

## Prop 8 Reductions...Restored?

Brent Buskirk, Tax Consultant

The recession that began in 2007 impacted real estate values across the board, including commercial, residential, and office properties. Real estate acquired during the height of the market was dramatically impacted and became subject to a market review. PTA has been successful in reducing numerous real property values on a Proposition 8 (Prop 8) basis. When the fair market value of a property drops below its factored base year value, a Prop 8 reduction, or temporary reduction in value, may be granted. The base year value is set when a change in ownership or new construction occurs. This value is factored, or increased, at a maximum of 2% per year until the next change in ownership occurs. Because the real estate market has begun its recovery, many of these Prop 8 reductions granted during the market decline are being restored to their factored base year values. In other words, real estate tax bills being issued can be substantially more than anticipated.

For example, let's say a property was purchased for \$500,000 in 2007, and the owner obtained Prop 8 reductions in 2008 at a value of \$300,000. Let's also say that the Prop 8 value was sustained every year until 2015 when the factored base year value was restored. Every year that the property was being valued at \$300,000, the base year value was still being factored at 2% per year in the background. So, when the factored base year value is restored, the value increases from \$300,000 in 2014 to over \$585,000 in 2015, which may create quite a shock for the property owner when the tax bill is almost double the prior year's amount.

Procedurally, this practice is correct. The Assessor's Office will restore the base year value when it feels that the property has recovered from its economic decline. While the restored value may be accurate, it can still be surprising for the property owner. In the example above, the property owner becomes accustomed to paying \$3,500 in property tax, then receives a bill the following year for \$6,500. Although the newly increased value may be accurate, it can be devastating to a property owner's finances.

Although your property's value may have increased from its Prop 8 reduced value, it may not have fully recovered to the Assessor's opinion of value. The Assessor values thousands of parcels and the fact pattern can vary from parcel to parcel. As real estate value notices are being issued, if you see an increase and want to rest assured that the value increase is warranted, contact us and we can assist in a value review.



# "SPLIT-ROLL" PROPOSALS PLANNED CHANGES TO YOUR PROPERTY TAX BUDGETS

Sean P. Keegan, EVP & Principal

## *IN 2016, WILL CALIFORNIA'S PROPOSITION 13 PROTECTIONS FOR REAL PROPERTY BE REMOVED?*

With California's fiscal issues, there continues to be concerns whether Proposition 13's Taxpayer Benefits are safe. It has raised the question, "What will happen to our property taxes in 2016?" We are often asked by our clients (asset managers, property managers, owner-users, and institutions) about whether Proposition 13 Protections for non-homeowner properties will change this year. Most property owners and managers know their annual property tax budget very well. The same persons know that the higher property tax expenses will affect both the tenant and the owner/user, if Proposition 13 Protections are removed. Based on the information available, there does not appear to be any major change to Proposition 13 in this calendar year.

A few years ago, Proposition 25 did pass allowing the California Budget to be passed by a simple majority. However, the voting requirement for tax increases is still two-thirds or a "Supermajority" (pertains to most property sales, and income tax increases). For many years we have heard that Proposition 13 may be overturned with a "Split Roll" Property Tax Measure. The "Split-Roll" proposal would affect clients' future property taxes (non-homeowner properties). Currently, all property owners with property that has not had an ownership change or new construction enjoy the assessment increases limited to a maximum of 2% per year. The "Split-Roll" proposes two versions: one, where a reassessment is allowed for non-homeowner property to reflect the current fair market value annually; the other version would propose a higher tax rate for non-owner occupied property (all property owners currently enjoy a 1% property tax rate).

The "Split-Roll" proposals have received substantial opposition from the business community, and voters rejected a proposal in 1992. The current "Split Roll" measure is Senate Constitutional Amendment (SCA) 5, which would affect the 2018/2019 fiscal year. The supporters of SCA-5 indicate that a ballot initiative may be filed with a target of November 2016. The "Split-Roll" proposals would still require the "Supermajority" vote to pass, which is difficult.

