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100% Taxable

Who likes paying taxes every year? Tax, licenses, and fees, oh my! | by Chip Cooke

I don't like paying taxes. There, I said it. If I polled at least 100 of my friends, coworkers, and clients, I'm willing to bet that almost all would say the same thing. It's not that I don't see the benefits of the social contract and the good my taxes do for the community, I do. It's just particularly difficult to part with hard-earned greenbacks unless I know that the end result is a fully functioning, efficient system of infrastructure. Oh, and I don't want to pay one penny more than my fair share.

The above statement in itself may drum up quite a bit of conversation, and for the sake of simplicity, we are going to stick to local government taxation in this discussion. I simply don't have the time or the patience to address where in the world my federal tax dollars may have migrated this year.

In my home county of Mecklenburg, North Carolina, the primary source of revenue for the local budget is drawn from the property tax. As you

probably already know, the property tax is made up of real property parcels,

“One of the primary goals of TMA is to ensure that this giant puzzle of revenue inflow is working at the level which it was intended. If a certain tax was levied, it only makes sense that it is collected at 100% of its allowed level.”

commercial and industrial parcels, and business personal property parcels. My

property tax bill is based essentially on a combination of factors — how large is the combined property tax base and what are our local needs this year? Once we know those two items, the powers that be set the tax rate, and voila, I have my answer. My individual home's value multiplied by the tax rate equals my tax bill for the year.

Mecklenburg County, like most other jurisdictions has other taxes, licenses, and fees associated with living here. Businesses and individuals pay prepared food and beverage tax, alcohol taxes, occupancy taxes, privilege and business licenses, and others. All of these various sources of revenue go towards satisfying the needs of the community. Those needs include schools, public safety, debt repayment, health and human services, and all of the other day-to-day obligations that make a community function.

One of Tax Management Associates' primary goals is to ensure that this giant

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puzzle of revenue inflow is working at the level which it was intended. If a certain tax was levied, it only makes sense that it is collected at 100% of its allowed level – not one penny more, not one penny less. We are not alone in this effort – your local assessing officials and tax department professionals make a living by following a similar course of action. For a minute, let's examine how this is accomplished and where we might better the process.

Property tax is the largest source of revenue for our jurisdiction, so we'll start there. Following IAAO standards and state law, the county performs a reappraisal of all real, commercial, and industrial property every four to eight years. This involves locating every property, listing new properties, and placing a current value on all of the above. In theory, this brings the value to 100% of its allowed level. What about business personal property? This is a self-assessed tax that is filed each year by the individual taxpayer – values are either accepted by the jurisdiction or examined through the audit process. Do taxpayers file their BPP every year? Do the values fluctuate? In addition to the property tax, various other license and fees are paid depending on the individual or business in question. A restaurant might pay business license fees, gross receipts, and prepared food and beverage tax. A hotel may pay these plus a room occupancy tax. All of these receipts are on the honor system – understand your local ordinances and statutes and remit the tax accordingly. Here lies the problem.

If I want to be assured that my

jurisdiction is receiving all of its allowed revenues, someone is going to have to go behind the scenes and check. Tax Management Associates (TMA) has been assisting in this very task for some time now. For TMA, this is a two-stage process. First, we make sure every business in the jurisdiction is filing the business personal property listing form. This establishes that the business has situs within the jurisdiction and takes care of the property tax side of the equation (audits on the same companies for property tax purposes are optional at this point). Secondly, TMA has developed technology solutions utilizing the Knime analytics platform to compare various county databases against one another ensuring taxpayers are listing every pertinent tax.

The end goal is simple – find every business that should be listing in the jurisdiction and make sure they are filing everything prescribed by law. Now, let me explain how that results in the average taxpayer not paying one more penny than they have to each year.

