

Midland Central Appraisal District

Equitable and Uniform Appraisal of Inventory

2023 PROCEDURES FOR

EQUITABLE AND UNIFORM APPRAISAL OF INVENTORY

PTC Sec. 23.12(b)

All items of personal property that are to be bought and sold for the purpose of making a profit or the raw materials and the items which are manufactured or produced from raw materials and distributed through levels of trade to consumers are considered inventory. Inventory items are items that are not being used for their intended or ultimate purpose. They are items held for the purpose of making a profit.

Inventory also includes residential real property that has never been occupied as a residence and is held for sale in the ordinary course of a trade or business, provided that the residential real property remains unoccupied, is not leased or rented, and does not produce income.

MARKET VALUE OF INVENTORY

The market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business.

DISCOVERY PROCEDURE

As most personal property is movable, discovery often proves difficult at best. Midland Central Appraisal District utilizes primarily two methods to discover inventory. Those two methods are through the rendition of property by the taxpayer and on-site inspection by MCAD appraisers. There exist, however, many other sources of information that Midland Central Appraisal District may use in discovery.

Rendition

Generally, taxpayers are required to render all tangible personal property used in the production of income which they own or control as of January 1.

However, some inventory owners may elect to have their inventory appraised at its market value as of September 1 of the year preceding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting a September 1 appraisal of the inventory. The application must clearly describe the inventory to which it applies and be signed by the owner.

The application applies to appraisal of inventory in each tax year that begins after the next August 1 following the date the application is filed with the chief appraiser (i.e., an application filed July 15, 2022 would be for the 2023 tax year, whereas one filed August 15, 2022 would be for tax year 2024) unless the owner files a written notice with the chief appraiser revoking the application or ownership of the inventory changes. A notice of revocation is effective for each tax year that begins after the next September following the date the revocation is filed.

To expedite the rendition process, Midland Central Appraisal District annually takes three (3) actions. First, under law, Midland Central Appraisal District publishes, in a manner designed to come to the attention of property owners, the legal requirements relating to the filing of renditions and makes available rendition forms. Second, the district mails to the property owners of all known accounts a notice stating that the rendition is required and attaches to this notice a copy of the applicable rendition form. Third, the rendition form is made available on the Midland Central Appraisal District website.

Area Inspection

Even though renditions are valuable for obtaining information about taxable inventory, these forms cannot substitute for personal inspection of the area to ensure that all taxable personal property is on the appraisal roll and identified by address, type of business, and owner.

Midland Central Appraisal District appraisers endeavor to visit every new business to record information on its size and the quality, condition, and density of its inventory.

Other Sources of Information

In addition to renditions and area inspections, there are several other sources of information that the district may utilize to discover personal property:

1. Newspapers, press releases, trade journals
2. Telephone and city directories
3. Internet
4. Sales tax information
5. Business licenses and d/b/a's
6. Vehicle registration
7. Boat and aircraft registrations
8. Corporation 10k reports
9. Business directories
10. Prior year appraisal rolls
11. Subpoenas issued pursuant to Appraisal Review Board proceedings
12. Records furnished for audit by authorized investigative bodies or agencies

Situs of Inventory

Midland Central Appraisal District recognizes that determining situs of an item of inventory for purposes of taxation may be a difficult task. The district is guided by the provisions of the Texas Property Tax Code with regard to situs of inventory. Inventory is taxable by a taxing unit if:

1. It is located in the taxing unit on January 1 for more than a temporary period;
2. It is normally located in the taxing unit even though it may be temporarily outside the unit on January 1;
3. It is normally returned to the unit between uses elsewhere, and it is not located in any one place for more than a temporary period; or,
4. The owner resides (for property not used for business purposes) or maintains his principal place of business in this state (for property used for business purposes) in the taxing unit and the property is taxable in the State of Texas but does not have a taxable situs according to numbers 1-3 above.

Uniform Assessment of Inventory

Midland Central Appraisal District utilizes both the cost approach and the sales approach in establishing market value. A determination of the quantity of property held in inventory is made by consideration of taxpayer renditions, on-site inspection, and comparison to other similar businesses. Approaches to value are designed to generate fair and uniform estimates of the market value of the inventory as of January 1 of each tax year. A comprehensive classification system of business types is essential for uniform appraisal of inventory.

Business Classification

All businesses discovered in Midland County as of January 1 each tax year are classified by the Standard Industrial Code (SIC) which best categorizes their operation based on type of business conducted. Appraisal data is gathered on different business types. Value modeling is used to help create an accurate and uniform estimate of value to be used to test the validity of taxpayer renditions and/or to make assessments.

Valuation of Inventory

Appraisal data is gathered on different types and/or for specific tangible personal property items, which is consolidated into valuation schedules based on the SIC codes and personal property categories (inventory, furniture and fixtures, etc.). Models are developed for many types of businesses that are comparable and for which numerous examples are found throughout Midland County.

Businesses that do not conform to these base models require additional detailed valuation. Density schedules or cost may be used to ensure that accurate value estimates are generated. These detailed appraisal items are compared to the base models and, where applicable, adjustment factors are applied. Base models, adjustment factors, and density schedules are refined, if warranted, by additional detailed appraisals, taxpayer renditions, and market research. For specific properties, current replacement cost estimates are established from market analysis.