AD VALOREM TAX

Presented by:

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Your house as seen by: Yourself

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Your Buyer

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Your Lender

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Your Appraiser

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Your County's Tax Assessor

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Property Subject to Assessment

- Real Property
  - Land
  - Improvements to Land

- Tangible Personal Property

Non-Taxable Property

- Motor Vehicles, Boats, Aircraft
- Inventory
- Household Goods
- Computer Software
- Government Owned Immune Property
- Intangible Personal Property

    Franchises
    Licenses
    Going Concern
    Patents, Trademarks
    Goodwill
    Certificates of Need
    Memberships

Real Property Improvements

- Must be substantially complete as of the lien date
  - “Complete for Intended Purpose”
    - » Residences
    - » Commercial Buildings
    - » “Shell” Buildings

Tangible Personal Property

- Means all goods, chattels, and other articles of value capable of manual possession and whose chief value is intrinsic to the article itself.

Standards for Valuation

- Just Value / Fair Market Value
- January 1st of each year

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Just Value

- All property in Florida must be valued at its "just value."

- Just Value equals Fair Market Value.

- Fair Market Value – "the worth of a thing is the price it will bring."

Highest and Best Use

- Immediate Future and Present Use.
- Must take into account zoning, land use regulations, judicial limitation.

Use Value

- Use value is the value intrinsic to the owner.
- Example – poorly structured plant design that fits the owner perfectly but no one in the open market could use the set up.
- Use value cannot be the basis of an assessed value in Florida.

Agricultural Classification

- Bona Fide Agricultural Purposes
  - Examples:

    “Rent a Cow”

    Pinetrees / Ornamental Trees (Nursery)

    Race Horses – Yes / Greyhounds – No

- NOT Relevant:

  - Zoning
  - Future Development Plans
  - Return on Investment

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HOW ASSESSMENTS ARE MADE

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Assessor must follow statutory factors in assessing property.

- 8 Statutory factors.
- Embody 3 approaches to value.

Approaches to Value

- Replacement cost
- Sales Comparison
- Income

COMPUTER ASSISTED MASS APPRAISAL ("CAMA")

- Emphasizes Common Characteristics Between Properties
- Minimizes Unique Features
- Automates the Appraisal / Assessment Process
- Facilitates Record Keeping for Individual Properties
- Essentially a "Cost Approach"

"CAMA" Assessments

- Determine value of land as if vacant, at highest and best use.
- Assign Improvement type code to building.
- Cost base rate assigned based on Improvement type.
- Adjustment made for building age.
- Add value of extra features.
- Combine land, building and extra features values

Single Property Appraisal

- Emphasizes unique features of subject property.

- Utilizes only relevant valuation approaches for the property type and market conditions.

The Condition of the Property

- Cannot be ignored by Property Appraiser
  - Sinkholes
  - Chinese Dry Wall
  - Contamination
  - Other Physical Deficiencies

Income from the Property

- Only income from the real property should be considered

  – Business value should not be considered

Tangible Personal Property

- Florida uses a “self reporting” system.

  Taxpayer submits a tax return each year providing essential information

- No independent verification by Property Appraiser on what is reported.

Tangible Personal Property

- Assessment process is automated, using "Tables" provided by Department of Revenue.
  - Tables developed in 1930's by Iowa State University, using mortality characteristics of telephone poles.

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Tangible Personal Property

- 90% of the taxpayers are more concerned with uniformity, rather than the value itself.

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Tangible Personal Property

- Large taxpayers (utilities, manufacturers, processors, etc.)
  - 10% of the taxpayers, but 80% of the revenue.
  - Methodology extremely important.