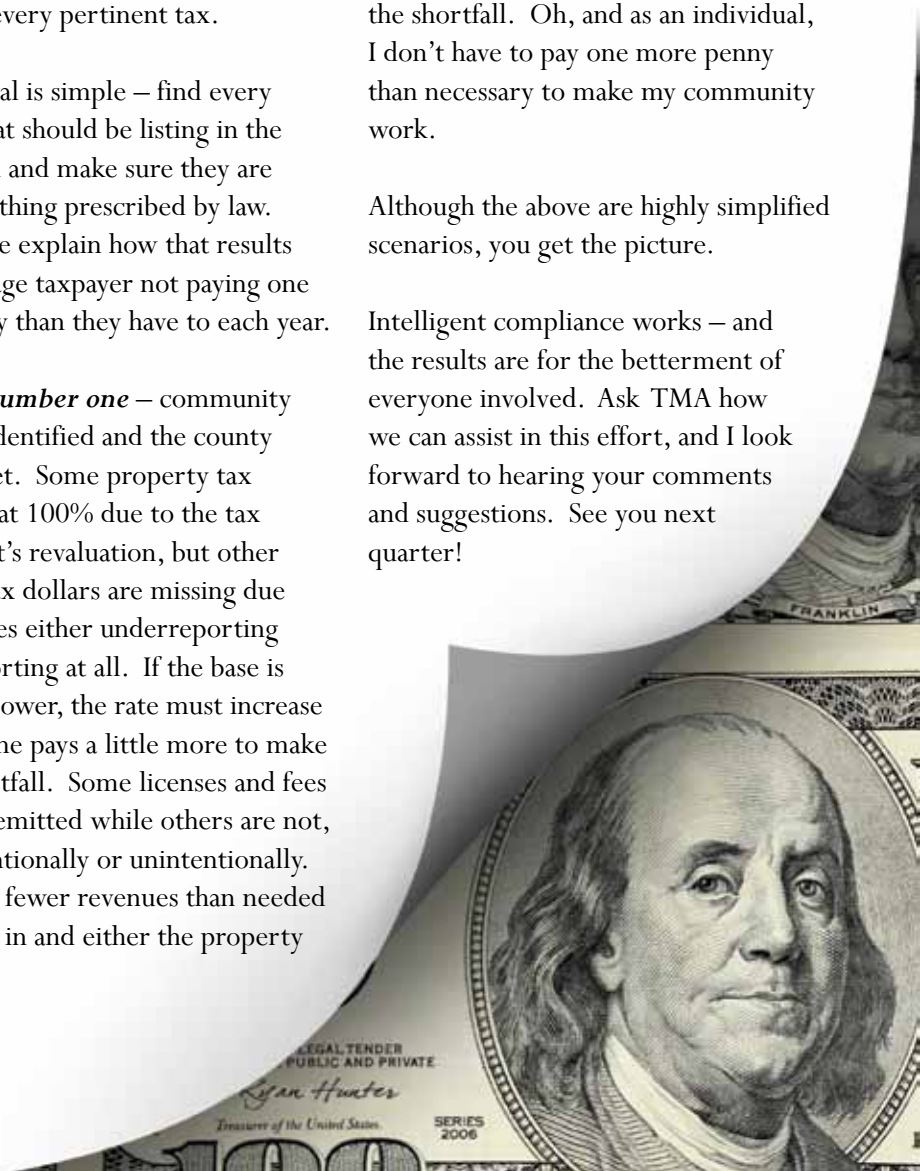
Scenario number one – community needs are identified and the county budget is set. Some property tax dollars are at 100% due to the tax department's revaluation, but other property tax dollars are missing due to businesses either underreporting or not reporting at all. If the base is artificially lower, the rate must increase and everyone pays a little more to make up the shortfall. Some licenses and fees are being remitted while others are not, either intentionally or unintentionally. Either way, fewer revenues than needed are coming in and either the property

