CASE STUDY

DISSECTING HISTORICAL AND ONGOING CAPITAL INVESTMENT TO IMPROVE PERSONAL PROPERTY TAX REPORTING

Review of historical asset capitalization reporting improves personal property tax liability for a Global Fortune 500 manufacturer

Background

A top Global Fortune 500 manufacturer had recently constructed a state-of-the-art, manufacturing operation and had secured significant property tax incentives ahead of its initial construction. The company had an eye on its future tax obligations because, as with most local incentive agreements, the tax incentive moratorium would gradually lower and the property tax amounts would eventually phase-in to their full amounts which, at the time of construction, was anticipated to be in the $$$ millions. Initial project capitalization was less than ideal as insufficient asset details were established to be able to track future disposals of shorter life assets and to provide a supportable basis for property tax return classification adjustments.

Providing the Solution

After performing an initial study of the company's historical fixed asset records, including a third-party cost segregation report, JM Tax Advocates (JMTA) developed a plan to unbundle exempt or lower tax treatment asset costs (i.e., pollution control equipment, software, etc.) that were lumped together in the company's original capitalization amounts. JMTA then collaborated with company leaders in tax, engineering, and plant accounting to surgically dissect costs from invoices and purchase requisition documents as support for revised asset capitalization details.

Based upon JMTA's experience that was built during the company asset study, JMTA also developed a customized training program as a road map towards property tax book reporting best practices and guidance for future vendor purchase order requisitions, invoice itemization, and asset capitalization. JMTA provided this annual training as an interactive tool for maintaining ongoing knowledge and buy-in with company professionals who were responsible for vendor purchases and local fixed asset capitalization. In summary, the company was then able to achieve a more ideal state by:

1. Fixing original asset capitalization through enhanced asset details for lower property tax reporting, and
2. Improving purchase accounting practices through better internal purchase requisitions and invoice details that allowed the company to capitalize exempt or lower tax asset costs as segregated, stand-alone depreciable assets.

These key steps improved the company's fixed asset book-keeping and saved them a bundle in the process.

Secured Results

Because the company fully embraced and implemented JMTA's recommendations, their local operation realized an economic benefit of **$2.5 million** along with an ongoing, annual savings of **$250,000**.

Suffice to say that the company's fixed asset surgery was a resounding success!

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