

Personal Property Taxation

Questions and Answers about the
Assessment and Taxation of Personal Property
in Massachusetts

July 2003

Sterling Board of Assessors
Sterling, Massachusetts

Introduction

One of the more challenging aspects of a municipal tax assessor's job is the administration, valuation, and taxation of personal property. This informational bulletin, will attempt to answer the most common questions taxpayers have about this seemingly mysterious tax.

The personal property tax is perhaps one of the oldest taxes having its origins in ancient Mesopotamia. Nomadic peoples had little to tax but their possessions. Livestock and crops represented the most valuable commodity a person might own. Monarchical and temple taxes were most often paid in the form of animals, or a share of the harvest. As ancient economies evolved, property taxes were expanded to include textiles, spices, and other household commodities.

With the advent of currency taxes could be collected on a broad range of items. By the 1700's value based (ad valorem) taxes on personal property included such things as household furnishings, clothing, wagons and buggies, animals, farm implements, and craftsmen's tools. More recent times have seen the personal property tax grow in importance as taxing jurisdictions recognize the considerable value of personal assets owned by individuals and businesses.

In writing the original property tax laws of the Commonwealth of Massachusetts, the drafters decided to tax all real estate and personal property except where specifically exempted by law.

M.G.L. Chapter 59, Section 2

All property, real and personal, situated within the commonwealth, and all personal property of the inhabitants of the commonwealth wherever situated, unless expressly exempt, shall be subject to taxation; ...

This document is intended to aid the Massachusetts' personal property taxpayer. The question and answer format presents those issues that are often asked assessors. While not an exhaustive narrative on the topic of personal property appraisal and assessment, this document should help you understand your legal obligations. Should you have questions or concerns not addressed below, contact your Board of Assessors.

Common Questions about Personal Property Valuation and Taxation in the Commonwealth of Massachusetts

What is personal property?

Personal property is all property that isn't real estate. Personal property includes personal effects, clothing, furniture, motorized and non-motorized machinery, tools, equipment, inventory for sale, stock certificates and bank accounts – in short, anything that isn't land or affixed to land.

What is the difference between intangible and tangible personal property?

Intangible personal property is typically a paper document that represents an asset that isn't readily touched or seen. Examples include currency, stock certificates, bank deposit statements, deeds, and intellectual rights to an invention (patents). Tangible personal property, on the other hand, are items that can be touched. Often they have an intrinsic value derived from the materials and labor that went into their manufacture.

Who is subject to the personal property tax in Massachusetts?

Any person, institution, or business may be subject to personal property taxes unless specifically exempted by the Massachusetts General Laws and Constitution, or U.S. Federal Laws and regulations.

Exemptions are automatically granted to government and churches. Certain non-profit organizations may be exempt from taxation, but must apply annually for exemption with the local Board of Assessors. In Massachusetts, all personal property of individuals is exempt except for items used in the conduct of one's trade or business, as well as, personalty used in a second home or rental apartment. Business personal property derives its tax status based on business type - individuals, sole proprietorships, partnerships, and corporations.

When must I declare my personal property to the assessors?

You are required to annually file a personal property declaration, known in Massachusetts as a "Form of List", by March 1st of each year. Failure to receive the form does not excuse the business from meeting their filing requirements.

What types of personal property are typically exempt from taxation in Massachusetts?

Personal property is either taxable or exempt depending on the type of ownership.

