

ONESOURCE® PROPERTY TAX

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A PROPERTY TAX PERSPECTIVE ON THE NATIONAL BROADBAND PLAN

Author: Kevin Brick, Thomson Reuters



In 2009, The American Recovery and Reinvestment Act was passed by Congress. Part of the Act called for the creation of a National Broadband Plan ("NBP"). One of the goals of the NBP was to extend broadband service to every American. The Federal Communications Commission ("FCC") was charged with the creation of the NBP. Part of the process was to accept comments from the public regarding advice, issues, and industry insight on how the NBP should be created and implemented.

Industry insiders such as AT&T, CenturyLink, and The Organization for the Promotion and Advancement of Small Telecommunications Companies submitted comments on the creation of the NBP, the current state of the landline telephone industry, and future development. AT&T's comments provided significant eye-opening statistics regarding the current state of the wire-line telephone industry. The statistics

included the following: approximately 25% of households have abandoned landline telephone service completely; 700,000 landlines are being abandoned every month; residential switched access declined from 139 million lines in 2000 to 75 million in 2008; only 20% of Americans rely on landline telephone service exclusively; from 2000 to 2008 total switched access minutes have declined by 42%; during this period, minutes per line also decreased by 13.2%. These observations led to a conclusion by analysts that the landline telephone business was "a death sentence" for providers. The sole reason that providers continued to remain in this market was due to government requirements to provide service, not because of free market forces.

These trends may be occurring for a number of reasons, such as the prevalence of substitute communications technologies (such as e-mail, social

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networking, mobile phone service, and texting); alternative phone services through voice over internet protocol (“VOIP”) technology or cellular phones; the increase of the availability of broadband; and the decrease in the need for dial-up Internet services.

The FCC presented the NBP to Congress in March 2010. One of the funding mechanisms included in the final NBP was redistribution of the Universal Service Fund. This redistribution will cause resources to be shifted away from traditional landline phone companies and towards broadband service providers.

The market conditions described by AT&T and the government’s decision to shift funds away from landline telephone providers is strong evidence for the position that values of providers’ property has declined. These phone systems, which at one time provided a steady and certain income stream, are increasingly less valuable due to alternate technologies and changing regulations. Such conditions present an opportunity to reduce assessed value due to the existence of functional obsolescence, economic obsolescence, technological obsolescence, and less favorable capitalization rates.

Functional obsolescence exists in these systems due to the fact that the substantial elements of system architecture cannot support broadband technology, resulting in reduced usefulness. Economic obsolescence exists in the system due to external factors (market conditions, broadband development, government’s shift of funding) which reduce its value. Technological obsolescence exists because the newer

technology (VOIP, broadband, mobile phone service, and other communications technology) has made landline phone service less useful. Finally, as the market continues to choose new technologies, rather than landline phone service, lenders begin to adjust their rate-of-return requirements to account for the increased risk in the industry. This adjustment makes it more costly for such providers to obtain credit. All of these issues act to reduce the value of existing systems.

Market forces and the government’s NBP represent continued difficulties for the landline telephone industry. As such, they contribute to a reduction in the value of providers’ properties. An explanation and documentation of this decline in market value can be presented to state and local tax assessors to achieve a reduction in assessed value and, in turn, a lower property tax liability.

ABOUT THE AUTHOR

Kevin Brick, manager for ONESOURCE Property Tax, performs research and drafts memoranda addressing state and local tax issues related to complex, commercial and personal property for clients and internal tax professionals throughout the national practice. He also drafts multistate comparative surveys of property tax law including transfer tax liability, reassessment risk, low-income housing valuation and others. Kevin writes industry and economic analysis appeal packets for the national practice. He also provides the national practice with monthly updates on relevant changes in the legal environment.



TAXPAYERS FACING MORE PENALTIES IN CALIFORNIA

Author: Steve Buck, Thomson Reuters

Property owners in California began facing significant penalties as of January 1, 2010, when Senate Bill 816 (SB 816) went into effect.

