

The Model T and Specialization

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, that huge efficiencies could be gained. The outcome was that employees 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 wise 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.



UPDATE Split Roll Attack on Proposition 13

Arthur E. Bennett, CMI, V.P.

Back in the fall of 2011, Sean Keegan our EVP & Principal wrote a piece on our newsletter on threats to implement a split roll. It has remained a steady topic as a way to squeeze more money out of California residents and Business owners. The general thinking seems to be to reassess commercial business owners because they lack the voting power of the general population and home owners.

One thing is for sure, Proposition 13 has done exactly what it was intended to do by providing predictability and stability to California's tax system. Now that tax system has come under attack many times in its history.

I recently spoke with David Kline, the Editor of the CalTaxletter, and asked him for permission to share some of the contents of the newsletter regarding the split roll. David agreed and the following contains a lot of information from that great publication.

The split roll would be:

Discriminatory - If a Split Roll is passed, homeowners and business would be taxed differently and that is not good tax policy.

Costly - If a split roll is passed it is estimated that it would cost businesses \$9 billion every year. This type of hostility towards business would force the closing the doors of many businesses and could send 396,000 working Californians to the unemployment line.

Unnecessary- According to CalTax there is no need to propose another tax increase. In fact assessed property values have grown more than a reported \$260 billion in only 28 of California's 58 counties.

The split roll would hurt the economy, it is extremely misleading, it purports to resolve fiscal problems we do not have, and polls show that the public wants to protect Prop. 13.

Not all hope is lost as we've received some good news over the last couple of months. In its October 16, 2015 ,Vol. XXVIII, No. 36, CalTaxletter reported that Governor Jerry Brown made it clear that he does not support efforts to eliminate Proposition 13 protection for owners of non-residential property, saying "I'm not supporting a split roll". Despite the governor's remark, split-roll activists vowed to continue working on ballot initiatives that would increase taxes on business properties.

On October 20, 2015, CalTax announced that Make it Fair, an activist coalition seeking to raise taxes on business property, announced that it is abandoning efforts to place an initiative on the 2016 ballot. This announcement comes on the heels of Governor Brown's announcement and as Capital observers wait to see if activists will shift their focus from split roll to support a different initiative that proposes to increase taxes on properties valued at \$3 million or more.

As we all know it seems that the only constant these days is change and with groups searching for ways to tax and spend, we must all keep in touch with our elected legislators and let them know that we want them to protect Prop. 13.

More information can be found on the following websites:

California Taxpayers Association (CalTax) www.caltax.org

Howard Jarvis Taxpayers Assn www.hjta.org

May your new year be blessed with peace, love and joy. Sending you our heartfelt wishes for joy that never ends.

Wishing you a very Happy New Year!

*From all of us at,
Property Tax Assistance Co. Inc.*



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

Biotech Product Mfg. (1)	\$120,850.33
Campgrounds (1)	\$40,853.25
Commercial Printing (1)	\$25,149.23
Crop Production (1)	\$52,946.38
Dairy Product Mfg (4)	\$841,281.62
Data Center (6)	\$647,277.49
Fruit and Vegetable Processing (2)	\$406,492.25
Hospitals (1)	\$130,811.09
Machinery Manufacturing (2)	\$91,817.63
Medical Diagnostics Laboratories (1)	\$72,572.46
Metals Manufacturing (1)	\$25,307.38
Plastic & Rubber Mfg. (2)	\$102,610.59
Steel Production (1)	\$120,608.31

Real Property California

Multifamily (2 prop) LA County	\$139,564
Office-LA County	\$34,636
Parking Structure-LA County	\$147,616
Retail Grocery-LA County	\$12,588
Retail-LA County	\$65,506
Storage-LA County	\$28,346
Multifamily-Orange County	\$19,485
Office-Orange County	\$233,043
Storage-Placer County	\$14,578
Office-Riverside County	\$17,285
Industrial-San Diego County	\$17,048
Multifamily-San Francisco County	\$78,021
Industrial (2) San Joaquin County	\$133,586

Washington

Multifamily (2) King County	\$57,356
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Hawaii

Land-Maui County	\$119,345
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Adults: Make time to play

Try these simple ideas for putting play into your life.

Play isn't just for children. You may not be picking sides for dodge ball or jumping rope at recess, but as an adult, you need some playtime to relieve stress, keep your mind sharp, and stay physically fit. Try these simple ideas for putting play into your life:

- Play games. Host a regular night or weekend with family and friends. Play cards, board games, and interactive games like charades or Dungeons & Dragons.
- Go out with co-workers. Join in after-work activities with others in your organization. You don't always have to go to the bar; suggest bowling or a game of miniature golf.
- Get a pet. Playing with a dog or cat can be relaxing and fun.
- Find playful friends. Expand your network to include some positive-minded people who like to try new things.
- Take up a hobby. Get involved in something that will exercise your mind and body—magic, square dancing, amateur theater, etc. You'll meet new people while you put more play into your life.



