

Year End Tips...

Linda Mirand, Director Tax Compliance

Although the 2014 lien date for property taxes will be soon upon us, there's still time to review your fixed assets and get your listing in the best possible order.

If you have any assets that are no longer in working order, dispose of them prior to Dec 31 on your books and save property tax dollars. Perhaps consider a tax deductible donation of useable yet out of date computers to your local school. As for other assets planned for disposal, be sure to keep a paper trail of these donations and disposals in the event that the property tax auditor questions the drop in assets from your records. The act of simply writing off assets that are fully depreciated or no longer in use without actually disposing of them is not an acceptable practice for the county assessor. If equipment exists, it always has a residual value and you must claim it on your business property statement.

Take a moment to review your construction in progress (CIP) account for assets or projects that could be capitalized prior to the year end. Costs held in CIP are valued at 100% whereas costs capitalized are granted a percentage deduction for depreciation and a reduced taxable value. Also, not all costs in CIP may be taxable. Keeping detailed descriptions of what is in CIP makes it easier to eliminate the nontaxable costs such as structural improvements or software. Always include a reconciliation of what is in CIP vs. what is reported for the Assessor's office to review at the time of processing.

If you have engaged in any new operating or capital lease contracts or if any of the previously reported leases have terminated, please be sure to make note of that when supplying information to your tax preparer. Often leased equipment goes unreported or is double reported because the information is not always up to date. All leases should be reported under Part III of the 571-L. If a lease is reported under Part III make sure that it is not also capitalized and reported under Schedule A. Most leasing divisions at the Assessor's offices run a year or two behind so to correct an error takes many, many hours. Try to avoid this costly waste of time by making sure leased assets are only reported on Part III.

Be sure to keep a copy all work papers and the complete year end trial balance in the file for future reference. It is much easier to gather this information and file it away for a future audit now than to dig up information 4 years from now at your next scheduled audit. Although the audit laws have changed and they are no longer required to audit ALL property statements, don't take the chance that you will be on the "no audit" list. Take a few minutes now to prepare for your next audit and you will save time in the future.

If you have any questions regarding the filing of your property statement please feel free to call us here at PTA and we would be happy to assist.



OFFICE OF THE LOS ANGELES COUNTY ASSESSOR - MANAGEMENT AUDIT

Kristian Chacko, Esq.

In light of the current scandal plaguing the Los Angeles County Assessor's Office (Assessor), the Los Angeles County Board of Supervisors (BOS) instructed the Auditor Controller to review four areas within the Assessor's Office.

The Auditor Controller contracted with Strategica (Consultant), an outside management consulting firm to conduct a management audit of the Assessor's Office. Strategica submitted their findings on January 8th, 2013. The scope of the engagement was to "evaluate the Assessor's operation, policies and procedures, and determine whether the Assessor was appropriately and efficiently carrying out its main mission in administering the County's property valuation and assessment appeals functions." They were also tasked with making recommendations to improve the Assessor's "effectiveness and efficiency."

ORGANIZATION STRUCTURE / PERSONNEL

The audit lamented the fact that the Assessor is an elected position which requires no management experience. While a majority of the previous Assessors had management experience prior to being elected, the current Assessor was an Appraiser Specialist I with no supervisory or management experience. The recommendation was the appointment of a Chief Deputy with substantial experience with the Assessor's Office along with management and supervisory background.

INTEGRITY

The current scandal weighs heavily on this section because of contacts between the Assessor and his staff and tax agents and political donors. The new County ordinance requiring the registration of tax agents is supposed to address this concern.

AGENCY SCOPE

From a return on investment point of view, the audit found far more is spent for the appraisal of personal property rather than real. With regard to the appraisal of personal property, the recommendation was a reallocation of time from 100% canvassing to a reliance on Business Property Statements and the use of canvassing for verification purposes.

INFORMATION TECHNOLOGY MANAGEMENT

The audit identifies the Assessor's computer system as the key issue for the efficient functioning of the department. The audit recommends that IT be given a high priority with an emphasis on replacing the entire system.