Prior state law required a person or entity that had acquired ownership or control of a legal entity that owned real property in California to file a signed 100B Form with the State Board of Equalization (BOE). There was no penalty for not filing the statement unless the BOE requested the statement from the taxpayer in writing and the taxpayer failed to file the statement within 45 days of that request. Additionally, the penalty was automatically abated if the statement was filed within 60 days of the penalty notification.

Under this new law, a person or entity that acquires ownership or control of a legal entity is required to file the 100B Form with the BOE within 45 days of the change in ownership or control. Failure to file the statement within 45 days will result in a penalty.

The penalty for failure to file within 45 days of the event or to respond timely to the BOE's written request to file a statement applies whether or not a change in control (CIC) or change in ownership (CIO) actually occurred. The amount of the penalty is either: 1.) 10% of the taxes applicable to the new base year value of the real property owned by the legal entity, if the entity has undergone a CIC or CIO; or 2.) 10% of the current year's taxes on the real property owned by the entity if the entity has not undergone a CIC or CIO.

The automatic abatement that was previously in place is no longer offered to taxpayers, even when the statement is filed within 60 days of the notice to file. To obtain an abatement of the penalty, the taxpayer will now have to apply to the county board of supervisors where the property is located and prove that the failure to file the statement was due to reasonable cause and not willful neglect.

The ONESOURCE Property Tax team at Thomson Reuters is currently dealing with appeals on penalties assessed for failure to file a statement of CIC and Ownership of Legal Entities (Form BOE-100-B) for tax years dating back to 2004. One such client has penalties in excess of \$100,000 and there was not a change in ownership in the 2004 tax year.

SB 816 strengthened the reporting requirements and penalties in order to aid assessors in the more timely discovery of legal entity ownership transfers that result in real property being subject to reassessment under existing California statutes. California County Assessors are aggressively pursuing penalties on entities that did not file replies to the BOE prior to January 1, 2010. Lastly, the statute also allows assessors to inform the County Registrar-Recorder of the event not to mention the values involved so that office may seek to impose documentary transfer taxes (DTT) at the prevailing rates specific to the property location.

This legislation does not apply to a typical California real property acquisition between unrelated buyers and sellers. For these typical sales transactions under Proposition 13, the purchase price will be used to establish the new base year value in most circumstances as a Change of Ownership Statement (COS) is typically filed along with the recording of the deed. If the COS is not filed at closing it must be transmitted to the assessor within 45 days of the date of closing to avoid similar penalty provisions noted above.

ABOUT THE AUTHOR

Steve Buck is a director of ONESOURCE Property Tax in the Thomson Reuters Los Angeles office. He has over 20 years of appraisal and assessment appeal experience, including the valuation of commercial, industrial, possessory interest, and residential properties. His extensive experience valuing high-profile investment grade property in California, Nevada, and Hawaii, has qualified him to appear as an expert witness before Assessment Appeal Boards.

Steve specializes in hotel, resort and office building valuations and has provided testimony for both real and personal property tax appeal cases throughout California. He has consulted on California Change of Ownership rules for clients and advised on documentary transfer tax issues.



PROPERTY TAX SESSIONS AT 2010 ONESOURCE USER CONFERENCE A BIG SUCCESS!



The 2010 ONESOURCE User Conference – the largest and most successful to date – was held November 1-4, at the Gaylord National Hotel and Convention Center near Washington, D.C. Our sessions on the ONESOURCE Property Tax software received excellent feedback from customers who attended. Many felt that it was one of the best conferences ever and have already expressed interest in attending next year.

The theme for this year's conference was "Breaking Boundaries." This was emphasized with the launch of the ONESOURCE Global Workstation during the opening general session on November 2. Our biggest launch of the year, ONESOURCE became the first true global tax workstation by including non-U.S. local compliance solutions for multinational companies and the global accounting firms that serve them.

