

Edwards Central Appraisal District



Business Personal Property Appraisal Manual

Edwards Central Appraisal District



Business Personal Property Appraisal Manual

This manual serves as a guide for verifying personal property renditions and to help establish values for business personal property that is not rendered. Edwards Central Appraisal District's preferred method of valuing personal property is validation of state required business personal property renditions.

Updated: January 2023

Introduction

The Edwards CAD relies heavily on business personal property renditions filed by business owners to appraise business personal property, but also considers several published sources as guides; such as Marshall & Swift Commercial Cost Schedule. Business personal property consists of inventory, FF&E (furniture, fixtures and equipment) and M&E (machinery & equipment). It is not unusual to find that available space within a particular business is not uniformly equipped and/or stocked. Because of its location and sparse population, most published appraisal guides require significant modifications in order to accurately capture the market value of business personal property in Edwards County. Therefore, business personal property renditions are the preferred method of appraisal.

The appraisal of personal property is not an exact science. It involves a great deal of judgment and common sense, and the exact methods used will vary between appraisal districts

In the following pages the reader will find the Master Standard Industrial Code (SIC) list used by the Property Tax Assistance Division to identify different business types and the recommended economic life of their respective fixed assets. Not all of the business types found in the SIC list will have cost information provided in the guide.

Percent good is applied only to furniture, fixtures and equipment. Expected life (and therefore rate of depreciation) varies among types of FF&E and M&E.

Depreciation should be based on actual age or date of acquisition. To determine age, the appraiser should consider using one or more of the following:

- Use owner information if, after an inspection, staff determines it is accurate
- Use the age estimated by the appraisal district if staff determines it is accurate and owner information is not available or reliable
- Develop your own age estimate based on an inspection and any information obtained if owner information is not available or reliable
- In cases where there are several pieces of equipment and owner information is not available or is not reliable, estimate the average age of the equipment-based on your inspection and any information obtained
- Whenever the appraiser develops an age estimate, the basis for this estimate should be documented. Do not base the estimate on condition, unless the condition renders the equipment useless or restricts the equipment's operation. If the above example occurs, describe the problem and why additional depreciation is warranted
- A five-year economic life should be used whenever costs associated with different types of computer/data equipment are not identified, i.e., the costs associated with production versus non-production computers are not broken out asset listing and an accurate mix cannot be determined

To ensure the accuracy and uniformity of appraisals year-to-year, property value changes for the subject property are examined for value comparisons and possible clerical errors. Values of similar properties are examined for consistency and reasonableness. These types of property are also subject to review by the Property Tax Assistance Division of the Texas Comptroller's Office through their annual Property Value Study.

Property Description

SIC Code

Business personal property is classified utilizing a four-digit numeric code, called Standard Industrial Classification (SIC) codes that were developed by the federal government to classify businesses.

Accurate and uniform identification is the cornerstone of the personal property valuation system at the district. Personal property analysis will be performed considering business type as well as other relevant property characteristics.

Furniture, hand tools, machinery, vehicles and business inventory are common examples of personal property. These assets become taxable when placed into business use (produces income) unless exempt by law.

The appraisal of personal property is one of the more challenging jobs in the appraisal process due to the varying types of businesses and their related assets. Also, one of the most common characteristics of personal property is its mobility, thus the location of business assets is a constant process. Because of its many variables and mobility, the personal property appraiser must rely on many tools to assist in the discovery and appraisal of business use assets.

The types of business personal property are fairly diversified and change as demanded by technology and culture. Listed below is a broad-based type listing and short description of each.

Commercial/Retail: These businesses typically are for consumer end product use/consumption, i.e., Clothing store, restaurants, convenience and grocery stores.

Service: These businesses provide a service to the consumer and do not necessarily carry inventory of goods. Some examples are taxi cabs, funeral homes, beauty and barber shops, and physicians.

*Industrial: These are typically properties involved in a manufacturing process and other complex properties, i.e., machine and fabrication shops, chemical processing facilities, refining plants and electric generation plants. These accounts are currently contracted out for appraisal by the valuation consultant firm of Pritchard and Abbott, Inc.

*Utilities: The utility category includes the following types of properties; water and gas distribution systems, electric and communication companies, railroads and pipelines. These accounts are currently contracted out for appraisal by the valuation consultant firm of Pritchard and Abbott, Inc.

