

# Managing Multistate Real and Personal Property Tax Liabilities

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# Presenter



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## Disclaimer

1. Presentation is intended to make participants aware of property tax issues that may apply to their business.
2. Information presented herein is not intended to be tax advice.
3. Please consult with a qualified practitioner for tax advice related to specific transactions.



# Agenda

- Introduction
- Overview of Property Taxation
- Managing Valuation and Assessments
- Common Property Tax Traps and Pitfalls
- Trends in State Administration of Property Tax

# Overview of Property Taxation

# Overview of Property Taxation

## Overview

- Every state in the country taxes property in some form
  - Property tax makes up a significant portion of state and local tax revenue
- Most states have a dual property tax system (taxing both real and personal property)
  - Recent trends to eliminate or reduce personal property tax
  - Often replaced with gross receipts or business activity tax
- Property taxation funds a variety of state and local government functions including:
  - Schools
  - Police and fire departments
  - Public libraries
  - Vocational schools
  - Roads
- Generally, local government controls process with oversight by the state

# Overview of Property Taxation

## Valuation

- Valuation is determined by a variety of methods:
  - County Reassessment
  - Self-Assessment / Return Filing
  - Audit
  - Appeal
    - Arm's Length Sale
    - Owner's Opinion of Value
    - Appraisal (typically reserved for real estate, but there is personal property utility in certain situations)
- Actual vs. Assessed value
- Counties may be mandated to revalue real estate at regular intervals
- Valuation is done as of a specific date in time known as a lien date (typically January 1)

# Overview of Property Taxation

## Tax Calculation

- Tax is based on the valuation of the property and is calculated based on a specific millage rate
  - Millage rates vary depending on jurisdiction
  - Local needs typically drive tax rates
  - Taxpayers must specifically authorize certain levies
- Different types of property are taxed at different rates:
  - Residential
  - Commercial (real and personal)
  - Agricultural
  - Exempt property





# Overview of Property Taxation

## Tax Calculation – Ohio Example

- Full value of real estate (including building): \$1,000,000
- Taxable value of real estate (35% of full value): \$350,000
- Millage Rate: 75.000000 (\$75 of tax for every \$1,000 of value)
- Annual Tax: \$26,250

# Overview of Property Taxation

## Tax Calculation – Ohio Example

- Breakdown of funding (will vary by community)

County General Fund	\$ 484.08	1.84%
Children's Services	\$ 1,634.45	6.23%
ADAMH	\$ 724.48	2.76%
FCBDD	\$ 2,305.16	8.78%
Parks	\$ 246.98	0.94%
Zoo	\$ 242.19	0.92%
Senior Options	\$ 428.10	1.63%
Library	\$ 922.06	3.51%
Joint Vocational School	\$ -	0.00%
City	\$ 1,034.03	3.94%
Township	\$ -	0.00%
Schools	\$ 18,228.47	69.44%
<b>Total</b>	<b>\$ 26,250.00</b>	<b>100.00%</b>

# Managing Valuation and Assessments



# Managing Valuation and Assessments

## Create a Property Tax Process

- Utilize a calendar or system to track everything in a single location
- Tracking system should include:
  - Return due date
  - Return value (full and assessed)
  - State/county valuation (full and assessed)
  - State/county-issued notices
  - Tax calculation (projected and actual)
  - Billing/payment deadlines
  - Appeal deadlines
- Involve multiple areas of the finance team
  - Use tax calculation projection to build accruals
  - Budgeting/forecasting
  - Early payment discounts
- Establishing an effective property tax process can be the first line of defense in resolving minor discrepancies without the appeal process

# Managing Valuation and Assessments

## Managing Valuation

- Know when state/local mandated reappraisal occurs
  - Participate in process if possible
  - First opportunity to establish value
- County notices of value
  - Typically issued in advance of tax bill
  - May trigger appeal clock
- Classification of Property
  - Real vs. Personal
    - Accelerate depreciation
    - Utilize sales tax laws in absence of clear property tax guidance
  - Personal property categorization
  - Is real property being utilized as classified? (i.e. CAUV, commercial)



# Managing Valuation and Assessments

## Appeals

- Because values are ultimately determined by the taxing jurisdiction, taxpayers unsatisfied with their value have the right to appeal
- To be successful, the taxpayer must provide support for their opinion of value and could include:
  - Recent sale documentation
  - Appraisal
  - Comparable sales
  - Demonstration of error in jurisdiction's records
  - Proof of exemption
- Considerations
  - Possibility of tax increase
  - Current year of the appraisal cycle
  - Cost-benefit analysis
  - Loan covenants
- Many appeal processes are legal proceedings from the outset and may require representation

