

Property Taxes: What “They” Don’t Want You to Know by Fast Forward Property Management

Do you ever wonder if you may be paying too much in property taxes? This is a significant expense that building owners face each year. An owner of a small single family home in California can end up paying several thousand dollars each year for their primary residence alone. For owners of large buildings with multiple units, the taxes can be astronomical. Did you know that you might be able to significantly reduce the amount of these taxes by appealing the value of your property? Real estate prices have plummeted in this economy and now is the time to file an appeal.

We appeal all of our properties taxes annually and have saved \$67,658 this year between just three of our properties and there are still many more pending that will likely result in even larger savings. We regularly see property taxes reduced 10% to 40%. County Tax Assessors regularly negotiate with property owners even though many of them do not want to publicize this because it lowers their revenue and increases their workload. There are several ways property values can be determined and the county tax assessor’s office is not infallible. There are independent Boards of Appeals that regularly settle cases where property owners disagree with the county assessor’s property valuation. Many of these hearings result in saving property owners many thousands of dollars.

Essentials of Property Tax Legislation

In California, land was traditionally taxed at a percentage of its’ current market value. When property values would rise, the amount of property taxes an owner paid would increase. With a market on the rise and taxes ever increasing, it put an unbearable financial hardship on people with fixed incomes so that many senior citizens risked losing their primary residences where they raised their families and had owned for years. In response to these hardships, Proposition 13 was passed in 1978 which set assessments back to earlier valuations and limited annual increases to 2%. Now property taxes are based on the purchase price of a property and the value of subsequent improvements. Values are reassessed when ownership changes or when new construction takes place. Proposition 8 soon followed which allowed owners to file an appeal when property values decline.

How Property Values are Determined

Title records are kept by the county recorder’s office. Tax Assessors are county officials who determine the value of land and structures and collect an annual percentage of the property value. There are three different ways that property is traditionally appraised:

- **The Sales Comparison Approach:** The property is compared to similar properties and the value is determined by the sales price of similar properties that have recently sold at fair market value. (This often excludes sales not on the open market such as sales between family members).
- **The Replacement Cost:** This factors the cost to replace a structure less depreciation and takes into account the value of the land.
- **The Income Approach:** The income that a property generates determines the value of a property where capitalization rates and gross rent multiplier are considered.

Different approaches are used depending on the type of property being appraised and often, a combination of the above criteria is used. Although certain guidelines are followed in the industry, a certain amount of individual judgment and subjectivity are a factor to be considered and sometimes challenged.

How to File an Appeal

If you do not agree with the assessed value of your property you are entitled to file an appeal. The local appeals boards are independent agencies that are not a part of the Assessor's office in order to remain neutral, although they do usually work for the county. Their role is to settle disputes between the assessor's office and property owners. In many counties, the County Board of Supervisors fills this capacity. Whether you believe the Assessor's office has made a mistake, or you simply disagree with their assessment it is important to talk to your county assessor before filing an appeal. If an error is discovered, it can quickly be corrected without filing an appeal and going through the long appeals process. Cases going to the appeals board can take up to 24 months to conclude.

To begin the process, contact the clerk of the Appeals Board to obtain the needed application for a changed assessment from the county where your property is located.

Property tax revenues collected by the county are used to fund police, firehouses, parks, hospitals, road maintenance, social service programs, libraries, schools, and more. If these taxes do not get paid, the county can place a lien on your property and eventually initiate a foreclosure to collect all the back taxes owed. Make sure to pay your taxes while your appeal is pending. If your appeal is successful, you will get a refund when your case concludes.

Preparing for Your Appeal Hearing

Hearings are open to the public and it is a good idea to observe other hearings so you become familiar with the process. Gather facts to present because your opinion will not be seriously considered without data to back up your assumptions. The value must be considered as of January 1st for the year you are appealing. Bring all evidence with you to your hearing even if you already have submitted it to the assessor's office. Evidence given to the assessor's office may not be given to the Appeals Board unless you give it to the board directly. The only evidence reviewed is what is brought by the owner and the Assessor to the hearing.

It is a good idea to submit a request for an exchange of information with the Assessor's office or the Board of Appeals at least 30 days before your hearing. The Assessor's office is required to respond to your request at least 15 days before your hearing with their valuation of your property and the evidence that supports their valuation. Remember when you are facing the Board to stay with the facts and to make sure you have reviewed them and understand the numbers you are working with regarding your property. If you do not completely understand the appeals process and feel comfortable discussing it publicly you might consider enlisting the help of someone who is specialized and experienced in appealing property taxes. If you have an expert who has helped you, make sure to bring them with you since depositions are not admissible for these hearings. You can also fill out paperwork to send an authorized person to represent you if you do not wish to speak or even be present.

When the hearing concludes, it is important to obtain a "Finding of Facts" after the Board of Appeals meeting. Hopefully, you will have saved significant money at this point. If you still do not agree with the decision you can appeal a decision you do not agree with in Superior Court.

For more information, The California Board of Equalization has a 16 page guide called *Residential Property Assessment Appeals* that can be downloaded at <http://www.boe.ca.gov/proptaxes/pdf/pub30.pdf>. Filing appeals can take many months before you see results, but our experience is that the minimal effort involved in doing so can be regarded with significant savings.

This article was written by Fast Forward Property Management. With over 40 years of experience, Fast Forward Property Management specializes in managing apartment buildings, HOA, and commercial properties and offers clients a free analysis of their property's cash flow. Fast Forward Property Management can be contacted at 620 E. Washington St., Suite 100, Petaluma, CA 94952, (707) 766-8100, www.FastForwardPM.com or email contact@fastforwardPM.com.