*Oil Field: These properties are usually any companies that engage in some type of oil field operation. They must have inventory of tubing and casing for down hole operations, drilling or workover rigs or related equipment. These accounts are currently contracted out for appraisal by the valuation consultant firm of Pritchard and Abbott, Inc.

These are some general categories of business personal property types. It is not unusual to find personal property accounts that involve more than one business type or to find a business whose assets are completely unique to that business.

The appraiser must recognize that changing consumer demands play a large roll in the changes in businesses. This can affect not only the business type but also the evaluation of the business use assets.

***Edwards CAD contracts out to Pritchard & Abbott, Inc an appraisal firm for the appraisal of MIUP Personal Property (Mineral, Industrial, Utilities, Personal (Commercial)). Please inquire in our office for information on how these property types are appraised. ***

Appraisal Cycle

One of the more difficult tasks encountered by an appraisal office is the discovery and taxation of personal property. The law requires that all property not specifically exempt be taxed. The determination of situs causes the taxation of personal property to be more difficult than the taxation of real property because personal property is easily concealed and frequently moved. It is therefore imperative that appraisers understand the basic requirements and definitions assigned by law for personal property and situs (location of property for assessment purposes).

§1.04 of the Texas Property Tax Code (PTC) defines personal property as

(4) “Personal property” means property that is not real property.

(5) “Tangible personal property” means personal property that can be seen, weighed, measured, felt, or otherwise perceived by the senses, but does not include a document or other perceptible object that constitutes evidence of a valuable interest, claim, or right and has negligible or no intrinsic value.

(6) “Intangible personal property” means a claim, interest (other than an interest in tangible property), right, or other thing that has value but cannot be seen, felt, weighed, measured, or otherwise perceived by the senses, although its existence may be evidenced by a document. Stocks, bonds, notes or accounts receivable, franchises, licenses or permits, demand or time deposits, certificates of deposit, share accounts, share certificate accounts, share deposit accounts, insurance policies, annuities, pensions, causes of action, contracts and goodwill are all forms of intangible personal property.

Intangible personal property is not taxable in Texas. §11.01 provides for the taxation of tangible personal property unless exempt by law: “(c) This state has jurisdiction to tax tangible personal property if the property is:

(1) located in this state for longer than a temporary period;

(2) temporarily located outside this state and the owner resides in this state; or

(3) used continually, whether regularly or irregularly, in this state.

(d) Tangible personal property that is operated or located exclusively outside this state during the year preceding the tax year and on January 1 of the tax year is not taxable in this state.”

Chapter 11, Subchapter B of the PTC directs for a variety of property exemptions. §11.14 (a) states that a person is entitled to an exemption from taxation of all tangible personal property, other than manufactured homes, that the person owns and that is not held for the production of income.” Additional exemptions available to personal property are family supplies, farm products, implements of husbandry, personal property held or used for the production of income valued at less than \$2,500(PTC §11.145), Freeport, goods in transit, abatements, vehicles leased for personal use and vehicles used for both the production of income and personal use.

