

# **GEORGIA DEPARTMENT OF REVENUE**

## **LOCAL GOVERNMENT SERVICES DIVISION**



## **Verification of Personal Property**

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The material within is intended to give the course participant a solid understanding of general principles in the subject area. As such, the material may not necessarily reflect the official procedures and policies of the Georgia Department of Revenue or the Department's official interpretation of the laws of the State of Georgia. The application of applicability to specific situations of the theories, techniques, and approaches discussed herein must be determined on a case-by-case basis.

Revised August 2017



## Course Description

The Verification of Personal Property course adheres to the requirements of O.C.G.A. § 48-5-268 (b)(1):

**48-5-268 Training courses for new appraisers; continuing education for experienced appraisers; member of county appraisal staff to appraise tangible personal property**

*(b)(1) The department shall prepare, instruct, operate and administer courses of instruction for the training of new appraisers and the continuing education of experienced appraisers in the appraisal of personal property.*

*(2) In all counties except Class I counties, the chief appraiser shall designate at least one person on the county appraisal staff to be responsible for the appraisal of tangible personal property.*

*Any person or persons so designated shall be required to attend the standard approved training courses operated by the department in accordance with this subsection as part of their duties specified in subsection (b) of Code Section 48-5-263.2*

The course is designed to provide the students with generally accepted appraisal practices in the verification of tangible personal property for ad valorem tax purposes utilizing legislation, regulations and judicial decisions that provide clear direction to achieve uniform and equitable personal property valuations within the county. It is an overview of accounting type procedures that can be used in the review and verification of personal property.

The course utilizes lectures, quizzes, group activities, homework and classroom discussions to convey the skills necessary to verify, review and audit tangible personal property. Students are encouraged to actively participate. Classroom participation will be monitored by instructor on a daily basis.

There is a twenty-five question exam on the last day of class. The GCP coordinator assigned to this course will upload the results of the final examination in the GCP portal to the email address indicated on the credit sheet filled out in class. Credit for courses will be awarded to students that have met the mandatory 95% attendance requirement of 19 hours out of the 20 hours offered for this course, the completion of required coursework and a passing score of seventy percent or better on the final examination. Student's failure to pass exam can retake exam for \$25 during the next regional exams at Southmeadow if registered within 2 weeks of results letter date or pay



to retake course.



Georgia Statutes, Rules & Regulations and Case Law provides the personal property appraiser with the authority to conduct a verification program in the county. Compliance measures ensures untimely returns, underreported returns and restricted access to verification documentations are not stumbling blocks for the appraiser to administer a full and proper listing of all taxable personal property within the county.

## Official Code of Georgia Annotated (O.C.G.A) Legal Reference

Below is a quick reference to selected laws that are relevant to the review and audit of personal property.

| CODE SECTION | DESCRIPTION   |
|--------------|---|
| 48-2-16      | Exchange of tax information   |
| 48-2-61      | Conveyances of property to avoid taxes are illegal  |
| 48-5-1       | Legislative intent  |
| 48-5-2(.1)   | Fair Market Value Defined   |
| 48-5-3       | All personal property subject to taxation, except as otherwise provided by law                              |
| 48-5-6       | All property shall be returned at fair market value   |
| 48-5-9       | Persons liable for taxes on property  |
| 48-5-10      | Property returns  |
| 48-5-18      | Time for making tax returns   |
| 48-5-19      | Signature and declaration of persons making returns of taxable property                                     |
| 48-5-20      | Failure to return taxable property; penalty for failure to timely return                                    |
| 48-5-299     | Ascertainment of taxable property; assessments against unreturned property; penalty for unreturned property |
| 48-5-300     | Power to summon witnesses and require production of documents; exempt documents; contempt proceedings       |
| 48-5-300.1   | Time period for taxation of personal property; extension by consent; refunds                                |
| 48-5-305     | Valuation of property not on digest   |
| 48-5-306     | Annual notice of current assessment; contents; posting notice; new assessment description                   |
| 48-5-311(e)  | Appeals   |
| 48-5-314     | Confidentiality of taxpayer records; exceptions, penalties  |
| 48-1-6       | Unlawful filing of false documents; omissions; tax evasions; penalty  |
| 16-10-71     | Penalty for false swearing (up to \$1,000 or 1-5 years)   |
| 16-10-20     | Penalty for false statements (up to \$1,000 or 1-5 years)   |



## Rules and Regulations of the State of Georgia

Below is a quick reference to the rules and regulations in the APM relevant to the review and audit of personal property.

| RULE/REGULATION            | DESCRIPTION                          |
|----------------------------|--------------------------------------|
| <b>560-11-10-.08(4)</b>    | <b>Verification</b>                  |
| 560-11-10-.08(4)(a)        | <i>Omissions and undervaluations</i> |
| 560-11-10-.08(4)(b)        | <i>Reassessments</i>                 |
| 560-11-10-.08(4)(c)        | <i>Review</i>                        |
| 560-11-10-.08(4)(d)        | <i>Audits</i>                        |
| 560-11-10-.08(4)(d)1.      | Scope of audit                       |
| 560-11-10-.08(4)(d)1.(i)   | Use of subpoena                      |
| 560-11-10-.08(4)(d)2.      | Contracts with auditing specialists  |
| 560-11-10-.08(4)(d)2.(i)   | Notice to property owner             |
| 560-11-10-.08(4)(e)        | <i>Audit selection criteria</i>      |
| 560-11-10-.08(4)(f)        | <i>Property owner records</i>        |
| 560-11-10-.08(4)(f)1.      | Record types                         |
| 560-11-10-.08(4)(f)1.(i)   | Income tax returns                   |
| 560-11-10-.08(4)(f)1.(ii)  | Property appraisals                  |
| 560-11-10-.08(4)(f)1.(iii) | Insurance policies                   |
| 560-11-10-.08(4)(f)1.(iv)  | Tenant sales information             |

## Judicial Decisions

Below is a quick reference to selected Superior Court (SC), Court of Appeals of Georgia (CAG) and Supreme Court of Georgia (SCG) cases as it pertains to the review and audit of personal property.

| Court Case                                | Decided  | Court | Specifics   |
|---|----------|-------|---|
| <b>AUDITS</b>                             |          |       |   |
| Eckerd Corporations vs. Coweta County BTA | 08-11-97 | CAG   | Undervaluing of returned property; Incorrect returns; Cost as FMV |
| Fulton County BOA v. Saks Fifth Ave, Inc  | 03-29-01 | CAG   | Protective Order  |
| Parisian, Inc v. Cobb County BTA          | 09-05-03 | CAG   | Audit Selection   |
| Thorpe v. Benham                          | 01-15-82 | CAG   | Spot Assessments  |
| <b>SUBPOENA POWER</b>                     |          |       |   |
| Eckerd Corporation v. Fayette County BTA  | 02-08-96 | CAG   | In Contempt   |
| Presley et al. v. Payne                   | 07-14-82 | SC    | Contempt denied   |



# **Chapter 1**

## **The Importance of Verification Program**





## **The Importance of a Verification Program for Personal Property**

The growth of business and population in this State has rendered it nearly impossible for a personal property appraiser to assess every personal property return within the same year in which it is filed. Personal property returns are based on the good faith disclosure of the property owner and is accepted until verified. It is possible that property owners may move, hide, undervalue or simply not return personal property to avoid taxation. Absent a verification program, the personal property appraiser cannot know the true value of the owner's personal property.

The root word for verification is verify. The American Heritage Dictionary Third Edition defines verify as

- 1. To prove the truth of; substantiate**
- 2. To determine or to test the truth or accuracy of.**

The Merriam-Webster Thesaurus list the synonym of verify as **confirm** and lists related words as **demonstrate, prove, test, try; document, establish, settle.**

## **VERIFICATION = TAKING A CLOSER LOOK**

A verification program is designed to facilitate the full and proper listing of all taxable personal property in the county with a review or audit. The personal property account should be selected according to an Audit Selection Criteria (ASC) which will be discussed in detail later. Some valid reasons an account can be selected for a review or audit are new accounts, major accounts, accounts with significant changes from the previous year, and accounts that are suspected of being inaccurately reported based on objective analysis. The bottom line is that the appraiser examines appropriate and pertinent records to substantiate the cost amounts that have been reported by the property owner.

Due to the facts above, Georgia Code 48-5-299 (a) *empowers the board to make such investigation as may be necessary to determine the value of any property upon which for any reason all taxes due the state or the county have not been paid in full as required by law and Georgia Code 48-5-306(a) empowers the board to examine all the returns....and if in the opinion of the board any taxpayer has omitted from such taxpayer's returns any property that should be returned or has failed to return any of such taxpayer's property at its fair market value, the board shall correct the return, assess and fix the fair market value to be placed on the property....The board shall see that all taxable property within the county is assessed and returned at its fair market value and that fair market value as between the individual taxpayers*



*are fairly and justly equalized so that each taxpayer shall pay as nearly as possible only such taxpayer's proportionate share of taxes.* Therefore, it is the board of tax assessor's statutory obligation to provide the personal property appraiser with the necessary tools to verify information in the county to ensure that all property is properly returned for taxation.

As stated in O.C.G.A. 48-5-306 (a), without a systematic review and audit program, the assessment process is not conducted in a fair and equitable manner. The ad valorem program needs to be administered at or close to a 100% capacity. If not, money is being left on the table or taxable property is escaping taxation and once again property owners are not given fair and equitable treatment.

Secondly, the verification program encourages compliance in reporting by taxpayers. In Georgia, April 1 is the statutory deadline to return personal or real property. After the statutory deadline, taxpayers will be subject to a 10% penalty on all unreturned personal property. The verification program is a systematic set of procedures established for the purpose of examining and verifying accounting records, the taxpayers not in compliance will be penalized. O.C.G.A. § 48-5-299 also lists the penalty for unreturned property. We will discuss the calculation later.



Lastly, the verification program can be used to discover personal property. We learned in Course 3 Valuation of Personal Property that the primary tool for discovering personal property is the personal property return. Due to the self-reporting nature of personal property, it's likely not to receive full cooperation from all taxpayers and partial cooperation from others whether knowingly or unknowingly. The quality of the data received on the return and schedule depends on the data provider which is the property owner or the property owner's representative. The appraiser/auditor will need a thorough understanding of the taxpayer's operation to determine personal property that should be reported on the return. A successful review and audit program can possibly add millions to a county's digest.

**GOOD DATA QUALITY = SUCCESSFUL VERIFICATION PROGRAM**





## Chapter 1 Review

1. Personal property returns are based on: \_\_\_\_\_
2. Define verify according to the American Heritage Dictionary, 3<sup>rd</sup> Edition: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. A verification program is designed to: \_\_\_\_\_
4. How does the appraiser determine the costs reported by property owner are accurate? \_\_\_\_\_  
\_\_\_\_\_
5. How does GA Code 48-5-299 (c) empower the board? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
6. How does GA Code 48-5-306 (a) empower the board? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. What is a verification program? \_\_\_\_\_  
\_\_\_\_\_
8. What Code Section lists the penalty for unreturned property? What is the penalty percentage? \_\_\_\_\_
9. What is the primary tool for discovering personal property? \_\_\_\_\_
10. List the three reasons for the importance of a verification program.
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  - c. \_\_\_\_\_



## **Chapter 2**

# **Understanding the Business or Industry**





During a GAAO Personal Property Committee Meeting in 2014, Jim Turner, C.P.A. from Turner Business Appraisers presented on **“The Top Ten Most Underreported Tangible Personal Property Items”** which will be discussed later. These personal property items more than likely go underreported because the personal property appraiser probably does not fully understand the taxpayer’s business and industry.

The reviewer should fully understand the relationships of financial and non-financial information of a taxpayer’s record and at the same time visualize the necessary and expected personal property assets to be found in the business. Answering the following questions can assist the reviewer with this task:

1. What type of product or service does the company sell? How does the company obtain this product? Manufacturer? Purchase? Or if service, personnel?
2. Are there any additional products for sale or services produced that you expect to see if a field visit was conducted?
3. For the type of industry, would it be normal for the taxpayer to own the inventory or is it common to have consigned inventory?
4. What is the normal profit margin you would expect to see for the particular type of industry? For example, a jewelry store would be expected to have a much higher mark-up than a grocery store.
5. Who are the taxpayer’s competitors? Does the taxpayer’s profit margin appear to be reasonable when compared to the level of the competition?
6. What is the normal method of inventory valuation for the industry and what method is used by the taxpayer? For example, a department store with various product lines commonly uses the retail inventory method, whereas a furrier would use actual cost.
7. How many times does the taxpayer turn over their inventory in a given year? Is this typical for the industry? Does the turnover ratio coincide with the taxpayer’s profit margin and compare with competitors? For example, if a furrier sells at a 50% mark-up and turns his inventory six times a year, this would probably require further investigation if other dealers are showing an inventory turnover of three times a year with only a 30% markup.
8. How does the total dollar value of inventory compare with the accounts payable at December 31? Since the majority of the accounts payable should consist of merchandise



purchases, large differences should be investigated. For example, an inventory balance of \$20,000 as compared with an accounts payable balance of \$250,000 probably indicates an understatement of inventory.

9. Does the taxpayer's method of business or the taxpayer's inventory requires the use of a significant amount of supplies? For example, boxes, catalogs, invoice forms, pallets, etc., should be reported on the personal property reporting form.
10. Does the current ratio make sense? For example, the lower the current ratio, the more questionable the continued existence of the company and vice-versa. Therefore, profitability has a direct relationship with the current ratio for a profitable company. A negative or low current ration may be an indication that inventory was understated.
11. What is the fiscal year-end of the business? If other than December 31, what was the method used to calculate the balance of inventory reported on the personal property reporting form.
12. Does the taxpayer have more than one location of doing business?
13. If the taxpayer applies for Freeport, does the percentage shipped out of state make sense to the taxpayer's business? For example, a shoe manufacturer in Georgia with another manufacturing plant in New Jersey ordinarily would not be expected to ship goods from Georgia to the northeastern state.
14. Does personal property tax reporting form accurately reflects goods in transit?
15. Has any deductions been taken in arriving at the reported inventory amount? For example, markdowns, obsolescence, shrinkage, theft, spoilage, etc.
16. Are the books being maintained on a cash or accrual basis? If the taxpayer is on the cash basis accounting the reviewer should seriously consider looking at January and February cash disbursements. For example, inventory ordered and received by the taxpayer in the month of December may not be paid for until January or February, however should be added to inventory for tax purposes.



## Chapter 2 Review

1. What is the normal profit margin ratio? \_\_\_\_\_
2. What does the net profit margin mean? \_\_\_\_\_
3. A company has a net profit of \$100,000 and sales of \$1,000,000. What is the NPM? What does it mean? \_\_\_\_\_  
\_\_\_\_\_
4. What is the inventory turnover ratio? \_\_\_\_\_
5. What does the inventory turnover ratio mean? \_\_\_\_\_
6. A company has COGS of \$1,000,000 and average inventory of \$162,500. What is the inventory turnover? What does it mean? \_\_\_\_\_  
\_\_\_\_\_
7. What is the current ratio? \_\_\_\_\_
8. What does the current ratio mean? \_\_\_\_\_
9. A company has current assets of \$815,000 and current liabilities of \$795,000. What is the current ratio? What does it mean? \_\_\_\_\_
10. What is the cash basis? \_\_\_\_\_
11. What is the accrual basis? \_\_\_\_\_
12. What does fiscal year mean? \_\_\_\_\_



## Chapter 3

# Analytical Procedures





Analytical is a breaking up of a whole into its parts to find out their nature. Analytical procedures are an important part of the verification process and consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data.

**Analytical procedures range from simple comparisons to the use of complex models involving many relationships and elements of data.**

A basic premise underlying the application of analytical procedures is that logical relationships among data may reasonably be expected to exist and continue in the absence of known conditions to the contrary. Particular conditions that can cause variations in these relationships include, for example, specific unusual transactions or events, accounting changes, business changes, random fluctuations or misstatements.

Understanding financial relationships is essential in evaluating the results of analytical procedures, and generally requires knowledge of the taxpayer and the industry or industries in which the taxpayer operates. An understanding of the purpose of analytical procedures and the limitations of those procedures is also important.

**Accordingly, the identification of the relationships and types of data used, as well as conclusions reached when recorded amounts are compared to expectations, requires judgment by the appraiser.**

Analytical procedures can be used for the following purposes:

1. To assist the appraiser in determining which taxpayers to audit.
2. To assist the appraiser in determining the extent or level verification required.
3. To assist the appraiser in determining which account balances to analyze.

Analytical procedures involve comparisons of recorded amounts, or ratios developed from recorded amounts, to expectations developed by the appraiser. The appraiser develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the appraiser's understanding of the taxpayer and of the industry in which the taxpayer operates.



**The following are examples of sources of information for developing expectations:**

1. Financial information from comparable prior period(s) giving consideration to known change.
2. Anticipated results – for example budgets or forecasts.
3. Relationships among financial information within the period.
4. Information regarding the industry in which the taxpayer operates – for example, gross margin information.
5. Relationships of financial information with relevant non-financial information.

Although analytical procedures used by the appraiser often use only financial data, sometimes relevant non-financial information is considered as well. For example, number of employees, square footage of selling space, volume of goods produced, and similar information may contribute to accomplishing the purpose of procedures.

The appraiser obtains assurance from analytical procedures based upon the consistency of the recorded amounts with expectations developed from data derived from other sources. The reliability of the data used to develop the expectations should be appropriate for the desired level of assurance from the analytical procedure. The appraiser should assess the conditions under which it was gathered, as well as other knowledge the appraiser may have about the data.

**The following factors influence the appraiser's consideration of the reliability of data for purposes of achieving verification objectives:**

1. Whether the data was obtained from independent source outside the taxpayer's business or from source within the taxpayer's business.
2. Whether sources within the taxpayer's business were independent of those who are responsible for the amounts being verified.
3. Whether the data was being developed under a reliable system with adequate controls.
4. Whether the experiences were developed using data from a variety of sources.





The appraiser should evaluate significant unexpected differences. Reconsider the methods and factors used in developing the expectation and inquiry of management may assist the appraiser in this regard. Management responses, however, should ordinarily be combined with other factual evidential matter.

As discussed in Valuation of Personal Property, there are two methods of comparison that are good indicators of the relative level of valuation of similar businesses and can also assist the appraiser with analytical procedures.

The Site Method is a method of comparison in which the value of similar businesses can be viewed by the assessor to judge the approximate level of uniformity in reporting by individual property owners.

An example of the ‘Site Method’ would be to look at the inventory reported by comparable retail stores.

|          |             |
|----------|-------------|
| Store A: | \$1,000,000 |
| Store B: | 900,000     |
| Store C: | 950,000     |

In the above example, there does not appear to be any major differences in the amount of reported inventory value. However, great care must be exercised by the appraiser or assessor when using the Site Method to insure that the properties that are being compared are truly similar.

The “Square Foot Method” is another method of testing the relative level of value reported by a business. This method of comparison uses the value of personal property per square foot area of the real property where the personal property is located as a measure of uniformity in reporting by individual property owners.

An example of the “Square Foot Method” would be to look at the inventory per square foot.



## Chapter 3 Review

1. Define analytical. \_\_\_\_\_
2. What is the basic premise regarding the application of analytical procedures? \_\_\_\_\_  
\_\_\_\_\_
3. What are some conditions that can cause variations? \_\_\_\_\_  
\_\_\_\_\_
4. \_\_\_\_\_ is essential in evaluation the results of analytical procedures, and generally requires knowledge of \_\_\_\_\_ and \_\_\_\_\_ in which the taxpayer operates.
5. The identification of the relationships and types of data, as well as conclusions reached when recorded amounts are compared to expectations, requires \_\_\_\_\_  
\_\_\_\_\_.
6. Analytical procedures can be used for the following purposes:
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  - c. \_\_\_\_\_
7. Examples of sources of information for developing expectations:
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  - c. \_\_\_\_\_
  - d. \_\_\_\_\_
  - e. \_\_\_\_\_
8. The \_\_\_\_\_ used to develop the expectations should be appropriate for the \_\_\_\_\_ from the analytical procedure.



## **Chapter 4**

### **The Top Ten Most Underreported Tangible Personal Property Items**

**U  
R**



**1. Personal Property Improperly Categorized as Real Estate**

- a. Tanks, Signs, Security Systems, Back-Up Power, Generators  
Process Electrical, Piping, Heating Ventilation & Air Conditioning (HVAC)

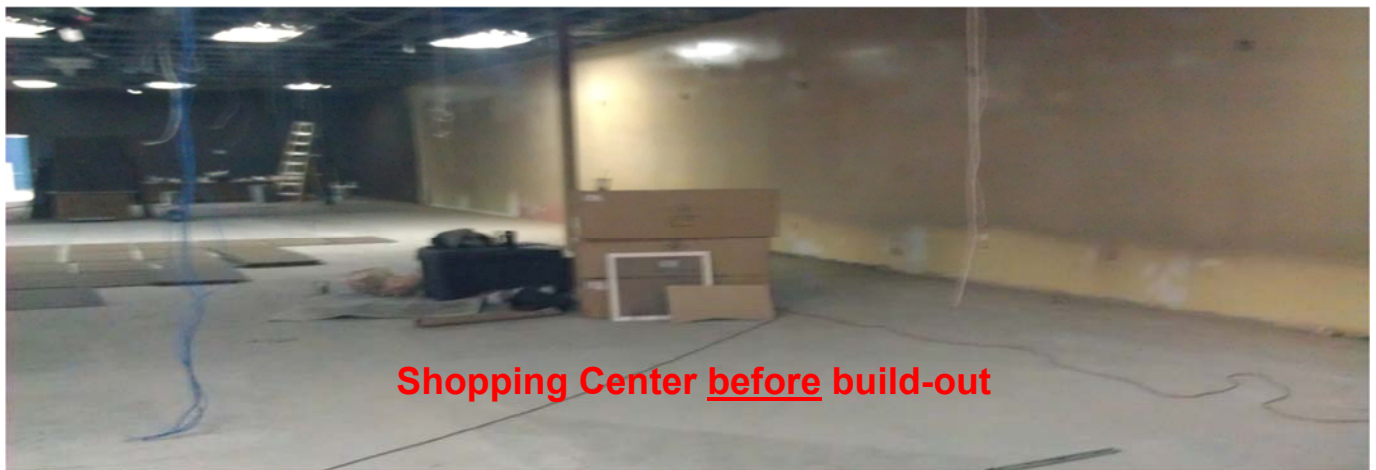


**Rule of Thumb:** *Personal Property used primarily as part of a manufacturing process and real property fixtures that are affixed to the land or building and intended to remain permanently in place.*



## 2. Leasehold Improvements (LHI)

- a. Upgrades made to leased property by the lessee (tenant) such as lighting, cabinetry, raised floor, bars, and counters.
- b. Caveat for Georgia – only LHI that are personal property in nature and trade fixtures should be reported. LHI such as walls, doors, floor covering, electrical, plumbing, heating and air distribution systems and lighting that attached to and form an integral part of the building should not be reported as personal property (Mckinsey v. Fulton County Court of Appeals Case)





### 3. Taxpayer errors and inadvertent omissions

- Taxpayer omitted \$3,949,627 (\$4,157,648-\$208,021) of M&E purchased in 2000 on their 2000 & 2003 tax returns
- The total under-reported amount on the 2003 tax return was \$12,459,720 (\$22,314,636-\$9,854,916)
- IAAO Course 500 states "the primary tool for discovering personal property....is the personal property return."

**SCHEDULE A PERSONAL PROPERTY (SEE INSTRUCTION SHEET PG. 4)**

| YEAR ACQUIRED | GROUP (1) MACHINERY & EQUIPMENT A12 | GROUP (3) OFFICE FURNITURE & FIXTURES K10 | GROUP (4) COMPUTER EQUIPMENT U05 |
|---------------|-------------------------------------|---|----------------------------------|
|               | PRIOR YR. COST                      | PRIOR YR. COST                            | PRIOR YR. COST                   |
| 2003          |                                     |   |                                  |
| 2002          | 500000                              |   |                                  |
| 2001          | 190844                              | 1128                                      |                                  |
| 2000          | 208021                              | 17876                                     |                                  |
| 1999          |                                     |   |                                  |
| 1998          | 149929                              |   |                                  |
| 1997          | 90251                               |   |                                  |
| 1996          | 381371                              | 62176                                     |                                  |
| 1995          | 240158                              | 267005                                    |                                  |
| 1994          | 1491353                             |   |                                  |
| 1993          | 1876256                             |   |                                  |
| 1992          | 4726733                             |   |                                  |
| 1991          |                                     |   |                                  |
| 1990          |                                     |   |                                  |
| 1989          |                                     |   |                                  |
| 1988          |                                     |   |                                  |
| PRIOR         |                                     |   |                                  |
| TOTAL         | 9854916                             |   |                                  |

**GROUP (2) CONSTRUCTION IN PROGRESS**  
LIST TOTAL OF ALL PERSONAL PROPERTY EXPENDITURES IN CIP ACCOUNT ON JANUARY 1, BUT NOT INCLUDED ABOVE - ITEMIZED IN SCHEDULE G  
TOTAL CIP \$ 119,000

**COMPLETE ALL FORMS AND RETURN ENVELOPE TO:**  
**COUNTY OF DURHAM OFFICE OF TAX ADMINISTRATION BUSINESS SECTION PO BOX 3397 DURHAM, NC 27702-3397** (PG. 1)

**Rendition** (red arrow pointing to Schedule A)

**Asset Listing** (red arrow pointing to Schedule A)

**Underreported** (red text)

|       | Machinery  | Out of State | Separate Tooling | Waste Water Treatment | Non-Personal Property | Total Cost |
|-------|------------|--------------|------------------|-----------------------|-----------------------|------------|
| 2003  | 319,676    |              |                  |                       |                       | 319,676    |
| 2002  | 11,135,970 | (539,238)    |                  | (22,415)              | (1,447,825)           | 9,126,492  |
| 2001  | 881,604    | (319,676)    |                  | (43,031)              | (95,573)              | 743,000    |
| 2000  | 4,536,299  | (319,676)    |                  | (150,938)             | (227,713)             | 4,157,648  |
| 1999  | 398,327    |              |                  |                       | (113,857)             | 284,470    |
| 1998  | 245,584    |              |                  | (5,412)               | (624)                 | 239,548    |
| 1997  | 159,958    |              | (3,065)          | (1,746)               | (21,402)              | 133,747    |
| 1996  | 306,716    |              | (2,570)          |                       | (18,018)              | 486,128    |
| 1995  | 188,896    |              | (3,634)          |                       | (14,577)              | 170,685    |
| 1994  | 1,507,001  |              | (1,518)          | (111,233)             | (2,675)               | 1,391,075  |
| 1993  | 2,531,919  |              |                  | (175,258)             | (229,805)             | 2,126,856  |
| 1992  | 3,876,169  |              | (292)            | (203,534)             | (224,781)             | 3,447,562  |
| 1991  | 7,425      |              |                  |                       |                       | 7,425      |
| Prior |            |              |                  |                       |                       | 0          |
| Total | 26,295,544 | (539,238)    | (11,077)         | (714,067)             | (2,396,850)           | 22,634,312 |

**Underreported** (red text)





#### 4. Unreported Businesses

- a. The Secretary of State website provides contact information, DBA, entity structure and most importantly date of formation which verifies if the company was in business on the date of valuation or taxation which is January 1 in Georgia.

| BUSINESS SEARCH   |  |   |
|---|--|---|
| BUSINESS INFORMATION  |  |   |
| Business Name:  | STARBUCKS CORPORATION  | Control Number: K405950                         |
| Business Type:  | Foreign Profit Corporation   | Business Status: Merged                         |
| Business Purpose:   |  |   |
| Principal Office Address:   | 2401 UTAH AVE S SUITE 800, MS: S-LA1, SEATTLE, WA, 98134-1435, USA       | Date of Formation / Registration Date: 3/2/1994 |
| Jurisdiction:   | Washington   | Last Annual Registration Year: 2016             |
| REGISTERED AGENT INFORMATION  |  |   |
| Registered Agent Name:  | CORPORATION SERVICE COMPANY  |   |
| Physical Address:   | 40 TECHNOLOGY PARKWAY SOUTHSUITE 300, Gwinnett, NORCROSS, GA, 30092, USA |   |
| OFFICER INFORMATION   |  |   |
| Name  | Title  | Business Address                                |
| Howard Schultz  | CEO  | 2401 Utah Ave. S., Seattle, WA, 98134, USA      |
| Lucy Lee Helm   | Secretary  | 2401 Utah Ave S, Seattle, WA, 98134, USA        |
| Andrew Wolff  | CFO  | 2401 Utah Ave. S., Seattle, WA, 98134, USA      |
| <a href="#">Back</a> <a href="#">Filing History</a> <a href="#">Name History</a> <a href="#">Return to Business Search</a>  |  |   |
| Office of the Georgia Secretary of State Attn: 2 MLK, Jr. Dr. Suite 313, Floyd West Tower Atlanta, GA 30334-1530, Phone: (404) 656-2817 Toll-free: (844) 753-7825, WEBSITE: <a href="http://www.sos.ga.gov/">http://www.sos.ga.gov/</a><br>© 2015 PCC Technology Group. All Rights Reserved. Version 2.1.2a <a href="#">Report a Problem?</a> |  |   |

#### 5. Spare parts and supplies inventories

- a. Sanity Test: a basic test to quickly evaluate whether a claim or the result of a calculation can be true
- b. A rule of thumb may be checked to perform the test: spare parts normally represents 3-5% of total Machinery and Equipment in a manufacturing plant
- c. Companies with unreported spare parts and inventories
  - i. Golf Course: irrigation parts and granular inventory
  - ii. Bottling Plant: spare parts for truck and trailer fleet
  - iii. Apartment Communities: HVAC spare parts and appliances



## **6. Inventories of consumable fuels and gases**

- a. Common fuels: diesel and propane
- b. Common gases: nitrogen, oxygen and hydrogen



## **7. Inventory Held for Sale**

- a. Reserve for cash discount – based on the likely amount of discounts that will actually be taken
- b. Reserve for pharmacy-repackaging – the act of taking a finished drug product from the container in which it was distributed by the original manufacturer and placing it in a different container without further manipulation of the drug
- c. Reserve for advertising – an extra amount of money set aside to pay for an advertising agency should an unforeseen event occur.
- d. Reserve for seasonal price changes –temporary discounts to increase sales includes coupons, cents-off sales, seasonal price reductions and even volume purchases. For example, a company may offer seasonal price reductions after the holidays to reduce product inventory.







## 8. Pollution Abatement Equipment

- a. Inflated cost of the portion of M&E that qualifies for a pollution exemption
- b. Unreported M&E that is not exempt from taxation



Figure 4: Dual Fuel Pilot Nozzle



## 9. Molds, Tools, Jigs or Dies (devices used for cutting out, forming or stamping material)



## 10. Telecommunications Equipment

- a. Unreported foundations, site prep work, acquisitions cost in lieu of historical cost, excluding process back-up generators, kiosks, etc.



## Chapter 4 Discussion

1. Name other tangible personal property that may go underreported or unreported in your county. Provide examples.



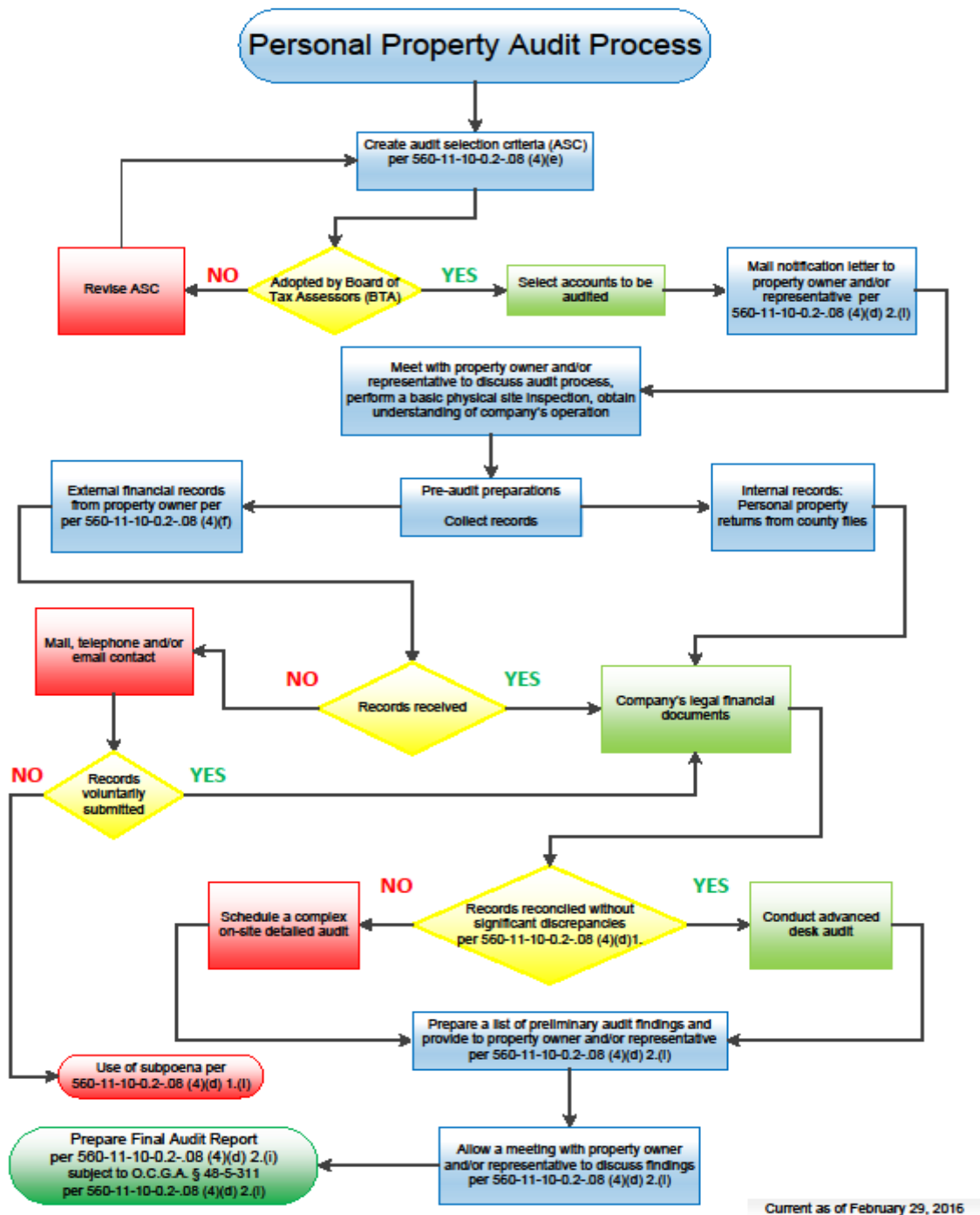
## **Chapter 5**

### **How to Conduct a Verification Program**





**(4) Verification.** The appraisal staff shall review and audit the returns in accordance with policies and procedures set by the county board of tax assessors consistent with Georgia law and this Rule.





| <b>Action</b>  | <b>Applicable Regulations</b>                                       |
|--|---|
| Create an Audit Selection Criteria (ASC)   | Rule 560-11-10-0.2-.08(4)(e)  |
| Adopted by Board of Tax Assessors  | Rule 560-11-10-0.2-.08(4)(e)  |
| Selects accounts to be audited   | Rule 560-11-10-0.2-.08(4)(e)  |
| Mail Notification Letter to Property Owner and/or Representative   | Rule 560-11-10-0.2-.08 (4)(d)2(i)                                   |
| Meet with property owner and/or representative to discuss audit process, perform a basic physical site inspection, obtain understanding of company's operation | Suggested   |
| Pre-audit preparations/Collect records   | Suggested   |
| Internal records: personal property returns from county files  | Rule 560-11-10-0.2-.08 (4)(d)1.                                     |
| External financial records from property owner   | Rule 560-11-10-0.2-.08 (4)(f)1.                                     |
| Company's legal financial documents  | Suggested   |
| Records not voluntarily submitted  | Rule 560-11-10-0.2-.08 (4)(f)<br>Rule 560-11-10-0.2-.08 (4)(d)1.(i) |
| Confidentiality Provisions of O.C.G.A. § 48-5-314  | Rule 560-11-10-0.2-.08 (4)(d)2.                                     |
| Records reconciled without significant discrepancies   | Rule 560-11-10-0.2-.08 (4)(d)1.                                     |
| Conduct an advanced desk audit   | Rule 560-11-10-0.2-.08 (4)(d)1.                                     |
| Schedule a complex on-site detailed audit  | Rule 560-11-10-0.2-.08 (4)(d)1.                                     |
| Prepare a list of preliminary audit findings and provide to property owner and/or representative   | Rule 560-11-10-0.2-.08 (4)(d)2.(i)                                  |
| Allow a meeting with property owner and/or representatives to discuss findings   | Rule 560-11-10-0.2-.08 (4)(d)2.(i)                                  |
| Prepare Final Audit Report subject to O.C.G.A. § 48-5-11   | Rule 560-11-10-0.2-.08(4)(d)2.(i)                                   |



## Audit Selection Criteria





Selecting accounts to be audited are a very important part of the verification program. Georgia law requires a review or audit to be conducted on a personal property account at least once every three years. Additional accounts can be selected to be audited based on criteria specified in the county's audit selection criteria. The primary goal of any audit is to ensure equity between individual taxpayers. In order to accomplish this goal, it is necessary that a systematic and unbiased approach be used to select which accounts are to be audited. Therefore, before an audit can be conducted an "Audit Selection Criteria" must be adopted and approved by the board of tax assessors.

