Overvaluation of Business Personal Property by Appraisal Districts

Why are valuations of business personal property assessments by assessing jurisdictions not reflective of their actual market value? The main reason behind this discrepancy is that appraisal districts value these assets based on a mass appraisal depreciation cost schedule with no ties to actual market value. So how does one change this overvaluation of these assets? The answer to this question is to take additional steps in promoting change in the current system in order to lower assessments to a more realistic market value. Keep in mind there are three approaches to value; cost, income, and the sales comparable approach. The most accurate method for the valuation of business personal property would be the sales comparison approach not the appraisal districts cost approach.

Appraisal Districts are charged to value business personal property at market value as of January 1. In their attempt to do this, based on the large number of individual accounts and the little manpower given to the districts, they traditionally fall upon the mass appraisal cost method of appraisal. This method is the most efficient method for appraisal districts; however it is most often the least accurate method of appraising the actual market value of these assets.

Appraisal District's cost depreciation schedule is based on acquisition cost including sales tax, installation, and delivery fees. The district will reduce the assessment based on a broad depreciation schedule indicating the asset is at a percent good based on their certain life schedules. For example, if you a taxpayer bought a new refrigerator for the purchase price of $2,500 before delivery, installation and sales tax. The total cost will be depreciated based on a percentage for the year of acquisition around 10% for the first year of ownership. This means that the $2,500 purchase price will be assessed around the same price after you consider the increased in cost based on sales tax, installation, & delivery. This method of valuation clearly overstates the value of your used asset.

A more accurate value of your restaurant equipment is most likely some number between what a restaurant equipment reseller would pay for your used equipment and what they would sell it to a used equipment buyer. The used equipment market exist the same as the buying and selling of used vehicles. However to date, most appraisal districts are unwilling to not use their cost approach. It is the owner's property tax consultant's responsibility to push other methods of appraisal onto the appraisal district to allow for a more accurate measure of appraisal.

With this being said, why do appraisal districts get away with sticking to their mass appraisal cost schedule? I believe that it is because owners do not take a strong enough stance with the appraisal districts. Owners need to present stronger cases to both the appraisal districts and the appraisal review boards that they are valuing your assets over their market value. If taxpayers render their assets as normal, no changes will occur in the system.

I would recommend the following methods for presenting a stronger case to the taxing jurisdictions. First I would recommend getting a personal property appraisal by a qualified personal property appraiser with the ASA national recognized designation. The appraiser will specifically address the market value of your assets on the assessment date. Second, I would have a resell store come out and give a bid for your assets. This will give a clear picture that their cost schedule does not match what the market will bear for your assets. Third, I would bring in examples items for sale or sold that show that the districts cost schedule is inaccurate. If I bought a refrigerator and saw that same refrigerator selling for less than my assessment, I would present the information to show that my market value is too high. The reduction you get from the appraisal districts will most likely be tied to how much documentation you can show that their method of valuations is inaccurate.

To be fair to the appraisal districts, I would not wish the job of valuing all commercial personal property within a county to my worst enemy. The job is underfunded and unrealistic to do accurately. Because of their challenges, I feel that personal property departments are more concerned about valuing uniformly based on a cost schedule than realistically valuating the market value of your assets. Because of this, restaurant owners and tax consultants need to make valuing your assets a priority over a schedule that is not tied to the market value of the assets.