

PTA

PROPERTY TAX UPDATE

Property Tax Assistance Co., Inc. ♦ 16600 Woodruff Ave., Bellflower, CA 90706 ♦ 562-920-1864 ♦ www.property-taxes.com

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Saving Taxes on an Automated Warehouse System

By: Ben Clark, CMI, Regional Manager

Whether your warehouse supports a manufacturing plant or is stand-alone, the pressure facing the automated warehouse system ("AWS") is to do the job faster, better, and cheaper. The cost to rectify deficiencies in an AWS can measure the extent to which a system has lagged behind industry standard.

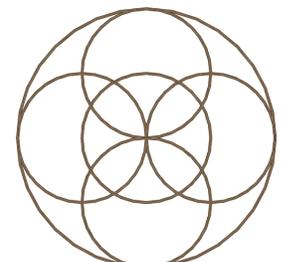
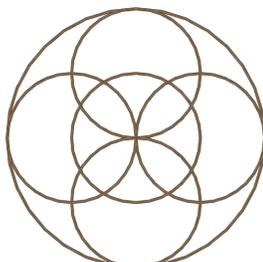
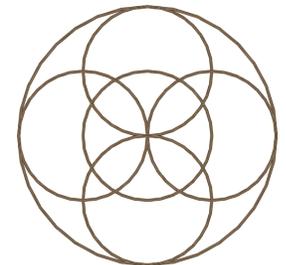
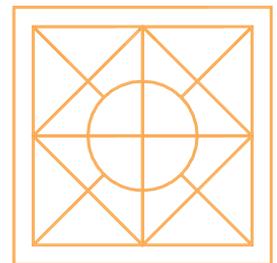
Newer systems have a dump rate (the number of pallets a system can load or unload in one hour) of around 180. Perhaps your system is functioning at less than this level, due to a variety of factors. The cost to rectify problems in order to achieve this dump rate would measure functional obsolescence. If your system cannot be modified to achieve this rate, it probably would be very difficult to sell.

AWS's become more efficient in relationship to advances in computerization and software. The extent to which your system is slowed down due to inadequate computerization would be curable functional obsolescence.

Many industries are forced to ship a "mixed pallet" of goods to customers, who in the past accepted complete pallets of a single product. This pressure to be able to customize a pallet to suit a customer results in greater demand for specialized retrieval systems. Some operations, having invested in automated systems to retrieve single-product pallets are forced to "go manual" to produce mixed pallets, due to the high cost of replacing or modifying an existing system.

Perhaps your system is over-improved based on a change in manufacturing scheduling. An AWS that was built to retrieve inventory stored in a large warehouse will have excess capacity under a "just-in-time" manufacturing model that seeks to minimize inventory. In this case, excess capacity and excess capital investment can be measured based on the declining usage of the system.

A close look at the challenges facing your AWS can signal tax saving opportunities.





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Property Tax Update



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A Tale of Two TV Stations

William Fisher, Regional Manager

(with apologies to Charles Dickens)

It was the best of standards. It was the worst of standards.

In 1940 the Federal Communications Commission created the National Television Standards Committee (NTSC) to resolve conflicts which had arisen between equipment manufacturers, notably RCA and Philco, over the introduction of a nationwide broadcast television system in the United States. In 1941 the NTSC standard was adopted for black and white over the air (terrestrial) television broadcasting. This standard was subsequently modified to accommodate color broadcasting in 1953. The NTSC standard has been in place for over fifty years. While astounding in the early days of television, the standard soon fell behind the rest of the world in terms of picture and audio quality.

Recognizing the huge potential offered by emerging technology and the demand for improvement of picture, sound, and use of bandwidth, the US Congress formed the Advance Television Systems Committee (ATSC) to develop a standard for digital television in the United States.

In 1996 Congress passed and the President signed in to law The Telecommunications Act of 1996, which requires commercial broadcast television license holders to implement Advanced Television Services or standard/high definition digital television (DTV). The DTV standard is a very flexible television system that, when fully implemented, will allow broadcasters to provide new and higher quality services, but it is incompatible with the existing NTSC broadcast standard.