**(e) Audit selection criteria.** The appraisal staff shall recommend to the board of tax assessors a review and audit selection criteria, and the appraisal staff shall follow such criteria when adopted by the board. The criteria should be designed to maximize the number of personal property returns that may be reviewed or audited with existing resources. The criteria should be fair, unbiased, and developed consistent with the requirements of Code section 48-5-299. All personal property accounts should be reviewed or audited at least once every three years.

**The following criteria may be used in order to select which accounts to be audited:**

- Consistent failure by the property owner to file a reporting form with the assessor's office
- A significant decrease in the value reported by a property owner from one year to another
- Comparison of the value reported by a business to the value reported by similar businesses (Site and Square Foot Method) may indicate the need for additional information from the property owner
- The account should be reviewed or audited every three years

On the next pages are examples of various counties Audit Selection Criteria.



### **Audit Selection Criteria #1**

The Board of Assessors, consistent with Georgia law\*, shall audit all personal property returns in Lee County over the course of a three year time period. The criteria for account selection will be fair, unbiased, random and consistent with the requirements of O.C.G.A. § 48-5-299\*\*.

The selection process will occur as follows:

- All accounts will be ranked in size according to their Fair Market Value to include seven categories -
  - Class 1 Under \$7501 (Exempt)
  - Class 2 \$7501-\$50,000
  - Class 3 \$50,001-\$250,000
  - Class 4 \$250,001-\$1,000,000
  - Class 5 \$1,000,001-\$5,000,000
  - Class 6 \$5,000,001-\$50,000,000
  - Class 7 Over \$50,000,000
- One third of each category will be audited each year of the three year program
- The first account and every third account thereafter will be selected for review until the number of audits has been performed for each year of the program.
- Class 1 accounts will be exempt for the selection criteria, but will be reviewed at least once every three years.
- All accounts that fail to file a return shall be audited each year.
- All accounts with excessive decreases will be audited as deemed necessary by the chief appraiser with approval from the board of assessors.
  - All accounts with disposals reported but not detailed will be audited as deemed necessary by the chief appraiser with approval from the board of assessors.
- The list from which selections are made shall be made available for inspection upon request.

This policy shall not be so restrictive as to prevent any account from being audited as the need should arise due to unforeseen circumstances. If additional audits outside of the scope of this policy should arise, they shall be presented to the board of assessors for approval prior to review.

*\*APM: Audit Selection Criteria [section 560-11-10.08(4)(e)] – The appraisal staff shall recommend to the board of tax assessors a review and selection criteria, and the appraisal staff shall follow such criteria when adopted by the board. The criteria should be designed to maximize the number of personal property tax returns that may be reviewed or audited with existing resources. The criteria should be fair, unbiased, and developed consistent with the requirements of Code Section 48-5-299. All personal property accounts should be reviewed or audited at least once every three years.*

*\*\*O.C.G.A. § 48-5-299(a) – It shall be the duty of the county board of tax assessors to investigate diligently and to inquire into the property owned in the county for the purpose of ascertaining what real and personal property is subject to taxation in the county and to require the proper return of the property for taxation. The board shall make such investigation as may be necessary to determine the value of any property upon which for any reason all taxes due the state or the county have not been paid in full as required by law.*





### **Audit Selection Criteria #2**

In accordance with Georgia law, O.C.G.A. § 48-5-299(a), the Board of Assessors are taxed with auditing personal property accounts.

*It shall be the duty of the county board of tax assessors to investigate diligently and to inquire into the property owned in the county for the purpose of ascertaining what real and personal property is subject to taxation in the country and to require the proper return of the property for taxation.*

In accordance with the Appraisal Procedures Manual (APM) (560-11-10.08(4)(e) "Audit selection criteria"), all personal property returns shall be audited once every three years.

*The appraisal staff shall recommend to the board of tax assessors a review and audit selection criteria, and the appraisal shall follow such criteria when adopted by the board. The criteria should be designed to maximize the number of personal property returns that may be reviewed or audited with existing resources. The criteria should be fair, unbiased, and developed consistent with the requirements of Code section 48-5-299. All personal property accounts should be reviewed or audited at least once every three years.*

As such the Fannin County Board of Assessors has adopted the following audit selection criteria for Commercial and Industrial accounts:

1. Business personal property accounts-Commercial
  - a. Accounts with a current value of \$1 up to \$99,999
  - b. Accounts with a current value of \$100,000 up to \$999,999
  - c. Accounts with a current value of \$1,000,000 and over
2. Business personal property accounts-Industrial
  - a. Accounts with a current value of \$1 up to \$99,999
  - b. Accounts with a current value of \$100,000 up to \$999,999
  - c. Accounts with a current value of \$1,000,000 and over

The Fannin County Board of Assessors has adopted the following audit and review criteria for Residential accounts:

1. Aircraft and Marine personal property accounts-Residential
  - a. Accounts with a current value of under \$7501
  - b. Accounts with a current value of \$7501 up to 49,999
  - c. Accounts with a current value of \$50,000 and over

A. All Residential accounts under an audit shall be reviewed to ascertain if the aircraft or boat is still registered with the proper authorities, domiciled in Fannin County, and has a current value.



B. Every three years each subgroup in Commercial, Industrial, and Residential accounts starting with the first account and then the following fourth account continuing with every third account will be chosen for the first year. The second year will start with the second account in each subgroup and the following fifth account with every third account will be chosen. The third year shall start with the third account then the following sixth account and every third account thereafter.

C. If an account has failed to file a return, failed to file a current asset listing with the return, has excessive decreases, or any inaccuracies shall be audited each year. This policy shall not be so restrictive as to prevent any account from being audited as the needs should arise due to unforeseen circumstances. If additional audits of the scope of this policy should arise, they shall be presented to the Board of Assessors for approval prior to review.

D. The most current Audit Selection list shall be available upon request.



### **Audit Selection Criteria #3**

#### **PERSONAL PROPERTY PROCEDURES/ AUDIT SELECTION CRITERIA**

The Board of Assessors, consistent with Georgia Law, shall audit all personal property accounts in Gilmer County over the course of a three year time period. The criteria for account selection will be fair, unbiased, random and consistent with \*O.C.G.A. 48-5-299.

Audit selection criteria:

Accounts will be sorted according to their NAICS Code (North American Industry Classification System). Accounts will be chosen starting from the top of this list and each year the list will start from the last account audited the previous year until all accounts, including boats and airplanes are audited over a three year period. In addition, accounts may be selected at any time for any of the following, regardless of the three year cycle:

- 1) No return has been filed in two years or more
- 2) The return listed disposals but did not include a disposal list
- 3) Two returns were filed for the same account and the values do not match
- 4) A retail business declaring \$0 for inventory
- 5) A retail business declaring \$0 for machinery, equipment, furniture & fixtures
- 6) Aircraft or boats declared to be inoperable
- 7) Accounts with inventory values that increased or decreased more than 20% in one year
- 8) New accounts
- 9) Boats and aircraft where a value was returned and no other information was given
- 10) Late returns
- 11) Businesses that reported being closed
- 12) Accounts discovered from sources other than the owner filing a return
- 13) Accounts returning a value without a depreciation schedule

This policy shall not be so restrictive as to prevent any account from being audited as needed.

\*O.C.G.A. 48-5-299(a) It shall be the duty of the county board of tax assessors to investigate diligently and to inquire into the property owned in the county for the purpose of ascertaining what real and personal property is subject to taxation in the county and to require the proper return of the property for taxation. The board shall make such investigation as may be necessary to determine the value of any property upon which for any reason all taxes due the state or the county have not been paid in full as required by law.



## Review





As stated in Rule 560-11-10-0.2-.08 (c), the purpose of a review is to determine if a property owner has correctly and fully completed their return and reporting schedules. It is the simplest form of the verification program. It is based upon the good-faith disclosure of the property owner and information that is readily ascertainable by the appraisal staff. During a review, the personal property appraiser should carefully examine the return for accuracy. The examination should include a comparison of the current statement with the prior year's statements. This comparison will show changes in the reporting of fixed assets. The changes should be analyzed to determine if they are reasonable and if a review should be escalated to an audit.

## SCENARIOS

If current acquisitions are sizable and are identified as replacements for older property, then the reductions in earlier years may be reasonable. On the other hand, if the current acquisitions of fixed assets are small and prior year's assets are reduced, this may not be deemed reasonable.

A comparison should also be made between the current personal property return and prior formal book audit. As in the comparison of the statements, any discrepancies should be analyzed to determine if reasonable.

A third comparison between the current statement and field canvas notes should be made. A field canvas should be made as close to tax day as possible. During the canvas, the appraiser must observe and record important details regarding the fixed assets.

**(c) Review.** The purpose of a review is to determine if a property owner has correctly and fully completed their return and reporting schedules. It is based upon the good-faith disclosures of the property owner and information that is readily ascertainable by the appraisal staff. The review of an owner's return may consist of, but is not limited to, an analysis of any improper omissions or inclusions, improperly applied or omitted depreciation, and improperly applied or omitted inflation or deflation of the value of the owner's property. The examination should include a comparison of the current return information with return information from prior years. The appraiser should contact the owner or their agent by an on-site visit, telephone call, or written correspondence to attempt to resolve any questionable items. Returns with unresolved discrepancies, unexpected values, or incomplete information should be escalated to an audit.



After reviewing the return and the appraiser determines that the return is incomplete, the appraiser should contact the owner or tax representative to resolve any discrepancies.

1. One of the quickest and inexpensive ways to resolve a discrepancy is a telephone call or desk audit to correct clerical errors, identify omitted or unlisted property, or question reductions in value from prior year's listing.
2. Letters are also a cost-effective way to resolve return discrepancies. Form letters and/or individual correspondences can be utilized to obtain or question information on the taxpayer's return.
3. On-site visits may be necessary to verify if an asset has been disposed of or is being utilized as back up equipment or to inspect a piece of equipment the taxpayer is requesting functional or economic obsolescence.

***Example:*** An appraiser is reviewing Company B's property return comparing the current statement with the prior year's statement. The appraiser notices the company has acquired a sizable amount of machinery and equipment in the digest year under review and has disposed of similar older machinery and equipment before the date of valuation. These changes may be considered reasonable. On the other hand, the company disposes of an asset that is primary to its operations and does not replace it. This may not be deemed reasonable and the appraiser should contact the company to determine why similar property was not acquired.



| County Tax Assessors Office<br>Personal Property Department<br>Desk Review Program  |        |          |
|---|--------|----------|
| <b>Taxpayer Name:</b>   |        |          |
| <b>Account Number:</b>  |        |          |
| <b>Tax Year:</b>  |        |          |
| <b>Appraiser Name:</b>  |        |          |
| <b>Desk Review Date:</b>  |        |          |
| Desk Review Questions   | Yes/No | Comments |
| Is the general information complete?  |        |          |
| Is a fixed asset listing or depreciation schedule provided?   |        |          |
| If no to question 2, is the fixed asset listing or depreciation schedule requested?   |        |          |
| Are fixed assets grouped correctly?   |        |          |
| If no to question 4, are the correct grouping changes made?   |        |          |
| After reviewing and correcting Schedule A, did the value increase or decrease?  |        |          |
| If any corrections or changes, including valuation increases or decreases or equalizations in question 6, is an amended NOA sent to taxpayer? |        |          |
| List the previous value and the corrected value.  | \$     |          |
|   | \$     |          |
| Is the required disposal information provided?  |        |          |
| Is Schedule B (inventory) information provided?   |        |          |
| If the company is a corporation or partnership, is the 1120, 1120S or 1065 Schedules A & L provided?  |        |          |
| If no to question 11, are the Schedules A & L requested?  |        |          |
| Is the supplies value provided or assessed?   |        |          |
| Is schedule C applicable to taxpayer?   |        |          |
| Verified Schedule C calculations & support?   |        |          |
| Are cosigned goods applicable to taxpayer?  |        |          |
| Is yes to question 16, is a PT50P mailed to legal owner?  |        |          |
| Is leased or rented equipment applicable to taxpayer?   |        |          |
| If yes to question 18, is a PT50P mailed to leasing company?  |        |          |



## Audit

**AUDIT**





Once again, any discrepancies that cannot be resolved by the previously discussed methods should be escalated to an audit.

**(d) Audits.** The purpose of an audit is to gather information that will allow the appraiser to make an accurate determination of the fair market value of the property owned by the property owner and subject to taxation. An audit is an examination of the records of the property owner to make an independent determination of the fair market value of such property where such determination does not solely depend upon the good-faith disclosures of the property owner and information that is readily ascertainable by the appraisal staff. The appraisal staff shall perform, consistent with Georgia Law and policies that are established by the board of tax assessors, audits of the records of the property owners to verify the returns of personal property. These audits may take place at any time within the seven-year statute of limitations, which begins on the date the personal property was required by law to be returned.

Rule 560-11-10-0.2-.08 (d) states the purpose of an audit is to gather information that will allow the appraiser to make an accurate determination of the fair market value of the property owned by the property owner and subject to taxation. It is the most complex form of the verification program. It is an examination of the records of the property owner to make an independent determination of the fair market value of such property where such determination does not solely depend upon the good-faith disclosures of the property owner and information that is readily ascertainable by the appraisal staff. The examination should audit the records of the property owners to verify the returns of personal property.

According to O.C.G.A. § 48-5-300.1, (a) the amount of any tax imposed by this chapter may be assessed at any time, (b) in the case where a return or report is filed or deemed to be filed for personal property, the amount of any tax imposed by this chapter shall be assessed within three years from the date the original tax bill was paid, unless such personal property in question is the subject of an audit by the board of tax assessors.

After the accounts have been selected for an audit, any officials that may be involved should be notified. Even though the board of assessors approved the ASC, a list of accounts selected should be presented to the board. It's the board of assessor's responsibility to delegate the appraisal staff the authority to investigate the records of the taxpayer in order to discover if there is any property that is not on the digest. **The board of tax assessors must make all decisions that relate to taxability and value.**



If not, your chairperson could possibly be involved in a deposition similar to Fulton County Board of Assessors v. Saks Fifth Ave case.

**Excerpt from Fulton County Board of Assessors Chairperson deposition in Fulton County Bd. of Assessors v. Saks Fifth Ave., 248 Ga. App. 836**

**Chief Judge Blackburn:**

This court is troubled by the manner in which the Board and Mendola are conducting taxpayer audits. The record reflects that Mendola has contracts with 26 Georgia taxing authorities, plus other governmental entities, and conducts approximately 3,000 audits per year for taxing authorities performed by 25 employees. It is clear from the record in this case that the Board maintains no supervision over Mendola in the performance of its audits or in the handling of taxpayer's documents. Mendola maintains Board stationery and subpoenas of the Board and of 31 other Georgia counties. The chairperson of the Fulton County Board of Assessors was not even aware that Mendola was conducting audits for the Board until he showed up at a Board meeting a few months before her deposition. In her deposition, the chairperson testified as follows:

**Q. By appellee's attorney, what is your understanding of what Mendola is supposed to do?**

A. I don't really know. I haven't read the contract.

**Q. As chairperson, do you not have a general understanding of what --.**

A. I did not sign the contract. I was not a party to that contract. I was not involved with procuring those services. I'm not familiar with the scope of services.

Deposition of Chairperson Pamela Smith, p. 13, lines 10-19.

**Q. Based on your testimony, I am going to assume that you don't have any idea of what Mr. Mendola actually does when he does an audit for the County.**

A. No, I don't.

**Q. Do you know if the Fulton County Board of Tax Assessors has actually given him its letterhead to write letters on?**

A. I don't know that for sure.

**Q. Do you know if when he does an audit for the Board, if he's the taxpayer's primary contact with the Board?**

A. I don't know.

*Deposition of Chairperson Smith, p. 17, lines 17-25, and p. 18, lines 1-3.*

**Q. Do you know what kind of supervision the Board maintains over Mr. Mendola when he's doing an audit?**

A. No.

**Q. Do you know if it maintains any supervision over Mr. Mendola when he does an Audit? . . .**



A. No, I don't know.

*Deposition of Chairperson Pamela Smith, p. 18, lines 19-25, and p. 19, lines 1-2.*

The chairperson testified that she had not seen a single report that had been prepared by Mendola.

The chairperson was unaware of any safeguards the Board takes to protect the confidentiality of taxpayer records. She testified as follows:

**Q. Do you know if the Board of Tax Assessors takes any steps to preserve the confidentiality of any records a taxpayer produces?**

A. I don't know.

**Q. You don't know of any policies that the Board has in place?**

A. I'm not aware, huh-uh.

**Q. So you don't know if the Board prohibits an outside auditor from making copies, from distributing them to other people? You just don't have any idea?**

A. I have no idea.

*Deposition of Chairperson Smith, p. 30, lines 2-12.*

The Board acknowledges that it has no control over what Mendola does with the taxpayer's documents it receives. Documents and subpoenas prepared by Mendola are perfunctorily signed by the chairperson without meaningful inquiry. She testified:

**Q. Did you ask any questions when they presented the subpoena to you about what it was for?**

A. Uh-huh.

**Q. What did you ask?**

A. What was it for?

**Q. What did they tell you?**

A. Subpoena for the production of evidence.

**Q. Did you ask why it was necessary?**

A. No.

**Q. Did you ask what documents they wanted?**

A. No.

**Q. Did you ask if the taxpayer made any objection to producing the stuff? . . .**

A. No.

**Q. Were you told that?**

A. No.

*Deposition of Chairperson Smith, p. 20, line 25, and p. 21, lines 1-17.*



## Audit List for BTA Approval

County Board of Tax Assessors  
Personal Property Division  
Explanation for Assignment of In House Audits  
For Audits Assigned (Month Year)  
Recommendations to Board of Tax Assessors (Month Date, Year)

|    | TAXPAYER NAME | ACCOUNT # | TAX YEARS | 2015 FMV | EXPLANATION | SELECTION CRITERIA | PRIOR YR AUDITS | TYPE OF BUSINESS |
|----|---------------|-----------|-----------|----------|-------------|--------------------|-----------------|------------------|
| 1  |               |           |           |          |             |                    |                 |                  |
| 2  |               |           |           |          |             |                    |                 |                  |
| 3  |               |           |           |          |             |                    |                 |                  |
| 4  |               |           |           |          |             |                    |                 |                  |
| 5  |               |           |           |          |             |                    |                 |                  |
| 6  |               |           |           |          |             |                    |                 |                  |
| 7  |               |           |           |          |             |                    |                 |                  |
| 8  |               |           |           |          |             |                    |                 |                  |
| 9  |               |           |           |          |             |                    |                 |                  |
| 10 |               |           |           |          |             |                    |                 |                  |
| 11 |               |           |           |          |             |                    |                 |                  |
| 12 |               |           |           |          |             |                    |                 |                  |
| 13 |               |           |           |          |             |                    |                 |                  |
| 14 |               |           |           |          |             |                    |                 |                  |
| 15 |               |           |           |          |             |                    |                 |                  |
| 16 |               |           |           |          |             |                    |                 |                  |
| 17 |               |           |           |          |             |                    |                 |                  |
| 18 |               |           |           |          |             |                    |                 |                  |
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| 35 |               |           |           |          |             |                    |                 |                  |
| 36 |               |           |           |          |             |                    |                 |                  |
| 37 |               |           |           |          |             |                    |                 |                  |
| 38 |               |           |           |          |             |                    |                 |                  |

Name \_\_\_\_\_ Date \_\_\_\_\_

Name \_\_\_\_\_ Date \_\_\_\_\_



Next, the board of commissioners should be notified. The board of commissioners have no authority over the appraisal staff but the group does control the county funds that must be made available for the verification program to occur. It may be necessary for funding to be increased and/or disbursements made in order for the appraiser to carry out the intended program.



Another party that should be contacted is the county tax commissioner. The county tax commissioner is responsible for collection of any monies that are owed the county as a result of the verification program.



Finally, the county attorney should be included in the discussion from the beginning since there's a possibility that some legal action may result from any attempts by you to obtain information, estimate value, or from the county trying to collect monies it is legally entitled.



## **Notify Property Owner**





After the account has been selected for an audit, notification must be provided to the owner.

**(i) Notice to property owner.** The lead appraiser shall ensure the property owner is sent a notice they have been selected for an audit of their personal property holdings for ad valorem tax purposes. The notice shall, at a minimum, indicate the following: the purposes and goals of the audit and the law authorizing the audit; the name of the lead appraiser who is primarily responsible for the conduct of the audit; the names of the members of the audit team that will be performing the audit; the number of years that will be audited; a description of the type records that should be made available; a description of how the audit will be conducted; the range of dates desired for the audit; and contact information should the property owner wish to contact the lead appraiser. The notice shall contain a statement that the lead appraiser will be contacting the property owner by telephone to establish the date and time of the audit and to determine the availability and location of records. At the conclusion of the audit, if there is sufficient evidence to warrant a recommended change of assessment, the lead appraiser shall have prepared a list of preliminary audit findings and provide such list to the property owner to afford them an opportunity to meet and discuss the findings and view any supporting schedules and documents relied upon by the individuals conducting the audit. After any such meeting requested by the property owner, the lead appraiser shall have prepared the final audit report and proposed assessment and provide a copy to the property owner and the board of tax assessors.

The notice shall indicate the following:

- the purposes and goals of the audit and the law authorizing the audit;
- the name of the lead appraiser who is primarily responsible for the conduct of the audit;
- the names of the members of the audit team that will be performing the audit;
- the number of years that will be audited;
- a description of the type records that should be made available;
- a description of how the audit will be conducted;
- the range of dates desired for the audit;
- contact information should the property owner wish to contact the lead appraiser.
- The notice shall contain a statement that the lead appraiser will be contacting the property owner by telephone to establish the date and time of the audit and to determine the availability and location of records



## Notification Letter Sample

«Date»

### Audit Notice to Property Owner

«Title» «First\_Name» «Last\_Name»  
«Company\_Name»  
«Address\_Line\_1»  
«Address\_Line\_2»  
«City», «State» «ZIP\_Code»

Dear «Title» «Last\_Name»:

This letter is to inform you that the County Business Personal Property Tax Returns for «Company\_Name» («Account\_») have been selected for audit by the County Board of Tax Assessors for the year(s) «Years\_To\_Be\_Audited» in accordance with O.C.G.A. 48-5-299.

The purpose of this audit is to gather information that will allow County to make an accurate determination of the fair market value of the property owned by «Company\_Name» and subject to taxation. This desk audit will consist of an examination of your records in order to make an independent determination of the fair market value of such property where such determination does not solely depend upon good-faith disclosures and information that is readily ascertainable by the appraisal staff. The County Board of Tax Assessors requests your prompt compliance in providing the requested information so that the audit can be brought to a timely conclusion.

The audit will include reconciliation between the cost listed on the personal property tax return and the cost identified in the financial records of the business. The audit may also include a review of the applicable items listed on the Attachment I enclosed with this letter. Please provide the applicable financial records to our office as soon as possible. Electronic documents may be submitted. When providing electronic documents, we request that the Fixed Asset listing be in an Excel format when possible. In addition, a physical inspection of your County operations may be required.

The County Board of Tax Assessors has designated the undersigned as the Lead Appraiser for this audit. Please forward your initial electronic documents and/or communication to Jane Doe, our County Personal Property Auditor at XXX-XXX-XXXX. She will be your main point of contact during the audit process. We will expedite all efforts to ensure that the audit is completed promptly and with as little interruption to your business as possible.

Thank you in advance for your cooperation. Please do not hesitate to contact this office if you have any questions about this program.

Sincerely,

Personal Property Division Manager

Attachment





**Notification Letter Attachment Sample**

**Attachment I**

**Records Request for  
Personal Property Tax Return Reviews**

*Please note that the Business Personal Property Tax Return is based on records as of December 31 of the previous year. EXAMPLE: A 2014 return utilizes account balances as of December 31, 2013.*

*If records are based on a fiscal year end other than December 31 items **1b**, **1c** and **1d** below may be represented as of the company's fiscal year end. Items **1f** and **1g** should reflect account balances as of December 31 for each year under audit.*

1. **Copies** of the following documents as of December 31, 2013, 2012, 2011 and 2010, if applicable:
  - a. Chart of accounts
  - b. Fixed asset listing for each year, including each years book depreciation expense (Book Depreciation Schedule)
  - c. Financial statements (Detailed Balance Sheet, Detailed Income Statement with footnotes)
  - d. Lease agreements in effect for all personal property and the physical location
  - e. Detailed Trial Balance which reflects the ending account balances for the audit location.
  - f. Listing of any consigned inventory or any other inventory stored and owned by someone other than the company
  - g. Summary listing of costed inventory as of December 31, 2013, 2012, 2011 and 2010.
2. At your option and for your convenience, you may submit copies of the documents listed below from your federal and state income tax returns. Since these documents summarize information we will definitely need, they will expedite our review of your records and may minimize the accounting records you would otherwise have to produce. Submitting income tax returns is voluntary on your part, however, as Georgia Law does not permit the Board of Assessors to compel the submission of such returns. Your decision not to submit such returns will not jeopardize your entitlement to a fair audit.
  - a. Copy of your Georgia Corporate Income Tax Return (Form 600) with supporting schedules for the Apportionment Schedule contained on page 2 for the year(s) 2013, 2012, 2011 and 2010.
  - b. Complete copy of your Corporate Federal Income Tax Returns including Depreciation Schedules and Attachments for the year(s) 2013, 2012, 2011 and 2010.



## **PRE-AUDIT PREPARATION**

The personal property appraiser should review all information in their possession applicable to the audit to become familiar with the nature of the taxpayer's business and industry. As mentioned in Chapter 2 "Understanding the Business or Industry," the personal property appraiser should visualize the necessary and expected personal property assets to be found in the business. The appraiser's review should include, but not limited to, the following documents:

1. Personal Property Return and Schedules
2. Review of prior audit (if any)
3. Property Record Card
4. Applicable Code Sections and Rules & Regulations
5. Identification of suspected problems needing attention
6. Lessor files for lease, cost, and assessment information if the subject company leases equipment
7. Review of associated businesses
8. Review of similar businesses
9. Review of prior owner's personal property return, if business has undergone a change in ownership recently
10. Review of assessment appeal files that identifies past and current issues regarding appraisal and assessment of property

Reviewing the above documents will give the appraiser a preview of the audit ahead and will promote a smoother audit. Also, potential problems will be clearly evident allowing the appraiser to discuss these potential problems during the appointment. Reviewing the documentation in advance will also help determine what specific records may be needed for pre-identified problems.

## **MEETING WITH PROPERTY OWNER**

The personal property appraiser should schedule a meeting with property owner and/or representative to explain the audit process. Three tasks need to be accomplished during the audit appointment: 1) collect general information regarding the company, 2) review records pertaining to the valuation of property, and 3) perform a site tour of the facility and equipment.

## **COLLECT GENERAL INFORMATION REGARDING COMPANY**

A short initial interview with the property owner or representative at the beginning of the appointment can help familiarize the appraiser with the books and records. The preliminary review checklist can assist in determining relevant questions that should be asked at interview.



| COUNTY TAX ASSESSORS OFFICE<br>Preliminary Review Checklist<br>2/28/2017   |             |
|--|-------------|
|  | Verified by |
| 1 Ownership type – sole proprietor, partnership, corporation, or other   |             |
| 2 Explanation of records provided – year-ending, organization of records, etc.   |             |
| 3 Control – verification if there has been a change in control during the audit period   |             |
| 4 Type of accounting system – (Accrual Basis v. Cash Basis)  |             |
| <b>Accrual Basis</b><br>The accrual system of accounting gives recognition to income items during the fiscal period in which they were earned although the cash may not have been received. Expenses are recorded when incurred even though the actual payment has not been made. The accrual system theoretically provides for the timely recording of accounting data by the assessee and is generally acceptable for purposes of audit. However, late postings are common. Actual posting practices should be verified.   |             |
| <b>Cash Basis</b><br>The cash basis of accounting gives recognition to income and expense only when actually received or paid. When a cash basis system is encountered, the auditor-appraiser may need to make adjustments to the accounting data for assessment purposes. For example, the assessee may only be capitalizing cash payments actually made instead of the total purchase price.   |             |
| 5 Capitalization policy: What is the capitalization policy (including lease buy-outs)? When are capitalized assets recorded? (Important in determining if all assets are booked on lien date.) What is the minimum value for capitalizing assets? How are cost components treated: sales/use tax, installation charges, freight, trade-in allowance, repairs, etc.?  |             |
| 6 Construction in progress: How is construction in progress treated in the accounting records? Is it reported? What is included? Are expenditures posted when incurred, when invoiced (frequently contractors do not send a bill until weeks or months after some of the work has been completed), or when paid (even "accrual basis" companies sometimes use cash basis for construction in progress). Is overhead recorded? Is construction interest recorded? How are change orders recorded?   |             |
| 7 Policy of writing off assets: How are fully depreciated assets treated? Are they listed on the depreciation schedule and on the books? How are scrapped or sold assets treated? How often are they taken off the books and the depreciation schedule? How often is a physical inventory of fixed assets conducted?<br>Note: An assessee's policy and procedure for recording disposals aids an auditor in determining how accurately an asset listing represents the assets owned and possessed by the assessee. However, it is significant to note that the process of retirement and disposal is generally not as rigid as the purchase. There may be assets on the books that have been disposed of. It may be necessary to request supporting documentation from the assessee if this is a contention. |             |
| 8 Situs: Where are assets located? Are all the assets located at one location? Are all the assets in the county? Are all the assets in the state?  |             |
| 9 Recording trade-in allowances: How are trade-in allowances treated on the books and on the depreciation schedule?  |             |
| 10 Internal control – A company's system of internal control, including EDP (electronic data processing) data entry and retrieval and software controls, is vital evidence in support of the recorded transactions and financial statements. Basic characteristics of sound internal control include: appropriate segregation of responsibilities, reasonable accounting control over assets, liabilities, revenues, and expenses, and sound practices followed by quality personnel in the performance of duties and functions in each department.  |             |



## REVIEW RECORDS

Once the records are gathered, the appraiser must identify all data pertinent to the audit in order to verify full acquisition cost on January 1. These records consist of the company's financial statements and documentation.

### Machinery & Equipment Verification

The primary concern is the full acquisition cost, acquisition year and economic life group is accurately reported. This information can be found in the 1) general ledger of fixed asset accounts or subsidiary ledgers and 2) on depreciation schedules or fixed asset listings.

The general ledger of fixed asset accounts or subsidiary ledgers and depreciation schedules or fixed asset listings should be reconciled. This reconciliation can aid in compiling a complete and accurate asset list, cost summary, or a complete listing of revenue and expenses, as needed, that can be used as a basis for the audit. An example of reconciliation is listed below:

| <b>RECONCILIATION OF SOURCES<br/>DEPRECIATION SCHEDULE AND GENERAL LEDGER ACCOUNT</b> |             |
|---|-------------|
| Total Depreciable Asset Cost Per Depreciation Schedule (FYE 2002)                     | \$ 125,000  |
| Machinery & Equipment Asset Account #XX1 Per General Ledger (FYE 2002)                | (100,000)   |
| Difference Depreciation Schedule – General Ledger                                     | \$ 25,000   |
| Less: Non-assessable Licensed Vehicles (included in General Ledger Account #XX2)      | ( 15,000)   |
| Goodwill (included in General Ledger Account #XX3)                                    | ( 5,000)    |
| Disposals Unrecorded on Depreciation Schedule   | ( 5,000)    |
| Difference Depreciation Schedule – General Ledger                                     | <u>\$ 0</u> |

When both cost totals (cost per depreciation schedule and cost per general ledger asset accounts) are reconcilable, as in the example above, the appraiser can use the depreciation schedule (which contains specific equipment information) as a basis for the audited cost and make adjustments as necessary.

When the costs totals are not reconcilable, the appraiser should make an effort to determine why there is a difference before using audited cost as a basis for the cost approach or before utilizing another method of appraisal (i.e. comparative sales method or income approach). For instance, in the example three adjustments were made to the cost per books. If any one of those had not been identified (non-assessable licensed vehicles, goodwill, or unrecorded disposals), a difference



would have resulted. An appraiser would then need to (or attempt to) determine what adjustment was missed.

### **SAMPLING TO CONFIRM ACCURACY**

An appraiser can also use the compiled asset or cost listing (or revenue and expense summary) to select source documents to sample and compare to the booked cost. This may include such items as purchase invoices, transportation invoices, and receiving reports. This sampling serves two purposes. First, it enables the appraiser to verify correctness of acquisition dates as recorded on the asset listing or accounting records. Second, it enables an appraiser to verify the property's full acquisition cost is equal to the cost reported on the asset listing or accounting records. The recorded cost may not include all cost components necessary to use the cost approach. The cost components (sales tax, freight, trade-in allowances, etc.) should be verified to include all cost items necessary to put the equipment to use.

### **EXPENSED ITEMS**

After reviewing the source documents selected for sampling and determining accurate cost, acquisition date and economic life group, an appraiser should determine if any other machinery and equipment or other personal property and fixtures exist (including self-constructed assets) that are not on the depreciation schedule or in the fixed asset accounts. Small, short-lived equipment is an example of equipment which may not be included here (i.e. on the depreciation schedule, in the general ledger asset accounts) since this equipment may not be capitalized. Equipment such as hand tools are commonly expensed rather than capitalized, depending upon the property owner's capitalization policy. Leased equipment may not be physically identifiable in most cases, but can be located by reviewing accounting records. Payments for these leases may not be noted in Notes Payable and/or Expensed Accounts and can be easily missed.

### **ECONOMIC LIFE GROUPS**

The appraiser shall also verify that the property was grouped correctly when reported by the property owner. For example, were signs are erroneously reported in group 4 and therefore incorrectly valued. Grouping is important, since value relies upon it.

Personal property should not necessarily be classified based solely on the economic life group reported on the asset listing or personal property return. The appraiser shall use Table B-1 and Table B-2 of Publication 946 of the U.S. Treasury Department Internal Revenue Service, as revised in 1998, to classify individual asset into the appropriate economic life group. For property that does not appear in the publication, the appraiser may determine the appropriate economic life group based on the best information available, including, but not limited to, the property owner's history of purchases and disposals.



## **IMPROVEMENTS VERIFICATION**

Verification of improvement and building accounts is similar to verification of machinery and equipment. As with machinery and equipment, the auditor must make sure that reported costs, acquisition dates, and groupings are accurate. Improvements are frequently included with machinery and equipment on the depreciation schedule, but will generally be separated in the general ledger accounts.

When it is determined that information gathered regarding improvements is accurate and that proper classifications have been made, the auditor should also verify that (1) improvements were not also assessed with the real property assessment, and (2) all improvements were assessed (i.e., no escapes). This usually involves coordination with a real property appraiser and/or review of the real property appraisal record.

## **SUPPLIES VERIFICATION**

The audit of supplies consists primarily of ensuring that supplies on hand on January 1 have been properly reported by the property owner. "Properly reported" means that (1) exempt inventory items were excluded, and (2) all assessable supply items were included.

Where the property owner maintains a supply inventory account in the general ledger, the appraiser must verify that the account is properly maintained and contains all purchases received prior to January 1. A review of inventory accounts for supply items is often warranted also, as some items booked as inventory may be assessable supply items. Where supplies are expensed, the appraiser must review the supply expense accounts over the prior year. Based on this review, discussions with the appraiser regarding the amount of supplies on hand and observation during the facility tour, an appraiser should be able to effectively estimate a lien date supply amount.

## **CONSTRUCTION IN PROGRESS VERIFICATION**

The verification of construction in progress (CIP) involves matching expenditures to the existence of physical property as well as properly grouping that property. Where progress payments are being made, the property owner's books may reflect a considerable amount of expenditures in the construction in progress account. However, the property owner may not yet have possession of the property, or the property may not have existed on January 1 or, as mentioned earlier, the property may have been received or constructed well before the expenditures were posted. Existence and ownership of the items on January 1 are required elements for proper assessment. For example, if construction has not started as of January 1, no value is assessable, assuming any material on hand belongs to the contractor and is classified as business inventory. If construction has started, an assessment of CIP is appropriate. Coordination between the personal property appraiser and the real property appraiser is necessary to avoid duplicate assessments and escape assessments.



## **LEASED EQUIPMENT VERIFICATION AND IDENTIFICATION**

Errors in reporting and assessing leased equipment frequently occur. Thus, an audit should include testing for leased equipment.

By reviewing the various records and accounts maintained by the property owner, an appraiser can discover, identify, and verify all leases or security arrangements. The principal sources of obtaining information for leased equipment are:

1. General Ledger – Accounts (such as lease and rental expense, accounts payable, and notes payable) in the general ledger will indicate whether the property owner was making lease or rental payments on January 1.
2. Cash Disbursements Journal – This record will indicate the amounts and payees of lease and rental payments.
3. Lease Contracts – The monthly lease payment indicated on the lease contract should be compared to the amounts shown in the expense accounts. This will verify that all leases are accounted for and what costs are included in the lease payment/cost.
4. Financial Statements – The financial statements may indicate not only the existence of leases but may also give important information associated with such leases. The footnotes give a summary of the rental and lease commitments regarding operating leases (short-term or cancelable leases, which the risks of ownership lie with the lessor, FASB 13). The balance sheet gives information regarding leases similar to that found in the general ledger accounts.
5. Other Sources – Discussions with the property owner and/or physical inspection of the premises may indicate the existence of leased equipment.

