



*Coronado Bridge, San Diego*

---

# Property Taxes

---

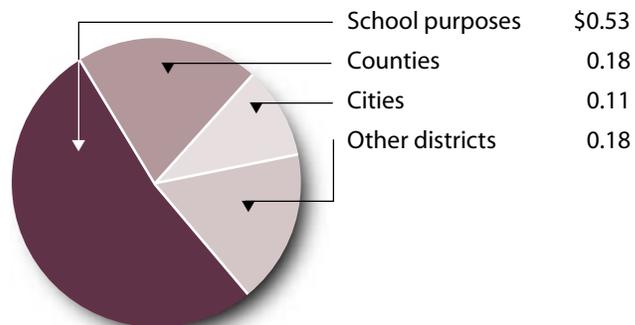
## Revenues

California property tax levies for fiscal year 2003-04 totaled \$31.81 billion, an increase of 8.4 percent from the previous year's total of \$29.35 billion. County-assessed property values increased \$239 billion during 2003-04 to reach \$3.13 trillion for the 2004-05 tax year.

In May 2004, the Board set the values of state-assessed properties, primarily privately owned public utilities and railroads, at \$65.6 billion for the 2004-05 roll. This was a \$3.65 billion decrease from 2003-04 values. State-assessed properties will produce an estimated \$722 million in local property tax revenues for the state's 58 counties in 2004-05.

For detailed property tax information, please see the [Appendix, pages A-4 through A-22](#).

### 2003-04 General Property Tax Dollar



---

## Programs

Under its Constitutional mandate, the Board of Equalization oversees the assessment practices of the state's 58 county assessors, who are charged with establishing values for approximately 12 million properties each year. In addition, the Board assesses the property of regulated railroads and specified public utilities, and assesses and collects the private railroad car tax and timber yield tax.

### General Property Taxes

The increase in the value of county-assessed property for the 2004-05 roll, 8.3 percent, was one percent higher than the previous year's increase. Property values continued to rise despite declines in nonresidential construction due to record high home sales, sharply increased home prices, and gains in new residential construction. Over the decade of the 1990s, county-assessed property values increased an average of 4.7 percent per year, ranging from a low of 0.7 percent to a high of 11.9 percent.

Proposition 13, passed by California voters in 1978, imposed a property tax rate of one percent of the property's full cash value, with limited exceptions. In addition, it allows reappraisal of real property at current fair market value only when there is a change in ownership or upon completion of new construction. Otherwise, Proposition 13 limits annual increases in the value of real property to the previous year's California Consumer Price Index for all items, up to a maximum of two percent.

### State-Assessed Properties

In accordance with article XIII, section 19 of the California Constitution, the Board of Equalization assesses certain public utility and other specified properties and allocates the assessed values among the counties where the properties are physically located. Each county taxes the allocated value of state-assessed properties at the same rate as locally assessed properties.

State-assessed properties include

- Pipelines, flumes, canals, ditches, and aqueducts lying within two or more counties.
- Property (except franchises) owned or used by regulated railway, telegraph, or telephone companies; railroad car companies operating on railways in the state; and companies transmitting or selling gas or electricity.

### Private Railroad Car Tax

Private railcar owners pay the private railroad car tax on railcars operated in California. For 2004-05, the Board billed 242 car companies for taxes totaling \$6.55 million.

In its 2004-05 valuation of railroad cars, the Board applied a 72.69 percent assessment ratio as required by the Federal Railroad Revitalization and Regulatory Reform Act. Revenues from the private railroad car tax, deposited in the state’s General Fund, totaled \$6.64 million in fiscal year 2003-04.

Additional information on the private railroad car tax can be found in the Appendix on pages [A-21](#) and [A-22](#) and in the [foldout chart](#) inside the back cover of this report.

