

Top tips for optimizing property tax compliance



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Meet your presenter

Introductions



Melissa Schad, Senior Sales Executive

Melissa.Schad@Avalara.com

CPE POLL
QUESTION #1

➤ How would you rate your
current property tax
compliance processes?

Agenda

- 1 > Economic landscape
- 2 > The property tax challenge
- 3 > Digital transformation & property tax compliance
- 4 > Use cases
- 5 > Top tips
- 6 > Introducing Avalara Property Tax
- 7 > Questions

Economic landscape

The economic landscape



Post-COVID backdrop introduces new concerns, particularly in commercial real estate



Staffing for property tax compliance is an ongoing challenge



Paper-based compliance is error-prone and cumbersome to manage



Property tax is a high cost for many businesses, impacts EBITDA



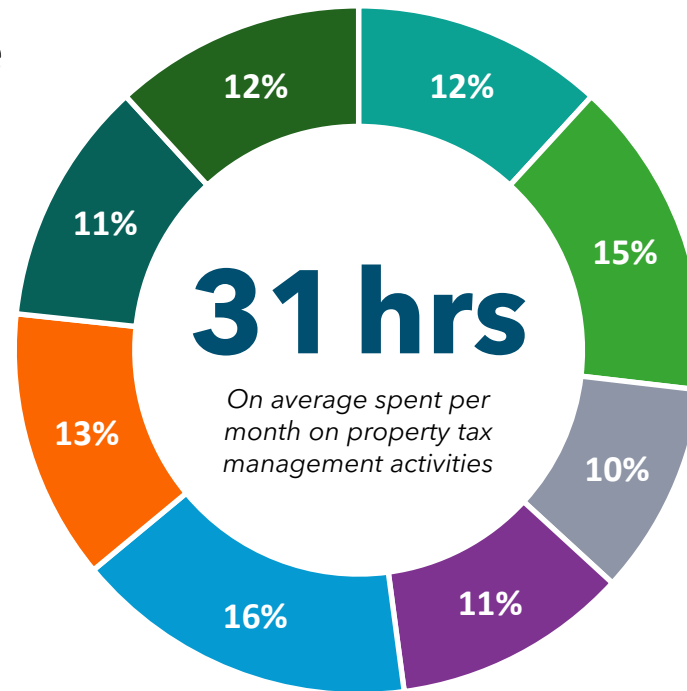
Without optimization, many businesses absorb property tax overpayment and penalties

% of total time spent on property tax activities

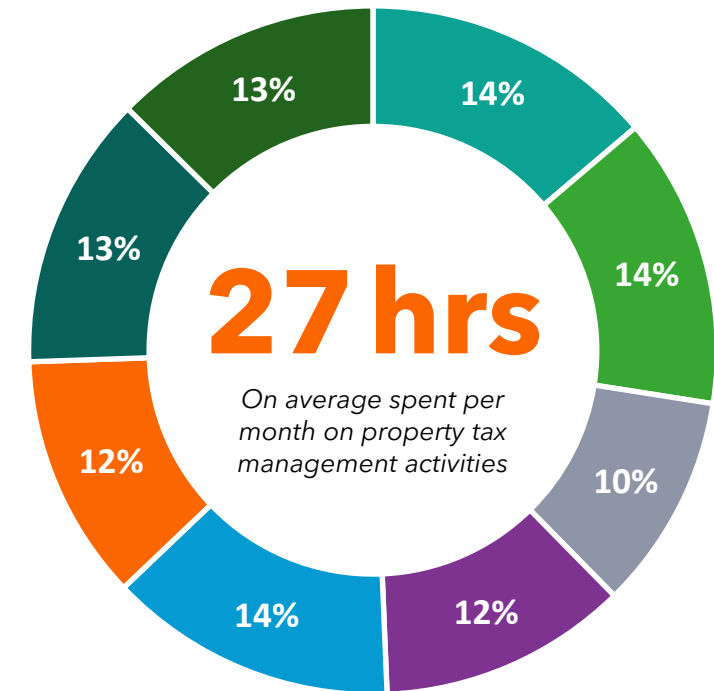
Professionals spend about **30 hours/month** managing activities with returns/filings, assessments, & budgeting being the activities that take up the **largest percentage of time.**

