PTA PROPERTY TAX UPDATE

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WINTER 2018

Business Property Statement Reporting

Kris Chacko, Esq.

Business Property Statements (Form 571-L) will be due April 1st, 2018. Companies will be required to report all their personal property and fixtures on the 2018 Form 571-L, as of January 1, 2018. The personal property affidavit requires that all property owned or possessed by the taxpayer be reported on the statement, as of the January 1 lien date. This reporting should be in conformity with the taxpayer's books and records, a matter verified by the Assessor when they arrive to conduct their mandatory audits every four years. As we approach the close of the 2017 calendar year, it would be wise to verify that the costs reported are in fact accurate. All reported costs, regardless of age or condition, will be assessed by the county. Here are some items to consider for the next reporting:

1.Obsolete equipment on site and on the books. Fully depreciated assets are still assessable, if physically located at the facility. Most counties value this equipment, regardless of age and condition, between 10% - 15% of its acquisition cost. This assessment, at the same rate, continues until the assets are disposed of, removed from the premises and the costs are removed from the books. If these items are obsolete with no prospects for future utility, these items should be disposed and written off prior to the January 1, lien date. If for some reason, this cannot take place, the costs should be reported separately to the Assessor with a note indicating its status. Its valuation could be an issue for any subsequent appeal. The disposal and writing off of these assets could reduce unnecessary tax liability.

It is also imperative that the disposals be documented in some manner. Auditors from the County, who audit 4 years after the fact, have been known to assess such equipment in the absence of some manner of disposal documentation.

2. Non Existent Equipment still on the books. The reconciliation between equipment located on the floor and on the books is essential to pay the correct amount of tax. Our experience has revealed that companies continue to report, and be assessed for, manufacturing equipment long gone. Communication between those on the manufacturing floor and the accounting department could easily solve this problem. However, once these assets are reported and assessed, it is an uphill battle to get the County Assessor to reduce assessments based on non-existent assets.

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The Unknown Unknowns of Property Tax

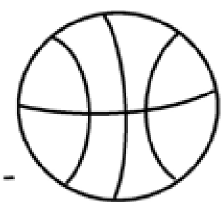
Cristhian Tucker, Tax Consultant

Former Secretary of Defense Donald Rumsfeld is famously credited with coining the terms “known unknowns” and “unknown unknowns.” Per Rumsfeld, a known unknown is something we know we don’t know. In contrast, an unknown unknown is something we don’t know we don’t know. Often, clients hire us when they have a feeling that there is something wrong with their assessment. Sometimes they’ll hire us when their fixture value is out of line with some of their other fixture assessments, or they get a tax bill that is inconsistent with the previous years. In other words, they know something is wrong, but they can’t quite pinpoint what the actual issue is, so they hire experts in the field like ourselves.

This line of reasoning is standard but misses the point. The property tax system is so complex and specialized that everybody should have an expert look at the underlying assessment. For property taxes, it is the unknown unknowns that hurt you because often a taxpayer overpays year in and year out, simply because they have no evidence that something is wrong. This is especially true when it comes to unsecured property tax assessments.

Therefore, the best approach is to be proactive. Hire a property tax consultant right away and let him/her tell you why you are either reporting wrong, or why the county is wrongly assessing your property. More than likely you are not a property tax expert, and those unknown unknowns could be costing your company a fair amount of money.

Basketball Lingo Quiz



1. Airball ☐
2. Traveling ☐
3. Empty the bench ☐
4. Windmill ☐
5. Pump fake ☐
6. Rimmer ☐
7. Buzzer beater ☐
8. Charity stripe ☐
9. Big Man ☐
10. Pine time ☐
11. Box ☐
12. Alley-oop shot ☐

A. Time spent on the bench.
B. A last-second shot that is made as the final buzzer sounds.
C. The foul line.
D. A tall player, often the center, who plays close to the basket.
E. An acrobatic play in which a player jumps high in the air and dunks the ball into the basket.
F. At the end of the game when the coach takes out his starters and puts in the players who have been on the bench.
G. A dunk where the player brings the ball to his waist and raises it up in a circular motion.
H. A missed shot that misses the backboard, the rim, and the net.
I. A shot that rolls along the rim before going into the basket.
J. To pretend to shoot the ball.
K. When a player takes too many steps or moves both feet without dribbling.
L. The square area painted or taped above the rim on the backboard.