For 2016/2017 property tax planning and up to date information pertaining to these topics, we encourage you to view these websites:

California State Board of Equalization: <http://www.boe.ca.gov/>

California Taxpayer Assn. (CalTax): <http://caltax.org/>; and specific site: <http://www.caltax.org/SplitRoll.htm>

Howard Jarvis Taxpayers Assn: <http://www.hjta.org/>

If we can assist you with answering questions, please contact me or visit our websites: <http://www.property-taxes.com/RETD/> or <http://www.property-taxes.com>.

## Calling in Sick

Salary negotiations between a union and a big organization weren't going well. The main issue was that management believed workers were abusing the sick leave policy.

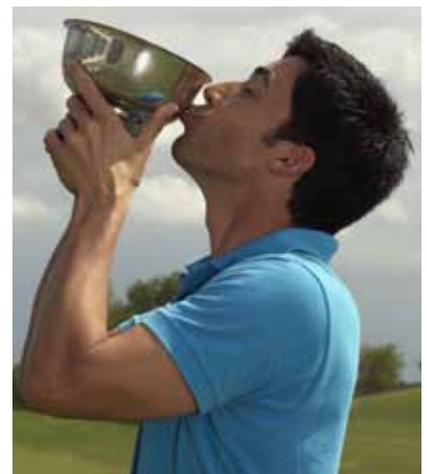
During one tense meeting, a manager hurled that morning's newspaper onto the conference table.

"Look at this! This employee called in sick yesterday!"

The union negotiator looked and saw a picture of the employee holding up a trophy for winning second prize in a golf tournament.

"What do you say to that?" the manager demanded.

"Wow," the union official said. "If he hadn't been sick, he might have won!"





# Tax Tidbits

## This is the Year!

### Don't let another year pass you by!!

How many of you have always wanted to have your company's business personal property taxes looked over by a professional? Just to see if they could lower the taxes any lower than they are? The problem is you are busy, the days go by so fast, you forget to eat your lunch! The next day comes and goes and it is the same thing over again each day. The days fly by and before you know it the deadline "November 30" (for most of you) is here and gone. You missed it again, you'll do it next year!

Let me tell you how easy and how little time it takes to retain us, the professional. I will have you sign a work agreement and agencies, give me a copy of your tax bill and 571-L and have you email me your Fixed Asset Detail. We will file your appeal for you and take care of the rest.

Now you are done for the next year or two, that is how long it takes the county to have a look at your case. For now you can relax knowing that your taxes will now be professionally reviewed, you have preserved your right for a review and that you may very well receive a refund, or at the very least you will know your tax assessment is correct.

By the way, we will work on a contingency (most companies prefer it that way) or we will work hourly, whichever way you prefer.

Now pick up that 600 pound handset and call me and I will get the ball rolling. Do it now before another year passes by. If you forget and it is November 30th, call me anyway, We can still file your appeals and work out the details later.

Be sure to review "Tooting Our Horn" those are the refunds we obtained in industries just like yours since our last newsletter! What company couldn't use the extra cash? You have nothing to lose and everything to gain!

Lisa Henry 562-282-5911

## 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

Commercial Printing	\$578,028.11
Data Center	\$615,258.00
Grocery Retail	\$145,506.72
Legal Services	\$96,071.08
Medical & Diagnostic Laboratories	\$28,834.17
Motor & Generator Manufacturing	\$112,618.13
Semiconductor Manufacturing	\$149,265.44
Sewing Contractor	\$75,359.15
Steel Production	\$121,792.51
Tile Roof Manufacturer	\$173,151.35
Vegetable Processing	\$172,165.14
Water & Ice Manufacturer	\$451,938.65
Wineries	\$118,092.89

### Real Property

#### California

Distribution/Truck Term. Property - LA County	\$153,741
Industrial Properties (5 Prop.) - LA County	\$94,898
Office Property - LA County	\$33,822
Retail Properties (3 Prop.) - LA County	\$48,759
Single Family Residence - LA County	\$57,399
Warehouse Property (2 Prop.) - LA County	\$129,701
Industrial Property - San Joaquin County	\$89,097
Retail Property - Ventura County	\$55,165
Data Center - Alameda	3,547,969

## Property Tax Exemptions and Exclusions to watch out for

Ron Gangloff Esq. EVP & Principal

The general rule is that all property is subject to property tax unless specifically exempted by law. Many classes of property have been exempted such as cash, stocks, evidence of indebtedness, etc.

