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PROPERTY TAX UPDATE

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FALL

2008

Why file an appeal???

Ron Gangloff, Esq VP

Why is an appeal necessary?

Each county assessor in the state of California is responsible for generating an annual assessment for every parcel of property, every business operation, every boat and aircraft, and every possessory interest located within the county borders. This assessment ultimately finds its way to the county Tax Collector for billing and collection. Practically every resource at the assessor's disposal is earmarked for that purpose. It should not be any surprise that it is difficult to gain the attention of the assessor's office to correct a complex time consuming issue. That is where an appeal comes in.

An appeal, simply stated, gets the attention of the assessor and gives him a deadline on which to act on any discrepancies a taxpayer may have with his assessment. An appeal is the one point of leverage a taxpayer has when dealing with local taxing authorities. Without an appeal a taxpayer is as good as "dead in the water." That is not to say that a problem can never be resolved without an appeal, an appeal just makes the simple problems a bit less difficult and makes resolving more complex issues or issues involving value judgment a possibility.

Taxpayers receive their annual tax bills typically between late June and early August. The unsecured bill is payable in late August and an appeal is due in many counties by September 15th. Other counties require an appeal be filed by November 30th. At any rate especially for counties with a September appeal deadline, this leaves very little time to actually identify and document issues before an appeal is due.

Due to the number of assessments generated by the local assessor even large complex business assessments are generated in just a few minutes. This practice provides many opportunities for mistakes. When in doubt, file an appeal, it can always be withdrawn later if no discrepancies are found. At a minimum it will provide extra time to take a closer look at your assessments to verify accuracy.



WHAT DO YOU THINK YOUR EQUIPMENT & LEASEHOLD IMPROVEMENTS ARE WORTH?

Sean P. Keegan, Vice President

Does the Assessor's Value exceed your estimate of fair market value for your equipment or your improvement?

In the California Assessor Offices, 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. The Business Division (Business Personal Property) will process the 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.

Did the County Assessor Value your Property correctly? Is there Obsolescence present with our Company Assets or issues causing Accelerated Value Loss?

The Assessor utilizing the cost approach generally values equipment and leasehold fixtures based on the reported costs. Another complication to this issue is the lack of detailed records which include proper cost information by line item and asset descriptions. The standard trend table and its factors are multiplied by the reported cost to estimate fair market value. We have found that this approach does not consider our client's multi-shift operation which creates accelerated usage of assets, extreme heat, repairs, abnormal obsolescence, and demand changes for the manufactured product.

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, P. 21& 22. (See PTA Property Tax Update, Winter 2007 & PTA Property Tax Update, Winter 2006, Volume 11, Issue 1, P. 2).

As defined, "Economic Obsolescence is the loss in value resulting from factors external to the property." "The causes of economic obsolescence may include reduced demand for the product; increased competition; changes in raw material supplies; increasing costs of raw materials, labor, or utilities without a corresponding price increase of the product; inflation; high interest rates; legislation; and environmental considerations. (Appraising Machinery & Equipment Black Book, P. 104; Tab 5, P. 67). "Measuring the full economic effect of economic obsolescence is the primary weakness of the cost approach. This is because economic obsolescence is a function of the outside influences which affect the entire business (all tangible and intangible assets) rather than individual assets or isolated groups of assets. "(Ibid. P. 104)

Since certain industries (e.g. Semiconductor, Dairy Processing, Chemical, Thin Film Disks, Plastic Products, Home Building, and others), facilities, equipment, or improvements may have abnormal issues or accelerated value loss, there may be opportunities to contest the valuation. We recommend identifying situations where the facts indicate possible asset (real property & equipment) issues which may affect the value such as excess supply, 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 quantify the amount of value loss at any one time however, it may generally be estimated. If your 2008 Assessment(s) exceed your estimate of Fair Market Value, we recommend filing an Appeal Application.



Quotes

Football

"If lessons are learned in defeat, our team is getting a great education."

Murray Warmath / Minnesota

"The only qualifications for a lineman are to be big and dumb. To be a back, you only have to be dumb."

Knute Rockne / Notre Dame

"Oh, we played about like three tons of buzzard puke this afternoon."

Spike Dykes / Texas Tech

"It isn't necessary to see a good tackle. You can hear it."

Knute Rockne / Notre Dame

"I've found that prayers work best when you have big players."

Knute Rockne / Notre Dame

"Three things can happen when you throw the ball, and two of them are bad"

Darrell Royal / University of Texas

"If you want to walk the heavenly streets of gold, you gotta know the password, 'Roll, Tide, roll!'"

