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Property Tax Update

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PROPERTY TAX UPDATE

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

SUMMER

2009

Some recent happenings for data centers

David L. Gangloff Jr., Esq.

Special purpose buildings and/or specially improved buildings create significant assessment problems for California taxpayers. These problems can be shown by the following examples:

Example 1. A client leased a flex building in 1998 for a ten year period that at that time was worth approximately \$10 million. In 1998 and 1999 the client converted the property to a data center and spent approximately \$65 million in the conversion. The Business Division of the assessor's office assessed this \$65 million cost beginning in 2000. In early 2007, the landlord went to the client and told them that they were interested in selling the building and wanted to know if the client was interested in buying it because the lease was up in a couple of years. They agreed to a purchase price of \$65 million. The Real Property Division of the assessor's office assessed the building for \$65 million. We pointed out that the only reason that the property was worth \$65 million was that the property was improved as a data center and the Business Division had already assessed the data center improvements. The Real Property Division lowered the base year value on the property to \$15.500 million. This will save the client approximately \$600,000 a year in taxes for as long as they own the property. Additionally, the \$600,000 in savings will go up by 2% a year under with California's Prop 13.

Example 2. Another client bought a data center for \$38 million. The Real Property Division of the assessor's office assessed the property for \$38 million. We told the assessor that the real property was only worth \$18 million and that we would report the balance to the Business Division but that we wanted the base year value of the property to be reduced to \$18 million. They agreed. The result is that \$18 million will go up by 2% a year under with California's Prop 13 and \$20 million a year will be depreciated as personal property at approximately a 6% decline each year. The client will save approximately \$2.8 million over the next 15 years.

These are a couple of the things that can go wrong with California assessments of highly improved properties. Most taxpayers are not familiar with these approaches to reduce taxes nor are their consultants. Most taxpayers and consultants are not equally versed in the happenings of both the Business Division and Real Property Division of California's property tax system and consequently they do not obtain these kinds of reductions. Because of Property Tax Assistance Co., Inc's long history of representing both real and personal property tax clients, we are uniquely qualified to negotiate with the various assessors' on these complex properties.



S U M M E R

Change in the “Mandatory Audit”

Effective January 1, 2009, assembly bill 550 changed the requirements for what was commonly known as a “Mandatory Audit”.

Half of the audits required by the new law shall be performed on taxpayers, that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.

The remaining half of the required audits, shall be selected in a manner that is fair and equitable to all remaining taxpayers and may be based on evidence of underreporting as determined by the assessor.

Under Property Tax Rule 193(a), an assessor may conduct an audit for only one of the fiscal years. If a discrepancy or irregularity is found, a county assessor must audit the remaining fiscal years for which the statute of limitations has not expired.

For more detailed information visit: <http://www.boe.ca.gov/proptaxes/pdf/lta09013.pdf>

Too good to be true (but it is):

A freshman at Eagle Rock Junior High won first prize at the Greater Idaho Falls Science Fair. In his project he urged people to sign a petition demanding strict control or total elimination of the chemical “dihydrogen monoxide.”

And for plenty of good reasons, since it can:

1. Cause excessive sweating and vomiting.
2. It's a major component in acid rain.
3. It can cause severe burns in its gaseous state.
4. Accidental inhalation can kill you.
5. It contributes to erosion.
6. It decreases effectiveness of automobile brakes.
7. It has been found in tumors of terminal cancer patients.



He asked 50 people if they supported a ban of the chemical. Forty-three said yes, six were undecided, and only one knew the chemical was water. The title of his prize-winning project was, “How Gullible Are We?” He was attempting to show how conditioned we have become to alarmists practicing junk science.

Quotes

There is only the moment. The now. Only what you are experiencing at this second is real. This does not mean you live for the moment. It means you live the moment.

—Leo Buscaglia

Know the price of success: dedication, hard work, and an unremitting devotion to the things you want to see happen.

—Frank Lloyd Wright

Life is built on character, but character is built on decisions. The decisions you make, small or great, do to your life what the sculptor's chisel does to the block of marble. You are shaping your life by your thoughts, attitudes, and actions.

—Warren Wiersbe

The person who constantly angers you or frustrates you, controls you.

—Colleen Kettenhofen

Sometimes the situation is only a problem because it is looked at in a certain way. Looked at in another way, the right course of action may be so obvious that the problem no longer exists.

—Edward de Bono

Ask yourself, "Why am I seeing and feeling this? How am I growing? What am I learning?" Remember: Every coincidence is potentially meaningful.

—Ansel Adams

FAILURE TO FILE A STATEMENT

Gilbert Arciba. Tax Consultant

The Assessor's Office is officially in full swing of their processing season as the deadline to issue all taxpayers their personal property bill is fast approaching. As prescribed by Revenue & Tax Code, Section 441 (b): The property statement shall be declared to be true under penalty of perjury and filed annually with the Assessor between the lien date and 5 p.m. on April 1. The penalty provided by Section 463 applies for property statements not filed by May 7. The penalty as stated in Section 463: If a taxpayer fails to file a Business Property Statement, a penalty of 10% of the assessed value shall be added to the assessment.

With the ongoing economic crisis, we have noticed a substantial amount of attrition within accounting departments of current and prospective clients. Employees are laid off because of budget concerns and their duties are added to the remaining employees. Departments are spread thin and as a result failure to file a property statement timely is not uncommon. The Assessor is required to include a 10% penalty as indicated by the Tax Code. The 10% penalty varies by the size of your assessment; however, there is recourse for the taxpayer.