## **INSPECTION OF PROPERTY**

At some point during an audit, the appraiser should take a tour of the premises to physically inspect the property being appraised. This is an important part of the audit process. A tour and inspection of the property being audited (appraised) contributes to the audit in the following ways: (1) confirms the existence and the location of the property, (2) confirms the correct grouping of the property, (3) verifies the condition of the property, (4) verifies that all property is recorded in the books and/or reported on the property statement, (5) verifies that all property on the books actually exists at the location, and (6) verifies that valuation of the property as a whole is reasonable and accurate.

It is not necessary for the appraiser to specifically identify each and every piece of equipment. It is; however, important to compare and reconcile a sample of the assets compiled based on review of the records against actual existing assets viewed during the tour and vice versa. This





sample should be large enough to reasonably conclude the accuracy and completeness of the records being used as a basis for the assessable value.

| COUNTY TAX ASSESSORS OFFICE<br>Site Visit Checklist<br>2/16/2016  |            |           |
|---|------------|-----------|
| <b>EQUIPMENT</b>  | <b>Yes</b> | <b>No</b> |
| A. Is equipment primarily purchased new?<br>(Verify that full costs have been capitalized: cost, sales tax, freight and installation. Sample invoices to verify both cost and cut-off.)   |            |           |
| B. Have any equipment acquisitions involved a trade-in of existing equipment?   |            |           |
| C. Is fully depreciated equipment still on the books?<br>Is it reported?  |            |           |
| D. Are disposed/scrapped assets written off the books?  |            |           |
| E. Has previously leased equipment which is now purchased been capitalized at the full original invoice cost and acquisition date?  |            |           |
| F. Does the company manufacture and use their own equipment?<br>If yes, are all costs capitalized?<br>(Equipment depreciation or capitalized interest if project extends beyond one year, labor, overhead, sales tax on materials)<br>If yes, verify/establish trade level. |            |           |
| G. Is there a vehicle account which includes non-licensed vehicles (for vehicles not covered by an annual license fee ("se" license))   |            |           |
| H. Do any officers, employees, or any related companies lease, an lease, or loan equipment to this company?<br>If so, please go to LEASE section below.   |            |           |
| I. Does this company have idle equipment on its premises?<br>If yes, how is it accounted for in the general ledger?   |            |           |
| J. Are any computers linked to the production line?   |            |           |
| K. Do you have any EDT equipment onsite? How is it recorded?<br>Inquire if they differentiate between POS and EDT.  |            |           |
| L. Security equipment-sensors, cameras, video   |            |           |
| M. Do you own any construction equipment-forklifts?   |            |           |
|   |            |           |
|   |            |           |
| <b>EQUIPMENT OUT ON LEASE OR RENT TO OTHERS</b>   | <b>Yes</b> | <b>No</b> |
| A. Does this company lease or rent equipment to others?<br>If so: Type of equipment? _____<br>Standard lease/rental period? _____<br>Reported at property trade level? _____<br>Costs includes: [ ] Sales Tax [ ] Freight [ ] Installation                                  |            |           |
| B. Is the leased equipment reported to all Georgia counties?  |            |           |
| C. Do they lease equipment to "related" entities at a lower value than those unrelated? _____   |            |           |
| D. Do they lease equipment originally purchased from a parent or subsidiary company in which they receive a discounted purchase price?  |            |           |
| E. Were lease contract agreements reviewed?   |            |           |





| BUILDING, LAND, AND LEASEHOLD IMPROVEMENTS   | Yes | No |
|--|-----|----|
| A. Was the appraisal record reviewed while on a situs review?  |     |    |
| B. Was a detailed schedule of these items obtained?  |     |    |
| C. Were trade fixtures identified?   |     |    |
| D. Was a determination made whether expensed items should have been capitalized as real property additions or trade fixtures?    |     |    |
| E. Was it noted whether capitalized items were repairs and/or new additions?   |     |    |
| F. Have items been posted to the real estate account since the last appraisal?   |     |    |
| G. Do leasehold improvement items left from the previous tenant affect the appraisal?  |     |    |
| H. Are any fixtures included in the real property appraisal?   |     |    |
| I. Have any leased trade fixtures been reflected on the books as purchased after the lease terminated?                           |     |    |
| J. If the property is tenant-occupied, do there appear to be trade fixtures which should be reported by the real property owner? |     |    |
| CONSTRUCTION-IN-PROGRESS   | Yes | No |
| A. Do the books reflect CIP on any of the lien dates?  |     |    |
| B. If there was CIP, are the payables accrued properly for the lien cut off?   |     |    |
| C. Are there periodic progress billings from the contractor?   |     |    |
| D. Were any invoice reviewed which were paid after lien date?  |     |    |
| E. Was the contract reviewed for the new addition(s)?  |     |    |
| What does the CIP represent? <input type="checkbox"/> Real Property  |     |    |
| <input type="checkbox"/> Fixtures/Equipment  |     |    |
| F. Is CIP self-constructed?  |     |    |
| If so, are all costs properly capitalized?   |     |    |
| (Equipment depreciation or capitalized interest if project extends beyond one year, labor, overhead, sales tax on material)      |     |    |
| LEASED PROPERTY  | Yes | No |
| A. Does the company have on its premises property belonging to others?   |     |    |
| B. Did they indicate property belonging to others on their business property statement?  |     |    |
| C. Has that property been assessed?  |     |    |
| If so, complete the following:   |     |    |
| Assessee: _____  |     |    |
| Parcel # _____   |     |    |
| If not assessed, please provide the following:   |     |    |
| Name: _____  |     |    |
| Mailing: _____   |     |    |
| Situs: _____   |     |    |
| INVENTORY  | Yes | No |
| A. How often is a physical inventory performed?  |     |    |
| Should be at least once per year, depending on the industry.   |     |    |
| B. What method of inventory valuation is used?   |     |    |
| LIFO, FIFO, JUST-IN-TIME, Actual-Lifo is not recognized  |     |    |
| C. How quickly does inventory turnover?  |     |    |
| D. If retail, do any vendors have merchandise on floor? Are any shelves, racking, displays from the vendor?                      |     |    |



Georgia Department of Revenue

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Keep record of contacts made with any party affiliated with account.

LAST FILED: \_\_\_\_\_ T.C. \_\_\_\_\_

AUDIT YEARS: \_\_\_\_\_ A.C. \_\_\_\_\_

NAME OF BUSINESS: \_\_\_\_\_

CONTACT NAME: \_\_\_\_\_ TP NO: \_\_\_\_\_

PHONE #: \_\_\_\_\_ EMAIL: \_\_\_\_\_

MAILING ADDRESS: \_\_\_\_\_

\_\_\_\_\_

SITUS ADDRESS: \_\_\_\_\_

PREPARER INFORMATION: \_\_\_\_\_

=====

DATE: \_\_\_\_\_ CONTACT NAME: \_\_\_\_\_

NOTES: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

DATE: \_\_\_\_\_ CONTACT NAME: \_\_\_\_\_

NOTES: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

DATE: \_\_\_\_\_ CONTACT NAME: \_\_\_\_\_

NOTES: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

DATE: \_\_\_\_\_ CONTACT NAME: \_\_\_\_\_

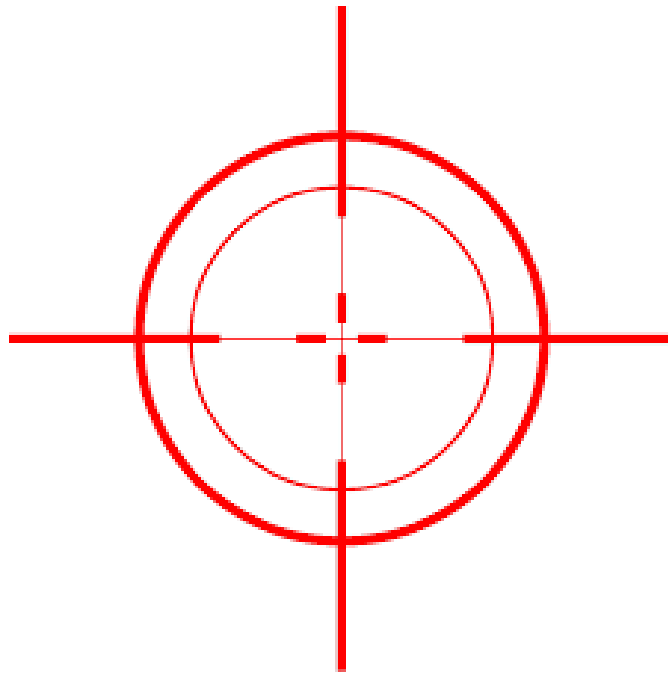
NOTES: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



## Scope of Audit





**1. Scope of audit.** The audit may be an advanced desk audit of certain additional property owner records that are voluntarily submitted or obtained by subpoena from the property owner or a complex on-site detailed audit of the property owner's books and records combined with a physical inspection of the personal property. The documents the appraisal staff should secure include, but are not limited to, schedules A, B, and C of form PT-50P; a balance sheet or other type of financial record that for a particular location reflects the business' book value as of January 1 of the tax year being audited; a ledger of capitalized personal property items held on January 1 of the tax year being audited; and an income statement.

An ***advanced desk audit*** requires the taxpayer to supply their financial records to the assessment office for review. The review of the records is conducted in the office rather than an examination of the physical assets on site. Accounting and property detail records are not usually required with the property owner's rendition but these are requested to provide historical cost information to substantiate that the correct cost were reported and ensure equity among taxpayers.

Advantages in desk audits include:

1. Being more cost effective for smaller value accounts (less travel)
2. The discovery of unreported (escaped) personal property

A ***complex on-site detailed audit*** is the most accurate. It is a combination of the desk audit and the physical inspection audit. A review of the records is conducted in the office and an examination of the physical assets on site. The physical inspection requires the auditor to travel to the business location and physically inspect the personal property to be valued. The purpose of the physical inspection is to list each taxable asset. Important items to note are:

1. Ownership of assets
2. Situs of the property as of tax day
3. Age and condition of the asset



The steps involved in performing a complex on-site detailed audit are listed below:

- A. Mail a notification letter to property owner and/or representative
- B. Meet with property owner and/or representative preferably on-site to explain audit process. Perform a tour of site to obtain a complete understanding of operations, take note of types of inventory used and types of equipment used (i.e. age, condition).
- C. Pre-audit preparation
  - a. Obtain copies of business personal property returns filed with the County taxing official for the years to be audited
  - b. Collect external financial records from property owner (if at all possible, legal financial documents)
- D. Complete a rendition using property owner's financial records to determine taxable personal property by year of acquisition
- G. Prepare preliminary audit findings
  - 1. Compile list of property
  - 2. Sort property list by year of acquisition
  - 3. Sort property list into economic life categories
  - 4. Calculate market value
  - 5. Determine why any discrepancies exist between the rendition or estimated value and the audited values
- H. Notify taxpayer of audit findings
- I. Afford them an opportunity to meet and discuss the findings and view any supporting schedules and documents relied upon to conduct the audit
- J. Prepare final audit report
- J. Notify county assessing officials and examiners of Public Accounts audit findings.



## Georgia Department of Revenue

### COUNTY TAX ASSESSORS OFFICE

#### Personal Property Audit Process Checklist

2/15/2016

<Audit Client>

<Parcel Number>

<Audit Year>

| Audit Process Checklist  |          |      |       |
|--|----------|------|-------|
| Activity   | Initials | Date | Notes |
| <b>Preliminary Examination</b>   |          |      |       |
| Verified the date business started at the situs.   |          |      |       |
| Confirmed the number of locations in the County and/or State.  |          |      |       |
| Verified the type of business and legal ownership. Are subsidiaries or affiliates located here or elsewhere within the county? Any changes in ownership?   |          |      |       |
| Reviewed permanent file and prior year returns.  |          |      |       |
| <b>Records and Financial Data Examination</b>  |          |      |       |
| Determined method of accounting: Accrual, Cash, or Hybrid.   |          |      |       |
| Reviewed the Chart of Accounts. Noted any expense accounts that could possibly contain assets that should be capitalized. Hardware Expense, Software Expense, Furniture Expense, etc. are common examples.   |          |      |       |
| Verified the capitalization policy of the auditee. The capitalization threshold varies between companies with the average being \$500. Always ask the auditee of their policy because their threshold may be surprisingly high.  |          |      |       |
| Reviewed Financial Statements, Federal and/or State tax returns, fixed assets ledger, general ledger, and inventory ledgers of auditee. If financial statements were not provided, please request federal and/or state tax returns for corroboration of fixed assets and inventory.                  |          |      |       |
| Tied Fixed Asset Register to Balance Sheet/General Ledger/Federal or State Return. If there is a variance, reconcile the difference (non-taxable items were included, etc.). Compare the audited number with the amount originally reported on the PT-50P.   |          |      |       |
| Verified that a physical inventory is taken regularly (if applicable). Confirmed the treatment of supplies as inventory. If supplies were not treated as inventory, take the year end balance of all supply expense accounts and divide by twelve.   |          |      |       |
| Does the company have on its premises property belonging to others (consigned goods)? Verified that consigned goods are listed on Schedule B of the PT-50P. Confirmed the name, address, phone number, and any other pertinent information regarding the consignee.                                  |          |      |       |
| Confirmed the treatment of supplies as inventory. If supplies were not treated as inventory, take the year end balance of all supply expense accounts and divide by twelve.  |          |      |       |
| Other assessable assets: Containers, small tools, pallets, bins, molds, dies, jigs, china, glassware, hardware, artwork, antiques, software as inventory. Also note chemical storage/holding tanks (gasoline, propane, oil, etc.). If yes, how are levels on hand determined for reporting purposes? |          |      |       |
|  |          |      |       |





# Georgia Department of Revenue

## COUNTY TAX ASSESSORS OFFICE

### Personal Property Audit Process Checklist

2/15/2016

<Audit Client>

<Parcel Number>

<Audit Year>

| Audit Process Checklist  |          |      |       |
|--|----------|------|-------|
| Activity   | Initials | Date | Notes |
| <b>Machinery and Equipment Examination</b>   |          |      |       |
| Is equipment primarily purchased new? Verified that full costs have been capitalized: cost, sales tax, freight and installation. (Sample invoices for high dollar items to verify cost.)   |          |      |       |
| Confirmed with the auditee the following:  |          |      |       |
| 1. Is fully depreciated equipment still on the books and reported?   |          |      |       |
| 2. Are disposed/scrapped assets written off the books?   |          |      |       |
| 3. Has previously leased equipment that is now purchased been capitalized at the full original invoice cost and acquisition date?  |          |      |       |
| 4. Does the company manufacture and use their own equipment? If yes, are all costs capitalized?  |          |      |       |
| 5. Is there a vehicle account which includes non-licensed vehicles?  |          |      |       |
| 6. How is idle equipment handled for on the general ledger?  |          |      |       |
| Reviewed any equipment lease contract agreements. Verified that the leased assets are being reported by either the auditee or leasing company. Reviewed chart of accounts for any rental expense accounts. (Request detail general ledger for specific accounts as necessary). |          |      |       |
| <b>Building, Land, Leasehold Improvements, and Construction-in-Progress</b>  |          |      |       |
| Reviewed the commercial appraisal record prior to site visit.  |          |      |       |
| Verified that certain assets such as trade fixtures and real property additions have been accounted for accordingly. (For example walk-in-coolers should be treated as personal property.)   |          |      |       |
| Determined whether expensed items should have been capitalized as real property additions or trade fixtures.   |          |      |       |
| Verified the method Construction-in-Progress is accounted for in the auditee's books and records. Are there periodic progress billings from the contractor?  |          |      |       |
| <b>Other</b>   |          |      |       |
|  |          |      |       |
|  |          |      |       |
|  |          |      |       |
|  |          |      |       |



## Financial Records



**1. Information presented by property owner.** The appraisal staff shall consider any timely information presented by the property owner that may have reasonable relevance to the appraisal of the owner's personal property. The appraisal staff shall consider the effect of any factors discovered during the review or audit of the return or directly presented by the property owner that may reduce the value of the owner's personal property, including, but not limited to all forms of depreciation, shrinkage, theft and damage.





If at all possible, the appraiser should obtain the legal financial documents of the company audited or prepared by a certified public accountant. The guidelines and principles used by accountants and auditors are referred to as Generally Accepted Accounting Principles (GAAP). GAAP are adhered to by accountants and auditors to maintain accounting records such as general ledgers and reports such as balance sheet and income statement.

**(f) Property owner records.** The appraisal staff should first endeavor to obtain the records necessary to substantiate the information returned or reported by the property owner through the voluntary cooperation of the property owner. When such voluntary cooperation is not forthcoming, and the records requested from the property owner are believed by the appraiser to be critical to a proper appraisal of the personal property, the appraiser may request that the board of tax assessors issue an appropriate subpoena for such records. The appraiser may request that the board of tax assessors issue an appropriate subpoena for the testimony of any individuals the appraiser believes poses knowledge critical to determination of the fair market value of the property owner's personal property.

Documents that can be subpoenaed which are typically needed in audits include but are not limited to:

- A. Chart of accounts
- B. Capital trial balance from general ledger
- C. Audited financial statements with financial notes
  - a. Profit and loss statement
    - i. lease information
    - ii. materials and supplies
    - iii. repairs and maintenance expenses
  - b. Balance sheet as of January 1
- D. A detailed ledger of capitalized personal property (equipment) for the tax years being audited as of January 1

*\*\*\*Documents are needed for all years audited\*\*\**



### Chart of Accounts (COA)

COA is a numerical listing of the names of all the accounts used by an organization. Different type of businesses will have different accounts customized to meet the needs of the business (i.e. service business, merchandising business or manufacturing business). The COA is a starting point for the appraiser to substantiate personal property returned or discover inventory, MEFF and other taxable personal property not reported by the property owner. If the books are properly kept, the taxpayer will have an account representing assets acquired, disposed and leased.

#### Manufacturing Business

| <b>100 Assets</b>                | <b>200 Liabilities</b>              |
|----------------------------------|-------------------------------------|
| 0100 Cash Accounts               | 0200 Notes Payable                  |
| 0105 Notes Receivable            | 0205 Accounts Payable               |
| 0108 Accounts Receivable         | 0210 Unearned Revenues              |
| 0120 Inventory - Staples         | 0220 Wages Payable                  |
| 0121 Inventory - Nails           | 0230 Mortgage Payable               |
| 0122 Inventory – Screws          |                                     |
| 0123 Inventory – Machines        | <b>300 Owner's Capital</b>          |
| 0124 Inventory – Parts           | 0300 Joe Smith, Capital             |
| 0125 Inventory – Auxiliary       | 0310 Joe Smith, Withdrawal          |
| 0126 Inventory – Power Activated |                                     |
| 0127 Inventory – Auxiliary Parts | <b>400 Revenues</b>                 |
| 0135 Office Supplies             | 0400 Professional Services Rendered |
| 0138 Store Supplies              | 0410 Interest Earned                |
| 0145 Prepaid Expenses            | 0420 Rent Earned                    |
| 0160 Land                        |                                     |
| 0170 Buildings                   | <b>500 Expenses</b>                 |
| 0180 Office Equipment            | 0500 Advertising Expense            |
| 0190 Store Equipment             | 0510 Rent Expense                   |
| 0195 Deposits                    | 0520 Office Salaries Expense        |
|                                  | 0530 Travel Expense                 |
|                                  | 0540 Utilities Expense              |
|                                  | 0550 Insurance Expense              |



**Service Business**

|   |  |
|---|--|
| <b>Assets (100-199)</b><br>111 Cash<br>112 Accounts Receivable<br>113 Office Supplies<br>116 Office Equipment<br>117 Office Furniture<br>118 Leasehold Improvements | <b>Revenue (400-499)</b><br>411 Service Revenue                      |
| <b>Liabilities (200-299)</b><br>211 Accounts Payable  | <b>Expenses (500-599)</b><br>511 Rent Expense<br>512 Repairs Expense |
| <b>Owner's Equity (300-399)</b><br>311 Owner's Capital<br>312 Owner's Drawing   |  |



## Journal of Original Entry

A journal is the first formal recording of a business transaction. The journal provides a complete record of each transaction in chronological order. There are several features of the journal that are important to the appraiser. The date column which records the date the transaction occurs, the account title column which records the name of the account affected by the transaction and the two money columns labeled debit and credit used to record the dollar amount of the transaction.

The purchase of office equipment, office supplies, and medical supplies recorded in this journal entry are of interest to the personal property appraiser. If books are kept properly, the general journal can substantiate the acquisition or disposal date, the description of the personal property and the cost. Questionable recorded transaction amounts should be cross-referenced with source documents (i.e. purchase orders, invoices) to remove any trade and cash discounts.

|    | Date         |    | Account Title                   | P.R. | Debit |   |   |   |    | Credit |   |   |   |    |    |
|----|--------------|----|---------------------------------|------|-------|---|---|---|----|--------|---|---|---|----|----|
| 1  | 20X3<br>Oct. | 1  | Rent Expense                    | 512  |       | 9 | 5 | 0 | 00 |        |   |   |   |    | 1  |
| 2  |              |    | Cash                            | 111  |       |   |   |   |    |        | 9 | 5 | 0 | 00 | 2  |
| 3  |              |    | Paid office rent for month.     |      |       |   |   |   |    |        |   |   |   |    | 3  |
| 4  |              |    |                                 |      |       |   |   |   |    |        |   |   |   |    | 4  |
| 5  |              | 2  | Office Equipment                | 117  |       | 6 | 0 | 0 | 00 |        |   |   |   |    | 5  |
| 6  |              |    | Accounts Payable                | 211  |       |   |   |   |    |        | 6 | 0 | 0 | 00 | 6  |
| 7  |              |    | Purchased office equipment      |      |       |   |   |   |    |        |   |   |   |    | 7  |
| 8  |              |    | on account.                     |      |       |   |   |   |    |        |   |   |   |    | 8  |
| 9  |              | 4  | Office Supplies                 | 112  |       | 6 | 0 | 0 | 00 |        |   |   |   |    | 9  |
| 10 |              |    | Accounts Payable                | 211  |       |   |   |   |    |        | 6 | 0 | 0 | 00 | 10 |
| 11 |              |    | Purchased office supplies       |      |       |   |   |   |    |        |   |   |   |    | 11 |
| 12 |              |    | on account.                     |      |       |   |   |   |    |        |   |   |   |    | 12 |
| 13 |              | 6  | Medical Supplies                | 113  |       | 1 | 2 | 0 | 00 |        |   |   |   |    | 13 |
| 14 |              |    | Cash                            | 111  |       |   |   |   |    |        | 1 | 2 | 0 | 00 | 14 |
| 15 |              |    | Paid cash for medical supplies. |      |       |   |   |   |    |        |   |   |   |    | 15 |
| 16 |              | 7  | Laboratory Fees Expense         | 514  |       | 2 | 6 | 5 | 00 |        |   |   |   |    | 16 |
| 17 |              |    | Cash                            | 111  |       |   |   |   |    |        | 2 | 6 | 5 | 00 | 17 |
| 18 |              |    | Paid cash for lab analysis.     |      |       |   |   |   |    |        |   |   |   |    | 18 |
| 19 |              | 9  | Salary Expense                  | 511  |       | 1 | 5 | 0 | 00 |        |   |   |   |    | 19 |
| 20 |              |    | Cash                            | 111  |       |   |   |   |    |        | 1 | 5 | 0 | 00 | 20 |
| 21 |              |    | Paid salaries of employees.     |      |       |   |   |   |    |        |   |   |   |    | 21 |
| 22 |              | 11 | Accounts Payable                | 211  |       | 2 | 0 | 0 | 00 |        |   |   |   |    | 22 |



## Detailed Subsidiary Ledger & General Ledger

To obtain a summary of the information recorded in the journal, the information must be transferred from the journal to the detailed subsidiary ledgers or the general ledger controlling account. The process of transferring amounts from the journal to the ledger is called posting. Subsidiary ledgers contain the details to support a general ledger control account. Subsidiary ledgers are useful when there are multiple similar accounts like accounts receivable (customer A, customer B, etc) or accounts payable (i.e. Creditor A, Creditor B, etc.) or inventory (Product A, Product B, etc.). These subsidiary ledgers should be reconciled to related general ledger controlling account.

Subsidiary ledgers can serve as a prime source when the personal property appraiser is verifying figures on schedules and Freeport applications. For example, inventory subsidiary ledgers can be separately prepared for different inventory types (i.e. raw materials, work in process, finished goods, spare parts) and contain aggregate amounts for raw material, transfers to finished goods, etc. If a perpetual inventory system is used, the amount of each type of inventory should be available in a subsidiary inventory ledger as of the valuation date.

ACCOUNT INVENTORY

ACCOUNT NO. 124

| DATE         |    | ITEM    | P.R. | DEBIT |   |   |   | CREDIT |    |   |   | BALANCE |    |       |   |   |    |        |  |  |  |  |
|--------------|----|---------|------|-------|---|---|---|--------|----|---|---|---------|----|-------|---|---|----|--------|--|--|--|--|
|              |    |         |      |       |   |   |   |        |    |   |   |         |    | DEBIT |   |   |    | CREDIT |  |  |  |  |
| 20X3<br>Oct. | 1  | Balance | √    |       |   |   |   |        |    |   |   |         | 10 | 0     | 0 | 0 | 00 |        |  |  |  |  |
|              | 1  |         | GJ17 |       |   |   |   |        | 9  | 5 | 0 | 00      | 9  | 0     | 5 | 0 | 00 |        |  |  |  |  |
|              | 6  |         | GJ17 |       |   |   |   |        | 1  | 2 | 0 | 0       | 00 | 7     | 8 | 5 | 0  | 00     |  |  |  |  |
|              | 7  |         | GJ17 |       |   |   |   |        | 2  | 6 | 5 | 00      | 7  | 5     | 8 | 5 | 00 |        |  |  |  |  |
|              | 9  |         | GJ17 |       |   |   |   |        | 1  | 5 | 0 | 0       | 00 | 6     | 0 | 8 | 5  | 00     |  |  |  |  |
|              | 11 |         | GJ17 |       |   |   |   |        | 2  | 0 | 0 | 0       | 00 | 4     | 0 | 8 | 5  | 00     |  |  |  |  |
|              | 12 |         | GJ17 |       |   |   |   |        | 3  | 0 | 0 | 0       | 00 | 3     | 7 | 8 | 5  | 00     |  |  |  |  |
|              | 21 |         | GJ18 |       |   |   |   |        | 2  | 3 | 5 | 00      | 3  | 5     | 5 | 0 | 00 |        |  |  |  |  |
|              | 25 |         | GJ18 |       |   |   |   |        | 3  | 4 | 5 | 00      | 3  | 2     | 0 | 5 | 00 |        |  |  |  |  |
|              | 28 |         | GJ18 |       |   |   |   |        | 2  | 2 | 0 | 0       | 00 | 1     | 0 | 0 | 5  | 00     |  |  |  |  |
|              | 29 |         | GJ18 |       |   |   |   |        |    | 5 | 0 | 00      |    | 9     | 5 | 5 | 00 |        |  |  |  |  |
|              | 29 |         | GJ18 |       |   |   |   |        |    | 9 | 0 | 00      |    | 8     | 6 | 5 | 00 |        |  |  |  |  |
|              | 30 |         | GJ18 |       | 9 | 5 | 6 | 0      | 00 |   |   |         | 10 | 4     | 2 | 5 | 00 |        |  |  |  |  |
|              | 30 |         | GJ18 |       |   |   |   |        | 1  | 5 | 8 | 0       | 00 | 8     | 8 | 4 | 5  | 00     |  |  |  |  |
|              | 30 |         | GJ18 |       |   |   |   |        | 1  | 9 | 0 | 00      | 8  | 6     | 5 | 5 | 00 |        |  |  |  |  |
|              |    |         |      |       |   |   |   |        |    |   |   |         |    |       |   |   |    |        |  |  |  |  |



## Balance Sheet

The balance sheet is one of the major financial statements used by business owners. It is described as a snapshot of the company financial position at a point in time. For example, the amounts reported on a balance sheet dated December 31, 2014 reflect that instant when all the transactions through December 31 have been recorded. Due to that reason, it's a great source for a personal property appraiser in determining what a business actually owns as of the date of valuation.

| Ming Manufacturing Company<br>Balance Sheet<br>December 31, 2014 |           |           |                  |
|--|-----------|-----------|------------------|
| Assets   |           |           |                  |
| Current Assets   |           |           |                  |
| Cash   |           | \$18,200  |                  |
| Accounts Receivable  | \$66,100  |           |                  |
| Less allowance for doubtful accounts                             | \$1,500   | \$64,600  |                  |
| Finished Goods   |           | \$91,000  |                  |
| Work in Process  |           | \$65,800  |                  |
| Direct materials   |           | \$58,725  |                  |
| Factory Supplies   |           | \$1,800   |                  |
| Prepaid Insurance  |           | \$1,259   |                  |
| <b>Total Current Assets</b>                                      |           |           | <b>\$301,384</b> |
| Non-current Assets   |           |           |                  |
| Land   |           | \$50,000  |                  |
| Buildings  | \$240,000 |           |                  |
| Less Accumulated Depreciation                                    | \$36,000  | \$204,000 |                  |
| Factory Equipment  | \$446,000 |           |                  |
| Less Accumulated Depreciation                                    | \$133,809 | \$312,191 |                  |
| <b>Total Non-current Assets</b>                                  |           |           | <b>\$566,191</b> |
| <b>Total Assets</b>  |           |           | <b>\$867,575</b> |
| Liabilities  |           |           |                  |
| Accounts Payable   |           | \$45,600  |                  |
| Wages and Salaries Payable                                       |           | \$5,450   |                  |
| Income Tax Payable   |           | \$13,200  |                  |
| <b>Total Liabilities</b>   |           |           | <b>\$64,250</b>  |
| Stockholder's Equity   |           |           |                  |
| Common stock, \$10 par   |           | \$200,000 |                  |
| Retained earnings  |           | \$603,325 |                  |
| <b>Total stockholder's equity</b>                                |           |           | <b>\$803,325</b> |
| <b>Total liabilities and stockholder's equity</b>                |           |           | <b>\$867,575</b> |



### Income Statement

The income statement shows a summary of a business' revenue and expenses for a specific period of time such as a month or a year. The personal property appraiser can review the income statement to determine if the business is leasing any property, material and supplies actually used by the business, repairs and maintenance costs that improve service potential or extend economic life of an asset.

| <b>ABC Company</b><br>Income Statement<br>For the Month Ended December 31, 2014 |         |         |
|---|---------|---------|
| Fees earned   |         | \$7,500 |
| Operating Expenses:   |         |         |
| Wage expense  | \$2,125 |         |
| Rent expense  | 800     |         |
| Supplies expense  | 800     |         |
| Utilities expense   | 450     |         |
| Miscellaneous expense   | 275     |         |
| Total operating expenses  |         | \$4,450 |
| Net income  |         | \$3,050 |

### SECTION 179 DEDUCTION



### **Annual Report & Securities Exchange Commission Form 10-K**

An annual report to shareholders is often a “glossy” document that must be sent to the company’s shareholders when it holds an annual meeting to elect directors. A Form 10-K is an annual report required by the U.S. Securities and Exchange Commission (SEC) that is a comprehensive report used by public companies to disclose a company’s activities throughout the preceding year to their shareholders. The annual report to shareholders and the annual report on Form 10K are two distinct documents even though some companies combine both documents into one. Annual reports are intended to give shareholders and other interested people information about the company’s activities and financial performance.

An understanding of the taxpayer’s business and industry is crucial in order for an appraiser to conduct an adequate review of a return. Annual reports and Form 10--Ks can provide a wealth of qualitative and quantitative information to an appraiser about the company’s business processes and operations such as locations, raw materials used in the manufacturing process, the various products produced by the company, year-end information on finished goods, contractual obligations for leasing and purchasing, methodology utilized to determine the cost of inventory and depreciate leasehold improvements, machinery and equipment. It would be advantageous to the appraiser to review annual reports if available. A variety of annual reports searchable by exchange, industry, sector or alphabet can be found at [www.annualreports.com](http://www.annualreports.com)





**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014  
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 001-02217

***The Coca-Cola Company***

(Exact name of Registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**58-0628465**  
(IRS Employer  
Identification No.)

**One Coca-Cola Plaza**  
**Atlanta, Georgia**  
(Address of principal executive offices)

**30313**  
(Zip Code)

**Registrant's telephone number, including area code: (404) 676-2121**

**Securities registered pursuant to Section 12(b) of the Act:**

| <u>Title of each class</u>     | <u>Name of each exchange on which registered</u> |
|--------------------------------|--|
| COMMON STOCK, \$0.25 PAR VALUE | NEW YORK STOCK EXCHANGE                          |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).  
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

Indicate by check mark if the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the common equity held by non-affiliates of the Registrant (assuming for these purposes, but without conceding, that all executive officers and Directors are "affiliates" of the Registrant) as of June 27, 2014, the last business day of the Registrant's most recently completed second fiscal quarter, was \$183,965,638,496 (based on the closing sale price of the Registrant's Common Stock on that date as reported on the New York Stock Exchange).

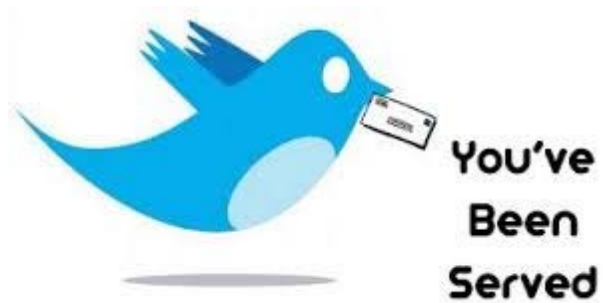
The number of shares outstanding of the Registrant's Common Stock as of February 23, 2015, was 4,366,243,616.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for the Annual Meeting of Shareowners to be held on April 29, 2015, are incorporated by reference in Part III.



## Subpoena Powers





When the appraisal staff does not have the property owner's full cooperation the use of subpoena power may be necessary.

**O.C.G.A. 48-5-300 (2010)**

**48-5-300. Power to summon witnesses and require production of documents; exempt documents; contempt proceedings**

(a) (1) Except as otherwise provided in paragraph (2) of this subsection, the county board of tax assessors may issue subpoenas for the attendance of witnesses and may subpoena of any person any books, papers, or documents which may contain any information material to any question relative to the existence or liability of property subject to taxation or to the identity of the owner of property liable to taxation or relevant to other matters necessary to the proper assessment of taxes lawfully due the state or county. Such subpoenas may be issued in the name of the board, shall be signed by any one or more members of the board or by the secretary of the board, and shall be served upon a taxpayer or witness or any party required to produce documents or records five days before the day upon which any hearing by the board is scheduled at which the attendance of the party or witness or the production of such documents is required.

(2) The authority provided for in paragraph (1) of **this subsection shall not apply to the following documents or records:**

- (A) Any income tax records or returns;
- (B) Any property appraisals prior to the appeal process;
- (C) All insurance policies; or
- (D) Any individual tenant sales information.

(b) If any witness subpoenaed by any county board of tax assessors fails or refuses to appear, fails or refuses to answer questions propounded, or fails or refuses to produce any books, papers, or documents required to be produced by an order of the board, except upon a legal excuse which would relieve the witness of the obligation to attend as a witness or to produce such documents before the superior court if lawfully required to do so, the person so failing or refusing shall be guilty of contempt and shall be cited by the board to appear before a judge of the superior court of the county. The judge of the superior court of the county shall have the same power and jurisdiction to punish the person failing or refusing to comply with the order for contempt and to require and compel the giving of the testimony or the production of the books and records as in cases of contempt committed in the presence of the court and as in cases pending in the court.



Documents that cannot be subpoenaed.

**1. Record types.** The types of records the appraisal staff may not request the board of tax assessors to issue subpoenas for include the following:

**(i) Income tax returns.** Forms and schedules authorized by the Internal Revenue Service or the revenue collecting agencies of the several states for use in filing income tax returns to those agencies;

**(ii) Property appraisals.** A property appraisal that the property owner has obtained prior to any appeal that is filed as a result of a change of assessment being made to the property owner's personal property;

**(iii) Insurance policies.** An insurance policy that may contain valuation estimates of the insured personal property; or

**(iv) Tenant sales information.** A rent roll or document containing the individual tenant sales information on the property owner's rented or leased personal property.



Georgia Department of Revenue

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Some counties send complimentary demand and pre-subpoena letters.

**Certified Mail**

December 1, 2014

John Taxpayer  
Active Business Inc  
9999 Unpaid Taxes Way  
Marietta, GA 30000

Re: Active Business Inc (Account Number P999999) for Tax Years 2014, 2013, 2012 and 2011

Dear Mr. Taxpayer:

It has come to our attention that financial documentation initially requested during our business personal property audit confirmation letter dated September 15, 2014 remains outstanding. As a result, we are unable to bring the audit to closure. To complete our review, we are once again requesting your assistance in providing the following documents:

1. Documents as of December 31, 2013, 2012, 2011 and 2010 which will show, in detail, the entire company (for multiple locations) if applicable:
  - A. Chart of accounts
  - B. Fixed asset listing for each year, including assets reported at historical cost by year of acquisition. Must include all fully depreciated assets.
  - C. Financial statements including Balance Sheet, Income Statement and Depreciation Schedule
  - D. Any Lease agreements in effect for all personal property at the physical location
  - E. Detailed Trial Balance which reflects the ending account balances for the audit location for specified tax years
  - F. Listing of any Consigned inventory or any other inventory stored and owned by someone other than the company
  - G. Summary of Inventory cost. Inventory cost should include freight in, overhead, federal, state and local taxes, spare parts, supplies, or any other value added charges.
  - H. List of locations and their numbers as reflected on your trial balance to be able to tie into the balance sheet
  - I. Federal and Georgia Income Tax Returns and supporting schedules \*

\* Submitting income tax returns is voluntary on your part, as Georgia Law does not permit the Board of Assessors to compel the submission of such returns. Your decision not to submit such returns will not jeopardize your entitlement to a fair audit.

