

## Now's the Time!

Linda Offringa Mirand, Director-Tax Compliance



It's finally Fall of 2016 and life is going to get busy again. Kids are back in school, elections are around the corner and another football season is up and running. Certainly thoughts of year end accounting adjustments are the furthest thing from your mind. However, for property tax purposes, the last quarter of the year is when we really need to think about fixed assets. Now is the time to take an inventory of your fixed asset listing and remove those assets that have been physically disposed of or moved out of county. Systems should be in place to insure that a proper paper trail for dispositions or cost adjustments exists at the time they occur. This documentation will greatly assist in your next property tax audit which may be four years down the road.

The fourth quarter is also a good time to review and clean up what is in your fixed asset suspense accounts or CIP. Expensed items should be cleared out and all completed projects should be capitalized. Keep in mind that amounts reported as CIP on the Business Property Statement ( CA form 571-L) are valued at 100% of cost. Once they are capitalized and reported on Schedule A, they immediately begin depreciating in value according to the county trend tables.

The lien date for personal property is January 1 of each year (for CA and most states). Working your purchases and sales around this date can save you thousands of dollars. For example, if you are contemplating the closure of stores, try to close them prior to the January 1 lien date. A closure or sale on January 2 does not alleviate you from the entire year's tax responsibility. The county will not adjust your personal property taxes based upon the date of sale. Provisions should be made in any sales documents for the financial responsibility of the personal property taxes.

Any adjustments to the fixed assets and the corresponding general ledger should be documented in a centralized property tax file. This file should be updated each year and include invoices of large purchases, dispositions and any documentation to explain changes to the fixed assets. By preparing this file each year at the time these events occur, you will be prepared in advance for your next 4 year audit and you will save time trying to hunt down this information at a later date.

# WAS YOUR PROPERTY REVALUED OR REASSESSED THIS YEAR?

Sean P. Keegan, EVP & Principal

## **WHY WAS THIS DONE? ARE THEIR ASSUMPTIONS ACCURATE?**

In 2016, real property values have improved in most California counties compared to earlier years. Your property may have been reviewed by the County Assessor for potential value increases, compared to 2015. In California, if your property's county assessment was reduced in the last couple of years, the County Assessor must review the property each spring to determine if the Fair Market Value for the property is higher on January 1, 2016, compared to the prior roll value. The County Assessor is limited to the lower of actual Fair Market Value or the "Trended Base Year Value (Proposition 13 Value)". The County Assessor will generally issue a value notice annually, or the Annual Property Tax Bill will be issued by October 1st. Although real property values for certain property types have been improving in certain areas (e.g., multifamily, industrial, and commercial properties), real property assessments should be reviewed for possible property tax savings.

For income producing properties, it is important to determine whether the Assessor knows the facts about your property, including any income limitations or restrictions. This should include analysis of the Assessor's properties that are presented both as their capitalization (cap) rates and/or their income information relied upon to value your property. As it applies to reviewing comparable sales with reported cap rates, "[T]he only way to determine a buyer's anticipated income and expenses is to ask the buyer." (CA Assessor's Handbook - AH 502, P. 76). This confirmation step is critical to properly understand the Assessor's data and the available comparable sales data. This data may not have been reported accurately.

It should be noted, "[N]o two properties are ever identical, all differ at least in location." (CA Assessment Appeals Board Manual, P. 70). Are the Assessor's assumptions that the asking rent or the signed leases did not include free rent, expensive tenant improvement costs, discounted parking, shorter term to the lease, certain expenses paid by the landlord (e.g., property taxes), or lease type? Another helpful way to check the accuracy of these assumptions is to review the subject property's Operating Statements to see what income is actually being collected. "It is generally preferable that the income to be capitalized be the income from the taxable property to be appraised." (CA AH 501, p. 98). If the anticipated income is not reasonably accurate for the subject property or a comparable property, it will cause a flawed value conclusion.

