

Tax Administration

in North Carolina Course

North Carolina Department of Revenue

Real and Personal Property Appraisal

Property Tax Section
Local Government Division

1. REAL OR PERSONAL?

Real vs. Personal

Real Property:

1. A patch of Earth, along with everything below it and all the air above it,
PLUS
2. Improvements or anything permanently affixed to it

Real property = real estate = realty

Real vs. Personal

Personal Property:

All property that isn't real property.

Personal property = personality

BUT, personal property can become real property if it is permanently attached (affixed) to real property...

Sometimes, it's easy to tell the difference

REAL

- Land
- Buildings w/foundations
- Pavement
- Bulkheads/retaining walls
- Ponds
- In-ground pools
- Golf greens
- Septic systems
- Decks & patios
- Roads

PERSONAL

- Office equipment
- Portable buildings
- Furniture
- Vehicles
- Trailers
- Above-ground pools
- Hot tubs
- Portable store shelving
- Computers
- Machinery & Equipment

Sometimes, not so much

REAL

Building components installed for the comfort and convenience of building occupants:

- HVAC systems
- Plumbing
- Electrical
- Floor coverings

PERSONAL

Building components installed for the proper operation of machinery and/or equipment:

- HVAC systems
- Plumbing
- Electrical
- Floor coverings

Real vs. Personal: Intent

- Whether personal property is permanently attached, or “affixed,” to real property is ultimately a question of intent:

Did the owner/attacher of the personal property intend for the attachment to be permanent?

- Sometimes, it's helpful to review leases and other agreements between the parties

Improvements to Leased Real Property

- Scenario: Landowner leases building for use as a retail store. Tenant makes substantial improvements to the building to suit its business purposes. Who is responsible for taxes on the improvements?
- These situations require a closer look at the intentions and expectations of the parties.
- “Trade fixtures” refers to items which are attached to real property, but used in connection with a business, and not considered part of the realty.

Real vs. Personal: It's Probably Personal If...

- It's portable; or
- It's permanently attached to real property, **but it's required for the proper operation of business machinery and/or equipment; or**
- It appears permanently attached to real property, **but the evidence indicates a different intent of the attacher.**

Manufactured Homes

- For property tax purposes, manufactured homes are considered personal property unless all of the following are true:
 1. It is a residential structure.
 2. It has the moving hitch, wheels, and axles removed.
 3. It is placed upon a permanent foundation, either on:
 - land owned by the owner of the MH; or
 - Land in which the owner of the MH has a leasehold interest pursuant to a lease with a primary term of at least 20 years **and** the lease expressly provides for disposition of the manufactured home upon termination of the lease.

2. JURISDICTION, PART II: CAN MY COUNTY TAX IT?

Situs

- “Tax situs” refers to the place in North Carolina at which tangible personal property is taxable. It’s the owner’s duty to list in the proper jurisdiction.
- Situs can refer to the property’s actual location (such as a home); however, personal property can generally be relocated, according to the wishes of the owner.
- Since the owner’s intent is subjective, G.S. 105-304 provides a method for determining situs more objectively.

Determining Situs Under G.S. 105-304

- **General Rule:** Situs is the owner's residence (or principal place of business) in NC
- If the property is commonly used at another location, then situs is there
- For out-of-state taxpayers, situs is where the property is more or less permanently located

3. LISTING REAL AND PERSONAL PROPERTY

Who's Responsible for Listing?

- Generally, the owner of the property, as of January 1, is responsible for the listing of property for taxation, and for paying the taxes due (G.S. 105-306).
- Sometimes, due to financing arrangements, title to the property is held by a lender; however, the party who has given the property as collateral is responsible.
- Property held by a fiduciary is listed in the name of the fiduciary.

The Abstract

- Under G.S. 105-309, it's the taxpayer's duty to list taxable personal property with the assessor, on an abstract form designed for that purpose.
- The abstract contains a variety of information about the property (some of it required by statute), which is helpful in assessing the property.
- Most counties use the Statewide Uniform Abstract form, although other forms can be used, if they are approved by NCDOR for personal property use.

