

Something To Think About

Linda Offringa, Senior Consultant

Another year has ended, another lien date has past and once again its time to think about your property tax values. And if you are a company with multiple locations in California, you have another matter to consider. The vast majority of the 58 California counties are now participating in the Standard Data Record (SDR) system. The SDR system allows the user to file electronically all of their California Business Property Statements at once (or individually) into a centralized data system. Each county would then be able to pull only their county-specific data for valuation. This is NOT an interactive program like the e-filing programs available in many counties. Data files are formatted into an XML file format and uploaded to the website. Although any company can participate in this program, it does require additional programming requirements on your part and therefore may only be practical for those companies with multiple filings. Keep in mind that this additional mapping only occurs in the first year of filing. After that, the company would simply upload their data to the website. Many of the property tax software companies are already set up for SDR filings. The information is encrypted and secure. Registration is required.

The system allows for all types of property statements, such as 571-A - Agricultural, 571-F - Agricultural, 571-L - Business, 571-P - Pipelines, and 571-R - Apartment Buildings. It also accommodates the individual schedules within these statements. (Alt sch A for banks, etc.). It has room for multiple categories and can accommodate 119,000 lease lines per statement. Notes to the Assessor are available for those filings that require special handling.

From my perspective, this system is headed in the right direction. SDR is an ongoing project that the Assessors will continue to improve upon. Although the first year may be slightly cumbersome, it will save time in the future for preparation, copying and mailing. All returns are given a receipt by bundle as well as by individual return. If a return is accidentally coded to an incorrect county, the date of original filing will still be respected.

The only down side I see for now is that you will not be able to print out a copy of the BPS in the familiar format. The program will print out the schema as it is received, but it will not look similar to the schedules that we are all familiar with. Also, you will not be able to pull up the calculated values. I understand that these issues as well as many others will be resolved with over time. The plan is to integrate a consistent state wide filing system that everyone can use but it will take time to accommodate everyone.

For companies with multiple locations in California, this system is worth looking into. For more detailed information, please visit the website at www.calbpsfile.org



Tax Saving Opportunities

Sean Keegan, VP Real Estate Division

How does the Assessor attain information to value your "Fixtures"?

With construction activities, such as completing new buildings, installing new leasehold improvements, remodeling, renovating, or rehabilitating improvements, there are assessment increases issued to taxpayers. The Assessor is notified when building permits are issued. The critical question to ask oneself is whether the construction item or the work completed is legally assessable. A fixture is simply defined as "Not an integral part of the building but their use or purpose directly applies to or augments the process or function of a trade, industry, or profession." (Property Tax Rule 463(c).)

In the Assessor's Office, there is the Real Property Division which will establish values for the land and improvements. The Real Property Division will also establish the base year valuation after new construction of improvements or after a change in ownership. This will include leasehold improvements. The questionnaires from the County requesting data on construction activities are important components that the Assessor may rely on to establish a taxpayer's new base year valuation or whether the completed construction project is assessable.

The Business Division of the Assessor's Office (Business Personal Property) will process the annual Business Property Statement (BPS Form 571-L), issuing a personal property and fixture assessment based on the costs reported by asset classification and asset acquisition year. For the fixture assessment (also referred to as "trade fixtures"), the Assessor is concerned with BPS Schedule B, Columns 1 and 2 usually.

For instance, we have represented a manufacturer who constructed modifications to a leased building. These modifications were built for a cost less than the Assessor's enrolled value. The County relied on a cost service or an estimate to establish the new base year valuation which provided an inflated value estimate. Upon notice, the client's rights were protected with an appeal application which provided time to gather additional information and to discuss the assessment with the County. During the appeal discussions, we discussed and provided the proper cost to the Assessor. The resultant valuation was adjusted (See Property Tax Update, Winter 2005, Volume 10, Issue 1 for additional examples).

