

Estimating Future Texas Tax Liabilities for a Commercial Real Estate

When we are asked to provide estimates of future tax liabilities for our clients we look at four issues in our calculations:

1. Estimate the timing of future revaluations and appeals.
2. Projected increases in future tax rates based on historical trends.
3. Legislative changes.
4. State and national economy.

It is very important to forecast county reappraisals which may be triggered by state mandated law or due to up-ticks in sales activity, market rents and occupancies.

Tax estimates must ask two very important questions:

- Will the property owner and / or their tax consultants exhaust their Administrative Remedy? Will their appeal(s) now and in future years, be based on the property's market value and uniform and equal treatment? In Texas, the taxpayers are entitled to the lower of these two approaches.
- Will the taxpayer seek further relief through Judicial Review?

Some property tax professionals and most underwriters base future tax estimates strictly on their current and future opinion(s) of market value. This method in our opinion will result in tax estimates which will be higher than the actual future taxes. The reason this method is flawed is based on the fact it ignores the use of an uniform and equal appeal.

In our opinion, estimating tax rates should be based on historical data. Using 5 to 10 year trends should provide the estimator a solid foundation for forecasting future tax rates.

The last two factors are the most difficult to quantify.

Legislative changes: The Texas Legislative is and has been under great pressure to pass legislation modeled after California's Proposition

13. The "Cap Legislation" would revamp the manner in which property taxes are administered in Texas. Essentially this procedure would cap valuation increase at 2% per year and revaluation would be limited to when properties are sold. In my opinion one may give some weight to this possibility in the future.

The Texas and national economy are very difficult to forecast however they do have an impact on local tax rates. Obviously any changes in the national economy would affect future valuations. The latest example of this would be the 2008 recession where we saw values generally decline in 2009 and 2010.