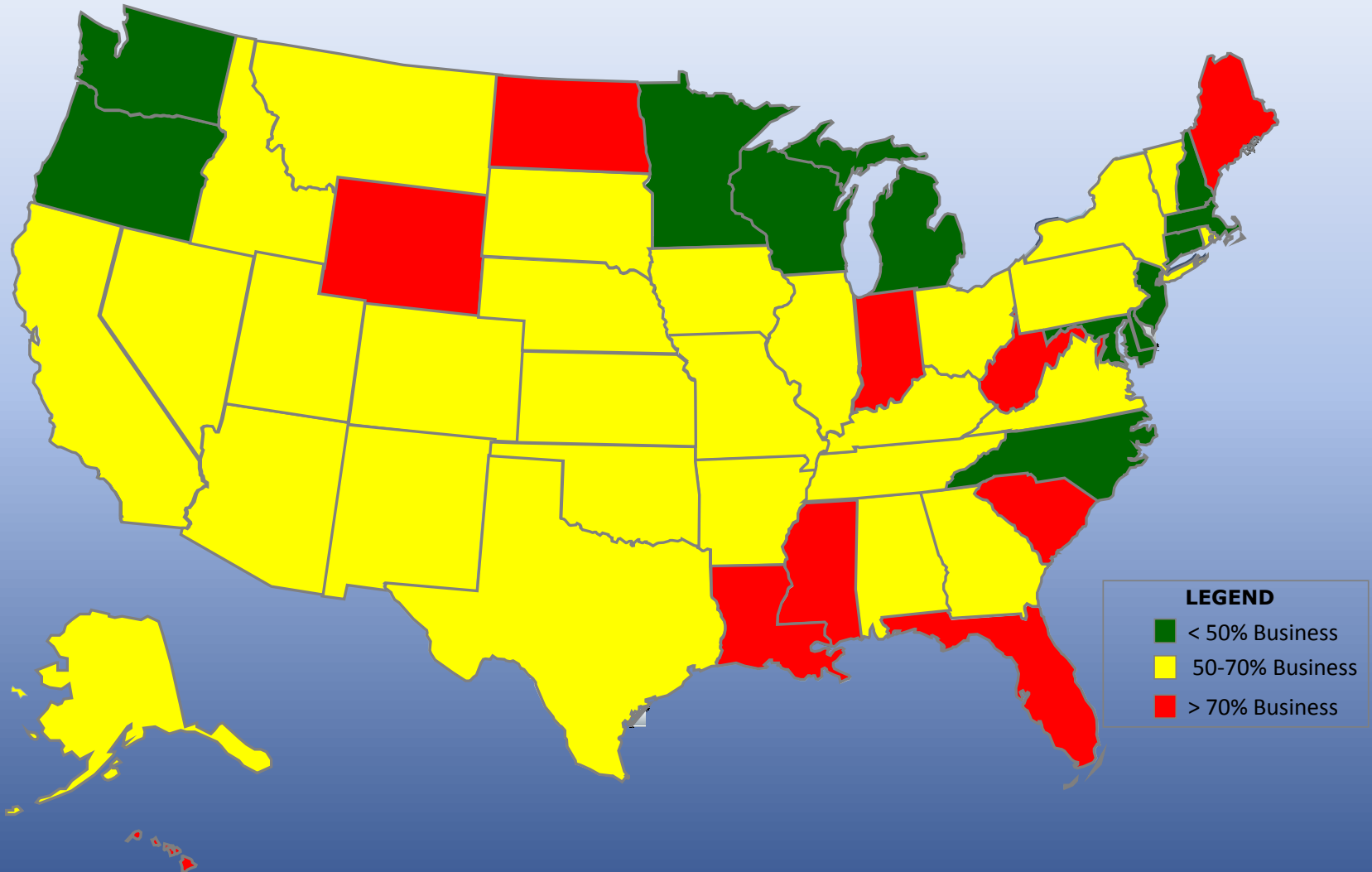
FY 2013 Total U.S. State & Local Business Taxes



Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2013 – Ernst & Young LLP / COST

State and Local Property Tax Revenue

Business v. Residential Burden



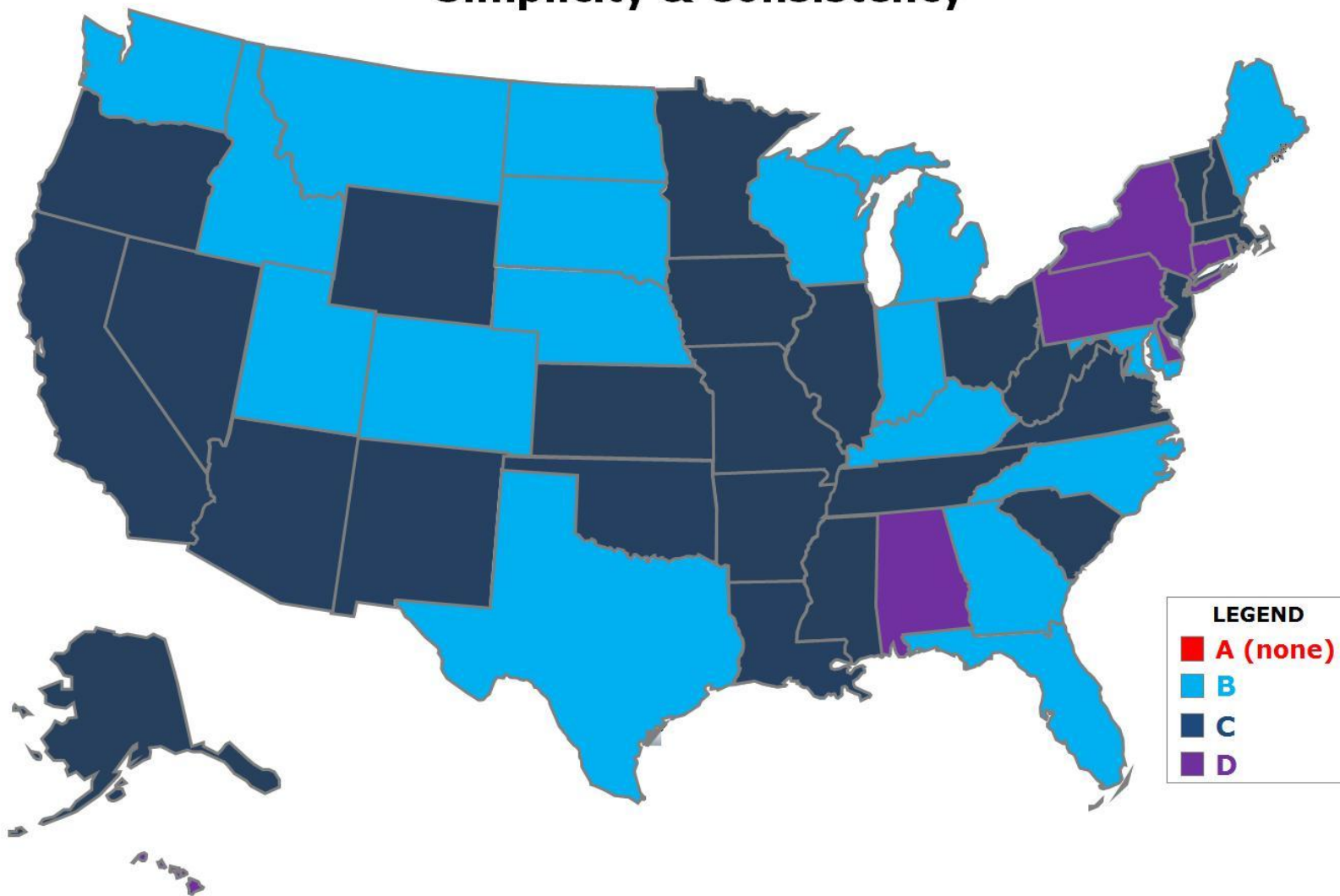
COST Analysis & Scorecard

- Information obtained from Cost members, Practitioners, States, CCH, ABA, and other property tax sources
- Advocating for Improvement
- Key Sections:
 - Transparency
 - Simplicity and consistency
 - Fairness and effectiveness

