

Increase Profits by Protesting Property Taxes

By Jon R. Kubas

As real estate investors, we are constantly looking for ways to increase our profits when we buy, rent, and/or sell properties. One often overlooked item is to protest the Appraised Value for Property Tax Purposes established each year by the appraisal district in the county where the property is located. Very often, we can save thousands of dollars each year in actual property taxes by being aware of how the system works and how to protest the valuation proposed by the appraisal district.

The Appraisal Process. Each county has an appraisal district that determines the market value of all taxable property as of January 1 for each year, and the property is then appraised at that value unless you file a protest of the Noticed Appraised Value and are successful in getting it reduced or if it's a residence homestead subject to a cap. Capped homesteads are limited to increases in appraised value to a maximum of 10% each year. Non-Homestead properties (Investment Property) do not have caps and the values may be increased by the appraisal district to whatever they feel the appraised value might be. Once a property's appraised and market values are equal, further changes in value will depend on the current market in that neighborhood. The intent of the appraisal process is to allocate the tax burden equitably to ensure that no individual property pays more or less than its fair share.

The Tax Rate. The various local government jurisdictions (county, school districts, cities, municipal utility districts, college districts, hospital districts, etc.) set an annual tax rate which is applied to the total appraised value of all taxable property within that unit to generate taxes to fund that governmental unit's operations for the current year. Property taxes are calculated by multiplying the tax rate times each \$100 of appraised value. For example, if the appraised value equals \$88,000 and the combined tax rates for each governmental unit totals \$3.25, the total property taxes will be \$2,860 ($\$88,000/\$100 \times \3.25). If you can get a \$20,000 reduction of Noticed Value on just one property, at this rate it equates to a savings of $\$20,000/\$100 \times \$3.25$, or \$650. If you have multiple properties, it can really add up.

The Protest Process. The appraisal district will provide each property owner a "Notice of Appraised Value for Property Tax Purposes", usually in late April. The Notice will contain the legal description, owner's name, property address, last year's value, this year's value, an estimate of the tax rates, and the total estimated taxes based on this year's value. If you disagree with the Noticed Value, you are given the opportunity to protest the value as long as you provide a "Property Tax Notice of Protest" in writing to the appraisal district and it is received on or before the date shown at the bottom of the "Notice of Appraised Value". Most notices will have May 31 as the deadline to file the protest. **BE AWARE!** They do NOT accept notice of protests by fax. You must mail or hand-deliver the protest to their office. I recommend you hand deliver it to the appraisal district and get it date stamped so you have a receipt showing you filed it on time.

After the appraisal district receives your Notice of Protest, they will send you a "Schedule of Informal Meetings & Appraisal Review Board (ARB) Hearings" notifying you of the date and time for your protest. The Informal Meetings are held between you (or an agent you hire) and an appraiser employed by the appraisal district. The appraiser will work with you to try to reach an acceptable value. If you can't come to an agreement of value in the Informal Meeting, you have the opportunity to take your protest to the Appraisal Review Board for a formal hearing. The Appraisal Review Board consists of three (3) local citizens that will hear the protest and make a final determination of value. There will be a different appraiser from the appraisal district presenting evidence to substantiate the Noticed Value, and you will present evidence to substantiate the value you believe is true. The hearing is recorded, and after each side presents their evidence, the Board will make a final decision and set the value to be used for

property taxes for the current year. Even though the ARB Hearing sounds scary, it's not too bad. Don't be afraid to take it to the Board if you can't reach an agreement in the Informal Meeting.

Deciding Whether or Not to Protest. The first step is to go to the appraisal district website and print the tax record for the property. If I recently purchased the property for a price less than the Noticed Value and/or it's in poor condition needing major repairs, I will automatically file a protest. I then do a quick check for the **lowest** comparable sales of similar properties in the neighborhood and compare the average of those sales to the Noticed Value provided by the appraisal district. If the comps are lower than the Noticed Value and I think I can show valid evidence to get the value reduced, I'll also file a protest. If the property has been in my rental portfolio for awhile, I'll look to see if they increased the Noticed Value significantly above last year's value. Many times, the value will stay the same from one year to the next or will only go up a couple thousand dollars. In these cases, I usually will not protest because if I can only reduce the Noticed Value \$1,000-\$2,000, at \$3.25 per \$100 of value it equates to a tax reduction of approximately \$32-\$65 and is probably not worth the time and effort, particularly if the actual market value if I were to sell might be higher than the Noticed Value. I don't want to raise a "red flag" if it's not worth my while, since generally the Noticed Value will be slightly less than actual retail market value.

