

property

Taxfacts

News and Views

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Do Be...Do Be... Due...Diligence!

Frank Sinatra never sang about it, but due diligence is certainly worth humming about especially if you are in an acquisition or disposition mode within your company. Doing your homework up front in these situations can avoid headaches and wallet aches further down the road. It's important that you take the time to determine the value of the real estate portion of an acquisition or disposition, negotiate a favorable lease agreement, protect your rights to proration of taxes and your refund recovery rights for properties under appeal.

In an acquisition you want to be sure that the price you are paying for the property is fair and realistic for a number of reasons. One that we are concerned with is that assessors often revalue a property using the sale amount recorded whether or not it is fair and realistic. If there are any detriments to the property that should have affected the sale price we can address these to the assessor up front, thus minimize any property tax impact to you later on.

Vacancy of a plant or office is an important consideration when dealing with a disposal. The plant could sit vacant for many months or years before actually being sold. Did you know that many taxing jurisdictions will give property tax relief for exactly this type of vacancy? Also, in certain states taxes for the current year are not paid until the following year which makes knowing your future liability prior to closing a deal imperative.

E&A helps clients perform due diligence with respect to all of these facets of real estate transactions. Keeping us "in the loop" with respect to your real estate transactions can save you from singing a sorry song when property tax issues come up.

When an assessor calls and wants to schedule a revaluation walk through we recommend that you::

DON'T GO IT ALONE

This is the season for the revaluation visit from your local assessor. The assessor will come and walk through your plant review all of the improvements you have made, measure them, classify them and then determine a value for them. At that time it is important that all of the factors that might have a detrimental effect on the value of the property also be highlighted. That is why we recommend someone from our staff be there to walk the assessor through. We know what all of the factors, those readily identifiable and those not so readily identifiable, are and can make sure the assessor doesn't miss them.

For example, curable and non-curable obsolescence should definitely be considered when determining value. Some the assessor can readily see like, interior walls which limit movement of materials within confined areas or low ceiling clearance which limits both storage capacity and mechanized material handling machinery. However, the assessor may not

even think to consider these items unless it is pointed out as a negative in the course of the walk through.

Other types of not so readily recognizable obsolescence would include items like: weak or low capacity floor loads, roof loads, entrance and egress restrictions and zoning regulations which may limit utility or restrain production capabilities. Our trained professionals seek out these items by asking questions of your plant personnel and by making a thorough inspection prior to the assessor arriving. They are then in a great position to make the assessor aware of these factors as they walk through.

We then follow up with the assessor prior to the final determination of value to make sure all factors, positive and negative, are being taken into consideration. This helps you maximize control of your property tax liability.

When the World Trade Center was destroyed on 9/11 some of us wondered what the real estate impact would be to the City of New York. Here is something that is probably a direct result: this year there will be an 18.5% increase in the city's real estate property taxes. Taxes on class A office space will increase by \$2psf to a total of \$11psf. This maintains New York's hold on the highest real estate taxes in the country: who's second...Chicago!

In Indiana

Members of our staff were able to meet with Kurt Barrow, Director, Assessment Division, Indiana Department of Local Government and Finance (DLGF) to try to get a handle on the current situation in Indiana. Here is their report.

Throughout our conversation with Mr. Barrow, one thing became apparent: the main focus of the current reassessment was **to get it done**. Of the 92 counties in Indiana, 30 expect to mail assessment notices by the end of March; 14 expect to mail notices by the end of April and 25 expect to mail assessment notices by the end of July. That leaves 23 counties, including Lake, which do not expect to have notices mailed out until August 2003 or later!

He also mentioned that although the state legislature approved adoption of a market value (value-in-use) based assessment system, assessors were given two options to value properties: the traditional cost based method or the value-in-use method. Given that option 90 counties elected to continue using the cost based method. However, he pointed out, those counties **must** also consider market data when coming to a valuation.

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counties will
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“Once the revaluation is complete it will be interesting to see if any changes in value actually occur considering the fact that 90 of 92 counties are using the same cost based method of valuation,” commented Karen Dabek, Manager of Ad Valorem Taxes at Ennes & Associates.

To further complicate things although the reassessment date will be January 1, 2002 the date of value will be January 1, 1999.

We were interested to hear that once the 2002 reassessment is complete, assessments throughout the state will be subject to **equalization** for the first time ever in the state of Indiana. This means every county will need to conduct sales ratio studies in order to equalize seven classes of property in each township. So far, the DLGF has received only two sales ratio studies and both had to be returned to the counties for revision.

Tax bills normally mailed by March 1 will be delayed. To avoid a tax shortfall for already strapped counties there has been some discussion of doing a provisional billing. We will continue to monitor this situation and keep you apprised of the most current information.

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www.ennestax.com

Marginal Operations

In the course of doing business a constant watch is kept on the profit and loss performance at each of a company's locations and operations. A turn in that performance from good to bad could signal a host of problems ranging from changes in technology to a downswing in the local economy.

Did you know that some of the same factors that might negatively affect the profit performance of a specific location could also effect the property taxes at that location?

For example, a downswing in the local economy might affect local property values. This in turn could affect the value of a local plant, office building or retail property. A negative change in profitability could also signal that a location is suffering from economic, physical or functional obsolescence.

Technology or a change in competition could also trigger a decline in profitability, which may affect the highest and best use of the facility in question.

An example of this would be: Manufacturer A is expanding unimpeded in a market area. Over several years the company has invested in machinery capable of producing 80% of the market demand at \$1/unit. All of a sudden new technology is developed that produces the widget at \$.50/unit. Manufacturer A doesn't have the financial capacity nor the desire to replace all of its machinery and decides not to invest in the new technology because of the plant's current productive capacity. However, manufacturer B does decide to enter the market and invests in the new technology. This has a direct and immediate impact on the profitability of manufacturer A.

A similar scenario can take place in a retail operation when a wholesale outlet, that sells the same product, opens in the area and the added new competition produces a negative impact on profits.

Let us know immediately if you become aware of any outside influences that could be negatively affecting your profit margins at a specific location. We can analyze these situations to see if there is a link between the loss in profit and market value that might warrant an assessment reduction.

This newsletter offers factual and up-to-date information on the subjects discussed. It should not be regarded as a complete analysis of these subjects. Professional advisors should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from reliance or use of this material.

Remember... if the recent onslaught of horrible winter weather has had any impact on your physical plant be sure to let us know. It could be flooding; snow damage to roofs or wind damage to plant walls if your property suffered, property tax relief is a possibility. Even if the property has been restored by the subsequent assessment date, it is very possible to have the value pro-rated for the period covering the time from the damage through the reconstruction. Don't let it be a total loss....give us a call!