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## Proactive Tax Strategies for Industrial Properties

*By Mark E. Marceau, Director of Complex Property Solutions*

THE RECESSION IS TAKING ITS TOLL ON INDUSTRIAL MANUFACTURERS NATIONWIDE. THE Manufacturers Alliance predicts total manufacturing production will fall 9% in 2009. Unlike previous years, high-tech industries are not expected to outperform the general manufacturing sector. Production of computer and other electronic products is expected to decline 10%.

Amid dismal forecasts and federal bail outs, the cry for more regulation will undoubtedly result in additional compliance costs, adding to the burden of industries already struggling to achieve economic return on investment. Now more than ever, industrial properties require focused cost management, innovation and a proactive tax approach.

### AVOIDING OVER ASSESSMENT

Assessors rely on disclosures made by property owners to develop an opinion of market value. In fact, the quality of the tax assessment is heavily dependent on the accuracy and completeness of the information provided.

Assessors rarely, if ever, intend to over value property. But all too often, taxpayers unwittingly help them do so by failing to provide relevant data and following up to check the results. Common errors include:

- Duplicate assessment of special purpose assets
- Inappropriate economic lives
- Unsupportable floor valuation
- Failure to quantify losses due to functional or external obsolescence
- Reporting non-taxable intangibles

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## IS IT POSSIBLE TO CRAFT A SOLID APPEAL?

The real question should be, “Why is an appeal needed?” Given the complexities of industrial properties, appeals usually require costly appraisals and expert witnesses to achieve a favorable result. It is less expensive and often more productive to improve reporting and work with the assessor before resorting to an appeal. Providing the assessor with quality information and support for all adjustments is often the best and most economical way to control tax expenses.

Depending on the location, issues, and circumstances, an appeal may be unavoidable. In that event, using experienced and qualified appraisers is essential to manage the outcome.

## WAYS TO MINIMIZE PROPERTY TAX EXPENSE

1. **Evaluate in-house competencies** – Obtain outside expert opinion as to whether your property tax program is hitting on all cylinders. If opportunities are being missed, consider using proven consulting experts to get assessments reduced. Do not underestimate the time it may take to perform the detailed studies needed to achieve solid results. Such investments are well spent.
2. **Don’t overlook the basics** – Evaluate all cost components as compared with statutory requirements for classification and reporting. Peruse recent case law and consult with qualified property tax attorneys if you are uncertain as to property tax legal matters. Consider all available exemptions, abatements, or other incentives that may have been overlooked.
3. **Document obsolescence** – Consider the impact of economic trends on plant production and return on investment. Use reliable benchmarks to measure economic or external obsolescence. Consider the industry as a whole, as well as individual plant performance. Use this information to request service factor and economic obsolescence adjustments.
4. **Network** – Work with your entire corporate team including accounting, engineering, environmental, property management, procurement, and other resources to discuss and evaluate property tax expenses. Rationalize fixed assets to ensure that unrecorded retirements are not being reported. Consider having a physical inventory performed for large capital units or locations. Use external consultants to help with facilitating constructive interaction among departments to achieve your goal of minimizing property taxes.