



THE FIXED ASSET CONNECTION



YOUR INFORMATION CHANNEL FOR ASSET MANAGEMENT AND PERSONAL PROPERTY TAX MANAGEMENT

A Newsletter For Leaders of Industrial Organizations With Large Investments in Fixed Assets

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Personal Property Tax

Question: Is your organization maximizing tax savings?

The Tax Mitigation Question

The answer to the above question is not easy to determine. Many organizations have tax departments or staffs while others use accounting firms or tax practitioners to mitigate the complexities of Personal Property Tax (PPT) review and compliance. Additionally, automated tax preparation systems have been very helpful at efficiently and effectively managing tax submissions. However, most corporate systems miss a critical component to maximize success. In short, the quality of the supporting data is not available or sufficiently detailed. So, how can you be certain that the maximum tax savings are achieved?

Data Visibility

Most organizations have automated financial systems to capture transactions, post ledger entries, and properly account for Fixed Assets. However, it is the data detail *not captured* that leads to unnecessarily higher PPT liabilities. An example will clarify this data visibility issue.

A Michigan-based manufacturer acquires a machine press and enters the transaction in the Fixed Asset ledger with a \$4,000,000 acquisition cost. This transaction can be seen in Exhibit #1 below. Given the tax rules in Michigan the estimated PPT in 2004 is approximately \$89,000.

Exhibit #1

<u>Line Items</u>	<u>Investment</u>	<u>PPT Class</u>	<u>Millage</u>	<u>Est. PPT 2004</u>
Press	\$ 4,000,000	ME	5.00	\$ 89,000

However, after careful examination the following is uncovered about the make up of this asset. The \$4,000,000 investment is comprised of eleven (11) major component costs. A breakdown for this example can be seen in Exhibit #2 below.

savings over the taxable life of an asset can be huge.

In our single press example, when the savings are calculated over the following ten years the savings accumulate to \$47,908.

Exhibit #2				
<u>Line Items</u>	<u>Investment</u>	<u>PPT Class</u>	<u>Millage</u>	<u>Est. PPT 2004</u>
Press	\$ 2,950,000	ME	5.00	\$ 65,638
Training Expense	\$ 15,000	Exempt	5.00	\$ -
Demolition	\$ 50,000	Exempt	5.00	\$ -
Press Pit	\$ 250,000	ME	5.00	\$ 5,563
Safety Railings	\$ 50,000	ME	5.00	\$ 1,113
Hydraulic Mule	\$ 100,000	ME	5.00	\$ 2,225
Furniture	\$ 25,000	FF	5.00	\$ 569
Computer Hardware	\$ 150,000	CE	5.00	\$ 2,250
Software	\$ 190,000	Exempt	5.00	\$ -
Conveyor	\$ 80,000	ME	5.00	\$ 1,780
Crane	\$ 140,000	ME	5.00	\$ 3,115
Total	<u>\$ 4,000,000</u>			<u>\$ 82,251</u>

It is apparent that after the detail is properly recognized these costs can be classified for optimal tax savings. As can be seen, \$255,000 of the investment is actually exempt from tax, while \$175,000 of the investment is reclassified as Furniture & Fixtures (FF) and Computer Equipment (CE). In the latter case, although a PPT is required, the rate is different because these items are in an accelerated depreciation category. The difference in tax liability is \$6,749 (7.58%). Admittedly, this is not a significant savings, but it should be recognized that this example applies to a single investment or transaction for one year.

When this analysis is performed across an enterprise or facility the annual tax savings become significant. Furthermore, these