When to Submit the Abstract

- The ordinary listing period, provided in G.S. 105-307, is the month of January.
- The board of county commissioners may extend the listing period for:
 - Up to 60 days in a reappraisal year;
 - Up to 30 days in other years; and
 - Up to June 1, if the county has adopted an electronic listing system
- Individual extension requests may be granted up to April 15 (June 1 for electronic listing).

Signing the Abstract

- Abstracts are to be signed by the taxpayer [G.S. 105-309(e)].
- Agents cannot sign on behalf of the taxpayer, unless authorized in a manner approved by NCDOR.
- NCDOR has approved and published Form AV-59, which permits a taxpayer to designate an agent who may submit a listing form on its behalf.

Reports Which Aid in Listing

- Report of multi-county business (on request of county or NCDOR) - G.S. 105-313
- Reports from custodian of others' tangible, taxable personal property (required by Jan. 15) - G.S. 105-315
- Reports from operators of mobile home parks, marinas, and aircraft storage facilities (required by Jan. 15) - G.S. 105-316

Confidential Listing Information

- Social Security / Tax ID numbers
- Taxpayer income information
- Additional information provided by the taxpayer upon request of the assessor
- Taxpayer information obtained from NCDOR
- Names and real addresses of taxpayers in the Address Confidentiality Program

Listing Real Property

- Unlike personal property, which has to be listed each year by the property owner, listing real property is the assessor's responsibility.
- This is the result of the permanent listing system, described in G.S. 105-303(b).
- It is still the owner's responsibility to report, **to the assessor**, "improvements on and separate rights in" real property. Obtaining a building permit is not sufficient by itself.

4. APPRAISING REAL AND PERSONAL PROPERTY

When to Appraise Personal Property

- G.S. 105-285(b):
- **Personal Property; General Rule.** – Except as otherwise provided in this Chapter, the value, ownership, and place of taxation of personal property, both tangible and intangible, shall be determined annually as of January 1.

When to Appraise Real Property

- G.S. 105-285(c):

Real Property; General Rule. –The value real property shall be determined as of January 1 of the years prescribed by G.Ss 105-286 and G.S. 105-287.

When to Appraise Real Property

- Most real property is appraised following the provisions of 105-286:
 - At least every eight years, following the Octennial Cycle established by statute for each county; or
 - The county can choose to advance its reappraisal date by adopting an appropriate resolution and notifying NCDOR; or
 - Counties with populations greater than 75,000, and with sales ratios $<.85$ or >1.15 are required to reappraise at least by the third year after the year it received notice of the sales ratio

The In-Between Years

- While 105-286 covers countywide reappraisals, 105-287 provides a list of certain situations in which individual properties can be reappraised during the years in between
- These are the only situations in which property values can be changed in a non-reappraisal year
- These changes are effective as of Jan. 1 of the year in which they are made, and cannot be applied retroactively
- All changes must still conform to the Schedule of Values

Reappraisal under 105-287(a)

...The assessor shall increase or decrease the appraised value of real property...to recognize a change in the property's value resulting from one or more of the following reasons:

- (1) Correct a **clerical or mathematical error**.
- (2) Correct an appraisal error resulting from a **misapplication of the schedules, standards, and rules** used in the county's most recent general reappraisal.
- (2a) Recognize an increase or decrease in the value of the property resulting from a **conservation or preservation agreement** subject to Article 4 of Chapter 121 of the General Statutes, the Conservation and Historic Preservation Agreements Act.
- (2b) Recognize an increase or decrease in the value of the property resulting from a **physical change to the land or to the improvements on the land**, other than a change listed in subsection (b) of this section. [Next slide]
- (2c) Recognize an increase or decrease in the value of the property resulting from a **change in the legally permitted use** of the property.
- (3) Recognize an increase or decrease in the value of the property resulting from a **factor other than one listed in subsection (b)**. [Next slide]