Assessor's Handbook (AH) 502, one of a series of authoritative guides for all County Assessors published by the California State Board of Equalization (SBE), outlines that: "Close cooperation between Auditor-Appraisers is essential when valuing landlord and leasehold improvements because special difficulties arise." This is a difficult valuation area, due to the various parties that include the building owner, tenant, Real Property Division, and Business Division. Another complication to this issue is the lack of detailed records, including proper cost information by line item and project descriptions.

Did the Assessor value your "Fixtures" correctly? Does Obsolescence apply to "Fixtures", as well?

For this question, we will focus on the Business Division's valuation of Fixtures. The Assessor generally values leasehold fixtures by utilizing the cost approach to value.

For example, we represented another client that had constructed and installed sophisticated air handling and temperature control systems (e.g. referred to as "Clean Rooms") for some specialized manufacturing processes. The system costs were reported on the BPS Form 571-L, and were classified as "Fixtures". The Assessor applied the designated "Trend Table" to the reported costs (i.e., multiplied the acquisition cost by the Trend Factor resulting in the estimated Fair Market Value). This mechanical or computer calculation was performed correctly.

However, the calculated fair market value of the "Fixtures" was at issue based on several factors, including the fixtures' use, the remaining useful life, company's revenue, the industry changes, product demand, and excess capacity, to name a few items. After our presentation of valuation information, the Assessor's Office made a proposal to reduce the value based on economic obsolescence. The reduction in value pertained only to the Machinery & Equipment. We believed that the Assessor's Office had erred in not applying an obsolescence adjustment to the fixture assessment, as well. The Assessor disagreed. Ultimately, we prevailed based on several considerations.

Further, obsolescence may be termed as physical, functional, or external (economic). "Physical deterioration is a loss in value due to the use or the forces of nature. It may be classified as curable or incurable. Functional obsolescence is the loss in utility and value due to the reduction in the desirability of the property. It is caused by factors inherent to the property. External obsolescence referred to as economic obsolescence is a loss in value caused by negative influences outside the subject property that are generally beyond the control of the subject property owner or tenant. External obsolescence is generally deemed to be incurable as of the valuation date, but may not be permanent." (AH 502, pp. 21- 22.)

Since certain industries and specific plants may have abnormal issues or accelerated value loss, there may be opportunities to contest the valuation. After all, the SBE advises County Assessors, "[W]e can say that the factors include a normal amount of physical deterioration, normal functional obsolescence, and to the extent that is normal, normal economic obsolescence." (AH 582, p. 22.)

We recommend identifying situations where the facts indicate possible plant issues, such as excess capacity, plant deficiencies, capital appropriations to cure various issues, lack of product demand, and product price erosion. It is understood that it is difficult to reuse fixtures within the manufacturing industries (i.e., manufacturing plants vary) which affects the value, as well.

As one can see, there are situations where the Leasehold Fixture and Structure items are affected by value losses. AH 504, states that "[C]areful consideration should be given to new construction, to leasehold improvements abandoned on the lien date, and to fixtures which have declined in value." This area may be difficult to prove at times due to assets not being written off, description of assets are poor, abandoned fixtures.

The SBE has made recommendation in recognition of these complex valuation issues. The SBE states that, "[I]n industries where equipment is undergoing rapid changes in technology, further adjustments are likely to be needed. Board staff has identified a few industries where equipment has experience rapid changes in technology. AH 581 include separate tables for the valuation of computers and related equipment, semi-conductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures." (AH 504, p. 75; emphasis added.) It is difficult to reuse fixtures within the manufacturing industries (e.g. manufacturing plants vary) which affect the value, as well.

"Assesseees may present evidence to the assessor to support their estimation of market value when they believe that application of the index factors does not produce results within an acceptable band of value." (AH 504, p. 75.) Unfortunately, the property tax system generally requires that a taxpayer make a payment of taxes prior to an Assessment Appeal Application being submitted or calendared for a hearing date. A timely review coupled with a timely filed Assessment Appeal Application has provided rewards to taxpayers that include the enrollment of the correct value, tax bill cancellation, penalty abatement, tax refunds, and time saved for all parties involved.

SPECIAL PURPOSE????