The conference provided sessions on specific products and topics, including Checkpoint, corporate workflow tools, mastering Excel & Adobe, tax information reporting, domestic income tax compliance, international income tax compliance, tax provision, indirect tax, transfer pricing, trust tax, and of course, property tax.

The property tax track provided users with 27 sessions on 14 different topics, including recent enhancements to ONESOURCE Property Tax software functionality, and hands-on sessions to practice using various areas within the software. Repeating sessions enabled users the flexibility to attend other product sessions, or to choose times that worked well with other schedule considerations. Based on the feedback we received, the schedule structure will

likely include some repetition next year, and other adjustments will be made to continue to improve the overall property tax offerings at the conference.

In addition, a "sneak peek" was presented on upcoming enhancements in ONESOURCE Property Tax v.9.4 released on December 13. The ability to add and edit an assessment or a tax bill in one step, plus cross-year summaries in the overview tab were of particular interest, as was the integrated personal property return tab included in the parcel/account detail window. Users also indicated the functionality earmarked for release in 2011, including task management and marked improvement on the appeals module, will be of great value to them to improve their overall tax business processes.

Conference attendees had opportunities to interact with other software users, learn about other ONESOURCE products, and hold discussions with those responsible for product development and customer service.

The 2011 ONESOURCE User Conference will return to the Fontainebleau Hotel in Miami Beach Nov. 1 – 4, the site of the 2009 conference. As always, we hope that you can join us for this enjoyable, informational event and help us continue to develop the functionality you need in ONESOURCE Property Tax. We'll keep you informed on registration information as soon as it's available.

We hope to see you in Miami Beach!

PROACTIVE COMPLIANCE: STRATEGIES FOR MANUFACTURERS

Authors: Teresa Sharp and Heather Horacek, Thomson Reuters

With the 2011 property tax compliance season fast approaching, taxpayers need to be aware that there are many proactive steps that can be taken to assist in minimizing personal property tax liability. Property tax departments should evaluate their fixed assets in search of opportunities that can reduce assessed values associated with idle assets, rebuilt or overhauled assets. Additionally, savings can be achieved through exemptions obtained for pollution control assets. Often times, local staff in manufacturing facilities may not have the expertise or time to find the multiple opportunities to reduce their tax liability. Our outsourcing and consulting groups have been very successful finding the most benefit on behalf of our clients in the four areas listed below:

Idle Assets: Whether an organization is closed or underutilized, there are ways to obtain tax relief on idle assets depending on state statutes. One way is valuing the assets at salvage value. For example, according to the Georgia Department of Revenue Rules and Regulations Chapter 560-11-10 Appraisal Procedures Manual, once personal property is taken out of service or after the end of its typical economic life, it is considered salvage until disposed of — and the appraiser shall determine a cost approach value at ten percent of the original cost. The cost approach value for property withdrawn from active use but retained as backup equipment is deemed to be one-half the cost approach value otherwise applicable for such property.

Rebuilds & Overhauls: Strategize carefully on capitalized costs for rebuilding and overhauling fixed assets. Although these types of expenses may be required to be capitalized, they may not increase asset value. A diligent review of these items is recommended to identify if the costs relate to professional services, simple repairs, maintenance, or increasing capacity or efficiencies. Professional service expenses (intangible) may be eligible for exclusion from property tax reporting. Costs that are tangible, but do not increase capacity or efficiency, warrant a close look to determine the appropriate reporting and valuation treatment. Tangible costs that increase capacity or efficiencies are generally required to be reported, but caution should be used when classifying these items to align them with the most appropriate useful life for a more accurate depreciated value for property tax reporting purposes.

