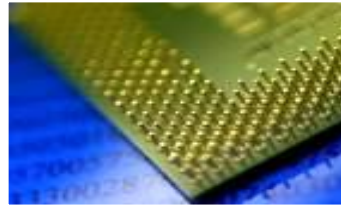




ENTERPRISE APPRAISAL COMPANY

INVENTORY APPRAISAL
A USEFUL PROPERTY TAX TOOL
KENNETH DOMBOSKI



NASPD
NATIONAL ASSOCIATION OF STEEL PIPE DISTRIBUTORS



Our Legacy

▶ Global Provider of Advisory & Valuation Services

Founded in 1971 – Independent Firm, Valley Forge, PA

- Over 10,000 Appraisal Engagements Completed
- 175 Years Combined Veteran Industry Knowledge
- Three Appraisal Disciplines
- Appraisal Experience Across Hundreds of Industries
- Fortune 100 – 500 Client Portfolio
- Privately Held Businesses
- USPAP Compliant Valuations/Reports
- Global Network of Industrial & Commercial Data Sources





Outline

- I. What is Property Tax?
- II. Historical Overview
- III. Types of Property Subject to Tax
- IV. Definition(s) of Market Value
- V. Inventory Specifics
- VI. Simplified Approaches to Value
- VII. Service Matrix
- VIII. Q&A





What Is Property Tax?

- A property tax, millage tax, is an **ad valorem** tax that an owner of property (real estate or personal property) pays on the value of the property being taxed.
- ***Ad valorem*** is Latin for *according to value*.





Historical Overview

- Taxes based on ownership of property were used in ancient times.
- In the ancient world and parts of medieval Europe there were taxes on the land.
- However, these were based on the area of land rather than its value.





Historical Overview

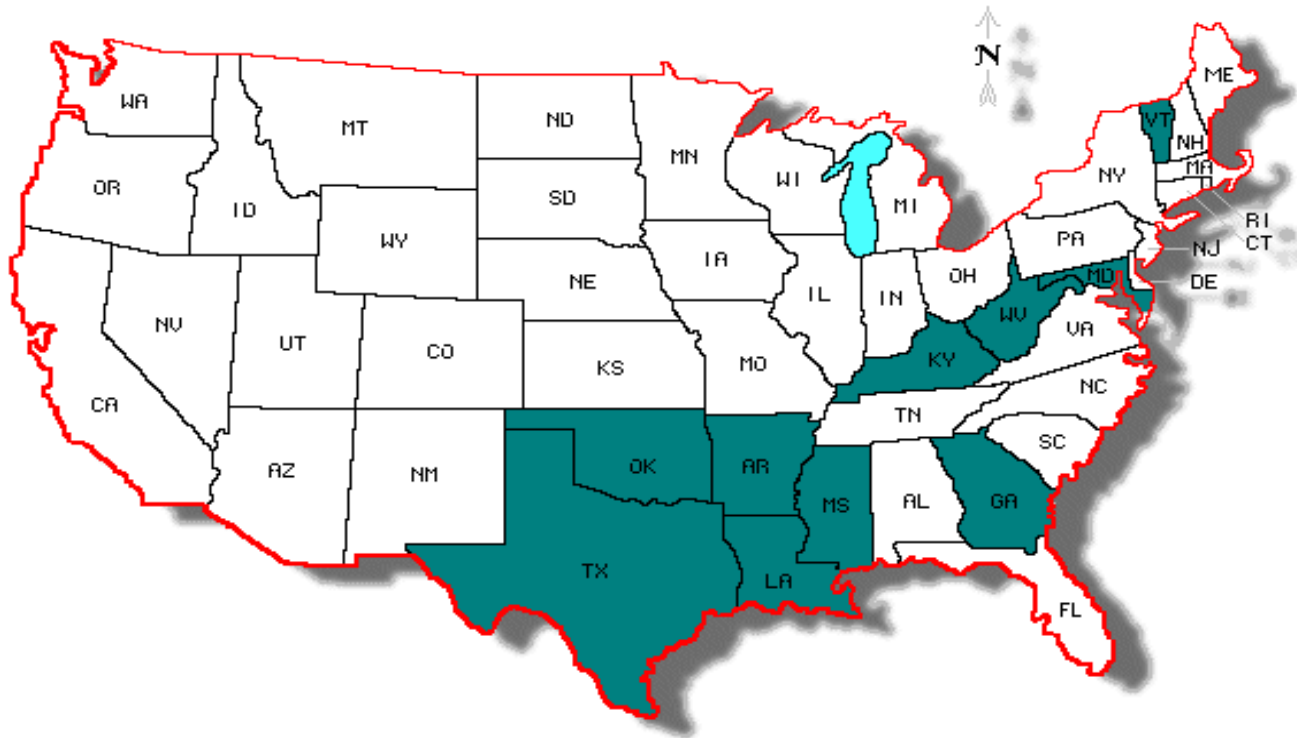
- Modern tax has roots in feudal obligations owed to British and European kings or landlords.
- In the fourteenth and fifteenth century, British tax assessors used ownership or occupancy of property to estimate a taxpayer's ability to pay.