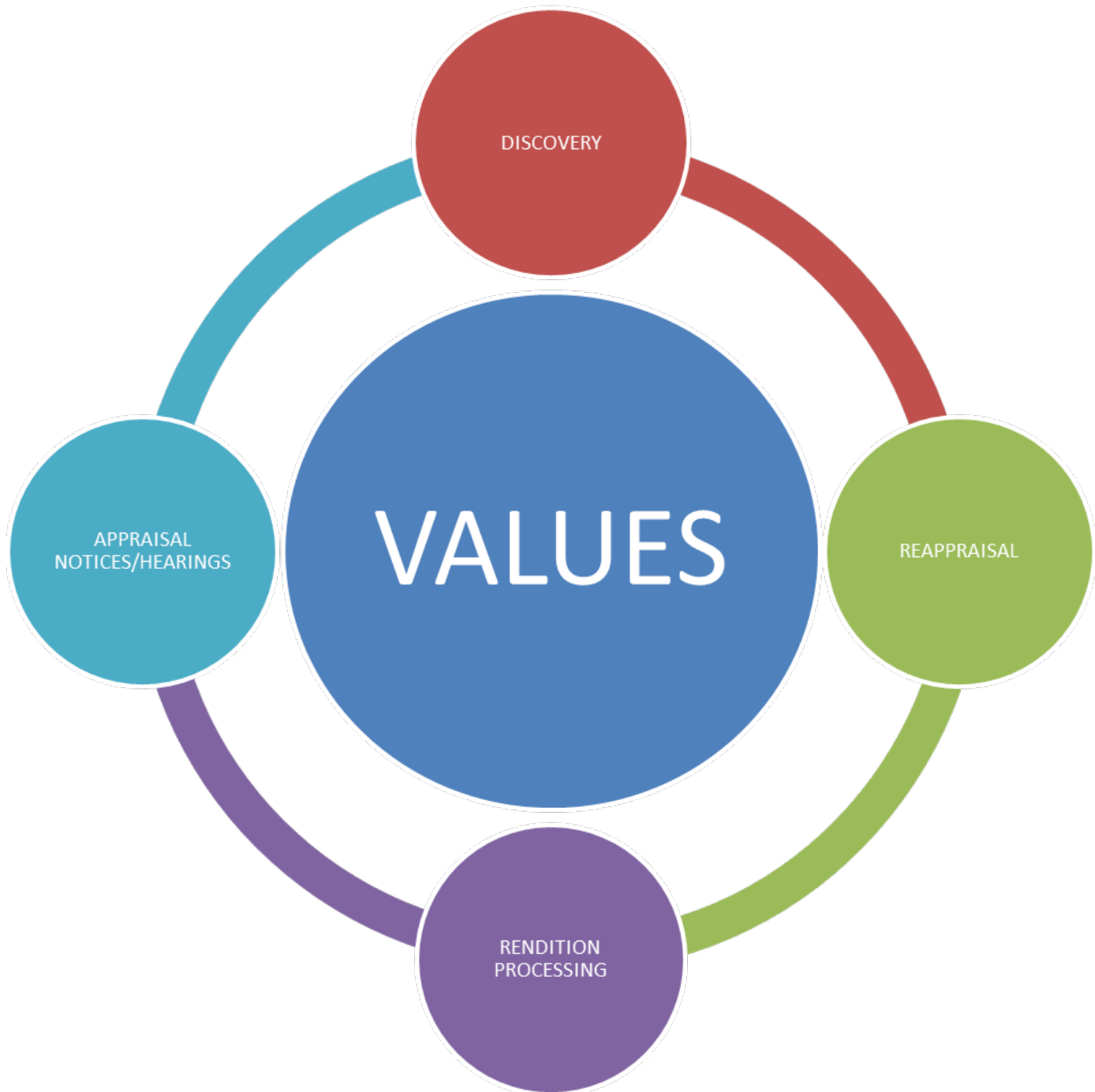
Situs rules are defined in § 21.02 of the PTC; “generally speaking, tangible personal property is taxable if:

- (1) it is located in the unit on January 1 for more than a temporary period;
- (2) it normally is located in the unit, even though it is outside the unit on January 1, if it is outside the unit only temporarily;
- (3) it normally is returned to the unit between uses elsewhere and is not located in any one place for more than a temporary period; or
- (4) the owner resides (for property not used for business purposes) or maintains the owner’s principal place of business in this state (for property used for business purposes) in the unit and the property is taxable in this state but does not have a taxable situs pursuant to Subdivisions (1) through (3) of this subsection.”

Per § 23.01 of the PTC, “unless otherwise directed, all property shall be appraised at its market value as of January 1st.

“Section 1.04 (7) of the PTC defines “Market Value as the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- (A) exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- (B) 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
- (C) both the seller and the purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.”



Discovery

The appraisal cycle begins approximately August 1st of the preceding year (i.e., appraisal year is 2021 so the appraisal cycle begins in August 2020). Discovery is the first phase of the cycle.

The extent to which taxable personal property can be assessed depends upon its discovery. Discovery requires staff and supporting resources and must be carried out with due respect to standards, guidelines, statutory policies, and case law. Three major areas should be considered in a discovery program: methods of discovery, interpretation of data, and situs.