Pollution Control Assets: If a facility has assets installed to reduce or eliminate pollutants to air, water, or waste, they may be exemptible (or are granted favorable valuation methods) depending on the state. Determine what the exemption process is for that state, and how to comply. What forms need to be filed? Is there a filing

deadline and fee? What assets specifically qualify? Are the assets fully exempt or partially exempt? States with pollution control equipment savings opportunities include (but are not limited to): Alabama, Florida, Georgia, Indiana, Michigan, Nevada, North Carolina, South Carolina, Texas and West Virginia.

Asset Classification: Consistent and thoughtful decisions regarding asset taxability, classification, and depreciation, may result in reduced valuations. Assets that have similar characteristics and functions should have like useful lives, depreciation methods, and values. Although the rules vary by state and/or jurisdiction, some may accept an alternative reporting methodology. This strategy could be especially beneficial in states where reporting a taxpayer's opinion of value is optional or recommended (such as Florida and Texas). Regardless of the acceptance of the reporting position, presenting information at the time of filing, and utilizing the valuations for jurisdictions accepting the filing methodology, may increase the chance of reducing property value during the informal negotiation or appeal process.

Truth is, with today's economy organizations have many ways to reduce personal property tax liability; much of which is dependent on their particular assets and circumstances. Being proactive with compliance-related issues is an important first step to securing property tax savings. Thomson Reuters can also help you evaluate your options and be well on your way to reducing your overall tax liability.

ABOUT THE AUTHORS

Teresa Sharp is a senior manager for ONESOURCE Property Tax in the Houston office of Thomson Reuters. She has over twenty years of experience in the property tax industry, and focuses on all facets of personal property taxation related to multiple types of property. She holds CPA licenses in the states of California and Texas, a CMI designation with the Institute for Professionals in Taxation, a license as a senior property tax consultant in Texas, and earned her BS degree in accounting from Mesa State College in Colorado.

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NEW TAX CENTER IN ONESOURCE PROPERTY TAX IMPROVES EFFICIENCY

Version 9.40 of our ONESOURCE Property Tax web-based software was released December 13, 2010. This latest version will help property tax professionals like you to streamline your property tax compliance functions.

This release unveils the new Tax Manager that will greatly simplify and coordinate all property tax functions into one convenient and easy-to-use environment. The new Tax Manager organizes all vital property tax information under one browser interface and provides improved efficiency, greater ease-of-use, superior analysis tools, and time savings to enable significant improvements in business processes, making your property tax management responsibilities simpler, easier, and faster.

Placing Tax Manager in one seamlessly organized interface that resides in your browser moves us one step closer to a completely browser-based solution. Now, updates and new releases in Tax Manager are delivered automatically and instantly, just as they are with Asset Manager.

Among other enhancements now available in ONESOURCE Property Tax version 9.4:

- A single browser interface accesses all of your data including bills, assessments, real estate, personal property, and returns, providing instant updates with no downloads and anytime, anywhere accessibility.
- The use of our Next Generation Silverlight interface to access and process all your data has now been expanded to cover tax bills and assessments for real and personal property. Silverlight increases processing speeds along with allowing for more flexibility in accessing and filtering through your entire tax data set.

- The ability to display multiple years of valuation and tax history for any parcel or property. The Overview screen will give you instant access to the entire history of value and tax information for any of your parcels or properties.
- Easy-to-read graphs show the valuation of your property through each stage of the assessment process — from Projected, to Rendered, to Initial through Final values.
- Tax Manager, now integrated with Asset Manager, enables processing and retrieving of returns directly from the Tax Manager account detail screens.
- Data entry for Tax Bills and Assessments is streamlined. Tax Bill and AP information can be entered simultaneously on the Tax Bill screen. Multiple Notice Types can also be entered in one easy-to-use screen.

The rapid pace of change in our ONESOURCE Property Tax software continues as we expand on the Next Generation Tax Manager. New Silverlight screens for managing Allocations, Accruals, Appeals and more are scheduled for future releases of ONESOURCE Property Tax.

Further exciting advances in workflow and task management tasks in ONESOURCE Property Tax are slated for 2011. Watch for them soon!