Under the Telecommunications Act of 1996, commercial broadcasters in the largest markets in the country were required to provide over the air ATSC signals beginning in 1998 and 1999. Initially the transition to the new standard was to be completed by 2006, but this proved to be impossible. In fact, it was not until August of 2002 that regulators established required milestones for television sets sold in the US to have full DTV reception capability (2004 for large screen and 2007 for others).

At long last Congress has enacted a date certain at which the transition from NTSC to DTV must be complete. By federal mandate analog television broadcasts will cease on February 17, 2009. At that point the NTSC television standard will cease to be applicable, and NTSC broadcast equipment will be functionally and economically useless. There will be virtually no resale market for this equipment when the transition is complete. Even at this point in the transition, the market for this equipment is negligible at best. This has rendered traditional approaches to fair market value obsolete in the case of this equipment.

To meet the federal mandate, broadcasters have been forced to operate the equivalent of two broadcast stations- one NTSC and the other ATSC, even though no revenue will be generated by DTV until the transition is completed in 2009. The electricity required to operate the additional transmission capabilities costs broadcasters somewhere between ten to twenty thousand dollars a month. This places local broadcast stations, which rely entirely on the sale of advertising for revenues, at a significant competitive disadvantage with other media outlets- notably cable and satellite video distribution systems.

More than ninety five percent of most commercial broadcast revenue is derived from the sale of airtime or commercial advertisements. The sale of commercials is directly proportional to the number of viewers that a broadcast station or network can deliver to the advertiser. The current rate of market penetration for ATSC receivers will not support advertising sales sufficient to offset the cost the DTV transition. As the February 2009 cutoff date approaches, sales of ATSC receivers will increase but many analysts agree that the relatively high cost of reception equipment, lack of standardization, and an overall lack of DTV programming will slow the adoption of ATSC technology in individual households until late in the transition.

It should also be noted that the ATSC standards for over the air broadcasting are not the same as those employed by cable and satellite operators. These systems offer digital television, but the standards are radically different. These differences contributed to the delay in bringing consumer DTV receivers to the marketplace and will not be easily resolved. Even television broadcast equipment that survives the transition to ATSC is subjected to a higher rate of economic and functional obsolescence. The methodologies employed by the most taxing authorities simply have not kept up with burgeoning information technology.

Digital technology has radically and irrevocably changed the way the information systems, including television broadcast systems, function. In few industries can the impact of the digital revolution be seen more clearly than in the broadcast industry.

Continued.....

Quotes

On parenthood

There are times when parenthood seems like nothing but feeding the mouth that bites you.

—Peter De Vries

On teaching a man to fish

Give a man a fish and he eats for a day. Teach him how to fish and you get rid of him all weekend.

—Zenna Schaffer

On statistics

There are two kinds of statistics: the kind you look up and the kind you make up.

—Rex Stout

On sources

Nobody believes the official spokesman, but everybody trusts an unidentified source.

—Ron Nesen

On football

Football's not a matter of life and death. It's much more important than that.

—Bill Shankly

On children

Children are a great help. They are a comfort in your old age. And they help you reach it faster, too.

—Anonymous

On friendship

The only way to have a friend is to be one.

—Ralph Waldo Emerson

Property Tax Update

The Most Common Double Assessment - Tenant Improvements

Linda Boehme, Sr. Tax Consultant

Everyone agrees, including the Assessor, that double assessments occur much too frequently on commercial and industrial properties. Double assessments generally happen when a "fixture"¹ is assessed by both the Business Property Dept. and Real Property Dept. of the Assessor's Office. This can occur when a Building Permit is issued for a "fixture" that is then commonly assessed by Real Property as an "improvement"² on the Secured Roll. A Business Property Statement (571-L) is filed each year by the tenant, property owner or sometimes both parties reported the costs for the same fixture/improvement. These costs are enrolled by the Business Property Dept. on the Secured and/or Unsecured Assessment Roll. It would even be possible to have a triple assessment of the same item.