Tim Brown, Consultant

Have you ever heard the assessor say that your property is special-purpose? Chances are pretty good you have heard that if you are an owner-occupier of the real property and have appealed your assessment. There are a couple of questions that should come up when taxpayers hear this from the assessor.

The first question is, what does the assessor mean by special purpose? There is no definition of a special-purpose building in the Revenue and Taxation Code. The assessor, when faced with this question may say that the building was constructed for a specific use and that there are very few buildings like that one. They also may say that a special-purpose property would not or cannot be adapted for any other use. The interesting thing is that many times the assessor is able to say this without ever stepping one foot in the building.

The next question is how does this affect a property's value? Some assessors argue that since there are very few like properties the comparable sales approach and the income approach are not reliable approaches to value. This leaves the assessor relying on the cost approach. The cost approach has always and will always be a viable way to value a property. However, the cost approach usually comes in at the high end of the value range due to the difficulty of estimating depreciation. When using comparable sales and the income approach depreciation is inherent in the value. In the cost approach, depreciation is a separate calculation with many forms and variables that is estimated by the appraiser.

That is why an assessor likes to say your property is special-purpose. He may then rely on the cost approach and make his own estimate of the depreciation of the property. The assessor rarely sees anything wrong with a building, and is very conservative in estimating depreciation.

So then what can you do as a taxpayer? First, just because the assessor says that your property is special-purpose does not mean that there isn't an opportunity for a reduction. It is important to do all three approaches to value. Look at what other similar type buildings are selling for in your area. Look into how much others are leasing buildings for in your area. And when looking at the cost approach, look at all forms of depreciation or other factors that would cause the building to be valued for less, including things that the assessor doesn't know about or is simply overlooking.

The moral of the story is that just because the assessor says that your building is special-purpose doesn't mean that his value conclusion is correct, or that the cost approach is the only approach to use. Ask the assessor what about your building makes it special-purpose. Most of the time the answer is that it is owner-occupied or because it is being used for a special use. A circular argument at best. Look at all the approaches to value and you may find that even with the assessor calling the building special-purpose there is still an opportunity for a reduction.

Some Fireplace Safety Tips

You'll want to make sure your fireplace is not a hazard to your home. Here are a few tips from the Hearth, Patio & Barbecue Association:

- Make sure to clear the area around the fireplace and chimney. If you have debris too close to your fireplace, it could cause a fire.
- Always use a fireplace screen. Period.
- Don't overload your fireplace with too many logs. And don't try to burn your Christmas tree or other refuse in your fireplace.
- Always keep a fire extinguisher on hand and equip your home with smoke detectors. Don't forget to check your batteries on a regular basis.
- Place your logs to the rear of your fireplace on a grate.
- Never leave the fire unattended. Make sure the fire is extinguished before you go to bed.
- Keep fireplace wood stacked, covered and out of doors—away from the house and off the ground.
- Have your fireplace inspected annually. Make sure it is cleaned by a certified chimney sweep.

TOOTING OUR HORN!



Although this is an informational newsletter, we would like to take the opportunity to brag about a sampling of our successes, from various industries, in the last quarter. These are the amounts of the refunds that our clients have received from the county, due to our work.

<i>Aerospace</i>	\$76,651.02
<i>Cement Mfg.</i>	\$1,091,152.90
<i>Containers Mfg.</i>	\$74,894.46
<i>Electronics Mfg.</i>	\$407,793.45
<i>Extrusion Co.</i>	\$32,840.59
<i>Food Manufacturing</i>	\$166,163.26
<i>Grocery Stores</i>	\$285,433.70
<i>Printing</i>	\$220,749.86
<i>Tire & Wheel Mfg.</i>	\$101,057.81
<i>Transportation</i>	\$26,485.42

Tax Tidbits

Personal Property Tax Filing is here

The lien date (for most states) for personal property is January 1st. April 1st is the final due date for filing and in California May 7th is the last date to file before accruing a penalty.

