THE PROPERTY TAX CHALLENGE
AND HOW TO SOLVE IT

Avalara
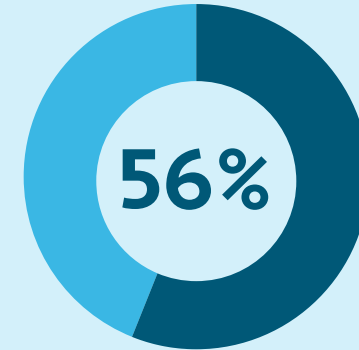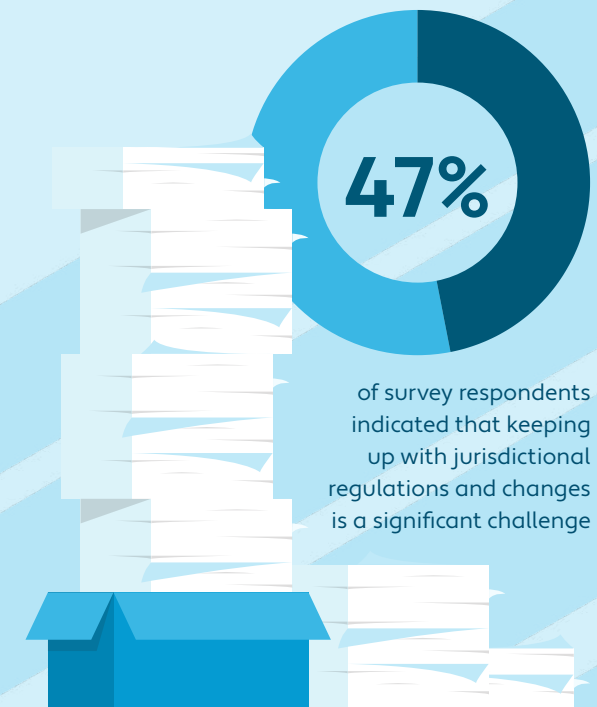Property Tax
powered by **crowd**REASON

Contents

Introduction

Property tax compliance is a burden for many businesses, a mostly paper process weighing on their compliance teams every year. A study by [Potentiate and Avalara](#) found that 56% of enterprise companies receive between 500 and 10,000 property tax bills per year.

Many companies, hoping to keep their ledgers in the black, are looking toward technology to solve their challenges. This guide breaks down why property tax is so hard and what businesses can do to soar above it all.

56%

of enterprise companies receive between 500 and 10,000 property tax bills per year

47%

of survey respondents indicated that keeping up with jurisdictional regulations and changes is a significant challenge

When business property is subject to property tax

Before we get into why property tax compliance is so difficult for businesses, let's define the types of property that are subject to tax. Your business can be taxed on both real property and tangible personal property that you own.

Real property, more commonly known as real estate, is land and everything attached to it. Buildings such as stores, offices, warehouses, and hotels are real property. Real property also includes golf courses, parking lots, and **crops like vineyards**.

Personal property differs from real property because it's movable. Furniture, computers, and many types of equipment and machinery are tangible personal property. Some jurisdictions tax inventory, vehicles, and supplies as well.

There are 37 states that tax personal property. The number of states swells to 41 when you include those that require utility companies and certain other large businesses to file returns at the state level.

Delaware, Hawaii, Illinois, Iowa, Minnesota, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, South Dakota, and most recently **Wisconsin** don't tax personal property.

STATE TAX TREATMENT OF BUSINESS PERSONAL PROPERTY
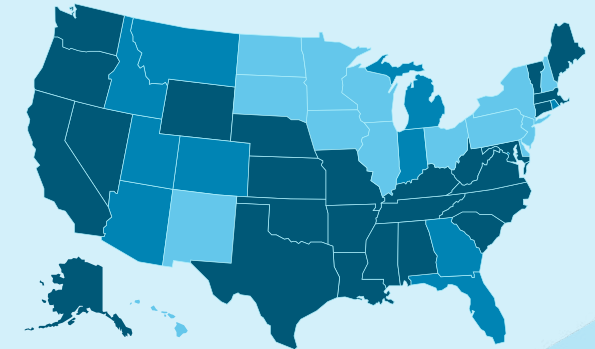
- Exempt
- De minimis exempt
- Fully taxed

DE MINIMIS EXEMPTIONS

"By allowing a **de minimis** exemption for businesses with only modest amounts of property, states can eliminate these compliance costs for a trivial loss of revenue. Fourteen states broadly exempt tangible personal property from taxation, while another 10 impose taxes on TPP but offer de minimis exemptions to avoid unduly burdening businesses with only a small amount of potentially taxable property."

