PTA PROPERTY TAX UPDATE

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Higher Taxes for Food Processors?

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Food processors may be paying more property taxes than necessary, and it may be due to a variety of reasons, most of which the taxpayer has no control over. Here are some of the reasons why a food processor's property may be at a higher assessed value than they should be.

First, the Assessor's Office values property each year as of January 1. Value is defined in Section 110 of the California Revenue and Taxation code as "the amount of cash or its equivalent that property would bring if exposed for sale in the open market..." Another way to think of value is as the present worth of future benefits, or the value of property is based upon the future income that the property will generate.

When the Assessor's Office values business personal property from the costs reported on Form 571-L Business Property Statement, they apply depreciation factors to reported costs to derive a value for the equipment. The tables the Assessor uses captures the normal loss of value for equipment of a certain age in a specific industry. The depreciation tables assume the equipment will be producing a normal, predictable income stream.

What if abnormal, unpredictable factors are limiting the income generated by the property? Then the depreciation that is applied to the taxpayer's property wouldn't capture the loss in value that the property is experiencing.

Food processors recently have been experiencing higher costs for the commodities used in their products, higher energy and utility costs, and higher environmental costs. In many cases, the food processor is unable to pass these increased costs onto their customers, resulting in unanticipated lower incomes. The results of these factors are that the equipment suffers from an abnormal form of depreciation called economic obsolescence.

California State Board of Equalization Assessor's Handbook Section 504 defines economic obsolescence, or external obsolescence, as a "loss in value resulting from adverse factors external to the property, that decrease the desirability of the property. This type of depreciation may include the loss of value due to: inflation, high interest rates, legislation, environmental factors, reduced demand for the product, increased competition, changes in raw material supplies, and increasing costs of raw material, labor or utilities without a corresponding price increase of the product."

Food processors may also experience another form of abnormal depreciation called functional obsolescence. Assessor's Handbook Section 504 defines functional obsolescence as "the loss of value in a property caused by the design of the property itself." This form of depreciation may be found in equipment that runs improperly or not as anticipated, or in equipment that has required additional maintenance expenditures in order for the equipment to function properly. Functional obsolescence may also be found when an older piece of equipment has been superceded in the marketplace by a newer, more technologically advanced, state-of-the-art machine.

These are just some of the ways food processing equipment can be over-assessed. There are many reasons why food processors could be paying higher property taxes, including higher costs that hinder income, equipment that has experienced problems limiting its output, and equipment that have been outdated by new technology.