Business Personal Property Appraisal Manual – Borden County Appraisal District

The Borden CAD is responsible for developing fair and uniform market values for business located in the district. The law requires that all property not specifically exempt to be taxed. However, because Business Personal Property (BPP) is easily concealed and frequently moved because of the need to determine situs, the taxation of BPP is more difficult that the taxation of real property. Items not permanently affixed to a real estate are generally considered personal property. To establish the difference between real and personal property our appraisers from Prichard & Abbott (P&A) must consider the manner in which it is used and whether it is to remain permanently affixed or be removed at some point. A general rule is that an item is personal property if it can be removed without serious injury to the real estate or the item itself. There are different categories of personal property.

Tangible physical property that can be seen, weighed, measured, felt or otherwise perceived by the senses and is located in in the state for longer than a temporary period or is continually in the state.

- Inventory
- Supplies
- Fixed assets
- Leasehold improvements
- Vehicles

Intangible personal property cannot be perceived by the senses:

- Stock
- Insurance
- Bond
- License

Discovery

The extent to which personal property can be assessed depends upon its discovery. Complete discovery requires adequately trained staff and supporting resources. Taxation agencies should be empowered to issue binding rule and regulations covering the discovery of personal property. Disclosure of personal property is often contingent on identifying the owner of the property. Sources that may be useful in the discovery process are:

- Previous assessment records, personal property statements or returns
- Physical inspection (on-site review)
- Personal property listing form, return, rendition, declaration or statement
- Real property field appraiser reports and the property characteristic file
- Property transfer documents, including recorded bill(s) of sale
- Web sites

Once the property has been discovered and the owner identified, the BPP appraiser should inspect the property and establish an account or record for the owner. Information that should be obtained about a business includes the following:

- Name of business
- Type of business
- Type of ownership (partnership, corporation, etc.)
- Mailing address of the business
- Name and address of owners if needed
- Telephone number of the business
- Name/title of person supplying the information
- Name, address and phone number of agent or party keeping records for the business
- Beginning date of the business within the assessment jurisdiction
- E-mail address

Fiscal year information should be obtained about the personal property of the business includes the following:

- A complete listing of all tangible personal property, including machinery, equipment, furniture, fixtures, computers, and other tangible fixed assets with their location, year purchased, and year manufactured, and acquisition or construction cost together with what is included in this cost amount, such as shipping, freight, sales tax, licenses and so forth
- A complete listing, with full descriptions and cost, of all leasehold improvements, noting which items may already be assessed as real property
- A complete listing of leased equipment with name and address of the lessor, information on the equipment (including name of manufacturer, date of manufacture, description, model number, serial number, list price and original cost, (if available), lease number and terms of lease (if possible, a copy of the lease agreement should be obtained)
- A complete listing of loaned or consigned items including a brief description (e.g., vending machines) and name and address of their owner(s)
- A complete listing of items in inventory, rented or leased as part of the business' normal operation

Valuation

The cost, sales comparison, and income approaches should be considered in the appraisal of personal property as long as the market within the trade level is in equilibrium. If demand exceeds supply or supply exceeds demand, i.e., unbalanced markets, one or more of the three approaches may produce distorted results. The degree of dependence on any one approach could also change with the availability of reliable data. Units of comparison, such as value of personal property per square foot, for comparable properties can be used to check the value estimates derived from the standard appraisal approaches. Such units of comparison can also be used when the data required for other approaches are unavailable. Examples include cost/value per square foot of FF&E in an office building or cost/value per square foot of inventory for a retail business. The valuation method and techniques employed should be based on the appraiser/assessor's value standards. In most jurisdictions, market value is defined by value-in exchange, that is, the value to the next buyer as of the lien date, and highest and best use principles. The highest and best use of an asset will likely be as fully installed and operational to its maximum productivity.