United States, as compared to other nations, had less favorable grades

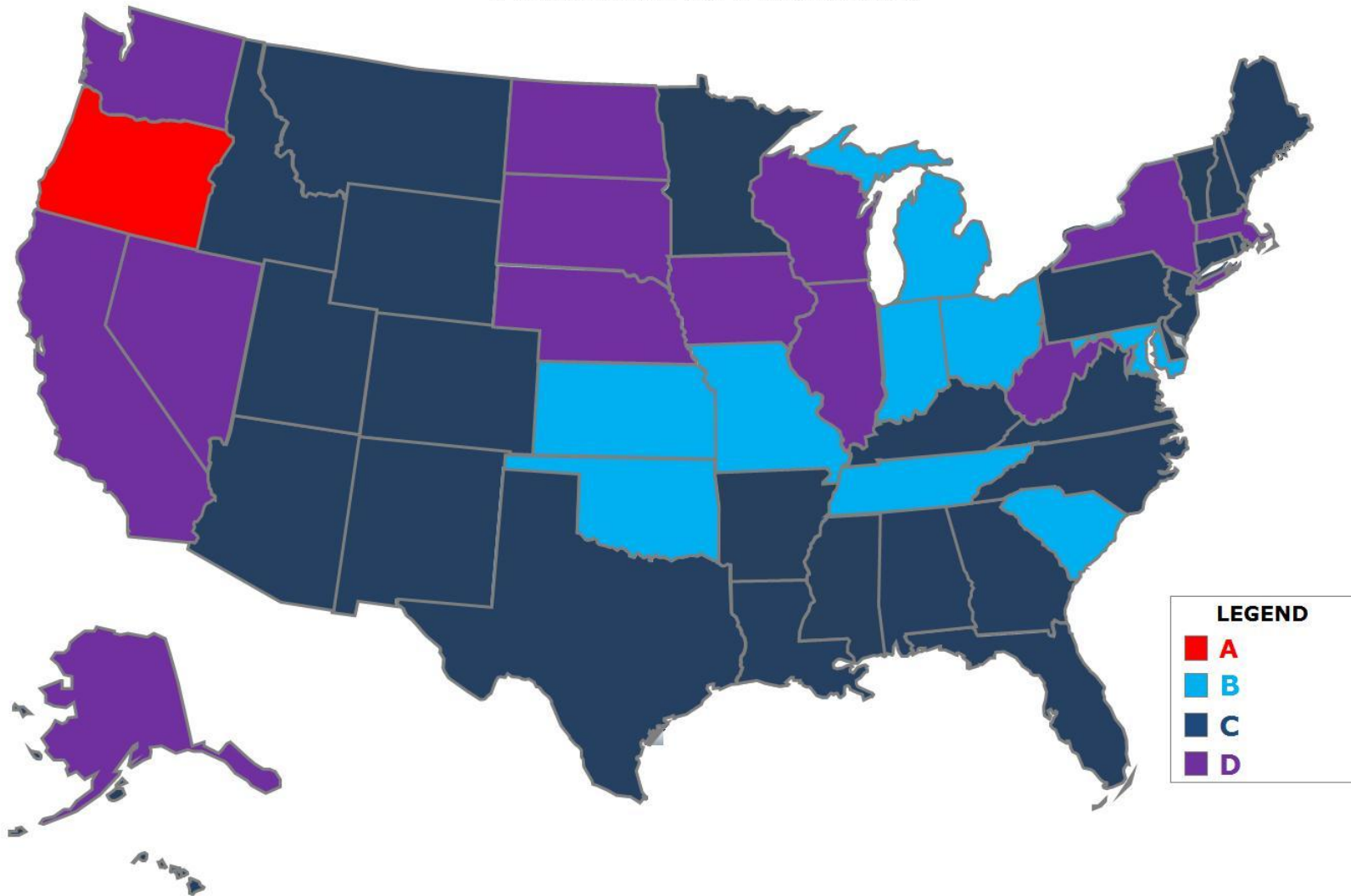
2014 PROPERTY TAX ADMINISTRATION SCORECARD