How property tax is different from other taxes

After the COVID pandemic lockdowns sent millions of employees home to work, businesses are wondering what to do with mostly empty buildings and surplus office furniture. The fallout from the pandemic can impact a company's bottom line in multiple ways, including **commercial real estate assessments** and **personal property values**.

COVID also brought about another concern for professionals managing property tax compliance. More of them are working from home or coming into the office part-time. This can potentially hinder their ability to perform essential tasks like printing and mailing returns by the deadline.

Property tax isn't like other taxes. One key difference that sets property tax apart from sales tax is its annual cycle. Another is that most jurisdictions are still completely paper-based.

With real and personal property tax compliance, companies are challenged to **keep up with due dates** for **submitting returns**, evaluating assessments, **filing appeals**, and **keeping track of bill payments**.

HOW ARE PROPERTY TAX AND SALES TAX DIFFERENT?

TAX TYPE

Property tax is a direct tax, for which the owner of the property is obligated to pay the taxes, while sales tax is an indirect tax, for which a company collects tax from a customer on behalf of the government.

OCCURRENCE

Property owners are responsible for paying taxes on their property every year, while sales tax is paid once, when the goods or services are sold.

FILING FREQUENCY

Property tax returns are filed on an annual basis. Depending on where you sell and how much you owe, sales tax returns must be filed on a monthly, quarterly, semiannual, or annual basis.
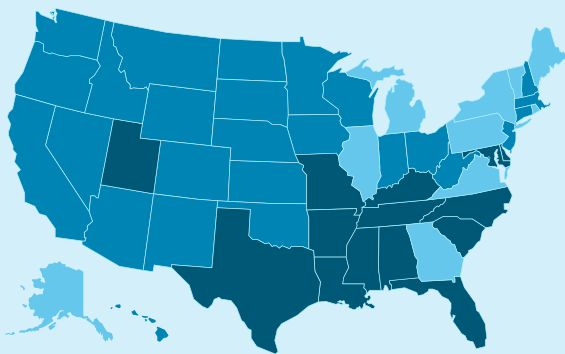
ASSESSMENT

With property tax, an assessor determines the property's value, which is then subject to the applicable tax rates. With sales tax, rates are applied based on legislation, regardless of the value of the product or service.
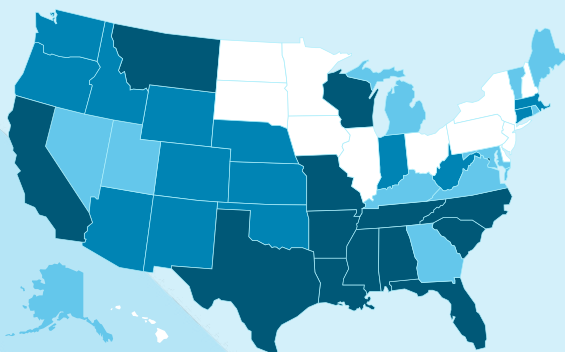
APPEALS

With property tax, a business can appeal the valuation of its real or personal property. Sales tax rates are set, and aren't open to negotiation by consumers or sellers.

PAYMENT DUE DATE FREQUENCY

REAL PROPERTY TAX

PERSONAL PROPERTY TAX

- Single specific date
- Installments
- Various dates
- Exempt

Tracking the paper trail of returns, assessments, appeals, and tax bills can be cumbersome. Using the wrong forms or neglecting to follow procedures can incur late fines and create extra work. Not producing the right documents during an audit can result in penalties.

The seasonality of property tax payments and management plays a role in maintaining compliance, too. Most bills are delivered between October and January, all with different due dates and formatting. In the states that tax personal property, most returns preparation and filing then must occur between February and April. Assessment appeals then begin in May and go through to June. Keeping up with these seasonal activities can be challenging and, if not managed properly, could result again in costly fines or an audit.

Each step in the property tax compliance cycle presents added challenges. We'll describe these and discuss how to address them in the following guide.

Why property tax compliance is time-consuming and costly

Managing property tax is a time-consuming process that can cut away at your business's bottom line.

In addition to all the paper pushing, many businesses rely on manual extraction of data every step of the process: filing returns, reviewing assessments, protesting values, **processing bills**, and building budgets.

The Potentiate and Avalara survey found that businesses spend an average of 90.4 hours (about four days) per week on real property tax management activities.