- Borden CAD's primary approach to the valuation of business personal property is the cost approach. The replacement cost new (RCN) is developed from property owner reported historical cost or from state developed valuation models. Borden CAD uses the most recent depreciation schedule provided by the Texas Comptroller's Office.
- The P&A appraiser inspects each property on an annual basis and list all taxable property. Market value is estimated from the current rendition submitted by the owner. Value of each property is compared to the most recent personal property manual furnished by the Comptroller's office or an outside vendor's valuation cost guide. The property owners rendered estimate of market value may be used if the appraiser agrees with the value estimate.
- The P&A appraiser will estimate the market value by comparing the subject BPP being appraised against similar types of BPP. The appraiser considers the size of business, the quality and condition of the assets and the overall age of the assets. The appraiser will also estimate the market value of inventory based on the quality and make any known condition adjustments.
- The sales and income approach are often less useful; with many types of business assets that do not have an active market.
- Value estimates for vehicles are based on NADA published book values and property owner renditions.

Valuation Guidelines for Tangible Personal Property

The cost, sales comparison, and income approaches should be considered in the appraisal of tangible personal property. However, certain types of personal property do not readily lend themselves to development of all three generally accepted approaches. If sufficient sales data are available to support use of the sales comparison approach, it should receive primary consideration. In many instances, however, sufficient sales data are not available, and in these instances, more reliance should be placed on the cost approach or the income approach. The assessor must always consider the quality and quantity of the available market data. The following are procedures typically used in the valuation of common types of tangible personal property.

- **Machinery and Equipment (M&E):** Are items of personal property used in the normal conduct of business that are not permanently attached to the real estate and, unlike inventory, are not intended to be sold. Utility and ability to produce income are factors that influence the economic life of machinery and equipment. The market value of machinery and equipment typically follows a declining path once the assets are acquired and put into operation due to normal wear and tear and technological changes. Salvage or scrap value should be considered at the end of economic life. The most common approach for the valuation of machinery and equipment is the cost approach, although the sales comparison approach should receive primary consideration when adequate data are available. In particular, small equipment, for which there is often an active resale market, may lend itself to valuation by the sales comparison approach. Machinery and equipment can be classified as short-lived (computer) or long-lived (drill press), so not all M&E can be grouped together for depreciation purposes.
- **Furniture and Fixtures:** The procedures described for the appraisal of machinery and equipment are generally used in the appraisal of furniture and fixtures (F&F). Because F&F generally have similar lives, they are often grouped into one item for depreciation purposes.
- **Leased Equipment:** Valuation of leased equipment is complicated by such factors as the wide variety of leased equipment, the variety of leasing arrangements, rapidly changing technologies, and changing market conditions. These factors can cause the quality and quantity of available market data to vary. The income approach is often used in valuing leased equipment because data on sales and rental rates are generally available. When sales data are available, emphasis should be given to income multipliers derived from market data. The cost approach may be used cautiously in the valuation of leased equipment because markups of cost to list prices vary from one company to another on the same type of equipment and also vary with the level of trade. If manufactured cost is the only information that is reported, the appraiser should obtain more data from the lessor or compare the equipment in question with similar equipment of known cost.
- **Inventories:** The term inventories include specific categories of goods held for resale in the course of business, goods in the process of production (termed goods in process), and raw materials. Whether certain types of goods are classified as inventories or as something else will change depending on the trade level at which the appraisal is being made. Machinery and other equipment that remain classified as inventories at the manufacturing, wholesale, and retail levels

become machinery and equipment upon reaching the end user. Inventory valuation, both for goods in process and for finished goods, should include the value of labor, materials, and overhead expended during production.

There are many methods for estimating the value of inventories. Some of the more common ones are:

- last in, first out (LIFO)
- first in, first out (FIFO)
- weighted average
- lower of cost or market

The most commonly used method for ad valorem purposes is lower of cost or market. First in, first out (FIFO) is also an acceptable measure of inventory replacement costs. Taxpayers often use last in, first out (LIFO) for income tax purposes, but it does not reflect inventory value for property tax purposes. The weighted average method provides for distribution of inventory costs throughout the year. Caution should be exercised when inventory values are estimated from the owner's accounting records because most accounting systems use an original acquisition cost basis for pricing inventory and this does not necessarily reflect market value as extracted from the marketplace, which may be more or less than original cost.

