Four common business events that can impact your property tax compliance

Avalara
Tax compliance done right

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DISCLAIMER

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.

Introduction

In addition to annual property tax bills, returns, assessments, and appeals compliance, as companies evolve, there are several key events that take place that may warrant a property tax review check-in.

As the pace of business continues to speed along, it's important to pay extra attention to how certain changes may impact your property tax liability. As companies grow, four common events may occur within their business that leave property tax compliance professionals scurrying to play catch-up, resulting in potential penalties or more stringent challenges.

Property tax compliance is already a cumbersome challenge due to:

- Changing tax laws.
- Complicated regulations.
- Wide-ranging tax rates across jurisdictions.
- Paper-based tax compliance.

Even with regard to these more everyday challenges, there are several steps that companies can implement to ensure they're less likely to miss a bill, send a late payment, incur a penalty, and/or end up overpaying their property tax.

The property tax cycle of returns, notices, appeals and bills – and the associated deadlines that come with each of those – can pop up throughout the year, and even potentially stretch into the following calendar year.

"Understanding the difference between the tax year versus the calendar year is always a headache for people," said Melissa Schad, PMP, senior sales executive with Avalara. "Worst-case scenario, you can file the same return as last year and amend it later, pay an estimated tax amount, or file blanket appeals to avoid missing deadlines. But that's more for your team to track and fix later. Redundant work costs you time and money."

FOUR COMMON BUSINESS EVENTS THAT CAN IMPACT PROPERTY TAX COMPLIANCE

Event 1.
Business expansion

Event 2.
Relocation of business assets

Event 3.
Equipment purchase or lease

Event 4.
Company reorganization

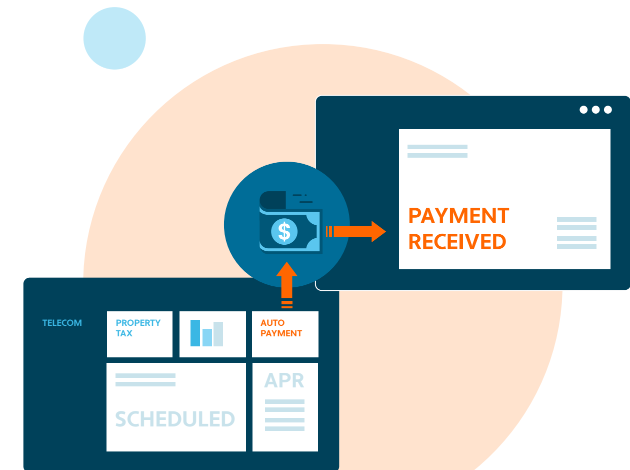
As these deadlines appear throughout the year, tax teams who are prepared for any hiccups can handle them more quickly. This helps them to avoid missed deadlines and frees up valuable time for employees to tackle other things. For example:

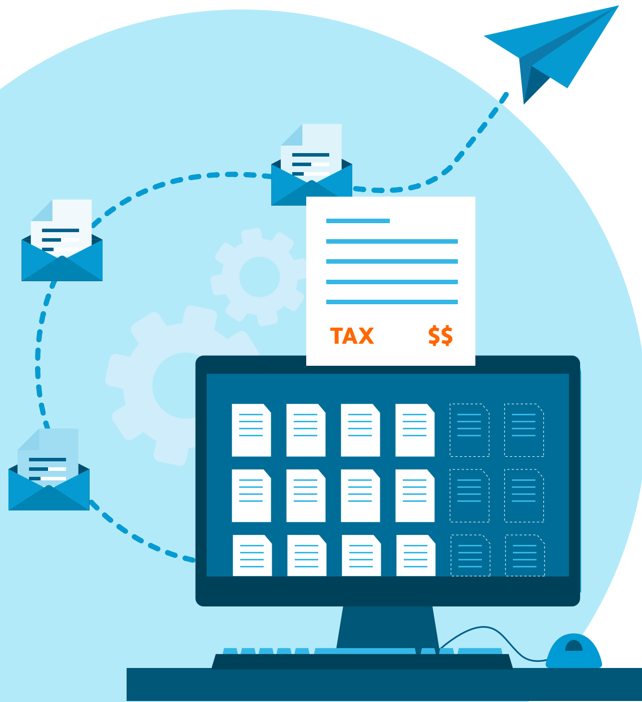
BILLS.

