

## EXTERNAL OBSOLESCENCE

Josh Gangloff, Tax Consultant

Per the Assessor's Handbook 502- Advanced Appraisal, external obsolescence "is a loss in value caused by negative influences outside of the subject property that are beyond the control of the subject property's owner or tenant to correct. External Obsolescence can affect both a site and its improvements." Additionally, the American Society of Appraisers adds "One of the methods [to quantify external obsolescence] is to measure external obsolescence due to excess operating expenses caused by external factors."

The recent Trump tariffs are increasing the production costs of many facilities throughout America. In many cases, the producers end up paying the increased production costs because the market simply won't accept the increased costs. The producers are forced to operate with thinner margins which negatively affects the value of their equipment. Did your 2019 tax assessment go down to reflect the negative value associated with increased operating costs? Most likely not. The counties typically don't account for any form of obsolescence when computing your tax bill. Ultimately, this means that your likelihood of being over-taxed for the year is very high.

At Property Tax Assistance, we specialize in measuring the amount of obsolescence that should be reflected in your assessment in order to reduce your property tax burden. We take the extra steps needed to show the counties that they are generally over-taxing businesses. This results in refunds for our clients due to excess taxes paid.

If you are experiencing increased operating costs due to the recent tariffs or in general are unhappy with the amount of property taxes you pay, reach out to us so we can review your assessment, making sure you are not over-assessed.



*I can smell autumn dancing in the breeze,  
The sweet chill of pumpkin, and crisp  
sunburnt leaves.*

*Ann Drake*

# A Real World Example

Travis Carlson, Sr. Tax Consultant

I would like to share a case study that gives a real world example on how excess operating costs can affect the value of your machinery & equipment. As a result of new technology, in many cases, not only is it cheaper to acquire a modern replacement asset (capital costs), but it is also cheaper or more efficient to operate the new asset (operating expense).

The company in this example provides coated/tempered glass for residential homes. In 2016, they had developed a more efficient glass coating zone / chamber technology that greatly reduces both service costs and down time. This translates into excess operating costs for the old coaters.

The standard of care for calculating functional obsolescence in this case is to apply a present value calculation based upon the cost savings of the new coater technology compared to the existing coaters in the Subject Assets. The present valuation calculation is based upon the concept of the time value of money where a dollar worth more now than a dollar in the future. Therefore, the functional obsolescence discount is less than the total cash savings related to the new coater technology. The PV calculation used the following inputs:

Annual Functional Obsolescence, all zones		565,920
Annual Functional Obsolescence, per zone/chamber	8	<u>70,740</u>
Less: taxes (no income in WA)	30%	(21,222)
Annual excess operating costs		49,518
Present value calculation:		
Discount rate	10%	
Terms in years (avg RUL)	7	(265,182)
Total Functional Obsolescence per zone/chamber (rounded)		<u>(265,200)</u>
Number of zones/chambers		8
<b>Total Functional Obsolescence all zones/chambers</b>		<b><u>(2,121,600)</u></b>

Using these inputs results in a Functional Obsolescence discount for the affected zones of \$265,000 per zone. This calculation results in a total of Functional Obsolescence discount of 29% which translated to approximately \$50,000 in property tax refunds.



# TaxTidbits

**LOOK!**



THESE ARE REFUNDS THAT WE OBTAINED FOR OUR CLIENTS IN JUNE, JULY & AUGUST THIS YEAR!

**THIS COULD BE YOU!!**

TAKE A LOOK AT THOSE REFUNDS, WE MEAN BUSINESS. OUR RESULTS SHOW WE WORK HARD FOR OUR CLIENTS.

FOR MOST COUNTIES THE **FINAL DATE TO FILE AN APPEAL IS DECEMBER 2ND.**

(FOR SOME COUNTIES THE DEADLINE PASSED ON SEPTEMBER 16TH).

PLEASE CALL WITH QUESTIONS



## 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

Business Services	\$69,952.14
Construction	\$810,461.26
Data Centers	\$4,313,063.27
Grocery Stores	\$201,523.75
Engineering	\$31,352.10
Energy Conservation Eng.	\$120,751.50
Food Manufacturing	\$815,329.38
Hotels & Accomodations	\$88,365.80
Management Services	\$281,067.65
Marine Terminals	\$363,541.61
Metal Products Manufacturing	\$48,940.88
Machinery & Equipment Mfg.	\$41,822.83
Packaged Frozen Goods	\$32,628.27
Portable Toilet Rental	\$56,254.79
Rubber & Plastic Products Mfg.	\$114,985.22
Semiconductor	\$106,669.79
Winery	\$44,209.86
Wood Product Mfg.	\$71,098.21

### PTA Real Estate Tax Division

#### Real Property

Auto Dealership-Los Angeles County	\$199,455
Gas Station- Los Angeles County	\$72,228
Grocery-Retail Property-Los Angeles (2)	\$98,644
Office Property-Los Angeles County	\$331,437
Marina Property-Los Angeles County	\$134,117



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Ann Drake

# Property Taxes and Fixed Assets

Linda Offringa, Director of Compliance

Most companies do not think about property taxes in their fixed asset accounting. They are rightfully concerned with what is allowed under GAAP and what depreciable life assets should be capitalized under for Federal tax purposes. It is tempting to speed the process along by labeling assets with generic names such as Furniture, Leaseholds, Machinery, Computer, Etc. However, for property tax purposes, these generic terms will inevitably lead to higher taxable values.