WORKLOAD MANAGEMENT

The Assessor's workload was difficult to obtain due to the inability to get data from the IT system.

THE APPEALS PROCESS

The Consultant reviewed the appeals process from the Assessor's standpoint, including the Assessor's time and staff devoted to the process. The audit states that half of the filed cases are withdrawn either because the value has already been reduced, or the taxpayer does not appear at hearings. The Consultant recommends a \$35 fee, as enacted in other counties, to reduce the amount of "frivolous" appeals filed. The \$35 fee would not apply to homeowners, who presumably would be the same individuals that Consultant complains are a no show at hearings.

DIV PROCESSES

As the volume of Prop 8 decline in value applications went up, the Assessor created the DIV system which created expedited mass appraisals.

VALUATION METHODS

The audit stresses the need for Computer Assisted Mass Appraisal techniques to track market value in light of the recent drop in values.

Quotes

It's all about quality of life and finding a happy balance between work and friends and family.

—Philip Green

The love of family and the admiration of friends is much more important than wealth and privilege.

—Charles Kuralt

I am thankful for laughter, except when milk comes out of my nose.

—Woody Allen

Laughter is an instant vacation.

—Milton Berle

Winter is the time for comfort, for good food and warmth, for the touch of a friendly hand and for a talk beside the fire; it is the time for home.

—Edith Sitwell

My old grandmother always used to say, "Summer friends will melt away like summer snows, but winter friends are friends forever."

—George R.R. Martin

The only thing bad about a holiday is it is followed by a non-holiday.

—Anonymous

A day without laughter is a day wasted.

—Charlie Chaplin

The greatest healing therapy is friendship and love.

—Hubert Humphrey

Property Tax Update

High Real Property Vacancy Rates May Result in Reduced Tax Assessments

Paula Eagleman, Sr. Tax Consultant

Although the commercial real estate market has recovered some momentum in recent months, many properties still suffer from excessive vacancy rates. According to CBRE Global Research and Consulting, vacancy increased for both office and retail properties in Los Angeles County in the beginning of 2013 (Greater Los Angeles Office & Retail MarketView, First Quarter of 2013). Properties operating at a below-stabilized occupancy rate are suffering from a form of economic obsolescence, which should be accounted for in property tax assessments. But how does one go about obtaining a reduced assessment due to high vacancy rates? It helps to understand how the assessor determines the market value of a property.

Assessors generally use the income approach to value commercial real estate. This approach requires the assessor to determine the potential gross income of a property. Then they must subtract the standard vacancy and collection loss as well as allowable expenses, resulting in the Net Operating Income (NOI). The NOI is divided by a market capitalization rate to arrive at an estimated value. However, if there is additional vacancy due to market conditions, the assessor is required to take this into account. As stated in Assessor's Handbook Section 502: Advanced Appraisal, pg. 82-83, "[A] property with the lower occupancy level would sell for less because of the additional costs most prudent buyers would anticipate as necessary to bring it to stabilized occupancy. If a property is at a non-stabilized occupancy level, the market value estimate should reflect this condition." Generally, a property with a vacancy rate higher than 10% is considered to be operating at non stabilized occupancy (though the stabilized rate may differ depending on the property type and location).

There are several methods used to account for high vacancy rates, each based in either the market or income approach. Obtaining a reduced assessment depends on proper use of one or more of these methods in the value analysis. The PTA team is familiar with the proper application of these methodologies and has had success in obtaining reductions for our clients. If your property suffers from higher-than normal vacancy, we would recommend filing an appeal and having your assessment reviewed.



Dog Joke: 'Soap and water'

A minister was asked to dinner by one of his church members. He knew she was a bad housekeeper but agreed anyway.