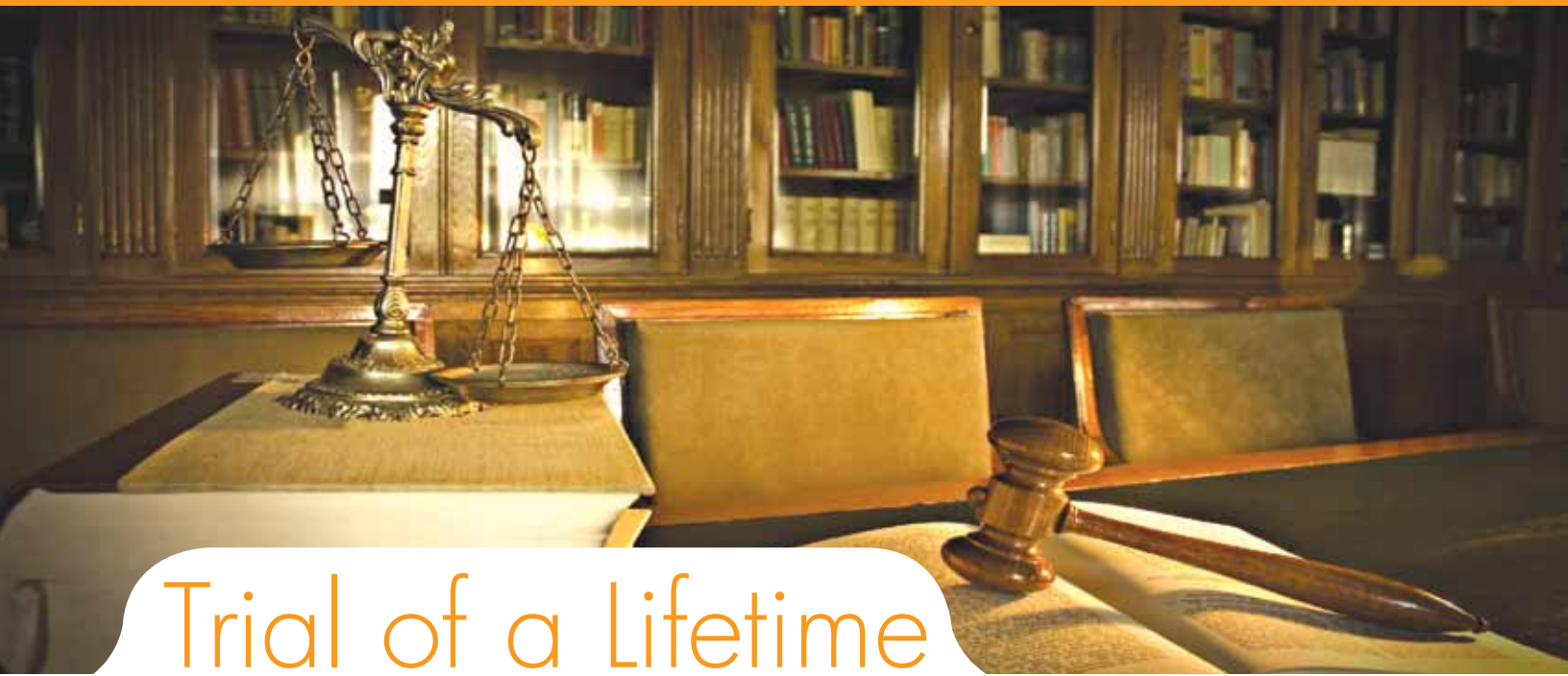
tax rate must be increased again, or services must be cut.

Scenario number two – real property values are at 100% due to the revaluation. Business personal property is being examined every year and all taxpayers have been listed through a comprehensive discovery process. Audits are ongoing in either a random or comprehensive manner. The Finance Department or the Office of the Tax Collector has instituted a discovery and audit program of all of its various licenses and fees. By doing so, the departments have ensured that all revenues are accounted for and there is no need to raise the tax rate or implement yet another tax to make up the shortfall. Oh, and as an individual, I don't have to pay one more penny than necessary to make my community work.

Although the above are highly simplified scenarios, you get the picture.

Intelligent compliance works – and the results are for the betterment of everyone involved. Ask TMA how we can assist in this effort, and I look forward to hearing your comments and suggestions. See you next quarter!





Trial of a Lifetime

Where do you turn when your values are challenged? | by Kirk Boone, PPS

In 2011, one of my first audits and site inspections with TMA became the experience of a lifetime. It offered the opportunity to be a witness in a way that I had never imagined.

Two and half years ago, I wrote an article in The Audit Report cautioning readers not to miss the forest for the trees. It urged readers to beware when an opinion of value uses the right definitions and equations, but the final result doesn't make sense. As a government assessment professional, be wary when asked to make broad percentage reductions in value, without being certain that the components and cost amounts used to calculate assessed value were accurate in the first place: the initial value may have been too low!

A property tax case that TMA has been involved with for the past three years was all about not missing the forest for the trees. It taught me that when we don't have the answers, we have to rely on other sources to get where we need to be. Trusted sources

include: knowledgeable individuals, organizations like IAAO, and companies like TMA. One knowledgeable individual who took on this assignment

"The TMA audit found approximately \$60 million in unreported costs ranging from supplies and spare parts to actual equipment and fixed assets. The taxpayer requested a reduction in value of about \$60 million."

with me was Tom Tucker, PPS and Chief Operations Officer for TMA, and one of the nation's top experts in auditing. Tom led the cost reconciliation portion of the assignment, while I led the

economic obsolescence analysis portion.

This case involved a taxpayer in Arizona: Phoenix Cement. Phoenix Cement is a great asset for the community in which it is located, Clarkdale, Arizona in Yavapai County. Phoenix Cement provides a great amount of tax base for the area. They are, for good reason, a pride of their owners, the Salt River Pima-Maricopa Indian community. In recent years, they have been recognized multiple times for their safety, efficiency, quantity, and quality.