There is also a problem with the tenant/owner using an incorrect classification of the item. Is the item classified as a fixture or structure item? Is it a new replacement, or, is it a renovation, alteration or rehabilitation which is exempt from reassessment? Also, the way a fixture is classified can determine whether the value is factored up or trended down each year.

Another common practice is for the Assessor to assign the unsecured value for tenant improvements to the real estate owner once the tenant has vacated the property. These items are called abandoned leasehold improvements and may be of no value to the property owner.

The Assessor does not go to great lengths to find these kinds of errors. In fact, there is very little consultation between the two departments on any valuations. It can be difficult to find double assessments unless a detailed review is made of the property components being assessed by each department for a given property location as compared to the tenant/owner's records.

PTA's consultants are well equipped to find these kinds of over-assessments and to facilitate value reductions and tax refunds for our clients.

1 Fixture

An item of tangible property, the nature of which was originally personal property, but which is classified as real property for property tax purposes because it is physically or constructively attached to real property with the intent that it remains attached indefinitely.

2 Improvement

Improvements include all buildings, structures, fixtures, and fences erected on or attached to the land.

A man walks through a graveyard...

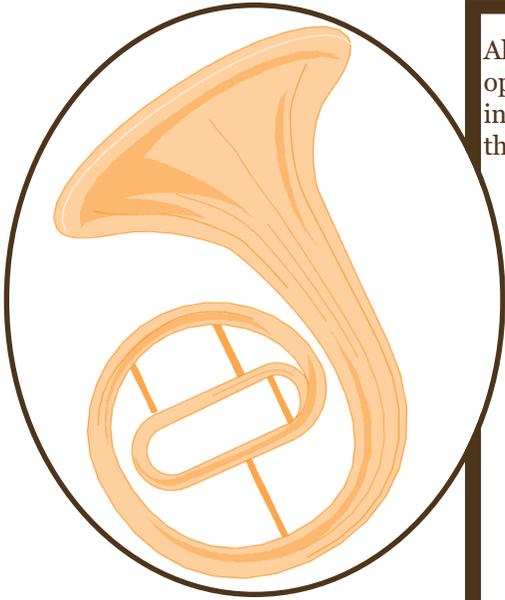
One day a tourist traveling in Europe was walking through a graveyard when he stopped and listened intently. He thought he heard music. There was no one else around, and so the tourist decided he would look around to see if he could find the source. After searching he finally made an amazing discovery—the music was coming from a grave. The headstone read: Ludwig van Beethoven, 1770–1827. As the man stood there listening in amazement, he realized that what he was hearing was the Ninth Symphony being played backward. This puzzled the man, and he left the graveyard—but later persuaded a friend to return with him to make sure he was really hearing what he thought he was hearing.

When the two arrived back at the gravesite, the music had changed. This time the tourist recognized what was being played as the Seventh Symphony—and it was being played backward as well! Amazed and curious, the men left the graveyard in search of an expert. When they returned to the grave, they immediately heard the Fifth Symphony being played, and as before it was backward. The expert noticed that the symphonies were also being played in the reverse order that they had been composed—the Ninth, then the Seventh, then the Fifth. By the next day, word of the strange phenomenon had spread and a small crowd had gathered over Beethoven's grave. The crowd stood listening in awe as

the Second Symphony played backward. Just then, the caretaker of the graveyard walked up to the group. Someone in the group asked him if he knew what was going on.

"Oh, it's nothing to worry about," said the caretaker. "He's just decomposing." —as retold

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 a few examples of the refunds that our clients have received from the county, due to our work.