Just because you haven't received your property tax bill doesn't mean you don't have to pay it. The government also won't notice that your bill has gone missing and send you a new one ... but they'll definitely still want their money. To avoid paying the consequences of non-compliance, keep estimated tax bills and due dates for all of your business locations on your calendar, go online to the tax collector's website to search for a copy of any missing bill, or contact the collector and alert them of what you're missing.

RETURNS.

If you have property in a state that requires that you file business personal property tax returns for tangible assets, then it's essential to keep track of those deadlines, as well. Personal property tax returns can be tricky, though, particularly if you have property in multiple jurisdictions and/or haven't had the value of the personal property assessed. "Business personal property needs to be reported wherever it was physically located as of the lien date for the jurisdiction," said Schad. "If your business operates from many locations across jurisdictions, opens locations in new jurisdictions or leases property to others in multiple jurisdictions, your reporting obligations could be extensive."





ASSESSMENTS/APPEALS.

Staying on top of assessments and appeals starts by understanding the differences between the two: A tax assessment is the value attached to your real property and business personal property, and is based on the jurisdiction your business is in. An appeal is the process of disagreeing with your property's assessment, whether that's in value or some other aspect of the tax, like a dispute over the taxing jurisdiction, a denial of an exemption, or even a clerical error. "Missing deadlines for returns can incur non-filing penalties, and the jurisdiction can then assess you for the value they believe the property is worth," said Schad. "In one case, a customer was assessed at $50,000 for a location where he owned $5500 worth of property, and had to pay the bill based on the inflated value. Missed bill deadlines can incur flat penalties, interest charges or both. Additionally, some jurisdictions are now refusing to issue business licenses for companies who are out of compliance with property taxes - which can cause a complete shutdown of a location."

Businesses should also remember that each one of these tax elements – bills, returns, assessments, and appeals – comes with its own specific set of deadlines. Keeping track of each can be a Herculean task, but a best-in-class technology can help. Avalara Property Tax uses the physical location of your property to automatically populate its interactive tax calendar with the deadlines that reflect each individual customer's property, ensuring you have a one-stop shop to see all your compliance deadlines laid out in a calendar view. As you complete your filings, notice reviews and bill payments, the tax calendar automatically updates to remove these tasks from your calendar, showing only the tasks needing completion. Anyone on your team can easily see the priorities and progress. Outside of these common bills, returns, assessment, or appeals-related deadlines, there are several key events or business decisions that can add unanticipated complexity for property tax compliance. Keeping those business changes on your radar with regard to what you need to do with property taxes can make everyone's lives a little bit easier and, potentially, save your business a whole lot of money.

Event 1:
Business expansion

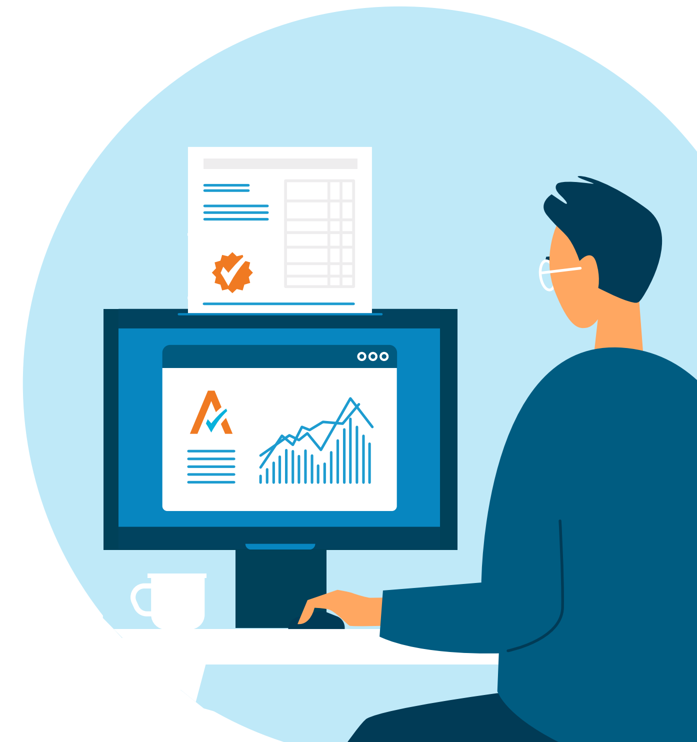
Businesses that have reached certain goals may be ready to expand, which is a huge accomplishment. Expansion can happen in several ways, each with its own unique tie-back to property tax compliance.