Phoenix Cement asked the county for a \$60 million reduction in value for each of the years 2010 and 2011, primarily due to what they felt was obsolescence not considered in the county's appraisal. The taxpayer had every right to appeal their value and ask for this reduction. However, this case also involved a county that chose to investigate closely before acting. The county reached out to Tax Management Associates, Inc. for advice. Yavapai County, Arizona learned TMA only works for state and

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local government and we have a 34 year history of providing quality by design in the area of property tax consulting and auditing. This was the largest property tax reduction request in the county's history; and if granted, would result in a huge refund that would fall on the backs of other taxpayers in Yavapai County. That is something the County Assessor, Pam Pearsall, did not take lightly. Pam wanted to ensure all taxpayers of Yavapai County were treated fairly.

The taxpayer's argument: Cement production has decreased every year since its peak in 2005. It had decreased to a low point in 2009 and 2010, to about half of the 2005 levels. The demand just wasn't there, classic economic obsolescence, right?

Our responses: Before reducing a value based on the reported amounts shown on the tax listing (rendition form), let's verify the reported amounts are correct through a book audit.

Additionally, prior to calculating economic obsolescence, let's verify it really exists. In other words, don't just look at the calculations, but examine all surrounding facts.

First, the book audit. The reported amounts on the taxpayer's rendition were incorrect. The TMA audit found approximately \$60 million in unreported costs ranging from supplies and spare parts to actual equipment and fixed assets. Remember, the taxpayer requested a reduction in value of about \$60 million. The taxpayer's expert initially proposed a total value of \$57 million. What if the assessor had just accepted \$57 million and not requested assistance from other sources? The taxpayer filed a motion in limine to prevent any discussion in the ensuing trial of the amounts found by TMA. The

taxpayer's attorney referred to these unreported amounts as "noise" being introduced to detract from the true issue of obsolescence. The motion in limine was denied.

Second, the economic obsolescence. The principle of anticipation states that value is the present worth of future benefits, not past benefits. Market activity and economic indicators leading up to the appraisal dates of 2010 and 2011 predicted a recovery in cement manufacturing. Phoenix Cement prepared for this market recovery by installing \$30 million in new equipment leading up to the years in question, even though production was down. They indicated the need for even further expansion by applying for air quality permits allowing them to do so. Finally, we argued that it's not proper to compare all years to the peak year, as the taxpayer's appraisal asked the county to do. Doing so makes normal years of production appear to be bad years. The inutility penalty calculation in the taxpayer's appraisal, in our opinion, was unwarranted.

As a staff member of the North Carolina Property Tax Commission, I was forbidden by the NC Administrative Code to be a witness in a Property Tax Commission trial. However, as a TMA employee, I was asked to not only be the county's expert witness, but their only witness. My first experience as a witness was going to be a big one. A four-day bench trial was held in January 2014. I'm not going to lie, I was apprehensive. There were times that I didn't have the answer, but I relied on other sources of knowledge and strength. Tom Tucker flew to Arizona to provide support during the week of the trial. Our legal team, consisting of Roberta Livesay and Joseph Hourigan, was well-versed and extremely

knowledgeable, adding confidence to the county's case. The whole TMA team was behind Yavapai County. IAAO, ASA, and other texts were reviewed in great depth that week. The source of strength that stands out most for me occurred when the County Assessor, perhaps sensing my anxiety, handwrote a prayer for me. I put it in my pocket only seconds before I stepped on the witness stand. I'll keep it forever and I'm happy to share the words of that prayer with others.

The court agreed that the taxpayer failed to report all taxable property for each of the subject years. The judge accepted everything TMA found in the book audit. The courts further agreed with TMA's expert testimony that there should be no additional economic obsolescence considered in the county's appraisal. There are normal production cycles in the cement industry and all years of production are not expected to be at the same levels as the peak year. Buyers of cement manufacturing equipment are aware of this expectation when investments are made in production equipment. The court also allowed the fullest penalty allowed by law. Rather than a reduction for tax year 2010 from \$117,159,130 to \$57 million, the judge affirmed an increase in value from \$117,159,130 to \$152,525,388. The 2011 year was afforded a similar increase. You can view the minute entry and the final decision when it is available, please visit our website at www.tma1.com.

I am a first-hand witness to encourage others to not miss the forest for the trees. It's a saying that can be applied in both property tax and in life. Remember to reach out to the right resources when you may not have all the answers. Do you know who you can reach out to for help?



TMA Spotlight

TMA Cares about the needs of others through our outreach support. | by Taylor Ennis

“Scott is an exemplary Director of Human Resources. He is self motivated and has an excellent grasp of the importance of human resources to the success of our organization. Scott has a very good manner in communicating with management as well as employees.”
- Brian Loher, Chief Financial Officer

The Charlotte Business Journal recently published details regarding The Employers Association HR Excellence Awards. These nominations exemplify how human resources can impact the strategy and bottom line of an organization. We are proud to announce that TMA’s very own Scott Smith was selected as a finalist.