"In direct capitalization, only the next year's income is forecasted." (CA AH Section 502, P. 67). For the income approach to value, if the Assessor is relying primarily on leasing information (rent roll report) as contracted with or without making adjustments, it may not properly represent the market rent on January 1, 2016 or the true, effective rent for your property. Also, actual vacancy and collection loss rate may differ from the Assessor's assumptions. The results of these adjustments to their value assumptions may cause a substantial decrease in the property's estimated fair market value.

By filing a County Assessment Appeal, it will provide you the opportunity to challenge the County Assessor's valuation assumptions and to present your value data to the County Assessment Appeals Board!



## **A Piece of Pumpkin Pie?**

Jolene was only 8 years old and lived with family in the country with her parents and brother. Consequently they did not often have visitors from the city. One day Jolene's mother said that father was bringing two guests home for Thanksgiving supper.

After they had enjoyed the turkey, Jolene went to the kitchen to help her mother, and proudly brought in the first piece of pumpkin pie and gave it to her father. He then passed the plate to a guest. When Jolene came in with the second piece and gave it to his father, he again gave it to a guest.

This was too much for Little Jolene, who blurted out, 'It's no use, Daddy. The pieces are all the same size.'

# Tax Tidbits

**November 30th**

**Last date to preserve your right to have your property taxes reviewed for possible reduction or refund!**

**Don't lose out on this right file an appeal or have us file your appeal by**

**November 30th**



## 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

Bakery Product Manufacturing	\$56,235.53
Biotechnology Products Manufacturing	\$20,717.00
Cookie and Cracker Manufacturer	\$50,506.16
Data Center (9)	\$2,458,289.46
Fruit and Vegetable Processing	\$37,964.90
Machine Tool Manufacturing	\$1,076,502.58
Marine Terminal Management	\$327,748.29
Recycled Paper Manufacturer	\$95,634.47
Plastics Manufacturer	\$191,618.33
Semiconductor and Related Device Mfg	\$57,698.70
Solar Energy Contractor	\$136,574.59

### Real Property

#### California

Industrial Property (5) LA County	\$141,899.00
Office Property - LA County	\$104,745.00
Retail Property (2)-LA County	\$481,059.00
Retail Prop-Neighborhood Ctr-LA	\$40,298.00
Industrial Property-San Diego	\$8,222.00

#### Hawaii

Commercial Property-Maui County	\$16,303.00
Land - Maui County	\$133,857.00
Retail Property - Maui County	\$25,189.00



# Go for the quick laugh

***Jokes don't have to be longwinded. Try these one-liners out on your friends:***

- I sold my vacuum cleaner—all it was doing was gathering dust.
- I give all my dead batteries away—free of charge.
- I hate elevators, so I take steps to avoid them.
- I know a man who drinks brake fluid. But he says he can stop any time.
- When will all the rhetorical questions end?
- Women really should not have children after 35. After all, 35 children are enough.
- It's hard to explain puns to kleptomaniacs because they always take things literally.
- A hard-boiled egg in the morning is hard to beat.
- There are only 10 types of people in the world—those who understand binary and those who don't.



# When Life Gives You Lemons... Make Lemonade: Audit Escapes

Josh Gangloff, Tax Consultant

Each year the county assessors require companies to file an annual Business Property Statement (Form 571-L), which states the total cost of all equipment in their facilities. Once the form is submitted, it allows the assessor to make their conclusion of fair market value and determine the amount of taxes each company is required to pay.

However, every four years the Assessor's office is required to audit larger companies' books and records to make sure all equipment had been reported correctly on the property statement. In many cases, companies unintentionally misreport their equipment, resulting in equipment that has not been taxed by the county for the last four years, or assessed a lower value. The county will issue escape taxes on this equipment; however, typically most companies have not accrued for unexpected taxes. Because of this, audit escapes can have devastating effects on companies' cash flows.