- Bill tracking & payment
- Document management
- Tax protests, valuations & appeals
- Tax assessments
- Legal research
- Jurisdictional tax research
- Tax returns & filings
- Budgeting & accruals

ACCOUNTING



BUSINESSES

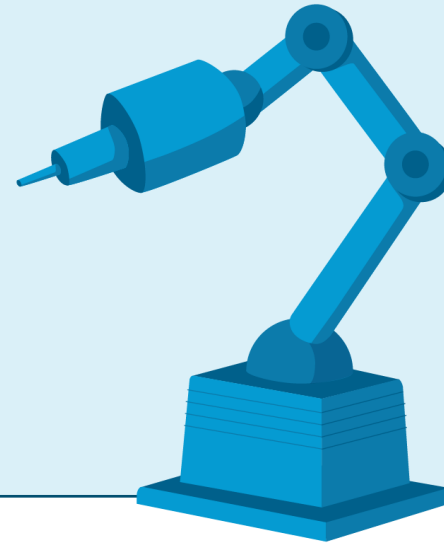
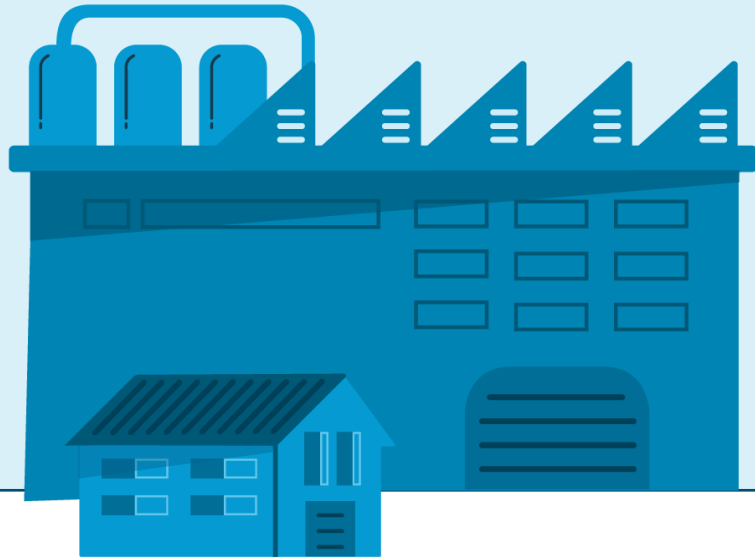


n = 407, Source: Aberdeen, August 2023

Q16: How many total hours per month does your organization spend on property tax management activities? (Select only one); Q17: What percentage of your organization's total time is spent on the different types of property tax management activities? Respondent: Accounting (n=208); Businesses (n=199)

The property tax challenge

Cost of real and personal property



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**

A photograph of a modern, multi-story apartment building with a courtyard. The building has large windows and balconies. The courtyard features a paved walkway, green grass, and some landscaping. The sky is blue with light clouds.

52.7%

of organizations find tax calculations
to be **challenging**
to **very challenging**

Property tax challenges

Valuation factors (depreciation and trends) change frequently.

- › How do you know what the right rate is?
- › How often are the rates updated?
- › How do you know if the value is correct and if you will be assessed the right amount of tax?
- › What some alternative accounting / investments decisions you can make to help support a more appropriate assessment?