MERGERS AND ACQUISITIONS (M&A).

A merger is an agreement that unites two existing companies – and two existing companies' assets – into one new entity. This can be a promising move for both companies involved, but on the property tax compliance side, things can become tricky.

An acquisition is a bit more nuanced, as it involves one company buying a controlling interest in another one. For the purposes of property tax compliance, though, it still involves the taking over of operations and assets. For simplicity, it helps to break down property tax compliance issues associated with M&As into two distinct stages:

1. During the M&A due diligence phase: If your company is acquiring another one, you become responsible for paying property tax on the other company's tangible personal property assets and their real estate. Getting all the property listings, current cost reporting and valuation methods, identifying what the child company has filed, paid and appealed and any existing exemptions or abatements can be tough. This is especially true if there have been any layoffs of that tax team, losing valuable knowledge of the current state.



From a purely logistical standpoint, the company you're acquiring may have had bills going out to multiple locations. Tracking those down and redirecting them to where you're sure they will be received (remember, these are paper bills, and it's on you to keep track of them) should be a top priority. These locations also may be in different jurisdictions than you have filed in previously, so identifying new forms, thresholds, and deadlines will be a lift for your team.

2. After the transition: Even if you've done your due diligence during the beginning phases of a M&A, additional complications can still arise afterwards. For example, county assessors base their tangible personal property tax assessments on several factors, like how much an asset's value has depreciated. If there are abatements or exemptions in place, these may become invalided, or you may now be over the threshold. Also, you may have to communicate changes in corporate address, new signers for return forms, new approvers for bills and there may be legal entities that no longer exist. These entities need to file zero returns and ensure all accounts are paid and closed to avoid issues for the next year.

PARTNERSHIPS.

Partnerships are generally considered "flow-through entities" by the Internal Revenue Service. This means that the partnership needs to file an entity tax return, and, from a property tax standpoint, the legal owner of the property is responsible for filing and paying. Ensuring that this is clear to the tax team is paramount

GEOGRAPHIC EXPANSION.

Opening a new location can be very exciting. You're taking over the world … congrats! Don't forget to consider property tax compliance, though. If your expansion is to another state within the United States (or even just to another county within your current state), consider that there will likely be different laws, requirements, forms, and deadlines regarding property tax.

You may even need to apply for new business licenses. "In some states, every assessor has a different form they want you to file," said Schad. "In other states, a city move triggers a jurisdiction change. That knowledge is important to help ensure you are fully compliant with all your property locations."

Event 2:
Relocation of business assets

The relocation of business assets can impact your property tax in several ways. Some factors that could impact your compliance include:

- If you're operating in a new-to-your-business jurisdiction, you might have different deadlines, requirements, and regulations to consider.
- If you're selling assets outside of real estate for relocation purposes – like equipment, for example – you'll need to consider what you paid for the assets, minus any depreciation to the asset during the time you've had it. If you're selling it for a profit, you may owe additional taxes, too.
- If you received a business asset – like farmland or farm equipment, for example – as a gift and plan to use that inheritance as a way to relocate your business, your property tax asset basis is the purchase price to the donor. This is also important information to have should you ever decide to sell the asset.

"Relocating business assets, typically referred to as movements or transfers, need to be reported as disposed of in their current jurisdictions, and noted as additions in the new jurisdictions. Some return forms have specific sections for these changes, while others will need a listing of property to show the assessor your changes. If your relocation falls into a new jurisdiction, you may have to find deadlines, forms and other pertinent information to be compliant with the jurisdiction rules."

-**Melissa Schad,** PMP
senior sales executive with Avalara

Event 3:
Equipment purchase or lease

Whether to lease or purchase new equipment for your business – or to offer equipment up for lease or purchase to other businesses – is a personal choice, and one that should be based on several factors. One of those factors, though, should be property tax implications.

