

Essential property tax compliance considerations during mergers and acquisitions



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NOVEMBER 11-14, 2024
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Meet your presenter

Meet our presenter



Melissa Schad

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**POLL QUESTION
#1**

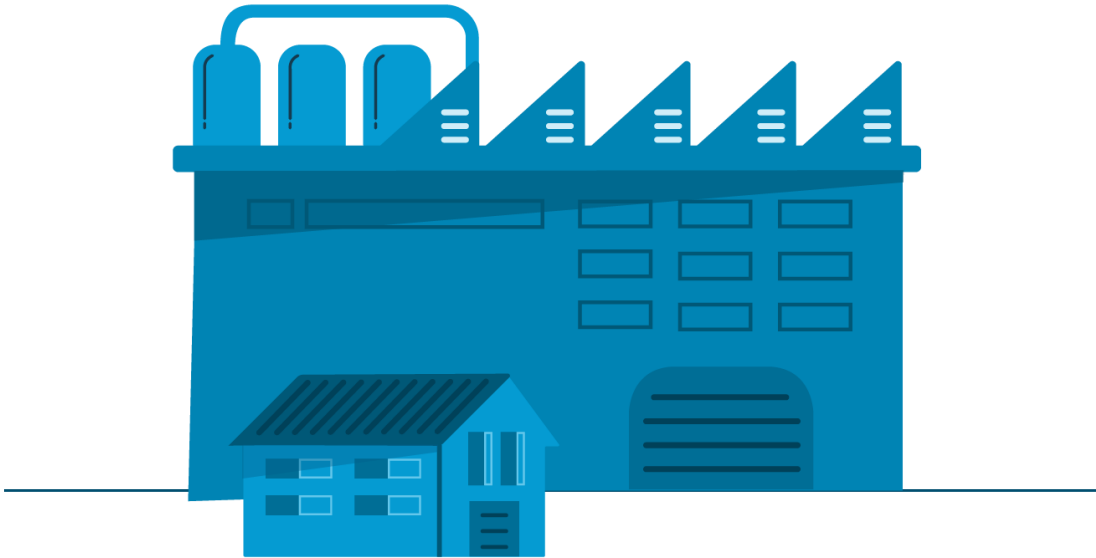
**> How would you rate your
current property tax
compliance processes?**

Agenda

- 1 > The property tax challenge
- 2 > The property tax cycle
- 3 > Six property tax to-do's during an M&A
- 4 > How Avalara Property Tax can help
- 5 > Questions

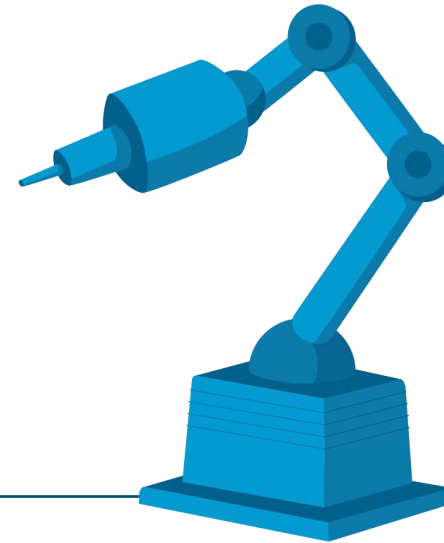
The property tax challenge

Real vs. personal property tax



Real property

- > Land (e.g. golf courses or parking lots)
- > Buildings (e.g. warehouses or hotels)



Personal property (movable assets)

- > Machinery
- > Computers
- > Supplies
- > Copiers
- > Tools
- > Furnishing or shelving
- > PoS devices
- > Equipment
- > Medical devices
- > Etc.

