Income & Expense Reporting Form FAQs

Q. What is the purpose of this reporting form and how is the requested information used?

A. The purpose of this form is to collect financial information on income-producing properties. The information will help us valuate these properties. We do not use this information on an individual property basis. Rather, we use it in conjunction with the same information we receive from other similar businesses to determine what the typical income and expenses are for your property type, which we use in the income approach to value.

There are three approaches to value.

1. Income approach – a method for estimating the present value of anticipated income benefits
2. Cost approach – a method for determining the replacement cost of an improvement, less depreciation and plus land value
3. Sales comparison approach – a method for estimating a property's value by comparing the property to similar properties that have sold

Montana statute requires the DOR to appraise property at market value (15-8-111,MCA).

Q. Will completing and mailing in the reporting form result in an increase to my taxes?

A. We do not use the information you provide on an individual property basis. Rather we use it in conjunction with the same information we receive regarding other similar properties to determine what the typical income and expenses are for your property type, which we then use in valuating your property with the income approach to value.

Q. I am tempted to underreport my actual net operation income (NOI) and over-report my expenses so my tax liability will be less. Is this a good idea?

A. No. Understating actual income or overstating actual expenses will result in a skewed capitalization rate. The capitalization rate is calculated by dividing the property's net operation income (NOI) by its sale price.

The department reviews and collects operation statements from similar properties as well as properties that have sold in order to determine appropriate property comparisons. Erroneously reported information may not be usable by the department and therefore not included in our analysis for valuing any properties.

Q. I filled this form out in past years. Do I need to fill out the form annually?

A. Yes, because we analyze the data on a yearly basis.

Q. What is other income?

A. Miscellaneous income is income you receive from concessions, laundry rooms, parking space or storage bin rental, and other services connected to operating the project.

Q. What does "payroll associated with property except management" mean?

A. Salary paid to cleaning and property maintenance staff, not a contracted service.

Q. I just re-roofed, repainted, put in new carpet, etc. Do I enter this under maintenance and repairs?

A. These are expenses that you do not have every year, therefore please pro-rate the annual expense for this improvement and place it in Reserves for Replacement or contact your local DOR office.

Q. What are reserves for replacement?

A. A portion of money that is set aside each year to replace items that have a shorter life than the building, such as carpet, roofing, heating system, etc.

Q. What type of building insurance is allowable?

A. Hazard, Fire, Casualty, Liability and any other insurance directly related to the building. Not business insurance or life insurance.

Q. What type of expense is allowable for security?

A. Security guard salary would be included in payroll associated with property. Leased or contracted security systems would also be included.

Q. I have remodeled the entire building. Where do I put this on the form?

A. This is not considered an operating expense. It is a capital improvement. Capital improvements are long-lasting additions to the property that usually increase total value, income or economic life.

Q. Why do I need to fill out the information on the second page when I provided the information in the income area of the first page?

A. The information on the first page is for the building as a whole. The second page gives us more detailed information about the floor level.

Q. What do you mean by "type of lease"?

A. We want to know what expenses are the responsibility of the building owner, such as those listed at the bottom of form, such as a Net Lease (a lease in which a tenant pays maintenance and operating expenses for the leased property in addition to rent).

Q. What is "additional annual income"?

A. This is the amount of rent paid over the base rent. Additional rent may be based on gross sales, net operating income, consumer price index, etc.

Q. Why do you need to know what I paid for the property?

A. This information assists us in developing income valuations for property, analyzing trends and in checking the income values against the actual market data.

Q. Why do you need to know what my mortgage terms are?

A. This helps us analyze for non-standard financing that may have affected purchase price.

Q. How can you use an Income Approach when the law says you can't?

A. There is no law stating the DOR can't utilize the income approach as one of the approaches to be used in valuation of commercial properties.

The law 15-8-111(2)(c), MCA states, "If the department uses the capitalization of net income method as one approximation of market value and sufficient, relevant information on comparable sales and construction cost exists, the department shall rely upon the two methods that provide a similar market value as the better indicators of market value."

ARM 42.20.107 through 42.20.109 specify the application of the income approach, when necessary information is available, and provide detail on how the approach is to be used.