

property

# Taxfacts

News and Views

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The Weather Outside is **Frightful....**

But as Clients You are  
**Delightful....**

So we send our best wishes **your**  
**way....**



For a **Great New Year**  
and a **Wonderful Holiday....**



Your Friends at **E&A!!!**



# You're Not Alone!!

If you feel as if property taxes are taking a larger and larger bite out of your bottom line you are not alone. Local property taxes are increasing at rates faster than inflation as state governments share less of their tax revenue with the local governments. Mix in demographic changes and rising property values and you end up with a property tax crisis.

Rising tax levies hit certain sectors especially hard. Those on fixed incomes; young families that have moved out of the city and the middle class are really feeling the pinch and have begun to pinch back.

These communities then try to compete for taxable business income but frequently have to give substantial tax incentives to attract those businesses. Or they raise the taxes on the existing businesses because they experience less of a voter backlash from the business community. In some cases, this pressure from residential taxpayers leads local governments to resist equitable assessment reductions for commercial taxpayers.

A few communities have even put a moratorium on new businesses that generate no sales tax revenue

Taxing Authorities are looking for alternatives. Some have been studying the California system of capping property taxes so they rise only 2 percent per year. . Recently in Cook County, Illinois a cap was placed on the increase in residential assessments.

While these alternatives offer some tax relief they come at a cost. In California there are major funding problems for social services and education. In Cook County business flight from the tax burden ends up hurting the residential taxpayer by increasing fees for services and for schools. So it is a matter of robbing Peter to pay Paul and no solution at all.

What will be the outcome of this taxing situation? We wish we knew. In the meantime we recommend every business keep a keen eye on their local situation. Become involved in reforms while the discussions are taking place in an effort to protect your bottom line from an ever-increasing property tax crunch. And know that we, at E&A, are always keeping an eye your property tax situation.

## *Make it Your New Year's Resolution*

For those of you with assets in states that tax tangible business personal property make it this year's resolution not to miss any tax savings opportunities. Many times the Personal Property returns are completed using un-audited information from the fixed asset listing and simply plugging a summary of the totals into the columns on the reporting form. Add to that a general lack of understanding of the nature of and rules governing the personal property tax and you have the potential for problems from over, under or just plain improperly reporting.

However, by carefully examining the accounting information with an understanding of the relevant property tax rules in effect, a significant tax savings may be achieved or a costly discovery audit avoided. The key is to undertake this review with property tax compliance in mind, not just fixed asset accounting. So, in addition to the "standard" list of fixed asset management data which includes: acquisition cost, date of acquisition, description, taxable situs, use, asset tag number and itemization of freight, transaction taxes, installation and set up charges and entity overhead charges you can also focus on the following property tax savings opportunities:

- ✓ Idle equipment—tax reduction opportunities based on the use of these assets
- ✓ Exemptions—certain property may be exempt from the general provisions of property tax law i.e. software
- ✓ Exempt organizations—the US and local governments as well as some religious and non profit organizations are exempt from property tax.
- ✓ Tax Incentive Programs—there may be special incentives available based on factors like expansion or job growth
- ✓ Freeport exemption—this eliminates the possibility of taxation of goods in international commerce as well as double taxation of property stored in one state before being shipped to another state.
- ✓ Pollution Control—qualified air and water pollution control equipment may be exempt.
- ✓ Obsolescence—Normal wear and tear on equipment is accounted for in the depreciation tables in most states but obsolescence is not. You need to consider both types of obsolescence—functional and economic
- ✓ Leasehold Improvements—extreme care should be taken before reporting these items to avoid double taxation since these improvements may also have been considered as real property in the valuation of the building.

### **Check those Assessment Notices and Tax Bills!!**

Mistakes do happen. A case in point. An assessor error when computing a PP assessment lead to a 4 million plus dollars mistake in value. Our client paid a tax bill that was more than \$100,000 higher than it should have been. Then they sent us the tax bill to review. We recognized the mistake immediately and were able to correct it and get a refund. But without comparing the stated assessment to the assessment we were expecting the error would never have been found. So take the time to check or better yet send the bill to us!!