Bear Bryant / Alabama

"A school without football is in danger of deteriorating into a medieval study hall."

Frank Leahy / Notre Dame

"When you win, nothing hurts."

Joe Namath / Alabama

"Motivation is simple. You eliminate those who are not motivated."

Lou Holtz / Arkansas

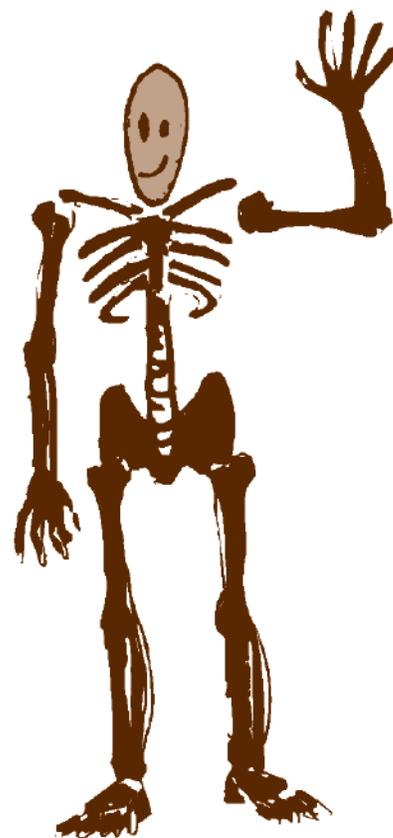
Property Tax Update

SUCCESSFUL APPEALS - REAL PROPERTY VALUATIONS REDUCED

Over the past year, PTA & PTA Real Estate Tax Division have reviewed many of our clients' assessments in the major California counties and we believe that certain assessments were overvalued. The proper Appeal Applications were filed on both Base Year Valuations (e.g. sale of properties, ownership changes, and new construction completions) and Annual Valuations. There have been reductions in values despite the perception that real property values have been increasing based on property sales. As in all transactions, the sale price or the facts surrounding a transfer need to be reviewed. There are also property assessment increases which the Assessor's Office may have enrolled based on sales without specific knowledge of your property. Some properties have been affected by tenant vacancies, repairs to improvements, building obsolescence, and other issues. The January 1, 2008 values have been enrolled by the Assessor's Office. The Appeal Filing Deadline for Alameda, Inyo, Kings, Orange, San Francisco, San Luis Obispo, Santa Clara, Sierra, and Sutter Counties is September 15, 2008 and the filing deadline for the remaining counties is November 30, 2008.

Got a 'skeleton in your closet'?

Hundreds of years ago when English physicians wanted to learn about the human body, it was difficult because there were numerous regulations to follow. Doctors were typically allowed to dissect only one body over the course of their education—and once the dissection had been accomplished, the physicians were reluctant to relinquish their prized skeletons. But it wasn't socially acceptable to keep the skeletons, according to Webb Garrison in *Why You Say It* (Grant Press). Consequently, doctors often hid them in a dark corner of a closet where they wouldn't be discovered easily. Eventually the phrase came to mean hidden evidence of any kind.



Legal Entity Transfers of Ownership And form BOE-100-

Linda Boehme Senior Tax Consultant

A change in the ownership or control of a corporation, partnership, or limited liability company, or legal entity that owns real property in California constitutes a reassessable transfer of ownership if the entity has:

1. Obtained control (acquired more than 50% of the interests) of any other entities;
2. Been acquired by any other entity (through a transfer of more than 50% of its interests).

The transfer is excluded from reassessment when the proportional interests owned by every person and/or entity remained exactly the same for each and every piece of transferred real property before and after the transfer.

A Legal Entity must file a form BOE-100-B, "Statement of Change in Control and Ownership of Legal Entities" with the California State Board of Equalization (BOE) if:

1. A form has been received from the BOE, even though there was no change in ownership or control;
2. The legal entity has been dissolved;
3. The legal entity does not own or lease property in California;

Note: Real property includes, but is not limited to, land, structures, fixtures, mines, quarries, timber, trees, and vines. It may be owned outright, or leased for a term of 35 years or more (including written renewal options), or leased from a government agency for any period of time. It may also consist of any right, including a working interest, to produce or extract oil, gas, minerals, or steam for any term, whether the resource is being produced or not.

4. The entity is not located in California;
5. The entity underwent a non-taxable reorganization.

A 10% penalty of the current year's taxes will be charged for not filing form BOE-100-B, or for not filing within 45 days of the Board's request, or for filing an incomplete form. The penalty may be waived if the form is correctly filed within 60 days of penalty notification.

PTA is always available to assist you in filing form BOE-100-B and/or represent you with any valuation issues you may have with the Assessor regarding Legal Entity transfers.