Then there are the commonly assessed and frequently contested exempt items such as intangible assets and rights. An example of intangible assets affecting the assessed value of a property would be when the assessor includes the value of a hotel's moniker in the value of realty. This is a fairly well known and contested area between practitioners and the various counties. The contest usually surrounds the methods for determining the intangible assets value and the resulting amount of intangible value.

Application software is also exempt and the exemption is highly contested by various taxing jurisdictions. This is especially true when the application software is imbedded in modern computerized equipment. As technology has progressed it has become more difficult to verify and value the amount of embedded software that should be removed.

The less discussed and somewhat rarer exemptions would be items such as Business Inventory, Household furnishings, and privately owned property leased and or used by public entities such as colleges and universities. While these items are more commonly recognized as being exempt from assessment and are less frequently identified as problem areas, they are occasionally missed or misapplied. Our firm has worked in all of these areas frequently enough over the years that taxpayers should at least be familiar with the various exemptions to avoid unnecessary tax. In fact there are dozens of exempt classes of property in California.

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## 'City of the Big Shoulders' Will Find Out It's Never Enough

Jon Coupal President HJTA

Chicago, Carl Sandburg's "City of the big shoulders," is about to find out just how heavy a tax burden homeowners are able to bear. Mayor Rahm Emanuel has revealed his plan for a massive property tax increase to pay for unfunded pension obligations. And for taxpayers, it isn't pretty. The mayor wants a \$543 million increase in property taxes to cover police and fire pensions, as well as additional taxes and fees to close a projected \$745 million budget shortfall.

How much this will cost the average homeowner is not yet clear. Emanuel is seeking approval from the Legislature to exempt those homes worth less than \$250,000 from the increase, meaning more valuable properties would absorb the entire burden.

The uncertainty may also be contributing to a decline in home values in recent months, as shown by the Case-Shiller Home Price Index. Buyers may not be so ready to cut a deal that will see them inheriting a massive property tax hike. In order to illustrate the seriousness of the city's fiscal crisis, and perhaps to make it easier to extort more from property owners, Emanuel is claiming that without the additional revenue, public safety will be decimated. Twenty percent of the police force and forty percent of firefighters will lose their jobs, he threatens.

Still, two years ago, the mayor foreshadowed the coming tax increase when he warned that in order to pay the mounting bill for government employee pensions — a bill that would triple in 2015 when a balloon payment comes due — property taxes could be forced to go up 150%.

This is a frightening scenario for homeowners, but not so much for homeowners in California. For us, notwithstanding equally daunting pension problems, the good news is Proposition 13. Although city mismanagement is also common to California — a number of cities have been forced to file for bankruptcy in recent years, largely due to exploding government employee pension debt — officials are prohibited by Proposition 13 from soaking property owners to cover up their dereliction. While Chicago homeowners are sitting ducks for higher property taxes, in California, increases are limited to two percent annually.

Add to the property tax limitations that Proposition 13 gives voters the final say on new local taxes and requires a two-thirds vote of each house of the Legislature to increase state taxes, and it becomes easier to understand why it is a target of so many Sacramento politicians, most of whom owe their election to their government employee union allies. If they can eliminate the impediments to tax increases established by Proposition 13, the politicians will be in a much better position to repay and reward their political benefactors.

Without Proposition 13 Californians could soon experience what it is like to live in Chicago without ever having to leave their homes. And it could be even worse. Chicago's budget director has already gone on record as saying Mayor Emanuel's property tax increase is not enough.

*Jon Coupal is President of the Howard Jarvis Taxpayers Association. [www.hjta.org](http://www.hjta.org)*

# Quotes

At the end of the day, a loving family should find everything forgivable.