States with Property Tax on Inventory

•States with Taxes on Inventory





TYPES OF PROPERTY SUBJECT TO TAX

There are three species or types of property:

- Land
- Improvements to Land (immovable man made things).
 - Real estate, real property or realty are all terms for the combination of land and improvements.
- Personalty (movable man made things).
 - For example: Machinery & Equipment, Inventory





FAIR MARKET VALUE

RR 59-60

Fair market value is defined as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.





FAIR MARKET VALUE TEXAS PROPERTY TAX CODE

"Market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- (A) exposed for sale in the open market with a reasonable time for the seller to find a purchaser;





FAIR MARKET VALUE TEXAS PROPERTY TAX CODE

- (B) both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and
- (C) both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.





Simplified Approaches to Value

The Sales Comparison Approach asks,

**What are properties similar to this property
selling for?**





Simplified Approaches to Value

The Income Approach asks,

**What would an investor pay in anticipation of
future income from the property?**





Simplified Approaches to Value

The Cost Approach asks,

**How much would it cost to replace the property
with one of equal utility?**





Inventory Specifics

- Taxed as personal property in those states that have a Business Personal Property (BPP) Tax.
- Subject to physical, functional, and economic obsolescence.
- Texas law states the market value of an inventory is the price for which would sell as a unit to a purchaser who would continue the business.





Inventory Valuation

- ▶ Additional considerations for functional obsolescence:
 - Damaged Goods
 - Items to be returned
 - Specifications Change
 - Discontinued Items
 - Items no longer in use in target industries
 - Repair items





Valuation Approach



Market

- Value Estimate—Based on multiples or prices from market transactions involving the sale of comparable assets.





Valuation Approach



Market

- Value Estimate—Based on multiples or prices from market transactions involving the sale of comparable assets.



Income

- Value Estimate—Present value of earnings attributable to the asset or, costs avoided as a result of owning the asset.





Valuation Approach



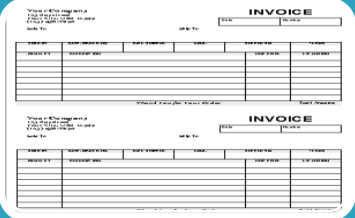
Market

- Value Estimate—Based on multiples or prices from market transactions involving the sale of comparable assets.



Income

- Value Estimate—Present value of earnings attributable to the asset or, costs avoided as a result of owning the asset.



Cost

- Value Estimate—Reproduction/replacement cost-adjusted for depreciation and obsolescence





Case Study–Inventory

Control Number	Purchase Date	Pipe Material	Pipe Diameter (Inches)	Weight (lbs per foot)
1234	2003	Q125	13.625	88.2
5678	2007	Q125	13.625	88.2
9101	2008	P110	16.000	97.0





Case Study–Inventory

Number of Joints	Total Feet	Average Length (ft)	Type	Tons
1	38.6	38.6	Pipe	1.85
1	45.0	45.0	Pipe	1.95
56	2,427.1	43.3	Pipe	117.71





Case Study–Inventory

Cost (\$/ton)	List Price (\$/ton)	Total	Age (Years)	Condition Comment
\$2,500.00	\$2,750.00	\$5,087.50	0.6	Distress
\$2,500.00	\$2,750.00	\$5,362.50	1.0	New
\$2,650.00	\$2,915.00	\$343,125	1.5	Return





Case Study–Inventory

Condition Factor	Economic Obsolescence	Market Value	Bulk Sale	FMV
0.50	0.75	\$1,234.44	0.80	\$987.55
1.00	0.75	\$4,089.37	0.80	\$3,271.50
0.70	0.75	\$179,928	0.80	\$143,942





Case Study–Summary

Original Cost (\$/ton)	List Price (\$/ton)	Total Cost (\$)	Condition	Fair Market Value (\$)	Difference (\$)
2,500.00	2,750.00	\$4,650.00	Distress	\$987.55	\$3,662.45
2,500.00	2,750.00	\$4,875.00	New	\$3,271.50	\$1,603.50
2,500.00	2,915.00	\$294,275	Return	\$143,942	\$150,333





Complete Property Tax Solution

Rendition & Appeal



Valuation





Texas Inventory Tax

- Assessment Date-January 1
- Chief Appraiser's basis of value-FIFO Cost
- Renditions Due-April 15 (30 day extension for good cause)
- Can render an opinion of market value
- Chief Appraiser can issue a 20 day letter for evidence of market value (Appraisal)
- Protest value 30 days after notice of assessment
- POER agents are licensed by the Texas Department of Licensing & Regulation





Q&A





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