- **Supplies:** Are stocks of goods that are intended to be consumed during the production process but are not part of the raw materials inventory that is processed into the finished product. Examples of supplies include chemicals, clothing, pallets, paper, shipping materials, fuels, and repair parts. Unlike inventory, supplies are not held for resale. Supplies should be valued at their acquisition cost.
- **Consigned Goods:** Are personal property in the possession of an agent, held for sale by that agent. They should be valued at the appropriate level of trade, as part of the consignor's inventory.
- **Imports and Exports:** Assessors should be aware of the legal status of import and export merchandise in order to determine its taxable status. If there is no exemption provided by statute, then the techniques for estimating the value of inventories should be used for valuing imports and exports.

Valuation Guidelines for Intangible Personal Property

The discovery, reporting, verification, and proper valuation of intangible personal property is difficult and can be expensive. The methods for discovering, reporting, verifying, and auditing intangibles are the same as for tangible personal property. Pertinent information includes type of asset, name of issuer, date of acquisition, legal life, expected useful life, face value or par value, market value, and dividends or other income. Individual research can lead to sources that provide information on the selling prices of intangible personal property. Statutes should provide concise guidance on the assessment of intangible personal property. Careful review should underscore the purpose, use, and how necessary and integral the identified intangible personal property is to the taxable tangible personal property. This review could entail the examination of the taxpayer's books, records, and filings with regulatory agencies

Reporting of Personal Property

The physical inspection and listing of individual personal property items is dictated by time, financial resources, and the availability of trained personnel. Typically, these constraints require the use of a reporting form (also called a rendition, return, schedule, or listing) completed by the taxpayer or the taxpayer's agent. All reporting forms should be subject to audit by the assessor, or the assessor's agent, to determine the accuracy and validity of the information provided in the return document. The assessor should mail reporting forms or make them available early enough to allow for their timely completion. Forms and instructions should also be available on the assessor's Web site. The assessor's mailing address and telephone number should always be included on the listing form. Web sites and all documents sent from the assessor's office should include the office's e-mail address. The first year a taxpayer files a reporting form, the information reported should include a listing of all personal property giving a description, date acquired, and original acquisition or construction cost of each item. If an item was acquired used, the manufacture date and historic cost of the item should be determined if possible. In subsequent years, the taxpayer may be asked to report only additions and deletions to the initial listing, with appropriate details and costs. This system promotes verification and valuation accuracy. Value trending and depreciation factors can be applied to each item individually or to a group of items, such as furniture, fixtures, and equipment (FF&E), acquired in a given year. The form should contain sufficient instructions to help the taxpayer prepare and file a complete and accurate listing of all taxable personal property. The instructions on the form should also specify the reporting method required and give specific instructions on how to report construction in progress, acquisition costs (including installation, freight, taxes of all types, and fees), and expensed and fully depreciated assets as well as leased assets. The form should contain a statement that all listings are confidential and are subject to audit. Implementation of an electronic filing process should be considered in order to provide a high level of customer service.

Renditions

1. An important step in completing a business personal property appraisal is based on receiving the Business Personal Property Rendition Form (50-144) found on the Texas Comptroller of Public Accounts website.
2. Renditions contain information provided by the property owner and per the Texas Property Tax Code, business owners are legally required to file a BPP rendition annually by April 15 and must be postmarked by the U.S Postal Service on or before April 15. Upon written request by the property owner the chief appraiser shall extend a deadline for filing a rendition statement to May 15.
3. The Borden County Appraisal District mails rendition forms to all existing BPP accounts by January 15.

4. The rendition requests basic information about a business including cost and year acquired of assets, inventory values, consigned goods, leased equipment and the property owner's opinion of value.
5. The information contained in a rendition cannot be disclosed to third parties except in limited circumstances. In addition, the Texas Property Tax Code specifically provides that any estimate of value provided is not admissible in proceedings other than a protest to the ARB or court proceedings related to penalties for failure to render. The final value on the property is public information, but the rendition itself is not.
6. To determine original cost, refer to accounting records, such as original journal entries and account ledgers. Use original purchase documents, such as invoices or purchase orders to determine the original cost of the asset. Add all costs attributed to getting the asset functioning, such as freight and set-up cost.
7. Not filing a rendition by the annual April 15 deadline will result in a **10% penalty** being applied to the business personal property tax bill. There is a **50% penalty** and criminal offenses for filing a fraudulent rendition.

