



Tax Administration

in North Carolina Course



North Carolina Department of Revenue

Compliance Review

Property Tax Section
Local Government Division

Introduction

- For a property tax system to be equitable, it's important that everyone pays their appropriate share—no more or less
- Regular and systematic reviews help ensure that properties are being properly listed and assessed
- Some reviews are required by statute, but all are equally important

Overview

1. Review of exempted and excluded properties
2. Review of properties in Present-Use Value
3. Business Personal Property audits
4. Real Property discoveries and reviews
5. Transportation Corridor Map reviews

Step One:

Be sure your Board is on board

- Auditing any taxpayer often provokes one or more emotional responses:
 - Anxiety
 - Fear
 - Anger
 - Frustration
- Often, those emotions carry over into phone calls and letters to you, to county administrators, to the media, etc.

Step One:

Be sure your Board is on board

- Multiply that by dozens/hundreds/thousands of taxpayers, and you can be sure that there will be lots of questions and comments going to your County Manager and Commissioners. Some taxpayers won't be very cordial...
- Make sure to give your manager and commissioners plenty of notice and information, and make sure that they will support you in your review efforts



PART 1: REVIEWING EXEMPTIONS AND EXCLUSIONS

Statutory Requirement

G.S. 105-296(I)

- Must “annually review at least one-eighth of the parcels in the county exempted or excluded from taxation to verify that these parcels qualify for the exemption or exclusion. By this method, the assessor shall review the eligibility of all parcels exempted or excluded from taxation in an eight-year period.”
- This probably means that the review cycle should be tied to the reappraisal cycle

G.S. 105-296(l), cont'd.

- “The assessor may require the owner of exempt or excluded property to make available for inspection any information reasonably needed by the assessor to verify that the property continues to qualify for the exemption or exclusion.”
- The assessor needs to know the same information provided in an application; however, making the taxpayer actually reapply is usually not appropriate.

G.S. 105-296(l), cont'd.

- The owner has 60 days from the date of the assessor's written request to submit the requested information
- If the assessor determines that the owner:
 - failed to make the information requested available
 - in the time required
 - without good cause,
- then the property loses its exemption or exclusion

G.S. 105-296(l), cont'd.

- However, if the owner provides the requested information within 60 days after disqualification, the assessor must reinstate the property's exemption or exclusion
- The exception to reinstatement is when the information provided shows that the property is ineligible for the exemption or exclusion

About the 60-day window

- It's worth remembering that the taxpayer gets a new 60-day compliance window every time:
 - The assessor sends a written request for information; or
 - The assessor sends written notice of disqualification for failure to supply the information requested
- Theoretically, either of these could happen more than once

Selecting Parcels for Audit

- Any way that fairly covers all parcels within the reappraisal cycle is acceptable:
 - Alphabetically
 - Geographically
 - By exemption/exclusion type
 - Random selection
- Remember that the AV-50 is the report that summarizes all exemptions and exclusions for the county, and can be a useful resource

General Procedure for Exemption & Exclusion review

1. Involve your county manager and commissioners. Let them know that this is a process required by statute.
2. Determine the appropriate proportion of parcels to review— $1/8$, $1/4$, etc.
3. Determine the method of selecting parcels for review

General Procedure for Exemption & Exclusion review

4. Develop a questionnaire that asks for all information needed to determine eligibility
5. Send the questionnaire, along with an explanation letter or pamphlet, to the owners of the selected parcels
6. After review (or 60 days, if nothing is sent for review), send notice of continued eligibility or disqualification to each owner

General Procedure for Exemption & Exclusion review

7. For disqualified parcels, wait another 60 days in case the owner provides the requested information
8. Send the questionnaire, along with an explanation letter or pamphlet, to the owners of the selected parcels
9. After review (or 60 days, if nothing is sent for review), send notice of continued eligibility or disqualification to each owner

Appeals

- Property that has been given an exemption or exclusion, but does not qualify, is a type of discovery as defined in G.S. 105-273(6a & 6b)
- Therefore, the appeals for properties found to be ineligible through the review process should be handled the same as any other discovery appeals under G.S. 105-312(d)



PART 2: REVIEWING PRESENT-USE VALUE PARCELS

Statutory Requirement

G.S. 105-296(j)

Must “annually review at least one eighth of the parcels in the county classified for taxation at present-use value to verify that these parcels qualify for the classification. By this method, the assessor must review the eligibility of all parcels classified for taxation at present-use value in an eight-year period.