Preparing for the Protest. The key to your protest is to provide enough evidence to prove why the property is not worth as much as the Noticed Value from the appraisal district. The absolute best evidence you can use are pictures of the property in disrepair. Since most of the properties we purchase are "fixer uppers", it's relatively easy. Take pictures of the worst things you can find before any work is done, even before you take out all the trash. The uglier the picture, the better your results. The old saying "A picture is worth a thousand words" was never more true than in this case. Take pictures of bad roofs, rotten wood, damaged walls, doors, ceilings, and garage doors, nasty toilets, missing air conditioning units, mildew, broken appliances, trash, tall grass, etc. You have to give the appraiser a reason to adjust the value down, and pictures always work the best. I try to provide at least 6-8 pictures, and I organize and label them so it's easy for the appraiser to see and understand. He will put them in the appraisal district's file to justify the reason the price was lowered. You can even use copies of repair estimates or invoices from contractors to establish the fact it's in poor condition.

The next best piece of evidence is to provide sales comps for properties of similar size and age in the neighborhood that sold between June of the previous year and June of the current year. You want the lowest available comps, which is exactly opposite of how we would establish the retail market value to sell the property once we fixed it up. You are looking for the lowest "valid, qualified sales" in the neighborhood. Valid qualified sales are properties sold by one individual to another individual in an arm's length transaction using typical mortgage financing or purchased for cash. That means sales involving bank foreclosures, corporate sales, assumable loans, and sales between family members can **NOT** be included. The best source for these sales would be the Multiple Listing Service provided by the local Realtor Association. You can review the comments and disclosures contained in the listing to verify you have a valid qualified sale. You can also go the appraisal district and see the comps they will actually use during your protest. I try to provide at least 3 or 4 good comps and actually print the listings and circle the square footage, year built, date closed, and sold price to make it easy for the appraiser to review the information. I also get the average square foot sale price for all the comps and multiply it times the square feet in my property to show a lower market value if it's to my advantage. Remember, the value is established as of January 1 of the current year, so comparable sales 6 months before and 6 months after are usually acceptable. You might be able to stretch it to 8-9 months before and after.

The last piece of evidence I use is a Settlement or Closing Statement if I recently purchased the property. Even if it would be considered a non-valid or unqualified sale according to the examples above, I'll use it along with pictures and valid qualified sales to establish a value lower than the Noticed Value. I may not

be able to get the value reduced all the way down to the purchase price, but in almost every case where I protest the Noticed Value, I get some type of reduction if I'm prepared and present the proper evidence.

Jon R. Kubas and his wife Amy began buying investment property in 1984 and have been living and investing in Houston, Texas since 1990. Jon is Past-President of the Realty Investment Club of Houston ("RICH" Club from 1993-1997), and is also a licensed Texas Real Estate Broker and Texas Mortgage Broker. Jon and Amy are experts in real estate investing and finance, and have spoken many times to Real Estate Investment Associations on numerous topics, most recently teaching their home study course, **"Real Estate Wealth Systems: A Proven Cookie-Cutter System To Buying, Rehabbing, Selling, And Managing Single Family Houses"**. They buy all types of property and also provide loans to both real estate investors and homeowner-occupants. For all your real estate needs, whether you want to buy a property for yourself, want a wholesale deal, have a property you need to sell, a deal to wholesale to us, need a loan of any type, want to lend us your money, or any other item relating to real estate or real estate investing, call them in Houston at 281-397-6200, toll-free at 1-800-424-8903, or visit their website www.westwindsgroup.com.