The district utilizes several methods for the discovery of personal property. The primary sources of discovery are the prior year's appraisal roll and renditions or declarations. Additional sources include assumed names filed for record with the county clerk's office, sales tax permits, phone books and business directories, commercial vehicle registrations, internet, professional licenses issued by the state as well as appraiser observations while making on-site inspections.

Personal property appraisers soon become aware of how quickly businesses can start up, expand, cut back and move to new locations. For these reasons, field appraisers need to use a variety of discovery tools to find all taxable personal property in their district.

Listed below are some methods that can be used to find items of personal property.

Personal property rendition: This is probably the most important tool used for the discovery of personal property. The form should contain required information, such as inventory cost, cost and age of furniture and fixtures, machinery and equipment, vehicles, and other desired information to enable the appraiser to calculate current value through the use of depreciation schedules. Reliable rendered information forms the basis for benchmark properties for similar properties.

Previous year's tax roll: Creates a starting place each year. The field appraiser can check ownership, jurisdiction, situs and update any information or value as needed. A file is maintained for each account containing all relative paperwork.

Newspapers and press releases: These will assist in the maintenance of records, whether it be new business openings, business closures, or expansion or relocation of existing businesses. Notes, copies, or any pertinent information gathered throughout the year is collected until the next year's fieldwork.

City Directory and the Telephone Directory: These are useful tools in locating new or relocated businesses. Each contains business type directories and are well suited to assist in the research of business information and information concerning business ownership.

In-house and alpha business listing: Useful tools in discovering and or recognizing movement of business personal property within the district; these listings contain business name, location, value, account number and jurisdiction.

State Comptroller's annual Sales Tax Listing: This listing provides current businesses that are required to pay sales tax. It is also valuable as it also supplies initial business opening date, ownership, location, and mailing information.

Business directories and trade journals: These also aid in the discovery of new businesses.

Public Library: An endless source of information for all types of properties.

County Court House: Legal filings such as deeds and assumed name listings also assist in discovery of new business as well as ownership and business opening date information. Copies of assumed name filings are obtained from the County Clerk's office and reviewed by the personal property appraiser.

Visual inspection: Essential for knowledge of local conditions and market trends are visual inspections of property. Personal property inspections are made during the months of September through mid-March of each year. This enables confirmation and update of existing records as well as discovery of new business accounts.

Private firm publications: These provide information on various business use assets. The Rusk County Appraisal District purchases a listing of commercial vehicles registered within our county and a listing of aircraft whose owners reside within our county, each January 1st of the year.

Vehicle Registration Listing: An alpha listing of commercial vehicles that are registered in our county, this listing is received within the first two months of each year and reviewed by the personal property staff to locate new business assets.

FAA Listing: Also received within the first two months of each year, this listing provides information on all US aircraft and their ownership.

Discovery is a year-round process and an aggressive discovery program encourages renditions and helps ensure that the personal property portion of the appraisal roll is as complete as possible.

Renditions

Each January, personal property renditions are mailed to all active accounts from the prior year's appraisal roll and to all newly discovered businesses that have been identified through the discovery process. In addition, rendition forms as well as the business personal property depreciation schedules are available on the district's website.

Appraisers review renditions as they are received comparing prior year renditions and visual inspections with information provided on the current year's rendition.

Section 22.01 of the PTC provides the requirements for filing a rendition. "A rendition must contain:

- (1) the name and address of the property owner;
- (2) a description of the property by type or category;
- (3) if the property is inventory, a description of each type of inventory and a general estimate of the quantity of each type of inventory;
- (4) the physical location or taxable situs of the property; and
- (5) the property owner's good faith estimates of the market value of the property or, at the option of the property owner, the historical cost when new and the year of acquisition of the property."

Appraisers rely on on-site inspections, schedules, ranking tables and commercial vehicle registration listings in many instances for values as property owners are not mandated to provide historical cost new and year of acquisition whose opinion of value is less than \$20,000 only have to provide the name and address of the owner, the general description of the property by type or category and the physical location of the property have the ability to indicate the information contained in the most recent rendition continues to be accurate for the current year by exercising the option to check a box stating that the information continues to be complete and accurate (§22.01 PTC). See Rendition Processing in the Procedures section of this manual

Audit/Inspection

The district inspects businesses and reviews information provided as allowed by the PTC. Section 22.07(a) of the PTC allows appraisers entry into a business for the inspection of property used in the production of income to determine its existence and market value. Business personal property with known situs is inspected once every three years.

