STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE ENROLLED BILL ANALYSIS

Date Amended:	**Chapter 185**	Bill No:	**SB 1493**
Tax:	**Property**	Author:	**Committee on Revenue and Taxation**
Related Bills:			

BILL SUMMARY

This California Assessors' Association (CAA) sponsored property tax omnibus bill would:

- Allow the assessor to notify a taxpayer of an assessment value change because of a change in ownership or new construction (i.e., supplemental assessment value notice) via electronic mail rather than the US mail if the taxpayer so requests. *Revenue and Taxation Code §75.31*
- Clarify that property eligible for exemption under a low value exemption ordinance threshold must continue to fall under that threshold with inflation adjustments. *§155.20*
- Allow the assessor to dispose of certain documents obtained from a property owner once the documents are imaged, as specified, rather than storing the documents for three years before they can be disposed. *§465*
- Allow the assessor to provide annual value notices via e-mail upon written request by the taxpayer. *§619*
- Allow the assessor to use the office's internet Web site to post annual value notice information required by Section 619 that it would otherwise be required to publish in a paid newspaper advertisement. *§621*

ANALYSIS

Supplemental Assessment Notices
Revenue and Taxation Code Section 75.31

CURRENT LAW

When a new base year value has been established for a change in ownership or completion of new construction, Revenue and Taxation Code Section 75.31 requires the assessor to send a notice of the new base year value to the assessee called a "notice of supplemental assessment" via regular US mail. The notice from the county assessor precedes the actual property tax bill (or property tax refund) issued for the supplemental assessment by the county tax collector.

Section 75.32 provides that failure to receive the notice required by Section 75.31 does not affect the validity of the assessment.

PROPOSED LAW

This bill amends Section 75.31 to allow the assessor to provide the required notice of supplemental assessment to the assessee by electronic mail (e-mail) in lieu of regular United States mail, if the assessee makes a written request that it desires to receive these notices via e-mail rather than regular mail.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

COMMENTS

1. **Purpose.** To allow taxpayers to receive these supplemental assessment notices by e-mail upon request. The sponsor notes that providing an electronic alternative reduces administrative cost as well as the environmental impact of paper notices.
2. **Notification by e-mail requires both taxpayers and assessors to opt in.** Supplemental assessment notices via e-mail would only be used if both the taxpayer and the particular county assessor wish to receive and send the notices in this manner.
3. **Requires Written Request.** Taxpayers wanting these notices by e-mail would have to make a written request.

Low-Value Property Exemption
Revenue and Taxation Code Section 155.20

CURRENT LAW

Base Year Values and Annual Inflation Factor. The "base year value" of real property is the Proposition 13 protected value of a property. Under existing law once the base year value of real property is established, it must be adjusted in subsequent years by an inflation factor, not to exceed more than two percent per year.

Specifically, Revenue and Taxation Code Section 110.1 provides that the "full cash value" of real property means its fair market value as of the date on which a purchase or change in ownership occurs. Subdivision (b) of Section 110.1 provides that this value is to be known as the "base year value" while subdivision (f) of Section 110.1 requires that the base year value be annually adjusted by an inflation factor, as specified in subdivision (a) of Section 51.

Low Value Property Exemption. Section 155.20 authorizes a county board of supervisors to exempt from property tax all real property with a "base year value (as determined pursuant to Chapter 1 (commencing with Section 50) of Part 0.5… so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them."

This exemption is usually referred to as the "low value ordinance" exemption. The purpose of the exemption is efficiency in the administration of the property tax. If the taxes generated from the property are less than the costs of assessing and collecting those same taxes, then the taxation of that property is not cost effective and should be exempt. Details of the exemption are as follows:

Value Threshold. Existing law caps the value of property that can be exempted from tax under a low value ordinance. For real property, the threshold is property with a total base value year of $10,000 or less. For personal property, the threshold is also $10,000 – but the value threshold is based on current market value. (The base year value concept is only applicable to real property.) Certain possessory interests have a higher threshold of $50,000. *§155.20 (b)(1)*

Total Value. To qualify for the exemption, the *total* base year value of the property must not exceed the threshold. *§155.20(b)(1)*

New Construction. Existing law expressly provides that the exemption can not be used as the basis to exempt minor improvements to otherwise taxable real property (i.e., new construction). *§155.20(e)(1)*

Exceptions. The exemption can not be applied to certain types of enforceably restricted property already receiving preferential assessment treatment, such as open space properties, historical properties and timberland. Nor can it apply to certain golf courses. *§155.20(c)*

PROPOSED LAW

This bill would amend Section 155.20 to add the phrase "as adjusted by an annual inflation factor pursuant to subdivision (f) of Section 110.1," wherever the term "base year value" is used. This serves to expressly provide that the "base year value" for purposes of applying the low value exemption is the "adjusted base year value." A parcel of real property or a real property interest that is exempt under the low value exemption would become taxable in a subsequent year if the adjustments for inflation raise the total value above the threshold level set by the particular county.

