

# THE PROPERTY TAX RESPONSE TO COVID-19

Valuation and procedural changes that were implemented in 2020 may have significant effects on owners' 2021 tax liabilities.

By Lisa Laubacher and Rachel Duck of Popp Hutcheson PLLC

Expertly managing property tax liability is more important than ever in 2021. The COVID-19 pandemic pummeled both real estate and business personal property values in the past year, forcing local jurisdictions to overhaul procedures that had been in place for decades. Many of those procedural changes will likely continue this year as assessments finally register the pandemic's full effect. Understanding the procedural changes made by local jurisdictions, and new valuation considerations for both real and personal properties, will be key.

## New Procedures Volatile

When the pandemic hit, neither appraisal districts nor property owners knew how long the crisis would last. Most appraisal districts closed their doors to the public and quickly converted all informal and formal meetings to telephone or video conferences.

Moving into 2021, much of that uncertainty remains. Most jurisdictions will likely continue to rely upon virtual formats for this year's informal meetings and hearings, which generally begin in April and continue throughout the summer.

Property owners should be prepared, however, for procedural changes that may be implemented as conditions change. Communication with assessors will be vital, and taxpayers should make sure to provide all requested doc-



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umentation in a timely manner. Communicating early and often about the valuation and protest will ensure no deadlines are missed and no procedural changes are overlooked.

## Managing Real Estate Taxes

While the fundamental valuation and appeal process for real property will remain the same in Texas, procedural changes initiated in 2020 will likely continue in many appraisal districts. Assessments will reflect the property's value as of Jan. 1, 2021, and notices will likely be mailed in mid-April as usual. The deadline for property owners to protest their 2021 real property values will be unchanged at May 15 in most cases, or 30 days after receipt of the notice of appraised value.

Property owners can expect the continued option to protest assessments online, as well as telephone and video conferencing options for hearings. While these procedures were enacted and refined in 2020, the combination of virtual hearings and a potentially increased volume of protests in 2021 may push hearing schedules past their typical end (in June or July) and into the fall.



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## A Real Impact on Values

Undoubtedly, 2020 was a unique year for property performance. Some property types sustained disastrous effects from the pandemic and stay-at-home orders while others fared the year well. Because Texas' valuation date for the current tax year is Jan. 1, 2021, many valuation methodologies will rely upon a property's performance over the 12 months preceding that date to inform their value metrics.

Shopping centers, restaurants, theaters and hotels are among those properties that suffered greatly in 2020. Sadly, many closed their doors for good after struggling to perform this past year. Hotels saw revenue dip as much as 80 percent. Restaurants and theaters experienced government-ordered closures for most of the year, and capacity restrictions for the remainder.

The resulting drag on potential rents, occupancy and cap rate assumptions has pushed down values. Property owners should see some recognition of value decline in these most-affected property groups, but to what extent remains to be seen.

## Business Personal Taxes

On the business personal property front, we expect deadlines to mirror the statutory language for filing exemptions and rendition reports, which list owned machinery, furniture, equipment, vehicles, merchandise and other business personal property. Due to COVID-19, many large appraisal districts extended the rendition deadline for all taxpayers in 2020, but we expect the typical formal extension request process to be back in place for 2021. All extension requests must be made in writing to the appraisal district before the statutory deadline of April 15. An approved extension allows the taxpayer an additional 15 to 30 days past the statutory deadline.

Taxpayers with significant business personal property investment need to thoroughly analyze how COVID-19 limited or otherwise compromised the usage of their income-producing assets. Assessors and appraisers rely almost exclusively on the cost approach to value business personal property. In this climate, however, the simple depreciation they normally apply will not capture pandemic-related losses to produce an accurate market valuation.

To account for the loss in value,

owners should consider developing an additional obsolescence factor to apply after typical depreciation. The Texas Property Tax Code allows for the inclusion of all forms of depreciation including economic obsolescence, which occurs when factors or trends occurring outside the property reduce its value.

Each owner will require their own, unique obsolescence factor to measure economic impact. There are many ways to calculate an economic obsolescence factor, depending on the taxpayer's core industry. Analyzing production versus capacity is most often beneficial for manufacturers, for example, while income metrics are better suited for some retailers and medical providers.

We recommend also doing a look-back for at least three years to properly illustrate the COVID-19 impact. The property tax team must truly understand the business in order to arrive at the proper factor.

## What About Tax Rates?

In addition to assessed value, the second piece of a property owner's tax liability is the tax rate. Taxing entities set their tax rates in the fall, after appraisal districts determine property values.

Should 2021's overall property valuations decline, property owners should not expect an exactly equal decline in their tax liability. If the total tax levy falls significantly due to the valuation factors affecting property values as of Jan. 1, 2021, it is possible — and maybe even likely — that tax rates will rise.

No one can predict tax rates with certainty, but owners would be wise to budget conservatively for anticipated tax liabilities. A 40 percent decline in revenue may not translate to a 40 percent decline in the assessed property valuation or tax liability for 2021.

## Partnership is Key

Navigating property taxation in a COVID-19 world can be overwhelming. It can be particularly challenging to stay on top of frequent procedural changes, and to understand the sometimes unique valuation metrics affecting real and business personal property. Partnering with an experienced property tax team can give owners peace of mind in a tumultuous year.

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