<i>Broadcasting</i>	\$45,831.00
<i>Computer Systems Design</i>	\$312,640.34
<i>Computer Storage Device Mfg</i>	\$37,485.51
<i>DVD Manufacturing</i>	\$84,199.80
<i>Food Manufacturer</i>	\$78,672.31
<i>Grocery</i>	\$148,138.45
<i>Semiconductor</i>	\$661,166.33
<i>Textile Finishing</i>	\$72,131.64

TaxTidbits

Unclaimed Property

On June 1, 2007, a federal court in Sacramento directed the State Controller's Office to not accept any unclaimed property until new laws are passed which allows their office to adequately notify owners. Unless claimed, lost property being held by a business will be transferred to the State for safekeeping. The original purpose of California's unclaimed property law was for the State to both (a) safeguard lost property from being used by private interests for their own gain, and (b) reunite the lost property with their rightful owners. Property owners are encouraged to continue to search for their unclaimed, lost or forgotten property through this website.

<http://scoweb.sco.ca.gov/UCP>

Pumpkins in the cornfields
Gold among the brown
Leaves of rust and scarlet
Trembling slowly down
Birds that travel southward
Lovely time to play
Nothing is as pleasant
As an autumn day!



Take Care When Filing Your Company's 571L

Ronald Gangloff, Esq. Vice President

The simple truth of the matter is an individual can file a Business Property Statement (BPS or 571L) in as little as 5 minutes. This sounds like a blessing to the uninformed, but it is not.

Over the years I have personally witnessed many instances of unnecessary late payment penalties, excess audit interest charged due to blatant underreporting and complete lack of any significant tax planning as it relates to the compliance effort.

Companies tend to look for the low price leader in choosing their compliance firm. The problem is that compliance issues that can arise sometimes require significant time and experience to properly identify, prepare and plan for some of the more complex filings. If your company's in house filer is not up to the task or the outside consultant has not built into its fee enough to justify the effort of a proper filing then ultimately the company is left holding the bag on unnecessary tax liability.

One of many instances come to mind. In a client review I found where an individual consultant who charged a nominal filing fee over reported costs resulting in about \$100k of tax liability. What is particularly troubling here is that once that error is made it is even more difficult to convince the assessing authorities that your paid professional preparer filed incorrectly. The over reporting issue was complex, and the effort to properly prepare was not built into the nominal filing fee. This begs the question was the consultant competent or not? Or was the compliance engagement negotiated competently on either side?

Having seen far worse I believe the answer in any particular situation could go both ways. In some instances the compliance function is not handled professionally by either inside preparers or outside consultants and sometimes the consultants hands are tied by overly restrictive price negotiations. Another obvious scenario could be that the consultant just wants the job and will take any price the client will give. And thus the title of this article "Take Care When Filing Your Company's 571L".



Continued.....A Tale of Two TV Stations

The lines between computers and broadcast technologies have been blurred to the point that no real distinction can be made. Television programming is already available to compatible computers that are connected to the Internet. Websites, numbering in the tens of thousands, provide streaming audio and video to those who have the appropriate software installed on their computers. As more bandwidth is made available, the quality of video available on the Internet will rival that of the broadcast industry.

Conversely, computers and digital processing are replacing the analog TV broadcast and production equipment of the past half century. These computers provide greater capability and higher quality at much lower equipment cost. However, the technology evolves at a greatly accelerated rate. This means that the equipment depreciates in value at about the same rate as computer equipment. As new technologies emerge on a three to six month cycle, old equipment is made obsolete as broadcasters are forced to keep up with the digital revolution.

While television touches almost every American household, there are only approximately 1,300 commercial television stations in the nation. This significantly reduces the pool of potential buyers for used broadcast equipment. The size of this extremely limited marketplace should be taken into consideration when determining the fair market value of used broadcast equipment. In addition, the fair market value of used television broadcast equipment has been significantly impacted by recent changes in federal regulations, functional and economic obsolescence, and new and emerging broadcast and computer technologies.

The valuation models used to assess broadcast equipment need to be changed to reflect the reality of changing broadcast technology. The old rules of depreciation and useful life no longer apply. Fortunately, for some PTA broadcaster clients in Arizona, Florida, and other states, changes have been implemented which more accurately value such equipment. Appeals for the current tax year should yield additional revisions. It is a complex issue with no easy solutions, but it is clear that adjustments like those achieved in Arizona and Florida should be applied to broadcast operations nationwide.