Simplicity & Consistency

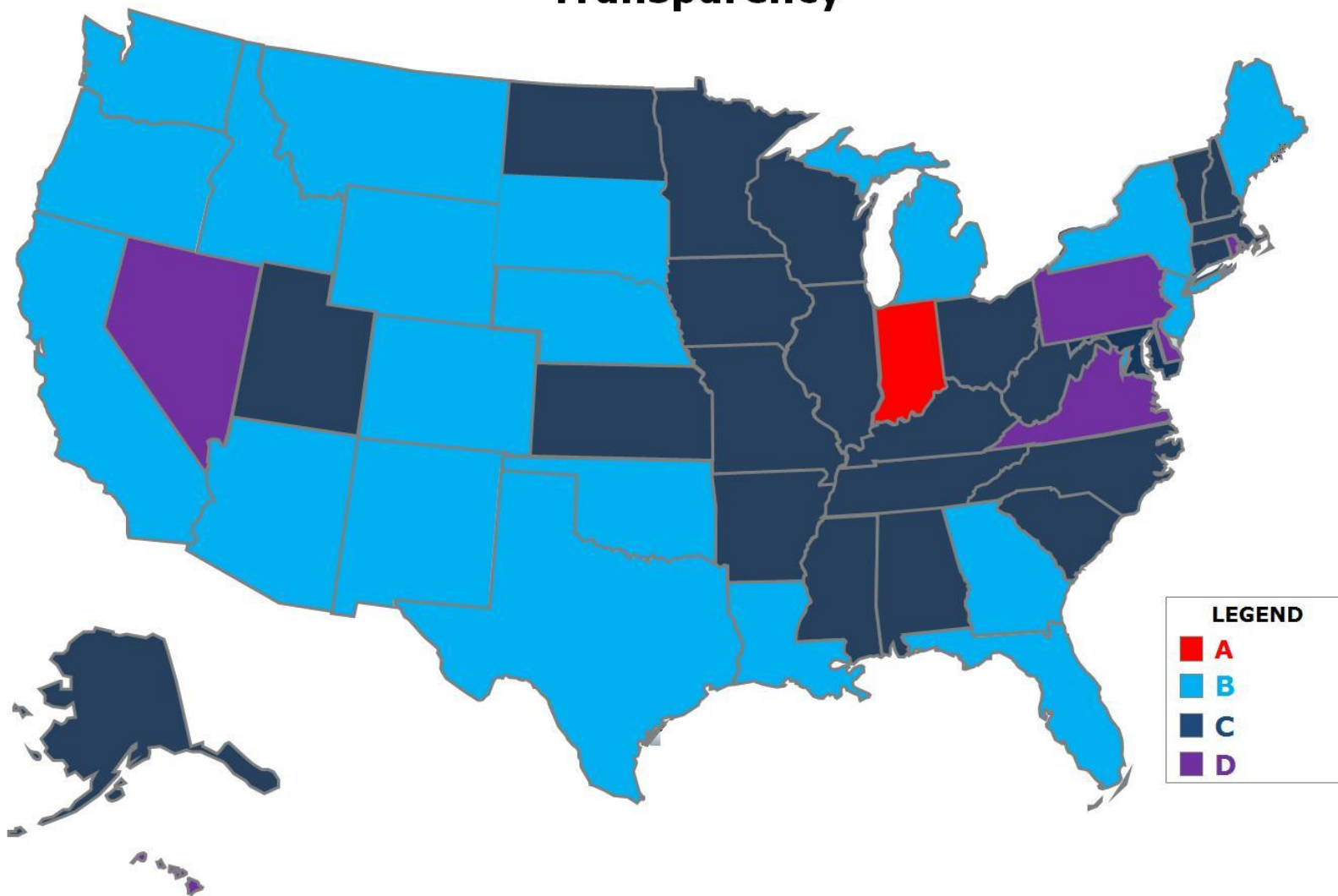


2014 PROPERTY TAX ADMINISTRATION SCORECARD

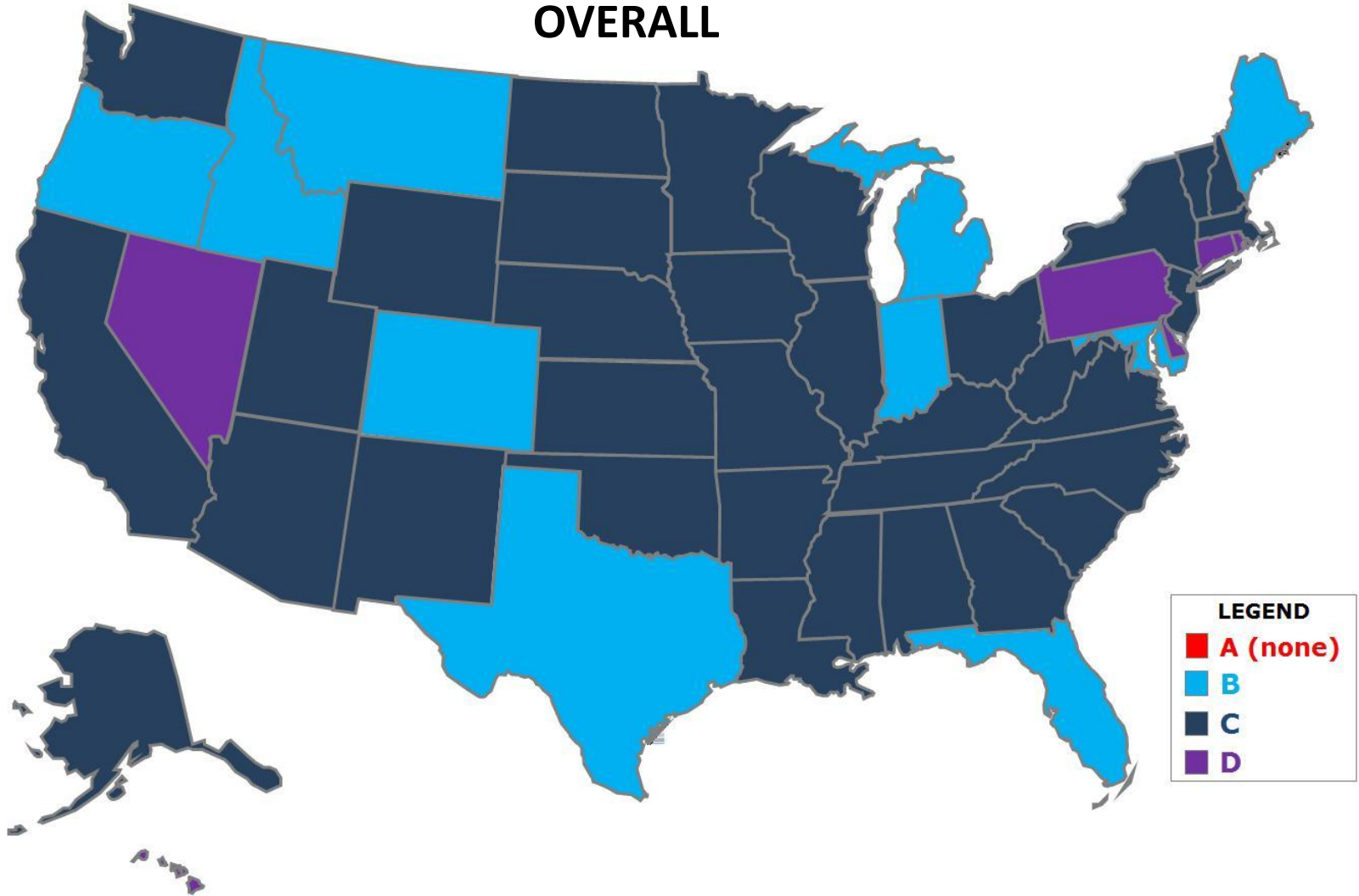
Procedural Fairness



2014 PROPERTY TAX ADMINISTRATION SCORECARD



2014 PROPERTY TAX ADMINISTRATION SCORECARD GRADES OVERALL



Administrative Complexity

Assessment of Tax

- State vs. local assessments
 - *Best Practice*: Complex business properties should have state (centralized) level assessment & appeal
 - Expertise resides at the state level = more accurate valuation for Complex properties
 - *Caution*: Abusive use of the Income Approach or Unit Valuation Approach may inappropriately include intangibles and pick up value that shouldn't be in the base

Case Study: Third Party Intervenor

