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The Manufacturing Executive Institute (MEI) is a training and publishing organization dedicated to bringing relevant knowledge to individuals who are interested in making dramatic performance improvements in their manufacturing and distribution companies. To learn more about the Manufacturing Executive Institute, go to: **www.mfgexecutive.com**

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"The Only Things Certain In Life are Death & Taxes!"

... Benjamin Franklin

Saving Money on Tangible Property Taxes

How Exceptions, Communication & Professional Advice Can Affect the Bottom Line

By Danielle Witten, CPA & Abigail Stokes Palsma

Forward by:

Alan G. Dunn, President of GDI Consulting & Training Company

A manufacturing company's true economic value is ultimately determined by how effectively it invests it excess capital in productive assets that can increase the rate of future cash flows. This means that manufacturers must have the "*right*" productive assets and must pay close attention to the cost of maintaining and using those assets. In the following article, Danielle Witten and Abigail Stokes Palsma of **Vicenti, Lloyd & Stutzman** outline an approach to minimize an often overlooked element of manufacturing asset management... property taxes. I think you will find this article especially useful as you begin looking at ways to minimize the costs of maintaining assets..... ***Alan G. Dunn***

Is your business paying too much in property taxes? With some careful attention to definitions and details, business owners and managers can find opportunities to lower the tax on tangible business property that is paid every year. This will help create cash for your enterprise to spend on other, more important items, such as hiring more employees, expanding the business or purchasing new equipment.
What you need to know about tax rules varies by state and county, but generally follow these six observations:

1. If something is physically present in your business, the government wants you to pay property taxes on it.

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2. There are **IMPORTANT** exceptions to Observation #1.
3. Your business **INVENTORY** is often... but not always... one of the **IMPORTANT** exceptions.
4. Someone in your organization's accounting or finance team should be aware of these rules and be able to explain them to you so that you can take advantage of the **EXCEPTIONS**, which can reduce your tax.
5. Someone in your organization may be preparing or signing a FORM telling the government how much to charge you in property taxes.
6. Getting rid of obsolete equipment will not only reduce your property tax costs, it will give you more room for new machines, equipment, computers, etc., and might save you some money on the cost of off-site storage.

Since California is considered *"world class"* when it comes to raising taxes, it may be advantageous for business leaders and their advisers to take a look at the details of property tax rules in this state when designing a process for property tax cost mitigation. Communicating with an expert on the subject, whether he or she is your in-house accountant or your CPA, can make the critical difference between over-paying and creating cash, no matter where you conduct business.

Businesses must file annual property tax statements to self-report the tangible property owned at the end of the calendar year. Tax is assessed on that property based on these statements. Usually, property both real and personal, is subject to tax. **Real property includes land and structures, while personal property describes everything else that can be owned.** Personal property can be further classified as tangible (items that can be seen and touched such as portable machinery and equipment, office furniture, tools and supplies) or intangible (deeds of trust and copyrights).

Here's the money saving key: **Know the Exceptions.** Generally speaking, intangible property is not subject to tax, but tangible property is taxed…except when it isn't (clear?). Knowing which types of tangible property are taxable and which aren't could save your company a lot of money. **Have you reviewed your company's asset listing and/or depreciation schedules recently?** Keeping these lists up-to-date can reduce your property tax bill in two ways.

First, it is important to know exactly what is taxable, and therefore should be reported. Examples include a new robot for trimming plastic molds or new computers purchased for the engineering department. **More to the point, knowing the exceptions to the rules... what is not taxable... is how you will save money.** For example, automobiles and computer software are tangible property items that are exempt from taxation in California. Your CPA or in-house accountant should have access to a complete list of which tangible property is and which isn't taxable.

Second, assets that are sold or disposed of should be removed from the asset listing. If they are not removed from the listing, chances are good that these disposed assets are still being reported on the annual property tax statement. **This means you are paying taxes on assets you no longer have!** It is a good idea to review your asset listing at least once per year to remove disposed items and to make sure all new purchases are included.

Another tip: Since structural repairs and maintenance are often classified as leasehold improvements for financial statement purposes and should be capitalized on the balance sheet, managers often assume that improvements are taxable. But in fact, structural repairs and maintenance are often NOT assessable for property tax purposes. For property tax purposes, improvements are considered repairs (in California and many other jurisdictions). Repairs are not reportable; therefore a replacement roof, door, window or countertop, for example, is not taxable and should not be included on the annual property tax statement.

***The second key*: Communicate.** CPA's and accountants have already been mentioned as a valuable resource business owners and managers should engage in the conversation of how to reduce that tax bill. An on-going conversation should also occur between the operations staff and the accounting staff. The annual review of the asset listing or depreciation schedule presents a great opportunity for these two functions to take full advantage of tax rule exceptions. Both parties must fully understand what property the company owns and why it needs to be carefully counted. Some may consider accounting duties such as filling out a depreciation form tedious, or even meaningless. However, the savings is what makes the task worthwhile. If the savings makes needed purchases or operational changes possible…double score!

Another strategy in regard to inventory and equipment has to do with space. Supplies on-hand at the end of the calendar year... such as office supplies, stationary, chemicals, janitorial supplies, fuel, sandpaper and anything else that will not become a component part of the product you manufacture or sell... these supplies MUST be reported and may be taxed on the annual statement. You may want to consider a just-in-time ordering process for these supplies. Not only can you save room in your office or warehouse, but you can also lower your property tax base!

***The third key:* Seek Professional Advice.** Identifying property or improvements that can be excluded from the annual statement (exceptions) and spending a little more time maintaining your fixed asset listing (communication) may significantly decrease your business' property tax bill. Because the interpretation of tax rules can be complicated and difficult, consult with your CPA to determine how your business is affected by tax rules and how to best protect your company's profit and after-tax cash flows.

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