# Managing Valuation and Assessments

## Appeal Process

- Most states have a multi-level appeal process
- Informal appeals may be limited to specific time period
  - Ohio informal appeals only occur during revaluation years
  - Michigan and Kentucky have “open inspection” periods to discuss value with assessors before appeals begin
- Formal appeals often include sworn testimony, presentment of evidence, court motions and written arguments
- Supreme Court appeals are typically reserved for situations where precedent was ignored or law was misapplied
- Settlements are encouraged at higher appellate levels (especially in Ohio)

# Managing Valuation and Assessments

## Ohio Property Tax Update

- 41 counties are conducting either a full reappraisal or a three-year valuation update
- Significant valuation increases are expected state-wide (30% - 40% in some areas)
  - Due to tax rate equalization, this will not equate to a 30% - 40% tax increase
  - Manufacturing and Distribution has seen larger increases due to demand for warehouse space and larger manufacturing facilities
- Deadline to file formal appeal is March 31, 2024

→ ASHLAND	→ LICKING
→ ASHTABULA	→ MADISON
→ ATHENS	→ MAHONING
→ AUGLAIZE	→ MERCER
→ BUTLER	→ MONTGOMERY
→ CLERMONT	→ MORROW
→ CLINTON	→ NOBLE
→ DARKE	→ PERRY
→ DEFIANCE	→ PICKAWAY
→ DELAWARE	→ PIKE
→ FRANKLIN	→ PREBLE
→ FULTON	→ PUTNAM
→ GALLIA	→ RICHLAND
→ GEAUGA	→ SENECA
→ GREENE	→ SHELBY
→ HAMILTON	→ SUMMIT
→ HARDIN	→ TRUMBULL
→ HARRISON	→ VAN WERT
→ HENRY	→ WAYNE
→ JACKSON	→ WOOD
→ KNOX	



# Common Property Tax Traps and Pitfalls





# Common Property Tax Traps and Pitfalls

## Personal Property Tax

- Taxability of software
- Leased property
  - Who is responsible for the tax?
- Inventory
  - Not all states will tax
  - Freeport exemptions
  - Supplies
- Property located at vendor/customer facilities
  - Manufacturing equipment
  - Construction equipment
  - Computer servers
- Mergers and Acquisitions
  - Availability of historical data
  - Purchase price allocations
  - Duplicate assessments

# Common Property Tax Traps and Pitfalls

## Personal Property Tax

- Return filing
  - Pay attention to due dates
  - Extensions
    - Automatic
    - Good Cause
  - Proof of filing
    - Trackable mailing
    - Confirmation numbers
- Check bills for accuracy!





# Common Property Tax Traps and Pitfalls

## Real Property Tax

- Entity Sales
  - “Drop and Swap”
  - Counties using other means to determine value (mortgage/loan documents, UCC Documents)
  - Increase complaints
- Variable Appeal Deadlines
  - Certain time after county notice issued
  - Depending on value changes, counties may not be required to issue notice
- Expiring Abatements
  - Value may be added to tax rolls at historical cost
  - May require an appeal
- Appeals
  - Understand the process
  - Improperly filed appeal may result in dismissal
    - Timing
    - Representation

# Trends in State Administration of Property Tax

# Trends in State Administration of Property Tax

- Audit activity increasing
  - Most prevalent in southern states
  - Completed in conjunction with other indirect tax audits (sales/use)
  - Deviation from prior year reporting
  - Use of third-party auditors
- Increased scrutiny of claimed exemptions
  - Freeport exemptions
  - Incentive reporting
- Leased Property
  - Lessors receiving notices/questionnaires from local jurisdictions
  - Escape assessments
- Charitable Use Exemptions
  - Mainly related to Ohio real estate exemptions
  - Increased scrutiny of applications

# Questions



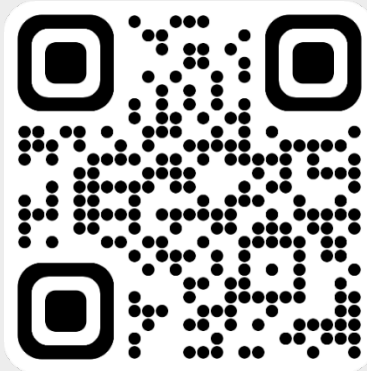
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- **December 5th**: Multistate Income Tax: Year in Review and 2025 Outlook

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