Show Fido you care this Thanksgiving

Don't let your Thanksgiving feast become a holiday hazard for your dog. Control the situation with these guidelines:

- Never give a dog a cooked bone—especially poultry bones. These can splinter and harm your pet's throat or even cause internal injuries.

- Don't serve your dog leftovers.

What's good to us may seem tasty to a dog too. But beware: Many foods are difficult for dogs to digest; some are toxic and can even be fatal. On the "Do Not Serve" list: fat, grapes, tomatoes, garlic and onions, raisins, and salt.

- No dessert, please. Sugar and fat can lead to weight and dental problems, as well as diabetes. And chocolate can be lethal—especially to small dogs.

- Don't decorate with items that may be hazardous to your dog. Be aware that small ornaments can cause choking. If you plan to burn candles, make sure your dog can't knock them over.



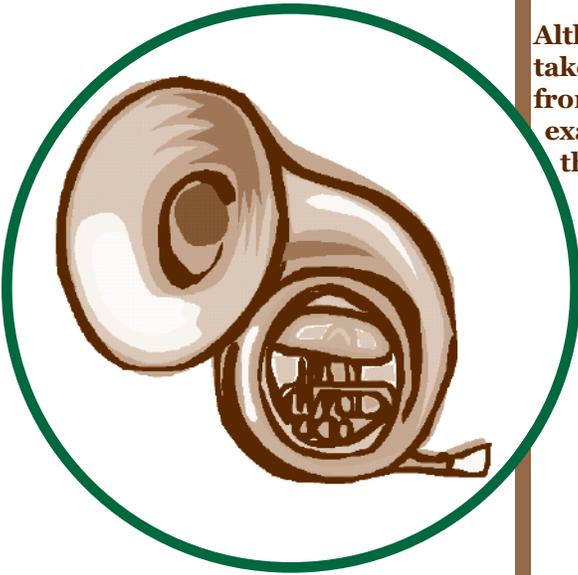
Thanksgiving Chuckles

Who is not hungry at Thanksgiving?
The turkey—he's already stuffed.

Why can't you take turkeys to church?
Because of their fowl language.

What do hippies put on their turkey?
Groovy

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>Electronics Manufacturer</i>	\$59,933.76
<i>Management Consulting</i>	\$65,564.23
<i>Photocopy Machines Mfr.</i>	\$111,247.65
<i>Plastics Hardware and Building Products</i>	\$51,205.33
<i>Post Production</i>	\$139,115.41
<i>Printing Company</i>	\$51,943.53
<i>Quarry</i>	\$523,813.62
<i>Semiconductor Mfr</i>	\$26,539.33
<i>Textiles</i>	\$129,585.39
<i>Wireless Mesh Routers Mfr.</i>	\$88,503.16
<i>Commercial-Real Property</i>	\$159,029
<i>Hotel-Real Property</i>	\$71,605

Tax Tidbits

Tax Increase on Flavored Malt Beverages

The Office of Administrative Law has approved Board of Equalization regulations that dramatically increase the tax on flavored malt beverages by reclassifying them as distilled spirits rather than beer, BOE Chair Dr. Judy Chu announced June 11. The tax on the flavored malt beverages will increase from 20 cents per gallon to \$3.30 per gallon beginning October 1.

Anti-Tax Group Gathers 28,000 Petitions.

Americans for Prosperity California, a statewide anti-tax group headed by Ventura County Supervisor Peter Foy, has been holding press events throughout the state to voice opposition to proposed tax increases. On June 11, the group's month-long tour culminated in an event at the state Capitol. Assembly Republican Leader Mike Villines and others spoke at the event, and the sponsor presented lawmakers with 28,000 petitions from Californians who oppose tax increases. The group's events featured a giant inflatable ATM machine, which focused attention on the message that Californians are "Already Taxed to the Max," and shouldn't be viewed as a source of instant cash every time the state's spending outpaces its revenue. (Source: Ventura County Star, June 12.)



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Knock knock . . .

A man went to answer a knock at his door and upon opening it, found a huge cockroach. "Yes?" asked the man. "What can I do for you?" Instead of answering, the cockroach slapped the man and ran off.

The next night there was another knock at the door. When the man answered, he found the cockroach once again. This time, the cockroach kicked the heck out of the man and ran off once more.

On the third night, there was a familiar knock at the door. The man cautiously opened it and no sooner did he peek out than the cockroach bit him and took off.

The man was so worried about the bite that he called his doctor and told him the whole story. "What is going on?" the man asked.

"Ah, yes," the doctor said. "There's a nasty bug going around."