A look at the financials

Assets

Current Assets

Cash	\$722,500
Accounts Receivable	\$900,000
Marketable Securities	\$100,000
Inventory	\$500,000
Prepaid Expenses	\$30,000
Total Current Assets	\$2,252,500

Property, Plant and Equipment

Land	\$900,000
Buildings	\$1,500,000
Machinery	\$1,100,000
Furniture and Fixtures	\$400,000
Vehicles	\$500,000
Accumulated Depreciation	\$100,000
Net Property Plant and Equipment	\$4,300,000

TOTAL ASSETS **\$6,552,500**

Income Statement

Revenue	\$1,802,500
Operating Expenses	\$1,287,500
Labor	\$391,500
Property Tax	\$96,000
Other Operating Expenses	\$800,000
Operating Income (EBITDA)	\$515,000
Depreciation	(\$215,000)
Net Operating Income	\$300,000
Interest Expense	(\$107,500)
Income Taxes	(\$48,125)
NET INCOME	\$144,375
Operating Cash Flow	\$359,375
CAPEX	(\$230,000)
FREE CASH FLOW	\$129,375

Compliance is challenging



Returns

For personal property tax, companies still need to print and mail returns in almost all counties across 37 states



Assessments

These need to be compared to the prevailing fair market value and there is limited time to appeal and there are more than 10,000 assessors in the US alone



Bills

Companies receive tax bills from a myriad of jurisdictions, each with different rules, discounts, penalties, and due dates



Documents

All these documents need to be organized and indexed for rapid retrieval and audit support, as well as tracked to avoid penalties from missed due dates

The property tax cycle

The property tax compliance cycle

Receiving bills



Filing personal property returns



Receiving assessment notice



Appeal and audit management



Timely payment



Planning and strategy



Taxability analysis for compliance



Appraisal and valuation support



Expert testimony

Amidst all these necessary processes, there's different rules and regulations in every jurisdiction. Data maintenance, therefore, is crucial but difficult.

Now let's layer in M&As...



Determining filing requirements in new jurisdictions



Keeping existing exemptions and abatements and looking for opportunities for additional tax savings



Ensuring bill accounts are tracked and all new accounts are updated to avoid penalties and late fees



Legal entity, mailing address and signatory changes should be made and tracked



Property, asset, cost and value audit to ensure everything is reported and in line with parent company standards



Reviewing valuation post reporting and identifying appeal opportunities as well as transitioning existing audits / open appeals

**CPE POLL
QUESTION #2**

**> How automated are your
current property tax
compliance processes?**

Six property tax
to-do's during a
merger or acquisition

TO-DO #1

Determine filing requirements in new jurisdictions

- Target company may have property in different jurisdictions
- Target company may have property, such as inventory or vehicles, that acquiring company may not own
- Thresholds of filing in new jurisdictions



U.S. property tax by state

States are in a better position to attract business investment when they maintain competitive real property tax rates and avoid harmful taxes on tangible personal property, intangible property, wealth, and asset transfers.

This year, the states with the best scores on the property tax component are Indiana, New Mexico, Idaho, Delaware, and Nevada.

