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Business tangible property taxation values in southeastern New England

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Most businesses in Connecticut, Rhode Island and Massachusetts receive an annual request for a tangible (personal) property inventory from their municipal Assessor. The different states have different rules but all collect this unpopular tax. Some of the businesses are exempt from filing or are required to file but only to list a certain class of items depending upon the legal makeup of the company. It can be a confusing distinction. An example of this is in Massachusetts; where all Walmart stores are a set up as Partnerships rather than corporations, so because Massachusetts taxes all equipment for partnerships, and not for corporations, Walmarts are a boon to the coffers of local communities.

Businesses required to file are on their honor to accurately list the tangible property. Some do not file the report, others may fail to completely list all of their tangible property in the inventory. Some communities have realized that the cost of mailing the quarterly tax bill mandates exempting firms with less than $750 to $2,000 of tangible property, (depending on the tax rate), to prevent a tax/cost loss. Each state mandates the Assessor to conduct an eventual physical audit of both the real estate and the tangible property. Most cities and towns capture the tangible property business data at the same time as their real property (real estate) tax revaluation program. Naturally the numbers are higher in real estate than tangible property and thus real estate may get a little more attention. Today, many communities are seeing a drop in the tangible valuations due to the decline in the economy. Equipment has been sold off, lines have been discontinued, or businesses simply closed their doors. In my home City of Attleboro Massachusetts, the assessor reports an approximate $4 million decline in business tangible property over the past three years. Nevertheless, most cities and towns are looking for additional tax revenue sources and yet, at the same time do not want to alienate the businesses inside their borders.

Typically, taxes are based on the original purchase price of the item. Over time, depreciation is applied at varying rates for differing classes, such as; long life assets, tangible personal property, short life computer electronics, inventory and leased/rented/consigned tangible property. Problems arise when the acquisition cost is unknown and/or the year of purchase is unknown, and even worse when both are unknown. Frankly, most people without those facts just make a rough estimate.

In an effort to level the playing field for businesses competing across town, the business owner needs to declare whether they bought items new or used and how much it cost before the municipality or tangible appraiser applies a depreciation schedule. The municipality or appraiser has to collect and verify the data. In the case of a revaluation audit, or if the owner has failed to file a annual return, an appraiser enters the business and inventories all of the tangible property and asks the owner how old and how much it cost when they acquired it. It's not unusual when a business owner cannot determine how much was paid for a specific item or how old it is, particularly when they acquired the items with the business. This article seeks to propose a simple solution to this specific problem in keeping with the appraisal methodology of reported values based on facts and evidence.

Part two will appear in the March 11th edition of NEREJ in the Financial Digest section.

Richard Conti, GPPA, SPA, ASA, is president of Conti Appraisal Service, Attleboro, Mass.