ASSET REVALUATIONS

Linda Offringa Director-Tax Compliance

Asset accounting varies among American and Internationally owned companies. Whether a company utilizes GAAP (Generally Accepted Accounting Principles) accounting (U.S. only) or IFRS (International Financial Reporting Standards), the capitalized cost of the fixed assets can vary. GAAP values assets on the "cost" model (historical cost less accumulated depreciation). A downward adjustment or impairment may be accounted for if that downward adjustment can be substantiated. IFRS uses a "revaluation" model. This allows a firm to revalue their assets to current market value. This revaluation can be either up or down depending on the market.

Most U.S. property tax jurisdictions utilize the "Cost Approach" which starts with the use of the original historical cost of any asset. This sounds easy enough unless the assets have been revalued. Although some jurisdictions will allow for a substantiated revaluation the majority do not. A proper Fair Market Value in Place appraisal will greatly assist any assessor's hesitation to waiver from historical cost. Keep in mind that you need to first make sure that any revaluation results in a figure that is less than the historical cost trended or depreciated on the county's own "trend or depreciation" tables. Sometimes keeping with the historical cost will actually result in an assessed value that is less than the current revalued assets on the books. Remember, most jurisdictions do not follow federal or state depreciation tables.

Unfortunately, if a company does not continue to keep the historical records for property tax purposes, an auditor may attempt to restore the historical cost with the last best information available. Typically they will start with your last property tax audit. Adjustments are made for additions and estimated adjustments are made for disposals that can no longer be accounted for on an asset by asset basis. This most certainly will hurt the company in the long run due to the fact that it makes tracking these assets more difficult. If possible, access to the original historical cost basis should be maintained. This will allow for a smoother and more accurate reporting, saving many work hours during audits.

Quotes

I have looked in the mirror every morning and asked myself: “If today were the last day of my life, would I want to do what I am about to do today?” And whenever the answer has been “No” for too many days in a row, I know I need to change something.

—Steve Jobs

Just don’t give up trying to do what you really want to do. Where there is love and inspiration, I don’t think you can go wrong.

—Ella Fitzgerald

So you’re afraid? Be afraid. Be scared silly to the point you’re trembling and nauseous, but do it anyway!

—Richelle E. Goodrich

There is little success where there is little laughter.

—Andrew Carnegie

Never spend your money before you have it.

—Thomas Jefferson

Your success and happiness lies in you. Resolve to keep happy, and your joy and you shall form an invincible host against difficulties.

—Helen Keller

Accepting oneself does not preclude an attempt to become better.

—Flannery O’Connor

Find 100 reasons to laugh. You are bound to feel better, you will cope with problems more effectively, and people will enjoy being around you.

—Steve Goodier

NEW CONSTRUCTION EXCLUSION FOR SOLAR POWER

Kris Chacko, Esq., Senior Tax Consultant

Article XIII, §1 states that all property is subject to tax unless specifically exempt. The power to exempt rests with the California Legislature. Article XIII, §2 of the California Constitution allows the legislature to classify property for differential taxation or exemption.

Under this power, the California legislature has segregated solar equipment for such treatment. The implied goal of such treatment is to encourage the construction of structures that generate alternative energy. An active solar energy system is considered a fixture, as such it is classified as real property and subject to assessment as new construction. As a general rule, when something of value is physically added to real property, that which is added is new construction and is assessed at current market value (Cal. Const., art. XIII A, §2; Revenue and Taxation Code §70 & 71). New construction however, does not include an "active solar energy system" (Cal. Const., art. XIII A, §2; Revenue and Taxation Code §73, subd. (a)(1)). Active solar systems are "excluded" from taxation as new construction. An "exclusion" must be distinguished from an "exemption". Exempt property is never taxable. An "exclusion" however, is narrow in scope and property could become assessable at the whim of the legislature at a predetermined time or at the occurrence of some event. In the case of solar systems, they are "excluded" from new construction, when originally installed, but assessable when it is sold or when the exclusion expires.

An active solar system is a system that uses solar devices, which are thermally isolated from living space or any other area where the energy is used, to provide for the collection, storage, or distribution of solar energy (Revenue and Taxation Code §73).

What exactly is an active solar system and excluded from assessment, has come under attack in certain California jurisdictions. Certain County Assessors have made the argument that only solar modules are excluded from new construction, rather than the entire structure. In certain cases this might be true, but not in all.

To clarify the exclusion, the Legislature meeting in the 1st Extraordinary Session of 2011-2012, added language clarifying the definition and qualification of an active solar energy system. The 4 items below indicate the express intent of the California Legislature.

- a. The section was enacted to encourage and provide incentives for the development of active solar energy systems by providing an exclusion from new construction.
- b. The exclusion was made to align with federal law on tax benefits
- c. That active energy solar systems constructed as free standing or parking lot canopies qualify for the exclusion as new construction.
- d. These amendments are not a change but are declaratory of existing law.

Some jurisdiction are either neglecting or unaware of this language, and have not considered its implications. Something taxpayers need to be aware of, when considering the construction of solar structures.

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