

PROPERTY TAX RELIEF: ACTION REQUIRED NOVEMBER 5, 2008

Few people know how the County Assessor determines the assessed value of personal or business real estate. A working knowledge of the assessment process will allow you to determine if you are overpaying your property tax.

OVERVIEW OF REAL PROPERTY ASSESSMENT

There are three methods by which real property may be valued:

- 1) Market approach - look at similar properties which have sold, adjust for the differences, and estimate the price subject property might sell for.
- 2) Income approach - estimate the amount of money subject property might rent for based on similar properties that are being rented. Divide the annual income, after expenses, by a reasonable interest (capitalization) rate which would be determined by market rates. Sometimes comparable rental information is not available. The assessor could then consider the total business or enterprise value. If this approach is used, you must include the taxable value of the personal property with the real property to determine the enterprise value. One way to look at this approach would be, "how much would I expect to receive in return for an investment given a certain rate of return".
- 3) Cost approach - determine what it would cost to purchase a vacant parcel and build a structure(s) with similar use less appropriate depreciation. The replacement cost of the improvements is determined by using Marshall Valuation Service. Real property depreciation is 1.5% of the replacement cost (66.7 years). The Marshall Valuation Service uses broad guidelines to determine how much it would cost to build a property today. For example, you would determine the construction class (concrete tilt-up, stick-built etc.) then assign a quality class. The combination of construction class and quality class will yield a cost per square foot to build.

All counties within the State of Nevada are required to use the **third** method or cost approach to value real properties for taxation purposes.

The Assessor is required to reappraise each real property at least once every five years. In non-reappraisal years, the Assessor uses inflation factors. Total taxable value cannot exceed the "full cash value" (market) of the property. Since the real estate market has cooled considerably, those properties that have declined in value may have not been reduced for property tax purposes, particularly in those areas that have not been reappraised. Current trends in parts of the valley indicate that properties are selling for less than what it would cost to build today. The parcels are probably overvalued.

WHAT NEXT

You can go to the Assessor's website and review the current taxable value of your property. Make sure that square footage, construction and quality class are correct. Ask yourself, "If I received an offer on the building for what the taxable value is, would I accept it?" If the answer is, "in a heartbeat because there is no way that I could ever get that much anywhere else!" then you probably can ask for reduction in value. In December, the Assessor will mail out assessment cards to each property owner. Depending on when you receive the roll card, you may or may not have time to contact the assessor to reduce the value without filing a formal appeal to the Washoe County Board of Equalization. If the taxable value of the property is greater than what it would sell for – call me or the assessor.

PROPERTY TAX DEFINITIONS

Taxable value – Known as the cost approach. Determine what it would cost to purchase a vacant parcel and build a structure(s) with similar utility as that of the subject property. This is the method the county is required to use.

Assessed value = 35% of taxable value

Property tax = Assessed value times the tax rate

Full cash value – otherwise known as fair market value. Determined by either the market or income approach.

Market approach - look at similar properties which have sold, adjust for the differences, and estimate the price the property might sell for.

Income approach - estimate the amount of money the property might rent for based on similar properties that are being rented. Divide the annual income, after expenses, by a reasonable interest (capitalization) rate which would be determined by market rates. – **Not used for personal residences**

FAQ

Am I overpaying my property tax? If the taxable value exceeds full cash value, yes you are overpaying your property tax.

Who is eligible for the 3% tax cap? All owner occupied homes (including single-family homes, condos, townhouses and manufactured homes) that are used as primary residences qualify for the 3% tax cap. Also, rental units may be eligible if all the units are rented for equal to or less than the HUD median market rents.

If I do not qualify for the 3% tax cap, is there a limit on how much my bill will increase?

Yes, your maximum tax increase should be limited to 8%. With the declination in values this year, many property owners' tax bills are still increasing.

Example

John invests \$10,000,000 in a casino, and borrows \$90,000,000. He expects a 20% return on his investment. His profit & loss statement is as follows:

Sales	36,000,000
Expenses	20,000,000
Interest	8,100,000
Depreciation	5,000,000
Taxes	<u>986,000</u>
Net income	1,914,000

Assessment information:

- Land	20,000,000
- Marshal Valuation Service cost new less depreciation of improvements	80,000,000
- Cost less depreciation of tangible personal property	<u>16,000,000</u>
Total taxable value	116,000,000

John considers the casino's EBITDA (Earnings before interest, taxes, depreciation and amortization) of 16,000,000. If he had known the property would generate 16,000,000 in EBITDA, he would have only wanted to invest \$80,000,000 (\$16,000,000/20%) in the property. Accordingly, he would plead his case that the taxable value of \$116,000,000 exceeds the "full cash" or market value of the property under the income approach is \$80,000,000 resulting in an over assessment of some 36,000,000.

DIVISION	PHONE NUMBERS (775)
Administration	328-2200
Real Property Record Information/Exemptions	328-2277
Real Property Appraisal	328-2233
Business Personal Property	328-2213
Mobile Homes	328-2210
General Information Fax	328-3641

<http://www.washoecounty.us/assessor/>

What are the important dates?

- NOW – contact the assessor to determine the projected assessed value of your real property.
- January 1st - Close of Real Property roll - Deadline for mailing value notices to property owners (actually mid December when it goes to print)
- January 15th - Deadline for appeals to County Board of Equalization
- March 10th - Deadline for appeals to State Board of Equalization

CONTACT INFORMATION

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