2. If fixed assets were purchased in a business acquisition, documents regarding purchase price allocations and a summary of the purchase agreement should be provided.
3. After the auditor's initial review, additional information may be needed for clarification.

Please provide this information to our office at the address on this letterhead by **December 16, 2014**. Specific questions concerning the nature of the items requested should be directed to Jane Doe, our Auditor, at XXX-XXX-XXXX.

**As you compile this information, please keep in mind that in accordance with Georgia Code 48-5-300 the Board of Tax Assessors has the authority to require production of any books and records by subpoena, if required, that it deems necessary to determine a proper assessment.**

If I can be of any further assistance with this process, feel free to give me a call. Your timely attention to this matter would be greatly appreciated.



Georgia Department of Revenue

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December 22, 2014

Certified Mail

John Taxpayer  
Active Business Inc  
9999 Unpaid Taxes Way  
Marietta, GA 30000

Re: Active Business Inc

Tax Year 2014, 2013, 2012 and 2011  
Account Number P999999

Dear Mr. Taxpayer:

We wish to bring to your attention that financial documentation initially requested during our audit confirmation letter dated September 14, 2014 and in a subsequent 10-day demand letter dated December 1, 2014 remains outstanding. To date, only partial documentation has been received. As a result, we are unable to bring the audit to closure.

To complete our review, we are requesting your assistance in providing the following documents:

1. Documents as of December 31, 2013, 2012, 2011 and 2010 which will show, in detail, the entire company (for multiple locations) if applicable:
  - J. Chart of accounts
  - K. Detailed fixed asset listing for each year, including each year's book depreciation expense (Book Depreciation Schedule)
  - L. List of locations and their numbers as reflected on your trial balance
  - M. Financial statements (Detailed Balance Sheet, Detailed Income Statement with footnotes)
  - N. Federal and Georgia Income Tax Returns and supporting schedules \*
  - O. Lease agreements in effect for all personal property at the physical location
  - P. Detailed Trial Balance which reflects the ending account balances for the audit location
  - Q. Listing of any consigned inventory or any other inventory stored and owned by someone other than the company
  - R. Summary listing of costed inventory

\* Submitting income tax returns is voluntary on your part, as Georgia Law does not permit the Board of Assessors to compel the submission of such returns. Your decision not to submit such returns will not jeopardize your entitlement to a fair audit.

2. If fixed assets were purchased in a business acquisition, documents regarding purchase price allocations and a summary of the purchase agreement should be provided.
3. After the auditor's initial review, additional information may be needed for clarification.

Please provide this information to our office at the address on this letterhead by **January 8, 2015**. Specific questions concerning the nature of the items requested should be directed to Jane Doe our Auditor at XXX-XXX-XXXX.

Should the information requested not be received by the above listed date, we may consider making a recommendation to the Board of Assessors at its next regularly scheduled meeting on January 22, 2015 to issue a subpoena requiring the production of books and records that it deems necessary to determine a proper assessment in accordance with Georgia Code 48-5-300.

If I can be of any further assistance with this process, feel free to give me a call.

Your timely attention to this matter would be greatly appreciated.

Sincerely,

Personal Property Division Manager  
County Board of Tax Assessors



**(i) Use of subpoena.** The appraiser should request the board of tax assessors to subpoena, within the limitations of their subpoena powers, any existing documents the property owner fails to provide voluntarily, when these documents are deemed by the appraiser to be critical to the audit. Since the appraiser may not request a subpoena for documents that do not presently exist in the format needed, the appraiser should seek existing documents held by the property owner and solicit the owner's voluntary cooperation in obtaining these documents.

### Subpoena Requirements

11. The subpoena must be signed by the board of tax assessors.
12. The respondents must be given 5 days to produce said documents.
13. A hearing must be scheduled.



**BOARD OF TAX ASSESSORS**

**For \_\_\_\_\_ County, Georgia**

**Subpoena**

To:

You are hereby commanded, that laying all other business aside, you be and appear at the Office of the \_\_\_\_\_ County Board of Tax Assessors, Room \_\_\_\_\_ Building, \_\_\_\_\_, Georgia, on the \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_ at \_\_\_\_\_ o'clock for the purpose of attending a hearing convened at said in connection with the Board's investigation of the tax liability of \_\_\_\_\_ for the tax years \_\_\_\_\_.

Should you fail to appear at the aforesaid time and place without legal excuse, you shall be guilty of contempt and shall be cited by the board of Tax Assessors to appear before a judge of the Superior Court of County, Georgia.

You are hereby commanded to bring with you and to produce at the aforesaid time and place those documents and things listed and/or described below and made part hereof by reference.

Copies of all subpoenaed documents will be made during said hearing and will become a part of the taxpayer's assessment file. All subpoenaed documents will be considered confidential and will not be open for public inspection.

If you prefer that no hearing be held, you will submit to this office copies of those documents and things listed one business day prior to the scheduled hearing date, then the hearing will be cancelled, and it will not be necessary for you to appear.

This Subpoena is being listed pursuant to Georgia Code Annotated 48-5-300. This \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_ County Board of Tax Assessors.

By: \_\_\_\_\_





## JUDICIAL DECISIONS

### **Fulton County Bd. of Assessors v. Saks Fifth Ave., 248 Ga. App. 836 (2001)**

**PROCEDURAL POSTURE:** Appellant's agent, auditing appellee's tax returns, did not agree to keep appellee's information confidential. Appellee did not honor appellant's subpoena. Appellee sought a protective order, in the Fulton County Superior Court (Georgia), and appellant issued a contempt citation. The trial court did not hold appellee in contempt and granted the protective order. Appellant sought review.

**OVERVIEW:** Appellant could only access a taxpayer's confidential business records in an on-premise investigative audit pursuant to Ga. Code Ann. § 48-5-299, or to subpoena those records authorized by Ga. Code Ann. § 48-5-300 to a hearing. The Due Process Clauses of U.S. Const. amend. XIV and Ga. Const. art. I, § 1, Par. 1 (1976) required notice and a hearing by an administrative agency before action could be taken affecting a citizen's constitutional or property rights. Appellant had no authority to issue subpoenas for discovery purposes in connection with tax audits pursuant to § 48-5-299 or to require a taxpayer to produce copies of records for appellant's use, except by subpoena under § 48-5-300. A contractor retained by a board of assessors to conduct an audit could access confidential materials essential to the performance of the contract. The issuance of a protective order, until the parties executed a confidentiality agreement, was error, but the trial court had full authority to determine what restrictions and limitations were appropriate under the circumstances. Appellant could only use appellee's information for purposes specified by law.

**OUTCOME:** The trial court's order was vacated and the case remanded for further proceedings because the trial court's protective order was premature, without a confidentiality agreement being entered into by the parties. Appellant's only authority to access appellee's records was for an on-site audit or by subpoena to a lawfully scheduled hearing.



## JUDICIAL DECISIONS

### **Presley v. Payne, 163 Ga. App. 89, 294 S.E.2d 199 (1982)**

Application for contempt brought against taxpayer under subsection (b) was properly denied where not hearing was scheduled in which taxpayer was required to appear but county board of tax assessors merely sought examination of certain documents pursuant to investigation of tax liability for particular year.

### **What is CONTEMPT?**

Contumacy; a willful disregard of the authority of a court of justice or legislative body or disobedience to its lawful orders. Contempt of court is committed by a person who does any act in willful contravention of its authority or dignity, or tending to impede or frustrate the administration of justice, or by one who, being under the court's authority as a party to a proceeding therein, willfully disobeys its lawful orders or fails to comply with an undertaking which he has given.

***-Black Law Dictionary***

On the other hand, a taxpayer maybe found in contempt of court for failing to provide documents or information subpoenaed by the County Board of Tax Assessors where a hearing was scheduled. *See court order from Miller County Superior Court on next page.*



IN THE SUPERIOR COURT OF MILLER COUNTY,

STATE OF GEORGIA

MILLER COUNTY BOARD OF TAX  
ASSESSORS, \*

Plaintiff \*

vs. \*

CIVIL ACTION NO. 2012-V-083

LANES PHARMACY-DME, INC., \*  
PHILLIPS AUTO PARTS, INC., \*  
JOHN B. GRANT dba AUTO IMAGES \*  
PAINT & COLLISION, VICKIE \*  
WHITTAKER dba BLOOMING \*  
BUSINESS, YATES CONCRETE \*  
PRODUCTS, INC., and COLQUITT \*  
FUNERAL HOME, INC., \*

Respondents \*

### ORDER

The above and foregoing case having come on for hearing before the Court, pursuant to rule nisi issued by the Court, and with direction that Respondents show cause before the Court on the 1<sup>st</sup> day of June, 2012, why they should not be held in contempt of court, pursuant to O.C.G.A. §48-5-300(b), for failing to provide documents and information subpoenaed by the Miller County Board of Tax Assessors; and

After hearing the evidence, the Court makes the following findings:



#### FINDINGS

1.

All Respondents herein have been served with summons and notice of this hearing and all Respondents appeared.

2.

Each of the Respondents were served with subpoena issued in the name of the Board of Tax Assessors, Miller County, which subpoena was properly signed by the Board and which subpoena gave to Respondents more than five (5) days, before the day upon which the Board scheduled the day which Respondent was to produce said documents. The principal shareholder for Lanes Pharmacy is Larry Lane; Phillips Auto Parts - Maston O. Phillips; Yates Concrete - W. C. Yates; and Colquitt Funeral Home - Danny Sheffield.

3.

All Respondents were served with a subpoena to produce:

- (a) Complete trial balances from their General Ledger as of 12/31/07, 12/31/08, 12/31/09, and 12/31/10 and, if available, profit and loss statements for their business;
- (b) Depreciation schedules or asset listings for the years 2007, 2008, 2009, and 2010;



- (c) Any audited financials for the same time period;  
and
- (d) Any leases for equipment for the same time period.

4.

The Respondents failed or refused either to appear or produce the above identified documents and none of the Respondents has presented a legal excuse which would relieve Respondents of the obligation to produce such documents to the Board of Tax Assessors.

**THEREFORE**, based on the above and foregoing facts, and pursuant to the authority of East Gas, Inc., et al. v. Johnson County Board of Tax Assessors, 264 Ga. App. 316, the Court finds that each of the Respondents or their principal shareholders are in contempt of this Court, pursuant to the above said statute, and Respondents can purge themselves of this contempt by producing said documents to the Miller County Board of Tax Assessors, within ten (10) days of the date of this Order. If Respondents fail and refuse to provide said documents within the time provided, then the Sheriff of Miller County, Georgia, is ordered and directed to arrest said Respondents and hold them in the Miller County Jail until Respondents provide said documents and pay the sum of \$250.00 each for the costs, fees, and




Georgia Department of Revenue

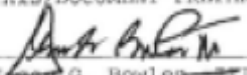
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expenses of the Miller County Board of Tax Assessors in having  
to bring this proceeding.

SO ORDERED, this 11<sup>th</sup> day of October, 2012.

  
\_\_\_\_\_  
JOE C. BISHOP  
JUDGE OF THE SUPERIOR COURT  
MILLER COUNTY, GEORGIA  
PATAULA JUDICIAL CIRCUIT

THIS DOCUMENT PREPARED BY:

  
\_\_\_\_\_  
Jesse G. Bowles, III  
Attorney at Law  
P.O. Drawer 99  
Cuthbert, Georgia 39840  
(229) 732-2222  
[howlowl@windstream.net](mailto:howlowl@windstream.net)



## Confidentiality





It is very important for the assessor/auditor to provide secure storage for any records that are received from the property owner. Much of the information that the assessor/appraiser will need to complete a review of the personal property reporting form may be deemed confidential, and it is important for each jurisdiction to provide a reasonable secure facility for the storage of these documents.

## **CONFIDENTIALITY OF DATA**

### **O.C.G.A. § 48-5-314. Confidentiality of taxpayer records; exceptions; penalties**

(a) (1) All records of the county board of tax assessors which consist of materials other than the return obtained from or furnished by an ad valorem taxpayer shall be confidential and shall not be subject to inspection by any person other than authorized personnel of appropriate tax administrators. As an illustration of the foregoing, materials which are confidential shall include, but shall not be limited to, taxpayers' accounting records, profit and loss statements, income and expense statements, balance sheets, and depreciation schedules. Such information shall remain confidential when it is made part of an appeal file. Nothing in this Code section, however, shall prevent any disclosure necessary or proper to the collection of any tax in any administrative or court proceeding.

(2) Records which consist of materials containing information gathered by personnel of the county board of tax assessors, such as field cards, shall not be confidential and are subject to inspection at all times during office hours. The provisions of this paragraph shall not remove the confidentiality of materials such as are specified in paragraph (1) of this subsection.

(3) Failure of the county board of tax assessors to make available records which are not confidential as provided in paragraph (2) of this subsection shall be a misdemeanor.

(b) Any person who knowingly and willfully furnishes information which is confidential under this Code section to a person who is not authorized by law to receive such information shall upon conviction be subject to a civil penalty not to exceed \$1,000.00.

### **Who are appropriate tax administrators?**

- |    |    |
|----|----|
| 1. | 4. |
| 2. | 5. |
| 3. | 6. |





**2. Contracts with auditing specialists.** The appraiser shall secure non-disclosure statements from any contracted audit specialist to ensure that such specialist shall conform with the confidentiality provisions of Code section 48-5-314 and shall not disclose the property owner's confidential records to unauthorized persons or use such confidential records for purposes other than the county's review for ad valorem tax purposes of the tax return and supporting documentation. The appraisal staff shall provide a copy of such non-disclosure statement to the property owner upon such owner's request. The appraiser shall not recommend to the board of tax assessors any contract or agreement with an audit specialist that provides for such specialist to contingently share a percentage of the tax collected as a result of any audits such specialist may perform.

## JUDICIAL DECISION

**ECKERD CORPORATION v. FAYETTE COUNTY BOARD OF TAX ASSESSORS.**

**A95A2598.**

**COURT OF APPEALS OF GEORGIA**

**220 Ga. App. 454; 469 S.E.2d 285; 1996 Ga. App. LEXIS 111; 96 Fulton County D.**

**Rep. 639**

**February 8, 1996, Decided**

BLACKBURN, Judge.

The Eckerd Corporation appeals the order of the trial court finding it in contempt of court, and, as punishment, directing it to pay the sum of \$ 750 to the Fayette County Board of Tax Assessors (Board) for failure to produce certain tax records in accordance with a Board subpoena issued pursuant to O.C.G.A. § 48-5-300 (a).

The record reflects that the Board subpoenaed Eckerd's 1992 through 1994 personal property tax returns. Eckerd refused to release such records in the absence of the Board's assurances that they would not be made available to Mendola & Associates, a company under contract to the Board to audit such taxpayers as designated by the Board and also under contract to provide similar services to other county tax assessors. Upon Eckerd's refusal to comply with the subpoena unconditionally, the Board voted unanimously to require Eckerd to appear before the trial court to show cause why it should not be punished for contempt.

1. Eckerd contends that the Board's subpoena is improper as an audit for the purpose of assessing additional personal property taxes against it. We disagree.

It is well-settled that tax assessors may assess unreturned tangible property for ad valorem



tax purposes during the applicable seven-year period of limitation. *Ga. R. &c. Co. v. Wright*, 124 Ga. 596, 599 (53 S.E. 251) (1905); *Suttles v. Dickey*, 192 Ga. 382, 383 (15 S.E.2d 445) (1941); *Garr v. E. W. Banks Co.*, 206 Ga. 831, 832 (59 S.E.2d 400) (1950); and see generally Op. Atty. Gen. U87-13. In this regard, O.C.G.A. § 48-5-299 (a) pertinently provides that it is "the duty of the county board of tax assessors to . . . ascertain[] what real and personal property is subject to taxation in the county and to require the proper return of the property for taxation." It further provides that "in all cases where the full amount of taxes due the state or county has not been paid, the board shall assess against the owner, if known, and against the property, if the owner is not known, the full amount of taxes which has accrued and which may not have been paid at any time within the statute of limitations." O.C.G.A. § 48-5-305 (a), in turn, authorizes county boards of tax assessors to determine the manner of ascertaining the assessment of any real or personal property not appearing in the digest for any time within the period of limitation. As the proposed audit is directed not at reassessing property already valued, and upon which taxes have already been paid, but rather is directed at the discovery of property, if any, which has not been returned and upon which taxes have not been paid, it is a proper means of determining unreturned property tax liability at any time within the applicable seven-year period of limitation. Accordingly, we deem this enumeration of error to be without merit.

2. Eckerd further enumerates that the trial court erred by finding that the Board properly contracted Mendola to provide it audit services. In this regard, Eckerd argues that having Mendola audit its personal property was an impermissible delegation of the Board's assessment duty found in O.C.G.A. § 48-5-298 (a) and improper as violative of its right to confidentiality under O.C.G.A. § 48-5-314 in that Mendola was under contract to provide similar services to other county boards of tax assessors.

The Supreme Court of Georgia has held that O.C.G.A. § 48-5-298 (a) (3) "expressly allows the Board . . . to contract with entities, such as [Mendola], to 'search out and appraise unreturned properties in the county.'" *Sears, Roebuck & Co. v. Parsons*, 260 Ga. 824, 825 (401 S.E.2d 4) (1991). The Board properly contracted for Mendola's services in order to aid it in discovering unreturned and untaxed property, not to aid it in further taxing property already assessed. Division 1, *supra*. No delegation of the Board's duty to require the proper return of personal property for taxation is indicated in the record. There being no delegation of the Board's authority and audit services having been properly contracted, the claim that the Board impermissibly delegated its authority cannot stand.

Eckerd's confidentiality argument is flawed as well. O.C.G.A. § 48-5-314 (a) (1) allows personnel authorized by appropriate tax administrators to access materials otherwise protected as confidential thereunder. **It is settled that boards of tax assessors have authority to contract for audit services.** O.C.G.A. § 48-5-298 (a) (3); *Sears, Roebuck*, *supra*. It necessarily follows that to enter into such a contract "authorizes" the contractor



access to confidential materials essential to the performance of the contract. Significant as well, the Board's authority to contract for services in O.C.G.A. § 48-5-298 (a) is not restricted to persons or entities not otherwise under contract to provide such services. In this regard, O.C.G.A. § 48-5-298 (b) permits county boards of tax assessors to enter into contracts "with any municipality or political subdivision of the state to provide any information for which the board could contract pursuant to subsection (a)" thereof. Further, while O.C.G.A. § 48-5-314 (a) (1) allows authorized personnel access to confidential materials, subsection (b) makes the disclosure of confidential materials to unauthorized persons subject to a civil penalty not to exceed \$ 1,000. Thus, in the absence of Mendola's disclosure of confidential materials to unauthorized persons, no breach of the duty of confidentiality arises. Such a claim is not before us. Accordingly, we deem this enumeration of error to be without merit.

3. Eckerd last contends that the trial court erred by awarding the Board attorney fees in that such fees are impermissible as punishment for contempt.

It is uncontroverted in the record that the trial court found Eckerd in contempt of court for failure to comply with the Board's subpoena and punished the contempt by its order directing Eckerd to pay the Board its attorney fees of \$ 750. Attorney fees are not authorized by law for contempt. O.C.G.A. § 15-6-8; *Ragsdale v. Bryan*, 235 Ga. 58, 59 (218 S.E.2d 809) (1975); *Carter v. Carter*, 241 Ga. 335, 336 (245 S.E.2d 292) (1978). We conclude that the trial court did not err in holding Eckerd in contempt, but did err in imposing attorney fees as punishment therefor. Accordingly, we affirm the judgment with direction that the amount awarded as attorney fees be stricken. *Ragsdale*, supra.

*Judgment affirmed with direction. Beasley, C. J., Birdsong, P. J., Pope, P. J., Andrews, Johnson, Smith and Ruffin, JJ., concur. McMurray, P. J., dissents.*



As previously discussed, subpoena powers maybe necessary to obtain the owners financial records and auditors contracted by a county must adhere to confidentiality provisions.

## **JUDICIAL DECISION**

**FULTON COUNTY BOARD OF ASSESSORS v. SAKS FIFTH AVENUE, INC.**  
**Court of Appeals of Georgia.**  
**No. A00A2494.**  
**Decided: March 29, 2001**

BLACKBURN, Chief Judge.

The Fulton County Board of Assessors (Board) appeals the trial court's grant of Saks Fifth Avenue, Inc.'s (Saks) motion for a protective order in connection with a personal property tax audit of its Fulton County location for tax years 1995 through 1998. The order allowed Saks to withhold confidential documents subpoenaed by the Board until such time as Mendola & Associates, LLC (Mendola), the private accounting firm hired by the Board to conduct the audit, entered into a confidentiality agreement concerning such documents with Saks.

In seven enumerations of error, the Board raises the following three arguments: (1) The trial court erred in granting Saks' motion for protective order because the confidentiality of the subpoenaed documents is protected under O.C.G.A. § 48-5-314, under the employment contract between Mendola and Fulton County, and by Mendola's responsibilities as a certified public accounting firm; (2) The trial court erred in finding both that Saks was not in contempt for failure to honor the Board's O.C.G.A. § 48-5-300 subpoena and that Saks' fear of disclosure of the confidential documents to third parties constituted a legal excuse which relieved it from complying with the subpoena; and (3) The trial court erred in failing to follow *Wal-Mart Stores v. Bd. of Tax Assessors of Fayette County* and in ignoring the public policy implications of its ruling.

These issues turn on the underlying question of the authority of the Board to require the production of a taxpayer's confidential documents for investigative purposes. Also in question is the Board's right to seek contempt sanctions as a result of Saks' failure to honor the subject subpoena under the facts herein and the general authority of the trial court to issue a protective order. For the reasons set forth below, we vacate the trial court's ruling and remand the case for further proceedings consistent with this opinion.

Turning to the facts, Saks, an Alabama corporation, operates a department store in Fulton County, Georgia. In June 1999, the Board notified Saks that it was going to conduct a personal property audit of Saks' personal property tax returns for tax years 1995 through 1998. The Board assigned the audit to Mendola, an accounting firm with whom it had a contract to conduct such audits.

The Board is authorized to make such investigation as may be necessary to inquire into real and personal property owned in the county, to determine upon which such property all taxes due the state or the county have not been paid in full. See O.C.G.A. § 48-5-299. The Board is authorized to enter into employment contracts with persons, subject to the



approval of the county governing authority, to assist the Board in the mapping, platting, cataloging, indexing, and appraising of taxable properties in the county; to make, subject to the approval of the Board, reevaluations of taxable property in the county; and to search out and appraise unreturned properties in the county. See O.C.G.A. § 48-5-298. In *Eckerd Corp. v. Fayette County Bd. of Tax Assessors*, this court, relying upon our Supreme Court's holding in *Sears, Roebuck & Co. v. Parsons*, affirmed the right of the board of tax assessors to contract for third-party services pursuant to O.C.G.A. § 48-5-298.

In conducting the audit, Mendola requested that Saks produce certain financial and proprietary information or copies thereof. We note that Mendola, when acting as the agent of the Board, has no greater authority than the law provides to the Board. Saks responded that it would do so only if Mendola would sign a confidentiality agreement to protect the information. Saks sought agreement by Mendola that it would not disclose any information obtained by Mendola from it to any third parties and that Mendola would not use such information for any purposes other than conducting the subject audit, which conduct is prohibited by statute. Saks also requested that the Board and Mendola would return to Saks all information provided by it once the audit was completed. While this document return is not specifically required by statute, any other use of such documents or disclosure to third parties would be a violation of the law. Mendola refused to sign the agreement and insisted that Saks produce the documents although it had no lawful authority to do so.

Because Saks would not turn over the proprietary documents Mendola wished to review, the Board then served Saks with a subpoena, pursuant to O.C.G.A. § 48-5-300 (a) (1), in the nature of a discovery vehicle, for the production of the documents which Mendola wished to review in connection with Fulton County personal property account no. 0015407 and what the subpoena described simply as "a matter there pending."

No on-premise review of documents had been attempted at that time, and no claim has been made by the Board evidenced through the record of this appeal of any failure of Saks to report property or to pay taxes. There was no hearing scheduled at 9:00 a.m. on October 14, 1999, the time the production of the proprietary documents was required at the Fulton County Board of Assessors' Office, 141 Pryor Street, S.W., Suite 1047, Atlanta, Georgia 30303, under the subpoena. This was the only location at which the taxpayer could be required to produce any lawfully required documents.

It is clear that no hearing was in fact scheduled in connection with the subject subpoena. The subpoena refers to no hearing, and the record contains no notice to the taxpayer of the claims of the Board as to taxes owed or laws violated, the subject matter of the hearing, or the date thereof. The due process clauses of U. S. Const., Amend. XIV, and Ga. Const. 1976, Art. I, Sec. I, Par. I (see Ga. Const. 1983, Art. I, Sec. I, Par. I) require notice and a hearing by an administrative agency before any action may be taken which affects a citizen's constitutional or property rights, even though the Act granting the right to the Board provides for an appeal to the superior court. 1958-59 Op. Atty. Gen., p. 1.

The Board has only that authority provided by law to access a taxpayer's confidential business records in the conduct of its on-premise investigative audit pursuant to O.C.G.A. § 48-5-299 or to subpoena those records authorized by O.C.G.A. § 48-5-300 to any lawfully



scheduled hearing, meeting the requirements of due process. The Board has no statutory authority to issue subpoenas for discovery purposes in connection with tax audits pursuant to O.C.G.A. § 48-5-299 or to require a taxpayer to produce copies of such records for the use of the Board, except by subpoena to a lawfully scheduled hearing. A taxpayer is free to voluntarily provide copies of its records in the manner requested by the Board if it wishes to do so; however, the Board is not authorized to require the wholesale production of copies of a taxpayer's documents for the purpose of an off-premise fishing expedition into the affairs of the taxpayer. Discovery under the Civil Practice Act does not apply to a proceeding under the Administrative Procedure Act and is not otherwise authorized by law in this matter. See *Hewes v. Cooler*; *Ga. State Bd. of Dental Examiners v. Daniels*.

The Board's authority to require production of documents by a taxpayer, other than the on-premise inspection of records it is lawfully authorized to conduct pursuant to O.C.G.A. § 48-5-299, is limited to the production of documents pursuant to O.C.G.A. § 48-5-300, which provides:

(a)(1) Except as otherwise provided in paragraph (2) of this subsection, the county board of tax assessors may issue subpoenas for the attendance of witnesses and may subpoena of any person any books, papers, or documents which may contain any information material to any question relative to the existence or liability of property subject to taxation or to the identity of the owner of property liable to taxation or relevant to other matters necessary to the proper assessment of taxes lawfully due the state or county. Such subpoenas may be issued in the name of the board, shall be signed by any one or more members of the board or by the secretary of the board, and shall be served upon a taxpayer or witness or any party required to produce documents or records five days before the day upon which any hearing by the board is scheduled at which the attendance of the party or witness or the production of such documents is required. (2) The authority provided for in paragraph (1) of this subsection shall not apply to the following documents or records: (A) Any income tax records or returns; (B) Any property appraisals prior to the appeal process; (C) All insurance policies; or (D) Any individual tenant sales information. (b) If any witness subpoenaed by any county board of tax assessors fails or refuses to appear, fails or refuses to answer questions propounded, or fails or refuses to produce any books, papers, or documents required to be produced by an order of the board, except upon a legal excuse which would relieve the witness of the obligation to attend as a witness or to produce such documents before the superior court if lawfully required to do so, the person so failing or refusing shall be guilty of contempt and shall be cited by the board to appear before a judge of the superior court of the county. The judge of the superior court of the county shall have the same power and jurisdiction to punish the person failing or refusing to comply with the order for contempt and to require and compel the giving of the testimony or the production of the books and records as in cases of contempt committed in the presence of the court and as in cases pending in the court.

The Board's use or possession of a taxpayer's personal, confidential records is limited to that use which is authorized during the period of the audit and any hearing or appeal thereafter or in connection with the collection of taxes deemed to be owed by such



taxpayer.

The Board is entitled to retain only those copies of the taxpayer's records as provided by law. Any other use of the taxpayer's personal, confidential records or the disclosure to third parties is prohibited by law. O.C.G.A. § 48-5-314 provides inter alia:

(a)(1) All records of the county board of tax assessors which consist of materials other than the return obtained from or furnished by an ad valorem taxpayer shall be confidential and shall not be subject to inspection by any person other than authorized personnel of appropriate tax administrators. As an illustration of the foregoing, materials which are confidential shall include, but shall not be limited to, taxpayers' accounting records, profit and loss statements, income and expense statements, balance sheets, and depreciation schedules. Such information shall remain confidential when it is made part of an appeal file. Nothing in this Code section, however, shall prevent any disclosure necessary or proper to the collection of any tax in any administrative or court proceeding. (2) Records which consist of materials containing information gathered by personnel of the county board of tax assessors, such as field cards, shall not be confidential and are subject to inspection at all times during office hours. The provisions of this paragraph shall not remove the confidentiality of materials such as are specified in paragraph (1) of this subsection. . . . (b) Any person who knowingly and willfully furnishes information which is confidential under this Code section to a person who is not authorized by law to receive such information shall upon conviction be subject to a civil penalty not to exceed \$ 1,000.00.

Following the issuance of the subpoena, Saks filed a complaint against the Board in Fulton Superior Court, requesting a temporary restraining order and interlocutory and permanent injunctive relief, until such time as the Board and Mendola, or any other accounting firm that the Board may appoint, agreed to provide minimal protection of its proprietary documents.

The Board then issued a contempt citation, pursuant to O.C.G.A. § 48-5-300, for failure to produce the requested records. Saks thereafter filed a motion to quash the subpoena and a motion for protective order in the alternative to granting plaintiff's motion for a temporary restraining order.

After holding a hearing, the trial court refused to hold Saks in contempt and granted its motion for a protective order until such time as the parties can agree on a method which will protect Saks' confidential business records from disclosure. The court reasoned that while O.C.G.A. § 48-5-314 (a) (1) obligated the Board not to disclose any of the confidential records obtained during an audit, it was not certain that this Code section applied to third parties, such as Mendola.

This issue was resolved in *Eckerd*, 220 Ga. App. at 455-456. In that case, *Eckerd* appealed the trial court's order finding it in contempt of court for failing to comply with the Board's subpoena. *Eckerd* argued, inter alia, that the contract with Mendola violated its right to confidentiality under O.C.G.A. § 48-5-314. We held therein that as O.C.G.A. § 48-5-314 (a) (1) allows personnel authorized by appropriate tax administrators to access materials otherwise protected as confidential thereunder and that boards are authorized to contract



for audit services under O.C.G.A. § 48-5-298, it necessarily follows that to enter into such a contract "authorizes" the contractor to access the confidential materials essential to the performance of the contract. While no disclosure was at issue in *Eckerd*, we noted therein that O.C.G.A. § 48-5-314 (b) makes the disclosure of confidential materials to unauthorized persons subject to a civil penalty not to exceed \$ 1,000. Mendola is bound by O.C.G.A. § 48-5-314 (a) (1).

The Board argues that the trial court erred in granting a protective order to Saks because confidentiality is protected under O.C.G.A. § 48-5-314, the employment contract between Mendola and Fulton County protects Saks, and it is further protected by Mendola's ethical responsibilities as a CPA.

It is patently obvious that professionals are not immune from being the subject of appropriate protective orders because of the fact that they may be bound by professional standards. We note also that there is no client relationship between Mendola and Saks, and the record contains no documentation of the standards the Board contends protects Saks. This argument is without merit.

Similarly, the contract between Mendola and Fulton County provides no protection to Saks which was not a party to the contract. We note that the Board raises this issue for the first time on appeal; however, we will exercise our discretion and address the matter. Saks was clearly not a third-party beneficiary under the subject contract, and it did not know of its existence until litigation was initiated. The contract expressly provides for the indemnification of the Board by Mendola, but does not address third-party damages. The intent of the contract as a whole must be considered, and it is difficult to conceive how a contract between the Board and an auditor could be construed to be for the benefit of the taxpayer. See *American Fletcher Mtg. Co. v. First American Investment Corp.* This argument is without merit.

While the Board is correct that the confidentiality requirements of O.C.G.A. § 48-5-314 are applicable to Mendola, its contention that this fact precludes the trial court from granting a protective order to Saks is erroneous. While the trial court is barred from issuing a protective order which violates statutory law, such as O.C.G.A. § 48-5-314, it has full authority under O.C.G.A. § 23-4-31 to mold its decrees to meet the demands of each situation it faces. The trial court's determination as to the issuance of a protective order is a matter of the judge's discretion.

We therefore review a trial court's grant of a motion for a protective order for abuse of discretion. *Clayton County Bd. of Tax Assessors v. Lake Spivey Golf Club*. Absent an abuse of discretion, this court will affirm the actions of the trial court. See *Torok v. Mize*.

Here, the trial court erred in issuing its protective order until such time as the parties entered into a confidentiality agreement. The trial court does have full authority, however, to determine what restrictions and limitations are appropriate under the circumstances so long as its ruling does not conflict with the rights of the parties under applicable law. This court affirmed the trial court's ruling in *Wal-Mart*, *supra* prohibiting Mendola from either retaining or making copies of any documents produced by Wal-Mart in that case. Neither the





Board nor its agent has any authority to use the taxpayer's documents for purposes other than those specifically provided by law and are precluded from disclosing such material to third parties. The Board is not authorized to issue subpoenas for discovery purposes or to inappropriately coerce taxpayers into "voluntarily" providing copies of private documents contrary to law either directly or through the acts of its agents. It is within the authority of the court to issue any protective order it deems reasonable and necessary for the protection of the parties, consistent with this opinion. The parties are free of course to enter into an agreement on the terms of any protective order, subject to the approval of the trial court.



## Omissions and Undervaluations

**PENALTY**



When all information is gathered and reviewed, an appraiser must analyze the data and summarize the results. Within this portion of the audit, an appraiser will (1) compare audited cost, classification, and acquisition dates to reported information and/or revenue and expense information, (2) appraise the property and estimate audited value, (3) compare audited value to assessed value, and finally, (4) produce findings in audit work papers.

### COMPARE AUDITED COST TO REPORTED COST

Comparing audited cost to the reported cost (and/or assessed value based on cost if different from reported cost) by year of acquisition and the economic life is the first step in the summarization process. This will determine where and how costs were misreported, if at all, and will provide insight into how the overall value may be affected.

For complex audits, a reconciliation of audited cost to reported cost may be appropriate. Following is an example that illustrates how the difference between audited cost and reported cost can be reconciled. The example is for illustration purposes only. In practice, the reconciliation of audited cost to reported cost may include more detailed explanations of the difference, such as acquisition years of property listed under the differences section of the worksheet and audit years affected by the differences. In other circumstances, the cause of a difference may not be identifiable.

| EXAMPLE 8.2  |                  |                      |                  |                 |                  |
|--|------------------|----------------------|------------------|-----------------|------------------|
| RECONCILIATION OF REPORTED COST TO AUDITED COST            |                  |                      |                  |                 |                  |
|  | <u>Machinery</u> | <u>Office Equip.</u> | <u>Computers</u> | <u>Fixtures</u> | <u>Total</u>     |
| Reported Cost (FYE 2002)                                   | \$ 100,000       | \$ 25,000            | 0                | \$ 25,000       | \$ 150,000       |
| Audited Cost (FYE 2002)                                    | <u>120,000</u>   | <u>20,000</u>        | <u>5,000</u>     | <u>25,000</u>   | <u>170,000</u>   |
| Difference   | <u>\$ 20,000</u> | <u>(\$ 5,000)</u>    | <u>\$ 5,000</u>  | <u>\$ 0</u>     | <u>\$ 20,000</u> |
| <u>Difference due to:</u>                                  |                  |                      |                  |                 |                  |
| Unreported freight & installation                          | \$ 10,000        | \$ 5,000             |                  |                 | \$ 15,000        |
| Misclassified equipment                                    |                  | (5,000)              | 5,000            |                 | 0                |
| Exempt software  |                  | (5,000)              |                  |                 | (5,000)          |
| Unrecorded assets acquired and received prior to lien date | 10,000           |                      |                  |                 | 10,000           |
| Total Difference   | <u>\$ 20,000</u> | <u>(\$ 5,000)</u>    | <u>\$ 5,000</u>  | <u>\$ 0</u>     | <u>\$ 20,000</u> |



### **AUDITED VALUE**

Once the appraiser has determined through the audit process that all assessable property has been reported on the property return or identified as having escaped assessment or identified as having been assessed in error, an audited value for each class of property is estimated and/or a total audited value (of all these classes) is computed. The appraiser should determine the best approach to utilize in the valuation process. Most often this is the cost approach and mass appraisal techniques; however, the audit process may disclose other relevant information that may lead the appraiser to consider a valuation method other than the cost approach (i.e., comparative sales or income approach) or to consider obsolescence factors (functional, physical, or economic) in addition to valuation techniques already used. The audit process is an opportunity to arrive at or confirm that the assessable value is as close as possible to the fair market value.