IN GENERAL

Section 1(a) of Article XIII of the California Constitution provides that all property is taxable unless otherwise provided by that Constitution or the laws of the United States.

Section 7 of Article XIII provides that "[t]he Legislature, two-thirds of the membership of each house concurring, may authorize a county board of supervisors to exempt real property having a full value so low that, if not exempt, the total taxes and applicable subventions on the property would amount to less than the cost of assessing and collecting them."

The Legislature enacted Section 155.20 to provide the necessary statutory implementation. Section 155.20 limits the maximum value of property that may be exempted. The current limit is $10,000, except that for certain possessory interests in fairgrounds and convention centers the limit is $50,000.

BACKGROUND

The authorization for the low value ordinance exemption was established by a constitutional amendment, Proposition 8, in November 1974. Proposition 8 also revised various articles of the State Constitution relating to taxation generally, as recommended by the Constitution Revision Commission. According to documents related to the legislation that added Section 155.20 to implement this constitutional amendment, many county assessors had decided not to assess certain real property interests, such as undeveloped mining rights, where the value of the property was minor. The constitutional amendment, therefore, was intended to provide some legal authority for the actual assessment practice.

The maximum value of property that may be exempted under a low value ordinance has been periodically increased as noted in the following table. The most recent increase was sponsored by the CAA in 2009.

Amount	Year	Legislation
$ 400	1975	AB 728 (Stats. 1975, Ch. 106)
$1,500	1980	SB 1414 (Stats. 1980, Ch. 1098)
$2,000	1984	AB 511 (Stats. 1984, Ch. 1040)
$5,000	1995	SB 722 (Stats. 1995, Ch. 497)
$10,000	2009	SB 822 (Stats. 2009, Ch. 204)

COMMENTS

1. **Purpose**. The purpose of this provision is to eliminate confusion as to whether the original base year value or the adjusted base year value is to be used for the purpose of exempting low value assessments. This bill would clearly state that inflation adjustments are to be considered when determining eligibility for the low value exemption.
2. **Using the adjusted base year value as the basis for determining eligibility under the low value exemption is consistent with the fundamental purpose of the exemption.** If the taxable value of a property over time reaches the point where it becomes cost effective to assess and collect the taxes on the property, the basic premise of the exemption is no longer applicable to the property in question.
3. **This bill codifies the Board's legal guidance on this issue**. In 1999, the Board's legal staff opined that the inflation factor must be included. Section 155.20 does not specifically state that the adjusted base year value is to be used. Instead, it refers to a "base year value as determined pursuant to Chapter 1 (Commencing with Section 50) of Part 0.5 of the Revenue and Taxation Code." Chapter 1 contains Sections 50 through 54. Therein, Section 50 cross references the definition of base year value in Section 110.1 (which is in Chapter 1 of Part 1). And subdivision (f) of Section 110.1 requires that base year values be adjusted by an inflation factor to be determined as provided in Section 51(a), which is in Chapter 1 of Part 0.5.
4. **This bill would clearly state that inflation adjustments are to be considered when determining eligibility for the low value exemption.** As demonstrated above, deciphering the Revenue and Taxation Code on this point is unnecessarily complicated and confusing.

Assessor Record Retention Requirements
Revenue and Taxation Code Section 465

CURRENT LAW

Revenue and Taxation Code Section 465 specifies the requirements related to the retention and destruction of documents obtained from taxpayers as well as first-time claims for the welfare exemption, the religious exemption, and the disabled veterans' exemption.

Generally, the assessor may destroy any document six years after the lien date for the tax year for which that document was obtained. However, the documents can be destroyed after just three years if they are microfilmed, microfiched, imaged, or otherwise preserved on a medium that provides access to the documents.

With respect to first-time claims for the welfare exemption, the religious exemption, and the disabled veterans' exemption, the first year's claim must be held for as long as the property continues to receive the exemption. Once the property is no longer receiving the exemption, then the first time claim can be destroyed after six years and if preserved electronically, then 3 years. First time claims for these exemptions include important information not required to be provided in subsequent years, which is why there are separate retention requirements for these claims.

PROPOSED LAW

This bill would amend Section 465 to allow these documents and exemption claims to be destroyed immediately upon preservation in a medium that provides access to the documents such as microfilm, microfiche, electronic document imaging, or other media that captures a true image of the document that may later be retrieved. Therefore, this amendment deletes the requirement that the documents and claims be held for three years prior to destruction.