Scenario: The Taxpayer and the Assessor have been working together to establish a fair market value of the recently acquired property. The sales price of \$20M included non-taxable items such as intangibles/goodwill and personal property. The taxpayer and assessor agree to a fair and equitable value of \$18.5M for property tax purposes. An Allegheny County, Pennsylvania, School District files an underassessment appeal based on the reported selling price.

Comments:

- This case requires the taxpayer to negotiate a settlement on their value with both the assessor and the school district
 - How many third party appeals are filed on residential properties?
- State law should limit the authority to establish value to that of the assessor (if Complex property, preferably centralized at state level)

Administrative Complexity

Revaluation Periods / Uniformity Issues:

- Annual Reassessment - *majority of states*
 - Examples: Texas, Minnesota
- Biennial Reassessment
 - Examples: Iowa, Colorado, Missouri
- Triennial Reassessment
 - Examples: Ohio, Maryland
- Rolling Reassessments
 - Examples: Pennsylvania, Wisconsin
- Underassessment Appeal brought by on Third Parties
 - Examples: Pennsylvania, Ohio, Oklahoma, Illinois

Best Practice: Every 2 to 3 years is most efficient

Administrative Complexity

Paying Tax on Contested Valuations:

Tax bill payment options:

- Pay on an initial assessment
- Escrow tax bill payment
- Pay on standard percentage for properties under appeal

Examples:

- Georgia allows tax payment at 85% of the initial valuation
- New York requires full payment of taxes before moving to court
- New Mexico allows payment only on the undisputed portion of tax

Best Practice: Pay on the undisputed portion of tax – *same treatment most states provide taxpayers appealing corporate income tax and/or sales and use tax assessments*