## COMPARE AUDITED VALUE TO ASSESSED VALUE

The audited value is compared to the original assessed (enrolled) value. The difference determines the net value change (escape assessment or correction) appropriate for that year.<sup>286</sup> Following is an example of a format used for this comparison:

| Tax Return Year           |                     |              |             |               |                   |                     |                  |                                   |                       |
|---------------------------|---------------------|--------------|-------------|---------------|-------------------|---------------------|------------------|-----------------------------------|-----------------------|
| Group                     | Year of Acquisition | Audited Cost | Adjustments | Reported Cost | Depreciation Cost | Depreciation Factor | FMV Before Audit | FMV Per Audit Discovery/ (Refund) | Total FMV For Account |
| 1                         | -1                  |              |             |               | 0                 | 0.67                | 0                | 0                                 | 0                     |
|                           | -2                  |              |             |               | 0                 | 0.74                | 0                | 0                                 | 0                     |
|                           | -3                  |              |             |               | 0                 | 0.56                | 0                | 0                                 | 0                     |
|                           | -4                  |              |             |               | 0                 | 0.43                | 0                | 0                                 | 0                     |
|                           | -5                  |              |             |               | 0                 | 0.30                | 0                | 0                                 | 0                     |
|                           | -6                  |              |             |               | 0                 | 0.26                | 0                | 0                                 | 0                     |
|                           | -7                  |              |             |               | 0                 | 0.21                | 0                | 0                                 | 0                     |
| Prior &                   | -8                  |              |             |               | 0                 | 0.20                | 0                | 0                                 | 0                     |
| Subtotal Group 1          |                     | 0            | 0           | 0             | 0                 |                     | \$ -             | \$ -                              | 0                     |
| 2                         | -1                  |              |             |               | 0                 | 0.90                | 0                | 0                                 | 0                     |
|                           | -2                  |              |             |               | 0                 | 0.85                | 0                | 0                                 | 0                     |
|                           | -3                  |              |             |               | 0                 | 0.78                | 0                | 0                                 | 0                     |
|                           | -4                  |              |             |               | 0                 | 0.70                | 0                | 0                                 | 0                     |
|                           | -5                  |              |             |               | 0                 | 0.63                | 0                | 0                                 | 0                     |
|                           | -6                  |              |             |               | 0                 | 0.54                | 0                | 0                                 | 0                     |
|                           | -7                  |              |             |               | 0                 | 0.44                | 0                | 0                                 | 0                     |
|                           | -8                  |              |             |               | 0                 | 0.34                | 0                | 0                                 | 0                     |
|                           | -9                  |              |             |               | 0                 | 0.28                | 0                | 0                                 | 0                     |
|                           | -10                 |              |             |               | 0                 | 0.25                | 0                | 0                                 | 0                     |
|                           | -11                 |              |             |               | 0                 | 0.25                | 0                | 0                                 | 0                     |
|                           | -12                 |              |             |               | 0                 | 0.20                | 0                | 0                                 | 0                     |
| Prior &                   | -13                 |              |             |               | 0                 | 0.20                | 0                | 0                                 | 0                     |
| Subtotal Group 2          |                     | 0            | 0           | 0             | 0                 |                     | \$ -             | \$ -                              | 0                     |
| 3                         | -1                  |              |             |               | 0                 | 0.95                | 0                | 0                                 | 0                     |
|                           | -2                  |              |             |               | 0                 | 0.91                | 0                | 0                                 | 0                     |
|                           | -3                  |              |             |               | 0                 | 0.87                | 0                | 0                                 | 0                     |
|                           | -4                  |              |             |               | 0                 | 0.80                | 0                | 0                                 | 0                     |
|                           | -5                  |              |             |               | 0                 | 0.79                | 0                | 0                                 | 0                     |
|                           | -6                  |              |             |               | 0                 | 0.78                | 0                | 0                                 | 0                     |
|                           | -7                  |              |             |               | 0                 | 0.70                | 0                | 0                                 | 0                     |
|                           | -8                  |              |             |               | 0                 | 0.63                | 0                | 0                                 | 0                     |
|                           | -9                  |              |             |               | 0                 | 0.54                | 0                | 0                                 | 0                     |
|                           | -10                 |              |             |               | 0                 | 0.50                | 0                | 0                                 | 0                     |
|                           | -11                 |              |             |               | 0                 | 0.47                | 0                | 0                                 | 0                     |
|                           | -12                 |              |             |               | 0                 | 0.41                | 0                | 0                                 | 0                     |
|                           | -13                 |              |             |               | 0                 | 0.35                | 0                | 0                                 | 0                     |
|                           | -14                 |              |             |               | 0                 | 0.31                | 0                | 0                                 | 0                     |
|                           | -15                 |              |             |               | 0                 | 0.29                | 0                | 0                                 | 0                     |
|                           | -16                 |              |             |               | 0                 | 0.26                | 0                | 0                                 | 0                     |
| Prior &                   | -17                 |              |             |               | 0                 | 0.20                | 0                | 0                                 | 0                     |
| Subtotal Group 3          |                     | 0            | 0           | 0             | 0                 |                     | \$ -             | \$ -                              | 0                     |
| 4                         | -1                  |              |             |               | 0                 | 0.67                | 0                | 0                                 | 0                     |
|                           | -2                  |              |             |               | 0                 | 0.54                | 0                | 0                                 | 0                     |
|                           | -3                  |              |             |               | 0                 | 0.31                | 0                | 0                                 | 0                     |
| Prior &                   | -4                  |              |             |               | 0                 | 0.15                | 0                | 0                                 | 0                     |
| Subtotal Group 4          |                     | 0            | 0           | 0             | 0                 |                     | \$ -             | \$ -                              | 0                     |
| Subtotal All Groups       |                     | 0            | 0           | 0             | 0                 |                     | \$ -             | \$ -                              | 0                     |
| WIP                       |                     |              |             |               | 0                 | 0.75                | 0                | 0                                 | 0                     |
| OTHER                     |                     |              |             |               | 0                 |                     | 0                | 0                                 | 0                     |
| Leased Equip              |                     |              |             |               | 0                 |                     | 0                | 0                                 | 0                     |
| Supplies                  |                     |              |             |               | 0                 |                     | 0                | 0                                 | 0                     |
| Inventory                 |                     |              |             |               | 0                 |                     | 0                | 0                                 | 0                     |
| Subtotal Inventories      |                     | 0            | 0           | 0             | 0                 |                     | \$ -             | \$ -                              | 0                     |
| TOTAL ALL COSTS           |                     | 0            | 0           | 0             | 0                 |                     |                  |                                   |                       |
| Total Fair Market Value   |                     |              |             |               |                   |                     | \$ -             | \$ -                              | 0                     |
| Resport Exemption         |                     |              |             |               | 0                 |                     | 0                | 0                                 | 0                     |
| Other Exemptions          |                     |              |             |               | 0                 |                     | 0                | 0                                 | 0                     |
| Total Exemptions          |                     | 0            | 0           | 0             | 0                 |                     | 0                | 0                                 | 0                     |
| Penalty Base              | \$ -                |              |             |               |                   |                     |                  |                                   |                       |
| Taxable Fair Market Value |                     |              |             |               |                   |                     | \$ -             | \$ -                              | 0                     |



When personal property has been discovered that was not reported by the owner:

**(a) Omissions and undervaluations.** If not otherwise prohibited by law or this Rule, the appraisal staff shall recommend an additional assessment to the board of tax assessors when any review or audit reveals that a property owner has omitted from their return any property that should be returned or has failed to return any of their property at its fair market value. The appraisal staff shall recommend a reduced assessment to the board of tax assessors when any review or audit reveals that a property owner has overstated the amount of personal property subject to taxation.

**O.C.G.A. § 48-5-306. Annual notice of current assessment; contents; posting notice; new assessment description**

(a) Method of giving annual notice of current assessment to taxpayer. Each county board of tax assessors may meet at any time to receive and inspect the tax returns to be laid before it by the tax receiver or tax commissioner. The board shall examine all the returns of both real and personal property of each taxpayer, and if in the opinion of the board any taxpayer has omitted from such taxpayer's returns any property that should be returned or has failed to return any of such taxpayer's property at its fair market value, the board shall correct the returns, assess and fix the fair market value to be placed on the property, make a note of such assessment and valuation, and attach the note to the returns. The board shall see that all taxable property within the county is assessed and returned at its fair market value and that fair market values as between the individual taxpayers are fairly and justly equalized so that each taxpayer shall pay as nearly as possible only such taxpayer's proportionate share of taxes. The board shall give annual notice to the taxpayer of the current assessment of taxable real property. When any corrections or changes, including valuation increases or decreases, or equalizations have been made by the board to personal property tax returns, the board shall give written notice to the taxpayer of any such changes made in such taxpayer's returns.

A change of assessment should be created for the variance amount for the difference between the value on the NOA and the value discovered by the audit.

**Example:**

The review of a personal property account has been completed. According to the account records supplied by the owner, the appraisal staff noted the following:

Variances resulted from Equipment and Inventory.



Equipment was assessed at \$170,000, the audit revealed omissions and undervaluations and the true value determined was \$300,000. Inventory was assessed at \$1,000 and the value determined from the audit was \$7,000.

|                      | <b>EQUIP &amp; CIP</b> | <b>INV &amp; SUPP</b> | <b>100% FMV</b> | <b>40% ASSESSED</b> |
|----------------------|------------------------|-----------------------|-----------------|---------------------|
| <b>ACTUAL</b>        | \$300,000              | \$7,000               | \$307,000       | \$122,800           |
| <b>100% ASSESSED</b> | \$170,000              | \$1,000               | \$171,000       | \$68,400            |
| <b>VARIANCE</b>      | \$130,000              | \$6,000               | \$136,000       | \$54,400            |

Thus, a change of assessment notice should be issued for \$54,400 and flagged for a 10% penalty to be added by TCO on the amount of tax due.

**§ 48-5-299 - Ascertainment of taxable property; assessments against unreturned property; penalty for unreturned property; changing real property values established by appeal in prior year**

(b)(1) In all cases where unreturned property is assessed by the county board of tax assessors after the time provided by law for making tax returns has expired, the board shall add to the amount of state and county taxes due a penalty of 10 percent of the amount of the tax due or, if the principal sum of the tax so assessed is less than \$10.00 in amount, a penalty of \$1.00. The penalty provided in this subsection shall be collected by the tax collector or the tax commissioner and in all cases shall be paid into the county treasury and shall remain the property of the county.

(2)(A) The provisions of paragraph (1) of this subsection to the contrary notwithstanding, this paragraph shall apply with respect to counties having a population of 600,000 or more according to the United States decennial census of 1970 or any future such census.

(B) In all cases in which unreturned property is assessed by the board after the time provided by law for making tax returns has expired, the board shall add to the assessment of the property a penalty of 10 percent, which shall be included as a part of the taxable value for the year.



(a) **Reassessments.** The appraisal staff shall recommend to the board of tax assessors a new assessment when the property owner has omitted personal property from their return or failed to return personal property at its fair market value, when such omission or undervaluation has been discovered by an audit conducted pursuant to Rule 560-11-10-.08(4)(d). The appraisal staff shall not be precluded from conducting such an audit merely because a change of assessment has been made on the personal property as a result of a review conducted

(i) **Final assessment.** "Final assessment" means the final assessed value that is determined for the property for the applicable tax year after the following events have occurred: the time period for filing appeals has expired and any appeals that have been filed have been resolved; the authorities authorized to levy taxes on property in the county have approved the final tax levy; the Revenue Commissioner has authorized that the digest may be used as the basis for collecting taxes; the tax commissioner has mailed the final tax bills based on the authorized digest; and in the case of personal property, the appraisal staff has completed its audit of the personal property pursuant to Rule 560-11-10-.08(4)(d) within the seven year statute of limitations.

## INVENTORY OF A BUSINESS

Generally speaking most businesses will replace or “turnover” their inventory multiple times during a year’s time. However, it is recommended that only the difference in the inventory totals from one year to the next is subject to the penalty for failure to return the value of the property unless you can prove otherwise.

(a) **General procedures.** The appraisal staff shall consider the sales comparison, cost, and income approaches in the appraisal of personal property. The degree of dependence on any one approach will change with the availability of reliable data and type of property being appraised.





## **Final Audit Report**





## Audit Findings Letter Sample

«Date»

«Title» «First\_Name» «Last\_Name»  
«Company\_Name»  
«Address\_Line\_1»  
«Address\_Line\_2»  
«City», «State» «ZIP\_Code»

Dear «Title» «Last\_Name»:

The audit of the above account has been completed. According to your accounting records, we note the following:

REVISED: Under the appeal, additional information was provided to better value motel furniture, fixtures, and equipment. We had originally "sound value" the 1998 acquisition of furniture and equipment resulting from a 1031 exchange of properties. Since this furniture and equipment represents an approximate historical cost and not an arbitrary allocation, we have allowed this amount to be depreciated for each tax year audited. This is a fair valuation of this 1998 furniture and equipment. No other adjustments were made to this audit.

1. The machinery, equipment, furniture and fixtures values assessed did not agree with the values determined from this audit. Variances resulted for all tax years audited and were the result of two valuation not reported, and it appears to have been included with the real property building value. We classified \$75,000, at cost, for this signage and included it under in-service year 1995. Second, when the hotel was purchased in 1998, the net book value or fair market value was recorded in the financial statements not at original cost. While this is acceptable for generally accepted accounting principal reporting, the book value cannot be entered into Schedule A and reduced in value further from original cost. Therefore, we "sound valued" the 1998 allocated purchase price of furniture and fixtures and recognized this amount as the floor valuation of such assets.
2. Inventory is not applicable to this account/location and, accordingly, will have no effect on the overall audit results.
3. Office and operating supplies were under assessed for all tax years audited, resulting in variances. We estimated supplies by calculating a one month's "supplies on hand" amount from the direct expensed supply accounted for breakfast foods, operating supplies, cleaning supplies, and all guest supplies.



We propose to make the following changes:

| <b>TAX YEAR</b> | <b>EQUIPMENT</b> | <b>CIP</b> | <b>INV &amp; SUPP</b> | <b>NET</b> | <b>PENALTY</b> |
|-----------------|------------------|------------|-----------------------|------------|----------------|
| 2013            | \$21,000         | \$0        | \$8,000               | \$29,000   | 10%            |
| 2012            | \$41,000         | \$0        | \$6,000               | \$47,000   | 10%            |
| 2011            | \$51,000         | \$0        | \$7,000               | \$58,000   | 10%            |

Your client has been mailed a change of value (assessment) notice for each listed tax year(s). These values will become final unless a written appeal is received by this office within 45 days from the date of this letter. Only a U.S. Postal Service postmark is acceptable proof of a timely filing. If you file an appeal, you may be contacted for a hearing with the Board of Equalization.

Please note that the Board of Assessors have no legal power to abate penalties. Under the Official Code of Georgia Annotated, section 48-5-242, the authority to abate penalties has been granted to the "governing authority" of the county and such should be requested in writing. Any request for removal of a penalty needs to be made through the office of the County Commissioners.

If you have any questions about these changes, you may call me at (XXX) XXX-XXXX.

Best regards,

Personal Property Manager



## Tax Forms

Form **1040** Department of the Treasury—Internal Revenue Service  
**U.S. Individual Income Tax Return**

For the year Jan. 1–Dec. 31, 2007, or other tax year beginning

**Label**  
(See instructions on page 12.)  
**Use the IRS label.**  
Otherwise, please print

**L  
A  
B  
E  
L  
  
H  
E  
R  
E**

Your first name and initial

If a joint return, spouse's first name and initial

Home address (number and street, if you have a P.O. box)

wiseGEEK



**Questions to ask to determine when and how to use income tax forms as a source of verifying the existence and valuation of personal property.**

**When is the company's fiscal year end?**

- December 31 Request income tax forms as back up
- Other than December 31 Income tax forms alone would not be sufficient. Request The company's monthly general ledger in addition to income tax forms.

**What is the type of ownership of the company?**

- Individual Request federal form 1040
- Partnership Request federal form 1065
- Corporation Request federal form 1120

**Does the company file a consolidated federal and state income tax return?**

- No Request income tax forms for December 31 year-end.
- Yes Ask question 4

**Is this the only location in Georgia?**

- Yes Request the income tax forms
- No Ask how many locations or companies in the state. Use the income tax forms in conjunction with personal property forms from other counties.

**On what date closest to January 1 was a physical inventory taken?**

- January 1 or December 31 Final priced out physical inventory should reconcile to general inventory ledger account



- Other than January 1      Request to monthly general ledger in addition to the final priced out physical inventory

**What methods of inventory valuation was used to value inventory?**

- Actual Coast
- FIFO
- LIFO      Not acceptable for property tax purposes
- Weighted Average
- Retail Method
- Standard Cost      Ask how often standards are updated

**SCHEDULE C**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**Profit or Loss From Business**  
**(Sole Proprietorship)**

► **Information about Schedule C and its separate instructions is at [www.irs.gov/schedulec](http://www.irs.gov/schedulec).**  
► **Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.**

OMB No. 1545-0074

**2016**  
Attachment  
Sequence No. **09**

Name of proprietor

Social security number (SSN)

**A** Principal business or profession, including product or service (see instructions)

**B** Enter code from instructions

**C** Business name. If no separate business name, leave blank.

**D** Employer ID number (EIN), (see instr.)

**E** Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

**F** Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) ►

**G** Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on losses ☐ Yes ☐ No

**H** If you started or acquired this business during 2016, check here ☐

**I** Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☐ No

**J** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No

**Part I Income**

|          |   |                          |          |  |  |
|----------|---|--------------------------|----------|--|--|
| <b>1</b> | Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . . | <input type="checkbox"/> | <b>1</b> |  |  |
| <b>2</b> | Returns and allowances . . . . .  |                          | <b>2</b> |  |  |
| <b>3</b> | Subtract line 2 from line 1 . . . . .   |                          | <b>3</b> |  |  |
| <b>4</b> | Cost of goods sold (from line 42) . . . . .   |                          | <b>4</b> |  |  |
| <b>5</b> | <b>Gross profit.</b> Subtract line 4 from line 3 . . . . .  |                          | <b>5</b> |  |  |
| <b>6</b> | Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .  |                          | <b>6</b> |  |  |
| <b>7</b> | <b>Gross income.</b> Add lines 5 and 6 . . . . .  |                          | <b>7</b> |  |  |

**Part II Expenses.** Enter expenses for business use of your home **only** on line 30.

|           |  |            |  |  |            |   |            |  |  |
|-----------|--|------------|--|--|------------|---|------------|--|--|
| <b>8</b>  | Advertising . . . . .  | <b>8</b>   |  |  | <b>18</b>  | Office expense (see instructions)                               | <b>18</b>  |  |  |
| <b>9</b>  | Car and truck expenses (see instructions). . . . .   | <b>9</b>   |  |  | <b>19</b>  | Pension and profit-sharing plans . . . . .                      | <b>19</b>  |  |  |
| <b>10</b> | Commissions and fees . . . . .   | <b>10</b>  |  |  | <b>20</b>  | Rent or lease (see instructions):                               |            |  |  |
| <b>11</b> | Contract labor (see instructions)  | <b>11</b>  |  |  | <b>a</b>   | Vehicles, machinery, and equipment                              | <b>20a</b> |  |  |
| <b>12</b> | Depletion . . . . .  | <b>12</b>  |  |  | <b>b</b>   | Other business property . . . . .                               | <b>20b</b> |  |  |
| <b>13</b> | Depreciation and section 179 expense deduction (not included in Part III) (see instructions). . . . .  | <b>13</b>  |  |  | <b>21</b>  | Repairs and maintenance . . . . .                               | <b>21</b>  |  |  |
| <b>14</b> | Employee benefit programs (other than on line 19) . . . . .  | <b>14</b>  |  |  | <b>22</b>  | Supplies (not included in Part III) . . . . .                   | <b>22</b>  |  |  |
| <b>15</b> | Insurance (other than health)  | <b>15</b>  |  |  | <b>23</b>  | Taxes and licenses . . . . .                                    | <b>23</b>  |  |  |
| <b>16</b> | Interest:  |            |  |  | <b>24</b>  | Travel, meals, and entertainment:                               |            |  |  |
| <b>a</b>  | Mortgage (paid to banks, etc.)   | <b>16a</b> |  |  | <b>a</b>   | Travel . . . . .  | <b>24a</b> |  |  |
| <b>b</b>  | Other . . . . .  | <b>16b</b> |  |  | <b>b</b>   | Deductible meals and entertainment (see instructions) . . . . . | <b>24b</b> |  |  |
| <b>17</b> | Legal and professional services  | <b>17</b>  |  |  | <b>25</b>  | Utilities . . . . .   | <b>25</b>  |  |  |
| <b>18</b> |  |            |  |  | <b>26</b>  | Wages (less employment credits) . . . . .                       | <b>26</b>  |  |  |
| <b>19</b> |  |            |  |  | <b>27a</b> | Other expenses (from line 48) . . . . .                         | <b>27a</b> |  |  |
| <b>20</b> |  |            |  |  | <b>b</b>   | <b>Reserved for future use</b> . . . . .                        | <b>27b</b> |  |  |
| <b>21</b> |  |            |  |  |            |   |            |  |  |
| <b>22</b> |  |            |  |  |            |   |            |  |  |
| <b>23</b> |  |            |  |  |            |   |            |  |  |
| <b>24</b> |  |            |  |  |            |   |            |  |  |
| <b>25</b> |  |            |  |  |            |   |            |  |  |
| <b>26</b> |  |            |  |  |            |   |            |  |  |
| <b>27</b> |  |            |  |  |            |   |            |  |  |
| <b>28</b> | <b>Total expenses</b> before expenses for business use of home. Add lines 8 through 27a . . . . .  | <b>28</b>  |  |  |            |   |            |  |  |
| <b>29</b> | Tentative profit or (loss). Subtract line 28 from line 7 . . . . .   | <b>29</b>  |  |  |            |   |            |  |  |
| <b>30</b> | Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions).<br><b>Simplified method filers only:</b> enter the total square footage of: (a) your home: _____<br>and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . . .   | <b>30</b>  |  |  |            |   |            |  |  |
| <b>31</b> | <b>Net profit or (loss).</b> Subtract line 30 from line 29.<br>• If a profit, enter on both <b>Form 1040, line 12</b> (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> .<br>• If a loss, you <b>must</b> go to line 32.   | <b>31</b>  |  |  |            |   |            |  |  |
| <b>32</b> | If you have a loss, check the box that describes your investment in this activity (see instructions).<br>• If you checked 32a, enter the loss on both <b>Form 1040, line 12</b> , (or <b>Form 1040NR, line 13</b> ) and on <b>Schedule SE, line 2</b> . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on <b>Form 1041, line 3</b> .<br>• If you checked 32b, you <b>must</b> attach <b>Form 6198</b> . Your loss may be limited. |            |  |  | <b>32a</b> | <input type="checkbox"/> All investment is at risk.             |            |  |  |
|           |  |            |  |  | <b>32b</b> | <input type="checkbox"/> Some investment is not at risk.        |            |  |  |

**Part III Cost of Goods Sold** (see instructions)

|           |  |                              |                             |
|-----------|--|------------------------------|-----------------------------|
| <b>33</b> | Method(s) used to value closing inventory: <b>a</b> <input type="checkbox"/> Cost <b>b</b> <input type="checkbox"/> Lower of cost or market <b>c</b> <input type="checkbox"/> Other (attach explanation) |                              |                             |
| <b>34</b> | Was there any change in determining quantities, costs, or valuations between opening and closing inventory?<br>If "Yes," attach explanation . . . . .  | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| <b>35</b> | Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . . . .  | <b>35</b>                    |                             |
| <b>36</b> | Purchases less cost of items withdrawn for personal use . . . . .  | <b>36</b>                    |                             |
| <b>37</b> | Cost of labor. Do not include any amounts paid to yourself . . . . .   | <b>37</b>                    |                             |
| <b>38</b> | Materials and supplies . . . . .   | <b>38</b>                    |                             |
| <b>39</b> | Other costs . . . . .  | <b>39</b>                    |                             |
| <b>40</b> | Add lines 35 through 39 . . . . .  | <b>40</b>                    |                             |
| <b>41</b> | Inventory at end of year . . . . .   | <b>41</b>                    |                             |
| <b>42</b> | <b>Cost of goods sold.</b> Subtract line 41 from line 40. Enter the result here and on line 4 . . . . .  | <b>42</b>                    |                             |

**Part IV Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

|            |   |  |
|------------|---|--|
| <b>43</b>  | When did you place your vehicle in service for business purposes? (month, day, year)    ►    /    /                   |  |
| <b>44</b>  | Of the total number of miles you drove your vehicle during 2016, enter the number of miles you used your vehicle for: |  |
| <b>a</b>   | Business _____  |  |
| <b>b</b>   | Commuting (see instructions) _____  |  |
| <b>c</b>   | Other _____   |  |
| <b>45</b>  | Was your vehicle available for personal use during off-duty hours? . . . . .  | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <b>46</b>  | Do you (or your spouse) have another vehicle available for personal use? . . . . .                                    | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <b>47a</b> | Do you have evidence to support your deduction? . . . . .   | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <b>b</b>   | If "Yes," is the evidence written? . . . . .  | <input type="checkbox"/> Yes <input type="checkbox"/> No |

**Part V Other Expenses.** List below business expenses not included on lines 8–26 or line 30.

|           |   |           |
|-----------|---|-----------|
| _____     |   |           |
| _____     |   |           |
| _____     |   |           |
| _____     |   |           |
| _____     |   |           |
| _____     |   |           |
| _____     |   |           |
| _____     |   |           |
| <b>48</b> | <b>Total other expenses.</b> Enter here and on line 27a . . . . . | <b>48</b> |



|  |  |  |   |
|--|--|--|---|
| Form <b>1065</b><br>Department of the Treasury<br>Internal Revenue Service | <b>U.S. Return of Partnership Income</b><br>For calendar year 2016, or tax year beginning _____, 2016, ending _____, 20____.<br>▶ Information about Form 1065 and its separate instructions is at <a href="http://www.irs.gov/form1065">www.irs.gov/form1065</a> . | OMB No. 1545-0123<br><b>2016</b>   |   |
| A Principal business activity  | <b>Type or Print</b>   | Name of partnership  | D Employer identification number                  |
| B Principal product or service   |  | Number, street, and room or suite no. If a P.O. box, see the instructions. | E Date business started                           |
| C Business code number   |  | City or town, state or province, country, and ZIP or foreign postal code   | F Total assets (see the instructions)<br>\$ _____ |

- G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return (6) ☐ Technical termination - also check (1) or (2)
- H Check accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ \_\_\_\_\_
- I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ \_\_\_\_\_
- J Check if Schedules C and M-3 are attached . . . . . ☐

**Caution.** Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

|   |  |     |    |     |  |
|---|--|-----|----|-----|--|
| <b>Income</b>   | 1a Gross receipts or sales . . . . .   | 1a  |    |     |  |
|   | b Returns and allowances . . . . .   | 1b  |    |     |  |
|   | c Balance. Subtract line 1b from line 1a . . . . .   |     |    | 1c  |  |
|   | 2 Cost of goods sold (attach Form 1125-A) . . . . .  |     |    | 2   |  |
|   | 3 Gross profit. Subtract line 2 from line 1c . . . . .   |     |    | 3   |  |
|   | 4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) . . . . .         |     |    | 4   |  |
|   | 5 Net farm profit (loss) (attach Schedule F (Form 1040)) . . . . .   |     |    | 5   |  |
|   | 6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) . . . . .                            |     |    | 6   |  |
| 7 Other income (loss) (attach statement) . . . . .                                |  |     | 7  |     |  |
| 8 <b>Total income (loss).</b> Combine lines 3 through 7 . . . . .                 |  |     | 8  |     |  |
| <b>Deductions</b><br>(see the instructions for limitations)                       | 9 Salaries and wages (other than to partners) (less employment credits) . . . . .                          |     |    | 9   |  |
|   | 10 Guaranteed payments to partners . . . . .   |     |    | 10  |  |
|   | 11 Repairs and maintenance . . . . .   |     |    | 11  |  |
|   | 12 Bad debts . . . . .   |     |    | 12  |  |
|   | 13 Rent . . . . .  |     |    | 13  |  |
|   | 14 Taxes and licenses . . . . .  |     |    | 14  |  |
|   | 15 Interest . . . . .  |     |    | 15  |  |
|   | 16a Depreciation (if required, attach Form 4562) . . . . .   | 16a |    |     |  |
|   | b Less depreciation reported on Form 1125-A and elsewhere on return  | 16b |    | 16c |  |
|   | 17 Depletion ( <b>Do not deduct oil and gas depletion.</b> ) . . . . .                                     |     |    | 17  |  |
|   | 18 Retirement plans, etc. . . . .  |     |    | 18  |  |
|   | 19 Employee benefit programs . . . . .   |     |    | 19  |  |
|   | 20 Other deductions (attach statement) . . . . .   |     |    | 20  |  |
|   | 21 <b>Total deductions.</b> Add the amounts shown in the far right column for lines 9 through 20 . . . . . |     |    | 21  |  |
| 22 <b>Ordinary business income (loss).</b> Subtract line 21 from line 8 . . . . . |  |     | 22 |     |  |

|                               |   |                      |                 |   |      |
|-------------------------------|---|----------------------|-----------------|---|------|
| <b>Sign Here</b>              | Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge. |                      |                 |   |      |
|                               | ▶ _____<br>Signature of general partner or limited liability company member manager   |                      | ▶ _____<br>Date |   |      |
| <b>Paid Preparer Use Only</b> | Print/Type preparer's name  | Preparer's signature | Date            | Check <input type="checkbox"/> if self-employed | PTIN |
|                               | Firm's name ▶   |                      |                 | Firm's EIN ▶                                    |      |
|                               | Firm's address ▶  |                      |                 | Phone no. _____                                 |      |

**1** What type of entity is filing this return? Check the applicable box:

**a** ☐ Domestic general partnership

**b** ☐ Domestic limited partnership

**c** ☐ Domestic limited liability company

**d** ☐ Domestic limited liability partnership

**e** ☐ Foreign partnership

**f** ☐ Other ►

| Yes | No |
|-----|----|
|     |    |

2 At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person? . . . . .

**3** At the end of the tax year:

**a** Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership . . . . .

**b** Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership . . . . .

**4** At the end of the tax year, did the partnership:

**a** Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If “Yes,” complete (i) through (iv) below . . . . .

(i) Name of Corporation

**(ii) Employer Identification Number (if any)**

(iii) Country of Incorporation

(iv) Percentage  
Owned in Voting Stock

**b** Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below . . .

(i) Name of Entity

(ii) Employer Identification Number (if any)

(iii) Type of Entity

(iv) Country of Organization

| (v) Maximum Percentage Owned in Profit, Loss, or Capital |
|--|
|  |

**5** Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details.

| Yes | No |
|-----|----|
|     |    |

**6** Does the partnership satisfy **all four** of the following conditions?

**a** The partnership's total receipts for the tax year were less than \$250,000.

**b** The partnership's total assets at the end of the tax year were less than \$1 million.

**c** Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.

**d** The partnership is not filing and is not required to file Schedule M-3

If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1.

A 2x2 grid with all four quadrants shaded gray.

**7** Is this partnership a publicly traded partnership as defined in section 469(k)(2)?

8 During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt? . . . . .

**9** Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction? . . . . .

**10** At any time during calendar year 2016, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR). If "Yes," enter the name of the foreign country. ►

**Schedule B Other Information (continued)**

|  | Yes | No |
|--|-----|----|
| <b>11</b> At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions . . . . .                               |     |    |
| <b>12a</b> Is the partnership making, or had it previously made (and not revoked), a section 754 election? . . . . .<br>See instructions for details regarding a section 754 election.   |     |    |
| <b>b</b> Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions . . . . .   |     |    |
| <b>c</b> Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions |     |    |
| <b>13</b> Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) . . . . . <input type="checkbox"/>   |     |    |
| <b>14</b> At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property? . . . . .  |     |    |
| <b>15</b> If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶   |     |    |
| <b>16</b> Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶   |     |    |
| <b>17</b> Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶  |     |    |
| <b>18a</b> Did you make any payments in 2016 that would require you to file Form(s) 1099? See instructions . . . . .   |     |    |
| <b>b</b> If "Yes," did you or will you file required Form(s) 1099? . . . . .   |     |    |
| <b>19</b> Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶  |     |    |
| <b>20</b> Enter the number of partners that are foreign governments under section 892. ▶   |     |    |
| <b>21</b> During the partnership's tax year, did the partnership make any payments that would require it to file Form 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474)? . . . .  |     |    |
| <b>22</b> Was the partnership a specified domestic entity required to file Form 8938 for the tax year (See the Instructions for Form 8938)? . . . . .  |     |    |

**Designation of Tax Matters Partner** (see instructions)

Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated  
TMP ▶Identifying  
number of TMP ▶If the TMP is an  
entity, name  
of TMP representative ▶Phone number  
of TMP ▶Address of  
designated  
TMP ▶

| <b>Schedule K Partners' Distributive Share Items</b>                                  |  | <b>Total amount</b> |  |
|---|--|---------------------|--|
| <b>Income (Loss)</b>  | <b>1</b> Ordinary business income (loss) (page 1, line 22) . . . . .   | <b>1</b>            |  |
|   | <b>2</b> Net rental real estate income (loss) (attach Form 8825) . . . . .   | <b>2</b>            |  |
|   | <b>3a</b> Other gross rental income (loss) . . . . . <b>3a</b>   |                     |  |
|   | <b>b</b> Expenses from other rental activities (attach statement) <b>3b</b>  |                     |  |
|   | <b>c</b> Other net rental income (loss). Subtract line 3b from line 3a . . . . .                                     | <b>3c</b>           |  |
|   | <b>4</b> Guaranteed payments . . . . .   | <b>4</b>            |  |
|   | <b>5</b> Interest income . . . . .   | <b>5</b>            |  |
|   | <b>6</b> Dividends: <b>a</b> Ordinary dividends . . . . . <b>6a</b>  |                     |  |
|   | <b>b</b> Qualified dividends . . . . . <b>6b</b>   |                     |  |
|   | <b>7</b> Royalties . . . . .   | <b>7</b>            |  |
|   | <b>8</b> Net short-term capital gain (loss) (attach Schedule D (Form 1065)) . . . . .                                | <b>8</b>            |  |
| <b>9a</b> Net long-term capital gain (loss) (attach Schedule D (Form 1065)) . . . . . | <b>9a</b>  |                     |  |
| <b>b</b> Collectibles (28%) gain (loss) . . . . . <b>9b</b>                           |  |                     |  |
| <b>c</b> Unrecaptured section 1250 gain (attach statement) . . . . . <b>9c</b>        |  |                     |  |
| <b>10</b> Net section 1231 gain (loss) (attach Form 4797) . . . . .                   | <b>10</b>  |                     |  |
| <b>11</b> Other income (loss) (see instructions) Type ►                               | <b>11</b>  |                     |  |
| <b>Deductions</b>   | <b>12</b> Section 179 deduction (attach Form 4562) . . . . .   | <b>12</b>           |  |
|   | <b>13a</b> Contributions . . . . .   | <b>13a</b>          |  |
|   | <b>b</b> Investment interest expense . . . . .   | <b>13b</b>          |  |
|   | <b>c</b> Section 59(e)(2) expenditures: <b>(1)</b> Type ► <b>(2)</b> Amount ►  | <b>13c(2)</b>       |  |
| <b>d</b> Other deductions (see instructions) Type ►                                   | <b>13d</b>   |                     |  |
| <b>Self-Employment</b>  | <b>14a</b> Net earnings (loss) from self-employment . . . . .  | <b>14a</b>          |  |
|   | <b>b</b> Gross farming or fishing income . . . . .   | <b>14b</b>          |  |
|   | <b>c</b> Gross nonfarm income . . . . .  | <b>14c</b>          |  |
| <b>Credits</b>  | <b>15a</b> Low-income housing credit (section 42(j)(5)) . . . . .  | <b>15a</b>          |  |
|   | <b>b</b> Low-income housing credit (other) . . . . .   | <b>15b</b>          |  |
|   | <b>c</b> Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable) . . . . .      | <b>15c</b>          |  |
|   | <b>d</b> Other rental real estate credits (see instructions) Type ►  | <b>15d</b>          |  |
|   | <b>e</b> Other rental credits (see instructions) Type ►  | <b>15e</b>          |  |
|   | <b>f</b> Other credits (see instructions) Type ►   | <b>15f</b>          |  |
| <b>Foreign Transactions</b>   | <b>16a</b> Name of country or U.S. possession ►  |                     |  |
|   | <b>b</b> Gross income from all sources . . . . .   | <b>16b</b>          |  |
|   | <b>c</b> Gross income sourced at partner level . . . . .   | <b>16c</b>          |  |
|   | Foreign gross income sourced at partnership level  |                     |  |
|   | <b>d</b> Passive category ► <b>e</b> General category ► <b>f</b> Other ►   | <b>16f</b>          |  |
|   | Deductions allocated and apportioned at partner level  |                     |  |
|   | <b>g</b> Interest expense ► <b>h</b> Other . . . . . ►   | <b>16h</b>          |  |
|   | Deductions allocated and apportioned at partnership level to foreign source income                                   |                     |  |
|   | <b>i</b> Passive category ► <b>j</b> General category ► <b>k</b> Other ►   | <b>16k</b>          |  |
|   | <b>l</b> Total foreign taxes (check one): ► Paid <input type="checkbox"/> Accrued <input type="checkbox"/> . . . . . | <b>16l</b>          |  |
| <b>m</b> Reduction in taxes available for credit (attach statement) . . . . .         | <b>16m</b>   |                     |  |
| <b>n</b> Other foreign tax information (attach statement) . . . . .                   |  |                     |  |
| <b>Alternative Minimum Tax (AMT) Items</b>  | <b>17a</b> Post-1986 depreciation adjustment . . . . .   | <b>17a</b>          |  |
|   | <b>b</b> Adjusted gain or loss . . . . .   | <b>17b</b>          |  |
|   | <b>c</b> Depletion (other than oil and gas) . . . . .  | <b>17c</b>          |  |
|   | <b>d</b> Oil, gas, and geothermal properties—gross income . . . . .  | <b>17d</b>          |  |
|   | <b>e</b> Oil, gas, and geothermal properties—deductions . . . . .  | <b>17e</b>          |  |
|   | <b>f</b> Other AMT items (attach statement) . . . . .  | <b>17f</b>          |  |
| <b>Other Information</b>  | <b>18a</b> Tax-exempt interest income . . . . .  | <b>18a</b>          |  |
|   | <b>b</b> Other tax-exempt income . . . . .   | <b>18b</b>          |  |
|   | <b>c</b> Nondeductible expenses . . . . .  | <b>18c</b>          |  |
|   | <b>19a</b> Distributions of cash and marketable securities . . . . .   | <b>19a</b>          |  |
|   | <b>b</b> Distributions of other property . . . . .   | <b>19b</b>          |  |
|   | <b>20a</b> Investment income . . . . .   | <b>20a</b>          |  |
| <b>b</b> Investment expenses . . . . .  | <b>20b</b>   |                     |  |
| <b>c</b> Other items and amounts (attach statement) . . . . .                         |  |                     |  |