COMMENTS

1. **Purpose.** The purpose of this provision is to eliminate paper storage costs. Counties that scan paper documents in order to have electronic versions of paper documents must still store and retain paper documents for a minimum of three years. According to the sponsor, this is a redundant and expensive practice.
2. **Amendments.** The **June 21, 2010** amendments made technical changes suggested in the prior analysis. First-time exemption claims that are specified in subdivision (b) of Section 465 must be retained for as long as the property is receiving the exemption (which could be indefinitely). Only six years *after* the exemption is no longer in effect, may the first time claim be destroyed. Thus since the intent of this bill is to capture the first time exemption claim electronically and immediately dispose of the paper claim, then the phrase "Immediately after the lien date described in paragraph (1)" was struck in Section 465(b)(2). Otherwise the paper claim would have to be held until the property was no longer eligible for the exemption. In addition, the amendments make the language of subdivisions (a) and (b), related to documentation preservation techniques, identical to avoid any future confusion as to the methods allowable for exemption claims. For this same reason, the word "immediately" was added to subdivision (a) for clarity and consistency with subdivision (b).

Assessed Value Notices
Revenue and Taxation Code Section 619

CURRENT LAW

Revenue and Taxation Code Section 619 generally requires the assessor to annually notify taxpayers by mail of increases in the assessed values of property by July 1, the date that the assessment roll must be completed. However, an annual value notice is not required when the only change in value is the application of the annual inflation factor (generally a 2% increase in assessed value).

Section 619(e) provides that neither the taxpayer's failure to receive the notice, nor the assessor's failure to send the notice, affects the validity of the assessment.

PROPOSED LAW

This bill amends Section 619 to allow the assessor to provide the required notice by electronic mail (e-mail) in lieu of regular United States mail, if the assessee makes a written request that it desires to receive these notices via e-mail rather than regular mail.

COMMENTS

1. **Purpose.** To allow taxpayers to receive these value notices by e-mail upon request. The sponsor notes that providing an electronic alternative reduces administrative cost as well as the environmental impact of paper notices.
2. **Notification by e-mail requires both taxpayers and assessors to opt in.** Value notices via e-mail would only be used if both the taxpayer and the particular county assessor wish to receive and send the notices in this manner.
3. **Requires Written Request.** Taxpayers wanting these value notices by e-mail would have to make a written request.

Assessed Value Notices Alternative to Mailing - Newspaper Publication

Revenue and Taxation Code Section 621

CURRENT LAW

As an alternative to Revenue and Taxation Code Section 619, which generally requires the assessor to annually notify taxpayers of **increases** in assessed value via the US mail, as discussed previously, Section 621 provides that the information can be published in the local newspaper, as specified, upon board of supervisor approval.

Section 1603(b)(3)(D) expressly states that the provisions of Section 621 may not be substituted as a means of providing notice to taxpayers for purposes of establishing an assessment appeal deadline of September 15, rather than November 30, for those counties that do not send annual value notices to all property owners in the county.

PROPOSED LAW

This bill amends Section 621 to also allow the assessor, with approval of the board of supervisors, to post the required information on the county assessor's Internet Web site.

Pursuant to Section 1603(b)(3)(D), posting the county's assessment roll on an Internet Web site would not serve to change the appeals deadline for the county.

COMMENTS

1. **Purpose.** To provide counties with a timely and cost effective way of providing the required annual assessment value change notices.
2. **Increased number of notices during difficult fiscal times.** At a time of budget shortfalls for many counties, postage costs are rising. At the same time, the volume of notices required to be mailed will be increasing since many properties are currently assessed at reduced amounts (i.e., decline in value assessments or "Prop 8" assessments) rather than the Proposition 13 value. Thus, as real estate values improve in the coming years, value change notices will be required on these properties every year until Proposition 13 values become controlling.
3. **Notification via the Web site rather than US Mail would require Board of Supervisor Approval.** Taxpayers would be able to look up the value of their property for the upcoming year on the assessor's Web site.
4. **Notification by Newspaper Publication.** The provision to publish lists of assessments in the newspaper have been in place since 1963 and predate Proposition 13 controlled assessments. Today, it would be uncommon for a county to publish assessed values in a newspaper.

5. **Notification by Web site Will Not Change the Final Appeals Date.** Currently, only 10 counties annually notify all property owners in the county of their assessed value by mail and thus have an appeals deadline of September 15.

COST ESTIMATE

This bill has no cost impact to the state.

REVENUE ESTIMATE

This bill has no revenue impact.

Analysis by:	Rose Marie Kinnee	916-445-6777	8/12/10
Contact:	Margaret S. Shedd	916-322-2376	

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.