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Potential issues in the property tax life cycle solved with technology

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Technology solutions for the property tax life cycle

For many businesses, property tax is the single largest state and local tax liability—and compliance is complex and challenging.[1] High volumes of asset and financial data can increase risk and the time it takes to file business personal property renditions. Complications may arise when fixed asset systems or enterprise resource planning (ERP) systems are implemented or upgraded. Multiple fixed asset systems acquired during M&A activity may not be fully integrated for years after closing, making data sourcing burdensome and time consuming. The resources and tools needed for accurate compliance processes and calculations may not be available internally, requiring offline or top-side adjustments via manual entry and manipulation, which can be prone to errors. And now, as ways of doing business are shifting dramatically, states, counties, and local jurisdictions are adopting different approaches to determining values that need to be calculated quickly and accurately.

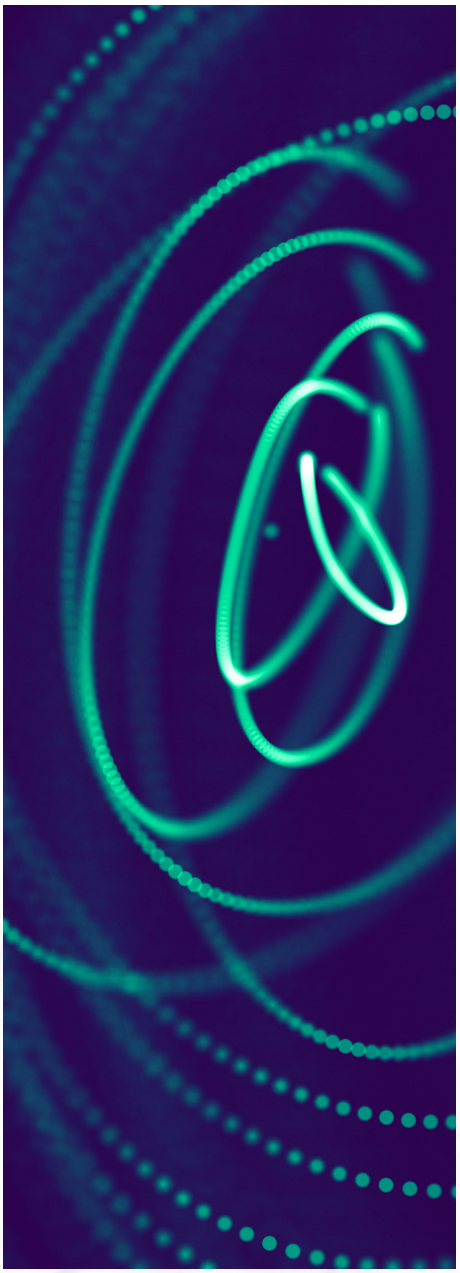
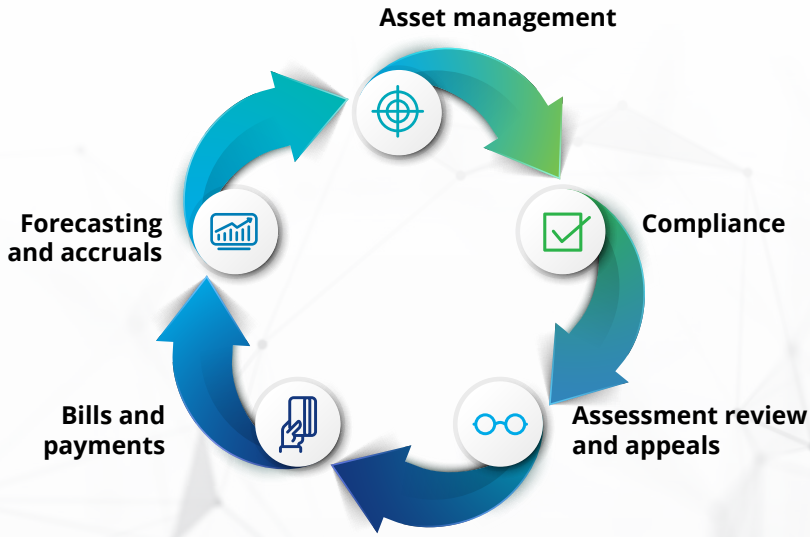