New business accounts will be inspected after submission of their first rendition of their first year of operation as of January 1 and then once every three years after that.

Inspection can take place in different formats. First is physical inspection by the district sending an appraiser to the physical business location. Last internet/social media verification. A lot of businesses in Edwards County are home based businesses and that inspection will happen in unison when the real property is being reappraised.

The PTC provides very limited access to the books and records of property owners. Section 22.07(c) allows the district to request a statement containing supporting information on how the value rendered under Section 22.01(a)(5) was determined but does not require accounting documents be provided for audit purposes.

The sections of the PTC governing property valued as dealer inventory allow district personnel to inspect sales records of the owner to substantiate information provided in the dealer's declaration.

Penalties

Accounts identified as not filing a rendition or filing a late rendition are notified of the intent to impose a penalty by the district. Property owners have 30 days from the date of the letter to request the chief appraiser waive the penalty. The penalty is ten percent of the total amount of taxes imposed on the property for that year. Under § 22.29 of the Texas PTC the chief appraiser may be required to impose additional penalties.

Data Collection

In gathering information for personal property accounts, two general types of data are required: identification data and appraisal data. Data required to identify property include ownership, location, business type, and other identification items. Appraisal data includes asset description, depreciation factors, and other appraisal related items.

Property Description Data: Characteristics of both the property and the business must be identified in the appraisal records. The most common property identification data requirements include the following:

- Account Number
- Business Name
- Owner Name
- Mailing Address
- Jurisdiction Codes
- PTAD Category Codes

All of this information is pertinent to the accuracy of the appraisal records and must be kept current. Each year this information should be reviewed at the time of field appraisal or during any contact with the property owner.

Rendered Information

The appraiser must rely on information supplied by the property owner through rendition in addition to discovery. The rendition form is a valuable tool for evaluation and discovery. Information from this form can be used in account specific evaluation and also in formulation of comparison value for similar types of businesses.

In reviewing renditions each year, the appraiser updates the information to reflect those assets that have been acquired or disposed of from January 1 of one year to the next.

Personal property renditions are confidential. These records are not open for public review.

Inventory Appraisal

From the appraisal standpoint, inventory should be valued from the basis of total replacement cost necessary to bring the asset to the point of sale, as illustrated in the trade level concept. However, the cost basis to which ancillary costs are added must reflect current market if the total cost is to be a valid one. Most ad valorem tax statutes require that all property, real and personal, be appraised and assessed at its true value in money as of the date of assessment. Section 23.12 (a) of the PTC states: “the market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business.”

Inventory and merchandise for sale is usually new and has not suffered physical depreciation or functional obsolescence, however, there are some instances when the appraiser should make adjustments. Spoilage or damage will reduce the value of inventory and new technology will make some property out of date even if it has never been used.

Reappraisal

Reappraisal consists of three aspects of review: on-site inspection, office review, and rendition processing. Reappraisal begins after the discovery period in September or October and extends through the rendition processing period through late May.

On-Site/Office Reviews

Business personal property accounts are inspected and/or reviewed by testing values against quality/density schedules, ranking tables, cost guides, renditions or other comparative information. Approximately one fourth of the accounts are scheduled for either on-site inspections or an office review for reappraisal each year.

Personal property on-site inspections and office reviews are on the same cycle as commercial property inspections/office reviews. Tracking of the inspections and office review is filed on the PACSServer/Commercial Appraisal/TRACKING/YEAR.

Real estate accounts with personal property at the location are identified in PACS by linking all accounts associated with the location. Appraisers reappraise the personal property while at the commercial location to avoid multiple appraisers performing on-site inspections which in turn increases efficiency. The second benefit is the reduced opportunity for double assessment of leasehold improvements, cold storage vaults, signage, in ground fuel storage tanks and others. Personal Property appraisers perform on-site inspections on properties located in residential neighborhoods and are identified by using identifying codes populated in the Map ID field in PACS.

In an effort to streamline the appraisal process of Business Personal Property and Commercial Real Estate, the appraisal process between the two departments has been combined in a manner that reduces the number of times an appraiser visits each location. For general reappraisal, each appraiser is assigned a specific commercial neighborhood and is responsible for the visual inspection of each real estate and business personal property account.