Individuals	Taxable	Personal property used to earn income, furnishings of a second home or rental apartment(s). Motor vehicles not registered and therefore not assessed an excise tax.
	Non-taxable	Non-mechanized hand tools used in trade, uniforms, personal effects, household furnishings, clothing, intangible property
Farmers (not incorporated)	Taxable	Farm machinery and equipment, livestock (assessed at a preferential rate of \$5.00 per \$1,000 of value.
	Non-taxable	Crops, non-mechanized hand tools
Sole Proprietors	Taxable	Personal property used to earn income including furniture, leasehold improvements, equipment, machinery, stock-in-trade (inventory for sale), non-registered vehicles.
	Non-taxable	Non-mechanized hand tools and uniforms
Partnerships/Trusts/ Limited Liability Companies	Taxable	Same as for sole proprietors
	Non-taxable	Same as for sole proprietors
Business Corporations	Taxable	Furniture, equipment and machinery used specifically to render a service or produce a good or product
	Non-taxable	Furniture, equipment and machinery used for administrative, accounting, or marketing purposes; equipment used in laundering and dry cleaning, or the refrigeration of goods. Also exempt is inventory held for sale.
Manufacturing Corps.	Taxable	Poles, underground conduits, wires and poles. Equipment and machinery used in the generation of electricity.
	Non-taxable	All other personal property is exempt from local taxation.
Religious/ Charitable, educational, and scientific non- profits	Taxable	Personal property not used for non-profit purposes
	Non-taxable	Furniture, equipment, and machinery used in the conduct of religious worship and education, or for charitable, educational, and scientific purposes in which the assessors have granted a 3ABC exemption.

Are home businesses subject to the personal property tax?

Yes. All individuals and enterprises that conduct business in Massachusetts are required to annually file a Form of List with the Board of Assessors.

I own a second home. What must I declare?

In Massachusetts only the household furnishings and appliances found in an individual's primary residence is exempt. If you own a second residence, even if it only used part of the year, the contents are subject to taxation and must be reported annually to the Board of Assessors.

I own a rental property. What must I declare?

Your personal property provided to a tenant in a furnished residential or commercial property is subject to taxation and must be reported annually to the Board of Assessors.

How are personal property items valued and taxed?

Typically, assessors value personal property on a depreciated cost basis. Unlike the Internal Revenue Service, where assets are depreciated over time to zero dollars, taxation for property tax purposes requires the assessment of all items having utility or remaining value.

Assessment practices vary somewhat from community to community. Most Boards of Assessors have adopted local valuation policies that are influenced by staff constraints and the type of personal property assessment software in use. For example, some Boards may exempt personal property items that have an estimated cost new of \$25.00 or less, deeming these items to have too little value for the effort required to list and track the item.

Personal property is typically valued at some percentage of the estimated cost new, but not less than a "salvage" or "floor" value. Salvage values are typically 10 – 30 percent of the estimated cost new.

What the owner pays for an item may be indicative of value, but is not necessarily used as the basis for valuation. Assessors should corroborate a personal property owner's reported purchase price with other sources when estimating valuations. If, for example, two business owners purchasing similar desks, one from an office supply store at a regular retail price and another from a yard sale at a bargain price, both desks should be assessed similarly and at fair market value.

In most valuation systems, the assessor starts with an estimated cost new, and depreciates the item based on its age and reported condition. The assessor may employ a standard depreciation schedule to uniformly depreciate items to a salvage value. Typically, items having a short useful life (e.g. computers) are depreciated on an accelerated schedule.

The assessor may alternatively use a sales comparison approach, or for certain items that derive their value from the income they generate, a capitalized income approach. These methods would normally be used for items of high potential value.

The community's commercial tax rate for real estate applies to personal property.

I have personal property that I use both for home and business purposes. How are these treated?

Local practice adopted by the Board of Assessors rules here. Usually assessors look at predominant use in establishing whether an item is taxable or not. Most assessors will not attempt to allocate values based on usage. Your honesty will help you decide whether a personal property item is used predominantly for personal or business use.

My equipment is mobile and does not always reside in my town.

All personal property must have a declared "home-base", usually that city or town in which your business is located. It is to that Massachusetts community that you should file your annual declaration and pay taxes.

Do I have to declare motor vehicles?

Only those motor vehicles that are not registered with the Massachusetts Registry of Motor vehicles should be reported to the assessors. Non-registered vehicles are subject to local personal property taxation in-lieu-of an excise tax. Some Boards of Assessors have opted not to pursue taxation of non-registered vehicles due to low value and difficulties in uniformly assessing such property.

How is farm equipment and animals taxed?

Communities with farms may assess the "Farm Equipment and Animal Excise Tax". This applies to non-corporate farms only. Farm equipment and animals may be reported on the standard "Form of List", although assessors may ask the farmer to prepare a return on a special farm excise form. The filing deadline is the same as for personal property – March 1st of each year.