Waiver of Rendition Penalty

1. Waiver of Penalty is in accordance with Section 22.30 (a) (1-2) of the Property Tax Code.
2. Penalty may be waved after Notice is mailed and prior ARB certification of records if current rendition statement is received and plausible explanation for failure to render timely. The statement must be delivered within 21 days after the request is received. The request must include documentation showing either you substantially complied with the rendition law or that you made a good faith effort to do so.
3. The documentation should also address:
    - Your compliance history with respect to paying and filing statements or reports.
    - The type, nature and taxability of the specific property involved.
    - The type, nature, size and sophistication of your business.
    - The completeness of your records.
    - Your reliance on advice provided by the appraisal district that may contributed to your failure to comply and the imposition of the penalty.
    - Any change in appraisal district policy during the current or preceding tax year that may affect how property is rendered.
    - Any other factors that may have caused you to fail to timely file a statement or report.
4. The chief appraiser is required by law to consider the factors stated above and notify in writing of their determination. The property owner may protest waiver denial with the ARB, as provided by Section22.30 (c). The ARB may waiver the penalty if it finds that you substantially complied with the rendition law or made a good faith effort to do so.

A properly filed rendition form allows the BPP appraiser to

- Verify the legal owner, DBA and physical location of the property on January 1 of the appraisal year.
- Use contact information on the rendition if the appraiser has questions about the business being appraised.
- Compare cost or opinion of value information against the estimate of value made by the appraiser in the field.

With the appraiser's information gathers in the field and a properly filed Business Personal Property Rendition form from the owner, the BPP appraiser has enough information to make an accurate BPP market value appraisal for property tax purposes.

Business Personal Property Definitions

Agent: A lessee or other person designated by a property owner to act as the owner's agent in property tax matters.
Discovery: The process whereby the assessor identifies all taxable property in the jurisdiction and ensures that is included on the assessment roll.
Economic Life: The period of time over which an asset's operation is economically feasible. The economic life may or may not be equivalent to the physical life of the asset.
Effective Age: An age assigned to an asset based on a combination of its actual age and condition.
Fixed Assets: Personal property that has been brought to the point of highest and best use, that is, it is fully installed and used to produce income in an economically feasible manner.
Fixture: Generally, an asset that has become part of the real estate through attachment in such a manner that the removal would result in a loss in value to either the asset or the real estate to which the asset is affixed.
Historical Cost: The cost new to the first owner of personal property.
Intangible Property: The class of personal property in which value is based on evidence of ownership rather that physical or tangible characteristics, for example, notes, bonds, insurance, patents and accounts receivable.
Inventory: Items held for sale to the public by a business/person.
Leasehold improvements: Items of personal property, such as furniture and fixtures associated with a lessee (the tenant), that have been affixed to the real property owned by a lessor.
Market Value: The price at which a property would transfer for cash or its equivalent under prevailing market conditions if exposed for sale in the open market with a reasonable time for the seller to find a purchaser; both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.
Original Cost: The cost as recorded on the books of the current owner.
Personal Property: Property that is not real property.

Remaining Economic Life: The number of years in the future during which the operation of an asset is anticipated to be economically feasible, often expressed as a percentage of the total economic life.
Situs: The taxable location of an asset. For personal property, situs may be the physical location of the property or, in the instance of highly mobile property, the more-or-less permanent location of the property owner.
Supplies: A type of personal property, usually treated as inventory, that is consumed as part of the process of bringing other assets to a saleable condition.
Tangible Property: Property whose value is measured in accordance with its actual physical presence.
Value-in-exchange: The amount an informed purchaser would offer for personal property under given market conditions.
Value-in-use: The value applied to furniture, fixtures, and equipment as installed and in-use for generation of income or performing its function.
Weighted average: A method of inventory cost accounting whereby inventory is valued according to the unit price of all units owned throughout the year. It is calculated by dividing total acquisition cost of all inventory by the number of units owned.