Physical inspection of the neighborhood allows for verification of the characteristics of each property and to correct any other issues the appraiser observes. The appraiser has two types of data to consider for each Real Property account: Objective (factual) data and subjective data. Objective data is easily identified by the appraiser and requires little judgment. Objective data examples are Main Area, age, size, exterior covering, foundation type, roof covering, heating and cooling, garages, paving, canopies, outbuildings, etc. Objective data is recorded in PACS as Details and Detail features. Subjective data requires the appraiser to obtain knowledge of this type of data and follow a set of guidelines to determine the appropriate data sets for a property. Subjective data examples are condition, effective age, class and sub-class. This subjective data can be greatly influenced by appraiser bias, so it is critical that the appraiser follows the guidelines listed in the Commercial Field Guide to assist them in making accurate determinations. Failure to follow these guidelines can result in inconsistent valuations, inconsistent descriptions, and difficulty in defending the values. The Commercial Field Guide and information on condition, details, and detail features is found in the Procedures section of the Commercial Manual.

Appraisal Notices/ Protests/Appraisal Review Board

Appraisal Notices are mailed to all property owners each April and/or May after all appraisal work is completed for the year. It is the policy of the Edwards Central Appraisal District to mail value notices to all property owners or their agent each year. Section 25.19 of the PTC governs the requirements of appraisal notices (g) requires a written notice to be mailed if the property was reappraised in the current year.

Informal Inquiry or Protest

The mailing of appraisal notices causes many property owners to have questions concerning their value, the appraisal process or how the formal protest process works. These inquiries can come in the form of a phone call, letter, email, or walk-in. All communication with a property owner is to be documented in PACS on the ARB-Inquiry tab. Under the Inquiry section hit the new button and complete the following fields: Type, Nature, Status, Taxpayer Comments, Appraiser Comments, Phone number if provided. Also see Procedures – ARB Informal Protest walk in procedures.

A property owner may have an issue with the value of their property, the condition or characteristics may be incorrect and many times these issues can be resolved without a formal protest being filed. The property owner may provide evidence in the form of accounting records, IRS tax returns cost and date of acquisition, condition issues that exist with the property that the district is unaware of that may indicate an adjustment to the property is warranted. Value changes, regardless of whether market related or condition, are not to be made in the Inquiry (See Procedures: ARB Informal Protest Value Change). The district calls these types of property owner contacts, Informal Protests.

Formal Protests

Property owners have the right to protest any action that the appraisal district has taken that adversely affects the owner. The most common reasons for protesting are **Value Over Market** and **Unequal Appraisal**.

A protest form is mailed with each notice of appraised value and therefore is usually the notification of a protest received. However, any document that identifies the property, identifies the owner, indicates apparent dissatisfaction with an action by the appraisal district is a valid protest. The district refers to these protests as Formal Protests.

As protests are received, the protest form is scanned to the account and scheduled for a hearing under the ARB tab in PACS. Once a protest is scheduled, the appraiser must review the protest and prepare for the ARB hearing. Property owners may request the evidence the district intends to present at the hearing. The date the evidence is requested is populated in the Evidence section of the ARB. The evidence must be available to the property owner or their agent of record no later than 14 days prior to the scheduled hearing (see Procedures: ARB 14 Day Evidence).

Appraisal Review Board Hearings

Property owners have the right to protest their property's value and other appraisal matters to an appraisal review board composed of an impartial group of citizens from within Edwards County. The Edwards ARB is composed of eleven members; however, most hearings are heard by three member panels.

Hearings are approximately 15 minutes in length. The property owner or their agent of record presents their case and evidence. Once they have presented the appraisal district staff presents the evidence accumulated to substantiate the value. This is usually accomplished from the rendition, ranking tables and other information used to develop the appraisal that can be found in the work file on the account in Events. The property owner is then given the opportunity to ask questions or rebut the information presented by the district. The panel members ask questions during and after testimony. After the information is presented, the panel chairman closes the hearing; the members deliberate and render a recommendation. A quorum of the full board meets on or before July 20th each year to review all panel recommendations to approve or deny. See Procedures ARB Conducting a Protest Hearing