### Timber Yield Tax

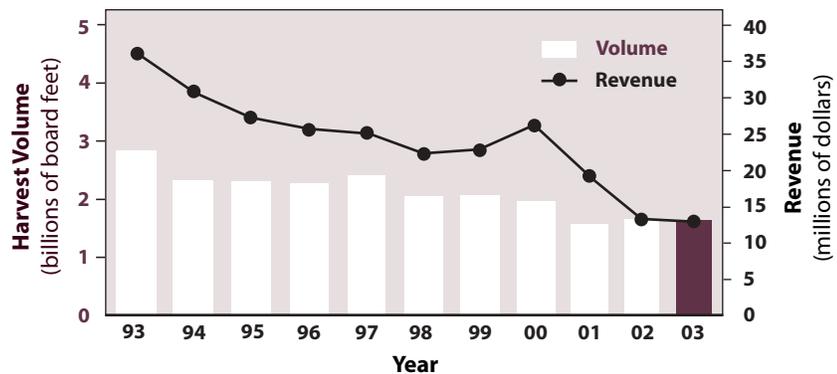
Timber owners pay the 2.9 percent timber yield tax based on the immediate harvest value of trees harvested for wood products. Revenues are returned to the counties where the timber was harvested. Calendar year 2003 revenues totaled \$13.19 million.

Timber harvest volume decreased slightly in 2003, to 1.66 billion board feet. The total value of the year’s harvest also decreased slightly, to \$447.7 million. The number of registered timber owners continued to decline. As of June 30, 2004, there were 2,015 active program registrants, compared with 2,128 timber owners registered at the end of June 2003. Thirty timber owners paid approximately 85 percent of the tax collected in 2003.

Additional information on the timber yield tax can be found in the Appendix on page [A-20](#) and in the [foldout chart](#) inside the back cover of this report.

### Timber Yield Tax

Annual Revenue and Harvest Volume



---

## Operations

### Assessment Policy and Standards Division

The Assessment Policy and Standards Division develops property tax assessment policies and informational materials to guide county assessors and assessment appeals boards. The division provides technical expertise and guidance to assessors, the Legislature, and others concerned with property tax assessment matters, and ensures that the content of property tax forms is uniform throughout the state. Division staff also maintain all property tax rate area maps in California.

In 2003-04, Assessment Policy and Standards Division staff provided the following services to local governments and the public:

- Updated four sections of the Assessors' Handbook to reflect current, annually collected data: *Residential Building Costs* (AH 531), *Rural Building Costs* (AH 534), and *Equipment Index and Percent Good Factors* (AH 581).
- Revised various sections of the *Assessors' Handbook* to reflect statutory and regulatory changes, including *Assessment of Agricultural and Open-Space Properties* (AH 521) and *Assessment of General Aircraft* (AH 577).
- Issued 89 advisory *Letters to Assessors*.
- Responded by telephone to more than 3,400 outside inquiries regarding property tax matters, prepared 46 written responses, and responded to 258 inquiries from users of the Board's website.
- Reviewed 5.43 million homeowners' exemption claims, revealing nearly 24,700 duplicate claims and saving \$1.85 million in state tax subvention payments to counties.
- Reviewed more than 13,100 welfare exemption claims involving more than 27,000 properties.
- Reviewed over 305 claims for organizational clearance certificates and 169 claims for supplemental clearance certificates as part of the new administration of the welfare exemption, which began January 1, 2004.
- Conducted 56 formal appraisal courses and workshops attended by more than 1,490 students.
- Sent more than 12,475 questionnaires to legal entities, including corporations and partnerships, resulting in the reassessment of 1,942 parcels owned by 228 legal entities.
- Continued to maintain maps of more than 10,000 revenue district boundaries that encompass 57,847 tax rate areas, helping to ensure the proper allocation of local tax revenue to counties, cities, and special tax districts.

### Valuation Division

The Valuation Division provides the elected Board Members with value indicators for state-assessed properties, described on page 16, and allocates the Board-determined value of those properties to the counties where the properties are located. The division also audits the financial records of utility and transportation companies for property tax purposes and has responsibility for the valuation of private railroad cars located in California. Since 1977, Valuation Division audits have resulted in adjusted property tax assessments of more than \$12.33 billion, yielding additional property tax revenue for local governments.

### County Property Tax Division

The County Property Tax Division conducts periodic Assessment Practices Surveys of each county assessor's office and issues reports to state and local officials. The division also performs supplemental surveys of larger counties to determine whether the assessors have complied with recommendations made in the survey reports.