Reappraisal limitations under 105-287(b)

In a year in which a general reappraisal of real property in the county is not made, the assessor **may not increase or decrease the appraised value of real property**...to recognize a change in value caused by:

- (1) Normal, physical depreciation of improvements;
- (2) Inflation, deflation, or other economic changes affecting the county in general; or
- (3) Betterments to the property made by:
 - a. Repainting buildings or other structures;
 - b. Terracing or other methods of soil conservation;
 - c. Landscape gardening;
 - d. Protecting forests against fire; or
 - e. Impounding water on marshland for non-commercial purposes to preserve or enhance the natural habitat of wildlife.

Appraising vs. Assessing (Recap)

- **Appraisal** refers to an opinion of value for property, as well as the process of developing that value
- **Assessment** refers to the value on which the property's tax is based

And in North Carolina...

- G.S. 105-283 says, “All property, real and personal, shall as far as practicable be **appraised** or valued at its true value in money.”
- Followed by G.S. 105-284:

“...all property, real and personal, shall be **assessed** for taxation at its true value...as determined under G.S. 105-283...”
- Therefore, in North Carolina, the **appraised** value and the **assessed** value are the same (except for the various exemptions and exclusions).

Market Price vs. Market Value

- The manual developed by the International Association of Assessing Officers for the Assessment of Personal Property course makes the following distinction:
- **Market Price** is that amount actually paid or about to be paid in a particular transaction...[and] can result from many factors other than value.
- This definition would apply to both real and personal property

Market Price vs. Market Value

- **Market Value** is the most probable price expressed in monetary terms that a property would bring if exposed for sale in the open market in an arm's-length transaction between a willing seller and a willing buyer, both of whom are knowledgeable concerning all uses to which it is adapted and for which it is capable of being used. **It is a hypothetical or estimated sales price.**

So, what's "True Value in Money?"

- G.S. 105-283 continues:
- "true value" shall be interpreted as meaning market value, that is, the price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all the uses to which the property is adapted and for which it is capable of being used.

- In other words, the statute says that:
- True Value = “Market Value,” or the amount of cash for which a seller would trade his property

But only when...

- The buyer has all the **money** she needs, and
- Neither party needs to make the deal happen, but they both are willing to, and
- Both sides have a pretty good idea of the highest and best use of the property

Getting Toward True Value

- G.S. 105-317.1 requires the personal property appraiser to consider at least the following:
 - Replacement cost
 - Sale price of similar property
 - Age
 - Physical condition
 - Productivity
 - Remaining life
 - Effect of obsolescence on the property
 - Economic utility (i.e., usability and adaptability for industrial, commercial, or other purposes)
 - Any other factor that may affect the value

Highest & Best Use

- Defined as that use of a property which will provide the **greatest return to the owner, and is:**
 - Legally permitted,
 - Physically possible,
 - Economically feasible, and
 - Which will bring the greatest net return

Think About This...

- **Consider**—Have you considered all items that effect value as related to the property being appraised?
- **Weight**—Can you find evidence in the market place to help you determine if adjustments you/others feel are needed?
- At some point you will be asked did you consider it?

Approaches to Value: Sales Comparison

- This method involves researching the actual, recent sales of personality similar to that being valued
- The sale prices are adjusted somewhat to account for relatively minor differences between the items, and a typical sale price is estimated for the type and use of the property in question

Approaches to Value: Sales Comparison

- Because this approach is derived from actual market transactions, it is usually considered a good indicator of market value
- Requires an active market and reliable property data to produce reliable values
- For personal property it is most useful in determining the value of items which are fairly standard, such as vehicles, watercraft, aircraft, farm & heavy equipment, etc.