Answers

1H; 2K; 3F; 4G; 5J; 6I; 7B; 8C; 9D; 10A; 11L; 12E

TaxTidbits

Come and meet us at the
EXPO
Food Processing
February 21- February 22, 2018.
Booth 1320
Sacramento Convention Center

Reminder

April 1
Due date for filing statements for business personal property (571L)

April 10 -
Secured property tax 2nd installment due.

May 7 -10% PENALTY DATE
Last day to file a business personal property statement (571L) without incurring a penalty.

An Expensive Call

Several men were sitting in the locker room after a game of golf when a cell phone on the bench rang. One of them picked it up: "Hello?"

"Honey? It's me. I'm at the mall, and I found that fabulous mink coat for only $2,500. Could I buy it?"

"Of course," the man said. "Is that all?"

"Well, I stopped by the Mercedes dealership, and the guy there offered a great deal on this year's model—only $60,000! What do you think?"

"Sounds good."

"And there's this diamond necklace in the jewelry store that would look fantastic on me. I think it's $1,500. What do you think?"

"Go for it."

"Thanks, darling! I love you!"

The man hung up. "Anybody know whose cell phone this is?"

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

Apparel Manufacturer	$84,985.47
Cookie and Cracker Mfg.	$31,379.06
Data Center	$190,107.39
Dairy	$919,017.09
Food Wholesaler	$613,255.38
Hedge Fund Company	$214,733.84
Hotel	$433,582.98
Marine Terminal Mgmt	$4,846,391.65
Medical Laboratories	$64,552.04
Mining and Quarrying	$171,347.63
Packaging Materials	$36,561.52
Steel Producers	$83,575.11
Waste Management	$112,716.75

PTA Real Estate Tax Division
Real Property 09/26/17 to 12/21/17

California

Industrial Property - Los Angeles County	$17,451
Office - LA County -New Construction	$143,394
Office Building - LA County	$23,921
Resort & Marina Property - Orange County	$119,917
Industrial Property - Santa Clara County	$30,804
Industrial Property - Ventura County	$40,837
Shopping Center Property - Ventura County	$67,638

Utah

Regional Mall Property - Davis County	$25,952

Renovation Costs Shouldn't Be Assessed

Ashvinder Dhillon, Tax Consultant

Are there any Law Firms or Financial Management firms out there which have spent millions of dollars on renovation costs? If so, Property Tax Assistance Co, Inc. can certainly help those firms in reduction of property taxes, because renovation costs should not be assessed and if they are being assessed then a reduction in property taxes is possible. PTA had excellent results for some of their clients in San Francisco County. Just recently PTA concluded a case in which a client renovated an entire floor for their new office, and millions of dollars of renovation costs were being assessed. PTA was able to present reasoning to the assessor's office that these renovation costs do not add the value being assessed, hence a reduction was warranted.

What was to be examined is whether or not renovations added value to the building. The county was assessing renovations at costs, but were these costs reflective of the value added? The answer was NO!

According to the Assessor handbook of 504:
"An improvement will be classified as a structure when its primary use of purpose is for housing or accommodation of personal, personality or fixtures and has no direct application to process or function of the industry trade or profession."

The real estate division had properly assessed the building as office area and any subsequent remodel to the existing office space should not be considered new construction, therefore the renovation cost should not be assessed as structures. The client neither altered the use of the office space nor added vertically or horizontally. The main issue is, if the renovation costs have increased the value of the building and if the value has gone up, how is it calculated.

Rule 463 states:
"The taxable value on the total property shall be determined by adding the full value of new construction to the taxable value of preexisting property reduced to account for the taxable value of property removed during construction."

Rule 463 provides that newly constructed property is to be assessed at its market value as of the date of completion. However, if a firm has made a move from one floor to a different floor and spent millions on renovation, the increase in market value of the property and value of the property removed have to be calculated.

Rule 463 further states that:
"Landlord and leasehold (tenant) improvements, both structure items and fixtures, are frequently renovated, rehabilitated, or modernized. This is often done in order to provide an interior or exterior "facelift" for the space. Existing improvements may be removed and new improvements are added, even before the useful life of the existing improvements is over."