Case Study: Fair and Equal Tax System

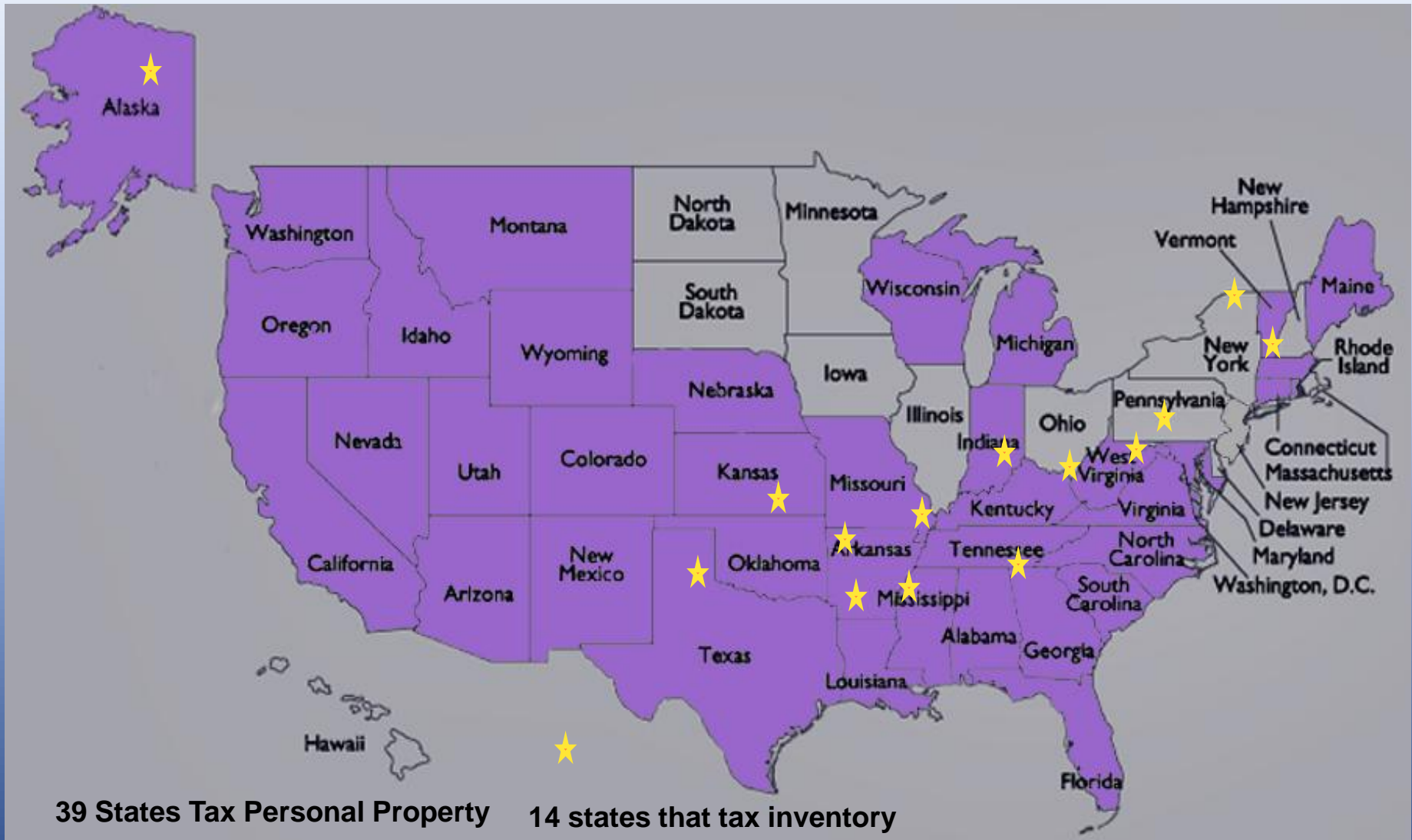
Scenario: An appeal was filed for a manufacturing plant located in the state of Washington based on support of an appraisal value of \$15M. The current assessed FMV is \$18.5M. Since the court date is set for next year, the taxpayer will pay taxes based on the appraisal value of \$15M. Depending on the court decision, the taxpayer may be accountable for an additional fee plus penalty and interest, if they do not achieve a full reduction to \$15M.

Comments:

- In this scenario, burden on both taxpayer and tax jurisdiction to resolve matter quickly
- States like NY and WV require taxpayers to pay on the assessed FMV...Pay to Play. No burden on tax jurisdiction to resolve matter. In most instances, if taxpayer prevails...taxing jurisdiction has already spent tax dollars.

Administrative Complexity – Personal Property Taxes

(Including States Taxing Inventory)



Case Study: Site Selection

Scenario: Property tax manager for a company has been asked to look at the following locations to build a plant. The facility will cost \$25 million, 50/50 split between real and personal property. Assume states are matching other types of financial incentives, where would you build the plant?

Lowest Tax Locations

- Virginia Beach, VA \$256.7k in yearly property taxes
- Wilmington, DE \$265.2k in yearly property taxes

Highest Tax Locations

- Columbia, SC \$1,751.4k in yearly property taxes
- Detroit, MI \$1,504.3k in yearly property taxes

Decision Points For NCSL Tax Task Force

Consideration & Suggested Next Step:

- Resolution with suggested guidelines to assist state lawmakers in implementing good property tax administrative practices in a consistent manner that includes the following principles:
 - Uniform Tax Base within a State
 - Efficient Filing & Reporting Procedures
 - Centralized Review & Uniform Appeal Procedures
 - Tax Payment Requirements on Contested Valuations

Q&A