- Sound familiar?

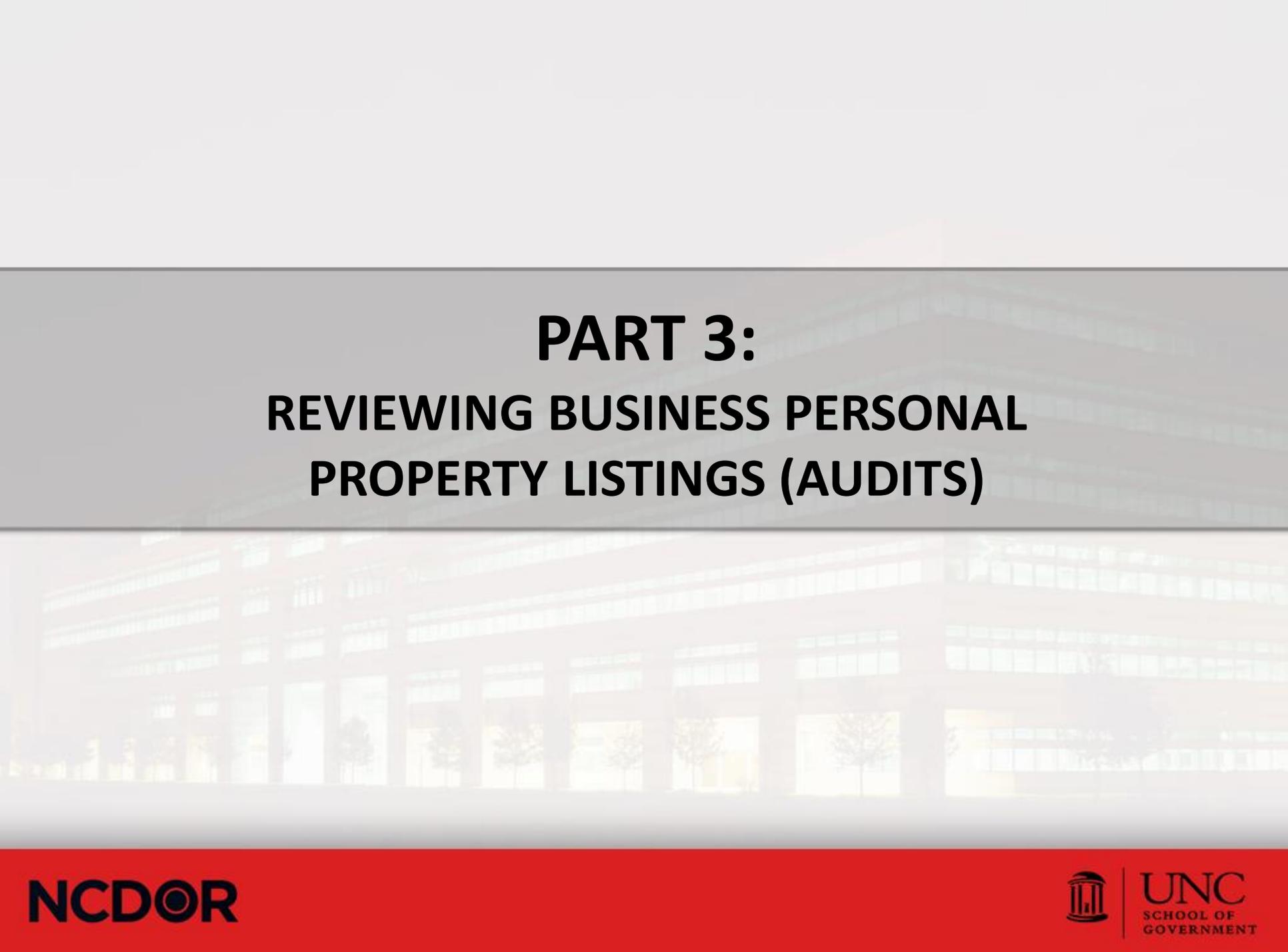
Statutory Requirement

G.S. 105-296(j)