In 2003-04, the Board issued survey reports for the counties of Alameda, Fresno, Humboldt, Mariposa, Merced, Modoc, Orange, Riverside, San Mateo, Santa Barbara, Santa Clara, Sutter, Tuolumne, Yuba, and Yolo. Copies of the reports are found in the "Property Taxes" section of the Board's website: [www.boe.ca.gov](http://www.boe.ca.gov).

The division also collects and administers the state's timber yield tax, described on page 17. Timber Tax Section staff gather data on timber harvest sales and develop timber harvest value schedules for consideration by the Board's Timber Advisory Committee and approval by the Board Members. They also register timber owners who harvest timber, and collect the timber yield tax.

---

## Appeals

Local assessment appeals boards hear and decide appeals of county-assessed property values. The elected Members of the Board hear and decide appeals of state-assessed property values, appeals filed under the Timber Yield Tax and Private Railroad Car Tax Laws, appeals of welfare exemption denials, and appeals made by local governments concerning assessments of properties they own outside their boundaries. For information regarding appeals filed with the Board in 2003-04, see "Appeals," on [page 47](#).

---

## Court Decisions

### Proposition 8 Values and Proposition 13

The two percent per year limitation on annual value increases established by Article XIII A, section 2 of the California Constitution does not apply to annual assessment increases on property that has been assessed at a current fair market value lower than its base year value (“Proposition 8 properties”). That limitation applies only when a property is assessed at its base year value. Therefore, once property has been assessed at a lower current fair market value, annual assessments of the property may reflect actual increases in the fair market value until that value returns to the factored base year value.

*County of Orange v. Bezaire* (2004) 117 Cal.App.4th 121

### Exempt Business Inventory

The business inventory exemption from property tax provided by Property Tax Rule 133 and Revenue and Taxation Code sections 129 and 219 does not apply to spare parts maintained by a taxpayer to replace and repair components of equipment sold under a warranty and service contract. The parts are not held for sale or lease in the ordinary course of business.

*Amdahl Corp v. County of Santa Clara* (2004) 116 Cal.App.4th 604

---

## Legislation

### Disabled Veterans’ Exemption

Provides that a disabled veteran’s home would continue to receive the disabled veterans’ exemption from property tax when the veteran is confined to a care facility or hospital, provided the residence is not rented or leased to a third party.

*Assembly Bill 322, Chapter 278, Statutes of 2003; effective September 4, 2003*

### Property Tax Omnibus Bill— California Assessors’ Association

This bill contains California Assessors’ Association sponsored provisions:

#### **Exemption Filing—New Acquisitions**

For specified exemptions, changes the exemption claim filing deadline for an eligible property owner who has purchased new property. The previous deadline was January 1 following the acquisition. Now the new owner must file within 90 days of the acquisition, or for property acquired in November or December, by February 15 of the following calendar year—whichever occurs earlier.

#### **New Construction Information**

Related to information about new construction from owner-builders and owner-developers who sold or built property for a third party:

- Clarifies that the owner-builder or owner-developer must provide the assessor with information related to the new construction.

- Requires the owner-builder or owner-developer to provide, upon written request, information including the total consideration paid by the third party for the property, including consideration for upgrades, additions, or any other work.

**Business Property Statement—Conditional Sales Contract**

Requires lessees of business property under a conditional sales contract to list the leased items on their personal property statements.

*Assembly Bill 1744, Chapter 316, Statutes of 2003; effective January 1, 2004*

**State Responsibility  
Area Fire Protection  
Benefit Fee**

Creates a benefit assessment fee for fire prevention and suppression in areas where the state is responsible for fire protection, to be collected in the same manner and at the same time as secured property taxes. Grants the Department of Forestry and Fire Protection access to county assessment records for fee administration purposes.

*Senate Bill 1049, Chapter 741, Statutes of 2003; effective January 1, 2004*

**Property Tax  
Omnibus Bill—  
California Assessors'  
Association**

This bill contains California Assessors' Association sponsored provisions:

**Business Property Statement—Bulk Sales**

For business property statements accompanying a notice of bulk sale, changes the filing deadline to be consistent with the lien date and business property statement filing deadline.

**Tentative Maps**

Authorizes a board of supervisors to require local agencies that approve tentative maps to provide a copy of the map to the assessor.

**Historical Aircraft Exemption**

- **Late Filing.** Allows an 80 percent exemption for claims filed after the filing deadline of February 15 but before August 1.
- **Certificates of Attendance.** Requires taxpayers claiming the exemption to provide certificates of attendance indicating public display of the aircraft for at least 12 days annually.

