

Nuances of Fair Market Value

Nathan Gangloff Tax Consultant

Tax grants and subsidies were a touchy topic within assessments for property taxes for years. There were no good ways to justify reductions or changes to assessments based on federal or state tax grants or subsidies. Some assessors and tax advocates would argue over the merits of some incentives or grants with very little official guidance from the state. Recently, however, the State Board of Equalization (BOE) finally released a Formal Issue Paper that focuses on the assessment of wind energy properties. Within the paper, the BOE acknowledged that grants and subsidies have specific situations in which they are not assessable, or part of, the actual value of a subject property.

The paper indicates that tax grants and subsidies should not be considered part of the Fair Market Value of a property if the property would not be economically feasible without the existence of the grant or subsidy. Specifically, in wind energy properties, the BOE acknowledged that approximately 30% of the construction needs to be subsidized in order for the property to be profitable, and as such that subsidized 30% is not actually part of the value of the property, since no one would actually invest in wind generation if it was operating at a 30% loss in profits.

The wider applications of the findings of this letter extend to other industries as well. For example, California has been making pushes for both green energy and for electricity generation outside of the established power grid for the past couple of decades. Both sectors have received incentives, from both the state and federal governments, to produce more energy options. While the BOE letter is specifically targeting wind energy properties, the principles of subsidy evaluation within assessments extends beyond just the wind energy properties.

These findings are fortunate for any properties that have to be subsidized in order to be feasible. Specifically within property tax, this recently published paper has allowed many taxpayers and taxpayers' advocates to push for proper property assessment based on the value of the property without subsidy. The taxpayer should not be punished through their taxes if a property they are operating is only feasible due to a government subsidy.

Something that I find interesting about this formal issue paper is that it further nuances the definition of Fair Market Value. In most cases, Fair Market Value is described as "the amount of cash or its equivalent that property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of the exigencies of the other, and both the buyer and seller have knowledge of all the uses and purposes to which the property is adapted and for which it is capable of being used, and of the enforceable restrictions upon those uses and purposes." This paper, however, acknowledges that subsidy and tax grants do not constitute an open market, and thus the issue needed to be addressed to appropriately find the Fair Market Value of these heavily subsidized properties.



A Friendly Reminder

Linda Offringa, Director of Compliance

Now that we are in the fourth quarter of the calendar year, I would like to take this time to remind you that the next property tax lien date is quickly approaching (Jan 1) . Any adjustments to your asset listing should be made before the calendar year end in order to leave a clean audit trail. The time and effort it takes to perform an asset inventory will prove to be far less than the time it would take correct an overassessment after the bill is issued. Keep in mind that any adjustment to the fixed assets should consider the following:

Assets should only be written off when actually disposed of. Be careful of removing assets simply because they are fully depreciated or impaired. This may be allowed for GAAP purposes but for property taxes, if an asset exists, it is taxable. In the case where fully depreciated or impaired assets are written off, an auditor will restore the historical costs in audit. This then requires the company to keep 2 sets of records for the historical and revalued costs. This results in extra record keeping (more work) and makes the removal of previously written off assets difficult to prove.

In the event of a change of ownership, be careful when allocating a new purchase price. Any changes to the asset listing should be substantiated by a valid Fair Market Value appraisal. The standard used by most assessors is Fair Market Value in Place. Appraisals reflecting Net Book Value or Liquidation Value will not be accepted by most Assessors. Again, the standard in most states is the original historical cost if known.

Procedures should be reviewed to consider information that would be beneficial in a property tax audit. It helps to capitalize assets in detail and not in bulk. The more descriptive the asset, the easier to classify the asset for property tax purposes. Make sure that all costs are being capitalized correctly and include sales tax, freight and installation. Any capitalized leases should be clearly labeled as a lease, at least until the financing period is over. Make sure that out of county assets are clearly marked. And lastly, implement procedures for disposals. By making these simple changes, you will save time and money in your next property tax audit.

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.

Tax Tidbits



Appeal Filing Season Ending November 30, 2018

Why should I be reviewed?

Most of our clients obtain refunds and their taxes are lowered for years to come.

A thought to ponder....

If you were to sell all of your machinery and equipment, would you get paid the same amount that the assessor says it is worth? Most companies would not, if you are paying more than you should we can help.

Looking at our Tooting Our Horn refunds!

The most important step in getting started, is to get your appeal filed by November 30th. We can help you with that also.



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

Aerospace Component Mfg.	\$33,774.22
Administrative Services	\$115,123.67
Civil Engineering	\$29,988.61
Data Centers	\$2,565,297.48
Grocery Stores	\$1,069,063.21
Wholesale Machinery	\$102,942.36
Investment Management	\$29,049.79
Marine Terminals	\$476,841.85
Commercial Printing	\$45,505.91
Metal Product Mfg.	\$80,403.30
Plastic Product Mfg.	\$74,286.40
Semi-Conductor	\$42,651.03
Waste Management	\$66,480.78
Wholesale Distribution	\$509,057.86

PTA Real Estate Tax Division Real Property

California

Multifamily Property - San Diego	\$307,304
Office Propert - San Francisco County	\$329,179
Industrial Property -Santa Clara County	\$24,633

After filing the Appeal

Brent Buskirk, Tax Consultant

What happens after your appeal is filed?