LEASING EQUIPMENT.

Whether you're leasing equipment to use in your business or leasing equipment out for another business to use could mean there are additional tax implications to consider. "It is very rare that a lessee is responsible for reporting or filing for leased equipment," said Schad. "Typically, leased property, for property tax purposes, is reported by the lessor, and depending on the lease agreement, the lessor bills the lessee back for the property tax on those assets. So, there typically is not really a major consideration for leasing assets, unless you're the lessor."

PURCHASING EQUIPMENT FOR YOUR BUSINESS.

Think of it this way: Any time you increase your assets, you increase your tax liability. As you grow your business and acquire additional equipment (aka personal property), you'll most likely owe more property tax. "When purchasing property, it's important to consider whether there are adjustments to your purchase cost you should consider based on the jurisdiction rules," said Schad. "For example, can you extract software costs from purchased computers? Many companies don't extract sales tax from the purchase price of assets, but in many cases you don't have to pay property taxes on the sales tax amount."

Event 4:
Company reorganization

Company reorganizations can happen in several ways. Whether it's staffing changes, cost-cutting measures, an introduction of new technologies or something else, there are several practical, property tax related changes that may occur, as well.

- Moving to a larger office, or downsizing to a smaller one
- The purchase of new equipment
- The sale of equipment for employees no longer with the company
- Taking on new storefronts after being bought out

Those are just a few of the ways that a company reorganization may have property tax implications. Be sure to document any changes that occur along with a reorganization so that you can consult with a tax professional on what to do to stay compliant.

Consequences of non-compliance

The consequences of failing to pay your property taxes on time could be hefty. For example:

MONETARY PENALTIES:

These differ by jurisdiction and state, but regardless of where you do business, missing a property tax payment can come with a heavy fine, sometimes up to 10 percent of the bill.

REPUTATIONAL HARM:

Some tax collectors, in an effort to encourage taxpayers to pay their bills, publish lists of delinquent businesses, along with what they owe.

LOSS OF PROPERTY:

Although it's not common, it is possible that a lien can be put on your property if you fail to pay your property tax on time. Even the most organized of tax professionals may find themselves missing out on a tax payment from time-to-time, especially if they are keeping track of dozens. Or one single due date slips by, and suddenly a business is non-compliant. Whether it's happened to you before or you feel like you're drowning under the weight of paper bills, the proper property tax compliance software can automate your work to keep your business running smoothly.

By extracting, validating, and appending key data all in one hub – while tracking due dates and optimizing return generation – Avalara's cutting-edge tax technology is helping hundreds of businesses stay property tax compliant. You don't have to do it all alone. Click here to learn why business owners are increasingly turning to Avalara for help simplifying tax compliance, increasing accuracy, and reducing penalties.

A complete tax compliance solution built for how you do business

At Avalara, we live and breathe tax compliance. That means that we have solutions to help you determine nexus obligations, register, calculate sales tax, manage exempt sales, and file and remit your returns – saving you time and hassle.

Learn about the Avalara suite of products that can help simplify compliance

Avalara AvaTax
Apply sales and use tax calculations

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Manage licenses in a secure database

Avalara E-Invoicing and Live Reporting
Automate finance operations; comply with e-invoicing mandates abroad

Avalara Exemption Certificate Management
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Avalara Property Tax

Avalara Property Tax centralizes real and personal property tax bills, documents, assessments, due dates, forms, return preparation, and appeals in one secure hub that minimizes data entry, maximizes accuracy, and automates the process of appending property tax documents to tax bill payments. Find out how automation can help improve accuracy, reduce costs, and free up your team to focus on tasks that drive profits for your business. Talk with one of our property tax compliance specialists about how Avalara can help.

Talk with a specialist

About Avalara

Avalara makes tax compliance faster, easier, more accurate, and more reliable for 41,000+ business and government customers in over 75 countries. Tax compliance automation software solutions from Avalara leverage 1,200+ signed partner integrations across leading ecommerce, ERP, and other billing systems to power tax calculations, document management, tax return filing, and tax content access. Visit http://avalara.com to improve your compliance journey.

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