

Energy Insights

Property Tax Savings



Attention to property tax valuations generates savings

Oil and gas companies operate in a capital-intensive but cyclical industry, an industry where companies need to reduce costs and seek greater efficiencies whenever international oil or gas prices decline. That cost-cutting and efficiency emphasis needs to encompass property tax valuations.

During periods of higher revenues and increasing production, oil and gas companies make massive investments in equipment. During periods of declining revenue and reduced production, so much of that equipment is idled, resulting in lower market values for that equipment.

That equipment – whether in use or idled – represents much of a company's property tax obligation. Property tax assessments issued by local governments should be based on current equipment prices, but those assessments may not be up to date. If not appealed, a tax assessment based on past market values can cost a company considerably more in property tax than warranted.

It is up to a company to understand property tax assessment practices in the locations where it has operations. It is up to a company to determine whether or not an assessment is based on current market values. It is also up to a company to appeal if it feels a property tax assessment is too high.

Specific Property Tax Practices Vary Across the Country

PROPERTY TAX PRACTICES are generally defined by state law, but deadlines for appealing taxes vary from one state to another. Furthermore, some energy-producing states allow local governments to set their own property tax appeals deadlines.

In Texas, property taxes are assessed January 1, with a May 31 deadline for filing a property tax appeal. Those dates apply to all counties in Texas. Arkansas likewise issues property tax assessments on January 1, but sets the third Monday of August as the deadline for filing appeals. In California, tax appeal deadlines vary among counties. Alameda County, for example, has a September 15 appeal deadline, while Orange County has a November 30 deadline. Connecticut has a statewide February 20 appeal deadline, but localities can ask for extensions up to March 20.

Those variances mean oil and gas companies need to familiarize themselves with property tax provisions as they apply to sites throughout the United States.

Determining Fair Property Value

THERE ARE TWO GENERAL METHODS a company can use to determine whether or not the assessed value of its property reflects current market value.

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Appraisal experts with years of experience in evaluating the worth of oil and gas company properties can be called upon to determine the market value of a company's assets. Depending upon the size of the company and other factors, relying upon such outside expertise may be the most efficient option.

A company may also conduct an in-house assessment by comparing a list of its assets against current sales prices for comparable pieces of equipment. Market prices for various items can be found online at used equipment dealers' websites. With that knowledge, a company can determine whether or not a tax assessment aligns with current value.

Reviewing a Property Tax Assessment

WHILE SPECIFIC PRACTICES VARY among tax jurisdictions, property tax assessments are usually sent to oil and gas companies at the beginning of the year. The local tax jurisdiction has an appraisal district responsible for ensuring that assessments are based on market conditions.

The tax assessment includes information defining the basis for the property valuation. The appraisal district's property valuation may be close to what a company determined to be fair value. In such instances, the company may just accept the assessment and pay the property tax.

However, differences between a company's property valuation and an appraisal district's valuation may equate to hundreds of thousands of dollars, depending upon the assets attributed to the property. When substantial variances arise, it is worthwhile for a company to appeal an appraisal district's property valuation.

Mounting a Property Tax Appeal

While deadlines for filing appeals vary across the country, a company typically has 30 days to file an appeal once it receives a property tax assessment. Some tax jurisdictions allow online appeal filings, while others require that appeals be submitted via mail.

Once the appeal is received and acknowledged, a hearing will be scheduled with a review board comprised of individuals authorized and entrusted to resolve property tax disputes.

A dispute may be resolved informally with an appraisal district prior to a review board hearing. However, a company should not neglect to file for a hearing in the event an informal resolution cannot be reached.

A company may have an accountant, attorney or other individual represent its interests at a review board hearing. Documentation should be presented to support the company's case.

The review board will then issue and send a ruling to the company once the hearing is completed. If the company feels the review board ruling is unsatisfactory, it may pursue a court hearing, binding arbitration or a state hearing.

Vigilance Equates to Potential Savings

Oil and gas companies operate in a capital-intensive industry, an industry where substantial amounts of equipment are needed when prices and revenues are high. When prices decline, companies need to pursue greater efficiencies and cost-cutting measures. Paying attention to property tax valuations helps oil and gas companies sustain themselves amid those industry cycles.

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- Full cost/successful efforts conversion
- IFRS assessment and conversion
- Internal audit
- IT audit
- Joint interest audit
- Litigation support
- Multi-state tax planning
- Research and development tax credit
- Reverse sales tax audit
- Risk assessment
- Sales and use tax review
- Sarbanes-Oxley compliance
- Structuring buy/sell agreements
- Texas margin tax planning
- Valuation and due diligence

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