- For PUV reviews, “The period of the review process is based on the average of the preceding three years' data. The assessor may request assistance from [Farm Service, Extension Service, the Forestry Service], or other similar organizations.”
- Otherwise, this review follows the same general procedure as for exemption and exclusion reviews

Appeals

Appeals for properties found to be ineligible for PUV through the review process should be handled through the process described in G.S. 105-277.4(b1)



PART 3: REVIEWING BUSINESS PERSONAL PROPERTY LISTINGS (AUDITS)

Statutory Requirement

G.S. 105-308

- “Every person in whose name any property is to be listed under the terms of this Subchapter shall list the property with the assessor within the time allowed by law on an abstract setting forth the information required by this Subchapter.”
- Although owners of taxable property are responsible for its proper listing, the assessor has the general obligation to ensure that all taxable property gets listed

Don't forget your Board...

- Unlike the reviews previously discussed, there is no specific statute that directly requires business personal property audits
- Since these audits specifically target local businesses (including farmers), there can often be a significant response from taxpayers to the Commissioners and County Manager
- The county needs to have a consistent and uniform way to address taxpayer concerns

Types of BPP Audits

- **Review Audit:** Compare listing forms to prior years and other similar businesses. Follow up with phone calls and inspections as needed
- **Informal Audit:** If a review indicates the need for more financial information, use letters or questionnaires to obtain more details
- **Formal Audit:** Similar to informal, but often conducted in the field after scheduling an appointment. More thorough review, and may involve taxpayer's accountant or attorney.

Types of Information Reviewed

- For formal audits, examples include:
 - Financial statements (Income/Expense, Balance Sheet)
 - Other Accounting Documents (account lists, inventory lists, asset lists, depreciation schedules, tax returns)
 - Other appropriate documents (leases, contracts, operating agreements)

Who Conducts the Audit?

- Tax office staff, provided that they are properly trained and equipped to handle audits
- Outside auditing firms are permitted under G.S. 105-299. It is not necessary to put these contracts out for bid

Confidentiality

- Regardless of who conducts the audits, there are statutory confidentiality requirements regarding income and tax information. There may also be proprietary business information disclosed during the audit.
- All confidential information must be kept secure and handled with discretion
- Failure to exercise appropriate controls can result in criminal charges

Appeals

- Property that is found to be unlisted or underlisted is also a type of discovery as defined in G.S. 105-273(6a & 6b)
- Therefore, the appeals for properties found to be ineligible through the review process should be handled the same as any other discovery appeals under G.S. 105-312(d)



PART 4: REAL PROPERTY DISCOVERIES AND REVIEWS

Statutory Requirement

G.S. 105-303

- Real property is on a permanent listing system statewide as of 2004. Under this system, the assessor is responsible for listing land and previously reported improvements.
- However, property owners are still responsible each year for reporting new improvements to the assessor.

