

Real Property Tax: Contracted Self-Assessment

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An McV Tax Alert

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The recently enacted Municipal Code extended until December 31, 2021 the due date for filing a contracted real property appraisal with the Municipal Revenue Collection Center (“CRIM”). By electing the contracted self-assessment method, taxpayers can avoid a potential 5-year retroactive real property tax imposition on eligible unassessed property.

The Municipal Code includes contracted self-assessment provisions similar to those in the now repealed Municipal Property Tax Act of 1991, as amended by Act No. 6-2019 (“MPTA”). The contracted self-assessment method may be elected by taxpayers that own unassessed real property or improvements not subject to mortgages and that were in existence as of August 14, 2020. Eligible property includes machinery and equipment considered real property because of its destination, as well as external plant used in the telecommunications business. The resulting valuation will be subject to tax only in the current and future fiscal years. However, if no election is made and the property is eventually assessed by the CRIM or by a municipality, then the tax will be retroactively imposed for the prior 5 fiscal years and for the current fiscal year.

Under the contracted self-assessment method, the valuation of the property will be determined by a professional appraiser licensed in Puerto Rico, totally unrelated to the owner of the property. The assessment for tax purposes will be 10.55% of the market valuation determined by the appraiser. In the case of buildings and improvements, the valuation alternatively could be determined by presenting valid documents that demonstrate the real cost of the building or the improvements, such as the approved construction permit, the notarized construction works agreement, or the Estimated Cost Guides for Construction Works issued by the Permits Management Office. Up to \$500 of the appraiser costs and expenses can be credited against the resulting tax for the first fiscal year after filing the election.

Regulations for Assessments made by an Authorized Professional Appraiser contracted by the Property Owner, regulation number 9129 of November 15, 2019 issued pursuant to the MPTA, provides that the election must be filed at CRIM’s regional office using CRIM’s form AS-79, Contracted Assessment Form, accompanied with a copy of the property’s deed, the appraisal report, copy of

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the appraiser's license, application for exoneration or exemption (if applicable), and the tax payment determined under the contracted self-assessment method.

The valuation determined under the contracted self-assessment method will be the valuation for tax purposes until the property is subsequently classified and assessed by CRIM under the regular assessment method. Such subsequent valuation will have prospective effect. If the property is not subsequently assessed by CRIM within 24 months after the notice of the contracted self-assessment, the property will not be re-assessed, unless new construction occurs or improvements are made.

After December 31, 2021, taxpayers will be allowed to file the contracted assessment form only within 6 months after the acquisition of a property or the construction of an improvement.

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