Property Tax Component Rankings

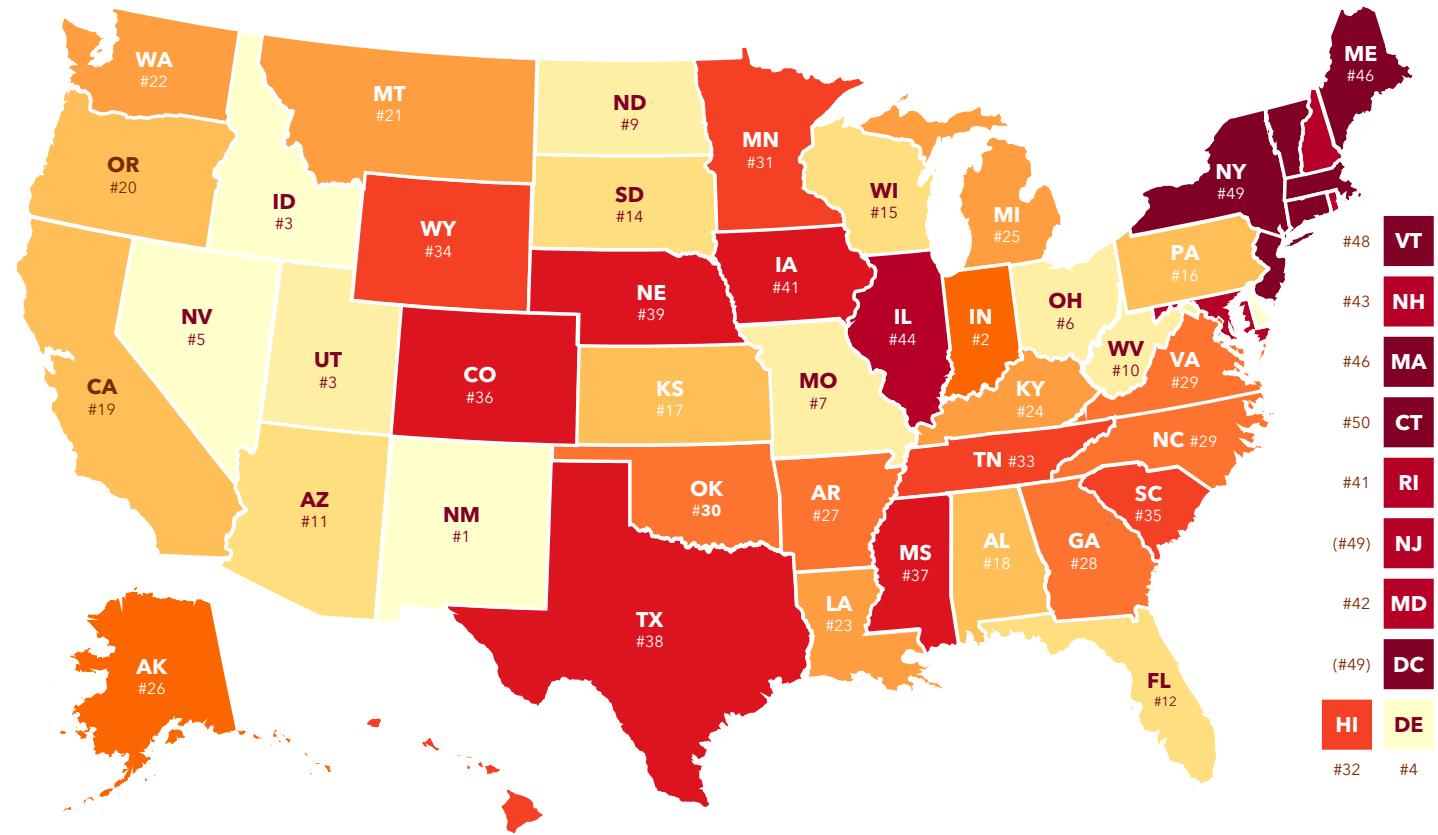


Better

Worst

How does your state rank on property tax structure?

Property tax component rankings, 2023 state business tax climate index



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of Jul 1, 2022 (the beginning of Fiscal Year 2023).

Source: Tax Foundation, 2023 State Business Tax Climate Index.

TO-DO #2

Abatements and exemptions

- Ensure acquisition does not invalidate existing agreements
 - Headcount, industry
- Target company may qualify parent for new exemption and abatement opportunities
 - Locations
 - Industry
 - Environmental



TO-DO #3

Ensure bill accounts tracking & new accounts are updated

- Avoid penalties & fees
- Target company may have separate accounts for real property, inventory, etc.
- Jurisdictions may fold parent/target company assets into the same account



TO-DO #4

Reporting changes to jurisdictions

- Cover letter outlining change
- Legal entity structure
 - Do parent and target company need separate returns? DBA?
 - Transferring ownership of assets/real estate
- Mailing addresses for notices/bills
 - Highlight the change, but search for documents sent to old addresses
- Signature changes
 - Return signatures may need updating depending on role changes



