What Your Business Needs to Know About

Personal Property Tax on Inventory

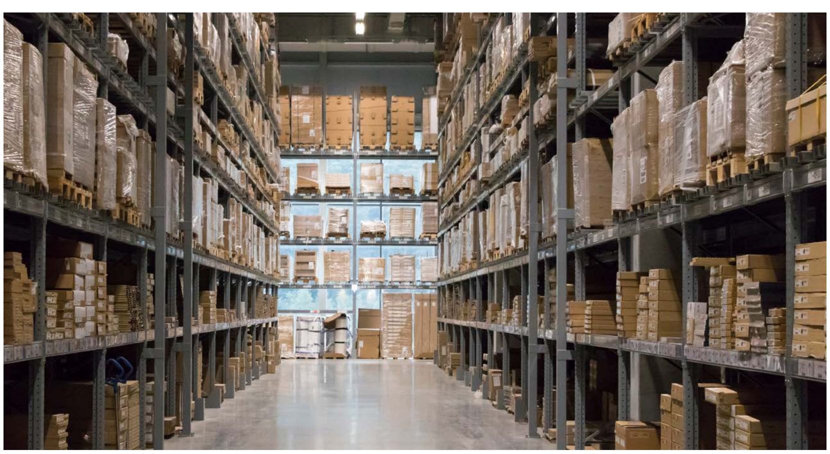
Businesses that hold inventory face many unique challenges when it comes to business personal property taxes; especially if they have locations in multiple states. As of 2017, only 10 states charge property taxes on inventory: Texas, Oklahoma, Louisiana, Arkansas, Mississippi, Kentucky, Virginia, West Virginia, Maryland, and Vermont. A few states partially tax inventory, including Alaska, Georgia, Michigan, and Massachusetts. Until the law changes, inventory-holding businesses in each of these states need to do everything they can to both stay compliant and minimize their tax liability each year.

Ensure Accurate Valuation

The first step toward minimizing a business's personal property tax liability on inventory is to ensure that the assessor is creating fair and accurate valuations based on solid evidence. The value of inventory is determined based on the cash value, or Ad Valorem basis, of the inventory, often referred to as "Fair Market Value".

The Fair Market Value should be supported by a sound model and evidence. However, in many cases, the assessor utilizes a "first in, first out" method of determining the value of inventory, which may not always represent an accurate market value. In many cases, the appraised value is significantly higher than market value, which is why it is important to gather evidence and protest the valuation on a business's inventory.

To protest your valuation, start by collecting as much evidence as possible showing the true market value of the business inventory. Pull current sale prices from your firm's recent invoices, market sites, and publications where similar inventory is sold. Also review federal and comptroller schedules and point out any major gaps in valuations between these sources. Take pictures and make note of any shrinkage, market trends, or other items that would affect value. Send this with a current list of your inventory and its coordinating value to the assessor as part of your protest package.



For many businesses, this work is daunting and time consuming, which is why many choose to work with a property tax consultant. An experienced consultant has data and resources to better develop an assessment of fair market value along with sound documentation to submit as evidence for the business's property tax protest. They can also represent the business during the appeals process, and in many cases are able to secure a better valuation based on their knowledge of the market.

Apply for Applicable Exemptions

To further lower your property tax liability, make sure that you are applying for all applicable exemptions each year. Many districts have exemptions for inventory in transit and being held in third party warehouses, as well as, inventory that is being imported and exported in less than six months (Freeport exemptions). Because inventory is always turning, businesses must remember to reapply for exemptions each year and by the district's published deadline.

Exemptions may vary per assessor's office, so it's best to check with your local assessor to see what exemptions are available in your area. You can also contact an experienced property tax consultant, as they are well versed in the tax law and know which exemptions are best suited for your business and for the county in which the business operates. This allows you to keep your focus on your business, without missing valuable opportunities to lower your tax bill.

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