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Business owners may be paying too much in property taxes

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Business owners tightening budgets and cutting operating costs in an attempt to ride out the current economic crisis might have an opportunity to reduce their property tax bill. One symptom of the unsettled financial climate is substantial fluctuations in the market value of real property, making it easier to grieve assessments and lower property taxes. With property taxes representing anywhere from 20% to 50% of a property's expenses, a reduction in property taxes could mean a substantial savings.

A thorough analysis of the property value and the local real estate market can reveal the potential savings. There are two primary ways to value business property for tax assessment purposes; the sales comparison method and the capitalized income method.

In accordance with the sales method, valuation is determined by looking to the market place and finding arm's length sales of properties that are similar to the property that is being valued. After making appropriate adjustments for differences in size, location, condition, and other relevant factors, the analysis will indicate an appropriate unit measure of comparison on a dollar per s/f basis.

The income capitalization approach produces a value estimate that is based on the market's perception of the relationship between net operating income and value. It is based on the expectation of future benefits. An investor trades a sum of present dollars for the right to receive a stream of future dollars. For tax assessment purposes, the valuation is limited to the net operating income generated by the property, and not the value of any particular business located in the property. Once the net operating income is determined, an appropriate capitalization rate is calculated and the net income is capitalized to determine the present value. The income capitalization approach is often the preferred method of valuation, as it closely reflects the investment decision making process of an investor.

There are several factors present in the current economic climate that may negatively impact the value of real property. Important considerations are the reduced net operating income that is being realized from many properties and the increase in capitalization rates resulting from the difficulty in the credit market and the reluctance of investors to invest in real property.

The net operating income is being affected by various factors including property expenses, vacancy rates, rent, length of time on the market, property purchase price, environmental factors, and capitalization rates.

Despite the downward trend in real estate values, tax assessments remain the same unless they are challenged in strict accordance with real property tax law. A challenge to real property assessment begins with filing a grievance. Grievance Day for most towns in NYS is the fourth Tuesday in May, with some exceptions, most notably the city of Syracuse which accepts grievances during the last two weeks of January. Assessments should be reviewed with a real property tax attorney who can help navigate the process - missing grievance day or incorrectly filing a grievance or petition will foreclose any relief for the entire tax year.

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