**Nonprofit Cemetery Exemption**

- **Postcard Return.** Allows simplified annual filing by the return of a postcard.
- **Pioneer Cemeteries.** Eliminates the need to file a claim to receive the cemetery exemption for certain pioneer cemeteries in the unincorporated area of a county when the assessor is unable to identify a legal cemetery authority to file the claim. Also allows the cancellation of any taxes, penalties, or interest on those cemeteries.

**Notice of Proposed Escape Assessment—Contact Information**

Deletes the requirement that a notice of proposed escape assessment list the name of a specific employee who knows about the escape assessment.

**Board-Sponsored  
Property Tax  
Omnibus Bill**

**Escape Assessment—Notation on Roll Escape**

Provides that escapes noted on the assessment roll may be made on either the paper copy of the roll or the electronic copy.

**Assessment Appeals Boards—Assessment Cancellation**

Modifies language referencing the cancellation of assessments by the county board of equalization.

*Senate Bill 1059, Chapter 604, Statutes of 2003; effective January 1, 2004*

This bill contains Board of Equalization sponsored provisions:

**Open Space Contracts—Cancellation Values**

Requires assessors to notify property owners who cancel an open space contract of the cancellation value and of the right to appeal that value within 60 days, clarifies the start of the appeals period, and corrects cross-reference errors.

**Remediated Contaminated Property**

Separates the base year value transfer provisions and new construction exclusions for contaminated property that has been remediated.

**Supplemental and Escape Assessments**

- Allows supplemental and escape assessment notices to be Board-approved rather than Board-prescribed.
- Makes technical modifications to language related to statutes of limitations for supplemental and escape assessments.

**Pending Supplemental Assessment Roll Notation**

Eliminates the requirement to note a pending supplemental assessment on the roll being prepared.

**Disaster Relief—Property Tax Deferral**

Provides that to be eligible for a disaster-relief deferral of property tax, the property must incur at least \$10,000 in damage, an increase from the previous level of \$5,000.



*Hiouchi Bridge, Smith River*

**Welfare Exemption Administration Streamlining**

Streamlines the joint administration of the welfare exemption by eliminating duplication of effort.

**Open-Space and Timberland Preserve Zone Contracts**

For certain open-space and timberland preserve zone contracts, repeals an obsolete provision of law related to the lien date change from March 1 to January 1 for the 1997-98 fiscal year.

**Open-Space Land and Restricted Historical Property— Interest Rate**

Changes the date the Board must publish interest-rate components used to value enforceably restricted open-space land and historical property and deletes obsolete language.

**Unsecured Roll—Tax Rate**

Repeals obsolete sections 5098 and 5098.5 of the Revenue and Taxation Code.

*Senate Bill 1062, Chapter 471, Statutes of 2003; effective January 1, 2004*

## Regulations

### Change in Ownership Exclusion for Joint Tenancy Interest Transfers

Rule 462.040, *Change in Ownership—Joint Tenancies*, was amended to clarify existing statutory provisions governing creation of “original transferor” status. The amendment provides that co-owners may become “original transferors” by transferring to themselves in joint tenancy without requiring a third person among the transferees, or by transferring to a trust for the benefit of the other joint tenant. Under the amendments, the assessor may presume, based on specific evidence, that every joint tenant is an “original transferor” and may apply the step transaction doctrine to transfers made to avoid a change in ownership rather than for estate planning purposes. The proposed amendments also specify that the “original transferor” status ends when the joint tenancy is terminated and provides an illustrative example.

*Title 18, California Code of Regulations, section 462.040; effective November 12, 2003*

### Change in Ownership Exclusion for Domestic Partners

Rule 462.240, *The Following Transfers Do Not Constitute a Change in Ownership*, was amended to exclude from the definition of “change in ownership” an intestate transfer of separate property from a deceased registered domestic partner to the surviving domestic partner. The exclusion implements recently amended Probate Code provisions providing that property passes from a deceased domestic partner to a surviving domestic partner in the same manner as a transfer from a deceased spouse to a surviving spouse.

*Title 18, California Code of Regulations, section 462.240; effective November 12, 2003*