**Analysis of Net Income (Loss)**

|          |   |               |                          |                            |                  |                         |                    |
|----------|---|---------------|--------------------------|----------------------------|------------------|-------------------------|--------------------|
| <b>1</b> | Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l . . . . . |               |                          |                            |                  | <b>1</b>                |                    |
| <b>2</b> | Analysis by partner type:   | (i) Corporate | (ii) Individual (active) | (iii) Individual (passive) | (iv) Partnership | (v) Exempt Organization | (vi) Nominee/Other |
| <b>a</b> | General partners  |               |                          |                            |                  |                         |                    |
| <b>b</b> | Limited partners  |               |                          |                            |                  |                         |                    |

| <b>Schedule L Balance Sheets per Books</b> |  | Beginning of tax year |     | End of tax year |     |
|--|--|-----------------------|-----|-----------------|-----|
| <b>Assets</b>                              |  | (a)                   | (b) | (c)             | (d) |
| <b>1</b>                                   | Cash . . . . .   |                       |     |                 |     |
| <b>2a</b>                                  | Trade notes and accounts receivable . . . . .          |                       |     |                 |     |
| <b>b</b>                                   | Less allowance for bad debts . . . . .                 |                       |     |                 |     |
| <b>3</b>                                   | Inventories . . . . .                                  |                       |     |                 |     |
| <b>4</b>                                   | U.S. government obligations . . . . .                  |                       |     |                 |     |
| <b>5</b>                                   | Tax-exempt securities . . . . .                        |                       |     |                 |     |
| <b>6</b>                                   | Other current assets (attach statement) . . . . .      |                       |     |                 |     |
| <b>7a</b>                                  | Loans to partners (or persons related to partners)     |                       |     |                 |     |
| <b>b</b>                                   | Mortgage and real estate loans . . . . .               |                       |     |                 |     |
| <b>8</b>                                   | Other investments (attach statement) . . . . .         |                       |     |                 |     |
| <b>9a</b>                                  | Buildings and other depreciable assets . . . . .       |                       |     |                 |     |
| <b>b</b>                                   | Less accumulated depreciation . . . . .                |                       |     |                 |     |
| <b>10a</b>                                 | Depletable assets . . . . .                            |                       |     |                 |     |
| <b>b</b>                                   | Less accumulated depletion . . . . .                   |                       |     |                 |     |
| <b>11</b>                                  | Land (net of any amortization) . . . . .               |                       |     |                 |     |
| <b>12a</b>                                 | Intangible assets (amortizable only) . . . . .         |                       |     |                 |     |
| <b>b</b>                                   | Less accumulated amortization . . . . .                |                       |     |                 |     |
| <b>13</b>                                  | Other assets (attach statement) . . . . .              |                       |     |                 |     |
| <b>14</b>                                  | Total assets . . . . .                                 |                       |     |                 |     |
| <b>Liabilities and Capital</b>             |  |                       |     |                 |     |
| <b>15</b>                                  | Accounts payable . . . . .                             |                       |     |                 |     |
| <b>16</b>                                  | Mortgages, notes, bonds payable in less than 1 year    |                       |     |                 |     |
| <b>17</b>                                  | Other current liabilities (attach statement) . . . . . |                       |     |                 |     |
| <b>18</b>                                  | All nonrecourse loans . . . . .                        |                       |     |                 |     |
| <b>19a</b>                                 | Loans from partners (or persons related to partners)   |                       |     |                 |     |
| <b>b</b>                                   | Mortgages, notes, bonds payable in 1 year or more      |                       |     |                 |     |
| <b>20</b>                                  | Other liabilities (attach statement) . . . . .         |                       |     |                 |     |
| <b>21</b>                                  | Partners' capital accounts . . . . .                   |                       |     |                 |     |
| <b>22</b>                                  | Total liabilities and capital . . . . .                |                       |     |                 |     |

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return****Note.** The partnership may be required to file Schedule M-3 (see instructions).

|          |  |  |          |   |  |
|----------|--|--|----------|---|--|
| <b>1</b> | Net income (loss) per books . . . . .  |  | <b>6</b> | Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):                          |  |
| <b>2</b> | Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize): |  | <b>a</b> | Tax-exempt interest \$  |  |
| <b>3</b> | Guaranteed payments (other than health insurance) . . . . .  |  | <b>7</b> | Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize): |  |
| <b>4</b> | Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):               |  | <b>a</b> | Depreciation \$   |  |
| <b>a</b> | Depreciation \$  |  | <b>8</b> | Add lines 6 and 7 . . . . .   |  |
| <b>b</b> | Travel and entertainment \$  |  | <b>9</b> | Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5 .                                  |  |
| <b>5</b> | Add lines 1 through 4 . . . . .  |  |          |   |  |

**Schedule M-2 Analysis of Partners' Capital Accounts**

|          |  |  |                             |   |  |
|----------|--|--|-----------------------------|---|--|
| <b>1</b> | Balance at beginning of year . . . . .       |  | <b>6</b>                    | Distributions: <b>a</b> Cash . . . . .              |  |
| <b>2</b> | Capital contributed: <b>a</b> Cash . . . . . |  | <b>b</b> Property . . . . . |   |  |
|          | <b>b</b> Property . . . . .                  |  | <b>7</b>                    | Other decreases (itemize):                          |  |
| <b>3</b> | Net income (loss) per books . . . . .        |  | <b>8</b>                    | Add lines 6 and 7 . . . . .                         |  |
| <b>4</b> | Other increases (itemize):                   |  | <b>9</b>                    | Balance at end of year. Subtract line 8 from line 5 |  |
| <b>5</b> | Add lines 1 through 4 . . . . .              |  |                             |   |  |

**U.S. Corporation Income Tax Return**  
For calendar year 2016 or tax year beginning \_\_\_\_\_, 2016, ending \_\_\_\_\_, 20

OMB No. 1545-0123

**2016**

► Information about Form 1120 and its separate instructions is at [www.irs.gov/form1120](http://www.irs.gov/form1120).

**A Check if:**

- 1a** Consolidated return (attach Form 851) ☐  
**b** Life/nonlife consolidated return ☐  
**2** Personal holding co. (attach Sch. PH) ☐  
**3** Personal service corp. (see instructions) ☐  
**4** Schedule M-3 attached ☐

**TYPE  
OR  
PRINT**

Name

Number, street, and room or suite no. If a P.O. box, see instructions.

City or town, state, or province, country, and ZIP or foreign postal code

**B** Employer identification number

**C** Date incorporated

**D** Total assets (see instructions)

\$

**E** Check if: **(1)** ☐ Initial return **(2)** ☐ Final return **(3)** ☐ Name change **(4)** ☐ Address change

|   |   |            |  |  |
|---|---|------------|--|--|
| <b>Income</b>   | <b>1a</b> Gross receipts or sales   | <b>1a</b>  |  |  |
|   | <b>b</b> Returns and allowances   | <b>1b</b>  |  |  |
|   | <b>c</b> Balance. Subtract line 1b from line 1a   | <b>1c</b>  |  |  |
|   | <b>2</b> Cost of goods sold (attach Form 1125-A)  | <b>2</b>   |  |  |
|   | <b>3</b> Gross profit. Subtract line 2 from line 1c   | <b>3</b>   |  |  |
|   | <b>4</b> Dividends (Schedule C, line 19)  | <b>4</b>   |  |  |
|   | <b>5</b> Interest   | <b>5</b>   |  |  |
|   | <b>6</b> Gross rents  | <b>6</b>   |  |  |
|   | <b>7</b> Gross royalties  | <b>7</b>   |  |  |
|   | <b>8</b> Capital gain net income (attach Schedule D (Form 1120))  | <b>8</b>   |  |  |
|   | <b>9</b> Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)                                     | <b>9</b>   |  |  |
| <b>10</b> Other income (see instructions—attach statement)          | <b>10</b>   |            |  |  |
| <b>11</b> <b>Total income.</b> Add lines 3 through 10               | <b>11</b>   |            |  |  |
| <b>Deductions (See instructions for limitations on deductions.)</b> | <b>12</b> Compensation of officers (see instructions—attach Form 1125-E)  | <b>12</b>  |  |  |
|   | <b>13</b> Salaries and wages (less employment credits)  | <b>13</b>  |  |  |
|   | <b>14</b> Repairs and maintenance   | <b>14</b>  |  |  |
|   | <b>15</b> Bad debts   | <b>15</b>  |  |  |
|   | <b>16</b> Rents   | <b>16</b>  |  |  |
|   | <b>17</b> Taxes and licenses  | <b>17</b>  |  |  |
|   | <b>18</b> Interest  | <b>18</b>  |  |  |
|   | <b>19</b> Charitable contributions  | <b>19</b>  |  |  |
|   | <b>20</b> Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)          | <b>20</b>  |  |  |
|   | <b>21</b> Depletion   | <b>21</b>  |  |  |
|   | <b>22</b> Advertising   | <b>22</b>  |  |  |
|   | <b>23</b> Pension, profit-sharing, etc., plans  | <b>23</b>  |  |  |
|   | <b>24</b> Employee benefit programs   | <b>24</b>  |  |  |
|   | <b>25</b> Domestic production activities deduction (attach Form 8903)   | <b>25</b>  |  |  |
|   | <b>26</b> Other deductions (attach statement)   | <b>26</b>  |  |  |
|   | <b>27</b> <b>Total deductions.</b> Add lines 12 through 26  | <b>27</b>  |  |  |
|   | <b>28</b> Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11. | <b>28</b>  |  |  |
|   | <b>29a</b> Net operating loss deduction (see instructions)  | <b>29a</b> |  |  |
|   | <b>b</b> Special deductions (Schedule C, line 20)   | <b>29b</b> |  |  |
| <b>c</b> Add lines 29a and 29b                                      | <b>29c</b>  |            |  |  |
| <b>Tax, Refundable Credits, and Payments</b>                        | <b>30</b> <b>Taxable income.</b> Subtract line 29c from line 28. See instructions                                   | <b>30</b>  |  |  |
|   | <b>31</b> Total tax (Schedule J, Part I, line 11)   | <b>31</b>  |  |  |
|   | <b>32</b> Total payments and refundable credits (Schedule J, Part II, line 21)                                      | <b>32</b>  |  |  |
|   | <b>33</b> Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/>          | <b>33</b>  |  |  |
|   | <b>34</b> <b>Amount owed.</b> If line 32 is smaller than the total of lines 31 and 33, enter amount owed            | <b>34</b>  |  |  |
|   | <b>35</b> <b>Overpayment.</b> If line 32 is larger than the total of lines 31 and 33, enter amount overpaid         | <b>35</b>  |  |  |
|   | <b>36</b> Enter amount from line 35 you want: <b>Credited to 2017 estimated tax</b> ► <b>Refunded</b> ►             | <b>36</b>  |  |  |

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer

Date

Title

May the IRS discuss this return with the preparer shown below?  
See instructions. ☐ Yes ☐ No

**Paid Preparer Use Only**

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if self-employed

PTIN

Firm's name ►

Firm's EIN ►

Firm's address ►

Phone no.

| <b>Schedule C Dividends and Special Deductions</b> (see instructions) |  | <b>(a)</b> Dividends received | <b>(b)</b> %     | <b>(c)</b> Special deductions<br>(a) × (b) |
|---|--|-------------------------------|------------------|--|
| <b>1</b>  | Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock) . . . . .  |                               | 70               |  |
| <b>2</b>  | Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock) . . . . .  |                               | 80               |  |
| <b>3</b>  | Dividends on debt-financed stock of domestic and foreign corporations . . . . .  |                               | see instructions |  |
| <b>4</b>  | Dividends on certain preferred stock of less-than-20%-owned public utilities . . . . .   |                               | 42               |  |
| <b>5</b>  | Dividends on certain preferred stock of 20%-or-more-owned public utilities . . . . .   |                               | 48               |  |
| <b>6</b>  | Dividends from less-than-20%-owned foreign corporations and certain FSCs . . . . .   |                               | 70               |  |
| <b>7</b>  | Dividends from 20%-or-more-owned foreign corporations and certain FSCs . . . . .   |                               | 80               |  |
| <b>8</b>  | Dividends from wholly owned foreign subsidiaries . . . . .   |                               | 100              |  |
| <b>9</b>  | <b>Total.</b> Add lines 1 through 8. See instructions for limitation . . . . .   |                               |                  |  |
| <b>10</b>   | Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958 . . . . . |                               | 100              |  |
| <b>11</b>   | Dividends from affiliated group members . . . . .  |                               | 100              |  |
| <b>12</b>   | Dividends from certain FSCs . . . . .  |                               | 100              |  |
| <b>13</b>   | Dividends from foreign corporations not included on line 3, 6, 7, 8, 11, or 12 . . . . .   |                               |                  |  |
| <b>14</b>   | Income from controlled foreign corporations under subpart F (attach Form(s) 5471) . . . . .  |                               |                  |  |
| <b>15</b>   | Foreign dividend gross-up . . . . .  |                               |                  |  |
| <b>16</b>   | IC-DISC and former DISC dividends not included on line 1, 2, or 3 . . . . .  |                               |                  |  |
| <b>17</b>   | Other dividends . . . . .  |                               |                  |  |
| <b>18</b>   | Deduction for dividends paid on certain preferred stock of public utilities . . . . .  |                               |                  |  |
| <b>19</b>   | <b>Total dividends.</b> Add lines 1 through 17. Enter here and on page 1, line 4 . . . . . ▶   |                               |                  |  |
| <b>20</b>   | <b>Total special deductions.</b> Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b . . . . . ▶   |                               |                  |  |

**Schedule J Tax Computation and Payment** (see instructions)**Part I—Tax Computation**

|           |   |           |  |
|-----------|---|-----------|--|
| <b>1</b>  | Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)). See instructions ▶ <input type="checkbox"/> |           |  |
| <b>2</b>  | Income tax. Check if a qualified personal service corporation. See instructions . . . . . ▶ <input type="checkbox"/>                    | <b>2</b>  |  |
| <b>3</b>  | Alternative minimum tax (attach Form 4626) . . . . .  | <b>3</b>  |  |
| <b>4</b>  | Add lines 2 and 3 . . . . .   | <b>4</b>  |  |
| <b>5a</b> | Foreign tax credit (attach Form 1118) . . . . .   | <b>5a</b> |  |
| <b>b</b>  | Credit from Form 8834 (see instructions) . . . . .  | <b>5b</b> |  |
| <b>c</b>  | General business credit (attach Form 3800) . . . . .  | <b>5c</b> |  |
| <b>d</b>  | Credit for prior year minimum tax (attach Form 8827) . . . . .  | <b>5d</b> |  |
| <b>e</b>  | Bond credits from Form 8912 . . . . .   | <b>5e</b> |  |
| <b>6</b>  | <b>Total credits.</b> Add lines 5a through 5e . . . . .   | <b>6</b>  |  |
| <b>7</b>  | Subtract line 6 from line 4 . . . . .   | <b>7</b>  |  |
| <b>8</b>  | Personal holding company tax (attach Schedule PH (Form 1120)) . . . . .   | <b>8</b>  |  |
| <b>9a</b> | Recapture of investment credit (attach Form 4255) . . . . .   | <b>9a</b> |  |
| <b>b</b>  | Recapture of low-income housing credit (attach Form 8611) . . . . .   | <b>9b</b> |  |
| <b>c</b>  | Interest due under the look-back method—completed long-term contracts (attach Form 8697) . . . . .                                      | <b>9c</b> |  |
| <b>d</b>  | Interest due under the look-back method—income forecast method (attach Form 8866) . . . . .   | <b>9d</b> |  |
| <b>e</b>  | Alternative tax on qualifying shipping activities (attach Form 8902) . . . . .  | <b>9e</b> |  |
| <b>f</b>  | Other (see instructions—attach statement) . . . . .   | <b>9f</b> |  |
| <b>10</b> | <b>Total.</b> Add lines 9a through 9f . . . . .   | <b>10</b> |  |
| <b>11</b> | <b>Total tax.</b> Add lines 7, 8, and 10. Enter here and on page 1, line 31 . . . . .   | <b>11</b> |  |

**Part II—Payments and Refundable Credits**

|           |   |            |     |
|-----------|---|------------|-----|
| <b>12</b> | 2015 overpayment credited to 2016 . . . . .   | <b>12</b>  |     |
| <b>13</b> | 2016 estimated tax payments . . . . .   | <b>13</b>  |     |
| <b>14</b> | 2016 refund applied for on Form 4466 . . . . .  | <b>14</b>  | ( ) |
| <b>15</b> | Combine lines 12, 13, and 14 . . . . .  | <b>15</b>  |     |
| <b>16</b> | Tax deposited with Form 7004 . . . . .  | <b>16</b>  |     |
| <b>17</b> | Withholding (see instructions) . . . . .  | <b>17</b>  |     |
| <b>18</b> | <b>Total payments.</b> Add lines 15, 16, and 17 . . . . .   | <b>18</b>  |     |
| <b>19</b> | Refundable credits from:  |            |     |
| <b>a</b>  | Form 2439 . . . . .   | <b>19a</b> |     |
| <b>b</b>  | Form 4136 . . . . .   | <b>19b</b> |     |
| <b>c</b>  | Form 8827, line 8c . . . . .  | <b>19c</b> |     |
| <b>d</b>  | Other (attach statement—see instructions). . . . .  | <b>19d</b> |     |
| <b>20</b> | <b>Total credits.</b> Add lines 19a through 19d . . . . .   | <b>20</b>  |     |
| <b>21</b> | <b>Total payments and credits.</b> Add lines 18 and 20. Enter here and on page 1, line 32 . . . . . | <b>21</b>  |     |

**Schedule K Other Information** (see instructions)

|          |   |            |           |
|----------|---|------------|-----------|
| <b>1</b> | Check accounting method: <b>a</b> <input type="checkbox"/> Cash <b>b</b> <input type="checkbox"/> Accrual <b>c</b> <input type="checkbox"/> Other (specify) ▶ _____   | <b>Yes</b> | <b>No</b> |
| <b>2</b> | See the instructions and enter the:   |            |           |
| <b>a</b> | Business activity code no. ▶ _____  |            |           |
| <b>b</b> | Business activity ▶ _____   |            |           |
| <b>c</b> | Product or service ▶ _____  |            |           |
| <b>3</b> | Is the corporation a subsidiary in an affiliated group or a parent-subsidary controlled group? . . . . .<br>If "Yes," enter name and EIN of the parent corporation ▶ _____  |            |           |
| <b>4</b> | At the end of the tax year:   |            |           |
| <b>a</b> | Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G) . . . . . |            |           |
| <b>b</b> | Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G) . . . . .   |            |           |



**Schedule K** Other Information (continued from page 3)

|  |   |                                       |  | Yes | No |
|--|---|---------------------------------------|--|-----|----|
| <b>5</b> At the end of the tax year, did the corporation:  |   |                                       |  |     |    |
| <b>a</b> Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on <b>Form 851</b> , Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.  |   |                                       |  |     |    |
| <b>(i)</b> Name of Corporation   | <b>(ii)</b> Employer Identification Number (if any) | <b>(iii)</b> Country of Incorporation | <b>(iv)</b> Percentage Owned in Voting Stock                     |     |    |
|  |   |                                       |  |     |    |
|  |   |                                       |  |     |    |
|  |   |                                       |  |     |    |
| <b>b</b> Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.   |   |                                       |  |     |    |
| <b>(i)</b> Name of Entity  | <b>(ii)</b> Employer Identification Number (if any) | <b>(iii)</b> Country of Organization  | <b>(iv)</b> Maximum Percentage Owned in Profit, Loss, or Capital |     |    |
|  |   |                                       |  |     |    |
|  |   |                                       |  |     |    |
|  |   |                                       |  |     |    |
| <b>6</b> During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? See sections 301 and 316 . . . . .<br>If "Yes," file <b>Form 5452</b> , Corporate Report of Nondividend Distributions.<br>If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.   |   |                                       |  |     |    |
| <b>7</b> At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of <b>(a)</b> the total voting power of all classes of the corporation's stock entitled to vote or <b>(b)</b> the total value of all classes of the corporation's stock? . . . . .<br>For rules of attribution, see section 318. If "Yes," enter:<br><b>(i)</b> Percentage owned ▶ _____ and <b>(ii)</b> Owner's country ▶ _____<br><b>(c)</b> The corporation may have to file <b>Form 5472</b> , Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ _____ |   |                                       |  |     |    |
| <b>8</b> Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . . <input type="checkbox"/><br>If checked, the corporation may have to file <b>Form 8281</b> , Information Return for Publicly Offered Original Issue Discount Instruments.  |   |                                       |  |     |    |
| <b>9</b> Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ _____  |   |                                       |  |     |    |
| <b>10</b> Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ _____  |   |                                       |  |     |    |
| <b>11</b> If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here . . . . . <input type="checkbox"/><br>If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election won't be valid.   |   |                                       |  |     |    |
| <b>12</b> Enter the available NOL carryover from prior tax years (don't reduce it by any deduction on line 29a.) ▶ \$ _____  |   |                                       |  |     |    |
| <b>13</b> Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year <b>and</b> its total assets at the end of the tax year less than \$250,000? . . . . .<br>If "Yes," the corporation isn't required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year ▶ \$ _____   |   |                                       |  |     |    |
| <b>14</b> Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement? See instructions . . . . .<br>If "Yes," complete and attach Schedule UTP.  |   |                                       |  |     |    |
| <b>15a</b> Did the corporation make any payments in 2016 that would require it to file Form(s) 1099? . . . . .   |   |                                       |  |     |    |
| <b>b</b> If "Yes," did or will the corporation file required Forms 1099? . . . . .   |   |                                       |  |     |    |
| <b>16</b> During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock? . . . . .  |   |                                       |  |     |    |
| <b>17</b> During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction? . . . . .   |   |                                       |  |     |    |
| <b>18</b> Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million? . . . . .   |   |                                       |  |     |    |
| <b>19</b> During the corporation's tax year, did the corporation make any payments that would require it to file Forms 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474) of the Code? . . . . .   |   |                                       |  |     |    |

| <b>Schedule L Balance Sheets per Books</b>  |  | Beginning of tax year |            | End of tax year |            |
|---|--|-----------------------|------------|-----------------|------------|
| <b>Assets</b>                               |  | <b>(a)</b>            | <b>(b)</b> | <b>(c)</b>      | <b>(d)</b> |
| <b>1</b>                                    | Cash . . . . .   |                       |            |                 |            |
| <b>2a</b>                                   | Trade notes and accounts receivable . . . . .                    |                       |            |                 |            |
| <b>b</b>                                    | Less allowance for bad debts . . . . .                           | ( )                   |            | ( )             |            |
| <b>3</b>                                    | Inventories . . . . .  |                       |            |                 |            |
| <b>4</b>                                    | U.S. government obligations . . . . .                            |                       |            |                 |            |
| <b>5</b>                                    | Tax-exempt securities (see instructions) . . . . .               |                       |            |                 |            |
| <b>6</b>                                    | Other current assets (attach statement) . . . . .                |                       |            |                 |            |
| <b>7</b>                                    | Loans to shareholders . . . . .                                  |                       |            |                 |            |
| <b>8</b>                                    | Mortgage and real estate loans . . . . .                         |                       |            |                 |            |
| <b>9</b>                                    | Other investments (attach statement) . . . . .                   |                       |            |                 |            |
| <b>10a</b>                                  | Buildings and other depreciable assets . . . . .                 |                       |            |                 |            |
| <b>b</b>                                    | Less accumulated depreciation . . . . .                          | ( )                   |            | ( )             |            |
| <b>11a</b>                                  | Depletable assets . . . . .                                      |                       |            |                 |            |
| <b>b</b>                                    | Less accumulated depletion . . . . .                             | ( )                   |            | ( )             |            |
| <b>12</b>                                   | Land (net of any amortization) . . . . .                         |                       |            |                 |            |
| <b>13a</b>                                  | Intangible assets (amortizable only) . . . . .                   |                       |            |                 |            |
| <b>b</b>                                    | Less accumulated amortization . . . . .                          | ( )                   |            | ( )             |            |
| <b>14</b>                                   | Other assets (attach statement) . . . . .                        |                       |            |                 |            |
| <b>15</b>                                   | <b>Total assets</b> . . . . .                                    |                       |            |                 |            |
| <b>Liabilities and Shareholders' Equity</b> |  |                       |            |                 |            |
| <b>16</b>                                   | Accounts payable . . . . .                                       |                       |            |                 |            |
| <b>17</b>                                   | Mortgages, notes, bonds payable in less than 1 year . . . . .    |                       |            |                 |            |
| <b>18</b>                                   | Other current liabilities (attach statement) . . . . .           |                       |            |                 |            |
| <b>19</b>                                   | Loans from shareholders . . . . .                                |                       |            |                 |            |
| <b>20</b>                                   | Mortgages, notes, bonds payable in 1 year or more . . . . .      |                       |            |                 |            |
| <b>21</b>                                   | Other liabilities (attach statement) . . . . .                   |                       |            |                 |            |
| <b>22</b>                                   | Capital stock: <b>a</b> Preferred stock . . . . .                |                       |            |                 |            |
|   | <b>b</b> Common stock . . . . .                                  |                       |            |                 |            |
| <b>23</b>                                   | Additional paid-in capital . . . . .                             |                       |            |                 |            |
| <b>24</b>                                   | Retained earnings—Appropriated (attach statement) . . . . .      |                       |            |                 |            |
| <b>25</b>                                   | Retained earnings—Unappropriated . . . . .                       |                       |            |                 |            |
| <b>26</b>                                   | Adjustments to shareholders' equity (attach statement) . . . . . |                       |            |                 |            |
| <b>27</b>                                   | Less cost of treasury stock . . . . .                            | ( )                   |            | ( )             |            |
| <b>28</b>                                   | <b>Total liabilities and shareholders' equity</b> . . . . .      |                       |            |                 |            |

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return****Note:** The corporation may be required to file Schedule M-3. See instructions.

|          |   |  |           |  |  |
|----------|---|--|-----------|--|--|
| <b>1</b> | Net income (loss) per books . . . . .                                       |  | <b>7</b>  | Income recorded on books this year not included on this return (itemize):      |  |
| <b>2</b> | Federal income tax per books . . . . .                                      |  |           | Tax-exempt interest \$ _____   |  |
| <b>3</b> | Excess of capital losses over capital gains . . . . .                       |  |           | _____  |  |
| <b>4</b> | Income subject to tax not recorded on books this year (itemize): _____      |  |           | _____  |  |
| <b>5</b> | Expenses recorded on books this year not deducted on this return (itemize): |  | <b>8</b>  | Deductions on this return not charged against book income this year (itemize): |  |
| <b>a</b> | Depreciation . . . . \$ _____   |  | <b>a</b>  | Depreciation . . . \$ _____  |  |
| <b>b</b> | Charitable contributions . \$ _____   |  | <b>b</b>  | Charitable contributions \$ _____  |  |
| <b>c</b> | Travel and entertainment . \$ _____   |  |           | _____  |  |
| <b>6</b> | Add lines 1 through 5 . . . . .   |  | <b>9</b>  | Add lines 7 and 8 . . . . .  |  |
|          |   |  | <b>10</b> | Income (page 1, line 28)—line 6 less line 9                                    |  |

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

|          |  |  |          |   |  |
|----------|--|--|----------|---|--|
| <b>1</b> | Balance at beginning of year . . . . . |  | <b>5</b> | Distributions: <b>a</b> Cash . . . . .      |  |
| <b>2</b> | Net income (loss) per books . . . . .  |  |          | <b>b</b> Stock . . . . .                    |  |
| <b>3</b> | Other increases (itemize): _____       |  |          | <b>c</b> Property . . . . .                 |  |
|          | _____                                  |  | <b>6</b> | Other decreases (itemize): _____            |  |
|          | _____                                  |  | <b>7</b> | Add lines 5 and 6 . . . . .                 |  |
| <b>4</b> | Add lines 1, 2, and 3 . . . . .        |  | <b>8</b> | Balance at end of year (line 4 less line 7) |  |



## **Relevant Code Sections**



**O.C.G.A. 48-5-298 (2010)**

**48-5-298. Selection of chairman and secretary; employment contracts with persons to assist board; payment of expenses**

(a) Each county board of tax assessors shall elect one of its members to serve as chairman for each tax year. The election of a chairman shall be the first order of business at the first meeting of the board for each tax year. At the same time, the board shall select from the county appraisal staff one appraiser to act as secretary to the board for that tax year. Each county board of tax assessors, subject to the approval of the county governing authority, may enter into employment contracts with persons to:

(1) Assist the board in the mapping, platting, cataloging, indexing, and appraising of taxable properties in the county;

(2) Make, subject to the approval of the board, reevaluations of taxable property in the county; and

(3) Search out and appraise unreturned properties in the county.

(b) Each county board of tax assessors may enter into a contract with any municipality or political subdivision of the state to provide any information for which the board could contract pursuant to subsection (a) of this Code section.

(c) The expenses of employees engaged and work performed pursuant to this Code section shall be paid, subject to the contracts and after approval by the county governing authority, out of county funds as a part of the expenses of the board. A county board of education or independent board of education may expend funds to assist in paying the expenses incurred in discovering unreturned properties pursuant to this Code Section for the purpose of collecting unpaid school taxes. The method of such expenditure as provided in this subsection and the amount thereof shall be within the discretion of the county board of education or independent board of education.

**O.C.G.A. 48-5-299 (2010)**

**48-5-299. Ascertainment of taxable property; assessments against unreturned property; penalty for unreturned property; changing real property values established by appeal in prior year**

(a) It shall be the duty of the county board of tax assessors to investigate diligently and to inquire into the property owned in the county for the purpose of ascertaining what real and personal property is subject to taxation in the county and to require the proper return of the



property for taxation. The board shall make such investigation as may be necessary to determine the value of any property upon which for any reason all taxes due the state or the county have not been paid in full as required by law. In all cases where the full amount of taxes due the state or county has not been paid, the board shall assess against the owner, if known, and against the property, if the owner is not known, the full amount of taxes which has accrued and which may not have been paid at any time within the statute of limitations. In all cases where taxes are assessed against the owner of property, the board may proceed to assess the taxes against the owner of the property according to the best information obtainable; and such assessment, if otherwise lawful, shall constitute a valid lien against the property so assessed.

(b)(1) In all cases where unreturned property is assessed by the county board of tax assessors after the time provided by law for making tax returns has expired, the board shall add to the amount of state and county taxes due a penalty of 10 percent of the amount of the tax due or, if the principal sum of the tax so assessed is less than \$10.00 in amount, a penalty of \$1.00. The penalty provided in this subsection shall be collected by the tax collector or the tax commissioner and in all cases shall be paid into the county treasury and shall remain the property of the county.

(2)(A) The provisions of paragraph (1) of this subsection to the contrary notwithstanding, this paragraph shall apply with respect to counties having a population of 600,000 or more according to the United States decennial census of 1970 or any future such census.

(B) In all cases in which unreturned property is assessed by the board after the time provided by law for making tax returns has expired, the board shall add to the assessment of the property a penalty of 10 percent, which shall be included as a part of the taxable value for the year.

(c) Real property, the value of which was established by an appeal in any year, that has not been returned by the taxpayer at a different value during the next two successive years, may not be changed by the board of tax assessors during such two years for the sole purpose of changing the valuation established or decision rendered in an appeal to the board of equalization or superior court. In such cases, before changing such value or decision, the board of assessors shall first conduct an investigation into factors currently affecting the fair market value. The investigation necessary shall include, but not be limited to, a visual on-site inspection of the property to ascertain if there have been any additions, deletions, or improvements to such property or the occurrence of other factors that might affect the current fair market value. If a review to determine if there are any errors in the description and characterization of such property in the files and records of the board of tax assessors discloses any errors, such errors shall not be the sole sufficient basis for increasing the valuation during the two-year period.

(d) When real or personal property is located within a municipality whose boundaries extend into more than one county, it shall be the duty of each board of tax assessors of a county, wherein a portion of the municipality lies, to cooperatively investigate diligently into whether the valuation of such property is uniformly assessed with other properties located within the municipality but outside the county where such property is located. Such investigation shall include, but is not



limited to, an analysis of the assessment to sales ratio of properties that have recently sold within the municipality and a comparison of the average assessment level of such properties by the various counties wherein a portion of the municipality lies. The respective boards shall exchange such information as will facilitate this investigation and make any necessary adjustments to the assessment of the real and personal property that is located in their respective counties within the municipality to achieve a uniform assessment of such property throughout the municipality. Any uniformity adjustments pursuant to this subsection shall only apply to the assessment used for municipal ad valorem tax purposes within the applicable county.

**O.C.G.A. 48-5-300.1 (2010)**

**48-5-300.1. Time period for taxation of personal property; extension by consent; refunds**

(a) Except as otherwise provided in this Code section or this title, the amount of any tax imposed under this chapter with respect to personal property may be assessed at any time.

(b) Except as otherwise provided by subsection (c) of this Code section or by this title, in the case where a return or report is filed or deemed to be filed for personal property, the amount of any tax imposed by this chapter shall be assessed within three years from the date the original tax bill was paid, unless such personal property in question is the subject of an audit by the board of tax assessors.

(c) Except as otherwise provided by this title, in the case of a false or fraudulent personal property tax return or report filed with the intent to evade tax, or if the property owner has been notified of a pending audit of personal property, the amount of any tax imposed by this chapter may be assessed at any time.

(d) Where, before the expiration of the time prescribed in this Code section for the assessment of any tax imposed by this chapter with respect to personal property, both the board of tax assessors and the person subject to assessment have consented in writing to its assessment after such time, the tax may be assessed at any time prior to the expiration of the agreed upon period. The period so agreed upon may be extended by subsequent agreements in writing made before the expiration of the previously agreed upon period. The board of tax assessors is authorized in any such agreement to extend similarly the period within which a claim for refund may be filed.

(e) If a claim for refund of such taxes paid for any taxable period is filed within the last six months of the period during which the board of tax assessors may assess the amount of such taxes, the assessment period shall be extended for a period of six months beginning on the day the claim for refund is filed.



(f) No action without assessment shall be brought for the collection of any such tax after the expiration of the period for assessment.

**O.C.G.A. 48-5-305 (2010)**

**48-5-305. Valuation of property not in digest**

(a) The county board of tax assessors may provide, pursuant to rules or regulations promulgated by the board and consistent with this article, the manner of ascertaining the fair market value for taxation of any real or personal property not appearing in the digest of any year within the period of the statute of limitations.

(b) It is the purpose and intent of this Code section to confer upon the county board of tax assessors full power and authority necessary to have placed upon the digest an assessment of the fair market value of all property in the county of every character which is subject to taxation and for which either state or county taxes have not been paid in full.

(c) Nothing contained in this Code section shall apply to those persons who are required to make their returns to the commissioner.

