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PROPERTY MANAGEMENT

The Top Property Tax Compliance Challenges

The research uncovered three consistent pain points among survey respondents. In this post, we're highlighting the findings specific to enterprise-level companies.

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By [Carl Hoemke](#).

Anyone who deals with property tax knows firsthand how complex it can be to manage, especially given how tax laws differ not only between states but also among local jurisdictions within the same state. These inconsistencies, and many other variables, make it hard for accounting and finance teams to employ consistent and scalable processes, particularly during peak tax season. Ask three organizations how they manage their property taxes, and you'll get three different answers.

In August 2022, tax software developer Avalara worked with leading market research firm Potentiate to survey businesses across many industries to identify the most common property tax compliance challenges.

The research uncovered three consistent pain points among survey respondents. In this post, we're highlighting the findings specific to enterprise-level companies.

1: Property tax compliance is a manual and time-consuming process

Companies tend to dedicate more time than necessary to property tax activities. According to the survey findings, **businesses spend an average of 90.4 hours (about four days) per week on real property tax management activities**. Personal property tax management is even more burdensome, as companies average 132 hours per week on various compliance tasks.

It doesn't come as a shock that companies employ many staff to work on compliance-related tasks, including data entry, filing returns, tax research, appeals, and more. Potentiate uncovered that **57% of companies surveyed employ 6–15 professionals working on property tax management activities**, while 17% of survey respondents employ 16–20 staff members.

While these figures may seem unexpectedly high, they make sense considering the sheer volume of tax bills businesses manage. According to the survey, **56% of businesses receive, track, and pay between 500 to 10,000 tax bills annually**. Adding to this challenge is that each jurisdiction has different tax rates, rules, and filing dates. It's no surprise that 47% of survey respondents indicated that keeping up with jurisdictional regulations and changes is a significant challenge.

2: Errors in compliance are costly

Lack of automation can lead to costly human error. Updating systems with accurate rates, rules, and due dates can be incredibly challenging using outdated tools and

processes, such as spreadsheets and homegrown systems. **Only 37% of companies surveyed use property tax software**, while the remaining use a homegrown solution built in Excel or another manual tracking method.

As mentioned earlier, tax laws differ not only between states but even at the local jurisdiction level. These laws can change periodically. Errors in compliance processes can often result in missed due dates and the associated penalties imposed by taxing authorities. Many organizations end up paying property tax penalties or over-paying every year simply because keeping up with due dates and tax rates is too overwhelming, or they don't have visibility amid all the paperwork.

Penalties for compliance errors are widespread among businesses:

- For real property tax, 41% of respondents owe penalties 25% of the time
- For personal property tax, 51% of respondents owe penalties more than 25% of the time

The cost of these penalties can be severe:

- 61% of respondents are penalized from 5% to 15% on real property tax bills
- 62% of respondents are penalized from 5% to 20% on personal property tax bills

3: Outdated technology can't keep up

Excel spreadsheets are still widely used to manage compliance. In practice, accounting and finance professionals are in an endless cycle of searching the web or calling assessor's offices to get the latest return forms and other data to manually update their records across various disparate systems.

One of the top challenges for businesses that don't automate their workflow is managing the integration of fixed assets into their property tax solution. Fixed asset costs and acquisition dates, which are necessary for filing, are typically housed in an ERP or similar system; validating and transferring that data to a homegrown property tax solution or an Excel workbook is laborious.

Other shortcomings of outdated systems are more complex. According to survey respondents, **73% of businesses rated the ability to append property tax documents to tax bill payments and audit trails** as the most critical capability of any property tax solution.

Other challenges the survey revealed include:

- Keeping up with the many jurisdictional rules and changing regulations
- Managing receipt and data entry of tax documents
- Filing personal property tax returns
- Managing valuations and appeals (including whether to appeal at all and how best to win an appeal)
- Tracking tax bills and due dates

Minimize the burden and high cost of tax compliance

The compliance challenges uncovered from the research are not surprising — they've long been a burden to businesses of all sizes in many industries. However, automated tax technology is designed to make compliance easier to manage.

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About the survey

Leading market research firm Potentiate surveyed over 300 U.S.-based businesses between July 18 and August 8, 2022. Survey respondents fell into two groups: businesses with annual revenue between \$5M and \$499M, and enterprise organizations with an annual revenue of over \$500M. The data included in this blog post represents the findings specific to enterprise companies. Survey respondents operate in nearly a dozen different industries, including:

- Telecommunications
- Oil and gas
- Insurance
- Finance
- Healthcare
- Construction
- Manufacturing
- Lodging and Hospitality
- Beverage alcohol
- Retail
- Business professional services

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