The survey also uncovered that 57% of companies surveyed employ 6–15 professionals working on property tax management activities, while 17% of survey respondents employ 16–20 staff members.
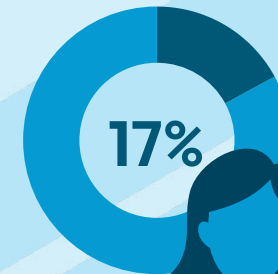
Property tax isn't static. Tax rates change frequently. Nor is there a universal set of rules to guide you; jurisdictions set their own regulations and filing requirements. Property tax can be especially **mind-boggling in certain states** like Texas, which has 254 counties, each with its own depreciation schedule. If a business has property that crosses multiple jurisdictions, it will need a way to allocate the appropriate tax amount in each of those jurisdictions. For example, oil and gas companies may own a pipeline that crosses several counties, and they will need to calculate the property tax amounts for each county.

90.4 HOURS

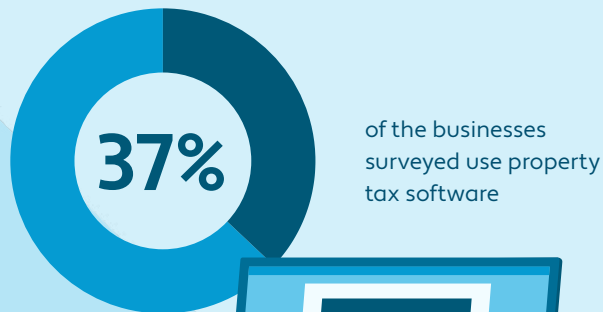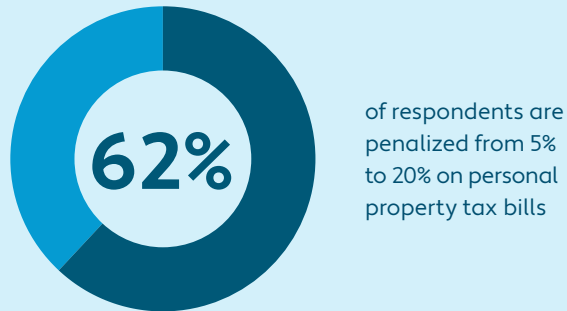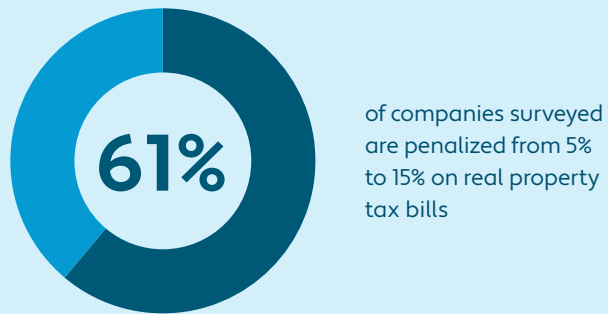Businesses spend an average of 90.4 hours (about four days) per week on real property tax management activities
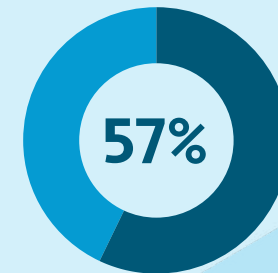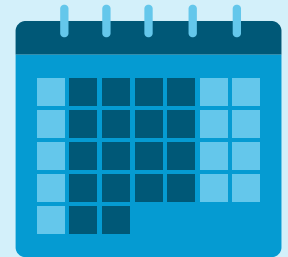
57% of companies surveyed employ 6–15 professionals working on property tax management activities

17% of survey respondents employ 16–20 staff members

61% of companies surveyed are penalized from 5% to 15% on real property tax bills

62% of respondents are penalized from 5% to 20% on personal property tax bills

37% of the businesses surveyed use property tax software

This lack of uniformity makes it difficult to know whether your valuations are correct and if your business is being assessed the right amount of tax. You may find yourself overpaying unless you have a method for easily tracking and verifying rates and rules for both the current year and previous years.

To make sure your assessments are fair, you need to compare the assessor's valuations of your assets to the prevailing market value. You have limited time to appeal if you disagree with the assessor's decision. There are more than 10,000 assessors in the U.S., making evaluating assessments an even bigger burden for businesses with property in many jurisdictions.

Businesses can be taxed on marketing costs or computer installation services even if those purchases aren't taxable in a jurisdiction because they listed them in their returns. Mistakes like that can add up quickly.

Overpayments aren't the only risk. Many organizations end up paying penalties because keeping up with due dates and tax rates is simply too much work.

The Avalara and Potentiate survey found that:

- 61% of companies surveyed are penalized from 5% to 15% on real property tax bills

- 62% of respondents are penalized from 5% to 20% on personal property tax bills

- Only 37% of the businesses surveyed use property tax software.