ASSESSMENT CONTESTS

Types of Challenges

- Valuation
- Classification
  - Taxable / Non-Taxable

Valuation Disputes

- Assessment Standard: Just Value = Market Value

  “Most Probable Selling Price”

- Market Value – Opinion not Fact

- Sales Price – Fact Supporting Opinion

Classification Disputes

Double Taxation

- Real Estate versus Tangible Personal Property
  - Leasehold Improvements

- Common Elements / Recreational Amenities

Proving Excessive Assessment

- Experts
  - Appraisers
  - Land Planners
  - Engineers
- Sales Data
- Operating Statements
- Scrutinizing the Assessor's Records

Forums for Challenging Assessments

- Administrative – Value Adjustment Board
- Judicial – Circuit Court

Value Ajustment Board

- “Peoples Court”
- Petition and Filing Fee
- Special Magistrate – Designated Appraiser
- Rules of Evidence do not Apply

Why Pursue Administrative Review?

- Reduces Expense
- Expedited Review

Downside of Administrative Review

- Unpredictable "Quality of Experience"
- Property Appraiser's Right to Judicial Review

Judicial Review

- Filed in County Circuit Court.
- Best forum for questions of law.
- More expensive and takes longer.

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PROPERTY TAX BALLOT INITIATIVES

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Ad Valorem Tax
By: Rob Kelley

Amendment 4

A “coalition of strange bedfellows”

- Additional Homestead Exemption for new homeowners.
- Reduction of annual assessment cap from 10% to 5%.
- Legislative authority to eliminate “Save Our Homes” recapture.

1. <u>Additional Homestead Exemption for "New" Homeowners</u>

Intended to address "inequities" between new buyers and longer term homeowners.

- Unequal value is what Save Our Homes was all about!

“First time” Florida home buyers receive additional homestead exemption equal to 50% of the home’s just value.

- Must not have owned a homestead in last 3 years
- Limited by the median just value of homestead property in that county; and
- Phased out over 5 years, by a 20% reduction each year.

Pros:

“First Time” buyers receive enhanced Exemption.

- Expected to spur sales of single family homes
- Expected to grow jobs related to real estate conveyances:
  - Brokers/sales persons
  - Title Agents
  - Appraisers, Surveyors, Court Clerks, etc.

Cons:

- Could reduce revenue available to local government
- Could create down stream problems as to affordability
- Envy – what is so special about “first time” buyers?

2. Reduces Annual Assessment Cap on Non-Homestead Properties

- From 10% to 5%, excluding school levies.

Pros:

- Limits annual assessment / tax increases.
- Promotes certainty in tax liability forecasts.
- Reduces tax-shift suffered during SOH era.

Cons:

- Likely to cause tax millage increases for all taxpayers.
- May cause in decline in property transfers – same effect as homestead.
- Creates unfair advantage between similarly situated commercial property owners.
  - The "Lock-In" effect

3. Authorizes Elimination of SOH "Recapture Rule"

- Annual assessed value recapture was unintended consequence of SOH amendment.
  - Recapture allows increase in taxable value even where market value declines.
- Provides that taxable value may not increase where the just value has decreased compared to the prior year.

Pros:

- Eliminates annual increases in taxable value where market value has declined.

- Produces homeowners overall tax liability.

Cons:

- Could reduce revenue collected by local governments
- "Too little, too late"
  - Approximately 80% of the SOH benefit has now been eliminated by the recent recession;
  - Residential market beginning to rebound, so year of year decreases not likely.

Amendment 10

Tangible Personal Property Exemption

Current Situation

Tangible Personal Property subject to ad valorem taxation.

Law currently exempts the first $25,000 of assessed value.

Effect of the Amendment

- Total exemption for business taxpayers having tangible personal property assessed at $50,000 or less.
    - Taxpayers having TPP assessed at $50,000 or more get no additional benefit.
- Provides authority for local governments to provide tax exemption by ordinance, provided such authority is granted by the legislature through general law.

Pros

- Eliminates TPP taxes for essentially half of all existing taxpayers.
- Would have a corresponding effect on the cost of government to administer TPP assessments – fewer bills to collect.
- Would encourage greater investment in small businesses by reducing operating costs.

Cons

- Estimated loss of revenue $20.1 million dollars annually.

- No relief for “larger” businesses (unless they are able to leverage multiple locations under the new threshold).

QUESTIONS?

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