

# Business Personal Property Appraisal Manual – Borden County Appraisal District

## Introduction

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 than 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.

This set of guidelines is intended to provide assistance in the appraisal of BPP for ad valorem taxation purposes according to policies adopted by the district's appraisal board of directors and the appraisal standards of the International Association of Assessing Officers (IAAO), the Appraisal Foundation's Uniform Standard Professional Appraisal Practices (USPAP), the laws contained in the Property Tax Code (PTC) and the rules established by the Property Tax Assistance Division (PTAD).

To ensure uniform appraisal practices, the district has developed these guidelines to assist the appraiser in the valuation of BPP; however, these guidelines are not intended to address the unique valuation issues that may arise in the appraisal of personal property associated with public utilities, tele-communications, railroads or similar properties.

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 the state for longer than a temporary period or is continually in the state.

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

Examples of tangible personal property are:

- Furniture and fixtures
- Machinery and equipment
- Machinery tools
- Dies
- Inventory

Intangible personal property cannot be perceived by the senses:

- Stock
- Insurance
- Bond
- License

Examples of intangible personal property are:

- Raw materials
- Work in progress
- Finished goods
- Goods held for resale

## Market Value Defined

According to Texas law, personal property used in the production of income is taxable at its market value.

The Property Tax Code defines market value of an inventory as:

.... The price for which it (inventory) would sell as a unit to a purchaser who would continue the business.

The market value of income producing personal property must consider the level of trade in which it is found similarly to the consideration of “highest and best use” is made in determining the appropriate value of real estate.

Personal property can be grouped into one of three general groups for appraisal:

- Manufacturing
- Wholesale
- Retail

While use items such as furniture, fixtures, equipment and supplies may have similar valuation considerations on all three levels, the valuation of inventory items may be significantly different based upon the level of trade and the continuation of business requirement.

## Properties to be Appraised

As mentioned above, only tangible personal property that is used in the production of income is subject to appraisal and taxation according to Texas law.

PTC 11.01 authorizes the appraisal (and inclusion on appraisal rolls) of income producing personal property if it is:

- Located in this state for longer than a temporarily period
- Temporarily located outside the state and the owner resides in this state
- Used continually whether regularly or irregularly, in this state

In developing appraisals, appraisers should be sure to recognize and account for any intangible value that may be present and make adjustments for them.

Business personal property can generally be classified as:

- Furniture
- Fixtures
- Equipment
- Supplies
- Inventory
- Dealer’s special inventory

All of these properties, with the exception of the dealer’s special inventories, are appraised as general accepted appraisal techniques.

## Methods of Property 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.

Since most personal property is movable in nature, the most difficult step in the assessment of personal property is a developing a system of property to discovery.

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

- Vehicle registration list
- Property transfer documents, including recorded bill(s) of sale
- Websites, newspapers and directories

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
- 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

The appraiser should also estimate and record the quality and density ratings for inventories and for furniture, fixtures and equipment; and include the square footages dedicated to each property type (i.e. retail area, storage, office, etc.). This information is to be used by the appraiser when property owner reports (renditions) are received to validate property characteristics for the refinement of values through calibration of the appraisal model.

New property owners should be encouraged to provide detailed listings of all tangible personal property, including machinery, equipment, furniture, fixtures, computers and other tangible fixed assets with the purchase, manufacture, and acquisition year and original acquisition costs.

Owners should also be encouraged to provide a complete list of all leased equipment within their business location, providing a description of the leased item, the name and address of the property owner.

A listing of consigned items, such as vending machines or inventory items, should be encouraged as well.

Property owners must be aware that a value for all items in their possession will be appraised with their property unless the other owners are disclosed.

This information does not necessarily have to be collected during the on-site inspection and may be provided to the appraiser through property owner renditions.

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

## Inventory

All items of personal property that are to be bought and sold for the principal purpose of making a profit are called merchandise and make up the merchants or manufacturers stock or inventory. Items used that are used in connection with the operation of a business or profession, but are not for sale, are called supplies.

Merchant inventory can include stock in trade, consigned good

## 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 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.
- **Special Inventories:** Includes automobiles, boats, trailers, mobile homes, heavy equipment and heavy equipment rental inventories where an ad valorem tax is paid at the point of sale by the consumer.

## Valuation 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

## Renditions

Owners of business personal property are required by PTC 22.01 to render all tangible personal property used for the production of income on January 1 each year.

Property owners may have items associated with their business that are subject to special inventory appraisal. These items should be appraised separately from other business personal property items held for use or resale.

A rendition statement simply contains a listing of property owned and used in the operation of a business along with the owner's opinion of value. The information provided by property owners in renditions provides an important tool that is used by appraisers to determine not only the correct ownership and business location of property but also to correctly identify and describe the property to be appraised.

The Business Personal Property Rendition Form (50-144) can be found on the Texas Comptroller of Public Accounts website. 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. The Borden County Appraisal District mails rendition forms to all existing BPP accounts by January 15.

Property owners with an estimated worth of less than \$20,000 may include a simplified listing of property in renditions, they are encouraged to provide as much acquisition year and cost information as possible in their renditions for appraiser consideration. Business owners with less than fifty employees may base their value estimation on the depreciation schedules used for federal income tax purposes.

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. 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.

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.

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.

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 gathered 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.

## Request for Additional Information

Pursuant to Tax Code Section 22.07, the chief appraiser may request, either in writing or by electronic means, that the property owner provide a statement containing supporting information indicating how value rendered was determined. The property owner must deliver the statement to the chief appraiser not later than the twenty-first day after the date the chief appraiser request is received.

The statement must:

1. Summarize information sufficient to identify the property, including:
  - The physical and economic characteristics relevant to the opinion of value, if appropriate
  - The source of the information used
2. State the effective date of the opinion of value
3. Explain the basis of the value rendered

The rendition of a property owner who fails to timely reply to this request will be considered late and subject to the assessment of penalties for late renditions.

## Penalties

If a property owner files a rendition after the filing deadline without the granting of a late filing extension, the chief appraiser shall impose a penalty to the taxes equal to ten percent of the taxes assessed on the property during that year.

The chief appraiser must impose a penalty on a person who fails to timely file a required rendition statement or property report in an amount equal to ten percent of the total amount of taxes imposed on the property for that year by taxing units participating in the appraisal district. The chief appraiser must impose an additional penalty on the person equal to fifty percent of the total amount of taxes imposed on the property for the tax year of the statement or report by the taxing units participating in the appraisal district if it is finally determined by a court that:

- The person filed a false statement or report with the intent to commit fraud or to evade the tax
- The person alters, destroys, or conceals any record, document, or thing, or presents to the chief appraiser any altered or fraudulent record, document, or thing, or otherwise engages in fraudulent conduct, for the purpose of affecting the course or outcome of an inspection, investigation, determination or other proceeding before the appraisal district

## Waiver of Rendition Penalty

Waiver of Penalty is in accordance with Section 22.30 (a) (1-2) of the Property Tax Code.

Penalty may be waived 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.

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.

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 Section 22.30 (c). The ARB may waive the penalty if it finds that you substantially complied with the rendition law or made a good faith effort to do so.

## 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 than 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 inventories by the number of units owned.

### Attached to this manual:

BBP Rendition Form 50-144

Waiver of Rendition Penalty Form

## New Texas Law Changes for 2024-2025

Section 22.24 – amends subsection (e) to add a report filed on behalf of a property owner who is rendering business personal property and whose good faith estimate of the market value of the property is not more than \$150,000 to the list of exceptions to the requirement that a rendition report must be sworn to before an officer authorized by law to administer an oath.