## **THE SILVER LINING!**

Just like the County is required to audit companies, allowing them to assess missed costs, audit appeals can also allow the taxpayer another opportunity to review the counties' prior year assessments and determine if they were OVER-TAXED. The taxpayer gets to review their assessment for the years under audit, which allows for the potential of four times the SAVINGS of a typical assessment appeal. In many cases, our clients are able to reclaim any audit escape taxes paid as well as receiving refunds for the last four years property taxes due to an over assessment by the county.

## **THE BOTTOM LINE....**

Property tax audits do not always have to be scary and bad. Instead, they can be a great opportunity for companies to increase their bottom line. If your company has just been audited or will be audited in the near future resulting in additional taxes, there is hope. Audit escapes, if appealed, can be a very lucrative way for companies to boost their balance sheet by reclaiming over paid taxes.

# Quotes

**“I have six locks on my door all in a row. When I go out, I lock every other one. I figure no matter how long somebody stands there picking the locks, they are always locking three.”**  
-Elaine Boosler

**“Always borrow money from a pessimist. He won't expect it back.”**  
-Oscar Wilde

**“Do you really want to look back on your life and see how wonderful it could have been had you not been afraid to live it?”**  
-Caroline Myss

**“How do you get a sweet little 80-year-old lady to say the F word? Get another sweet little 80-year-old lady to yell “BINGO!”**  
-Anonymous

**“There are lots of people who mistake their imagination for their memory.”**  
-Josh Billings

**“The only mystery in life is why the kamikaze pilots wore helmets.”**  
-Al McGuire

**“Patience is something you admire in the driver behind you, but not in one ahead.”**  
-Bill McGlashen

**“The trouble with being punctual is that nobody's there to appreciate it.”**  
-Franklin P. Jones

# Promises People Can't Keep

Ron Gangloff, Esq. EVP & Principal

Sales is a tough game, but so is buying goods and services. Sales results are bolstered by fulfilling the consumer's specific needs and wants. Unfortunately, reality often trumps the enthusiastic sales person's empty promises. In the property tax consultation services sector promises are frequently made which underestimate the time and effort to conclude a project while greatly exaggerating the potential results.

A popular, but highly unethical marketing technique we have seen involves the estimation of tax savings before the client's records are thoroughly reviewed. This usually comes after the sales rep references a tax win by a different client, thus falsely giving the impression that the results would be easily replicated. These types of claims should never be made. While there would be nothing wrong with wanting to pursue the possibility of a reduction, far too often the marketing piece claims a probability of an amount certain. By way of example, a sales rep might call you about a big win that they've had for another client and tell you that you are owed \$150,000 and if you sign up with them they can recover that amount for you.

As a principal in a firm that works thousands of appeals a year, I would never trust a firm who makes these types promises in their solicitation efforts. Be leery of exaggerated claims of results. Know your property tax liability and realize that a 50% reduction is large. Most counties fight tooth and nail to prevent that type of reduction. Also, if your real estate assessment has an older Prop 13 base then it is not a likely a candidate for savings.

The other often exaggerated area is in time to resolution. Just know that there is a significant backlog in the number of appeals filed in most counties. A firm can claim expeditious results where the reality is far different. Government entities are fast at collecting money, but most don't move very quickly when it comes to refunds.

In conclusion, if it sounds too good to be true... well you know the rest.

## Stress busters for the holidays

*December can be a joyous month, but it's also a stressful time for many people caught up in the rush of holiday planning and family issues.*

Here are some helpful hints for reducing stress during what should be a fun and relaxing time:

- Recognize the signs of stress, such as irritability and anxiety. Avoid these by getting a handle on things instead of just letting them happen.
- Allow yourself to say “No.” Be realistic about what you can and cannot do during this busy month.
- Watch your diet. It's easy to overindulge in holiday treats that can affect your mood. Sugar overload will make you sluggish, for example, and the stimulating effect of caffeine may make you overanxious.
- Exercise. Not only will it combat those extra calories you're consuming, it will also relieve tension and provide relaxation.

# PTA

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## Property Tax Update