Hundreds of thousands of business property statements are submitted in California every year. Unfortunately, not everyone that submits a statement knows what the Assessor's Office does with it once it is submitted.

A business property statement arranges a taxpayer's personal property by equipment category, year of acquisition, and acquisition cost. When these statements are processed by the Assessor's Office, "percent good factors" are applied to the reported acquisition costs based on the equipment category and year of acquisition. The percent good factors are composed of two main components; depreciation and inflation. These factors are designed to give us the reproduction cost new less normal depreciation, or fair market value, for each piece of equipment reported annually. Due to the high volume of statements that need to be processed every year, this mass appraisal technique is the accepted method for calculating property value.

Certain guidelines are in place to standardize this process to ensure that each taxpayer is treated the same during statement processing. Some examples of these guidelines include: office equipment is valued using a 12 year average service life, forklifts are valued using a 10 year average service life, and food processing equipment is valued using a 15 year average service life. The longer the average service life, the longer the equipment holds its value. Procedurally, the counties do a fairly good job at maintaining these guidelines. However, what happens when the guidelines are inaccurate?

There are a variety of factors that may cause these guidelines to overvalue a taxpayer's business personal property. Rapid changes in technology could cause the equipment to become obsolete sooner. Poor market conditions could diminish equipment value in a specific industry. Inefficiencies in production equipment could lead to excess operating costs, which in turn could cause a decrease in equipment value. Generally, the average service life guidelines are not based on any kind of market study. As a result, the Assessor's Office may be using the wrong set of percent good factors. Property Tax Assistance has dealt with many cases like these, and with a high rate of success. If you believe any of these examples may apply to you, contact us today to have a consultant review your assessment.

Making a difference

Every Sunday while jogging through the park, Roderick noticed an elderly gentleman sitting at the pond with a small metal cage next to him.

One Sunday, Roderick decided to satisfy his curiosity and approach the man to find out what he was up to. As Roderick moved closer he realized what he thought was a cage was actually a trap. Inside were three small turtles, unharmed. A fourth turtle sat on the old man's lap and he gently scrubbed its shell with a brush.

"What are you doing?" Roderick asked.

"I'm cleaning the algae off the shells of these turtles," the old man replied.

"Why?" Roderick asked.

"The scum damages their shells, making it hard for them to retain heat, survive, and thrive," the old man said.

"Is that what I see you out here doing every Sunday?" asked Roderick.

"Yep," the old man replied. "Rain or shine, I come here every week to take care of these turtles."

"Interesting," Roderick said. "Why do you do it?"

"It's my way of making a difference," the old man replied.

Quotes

True friends are like diamonds-bright, beautiful, valuable and always in style.

-Nicole Richie

A real friend is one who walks in when the rest of the world walks out.

-Anonymous

Some people are like clouds. When they go away it's a brighter day.

-Anonymous

When the past comes knocking, don't answer. It has nothing new to tell you.

-Anonymous

When my boss asked who is the stupid one, me or him? I told him everyone knows he doesn't hire stupid people.

-Anonymous

I feel sorry for the people who don't have dogs. I hear they have to pick up food they drop on the floor.

-Anonymous

The first five days after the weekend are always the hardest.

-Anonymous

I don't know how to act my age because I've never been this old before.

-Anonymous

As long as everything is exactly the way I want it.. I'm totally flexible.

-Anonymous

Disaster Relief

Chris Larsen, Tax Consultant

Over the last two years, California has experienced almost unprecedented levels of damage from wildfires throughout the state. Last year's largest fires included the Thomas Fire in Ventura and Santa Barbara Counties, the Nuns Fire in Sonoma County, and the Tubbs and Atlas Fires in the Napa area. 2017 is listed as the most destructive wildfire season on record, burning nearly 1.4 million acres of land, and damaging or destroying over 10,000 structures. 2018 has already seen significant destruction from several large wildfires; including the Carr Fire near Redding, and the Mendocino Complex Fires.

Most California counties have ordinances allowing for temporary property tax relief in the event of major damage or destruction to taxable land, buildings, and/or personal property. In order to be eligible for this relief; the property damage must be equal to or greater than \$10,000, must be caused by misfortune or calamity not the fault of the property owner, and requires submission of a reassessment application within 12 months from the date the damage occurred.

If you own or are liable for paying taxes on any taxable land, buildings, or personal property that has been damaged or destroyed by misfortune or calamity; Property Tax Assistance may be able to help you in getting a temporary reduction of your property taxes. However, your application for reassessment must be submitted within 12 months of the date the damage occurred, so don't wait.

Remember this tree

Author and speaker Lynne Twist often shares this story about gratitude ...

Author and speaker Lynne Twist often shares this story about gratitude that was once told to her by a Benedictine monk:

Gratitude is like a tree with two branches.

The first branch is gratefulness. On this branch life is full and filled with abundance. You are one with the universe and God and experience a great fullness of life. This state of fulfillment leads you to the second branch of the tree, thanksgiving.

On this branch you experience a life so full that it is overflowing. You are inspired to share your abundance with others, contribute and make a difference in the world around you. Sharing your blessings with others moves you back over to the first branch of the tree.

You can live your whole life passing from one branch to the other if you allow a spirit of gratitude to guide your thoughts and actions.



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Property Tax Update



THANK
you