Figure 1: Circular property tax life cycle



Taxpayers often face the same challenges every year but struggle to make year-over-year improvements that could move the property tax function from surviving to thriving. The challenges cross industry lines and are common in both large and small tax departments. Fortunately, tax technology has been evolving and adapting to solve challenges throughout the property tax life cycle. While some technologies address specific issues, broad-based solutions intended for integration in every step of the property tax process can offer added benefits. Tax technology can help transform your tax department, applying automation to reduce time to file, help mitigate risk, and ultimately improve audit readiness.

Technology in each phase of the property tax life cycle

Asset management

The start of each calendar year greets tax departments with the familiar task of wrangling data across multiple source systems and departments. Once aggregated, lack of tax transparency in asset data, along with data inconsistencies, can require property tax analysts to manually scrub data prior to property tax processing, reducing the time available for analysis, review, and improvement. Asset analytics and business intelligence (BI) tools can help accounting and tax departments identify data issues during the activity year. More proactive solutions include regular ERP upgrades, asset management software, and increasing asset detail with regular data repairs.

Compliance

Most of the property tax life cycle is spent in compliance—rendering assets and preparing forms. Computer spreadsheets are a popular tool for this, but they are often inefficient and may be prone to error over time. Manual data manipulation can compound reconciliation problems in the future. Property tax software solutions mainly focus on compliance issues and typically work best when integrated with fixed asset management systems and ERP systems. When interfaces are configured properly, inbound data can automatically be aggregated and classified with self-auditing features to alert users of account reconciliation issues. Complete solutions often include workflows, reports, error handling, and optional email alerts. Automation tools and macros can be used to eliminate repetitive processes. Stand-alone online document storage and management solutions can include electronic signature capability for a decentralized workforce.

Assessment review and appeals

The arrival of assessment notices marks perhaps the most important time in the property tax life cycle. Reviewing property tax assessments for reduction opportunities drives the most value for many companies and requires the most expertise from the property tax department. Lack of knowledge and proficiency in relation to local jurisdiction processes due to turnover can bring uncertainty to the appeal process. Historically, one of the simplest but most important parts of the assessment review process was simply receiving and opening the notice to allow for informal discussions with state or local assessors before deadlines were missed. Many appeal deadlines are variable, based on filing dates and when the notice is mailed. New workplace protocols may complicate receiving mail, and tax departments need to be diligent about establishing and following procedures for checking their mail to minimize the time between mailed and received dates on notices so deadlines can be met.

Missing informal appeal deadlines can require the taxpayer to enter into formal hearings, bringing added risk of reassessment and potentially negative public relations as a result of disputing taxes in the formal hearing process. Appealing assessments requires high-level analysis, detailed documentation and support, and timely filings—all with new challenges presented by remote working. Software solutions that feature a property tax calendar provide a way to prioritize and manage deadlines, and subscription services with comparable data may be worth the return on investment over time. Many tax departments also co-source or outsource the valuation and appeal functions to supplement knowledge and experience.

Bills and payments

Property tax bill management software can help you address issues with bills and payments, including high volumes and tracking received notices to avoid interest and penalties. These types of solutions are often included in complete compliance software solutions but not used due to resource constraints. When they are used, outbound payment data can be sent electronically to finance departments to pay bills and generate journal entries for budgeting and forecasting. Supporting solutions might include optical character recognition (OCR) to read and translate bill data or data services that aggregate data that is compatible with software solutions.

Forecasting and accruals

The often-neglected stage of the property tax life cycle recurs frequently—forecasting and monthly accruals. One of the biggest hurdles tax departments face here is a lack of accuracy and transparency in their own data and difficulty establishing a threshold of reasonableness for annual property tax liability to follow generally accepted accounting principles. A complete property tax software solution will likely include a simple and integrated accrual solution for budgeting, forecasting, and calculating a monthly accrual entry. For a more sophisticated solution, tax departments can implement a real-time analytics dashboard that can source data from multiple systems.