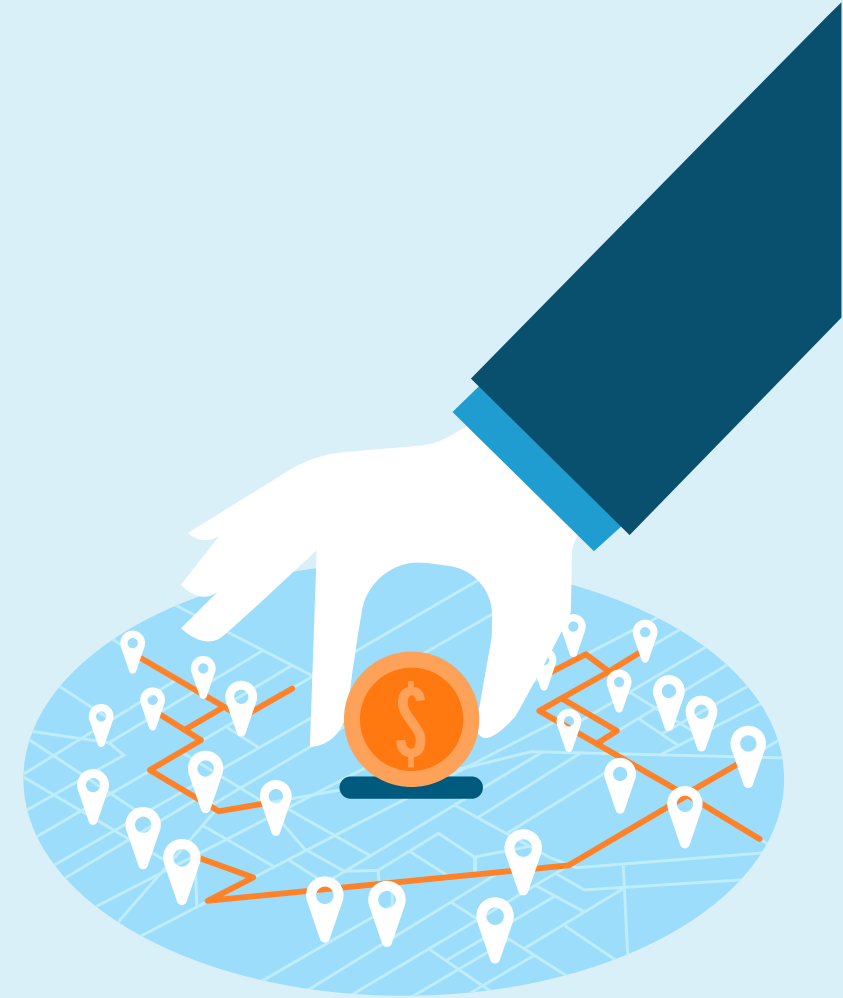
**CPE POLL
QUESTION #3**

**What percent of your
team's time is spent
> tracking appeals deadlines
and working on appeals
valuation?**

TO-DO #5

Reconciling locations, assets, cost method and valuation method to avoid audit triggers

- Verify all locations are accounted for; close locations that may no longer exist
- ERP audit of target company assets
 - Combined assets, thresholds, classifications
- Cost method
 - Manufactured, original, purchase price?
- Valuation methods
 - Parent company may depreciate differently



Where is your data?

- > Government
 - > Bills
 - > Assessments/notices
 - > Returns
- > Mail systems vs. electronic
- > Audits
- > Handouts
- > ERP systems



TO-DO #6

Review valuation post-reporting

- Identify appeal opportunities or flags
- Plan for existing audits
- Transition open appeals properly



How Avalara Property
Tax can help

Digital world requires property tax technology

Our experts can help you understand how products and services are taxed during an M&A



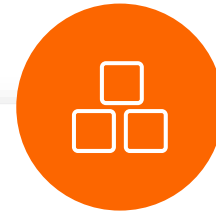
Accuracy

Inaccurate data
or forms
Missed due dates



Costs

Overpayment
Consistent penalties



Volume

100s or 1000s or
bills, notices, etc.
Unexpected
increases



Appeals

Contesting or
appealing real and
personal property tax
assessments

Personnel turnover – and resulting business continuity issues – can complicate these necessary tasks

Avalara Property Tax

A whole new way to look at property tax management



Minimizes risk of missed due dates, tax bills, and assessments.