How a talent shortage is making the property tax problem worse

Certain times of the year are busier than others for property tax professionals. Combined with an overall shortage of experienced property tax compliance professionals, this seasonality exacerbates property tax compliance challenges.

Property tax is a full-time job for some companies, while others tackle it in fits and starts in addition to other duties. When tax deadlines come around, businesses sometimes struggle to find the help they need.

Property tax is not a common major at universities, and students don't always anticipate the high demand for workers willing to perform data entry, filing, and printing. Many recent grads have different expectations of technology and automation as they start their careers. New hires can also have a difficult time understanding and maintaining the data management systems and processes that their predecessors put in place. Business continuity is a major concern for many companies.
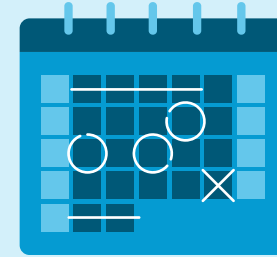
Why automation is critical to property tax compliance

Automation is key to streamlining property tax compliance. The right solution will improve accuracy, help your business meet deadlines, and allow you to dedicate your time and resources to high-value activities like analysis.

Without automation, your company could face an increased risk of:

- Data errors

- Missed deadlines

- Penalties

- Overpayments

- More appeals and difficulty contesting property assessments

- Business continuity complications

A property tax compliance solution that can automate data entry, organize and process documents, and provide streamlined workflows makes the whole process less susceptible to human error. A solution can streamline many of the tasks that can make manual property tax compliance feel overwhelming, like tracking asset valuations for real and personal property, crunching numbers to fill out returns, keeping tabs on assessments, tracking various deadlines across multiple jurisdictions, and the list goes on.
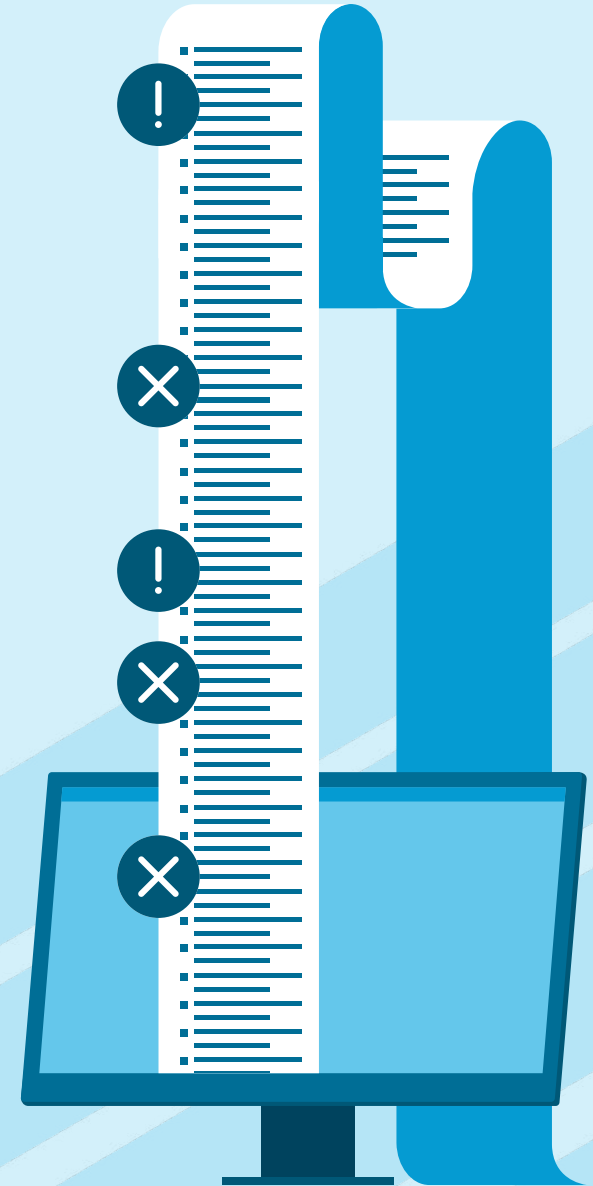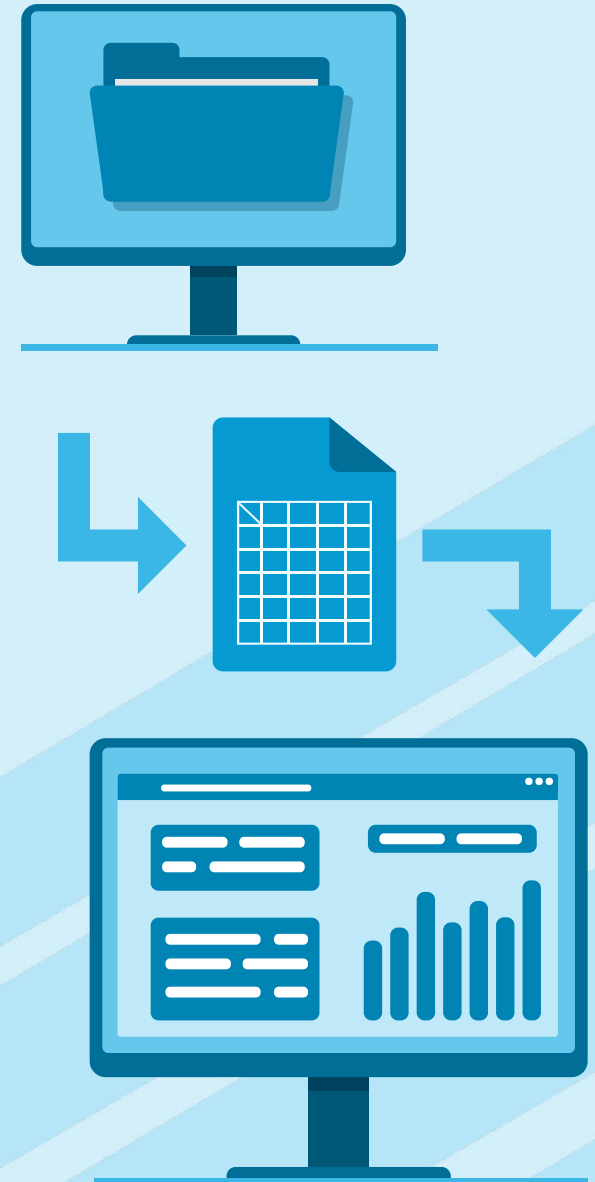
How to implement a property tax solution