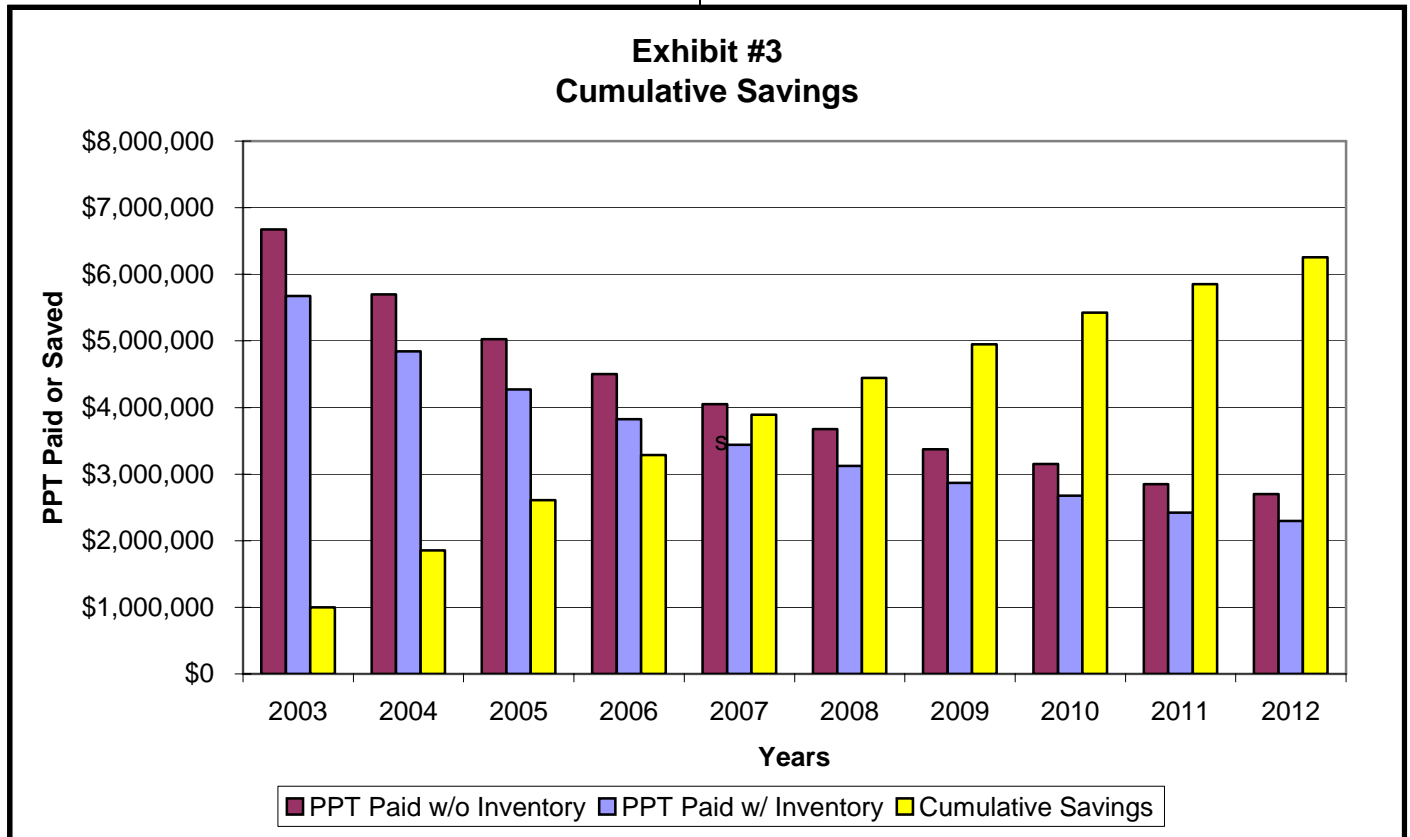
This calculates to an aggregate savings of 8.62% over the ten-year period.

Consider a more dramatic example. Assume a facility that has \$300,000,000 in Fixed Asset Gross Book Value (GBV). Applying the same percentage breakdown of PPT classifications, the first year of savings yields \$506,175. Over a ten-year period, taking into account the appropriate depreciation schedules, the accumulated tax savings computes to \$3,593,100. This value assumes the same percentage of aggregated savings of 8.62%.

The example originally used was purposefully conservative. In a more realistic example, the tax savings gained from proper PPT classifications is nearer an aggregated savings of 15.0% over a ten-year period.

Exhibit #3 demonstrates the potential savings that can be achieved with improved PPT classification of Fixed Assets.

comprehensive Fixed Asset Inventory and Reconciliation (FAIR) process, organizations can accomplish the reclassification and cost segregation advantages from existing fixed



In the bar chart above, the first bar represents the PPT paid if no detail analysis and reclassification is performed, the second bar the PPT paid upon a reclassification being performed, and the third bar the accumulated savings achieved over ten years. These totals are based on an aggregated savings of 15.0% approaching \$6,255,000. Dramatic savings can be achieved with improved data quality.

How These Results can be Achieved

In the example improved data quality helped achieve these projected results. More importantly, these tax mitigation improvements can be achieved regardless of when an asset was put into service. Through a

assets. The savings achieved directly impact the bottom line based on factual and validated cost data (not subjective valuation data).

About Asset Management Resources

Since 1989, AMR has inventoried millions of fixed assets with GBV in excess of \$150 billion dollars. Our expertise encompasses the project management and technological competencies to collect information within a corporate operating environment with limited disruption and maximum efficiency. The process incorporates a variety of quality control mechanisms to ensure completeness, accuracy, and uniformity of data. Additionally,

many companies can enjoy personal property tax relief with confidence.

AMR's core competencies include:

- Wall-to-Wall Fixed Asset Inventory & Reconciliation (FAIR)
 - Barcode Tagging and Inventory ensures easy identification and tracking of all assets.
 - Floor-to-Book; Book-to-Floor Reconciliation – Your physical inventory exactly matches your financial reporting requirements.
 - Extensive Audit Trail facilitates Sarbanes-Oxley compliance for accurate financial reporting and tax mitigation.
 - Superior Expertise in Large and Complex Environments – Our professional inventory team has expertise in a wide variety of machinery, equipment, and computer hardware to ensure assets are accurately categorized for maximum tax benefits.
- Personal Property Tax Management Consulting (PPT)
 - Classification Analysis supports reduced tax liability.
 - Cost Segregation maximizes exempt allowances.
 - Pollution Control Review can achieve greater tax abatements.

If you are interested in the White Paper that details the example in this Newsletter, please contact Michael Day.

Michael Day, Vice President at
Mday@amrnow.com
(877) 401-4639



Please ask us about Barcoding Assets