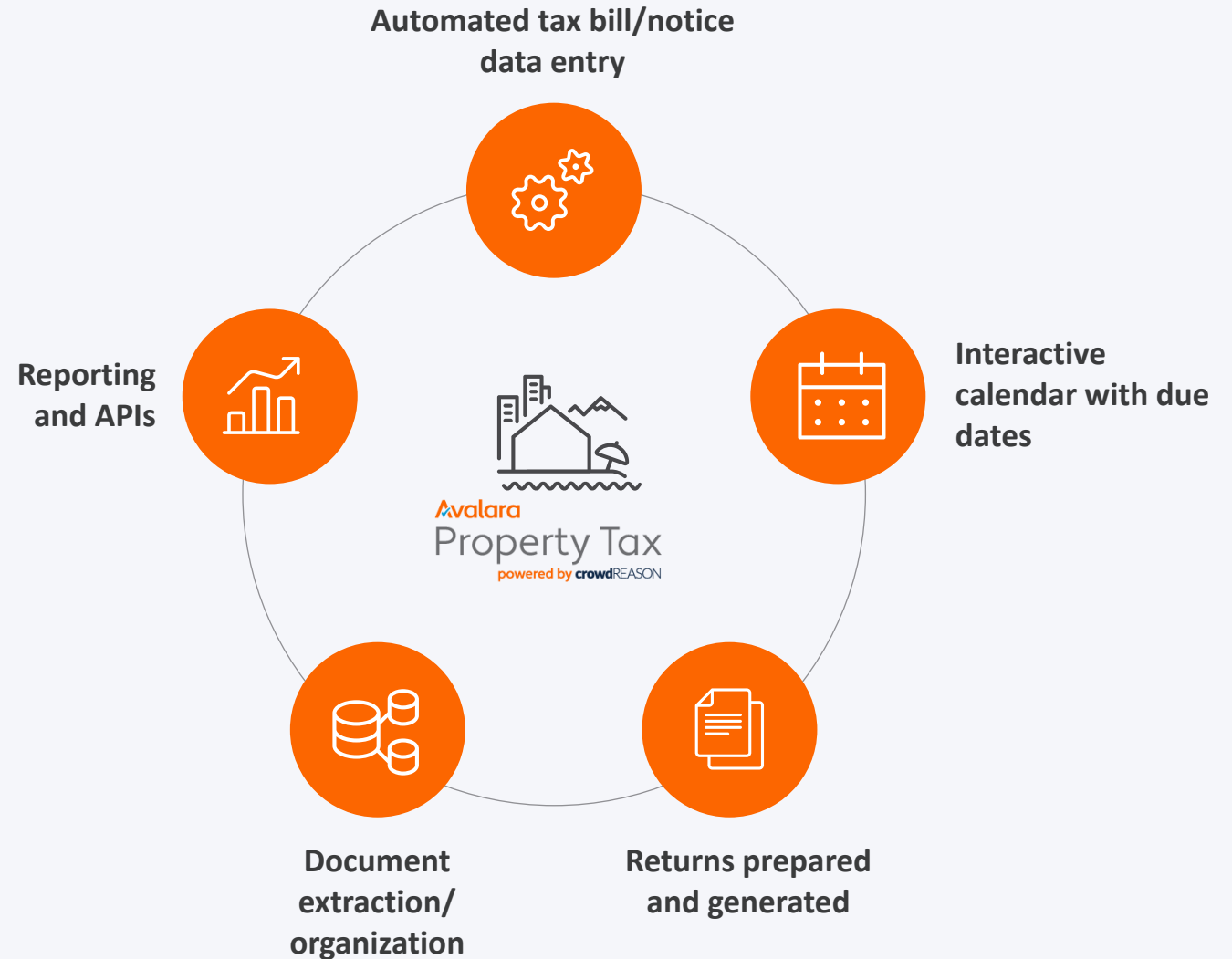
Accurately and securely automates data entry.



Reduce tax liability with improved reporting, returns, assessments, and appeals visibility.



More time to focus on appealing or validating assessments



CPE POLL
QUESTION #4

> Would you like to speak to
an Avalara sales
representative?

Q&A

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Tax compliance done right