Much of my personal property is old. Is it still taxed?

Local Board of Assessors' policies may prevail here, but generally all personal property which has utility (i.e. can be used for its intended purpose) or has some remaining value, is subject to taxation.

I have high tech equipment like computers that depreciates very quickly. How does the assessor handle these?

The Board of Assessors may be constrained by their personal property software in how depreciation is applied to special types of personal property like computers. Generally, good appraisal practice calls for depreciation tables that yield values reflective of an item's fair market value. For personal property that depreciates rapidly, an accelerated depreciation schedule should be used.

I bought my personal property used and haven't a clue what it is worth. How do the assessors handle the valuation of these items?

The value you report for a given property is deemed helpful, but not necessarily used as the basis for estimating an item's valuation. If necessary, assessors will estimate personal property values using a combination of available pricing guides, values derived from other accounts, and personal experience. The more information you can provide the assessors, the more likely they will estimate a fair valuation.

I disagree with the assessors' valuation of my personal property. What are my remedies?

The best time to question your personal property assessment is before valuations are finalized and billed. Value finalization typically occurs in July for semi-annual billing communities, and October for quarterly billing cities and towns. Once a community has issued its so-called "actual" bills showing the new assessment, tax rate, and annual tax you have until the due date of that bill to file an abatement application with the Board of Assessors. The Board will review your application within 90 days of its filing.

There are many reasons why you might contest a valuation. You are encouraged to provide relevant documentation to support your claims.

What constitutes so-called inventory or stock-in-trade? When and how are these assessed?

Inventory, merchandise, and stock-in-trade are synonymous terms that refer to those goods a business holds out for sale. The value of stock-in-trade reported to the assessors is the aggregate wholesale value of such items held in inventory by the business on the assessment date, January 1 preceding the fiscal year of taxation. This value is not the same as that reported for income tax purposes and referred to as "Cost of Goods Sold" on a Schedule "C" I.R.S. form.

What are the assessment and taxation time-lines?

Personal property taxes are levied in the fiscal year following the date of assessment. If, for example, you pay personal property taxes in Fiscal Year 2004 (July 1, 2003 thru June 30, 2004), your taxes are based on the personal property you owned on January 1, 2003.

I closed my business mid-year. Shouldn't my taxes be prorated?

Massachusetts General Laws makes no provision for the proration of personal property taxes. If you own taxable personal property on January 1st, you are subject to taxation in the following fiscal year.

While this may seem unfair - consider this. If you start a business on January 2nd or any other time of the year, you are not first liable for personal property taxation until July of the following year.

Can someone from the assessors' office assist me with my personal property declaration?

Yes. In Sterling, either Harald Scheid or Evelyn McNamara can assist you. Simply call the office during business hours, or leave a message. Our phone number is 978-422-8111 ext. 2313.

Is my personal property declaration and the information on it confidential?

Your annual "Form of List", a declaration of your taxable personal property with any attachments that you provide is held in strict confidence. Internal reports listing personal property assets are likewise confidential. The only information we are obliged to make

public is who we are assessing the tax, their mailing address, the assessed valuation, and taxes levied.

Only the owner or responsible agent for a company filing the return may see the assessment record. Non-owner family members, or individuals not expressly authorized by a reporting company must provide a notarized letter of authorization from those individuals having ownership of the personal property assets.

What level of detail must I provide in my personal property listing?

Ideally, you should identify each item by providing a description, model or make, quantity, the actual or estimated cost of the item if purchased new, the item's actual or estimated age, and estimate of the current value. Also helpful is information about the item's size or capacity.

Example

Desk-Secretarial	36"x 72"	Quantity = 2	Est. Year of Manufacture:	1998
Estimated Cost New: \$350.00 each		Estimated Current Value:		\$100.00 each

Saw-Table	Makita 10"	Quantity = 1	Est. Year of Manufacture:	2000
Estimated Cost New: \$600.00		Estimated Current Value:		\$450.00

Inventory	Auto Parts	Wholesale Value:	\$12,568
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Refrigerator	Domestic	Quantity = 1	Est. Year of Manufacture:	1980
Estimated Cost New: \$650.00		Estimated Current Value:		Salvage