—Mark V. Olsen.

Joy in one's heart and some laughter on one's lips is a sign that the person down deep has a pretty good grasp of life.

—Hugh Sidey

A person without a sense of humor is like a wagon without springs. It's jolted by every pebble on the road.

—Henry Ward Beecher

It is clearly absurd to limit the term "education" to a person's formal schooling.

—Murray N. Rothbard

You cannot swim for new horizons until you have courage to lose sight of the shore.

—William Faulkner

Outstanding leaders go out of their way to boost the self-esteem of their personnel. If people believe in themselves, it's amazing what they can accomplish.

—Sam Walton

At the height of laughter, the universe is flung into a kaleidoscope of new possibilities.

—Jean Houston

There's nothing that makes you more insane than family. Or more happy. Or more exasperated. Or more secure.

—Jim Butcher

## Heavy Equipment Rental Tax

Travis Carlson, Tax Consultant II

Over the last few years, the California State Legislator introduced two similar bills: Assembly Bill 2114 (Garcia) in 2014 and Senate Bill 480 (Pan) in 2015 that would have changed the way property taxes are administered for Heavy Construction Equipment.

The current law mandates that the assessor value a rental company's equipment each year at fair market value. This is generally based on the equipment's adjusted cost as reported by the taxpayer on the business personal property statement. Whether rental equipment is considered to be taxable or considered to be exempt inventory depends on its rental status on January 1st of that year. If the equipment is rented, it is taxed at its fair market value. However, if the equipment is not rented on January 1st, then the equipment is exempt from taxation.

Senate Bill 480 or SB 480 would affect all companies that engage in the rental of Mobile Heavy Equipment. This category includes bulldozers, trucks, cranes, and earthmoving equipment, as well as excavators, asphalt rollers, tunneling and drilling equipment, heating, ventilation, air conditioning, power generation, safety, and lighter equipment. SB 480 could have major tax implications, depending on how much equipment was rented on January 1st.

If this law was enacted, it would impose a tax on every qualified renter, simply for the privilege of renting qualified heavy equipment in California. Equipment would be taxed at the rate of .75% of the rental price, which is calculated from the renting of qualified heavy equipment. This bill provides that this tax would be in lieu of any personal property tax on qualified heavy equipment.

SB 480 was held in the Senate Appropriations Committee this year. However, in its current format the bill is dead for the 2015 Legislative Session. If the current trend continues towards taxation of rental equipment, you can expect this bill to be reintroduced in the 2016 Legislative Session.

## A Bride's First Thanksgiving

Sarah, a new young bride, calls her mother in tears. She sobs, "Richard doesn't appreciate what I do for him."

"Now, now," her mother comforted, "I am sure it was all just a misunderstanding."

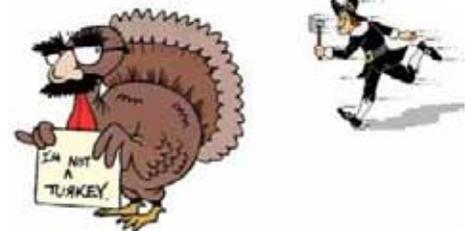
"No, Mother, you don't understand. I bought a frozen turkey roll and he yelled and screamed at me about the price."

"Well, the nerve of that lousy cheapskate," says her Mom. "Those turkey rolls are only a few dollars."

"No, mother it wasn't the price of the turkey. It was the airplane ticket."

"Airplane ticket...." "What did you need an airplane ticket for?"

"Well mother, when I went to fix it, I looked at the directions on the package and it said: "Prepare from a frozen state," so I flew to Alaska."



# PTA

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## Property Tax Update



"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

"There's nothing that cleanses your soul like getting the hell kicked out of you."  
Woody Hayes / Ohio State

"I don't expect to win enough games to be put on NCAA probation. I just want to win enough to warrant an investigation."  
Bob Devaney / Nebraska

"You can learn more character on the two-yard line than anywhere else in life."  
Paul Dietzel / LSU