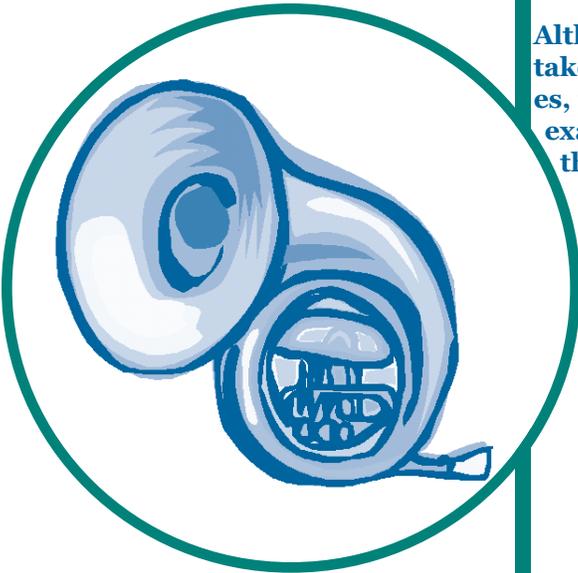
Revenue & Tax Code 463 states: If the assessee establishes to the satisfaction of the assessment appeals board that the failure to file a property statement within the time required by Section 441 was due to reasonable cause and not due to willful neglect, it may order the penalty abated, provided the assessee has filed with the county board written application for abatement of the penalty within the time prescribed by law for filing of applications for assessment reductions.

Should you be subject to a 10% penalty for failure to file, rest assured there is an avenue to recover this money. The first step would involve filing a timely assessment appeal. Property Tax Assistance Co., Inc. can help in filing these applications; however, considering the economic decline affecting many companies it would be wise to have the entire assessment reviewed.

10 ways to chase away stress

- Take deep breaths.
- Take a walk outside of the office.
- Say no to what you don't have time to do.
- Leave work on time.
- Lower demands you put on yourself.
- Ask questions and communicate with coworkers.
- Take care of taxing tasks in the morning to get them out of the way.
- Look at large projects as a series of steps to complete one by one.
- Laugh at least once a day.
- Live for today. Don't dwell in the past or worry about the future.

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>Clothing Mfg.</i>	\$59,104.66
<i>Container</i>	\$11,672.00
<i>Data Center</i>	\$188,086.66
<i>Electronic Mfg</i>	\$10,562.50
<i>Entertainment</i>	\$113,653.81
<i>Financial Corp</i>	\$193,084.61
<i>Food Mfg.</i>	\$99,540.72
<i>Wheel Mfg.</i>	\$101,889.82
<i>Wireless Data</i>	\$11,285.20

Tax Tidbits

Blast From the Past

"If bureaucracy were the answer to social problems, we Californians would have already reached utopia."

Author and state historian Kevin Starr, quoted in Cal-Tax News, March 1, 1989

Unemployment Insurance: Extended Benefits. AB X3 23 (Coto), which allows payments from the state's Unemployment Insurance Fund to be extended by 20 weeks (setting the new maximum at 79 weeks), was amended March 23 to ensure that the extended benefits will be paid entirely with federal funds.

1% Sales tax increase A go-ahead has been given to the California Teachers Association to collect signatures for an initiative to call for a 1% sales tax increase. The proceeds would be earmarked for K-14 spending and community colleges. The teachers union has until July 27th, to collect the signatures of 694,354 registered voters in order to place the measure on the next statewide ballot.



CALIFORNIA 2009-10 REAL ESTATE VALUES/ASSESSMENTS

IMPORTANT MESSAGE TO CALIFORNIA LANDLORDS & TENANTS

The 1978 initiative known as California Proposition 8 permits a temporary reduction in the assessed value of California Real Property when the current market value of the property has declined below the value of the property as reflected on the County Assessor's tax rolls (generally referred to as the Proposition 13 trended base year value).

Current market value statistics indicate that shopping centers values (as well as most every type of real estate) in California have been declining 30% to 40% over the past 18 months due to the slow down in the economy. Vacancy rates and cap rates are rising, and market rents are declining.

In light of the current economic conditions, and in particular if you have purchased or newly constructed property between 2003-2007, now would be an opportune time to file an Application for Changed Assessment (assessment appeal) on your real estate tax assessment with the local county Assessment Appeals Board. This appeal will require the Assessor to reexamine the market value of the property. Note, after a Prop. 8 appeal is filed on a property, the assessors office must annually review the properties market value as of the January 1, lien date, this will be required annually by the assessor until the market value of the property recovers to the trended base year Proposition 13 value. Since each tax year is handled on a stand alone basis, you must file an appeal for each tax year that you believe the market value is less than the current assessors' tax roll value.

The timing for filing these Applications for Changed Assessment is as follows:

The appeal filing period begins July 2 and ends on September 15, 2009, in Alameda, Inyo, Kings, Orange, Placer, San Francisco, San Luis Obispo, Santa Clara, Sierra & Sutter Counties.

For the other 48 Counties the appeal filing period begins July 2 and ends on November 30, 2009.

The Real Estate Tax Division of Property Tax Assistance Co., Inc. has already been successful in appealing many 2008-09 real estate values, which was the beginning of the current market downturn and we expect the 2009-10 market data will support even lower values. We therefore, are encouraging our clients, whether they are the landlord or the tenant responsible for payment of the taxes, to consider filing appeals to preserve their rights to review the values.

Additionally, if you are a tenant in a building that has changed ownership (property has been sold and you now have a new landlord) there are some opportunities concerning Leasehold Improvements that you may be reporting on your Business Personal Property Form 571-L's that we can discuss.

Please feel free to give me a call at (562) 920-1864, Ext. 256, if you require any help or assistance in managing your California property tax liabilities.

By Arthur E. Bennett, CMI, Vice President-National Property Tax Services