Technology transformation for tax teams

Technology is simply the application of knowledge and tools for practical purposes. In property tax, companies can leverage a wide spectrum of tax technologies from basic to advanced. Basic technology can be as simple as moving from manual processes to a smarter approach or system. Technically, moving from pen and paper to a calculator or 10-key represents an adoption of basic technology—using a tool to solve a problem in a more efficient and accurate way.

At some point in your organization's history, paper ledgers were converted to computer spreadsheets. Spreadsheets are fast, powerful, and flexible tools, but lack of internal documentation of procedures and knowledge turnover can lead to file versioning issues, large files with unorganized sheets, unverified formulas, and processes passed between resources without much review. Due to these issues, tax technology transformation often includes an advanced software solution to reduce human error while increasing productivity. Software solutions are becoming increasingly accessible through secure, online Software-as-a-Service (SaaS) offerings, allowing more users to access and use systems from decentralized locations, which is typical in remote working and collaboration.

However, advanced technologies can be difficult to implement and maintain. Organizations that have implemented effective advanced solutions have strong inter- and intradepartmental communication and champion companywide technology initiatives.

Figure 2: Technology road map with one-year, five-year, and 10-year milestones

An effective technology transformation is often more about the journey than the destination. Consider a "low and slow" methodology to encourage adoption by users rather than a complete process change. To start a successful technology transformation, consider using a technology road map with manageable short-, mid-, and long-term milestones.

Short-term milestones are achievable within one year. Achieving a short-term milestone on your technology transformation road map should give the property tax department a sense of accomplishment, while assimilating new tools into existing processes. Implementing automation or spreadsheet macros to eliminate repetitive work is a good short-term milestone.

A mid-term milestone should be a stretch goal with a road map outlook of approximately five years. Think about what a successful software implementation would look like, including building a business case for a large capital investment, research, design, testing, and finally using the software as intended and to its full capability. Mid-term milestones should be significant achievements that help propel your tax department and company forward with a positive strategic business impact.

Long-term milestones on a technology transformation road map will most likely never actually be achieved—the business landscape is too volatile to not require periodic updating of 10-year goals and milestones—but they should be discussed and outlined as guiding beacons for shorter-term goals. A good example of an evolving 10-year milestone on a technology transformation road map is a complete ERP and financial system upgrade, where requirements are updated during M&A activity, expansion and shrinkage in the marketplace, and paradigm-shifting events. Ultimately, 10-year milestones may be reached, but the end result will almost certainly look different than initially planned as the definition of success adapts and evolves.

When navigating your technology road map, continually review roles, processes, and system architecture to keep technology up to date, promote buy-in, and anticipate or address new issues. To increase your chances for success, a leading practice is to front-load investment in research, complete a robust round of requests for proposal (RFPs), and participate in an extensive solution design to properly scope technology implementation projects. During implementation projects, you should rely on industry best practices and learn from comparable companies of similar size and asset base, using experienced technology specialists for guidance. You can suggest to internal or external project managers to use an agile implementation approach to solve problems in a manageable way.

Multiple technology solutions and services. One provider.

Deloitte's Multistate Property Tax practice facilitates the use, understanding, and enhancement of complex technologies that support tax functions in businesses across multiple industries, including Power & Utilities, Oil & Gas, Telecommunications, and Transportation. Our subject-matter specialists have access to the full complement of Deloitte's Property Tax practitioners with diverse backgrounds, such as former state assessment officials and industry personnel with deep geographic and industry experience. Deloitte Property Tax professionals can be your company's trusted advisers when navigating the intricate and integrated tax technology landscape, empower your employees to confidently use existing systems, and enable you to enhance the value of your solutions.

Integrated Deloitte solution diagram

Endnote

1. Tax Policy Center Urban Institute & Brookings Institution, State & Local Government Financial Data Query System; data from US Census Bureau Annual Survey of State and Local Government Finances, Government Finances, vol. 4: Census of Governments.

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