For most people, the filing of the annual business property statement is basic. What most people do not consider are the volumes of state rules, regulations, and court cases that determine what is or is not taxable. Most companies do not have the time or resources to become formally educated in all nuances of property tax law. These are the companies who are uncertain if they are paying more than their fair share of property taxes.

Your property tax base can be reduced legally when all aspects of property tax law are taken into consideration. If you have any questions regarding the filing of your next Business Property Statement 571-L, or if you would like to find out if your asset base has been overvalued in the past, please call Linda Offringa 562-920-1864. She would be happy to answer any questions.

Winter Morning Poem
by Ogden Nash

Winter is the king of showmen
Turning tree stumps into snow men
And houses into birthday cakes
And spreading sugar over lakes
Smooth and clean and frosty white
The world looks good enough to bite
That's the season to be young
Catching snowflakes on your tongue
Snow is snowy when it's snowing
I'm sorry it's slushy
when it's going



Quotes

Preparation for Audit

Kris Chacko, Senior Consultant

Helping

Never look down on anybody unless you're helping them up.
—The Reverend Jesse Jackson

Genius of life

The genius of life is to carry the spirit of childhood into old age.
—Aldous Huxley

On writing

Omit needless words. Vigorous writing is concise. A sentence should contain no unnecessary words, a paragraph no unnecessary sentences, for the same reason that a drawing should have no unnecessary lines and a machine no unnecessary parts.
—William Strunk, Jr.

Be practical

Ask your child what he wants for dinner only if he's buying.
—Fran Lebowitz

Great irony

Human beings, who are almost unique in having the ability to learn from the experience of others, are also remarkable for their apparent disinclination to do so.
—Douglas Adams

On life

Life is just one damned thing after another.
—Elbert Hubbard

You probably noticed by now that every four years, the Assessor's Office comes knocking at the door to schedule an audit. The assessor is mandated to perform his audit every four years to verify that companies are reporting all their personal property. During this audit, the auditors are to verify costs reported and verify the Fair Market Value of the personal property. A painful or smooth audit is greatly dependant on how the taxpayer prepares.

1. One should begin the process with the review of the prior audit. If an issue of supplies, fixtures or trade level has come up in prior audits, it will come up again. The taxpayer should be prepared to address the issue from the onset.
2. Reconciliation from the General Ledger (GL) to the Fixed Asset Detail (FAD) to the (571-L). The auditors begin with the GL. They tie the GL to the FAD and then tie that to the reporting on the 571L. If a reconciliation was not already completed during the original filing, a new reconciliation should be prepared. One should account for any unreported asset and provide justification for it not being reported (i.e. soft ware, repairs, etc.). Experience has shown that if the reporting reconciles to the GL the auditor will not be inclined to ask further questions.
3. Know your rights. The Auditor will provide a Summary of Audit. The taxpayer is allowed to respond in writing to this audit and this response will become part of the audit.
4. The audit can result in no change, an offset, an increased assessment or a reduced assessment. If escapes are to be issued, a "Notice of Proposed Escape Assessment" will be sent. The taxpayer has 10 days to respond to this notice. Once the 10 days have lapsed, a "Notice of Enrollment" is issued. Depending on the county, this notice starts the 60 day window to file a tax appeal. A tax bill will follow. Regardless of your issue with the assessment, the tax bill must be paid to avoid interest and penalties.
5. In the appeal of an escape assessment, the burden of proof is on the Assessor, a distinct advantage in a tax hearing.

The key to surviving the audit is the anticipation and avoidance of conflict. By providing the auditor with a clear path, it addresses both.

The Top 10 New Year's resolutions

According to Kimberly and Albrecht Powell in an About Web site article, these are the Top 10 New Year's resolutions:

1. Spend more time with family and friends.
2. Make time for fitness.
3. Lose weight.
4. Quit smoking.
5. Enjoy life more.
6. Quit drinking.
7. Get out of debt.
8. Learn something new.
9. Help others.
10. Get organized.



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Property Tax Update

*Property Tax
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*Wishes you a
very Happy and
Prosperous New
Year!*

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