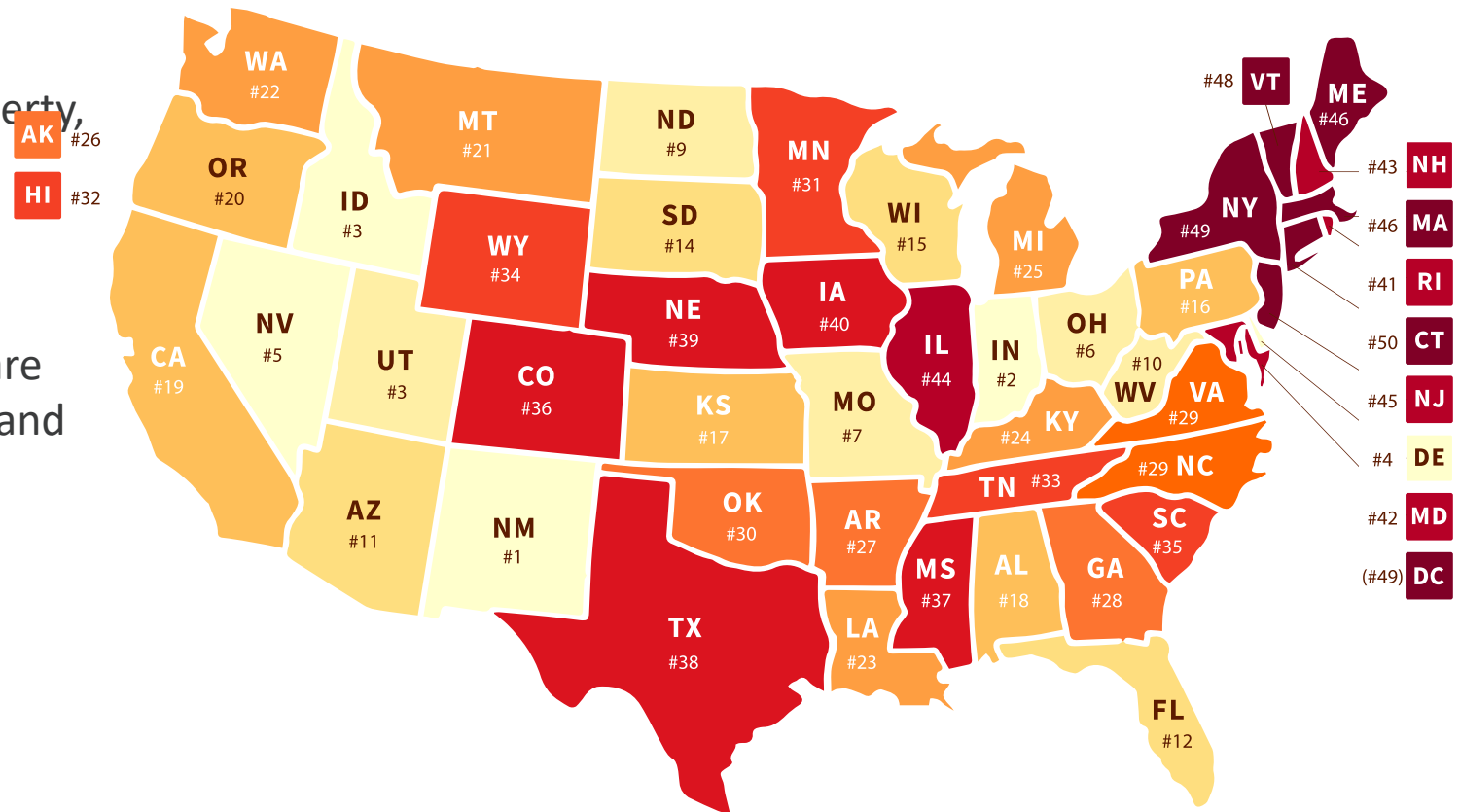
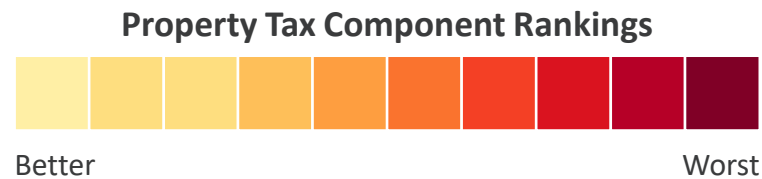
U.S. property tax by state

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.

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.

CPE POLL
QUESTION #2

➤ How automated are your
current property tax
compliance processes?

Digital transformation &
property tax compliance

Compliance is still paper-based

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.

The property tax staffing challenge



EXPERTISE:

Property tax is not a commonplace major in schools.



EXPECTATIONS:

Data entry, printing, and filing are not tasks that new grads anticipate.



COMPLEXITY:

Each jurisdiction is different. Exceptions and exemptions abound.



TURNOVER:

New personnel can find it difficult to understand and maintain the systems predecessors have built. Business continuity issues are to be expected.