TMA has been a longstanding member of The Employers Association. The Employers Association (TEA) was founded in 1958 and boasts more than 900 member companies with over 230,000 employees total. TEA is focused on helping local employers build successful workplaces and is the

premier partner for human resource solutions, offering services and support in compliance, training, benefits, and surveys. For more information about TEA, go to www.employersassoc.com.

“I am here to give employees what they need, when they need it. I believe in listening to employees, being responsive and making it easier for them to do their job.”

Scott Smith joined TMA in October of 2012 with 11 years of human resources and payroll experience. He previously held the position of Assistant Human

Resources Director at Bissell Hotels. Scott has served in the United States Air Force and the United States Navy Reserve. He received a US Air Force Achievement Medal and a US Air Force Commendation Medal for his time spent serving out country.

As an active member of the community, Scott serves on the Board of York Preparatory Academy. He has also encouraged TMA community involvement through the creation of TMA Cares, a volunteer program spanning across eight states. This project involves donating time and food to the Second Harvest Food Bank of Metrolina and the Second Harvest Food Bank of Middle Tennessee. Other organizations that are supported through TMA Cares include: The American Red Cross, Big Brothers Big Sisters, and Toys for Tots, just to name a few.

Scott has brought together TMA employees through various volunteer efforts around the nation, and we are

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so grateful for his initiative and the opportunity for TMA to give back.

“Since Scott came on board, he has drafted and implemented our new paid time-off policy including its setup with ADP software. He has made the ADP portal a wonderful source of information. Additionally, he has created a TMA Career Page on our website while streamlining and improving our recruiting process.”

- Jennifer Casali, Corporate Office Manager

By doing away with monthly time sheets, it allows employees to focus their time and energy on work, rather than clerical details. It saves TMA time, money, and the headache of deciphering more than 130 time sheets every month. Scott has also expanded the pool of qualified applicants for TMA by reaching out to additional resources, including Heroes for Hire, a veteran group. Not only has Scott made TMA more accessible for potential applicants, but he’s even assisted with expanding benefits to current employees, including the recently implemented supplemental insurance.

Scott has also created an employee suggestion program, converted many HR forms to an electronic format, modified TMA’s 401(k) plan to

offer employees greater flexibility, and upgraded the payroll system. Additionally, he has organized company-wide facilitated training on various topics including: wellness, leadership skills, and financial planning. This training has involved experts of their fields to discuss various topics. In order to offer these sessions to everyone, Scott not only invites



employees to attend in person, but also via webinar so employees can participate from any location. Scott takes the time to customize programs for our company while going the extra mile to tailor information for each employee. For example, he has created benefit and compensation statements for each employee for their

convenience and records.

Since his time at TMA, Scott has studied and obtained his Senior Professional in Human Resources (SPHR) Certification. According to the HR Certification Institute, “The Senior Professional in Human Resources (SPHR®) certification is recognized as a credential for those who have mastered the strategic and policy-making aspects of HR management in the United States. It is designed for the HR professional who plans, rather than implements, HR policy, focuses on the “big picture,” has ultimate accountability in the HR department, has breadth and depth of knowledge in all HR disciplines and understands the business beyond the HR function and influences the overall organization.”

Scott said, “I am here to give employees what they need, when they need it. I believe in listening to employees, being responsive and making it easier for them to do their job.”

As an employee, I am grateful for Scott’s expertise, initiative, and outgoing personality. When I have questions or need clarification, Scott is always available to assist me. On behalf of everyone at TMA, thank you Scott, for all that you do! You truly are an asset to our team and we are so happy to have you here. Keep up the great work!



Since 1979, Tax Management Associates, Inc. has performed revenue enhancement services for over five-hundred (500) state and local government clients in twenty (20) states including statewide programs for both the Kentucky Revenue Cabinet and the Michigan Department of Treasury.

Over 140 employees and 34 years of experience, TMA is the nation's number one source for excellence in property tax assistance. To date, TMA professional auditors have performed over 170,000 audits for our clients. In addition, TMA has discovered over \$40 billion in unreported or under-reported value.

This translates to over \$1 billion dollars raised for our clients. What's more is that these audits have been completed in a timely manner all while retaining an overall appeal rate of less than one half of one percent. Call now to find out what services would benefit your jurisdiction at 1-800-951-5350.

QUALITY

BY

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