The Revenue and Taxation Code of California sets the rules for the mass appraisal techniques used by the Assessor's offices. The sheer volume of personal property returns (571-L) sent in each year means that that generic depreciation (trend) tables must be used to value the costs reported. The use of electronic filing further increases the odds that an incorrect trend table will be used for your equipment.

Different assets are depreciated differently. It's the county's or state's e-filing systems attempt to achieve the fair market value of a piece of equipment by assigning different trend tables to different types of equipment. For example, a large furnace would be depreciated at a different rate than a network analyzer or an EMC machine. Most errors in reporting can be resolved in the 4-year audit but without detailed asset descriptions, the responsibility of identifying these assets is on you. It would be up to you to spend the time to pull invoices to identify assets. You may think that the difference in depreciation table would not amount to much, but we have found these differences to be quite substantial.

It would be more advantageous to take the time now to describe all assets on your detail thoroughly. This small effort will save you time and money in the long run.

## THE LITTLE PUPPY

**A shop owner placed a sign above his door that said, "Puppies for sale."**

Signs like this always have a way of attracting young children, and soon a boy saw the sign and approached the owner. "How much are you going to sell the puppies for?" he asked.

The store owner replied, "Anywhere from \$30 to \$50."

The little boy pulled out some change from his pocket. "I have \$2.37," he said. "Can I please look at them?"

The shop owner smiled and whistled. Out of the kennel came Lady, who ran down the aisle of his shop followed by five teeny, tiny balls of fur.

One puppy was lagging considerably behind. Immediately the little boy singled out the lagging, limping puppy and said, "What's wrong with that little dog?"

The shop owner explained that the veterinarian had examined the little puppy and had discovered it didn't have a hip socket. It would always limp. It would always be lame.

The little boy became excited. "That is the puppy that I want to buy. I'll give you \$2.37 now, and 50 cents a month until I have him paid for."

The shop owner countered, "You really don't want to buy this little dog. He is never going to be able to run and jump and play with you like the other puppies."

The little boy reached down and rolled up his pant leg to reveal a badly twisted left leg supported by a big metal brace. He looked up at the shop owner and replied, "I don't run so well myself, and the little puppy will need someone who understands."



# Quotes

**A fallen leaf is nothing more than a summer's wave goodbye.**

\_\_ Unknown

**No spring nor summer beauty hath such grace as I have seen in one autumnal face.**

\_\_ John Donne

**I loved autumn, the season of the year that God seemed to have put there just for the beauty of it.**

\_\_ Lee Maynard

**There are friends, there is family, and then there are friends that become family.**

\_\_ Unknown

**If you don't like the road you're walking, start paving another one.**

\_\_ Dolly Parton

**To succeed in life, you need three things: a wishbone, a backbone, and a funny bone.**

\_\_ Reba McEntire

**I've failed over and over again in my life and that is why I succeed.**

\_\_ Michael Jordan

**"Most football players are temperamental. That's 90% temper and 10% mental"**

\_\_ Doug Plank

**"The reason women don't play football is because eleven of them would never wear the same outfit in public."**

\_\_ Phyllis Diller

**"People say I'll be drafted in the first round, maybe even higher."**

\_\_ Craig Heyward

## Retiring Asset Headaches

Nathan Gangloff, Tax Consultant

*Maintaining records for accounting purposes is very important for a business, but the nature of depreciating and capitalizing assets can make it easy to ignore book maintenance for property tax purposes. The county values business personal property through the process of adjusting all assets on their Fixed Asset Detail by multiplying asset cost by an asset age factor as of a lien date. This means that assets, regardless of their accounting depreciation, are likely being taxed on every year simply because they have not been retired from a business's books and records. In some cases, assets which were depreciated for accounting purposes, removed from the site, and later scrapped are still being taxed by the county since they were never removed from the books and records for property tax purposes. At some point down the road when the Fixed Asset Detail is being reviewed, it can become difficult to prove to the county that the assets have been removed without retirement documentation. The county will often accept a normal or reasonable amount of removals per year, since they recognize that assets are often grouped when recorded or certain portions may be removed before other assets, but when a sudden or sweeping adjustment is made it can be far more difficult to prove the removal of certain assets. Ultimately, keeping some record of disposals and removals (especially on larger assets) can help to alleviate any future headaches with the county when it comes to retiring assets for property taxes.*

### Two hours a week in nature boosts well-being

Staying healthy isn't all about exercise and diet—as important as they are. An article on the Science News website suggests that spending just two hours a week in nature is crucial to your health and well-being.

A study of data from 20,000 people in England, conducted by the University of Exeter, found that folks who spend 120 minutes a week out in nature tend to report significantly better health and psychological well-being than those who don't commune with nature at all in a typical week, or who spend less than two hours outside in parks, woodlands, and beaches.

Your two hours don't have to happen all at once, either. The findings showed that the benefits accrued in both one single visit or several short periods. The benefits also were evident across the board regardless of gender, age, ethnicity, financial status, and disability.

The bottom line: Get outside now, and you'll feel better soon.





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**Property Tax Update**