**O.C.G.A. 48-5-306 (2010)**

**48-5-306. (For effective date, see note.) Annual notice of current assessment; contents; posting notice; new assessment description**

(a) (For effective date, see note.) Method of giving annual notice of current assessment to taxpayer. . Each county board of tax assessors may meet at any time to receive and inspect the tax returns to be laid before it by the tax receiver or tax commissioner. The board shall examine all the returns of both real and personal property of each taxpayer, and if in the opinion of the board any taxpayer has omitted from such taxpayer's returns any property that should be returned or has failed to return any of such taxpayer's property at its fair market value, the board shall correct the returns, assess and fix the fair market value to be placed on the property, make a note of such assessment and valuation, and attach the note to the returns. The board shall see that all taxable property within the county is assessed and returned at its fair market value and that fair market values as between the individual taxpayers are fairly and justly equalized so that each taxpayer shall pay as nearly as possible only such taxpayer's proportionate share of taxes. The board shall give annual notice to the taxpayer of the current assessment of taxable real property. When any corrections or changes, including valuation increases or decreases, or equalizations have been made by the board to personal property tax returns, the board shall give written notice to the taxpayer of any such changes made in such taxpayer's returns. The annual notice may be given personally by leaving the notice at the taxpayer's dwelling house, usual place of abode, or place of business with some person of suitable age and discretion



residing or employed in the house, abode, or business, or by sending the notice through the United States mail as first-class mail to the taxpayer's last known address. The taxpayer may elect in writing to receive all such notices required under this Code section by electronic transmission if electronic transmission is made available by the county board of tax assessors. When notice is given by mail, the county board of tax assessors' return address shall appear in the upper left corner of the face of the mailing envelope and with the United States Postal Service endorsement "Return Service Requested" and the words "Official Tax Matter" clearly printed in boldface type in a location which meets United States Postal Service regulations.

**O.C.G.A. 48-5-314 (2010)**

**O.C.G.A. 48-5-314. Confidentiality of taxpayer records; exceptions; penalties**

(a) (1) All records of the county board of tax assessors which consist of materials other than the return obtained from or furnished by an ad valorem taxpayer shall be confidential and shall not be subject to inspection by any person other than authorized personnel of appropriate tax administrators. As an illustration of the foregoing, materials which are confidential shall include, but shall not be limited to, taxpayers' accounting records, profit and loss statements, income and expense statements, balance sheets, and depreciation schedules. Such information shall remain confidential when it is made part of an appeal file. Nothing in this Code section, however, shall prevent any disclosure necessary or proper to the collection of any tax in any administrative or court proceeding.

(2) Records which consist of materials containing information gathered by personnel of the county board of tax assessors, such as field cards, shall not be confidential and are subject to inspection at all times during office hours. The provisions of this paragraph shall not remove the confidentiality of materials such as are specified in paragraph (1) of this subsection.

(3) Failure of the county board of tax assessors to make available records which are not confidential as provided in paragraph (2) of this subsection shall be a misdemeanor.

(b) Any person who knowingly and willfully furnishes information which is confidential under this Code section to a person who is not authorized by law to receive such information shall upon conviction be subject to a civil penalty not to exceed \$1,000.00.





## **Rules & Regulations**



## Appraisal Procedures Manual

### 560-11-10-.01 Purpose and Scope.

**(1) Purpose.** This appraisal procedures manual has been developed in accordance with Code section 48-5-269.1 which directs the Revenue Commissioner to adopt by rule, subject to Chapter 13 of Title 50, the “Georgia Administrative Procedure Act,” and maintain an appropriate procedural manual for use by the county property appraisal staff in appraising tangible real and personal property for ad valorem tax purposes.

**(2) Specific procedures.** In order to facilitate the mass appraisal process, specific procedures are provided within this Chapter which are designed to arrive at a basic appraisal value of real and personal property. These specific procedures are designed to provide fair market value under normal circumstances. When unusual circumstances are affecting value, they should be considered. In all instances, the appraisal staff will apply Georgia law and generally accepted appraisal practices to the basic appraisal values required by this manual and make any further valuation adjustments necessary to arrive at the fair market values.

**(3) Board of tax assessors.** The county board of tax assessors shall require the appraisal staff to observe the procedures in this manual when performing their appraisals. The county board of tax assessors may not adopt local procedures that are in conflict with Georgia law or the procedures required by this manual. The county board of tax assessors must consider the appraisal staff information in the performance of their duties. In each instance, however, the assessment placed on each parcel of property shall be the assessment established by the county board of tax assessors as provided in Code section 48-5-306.

**(4) Other appraisal procedures.** The appraisal staff may use those generally accepted appraisal practices set forth in the Uniform Standards of Professional Appraisal Practice, published by the Appraisal Foundation, and the standards published by the International Association of Assessing Officers, as they may be amended from time to time, to the extent such practices do not conflict with this manual and Georgia law.



## RULES OF DEPARTMENT OF REVENUE LOCAL GOVERNMENT SERVICES DIVISION

### CHAPTER 560-11-10 APPRAISAL PROCEDURES MANUAL

#### **560-11-10-.02 Definitions.**

**(1) Definitions.** When used in this Chapter, the definitions found in this Rule shall apply.

**(a) Absorption rate.** "Absorption rate" means the rate at which the real estate market can absorb real property of a given type.

**(b) Appraiser.** "Appraiser" means a member of the county appraisal staff, who serves the board of tax assessors and whose position was created pursuant to Part 1 of Article 5 of Chapter 5 of Title 48 of the Official Code of Georgia Annotated. This term does not limit its meaning to a single appraiser and may mean one or more members of the county appraisal staff.

**(c) Basic cost approach.** "Basic cost approach" means a cost approach procedure, used in the mass appraisal of personal property, which uses standard estimates of the most common factors affecting the value of such property. The basic cost approach is intended to provide a uniform estimate of personal property value.

**(d) Depreciation.** "Depreciation" means the loss of value due to any cause. It is the difference between the market value of a structural improvement or piece of equipment and its reproduction or replacement cost as of the date of valuation. Depreciation is divided into three categories, physical deterioration, functional obsolescence, and economic obsolescence. Depreciation may be further characterized as curable or incurable depending upon the difficulty or practicality of restoring the lost value through repair or maintenance.



**(e) Economic life.** "Economic life" means the period during which property may reasonably be expected to perform the function for which it was designed or intended.

**(f) Economic obsolescence.** "Economic obsolescence" means a form of depreciation that measures a loss of value from negative influence external to the real or personal property. It results when the desirability or useful life of real or personal property is impaired due to forces such as changes in optimum use, legislative enactment that restricts or impairs productivity, and changes in supply and demand relationships. Economic obsolescence is normally incurable.

**(g) Effective age.** "Effective age" means the age of an improvement to property as compared with other property performing like functions. It is the actual age less the age that has been taken off by face-lifting, structural reconstruction, removal of functional inadequacies, modernization of equipment, and similar repairs and overhauls. It is an age that reflects a true remaining life for the property, taking into account the typical life expectancy of buildings or equipment of its class and usage.

**(h) Fair market value.** "Fair market value" means fair market value as defined in Code section 48-5-2 (3).

**(i) Final assessment.** "Final assessment" means the final assessed value that is determined for the property for the applicable tax year after the following events have occurred: the time period for filing appeals has expired and any appeals that have been filed have been resolved; the authorities authorized to levy taxes on property in the county have approved the final tax levy; the Revenue Commissioner has authorized that the digest may be used as the basis for collecting taxes; the tax commissioner has mailed the final tax bills based on the authorized digest; and in the case of personal property, the appraisal staff has completed its audit of the personal property pursuant to Rule 560-11-10-.08(4)(d) within the seven year statute of limitations.

**(j) Functional obsolescence.** "Functional obsolescence" means a form of depreciation that measures a loss of value from a design deficiency or appearance in the market of a more innovative design. Some functional obsolescence may be curable and some functional obsolescence may be incurable.



**(k) Inventory.** "Inventory" means goods held for sale or lease or furnished under contracts for service; also, raw materials, work in process or materials used or consumed in a business.

**(l) Large acreage tract.** "Large acreage tract" means a rural land tract that is greater in acreage than the small acreage break point.

**(m) Mass appraisal.** "Mass appraisal" means the process of valuing a universe of properties as of a given date using standard methodology, employing common data and allowing for statistical testing.

**(n) Most Recent Arms Length Sale.** As referenced in OCGA 48-5-2(3), transactions must occur prior to the statutory date of valuation to become eligible for the value limitations imposed in 48-5-2(3). Furthermore, where the exchange of property is defined as an arm's length transaction, the sum of the value of the exchanged real estate property components, land and improvements, in the year following the property exchange shall not exceed the transaction's sale price adjusted for non- real estate values such as but not limited to, timber, personal property, etc. The adjustment to the value of the real estate shall remain in effect for at least the digest year following the transaction. With respect to changes in the exchanged real estate property components since the time of exchange (sale date), the value of new improvements, value of additions to existing improvements (footprint of exchanged structure has been altered), major remodeling or renovations to existing structures (footprint of exchanged structure has not been altered), and adjustments to land due to consolidation of tracts, new surveys, zoning changes, land use changes, etc. shall be added to the sales price adjusted values. In the event an exchanged real estate property structure is renovated or remodeled, the term major shall be construed such that both the property owner and BOA would reasonably conclude a major renovation/remodeling has occurred. If either party, acting reasonably, could debate that the renovation/remodeling effort was not major in nature, the renovation/remodeling effort does not qualify and shall not be added to the sales price adjusted values. Any modifications made to the exchanged real estate property after the sale date that result in a lower value of the exchanged property shall be considered in the final valuation of property for the digest.

**(o) Original cost.** "Original cost" means, in the case of machinery, equipment, furniture, personal fixtures, and trade fixtures in the hands of the final user, all the direct



costs associated with acquiring, transporting and installing such property at the site where it is to be used. This includes the cost of the property to the property owner, the cost of transporting the property to its present site, the cost of any on-site assembly or customized modification of the property, the cost of installing the property, the cost of installing personal fixtures and trade fixtures necessary for the proper operation of the property, and any sales or use tax paid on the property. Original cost is equivalent to original cost new if the property owner was the first to put the personal property into service.

**(p) Original cost new.** "Original cost new" means, in the case of machinery, equipment, furniture, personal fixtures, and trade fixtures in the hands of the final user, all the direct costs associated with acquiring, transporting and installing such property at the site where it is to be used. This includes the historical cost of the property at the time it was first put into service new, the cost of transporting the property to its present site, the cost of any on-site assembly or customized modification of the property, the cost of installing the property, the cost of installing personal fixtures and trade fixtures necessary for the proper operation of the property, and any sales or use tax paid on the property. Original cost new is equivalent to original cost if the property owner was the first to put the personal property into service.

**(q) Paired sales analysis.** "Paired sales analysis" means the comparing of the sale prices of similar properties, some with and some without a particular characteristic, in order to determine what portion of the difference in sales price might be attributable to such characteristic.

**(r) Personal fixtures.** "Personal fixtures" means personal property that has been set-up or installed on land or in a building or in a group of buildings and is not permanently attached to such land or buildings. A consideration for whether personal property is a personal fixture is whether its removal would cause significant damage to such property or to the real property on which it has been set-up or installed. The term personal fixtures shall not include trade fixtures. Personal fixtures are classified as personal property. Examples of personal fixtures are desks, shelving, display cases and gondolas.

**(s) Personal property.** "Personal property" means tangible personal property that may be seen, weighed, measured, felt, or touched or which is in any other manner



perceptible to the senses. Personal property shall include trade fixtures. For the purposes of this Rule, personal property shall not include the capital stock of all corporations; money, notes, bonds, accounts, or other credits, secured or unsecured; patent rights, copyrights, franchises, and any other classes and kinds of property defined by law as intangible personal property.

**(t) Physical deterioration.** "Physical deterioration" means a form of depreciation that measures the loss of utility of real or personal property over time from wear and tear, age, and exposure to the elements. Some physical deterioration may be curable and some physical deterioration may be incurable.

**(u) Ready market.** "Ready market" means a market, possibly global, where exchanges of machinery, equipment, personal fixtures and trade fixtures occur with such regularity and under such conditions as to provide a reliable measure of fair market value. Five conditions that may indicate a ready market are: the items of personal property being sold within the market are reasonable substitutes for each other; there are an adequate number of buyers and sellers of the personal property in the market, no one of whom can measurably affect price; there is an absence of artificial restraints and unusual incentives in the market; the item of personal property is reasonably free to be moved where it will receive the greatest return and buyers are reasonably free to buy where the price is lowest; and buyers and sellers are knowledgeable and informed about market conditions.

**(v) Real estate.** "Real estate" means the physical parcel of land, improvements to the land, improvements attached to the land, real fixtures and appurtenances such as easements.

**(w) Real fixtures.** "Real fixtures" means personal property that has been installed or attached to land or a building or group of buildings and is intended to remain permanently in its place. A consideration for whether personal property is a real fixture is whether its removal would cause significant damage to such property or to the real property to which it is attached. The term real fixtures shall not include trade fixtures. Real fixtures are classified as real property. Examples of real fixtures are plumbing, heating and cooling, and lighting fixtures.

**(x) Real property.** "Real property" means the bundle of rights, interests, and benefits



connected with the ownership of real estate. Real property does not include the intangible benefits associated with the ownership of real estate, such as the goodwill of a going business concern.

**(y) Replacement cost.** "Replacement cost" for real property means the cost required to construct a similar structure with like utility as the subject property using modern design, materials, and workmanship. Replacement cost for personal property means the current cost of a similar new item having the nearest equivalent utility as the subject property.

**(z) Reproduction cost.** "Reproduction cost" for real property means the cost required to construct an identical or exact replica structure of the subject property. Reproduction cost for personal property means the current cost of duplicating an identical new item.

**(aa) Residual value.** "Residual value" means the value of personal property that is at the end of its normally expected economic life but still in use.

**(bb) Rural land.** "Rural land" means any land that normally lies outside corporate limits, planned subdivisions, commercial sites, and industrial sites.

**(cc) Salvage value.** "Salvage value" means the value of personal property that is at the end of its normally expected economic life and has been taken out of use.

**(dd) Small acreage break point.** "Small acreage break point" means the point, expressed as a number of acres, at which the slope of a trend line, drawn through the plotted qualified sales of rural land on a graph, reflects a distinct and pronounced change. Such graph uses the dollars per acre on the vertical axis and numbers of acres on the horizontal axis. The small acreage break point should show the point below which the market factors of accessibility and desirability of the land primarily influence value, and above which the productivity of the soil and suitability for timber growth primarily influence value.

**(ee) Small acreage tract.** "Small acreage tract" means a rural land tract that is equal to or smaller in acres than the small acreage break point.





**(ff) Tax situs.** "Tax situs" means the location of personal property for ad valorem tax purposes.

**(gg) Trade fixtures.** "Trade fixtures" means fixtures that are owned and temporarily installed or attached to a rented space or building by a tenant and used in conducting a business. For personal property to be classified as trade fixtures the lease or rental agreement has to show intent for the fixtures to be removed by the owner at the termination of the lease. Fixtures that revert to the landlord when the lease is terminated are not trade fixtures. Property shall not be classified as a trade fixture when the cost of removal, or damage that removal would cause to the realty, or to the fixture itself, clearly indicates that a tenant is unlikely to remove such fixture at the termination of the lease. Trade fixtures shall be classified as personal property.

**(hh) Transitional real property.** "Transitional real property" means any real property that is undergoing a change in use, such as residential, agricultural, commercial, or industrial, and has not been firmly established in its new use. Change in use may be evidenced by recent zoning changes, purchase by a known developer, affidavits of intent, or close proximity to property exposed to these market factors.

**(ii) Trend.** "Trend" means an observable tendency of behavior such as stable economic direction over extended periods despite temporary fluctuations.

Authority: O.C.G.A. §§ 48-2-12, 48-5-2, 48-5-269, 48-5-269.1.



RULES OF DEPARTMENT OF REVENUE LOCAL GOVERNMENT  
SERVICES DIVISION  
CHAPTER 560-11-10  
APPRAISAL PROCEDURES MANUAL

**560-11-10-0.2-.08 Personal Property Appraisal.**

**(1) Personal property identification.** The appraisal staff shall identify personal property, determine its taxability, and classify it for addition to the county ad valorem tax digest in accordance with this paragraph.

**(a) Distinguishing personal property.** The appraiser shall be required to correctly identify personal property and distinguish it from real property where the proper valuation procedures, as set forth in this Rule, may be followed.

**1. Examples.** As used in this Chapter, personal property shall be that property defined in Rule 560-11-10-.02(1)(r). This Rule shall provide illustrations to assist the appraiser in the proper interpretation of the definition. However, these illustrations should not be construed in a manner that conflicts with the definition. Examples of personal property are tangible items such as aircraft; boats and motors; inventories of retail stock, finished manufactured or processed goods, goods in process, raw materials and supplies; furniture, personal fixtures, trade fixtures, machinery and equipment.

**2. Identification of trade fixtures.** When property the appraiser believes is a trade fixture has not been returned by the tenant, the appraiser shall require the tenant to produce their lease agreement and shall carefully review the agreement before making a recommendation to the board of tax assessors regarding the classification of the property in question. The appraiser shall inform the tenant that they may redact, at their option, any information relating to the payments that are required by the lease agreement.

**(b) Assessment date.** Code section 48-5-10 provides that each return by a property owner shall be for property held and subject to taxation on January 1 of the tax year.



The appraisal staff shall base their decisions regarding the taxability, tax situs, uniform assessment, and valuation of personal property on the circumstances of such property on January 1 of the tax year for which the assessment is being prepared. When personal property is transferred to a new owner or converted to a new use, the circumstances of such property on January 1 shall nevertheless be considered as controlling.

**(c) Freeport exemptions.** 1. Mailing applications. The appraisal staff shall, by U. S. mail, send a new freeport exemption application to any person, firm or corporation that was approved for freeport exemption by the board of tax assessors for the tax year proceeding the tax year for which the application is to be made. The application provided by the appraisal staff shall be deposited with the local post office no later than the 15th day after the official who is responsible for receiving returns has opened the books for returns. The failure of the appraisal staff to comply with this requirement shall not relieve a person, firm or corporation from the responsibility to timely file a freeport application.

**2. Reviewing applications.** The appraisal staff shall, upon receipt of a freeport application, reconcile the figures reported on such form to any inventory totals that may have been returned by the property owner. The appraisal staff may obtain relevant information as is available from financial records or other records of the property owner when needed to reconcile the figures reported on the application. Once the appraisal staff has completed the reconciliation of the freeport application, they shall forward the application and their recommendations, along with any supporting documentation, to the board of tax assessors. When the appraisal staff recommends the freeport application be denied, in whole or in part, they shall include the reasons for their recommendation.

**(d) Tax situs.** The appraisal staff shall inquire into the proper tax situs of personal property before preparing the proposed assessment to ensure that the property owner is made subject to only those taxes that may legally be levied. The tax situs inquiry shall be sufficiently specific to determine whether the property is subject to tax by each of the authorities authorized to levy taxes in the county.

**1. General tax situs.** Unless otherwise provided in subparagraph (d) of this paragraph, the appraisal staff shall consider the tax situs of personal property to be as provided in this subparagraph.



**(i) Tax situs of personal property of Georgia residents.** The appraisal staff shall consider the tax situs of personal property owned by a Georgia resident as being the domicile of the owner unless such property has acquired a business situs elsewhere. The appraisal staff shall consider the tax situs of personal property owned by a Georgia resident and used in connection with a business as being the location of the business. In making the determination of tax situs, the appraisal staff shall consider such factors as the principal location of the personal property, the base from which its operations normally originate and whether the personal property is connected with some business enterprise that is situated more or less permanently in the county, as distinguished from an enterprise whose location is merely transitory or temporary. When personal property used in connection with a business is moved about in such a manner that it is not predominantly located during the year in one place, the appraisal staff shall consider the headquarters of the business as the tax situs.

**(ii) Tax situs of personal property of non-residents.** The appraisal staff shall consider the tax situs of personal property owned by non-residents as being where the property is located. The appraisal staff shall recommend to the board of tax assessors a "no tax situs" status for any personal property owned by a nonresident who does not maintain a place of business in Georgia and who gives the personal property to a commercial printer in Georgia for printing services to be performed in Georgia.

**2. Tax situs of boats.** In accordance with Code section 48-5- 16 (d), the appraisal staff shall consider the tax situs of a boat to be the tax district wherein lies the domicile of the owner, even when the boat is located within another tax district in the county. When the boat is functionally located for recreational or convenience purposes for 184 days or more in a county other than where the owner is domiciled, the appraisal staff shall consider the tax situs of the boat to be where it is functionally located.

**3. Tax situs of aircraft.** In accordance with Code section 48- 5-16 (e), the appraisal staff shall consider the tax situs of an aircraft to be the tax district wherein lies the domicile of the owner, even when the aircraft is located within another tax district in the county. When the aircraft's primary home base is in a county other than where the owner is domiciled, the appraisal staff shall consider the tax situs of the aircraft to be where it is principally hangered or tied down and out of which its flights normally originate.



**4. Tax situs of foreign merchandise in transit.** The appraisal staff shall recommend to the board of tax assessors a "no tax situs" status for foreign merchandise that is in transit through this state. The recommendation of "no tax situs" shall be made regardless of the fact that while the foreign merchandise is in the warehouse it is assembled, bound, joined, processed, disassembled, divided, cut, broken in bulk, relabeled, or repackaged. The grant of "no tax situs" status shall be liberally construed. In deciding whether goods are foreign, the appraisal staff shall determine if the point of origin is a non-domestic shipping port. In deciding whether goods are in transit, the appraisal staff shall consider whether the interruption in the transport of the goods may be characterized as having a business purpose or advantage, rather than just being an incidental interruption in the continuity of transit.

**(e) Assessments of personal property used on state contracts.** Under Code section 50-17-29 (e)(1), the appraisal staff shall not propose an assessment upon the personal property of any contractor or subcontractor as a condition to or result of the performance of a contract, work, or services by such contractor or subcontractor in connection with any project being constructed, repaired, remodeled, enlarged, serviced, or destroyed for, or on behalf of, the state or any of its agencies, boards, bureaus, commissions, and authorities. The appraisal staff shall inquire into the nature of the use of such property and prepare their proposed assessment in accordance with this Subparagraph.

**1. Personal property located in headquarters' county.** When the tax situs of the personal property being used on state projects is in the same county as where the property owner's permanent business headquarters and administrative offices are located, and such property is not used exclusively for the state projects contemplated by Code section 50-17-29 (e)(1), the appraisal staff shall not apportion their proposed assessment of the property. When such property is used exclusively for such state projects, such property is made exempt by Code section 50-17-29 (e)(1) from ad valorem taxation by the county and the appraisal staff shall treat such property as exempt property is treated.

**2. Personal property not located in headquarters' county.** When the tax situs of the personal property being used on state projects is in a county other than where the property owner's permanent business headquarters and administrative offices are located, and such property would not be located in the county absent the state projects, then the appraisal staff shall apportion their proposed assessment of such property as



follows: The exempt portion of the personal property being used on state projects shall be that pro rata portion of the total value of such property that represents the percentage the contractor or subcontractor can reasonably demonstrate is likely to represent the portion of their business that will result from state projects during the tax year. The appraisal staff may consider the percentage of income, production output, or time attributable to state projects during the preceding year. The appraisal staff shall consider any information submitted by the property owner regarding the basis for the apportionment. The appraisal staff shall not apportion the personal property when the property owner fails to provide reasonable evidence necessary to determine the portion of the property owner's business that will result from state projects during the year.

**(f) Partial assessments.** Unless specifically provided by law and this Rule, the appraisal staff shall not prepare a partial appraisal based on the fact that personal property is owned or used during the year in a manner that would make it exempt part of the year and taxable part of the year.

**(2) Classification.** The appraisal staff shall classify personal property as provided in Rule 560-11-2-.21 for inclusion in the county tax digest.

**(3) Return of personal property.** In accordance with Code section 48-5-299 (a), the appraisal staff, on behalf of the board of tax assessors, shall investigate diligently and inquire into the property owned in the county for the purpose of ascertaining what real and tangible personal property is subject to taxation in the county and to require the proper return of the property for taxation. The appraisal staff shall make such investigation as may be necessary to determine the value of any property upon which for any reason all taxes due the state or the county have not been paid in full as required by law. In all cases where taxes are assessed against the owner of property, the appraisal staff shall prepare a proposed assessment on the property according to the best information obtainable.

**(a) Information sources.** The appraisal staff should develop and maintain information sources for the discovery of unreturned personal property.

**(b) Returns.** Property owners shall use Department of Revenue authorized return forms when returning personal property. No other forms shall be provided for this



purpose to property owners by the county official responsible for receiving returns unless previously approved in writing by the Revenue Commissioner.

**1. Authorized return forms.** The returns described in this subparagraph shall be authorized for use when returning personal property.

**(i) Form PT-50P.** The return form PT-50P, entitled "Business Personal Property Tax Return," may be used for the return of business personal property when the property owner is not eligible or does not desire to file an application for freeport exemption.

**(ii) Form PT-50PF.** The return form PT-50PF, entitled "Business Personal Property Tax Return / Application for Freeport Exemption," may be used for the return of business personal property and simultaneous application for freeport exemption.

**(iii) Form PT-50MA.** The return form PT-50MA, entitled "Marine / Aircraft Personal Property Tax Return," may be used for the return of boats or aircraft.

**2. Obtaining returns from receiver.** Each year, after the deadline for filing returns, the appraisal staff shall secure the returns from the official responsible for receiving returns on or before the tenth day following such deadline.

**3. Automatic returns.** In accordance with Code section 48-5- 20, the appraisal staff shall deem any property owner that does not file a return by the deadline as returning for taxation the same property as was returned or deemed to have been returned in the preceding tax year at the same valuation as the property was finally determined to be subject to taxation in the preceding year.

**(c) Reporting schedules.** Property owners shall use Department of Revenue authorized reporting schedules when reporting supporting information for authorized return forms. No other reporting schedules shall be provided for this purpose to property owners by the county official responsible for reviewing returns unless previously approved in writing by the Revenue Commissioner. A property owner may attach other schedules or documents that provide further support for the value they have placed on their personal property return. The appraisal staff shall consider all additional



information submitted by the property owner with the return and reporting schedules. The reporting schedules required by Rule 560-11-10-.08(3)(c) and appropriate for the type of personal property being returned and any other information submitted with the return by the property owner are made confidential by Code section 48-5-314 and shall be treated as such by the appraisal staff. The appraisal staff shall not consider as fully returned any property that is omitted, misrepresented, or undervalued on the supporting reporting schedules and accompanying property owner documents, as these provide the basis for the property owner's declarations of value on the return and are necessary for the board of assessors to carry out their responsibility under Code section 48-5-299 to, through their appraisal staff, ascertaining what personal property is subject to taxation in the county and to require the proper return of the property for taxation.

**1. Authorized reporting schedules.** The reporting schedules described in this subparagraph shall be authorized for use when reporting information to support the return of personal property.

**(i) Schedule A.** The reporting schedule entitled "Schedule A" may be used to list and describe any furniture, trade fixtures, personal fixtures, machinery and equipment that is included on the property owner's return.

**(ii) Schedule B.** The reporting schedule entitled "Schedule B" may be used to list and describe any inventory that is included on the property owner's return.

**(iii) Schedule C.** The reporting schedule entitled "Schedule C" may be used to list and describe any construction in progress that is included on the property owner's return.

**(iv) Schedule D.** The reporting schedule entitled "Schedule D" may be used to list and describe any boats or aircraft that are included on the property owner's return.

**(4) Verification.** The appraisal staff shall review and audit the returns in accordance with policies and procedures set by the county board of tax assessors consistent with Georgia law and this Rule.

**(a) Omissions and undervaluations.** If not otherwise prohibited by law or this Rule,





the appraisal staff shall recommend an additional assessment to the board of tax assessors when any review or audit reveals that a property owner has omitted from their return any property that should be returned or has failed to return any of their property at its fair market value. The appraisal staff shall recommend a reduced assessment to the board of tax assessors when any review or audit reveals that a property owner has overstated the amount of personal property subject to taxation.

**(b) Reassessments.** The appraisal staff shall recommend to the board of tax assessors a new assessment when the property owner has omitted personal property from their return or failed to return personal property at its fair market value, when such omission or undervaluation has been discovered by an audit conducted pursuant to Rule 560-11-10-.08(4)(d). The appraisal staff shall not be precluded from conducting such an audit merely because a change of assessment has been made on the personal property as a result of a review conducted pursuant to Rule 560-11-10-.08(4)(c). However, the appraisal staff may not recommend to the board of tax assessors a reassessment of the same personal property for which an audit has been conducted pursuant to Rule 560-11-10-.08(4)(d) and a final assessment has already been made by the board.

**(c) Review.** The purpose of a review is to determine if a property owner has correctly and fully completed their return and reporting schedules. It is based upon the good-faith disclosures of the property owner and information that is readily ascertainable by the appraisal staff. The review of an owner's return may consist of, but is not limited to, an analysis of any improper omissions or inclusions, improperly applied or omitted depreciation, and improperly applied or omitted inflation or deflation of the value of the owner's property. The examination should include a comparison of the current return information with return information from prior years. The appraiser should contact the owner or their agent by an on-site visit, telephone call, or written correspondence to attempt to resolve any questionable items. Returns with unresolved discrepancies, unexpected values, or incomplete information should be escalated to an audit.

**(d) Audits.** The purpose of an audit is to gather information that will allow the appraiser to make an accurate determination of the fair market value of the property owned by the property owner and subject to taxation. An audit is an examination of the records of the property owner to make an independent determination of the fair market value of such property where such determination does not solely depend upon the good-faith disclosures of the property owner and information that is readily



ascertainable by the appraisal staff. The appraisal staff shall perform, consistent with Georgia Law and policies that are established by the board of tax assessors, audits of the records of the property owners to verify the returns of personal property. These audits may take place at any time within the seven-year statute of limitations, which begins on the date the personal property was required by law to be returned.

**1. Scope of audit.** The audit may be an advanced desk audit of certain additional property owner records that are voluntarily submitted or obtained by subpoena from the property owner or a complex on-site detailed audit of the property owner's books and records combined with a physical inspection of the personal property. The documents the appraisal staff should secure include, but are not limited to, schedules A, B, and C of form PT-50P; a balance sheet or other type of financial record that for a particular location reflects the business' book value as of January 1 of the tax year being audited; a ledger of capitalized personal property items held on January 1 of the tax year being audited; and an income statement.

**(i) Use of subpoena.** The appraiser should request the board of tax assessors to subpoena, within the limitations of their subpoena powers, any existing documents the property owner fails to provide voluntarily, when these documents are deemed by the appraiser to be critical to the audit. Since the appraiser may not request a subpoena for documents that do not presently exist in the format needed, the appraiser should seek existing documents held by the property owner and solicit the owner's voluntary cooperation in obtaining these documents.

**2. Contracts with auditing specialists.** The appraiser shall secure non-disclosure statements from any contracted audit specialist to ensure that such specialist shall conform with the confidentiality provisions of Code section 48-5-314 and shall not disclose the property owner's confidential records to unauthorized persons or use such confidential records for purposes other than the county's review for ad valorem tax purposes of the tax return and supporting documentation. The appraisal staff shall provide a copy of such non-disclosure statement to the property owner upon such owner's request. The appraiser shall not recommend to the board of tax assessors any contract or agreement with an audit specialist that provides for such specialist to contingently share a percentage of the tax collected as a result of any audits such specialist may perform.



**(i) Notice to property owner.** The lead appraiser shall ensure the property owner is sent a notice they have been selected for an audit of their personal property holdings for ad valorem tax purposes. The notice shall, at a minimum, indicate the following: the purposes and goals of the audit and the law authorizing the audit; the name of the lead appraiser who is primarily responsible for the conduct of the audit; the names of the members of the audit team that will be performing the audit; the number of years that will be audited; a description of the type records that should be made available; a description of how the audit will be conducted; the range of dates desired for the audit; and contact information should the property owner wish to contact the lead appraiser. The notice shall contain a statement that the lead appraiser will be contacting the property owner by telephone to establish the date and time of the audit and to determine the availability and location of records. At the conclusion of the audit, if there is sufficient evidence to warrant a recommended change of assessment, the lead appraiser shall have prepared a list of preliminary audit findings and provide such list to the property owner to afford them an opportunity to meet and discuss the findings and view any supporting schedules and documents relied upon by the individuals conducting the audit. After any such meeting requested by the property owner, the lead appraiser shall have prepared the final audit report and proposed assessment and provide a copy to the property owner and the board of tax assessors.

**(e) Audit selection criteria.** The appraisal staff shall recommend to the board of tax assessors a review and audit selection criteria, and the appraisal staff shall follow such criteria when adopted by the board. The criteria should be designed to maximize the number of personal property returns that may be reviewed or audited with existing resources. The criteria should be fair, unbiased, and developed consistent with the requirements of Code section 48-5-299. All personal property accounts should be reviewed or audited at least once every three years.

**(f) Property owner records.** The appraisal staff should first endeavor to obtain the records necessary to substantiate the information returned or reported by the property owner through the voluntary cooperation of the property owner. When such voluntary cooperation is not forthcoming, and the records requested from the property owner are believed by the appraiser to be critical to a proper appraisal of the personal property, the appraiser may request that the board of tax assessors issue an appropriate subpoena for such records. The appraiser may request that the board of tax assessors issue an appropriate subpoena for the testimony of any individuals the appraiser believes poses knowledge critical to determination of the fair market value of the property owner's personal property.



**1. Record types.** The types of records the appraisal staff may request the board of tax assessors to issue subpoenas for include, but are not limited to, the following: chart of accounts, general ledger, detailed subsidiary ledgers, journals of original entry, balance sheet, income statement, annual report, Securities Exchange Commission Form 10K. The types of records the appraisal staff may not request the board of tax assessors to issue subpoenas for include the following:

**(i) Income tax returns.** Forms and schedules authorized by the Internal Revenue Service or the revenue collecting agencies of the several states for use in filing income tax returns to those agencies;

**(ii) Property appraisals.** A property appraisal that the property owner has obtained prior to any appeal that is filed as a result of a change of assessment being made to the property owner's personal property;

**(iii) Insurance policies.** An insurance policy that may contain valuation estimates of the insured personal property; or

**(iv) Tenant sales information.** A rent roll or document containing the individual tenant sales information on the property owner's rented or leased personal property.

**(5) Valuation procedures.** The appraisal staff shall follow the provisions of this paragraph when performing their appraisals. Irrespective of the valuation approach used, the final results of any appraisal of personal property by the appraisal staff shall in all instances conform to the definition of fair market value in Code section 48-5-2 and this Rule.

**(a) General procedures.** The appraisal staff shall consider the sales comparison, cost, and income approaches in the appraisal of personal property. The degree of dependence on any one approach will change with the availability of reliable data and type of property being appraised.

**1. Information presented by property owner.** The appraisal staff shall consider any timely information presented by the property owner that may have reasonable relevance to the appraisal of the owner's personal property. The appraisal staff shall consider the



effect of any factors discovered during the review or audit of the return or directly presented by the property owner that may reduce the value of the owner's personal property, including, but not limited to all forms of depreciation, shrinkage, theft and damage.

**2. Selection of approach.** With respect to machinery, equipment, personal fixtures, and trade fixtures, the appraisal staff shall use the sales comparison approach to arrive at the fair market value when there is a ready market for such property. When no ready market exists, the appraiser shall next determine a basic cost approach value. When the appraiser determines that the basic cost approach value does not adequately reflect the physical deterioration, functional or economic obsolescence, or otherwise is not representative of fair market value, they shall apply the approach or combination of approaches to value that, in their judgment, results in the best estimate of fair market value. All adjustments to the basic cost approach shall be documented to the board of tax assessors.

**3. Rounding.** The appraisal staff may express the final fair market value estimate to the board of tax assessors in numbers that are rounded to the nearest hundred dollars.

**(b) Special procedures.** The appraisal staff shall observe the procedures in this Subparagraph when appraising inventory and construction in process.

**1. Valuation of inventory.** When appraising inventory, the appraisal staff shall consider the value of inventory to consist of all the charges incurred from its original state as raw material to its final resting place for ultimate consumption, including such items as freight and other overhead charges, with the exception of the cost of the final sale. The appraisal staff shall also consider factors contributing to any loss of value including, but not limited to, obsolescence, shrinkage, theft and damage.

**2. Construction in progress.** Property owners who are constructing or installing a large piece or line of production equipment may be required by generally accepted accounting principles to accrue the total costs associated with such equipment in a holding account until the construction or installation is complete and the equipment is ready for production, at which time, the property owner is permitted by such principles to post the total cost to a fixed asset account, taking appropriate depreciation. If such



holding account is maintained by the property owner, the appraisal staff shall consider the total cost reported in the property owner's holding account when appraising such property. Construction in progress shall be appraised in the same manner as other similar personal property taking into account that there may be little or no physical deterioration on such property and that the fair market value may be diminished due to the incomplete state of construction. If comparable sales information of personal property under construction is generally not available and there is no other specific evidence to measure the probable loss of value if the property is sold in an incomplete state of construction, the appraisal staff may multiply the identified total cost of construction by a uniform market risk factor of .75.

**3. Overhauls.** When appraising machinery, equipment, furniture, personal fixtures, and trade fixtures, the appraisal staff shall consider the cost of all expenditures, both direct and indirect, relating to any efforts to overhaul an asset to modernize, rebuild, or otherwise extend the useful life of such asset. The following procedure is to be used by the appraisal staff to estimate the value of an overhauled asset: An adjustment to the original cost of the asset is made to reflect the cost of the components that have been replaced. The cost of the overhaul is divided by an index factor representing the accumulated inflation or deflation from the year of acquisition of the asset on which the overhaul was performed to the year of the overhaul. This amount is then subtracted from the original cost of the asset being overhauled. The remainder is then multiplied by the composite conversion factor for the year of the original acquisition as specified in Rule 560-11-10-.08(5)(f)(4)(iii) of this section. The current year's composite conversion factor is then applied to the cost of the overhaul, and these two figures are combined to represent the estimate of value for the overhauled asset.

