PERSONAL PROPERTY TAX COMPLIANCE:

8 Frequently Missed Issues that Can Lead to Overpayments

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Understanding and adhering to the multitude of personal property tax compliance obligations throughout the thousands of jurisdictions that assess personal property taxes can be administratively burdensome. A company's personal property tax liabilities can be impacted if a company is not equipped to navigate the differing rules and opportunities in the jurisdictions in which its personal property is located. The following summarizes the most often overlooked items that result in overpayments of personal property taxes by any organization.

CLASSIFICATION OF PROPERTY

Double taxation of real and personal property can occur if a company incorrectly reports real estate as personal property. By understanding what qualifies as real estate in a jurisdiction and ensuring that real estate assets are not reported on a personal property tax return, taxpayers can avoid overpaying taxes on the same asset. Real estate tax and personal property tax administrators often work in separate divisions that do not share information, making it harder to spot errors. The cost of assets, especially specialized assets, may be included in both building cost and business personal property cost. Taxpayers may unknowingly be paying tax twice on the same asset.

PROPER ASSET USEFUL LIVES

Reporting personal property assets to a jurisdiction begins with applying the original acquisition year and acquisition cost to the correct jurisdiction's depreciation table. Unlike federal depreciation tables, each local jurisdiction can have its own schedule that can change from year to year. Applying assets to an incorrect depreciation table can result in overpayment of personal property tax. A single county can also have multiple tables that segregate classes of assets. Understanding an asset's use, physical life, and embedded components and then applying that information to the most accurate jurisdictional tables can translate to property tax savings.

SITUS OF PROPERTY

The "lien date" is an annual date for determining the taxability of personal property in a jurisdiction. The most common annual lien date is January 1. Property is reportable by the owner of the property to the jurisdiction where the property is located on the lien date. Oftentimes, taxpayers mistakenly report property that is not located in the jurisdiction or report to an incorrect jurisdiction. Fixed asset listings do not necessarily provide the detail needed to understand the accurate situs, or legal location, of a property. Inquiries should be made to determine whether capitalized assets were delivered to the location as of the lien date and the physical location of bulk capitalized assets designated to a regional or central location.

REPORTING OF "GHOST" ASSETS

"Ghost" assets are capitalized fixed assets that no longer physically exist, but have not been removed from the fixed asset ledger. Typically, ghost assets have been fully depreciated for GAAP and tax purposes, and, therefore, may not be removed from the fixed asset ledger in a timely manner. Since the fixed asset ledger is the audit trail for personal property reporting purposes, nonexistent or ghost assets often are reported and taxed. A disposal policy or methodology should be instituted to avoid property tax overpayment.

INVENTORY

A number of states tax inventory as part of tangible property tax. Among the inventory taxing states, reporting standards vary, including types of inventory and values reported, periods of reporting used, and available exemptions for inventory turnover. Understanding the most advantageous filing methodologies can result in significant savings.

EXECUTION OF FILING REQUIREMENTS

Personal property tax laws can be unique to each jurisdiction. Understanding and complying with the requirements is essential to avoid overpayments, penalties, and interest. Items that are often overlooked include applicable deadlines and understanding whether the deadline is a received by or postmark date; reporting on the correct form; return signing and notarization; inclusion of all required attachments; jurisdiction mailing address; and additional requirements for exemptions and abatements.

CAPITALIZED VERSUS EXPENSED

New tangible property regulations have prompted changes in capitalization thresholds. Generally, all assessable property located in a jurisdiction as of the lien date is reportable, regardless of whether it was expensed or capitalized. Taxpayers often rely on the fixed asset register for reportable assets and may miss assets that were expensed. Certain jurisdictions also tax supplies, which taxpayers frequently overlook. Under audit, taxpayers can incur penalties and interest related to the omitted property.

EXEMPTIONS AND ABATEMENTS

Personal property tax exemptions and abatements reduce or subsidize the tax on personal property. The availability and requirements vary by jurisdiction. For example, some states exempt entire classes of property such as intangibles, inventory, and software. Other states offer exemptions for pollution control equipment or Freeport inventory. Abatements may be available for capital investments for a length of time or pursuant to alternative agreements that reduce taxes, such as PILOTs (payment in lieu of taxes). Securing the exemption or abatement often requires adherence to a one-time process or may include an annual compliance component. Failing to comply with requirements may trigger a loss of the reduction or a claw-back that may incur a penalty.

Any business that owns property has a property tax obligation. Failure to understand property tax laws could result in overpayment of personal property tax, and failure to comply with property tax laws could result in seizure of property and/or penalties. Business owners should be aware of their property tax obligations, and they should consider a strategic approach to minimize the tax burden.

Read **Top 10 Property Tax Myths** to learn more ways you may be missing an opportunity to reduce your property tax liability.

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CONTACT:

DOROTHY RADICEVICH
National Property Tax Leader
312-730-1364
dradicevich@bdo.com