Dealing with penalties and appeals



Without digital input or intervention, managing appeals can be challenging

- **Appeal deadlines can be statutory or a specific number of days after a notice of assessment is sent.** Without tracking whether a notice has been received, the notice date, the appeal deadline, and the requirements, many taxpayers miss the opportunity to appeal a value.
- **Some jurisdictions don't send assessment notices,** so the taxpayer must find the assessed value of their property, determine if it is a fair value, and file appeals in a timely manner.
- **Taxpayer must manually determine values for appeal** (historical value trends, comparisons to prior years, values of comparable properties).
- **Taxpayer must decide the values worthwhile to appeal** by automatically calculating tax savings potential.
- **Tracking all deadlines, extension dates and due dates** is nearly impossible without extensive research.

Where is your data?

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



Digital world requires property tax technology

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



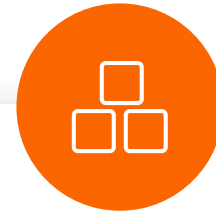
Accuracy

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

Use cases

Property tax use cases: Restaurant and gaming



Coffee company

Real property

- › Struggling to track notices and appeals (+100/month)
- › Lease buildings, do not own

Personal property

- › Coffee machines, equipment, cups, lids, sleeves, etc.
- › POS devices, fixtures, etc.
- › Returns for 200+ accounts increased to 500



Slot machines company

Real property

- › Land, building

Personal property

- › Challenged to track inventory (lease slot machines to clients)
- › Lease across the US

Property tax use cases: Industrial and retail



Petroleum company

Real property

- > Land acquired in a merger
- > Mineral Interest (in the ground)

Personal property

- > Drills, rigs, pipeline, trucks, drums, etc.
- > Extracted or processed petroleum, inventor

Convenience store holding company

Real property

- > Buildings, land
- > Might rent, might have tenant improvements

Personal property

- > Signage, shelving, PoS, gas pumps, etc.
- > Inventory may not be taxable
- > Some underground tanks have environmental remediation liabilities

CPE POLL
QUESTION #3

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

Top tips



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1010101
0110110

TOP TIP #1

Automate manual data entry.

- Risk of user error
- Employee retention and hiring can easily complicate
- Not appealing to younger staff
- Leaner teams means maximizing time for analysis and experience-driven work where human intervention is crucial



TOP TIP #2

Establish quick-turn assessment review.

- Cannot appeal outside of 30-day window
- Overpayment risks
- Automatic comparison of values allow teams to identify the accounts with appeal potential
- Identifying potential tax savings indicates which appeals a team should spend resources on



TOP TIP #3

Use current forms

- > Making sure forms are up-to-date if you are sourcing them yourself
- > Using the correct form for every jurisdiction
- > Adequately following the rules and requirements of every jurisdiction
- > Correctly calculating value, reporting inventory or vehicles, and excluding non-taxable items is easier when using a tool with this built-in functionality



TOP TIP #4

Document property valuation and comparables

- Keeping track of this data
- Work with firms or software vendors for externally source comparables
- Making sure this information is on-hand and current to inform any appeals
- Having documentation at your fingertips to back up your opinion of value



TOP TIP #5

Automate due-date tracking via workflows

- Missed due dates can result in 10% penalties
- Software or workflows can make sure you don't miss any deadlines
- Noticing discounts available for various jurisdictions
- Identifying accounts with missing bills is easier



TOP TIP #6

Reviewing valuation factors

- > Tax rates are about 1% of value, so the lower your value the lower your tax
- > Many jurisdictions have exemptions and abatements available for specific properties, industries, and areas
- > Tax departments tend to overreport non-taxable assets or depreciate them incorrectly, resulting in higher values
- > Bundled assets can force reporting while unbundling may drop them below a reporting threshold
- > Extracting sales tax or other costs applicable can lower value



TOP TIP #7

Good integration for with your ERP or fixed asset system

- Review all the technologies and connectors available at your company
- Take advantage of all technological options at your disposal
- Process review should take place to ensure there are no unneeded extra steps being performed
- Look for ways to create efficiency and streamline processes via technological intervention

CPE POLL
QUESTION #4



What is the hardest part of managing property tax compliance at your company?