**(c) Level of trade.** The appraisal staff shall recognize three distinct levels of trade: the manufacturing level, the wholesale level, and the retail level. The appraiser shall take into account the incremental costs that are added to a product as it advances from one level to another that may increase its value as a final product. The appraisal staff shall value the property at its level of trade.

**(d) Ready markets.** When the appraiser lacks sufficient evidence to demonstrate the existence of a ready market, he or she shall consider any evidence submitted by the property owner demonstrating that a ready market is available. When the property owner cannot prove the existence of a reliable ready market, the appraiser may use other valuation approaches as authorized by law and Rule 560-11-10-.08(5).



**1. Liquidation sales.** The appraisal staff should recognize that those liquidation sales that do not represent the way personal property is normally bought and sold may not be representative of a ready market. For such sales, the appraisal staff should consider the structure of the sale, its participants, the purchasers, and other salient facts surrounding the sale. After considering this information, the appraisal staff may disregard a sale in its entirety, adjust it to the appropriate level of trade, or accept it at face value.

(e) Sales comparison approach. The sales comparison approach uses the sales of comparable properties to estimate the value of the subject property being appraised.

**1. Widely used pricing guides.** The appraisal staff should make a reasonable effort to obtain and use generally accepted pricing guides that are published and widely used within the market. When using such a guide to estimate the comparative sales approach value, the appraiser shall begin with the listed retail price and then make any value adjustments as provided in the guide instructions, based on the best information available about the subject property being appraised.

**2. Lesser-known pricing guides.** The property owner may submit, and the appraisal staff shall consider, lesser known publications, periodicals and price lists of the specific types of personal property being returned. Such lists should be regularly consulted by buyers of the type personal property reported, and should list prices at which sellers, who regularly deal in the types of property reported, typically offer such property for sale. (i) Validation of lesser pricing guides. In all cases where unpublished, unrecognized, or unverified sales data are submitted by the property owner, the steps the appraiser may take to validate such data include, but are not limited to, the following:

**(I) Arm's length transactions.** as defined in OCGA 48-5- 2(.1): "Arm's length, bona fide sale' means a transaction which has occurred in good faith without fraud or deceit carried out by unrelated or unaffiliated parties, as by a willing buyer and a willing seller, each acting in his or her own self-interest, including but not limited to a distress sale, short sale, bank sale, or sale at public auction." Transactions where the lien holder receives or repossesses the property, and deed under power of sale transactions are not to be applied as an arm's length transaction.

**(II) Representativeness.** Verify that the sales data submitted is either all-inclusive or



has been randomly selected, so as to be unbiased and fairly represent the market for the personal property being appraised. This may be accomplished by contacting known dealers of the subject personal property to determine whether other significant market data exists that supports the data submitted by the property owner.

**(III) Financing.** Adjust the sale price of the subject property for non-conventional financing.

**(IV) Time of sale.** Adjust the sale price of the subject property for the date of sale in order to estimate the value as of the January 1 assessment date.

**(V) Discounts.** Adjust the sale price to remove trade and cash discounts.

**(VI) Comparability.** Adjust the sale price of the subject property for characteristics of the subject not found in the sales to which it is being compared, such as condition, use, and extra or missing features.

**3. Other factors.** To finalize the sales comparison approach, the appraiser shall consider any other factors, appropriate to the approach, which may be affecting the value. When the comparative sales approach is used as the basis for the appraisal of personal property, the appraiser shall not make further adjustments to the value to reflect economic obsolescence, functional obsolescence, or inflation.

**(f) Cost approach.** The cost approach arrives at an estimate of value by taking the replacement or reproduction cost of the personal property and then reducing this cost to allow for physical deterioration, functional and economic obsolescence.

**1. General procedure.** In applying the cost approach to personal property during a review or audit of a return, the appraiser shall identify the year acquired, and total acquisition costs, including installation, freight, taxes, and fees. The acquisition costs shall then be adjusted for inflation and deflation and then depreciated as appropriate to reflect current market values.

**2. Book value.** The appraiser should recognize that the appraisal and accounting practices for depreciating personal property might differ. Accounting practices provide





for recovery of the cost of an asset, whereas appraisal practices strive to estimate the fair market value related to the current market. The appraiser should consider depreciation in the forms of physical deterioration, functional obsolescence, and economic obsolescence, which may not necessarily be reflected in the book value. The appraiser should consider that accounting practices of property owners might also differ.

**3. Valuation as a whole.** The appraiser may arrange the individual items of personal property into groups with similar valuation characteristics and value such group as a whole when the itemized appraisals of each item of personal property will not add substantially to the accuracy of the determination of the cost approach value.

**4. Basic cost approach.** The appraisal staff shall determine the basic cost approach value of machinery, equipment, furniture, personal fixtures, and trade fixtures using the following uniform four-step valuation procedures: Determine the original cost new of the item of personal property to the property owner; determine the uniform economic life group for the item of personal property; and multiply the original cost new times the uniform composite conversion factor appropriate for the economic life group and actual age of the item of personal property. Then determine a salvage value of any item of personal property when it is taken out of use at the end of its expected economic life.

**(i) Original cost new.** The appraisal staff shall determine the original cost new of the item of machinery, equipment, furniture, personal fixtures, and trade fixtures. Any real improvements to the real property, including real fixtures that had to be installed for the proper operation of the property, shall be included in the appraisal of the real property and not included in the basic cost approach value of the personal property. Those portions of transportation costs and installation costs that do not represent normal and customary costs for the type personal property being appraised shall be excluded from the original cost new when determining the basic cost approach value.

**(ii) Economic life groups.** When determining the basic cost approach value of machinery, equipment, furniture, personal fixtures, and trade fixtures, the appraisal staff shall separate the individual items of property into four economic life groupings that most reasonably reflect the normal economic life of such property as specified in this subparagraph. The appraiser shall use Table B-1 and B-2 of Publication 946 of the U.S. Treasury Department Internal Revenue Service, as revised in 1998, to classify the individual asset into the appropriate economic life group. For property that does not



appear in such publication, the appraisal staff may determine the appropriate economic life group based on the best information available, including, but not limited to, the property owner's history of purchases and disposals.

**(I) Group I.** The appraisal staff shall place into Group I any assets that have a typical economic life between five and seven years.

**(II) Group II.** The appraisal staff shall place into Group II any assets that have a typical economic life between eight and twelve years.

**(III) Group III.** The appraisal staff shall place into Group III any assets that have a typical economic life of thirteen years or more.

**(IV) Group IV.** The appraisal staff shall place into Group IV any assets that have a typical economic life of four years or less. The appraisal staff shall also place into Group IV those assets classified as Asset Class 00.12 in Publication 946 of the U.S. Treasury Internal Revenue Service, Table B-1, as revised in 1998.

**(iii) Composite conversion factors.** The appraisal staff shall, in accordance with this Rule, use the composite conversion factors as provided in this subparagraph and apply the appropriate factor to the original cost new of personal property to arrive at the basic cost approach value. The last composite conversion factor in each economic life group shall not be trended and shall represent the residual value.

**(I) Group I composite conversion factors.** The following composite conversion factors shall be applied to Group I assets to arrive at the basic cost approach value for years one through seven: Y1-.87, Y2-.74, Y3-.58, Y4-.43, Y5-.32, Y6-.26, Y7-.21. Thereafter the residual composite conversion factor shall be .20.

**(II) Group II composite conversion factors.** The following composite conversion factors shall be applied to Group II assets to arrive at the basic cost approach value for years one through eleven: Y1-.92, Y2-.85, Y3-.78, Y4-.70, Y5-.63, Y6-.54, Y7-.44, Y8-.34, Y9-.28, Y10-.25, Y11-.25. Thereafter the residual composite conversion factor shall be .20.



**(III) Group III composite conversion factors.** The following composite conversion factors shall be applied to Group III assets to arrive at the basic cost approach value for years one through sixteen: Y1-.95, Y2-.91, Y3-.87, Y4-.82, Y5-.79, Y6-.75, Y7-.70, Y8-.63, Y9-.57, Y10-.52, Y11-.47, Y12-.41, Y13-.35, Y14-.31, Y15-.29, Y16-.28. Thereafter the residual composite conversion factor shall be .20.

**(IV) Group IV composite conversion factors.** The following composite conversion factors shall be applied to Group IV assets to arrive at the basic cost approach value for years one through three: Y1-.67, Y2-.54, Y3-.31. Thereafter the residual composite conversion factor shall be .10.

**(iv) Basic cost approach value.** The basic cost approach value shall be determined by multiplying the composite conversion factor times the original cost new of operating machinery, equipment, furniture, personal fixtures, and trade fixtures.

**(v) Salvage value.** Once personal property is taken out of service at or after the end of its typical economic life, it shall be considered salvage until disposed of and the appraiser shall determine a basic cost approach value by taking ten percent of the original cost new of such property. The basic cost approach value for property withdrawn from active use but retained as backup equipment shall be one-half the basic cost approach value otherwise applicable for such property.

**5. Further depreciation to basic cost approach value.** (i) Physical deterioration. The appraiser shall consider any evidence presented by the property owner demonstrating physical deterioration that is unusual for the type of personal property being appraised.

**(ii) Functional obsolescence.** The appraisal staff shall consider any evidence presented by the property owner demonstrating functional obsolescence for the type of personal property being appraised. One method the appraisal staff may use to determine the amount of functional obsolescence is to trend the original cost new for inflation to arrive at the reproduction cost new, and then deduct the cost of a newer replacement model with similar or improved functionality.

**(iii) Economic obsolescence.** The appraisal staff shall consider any evidence presented by the property owner demonstrating economic obsolescence for the type of personal property being appraised. One method the appraisal staff may use to



determine the amount of economic obsolescence is to capitalize the difference between the economic rent of an item of personal property before and after the occurrence of the adverse economic influence.

**(g) Income approach.** The income approach to value estimates the value of personal property by determining the current value of the projected income stream. This approach is most applicable to machinery, equipment, furniture, personal fixtures, and trade fixtures. The approach should only consider the income directly attributable to the personal property being valued and not the income attributable to the real or intangible personal property forming the same business. The appraisal staff may use one of the following methods when using the income approach for the appraisal of applicable personal property:

**1. Straight-line capitalization method.** The straight-line capitalization method estimates the income approach value of personal property by computing the investment necessary to produce the net income attributable to the personal property. In essence, it is determined by first computing the potential gross income for a subject property by taking the monthly rent, when that is the rental basis, and multiplying that total by twelve months. The potential gross income is then adjusted to a net operating income by subtracting any expenses that legitimately represent the costs necessary for production of that income. The net operating income will represent the amount of revenue left after operating expenses that is available to return the investment, pay property tax on the property, and return a profit to the owner.

**(i) Income and expense analysis.** While complete data is not required on each individual property, there must be sufficient data to develop typical unit rents, typical collection loss ratios, and typical expense ratios for various type properties. Income and expense figures used in the income approach must reflect current market conditions and typical management. Actual figures may be used when they meet this criterion. When actual figures are not available or appear to be unrepresentative, typical figures should be used. Income and expense analysis builds upon the following important components: typical unit rent, potential gross rent, collection loss, typical gross income, typical expenses, and typical net income. Excluded are expenses such as depreciation charges, debt service, income taxes, and business expenses not associated with the property. **(ii) Capitalization.** Capitalization involves the conversion of typical net income into an estimate of value. The estimated income is divided by the capitalization rate to arrive the estimated income approach value. The capitalization rate consists of three



components. The discount rate, the recapture rate, and the effective tax rate. The discount rate represents the amount of return a prudent investor could reasonably expect on an investment in the subject property. The recapture rate represents the return of the potential investment. The effective tax rate represents the portion of the income stream allocated to pay resulting ad valorem taxes on the property.

**(I) Discount rate.** The appraiser should calculate the appropriate discount rate through a method known as the band of investment. The band of investment represents the weighted-average cost of the money needed to purchase the applicable personal property. The appraiser determines the percentage of the cost typically borrowed and multiplies this percentage times the typical cost of borrowing. The appraiser then determines the remaining percentage of the cost typically contributed by an investor and multiplies this percentage times the expected rate of return to the investor. An analysis of similar properties might reveal the discount rate typical for a property of a given type.

**(II) Recapture rate.** The appraiser should calculate the recapture rate by dividing one by the number of years remaining in the economic life of the subject property. The resulting percentage is the current year's recapture rate.

**(III) Effective tax rate.** The appraiser should calculate the effective tax rate by multiplying the forty percent assessment level times the tax rate in the jurisdiction in which the subject property is located. The effective tax rate is included in the capitalization rate because market value is yet unknown and property taxes can be addressed as a percentage of that unknown value in lieu of their inclusion as an expense in calculation of net annual income.

**2. Direct sales analysis method.** The direct sales analysis method estimates the income approach value of personal property by computing the relationship between income and sales data. This relationship is expressed as a factor. The method represents a blend of the sales comparison and income approaches because it involves application of income data in conjunction with sales data. Sales of items similar to the subject property are divided by the gross rents, for which they or identical properties are leased, to develop gross income multipliers. A gross income multiplier is selected as typical for the market, and multiplied against the gross income of the subject, or that of an identical property, to result in an estimated value. Limiting the income to rental income only produces a gross rental multiplier.



**(i) Gross income or rent multiplier.** The appraiser should compute the gross income multiplier by dividing the typical gross income on the personal property by the typical sales price of the personal property. The appraiser should compute the gross rent multiplier by dividing the typical gross rent on the personal property by the typical sales price of the personal property. The appraiser must identify the specific item of personal property to be valued and determine the typical gross income as gross income is determined in Rule 560-11-10-.08(5)(g)(1)(i). The item is then stratified according to its typical use. Typical use strata may include, but are not limited to, office equipment, light-duty manufacturing equipment, heavy-duty manufacturing equipment, retail sales equipment, furniture, personal fixtures, trade fixtures, restaurant equipment, or any other stratum the appraiser believes will have similar sensitivity to market fluctuations as the subject item. The appraiser may develop an individual multiplier on a single item of personal property when there are sufficient sales and rent information. This multiplier may then be used for similar items of personal property for which there may be limited sales and rent information. The income approach value estimate is computed by multiplying the estimated gross income times the gross income multiplier or the gross rent times the gross rent multiplier.

**(l) Adjustments.** Income data and sales prices used in the development of income multipliers should be reasonably current. Older sales may be matched against recent income figures when the sales are adjusted for time. Sales must also be adjusted for financing, condition, optional equipment, and level-of-trade.

**(6) Final estimate of fair market value.** After completing all calculations, considering the information supplied by the property owner, and considering the reliability of sales, cost, income and expense information, the appraiser will correlate any values indicated by those approaches to value that are deemed to have been appropriate for the subject property and form their opinion of the fair market value. The appraisal staff shall present the resulting proposed assessment, along with all supporting documentation, to the board of tax assessors for an assessment to be made by that board.

Authority: O.C.G.A. §§ 48-2-12, 48-5-2, 48-5-5, 48-5-10, 48-5-11, 48-5-12, 48-5-16, 48-5-18, 48-5-20, 48-5-105, 48-5-105.1, 48-5-269, 48-5-269.1, 48-5-299, 48-5-300, 48-5-314, 50-17-29.



## **Relevant Judicial Decisions**



## JUDICIAL DECISION

### **ECKERD CORPORATION v. COWETA COUNTY BOARD OF TAX ASSESSORS. A97A1567.**

**COURT OF APPEALS OF GEORGIA 228 Ga. App. 94; 491 S.E.2d 173; 1997 Ga. App.  
LEXIS 1045; 97 Fulton County D. Rep. 3074  
August 11, 1997, Decided**

ELDRIDGE, Judge.

Appellee Coweta County Board of Tax Assessors ("Tax Board") audited appellant Eckerd Corporation's ("Eckerd") ad valorem personal property tax returns for a three-year period, 1992 through 1994. Pursuant to the audit, the Tax Board determined that Eckerd had undervalued its inventory, equipment, furniture, and fixtures in these returns and, subsequently, seeks taxes thereon. Eckerd filed a motion for summary judgment, claiming that it had paid its assessed taxes for the years in dispute and that the Tax Board was attempting to reassess and revalue property for which returns had been filed and the taxes had been paid, which practice is allegedly improper. The Superior Court of Coweta County denied appellant's motion. We granted Eckerd's petition for interlocutory review and now affirm the ruling of the trial court. In so doing, we make clear three specific points regarding our Ad Valorem Tax Code, O.C.G.A. § 48-5-1 et seq., in regard to taxation of tangible personalty.

1. If an audit uncovers a taxpayer's undervaluing of returned personalty for ad valorem tax purposes, the subsequent tax bill covering the shortfall is not a reassessment or revaluation of the returned units of property, but a bill for the "default" as to that portion of the personalty not represented through the undervaluation. Garr v. E. W. Banks Co., 206 Ga. 831 (59 S.E.2d 400) (1950); see also Hardin v. Reynolds, 189 Ga. 534 (6 S.E.2d 328) (1939); Fayette County Bd. of Tax Assessors v. Ga. Utilities Co., 186 Ga. App. 723, 725 (368 S.E.2d 326) (1988). For example, if 100 bottles of aspirin have a fair market value of \$ 100, but the 100 bottles are returned with a value of \$ 50, there is a default as to the 50 percent of the aspirin not represented in the returned value. A subsequent audit and tax bill covering the 50 percent undervaluation cannot be considered a "reassessment" or "revaluation," since 50 percent of the value of the inventory was omitted from the return in the first place. See Garr v. E. W. Banks Co., supra at 831 (3); Hardin v. Reynolds, supra at 543. As was noted in Fayette County Bd. of Tax Assessors v. Ga. Utilities Co., supra at 725, items of personalty, such as those represented in the contested returns of appellant, are separate from each other and have independent value; thus, the undervaluation of such personalty is an omission of those units not represented by the valuation in the return.

The case law upon which appellant relies relating to real property is completely inapplicable procedurally. In fact, the assessment and taxation of tangible personalty and real property





are procedural opposites. The failure to recognize the difference in the procedural postures thereof has permitted confusion in this area, thereby generating assertions such as that of the appellant, who argues based upon realty cases that an audit by the Tax Board, the subsequent discovery of an undervaluation on the personal property returns of past years, and the resulting tax bill therefor is the equivalent of a forbidden "reassessment" and "revaluation" by the Tax Board as occurs with real property reassessments. Such is not the case.

Real estate taxation deals with land and the improvements thereon which are considered "one" and cannot be separated so as to have value apart from each other. *Fayette County Bd. of Tax Assessors v. Ga. Utilities Co.*, *supra*; *Fulton County Bd. of Tax Assessors v. Dean*, 219 Ga. App. 137 (464 S.E.2d 257) (1995). Realty and the improvements thereto are out in the open and may be compared with other properties, the value of which are matters of public record. The tax assessor may use independent information available to actually assess the realty. Due diligence in the inspection of realty reveals any improvements or changes in the fair market value in the real estate market. Accordingly, real property is capable of a fair market valuation by the tax assessor, separate and apart from any tax return. For this reason, realty is yearly appraised and valued first by the tax assessor, and a tax bill issues thereon from the tax collector to the taxpayer, who eagerly awaits his yearly assessment. Rules & Regulations of the State of Georgia, Chapter 560-11-3-.17. No return by the taxpayer is necessary, and the payment of the subsequent tax bill is the payment of the tax assessor's determination of the realty's fair market value. See O.C.G.A. §§ 48-5-18; 48-5-20. Thereafter, any attempt to tax a previously unreturned or undiscovered improvement to the realty for years past would be a "revaluation" by the tax assessor of the same property after the taxes, as previously assessed and valued by the tax assessor, had been paid in full to the tax collector. *Fayette County Bd. of Tax Assessors v. Ga. Utilities Co.*, *supra* at 725. Clearly, the equities of this scenario demonstrate that issues of double taxation may arise, since the tax assessor had already passed upon the fair market value of the land. Consequently, this Court has, where land is concerned, precluded a second reassessment when the tax collector's tax bill has been paid in full.

By contrast, however, tangible personal property, such as in the case sub judice, must be valued first by the taxpayer in a return. Rules & Regulations of the State of Georgia, Chapter 560-11-3-.18. Obviously, a good faith tax return is required, because, absent an audit, a tax assessor cannot know the nature and extent of a taxpayer's personalty. Such personalty may be moved, hidden, undervalued, or simply not reported. Clearly, an audit cannot be conducted as to every taxpayer, upon every year. Thus, the taxpayer must value his own personal property in his tax return. Thereafter, taxes are assessed by the tax assessor and a tax bill issued by the tax collector based upon the taxpayer's good faith valuation in the return. The equities in this scenario are equally clear; if a subsequent audit by the Tax Board uncovers an undervaluation of the personalty contained in the return, in no manner can this audit and assessment be considered a second "revaluation" or "reassessment" as argued by appellant. The Tax Board had not previously passed upon the



valuation as contained in the taxpayer's return, as in the case of real property. The difference in the procedural posture in the taxation of personalty and real property must be delineated, and we decline appellant's invitation to blur the distinction. Appellant's reliance upon Opinion U87-13 of the Attorney General of Georgia, published May 14, 1987, also compels consideration thereof.

In U87-13, an unofficial opinion, the Attorney General reviewed Georgia Ad Valorem Tax Code, O.C.G.A. § 48-5-1 et seq., along with case law, and determined that O.C.G.A. § 48-5-306 "may be used to revalue and assess any property for any tax year in which that property has not already been assessed in accordance with O.C.G.A. § 48-5-306. . . . Property that has been returned may only be revalued in accordance with O.C.G.A. § 48-5-306 if the Board has not previously rendered a final assessment of that property pursuant to the same Code section [O.C.G.A. § 48-5-306]." (Emphasis supplied.) To the extent that the Attorney General's opinion may be read to preclude two audits pursuant to O.C.G.A. § 48-5-306 (a) and subsequent reassessments of a personal property tax return for any given year, such opinion is approved. See also Ga. L. 1943, pp. 244-245 (Ga. Code Ann. § 92-6703) (when Tax Board has already passed upon a previous assessment pursuant to audit powers, an additional reassessment is void). To the extent that the Attorney General's opinion may be read to impede a Tax Board's ability to audit, within the statute of limitation, a personal property tax return and to collect additional taxes for any undervaluation of previously returned personal property pursuant to O.C.G.A. §§ 48-5-299 (a) and 48-5-306 (a), such opinion is disapproved for the following reasons.

O.C.G.A. § 48-5-299 (a) empowers the Tax Board to determine the value of "any property upon which for any reason all taxes due the state or county have not been paid in full . . . [and to] assess against [the taxpayer] the full amount of taxes which has accrued and which may not have been paid at any time within the statute of limitations." (Emphasis supplied.) Clearly, the use of the term "paid in full" means that some taxes have been paid, but not "in full." Further, no restriction regarding "returned" or "unreturned" property is placed upon such empowerment under O.C.G.A. § 48-5-299 (a). In the construction of a statute the legislative intent must be determined from a consideration of it as a whole. The construction of language and words used in one part of the statute must be in the light of the legislative intent as found in the statute as a whole; a statute must be read without "reading out" any other part, unless there is a clear reason for doing so. See *Gwinn v. State Ethics Comm.*, 262 Ga. 855, 859-860 (426 S.E.2d 890) (1993); *Bozeman v. Tifton Fed. Sav. &c. Assn.*, 164 Ga. App. 260, 262-263 (297 S.E.2d 49) (1982). To that end, O.C.G.A. § 48-5-299 (b) specifically refers to "unreturned" property and attaches a penalty for the failure to return property altogether; the specificity with which subsection (b) is directed at "unreturned" property reinforces the fact that subsection (a) is to draw no such distinction, and that the Tax Board's power to ensure that all taxes are paid in full extends to property that has been returned but undervalued, as well as to property that has not been returned at all.



Moreover, under the statute, the Tax Board's determination that taxes have not been "paid in full" may come at any time within the statute of limitation, which begins at the time of filing. Clearly then, this time frame must encompass those situations wherein the discovery of an undervaluation occurs pursuant to an audit conducted years after the personal property tax return has been filed and the taxes have been paid. See, e.g., *Richards v. Zentner*, 176 Ga. 222, 226 (1) (167 S.E. 516) (1933) (notice is applicable for the "raising of the valuation of property for the year in which the returns are made; and for stronger reasons it would seem to be applicable to the raising of returns of property made by a taxpayer for preceding years").

Accordingly, by the plain meaning of its own terms, O.C.G.A. § 48-5-299 (a) empowers the Tax Board to audit, at any time within the statute of limitation, prior personalty tax returns and collect taxes over and above those that may have been assessed and paid, because the valuation of the personalty by the taxpayer was incorrect, and thus the taxes were not "paid in full."

The mechanism providing the procedural details for such assessment and collection is O.C.G.A. § 48-5-306 (a), which Code section must, of course, be read in pari materia with O.C.G.A. § 48-5-299 (a). O.C.G.A. § 48-5-306 (a) is that portion of the Ad Valorem Tax Code that provides for an audit to be conducted upon personal property tax returns and notice to be given for any resultant changes in such returns if "any taxpayer has omitted from his returns any property that should be returned or has failed to return any of his property at its fair market value." (Emphasis supplied.) This audit may take place "at any time" within the statute of limitation. O.C.G.A. §§ 48-5-299 (a); 48-5-306 (a). Clearly, by its plain terms, O.C.G.A. § 48-5-306 (a) permits the Tax Board to audit and make changes to a taxpayer's return with regard to personalty omitted and with regard to personalty that has been returned but undervalued.

A perhaps painful, but necessary historical analysis of our Ad Valorem Tax Code will underscore the point that O.C.G.A. §§ 48-5-299 (a) and 48-5-306 (a) were intended to encompass the collection of additional taxes on returns wherein taxes may have been paid in previous years, but the personal property was undervalued by the taxpayer in the return.

An Equalized System of Taxation was created by Ga. L. 1913, p. 123. Our current Code sections O.C.G.A. §§ 48-5-299 (a) and 48-5-306 (a) were, at that time, melded together in Section 6 of Ga. L. 1913, pp. 123, 127, which section specifically provided, inter alia, that "if [the] tax payer has omitted from his returns any property that should be returned or has failed to return any of his property at a just and fair valuation, the said board shall correct such returns." Thus, O.C.G.A. §§ 48-5-299 and 48-5-306 began their codified life together,



inseparable in intent and design.

In Ga. L. 1918, p. 232, the General Assembly added an Act to provide for the collection of taxes, which Act specifically provided for the collection of taxes "when the owner of property has omitted to return the same for taxation at the time or for the years the return should have been made, or having returned his property or part of the same, has grossly undervalued the property returned, or his property has been assessed for taxation at a figure grossly below its true value." (Emphasis supplied.) Such taxes were considered "delinquent," and the legislature contemplated that such collection would encompass additional taxes due from undervaluation in prior years.

In 1933, a new Tax Code was passed; it was amended in 1937. In the caption to the 1937 Act, the General Assembly specified that the Tax Code was to prescribe the examination of tax returns with respect to the assessment for taxation of "all property, including both property which has been returned and unreturned property." Ga. L. 1937, p. 517. The 1933 Code and the 1937 amendment first split apart those principles contained in our current O.C.G.A. §§ 48-5-299 (a) and 48-5-306 (a), in an attempt to emphasize the duties and powers of the Tax Board (O.C.G.A. § 48-5-299 (a)) and the procedures, including notification, to be used when employing those duties and powers (O.C.G.A. § 48-5-306 (a)). See Ga. L. 1937, pp. 519, 520; Ga. Code Ann. §§ 92-6912; 92-6913. In the new Code, the Tax Board was specifically given the power and duty to collect taxes on personal property the "taxpayer has omitted from his returns . . . or has failed to return [at] a just and fair valuation." Ga. L. 1937, p. 519. By 1937, it is safe to assume that business and population increases in this State must have rendered nearly impossible a Board assessment of every personal property return within the same year in which it was filed. Thus, in this Code is introduced for the first time the provision that assessment of a tax return may come at "any time within the statute of limitations," and additional taxes may be assessed "for any reason all taxes due to the State or to the county have not been paid in full." (Emphasis supplied.) Ga. L. 1937, p. 520. The duties of the Tax Board, presumably stretched to the limit by the time constraints of placing all tax returns upon the books within the statutory tax year, provided that actual assessments of individual personal property returns, as opposed to the acceptance of the taxpayer's valuations therein, be allowed to occur outside the tax year. See *Garr v. E. W. Banks Co.*, 206 Ga. at 832 (time provisions of the Code do not deprive the Tax Board of the authority to perform their duties after the statutory time provision, but within the statute of limitation).

Thereafter, in Ga. L. 1943, pp. 243, 244 (Ga. Code Ann. § 92-6703), the legislature sought to limit the Tax Board's audit powers by therein specifically providing "if the County Board of Tax Assessors has previously passed upon the assessment of this same property for the years involved, then a reassessment of this property heretofore or hereafter made by the Tax Receiver under this chapter, shall be void." (Emphasis supplied.) Cf. Ga. L. 1918, pp. 232-234.

By 1978, our Tax Code was, again, amended "exhaustively and completely." Ga. L. 1978, p.



309. Title 91A was created wherein the General Assembly clarified that its intent was not "to make any substantive change in the revenue laws of this State, except as expressly provided for in this Act." (Emphasis supplied.) Id. at 310-311. Thus, Ga. L. 1978, pp. 309, 764-794, § 3 (1), repealed the provisions of Title 92 only to the extent that it was specified in the new Code. However, there was no specific repealer as to those portions of Title 92 which encompassed both Ga. L. 1918, pp. 232-234, regarding the taxing authority's ability to assess and collect taxes upon returns in which property was omitted or undervalued, and the above Code section under Ga. L. 1943, pp. 243-244, limiting audit powers to one reassessment and revaluation for any given tax return. The 1978 Code mirrors our current legislation, with Ga. Code Ann. § 91A-1440 embodying the principles of O.C.G.A. § 48-5-299 (a) and also providing specific penalties for "unreturned" property, as does O.C.G.A. § 48-5-299 (b). Ga. L. 1978, p. 450. Section 91A-1448 encompasses O.C.G.A. § 48-5-306 (a) and, again, permits the collection of taxes "at any time" for those returns in which personal property has been omitted or in which a taxpayer has "failed to return any of his property at its fair market value." Ga. L. 1978, p. 454.

Such is the state of the law under our current Tax Code, and this historical perspective demonstrates that the legislature has contemplated that returned but undervalued personal property should be taxable when uncovered by an audit, i.e., when a personalty return is ultimately "passed" upon by the Tax Board within the statute of limitation. Even if the taxes on such personalty had been paid in years past, the taxes were not "paid in full," because of the undervaluation by the taxpayer. The Attorney General's Opinion U87-13 is disapproved to the extent it may be read to conflict herein.

In sum, when, within the statute of limitation, an audit uncovers that a taxpayer has undervalued his personalty in a previous year's personal property tax return, the undervalued personalty may be assessed and taxed by the Tax Board. The defaulting taxpayer is in no way permitted to benefit from the undervaluation on the basis urged by appellant before this Court, which argument is, in essence, that collection is prohibited because the undervaluation was not caught before the tax bill was paid. "That [taxes in the full amount] were due five, four, three, and two years ago, and have gone unpaid, is no relaxation of the obligation to pay them. Can it be contended that, because one in [1992 or 1993 undervalued] his taxable property, he is thereby released from his obligation to pay [full] tax thereon[?] . . . These taxes are just as much due now as they were in the year they were incurred." Ga. R. &c. Co. v. Wright, 124 Ga. 596, 616 (53 S.E. 251) (1906).

2."All property shall be returned by the taxpayers for taxation to the tax commissioner or tax receiver as provided by law." O.C.G.A. § 48-5-10. Our Tax Code, under O.C.G.A. § 48-5-105.1 (b), provides that all returns of tangible personal property shall be made pursuant to the form or forms adopted by the state tax commissioner. In addition, "each corporation should carefully prepare its return so as to fully and clearly set forth the data called for



therein." Rules & Regulations of the State of Georgia, Chapter 560-7-8-.04, p. 263.

The forms for the three-year period at issue herein required that appellant provide a "description" and the "market value" of the personal property of the business and that "expensed as well as depreciable assets should be listed and valued." Appellant did not include such listings and descriptions in its returns, but instead, stamped "See Attached" on the forms and submitted a one-page attachment entitled "Personal Property Tax Filings," which contained the broad categories of: (1) "Inventory Value," and (2) "Furniture & Fixtures, Machinery & Equipment." A numeric value was assigned to each broad category, which number represented appellant's estimate of the fair market value thereof. No tax assessor could determine the true fair market value of such personalty, because the personalty was not disclosed, and only an assigned value was returned.

Appellant's procedure of valuing its property, without listing or describing such, circumvents a taxpayer's burden to disclose ownership of property; however, such procedure provides a numeric basis upon which a Tax Board may calculate a taxpayer's ad valorem tax based upon the taxpayer's estimate or determination of value, thereby enabling a tax bill to generate and some taxes to be paid thereon in a timely fashion. See O.C.G.A. §§ 48-5-301; 48-5-302. Notwithstanding, by utilizing such valuation procedure, appellant has failed to make a "full return," which includes the listing and describing of personal property as requested by the forms, including quantities of each category of personalty. "Imperfect or incorrect returns will not be accepted as meeting the requirements of the law." Rules & Regulations of the State of Georgia, Chapter 560-7-8-.04, p. 263. Moreover, "Important Information" contained in appellant's tax forms warned appellant that, "Failure to file a completed copy of this form may lead to an audit of your records and/or the placing of an assessment on your property from the best information obtainable in accordance with Georgia Code 48-5-299 (A) [sic]." Thereafter, when such audit, properly conducted within the statute of limitation, uncovered appellant's undervaluation of its personal tangible property, appellant is estopped from claiming that a "reassessment" or "revaluation" of returned personal property had occurred. No specific items of property were returned so as to allow a re-assessment of the property; only the valuation was returned. As in the case sub judice, when a valuation is discovered as incorrect pursuant to an audit, such valuation, perforce, attaches to no specific personalty so as to provide a basis for a claim of a re-valuation or re-assessment thereof. Thus, appellant's assertion that, "The new assessments issued by the Board do not enumerate any property excluded from the original returns" is so much make-weight, since no specific property was included in the original returns. (Emphasis supplied.) "The Georgia law affords to every citizen, individual or corporate, ample facilities for the preservation of his rights as against the tax-gatherer, always provided that he makes a return to the proper officer of the property that he owns. It presupposes that the taxpayer will disclose to the officer all of his taxable property. . . . The requirement of candor in disclosing the ownership of property is really at the foundation of our tax system. So long as the citizen complies with that requirement, he is afforded every opportunity to dispute with the State the question of the value of his property and the



amount of tax to be levied thereon. . . . In other words, ample 'machinery' is available to the citizen who makes full returns; deprivation of the right to be further heard is one of the penalties visited on the defaulter." *Ga. R. &c. Co. v. Wright*, *supra* at 617 (11).

3. Finally, appellant misinterprets the concepts of "cost" and "fair market value," in arguing that summary judgment should have been granted because the Tax Board improperly assessed appellant's property at cost, as opposed to the statutorily prescribed standard of fair market value. Appellant contends that one is exclusive of the other: "There is no statutory authority to assess inventory at its 'cost.' Rather, the inventory must be assessed at 'fair market value.'" While we agree that property must be assessed at fair market value, O.C.G.A. § 48-5-6, "cost" is not a concept foreign to such valuation. What the taxpayer was willing to pay for the personalty, its cost to him, is one of the factors from which fair market value may be determined, if not the primary factor, because such figure is fixed, while other factors may deviate upward or downward from such figure based upon the fair market.

Mistaken also are appellant's attempts to divide and isolate notions of "retail versus wholesale levels of trade" from cost and fair market value. All are integrally related and relevant to the extent that they aid in determining "the amount a knowledgeable buyer would pay for the property and a willing seller would accept for the property at an arm's length, bona fide sale." O.C.G.A. § 48-5-2 (3). Clearly, when the market permits appellant to place a higher retail price on a bottle of aspirin, the aspirin wholesaler will not allow appellant to enjoy such profit alone; appellant's wholesale "cost" of aspirin is going to see a similar increase, which will cause an increase in the fair market value of the taxpayer's inventory. The inverse is equally true, if lackluster market demand forces retail and, thus, wholesale aspirin prices down. For ad valorem tax purposes, fair market value is not the retail value to the taxpayer, but the current wholesale value adjusted for the fair market; thus, the taxpayer's cost may be adjusted upward, downward, or remain the same to reflect the "wholesale market" as it determines the fair market value of the tangible personalty in the taxpayer's possession at that economic moment in time. Contrary to appellant's contentions, the fair market valuation of personal property for tax purposes does not occur in a vacuum but may be determined by utilizing several indices, including "cost" to appellant, as well as wholesale pricing in relation to retail levels of trade. See *Rogers v. DeKalb County Bd. of Tax Assessors*, 247 Ga. 726, 727 (2) (279 S.E.2d 223) (1981). In a stagnant economy, "cost" may, in fact and law at any particular economic moment in time, constitute "fair market value." Thus, appellant's argument that "'cost' and 'fair market value' are not the same and that what the law requires for assessment is fair market value," is simply inaccurate, and we conclude that, "cost" may be part and parcel of an assessment of the "fair market value" of personalty.

*Judgment affirmed. Birdsong, P. J., and Ruffin, J., concur.*