Approaches to Value: Income

- Net income for a property is estimated, and then the income stream is capitalized to generate a predicted present value for the future income stream the property can be expected to produce
- This approach is relevant for income-producing real and personal property, such as leased commercial property or equipment

Approaches to Value: Income

- Capitalization rates are determined by analyzing sales of other, similar income-producing properties or assets
- The cap rate will vary for different property types, depending on the recapture rate, and on the estimated level of investment risk associated with that particular type of property
- Lower risk means lower cap rates, which produces higher present values. In the same way, higher risk produces lower present values.

Approaches to Value: Income (Example A)

- Property produces \$100,000 net income per year. The appraiser has found that net income is typically 10% of the sale price for this type of property:
- $\$100,000 / 10\% = \$1,000,000$ value

Approaches to Value: Income (Example B)

- Property produces \$100,000 net income per year. The appraiser has determined that net income is typically 5% of the sale price for this type of property:
- $\$100,000 / 5\% = \$2,000,000$ value
- The market is indicating that investors are willing to pay more for this type of property. This implies that there is less investment risk associated with this property type.

Approaches to Value: Cost

- In this method, the cost of replacing a piece of property is estimated, and that figure is then reduced by a depreciation factor, primarily to account for the age of the existing property
- Economic life is an important factor in determining the rate of depreciation of property. Different items or structures can have substantially different useful life spans.

Approaches to Value: Cost

- The cost of replacing personal property should also include the cost of installation, as well as all other costs required to put the item in a ready, working state
- For personal property this approach is most often used for business machinery and equipment, because there are typically not enough comparable sales to determine the value in that manner

Approaches to Value: Cost

- For real property this approach is most often used for newly constructed or unique properties where sales and income have not yet been established by the market.

Cost Approach – More on Depreciation & Economic Life

- Depreciation: total loss in value from all causes:
 - Physical deterioration (wear & tear, etc.)
 - Functional obsolescence (design/style/technology)
 - Economic obsolescence (external economic forces)
- Economic Life: considers how quickly these causes take their toll on the value of the item or structure.

Cost Approach – Trending

- “Trending” is a method used, in valuing personal property, to convert historical cost information into current market values, by accounting for depreciation, market changes, and useful economic life in a single step.
- NCDOR annually publishes trending tables, which can be used by county appraisers to estimate the current market value of different asset types.
- Assets which continue in use beyond their expected economic life will still retain some residual market value (typically 25%).

Getting Toward True Value

- G.S. 105-317 requires the appraiser to consider the following when appraising real property:

LAND

- Location
- Zoning
- Soil
- Water
- Conservation agreements
- Valuable deposits
- Adaptability
- Income (past & future)
- Other factors

IMPROVEMENTS

- Location
- Construction type
- Age
- Replacement cost
- Actual cost
- Adaptability
- Income (past & future)
- Other factors

Which is the Best Indicator of Value?

Type	Cost	Sales	Income
Residential	2	1	3
Commercial	2	3	1
Special Purpose	1	2/3	2/3

Mass Appraisal

- Problem: How do you determine a theoretical value, considering at least all the factors in G.S. 105-317, for tens of thousands of properties, all for the same effective date?
- One solution is mass appraisal. This method uses the valuation approaches traditionally used by appraisers, but modified both for scale and for compliance with state law.

Mass Appraisal, cont'd.

- Mass appraisal uses county-wide data to develop pricing models used for valuing individual parcels
- Highest and Best Use is still the goal
- Although more initial data is collected, mass appraisal still uses the three traditional approaches to value:
 - Sales Comparison
 - Income
 - Cost

The “Schedule of Values”

- In preparing for each general reappraisal cycle, an important part of the assessor’s duty is to see that
- “Uniform schedules of values, standards, and rules to be used in appraising real property at its true value and at its present-use value are prepared and are sufficiently detailed to enable those making appraisals to adhere to them in appraising real property.” [G.S. 105-317(b)(1)]

The Schedule of Values, cont'd.

