Personal property

How to reduce your company's property tax burden

INTERVIEWED BY ROGER VOZAR

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Computing personal property taxes can be a chore for businesses, particularly if the company's locations cross various state and local jurisdiction boundary lines. Each state has its own statutes, due dates, assessment ratios and instructions that must be adhered to for a company to be considered "compliant." These property tax requirements vary greatly and most often have late penalties for missing deadlines. However, digging into these very statutes and instructions can also provide an opportunity to minimize your company's tax burden.

"Many will run the fixed asset ledger right out of the system and that's what they'll report," says Jenna R. Kerwood, CMI, a principal in Tax Services at Brown Smith Wallace.

However, that usually results in paying more taxes than what is owed because not all assets are taxable. Often, fixed assets are capitalized at a project level, which results in inaccurate reporting for property tax purposes. There may be costs that are not taxable or components of the cost that should be removed. The taxability of these assets can be determined by examining the state and county websites, statutes, assessor manuals and return instructions.

Smart Business spoke to Kerwood about what constitutes personal property and why it's worth the effort to keep an accurate track of assets.

What is the difference between real estate and personal property?

Real estate refers to land and buildings. Personal property is defined as tangible property that's movable. It can be difficult to distinguish between the two, especially with manufacturing facilities, and each state has different rules and instructions.

Most states have a three-prong test:

- Can the item be moved without destroying the real estate?
- What is the primary purpose the item serves? The more special its use, the more likely that it will be considered personal property.
- What was the owner's intent?

The key is whether it would destroy or cause permanent damage to the building if you were to remove the item.

What is the basis of property tax assessments?

The basis of value for real estate and personal property is fair market value — the amount a willing buyer would pay in a market when there's no duress, such as a bankruptcy or foreclosure. Fair market value is subjective, which gives you an opportunity to analyze all of the capitalized cost to determine how best to reflect the 'fair market value' of the asset.

When reporting assets for property tax purposes, you need to understand their physical life, use, maintenance schedules, etc., in order to depreciate correctly. Items with a short life have faster depreciation. Manufacturing equipment might have computerized components that can be placed on a shorter life with a more reasonable depreciation schedule.

How can businesses lower their tax burden?

Start with fixed asset accounting records. When filing personal property tax returns, you report the original cost of the asset by year of acquisition. Companies might have a retirement policy by which they dispose of, melt down or cannibalize an asset, but that's not reflected on the books.

It's best to address problems on the front end. Review the asset ledger for listings that don't look right — focus on the high dollar items or assets with 'miscellaneous' as the description. Scrutinize asset invoices and review them with the people who know them; it might be the plant manager for the manufacturing facility, facilities person for the furniture and IT people for the computer asset listing. Another area to consider is depreciation. The county will tell you the rate, but that may not be accurate and is negotiable.

How much can be saved?

Conservatively, businesses can lower personal property taxes by 20 percent. Most state rates are at 2 percent. When you tell a company that cleaning up asset lists can save $30,000 or more, it gets their attention. ●

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