

## Leasehold Improvements

### **Properly value structural improvements reported on the BPS (Business Property Statement).**

Costs reported in column 1 of Schedule B of the BPS are for structural improvements made by the tenant or lessee. Structural improvements, whether paid for by the tenant or the landlord, should be assessed in the same manner as other real property. A base year value should be established and factored each subsequent roll year by the annually determined inflation factor in accordance with article XIII A.

By depreciating structural improvements in a manner similar to business personal property and trade fixtures, the assessor is underassessing structural improvements. In addition, the practice results in inconsistent treatment of similar types of property. This will produce a significant valuation difference between similar improvements assessed on the secured real property parcels versus those assessed on unsecured business property accounts.

### **Issue supplemental assessments for structural leasehold improvements.**

[Section 75.11](#) provides that supplemental assessments shall be issued following a change in ownership or completed new construction. This provision applies to structural leasehold improvements whether enrolled on the secured or unsecured roll.

Failure to issue supplemental assessments for structural leasehold improvements results in lost revenue, as well as unequal treatment of taxpayers.

### **Forward copies of Schedule B and the supplemental schedule to the real property division.**

Transferring information between the real property and business property divisions within an assessor's office can help to avoid duplicate or escape assessment of leasehold improvements, which may include structural items and fixtures. In the event that the assessee does not correctly classify the improvements, the real property appraiser's review should include consideration of both non-fixture real property items and fixtures. Based on a building permit received earlier in the year, for instance, the real property appraiser may add value to real property, believing those improvements to be structural items. However, the assessee may report the same improvements on the BPS as fixtures.

If the real property appraiser does not receive a copy of Schedule B of this statement and review the costs as they were reported, a duplicate assessment may occur.

### **Document the investigation of leasehold improvements on the appraisal record.**

Business owners can report costs for both structural improvements and business fixtures on their BPS. Record management for accurate tracking of base year values and ownership of leasehold improvements may be complex and tedious, but is extremely important to ensure correct valuation and assessment. Proper notes on appraisal records concerning the establishment of value are an important

step in the appraisal process. Appraisal notes should include information regarding the existence of leasehold improvements, a description of the improvements, and the basis for valuation. If the improvements involve more than one account, the appraisal records should indicate in what manner the improvements are assessed (namely to whom, secured or unsecured roll, and assessor's parcel number or business property account number).

Notes regarding the leasehold improvement in both the real property appraisal records and in the business property files will not only help appraisers and auditor-appraisers who work on the subject parcel or related business accounts in the future, but will also help to avoid duplicate or escape assessments.

### **Properly classify and assess fixtures on the assessment roll.**

Proper classification of leasehold improvements as structure items or fixtures is important as fixtures are treated differently than structures. Fixtures are a separate appraisal unit when measuring declines in value. In most cases, [section 75.5](#) provides that fixtures are not subject to supplemental assessments. However, structural improvements are supplementally assessed when appropriate. Additionally, structural improvements on the secured roll are factored up each year by the inflation factor, while fixtures are not.

If the assessor incorrectly classifies leasehold improvements as structures rather than fixtures, improvements may be overassessed due to the application of the inflation factor each year, which would not be applicable if correctly classified as fixtures.