Introducing Avalara Property Tax

Three critical areas for optimization

1

Property Valuation

2

Data Management
(company and jurisdictional)

2

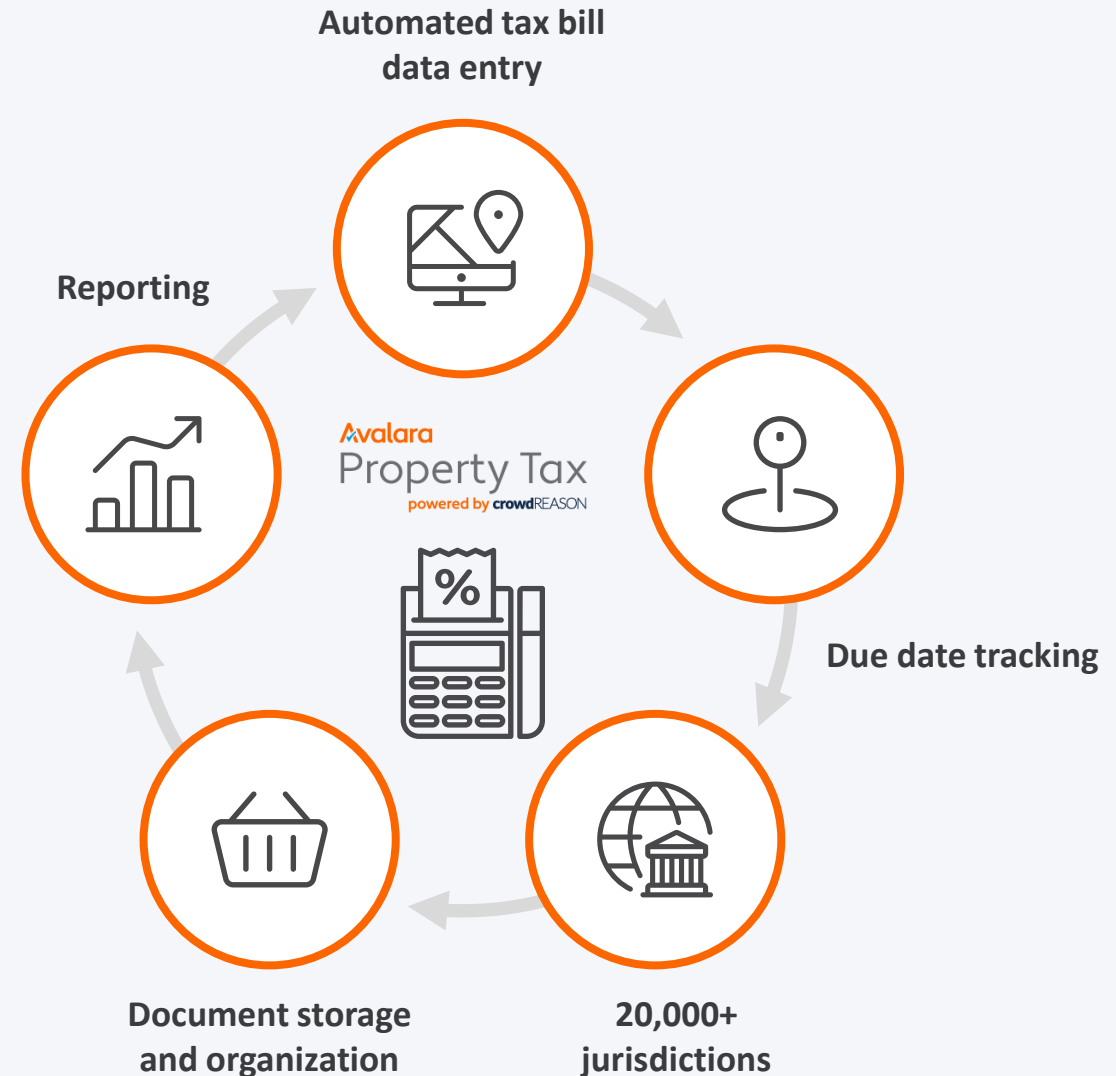
Tax Liability



What technology is required?

Perfect storm for property tax technology in a digital world

- 1 Manage both real and personal property tax activities in one secure hub
- 2 Automate tax bill data extraction and validation at scale to minimize human error and data entry
- 3 Manage property tax liability through improved reporting, returns, assessments, and appeals visibility
- 4 Create audit trail with document storage and ability to append to tax bill payments



Q&A

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Tax compliance done right