- This compilation of values, standards and rules is primarily the result of the assessor's analysis of the market data available for the time period just prior to the revaluation date
- Present-Use values are typically developed by the Use Value Advisory Board through a statewide analysis of market data
- The manual resulting from these values, standards and rules is commonly referred to as simply the county's "Schedule of Values," and it is to be used as the basis for valuing all real property during all years of the reappraisal cycle

Adopting the SOV [105-317(c)]

1. Assessor submits proposed schedule to board of commissioners at least 21 days before the meeting at which the board will consider it. At the same time, assessor files a copy in his or her office for public inspection
2. On receipt, county board publishes notice that the schedule is available for inspection, and notice of the time and date of a public hearing on the schedule (to be held at least 7 days in advance of adoption)
3. When the commissioners issue an order adopting the schedule, the board must weekly publish notice, for four successive weeks, that the schedule has been adopted, including information on how to appeal the adoption to the Property Tax Commission

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
- House repainted at a cost of \$7,500 in March of this year, in anticipation of selling.
- Sold in April of this year for \$249,900.
- Can the value be adjusted for the current year?
- Can the value be adjusted for next year?

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
- House repainted at a cost of \$7,500 in March of this year, in anticipation of selling.
- Sold in April of this year for \$249,900.
- Can the value be adjusted for the current year? **NO**
- Can the value be adjusted for next year?

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 1-1-2008, at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
- House repainted at a cost of \$7,500 in March of this year, in anticipation of selling.
- Sold in April of this year for \$249,900.
- Can the value be adjusted for the current year? NO
- Can the value be adjusted for next year? NO

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
- Wood deck added at a cost of \$18,000 in March of this year, in anticipation of selling.
- Sold in April of this year for \$249,900.
- Can the value be adjusted for the current year?
- Can the value be adjusted for next year?

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- Can the value be adjusted for next year? **YES**

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- House & lot last appraised, as part of general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
- Wood deck added at a cost of \$18,000 in March of this year, in anticipation of selling.
- Schedules of Values indicates a value of \$12,500 for wood decks of similar size and quality.
- Sold in April of this year for \$249,900.
- What is the value (house) for the current year?
- What is the value of the house for next year?

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
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- Schedules of Values indicates a value of \$12,500 for wood decks of similar size and quality.
- Sold in April of this year for \$249,900.
- What is the value (house) for the current year? **\$200,000**
- What is the value of the house for next year?

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 1-1-2008, at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
- Wood deck added at a cost of \$18,000 in March of this year, in anticipation of selling.
- Schedules of Values indicates a value of \$12,500 for wood decks of similar size and quality.
- Sold in April of this year for \$249,900.
- What is the value (house) for the current year? **\$200,000**
- What is the value of the house for next year? **\$212,500**

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 1-1-2008, at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
- Property purchased for \$249,900 in April of this year. Contractor estimates \$75,000 needed to repair damages from a hurricane occurring two months after purchase.
- Can the value be adjusted for the current year?
- Can the value be adjusted for next year?

Example: Non-reappraisal Year

- House & lot last appraised, as part of general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for the lot and \$160,000 for the residence.
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- Can the value be adjusted for the current year? **NO**
- Can the value be adjusted for next year? **YES**

Example: Non-reappraisal Year

- Comparable properties appraised, as part of last general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for lot and \$160,000 for the residence.
- New construction 50% finished prior to January 1, of this year. It sold in April of this year for \$249,900.
- What should the value be for the current year?
- What should the value be for next year?

Example: Non-reappraisal Year

- Comparable properties appraised, as part of last general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for lot and \$160,000 for the residence.
- New construction 50% finished prior to January 1, of this year. It sold in April of this year for \$249,900.
- What should the value be for the current year?
\$120,000
- What should the value be for next year?

Example: Non-reappraisal Year

- Comparable properties appraised, as part of last general reappraisal 01/01/2008 at \$200,000 --- \$40,000 for lot and \$160,000 for the residence.
- New construction 50% finished prior to January 1, of this year. It sold in April of this year for \$249,900.
- What should the value be for the current year?
\$120,000
- What should the value be for next year? **\$200,000**