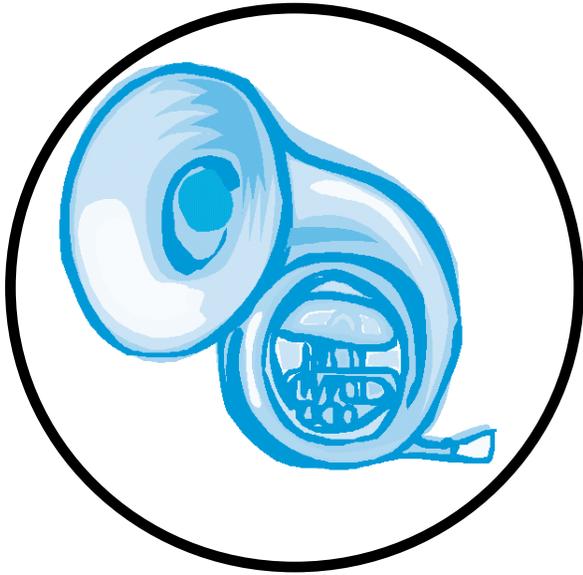
When he sat down at the table, he noticed that the dishes were the dirtiest that he had ever seen in his life.

"Were these dishes ever washed?" he asked his hostess, running his fingers over the grit and grime. "Yes," she replied, "they're as clean as soap and water could get them".

He felt a bit uncomfortable, but blessed the food anyway and started eating. It was really delicious and he said so, despite the dirty dishes.

When dinner was over, the hostess took the dishes outside and yelled, "Here Soap! Here Water!"

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.

Business Personal Property

Campgrounds	\$107,555.64
CD & DVD Manufacturing	\$66,462.27
Cement Manufacturing	\$1,412,942.91
Commercial Printing	\$223,551.67
Food Manufacturing	\$619,603.05
Metal product Manufacturing	\$35,717.67
Online Data	\$517,916.36
Food Wholesalers	\$90,433.79
Ladder Manufacturing	\$93,869.54
Machine Shops	\$54,763.02
Office Supply Manufacturing	\$24,679.89
Paper Product Manufacturing	\$294,863.14
Pipe Manufacturing	\$33,920.32
Steel Production	\$1,276,792.09
Tire Manufacturing	\$110,633.15

Tax Tidbits

2014-15 CALIFORNIA CONSUMER PRICE INDEX

Revenue and Taxation Code section 51 provides that base year values determined under section 110.1 shall be compounded annually by an inflation factor not to exceed 2 percent. Section 51(a)(1)(C) provides that, for any assessment year commencing on or after January 1, 1998, the inflation factor shall be the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index (CCPI) for all items, as determined by the California Department of Industrial Relations.

Information from the Department of Industrial Relations shows that the CCPI increased from 241.537 in October 2012 to 242.633 in October 2013. Rounded to the nearest one-thousandth of 1 percent, this is an increase of 0.454 percent.

The 2014 assessment roll will use an inflation factor of 1.00454. This is virtually no change to the roll.

Real Property

California

Multifamily Property (2) - Alameda County	- \$218,047
Retail Property - Fresno County	- \$19,402
Retail Property - LA County	- \$66,825
Mixed Use Property - LA County	- \$234,249
Multifamily (3) - Orange County	- \$134,629
Retail (4) - Orange County	- \$37,234
Multifamily Property - Riverside County	- \$76,549
Storage Property (2) - Sacramento County	- \$36,967.91
Multifamily - San Francisco County	- \$1,749,055
Retail Property - San Diego County	- \$62,522
Industrial Property (3) - San Diego County	- \$331,754
Multifamily Property (2) - San Diego County	- \$29,717
Industrial Property - San Joaquin County	- \$22,330
Multifamily Property - Santa Clara County	- \$30,048
Industrial Property - Ventura County	- \$11,329

Utah

Retail - Davis County - \$119,845

Washington

Multifamily Property - King - \$28,690

The Model T and Specialization:

A Lesson on Why PTA is the Company You Want to do Business With

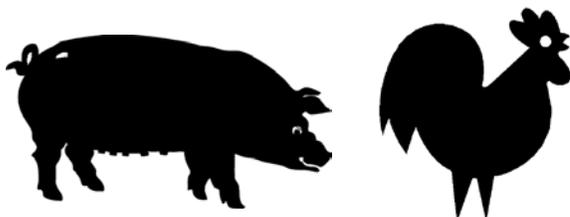
Cristhian Tucker, Tax Consultant

Known for making the first affordable automobile and incorporating mass production techniques that transformed an entire business landscape, Henry Ford is one of the most important innovators of any era. The manufacturing of his Model T is also a classic example of specialization of labor, the economic theory that states that businesses will produce a higher quantity and quality of a product if workers can concentrate on a narrow set of tasks rather than a wider range of activities. For example, Ford realized that having individual workers involved in the manufacturing process of a car from start to finish was ridiculously unproductive. He saw that by assigning each of the hundreds of specific tasks of building an automobile to individual employees, huge efficiencies could be gained. The outcome was that you had employees who became experts in those tasks instead of having them be marginally productive in trying to do all of them.

At this point you might ask how this history lesson of an application of an economics term can have anything to do with property taxes and PTA. The answer is that the concept of specialization is what differentiates us from our main competitors and why we would do a better job of bringing your property taxes down than you or our competitors can reasonably hope to do. Through the wisdom of our founder, our company has chosen to specialize in California Property Tax and only that.

There are many national firms that claim that they will be able to help you with your income, business license, sales, transaction taxes, and property tax at the same time. The problem is that companies like these are just like the automobile workers that had to perform hundreds of different functions. They will never be true experts at any one of the services that they claim they can perform. They will also have huge gaps in their knowledge base as they try to reconcile their national service model to meet the challenges and complexities of working appeals under the California property tax system.

If you want a company to do a cursory review of your property taxes in California you would do well in hiring someone else. If you want to go with a company that are experts in the most complex property tax system in the United States, whose consultants are assigned cases on their expertise of an industry, and who don't overlook the business property valuation, you probably could not find a better company to engage with.



Small Problems, Big Consequences

A small mouse prowling around a farmhouse spotted a mousetrap in one dark corner...

A small mouse prowling around a farmhouse spotted a mousetrap in one dark corner. Frightened, he ran out into the farmyard shouting to all the animals: "There's a mousetrap in the house! Help me! There's a mousetrap!"

The chicken said, "Well, I never go into the house, so it's not my problem."

The pig said, "Same here. I don't see how it's any of my concern."

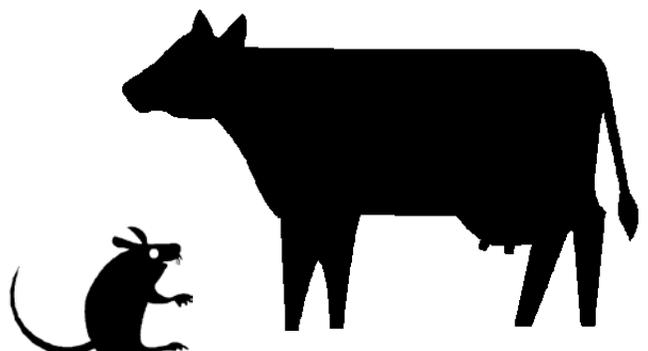
The cow said, "I'm too big to get caught in a mousetrap, so I'm not worried."

That night, the farmer's wife heard a noise in the corner. Getting up to check the trap, she was bitten by a snake that had slithered into the house. Her husband took her to the doctor, and although the venom didn't kill her, she developed a fever once she got home.

Since chicken soup is the best thing for a fever, the farmer used the chicken to make some soup. The neighbors came by to help during the wife's illness, and the farmer had to slaughter the pig to feed them.

Sadly, the wife died. The farmer needed to serve something to his friends who came to console him after the funeral, so the cow became lunch and dinner.

It's a story to remember the next time you think someone else's problem doesn't concern you.



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Property Tax Update

Happy New Year!
2014



Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover.

-Mark Twain