There are many criteria to consider when evaluating property tax compliance software to be sure the solution you choose will continue to meet your needs as your company changes and grows. Implementation can be a deciding factor.

You'll want to look for a solution that's both cost-effective and easy to use. For example, implementation can be made easier with a property tax compliance solution that integrates with the accounting or ERP system you already use.

Your financial systems and your property tax compliance solution share data automatically. This can occur in several ways. One method is to automatically export a CSV or Excel file from your property tax compliance solution then automatically import a data file into your accounting or ERP system. You can schedule this data transfer to occur at a convenient time, such as the end of each day.

Another way to integrate systems is to use an API. An API allows you to sync data between software programs in real time instead of at scheduled intervals. This helps ensure updates are always reflected in both systems and minimizes work for finance teams.

Aiding property tax compliance with software

Business as usual changes after you implement a property tax compliance solution like **Avalara Property Tax**. Instead of puzzling over spreadsheets or filing cabinets, and scrambling to meet deadlines, the system helps you be organized.

As assessment notices and tax bills come in, you scan them into the system to be uploaded. The solution automatically extracts account numbers, addresses, and due dates and triple-validates them. All your data is then easily available, a calendar shows you what's coming up, and you can access reporting tools to make decisions.

Avalara Property Tax also maintains assessor forms and depreciation schedules. The solution prepares and files your returns for more accurate and timely filing.

Automating property tax compliance gives your team better visibility into property tax opportunities and more time to consider whether to take advantage of appeals or early payment discounts.

If managing property tax compliance isn't what you do every day, you may occasionally need to refresh your knowledge. A property tax solution makes it easy to step away from the software for a while, then quickly ramp back up when you return because all the information is in one place. If you're going on vacation or taking an extended leave, someone else can pick up where you left off. This makes a property tax compliance solution ideal for businesses with a small staff or companies of any size concerned about business continuity.

MINIMIZE DATA ENTRY
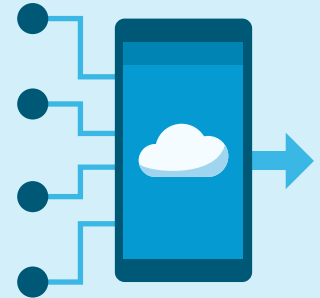
MAXIMIZE ACCURACY

OPTIMIZE DOCUMENT PROCESSING

Save time and reduce risk with Avalara Property Tax

Let **Avalara Property Tax** do the hard work for you. 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

Avalara

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Brazil, Europe, and India. More information at **avalara.com**.