NEXT CHALLENGE. NEXT LEVEL.

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Nexsen Pruet
Realtors Continuing Education Seminar

ATI

Tushar V. Chikhliker
1230 Main Street, Ste. 700
Columbia, SC 29201
803-540-2188
tushar@nexsenpruet.com

Burnet R. Maybank, III
1230 Main Street, Ste. 700
Columbia, SC 29201
803-540-2048
bmaybank@nexsenpruet.com

James Price
55 E. Camperdown Way, Ste. 400
Greenville, SC 29601
864-370-1164
jprice@nexsenpruet.com

ATI – Alternative Valuation

The 2006 legislative session produced sweeping property tax reform. Among the most significant components were changes to the valuation of real property effective for property tax years after 2006.

ATI – Alternative Valuation

As before, a countywide reappraisal of most real property takes place every five years, usually followed in the next year by implementation of a countywide reassessment program. However, the reform measures provide for a 15% cap on any increase in the fair market value of any parcel when a countywide reassessment program is implemented.

ATI – Alternative Valuation

This 15% cap on value remains in effect until an "assessable transfer of interest" or "ATI" occurs. An ATI will trigger a valuation not limited by the 15% cap. To soften the impact of the ATI, a provision for a partial exemption/alternate valuation for eligible property was added in 2011.

ATI – Alternative Valuation

Real property that undergoes an ATI after 2010 may be subject to a partial exemption/alternate valuation if the following eligibility requirements are met:

A. The property must be subject to property tax before the ATI;

B. The property must be subject to the 6% assessment ratio before the ATI and remain so thereafter (i.e. commercial property and second homes); and

C. The owner must notify the assessor that the property will be subject to the 6% assessment ratio before January 31st of the property tax year for which the owner first claims eligibility for the partial exemption/alternate valuation.

ATI – Alternative Valuation

The partial exemption will be applied to the fair market value of the property as follows:

If the "ATI fair market value" exceeds the "current fair market value", except as stated on next slide, the partial exemption is allowed, reducing the ATI fair market value by an amount equal to 25% of the ATI fair market value. The resulting amount, referred to as the "exemption value," becomes the taxable value for the property.

ATI – Alternative Valuation

However, the “exemption value” cannot be less than the “current fair market value” of the property. If the exemption value exceeds the current fair market value of the property, then the current fair market value becomes the taxable value for the property.

ATI – Alternative Valuation

If the ATI fair market value is less than the current fair market value of the property, the partial exemption is not allowed and the ATI fair market value becomes the taxable value for the property.

ATI – Alternative Valuation

"Fair market value" is the fair market value of the real property as determined by the assessor by an initial appraisal, or as reappraised either after an ATI or periodically.

"Current fair market value" is the fair market value as reflected on the assessor's records for the current year. It is the full value of the property without regard to the 15% cap.

"ATI fair market value" is the fair market value of the property determined by appraisal after the latest ATI.

"Exemption value" is the ATI fair market value reduced by the 25% exemption.

ATI – Alternative Valuation

Example 1: Suppose commercial (6%) property was purchased in 2009 in Richland County after the last reassessment for $400,000.

It has increased in value; according to the assessor it was worth $550,000 on December 31, 2013

Because of the 15% cap, it was taxed in 2013 with a value of $460,000

Suppose it was sold on January 1, 2014 for $625,000

Current FMV = $550,000

ATI FMV = $625,000

ATI – Alternative Valuation

Example 1:

Step 1: Does ATI FMV > current FMV?

Yes, ATI FMV ($625,000)> current FMV ($550,000)

Step 2: Reduce ATI FMV by 25%.

$625,000-$156,250 = $468,750

$468,750 is the exemption value

Step 3: Is the exemption value ($468,750) less than the current FMV ($550,000)?

Yes; therefore the current FMV ($550,000) becomes the taxable value (versus the ATI FMV of $625,000)

ATI – Alternative Valuation

Example 2:

Same facts, except assume the property was sold for $750,000

Current FMV = $550,000

ATI FMV = $750,000

ATI – Alternative Valuation

Step 1: Does ATI FMV > current FMV?

Yes, ATI FMV ($750,000) > current FMV ($550,000)

Step 2: Reduce ATI FMV by 25%

$750,000 - $187,500 = $562,500

$562,500 is the exemption value

Step 3: Is the exemption value ($562,500) less than the current FMV ($550,000)? No.

The exemption value of $562,500 becomes the taxable value (versus $750,000)

ATI – Alternative Valuation

Example 3:

Assume the property is sold for $525,000.

If the ATI FMV ($525,000) is less than the current FMV ($550,000) the ATI FMV ($525,000) becomes the taxable value.

ATI

You Need to Keep ATI Records – For 25 Years?

Act 388 of 2006 significantly altered property taxation in South Carolina. As part of its sweeping reforms, Act 388 imposes a 15% cap on increases in property tax values. The tax cap is removed, however, when an "assessable transfer of interest" (ATI) occurs. Section 12-37-3150 contains a list of ATI events, including the conveyance of a parcel of real property by deed.

ATI

ATI Records

Act 388 was written at a time of rapidly increasing property values. Based upon the experience of California and other states with caps, the General Assembly was fully aware that efforts would be made to game the system.

ATI

ATI Records

Section 12-37-3150(8) accordingly provides that an ATI also includes:

A transfer of an ownership interest in a single transaction or as part of a series of related transactions within a twenty-five year period in a corporation, partnership, sole proprietorship, limited liability company, limited liability partnership, or other legal entity if the ownership interest conveyed is more than fifty percent of the proprietorship, limited liability company, limited liability partnership, or other legal entity.

ATI

ATI Records

The Section goes on to state the following:

[T]he corporation, partnership, sole proprietorship, limited liability company, limited liability partnership, or other legal entity shall notify the applicable property tax assessor on a form provided by the Department of Revenue not more than forty-five days after a conveyance of an ownership interest that constitutes an assessable transfer of interest or transfer of ownership under this item.

ATI

ATI Records

In other words, if a corporation owns a parcel of real property, and within a 25 year period, over half of the corporation's stock is sold in one transaction or a series of related transactions, then the corporation has a duty to report the transfer to the Assessor.

ATI

ATI Records

The Solution:

Keep track of the transfer ownership of an entity which owns real property in South Carolina - - for the next 25 years! Report all leases of real property which are for more than 20 years or contain a bargain purchase option!