PTA has successfully negotiated with the county assessor's office to work out the value added. PTA was able to get a substantial part of the assessment reduced.

As mentioned above, the value that renovations added to the building has to be negotiated with the county assessor's office. The cost of the renovations is not reflective of the value added, and if the county assessor's office is assessing the renovations at cost, then a reduction in property taxes is possible.

Quotes

There are no secrets to success is the result of preparation, hard work and learning from failure.
--Colin Powell

I have had all of the disadvantages required for success.
--Larry Ellison

Try not to become a man of success but rather try to become a man of value.
--Albert Einstein

It is fine to celebrate success, but it is more important to heed the lessons of failure
--Bill Gates

Success happens when good people with good intentions cooperate and work together over a shared interest. Believing that people are basically good is what fuels most inspired indiviuals. Cynics and pessimists do not change the world.
--Meg Whitman

You can't be afraid to fail. It's the only way you succeed - your're not gonna succeed all the time, and I know that.
--Lebron James

I always did something I was a little not ready to do. I think that's how you grow. When theres's that moment of "Wow, I'm not really sure I can do this,' and you push through those moments, that's when you have a breakthrough.
--Marissa Mayer

Help For Disaster Victims

Nathan Gangloff, Tax Consultant

Is there help for victims of the disasters?

In light of the recent disasters, which have devastated many parts of California, I feel it is necessary to address what resources taxpayers have to mitigate financial burden while trying to rebuild their lives. The California State Board of Equalization actually makes provisions for many different types of disasters. Some qualifying disasters are fire, earthquake, severe drought, and tsunami. In fact, Revenue and Taxation Code Section 170 details that any situation resulting in misfortune or calamity greater than $10,000 outside of one's own fault may qualify an individual for a property tax reassessment.

There are a few important limiting factors to be aware of when dealing with this type of reassessment. The first is that an application for reassessment should be delivered to the assessor within 12 months from the date of destruction. This application should consist of written evidence of the condition and residual value of the property after the calamity and the dollar amount of destruction experienced by said property. In case the taxpayer fails to file, or does not realize that they can, a nice feature of section 170 provides the assessor with the ability to directly trigger an assessment change in the wake of calamity, if they feel the property may have been affected by said calamity. Another important limiting factor is that some counties may or may not have a standing ordinance that addresses calamity relief. These ordinances can address everything from what qualifies as calamity, to the window of application you may have to appeal for tax reassessment after said calamity. In most situations, however, the taxpayer may submit their application for reassessment if: the governor declares a state of emergency, if there is absolutely no doubt that the property has experienced a misfortune or calamity, or if a business operating with a possessory interest of government owned land or property is no longer able to access said land or property due to calamity.

Once the application for reassessment is received and deemed valid, the assessor will come to reassess the property in question. They will review what value the property had immediately before the calamity and then will evaluate what residual value is left. While the assessor is likely to do a good job determining the residual value of the property, after their assessment they are required to inform the taxpayer of their proposed change to assessment. If the taxpayer is not satisfied with the reduction and the assessor's new value, the taxpayer may then appeal on the proposed reassessment. At this time, the taxpayer would need to appeal in front of the Board of Equalization within their county to come to a new Board found value.

If at any point you experience either misfortune or calamity, it may be useful for you to read up on Revenue and Taxation Code Part 1 Chapter 2.5 Section 170 for further details on alleviating part, or all, of your tax burden. It may also prove useful to research what ordinances for calamity are in effect in your county. If necessary, Property Tax Assistance Co. will be available to help you with any questions and appeals on changes for reassessment you may have.

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This recognition of non-existent assets must be documented in some fashion. An inventory of assets taken prior to the lien date would be the ideal method. In the absence of a full inventory, a circumstantial case may be made in support of the removal of these assets. Newer assets could have replaced older assets. New technology could have replaced older technology. Product lines may have been replaced by new ones.

The Business Property Statements will be due on May 7th, 2018 with no penalties. Addressing these two issues, on the books, prior to January 1, 2018, could have an impact on your 2018 property tax liability.

PTA
Volume 23 Issue 1

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