Methods

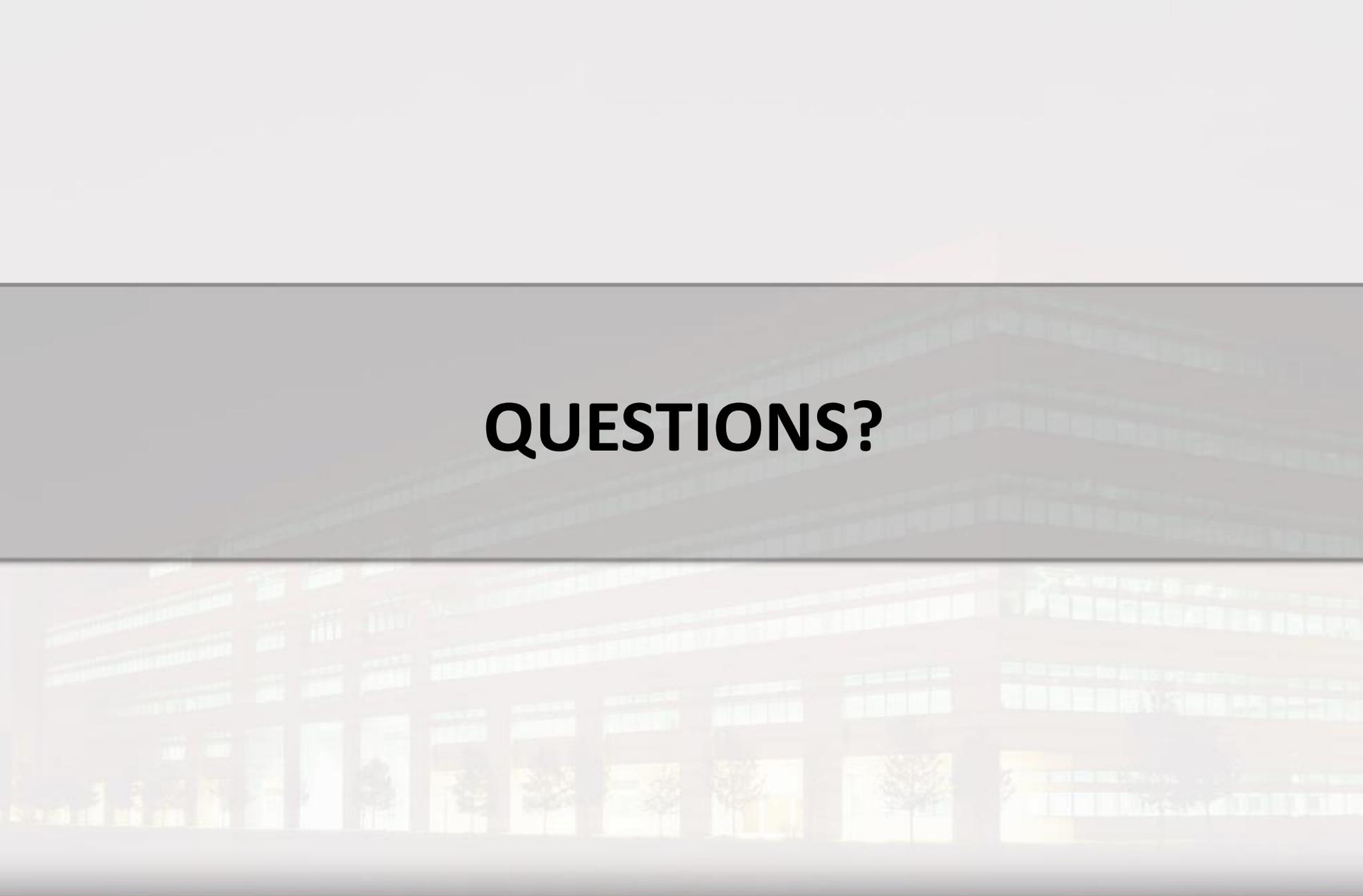
- Finding and listing unreported real property improvements can be done a few ways:
 - Review of building permits issued
 - Field reviews comparing property record cards to actual on-site improvements
 - Review of recent orthophotos or Pictometry-type images. This can be done both manually and through the use of image comparison software

Appeals

- Just as before, property that is found to be unlisted or underlisted is also a type of discovery as defined in G.S. 105-273(6a & 6b)
- Therefore, the appeals for properties found to be ineligible through the review process should be handled the same as any other discovery appeals under G.S. 105-312(d)

“Late Listing Penalty”

- Taxable property that was not properly listed, or reported, is subject to a 10% discovery penalty per listing period.
- This applies both to unlisted personal property (boats, for example), and to unreported improvements to real property (like a new deck that was not reported to the assessor).
- Obtaining a building permit is not the same as reporting and improvement to the assessor.



QUESTIONS?